2017 Integrated Annual Report

MELIÃ HOTELS INTERNATIONAL

LEISURE AT HEART, BUSINESS IN MIND

Leisure at heart, business in mind

Con tents

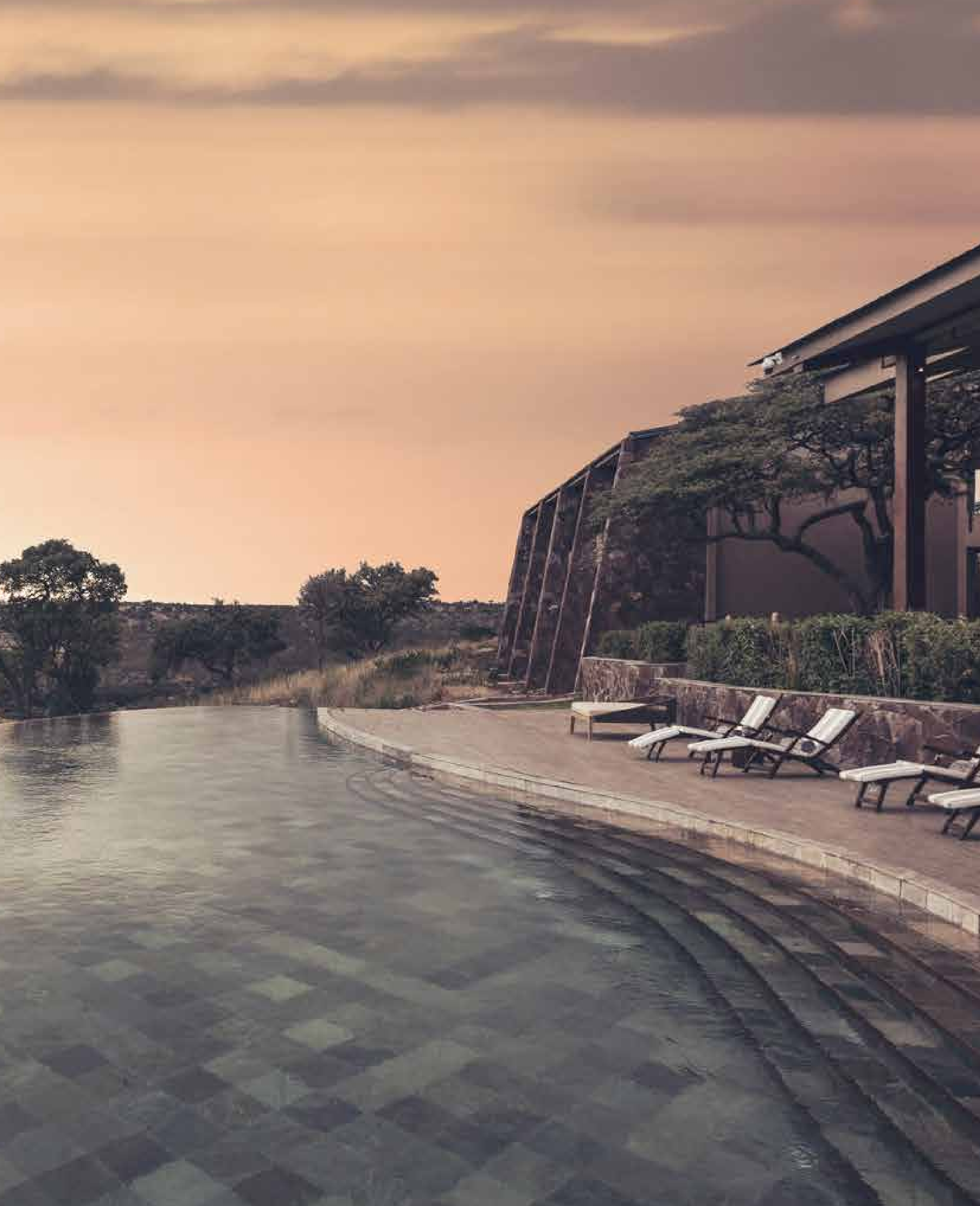
Consolidated Management Report

This is a free translation from an original document prepared in Spanish. If any discrepancy between the present translation and the original document appears, the text of the original Spanish-language document shall always prevail.

Consolidated Management Report

CONTENTS

MELIÁ SERENGETI | TANZANIA



Intro duction

The renewal and strengthening of our values once again demonstrates our dedication to leadership and business excellence, which are gaining ever increasing importance in the cultural transformation and essence of our company

MELIÁ ZANZIBAR | TANZANIA

GRI 102-14

GABRIEL ESCARRER JAUME
Executive Vice-Chairmanand
Chief Executive Officer

Interview with Gabriel Escarrer

A year ago, Gabriel Escarrer Jaume took over the leadership of the company to which he has dedicated 22 years of his life. Under his leadership Meliá is starting on a new stage in a more global, complex and competitive environment. In this new context, Meliá will be advancing towards a more profitable, sustainable and responsible company model.

In recent years we have seen considerable changes in the way in which Meliá reports its corporate information. Could you explain to us what these changes consist of?

Together with other leading companies, in 2012 we participated in the pilot project led by International Integrated Reporting (IIRC) that aimed to lay the foundations for a new approach.

Including these criteria and the updating of the GRI standards allowed us to make significant advances in the way we transmit the information. In addition, the recent entry into force in 2017 of European Parliament Directive 2014/95/EU has urged large companies to expressly report their non-financial information. These requirements now demand aspects on which we, at Meliá, have been working for some time. We will continue in the future to promote a report that looks at the achievements, challenges and risks from a global perspective, like the international company that we are, and we will continue to give greater visibility, in an integrated manner, to financial and non-financial information.

I am very proud that we are pioneers in this area in the tourism industry, and I encourage the rest of the industry to move forward along this path.

The new environment has required us to carry out a new materiality analysis. I am pleased to confirm the correspondence between the materiality issues selected by our stakeholders and our strategic focus.

I would like to emphasise that this Report is the result of the coordinated efforts of the entire company. Excellent coordination, teamwork and dedication were what made it possible.

What were the main challenges and achievements when developing your current Strategic Plan?

Two years have passed since the launch of the current Strategic Plan. Throughout this time we have worked hard to consolidate our 2020 Vision.

Our extensive international presence requires us to ensure that this momentum reaches all our business units.

The main challenge is to ensure that this strategic thrust reaches all of Meliá. The objectives set are a challenge in themselves and also mean that the Strategic Plan must fit every cultural reality, environment and needs.

The increasingly high standards of transparency, good governance and ethics can be perceived throughout the reading of this report.

I feel satisfied with our achievements this year and the high level of commitment and desire for improvement of all our teams.

How would you sum up your first year as a top executive?

The results confirm that we have taken full advantage of the positive situation of an industry that has posted sustained and significant growth worldwide. The sector has experienced significant growth in many countries in the Americas, Europe and Asia. Spain deserves a special mention, as it has risen to second position among the countries that receive tourists, exceeding 82 million in 2017.

Despite several negative impacts this year, we have met the market expectations and the results have been valued very positively by the market.

We have some significant challenges for 2018, and we will tackle them with enthusiasm. To achieve this, we will have drivers that I believe are recognised strengths and that set us apart: the potential of our teams, a very well-defined corporate culture, our values, a great capacity for transformation and, of course, a sound strategy and positioning.

Meliá is immersed in an intense process of transformation. How are you finding it?

It is a stimulating and intense process that already forms part of our daily work. Our strategic approach includes different levers to ensure the transformation of Meliá into a company that can move towards an management excellence model with an asset management strategy that fits the customers' expectations of the product. In this transformation, digitalisation plays an important role. It is allowing us to create closer bonds with customers, strengthen our relations with them and improve their experience at our hotels, through a strategy based on omnichannel marketing.

We have increased our proximity to our customers through the comprehensive management of their relationship cycle with Meliá.

To advance in this direction we have hired new talent with digital skills and abilities, and ensured that our own skills evolve.

I would like to highlight our growth and the internationalisation that we are promoting. We already operate in over 40 countries. We are committed to an asset-light model to consolidate our leadership in the leisure and bleisure segments, the latter being a perfect combination between business and leisure.

We have an extraordinary background due to our more than 60 years of history, excellence and leadership. The new times will require us to evolve and adapt in order to remain leaders.

Meliá Hotels International is the brand that differentiates us in a highly competitive industry. For this reason, this year we have integrated the corporate values of Meliá into our brand strategy so as to combine our value proposition and our corporate culture.

Leisure at heart, Business in mind is the concept behind this evolution. It describes our dedication to excellence and leadership in leisure and urban leisure hotel management, and how our service orientation, emotional connection and the personalised experience of our customers is at the heart of everything we do as a company.

All of us who are part of Meliá are part of this transformation process.

Meliá Hotels International: always seeking excellence

From the beginning, our main cornerstone has been excellence in service. Because of our capacity for transformation and adaptation, we have remained at the forefront of the changes in the hotel industry, by satisfying the demands of our stakeholders.

In an environment of constant changes, where the boundaries between business and leisure travel are blurred and the expectations of our stakeholders are increasingly ambitious, we want to ensure that we are strong and competitive, but also remain true to our origins and our essence.

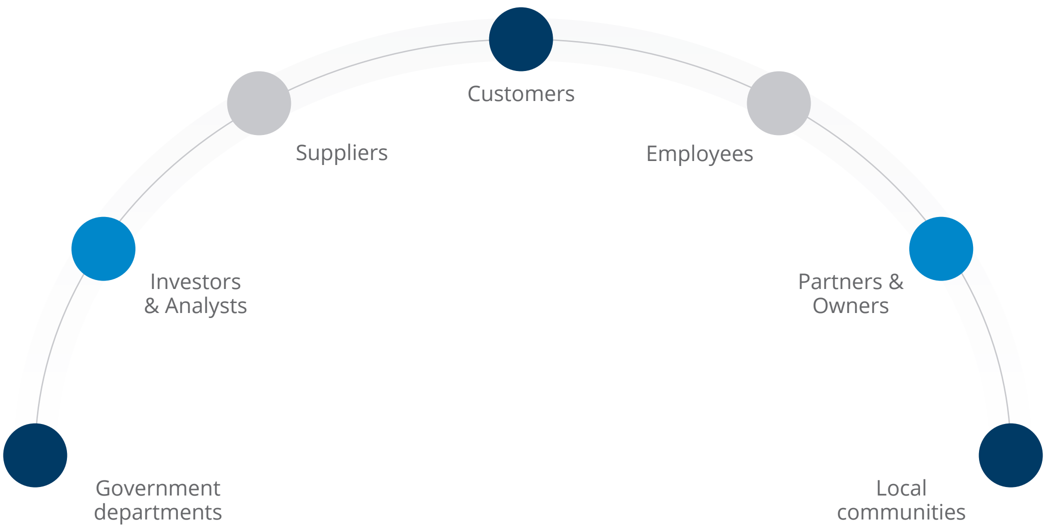
Our aim is to continue to position ourselves as one of the world's leading hotel groups. We have therefore updated the definition of the Meliá Hotels International corporate brand and of our hotel brands, with the aim of ensuring that our service culture is indeed our company culture, in line with the new brand definitions.

MELIÁ SANCTI PETRI | SPAIN

New brand model

The new brand model is based on the guidelines and conclusions of the HAVAS study carried out in 2015 and exhaustive consultations with our stakeholders. Our main challenge is to find a balance between a differentiating, unique approach and a scope broad enough to attract all interested parties.

The result is a powerful statement that makes us unique and different, allowing us to define our own recognisable culture of service. This process has confirmed that our origins in Spanish leisure and warmth are not only key attributes of our brand but also define us and are our main levers for international growth.



MELIÁ SHANGHAI HONGQIAO | CHINA

Our "Unique Selling Proposition" and the 4 pillars are the basis of the brand

UNIQUE SELLING PROPOSITION (USP)

Our Unique Selling Proposition is the phrase that defines all the things that distinguish us from our competitors, that is, the characteristics that no other hotel company can claim.

"The only international hotel group that has an origin in leisure and the ideal size to offer exceptional hospitality"

We are unique in our competitive environment because our origins are in leisure. We therefore understand leisure like no other hotel brand and we have the ideal scope for building up our management model in a more human, personal way.

OUR PILLARS

Our brand pillars support our USP and define our personal, human approach in greater detail. They have been carefully selected to be competitive, authentic and relevant.

They are values that help guide the actions of the company and in turn define the characteristics of the corporate brand for the outside world. It is vital to understand them as each pillar has an impact across the board on all areas of the business.

Warmth & Conviviality

MEDITERRANEAN HOSPITALITY

Taking advantage of our Mediterranean culture and Spanish heritage, at Meliá Hotels International internal and external links are handled in a warm and personal manner.

BALANCED CULTURE

When we defined our corporate culture, we were mainly inspired by the essence of our hotels, which means combining fun with professionalism and balancing familiarity and formality.

GUEST-CENTERED

At Meliá Hotels International we operate by interacting with our stakeholders, always keeping in mind our fundamental purpose: *to offer our guests incredible experiences*.

Caring & Nurturing

CAREFUL MANAGEMENT

Our size, an ideal balance between the small and the large, allows us to maintain personal links while investing time and dedication to taking care of our assets.

PART OF THE FAMILY

We take care of our employees, recognising them for their commitment and promoting the development and management of internal talent.

SOCIALLY COMMITTED

We seek to have a positive impact on the destinations and to be involved with the local communities, their reality and needs. We offer them the benefit of our experience, influence, commitment and capacity for work.

Little extras

PERSONAL EXTRAS

Because of our size we are able to stand out from our competitors by adding personal touches and little extras to our relationship with our stakeholders.

INTIMATE CONNECTIONS

As we are both a listed company and a family company, we can strengthen relationships and maintain an open dialogue with corporate partners.

HOTELIER HERITAGE

Our core business is the hotel business and our extensive experience makes it natural for us to stand out in the hotel industry.

Innovation

ALWAYS IMPROVING

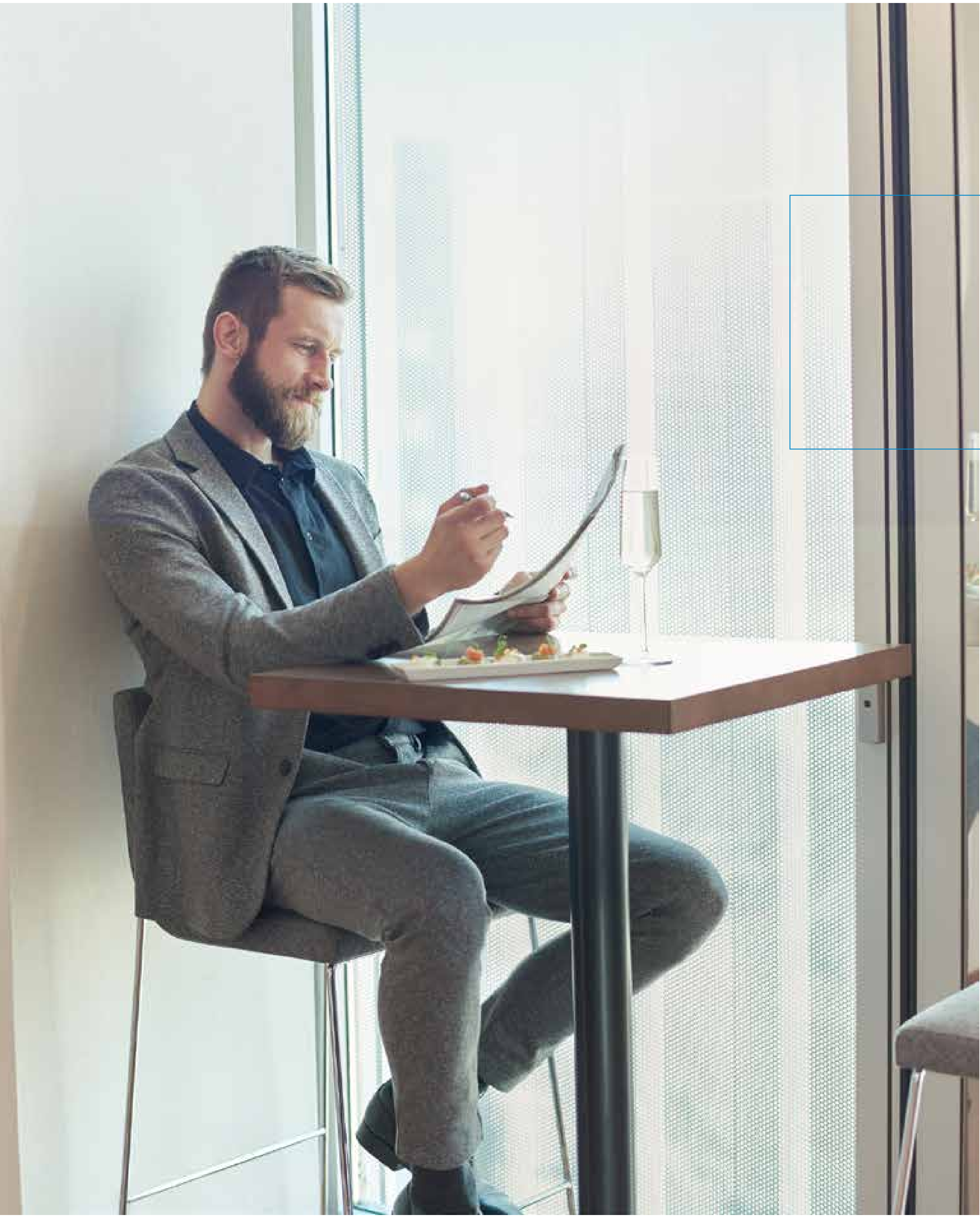
With a vision focusing on the future, we reinvent ourselves constantly to stay ahead of the curve and position ourselves against our competitors.

GLOBAL PIONEER

Over the years, we have increased our internationalisation, gradually expanding into new markets and countries, especially the major European cities and emerging markets.

CUSTOMER INNOVATION

From our loyalty programmes to our development strategy, by way of our talent and leadership, at Meliá Hotels International we undertake a constant search for innovative solutions that will allow us to provide more value to our customers.



Our corporate brand concept

How could we express all this information in a more attractive way? We were looking for a tagline that would include the four pillars, our USP and our history.

"Leisure at heart, business in mind"

At heart, because it is our emotional side
At heart, because it is at the centre of everything we do
At heart, because it is our nature

The perfect union of two poles. An attractive combination that unites the heart and mind, and encapsulates the reasons why all our target audiences feel close to us. More than a slogan, it keeps the corporate brand strategically united, giving it meaning and coherence.

GRI 102-16

Our corporate values, mission and vision are expressed through our behaviour

Our corporate values are the way we make the four pillars visible and help them to make sense to outsiders. The way in which the corporate values come to life, through the behaviours that we promote among all our employees.

Proximity, experienced through a warm and welcoming demeanour,

excellence and consistency, with which we make sure our professional behaviour is exemplary,

a **service vocation**, which is born of our hospitable essence,

and **innovation**, which guides our behaviour and creative work.

OUR MISSION

Offer global accommodation experiences and services using criteria of excellence, responsibility and sustainability, and as a family company, we want to contribute to achieving a better world.

2020 VISION

Our ambition is to position ourselves among the top hotel groups in the world in the middle and upper, urban and leisure segments, strengthen our leadership in this segment and be recognised as a world leader in excellence, responsibility and sustainability.

OUR SERVICE CULTURE
IS BORN OF A SENSE OF BELONGING

Belonging begins here

BELONGING: belonging as an expression of Spanish warmth and hospitality and the expression of our emotional benefits.

BEGINS: the task of creating this sense of belonging depends on each of our contributors and their role in the company.

HERE: our brand service culture is being experienced and created all the time. Right here and now, in our hotels and at our head offices.

All our brand work has led us to define our culture of unique, inspiring service. As a company based on excellence in service, our culture is defined by the way in which we provide this service. It is a constant, ongoing task, a work in progress, that is always being created and recreated. Here is our declaration of our service culture.

BELONGING DEFINES THE APPROACH
OF OUR LOYALTY PROGRAMME

Belonging means more

Belonging is also the benefits offered by our loyalty programme, **Meliá** Rewards. In addition to the functional benefits of belonging to the loyalty programme and its multiple rewards and extras, belonging also includes the emotional feeling of being part of something bigger.

This feeling is backed by our approachability and the fact that we are still a family business that takes care of our customers and our staff.


MELIÃ
REWARDS

GRI 102-48 / GRI 102-49 / GRI0102-53 / GRI 102-54 / GRI 102-55 / GRI 102-56

About This Report

Over the years, companies, their business models and value creation processes evolve and change due, among other factors, to the global context in which they operate. These changes are interdependent and lead to advances and demands, such as the need for greater transparency, requirements for reporting more reliable information, the importance of material issues and the availability of resources, among others.

Given this context, and following international standards and recommendations on reporting, we have made a commitment to publish corporate information that reflects our performance, current challenges and future objectives.

In addition, the challenge of reporting in this way requires us to do so with greater consistency and transparency. In 2017, with the aim of placing ourselves at the forefront of reporting, we took an important step forward by presenting our information using the Integrated Report model.

This model ensures that the information we share with our stakeholders is consistent and transmits the alignment between our strategy, governance model, operation and financial and non-financial performance. We have also incorporated the ESG vision (Environmental, Social and Governance), analysing its relevance and its overall impact on our company.

“Responding to requirements regarding financial and non-financial information”

For additional information, the consolidated historical series of indicators and GRI indicator tables that are aligned with the benchmark applied are attached to this report. The information was also obtained, registered, analysed and submitted for evaluation by an external auditor. The methodology and scope of the external review can be found in the Independent Review Report.

VERIFICATION OF THE INFORMATION

The information contained in the consolidated annual accounts was prepared based on the International Financial Reporting Standards (IFRS) and is subject to review by PwC, which issued the corresponding independent audit report.

The non-financial information was also subjected to external verification by the same auditing firm, a process initiated in 2010, The result was the Independent Review Report, which is based on the GRI Standards Guide and the performance indicators proposed in its core option.

Furthermore, the information on the Internal Control Systems for Financial Information (SCIIF) contained in section F of the Corporate Governance Annual Report was reviewed by the Group’s auditor.

These independent verification reports may be consulted at the end of this report.

INTERPRETATION OF INDICATORS

The numerical indicators referring to operating results are shown in the management report from an aggregated viewpoint, grouping together information from all the business units whether owned, leased or managed, unless indicated to the contrary.

The definition of the alternative measures of yield used in this report can be found in Note 2 of the Consolidated Annual Accounts.

CONTACTS

For any queries or suggestions relating to this report, Melia Hotels International offers the following channels for direct contact:

Financial information:
Department of Investor Relations
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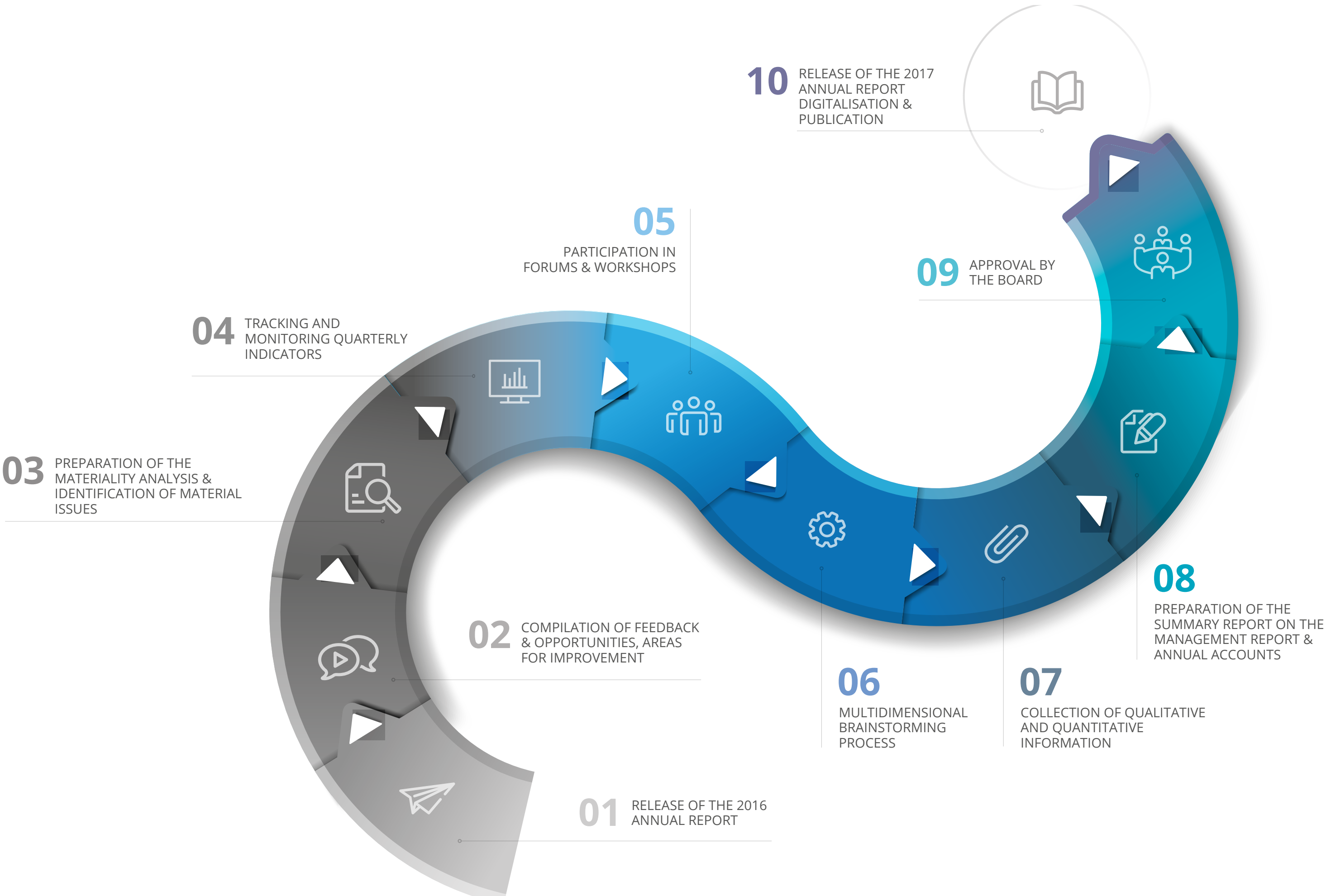
Non-financial information:
Corporate Responsibility Department
(csr@melia.com)

REPORT PREPARATION PROCESS



GRI 102-15

Overview of the environment

MACRO ENVIRONMENT IN 2017

At Meliá Hotels International we constantly monitor the environment, as well as the evolution of trends that could have a potential impact on our operations. In that sense, our main challenge is to anticipate the challenges from the environment and ensure that we have the capacity for adaptation and transformation.

During 2017, global economic activity grew by 3.7%, continuing the cyclical upturn that began in mid-2016 and presenting the most stable global growth since 2010. This result is reflected in the strong increase in international trade in recent months, supported by a rebound in investment. Prices of raw materials increased around 20% during the second half of the year, which pushed up the general level of inflation in the advanced economies.

However, this recent acceleration has continued to show unequal distribution among the countries and regions, raising concerns about the prospects of meeting the Sustainable Development Goals and raising awareness of the environmental costs that such growth entails. The issue of climate is increasingly important, so promoting and encouraging actions to protect the environment and fight against its degradation are of paramount importance.

Spain is enjoying a solid recovery with an average GDP growth of 2.5% in the last three years, due to structural reforms. This result can be improved through corporate investment in innovation, a key aspect in activating productivity and increasing profitability.

TOURISM INDUSTRY IN 2017

2017 was declared as the "International Year of Sustainable Tourism for Development" by the UN, offering a great opportunity to expand the contribution of the tourism industry to sustainability. This year has been characterised by sustained growth at various destinations and the solid recovery of those that were affected in previous years. These results are mainly due to the rebound in the economy and strong demand from many traditional and emerging markets, in particular the rise in tourist spending in Brazil and the Russian Federation, after several years of decline.

Arrivals of international tourists registered a remarkable increase of 7%, reaching a total of 1,322 billion worldwide. This growth was mainly led by the Mediterranean destinations, which received 8% more international arrivals. Africa maintained the upturn of 2016 with growth of almost 8%. The Asia-Pacific region showed growth of 6%, while the Middle East grew by 5% and the Americas by 3%, despite suffering hurricanes Irma and Maria during the high season at the main Caribbean destinations.

For eight consecutive years, Spain ended the year with a growth in tourist GDP higher than that for the Spanish economy as a whole, with an increase of 4.4%. This is due to the more than 82 million tourists received and €134 billion of activity, with demand from foreign tourism being the mainstay of this growth. The impact of tourism on the economy has meant the creation of 77,000 jobs, positioning the tourism sector as Spain's main driver of economic growth and job creator.

Source: © Highlights 2017 - World Tourism Organization (UNWTO), July 2017

3.7%
Growth of the world economy 2017

7%
Growth of world tourism 2017

MACRO ENVIRONMENT OUTLOOK FOR 2018

It is expected that the growth of the world economy will continue and reach 3.9% in 2018, confirming the consolidation of economic recovery, both in the advanced economies and emerging economies. This improvement in activity will mean a drop in the unemployment rate, encouraging consumption by families. The main lever of this forecast is the tax reform recently approved in the United States, which has had an immediate stimulating effect on the world economy during 2017.

Conditions for investment have also improved in a context of low financial instability, less weakness in the banking sector and improved global macroeconomic prospects. However, the firm recovery of investment activities, which are needed to boost productivity and accelerate the attainment of the Sustainable Development Goals, could be affected by uncertainty over trade policies and the rise in levels of indebtedness.

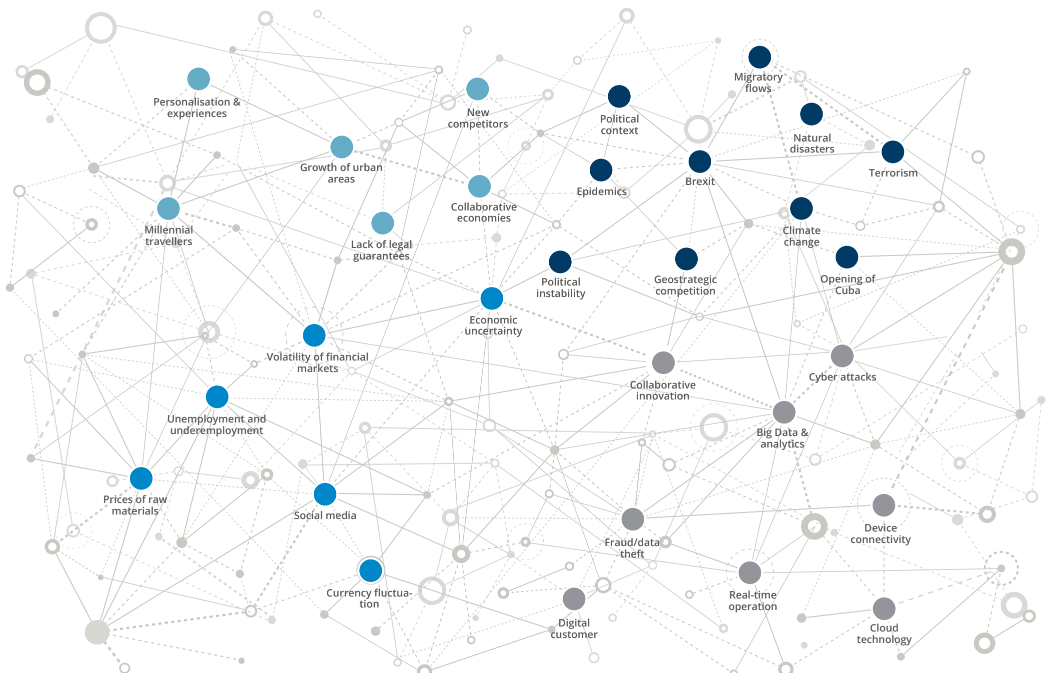
The forecast for Spain is conservative but optimistic, with estimated growth of 2.5%. This estimate takes into account the impact of the slowdown in domestic demand and the political uncertainty. Despite these factors, Spain's growth is expected to be higher than that of the euro zone, which is estimated at 2.3%.

TOURIST INDUSTRY OUTLOOK FOR 2018

The tourist industry is maintaining optimistic forecasts that point to a strong boost in current growth, at an estimated rate of 4% to 5%. At the regional level, Europe and the Americas are expected to grow by 3.5 to 4.5%, the Asia-Pacific region by 5 to 6%, Africa by 5 to 7% and the Middle East by 4 to 6%.

It is expected that both the international macroeconomic context and the Spanish one will favour the growth of tourism in 2018. However, this may be partially weakened by the recovery of competing destinations in the Eastern Mediterranean, the effects of the collaborative economy, political uncertainty and the UK market in the wake of Brexit.

According to the Business Tourism Confidence Survey conducted by EXCELTUR, the main determinants of tourism activity in Spain during 2018 are an increase in the connectivity of Spanish destinations by air, containment of oil prices and an improvement in the economies of the long-haul markets (North America, Latin America and Asia). The favourable prospects for tourism in 2018 are shared by all subsectors of the tourism value chain and are expected to have a positive impact in terms of job creation.



4%-5%

Outlook for world tourism growth 2018

3.9%

Outlook for world economic growth 2018

- ECONOMIC
- TECHNOLOGICAL
- BUSINESS
- SURROUNDINGS

GRI 102-21 / GRI 102-29 / GRI 102-31 / GRI 102-43 / GRI 102-44 / GRI 102-46

Materiality analysis

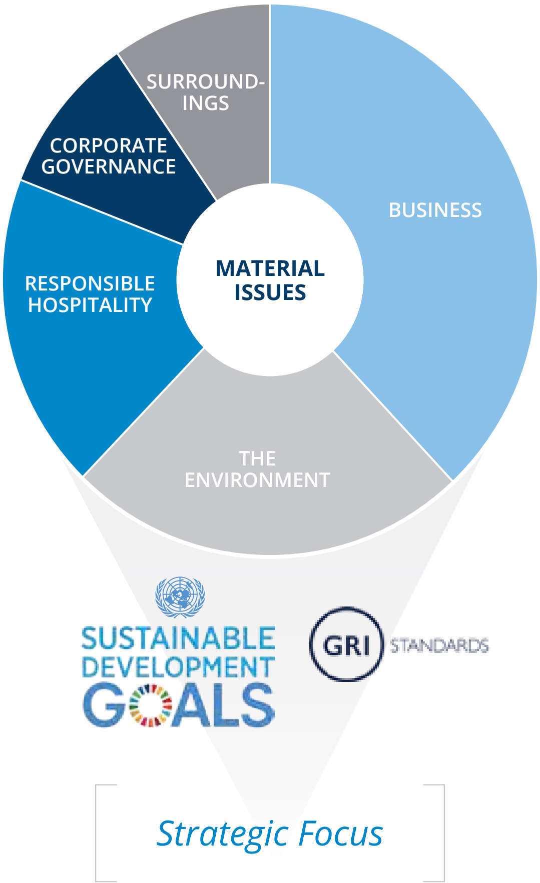
The company's strategic thrust requires that our Materiality Analysis be constantly updated, taking into account the environment, the Sustainable Development Goals and the new requirements for environmental, social and corporate governance issues from a global and regional perspective. In collaboration with KPMG, a large number of material issues have been identified to bring together the various concerns of our stakeholders.

In the initial process, the opinions of leading experts from different areas of the sector, respected ESG analysts and executives from the company were taken into consideration, in order to prepare the list of material issues.

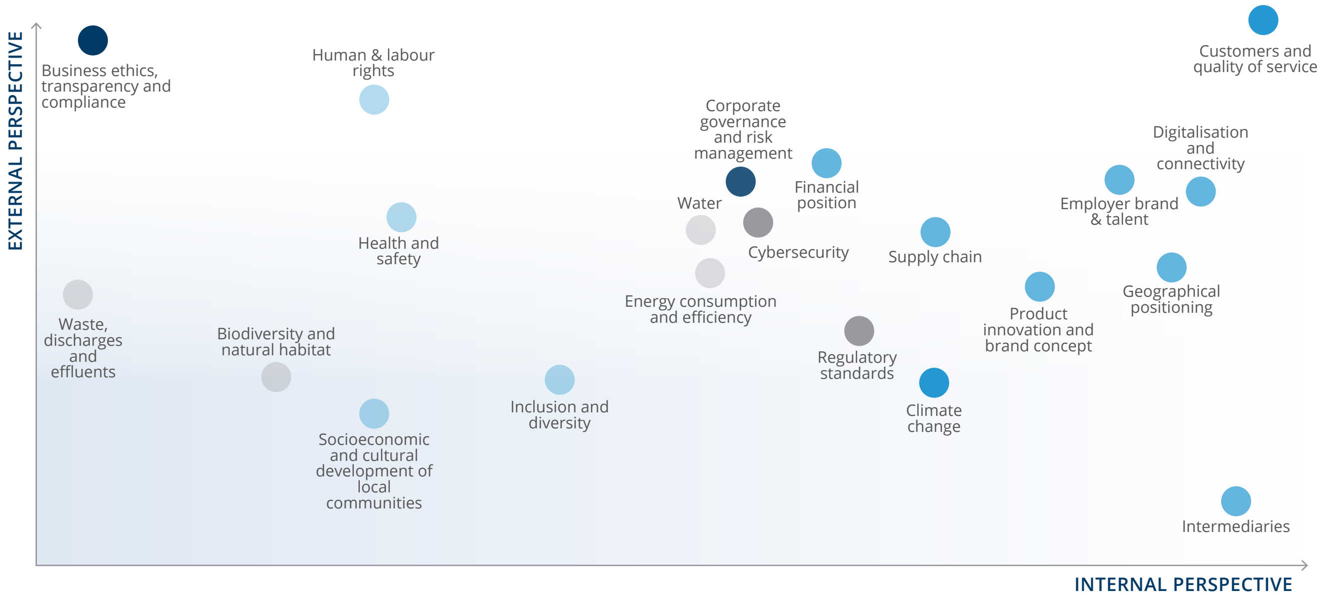
The frame of reference was designed by taking into account the following factors: our activities and their impact on the environment, the extent of the special features of the places in which we operate, and the awareness of the recipient stakeholders in society. The survey allowed opinions to be collected from 24% of the participants, to combine the external and internal vision:

The **internal viewpoint**, includes assessments by executives from the main areas of our company.
The **external viewpoint**, since the survey was sent to a wide sample of people who make up the universe of our stakeholders.

The materiality matrix obtained highlights customer service, employee development, digitalisation and the governance of the company as being significant issues.



MATERIALITY MATRIX



GRI 102-47

RELATIONSHIP WITH BENCHMARK INDICATORS

The material issues, shown below, are listed in order of priority, based on the results obtained, showing their interaction with our strategic lines, the Sustainable Development Goals (SDG) and the contents of the Global Reporting Initiative (GRI).

	MATERIAL ISSUES	STRATEGIC LINES	SUSTAINABLE DEVELOPMENT GOALS (SDG)	GRI ISSUES	GRI CONTENT
1	Customers and quality service	Management Excellence, Reputation & Recognition	9	Customers health & safety Customer privacy	416-2 / 418-1
2	Digitalisation and connectivity	Digitalisation & Innovation, Reputation & Recognition	9		
3	Employer brand & talent	Culture & Transformation, Reputation & Recognition	4	Employment Training and education	401-1 / 404-1 / 404-3
4	Geographical positioning	Management Excellence, Reputation & Recognition	8	Indirect economic impacts	203-1
5	Innovation in product and brand concepts	Management Excellence, Reputation & Recognition	9		
6	Financial position	Management Excellence, Patrimonial strategy, Reputation & Recognition	8	Economic performance	201-1
7	Supply chain	Management Excellence, Reputation & Recognition	12	Procurement practices	204-1
8	Cybersecurity	Digitalisation & Innovation			
9	Intermediaries	Management Excellence	17		
10	Corporate governance and risk management	Reputation & Recognition		Governance	102-15 / 102-18 / 102-20 / 102-22 a 102-24 / 102-26 / 102-30
11	Regulatory standards	Reputation & Recognition		Environmental compliance Public policy Socioeconomic compliance	307-1 / 415-1 / 419-1
12	Climate change	Management Excellence, Reputation & Recognition	13	Emissions	305-1 / 305-2 / 305-3 / 305-5
13	Water	Management Excellence, Reputation & Recognition	6	Water	303-1
14	Consumption and energy efficiency	Management Excellence, Reputation & Recognition	7	Energy	302-1 / 302-3 to 302-5
15	Human and labour rights	Culture & Transformation, Reputation & Recognition	10, 8	Labour relations Child labour Forced or compulsory labour Rights of indigenous peoples	402-1 / 408-1 / 409-1 / 411-1
16	Health and safety	Culture & Transformation, Reputation & Recognition	3	Occupational health and safety	403-1 to 403-4
17	Business ethics, transparency and compliance	Reputation & Recognition	16	Governance Reporting practices Anti-corruption	102-16 / 102-17 / 102-56 / 205-1 to 205-3
18	Inclusion and diversity	Culture & Transformation, Reputation & Recognition	5	Diversity and equal opportunities Non-discrimination	405-1 / 406-1
19	Socioeconomic development in local communities	Reputation & Recognition	1	Local communities	413-1
20	Biodiversity and natural habitat	Management Excellence, Reputation & Recognition	15	Biodiversity	
21	Waste, discharges and effluents	Management Excellence, Reputation & Recognition	6, 14	Emissions Effluents and waste	305-1 / 305-2 / 305-3 / 305-5 / 305-7 / 306-3

STRATEGIC LINES: Management Excellence · Patrimonial strategy · Culture & Transformation · Digitalisation & Innovation · Reputation & Recognition

Strategic focus

"The transformation of Meliá Hotels International, a profound and exciting process of change that we started several years ago, is becoming more real every day we are here. The commitment and alignment of our teams, despite the complexity of our international presence, are the real driving forces behind our strategic thrust and the mainstays of our progress.

In the current geopolitical context, in a highly competitive and constantly evolving market environment, our 2020 Vision is more meaningful than ever. We remain convinced that the way forward is to consolidate our excellent, responsible and forward-looking hotel management model, which will boost the recognition of our leadership in the leisure and bleisure segments."

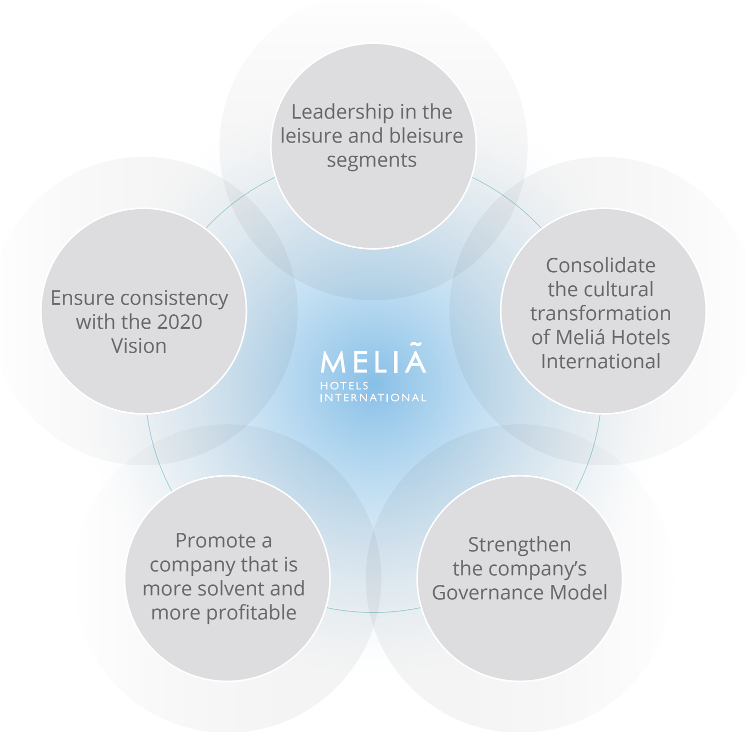
Gabriel Escarrer Jaume
Executive Vice-Chairman and Chief Executive Officer

STRATEGIC VISION

Two years have passed since our Strategic Plan and we are continuing to consolidate our 2020 Vision, which the company set out some time ago.

The update of the materiality analysis, carried out this year, confirms that the strategic vision of Meliá continues to include the expectations of our different stakeholders, based on the various material issues selected and the importance given to each of them.

The five strategic objectives of Meliá reflect the transformation processes that we are carrying out and the commitment to continuing to move forward in the coming years.



STRATEGIC LINES

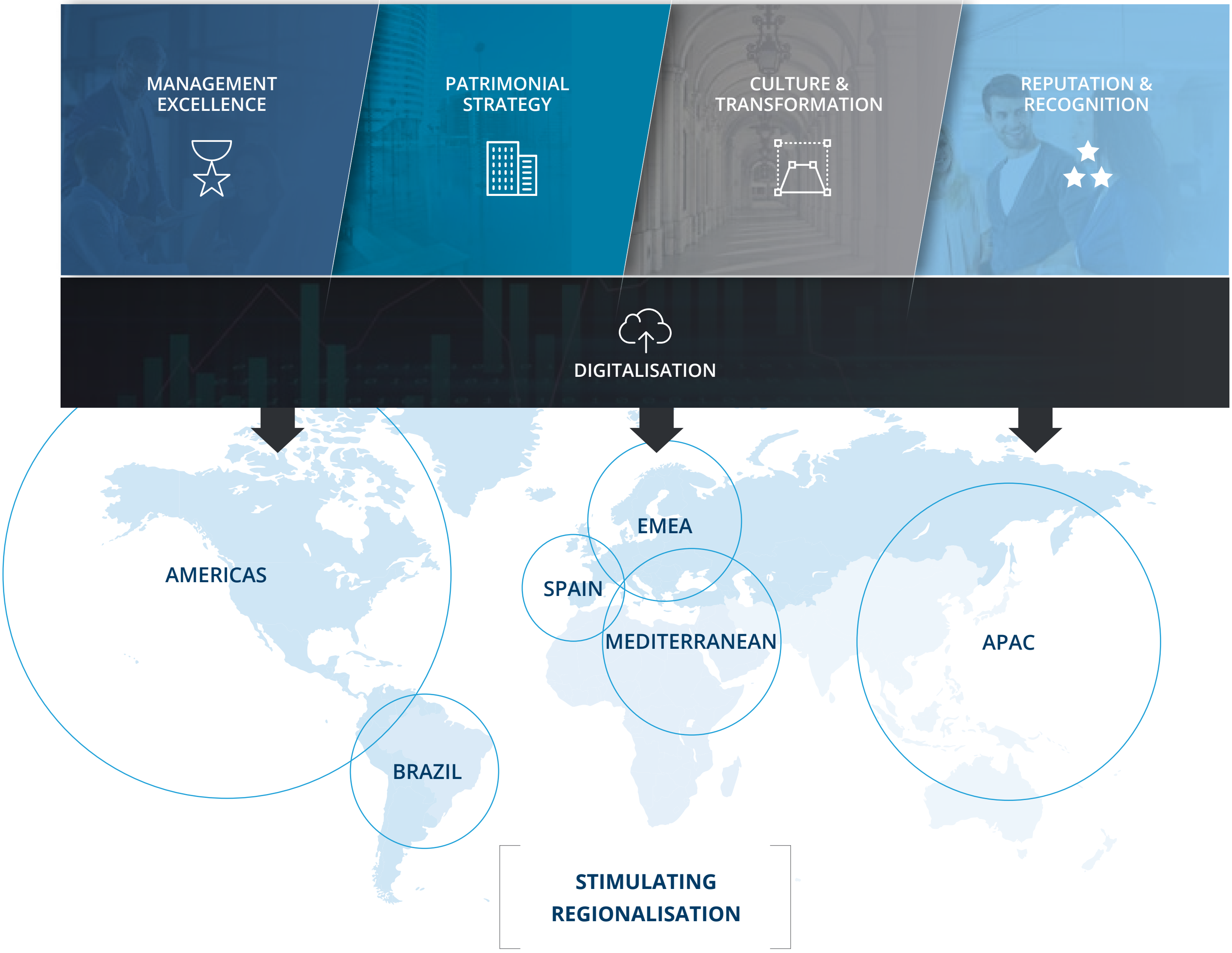
The strong international presence of Meliá demands that our strategic thrust should directly involve the entire company not only in its formulation but also in the assimilation, internalisation and achievement of the objectives set.

This year we have prioritised the integration of the strategic focus into the routine work of all our regional offices, adapting it to each environment, culture and need.

The results obtained during the year, which are contained in this Report, confirm that the strategic thrust and transformation processes are making significant progress in our organisation.

The strategic lines defined reflect five levers of transformation: management excellence, asset strategy, culture and transformation, digitalisation and, lastly, reputation and recognition.

We are also working to ensure that the changes, besides being assimilated internally, are perceived outside the company.



MANAGEMENT EXCELLENCE

"Position our brands as a lever of growth and profitability"

FOCUS	OBJECTIVES	KPIs
Brand-centric	Generate value through the successful, differentiated positioning of our brands, causing a paradigm shift in which these are the centre of the organisation and benchmarks for innovation and the customer experience	Our hotel brands (p.58)
Smart revenues	Promote business excellence through revenue optimisation and customer loyalty, adapting our business model to the challenges and opportunities of our environment	Direct sales channels (p.82) MeliáRewards Customer Loyalty Programme (p.81)
Operational performance	Improve operating profitability as part of a process of continuing improvement	Evolution and business results (p.94)
Selective growth	Consolidate our presence in key markets and strengthen internationalisation, through sustainable growth at leisure and bleisure destinations	Meliá footprint (p.52)

ASSET STRATEGY

"Strengthen the real estate function as the owner, generating value for the company"

FOCUS	OBJECTIVES	KPIs
Asset portfolio	Enhance the quality of the Meliá Hotels International asset portfolio	Asset management (p.84)

CULTURE & TRANSFORMATION

"Promote the process of cultural transformation through the integral management of our workforce and the efficiency and competitiveness of the company"

FOCUS	OBJECTIVES	KPIs
People	Create a comprehensive value proposition for employees and strengthen our image as an employer brand	People (p.132)
Culture	Promote the cultural transformation of Meliá Hotels International	
Organisation	Foster an agile, efficient, competitive company	

DIGITALISATION & INNOVATION

"Digitally transform the company in order to optimise the processes, increase our ability to generate revenue and customise the customer experience"

FOCUS	OBJECTIVES	KPIs
Customer	Customise the relationship with our customers, through the constant evolution and innovation of digital tools	
Hotel	Promote the implementation of new technologies to differentiate the experience of our customers and optimise operations at our hotels	Digitalisation & Innovation (p.86)
Contributors	Digitalise the corporate processes and implement tools to improve our management	

REPUTATION & RECOGNITION

"Meet the commitments made to the different stakeholders, fulfilling their expectations and maintaining the alignment with our culture and values"

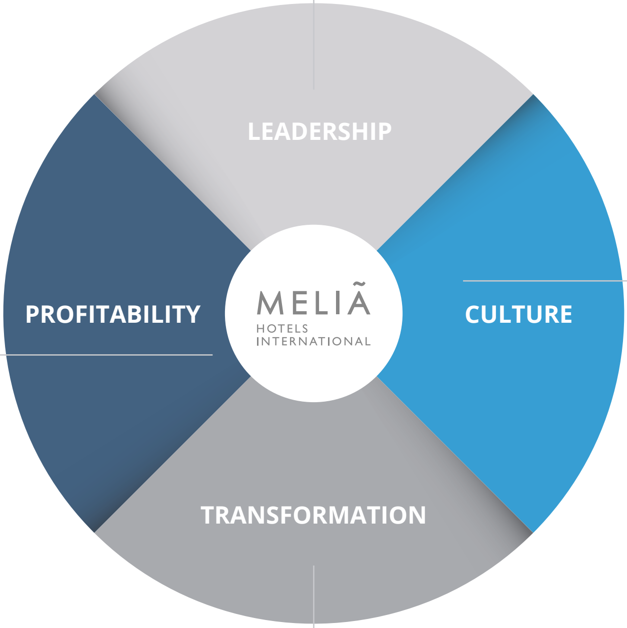
FOCUS	OBJECTIVES	KPIs
Corporate Governance	Promote a robust and coherent Governance Model that seeks excellence and transparency	Corporate Governance (p.153)
Stakeholder Relations	Strengthen the relationship and dialogue with our stakeholders	Stakeholder relations (p.56)
Corporate Responsibility	Enhance our reputation and national and international recognition as a feature valued by all our stakeholders.	Responsible hotel management (p.117)

OUR COMMITMENTS

Be the leaders and a benchmark in the leisure & bleisure segments

Increase the recognition and appreciation of our brands

Consolidate our presence in key markets



Increase the **profitability** of the Group's businesses

Maximise **revenue** per customer

Financial **solvency**

Consolidate our Culture & Values

Foster an efficient, agile, innovative organisation

Guarantee the practice of our values, as a strength and differentiating feature of Meliá

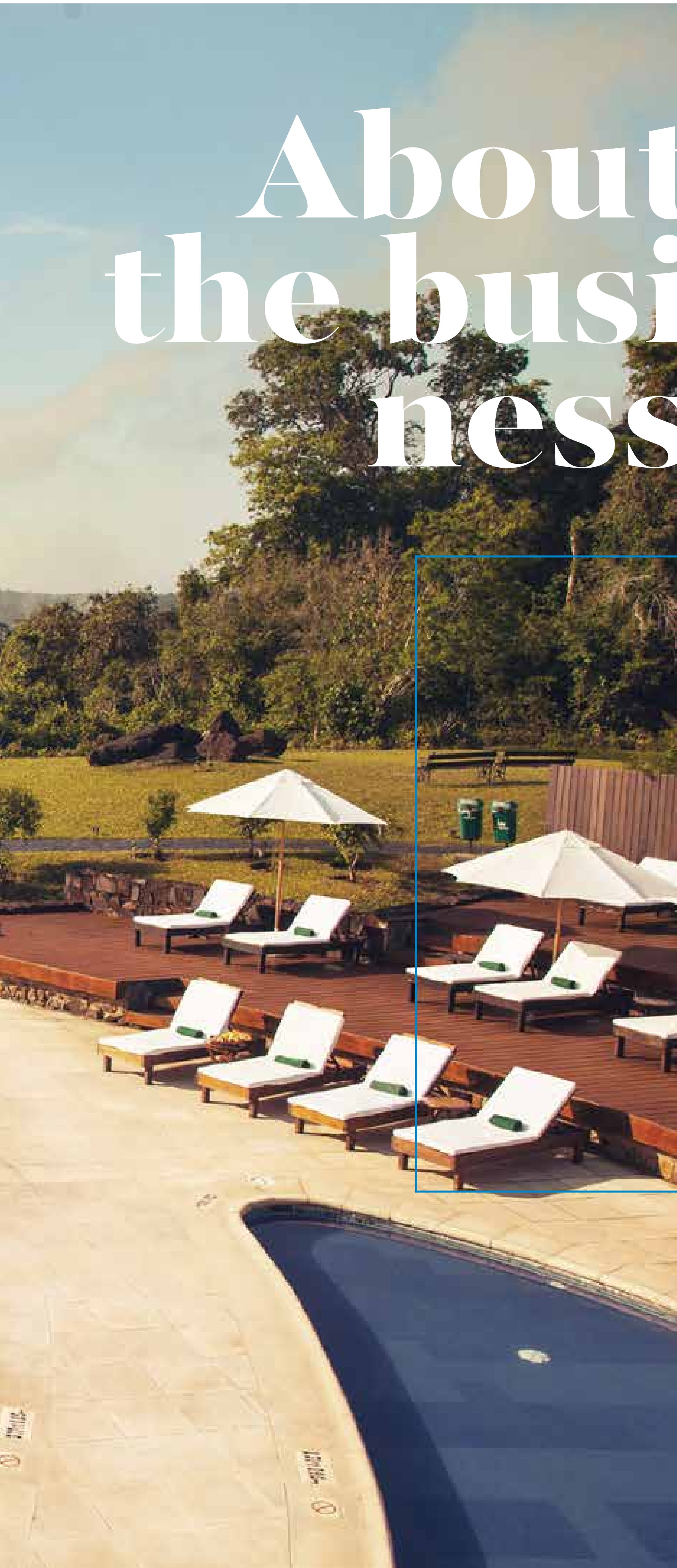
Soundness of the Governance Model

Leadership and **responsibility** as key levers for transformation

Promote the digitalisation of the Group as a competitive advantage

Attract and reinforce the talent of the company

About the business



The transformation process that Meliá Hotels International is going through has meant that our management model has evolved. We have turned it into a key factor in our success in responding to the new challenges of the industry, in a growth-oriented digital environment

MELIÁ IGUAZÚ | ARGENTINA

Significant milestones

1
JANUARY
The major annual event of the international tourist sector, FITUR, opened again and enjoyed great success among the attendees and general public. The Executive Vice-Chairman and CEO, Gabriel Escarrer, announced his priorities for 2017

2
FEBRUARY
Publication of the results for 2016, with a net profit of €100.7 million (+180%), due to the positive evolution of the hotel business (27 consecutive quarters of RevPAR growth), and the lowest debt ratio in the company's history

3
MARCH
Meliá prepared for the opening in April of the best Conference Centre in the Mediterranean, the Palau de Congressos, in the city of Palma. The new Palau de Congressos and the adjoining Meliá Palma Bay Hotel are positioned to include the city of Palma among the 50 most popular destinations in the Congresses and Conventions sector

4
APRIL
The first Smart Island World Congress unveiled the recently inaugurated facilities for next-generation events at the Meliá Calvía Beach hotel, located in this benchmark tourist location after the reconversion of a mature tourist venue

5
MAY
Meliá announced the signing of an agreement to add eight new hotels in Cuba, located in areas like Cienfuegos, Trinidad and Camagüey, to the Meliá, Innside and Sol brands. Meliá strengthened its commitment to high-quality tourism

6
JUNE
The company continued to expand its footprint in China, opening the new Meliá Shanghai Hongqiao, an urban hotel for the bleisure segment

In addition, it strengthened an agreement to increase its sales volume with the country's foremost online agency, Ctrip,

ME by Meliá celebrated its tenth anniversary by organising a series of functions and exclusive events

7
JULY
Meliá opened the Discovery Center at the Meliá Sancti Petri. This visitor centre recreates the historical heritage of the Sancti Petri Castle, its history and mythological origins

8
AUGUST
The Global ESG Leaders Awards 2017, awarded by The European and hosted by Thomson Reuters, recognised the organisation and its CEO, as well as its proven leadership in the environmental, social and corporate governance areas.

9
SEPTEMBER
Their Majesties the King and Queen of Spain inaugurated the Palau de Congressos de Palma, in an event dedicated to the music, culture and society of the Balearic Islands and the role played by the diversification of its tourist offering, quality and competitiveness in the future of economies

10
OCTOBER
Signing of a new hotel located in the Iguazú National Park, considered to be one of the seven natural wonders of the world and a UNESCO World Heritage Site

11
NOVEMBER
Meliá celebrated Black Friday this year by becoming the first worldwide chain to market hotel experiences through Amazon.es

14 young people from all over Spain took part in an exclusive training programme to enhance their personal brand, with the aim of highlighting their strengths and facilitating their entry into the labour market, in collaboration with the Princess of Girona Foundation

12
DECEMBER
Launch of MeliáRewards Shopping, an online store for earning and redeeming loyalty points for thousands of products anywhere in the world

The digital transformation circle for the business model closed with the launch of MeliaPro.com, the new booking portal aimed at the B2B segment, which reinforces direct sales and promotes a better relationship with professional customers

RESULTS

€310.3 million	€128.7 million	€593.7 million	€84.9	+3.8%
EBITDA without capital gains (+4.6%)	Net Attributable Profit (+27.8%)	Net Debt (+9.4%)	RevPAR Owned and Leased (+5.6%)	Appreciation of company shares in 2017

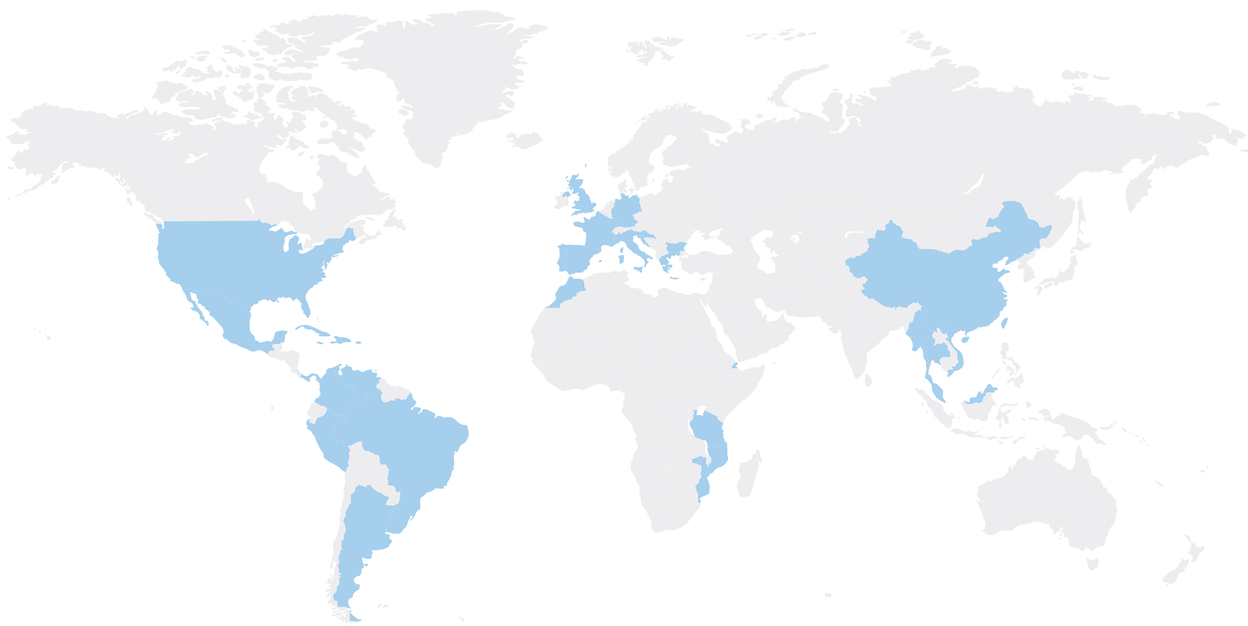
COMPANY

+7,000	93.4%	-12.64%	€281.1 million	+1,200	17
New hires	Purchases from Local Suppliers	CO_2 Emissions per Stay	Public Administration (+2.9%)	CSR initiatives (+16.0%)	Merco CSR position (+8 pts)

BUSINESS

€986.0 million	€518.5 million	96,956	48.3%	+9 million	58%
Room Revenue (+5.8%)	Direct Sales melia.com (+21.2%)	Total Room Portfolio	NPS (+5.7 pts)	Loyal Customers (+35.2%)	Premium and Upscale Hotels

Note: (vs 2016)



GRAN MELIÁ HOTELS & RESORTS · ME BY MELIÁ · PARADISUS BY MELIÁ · MELIÃ HOTELS & RESORTS · INNSIDE BY MELIÃ · TRYP BY WYNDHAM · Sol by Meliã · CIRCLE BY MELIÃ

Recognitions

Throughout its more than 60 years of history, Meliá Hotels International has worked to consolidate a model of excellence, responsibility and reputation, assets that are essential today for any company that wants to transmit trust, transparency and ethical behaviour to all its stakeholders. Having an international reputation allows us to differentiate ourselves and supports our commitment to meet the expectations of our stakeholders, in areas as diverse as the product, the quality of the service and more intangible aspects, such as brand promise, talent and corporate responsibility.

Today, more than ever, solid management of both the business and our worldwide reputation is particularly important. This is due to our significant international presence, which leads us to manage and coexist with very diverse cultures in some very different settings. At Meliá we consider it essential to make the management of all these factors overarching, as they have a direct impact on adding economic and social value, which as a company we are committed to creating.

The transformation that Meliá has been promoting for years in all areas of management underlines the importance of making our management fit a model that is based on responsibility and long-term sustainability.

Our presence in the main national and international rankings and monitors, as well as the awards and recognitions we have obtained, reinforce a positioning that fits in with our values, a fact we consider a differentiating feature.

Throughout 2017, we made significant progress in all the rankings in which we have featured for many years, celebrating the recognitions we have received.

The external recognition received this year encourages us to continue promoting the inclusion of ethical, responsible and transparent criteria in our hotel management model and to strengthen our business purpose by focusing on offering global accommodation experiences and services with criteria of excellence, responsibility and sustainability and, as a family business, contributing to a better world.

GABRIEL ESCARRER JULIÁ
Founder and Chairman

Honorary Ambassador for the Spain Brand. *Leading Brands of Spain Forum*

"Estrella de Turismo" award for his professional career. *Turismo Castilla y León Magazine*

GABRIEL ESCARRER JAUME
Vice Chairman and Chief Executive Officer

Executive of the Year. *27th Edition of the Ejecutivos Magazine Awards*

TOP 100 Most Influential People in Spain 2017. *Diario ABC Newspaper*

19th in the Ranking of the Best CEOs in Spain. *Forbes*

Environmental, Social and Governance (ESG) leader of the year. *The European Magazine with the collaboration of Thomson Reuters*

31st Position (+31) in MERCO Leaders

HOTELS AWARDS

446
Recognitions

385
Recognition for product and quality service

1
Cultural recognition

9
Environmental recognition

13
Social recognition

32
Recognitions for F&B

6
Occupational health and safety recognitions

LEADERSHIP & REPUTATION OF MELIÁ

MERCO COMPANIES - TOURISM SECTOR	1st position	Ranking of leading companies with the best corporate reputation in the tourism sector for the 5th consecutive year
MERCO COMPANIES	13th position (+4)	Ranking of companies with the best corporate reputation
HOSTELTUR RANKING OF LARGE HOTEL CHAINS	1st position	Global Ranking of Establishments and Rooms Ranking of Presence in Spain
IBTA AWARD		Best Hotel Chain
WORLD TRAVEL AWARDS		Europe's Leading Corporate Hotel Brand 2017

INTERNATIONALISATION

ACTUALIDAD ECONÓMICA AWARDS		Best International Strategy
4TH "CRÉDITO Y CAUCIÓN" AWARDS FOR INTERNATIONALISATION		Flagship Company

INNOVATION & TECHNOLOGY

AGORA NEXT INNOVATION AWARD		Minsait Award by Indra for the Best International Hotel Chain for Innovation
OPC INNOVATION AWARD MADRID AND SPAINDMCS		Power Meetings by Meliá
SAP QUALITY AWARDS		Gold - Fast Delivery Category
EUROPEAN HOSPITALITY AWARDS		Best Use of Technology - Sol House Social Hub Innovation in Service - Sol House

CORPORATE RESPONSIBILITY

MERCO RESPONSIBILITY AND CORPORATE GOVERNANCE	17th position (+8)	Ranking of the most responsible companies
GLOBAL ESG LEADERS AWARDS		Leading company in sustainability
CARBON DISCLOSURE PROJECT	Rating A-	Ranking of companies fighting climate change Leading company in the sector in Spain
LATIN AMERICAN AWARD FOR CORPORATE RESPONSIBILITY		Annual Report 2016 Meliá Hotels International

EMPLOYMENT QUALITY & EMPLOYER BRAND

MERCO TALENT	16th position	Ranking of companies that best attract and retain talented staff
MERCO UNIVERSITY TALENT	22nd position	Ranking of the best companies to work for according to university students
RANDSTAD EMPLOYER BRAND RESEARCH		Most attractive hotel company to work for in Spain
1st DIGITAL TALENT AWARDS		Talent and Workforce Award
UNIVERSUM - MOST ATTRACTIVE EMPLOYERS	7th position	Ranking of attractive companies for university students to work for

QUALITY OF PRODUCT, SERVICE, EXPERIENCE & BRANDS

GLOBAL TRAVELER LEISURE LIFESTYLE MAGAZINE		Best Hotel Group in the World in the luxury leisure hotel category
LEISURE LIFESTYLE AWARDS		Best Luxury Leisure Hotel Group in the World
EUROPEAN GROUP TRAVEL AWARDS		Best Group Hotel Brand Boutique - TRYP by Wyndham
WORLD TRAVEL AWARDS		Mexico & Central America's Leading Hotel Brand 2017 - Meliá Hotels & Resorts
TRIPADVISOR		Recognition of excellence (175 hotels certified)

Business model

At Meliá Hotels International we have a business model that focuses on profitability and the creation of value for our stakeholders. We evolved from a family holiday company established in Mallorca (Spain) to an internationally diverse, listed company with benchmark brands in the hotel industry.

"We seek to generate value for our stakeholders"

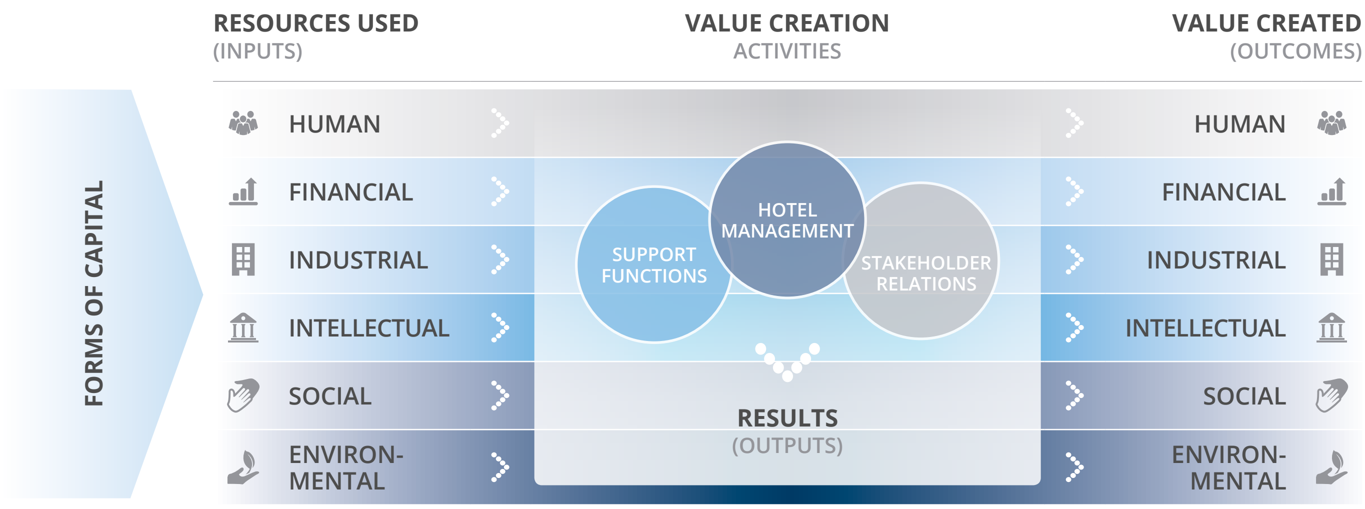
This model is the result of the evolution and transformation of the company over its more than 60 years of history. The experience is enriched by strong values, strategic vision and a clear commitment to our stakeholders.

The company's ability to create value is determined by its business model, the way it captures capital (inputs), how it transforms it (activities) and what it achieves by differentiating the results of our activity (outputs) and the indirect consequences for our stakeholders (value created).

At Meliá we also implement a business model that revolves around **six pillars** representing the essence of the company:

- Business model
- Talent
- Development
- Digitalisation
- Customer orientation
- Support

VALUE CREATION PROCESS AND THE SIX FORMS OF CAPITAL



ROBUST BUSINESS MODEL

The use of new technologies and a high degree of knowledge of the customer have fed into an innovative business model and ensured that the value proposition is delivered with a greater degree of personalisation

Customer satisfaction and loyalty have resulted in increased revenues and, therefore, the company's profitability

TALENT

An organisational structure that fits our needs, with a focus on attracting talent from outside and empowering internal talent, allows us to manage a committed, responsible workforce that will ensure our future growth

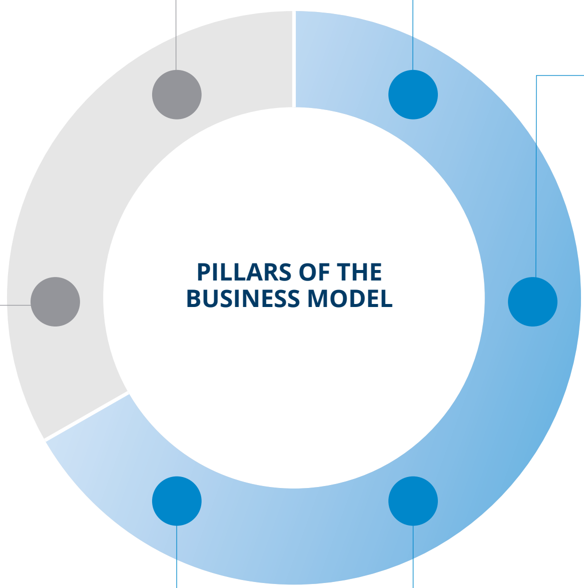
DEVELOPMENT

Our development strategy allows us to manage our current presence in over 41 countries and reinforces a management growth model that allows us to enrich our hotel know-how

CUSTOMER ORIENTATION

The customer is our reason for existing. Our service culture and our values focus on delivering the brand promise. The differentiating features and experiences, personalised customer relations and a state-of-the-art complementary offering make our hotel brands a benchmark

Customer satisfaction and loyalty have resulted in improved revenues and, therefore, the company's profitability



SUPPORT

Having a dynamic, efficient structure and a robust governance model that guarantees compliance with processes, regulations and internal control

DIGITALISATION

A culture based on incorporating state-of-the-art technological solutions that provide the organisation with tools to advance the value proposition and provide effective, fast-paced management, and result in better quality service and improved results

AREAS FOCUSING ON INCOME   COMPLEMENTARY AREAS

LEISURE AT HEART,

INPUTS

+44,000
Employees

€2,235.5 million
Aggregate revenue

382
Hotels

96,956
Rooms

€155.5 million
Investment in brands

+€14 million
Investment in technology & innovation

Commitment to society

Combating climate change

Support functions

The support functions, carried out in the global and regional corporate offices, facilitate the planning, management of objectives and development of the business, building a solid base from which to leverage the growth of the company

MANAGEMENT OF THE BUSINESS

Strategy	Asset management
Corporate governance and risk management	Corporate communication

DEVELOPMENT

New growth opportunities

SALES AND DISTRIBUTION

Market intelligence	Marketing
Distribution and sales	CRM & Loyalty

OPERATIONAL MANAGEMENT

Rooms	Administrative Area
Food and beverages	Maintenance

SUPPORT

Human Resources	Purchasing
Management control	Legal
Technology	Internal audit

Hotel management

Our hotel management model seeks to increase the value of our brand portfolio as a lever of

BRAND PORTFOLIO

GRAN MELIÃ HOTELS & RESORTS

MELIÃ HOTELS & RESORTS

Sol by Meliã

SUPPORT

+50
Gastronomic concepts

THROUGHOUT T

BUSINESS IN MIND

Stakeholder relations

growth and profitability, bolstering our presence in key markets and strengthening our internationalisation

As the last link in the value chain we have a model of close relations with our stakeholders, which allows us to meet their expectations and strengthen our reputation and national and international recognition

ME BY MELIÃ
PARADISUS BY MELIÃ
INNSIDE BY MELIÃ
TRYP BY WYNDHAM
CIRCLE BY MELIÃ

YHI SPA
53
SPAs

DIALOGUE WITH STAKEHOLDERS

2,170
Surveys
Materiality Analysis

RELATIONS WITH OWNERS AND INVESTORS

16
Roadshows

9
Countries

LOYALTY: BELONGING MEANS MORE

MELIÃ REWARDS

9 million
Customers
MeliáRewards

45
Partners

THE VALUE CHAIN

OUTPUTS

8.56
Commitment index

16th
Merco Talent

€310.3 million
EBITDA

48.8%
Net Promoter Score

82.1%
Global Satisfaction Score

Minsait Award
Best Hotel Chain in Innovation

+€600,000
Raised for the benefit of unicef

13th
Merco Reputation

17th
Merco CSR

-12.64%
CO_2 Emissions per stay

A-
Carbon Disclosure Project

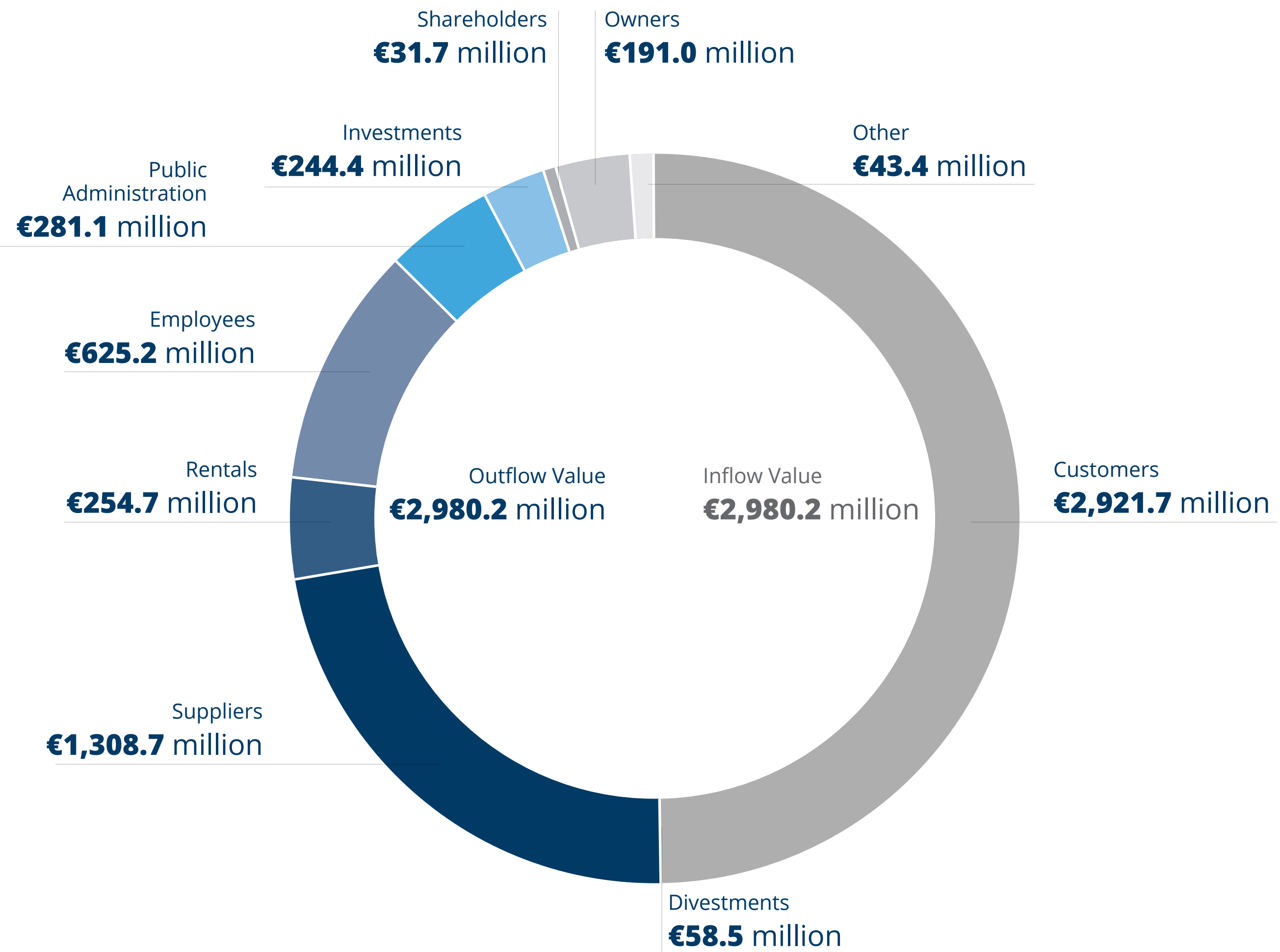
STOXX
Global ESG Leader

GRI 201-1

Social Cash Flow

"A business needs a successful community, not only to create demand but also to provide crucial public assets and an environment that supports the business. A community needs successful businesses that offer jobs and wealth creation opportunities for its citizens"

Michael E. Porter and Mark R. Kramer



INFLOW VALUE

Customers	Divestments
Income from hotel activity, other assets and businesses	Income from real estate divestment, group companies, financial assets, etc.
+4.1% vs 2016	-17.9% vs 2016

OUTFLOW VALUE

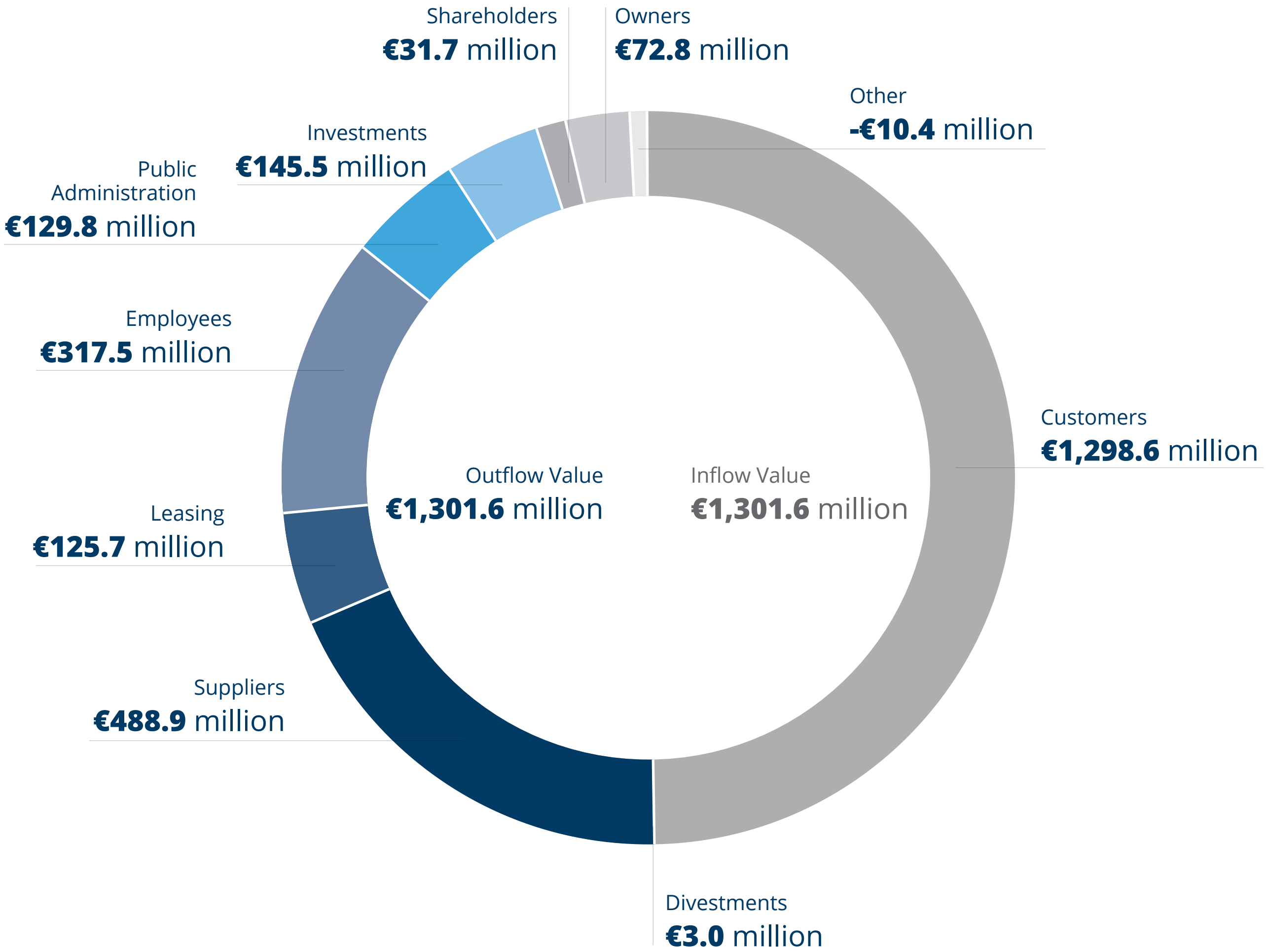
Suppliers	Rentals	Employees	Public Administration	Investments	Shareholders, Owners and Others
Payments to food and drink suppliers, external services, transport, supplies, etc.	Payments to owners of real estate assets used for hotel management and other activities	Payments to staff both in corporate offices and in owned and managed hotels	For taxes related to benefits, social charges, taxes on activity, etc.	Payments for investments made, maintenance or renovation of company assets	Dividends to shareholders, payments to owners, financial expenses, changes in the exchange rate, loans to associates, etc.
+4.2% vs 2016	+4.9% vs 2016	+4.1% vs 2016	+2.9% vs 2016	-6.1% vs 2016	

Tourist activity significantly affects the economic, social and environmental balance of destinations, directly and indirectly impacting the supply chain, the employability and training of the workforce, entrepreneurship, innovation and tax contributions, among others.

At Meliá Hotels International, we measure the impact that our activity has on different stakeholders, which leads to direct benefits for society in general and our stakeholders in particular.

In 2017, we created wealth of €2.9802 billion (€1.3016 billion in Spain), corroborating the solid values on which our company is based and demonstrating the capacity of the tourist industry to be a driver of social cohesion and economic development.

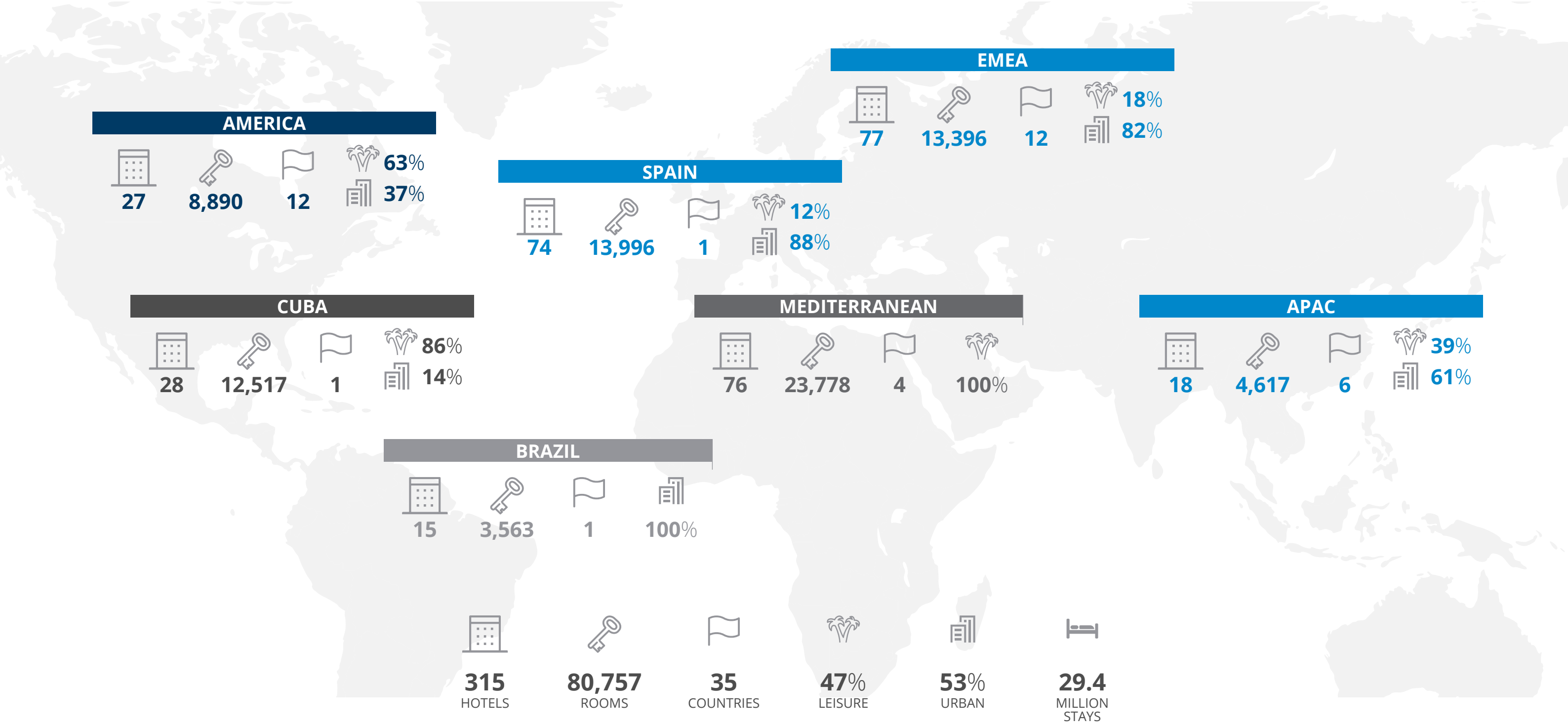
SOCIAL CASH FLOW SPAIN



GRI 102-4 / GRI 102-7 / GRI 102-10

Meliá Footprint

OPERATIONAL PORTFOLIO



Our firm commitment to growth and international diversification are strategic pillars to strengthen our business model, minimise risks and manage opportunities.

At Meliá we have a hotel management model that is supported by low intensity capital growth, giving the company increased drive to face up to future challenges and opportunities.

The opening up of new markets, leadership in the leisure and bleisure segments and a presence in the major cities of Europe and the world form the vision that the company has set for the coming years.

OPENINGS IN 2017

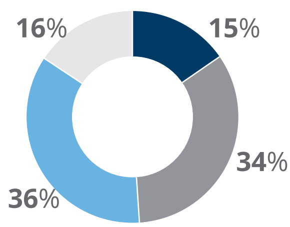
This year we inaugurated twelve new hotels, the highlight being the opening of the Palau de Congressos de Palma and the adjoining hotel, the Meliá Palma Bay (Spain).

This is an emblematic project for the city of Palma, which will boost the major events sector as well as marking a commitment to reducing the island's reliance on seasonality.

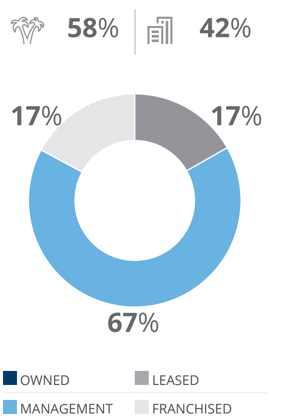
The opening of four new hotels, in destinations in Southeast Asia and China where we are already present, underpins our presence on this continent, and opens the door to leading brands like Innside by Meliá and Sol House Hotels & Resorts.

We are pleased to highlight the opening of the Meliá Serengeti Lodge hotel in Tanzania, a visible example of the company's commitment to enhancing its portfolio with iconic or cutting-edge hotels and reinforcing our environmental strategy by adding a 100% sustainable hotel in the Serengeti National Park, which is a World Heritage site.

ASSET PORTFOLIO



OPENINGS 2017



REBRANDINGS

This year we continued with our strategy of focusing on strong brands and personalised experiences, adapting it to the destinations in which we operate and to the expectations of our customers.

We have therefore made investments intended to strengthen and renew our brand portfolio, and to update our products to the new standards, features and customer demands.

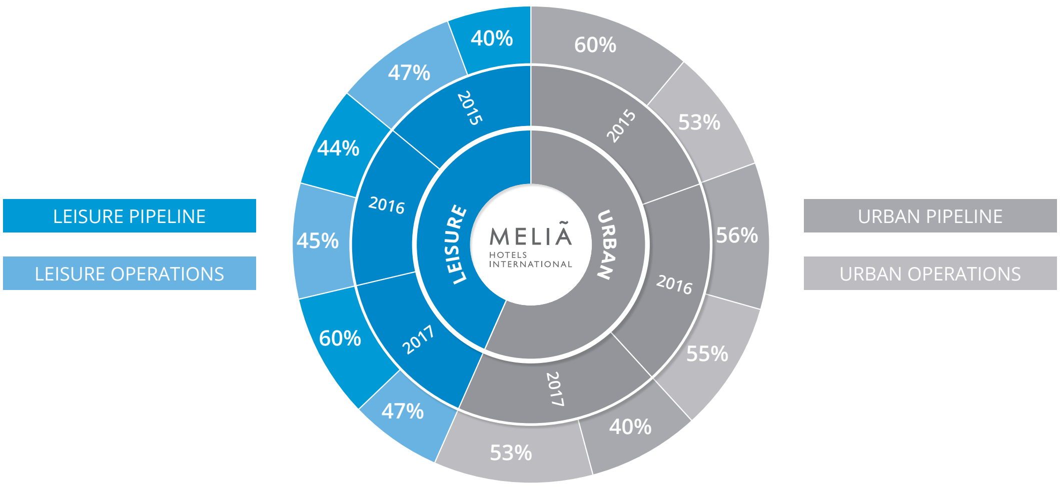
One of the most noteworthy renovations is the rebranding of the old Tryp Bosque, in Mallorca (Spain), to Innside Palma Bosque. This positions the hotel in the upscale segment and improves its offering with a new F&B concept, the Syndeo Lounge.

The old Melia Galgos in Madrid was completely remodelled: Its facilities were modernised and the hotel renamed as Meliá Madrid Serrano (Spain). We offer a new dining experience with the Arado Restaurant, a new All-Day Dining concept, which covers everything from breakfast to dinner service. The atmosphere of the restaurant flows quickly throughout the day, being much more eclectic during the day. to attract groups of friends and families, and having a more relaxed atmosphere at night.

At the ME Madrid (Spain), we transformed the RoofTop, giving it the new RADIO identity (already featured at the ME London and ME Milano), making it a new reference point for Madrid.

In 2018, we will continue to undertake further remodelling projects to strengthen our brand portfolio and update our products to the brand standards and features.

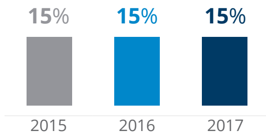
Among them we should highlight the complete redesign of the Meliá Palas Atenea (Mallorca, Spain) to include new, more attractive F&B spaces for the public, and the Meliá Salinas, an emblematic hotel on the island of Lanzarote (Spain).



MANAGEMENT MODEL

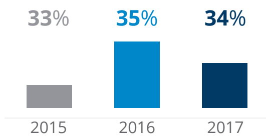
OWNED

The ownership of the hotel and control of its operation lies with Meliá



LEASED

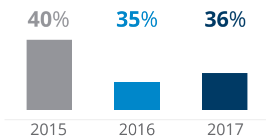
Melia is the lessee of the hotel and owner of the operation



MANAGEMENT

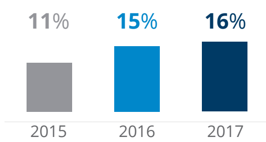
The owner of a hotel requires the management services of Meliá to operate the hotel on its behalf with one of its brands.

The company receives a fee for the management it performs



FRANCHISED

The owners of the hotels operate under one of the Meliá brands and contract our sales and marketing services.



DEVELOPMENT STRATEGY

Our development strategy is part of an international outlook and is structured around our main sources of growth.

To fit our strategic thrust, the premium and upscale hotel firm has been given top priority, in line with the company's brand strategy, as evidenced by 93% of the hotels signed up during this year, whether under the management or franchising models.

The internationalisation of the company is constantly evolving. This is demonstrated by the fact that 93% of the hotels that signed up are outside the borders of Spain. Growth is therefore selective, mainly in the major holiday destinations, and applies our experience to the repositioning of mature assets.

SIGNINGS IN 2017

The thirty signings that took place during the year confirm the leadership of Meliá, its recognition as a management company and its strategy of ensuring a long-term sustainable model.

In Spain, a benchmark holiday destination, a new hotel was signed up in Estepona (Spain), which will be managed under the holiday reference brand Sol Hotels & Resorts, after comprehensive remodelling has taken place to make it into a benchmark hotel.

In the rest of Europe, we strengthened our presence in already consolidated markets, by signing up nine hotels, boosting Brand Awareness in cities like Liverpool, Newcastle, Rome and Lisbon, all managed under the Innside by Meliá brand and celebrating the entry of the Meliá Hotels & Resorts brand into new countries, including Mozambique and Albania.

This year's signing of eight new hotels in Cuba consolidated a history of success and ongoing relations dating from 1990. It also strengthened a portfolio that has already reached a total of 39 hotels on the island and celebrated the entry into the country of the Innside by Meliá brand.

The Meliá Hotels & Resorts brand signed for the management of a hotel in a unique tourist enclave in South America, the Iguazú National Park, considered to be one of the seven natural wonders of the world and a UNESCO World Heritage Site.

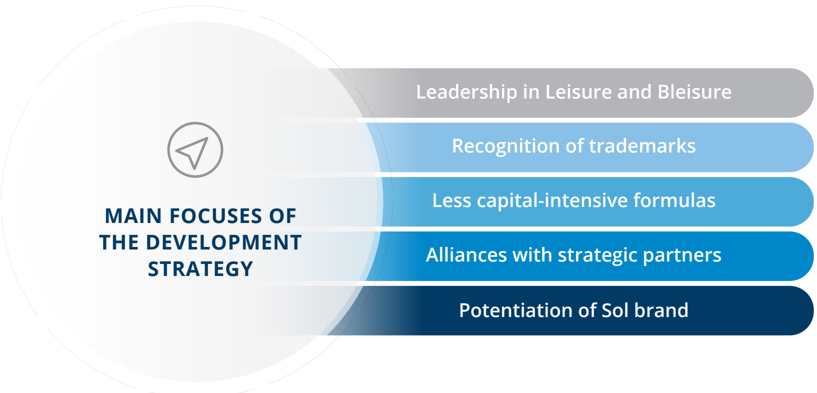
Lastly, we should highlight our future growth in the Asian market, with the incorporation of nine hotels at destinations where we already have a presence, including Vietnam, Malaysia, China and Thailand.

OPENINGS FOR 2018

During the coming financial year, we expect that around twenty new openings will be added to our operational portfolio in Cuba, Asia-Pacific, Europe and America.

This increase in the footprint of Meliá Hotels International consolidates the transformation from a company that manages hotels to a management company that owns hotels and has expanded its flagship brand Meliá Hotels & Resorts (52%).

Next year we will be holding some spectacular openings that heighten our aspiration to affirm Meliá Hotels International's leadership of the leisure segment. These hotels are in spectacular destinations like the Maldives and Mozambique or iconic places like Sitges (Spain), and they are bound to become benchmarks for their respective destinations.



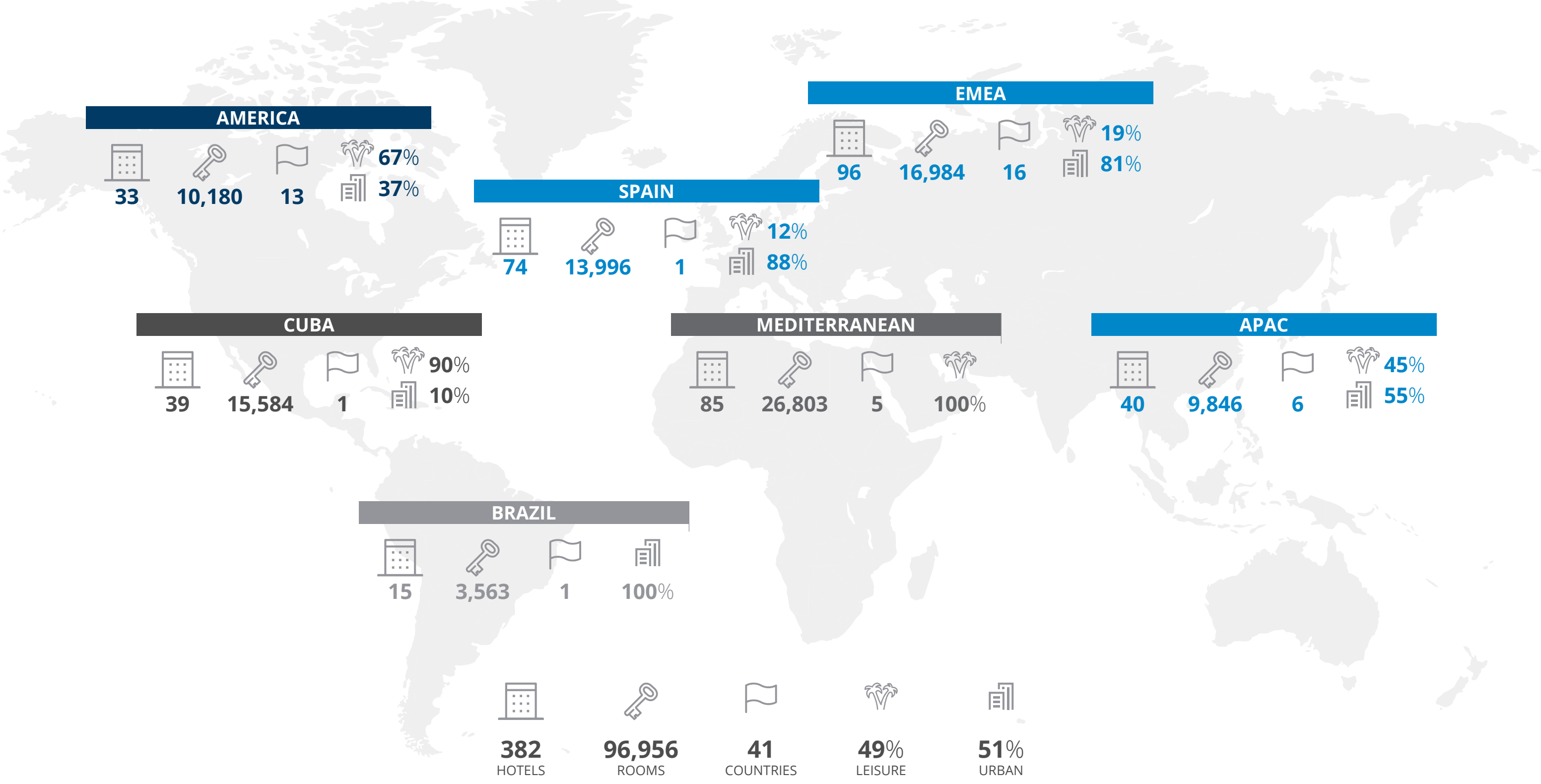
67
Hotels in the Pipeline

88%
Management or Franchise

93%
Premium or Upscale

3
New Countries

OPERATIONAL PORTFOLIO & PIPELINE



FUTURE PROSPECTS

AMERICA

Our aim will be to consolidate our presence in the major tourist destinations, especially in Mexico, Brazil and Colombia.

We also intend to diversify and grow in the Anglophone Caribbean islands and to strengthen growth in the Hispanic Caribbean, as well as expanding our presence in the United States.

EUROPE

Our aim will be to reinforce our presence in the major strategic cities, by growing in our existing markets, such as the United Kingdom, Germany, France and Italy, to boost Brand Awareness, and to add new brands to our existing markets.

In Spain, our performance will be similar to recent years, with selective growth criteria, mainly in the leisure or bleisure segments.

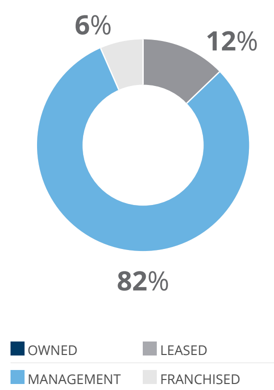
ASIA

Our efforts will focus on growth in the main business and leisure destinations, boosting growth in Asia Pacific and China.

MIDDLE EAST & AFRICA

Our aim is to expand the network in the countries of the region, prioritising our entry with the brand that is best-known internationally, Meliá Hotels & Resorts.

PIPELINE



GRI 102-12 / GRI 102-13

Positioning map

To advance our global positioning and strengthen the leadership and corporate reputation of Meliá, we have set goals for our active presence in environments, institutions and forums that fit the strategic vision of the company and the public commitments we have made.

In order to achieve our positioning objetive/goal, we promote different ways of collaborating with those entities, collaborators and partners that share our concerns and promote projects and initiatives focused on achieving those objectives.

The areas in which we work as partners are based on our knowledge of the hotel business and take on a local or global dimension depending on the needs and requirements of the partner or institution, based on solid values, such as proximity and service vocation.

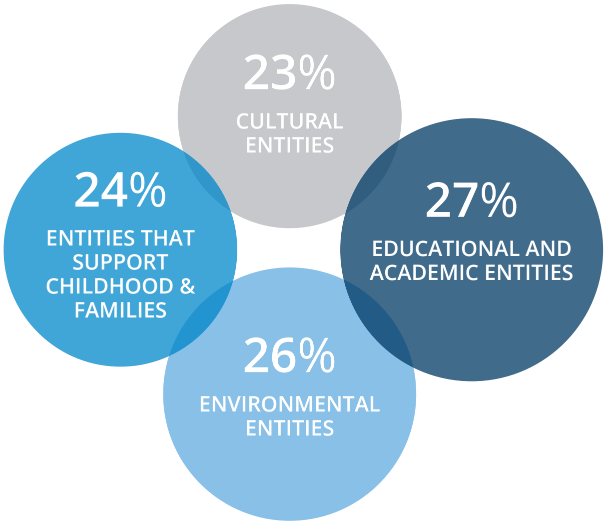
We have signed and made our own a series of commitments and recommendations of a global scale that we have integrated into our own Code of Ethics and the Corporate Policies established by the Group.

+590

Local entities supported in 2017

+1,270

Initiatives supported at the local level by our hotels



PUBLIC ENDORSEMENTS BY MELIÁ HOTELS INTERNATIONAL

We work to continue creating prosperity for the destinations	We promote ethical criteria and defend Human Rights	We want to lead the fight against climate change in the hotel industry	We continue to integrate sustainable criteria into our hotels	We are committed to people and their development
UNWTO; Global Code of Ethics for Tourism; World Travel & Tourism Council; Exceltur	UN Global Compact – We Support; ECPAT; unicef; ICC International Chamber of Commerce – The world business organization	Paris 2015 COP21-CMP11; CDP Driving Sustainable Economies	Global Sustainable Tourism Council – travel forever; FTSE4Good; Sustainable Development Goals	OIT; IUF UITA IUL

Included in the Ethical Code of Meliá Hotels International and in its Corporate Policies, where applicable.

STAKEHOLDER ENGAGEMENT

PARTNERS & OWNERS
Offer the best comprehensive services to make their investment profitable and manage it with the professionalism, seriousness and confidence of a great brand with international prestige

SHAREHOLDERS & INVESTORS
Manage the company with transparency, rigour and good governance, to achieve profitability and increase value in the medium and long term

PUBLIC INSTITUTIONS
Respect the laws and regulations of the places where we have a presence and maintain a relationship of transparency and maximum cooperation with all government departments

CUSTOMERS
Provide guests with their best, personalised experiences of accommodation and exceeding their expectations with the excellence of the services

LOCAL COMMUNITIES
Actively seek a way to create prosperity and sustainable development in the communities in which Meliá Hotels International operates, respecting and promoting their culture, traditions and values, and paying special attention to children and the most vulnerable groups

SUPPLIERS
Use the company's professionalism and size to build lasting relationships based on trust, respect and mutual benefit

EMPLOYEES
Offer the best opportunities for professional development, based on the stability of a family business and the solidity of a major international leader that knows how to recognise commitment, talent and achievements fairly

MELIÃ HOTELS INTERNATIONAL

PUBLIC COMMITMENTS

	SHAREHOLDERS & INVESTORS	CUSTOMERS	SUPPLIERS	EMPLOYEES	LOCAL COMMUNITIES	PARTNERS AND OWNERS	PUBLIC INSTITUTIONS
CHANNELS	Roadshows Shareholders' General Meeting Investor relations office and online room Corporate Newsletters Proxy advisors	Satisfaction surveys melia.com Loyalty programmes Social networks Advertising actions	Central purchasing body Corporate Newsletters Press and relations office	Employee portal Internal magazines Satisfaction surveys Communications	Neighbourhood associations Media Social networks Social activities	Assistance to Governing Bodies Owner's office Press Office Owner Portal Corporate Newsletters	Institutional relations Associations and Employers' Groups Institutions
INFLUENCE	229,700,000 shares €31.7 million of shareholder-related wealth created in 2017 (+188% vs. 2016) 16 roadshows held in 9 countries in 2017	€2.9802 billion of customer-related wealth created in 2017 (+3.6% vs. 2016) +9.3 million loyal customers Increase of 21% in direct sales (melia.com and call centre)	6,075 suppliers €1.309 billion of supplier-related wealth created in 2017 to (+4.2% vs. 2016) €423.7 million from local suppliers	Average headcount: 44,461 €625 million employee-related wealth created in 2017 (+4% vs. 2016) 8.56 Commitment Index	More than €1.1 million earmarked for children More than 120,000 direct beneficiaries of the partnership with UNICEF More than 160 social entities with which we cooperate	585 owners from 33 nationalities 5 partners	€281 million government department-related wealth created in 2017 (+2.9% vs. 2016)

GRI 102-2 / GRI 102-6

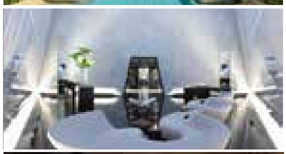
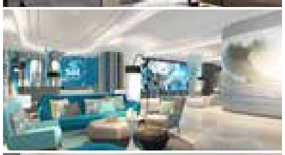
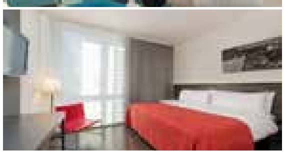
Our hotel brands

Our brand model has been consistently applied to all hotel brands. Although each brand is unique and different, they are all related to the four pillars of the corporate brand, creating the idea of a family, in which they are all related to the corporate brand but are all different.

BRAND PORTFOLIO

The company maintains its strategic focus on growth in the high and medium-high segment with brands grouped under the premium and upscale categories. Our seven brands are clearly defined and positioned to cover the breadth of the needs of these segments and to support our international growth and consolidation.

We are aware that a robust and widely-recognised brand portfolio is the key for growth, profitability improvement and customer satisfaction, while also enhancing our global and regional perspective.

	GRAN MELIÃ HOTELS & RESORTS	Selective positioning focused on growth in major cities, tourist destinations and top-flight locations
	PARADISUS BY MELIÃ	Brand internationalisation by adding major holiday destinations and promoting entry into the Asian market and other destinations in the Caribbean
	ME BY MELIÃ	Focus on cosmopolitan cities at the forefront of the trends, by identifying top luxury and lifestyle holiday destinations
	MELIÃ HOTELS & RESORTS	Maintain a balanced portfolio in the urban and holiday segment, by focusing on destinations with the potential to attract conferences and conventions
	INNSIDE BY MELIÃ	Strengthen the brand as an urban benchmark with a bleisure component in major and secondary cities
	Sol by Meliã	Brand internationalisation, by consolidating destinations in the Mediterranean and South-East Asia and a commitment to the Caribbean and emerging markets
	TRYP BY WYNDHAM	Continue to grow and consolidate the brand in current markets

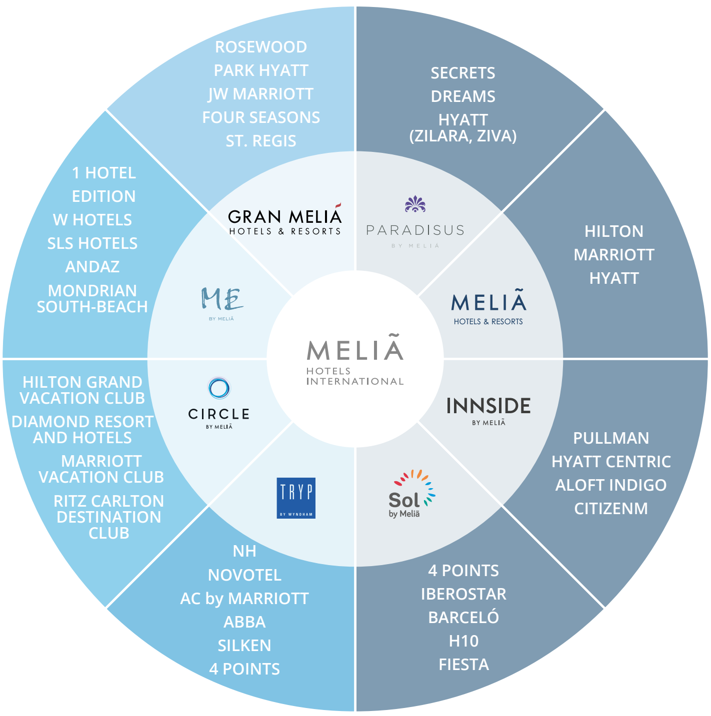
BRAND POSITIONING

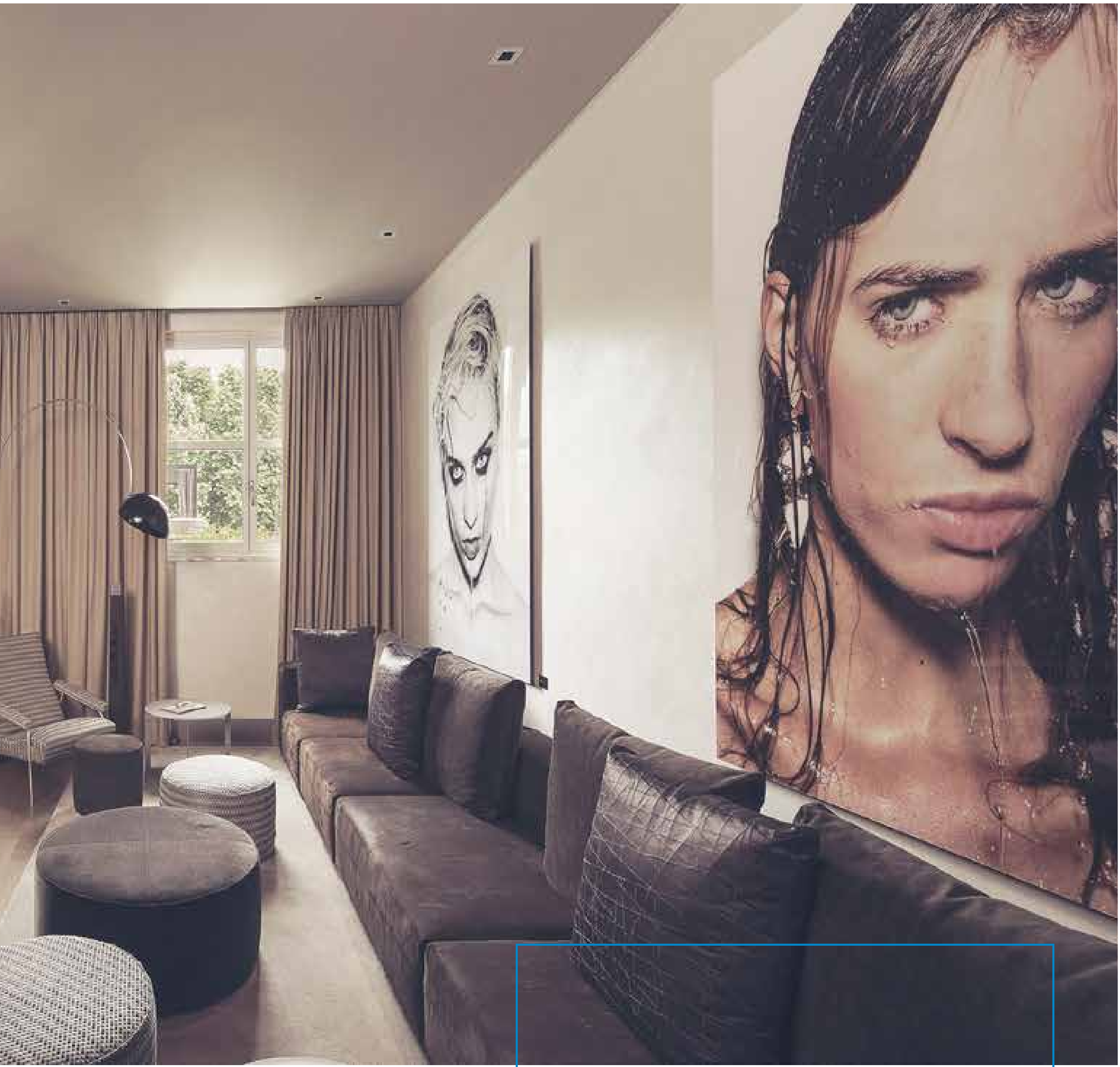
Each of the brands composing our portfolio is aimed at clearly defined psychographic profiles. They complement each other in order to respond to the needs of today's travellers, adapting to changes and new trends as a result of a process of constant evolution and innovation.

During 2017, our brand portfolio gained strength and balance. Due to the evolution that the company has promoted in its brand strategy in recent years, it now has a portfolio of seven brands that are clearly defined and well-positioned to fulfill customer demands.

	+ DEMOGRAPHIC	+ PSYCHOGRAPHIC
PREMIUM	PARADISUS BY MELIÁ; GRAN MELIÁ HOTELS & RESORTS	ME BY MELIÁ
UPSCALE	MELIÃ HOTELS & RESORTS	INNSIDE BY MELIÁ
MIDSCALE	Sol hotels; TRYP BY WYNDHAM; Sol KATMANDU park & resort	Sol house; Sol beach house

COMPETITIVE SET





ME MILAN | ITALY

A collection of luxury hotels inspired by the contemporary European lifestyle

BRAND PURPOSE

ME by Meliá is a collection of hotels where design, exclusive attention and lifestyle combine to offer a unique experience to travellers.

ME has become the central theme of contemporary culture and a major player in the vibrant cultural scene of fashionable destinations.

DISTINGUISHING FACTORS

The Insider friend
Just for you
Daring and surprising
Scene leaders

BRAND EXPRESSIONS

The Aura of ME
Service Culture
ME+
Art & Design
Food & Beverage social epicenters
Cultural program
L.E.G.S. (MICE program)

COMPETITIVE SET

1 HOTEL | EDITION | W HOTELS SLS HOTELS | ANDAZ | MONDRIAN SOUTH BEACH

SOME OF OUR RECENT AWARDS

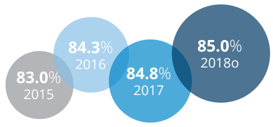
In 2017 ME by Meliá received numerous awards, the highlights being some international awards, such as the Luxury Design Hotel for ME London and the Contemporary Luxury Hotel for ME Ibiza (World Luxury Hotel Awards), Grand Hotel of Italy for ME Milan (International Hotel Awards) and third most beautiful resort in the world for ME Ibiza (Readers' Travel Awards). ME London was also included in the Gold List of hotels by Condé Nast Traveler.

GUEST NATIONALITIES

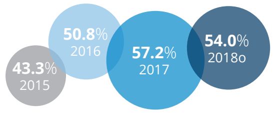
United States of America **26%**
United Kingdom **21%**
Spain **8%**
Italy **6%**
Germany **5%**

MAIN INDICATORS

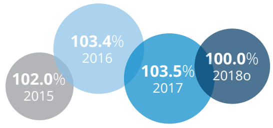
GUEST SATISFACTION SCORE (GSS)



NET PROMOTER SCORE (NPS)



QUALITY PENETRATION INDEX (QPI)



PRESENCE IN 2017

GRAN MELIÁ PALACIO DE LOS DUQUES | SPAIN

GRAN MELIÁ
HOTELS & RESORTS

Your invitation
into Spanish luxury

BRAND PURPOSE

An exceptional way of understanding life that is reflected in a personalised and intuitive service, the creation of unique experiences and the contemporary expression of Spanish luxury.

Gran Meliá is located in historic and emblematic buildings, symbols of luxury around the world.

DISTINGUISHING FACTORS

Spanish gravitas
Sense of personal space
Refined lifestyle details
Forefront luxury

BRAND EXPRESSIONS

Architecture at its finest
Refined Spanish service Culture
Red Level
Luxurious rooms & suites
Spa & Wellness by Clarins
Signature dining
Exceptional experiences
Gala events & weddings

COMPETITIVE SET

ROSEWOOD | PARK HYATT | JW MARRIOT
FOUR SEASONS | ST. REGIS

SOME OF OUR RECENT AWARDS

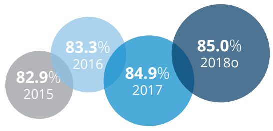
More than 50 awards in recent years, including the Best City Resort in China for Gran Meliá Xian; Best City Hotel in the World for Gran Meliá Jakarta; Travel Scope Award in 2015 for Gran Meliá Xian as the Best Resort Destination in China City; Condé Nast 2013 and 2014 Gold Award in Europe, Condé Nast Host List for Product and Condé Nast Traveler 2015 and Gran Hotel at the International Hotels Awards for Gran Meliá Rome; Best Classic Hotel at the International Hotel Awards, Opening of the year (renewal) at the European Hospitality Awards and TOP 10 Rethink Hotel Awards for sustainability for the Gran Meliá Palacio de los Duques.

GUEST NATIONALITIES

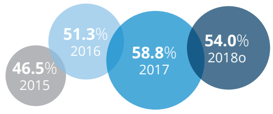
United Kingdom **23%**
Spain **14%**
United States of America **8%**
Germany **6%**
France **4%**

MAIN INDICATORS

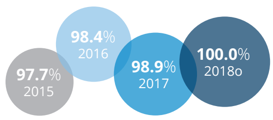
GUEST SATISFACTION SCORE (GSS)



NET PROMOTER SCORE (NPS)



QUALITY PENETRATION INDEX (QPI)



2017 PRESENCE

PARADISUS PUNTA CANA | DOMINICAN REPUBLIC

PARADISUS

BY MELIÁ

Nature included

BRAND PURPOSE

Located in some of the most famous or emerging tourist attractions in the world, the Paradisus resorts transport their guests to a paradise that reflects the natural beauty of their destination.

Aware of its responsibility to nature, Paradisus by Melia is energetically committed to its balanced integration into the environment surrounding its resorts.

This narrative – of being in harmony with the destination – is reflected in all the elements of the resorts, from the locally-inspired dinner menus to the organic products in the rooms.

Guests are transported to a holiday setting that hits on the right balance between a sensation of luxury and a wholly unpretentious atmosphere.

DISTINGUISHING FACTORS

Sensitive to place
A natural retreat
Engineering togetherness
Quietly modern

COMPETITIVE SET

SECRETS | DREAMS | HYATT (ZILARA, ZIVA)

SOME OF OUR RECENT AWARDS

World luxury restaurant awards:
Continent winner: North America Best Head Chef: Passion by Martin Berasategui - Paradisus Playa del Carmen

World luxury spa awards:
Continent winners (North America): YHI Spa at Paradisus Palma Real (Best Spa Manager & Luxury Golf Resort Spa)
Regional winners (Latin America): YHI Spa at Paradisus Playa del Carmen La Perla (Luxury Resort Spa)

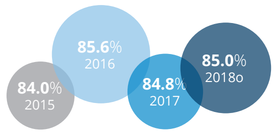
World travel awards:
Mexico & Central America's Leading Green Hotel 2017 – Paradisus Playa del Carmen

World luxury hotel awards:
Luxury Eco/Green Hotel (Continent Winner) - Paradisus Playa del Carmen
Luxury Family All-Inclusive Hotel (Mexico) - Paradisus Playa del Carmen

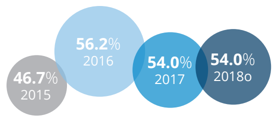
Latin America Verde Awards 2017
Recovery of the "Least Tern" species that was believed extinct - Paradisus los Cabos

MAIN INDICATORS

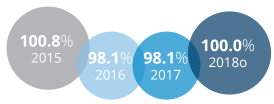
GUEST SATISFACTION SCORE (GSS)



NET PROMOTER SCORE (NPS)



QUALITY PENETRATION INDEX (QPI)



BRAND EXPRESSIONS

Royal Service & Family Concierge
Organic eco-chic design
Multigenerational experiences
Authentic & sustainable gastronomy
Wellness
Retail & merchandising
Corporate responsibility

GUEST NATIONALITIES

United States of America **49%**
Canada **7%**
Mexico **6%**
Argentina **4%**
Spain **3%**

PRESENCE IN 2017

MELIÁ SERENGETI | TANZANIA

MELIÃ
HOTELS & RESORTS

BRAND PURPOSE

Internationally recognised, intimate, inspiring hotels. They stand out for their passion for service and for the personalised attention they provide to their guests.

DISTINGUISHING FACTORS

Warm Spanish hospitality
Focus on customer wellbeing
Thoughtful, added value extras
New hospitality experiences

BRAND EXPRESSIONS

Service culture
Room experience
Gastronomic experiences
The Level
Power Meetings
Energy for life activities
Yhi Spa and wellness
Romance by Meliá
Kids programme
Sanctuary

COMPETITIVE SET

HILTON | MARRIOTT | HYATT

SOME OF OUR RECENT AWARDS

Green Hotel Award - Meliá Purosani
Africa & Middle East Awards 2017: Luxury Hotel of the Year – Meliá Dubai

CVENT Lists:
TOP 10 Meeting Hotels in EMEA – Meliá Castilla
Condé Nast Traveler Gold List – Meliá Sancti Petri

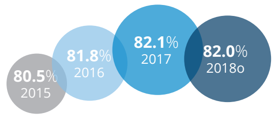
World Travel Awards:
Venezuela's Leading Business Hotel 2017 Meliá Caracas
Spain's Leading All-Inclusive Resort 2017 - Meliá Cala d'Or Boutique Hotel
Panama's Leading Resort 2017 - Meliá Panama Canal
Caribbean's Leading Luxury Resort 2017 - Meliá Braco Village

GUEST NATIONALITIES

Spain **17%**
United States of America **14%**
United Kingdom **11%**
Germany **7%**
France **5%**

MAIN INDICATORS

GUEST SATISFACTION SCORE (GSS)



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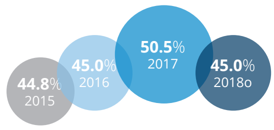
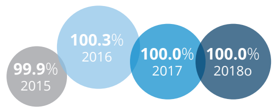


QUALITY PENETRATION INDEX (QPI)



PRESENCE IN 2017

INNSIDE MANCHESTER | UNITED KINGDOM

INNSIDE
BY MELIÃ

#worktripping

BRAND PURPOSE

Select boutique hotels designed for WorkTrippers, offering innovative services, impressive spaces, unexpected surprises and great value for money.

We eliminate the limits between work and leisure with the design of our spaces, a European design environment where the unexpected occurs. Spaces that promote business interactions and facilitate social experiences through small details that make you feel good.

DISTINGUISHING FACTORS

Social openness
Knowing You
Generous surprises
Defining bleisure

BRAND EXPRESSIONS

Service culture
Urban lifestyle hotels
Open living lounge
Super room experience
Pick Mix Match
Free refreshing refreshments
Big Idea Space
Your fit time. InFit

COMPETITIVE SET

PULLMAN | HYATT CENTRIC
ALOFT INDIGO | CITIZENM

SOME OF OUR RECENT AWARDS

INNSIDE by Meliá
Midscale Hotel Brand
Nominated - announced January 2017
Business Travel Awards - UK

INNSIDE Dresden/Twist Bar
Winner: Hotel Bar of the Year
Falstaff Award Hotel Bar of the Year - Germany

INNSIDE Dresden/Twist Bar
2nd place in Best East German Cocktail Mixer
East German cocktail championships - Germany

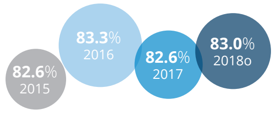
INNSIDE New York Nomad
WORLD TRAVEL AWARDS
United States' Leading Hotel 2017

GUEST NATIONALITIES

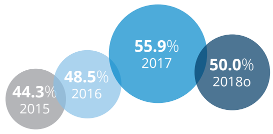
Germany **45%**
United States of America **14%**
United Kingdom **10%**
Spain **6%**
France **2%**

MAIN INDICATORS

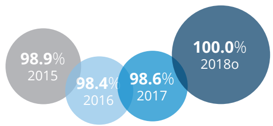
GUEST SATISFACTION SCORE (GSS)



NET PROMOTER SCORE (NPS)



QUALITY PENETRATION INDEX (QPI)



PRESENCE IN 2017

Sol by Meliã

Generations of excitement

BRAND PURPOSE

The brand portfolio is at an exciting and extremely important stage in its development.

The four concepts: Sol Resorts, Sol House, Sol Beach House and Sol Katmandu Park and Resort, are rapidly evolving and reinterpreting the modern holiday experience, updating their concepts to actively address the changing expectations of today's leisure travellers.

DISTINGUISHING FACTORS

Inclusive Sol community
Always enthusiastic
Simple surprises
Evolving customer needs

COMPETITIVE SET

4 POINTS I IBEROSTAR I BARCELÓ H10 | FIESTA

SOME OF OUR RECENT AWARDS

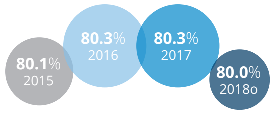
More than 70 awards in the last 18 months, including distinctions from Thomas Cook and Tez Tours; the THK Platinum Medal Medal; and several awards from the Croatian Camping Union as the Best Camping Grounds in Croatia. Sol House won 2 awards at the European Hospitality Awards: Best use of technology and Best innovation in service. Thanks to our unique Sol Kathmandu, we also received the Best Innovation in Service award at the European Hospitality Awards, and we were selected as one of the 100 best business ideas of 2016 (Actualidad Económica magazine).

GUEST NATIONALITIES

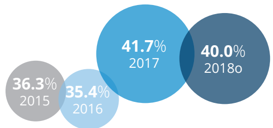
United Kingdom **31%**
Spain **14%**
Germany **7%**
Italy **7%**
France **5%**

MAIN INDICATORS

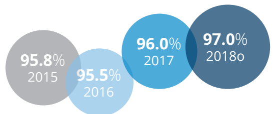
GUEST SATISFACTION SCORE (GSS)



NET PROMOTER SCORE (NPS)



QUALITY PENETRATION INDEX (QPI)



PRESENCE IN 2017

TRYP BERLIN MITTE | GERMANY

TRYP BY WYNDHAM

Powered by the city

BRAND PURPOSE

From locations in the city centre with services that include social lobbies, bars, healthy breakfasts and conceptual rooms, TRYP is the best option for a stay in the city centre.

STRATEGIC POSITIONING

Inspired by the city. TRYP knows the city better than anyone. We bring the energy and modernity of the city to the hotel so that our guests can explore it and discover the secrets that are not in the guidebooks. This culture is shared by all its employees, who create a closer, more intense, creative and visible relationship with the customer.

The concept of TRYP *Powered by the City* gives guests the feeling of knowing the secrets of the city and becoming true lovers of the city.

DISTINGUISHING FACTORS

Knowledgeable
Modern
Exploring

BRAND EXPRESSIONS

Own the City
Central square
Concept rooms
Premium breakfast
24/7 Mini Gym
Be successful meeting program
Say “Yes”: wedding program

COMPETITIVE SET

4 POINTS | IBEROSTAR | BARCELÓ | H10 | FIESTA

GUEST NATIONALITIES

UNITED KINGDOM **31%**
SPAIN **14%**
GERMANY **7%**
ITALY **7%**
FRANCE **5%**

PRINCIPAL MILESTONES

Meliá Hotels International continues to manage more than 80 properties of the TRYP by Wyndham brand, contributing to the development of the brand in the hotels under our control and faithful to the brand positioning.

In 2017 we launched our new brand image *Powered by the City*, which has renewed our visual identity and filled it with colour.

We have also continued to conduct segmented campaigns in TRYP's main markets (Spain, Germany, Portugal and Brazil), covering the main brand segments: business travellers, families and couples. In this regard, we have launched the *Powered by the City* campaign, developed in collaboration with the Spanish marketing agency Ugly Duck.

To develop our relationships with our B2B customers, in 2017 we held five events in which our major customers in this segment attended interesting motivational conferences and enjoyed the TRYP coffee breaks that are such an important feature of the brand.

We also approached consumers on the street with a street marketing campaign designed by the advertising agency Zapping, in which a bed on wheels was rolled through the centre of Madrid. This campaign was a success on social media.

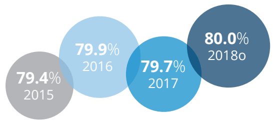
In addition, we increased the actions carried out on social media, given the growing relevance of these channels in relations with customers and consumers.

We also continued to give our support to charitable causes through the 4th edition of Tu Deseo TRYP, in which we collaborated with the Pequeño Deseo Foundation, reaching almost 600,000 people, with a volume of interactions involving almost 30,000 people who commented on, reacted to or shared the post.

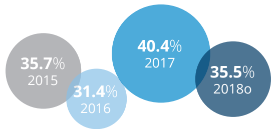
The brand continues to update its existing products while adding new features to enhance the customer experience.

MAIN INDICATORS

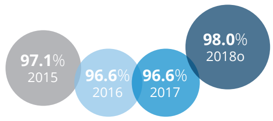
GUEST SATISFACTION SCORE (GSS)



NET PROMOTER SCORE (NPS)



QUALITY PENETRATION INDEX (QPI)



CIRCLE
BY MELIÃ

THE CIRCLE EXPERIENCE

The *Circle* experience is a unique, innovative and dynamic new concept in timeshare vacations from Meliá Hotels International.

Circle by Meliá focuses on all its members to offer exceptional service and a high-end luxury experience. We are elegant, comfortable and exclusive. At Circle you enter a world of Infinite Holidays to enjoy La Reserve II Resort in Punta Cana, Dominican Republic, designed to suit the exquisite tastes of our partners.

Enter the *Circle by Meliá* experience. Where you are the centre of our attention www.circlebymelia.com

A NEW APPROACH

Circle by Meliá will innovate its communication strategy and build trust through personalised interaction and co-creation with its community of members and audiences.

Because each experience is personal, we will deliver it on all our platforms.

BRAND PURPOSE

A holiday community that rewards flexibility, transparency and experience.

DISTINGUISHING FACTORS

Lifelong relationships
Most valued members
Beyond expectations
Constant refinement

BRAND EXPRESSIONS

Bespoke service
A new level of personaization
Transparency on every approach
In-room technology
Infinite butler

3 LEVELS OF MEMBERSHIP: THE BENEFITS

INFINITE BLUE

MeliáRewards Silver
Premium wine list
Superior culinary options
Members' party
Priority reservation in restaurants
Welcome pack for children
Golf

INFINITE RED

In addition to the benefits of Infinite Blue
MeliáRewards Gold
Candlelit dinner
"Dine around" in the restaurants of Home Collection hotels
Babysitting service
Family photographs
Preferred level
Wedding package
Golf

INFINITE BLACK

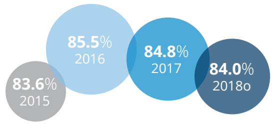
In addition to the benefits of Infinite Red
MeliáRewards Platinum
Infinite butler
Image, recognition and benefits
Exclusive service hotline
Priority Pass in airports
Airport transfer
Alliance with RCI
Golf. Unlimited tee-off times and free use of buggy for stays at Circle in Paradisus Palma Real

COMPETITIVE SET

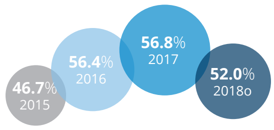
HILTON GRAND VACATION CLUB (HGVC)
DIAMOND RESORT AND HOTELS
MARRIOTT VACATION CLUB
VISTANA (SHERATON)
RITZ CARLTON DESTINATION CLUB

MAIN INDICATORS

GUEST SATISFACTION SCORE (GSS)



NET PROMOTER SCORE (NPS)



MELIÁ SANCTI PETRI | SPAIN

Gastronomic experience

INNOVATION IN GASTRONOMY

At Meliá we are aware of the importance of offering an avant-garde gastronomic range that incorporates the local essence and products, promotes a knowledge of gastronomy from other places or transmits the importance of a healthy and balanced diet.

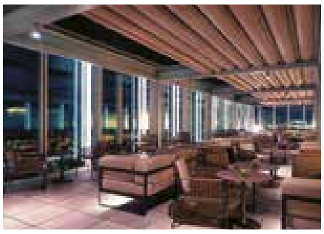
Innovation and development of new concepts have been integrated into our brand strategy and the renovation processes of our hotels. Surrounding our customers in an experience that conquers the senses is one of the objectives to which the company dedicates effort and resources.

Our diversity and internationalisation allow us to identify new concepts and different experiences. This global presence has facilitated the signing of alliances and the addition of famous chefs, restaurant chains or new partners, to celebrate today a gastronomic offering with more than 50 concepts aligned with the essence of each brand. We work with stylish, contemporary restaurants, with all-day-kitchen service, bars, beach clubs, terraces and an offer of banquets to stimulate the senses, creating a gastronomic experience tailored to the needs and expectations of our customers.

In 2017, we collaborated in the development of new F&B businesses, supporting the incubator programme of the Eatable Adventures accelerator and hosting The Gastroemprendedores meetings. This entrepreneurship community has reached 12,500 members and organised events that have attracted more than 1,000 attendees. At these meetings, as well as offering space for events, our executives shared their experience and best practices in key areas. From this collaboration, 3 new brands have emerged in areas such as healthy foodservice and the revival of traditional recipes. Disruptive business models have been promoted such as *Le Room Service* (renewal of hotel room service) and Prezo an open market for order purchase and management.

DRY by Javier de las Muelas
Gran Meliá Fenix (Spain)

Dos Cielos (Torres brothers)
Meliá Sky Barcelona (Spain)



Alevante by Ángel León
Meliá Sancti Petri (Spain)

Passion by Martin Berasategui
Paradisus Palma Real Golf & Spa Resort (Dominican Republic)

MELIÁ MADRID SERRANO | SPAIN

MEETINGS & EVENTS
BY MELIÃ HOTELS INTERNATIONAL

Big Idea Space

Innside Hamburg I Germany

MICE SEGMENT

The MICE segment (Meetings, Incentives, Conferencing, Exhibitions) is a segment of great significance to the company. More than 110 hotels in 26 countries dedicate specific spaces to the holding of events, meetings or large conventions. We offer more than 36,000 rooms, 1,100 meeting rooms and more than 181,000 square metres of lounge area.

This sector, which is sensitive to adverse economic conditions, has experienced a significant improvement in recent years that allows us to predict a positive trend.

The importance of this segment continues to grow due to the incorporation of recent hotels equipped with large new spaces, and provide the opportunity to deliver a different leisure and business experience to the customer.

This year we should highlight the opening of the Palau de Congressos de Palma (Spain), which has become a perfect host for major national and international conventions, with the aim of becoming a benchmark in congress activity on the Mediterranean.

Palau de Congressos de Palma I Spain

OUR PILLARS

With the current togline, *leisure at heart, business in mind*, we are expressing our desire to strengthen our leadership in both the leisure and bleisure segments, and the events and meetings business undoubtedly forms a perfect balance between these two.

With the firm intention of becoming the perfect host for this type of customer, at Meliá we have been working on new concepts and experiences for our brands:

Power meetings by Meliá
Big Idea Space by Innside
Be successful by Tryp
LEGS by ME
Exceptional events by Gran Meliá
Paradisus where you want to meet

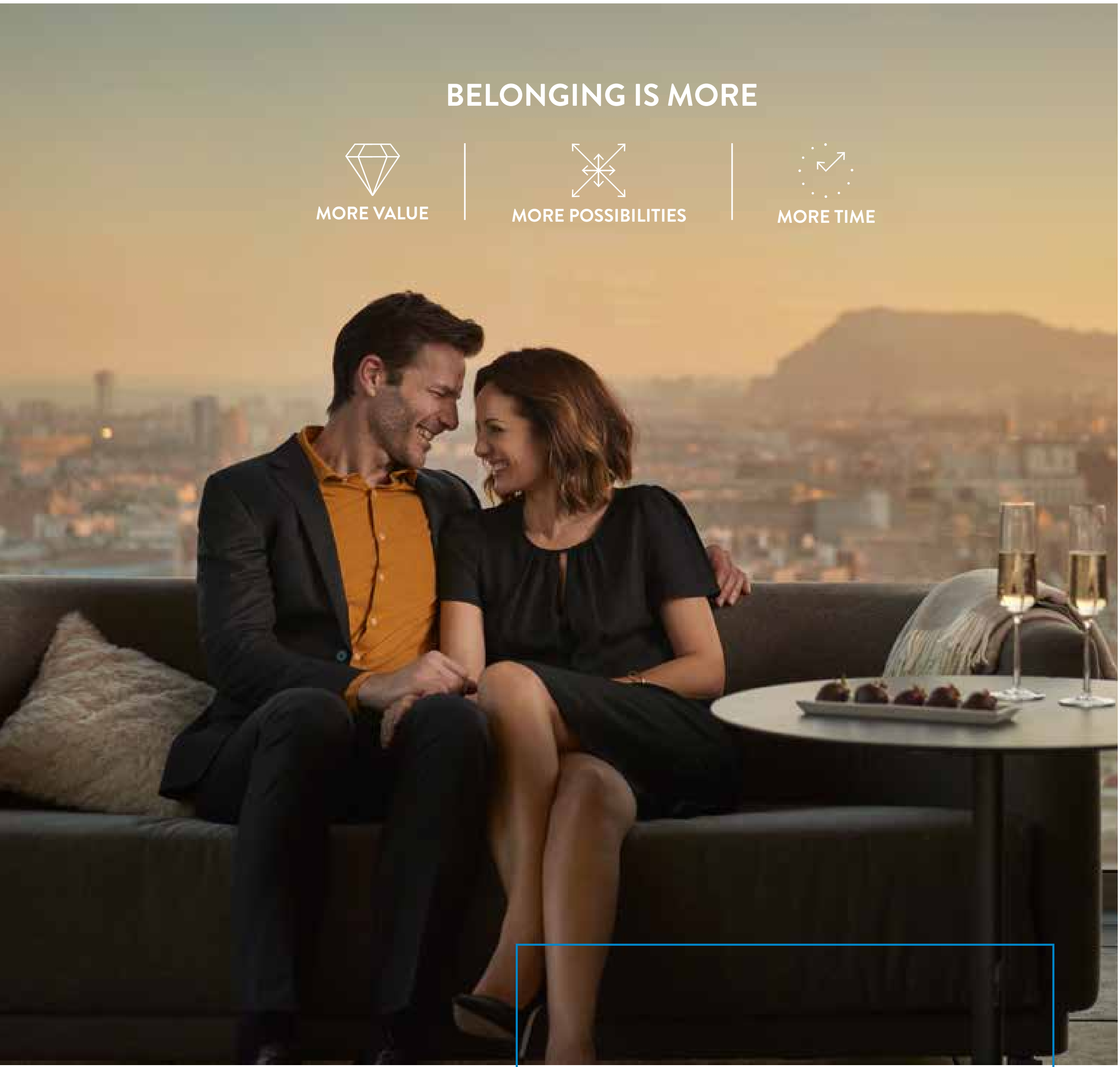
DIGITAL TRANSFORMATION

As a result of the company's digital transformation process, this year new technologies have been added, improved processes that promote management excellence and guarantee customer satisfaction and loyalty. Highlights among these are:

An innovative gastronomic offering, with technology as a facilitator for disseminating the best culinary experiences

Meliá group booking tool. The creation of custom websites for events, which allow online bookings to be made at any time

Meliá ProRewards. Our redesigned loyalty programme for travel agents and event organisers.



Customer Relations

CUSTOMER LOYALTY PROGRAMME

At Meliá we understand leisure to be a way of life. It is what we carry within us and what we want to communicate to our customers, since it is the most important part of our daily routine.

This year, we improved the value proposition and purchasing experience, with the advantages of a digitalised model, so that loyal customers can earn and redeem points in a personalised way during their everyday online shopping.

In this new online store, members of our MeliáRewards loyalty programme have access to more than 4,000 items in different categories, such as electronics, health, beauty and travel, which can be redeemed with their MeliáRewards points, or by combining points + money. As a result of a signed agreement, the articles can be sent to more than 140 regions around the world.

On the other hand, the online store MeliáRewards Shopping also offers members of the loyalty programme the chance to earn *MeliáRewards* points with their purchases at more than 1,800 stores.

As a result of the international dimension of the company and its presence in different markets and countries, we have expanded our number of partners so that MeliáRewards points can be collected and exchanged anywhere in the world.

MELIÃ REWARDS

9.3 million
MeliáRewards members
+27% vs 2016

45
MeliáRewards Partners
= 2016

2.6 million
MeliáRewards stays
+13% vs 2016

+13%
MeliáRewards customer revenue vs 2016

GROWTH IN SOCIAL MEDIA VS 2016

+53% +71%

OWN WEBSITE

Our loyalty programme has its own direct communication channel with Meliarewards.com customers, where they can exchange their points in a more flexible way using the points + money formula.

MELIÃ PRO

MELIAPRO REWARDS

MeliáPRO Rewards is our loyalty programme for travel agents. With this programme we promote loyalty in this sector, allowing them to get first-hand knowledge of our brands and the offering we serve up to meet market demand.

As a result of a determined drive to improve relations with professional customers (B2B), we have redesigned our business strategy, adapting it to a digital environment.

We have launched a new online booking portal, *MeliáPRO*, for these B2B segments, which reinforces the direct sales system and promotes a better relationship with professionals in the sector.

MeliáPRO has become, in this year, the new commercial umbrella of the four professional segments (B2B) and also strengthens the *MeliáPRO Rewards* professional loyalty programme: *meeting & events, corporate, agents and wholesalers*.

DIRECT SALES CHANNELS

The digital environment is transforming the way companies interact with their customers. At Meliá, we have been leading the sector's online development for several years and reinforcing our omnichannel presence, both in interactions with end customers (B2C) and with professional customers (B2B).

The company has worked hard to benefit from the opportunities offered by the digital age, by promoting the necessary changes in its organisation, inspiring changes in its ways of working and analysing information, with the aim of contributing to the improvement of the revenue and profitability of the channels.

The excellent results obtained reinforce this decision and encourage us to continue developing the analytical and technological capabilities that are needed, with the aim of strengthening an ongoing relationship of trust with the customer.

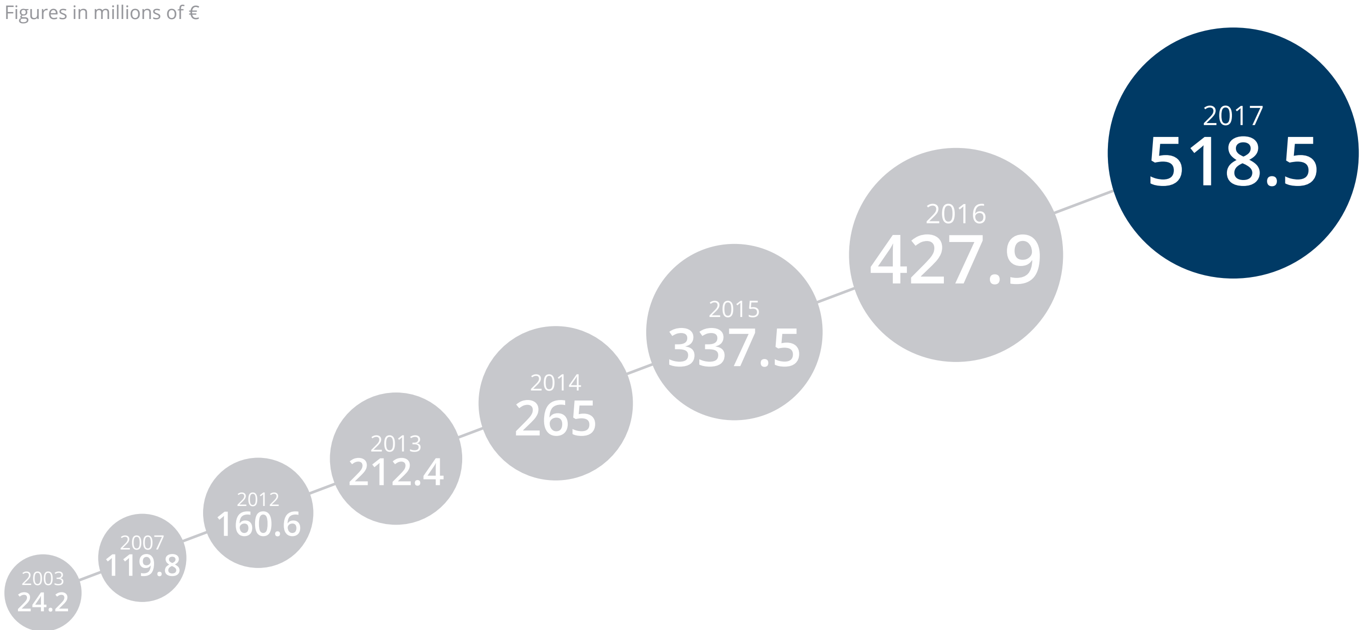
58.0%
Centralised Sales Ratio
(+21% vs 2016)

+25%
Sales Growth 2012-2017

€33.8 million
Mobile Sales
(+491% vs 2016)

EVOLUTION OF MELIA.COM SALES CHANNEL

Figures in millions of €



MELIA.COM

Since its launch in 2016, our booking website (www.melia.com) is continuing to consolidate its position as the company's main sales channel, reaching €518.5 million this year, a 22% increase over last year.

This year, the website received 64 million visits, 33% more than in 2016, as a result of an online marketing strategy focusing on personalising each of the contacts with our customers.

A comprehensive knowledge of the customer interaction process requires us to make different decisions at each stage of the value chain, in other words in the choice of product, channel, marketing expenses and, lastly, the suitability of the schedule.

The company has devoted great efforts to improving the user experience and optimising conversion rates. Thanks to a customisation system that combines Big Data and artificial intelligence algorithms, the online channels offer each user personalised content in real time, based on their profile and individual behaviour.

In parallel, we have strengthened our analysis, user experience and user testing capabilities, both remotely and in a digital laboratory that we have installed at our corporate offices.

MELIAPRO.COM

With the birth of the new *MeliáPRO* website (www.meliapro.com), the functionalities for professional customers have multiplied. The site now has everything required to make its management more efficient and meet expectations.

During the design process of the new website, the participants in the *focus groups* transmitted requirements such as: personalised dashboards, multi-device and responsive website, quick access, new hotel search engine, RFP for groups connected to our management system and a new showcase with the updated content of our hotels.

All this is complemented by a digital marketing and sales strategy adapted to B2B, with important changes incorporated.

We have also opted for closeness with our customers by using social networks as a means of promoting and generating content (Facebook, Twitter, Instagram and LinkedIn with *MeliáPRO* and *MeliáPRO Meetings*).

This year, we have also worked on an ambitious training programme for our sales teams that improves the process of adapting to the new digital environment and ensures training that successfully deals with the strategy designed.

SOL HOUSE THE PLAZA | SPAIN

Asset management

ASSET PORTFOLIO

In the current competitive environment of the hotel industry, it is vital to constantly analyse the trends and the evolution of the real estate market in order to properly respond to the detection of new opportunities that could intervene in processes of investment in real estate assets, divestment or even the redesign of the operations at one or more hotel assets.

Within this framework, we intend to consolidate our real estate function as owner and developer while reinforcing our real estate expertise, creating value for the group and its partners.

To do this, we continuously monitor our asset portfolio to take advantage of real estate market cycles, not only for the sale of non-core assets, but also to identify possible strategic assets and develop new initiatives through joint ventures that will create global value.

Thanks to this strategy, we have achieved significant improvements in key aspects such as:

- Improving hotel quality, by creating differentiated, unique products.
- Maximising the revenue from properties in which an investment has been made, by improving, for example, the key economic figures at the hotel management level (i.e., improving prices and occupancy), or by extending the tourist season at certain holiday assets.
- Generating healthier revenue segmentation, hand in hand, for example, with an improvement in the customer's profile.
- Creating a new trade and leisure offering that attracts prestigious partners
- Increasing the value and liquidity of the assets, allowing the capture of world-renowned partners and investors.

INVESTMENT

Within this framework, between 2016 and 2017, we have invested only in Spain approximately €90-100 million per year, also considering the investment made through joint investment mechanisms with joint ventures.

Of this amount, almost €60 million have been allocated in rebranding in 2016 and around €50 million in 2017, of which slightly less than half was earmarked for rebranding and for the adaptation of the brand standards, under the umbrella of the Sol Hotels & Resorts brand. It is important therefore to highlight that more than 65% of the amount invested in both periods together was invested through joint ventures.

For 2018, it is expected to invest an additional €75 million in the hotel pool in Spain (including joint ventures). Of note are the updating of a series of assets in the Canary Islands and the Balearic Islands, the largest investment being the transformation of the existing hotel Sol Jamaica, a project included within the reconversion of the municipality of Calviá, whose scale requires a total investment of more than €35 million.

JOINT VENTURES

We are continuing to forge new linkages with attractive growth formulas, which, together with the company's solid corporate reputation, constitute an opportunity for the entry of new partners and the development of growth with existing ones.

The expectations of the different partners have been satisfied as a result of our experience and overarching vision as an industry leader, which have been applied to the Joint Venture hotels.

Digitalisation & Innovation

PROJECTS IN 2017

SMART INTERACTION ENGINE

To supplement our platforms, we have implemented the *Smart Interaction Engine*, an intelligent system of personalised recommendations for customers, so that customers receive custom content that fits their profiles.

The personalisation of content, which is based on algorithms, has led to an improvement in conversion ratios.

BACK OFFICE

We have implemented a set of solutions, created in-house, designed to eliminate paper and improve the consultation and custody of documents. We have also added new hotels and countries to the electronic customer and supplier billing process.

SAP HEC TRANSITION

Gold Award at the SAP *Quality Awards 2017* Iberia in the Fast Delivery category.

Application of the 10 quality principles to improve the management of the SAP project and ensure successful implementation and delivery.

OMNI-CHANNEL CAMPAIGN MANAGER

Our main objective, as a customer- and service-oriented company, is to increase their satisfaction, surprise them with new experiences and offer a value proposition that fits each profile. This combined strategy of integrating technology and knowledge has meant our company has been recognised year after year with numerous awards for excellence and innovation.

With this spirit, at Meliá we have evolved a new omnichannel platform with our current campaign manager that allows us to manage the different stages of the customer journey on one single platform, bringing together what happens in real time on the different channels and managing them based on the customer's value and preferences.

PROGRAMMATIC MARKETING

We have made progress in optimising our campaigns and developed specific purchase intention models.

Having a team of experts in the business and knowledge of our customers has allowed us to improve the efficiency and profitability ratios.

This winning combination has contributed to the company's being valued as an online marketing leader.

€7 million

Investment in programmatic marketing

15%

Return on investment

OUTLOOK FOR 2018

HOTEL SERVICE MANAGEMENT

This is one of the essential tools for improving management and controlling, in real time, the requirements and tasks of the hotel operation.

At the end of 2017, we tested integration between *Hmobile* and the Meliá app in order to immediately know the requirements of our customers.

Using this tool, customers send in their requests or service needs, or report incidents, so that they can be resolved.

INTERACTIVE GLOBAL SOLUTION

The design and implementation of a solution that covers the needs of some back office processes worldwide that require interaction with external agents.

CYBERSECURITY

Our customers entrust us with their moments of leisure, rest and work, and therefore a large amount of information that is very important to them. In the same way, all of us, as contributors, also entrust information to the company as part of our employment relationship, as do our suppliers, agencies, investors and the group itself, which generates a lot of information with a high business value.

For this reason, at Meliá Hotels International we have an information security policy for the entire organisation and processes and systems appropriate to it, which allow each of our duties, whether in a hotel or a corporate office, to be performed smoothly and safely.

OPEN PRICING & BIG DATA

A software hotel management platform that will provide recommendations and price decisions so as to maximise total revenue. The system automatically optimises pricing management in order to obtain increased revenues. This scientifically advanced solution combines the contribution of Big Data and third-party data such as air traffic, weather forecasts, conversion rates, own channels and/or fluctuations in currency exchange rates. It will have the power to forecast, monitor inventory, set the optimum price and report with details and precision, improving hotel revenue

CHECK IN & OUT FROM WHEREVER YOU WANT

We are continuing to work on main customer interaction processes to improve the experience.

DIGITALISATION OF MAINTENANCE TASKS

We have started implementing a maintenance management tool at over 100 hotels.

Beginning with reflection on the operating procedures with experts in this area, new levers of change have been activated to optimise incident management and response times, schedule preventive tasks and allow for a powerful analysis from which to develop a continuing improvement policy.

EMPLOYEE PORTAL

The internationalisation of the company demands that information be available at all our hotels.

To cover this need, a new internal portal is being developed, which will bring together all the knowledge and cover the needs of contributors and hotels.

NEW APP

We want our new app to be our customers' best travel companion. So, in 2018 we will be developing new sections and a new MeliáRewards sub-section.

Perfor mance

The business results obtained in 2017 continued to reap the benefits of a strategy based on brand excellence and positioning, digital transformation and an vigorous growth plan, all backed by the current positive situation of international tourism

ME SITGES | SPAIN

ANDRÉ P. GERONDEAU
Chief Operating Officer

Interview with André Gerondeau

André P. Gerondeau is the Chief Operating Officer (COO) of Meliá Hotels International and the company's head of hotel management.

Meliá Hotels International has presented its results for the year. The positive current situation of tourism has contributed to this. To what extent have strategy and the reorientation of your business model been essential for this evolution?

Fortunately, our industry experienced an excellent year of recovery and an upswing in the markets in 2017, despite factors that had negatively affected its evolution in recent years. Our geographical diversification has allowed us, on the one hand, to take advantage of the favourable situation and, on the other, to control our exposure to risk. Having a balanced portfolio of strong hotel brands that are well positioned and offer our customers features with high added-value has been essential.

However, the main reason for these results is the fact that we have a very clear strategic approach. We have consolidated a clear managerial business model, which has been the key to our growth over recent years. Within the framework of this strategy, we have assured a virtuous hotel circle, repositioned assets, accessed new markets and consolidated our presence in key markets. Lastly, the high level of trust that our stakeholders have placed in us has also contributed to the Group's positive performance.

What are the main changes that the company has experienced in recent years?

Our brand strategy, conceptualised around a clear brand vision, has allowed us to know more about our markets and customers, to identify growth opportunities and to design new products and features.

The digital transformation that we are experiencing has contributed to making our own management more professional from a variety of perspectives, such as the application of technology to the day-to-day running of the hotels, the adaptation of commercial profiles to the skills demanded by the digital environment, and the improvement of internal processes.

The incorporation of tools such as Big Data, Artificial Intelligence and predictive models are fundamental tools for us in offering a better service, while increasing our efficiency and knowledge of our customers.

We also have a renowned loyalty programme, *MeliáRewards*, which already has more than 9 million members. This is an excellent indicator, since it shows that trust in Meliá and the experiences we offer to our loyal customers are increasing year after year.

We are managing leadership, training and talent development programmes that will allow us to have excellent professionals for our future growth. Our teams are the best ambassadors for Meliá and its values, especially given our growth expectations.

I do not want to miss the opportunity to expressly mention one of the major strengths we have as a company: our corporate culture and a way of doing things that is recognised by the hotel industry around the world. They are assets that I consider make us different and exemplify the essence of Meliá.

Although I have mentioned positive changes and factors that have been strengthened, there is one that has not changed: the service vocation and permanent search for excellence of all our teams.

How do you rate the results obtained this year?

Very positively. We finished 2017 slightly above market estimates, despite some extraordinary factors that had a certain negative impact, such as hurricanes, the devaluation of the dollar against the euro and political instability in areas where we are present.

Our hotel EBITDA experienced an 8.2% improvement, to €336.1 million, and consolidated revenues amounted to €1.8852 billion, an increase of 4.6%. The positive evolution of the hotel business is reflected in RevPAR, which has registered an improvement of 5.6%, in line with our estimates for the year, and all this despite the above-mentioned impacts.

These results are a direct consequence of the application of levers such as the cultural and digital transformation we are undergoing, the above-mentioned focus on the management and renovation of hotel assets and the repositioning of our products.

How do you see 2018?

I am looking forward to 2018 with great enthusiasm. It will be the third and final year of our current Strategic Plan. We have set ourselves some very demanding challenges, so it will be an intense year of consolidating the transformation we are experiencing.

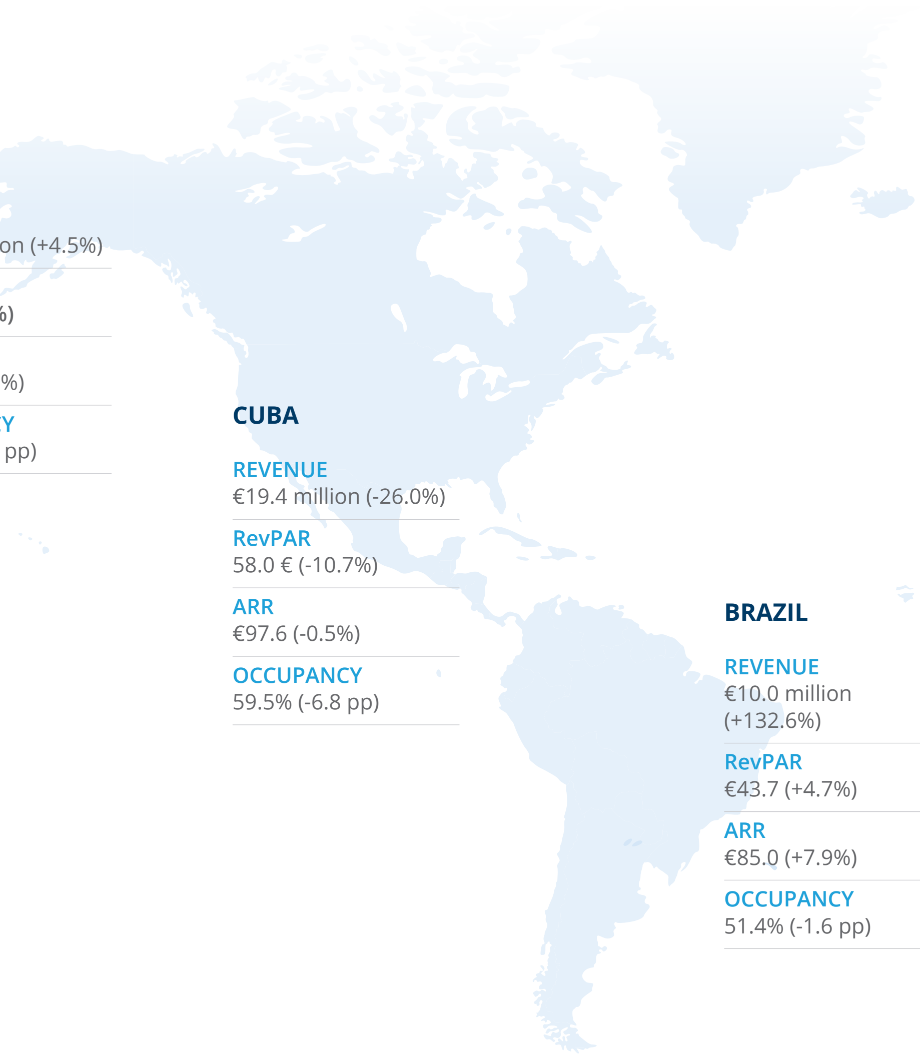
During the next financial year, we expect around twenty new openings will be added to the operational portfolio on the four continents.

I am confident that the recovery of the tourism industry will continue, as well as the excellent results of attracting travellers from our key markets.

Iconic projects, such as the Calviá Beach, will be backed by new properties, such as Sol House The Plaza and the Momentum shopping centre, and I am convinced that the projects that were started this year, like Meliá Iguazú (Argentina) and Meliá Serengeti Lodge (Tanzania), will bring us plenty of joy.

Global figures

CONSOLIDATED DATA		
REVENUES	€1,885.2 million	+4.6%
EBITDAR	€488.5 million	+8.7%
EBITDA (ex asset rotation)	€310.3 million	+11.0%
NET ATTRIBUTABLE PROFIT	€128.7 million	+27.8%



AMERICA

REVENUE
€535.1 million (+4.5%)

RevPAR
€79.6 (-1.1%)

ARR
€117.9 (-1.7%)

OCCUPANCY
67.5% (+0.4 pp)

CUBA

REVENUE
€19.4 million (-26.0%)

RevPAR
58.0 € (-10.7%)

ARR
€97.6 (-0.5%)

OCCUPANCY
59.5% (-6.8 pp)

BRAZIL

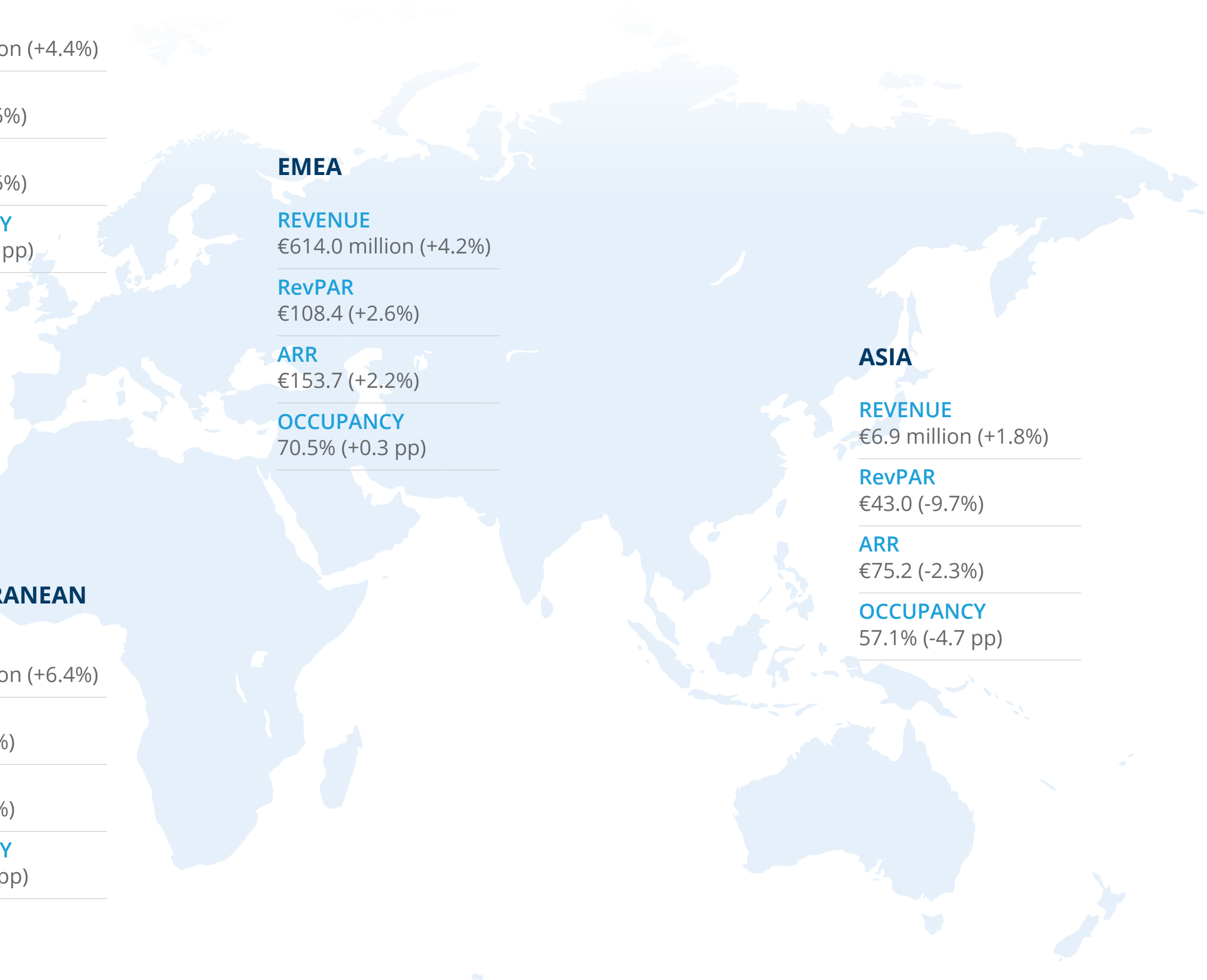
REVENUE
€10.0 million (+132.6%)

RevPAR
€43.7 (+4.7%)

ARR
€85.0 (+7.9%)

OCCUPANCY
51.4% (-1.6 pp)

AGGREGATE DATA		
RevPAR	€71.5	+1.5%
ARR	€107.2	+4.0%
OCCUPANCY	66.7%	(-1.7 pp)



SPAIN

REVENUE
€326.4 million (+4.4%)

RevPAR
€67.3 (+15.6%)

ARR
€98.9 (+11.6%)

OCCUPANCY
68.0% (+2.3 pp)

EMEA

REVENUE
€614.0 million (+4.2%)

RevPAR
€108.4 (+2.6%)

ARR
€153.7 (+2.2%)

OCCUPANCY
70.5% (+0.3 pp)

ASIA

REVENUE
€6.9 million (+1.8%)

RevPAR
€43.0 (-9.7%)

ARR
€75.2 (-2.3%)

OCCUPANCY
57.1% (-4.7 pp)

MEDITERRANEAN

REVENUE
€302.9 million (+6.4%)

RevPAR
€68.7 (+6.3%)

ARR
€91.3 (+8.9%)

OCCUPANCY
75.3% (-1.8 pp)

Evolution and business results

HOTEL BUSINESS

The evolution of the hotel business for the whole of the company can be summarised in the following key indicators or KPIs, broken down by type of management:

(Millions of €)	2017	2016	Change (%)
Total aggregate revenues	1,590.7	1,508.5	5.4%
Owned	807.0	788.5	
Leased	783.7	720	
Of which Room Revenues	986.0	932.2	5.8%
Owned	430.2	419.8	
Leased	555.9	512.3	
EBITDAR Split	424.6	388.6	9.3%
Owned	223.5	211.6	
Leased	201.1	177	
EBITDA Split	243.9	224.8	8.5%
Owned	223.5	210.3	
Leased	20.4	14.4	
EBIT Split	147.7	133.7	10.4%
Owned	154.5	144.6	
Leased	(6.8)	(10.9)	

The evolution of the hotel management model by type of income is summarised in the following table:

(Millions of €)	2017	2016	Change (%)
Total Management Model Revenues	294.4	283.2	3.9%
Third Party Fees	54.8	58	
Owned and Leased Fees	98.2	94.8	
Other revenues	141.4	130.4	
Total EBITDA Management Model	88.3	80.5	9.8%
Total EBIT Management Model	86.3	79.6	8.4%

The item "Other revenues" includes €70.1 million in 2017 and €55.4 million in 2016 of corporate income not attributable to a specific region.

The evolution of Other businesses related to hotel management has been as follows:

(Millions of €)	2017	2016	Change (%)
Revenues	66.5	77.3	(14.0%)
EBITDAR	4.9	5.9	
EBITDA	3.9	5.4	
EBIT	2.9	4.5	

Revenues include €42.8 million in 2017, and €55.0 million in 2016, corresponding to the activity of the Sol Caribe Tours company.

Below are breakdowns of occupancy, ARR and RevPAR by business model, indicating the variation from the previous year:

	Owned and Leased					
	Occupancy		ARR		RevPAR	
(Millions of €)	%	Change (pp)	€	Change (%)	€	Change (%)
Total Hotels	71.3%	(0.3)	119.1	6.0%	84.9	5.6%
Total Hotels (same store basis)	73.5%	0.2	119.8	4.0%	88.1	4.3%
America	71.1%	1.7	116.3	(3.5%)	82.6	(1.1%)
EMEA	71.6%	(0.3)	155.6	3.0%	111.5	2.6%
Spain	69.5%	2	99.2	13.0%	68.9	16.2%
Mediterranean	76.8%	(2.3)	95.2	11.6%	73.1	8.3%
Brazil	13.4%	-	156.7	-	20.9	-

The number of rooms available in 2017 at owned and leased hotels was 11.6 million (11.6 million in 2016).

	Owned, Leased and Managed					
	Occupancy		ARR		RevPAR	
(Millions of €)	%	Change (pp)	€	Change (%)	€	Change (%)
Total Hotels	66.7%	(1.7)	107.2	4.0%	71.5	1.5%
Total Hotels (same store basis)	68.4%	(1.0)	107.9	3.0%	73.8	1.5%
America	67.5%	0.4	117.9	(1.7%)	79.6	(1.1%)
EMEA	70.5%	0.3	153.7	2.2%	108.4	2.6%
Spain	68.0%	2.3	98.9	11.6%	67.3	15.6%
Mediterranean	75.3%	(1.8)	91.3	8.9%	68.7	6.3%
Cuba	59.5%	(6.8)	97.6	(0.5%)	58.0	(10.7%)
Brazil	51.4%	(1.6)	85.0	7.9%	43.7	4.7%
Asia	57.1%	(4.7)	75.2	(2.3%)	43.0	(9.7%)

The number of rooms available in 2017 at owned, leased and managed hotels was 23.3 million (22.6 million in 2016).

The breakdown of the number of hotels and rooms by business model at the close of the 2017 and 2016 financial years is as follows:

	Current Hotel Portfolio			
	31/12/2017		31/12/2016	
(Millions of €)	Hotels	Rooms	Hotels	Rooms
Global Hotels	315	80,757	311	79,764
Management	112	34,752	110	34,253
Franchised	49	9,812	47	9,373
Owned	47	14,340	46	14,032
Leased	107	21,853	108	22,106

Meanwhile, the hotel pipeline for the following years is shown below:

	Pipeline									
	2018		2019		2020		2021 onward		Total	
(Millions of €)	Hotels	Rooms	Hotels	Rooms	Hotels	Rooms	Hotels	Rooms	Hotels	Rooms
Global Hotels	23	5,637	21	5,440	17	3,502	6	1,620	67	16,199
Management	21	5,194	17	4,740	11	2,116	6	1,620	55	13,670
Franchised	1	171	2	288	1	96	0	0	4	555
Leased	1	272	2	412	5	1,290	0	0	8	1,974

AMERICA

The performance of our Americas division was positive throughout the second half of the year in general terms, despite the impact that unpredictable natural disasters (mainly Hurricanes Irma and María) had on our operations during the summer and autumn months.

At the country level, despite the complicated environment that the region faced after suffering two consecutive hurricanes, the Dominican Republic had the best results in the division, with a larger increase in RevPAR than the other countries in the region. In the case of Mexico, its results were affected by the evolution of the Mexican peso against the US dollar, in addition to the difficulties faced by the destination due to the US Government's travel warning urging its citizens not to travel to this country because of the growing climate of insecurity. However, despite this warning, the country remained one of the US public's preferred holiday destinations, which allowed the number of visitors to grow significantly. Lastly, our hotel in Puerto Rico will remain closed until November 2018, as this destination continues to suffer from various infrastructure problems caused by Hurricanes Irma and María, which devastated the island a few months ago.

On another note, some of our hotels in ramp-up (Paradisus Los Cabos, ME Miami and Innside New York) have been behaving better than in the same period last year. The performance of Paradisus Los Cabos, an all-inclusive resort in Mexico that opened its doors in December 2016 was especially noteworthy. It has positioned itself as one of the best alternatives in the all-inclusive luxury segment, which also includes small-size groups from the upper segment, as well as conferences and events. The ME Miami also improved its performance and had good results compared to the same period last year.

That said, despite the good results of the division during the half-year, it should be pointed out that, on transferring its results to euros (EUR), we were affected by the strong depreciation in the US dollar (USD), since the exchange rate EUR/USD reached its highest level since December 2014. Similarly, the division's performance was also negatively affected by the synthetic exchange rate used for the Venezuelan bolivar against the US dollar in order to reflect the high inflation suffered by the country throughout the period.

The evolution of the hotel business in the Americas region can be summarised in the following KPIs, broken down by management type:

(Millions of €)	2017	2016	Change (%)
Total aggregate revenues	473.9	451.6	4.9%
Owned	440.5	423.3	
Leased	33.4	28.2	
Of which Room Revenues	202.8	196.2	3.4%
Owned	175.1	171.7	
Leased	27.8	24.5	
EBITDAR Split	136.3	120.0	13.5%
Owned	128.2	116.6	
Leased	8.1	3.5	
EBITDA Split	126.0	113.6	10.9%
Owned	128.2	116.6	
Leased	(2.2)	(2.9)	
EBIT Split	89.7	84.1	6.7%
Owned	92.0	87.7	
Leased	(2.3)	(3.6)	

The evolution of the hotel management model by type of income is summarised in the following table:

(Millions of €)	2017	2016	Change (%)
Total Management Model Revenues	61.2	60.5	1.3%
Third party fees	4.3	5.0	
Owned and Leased Fees	30.4	29.6	
Other revenues	26.5	25.9	

Below are breakdowns for occupancy, ARR and RevPAR by business model, indicating the variation from the previous year:

	Owned and Leased					
	Occupancy		ARR		RevPAR	
(Millions of €)	%	Change (pp)	€	Change (%)	€	Change (%)
Total America	71.1%	1.7	116.3	(3.5%)	82.6	(1.1%)
Total America (same store basis)	75.7%	1.2	116.1	0.2%	87.9	1.8%
Mexico	73.1%	(5.7)	120.4	3.3%	87.9	(4.1%)
Dominican Republic	74.0%	1.3	114.6	(0.1%)	84.8	1.6%
Venezuela	52.2%	8.7	50.7	(48.9%)	26.5	(38.7%)
USA	80.6%	5.3	158.6	(11.6%)	127.9	(5.4%)

The number of rooms available in 2017 at owned and leased hotels was 2.5 million (2.3 million in 2016).

	Owned, Leased and Managed					
	Occupancy		ARR		RevPAR	
(Millions of €)	%	Change (pp)	€	Change (%)	€	Change (%)
Total America	67.5%	0.4	117.9	(1.7%)	79.6	(1.1%)
Total America (same store basis)	73.0%	1.4	114.5	(1.8%)	83.6	0.1%
Mexico	67.0%	(9.0)	127.2	3.5%	85.3	(8.8%)
Dominican Republic	74.0%	1.3	114.6	(0.1%)	84.8	1.6%
Venezuela	52.2%	8.7	50.7%	(48.9%)	26.5	(38.7%)
USA	75.1%	3.8	161.6	(10.1%)	121.4	(5.30%)

The number of rooms available in 2017 at owned, leased and managed hotels was 3.1 million (3.0 million in 2016).

The breakdown of the number of hotels and rooms by business model at the close of 2017 and 2016 is as follows:

	Current Hotel Portfolio			
	31/12/2017		31/12/2016	
(Millions of €)	Hotels	Rooms	Hotels	Rooms
Total America	27	8,890	28	9,199
Management	8	1,850	10	2,523
Franchised	2	214	2	214
Owned	15	6,277	14	5,913
Leased	2	549	2	549

Meanwhile, the hotel pipeline for the coming years is shown below:

	Pipeline									
	2018		2019		2020		2021 onward		Total	
(Millions of €)	Hotels	Rooms	Hotels	Rooms	Hotels	Rooms	Hotels	Rooms	Hotels	Rooms
Total America	2	286	2	648	2	356	0	0	6	1,290
Management	2	286	2	648	2	356	0	0	6	1,290
Franchised	0	0	0	0	0	0	0	0	0	0
Leased	0	0	0	0	0	0	0	0	0	0

The following are the openings and divestments of hotels during the year by division:

Hotels	City/Country	Contract	No. of Rooms
Openings			
Meliá Iguazú	Iguazú, Argentina	Management	173
Divestments			
Tryp Buenos Aires	Buenos Aires, Argentina	Management	62
ME Cancún	Cancún, Mexico	Management	434

OUTLOOK 2018

We hope that our America division will continue to improve its performance in the coming months, as it will be benefiting from the positive market dynamics existing in the region. In this sense, the negative impact of the hurricanes on certain destinations, such as Puerto Rico, will benefit other countries in the region, such as the Dominican Republic and Mexico, in the first quarter of 2018, which happens to be the high season. We also expect improved margins for the division as a result of the various initiatives put in place to optimise some processes and increase sales among certain segments.

However, when translating our results into EUR, we will be negatively affected, since the average USD/EUR exchange rate used in the first quarter of 2017 was 1.07, which will be compared to a significantly level in the first few months of 2018. However, in this context, we expect RevPAR to grow at the mid single digit level (in USD) as a result of the operational improvements experienced by several hotels that are still in ramp-up mode, such as Paradisus Los Cabos. In addition, as mentioned above, our hotel in Puerto Rico will remain closed until the end of 2018.

DEVELOPMENT

The number of hotels in our portfolio in the America has remained relatively stable during the half-year, since in October we opened our new Meliá Iguazú flagship in the heart of the Iguazú National Park, while in November we disaffiliations the ME Cancún. Similarly, in September we disaffiliations the Tryp Buenos Aires to focus on the signing of contracts for urban hotels located in cities with a significant bleisure component. Along with this, we hope to open a new resort in Playa Mujeres (Mexico) at the end of 2018. Looking to the future, given the importance of the division for our operations, we will continue to seek and evaluate opportunities in those regions with high growth potential in order to continue increasing our presence in the leisure and MICE segments.

EUROPE, MIDDLE EAST & AFRICA (EMEA)

The EMEA region continued to show the positive trend maintained throughout the year, motivated mainly by the increasing demand in the MICE and urban segments, as well as the recovery of certain destinations affected by extraordinary events that took place last year. In general terms, all areas of the region improved compared to the same period of the previous year.

The evolution of the hotel business in the EMEA region can be summarised in the following KPIs, broken down by management type:

(Millions of €)	2017	2016	Change (%)
Total aggregate revenues	555.2	533.0	4.2%
Owned	211.2	210.3	
Leased	343.9	322.6	
Of which Room Revenues	390.4	370.5	5.4%
Owned	148.7	144.8	
Leased	241.7	225.7	
EBITDAR Split	144.0	134.1	7.3%
Owned	58.0	57.7	
Leased	86.0	76.4	
EBITDA Split	72.8	68.4	6.5%
Owned	58.0	56.5	
Leased	14.8	11.9	
EBIT Split	43.4	34.6	25.4%
Owned	38.5	32.9	
Leased	4.9	1.7	

The evolution of the hotel management model by income type is summarised in the following table:

(Millions of €)	2017	2016	Change (%)
Total Management Model Revenues	58.8	56.1	4.8%
Third party fees	1.6	3.2	
Owned and Leased Fees	31.8	31.7	
Other revenues	25.4	21.3	

Below are breakdowns of occupancy, ARR and RevPAR by business model, indicating the variation from the previous year:

	Owned and Leased					
	Occupancy		ARR		RevPAR	
(Millions of €)	%	Change (pp)	€	Change (%)	€	Change (%)
Total EMEA	71.6%	(0.3)	155.6	3.0%	111.5	2.6%
Total EMEA (same store basis)	72.4%	0.2	156	2.5%	113	2.8%
Spain	70.5%	(1.7)	214.1	7.4%	151	4.8%
United Kingdom	75.4%	(0.2)	165.9	(1.3%)	125	(1.6%)
Italy	69.1%	6.3	205	(2.5%)	141.5	7.3%
Germany	71.4%	(0.4)	109	0.7%	77.8	0.2%
France	72.2%	2.9	173.9	2.8%	125.6	7.1%

The number of rooms available in 2017 relating to owned and leased hotels was 3.5 million (3.4 million in 2016).

	Owned, Leased and Managed					
	Occupancy		ARR		RevPAR	
(Millions of €)	%	Change (pp)	€	Change (%)	€	Change (%)
Total EMEA	70.5%	0.3	153.7	2.2%	108.4	2.6%
Total EMEA (same store basis)	72.3%	0.4	155.5	2.0%	112.5	2.6%
Spain	70.0%	(1.5)	215.1	7.3%	150.5	5.0%
United Kingdom	75.4%	(0.2)	165.9	(1.3%)	125	(1.6%)
Italy	68.4%	6.2	207.7	(2.1%)	142	7.8%
Germany	71.4%	(0.4)	109	0.7%	77.8	0.2%
France	72.2%	2.9	173.9	2.8%	125.6	7.1%

The number of rooms available in 2017 at owned, leased and managed hotels was 3.9 million (3.8 million in 2016).

The breakdown of the number of hotels and rooms by business model at the close of the 2017 and 2016 financial years is as follows:

	Current Hotel Portfolio			
	31/12/2017		31/12/2016	
(Millions of €)	Hotels	Rooms	Hotels	Rooms
Total EMEA	77	13,396	73	12,566
Management	10	1,396	8	1,116
Franchised	13	1,915	12	1,561
Owned	13	3,029	13	3,045
Leased	41	7,056	40	6,844

Meanwhile, the hotel pipeline for the following years is shown below:

	Pipeline									
	2018		2019		2020		2021 onward		Total	
(Millions of €)	Hotels	Rooms	Hotels	Rooms	Hotels	Rooms	Hotels	Rooms	Hotels	Rooms
Total EMEA	5	864	8	1,338	6	1,386	0	0	19	3,588
Management	4	693	4	638	0	0	0	0	8	1,331
Franchised	1	171	2	288	1	96	0	0	4	555
Leased	0	0	2	412	5	1,290	0	0	7	1,702

The following are the openings and disengagements of hotels during the year by division:

Hotels	City/Country	Contract	No. of Rooms
Openings			
Tryp Lisboa Caparica Mar	Lisbon, Portugal	Franchised	354
Meliá Saida Garden All Incl. Golf Resort	Saidia, Morocco	Management	150
Meliá Saida Beach All Incl. Resort	Saidia, Morocco	Management	397
Innside Hamburg Hafen	Hamburg, Germany	Leasing	207
Serengeti Lodge	Serengeti, Tanzania	Management	50
Disaffiliations			
Meliá Doha	Doha, Qatar	Management	317

MELIÁ YANGON | MYANMAR

The most notable aspects within each of the countries that make up this division were the following:

GERMANY/AUSTRIA

Although 2017 was a difficult year in Germany as a result of a lower number of trade shows than in 2016, we were able to exceed expectations for the entire year and only recorded a slight drop in results compared to 2016. In the second half of the year, we increased revenues compared to the same period in the previous year, with the main aspects that explain this improvement being the good performance of our hotels in their ramp-up period, such as Innside Leipzig, Innside Frankfurt Oostend and Innside Hamburg Hafen. There were also robust results from certain hotels, including Innside Frankfurt Niederrad, Meliá Dusseldorf, Frankfurt Eurotheum and Meliá Berlin, among others, as a result of the strong increase shown by sales for the region on melia.com.

UNITED KINGDOM

In general terms, 2017 was a solid year for our hotels in the United Kingdom. If we look at the second half of the year, growth was slightly lower than in the same period the previous year because demand from the transient segment (individual) was slightly lower than expected at the Meliá White House. At the individual hotel level, it is worth noting the good performance of ME London and Innside Manchester, which recorded significant increases in RevPAR compared to H2 2016, while the Meliá White House lagged behind somewhat and its RevPAR fell slightly. Along with this, we should also note the fact that the performance of our hotels in London was superior to that of their direct competitors.

FRANCE

Our hotels in France registered one of the most significant growth rates in the entire EMEA region during the second half of the year thanks to the notable recovery of this destination. The country showed a significant increase in RevPAR compared to 2016, with both occupancy rates and prices rising at a swift rate. This good performance was led by the Meliá Paris La Defense, which experienced double-digit RevPAR growth, motivated by the excellent behaviour of the transient (individual) and MICE segments. The rest of our hotels in Paris also showed good performance in general terms, with three of them (Vendome, Notre Dame and Opera) increasing their RevPAR by double-digit levels, while the other two saw their RevPARs increase at a high single-digit level. Lastly, we should also note that sales through melia.com grew strongly during the semester.

ITALY

After a year that had its ups and downs, mainly due to the situation in Rome, it is worth noting that the performance of our hotels in Italy during the second half of the year was exceptional, showing a double-digit increase in RevPAR and with all the hotels, particularly those in Milan, contributing positively to the result. The ME Milan Il Duca and the Meliá Milano increased their RevPARs very significantly, like the Meliá Genoa, whose RevPAR grew at a double-digit level. Our hotels in Capri and Campione presented a similar exceptional performance, helping us to continue building an increasingly well-known brand within the country. Lastly, we should point out that sales on melia.com increased considerably.


GRAN MELIÁ ROME | ITALY

SPAIN PREMIUM

The performance of our Premium hotels in Spain was, unfortunately, negatively affected by the situation in Catalonia. The trend shown by our hotels in Barcelona up to the third quarter of the year was positive, with the outstanding performance of Barcelona Sky being noteworthy, but the uncertain political situation in the region led to a significant drop in demand from the transient segment (individual) and a sharp reduction in the MICE segment, where we suffered several last minute cancellations of events. We also received instructions from some organisers to look for alternative destinations until the situation returns to normal.

That said, despite the difficult situation in the country, our city hotels grew at a low single digit level thanks to the fantastic performance of our hotels in Madrid. The significant examples were the Gran Meliá Fénix, ME Madrid and Gran Meliá Palacio de los Duques, which was named "Best Hotel in Europe" in its category at the recent International Hotels Awards.

In addition, considering that most of our holiday hotels were affected by seasonal closures during the fourth quarter of the year, it is worth noting the performance of the Gran Meliá Palacio de Isora which, despite the uncertainties in the United Kingdom, its main source market, was able to increase its RevPAR compared to the same period in the previous year, just like the Gran Meliá Don Pepe, which had a great closing season that allowed it to improve its RevPAR to double digits. Alongside this, the performance of the ME Ibiza was affected by the fact that in the fourth quarter of 2016 there was a significant launch of a car brand that was not repeated this year, which distorted the comparison between the two periods.

OUTLOOK 2018

The EMEA region is expected to continue to show positive results in the coming months, as the market dynamics in Europe continue to be good in both the leisure and urban segments. For its part, the European Commission expects growth in both the European Union and the Eurozone to be around +2.1% in 2018 and +1.9% in 2019 according to its latest projections published last autumn.

At the country level, the first quarter of 2018 is forecast to be especially promising in France, as we expect a high single-digit increase in RevPAR compared to the same period the previous year as a result of the strong recovery expected in Paris. In Germany, RevPAR is expected to grow at a low single digit level in the first quarter of the year compared to Q1 2017, since 2018 will be a year of biannual tradeshows. The market in Italy is also expected to be favourable, since the recovery and good performance in Milan is expected to continue and we foresee a double-digit increase in RevPAR. The addition of the Innside Milano Torre Galfa to the portfolio in Italy is also expected to be very promising and to become especially important for the country in the coming months. In the United Kingdom we are also optimistic and we project a mid-single digit increase in RevPAR, while in Spain we expect our urban hotels to grow at a low-double digit level, mainly due to the high expectations we have for our hotels in Madrid, while we also expect high growth rates in the leisure hotel segment. Similarly, we have high expectations regarding the opening of the ME Sitges Terramar in January, which we hope will become one of the flagships of our Premium segment portfolio in Spain.

DEVELOPMENT

We have strong positive expectations for the EMEA region and our teams have been working in recent months with various partners to ensure high-value management contracts in destinations and locations where the MICE and bleisure segments are of great importance. In July, we opened the Saidia Beach All Inclusive Resort in Morocco and the Hamburg Hafen in Germany, while in December we opened the Serengeti Lodge in the heart of the Serengeti National Park and signed for three new hotels in the region that will be added to our portfolio in the next few years: Innside Newcastle (United Kingdom, 161 rooms), Innside Liverpool (United Kingdom, 207 rooms) and Meliá Maputo (Mozambique, 171 rooms). Also, given the importance of the region for our operations, we are actively pursuing new opportunities with great attractiveness and potential.

MEDITERRANEAN

Our Mediterranean division showed a positive performance during the second semester despite the fact that a high number of our hotels in the Balearic Islands and on the "Costas" were affected by seasonal closures starting in October. In this sense, our hotels in Spain benefited from the high number of international tourists who visited the country, which was over 82 million, allowing the country to overtake the United States to become the second most-visited country in the world, just behind France. However, the performance of the division during the last months of the year was partially affected by the bankruptcies of Air Berlin (including that of its subsidiary Nikki) and Monarch Airlines, which negatively affected our hotels in the Canary Islands.

If we look at the different areas that make up the division at the individual level, our hotels in the **Balearic Islands** showed a positive performance and closed the half-year with a significant improvement in revenue that is explained by increases in both prices and occupancy rates. In this regard, our hotels in Mallorca and Ibiza were able to maintain a positive dynamic despite the increase in the number of last-minute offers, as well as the growth of the unregulated offer on online platforms. Menorca also had an exceptional performance, above the initial forecasts, given the target audience to which its offering is directed, which allowed the island to position itself as a destination focusing on customers with high purchasing power and a great interest in tourism of an ecological and responsible nature away from the masses.

In the **Canary Islands**, revenues fell slightly compared to the same period the previous year, despite the fact that prices grew at a mid-single digit level, as a result of the negative impact of the above-mentioned bankruptcies on the main destinations, and the renovation of some of our hotels, including Meliá Gorriones, Meliá Salinas and Sol La Palma, which considerably reduced the number of rooms available during that period.

In the **coast**, we were able to increase prices despite the slightly lower occupancy rates, which was of particular importance for the very positive performance of the city of Benidorm, where we were able to increase prices significantly.

Lastly, we should also highlight the good performance of our hotels in **Cape Verde**, where income rose considerably, despite the results being affected by some of them being in ramp-up mode.

The evolution of the hotel business in the Mediterranean region can be summarised in the following KPIs, broken down by management type:

(Millions of €)	2017	2016	Change (%)
Total aggregate revenues	265.1	245.7	7.9%
Owned	82.7	82.3	
Leased	182.5	163.5	
Of which Room Revenues	177.0	165.9	6.7%
Owned	54.8	53.0	
Leased	122.3	112.8	
EBITDAR Split	69.0	66.5	3.8%
Owned	19.9	19.9	
Leased	49.1	46.5	
EBITDA Split	28.8	29.2	(1.4%)
Owned	19.8	19.9	
Leased	9.0	9.3	
EBIT Split	17.2	17.3	(0.8%)
Owned	14.2	13.8	
Leased	3.0	3.5	

The evolution of the hotel management model by income type is summarised in the following table:

(Millions of €)	2017	2016	Change (%)
Total Management Model Revenues	37.8	39.0	(2.9%)
Third party fees	15.1	12.6	
Owned and Leased Fees	17.0	15.8	
Other revenues	5.7	10.6	

Below are breakdowns of occupancy, ARR and RevPAR by business model, indicating the variation from the previous year:

	Owned and Leased					
	Occupancy		ARR		RevPAR	
(Millions of €)	%	Change (pp)	€	Change (%)	€	Change (%)
Total Mediterranean	76.8%	(2.3)	95.2	11.6%	73.1	8.3%
Total Mediterranean (same store basis)	77.0%	(1.3)	96.5	7.8%	74.4	6.0%
Spain	76.8%	(2.3)	95.2	11.6%	73.1	8.3%
Cape Verde	-	-	-	-	-	-

The number of rooms available in 2017 at owned and leased hotels was 2.4 million (2.5 million in 2016).

	Owned, Leased and Managed					
	Occupancy		ARR		RevPAR	
(Millions of €)	%	Change (pp)	€	Change (%)	€	Change (%)
Total Mediterranean	75.3%	(1.8)	91.3	8.9%	68.7	6.3%
Total Mediterranean (same store basis)	75.6%	(1.0)	92.5	7.8%	69.9	6.4%
Spain	76.7%	(1.8)	93.9	11.1%	72	8.6%
Cape Verde	67.3%	1.0	74.4	(4.2%)	50.1	(2.7%)

The number of rooms available in 2017 at owned, leased and managed hotels was 5.0 million (4.8 million in 2016).

The breakdown of the number of hotels and rooms by business model at the close of the 2017 and 2016 financial years is as follows:

	Current Hotel Portfolio			
	31/12/2017		31/12/2016	
(Millions of €)	Hotels	Rooms	Hotels	Rooms
Total Mediterranean	76	23,778	76	23,843
Management	24	8,131	24	8,269
Franchised	19	5,908	19	5,805
Owned	10	2,610	10	2,621
Leased	23	7,129	23	7,148

Meanwhile, the hotel pipeline for the following years is shown below:

	Pipeline									
	2018		2019		2020		2021 onward		Total	
(Millions of €)	Hotels	Rooms	Hotels	Rooms	Hotels	Rooms	Hotels	Rooms	Hotels	Rooms
Total Mediterra-nean	3	882	3	1,543	3	600	0	0	9	3,025
Management	2	610	3	1,543	3	600	0	0	8	2,753
Franchised	0	0	0	0	0	0	0	0	0	0
Leased	1	272	0	0	0	0	0	0	1	272

Lastly, it should be noted that the division had no openings or divestments during the year.

OUTLOOK 2018

We maintain some very good expectations for our Mediterranean division in 2018 due to the growing number of tourists expected to continue visiting the region. For the first months of the year, given the large number of hotels that will remain closed until the summer season starts again, the performance of the division will be linked to the prospects for our hotels in the Canary Islands. Here we expect an improvement on last year's results despite the increase in demand in Egypt, mainly from German tourists, and the lower number of plane seats available as a result of the bankruptcies of Air Berlin and Monarch Airlines. Also, some of our hotels will continue to be affected by renovations, so the number of available rooms will be lower than in the same period last year. However, in recent months, we have seen demand moving from the months historically considered to be high season (summer), to others, such as September and October, which will allow us to continue to benefit from a constant number of visitors not only in June, July and August, but also in the final months of the year.

DEVELOPMENT

We did not add or divest any hotels in our Mediterranean portfolio in 2017, as our efforts have focused on the renovations being carried out throughout the year, which in some cases are still continuing, with the aim of repositioning our hotels in higher segments and adapting them to meet the standards demanded by the new target audience, as well as benefiting from the increasing number of tourists visiting Spain.

SPAIN (URBAN)

The performance of our urban hotels in Spain was exceptional throughout the year, especially in the second half-year. The evolution of the hotel business in the Spain regional division can be summarised in the following KPIs, broken down by management type:

(Millions of €)	2017	2016	Change (%)
Total aggregate revenues	291.7	278.1	4.9%
Owned	72.6	72.6	
Leased	219.1	205.5	
Of which Room Revenues	212.7	199.5	6.6%
Owned	51.6	50.2	
Leased	161.1	149.3	
EBITDAR Split	80.2	70.2	14.3%
Owned	17.4	17.3	
Leased	62.8	52.8	
EBITDA Split	25.1	15.9	58.4%
Owned	17.4	17.3	
Leased	7.8	(1.5)	
EBIT Split	7.7	0.1	9,587.7%
Owned	9.8	10.2	
Leased	(2.1)	(10.1)	

The evolution of the hotel management model by type of income is summarised in the following table:

(Millions of €)	2017	2016	Change (%)
Total Management Model Revenues	34.7	34.6	0.1%
Third party fees	6.8	5.8	
Owned and Leased Fees	18.7	17.2	
Other revenues	9.1	11.6	

Below are breakdowns of occupancy, ARR and RevPAR by business model, indicating the variation from the previous year:

	Owned and Leased					
	Occupancy		ARR		RevPAR	
(Millions of €)	%	Change (pp)	€	Change (%)	€	Change (%)
Total Spain	69.5%	2	99.2	13.0%	68.9	16.2%
Total Spain (same store basis)	70.1%	0.7	92.2	10.2%	64.6	11.2%
Spain	69.5%	2	99.2	13.0%	68.9	16.2%

The number of rooms available in 2017 at owned and leased hotels was 3.0 million (3.4 million in 2016).

	Owned, Leased and Managed					
	Occupancy		ARR		RevPAR	
(Millions of €)	%	Change (pp)	€	Change (%)	€	Change (%)
Total Spain	68.0%	2.3	98.9	11.6%	67.3	15.6%
Total Spain (same store basis)	68.4%	1.7	94.5	9.6%	64.6	12.4%
Spain	68.0%	2.3	98.9	11.6%	67.3	15.6%

The number of rooms available in 2017 at owned, leased and managed hotels was 4.2 million (4.5 million in 2016).

The breakdown of the number of hotels and rooms by business model is as follows:

	Current Hotel Portfolio			
	31/12/2017		31/12/2016	
(Millions of €)	Hotels	Rooms	Hotels	Rooms
Total Spain	74	13,996	77	14,532
Management	11	3,217	13	3,326
Franchised	14	1,649	13	1,601
Owned	9	2,424	9	2,453
Leased	40	6,706	42	7,152

Currently, we do not have any hotels in the pipeline for this region.

The following are the openings and divestments of hotels during the year by division:

Hotels	City/Country	Contract	No. of Rooms
Openings			
Tryp Mallorca Santa Ponsa	Santa Ponsa, Spain	Franchise	60
Meliá Palma Bay	Palma de Mallorca, Spain	Leased	268
Disaffiliations			
Tryp Madrid Alcalá 611	Madrid, Spain	Leased	93
Tryp Estepona Valle Romano Golf	Málaga, Spain	Leased	290
Tryp Sevilla Macarena	Seville, Spain	Leased	331
Innside Madrid Luchana 22	Madrid, Spain	Management	44
Innside Madrid Genova	Madrid, Spain	Management	65

If we look at the different areas that make up the region at the individual level, the main highlights for each of them are given below:

CENTRAL REGION–MADRID

The central area of the country showed very positive performance throughout the second half-year, given that revenues grew significantly as a result of marked price increases at most hotels. The impact of certain events was particularly relevant, including various conventions that took place during the period, which allowed us to increase occupancy rates and prices in the transient (individual) and MICE segments, which improved significantly compared to the same period the previous year. The month of December was also positive for the transient segment (individual), while the leisure segment benefited from the higher demand over the December long weekend and business travel took advantage of this effect to grow in the last weeks of the year.

SOUTH

This area showed a significant increase in income per room, which grew at a high single-digit level, mainly due to the very positive performance of some hotels, such as Meliá Lebreros and Meliá Puerto, even though the Meliá Marbella Banús was closed for renovation during this period. In terms of market segments, both the individual and group segments showed notable advances, as did MICE, which increased its importance in Seville as a result of the large number of events that took place in the city during the year. Along with this, it is worth noting the good performance of the city of Malaga, which allowed us to absorb and offset part of the fall in demand during the summer months in the Cádiz area.

EAST

Our hotels in the eastern region of the country performed well and closed the half-year with a low single digit increase in revenues, despite the fact that several hotels, including the Meliá Palas Atenea and Tryp Apolo, were affected by partial closures. Some hotels, such as the Innside Palma Bosque, Meliá Sitges, Tryp Barcelona Apolo and Tryp Barcelona Airport, the last because of the opening of Amazon's new logistics centre just 300 metres from the hotel, had an exceptional half-year and increased their prices significantly. This positive trend was also reflected by our ski hotels, including the Meliá Royal Tanau and Tryp Vielha, mainly because the December ski season in Baqueira was excellent compared to the same period the previous year. On the negative side, political instability in Catalonia had a clear impact on some of our hotels in Barcelona,in which RevPAR fell significantly during the last months of the year.

NORTH AND EAST COAST

Room revenues grew at a double-digit level during the last months of the year, with both our hotels located on the East Coast and in the North improving their results significantly. In this regard, the increasing importance of sales through our direct melia.com channel and the improvement in the transient (individual) and MICE segments, which were driven by the Volvo Ocean Race and the Moto GP in the Valencian Community, allowed us to improve the results of the Meliá Alicante, Meliá Valencia, Tryp Alicante Gran Sol and Tryp Valencia Oceanic. It is also important to highlight the performance of our hotels in the north of the country, since the number of foreign tourists grew significantly in Bilbao, while cities like La Coruña, Gijón and León benefited from an increase in demand from domestic tourists.

OUTLOOK 2018

We continue to maintain very positive expectations for our non-premium urban hotels in Spain in the coming months and expect a high single-digit improvement in RevPAR. In the Central Area, we expect good performance by the individual segments and business groups, which should benefit recently repositioned hotels such as the Meliá Madrid Princesa, Meliá Barajas and Meliá Madrid Serrano. For our hotels in the South, we expect an increase in both prices and occupancy rates for the first quarter of the year, while in the Eastern area we estimate good performance for our hotels in Palma de Mallorca due to various conferences that will take place in the city (events by Jaguar and Panasonic), which will be exclusive to our hotels, all this despite the fact that the Meliá Palas Athena and Tryp Apolo will remain partially closed for a few weeks for renovation. In addition, the prospects for the Mobile World Congress (end of February 2018) are very positive and we hope that they will materialise in good results for our hotels in the city. Lastly, the North and East Coast areas are also expected to show positive performance due to the volume strategy implemented in both areas, the expected improvement in the MICE segment and the various events and celebrations that will take place as a result of Easter, which is at the end of March.

DEVELOPMENT

We did not add any new hotels to our non-premium portfolio in Spain during the second half of the year, as our efforts were focused on repositioning and refurbishing our properties to adapt them to meet the demands of the higher-end segments that we are targeting and from which we intend to benefit in the future. However, we remain open to considering new additions to the portfolio in cities where the bleisure and MICE segments are of high importance.

CUBA

The unforeseen natural disasters that took place in Cuba during the third quarter of the year had a negative impact on our operations during the fourth quarter. In spite of the swift and efficient response from the Cuban government when it came to repairing the damage caused by Hurricane Irma and restoring the main infrastructure of the affected areas, which was completely restored in only two months, the tour operators reinstated air connections with the country after a certain delay, which significantly affected bookings in the main source markets. In addition, after having grown significantly in the first six months of the year, the number of US visitors decreased during the second half of the year as a result of worsening relationships and increased tensions between the US and Cuban governments. However, Americans still represent only 3.0% of the total number of visitors to the island, especially in Havana, so the effect was to a large extent limited.

In this context, the RevPAR of our hotels in Cuba suffered a significant drop compared to the same period the previous year, this decline being caused by a strong decrease in occupancy rates and a slight drop in prices. Along with this, sales through our direct channel melia.com fell due to the difficult situation on the island. The MICE segment also suffered as a result of some cancellations of events that had been expected to take place in October and November.

If we look at specific areas of the country, our hotels in the Los Cayos region were significantly affected by the hurricanes. The RevPAR of the Cayo Santa María and Jardines del Rey therefore fell significantly, like the fall at our hotels in Santiago de Cuba and Havana, which registered sharp setbacks compared to the same period the previous year. Some significant examples were the Meliá Habana and Meliá Cohiba, which were affected to a large extent by the negative implications that the hurricanes had for international tourists, as well as the sharp drop in the number of US tourists.

All the hotels in the Cuba regional division are included in the hotel management model, which reported the following figures for the year:

(Millions of €)	2017	2016	Change (%)
Total Management Model Revenues	19.4	26.2	(26.0%)
Third party fees	19.1	25.5	
Other revenues	0.4	0.8	

Below are breakdowns of occupancy, ARR and RevPAR by business model, indicating the variation from the previous year:

	Owned, Leased and Managed					
	Occupancy		ARR		RevPAR	
(Millions of €)	%	Change (pp)	€	Change (%)	€	Change (%)
Total Cuba	59.5%	(6.8)	97.6	(0.5%)	58	(10.7%)
Total Cuba (same store basis)	59.1%	(6.9)	100.5	(0.3%)	59.4	(10.8%)

The number of rooms available in 2017 at owned, leased and managed hotels was 4.3 million (4.3 million in 2016).

The breakdown of the number of hotels and rooms by business model at the close of 2016 and 2015 is as follows:

	Current Hotel Portfolio			
	31/12/2017		31/12/2016	
(Millions of €)	Hotels	Rooms	Hotels	Rooms
Total Cuba	28	12,517	28	12,245
Management	28	12,517	28	12,245
Franchised	0	0	0	0
Owned	0	0	0	0
Leased	0	0	0	0

Meanwhile, the hotel pipeline for the following years is shown below:

	Pipeline									
	2018		2019		2020		2021 onward		Total	
(Millions of €)	Hotels	Rooms	Hotels	Rooms	Hotels	Rooms	Hotels	Rooms	Hotels	Rooms
Total Cuba	7	2,144	2	542	2	381	0	0	11	3,067
Management	7	2,144	2	542	2	381	0	0	11	3,067
Franchised	0	0	0	0	0	0	0	0	0	0
Leased	0	0	0	0	0	0	0	0	0	0

Lastly, it should be noted that the division had no openings or divestments during the year.

OUTLOOK 2018

The damage that Hurricane Irma caused in certain areas of the island just a few months ago is expected to continue to have a negative impact on our operations in Cuba during the first quarter of 2018. In this regard, 11 of our hotels were affected (2 in Varadero, 5 in Jardines del Rey and 4 in Cayo Santa María), forcing them to remain closed for several weeks while repairs were made. Fortunately, there were no bodily injuries, as customers were evacuated from the affected areas in a fast, efficient and safe manner. However, despite the fact that the destination is safe at the moment and that all our hotels are fully operational, we have been seriously affected as a result of the fact that Hurricane Irma affected the island at a time when visitors from Europe's main source markets were deciding where to spend their holidays. We expect the situation to return to normal in the coming months once interest in the product has been restored, but this will not happen in the first quarter of the year, which happens to be the high season.

DEVELOPMENT

We did not add any hotels to our portfolio in Cuba last year, but we will continue to analyse potential opportunities in order to increase our presence on the island in the coming months. In January we opened 4 new hotels on the island, as has been mentioned before, just as we signed 8 new management contracts a few months ago that will allow us to continue to grow in the country and strengthen our position as leaders in the urban and leisure hotel segments.

ASIA

The second half of the year was positive in general terms for our Asian division. We dedicated significant efforts to obtain high-value management contracts in four countries, China, Indonesia, Vietnam and Thailand, and in other places, such as Myanmar, with the aim of continuing to increase our presence in the region and strengthen our leadership position in the leisure segment. In addition, it must be said that the division is currently in a process of growth with the aim of reaching a critical mass of hotels, so that many of them are in ramp-up mode. Therefore, if we analyse the quarter for hotels from the same viewpoint, a double-digit improvement in RevPAR (in USD) can be observed.

With more than 40 hotels in the region and a presence in 7 countries, the low capital intensity model with which we are currently operating in Asia has continued to improve its performance as we continue to reach the scale, in terms of the number of hotels managed, that is needed to increase the efficiency level of our operations, as well as the profitability of the division. In this context, EBITDA and its margins increased considerably compared to the same period the previous year thanks to the increase in the fees charged plus the positive impact of various actions aimed at simplifying a high number of processes. All this came despite the negative impact on Indonesia caused by the eruption of the Agung volcano in the last few months of the year. We also hope to benefit from the increased purchasing power of the country's burgeoning middle class, which in turn is attaching increasing importance to its health and well-being, as well as from the great interest that Asian culture continues to arouse among tourists from all over the world. These factors will allow the region not only to be an important source market for European and Caribbean destinations but also to consolidate itself as a region to which there will continue to be an ever-increasing flow of international visitors.

At the country level, our hotels in China had a positive half-year as a result of the good market dynamics; the results obtained by Gran Meliá Xian, Meliá Jinan and Innside Zhenghzou were especially good. The last of these opened in August as the first hotel in the country with the Innside brand, benefiting both from its exceptional location and the high level of service offered to its demanding customers. In Vietnam, our Meliá Hanoi and Danang hotels recorded unprecedented levels of ARR and occupancy, while in Thailand, our Imperial Boat House Koh Samui hotel significantly improved its results from last year. In addition, it is worth noting that the results of our hotels in Indonesia, especially those in Bali, were negatively affected by the eruption of the Agung volcano, mentioned above.

Lastly, we cannot fail to mention that we expect the four hotels that opened in 2017 – the Sol House Bali Legian, Sol Beach House Phu Quoc, Meliá Shanghai Honqiao and Innside Yogyakarta – to be increasingly important in terms of contribution to the division, once they have completed the usual ramp-up periods.

All the hotels in the Asia regional division are included in the hotel management model, reporting the following figures during the year:

(Millions of €)	2017	2016	Change (%)
Total Management Model Revenues	6.9	6.8	1.8%
Third party fees	4.6	3.8	
Other revenues	2.3	2.9	

Below are breakdowns of occupancy, ARR and RevPAR by business model, indicating the variation from the previous year:

	Owned, Leased and Managed					
	Occupancy		ARR		RevPAR	
(Millions of €)	%	Change (pp)	€	Change (%)	€	Change (%)
Total Asia	57.1%	(4.7)	75.2	(2.3%)	43	(9.7%)
Total Asia (same store basis)	64.9%	0.6	79.0	(4.6%)	51.3	(3.7%)
Indonesia	53.6%	(7.3)	62.4	(17.4%)	33.4	(27.4%)
China	60.9%	(3.2)	73.8	(6.6%)	44.9	(11.3%)
Vietnam	60.2%	(10.0)	96.9	7.9%	58.4	(7.5%)

The number of available rooms in 2017 at owned, leased and managed hotels was 1.5 million (1.0 million in 2016).

The breakdown of the number of hotels and rooms by business model at the close of 2016 and 2015 is as follows:

	Current Hotel Portfolio			
	31/12/2017		31/12/2016	
(Millions of €)	Hotels	Rooms	Hotels	Rooms
Total Asia	18	4,617	14	3,758
Management	18	4,617	14	3,758
Franchised	0	0	0	0
Owned	0	0	0	0
Leased	0	0	0	0

Meanwhile, the hotel pipeline for the following years is shown below:

	Pipeline									
	2018		2019		2020		2021 onward		Total	
(Millions of €)	Hotels	Rooms	Hotels	Rooms	Hotels	Rooms	Hotels	Rooms	Hotels	Rooms
Total Asia	6	1,461	6	1,369	4	779	6	1,620	22	5,229
Management	6	1,461	6	1,369	4	779	6	1,620	22	5,229
Franchised	0	0	0	0	0	0	0	0	0	0
Leased	0	0	0	0	0	0	0	0	0	0

The following are the openings and divestments of hotels during the year by division:

Hotels	City/Country	Contract	No. of Rooms
Openings			
Sol House Legian	Bali, Indonesia	Management	110
Meliá Shanghai Hongqiao	Shanghai, China	Management	187
Innside Yogyakarta	Yogyakarta, Indonesia	Management	242
Innside Zhengzhou	Zhengzhou, China	Management	323

OUTLOOK 2018

For the first quarter of the year, we foresee a relatively stable situation for the number of reservations, as a result of the negative effect of the eruption of the Agung volcano in Indonesia, since this country is considered to be a key destination for the Asia and EMEA source markets. In this context, since all the segments in the country will be affected in some way by this unpredictable natural disaster, we have been implementing various sales campaigns since the last quarter of 2017 to promote other attractive destinations, such as Thailand and Vietnam, with the aim of minimising the negative effect that this eruption could have on our operations. In the same way, we have more than positive expectations regarding the new hotels that we will add to our portfolio in the coming months, such as the Meliá Ba Vi Mountain Retreat, which is situated in a natural paradise very close to Hanoi, or the Meliá Shanghai Parkside, located in the heart of the Shanghai International Tourism and Resorts Zone, which covers a wide range of booming tourist, commercial and entertainment options. The hotels in ramp-up mode are also expected to contribute positively to the results for the first quarter of the year.

DEVELOPMENT

The Asia region will continue to be vital for our future growth strategy. In the last quarter of the year, we signed up four new hotels that will be added to our portfolio during the coming years: Meliá Bukit Tinggi (Malaysia, 219 rooms), Innside Bangkok (Thailand, 176 rooms), Meliá Resort Xueye Lake (China, 130 rooms) and Meliá Chiang Mai (Thailand, 261 rooms), which will allow us to continue increasing our presence and brand recognition in the region. It should also be noted that, after having remodelled and repositioned most of our hotels in Asia, they are now ready to offer a unique, exceptional experience to our guests. Our local teams will also continue to dedicate resources and efforts to continuing to sign new high value management contracts in the holiday segment and in cities in which the bleisure and MICE segments are sufficiently developed. In January we signed up three new hotels in Vietnam that will allow us to enter two of the most popular destinations in the country: the financial district of Ho Chi Minh City and Halong Bay.

BRAZIL

The Brazilian economy performed well in the second half of the year, despite the country's complex economic and political situation. In this context, recent economic studies point to a slight growth in GDP compared to 2016, as well as an acceleration in growth for 2018 that should translate into an increase in prices.

In the second half-year, our Brazilian hotels increased their revenues notably on the same bases and in local currency. This increase was motivated by the continuing improvement in market conditions, which began in August, based on the significant increases shown by the transient (individual) and corporate segments, combined in turn with the largest number of events and international trade fairs in the country, especially in Sao Paulo, and the positive impact of concerts by international artists, which generated an additional demand.

If we looks at the segments from an individual point of view, the public and corporate rates for the transient segment (individual) grew considerably, while groups improved compared to the same period the previous year as a result of the recovery in some corporate accounts, which benefited from the above-mentioned increase in the number of concerts and trade shows. Sales from melia.com in local currency grew strongly thanks to the strong advance in direct sales of the Meliá Jardim Europa, Meliá Paulista and Meliá Brasil.

Lastly, we would like to point out that the Gran Meliá Nacional in Rio was affected in the second half of the year by the lower number of rooms available, as well as by the delay by the builder in making the convention centre operational. The delay caused us serious problems. as we were unable to benefit fully from some important events that took place in the city, such as the APLA event in November and the New Year celebrations, among others.

The evolution of the hotel business in the Brazil regional division can be summarised in the following KPIs, broken down by management type:

(Millions of €)	2017	2016	Change (%)
Total aggregate revenues	4.8	0.1	5,563.8%
Owned	0	0	
Leased	4.8	0.1	
Of which Room Revenues	3.0	0.1	5,784.7%
Owned	0	0	
Leased	3.0	0.1	
EBITDAR Split	(4.9)	(2.3)	116.7%
Owned	0	0	
Leased	(4.9)	(2.3)	
EBITDA Split	(9.0)	(2.3)	286.3%
Owned	0	0	
Leased	(9.0)	(2.3)	
EBIT Split	(10.3)	(2.3)	342.0%
Owned	0	0	
Leased	(10.3)	(2.3)	

The evolution of the hotel management model by income type is summarised in the following table:

(Millions of €)	2017	2016	Change (%)
Total Management Model Revenues	5.2	4.2	24.2%
Third party fees	3.4	2.3	
Owned and Leased Fees	0.2	0	
Other revenues	1.9	1.9	

Below are breakdowns of occupancy, ARR and RevPAR by business model, indicating the variation from the previous year:

	Owned and Leased					
	Occupancy		ARR		RevPAR	
(Millions of €)	%	Change (pp)	€	Change (%)	€	Change (%)
Total Brazil	13.4%	-	156.7	-	20.9	-
Total Brazil (same store basis)	-	-	-	-	-	-

The number of available rooms in 2017 at owned and leased hotels was 145,200 (6,600 in 2016).

	Owned, Leased and Managed					
	Occupancy		ARR		RevPAR	
(Millions of €)	%	Change (pp)	€	Change (%)	€	Change (%)
Total Brazil	51.4%	(1.6)	85	7.9%	43.7	4.7%
Total Brazil (same store basis)	56.4%	3.1	82.7	5.2%	46.7	11.3%

The number of rooms available in 2017 at owned, leased and managed hotels was 1.2 million (1.1 million in 2016).

The breakdown of the number of hotels and rooms by business model at the close of 2017 and 2016 is as follows:

	Current Hotel Portfolio			
	31/12/2017		31/12/2016	
(Millions of €)	Hotels	Rooms	Hotels	Rooms
Total Brazil	15	3,563	15	3,621
Management	13	3,024	13	3,016
Franchised	1	126	1	192
Owned	0	0	0	0
Leased	1	413	1	413

Currently, we do not have any hotels in the pipeline for this region. Lastly, it should be noted that the division had no openings or divestments during the year.

OUTLOOK 2018

We expect the first quarter of 2018 to be positive for our hotels in Brazil, since we expect that most of them will see an increase in demand, mainly during the second half of February and in March. The main reasons that explain this growth are a greater number of trade shows in Sao Paulo and the recovery of the transient segment (individual), for which we expect strong growth. However, for the month of January and the beginning of February, we expect relatively weak demand in Sao Paulo and Brasilia due to company holidays and Carnival. Along with this, however, we estimate that demand for the Gran Meliá Nacional de Rio will grow during the entire first quarter of the year, as the main reasons that allow us to be optimistic for Brazil have had positive effects on the city and on the results for our hotels in its area of influence in the past.

DEVELOPMENT

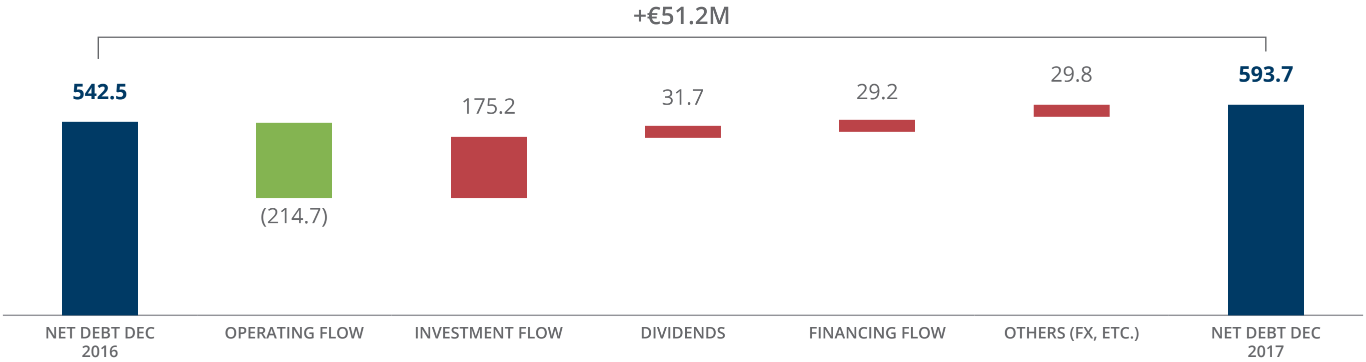
We did not add any hotels to our Brazilian portfolio last year and we do not expect to add any in the coming months. We will therefore continue to analyse different strategic alternatives with the aim of improving the performance of our hotels, as well as increasing the division's level of efficiency.

MELIÃ JARDIM EUROPE | BRAZIL

LIQUIDITY AND CAPITAL RESOURCES

In 2017, the company's gross debt stood at €925.6 million, which represents an increase of €16.4 million over 2016. Similarly, net debt increased by €51.2 million compared to 2016 to reach €593.7 million at the end of 2017.

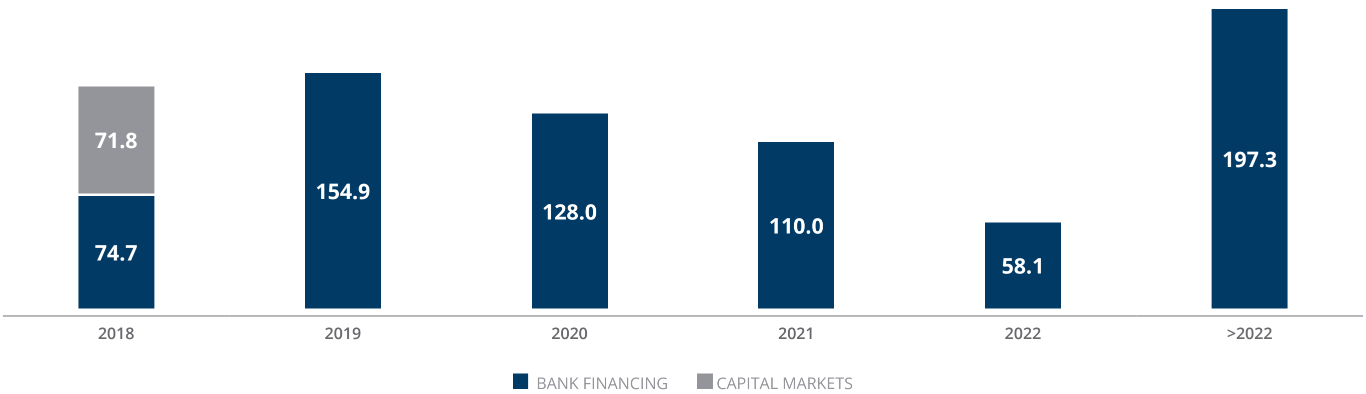
The net debt evolution throughout the year is shown below:



Throughout the year, the company carried out a variety of investments aimed at refurbishing, remodelling and repositioning some hotels in order to adapt them to meet the demands of higher segments and become more resistant to sudden changes and decelerations in the economic cycle. However, despite these investments, the company's leverage ratio (Net Debt/EBITDA) stood at 1.9x at the close of 2017, below the range set at 2.0-2.5x, which shows the firm commitment of the management team to maintaining a solid and stable financial situation in the coming years.

On the other hand, financial expenses were significantly reduced as a result of fruitful negotiations with banks that allowed us to reduce the average interest rate paid by the company, which stood at 3.2%, compared to 3.5% in 2016, and to increase the maturity terms of the debt instruments with which it is currently financed.

Looking ahead, the company presents the following maturity schedule. In the figures shown below, drawdown policies (millions of €) are excluded.

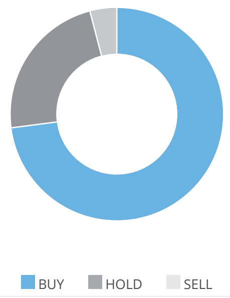


STOCK MARKET INFORMATION

The value of Meliá shares rose by 3.8% in 2017, as compared to a 9.0% drop in 2016. The Ibex 35 also showed a profitability of 7.4% in 2017, well above the 2.0% fall it suffered during the same period of the previous year.

The following chart shows the evolution of the value of the shares and the volume of transactions recorded during the 2017 financial year:

ANALYSTS' RECOMMENDATION

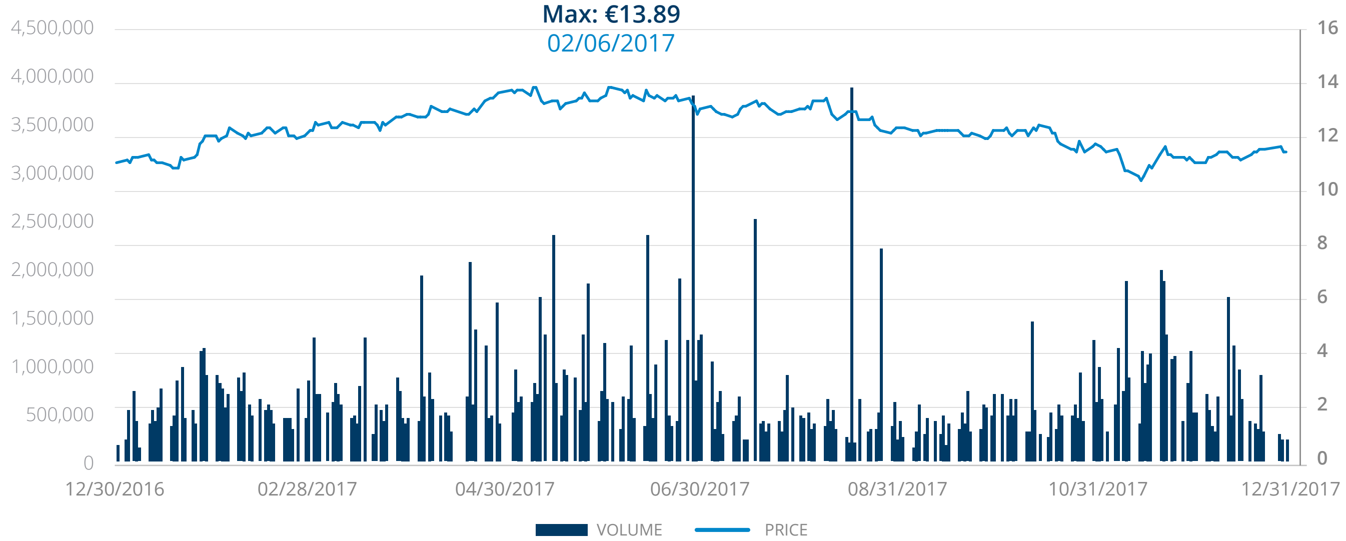


+3.8%

Appreciation of company shares in 2017

+5.6%

Appreciation in shares in the first two months of 2018



	1Q 2017	2Q 2017	3Q 2017	4Q 2017	2017
Average daily volume (thousands of shares)	629.8	952.6	552.7	736	714.9
Performance of Meliá	16%	2%	(7%)	(6%)	4%
Performance of Ibex35	12%	1%	(1%)	(3%)	7%

	2017	2016
Number of shares (millions)	229.7	229.7
Average daily volume (thousands of shares)	714.9	862.4
Maximum price (€)	13.9	11.8
Minimum price (€)	10.4	8.4
Last price (€)	11.5	11.1
Market capitalisation (millions of €)	2,641.6	2,545.1
Dividend (€)	0.1	0

Breakdown of the main milestones of Meliá Hotels International on the stock exchange during 2017:

On 19 January, the company signed a liquidity agreement, with the objective of providing our shares with greater liquidity in the market and thereby making them more attractive to investors.

On 11 July, the company paid its shareholders a dividend of €0.1315.

OTHER INFORMATION

REAL ESTATE

We did not sell any owned assets during 2017 and consequently no capital gain was generated, which contrasts with the €6.1M generated in 2016 by the sales of the laundry and the 246-room Sol Parque San Antonio holiday resort in Puerto de la Cruz (Canary Islands, Spain). However, the sale of four hotels that were part of the JV with Starwood Capital Group allowed us to record a profit of €20.6 million that was reflected in the profit and loss account on the line "result of entities valued by the equity method", which refers to the percentage of the capital gain generated that corresponds to the group. We kept the management contracts of the four hotels, for which the new partner is London & Regional, which has a long-term investment horizon, in contrast to Starwood Capital Group, which had a more short-term approach.

Looking ahead to 2018, we will continue to work on potential sales of various non-strategic assets. Along with this, we are in the process of selecting an independent appraiser so as to prepare a new valuation of our owned assets, which will be published during the second quarter of the year. In addition, we will continue to collaborate with various strategic partners in order to continue increasing the value of our JVs, as this strategy has allowed us to revitalise and relaunch the Sol brand and reposition hotels in higher market segments, as well as to optimise the use of capital for repositioning that appears attractive. This latter includes the construction of the new resort in Punta Cana on which the business of The Circle will be focused, so that we can increase the overall profitability of the company and our resistance to any worsening in the economic cycle. In this regard, we must highlight the very positive and fruitful strategic collaborations with top-level partners, since they have even helped us to carry out a number of actions aimed at restructuring the debt of some of our entities, which has allowed us to improve and optimise the conditions of the existing debt and, by extension, the company's overall financial costs.

CLUB MELIÁ & THE CIRCLE

This year was a period of transformation and innovation for our Club Meliá business, as it evolved from a real estate model that had maintained itself in the market for decades, to a completely new, customisable, flexible model that meets the needs of a series of demanding customers and focuses on the long term.

In the second half-year, despite the negative effect of Hurricanes Maria and Irma on the region, the division's revenues increased considerably, both in Punta Cana, which represents approximately 60.0% of the business, and in Mexico, especially during the second fortnight of December, for the Christmas period. If we look at our customer base, firstly, the number of members who changed from Club Meliá to The Circle increased as a result of the greater flexibility offered by the new product when choosing between various alternatives, its integration with Meliá Rewards and the high levels of exclusivity and experiences that the new resort in Punta Cana will offer customers once construction is completed at the end of 2018. This growth in the number of customers who exchanged the old product for the new one allowed us to increase our sales significantly. In contrast, our ability to attract new customers was affected by the low number of customers available during the last months of the year as a result of the various natural disasters that affected the region in the third quarter. Similarly, we must consider the fact that in Mexico we have continued to sell the old Club Meliá product, which served as the basis for the current The Circle, as it continues to provide us with several opportunities of which to take advantage, particularly at Paradisus Playa del Carmen, thanks to our improved digital capabilities.

Regarding our marketing skills and sales performance, we would like to highlight that a high percentage of the customers who finally decided to buy the new product were invited to get to know and experience it first-hand through our digital channels, which allowed us in turn to reduce the number of negative comments and complaints from both Punta Cana and Mexico, as well as to increase the overall profitability of the division. In addition, the sales conversion ratio of these customers was significantly higher than that of the customers who were invited through the traditional channels.

We have positive expectations for the first quarter of 2018, despite the minor fire suffered by our point of sale at Meliá Caribe Tropical and the slight fall in activity in terms of business groups, and we foresee an increase in revenues of a mid-single digit compared to the first quarter of 2017, both in Punta Cana and in Mexico. The main reasons that explain this improvement are the greater degree of penetration among Club Meliá customers of our digital campaigns, which we expect to double compared to the same period last year; the positive impact that the new resort will have on the sales process once its construction is completed, since customers will have the opportunity to participate in a totally immersive sales process adapted to their tastes; and the increased specialisation of our sales force, which will use a new sales process with stories specifically designed for customers in North and Latin America, which will undoubtedly help us to increase sales of the new product.

DIVIDEND POLICY

In the 2017 financial year, the dividend of the group or pay-out reached a level of 30.0% of the Consolidated Income attributed to the Parent Company (same percentage as the one approved for 2016 financial year results). Therefore, the gross dividend per share will reach 0.1681 euros, which is an improvement of 27.8% as compared to that of 2016.

ENVIRONMENTAL RISKS

These consolidated annual accounts do not include any item that should be considered in the specific environmental information document, provided for in the Order of the Ministry of Justice dated 8 October 2001.

AVERAGE PAYMENT PERIOD TO SUPPLIERS

As indicated in the corresponding note in the consolidated annual accounts, the average period of payment to suppliers of Melia Hotels International, S.A. and its Spanish subsidiaries was 72.9 days in 2017, which compares with 75.1 days in 2016.

To help with future years, the company is carrying out a review of its administrative processes starting from the receipt of invoices to the issuance of payments in order to reduce its average payment period as much as possible.

TREASURY STOCK

See Note 15.3 of the Consolidated Annual Accounts.

EVENTS SUBSEQUENT TO YEAR-END

There have been no subsequent events between the end of the reporting period and the drawing up of these consolidated annual accounts that involve adjustments because they show conditions that already existed at the closing date, or facts indicating conditions that could have appeared after the date of closure that could affect the capacity of the users of the Financial Statements to carry out the pertinent evaluations and make economic decisions of any kind.

Responsible hospitality

The consolidation of our global Corporate Responsibility model in all business areas has continued to advance while, as an industry leader and benchmark, we are assuming more public projection and responsibility to all our stakeholders

MELIÁ ZANZIBAR | TANZANIA

GRI 413-1

2017, International Year of Sustainable Tourism

In 2015, the United Nations General Assembly designated 2017 as the International Year of Sustainable Tourism for Development.

The resolution, adopted on 4 December, recognised the importance of international tourism and, in particular, the designation of an international year of sustainable tourism for development, in order to promote better understanding among peoples everywhere, to lead to a greater awareness of the richness of the heritage of the different civilisations and a better appreciation of the inherent values of different cultures, thereby contributing to strengthening peace in the world.

In the words of Taleb Rifai, Secretary General of the World Tourism Organization (UNWTO), *"The declaration by the UN of 2017 as the International Year of Sustainable Tourism for Development is a unique opportunity to advance the contribution of the tourism sector to the three pillars of sustainability – economic, social and environmental, while raising awareness of the true dimensions of a sector which is often undervalued"*.

This fact reinforces the adoption by the same Assembly, in September 2015, of the Sustainable Development Goals. These 17 goals have given a renewed impetus to the Millennium Development Goals (2000-2015) and, as a whole, constitute a major initiative for global transformation.

For us, having a presence in more than 40 countries has led us to experience numerous social realities. Deepening our knowledge of the SDGs has allowed us to get to know the real situation of the countries in which we have a presence from a different perspective. We have been able to identify opportunities and strengthen internal approaches.

The SDGs represent an excellent lever for generating internal reflection, a guide for continuing improvement towards the achievement of our objectives and a tool for valuing the commitments that as a company we have made for the future.

ECOSPA MASSAGE MELIÁ COZUMEL | MEXICO

4 PILLARS TO PROMOTE MELIÁ'S CORPORATE RESPONSIBILITY

Basing our work on the Sustainable Development Goals, in this important year, we redefined and deepened our Corporate Responsibility strategy, which rests on four pillars: environment, employability, children and reputation.

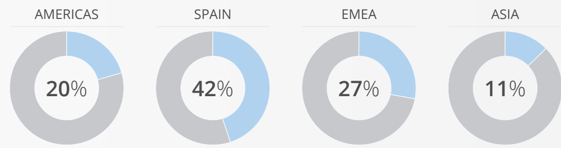
CORPORATE REPUTATION

THE ENVIRONMENT

We want to lead the fight against climate change in the hotel industry

- Responsible use of natural resources
- Innovation
- Measurement & Control

INITIATIVES IN FAVOUR OF THE ENVIRONMENT
(382 actions)

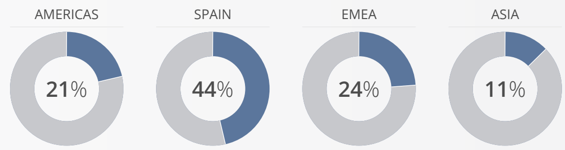


EMPLOYABILITY

We share knowledge, improving employability, promoting talent and generating opportunities

- Talent management
- Professional development
- Impact on the Community

EMPLOYABILITY INITIATIVES
(331 actions)

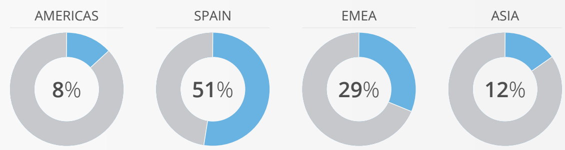


CHILDREN

We protect vulnerable children and their rights wherever we are present

- Child protection
- Human rights
- Education & Development

INITIATIVES IN SUPPORT OF CHILDREN
(277 actions)



FROM HOTEL SUSTAINABILITY TO THE INTEGRATION OF ESG CRITERIA

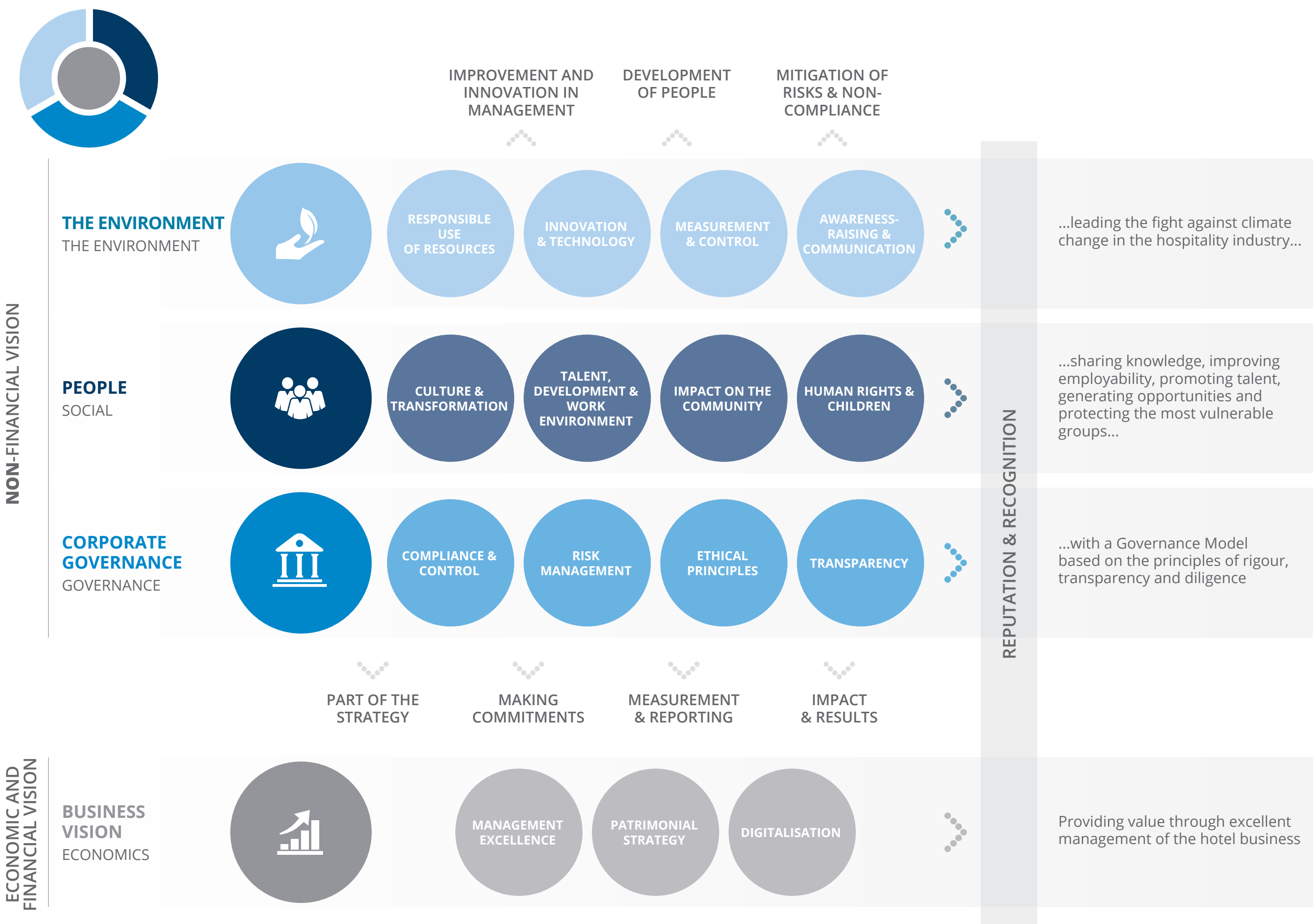
The maturing of the approaches and commitments that we have experienced at Meliá in regard to sustainability and corporate responsibility have allowed us to evolve from concepts of philanthropy and social action to strategic approaches linked to environmental, social and corporate governance practices, or ESG.

The motivation to promote these approaches, and their progressive integration in the hotel business, is the result of our desire as a company to incorporate tools that allow us to improve management, increase our levels of transparency and integration of non-financial aspects, transmit to our stakeholders a greater and better vision of who we are and our reality, encourage and facilitate dialogue and include their needs and expectations, reinforcing the trust they have placed in us.

We have made public commitments that motivate us to continue advancing in the integration of these tools and levers with the desire to promote positive change in an industry that has proven to be an excellent generator of wealth, employment and development.

At Meliá we are combining the approaches of ESG with our own strategic thrust as a hotel company.

INTEGRATION OF ESG CRITERIA



WE ASSUME COMMITMENTS AND PROMOTE PROGRESS

Because we are a family company, the creation of a social impact has been present from our beginnings.

For Meliá, leadership when undertaking new approaches is essential. For this reason, our Executive Committee or Senior Executive Team (SET), with the Vice-Chairman and Chief Executive Officer at the helm, promotes ESG to ensure the consistency of the models and their integration into the operation.

In addition, as a listed company, we have a robust Corporate Governance model. This model defines our guidelines for action and behaviour, shaped by the principles, commitments and action lines defined in the internal regulations and our Code of Ethics, which was approved in 2012.

This year we created the post of Compliance Officer, who is responsible for coordinating the company's regulatory compliance.

Strengthening a responsible, sustainable and profitable hospitality model in the long term leads us to consider continuous improvement as a lever to ensure the integration of sustainability in hotel service processes, from the initial phase of hotel design to the integral management of the business in order to contribute to the socioeconomic development of destinations.

In 2017 we started to integrate ESG into our routine work through different committees and special working groups so as to make advances in each area.

INTEGRATION OF ESG INTO OUR OPERATIONS

SENIOR EXECUTIVE TEAM (SET)

STRATEGIC THRUST

MAIN ROLES		LINES OF PROGRESS IN THE INTEGRATION OF ESG	OBJECTIVES
REAL ESTATE, CONSTRUCTION WORK & RENOVATION TECHNICAL SERVICES ENVIRONMENT	INTERNAL ENVIRONMENT GROUP	Inclusion of sustainable criteria in the design, rehabilitation and construction of hotels Project management Integration of efficient and responsible management systems Promotion of technology and innovation for the responsible consumption of resources Measurement & control	IMPROVEMENT AND INNOVATION IN MANAGEMENT DEVELOPMENT OF PEOPLE MITIGATION OF RISKS & NON-COMPLIANCE
PEOPLE & TALENT WORK HEALTH KNOWLEDGE ORGANISATION & MANAGEMENT COMPENSATION & BENEFITS	HR INTERNAL GROUP	Manage talent and provide tools for continuous improvement (training, skills, performance) Promote equal opportunities Safety and health in the workplace Employee benefits and work-life balance	
CORPORATE GOVERNANCE INTERNAL AUDIT RISK MANAGEMENT COMPLIANCE OFFICER	REPUTATION & RECOGNITION INTERNAL GROUP	Ensure compliance with applicable legislation Ensure a body of regulations in line with ESG criteria Make progress on the recommendations of the Code of Good Corporate Governance Monitor the meeting of commitments Analyse and manage current and emerging risks, applying ESG criteria	

Sustainability in the business

SUSTAINABILITY IN HOTELS

Integrating sustainable criteria into our hotels goes beyond including systems committed to efficient resource consumption.

To achieve this, we offer products that seek to supplement hotel and non-hotel services with the aim of strengthening the awareness of our customers in areas such as environmentally-friendly mobility, healthy habits and even products designed for the MICE segment with a more sustainable approach.

SUSTAINABLE MOBILITY

We are promoting mobility alternatives to contribute to the fight against climate change by reducing the emissions caused by our customers' moving from place to place.

We encourage respect for the environment, such as electric bicycle rentals or the installation of electric vehicle charging points at our hotels.

68%

Portfolio with sustainable mobility initiatives

- High-performance heating and cooling equipment
- Automated building management control and management system (BMS)
- Heating swimming pool water with residual energy
- Heating and cooling distribution circuits with variable flow pumps
- Renewable energy integration analysis

- Linens and furniture with environmental certification
- Equipment with an energy efficiency rating
- LED lighting that is dimmable and uses presence detection and natural light
- Air conditioning units (fan coils, etc.) with variable air flow
- Monitoring and analysis of energy, water and emissions
- Global strategy for contracting electricity from renewable sources

HEALTHY EATING *MY BALANCE BY HEALTHIA CERTIFICATION*

To meet the current recommendations on food and in response to the new concerns of consumers, we have reformulated the *Balance by Meliá* programme. The programme seeks the customers' vital balance and offers them healthy recommendations. We are therefore adapting to the main challenges of providing healthy sustainable food. We want to ensure that all customers staying at a Meliá hotel can enjoy the *My Balance* programme and that they can do so at any time of the day.

BALANCE by MELIÃ

12% Workforce trained in healthy habits

+15,550 Hours of training in healthy habits

SUSTAINABLE MEETINGS *ECOTOUCH MEETINGS BY MELIÁ*

The Meliá Hotels & Resorts brand continues to extend its programme of events and meetings, *EcoTouch Meetings by Meliá*, which is based on sustainability as an added value and is aligned with our commitment to protecting the environment, one of the pillars of the Corporate Responsibility strategy. One of the main objectives of this programme is to raise awareness and promote education among our customers regarding the need to use resources responsibly and the environmental impact generated by their activities.

ecotouch MEETINGS BY MELIÁ

100% Implementation in Spain

36% Global Implementation

- Improvement in the insulation of pipes to reduce thermal loss
- Cisterns with double pushbutton and adjustable discharge volume
- Flow regulators
- Selection of suppliers with environmental and quality certificates
- Greywater and storm water recovery system
- Contribution of outside air to improve air quality regulated by CO_2 probes
- Double glazing with a thermal break and solar film on windows
- Improvement of thermal insulation
- Charging points for electric vehicles
- Integration of sustainable materials
- Separation and recording of waste
- Awareness-raising

GRI 102-9

SUPPLY CHAIN

We aim to build long-term partnerships with our suppliers and thereby establish relationships with them that are based on trust.

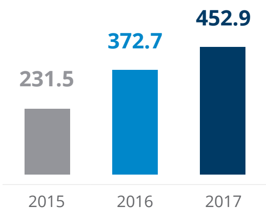
The need to contribute directly to the mitigation of the effects of climate change, the protection of destinations and the implementation of responsible business models with a positive impact on society has led us to share our commitment to the defence of human rights and the environment with our suppliers.

This approach responds, among other factors, to the fact that the cultural transformation we are undergoing results in new types of relationships and cooperation with our stakeholders.

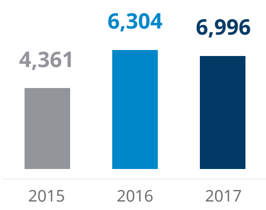
We therefore foster improvements in hotel management and transfer them, through our growth, to the destinations in which we operate.

Growth not only means entering new markets but also strengthening and increasing our presence in our existing markets and countries. In addition, the renewal of our brands and the development of new concepts in leisure and gastronomy that we are undertaking require these improvements. For all of the above and to ensure success, the commitment and contribution of our suppliers is essential.

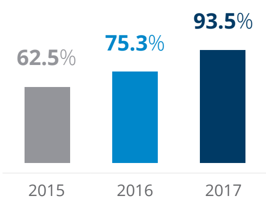
VOLUME OF PURCHASES
(€ millions)

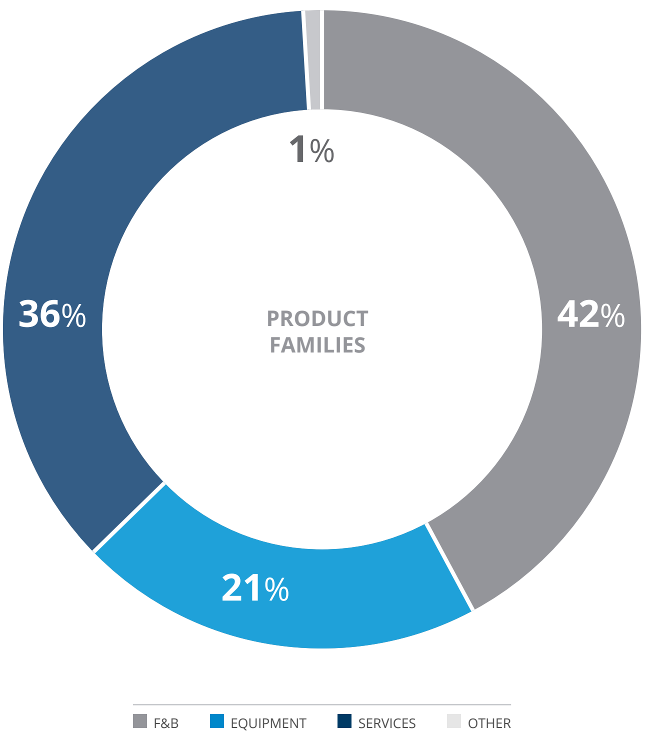


SUPPLIER PORTFOLIO



VOLUME OF PURCHASES
(CENTRALISED)





GRI 204-1

CENTRALISED PURCHASING MANAGEMENT AND PROMOTION OF LOCAL SUPPLIERS

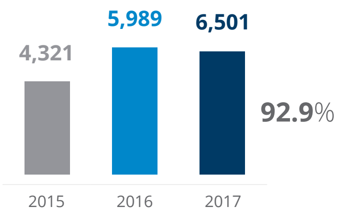
We continue to make progress in our commitment to a centralised, international purchasing model that focuses on objectives common to the different geographical areas. In 2018 we will continue to unify the criteria and variables that underpin our purchasing management.

We have purchasing centres in Spain, Germany, Italy, Mexico and the Dominican Republic through which we provide service to our hotel portfolio. We are also continuing to gradually incorporate new countries into this global management system.

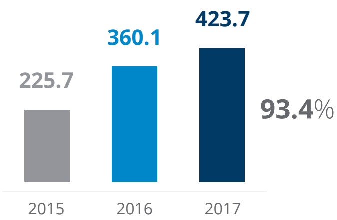
To ensure consistency between the purchasing models and corporate responsibility, we select our suppliers based on transparent, well defined criteria that ensure that our commitments are known and shared. In this way, we ensure that the criteria of sustainability, ethics and responsibility are guaranteed in the supply chain.

Through this system we are promoting a supply model that makes solid progress in the integration of responsible criteria and favours the acquisition and contracting of services that respect the environment, are manufactured under fair trade conditions and are certified.

LOCAL SUPPLIER PORTFOLIO



VOLUME OF PURCHASES FROM LOCAL SUPPLIERS
(€ MILLION)



INNOVATION FOR WASTE REDUCTION

Including sustainability criteria in the purchasing process allows us to move toward attaining our waste reduction targets, greater efficiency and less impact from our operations. In this process we have the support of benchmark partners who also share our commitments.

With Diversey, a supplier with which we have been working for over 30 years, we have launched several pilot projects in hotels to explore opportunities for carbon reduction, the elimination of food waste in kitchens and ovens, new systems for cleaning rooms and process monitoring, among others.

We are continuing to work on reducing light packaging (bottles and cans), opting for larger formats to reduce the consumption of plastic and disposable packaging.

100% ELIMINATION

- Disposable plates in Puerto Vallarta
- Charcoal in the Dominican Republic
- Drink straws at the Paradisus by Meliá brand

PILOT PROJECT FOR CARBON REDUCTION IN KITCHENS AND ON SURFACES

12
Hotels involved

+7,200
Litres of water saved

+26 kWh
Energy savings

REDUCTION OF LIGHT PACKAGING

+894 K
Reduction in plastic bottles

+185 K
Reduction in cans

+100 K
Bottles of water replaced by purified water sources

SUPPLIER CODE OF ETHICS

One of the most significant advances this year to bolster our cultural transformation, continuous improvement and a model that transmits our values has been the drawing up of our 1st Supplier Code of Ethics. This new code will be presented to the Board of Directors of Meliá in 2018 for their approval and its subsequent publication.

Through this code we will provide greater coherence with our supply model. With it we will reinforce a supplier relationship that is based on our values, Code of Ethics and the public commitments we have made.

This document provides coverage of risks related with the environment, social aspects and corporate governance. It will also help us to manage and mitigate non-financial and reputational risks.

In addition, although our suppliers in countries with centralised purchasing have been selected based on defined, sustainable and transparent criteria since 2012, as of 2018 they will have behavioural guidelines that are aimed at strengthening their relationship with us, allowing us also to have a tool to protect our reputation.

The ultimate focus of this code is not to impose criteria but for our suppliers and the company to make commitments to do the right thing, with the appropriate conviction.

Our suppliers sign a specific clause in which they accept that they are aware of our requirements and commitments, are committed to promoting them, and know that the company may audit their compliance with and progress made in this area.

COMMITMENTS SHARED WITH OUR SUPPLIERS

- COMPLYING WITH LEGISLATION
- ZERO TOLERANCE ON SLAVERY
- NO CHILD LABOUR
- ENSURING SAFE WORK ENVIRONMENTS
- ZERO TOLERANCE ON ABUSE OR COERCION
- FAIR WAGE
- RESPECT FOR THE ENVIRONMENT
- NON-DISCRIMINATION
- RESPONSIBLE SUPPLY CHAIN
- FREEDOM OF OPINION AND ASSOCIATION

SUPPLIERS INVOLVED IN SOCIAL CAUSES

We want to act as a message amplifier and cooperator for humanitarian actions. In order to achieve this, we are not only placing our communication channels and direct contribution at the service of society but we are extending the possibility of joining these causes to our main stakeholders.

As a result of our strategic alliance with UNICEF, our suppliers have been invited to take part in the #CIERRAUNICEF (#CLOSEUNICEF) campaign, promoted by the Unicef Committee Spain and in the call for humanitarian emergency assistance resulting from the earthquake that struck Mexico in September 2017 and placed many children and families in a situation of vulnerability.

Having socially committed suppliers is a source of pride for us.

WE ENCOURAGE RESPONSIBLE PROJECTS

Soap for Hope is a project launched in October 2013 by Diversey, a Meliá supplier for over 30 years.

Since its inception, more than 249 hotels in 22 countries around the world have joined the programme, helping to recycle more than 730 tonnes of solid soap waste, producing more than 6.1 million bars of soap and having a direct impact on over 400,000 people.

The programme has three main aims:

- To save lives by promoting hygiene and providing soap to communities that, while needing it, do not have access to it.
- To provide opportunities and livelihoods to the local community through the actions of recycling and reprocessing soap waste.
- To help reduce waste with the support of our hotels.

Our team in Asia has promoted the participation of Meliá in Soap for Hope, in line with our Corporate Responsibility strategy and environmental positioning, together with a benchmark ally with whom we share commitments, in addition to close cooperation and a long history together.

This year, three of our hotels in Vietnam, Indonesia and Myanmar have already been active in the programme. Our goal in 2018 is to extend it to other hotels and destinations in the Asia Pacific region and in the Americas.

In addition to generating a positive impact on our destinations, the programme is allowing us to reinforce our internal message and raise awareness among our teams on this issue.

Soap For Hope™ Diversey

Meliá Hanoi | Vietnam

3.5
Tonnes of recycled soap

+1,800
Direct beneficiaries

+27 K
Soap bars manufactured

Meliá Yangon | Myanmar

Meliá Purosani | Indonesia

Human rights

We want to contribute to the improvement of the common good. We believe that our valuescan help to achieve this. They are the backbone of a hotel management model that moves towards the integration of ethical and responsible criteria, in which people are at the heart. We promote closeness, in order to reinforce the dialogue with our stakeholders, using the **proximity** of a leading company. We are committed to **consistency** and ethics in business, good governance, transparency and rigour in management.

We work with a **dedication to serving** society through the contribution of value and the sharing of our hotel management knowledge. We strive to work while seeking **excellence** as a lever that encourages our continuous improvement in the development of our activity and the quality of the services we provide. We understand **innovation** to be a way to create social wealth and wealth for our stakeholders.

GLOBAL COMPACT GUIDING PRINCIPLES

Since 2008, we have endorsed the **Global Compact Guiding Principles**. The Global Compact is an international initiative proposed by the United Nations with the aim of promoting corporate citizenship, respect and the defence of human rights. 10 years ago we signed these principles to advance our model of responsible hotel management that had a solid working base in the defence of human rights, given our international profile and presence.

For us, signing the Global Compact meant that we were making a public commitment to complying with and disseminating the principles it includes and to reinforcing our own management model.

ETHICS & THE TOURISM INDUSTRY

As a family company, in 2006 we made a commitment to defend children and their rights in the tourism industry and in the destinations in which we are present. We were the first Spanish company in the tourism sector to sign the ECPAT Code, promoted by The Code International. Since then, more than 200 companies have joined it and now contribute to spreading the message and advancing the fight against this scourge. After our signing and as a result of the advances made by Meliá in recent years, we are a fundamental ally of ECPAT and a benchmark both in Spain and internationally in the protection of children. Since 2015 we are Top members at the international level.

In 2011 we signed the Global Code of Ethics for Tourism and we committed ourselves to respecting, promoting and putting into practice the values of developing sustainable, responsible tourism expressly promoted n our industry through this code. This Code, which was adopted in 1999 by the General Assembly of the UNWTO and endorsed by the UN General Assembly in 2001, is a set of principles designed to guide the development of tourism so that it can give maximum socio-economic benefits, while also minimising its impact.

In 2017 we joined the World Travel & Tourism Council (WTTC) as members. This body seeks to enhance the positive impact on the environment, ensure that the growth of the industry is managed responsibly and seek a balance between people, the planet and the profit generated. We participate actively in its forums, sharing our experience and good practices to contribute to raising awareness and encouraging the advancement of the tourism industry.

FTSE4GOOD IBEX

In 2008, we were the first company in the tourism industry to join this stock market index. Since then, we have also undergone the biannual renewal process with Bolsas y Mercados Españoles (NME) and the FTSE Group (FTSE), allowing the constant identification of opportunities for improvement. This index recognises the policies and management that its member companies develop for environmental, social and ethical issues. Its aim is to encourage Spanish companies to adopt international CR standards.

This is an international benchmark indicator for investors who want to identify companies with responsible business practices.

ENVIRONMENT

2017 was a year in which, once again, the global initiative Carbon Disclosure Project (CDP) recognised us as one of the leading companies in the fight against global warming. This international organisation is the driving force behind a sustainable economy. Meliá received the best rating in Spain for the hospitality industry (A-). This result places us in a leadership position in terms of good practices in the tourism industry.

This year we joined the **Forética Climate Change Cluster**. This working group is Spain's benchmark business platform on climate change. It comprises a group of 50 large companies that work together to lead the strategic positioning on climate change.

ANTI-CORRUPTION

This year we joined the **Forética Cluster** for anti-corruption, transparency, good governance and integrity. This platform aims to serve as a meeting point for businesses on leadership, knowledge, exchange and dialogue in this area. In addition, we participate in the Corporate Responsibility and Anticorruption Commission of the **International Chamber of Commerce**, with the aim of strengthening this field of work in business environments.

PEOPLE

At Meliá, workers' rights are guaranteed wherever we have a presence. We follow the guidelines recommended by the ILO and make a commitment with our employees to offer opportunities for professional growth in a safe work environment. To guarantee this, in 2012 we signed an international agreement with the IUF (International Union of Food, Agricultural, Hotel, Catering, Tobacco and Allied Workers) to express our commitment. This body is the most representative international union federation linked to Meliá's natural business.

In addition, Meliá implements its Health and Safety management system throughout its portfolio in accordance with the OSHE (Environment, Safety and Occupational Health Unit) criteria, set in June 2001 to comply with the Occupational Health and Safety Act of 1994 (Law 514), promulgated on 25 February 1994. The main aim of this law is to promote commitment in relation to respect for occupational health, safety and health.

PROMOTION & DISSEMINATION

We take advantage of our presence and participation in important international forums to raise awareness, disseminate our progress and the importance of the role played by companies in the defence of Human Rights.

In addition to having integrated the Sustainable Development Goals into our business and routine work, we also promote knowledge and an awareness of them in the tourism industry.

MELIÁ REGULATORY BODY

The public commitments we have made as a company are expressly included in our Code of Ethics and the new corporate policies approved this year.

These include the express prohibition of child labour and any type of slavery, the rejection of all discrimination, the offer of equal opportunities and gender equality, among others.

FUTURE COMMITMENTS

In 2018 we will go one step further and become members of the Global Compact. We will promote knowledge and internal training in Human Rights among our teams, we will present the 1st Human Rights Policy and the future Supplier Code of Ethics for approval by the Board of Directors, which will reinforce the ethical approaches already expressed in our own Code of Ethics and Corporate Responsibility and Environmental Policies, both approved in 2017.

GRI 413-1

IN SUPPORT OF CHILDREN

FAMILY VALUESFOR THE DEFENCE OF THE RIGHTS OF VULNERABLE CHILDREN

As a family company, the backbone of our Corporate Responsibility strategy is the defence of the Rights of Children. Acting on behalf of children is for us an essential lever for strengthening the future of the societies of which we are part by offering local children the option of a better future.

To ensure the generation of profit for one of the most vulnerable groups in the destinations in which we operate, we support strategic allies, such as UNICEF, which are able to have a positive impact on the ground, by offering them the active involvement of our employees, customers and suppliers.

After the renewal of our international agreement with UNICEF in 2017, we updated the image of the alliance, to which we have given a closer focus by assigning more importance to the main milestones of this agreement.

In addition,as a benchmark partner following the UNICEF international fundraising policy, we will contribute to reinforcing its Regular International Funds to support projects for children wherever this is necessary. However, given Meliá's special weight in Mexico and the Dominican Republic, we are continuing to support local children directly in these countries through UNICEF.

277
Initiatives promoted in hotels

145
Social institutions that work with minors

+6 K
Customers involved in social actions

+€677 K
Economic valuation of the actions promoted in hotels

+€414 K
Funds raised through actions promoted in hotels

unicef

+€613 K
Funds raised to support children

92%
Hotels involved in the alliance

21
Countries involved

DOMINICAN REPUBLIC
2015-2017

+6 million
People made more aware of sexual exploitation

60,976
Children and their families protected

11,271
New-born children registered with the civil registry

1,247
Public officials from tourist areas receiving training

MEXICO
2015-2017

65,749
Boys and girls registered at birth

498
Public officials trained in 134 municipalities

+130 K
Population of minors reached

+180 K
Information and awareness-raising cards

CHARITABLE ACCOMMODATION

We continue to directly support numerous bodies that defend the rights of children, offering them access to quality leisure time, free accommodation and special conditions, support with corporate volunteering and the dissemination of their message.

260
Charity hotel nights

+€204 K
Donations to social causes

FUNDACIÓN PEQUEÑO DESEO.
TRYP HOTELS, LA GRAN COMPARTIDA (THE BIG ALLIANCE)

With the holding of the 4th Edition of the campaign “Your TRYP wish”, the TRYP hotels in Spain invited people to share their wishes, at the same time helping the children who most need it to be able to fulfil theirs. We donated €1 for each comment shared through the social networks that contained a Christmas wish with the hashtag #TuDeseoTRYP.

This year we renewed our collaboration agreement with this Foundation to provide free accommodation to children with no resources.

+600 K
People reached by the campaign

+30 K
Interactions

€9,816
Customers involved in social actions

SOCIAL LEISURE FROM THE PALAU DE CONGRESSOS

Since April 2017, the Palau de Congressos in Palma de Mallorca has promoted numerous social actions with children and families at risk of exclusion. In line with the company’s global Corporate Responsibility model, it has therefore placed its assets and organisational capacity at the service of the most disadvantaged.

The highights were three charity concerts in support of UNICEF and Mallorca Sense Fam and a leisure plan for children at risk of exclusion.

We had support from Cinesa for holding a film day for 250 children at risk of exclusion. They were able to enjoy a private Christmas screening of 'Ferdinand', one of the most popular children’s movies in the current film listings.

All the children participate in different support programmes promoted by local social organisations, such as the Balearic Red Cross, Pere Tarrés Foundation, Natzaret Foundation, Padre Montalvo Foundation and Aldaba Foundation, with which Meliá collaborates regularly. In addition, the Palace has continued to support the Rafa Nadal Foundation by taking more than 70 children to Kathmandu, an amusement park run by Meliá.

+€36,500
Contribution by the Palau de Congressos

+€22,500
Funds raised

+2,400
Attendees and participants

+300
Children who enjoyed leisure

People

EMPLOYEE CENTRICITY

At Meliá, our teams are at the centre of the organisation, since it is they who, with their commitment and leadership, promote the cultural transformation we are currently undergoing. They will ensure that our culture and dedication to service, knowledge of hotels, ways of doing things and firm values are extended wherever we are present.

People are the key to our business and therefore we believe that expanding hotel-related knowledge in Employee Centricity allows them to have unique experiences, feel that they are an active part of the company and reinforces their commitment to our culture and values.

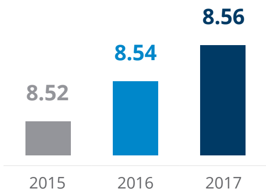
The Meliá talent management model has a clear focus on promoting the loyalty of current talent as a lever for growth and on our ability and potential to attract new talent that wants to grow with us in an agile, dynamic and constantly evolving international environment.

As a global family company with a defined culture, being able to generate a strong sense of belonging in our teams lays the foundation for building a value proposal that offers opportunities and development.

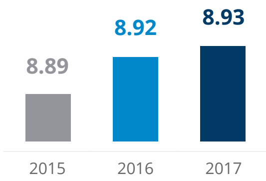
In addition, the evolution of the ESG CRITERIA approaches from the perspective of the people at Meliá has led us to reinforce approaches that ensure job development in a safe environment and the promotion of equal opportunities, among other factors.

In 2017, the Board of Directors approved the Human Resources Policy, which also includes the commitments we make with our employees, all the principles in favour of the defence of human rights and labour rights, and the prohibition of child labour, slavery and any form of discrimination. All these aspects have been included in our Code of Ethics since 2012.

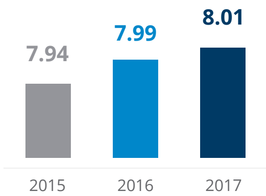
COMMITMENT



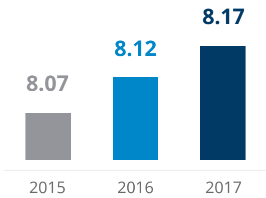
PRIDE IN BELONGING



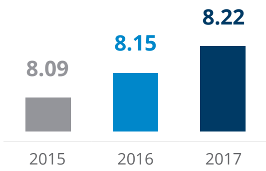
CLIMATE INDEX



CULTURE & VALUES



RECOGNITION



26 Managers	MANAGEMENT TALENT POOL	GLOBAL DEVELOPMENT PROGRAMME TO STRENGTHEN MELIÁ'S MANAGEMENT TALENT PROMOTE CORPORATE & HOTEL CROSS-POLLINATION.
76 Deputy managers	DEPUTY MANAGEMENT POOL	IDENTIFY SPECIALIST INTERNAL TALENT TO OCCUPY FUTURE HOTEL MANAGEMENT POSITIONS ANTICIPATE MANAGEMENT TALENT NEEDS
176 Middle managers	GLOBAL POOLS	IDENTIFY SPECIALIST INTERNAL TALENT TO OCCUPY CRITICAL BUSINESS POSITIONS
50 Corporate Executives	CORPORATE TALENT POOL	GLOBAL DEVELOPMENT PROGRAMME TO STRENGTHEN MELIÁ'S MANAGEMENT TALENT PROMOTE CORPORATE & HOTEL CROSS-POLLINATION.

VALUE PROPOSITION

We aim to ensure that our contributors have positive experiences at every step of their way and evolve with us. To do this, we see the process as having four well-differentiated phases in time aimed at helping their career and building their future.

ATTRACT

"I want to be part of a great family, that has an international presence and is continuously growing, to which I can give my best"

New talent and the talent of all those who are already part of our company are fundamental for Meliá. We want to make sure that the best people join us, work alongside us and are able to grow professionally. That is why we strive to maintain an excellent reputation and make ourselves known in key employment portals, social media, universities and specialist centres.

ONBOARD

"I want to feel the support of my colleagues and know what is expected of me during my first days at Meliá... and all the days after that"

All beginnings are a challenge so at Meliá we try to make the beginning simple. For this we have tools like the eMeliá platform, with key information about the job, our company, its processes and its values.

All this is aimed at ensuring that the experience with us is always positive, right from the first day.

PERFORM

"I want to improve every day and feel that I am part of a company that values and recognises my commitment"

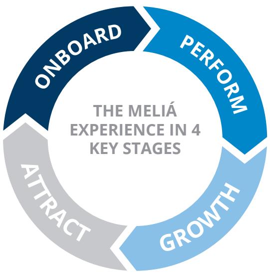
At Meliá every employee can decide how they want to develop their career. To achieve this, our employees have tools like eMeliá, with training lines like My Company, My Performance, My Way and My Academy, the Employee Portal and the full cooperation of the Human Resources department.

All employees are able to set up their own action plan and maintain an ongoing dialogue with their manager, as well as receiving all the guidance and coaching they need. They can directly manage their development, mobility and training needs at Meliá.

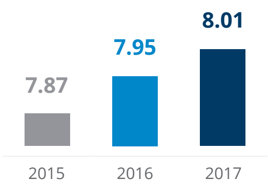
GROWTH

"I want to have all the opportunities I need to grow professionally within my reach"

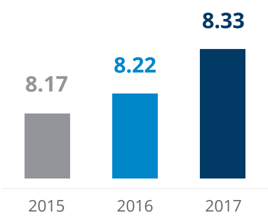
Our employees can go as far as they want. At Meliá they find opportunities for movement between departments and access to key roles through the numerous options for internal promotion.



EMPLOYMENT STABILITY



EQUALITY



Amplify

AMBASSADORS

Meliá's best ambassadors are its employees. This year we promoted a project that gives prominence to employees and maximises their great power of social influence. We set up a programme that allows them to share content about the company on their social networks. The group interacts in a simple, clear, intuitive manner, managing to amplify the impact on social networks of the contents that are of interest to our stakeholders. We are able to reinforce our brand awareness swiftly, ensuring consistent and fully-aligned communication.

The content is varied and deals with the current situation and value proposition of Meliá. The highlights include content on brands, current affairs, corporate responsibility, gastronomic proposals and trends. This first stage involved executives from the talent pool.

PROCESSES

To support a forward-looking approach, we designed a new process map display tool that improves the strategic vision of the core and non-core processes. With it we reinforce the global vision, improving the efficiency and productivity of key processes that ensure our growth.

This year we worked in particular on one of the biggest projects in the hotel business, the model for pre-openings, which starts just before the signing of the project and goes up to the day the operation opens.

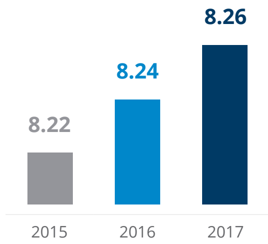
Each year's new openings require committed, well-prepared teams to be the ambassadors of our values. They ensure the delivery of the brand promise to the customer and add value for our owners, whose assets we are managing. In this way, we offer opportunities to people who today are part of Meliá and serve as a magnet for new talent.

We want our employees to be the architects of their own careers, to feel recognised, valued and motivated. We therefore listen to their opinions and place appropriate tools at their disposal so that they can define their own development (performance management).

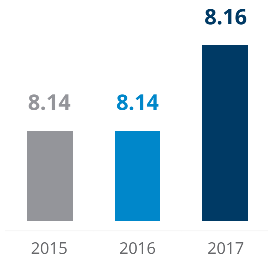
Tienes la Palabra (You Have Your Say) is the tool we offer to the teams annually to measure our work environment, their commitment to the company and culture. It is an open participation space where our employees can express their sincere, direct, anonymous and confidential opinions on topics of relevance to their work and the company.

Its results help us to implement improvement actions to create a stimulating and motivating work environment that fits in with our values and focuses on making both the brand promise for our customers and the promise of experience for our contributors a reality.

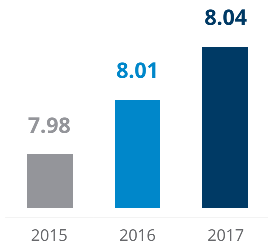
SATISFACTION



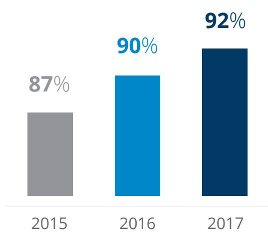
MOTIVATION



INTERNAL COMMUNICATION



PARTICIPATION *"TIENES LA PALABRA" (YOU HAVE YOUR SAY)*



TALENT

At Meliá, the development opportunities for people fit in with our own growth and needs as a company.

We offer our employees tools so that they can take an active part in setting their own action plan, have an ongoing dialogue with their supervisor and receive the guidance they need to bolster their training and internal mobility.

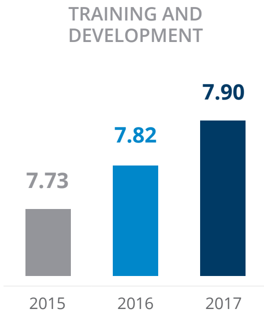
NEW EMPLOYEE PORTAL

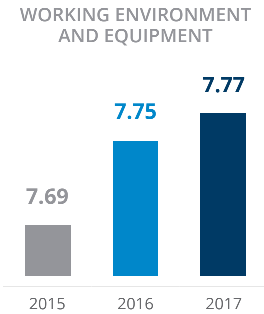
This tool will incorporate knowledge communities to facilitate access to collaborative work tools among our teams and in turn improve their ties to the company.

The design will be more up-to-date and responsive. It will be launched worldwide during the first half of 2018.

As an essential complement to the Meliá experience, contributors will also have the opportunity to move to new positions, take on new roles and challenges, and have access to new opportunities and mobility offered by Meliá.

As a growing international company, we encourage our contributors to explore, live through and acquire experiences on a global level.





SHARE YOUR WISDOM

Launched this year, this initiative seeks to capture, maintain and spread our know-how.

It has become a key lever for fomenting the exchange of knowledge and reinforcing our values. We will be able to foster recognition among our employees and have a group of internal trainers who can share their routine work and experience with the rest of the company.

In addition, we can identify areas of interest in which to implement future training actions.

All the content, which is organised by topic, has been included in our eMeliá internal training platform.

23
Knowledge videos

517
Downloads

+1,980
Views

Share your Wisdom

TRANSFORMATION OF PROFILES

"MELIÁ STARRING YOU"

+850

Participants in *Melia Starring You*

One of the projects highlighted this year has been the launch of Meliá Starring You, our Leadership Programme. This programme was created to promote the leaders the future demands.

With this programme we aim to promote recognition, results-orientation, our leadership profile, the management of diversity and the transmission of our values.

This first phase has directly involved more than 850 employees, including Hotel Managers and Deputy Managers, Corporate Directors and Managers. In the coming years, its momentum and scope will be expanded.

In 2018, we will be making digital tools available to this group for their promotion;

Insights Discovery, a self-knowledge and interrelationships model

StarMeUp, an application that permits recognition between employees and a catalogue of key behaviours for leaders with their teams.

The project will have awareness, coaching and mentoring sessions, face-to-face training sessions and group tutorials.

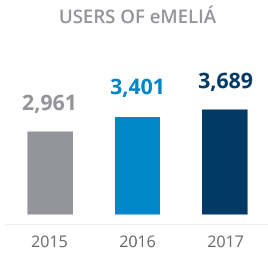
+1,000

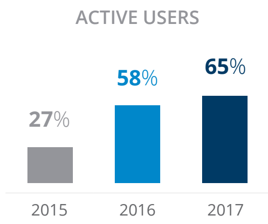
Participants in *Change Makers*

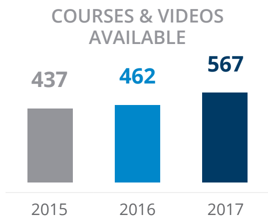
CHANGE MAKERS

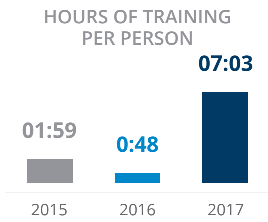
While in the midst of transformation and progress towards digitalising sales (B2C & B2B), we launched *Change Makers*. This programme, which has a global focus, is based on training and mobilising the employees themselves.

Aimed at a group of more than 1,000 people with different profiles, responsibilities and roles in the company, it promotes the positive transformation and empowerment of the digital participants by bringing about changes that will reinforce the digital transformation of all Meliá's routine business processes.









eMELIÁ AT THE SERVICE OF PEOPLE

Two years ago we launched our knowledge and learning platform, called eMeliá.

With this platform we sought to bring the company's continuing training tools closer to our employees.

In two years we have managed to position eMeliá internally as a key lever in the search for efficiency, since we have provided our employees with an essential channel for their training, evolution and knowledge about the company.

The digitalisation of Meliá training has had an excellent reception from our teams, because of the quality of the content and the flexibility and dynamic way in which they can be accessed and used.

In addition to improving productivity and boosting internal knowledge, we have been able to use this analytical platform to increase dissemination and improve areas such as management control, sales & marketing, brand management, legal & compliance, in addition to distributing and translating into several languages more than 60 corporate procedure manuals. We are working on new content and specific areas to bring total access to information and targeted training.

These advances are the embodiment of an innovative philosophy, methodology and training that will strengthen the Employee Centricity to which we are committed. We want the learning experience at Meliá to be unique.

At Meliá, we consider it essential that all employees take on a proactive role in their own training and can be directly involved in meeting their own needs for continuous self-learning that meets their expectations and motivations.

eMELIÁ LINES OF LEARNING

eMELIÁ MY COMPANY

Support in
EXPANSION

First, we need to know ourselves

Content that applies to all jobs worldwide. Meliá differentiation

Focused on compliance with:

- Strategic objectives
- Legal requirements
- Knowledge specific to the company.

eMELIÁ MY PERFORMANCE

Support in
DEVELOPMENT

Decide on your professional improvement

Training programmes to develop competencies evaluated in Performance Management

eMELIÁ MY WAY

Support in
CONTINUOUS IMPROVEMENT

Learn at your own pace

Unlimited access learning environment with content tailored to the needs expressed by employees

eMELIÁ MY ACADEMY

Support in
SPECIALISATION

Specialise at Meliá academies

Training plans aimed at key or critical groups

Professional know-how

ATTRACTION OF TALENT AND EMPLOYABILITY

It is just as important for us to take care of and develop our current teams as it is to hire the best young talent that wants to join a company in constant growth and with opportunities for international development. We design our proposal to attract the best. At Meliá we leverage our reputation and brand strength to make our proposal known to the talent. That is why we approach, maintain direct dialogue with and introduce ourselves through the most appropriate environments and platforms, universities and specialist centres.

Our experience, acquired over more than 60 years, allows us to offer excellent opportunities in a highly dynamic environment and at a company in which diversity is a differentiating factor. Our company is made up of professionals from more than 125 countries.

These elements, together with a widespread international presence, continuous growth and an excellent reputation, combined with solid valuesthat place people at the centre, round out our value proposition for people.

This combination has allowed us to be recognised this year by the university community as one of the most attractive companies to work for, according to Universum (7th position), Merco Talent (16th position) and Merco University (22nd position).

The positive perception of Meliá is the result of a clear commitment to identifying talent in the foremost academic environments. We have signed more than 300 cooperation agreements with educational institutions in areas such as research, knowledge sharing, studies, scholarships, training and, of course, recruitment. Although direct work with local organisations is essential for us given their proximity to our international business units, we have identified 23 universities that we consider to be strategic for different reasons. This year we signed cooperation agreements with 81% of them.

Our relations with universities are essential for us because of their proximity to students, and the social networks serve as a direct channel through which to announce job opportunities and establish a direct dialogue with potential applicants, permitting clear communications that fit in with our employment and recruitment brand strategy. Our profiles on Twitter, LinkedIn and Hosco underwent a very positive evolution in 2017. Next year we will be including Instagram to reinforce this strategy.

7/100
Universum Position

16/100
Merco Talent Position

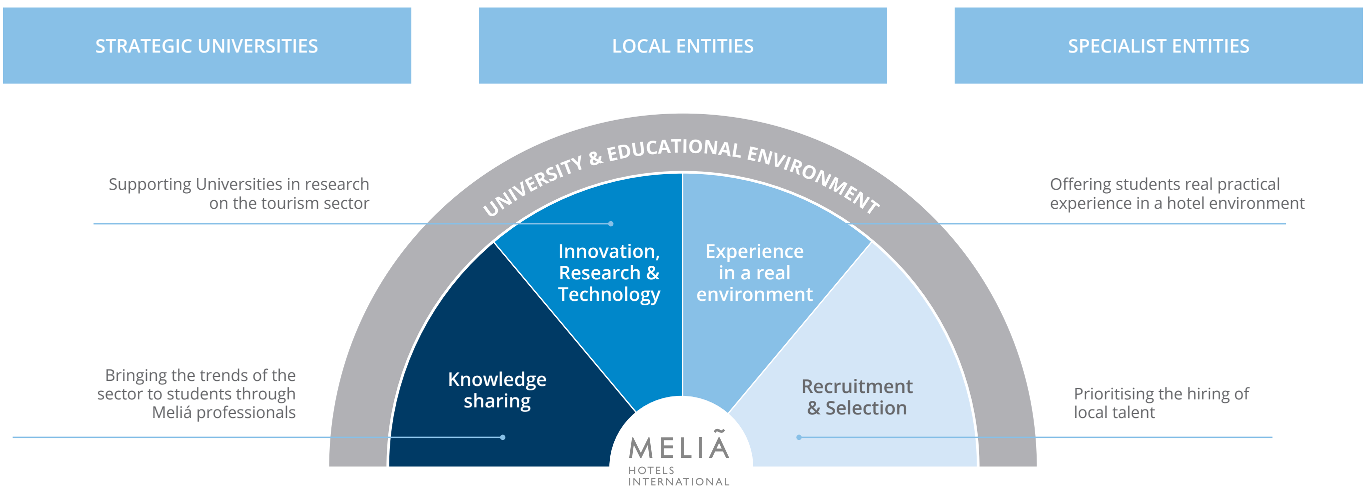
22/100
Merco Universities Position

+300
Academic agreements

80%
Strategic university agreements

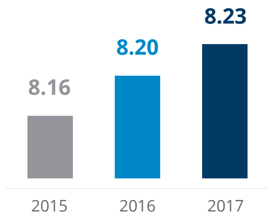
+148K followers	+43% vs 2016
+6,100 followers	+43% vs 2016
+67K followers	+1,130% vs 2016

TALENT ATTRACTION AND EMPLOYABILITY BOOSTING MODEL



OPPORTUNITIES FOR DEVELOPMENT AND SOCIAL AND OCCUPATIONAL INTEGRATION

CSR ASSESSMENT

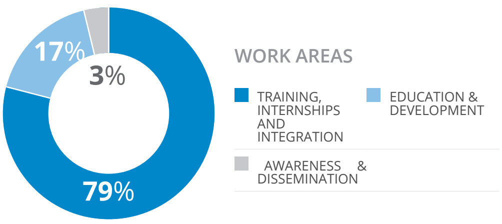


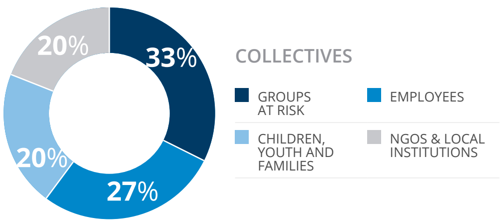
Together with our allies we seek to generate shared value with society. We therefore pay special attention to groups at risk of exclusion.

One of the pillars on which our global Corporate Responsibility strategy is based is social employability, in order to provide future opportunities in the tourism sector for these groups. In addition, there is an excellent niche of talent in the social sector to fill the new demand for employees and we hope to contribute to fostering it.

We work collaboratively on a platform with benchmark organisations to activate projects that focus on promoting the employability and social and occupational integration of at-risk youth by improving their skills and abilities beyond technical and theoretical training.

We share with them our knowledge, spaces, a real learning environment and, for many of them, an opportunity for actual work.





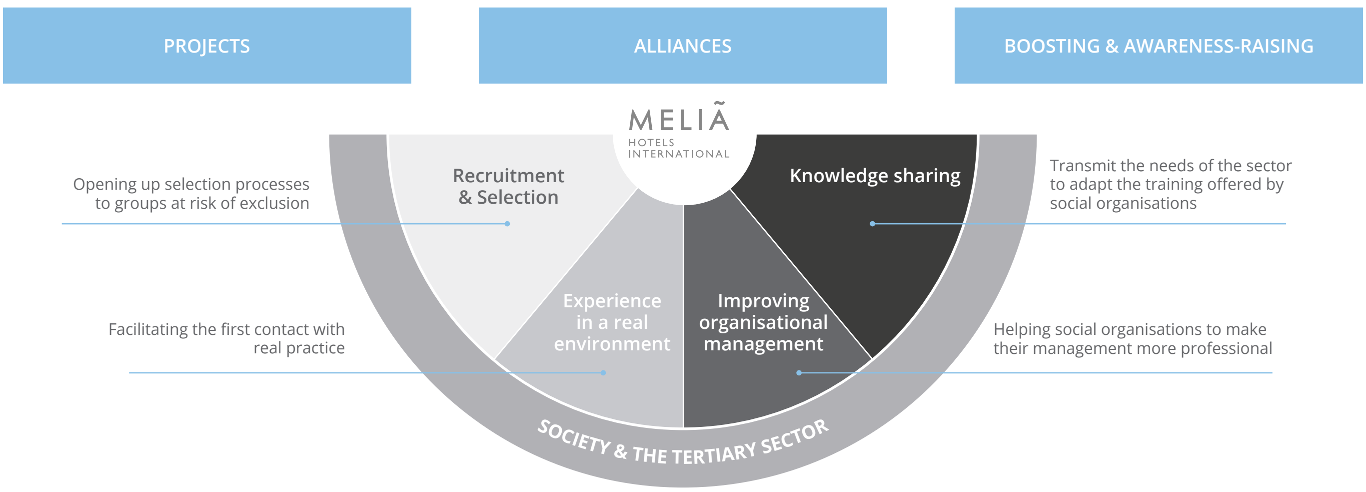
331
Initiatives promoted in hotels

+5,800
Beneficiaries

143
Social entities

+€434 K
Economic valuation

TALENT ATTRACTION AND EMPLOYABILITY BOOSTING MODEL



GRI 201-2

The Environment

Climate change and global warming are already part of the international public agenda. Environmental protection demands an unrelenting commitment.

We are aware that our activities should contribute to protecting the destinations in which we operate far beyond the simple reduction or mitigation of the impact of our operations.

According to the World Economic Forum, this year climate change has dominated the global risk landscape, which is why the tourism industry is directly affected, given its dependence on the quality of the destinations and the weather.

Climate change was considered a risk of special importance in the 12th edition of the *The Global Risks Report 2017* and is classified as a high risk and high probability, with extreme weather events emerging as a major risk worldwide. The weather-related risks were obvious in the south of the United States and the Caribbean, as our hotels were affected by three hurricanes in August and September 2017.

In 2017, the Meliá Board of Directors approved our Environmental Policy, in order to advance in line with the new approaches, strategies and context of climate change. The approaches in this new policy were previously included in the Global Sustainability Policy.

RISKS FROM CLIMATE CHANGE

	EXTREME WEATHER PHENOMENA AND DEVASTATING NATURAL DISASTERS	FAILURE TO MITIGATE ITS IMPACT AND ADAPT TO CLIMATE CHANGE	LOSS OF BIODIVERSITY AND COLLAPSE OF THE MARINE AND TERRESTRIAL ECOSYSTEM	DAMAGE CAUSED BY HUMAN AND INDUSTRIAL ACTIVITY
IMPACT	Impact on infrastructure Environmental damage Loss of human lives, quality of life and living conditions Increase in poverty levels	Lack of commitment Lack of effective measures to mitigate the impact of climate change Direct impact on communities Need for adaptation	Irreversible consequences for the environment Depletion of resources Limiting factor for the creation of wealth at destinations	Lack of prevention Environmental crimes Negative impact on health, infrastructure, economic activities and the environment
MITIGATION / PREVENTION	Hotel design with preventive approaches Preventive management of weather phenomena	Inclusion of efficiency criteria and low impact in the design or refurbishing of hotels Clear commitments to the Sustainable Development Goals Awareness-raising for stakeholders Definition of comprehensive action plans in line with business models and climate change	Protection of natural environments and ecosystems Boosting the circular economy Design of sustainable, low impact products and solutions Promotion of a responsible supply chain	Measuring impact for its mitigation or reduction Development of comprehensive programmes for the efficient management of natural resources Waste management

Source: World Economic Forum, own analysis

GRI 413-1

CONTRIBUTION OF MELIÁ HOTELS INTERNATIONAL

We want to contribute to preserving the environment and landscape by monitoring the impact of our activities and promoting an awareness of sustainability among all our stakeholders. This commitment has been strengthened by our new Environmental Policy.

As a result, our concern as a hotel company regarding the negative effects of the operation reaches into all aspects of tourist activity. We place a special emphasis on measuring the greenhouse gas emissions generated by our hotel activities: energy consumption in hotels, efficient management to help to cut water consumption, a constant decrease in our dependence on fossil fuels and, of course, the management of the waste generated by the purchasing function.

We are working to promote a hotel management model that makes positive advances towards reducing its impact on the climate and the destinations. We are committed to innovation and technology to improve our efficiency ratios and responsible management of resource consumption, by lowering emissions and raising awareness of sustainable mobility alternatives and respect for the biodiversity of our destinations.

We keep in mind that our customers' motivation, concern for and sensitivity to environmental issues is always growing. We are aware that our customers play an essential role in our journey to more sustainable, responsible hotel management. That is why we work to involve them. This fact takes on a special relevance in emerging destinations and developing countries, where protecting the environment and the surroundings offers a clear competitive advantage.

The sustainable management model under which we work aims to contribute actively and respond not only to our environmental commitments but also to our progress on the Sustainable Development Goals (SDGs), for which we have set some specific objectives.

382
Initiatives promoted in hotels

+31 K
Customers involved

153
Institutions

+€444 K
Economic valuation

MAIN LINES OF WORK IN THE ENVIRONMENT

MEASUREMENT & CONTROL

Measuring impact for its mitigation or reduction

RESPONSIBLE USE OF RESOURCES

Contracting certified renewable energy

Waste management

Standardisation of efficient systems and products

INNOVATION & TECHNOLOGY

Investments focusing on energy savings and efficiency

Sustainable mobility

Strategic alliances with suppliers

AWARENESS-RAISING & COMMUNICATION

Awareness-raising, training and reputation

Certified sustainable management model (ISO 50001)

MEASUREMENT FOR MANAGEMENT

Making progress on this commitment requires the constant management and monitoring of our level of resource consumption. To achieve this, we have made energy efficiency and responsible consumption programmes a part of our business model.

The SAVE Project, now in operation for over 10 years after being developed in-house by our technical teams, is the benchmark programme with which we work. The programme regularly monitors and measures energy and water consumption. In addition, it allows us to train our employees in matters related to this issue.

This year we reinforced our sustainable standards. The SAVE programme continues to be an important tool for the control, management and reduction of CO_2 emissions.

Sustainable design and construction Responsible investment

Strategic alliances with benchmark partners

Monitoring of the operation in terms of management and efficiency

Identification of management improvement opportunities

Active involvement of stakeholders

Industry leadership

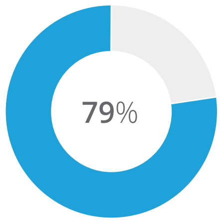
Training for responsible business management

New models, systems and applicable products

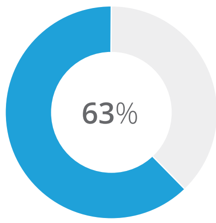
Incorporation of best practices

Constant, active innovation

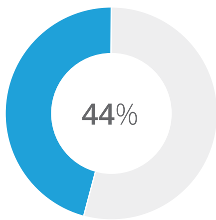
INTEGRATED SAVE PORTFOLIO



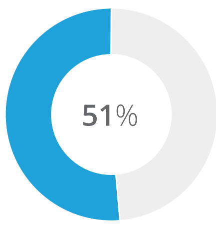
PORTFOLIO WITH CUSTOMER AWARENESS-RAISING



WORKFORCE TRAINED IN RESPONSIBLE MANAGEMENT



PORTFOLIO WITH CERTIFIED RENEWABLE ENERGY



ADVANCES IN 2017

▼ 12.64% KCO_2/stay

▼ 8,14% m^3/stay

CHALLENGES IN 2018

▼ 7% m3/stay

▲ 10% SAVE hotels

Set internal €/KCO2

Comparison 2012-2017 vs 2007-2011

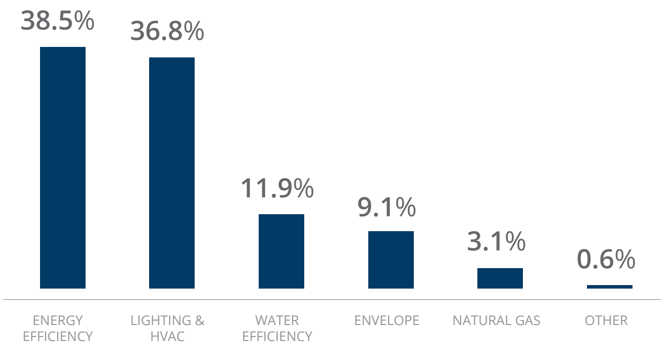
DIRECT INVESTMENT

In 2017, we invested over €3.54 million in improving building facilities and envelopes, with the aim of reducing the demand for energy and water of our hotels. The investments in savings and energy efficiency are listed below.

€3.54 million

Invested

DIRECT INVESTMENT IN SAVINGS MEASURES (ENERGY AND WATER)



ESCO MODELS

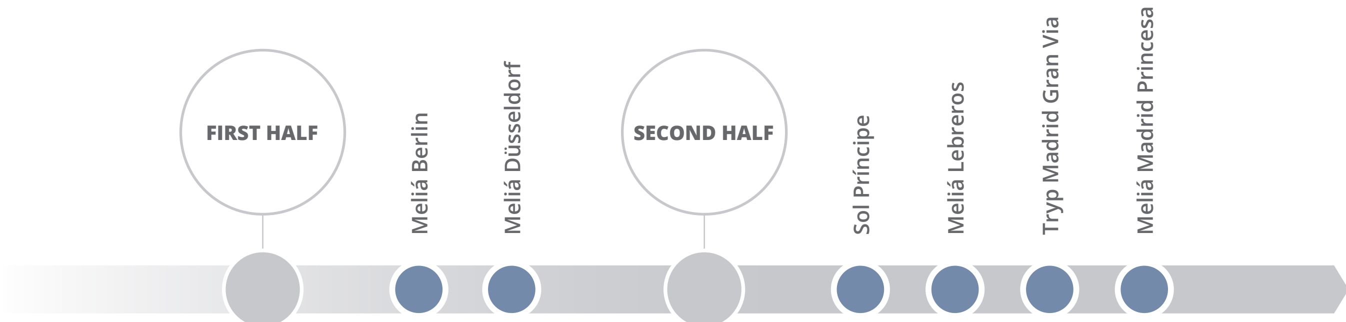
In recent years we have been working on energy saving projects through collaborations with Energy Service Companies (ESCO). Because of this, leading companies in the field of energy savings and efficiency have worked with us on our strategy to reduce energy consumption and greenhouse gas emissions. In the first half of the year, two energy improvement projects were started in the EMEA region (Meliá Berlin and Meliá Dusseldorf). These actions resulted in savings of more than €38,488, as well as a reduction in CO_2 emissions estimated at 143,202 kg Tn CO_2 during 2017.

As a result of the favourable results of these projects for the second half-year, we set up new collaboration agreements with other companies, including Telefónica and Indoorclima, and the latter now has an ESCO project in operation at the Meliá Sitges hotel. Both these companies have begun studies at a number of hotels on setting up ongoing monitoring of the buildings' main energy demands so as to analyse the improvements that can be made in energy savings and efficiency, and the investment needed.

The measures implemented at the beginning of the project are continuing to provide us with tangible results on how to reduce our energy expenditure and the group's carbon footprint.

The actions undertaken have permitted a reduction in energy consumption equivalent to €20,248 per year and an impact on CO_2 reductions of around 221,612 kg CO_2.

ENERGY-SAVING MEASURES IMPLEMENTED
Hotel energy control/monitoring
Implementation of software control/management for chillers. Technical and energy control
Climate secondary ring control using set-point variation
Control of cold rooms
Methodology of daily consumption control using daily emails
Implementation of hourly alarms for consumption in 4 sectors
Methodology of switching lights off and on

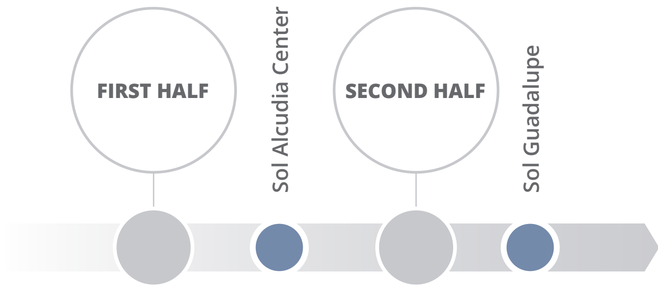


By monitoring and controlling the facilities we can monitor the performance of our equipment and facilities, which in turn allows us to identify further possible savings and track our energy optimisation initiatives.

We also proposed new collaborations at the Meliá Lebreros and Sol Príncipe hotels with the aim of upgrading the existing air conditioning installations.

At the Sol Alcudia Center and Sol Guadalupe hotels we analysed and implemented actions to upgrade the heating equipment and change the fuel to natural gas, which is less polluting and gives better performance than the existing fuels.

These actions will mean a reduction in consumption of 31% (Sol Alcudia Center) and 30% (Sol Guadalupe), the equivalent of 30,653 kgCO_2 and 54,528 kg CO_2, respectively.



HOTEL	SOURCE	CONSUMPTION AVOIDED (kWh)	SAVINGS (€)	EMISSIONS AVOIDED (kg CO_2)
MELIÁ BERLIN	Electricity	117,141	18,743	79,656
	DH	76,033	3,041	22,278
MELIÁ DUSSELDORF	Electricity	93,450	14,952	63,546
	DH	44,206	1,752	12,952
TOTAL		330,830	38,488	178,432

ADVANCES IN 2017

€3.54 million invested

8 ESCO projects

CHALLENGES IN 2018

Incorporate environmental attributes into investment criteria

Design an investment tool based on environmental criteria

ENERGY PROCUREMENT

We are committed to procuring energy with a certified renewable origin.

Currently, the markets in which we are managing purchasing along these lines are Spain and Italy. We plan to extend it progressively to all the markets in which we have critical mass.

We want to be able to access competitive energy prices and ensure that this strategy is fits in with our target of 70% green energy consumption by 2020.

We have therefore renewed our agreements for the purchase of electricity in Spain and Italy, with the aim that all our hotels and corporate offices will use 100% renewable electricity until the end of 2018, in the case of Spain, and 2019, in the case of Italy.

In addition, in Germany, we have signed a framework agreement that will allow us to reduce the costs of access to energy by 5% (electricity and natural gas).

WASTE MANAGEMENT

We want to reduce the environmental impact on the environment of the waste we generate. We have set a goal for 2018 of reducing the amount of light packaging, such as plastics, soft drink cans and product packaging, through improvements in our purchasing processes.

Our goal for 2020, which is in line with the objective of the European Waste Directive and the Spanish Royal Decree, is that 50% of the mass of waste generated in our hotels will be separated so that it can be recycled.

We launched an initiative to promote and implement actions to raise awareness about waste management. We released a statement to raise awareness among our employees about the importance of managing their household waste as efficiently as possible.

In addition, we informed our employees about how we manage selective collection in the hotels that belong to the SAVE Projects, the progress made and the goals we have set for 2020, following the European Union objectives.

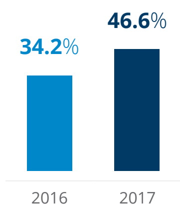
+51%

Certified Renewable Energy Portfolio

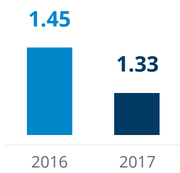
70%

Green Energy in 2020

WASTE RECYCLING



WASTE / STAY (kg)



ADVANCES IN 2017

51.32% of the portfolio with certified renewable energy in Spain and Italy

Waste monitoring in **62** hotels (**+24**% on target)

Pilot test of plastic reduction

CHALLENGES IN 2018

54% of the portfolio with certified renewable energy in Spain, Italy, UK and France

Waste monitoring goal at **100**% of SAVE hotels in Spain

Consolidation of plastic reduction project

Definition of a significant spills protocol

SUSTAINABLE HOSPITALITY MODEL

ISO 50001 CERTIFICATION

This year we obtained ISO 50001 certification for our Energy Management System, endorsing its proper implementation at the Gran Meliá Fénix hotel in Madrid.

ISO 50001 is an international standard that is voluntary and is a useful tool for improving the energy performance of organisations, complying with current energy legislation, reducing emissions of polluting gases that cause climate change and ensuring continuous improvement after implementing the improvement actions identified in the organisation's energy management.

In its conclusions, Bureau Veritas, which carried out the audit, highlighted *"the achievement of improving energy performance with measurable results for energy efficiency, use and consumption"*. The report also noted as a strong point the tools we have developed to improve our energy management. Our management system is based on the new Environmental Policy approved by our Board of Directors in February this year. It is closely linked with our company's global environmental principles and the commitments we have made on environmental issues. The system provides us with a suitable framework under which to establish and review energy saving and efficiency objectives and to transfer the model to the different hotels.

ADVANCES IN 2017	ISO 50001

CHALLENGE IN 2018	ISO 14001

CDP – CARBON DISCLOSURE PROJECT

For the second year in a row, in 2017 the Carbon Disclosure Project index gave a very positive rating to our strategy for the fight against climate change and the progress made in the commitments acquired after the Paris Summit 2015 (COP21). Meliá was considered the leading company in this field in the Spanish tourism industry (Score A-).

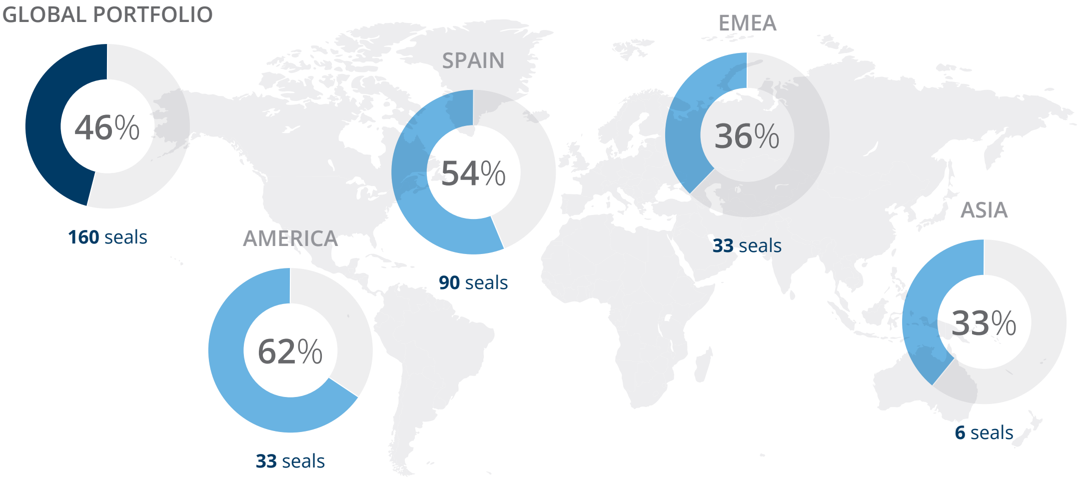
CERTIFICATIONS IN SUSTAINABLE TOURISM

Our business model is based on ensuring the financial viability of the company and on making constant progress in incorporating responsible criteria into our hotel business processes. In addition to continuing this sustainable integration, our aim is for the model to be certified as responsible tourism by external bodies that are expert in this field as applied to our industry.

We are working with the major international certification bodies that, backed by the Global Sustainable Tourism Council, such as Earthcheck and Travelife, concentrate on sustainable tourism. Having external endorsement gives consistency to our approach and reinforces our corporate reputation. We also have other seals for tourism, such as Biosphere and GreenLeaders (Tripadvisor).

Having external recognition is vital for us, as it allows us to become closer to our stakeholders by informing them of our advances in this area. It is of special importance for us because one of the key materiality issues reported by our stakeholders has a direct relationship with sustainability, climate change and our public commitments to protecting the environment.

PORTFOLIO CERTIFIED IN SUSTAINABILITY



GRI 305-1 / GRI 305-2 / GRI 305-3 / GRI 305-5

CARBON FOOTPRINT

CDP
DRIVING SUSTAINABLE ECONOMIES

Meliá Hotels International continues to lead the fight against climate change in the tourism industry

Score A-

MELIÁ HOTELS INTERNATIONAL CARBON FOOTPRINT

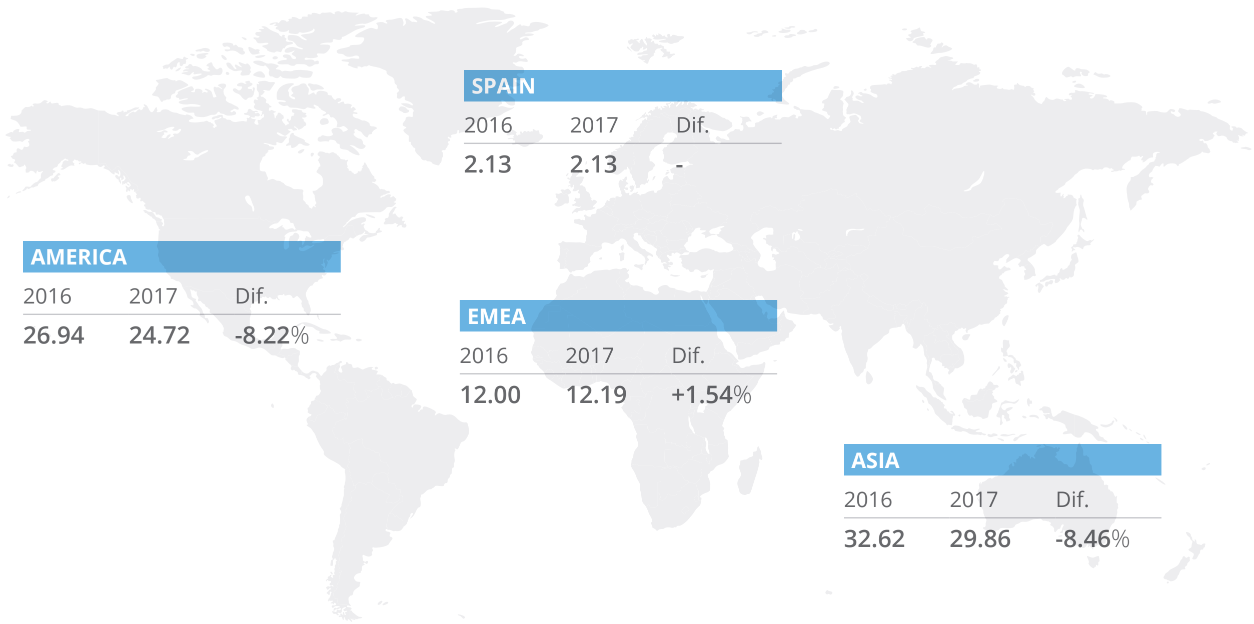
Scopes (tCO_2)	**2017**	**2016**	**2015**
Scope 1	48,539	48,002	47,945
Scope 2	154,955	165,645	163,905
Scope 3	54,832	59,936	56,079
TOTAL	**258,326**	**273,583**	**267,929**

Scope 3: Includes emissions from waste management in Spain and transporting employees to their places of work and business trips.

CO_2 EMISSIONS GEOGRAPHICAL AREAS (kg/stay, Scope 1+2)

GLOBAL

2016	2017	Dif.
9.76	9.40	-3.63%



SPAIN

2016	2017	Dif.
2.13	2.13	-

AMERICA

2016	2017	Dif.
26.94	24.72	-8.22%

EMEA

2016	2017	Dif.
12.00	12.19	+1.54%

ASIA

2016	2017	Dif.
32.62	29.86	-8.46%

GRI 302-4 / GRI 302-5

ENVIRONMENTAL INDICATORS

Main figures for emissions reduction (Scope 1 + 2)

	Average 2012-2017	Average 2012-2017 vs 2007-2011	Average 2007-2011
CO_2 emissions (kg)	233,233,762	-7.07%	250,978,397
Per Stay (kg)	13.17	-12.64%	15.07

Main figures for water consumption reduction

	Average 2012-2017	Average 2012-2017 vs 2007-2011	Average 2007-2011
Water Consumption (m^3)	8,965,256	-2.30%	9,175,972
Per Stay (m^3)	0.51	-8.14%	0.55

Main figures for water consumption reduction

	Average 2012-2017	Average 2012-2017 vs 2007-2011	Average 2007-2011
D. Cooling (kWh)	42,705,903	6,303.23%	666,943
D. Heating (kWh)	26,675,870	94.26%	13,732,194
Propane (kg)	3,775,527	-14.17%	4,398,650
Natural Gas (m^3)	9,406,027	12.78%	8,340,065
Diesel (l)	5,979,461	-35.80%	9,314,065

Main figures for water consumption reduction

	Average 2012-2017	Average 2012-2017 vs 2007-2011	Average 2007-2011
Electricity Consumption (kWh)	17,709,440	6.37%	16,648,384
Per Stay (kWh)	20.76	-13.10%	23.89

COMMITMENTS FOR 2018

OPTIMISING THE ENERGY AND ENVIRONMENTAL SAVINGS MEASUREMENT SYSTEM

We currently calculate our emissions and energy savings using stays as the main variable. In 2018 we will launch a project setting baselines per hotel and energy source.

This type of calculation is based on the methodology of the International Performance Measurement and Verification Protocol (IPMVP) of the Efficiency Valuation Organization (EVO). Its ultimate purpose will be to analyse the energy performance of each hotel taking into account other significant variables, such as temperature and occupancy. In addition, the tool will facilitate the budgeting of hotel energy consumption.

REDUCTION OF LIGHT PACKAGING WASTE

We aim to reduce the environmental impact of waste. Therefore, in 2018 we will continue to explore alternatives so as to reduce light packaging, such as plastics, soft drink cans and product packaging, by improving our purchasing process.

WASTE MANAGEMENT

We will continue to log the waste at all the company's hotels, with the purpose of reducing it and reaching 50% selective collection.

HOTEL PORTFOLIO CERTIFIED FOR SUSTAINABILITY

In 2018 we want 52% of the portfolio to have an external sustainability certificate to support the integration of the criteria and advances we are promoting at our hotels.

AWARENESS-RAISING AND DISSEMINATION OF COMMITMENTS

We will foster an internal knowledge of our new Environmental Policy and we will continue to participate in important environmental forums, where we will share our best practices, advances and commitments.

SUSTAINABLE DEVELOPMENT GOALS & COMMITMENTS FOR 2020

Cut **8**% off water consumption per stay

Supply **54**% of the portfolio with renewable energy

Reach **70**% of electricity consumption with a certified renewable origin

Achieve **50**% selective waste collection

Set the internal price of carbon

Cut **18.4**% off CO_2 emissions per stay

GRI 203-1

Calviá Beach 2017, a success story

After being notable during the development of European holiday tourism in the 1960s and becoming its leader in the 1970s and 1980s, a progressive decline began due to the commitment made to short-term business with little added value and, as a result, little local impact. By 2010, the degradation of the area had affected not only the quality of the hotels and its commercial offering but the destination as a whole.

In addition to the situation at the destination in regard to tourism, we were facing a serious economic crisis. Despite these circumstances, Meliá decided to make a commitment to the destination, to renovate and transform it in order to reposition it as an attractive, innovative, quality destination with a positive impact.

Our aim in taking this strategic decision was to get out of the vicious circle of negative impact experienced by the destination and move towards a virtuous loop that would transform the destination.

The project required significant investment, commitment, determination, expertise and leadership. Without a doubt, it was a great challenge. As references, we used similar processes that had already been carried out in Miami Beach and Barcelona.

As we were well aware of the scale of the project, we decided to promote a strategy that would unite and motivate all the stakeholders, from the hotel sector itself to the local authorities, the government of the Autonomous Region and the other sectors in the area.

The investment required a detailed, four-stage investment plan that would take six years and involve an estimated investment of €190 million. The presentation of the project, a pioneer in Spain, was declared a "Project of Regional Interest" in 2011. It had the backing and support of high-level public institutions and the support of the administration to expedite the necessary procedures and the updating of public spaces and promenades.

Between 2012 and 2015 the beach was improved, the process of attracting international brands began, two new hotels opened, the ME Mallorca and Sol Wave House, with benchmark partners like Avenue Capital and Starwood Capital Group, and we proceeded to revive our hotel portfolio.

In 2016 we faced new challenges, such as renovating the old, emblematic hotel Sol Antillas, now called the Meliá Calviá Beach, and rebranding it with the Meliá Hotels & Resorts brand, and demolishing the Sol Jamaica hotel.

In 2017 we started to build a new hotel, the Sol House The Plaza (formerly the Jamaica), which was vital for revitalising the Avenida de Magaluf, one block from the seafront. In addition, the construction of the Momentum Plaza, a shopping centre on the Calviá coast surrounded by some of the best residential areas in Mallorca, has also begun. This development aims to become the best offer of leisure, fashion and quality restoration in Calviá.

This project is the result of public-private collaboration for the definitive transformation of Magaluf, with a firm commitment to family and adult tourism, as well as the ongoing renewal of hotel offerings and facilities, supported by municipal and regional official bodies.

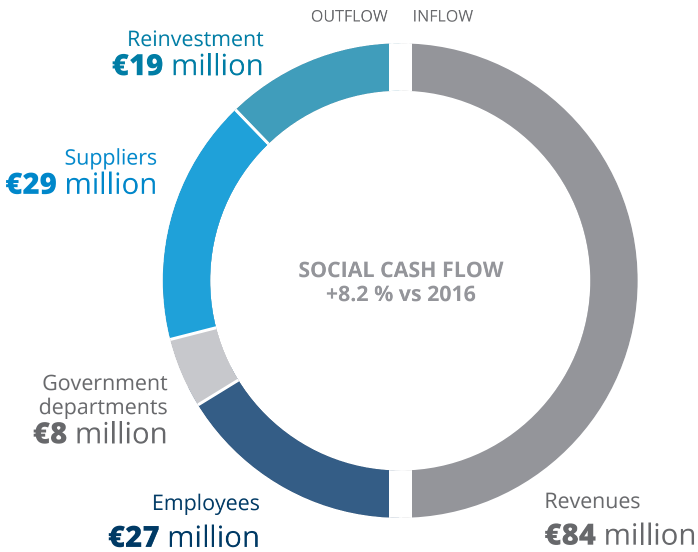
TRANSFORMATION OF THE SITUATION IN MAGALUF

"From the vicious circle to the virtuous loop"

GRI 203-2

CALVIÁ BEACH, SOCIAL CASH FLOW

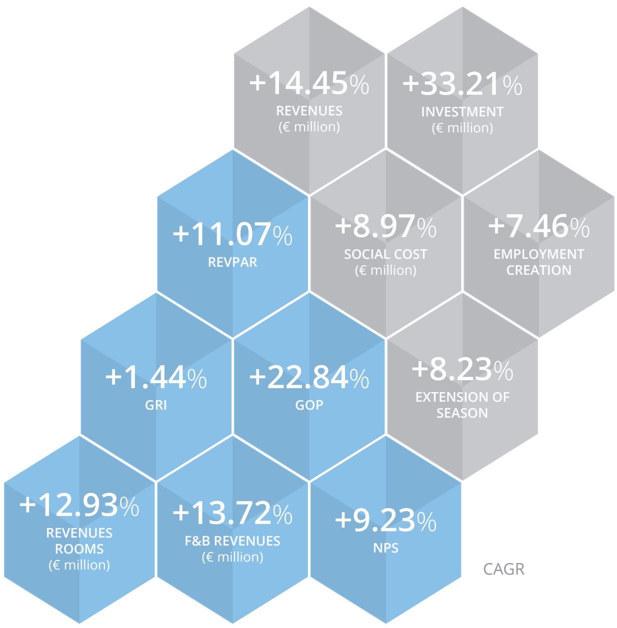
The profits from this destination have been ploughed back into Calviá Beach. Year after year this has led to improvements and made an impact on the various stakeholders, including a highly positive effect on long-term environmental sustainability and on the generation of wealth in the local community.



EVOLUTION OF THE MAIN FIGURES (2011-2017)

The Calviá Beach development is allowing the destination to be promoted from the viewpoint of sustainable socioeconomic growth for the area as it is:

- Updating and innovating the hotel product
- Improving the quality of the hotels through prices and occupancy
- Attracting new segments and markets
- Promoting complementary shopping and leisure opportunities that fit the new destination, are innovative and offer well-known brands
- Promoting a clear long-term strategy
- Adapting the infrastructure and comprehensive urban planning
- Bringing the development into line with the new tourism model
- Consolidating an urban management model



PROMOTING DUAL TRAINING AND EMPLOYABILITY (2ND EDITION)

After the excellent reception and results of the 1st Dual Training initiative with Amadip Esment, in 2017 we continued a training model that combines technical and practical work in a real environment. We want to continue to offer opportunities to young people who do not have suitable training or work experience.

This initiative also makes society aware of the need for the promotion of technical training models that respond to social challenges and needs. Initiatives like this one are real engines of competitiveness to combat the high rates of unemployment and academic failure in Spain.

12
Participants FP DUAL 2017

29
Participant in dual training 2018

Esment Escola Professional

Corporate Governance

At Meliá Hotels International, we continue to promote a Corporate Governance model that improves our performance guided by the criteria of transparency, rigour and responsible behaviour, to strengthen our sustainable growth and increase the trust of all our stakeholders

MELIÁ CAM RANH BAY | VIETNAM

GRI 102-18 / GRI 102-19

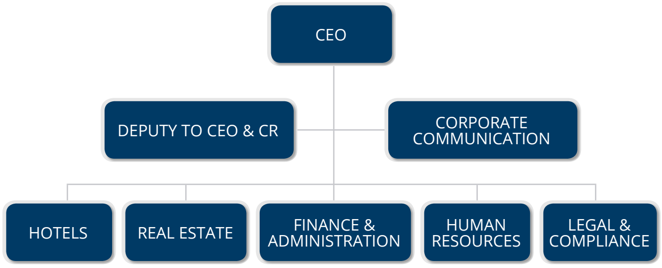
Corporate structure

Among the activities that we carry out at Meliá Hotels International and our subsidiary companies is to highlight those that focus on the exploitation of our owned, leased, managed or franchised hotels and the operations of the holiday club.

Some group companies carry out real estate activities, taking advantage of the synergies offered by hotel developments within the framework of the expansion process.

Our current organisational model, implemented in 2013 and called *Competing by Design*, is based on the decentralisation of operational functions and operational support. Our aim is to provide the business with greater autonomy and more agile decision-making, while enhancing proximity to the customer.

Below, we list the operational departments that make up our organisational structure and whose results are reviewed by the highest decision-making authority.



MAIN MISSION OF THE DIVISIONS

HOTELS

Leads the hotel and business operations of Vacation Club of the Company, as well as the management, innovation and development of the Group's brand portfolio. It is also responsible for the Development of the Company and the Marketing and Distribution Departments

REAL ESTATE

It is responsible for the management of the real estate portfolio, management of own assets, works management, company maintenance and purchasing at the global level and the management of the group's alliances and joint ventures

HUMAN RESOURCES

Heads the departments of Organisation & Compensation, Global Human Resources (Corporate/Hotels), Labour Relations, Occupational Health and Personnel Administration. In addition, this division oversees the implementation of the Human Resources functions in the group's Regional divisions

FINANCE & ADMINISTRATION

Heads the functions of Management Control, Business Intelligence, Investor Relations, Finance, Insurance, Administration, Tax, Information Technology and Group Reporting.

LEGAL & COMPLIANCE

Heads the group's legal advisory services, Corporate Governance and all issues relating to regulatory compliance. Also, among its main functions are the identification of risks, analysis of statutory and regulatory changes and determination of preventive and corrective measures, among others.

Corporate governance

As a company that has been listed since 1996, at Meliá Hotels International we have promoted the progressive implementation of the recommendations of the Good Governance Code of Listed Companies in Spain in our Corporate Governance model. In addition to consolidating this model, each year we provide it with greater strength.

We also manage our tourism activity based on the principles of transparency, ethics, diligence and separation of functions between the management bodies, both in decision-making and in execution, control and monitoring.

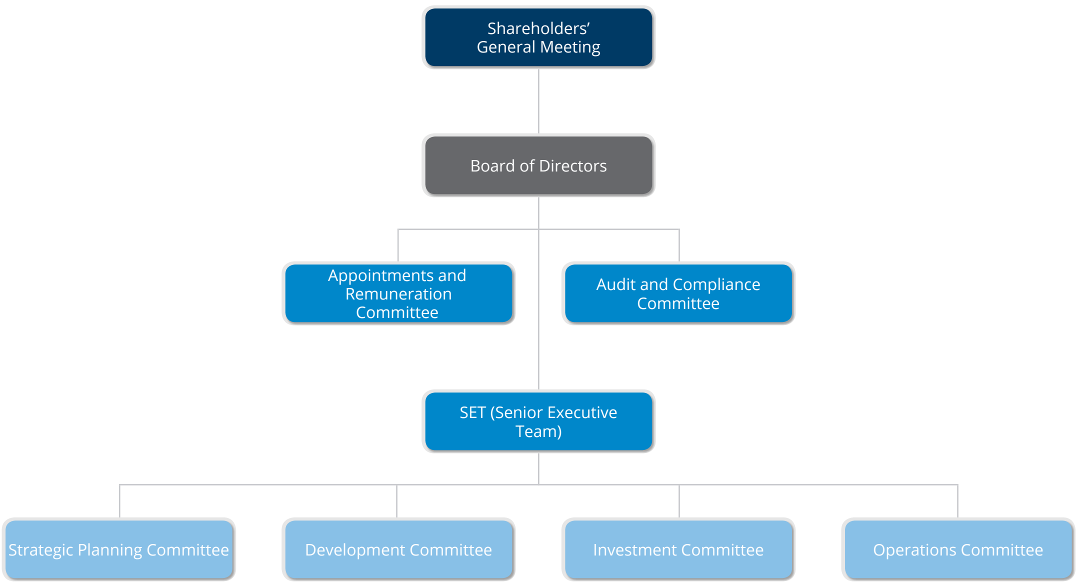
The fact of having a hierarchical, transparent and clearly established framework for the adoption and execution of decisions reinforces our medium- and long-term visions, ensuring the sustainability of our activity, the fulfilment of the expectations of our stakeholders and the generation of economic and social value from our commitment and corporate values: dedication to service, excellence, innovation, proximity and consistency.

Our Corporate Governance model sets guidelines for performance and conduct that conform to the principles, commitments and lines of action defined in the Policies, Internal Rules and Code of Ethics.

In the same way, we highlight the importance of our corporate reputation and relations with our main stakeholders. 2017 was the year in which we began envision the model for our relations with them. This model will base the relationship on ethics and transparency.

In 2017, we promoted visibility in our governing bodies regarding matters relating to Corporate Responsibility and the environment.

GOVERNING BODIES



GRI 405-1

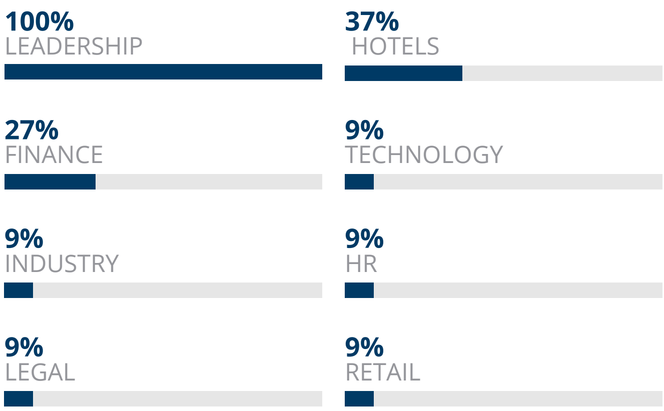
BOARD OF DIRECTORS

In accordance with the recommendations of the Code of Good Corporate Governance, we seek to set our goals for diversity in terms of experience, gender, age and percentage of independent directors, in order to foster an interdisciplinary, high-impact environment.

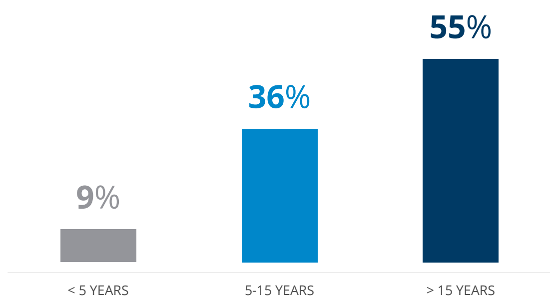
The members of the Board of Directors complete an annual self-assessment questionnaire to measure their performance and ensure their alignment with the company's objectives.

11	1	4	5	1
No. of Members	Executive Director	External Proprietary Directors	External Independent Directors	External Director "Others"

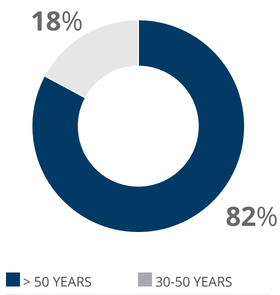
FIELDS OF EXPERIENCE



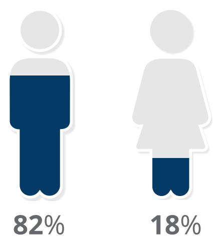
LENGTH OF SERVICE



AGE



GENDER



HIGHLIGHTS OF 2017

During the 2017 financial year, we continued to update the Protocol for the Prevention and Detection of Crimes.

REGULATORY FRAMEWORK:

Review and creation of Policies subject to approval by the Board of Directors, among others, in the following areas:

- Selection of Directors
- Relations with shareholders, institutional investors, voting advisors and proxy advisors
- The Environment
- Corporate Responsibility
- Regulations for the prevention of corruption
- Human Resources

MISSION

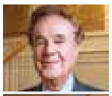
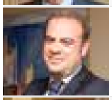
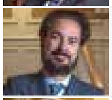
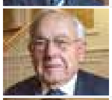
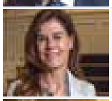
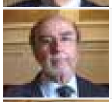
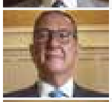
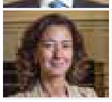
The board is the company's top management and supervisory body and its duties are regulated by Article 34 of the Articles of Association and Article 5 of the Regulations of the Board of Directors.

Article 6 of the Regulations of the Board of Directors establishes that the criterion that should always govern the performance of the Board is to act with diligence, loyalty and good faith and in the best interests of the company, by safeguarding the viability and continuity of the company and maximising its long-term value, without any shareholder receiving more privileged treatment than the rest.

FUNCTIONS

- Charged with representing the company
- Makes and awards all types of contracts, acts and documents
- Convenes the Shareholders' General Meeting and executes and ensures compliance with the resolutions made by this body
- Identifies the major risks to the company
- Approves company policies

COMPOSITION AND SKILL MATRIX

			FIELDS OF EXPERIENCE								COMMITTEES	
	DIRECTORS	SINCE	Leadership	Hotels	Banking & Finance	Technology	Industry	People	Legal	Retail & Mass Consumption	A&C	N&R
	**Mr. Gabriel Escarrer Julia** Non-Executive Chairman and External Proprietary Director	1996	✓	✓								
	**Mr. Gabriel Escarrer Jaume** Vice Chairman and Chief Executive Officer	1999	✓	✓								
	**Mr. Sebastián Escarrer Jaume** External Proprietary Director (Hoteles Mallorquines Agrupados S.L.)	1996	✓	✓								
	**Mr. Juan Vives Cerdá** External Proprietary Director (Hoteles Mallorquines Asociados S.L.)	1996	✓	✓							V	
	**Ms Maria Antonia Escarrer Jaume** External Proprietary Director (Hoteles Mallorquines Consolidados S.L.)	2000	✓					✓				V
	**Mr. Alfredo Pastor Bodmer** External Director - Others	1996	✓		✓						V	
	**Mr. Juan Arena de la Mora** External Independent Director	2009	✓		✓						V	
	**Mr. Francisco Javier Campo García** External Independent Director	2012	✓							✓		P
	**Mr. Fernando D'Ornellas Silva** External Independent Director Coordinating Director	2012	✓				✓				P	V
	**Mr. Luis Mª Díaz de Bustamante y Terminel** Secretary and External Independent Director	2010	✓						✓			V
	**Ms. Carina Szpilka Lázaro** External Independent Director	2016	✓		✓	✓					V	

A&C	AUDIT AND COMPLIANCE		LEADERSHIP		INDUSTRY
N&R	APPOINTMENTS AND REMUNERATION		HOTELS		PEOPLE
V	BOARD MEMBER		BANKING & FINANCE		LEGAL
P	CHAIRMAN		TECHNOLOGY		RETAIL & MASS CONSUMPTION

GRI 102-20 / GRI 102-28

DELEGATED COMMITTEES

AUDIT AND COMPLIANCE COMMITTEE

CURRENT COMPOSITION - 5 MEMBERS

Three Independent External Directors (one of whom is its Chairman), one Proprietary Director and one External Director from "Others"

REGULATION

Article 39-bis of the Articles of Association
Article 14 of the Regulations of the Board of Directors

ASSIGNED DUTIES (AMONG OTHERS)

- Supervise the process of preparing and presenting the financial information
- Maintain the relationship with the company's external auditors
- Review the company accounts
- Examine compliance with the Internal Code of Conduct on the Stock Markets, the Regulations of the Board and, in general, the company's governance rules
- Report to the Board before meetings on all matters provided for in the Law, the Articles of Association, Regulations of the Board and, in particular, on: (i) financial information that the company must publish regularly; (ii) the creation or acquisition of interests in special purpose entities or those domiciled in countries or territories considered to be tax havens, and (iii) operations with related parties

APPOINTMENTS AND REMUNERATION COMMITTEE

CURRENT COMPOSITION - 4 MEMBERS

Three Independent External Directors (one of whom is its Chairman) and a Proprietary Director

REGULATION

Article 39.3 of the Articles of Association
Article 15 of the Regulations of the Board of Directors

ASSIGNED DUTIES (AMONG OTHERS)

- Formulate and revise the criteria to be followed for the composition of the Board
- Submit to the Board proposals for the appointment of Independent Directors and reports on proposals for the appointment of the remaining Directors
- Propose to the Board the members who must be on each of the Committees
- Propose to the Board the Directors' Remuneration Policy
- Report on transactions that involve or could involve conflicts of interest
- Coordinate the report evaluating the quality and efficiency of the functioning of the Board and Committees
- Report to the Board before meetings on all matters provided for in the Law, the Articles of Association and Regulations of the Board

SENIOR MANAGEMENT

CHIEF EXECUTIVE OFFICER

Mr. Gabriel Escarrer Jaume, as the company's Vice-Chairman and Chief Executive Officer, has been delegated all the powers of the Board of Directors, except those that cannot be delegated, and carries out his normal duties as Executive Officer.

SET (SENIOR EXECUTIVE TEAM)

Made up of a multidisciplinary team whose members are responsible for the day-to-day management and operation of all of the company's areas of activity.

Among its main duties of a collegiate nature are the adoption of general operational decisions and the implementation of the organisational model, supporting the Vice-Chairman and Chief Executive Officer in his management, and implementing the company's priorities.

EXECUTIVE COMMITTEE (SET)

Mr. Mark Hoddinott *Chief Real Estate Officer*

Mr. Gabriel Cánaves *Chief Human Resources Officer*

Ms. Pilar Dols *Chief Financial Officer*

Mr. Gabriel Escarrer *Vice-Chairman & CEO*

Mr. Juan Ignacio Pardo *Chief Legal & Compliance Officer*

Mr. André P. Gerondeau *Chief Operating Officer*

GRI 102-17 / GRI 205-2

MODEL OF GOVERNANCE FOR THE CODE OF ETHICS & COMPLAINTS CHANNEL

Throughout our 60 years of history, we have gone through various stages of growth, consolidation and transformation. And although our corporate values have evolved with the times, our nature as a family business has remained unchanged.

This evolution has allowed us to review and improve our behavioural framework, bring it into line with the new values and guarantee maximum cohesion and protection for all our employees, while contributing to our day-to-day relationship with our stakeholders. In 2012, the Board of Directors approved the company's first Code of Ethics and defined the necessary channels for its implementation through the Board's Appointments and Remuneration Committee.

Our Code of Ethics is a set of action principles that organise and give meaning to our corporate values. It is not a sanctioning code or a standard, but rather the summit of our entire internal policy framework, establishing the basis on which the internal policies, rules, processes and procedures are brought into line with this code.

All company employees have access to it on the website, where it is available in six languages.

It was expressly designed to guide the ethical relations and internal commitments with our major stakeholders, including employees, the tourism sector and the competition, managers, society, customers, the environment, shareholders and investors, government departments, suppliers and the media.

The Code of Ethics includes all the principles and public commitments taken on by the company and has its own governance model.

Given the importance of the Code of Ethics and its Complaints Channel as management tools, we have implemented information campaigns, on a global scale, to strengthen communications with and training for all our employees.

	MISSION	MAIN RESPONSIBILITIES
OFFICE OF THE CODE OF ETHICS	Acts as a Coordinating Committee for all activities that take place regarding the Code It is a conduit that represents all the areas involved in the tracking, implementation and operation of the Code	Interprets and resolves doubts Performs timely updates Raises awareness and provides training on the content Provides support to all departments Offers constant advice
ETHICS COMMITTEE	An independent collegiate body, whose duty is to manage and resolve complaints	Ensures the correct implementation and operation of the Complaints Channel Handles every complaint received, following the established procedure, responding to the parties involved in each of the reported cases, as well as managing the adoption of corrective measures in cases that require this as a result of the investigation carried out. Ensures confidentiality Analyses the complaints, classifying them by relevance and type, and then reports regularly (in a general summary) to the Audit and Compliance Committee.
WHISTLE BLOWING CHANNEL	The main communications tool for sending in reports and complaints relating to the observance of the Code of Ethics, laws currently in force, any issue regarding regulatory non-compliance and situations or events that may require the attention of senior management	Guarantees the objectivity and anonymity of the complaints received, whose receipt and safekeeping are handled by an independent third party Complaints go directly to the Chairman of the Audit and Compliance Committee and to the VP of the Internal Audit Department

GRI 102-31

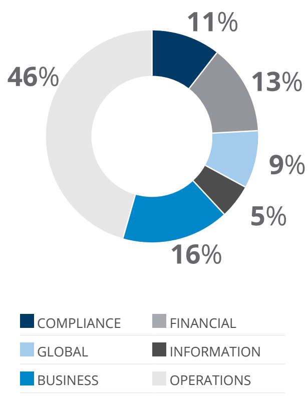
Risk management

Every business faces risks inherent to its own business activity, whose identification, assessment and control is fundamental.

For this reason, at Meliá Hotels International we have a risk management model whose aim is to ensure that major risks to our strategy and objectives are identified, analysed and evaluated based on homogeneous, manageable and systematically controlled criteria.

Our model is based on the integrated framework of Corporate Risk Management COSO II (Committee of Sponsoring Organizations of the Treadway Commission) and is a model of continuing improvement that applies to the entire company. Its main stages are described in the following diagram.

108 RISKS IDENTIFIED



RISK MANAGEMENT GOVERNANCE

IDENTIFICATION OF RISKS
Understanding by the term "risk" any potential event that could negatively affect the fulfilment of objectives and/or the implementation of a strategy

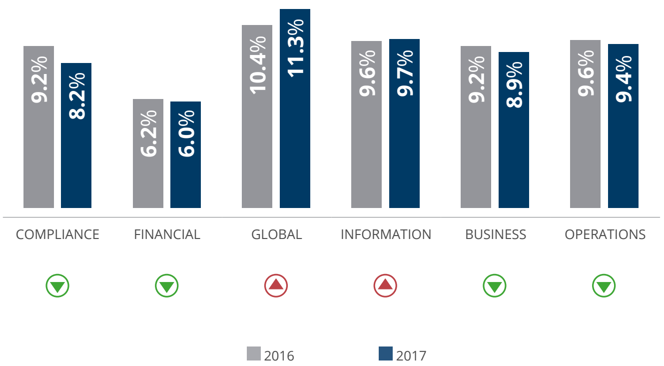
RISK EVALUATION
In all areas, following homogeneous procedures and assessment standards based on a combination of quantitative and qualitative techniques

RESPONSE TO THE RISKS
Assignment of responsibilities and definition of actions that permit an effective contribution to risk management

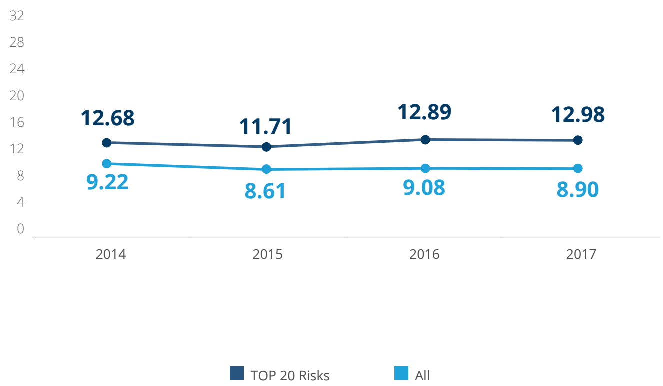
MONITORING AND CONTROL
Of the risks and the initiatives adopted for their mitigation

COMMUNICATION AND REPORTING
Regular, transparent reporting of the results obtained to the Executive Committee, Audit and Compliance Committee and Board of Directors.

EVOLUTION OF AVERAGE VALUE BY RISK CATEGORY



EVOLUTION OF AVERAGE VALUE OF RISKS



GRI 102-30

GOVERNANCE OF RISK MANAGEMENT

The Risk Policy and Standard set out the basic principles that govern our risk management, the general framework for action and the rules, guidelines and criteria that the risk management model must follow, so that it is completely in line with the company's risk management strategy.

In the following diagram we detail the structure and levels of protection and defence for managing risks.

DIRECTIVES AND GUIDELINES

INFORMATION

Board of Directors
Audit and Compliance Committee

Approval of the Risk Control Policy
Approval of the company's Risk Map
Supervising the Internal Control and Risk Management Systems

Executive Committee
(Senior Executive Team)

Fostering the Integration of Risk Management into critical processes
Assigning proper ownership of risks
Monitoring the Group's Risk Map

1st Line of Defence
Business and Organisational Units

- Identifying and assessing risks
- Defining and implementing the measures required to manage risks
- Using the Risk Map as a management tool

2nd Line of Defence
Risk Control and Compliance Department

- Ensuring compliance with the Policy and Standard
- Supporting the identification, analysis and assessment of risks
- Monitoring and controlling key risks
- Defining and establishing standard reporting procedures

3rd Line of Defence
Internal audit

- Auditing the process of risk control and management
- Keeping the Annual Audit Plan in line with the Risk Map

GRI 102-15

RISK MAP

At Meliá Hotels International we carry out a thorough analysis of the risks that could affect the company, based on our strategic priorities.

The following diagram shows the most significant risks according to the assessment made. Risks that, because of their nature and/or effect, could have an impact on several strategic priorities, have been located in the quadrant in which it is considered they would have the greatest negative impact.

Note: The identification of these risks does not imply that they will occur during the year. However, we work to put in place the necessary mechanisms for the management and control of said risks.

NATURE OF THE RISKS

In 2017, a total of 93 Managers were involved in the process of preparing the Risk Maps, identifying a total of 108 risk events divided into the following risk categories:

Global: caused by events not related with the company's actions (natural catastrophes, geopolitical risks, etc.)

Financial: events that affect the financial variables of the business (liquidity, credit, debt, rates, etc.)

Business: consequences of the business-related variables (customers, competition, suppliers, etc.)

Operating: events originating in failures in operational management (internal processes, controls, human resources, equipment and systems, etc.)

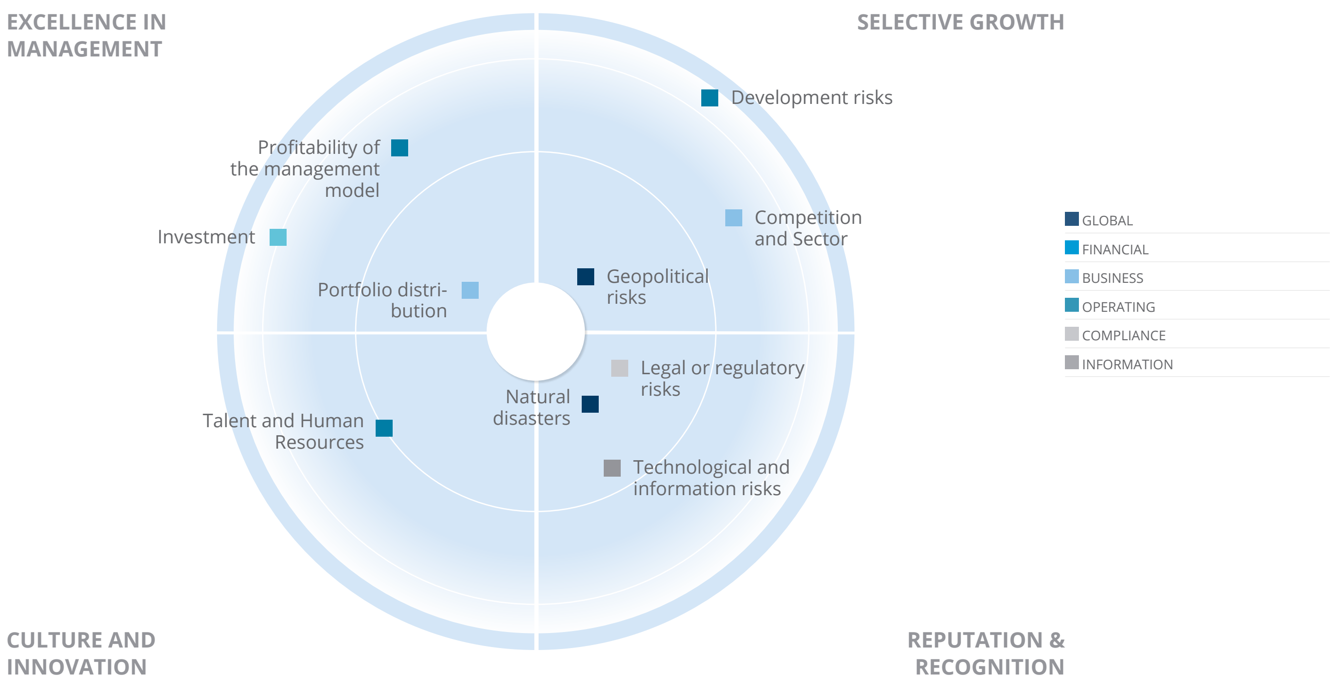
Compliance: risks arising from regulatory changes or non-compliance (both with internal and external regulations)

Information: risks related with the use of information (generation, analysis, communication, etc.)

Note 4 of the consolidated financial statements provides additional information on the management of the financial risks to which the group's activities are exposed: market risk (exchange rate and interest rates), credit risk and liquidity risk.

108
Risk Maps

93
Executives involved



CATEGORY	TYPE OF RISK	MAIN RISKS	TREND	IMPACT	MANAGEMENT AND CONTROL MEASURES
Global	Geopolitical	Terrorism Crisis or political insecurity in countries where we have a presence Wars, civil unrest or military revolts	▲	●	Establishment and implementation of emergency plans for crises Crisis management protocol, depending on the nature of the situation
	Natural disasters	Hurricanes Earthquakes Volcanoes Adverse effects of climate change	▲	●	
Business	Competition and Sector	Increase in competition. Emergence of new competitors Sector restructuring. Concentration processes (mergers, acquisitions, etc.) Growth of forms of collaborative consumption Possible loss of leadership in certain areas	▼	●	Strategic Planning Committee as a decision-making body for defining, monitoring and controlling the strategy. Analysis of the sector and competition Expansion Committee as a decision-making body for approving, monitoring and controlling projects Preparation of risk analysis sheets for each project
	Expansion and growth	Resources and skills needed to keep up the pace of growth Appropriate choice of zones, countries and partners	►	●	
Operational	Talent and human resources	Loss or turnover of key personnel Difficulty in appealing to or attracting talent Lack of qualified staff Some dependence on key personnel in some positions	▼	●	Continuity and development of programmes for: • Internal development • Talent pools in key positions • Transformational leadership Development of the training strategy Development of the social network strategy Promoting relations with the academic world
	Portfolio distribution	Concentration of hotels in certain areas Dependence on certain regions/markets/ segments	▲	●	Development of the Strategic Plan for selective, qualitative expansion focusing on the leisure segment and bleisure destinations
	Profitability of the management model	Operating profitability of the business Competitiveness of the management model Ability of the model to adapt	▲	●	Continuity and development of projects for: • Promoting distribution channels (melia.com, call centre) • Optimising the loyalty model • Revenue Management Model • Improving and redefining the MICE model • Innovating and incorporating new attributes, services, etc. • F&B strategy and concepts
Compliance	Legal or regulatory	Legislative or regulatory changes Excessive complexity and regulatory dispersion Disputes	▲	●	Existence of a Code of Ethics and a Complaints Channel Implementation of the compliance function Criminal Offence Prevention and Detection model Review and update of internal policies and regulations Identification, communication and monitoring of regulatory changes Relations with prestigious external consultants, as required
Information	Technological and information risks	Protection and security of information Difficulty of integrating information Systems mismatch Reporting and information management model	►	●	Continuity and development of: • Strategic digitalisation plan • Cyberattack prevention plan • Cybersecurity training and awareness • Annual Internal Audit Plan • Analysis to adapt to the European Data Protection Regulation • Business Intelligence project and improvement in reporting processes
Financial	Investment	Investment process (execution, control and follow-up) Cost-effectiveness and feasibility of investments	▼	●	Existence of an Investment Committee responsible for the definition, monitoring and controlling of the investment plan Integration of risk criteria in the Annual Investment Plan

TREND

Trend for each risk as compared to the previous year

▲ Greater risk
► Unchanged
▼ Lower risk

IMPACT

Relationship of each risk with our strategic lines

● Excellence in management
● Property strategy
● Culture & Transformation
● Digitalisation & Innovation
● Reputation & Recognition

REGIONALISATION OF THE RISK MAP

In 2017, for the second consecutive year, we prepared individual Risk Maps for the different regions.

In the near future we will continue to promote the operability of regional Risk Maps so that they can contribute to strategic decision making.

INDICATORS OF RISKS AND LIMITS

This year our Board of Directors approved the updating of the Risk Policy, which defines the limits or levels of tolerance for the different types of risks according to their nature, providing greater visibility and detail on their evolution and management.

CRIMINAL OFFENCE PREVENTION AND DETECTION MODEL

MAP OF CRIMINAL RISKS

The criminal risks that affect the company are identified and valued. Currently, there are 22 criminal offences to which we are exposed.

INVENTORY OF CONTROLS

Internal controls have been associated with each identified criminal risk to mitigate or reduce these risks, whether general or specific. There are 303 controls linked with criminal risks.

VERIFICATION SYSTEM

We have the SAP GRC tool (Governance, Risk & Compliance) to handle comprehensive risk management, including criminal risks.

Using this tool, we update the company's Risk Map, including the Criminal Risk Map, and verify the adequacy of the controls identified, documenting the evidence of these controls.

REPORTING MODEL

We submit a report to all the coordinators affected, the Executive Committee, Audit and Compliance Committee and Board of Directors.

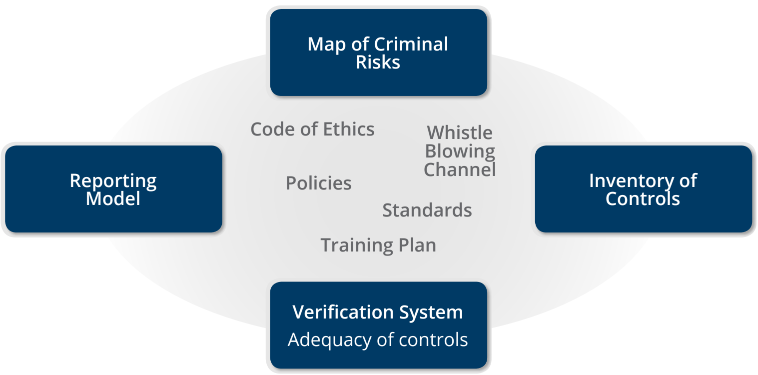
22

Exposure to criminal offences

303

Controls of criminal offences

CRIME PREVENTION AND DETECTION MODEL



PALAU DE CONGRESSOS DE PALMA | SPAIN

Annexes

GRI 102-3

Corporate information & contacts

CORPORATE HEADQUARTERS

CENTRAL
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T (53 7) 204 0910 · F (53 7) 204 0912

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28046 Madrid. Spain
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T (34) 971 22 44 64

Owners Relations
owners.relations@melia.com
T (34) 971 22 44 68

Shareholders' Club
club.accionista@melia.com
T (34) 971 22 45 54

Communication and Press
comunicación@melia.com
T (34) 971 22 44 64

GRI Indicators

PORTFOLIO OF CERTIFIED HOTELS - ANNUAL REPORT 2017

BRAND	HOTEL	COUNTRY	EARTHCHECK	BIOSPHERE	TRAVELIFE	GREEN LEADERS	OTHERS
ME by Meliá	ME CABO	Mexico	Earthcheck				
ME By Meliá	ME CANCUN	Mexico	Earthcheck				
Paradisus	LOS CABOS	Mexico	Earthcheck				
Meliá	CARIBE TROPICAL	Dominican Republic	Earthcheck			Silver	
Meliá	CARIBE TROPICAL COMPLEX (THE LEVEL)	Dominican Republic	Earthcheck			Silver	
Meliá	LIMA	Peru		Biosphere			
Meliá	BUENOS AIRES	Argentina				Bronze	
Paradisus	CANCUN	Mexico	Earthcheck			Silver	
Paradisus	PUNTA CANA	Dominican Republic	Earthcheck			Silver	
Paradisus	PALMA REAL GOLF & SPA RESORT	Dominican Republic	Earthcheck			Silver	
Paradisus	THE RESERVE (PARADISUS PALMA REAL)	Dominican Republic				Silver	
Paradisus	THE RESERVE (PARADISUS PUNTA CANA)	Dominican Republic				Silver	
Paradisus	PLAYA DEL CARMEN LA PERLA	Mexico	Earthcheck			Platinum	
Paradisus	PLAYA DEL CARMEN LA ESMERALDA	Mexico	Earthcheck			Platinum	
Gran Meliá	JAKARTA	Indonesia	Earthcheck				
Meliá	BALI GARDEN VILLAS & SPA	Indonesia	Earthcheck				
Meliá	KUALA LUMPUR	Malaysia	Earthcheck				
Meliá	PUROSANI	Indonesia	Earthcheck				
Meliá	HANOI	Vietnam	Earthcheck				
Sol Beach House	BEACH HOUSE BALI BENOA	Indonesia	Earthcheck				
Meliá	BRASIL 21	Brazil				GreenPartner	
Meliá	JARDIM EUROPA	Brazil				GreenPartner	
Meliá	PAULISTA	Brazil				Silver	
Tryp	SAO PAULO NACOES UNIDAS	Brazil				Silver	
Tryp	SAO PAULO ITAIM	Brazil				Silver	
Tryp	SAO PAULO TATUAPE	Brazil				Silver	
Tryp	SAO PAULO IGUATEMI	Brazil				Gold	
Tryp	SAO PAULO BERRINI	Brazil				Bronze	
Tryp	SAO PAULO PAULISTA	Brazil				Bronze	
Tryp	SAO PAULO HIGIENOPOLIS	Brazil				Gold	
Meliá	CAMPINAS	Brazil				Bronze	
Tryp	SAO PAULO JESUINO ARRUDA	Brazil				GreenPartner	
Gran Meliá	VICTORIA	Spain	Earthcheck				
Gran Meliá	FENIX	Spain	Earthcheck				
Gran Meliá	DON PEPE	Spain	Earthcheck				
Gran Meliá	PALACIO DE ISORA	Spain	Earthcheck		Gold	Gold	
Gran Meliá	COLON	Spain	Earthcheck				
Gran Meliá	ROME	Italy	Earthcheck				
Innside	FRANKFURT NIEDERRAD	Germany				GreenPartner	
Innside	MUNCHEN NEUE MESSE	Germany				Gold	
Innside	DUSSELDORF DERENDORF	Germany				Silver	
Innside	DRESDEN	Germany				Gold	
ME by Meliá	ME MALLORCA	Spain	Earthcheck				
ME by Meliá	ME IBIZA	Spain	Earthcheck			GreenPartner	
ME by Meliá	MADRID REINA VICTORIA	Spain	Earthcheck			Silver	
ME by Meliá	ME LONDON	United Kingdom	Earthcheck				
Gran Meliá	DE MAR	Spain		Biosphere		Bronze	
Meliá	BARCELONA SARRIA	Spain				Gold	
Meliá	BARCELONA SKY	Spain				Platinum	
Meliá	BARCELONA SKY (THE LEVEL)	Spain				Platinum	
Meliá	SANCTI PETRI	Spain			Member	Platinum	
Meliá	BRAGA	Portugal				Silver	
Meliá	MADEIRA MARE	Portugal				Platinum	
Meliá	WHITE HOUSE	United Kingdom				Bronze	
Meliá	MILAN	Italy				Bronze	
Meliá	GENOA	Italy				Silver	
Meliá	VILLA CAPRI HOTEL & SPA	Italy		Biosphere			
Meliá	BERLIN	Germany				Gold	
Meliá	LUXEMBOURG	Luxembourg				Gold	
Meliá	PARIS NOTRE-DAME	France				GreenPartner	
Meliá	PARIS TOUR EIFFEL	France				GreenPartner	
Meliá	VENDOME	France				GreenPartner	
Meliá	PARIS CHAMPS ELYSÉES	France				GreenPartner	
Tryp	MUNCHEN CITY CENTER	Germany				GreenPartner	
Tryp	BOCHUM- WATTENSCHEID	Germany				Bronze	
Tryp	DORTMUND	Germany				Silver	
Tryp	DUSSELDORF KREFELD	Germany				Silver	
Tryp	CELLE	Germany				Gold	
Tryp	CENTRO OBERHAUSEN	Germany				GreenPartner	
Tryp	WOLFSBURG	Germany				Silver	

BRAND	HOTEL	COUNTRY	EARTHCHECK	BIOSPHERE	TRAVELIFE	GREEN LEADERS	OTHERS
Tryp	BERLIN MITTE	Germany				GreenPartner	
Tryp	PARIS OPERA	France				GreenPartner	
Meliá	CALA GALDANA MENORCA	Spain			Gold	Bronze	
Meliá	CALA D'OR	Spain				Gold	
Meliá	ATLANTICO - ISLA CANELA	Spain		Biosphere	Gold		
Meliá	COSTA DEL SOL	Spain		Biosphere		Platinum	
Meliá	TAMARINDOS	Spain		Biosphere			
Meliá	SALINAS	Spain			Gold	Bronze	
Meliá	JARDINES DEL TEIDE	Spain			Member		
Meliá	TORTUGA BEACH	Cape Verde			Gold		
Meliá	DUNAS BEACH & RESORT	Cape Verde			Gold		
Sol	COSTABLANCA	Spain				Silver	
Sol	BARBADOS	Spain	Earthcheck				
Sol	CALA D'OR APARTAMENTOS	Spain				Silver	
Sol	FALCÓ ALL INCLUSIVE	Spain			Gold		
Sol	PALMANOVA - MALLORCA	Spain	Earthcheck				
Sol House	HOUSE IBIZA	Spain				Bronze	
Sol	ALCUDIA CENTER APARTAMENTOS	Spain				Silver	
Sol	PRINCIPE / PRINCIPITO	Spain			Member		
Sol	DON PABLO	Spain				Silver	
Sol	DON PEDRO	Spain				Silver	
Sol	DON MARCO	Spain				Silver	
Sol	BARBACAN (APTO Y BUNGALOWS)	Spain				GreenPartner	ISO 9001 / ISO 14001 (updated April 2016)
Sol Resorts	ARONA TENERIFE	Spain			Member		
Sol Beach House	BEACH HOUSE MALLORCA	Spain	Earthcheck			Silver	
Sol	GUADALUPE	Spain	Earthcheck				
Sol House	HOUSE MALLORCA	Spain	Earthcheck				
Sol House	WAVE HOUSE	Spain	Earthcheck				
Sol House	HOUSE COSTA DEL SOL	Spain			Gold	GreenPartner	
Sol Katmandú	KATMANDU PARK & RESORT	Spain	Earthcheck				
Meliá	ALICANTE	Spain				Bronze	
Meliá	PALAS ATENEA	Spain				Silver	
Meliá	SITGES	Spain				Bronze	
Meliá	GRANADA	Spain				Bronze	
Meliá	MADRID PRINCESA	Spain		Biosphere			
Meliá	CASTILLA	Spain				Bronze	ISO 14001
Meliá	BARAJAS	Spain				Bronze	
Meliá	MARBELLA BANUS	Spain				Silver	
Meliá	LEBREROS	Spain				Silver	
Meliá	SEVILLE	Spain				GreenPartner	
Meliá	VALENCIA	Spain				Bronze	
Meliá	RECOLETOS	Spain				Bronze	
Meliá	ZARAGOZA	Spain				GreenPartner	
Tryp	MERIDA MEDEA	Spain				Bronze	
Tryp	PALMA BELLVER	Spain				Bronze	ISO 14001
Innside	PALMA BOSQUE	Spain				Silver	
Innside	PALMA CENTER	Spain				Silver	
Tryp	BARCELONA APOLO	Spain				GreenPartner	
Tryp	BARCELONA AEROPUERTO	Spain				Bronze	
Tryp	CADIZ LA CALETA	Spain				Bronze	
Tryp	JEREZ	Spain				Silver	
Tryp	MELILLA PUERTO	Spain				GreenPartner	
Tryp	CORDOBA	Spain				GreenPartner	
Tryp	SANTIAGO	Spain				Bronze	
Tryp	SAN SEBASTIAN ORLY	Spain				Silver	
Tryp	LEON	Spain				GreenPartner	
Tryp	MADRID PLAZA ESPAÑA	Spain				Silver	
Tryp	MADRID CENTRO	Spain				Silver	
Tryp	MADRID ATOCHA	Spain				Bronze	
Tryp	MADRID AIRPORT SUITES	Spain				Silver	
Sol Resorts	GUADALMAR	Spain				Silver	
Tryp	MURCIA RINCON DE PEPE	Spain				GreenPartner	
Tryp	SALAMANCA MONTALVO	Spain				Bronze	
Tryp	PORT CAMBRILS	Spain				Bronze	
Tryp	VALLADOLID SOFIA PARQUESOL	Spain				Bronze	
Tryp	ZARAGOZA	Spain				Bronze	
Sol House	HOUSE TAGHAZOUT BAY SURF	Morocco					Green Globe
Meliá	ATHENS	Greece				GreenPartner	
			33	**7**	**12**	**104**	**4**

GRI 102-29

AVERAGE WORKFORCE BY GEOGRAPHICAL AREA

GRI 102-8	SPAIN		EMEA		AMERICAS		CUBA		ASIA		TOTAL	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Corporate	723.67	700.28	91.27	89.96	205.85	181.27	49.68	48.33	36.40	31.20	**1,106.87**	**1,051.03**
Hotel	10,267.42	9,766.47	4,263.50	3,938.28	12,223.44	12,138.29	11,237.86	11,283.52	4,407.57	3,563.21	**42,399.78**	**40,689.77**
Circle by Meliá	3.81	7.25	0.00	0.00	283.63	348.36	0.00	0.00	0.00	0.00	**287.44**	**355.61**
Other activities	330.31	350.41	220.54	259.56	416.26	448.50	0.00	0.00	0.00	0.00	**967.11**	**1,058.47**
TOTAL	11,325.21	10,824.41	4,575.31	4,287.79	13,129.17	13,116.42	11,287.54	11,331.85	4,443.96	3,594.41	44,761.20	43,154.88

NUMBER OF CONTRACTS BY GEOGRAPHICAL AREA AND GENDER

GRI 401-1	SPAIN						EMEA					
	MEN		WOMEN		TOTAL		MEN		WOMEN		TOTAL	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
<30	350.13	313.54	337.65	337.74	687.78	651.28	231.60	241.84	226.08	203.70	457.68	445.54
30-50	388.98	417.96	446.86	499.92	835.83	917.88	190.50	151.52	103.19	104.16	293.69	255.68
>50	43.13	90.25	48.74	84.27	91.86	174.52	9.08	10.37	5.60	6.16	14.68	16.53
TOTAL	782.23	821.75	833.24	921.93	1,615.48	1,743.68	431.18	404.00	334.87	314.02	766.05	717.75

	AMERICAS						ASIA						TOTAL	
	MEN		WOMEN		TOTAL		MEN		WOMEN		TOTAL			
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
<30	1,275.49	1,437.76	1,045.99	1,130.41	2,321.47	2,568.17	250.75	182.75	172.22	118.27	422.97	301.02	**3,889.90**	**3,966.01**
30-50	924.01	1,325.40	756.64	1,142.49	1,680.65	2,467.89	143.15	155.93	90.17	99.97	233.32	255.90	**3,043.50**	**3,897.35**
>50	82.39	135.78	53.72	61.27	136.11	197.05	6.64	18.22	4.41	7.51	11.05	25.73	**253.70**	**413.83**
TOTAL	2,281.89	2,898.94	1,856.34	2,334.17	4,138.24	5,233.11	400.54	356.90	266.80	225.75	667.34	582.65	7,187.10	8,277.19

RATE OF CONTRACTS OVER AVERAGE WORKFORCE BY GEOGRAPHICAL AREA AND GENDER

GRI 401-1	SPAIN						EMEA					
	MEN		WOMEN		TOTAL		MEN		WOMEN		TOTAL	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
<30	33.35	34.64	31.24	34.20	32.28	34.41	23.27	25.48	21.45	21.91	22.33	23.72
30-50	23.63	14.59	33.18	16.41	27.92	15.53	124.60	12.62	90.91	11.33	110.24	12.06
>50	1.44	5.24	1.52	6.49	1.48	5.78	0.72	5.93	0.56	5.41	0.65	5.72
TOTAL	13.77	14.96	14.76	17.29	14.26	16.11	17.87	17.37	15.48	16.00	16.74	16.74

	AMERICAS						ASIA						TOTAL	
	MEN		WOMEN		TOTAL		MEN		WOMEN		TOTAL			
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
<30	28.40	30.81	32.04	33.25	29.94	31.84	27.93	34.32	28.88	33.39	28.31	33.95	**28.97**	**31.17**
30-50	49.60	16.44	68.85	20.73	56.74	18.80	43.73	10.33	84.34	12.96	53.72	11.22	**45.73**	**16.32**
>50	1.03	7.73	0.94	5.81	0.99	7.01	0.40	5.37	0.52	8.57	0.44	6.02	**1.03**	**6.32**
TOTAL	15.93	20.01	18.39	23.43	16.95	21.40	13.88	14.99	17.13	18.61	15.02	16.21	16.06	19.18

AVERAGE WORKFORCE BY GEOGRAPHICAL AREA, PROFESSIONAL CATEGORY AND GENDER

GRI 102-8 GRI 405-1	SPAIN						EMEA						AMERICAS					
	MEN		WOMEN		TOTAL		MEN		WOMEN		TOTAL		MEN		WOMEN		TOTAL	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Corporate	322.73	315.76	400.95	384.52	723.68	700.28	38.51	38.63	52.76	51.33	91.27	89.96	94.81	80.57	111.05	100.70	205.86	181.27
Director	76.23	67.76	37.39	30.04	113.62	97.80	11.50	13.62	0.06	1.46	11.56	15.08	29.12	27.78	10.09	10.34	39.21	38.12
Department Head	105.25	114.01	112.70	109.56	217.95	223.57	17.50	13.43	23.09	23.53	40.59	36.96	36.98	34.42	43.72	40.13	80.70	74.55
Core Staff	141.25	133.99	250.86	244.93	392.11	378.92	9.51	11.58	29.61	26.35	39.12	37.92	28.71	18.37	57.24	50.22	85.95	68.59
Hotel	5,144.89	4,954.61	5,122.53	4,811.86	10,267.42	9,766.47	2,226.64	2,112.41	2,035.71	1,825.87	4,263.58	3,938.28	7,761.80	7,726.26	4,461.57	4,412.03	1,223.37	12,138.29
Director	68.61	71.09	20.95	19.13	89.57	90.00	34.33	33.47	6.00	6.87	40.33	40.34	25.95	27.91	7.09	6.99	33.04	34.90
Department Heads	905.38	871.79	610.80	572.67	1,516.19	1,444.46	364.61	387.15	267.31	309.73	631.93	696.89	1,204.51	1,369.24	635.17	723.80	1,839.68	2,093.04
Core Staff	4,170.89	4,011.73	4,490.77	4,220.06	8,661.67	8,232.01	1,828.23	1,691.78	1,763.09	1,509.27	3,591.32	3,201.05	6,531.34	6,329.11	3,819.31	3,681.24	10,350.65	10,010.35
Circle by Meliá	2.81	3.66	1.00	3.58	3.81	7.24	0.00	0.00	0.00	0.00	0.00	0.00	134.92	169.30	148.71	179.06	283.63	348.36
Director	1.00	1.00	0.00	0.00	1.00	1.00	0.00	0.00	0.00	0.00	0.00	0.00	2.00	2.00	2.00	1.82	4.00	3.82
Department Heads	0.00	1.16	0.00	0.35	0.00	1.51	0.00	0.00	0.00	0.00	0.00	0.00	6.99	23.01	22.12	41.66	29.11	64.67
Core Staff	1.81	1.50	1.00	3.24	2.81	4.74	0.00	0.00	0.00	0.00	0.00	0.00	125.93	144.29	124.59	135.58	250.52	279.87
Other activities	210.32	219.57	119.99	130.85	330.31	350.42	147.00	173.66	73.54	85.89	220.54	259.55	320.56	345.67	95.70	102.83	416.26	448.50
Director	7.83	9.85	0.00	0.00	7.83	9.85	0.00	0.58	0.00	0.86	0.00	1.44	3.00	2.11	0.47	0.79	3.47	2.90
Department Heads	27.13	24.01	16.27	15.39	43.40	39.40	16.26	22.27	6.21	8.84	22.47	31.11	55.47	62.11	19.23	25.11	74.70	87.22
Core Staff	175.36	185.71	103.72	115.46	279.08	301.17	130.74	150.81	67.33	76.19	198.07	227.00	262.09	281.44	76.00	76.93	338.09	358.37
TOTAL	5,680.75	5,493.60	5,644.47	5,330.81	11,325.22	10,824.41	2,412.15	2,324.70	2,162.02	1,963.09	4,575.38	4,287.79	8,312.09	8,321.80	4,817.03	4,794.62	13,129.12	13,116.42

	CUBA						ASIA						TOTAL	
	MEN		WOMEN		TOTAL		MEN		WOMEN		TOTAL			
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Corporate	33.94	33.45	15.72	14.88	49.66	48.33	15.74	13.48	20.66	17.72	36.40	31.20	1,106.87	1. 051.04
Director	5.00	5.58	1.00	1.00	6.00	6.58	11.15	8.43	4.33	3.99	15.48	12.43	185.87	170.02
Department Head	4.42	4.00	3.00	2.88	7.42	6.88	1.59	2.48	10.64	8.73	12.23	11.21	358.89	353.17
Core Staff	24.52	23.87	11.72	11.00	36.24	34.87	3.00	2.57	5.69	5.00	8.69	7.57	562.11	527.87
Hotel	5,976.85	6,128.52	5,261.00	5,155.00	11,237.85	11,283.52	2,870.51	2,367.86	1,537.05	1,195.35	4,407.57	3,563.21	42,399.78	40,689.77
Director	22.18	20.52	0.00	0.00	22.18	20.52	12.63	10.08	3.35	3.00	15.99	13.08	201.10	198.84
Department Heads	211.00	206.00	128.00	119.00	339.00	325.00	401.88	434.23	204.24	203.30	606.12	637.53	4,932.91	5,196.92
Core Staff	5,743.67	5,902.00	5,133.00	5,036.00	10,876.67	10,938.00	2,456.00	1,923.54	1,329.47	989.05	3,785.46	2,912.60	37,265.76	35,294.01
Circle by Meliá	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	287.44	355.61
Director	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	5.00	4.82
Department Heads	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	29.11	66.18
Core Staff	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	253.33	284.61
Other activities	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	967.11	1,058.46
Director	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	11.30	14.19
Department Heads	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	140.57	157.73
Core Staff	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	815.24	886.54
TOTAL	6,010.79	6,161.97	5,276.72	5,169.88	11,287.51	11,331.85	2,886.25	2,381.34	1,557.71	1,213.07	4,443.97	3,594.41	44,761.20	43,154.88

AVERAGE WORKFORCE BY TYPE OF WORKDAY, GEOGRAPHICAL AREA AND GENDER

GRI 102-8

	SPAIN						EMEA						AMERICAS					
	MEN		WOMEN		TOTAL		MEN		WOMEN		TOTAL		MEN		WOMEN		TOTAL	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Corporate	322.73	315.76	400.95	384.52	723.68	700.28	38.51	38.63	52.76	51.33	91.27	89.96	94.81	80.57	111.05	100.70	205.86	181.27
Full time	317.38	306.68	394.61	338.78	712.00	645.45	38.01	38.63	48.85	49.33	86.96	87.96	94.81	78.00	111.05	100.18	205.86	178.18
Part time	5.35	9.09	6.34	45.74	11.68	54.83	0.50	0.00	3.91	2.00	4.31	2.00	0.00	2.57	0.00	0.52	0.00	3.09
Hotel	5,144.89	4,954.61	5,122.53	4,811.86	10,267.42	9,766.47	2,226.64	2,112.41	2,035.72	1,825.87	4,263.58	3,938.28	7,761.80	7,726.26	4,461.57	4,412.03	12,223.37	12,138.29
Full time	4,977.97	4,677.31	4,859.60	4,217.23	9,838.57	8,894.54	2,187.10	2,070.00	1,948.02	1,735.80	4,133.60	3,805.80	7,744.93	5,890.26	4,444.55	4,390.00	12,189.48	10,280.26
Part time	166.92	277.30	262.93	594.63	428.85	871.93	39.54	43.00	87.70	90.07	129.98	133.07	16.87	1,836.00	17.02	22.03	33.89	1,858.03
Circle by Meliá	2.81	3.66	1.00	3.58	3.81	7.25	0.00	0.00	0.00	0.00	0.00	0.00	134.92	169.30	148.71	179.06	283.63	348.36
Full time	2.52	3.66	1.00	3.58	3.52	7.25	0.00	0.00	0.00	0.00	0.00	0.00	134.92	143.30	148.71	179.06	283.63	322.36
Part time	0.28	0.00	0.00	0.00	0.28	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	26.00	0.00	0.00	0.00	26.00
Other activities	210.32	219.57	119.99	130.85	330.31	350.41	147.00	173.66	73.54	85.89	220.54	259.55	320.56	345.67	95.70	102.83	416.26	448.50
Full time	197.89	198.33	113.72	113.01	311.60	311.33	105.62	102.66	49.70	53.00	155.31	155.00	320.56	345.67	95.70	101.83	416.26	447.50
Part time	12.44	21.24	6.27	17.84	18.70	39.08	41.38	71.00	23.85	33.00	65.23	105.00	0.00	0.00	0.00	1.00	0.00	1.00
TOTAL	5,680.75	5,493.60	5,644.47	5,330.81	11,325.22	10,824.41	2,412.15	2,324.70	2,162.02	1,963.09	4,575.39	4,287.79	8,312.09	8,321.80	4,817.03	4,794.62	13,129.12	13,116.42

	CUBA						ASIA						TOTAL	
	MEN		WOMEN		TOTAL		MEN		WOMEN		TOTAL			
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Corporate	33.94	33.45	15.72	14.88	49.66	48.33	15.74	13.48	20.66	17.72	36.40	31.20	1,106.87	1,051.04
Full time	33.94	33.45	15.72	14.88	49.66	48.33	15.74	13.48	20.66	17.72	36.40	31.20	1,090.88	991.12
Part time	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	15.99	59.92
Hotel	5,976.85	6,128.52	5,261.00	5,155.00	11,237.85	11,283.52	2,870.51	2,367.86	1,537.05	1,195.35	4,407.56	3,563.21	42,399.78	40,689.77
Full time	5,728.85	6,016.52	5,013.00	5,060.00	10,741.85	11,076.52	2,870.51	2,367.86	1,537.05	1,195.35	4,407.56	3,563.21	41,311.07	37,620.33
Part time	248.00	112.00	248.00	95.00	496.00	207.00	0.00	0.00	0.00	0.00	0.00	0.00	1,088.71	3,070.03
Circle by Meliá	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	287.44	355.61
Full time	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	287.15	329.61
Part time	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.28	26.00
Other activities	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	967.11	1,058.46
Full time	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	883.17	913.83
Part time	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	83.94	145.08
TOTAL	6,010.79	6,161.97	5,276.72	5,169.88	11,287.51	11,331.85	2,886.25	2,381.34	1,557.71	1,213.07	4,443.96	3,594.41	44,761.20	43,154.88

AVERAGE WORKFORCE BY TYPE OF CONTRACT, GEOGRAPHICAL AREA AND GENDER

GRI 102-8	SPAIN						EMEA						AMERICAS					
	MEN		WOMEN		TOTAL		MEN		WOMEN		TOTAL		MEN		WOMEN		TOTAL	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Corporate	322.73	315.77	400.95	384.52	723.68	700.29	38.51	38.62	52.76	51.33	91.27	89.95	94.81	80.57	111.05	100.70	205.85	181.27
Fixed	293.12	292.80	355.29	344.70	648.42	637.51	34.72	35.14	46.78	41.43	81.50	76.57	90.27	78.44	109.97	98.48	200.23	176.92
Temporary	29.61	22.96	45.65	39.81	75.26	62.78	3.79	3.48	5.98	9.90	9.77	13.38	4.54	2.13	1.08	2.22	5.62	4.35
Hotel	5,144.89	4,954.61	5,122.53	4,811.86	10,267.42	9,766.47	2,226.64	2,112.41	2,035.72	1,825.87	4,263.58	3,938.28	7,761.80	7,726.26	4,461.57	4,412.03	12,223.37	12,138.29
Fixed	3,303.05	3,394.35	2,957.26	2,900.79	6,260.31	6,295.14	1,512.76	1,262.96	1,298.84	857.37	2,811.61	2,120.33	6,000.40	5,890.11	3,439.54	3,381.44	9,439.94	9,271.55
Temporary	1,841.84	1,560.26	2,165.27	1,911.07	4,007.11	3,471.33	713.88	849.45	736.87	968.50	1,450.76	1,817.95	1,761.40	1,836.15	1,022.03	1,030.59	2,783.43	2,866.74
Circle by Meliá	2.81	3.66	1.00	3.59	3.81	7.25	0.00	0.00	0.00	0.00	0.00	0.00	134.92	169.30	148.71	179.06	283.63	348.36
Fixed	2.52	3.66	1.00	3.20	3.52	6.86	0.00	0.00	0.00	0.00	0.00	0.00	120.52	142.90	131.61	147.19	252.12	290.09
Temporary	0.28	0.00	0.00	0.39	0.28	0.39	0.00	0.00	0.00	0.00	0.00	0.00	14.40	26.40	17.10	31.87	31.50	58.27
Other activities	210.32	219.56	119.99	130.84	330.31	350.40	147.00	173.67	73.54	85.89	220.54	259.56	320.56	345.67	95.70	102.83	416.26	448.50
Fixed	125.51	130.56	60.44	71.52	185.95	202.08	123.16	147.05	62.91	71.50	186.07	218.55	320.56	344.96	95.70	100.88	416.26	445.84
Temporary	84.81	89.00	59.55	59.32	144.36	148.32	23.83	26.62	10.63	14.39	34.47	41.01	0.00	0.71	0.00	1.95	0.00	2.66
TOTAL	5,680.75	5,493.60	5,644.47	5,330.81	11,325.22	10,824.41	2,412.15	2,324.70	2,162.02	1,963.09	4,575.39	4,287.79	8,312.09	8,321.80	4,817.03	4,794.62	13,129.11	13,116.42

	CUBA						ASIA						TOTAL	
	MEN		WOMEN		TOTAL		MEN		WOMEN		TOTAL			
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Corporate	33.94	33.45	15.72	14.88	49.66	48.33	15.73	13.48	20.66	17.72	36.40	31.20	1,106.87	1,051.04
Full time	33.94	33.45	15.72	14.88	49.66	48.33	15.73	13.00	20.66	16.72	36.40	29.72	1,016.21	969.06
Part time	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.48	0.00	1.00	0.00	1.48	90.66	81.99
Hotel	5,976.85	6,128.52	5,261.00	5,155.00	11,237.85	11,283.52	2,870.51	2,367.86	1,537.05	1,195.35	4,407.57	3,563.21	42,399.79	40,689.77
Full time	4,766.85	4,613.52	3,853.00	3,559.00	8,619.85	8,172.52	2,870.51	2,362.15	1,536.54	1,195.35	4,407.05	3,557.50	31,538.76	29,417.04
Part time	1,210.00	1,515.00	1,408.00	1,596.00	2,618.00	3,111.00	0.00	5.71	0.51	0.00	0.51	5.71	10,859.81	11,272.73
Circle by Meliá	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	287.43	355.61
Full time	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	255.65	296.95
Part time	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	31.79	58.66
Other activities	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	967.10	1,058.46
Full time	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	788.28	866.47
Part time	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	178.82	191.99
TOTAL	6,010.79	6,161.97	5,276.72	5,169.88	11,287.51	11,331.85	2,886.24	2,381.34	1,557.71	1,213.07	4,443.97	3,594.41	44,761.20	43,154.88

AGE PYRAMID BY GENDER AND BY GEOGRAPHICAL AREA

GRI 405-1	SPAIN						EMEA					
	MEN		WOMEN		TOTAL		MEN		WOMEN		TOTAL	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
<30	29.79%	16.48%	24.58%	18.52%	26.86%	17.49%	44.23%	40.83%	52.42%	47.35%	48.17%	43.81%
30-50	50.92%	52.15%	58.75%	57.15%	55.33%	54.61%	50.35%	51.65%	43.42%	46.85%	47.02%	49.45%
>50	19.29%	31.37%	16.67%	24.33%	17.81%	27.90%	5.41%	7.52%	4.16%	5.80%	4.81%	6.74%
TOTAL	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

	AMERICAS						ASIA						TOTAL	
	MEN		WOMEN		TOTAL		MEN		WOMEN		TOTAL			
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
<30	44.36%	32.22%	42.16%	34.05%	43.55%	32.99%	33.65%	22.36%	42.01%	29.20%	36.63%	24.67%	**34.78%**	**29.49%**
30-50	49.65%	55.66%	51.88%	55.30%	50.47%	55.51%	55.97%	63.39%	52.44%	63.58%	54.71%	63.45%	**52.99%**	**55.34%**
>50	5.99%	12.12%	5.96%	10.58%	5.98%	11.49%	10.38%	14.26%	5.55%	7.22%	8.66%	11.88%	**12.23%**	**15.17%**
TOTAL	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

NUMBER OF VOLUNTARY LABOUR TURNOVER BY AGE, GENDER AND GEOGRAPHICAL AREA

	SPAIN						EMEA					
	MEN		WOMEN		TOTAL		MEN		WOMEN		TOTAL	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
<30	30.76	46.57	32.48	37.33	63.24	83.9	96.61	95.23	104.46	108.45	201.07	203.69
30-50	44.35	52.33	33.25	43.12	77.6	95.45	105.54	80.08	74.47	73.81	180.01	153.89
>50	3.46	1.34	2.81	2.25	6.27	3.59	4.9	3.23	3.7	3.75	8.6	6.98
TOTAL	78.57	100.24	68.54	82.7	147.11	182.94	207.05	178.54	182.63	186.01	389.68	364.56

	AMERICAS						ASIA						TOTAL	
	MEN		WOMEN		TOTAL		MEN		WOMEN		TOTAL			
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
<30	884.69	839.12	638.72	599.65	1,523.41	1,438.77	63.44	23.93	48.79	17.41	112.23	41.34	1,899.95	1,767.70
30-50	759.87	884.80	678.23	794.60	1,438.10	1,679.40	72.31	37.73	41.76	19.85	114.07	57.57	1,809.78	1,986.31
>50	106.64	102.29	68.45	39.89	175.09	142.18	3.98	3.61	0.46	1.59	4.44	5.20	194.40	157.95
TOTAL	1,751.20	1,826.21	1,385.40	1,434.14	3,136.60	3,260.35	139.73	65.27	91.01	38.85	230.74	104.11	3,904.13	3,911.96

VOLUNTARY LABOUR TURNOVER RATE OVER AVERAGE WORKFORCE BY AGE, GENDER AND GEOGRAPHICAL AREA

GRI 401-1	SPAIN						EMEA					
	MEN		WOMEN		TOTAL		MEN		WOMEN		TOTAL	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
<30	2.93	5.14	3.01	3.78	2.97	4.43	9.71	10.03	9.91	11.67	9.81	10.84
30-50	1.49	1.83	1.03	1.42	1.25	1.61	8.35	6.67	7.48	8.03	7.97	7.26
>50	0.21	0.08	0.21	0.17	0.21	0.12	3.20	1.85	3.26	3.29	3.23	2.42
TOTAL	1.38	1.82	1.21	1.55	1.30	1.69	8.58	7.68	8.44	9.48	8.52	8.50

	AMERICAS						ASIA						TOTAL	
	MEN		WOMEN		TOTAL		MEN		WOMEN		TOTAL			
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
<30	19.70	17.98	19.57	17.64	19.64	17.84	7.07	4.49	8.18	4.91	7.51	4.66	14.15	13.26
30-50	9.53	10.98	11.84	14.42	10.50	12.37	4.35	2.50	4.89	2.57	4.53	2.52	7.33	8.07
>50	5.72	5.83	6.23	3.78	5.91	5.06	1.22	1.06	0.43	1.82	1.02	1.22	2.92	2.45
TOTAL	12.23	12.61	13.73	14.39	12.85	13.34	4.84	2.74	5.84	3.20	5.19	2.90	8.72	9.06

LOCAL DIRECTORS BY REGION

GRI 202-2	EXPATRIATE						LOCAL						TOTAL	
	MEN		WOMEN		TOTAL		MEN		WOMEN		TOTAL			
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
SPAIN	4.00%	3.29%	0.00%	0.00%	4.00%	3.29%	72.60%	75.51%	23.39%	21.20%	96.00%	96.71%	100.00%	100.00%
EMEA	29.46%	26.52%	2.48%	3.40%	31.94%	29.92%	55.67%	56.45%	12.40%	13.63%	68.06%	70.08%	100.00%	100.00%
AMERICAS	38.76%	33.00%	3.79%	3.58%	42.55%	36.58%	48.39%	54.48%	9.05%	8.94%	57.45%	63.42%	100.00%	100.00%
ASIA	46.68%	58.17%	18.78%	22.93%	65.47%	81.10%	32.34%	18.90%	2.19%	0.00%	34.53%	18.90%	100.00%	100.00%
TOTAL	22.05%	19.90%	3.03%	3.19%	25.08%	23.10%	59.36%	62.05%	15.57%	14.85%	74.92%	76.90%	100.00%	100.00%

SUBSIDISED TRAINING (SPAIN SCOPE)

GRI 404-1	ACTIONS		COURSES		PARTICIPANTS		AVERAGE HRS/ PARTICIPANT		AVERAGE HRS/ TRAINED EMPLOYEE		TOTAL HOURS	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Subsidised training	228	222	1.236	1.052	12.941	11.998	5.9	5.7	9.5	8.9	75.830	68.563
Non-subsidised training	-	-	-	-	2.384	-	-	-	-	-	-	-
TOTAL	228	222	1.236	1.052	15.325	11.998	6	6	9	9	75.830	68.563

WORKFORCE BY NATIONALITY (%)

		2016	2017
1	Afghan	0.00%	0.01%
2	Albanian	0.02%	0.02%
3	German	2.29%	2.27%
4	Algerian	0.03%	0.04%
5	North or South American	1.41%	1.12%
6	Angolan	0.01%	0.00%
7	Argentinian	0.54%	0.69%
8	Armenian	0.00%	0.00%
9	Australian	0.01%	0.01%
10	Austrian	0.20%	0.18%
11	Azerbaijani	0.00%	0.00%
12	Bahaman	1.39%	1.26%
13	Bangladeshi	0.09%	0.05%
14	Belgian	0.06%	0.06%
15	Beninese	0.00%	0.00%
16	Belarusian	0.01%	0.01%
17	Bolivian	0.04%	0.05%
18	Bosnian	0.00%	0.01%
19	Botswanan	0.00%	0.00%
20	Brazilian	3.55%	3.51%
21	British	0.35%	0.33%
22	Bulgarian	0.15%	0.20%
23	Burkinabé	0.00%	0.00%
24	Cambodian	0.00%	0.00%
25	Cameroonian	0.01%	0.01%
26	Canadian	0.01%	0.01%
27	Central African	0.00%	0.00%
28	Czech	0.04%	0.05%
29	Chilean	0.04%	0.04%
30	China	1.53%	1.97%
31	Cypriot	0.01%	0.01%
32	Colombian	0.21%	0.24%
33	Comorian	0.00%	0.00%
34	Congolese	0.05%	0.04%
35	Korean	0.01%	0.02%
36	Ivory Coast	0.01%	0.01%
37	Costa Rican	0.01%	0.01%
38	Croatian	0.05%	0.05%
39	Cuban	28.44%	25.33%
40	Danish	0.00%	0.00%
41	Cape Verdean	1.66%	2.46%
42	Sierra Leonean	0.00%	0.00%
43	Djiboutian	0.00%	0.00%
44	Dominican	11.23%	11.03%
45	Ecuadorian	0.11%	0.13%
46	Egyptian	0.11%	0.06%
47	Emirati	0.01%	0.01%
48	Eritrean	0.00%	0.00%
49	Slovak	0.06%	0.06%
50	Slovenian	0.01%	0.01%

		2016	2017
51	Spanish	22.70%	23.27%
52	Estonian	0.01%	0.01%
53	Ethiopian	0.00%	0.00%
54	Filipino	0.17%	0.18%
55	Finnish	0.01%	0.01%
56	French	0.57%	0.56%
57	Gabonese	0.01%	0.01%
58	Georgian	0.01%	0.01%
59	Ghanaian	0.01%	0.01%
60	Greek	0.11%	0.12%
61	Guatemalan	0.00%	0.00%
62	Guinean	0.10%	0.11%
63	Guyanese	0.00%	0.00%
64	Haitian	0.09%	0.07%
65	Indian	0.32%	0.27%
66	Dutch	0.06%	0.07%
67	Honduran	0.01%	0.02%
68	Hungarian	0.15%	0.13%
69	Indonesia	4.26%	4.28%
70	English	0.35%	0.01%
71	Iranian	0.01%	0.02%
72	Iraqi	0.00%	0.01%
73	Irish	0.03%	0.01%
74	Icelandic	0.00%	0.00%
75	Italian	1.35%	1.37%
76	Jamaican	0.61%	0.82%
77	Japanese	0.01%	0.01%
78	Jordanian	0.00%	0.01%
79	Kazakh	0.00%	0.01%
80	Kenyan	0.04%	0.02%
81	Kyrgyzstani	0.01%	0.01%
82	Kuwaiti	0.00%	0.00%
83	Lesothan	0.00%	0.00%
84	Latvian	0.02%	0.02%
85	Lebanese	0.01%	0.00%
86	Lithuanian	0.04%	0.04%
87	Lucian	0.00%	0.00%
88	Luxembourger	0.01%	0.01%
89	Macedonian	0.01%	0.01%
90	Madagascan	0.00%	0.01%
91	Malawian	0.00%	0.00%
92	Malaysian	0.32%	0.32%
93	Malian	0.02%	0.03%
94	Moroccan	0.35%	0.57%
95	Mauritanian	0.03%	0.04%
96	Mexican	8.70%	8.91%
97	Moldovan	0.02%	0.01%
98	Mongolian	0.00%	0.00%
99	Montenegrin	0.00%	0.00%
100	Myanma	0.00%	0.99%

		2016	2017
101	New Zealander	0.00%	0.00%
102	Nepalese	0.05%	0.03%
103	Nicaraguan	0.01%	0.01%
104	Nigerian	0.06%	0.07%
105	Norwegian	0.01%	0.00%
106	Pakistani	0.06%	0.07%
107	Panamanian	0.18%	0.18%
108	Paraguayan	0.02%	0.03%
109	Peruvian	0.46%	0.50%
110	Polish	0.17%	0.18%
111	Portuguese	0.27%	0.28%
112	Romanian	0.33%	0.36%
113	Russian	0.08%	0.08%
114	Solomon Islander	0.00%	0.00%
115	Salvadoran	0.00%	0.00%
116	St. Helenian	0.00%	0.00%
117	Santomean	0.00%	0.01%
118	Senegalese	0.07%	0.08%
119	Serbian	0.02%	0.02%
120	Syrian	0.02%	0.01%
121	Somalian	0.00%	0.00%
122	Sri Lankan	0.06%	0.06%
123	Swedish	0.02%	0.02%
124	Swiss	0.02%	0.01%
125	South African	0.00%	0.00%
126	Thai	0.37%	0.36%
127	Taiwanese	0.00%	0.00%
128	Tanzanian	0.55%	0.45%
129	East Timorese	0.00%	0.00%
130	Togolese	0.01%	0.01%
131	Tongan	0.00%	0.00%
132	Tunisian	0.04%	0.03%
133	Turkish	0.04%	0.04%
134	Turkmeni	0.00%	0.00%
135	Ukrainian	0.15%	0.14%
136	Ugandan	0.01%	0.01%
137	Uruguayan	0.05%	0.05%
138	Uzbekh	0.01%	0.01%
139	Venezuelan	1.23%	1.04%
140	Vietnamese	1.51%	1.99%
141	Yemeni	0.00%	0.00%
142	Zambian	0.00%	0.00%
143	Zimbabwean	0.00%	0.00%

LABOUR SAFETY INDEX (SPAIN)

GRI 403-2	INCIDENT		FREQUENCY		SEVERITY		AVERAGE DURATION		% DAYS ABSENT PER WORKPLACE ACCIDENT		% DAYS ABSENT PER COMMON CONTINGENCY		% DAYS ABSENT	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Men	57.94	61.6	31.99	35.35	0.55	0.53	17.1	14.89	0.44	0.42	2.62	2.59	3.06	2.99
Women	64.91	75.8	36.73	43.81	0.64	0.75	17.31	17.1	0.51	0.6	3.83	3.67	4.34	4.24
TOTAL	**61.44**	**68.59**	**34.34**	**39.5**	**0.59**	**0.64**	**17.21**	**16.09**	**0.47**	**0.51**	**3.22**	**3.12**	**3.69**	**3.6**

Unfortunately, in 2017, we recorded a work accident that resulted in the death of a worker who performed maintenance work at the Meliá Sevilla hotel.

DIFFERENCE IN SALARIES

GRI 405-2	Spain	Germany	Brazil	China	USA	France	Mexico	United Kingdom	Dominican Republic	Italy
CORPORATE										
Managers	1.00	-	-	-	-	-	-	-	-	-
Middle Managers	1.00	-	0.71	0.84	1.06	-	1.12	-	1.03	-
Technicians	1.07	0.92	1.38	1.08	1.03	1.06	1.02	1.06	-	-
Core Staff	1.06	1.13	0.77	-	0.91	1.02	1.06	-	0.87	-
HOTEL										
Hotel Manager	1.01	1.03	1.01	-	-	-	-	-	-	-
Middle Managers	1.10	1.05	1.05	-	0.87	1.05	1.14	0.92	1.19	1.09
Core Staff	1.05	1.04	0.97	-	1.00	1.03	0.92	1.01	0.95	1.03

PERFORMANCE EVALUATION

GRI 404-3

	SPAIN						EMEA					
	MEN		WOMEN		TOTAL		MEN		WOMEN		TOTAL	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
CORPORATE	**311**	**288**	**413**	**367**	**724**	**655**	**35**	**32**	**42**	**44**	**77**	**76**
Director	76	81	40	42	116	123	12	10	2	4	14	14
Middle Managers	106	99	123	112	229	211	16	16	19	22	35	38
Core Staff	129	108	250	213	379	321	7	6	21	18	28	24
HOTEL	**598**	**416**	**381**	**218**	**979**	**634**	**204**	**31**	**153**	**13**	**357**	**44**
Director	101	86	34	27	135	113	37	30	8	9	45	39
Middle Managers	461	318	324	172	785	490	161	1	140	3	301	4
Core Staff	36	12	23	19	59	31	6		5	1	11	1
CLUB MELIÁ	-	-	-	-	-	-	-	-	-	-	-	-
Director	-	-	-	-	-	-	-	-	-	-	-	-
Middle Managers	-	-	-	-	-	-	-	-	-	-	-	-
Core Staff	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL	**909**	**704**	**794**	**585**	**1,703**	**1,289**	**239**	**63**	**195**	**57**	**434**	**120**

	AMERICAS						ASIA						TOTAL	
	MEN		WOMEN		TOTAL		MEN		WOMEN		TOTAL			
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
CORPORATE	**99**	**88**	**129**	**105**	**228**	**193**	**12**	**16**	**15**	**17**	**27**	**33**	**1,056**	**957**
Director	21	19	10	13	31	32	10	10	4	4	14	14	**175**	**183**
Middle Managers	42	45	41	41	83	86		3	7	5	7	8	**354**	**343**
Core Staff	36	24	78	51	114	75	2	3	4	8	6	11	**527**	**431**
HOTEL	**30**	**47**	**21**	**30**	**51**	**77**	**13**	**108**	**6**	**65**	**19**	**173**	**1,406**	**928**
Director	26	17	16	9	42	26	13	16	6	11	19	27	**241**	**205**
Middle Managers	2	18		14	2	32		90		52	-	142	**1,088**	**668**
Core Staff	2	12	5	7	7	19		2		2	-	4	**77**	**55**
CLUB MELIÁ	**6**	**7**	**5**	**4**	**11**	**11**	-	-	-	-	-	-	**11**	**11**
Director	5	4			5	4					-	-	**5**	**4**
Middle Managers	1	2	3	3	4	5					-	-	**4**	**5**
Core Staff		1	2	1	2	2					-	-	**2**	**2**
TOTAL	**135**	**142**	**155**	**139**	**290**	**281**	**25**	**124**	**21**	**82**	**46**	**206**	**2,473**	**1,896**

ENVIRONMENTAL EXPENSES

	2017	2016	Incr. % (2017 vs. 2016)
Bacteriological analysis	896,797.05	826,108.00	8.56%
Quality audit	110,564.05	82,619.00	33.82%
The Environment	110,478.81	81,823.00	35.02%
Sewerage charges	1,683,896.26	1,573,990.00	6.98%
Solid waste collection	3,730,724.40	3,670,041.00	1.65%
Water charges	1,744,383.52	1,816,015.00	-3.94%
TOTAL (GJ)	**8,276,844.09**	**8,050,596.00**	**2.81%**

NOX EMISSIONS

GRI 305-7

	2017	Incr. %	2016
NOx (kg)	95,642.92	3.45%	92,454.00

SOX EMISSIONS

GRI 305-7

	2017	Incr. %	2016
SOx (kg)	15,404.61	-7.64%	16,679.00

TOTAL ENERGY CONSUMPTION AND SAVINGS

GRI 302-1

CONSUMPTION	USE	2017	INCREASE %	2016	SAVINGS 2017	INCREASE %	2015	SAVINGS 2016
Electricity 100% renewable sources	MWh	223,561.35	1.48%	220,305.88	3,255.48	3.92%	211,991.85	8,314.03
	GJ	804,820.87		792,964.01	11,856.87		763,170.66	29,793.35
Electricity	MWh	434,011.96	-2.73%	446,193.02	-12,181.06	0.36%	444,578.27	1,614.75
	GJ	1,562,443.05		1,606,157.71	-43,714.66		1,600,481.77	5,675.94
Natural Gas	m3	10,175,988.51	0.44%	10,131,538.16	44,450.35	9.44%	9,257,490.03	874,048.13
	GJ	390,554.44		388,848.43	1,706.00		355,302.47	33,545.97
LPG	tn	4,493.59	12.12%	4,007.85	485.74	-4.11%	4,179.47	-171.62
	GJ	204,458.19		182,357.13	22,101.06		190,165.95	-7,808.82
Diesel	m3	3,769.15	-9.25%	4,153.55	-384.40	-9.73%	4,601.35	-447.80
	GJ	135,840.00		149,693.88	-13,853.87		165,832.71	-16,138.83
District Heating	MWh	33,316.42	0.53%	33,141.04	175.38	12.28%	29,515.15	3,625.89
	GJ	119,939.10		119,307.74	631.36		106,254.54	13,053.20
District Cooling	MWh	47,211.25	-7.56%	51,069.81	- 3,858.55	12.10%	45,555.93	5,513.87
	GJ	169,960.51		183,851.32	-13,890.81		164,001.35	19,849.97
TOTAL (GJ)		**2,583,195.30**	**-1.79%**	**2,630,216.2**	**-47,020.91**	**1.87%**	**2,582,038.79**	**48,177.42**

TABLE OF CONTENTS GRI

GRI CODE	NAME	REPORTED	PAGE	COMMENTS / OMISSIONS
GRI 102: General data				
Organisation profile				
102-1	Name of the organisation	Yes	1	
102-2	Activities, brands, products and services	Yes	58-79	
102-3	Location of headquarters	Yes	168	
102-4	Location of operations	Yes	52-55	
102-5	Ownership and legal form	Yes	185	Note:
102-6	Markets served	Yes	58-75	
102-7	Scale of the organisation	Yes	52-55	
102-8	Information on employees and other workers	Yes	171-174	
102-9	Supply chain	Yes	124-125	
102-10	Significant changes in the organisation and its supply chain	Yes	52-55	
102-11	Precautionary principle or approach	Yes	185	Note 2
102-12	External initiatives	Yes	56	
102-13	Membership of associations	Yes	56	
Strategy				
102-14	Statement from senior decision-maker	Yes	8-9	
102-15	Key impacts, risks and opportunities	Yes	30-31, 162-163	
Ethics and transparency				
102-16	Values, principles, standards and rules of conduct	Yes	22	
102-17	Advisory mechanisms and ethical concerns	Yes	159	
Governance				
102-18	Governance structure	Yes	154-158	
102-19	Delegation of authority	Yes	154	
102-20	Executive-level responsibility for economic, environmental and social topics	Yes	158	
102-21	Consultation with stakeholders on economic, environmental and social topics	Yes	32	
102-22	Composition of the highest governance body and its committees	Yes	155-157	
102-23	Chair of the highest governance body	Yes	157	
102-24	Appointment and selection of the highest governance body	Yes	185	Note 3
102-25	Conflicts of interest	Yes	185	Note 4
102-26	Role of the highest governance body in setting purpose, valuesand strategy	Yes	157	
102-27	Collective knowledge of the highest governance body	Yes	157	
102-28	Evaluation of the highest governance body's performance	Yes	158	
102-29	Identification and management of economic, environmental and social impacts	Yes	32 and 163	
102-30	Effectiveness of risk management processes	Yes	161	
102-31	Review of economic, environmental and social topics	Yes	32 160-161	
102-32	Highest governance body's role in sustainability reporting	Yes	180	Formulation of the Integrated Report in the Board of Directors
102-33	Communication of critical concerns	NO	-	
102-34	Nature and total number of critical concerns	NO	-	
102-35	Remuneration policies	NO	-	
102-36	Process for determining remuneration	NO	-	
102-37	Stakeholders' involvement in remuneration	NO	-	
102-38	Annual total compensation ratio	NO	-	
102-39	Percentage increase in annual total compensation ratio	NO	-	

GRI CODE	NAME	REPORTED	PAGE	COMMENTS / OMISSIONS
Stakeholder engagement				
102-40	List of stakeholder groups	Yes	57	
102-41	Collective bargaining agreements	Yes	181	100% of workers in Spain are subject to an agreement
102-42	Identification and selection of stakeholders	Yes	57	
102-43	Approach to stakeholder engagement	Yes	57	
102-44	Key issues and concerns raised	Yes	32	
Reporting practice				
102-45	Entities included in the consolidated financial statements	Yes	181	Annex I Annual Accounts
102-46	Definition of report content and topic boundaries	Yes	32-33	
102-47	List of material topics	Yes	33	
102-48	Restatements of information	Yes	28	
102-49	Changes in reporting	Yes	28	
102-50	Reporting period	Yes	181	1-January-2017 to 31-December-2017
102-51	Date of most recent report	Yes	181	Annual Report 2016
102-52	Reporting cycle	Yes	181	Annual
102-53	Contact point for questions regarding the report	Yes	28	
102-54	Claims of reporting in accordance with the GRI Standards	Yes	28	
102-55	GRI content index	Yes	28	
102-56	External assurance	Yes	28	
GRI 103: Management approach				
103-1	Explanation of the material topic and its boundary	Yes	Business: 42-55;81-83;92-115 Corporate Governance: 154-158 Responsible Hospitality Management: 118-133 Environment: 30-31 The Environ-ment: 140-149 Economic: 50-51, 124-125, 150-151, 159-164, 181-182 Labour: 134-139	In the pages mentioned, the different management approaches to material issues are answered
103-2	The management approach and its components	Yes		
103-3	Evaluation of the management approach	Yes		
GRI 201: Economic performance				
201-1	Direct economic value generated and distributed	Yes	50	
201-2	Financial implications and other risks and opportunities due to climate change	Yes	140, 181	The risks and opportunities arising from climate change are considered in the company's risk management model
201-3	Defined benefit plan obligations and other retirement plans	Yes	185	Note 5
201-4	Financial assistance received from the government	Yes	181	Spain scope. The subsidies for the year amounted to €630,810.98. The governments are not part of the shareholding structure
GRI 202: Market presence				
202-1	Ratios of standard entry level wage by gender compared to local minimum wage	NO	-	
202-2	Proportion of senior management hired from the local community	Yes	175	
GRI 203: Indirect economic impacts				
203-1	Investments in infrastructure and supported services	Yes	150-151	
203-2	Significant indirect economic impacts	Yes	151	

GRI CODE	NAME	REPORTED	PAGE	COMMENTS / OMISSIONS
GRI 204: Procurement practices				
204-1	Proportion of spending on local suppliers	Yes	125	
GRI 205: Anti-corruption				
205-1	Operations assessed for risks related to corruption	Yes	182	During the year, 157 hotels were audited internally
205-2	Communication and training about anti-corruption policies and procedures	Yes	182	In addition to what is stated on page 159, indicate that all employees receive mandatory training on the code of ethics. In addition, all managers sign an executive behaviour policy that includes aspects
205-3	Confirmed incidents of corruption and actions taken	Yes	182	During the year there were no cases of corruption
GRI 206: Anti-competitive behaviour				
206-1	Legal actions for anti-competitive behaviour, anti-trust and monopoly practices	Yes	182	During the year there were no legal proceedings for monopolistic or collusive practices or against free competition
GRI 301: Materials				
301-1	Materials used by weight or volume	NO	-	
301-2	Recycled input materials used	NO	-	
301-3	Reclaimed products and their packaging materials	NO	-	
GRI 302: Energy				
302-1	Energy consumption within the organisation	Yes	179	
302-2	Energy consumption outside the organisation	NO	-	
302-3	Energy intensity	Yes	182	0.119 GJ/Stay
302-4	Reduction of energy consumption	Yes	148	
302-5	Reductions in the energy requirements of products and services	Yes	148	
GRI 303: Water				
303-1	Water withdrawal by source	Yes	182	10,825,071.14 m3 (0.5 m3/stay)
303-2	Sources of water significantly affected by withdrawal of water	NO	-	
303-3	Water recycled and reused	NO	-	
GRI 304: Biodiversity				
304-1	Operational sites owned, leased or managed in or adjacent to protected areas and areas of high biodiversity outside protected areas	NO	-	
304-2	Significant impacts of activities, products and services on biodiversity	NO	-	
304-3	Habitats protected or restored	Yes	-	Not available. We are working towards reporting this information in 2019.
304-4	IUCN Red List species and national conservation list species with habitats in areas affected by operations	NO	-	
GRI 305: Emissions				
305-1	Direct (Scope 1) GHG emissions	Yes	147	
305-2	Indirect (Scope 2) GHG emissions	Yes	147	
305-3	Other indirect (Scope 3) GHG emissions	Yes	147	
305-4	GHG emissions intensity	Yes	182	11.936 kg CO2/stay
305-5	Reduction of GHG emissions	Yes	147	
305-6	Emissions of ozone-depleting substances (ODS)	NO	-	
305-7	Nitrogen oxides (NOx), sulphur oxides (SOx), and other significant air emissions	Yes	178	
GRI 306: Effluents and waste				
306-1	Water discharge by quality and destination	NO	-	
306-2	Waste by type and disposal method	NO	-	
306-3	Significant spills	Yes	182	During the year there were no significant spills
306-4	Transport of hazardous waste	NO	-	
306-5	Water bodies affected by water discharges and/or runoff	NO	-	

GRI CODE	NAME	REPORTED	PAGE	COMMENTS / OMISSIONS
GRI 307: Environmental compliance				
307-1	Non-compliance with environmental laws and regulations	Yes	183	During the year there was a single non-monetary sanction relating to a possible infringement for the installation of furniture
GRI 308: Supplier environmental assessment				
308-1	New suppliers that were screened using environmental criteria	Yes	183	100% of our suppliers selected for centralised purchases
308-2	Negative environmental impacts on the supply chain and actions taken	NO	-	
GRI 401: Employment				
401-1	New employee hires and employee turnover	Yes	171, 175	
401-2	Benefits provided to full-time employees that are not provided to part-time or temporary employees	NO	-	
401-3	Parental leave	NO	-	
GRI 402: Labour/management relations				
402-1	Minimum notice periods regarding operational changes	Yes	183	In Spain, the minimum terms stipulated by collective agreements or, without one, by the Workers' Statute are met
GRI 403: Occupational health and safety				
403-1	Workers' representation in formal joint management-worker health and safety committees	Yes	183	88.84% of workers in Spain are represented on Health and Safety Committees
403-2	Types of injury and rates of injury, occupational diseases, lost days, absenteeism and number of work-related fatalities	Yes	177	
403-3	Workers with high incidence or high risk of diseases related to their occupation	Yes	183	There are no professions in the company with an incidence or high risk of illness
403-4	Health and safety topics addressed in formal agreements with trade unions	Yes	185	Note 6
GRI 404: Training and education				
404-1	Average hours of training per year per employee	Yes	175	The data differentiated by gender or by job category are not reported. The procedure used for registration does not differentiate by gender or category
404-2	Programmes for upgrading employee skills and transition assistance programmes	NO	-	
404-3	Percentage of employees receiving regular performance and career development reviews	Yes	178	
GRI 405: Diversity and equal opportunities				
405-1	Diversity of governance bodies and employees	Yes	156, 172, 174	
405-2	Ratio of basic salary and remuneration of women to men	Yes	177	
GRI 406: Non-discrimination				
406-1	Incidents of discrimination and corrective actions taken	Yes	183	During the year there were no cases of discrimination
GRI 407: Freedom of association and collective bargaining				
407-1	Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk	Yes	183	0% (China is excluded because it does not allow such agreements). Meliá Hotels International has an agreement with UIF-UITA that includes these aspects.
GRI 408: Child labour				
408-1	Operations and suppliers at significant risk for incidents of child labour	Yes	183	There is no risk at the company. Meliá Hotels International has an agreement with UIF-UITA that includes these aspects, as well as an agreement with UNICEF
GRI 409: Forced or compulsory labour				
409-1	Operations and suppliers at significant risk for incidents of forced or compulsory labour	Yes	183	There is no risk at the company. Meliá Hotels International has an agreement with UIF-UITA that includes these aspects.

GRI CODE	NAME	REPORTED	PAGE	COMMENTS / OMISSIONS
GRI 410: Security practices				
410-1	Security personnel trained in human rights policies or procedures	NO	-	
GRI 411: Rights of indigenous peoples				
411-1	Incidents of violations involving rights of indigenous peoples	Yes	184	During the year there were no cases of violation of the rights of indigenous peoples
GRI 412: Human rights assessment				
412-1	Operations that have been subject to human rights reviews or impact assessments	NO	-	
412-2	Employee training on human rights policies or procedures	NO	-	
412-3	Significant investment agreements and contracts that include human rights clauses or that underwent human rights screening	Yes	184	Significant investment agreements and formal contracts do not include human rights clauses. This clause is signed in contracts with suppliers and creditors of services, as well as with tour operators. We consider a significant investment to be one that exceeds €100,000
GRI 413: Local communities				
413-1	Operations with local community engagement, impact assessments and development programmes	Yes	118-121, 130-131, 141, 169-170	
413-2	Operations with significant and potential negative impacts on local communities	NO	-	
GRI 414: Supplier social assessment				
414-1	New suppliers that are screened using social criteria	Yes	184	100% of our suppliers selected for centralised purchases
414-2	Negative social impacts in the supply chain and actions taken	NO	-	
GRI 415: Public policy				
415-1	Contributions to parties and/or political representatives	Yes	184	No political contribution was made during the year
GRI 416: Customer health and safety				
416-1	Assessment of the health and safety impacts of product and service categories	Yes	184	55 OHP audits during 2017 (+45% compared to 2016)
416-2	Incidents of non-compliance concerning the health and safety impacts of products and services	Yes	184	During the year there were no incidents of regulatory non-compliance relating to the impacts of products and services on health and safety
GRI 417: Marketing and labelling				
417-1	Requirements for product and service information and labelling	NO	-	
417-2	Incidents of non-compliance concerning product and service information and labelling	Yes	184	During the year, there was no breach of any regulation or voluntary code regarding information and labelling in the reporting period
417-3	Incidents of non-compliance concerning marketing communications	Yes	184	During the year there were no cases of non-compliance with regulations or voluntary codes relating to communication or advertising
GRI 418-1: Customer privacy				
418-1	Substantiated complaints regarding breaches of customer privacy and losses of customer data	Yes	184	During the year there were no complaints about violation of privacy or leaking of customer data
GRI 419-1 2016 Socioeconomic compliance				
419-1	Non-compliance with laws and regulations in the social and economic area	Yes	184	No significant fines were received as a result of non-compliance with social and economic laws and regulations

NOTE 1

Meliá Hotels International, S.A. (the Company) is an entity legally constituted in Madrid on 24 June 1986, under the corporate name of Investman, S.A. On 1 June 2011 the change of corporate name was approved, with the name being changed to Meliá Hotels International, S.A. In 1998, the Company moved its registered office to Calle Gremio Toneleros 24, Palma de Mallorca.

Melia Hotels International, S.A. (the Group) is the parent company of the Meliá Hotels International Group, which presents (in accordance with the requirements of the Commercial Code) consolidated annual accounts in order to show the Group's financial and asset-related position.

NOTE 2

In regard to the initiatives to mitigate the impact of our activity and taking into account the precautionary principle, the system of pre-openings includes a series of environmental criteria, which are reviewed before the opening of any hotel that is built or acquired from a third party. The criteria that are reviewed are:

- Availability of relevant corporate environmental information.
- Waste management
- Control of discharges to drains or direct discharges into the natural environment.
- Energy and water efficiency.
- Control of atmospheric emissions.

NOTE 3

The Appointments and Remuneration Committee, in accordance with Article 15 of the Regulations of the Board of Directors, is the one that must formulate and review the criteria to be followed for the composition of the Board of Directors and the selection of candidates, submitting to the Board, as appropriate, the proposals for the appointment of independent directors, as well as informing it of the proposals of the other directors, so that the latter may proceed with the appointment (in the event of co-optation) or present them for submission to a decision by the General Shareholders' Meeting, as well as their re-election or separation by the Shareholders' Meeting. The Directors are appointed for a term of four years, and may be re-elected to the position, once or several times, for periods of equal duration.

NOTE 4

It is the obligation of the Directors to inform the Company of any situation of direct or indirect conflict that they may have with the interest of the company, in accordance with the provisions in Article 28 of the Regulations of the Board of Directors. Likewise, the Nomination and Remuneration Committee, in accordance with the provisions in Article 15.2. of the Regulations of the Board of Directors, must inform the Board of Directors about transactions that involve or could involve conflicts of interest and proposing, where appropriate, the measures to be adopted.

NOTE 5

Post-employment benefits: the cost of defined benefit pension plans is determined by actuarial valuations. Actuarial valuations require the use of hypotheses about discount rates, the return on assets, salary increases, mortality and turnover tables, as well as the retirement age of employees entitled to these benefits. These estimates are subject to significant uncertainties due to the long term settlement of these plans.

The valuation of these obligations has been carried out by independent experts of recognised prestige, using actuarial valuation techniques.

Defined benefit pension plans: Pension plans that do not have the nature of defined contribution are considered defined benefit plans. Generally, defined benefit plans set out the amount of the benefits the employee will receive at the time of retirement, usually based on one or more factors, such as age, years of service and compensation.

The Group recognises on the balance sheet a provision with respect to the defined benefit premiums established in the collective agreements for the difference between the present value of the compensations paid and the fair value of the possible assets subject to the commitments with which the obligations will be settled, reduced, if applicable, by the amount of the costs for past services not yet recognised.

If an asset arises from the previous difference, its valuation cannot exceed the current value of the economic benefits available in the form of reimbursements from the plan or reductions in future contributions to the same.

The costs for past services are recognised immediately in the profit and loss account, except in the case of revocable rights, in which case they are charged to the profit and loss account on a straight-line basis in the remaining period until the rights for past services are irrevocable.

The present value of the obligation is determined by actuarial calculation methods and financial and actuarial assumptions that are unbiased and compatible with each other. The Company recognises directly in the statement of comprehensive income, the gains and losses arising from the variation in the present value and, where applicable, the assets affected by changes in actuarial assumptions or adjustments due to experience.

Certain collective agreements in force and applicable to some group companies establish that permanent staff who choose to terminate their contract with the Company after a certain number of years linked to it shall receive a cash award equivalent to a number of monthly payments proportional to the years worked. During the year, an assessment was made of said agreements using the actuarial assumptions of the Group's own turnover model, applying the calculation method known as Projected Unit Credit and demographic hypotheses corresponding to the PER2000P tables.

The balance of provisions, as well as the activation of payments for future services, cover these commitments acquired, according to an actuarial study carried out by an independent expert. Note 16.2 of the Consolidated Annual Accounts provides more details about this valuation.

With regard to pension commitments and obligations stipulated in collective agreements affected by the Ministerial Order of 2 November 2006, the Group has made the corresponding outsourcing. The assets affected by these outsourcing operations are presented reducing the balance of the acquired commitments.

NOTE 6

Spain scope. Meliá does not maintain specific agreements with trade unions regarding safety and health beyond those included in the collective agreements applicable to 100% of its employees. These agreements include, where applicable, aspects such as safety and health training, insurance and safety equipment, among others. If these agreements do not include specific aspects on Health and Safety, ultimately, they shall meet at least the stipulations regarding health and safety in the Spanish Law on Occupational Risk Prevention and in the Workers' Statute.

HEAD QUARTERS I SPAIN

Annual Corporate Governance Report

Translation for information purposes

ANNEX I

ANNUAL CORPORATE GOVERNANCE REPORT

OF THE PUBLICLY TRADED COMPANIES

DETAILS OF ISSUER

DATE OF TERMINATION OF REFERENCE PERIOD	31/12/2017

C.I.F.	A78304516

COMPANY NAME
MELIA HOTELS INTERNATIONAL S.A.
REGISTERED OFFICE
GREMIO DE TONELEROS,24 IND. EST. SON CASTELLO, (PALMA DE MALLORCA) BALEARIC ISLANDS

ANNUAL CORPORATE GOVERNANCE REPORT OF THE PUBLICY TRADED COMPANIES

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 ☒

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
NORGES BANK	8.165.500	0	3,55%
HOTELES MALLORQUINES AGRUPADOS S.L.	25.690.989	0	11,18%
HOTELES MALLORQUINES ASOCIADOS, S.L.	30.333.066	0	13,21%
MAJORCAN HOTELS EXLUX, S.L.	11.542.525	0	5,03%

State the most significant movements in the shareholding structure during the year:

Name or corporate name of shareholder	Transactio n date	Description of the transaction
NORGES BANK	02/01/2017	Below 3% of share capital
NORGES BANK	10/01/2017	3% of share capital exceeded
NORGES BANK	16/01/2017	Below 3% of share capital
NORGES BANK	17/01/2017	3% of share capital exceeded
NORGES BANK	24/01/2017	Below 3% of share capital
NORGES BANK	03/02/2017	3% of share capital exceeded
NORGES BANK	06/02/2017	Below 3% of share capital
NORGES BANK	07/02/2017	3% of share capital exceeded
NORGES BANK	08/02/2017	Below 3% of share capital

NORGES BANK	10/02/2017	3% of share capital exceeded
NORGES BANK	13/02/2017	Below 3% of share capital
NORGES BANK	13/03/2017	3% of share capital exceeded
NORGES BANK	14/03/2017	Below 3% of share capital
NORGES BANK	15/03/2017	3% of share capital exceeded
NORGES BANK	16/03/2017	Below 3% of share capital
NORGES BANK	17/03/2017	3% of share capital exceeded
NORGES BANK	20/03/2017	Below 3% of share capital
NORGES BANK	21/03/2017	3% of share capital exceeded
NORGES BANK	22/03/2017	Below 3% of share capital
NORGES BANK	04/04/2017	3% of share capital exceeded
NORGES BANK	07/04/2017	Below 3% of share capital
NORGES BANK	31/05/2017	3% of share capital exceeded
NORGES BANK	15/06/2017	Below 3% of share capital
NORGES BANK	21/06/2017	3% of share capital exceeded
NORGES BANK	30/06/2017	Below 3% of share capital
NORGES BANK	14/07/2017	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
DOÑA CARINA SZPILKA LÁZARO	0	0	0,00%
DON FERNANDO D´ORNELLAS SILVA	0	0	0,00%
DON JUAN ARENA DE LA MORA	1.000	0	0,00%
DON ALFREDO PASTOR BODMER	0	6.000	0,00%
DON GABRIEL ESCARRER JULIA	0	119.437.747	52,00%
DON JUAN VIVES CERDA	0	375	0,00%
DON SEBASTIAN ESCARRER JAUME	0	0	0,00%
DON GABRIEL ESCARRER JAUME	0	0	0,00%
DON FRANCISCO JAVIER CAMPO GARCIA	0	0	0,00%
DON LUIS Mª DIAZ DE BUSTAMANTE TERMINEL	300	0	0,00%

HOTELES MALLORQUINES CONSOLIDADOS, S.A.	51.871.167	0	22,58%

Name or corporate name of the indirect shareholder	Through: Name or corporate name of the direct shareholder	Number of voting rights
DON ALFREDO PASTOR BODMER	DOÑA MARÍA DEL CARMEN OLIVES PUIG	6.000
DON GABRIEL ESCARRER JULIA	HOTELES MALLORQUINES CONSOLIDADOS, S.A.	51.871.167
DON GABRIEL ESCARRER JULIA	HOTELES MALLORQUINES AGRUPADOS S.L.	25.690.989
DON GABRIEL ESCARRER JULIA	HOTELES MALLORQUINES ASOCIADOS, S.L.	30.333.066
DON GABRIEL ESCARRER JULIA	MAJORCAN HOTELS EXLUX, S.L.	11.542.525
DON 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)
DON 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)
DON 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)
DON GABRIEL ESCARRER JULIA
MAJORCAN HOTELS EXLUX, 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)
DON 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.

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 ☒

State whether the company is aware of the existence of concerted actions amongst its shareholders. If so, detail them briefly:

Yes ☐ No ☒

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 ☒ No ☐

Name or corporate name
DON 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 Exlux, S.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
1.722.464	0	0,75%

(*) Through:

Give any details of any significant changes during the year, pursuant to Royal Decree 1362/2007:

Explain the significant changes

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	43,70

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 ☒

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 ☒

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 ☒

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 majorityowned 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	% Sharehold ers present	% attending by proxy	% voting remotely		Total
			Electronic vote	Other	
23/06/2016	52,37%	14,21%	0,00%	0,00%	66,58%
08/06/2017	52,50%	35,15%	0,00%	0,00%	87,65%

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
DOÑA CARINA SZPILKA LÁZARO		Independent	DIRECTOR	25/02/2016	23/06/2016	RESOLUTION AT GENERAL SHAREHOLDERS MEETING
DON FERNANDO D´ORNELLAS SILVA		Independent	INDEPENDE NT COORDINATI NG DIRECTOR	13/06/2012	08/06/2017	RESOLUTION AT GENERAL SHAREHOLDERS MEETING
DON JUAN ARENA DE LA MORA		Independent	DIRECTOR	31/03/2009	04/06/2014	RESOLUTION AT GENERAL SHAREHOLDERS MEETING
DON ALFREDO PASTOR BODMER		Other External	DIRECTOR	31/05/1996	04/06/2015	RESOLUTION AT GENERAL SHAREHOLDERS MEETING
DON GABRIEL ESCARRER JULIA		Proprietary	PRESIDENT	07/02/1996	04/06/2015	RESOLUTION AT GENERAL SHAREHOLDERS MEETING
DON JUAN VIVES CERDA		Proprietary	DIRECTOR	07/02/1996	04/06/2015	RESOLUTION AT GENERAL SHAREHOLDERS MEETING
DON SEBASTIAN ESCARRER JAUME		Proprietary	DIRECTOR	07/02/1996	08/06/2017	RESOLUTION AT GENERAL SHAREHOLDERS MEETING
DON GABRIEL ESCARRER JAUME		Executive	VICE PRESIDENT- MANAGING DIRECTOR	07/04/1999	08/06/2017	RESOLUTION AT GENERAL SHAREHOLDERS MEETING
DON FRANCISCO JAVIER CAMPO GARCIA		Independent	DIRECTOR	13/06/2012	08/06/2017	RESOLUTION AT GENERAL SHAREHOLDERS MEETING
DON LUIS Mª DIAZ DE BUSTAMANTE TERMINEL		Independent	SECRETARY DIRECTOR	30/11/2010	08/06/2017	RESOLUTION AT GENERAL SHAREHOLDERS MEETING
HOTELES MALLORQUINES CONSOLIDADOS, S.A.	DOÑA MARIA ANTONIA ESCARRER JAUME	Propietary	DIRECTOR	23/10/2000	08/06/2017	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
DON GABRIEL ESCARRER JULIA	ACCIONISTAS SIGNIFICATIVOS
DON JUAN VIVES CERDA	HOTELES MALLORQUINES ASOCIADOS, S.L.
DON SEBASTIAN ESCARRER JAUME	HOTELES MALLORQUINES AGRUPADOS S.L.
HOTELES MALLORQUINES CONSOLIDADOS, S.A.	HOTELES MALLORQUINES CONSOLIDADOS, S.A.
Total number of proprietary directors	4
% of total directors	36,36%

EXTERNAL INDEPENDENT DIRECTORS

Name of director:

CARINA SZPILKA LÁZARO

Profile:

Degree in Economics and Business Studies from ICADE E-2 and Executive MBA from the Instituto de Empresa in Madrid.

She held several positions in Santander Investment, Argentaria (now BBVA) and ING Direct between 1991 and 2013.

She has also worked for Oracle Spain and as Vice-President of UNICEF Spain, as well as being Patron of the Create Foundation.

She is currently an Independent Director for ABANCA, Grifols and Meliá Hotels International, founding member and president of K Fund Venture Capital, president of ADigital and member of the Advisory Board of Reparalia (Homeserve Group).

She is also a member of the ESADE Professional Council and the Advisory Board of Impact.

She has received numerous awards including "Female Executive of the Year" Fedepe (2011), "Career Award" from ICADE (2012), "Gold Medal of the senior management forum" (2012) “Best Executive of the Year" from Emprendedores (2013), "#ElTalento Award for Executive Talent" from Cinco Dias (2014), "Professional Excellence Award" from ADigital (2014) and "Eisenhower Innovation Fellow" (2014).

Name of director:

FERNANDO D´ORNELLAS SILVA

Profile:

Degree in Law and Economics from ICADE-E and MBA from IESE in Barcelona (International Section), from 1983 to 1985 he was Deputy Financial Director at Johnson & Johnson Spain and he has also held several positions within the Bergé Group since 1985, Chief Financial Officer Toyota Spain until 1992, Chief Executive Officer Chrysler Spain (1992-2004), President Chrysler Portugal (1997-2012), President Chrysler Colombia (2010-2012), President KIA for Argentina, Peru and Portugal (2004-2012), President Mitsubishi Motor Peru (2010-2012), Vice President Mitsubishi Motors Chile (2001-2012), Vice President SKBergé Latin America (2001-2012), President Bergé Automotive (2004-2012) and Chief Executive Officer Bergé Group (2007-2012).

Since 2004, among other positions, he has been: Member of the Board of Directors, President of the Remuneration Committee (2007-2009) and Chairman of the Audit Committee of ENDESA S.A. (2009). Member of the Board of Directors and Chairman of the Audit Committee (2007-2009) and Director in charge of supervising the activities of subsidiaries in Peru, Colombia, Argentina and Brazil for ENDESA CHILE. Member of the Board of Directors (2013-2015) and Chairman of the Audit Commission (2014-2015) of DINAMIA. Vice-President of the National Association of Importers of Automobiles, Trucks, Buses and Motorcycles (2004-2012). Founding member of the Spain-Chile and Spain-Peru Foundations (2011-2012). Member of the Spain-China and Spain-Japan Foundations, Adviser to Mitsubishi Corporation in the acquisition of Acciona Termosolar, S.A. (2010-2011) and Vice President of the Real Club de la Puerta de Hierro (2006-2010) and member of its Advisory Board since 2010.

He has been a Member of the Board of Directors since 2012 and is currently Coordinating Director, President of the Audit and Compliance Committee and Member of the Appointments and Remuneration Committee at MELIÁ HOTELS INTERNATIONAL S.A. Member of the Board of Directors of PROSEGUR since 2016, Member of the Advisory Board for WILLIS IBERIA since 2013, Senior Advisor Spain and LATAM for MITSUBISHI CORPORATION since 2013; Senior Advisor for Spain and LATAM in LAZARD FINANCIAL ADVISERS S.A. since 2013. Member of the Advisory Board of Hispanic International Society of America, Vice-President of the International Council of the Royal Theatre in Madrid since 2015 and Member of the Executive Committee Spain-USA Foundation since 2016.

Name of director:

JUAN ARENA DE LA MORA

Profile:

ICAI Doctor Engineer, Graduate in Business Science from ICADE, Graduate in Psychology, Diploma in Fiscal Studies and AMP Harvard Business School.

Professor at Harvard Business School (2009-2010) teaching on the MBA programme (2015) and AMP (Advance Management Programme) and in IESE (2011) teaching in the PADE programme.

He started his career at Bankinter where he occupied various positions. In 1985 he was named Managing Director and in 1993 Chief Executive Officer and CEO. From March 2002 to April

2007 he was Executive Chairman.

He is currently Director of Ferrovial, Almirall Laboratories, and Meliá Hotels International where he holds positions on different Commissions, Member of the EVERIS International Council, Chairman of the Advisory Board of Consulnor, Member of the Advisory Boards of Marsh and Panda.

In the academic field, he is currently President of the Professional Council of ESADE, Director of Deusto Business School and Member of the World Advisory Board of Harvard Business School.

He was the founder and first President of the SERES Foundation (responsible business and society) and is currently a member of the Executive Committee and President of the Governance Commission.

In addition, he has been a Director of TPI, Prisa, Everis, UBS Spain, Panda, Dinamia, member of the Board of ESADE and member of the Advisory Board of Spencer Stuart.

He was awarded the Grand Cross of the Order of Civil Merit for his contribution to research and development of the Information Society.

Name of director:

FRANCISCO JAVIER CAMPO GARCIA

Profile:

Industrial Engineer from the Polytechnic University of Madrid, began his career in 1980 at Arthur Andersen.

In 1985 he joined Día, where for 24 years he has held the position of global president of Dia International Group and has also been a member of the Carrefour Group's Global Executive Committee for 15 years. Until November 2014, he was president of the Zena group, the leading multi-brand restaurant service company in Spain comprising five brands: Foster's Hollywood, La Vaca Argentina, Cañas y Tapas, Domino's Pizza and Burger King.

He has also been Chairman of the Cortefiel Group (Cortefiel, Springfield, WomenSecret) from 2014 to 2016. He is currently President of AECOC, an Association of major companies which represent more than 20% of Spanish GDP and has more than 28,000 associated companies with more than 2 million employees. Chairman of Bankia and of its Advisory Committee on Risks, Director of Meliá Hotels International, Member of the Advisory Board of the Palacios Food Group, and member of the Advisory Board of AT Kearney. He is also a Patron of the ITER Foundation, the F. Campo Foundation, a member of the Carlos III Foundation, a member of the Bankia Foundation and spokesperson of A.P.D. (Association for Management Progress).

Name of director:

LUIS MARIA DIAZ DE BUSTAMANTE TERMINEL

Profile:

Born in Torrelavega (Cantabria, Spain) on August 25, 1952. Law Graduate from the Complutense University of Madrid.

Lawyer since 1975 and Partner of the Isidro D. Bustamante Law Firm (1942). His career has focused mainly on civil law, commercial law, civil and international procedures and advisory services for entrepreneurs and corporations.

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 of Director:

ALFREDO PASTOR BODMER

Company, executive or shareholder to which related:

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:

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 2017	Year 2016	Year 2015	Year 2014	Year 2017	Year 2016	Year 2015	Year 2014
Executive	0	0	0	0	0,00%	0,00%	0,00%	0,00%
Proprietary	1	1	1	1	25,00%	25,00%	33,33%	33,33%
Independent	1	1	0	1	20,00%	20,00%	0,00%	16,67%
Other External	0	0	0	0	0,00%	0,00%	0,00%	0,00%
Total:	2	2	1	2	18,18%	18,18%	10,00%	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 acknowledges full equality of opportunities in all its activities, without any discrimination. This criterion is assumed by the Appointments and Remuneration Committee when beginning the selection process for a new Director, ensuring that there is no implicit bias that might hinder the selection of 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

When selecting Directors, the Appointments and Remuneration Committee objectively evaluates the skills and experience of candidates, assessing the profile of candidates and ensuring equal opportunities between women and men and that there is no discrimination based on gender.

The selection of Board members and assessment of candidates includes among potential candidates those women whose professional profile may maximise the know-how and experience they can contribute in the performance of their functions as Directors. The selection process focuses on the search for specific skills, evaluating candidates based on these skills, their know-how and attitude while guaranteeing equal treatment and opportunities and ensuring transparency throughout all processes.

Specifically, the Director Recruitment Policy approved in February fiscal 2017 defines the guiding principle for the process: "The assessment of potential candidates based on criteria of equality and objectivity, avoiding any implicit bias that may involve any type of discrimination."

When, despite any measures that might have been adopted, the number of female directors is low or none, explain the reasons:

Explanation of the measures

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
In relation to proposals for the re-election of Directors subject to the approval of the General Shareholders' Meeting, in fiscal 2017 an assessment of compliance with the Director Recruitment Policy by the Appointments and Remuneration Committee was carried out when preparing the legally required Reports and Proposals made available to shareholders through the Company website. In summary, they established that "... the Board of Directors must have Directors among its members with extensive experience in the tourism and hotel industry, knowledge of internal operations in the Company, experience in the values of family-run companies and the ability to adapt in a constantly-changing industry growing both geographically and technologically". Regarding objectives for Directors in 2020, the Company Director Recruitment Policy approved on February 27, fiscal 2017, includes: "f. The trend towards the progressive increase of the number of women on the Board of Directors, always based on an unbiased assessment of skills, profiles, know-how, experiences and professional abilities, aiming insofar as is possible to ensure that by 2020 at least one third of the members of the Board of Directors are women." This makes it one of the issues that must be evaluated by the Appointments and Remuneration Committee whenever naming, ratifying and/or re-electing board members.

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 ☒

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 functions?
MR. GABRIEL ESCARRER JAUME	FARANDOLE B.V.	JOINT DIRECTOR	NO

MR. GABRIEL ESCARRER JAUME	INVERSIONES INMOBILIARIAS IAR 1997 C.A.	PRESIDENT	NO
MR. GABRIEL ESCARRER JAUME	MARKSERV B.V.	DIRECTOR	NO
MR. GABRIEL ESCARRER JAUME	SOL MELIA ITALIA. S.R.L.	MANAGING DIRECTOR	YES
MR. GABRIEL ESCARRER JAUME	INVERSIONES AREITO. S.A.	JOINT MANAGING DIRECTOR	NO
MR. GABRIEL ESCARRER JAUME	INMOTEL INVERSIONES ITALIA S.R.L.	MANAGING DIRECTOR	YES
MR.GABRIEL ESCARRER JAUME	LONDON XXI. LIMITED	DIRECTOR	YES
MR. GABRIEL ESCARRER JAUME	SOL MELIA BALKANS EAD	DIRECTOR	NO
MR.GABRIEL ESCARRER JAUME	SOL MELIA PERU S.A.C.	PRESIDENT	NO
MR. GABRIEL ESCARRER JAUME	SOL MELIA HOTEL MANAGEMENT (SHANGHAI) COMPANY LTD.	DIRECTOR	NO
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	SOL MELIA FRANCE S.A.S.	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 MANAGING DIRECTOR	YES
MR. GABRIEL ESCARRER JAUME	HOTEL METROPOLITAIN S.A.S.	PRESIDENT	YES
MR. GABRIEL ESCARRER JAUME	INMOBILIARIA DISTRITO COMERCIAL C.A.	PRESIDENT	NO
MR. GABRIEL ESCARRER JAUME	LOMONDO LIMITED	DIRECTOR	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,	CO-CEO	NO
MR. GABRIEL ESCARRER JAUME	SOL MELIÁ INVESTMENT N.V.	DIRECTOR	NO
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.	CO-CEO	NO
MR. GABRIEL ESCARRER JAUME	CARIBOTELS DE MÉXICO S.A.DE C.V.	PRESIDENT	NO
MR. GABRIEL ESCARRER JAUME	BISOL VALLARTA S.A.DE C.V.	PRESIDENT	NO
MR. GABRIEL ESCARRER JAUME	OPERADORA MESOL S.A. DE C.V.	PRESIDENT	NO
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	GEST.HOT.TURÍSTICA MESOL S.A.	ADMINISTRADOR ÚNICO	YES
MR. GABRIEL ESCARRER JAUME	SECURISOL S.A.	PRESIDENT	NO
MR. GABRIEL ESCARRER JAUME	PRODIGIOS INTERACTIVOS, 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	IDISO HOTEL DISTRIBUTION S.A.	DIRECTOR	NO
MR. GABRIEL ESCARRER JAUME	COLON VERONA S.A.	PRESIDENT	NO
MR. GABRIEL ESCARRER JAUME	SOL MELIÁ LUXEMBOURG. S.À.R.L.	DIRECTOR	NO
MR. GABRIEL ESCARRER JAUME	HOTELES SOL MELIÁ S.L	DIRECTOR	NO
MR. GABRIEL ESCARRER JAUME	SOL MELIA VACATION CLUB ESPAÑA S.L.	PRESIDENT/ MANAGING DIRECTOR	YES
MR. GABRIEL ESCARRER JAUME	HOTELPOINT S.L.U.	PRESIDENT	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	PRESIDENT DIRECTOR	NO
MR. GABRIEL ESCARRER JAUME	CALA FORMENTOR S.A. DE C.V.	PRESIDENT	NO
MR. GABRIEL ESCARRER JAUME	CORPORACIÓN HOTELERA HISPANO MEXICANA S.A.	PRESIDENT	NO

MR. GABRIEL ESCARRER JAUME	DESARROLLOS SOL, S.A.	PRESIDENT	NO
MR. GABRIEL ESCARRER JAUME	AYOSA HOTELES S.L.	CO-CEO	NO
MR. GABRIEL ESCARRER JAUME	SOL MELIÁ DEUTSCHLAND GmbH	JOINT AND SEVERAL DIRECTOR	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
CARINA SZPILKA LÁZARO	GRIFOLS S.A.	DIRECTOR
FERNANDO D´ORNELLAS SILVA	PROSEGUR S.A.	DIRECTOR
JUAN ARENA DE LA MORA	ALMIRALL S.A.	DIRECTOR
JUAN ARENA DE LA MORA	FERROVIAL S.A.	DIRECTOR
FRANCISCO JAVIER CAMPO GARCIA	BANKIA, 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 ☒

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):	2.091
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
GABRIEL CÁNAVES PICORNELL	CHIEF HUMAN RESOURCES OFFICER
PILAR DOLS COMPANY	CHIEF FINANCIAL AND ADMINISTRATION OFFICER
JUAN IGNACIO PARDO GARCIA	CHIEF LEGAL & COMPLIANCE OFFICER
ANDRE PHILIPPE GERONDEAU	CHIEF OPERATING OFFICER
MARK MAURICE HODDINOTT	CHIEF REAL STATE OFFICER
Total senior management remuneration (€k)	2.360

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
GABRIEL ESCARRER JULIA	HOTELES MALLORQUINES CONSOLIDADOS, S.A.	PRESIDENT
GABRIEL ESCARRER JULIA	HOTELES MALLORQUINES AGRUPADOS S.L.	PRESIDENT
GABRIEL ESCARRER JULIA	HOTELES MALLORQUINES ASOCIADOS, S.L.	PRESIDENT
SEBASTIAN ESCARRER JAUME	HOTELES MALLORQUINES CONSOLIDADOS, S.A.	SECRETARIO CONSEJERO
SEBASTIAN ESCARRER JAUME	HOTELES MALLORQUINES AGRUPADOS S.L.	DIRECTOR
SEBASTIAN ESCARRER JAUME	HOTELES MALLORQUINES ASOCIADOS, S.L.	DIRECTOR
GABRIEL ESCARRER JAUME	HOTELES MALLORQUINES CONSOLIDADOS, S.A.	DIRECTOR
GABRIEL ESCARRER JAUME	HOTELES MALLORQUINES AGRUPADOS S.L.	SECRETARY/ DIRECTOR
GABRIEL ESCARRER JAUME	HOTELES MALLORQUINES ASOCIADOS, S.L.	SECRETARY/ DIRECTOR
GABRIEL ESCARRER JAUME	MAJORCAN HOTELS EXLUX, S.L.	SECRETARY/ DIRECTOR
GABRIEL ESCARRER JULIA	MAJORCAN HOTELS EXLUX, S.L.	PRESIDENT
SEBASTIAN ESCARRER JAUME	MAJORCAN HOTELS EXLUX, S.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 EXLUX, 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 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 EXLUX, 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 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 EXLUX, 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.

C.1.18 State whether there has been any change in the Board regulations during the year:

Yes ☐ No ☒

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.

In accordance with article 15 of the Regulations of the Board of Directors, the Appointments and Remuneration Committee must define and review criteria for the composition of the Board of Directors and selection of candidates, proposing to the Board as appropriate the appointment of independent directors as well as reporting proposals for other directors so that the Board may proceed with the appointment (in case of co-optation) or submit the decision to the General Shareholders' Meeting, along with any re-election or separation by the General Meeting.
Directors are appointed for a period of four years and may be re-elected once or several times for periods of equal duration.
For the removal of Directors, the procedures indicated in applicable legislation and the Company Bylaws must be followed.

The criteria applied by the Company in each procedure is described in the Director Recruitment Policy approved by the Board of Directors on February 27, fiscal 2017 and available on the company website. Among others, they include:

- The analysis of the profiles and professional know-how of Directors who are already Board members.
- The maintenance of a correct balance between the different types of experience and know-how provided by the Directors to the Company and the Group.
- An analysis of potential situations of conflict, prohibition or incompatibility.
- An assessment of potential candidates based on criteria of equality and objectivity, avoiding any type of implicit bias that may cause discrimination.
- The time that potential candidates may be available.
- The maintenance of an appropriate balance between the different types of Director.
- A trend towards the progressive increase of the number of women on the Board of Directors, always based on an equal assessment of skills, profiles, knowledge, experiences and professional functions.
-

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:.20 Explique en qué medida la evaluación anual del consejo ha dado lugar a cambios importantes en su organización interna y sobre los procedimientos aplicables a sus actividades:

Description of changes

- Throughout fiscal 2017, the Board of Directors has monitored actions and organizational changes at the highest level that were announced and implemented in 2016, without them having given rise to significant changes in the internal organization of the Board or its general procedures.
-
- Likewise, the Board of Directors, through the Audit and Compliance Committee, has supported several projects regarding the constant adaptation of the information made available to the Board to ensure the dynamic evolution of the presentation of financial and non-financial information, including supervision and monitoring of the strategic objectives of the Company and its main risks.

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.

The evaluation for fiscal 2017 has been carried out through Directors completing evaluation questionnaires. This year the Company has received external advice from Deloitte regarding the application of the provisions of Recommendation 36 of the Code of Good Governance of Listed Companies.

The main areas that have been evaluated are:
a) Regarding the Board:
- Board Operations
- Board Composition and Remuneration
- Board Information and Training
- Board Organization
- Board Culture
- Board Committees
- Other aspects

b) Regarding the Chief Executive:
- Strategic vision and leadership
- Achievement of results
- Talent management
- Management style
- Relationship with the Board
- Innovation
- Culture

The questions include an additional field that allows Board Members to add comments and/or suggestions as well as adding other issues that may improve the functioning of the Board.
The results of these evaluations are analysed by the Appointments and Remuneration Committee and then presented by its Chairman to the Board of Directors to stimulate debate and bring about the improvements that are considered appropriate.

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.

In fiscal 2017, in which Deloitte has provided advice on the evaluation process of the Board of Directors, the business relationship between Meliá Hotels International and Deloitte is based mainly on:

Legal advice

Diverse consulting services

External audit services for an international associate.

Analysing the amounts related to them compared to the amounts invoiced by Deloitte and its Group, the amounts paid do not represent a significant percentage of the total business of Deloitte and, therefore, for the purposes of the advisory services on the evaluation process it has been considered as an independent supplier.

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 ☒

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 ☒ 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 [ ]

Matters on which there is a casting vote
In the case of a tie in relation to all matters..

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	6
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	8

APPOINTMENTS AND REMUNERATION COMMITTEE	5

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	6
% 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 AND ADMINISTRATION OFFICER
MR. GABRIEL ESCARRER JAUME	VICEPRESIDENT AND CEO

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 [ ]

If the Secretary is not a director, complete the following table:

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)	278	215	493
Amount of non-audit work / total amount billed by the audit firm (in %)	63,96%	17,41%	30,65%

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	9	9
Number of years audited by the current audit firm / Number of years that the company has been audited (in %)	40,91%	40,91%

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:

it is not required for the proper performance of the duties assigned to External Directors;

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 2015, the Chief Executive Officer signed a contract with the Company to provide services in accordance with article 249 of the Capital Companies Act, which, in relation to compensation, foresees:

Post-contract non-compete agreement for one year, with the Company paying the CEO one year's total annual salary under the conditions in force at the time of termination.
If the CEO breaches the post-contract non-compete agreement, he must return to the Company any amounts received for that concept and compensate the Company with an amount equivalent to 150% of the amount received for that concept.
Termination of contract: The cases set forth by Company Law will be cause for dismissal of the CEO, in which case he must place his position at the disposal of the Board of Directors and, if appropriate, formalize his immediate dismissal from office.
Compensation: the CEO may be compensated with an amount equivalent to one year's total annual remuneration in the following cases:
Unilateral termination by the CEO: due to a breach (serious and culpable) by the Company of its contractual obligations according to his contract or to a substantial modification of his functions, powers or service conditions not motivated by a cause imputable to the CEO.
Unilateral termination by the Company: due to a serious and culpable breach by the CEO of the duties of loyalty, diligence or good faith or any of those established by law, according to those by which he must perform his duties.

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 14.2 of the Regulations of the Board states that the Audit and Compliance Committee will meet at least once per quarter and as many times as may be appropriate according to the needs of the Company on notice by its Chairman, or on request by many of its members, or on request by the Board of Directors.

Without prejudice to any others defined by Law, Company Bylaws or the Regulations or the Board of Directors, the functions of the Audit and Compliance Committee will be the following:

(a) Report to the General Shareholders' Meeting on matters raised by shareholders within its competence and, in particular, on the audit results, explaining how this has contributed to the integrity of financial information and the function that the commission has played in that process;

(b) Submit proposals to the Board of Directors for the recruitment, appointment, re-election and replacement of the accounts auditor, being responsible for the selection process in accordance with the provisions of current regulations and the contracting process, as well as regularly collecting information from the auditor on the audit plan and its implementation, in addition to preserving their independence in the performance of their duties;

(c) Supervise the effectiveness of the company's internal controls, internal audit services and risk management systems, including fiscal risks, as well as discussing with the auditor any significant internal control weaknesses detected in the audit, all without impinging on their independence, and presenting recommendations or proposals to the Board of Directors and the corresponding deadline for compliance;

(d) Supervise the preparation and presentation of mandatory financial information and submit recommendations or proposals to the Board of Directors aimed at safeguarding its integrity;

(e) Review the appointment or replacement of the people responsible for the financial information processes, internal control systems and risk management;

(f) Maintain a relationship with external auditors to get information on issues that may pose a threat to their independence or any other issues related to the performance of the Accounts Audit, and, where appropriate, to authorize services other than those prohibited in accordance with applicable legislation as well as those other communications foreseen in legislation on Accounts Audits and technical standards;

(g) Review Company Accounts and monitor compliance with legal requirements and the correct application of generally accepted accounting principles with the direct assistance of external and internal auditors;

(h) Ensure that the financial information provided to the markets is prepared in accordance with the same principles, criteria and professional practices used to prepare the Annual Accounts;

(i) Examine compliance with the Internal Code of Conduct for the Securities Markets, the Regulations of the Board of Directors and, in general, the rules of Company Governance and make all appropriate proposals for improvement;

(j) Receive the declaration of independence every year from external auditors in relation to the Company or entities linked to the Company either directly or indirectly, as well as detailed information on any additional services of any kind rendered and the corresponding fees received from these entities by the external auditor or by the persons or entities linked to it in accordance with the provisions of applicable regulations;

(k) Prior to the presentation of the Accounts Audit report, issue a report every year expressing an opinion on the independence of the Accounts Auditor in accordance with the Law;

(l) Report in advance to the Board of Directors any matters set forth by Law, Company Bylaws or the Regulations of the Board and, in particular, on (i) the financial information that the Company must periodically make public; (ii) the creation or acquisition of interests in special-purpose entities or entities domiciled in countries or territories considered to be tax havens; and (iii) transactions with related parties.

It is considered that the Committee performs or can perform all the functions defined in recommendation 42 of the Code of Good Governance of Listed Companies, given that Article 14.2 RCA regarding the functions of the Audit and Compliance Committee defines the same functions, without prejudice to any other functions established by the Law, Company Bylaws and the Regulations of the Board or which the Board may assign to it.

The explanation continues in section H as a note to section C.2.1

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	Propietary
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 states that the Appointments and Remuneration Committee will meet at the request of its Chairman, or of a majority of its members, or of the Board of Directors, whenever a report or the adoption of proposals is required, and as many times as may be appropriate depending on the needs of the Company. The functions of the Appointments and Remuneration Committee shall be at least the following, notwithstanding any others defined by the Law, Company Bylaws and Regulations:

(a) Define and review the criteria to be followed for the composition of the Board of Directors and selection of candidates;

(b) Submit proposals to the Board for the appointment of Independent Directors so that the Board may directly designate them (co-optation) or submit them to the Annual General Meeting as well as any re-elections or removals;

(c) Report proposals for the appointment of the remaining Directors so that the Board may directly designate them (co-optation) or submit them to the Annual General Meeting as well as any re-elections or removals;

(d) Report any proposals for the appointment or removal of senior executives and the basic conditions of their contracts;

(e) Propose to the Board the members of each of the Committees;

(f) Propose to the Board the remuneration policy for Directors and Senior Managers or those who perform senior management functions under the direct supervision of the Board, Executive Commissions or CEO, as well as individual compensation and other contractual conditions for Executive Directors, also ensuring their observance. Regularly review the remuneration policy to ensure its appropriateness and performance;

(g) Ensure transparency in remuneration;

(h) Report on any transactions that imply or may involve conflicts of interest and, in general, on matters related to the duties of Directors in accordance with Regulations;

(i) Coordinate the report on the quality and efficiency of the functioning of the Board of Directors and the Commissions defined by the Board;

(j) Examine and organize the succession of the Chairman and Chief Executive of the Company make proposals where appropriate to the Board of Directors to ensure that said succession takes place in an orderly and organized manner;

(k) Report in advance to the Board of Directors on all the matters defined in the Law, Company Bylaws and Regulations. The Committee must consider all suggestions made by the Chairman, members of the Board, Directors or shareholders of the Company. Executive Directors may attend Committee sessions at the request of its Chairman and take part, but not vote. Any member of the management team or Company personnel must attend and cooperate, if invited, in Commission sessions and allow access to all the information at their disposal, to optimise its performance, the Appointments and Remuneration Committee may seek the support of external experts.

It is considered that the Committee performs or can perform all the functions defined in recommendation 50 of the

Code of Good Governance of Listed Companies, given that Article 15.2 RCA regarding the functions of the Appointments and Remuneration Committee defines the same functions, without prejudice to any other functions established by the Law, Company Bylaws and Regulations.

The explanation continues in section H as a note to section C.2.1

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 2017		Year 2016		Year 2015		Year 2014	
	Number	%	Number	%	Number	%	Number	%
AUDIT AND COMPLIANCE COMMITTEE	1	20,00%	1	20,00%	0	0,00%	1	25,00%
APPOINTMENTS AND REMUNERATION COMMITTEE	1	25,00%	1	25,00%	1	25,00%	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 Regulated in Article 39 ter of Company Bylaws and Article 15 of the Regulations of the Board. Both documents can be viewed on the Company website, www.meliahotelsinternational.com. At every Board of Directors meeting, information is provided on the main issues and most relevant conclusions dealt with in Committee meetings. The Committee has prepared an Activities Report for fiscal 2017 which is available on the corporate website.

2. AUDIT AND COMPLIANCE COMMITTEE Regulated in articles 39bis of Company Bylaws (modified by the resolutions adopted by the Annual General Meeting of June 23, 2016) and Article 14 of the Regulations of the Board (modified by the resolutions of the Board of Directors of June 23, 2016). Both documents can be viewed on the Company website, www.meliahotelsinternational.com. At every Board of Directors meeting, information is provided on the main issues and most relevant conclusions dealt with in Committee meetings. The Committee has prepared an Activities Report for fiscal 2017 which is available on the corporate website.

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 operation	Amount (thousand euros)
HOTELES MALLORQUINES ASOCIADOS, S.L.	Prodigios Interactivos S.A.	Contractual	Operational lease contracts	1.848
HOTELES MALLORQUINES ASOCIADOS, S.L.	Meliá Hotels International S.A.	Contractual	Receipt of services	518
HOTELES MALLORQUINES ASOCIADOS, S.L.	Aresol Cabos S.A. de C.V.	Contractual	Receipt of services	78
HOTELES MALLORQUINES ASOCIADOS, S.L.	Meliá Hotels International S.A.	Contractual	Purchase of financial assets	8.992
HOTELES MALLORQUINES AGRUPADOS S.L.	Meliá Hotels International S.A.	Contractual	Purchase of finZassets	8.992
HOTELES MALLORQUINES CONSOLIDADOS, S.A.	Meliá Hotels International S.A.	Contractual	Purchase of financial assets	10.065

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	Meliá Hotels International S.A.	Commercial	Provision of services	269
MR. JUAN VIVES CERDA	Prodigios Interactivos S.A.	Commercial	Provision of services	301

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 case, any intra-group transaction with entities based in countries or territories considered to be tax havens will be reported:

Name of the group entity:

SOL MELIÁ FUNDING

Amount (thousands of euros): 4,748

Brief description of the operation:

Cession of clients of American companies in the vacation club segment to Sol Meliá Funding for their management.

Name of the group entity:

SOL MELIÁ FUNDING

Amount (thousands of euros): 29,815

Brief description of the operation:

Variation of the intergroup loan with the mother company, framed within the centralized treasury management policy.

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 ☒

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 RISK MANAGEMENT SYSTEM

E.1 Explain the scope of the company's Risk Management System, including risks of a tax-related nature.

Meliá Hotels International (MHI) has an integrated and continuous risk management model that generates a Group Risk Map, based on the consolidation of the Individual Risk Map for the different Departments and business areas. The model is based on the COSO II Enterprise Risk Management (ERM) methodology and includes the following stages:

1. Identification of the relevant risks, including tax risks through the collection and analysis of internal and external information.

2. Analysis and evaluation of those risks in each of the business areas and support units, prioritizing the most relevant risks and obtaining the different Risk Maps.

3. Risk management: assignment of responsibilities for the most relevant risks and definition of action plans to effectively contribute to their management.

4. Regular monitoring and control of risks, updating the indicators defined for the most relevant risks, annually updating Risk Maps, and monitoring projects designed for to mitigate them.

5. Regular and transparent communication of results to Senior Management and the Audit and Compliance Committee and Board of Directors to allow constant improvement.

The MHI management team regularly identifies the risks that threaten the achievement of objectives (Stage 1) and evaluates them regarding the probability of them happening and the impact if they did happen (Stage 2).

In February fiscal 2017, the MHI Board of Directors approved the updating of the Risk Control, Analysis and Valuation Policy, applicable to the entire Group in the different countries in which it operates, and which defines the basic principles that govern risk management and the general framework for actions to control, analyse and assess risks, including tax risks. These basic principles are:

a. Encourage an appropriate internal environment and a culture of risk awareness.
b. Align strategy to the risks identified.
c. Guarantee an appropriate degree of independence between the areas responsible for risk management (and their elimination or mitigation) and the area responsible for their control and analysis.
d. Identify and evaluate the diversity of risks that affect the Group, ensuring their correct allocation.
e. Guarantee the appropriate management of the most relevant risks.
f. Improve processes and decisions in response to risks.
g. Provide integrated responses to multiple risks.
h. Report and communicate transparently and consistently at all levels of the Organization with regard to the Group's risks.
i. Ensure that the Group's actions at all times are perfectly aligned with current legislation, the Group's internal regulations and the Code of Ethics.

In fiscal 2017, the Internal Risk Control and Analysis Regulations was also updated to ensure the correct and efficient functioning of the MHI Risk Control system, defining the rules, guidelines and criteria to be followed in updating Risk Maps to completely align them with global strategy, the leadership model and the culture and values of MHI. The Regulations also define the basic responsibilities in risk management of governance bodies and the different areas of the organization.

E.2 Identify the corporate bodies responsible for drawing up and enforcing the Risk Management System, including tax-related risks.

The Risk Control & Compliance Department (part of the Legal & Compliance Department) is in charge of ensuring the operation and constant development of the risk management model, as well as coordinating the investment prioritization process based on risk criteria. Among other functions, it is responsible for control and risk analysis. Responsibility for managing risks lies directly with each of the different departments and business areas. This Department reports on its activities to the Audit and Compliance Committee both periodically and through an Annual Report.

The Board of Directors has a general supervisory function and a specific responsibility to identify the main risks for the Company, including tax risks, and the implementation and monitoring of the appropriate internal control and information systems (Article 5 of the Regulations of the Board). The Audit and Compliance Committee is responsible for supervising internal audit services and the financial information process and internal control systems (Art. 14.2 of the Regulations of the Board)

In addition to the above, MHI has other bodies or 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 the preparation and implementation of the Risk Management System count on the support of the Code of Ethics, Complaints Channel, and MHI Internal Policies and Regulations as key tools in risk management.

E.3 State the principal risks, including tax-related risks, that could prevent business targets from being met.

All business and business activity involve inherent risks, whose identification, assessment and control are essential to achieve objectives

The risks faced by the Group have not changed with respect to previous years and is classified in the following categories:

1. Global risks. Beyond the capacity for action of the Company itself and economic agents such as: natural catastrophes or disasters, pandemics, sanitary or alimentary crises, geopolitical risks...

In destinations where there is greater exposure to this type of risk, the Company has the relevant coverage required for this type of events, as well as the protocols to ensure the health and safety of customers and employees, and normal operations or, where appropriate, their protection and restoration.

2. Financial risks. Those that make it difficult for the company to meet its financial commitments or make its assets liquid. This includes, for example, liquidity, credit or exchange rate risks. The management of these risks lies mainly with the Finance and Administration Department.

3. Business risks. Derived from changes in the variables intrinsic to the business such as the nature of demand, competition and the market, strategic uncertainty or scenario changes.
Among others, risks related to customers and suppliers, the market, competition, Group investments, expansion, etc. are analysed.

4. Operational Risks. A consequence of possible deficiencies in internal processes, human resources, equipment or computer systems.

5. Compliance Risks. Derived from regulatory changes and/or non-compliance with applicable legislation or internal policies and regulations.

MHI policies and internal regulations, the Code of Ethics and Complaints Channel are some of the tools the Group has to mitigate this type of risk. The Risk Control & Compliance Department is responsible for the implementation of the Crime Prevention and Detection Model.

6. Information Risks. Caused mainly by inappropriate use, generation and communication of information.

The Internal Control over Financial Reporting (ICFR) described in section F of this report deserves special attention.

Fiscal risks, depending on the specific risk, are included within the category of Operational or Compliance Risks.

E.4 Identify whether the company has a risk tolerance level, including tax-related risks.

In the update of the Risk Control, Analysis and Assessment Policy approved by the Board of Directors in February fiscal 2017, tolerance levels are defined for the different risk categories.

In addition, when preparing the Group Risk Map, the risk assessment is carried out at the residual risk level (considering existing control mechanisms) and based on two variables, probability and impact.
These variables are evaluated using quantitative and qualitative criteria (financial, operational, regulatory, reputational, strategic,

etc.), defining ranges to create standardized rating scale as a basis for defining acceptable risk and categorizing all the risks identified.

Once the Group Risk Map is completed, an analysis is made by risk type at the Group level and Area or Departmental level. All this information is contained in an annual report to the Audit and Compliance Committee and Board of Directors.

The Risk Map is aligned with the Strategic Plan and the process for defining objectives. Every year we aim to ensure that measures for mitigating the most important risks are linked to annual objectives and/or the Strategic Plan. Monitoring and the degree of achievement of objectives and the Strategic Plan thus also define the degree of tolerance to those risks.

E.5 Identify what risks, including tax-related risks, have occurred during the year.

Global risks: Natural disasters

The Caribbean was hit by hurricanes Irma and María in fiscal 2017, affecting operations in several of our hotels in Cuba and Puerto Rico.

The impeccable coordination of the response and implementation of the protocols allowed the Company to ensure the safety and comfort of customers and employees at all times, and also allowed affected hotels to restore services and return to normal operations very soon, with the exception of the hotel in Puerto Rico which will remain closed until November 2018 as the destination continues to suffer from infrastructure issues caused by the hurricanes.

Global risks: Geopolitical

In fiscal 2017 there were several geopolitical risks that have materialized and had an impact on our industry. These factors include political instability in certain regions where the company operates (for example, the situation in Catalonia in the final quarter of the year) and the effects of Brexit.

International diversification and a strong presence in the regions with the highest growth, such as the Caribbean, Spain or Asia, and the recovery of markets such as Paris or London also helped mitigate the negative impacts of both natural disasters and geopolitical risks.

E.6 Explain the response and supervision plans for the principal risks faced by the company, including taxrelated risks.

As a first line of defence, each of the different departments/areas (business and support units) are responsible for managing their most important risks, including tax risks. This management is fully integrated into the day-to-day activities of the areas themselves and fully aligned with strategy and objectives.

One of the functions of the MHI Executive Committee regarding risk management is to analyse the Risk Map and assign responsibilities for mitigation of the Group's most important risks. Subsequently, it is the areas affected that define the action plans to be carried out throughout the year to mitigate the risks (Stage 3 of the model).

Annual KRIs (Key Risk Indicators) are defined to monitor and control the most important risks (Stage 4 of the model). These indicators are reported periodically to the Executive Committee.

The results of updating the Risk Map are subject to debate and form part of the agenda of the Executive Committee, as well as of other MHI governing bodies. The Audit and Compliance Committee and Board of Directors are also periodically informed regarding both the results of the Risk Map and the actions derived from it (Stage 5 of the model).

The Risk Control & Compliance Department is in charge of coordinating, supporting, controlling and monitoring every stage 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 MHI Group responsible for ensuring the existence, maintenance, design, implementation and supervision of an adequate and effective Control System for Financial Information and the functions and responsibilities attributed to them are as follows:

Board of Directors

Article 5 of the Regulations of the Board of Directors give the Board the responsibility, among others, to "Identify the most important risks for the Company, especially fiscal risks and those arising from operations with derivatives, and the implementation and monitoring of appropriate internal control and information systems."

Audit and Compliance Committee

Article 14 of the Regulations of the Board of Directors attributes to the Audit and Compliance Committee, among others, responsibility for "c) Supervising the effectiveness of internal control in the company, Internal Audit services and risk management systems, including fiscal risks, as well as discussing with the auditor any significant weaknesses in internal control detected during the audit, all without prejudice to their independence, being able to submit recommendations or proposals to the Board of Directors and the corresponding deadline for compliance." and "d) Supervising the preparation and presentation of mandatory financial information and recommendations or proposals to the Board of Directors aimed at safeguarding its integrity".

The organization and functioning of the Audit and Compliance Committee is regulated in the aforementioned article 14 of the Regulations of the Board of Directors. It currently consists of five Directors, three of them independent, one external Director and a fifth Director who have all held positions of responsibility in financial areas and positions as Director in different companies. Representatives of the internal and external auditors and representatives of the Group Senior Management also attend Committee meetings depending on the issues to be discussed.

Senior Management

The Internal Control over Financial Reporting in the MHI Group attributes to Senior Management responsibility for the design, implementation and maintenance of the System, with each Region or Department responsible for its area of influence. This responsibility thus affects the entire Organization insofar as the financial information is nourished by the activity and the information generated by the business areas and by the rest of the support areas.

Internal Audit Department

The Audit Committee is in charge of supervising the Internal Control over Financial Reporting (ICFR) and it is the responsibility of the Internal Audit Department to verify its correct functioning, keeping the Board of Directors (through the Audit and Compliance Committee) and Senior Management informed about whether the mechanisms implemented by management effectively mitigate the risk of errors with a material impact in financial information.

F.1.2. If, especially in the process of drawing up the financial information, the following elements exist:

The definition and review of the organizational structure is regulated by the Group's Human Resources Regulations and applies to all the Group companies. In accordance with the Regulations approved by Senior Management, the Human Resources Department is responsible for ensuring equity, balance and the optimization of the organizational structure and its periodic review. The managers of the different areas of the Group must ensure that the size of its staff is appropriate and optimal.

Any change in the organizational structure, as well as the appointment and dismissal of senior executives and their compensation, must be approved by the Board of Directors after a proposal by the Appointments and Remuneration Committee.

The Organization area within the Human Resources Department for working with the different areas of the Group to analyse and define processes and job descriptions, functions and responsibilities, including positions related to the preparation of financial information. The Human Resources Regulations and updated Group organizational chart are available to employees through the Intranet.

…

The MHI Group has several documents that refer to the conduct of its employees:

- Code of ethics

The MHI Group has a Code of Ethics that was distributed to the entire Organization in December 2012. The Code and all the information required for its understanding are accessible to all Group employees through the Group Intranet.

In March 2012, the Board of Directors approved the contents of the Code. The Remuneration and Appointments Committee approved the operational channels in October 2012.

The Code of Ethics is a collection of principles that order and provide meaning to the values of the Company, helping to understand them and learn how they should be applied and prioritized. The Code of Ethics is the summit of the entire internal regulatory framework. It establishes the bases from which policies, regulations, processes and internal procedures are created.

The Code of Ethics contains a series of standards that are mandatory. It consists of four main areas:

1. Values on which it is based.
2. Company commitments.
3. Principles for employee activity.
4. Operating systems.

The Code of Ethics includes a section that regulates the principles applicable to relationships with shareholders and investors, explicitly mentioning a commitment to ensure maximum reliability and accuracy of accounting and financial information as well as compliance with obligations regarding transparency in the stock market.

Ultimate responsibility lies with the Board of Directors, which assumes the obligation for implementation through the Appointments and Remuneration Committee. Responsibility for ensuring compliance and resolving issues lies with Senior Management, including Regional Directors and Hotel Managers and other business areas. The duty to keep the Code in operation lies with the Code of Ethics Office, an independent body created to review and permanently update the Code of Ethics and resolve any questions regarding its content and application that may come up in ordinary operations.

- Internal Code of Conduct in Issues Related to the Stock Market

Applicable to members of the Board of Directors and the Recipients defined in the subjective scope of application. Among other things, it contains "Procedures for the Treatment of Privileged Information".

This regulation is delivered in writing to the people to whom it applies when they are contracted and/or when they are declared a Recipient in accordance with the regulation. It must be signed and accepted by Recipients. The senior manager of the Legal & Compliance area is also in charge of monitoring compliance and reporting activities to the Audit and Compliance Committee.

- Executive Behaviour and Human Resources Regulations

Meliá Hotels International, S.A. also has Executive Behaviour and Human Resources Regulations which regulate the conduct of executives (in the first case) and Group employees (in the second) regarding certain matters.

…

After publication of the Code of Ethics in 2012, the MHI Group set up a Complaints Channel for employees to register complaints related to non-compliance with any the aspects in the Code of Ethics, especially business principles, current regulations, potential conflicts of interest or any other issue related to irregularities or potential or existing anomalous situations detected as a result of regulatory noncompliance, lack of internal control, financial irregularities or situations or events that may require the attention and immediate action of Senior Management.

The procedure establishes that complaints cannot be anonymous, always guaranteeing an independent and confidential analysis. The Chairman of the Audit and Compliance Committee has direct access to all the complaints received.

The complaints channel is managed by the Ethics Committee, which acts independently and with the utmost respect for confidentiality regarding the complaints received, reporting directly to the Audit and Compliance Committee and the Chief Executive Officer whenever it is deemed appropriate in addition to producing a regular report on the activities carried out.

The Ethics Committee's main function is to receive, manage and coordinate and investigate complaints and is the only body with access to the complaints received, thus guaranteeing confidentiality.

Operation of the channel is regulated in corporate procedures and can be viewed by all employees through the intranet.

The channels available for the presentation of complaints are: Intranet (Employee Portal), Internet and regular mail addressed to the Ethics Committee.

In 2016, the existence of the complaints channel communicated to all business areas and corporate offices worldwide, reporting its implementation to the Audit and Compliance Committee.

…

Managers responsible for departments that prepare financial information must ensure that employees working in this area have access to updated information and appropriate training.

Corporate team members who take part in the preparation and review of financial information receive specific training every year to update their knowledge in different matters related to their functions. In fiscal 2017, they took part in training sessions on the implementation of new international accounting standards (IFRS 9, IFRS 15 and IFRS 16), new requirements for the disaggregation of non-financial information and alternative performance measures, workshops on the prevention, detection and investigation of fraud and workshops on the evaluation of business processes based on the new requirements of Data Protection legislation.

In addition to the mentioned actions, the Company also receives external advice to support the development of the team members involved and is also subscribed to several publications as corporate partners.

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:

The Meliá Hotels International Group has:

- A Risk Control, Analysis and Assessment Policy approved by the Board of Directors.
- A Risk Control Regulation created and approved by the Audit and Compliance Committee.
- A Risk Map preparation process.

…

The Risk Control Department leads the periodic review of the Group Risk Map and monitors the definition and implementation of actions and assignment of responsibilities to mitigate the most important risks.

In the annual update of the Risk Map Update, senior managers in all Departments and areas identify and assess the different risks that affect them, including risks related to financial information. This means that in addition to a Consolidated Group Risk Map, Risk Maps are also generated for each of the different Departments and areas in the Organization.

In cooperation with the Internal Audit Department, every year the Group Risk Inventory is reviewed to detect which of the identified risks may affect the financial information objectives defined by the CNMV: existence and occurrence, integrity, valuation, presentation, breakdown and comparability.

…

In order to be able to identify the consolidation perimeter at all times, the Annual Accounts and Consolidation Department maintains an up-to-date corporate register that includes all of the Group's interests, whatever their nature.

The procedures for updating the consolidation perimeter are defined in a manual which complements the provisions of Corporate and Joint Venture Regulations. The consolidation perimeter is updated every month in accordance with International Accounting Standards and other local accounting regulations.

…

The process of updating the Risk Map considers the impact that risks may have on financial statements, regardless of the type of risk. The Meliá Hotels International Group has categorized risks as follows:

- Global risks.
- Financial risks.
- Business risks.
- Operations Risks.
- Compliance Risks.
- Information Risks.

…

The results obtained are reported to and reviewed by Senior Management as well as by the Audit and Compliance Committee and 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. provides securities markets with financial information for the consolidated group on a quarterly basis. This financial information is prepared by the Administration and Finance Department.

The Chief Financial and Administration Officer analyses the reports received, provisionally approving the financial information for submission to the Audit and Compliance Committee, which is then responsible for supervising the financial information presented.

Since 2012, the Company submits financial statements for the first half of the year to a limited review by the Company's external auditor. This means that the Audit and Compliance Committee also information prepared by external auditors in the semi-annual accounting closures.

In the semi-annual closures, the Audit and Compliance Committee reports its conclusions to the Board of Directors on the financial information presented so that, once approved by the Board of Directors, it can be published in securities markets.

Since 2013, two ad hoc meetings of the Audit and Compliance Committee have been held to approve the Intermediate Management Report for the first and third quarter. Once approved, the information is made available to the Board of Directors for approval.

The MHI Group has a procedures manual which defines the internal process for the preparation and publication of consolidated financial information. This covers the entire process of preparation, approval and publication of the financial information to be sent periodically to the CNMV.

All the areas that are able to significantly affect the Group's Annual Accounts have controls defined in critical processes to ensure the reliability of financial information. These controls are included in internal procedures or in the way IT systems work to create the basis for the preparation of financial information.

The methodology uses the analysis of the Consolidated Annual Accounts to select the most relevant accounting headings and memoranda in accordance with quantitative (materiality) and qualitative criteria (automation, susceptibility to fraud or error, accounting complexity, degree of estimation and risk of loss or contingent liabilities).

The selected synopses and notes are grouped into processes. The majority of the critical processes and their associated control activities have been systematically documented. This documentation is descriptive and with process flowcharts and matrices of risks and controls. Throughout the process risks of potential fraud have also been identified along with controls to mitigate them.

The activities that are required to be formally documented are included in processes in the areas of Administration, Tax, Treasury and Finance, Personnel Administration, Hotel Business and Vacation Club.

The different Departments are responsible for documenting and updating each of these processes, detecting possible control weaknesses, and defining appropriate corrective measures.

The relevant opinions, estimates and projections needed to quantify certain assets, liabilities, revenues, expenses and commitments recorded or disclosed in the Annual Accounts are made by the Administration and Finance Department with the support of the other Departments.

The annual accounts of the Meliá Hotels International Group report the most relevant areas in which there are elements of opinion or estimation, as well as the key hypotheses related to them. The most important estimates relate to the valuation of goodwill, provision for taxes on profits, fair value of derivatives, fair value of real estate investments, pension contributions and the useful life of tangible and intangible assets.

One of the documented processes is an accounting closure procedure which defines the closure, review and authorization of financial information in the different units before it is consolidated.

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 Information Systems Department at the Meliá Hotels International Group has security regulations and procedures designed to guarantee the control of access to business applications and systems to ensure the confidentiality, availability and integrity of information.

The Meliá Hotels International Group has formalized procedures for changes to the financial management platform and a transaction development and maintenance process. These procedures define controls that ensure the correct development and maintenance of applications, evaluating the impact of changes and associated risks. There are also processes to test changes before they are implemented in production.

There is a management model for access and authorization based on the segregation of functions on the systems that support financial management processes, having defined control procedures and avoiding users becoming judge and jury in the handling of such information.

Controls have also been defined for the appropriate management and monitoring of the assignment of special privileges in systems that support financial information.

In 2018 there is a project related to the management of users of work stations and SAP using an identity management solution to enhance the management and governance throughout the entire life cycle of the users.

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 independent experts, it ensures their competence and technical skills by only hiring third parties with proven experience and prestige.

To validate the reports of independent experts, the Group has trained internal personnel able to validate the reasonableness of the conclusions, defining and managing the appropriate service levels in each case.

There is also an internal Regulation on Service Contracts that regulates the approval by senior management in the contracting area and verification that the supplier possesses sufficient professional qualifications to deliver the contracted services and that they are registered in the corresponding professional body..

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 definition and updating of accounting policies and their interpretation and that of other accounting regulations that affect the financial statements of the Meliá Hotels International Group is the responsibility of Annual Accounts and Consolidation Department. Among others, the functions of this department are:

- Define Group accounting policies.
- Analyse operations and individual transactions carried out or planned by the Group to determine their appropriate accounting.
- Monitor the new IASB regulations and new standards approved by the IASB and adopted by the European Union and analyse the impact implementation will have on the Group's Consolidated Accounts.
- Resolve any doubts of Group companies regarding the application of Group accounting policies

There is a formal communication channel to coordinate doubts about accounting policies, through which the different business areas can ask for advice on specific issues which, due to their specificity or complexity, may raise doubts about the way they should be registered in accounts.

The channel was launched with a message on the Group intranet explaining how it works. Users send an email to a specific address which is managed and answered by the Annual Accounts and Consolidation Department.

Meliá Hotels International presents its Consolidated Annual Accounts in accordance with International Financial Reporting Standards adopted by the European Union. The company has an updated accounting policy manual that is reviewed whenever accounting regulations applicable to Group financial statements are modified in any significant way.

All personnel responsible for preparing financial statements for the companies in the Group 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 an integrated financial management tool which covers the reporting needs of individual financial statements and facilitates consolidation and analysis.

The tool centralizes all the accounting information for subsidiaries of the Group, which serves as the basis for the preparation of individual annual accounts and the consolidated Group annual accounts. The system is managed centrally from Head Office.

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 supervision activities for Internal Control over Financial Reporting (ICFR) carried out by the Audit Committee mainly includes: (i) regular meetings with external auditors, internal auditors and senior management to review, analyse and discuss financial information, accounting criteria, and, where applicable, significant internal control weaknesses, and (ii) review with the Internal Audit Department of the effectiveness of and compliance with processes defined in the internal control system.

At the meetings of the Audit and Compliance Committee, information on the ICFR evaluation made by the Internal Audit Department is included as an item on the agenda.

As indicated in Company Bylaws and Internal Auditing Regulation of the Group, the Internal Audit Department is responsible for verifying the correct functioning of Internal Control systems, including the reliability of Financial Reporting (ICFR), keeping the Board of Directors (through the Audit and Compliance Committee) and Senior Management informed about the existence, suitability and effectiveness of existing methods, procedures, rules, policies and instructions available to Group employees.

The Internal Audit department depends functionally on the Audit and Compliance Committee and hierarchically on the Chief Legal & Compliance Officer, who in turn reports to the Vice President and Chief Executive Officer. The head of the Internal Audit Department has direct access to both the Vice President and Chief Executive Officer and the Audit and Compliance Committee and, where appropriate, the Board of Directors. Among the attributes of the Audit and Compliance Committee that affect the Internal Audit department are: to ensure the independence and effectiveness of internal audits, approve the budget and annual audit plan, receive periodic reports on its activities, and verify that senior management considers the conclusions and recommendations of its reports.

To ensure the independence of the Internal Audit team with respect to the operations or areas they audit, and over which they have no authority or responsibility, internal auditors are not assigned any other attributions or functions other than those of internal audit.

In the internal audit plan for fiscal 2017, several actions were included to evaluate the degree of compliance with internal control through different types of audit, but mainly business or operational audits (hotels, vacation clubs and other businesses), computer system audits, financial audits and evaluation of the control activities associated with processes in Corporate Administration and Finance, including processes associated with ICFR.

The method used by the Internal Audit team has mainly been direct personal evaluation by auditors, although continuous monitoring, massive data analysis and self-evaluations of controls have also been used. The use of new review models has allowed the Group to get a company-wide vision of the degree of alignment of processes and focus resources on situations that pose the greatest risk to the organization.

The most important business area for the Group is the hotel business. In relation to the control of financial information in this area, in fiscal 2017, 8 processes have been audited, divided into 25 subprocesses and 3,238 control activities have been carried out. These reviews have been carried out in 129 hotels in EMEA (107), America (10) and APAC (12).

Regarding the reviews carried out in the main business units, a total of 267 evaluations have been made: Operational Audits (130), Accounting Audits (54), Information Systems Audits (15), and Corporate Departments and others (68).

As established in Auditing Regulations, if an Audit Department review detects control weaknesses in the audited area or process, this is reported to the management of the area, and also to Senior Management and the Audit and Compliance Committee if deemed appropriate. Those management of the area must then respond with regard to the weaknesses, either through corrective measures and/or the implementation of preventive 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 Senior Executive Team, of which the Vice President and CEO is a member, meets regularly, thus assuring the correct flow of information between the Board of Directors and senior management.

As indicated in its Regulations, the Board of Directors must meet at least six times a year. Coinciding with these meetings, the Audit and Compliance Committee also meets up, with the meetings being regularly attended as guests by internal and external auditors and company Senior Management when appropriate.

At the very least, the accounts auditor attends the Board meeting in which Annual Accounts are approved and may also attend any other in which its presence is requested.

The Internal Audit Department periodically reports to Senior Management and the Audit and Compliance Committee any internal control weaknesses detected in internal audits. On an annual basis, the auditor presents the Audit and Compliance Committee with a report detailing the internal control weaknesses detected. Those areas affected by the weaknesses detected must respond to the report.

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]

In the speeches by the President and Chief Executive Officer at the Ordinary General Shareholders' Meeting held on June 8, 2017, information was added on progress made in Corporate Governance by the Board of Directors. This was accompanied by a speech by the Chairman of the Audit and Compliance Committee (with directly assigned functions in examining company governance regulations and making proposals for improvement) explaining the work carried out by the Commission over the year.

The company provides information on relevant changes in Corporate Governance matters in the Annual Corporate Governance Report. Available to all shareholders, this includes information on the degree of compliance with recommendations and, in if appropriate, reasons why they are not implemented or implemented in a different way to the recommendations.

The foregoing is without prejudice to the possibility that shareholders may request any clarification or additional information in accordance with the systems defined in the applicable regulations.

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 [X] Partially compliant [ ] Explain [ ]

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 ☒

On June 4, 2015, the Company submitted to the General Shareholders' Meeting a proposal for the delegation of powers to increase capital and issue bonds. Although the amounts subject to approval exceed the percentage indicated in the recommendation, as explained in the reports made available to shareholders, this power was required to be able to raise funds on the stock market which were required for the appropriate management of company interests, giving the Board the broadest capacity to respond. The possibility of suppressing the right to preferential subscription is a faculty that must be analysed and applied in each specific case depending on the precise conditions for the issue.
It should also be noted that the approved authorization is within the legal maximum.

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 ☐ Explain ☒

The company prepared these reports for fiscal year 2017 and publication is planned prior to the General Shareholders' Meeting in 2018.

7. The company should broadcast its general meetings live on the corporate website.

Complies ☒ 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 ☒ 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 ☒ 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 ☒

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 ☒

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 ☒ 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 ☒ 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 ☐

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 [X] Explain [ ]

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 [ ] Pratially compliant [X] Explain [ ]

The Company does not consider it necessary to define a maximum number of Boards of Directors of which the members of its Board of Directors may form part. Among the points reviewed prior to the appointment or re-election of Board Members is the availability of candidates as stipulated in the Director Recruitment Policy. The Company considers that, this availability analysis achieves the same objective pursued by Recommendation 25, i.e. to make sure that Directors will devote sufficient time to collect information, be aware of the reality of the company and the evolution of the business and to participate in Board meetings and Commissions.

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 ☐ Partially compliant X Explain ☐

The Regulations of the Board of Directors require a minimum of six meetings. In fiscal year 2017 it was not necessary to increase this number to meet the needs of the company.

Article 25 of the Regulations of the Board of Directors states that the obligations of Directors include urging those persons with the capacity to call extraordinary meetings of the Board to call one or include the items it deems appropriate in the agenda of the first session scheduled to be held.

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 Explain ☐ Not applicable ☐

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 ☐

The Company considers that, given the absence of an Executive Chairman since December 2016, the figure of Coordinating Director is not mandatory. Nevertheless, bearing in mind best practices, it decided to maintain the figure of a Coordinating Director, although the functions assigned to the Director do not entirely match the content in the recommendation, with the Director being especially empowered to: (i) request a meeting of the Board of Directors or the inclusion of new points on the agenda for a meeting already convened, (ii) coordinate and arrange meetings with external directors, and (iii) lead, if appropriate, the periodic appraisal of the Chairman of the Board of Administration. These powers do not entirely match the powers included in the recommendation.

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 [X] Partially compliant [ ] Explain [ ]

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] Not applicable [ ]

At the close of fiscal 2017, the Company considers that the existence of a single Appointments and Remuneration Committee performs its functions appropriately, especially considering the composition of the Board (11 members) and the Committee itself (4 members, External Directors of which 3 are Independent Directors). It is currently believed that the creation of two different Committees would not add any value and could lead to a loss of synergies.

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 do not expressly include a detailed description of the recommendations it incorporates, although the Audit and Compliance Committee effectively assumes supervision of Corporate Governance regulations in the Company. Among its functions and in accordance with article 14.2 paragraph i) of the Regulations of the Board of Directors, the Audit and Compliance Committee is responsible for the analysis of compliance with Internal Code of Conduct in the Securities Markets, the Regulations of the Board of Directors and, in general, the rules for Company Governance and proposals for improvements.

All the listed functions are assumed by the Committee or directly by the Board of Directors, in particular:

a) the Annual Report with information on all activities related to corporate responsibility is approved by the Board of Directors;

b) the report on non-financial risks is validated by the Audit and Compliance Committee and subsequently submitted to the Board of Directors as part of the Risk Map;

c)The Appointments and Remuneration Committee supervises monitoring of the code of conduct in the Executive Behaviour Regulations, compliance and periodic updating.

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 close of fiscal 2017, in addition to a Code of Ethics in which its values, principles and commitments are defined, the Company had a Corporate Responsibility Policy and an Environmental Policy, both approved by the Board of Directors on February 27 and June 8, respectively. The documents describe the commitments assumed by the Company in matters subject to regulation.

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 complies ☐ 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 complies [ ] 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 [X] Not applicable [ ]

The Company understands that the recommendation intends to guarantee the involvement of Executive Directors in the results of the Company and its performance.

In view of the specific situation, the Company considers that it is not necessary to distribute shares to Executive Directors given that they (and other members of the family indicated in the IAGC) are already direct or indirect shareholders. This linkage thus already exists without the need for the distribution of additional shares as a means of remuneration.

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 ☒

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 ☐ Explain X Not applicable ☐

This type of clause is not foreseen, although, in line with Good Governance criteria, the payment of short-term variable remuneration is only made a certain time after the close of the financial year, taking place within the first 60 days after the formulation of the annual accounts, prior approval of the Board after proposal by the Appointments and Remuneration Committee.

When the variable remuneration is accrued and paid out after verification of the achievement of objectives, a clawback clause is not included in the CEO's contract. The Company understands that the purpose of the recommendation to ensure that variable remuneration is not paid out under the aforementioned conditions, would be covered due to the fact that both in the short and long term variable remuneration payment is carried out only after the analysis and verification of the achievement of objectives (in the case of short term variable remuneration, within the periods indicated above), all in accordance with the all of the information held by the Company, the proposal being duly reviewed by the Appointments and Remuneration Committee and subject to the approval of the Board of Directors.

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 ☐ Explains ☐ 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 is associated with:

- ECPAT - Code of Conduct for the Protection of Children (2006)
- The Code (2007)
- Global Compact (2008)
- FTSE4Good Ibex (2008)
- UNWTO Private Sector Commitment to the Global Code of Ethics for Tourism (2011)
- Carbon Disclosure Project - CDP (2011)
- Agreement with the International Union of Workers IUF-IUF (2013)
- United Nations Paris Conference on Climate Change (2015)
- ICC International Chamber of Commerce - Corporate Responsibility and Anticorruption Commission (2016)
- World Travel & Tourism Council (2016)
- Transparency, Governance and Integrity Cluster - Forética (2017)
- Climate Change Cluster - Forética (2017)

In 2012, the Meliá Hotels International Code of Ethics was approved.

The company does not subscribe to the Code of Good Tax Practices of July 20, 2010.

Note to sections A.2, A.3, A.4, A.7 and C.1.17:

The company reported in the aforementioned sections and named "Majorcan Hotels Exlux, SL" is the same as "Majorcan Hotels Luxembourg SARL" reported in previous years. In 2017, it changed its name and relocated to Spain. Note to section C.2.1:

In regard to the table in this section that indicates the number of years the president has been in the position: Fernando d'Ornellas Silva has been Chairman of the Audit and Compliance Committee since June 23, 2016.

Continuation of the explanation of the most important activities carried out by the Appointments and Remuneration Committee in financial year 2017:

i) Composition of the Board and Commissions: Annual verification of the nature of the Directors. Proposals and reports for re-election of Directors submitted by the Board for the approval of the General Shareholders' Meeting.

ii) Evaluation of the Board, Commissions and Chief Executive: Supervision of the annual self-assessment procedure and analysis of results for presentation to the Board. The evaluation for financial year 2017 has been carried out with the help of an external consultant.

iii) Annual Report on Directors' Remuneration and Corporate Governance: Supervision of the process of preparing the Annual Report on Directors' Remuneration for 2016 for subsequent submission to the Board. Review of internal regulations linked to its functions. Preparation of the Committee Activities Report for the 2016 financial year.

iv) Remuneration: Review of the achievement of objectives by the CEO and proposal of new objectives for subsequent submission to the Board. Review and proposal to update the remuneration of Directors and Senior Management, and analysis of the corporate salary position for the 2016 financial year.

v) Other matters:
Proposed review of global salary policy and indicators of long-term remuneration. Succession plan and COO training plan. Quality and climate surveys. Monitoring of Talent Management.

Continuation of the explanation of the most important actions carried out by the Audit and Compliance Committee in fiscal 2017:

i) External Audit: relationship with external auditors, follow-up on comments letter, proposal for renewal of external auditors for fiscal 2018, beginning of selection process for new external auditors, approval processes for services other than auditing, receipt of the auditor's letter of independence and preparation of the corresponding report.

ii) Financial Information: analysis and review of economic-financial information to be published periodically.

iii) Corporate Governance: IAGC review for submission to the Board for approval. Supervision of proposals for the creation or modification of internal regulations.

iv) Internal control: supervision of information on the description of Internal Control over Financial Reporting (ICFR) after referral to the Board for approval.

v) Internal audit: analysis of the 2016 Annual Report and Audit Plan 2017. Review and approval of the Annual Audit Plan and Budget 2018.

vi) Risk Management / Compliance: review of the 2016 Risk Map. Supervision of Crime Prevention and Detection Model and its updates.

vii) Other matters:

- Preparation of the Annual Activity Report for the Commission for fiscal 2016.
- Security of information systems.
- Monitoring of the operation and management of the complaints channel.
- Actions linked to information on related operations.
- Treasury stock situation and liquidity contracts.
- Group fiscal and corporate structure.
- Analysis of regulatory changes.

This annual corporate governance report was approved by the company's Board of Directors at its meeting of 23/03/2018.

State whether any directors have voted against or have abstained in relation to the approval of this Report.

Yes ☐ No ☒


A

Consolidated Annual Accounts

MELIÁ SERENGETI | TANZANIA

Consolidated Balance Sheet

(Thousand €)	Note	31/12/2017	31/12/2016
NON-CURRENT ASSETS			
Goodwill	9	60.714	60.769
Other intangible assets	9	102.194	109.314
Property, Plant and Equipment	10	1.649.615	1.693.393
Investment property	11	135.900	141.136
Investments measured using the equity method	12	229.644	190.101
Other non-current financial assets	13.1	173.550	209.908
Deferred tax assets	18.2	122.334	135.941
TOTAL NON-CURRENT ASSETS		**2.473.950**	**2.540.562**
CURRENT ASSETS			
Inventories	14.1	53.255	63.954
Trade and other receivables	14.2	258.071	275.269
Current tax assets	18.2	54.961	29.614
Other current financial assets	13.1	48.684	47.297
Cash and other cash equivalents	14.3	331.885	366.775
TOTAL CURRENT ASSETS		**746.857**	**782.907**
TOTAL GENERAL ASSETS		**3.220.807**	**3.323.470**
EQUITY			
Share capital	15.1	45.940	45.940
Share premium	15.1	1.120.303	1.121.070
Reserves	15.2	392.882	342.606
Treasury shares	15.3	(15.023)	(14.256)
Retained earnings	15.4	366.181	327.444
Translation differences	15.5	(541.106)	(400.725)
Other measurement adjustments	15.5	(1.704)	(2.465)
Profit/(loss) for the year attributed to parent company	8	128.728	100.693
NET EQUITY ATTRIBUTED TO THE PARENT COMPANY		1.496.201	1.520.307
Non-controlling shareholdings	15.6	26.556	43.307
TOTAL NET EQUITY		**1.522.757**	**1.563.613**
NON-CURRENT LIABILITIES			
Bonds and other negotiable securities	13.2		47.799
Bank loans	13.2	644.515	570.929
Other non-current financial liabilities	13.2	9.414	13.754
Capital grants and other deferred income	16.1	25.567	28.603
Provisions	16.2	44.808	35.577
Deferred tax liabilities	18.2	167.107	184.689
TOTAL NON-CURRENT LIABILITIES		**891.410**	**881.352**
CURRENT LIABILITIES			
Bonds and other negotiable securities	13.2	71.610	39.495
Bank loans	13.2	209.482	251.007
Trade creditors and other payables	17	443.275	459.662
Current tax liabilities	18.2	17.496	33.233
Other current liabilities	13.2	64.778	95.107
TOTAL CURRENT LIABILITIES		**806.640**	**878.505**
TOTAL GENERAL LIABILITIES AND NET EQUITY		**3.220.807**	**3.323.470**

Consolidated Income Statement

(Thousand €)	Note	2017	2016
Operating Revenues	**7.1**	**1,885,166**	**1,801,962**
Supplies	7.2	(215,232)	(222,783)
Staff costs	7.3	(502,699)	(489,707)
Other expenses	7.4	(678,714)	(640,167)
EBITDAR (*)		**488,521**	**449,305**
Leases	20.1	(178,268)	(163,727)
EBITDA (*)	**6.1**	**310,252**	**285,578**
Amortisation/depreciation and impairment	7.5	(124,305)	(111,452)
Bargain purchase	7.6		1,621
EBIT (*)		**185,948**	**175,746**
Exchange differences		(11,536)	4,676
Borrowings		(29,987)	(42,121)
Other financial income		8,409	7,701
Net financial income	**7.7**	**(33,114)**	**(29,743)**
Profit /(Loss) from companies carried by the equity method	**12**	**23,214**	**1,585**
NET INCOME BEFORE TAX		**176,048**	**147,588**
Income Tax	18.6	(42,599)	(44,640)
CONSOLIDATED NET INCOME		**133,448**	**102,948**
a) Attributed to the parent company	8	128,728	100,693
b) Attributed to minority interests	15.6	4,720	2,255
BASIC EARNINGS PER SHARE IN EUROS	**8**	**0.56**	**0.44**
DILUTED EARNINGS PER SHARE IN EUROS	**8**	**0.56**	**0.44**

** Definitions in Note 2.2*

Consolidated Statement of Comprehensive Income

(Thousand €)	Note	2017	2016
Net consolidated income		**133.448**	**102.948**
Other comprehensive income			
Items that will not be transferred/reclassified to results			
Other results attributed to equity	3.15	15.409	12.601
Equity consolidated companies	12	(3.343)	(7.470)
Actuarial gains and losses in post-employment plans	16.2	(875)	(110)
Total Items that will not be transferred to results		**11.191**	**5.022**
Items that may be subsequently transferred/reclassified to results			
Translation differences	15.5	(144.640)	(45.442)
Cash flow hedges	13.3	1.947	604
Equity consolidated companies	12	671	(86)
Tax effect	18.2	(487)	(136)
Total ittems that may be transferred to results		**(142.509)**	**(45.061)**
Total Other comprehensive income		**(131.318)**	**(40.039)**
TOTAL COMPREHENSIVE INCOME		**2.130**	**62.909**
a) Attributed to the parent company		1.481	59.031
b) Attributed to minority interests	15.6	649	3.878

Consolidated Statement of Changes in Equity

(Thousand €)	Note	Capital	Share premium	Other reserves	Treasury shares	Retained earnings	Measurement adjustments	Net income of parent company	Total result	Minority interest	Total NET EQUITY
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				**(82)**		**5.066**	**(46.646)**	**100.693**	**59.031**	**3.878**	**62.909**
Distribution of dividends				(9.126)					(9.126)	(4.507)	(13.633)
Conversion of financial liabilities into net equity				(28.104)					(28.104)		(28.104)
Share capital increase	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 shareholders / owners						(14.212)			(14.212)	(7.020)	(21.232)
Operations with owners and shareholders		**6.129**	**243.752**	**(62.837)**	**25.607**	**(14.212)**			**198.439**	**(11.527)**	**186.912**
Transfers between net equity items						(8)			(8)	8	
Distribution 2015 net income	15.4					35.975		(35.975)			
Other variations						(757)			(757)		(757)
Other variations in net equity						**35.210**		**(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**	**1.563.614**
Total recognised income and expenses				**(692)**		**13.064**	**(139.620)**	**128.728**	**1.481**	**649**	**2.130**
Distribution of dividends	8			(29.986)					(29.986)	(1.734)	(31.720)
Conversion of financial liabilities into net equity											
Share capital increase	15.1										
Operations with treasury shares	15.3		(767)	767	(767)				(767)		(767)
Other operations with shareholders / owners	5.2					5.386			5.386	(15.555)	(10.169)
Operations with owners and shareholders			**(767)**	**(29.219)**	**(767)**	**5.386**			**(25.367)**	**(17.289)**	**(42.656)**
Transfers between net equity items											
Distribution 2016 net income	15.4			80.186		20.507		(100.693)			
Other variations						(219)			(219)	(110)	(329)
Other variations in net equity				**80.186**		**20.287**		**(100.693)**	**(219)**	**(110)**	**(329)**
NET EQUITY AT 31/12/2017		**45.940**	**1.120.303**	**392.882**	**(15.023)**	**366.181**	**(542.810)**	**128.728**	**1.496.202**	**26.557**	**1.522.758**

Consolidated Cash Flow Statement

(Thousand €)	Note	2017	2016
1. OPERATING ACTIVITIES			
Net Income before tax		176.048	147.588
Result adjustments:			
Amortisation /depreciation and impairment		124.305	109.832
Profit/(loss) from companies carried by the equity method		(23.214)	(1.585)
Net financial income		33.114	29.743
EBITDA		310.252	285.578
Other result adjustments		8.161	(709)
Trade and other receivables		18.423	(20.781)
Other assets		10.698	427
Trade creditors and other payables		(31.835)	60.880
Other Liabilities		15.931	(13.713)
Income taxes paid		(72.214)	(54.594)
Total net cash flows from operating activities (I)		**259.417**	**257.088**
2. INVESTMENT ACTIVITIES			
Financial income		369	2
Dividends received		32.188	1.537
Investment (-):			
Investments in associates and joint ventures	12	(64.028)	(56.279)
Business combination	13	(24.521)	(25.904)
Loans to associates and joint ventures		(897)	
Property, plant and equipment, intangible assets and investment property	9,10 y 11	(152.887)	(138.331)
Non-current financial investments		(107)	(7.728)
Divestments (+):			
Loans to associates and joint ventures			4.166
Property, plant and equipment, intangible assets and investment property	9,10 y 11	375	29.004
Non-current financial investments		1.660	4.556
Current financial investments		5.113	
Total net cash flows from investment activities (II)		**(202.737)**	**(188.977)**
3. FINANCING ACTIVITIES			
Dividend payments (-)	8	(31.720)	(12.354)
Treasury stock	15.3	(767)	(3.914)
Debt interest paid (-)		(27.453)	(38.473)
Debt issue	13	280.447	358.202
Debt redemption and repayment	13	(271.005)	(348.880)
Other financial liabilities (+/-)		(953)	1.924
Total net cash flows from financing activities (III)		**(51.450)**	**(43.496)**
4. GROSS INCREASE/ DECREASE IN CASH OR EQUIVALENTS (I+II+III)		**5.230**	**24.615**
5. Effect of exchange rate changes in cash or equivalents (IV)		**(40.120)**	**(6.459)**
6. Effect of changes in the scope of consolidation (V)			
7. NET INCREASE/ DECREASE IN CASH AND CASH EQUIVALENTS (I+II+III-IV+VI)		**(34.890)**	**18.156**
8. Cash and cash equivalents at the beginning of the year		**366.775**	**348.617**
9. Cash and cash equivalents at the year end (7+8)		**331.885**	**366.775**

Notes to the Consolidated Annual Accounts

Note 1. Corporate Information

The parent company, Meliá Hotels International, S.A., is a Spanish public limited company that was incorporated in Madrid on 24 Jun 1986 under the registered name of Investman, S.A. On 1 June 2011 the General Shareholders' Meeting approved the change of nam to Meliá Hotels International, S.A. In 1998 the Company moved its registered address to Calle Gremio Toneleros, 24, Palma d Mallorca.

Meliá Hotels International, S.A. and its subsidiaries and associates (hereinafter, the "Group" or the "Company") form a Grou comprising companies that are mainly engaged in tourist activities, in general, and more specifically, in the management and operatio of hotels under ownership, lease, management or franchise arrangements, as well as in vacation club operations. The Group is als engaged in the promotion of all types of businesses related to the tourist and hotel industry or leisure and recreational activities, a well as the participation in the creation, development and operation of new businesses, establishments or companies, in the touris and hotel industry or any other leisure or recreational business. Likewise, some companies within the Group carry out real estat activities by taking advantage of the synergies obtained in hotel development as a result of the massive expansion process undertaken

In any event, the activities that special laws reserve for companies which meet certain requirements that are not met by the Group, are expressly excluded from the corporate purpose; in particular, the activities that the law restricts to Collective Investment Institutions or to Stock Market intermediary firms, are excluded.

The activity of the Company's different segments is developed in over 40 countries of 4 continents, with prominent presence in Sout America, the Caribbean and Europe, and it is the absolute leader in Spain. The strategic focus on international expansion has led it t become the leading Spanish hotel chain with presence in China, the United States and the United Arab Emirates.

Note 2. Basis of Presentation of the Consolidated Annual Accounts

The Meliá Hotels International Group presents its consolidated annual accounts in accordance with the International Financial Reporting Standards (IFRS) and their interpretations (IFRIC) in force at 31 December 2017, published by the International Accounting Standards Board (IASB) and adopted by the European Union.

These consolidated annual accounts are formulated by the Board of Directors of the parent company and are pending approval by the General Shareholders' Meeting, and they are expected to be approved without changes.

The figures on the Balance Sheet, Income Statement, Statement of Comprehensive Income, Statement of Changes in Equity, Cash Flow Statement, and the accompanying Notes to the accounts, are stated in Euro, rounded to thousands, except where otherwise indicated.

The Group's consolidated annual accounts have been prepared on a historical cost basis, except for those items listed under the headings 'investment property', 'derivative financial instruments' and 'financial assets at fair value through profit or loss', which are measured at fair value (see Note 4.6). It should be mentioned that the balances from the Venezuelan Group companies have been restated at current cost, in accordance with IAS 29, since Venezuelan economy is considered as hyperinflationary (see Note 3.15).

This fiscal year, the Group has adopted the standards approved by the European Union whose application was not obligatory in 2016.

- ✓ Amendment of IAS 7: "Disclosure initiative"
- ✓ Amendment of IAS 12: "Recognition of deferred tax assets for unrealised losses".

The breakdown of changes in liabilities arising from financing activities is shown in Note 13.2, pursuant to IAS 7, indicating the movements relating to cash flows, exchange rate differences, changes in the fair value and other movements.

The entry into force of the Amendment of IAS 12 has had no significant impact on the financial position of the Group.

The accounting practices applied are consistent with those of the previous year, considering the adoption of the standards and interpretations mentioned in the paragraph above.

The standards issued prior to the formulation date of these consolidated annual accounts and which will enter into force in subsequent dates are the following:

- ✓ Amendment of IFRS 4: "Applying IFRS 9 "Financial instruments" with the IFRS 4 "Insurance contracts"".
- ✓ Amendment of IAS 28 and IFRS 10: "Sale or contribution of assets between an investor and its associates or joint ventures".
- ✓ Amendment of IFRS 2: "Classification and evaluation of transactions with share-based payments"
- ✓ Amendment of IFRS 9: "Prepayment features with negative compensation".
- ✓ Amendment of IFRS 15: "Clarifications to the IFRS 15 - Revenues from contracts with customers"
- ✓ Amendment of IAS 28: "Long-term interest in associates and joint ventures".
- ✓ Amendment of IAS 40: "Transfer of investment property"
- ✓ Annual improvements of the IFRS (2014-2016 cycle): IFRS 1 "First-time Adoption of International Financial Reporting Standards", IFRS 12 "Disclosure of interests in other entities" and IAS 28 "Investments in associates and joint ventures".
- ✓ Annual improvements of the IFRS (2015-2017 cycle): IFRS 3 "Business combinations", IFRS 11 "Joint Agreements", IAS 12 "Income taxes" and IAS 23 "Borrowing costs".
- ✓ IFRIC 22 "Foreign currency transactions and advance consideration".
- ✓ IFRIC 23 "Uncertainty over income tax treatments".
- ✓ IFRS 17 "Insurance contracts".
- ✓ IFRS 9 "Financial instruments".
- ✓ IFRS 15 "Revenues from contracts with customers".
- ✓ IFRS 16 "Leases".

Except for the contents of the following paragraphs, it is not expected that the adoption of the rest of the abovementioned standards will have significant impacts on the Group's financial statements.

IFRS 16 "Leases"

In January 2016, the IASB issued new regulations on leases (IFRS 16) which will have significant impacts on the composition of assets and liabilities and on the structure of the consolidated income statement of the Group. The Group does not plan to implement them in advance; therefore, such changes will affect the consolidated annual accounts for fiscal year 2019 and subsequent years.

At the date of preparation of these consolidated annual accounts, the work carried out allow to have an updated database of the contractual terms and conditions of all hotels under lease of the Group, in particular, historical data and estimate of fixed payments, as well as lease terms.

The Company continues to focus on completing the catalogue of lease agreements (non-hotel leases) in force on the date of transition, as well as on determining the discount rate applicable to each agreement according to the different options of transition established by the Standard.

The Group's portfolio includes approximately 100 hotels operated by various subsidiaries under lease, mainly in European cities.

IFRS 15 "Revenues from contracts with customers".

The new IFRS 15 "Revenue from contracts with customers" entered into force on 1 January 2018, with no impact on the revenue recognition of the Group's main operating segment (hotel business), but it affects the current model applied to the vacation club business.

Given the characteristics of the existing contracts with customers of the vacation club, and once the five-stage analysis established in the Standard has been completed, the Company has concluded that the revenues from such contracts must be recognised under this new Standard as customers make use of the weeks to which they are entitled through the purchase of the corresponding memberships, for periods ranging from 30 to 50 years.

At the date of transition, the main impacts on the balance sheet are an addition in the Group's non-current assets in the amount of approximately EUR 35.5 million for the assets derecognised at the time as they were considered as asset disposals (19.9 correspond to the reclassification of the current inventories of vacation club), and an increase in non-current liabilities in the amount of approximately EUR 280 million for the performance obligations corresponding to the weeks not yet enjoyed by club customers, net of the marketing costs directly attributable to the execution of such contracts.

The impact initially quantified on the EBITDA of the consolidated income statement for 2017 would have been a reduction in the amount of approximately EUR 2.1 million.

IFRS 9 "Financial instruments".

Regarding the IFRS 9, the Group has assessed the main differences compared to IAS 39, including the new model of impairment of financial assets, without determining that significant impacts on the Group's consolidated financial statements may arise as a result of the entry into force of such Standard.

2.1. True image

The consolidated balance sheet and income statement have been prepared on the basis of the internal accounting records of the parent company, Meliá Hotels International, S.A., and the accounting records of the rest of the companies included in the scope of consolidation as detailed in Annexes 1 and 2, duly adjusted according to the accounting principles established in the IFRS; and fairly present the equity, financial position and results of operations of the Company.

2.2. Alternative performance measures

In accordance with the guidelines published by the ESMA (European Securities and Markets Authority), on 5 October 2015 (ESMA/2015/1415es), the main alternative performance measures used by the Company are listed below, as well as the basis on which they are calculated, such measures being regarded as the measures of future or past financial performance, financial position or cash flows.

- ✓ EBITDAR: Earnings Before Interest, Tax, Depreciation, Amortisation, & Rent
- ✓ EBITDA: Earnings Before Interest, Tax, Depreciation & Amortisation.
- ✓ EBIT: Earnings Before Interest & Tax.
- ✓ Net Debt: Calculated as the difference between bank debt and short- and long-term securities issues, less Cash and cash equivalents.
- ✓ % Occupancy: The ratio obtained by dividing the occupied rooms (excluding free admissions) by the available rooms. Available rooms means the number of physical rooms multiplied by the number of days the room has been ready to be occupied. Likewise, occupied rooms are calculated as the number of days the physical rooms have been effectively occupied during the period.
- ✓ RevPar (Revenue Per available room): Revenue per available room is the result of dividing the total room revenue by the number of available rooms.
- ✓ ARR (Average room rate): The average room rate is calculated by dividing the total room revenue by the occupied rooms (excluding free admissions).
- ✓ GOP (Gross Operating Profit): The gross operating profit is calculated as the difference between revenues and operating costs, as defined in the USALI (Uniform System of Accounts for the Lodging Industry) account structure.

2.3 Comparability

These consolidated annual accounts include the figures for year 2017 and for year 2016 of each of the items in the balance sheet, income statement, statement of comprehensive income, statement of changes in equity and the cash flow statement.

The Company has decided to present in year 2017 the cash flow statement using the indirect method, since it facilitates comprehension thereof for financial information users, and allows a better reconciliation with the consolidated profit or loss for the period and the breakdown of the accompanying Notes to these consolidated annual accounts. Likewise, the cash flow statement is presented for the previous period by applying such method to allow its comparability. This change in the presentation has had no significant impact in comparison with the direct method previously used.

The comparative amounts for 2017 and 2016 regarding the quantitative information appearing in the notes to the annual accounts are also included. With reference to the scope of consolidation, the main changes for 2017 and 2016 compared with the previous period are explained in Note 5.

2.4 Consolidation

Subsidiaries

Subsidiaries are the companies over which the Group exercises effective control, generally accompanied by more than half of the voting rights.

In addition to the shareholding percentage, when assessing whether a controlling interest is held in a company, the Group considers the following aspects:

- Influence over the investee, giving the Group the ability to manage its significant activities.
- Right to the variable returns from its shareholding in the investee.
- Ability to use its influence over the investee to have an impact on the amount of the returns obtained.

According to the full consolidation method, the financial statements of subsidiaries are consolidated as from the date on which control is transferred to the Group and are excluded from the consolidation as from the date on which such control ceases to exist. Intra-group balances and transactions are eliminated in full.

Associates and Joint Ventures.

Associates are all companies over which the Group exercises significant influence but not control. This generally includes between 20% and 50% of the voting rights.

Joint ventures are joint agreements in which the parties that hold joint control under such agreements hold rights over the net assets thereof.

Associates and joint ventures are consolidated using the equity method. According to this method, the carrying value of the investment is increased or decreased to recognise the Group's interest in the results obtained by the associate or joint venture after the date of acquisition. The Group's investment in associates and joint ventures includes goodwill identified on acquisition.

The Group's share in profit or loss after the date of acquisition of associates and joint ventures is recognised in the income statement, and its share in movements in other comprehensive income is directly recognised in equity, including the relevant adjustment to the carrying value of the investment.

Where the accumulated losses incurred by an associate result in a negative equity, the Group adds the amount of any other item that may be considered to be greater in value than the net investment until said investment is reduced to zero. From that moment on, the Company takes into account any additional losses by recognising a liability, only to the extent that it has incurred legal or constructive obligations or has made payments on behalf of the associate.

The Group does not currently participate in joint ventures that must be included using the proportional consolidation method.

Consistency in terms of timing and measurement

All subsidiaries included in the scope of consolidation close their fiscal year at 31 December, so the relevant annual accounts for 2017 and 2016 have been used for consolidation purposes, once the appropriate measurement adjustments to ensure compliance with the relevant IFRS have been carried out.

Business combinations

The Group did not apply IFRS 3 retrospectively to the business combinations that took place before the date of transition, benefiting from the exemption included in IFRS 1 "First-time Adoption of International Financial Reporting Standards", therefore, the goodwill existing under Spanish regulations as at 31 December 2003, net of accumulated amortisation up to that date, was recorded as goodwill, under the heading Intangible Assets.

In business combinations after the date of transition, the excess between the cost of the business combination and the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities is recorded as Goodwill, under the heading Intangible Assets.
The excess between the acquirer's interest, where appropriate, after reassessing the identification and valuation of the identifiable assets, liabilities and contingent liabilities, and the cost of the business combination, is recognised in the income statement for the year.

If the business combination is achieved in stages, the carrying value on the acquisition date of the interest in the acquiree's equity previously held by the acquirer is remeasured at fair value on the acquisition date, and any loss or profit arising from this new measurement is recognised in the income statement for the year.

Purchase of non-controlling interests

Once control is obtained, any subsequent operations in which the controlling company acquires more non-controlling interests, or sells interests without losing control, are accounted for as transactions with equity instruments. It follows from the above that:

- Any difference between the amounts by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in net equity and attributed to the owners of the controlling company.
- The carrying value of the goodwill is not adjusted, and no gains or losses are recognised in the income statement.

Sale of controlling interests

When the Group ceases to have control over a subsidiary, any retained interest is recognised at fair value at the date when control is lost, and the change in the carrying amount is recognised in the income statement for the year. In the case of companies owning hotels, the result is recognised in operating income, in the real estate income item (see Note 3.11). The fair value is the initial carrying amount for the purposes of the subsequent recognition of the interest retained as associate, joint venture or financial asset.

Loss of significant influence

If the Group no longer exercises significant influence over the associate or joint venture, it measures and recognises the investment maintained at fair value. Any difference between the carrying value of the associate at the time significant influence is lost and the fair value of the investment maintained plus the income obtained on the sale is recognised in the income statement.

Elimination of inter-company transactions

The inter-company balances for inter-company transactions relating to loans, leases, dividends, financial assets and liabilities, sale and purchase of inventories and fixed assets and provision of services, have been eliminated. Regarding the sale and purchase transactions, the unrealised profit margin with regard to third parties has been reversed so that the corresponding assets are stated at cost, thus adjusting the depreciations carried out.

Non-controlling interests

The proportional part of equity corresponding to the Group's non-controlling interests, calculated in accordance with IAS 27, is recorded under this heading of the balance sheet.

Profit or loss attributed to non-controlling interests

This relates to the share in consolidated profit or loss for the year corresponding to the non-controlling interests.

Translation of the annual accounts of the foreign companies

All the assets, rights and obligations of companies with a functional currency other than the euro and which are included in the scope of consolidation, are translated to euro at the exchange rate existing at year end.

Items in the profit and loss account have been translated at the exchange rates existing on the dates on which the relevant transactions were carried out.

The difference between the amount of the foreign companies' equity, including the balance of the profit and loss account calculated according to the previous paragraph, translated at the historical exchange rate, and the net equity position resulting from the translation of assets, rights and liabilities as mentioned in the first paragraph, is recorded with positive or negative sign, as appropriate, in equity in the consolidated balance sheet, under the Translation differences heading, net of the portion of such difference corresponding to non-controlling interests, which is recorded under the Non-controlling interests item in equity in the consolidated balance sheet.

Goodwill and fair value adjustments of the balance sheet items upon the acquisition of interests in a foreign company, are recognised as assets and liabilities of the company acquired and, therefore, translated at the exchange rate existing at year end.

Upon total or partial disposal or reimbursement of contributions of a foreign company, cumulative translation differences since 1 January 2013, date of transition to IFRS, relating to said company, recognised in equity, are taken to the income statement as a gain or loss on disposal.

2.5 Accounting valuations and estimates

Directors have prepared the Group's consolidated annual accounts using judgements, estimates and assumptions which have an effect on the application of the accounting policies as well as on the balances of assets, liabilities, income and expenses and the breakdown of contingent assets and liabilities at the issuance date of these annual accounts.

Such estimates and assumptions are based on historical experience and other factors considered reasonable under the circumstances. The carrying amount of assets and liabilities, which is not readily apparent from other sources, has been established based on these estimates. These estimates and assumptions are periodically reviewed; the effects of the reviews on the accounting estimates are recognised whether in the year in which they are realised, if they have an effect solely on such period, or in the period under review and future periods, if the review affects both periods. However, the uncertainty inherent in the estimates and assumptions could lead to results that may require an adjustment to the carrying amounts of assets and liabilities affected in future periods.

The estimates made are detailed, where appropriate, in each of the explanatory notes of the balance sheet captions. The estimates and judgement that have a significant impact and may involve adjustments in future years are set out below:

Estimated impairment loss on goodwill and other non-financial assets

The Group verifies annually whether there is an impairment loss in respect of goodwill and other non-financial assets, in accordance with Notes 3.1 and 3.2.
The recoverable amounts of cash generating units are calculated from its value in use. These calculations are based on reasonable assumptions in accordance with past yields obtained and future production and market development expectations. The analyses carried out by the Group are detailed in Notes 9 and 10.

Provision for income tax

The calculation of income tax requires the interpretation of the tax legislation applicable to the countries in which the Group companies operate. There are also several factors related mainly, but not exclusively, to changes in tax laws and changes in the interpretation of tax laws currently in force that require the use of estimates by the Company's Management.

Deferred tax assets are recognised for all deductible temporary differences, tax loss carry forwards and unused tax credits, for which the Company probably will have future taxable profits which allow the application of these assets. Directors must carry out significant estimates to determine the amount of the deferred tax assets that can be recognised, by considering the amounts and the dates on which future taxable profits will be obtained and the reversal period of the taxable temporary differences.

The calculation of income tax is detailed in Note 18.

Fair value of derivatives

The fair value of derivative financial instruments that are not traded in an active market is determined using measurement techniques, as specified in Note 3.5. The Group uses a variety of methods and makes assumptions that are based mainly on market conditions at the balance sheet date. Most of these measurements are obtained from studies carried out by independent experts.

Fair value of investment property

The Group uses the fair value method in measuring investment property. The estimation of this fair value is mainly carried out based on the appraisals undertaken by independent experts using valuation techniques such as expected discounted cash flows from such assets, as stated in Note 3.3.

Post-employment benefits

The cost of defined benefit pension plans is calculated using actuarial valuations. Actuarial valuations require the use of assumptions on discount rates, asset yields, salary increases, mortality tables and rotation, as well as the retirement age of employees with right to these benefits. These estimates are subject to significant uncertainties due to the long-term settlement of these plans.

These commitments have been valued by reputable independent experts using actuarial valuation techniques. Note 16.2 gives details of the assumptions used to calculate these commitments.

Provision for onerous contracts

The Group must use its judgement significantly for the estimate of the amount of the provision for onerous contracts, since it depends on the projected cash flows deriving from those contracts, which mainly relate to lease agreements for hotel establishments.

The estimate of these future cash flows requires the application of assumptions on occupancy, average prices and the evolution of the costs associated with the hotel operation, as well as the discount rate applied to update such flows.

The Group uses its expertise in operating and managing hotels to determine such assumptions and to make the relevant calculations, as described in Note 16.2.

Inflation and exchange rate to be applied to the consolidation of Venezuelan subsidiaries

During the fiscal year 2017 and due to the complex political and economic situation in Venezuela, the Company considers that the different official exchange rates do not reflect the economic situation of the country and, therefore, has decided to internally estimate the exchange rate that is most appropriate for the consolidation of the financial statements of its subsidiaries in Venezuela.

This estimated exchange rate, based on the high inflation to which the price of goods and services of the country are subjected, has been calculated based on the last official exchange rate of 2014, updated according to the corresponding inflation rate in each period from then on. An exchange rate of 31,526.65 bolivar fuerte per dollar has been obtained from such update at the year end, resulting in a devaluation of 4,578% compared with the previous year.

The inflation considered for this calculation in 2017 has been 2,350%, 450% in 2016. These estimates are based on studies conducted by independent experts, since there are no official figures in this respect since 2015.

Additionally, the table below shows a breakdown of the impacts on net equity from 2009, year in which Venezuela started to be considered a hyperinflationary economy, regarding the inflation and devaluation effects, pursuant to IAS 29 and IAS 21, respectively:

(Thousand €)	2017	2016
Retained earnings (inflation)	205.837	190.428
Translation differences (devaluation)	(364.234)	(337.144)
EQUITY NET EFFECT	**(158.397)**	**(146.716)**

The Company will continue to assess the political and economic situation in the country in order to adopt any change in the exchange rate which may be applicable for the consolidation of its Venezuelan subsidiaries.

MELIÃ HOTELS INTERNATIONAL

Note 3. Accounting Policies

3.1 Intangible Assets

Goodwill

Goodwill generated on consolidation represents the difference between the acquisition price of fully consolidated subsidiaries and the Group's interest in the market value of identifiable assets and liabilities of subsidiaries.

Goodwill generated in acquisitions prior to the date of transition to IFRS is recorded in the balance sheet at the net value recorded at 31 December 2003.

Goodwill is not amortised. Instead, goodwill review studies are carried out annually to identify any impairment losses. Impairment losses are recognised if the recoverable value, determined based on the current value of future expected cash flows of the cash generating units associated with goodwill and discounted at a rate which considers the specific risks of each asset, is lower than the amount initially assigned. Impairment losses recognised for goodwill shall not be reversed in subsequent periods. These measurements are carried out internally. Note 9 includes details regarding their calculation.

Other Intangible Assets

Other intangible assets relate to several software applications, as well as transfer rights and industrial property.

Software applications are valued at cost price and amortised using the straight-line method over their estimated useful life of 5 to 10 years. Software maintenance-related expenses are recognised as an expense when incurred.

The R&D+i expenses incurred by the Group in producing identifiable and unique software programmes controlled by the Group are included under this heading. In addition, these comply with the following conditions:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale.
- The Company intends to use or sell the intangible asset.
- The Company can use or sell the intangible asset.
- It can be demonstrated how the intangible asset will generate probable future financial benefits.
- Adequate technical, financial and other resources are available to complete the development and to use or sell the intangible asset.
- The expenditure attributable to the intangible asset during its development can be reliably measured.

The directly attributable costs that are capitalised as part of the software programmes include the labour cost of the staff developing the programmes and a suitable percentage of general costs.

Transfer rights relate mainly to the acquisition costs of operating and management rights for various hotels and are amortised using the straight-line method over the term of the agreements related to these operating rights.

Investments carried out in trademarks are not amortised as their useful life is indefinite and are subject to impairment tests. The remaining items included in industrial property are amortised on a straight-line basis over a five-year period.

3.2 Property, plant and equipment

Property, plant and equipment is stated at cost, including transaction costs, plus the financial expenses directly attributable to the acquisition, construction and renovation incurred to bring the assets into operating conditions, less accumulated depreciation and any impairment losses.

Lease agreements from which, based on the analysis of the nature of the agreement and its terms and conditions, it appears that the risks and rewards of ownership of the leased asset have been substantially transferred to the Group, are considered to be finance leases and, therefore, they are recorded as property, plant and equipment for an amount equal to the lower of the fair value and the present value of the minimum payments established at the beginning of the lease agreement, less accumulated depreciation and any impairment loss. In such cases, the contingent lease payment is allocated as an increase in financial expenses in the income statement for the year.

The repairs which do not extend the useful life of the assets and the maintenance expenses are charged directly to the profit and loss account. Costs that extend or improve the useful life of the assets or can only be used with the item of property, plant and equipment are capitalised as an increase in their value.

The Group depreciates its property, plant and equipment by the straight-line method over the years of estimated useful life, as follows:

Buildings	40-50 years
Plant	15-18 years
Machinery	10-18 years
Furniture	10-15 years
Computer Software	3-8 years
Vehicles	5-10 years
Other fixed assets	4-8 years

The useful life and residual value of property, plant and equipment are reviewed at each balance sheet date. Land is not subject to systematic depreciation since it is considered to have indefinite useful life, however it is subject to impairment tests.

The Other fixed assets heading includes the amount of replacement inventories which are stated at average cost as per the stocktaking carried out in the different hotel centres at the year end. Breakages and losses are recorded as Disposals. The cost of such breakage and disposals has been included in the consolidated income statement, under the heading Depreciation and impairment.

Impairment of property, plant and equipment

At each year end the Group assesses whether there is an indication that an asset may be impaired. If such indication exists, or when annual impairment test for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's fair value less costs to sell or cash-generating unit and value in use, and it is determined individually for each asset, unless the asset does not generate cash inflows that are independent of those from other assets or groups of assets.

Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and its carrying value is reduced to its recoverable value. In assessing value in use, future cash flows are discounted at current value using a rate of discount which reflects changes in the value of money over time in the current market and the specific risks of the asset, mainly business risks and risks in the country in which the asset is located. Losses due to impairment of ongoing activities are recognised in the income statement in the expense category in accordance with the function of the impaired asset.

Each year end an assessment is made as to whether there is any indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If this is the case, the carrying amount of the asset is increased to its recoverable amount. This increase cannot exceed the carrying amount that would have been recorded, net of depreciation, had no impairment loss been recognised for the asset in previous years. This reversal is recognised in profit or loss for the period. After such reversal, the depreciation expense is adjusted in future periods to allocate the revised carrying amount of the asset, less any residual value, on a systematic basis over the asset's remaining useful life.

3.3 Investment property

The investments carried out by the Group to obtain lease income or a capital gains and which generate cash flows independently of the other assets held by the Group, are recorded under this heading.

After the initial recognition made for the total amount of the costs related to the asset acquisition transaction, the Group has chosen the application of the fair value model, therefore, all investment properties are recognised at fair value and any change in value occurred is included in the income statement. The variables used to calculate such estimates are set out in Note 11.

3.4 Segment reporting

Information on operating segments is presented according to the internal information as provided to key decision-makers within the Group. Key decision-makers means the Senior Executive Team (SET), which is responsible for allocating resources and evaluating performance of operating segments. The SET is a collegiate body consisting of the Chief Officers of each General Management and the CEO (Chief Executive Officer).

3.5 Financial instruments

There is no difference between the fair values estimated for the financial instruments recorded in the consolidated annual accounts of the Group and their corresponding carrying values, as explained in the paragraphs below:

Financial assets

Financial assets within the scope of IAS 39 are classified, according to the valuation criteria as loans and receivables, available-for-sale financial assets, and financial assets at fair value through profit and loss. These assets are initially recognised at fair value, provided that there is an active market, including directly attributable transaction costs. The Group has no held-to-maturity investments.

Loans and receivables

This classification includes the amounts recorded under the Trade and other receivables heading, and all the collection rights included in headings Other non-current financial assets and Other current financial assets.

Such assets are subsequently recognised at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or are impaired, as well as through the amortisation process. Except for the above, assets with a short-term maturity and which have no contractual interest rate are valued at face value provided the effect of not adjusting the cash flows is not material.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are held-for-trading financial assets acquired for the purposes of selling them mainly in the short term.

Assets in this category are recognised in the consolidated balance sheet, under the Other current assets heading if they are expected to be settled in the short term or in Other non-current assets if in the long term.

Operations involving the assignment of financial assets

The Company derecognises an assigned financial asset when it assigns the contractual rights to receive the cash flows generated by the asset or, even when retaining such rights, it assumes a contractual obligation to pay them to the assignees and the risks and rewards associated with the ownership of the asset are substantially transferred.

In case of assignment of assets in which the risks and rewards associated with the ownership of the financial asset are substantially retained, the assigned financial asset is not derecognised in the balance sheet and a related financial liability is recognised for an amount equal to the consideration received, which is subsequently measured at amortised cost. The assigned asset continues to be measured by the same criteria as those used before the assignment. The income derived from the assigned asset and the expenses derived from the related financial liability are recognised in the income statement without offset.

Deposits and guarantees

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

Current deposits and guarantees are not discounted.

Available-for-sale financial assets

Financial assets available for sale are those non-derivative financial assets that are designated as available-for-sale or which are not classified under other headings for financial assets. They relate entirely to investments in equity instruments of companies over which the Group does not have control or significant influence and are included under the heading of Other non-current financial assets.

The investments available for sale do not have a market price of reference in an active market and no other alternative methods exist in order to reasonably determine this value. The investment is measured at cost less the corresponding impairment loss.

Cash and other cash equivalents

Cash and other cash equivalents include cash in hand and at bank as well as short-term deposits in banks and other financial institutions with a maturity of less than three months from the date of subscription.

For the purposes of the consolidated cash flow statement, cash and other cash equivalents consist of the items as defined above.

Impairment of financial assets

The recoverable amount of receivables recorded at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate. Short-term investments are not recognised at their discounted value.

Available-for-sale financial assets are carried at cost, since they are not listed in an active market and their fair value cannot be reliably determined. In measuring the impairment of such assets, the equity of the investee company adjusted by any unrealised capital gains existing at the measurement date is taken into account, unless there is better evidence of the recoverable amount of the investment.

The Group's accounting policy is to make a provision for all the receivables relating to the hotel business exceeding one year, as well as for any balance pending for less than one year where there are reasonable doubts as to its recoverability.

Financial liabilities

Financial liabilities within the scope of IAS 39 are classified, according to the valuation criteria, as financial liabilities at amortised cost. These liabilities are initially recognised at fair value adjusted for directly attributable transaction costs. All non-derivative financial liabilities of the Group are included within the category Financial liabilities measured at amortised cost.

Issuance of bonds and other negotiable securities

Debt issues are initially recognised at the fair value of the consideration received, less directly attributable transaction costs. They are subsequently measured at amortised cost applying the effective interest method. Bonds with a maturity exceeding twelve months are classified as non-current liabilities, while those with shorter maturity than that are included under current liabilities. In the event of issuing convertible bonds, these are recorded as hybrid or combined financial instruments, according to the terms of the issue in question.

In determining whether a preferred share is a financial liability or an equity instrument, the Group assesses the particular rights attaching to the share in each case to determine whether it exhibits the fundamental characteristic of a financial liability. If a financial liability is identified, it is measured at amortised cost at the year end using the effective interest method, taking into consideration any issue costs.

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any issue costs and any discount or premium on settlement.

Bank loans and credit facilities

Loans are initially recognised at the amount received, net of transaction costs. After initial measurement, they are carried at amortised cost using the effective interest rate method.

This heading includes debts originated by the acquisition of assets financed by leasing contracts.

Trade creditors and other payables

Trade payables are initially recognised at fair value and are subsequently measured at amortised cost using the effective interest rate method.

Other financial liabilities at amortised cost

The remaining financial liabilities that relate to payment obligations as detailed in Note 13, are also measured at amortised cost using the effective interest rate method. However, financial liabilities with short-term maturities and which have no contractual interest rate are measured at their face value provided the effect of not adjusting the cash flows is not material.

Combined financial instruments

Combined financial instruments are non-derivative financial instruments that include liability and equity components simultaneously. Both components are presented separately.

At initial recognition, the liability component is measured at the fair value of a similar liability that is not connected with an equity component, and the equity component is measured by the difference between the initial amount and the value assigned to the liability component. The costs arising from this operation are divided between the liability component and the equity component in the same proportion resulting from the assignment of the initial value.

After initial recognition, the liability component is measured at amortised cost using the effective interest rate method.

Hybrid financial instruments

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

The Company recognises, measures and presents the host contract and the embedded derivative separately, when the following circumstances simultaneously take place:

- ✓ The economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract.
- ✓ A separate instrument with the same terms as the embedded derivative would meet the definition of a derivative.
- ✓ The hybrid instrument is not measured at fair value through profit or loss.

In such cases, the embedded derivative is recognised at fair value through profit or loss and the host contract is recognised based on its nature, usually at amortised cost according to the effective interest rate method. Calculations of the fair value of these embedded derivatives are carried out by independent experts outside the Group.

Derivative Financial Instruments

Derivative financial instruments, 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 such fair value is regularly adjusted. Derivatives are carried as assets, under the heading Other financial assets, when the fair value is positive and as liabilities, under the heading Other financial liabilities when the fair value is negative.

Accounting Hedges

The Company applies hedge accounting to those operations in which the hedge is expected to 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 by the changes in the fair value or cash flows of the hedging instruments with an effectiveness in a range of between 80% and 125%. In addition, at the inception of the hedge, the relationship between the hedged item and the derivative financial instrument designated for that purpose is formally documented.

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

The fair value of interest rate swaps is determined through the discounted cash flow measurement technique according to the characteristics of each contract, such as the face amount and the collection and payment schedule. The discount factors used to obtain said value are calculated based on the curve of the zero-coupon rates obtained from the deposits and rates listed in the market on the date of measurement. The resulting fair value is adjusted for the own credit risk and that of the counterparty, according to IFRS 13. These values are obtained from studies carried out by independent experts, usually the financial institutions with which the Group has contracted these instruments.

Derivatives not qualifying for hedge accounting

Any profit or loss arising from changes in the fair value of derivatives which do not qualify to be classified as hedging instruments are directly recognised in the net profit or loss for the year. The fair value of these derivative financial instruments is obtained from studies carried out by independent experts.

3.6 Non-current assets held for sale and discontinued operations

If there are assets that are linked to discontinued activities whose carrying value is expected to be recovered through a sale rather than by means of their continued use, such assets are recorded 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 for initial or subsequent write-down of the asset to fair values less costs to sell. The company recognises a gain for any subsequent increase in fair value less costs to sell of an asset, but not in excess of the cumulative impairment loss that has been recognised.

In the income statement, income and expenses from discontinued operations are presented separately from the income and expenses from continued operations, under profit/(loss) after taxes.
Assets held for sale are not depreciated/amortised.

The non-current assets that are for sale, within the asset rotation segment, but which are still operated by the Group until their sale, are not reclassified under this balance sheet heading and are maintained in the balance sheet according to their nature.

3.7 Inventories (commercial inventories, raw materials and other supplies)

Raw and ancillary materials are measured at their average acquisition cost which is generally lower than their realisable value, any necessary measurement adjustments being made in case their estimated realisable value is lower than their cost. The acquisition price includes the amount included in the invoice 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 net equity and are stated at cost without carrying out any measurement adjustments.

Gains and losses obtained by the companies on disposal of treasury shares are recorded directly against equity.

3.9 Government grants

Government grants are recognised at fair value only when there is a reasonable certainty that the conditions for receiving the grant will be fulfilled and such grants will be effectively received.

Where the grant relates to an expense item, it is taken to the income statement over the period necessary to match the grant, on a systematic basis, with the costs to be offset by the grant.

Where the grant relates to an asset, the fair value is recognised as deferred income and is taken to the income statement based on the expected useful life of such asset.

3.10 Provisions and contingencies

Provisions are recognised when the Group:

- Has a present obligation, legal or implicit, because 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 or transfer to a third party the obligation. Adjustments due to updating the provision are recognised as a financial expense as they accrue. Provisions maturing at one year or less with a non-significant financial effect are not discounted. Provisions are reviewed at each balance sheet date and are adjusted to reflect the current best estimate of the liability at any time.

On the other hand, contingent liabilities are the possible obligations, arising from past events, the materialisation of which is subject to the occurrence of future events which 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 for their settlement or which cannot be measured with sufficient reliability. These liabilities are not recognised in the accounts but are disclosed in the notes to the annual accounts (see Note 20).

Onerous Contracts

A contract is onerous when the unavoidable costs of meeting the contractual obligations exceed the expected economic benefits. In this case, present obligations arising from the contract are measured and recognised in the financial statements as provisions.

The estimate of future results from lease agreements is reviewed annually based on expected flows from the relevant cash-generating units, applying an appropriate discount rate. Details of the analysis performed by the Group are included in Note 16.2.

Post-employment benefits

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

Defined contribution pension plans

Defined contribution plans are those plans under which the Group makes fixed contributions to an independent entity and does not have any legal, contractual or implicit obligation to make additional contributions if the independent entity does not hold sufficient assets to satisfy the commitments assumed.

Contributions are recognised as employee benefits when they accrue.

Defined benefit pension plans

Pension plans that are not defined contribution plans are considered as defined benefit plans. In general, defined benefit plans fix the amount of the benefit that the employee will receive on retirement, usually based on one or more factors such as age, number of years of service and remuneration.

The Group recognises in the balance sheet a provision for defined benefit awards established in collective bargaining agreements in an amount corresponding to the difference between the present value of the committed benefits and the fair value of any assets linked to the benefit commitments which will be used to settle the obligations, less any past service costs still not recognised, if any.

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

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 recognises directly in the statement of comprehensive income, the profits and losses arising from the change in the current value, and, where applicable, the plan assets, as a result of the changes in actuarial assumptions or adjustments made on the basis of experience.

Certain collective bargaining agreements in force and applicable to some Group companies establish that permanent staff for a specified number of years employed by the Company who opt to terminate their employment contract will be entitled to a cash award equal to a number of monthly salary payments which is proportional to the number of years of service. During the fiscal year, an assessment of these commitments has been performed in accordance with the actuarial assumptions contained in Group's own rotation model, by applying the calculation method known as the Projected Unit Credit Method and the population assumptions corresponding to the PER2000P tables.

The balance of provisions, as well as the capitalisation of payments for future services, cover these acquired commitments, based on an actuarial analysis prepared by an independent expert. This valuation is detailed in Note 16.2.

The Group has duly externalised the pension commitments and obligations stipulated in collective bargaining agreements subject to the Ministerial Order of 2 November 2006. Assets related to these externalisation operations are recognised as a reduction in the balance of the acquired commitments.

3.11 Revenue recognition

Operating revenues is measured at the fair value of the consideration received or receivable and represents the amounts receivable for the goods sold, net of discounts, returns and value added tax. Ordinary income is 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 as described below. The Group bases its return estimates on past results, having regard to the type of customer, the type of transaction and the specific circumstances of each agreement.

Sale of rooms and other related services

Revenues deriving from the sale of rooms and other related services is daily recognised based on the services provided 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 consideration received is divided among the contracted services. Direct services, such as room, food and beverages, consumption, etc. and other related services such as banquets, events, the lease of spaces, etc. are included.

Within the hotel business segment, the Company manages the customer loyalty programme “Meliá Rewards”, which consists of rewarding customers that stay in hotels or use services provided by associates, through a series of points that are exchangeable for rewards such as, among other things, free stays in hotels managed by the Group.

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

Provision of hotel management services

The Group recognises revenues from its hotel management contracts at the end of each period, based on the evolution of the variables that determine that income, 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

Revenues from the sale of Vacation Club units is recognised as the relevant sold timeshare usage rights are enjoyed.

In the agreements for long-term assignment of these rights, which cover practically all the useful life of the units sold, 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 recognised at the time of the sale.

Sale of fixed assets

Meliá Group actively manages its real estate assets portfolio which, according to IAS 18, is recognised as operating revenues.

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

Likewise, this operating segment of the Company includes sales transactions and/or the contribution of hotels to joint ventures and associates for the purposes of maximising present and future cash flows of this portfolio. These transactions involve the derecognition of the hotels in the consolidated accounts and the recognition of the consideration received, whether in cash or the retained interest, or a combination of both.

The Group recognises the retained residual interest in such hotel businesses at fair value, taking any change in the carrying value to the income statement, as detailed in Note 2.4. Therefore, the recognised capital gains tally with the obtained capital gains.

Lease income

Income deriving from operating leases in investment properties is recognised on a straight-line basis over the term of the lease and is included as operating income under the asset management segment.

Interest income

Interest income is recognised using the effective interest rate method for all the financial instruments measured at amortised 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 recognised 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

The leases in which all the risks and rewards inherent in the ownership of the leased asset are substantially transferred are classed as finance leases.

At the inception of the lease, 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 two parts: the finance cost and the principal payment. The finance cost is taken directly to the income statement.

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

The lessor derecognises the asset and recognises a receivable for the present value of minimum future lease payments, discounted at the interest rate implicit in the contract. The lease payment receivable is treated as repayment of principal and financial income.

Operating leases

Leases where the lessor substantially maintains all the risks and economic benefits of ownership of the leased asset are classified as operating leases. Payments made under operating leases (net of any rewards received from the lessor) are charged to the income statement on a straight-line basis over the lease term.

Assets recognised under operating leases are depreciated over the shorter of the asset's useful life and the lease term.

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 subsidiary companies included in these consolidated annual accounts, excepting 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 treated as one unit each.

This calculation arises from the application of the corresponding tax rate to the tax base for the year, after applying the existing tax credits and deductions, plus the change in deferred tax assets and liabilities recorded. This amount is recognised in the income statement, unless the tax relates to items recognised directly in equity, in which case the corresponding tax expense is also recognised in equity.

Current tax assets and liabilities are the estimated amounts payable to or receivable. The tax rates used are those in force at the balance sheet date.

Deferred tax assets and liabilities are recognised under 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 only offset if there is a legally enforceable right to offset the current tax assets with current tax liabilities and when they relate to income taxes levied by the same tax authority and on the same taxable entity, or different taxable entities which intend to settle current tax liabilities and assets on a net basis.

Deferred tax liabilities are recognised for all taxable temporary differences, unless the temporary difference arises from goodwill for which amortisation is not deductible for tax purposes, or from the initial recognition of other assets and liabilities in a transaction, except in the case of a business combination, which affects neither accounting nor taxable profit or loss.

Likewise, deferred tax liabilities are recognised for all taxable temporary differences arising from investments in subsidiaries, associates and joint ventures, except when the following conditions are jointly met: the parent company is able to control the timing of the reversal of the temporary difference; 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 there will be taxable profits against which the deferred tax asset and carry-forward of unused tax credits and unused tax losses can be used, excluding the deductible temporary differences arising from the initial recognition of an asset or liability in a transaction, except in the case of a business combination, which affects neither accounting nor taxable profit or loss.

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

At each balance sheet date the recovery of the deferred tax assets is reviewed and adjusted to the amount which is expected to be recovered based on the taxable profit available, calculated according to prudence criteria and excluding the potential profits deriving from the disposal of properties, given the uncertainty concerning their realisation dates, which depend on market conditions, and the different tax consequences depending on the nature of the transactions carried out.

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

3.14 Transactions in foreign currency

Debit and credit balances in foreign currency are measured at the exchange rate in force on the transaction date and at the end of the year are translated at the exchange rate then in force.

Exchange differences are treated as income or expenses in the year in which they occur, except for those arising from financing transactions granted to subsidiaries abroad which have been considered as an increase in the value of the net investment in such businesses since the settlement of such transactions is not foreseen or likely to occur, as provided for in IAS 21 "The Effects of Changes in Foreign Exchange Rates."

3.15 Functional currency and hyperinflationary economies

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

The functional currency of each of the companies within the Group is the currency of the main economic environment in which the company operates. At the end of 2017 and 2016, the Venezuelan economy was classified as hyperinflationary, since it meets the characteristics of the economic environment laid down in IAS 29 "Financial Reporting in Hyperinflationary Economies".

Consequently, the balance sheets of the Venezuelan companies in the scope of consolidation have been restated based on a current cost approach that reflects the effects of changes in the price indices on their non-monetary assets and liabilities.

Likewise, the increase or decrease in purchasing power resulting from the application of the change in the price index to the net monetary position is taken to the income statement of these companies. The restatement effect on the current monetary unit of the remaining items of the profit and loss account of Venezuelan companies is also included in the income statement.

According to Note 2.5, at the 2017 year end, there are no official figures of the general price index of the Venezuelan economy, however, according to certain studies conducted by independent experts, hyperinflation stands at around 2,350%. In 2016, the inflation rate rose to 450%.

The most significant impacts for 2017 and 2016 are detailed in the table below:

(Thousand €)	2017	2016
Restatement of fixed assets	15.936	25.763
Reserves increase	15.409	12.601

There are no other companies within the scope of consolidation which are considered as hyperinflationary economies at the end of 2017 and 2016.

3.16 Cash flow statement

The cash flows statement includes the cash movements during the fiscal year, calculated by the indirect method. The expressions used in the cash flow statements have the following meanings:

- Cash flows: inflows and outflows of cash or other cash equivalents, these being understood to be investments for a period of less than three months with high liquidity and low risk of changes in value.
- Operating activities: These are the activities that constitute the main source of ordinary income of the Group, as well as other activities that cannot be classified as investment or financing.
- Investment activities: the acquisition, sale or other disposal 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.

Within the heading Divestment of property, plant and equipment, intangible assets and investment property, the assets acquired under lease agreements are not considered as cash flows (see Note 10).

Cash flows from operating activities include the capital gains generated by asset rotation activities, while the net carrying amount of the assets disposed of is recognised under the heading Investment activities.

Note 4. Financial Risk Management Policies

The Board of Directors of Meliá Group approved in 2011 the General Policy for Risk Control, Analysis and Management, which establishes the risk management model, which is aimed at minimising the potential adverse effects of any risks on the consolidated annual accounts.

In geopolitical terms, MHI considers Brexit to be one of the main geopolitical risks, and constantly monitors its effects and potential impacts. In this sense, it should be noted that in 2017 the United Kingdom was the leading source of tourists to Spain, with a total of 18.8 million of visitors, 6.2% more than the previous year, according to the data published by the National Statistical Institute (data from the Survey of Tourist Movements on Borders - Frontur). Therefore, despite the current uncertainty created by the Brexit, the United Kingdom remains the main source of tourists for Spain and, at present, the consequences for the industry are minimal and no significant impacts are foreseen on the British source market as a result of the Brexit. Nevertheless, the diversification and the international expansion plan of the Group will allow to compensate any slowdowns with other source markets.

Likewise, the Group's activities are exposed to different financial risks: market risk (foreign exchange risk and interest rate risk), credit risk and liquidity risk. The policies pursued by the Group try to minimise the potential adverse effects on its financial statements.

4.1 Interest rate risk

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

It is policy of the Company to provide partial hedge against changes in interest rates by contracting different financial derivatives that allow it to contract a fixed rate for a specified period that it applies to financing transactions with 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 hedging derivatives and to avoid incurring unnecessary payments, it has not been possible to apply hedge accounting (see Note 13.3).

The structure of the debt as at 31 December 2017 and 2016 is as follows (these amounts do not include unpaid interest due, but they include the transaction costs attributable to the issue of such debts):

(Thousand €)	Fixed Interest	Variable Interest	Total
European Commercial Papers (ECP)	71.670		71.670
Bank loans	298.212	55.588	353.800
Mortgage-backed loans	192.719	160.698	353.417
Credit facilities		137.484	137.484
Leasing		6.377	6.377
TOTAL DEBT	**562.601**	**360.146**	**922.747**

Variable interest rate debts are basically tied to Euribor and USD Libor.

As at 31 December 2017, the Group has various interest rate swaps contracted which are classed as cash flow hedging instruments. The bank loans and mortgage-backed loans at a variable rate covered by these swaps are shown in the Fixed Interest column for the part of capital hedged. Additional breakdowns are included in Note 13.3.

For comparison purposes, information for year 2016 is as follows:

(Thousand €)	Fixed Interest	Variable Interest	Total
European Commercial Papers (ECP)	39.398		39.398
Other negotiable securities		47.799	47.799
Bank loans	200.896	53.521	254.416
Mortgage-backed loans	225.803	186.385	412.187
Credit facilities		143.764	143.764
Leasing		8.422	8.422
TOTAL DEBT	466.096	439.890	905.986

The sensitivity, in thousand euro, of 2017 and 2016 profit or loss to interest rate variations (in base points) is as follows:

Variation	2017	2016
+ 25	(861)	(1.331)
- 25	861	1.331

The above 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 included in Note 13.3 has been considered in this calculation.

4.2 Foreign exchange risk

The Group operates internationally and, therefore, is exposed to exchange rate risks on transactions in foreign currencies.

Foreign exchange risk arises from commercial, financial and investment transactions, as well as from the translation of the financial statements of subsidiaries which are denominated in a functional currency other than the presentation currency of the Group.

It is policy of the Management to require the Group companies to manage any foreign exchange risks in relation to their functional currency. Additionally, despite not having financial instruments contracted (swaps, foreign exchange insurance), in order to mitigate these potential risks, the Group develops policies aimed at maintaining a balance between cash collections and payments of assets and liabilities denominated in foreign currencies.

An analysis of the sensitivity to the US dollar, Mexican peso, Dominican peso and British pound exchange rates has been carried out, since the Group has a major volume of business in such currencies.

The table below includes the effect of foreign exchange fluctuations on pre-tax profit or loss and on equity of relevant subsidiaries, assuming that all other factors remain the same:

	Profit & Loss			
	2017		2016	
(Thousand €)	+10%	-10%	+10%	-10%
Dominican Peso	1.990	(1.990)	1.761	(1.761)
Mexican Peso	4.191	(4.191)	6.199	(6.199)
US Dollar	3.469	(3.469)	5.454	(5.454)
British Pound	427	(427)	389	(389)

	Equity			
	2017		2016	
(Thousand €)	+10%	-10%	+10%	-10%
Dominican Peso	10.950	(10.950)	3.876	(3.876)
Mexican Peso	14.086	(14.086)	11.925	(11.925)
US Dollar	(6.361)	6.361	(9.421)	9.421
British pound	1.517	(1.517)	1.116	(1.116)

93% of the Group's financial debt is denominated in Euro (93.2% in 2016), so changes in the exchange rate do not significantly affect the Group in this respect.

4.3 Liquidity Risk

Exposure to adverse situations experienced by debt or capital markets may prevent or hinder the coverage of financing needs required for the appropriate development of Meliá Group's activities.

The liquidity policy applied by the Group ensures that payment obligations acquired will be met without having to obtain funds on burdensome terms. To do that, the Company uses different management procedures, such as the maintenance of credit facilities committed for sufficient amount and flexibility, the diversification of the coverage of financing needs through the access to different markets and geographic areas, and the diversification of the maturities of the issued debt.

The table below summarises the maturities of the Group's financial liabilities as at 31 December 2017, based on face amounts by maturity:

(Thousand €)	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
European Commercial Papers (ECP)	37.100	34.670			71.770
Loans	18.361	53.049	447.120	197.297	715.827
Credit facilities	59.215	74.242	4.027		137.484
Leasings		3.281	3.255		6.536
TOTAL	114.676	165.242	454.402	197.297	931.617

It is worth mentioning that, although the balance sheet as at 31 December 2017 has an excess of current liabilities over current assets of EUR 59.8 million (EUR 95.6 million in 2016), the Company considers that the amount of flows generated, the borrowing policies applied, the debt maturity dates, the cash situation and available credit facilities, ensures the Group's capacity to settle the commitments in force as at 31 December 2017.

The average interest rate on these financial liabilities in 2017 was 3.24%. In 2016 the average interest rate was 3.46%.

Likewise, the Company is negotiating with certain financial institutions agreements to extend the average maturity periods of the borrowings, as well as the renegotiation of short- and medium-term credit facilities, as in 2016.

For comparison purposes, the maturities at the 2016 year end were as follows:

(Thousand €)	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
Other negotiable securities			50.000		50.000
European Commercial Papers (ECP)	12.600	26.950			39.550
Loans	20.984	81.427	268.539	303.958	674.908
Credit facilities	67.830	73.924	2.010		143.764
Leasings		5.328	3.321		8.649
TOTAL	101.413	187.629	323.871	303.958	916.872

4.4 Credit risk

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

The Group's receivable periods range between 21 and 90 days; the average period of collection of receivables in 2017 was approximately 33.32 days, 35.11 in 2016. The age of trade receivables at the year end is included in Note 14.2.

4.5 Capital management policy

The main objectives of the Group's capital management is to guarantee financial stability in the short and long term, appropriate profitability rates on investments, positive evolution of the Meliá Hotels International S.A.'s share value, appropriate remuneration to shareholders through the distribution of dividends, as well as to ensure the appropriate and adequate financing of the investments and projects to be made and to maintain an optimal capital structure.

In terms of liquidity, the Group has EUR 331.9 million in cash and short-term deposits, allowing it to comply with its payment commitments for the next year.

The financial position is also backed by the strong support of the trusted banks and the Company's asset base. At present, and following the restructuring of the Group's debt, 38.3% (45.8% at the 2016 year end) of the total debt is secured by the Group's assets, leaving a significant margin for the acquisition of new financing, even at average loan-to-value ratios (relation between the amount borrowed and the value of the asset) or with discounts on the last measurement of assets carried out in July 2015 by an independent expert.

In 2017, the Company's net debt was EUR 593.7 million, the evolution of such ratio being as follows:

(Thousand €)	2017	2016	2015	2014
Debt	925.606	909.231	1.117.412	1.321.277
Cash	331.885	366.775	348.617	337.277
NET DEBT	**593.721**	**542.456**	**768.795**	**984.000**

This financial deleveraging in recent years is mainly based on the increase in cash linked to the improvement of all the segments of the Company, in particular, the hotel division, and on the process of debt restructuring carried out by the Group.

Regarding the increase in the amount of EUR 51.3 million in 2017, it is worth noting that the Company has carried out certain investments aimed at reconditioning, reforming and repositioning several hotels for the purposes of adapting them to the needs of upper segments in order to be more resilient to unexpected changes and to slowdowns in the economic cycle. Nevertheless, despite the mentioned investments, the leverage ratio of the Company (Net Debt / EBIDTA) was 1.9 at the 2017 year end, below the 2.0-2.5 range, which shows the management team's firm commitment to maintain a strong and stable financial position for the coming years.

It should be mentioned that the new model of expansion is focused on low capital intensive developments, i.e., under management and franchising, and to a lesser extent, under lease.

4.6 Estimation of fair value

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

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

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

The amounts of assets and liabilities recognised at fair value as at 31 December 2017 according to the hierarchy levels are as follows:

(Thousand €)	31/12/2017			
	Level 1	Level 2	Level 3	Total
Investment property			135.900	135.900
Financial assets at fair value:				
Hedging derivatives		247		247
Trading portfolio	375			375
TOTAL ASSETS	**375**	**247**	**135.900**	**136.521**
Financial liabilities at fair value:				
Hedging derivatives		3.299		3.299
Trading portfolio derivatives		3.668		3.668
TOTAL LIABILITIES		**6.967**		**6.967**

Financial instruments included in Level 1 are measured through observable prices in active markets. They mainly relate to equity instruments in listed companies.

Financial instruments included in Level 2 are measured by independent experts using measurement techniques, mainly, discounted cash flows, based on observable market data. They mainly relate to interest rate swap financial derivatives.

Investment property included in Level 3 is measured through discounted cash flow techniques supported by studies from independent experts. As mentioned in Note 11, this heading includes investments made by the Group to obtain rental income or capital gains, such as interest in three apartment owners' associations in Spain, two shopping centres in America and other properties in Spain.

For the purposes of estimating future cash flows, expected growth rates are considered, both in lease prices and hotel operations, as appropriate, as well as other variables not directly observable. Note 11 includes further details on the measurements carried out to estimate the fair value of investment property, as well as information on changes occurred in 2017 and 2016.

For comparison purposes, the balances recorded in the different hierarchies at the end of 2016 are included below:

(Thousand €)	31/12/2016			
	Level 1	Level 2	Level 3	Total
Investment property			141.136	141.136
Financial assets at fair value:				
Trading portfolio	349			349
TOTAL ASSETS	**349**		**141.136**	**141.484**
Financial liabilities at fair value:				
Hedging derivatives		4.999		4.999
Trading portfolio derivatives		5.619		5.619
TOTAL LIABILITIES		**10.617**		**10.617**

Note 5. Scope of Consolidation

The companies that comprise the Group present individual annual accounts according to the regulations applicable in the country in which they operate.

Details of the companies included in the scope of consolidation as at 31 December 2017 are included in Annexes 1 and 2, which are classified as subsidiaries, joint ventures and associates.

Meliá Brasil Administraçao, whose corporate purpose is the hotel management, operates various hotels under management. As the hotels under management are properties in joint ownership and are not legally authorised to carry out operating activities, Meliá Brasil Administraçao has assumed the operation of such hotels on behalf of the joint owners, given the requirements of local regulations. Income and expenses arising from the operation of these establishments are not included in the consolidated income statement, since the risks and revenues arising therefrom are returned to the joint owners. Only income arising from the management of these establishments is included in the consolidated income statement.

The Tunisian company, Tryp Mediterranee, in which Meliá Hotels International, S.A. holds an 85.4% stake, is in dissolution process and therefore, is excluded from the Group's scope of consolidation scope since, currently, the Group has no control or significant influence over this company during such process.

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

The companies Ayosa Hoteles S.L., S'Argamassa Hotelera, S.L. and Meliá Hotels Orlando, LLC. are fully consolidated, although only 50% or less of the voting rights are held. This is because the Group considers that it has the capability to influence the variable yields of such companies through the hotel management contracts that the Group has entered into with them.

5.1 Business combinations

In 2017, no business combinations have taken place. For comparison purposes, below there is a breakdown of the business combinations carried out in 2016:

Innwise Management, S.L.

On 30 June 2016, the company Idiso Hotel Distribution, S.A., subsidiary of the Group with a stake of 75%, acquired for a total of EUR 56 thousand an additional 50% of the company Innwise Management, S.L., company providing business consulting within the technology field, giving Idiso Hotel Distribution, S.A. a 100% ownership interest therein. As a result of this transaction, the control of one of the companies making up the technology services business line of the Company was acquired.

Below there is a breakdown of the estimated fair value in the recording of assets and liabilities acquired in the business combination, whose integration has not led to significant impacts on the consolidated financial statements:

(Thousand €)	Net Fair Value
ASSETS	
Non-current Assets	
Property,Plant and Equipment	4
Current Assets	
Trade and other receivables	216
Current tax assets	4
Cash and other cash equivalents	157
TOTAL ASSETS	**380**
LIABILITIES	
Non-current liabilities	
Long-term liabilities	3
Other non-current financial liabilities	105
Current liabilities	
Short-term liabilities	9
Trade creditors and other payables	163
Other current financial liabilities	89
TOTAL LIABILITIES	**370**

Inversiones Hoteleras Los Cabos, S.A.

In December 2016, the Group company Melia Inversiones Americanas, N.V., assumed the remaining 85% of the company Inversiones Hoteleras Los Cabos, S.A. (IHLC), through the subscription to a capital increase thereof, giving the Group 100% ownership interest in such company. The acquisition cost of this stake was USD 55 million (EUR 51.8 million), 50 % of such amount was paid at the 2016 year end, and the remaining amount was paid in the first quarter of 2017. The carrying value of 15% pre-existing stake amounted to EUR 3.3 million.

IHLC is a holding company whose sole asset is 100% shareholding in the company Aresol Cabos, S.A. de C.V. Both companies were therefore included in the scope of consolidation on the date of transaction.

The company Aresol Cabos, S.A de C.V. is a Mexican company, which owns and operates the prestigious hotel Paradisus Los Cabos, located in Los Cabos area (Pacific coast), totally renewed following the rebuilding of the former Meliá Cabo Real, after Hurricane Odile in 2015.

The accounting for business combinations was provisionally made at the end of 2016, measuring the assets and liabilities assumed through a study carried out by the Company itself and based on the business plans of the new hotel and the Group's experience, both in the area and in the country, as well as in the management of the brand Paradisus.

As a result of this study, the fair value of the hotel was recognised for an amount of EUR 108 million. Due to the difference between this carrying amount arising from the business combination and the tax value of the property, a deferred tax of EUR 21 million was recorded.

In 2017, the Group has obtained a measurement carried out by the independent expert Jones Lang Lasalle, whose results are similar to those obtained in the measurement carried out by the Group on a provisional basis, therefore, the values recorded at the end of 2016 are considered as final.

On the other hand, a bargain purchase of EUR 1.6 million was recorded in the Group's consolidated income statement. Of this amount, a total of EUR 5.2 million corresponded to the remeasurement of the previously held interest and EUR 3.6 million of loss for the acquisition (see Note 7.6).

Below there is a breakdown of the estimated fair value in the recording of assets and liabilities acquired in the business combination:

(Thousand €)	09/12/2016 Net Fair Value
ASSETS	
Property,Plant and Equipment	108.494
Cash and other cash equivalents	1.802
Other current assets	27.793
TOTAL ASSETS	**138.089**
LIABILITIES	
Deferred tax liabilities	21.578
Non-current liabilities	27.280
Current Liabilities	32.275
TOTAL LIABILITIES	**81.133**

5.2 Other scope changes

Additions

In June, the company Renasala S.L., which is 30% owned by Meliá Group, has been included in the scope of consolidation. On 30 June, this company acquired 100% of the shares in the following companies: Torremolinos Beach Property, S.L.U., San Antonio Beach Property, S.L.U., Palmanova Beach Property, S.L.U., Puerto del Carmen Beach Property, S.L.U. and Starmel Hotels Op, S.L.U., which own and operate, respectively, the hotels Sol Príncipe, Sol House Mixed by Ibiza Rocks, Sol Palmanova Mallorca and Sol Lanzarote All Inclusive.
The company Renasala, S.L. and its subsidiaries have been included in the scope of consolidation of Meliá Group using the equity method, the value of the Group's shareholding amounting to EUR 10.6 million, which has been paid by Meliá Hotels International, S.A.

On the other hand, in June the company Starmel Hotels Op2, S.L.U. joined the Group, in which an indirect interest of 20% is held by Meliá Group, with no significant impact on the Group's financial statements.

During the second half of the year, the company Producciones de Parques, S.L., which is 50% owned by Meliá Group, acquired for the sum of EUR 250 thousand 100% of the shares in the company Golf Katmandú, S.L., whose corporate purpose is the design and construction of recreational facilities. This transaction has no involved significant impacts for the Group.

On the other hand, the Group acquired for the sum of EUR 45.5 million, 35% of the company Homasi, S.A., a Spanish company which at the same time holds shares in a Cuban joint venture which currently holds the operating rights for the next 25 years in 4 hotels in Republic of Cuba. This transaction is partly carried out with significant shareholders of the Group and, therefore, the amount of the related transaction is broken down in Note 19.2.

Likewise, the company Infinity Vacations Dominicana has been incorporated, which is 100% owned by the Group and aimed at developing a project linked to Circle, a new commercial product which will substitute the current Club Meliá product. The main impact of its incorporation is detailed in Note 10.

In addition, the companies Infinity Vacations México, S.A. de C.V (Mexico) and Impact Hospitality V3ntures, LLC (USA) have been incorporated. These additions in the scope of consolidation have not involved any significant impacts on the Group.

Disposals

During the first half of 2017, the take-over merger of the company Innwise Management, S.L by its parent company Idiso Hotel Distribution, S.A., was concluded.

In July, the company Grupo Sol Asia Limited, 100% owned by Meliá Hotels International, S.A., was dissolved.

Such disposals have not resulted in significant changes in the Group's consolidated annual accounts, since their corresponding parent companies have assumed the resulting assets and liabilities.

Acquisition of minority interests

In April 2017, the Group acquired for EUR 0.3 million, an option to purchase minority interests in the company Sierra Parima, S.A., which operates a shopping centre in the Dominican Republic, now being 100% consolidated and the corresponding minority interests being removed from the Group's balance sheet in the amount of EUR 15.5 million, as reflected in the Statement of changes in equity.

In the second half of the year, the Group acquired an additional stake through the purchase of one apartment from the owners' association of Meliá Sol y Nieve hotel, increasing its stake by 0.44%.

In addition, 0.002% of the company Meliá Inversiones Americanas, N.V. was acquired.

The acquisitions abovementioned have not involved significant impacts on the Group's consolidated annual accounts.

Sale of controlling interests

In the second half of the year, 50% of the shares in the company Yagoda Inversiones S.L.U. were sold, being accounted for using the equity method and with no significant impacts on the Group.

Acquisition of additional stake in companies accounted for using the equity method

The Group has acquired an additional stake through the purchase of apartments in the owners' association of Costa del Sol hotel, increasing its stake by 0.82%.

In November, the Group acquired an additional stake of 0.14% through the purchase of one apartment in the owners' association of Meliá Castilla hotel.

The acquisitions abovementioned have not involved significant impacts on the Group's consolidated annual accounts.

For comparison purposes, changes in 2016 were as follows:

Additions

In the second half of the year the companies Sol Melia Jamaica LTD and Almeldik SRLAU were incorporated. These companies are involved in the hotel management of establishments in Jamaica and Morocco respectively.

Likewise, the Spanish companies Adrimelco Inversiones SLU, Gonpons Inversiones SLU and Yagoda Inversiones SLU were incorporated, all of them 100% owned by the parent company.

The additions abovementioned did not involve significant impacts on the Group's consolidated annual accounts.

Disposals

Disposals carried out in the first half of the year related to the companies Sol Melia Finance Ltd. and Sol Melia Commercial which were 100% owned by the Group, and with no significant impacts on the Group's consolidated accounts.

Acquisition and sale of minority interests

During the first half of the year, the parent company of the Group acquired for the sum of EUR 0.3 million a 50% additional in the company Colón Verona, S.A., which owns and operates the Gran Meliá Colon hotel. This transaction resulted in a reclassification in the amount of EUR 13.6 million from the heading Minority interests to the heading Retained earnings in the Statement of changes in equity.

Likewise, the Group increased by 0.06% its stake in the company Apartotel S.A., with no significant impacts on the Group's consolidated annual accounts.

Acquisition and disposal of stake in companies accounted for using the equity method.

The Group acquired an additional stake through the purchase of several apartments in the owners' association of Costa del Sol hotel, increasing its stake by 0.8%.
Likewise, the Group increased its stake by 0.28% in the owners' association of Meliá Castilla hotel through the purchase of three apartments.

The acquisitions abovementioned did not involve significant impacts on the Group's consolidated annual accounts.

5.3 Name changes

In 2017, no name changes were carried out. For comparison purposes, name changes in 2016 were as follows:

- ✓ Advanced Inversiones 2014, S.L changed its name to Starmel Hotels JV, S.L.
- ✓ Leader Inversiones 2014, S.L changed its name to Starmel Hotels OP, S.L.U.
- ✓ Prompt Inversiones 2014, S.L. changed its name to Torremolinos Beach Property, S.L.U.
- ✓ Counsel Inversiones 2014, S.L. changed its name to Fuerteventura Beach Property, S.L.U.
- ✓ Abridge Inversiones 2014, S.L. changed its name to Santa Eulalia Beach Property, S.L.U.
- ✓ Entity Inversiones 2014, S.L. changed its name to Palmanova Beach Property, S.L.U.
- ✓ Additional Inversiones 2014, S.L. changed its name to Puerto del Carmen Beach Property, S.L.U.
- ✓ Framework Inversiones 2014, S.L. changed its name to San Antonio Beach Property, S.L.U.
- ✓ Kabegico Inversiones, S.L. changed its name to Hotelpoint, S.L.
- ✓ Naolinco Hoteles, S.L. changed its name to Naolinco Aviation, S.L.

On the other hand, the companies below changed their registered address and corporate name:

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

Note 6. Segment Reporting

The segments included below make up the organisational structure of the company and their results are reviewed by the key decision-makers within the company:

- Hotel management: this relates to the fees received for operating hotels under management and franchise agreements. It also includes the intra-group charges to the Group's hotels that are under ownership or under lease.

- Hotel business: the results obtained for the operation of hotel units owned or leased by the Group are included in this segment. Likewise, income generated by the food & beverage business is also included since this activity is considered to be fully integrated into the hotel business due to the majority sale of packages whose price includes room and board, and therefore, a real segmentation of the associated assets and liabilities would be unfeasible.

- Other businesses linked to hotel management: this segment includes additional income from the hotel business, such as casinos or tour-operator activities.

- Real Estate: this segment includes the capital gains on asset rotation, and real estate development and operation.

- Club Meliá: it includes the results deriving from the sale of shared rights of use of specific vacation complex units.

- Corporate segments: these relate to structural costs, results linked to the intermediation and marketing of room and tourist service reservations, as well as corporate costs of the Group which cannot be assigned to any of the abovementioned three business divisions.

The segmentation of Meliá Hotels International is due to the diversification of operations existing in the Company based on hotel management, hotel operation, real estate and vacation club.

Certain headings included in the business and geographical segmentation tables are presented in an aggregate manner, due to the impossibility of splitting them into the various specified segments.

The policies for the determination of transfer prices applied by the Company in transactions between Group companies are similar to those applied in transactions with third parties.

6.1 Information by operating segments

The segmentation for 2017 of the income statement and the items in the balance sheet relating to operations is as follows:

	Hotel							
(Thousand €)	Hotel Management	Hotel Business	Other business with hotel management	Real Estate	Club Meliá	Corporate	Eliminations	Balance 31/12/2017
INCOME STATEMENT								
Operating revenues	294,370	1,590,666	66,492	8,664	81,764	190,553	(347,344)	**1,885,166**
Operating expenses	(206,044)	(1,166,089)	(61,628)	(6,658)	(71,474)	(226,638)	341,886	**(1,396,645)**
EBITDAR	**88,326**	**424,576**	**4,864**	**2,006**	**10,291**	**(36,085)**	**(5,458)**	**488,521**
Leases		(180,721)	(956)			(2,049)	5,458	**(178,268)**
EBITDA	**88,326**	**243,855**	**3,907**	**2,006**	**10,291**	**(38,134)**		**310,252**
Depreciation / amortisation and impairment	(2,040)	(98,251)	(1,014)	(724)	(2,823)	(19,453)		**(124,305)**
EBIT	**86,286**	**145,605**	**2,893**	**1,283**	**7,468**	**(57,587)**		**185,947**
Net financial income								**(33,114)**
Net income of associates		7,017		1,362		14,836		**23,214**
Profit before tax								**176,047**
Tax								**(42,599)**
CONSOLIDATED NET INCOME								**133,448**
Minority interests								**(4,720)**
NET INCOME ATTRIBUTED TO PARENT COMPANY								**128,727**
ASSETS & LIABILITIES								
Property,plant and equipment and intangible assets	41,495	1,474,968	10,541	23,443	45,069	217,006		**1,812,522**
Investments in associates		61,316		2,073		166,255		**229,644**
Other non-current assets								**431,783**
Current operating assets	132,029	211,898	8,454	7,078	117,136	226,359	(391,628)	**311,327**
Other current assets								**435,531**
TOTAL ASSETS								**3,220,807**
Borrowings								**925,606**
Other non-current liabilities								**246,895**
Current operating liabilities	125,348	456,555	11,138	2,373	116,058	41,991	(310,189)	**443,275**
Other current liabilities								**82,273**
TOTAL LIABILITIES								**1,698,050**

Within income from Hotel Management segment, EUR 153 million of management fees are recorded, of which EUR 11.5 million related to associates. The remaining income mainly relates to sales commissions.

On the other hand, Other business associated with hotel management heading mainly includes income and expenses associated with the tour-operator activity of the company Sol Caribe Tours, which amount to EUR 42.8 million and EUR 39.6 million, respectively (see Note 7.1).

Operating income in the Real Estate segment (or Assets management), include the income from the leasing of real estate for commercial purposes in the shopping centres in America, as well as other provision of services, in the amount of EUR 3.1 million. (See Note 11).

Main movements included in Property, Plant and Equipment in the amount of EUR 15.9 million relate to reforms and investments made during the year in the hotel business segment, as well as the revaluation of assets located in hyperinflationary economies. The increase in the heading Club Meliá mainly relates to a new urban development carried out by the company Infinity Vacations Dominicana in the amount of EUR 28.8 million. On the other hand, a decrease in the amount of EUR 98.6 million was recorded under this item due to translation differences, as well as the amortisation for the period in the amount of EUR 103 million (see Note 10).
Eliminations during the year included the inter-segment invoicing for management fees and commissions totalling EUR 202.7 million. The provision of services to Club Meliá amounted to EUR 5.8 million.

The segmentation for 2016 of the income statement and the items in the balance sheet relating to operations is as follows:

(Thousand €)	Hotel Management	Hotel Business	Other business with hotel management	Real Estate	Club Meliá	Corporate	Eliminations	Balance 31/12/2016
	Hotel							
INCOME STATEMENT								
Operating revenues	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 / amortisation 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**
Net financial income								**(29,743)**
Net income of associates		4,591				(3,006)		**1,585**
Profit before tax								**147,588**
Tax								**(44,640)**
CONSOLIDATED NET INCOME								**102,948**
Minority interests								**(2,255)**
NET INCOME ATTRIBUTED TO PARENT COMPANY								**100,693**
ASSETS & LIABILITIES								
Property,plant and equipment and intangible assets	47,504	1,551,416	10,741	25,015	14,970	213,832		**1,863,477**
Investments in associates		63,214		1,877		125,010		**190,101**
Other non-current assets								**486,984**
Current operating 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**
Borrowings								**909,231**
Other non-current liabilities								**262,624**
Current operating 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**

Within income from Hotel Management segment, EUR 151.6 million of management fees were recorded, of which EUR 11.1 million related to associates. The remaining income mainly related to sales commissions.

On the other hand, Other business associated with hotel management heading mainly includes income and expenses associated with the tour-operator activity of the company Sol Caribe Tours, S.A., which amounted to EUR 55 million and EUR 51.8 million, respectively (see Note 7.1).

Operating income in the Real Estate segment (or Assets management) mainly related to the sale of the laundry and hotel Sol Parque San Antonio, the contribution of which to this heading was EUR 7.1 million.

Likewise, income from the leasing of real estate for commercial purposes of the shopping centres in America, as well as from other provision of services, amounted to EUR 4.4 million. (See Note 11).

The main movements included in Property, Plant and Equipment related to the inclusion of Inversiones Hoteleras Los Cabos, S.A., amounting to EUR 108 million (see Note 5).

Eliminations during 2016 included the inter-segment invoicing for management fees and commissions totalling EUR 188.9 million. The provision of services to Club Meliá amounted to EUR 20.4 million.

6.2 Information by geographic areas

Information by operating segments is the best format to represent the Group's financial information, since it provides a better understanding of the yield obtained as well as the annual monitoring. Likewise, the different geographic areas are broken down by revenues and assets according to the countries in which the cash generating units are located and in which the Group operates (see Note 1):

(Thousand €)	SPAIN	EMEA (*)	AMERICA	ASIA	Disposals	31/12/2017
Operating Revenues	1,060,131	349,677	670,323	4,340	(199,306)	1,885,166
Total Assets	1,840,536	386,968	990,255	3,048		3,220,807

(*) EMEA (Europe, Middle East, Africa) :
Includes regions of Africa, Middle East and rest of Europe, excluding Spain

Turnover among the different geographical segments amounted to EUR 199.3 million, of which EUR 216.2 million related to Spain, EUR 28 million to EMEA, and EUR 45 million negative to America.

Regarding operating revenues by country, some noteworthy countries were Mexico, with EUR 209 million and Dominican Republic with EUR 291.5 million within the America segment. In EMEA segment, Germany contributed EUR 156.8 million.

Likewise, under the item Total assets, it is worth underlying the Mexico's contribution in the amount of EUR 389.9 million, and the Dominican Republic's contribution in the amount of EUR 326.4 million, under the America heading. With respect to EMEA segment, noteworthy are the contributions of Italy and the Netherlands in the amount of EUR 114 and 87.5 million, respectively.

For comparison purposes, the balances corresponding to the previous year are as follows:

(Thousand €)	SPAIN	EMEA (*)	AMERICA	ASIA	Disposals	31/12/2016
Operating Revenues	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) :
Includes regions of Africa, Middle East and rest of Europe, excluding Spain

Turnover among the different geographical segments amounted to EUR 154.6 million, of which EUR 147.8 million related to Spain, EUR 48.8 million to EMEA, and EUR 42 million negative to America.

Regarding operating revenues by country, some noteworthy countries were Mexico, with EUR 194.8 million and Dominican Republic with 291 million in the America segment. In EMEA segment, Germany contributed EUR 144.4 million.

Likewise, under the item Total assets, it is worth underlying the Mexico's contribution in the amount of EUR 411.8 million, and the Dominican Republic's contribution in the amount of EUR 360.6 million, under the America heading. With respect to EMEA segment, noteworthy are the contributions of the United Kingdom and France in the amount of EUR 77 and EUR 66.7 million respectively.

Note 7. Other Income and Expenses

7.1 Operating revenues

The breakdown of the balance of this caption in the income statement for 2017 and 2016 is as follows:

(Thousand €)	2017	2016
Room sales	985.465	931.394
Food and beverages	484.721	469.543
Real estate income	8.799	17.946
Sale of vacation club units	76.005	78.454
Income from other business	107.796	93.830
Income from hotel management	52.099	57.153
Other revenue	170.281	153.643
TOTAL	1.885.166	1.801.962

In Other revenue, it should be highlighted the amount of EUR 42.8 million of the company Sol Caribe Tours, S.A., deriving from its tour-operator activities. In 2016, the contribution was EUR 55 million.

7.2 Supplies

The breakdown of the balance of this caption in the income statement for 2017 and 2016 is as follows:

(Thousand €)	2017	2016
Consumption of food and beverages	142.067	139.039
Consumption of ancillary goods	35.969	35.117
Consumption of vacation club sales	4.766	3.985
Sundry consumption	32.429	44.642
TOTAL	215.232	222.783

7.3 Staff costs

Staff costs are broken down as follows:

(Thousand €)	2017	2016
Wages,salaries and equivalent	388.178	377.359
Social security	89.235	85.229
Other social expenses	21.665	21.524
Allowances	3.621	5.595
TOTAL	502.699	489.707

The average number of employees of Meliá Hotels International, S.A. and its subsidiaries over the last two fiscal years and broken down by job category is as follows:

	2017			2016		
	MEN	WOMEN	TOTAL	MEN	WOMEN	TOTAL
Management personnel	334	152	486	328	141	469
Department heads	1.409	993	2.401	1.381	959	2.341
Technicians	5.978	4.387	10.365	5.890	4.197	10.087
Auxiliary staff	4.568	3.505	8.073	4.329	3.257	7.586
TOTAL	12.289	9.037	21.326	11.928	8.555	20.483

7.4 Other expenses

The breakdown of the balance of this caption in the income statement for 2017 and 2016 is as follows:

(Thousand €)	2017	2016
Sundry rentals	19.366	16.380
Maintenance and repairs	57.079	61.402
External services	114.987	107.836
Transport and insurance	15.621	16.961
Banking expenses	23.570	21.539
Advertising and promotions	57.369	62.110
Supplies	88.027	85.491
Travel and ticketing expenses	10.170	13.861
Activity tax	47.641	45.249
Various external services	194.091	168.717
Other expenses	50.794	40.622
TOTAL	**678.714**	**640.167**

7.5 Depreciation/amortisation and impairment

The breakdown of the balance of this caption in the income statement for 2017 and 2016 is as follows:

(Thousand €)	2017	2016
Amortisation charge, intangible assets	21.279	16.196
Depreciation charge, property, plant & equipment	88.679	88.081
Impairment of property, plant & equipment	14.347	7.175
TOTAL	**124.305**	**111.452**

Impairment of property, plant & equipment item includes EUR 7 million relating to the impact of the accelerated depreciation of assets consisting of hotels operated under operating leases to adapt their useful lives to the term of such lease agreements. In 2016 this impact amounted to EUR 6.2 million.

On the other hand, an impairment in the amount of EUR 6.3 million in the Group companies located in Puerto Rico was recognised as a consequence of the hurricanes Irma and María in September 2017.

7.6 Bargain purchase

In 2017, there were no bargain purchases. In 2016, the bargain purchase arose from the business combination of Inversiones Hoteleras Los Cabos, S.A., as explained in Note 5.1:

(Thousand €)	2016		
	Remeasurement previously held interest	Purchase Benefit / Loss	Total
Inversiones Hoteleras Los Cabos	5,238	(3,617)	1,621
TOTAL	**5,238**	**(3,617)**	**1,621**

7.7 Financial income and expenses

The breakdown of financial income and expenses included in the consolidated income statement in 2017 and 2016 is as follows:

(Thousand €)	2017	2016
Dividend income	151	104
Interest income	7,208	7,317
Profit or Loss on disposal of financial assets		6,618
Total financial income	**7,359**	**14,038**
Interest expenses	(27,755)	(42,201)
Other financial expenses	(1,358)	(671)
Surplus bad debt provision	(16)	(5,475)
Change in fair value of financial instruments	192	(110)
Total financial expenses	**(28,937)**	**(48,458)**
Exchange differences (net value)	(11,536)	4,676
NET FINANCIAL INCOME	**(33,114)**	**(29,743)**

The main change included in the financial income and expenses compared with 2016 relates to a reduction in interest expense due to the cancellation of convertible and non-convertible bonds amounting to EUR 9.3 million.

The exchange differences recorded in the fiscal year mainly relate to the depreciation of the US dollar against the Euro and the Mexican peso by approximately 14% and 4.7% respectively, which has negatively affected the assets of the companies denominated in these currencies.

Profit or loss on disposal of financial assets in the amount of EUR 6.6 million in 2016, related to the sale of shares in the companies Inversiones Hoteleras Playa del Duque, S.A., and Inversiones Turísticas Casas Bellas, S.A. (see Note 13.1).

Note 8. Earnings per Share

Basic earnings per share are calculated by dividing the net profit for the year attributable to ordinary shareholders by the average number of ordinary shares outstanding during the year.

Diluted earnings per share are calculated by dividing the net profit attributable to equity holders of the Parent by the average number of ordinary shares outstanding during the year. Both variables are adjusted by the effect of dilutive potential shares. At the end of 2017 and 2016, there were no potential ordinary shares and, therefore, there was no need for such adjustment.

The table below shows the calculations made in 2017 and 2016 for both variables:

(€)	BASIC		DILUTED	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Net income attributed to the parent company	**128.727.909**	**100.692.992**	**128.727.909**	**100.692.992**
Results correction				
Adjusted results	**128.727.909**	**100.692.992**	**128.727.909**	**100.692.992**
Number of ordinary shares	229.700.000	229.700.000	229.700.000	229.700.000
Average weighted treasury shares	(1.676.918)	(1.599.735)	(1.676.918)	(1.599.735)
Nr.of potential ordinary shares				
Total number of shares	**228.023.082**	**228.100.265**	**228.023.082**	**228.100.265**
Earnings per share	**0,56**	**0,44**	**0,56**	**0,44**

The Board of Directors will propose to the Shareholders' General Meeting the payment of a gross dividend of EUR 0.1681 per share, excluding treasury shares, by using a maximum amount to be distributed of EUR 38.6 million.

For fiscal year 2016, the Shareholders' General Meeting approved the payment of a gross dividend of EUR 0.1315 per share, excluding treasury shares, for which the amount of EUR 29.9 million was made available and paid during the second half of 2017.

Note 9. Intangible Assets

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

(Thousand €)	Balance 31/12/16	Amortisation 2017	Additions	Disposals	Exchange differences	Balance 31/12/17
GROSS VALUE						
Goodwill	60.769				(56)	60.714
Transfer rights	108.141		25	(1.913)	(5.246)	101.007
Computer software	147.440		18.682	(82)	(235)	165.805
Other intangible assets	7.203		76	(5)	(111)	7.163
Total Gross value	**323.553**		**18.782**	**(2.000)**	**(5.647)**	**334.688**
ACCUMULATED AMORTISATION						
Transfer rights	(44.229)	(5.439)		1.053	1.506	(47.110)
Computer software	(104.229)	(15.725)	(5)	68	262	(119.628)
Other intangible assets	(5.013)	(115)		7	78	(5.043)
Total Accumulated amortisation	**(153.471)**	**(21.279)**	**(5)**	**1.127**	**1.846**	**(171.781)**
NET CARRYING VALUE	**170.083**	**(21.279)**	**18.777**	**(873)**	**(3.801)**	**162.907**

The disposals recorded under item Transfer rights mainly relate to the termination of rights to operate two hotels under management in Spain.

The amount of EUR 10.4 million included in section Additions of Computer software relates to the technological innovation project carried out by the Company for the creation of a new framework for hotel management, by means of which the Company seeks to improve the technological services provided to its customers.

In 2016, the useful life considered as indefinite of certain Software was reviewed. As a result of this analysis, a change in the estimated useful life was made due to the technology restructuring process which is being carried out by the Group. Such assets have been fully amortised at the 2017 year end.

On the other hand, the impact of Exchange differences is due to the depreciation of the British pound, the US dollar and the Brazilian real and its impact on the Group’s Transfer rights on hotels in the United Kingdom, the United States and Brazil.

For comparison purposes, the breakdown of these movements in 2016 was as follows:

(Thousand €)	Balance 31/12/15	Amortisation 2016	Additions	Disposals	Scope variations	Exchange differences	Balance 31/12/16
GROSS VALUE							
Goodwill	61.035					(265)	60.769
Transfer rights	102.612		19.401	(5.071)		(8.801)	108.141
Computer software	133.225		14.395	(209)	8	21	147.440
Other intangible assets	7.705		46			(548)	7.203
Total Gross value	**304.578**		**33.842**	**(5.280)**	**8**	**(9.594)**	**323.553**
ACCUMULATED AMORTISATION							
Transfer rights	(47.560)	(4.568)	(405)	3.098		5.205	(44.229)
Computer software	(92.995)	(11.422)		217	(8)	(22)	(104.229)
Other intangible assets	(5.261)	(206)				454	(5.013)
Total Accumulated amortisation	**(145.817)**	**(16.196)**	**(405)**	**3.315**	**(8)**	**5.638**	**(153.471)**
NET CARRYING VALUE	**158.761**	**(16.196)**	**33.438**	**(1.965)**		**(3.956)**	**170.083**

The additions recorded in 2016 under item Transfer rights mainly related to the amount paid for the acquisition of rights to operate one hotel under lease in Brazil in the amount of EUR 14.6 million.

Likewise, disposals in the amount of EUR 5 million (EUR 1.4 million of net carrying value) were recorded due to the termination of rights to operate two hotels under management in Spain.

The amount of EUR 9.9 million included in section additions of Computer software related to the technological innovation project carried out by the Company and which is aimed at achieving more technology advances which cover a range of needs not currently covered, for the purposes of improving the technological services provided to the Company's customers.

On the other hand, the impact of Exchange differences was due to the depreciation of the British pound and its impact on the Group's Transfer rights on hotels in the United Kingdom.

Goodwill

The value differences generated as a result of business combinations are recognised in the balance of goodwill. The net carrying values of goodwill existing prior to the adoption of the IFRS (Note 2.5) are also included.

The amounts concerned by company are as follows:

(Thousand €)	31/12/2017	31/12/2016
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.	5.243	5.299
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	**60.714**	**60.769**

The only change recorded during the fiscal year relates to the exchange differences generated in the company Lomondo, Ltd.

The goodwill recorded at year end has been subject to impairment tests based on the expected cash flows of the cash generating units for each of the related companies.

Such units are shown in the following table:

Company	Cash Generating Units (C.G.U.)
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 hotels
Hotel Alexander, S.A.	Meliá Alexander hotels
Operadora Mesol, S.A. de C.V.	Meliá Cozumel, Meliá Puerto Vallarta, Paradisus Cancún Resort hotels Me Cabo, Meliá Cabo Real, Meliá Azul Ixtapa
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, Apartamentos Kanegra and Savudrija, Campings Finida and Park Umag.
Idiso Hotel Distribution, S.A.	Hotel distribution plarform
René Egli, S.L.U.	Sports Centre
Inmotel Inversiones Italia S.R.L.	Meliá Milán hotel

Cash generating units mainly relate to hotels operated or managed.

The risk factors taken into account by the Company are the expected exchange rates for the currencies in which cash flows are generated by each cash generating unit and the risk-free interest rates in each of the countries in which the cash flows are generated.
Cash flow included in the measurement includes business and competition risks. The method used is the EBITDA multiple, which is applied to the actual average EBITDA for the year and the previous year of the various cash generating units, without assuming increases in income when considering future cash flows. Multiples used, aggregated by geographic areas, are as follows:

EBITDA multiples	31/12/2017	31/12/2016
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

Note 10. Property, Plant and Equipment

Movements in the different headings of property, plant and equipment and their accumulated depreciation during the year are as follows:

(Thousand €)	Balance 31/12/16	Depreciation 2017	Additions	Disposals	Transfers	Exchange differences	Balance 31/12/17
GROSS VALUE							
Land	422.242		1.874			(20.815)	403.301
Buildings	1.496.304		56.056	(5.047)	1.739	(101.713)	1.447.339
Plant and Machinery	436.128		35.238	(3.603)	1.274	(15.500)	453.536
Other fixed assets	517.859		45.700	(14.311)	1.226	(35.968)	514.506
Works in progress	18.928		32.239	(254)	(4.239)	(4.830)	41.843
Total Gross Value	**2.891.460**		**171.107**	**(23.216)**	**(0)**	**(178.826)**	**2.860.526**
ACCUMULATED DEPRECIATION							
Buildings	(535.411)	(34.491)	(4.227)	4.203		85.075	(484.850)
Plant and Machinery	(307.780)	(34.777)	(394)	3.821	(586)	(35.420)	(375.136)
Other fixed assets	(354.876)	(33.758)	(5.779)	12.349	586	30.554	(350.925)
Total Accumulated Depreciation	**(1.198.067)**	**(103.026)**	**(10.400)**	**20.373**	**0**	**80.209**	**(1.210.911)**
NET CARRYING VALUE	**1.693.393**	**(103.026)**	**160.707**	**(2.843)**	**(0)**	**(98.617)**	**1.649.615**

Additions in the fiscal year include EUR 82.4 million as a result of various reforms and investments made in hotels in Spain, mainly in Balearic Islands, Madrid and Canary Islands.

In addition, investments in Mexico and Dominican Republic have been made in the amount of EUR 10 million and EUR 38 million respectively. In Dominican Republic, there are additions in Works in progress in the amount of EUR 28.8 million in the company Infinity Vacations Dominicana, incorporated in 2017 and which will be engaged in the development of a project liked to the new product Circle (see Note 5.2).

Within the investments made in the year, these include 3.6 million of assets acquired through bank leasing, which are not included in section Investments in property, plant and equipment, intangible assets and investment property of the Cash flow statement.

On the other hand, EUR 15.9 million of net carrying value (EUR 26.3 million of cost less EUR 10.4 million of depreciation) for the revaluation of assets located in hyperinflationary economies (Venezuela) are also included. This increase has been offset by the exchange differences shown in the relevant column, in the amount of EUR 31.7 million negative, as a result of the application of a new exchange rate calculated based on the inflation rate of the country, as explained in Note 2.5.

The Exchange differences generated in the fiscal year mainly relate to the devaluation of the Venezuelan bolivar, as abovementioned, as well as of the Dominican peso, the Mexican peso and the US dollar in the amounts of EUR 32.7 million, EUR 20 million and EUR 11.5 million, respectively.

For comparison purposes, the information for year 2016 is shown below:

(Thousand €)	Balance 31/12/15	Depreciation 2016	Additions	Disposals	Transfers	Scope variations	Exchange differences	Balance 31/12/16
GROSS VALUE								
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)	1.496.305
Plant and Machinery	419.318		26.150	(10.945)	266	2.199	(860)	436.128
Other fixed assets	496.618		45.733	(18.282)	219	4.576	(11.004)	517.860
Works in progress	8.693		11.398	(569)	(1.858)	3.454	(2.191)	18.927
Total Gross Value	**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	(535.412)
Plant and Machinery	(284.788)	(29.335)	(627)	8.980			(2.012)	(307.782)
Other fixed assets	(333.782)	(32.720)	(9.794)	14.992		(198)	6.627	(354.875)
Total Accumulated Depreciation	**(1.112.443)**	**(95.256)**	**(23.098)**	**30.483**		**(16.448)**	**18.694**	**(1.198.067)**
NET CARRYING VALUE	**1.578.997**	**(95.256)**	**145.001**	**(17.107)**		**108.498**	**(26.740)**	**1.693.393**

Additions in the fiscal year include EUR 59.5 million of cost for various reforms made in hotels in Spain, mainly in Balearic Islands, Barcelona and Sevilla.

Likewise, investments in Mexico and Dominican Republic were made in the amount of EUR 8.2 million and EUR 15.6 million, respectively.

Within the investments made in the year, these included 1.5 million of assets acquired through leasing contracts, which are not included in caption Payments on investments of the Cash flow statement.

Likewise, a reversal of hotel units targeted at the vacation club business was made, by transferring EUR 18 million from the caption Inventories to the relevant items of property, plant and equipment.

EUR 25.8 million of net carrying value (EUR 48.9 million of cost less EUR 23.1 million of depreciation) for the revaluation of assets located in hyperinflationary economies (Venezuela) were also included. This increase was offset by the exchange differences shown in the relevant column, in the amount of EUR 13.4 million negative, as a result of the application of the exchange rate called DICOM, which involved a new depreciation of the Venezuelan bolivar, as explained in Note 2.5.

Main disposals were as follows:

- ✓ Sale of Sol Parque San Antonio, located in Tenerife, for a net carrying value of EUR 2.5 million (EUR 13.6 million of cost and EUR 11.2 million of accumulated depreciation). This sale represented a net capital gain of EUR 4.1 million.

- ✓ Sale of property, plant and equipment associated with a laundry. The sale of such asset considered by the Group as non-strategic, implied a decrease of EUR 1.2 million in the net carrying value (EUR 5.5 million of cost and EUR 4.3 million of depreciation). The net capital gain obtained in this operation was EUR 2 million.

The sales abovementioned were carried out with third parties unrelated to the Group at market prices.

The amounts included in the Scope variations column related to the inclusion at fair value of the assets acquired in the business combination of Inversiones Hoteleras Los Cabos, S.A., as explained in Note 5.1.

Other considerations

There are 17 owned properties that have been mortgaged to secure several loans at the end of 2017, and their net carrying value amounts to EUR 584.7 million; in 2016 the total number of properties was 18 and their net carrying value amounted to EUR 634.8 million.

As at 31 December 2017 and 2016 the Directors consider that there was sufficient insurance coverage for their assets.

The net carrying value of the Group's assets which are financed through bank leasing agreements amounts to EUR 13.5 million, EUR 17.5 million in 2016.

At year end, the number of agreements in force was 111 with an average maturity of 4 years, whilst in 2016 there were 144 agreements with an average maturity of 3 years.

The terms and conditions of the agreements include one purchase option and a contingent component relating to the variable interest rate applied to such agreements, as stated in Note 4.1.

The revaluation of assets carried out by the Company, based on various legal regulations and voluntary revaluations prior to 1997, in order to correct the effects of monetary inflation, were as follows:

(Thousand €)	
Restatement of budgets for 1979	24.848
Restatement of budgets for 1980	28.852
Restatement of budgets for 1981	1.197
Restatement of budgets for 1982	26.480
Voluntary restatement before 1990	3.146
Restatement under R.D.L. 7/96	53.213
TOTAL	**137.736**

Asset valuation

In 2015, Meliá Hotels International S.A. commissioned the worldwide firm Jones Lang Lasalle Hotels, which specialises in hotel investment and consulting services, to conduct a valuation of the Group's owned assets, the outcome of which was a gross value of EUR 3,022 million; EUR 2,869 million only in hotel assets.

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

When determining the value of assets, the valuation criterion most used by Jones Lang LaSalle was the discounted cash flows, since hotel investments are generally valued according to the potential future income. In certain cases, other valuation methods were used, such as the comparables method or the residual value method. The latter method was mainly used to value plots and land. Regardless of the valuation criterion, the result of the valuation was checked by comparing it with other elements such as stable returns, price per room or the leveraged IRR.

Discounted cash flow method: Financial projections were prepared 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 historical transactions, expected profitability and other factors such as age, location, maintenance conditions of the property, etc.

The discount rates used in the valuation, depending on the geographic region in which the assets are located, are shown in the following table:

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

* 20% applied to hyperinflationary economies (Venezuela)

Comparables 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: This is the method generally used to value urban land, whether or not it has buildings on it. This involves 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.

The Group will carry out a new asset valuation during the second quarter of 2018.

Note 11. Investment Property

The balance of investment property includes the net carrying value of investments made by the Group to obtain rental income or capital gains, such as interest in three apartment owners' associations in Spain, two shopping centres in America and other properties in Spain.

Movements recorded in 2017 according to the type of assets included under this heading, are detailed in the following table:

(Thousand €)	31/12/2016	Additions	Exchange Differences	31/12/2017
Apartments in Spain	77.836	589		78.424
Shopping centres in America	53.574		(5.824)	47.749
Other properties in Spain	9.726			9.726
TOTAL	**141.136**	**589**	**(5.824)**	**135.900**

The additions in the fiscal year relate to the purchase of apartments of owners' associations located in Spain.

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

The breakdown of net income generated by investment properties in the Group's income statement is as follows:

(Thousand €)	Apartments Spain	Shopping Centres America	Other Properties Spain	Total
Operating revenues		3,021	67	3,088
Operating expenses		(3,186)		(3,186)
EBITDA		**(165)**	**67**	**(98)**
Amortisation or depreciation		(510)		(510)
Net financial income	147	(460)		(313)
Net income of associates	2,962			2,962
Tax		17		17
CONTRIBUTION TO GROUP NET INCOME	**3,109**	**(1,118)**	**67**	**2,058**

The contribution of the apartments in Spain relates to dividends collected from companies in which the Group has no significant influence and the proportional part of the results for the year of the companies which are accounted for using the equity method. Such apartments relate to establishments which are operated by the Group under management, and which generate income in the amount of EUR 5.9 million.

The contribution of the shopping centres in America relates to the part in the profit and loss account of the operating companies corresponding to such investment properties. This includes revenues from the lease of premises, as well as from other service provisions in the amount of EUR 3 million.

The contribution of other properties in Spain relates to the lease of one establishment located in Madrid.

For comparison purposes, information for year 2016 is shown below:

(Thousand €)	31/12/2015	Additions	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**	**1.038**	**141.136**

The additions of the year relate to the purchase of apartments of owners' associations located in Spain.

The exchange differences reflected in the Shopping Centres in America are due to the appreciation of the Dominican peso against the Euro.

The breakdown of net income generated by investment properties in the Group's income statement is as follows:

(Thousand €)	Apartments Spain	Shopping Centres America	Other Properties Spain	Total
Operating revenues		4,189	506	4,695
Operating expenses		(3,550)		(3,550)
EBITDA		**639**	**506**	**1,145**
Amortisation or depreciation		(70)		(70)
Net financial income	104	(526)		(422)
Net income of associates	2,399			2,399
Tax		(98)		(98)
CONTRIBUTION TO GROUP NET INCOME	**2,503**	**(56)**	**506**	**2,953**

The contribution of apartments in Spain related to dividends collected from companies in which the Group had no significant influence and the proportional part of the results for the year of the companies which are accounted for using the equity method. Such apartments related to establishments which were operated by the Group under management and which generated income in the amount of EUR 5 million.

The contribution of the shopping centres in America related to the part in the profit and loss account of the operating companies corresponding to such investment properties. This included revenues from the lease of premises, as well as from other service provisions in the amount of EUR 4.2 million.

The contribution of other properties in Spain related to the lease of such investment properties in 2016.

Discounted cash flow techniques of the expected cash flows from each of these properties are used to estimate the fair value of investment property, as stated in Note 4.6. In 2017, these estimates were carried out as follows:

Shopping centres in America:

The future cash flows arising from the rental revenues of the premises in the shopping centres have been estimated. To do this, the operating budget for 2018 is taken as a start point, and growth rates consistent with the rates used in the previous year are applied to revenues. Regarding cost estimation, approximately the structure of the 2018 budget in terms of income percentage is maintained for future fiscal years.

For the restatement of the expected cash flows, the Group has assessed the discount and exit rates used by Jones Lang LaSalle for the measurement of the Group's assets in 2015, determining that the use of these rates remains reasonable at the 2017 year end. The discount rates applied range between 9% and 20%.

Apartments in Spain:

The fair value of the hotel businesses operated by the owners' associations in which these apartments are located is estimated by applying the ownership percentage corresponding to them. Cash flows are projected over 10 years based on the 2018 budget and income is projected by considering the evolution of similar properties in each location. In terms of costs, an average inflation rate of 2.5% has been taken into consideration.

The valuation of these hotel assets was internally carried out by updating the study conducted by the independent expert Jones Lang LaSalle (JLL), using a methodology of discounted cash flows projected for the next 10 years.

A sensitivity analysis of these assets based on the study abovementioned is included below:

	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 measurements made during this year, do not involve a measurement of the fair value significantly greater or lower than the values abovementioned.

Other properties in Spain:

To obtain the fair value of the properties which are leased or available for lease, the Company based its estimations on the study commissioned to the expert Lang LaSalle in fiscal year 2015, as described in Note 10. Return rates of between 5.15% and 6.5% have been considered for this type of assets.

Note 12. Investments Measured Using the Equity Method

The financial investments relating to shareholdings in associates and joint ventures have been measured using the equity method. The amounts obtained are as follows:

(Thousand €)	%	Balance 31/12/2016	Net income 2017	Additions	Disposals	Exchange Differences	Balance 31/12/2017
Meliá Zaragoza, S.L.	50,00%		(942)	942			
Evertmel Group (*)	49,00%	26.120	(1.104)	169			25.185
Altavista Hotelera, S.A.	49,05%	27.083	(62)	752			27.774
Adprotel Strand S.L	50,00%	51.109	(3.559)		(7)	(2.717)	44.826
Producciones de Parques Group (*)	50,00%	31.526	1.933	3.054	(115)		36.398
Fourth Project 2012, S.L.	50,00%	6.769	32	53			6.854
Melia Hotels USA Group (*)	50,00%	1.091	(306)			(119)	665
Yagoda Inversiones, S.L.U.	50,00%			1			1
TOTAL JOINT VENTURES		**143.698**	**(4.008)**	**4.971**	**(122)**	**(2.836)**	**141.703**
Homasi, S.A.	35,00%			45.516			45.516
Plaza Puerta del Mar, S.A.	20,01%	4.622	469		(283)		4.809
Promedro Group (*)	20,00%	4.800	712		(116)		5.396
Turismo de Invierno, S.A.	21,42%	4.828	90				4.918
C.P. Meliá Castilla	31,58%	3.386	1.973	187	(1.204)		4.342
C.P.Meliá Costa del Sol	21,01%	2.478	989	98	(686)		2.879
Jamaica DevCo S.L.	49,00%	408	(217)				191
El Recreo Group (*)	19,94%	3.073	1.362	944		(2.526)	2.853
Inversiones Guiza, S.A.	49,85%	(4)	(2)			1	(5)
Banamex S.A. Fideicomiso El Medano	30,28%	5.396	866		(9)	(577)	5.677
Hellenic Hotel Management	40,00%	(76)					(76)
Detur Panamá, S.A.	49,93%		(627)		(492)	1.119	
Starmel Group (*)	20,00%	17.490	21.298	9	(38.246)		552
Renasala Group (*)	30,00%		308	10.582			10.891
TOTAL ASSOCIATES		**46.403**	**27.222**	**57.337**	**(41.036)**	**(1.983)**	**87.943**
TOTAL		**190.102**	**23.214**	**62.308**	**(41.158)**	**(4.819)**	**229.646**

(*) Companies pertaining to the same business line are jointly presented:
Grupo Evermel comprising the companies Evertmel, S.L, Mongamenda S.L. and Kimel S.L.
Grupo Producciones de Parques comprising the companies Producciones de Parques, S.L.,Tertian XXI S.L.U. and Golf Katmandú,S.L.
Grupo Melia Hotels USA, LLC comprising the companies Melia Hotels USA,Llc. and Melia Hotels Florida Llc.
Grupo Promedro comprising the companies Promedro,S.A. and Nexprom,S.A.
Grupo El Recreo comprising the companies El Recreo Plaza C.A. and El Recreo Plaza & Cía. C.A.
Grupo Starmel comprising the companies Starmel Hotels JV,S.L, Starmel Hotels OP 2, S.L.U, Fuerteventura Beach Property S.L.U and Santa Eulalia Beach Property, S.L.U.
Grupo Renasala,S.L. comprising the companies Renasala,S.L, Starmel Hotels OP S.L.U, Torremolinos Beach Property,S.L.U, Palmanova Beach Property, S.L.U, Puerto del Carmen Beach Property,S.L.U, San Antonio Beach Property, S.L.U.

Additions of the fiscal year mainly relate to the inclusion in the Group of the companies Homasi, S.A. and Renasala, S.L. in the amount of EUR 45.5 million and EUR 10.6 million, respectively. (See Note 5).

Disposals mainly relate to the distribution of dividends and share premium by the company Starmel Hotels J.V., S.L. in the amount of EUR 37.3 million.

On the other hand, in the exchange differences heading, disposals are recorded mainly due to the effects of the devaluation of the British pound and the Venezuelan bolivar over the net assets of the companies Adprotel Strand, S.L. and Grupo El Recreo, respectively.

The increase in Net income 2017 arises from the profit generated by the company Starmel Hotels, JV, S.L. for the sale of 5 of its subsidiaries, which owned and operated 4 resorts in Spain, to the company Renasala, S.L. (see Note 5), generating a profit attributed to the Group in the amount of EUR 20.6 million.

Investments using the equity method on Meliá Zaragoza, S.L. and Detur Panamá, S.A. amount to zero, as in the previous year, since the negative holding in these companies has been partially offset by long-term loans payable to the Group by such companies and for which there are no related guarantees.

Shareholding movements in associates and joint ventures in 2016 were as follows:

(Thousand €)	%	Balance 31/12/2015	Net income 2016	Additions	Disposals	Exchange Differences	Balance 31/12/2016
Meliá Zaragoza, S.L.	50,00%		(916)	916			
Evertmel Group (*)	49,00%	24.555	1.762	15			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
Producciones de Parques Group (*)	50,00%	29.776	1.263	500	(13)		31.526
Fourth Project 2012, S.L.	50,00%	6.767		3			6.769
Melia Hotels USA Group (*)	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
Promedro Group (*)	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)		
Jamaica DevCo S.L.	49,00%	1	(83)	490			408
El Recreo Group (*)	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)	
Starmel Group (*)	20,00%	15.622	1.871	694	(698)		17.490
TOTAL ASSOCIATES		**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 pertaining to the same business line are jointly presented:
Grupo Evermel comprising the companies Evertmel, S.L, Mongamenda S.L. and Kimel S.L.
Grupo Producciones de Parques comprising the companies Producciones de Parques, S.L. and Tertian XXI S.L.U.
Grupo Starmel comprising the companies Starmel Hotels OP,S.L.U, Starmel Hotels JV, S.L, Torremolinos Beach Property,S.L.U, Fuerteventura Beach Property,S.L.U.
Santa Eulalia Beach Property, S.L.U., Palmanova Beach Property, S.L.U, Puerto del Carmen Beach Property, S.L.U, San Antonio Beach Property, S.L.U.
Grupo Melia Hotels USA, LLC comprising the companies Melia Hotels USA,Llc. and Melia Hotels Florida Llc.
Grupo Promedro comprising the companies Promedro,S.A. and Nexprom,S.A.
Grupo El Recreo comprising the companies El Recreo Plaza C.A. and El Recreo Plaza & Cía. C.A.

Additions in the fiscal year mainly related to the capital increase of the company Altavista Hotelera, S.A.

On the other hand, in the Exchange differences heading, disposals were recorded mainly due to the effects of the devaluation of the British pound over the net assets of the company Adprotel Strand, S.L.

Details of the balance sheet and profit and loss account of the most significant associates and joint ventures by volume of assets and net income are as follows:

(Thousand €)	Evertmel Group (*)	Adprotel Strand S.L.	Altavista Hotelera, S.L.	Starmel Group (*)	Renasala Group (*)	Total
EBITDA	**9.243**	**2.230**	**6.886**	**5.679**	**16.302**	**40.341**
Depreciation	**(5.309)**	**(4.724)**	**(3.036)**	**(6.580)**	**(6.496)**	**(26.145)**
Financial income	**35**		**93**	**29**		**158**
Financial expenses	(5.869)	(4.625)	(4.135)	(4.425)	(6.250)	(25.305)
Other financial profit/loss	(6)			111.314	6	111.315
Net financial profit/loss	**(5.840)**	**(4.625)**	**(4.042)**	**106.919**	**(6.244)**	**86.168**
Profit/loss before tax	**(1.906)**	**(7.119)**	**(192)**	**106.018**	**3.562**	**100.364**
Income tax	(346)		66	254	(4.568)	(4.594)
NET INCOME	**(2.252)**	**(7.119)**	**(126)**	**106.272**	**(1.006)**	**95.770**

(Thousand €)	Evertmel Group (*)	Adprotel Strand S.L.	Altavista Hotelera, S.L.	Starmel Group (*)	Renasala Group (*)	Total
NON-CURRENT ASSETS	**178.811**	**225.208**	**144.793**	**69.784**	**257.304**	**875.900**
Cash and other cash equivalents	2.328	487	487	**1.705**	**2.276**	**7.284**
Other current assets	39.893	1.272	105	6.627	4.386	52.283
CURRENT ASSETS	**42.221**	**1.759**	**592**	**8.332**	**6.662**	**59.566**
TOTAL GENERAL ASSETS	**221.032**	**226.967**	**145.385**	**78.116**	**263.966**	**935.466**
Non-current financial liabilities	**142.855**	**131.614**	**60.123**	**78.124**	**179.930**	**592.645**
Other non-current liabilities	7.503	0	16.593	270	27.812	52.178
NON-CURRENT LIABILITIES	**150.358**	**131.614**	**76.716**	**78.393**	**207.742**	**644.823**
Current financial liabilities	**7.507**	**5.331**	**5.358**	**789**	**5.034**	**24.020**
Other current liabilities	11.911	625	6.682	5.440	9.280	33.938
CURRENT LIABILITIES	**19.418**	**5.956**	**12.040**	**6.229**	**14.314**	**57.958**
TOTAL GENERAL LIABILITIES	**169.776**	**137.570**	**88.757**	**84.622**	**222.056**	**702.781**

(*) Companies pertaining to the same business line are jointly presented:
Grupo Evermel comprising the companies Evertmel, S.L, Mongamenda S.L. and Kimel S.L.
Grupo Starmel comprising the companies Starmel Hotels OP 2,S.L.U, Starmel Hotels JV, S.L, Fuerteventura Beach Property,S.L.U and Santa Eulalia Beach Property, S.L.U
Grupo Renasala comprising the companies Renasala, S.L., Starmel Hotels OP S.L.U, Torremolinos Beach Property, S.L.U, Palmanova Beach Property, S.L.U.
Puerto del Carmen Beach Property, S.L.U, and San Antonio Beach Property, S.L.U.

Evertmel Group, Altavista Hotelera, S.L. and Adprotel Strand, S.L., are owners of hotels which are operated by other Group companies through lease agreements.

Starmel Group and Renasala Group are made up of companies which own and operate hotels. In addition, they have contracts entered into with the parent company of the Group through which management fees are invoiced.

The increase in profits of Starmel Group as compared with the previous fiscal year, as well as the decrease in its assets and liabilities arise from the sale of 5 of its subsidiaries to the company Renasala, S.L., as abovementioned in this Note and in Note 5.

The decrease in Net income of Evertmel Group is mainly because in the previous fiscal year, the company presented a positive impact on the taxes item as a result of a EUR 5.6 million decrease in deferred tax liability and the capitalisation of a pending revaluation in the amount of EUR 1 million. Such values were generated as a result of the inspection of the Corporate income tax for years 2009 to 2012 of the parent company's tax group. Initially, the contribution of Antillas Barbados Hotel, as well as the apartments included in the Sol Beach House and Sol Wave House hotels by Meliá Hotels Internationa S.A. to this group, made use of the special tax regime applicable to mergers, divisions, transfers of assets and exchange of securities. According to such inspection, it was determined that only a portion of the transaction was eligible for this tax regime.

For comparison purposes, information for year 2016 is shown below:

(Thousand €)	Evertmel Group (*)	Adprotel Strand S.L.	Altavista Hotelera, S.L.	Producciones de Parques Group (*)	Starmel Group (*)	Total
EBITDA	**8.894**	**1.578**	**4.295**	**8.848**	**24.593**	**48.208**
Depreciation	**(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 profit/loss	(6)	16		(4)	(206)	(200)
Net financial profit/loss	**(4.633)**	**(5.482)**	**(3.646)**	**(1.992)**	**(5.825)**	**(21.579)**
Profit/loss before tax	**(776)**	**(8.947)**	**(1.426)**	**2.616**	**11.139**	**2.606**
Income tax	4.373		(35)	(89)	(3.033)	1.215
NET INCOME	**3.597**	**(8.947)**	**(1.461)**	**2.527**	**8.106**	**3.822**

(Thousand €)	Evertmel Group (*)	Adprotel Strand S.L.	Altavista Hotelera, S.L.	Producciones de Parques Group (*)	Starmel Group (*)	Total
NON-CURRENT ASSETS	**176.010**	**237.945**	**147.886**	**90.525**	**196.399**	**848.764**
Cash and other cash equivalents	801	21	28	2.662	37.006	40.519
Other 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 GENERAL 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 GENERAL LIABILITIES	**144.740**	**136.907**	**115.460**	**51.708**	**153.843**	**602.658**

(*) Companies pertaining to the same business line are jointly presented:
Grupo Evermel comprising the companies Evertmel, S.L, Mongamenda S.L. and Kimel S.L.
Grupo Producciones de Parques comprising the companies Producciones de Parques, S.L. and Tertian XXI S.L.U.
Grupo Starmel comprising the companies Starmel Hotels OP,S.L.U, Starmel Hotels JV, S.L, Torremolinos Beach Property,S.L.U, Fuerteventura Beach Property,S.L.U.
Santa Eulalia Beach Property, S.L.U, Palmanova Beach Property, S.L.U, Puerto del Carmen Beach Property, S.L.U. and San Antonio Beach Property, S.L.U.

In addition, the Producciones de Parques Group is made up of companies which own and operate hotels, and which have contracts entered into with the parent company of the Group through which management fees are invoiced.

Note 13. Other Financial instruments

13.1 Other financial assets

The table below includes the breakdown by categories of financial instruments, recorded in the headings Other financial assets of current and non-current assets of the balance sheet for years 2017 and 2016.

(Thousand €)	31/12/2017			31/12/2016		
	Long Term	Short Term	Total	Long Term	Short Term	Total
1. Financial instruments at fair value through other comprehensive income:						
Cash flow hedges	247		247			
2. Financial instruments at fair value through profit or loss:						
Trading portfolio		375	375		349	349
3. Loans and receivables:						
-Loans to associates	122.457	17.331	139.788	126.935	1.431	128.366
-Other loans	13.549	26.521	40.070	18.949	28.597	47.545
-Other items	33.269	4.457	37.726	60.102	16.921	77.022
4. Available for-sale financial assets:						
-Unlisted equity instruments	4.029		4.029	3.922		3.922
TOTAL	**173.550**	**48.684**	**222.234**	**209.908**	**47.297**	**257.205**

The table does not include the headings Trade and other receivables and Cash and other cash equivalents, which also relate to financial assets, as described in Note 3.5. Additional breakdowns are included in Note 14 to that effect.

Financial instruments at fair value through other comprehensive income

Cash flow hedge activities relate to interest rate swaps. Hegde activities are explained in Note 13.3.

Financial instruments at fair value through profit or loss

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

Loans and receivables

The table below shows a breakdown by nature of financial assets included in this item for 2017 and 2016:

(Thousand €)	31/12/2017			31/12/2016		
	Long Term	Short Term	Total	Long Term	Short Term	Total
Loans to associates	122.457	17.331	139.788	126.935	1.431	128.366
Other loans	13.549	26.521	40.070	18.949	28.597	47.545
Deposits	1.639	473	2.111	1.401	291	1.692
Guarantee deposits	8.657	528	9.186	8.351	550	8.901
Club Meliá customers	20.877		20.877	48.117		48.117
Financial deposits		3.456	3.456		16.080	16.080
Other items	2.096		2.096	2.233		2.233
TOTAL	**169.275**	**48.309**	**217.584**	**205.986**	**46.948**	**252.934**

Note 19 Information on related parties includes a breakdown of the balances recorded as loans to associates.

Likewise, the balance of Short-term Club Meliá customers is broken down in Note 14.2 Trade and other receivables.

Loans granted to several companies with which the Company does business in various operating segments are included under heading Other loans; the most significant amounts are as follows:

- ✓ Outstanding amounts at year end from the sale of non-controlling interests in several companies in the amount of EUR 9.7 million.
- ✓ Loans granted to various unrelated companies with which the Group has a business relationship in the amount of EUR 17.8 million.
- ✓ Loans to owners of several hotels operated by the Group under lease and management, in the amount of EUR 7.1 million.

Long-term guarantees granted by the Company basically relate to the rent for hotels leased by the Group through accepted promissory notes. Since such guarantees are granted to ensure compliance with an obligation associated with such agreements, they are not recognised at current value but at face value.

The balance of Club Meliá customers relates to the amounts financed in the long-term to this segment customers in the sale of timeshare rights. They are recognised at face value, since these financing agreements include a market interest rate.

The Financial deposits item includes long-term amounts in banks and with a maturity over 3 months, therefore, these cannot be considered as other cash equivalents.

Available-for-sale financial assets

Movements of available-for-sale financial assets are as follows:

(Thousand €)	%	Balance 31/12/2016	Additions	Disposals	Balance 31/12/2017
Hotelera Sancti Petri, S.A.	19,50%	2.634			2.634
Port Cambrils Inversions, S.A.	10,00%	980			980
Inveragua RD, S.A.S	14,24%		107		107
Valle Yamury, S.A.	8,00%	351			351
Other financial assets		42			42
TOTAL INVESTMENT		**4.007**	**107**		**4.114**
IMPAIRMENT LOSSES		**(85)**			**(85)**
NET CARRYING VALUE		**3.922**	**107**		**4.029**

Additions for the fiscal year in the amount of EUR 0.1 million relate to the acquisition of shares in the company Inveragua RD, S.A.S

For comparison purposes, movements for year 2016 were as follows:

(Thousand €)	%	Balance 31/12/2015	Additions	Disposals	Balance 31/12/2016
Hotelera Sancti Petri, S.A.	19,50%	2.634			2.634
Inversiones Hoteleras Los Cabos S.A.	15,00%	3.306		(3.306)	
Inversiones Hoteleras Playa del Duque, S.A.	5,00%	2.682		(2.682)	
Inversiones Turísticas Casas Bellas, S.A.	8,42%	6.520		(6.520)	
Port Cambrils Inversions, S.A.	10,00%	980			980
Valle Yamury, S.A.	8,00%	351			351
Other financial assets		38	4		42
TOTAL INVESTMENT		**16.510**	**4**	**(12.507)**	**4.007**
IMPAIRMENT LOSSES		**(79)**	**(5)**		**(85)**
NET CARRYING VALUE		**16.431**	**(1)**	**(12.507)**	**3.922**

Disposals recognised related to the sale of shares in the companies Inversiones Hoteleras Playa del Duque, S.A. and Inversiones Turísticas Casas Bellas, S.A., in the amount of EUR 15.8 million and which generated a profit in the amount or EUR 6.6 million (see Note 7.7).

On the other hand, the disposal of Inversiones Hoteleras Los Cabos, S.A., was because the Group acquired the remaining 85% of the shares, being recognised as an addition in the scope of consolidation (see Note 5).

The registered offices, activities and accounting information in thousand euro of the investees in which the Group holds a non-significant shareholding at the 2017 year end are included below:

(Thousand €)	REGISTERED OFFICE	ACTIVITY	Capital	Reserves	Net Income	%	TBV	NBV
Hotelera Sancti Petri, S.A.	Gremio Toneleros, 24 Palma de Mallorca (España)	Hotel ownership and operation	13.510	(2.745)	2.655	19,50%	2.617	2.634
Port Cambrils Inversions, S.A.	Rambla Regueral, 11 Tarragona (España)	Hotel ownership and operation	6.000	735	219	10,00%	695	980
Valle Yamury, S.A. (*)	Velázquez, 106 Madrid (España)	Holding and ownership	4.870	(991)	19	7,21%	281	272
Otras sociedades (*)								143
		TOTAL	24.380	(3.001)	2.893		3.593	4.029

(*) At 31 December 2017 there are no financial statements for theses companies

No adjustments for impairment were applied to those companies that have unrealised capital gains on the realisable value of their net assets.

13.2 Other financial liabilities

The table below shows the breakdown by categories of financial instruments, recorded in the headings Bonds and other negotiable securities, Bank borrowings and Other financial liabilities of current and non-current liabilities of the balance sheet for 2017 and 2016:

(Thousand €)	31/12/2017			31/12/2016		
	Long term	Short term	Total	Long term	Short term	Total
1. Financial instruments at fair value through other comprehensive income:						
- Cash flow hedges	1.743	1.556	3.299	3.099	1.900	4.999
2. Financial instruments at fair value through profit or loss:						
- Trading portfolio derivatives	2.256	1.412	3.668	4.071	1.548	5.619
3. Other financial liabilities at amortised cost:						
- Bonds and other negotiable securities		71.610	71.610	47.799	39.495	87.294
- Bank borrowings	644.515	209.482	853.997	570.929	251.007	821.936
- Other financial liabilities	5.415	61.809	67.224	6.584	91.659	98.243
TOTAL	**653.928**	**345.870**	**999.798**	**632.482**	**385.609**	**1.018.091**

Balances under heading Trade creditors and other payables which are also considered as financial liabilities, are not included as explained in Note 3.5. Additional breakdowns are included in Note 17 to that effect.

The following table shows the reconciliation of changes in assets and liabilities from financing activities. Debt issues and redemptions (Bonds and other negotiable securities and Bank borrowings), as well as Derivative financial instruments (hedges and trading portfolio) have been considered:

(Thousand €)	Bonds and Bank borrowings	Financial instruments at fair value	
		Assets	Liabilities
Balance at 31/12/2015	**1.117.412**		**12.405**
Financing cash flow	9.322		
Exchange differences	8.348		
Conversion of liabilities into net equity	(225.851)		
Changes in fair value			(1.788)
Balance at 31/12/2016	**909.231**		**10.617**
Financing cash flow	9.442		
Exchange differences	6.933		
Changes in fair value		247	(3.651)
BALANCE at 31/12/2017	**925.606**	**247**	**6.967**

Financial instruments at fair value through other comprehensive income

Cash flow hedge activities relate to interest rate swaps. Hegde activities are explained in Note 13.3.

Financial instruments at fair value through profit or loss:

Trading portfolio derivatives relate to interest rate swaps. Derivative activities are explained in Note 13.3.

Bonds and other negotiable securities

The table below shows the debt issues recorded under this heading and their balances at the end of 2017 and 2016:

(Thousand €)	31/12/2017			31/12/2016		
	Long term	Short term	Total	Long term	Short term	Total
European Commercial Papers (ECP)		71.610	71.610		39.398	39.398
Other negotiable securities				47.799	97	47.896
TOTAL		**71.610**	**71.610**	**47.799**	**39.495**	**87.294**

Euro Commercial Paper Programme (ECP)

The Company has executed in 2017 a new commercial paper programme ("Euro-Commercial Paper Programme" or ECP), with the same characteristics of the programme issued in 2016 and which expired on 15 September 2017, under the English law, up to a maximum of EUR 300 million, whereby issues of debt instruments can be made in Europe with a maturity of less than 364 days, up to the said amount:

Programme maximum amount	EUR 300,000,000
Programme signing date	22 September 2017
Programme duration	12 months
Debt rank	Unsecured
Coupon	Zero coupon
Issue price	At a discount
Issue duration	from 1 to 364 days
Redemption price	100%

The programme prospectus has been registered, in accordance with the relevant regulations by the competent Irish authorities, with the Irish Stock Exchange plc, from which the Company has requested admission to trading of the issues made under the programme.

In 2017, a total of EUR 131.7 million of issues have been made, and there are outstanding issues in the amount of EUR 71.6 million.

Other negotiable securities

The subsidiary Sol Meliá Europe, B.V. in 2016 carried out a debt issue in the amount of EUR 50 million, within a facility 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 face amount..	150,000,000
Currency..	EUR / USD
Maturity date..	11/01/2018

In December this debt was fully repaid in the face amount abovementioned, plus EUR 2.2 million of interest.

Bank borrowings

The breakdown by nature and by maturity of the Group's bank borrowings at the end of 2017 and 2016 is as follows:

(Thousand €)	31/12/2017			31/12/2016		
	Short term	Long term	Total	Short term	Long term	Total
Bank loans	20.582	333.218	353.800	50.327	204.089	254.416
Mortgage loans	49.332	304.085	353.417	50.616	361.571	412.187
Credit policies	133.457	4.027	137.484	141.753	2.010	143.764
Leasing	3.192	3.184	6.377	5.164	3.258	8.422
Interest	2.919		2.919	3.147		3.147
TOTAL	**209.482**	**644.515**	**853.997**	**251.007**	**570.929**	**821.936**

The debt increase in this heading is due to the increase in unsecured loans, mitigated by the decrease in mortgage loans through the full early redemption and the decrease in the amount drawn down against credit facilities, thus reducing the burden of the short-term debt on the Group's total debt to financial institutions.

The amount drawn down against credit facilities was EUR 137.5 million, and at the 2017 year end an additional balance of EUR 138.7 million was available. In 2016, the total face amount drawn down against credit facilities was EUR 143.8 million, and an additional balance of EUR 276.2 million remained available.

Bank debt increases for new bank financing in 2017 amounted to EUR 148.8 million, as reflected in the financing activities of the Cash flow statement. In 2016, the amount was EUR 358.2 million.

The Group's mortgage loans are secured by 17 hotels with a total net carrying amount of EUR 584.65 million, as stated in Note 10.

Maturity of bank borrowings is as follows:

(Thousand €)	2018	2019	2020	2020	2021	> 5 years	Total
Bank loans	20.582	62.309	73.625	76.550	26.865	93.869	353.800
Mortgage loans	49.332	89.036	52.298	31.805	29.994	100.952	353.417
Credit facilities	133.457	4.027					137.484
Leasing	3.192	1.249	904	716	316		6.377
Interest	2.919						2.919
TOTAL	**209.482**	**156.621**	**126.827**	**109.071**	**57.175**	**194.821**	**853.997**

Other financial liabilities

The table below shows the breakdown of the items under this heading at the end of fiscal years 2017 and 2016:

(Thousand €)	31/12/2017 Long term	Short term	Total	31/12/2016 Long term	Short term	Total
Trade bills payable	53		53	86		86
Fixed asset suppliers	55	8,274	8,329	55	10,026	10,081
Guarantees received	1,467	1,352	2,820	1,519	1,531	3,050
Other payables	3,839	51,304	55,144	4,924	76,040	80,964
Dividends payable		593	593		3,869	3,869
Other financial liabilities		286	286		192	192
TOTAL	5,415	61,809	67,224	6,584	91,659	98,243

The decrease in heading Other payables includes USD 27.5 million deriving from the repayment of the outstanding debt at the 2016 year end for the acquisition of Inversiones Hoteleras Los Cabos, S.A. (see Note 5), as reflected in the Business combinations heading of the Consolidated cash flow statement. EUR 17.5 million corresponding to the outstanding payment at year end for the acquisition of shares in the company Homasi, S.A. (see Note 5) are also included.

13.3 Hedge activities and derivatives

The breakdown by maturity of the fair values of the Group's derivative financial instruments at the end of 2017 and 2016 is as follows:

(Thousand €)	31/12/2017 Long term	Short term	Total	31/12/2016 Long term	Short term	Total
Hedging derivative assets	247		247			
TOTAL	247		247			
Hedging derivative liabilities	1.743	1.556	3.299	3.099	1.900	4.999
Trading portfolio derivatives	2.256	1.412	3.668	4.071	1.548	5.619
TOTAL	3.999	2.968	6.967	7.170	3.448	10.617

Within the framework of the Group’s interest rate risk management policies (see Note 4.1), the Company, at the end of the fiscal year, has several interest rate swaps which, based on the contractual terms, qualify as cash flow hedging instruments; therefore, changes in their fair value are taken directly to the Group's equity.

The items hedged by these operations are recorded under heading Bank borrowings. These financial instruments are used to exchange interest rates, so that the Company receives variable interest from the bank in exchange for a fixed interest payment on the same face 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 financing hedged.

In 2017, the positive impact on net equity of these derivative financial instruments, after taking the portion pertaining to the hedged item to the income statement and without considering the tax impact, amounted to EUR 1.9 million. In 2016, the impact was also positive in the amount of EUR 0.6 million.

Likewise, as at 31 December 2017, the notional value of the interest rate swaps that qualify as hedges amounted to EUR 122.2 million, and in 2016 such value amounted to EUR 134.7 million.

The liabilities relating to derivatives held for trading at the end of 2016 related to interest rate swaps contracted in the framework of the interest rate risk management performed by the Company (see Note 4.1.). These interest rate swaps are not considered as accounting hedges, since they do not meet the requirements for their application according to IAS 39.

As at 31 December 2017, the notional value of these financial instruments amounted to EUR 37.2 million, and in 2016 such value amounted to EUR 70.5 million.

Maturity by year is as follows:

(Thousand €)	2018	2019	2020	2021	>4 years	Total
Hedging derivative assets		(45)	17	53	221	247
TOTAL		**(45)**	**17**	**53**	**221**	**247**
Hedging derivative liabilities	1.556	1.115	496	73	59	3.299
Trading portfolio derivatives	1.412	947	779	287	243	3.668
TOTAL	**2.968**	**2.062**	**1.275**	**360**	**302**	**6.967**

For comparison purposes, the maturities at the end of 2016 end were as follows:

(Thousand €)	2017	2018	2019	2020	>4 years	Total
Hedging derivative liabilities	1.900	1.620	1.180	552	(253)	4.999
Trading portfolio derivatives	1.548	1.368	973	1.097	634	5.619
TOTAL	**3.448**	**2.987**	**2.153**	**1.649**	**380**	**10.617**

To determine these fair values, discounted cash flow techniques have been used based on the embedded amounts determined by the interest rate curve in accordance with the 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.

Note 14. Current Assets

14.1 Inventories

(Thousand €)	31/12/2017	31/12/2016
Goods for resale	2.106	1.895
Food and beverages	10.288	11.550
Fuel	475	583
Spare parts and maintenance	2.740	3.065
Ancillary materials	6.034	6.378
Office materials	1.440	1.520
Hotel business	**23.082**	**24.991**
Vacation Club business	**19.860**	**25.581**
Real Estate business	**5.419**	**6.521**
Advances to suppliers	**4.895**	**6.861**
TOTAL	**53.255**	**63.954**

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

The inventories of Vacation Club include rooms in various hotel developments in Spain and the Caribbean which are marketed on a weekly basis under timeshare system, as part of Club Meliá's business activity.

14.2 Trade and other receivables

The breakdown of this heading at the end of 2017 and 2016 is as follows:

(Thousand €)	31/12/2017	31/12/2016
Customers	177.881	175.065
Other receivables	80.190	100.204
TOTAL	**258.071**	**275.269**

Trade

Trade receivables by business line at year end are as follows:

(Thousand €)	31/12/2017	31/12/2016
Hotel	76.303	74.212
Real Estate	1.913	2.575
Club Meliá	57.700	50.951
Other operating activities	41.965	47.326
TOTAL	**177.881**	**175.065**

The Group has signed a non-recourse factoring agreement with a financial institution under which it periodically assigns the accounts receivable relating to certain customers of the hotel business, and collects the amounts concerned in advance. As at 31 December 2017, the total portfolio assigned in this respect was EUR 25.7 million, EUR 22.7 million as at 31 December 2016.

As a result of the "non-recourse" consideration of the assignment of receivables operation abovementioned, trade receivables are derecognised once assigned, therefore, they are not included in the table above.

As at 31 December 2017, the total amount of bad debt provisions was EUR 53.6 million, EUR 55.2 million at the 2016 year end.

The aging of trade receivables at year end was as follows:

(Thousand €)	2017	%	2016	%
Less than 90 days	117.459	67%	124.869	72%
More than 90 and less than 180	20.351	12%	28.690	17%
More than 180	38.158	22%	18.931	11%
TOTAL	175.968	100,00%	172.490	100,00%

The above table does not include real estate customers, since these arise from contracts executed in recent years and have defined collection/payment schedule. Trade receivables outstanding for more than 360 days are provisioned, as stated in Note 3.5.

Other receivables

The breakdown by nature of the balances included in this item for 2017 and 2016 is as follows:

(Thousand €)	31/12/2017	31/12/2016
Prepayments and accrued income	12.633	13.664
Loans to employees	464	503
Taxes refundable	18.360	12.851
Input VAT deductible	16.029	22.684
Tax withholdings	104	8
Receivables from associates	16.038	26.414
Receivables	16.062	20.817
Current accounts	499	3.264
TOTAL	80.190	100.204

These balances relate to commercial transactions carried out by the Group. Receivables from associates are broken down in Note 19.

14.3 Cash and other cash equivalents

Cash and other cash equivalents are broken down by geographic areas as follows:

(Thousand €)	SPAIN	EMEA (*)	AMERICA	ASIA	31/12/2017
Cash	97.408	46.909	102.462	818	247.597
Other cash equivalents	9.796	69.944	4.548		84.288
TOTAL	107.204	116.853	107.010	818	331.885

(*) EMEA (Europe, Middle East, Africa) :
Includes regions of Africa, Middle East and rest of Europe, excluding 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 needs.

The main balances comprising the Group's cash, based on the currency in which they are denominated, are in US dollars and Euro.

Balances under this heading for 2016 were as follows:

(Thousand €)	SPAIN	EMEA (*)	AMERICA	ASIA	31/12/2016
Cash	85.838	67.442	97.385	1.367	252.033
Other 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 regions of Africa, Middle East and rest of Europe, excluding Spain

Note 15. Equity

15.1 Share capital and share premium

On 25 April 2016, Meliá Hotels International, S.A., carried out a capital increase by conversion of bonds in the amount of EUR 6,129,390.40 by the issue of 30,646,952 newly issued ordinary shares, with a par value of Euro 0.2 each, all of the same class and series as the shares of the Company then outstanding.

As a result of this increase, the share capital was EUR 45,940,000 represented by 229,700,000 shares with a par value of Euro 0.2 each. The shares are fully subscribed and paid-up, and constitute a single class and series.

At the Ordinary and Extraordinary General Shareholders' Meeting held on 4 June 2015, the Company's Board of Directors was authorised to agree the Company's share capital increase, without having to consult the General Shareholders' Meeting beforehand, up to a maximum amount of nineteen million, nine hundred and five thousand, three hundred and four Euros, eighty cents (EUR 19,905,304.80). Consequently, the Board of Directors can exercise this right, in one or more times, 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, starting from the date of said Meeting.

All shares carry the same rights and are listed in the stock exchange (Continuous Market - Spain), except for treasury shares.

Main shareholders with direct and indirect stake in Meliá Hotels International, S.A. as at 31 December 2017 and 2016, are as follows:

Shareholder	31/12/2017 % Shareholding	31/12/2016 % Shareholding
Hoteles Mallorquines Consolidados, S.A.	22,58	22,58
Hoteles Mallorquines Asociados, S.L.	13,21	13,21
Hoteles Mallorquines Agrupados, S.L.	11,18	11,18
Majorcan Hotels Exlux, S.L. *	5,03	5,03
Norges Bank	3,55	3,02
Rest of shareholders (less than 3% individual)	44,46	44,98
TOTAL	100,00	100,00

(*) The Company mentioned in the above sections under the corporate name "Majorcan Hotels Exlux, S.L." relates to the company "Majorcan Hotels Luxembourg SARL" mentioned in previous years, which in 2017 changed its corporate name and transferred its registered office to Spain.

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

A decrease in the share premium in the amount of EUR 767 thousand has been recognised in 2017 due to the release of part of this reserve to the reserve for treasury shares.

15.2 Reserves

The table below shows the breakdown of heading Other Reserves of the Statement of changes in equity at the end of 2017 and 2016.

(Thousand €)	31/12/2017	31/12/2016
Legal reserve	9.188	7.391
Revaluation reserves Royal Decree-Law 7/1996, of 7th June	18.285	18.285
Reserves for shares of the controlling company	15.023	14.256
Reserves for actuarial gains and losses	(2.224)	(1.532)
Voluntary reserves	241.197	192.788
Other reserves	(7.604)	(7.604)
Consolidated reserves attributed to the controlling company	119.016	119.022
Total	**392.882**	**342.606**

The consolidated reserves attributed to the controlling company include the necessary homogenisation adjustments to present the consolidated equity in accordance with the International Financial Reporting Standards (IFRSs) and the International Financial Reporting Committee Interpretations (IFRICs), as described in Note 2.

The increase of EUR 80.2 million reflected in the Statement of changes in equity for 2017 relates to the distribution of profits of fiscal year 2016 of the controlling company.

Regarding the restricted reserves, Meliá Hotels International, S.A. and its subsidiaries incorporated under the Spanish law are obliged to transfer 10% of the profits of each year to a reserve fund until this fund reaches at least 20% of the share capital. This reserve, provided that other reserves are not available, may only be used to offset losses.

15.3 Treasury shares

Breakdown and movements of treasury shares are as follows:

(Thousand €)	Shares	Average Price €	Balance
BALANCE 31/12/2016	**1.661.766**	**8,58**	**14.256**
Additions	10.581.055	12,54	132.634
Disposals	(10.520.357)	12,53	(131.867)
BALANCE 31/12/2017	**1.722.464**	**8,72**	**15.023**

There are no securities loaned to banks as at 31 December 2017.

As at 31 December 2017, the total of treasury shares held by the Company was 1,722,464, which represent 0.75% of the share capital. Treasury shares do not exceed the 10% limit established by the Spanish Law on Corporations.

The price of Meliá Hotels International, S.A.'s shares at year end was EUR 11.50. At the 2016 year end the share price amounted to EUR 11.08.

For comparison purposes, movements in 2016 were as follows:

(Thousand €)	Shares	Average Price €	Balance
BALANCE 31/12/2015	**4.785.740**	**8,33**	**39.863**
Additions	377.712	10,36	3.914
Disposals	(3.501.686)	8,43	(29.521)
BALANCE 31/12/2016	**1.661.766**	**8,58**	**14.256**

During the first half of the fiscal year, the parent company proceeded with the early redemption of the convertible bond issued in 2013.

The conversion into shares was made by means of the issue of new shares and the delivery of existing shares held by the Company as treasury shares.
The value of existing shares used to make this swap, resulted in a reduction in treasury shares in the amount of EUR 29.5 million, which corresponds to 3.5 million shares.

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

As at 31 December 2016, the total number of shares held by the Company was 1,661,766, which represented 0.72% of the share capital.

15.4 Retained earnings

This heading includes the profit/(loss) for previous years of the parent company, as well as the retained earnings of the other companies included in the scope of consolidation as from the date they were included therein.

Movements during 2017 included under this heading mainly related to the distribution of profit for previous years, in the amount of EUR 18.9 million from fully consolidated companies (profits from the parent company are not included), and in the amount of EUR 1.6 million of profits from associates.

Movements during 2016 included under this heading mainly related to the distribution of profit for previous years, in the amount of EUR 39.8 million from fully consolidated companies (including profits from the parent company), and EUR 3.8 million of losses from associates.

15.5 Measurement adjustments

The Measurement adjustments heading in the Statement of changes in equity, includes a breakdown of Translation differences and Other measurement adjustments recognised in liabilities in the balance sheet.

Translation differences

The translation differences classified by currency reflected in the consolidated balance sheet deriving from the companies included in the Group's scope of consolidation are as follows:

(Thousand €)		31/12/2017	31/12/2016
Venezuelan Bolivar	VEF	(364.234)	(337.144)
Costa Rican Colón	CRC	95	249
Morrocan Dinar	MAD	53	53
Tunisian Dinar	TND	5.446	5.072
United Arab Emirates Dirham	AED	48	(37)
United States Dollar	USD	37.903	118.279
Singapore Dollar	SGD	97	102
Swiss Franc	CHF	2.527	2.914
Croatian Kuna	HRK	(313)	(352)
British Pound	GBP	(15.165)	(11.165)
Dominican Peso	DOP	(71.235)	(38.763)
Mexican Peso	MXN	(115.219)	(119.323)
Argentinian Peso	ARS	(1.228)	(1.167)
Brazilian Real	BRL	(19.965)	(20.907)
Chinese Renminmbi Yuan	CNY	(313)	(209)
Indonesian Rupiah	IDR	(161)	(155)
Peruvian Sol	PES	559	1.828
TOTAL		**(541.106)**	**(400.726)**

The effect of exchange rate changes is presented in the amount attributed to the controlling company, net of the effect attributed to non-controlling interests. The total effect is presented in the Translation differences item in the Statement of Comprehensive Income.

Among the total Translation differences, EUR 493.8 million negative relate to fully consolidated companies and EUR 47.3 million negative to companies accounted for using the equity method. In 2016, the amounts were EUR 358.3 million negative and EUR 42.2 million negative, respectively.

The main changes in relation to the previous year affected the Venezuelan Bolivar, the Dominican peso and the US dollar, due to the depreciations of these currencies against the Euro.

According to IAS 21.15, certain financing transactions relating to subsidiaries abroad have been considered as an increase in the value of the investment. During the year, EUR 21.5 million in negative translation differences have been recognised under this heading, while in 2016, EUR 26.6 million in positive translation differences were recognised.

Other measurement adjustments

Movements during the year mainly related to 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, in the amount of EUR 0.8 million negative. In 2016, the amount was EUR 0.3 million negative.

15.6 Non-controlling interests

The equity interest relating to rights held by third parties outside the Group is included under this heading, including the relevant proportional stake in the result (profit/(loss)).

The consolidated amounts, before carrying out intra-group eliminations, of assets, liabilities, equity interest of rights held by third parties outside the Group, as well as their relevant stake in the result (profit/(loss)) for the fiscal year, are included below:

(Thousand €)	Minority percentage	Total Assets	Total Liabilities	Total Net Assets	Non-controlling interests	Non-controlling interests profit/(loss)
Invers. Explot. Turísticas, S.A.	44,66%	62.139	48.238	13.901	6.262	3.552
Inmobiliaria Distrito Comercial	28,22%	17.333	(31)	17.364	1.350	(196)
Idiso Hotel Distribution, S.A. (*)	25,00%	34.692	20.971	13.721	6.146	(522)
Corporación Hotelera Metor, S.A.	24,12%	24.018	10.734	13.284	3.081	(111)
Realizaciones Turísticas, S.A. (*)	3,73%	354.156	220.625	133.531	5.118	152
Meliá Inversiones Americanas, N.V. (*)	0,31%	1.031.088	578.587	452.501	1.403	46
Other companies		180.180	120.996	59.184	3.196	1.748
TOTAL		**1.703.607**	**1.000.120**	**703.487**	**26.556**	**4.668**

(*) Includes non-controlling interests in their subsidiaries (see Annex 1).

In 2017, the amount reflected in Non-controlling interests in the company Sierra Parima, S.A. at the 2016 year end has been transferred to Consolidation reserves according to the additional acquisition carried out by the Group (see Note 5.2).

Other movements in the year mainly relate to the profit/(loss) and the translation differences recognised in these companies and their subsidiaries (EUR 4.2 million), as well as dividends which amounted to EUR 1.7 million, EUR 4.5 million in 2016.

For comparison purposes, amounts for 2016 are shown below:

(Thousand €)	Minority percentage	Total Assets	Total Liabilities	Total Net Assets	Non-controlling interests	Non-controlling interests profit/(loss)
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**

(*) Includes non-controlling interests in their subsidiaries (see Abbex 1).

In 2016, the amount reflected in Non-controlling interests in the company Colón Verona, S.A. at the 2015 year end was transferred to Consolidation reserves according to the additional acquisition carried out by the Group (see Note 5.2).

Note 16. Non-Current Liabilities

16.1 Grants and other deferred income

The breakdown of this heading is as follows:

(Thousand €)	31/12/2017	31/12/2016
Capital grants	4.675	4.900
Deferred income from customer loyalty programmes	17.534	18.933
Other deferred income	3.358	4.770
TOTAL	**25.567**	**28.603**

Capital grants mainly relate to grants to finance property, plant and equipment purchases. During the fiscal year, the total amount recorded under this item in the income statement was EUR 225 thousand. In 2016, income from grants amounted to EUR 230 thousand.

Deferred income heading includes the fair value assigned to points obtained by customers on the Company's loyalty programmes in the amount of EUR 17.5 million, according to IFRIC 13.

Other deferred income heading includes, basically, rewards received from lessors under the terms and conditions of the hotel lease agreements in which the Group acts as lessee.

16.2 Provisions

The Group maintains in non-current liabilities a balance in the amount of EUR 44.8 million in respect of provisions for contingences and expenses. As stated in Note 3.10, this heading includes the Group's post-employment benefit obligations with staff, provisions for taxes from previous years which are at appeal or resolution stage and for urban-planning related legal disputes with public bodies, as well as the provisions recorded to cover the various liabilities and contingencies arising from operations, commitments acquired and guarantees given in favour of third parties, risks deriving from legal claims and lawsuits and potential liabilities deriving from the different interpretations to which the applicable legislation is open.

The breakdown by type of obligations is as follows:

(Thousand €)	31/12/2016	Additions	Disposals	31/12/2017
Provision for retirement, seniority bonus and personnel obligations	9.003	1.009	(236)	9.776
Provision for taxes and Public Bodies	2.850	5.358	(2.377)	5.830
Provision for onerous contracts	7.653		(3.959)	3.694
Provision for liabilities	16.071	10.695	(1.259)	25.507
Total	**35.577**	**17.062**	**(7.832)**	**44.808**

Provisions for retirement, seniority bonus and personnel

At the end of each fiscal year, actuarial studies are carried out to assess the past services corresponding to commitments established in supra-enterprise collective agreements. In 2017 the estimated accrued amount was EUR 12.3 million, with an impact of EUR 1.5 million on the income statement for 2017. In 2016, the total amount accrued was EUR 11.7 million, with an impact of EUR 2.9 million on the income statement.

The assessment of these commitments undertaken by the Company has been conducted in accordance with the actuarial assumptions of the model which pertains to the Group, using the calculation method known as the Projected Unit Credit and the demographic assumptions established by the PER2000P tables, using a capitalisation rate of 1.2105%, and a salary increase assumption of 1.38%. In addition, the probability of tenure of employees until retirement has also been applied, based on the Group's experience in respect of employees leaving the Company, giving rise to the following rotation ratios according to the employee's current age:

Age Range	% Rotation
< 45	7,79%
45 - 55	3,73%
> 55	3,11%

Likewise, a significant part of these commitments has been outsourced in compliance with the legislation in force. At the 2017 year end, the balance of assets linked to the post-employment benefit plans amounted to EUR 2.5 million, liabilities being presented at their net amount. At the 2016 year end the balance for this item was EUR 2.7 million.

On the other hand, the negative amount recognised in the Statement of comprehensive income of EUR 0.9 million relates to changes in the percentages and actuarial assumptions for the calculation of the remunerations and retirement bonuses in respect of the Group's post-employment benefits commitments to its employees. In 2016, the negative amount in Statement of comprehensive income was EUR 0.1 million.

Provision for taxes and Public Bodies

In 2017, a decrease of EUR 2.3 million has taken place, which relates to the payment resulting from the tax inspections initiated by the end of 2014 on the tax group of the controlling company. On the other hand, an increase of EUR 5.4 million relates to a provision made based on various factors, including experience concerning previous tax inspections and potential different interpretations of the tax regulations made by the Group and the competent tax authority (see Note 18.1).

Provision for onerous contracts

The balance of the provision for onerous contracts at the end of 2017 amounted to EUR 3.7 million. This provision was calculated for the hotels that in 2017 presented negative net cash flows, after discounting the relevant lease instalments.

To calculate this provision, it is considered that the costs of compliance with the agreements correspond to the present value of the projected cash flows, including lease commitments, and they are compared with the costs of non-compliance with the various agreements, the lower of both amounts being allocated to the provision.

The estimate of projected cash flows of these hotels was made internally by the Company, using the operating budget for 2018 as a starting point and projecting results until the end of the agreement (excluding agreement extensions if they are not certain), based on increases in the average price of rooms in accordance with the business plan established for 2018. The discount rates applied range between 9% and 11%.

Provision for liabilities

Regarding the provisions for liabilities, in 2017 the European Commission informed Meliá of the initiation of an investigation concerning certain vertical agreements relating to hotel reservations entered into with tour operators and other tourist agents. The investigation of the Commission does not imply the existence of an infringement, but the formal opening of a procedure for the purposes of finding out more about the issue raised, which is focused on whether or not there are price restrictions based on the place of residence or nationality of the potential customer. Meliá actively and constructively participates with the Commission by providing as many explanations as necessary with respect to the issue raised, relying on a quick resolution of the procedure evidencing that Meliá's business practices comply with European legislation.

Additions in the amount of EUR 10.7 million relate to the provisions for disputes in various institutions (including the investigation of the European Commission as abovementioned), as well as other obligations undertaken in hotel lease agreements.

For comparison purposes, information for 2016 is shown below:

(Thousand €)	31/12/2015	Additions	Disposals	31/12/2016
Provision for retirement, seniority bonus and personnel obligations	8.895	444	(336)	9.003
Provision for taxes and Public Bodies	13.486	98	(10.734)	2.850
Provision for onerous contracts	10.555		(2.902)	7.653
Provision for liabilities	16.532	4.778	(5.239)	16.071
Total	**49.469**	**5.320**	**(19.212)**	**35.577**

Regarding the balance of the provision for taxes, it is worth mentioning that during the first half of 2016, the provision was applied and the tax certificate in the amount of EUR 11.7 million was paid, which resulted from the tax inspections which commenced in 2014 on the tax group of the controlling company.

Note 17. Trade Creditors and Other Payables.

The breakdown of this heading at the end of 2017 and 2016 is as follows:

(Thousand €)	31/12/2017	31/12/2016
Trade creditors	282.497	284.765
Other payables	160.778	174.897
TOTAL	443.275	459.662

17.1 Trade creditors

The balance of trade creditors includes any payables to suppliers of goods, supplies and other services or for which the invoices have not yet been received, which at the end of the year amounted to EUR 206.8 million. At the previous year end, this balance amounted to EUR 218.4 million.

Likewise, this heading includes prepayments from customers which, at the end of 2017 amounted to EUR 75.7 million; EUR 66.4 million at the end of 2016.

17.2 Other payables

The main items included in Other payables are set out below:

(Thousand €)	31/12/2017	31/12/2016
Accruals and deferred income	5.940	5.959
Accrued wages and salaries	58.448	59.162
Taxes payable	15.086	16.131
Social security contributions payable	9.412	8.598
Sales output VAT	19.957	25.601
Trade payables, associates	35.370	50.756
Other liabilities	16.565	8.691
TOTAL	160.778	174.897

These balances relate to commercial transactions carried out by the Group. Payables to associates are included in section Commercial transactions in Note 19.

Note 18. Tax Situation

The companies within the Group are subject to the tax legislation applicable in the countries in which they carry out their activities. Current tax regulations in some of these countries do not coincide with the Spanish regulations. As a consequence of the above, the information included in this note should be construed in the light of the peculiarities of the applicable tax regulations for the benefit of legal entities, with reference to applicable tax bases, tax rates and deductions.

18.1 Years open to inspection

According to the legal provisions in force, tax returns may not be considered to be final until they have been inspected by the tax authorities or the statute of limitations period has elapsed, which may be extended by the tax inspection authorities.

In this respect, the years open to inspection in the various countries in which the Group operates are as follows:

	Corp. Inc. Tax	Personal Income Tax	VAT	I.G.I.C. [general indirect Canaries tax]	I.R.A.P. [Italian regional tax on productive activities]	PIS/COFINS [social integration programme/contribution for the financing of social security]
Spain	2013-2016	2014-2017	2014-2017	2014-2017		
France	2014-2016	2015-2017	2015-2017			
England	2011-2016	2012-2017	2012-2017			
Italy	2011-2016	2012-2017	2012-2017		2011-2016	
Germany	2007-2016	2008-2017	2008-2017			
Croatia	2012-2016	2013-2017	2013-2017			
Holland	2013-2016	2013-2017	2013-2017			
USA	2014-2016					
Mexico	2012-2016		2013-2017			
Dominican Rep.	2014-2016		2013-2017			
Venezuela	2012-2016	2013-2017	2013-2017			
Brazil	2012-2016	2013-2017				2013-2017

In 2017 the Group has recorded a provision in the amount of EUR 5.4 million, based on reasonable estimates, for the potential impacts of the inspections by tax authorities in the countries in which it operates.

The amount of this provision is based on various factors, including experience concerning previous tax inspections and potential different interpretations of the tax regulations made by the Group and the competent tax authority.

Such potential different interpretations may arise in different issues depending on the conditions prevailing in the country in which the affected Group company is based.

18.2 Deferred tax assets and liabilities

The balance details of the Group's deferred tax assets and liabilities in 2017 and 2016 is as follows:

(Thousand €)	Balance sheet 31/12/2017	Balance sheet 31/12/2016
Non-current deferred tax asset is as follows:		
Capitalised tax credits	7.419	7.822
Credit for capitalised tax losses	25.924	28.344
Temporary differences for:		
Tax value of Tryp goodwill	19.803	23.611
Cash flow hedges (SWAP)	770	1.249
Adjustment reversal for inflation in non-inflationary countries	4.178	4.097
Tax deductible provisions at the payment time or when liability is generated	35.121	34.676
Different criteria for tax and accounting amortisation	10.160	11.213
Inter-group results elimination	7.438	5.387
Financial expenses not deducted	10.531	16.318
Other	990	3.223
TOTAL ASSETS	**122.334**	**135.940**
Non-current deferred tax liability is as follows:		
Fair values in business combinations	31.274	34.216
Finance lease operations	24.321	25.044
Fixed assets restatement and revaluation	73.355	80.409
Property investments fair value adjustment	24.146	26.882
Differences in accounting and tax values of assets	6.214	9.308
Accounting revaluation for merger	2.869	3.461
Sales under reinvestment deferral	4.126	4.263
Other	801	1.106
TOTAL LIABILITIES	**167.106**	**184.689**

Deferred taxes recognised in 2017 and 2016 by the Group are as follows:

(Thousand €)	Deferred tax Assets	Deferred tax Liabilities
BALANCE 31/12/2015	**132.186**	**161.715**
Expenses / Income of the period	10.551	3.192
Taxes attributed directly to Equity	(136)	
Scope changes		25.327
Translation differences	(6.661)	(5.545)
BALANCE 31/12/2016	**135.940**	**184.689**
Expenses / Income for period	(11.333)	(2.432)
Taxes attributed directly to Equity	(487)	
Scope changes		
Translation differences	(1.786)	(15.151)
BALANCE 31/12/2017	**122.334**	**167.106**

Deferred tax assets and liabilities are calculated considering the future changes in the tax rate approved in all geographic areas.

18.3 Tax credits for loss carryforwards

The tax loss carryforwards of the companies within the Group, detailed by geographic area and maturity date, are detailed below:

(Thousand €)	2018	2019-2023	2024-2030	Subsequent Years	Total 31/12/2017
Spain				309.513	309.513
Rest of Europe			20.958	17.340	38.298
America and rest of the world	1.707	7.034	2.851	32.163	43.755
TOTAL	1.707	7.034	23.809	359.016	391.566

Within the Rest of Europe area, the Netherlands stands out with EUR 20.9 million, Italy with EUR 12.6 million and France with EUR 4.8 million, and within America and the rest of the world, Brazil stands out with EUR 32.2 million, Mexico with EUR 10.4 million and People's Republic of China with EUR 1 million.

The Group's main capitalised tax losses and deferred tax assets generated are detailed below:

(Thousand €)	31/12/2017	
	Capistalised Tax Losses	Deferred Tax Assets
Spain	92.851	23.213
Italy	10.445	2.507
Dominican Republic	157	42
Mexico	538	162
TOTAL	103.991	25.924

Tax losses offset in the fiscal year were not fully capitalised in previous years, resulting in a tax benefit of EUR 1.1 million. EUR 0.2 million of such amount corresponds to Spain, EUR 0.3 million to rest of Europe and EUR 0.6 million to America and rest of the world.

Regarding the provisions for financial investments pending inclusion, a total of EUR 11.6 million will be gradually reversed in the tax base of Meliá Hotels International, S.A., provided that these investments generate enough profits to allow the discounting of such provisions or at a rate of 20% per year.

For comparison purposes, the tax loss carryforwards detailed by geographic area and maturity date at the 2016 year end are detailed below:

(Thousand €)	2017	2018-2022	2023-2029	Subsequent Years	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

The Group's main capitalised tax losses and deferred tax asset for 2016 are detailed below:

(Thousand €)	31/12/2016	
	Capitalised Tax Losses	Deferred Tax Assets
Spain	78.103	19.525
Italy	13.068	3.136
Holland	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

18.4 Tax credits

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

(Thousand €)	2018	2019-2023	2024-2030	Subsequent Years	TOTAL 31/12/2017
Spain	152	713	3.937	2.614	7.416
America and rest of the world				3	3
TOTAL	**152**	**713**	**3.937**	**2.617**	**7.419**

Accumulated tax credits at year end in America and rest of the world entirely relate to Venezuela.

The deferred tax assets corresponding to each tax credit are duly recognised.

For comparison purposes, available tax credits by geographic area and maturity date, at the 2016 year end are detailed below:

(Thousand €)	2017	2018-2022	2023-2029	Subsequent Years	TOTAL 31/12/2016
Spain	308	1.337	5.282	1.568	8.495
America and rest of the world	629			175	804
TOTAL	**937**	**1.337**	**5282**	**1.743**	**9.299**

The information set out in Article 84 of Law 27/2014 of 27 November on Corporate Income Tax applicable to mergers and divisions of business lines carried out in previous years is included in the first notes to the annual accounts approved following each of these operations and is summarised as follows:

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

18.5 Reconciliation of the consolidated accounting income and the aggregated tax base

(Thousand €)	2017	2016
Consolidated Net Income	**133.448**	**102.948**
Income tax expense	42.599	44.640
Adjustments for impairment and provisions	(1.670)	111.221
Finance lease transactions	2.300	3.296
Non-deductible expense/income	(42.024)	(44.135)
Exchange differences	4.258	16.550
Inflation adjustments	(10.226)	(32.158)
Other adjustments	(5.301)	(8.936)
PREVIOUS TAXABLE INCOME	**123.384**	**193.426**
Offset of tax-loss carryforwards	(15.300)	(3.637)
Tax losses not recognised	(4.188)	(7.303)
GROSS TAX BASE	**103.896**	**182.486**
TAX EXPENSE AT RATE APPLICABLE BY LAW (25%)	**25.974**	**45.622**
Effect of tax rate applicable in other countries	**3.744**	**(7.458)**
CORPORATE INCOME TAX FOR THE PERIOD	**29.718**	**38.164**

18.6 Income tax expense

The table below reflects the amounts recorded as an expense for the fiscal years 2017 and 2016, the balances being detailed by items, and differentiating between current tax and deferred tax.

(Thousand €)	2017 Expense / (Income)	2016 Expense / (Income)
Current Tax		
Income tax for the period	29.718	38.164
Other taxes for the fiscal year	2.755	4.855
Adjustments to income tax of prior years	1.225	8.980
Deferred Tax		
Net variation in credits for tax losses	437	9.619
Net variation in tax credits	1.814	676
Other deferred tax	6.650	(17.654)
TOTAL INCOME TAX EXPENSE	**42.599**	**44.640**

The heading Other taxes for the fiscal year relates to taxes similar to the income tax as well as other taxes in developing countries based on income or assets.

All Adjustments to income tax in fiscal years prior to 2017, relate to changes between the final tax and the tax estimate made during the previous year.

On the other hand, a remarkable item within heading Other deferred tax, relates to EUR 5.7 million generated by the release of a deferred tax asset as a result of the expected partial recoverability of the financial expenses not deducted in previous fiscal years.

The French law on income tax has introduced a change in the tax rate applicable to fiscal year 2018 and subsequent years, from 33.33% to a tax bracket. This change has led to a recalculation of the deferred tax assets and liabilities to adapt them to the new legal framework.

The following table shows the impact of such change on the consolidated annual accounts of the Group:

(Thousand €)	31/12/2017	31/12/2016
Effect on the Consolidated Income Statement		
Credits for capitalised tax losses		436
Temporary differences for:		
Inter-group results elimination		328
Finance lease operations		(1.146)
Fair values in business combinations	(1.515)	(2.023)
TOTAL	**(1.515)**	**(2.405)**

Note 19. Information on Related Parties

The following are considered to be related parties:

- Associates accounted for by the equity method, as detailed in Annex 2 of the notes to these annual accounts.
- Significant shareholders of the controlling company.
- Executives and members of the Board of Directors.

All transactions with related parties are arm's length transactions under market conditions.

19.1 Transactions with associates and joint ventures

Commercial transactions

Commercial transactions carried out with associates and joint ventures mainly relate to hotel management activities and other related services. The table below shows the amount recognised in operating income in the consolidated income statement, and the balances outstanding at the end of 2017 and 2016:

(Thousand €)	31/12/2017			31/12/2016		
	Net Income 2017	Assets	Liabilities	Net Income 2016	Assets	Liabilities
Evertmel Group (*)	(7.943)	1.737	27.064	(7.847)	5.180	25.225
Meliá Zaragoza, S. L.	782	373	12	760	1.341	11
Adprotel Strand, S. L.	(2.481)			(1.789)	87	325
Producciones de Parques Group (*)	2.791	1.324	5.298	1.895	1.614	3.337
Altavista Hotelera, S. L.	(7.283)	69		(4.834)	650	15.772
Fourth Project 2012, S.L.	(1.865)	11	2.077	(1.887)	158	2.738
Melia Hotels USA Group (*)		1.758	102		1.898	1.024
Jamaica DevCo	805	100		21	1.141	2.000
TOTAL JOINT VENTURES	**(15.194)**	**5.372**	**34.553**	**(13.681)**	**12.069**	**50.433**
Turismo de Invierno, S.A.	646	859	27	491	959	
C.P. Meliá Castilla	4.148	2.522	82	3.343	1.551	73
C.P.A.M.Costa del Sol	2.188	706	60	1.927	608	43
Nexprom, S.A.	1.771	865	59	1.473	563	7
Starmel Group (*)	1.548	425	88	6.756	4.441	48
Renasala Group (*)	5.633	2.404	171			
El Recreo Group (*)			1			
Inversiones Guiza, S. A.		16	13		7	8
Banamex, S.A. Fideicomiso	1.837	1.568	299	1.355	2.149	119
Hellenic Hotel Manag. CO. HB. S. A.					54	
Detur Panamá, S. A.	234	1.301	17	193	4.012	24
TOTAL ASSOCIATED COMPANIES	**18.005**	**10.665**	**817**	**15.538**	**14.344**	**323**
TOTAL	**2.811**	**16.037**	**35.370**	**1.857**	**26.414**	**50.756**

(*) Companies pertaining to the same business line are jointly presented:
Evermel Group which comprises the companies Evertmel, S.L, Mongamenda S.L. and Kimel S.L.
Producciones de Parques Group which comprises the companies Producciones de Parques, S.L., Tertian XXI S.L.U. and Golf Katmandú,S.L.
Starmel Group which comprises the companies Starmel Hotels JV, S.L, Starmel Hotels OP 2 S.LU, Fuerteventura Beach Property, S.L.U. and
Santa Eulalia Beach Property, S.L.U.
Renasala Group which comprises the companies Renasala,S.L., Starmel Hotels OP,S.L,U. Torremolinos Beach Property, S.L,U,
Palmanova Beach Property, S.L.U. Puerto del Carmen Beach Property, S.L.U. San Antonio Beach Property, S.L.U.
Melia Hotels USA, LLC Group which comprises the companies Melia Hotels USA,Llc. and Melia Hotels Florida Llc.
El Recreo Group which comprises the companies El Recreo Palza, C.A. and El Recreo Plaza & Cía.

Main movements for the fiscal year relate to the settlement of the liability held by the Group at the end of 2016 with the company Altavista Hotelera, S.L., and the inclusion of Renasala Group in the scope of consolidation.

Financing transactions

The breakdown of the financing maintained by the group with associates at the end of 2017 and 2016 is as follows:

(Thousand €)	31/12/2017			31/12/2016		
	Net Income 2017	Assets	Liabilities	Net Income 2016	Assets	Liabilities
Evertmel Group (*)	1.185	16.664		1.487	31.530	
Meliá Zaragoza, S. L.	112	4.155		56		
Altavista Hotelera, S. L.	394	12.665		798	15.000	
Adprotel Strand, S. L.	1.969	65.805		1.945	57.472	
Producciones de Parques Group (*)	395			480	12.076	
Fourth Project 2012, S.L.	2	135		(23)		
Melia Hotels USA Group (*)	196	8.212		212	6.558	
Jamaica DevCo	63	2.085		23		
TOTAL JOINT VENTURES	**4.316**	**109.722**	**0**	**4.977**	**122.635**	**0**
Turismo de Invierno, S.A.	57	510		59	1.162	
C.P. Meliá Castilla	(0)	0				
Starmel Group (*)	337	4.608		559	4.421	
Renasala Group (*)	860	22.039				
Banamex, S.A. Fideicomiso	374			(21)		
Hellenic Hotel Manag. CO. HB. S. A.		48				
Detur Panamá, S. A.	(489)	2.958		(608)	153	
TOTAL ASSOCIATED COMPANIES	**1.139**	**30.164**	**0**	**(11)**	**5.735**	**0**
TOTAL	**5.455**	**139.885**	**0**	**4.966**	**128.371**	**0**

(*) Companies pertaining to the same business line are jointly presented
Evermel Group which comprises the companies Evertmel, S.L, Mongamenda S.L. and Kimel S.L.
Producciones de Parques Group which comprises the companies Producciones de Parques, S.L., Tertian XXI S.L.U. and Golf Katmandú,S.L.
Starmel Group which comprises the companies Starmel Hotels JV, S.L, Starmel Hotels OP 2 S.LU, Fuerteventura Beach Property, S.L.U. and santa Eulalia Beach Property, S.L.U.
Renasala Group which comprises the companies Renasala,S.L., Starmel Hotels OP,S.L,U. Torremolinos Beach Property, S.L,U, Palmanova Beach Property, S.L.U. Puerto del Carmen Beach Property, S.L.U. San Antonio Beach Property, S.L.U.
Melia Hotels USA, LLC Group which comprises the companies Melia Hotels USA,Llc. and Melia Hotels Florida Llc.

Main movements of financial assets relate to the loan granted by the Company to Renasala Group in the amount of EUR 21.4 million, as well as the partial repayment of the loan granted to Evertmel Group in the amount of EUR 15.7 million.

At each year end, interest is calculated on the average balance of the current accounts, including debit or credit balances, depending on the special circumstances of each joint venture or associate, and the return thereof is made according to the needs. These balances accrue interest at market rates, which is settled annually based on the daily balance of the account. The interest rate applied in 2017 was 2%, 2.50% in 2016.

Guarantees and deposits

As stated in Note 20.2, the Group has bank guarantees regarding certain liabilities recognised in associates or joint ventures. At the end of 2017, main bank guarantees were as follows:

Meliá Hotels International, S.A., acts as guarantor of Detur Panamá, S.A., which owns Meliá Panamá Canal Hotel, for a loan in the amount of USD 2 million granted by Caixabank. The sum guaranteed as at 31 December 2017 was USD 0.8 million.

Meliá Hotels International, S.A. guarantees 50% of the mortgage loan granted by Banco Popular to Meliá Zaragoza, S.L. The amount guaranteed at the end of the fiscal year totalled EUR 10.7 million.

19.2 Transactions with significant shareholders

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

(Thousand €)	Transaction type	2017	2016
Hoteles Mallorquines Asociados, S.L.	Goods purchase	759	6.445
Hoteles Mallorquines Asociados, S.L.	Services rendered	16	45
Hoteles Mallorquines Asociados, S.L.	Leases	1.985	436
Hoteles Mallorquines Asociados, S.L.	Financial investment purchase	8.992	
Hoteles Mallorquines Agrupados, S.L.	Financial investment purchase	8.992	
Hoteles Mallorquines Consolidados, S.A.	Financial investment purchase	10.065	

The Financial investment purchase included in the table above relate to the amount paid to the significant shareholders of the Group, included in the transaction of acquisition of 35% of the company Homasi, S.A., as broken down in Note 5.

Due to the amount of the related transaction, the Audit and Compliance Committee and the Board of Directors have prepared mandatory reports and have authorised, respectively, such transaction, the executive and proprietary directors abstaining from deliberating and voting. Such directors reported, and included in the annual statement, the conflict of interest that has arisen, as broken down in Note 21.

19.3 Transactions with executives and members of the Board of Directors.

Board meeting and committee attendance fees paid to the directors in 2017 and 2016 were as follows:

(miles de €)	2017	2016
Consejeros externos independientes	**455**	**402**
D. Juan Arena de la Mora	70	73
D. Luis María Díaz de Bustamante y Terminel	105	102
D. Fco Javier Campo García	79	72
D. Fernando D´Ornellas Silva	120	99
Dña. Carina Szpilka Lazaro	81	58
Consejeros dominicales	**248**	**232**
D. Gabriel Escarrer Julia	49	43
D. Sebastián Escarrer Jaume	60	54
D. Juan Vives Cerdá	70	64
Holeles Mallorquines Consolidados S.A.	69	72
Consejero externo (otros)	**81**	**72**
D. Alfredo Pastor Bodmer	81	72
Consejero ejecutivo	**49**	**60**
D. Gabriel Juan Escarrer Jaume	49	60
TOTAL	**833**	**766**

Remuneration of executive directors and members of the senior management in 2017 and 2016 were as follows:

(Thousand €)	2017		2016	
	Fixed Remuneration	Variable Remuneration	Fixed Remuneration	Variable Remuneration
Executive directors	**846**	**412**	**1.082**	**364**
Mr. Gabriel Escarrer Juliá (*)			256	
Mr. Gabriel Juan Escarrer Jaume	846	412	826	364
Senior management	**1.752**	**608**	**1.630**	**615**
TOTAL	**2.598**	**1.020**	**2.712**	**979**

(*) In 2017, Mr Gabriel Escarrer Juliá's title has changed from executive director to proprietary director.

In 2017, Mr Gabriel Escarrer Juliá's title has changed from executive director to proprietary director, therefore, no remuneration is reflected for 2017 in the table above.

The Company has not assumed any obligation and has not granted any advance payment or loans to directors. On the other hand, the Group has arranged a civil liability policy (D&O) for the Group's directors and executives, under the terms and conditions that are common in insurance policies of this nature, with a premium for 2017 of EUR 93,412, EUR 84,920 in 2016. There are no share-based payments.

The breakdown below relates to transactions between Group companies and the Company's directors or executives in 2017 and 2016:

(Thousand €)	Transaction type	2017	2016
Mr. Juan Vives Cerda	Services received	70	52
Mr. Juan Vives Cerda	Services provided	570	552

Note 20. Contingent Assets and Liabilities

The Group has commitments with third parties in respect of assets and liabilities not recognised in the balance sheet given the remote probability that they give rise to and outflow of economic resources or because the commitments must not be recognised in accordance with current regulations. Such contingent assets and liabilities are detailed below by amount and item.

20.1 Leases

As at 31 December 2017, the Group operates 101 hotels under lease. Among such hotels, there are 13 five-star hotels with 2,453 rooms, 72 four-star hotels with 15,677 rooms, 13 three-star hotels with 2,806 rooms and 3 three-key establishments with 923 apartments.

The following table shows a distribution by maturity of the minimum payments of such leases:

(Thousand €)	Less than 1 year	Between 1 and 5 years	More than 5 years	Total
Minimum operating lease payments	178.948	828.142	848.930	1.856.020

Most of the Group's leases relate to hotels that are operated by companies within the Group.

Most of the lease agreements of hotels operated by the companies making up the Group have a contingent component relating to changes in the relevant consumer price indexes and, in addition, in 34 hotels other contingent component relating to the evolution of the result obtained by each hotel establishment, which is not taken into consideration as it is directly related to the contribution of such hotel establishments to the Group's income statement. The contingent lease payment in 2017 amounted to EUR 22.3 million.

The average term of these lease agreements is 7.97 years.

For comparison purposes, information for year 2016 is shown below:

(Thousand €)	Less than 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

As at 31 December 2017, the Group operated 102 hotels under lease. Among such hotels, there were 12 five-star hotels with 2,142 rooms, 72 four-star hotels with 15,268 rooms, 14 three-star hotels with 3,126 rooms and 4 three-key establishments with 1,243 apartments.

The average term of these lease agreements was 8.75 years.

20.2 Guarantees and deposits

Meliá Hotels International, S.A. secures lease payments in favour of several hotel owners through bank guarantees in the total amount of EUR 84.2 million and through corporate guarantee in the amount of EUR 7 million.

Meliá Hotels International, S.A. secures through a bank guarantee the taking of possession under a lease agreement of a building to be used as parking space and commercial premises located in Barcelona totalling EUR 0.7 million.

Meliá Hotels International, S.A. secures several operations through bank guarantees and for various items, in the amount of EUR 38.1 million.

Meliá Hotels International, S.A. has granted collateral and bank guarantees for operations undertaken by associates in the amount of EUR 11.9 million, as mentioned in Note 19.1.

For comparison purposes, information for year 2016 is shown below:

Meliá Hotels International, S.A. secures lease payments in favour of several hotel owners through bank guarantees in the total amount of EUR 94.2 million and through corporate guarantee in the amount of EUR 7 million.

Meliá Hotels International, S.A. secures through a bank guarantee the taking of possession under a lease agreement of a building to be used as parking space and commercial premises located in Barcelona totalling EUR 0.7 million.

Meliá Hotels International, S.A. secures several operations through bank guarantees and for various items, in the amount of EUR 46.7 million.

Meliá Hotels International, S.A. has granted collateral and bank guarantees for operations undertaken by associates in the amount of EUR 12.8 million.

20.3 Other contingent liabilities

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

Note 21. Other information

Situations of conflicts of interest in which directors are involved:

According to the requirements of Articles 229 and 230 of the Revised Text of the Spanish Law on Corporations, the external members (independent and others) of the Board of Directors confirmed that neither they, nor any persons with whom they have ties, as referred to in Article 231 of the aforesaid Law, carry out any activities on their own account or for third parties which may involve any effective competition, present or future, with the Company or which, in any way whatsoever, would place them in a position of permanent conflict with the interests thereof.

Regarding the executive and proprietary directors, it is worth noting that they have duly informed about the situation of conflict of interest occurred in the transaction for the acquisition of 35% of the company Homasi, as broken down in Note 19 Information on Related Parties, as well as in Note 12 Investments measured using the equity method. Neither they, nor any persons with whom they have ties under Article 231 of the Spanish Law on Corporations, have carried out any other activities on their own account or for third parties which involve any effective competition, present or future, with the Company or which, in any way whatsoever, would place them in a position of permanent conflict with the interests thereof.

Direct or indirect shareholdings controlled by members of the Board of Directors of the Company are as follows:

Shareholder / Board Member	Nr.direct and indirect voting rights	% total voting rights	Position on the Board
Mr.Gabriel Escarrer Juliá			Chairman
Mr.Gabriel Escarrer Jaume	119.437.747	51,997% (*)	Vice Chairman and CEO
Mr.Sebastián Escarrer Jaume			Director
Hoteles Mallorquines Consolidados, S.A.	51.871.167	22,582% (**)	Director
Mr. Alfredo Pastor Bodmer	6.000	0,003%	Director
Mr.Juan Arena de La Mora	1.000	0,000%	Director
Mr. Luis Mª Díaz de Bustamante y Terminel	300	0,000%	Secretary and Director
Mr. Juan Vives Cerdá	375	0,000%	Director
Mr. Francisco Javier Campo García	0	0,000%	Director
Mr. Fernando D'Ornellas Silva	0	0,000%	Director
Mrs.Carina Szpilka Lázaro	0	0,000%	Director

(*) 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 sons and daughters (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 Exlux, S.L.

(**) This percentage is in turn included in the aforementioned shareholding of 51.997%.

The Directors and persons related to them, other than those already mentioned, or persons acting on their behalf, have not undertaken during the fiscal year other transactions with the Company or other Group companies, which fall out of the scope of the Group's ordinary course of business or which are not based on market conditions.

Information on the deferral of payments to suppliers

The information required pursuant to 3rd additional provision of Law 15/2010, of 5th July, is included below. The table below shows the breakdown related to Meliá Hotels International, S.A. and its Spanish subsidiaries for 2017 and 2016:

(Thousand €)	2017	2016
Supplier average payment period	72,88	75,10
Ratio of transactions paid	72,78	77,60
Ratio of transactions pending payment	73,54	59,77
TOTAL OUTSTANDING PAYMENTS	**510.109**	**449.021**
TOTAL PAYMENTS MADE	**77.181**	**73.157**

For the years to come, the Company is carrying out a review process of the administrative processes from the receipt of invoices to their payment for the purposes of reducing, in as far as possible, the average term of payment.

Audit fees

Fees for auditing the consolidated annual accounts of the parent company and subsidiaries amounted to EUR 1,339 thousand, of which EUR 763 thousand have been invoiced by PricewaterhouseCoopers España, EUR 352 thousand by PricewaterhouseCoopers at an international level and the remaining EUR 224 thousand by other audit firms. Likewise, fees invoiced during the year for other services provided by other companies pertaining to the network of auditors of the consolidated annual accounts totalled EUR 493 thousand.

In 2016, fees for auditing the consolidated annual accounts of the parent and subsidiaries amounted to EUR 1,526 thousand, of which EUR 905 thousand was invoiced by PricewaterhouseCoopers España, EUR 339 thousand by PricewaterhouseCoopers at an international level and the remaining EUR 283 thousand by other audit firms. Likewise, fees invoiced in 2016 for other services provided by other companies pertaining to the network of auditors of the consolidated annual accounts totalled EUR 952 thousand.

The following subsidiaries of Meliá Group in the United Kingdom are exempted from audit requirements of their individual annual accounts pursuant to the Section 479A of the British Companies Act:

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

Environmental risks

These consolidated annual accounts do not include any item relating to environmental information that should be included pursuant to Order of the Ministry of Justice dated 8 October 2001.

Note 22. Events after the Reporting Date

There have been no events between the end of the reporting period and the preparation of these consolidated annual accounts which may involve any adjustments to evidence conditions that existed at the year end, and no events have taken place after the year end which could affect the capacity of the users of the Financial statements to make proper evaluations and economic decisions.

Annex 1. Subsidiaries

		COMPANIES OPERATING HOTELS	REGISTERED OFFICE	COUNTRY	DIR.HOLD.	IND.HOLD.	TOTAL
(A)	(F1)	APARTHOTEL BOSQUE, S. A.	Camilo José Cela, 5 (Palma de Mallorca)	Spain	85,00%		85,00%
(A)		ARESOL CABOS S.A. de C.V.	Km 19,5 Ctra. Cabo San Lucas (S.Jose del Cabo)	Mexico		99,69%	99,69%
(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)	(F1)	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	93,27%		93,27%
(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)	Dominican Rep.		61,79%	
						20,25%	
						17,66%	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)	(F7)	INVERS. EXP. TURISTICAS, S. A.	Mauricio Legendre, 16 (Madrid)	Spain	55,34%		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)	Dominican Rep.		99,69%	99,69%
(A)		INVERSIONES AREITO, S.A.	Avda. Barceló, s/n (Bávaro)	Dominican 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%
		LOMONDO Limited	Albany Street-Regents Park (Londres)	Great Britain		100,00%	100,00%
		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%		50,00%
		MANAGEMENT COMPANIES	**REGISTERED OFFICE**	**COUNTRY**	**DIR.HOLD.**	**IND.HOLD.**	**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	Holland	51,00%		
						49,00%	100,00%
(A)		MELIÁ MANAGEMENT, S.A.	Lope de Vega, 4 (Santo Domingo)	Dominican Rep.		100,00%	100,00%
		NEW CONTINENT VENTURES, Inc.	800 Brickell Avenue Suite 1000 (Miami)	USA		100,00%	100,00%
		OPERADORA COSTARISOL, S.A.	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%
		PT SOL MELIÁ INDONESIA	Ed.Plaza Bapindo-Menara Mandiri Lt.16	Indonesia	90,00%		
			Jl.Jend.Sudirman Kav.54-55 (Jakarta)			10,00%	100,00%
		SOL MANINVEST, B. V.	Strawinskylaan 915 WTC, Toren A,1077 XX	Holland	100,00%		100,00%
(A)		SOL MELIÁ BALKANS EAD	Región de Primorski,Golden-Sands-Varna	Bulgaria	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 (Shanghai)	China	100,00%		100,00%
		SOL MELIÁ HRVATSKA d.o.o ROVINJ	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%

(*) Shareholding in this company is through the ownership of apartments representing 93.27% and which are recognised under the heading Property, plant and equipment.

		COMPANIES WITH SUNDRY ACTIVITIES	REGISTERED OFFICE	COUNTRY	DIR.HOLD.	IND.HOLD.	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)	HOTELPOINT, S.L.	Gremio Toneleros, 24 (Palma de Mallorca)	Spain	100,00%		100,00%
(A)	(F1)	IDISO HOTEL DISTRIBUTION,S.A.	Aravaca 22,Bis (Madrid)	Spain		75,00%	75,00%
		IMPACT HOSPITALITY V3NTURES, LLC	Celebration Place, 225 (Miami)	USA		100,00%	100,00%
		INFINITY VACATIONS DOMINICANA	Instal.Hotel Circle,Avda.Barceló,Bávaro (P.Cana)	Dominican Rep	0,03%	99,97%	100,00%
		INFINITY VACATIONS S.A. DE C.V.	Bvld.Kukulcan Km 16,5 Benito Juarez (Cancún)	Mexico	0,01%	99,99%	100,00%
(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)	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%
	(F1)	NETWORK INVESTMENTS SPAIN, S.L.U.	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)	Dominican Rep	100,00%		100,00%
		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	Holland	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)	Dominican Rep.		100,00%	100,00%
	(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%
	(F1)	SMV NETWORK ESPAÑA, S.L.	Gremio Toneleros, 24 (Palma de Mallorca)	Spain		100,00%	100,00%
		VACATION CLUB SERVICES INC.	Bickell Avenue, 800 (Miami)	USA		100,00%	100,00%
		HOLDING COMPANIES	**REGISTERED OFFICE**	**COUNTRY**	**DIR.HOLD.**	**IND.HOLD.**	**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)	Holland		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)	Holland		99,69%	99,69%
	(F1)	HOGARES BATLE, S.A.	Gremio Toneleros, 42 (Palma de Mca.)	Spain	51,49%	46,70%	98,19%
	(F1)	HOTEL ROOM MANAGEMENT, S.L.U.	Gremio Toneleros, 24 (Palma de Mallorca)	Spain		99,69%	99,69%
	(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	Holland	100,00%		100,00%
(A)	(F1)	INVERS. HOTELERAS LOS CABOS, S.A.U.	Gremio Toneleros, 24 (Palma de Mallorca)	Spain		99,69%	99,69%
		INVERS. TURIST. DEL CARIBE, S. A.	Lope de Vega, 4 (Santo Domingo)	Dominican Rep	100,00%		100,00%
		MELIÁ HOTELS INTERNAT. 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	Holland	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)	Holland		99,69%	99,69%
		SOL GROUP, B. V.	Strawinskylaan 915 WTC, Toren A,1077 XX	Holland	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	Holland	100,00%		100,00%
		SOL MELIA VACATION CLUB LLC.	Bickell Avenue, 800 (Miami)	USA		100,00%	100,00%

		DORMANT COMPANIES	REGISTERED OFFICE	COUNTRY	DIR.HOLD.	IND.HOLD.	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-	Morocco	100,00%		100,00%
		BEDBANK TRADING, S.A.	Rue St.Pierre, 6A (Fribourg)	Switzerland	100,00%		100,00%
(A)		CASINO PARADISUS, S. A.	Playas de Bavaro (Higuey)	Dominican Rep.		49,85%	49,85%
		COMP. TUNISIENNE GEST. HOTELIÉRE	18 Boulevard Khézama nº 44, 4051 Sousse (Túnez)	Tunisia		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%
		YAGODA INVERSIONES, S.L.U.	Gremio Toneleros, 24 (Palma de Mallorca)	Spain		50,00%	50,00%

(A) Audited companies
(F1) Companies included in consolidated tax group with Meliá Hotels International, S.A.
(F2) Companies included in consolidated tax group with Sol Melia France, S.A.S.
(F3) Companies included in consolidated tax group with Meliá Inversiones Americanas, N.V.
(F7) Companies included in consolidated tax group with Inextur, S.A.

Annex 2. Associates and Joint Ventures

		COMPANIES OPERATING HOTELS	REGISTERED OFFICE	COUNTRY	DIR.HOLD.	IND.HOLD.	TOTAL
		BANAMEX S.A. FIDEICOMISO EL MEDANO	Playa El Medano s/n, (Cabo San Lucas)	México		30,28%	30,28%
(A)		COM. PROP. APARTOTEL MELIÁ CASTILLA (*)	Capitán Haya, 43 (Madrid)	España	31,49%		
						0,09%	31,58%
		C.P.APARTOTEL M.COSTA DEL SOL (*)	Paseo Marítimo 11 (Torremolinos)	España	2,30%		
						18,71%	21,01%
(A)		DETUR PANAMÁ S. A.	Antigua Escuela Las Américas (Colón)	Panamá	32,72%	17,21%	49,93%
(A)		STARMEL HOTELS OP, S.L.	Gremio Toneleros, 24 (Palma de Mallorca)	España		30,00%	30,00%
(A)		MELIÁ ZARAGOZA S.L.	Avenida César Augusto, 13 (Zaragoza)	España	50,00%		50,00%
		NEXPROM, S. A.	Avda. del Lido s/n (Torremolinos)	España	17,50%		
						2,50%	20,00%
		PLAZA PUERTA DEL MAR, S.A.	Plaza Puerta del Mar, 3 (Alicante)	España	12,23%		
						7,78%	20,01%
(A)	(F5)	PRODUCCIONES DE PARQUES, S.L. (JV)	Avda. P.Vaquer Ramis , s/n (Calviá)	España	50,00%		50,00%
(A)	(F4)	STARMEL HOTELS OP 2, S.L.	Gremio Toneleros, 24 (Palma de Mallorca)	España		20,00%	20,00%
(A)	(F5)	TERTIAN XXI, S.L.U. (JV)	Gremio Toneleros, 24 (Palma de Mallorca)	España		50,00%	50,00%
		TURISMO DE INVIERNO, S.A.	Plaza Pradollano, s/n Sierra Nevada (Granada)	España	21,42%		21,42%
		HOTEL OWNER COMPANIES	**REGISTERED OFFICE**	**COUNTRY**	**DIR.HOLD.**	**IND.HOLD.**	**TOTAL**
(A)		ADPROTEL STRAND, S.L.	Mauricio Legendre, 16 (Madrid)	España	50,00%		50,00%
(A)	(F7)	ALTAVISTA HOTELERA, S.L. (JV)	Avda. Pere IV, 272 (Barcelona)	España	7,55%		
						41,50%	49,05%
		EL RECREO PLAZA & CIA., C.A.	Avda.Fco.de Miranda Torre Oeste,15 Of.15(Caracas)	Venezuela		1,00%	
						18,94%	19,94%
(A)	(F6)	EVERTMEL, S.L. (JV)	Gremio Toneleros, 24 (Palma de Mallorca)	España	49,00%		49,00%
(A)		FOURTH PROJECT 2012, S.L. (JV)	Gremio Toneleros, 24 (Palma de Mallorca)	España		50,00%	50,00%
(A)	(F4)	FUERTEVENTURA BEACH PROPERTY, S.L.	Gremio Toneleros, 24 (Palma de Mallorca)	España		20,00%	20,00%
		JAMAICA DEVCO S.L.	Gremio Toneleros, 24 (Palma de Mallorca)	España	49,00%		49,00%
		MELIA HOTELS FLORIDA, LLC. (JV)	Brickell Avenue Suite 1000, 800	EE.UU.		50,00%	50,00%
	(F6)	MONGAMENDA, S.L. (JV)	Alexandre Rosselló, 15 (Palma de Mallorca)	España		49,00%	49,00%
(A)		PALMANOVA BEACH PROPERTY, S.L.	Gremio Toneleros, 24 (Palma de Mallorca)	España		30,00%	30,00%
(A)		PUERTO DELCARMEN BEACH PROPERTY, S.L.	Gremio Toneleros, 24 (Palma de Mallorca)	España		30,00%	30,00%
(A)		SAN ANTONIO BEACH PROPERTY, S.L.	Gremio Toneleros, 24 (Palma de Mallorca)	España		30,00%	30,00%
(A)	(F4)	SANTA EULALIA BEACH PROPERTY, S.L.	Gremio Toneleros, 24 (Palma de Mallorca)	España		20,00%	20,00%
(A)		TORREMOLINOS BEACH PROPERTY, S.L.	Gremio Toneleros, 24 (Palma de Mallorca)	España		30,00%	30,00%
		COMPANIES WITH SUNDRY ACTIVITIES	**REGISTERED OFFICE**	**COUNTRY**	**DIR.HOLD.**	**IND.HOLD.**	**TOTAL**
(A)	(F5)	GOLF KATMANDU, S.L. (JV)	Gremio Toneleros, 24 (Palma de Mallorca)	España		50,00%	50,00%
(A)		INVERSIONES GUIZA, S. A.	Avda. Lope de Vega, 4 (Sto. Domingo)	Rep. Dom.		49,84%	49,84%
	(F6)	KIMEL MCA, S.L. (JV)	Gremio Toneleros, 24 (Palma de Mallorca)	España		49,00%	49,00%
		DORMANT COMPANIES	**REGISTERED OFFICE**	**COUNTRY**	**DIR.HOLD.**	**IND.HOLD.**	**TOTAL**
		HELLENIC HOTEL MANAGEMENT	Panepistimiou, 40 (Atenas)	Grecia	40,00%		40,00%
		HOLDING COMPANIES	**REGISTERED OFFICE**	**COUNTRY**	**DIR.HOLD.**	**IND.HOLD.**	**TOTAL**
(A)	(F4)	STARMEL HOTELS JV, S.L.	Gremio Toneleros, 24 (Palma de Mallorca)	España	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	EE.UU.		50,00%	50,00%
		PROMEDRO, S. A.	Avda. del Lido s/n (Torremolinos)	España	20,00%		20,00%
(A)		RENASALA, S.L.	Zurbarán, 9 (Madrid)	España	30,00%		30,00%
		HOMASI, S.A.	C/ Cavanilles 15,Pl.baja (Madrid)	España	34,99%		34,99%

(A) Audited companies
(JV) Joint ventures
(F4) Companies included in consolidated tax group with Starmel Hoteles JV, S.L.
(F5) Companies included in consolidated tax group with Producciones de Parques, S.L.
(F6) Companies included in consolidated tax group with Evertmel, S.L.
(F7) Companies included in consolidated tax group with Inextur, S.A.

(*) Shareholding in these companies is through the ownership of apartments representing 31.58% and 21.01%, respectively and which are recognised under the heading Investment property.

Preparation of the Consolidated Management Report and Consolidated Annual Accounts for 2017

The preparation of the Consolidated Management Report and Annual Accounts has been approved by the Board of Directors, in the meeting held on 23 March 2018, subject to verification by the Auditors and subsequent approval by the Shareholders' General Meeting.

The Consolidated Management Report and Annual Accounts are issued in 339 sheets, all of them signed by the Secretary, and being this last sheet signed by all Directors.

Signed Mr Gabriel Escarrer Juliá
Chairman

Signed Mr Juan Vives Cerdá
Honorary Vice-Chairman

Signed Mr Gabriel Escarrer Jaume
Vice-Chairman and Chief Executive Officer

Signed Mr Sebastián Escarrer Jaume
Director

Signed Mr Alfredo Pastor Bodmer
Director

Signed Hoteles Mallorquines Consolidados, S.A.
(Represented by Mrs María Antonia Escarrer Jaume)
Director

Signed Mr Juan Arena de la Mora
Director

Signed Mr Francisco Javier Campo García
Director

Signed Mr Fernando d'Ornellas Silva
Director

Signed Mrs Carina Szpilka Lázaro
Director

Signed Mr Luis Mª Díaz de Bustamante y Terminel
Secretary and Independent Director

Free translation from the original in Spanish. In the event of a discrepancy, the Spanish language version prevails.

INDEPENDENT LIMITED ASSURANCE REPORT ON THE CORPORATE SOCIAL RESPONSIBILITY INDICATORS

To the Management of Meliã Hotels International, S.A.,

We have carried out our work to provide limited assurance on the Corporate Social Responsibility indicators contained in the "GRI – Table of Contents" Appendix of the 2017 Management Report (hereinafter "CSR indicators") of Meliã Hotels International, S.A. and its subsidiary companies (hereinafter Meliã Hotels International) for the year ended 31 December 2017, prepared in accordance with the content proposed in the GRI Standards of Global Reporting Initiative (GRI) (hereinafter GRI Standards).

Responsibility of Management

The Management of Meliã Hotels International is responsible for the preparation, content and presentation of the Management Report of Meliã Hotels International in accordance with the Core option of the GRI Standards. Management's responsibility includes establishing, implementing and maintaining the internal control required to ensure that the CSR indicators are free from any material misstatement due to fraud or error.

The Management of Meliã Hotels International is also responsible for defining, implementing, adapting and maintaining the management systems from which the information required to prepare the CSR indicators is obtained.

Our responsibility

Our responsibility is to issue a limited assurance report based on the procedures that we have carried out and the evidence obtained. Our limited assurance engagement was done in accordance with the International Standard on Assurance Engagements 3000 (Reviewed) "Assurance Engagements other than Audits or Reviews of Historical Financial Information", issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC).

The scope of a limited assurance engagement is substantially less extensive than the scope of a reasonable assurance engagement and thus, less security is provided.

The procedures that we have carried out are based on our professional judgment and have included consultations, observation of processes, document inspection, analytical procedures and random sampling tests. The general procedures employed are described below:

- Meetings with Meliã Hotels International's personnel from various departments who have been involved in the preparation of the 2017 Management Report of Meliã Hotels International.
- Analysis of the procedures used for obtaining and validating the data presented in the CSR indicators.

- Analysis of the Meliã Hotels International's CSR indicators adaptation to the requirements established by the GRI Standards for the elaboration of sustainability reports.

- Verification, through random sampling tests revisions, internal control tests and substantive tests on the quantitative and qualitative information used to determine Meliã Hotels International's CSR indicators. We have also verified whether they have been appropriately compiled from the data provided by Meliã Hotels International's sources of information.

Our Independence and Quality Control

We have fulfilled our work in accordance with the independence requirements and other ethical requirements of the Code of Ethics for Professional Accountants of the International Ethics Standards Board for Accountants (IESBA), which are based on basic principles of integrity, objectivity, professional competence and diligence, confidentiality and professional conduct.

Our firm applies the International Standard on Quality Control 1 (ISQC 1) and thus employs an exhaustive quality control system which includes documented policies and procedures on the compliance of ethical requirements, professional standards, statutory laws and applicable regulations.

Limited assurance conclusion

As a result of the procedures carried out and the evidence obtained, no matters have come to our attention which may lead us to believe that Meliã Hotels International's CSR indicators, for the financial year ending 31st December 2017, contain significant errors or have not been prepared, in all of their significant matters, in accordance with the GRI Standards.

Use and Distribution

Our report is only issued to the Management of Meliã Hotels International, in accordance with the terms and conditions of our engagement letter. We do not assume any liability to third parties other than Meliã Hotels International's Management.

PricewaterhouseCoopers Auditores S.L.

Mª Luz Castilla
March 26th, 2018

This version of our report is a free translation from the original, which was prepared in Spanish. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

Auditor's report on the "Information concerning the System of Internal Control over Financial Reporting (SICFR) of Meliá Hotels International, S.A. for 2017

To the Directors

At the request of the Board of Directors of Melia Hotels International, S.A. ("the Entity") and pursuant to our proposal letter dated 18 December 2017, we have applied certain procedures to the "Information concerning the SICFR" included in section F of the Annual Corporate Governance Report for listed companies of Meliá Hotels International, S.A.. for 2017, which summarises the Entity's procedures of internal control over its annual financial reporting.

The Board of Directors is responsible for taking the measures that are necessary to reasonably assure the implementation, maintenance and oversight of an appropriate internal control system, and for developing improvements to this system and preparing and establishing the content of the accompanying Information relating to the SICFR.

In this connection, it should be borne in mind that, irrespective of the design quality and efficiency of the Entity's system of internal control over its annual financial reporting, it can only provide reasonable - but not absolute - assurance 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 in accordance with Technical Auditing 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 the audit procedures on the Entity's annual accounts. Accordingly, our internal control evaluation performed for the purposes of our audit is not sufficient in scope to enable us to issue a specific opinion on the efficiency of the system of internal control over the regulatory annual financial reporting.

For the purposes of this report, we have only applied the specific procedures described below and indicated in the Guidelines relating to the auditor's report on the Information concerning the System of Internal Control over Financial Reporting for listed entities published by the National Securities Market Commission on its website, which lay down the work to be performed, the scope of the 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 limited and substantially less than that of an audit or an internal control system review, we do not express an opinion on its effectiveness, its design or operational efficiency, in relation to the Entity's annual financial reporting for 2017 described in the accompanying SICFR Information. Therefore, had we applied additional procedures to those determined by said Guidelines or had we performed an audit or review of the internal control system in relation to the regulatory annual financial reporting, other matters could have come to light which would have been communicated to you.

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R. M. Madrid, hoja 87.250-1, folio 75, tomo 9.267, libro 8.054, sección 3ª.
Inscrita en el R.O.A.C. con el número S0242 - CIF: B-79 031290

As this special work does not constitute an audit and is not subject to prevailing auditing regulations in Spain, we do not express an audit opinion in the terms envisaged in said Law.

The procedures applied are as follows:

1. Reading and understanding of the SICFR information prepared by the Entity – breakdown included in the directors' report – and evaluation of whether said information covers all the data required as per the minimum content described in Section F of the model Annual Corporate Governance Report, as established in Circular 2/2015 of the National Securities Market Commission dated 22 December 2015.

2. Making enquiries of personnel in charge of preparing the information mentioned in 1. above in order to: (i) obtain an understanding of the process followed in its preparation; (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 are implemented and functioning in the Entity.

3. Review of supporting documentation explaining the information described in 1. above and which will mainly comprise the information made directly available to the persons responsible for preparing the SICFR information. In this respect, said documentation includes reports prepared by the internal audit function, senior management and other internal and external specialists in their support duties towards the audit committee.

4. Comparison of the information detailed in 1. above with the knowledge of the Entity's SICFR obtained from the application of the procedures performed within the framework of the audit work on the annual accounts.

5. Reading of the minutes of the meetings of the Board of Directors, Audit Committee and other committees of the Entity for the purpose of evaluating consistency between the matters dealt with therein in relation to the SICFR and the information described in 1. above.

6. Obtention of the letter of representation concerning the work performed, duly signed by the persons responsible for the preparation and drafting of the information mentioned in 1. above.

As a result of the procedures applied to the Information concerning the SICFR, no inconsistencies or incidents have come to light that could affect it.

This report has been prepared exclusively within the framework of the requirements of article 540 of the Spanish Companies Act and Circular No.7/2015 of the National Securities Market Commission for purposes of the description of the SICFR in Annual Corporate Governance Reports.

PricewaterhouseCoopers Auditores, S.L.

Original in Spanish signed by Mireia Oranias Casajoanes

26 March 2018

This version of our report is a free translation from the original, which was prepared in Spanish. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

Audit report on the consolidated annual accounts issued by an independent auditor

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

Report on the consolidated annual accounts

Opinion

We have audited the consolidated annual accounts of Meliá Hotels International, S.A (parent company) and subsidiaries (the Group), consisting of the consolidated balance sheet at 31 December 2017, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated cash flow statement and the notes to the consolidated annual accounts for the year then ended.

In our opinion, the accompanying consolidated annual accounts present fairly, in all material respects, the financial position of the Group as at 31 December 2017 and its financial performance and cash flows for the year then ended, all of which consolidated, in accordance with the International Financial Reporting Standards adopted by the European Union (IFRS-EU) and other financial reporting standards applicable to the Group in Spain.

Basis for opinion

Our audit has been carried out in accordance with prevailing Spanish auditing regulations. Our responsibilities under said regulations are described below under *Responsibilities of the auditor in relation to the audit of the consolidated annual accounts.*

We are independent of the Group in accordance with the ethical requirements, including those relating to independence, applicable to our audit of the consolidated annual accounts in Spain, as required by auditing regulations. In this respect, we have not provided any services other than audit services, nor have any situations or circumstances arisen that, in accordance with those regulations, might have undermined said independence.

We consider that the audit evidence obtained provides a sufficient and appropriate basis for our opinion.

Key audit matters

Key audit matters are those that, in our professional judgement, were of most significance in the audit of the consolidated annual accounts for the current period. These matters have been addressed in the context of our audit of the consolidated annual accounts as a whole and in the preparation of our opinion thereon, and we do not express a separate opinion on these matters.

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Key audit matters

Measurement of property, plant and equipment

We focused on this area due to the significant carrying amount of property, plant and equipment, which is detailed in Note 10 to the accompanying consolidated annual accounts (€1,649,615 thousand at 31 December 2017, 51% of total assets). As indicated in Note 3.2 on accounting policies applicable to property, plant and equipment, the Group measures these assets at amortised cost, less the accumulated amount of valuation adjustments for impairment taken into account. Therefore, we focused on this area not only because of its materiality but because it may require Management to make complex judgments and significant estimates with respect to both the timing of the recognition of possible impairment and the amount involved.

The Group applies a process to assess the possible impairment of its assets in two stages. Firstly, it identifies those properties at risk, i.e. those showing indications of impairment. This analysis to identify potentially impaired assets entails a degeree of judgement. Subsequently, the assets identified as risk assets are subject to detailed impairment testing through an independent expert valuation or an internal analysis of discounted cash flows.

The Group has a valuation of all its assets performed by an independent expert (Jones Lang Lasalle Hotels) in 2015 that determines fair value in accordance with the discounted cash flow method. Also, it has additional updated valuations performed by independent experts for those assets for which it has been considered necessary.

In both the internal valuations and the valuations performed by independent experts, estimating the recoverable amount is a complex process and depends on assumptions concerning future events, requiring significant judgement in determining factors such as the cash flow discount rate, growth rates, inflation, occupancy and income per available room, among others.

How the matters were addressed in the audit

We verified the process followed by the Group in assessing the risks and monitoring alerts related to the assets' valuation. Additionally, we verified the supporting documentation for the analysis, comparing the results generated in 2017 by each hotel asset owned by the Group with the annual depreciation charge relating to each.

For those assets showing indications of impairment, we compared the annual flows projected by the independent experts with those actually generated by each asset from the time of the relevant valuation to year-end 2017. Also, we analysed the key assumptions used and verified them with historical results and other sector information available and other up-to-date information at the year-end 2017, taking into account the circumstances of each asset.

We confirmed that the experts meet the requirements in terms of capacity and independence. We verified that the valuations were performed in accordance with the International Valuation Standards (RICS) published by the International Valuation Standards Council (IVSC).

As a result of the tests and analyses performed, we consider that Group management's conclusions concerning the measurement of property, plant and equipment and the information disclosed in the accompanying consolidated annual accounts are consistent with the information provided.

Key audit matters	How the matters were addressed in the audit
Management has recognised no impairment on the hotel establishments owned by the Group, except on those hotel establishments located in Puerto Rico, as mentioned in Note 7.5.	
Provision for onerous contracts	
As mentioned in Note 16.2, the consolidated balance sheet at 31 December 2017 includes a balance of €3,694 thousand relating to a provision for onerous contracts. As indicated in Note 3.10) Provisions and contingencies, the Group considers that an arrangement is a onerous contract when the inevitable costs of performing the obligations triggered exceed the economic benefits expected to be received from it. The directors of the Group review annually the estimation of future results deriving from third - party hotel rental contracts, based on the expected flows of the related cash generating units, applying an appropriate discount rate. Estimating future cash flows requires taking into account growth rates, inflation, occupancy and income per available room. The value of this provision is particularly sensitive to the assumptions used in relation to the calculation of discounted cash flows and revenue budgets. We therefore focused on this area because the evaluation of the provision for onerous contracts made by the directors requires judgments and / or complex analyses and therefore there is a risk that this provision could be understated if the estimates and assumptions used in the valuation are not adequate.	We assessed the identification by the Group of those rented hotels under what may be deemed an onerous contract. We analysed the real results obtained by rented hotels in the year ended 31 December 2017 and for those reporting losses, we carried out a more detailed evaluation. For those rented hotels reporting losses, we assessed and questioned the composition of the future cash flow forecasts and the process used to prepare them, taking into account the budget for subsequent years based on historical data and the budgets approved by the directors for 2018, assessing the changes in market condition and the Group's future plans. We verified the accuracy and suitability of the discounted cash flow model, including the evaluation of the growth rates, inflation, occupancy and income per available room against external data or based on our understanding of the sector. Lastly, we assessed the appropriate presentation and disclosure of the provision for onerous contracts in the Group's consolidated annual accounts. We consider that we have obtained sufficient and appropriate evidence concerning the estimation of the provision for onerous contracts carried out by the Group at the year end.

Key audit matters	How the matters were addressed in the audit
Tax, legal and regulatory risks The Group carries out a wide range of operations worldwide and therefore in the ordinary course of its onerous it may become involved in administrative or legal procedures or in tax, legal and /or regulatory arbitration. Therefore management must make significant judgements and estimates in relation to uncertain tax, legal and regulatory liabilities. The Group's accounting policy in this respect is detailed in Note 3.10) Provisions and contingencies in the accompanying consolidated annual accounts. In this way, there are situations that although not subject to a legal proceeding, according to the Group's assessment, should be provided for, as established in Note 16.2 to the accompanying consolidated annual accounts. As a result of the complexity of transfer pricing legislation and other tax, legal and regulatory legislation, the provision for litigations and other liabilities is one the areas requiring most judgement and estimation and is therefore a key audit matter.	Our work on the process used to estimate provisions for tax, legal and regulatory risk carried out by the Company consisted of the following procedures: • Understanding the policy for classifying litigations and need for provision, in accordance with applicable accounting legislation. • Obtaining letters of confirmation from the Company's legal and tax advisors and lawyers and external advisors in order to analyse their evaluation of the expected outcome of on-gong tax litigations and procedures and assess the recording of the provision and identification of potential liabilities omitted. • With the support of our internal tax experts, analysing the estimate of the expected outcome of the possible contingencies in relation to compliance with national and international tax obligations for all periods open to inspection and analysing transfer pricing documentation. • Analysing the recording, estimation and movement in the accounting provisions during the year. • Lastly, we assessed the appropriate presentation and disclosure of these matters in the Group's consolidated annual accounts. Based on the procedures performed, we consider that the estimate made by management is reasonable and consistent with the information included in the accompanying consolidated annual accounts on provisions for legal, tax and regulatory risks.

Key audit matters	How the matters were addressed in the audit
Recovery of deferred tax assets	
The evaluation of the recoverability of deferred tax assets (€122,334 thousand at 31 December 2017, as detailed in Note 18.2 to the accompanying consolidated annual accounts) is a complex exercise that requires a high level of judgement and estimation, and is specifically relevant for the Group in various geographies such as Spain, Mexico, Venezuela and Brazil. In this process, the Group considers the assumptions that support the onerous plans, that project a 10 year timeline and there are specific and complex considerations that the directors and management take into account to assess both the recognition and subsequent capacity to recover the deferred tax assets recognised. As described in note 3.13) Corporate income tax in the accompanying consolidated annual accounts, the Group recognises a deferred tax asset provided that it is probable that there will be taxable income against which to apply it. Recovery of the deferred tax assets is reviewed at each balance sheet date and the amount recovery of which is considered probable through the generation of sufficient tax gains is adjusted. Therefore the value of this asset largely depends on Management's estimates of future results. If the future budgets are not achievable, it may not be appropriate to recognise deferred tax assets. Accordingly, we consider its analysis a key audit matter.	As a starting point of our audit procedures, we gained an understanding of the criteria used by the Group to estimate the possibilities of using and recovering the deferred tax assets within the next 10 years, under the onerous plans per tax unit. Based on the onerous plans prepared by Group management, we verified the key assumptions, estimates and calculations made in their preparation with historical results and other available comparables. We analysed whether the calculations and estimates made by the Group, and the conclusions reached, in respect of the recognition and recovery of deferred tax assets, are consistent with the current situation, with the Group's expected future results and with available tax planning possibilities in the different jurisdictions where the Group operates. We consider that we have obtained adequate and sufficient audit evidence in relation to Group management's evaluation concerning the recoverability of deferred tax assets recognised at the year end.

Other information: Consolidated Management Report

Other information refers exclusively to the consolidated Management Report for 2017, the preparation of which is the responsibility of the parent company's directors, and which does not form an integral part of the consolidated annual accounts.

Our audit opinion on the consolidated annual accounts does not cover the consolidated Management Report. Our responsibility for the information contained in the consolidated management report is defined in auditing regulations that establish two distinct levels in this regard:

a) A specific level applicable to the non-financial information statement, as well as certain information included in the Corporate Governance Report, as defined in article 35.2 b) of Law 22/2015 on auditing, which solely requires that we verify whether said information has been included in the consolidated management report or where applicable, that the management report includes the corresponding reference to the separate non-financial report as stipulated by prevailing regulations and if not, disclose this fact.

b) A general level applicable to other information included in the consolidated management report that consists of assessing and reporting on the consistency of that information with the consolidated annual accounts, on the basis of the understanding of the Group obtained in the performance of the audit of those accounts, without including information other than that obtained as evidence during the audit and assessing and reporting on whether the content and presentation of that part of the consolidated management report are in conformity with applicable legislation. If we conclude that there are material misstatements on the basis of our work, we are required to report them.

On the basis of the work performed, as described above, we have verified that the information mentioned in paragraph a) is provided in the consolidated annual accounts and the other information contained in the consolidated Management Report is consistent with that of the consolidated annual accounts for 2017 and its content and presentation comply with applicable legislation.

Directors' and Audit Committee's Responsibility in relation to the Consolidated Annual Accounts

The directors of the parent company are responsible for drawing up and signing the accompanying annual accounts such that they present fairly the Group's equity, financial situation and performance in accordance with IFRS-EU and other provisions of the financial reporting framework applicable to the Group in Spain, and for the internal control which they consider necessary to permit the preparation of consolidated annual accounts that are free from material misstatements, due to fraud or error.

In preparing the consolidated annual accounts, the parent company's directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as appropriate, matters relating to going concern and using the going concern basis of accounting, unless the directors either intend to liquidate the Group or to cease trading, or have no realistic alternative but to do so.

The parent company's audit committee is responsible for overseeing the preparation and presentation of the consolidated annual accounts.

Auditors' responsibilities in relation to the audit of the consolidated annual accounts

Our objectives are to obtain reasonable assurance about whether the consolidated annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with auditing standards prevailing in Spain will always detect material misstatement when it exists. Misstatements can arise from fraud or error and are considered material, if individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated annual accounts.

As part of an audit in conformity with auditing regulations in Spain, we exercise our professional judgement and maintain professional scepticism throughout the audit. In addition:

- We identify and assess the risks of material misstatement of the consolidated annual accounts due to fraud or error; design and apply audit procedures to respond to those risks and obtain sufficient and adequate audit evidence to provide a basis for our opinion. The risk of not detecting material misstatement due to fraud is higher than in the case of a material misstatement due to error, as fraud may involve collusion, forgery, deliberate omissions, misrepresentations, or the override of internal control.

- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not to express an opinion on the effectiveness of the Group's internal control.

- We assess whether the accounting policies applied are appropriate and the reasonableness of the accounting estimates and the related disclosures by the parent company's directors.

- We conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our audit report to the related disclosures in the consolidated annual accounts or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on audit evidence obtained up to the date of our audit report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- We evaluate the overall presentation, structure and content of the consolidated annual accounts, including the disclosures, and assess whether the consolidated annual accounts represent the underlying transactions and events in a manner that achieves fair presentation.

- We obtain sufficient and adequate evidence in relation to the financial information of the companies or the onerous activities within the Group to express an opinion on the consolidated annual accounts. We are responsible for managing, overseeing and performing the Group audit. We remain solely responsible for our audit opinion.

We communicate with the parent company's Audit Committee in relation to, among other matters, the planned scope and timing of the audit and the significant audit findings, as well as any major internal control weakness that we identify in the course of our audit.

We also provide the parent company's audit committee with a statement to the effect that we have complied with applicable ethical requirements, including those of independence, and we have notified the Audit Committee of any issues that could reasonably pose a threat to our independence and, if appropriate, the relevant safeguards.

Among the matters communicated to the parent company's audit committee, we determine those that have been of the greatest significance in the audit of the consolidated annual accounts for the current period and which therefore are key audit matters.

We describe these matters in our audit report unless law or regulation precludes the public disclosure of the matter concerned.

Report on Other Legal and Regulatory Requirements

Additional report for the parent company's audit committee

The opinion expressed in this report is consistent with the content of our additional report for the parent company's Audit Committee dated 23 March 2018.

Term of engagement

We were appointed auditors for a one-year period at the annual general meeting of shareholders held on 8 June 2017, that is, for the financial year ended 31 December 2017.

We were previously appointed under resolutions adopted by the general shareholders' meeting for a period of five years and have been auditing the annual accounts uninterruptedly since the year ended 31 December 2009.

Services rendered

Non-audit services provided to the Group are detailed in note 21 to the accompanying consolidated annual accounts.

PricewaterhouseCoopers Auditores, S.L. (S0242)

Original in Spanish signed by Mireia Oranias Casajoanes ROAC No. 20973

26 March 2018

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