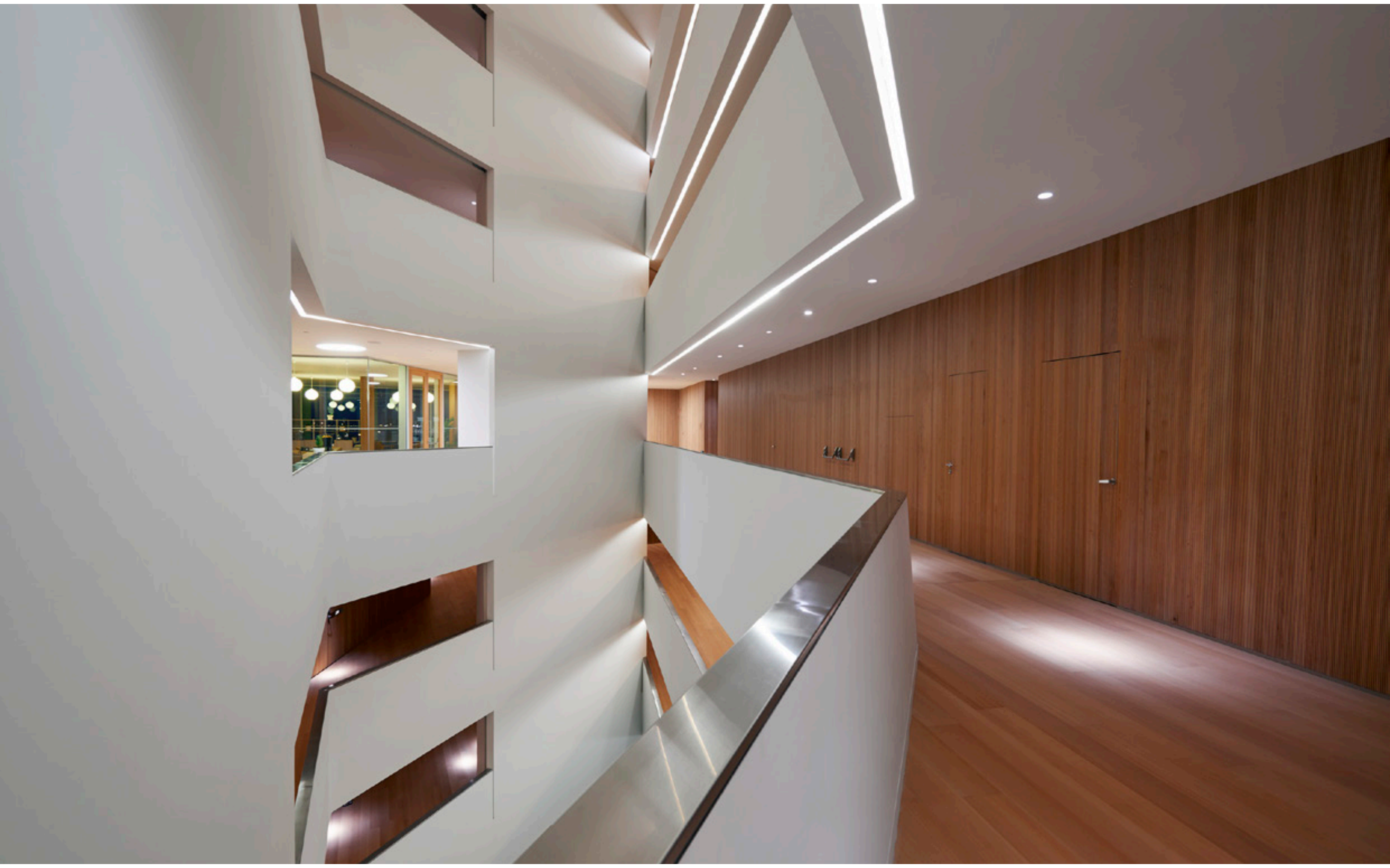
Individual Management Report and Annual Account 2018



MELIÃ HOTELS INTERNATIONAL | Leisure at heart, business in mind

Annual Accounts

Management Report

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Balance Sheet at the End of 2018 and 2017

(thousand €)		ASSETS	Notes	31/12/2018	31/12/2017
A		NON-CURRENT ASSETS		2.070.276	1.949.366
I		**Intangible assets**	6	**32.768**	**21.024**
	1	Patents, licences, trademarks and similar rights		54	61
	2	Software		26.728	19.878
	3	Other intangible assets		5.986	1.085
II		**Property, plant and equipment**	7	**485.973**	**538.629**
	1	Land and buildings		385.828	434.115
	2	Plant and other fixed assets		100.145	104.051
	3	Fixed assets under construction and advances			463
III		**Investment property**	8	**17.691**	**15.729**
	1	Land		229	56
	2	Buildings		17.462	15.673
IV		**Long-term investments in group companies and associates**	9	**1.433.138**	**1.287.963**
	1	Equity instruments		1.016.724	950.406
	2	Loans to companies	17	416.414	337.557
V		**Long-term financial investments**	9	**35.634**	**21.631**
	1	Equity instruments		4.003	3.996
	2	Loans to companies		22.399	10.426
	3	Other financial assets		9.232	7.209
VI		**Deferral tax assets**	14	**65.072**	**64.390**
B		CURRENT ASSETS		347.976	383.855
I		**Inventories**	10	**4.404**	**10.797**
	1	Trade		161	200
	2	Raw materials and other supplies		4.024	5.525
	3	Work in progress and semi-finished products			1.883
	4	Advances to suppliers		219	3.189
II		**Trade and other receivables**	10	**92.418**	**137.818**
	1	Trade receivables for sales and services		20.460	27.606
	2	Trade receivables, group companies and associates	17	50.026	65.360
	3	Sundry debtors		5.735	7.243
	4	Staff		156	256
	5	Current tax assets		11.758	31.889
	6	Other receivables from Public Administrations		4.283	5.464
III		**Short-term investments in group companies and associates**	9, 17	**123.153**	**139.313**
	1	Loans to companies		29.712	28.379
	2	Other financial assets		93.441	110.934
IV		**Short-term financial investments**	9	**23.670**	**39.218**
	1	Equity instruments		103	464
	2	Loans to companies		9.315	28.880
	3	Other financial assets		14.252	9.874
V		**Short-term accruals and deferrals**	10.3	**2.209**	**2.674**
VI		**Cash and other cash equivalents**	10	**102.122**	**54.035**
	1	Cash		98.379	44.239
	2	Other cash equivalents		3.743	9.796
		TOTAL ASSETS		2.418.252	2.333.221

Balance Sheet at the End of 2018 and 2017

(thousand €)	EQUITY AND LIABILITIES	Notes	31/12/2018	31/12/2017
A	NET EQUITY		905.770	866.516
I	**Equity**	11	**906.850**	**867.105**
1	Capital		45.940	45.940
2	Share premium		1.119.301	1.120.303
3	Reserves		322.800	282.129
4	Treasury stock and shares		(16.025)	(15.023)
5	Prior-year results (profit/loss)		(643.269)	(643.268)
6	Result (profit/loss) for the fiscal year	3	78.103	77.024
II	**Measurement adjustments**	11	**(2.148)**	**(1.704)**
1	Hedging operations		(2.148)	(1.704)
III	**Grants, donations and bequests received**	11	**1.068**	**1.115**
B	NON-CURRENT LIABILITIES		1.078.397	845.979
I	**Long-term provisions**	12	**61.800**	**53.972**
1	Long-term employee benefit liabilities		7.364	7.065
2	Other provisions		54.436	46.907
II	**Long-term payables**	9	**531.197**	**485.853**
1	Bonds and other negotiable securities		29.750	
2	Bank loans		497.875	481.399
3	Derivatives		2.848	3.641
4	Other financial liabilities		724	813
III	**Long-term payables to group companies and associates**	9, 17	**436.012**	**254.263**
IV	**Deferred tax liabilities**	14	**48.430**	**51.356**
V	**Long-term accruals and deferrals**		**958**	**535**
C	CURRENT LIABILITIES		434.085	620.726
I	**Short-term payables**	9	**186.516**	**309.738**
1	Bonds and other negotiable securities		51.470	71.670
2	Bank Loans		85.676	177.201
3	Derivatives		2.428	2.219
4	Other financial liabilities		46.942	58.648
II	**Short-term payables to group companies and associates**	9, 17	**113.804**	**177.660**
III	**Trade creditors and other payables**	13	**133.517**	**133.012**
1	Suppliers		10.223	15.226
2	Suppliers, group companies and associates		6.070	8.254
3	Sundry creditors		47.132	51.293
4	Accrued wages and salaries		30.323	30.790
5	Other payables to Public Administrations		11.274	9.837
6	Prepayments from customers		28.495	17.612
IV	**Short-term accruals and deferrals**		**248**	**316**
	TOTAL NET EQUITY AND LIABILITIES		2.418.252	2.333.221

Income Statement for the Years Ended 31/12/2018 and 31/12/2017

(thousand €)			Notes	2018	2017
A		CONTINUED OPERATIONS			
1		Net revenues	16.1	**615.461**	**614.709**
	a	Sales		529.269	527.414
	b	Provision of services		86.192	87.295
2		In-house work on assets	16.1	**332**	**96**
3		Supplies	16.2	**(42.151)**	**(45.094)**
	a	Consumption of goods		3.520	2.018
	b	Consumption of raw materials and other consumables		(45.671)	(47.112)
4		Other operating income	16.1	**23.654**	**80.603**
	a	Non-core and other current operating income		23.207	80.238
	b	Operating grants included in profit/(loss) for the year		447	365
5		Staff costs	16.3	**(213.476)**	**(212.579)**
	a	Wages, salaries and similar items		(165.726)	(164.080)
	b	Social charges		(47.750)	(48.499)
6		Other operating costs	16.4	**(340.063)**	**(351.706)**
	a	External services		(315.744)	(308.266)
	b	Tax		(11.656)	(9.630)
	c	Losses on, impairment of and change in trade provisions		(1.600)	(1.759)
	d	Other current operating expenses		(11.063)	(32.051)
7		Depreciation	6, 7, 8	**(30.354)**	**(30.993)**
8		Allocation of grants for non-financial fixed assets and other grants	11	**62**	**66**
9		Impairment and profit/(loss) on disposal of fixed assets		**(12.472)**	**(10.031)**
	a	Impairment and losses		(12.419)	(10.245)
	b	Profit/(loss) on disposals and other disposals		(53)	214
	A.1	OPERATING INCOME		993	45.071
10		Financial income	16.5	**131.276**	**121.413**
	a	From equity interests		115.505	107.656
	b	From negotiable securities and other equity instruments		15.771	13.757
11		Financial expenses	16.5	**(31.599)**	**(33.353)**
	a	On payables to group companies and associates		(11.291)	(13.845)
	b	On payables to third parties		(20.308)	(19.508)
12		Change in fair value of financial instruments	9	**(836)**	**133**
	a	Trading portfolio and other financial instruments		(836)	133
13		Exchange differences	16.6	**(31.271)**	**(14.932)**
14		Impairment and profit/(loss) on disposals of financial instruments	9.1	**(6.694)**	**(52.448)**
	a	Impairment and losses		(6.812)	(52.448)
	b	Profit/(loss) on disposals and other disposals		118	
	A.2	NET FINANCIAL INCOME (EXPENSE)		60.876	20.813
	A.3	NET INCOME BEFORE TAX		61.869	65.884
15		Income tax	14	**16.234**	**11.140**
	A.4	PROFIT/(LOSS) FOR THE YEAR FROM CONTINUED OPERATIONS		78.103	77.024
	A.5	PROFIT/(LOSS) FOR THE YEAR		78.103	77.024

Statement of Changes in Net Equity for the Years Ended 31/12/2018 and 31/12/2017

a) Statement of recognised income and expenses

(thousand €)	Notes	2018	2017
A) Income statement results		78.103	77.024
Income and expenses directly attributed to net equity			
I On cash flow hedges	9	(1.287)	(17)
II Actuarial gains and losses and other adjustments		(1.857)	(922)
III Tax effect	14	786	235
B) Total income and expenses directly attributed to net equity		(2.358)	(704)
Transfers to income statement			
IV On cash flow hedges	9	694	1.032
V Grants, donations and bequests received	11	(62)	(66)
VI Tax effect	14	(158)	(242)
C) Total transfers to income statement		474	725
Total recognised income and expenses		76.219	77.045

b) Statement of changes in net equity

(thousand €)	Notes	Share capital	Share premium	Reserves	Treasury shares	Prior-year profil/(loss)	Profit/(loss) for the fiscal year	Measurement adjustments	Grants, donations and bequests received	Total
A) BALANCE AT THE END OF YEAR 2016		45.940	1.121.070	228.727	(14.256)	(643.269)	80.186	(2.465)	1.164	817.097
B) ADJUSTED BALANCE, BEGINNING OF THE YEAR 2017		45.940	1.121.070	228.727	(14.256)	(643.269)	80.186	(2.465)	1.164	817.097
I. Total recognised income and expenses				(692)			77.024	762	(49)	77.045
II. Operations with shareholders or owners			(767)	(26.092)	(767)					(27.626)
1. (-) Distribution of dividends				(29.986)						(29.986)
2. Operations with treasury shares	11.1		(767)	767	(767)					(767)
3. Other operations with shareholders or owners				3.127						3.127
III. Other changes in net equity				80.186			(80.186)			
C) BALANCE AT THE END OF YEAR 2017		45.940	1.120.303	282.129	(15.023)	(643.269)	77.024	(1.704)	1.115	866.516
D) ADJUSTED BALANCE, BEGINNING OF THE YEAR 2018		45.940	1.120.303	282.129	(15.023)	(643.269)	77.024	(1.704)	1.115	866.516
I. Total recognised income and expenses	3			(1.393)			78.103	(445)	(47)	76.219
II. Operations with shareholders or owners			(1.002)	(34.961)	(1.002)					(36.965)
1. (-) Distribution of dividends	3			(38.324)						(38.324)
2. Operations with treasury shares	11.1		(1.002)	1.002	(1.002)					(1.002)
3. Other operations with shareholders or owners				2.361						2.361
III. Other changes in net equity				77.024			(77.024)			
E) BALANCE AT THE END OF YEAR 2018		45.940	1.119.301	322.800	(16.025)	(643.269)	78.103	(2.148)	1.068	905.770

Cash Flow Statement for the Years Ended 31/12/2018 and 31/12/2017

(thousand €)	Notes	2018	2017
A) OPERATING ACTIVIES CASH FLOW			
1. Result (profit/loss) for the fiscal year before taxes		**61.869**	**65.884**
2. Result adjustments		**(9.699)**	**(7.864)**
a) Depreciation	6, 7, 8	30.354	30.993
b) Value adjustments for impairment	6, 7, 8	20.931	64.453
c) Change in provisions		10.625	(14.837)
d) Allocation of grants	11.3	(62)	(66)
e) Profit/loss on disposal of fixed assets	6, 7, 8	53	(214)
f) Profit/loss on disposal of financial instruments	9	(118)	
g) Financial income	16.5	(131.276)	(121.413)
h) Financial expenses	16.5	31.600	33.353
i) Exchange rate differences		29.967	
j) Change in fair value of financial instruments	9	836	(133)
k) Profit/loss on asset management		(2.608)	
3. Changes in working capital		**30.380**	**3.350**
a) Inventories	10.1	1.870	(237)
b) Trade and other receivables	10.2	22.151	2.610
c) Other current assets	9.1	466	(725)
d) Creditors and other payables	13	(643)	2.881
e) Other current liabilities	9.2	(1)	(157)
f) Other non-current assets and liabilities		6.536	(1.022)
4. Other cash flows from operating activities		**43.693**	**(20.447)**
a) Interest paid		(20.519)	(25.956)
b) Dividends received		43.658	31.396
c) Interest received		861	231
d) Collections (payments) on income tax	14.1	16.024	(26.117)
e) Collections (payments) on asset management		3.669	
5. Cash flows from operating activities (+/-1+/-2+/-3+/-4)		**126.243**	**40.923**
B) CASH FLOWS FROM INVESTMENT			
6. Payments on investments		**(324.702)**	**(195.527)**
a) Group companies and associates	9.1	(229.080)	(116.902)
b) Intangible assets	6	(17.250)	(8.565)
c) Property, plant and equipment	7	(54.131)	(54.337)
d) Investment property	8	(271)	(674)
e) Other financial assets	9	(23.970)	(15.048)
7. Collections on divestments		**186.880**	**115.604**
a) Group companies and associates	9.1	102.371	83.718
b) Property, plant and equipment	7	56.070	395
c) Other financial assets	9	28.440	31.491
8. Cash flows from investment (7-6)		**(137.822)**	**(79.923)**
C) CASH FLOWS FROM FINANCING			
9. Collections and payments on equity instruments		**(1.002)**	**(767)**
a) Acquisition of own equity instruments	9.1	(1.002)	(767)
10. Collections and payments on equity instruments		**96.630**	**52.685**
a) Issuance		**509.532**	**286.769**
1. Bonds and other negotiable securities	9.2	157.570	131.548
2. Bank loans	9.2	184.375	136.521
3. Payables to group companies and associates	17	167.587	18.700
b) Redemption and repayment of		**(412.902)**	**(234.084)**
1. Bonds and other negotiable securities	9.2	(147.940)	(99.550)
2. Bank loans	9.2	(264.962)	(88.646)
3. Other payables			(45.888)
11. Payments on dividends and remuneration of other equity instruments		**(38.323)**	**(29.985)**
a) Dividends	3	(38.323)	(29.985)
12. Cash flows from financing (+/-9+/-10+/-11)		**57.305**	**21.933**
D) EFFECT OF CHANGES IN EXCHANGE RATES		**2.361**	**3.127**
E) NET INCREASE / DECREASE IN CASH AND CASH EQUIVALENTS (+/-5+/-8+/-12+/-D)		**48.087**	**(13.940)**
F) CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		**54.035**	**67.975**
G) CASH AND CASH EQUIVALENTS AT THE YEAR-END	**10**	**102.122**	**54.035**

Notes to the 2018 Annual Accounts

Note 1. Company's Activity

MELIÁ HOTELS INTERNATIONAL, S.A (hereinafter, the "Company") was legally incorporated in Madrid on 24 June 1986, under the registered name of Investman, S.A. The change to its current name, Meliá Hotels International, S.A., was approved on 1 June 2011. In 1998, the Company moved its registered address to Calle Gremio de Toneleros, 24, Palma de Mallorca (Spain).

MELIÁ HOTELS INTERNATIONAL, S.A. is the controlling company of Meliá Hotels International Group (hereinafter, the "Group"). On 27 February 2019, as required by the Commercial Code, the Group's consolidated annual accounts as at 31 December 2018 are prepared, pursuant to the International Financial Reporting Standards (IFRS) published by the International Accounting Standard Board (IASB) and adopted by the European Union, which show a consolidated profit attributable to the controlling company in the amount of EUR 140.1 million and a consolidated net equity attributable to the controlling company in the amount of EUR 1,334.1 million.

The Company's business activity, which was incorporated for an indefinite period according to its bylaws, is as follows:

- The acquisition, holding, operation, promotion, marketing, development, management and assignment under any title of hotel and tourism establishments, and of any other establishments intended for tourism, leisure, entertainment or recreation-related activities, in any way authorised by Law.
- The acquisition, subscription, ownership and transfer of all kinds of transferable securities, both public and private, national and foreign, representing the share capital of companies with the corporate purpose of owning and operating the business or activities mentioned above.
- The acquisition, ownership, operation, management, marketing and assignment under any title of all kinds of goods and services intended for tourism and hotel establishments and facilities, as well as for any leisure and entertainment or recreation-related activities.
- The acquisition, development, marketing and assignment under any title of know-how or technology in the tourism, hotel, leisure, entertainment or recreation sectors.
- The promotion of all kinds of businesses related to tourism and hotel sectors and to leisure, entertainment or recreation activities, as well as the participation in the creation, development and operation of new businesses, establishments or entities in the hotel and tourism sectors, and of any leisure, entertainment or recreations activities.

The activities comprising the corporate purpose may be developed by the Company, either totally or partially, directly or indirectly, through shareholdings or equity interests in companies having the same or similar corporate purpose.

In any event, all those activities that special laws reserve for companies which meet certain requirements that are not met by the Company, 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.

With over 60 years in the hotel industry and more than 390 hotels, both urban hotels and resorts, in 44 countries and presence in 4 continents, Meliá Hotels International is one of the world's leading hotel chains. The company seeks to consolidate its position in key markets and strengthen its internationalisation through its various brands: Gran Meliá, Paradisus Resorts, ME by Meliá, Meliá Hotels & Resorts, INNSIDE by Meliá and Sol by Meliá.

Note 2. Basis of Presentation of the Annual Accounts

The figures on the balance sheet, the income statement, the statement of changes in net equity, the cash flow statement, and the accompanying notes to the accounts, are stated in thousands of Euro, rounded to thousands, except where otherwise indicated.

2.1 True image

The 2018 annual accounts have been prepared on the basis of the accounting records of Meliá Hotels International, S.A., in conformity with the accounting principles and measurement bases regulated by Royal Decree 1514/2007, approving the General Accounting Plan and the rest of accounting legal provisions in force, as well as any amendments thereto by means of Royal Decree 1159/2010 and Royal Decree 602/2016; and fairly present the equity, financial position and results of operations of the Company, as well as the truthfulness of the flows included in the cash flow statement.

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 accompanying notes to the consolidated financial statements include the definition, relevance, calculation and comparative data of the alternative performance measures used by the Meliá Group in its consolidated statements.

2.3 Comparability

For comparison purposes, the annual accounts include the figures for year 2018 and for year 2017 of each of the items in the balance sheet, the income statement, the statement of changes in net equity, the cash flow statement and the notes to the annual accounts.

In 2018, the Company has reclassified the income from hotel management under Other Operating Income heading to Net Revenues heading since, as stated in Note 1, such management is an important part of the Company's activity. With the purpose of improving comparability and breakdowns of the annual accounts, the amounts for year 2017 have been reclassified, in the amount of EUR 58.6 million (see Note 15).

2.4 Critical issues on measurement and estimate of uncertainty

Directors have prepared the Company's 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:

Provision for income tax

The calculation of income tax requires the interpretation of the tax legislation applicable to the Company. 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. Such calculation is detailed in Note 14.

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.

Fair value of derivatives

The fair value of financial instruments that are not traded in an active market is determined using measurement techniques, as specified in Note 4.5.3. The Company 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.

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 12.1 gives details of the assumptions used to calculate these commitments.

Provision for onerous contracts

The Company 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 the percentage of occupation, the average room rate (ARR) and the evolution of the costs associated with the hotel operation, as well as the discount rate applied to update such flows.

The Company uses its expertise in operating and managing hotels to determine such assumptions and to make the relevant calculations, as described in Note 12.1.

2.5 Accounting principles

The annual accounts have been prepared in accordance with the generally accepted accounting principles and measurement standards as described in Note 4. All mandatory accounting principles having a significant effect on the preparation of these annual accounts have been applied.

2.6 Going concern basis

The balance sheet as at 31 December 2018, shows an excess of current liabilities over total current assets of EUR 86.1 million (EUR 236.9 million in 2017).

Directors consider that the Company has financial capacity to meet its current liabilities, since the Company has available the cash flow generation of the Group, undrawn credit facilities (see Note 5.4 and Note 9.2), access to new sources of financing, as well as renewals of the existing ones, which allow it to obtain sufficient financial resources to continue its operations and settle its assets and liabilities in the amounts included in the balance sheet.

In view of the foregoing, these annual accounts have been prepared in accordance with the going concern basis.

2.7 Restatement of fixed assets

The acquired companies, Inmotel Inversiones, S.A. (company merged in 1999), Constructora Inmobiliaria Alcano, S.A. (company merged in 2001), Inmobiliaria Bulmes, S.A., Parking Internacional, S.A. and Azafata, S.A. (companies merged in 2005) and Parque San Antonio, S.A. (company merged in 2009) availed themselves of the restatement of their fixed assets as provided for by Royal Decree-Law 7/1996, of 7th June, hereinafter R.D.L 7/96 (see Note 7).

Note 3. Allocation of Results

The Board of Directors will propose to the General Shareholders' Meeting the approval of the allocation of income as follows:

(thousand €)	2018
Basis of distribution	
Gains and losses (year's revenue)	78.103
To dividends	42.024
To offset prior years' losses	36.079
Total	**78.103**

The Board of Directors will propose to the General Shareholders' Meeting the payment of a gross dividend of EUR 0.1830 per share, excluding treasury shares, by using a maximum amount to be distributed of EUR 42 million charged to results for the fiscal year.

For fiscal year 2017, the General Shareholders' Meeting approved to pay a gross dividend to its shareholders of EUR 0.1681 per share, excluding treasury shares, for which the amount of EUR 38.3 million was made available and paid during the second half of 2018.

Note 4. Recognition and Measurement Standards

The accounting principles applied in relation to the different items are as follows:

4.1 Intangible assets

Intangible assets are the expenses for research and development, software, as well as transfer rights, patents and licenses.

Software applications are valued at cost price and amortised using the straight-line method over their estimated useful life of 5 years. Software maintenance-related expenses are recognised as an expense when incurred. If expenses relate to tasks which involve an increase in capacity, productivity or useful life, these are added to the value of the asset.

The R&D+i expenses incurred by the Company in producing identifiable and unique software programmes controlled by the Company 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.

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.

Patents and licences items include the amounts paid to acquire from third parties the ownership of, or the right to use, trademarks and patents. The amortisation of these items will depend on the expiration of the related agreements.

4.2 Property, plant and equipment

Property, plant and equipment is stated at cost, including additional expenses incurred to bring the assets into operating conditions, increasing their value according to legal revaluations and restatements, as described in Notes 7 and 2.7.

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 capacity, productivity or useful life of the assets, are capitalised as an increase in their value.

Works performed by the Company for its fixed assets are stated at the cost of the necessary goods and required services or at the cost of production of the goods produced by the Company and of the necessary staff time.

Glassware, chinaware, silverware, linen as well as supplies and fixtures are included under the heading Other property, plant and equipment in the heading Property, plant and equipment. These fixed assets are stated at the average cost as per the stocktaking carried out in the different establishments at the year end. Breakages and losses are recorded as disposals. The cost of breakages and losses has been included in the income statement, under the heading Fixed asset impairment and loss.

Property, plant and equipment items are depreciated using the straight-line method over their estimated useful life. The estimate for 2018 and 2017 is as follows:

	Years
Buildings	50
Plant	18
Machinery	18
Furniture	15
Fixtures	8
Software	6
Vehicles	6,25
Other fixed assets	8

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.

4.3 Investment property

The investments made by the Company to obtain rental income or capital gains and which generate cash flows independently of the other assets held by the Company, are recorded under this caption.

Property, plant and equipment criteria are used for the measurement and depreciation of investment properties.

4.4 Impairment of property, plant and equipment, intangible assets and investment property

At each year end, the Company 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 inflows are discounted at current value using a rate of discount before taxes which reflects changes in the value of money over time in the current market and the specific risks of the asset.

An assessment is made each year end 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 determined, 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 unless the relevant asset is carried at a revalued amount, in which case the reversal shall be treated as a revaluation increase. After such reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

4.5 Financial instruments

There is no difference between the fair values estimated for the financial instruments recorded in these annual accounts and their corresponding carrying values, as explained in the paragraphs below:

4.5.1 Financial assets

The Company has no financial assets included in the category of held-to-maturity investments.

Financial assets are classified into the following categories:

a) *Equity investments in group companies and associates*

Upon initial recognition, they are recognised at fair value which, unless there is evidence to the contrary, is the transaction price, which is equal to the fair value of the consideration given plus directly attributable transaction costs. After initial recognition, they are measured at cost less, where appropriate, the accumulated amount of the measurement adjustments for impairment which is recognised in the income statement in the year in which it occurs.

b) *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 captions of financial assets. They relate in full to unlisted investments in equity instruments of companies in which the Company does not have control or significant influence.

The investments available for sale do not have a market price of reference in an active market.

c) *Financial instruments at fair value through profit or loss*

Trading portfolio includes convertible debt instruments listed in the official market taken as a reference to calculate the fair value of these instruments, so they do not vary from their embedded derivative value.

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

d) *Loans and other receivables*

Financial assets included in this category are initially measured at fair value and subsequently at amortised cost. Accrued interest is recognised in the income statement, using the effective interest rate method.

Nevertheless, credits from commercial operations with a due date not exceeding one year and which do not have a contractual interest rate, as well as advances to staff, dividends receivable and capital calls on equity instruments expected to be received at short term, are measured at face value, both at the initial and later measurement, when the effect of not adjusting the cash flows is not material.

Loans and receivables with a maturity of less than 12 months as of the balance sheet date are classified as current, and those with a maturity greater than 12 months are classified as non-current.

In the case of financial assets measured at amortised cost, the amount of impairment loss is equal to the difference between the carrying amount of the financial asset and the present value of the expected future cash flows, discounted at the effective interest rate existing at the time of the initial recognition of the asset.

Non-current guarantees and deposits are measured at amortised cost using the effective interest rate method. Current guarantees and deposits are not discounted.

Trade receivables are shown at their face value in the balance sheet, by carrying out the corresponding measurement adjustments and providing, where appropriate, the relevant provisions based on the risk of insolvency, which are applied where the debt is deemed to be uncollectible.

e) *Derecognition of financial assets*

The Company derecognises a transferred financial asset when it assigns all 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 related to the ownership of the asset are substantially transferred.

Where the Company has transferred assets in which the risks and rewards related to the ownership of the financial asset are substantially retained, the transferred financial asset is not derecognised in the balance sheet and is recognised as a related financial liability for an amount equal to the consideration received, which is subsequently measured at amortised cost. The transferred financial asset continues to be measured according to the same criteria applied prior to the transfer. Both income from the transferred asset and the expenses of the related financial liability are recognised, without netting, in the income statement.

f) *Impairment of financial assets*

Investments in group companies, jointly controlled entities, and associates are measured at cost less, where appropriate, the accumulated amount of the measurement adjustments for impairment. Such adjustments are calculated as the difference between the carrying amount and the recoverable amount, the latter being the higher amount between the fair value less costs to sell and the present value of the future cash flows arising from the investment. Unless there is better evidence, the recoverable amount is based on the value of the equity of the investee, adjusted by the amount of the unrealised capital gains at the measurement date (including the goodwill, if any). Measurement adjustments for impairment and, where appropriate, their reversal, are recognised as income or expense, respectively, in the income statement.

The recoverable amount of receivables carried 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.

Regarding the investments recognised under the heading Available-for-sale financial assets, since they are not listed in an active market, 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 Company'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.

4.5.2 Financial liabilities

Financial liabilities are classified in the category debts and items payable, measured at amortised cost, or in the category financial liabilities, measured at fair value through profit or loss. In both cases, financial liabilities are initially recognised at fair value. Financial liabilities measured at amortised cost are adjusted for directly attributable transaction costs. All non-derivative financial liabilities of the Company are included within the category debts and items payable.

a) *Issuance of debentures and other 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 Company 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.

b) *Bank loans*

They are initially recorded 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.

c) *Debts with group companies and associates*

Financial liabilities included in this category are measured at amortised cost. Accrued interest is recognised in the income statement, using the effective interest rate method.

d) *Derecognition of financial liabilities*

Financial liabilities are derecognised when all the risks are substantially transferred, and the liability that resulted in its recognition on the balance sheet is extinguished.

4.5.3 Hedge activities and derivatives

Derivative financial instruments are classified as financial assets or liabilities at fair value through profit or loss or as accounting hedges. In both cases, derivative financial instruments are initially recognised at fair value on the date on which they are arranged, and this fair value is regularly adjusted. Derivatives are carried as assets when the fair value is positive, and as liabilities when the fair value is negative.

a) *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 comprised 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 Company 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 trade date.

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 the measurement. The resulting fair value is adjusted for the own credit risk. These values are obtained from studies carried out by independent experts, usually the financial institutions with which the Company has contracted these instruments.

b) *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.

4.6 Inventories

Inventories are valued at their average cost which is generally lower than their net realisable value. If their estimated realisable value is lower than their cost, any necessary measurement adjustments will be made.

4.7 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 an original maturity of less than three months from the date of subscription.

For the purposes of the Company's cash flow statement, cash and other cash equivalents include the items as defined above less the overdrafts demandable by the bank, if any.

4.8 Treasury shares

Treasury shares are presented as a decrease in the Company's net equity and are stated at cost without carrying out any measurement adjustments.

The gains and losses obtained on disposals of treasury shares are recorded directly against equity.

4.9 Grants, donations and bequests received

Refundable grants are recognised as liabilities until all the conditions for them to be considered as non-refundable have been met, while non-refundable grants are recognised as such provided that the conditions established for their granting have been substantially met. This implies recording the amount of the grant in a specific heading in equity, less deferred tax. Non-refundable grants received from the shareholders are recognised directly in equity.

4.10 Provisions and contingencies

Provisions are recognised when the Company:

- 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 in 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 Company'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.

Onerous contracts

A contract is onerous when the unavoidable costs of meeting the contractual obligations exceed the expected economic benefits.

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. If the costs exceed the benefits, the Company records a provision for such difference. Details of the analysis performed by the Company are included in Note 12.1.

Post-employment benefits

Post-employment benefits are classified as defined contribution plans or defined benefit plans.

a) *Defined contribution plans*

Defined contribution plans are those plans under which the Company 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.

b) *Defined benefit plans*

Post-employment benefits that are not defined contribution plans are considered to be defined benefit plans. In general, these 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 Company recognises in the balance sheet a provision for long-term defined benefit obligations 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 benefits that may be returned to the Company in the form of direct reimbursements or lower future contributions, plus, where appropriate, the part not yet recognised in the income statement for past service costs.

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

The current value of the obligation is determined using actuarial calculation methods and unbiased financial and actuarial assumptions that are mutually compatible. The Company acknowledges, directly in the statement of recognised income and expense, 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 the Company 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 Meliá Hotels International, S.A.'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.

The Company has duly externalised the pension commitments and obligations stipulated in collective bargaining agreements subject to the Ministerial Order of 2 November 2006.

Provision for negative equity

The Company recognises a provision for accumulated losses in group companies, when the interest in such controlled entities is fully impaired. This provision is measured through a method similar to that used in measuring the impairment of equity instruments in group companies (see Note 4.5.1).

If the recoverable amount of the investment is restored, then the Company reverses the provision.

4.11 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 lease inception, the lessee recognises in the balance sheet an asset and a liability in the same amount, which is equal to the fair value of the leased asset, or the present value of minimum future lease payments, if lower.

Lease instalments are divided into two parts: the finance cost and the principal payment. The financial cost is taken directly to the income statement.

Assets being recognised under finance leases are depreciated using the straight-line method over the asset's estimated useful life.

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. Successive lease payments receivable are treated as principal repayments 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 incentive received from the lessor) are charged to the income statement on a straight-line basis over the lease term.

The assets recognised by the Company in hotels operated under operating leases are depreciated over the shorter of their useful lives and the lease term.

4.12 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.

However, trade payables with a maturity not exceeding one year and which have no contractual interest rate, as well as payments required by third parties for shares, the amount of which is expected to be paid in the short-term, are measured at their face value provided the effect of not adjusting the cash flows is not material.

4.13 Corporate income tax

The Company is taxed under the Consolidated Tax Regime, within the Tax Group 70/98, as controlling company thereof, so the tax expense and the current and deferred tax assets and liabilities are determined according to this tax regime.

The corporate income tax expense for the year is calculated as the sum of the current tax that results from the application of the corresponding tax rate to the tax base for the year, determined according to the consolidated tax regime, following the application of existing tax credits and deductions, and the change in the deferred tax assets and liabilities recognised. The corresponding tax expense 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 from the Tax Authorities based on the tax rates in force at the balance sheet date, including any tax adjustments for previous years as appropriate.

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

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 of the Company and the Tax Group allowing the application of such assets, except in the case of deductible temporary differences arising from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting nor the taxable profit or loss.

The recovery of a deferred tax asset is reviewed at each balance sheet date and adjusted to the amount which is expected to be recovered based on the taxable profit available.

Deferred tax assets and liabilities are measured based on their expected materialisation and on the tax legislation and tax rates approved, or are about to be approved, on the balance sheet date.

4.14 Classification of assets and liabilities as current and non-current

The classification of assets and liabilities as current and non-currents is made on the basis of the foreseeable date of maturity, disposal or cancellation of the Company’s obligations and rights. Where such date exceeds 12 months following the year-end date, assets and liabilities are deemed to be non-current.

4.15 Transactions in foreign currency

Assets and liabilities denominated in foreign currency are recorded at the exchange rate prevailing on the corresponding transaction date, and are restated at the year end at the exchange rate then in effect. The exchange differences, both positive and negative, originated during this process, are recognised in the income statement in the year in which they arise.

Non-monetary entries valued at their historical cost are translated at the exchange rate prevailing on the transaction date.

4.16 Assets of an environmental nature

Expenses relating to activities of decontamination and restoration of contaminated sites, waste disposal as well as other costs resulting from compliance with the environmental legislation are recognised as an expense in the fiscal year in which they are incurred, unless they relate to the acquisition cost of elements that are to be included in the Company’s equity for the purpose of using them on a lasting basis, in which case they are recognised as property, plant and equipment, as appropriate, being depreciated using the same criteria as indicated above.

4.17 Income and expenses

Income and expenses are recognised on an accrual basis regardless of when the resulting monetary or financial flow arises.

Income from the sale of goods or services is measured at the fair value of the consideration received or receivable. Volume rebates, prompt payment and any other discounts, as well as the interest added to the face amount of the consideration, are recognised as a reduction therein. However, the Company includes interest added to trade receivables with a maturity not exceeding one year and which have no contractual interest rate, provided the effect of not adjusting the cash flows is not material.

Ordinary income is recognised if 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 Company's activities as described below.

Sale of rooms and other related services

Income deriving from the sale of rooms and other related services is recognised daily 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.

Provision of hotel management services

The Company recognises income 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 (GOP) for each of the hotel establishments managed by the Group.

Sale of fixed assets

The Company actively manages its real estate assets portfolio. 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 has been discounted from the selling price.

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 Company's income statement.

Dividends

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

4.18 Transactions with related parties

In general, transactions between group companies are recognised initially at fair value. If the agreed price differs from its fair value, the difference is recognised on the basis of the economic reality of the transaction. Subsequent recognition is made in accordance with the provisions of the applicable rules.

Notwithstanding the foregoing, in mergers, demergers and non-monetary contributions of a business, the components of the acquired business are recognised for the amount that would correspond to them, upon completion of the transaction, in the Company's consolidated annual accounts.

In such cases, any differences that may arise between the net amount of the assets and liabilities of the acquired company, adjusted by the balance of grants, donations and bequests received and adjustments for changes in value, and any capital amount and share premium, if any, issued by the acquiring company, are recognised in reserves.

4.19 Business combinations

Mergers, demergers and non-monetary contributions of a business between group companies are recognised in accordance with the provisions concerning transactions with related parties (Note 4.18).

Mergers and demergers other than the above and business combinations arising from the acquisition of the entire equity of a company or of a part comprising one or more business, are recognised in accordance with the acquisition method.

In the case of business combinations arising as a result of the acquisition of shares or equity interests in a company, the Company recognises the investment in accordance with the provisions concerning equity investments in group companies, jointly controlled entities and associates (Note 4.5.1.a).

4.20 Cash flow statement

The cash flow statement includes the cash movements during the fiscal year, calculated using 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 3 months with high liquidity and low risk of changes in value.
- Operating activities: these are the activities that constitute the main source of the Company's ordinary income, 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 liabilities of a financial nature.

Note 5. Financial Risk Management Policies

The Board of Directors of the Company 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 annual accounts.

In geopolitical terms, the Group considers the outcome of Brexit negotiations to be one of the main geopolitical risks, and therefore, it develops contingency plans and business strategies intended to limit the potential impact of the UK's withdrawal from the European Union. In this sense, it should be noted that in 2018, the United Kingdom remains the primary source of tourists for Spain, with a total of 18.5 million of visitors, however, this figure represents a slight decrease in comparison with 2017 (1.5% less), 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.

With reference to Meliá Group, British customers staying at hotels managed by the Group globally represent 15% of total stays (including hotels under ownership, lease and management). Analyses carried out by the Company are based on the reduction in stays rather than the impact on prices (ARR), since the global strategy of the Group is not about competing through price with other destinations which also receive a large number of British tourists, but about offering quality services and sustainable tourism. Therefore, different situations of British customer loss have been analysed which, despite not being directly related to scenarios of agreed or not agreed withdrawal of the United Kingdom from the European Union, they reflect the possible reduction in the number of stays that such scenarios may cause. These analyses which are based on declines in stays of British customers of 5%, 10% and 15%, respectively, are accompanied by different contingency plans in line with the Group’s strategy, which analyse the impacts on RevPAR, as well as on cost per stay and which, thanks to the proposed commercial initiatives, facilitate access to alternative source markets, which would largely offset the loss of income from British customers.

Likewise, the Company’s activities are exposed to different financial risks: market risk (interest rate risk and foreign exchange risk), credit risk and liquidity risk. The policies pursued by Meliá Hotels International, S.A. try to minimise the potential adverse effects on its financial statements.

5.1 Interest rate risk

Meliá Hotels International, S.A.’s financial statements include certain items subject to fixed and variable interest.

The Company maintains a policy of partially hedging against changes in interest rates by obtaining different financial derivatives that allow it to contract a fixed rate for a specified period of time 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 continue applying hedge accounting (see Note 9.3).

The structure of the debt as at 31 December 2018 and 2017 is as follows (these amounts do not include interest payable):

(thousand €)	31/12/2018			31/12/2017		
	Fixed Interest	Variable Interest	Total	Fixed Interest	Variable Interest	Total
Bank loans	329.279	78.340	407.619	276.209	45.556	321.766
Mortgage loans	84.310	85.936	170.246	74.178	120.945	195.124
Credit facilities		125	125		133.175	133.175
Leasing		3.236	3.236		6.377	6.377
ECP	51.357		51.357	71.670		71.670
Straight bonds	29.750		29.750			
Total	494.696	167.636	662.332	422.057	306.053	728.111

The variable interest rate debt is basically tied to Euribor.

As at 31 December 2018, the Company has various interest rate swaps contracted, with a notional value of EUR 70.4 million, considered as cash flow hedging instruments, as stated in Note 9.3. At the 2017-year end, the notional value of the swaps contracted was EUR 58.5 million. The variable rate bank loans and mortgages hedged by these swaps are shown in the Fixed Interest column for the part of the capital hedged.

The sensitivity of 2018 and 2017 profit or loss to interest rate variations (in base points), in thousand euro, is as follows:

(thousand €)	Variation	2018	2017
	+ 25	423	728
	- 25	(423)	(728)

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 has been considered in this calculation.

5.2 Foreign exchange risk

Fluctuations in items of the currencies in which the debts are denominated and the purchases/sales are carried out, vis-à-vis the accounting currency, may have an impact on the result (profit/loss) for the fiscal year.

The following items may be affected by foreign exchange risks:

- Debt in a currency other than the local currency of the Company.
- Collections and payments for supplies, services and investments in currencies other than the local currency.

In this regard, Meliá Hotels International, S.A is exposed to foreign exchange risks mainly for the transactions in foreign currency arranged by group companies and associates (see Note 16.6).

Likewise, the recoverable value of shares in a functional currency other than the Euro, changes due to movements in exchange rates. It is not the Group's policy to arrange derivatives for the hedge of net investments in businesses abroad.

5.3 Credit risk

The credit risk arising from default of a counterparty (customer, supplier, or financial entity) is mitigated by the Company'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 Company carries out other financial operations which allow the reduction of credit risks, such as assignments of receivables.

The credit periods established by the Company range between 21 and 90 days. The Group's average period of collection of receivables is approximately 31.22 days, 33.32 in 2017. The age of trade receivables at the year end is as follows:

(thousand €)	31/12/2018	%	31/12/2017	%
Less than 90 days	17.436	85%	15.504	56%
More than 90 and less than 180	1.705	8%	5.832	21%
More than 180 and less than 360	1.319	6%	6.271	23%
Total	20.460	100%	27.606	100%

Trade receivables outstanding for more than 360 days are duly provisioned. Trade receivables outstanding for less than 90 days, take into account the amount of assignments of receivables with a financial institution (see Note 10.2).

5.4 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 Hotels International S.A.'s activities.

The liquidity policy applied by the Company ensures that payment obligations acquired will be met without having to obtain funds under 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 geographical areas, and the diversification of the maturities of the issued debt.

In this regard, the Company understands that the negative Working Capital on balance sheet is covered by the implemented policies and, in particular, by the renegotiation of many of the credit facilities maturing in the short and medium term, as well as the cash-generating capability of the Group subsidiaries.

During the period of formulation of these annual accounts, Meliá Hotels International, S.A. has renewed facilities and loans maturing in such period for a total amount of EUR 78 million, and in the first quarter of 2018, for an amount of EUR 128.4 million.

Under the Euro-Commercial Paper Programme (ECP) executed in 2017 in the maximum of EUR 300 million, and which is subject to English law, during the fiscal year 2018, a total of EUR 127.6 million of issues have been made (a total of EUR 131.8 million in 2017), and there are existing issues in the amount of EUR 51.4 million at the year end, (EUR 71.7 million in 2017), as shown in the line of Short-term bonds and other negotiable securities (see Note 9.2).

In line with the diversification of funding sources, in 2018 the Company issued unsecured bonds in the total amount of EUR 30 million in the Luxembourg market, with a 7-year maturity (see Note 9.2).

The following table contains a summary of the maturities of the Company's financial liabilities as at 31 December 2018, based on face amounts by maturity:

(thousand €)	< 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
Straight bonds				30.000	30.000
ECP		51.400			51.400
Loans	5.830	76.910	322.117	177.482	582.339
Credit facilities		125			125
Leasing	428	872	2.007		3.308
Total	6.259	129.306	324.124	207.482	667.171

The following table contains a summary of the maturities of the Company's financial liabilities as at 31 December 2017, based on face amounts by maturity:

(thounsand €)	< 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
ECP	37.100	34.670			71.770
Loans	11.217	32.360	321.923	157.263	522.764
Credit facilities	59.215	69.933	4.027		133.175
Leasing		3.281	3.255		6.536
Total	107.531	140.244	329.205	157.263	734.244

5.5 Estimation of fair value

Fair value of financial assets and liabilities is the amount for which an asset can be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

- ✓ Hedging and other derivatives: As referred to in Note 4.5.3, hedging and other derivatives are calculated using discounted net flow techniques, calculated by the difference between variable interest payments and fixed interest payments.
- ✓ Available-for-sale financial assets: At the year-end, the amounts posted, net of impairment losses, are not substantially different from their fair values.
- ✓ Assets and liabilities at amortised cost: Their fair value is mainly estimated on the basis of parameters such as interest rates, market risks, and by using discounted cash flow techniques.

As referred to in Note 4.5, there are no differences between fair values calculated for financial instruments recorded in the Company’s accounts and their corresponding accounting values.

Note 6. Intangible Assets

The breakdown of the gross value and accumulated amortisation of intangible assets is as follows:

(thousand €)	31/12/2017	Additions	Disposals	31/12/2018
Gross value				
Patents, licences, trademarks and similar rights	4.415			4.415
Transfer rights	1.645	6.674	(945)	7.374
Software	37.486	12.780	(78)	50.188
Total	43.546	19.454	(1.023)	61.977
Accumulated amortisation				
Patents, licences, trademarks and similar rights	(4.354)	(7)		(4.361)
Transfer rights	(560)	(1.019)	191	(1.388)
Software	(17.609)	(5.920)	69	(23.460)
Total	(22.523)	(6.946)	260	(29.209)
Net carrying value	21.024			32.768

The additions recorded under section Transfer rights relate to the acquisition of rights to operate one hotel under management in United Kingdom and three in Spain. The disposals relate to the termination of rights to operate one hotel under management in Qatar.

The amount of EUR 12.3 million included in section Additions of software, relates to the technological innovation project carried out by the Company and mainly developed by the subsidiary company Prodigios Interactivos S.A., 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.

Methods and periods of amortisation applied are reviewed at the end of each year.

For comparison purposes, the breakdown of these movements in 2017 was as follows:

(thousand €)	31/12/2016	Additions	Disposals	31/12/2017
Gross value				
Patents, licences, trademarks and similar rights	4.415			4.415
Transfer rights	3.145		(1.500)	1.645
Software	26.709	10.784	(8)	37.486
Total	34.270	10.784	(1.508)	43.546
Accumulated amortisation				
Patents, licences, trademarks and similar rights	(4.347)	(7)		(4.354)
Transfer rights	(750)	(135)	325	(560)
Software	(10.754)	(6.856)	1	(17.609)
Total	(15.852)	(6.997)	326	(22.523)
Net carrying value	18.418			21.024

The disposals recorded under section Transfer rights in 2017, mainly related 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 Software, related to the technological innovation project carried out by the Company and mainly developed by the subsidiary company Prodigios Interactivos S.A., for the creation of a new framework for hotel management, by means of which the Company sought to improve the technological services provided to its customers.

The breakdown of intangible assets fully amortised for years 2018 and 2017 is as follows:

(thousand €)	31/12/2018	31/12/2017
Patents, licences, trademarks and similar rights	4.345	4.345
Software	12.186	12.163
Total	16.530	16.508

Note 7. Property, Plant and Equipment

The breakdown of the cost, accumulated depreciation and impairment of property, plant and equipment in 2018 is as follows:

(thousand €)	31/12/2017	Additions	Disposals	Transfers	31/12/2018
Gross value					
Land	153.654	2.366	(11.997)	(44)	143.979
Buildings	441.499	21.035	(80.529)	(3.247)	378.758
Plant and machinery	240.193	11.464	(17.867)	(129)	233.662
Furniture and other fixed assets	219.136	12.330	(14.032)		217.434
Fixed assets under construction and advances	463		(463)		
Total	1.054.944	47.196	(124.887)	(3.419)	973.833
Accumulated depreciation					
Buildings	(161.036)	(8.081)	31.093	1.116	(136.909)
Plant and machinery	(165.863)	(8.731)	14.080		(160.514)
Furniture and other fixed assets	(157.649)	(6.363)	9.682		(154.330)
Total	(484.548)	(23.175)	54.854	1.116	(451.753)
Impairment					
Plant and machinery	(30.260)	(9.826)	5.349		(34.737)
Furniture and other fixed assets	(1.507)		136		(1.371)
Total	(31.767)	(9.826)	5.485		(36.108)
Net carrying value	538.629				485.973

The main new additions of property, plant and equipment recorded in 2018 relate to renovations performed in several hotels operated by the Company for EUR 47.2 million, among others, the renovations were mainly made in Balearic Islands, Madrid and Catalonia.

Main disposals of property, plant and equipment relate to the sale, on 11 July 2018, of the hotels Meliá Sevilla and Sol La Palma, located in Seville and Santa Cruz de Tenerife, respectively, in the amount of EUR 59.7 million, and which generated a capital gain of EUR 2.6 million, as stated in Note 16.1 Revenue by items. The hotels were sold to the property investment company ATOM HOTELES SOCIMI, S.A. (ATOM), which is owned, among others, by Bankinter, S.A. According to the agreements reached with ATOM, the hotels will continue to be operated by the Company under variable rate lease agreements.

Property, plant and equipment transfers relate to the transfer of certain offices located in Madrid from property, plant and equipment to investment property, since these are now operated under lease (see Note 8).

Additions for impairment of property, plant and equipment in 2018 and 2017 relate to the accelerated depreciation of the assets recognised by the Company in hotels under operating leases to adapt their useful lives to the term of those lease contracts.

For comparison purposes, the breakdown of these movements in 2017 was as follows:

(thousand €)	31/12/2016	Additions	Disposals	31/12/2017
Gross value				
Land	153.654			153.654
Buildings	411.270	30.691	(462)	441.499
Plant and machinery	222.101	18.719	(627)	240.193
Furniture and other fixed assets	206.008	17.087	(3.959)	219.136
Fixed assets under construction and advances		463		463
Total	**993.032**	**66.961**	**(5.049)**	**1.054.944**
Accumulated depreciation				
Buildings	(153.007)	(8.222)	193	(161.036)
Plant and machinery	(157.085)	(9.219)	441	(165.863)
Furniture and other fixed assets	(152.216)	(6.033)	600	(157.649)
Total	**(462.308)**	**(23.474)**	**1.234**	**(484.548)**
Impairment				
Plant and machinery	(23.738)	(7.511)	989	(30.260)
Furniture and other fixed assets	(1.827)	(33)	353	(1.507)
Total	**(25.565)**	**(7.544)**	**1.342**	**(31.767)**
Net carrying value	**505.159**			**538.629**

The main new additions of property, plant and equipment recorded in 2017 related to renovations performed in several hotels operated by the Company for EUR 67 million, among others, the renovations were mainly made in Balearic Islands, Madrid and Canary Islands.

Investments made in 2017 amounted to EUR 3.6 million for the acquisition of assets through finance lease contracts. In 2018 such acquisitions have not been significant.

Other considerations

The net carrying value of the assets of the Company that are financed through bank leasing contracts amounts to EUR 6.3 million at the year end, and to EUR 13.5 million in 2017. These finance leases relate mainly to buildings, facilities and furniture.

There are 8 owned properties that have been mortgaged to secure several loans at the year end, as in the previous fiscal year, and their net carrying value amounts to EUR 221.5 million, and to EUR 229.1 million in 2017.

Other fixed assets heading includes disposals relating to operating equipment (glassware, linen, chinaware, and silverware) in the amount of EUR 2.9 million in 2018 and 2017.

As at 31 December 2018 and 2017 the Directors consider that there is sufficient insurance coverage for the Company's assets.

The breakdown of property, plant and equipment fully depreciated for 2018 and 2017 is as follows:

(thousand €)	31/12/2018	31/12/2017
Buildings	13.948	17.486
Plant and machinery	89.938	71.277
Furniture and other fixed assets	112.664	116.219
Total	216.550	204.982

Revaluation of assets

The Company, in different processes, has merged several companies owning hotels, with the revaluation of land and properties being carried out. As at 31 December 2018 and 2017 the difference between the carrying value and the tax value of the revalued elements is as follows:

(thousand €)	Land	Buildings
Revalued net carrying value at 31/12/2016	113.280	16.538
Depreciation		(488)
Revalued net carrying value at 31/12/2017	113.280	16.050
Depreciation		(384)
Disposals		(6.571)
Revalued net carrying value at 31/12/2018	113.280	9.095

Disposals relate to the sale of the Meliá Sevilla hotel.

The capital gains derived from 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 inflation, were as follows:

(thousand €)	Amount
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

The net carrying value of the assets subject to the revaluation according to the asset restatement approved by Royal Decree 7/96 amounts to EUR 0.9 million (1.7 million in the previous year), the value of the fully depreciated assets being EUR 16.5 million (15.9 million in the previous year). The impact of this restatement on the provision for depreciation of the year amounts to EUR 649 thousand (EUR 711 thousand in 2017).

Asset valuation

In 2018, Meliá Hotels International S.A. commissioned the valuation of the Group's owned assets. The valuation of most of the assets has been conducted by the worldwide firm Jones Lang Lasalle Hotels (JLL), which specialises in hotel investment and consulting services. The valuation determines their market value as at 30 June 2018 and includes the assets fully consolidated in the consolidated Financial Statements.

These assets, whose final valuation has been completed, total EUR 3,758 million, EUR 749.2 million in the Company. This figure includes eight assets recognised under Investment Property in the consolidated Balance Sheet, 2 assets in the Company's Balance Sheet. As at 31 December, the net carrying amount of the assets subject to valuation amounts to EUR 368.1 million, from which EUR 347.2 million relates to property, plant and equipment for owned hotels.

When determining the value of the assets, the valuation criterion most used by Jones Lang LaSalle has been the discounted cash flow, since hotel investments are generally valued according to the potential future income. In certain cases, other valuation methods have been used, such as the comparables method or the residual value method. The latter method has mainly been used to value plots and land. Regardless of the valuation criterion, the result of the valuation has been checked by comparing it with other elements such as stable returns, price per room or the leveraged IRR.

Discounted cash flow method: Financial projections have been prepared for a 5-year period; the flows for year 5 have been used to project the next 5 years and the cash flows for fiscal year 11 have been 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 by JLL in the valuation, depending on the geographical region in which the assets are located, are shown in the following table:

	Discount rates
Spain	8,27% - 10,77%
Rest of Europe	7,10% - 8,47%
Latin America	11% - 30%*

*30% relates to assets held in Brazil

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.

Note 8. Investment Property

The balance of investment property includes the net carrying value of investments made by the Company to obtain rental income or capital gains, such as interest in four apartment owners' associations and other properties. Said apartments relate to establishments which are managed by the Company.

The breakdown of the gross value and accumulated depreciation of investment property for 2018 is as follows:

(thousand €)	31/12/2017	Additions	Disposals	Transfers	31/12/2018
Gross value					
Land and apartments	23.368	270	(21)		23.618
Other properties	4.682			3.419	8.101
Total	28.050	270	(21)	3.419	31.718
Accumulated depreciation					
Apartments and other properties	(12.321)	(592)	1	(1.116)	(14.027)
Total	(12.321)	(592)	1	(1.116)	(14.027)
Net carrying value	15.729				17.691

The additions during 2018 relate to the purchase of 2 apartments in two apartment owners' associations; 16 apartments in 2017. Transfers relate to the transfer of certain offices located in Madrid from property, plant and equipment to investment property, since these are now operated under lease, as mentioned in Note 7.

The amount of the building costs fully depreciated in 2018 and 2017 was EUR 1.5 million.

Dividends earned in respect of apartments in apartment owners' associations are recognised in the income statement which amount to EUR 1.7 million at the end of 2018, EUR 1.4 million in 2017. Likewise, income from the lease of office space above-mentioned, amounts to EUR 118 thousand.

For comparison purposes, the breakdown of these movements in 2017 was as follows:

(thousand €)	31/12/2016	Additions	31/12/2017
Gross value			
Land and apartments	23.368		23.368
Other properties	4.008	674	4.682
Total	27.376	674	28.050
Accumulated depreciation			
Apartments and other properties	(11.799)	(522)	(12.321)
Total	(11.799)	(522)	(12.321)
Net carrying value	15.577		15.729

Note 9. Financial Instruments

9.1 Financial investments

The following table shows the breakdown by categories of non-current and current assets for 2018 and 2017:

(thousand €)	31/12/2018			31/12/2017		
	Long term	Short term	Total	Long term	Short term	Total
1. Investments in group companies and associates:						
- Equity instruments	1.016.724		1.016.724	950.406		950.406
2. Available-for-sale financial assets:						
- Equity instruments	4.003		4.003	3.996		3.996
3. Financial instruments at fair value through profit or loss:						
- Equity instruments		103	103		464	464
4. Loans and other receivables:						
- Loans and other financial instruments to group companies and associat	416.414	123.153	539.567	337.557	139.313	476.870
- Loans to third parties	22.399	9.315	31.714	10.426	28.880	39.306
- Other financial instruments to third parties	9.232	14.252	23.484	7.209	9.874	17.083
Total	**1.468.772**	**146.823**	**1.615.595**	**1.309.594**	**178.531**	**1.488.125**

a) *Investments in group companies and associates*

Equity instruments:

Annex I attached to these annual accounts includes the information about the net equity situation as at 31 December 2018, which is obtained from the financial statements provided by the respective companies, and the shareholding in group companies and associates, indicating direct and indirect shareholding, activity and country in which this is exercised. Such annex also provides information broken down by company on the net carrying value and provisions made for each investment.

The activity carried out by these companies relates to the hotel and restaurant business. These companies' shares are not listed in a regulated market.

During 2018, the Company has received dividends from group companies and associates in the amount of EUR 113.8 million, and in 2017 in the amount of EUR 106.1 million.

Movements recorded during the fiscal year were as follows:

(thousand €)	31/12/2017	Additions	Disposals	Transfers	31/12/2018
Equity instruments in group companies (gross value)	843.454	101.607	(76.551)	76.068	944.579
Impairment	(85.632)	(4.508)	5.087	(23.599)	(108.652)
Equity instruments in associates and joint ventures (gross value)	234.870	51.486	(4.565)	(76.068)	205.724
Impairment	(42.286)	(6.240)		23.599	(24.927)
Total	**950.406**	**142.345**	**(76.028)**		**1.016.724**

The most relevant additions in equity instruments in group companies for 2018, relate to the contribution by the Company of equity to Hoteles Sol Meliá, S.L.U., in the amount of EUR 87.5 million. Main disposals relate to the reimbursement to the Company by Inversiones Areíto, S.A.S., of cash contributions pending capitalisation in the amount of USD 58.2 million (EUR 73.6 million). Transfers recorded in the amount of EUR 76 million relate to Adprotel Strand, S.L.U., which during the year changed its status from associate to group company, thus being reflected in the provisions item in the amount of EUR 23.6 million.

Most relevant additions in equity instruments in associates and joint ventures for 2018 mainly relate to the shareholding in the capital of the company Melcom Joint Venture, S.L., in the amount of EUR 47.4 million, currently owing 50% of shares in such company.

For comparison purposes, movements for year 2017 were as follows:

(thousand €)	31/12/2016	Additions	Disposals	31/12/2017
Equity instruments in group companies (gross value)	808.030	54.019	(18.595)	843.454
Provisions	(51.242)	(43.440)	9.050	(85.632)
Equity instruments in associates and joint ventures (gross value)	190.338	59.161	(14.628)	234.870
Provisions	(29.436)	(12.850)		(42.286)
Total	917.689	56.890	(24.174)	950.406

Most relevant additions in equity instruments in group companies for 2017, related to the capital increase through credit compensation of Sol Meliá Vacation Club Puerto Rico, in the amount of EUR 50.5 million. Main disposals related to the winding up of the company Grupo Sol Asia, L.T.D., in the amount of EUR 5.2 million, a capital reduction of Sol Meliá Deutschland GmbH in the amount of EUR 2.7 million and EUR 11 million of the distribution charged to the share premium of the companies Sol Melia investment, N.V. and Sol Mainvest, N.V., which was also recognised as a reduction in the carrying amount of the investment.

Regarding the provisions, additions in the amount of EUR 43.4 million were recognised relating mainly to the company Sol Meliá Vacation Club Puerto Rico, in the amount of EUR 41.2 million, and to Naolinco Aviation, S.L.U. in the amount of EUR 1.3 million. The disposals in the amount of EUR 9 million mainly related to the winding up of the company Grupo Sol Asia, L.T.D., in the amount of EUR 5.2 million, and the application for excess of the portfolio provision of Sol Mainvest, N.V., and Colón Verona, S.A., in the amount of EUR 2 million and EUR 1.3 million, respectively.

The additions in equity instruments in associates and joint ventures in 2017 mainly related to the purchase in the amount of EUR 45.5 million of 35% of the company Homasi, S.A., a Spanish company which at the same time has a stake in a Cuban joint venture which currently holds the operating rights for the next 24 years in 4 hotels in the Republic of Cuba. This transaction was carried out, in part, with significant shareholders of the Company (see Note 17.3).

Likewise, it is also important to highlight the purchase of 30% of the company Renasala, S.L., in the amount of EUR 10.6 million. The disposals in the amount of EUR 14.6 million related to the dividend distribution and share premium carried out by Starmel Hotels J.V., S.L.

The amount of EUR 12.8 million relating to the provisions in associates and joint ventures recognised in the fiscal year, mainly related to the company Adprotel Strand, S.L.

b) *Available-for-sale financial assets*

Equity instruments:

Movements recorded during the fiscal year were as follows:

(thousand €)	31/12/2017	Additions	31/12/2018
Equity instruments (gross value)	4.075	7	4.082
Provisions	(79)		(79)
Total	3.996	7	4.003

Additions relate to the capital increase in the company Valle Yamury, S.A., in the amount of EUR 7 thousand.

The equity situation as at 31 December 2018, obtained from the annual accounts provided by the corresponding companies, is as follows:

(thousand €)	% Sharehol	Accounting figures			Underlying carrying amount	Investment value
		Capital	Reserves	Result		
Hotelera Sancti Petri, S.A.	19,50%	13.510	(2.745)	3.285	2.740	2.634
Inveragua RD, S.A.S.	14,24%	731		(38)	99	107
Port Cambrils Inversions, S.A.	10,00%	6.000	931	223	715	980
Valle Yamuri, S.A. (*)	7,21%	4.870	(972)	(553)	241	279
Other companies (*)						3
Total		25.111	(2.785)	2.917	3.795	4.003

(*) Balance sheets as at 31 December 2018 for these companies are not available.

These companies are not listed in the stock market.

Information concerning interest in securities portfolio, indicating activity and country in which it is exercised is included below:

COMPANIES	ADDRESS	COUNTRY	ACTIVITY	DIR S.
Hotelera Sancti Petri, S.A.	Gremio Toneleros, 24 (Palma de Mallorca)	Spain	Hotel Owner and Operator	19,50%
Inveragua RD, S.A.S.	Avda. Lope de Vega, 4 (Santo Domingo)	Dominican Rep.	Holding	14,24%
Port Cambrils Inversions, S.A.	Rambla Regueral, 11 (Tarragona)	Spain	Hotel Owner and Operator	10,00%
Valle Yamuri, S.A.	Velázquez, 106 (Madrid)	Spain	Holding and Owner	7,21%

For comparison purposes, movements for year 2017 were as follows:

(thousand €)	31/12/2016	Additions	31/12/2017
Equity instruments (gross value)	3.968	107	4.075
Provisions	(79)		(79)
Total	3.889	107	3.996

The additions related to the acquisition of 14.24% of the company Inveragua RD, S.A.S., in the amount of EUR 107 thousand.

Likewise, the equity situation as at 31 December 2017, obtained from the annual accounts provided by the corresponding companies, was as follows:

(thousand €)	% Sharehol.	Accounting figures			Underlying carrying amount	Investment value
		Capital	Reserves	Result		
Hotelera Sancti Petri, S.A.	19,50%	13.510	(2.745)	2.655	2.617	2.634
Port Cambrils Inversions, S.A.	10,00%	6.000	735	219	695	980
Valle Yamuri, S.A. (*)	7,21%	4.870	(991)	19	281	272
Otras sociedades (*)						110
Total		24.380	(3.001)	2.893	3.593	3.996

(*) Balance sheets as at 31 December 2017 for these companies were not available.

c) *Financial instruments at fair value through profit or loss*

This includes debt securities and equity instruments listed in official markets; their value in these markets is used to determine the fair value.

d) *Loans and other receivables*

Set out below is a breakdown by nature of financial assets included in this item in 2018 and 2017:

(thousand €)	31/12/2018			31/12/2017		
	Long term	Short term	Total	Long term	Short term	Total
Loans to group companies	327.535	101.263	428.798	220.616	109.163	329.779
Loans to associates and joint ventures	88.879	21.890	110.769	116.940	30.151	147.091
Other loans	22.399	9.315	31.714	10.426	28.880	39.306
Created deposits and guarantees	9.232	671	9.904	7.209	1.678	8.887
Other loans and receivables		13.581	13.581		8.196	8.196
Total	448.046	146.720	594.766	355.192	178.068	533.259

Note 17 Transactions with Related Parties includes a breakdown of the balances recorded as loans to group companies, associates and joint ventures. Current and non-current assets in group companies and associates that are recognised in item Long-term and short-term investments in group companies and associates, relate mainly to loans granted for the financing of activities within the hotel business, including the hotel acquisition and reform. Likewise, the Company performs a centralised management of collections and payments between group companies through a current account which bears interest at a market rate which is accrued annually depending on the daily balance of the account.

Loans granted to several companies with which the Company does business in various operating segments are included under the heading Other loans; the most significant amounts are as follows:

- ✓ The outstanding amounts at the year end from the sale of non-controlling interest of several companies in the amount of EUR 8.7 million.
- ✓ Loans granted to various unrelated companies with which the Company maintains commercial relationships in the amount of EUR 17.6 million.
- ✓ Loans to owners of several hotels operated by the Company under lease and management, in the amount of EUR 4.3 million.
- ✓ Loans to customers of vacation club, which the Company has acquired by means of an assignment of receivables agreement without recourse from other companies within Meliá Group, in the amount of EUR 1.2 million.

The guarantees arranged by the Company relate basically to the rent for hotels leased by it. Since such guarantees are granted to ensure compliance with an obligation associated with such agreements, they are not recognised at their current value but at face value.

Other loans and receivables item mainly includes dividends receivable. As at 31 December 2018 there are dividends receivable in the amount of EUR 13.6 million, and at the end of 2017, these amounted to EUR 8.2 million.

9.2 Financial liabilities

The following table shows the breakdown by categories of the financial liabilities, for 2018 and 2017:

(thousand €)	31/12/2018			31/12/2017		
	Long term	Short term	Total	Long term	Short term	Total
1. Debts and payable item:						
- Bonds and other negotiable securities	29.750	51.470	81.220		71.670	71.670
- Bank loans	497.875	85.676	583.551	481.399	177.201	658.600
- Other financial liabilities	724	46.942	47.666	813	58.648	59.461
- Payables to group companies and associates	436.012	113.804	549.816	254.263	177.660	431.923
2. Derivatives and hedges:						
- Derivative liabilities	2.848	2.428	5.276	3.641	2.219	5.860
Total	**967.209**	**300.320**	**1.267.529**	**740.116**	**487.398**	**1.227.514**

Below, each of the items included in the table of financial liabilities are detailed:

a) *Bonds and other negotiable securities*

The liability balances at the end of 2018 and 2017 are as follows:

(thousand €)	31/12/2018			31/12/2017	
	Long term	Short term	Total	Short term	Total
Non-convertible debentures	29.750		29.750		
Other payables and negotiable securities (E.C.P.)		51.357	51.357	71.670	71.670
Interest, debentures and other negotiable securities		113	113		
Total	**29.750**	**51.470**	**81.220**	**71.670**	**71.670**

On 19 November 2018 the Company issued straight bonds in the total amount of EUR 30 million with the following characteristics:

Amount of the issue:	30.000.000 €
Nominal value:	100.000,00 €
Maturity:	12 years
Debt rank:	Senior unsecured
Issue price:	100%
ISIN Code:	ES0276252014
Issue date:	19 November 2018
Maturity date:	19 November 2030
Coupon:	3,30% Fix
Redemption price:	100%

The last commercial paper programme (“Euro-Commercial Paper Programme” or ECP), issued in 2017 and subject to English law, expired on 22 September 2018, in the maximum amount of EUR 300 million, whereby debt instrument issues can be made in Europe with a maturity of less than 364 days, up to the said amount.

The programme prospectus was 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 2018, a total of EUR 127.6 million of issues have been made, and there are existing issues in the amount of EUR 51.4 million, with maturity date in July 2019. In 2017 the issues made were in the amount of EUR 131.8 million, with there being a total of EUR 71.6 million of existing issues.

b) *Bank loans*

The Company's bank borrowings at year-end 2018 and 2017 are analysed below by nature and maturity:

	31/12/2018			31/12/2017		
(thousand €)	Long term	Short term	Total	Long term	Short term	Total
Bank loans	350.291	57.328	407.619	304.765	17.000	321.766
Mortgage loans	145.608	24.638	170.246	169.422	25.702	195.124
Credit facilities		125	125	4.027	129.147	133.174
Leasing	1.976	1.260	3.236	3.185	3.192	6.378
Interest		2.326	2.326		2.159	2.159
Total	497.875	85.676	583.551	481.399	177.201	658.600

The detail of the maturities at the 2018 and 2017 year-end is as follows:

(thousand €)	31/12/2018
2.019	85.676
2.020	95.182
2.021	105.330
2.022	62.564
2.023	58.269
2024 and subsequent years	176.530
Total	583.551

(thousand €)	31/12/2017
2.018	177.201
2.019	87.057
2.020	94.955
2.021	97.246
2.022	46.614
2023 and subsequent years	155.527
Total	658.600

Maximum limit of credit facilities is EUR 261 million. In 2017, the maximum limit was EUR 276.2 million.

Average interest rate accrued in 2018 on previous loans, credit facilities and leasing is 2.97%. Average interest rate accrued in 2017 was 2.73%.

c) *Other financial liabilities*

At the end of 2018 and 2017, the breakdown of other financial liabilities is as follows:

(thousand €)	31/12/2018			31/12/2017		
	Long term	Short term	Total	Long term	Short term	Total
Trade bills payable	53	6.522	6.575	53	15.419	15.471
Other payables	5	31.993	31.999	55	41.597	41.653
Guarantees and deposits received	666	30	696	705	32	737
Other current accounts		8.396	8.396		1.601	1.601
Total	724	46.942	47.666	813	58.648	59.461

Trade bills payable mainly include suppliers of fixed assets relating to reforms performed in various hotels operated by the Company.

The amount of EUR 15.9 million corresponding to the outstanding amount for the client portfolio transfer is included in Other Payables caption, in 2017 the amount was EUR 20.8 million.

The detail of maturities at the end of 2018 and 2017 is as follows:

(thousand €)	31/12/2018
2019	46.942
2020	11
2021	11
2022	11
2023	11
2024 and subsequent years	682
Total	47.666

(thousand €)	31/12/2017
2018	58.648
2019	11
2020	11
2021	11
2022	11
2023 and subsequent years	769
Total	59.461

d) *Debts with group companies and associates*

The balances included under this item which mainly relate to relations for the centralised cash management of the Group, are broken down in Note 17. Transactions with related parties.

e) *Derivative liabilities*

The balances under this heading are broken down in this Note 9.3 Hedge activities and derivatives. Cash flow hedge activities relate to interest rate swaps.

9.3 Hedge activities and derivatives

The fair values of the Company's derivative financial instruments at the end of 2018 and 2017 are analysed below by maturity:

(thousand €)	31/12/2018			31/12/2017		
	Long term	Short term	Total	Long term	Short term	Total
Hedging derivative liabilities	1.006	757	1.762	1.386	806	2.192
Other derivative liabilities	1.842	1.671	3.514	2.256	1.412	3.668
Total	2.848	2.428	5.276	3.641	2.219	5.860

Maturity by year is as follows:

(thousand €)	31/12/2018	
	Hedge	Others
2019	757	1.671
2020	644	1.044
2021	359	597
2022	62	345
2023 and subsequent	(60)	(143)
Total	1.762	3.514

(thousand €)	31/12/2017	
	Hedge	Others
2018	806	1.412
2019	758	947
2020	496	779
2021	73	287
2022 and subsequent	59	243
Total	2.192	3.668

a) *Accounting hedges*

As part of its interest rate risk management policies (see Note 5.1), the Company, at the end of the fiscal year, has several interest rate swaps that qualify as cash flow hedging instruments, based on the contractual terms; therefore, changes in their fair value are taken directly to the Company's equity.

The items hedged by these operations relate to a part of the variable interest rate financing in Euro. 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.

At the end of 2018, these derivative financial instruments have been measured and recorded in liabilities in the amount of EUR 1.8 million (EUR 2.2 million in 2017). To determine these fair values, discounted cash flow techniques have been used based on the embedded amounts determined by the Euro interest rate curve in accordance with the market conditions at the measurement date. 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.

The Company has transferred to the income statement of the year an amount of EUR 0.7 million because of interest rate hedging; EUR 1 million in 2017. These amounts have been recorded in the financial expenses item, as well as the hedged item (see Note 16.5).

Likewise, as at 31 December 2018, the notional value of the interest rate swaps that qualify as hedges amounts to EUR 70.4 million, and in 2017 such value amounted to EUR 58.5 million (see Note 5.1).

b) *Other derivatives*

Other derivative liabilities recognised at the end of 2018 relate to interest rate swaps contracted in the framework of the interest rate risk management performed by the Company (see Note 5.1.). These interest rate swaps are not deemed to be accounting hedges, since they have been contracted in the framework of a debt restructuring and thus, they do not meet the requirements for the application of hedge accounting according to the general accounting plan.

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.

The Company has recognised in the year's income statement EUR 768 thousand of expense due to the change in fair value of such interest rate swaps, EUR 122 thousand of less expense in 2017. These amounts are recognised under the heading Change in fair value of financial instruments.

As at 31 December 2018, the notional value of these financial instruments amounts to EUR 61.4 million, and in 2017 such value amounted to EUR 37.2 million.

Note 10. Current Assets

10.1 Inventories

The breakdown is as follows:

(thousand €)	31/12/2018	31/12/2017
Goods for resale	161	200
Raw materials	1.589	2.627
Fuel	178	186
Spare parts	271	345
Various materials	1.482	1.785
Office materials	504	581
Plots		1.883
Advances to suppliers	219	3.189
Total	**4.404**	**10.797**

In 2018, advances to suppliers were written off in the amount of EUR 2.6 million.

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

10.2 Trade and other receivables

The breakdown of this heading is as follows:

(thousand €)	31/12/2018	31/12/2017
Hotel business customers	9.921	14.013
Other customers	15.445	21.297
Trade receivables	1.553	1.193
Doubtful trade receivables	11.780	10.097
Impairment for trade operations	(18.238)	(18.993)
Total trade receivables	**20.460**	**27.606**
Trade receivables, group companies and associates	50.026	65.360
Sundry debtors	5.735	7.243
Staff	156	256
Current tax assets	11.758	31.889
Public administrations	4.283	5.464
Total other receivables	**71.958**	**110.212**
Total	**92.418**	**137.818**

At the end of 2018 and 2017, the receivable balances arising from the sale of rooms and other services provided, associated with the hotel business, are included under the heading Customer receivables for sales and services. Trade receivables outstanding for more than 360 days have been duly provisioned (see Note 5.3).

It is also included a non-recourse Factoring agreement of hotel receivables of the Company 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 2018, the total balance assigned by the Company was EUR 13.8 million, EUR 15.6 million as at 31 December 2017. Meliá Hotels International, S.A. also assigns receivables from subsidiary companies under this agreement.

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.

Trade receivables, group companies and associates heading mainly relates to commercial transactions for the provision of services and management at market prices. Breakdown by companies is shown in Note 17. Transactions with related parties.

The breakdown of trade receivables by age is included in Note 5.3, and the breakdown of Current tax assets and Public Authorities is included in Note 14.

10.3 Short-term accruals and deferrals

This heading includes the expenses to be taken to the profit and loss account in the amount of EUR 2.2 million (EUR 2.6 million in 2017), which have been recorded in the fiscal year ended, and which derive from the application of the accrual accounting principle under which, expenses are recognised when the actual flow of the related goods and services occurs, regardless of when the payments are made.

10.4 Cash and other cash equivalents

Cash and bank balances include cash in hand and demand accounts in credit institutions. The heading Other cash equivalents includes short-term deposits, whose periods range between one day and three months, so there are no significant risks of change in value and they are part of the normal cash management policy of the Company.

(thousand €)	31/12/2018	31/12/2017
Cash	98.379	44.239
Other cash equivalents	3.743	9.796
Total	102.122	54.035

This heading includes balances in currencies other than the Euro, in particular, US dollar and the British pound (see Note 16.6).

Note 11. Net Equity

11.1 Equity

a) Share capital

According to the Company's Bylaws, the share capital of the company is fixed at 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.

All shares carry the same rights and are listed in the stock exchange (Continuous Market - Spain), except for treasury shares.

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 and 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.

Main shareholders with direct and indirect stake in the Company as at 31 December 2018 and 2017, are as follows:

Shareholders	31/12/2018	31/12/2017
	% Shareholding	% Shareholding
Hoteles Mallorquines Consolidados, S.A.	23,38	22,58
Hoteles Mallorquines Asociados, S.L.	13,21	13,21
Hoteles Mallorquines Agrupados, S.L.	10,39	11,18
Majorcan Hotels Exlux, S.L.	5,03	5,03
Rest of shareholders (less than 3% individual)	48,00	48,00
Total	100,00	100,00

As of October 2018, Mr. Gabriel Escarrer Juliá has ceased to exercise control over the Group, although he still owns 5.025% of the shares in Meliá Hotels International, S.A., indirectly, through the company Majorcan Hotels Exlux, S.L.U.

Notwithstanding the foregoing, the Escarrer family (namely, Mr. Escarrer Juliá, his spouse and their 6 children) hold 100% of the shares in the companies Hoteles Mallorquines Consolidados, S.L., Hoteles Mallorquines Agrupados, S.L. and Hoteles Mallorquines Asociados, S.L., although no controlling shareholder exists in any of them.

b) Share premium

The share premium has the same restrictions and can be used for the same purposes as the Company's voluntary reserves.

The decrease in the share premium during the fiscal year in the amount of EUR 1 million arises from the release of part of this reserve to the reserve for treasury shares.

c) Reserves

The following table shows the breakdown of the Reserves heading at the end of 2018 and 2017:

(thousand €)	31/12/2018	31/12/2017
Legal reserve	9.188	9.188
Revaluation reserves Royal Decree-Law 7/1996, of 7th June	16.076	18.285
Reserves for shares of the controlling company	16.025	15.023
Reserves for actuarial gains and losses	(3.616)	(2.224)
Voluntary reserves	273.189	238.922
Translation reserves	12.899	10.538
Other reserves	(960)	(7.604)
Total	322.800	282.129

Legal reserve

The Company is 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 is not available for distribution to the shareholders and, provided that other reserves are not available, may only be used to offset losses. At the End of 2018 and 2017 this reserve is fully constituted.

Revaluation reserves, Royal Decree-Law 7/1996, of 7th June

This reserve will be available to eliminate recognised losses and to increase the share capital of the Company and as of 31 December 2006 (10 years following the date of the balance sheet in which the restatement operations were reflected) it may be taken to unrestricted reserves, as the revalued assets are fully depreciated or are disposed of by other means. The balance of the reserve shall not be distributed, directly or indirectly, unless the related capital gain has been realised through the sale or total depreciation of the revalued assets. During the year the Company has transferred EUR 2.2 million to unrestricted reserves, since capital gains were realised through the sale of assets subject to restatement.

Reserves for shares of the controlling company

This is a restricted reserve for the acquisition of treasury shares, pursuant to the Spanish commercial law. The increase in 2018 is due to the increase of the number of treasury shares (see Note 11.1 d).

Reserves for actuarial gains and losses

The amount recognised in this reserve is derived from actuarial gains and losses recognised in equity. Such reserve relates to changes undergone in the calculation percentages and actuarial assumptions of remunerations and retirement bonuses undertaken by the Company (see Note 12). This reserve is not available for distribution.

Voluntary reserves

These reserves are unrestricted, after offsetting losses. The increase during the year is due to the distribution of profit of the previous fiscal year and the amount of EUR 2.2 million which relates to the transfer made from the revaluation reserves R.D.L. 07/1996.

Translation reserves

These reserves relate to the incorporation of the balance sheet of the permanent establishment Sol Meliá Túnez.

Other reserves

Under this heading the Merger reserve is included, among others, recognised in the amount of EUR one million of debit balance in 2018 and 2017.

d) Own equity instruments

Breakdown and movements of treasury shares are as follows:

(thousand €)	No. Shares	Average price (€)	Balance
Balance as at 31/12/2017	**1.722.464**	**8,72**	**15.023**
Acquisitions	10.319.703	10,71	110.531
Disposals	(10.219.199)	10,72	(109.529)
Balance as at 31/12/2018	**1.822.968**	**8,79**	**16.025**

At the end of 2018, the Company does not have securities loan agreements.

As at 31 December 2018, the total number of treasury shares held by the Company represents 0.79% of the share capital; and as at 31 December 2017, represented 0.75%. In any case, the 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 8.21. At the 2017 year-end the share price amounted to EUR 11.5.

For comparison purposes, movements for year 2017 were as follows:

(thousand €)	No. Shares	Average price (€)	Balance
Balance as at 31/12/2016	**1.661.768**	**8,58**	**14.256**
Acquisitions	10.581.053	12,54	132.634
Disposals	(10.520.357)	12,53	(131.867)
Balance as at 31/12/2017	**1.722.464**	**8,72**	**15.023**

11.2 Measurement adjustments

Details and movements of the measurement adjustments in 2018 and 2017 are as follows:

(thousand €)	2018	2017
Hedging operations:		
Initial balance	**(1.704)**	**(2.465)**
Results attributed to equity	(1.287)	(17)
Transfers to results	694	1.032
Tax effect	149	(254)
Final balance	**(2.148)**	**(1.704)**

These adjustments result from the application of hedge accounting and, therefore, they are restricted, since at the maturity date of such instruments the balance of adjustments is zero.

11.3 Grants, donations and bequests received

Capital grants mainly relate to grants to finance property, plant and equipment purchases, which will be progressively transferred to the income statement depending on the useful life of such property, plant and equipment. During the fiscal year, the total amount recorded in the income statement for this item is EUR 63 thousand, EUR 66 thousand in the previous year. Movements during the fiscal year are as follows:

(thousand €)	2018	2017
Initial balance	1.115	1.165
Transfer to results	(62)	(66)
Tax effect	15	16
Final balance	1.068	1.115

At the end of 2018 and 2017, the Company meets the conditions laid down in the grant awards.

Note 12. Provisions and contingencies

12.1 Provisions

The balance sheet includes a balance in the amount of EUR 61.8 million in respect of provisions, EUR 54 million in the previous year. As indicated in Note 4.10, this heading includes the Company's commitments with staff, as well as the provisions recorded to cover the various risks and contingencies arising from transactions carried out, commitments acquired and guarantees to group companies and third parties, risks for legal claims and lawsuits, as well as potential liabilities deriving from the possible different interpretations to which the applicable legislation is open.

Movements of the fiscal year in the provisions for risks and expenses are as follows:

(thousand €)	31/12/2017	Additions	Disposals	31/12/2018
Provision for retirement, seniority bonus and personnel obligations	7.065	2.347	(2.048)	7.364
Provision for taxes	91		(45)	46
Provision for onerous contracts	3.694		(919)	2.774
Provision for negative own funds	27.170	8.187	(977)	34.380
Provision for liabilities	15.952	1.283		17.235
Total	53.972	11.817	(3.989)	61.800

In respect of commitments established in supra-enterprise collective agreements, in 2018 an actuarial study has been performed to assess the past services, as defined in Note 4.10, which have been estimated at EUR 8.7 million. The value of assets associated with outsourced commitments in compliance with the legislation in force amounts to EUR 1.5 million.

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 Company, using the calculation method known as the Projected Unit Credit and the demographic assumptions established by the PER2000P tables, using a capitalisation rate of 1.32%, and a salary increase assumption of 2.55%. In addition, the probability of tenure of employees until retirement has also been applied, based on the Company'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	7,28
45-55	3,66
>55	3,06

Changes during the fiscal year include an impact recognised in net equity in the amount of EUR 1.4 million, due to some changes occurred in the actuarial assumptions used during the calculations made.

The balance of the provision for onerous contracts at the end of 2018 amounts to EUR 2.8 million; EUR 3.7 million at the end of 2017. This provision was calculated for the hotels that in 2018 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 2019 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 2019. The discount rates applied range between 9% and 11%.

In the provisions for negative equity section, the additions in the fiscal year relate to Sol Mainvest, N.V., in the amount of EUR 4.4 million and Markserv, B.V, amounting to EUR 3.8 million (see Annex I).

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 did 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.

Throughout the year 2018, no infringement has been confirmed by the Commission and the investigation procedure remains open. However, important progress has been made in processing the investigation through a cooperation process offered by the Commission and accepted by Meliá, without this entailing the acceptance of any infringement. This processing promotes deeper dialogue between the parties and allows to simplify formalities.

The Company actively and constructively continues to participate in the investigation, 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.

Movements in 2017 were as follows:

(thousand €)	31/12/2016	Additions	Disposals	31/12/2017
Provision for retirement, seniority bonus and personnel obligations	6.448	1.621	(1.004)	7.065
Provision for taxes	2.367		(2.276)	91
Provision for onerous contracts	7.653	239	(4.198)	3.694
Provision for negative own funds	47.850	21.577	(42.257)	27.170
Provision for liabilities	6.784	9.949	(780)	15.952
Total	71.102	33.386	(50.515)	53.972

In respect of commitments established in supra-enterprise collective agreements, in 2017 an actuarial study was performed to assess the past services, which were estimated at EUR 8.5 million. The value of assets associated with outsourced commitments in compliance with the legislation in force amounted to EUR 1.4 million.

The assessment of these commitments undertaken by the Company was conducted by using a capitalisation rate of 1.2105%, a salary increase assumption of 1.38% and in accordance with the following rotation ratios according to the employee's current age:

Age range	% Rotation
<45	7,79
45-55	3,73
>55	3,11

Changes in 2017 included an impact recognised in net equity in the amount of EUR 691 thousand, due to some changes occurred in the actuarial assumptions used during the calculations made.

Likewise, in 2017, a decrease of EUR 2.3 million was recognised in Provisions and Contingencies heading, which related to the payment resulting from the tax inspections initiated late in 2014 on the tax group of the controlling company.

In the provisions for negative equity section, the additions in the fiscal year mainly related to Sol Mainvest, N.V., in the amount of EUR 13.8 million and Markserv, B.V, amounting to EUR 7.3 million. Likewise, the disposals were due to the application for excess of the Company Sol Meliá Vacation Club Puerto Rico in the amount of EUR 42.3 million

Additions in the amount of EUR 9.9 million related 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.

12.2 Guarantee commitments to third parties and other contingent liabilities

Contingent liabilities relating to guarantees and deposits held for guarantees provided to third parties by the Company, as well as other contingent liabilities are detailed below. Through various contracts, the Company:

- Secures lease payments in favour of several hotel owners through bank guarantees in the total amount of EUR 43 million and through corporate guarantee in the amount of EUR 10.1 million.
- Secures several operations on behalf of its subsidiary companies and associates through bank guarantees, amounting to EUR 74.7 million.
- Acts as joint guarantor in the mortgage loan granted by Banco Santander to Meliá Zaragoza, S.L. The outstanding amount at the end of the fiscal year totals EUR 19.2 million.
- Secures several operations through bank guarantees and for various items, in the total amount of EUR 2.1 million.

Likewise, the Company secures through bank guarantees the deferred payment of several tax settlements amounting to EUR 2.7 million. Such guarantee is not considered as a contingent liability, since the corresponding amounts are recognised as liabilities.

12.3 Operating leases

As at 31 December 2018, the Company operates under lease a total of 53 hotels with almost 12 thousand rooms, as in the previous year.

The average term of these operating lease agreements is 5.21 years. These lease agreements have a contingent component relating to the consumer price index and, in 16 hotels, other contingent component relating to the evolution of the result obtained by each hotel establishment, which is not considered in the calculation of minimum lease payments. The contingent instalment in 2018 amounted to EUR 10.5 million.; EUR 11.8 million in 2017.

The following table shows a distribution by maturity of the minimum payments of such leases:

(thousand €)	31/12/2018	31/12/2017
Less than 1 year	92.792	81.224
Between 1 and 5 years	255.447	294.859
More than 5 years	140.451	271.699
Total	488.690	647.782

The decrease in minimum lease payments is due to the renegotiation and restructuring of lease agreements, whereby instalments or maturities have been reduced, as appropriate.

Note 13. Trade creditors and other payables

The breakdown of this heading at the end of 2018 and 2017 is as follows:

(thousand €)	31/12/2018	31/12/2017
Suppliers	10.223	15.226
Suppliers, group companies and associates (note 17)	6.070	8.254
Sundry creditors	47.132	51.293
Accrued wages and salaries	30.323	30.790
Public Administrations (note 14)	11.274	9.837
Prepayment from customers	28.495	17.612
Total	133.517	133.012

The information required on the average period of payments to suppliers pursuant to the third additional provision of Law 15/2010, of 5th July, is as follows:

No. of days	2018	2017
Average period of payment to suppliers	53,25	71,69
Ratio of operations paid	52,88	72,95
Ratio of outstanding operations	57,40	63,30
(thousand €)	2018	2017
Total payments made	320.552	297.778
Total outstanding payments	28.663	44.799

In 2018, the Company has monitored the ratios associated with the average period of payment to suppliers, as well as the administrative processes relating to the invoices from such suppliers and the capital own management, in order to reduce, as much as possible, the average period of payment to suppliers, according to the provisions of Law 15/2010 and any other applicable legislation in force. Thanks to this procedure, the number of days has been reduced to 53.25; 71.69 days in the previous year.

Note 14. Tax Situation

Pursuant to the Ministerial Order of 27 December 1989, since 1998 Meliá Hotels International, S.A. has filed consolidated corporate income tax returns in Spain for certain Group companies (assigned number 70/98). The number of companies comprising the consolidated tax group in 2018 and 2017 was 38 and 37, respectively.

As a consequence of the above, the Company includes in the accounts with group companies for tax effect, the balances resulting from the calculation of the corporate income tax settlement deriving from this special tax regime.

From the 2017 tax period, the Company is taxed under the VAT Special Tax Consolidation Regime, under VAT number 40/17. The number of companies comprising this consolidated group is 14.

According to the legal provisions in force, taxes cannot be deemed definitively settled until the returns submitted are audited by the tax authorities or the four-year statute of limitations has lapsed. As at 31 December 2018, the years open for review for the main applicable taxes to which the Company is subject are as follows:

	Years
Corporate Income Tax	2014-2017
I.G.I.C (General Indirect Canary Islands Tax)	2015-2018
VAT	2015-2018
I.R.P.F. (Income Tax)	2015-2018

Benefits, determined in accordance with the tax legislation, are subject to taxation at the rate of 25% on the tax base.

14.1 Tax assets and liabilities

The balance concerning tax assets and liabilities is as follows:

(thousand €)	31/12/2018	31/12/2017
Income tax		
Deferred tax assets	65.072	64.390
Current tax assets	11.758	31.889
Total	**76.830**	**96.279**
Other taxes		
Tax Authorities, VAT receivable	4.283	5.464
Total	**4.283**	**5.464**
Total assets	**81.113**	**101.743**
Income tax		
Deferred tax liabilities	48.430	51.733
Current tax liabilities		(377)
Total	**48.430**	**51.356**
Other taxes / rates		
Tax Authorities, IGIC (General Indirect Canary Islands) Tax payable	211	472
Tax Authorities, IRPF (Income Tax) payable	2.716	2.814
Tax Authorties, payables	2.949	1.596
Payables to social security bodies	5.398	4.955
Total	**11.274**	**9.837**
Total liabilities	**59.704**	**61.193**

The breakdown of deferred tax assets and liabilities is as follows:

(thousand €)	31/12/2018	31/12/2017
Deferred tax assets		
Credits for tax losses available for carry forward	9.834	12.321
Tax credit carryforwards	4.984	5.081
Tax value of goodwill	15.995	19.803
Financial instruments	696	548
Amortisation costs pending deduction	2.901	3.384
Financial expenses pending deduction	18.855	11.360
Tax deductible provisions	11.807	11.893
Total	**65.072**	**64.390**
Deferred tax liabilities		
Finance lease operations	13.510	14.923
Land restatement and revaluation	30.594	32.332
Sales under reinvestment deferral	3.990	4.126
Non-refundable grants	336	352
Total	**48.430**	**51.733**

The movements of the different items making up the deferred tax assets and liabilities are as follows:

(thousand €)	2018		2017	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Opening balance	**64.390**	**51.733**	**70.954**	**54.475**
Variations reflected in income statement:				
Credits for tax losses available for carry forward	(2.487)		1.737	
Tax credit carryforwards	(97)		(829)	
Tax deductible provisions	(549)		1.802	
Tax value of goodwill	(3.808)		(3.808)	
Finance lease operations		(1.413)		(455)
Land restatement and revaluation		(1.739)		(1.263)
Amortisation costs pending deduction	(483)		(484)	
Sales under reinvestment deferral		(136)		(137)
Financial expenses pending deduction	7.494		(4.958)	
Intangible asset amortisation				(871)
Variations reflected in net equity:				
Financial instruments	148		(254)	
Non-refundable grants		(15)		(16)
Tax deductible provisions-Actuarial gains and losses	464		230	
Final balance	**65.072**	**48.430**	**64.390**	**51.733**

The Company has established a business plan covering ten years for the purposes of determining the recoverable value of tax credits, according to the deadlines set by tax legislation. In addition, the Company assesses the existence of deferred taxes with which to offset any tax losses in the future. Based on this criterion, the directors consider that it is probable that future taxable profit may lead to the recovery of all capitalised tax credits, within a reasonable period and never exceeding the periods allowed by the current legislation.

14.2 Corporate income tax

The reconciliation of the net amount of income and expenses of the fiscal year and the tax base (tax result) of the corporate income tax is as follows:

(thousand €)	Income Statement		Income and expenses recognised directly in net equity		Total
Balance of income and expenses of the fiscal year					
Continued operations		**78.103**		**(1.884)**	**76.219**
	Increases (I)	**Decreases (D)**	**(I)**	**(D)**	
Income tax		16.234		628	**(16.862)**
Permanent differences	45.395	110.332			**(64.937)**
Temporary differences					
Arising in the fiscal year	12.324	919			**11.405**
Arising in previous fiscal years	12.768	70.124	2.512		**(54.844)**
Tax base (tax result)					**(49.019)**

For comparison purposes, the reconciliation of the net amount of income and expenses of the fiscal year 2017 and the tax base (tax result) of the corporate income tax was as follows:

(thousand €)	Income Statement		Income and expenses recognised directly in net equity		Total
Balance of income and expenses of the fiscal year					
Continued operations		**77.024**		**21**	**77.045**
	Increases (I)	Decreases (D)	(I)	(D)	
Income tax		11.140	7		**(11.133)**
Permanent differences	64.711	104.945			**(40.234)**
Temporary differences					
Arising in the fiscal year	34.773				**34.773**
Arising in previous fiscal years	7.013	115.132		28	**(108.147)**
Tax base (tax result)					**(47.696)**

The information shown in the changes in equity relates to income and expenses directly recognised in net equity. In 2018 and 2017, none of these amounts affect the tax base of the Company.

The permanent and temporary differences of the fiscal year taken to the income statement are as follows:

(thousand €)	2018	2017
Permanent differences		
Tax-exempted dividends	(110.172)	(103.372)
Non-deductible expenses and income	35.071	53.639
Other adjustments	10.164	9.499
Total	**(64.937)**	**(40.234)**
Temporary differences		
Finance lease	5.652	1.819
Provisions	4.191	(13.532)
Differences between tax amortisation and accounting amortisation	1	3.484
Non-deductible financial expenses	(45.743)	(48.495)
Temporary measures reversal (non-deduc. amort. expenses)	(1.934)	(1.934)
Other adjustments	(8.118)	(14.688)
Total	**(45.951)**	**(73.346)**

The reconciliation of the income tax expense and the result of multiplying the tax rate applicable to the total of recognised income and expenses, differentiating the income statement balance, is as follows:

(thousand €)	2018		2017	
	Income statment	Income and expense recognised in equity	Income statment	Income and expense recognised in equity
Balance of income and expenses of the fiscal year	**61.869**	**(2.512)**	**65.884**	**27**
Theoretical tax burden (25% type)	15.467	(628)	16.471	7
Non-deductible expenses	(16.234)		(10.059)	
Other adjustments	(18.259)		(14.521)	
Tax consolidation adjustments			(253)	
Tax loss and tax credits	1.392		(3.237)	
Effective tax expense/income	**(17.634)**	**(628)**	**(11.599)**	**7**

The breakdown of expenses/income for income tax in the fiscal year is as follows:

(thousand €)	2018		2017	
	Allocation to income statement	Allocation to net equity	Allocation to income statement	Allocation to net equity
Current tax	(12.876)		(14.956)	
Deferred tax	(3.358)	(628)	3.816	7
Total corporate income tax expense	**(16.234)**	**(628)**	**(11.140)**	**7**

The difference between effective tax expenses and total expenses for corporate income tax is prompted by:

- Corporate income tax of foreign capital withholdings amounting to EUR 924 thousand in 2018 and EUR 101 thousand in 2017.
- Corporate income tax from previous fiscal years in the amount of EUR 475 thousand in 2018; EUR 357 thousand in 2017.

14.3 Tax group's corporate income tax

The reconciliation of the net amount of income and expenses of the fiscal year and the tax base (tax result) of the corporate income tax is as follows:

(thousand €)	Income statement		Income and expenses recognised directly in net equity		Total
Balance of income and expenses of the fiscal year					
Continued operations		**118.014**		**(1.568)**	**116.446**
	Increases (I)	Decreases (D)	(I)	(D)	
Income tax		1.587	245	768	**(2.110)**
Permanent differences	63.502	114.600			**(51.098)**
Temporary differences					
Arising in the fiscal year	22.452	919			**21.533**
Arising in previous fiscal years	18.268	78.147	3.073	982	**(57.788)**
Offset of tax losses from previous years		6.746			**(6.746)**
Consolidated tax base (tax result)					**20.237**

For comparison purposes, the reconciliation of the net amount of income and expenses of the fiscal year 2017 and the tax base (tax result) of the corporate income tax was as follows:

(thousand €)	Income statement		Income and expenses recognised directly in net equity		Total
Balance of income and expenses of the fiscal year					
Continued operations		**147.212**		**127**	**147.339**
	Increases (I)	Decreases (D)	(I)	(D)	
Income tax	6.160		121	62	**6.219**
Permanent differences	66.611	104.600			**(37.989)**
Temporary differences					
Arising in the fiscal year	3.291				**3.291**
Arising in previous fiscal years	6.411	90.392	300	486	**(84.167)**
Temporary differences arising from the consolidation process	266	1.046			**(780)**
Offset of tax losses from previous years		8.478			**(8.478)**
Consolidated tax base (tax result)					**25.435**

The permanent and temporary differences of the fiscal year taken to the income statement are as follows:

(thousand €)	2018	2017
Permanent differences		
Tax-exempted dividends	(114.265)	(104.242)
Non-deductible expenses and income	45.053	14.860
Profit on sale of fixed assets and financial investments		
Other adjustments	18.114	51.393
Total	**(51.098)**	**(37.989)**
Temporary differences		
Finance lease	9.662	2.214
Provisions	14.832	(11.544)
Non-deductible financial expenses	(49.084)	(52.552)
Temporary measures reversal (non-deduct. amort. expenses)	(2.878)	(2.824)
Differences between tax amortisation and accounting amortisation	240	(1.296)
Other adjustments	(11.118)	(15.468)
Total	**(38.346)**	**(81.470)**

The calculation of the corporate income tax is as follows:

(thousand €)	2018	2017
Current tax (consolidated total tax liability)	**5.059**	**6.359**
Deduction for double taxation	(1.029)	(757)
Adjusted total tax liability	**4.030**	**5.602**
Tax credits and deductions	(1.851)	(2.849)
Withholdings and prepayments	(869)	(1.114)
Tax payable or receivable	**1.310**	**1.639**
Instalment payments	**(12.989)**	**(24.751)**
Cash payable or receivable	**(11.679)**	**(23.112)**

14.4 Tax group's tax loss

At the end of the fiscal year, the breakdown of tax loss carry-forwards to be offset by the Company and its consolidated tax group is as follows:

(thousand €)	Source fiscal year	Applied during the fiscal year	Tax loss carry forwards
	2000		1
	2001	6.128	39.775
	2002		66.533
	2003		55.617
	2004		57.027
	2005		16.607
	2006		1.304
	2007		1.322
	2008		30.295
	2009		5.126
	2010		4.583
	2011		9.733
	2012	102	4.100
	2013	516	2.432
	2014		883
	2015		161
	2016		4.613
Total		6.746	300.112

The total of tax loss carry-forwards reflected includes EUR 250 million generated by various companies before joining the Tax Group and, therefore, these must be offset in such companies.

The Tax Group has recognised deferred tax assets under such heading amounting to EUR 18.73 million, of which 9.8 are capitalised in the Company.

14.5 Tax group's tax credits

Credits for export activities

The consolidated tax group has generated EUR 1.03 million of deductions relating to export activities which have been used this year.

Credits for donations and gifts

The consolidated tax group has generated EUR 25 thousand of deductions relating to donations which have been used this year.

Credits for reinvestment

Tax benefits deriving from the sale of assets and other assets allocated to reinvestment, as well as the amounts to be reinvested, is as follows:

(thousand €)	Year	Sale amount to reinv.	Reinvest. Year	Reinsvest. made	Reinvest. mat.	Reinvest. deduc.	Applied deductions	Pending application	Deductions mat.
	2012	37.999	2011-12	50.353	2015	3.573	3.573		2.027
	2013	50.000	2012-13	14.793	2016	3.064	20	3.044	2.028
Total		87.999		65.146		6.637	3.593	3.044	

The reinvestment of such sales has been made by Meliá Hotels International, S.A., on new elements of property, plant and equipment and intangible assets, included in the renovation and improvements to its hotel establishments, and on investment property and securities representing holdings in companies of at least 5% in the share capital thereof.

Tax benefits obtained until year 2001 for the sale of assets allocated to reinvestment, are included in the tax base according to the amortisation period, a deferred tax being generated in respect thereof. The amount that has not yet been added to the tax base is EUR 15.96 million, which will be added on a straight-line basis until year 2048.

Credits for investments in new fixed assets in Canary Islands

The consolidated tax group has generated EUR 698 thousand of deductions relating to investments in new fixed assets in Canary Islands, according to the provisions of Law 20/1991 on Corporate Income Tax, which have been used this year.

Credits for technological innovation activities

(thousand €)	Source fiscal year	Amount to be deducted	Applied deductions	Deductions pending application	Deduction period
	2010	159	120	39	2028
	2011	181		181	2029
	2012	230		230	2030
	2013	250		250	2031
	2014	322	108	214	2032
	2015	767	620	147	2033
	2016	997	136	861	2034
	2017	1.252		1.252	2035
Total		4.158	984	3.174	

In 2018, the Tax Group has carried out technological innovation projects which will generate tax credits. The Company recognises the credit once the reasoned report is available.

Credits for reversal of temporary measures

To avoid damaging the companies following changes in tax rates, the thirty-seventh transitional provision of Law 27/2014 on Corporate Income Tax included a regulation on the reversal of temporary measures, which states that taxpayers that have been subject to depreciation and amortisation limits, shall be entitled to a 5% deduction on the total tax liability of the amounts making up the tax base (2% in 2015), following the application of the rest of tax deductions and credits. The amounts not deducted due to insufficient total tax liability, may be deducted in subsequent tax periods.

Therefore, a tax credit has been generated in the Tax Group which can be deducted according to the table below:

(thousand €)	Fiscal year of application	Amount to be deducted	Applied in the fiscal year	Deduction pending application
	2015	1		1
	2016	2		2
	2018	144	144	
	2019	133		133
	2020	131		132
	2021	131		131
	2022	131		131
	2023	131		131
	2024	131		131
Total		934	144	791

From the tax credit of EUR 791 thousand, the Company has generated EUR 580 thousand.

a) Capitalised tax credits.

The Tax Group has a total of EUR 7 million of tax credits, from which EUR 6.38 million are recognised as deferred tax assets.

14.6 Other tax information

Provisions for financial investments

In 2018, Meliá Hotels International, S.A. has included in the tax base of the corporate income tax EUR 5.8 million due to changes in equity of investees at the beginning and at the end of the fiscal year or due to the application of 20% over the total amount pending reversal.

Regarding the portfolio provisions pending inclusion, a total of EUR 5.8 million will be gradually reversed in the tax base of Meliá Hotels International, S.A., provided that these companies generate enough profits to allow the application of such provisions or at a rate of 20% per year.

The information set out in Article 84 of Law 27/2014 of 27 November on corporate income tax applicable to mergers and spin-offs 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:

Company	Fiscal years
Inmotel Inversiones, S.A.	1993, 1996, 1997 y 1998
Meliá Hotels International, S.A.	1999, 2001 y 2005

Non-deductible financial expenses

Net financial expenses which have not been subject to deduction, in accordance with paragraph 1 of Article 20 of the revised text of the Law on Corporate Income Tax (TRLIS according to its acronym in Spanish), and that may be deducted in the following tax periods are:

(thousand €)	Source fiscal year	Amount to be deducted	Fiscal year applications	Deductions pending application
	2012	21.971	21.971	
	2013	64.755	24.769	39.986
	2014	49.811	1.481	48.330
	2015	28.344	863	27.481
	2016	55	55	
Total		164.936	49.084	115.797

The company has recognised deferred tax assets relating to these financial expenses that have not been subject to deduction in the amount of EUR 18.86 million.

Limit to tax deductible amortisations/depreciations

Pursuant to Law 16/2012, tax deductible amortisations/depreciations are limited for tax periods initiated within the years 2013 and 2014, representing only 70% of the accounting amortisation and depreciation of the property, plant and equipment, intangible assets and investment property which is tax deductible.

Such Law sets out that the accounting amortisation/depreciation which is not tax deductible will be deducted on a straight-line basis within a period of 10 years or, optionally, during the useful life of the asset, from the first tax period beginning in 2015 (the Company opted for the deduction on a straight-line basis). Therefore, the Company has posted prepaid taxes amounting to EUR 2.9 million (the Tax Group, EUR 3.9 million), resulting from such amortisation/depreciation not deducted (see Note 14.5).

Miscellaneous

As a result, among others, of the different interpretations of the current tax legislation, additional liabilities may arise from an inspection. Directors consider, however, that any additional liabilities, if any, would not significantly affect these annual accounts.

Note 15. Segment Reporting

Business segments identified depending on the nature of the risks and profitability of the Company, and which constitute the organisational structure, are as follows:

Hotel business: This segment includes the results obtained by means of the operation of hotel units that are owned or leased by the Company.

Asset management: This segment includes the capital gains on asset rotation, as well as real estate development and operations.

Management and structure: this relates to fees received for the operation of hotels under management and franchise agreements, structure costs and other leisure-related operating activities.

The segmentation of net revenues in the income statement for years 2018 and 2017 is detailed in the following table:

(thousand €)	2018	2017
Hotel business	516.054	514.309
Asset management	2.608	
Management and structure	96.798	100.400
Total	615.461	614.709

Note 16. Income and Expenses

16.1 Revenue by items

The Company's income allocated according to the diverse types of services provided for years 2018 and 2017 is the following:

(thousand €)	2018	2017
Room revenue	380.342	376.086
Food and beverage revenue	120.209	123.836
Fees for management on benefits	14.362	13.502
Fees for management on sales	28.383	45.121
Fees for transfer of brand use	16.102	
Asset management	2.608	
Other revenue	53.505	56.260
Sales rebates	(50)	(96)
Net revenues	615.461	614.709
(miles de €)	2018	2017
Sundry revenue	17.622	31.957
One-off revenue	6.032	48.646
Operating revenues	23.654	80.603

Regarding its allocation by geographical markets, almost the entire income has been generated in national territory.

16.2 Supplies

The breakdown of the balance of this caption in the income statement for 2018 and 2017 is as follows:

(thousand €)	2018	2017
Food and beverage consumptions	31.221	35.753
Changes in inventories	1.540	(148)
Fuel purchases	1.567	1.763
Ancillary materials and sundry purchases	7.822	7.726
Total	42.151	45.094

Regarding its allocation by geographical markets, almost the entire income has been generated in national territory.

16.3 Staff costs

Staff costs for 2018 and 2017 are broken down as follows:

(thousand €)	2018	2017
Wages and salaries	163.593	161.763
Termination benefits	2.134	2.316
Social security	44.121	44.144
Contribution to complementary schemes	440	605
Other amounts	3.188	3.751
Total	213.476	212.579

The average number of employees in 2018 and 2017 is broken down by job category in the table below:

Category	No. Employees 2018	No. Employees 2017
Management personnel	220	220
Department heads	1.067	1.058
Technicians	3.294	3.294
Support staff	1.085	1.154
Total	5.666	5.725

The distribution by gender categories at the end of 2018 and 2017 is as follows:

Category	2018			2017		
	Men	Women	Total	Men	Women	Total
Management personnel	144	70	213	151	70	221
Department heads	531	389	920	548	398	946
Technicians	1.108	1.570	2.678	1.162	1.521	2.683
Support staff	432	313	745	503	381	884
Total	2.215	2.341	4.556	2.364	2.370	4.733

The average number of employed persons for years 2018 and 2017, with disabilities greater than or equal to 33%, is as follows:

Category	No. Employees 2018	No. Employees 2017
Department heads	7	6
Technicians	13	11
Support staff	12	11
Total	32	27

16.4 Other operating expenses

The breakdown of the balance of this caption in the income statement for 2018 and 2017 is as follows:

(thousand €)	2018	2017
Hotel rental	92.803	81.676
Sundry rentals	9.320	9.526
Maintenance and repairs	21.219	21.085
External services	58.029	51.299
Transport and insurance	2.715	2.573
Banking expenses	4.888	4.365
Advertising and promotions	17.166	16.867
Supplies	68.451	67.898
Travel and ticketing expenses	5.142	4.483
Other expenses	36.014	48.495
Tax	11.656	9.630
Losses, impairment and change of provisions	1.600	1.759
Other current operating expenses	11.063	32.051
Total	340.063	351.706

16.5 Financial income and expenses

The breakdown of financial income and expenses of the Company reflected in the income statement for 2018 and 2017 is as follows:

(thousand €)	2018	2017
Dividends shar. in equity instr. group companies and associates	114.640	107.450
Dividends shar. in equity instr. third parties	865	206
Interest on group companies and associates	14.979	13.013
Interest on third parties and bank accounts	628	628
Other financial income relating to third parties	164	116
Total financial income	131.276	121.413
Interest on payables to group companies and associates	11.291	13.845
Interest on obligations and bonds	382	377
Interest on bank loans	18.628	16.460
Interest on bank leasing	89	193
Other financial expenses relating to third parties	1.209	2.478
Total financial expenses	31.599	33.353

Financial income in group companies and associates relates to received dividends and interest on loans and current accounts (see Notes 9.1.a and 17.2).

Interest on payables to group companies and associates relates mainly to loans and interest on current accounts with other group companies and associates (see Note 17.2).

Financial expenses on debts to third parties relate to interest on bank loans. Likewise, interest arising from bond issues is also included (see Note 9.2).

16.6 Foreign currency

The exchange differences recognised in the income statement amount to EUR 31.3 million of loss, EUR 14.9 million in 2017, which arise mainly from accounts payable and receivable to/from group companies, associates and third parties, as well as short-term cash and other cash equivalents, in a currency other than Euro, including, mainly, US dollars and British pounds.

The most important assets and liabilities in foreign currency are as follows:

(thousand €)	31/12/2018	Currency	31/12/2017	Currency
Assets				
Loans to group companies and third parties	86.881	Usd	71.400	Usd
	12.065	Gbp	14.442	Gbp
Loans and other financial assets to group companies and third parties	76.379	Usd	80.345	Usd
	1.145	Gbp	4.481	Gbp
	3.694	Other	2.938	Other
Cash and cash equivalents	24.687	Usd	837	Usd
	2.523	Gbp	7.529	Gbp
Total assets	**187.947**	**Usd**	**152.582**	**Usd**
	15.733	**Gbp**	**26.452**	**Gbp**
	3.694	**Other**	**2.938**	**Other**
Liabilities				
Bank loans	69.364	Usd	18.583	Usd
Payables to group companies	74.765	Usd	54.462	Usd
Bank loans	2.500	Usd	2.085	Usd
Other liabilities	102.516	Usd	89.118	Usd
	3.180	Gbp	814	Gbp
		Other	325	Otras
Total liabilities	**249.145**	**Usd**	**164.248**	**Usd**
	3.180	**Gbp**	**814**	**Gbp**
		Other	**325**	**Other**

Note 17. Transactions with Related Parties

17.1 Identification of related parties

The Company's annual accounts include transactions with the following related parties:

- Group companies.
- Associates and joint ventures.
- Significant shareholders of the controlling company.
- Executives and members of the Board of Directors.

All transactions with related parties are carried out under market conditions.

17.2 Transactions with group companies, associates and joint ventures

Commercial transactions

The attached table shows, for years 2018 and 2017, the amount recognised in the operating results in the income statement, and the balances outstanding at the year end:

(thousand €)	Net income 2018	31/12/2018		Net income 2017	31/12/2017	
		Assets	Liabilities		Assets	Liabilities
Group companies						
Aparthotel Bosque, S.A.	670	591	31	318	830	31
Apartotel, S.A.	3.919	186		3.851		
Colón Verona, S. A.	885	353	5	845	3	6
Comunidad de Prop. Hotel Melia Sol y Nieve	532	223	55	518	1	
Desarrolladora del Norte		1.662			1.412	
Dorpan, S.L.	(255)					
Gesmesol, S.A.		736		2.885	2.924	
Hotelpoint, S.L.	8.441			10.893	6.351	
Idiso Hotel Distribution, S.A.	(1.962)	68	154	(2.000)	208	715
Inversiones Hoteleras La Jaquita, S.A.	3.110	1.230	96	3.686	1	71
Inversiones y Explot. Turísticas, S.A.	3.582	4.142	46	3.468	6.161	58
Lomondo, LTD	3.110	1.724	5	3.104	1.543	6
Londim France, S.A.		807				
London XXI Limited	1.363	761		1.213	616	
Melia Brasil Administraçao Hoteleir		6.822			6.165	
MHI UK, L.T.D.		880			4.030	
Naolinco Aviation, S.L.	(2.783)			(3.549)		475
Operadora Mesol	6.041	343		9.175	4.995	
Prodigios Interactivos, S.A.	(45.478)	236		(40.114)	166	2.198
Prodisotel, S.A.	2.147	917	1	2.200	6	7
Punta Cana, S.L.U.		4	2.237			
Securisol, S.A.	(594)			(628)		
Sol Melia Deutschland, GMBH	519	5.049	12	5.154	7.700	75
Sol Melia France, S.A.S.	1.825	10.630		2.294	8.681	
Sol Melia Italia, S.R.L.	1.455	266	20	1.319	478	(4)
Sol Melia Perú		486				
Sol Melia Shanghai CO LTD	(724)	235		(1.035)	210	229
Tryp Mediterranee		2.347			2.724	
The Sol Group Corporation	(12.390)	337	2.887	(13.841)	285	3.131
Otras empresas del grupo	2.081	3.077	336	1.918	3.566	384
Deterioro de valor		(2.396)			(2.944)	
Total group companies	**(24.505)**	**41.714**	**5.885**	**(8.325)**	**56.110**	**7.385**

(thousand €)	Net income 2018	31/12/2018 Assets	31/12/2018 Liabilities	Net income 2017	31/12/2017 Assets	31/12/2017 Liabilities
Associates						
Altavista Hotelera, S. L. (J.V.)	(4.733)	945		(4.682)	1.222	
Grupo Evertmel (J.V.)	3.273	1.865	22	3.377	2.453	38
Grupo Producciones de Parques (J.V.)	1.619	907	12	1.415	971	674
Meliá Zaragoza, S. L. (J.V.)	37	229		384	307	10
Nexprom, S.A.	1.205	874	2	1.013	717	26
Renasala, S.L.	230	46				
Starmel Hotels OP, S.L. (J.V.)	3.230	1.764	48	3.408	1.994	47
Starmel Hotels OP 2, S.L.U. (J.V.)	1.024	438	4	506	162	21
S'Argamassa Hotelera, S.L.	552	146	3	649	162	
Turismo de Invierno, S.A.	351	291		335	522	
Otras empresas asociadas	216	836	93	284	770	54
Deterioro de valor		(29)			(29)	
Total associates	**7.003**	**8.312**	**185**	**6.688**	**9.250**	**869**
Total	**(17.502)**	**50.026**	**6.070**	**(1.637)**	**65.360**	**8.254**

(J.V.) Joint Ventures

Commercial transactions carried out with group companies, associates and joint ventures mainly relate to hotel management activities and other related services.

Financial transactions

There follows a breakdown of the financing or the centralised management of treasury or dividends maintained by the group with group companies and associates at year-end 2018 and 2017:

(thousand €)	Net income 2018	31/12/2018		Net income 2017	31/12/2017	
		Assets	Liabilities		Assets	Liabilities
Group companies						
Adprotel Strand, S.L. (J.V.)	2.143	73.437				
Aparthotel Bosque, S.A.	76	3.715	42	42	5.157	533
Apartotel, S.A.	(19)	569	3.165	3.139	606	211
Aresol Cabos S.A. de C.V.		262			286	
Bedbank Trading S.A.	26.275	3.125		(1.035)	9	25.365
Bisol Vallarta, S.A.	(1.539)		33.054	(1.261)		28.545
Cala Formentor, S.A.	(726)		11.835	(607)		10.736
Caribotels de México, S.A. de C.V.	64	2.678	7	137	2.506	
Colón Verona, S.A.	385	16.936	819	406	17.114	241
Comunidad de Prop. Hotel Melia Sol y Nieve	636	34.618		697	36.300	
Corp. Hot. Hispano Mexicana, S.A. de C.V.	(409)		341	(1.002)		17.310
Desarrolladora del Norte, S.A.	58	8.262		30	2.383	
Expamihso Spain, S.A.U.	(1.616)	717	90.751	(549)		82.703
Gesmesol, S.A.	18.494		206		3	
Hogares Batle, S.A.	67	3.732	121	73	3.761	67
Hoteles Sol Meliá, S.L.	1.034	850	302	60	4.644	355
Hotelpoint, S.L.	28.183	6.818	37.307	12.654	9.576	24.759
Idiso Hotel Distribution, S.A.	103	354	259	29	4.343	
Impulse Hotel Development, B.V.			12			
Inversiones Hoteleras La Jaquita, S.A.	975	73.723	4.553	695	35.384	13.246
Inversiones Inmobiliarias, IAR		1.032			1.030	
Inversiones y Explotaciones Turísticas, S.A.	1.754		168	1.662		184
Lomondo, LTD			1.163			1.035
Londim France, S.A.			13.370			
London XXI LTD	92	1.969	253	114	2.401	126
Markserv, BV	703		1.782	(72)		3.581
Meliá Brasil Administraçao H.E.C.LTDA.	3.176	76.344	490	2.492	69.253	486
Melia Europe & Middle East	25	1.236	1		1.298	
Melia Inversiones Americanas				37.237		
MHI UK LTD	10.763	10.198		3.632	12.156	
Moteles Andaluces, S.A.				(30)	92	1.710
Naolinco Aviation, S.L.	20	1.315	5		1.085	
Neale Expa Spain, S.A.U.	11	2.156	738		2.156	
Network Investments Spain, S.A.	(7)	70	156		1.412	
New Continent Ventures	664	14.824		412	9.814	
Operadora Costa Risol	(68)			(62)		1.064
Operadora Mesol	4.323					
Prodigios Interactivos, S.A.	220	4.919	28.188	567	3.510	6.265
Prodisotel, S.A.	(230)	2.601	20.001	(191)	302	21.226
Punta Cana Reservations, S.L.	(1.115)	1.545	108.690		754	
Realizaciones Turisticas, S.A.	(1.884)	736	104.649	(1.941)	710	102.127
Sol Melia Deutschland, GMBH	5.590		25.202	19.307		34.064
Sol Melia Europe, B.V.	2.186		4.249	(3.621)	53	(992)
Sol Melia France	1.831	33		1.627	22	9.860
Sol Melia Funding		45.219			56.114	
Sol M. Greece H. And T. Enterprises, S.A.			884		1.335	
Sol Melia Italia, S.R.L.	2.338	151	1.219	244	7.372	1.547
Sol Melia V.C. Dominicana, S.A.		9.022			8.762	
Sol Melia V.C. España, S.L.	239	13.003	694	297	19.848	6.949
Sol Melia V.C. Panamá, S.A.		1.603			1.560	
Sol Melia V.C. Puerto Rico		3.606		277		
Tenerife Sol, S.A.	(554)	2.871	38.984	(196)	472	21.041
The Sol Group Corporation	53	1.827	3	42	1.743	
Otras empresas del grupo	7.067	2.723	10.416	1.571	4.451	12.394
Total group companies	**111.381**	**428.797**	**544.079**	**76.878**	**329.777**	**426.737**

(thousand €)	Net income 2018	31/12/2018		Net income 2017	31/12/2017	
		Assets	Liabilities		Assets	Liabilities
Associates						
Adprotel Strand, S.L. (J.V.)				1.969	65.805	
Altavista Hotelera, S.L. (J.V.)	240	10.252		389	12.065	
Bellver Property, S.L.U. J.V.)			342			
Comunidad de Prop. Hotel Meliá Castilla	1.481		178	1.197		7
Detur Panamá, S.A. (J.V.)	93	8.790		51	8.000	
Grupo Evertmel (J.V.)	956	26.879		1.299	24.010	
Grupo Producciones de Parques (J.V.)	(7)		1.439	27		4.558
Grupo Renasala (J.V.)	2.385	21.958	1.724	860	22.039	39
Grupo Starmel	588	4.967	415	23.542	4.608	63
Meliá Zaragoza, S.L. (J.V.)	245	1.027		112	7.924	
Melcom Joint Venture, S.L. (J.V.)	619	37.304				
Pelícanos Property, S.L.U. (J.V.)			780			
S'Argamassa Hotelera, S.L.	114		29	220	3.047	11
Otras empresas asociadas	233	32	831	73	33	507
Deterioro		(438)			(438)	
Total associates	**6.947**	**110.770**	**5.737**	**29.740**	**147.093**	**5.186**
Total	**118.328**	**539.567**	**549.816**	**106.618**	**476.870**	**431.923**

(J.V.) Joint Ventures

The breakdown of assets and liabilities in group companies and associates, including currency, for years 2018 and 2017 is as follows:

(thousand €)	31/12/2018		31/12/2017	
	Assets	Liabilities	Assets	Liabilities
Eur	371.334	390.999	317.779	292.604
Usd	154.722	157.578	143.113	137.913
Other currencies	13.510	1.239	15.978	1.407
Total	**539.567**	**549.816**	**476.870**	**431.923**

There follows a breakdown of the maturity dates of assets and liabilities in group companies and associates at year-end 2018 and 2017:

(thousand €)	31/12/2018	
	Assets	Liabilities
2019	123.153	113.804
2020	41.123	88.274
2021	148.680	137.347
2022	29.756	21.733
2023	92.749	156.339
2024 and subsequent years	104.107	32.319
Total	**539.567**	**549.816**

(thousand €)	31/12/2017	
	Assets	Liabilities
2018	139.313	177.660
2019	136.494	1.710
2020	20.639	75.407
2021	105.392	99.648
2022	41.160	21.629
2023 and subsequent years	33.873	55.869
Total	**476.870**	**431.923**

For the purposes of optimising the financial resources generated, the Company performs centralised management of collections and payments between group companies through current account, including debit or credit balances, depending on the circumstances of each subsidiary, 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, so such collections and payments are deemed to be financing flows in the cash flow statement. The interest rate applied in 2018 and 2017 was 2%.

Likewise, the Company has granted loans to certain subsidiaries which are intended to finance the activities pertaining to Meliá Group's companies. On the other hand, it has been granted loans by some of its subsidiaries with excess funds or whose main activity is to obtain financial resources for the Group.

17.3 Transactions with significant shareholders

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

Name or corporate name of significant shareholder	Type of transaction	(thousand €)	
		2018	2017
Hoteles Mallorquines Asociados, S.L.	Purchase of goods		85
Hoteles Mallorquines Asociados, S.L.	Provision of services		12
Hoteles Mallorquines Asociados, S.L.	Receipt of services	1.066	518
Hoteles Mallorquines Asociados, S.L.	Purchase of financial fixed assets		8.992
Hoteles Mallorquines Agrupados, S.L.	Purchase of financial fixed assets		8.992
Hoteles Mallorquines Consolidados, S.A.	Purchase of financial fixed assets		10.065

The purchases of financial fixed assets included in the table above for year 2017, 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 9. Due to the amount of the related-party transaction, the Audit and Compliance Committee and the Board of Directors prepared mandatory reports and authorised, respectively, such transaction, the executive and proprietary directors abstaining from deliberating and voting. Such directors reported, and included in their annual statement, the conflict of interest that arose in this regard.

17.4 Transactions with executives and members of the Board of Directors.

Remuneration and other benefits of directors and members of the senior management are as follows:

Attendance fees for Board meetings are as follows:

(thousand €)	2018	2017
External independent directors	**476**	**455**
Mr. Juan Arena de la Mora	79	70
Mr. Luis María Díaz de Bustamante y Terminel	108	105
Mr. Fco Javier Campo García	90	79
Mr. Fernando D´Ornellas Silva	115	120
Mrs. Carina Szpilka Lazaro	84	81
Proprietary directors	**219**	**248**
Mr. Gabriel Escarrer Juliá	49	49
Mr. Sebastián Escarrer Jaume	54	60
Mr. Juan Vives Cerdá	44	70
Hoteles Mallorquines Consolidados,S.A.	72	69
Other external directors	**81**	**81**
Mr. Alfredo Pastor Bodmer	81	81
Executive director	**54**	**49**
Mr. Gabriel Juan Escarrer Jaume	54	49
Total	**830**	**833**

Remuneration of executive directors and senior management is as follows:

(thousand €)	2018		2017	
	Fixed Remuneration	Variable Remuneration	Fixed Remuneration	Variable Remuneration
Executive directors	**875**	**481**	**846**	**412**
Mr. Gabriel Juan Escarrer Jaume	875	481	846	412
Senior management	**1.819**	**650**	**1.752**	**608**
Total	**2.694**	**1.131**	**2.598**	**1.020**

The Company has not assumed any obligation and has not granted any advance payment or loans to directors.

The breakdown below relates to transactions between Meliá Hotels International, S.A. and the Company's directors or executives during 2018 and 2017:

(thousand €)	Type of transaction	2018	2017
Mr. Juan Vives Cerda	Receipt of services	5	19
Mr. Juan Vives Cerda	Provision of services	263	269

The Company 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 2018 in the amount of EUR 91,289; EUR 93,412 in 2017.

Note 18. Other Information

18.1 Audit fees

Fees earned during the year by PricewaterhouseCoopers Auditores, S.L. (PwC) for the audit of the Company's accounts and other verification services amounted to EUR 168 thousand and EUR 166 thousand, respectively (fees for the audit of the consolidated annual accounts are not included).

In 2017, fees earned relating to accounts audit services and other verification services amounted to EUR 157 thousand and EUR 278 thousand, respectively (fees for the audit of the consolidated annual accounts are not included).

18.2 Environmental risks

These 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.

The undersigned, in their capacity as directors of the Company, state that in these annual accounts there are no items concerning greenhouse gas emissions.

18.3 Situations of conflicts of interest in which the Company's directors are involved

According to the requirements of Articles 229 and 230 of the Revised Text of the Spanish Law on Corporations, the members of the Board of Directors of Meliá Hotels International, S.A., 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.

Direct or indirect shareholdings controlled by members of the Board of Directors of the Company are as follows:

Shareholder / Director	Number of direct or indirect voting rights	% of total voting rights	Position on the Board
Mr. Gabriel Escarrer Juliá	11.542.525	5,0250%	Chaiman
Hoteles Mallorquines Consolidados, S.A.	53.700.867	23,3787%	Director
Mr. Alfredo Pastor Bodmer	6.000	0,0026%	Director
Mr. Juan Arena de La Mora	1.000	0,0004%	Director
Mr. Luis Mª Díaz de Bustamante y Terminel	300	0,0001%	Secretary and Director
Mr. Juan Vives Cerdá	375	0,0002%	Director

Note 19. Events after the Reporting Date

There have been no events between the end of the reporting period and the preparation of these individual 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 I

The equity situation as at 31 December 2018, obtained from the annual accounts provided by the relevant companies, is as follows:

(thousand €)	Shareholding	Accounting figures			Underlying carrying amount	Investment value	Impairment	Net value
		Capital	Reserves	Result				
Empresas del grupo								
Adprotel Strand, S. L. (J.V.)	50,00%	65.594	(9.802)	12.463	34.128	76.068	(22.225)	53.843
Adrimelco Inversiones, S.L.U.	100,00%	3	(1)		2	3		3
Almeldik, S.R.L.A.U.	100,00%	10			10	10		10
Apartotel, S.A.	99,79%	962	4.065	1.648	6.661	4.150		4.150
Aparthotel Bosque, S.A.	85,00%	1.659	6.829	548	7.680	6.497		6.497
Bedbank Trading, S.A.	100,00%	70	7.007	682	7.759	65		65
Casino Tamarindos, S.A.U.	100,00%	3.005	(883)	(121)	2.001	13.532	(7.757)	5.775
Credit Control Corporation	100,00%	44	800	(238)	606	41		41
Colón Verona, S.A.	100,00%	15.000	5.171	4.246	24.417	43.075	(12.035)	31.040
Dorpan, S.L.U.	100,00%	1.202	291	30	1.523	1.623		1.623
Expamihso Spain, S.A.U.	100,00%	5.249	121.063	1.949	128.261	295		295
Gesmesol, S.A.	100,00%	44	78.794	5.217	84.055	1.803		1.803
Gestión Hotelera Turística Mesol, S.A.	100,00%	60	14	1	76	61		61
Guarajuba Empreendimientos	100,00%	3.161	(1.269)	(119)	1.773	8.755	(1.907)	6.848
Gonpons Inversiones, S.L.U.	100,00%	3	(1)		2	3		3
Hogares Batle, S.A.	51,49%	1.482	383	(76)	921	2.036	(868)	1.168
Hotelpoint, S.L.	100,00%	3	2	21.475	21.480	3		3
Hoteles Meliá, S.L.	100,00%	3	2		5	10		10
Hoteles Paradisus XXI, S.L.	100,00%	3	4		7	10		10
Hoteles Sol Meliá, S.L.	100,00%	676	92.248	3.068	95.992	88.176		88.176
Hoteles Sol, S.L.	100,00%	3	4	(1)	6	11		11
Ilha Bela Gestao e Turismo, LTD.	100,00%	48	3.369	31	3.448	3.698		3.698
Impulse Hotel Development, B.V.	100,00%	19	1.480	(236)	1.263	18		18
Infinity Vacations Dominicana	0,03%	85.229	(27)	9.332	28	0		0
Infinity Vacations, S.A.	0,01%	0	(2)	(5)		0		0
Inversiones Areito, S.A.S. (*)	64,54%	12.520	(28.687)	1.495	(9.469)	25.513		25.513
Inmotel Inversiones Italia, S.R.L.	100,00%	20	24.906	2.069	26.995	89.304		89.304
Inversiones Hoteleras la Jaquita, S.A.	50,00%	51.767	27.047	3.948	41.381	32.568		32.568
Inversiones Turísticas del Caribe, S.A.	100,00%	78	(78)			6		6
Inversiones y Explotaciones Turísticas, S.A.	55,31%	8.937	46.750	7.925	35.184	12.742		12.742
Markserv, B.V.	51,00%	36	6.820	1.404	4.212	1.503	(1.503)	0
Melia Europe & Middle East	100,00%	3	4	(1.192)	(1.185)	2.561	(2.561)	
Melia Inversiones Americanas, N.V.	82,26%	26.673	560.058	44.219	519.019	186.120		186.120
MHI UK LTD.	100,00%		33.769	(409)	33.360	40.321		40.321
Naolinco Hoteles, S.L.	100,00%	3	(1)	(15)	(13)	1.340	(1.338)	2
Operadora Mesol S.A. de C.V.	75,21%	7.967	645	2.422	8.299	4.219		4.219
Prodigios Interactivos, S.A.	53,98%	42.216	30.254	11.182	45.156	35.718		35.718
P.T. Sol Melia Indonesia	90,00%	59	1	113	156	76		76
Punta Cana Reservations, S.L.	100,00%	5	177.330	(13.886)	163.449	8.277		8.277
Realizaciones Turísticas, S.A.	95,97%	7.210	128.173	2.431	132.260	42.236		42.236
René Egli, S.L.U.	100,00%	4	3.058	144	3.205	3.832		3.832
Securisol, S.A.	100,00%	66	197	64	327	66		66
Sierra Parima, S.A.	100,00%	5.886	5.183	(296)	10.773	14.300		14.300
Sol Group B.V.	100,00%	1.540	(475)	(12)	1.053	1.529		1.529
Sol Maninvest B.V.	100,00%	19	15.842	1.363	17.224	19	(31)	(12)
Sol Melia Balkans E.A.D.	100,00%	51	365	926	1.342	51		51
Sol Melia Deutschland, GMBH	100,00%	1.023		6.438	7.461	5.216		5.216
Sol Melia Europe, B.V.	100,00%	1.500	572	239	2.311	1.500		1.500
Sol Melia France S.A.S.	100,00%	49.800	5.055	1.876	56.731	49.801		49.801
Sol M. Greece H. And T. Enterprises, S.A.	100,00%	5.586	(3.736)	(11)	1.839	5.586	(3.655)	1.931
Sol Melia Italia S.R.L.	100,00%	100	1.571	1.248	2.919	3.880		3.880
S.M. Hotel Manag. Shanghai S.M.	100,00%	5.172	(3.732)	146	1.586	5.243	(2.730)	2.513
Sol Melia Investment N.V.	100,00%	23.795	23.670	(128)	47.337	58.176		58.176
Sol Melia Luxembourg SARL	100,00%	200	104	1.330	1.634	206		206
Sol Melia VC Puerto Rico Corp.	100,00%	64.863	(82.818)	22.325	4.370	60.921	(51.635)	9.286
Tenerife Sol, S.A.	50,00%	2.765	64.415	5.849	36.514	1.386		1.386
Third Project 2012, S.L.	100,00%	3	(1)		2	3		3
Tryp Mediterranee, S.A.	85,40%					407	(407)	
Total group companies		503.396	1.345.804	163.101	1.617.536	944.579	(108.652)	835.926

(thousand €)	Shareholding	Accounting figures			Underlying carrying amount	Investment value	Impairment	Net value
		Capital	Reserves	Result				
Empresas asociadas								
Altavista Hotelera, S.L.	7,55%	47.252	15.310	4.450	5.059	14.420	(5.969)	8.451
Detur Panamá, S.A. (J.V.)	32,72%	12.212	(27.757)	(1.146)	(5.461)	4.406	(4.406)	
Evertmel, S.L. (J.V.)	49,00%	35.157	17.555	(1.642)	25.024	38.126		38.126
Hellenic Hotel Management, S.A.	40,00%	587	(776)		(76)	245	(245)	
Homasi, S.A.	35,00%	18.220	73.910	7.349	34.818	48.953		48.953
Jamaica Devco, S.L.	49,00%	1.003	(613)	770	568	491		491
Meliá Zaragoza, S.L. (J.V.)	50,00%	6.820	(10.154)	(4.048)	(3.691)	8.067	(8.067)	
Mosaico, B.V.	20,00%		3.183	(205)	596	648		648
Nexprom, S.A.	17,50%	4.591	18.107	3.923	4.659	1.081		1.081
Plaza Puerta del Mar, S.A.	12,23%	9.000	7.438	3.144	2.395	1.784		1.784
Producciones de Parques, S.L. (J.V.)	50,00%	39.884	(392)	(110)	19.691	27.680		27.680
Promedro, S.A.	20,00%	1.635	85	(9)	342	328		328
Melcom Joint Venture, S.L. (J.V.)	50,00%	8.130	76.203	670	42.502	47.401	(6.240)	41.161
Renasala, S.L.	30,00%	4	33.439	2.397	10.752	10.591		10.591
Starmel Hotels JV, S.L. (J.V.)	20,00%	739	2.836	(488)	617	148		148
Turismo de Invierno, S.A.	21,42%	670	5.502	569	1.444	1.355		1.355
Total associates		185.905	213.875	15.624	139.239	205.724	(24.927)	180.797
Total group companies and associates		689.301	1.559.679	178.725	1.756.775	1.150.303	(133.579)	1.016.724

(*) The studies to determine the impairment losses of the shareholding in these group companies and associates are conducted taking into consideration the valuation of the trader companies of the hotels owned by these group companies and associates. (J.V.) Joint Ventures

The equity situation as at 31 December 2017, obtained from the annual accounts provided by the relevant companies, was as follows:

(thousand €)	Shareholding	Accounting figures			Underlying carrying amount	Investment value	Impairment	Net value
		Capital	Reserves	Result				
Group companies								
Adrimelco Inversiones, S.L.U.	100,00%	3			3	3		3
Almeldik, S.R.L.A.U.	100,00%	10			10	10		10
Apartotel, S.A.	99,79%	962	2.428	2.244	5.621	4.150		4.150
Aparthotel Bosque, S.A.	85,00%	1.659	6.718	178	7.272	6.497		6.497
Bedbank Trading, S.A.	100,00%	67	31.426	1.391	32.884	65		65
Casino Tamarindos, S.A.U.	100,00%	3.005	(1.002)	(67)	1.936	13.532	(8.094)	5.438
Credit Control Corporation	100,00%	42	820	(53)	809	41		41
Colón Verona, S.A.	100,00%	15.000	4.153	1.025	20.178	43.075	(14.260)	28.815
Dorpan, S.L.U.	100,00%	1.202	367	(62)	1.508	1.623		1.623
Expamihso Spain, S.A.U.	100,00%	5.249	122.108	(1.393)	125.964	295		295
Gesmesol, S.A.	100,00%	42	88.310	5.342	93.694	1.803		1.803
Gestión Hotelera Turística Mesol, S.A.	100,00%	60	14		74	61		61
Grupo Sol Services LTD.	100,00%	94	(12)	(20)	61	100		100
Guarajuba Empreendimientos	100,00%	3.545	(1.245)	(178)	2.122	8.755		8.755
Gonpons Inversiones, S.L.U.	100,00%	3			3	3		3
Hogares Batle, S.A.	51,49%	1.482	453	(107)	941	2.036	(868)	1.168
Hotelpoint, S.L.	100,00%	3	6	34.333	34.342	3		3
Hoteles Meliá, S.L.	100,00%	3	2	(1)	5	10		10
Hoteles Paradisus XXI, S.L.	100,00%	3	5	(1)	7	10		10
Hoteles Sol Meliá, S.L.	100,00%	676	4.432	(40)	5.068	676		676
Hoteles Sol, S.L.	100,00%	3	4	(1)	6	11		11
Ilha Bela Gestao e Turismo, LTD.	100,00%	46	2.679	551	3.276	3.698		3.698
Impulse Hotel Development, B.V.	100,00%	19	3.484	(2.001)	1.501	18		18
Infinity Vacations Dominicana	0,03%	5		(27)				
Infinity Vacations, S.A.	0,01%			(2)				
Inversiones Areito, S.A.S. (*)	64,54%	81.857	(34.480)	6.134	34.536	99.135		99.135
Inmotel Inversiones Italia, S.R.L.	100,00%	20	27.836	1.688	29.544	89.304		89.304
Inversiones Hoteleras la Jaquita, S.A.	50,00%	51.767	21.842	6.410	40.010	32.568		32.568
Inversiones Turísticas del Caribe, S.A.	100,00%	78	(78)			6		6
Inversiones y Explotaciones Turísticas, S.A.	55,31%	8.937	42.231	7.770	32.598	12.742		12.742
Markserv, B.V.	51,00%	36	8.949	(657)	4.247	1.503	(1.503)	0
Melia Europe & Middle East	100,00%	3	4	(1.407)	(1.400)	1.069		1.069
Melia Inversiones Americanas, N.V.	82,26%	26.673	574.319	(14.252)	482.651	186.120	(248)	185.872
MHI UK LTD.	100,00%		34.558	(99)	34.459	40.321		40.321
Moteles Andaluces, S.A.	99,38%	1.201	496	143	1.829	2.815	(1.151)	1.664
Naolinco Hoteles, S.L.	100,00%	3	(1)		2	1.340	(1.338)	2
Operadora Mesol S.A. de C.V.	75,21%	7.619	5.399	(1.634)	8.561	4.219		4.219
Prodigios Interactivos, S.A.	53,98%	42.216	11.527	19.211	39.381	35.718		35.718
P.T. Sol Melia Indonesia	90,00%	61	(20)	117	142	76		76
Punta Cana Reservations, S.L.	100,00%	5	175.070	3.013	178.088	8.277		8.277
Realizaciones Turísticas, S.A.	95,97%	7.210	126.226	2.951	130.890	42.236		42.236
René Egli, S.L.U.	100,00%	4	2.984	97	3.084	3.832		3.832
Securisol, S.A.	100,00%	66	148	99	314	66		66
Sierra Parima, S.A.	100,00%	5.872	5.697	(718)	10.851	4.986		4.986
Sol Group B.V.	100,00%	619	(458)	(17)	143	607		607
Sol Maninvest B.V.	100,00%	19	15.442	1.127	16.587	31	(31)	
Sol Melia Balkans E.A.D.	100,00%	51	786	879	1.716	51		51
Sol Melia Deutschland, GMBH	100,00%	1.023		6.165	7.188	5.216		5.216
Sol Melia Europe, B.V.	100,00%	1.500	3.281	295	5.076	1.500		1.500
Sol Melia France S.A.S.	100,00%	49.800	5.055	1.952	56.808	49.801		49.801
Sol M. Greece H. And T. Enterprises, S.A.	100,00%	3.367	(3.756)	22	(367)	3.367	(3.367)	
Sol Melia Italia S.R.L.	100,00%	100	2.232	1.364	3.696	3.880		3.880
S.M. Hotel Manag. Shanghai S.M.	100,00%	5.058	(2.848)	(1.092)	1.118	5.083	(2.730)	2.353
Sol Melia Investment N.V.	100,00%	23.795	15.539	8.131	47.465	58.176		58.176
Sol Melia Luxembourg SARL	100,00%	200	86	877	1.163	206		206
Sol Melia VC Puerto Rico Corp.	100,00%	62.199	(49.637)	(3.275)	9.286	60.921	(51.635)	9.286
Tenerife Sol, S.A.	50,00%	2.765	63.229	1.732	33.863	1.386		1.386
Third Project 2012, S.L.	100,00%	3	(1)	(1)	2	3		3
Tryp Mediterranee, S.A.	85,40%					407	(407)	
Total group companies		**417.291**	**1.316.809**	**88.139**	**1.550.803**	**843.454**	**(85.632)**	**757.822**

(thousand €)	Shareholding	Accounting figures			Underlying carrying amount	Investment value	Impairment	Net value
		Capital	Reserves	Result				
Associates								
Adprotel Strand, S. L. (J.V.)	50,00%	66.934	(999)	(8.956)	28.490	76.068	(23.599)	52.469
Altavista Hotelera, S.L.	7,55%	47.252	15.435	(339)	4.707	14.420	(5.969)	8.451
Detur Panamá, S.A. (J.V.)	32,72%	11.713	(25.422)	(1.194)	(4.877)	4.406	(4.406)	
Evertmel, S.L. (J.V.)	49,00%	35.157	19.465	(1.844)	25.861	38.126		38.126
Hellenic Hotel Management, S.A.	40,00%	587	(776)		(76)	245	(245)	
Homasi, S.A.	35,00%	18.040	58.759	1.934	27.557	45.516		45.516
Jamaica Devco, S.L.	49,00%	1.003	(170)	(423)	201	491		491
Meliá Zaragoza, S.L. (J.V.)	50,00%	6.820	(7.873)	(2.281)	(1.667)	8.067	(8.067)	
Nexprom, S.A.	17,50%	4.591	15.677	3.602	4.177	1.081		1.081
Plaza Puerta del Mar, S.A.	12,23%	9.000	6.343	3.480	2.302	1.784		1.784
Producciones de Parques, S.L. (J.V.)	50,00%	39.884	9.298	(561)	24.310	32.245		32.245
Promedro, S.A.	20,00%	1.635	11	(8)	328	328		328
Renasala, S.L.	30,00%	4	35.301	10.653	13.787	10.591		10.591
Starmel Hotels JV, S.L. (J.V.)	20,00%	739	(110.507)	113.068	660	148		148
Turismo de Invierno, S.A.	21,42%	670	4.962	585	1.332	1.355		1.355
Total associates		244.030	19.505	117.715	127.092	234.870	(42.286)	192.584
Total group companies and associates		661.321	1.336.313	205.854	1.677.895	1.078.324	(127.918)	950.406

(*) The studies to determine the impairment losses of the shareholding in these group companies and associates are conducted taking into consideration the valuation of the trader companies of the hotels owned by these group companies and associates. (J.V.) Joint Ventures

Subsidiary companies

		HOTEL OPERATING COMPANIES	ADDRESS	COUNTRY	DIR S.	IND S.	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)	México		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)	México		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)	Dom. 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%
		INFINITY VACATIONS S.A. DE C.V.	Bvld.Kukulcan Km 16,5 Benito Juarez (Cancún)	Mexico	0,01%		
						99,99%	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	54,93%		54,93%
(A)		INVERS. INMOB. IAR 1997, C. A.	Avenida Casanova con C/ El Recreo (Caracas)	Venezuela		99,69%	99,69%
(A)		INVERSIONES AGARA, S.A.	Lope de Vega, 4 (Santo Domingo)	Dom. Rep.		99,69%	99,69%
(A)		INVERSIONES AREITO, S.A.	Avda. Barceló, s/n (Bávaro)	Dom. Rep.	64,54%		
						35,46%	100,00%
(A)	(F1)	INV. HOTELERAS LA JAQUITA, S.A.	Avda. de los Océanos, s/n (Tenerife)	Spain		49,07%	
					50,00%		99,07%
		LOMONDO Limited	Albany Street-Regents Park (Londres)	United Kingdom		100,00%	100,00%
		LONDON XXI Limited	336-337 The Strand (Londres)	United Kingdom		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%		
						47,99%	97,99%

(*) Shareholding in this company is through the ownership of apartments representing 93.27%.

		MANAGEMENT COMPANIES	ADDRESS	COUNTRY	DIR S.	IND S.	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%
(A)		ILHA BELA GESTAÕ E TURISMO, Ltd.	31 de Janeiro, 81 (Funchal - Madeira)	Portugal	100,00%		100,00%
		MARKSERV, B. V.	Strawinskylaan 915 WTC, Toren A,1077 XX (Amsterdam)	Netherlands	51,00%		
						49,00%	100,00%
(A)		MELIÁ MANAGEMENT, S.A.	Lope de Vega, 4 (Santo Domingo)	Dom. 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 (Amsterdam)	Netherlands	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	China	100,00%		100,00%
			Lujiazui Ring Road (Shanghai)				
(A)		SOL MELIÁ HRVATSKA d.o.o ROVINJ	Vladimira Nazora, 6 (Rovijn)	Croatia		100,00%	100,00%
		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%
		COMPANIES OF DIFFERENT ACTIVITIES	ADDRESS	COUNTRY	DIR S.	IND S.	TOTAL
(A)		ADPROTEL STRAND, S.L.	Mauricio Legendre, 16 (Madrid)	Spain	50,00%	25,00%	75,00%
(A)		BAJA SERVICIOS ADMINISTRATIVOS S.A	Ctra Transpeninsular, km 19,5 (Los Cabos)	Mexico		100,00%	100,00%
	(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%
		GUARAJUBA EMPREENDIMENTOS, S.A.	Avda. Jorge Amado s/n, Bahía	Brazil	100,00%		100,00%
	(F1)	HOGARES BATLE, S.A.	Gremio Toneleros, 42 (Palma de Mca.)	Spain	51,49%		
						46,70%	98,19%
(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		100,00%	100,00%
		IMPACT HOSPITALITY V3NTURES, LLC	Celebration Place, 225 (Miami)	USA		100,00%	100,00%
(A)		INFINITY VACATIONS DOMINICANA	Instal.Hotel Circle,Avda.Barceló,Bávaro (P.Cana)	Dom. Rep.	0,03%		
						99,97%	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%
(A)	(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)		SERVICIOS ARTEMISA, S.A.de C.V.	Boulevard Kukulkan Km 12 (Cancún)	Mexico		100,00%	100,00%
(A)		SERVICIOS INTEGRALES DE PERSONAL IRIS, S.A.de C.V.	Paseo de la Marina Sur (Puerto Vallarta)	Mexico		100,00%	100,00%
(A)		SERVICIOS PERSONALES ORFEO, S.A.de C.V.	Boulevard Kukulkan Km 16,5 (Cancún)	Mexico		100,00%	100,00%
(A)		SERVICIOS PITEO, S.A.de C.V.	Avda Tulum 200, Sm 4 (B.Juarez)	Mexico		100,00%	100,00%
(A)		SIERRA PARIMA, S.A.	Avda. Barceló, s/n (Bávaro)	Dom. 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 (Amsterdam)	Netherlands	100,00%		100,00%
		SOL MELIA FUNDING	Regatta Office Park West Bay Road P.O.Box 31106	Cayman Islands		100,00%	100,00%
(A)		SMVC DOMINICANA, S.A.	Lope de Vega, 4 (Santo Domingo)	Dom. Rep.		100,00%	100,00%
	(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)	P.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	ADDRESS	COUNTRY	DIR S.	IND S.	TOTAL
(A)	(F2)	CADSTAR FRANCE, S.A.S.	12, Rue du Mont Thabor (Paris)	France		100,00%	100,00%
	(F3)	DESARR.HOTEL. SAN JUAN, B.V.	Strawinskylaan, 915 WTC (Amsterdam)	Netherlands		99,69%	99,69%
	(F1)	DOMINICAN INVESTMENTS, S.L.U.	Gremio Toneleros, 24 (Palma de Mallorca)	Spain		99,69%	99,69%
	(F1)	DOMINICAN MARKETING SERVICES, S.L.U.	Gremio Toneleros, 24 (Palma de Mallorca)	Spain		65,73%	
						33,96%	99,69%
	(F1)	EXPAMIHSO SPAIN. S.L.U.	Gremio Toneleros, 24 (Palma de Mallorca)	Spain	100,00%		100,00%
	(F3)	FARANDOLE, B. V.	Strawinskylaan, 915 WTC (Amsterdam)	Netherlands		99,69%	99,69%
	(F1)	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%
	(F1)	IMPULSE HOTEL DEVELOPMENT B.V.	Strawinskylaan 915 WTC, Toren A,1077 XX (Amsterdam)	Netherlands	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)	Dom. 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 (Amsterdam)	Netherlands	82,26%		
						17,43%	99,69%
	(F1)	NEALE EXPA SPAIN, S.L.U.	Gremio Toneleros, 24 (Palma de Mallorca)	Spain		99,69%	99,69%
	(F1)	PUNTA CANA RESERVATIONS, S.L.U.	Gremio Toneleros, 24 (Palma de Mallorca)	Spain	100,00%		100,00%
	(F3)	SAN JUAN INVESTMENT, B. V.	Strawinskylaan, 915 WTC (Amsterdam)	Netherlands		99,69%	99,69%
		SOL GROUP, B. V.	Strawinskylaan 915 WTC, Toren A,1077 XX (Amsterdam)	Netherlands	100,00%		100,00%
(A)	(F2)	SOL MELIÁ FRANCE, S.A.S.	20 Rue du Sentier (Paris)	France	100,00%		100,00%
		SOL MELIÁ INVESTMENT, N. V.	Strawinskylaan 915 WTC, Toren A,1077 XX (Amsterdam)	Netherlands	100,00%		100,00%
		SOL MELIA VACATION CLUB LLC.	Bickell Avenue, 800 (Miami)	USA		100,00%	100,00%
		COMPANIES WITH NO ACTIVITY	ADDRESS	COUNTRY	DIR S.	IND S.	TOTAL
	(F1)	ADRIMELCO INVERSIONES, S.L.U.	Gremio Toneleros, 24 (Palma de Mallorca)	Spain	100,00%		100,00%
		ALMELDIK, S.A.R.L.A.U.	219,Bd.Zerktouini angle Bd.Roudani N.13 (Maarif- Casablanca)	Morocco	100,00%		100,00%
		BEDBANK TRADING, S.A.	Rue St.Pierre, 6A (Fribourg)	Switzerland	100,00%		100,00%
(A)		CASINO PARADISUS, S. A.	Playas de Bavaro (Higuey)	Rep. Dom.		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%
		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 that form part of the consolidated tax group of Meliá Hotels International, S.A.
(F2) Companies that form part of the consolidated tax group of Sol Meliá France, S.A.S.
(F3) Companies that form part of the consolidated tax group of Meliá Inversiones Americanas, N.V.
(F7) Companies that form part of the consolidated tax group of Inextur, S.A.

Associates and joint ventures

		HOTEL OPERATING COMPANIES	ADDRESS	COUNTRY	DIR S.	IND. S	TOTAL
(A)		BANAMEX S.A. FIDEICOMISO EL MEDANO	Playa El Medano s/n, (Cabo San Lucas)	Mexico		30,28%	30,28%
(A)		COM. PROP. APARTOTEL MELIÁ CASTILLA (*)	Capitán Haya, 43 (Madrid)	Spain	31,63%		
						0,09%	31,72%
		C.P.APARTOTEL M.COSTA DEL SOL (*)	Paseo Marítimo 11 (Torremolinos)	Spain	2,46%		
						18,71%	21,17%
		DETUR PANAMÁ S. A.	Antigua Escuela Las Américas (Colón)	Panama	32,72%	17,21%	49,93%
(A)	(F8)	STARMEL HOTELS OP, S.L.	Gremio Toneleros, 24 (Palma de Mallorca)	Spain		30,00%	30,00%
(A)		MELIÁ ZARAGOZA S.L.	Avenida César Augusto, 13 (Zaragoza)	Spain	50,00%		50,00%
(A)		NEXPROM, S. A.	Avda. del Lido s/n (Torremolinos)	Spain	17,50%		
						2,50%	20,00%
		PLAZA PUERTA DEL MAR, S.A.	Plaza Puerta del Mar, 3 (Alicante)	Spain	12,23%		
						7,78%	20,01%
(A)	(F5)	PRODUCCIONES DE PARQUES, S.L. (JV)	Avda. P.Vaquer Ramis , s/n (Calviá)	Spain	50,00%		50,00%
(A)	(F4)	STARMEL HOTELS OP 2, S.L.	Gremio Toneleros, 24 (Palma de Mallorca)	Spain		20,00%	20,00%
(A)	(F5)	TERTIAN XXI, S.L.U. (JV)	Gremio Toneleros, 24 (Palma de Mallorca)	Spain		50,00%	50,00%
		TURISMO DE INVIERNO, S.A.	Plaza Pradollano, s/n Sierra Nevada (Granada)	Spain	21,42%		21,42%
		COMPANIES OWNING HOTELS	ADDRESS	COUNTRY	DIR S.	IND. S	TOTAL
(A)	(F7)	ALTAVISTA HOTELERA, S.L. (JV)	Avda. Pere IV, 272 (Barcelona)	Spain	7,55%		
						41,19%	48,74%
		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)	Spain	49,00%		49,00%
(A)		FOURTH PROJECT 2012, S.L. (JV)	Gremio Toneleros, 24 (Palma de Mallorca)	Spain		50,00%	50,00%
(A)	(F4)	FUERTEVENTURA BEACH PROPERTY, S.L.	Gremio Toneleros, 24 (Palma de Mallorca)	Spain		20,00%	20,00%
(A)		JAMAICA DEVCO S.L.	Gremio Toneleros, 24 (Palma de Mallorca)	Spain	49,00%		49,00%
		MELIA HOTELS FLORIDA, LLC. (JV)	Brickell Avenue Suite 1000, 800	USA		50,00%	50,00%
	(F6)	MONGAMENDA, S.L. (JV)	Alexandre Rosselló, 15 (Palma de Mallorca)	USA		49,00%	49,00%
(A)	(F8)	PALMANOVA BEACH PROPERTY, S.L.	Gremio Toneleros, 24 (Palma de Mallorca)	Spain		30,00%	30,00%
(A)	(F8)	PUERTO DELCARMEN BEACH PROPERTY, S.L.	Gremio Toneleros, 24 (Palma de Mallorca)	Spain		30,00%	30,00%
(A)	(F8)	SAN ANTONIO BEACH PROPERTY, S.L.	Gremio Toneleros, 24 (Palma de Mallorca)	Spain		30,00%	30,00%
(A)	(F4)	SANTA EULALIA BEACH PROPERTY, S.L.	Gremio Toneleros, 24 (Palma de Mallorca)	Spain		20,00%	20,00%
(A)	(F8)	TORREMOLINOS BEACH PROPERTY, S.L.	Gremio Toneleros, 24 (Palma de Mallorca)	Spain		30,00%	30,00%
(A)		PELÍCANOS PROPERTY, S.L.U.	C/ Recoletos 3, 1º (Madrid)	Spain		50,00%	50,00%
(A)		BELLVER PROPERTY, S.L.U.	C/ Recoletos 3, 1º (Madrid)	Spain		50,00%	50,00%
		COMPANIES OF DIFFERENT ACTIVITIES	ADDRESS	COUNTRY	DIR S.	IND. S	TOTAL
	(F5)	GOLF KATMANDU, S.L. (JV)	Gremio Toneleros, 24 (Palma de Mallorca)	Spain		50,00%	50,00%
(A)		INVERSIONES GUIZA, S. A.	Avda. Lope de Vega, 4 (Sto. Domingo)	Dom. Rep.		49,84%	49,84%
	(F6)	KIMEL MCA, S.L. (JV)	Gremio Toneleros, 24 (Palma de Mallorca)	Spain		49,00%	49,00%
		COMPANIES WITH NO ACTIVITY	ADDRESS	COUNTRY	DIR S.	IND. S	TOTAL
		HELLENIC HOTEL MANAGEMENT	Panepistimiou, 40 (Atenas)	Greece	40,00%		40,00%
		HOLDING COMPANIES	ADDRESS	COUNTRY	DIR S.	IND S.	TOTAL
(A)	(F4)	STARMEL HOTELS JV, S.L.	Gremio Toneleros, 24 (Palma de Mallorca)	Spain	20,00%		20,00%
		EL RECREO PLAZA, C.A.	Avda.Fco.de Miranda Torre Oeste,15 Of.15(Caracas)	Venezuela		19,94%	19,94%
		MELIA HOTELS USA, LLC. (JV)	Brickell Avenue Suite 1000, 800	USA		50,00%	50,00%
		PROMEDRO, S. A.	Avda. del Lido s/n (Torremolinos)	Spain	20,00%		20,00%
(A)	(F8)	RENASALA, S.L.	Zurbarán, 9 (Madrid)	Spain	30,00%		30,00%
		HOMASI, S.A.	C/ Cavanilles 15,Pl.baja (Madrid)	Spain	34,99%		34,99%
		SISTEMAS RIBEY CLOUD, S.L.U.	C/ Recoletos 3, 1º (Madrid)	Spain		50,00%	50,00%
		MELCOM JOINT VENTURE, S.L.U. (JV)	C/ Recoletos 3, 1º (Madrid)	Spain	50,00%		50,00%

(A) Audited companies
(JV) Joint ventures
(F4) Companies that form part of the consolidated tax group of Starmel Hoteles JV, S.L.
(F5) Companies that form part of the consolidated tax group of Producciones de Parques, S.L.
(F6) Companies that form part of the consolidated tax group of Evertmel, S.L.
(F7) Companies that form part of the consolidated tax group of Inextur, S.A.
(F8) Companies that form part of the consolidated tax group of Renasala, S.L.

(*) Shareholding in these companies is through the ownership of apartments representing 31.72% and 21.17%, respectively.

1. Situation of the Entity

1.1 Corporate Structure

Meliá Hotels International, S.A. ("the Company") is the parent company of the Meliá Hotels International Group ("the Group" or "the Company"), which is an integrated group of companies mainly engaged in tourism activities in general, and more specifically in the management and operation of hotels owned, rented, managed or "franchised" by it, as well as in asset management.

In any case, those activities that special laws reserve to companies that meet certain requirements that are not met by the Company are expressly excluded from the corporate purpose. In particular, all activities reserved by law for collective investment undertakings or brokerage firms in the securities market are excluded.

The operating segments that make up the Company's organizational structure and whose results are reviewed by the highest decision-making authority of the entity are detailed below:

- ✓ Hotel management: this refers to the income from fees received for the operation of hotels under a management and franchise system. In addition, it includes intergroup charges to the Group's owned and rented hotels.
- ✓ Hotel business: this segment includes the results obtained from the operation of the hotel units owned or rented by the Group. Likewise, the income produced in the catering sector is presented as a result of the consideration of this activity as a source of income fully integrated into the hotel business, due to the majority sale of joint packages whose price includes accommodation and food and which would make a real segmentation of assets and associated liabilities impracticable.
- ✓ Other businesses related to hotel management: this segment includes additional revenues from the hotel business, such as casinos and tour operators.
- ✓ Real Estate: includes capital gains from asset turnover, as well as real estate development and operation activities.
- ✓ Club Meliá: this area reflects the results derived from the sale of shared use rights for specific units of holiday resorts.

Corporate: this relates to structural costs, results linked to the mediation and marketing of room reservations and tourism services, as well as the Group's corporate costs not attributable to any of the three business divisions mentioned above.

The Company's organizational structure is detailed below:

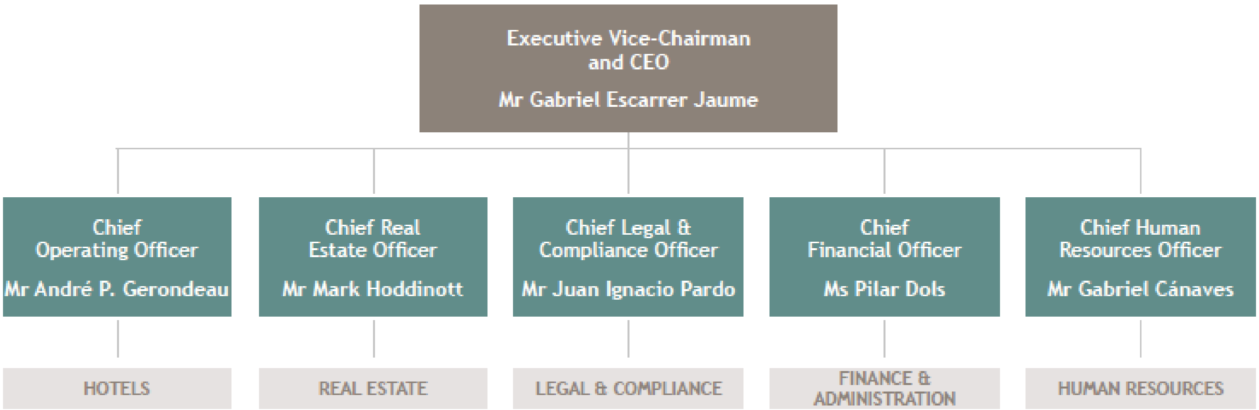
The Senior Executive Team (SET) is made up, in addition to the Vice President and Chief Executive Officer (CEO), of a multidisciplinary team whose members are most responsible for the management and day-to-day operation of all of the Company's areas. The Chief Officers who are part of this collegiate board are:

- Chief Financial Officer
- Chief Operating Officer
- Chief Human Resources Officer
- Chiel Legal & Compliance Officer
- Chief Real Estate Officer

1.2 Company Organization Chart

Our current organisational model, implemented in 2013 and called Competing by Design, is based on the decentralization 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. On the other hand, the strategic and control functions, which ensure the present and future global vision of the Company, remain centralized.

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



MAIN MISSION OF THE DIVISIONS

HOTELS

This division is made up of the hotel operations area and the Holiday Club (Circle) business, 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 asset strategy, including the management of the real estate portfolio, management of own assets, works management, company maintenance and purchasing at the global level, as well as the management of the group's strategic alliances and joint ventures.

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.

FINANCE & ADMINISTRATION

Responsible for growing the profitability of the Group’s businesses and ensuring a solid financial position. It includes the functions of Management Control, Business Intelligence, Investor Relations, Finance, Insurance, Administration, Tax, and Information Technology.

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 and leads the company's process of cultural transformation.

1.3 Strategy and value creation

Strategic vision

In 2018 our 2016-2018 Strategic Plan came to an end. Designed in 2015, it defined five core strategies to focus on achieving the 2020 Vision set out six years ago. Being recognised as a world benchmark in excellence, responsibility, and sustainability, and reinforcing our leadership in the leisure segment, is an integral part of our aspiration. These goals set out in the Strategic Plan, which came to an end in 2018, seek to ensure a stronger and more solid company, and to bring about the transformation required by an environment that is increasingly competitive, changing and global, in a business currently operating in 44 countries.

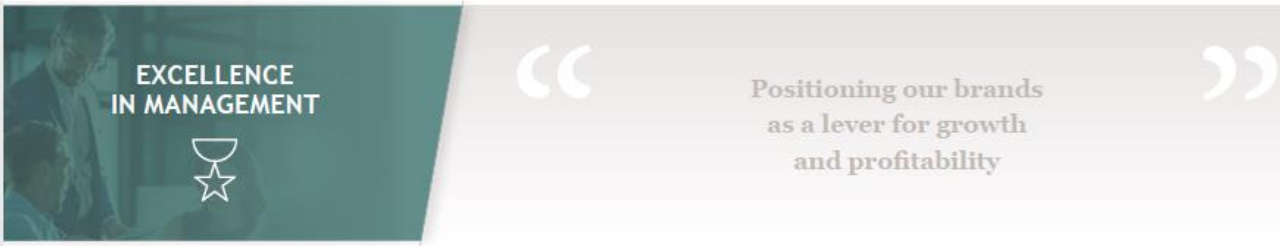
Core strategies

Over the year, as with previous years, we have prioritized integrating the strategic focus into the day-to-day activities of all our regional offices, adapting it where necessary to each individual environment, culture, needs and country.

The devised core strategies have paved the way in this regard and the change management has helped in the transformation that the strategic vision was calling for, promoting a management model and brand portfolio to match the different customer segments, moving forward in customer experience digitalisation and in redesigning the core processes, improving the profitability of the hotel and property business, and promoting improved intangible asset management, which is particularly relevant in a sector such as ours, where people and talent are the keys to delivering on the brand's promise. The results obtained, which are provided throughout this report, confirm that implementation of the strategy and the processes of transformation have advanced significantly in our organisation.

We are already working on producing the next strategic plan, which will run until 2022 and will enable us to face future challenges in an increasingly demanding and volatile world.

The strategic lines defined reflect five transformation levers:



FOCUS	GOALS	Report section	KPIs		
Brand-centric	Generate value through the successful and differential positioning of our brands, bringing about a paradigm shift where they are at the heart of the organisation and benchmarks in innovation and customer experience	Our brands Distribution and marketing Performance Presence map	Aggregate RevPAR (€)	2016	70.5
				2017	71.1
Smart revenues	Boost excellence in sales by optimising revenue and customer retention, adapting our sales model to the challenges and opportunities of each environment			2018	69.6
				20180	72.7
Operative performance	Improve operative profitability within a process of continual improvement		No. openings (accumulated)	2016	17
				2017	28
Selective growth	Consolidate our presence in key markets and strengthen internationalisation, through sustainable growth in leisure and bleisure destinations			2018	47
				20180	50

CULTURE & TRANSFORMATION

"Driving forward the cultural transformation through a comprehensive management of our staff, our efficiency and the company's competitiveness"

FOCUS	GOALS	Report section	KPIs	
People	Generate a comprehensive value proposal and strengthen our employer brand image	People	Commitment index (%)	2016: 85.4
Culture	Drive forward the cultural transformation of Meliá Hotels International			2017: 85.6 2018: 84.9
Organisation	Strengthen an agile, efficient and competitive company			20180: 85.4

REPUTATION & RECOGNITION

"Meeting the commitments undertaken with regard to our stakeholders, meeting their expectations and ensuring alignment with our culture and values"

FOCUS	GOALS	Report section	KPIs	
Corporate Governance	Drive forward a solid and consistent model of governance, with the aim of ensuring excellence and transparency	Corporate Governance	Reputation NPS (%)	2016: 18.3 2017: 22.3
Relations with stakeholders	Strengthen relations and dialogue with our stakeholders	Relations with our stakeholders		2018: 22.7
Corporate Responsibility	Strengthen the national and international reputation and recognition as a feature valued by all our stakeholders	Responsible hotel management		20180: 25.0

ASSET STRATEGY

"Consolidating how our property is run as the owner, generating value for the company"

FOCUS	GOALS	Report section	KPIs	
Portfolio asset	Strengthen the quality of the asset portfolio of Meliá Hotels International	Asset strategy	Gross value of assets	€4,401 TRILLION (+23.2% vs 2015)

DIGITALISATION & INNOVATION

"Digitally transforming the company to optimise processes, our capacity to generate revenue and personalise the customer experience"

FOCUS	GOALS	Report section	KPIs
	Personalise the relationship with our customers through the constant		

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.

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.

LEISURE AT HEART, BUSINESS IN MIND

2. Evolution and Business Results

The following is a detail of the Company's business performance:

2.1 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 €)	2018	2017	Change (%)
Total Aggregate Revenues	525,6	523,4	0,4%
Owned	141,5	141,1	
Leased	384,2	382,3	
Of which Room Revenues	379,8	374,5	1,4%
Owned	101,3	116,6	
Leased	278,5	257,9	
EBITDAR Split	137,7	138,0	(0,3%)
Owned	32,0	33,4	
Leased	105,7	104,6	
EBITDA Split	40,4	48,9	(17,4%)
Owned	32,0	33,4	
Leased	8,5	15,5	
EBIT Split	7,6	16,5	(53,8%)
Owned	19,4	19,4	
Leased	(11,8)	(2,9)	

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

(millions of €)	2018	2017	Change (%)
Total Management Model Revenues	96,2	94,0	2,3%
Owned and Leased Fees (*)	77,2	75,1	
Other revenues	19,0	18,9	
Total EBITDA Management Model	36,1	43,1	(16,4%)
Total EBIT Management Model	36,1	43,1	

(*) The Owned and Leased Fees caption includes the analytical fees for hotels operated by the Company and the fees billed to hotels operated by other Group companies.

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

(millions of €)	2018	2017	Change (%)
Revenues	7,4	6,9	6,9%
EBITDAR	1		
EBITDA	(0,2)	(0,6)	
EBIT	(0,3)	(0,7)	

Below are breakdowns of occupancy, Average Room Rate (ARR) and Revenue Per Available Room (RevPAR) by business model, indicating the variation from the previous year:

	OWNED AND LEASED					
	Occupancy		ARR		RevPAR	
	%	Change	€	Change	€	Change
Total hotels	**74,1%**	**1,0**	**105,9**	**1,5%**	**78,5**	**2,9%**
Total hotels (same store basis)	**74,8%**	**0,9**	**103,5**	**0,1%**	**77,4**	**1,4%**
EMEA (Include Premium Spain Hotels)	70,9%	(0,6)	187,6	(1,3%)	133,0	(2,2%)
SPAIN	73,4%	3,1	100,7	2,6%	73,9	7,0%
MEDITERRANEAN	75,8%	(1,5)	94,9	1,5%	72,0	(0,5%)

The number of rooms available in 2018 at owned and leased hotels was 4,8 million (4,9 million in 2017).

The following is an analysis of hotel development by region:

EMEA (Premium hotels Spain)

Urban: In general terms, our urban and premium hotels located in Spain closed a positive year after having posted a RevPAR increase of +5.0% vs 2017 thanks to the very positive performance in Madrid and Seville, as well as due to the recovery that we witnessed in Barcelona and Catalonia during the last quarter and after having suffered a number of difficulties and challenging situation during the first months of the year that negatively impacted the performance of our hotels located in the region. In this regard, we started to witness a number of signals pointing to a recovery in Barcelona during the last months of the year, as while in Q4 2017 demand, particularly of the MICE and individual segments, was heavily affected by the different riots that took place in the city, during Q4 2018 a number of corporates started to reconsider Barcelona again to held congresses and events, being this the main cause of the significant growth posted by hotels like Meliá Barcelona Sarriá.

Resort: During the entire 2018, the performance of our Spanish resorts has been hit by the slowdown of the international tourist sector in the country, particularly in Q1 and during the summer season, due to several factors, such as the decline in the number of both British and German tourists, the increasing competition from alternative destinations (Turkey, Egypt, Greece, etc.), the celebration of the 2018 FIFA World Cup and the unusual good weather conditions in Europe, which negatively impacted our operations in the country, particularly in destinations like Mallorca, Ibiza and Tenerife, as some hotels located in Southern Spain are more dependent on Spanish visitors and thus more resilient to the above mentioned pressures. In this challenging context, our Spanish resorts posted a RevPAR decrease when compared with 2017.

Outlook

The first quarter of 2019 looks good in general terms and therefore we are optimistic for all the EMEA region where we operate.

In Spain, we are optimistic and expect a positive performance of our urban hotels, as they will benefit from a number of events, such as FITUR (International Tourism Fair, January) in Madrid, the Mobile World Congress (February) in Barcelona and the Easter Break. Finally, in our Spanish resorts we do not foresee significant changes and expect recent performance to continue over the first months of the year.

Portfolio & projects

We will continue adding value to our existing hotel base through refurbishments and repositionings, as well as evaluating different high value added projects in cities and unique locations benefitting from positive market dynamics and strong growth potential in order to maximize our footprint in the region and provide alternative and unforgettable experiences to our guests.

MEDITERRANEAN

The performance of our hotels located in the Mediterranean region has faced a number of challenges, as our hotels located in Spain continued to benefit from the steady flow of visitors coming to the country from all over the world, as shown by the increase in the number of international tourists, which grew by almost a +1.1% vs 2017 and stood at almost 83 million visitors according to recent data published by the INE (Spain’s National Statistics Institute). However, results were slightly below 2017 figures, as the performance of the division was impacted by a number of aspects that negatively impacted the performance of our hotels, particularly during the summer season period, such as the unusual good weather conditions in Northern Europe, the celebration of the 2018 FIFA World Cup, the impact of certain hotels that were closed due to refurbishments, as well as the recovery in demand of alternative destinations, such as Turkey or Egypt, that resulted in a decline in demand of both German and British tourists. Nevertheless, we have been heavily investing in repositionings and refurbishments in order to adapt our properties to upper and luxury segments, as these are more resilient to cycle downturns and less price sensitive and therefore will allow us to limit the impact certain negative impacts in our operations going forward.

Our hotels located in the Canary Islands have been the ones that suffered to the most during 2018 after having posted a -3.7% RevPAR decrease due to the above mentioned. Additionaly, the number of refurbishments in certain hotels, like Sol Beach House at Meliá Fuerteventura, Meliá Salinas or Sol La Palma, or the weakness of the Swedish Krona during the last months of the year, were also factors that negatively impacted our operations in the region.

In the Balearic Islands, the performance was positive in general terms during the year vs 2017, with both prices and occupancy.

Our hotels located in Coasts posted a +0.4% RevPAR increase and delivered a positive performance during the year vs 2017 been positive in general terms, mainly thanks to the increasing demand from national tourists and the higher number of road trips, which helped us to improve both prices and occupancy rates, despite the fact that due to delays in certain refurbishments, particularly in Sol Costablanca, the number of available rooms during the summer season has been lower than initially expected.

Outlook

For the first quarter of the year, which has been historically a very important period along with the summer season for our hotels located in the Canary Islands, we remain cautious given the different challenges faced by the market and the recent industry trends, where competition became fierce as a result of the recovery shown by demand in alternative destinations, such as Egypt, where hotel chains have been recently offering significant discounts and low prices in 5-star all inclusive resorts that motivated similar movements and marketing campaigns in competing destinations in order to partially offset this impact not only in prices, but also in occupancy rates. Considering all these aspects, we foresee a decline in demand of international visitors in Q1 2019 vs the same period last year in our hotels located in the Canary Islands, particularly among German and Nordic visitors, although however we have witnessed an increase in pick ups that allowed us to partially mitigate the above mentioned declines.

Portfolio & projects

On july we sold the hotel Sol La Palma (Spain, 473 rooms) but they continue to be a part of our porfolio under lease contracts. Additionally, and after having heavily invested in ambitious refurbishments and repositionings to adapt all of our hotels located in the region to market demands and quality standards, our current hotel base is well prepared and adapted to properly target luxury and upper segments, as these tend to be historically less price sensitive and more focused on enjoying unique experiences and therefore are more resilient to aggressive discounts offered by competitors in alternative destinations, thus allowing us to partially offset the increasing demand in certain countries like Egypt or Turkey, among others.

The performance of our Spanish non-premium urban hotels has been positive in general terms during the entire year after having posted a RevPAR increase of +5.6% vs 2017 as a result of increases in both prices and occupancy rates, although there have been differences between regions that we would like to highlight:

CENTRAL AREA – MADRID

Our hotels located in Madrid closed a positive year after having posted a +6.4% RevPAR increase vs last year thanks to the a number of congresses and events that were held in the city, including the CPHI congress and the Fruit Attraction fair, among others, that boosted both the corporate and MICE segments and therefore the performance of certain hotels, such as Meliá Barajas, Tryp Alameda Aeropuerto, Tryp Cibeles, Tryp Chamartín, Meliá Madrid Princesa and Tryp Airport Suites, as well as Meliá Madrid Serrano, even tought the latter was and still is affected by a refurbishment that will last until October 2019. Moreover, the higher demand of the individual and transient leisure segment plus the increasing penetration of our direct channel, particularly among Spanish clients, was positively reflected in the figures posted by the rest of the hotels within the city.

SOUTHERN SPAIN

The increasing demand and attractiveness of certain destinations and cities located in the Southern region of Spain, combined with the strong increase in demand of both the MICE and groups segments, allowed our hotels located in the region to deliver a strong set of results and to close 2018 with a +5.6% RevPAR increase vs the same period last year. In this regard, the sharp increase of both local and international tourists, which was reflected in the individual and groups segments, motivated a significant rise in prices that was notorious in the case of certain hotels like Meliá Marbella Banús, Meliá Sevilla or Meliá Lebreros, which was also boosted by the good weather conditions during both the summer and ski seasons. However, we would like to highlight that the performance of our hotels was impacted due to a number of aspects, such as the fact that the Easter break too place in March, as well as a result that last year the Seville Fair took place in the same days as the May break in Madrid.

EASTERN SPAIN

We closed the year with a +4.5% RevPAR increase when compared with 2017. Tryp Barcelona Apolo, Tryp Barcelona Aeropuerto, Innside Palma Bosque and Meliá Palma Marina, were not affected by refurbishments as in the case of 2017, and therefore we were able to properly market their rooms and benefit from the increasing demand of the groups and MICE segments during the year. Palma Bellver, among others, which also benefitted from the recovery of the individual segment given the increasing demand of leisure travelers, both national and international, as well as due to the fact that Palma de Mallorca became a key destination to held international and national congresses and corporate events. Moreover, we would like to highlight that, after having faced a number of challenges derived from the unstable political situation during the entire year or the reduction in the number of rooms available that resulted from different refurbishments, when looking at Barcelona, particularly since Q4 and after having had a negative performance during the first 9 months of the year, our hotels started to revert the negative trend shown over the past months, as RevPAR grew by a double-digit in the city in Q4 2018 vs the same period last year.

NORTHERN SPAIN & EAST (LEVANTE)

The Northern and Eastern (Levante) areas of Spain also benefitted from the increasing flow of visitors, both national and international, that decided to visit a number of cities located in both regions, such as Bilbao, San Sebastián, La Coruña, Zaragoza, Benidorm, Alicante or Valencia, among others, which allowed us to improve past year's figures and to increase RevPAR by +7.2%. The individual and groups segments were the ones that explained the positive performance of our hotels. Moreover, the higher contribution of successfully repositioned hotels, such as Tryp Coruña and Tryp Sebastián Orly. Even though our overall figures were partially affected by the increasing importance of unregulated supply and the decline in demand from the UK due to Brexit concerns and increasing demand from alternative destinations.

Outlook

For the first quarter of the year, we remain cautious for our non-premium urban hotels located in Spain and expect a mixed performance depending on the area. In Madrid, we foresee a slight decline in demand, particularly in February and March, motivated by the expected Easter break effect plus a minor deterioration of the transient leisure segment, although the MICE segment is expected to remain strong, while for our hotels located in Southern Spain we expect a similar trend than in Madrid given the decline in individual leisure demand, particularly in Sierra Nevada due to unfavorable weather conditions, but that however we expect to partially offset with the increase in the number of MICE events that will be held in Seville during the period. In Eastern Spain, we are optimistic and expect the positive trend started recently to continue, particularly in Barcelona, while in Northern Spain and East (Levante) results are expected to be impacted by the full refurbishment and repositioning of Meliá Zaragoza combined with the lower number of bi-anual fairs that Will be held in the city and that Will negatively impact the MICE segment, although we forecast positive figures in certain hotels, such as Tryp Leon or Meliá Maria Pita, among others.

Project portfolio

No hotels were added to our Spanish non-premium urban portfolio recently nor we expect to add additional ones over the short term, as we strongly believe that our current hotel base is well prepared to face market demands and to develop our future strategy within the country. Also, we disaffiliated 2 hotels, Tryp Mallorca Santa Ponsa (60 rooms) and Tryp Madrid Getafe Los Ángeles (121 rooms), both with a very limited impact on our fees' generation capabilities, and as part of our actively managed portfolio strategy. In this regard, over the past months we have been actively investing in refurbishments and repositionings aimed at positioning them among premium clients, increasing the attractiveness of current facilities, as well as to expand the services and unique experiences offered to our clients, as these will help us to mitigate potential challenges that we might face in the future and to increase the resilience of our business model, while going forward we will continue focusing on adding additional value to our properties in order to improve the penetration of our hotels and brands in the upscale and luxury segments.

2.2 Real Estate

2018 has been an active year for our Real Estate division, as we sold a number of our non-core assets located in Spain and also updated the latest valuation of our fully- owned assets that dated back from 2015. On the disposals side, in July we closed the sale of 3 of our hotels: (Seville, 365 rooms), Sol La Palma (Tenerife, 473 rooms) and Sol Jandia Mar (Fuerteventura, 294 rooms). The hotels were sold to Atom, a Spain-based REIT. The deal, which encompassed both in the strategy of adaptation of our hotels to our brands attributes, as well as in the asset rotation strategy for our non-core assets by taking advantage from the real estate market momentum, generated total proceeds of €73.4M and a net capital gain at EBITDA level of €6.8M. Moreover, as part of the agreement, the buyer will invest €20.2M of CAPEX in a full renovation of 2 of the properties, adapting them to the current Sol brand standards and market potential. Accordingly, we will continue operating the hotels under variable lease contracts that will last for 5-year periods and that could be extended, at our sole discretion, of up to a maximum of 25 years.

On the other hand, in June we published the results of the new valuation of our fully-owned assets, which was performed by JLL, a leading independent appraiser. In this regard, the updated GAV rose by +23.2% vs June 2015 valuation to €4.401 trillions. Within this figure, €3.758B corresponds to the value of our assets in full consolidation, while the remaining €643M reflects the value of assets in equity method, being this value arrived at by applying Meliá´s percentage of the equity stake held in these assets.

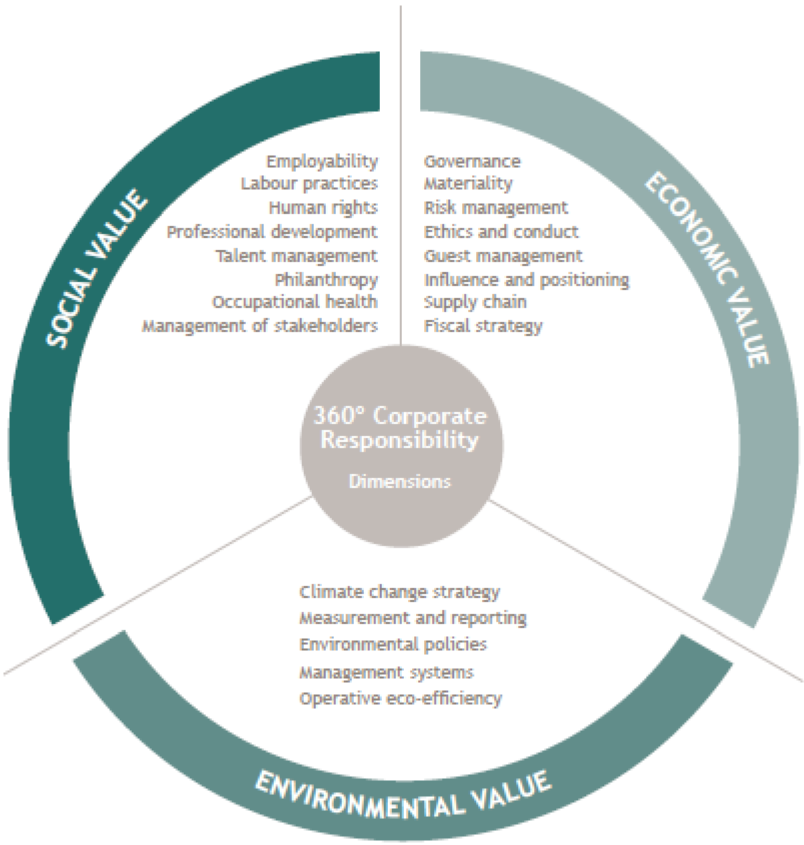
3. Non-Financial Information

In accordance with the provisions of Law 11/2018 of 28 December, and by virtue of the new wording of article 49 of the Commercial Code in section 5 and article 262.5 of the Companies Act, the Company is exempted from the obligation to present the Non-Financial Information Statement as this information appears in the Consolidated Management Report of the Meliá Hotels International Group, headed by Meliá Hotels International, S.A. and which will be deposited, together with the Consolidated Annual Accounts, in the Mercantile Registry of Palma de Mallorca.

3.1 Corporate Responsibility Strategy

Leaders in excellence, sustainability and responsibility

Our family origins mean our culture and our values are deeply rooted and inform how we behave, govern our daily activity and the way in which we relate to our environment. Corporate responsibility (CR) is an essential lever of our business strategy, one that helps us advance in our drive to create a hotel model that is more responsible and sustainable, and a generator of wealth for society as well. Being recognised as a world leader in excellence, sustainability and responsibility is our ambition, and in fact forms part of our 2020 Vision. To achieve it, we see CR from a holistic perspective, and consider its three dimensions as a whole. Our commitments in this field and the improvement that we have shown have led to us receiving Silver Class recognition in the RobecoSAM Sustainability Yearbook.



Governance sustainability

Increasing the integration of CR in our value chain is a high-impact factor for the company's own governance, and reinforces our body of regulations, getting across who we are much more forcefully, as it defines the environment and the business, provides financial and nonfinancial information, enables us to identify and manage the challenges we face, manage and mitigate risks, strengthen our openness and bond with our stakeholders, and strengthen our reputation, among other aspects.

Responsible hotel management: global impulse, local implementation

Our strategy, which aligns with and is integrated into the hotel business, is based on four key aspects, propelling us to change at the global level and ensuring their implementation in our hotels at the local level. All our regions are directly involved in implementing our responsibility strategy, bringing us nearer to the local community. We understand GDSs as an excellent opportunity to move forward in this field, as it draws us nearer to the different realities that we live with, understanding them better so we can help to improve them, through four main or primary approaches that we feel need a little more focus because of our business, and which are based on other, secondary approaches, which complement our activity. To ensure implementation, we are working on a digital system for capturing and reporting information linked to our corporate responsibility, and giving greater weight and initiative to business units to drive forward the strategy's implementation at the destinations, in line with our strategy and with the Sustainable Development Goals.

PILLARS OF CORPORATE RESPONSIBILITY

3.2 People

Our associates are the key to our being able to provide our customers with unique, unforgettable experiences, which means providing an excellent service and the warm and friendly attitude shown by our staff to help ensure our leadership within the sector. To that end, their professional development is at the heart of our approaches, and as a company we aspire to ensure that our associates are given a specific promise from each of our brands as an international company.

This approach, which is framed within the Strategic Plan for 2016-2018, has defined a process of cultural transformation, which has strengthened the comprehensive management model of people, our efficiency and our competitiveness, leveraging in the commitment and pride of belonging displayed by our employees.

Since then, we have been working to achieve these goals, by empowering internal talent, generating opportunities for developing and improving their skills and competencies in an increasingly digital context, which requires us to incorporate new roles and functions to stay competitive. Acting in this way is ensuring we are in the best conditions to adapt to the new and increasingly demanding and fast-changing trends, without forgetting to meet the expectations of our associates.

We are thus strengthening our employer branding image by attracting the finest talent and building loyalty among our current staff, who every day show us their high degree of commitment, responsibility and professionalism.

The Meliá people management system was bolstered in 2017 with the approval of the company's Human Resources Policy. The system ensures that the principles of transparency and non-discrimination; equal opportunities; promotion, payment and reward criteria; implementation of best practices in the development of people and talent, provision of safe environments and stable options for growth, among other aspects; are upheld.

3.3 Environmental Management

Committed to the fight against climate change

We work to lead the fight against climate change in the hotel industry and to help preserve the natural environment and the landscape, by promoting a culture of sustainable tourism.

Our concern over the potential negative effects of hotel activity covers all aspects of tourism, which is why we are working to bring about a hotel model that helps reduce the activity's impact on the climate, on resorts and on their ecosystems.

In order to contribute from our position as a leading hotel company, in 2015 we made the commitment to contribute to the global agreements reached at COP 21 in Paris.

We are committed to innovation and technology to be more efficient and to ensure a better and more responsible management of the use of resources, lower emissions, incorporating alternative sustainable mobility solutions and respect for biodiversity.

We know that our customers are increasingly more motivated about, concerned for and aware of environmental issues. As part of our journey to bring about a more sustainable form of tourism, our customers play an essential role, and to ensure they take part, we make sure they are involved in helping us achieve our objectives.

This becomes particularly relevant in emerging resorts or developing countries, for which environmental protection is a clear competitive advantage.

The sustainable development model that we are working on actively seeks to contribute not only to meeting the environmental commitments that we have taken on, but also to our advances with regard to the Sustainable Development Goals (SDGs) for which we have set specific goals.

Climate change: risks and opportunities

We are aware of the risks and opportunities that climate change poses for our industry, which is why we monitor them from a global perspective, with a particular focus on ensuring that our investments are appropriate, efficient and viable from an economic and environmental perspective, integrating aspects that open up opportunities to improve our management and enrich our value proposal into the decision-making process. Given the form of preventive management that we currently operate, we do not resort to guarantees and provisions for environmental risks.

We base our risk-management model on the COSO II international risk framework and methodology. Once a year, we update our Risk Map, which is then inspected by the Audit and Compliance Committee and by the Executive Committee.

The Meliá Technical Global Office co-ordinates the implementation of measures focusing on managing risks associated with climate change, in a way that is in line with the areas of Engineering, Environment, Procurement and Insurance, which include:

- ✓ Reviewing and updating the geographic location and the age of properties, the type of management and their exposure to extreme weather events.
- ✓ Constantly measuring the use of natural resources through SAVE, a project designed in-house in 2008 that enables us to determine the daily levels of consumption in hotels.
- ✓ Measuring greenhouse gas emissions and implementing measures to reduce them.

Climate change: risks and opportunities

	HIGH-IMPACT WEATHER PHENOMENA AND NATURAL DISASTERS	FAILURE TO MITIGATE IMPACT AND TO ADAPT TO CLIMATE CHANGE	LOSS OF BIODIVERSITY AND COLLAPSE OF MARINE AND TERRESTRIAL ECOSYSTEMS	DAMAGE CAUSED BY HUMAN AND INDUSTRIAL ACTIVITY
IMPACT	✓ Impact on infrastructures ✓ Environmental damage ✓ Loss of human lives, quality of life and living conditions ✓ Increase in poverty levels	✓ Lack of commitment by governments and businesses ✓ Failure to implement effective measures to mitigate the impact of climate change ✓ Direct impact on populations ✓ Need by private sector to adapt	✓ Irreversible consequences for the environment ✓ Drainage of resources ✓ Limiting factor for wealth creation at destinations	✓ Lack of prevention of major damage and disasters ✓ Environmental crimes ✓ Negative impact on health, infrastructures, economic activities and environment
MITIGATION/PREVENTION	✓ Designing hotels with preventive approaches ✓ Preventive management regarding climate phenomena	✓ Capacity to redirect demand ✓ Creating/adapting tourism products ✓ Innovation strategy ✓ Commercial strategy	✓ Protecting natural environments and ecosystems ✓ Boosting circular economy ✓ Designing sustainable and low-impact products and solutions ✓ Boosting responsible supply chain with low impact for the ecosystem	✓ Measuring the impact for mitigation or reduction ✓ Developing comprehensive programmes for efficient management of natural resources ✓ Managing waste generated by tourist activity

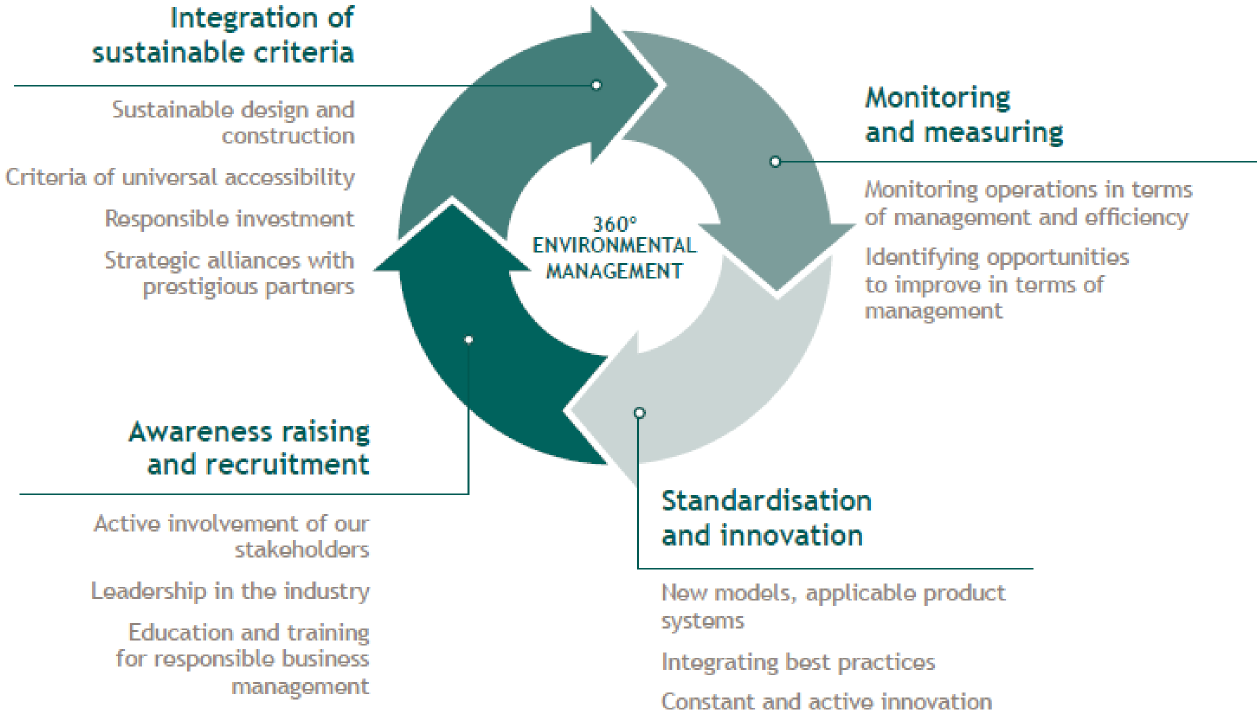
	CHANGES IN LEGISLATION	CLIMATE PARAMETERS	ASSETS, PARTNERS & INVESTMENT	VALUE PROPOSAL	MANAGEMENT & OPERATION	REPORTING & TRANSPARENCY
OPPORTUNITIES	Anticipating regulatory changes relating to the business management of climate change Incentive for implementing new measures aligned with said regulatory changes Reinforcing the business strategy regarding climate change	Possible increase of the value of tourist destinations due to more agreeable climate opens new opportunities for the company to expand and grow Extension of high season in tourist destinations where temperatures remain warm for longer	Market analysis firms, investment banks, insurance companies, financial institutions and owners of hotel properties are increasingly more sensitive and demanding when choosing where to invest Attracting new strategic partners and options to explore and take on new challenges and commitments	New patterns of consumption motivated by a greater sensitivity in society Impact with new concepts of products and services Opening for new customers and better understanding of existing customers	Operative improvements in hotel infrastructure Access to more efficient and innovative new systems New opportunities for innovation Impetus for new forms of leverage for educating and training teams Improvements in security protocols and crisis management	Improvements in obtaining, measuring and analysing information Improvements in evaluating the environmental commitment Response to issues of materiality of stakeholders Increased levels of trust

Strengthened body of regulations for environmental defence

The approval in 2017 of our Environmental Policy and the Corporate Responsibility Policy laid the foundations for strengthening our body of regulations in this matter. To that end, and in the interests of strengthening our model, new policies approved in 2018 explicitly refer to this commitment, such as the Policy for Procurements and Contracting Responsible Services, with a clear focus on a responsible approach to purchasing products and contracting services that are sustainable, the Philanthropy Policy, which establishes the defence of the environment as a cornerstone of our social collaboration, and even the Human Rights Policy, through which we recognise the right of communities to enjoy a safe, clean and healthy environment, particularly given the importance of the environment for the locations where we operate.

Environmental cycle

Meliá has made significant commitments in the fight against climate change, due to the fact that it operates in one of the industries most influenced by the impacts of this global reality, among other reasons. It is also due to a matter of particular materiality. Our environmental strategy is based on four courses of action:



4. Risk Management

4.1 The governance of risk management

The Meliá Board of Directors is the body responsible for approving the company's Risk Management, Analysis and Assessment Policy.

This policy (last updated in 2017), and the internal regulations by which it is enacted, establishes the basic principles governing the management of risk, the procedural framework and the rules, guidelines or criteria to be followed by the risk management model to ensure alignment with the strategy.

One of the responsibilities of the Audit and Compliance Committee is to supervise the internal control and risk management systems. In this regard, during the various sessions held in 2018, the progress made in this area was managed and monitored, with detailed reports submitted on the company's main risks, how they have evolved in recent years, and the steps taken to mitigate them.

On the other hand, the company's Executive Committee (SET) is responsible for, among other things, ensuring that risk management is integrated into critical processes, as well as assigning ownership of TOP risks and monitoring their evolution, in order to measure their impact and come up with measures for mitigating them.

To ensure effective control and risk management, and in order to respond to the material issues of most relevance to stakeholders, Meliá is strengthening a permanent risk management culture in all of the company's global and regional areas.

Using international best practices as a point of reference, the governance of risk adheres to the three lines of defence.

LINES OF DEFENCE

Diagram adapted from the guide by ECIIA/FERMA on the Directive on Company Law of the European Union (article 41).

This model sets out three groups (or lines) that give a cross-sectional and integrated view of the business, providing efficiency and transparency for the risk management processes:

1st LINE OF DEFENCE

This includes all the functions that have ownership of the identified risks and how they are managed. It is responsible for:

- ✓ Identifying and assessing risks
- ✓ Defining and implementing the necessary measures to manage the risks
- ✓ Using the risk map as a management tool

2nd LINE OF DEFENCE

This consists of the functions that supervise the risks. These include risk management and compliance, in charge of:

- ✓ Ensuring compliance with the policy and regulations
- ✓ Providing support to identify, analyse and assess risks
- ✓ Managing and monitoring key risks
- ✓ Defining and establishing standardised reporting, particularly to the Executive Committee and Governing Bodies

3rd LINE OF DEFENCE

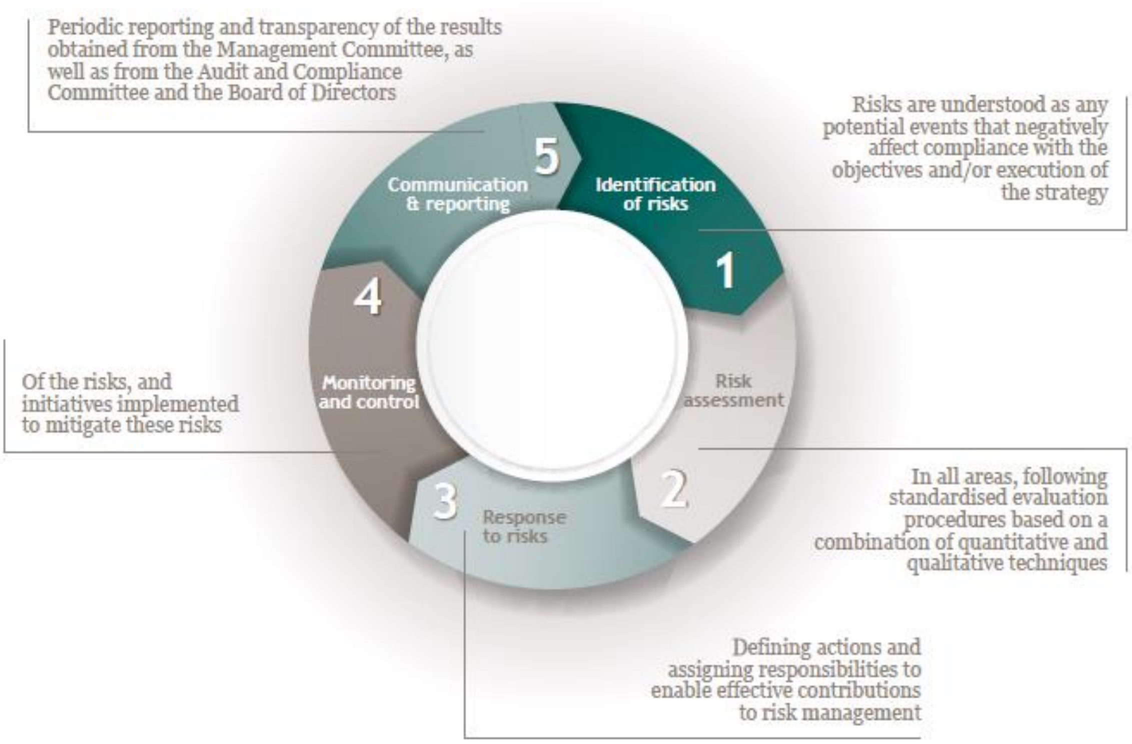
This refers to internal auditing, which as a third line of defence oversees the appropriate functioning of the Risk Management System and the Criminal Offence Prevention and Detection Model, systematically carrying out different types of auditing on the first and second lines of defence.

As a guarantee of independence, both the Internal Audit Department and the Risk Management and Compliance department report directly to the Audit and Compliance Committee.

4.2 Risk management system

The system is based on the integrated framework of Corporate Risk Management COSO II (Committee of Sponsoring Organizations of the Treadway Commission) and is a model for continual improvement that cuts across the whole of the company, and the main stages of which are as follows:

RISK MANAGEMENT PROCESS



In 2018, the risk management system involved 86 directors, who took part in updating their individual risk maps, which when integrated produced a total of 98 risk maps, including maps per region, per head office and the consolidated map for Meliá.

It is notable that the agency specialising in sustainable investment, RobecoSAM, considered the risk management of Meliá, in the Corporate Sustainability Assessment 2018, as an example of best practices in the sector.

4.3 Main Risks

The graph below shows a distribution of the main risks faced by the company, based on the latest update of the 2018 Risk Map and aligned with the core strategies of Meliá.

Category	Type of risk	Main risks	Trend	Management and control measures
Global	Geopolitical risks	- Terrorism - Crisis or political insecurity in countries where we have a presence - Wars, civil unrest or military revolts		The company has specific emergency plans depending on the nature of the risk A Crisis Management Protocol has been drawn up, applicable all over the world
	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		Existence of a Strategic Plan as a decision-making body for defining, monitoring and managing the strategy Regular analysis of the sector, the competition and market trends to adapt products, features and services to meet customers' expectations Existence of an Expansion Committee as a decision-making body for approving, managing and monitoring projects An annual Expansion Plan has been defined, which aligns with the Group's Strategic Plan and focuses on, among other aspects, ensuring a balanced portfolio that aligns with the Group's strategy
	Market	- Changes in market trends - Maturing or stagnating market		
	Portfolio distribution	- Concentration of hotels in certain areas - Dependence on certain regions/markets/segments		
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 - Organisational structure		Global Human Resources supports a model that focuses on the following aspects: a) Identifying key roles b) Building a value proposal that is attractive to internal staff or future employees c) Providing lateral development opportunities between regional offices and hotels d) Inspiring loyalty in employees and defining of a value proposal for staff, taking diversity into account e) Strengthening relations with universities and business schools to attract the best talent f) Training & Development Model g) Drawing up talent mappings by collectives and a specific model for critical profiles h) Mobility Strategy to offer international career possibilities i) Online training platform available that helps self-manage one's own development j) MeliáHome (internal portal) available for the entire organisation
	Development risks	- Need for resources and ability to keep pace - Appropriate choice of zones, countries and partners		Existence of an Expansion Committee as a decision-making body for approving, managing and monitoring projects and the Expansion Strategy Plan Production of factsheets on multidimensional risks per project
	Management model	- Ability to adapt the model - Generation new income		Strategic Plan defined and focused on increasing value for shareholders, profitability and Group solvency Various initiatives implemented focused on improving performance per brand, region, country and hotel Portfolio of brands updated and adapted, and new features or services implemented Initiatives implemented to improve revenue of any kind and cost management adapted to the standards set the by the Group Strengthening of our distribution channels (melia.com, call center) Increase in portfolio of return customers in the various segments and selection of partners to be incorporated into our loyalty schemes An innovative Revenue Management model that integrates cutting-edge market technology
Compliance	Legal or regulatory risks	- Legislative or regulatory changes - Excessive complexity and regulatory dispersion - Disputes		Training model and implementation of Codes of Conduct (Codes of Ethics) and complaints channel for different stakeholders Development of the Criminal Offence Prevention and Detection Model applicable to Meliá Hotels International General Data Protection Regulation adapted Revision and/or update of the company's body of regulations (policies, standards and processes) Internal circulation of a legal bulletin Implementation of a model for identifying, reporting on and monitoring the regulatory changes that apply to our environment Management of a map of prestigious independent legal advisors, depending on needs
Information	Emerging technological risks	- Protection and security of information - Cybercrime - Cloud storage services		Design of a Digitalisation Steering Plan for developing and implementing new technological tools Definition of systems architecture to provide business support and compliance with Group objectives Standardisation of Group management systems Technology Security Plan defined and implemented for preventing external cyber attacks Training and awareness-raising plan on security issues for all employees using technological tools Compliance with the Annual Internal Audit Plan Implementation of European data protection regulations Updating of Business Intelligence and reporting tools
	Exchange rate	- Exchange rate type		Financing in functional currency for the business

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.

In addition, the Annual Corporate Governance Report provides more detail on the Group's risk management.

5. Digitalisation and Connectivity

The main activities carried out by the Company in this area are listed below:

BIG DATA

By applying big data environments, we can use large volumes of information in real time, thus improving the content of communications and achieving a high degree of personalisation in our customers' experience.

Furthermore, advanced predictive models enable us to adapt the brand promise to consumers who are increasingly well informed and demanding, by studying behaviours and patterns in order to anticipate their needs and expectations, and create more efficient propensity models, among other aspects.

HOTEL SERVICE MANAGEMENT

With this technology, our digitalisation strategy has reached the most operative departments in our hotels, helping to improve management and control in real time of the requirements and tasks that form part of the business of hotel management.

This means a personalised and open service by enabling customers to inform us of their needs or request for services, or to report incidents so they can be resolved.

In 2018 it was implemented in 118 hotels, with both the APP and Alexa preference systems implemented.

REVENUE MANAGEMENT SYSTEM

The digital transformation in revenue management has been hugely significant, in order to respond to the personalisation and to cover the needs of the different markets, segments and profiles of each one of our brands.

A new pricing structure has been defined and put into use, and a cloud tool has been implemented to manage the new revenue management and demand-side management for each resort or hotel. In 2018 this was implemented in 57 hotels.

MELIÁ ASSISTANT & INTELIGENT CONTACT CENTER

We are committed to improving the quality and agility of the service, increasing the productivity and efficiency of our contact center agents and optimising our reservations process, with support from voice assistants.

We have developed Meliá Assistant, a virtual assistant that uses artificial intelligence to facilitate customer interaction. In 2019, Meliá will continue to advance in voice technologies for the contact center.

ALEXA EN CIRCLE

Alexa, Amazon's virtual assistance technology, consolidates the values of openness and permanent contact with our customers located at The Grand Reserve Paradisus Palma Real in the Dominican Republic. This system has been incorporated into the rooms of members of our "Circle" programme to provide an agile and quick response to requests from our guests for the different departments of a hotel.

SMART BRACELETS

In order to provide an innovative experience for our guests, our hotels in Calvià (Mallorca) have incorporated the use of Smart Bracelets, a new technology that can open room doors, pay at points of sale in any Meliá hotel in the area and pay for shopping in the stores located in the hotel's shopping area.

MARKETING CLOUD

In 2018 personalised campaigns were launched that were integrated into our channels and systems that have strengthened the model of the relationship with our customers and boosted a more direct and open form of communication, through notifications on the mobile app and WhatsApp. Meliá is the first European hotel chain to use these channels of communication.

NEW APP

The new design of our mobile app adds a new channel of communication, which provides permanent contact with our customers and meets their needs with greater agility and speed. Through this channel, our aim is to improve the customer experience, add new functionalities such as the digital key, remove the check-in process and having to obtain a physical key card for the room, 24/7 communication with the front desk via a chat system and geolocation in the company's hotel complexes (hotels in the Caribbean), as well as attending to customers' preferences during their stay (such as pillows, allergies and reservations for services in the establishment).

BACK MORE DIGITAL

The digital transformation is also affecting administrative service or back-office areas to improve the efficiency, agility and productivity of our teams. The aim of this project is to create a Centre of Excellence, led by multidisciplinary and cross-functional teams that will integrate leading technologies such as big data, robotics, artificial intelligence and the re-engineering of critical processes for the company. To that end, Meliá will be supported by the experience of technological partners that will help bring about a 360º digital transformation.

DIGITALISING MAINTENANCE DUTIES

An optimisation of preventive and corrective maintenance, using the available technology, to improve the planning and monitoring of incidents received, has been implemented in more than a hundred hotels. This tool has led to significant changes in response times, preventive task planning and team performance, as well as having an effect on the Meliá sustainability strategy by reducing emissions and the amount of electricity and water used. Developed in collaboration with a start-up from Mallorca, this project has led to an environment of entrepreneurship and innovation among the teams involved. In 2019 we expect to cover 100% of our hotels portfolio.

CIBERSECURITY & DATA PRIVACY

Our customers trust in us with their times of leisure, relaxation and work, as well as additional information that enables us to personalise their experiences. Meliá has an Information Security Policy and a Privacy Policy that are well known throughout the organisation. These policies are developed in a series of organizational processes and systems by applying best practices with regard to information security and GDPR compliance. In 2018 a total of 9,224 employees from all over the world signed up to training session on matters of cybersecurity and PCI (Payment Card Industry) protection, with the aim of equipping them with the necessary tools and to raise awareness in the organisation of the importance of information security.

FROM GOING DIGITAL... ...TO BEING DIGITAL

6. Acquisition and Disposal of Treasury Stock

At 31 December 2018, the total number of treasury shares held by the Company represented 0,79% of its share capital. At 2017 year-end, they represented 0,75%. In any case, treasury stock does not exceed the 10% limit established in the Spanish Companies Act.

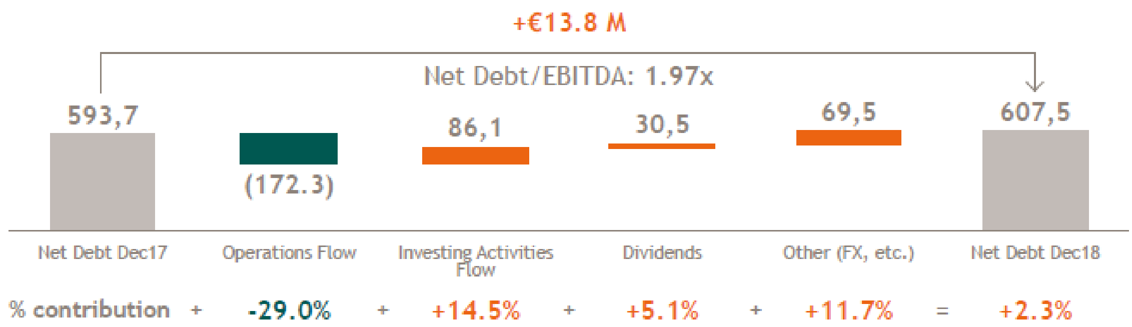
The market value of the shares of Meliá Hotels International, S.A. at year-end was 8.21 euros. At the close of fiscal year 2017, the share price was 11.5 euros.

7. Other Information

7.1 Debt & Cash Flow

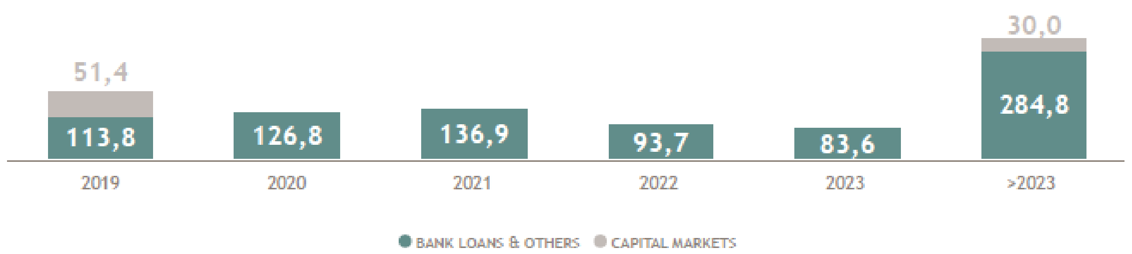
During the last twelve months of the year, Net Debt rose by +€13.8M and reached +€607.5M at the end of the period, which compares with the +€51.2M increase reported during 12M 2017. Furthermore, we would like to reiterate our strong commitment to maintain a Net Debt/EBITDA leverage ratio below 2.0x for the upcoming years.

NET DEBT EVOLUTION: DECEMBER 2017 - DECEMBER 2018 (€ MILLIONS)



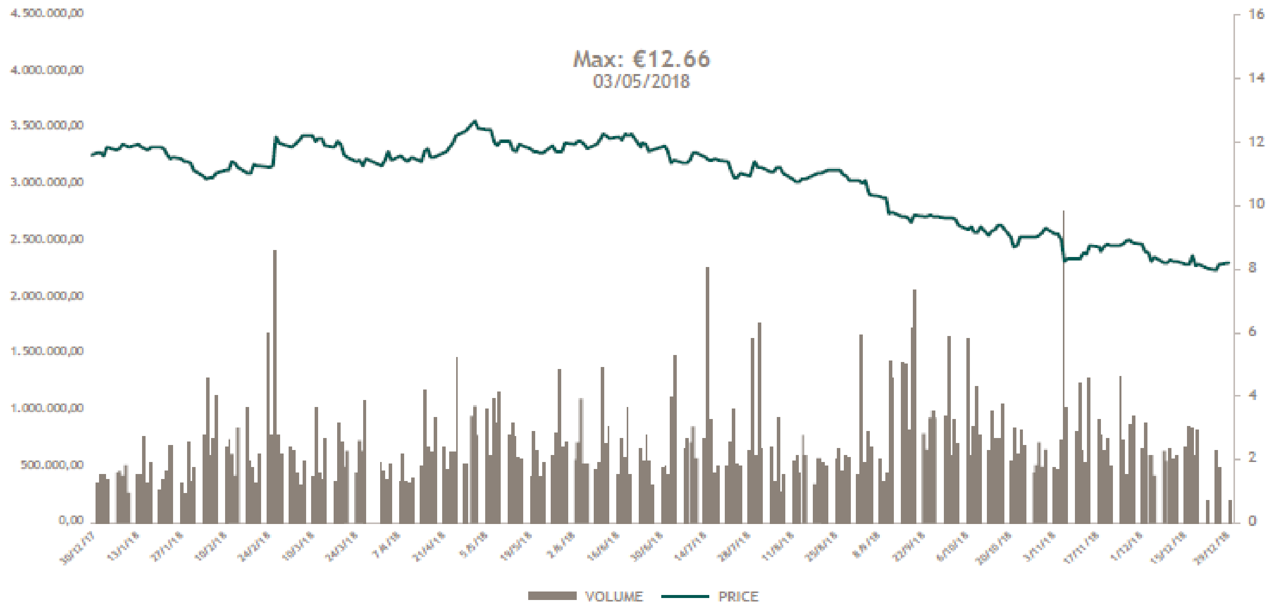
Furthermore, the maturity profile of current debt is shown below:

DEBT MATURITY PROFILE1 (€ MILLIONS)



7.2 Stock Market

On a yearly basis, our stock Price dropped by -29,6%, while the IBEX 35 Index fell by -15,3%.



	1Q 2018	2Q 2018	3Q 2018	4Q 2018	2018
Average daily volume *(thousand shares)*	627,38	693,88	798,2	774,9	724,4
Meliá *(% change)*	-0.1%	+4.4%	-18.6%	-14.7%	-29.6%
Ibex 35 *(% change)*	-4.4%	+0.8%	-1.8%	-9.2%	-15.3%

	2018	2017
Number of shares *(millions)*	229,70	229,70
Average daily volume *(thousand shares)*	724,36	714,88
Maximum share price *(euros)*	12,66	13,89
Minimum share price *(euros)*	7,96	10,42
Last price *(euros)*	8,21	11,5
Market capitalisation *(million euros)*	1.885,84	2.641,55
Dividend *(euros)*	0,17	0,13

Source: Bloomberg. Note: Meliá´s shares are listed on the Ibex 35 and FTSE4Good Ibex Index.

Main highlights of 2018:

- ✓ On July 10, 2018, a €0.1681 ordinary dividend per share was paid to shareholders.
- ✓ On October 8, 2018, RobecoSAM, the leading investment specialist focused exclusively on sustainability investing that is in charge of analyzing companies to define the composition of the Dow Jones Sustainability Index, ranked us 3rd among the World's Best Sustainable Companies in the Hotels, Resorts and Cruise Lines category.

7.3 Dividend policy

In the 2018 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, which was 140.1 million euros.

7.4 Enviromental 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.

7.5 Average payment period to suppliers

As indicated in the corresponding note in the consolidated anual accounts, the average period of payment to suppliers of Melia Hotels International, S.A. was 53.25 days in 2018, which compares with 71.69 days in 2017.

This decrease is due to the fact that, in 2018, the Company monitored the ratios associated with the average payment period to suppliers, as well as the administrative processes related to the invoices received from them and the management of capital itself, with the aim of reducing as far as possible the average payment period to suppliers in accordance with the provisions of Law 15/2010 and other applicable regulations in force.

7.6 Headcount evolution

Detailed in note 16.3 of the report.

7.7 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.

8. Annual Corporate Governance Report

The model Annual Corporate Governance Report for 2018 is presented below as an appendix.

A. Capital 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

Remarks

Indicate whether there are different classes of shares with different rights attaching thereto:

YES ☐ **NO ☒**

Class	Number of shares	Nominal value per share	Number of voting rights per share	Vested rights and obligations

A.2 Provide details of direct and indirect holders of significant shareholdings in the company at year end, excluding directors:

Name or corporate name of shareholder	% of shares carrying voting rights		% of voting rights through financial instruments		% of total voting rights
	Direct	Indirect	Direct	Indirect	
Hoteles Mallorquines Agrupados, S.L.	10.388%	0	0	0	10.388%
Hoteles Mallorquines Asociados, S.L.	13.206%	0	0	0	13.206%

Remarks

Breakdown of the indirect holding:

Name or corporate name of indirect shareholder	Name or corporate name of direct shareholder	% of shares carrying voting rights	% of voting rights through financial instruments	% of total voting rights

Remarks

State the most significant changes in the shareholding structure during the year:

Most significant movements		
On 1 August 2018 Hoteles Mallorquines Agrupados S.L. sold 1,829,700 shares in Meliá Hotels International S.A. to Hoteles Mallorquines Consolidados, S.L.		
NORGES BANK	25/06/2018	Decrease to below 3% of share capital
NORGES BANK	13/08/2018	Increase to above 3% of share capital
NORGES BANK	25/08/2018	Decrease to below 3% of share capital
NORGES BANK	28/08/2018	Increase to above 3% of share capital
NORGES BANK	29/08/2018	Decrease to below 3% of share capital
NORGES BANK	06/09/2018	Increase to above 3% of share capital
NORGES BANK	10/09/2018	Decrease to below 3% of share capital
NORGES BANK	24/09/2018	Increase to above 3% of share capital
NORGES BANK	25/09/2018	Decrease to below 3% of share capital
NORGES BANK	02/10/2018	Increase to above 3% of share capital
NORGES BANK	05/10/2018	Decrease to below 3% of share capital
NORGES BANK	10/10/2018	Increase to above 3% of share capital
NORGES BANK	12/10/2018	Decrease to below 3% of share capital

A.3 In the following tables, list the members of the company's Board of Directors with voting rights attaching to shares of the company:

Name or corporate name of director	% of shares carrying voting rights		% of voting rights through financial instruments		% of total voting rights	% of voting rights that can be transmitted through financial instruments	
	Direct	Indirect	Direct	Indirect		Direct	Indirect
Mr. Juan Arena De La Mora	0.0004%				0.0004%		
Mr. Alfredo Pastor Bodmer		0.0026%			0.0026%		
Mr. Gabriel Escarrer Juliá		5.025%			5.025%		
Mr. Juan Vives Cerdá		0.0002%			0.0002%		
Mr. Luis María Díaz De Bustamante Y Terminel	0.0001%				0.0001%		
Hoteles Mallorquines Consolidados S.L.	23.379%				23.379%		

Total percentage of voting rights held by the Board of Directors
28.407%

Remarks

Breakdown of indirect holding:

Name or corporate name of director	Name or corporate name of direct shareholder	% of shares carrying voting rights	% of voting rights through financial instruments	% of total voting rights	% of voting rights that can be transmitted through financial instruments
Mr. Gabriel Escarrer Juliá	Majorcan Hotels Exlux S.L.	5.025%		5.025%	

Comments

A.4 Indicate, if applicable, any family, commercial, contractual or corporate relationships between significant shareholders to the extent they are known to the company, unless they are insignificant or result from the ordinary course of business, except those that are included in Section A.6:

Name or corporate name of related party	Type of relationship	Brief description
Hoteles Mallorquines Agrupados, S.L. / Hoteles Mallorquines Asociados, S.L. / Hoteles Mallorquines Consolidados, S.L.	Corporate	According to that indicated in the Significant Event dated 11 October 2018 (registered with number 270438), the companies Hoteles Mallorquines Consolidados, S.L., Hoteles Mallorquines Agrupados, S.L. and Hoteles Mallorquines Asociados, S.L., for the sole purpose of complying with the notification requirements for significant shareholdings, jointly notified the total percentage of voting rights in Meliá Hotels International, i.e. 46.972 %, which results from the sum of their direct and individual shareholding in Meliá Hotels International (23.379%, 10.388% and 13.206%, respectively). The said notification of significant shareholdings stated that the members of the Escarrer family continue to hold 100% of the share capital (namely, Mr. Escarrer Juliá, his wife and their six children) and that there is no controlling shareholder in any of the companies, although, they have the same shareholders.

A.5 If applicable, state the commercial, contractual or corporate relationships between significant shareholders and the company and/or its group, unless they are insignificant or result from the ordinary course of business:

Name or corporate name of related party	Type of relationship	Brief description:

A.6 Describe the relationships, unless insignificant for the two parties, between significant shareholders or shareholders represented on the Board and the directors, or their representatives, in the case of proprietary directors.

Explain, where appropriate, how the significant shareholders are represented. Specifically, state those directors appointed to represent significant shareholders, those whose appointment was proposed by significant shareholders, or those linked to significant shareholders and/or companies in its group, specifying the nature of such relationships or ties. In particular, mention the existence, identity and position of directors, or their representatives, as the case may be, of the listed company, who are, in turn, members of the Board of Directors or their representatives of companies that hold significant shareholdings in the listed company or in group companies of these significant shareholders.

Name or corporate name of related director or representative	Name or corporate name of related significant shareholder	Name of the group company of the significant shareholder	Description of relationship / position
Mr. Gabriel Escarrer Juliá	Majorcan Hotels Exlux S.L.U.		Mr. Gabriel Escarrer Juliá notified the control of 5.025% of the voting rights in Meliá Hotels International, S.A. indirectly, through the company Majorcan Hotels Exlux, S.L.U. It should be also noted that Mr. Gabriel Escarrer Jaume and Mr. Sebastián Escarrer Jaume, without exercising control, are likewise minority shareholders of the significant shareholders of the company (Hoteles Mallorquines Asociados, S.L., Hoteles Mallorquines Agrupados, S.L. and Hoteles Mallorquines Consolidados, S.L.).

A.7 State whether any shareholders' agreements affecting the company pursuant to Articles 530 and 531 of the *Ley de Sociedades de Capital* (Spanish Corporate Enterprises Act) have been reported to the company. If so, briefly describe them and list the shareholders bound by the agreement:

YES ☐ **NO ☒**

Parties to the shareholders' agreement	% of share capital affected	Brief description of the agreement	Date of termination of the agreement, if applicable

Remarks
According to that indicated in the Significant Event dated 11 October 2018 (registered with number 270438), Mr. Gabriel Escarrer Juliá, Mrs. Ana María Jaume Vanrell and their six children (namely, Mrs. María Magdalena, Mrs. Ana María, Mrs. María Antonia, Mrs. María Mercedes, Mr. Sebastián and Mr. Gabriel Escarrer Jaume), in their capacity as direct or indirect shareholders of the commercial companies through which they hold interest in the share capital of Meliá Hotels International, S.A. (i.e., Hoteles Mallorquines Consolidados, S.L., Hoteles Mallorquines Agrupados, S.L., Hoteles Mallorquines Asociados, S.L. and Majorcan Hotels Exlux, S.L.U., (hereinafter, the "Commercial Companies"), notified the CNMV and the Company that a shareholders' agreement was executed on 5 October 2018, whose purpose was to reinforce, on a temporary basis, the majority system required to adopt a specific and limited number of resolutions by the General Shareholders' Meeting and the Board of Directors in Commercial Companies which affect some specific matters, with each of their signatories maintaining free vote and, therefore, without negotiation on the management of the Commercial Companies or Meliá Hotels International. In the signatories' opinion, the Shareholders' Agreement does not have the status of an 'agreement subject to disclosure' within the meaning of Articles 530 and 534 of the Spanish Corporate Enterprises Act, and its registration with the Commercial Register is not required, although, for the sake of transparency, the signatories sent a copy of the Agreement to both Meliá Hotels International and the CNMW.

State whether the company is aware of any concerted actions among its shareholders. If so, provide a brief description:

YES ☐ **NO ☒**

Parties to the concerted action	% of share capital affected	Brief description of the agreement	Date of termination of the agreement, if applicable:

Remarks
According to that indicated in the Significant Event dated 11 October 2018 (registered with number 270438), as well as in the above remarks, after the execution of the said Shareholders' Agreement, there is no negotiation on the management of the Commercial Companies or Meliá Hotels International.

If any of the abovementioned agreements or concerted actions have been modified or terminated during the year, please specify expressly:

A.8 State whether any individual or company exercises or may exercise control over the company in accordance with Article 5 of the *Ley de Mercados de Valores* ("Spanish Securities Market Act"). If so, please identify them:

YES ☐ NO ☒

Name of individual or company

Remarks

A.9 Complete the following tables on the company's treasury shares:

At year end:

Number of direct shares	Number of indirect shares (*)	Total % of share capital
1,822,968	0	0.794%

Remarks

(*) Through:

Name or corporate name of the direct shareholder	Number of direct shares
Total:	

Remarks

Explain any significant changes during the year:

Explain any significant changes

A.10 Describe the terms and conditions and the duration of the authority currently in force given by the General Shareholders' Meeting to the Board of Directors in order to issue, repurchase, or dispose of treasury shares.

The General Shareholders' Meeting held on 4 June 2015 adopted, among others, the following resolution: Authorisation to the Board of Directors which, in turn, may delegate and empower, as it deems appropriate, the Directors it deems appropriate, to acquire and dispose of treasury shares in the Company by sale, exchange, allotment of shares, 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 meeting and for a period of five years from the date of adoption of this resolution. All this subject to the limits and requirements laid down in the Spanish Corporate Enterprises Act and in the Company's Internal Code of Conduct on matters related to the Securities Market.

A.11 Estimated free float:

	%
Estimated free float	
108,431,610 shares	47.206%

Remarks

A.12 State whether there are any restrictions (bylaw, legislative or of any other nature) placed on the transfer of shares and/or any restrictions on voting rights. In particular, state the existence of any type of restriction that may inhibit a takeover attempt of the company through acquisition of its shares on the market, and those systems for the prior authorisation or notification that may be applicable, under sector regulations, to acquisitions or transfers of the company's financial instruments.

YES ☐ **NO ☒**

Description of restrictions

A.13 State whether the shareholders acting at a general shareholders' meeting have approved the adoption of measures to neutralise a takeover bid pursuant to the provisions of Law 6/2007.

YES ☐ **NO ☒**

If applicable, explain the measures adopted and the terms under which these restrictions will cease to apply:

Explain the measures approved and the terms under which these restrictions will cease to apply

A.14 State whether the company has issued securities that are not traded on a regulated EU market.

YES ☐ **NO ☒**

If applicable, list the different classes of shares, if any, and the rights and obligations attaching to each class of shares.

List the different classes of shares.

B. General Shareholders' Meeting

B.1 Indicate and, as applicable, describe any differences between the quorum established by the Spanish Corporate Enterprises Act (or "LSC" according to its acronym in Spanish) for General Shareholders' Meeting and that set by the company.

YES ☐ **NO ☒**

	% quorum different from that established in Article 193 LSC for general matters	% quorum different from that established in Article 194 LSC for the special circumstances described in Article 194 LSC.
Quorum required at 1st call		
Quorum required at 2nd call		

Description of differences
Notwithstanding the above, article 24.4 of the Bylaws establishes that, in order that the General Shareholders' Meeting may validly approve the change in the object of the Company, the request for delisting of shares of the Company, or the transformation or winding up of the Company, shareholders representing FIFTY PERCENT (50%) of subscribed share capital with voting rights must be in attendance at the first call to the General Shareholders' Meeting, and at the second call, the attendance of shareholders representing TWENTY-FIVE PERCENT (25%) of the subscribed share capital with voting rights will suffice. The merger, as well as the demerger, either total or partial, segregation and global assignment of assets and liabilities of the Company will also require this quorum, except when such transactions involve companies that, either directly or indirectly, are majority owned by the Company, in which case the quorum required by the legislation in force at any given time for each case shall apply.

B.2 State whether there are any differences in the company's manner of adopting corporate resolutions and the manner for adopting corporate resolutions described by the LSC and, if so, explain:

YES ☒ NO ☐

Describe how it is different from that contained in the LSC.

	Qualified majority other than that established in Article 201.2 LSC for the cases set forth in Article 194.1 LSC	Other cases requiring a qualified majority
% established by the company for adoption of resolutions	0.00%	60.00%

Description of differences
Pursuant to Article 28.2 of the Bylaws, in order that the General Shareholders' Meeting may validly approve the change in the Company's object, the request for delisting of the Company's shares, or the transformation or winding up of the Company, a favourable 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 first and second call. Nevertheless, when, at second call, the Shareholders representing less than FIFTY PERCENT (50%) of the subscribed share capital with voting rights are in attendance, the resolutions mentioned in this section may only be passed with the favourable vote of TWO THIRDS (2/3) of the share capital present or represented at the General Shareholders' Meeting. The merger, as well as the demerger, either total or partial, segregation and global assignment of assets and liabilities of the Company will also require the favourable vote of the abovementioned qualified majority, except when said merger or demerger involves companies that, either directly or indirectly, are majority owned by the Company, in which case the general system provided for in Section 28.1 (simple majority of votes of shareholders present or represented at the meeting, except in those cases where the Law or the Bylaws require a higher majority) shall apply. On the other hand, Article 28.3 of the Bylaws states that in order to change Articles 3 (Registered Address), 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 the Company Bylaws, a favourable vote of at least SIXTY PERCENT (60%) of the share capital with voting rights present or represented at the General Shareholders' Meeting will be required, both at first and second call.

B.3 State the rules for amending the company's Bylaws. In particular, indicate the majorities required to amend the bylaws and any provisions in place to protect shareholders' rights in the event of amendments to the bylaws.

According to Article 30.1.h) of the Bylaws, the General Shareholders' Meeting has the authority to approve any amendments to the Bylaws.

Pursuant to Article 24 of the Bylaws, the Ordinary or Extraordinary General Shareholders' Meeting shall be validly convened at first or second call when the shareholders in attendance or represented meet the legal and statutory minimum quorums regarding the percentage of share capital for the different matters on the Agenda according to current legislation.

Notwithstanding the foregoing, in order that the General Shareholders' Meeting may validly approve the change in the Company's object, the request for delisting of the Company's shares, or the transformation or winding up of the Company, shareholders representing fifty percent (50%) of the subscribed share capital with voting rights must be in attendance at the first call to the General Shareholders' Meeting. At the second call, the attendance of shareholders representing twenty-five (25%) of the subscribed share capital with voting rights will suffice.

According to Article 28 of the Bylaws, in order to approve the resolutions of the General Shareholders' Meeting, a simple majority of votes of shareholders present or represented at the Meeting will be required, except in the circumstances where the Law or the Bylaws provide for an increased majority. Therefore, in order that the General Shareholders' Meeting may validly approve the change in the Company's object, the request for delisting of the Company's shares, or the transformation or winding up of the Company, a favourable 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 first and second call. Nevertheless, when, at second call, shareholders representing less than fifty percent (50%) of the subscribed share capital with voting rights are in attendance, the resolutions mentioned in this section may only be passed with the favourable vote of two thirds (2/3) of the share capital present or represented at the General Shareholders' Meeting.

Notwithstanding the foregoing, the resolutions to change Articles 3 (Registered Address), 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 the Bylaws, will require a favourable vote of at least sixty percent (60%) of the share capital with voting rights present or represented at the General Shareholders' Meeting, both at first and second call.

B.4 Give details of attendance at General Shareholders' Meetings held during the year of this report and the two previous years:

Date of General Meeting	Attendance data					Of which, free float				
	% physically present	% present by proxy	% distance voting		Total	% physically present	% present by proxy	% distance voting		Total
			Electronic voting	Other				Electronic voting	Other	
06/06/2018	52.38%	19.91%	0.00%	5.00%	77.29%	0.00%	19.91%	0.00%	5.00%	24.91%
08/06/2017	52.50%	35.15%	0.00%	0.00%	87.65%	0.00%	35.15%	0.00%	0.00%	35.15%
23/06/2016	52.37%	14.21%	0.00%	0.00%	66.58%	0.00%	14.21%	0.00%	0.00%	14.21%

Remarks
Free-float percentage has been calculated on the basis of the total share capital attending the meeting. Likewise, some percentages under section "free float" have been rounded off to two decimal places.

B.5. Indicate whether any item on the agenda of the General Shareholders' Meetings during the year has not been approved by the shareholders for any reason.

YES ☐ **NO ☒**

Items on the agenda not approved	% votes against (*)

(*) If the non-approval of the item is for a reason other than the votes against, this shall be explained in the text part and "n/a" shall be placed in the "% votes against" column.

B.6. Indicate whether the Bylaws contain any restrictions requiring a minimum number of shares to attend General Shareholders' Meetings, or on distance voting:

YES ☒ NO ☐

Number of shares required to attend General Shareholders' Meetings	300
Number of shares required for distance voting	1

Remarks
An explanatory document regarding the exercise by the shareholders of information, attendance and representation rights at the General Shareholders' Meeting is available on the Company's corporate website: https://www.meliahotelsinternational.com/en/shareholdersAndInvestors/ShareholdersDocs/2018/4.%20MHI_JGA2018_Documento%20información%20derechos%20de%20información%20voto%20a%20distancia_Eng.pdf

B.7. Indicate whether it has been established that certain decisions other than those established by Law exist that entail an acquisition, disposal or contribution to another company of essential assets or other similar corporate transactions that must be subject to the approval of the General Shareholders' Meeting.

YES ☐ **NO ☒**

Explanation of the decisions that must be subject to the General Shareholders' Meeting, other than those established by Law
According to paragraph (j) of the article 30 of the Bylaws of the Company, the General Shareholders' Meeting has powers to "Approve the acquisition, disposal or contribution to another company of essential assets and transfer to subsidiary companies of essential activities carried out until then by the Company. Activities and assets are essential when the volume of the operation exceeds twenty-five per cent of the total assets in the balance sheet".

B.8 State the address and method for accessing the company's website to find information on corporate governance and other information regarding General Shareholders' Meetings that must be made available to shareholders through the company's website.

Address for accessing the company's website is: www.meliahotelsinternational.com, and the Company's corporate governance documentation is displayed by clicking on 'Shareholders and Investors' section, where the information on General Shareholders' Meetings is also included: https://www.meliahotelsinternational.com/en/shareholders-investors/corporate-governance

C. Structure of the Company's Management

C.1 Board of Directors:

C.1.1. Maximum and minimum number of directors established in the Bylaws and the number set by the General Shareholders' Meeting:

Maximum number of directors	15
Minimum number of directors	5
Total number of directors set by the General Shareholders' Meeting	11

Remarks

C.1.2. . Complete the following table identifying the members of the Board:

Name or corporate name of director	Representative	Director category	Position on the Board	First appointment date	Last appointment date	Election procedure	Date of birth
Mrs. Carina Szpilka Lázaro		Independent	Director	25/02/2016	23/06/2016	Resolution at General Shareholders' Meeting	13/12/1968
Mr. Fernando D'Ornellas Silva		Independent	Coordinating Director	13/06/2012	08/06/2017	Resolution at General Shareholders' Meeting	29/10/1957
Mr. Juan Arena De La Mora		Independent	Director	31/03/2009	06/06/2018	Resolution at General Shareholders' Meeting	23/09/1943
Mr. Alfredo Pastor Bodmer		Other external	Director	31/05/1996	04/06/2015	Resolution at General Shareholders' Meeting	30/09/1944
Mr. Gabriel Escarrer Juliá		Proprietary	Chairman	07/02/1996	04/06/2015	Resolution at General Shareholders' Meeting	02/03/1935
Mr. Juan Vives Cerdá		Proprietary	Director	07/02/1996	04/06/2015	Resolution at General Shareholders' Meeting	26/08/1935
Mr. Sebastián Escarrer Jaume		Proprietary	Director	07/02/1996	08/06/2017	Resolution at General Shareholders' Meeting	09/05/1966
Mr. Gabriel Escarrer Jaume		Executive	Vice Chairman - CEO	07/04/1999	08/06/2017	Resolution at General Shareholders' Meeting	28/01/1971
Mr. Francisco Javier Campo García		Independent	Director	13/06/2012	08/06/2017	Resolution at General Shareholders' Meeting	01/05/1955
Mr. Luis Mª Diaz de Bustamante Terminel		Independent	Secretary Director	30/11/2010	08/06/2017	Resolution at General Shareholders' Meeting	25/08/1952
Hoteles Mallorquines Consolidados S.L.	Mrs. María Antonia Escarrer Jaume	Proprietary	Director	23/10/2000	08/06/2017	Resolution at General Shareholders' Meeting	05/01/1963
Total number of directors					11		

State if any directors, whether through resignation, dismissal or any other reason, have left the Board during the period subject to this report:

Name or corporate name of director	Director category at time of leaving	Date of last appointment	Date director left	Specialised committees of which he/she was a member	Indicate whether the director left before the end of the term

Reasons for leaving and other remarks

C.1.3 Complete the following tables regarding the members of the Board and their categories:

EXECUTIVE DIRECTORS

Name or corporate name of director	Position held in the company's organisation chart
Mr. Gabriel Escarrer Jaume	Vice Chairman and Chief Executive Officer

Profile
In 1993, Mr. Gabriel Escarrer Jaume graduated in Finance and Business Management from the prestigious Wharton School, University of Pennsylvania (USA). He then worked for 3 years in the International Corporate Finance Department at the Salomon Smith Barney Investment Bank in New York. From there, in 1996, he took part in the successful IPO of Meliá Hotels International, a company founded by his father, Mr. Gabriel Escarrer Juliá, which he joined immediately afterwards, simultaneously working on a tailored postgraduate degree in Business Administration at ESADE, one of the top ten business schools in Europe. Mr. Gabriel Escarrer Jaume led a strong advance in the Company's expansion and technological transformation, providing Meliá with greater corporate strength in an increasingly complex environment in the international tourism sector. As Chief Executive Officer -position to which he was appointed in 1999-, Gabriel Escarrer addressed another important challenge when he launched an extensive renovation plan of the hotel assets, and since then, he has never stopped striving to ensure that Meliá continues to be at the forefront in the Spanish and international hotel sector.

Escarrer combines a strong vision and financing approach, supported by its solid training and a career in the field that has led him to be appointed Chairman of the Advisory Council of BBVA in the Levante Region, with the vocation and concerns of a true "hotelier", such as customer focus, innovation in services and experiences, or diversification and monitoring of the latest trends. As Vice Chairman and Chief Executive Officer of Meliá Hotels International since 2009, Gabriel Escarrer has consolidated his leadership through the Company's effective response to the international financial crisis and the management of an unprecedented cultural and organisational transformation, with a largely positive balance at corporate and staff levels, including an increasing financial consolidation and the constant growth of its brands in both traditional and emerging markets.

In 2016, after 60 years at the helm of the Company, Mr. Gabriel Escarrer Juliá became Non-Executive Chairman, transferring his executive powers to Gabriel Escarrer Jaume with the unanimous support of the Board of Directors.

Escarrer holds the positions of Vice Chairman and Chief Executive Officer and is the top executive within the group. As a leader of a responsible, family company, Gabriel Escarrer has always promoted the corporate responsibility and sustainability policy in the social, economic and environmental aspects, as well as the ethics and corporate values that support the performance of a Company which, as the leader and a reference in the industry, has greater public visibility and responsibility.

Thanks to all this, Meliá is the leader in Corporate Reputation in the tourism industry according to the prestigious MERCO ranking (a recognition it has achieved for 4 consecutive years) and has launched emblematic reconversion projects, as well as 18 repositioning projects for mature tourism destinations such as Magaluf in Majorca and Torremolinos in Malaga.

The first of these projects, named Calviá Beach, has received the Tourism Merit Award from the Ministry of Industry, Commerce and Tourism, while his support for the repositioning of Torremolinos led to him being named Tourism Personality of the Year in 2016. Both projects are an example of the Group's renewed commitment to resort hotels, a segment which Meliá has led ever since the 1950s, as well as its commitment to the renewal and transformation of the industry in the new century.

One of his priorities for the future is to develop an unprecedented international growth plan to catch-up with major multinational hotel chains, expanding the horizons of the Company and thus the value of Meliá for all its Stakeholders. All this, along with the solid family values that have allowed the Group to remain a market leader for over six decades.

Total number of executive directors	1
% of the Board	9.09%

EXTERNAL PROPRIETARY DIRECTORS

Name or corporate name of director	Name or corporate name of the significant shareholder represented, or which has proposed their appointment
Mr. Gabriel Escarrer Juliá	Majorcan Hotels Exlux S.L.U.

Profile

In 1956 Mr. Gabriel Escarrer Juliá was only 21 years old when he founded what is now called the Meliá Hotels International group, by acquiring and managing a 60-room hotel on the island of Majorca, where he was born, and where he still maintains the headquarters of what has now become one of the most successful hotel companies in the world. Prior to that and for 6 years, Escarrer worked in tour operations, where he had access to the emerging tourism industry, of which he later became a visionary, pioneer and transforming entrepreneur.

Over his six decades as Chairman, the Group consolidated its leadership in Spain, hub of the vacation travel in Europe, which later was extended to the American Caribbean and Southeast Asia, where today the Group is still growing and is considered as one of the reference companies in the hotel sector. Over these years, Escarrer built strategic alliances that strengthened the Group's positioning in destinations such as Cuba and Indonesia, and in the 1990s, he extended the strategy to urban hotels in Spain, Europe, Asia and Americas, an approach that has led him to be considered one of the drivers of the internationalisation of the Spanish enterprise.

One decisive event in the history of the company took place in the 80s, when the Group founded by Escarrer acquired two of the most important hotel chains at that time in Europe: Hotasa and Meliá, which represented the incorporation of nearly 70 hotels in just one year. Thanks to this acquisition, the Group founded by Escarrer achieved national and international presence, as well as a valuable brand recognition.

In 1996, the Company's IPO marked a new stage of growth which was strengthened by the Group's strategic plans, and the debut of the second generation of family members in management, marking the beginning of a deep cultural transformation in the Group to address the challenges of the new business environment in the 21st century.

After emerging stronger from the financial crisis that shook the sector between 2008 and 2013, and after making sure that the Company was in safe hands, Mr. Gabriel Escarrer Juliá resigned its executive powers in December 2016, which were transferred to his son Mr. Gabriel Escarrer Jaume as Vice Chairman and Chief Executive Officer, with the founder becoming Non-Executive Chairman of the Board of Directors and the General Shareholders' Meeting.

As a result of its extensive experience in the tourism industry, Mr. Gabriel Escarrer Juliá has received numerous awards which demonstrate its important contribution to national and international hospitality. One of the most important for the founder of Meliá Hotels International was the granting of the Doctor Honoris Causa degree by the Universidad de les Illes Balears (UIB) in December 1988. In 1998 he received the "Personalidad Turística del Siglo" (Tourism Personality of the Century) award winning a large majority in a survey of 300 executives and professionals in the travel industry.

A year later, he obtained other 3 prestigious awards: "Mejor Empresario de la Construcción y Promoción Inmobiliaria" (Best Entrepreneur in Construction and Real Estate Promotion) awarded by the Máster en Dirección de Empresas Constructoras e Inmobiliarias (M.D.I.) and the 'Actualidad Económica' magazine; Corporate Hotelier of the World, awarded by the well-known American 'Hotels' magazine, and several Lifetime Achievement Awards from prestigious organisations such as the International Hotel Investment Forum, the World Tourism Organisation, or the European Hospitality Awards.

In May 2001, Escarrer was elected as member of the exclusive Hall of Fame of the British Travel Industry. His nomination was proposed and supported by some of the most important people in the international tourism industry, as well as relevant members of the Hall of Fame such as Martin Brackenbury (Federation of Tour Operators and Airtours), Richard Branson (Virgin), Michael Bishop (British Midland) and David Crossland (Airtours). That same year, the Chairman of Meliá Hotels International became member of the Hall of Honour at the Conrad N. Hilton of Hotel Management at the University of Houston (USA), sharing honours with Lynn & Ed Hogan (Pleasant Holidays), Alice Sheets Marriott (Marriott Corporation) and Marilyn Carlson Nelson (Carlson Companies.)

In 2002, Meliá Hotels International signed an agreement with the Universidad de las Illes Balears (UIB) for the creation of the "Cátedra Meliá de Estudios Turísticos" (Melia Chair in Tourism Studies) which, since then, organises an annual "Premio de Estudios Turísticos Gabriel Escarrer" (Gabriel Escarrer Tourism Studies Award).

Gabriel Escarrer received recognition to his professional career from the CIMET (Ibero-American Conference of Tourism Ministers and Entrepreneurs) and in 2006, coinciding with the 50th anniversary of the Company, he won the "Medalla de les Illes Balears" (Balearic Islands Medal), the highest distinction of the autonomous community, in recognition of his work, and the "Medalla de la Cámara de Comercio de Mallorca, Ibiza y Formentera " (Medal of the Chamber of Commerce of Majorca, Ibiza and Formentera). In 2011, Escarrer received the Lifetime Achievement Award at the European Hospitality Awards in London, also in recognition of his long career as the founder and promoter of the largest hotel chain in Spain and the third largest in Europe. In 2012 MKG also granted him a lifetime achievement award at the Worldwide Hospitality Awards in Paris, and he won the prestigious Ulysses Award from the OMT for his lifetime achievement. In 2016, Gabriel Escarrer received the Hall of Fame of the Hotel-E Investment Conference, one of the most important international hotel investment forums, and also received the distinction of Honorary Ambassador of Brand Spain.

Recognised as one of the key figures in the history of international tourism, Gabriel Escarrer, as Non-Executive Chairman of Meliá Hotels International and Chairman of the Board of Directors and the General Shareholders' Meeting, is still contributing the expertise and know-how acquired over more than 60 years leading the company, and he is still dreaming about the transforming power of tourism in society, an industry that, in his words, "connects countries, crosses borders, and promotes social and economic welfare".

Name or corporate name of director	Name or corporate name of the significant shareholder represented, or which has proposed their appointment
Mr. Juan Vives Cerdá	Hoteles Mallorquines Asociados, S.L.
Profile	
From his first employment at Viajes Meliá S.A. as a trainee in 1950, he performed functions in different professional categories until his appointment as Director in 1960. From 1961 to 1972, he held positions of leadership and management at various hotels of the Group currently named Meliá Hotels International, and he was the group's Vice Chairman from 1973 until 2000. At present, he is Member of the Board of Directors of Meliá Hotels International, S.A., a position he has held since the IPO of the company in 1996.	

Name or corporate name of director	Name or corporate name of the significant shareholder represented, or which has proposed their appointment
Mr. Sebastián Escarrer Jaume	Hoteles Mallorquines Agrupados, S.L.

Profile

Sebastián Escarrer is a member of Wharton Board of Overseers since 2013 and he was Chairman of Wharton Board for EMEA (Europe, Africa and Middle East) between 2009 and 2015. He is First Vice-Chairman of the Spanish Executive Committee of the International Chamber of Commerce and member of the Executive Board of the ICC worldwide, as well as member of the Commission on Corporate Responsibility and Anti-Corruption and the Executive Board Policy and Commissions Committee. He was Vice-Chairman of Exceltur between 2012 and 2016 - the Spanish Tourist Lobby-, and is Vice-Chairman of the Council of Tourism of the CEOE, President of APD Illes Balears and also Vice-Chairman for the Mediterranean area. Escarrer is a member of the Premium Brands Fund Advisory Board of the Swiss Bank Pictet and a member of the Advisory Board of Caixabank in the Balearic Islands.

As a leader engaged in the fields of tourism, business ethics, education and social responsibility, he is committed to combating the current social and values crisis. Accordingly, he is an active member of various foundations committed to the improvement of our society, such as the Fundación SERES and the Fundación Princesa de Girona, being a member of the Board of Trustees, the Audit Committee, the Executive Committee of the Board of Trustees and responsible for the Working Group on Education of the said foundation.

He is graduate from ICADE and Master from Wharton of the University of Pennsylvania with three Majors: Business Strategy, Finance and Multinational Management.

He worked for several multinationals in the USA and London, such as Coca-Cola Corporation (Boston), IBM Corporation (New York), First Boston Corporation (New York and London) Hyatt International (London) or The Mac Gemini Group (Madrid).

Sebastián Escarrer is member of the Board of Directors of Meliá Hotels International with 19 years of experience as executive, which he joined in 1993. In 1994 he was appointed Chief Executive Officer, a position he held for 16 years while in 1997, he was appointed as Vice-Chairman of Sol Meliá for 15 years.

During those years he led the refinancing of Sol Group, its transformation into Sol Meliá and the successful IPO of the Company in 1996. He also led various key processes for the growth and strengthening of the Company, such as the diversification of the business and the creation and incorporation of new brands.

Sebastián Escarrer has won several awards for his career in the tourism and financial industries, including his designation as one of the 100 leading businessmen of the 21st century by the 9 World Economic Forum in Davos. Also, in 1997 the prestigious American magazine ‘Travel Agent’ selected him as Personality of the Year in Latin America, and a year later named him Personality of the Year in Europe. In 2002, Sebastián Escarrer won the “Mejor Empresario de Baleares” (Best Entrepreneur of Balearic Islands) award granted by the magazine ‘Actualidad Económica’.

In 2009 he was elected by the Confidence Barometer prepared by Future Brand as the business leader who generates greater confidence in Spain and, in 2011, the Senior Management Forum awarded him the Golden Master in recognition of his professional career.

EXTERNAL INDEPENDENT DIRECTORS

Name or corporate name of director
Mrs. Carina Szpilka Lázaro
Profile
Degree in Economic and Business Sciences from ICADE E-2 and Executive MBA from Instituto de Empresa in Madrid. She has held positions at Santander Investment, Argentaria (currently, BBVA) and ING Direct between 1991 and 2013, being the CEO of ING Direct in France for the last five years and then in Spain. She has also developed her activity as volunteer as Vice-Chairman of Unicef Spain and as member of the Board of Trustees of Fundación Create. She is currently Independent Director of Abanca, Grifols and Meliá Hotels International; founding member and Chairman of K Fund Venture Capital and Chairman of ADigital. She has received numerous awards, including: "Mujer Directiva del Año" (Female Director of the Year) award, Fedepe (2011), "Premio a la carrera fulgurante" (The Brilliant Career Award), ICADE (2012), "Medalla de oro del forum alta dirección" (Gold Medal of Senior Management Forum) (2012), "Premio Emprendedores al Mejor Directivo del año" (Entrepreneurs Award to the Best Director of the Year) (2013), "Premio #ElTalento Cinco Días al Talento Ejecutivo" (Cinco Días #TheTalent Award for Executive Talent) (2014), "Premio a la Excelencia Profesional" (Award for Professional Excellence), ADigital (2014) and Eisenhower Innovation Fellow, (2014).

Name or corporate name of director
Mr. 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 worked as Deputy Financial Director at Johnson & Johnson Spain. Also, he has held several positions within the Bergé Group since 1985, Chief Financial Officer at Toyota Spain until 1992, Chief Executive Officer at Chrysler Spain from 1992 to 2004, Chairman of Chrysler Portugal from 1997 to 2012, Chairman of Chrysler Colombia from 2010 to 2012, Chairman of KIA for Argentina, Peru and Portugal from 2004 to 2012, Chairman at Mitsubishi Motor Peru from 2010 to 2012, Vice-Chairman of Mitsubishi Motors Chile from 2001 to 2012, Vice-Chairman of SKBergé Latin America from 2001 to 2012, Chairman of Bergé Automotive from 2004 to 2012 and Chief Executive Officer at Bergé Group from 2007 to 2012. Since 2004 he has held, among others, the following positions: member of the Board of Directors, Chairman of the Remuneration Committee between 2007 and 2009, and Chairman of the Audit Committee of ENDESA S.A. in 2009. Member of the Board of Directors and Chairman of the Audit Committee between 2007 and 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 Committee (2014-2015) of DINAMIA. Vice-Chairman of the Asociación de Nacional de Importadores de Automóviles, Camiones, Autobuses y Motocicletas from 2004 to 2012. Founding member of the Fundación España-Chile and Fundación España-Perú in 2011 and 2012. Member of the Fundación Consejo España-China y España-Japón, Adviser for Mitsubishi Corporation in the acquisition of shares in Acciona Termosolar, S.A. in 2010 and 2011, and Vice-Chairman of the Real Club de la Puerta de Hierro between 2006 and 2010. Currently, he is member of the Board of Directors since June 2012, Coordinating Director, Chairman of the Audit and Compliance Committee and member of the Appointments and Remuneration Committee at Meliá Hotels International S.A. He is member of the Board of Directors of Prosegur since April 2016, member of the Advisory Board of Willis Iberia since March 2013, Senior Advisor Spain and Latam for Mitsubishi Corporation since March 2013; Senior Advisor Spain and Latam for Lazard Financial Advisers S.A. since June 2013. He is also member of the International Advisory Board of Hispanic Society of America, member of the Advisory Board of the Real Club de la Puerta de Hierro since 2010, and member of the Executive Committee at the Fundación España-Estados Unidos since 2016.

Name or corporate name of director
Mr. Juan Arena De La Mora

Profile
Ph.D. in Engineering from ICAI, Mr. Juan Arena graduated in Business Science from ICADE, and also in Psychology, and he holds a diploma in Tax Studies and completed the AMP at Harvard Business School. Professor at Harvard Business School (2009-2010) teaching in the MBA programme (2015), the AMP (Advance Management Programme) and at IESE (2011) teaching in the PADE programme. He started his career at Bankinter where he occupied various positions. In 1985, he was appointed Managing Director and in 1993, Managing Director and CEO. From March 2002 to April 2007 he was Executive Chairman. He is currently member of the Board of Directors of Ferrovial, Almirall Laboratories, and Meliá Hotels International where he holds positions in different Committees, he is also member of the International Council of EVERIS, Chairman of the Advisory Board of Consulnor, member of the Advisory Boards of Marsh and Panda. In the academic field, he is currently Chairman of the Professional Council of ESADE, member of the Board of Directors of Deusto Business School and member of the World Advisory Board of Harvard Business School. In the third sector area, he was the Founder and First Chairman of Fundación SERES (business and society responsible) where he is currently a member of the Executive Committee and Chairman of the Governance Committee. Likewise, he has been a member of the Board of Directors of TPI, Prisa, Everis, UBS Spain, Panda, Dinamia, member of the Board of Trustees of ESADE and member of the Advisory Board of Spencer Stuart. In July 2018, he ceased to be a member of the Board of Directors of Ferrovial. He was awarded the “Gran Cruz de la Orden del Mérito Civil” (Grand Cross of the Order of Civil Merit) for his contribution to research and development of the Information Society.

Name or corporate name of director
Mr. Francisco Javier Campo García

Profile
Industrial Engineer from the Universidad Politécnica de Madrid, he began his career in 1980 at Arthur Andersen. In 1985 he joined Día Group, where for 24 years he has held the position of World Chairman of the Dia International Group and he was also a member of the Carrefour Group's Global Executive Committee for 15 years. Since 2009 until November 2014, he was Chairman of the Zena group, the leading multi-brand restaurant chain company in Spain. The group comprises 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 Chairman of AECOC (Association of Fast-Moving Consumer Goods Companies) which represents more than 20% of the Spanish GDP and has more than 29,000 associated companies. He is member of the Board of Directors of Bankia and Chairman of its Advisory Committee on Risks, he is also member of the Board of Directors of Meliá Hotels International, member of the Advisory Board of the Palacios Food Group, member of the Advisory Board of AT Kearney, and member of the Advisory Board of Azkoyen. He is also member of the Board of Trustees of Fundación ITER, honorary member of Fundación Carlos III, vocal member of Fundación Bankia and board member of A.P.D. (*Asociación para el Progreso de la Dirección*).

Name or corporate name of director
Mr. Luis Mª Diaz de Bustamante Terminel
Profile
Born in Torrelavega (Cantabria, Spain) on 25 August 1952. Graduated in Law from the Universidad Complutense de Madrid. Practising lawyer since 1975 and Partner of the law firm Isidro D. Bustamante (since 1942 - 1980/2018). His professional career is mainly focused on the areas and practice of civil, trade and civil procedural and international law, as well as on consultancy services for entrepreneurs and corporations.

Total number of independent directors	5
% of the Board	45.45%

Remarks

State whether any independent director receives from the company or any company in the group any amount or benefit other than compensation as a director, or has or has had a business relationship with the company or any company in the group during the past year, whether in his or her own name or as a significant shareholder, director or senior executive of a company that has or has had such a relationship.

If applicable, include a statement by the Board explaining why it believes that the director in question can perform his or her duties as an independent director.

Name or corporate name of the director	Description of the relationship	Statement of the Board

OTHER EXTERNAL DIRECTORS

Identify the other external directors and state the reasons why these directors are considered neither proprietary nor independent, and detail their ties with the company, or its executives or shareholders:

Name or corporate name of the director	Reasons	Company, executive or shareholder to whom the director is related
Mr. Alfredo Pastor Bodmer	Mr. Alfredo Pastor Bodmer has been a member of the Board of Directors of the Company for a continuous period of more than twelve years and, pursuant to Article 529k, paragraph 4 (i) of the Corporate Enterprises Act, this period of time is one of the reasons why a Director cannot be considered as Independent.	

Profile
Degree in Economics, Ph. D. in Economics, Massachusetts Institute of Technology. Professor of Economic Theory since 1976, he has held various positions from 1980, such as Professor of Economics at Boston University (1980 – 81), Country Economist at the World Bank (1981 – 83), Planning Director at INI (1983 – 84), Executive Director at INI (1984 – 85), Chairman of ENHER (1985 – 90), member of the Board of Directors of the Bank of Spain (1990 – 93), Head at Instituto de la Empresa Familiar (1992 – 93), Secretary of State for Economy (1993 – 95), Extraordinary Professor (1996-97) and Ordinary Professor (1997 – 2015) at IESE; Chair at CEIBS (since 2000), Dean at CEIBS (China Europe International Business School), Shanghai China (2001-2004), Chair of Emerging Markets at Banco Sabadell, 2009. Currently, he is a member of the Board of Directors of Meliá Hotels International, Copcisa and Bansabadell Inversión, having previously formed part of other Boards of Directors in other companies such as Miquel y Costas and Hidroeléctrica del Cantábrico, among others. Author of multiple publications, in 2011 he received the Conde de Godó Award.

Total number of other external directors	1
% of the Board	9.09%

Remarks

State any changes in category that have occurred during the period for each director:

Name or corporate name of director	Date of change	Previous category	Current category

Remarks

C.1.4 Complete the following table with information on the number of female directors at the close of the past four years, as well as the category of each.

	Number of female directors				% of directors for each category			
	Year t	Year t-1	Year t-2	Year t-3	Year t	Year t-1	Year t-2	Year t-3
Executive	0	0	0	0	0.00%	0.00%	0.00%	0.00%
Proprietary	1	1	1	1	25.00%	25.00%	25.00%	33.33%
Independent	1	1	1	0	20%	20%	20%	0.00%
Other External	0	0	0	0	0.00%	0.00%	0.00%	0.00%
Total	2	2	2	1	18.18%	18.18%	18.18%	10.00%

Remarks

C.1.5. State whether the company has diversity policies in relation to its Board of Directors on such questions as age, gender, disability and training and professional experience. In accordance with the definition set out in the Accounts Audit Act, small and medium-sized entities, will have to report at least the policy they have implemented in relation to gender diversity.

YES ☒ NO☐ PARTIAL POLICIES ☐

If so, describe these diversity policies, their objectives, the measures and way in which these have been applied and the results over the year. Also, indicate the specific measures taken by the Board of Directors and the appointments and remuneration committee to achieve a balanced and diverse presence of directors.

If the company does not apply a diversity policy, explain the reasons why.

Description of policies, objectives, measures and how they have been implemented, as well as the results achieved.
The Company has been implementing its Selection Policy for Directors, which was approved in 2017, according to the provisions of Recommendation 14 of the Good Governance Code and which is based on the following principles: a. The composition of the Board of Directors at the time of execution of the corresponding proposal and the planning and structuring thereof will be carried out based on the expiration dates of the offices in force and must contain, at least: i. The analysis of profiles and professional skills of the Directors who are already members of such decision-making body. ii. The maintenance of a proper balance between the different experience and know-how the Directors contribute to the Company and its Group (knowledge of the sector or supplementary sectors operation, experience in internationalisation, digitalisation, etc.). This balance and the need to incorporate these different experiences and know-how will depend at every moment on the Company's activity. b. The analysis of potential situations of conflict, prohibition or incompatibility, at the legislative and the company's internal policy levels. c. The assessment of potential candidates under the criteria of equality and objectivity, avoiding any kind of implicit bias that may involve discrimination. d. The time available for the potential candidate to properly perform his/her duties which guarantee added value to the Company's bodies. e. The maintenance of a proper balance between the different categories of directors ensuring the correct representation of the total interests within the Board, especially according to the recommendations concerning Corporate Governance. 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. For all the re-elections of directors made since the approval of this policy, the above principles have been taken into account in preparing reports and proposals subsequently submitted to the General Shareholders' Meeting, trying to promote diversity of knowledge, expertise and gender among the members of the Board of Directors. During 2018, only Mr. Juan Arena de la Mora has been re-elected as External Independent Director.

C.1.6 Explain the measures taken, if any, by the appointments committee to ensure that selection procedures do not contain hidden biases which impede the selection of female directors, and that the company deliberately seeks and includes women who meet the target professional profile among potential candidates, and which makes it possible to achieve a balance between men and women.

Explanation of measures
The Company acknowledges full equality of opportunities, without any discrimination, in all its activities. 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 female Directors. During the selection procedures for Directors, the Appointments and Remuneration Committee objectively assesses the skills and experience of candidates, among other parameters, evaluating the profile of candidates and ensuring equal opportunities between women and men so that there is no discrimination based on gender. In the selection of Board members, the profile of the candidate is assessed, including among potential candidates those women who meet the professional profile sought in order to increase the stock of knowledge and experience they can contribute in the performance of their functions as Directors. The selection procedures are focused on the search for specific skills, evaluating candidates based on these skills and their know-how, attitude and skills required, while guaranteeing equal treatment and opportunities and ensuring transparency throughout all processes. Likewise, in the selection of executives, internationally-renowned firms are entrusted with the search for potential candidates who fit the profile. Specifically, the Selection Policy for Directors establishes the guiding principle to be observed during the processes: "The assessment of potential candidates based on criteria of equality and objectivity, avoiding any implicit bias that may involve any type of discrimination."

In the event that there are few or no female directors in spite of any measures adopted, explain the reasons that justify such a situation:

Explanation of reasons

C.1.7 Explain the conclusions of the appointments committee regarding verification of compliance with the selection policy for directors. Particularly explain how said policy is promoting the goal that the number of female directors represents at least 30% of all members of the Board of Directors by 2020.

Explanation of conclusions
During 2018, and in relation to the proposal on re-election of Directors subject to the approval of the General Shareholders' Meeting, an assessment of compliance with the Selection Policy for Directors was carried out by the Appointments and Remuneration Committee when preparing the legally enforceable Reports and Proposals, which were made available to the shareholders on the Company's website. In summary, they established that "... the Board of Directors must include among its members Directors who have extensive experience in various sectors and knowledge of the Company's operations, who respect the corporate values and have ability to adapt in a constantly-changing industry growing both geographically and technologically". Regarding the goal on the number of female directors by 2020, the Company's Selection Policy for Directors approved on 27 February 2017, includes, among others, the following principles: "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." Therefore, this will be one of the issues that must be assessed by the Appointments and Remuneration Committee in any appointment, ratification or r-election processes carried out. During 2018, only one position within the Board of Directors had expired, having the Appointments and Remuneration Committee proposed the re-election of the independent external director Mr. Juan Arena de la Mora.

C.1.8 Explain, when applicable, the reasons for the appointment of any proprietary directors at the request of shareholders with less than a 3% equity interest:

Name or corporate name of shareholder	Reason

State whether the Board has failed to meet any formal requests for presence on the board received from shareholders whose equity interest is equal to or higher than that of others at whose request proprietary directors have been appointed. Where applicable, explain why these requests have been ignored:

YES ☐ **NO ☒**

Name or corporate name of shareholder	Reason

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C.1.9 State the powers delegated by the Board of Directors, as the case may be, to directors or Board committees:

Name or corporate name of director or committee
Mr. Gabriel Escarrer Jaume
Brief description
The Board of Directors has vested all delegable powers in Mr. Gabriel Escarrer Jaume under the Law and according to Article 34 of the Company's Bylaws: To this effect and within this scope, the Board of Directors is responsible for acts or business activities including, but not limited to, the following: (a) To represent the Company before all types of individuals, organisations, authorities, public administration, Spanish General Savings Deposit and other entities, both private and official, both judicial and extrajudicial, absolving positions, compromising and desisting from all types of actions and procedures, and even ratifying said acts before the courts. (b) To pay debts and receive payments due of all types, including those with origin in national, regional, provincial or municipal authorities. (c) To prepare and execute all types of contracts, deeds and documents, public or private, of any type, in relation to capital assets, livestock, merchandise, insurance policies, transport and real estate, including the purchase, subscription, sale or exchange of all types of capital assets, both public and private, both Spanish and international. (d) To request, obtain, acquire, grant and exploit patents, brands, privileges, licences and administrative concessions, as well as performing any transactions regarding industrial property. (e) To convene the General Shareholders' Meeting and execute and ensure compliance with resolutions adopted by the meeting. (f) To intervene in tenders and auctions, both judicial and extrajudicial. (g) To establish, monitor, liquidate, settle, and cancel current accounts, savings accounts and credit accounts with the Bank of Spain, and with any other banking organisation, savings bank, companies or other entities both in Spain and abroad. (h) To draw, endorse, accept, take, discount, negotiate and protest bills of exchange, financial and credit bills, cheques, promissory notes and money orders. (i) To request and obtain from banking, credit and financial organisations all types of credits, including mortgages, subscribing the appropriate policies and documents and employing and repaying the funds obtained. (j) To grant guarantees and deposits by any means for the obligations of third parties. (k) To provisionally approve inventories, balances and the Annual Report due for presentation to the General Shareholders' Meeting and in the public offices required by tax laws, as well as the distribution of profits. (l) To appoint and remove executives, employees and dependents of the Company, and establish categories, salaries and other remuneration that they must receive within applicable market or labour regulations. (m) To make and liquidate deposits of all kinds, including with banking or credit organisations, even the Bank of Spain and the Spanish General Savings Deposit. (n) To confer and revoke powers for court lawyers and attorneys and of any third parties so that they may represent the Company in all types of cases and, in particular, so that they may intervene in civil, criminal, administrative, economic administrative, litigious-administrative, governmental and labour jurisdictions.

(o) To appoint one or more proxies, that may also be called Director, Manager or similar, if so authorised, to exercise the powers defined in each case, individually or jointly, and which may be delegated.

(p) To decide the establishment of subsidiaries, agencies, deposits, delegations, and representations.

(q) To accept, when appropriate, the resignation of the members that form part of the Board.

(r) To set up, modify and wind-up all types of civil law and commercial companies, to intervene and vote in their General Shareholders' Meetings and accept or designate positions in the management and administrative bodies.

The Board of Directors has delegated the aforementioned powers in favour of Mr. Gabriel Escarrer Jaume by means of the Board decision dated June 8, 2017, and granted before the Notary Public on June 23, 2017 with number 2008 of protocol, duly registered in the Mercantile Registry of Mallorca.

C.1.10 Identify, where appropriate, any members of the Board who are also directors, representatives of directors or officers in other companies that belong to the group of the listed company:

Name or corporate name of director	Corporate name of the group company	Position	Does the Director have executive functions?
Gabriel Escarrer Jaume	SOL MELIA VACATION NETWORK ESPAÑA S.L.	Chairman of the Board of Directors Joint Chief Executive Officer	YES
Gabriel Escarrer Jaume	SOL MELIA VACATION CLUB ESPAÑA S.L.	Chairman of the Board of Directors Joint Chief Executive Officer	YES
Gabriel Escarrer Jaume	SECURI SOL S.A.	Chairman of the Board of Directors General representative	YES
Gabriel Escarrer Jaume	IDISO HOTEL DISTRIBUTION S.A.	General representative	YES
Gabriel Escarrer Jaume	SOL MELIA FRANCE S.A.S.	Chairman	YES
Gabriel Escarrer Jaume	MADELEINE PALACE S.A.S.	Chairman	YES

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Gabriel Escarrer Jaume	HOTEL ROYAL ALMA S.A.S.	Chairman	YES
Gabriel Escarrer Jaume	HOTEL METROPOLITAN S.A.S.	Chairman	YES
Gabriel Escarrer Jaume	HOTEL FRANÇOIS S.A.S.	Chairman	YES
Gabriel Escarrer Jaume	HOTEL COLBERT S.A.S.	Chairman	YES
Gabriel Escarrer Jaume	HOTEL ALEXANDER S.A.	Chairman	YES
Gabriel Escarrer Jaume	CADSTAR FRANCE S.A.S.	Chairman	YES
Gabriel Escarrer Jaume	SOL MELIA LUXEMBOURG, S.À R.L.	Director	NO
Gabriel Escarrer Jaume	MELIÁ HOTELS INTERNATIONAL UK.	Manager	YES
Gabriel Escarrer Jaume	LONDON XXI.	Manager	YES
Gabriel Escarrer Jaume	LOMONDO LTD.	Manager	YES
Gabriel Escarrer Jaume	HOGARES BATLE S.A.	Chairman	YES
Gabriel Escarrer Jaume	DESARROLLOS SOL S.A.	Chairman	NO
Gabriel Escarrer Jaume	INVERSIONES AREITO,S.A.	Joint Administrator	YES
Gabriel Escarrer Jaume	HOTELES SOL MELIÁ S.L	Director	No

Gabriel Escarrer Jaume	SOL MELIÁ GREECE.	Director	Yes
Gabriel Escarrer Jaume	SOL MELIA ITALIA, S.R.L.	Sole Administrator	Yes
Gabriel Escarrer Jaume	INMOTEL INVERSIONES ITALIA S.R.L.	Sole Administrator	Yes
Gabriel Escarrer Jaume	ADPROTEL STRAND, S.L.	Director (Chairman of the Board of Directors)	No
Gabriel Escarrer Jaume	ALTAVISTA HOTELERA S.L	Director (Chairman of the Board of Directors)	No
Gabriel Escarrer Jaume	AYOSA HOTELES S.L.	Director CO-Chief Executive Officer	No
Gabriel Escarrer Jaume	EVERTMEL,S.L.	Director CO-Chief Executive Officer	No
Gabriel Escarrer Jaume	GESTIÓN HOTELERA TURÍSTICA MESOL, S.A.	Sole Administrator	Yes
Gabriel Escarrer Jaume	KIMEL MCA, S.L.	Director CO-Chief Executive Officer	No
Gabriel Escarrer Jaume	MONGAMENDA, S.L.	Director CO-Chief Executive Officer	No
Gabriel Escarrer Jaume	PRODIGIOS INTERACTIVOS, S.A.	Director (Chairman of the Board of Directors) Chief Executive Officer	Yes
Gabriel Escarrer Jaume	TENERIFE SOL S.A.	Director (Chairman of the Board of Directors) Chief Executive Officer	Yes
Gabriel Escarrer Jaume	DESARROLLOS HOTELEROS SAN JUAN, B.V.	Director	No
Gabriel Escarrer Jaume	IMPULSE HOTEL DEVELOPMENT B.V.	Director (Chairman of the Board of Directors)	No

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Gabriel Escarrer Jaume	MARKSERV B.V.	Director	No
Gabriel Escarrer Jaume	MELIA INVERSIONES AMERICANAS N.V,	Director CO- Chief Executive Officer	No
Gabriel Escarrer Jaume	SAN JUAN INVESTMENTS, B.V.	Director	No
Gabriel Escarrer Jaume	SOL GROUP, B.V.	Director	No
Gabriel Escarrer Jaume	SOL MANINVEST,B.V.	Director	No
Gabriel Escarrer Jaume	SOL MELIA EUROPE, B.V.	Director CO- Chief Executive Officer	No
Gabriel Escarrer Jaume	SOL MELIA INVESTMENT, N.V.	Director	No
Gabriel Escarrer Jaume	FARANDOLE B.V.	Co-director	No
Gabriel Escarrer Jaume	COLÓN VERONA S.A.	Chairman of the Board of Directors	No
Gabriel Escarrer Jaume	APARTOTEL S.A.	Chairman of the Board of Directors/Chief Executive Officer	YES
Gabriel Escarrer Jaume	INVERSIONES Y EXPLOTACIONES TURISTICAS, S.A.	Chairman of the Board of Directors/Chief Executive Officer	YES
Gabriel Escarrer Jaume	REALIZACIONES TURISTICAS, S.A.	Chairman of the Board of Directors/Chief Executive Officer	YES
Gabriel Escarrer Jaume	SOL MELIA BALKANS EAD	Manager, Member of the Board of Directors	No
Gabriel Escarrer Jaume	CASINO TAMARINDOS, S.A.	Chairman of the Board of Directors	No

Gabriel Escarrer Jaume	INVERSIONES HOTELERAS LA JAQUITA, S.A.	Chairman of the Board of Directors	No
Gabriel Escarrer Jaume	DORPAN, S.L.U.	Chairman of the Board of Directors + General attorney	YES
Gabriel Escarrer Jaume	HOTELPOINT, S.L.	Chairman of the Board of Directors	No
Gabriel Escarrer Jaume	ILHA BELA GESTAO E TURISMO LIMITADA	Joint Manager	Yes
Gabriel Escarrer Jaume	SOL MELIA HOTEL MANAGEMENT (SHANGHAI) Co. Ltd.	Manager	No
Gabriel Escarrer Jaume	PT SOL MELIA INDONESIA	Chairman manager	No
Gabriel Escarrer Jaume	OPERADORA COSTARISOL	Secretary	No
Gabriel Escarrer Jaume	MELIÁ HOTELS USA, LLC	Manager	No
Gabriel Escarrer Jaume	BISOL VALLARTA S.A. DE C.V.	Chairman	No
Gabriel Escarrer Jaume	CALA FORMENTOR S.A. DE C.V.	Chairman	No
Gabriel Escarrer Jaume	CARIBOTELS DE MEXICO, S.A. DE C.V.	Chairman	No
Gabriel Escarrer Jaume	CORP. HOT. HISP. MEXICANA S.A. de C.V.	Chairman	No
Gabriel Escarrer Jaume	OPERADORA MESOL, S.A. DE C.V.	Chairman	No
Gabriel Escarrer Jaume	DETUR PANAMA S.A.	Manager	No

Gabriel Escarrer Jaume	SOL MELIA PERU, S.A.C	Chairman	No
Gabriel Escarrer Jaume	EL RECREO PLAZA & CIA,C.A.	Manager	No
Gabriel Escarrer Jaume	INMOBILIARIA DISTRITO COMERCIAL	Chairman	No
Gabriel Escarrer Jaume	INVERSIONES INMOBILIARIAS I.A.R.1997 C.A.	Chairman	No

Remarks

C.1.11 List, where appropriate, any legal-person directors or representatives of legal-person directors of your company, who are members or representatives of legal-person members of the Board of Directors of other companies listed on official securities markets other than group companies, who have communicated that status to the company:

Name or corporate name of director	Name of listed company	Position
Mrs. Carina Szpilka Lázaro	Grifols S.A.	Director
Mr. Fernando D'Ornellas Silva	Prosegur S.A.	Director
Mr. Juan Arena de la Mora	Almirall S.A.	Director
Mr. Francisco Javier Campo García	Bankia S.A.	Director

Remarks
Mr. Juan Arena de la Mora was also director of Ferrovial S.A. until 26 July 2018.

C.1.12 Indicate and, where applicable, explain whether the company has established rules on the maximum number of boards on which its directors may hold seats, identifying, where appropriate, where this is regulated:

YES ☐ **NO ☒**

Explanation of the rules and identification of the document where this is regulated
The Company's Selection Policy for Directors establishes that the procedures for the selection of the members of the Board of Directors, as well as the proposals for appointment, ratification or re-election must be based on a prior and individualised analysis which shall meet, among others, the following guiding principle: "The time available for the potential candidate to properly perform his/her duties which guarantee added value to the Company's bodies."

C.1.13 State the overall remuneration of the Board of Directors:

Board remuneration in financial year (thousand euros)	2,186.00
Amount of vested pension interests for current directors (thousand euros)	-
Amount of vested pension interests for former members (thousand euros)	-

Remarks

C.1.14 Identify senior management staff who are not executive directors and their total remuneration accrued during the year:

Name or corporate name	Position(s)
Mr. Gabriel Cánaves Picornell,	Chief Human Resources Officer
Mr. Mark Maurice Hoddinott	Chief Real Estate Officer
Mrs. Pilar Dols Company	Chief Financial Officer
Mr. Juan Ignacio Pardo Garcia	Chief Legal & Compliance Officer
Mr. Andre Philippe Gerondeau	Chief Operating Officer

Total senior management remuneration (thousand euros)	2,469.00

Remarks

C.1.15 State whether the regulations of the Board have been amended during the financial year:

YES ☐ **NO ☒**

Description of amendments

C.1.16 Specify the procedures for selection, appointment, re-election, and removal of directors. List the competent bodies, steps to follow and criteria applied in each procedure.

According to Article 15 of the Regulations of the Board of Directors, the Appointments and Remuneration Committee must define and review the criteria to be followed for the composition of the Board of Directors and the 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.

Directors are appointed for a period of four years and may be re-elected once or several times for periods of equal duration.

With regard to the removal of directors, the procedures provided for in current legislation as well as in the Company's Bylaws, are followed.

The criteria applied by the Company in each procedure are described in the Selection Policy for Directors, approved by the Board of Directors on 27 February 2017, and which is available on the company's website. Among others, these criteria include:

- An analysis of profiles and professional skills of Directors who are already members of such decision-making body.

- The maintenance of a proper balance between the different experience and know-how the Directors contribute to the Company and its Group.

- An analysis of potential situations of conflict, prohibition or incompatibility.

- The assessment of potential candidates under the criteria of equality and objectivity, avoiding any kind of implicit bias that may involve discrimination.

- The time that potential candidates may be available.

- The maintenance of a proper balance between the different categories of directors.

- 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.

C.1.17 Explain the extent to which the annual assessment of the Board has given rise to significant changes in its internal organisation and to procedures applicable to its activities:

Description of changes
Throughout year 2018, the Board of Directors has monitored the actions and organisational changes at the highest level, which were announced and implemented in 2017. Such actions and changes have not given rise to significant changes in the internal organisation or to the usual procedures.

Likewise, the Board of Directors, through the Audit and Compliance Committee, has driven several initiatives which involve a continuous adaptation of the information reported to the Board of Directors. The aim of these initiatives is to ensure the dynamic evolution of financial and non-financial reporting, including supervision and monitoring of the strategic objectives of the Company and its main risks.

Describe the assessment process and the areas assessed by the Board of Directors with the help, if any, of external advisors, regarding the operation and composition of the Board and its committees and any other area or aspect that has been assessed.

Description of the assessment process and the assessed areas
The Directors have carried out the assessment for 2018, by completing the relevant assessment questionnaires. The main areas that have been assessed are: a) Regarding the Board: - Operation of the Board - Composition/Remuneration of the Board - Information/Training of the Board - Organisation - Culture of the Board - Committees of the Board - 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 extra field for Directors to add comments and/or suggestions as well as other issues that may improve the operation of the Board. The results of these assessments are analysed by the Appointments and Remuneration Committee and, subsequently, they are presented by its Chairman to the Board of Directors in order to hold discussions and propose improvements, as appropriate. The assessment carried out during 2018 has been carried out without the help of an external consultant, due in part to the fact that this assistance was carried out in 2017, and it is foreseen that this system will be used every three years, as established the recommendations of the Unified Code of Good Government.

C.1.18 Describe, in those years in which the external advisor has participated in the assessment, the business relationships that the external advisor or any group company maintains with the company or any company in its group.

N/A

C.1.19 Indicate the circumstances under which directors are required to resign.

Directors' duties are regulated in Chapter VIII of the Regulations of the Board, including the obligation to act with the proper care of a dedicated professional and loyal representative, and in accordance with any other standard of diligence as required by law. In particular, Article 29 of the Regulations of the Board establishes that directors must observe all regulations on behaviour established in the applicable Stock market legislation and, particularly, those contained in the Internal Code of Conduct.

Failure to comply with any of these duties or obligations shall therefore be considered grounds for dismissal or resignation, as the case may be, of a Director.

C.1.20 Are qualified majorities, other than those established by law, required for any specific decision?

YES ☐ **NO ☒**

If so, describe the differences.

Description of differences

C.1.21 Explain whether there are any specific requirements, other than those relating to directors, to be appointed as chairman of the Board of Directors.

YES ☒ NO ☐

Description of requirements
According to Article 33.2 of the Bylaws, in order for a Director to be appointed as Chairman or Vice-Chairman of the Board of Directors, at least one of the following conditions must be met: (a) to have formed part of the Board of Directors for at least the THREE (3) years preceding the date of said appointment; or (b) to have previously held the position of Chairman of the Board of Directors, regardless of the duration of the term of office as Director. If a Director is appointed as Chairman or Vice-Chairman by a unanimous decision of SEVENTY-FIVE PERCENT (75%) of the members of the Board of Directors, the above-mentioned conditions will not be applied. Likewise, re-election as a Director of any members of the Board who hold the positions of Chairman and Vice-Chairman and, where appropriate, Coordinating Director, provided the legal requirements are met, will imply the automatic continuity in those positions.

C.1.22 State whether the Bylaws or the Regulations of the Board establish any limit as to the age of directors:

YES ☐ **NO ☒**

Remarks

C.1.23 State whether the Bylaws or the Regulations of the Board establish any term limits for independent directors other than those required by law:

YES ☐ **NO ☒**

Additional requirements and/or maximum number of term limits

C.1.24 Indicate whether the Bylaws or the Regulations of the Board establish specific proxy rules for votes at Board meetings, how they are to be delegated and, in particular, the maximum number of proxies that a director may hold, as well as whether any restriction has been established regarding the categories of directors to whom proxies may be granted beyond the restrictions imposed by law. If so, briefly describe such rules.

Remarks
Pursuant to Article 18.3 of the Regulations of the Board, representation by proxy shall be made in writing through a letter addressed to the Chairman for each particular meeting, including the relevant instructions, and must be in favour of another member of the Board. External Independent Directors may only be represented by another External Independent Director. There is no maximum number of proxies provided per director.

C.1.25 Indicate the number of meetings held by the Board of Directors during the year, and if applicable, the number of times the Board met without the chairman present. Proxies granted with specific instructions shall be counted as attendance

Number of Board meetings	6
Number of Board meetings without the chairman	0

Remarks
The Leading Director (Mr. Fernando D'Ornellas) is also the Chairman of the Audit and Compliance Committee, and member of the Appointments and Remuneration Committee. The only Executive Director of the Company (Mr. Gabriel Escarrer Jaume) is not part of any committee, although he occasionally attends the Audit and Compliance Committee as a guest. Therefore, the Leading Director meets with some external directors without the assistance of the Executive Director, although such meetings take place within the framework of the sessions of the Committees.

Indicate the number of meetings held by the coordinating director with the other directors, where there was neither attendance nor representation of any executive director:

Number of meetings
0

Remarks

Indicate the number of meetings held by each committee of the Board during the year:

Committee	No. of meetings
Number of meetings held by the Audit and Compliance Committee	10
Number of meetings held by the Appointments and Remuneration Committee	6

C.1.26 Indicate the number of meetings held by the Board of Directors during the year and the data on attendance by its members.

Number of meetings with on-site attendance of at least 80% of directors	6
% of on-site attendance over total votes during the year	91%
Number of meetings with on-site attendance or representations by proxy made with specific instructions of all directors	6
% of votes cast with on-site attendance and representations by proxy made with specific instructions of all directors	100%

Remarks

C.1.27 State whether the individual and consolidated financial statements submitted to the Board for approval are previously certified:

YES ☒ NO ☐

Identify, where applicable, the person(s) who certified the individual and consolidated financial statements of the company for preparation by the Board:

Name	Position
Mrs. Pilar Dols Company	Chief Financial Officer
Mr. Gabriel Escarrer Jaume	Vice President and CEO

Remarks

C.1.28 Explain any measures, if any, established by the Board of Directors to prevent the individual and consolidated financial statements prepared by the Board from being submitted to the General Shareholders' Meeting with a qualified audit report.

The Audit and Compliance Committee's duties 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 monitor the performance of their work and to detect and resolve any incidents that may affect the annual accounts.

C.1.29 Is the secretary of the Board also a director?

YES ☒ NO ☐

If the Secretary is not a director, fill in the following table:

Name or corporate name of the secretary	Representative

Remarks
Without prejudice to what is indicated in this question, the Company also has a Deputy Secretary who is not a member of the Board of Directors.

C.1.30 State, if any, the specific measures established by the company to ensure the independence of its external auditors, as well as, where appropriate, the measures established to ensure the independence of financial analysts, investment banks, and rating agencies, including how legal provisions have been implemented in practice.

The Audit and Compliance Committee's duties include liaising with the external auditors in order to receive information regarding such issues as may jeopardise the independence of the latter. In fact, there is a direct relationship between the members of the Committee and the external auditors, with the latter attending the meetings held by this Committee in person. The Audit and Compliance Committee prepares, on an annual basis, a report on the independence of the external auditor. As a general rule, in each meeting of the Audit and Compliance Committee, the Directors meet with the external auditor without the presence of the managers of the Company.

Regarding the measures established to ensure the independence of financial analysts, it is worth noting that the company provides information requested by any analysts with no discrimination and offering the maximum transparency, the same thing happens in carrying out road shows.

Likewise, at all times during the information exchange process, the Company avoids influencing 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 or advantageous position compared to the rest of the shareholders.

C.1.31 Indicate whether the company changed its external auditor during the year. If so, identify the incoming auditor and outgoing auditor:

YES ☐ **NO ☒**

Outgoing auditor	Incoming auditor

Remarks
Although the Company has not changed its external auditor in year 2018, the General Shareholders' Meeting held on 6 June 2018, in line with the proposal the Audit and Compliance Committee made to the Board of Directors, agreed to appoint the firm Deloitte, S.L. as the external auditor for the verification of the annual accounts and the management report of the Company and its consolidated Group for years 2019, 2020 and 2021. Therefore, the change of the external auditor will take place in 2019.

If there has been any disagreement with the outgoing auditor, provide an explanation thereof:

YES ☐ **NO ☒**

Explanation of disagreements

C.1.32 State whether the audit firm provides any non-audit services to the company and/or its group and, if so, the fees paid, and the corresponding percentage of total fees invoiced to the company and/or its group:

YES ☒ NO ☐

	Company	Group companies	Total
Amount invoiced for non-audit services (thousand euros)	166	73	239
Amount invoiced for non-audit services/total amount invoiced by the audit firm (in %)	49.74%	5.32%	13.99%

Remarks
The Company has in place an approval process for services other than auditing provided by the statutory auditor. This process includes a list of prohibited services, as well as a procedure for the approval of services classified as permitted. Likewise, the list of services other than auditing, with the breakdown of fees, is presented annually to the Audit and Compliance Committee.

C.1.33 State whether the auditor's report on the annual accounts for the preceding year contains a qualified opinion or reservations. If so, indicate the reasons given to shareholders by the chairman of the Audit Committee to explain the content and scope of such qualified opinion or reservations.

YES ☐ **NO ☒**

Explanation of reasons

C.1.34 State the number of consecutive years the current audit firm has been auditing the individual and/or consolidated annual accounts of the company. Likewise, state the number of years audited by the current audit firm as a percentage of the total number of years that the annual accounts have been audited:

	Individual annual accounts	Consolidated annual accounts
Number of consecutive years	10	10

	Individual annual accounts	Consolidated annual accounts
Number of years audited by current audit firm/Number of years the company or its group have been audited (%)	43.48%	43.48%

Remarks
Annual accounts for year 2019 will be audited by the audit firm Deloitte, following its election as the new audit firm at the General Shareholders' Meeting held on 06/06/2018. Therefore, 2018 is the last year the accounts are audited by the audit firm Pricewaterhousecoopers.

C.1.35 Indicate and, if applicable, give details of any procedure whereby directors have the information necessary to prepare the meetings of the governing bodies with sufficient time:

YES ☒ NO ☐

Explanation of procedure
Although according to Article 17 of the Regulations of the Board, meetings shall be called a minimum of three days before the day on which the meeting is to be held and the call to meeting shall include the session's agenda along with the relevant information properly summarised and prepared, unless there are exceptional circumstances, the information shall be made available to Directors eight days before the meeting is held. Furthermore, Article 22 of the Regulations of the Board establishes that Directors have the broadest powers to receive information on any aspect of the Company, to examine its books, records and documents and other evidence of the company's transactions and to inspect all its facilities. Exercise of the powers of information shall be channelled through the Chairman or the Secretary of the Board of Directors, who will attend to the requests of the director by providing him/her with the information directly, offering appropriate interlocutors at the appropriate level in the organisation or establishing such measures so as to enable him/her to conduct the desired examinations in situ.

C.1.36 State whether the company has established rules whereby directors must provide information and, if applicable, resign, in circumstances that may damage the company's standing and reputation. If so, provide details:

YES ☒ NO ☐

Explain the rules
Article 31.2 of the Regulations of the Board expressly establishes that Directors should inform the Board, and where applicable, resign under any circumstances that may jeopardise the company's standing and reputation and shall in any event report any criminal charges brought against them, and the status of any subsequent court or legal proceedings, and the Board of Directors shall examine the case as soon as possible and decide, in consideration of the specific circumstance, whether or not the Director in question should remain in office. Likewise, in section 3.1.37 of this report it has been reported that no member of the Board of Directors has informed the company that it has been prosecuted or has been ordered to open a trial for any of the crimes indicated in Article 213 of the Capital Companies Law.

C.1.37 State whether any member of the Board of Directors has notified the company that he or she has been tried or notified that legal proceedings have been filed against him or her, for any offences described in Article 213 of the Corporate Enterprises Act:

YES ☐ **NO ☒**

Name of director	Criminal proceedings	Remarks

Indicate whether the Board of Directors has examined the case. If so, provide a justified explanation of the decision taken as to whether the director in question should continue to hold office or, if applicable, describe any actions taken or to be taken by the Board up to the date of this report, or which it intends to take.

YES ☐ **NO ☒**

Decision/action taken	Justified explanation

C.1.38 List the significant agreements entered into by the company that come into force, are amended or are terminated in the event of a change of control of the company following a takeover bid, and their effects.

N/A

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C.1.39 Identify individually for directors, and generally in other cases, and provide detail of any agreements made between the company and its directors, executives or employees containing compensation or golden parachute clauses in the event of resignation or dismissal or termination of employment without cause following a takeover bid or any other type of transaction.

Beneficiary: Chief Executive Officer

Description of the agreement:

In 2015, the Chief Executive Officer signed a contract with the Company for the provision of services pursuant to Article 249 of the Corporate Enterprises Act, which, in relation to compensation, provides:

Post-contract non-compete agreement for one year, with the Company's commitment to pay the Chief Executive Officer one year's total annual remuneration under the conditions in force at the time of termination of the contract.

If the Chief Executive Officer breaches the post-contract non-compete obligation, he must return to the Company any amounts received in this connection and compensate the Company with an amount equivalent to 150% of the amount received in this connection.

Termination of contract: termination of service of the Chief Executive Officer shall take place in the cases contemplated in the Corporate Enterprises Act, in which case he must place his position at the disposal of the Board of Directors and, where appropriate, execute immediately his dismissal from office.

Compensation: The Chief Executive Officer shall be compensated with an amount equal to one year's total annual remuneration, under the following circumstances:

- Unilateral termination by the Chief Executive Officer: due to serious and negligent breach by the Company of its contractual obligations under the contract or to a substantial modification of his functions, powers or service conditions for reasons not attributable to the Chief Executive Officer.

- Unilateral termination by the Company: not due to a serious and negligent breach by the Chief Executive Officer of the duties of loyalty, diligence or good faith or any of those established by law, according to which he must perform his function.

State if these contracts have been communicated to and/or approved by the management bodies of the company or its group. If so, specify the procedures, expected events and nature of the bodies responsible for their approval or for communicating this:

	Board of Directors	General Shareholders' Meeting
Body authorising the clauses	Yes	No

	YES	NO
Are these clauses notified to the General Shareholders' Meeting?	X	

Remarks

Committees of the Board of Directors

C.2.1. Give details of all committees of the Board of Directors, their members and the proportion of executive, proprietary, independent and other external directors that comprise them:

AUDIT AND COMPLIANCE COMMITTEE

Name	Position	Category
Mr. Juan Vives Cerdá	Member	External Proprietary Director
Mr. Juan Arena de la Mora	Member	External Independent Director
Mr. Alfredo Pastor Bodmer	Member	Other External Director
Mrs. Carina Szpilka Lázaro	Member	External Independent Director
Mr. Fernando D'Ornellas Silva	Chairman	External Independent Director

% of proprietary directors	20%
% of independent directors	60%
% of other external	20%

Remarks

Explain the functions, including, where appropriate, functions other than those provided for by law, exercised by this committee, and describe the rules and procedures it follows for its organisation and function. For each one of these functions, briefly describe its most important actions during the year and how it has exercised in practice each of the functions attributed thereto by law, in the bylaws or other corporate resolutions.

The functions attributed to the Audit and Compliance Committee are regulated in Article 14 of the Regulations of the Board of Directors, and can be classified as follows:

a) In relation to the external auditor

- ✓ Submit proposals to the Board for the selection, appointment, re-election and replacement of the external auditor.
- ✓ Monitor the independence of the external auditor.

- ✓ Maintain a relationship / communication with the external auditor.

b) Monitoring of the effectiveness of the Company's internal control and risk management systems

- ✓ Identify and assess the policies and processes which are intended to measure and manage the Group's main risks in an integrated and comprehensive manner.
- ✓ Monitor the effectiveness of the internal control of the Company, the internal audit services and the risk management systems.

c) Monitoring of the functions of the internal audit and Compliance

- ✓ Approve the annual plans and budget of internal audit and Compliance.

d) Monitoring of the preparation and presentation of regulated financial information

- ✓ Review the Company's 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.

e) Inform the General Shareholders' Meeting about issues that arise regarding matters of its competence

- ✓ Inform the General Shareholders' Meeting of the audit results, explaining how this has contributed to the integrity of financial information and the function performed by the committee during this process.

f) Other functions:

- ✓ Monitor 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's Governance and make all necessary proposals for improvement.
- ✓ Monitor the whistleblowing channel.

The activities carried out by the Audit and Compliance Committee in 2018, are described in the committee's activity report, published on the website of Meliá Hotels International.

Identify the directors who are member of the audit committee and have been appointed taking into account their knowledge and experience in accounting or audit matters, or both, and state the date that the Chairman of this committee was appointed.

Name of directors with experience	Mr. Fernando D'Ornellas Silva
Date of appointment of the chairman in office	23 June 2016

Remarks
According to the recommendations of the Uniform Good Governance Code and the Technical Guide 3/2017 of the CNMV, the Chairman of the Committee, Mr. Fernando D'Ornellas Silva, has extensive knowledge and experience in accounting and financial management as well as in audit matters. As for Mrs. Carina Szpilka Lázaro, she has experience in the field of information technologies (IT), and she is the current chairman of the Asociación Española de la Economía Digital (ADigital).

APPOINTMENTS AND REMUNERATION COMMITTEE

Name	Position	Category
Hoteles Mallorquines Consolidados, S.L. (represented by Mrs. Maria Antonia Escarrer Jaume)	Member	External Proprietary Director
Mr. Fernando D'Ornellas Silva	Member	External Independent Director
Mr. Luis María Díaz De Bustamante Y Terminel	Member	External Independent Director
Mr. Francisco Javier Campo García	Chairman	External Independent Director

% of proprietary directors	25%
% of independent directors	75%
% of other external	0%

Comments

Explain the functions, including, where appropriate, functions other than those provided for by law, exercised by this committee, and describe the rules and procedures it follows for its organisation and function. For each one of these functions, briefly describe its most important actions during the year and how it has exercised in practice each of the functions attributed thereto by law, in the bylaws or other corporate resolutions.

The functions attributed to the Appointments and Remuneration Committee are regulated in Article 15 of the Regulations of the Board of Directors, and can be classified as follows:

a) Functions relating to the appointment and re-election of directors:

- ✓ Define and review the criteria to be followed for the composition of the Board of Directors and selection of candidates.
- ✓ Submit proposals to the Board for the appointment of Directors.
- ✓ Examine and organise the succession of the Chairman and chief executive of the Company, and where appropriate, make proposals to the Board of Directors.

b) Functions relating to appointment and removal of senior executives and the basic terms and conditions of their contracts:

- ✓ Report any proposals for the appointment or removal of senior executives and the basic terms and conditions of their contracts.

c) Functions relating to the assessment of the Board of Directors' activities:

- ✓ Coordinate and prepare the report on the quality and efficiency of the operation of the Board of Directors and the Committees.

d) Functions relating to the remuneration policy:

- ✓ 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 Committees or Chief Executive Officers, as well as individual remuneration and other contractual conditions for Executive Directors, also ensuring their observance.
- ✓ Regularly review the remuneration policy to ensure its appropriateness and performance.
- ✓ Ensure transparency in remuneration.

e) Other functions:

- ✓ Report any transactions that imply or may involve conflicts of interest.
- ✓ Previously inform the Board of Directors of those matters as provided for by Law, the Bylaws and the Regulations of the Board of Directors.

The activities carried out by the Appointments and Remuneration Committee in 2018 are described in the committee's activity report, published on the website of Meliá Hotels International.

C.2.2 Complete the following table with information regarding the number of female directors who were members of Board committees at the close of the past four years:

	Number of female directors			
	Year 2018	Year 2017	Year 2016	Year 2015
Audit and Compliance Committee	1 (20%)	1 (20%)	1 (20%)	0 (0%)
Appointments and Remuneration Committee	1 (25%)	1 (25%)	1 (25%)	1 (25%)

Remarks

C.2.3 State, where applicable, the existence of any regulations governing Board committees, where these regulations may be found, and any amendments made to them during the year. Likewise, state whether any annual reports on the activities of each committee have been voluntarily prepared.

Audit and Compliance Committee

The composition, functions and scope of activity of the Audit and Compliance Committee of Meliá Hotels International, S.A., are regulated in Article 39 Bis of the Bylaws and in Article 14 of the Regulations of the Board of Directors. All of this without prejudice to the provisions of the Corporate Enterprises Act and other applicable legislation.

The Audit and Compliance Committee has prepared and approved its annual activity report for year 2018. Such report will be published on the corporate website.

Appointments and Remuneration Committee

The composition, functions and scope of activity of the Appointments and Remuneration Committee of Meliá Hotels International, S.A., are regulated in Article 39 Ter of the Bylaws and in Article 15 of the Regulations of the Board of Directors. All of this without prejudice to the provisions of the Corporate Enterprises Act and other applicable legislation.

The Appointments and Remuneration Committee has prepared and approved its annual activity report for year 2018. Such report will be published on the corporate website.

The Bylaws and the Regulations of the Board of Directors are available on the corporate website of Meliá Hotels International, S.A.

In 2018, no amendments have been made to the Bylaws or the Regulations of the Board.

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D. Related-Party and Intragroup Transactions

D.1 Explain, if applicable, the procedure and competent bodies for approval of related-party and intragroup transactions.

Pursuant to Article 32.1 of the Regulations of the Board of Directors, the Board must be aware of and authorise any transaction carried out by the Company with its significant shareholders and Directors and Executives. Likewise, according to Article 32.2 of the Regulations of the Board of Directors, in no case will the transaction be authorised if no report has been previously issued by the Audit and Compliance Committee, evaluating the transaction from the perspective of equal treatment of shareholders and 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 Company's duties of disclosure and transparency with regard to 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 or corporate name of significant shareholder	Name or corporate name of the company or its group company	Nature of the relationship	Type of transaction	Amount (thousand euros)
Hoteles Mallorquines Asociados, S.L.	Meliá Hotels International, S.A.	Contractual	Receipt of services	1,066
Hoteles Mallorquines Asociados, S.L.	Inversiones y Explotaciones Turísticas, S.A.	Contractual	Receipt of services	47
Hoteles Mallorquines Asociados, S.L.	Aparthotel Bosque, S.A.	Contractual	Receipt of services	83
Hoteles Mallorquines Asociados, S.L.	Jamaica Devco, S.L.	Contractual	Receipt of services	200
Hoteles Mallorquines Asociados, S.L.	London XXI Limited	Contractual	Receipt of services	17
Hoteles Mallorquines Asociados, S.L.	Infinity Vacations Dominicana	Contractual	Receipt of services	171
Hoteles Mallorquines Asociados, S.L.	Desarrollos Sol, S.A.S.	Contractual	Operational lease contracts	171

Remarks

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 directors or managers of the company:

Name or corporate name of director or manager	Name or corporate name of the related party	Relationship	Type of transaction	Amount (thousand euros)
Mr. Juan Vives Cerdá	Meliá Hotels International, S.A.	Commercial	Provision of services	263
Mr. Juan Vives Cerdá	Prodigios Interactivos, S.A.	Commercial	Provision of services	393
Mr. Juan Vives Cerdá	Meliá Hotels International, S.A.	Commercial	Receipt of services	5
Mr. Juan Vives Cerdá	Prodigios Interactivos, S.A.	Commercial	Receipt of services	50

Remarks

D.4 Report any material transactions carried out by the company with other entities belonging to the same group, provided that these are not eliminated in the preparation of the consolidated financial statements and do not form part of the company's ordinary business activities in terms of their purpose and conditions.

In any case, list any intragroup transaction conducted with entities in countries or territories which are considered tax havens:

Name of the group company	Brief description of the transaction	Amount (thousand euros)
Sol Meliá Funding	Assignment of the customer portfolio of American companies in the vacation club segment to Sol Meliá Funding for its management.	-120
Sol Meliá Funding	Modification of the inter-group loan agreement with the parent company, in line with the centralised cash management policy	-15,682

Remarks

D.5 List any material transactions between the company or its group companies and other related parties, not recorded under the previous items.

Name of related party	Brief description of transaction	Amount (thousand euros)

D.6 List the mechanisms in place to detect, determine and resolve potential conflicts of interest between the company and/or its group and its directors, senior management or significant shareholders.

Directors are obliged to inform the Company of any situation of direct or indirect conflict which they might have with the interests of the Company, pursuant to Article 28 of the Regulations of the Board of Directors.

Likewise, pursuant to Article 15.2. of the Regulations of the Board of Directors, the Appointments and Remuneration Committee must inform the Board of Directors of any transactions that involve or may involve conflicts of interest and propose, if applicable, any measures to be adopted.

D.7 Is there more than one company in the group listed in Spain?

YES ☐ **NO ☒**

Identify the other companies that are listed in Spain and their relationship with the company:

Identity and relationship with other listed group companies

State if the respective areas of activity and business relationships between the listed companies have been defined publicly and precisely, as well as between the subsidiary and other members of the group:

YES ☐ **NO ☒**

Describe the possible business relationships between the parent company and the listed subsidiary, and between the subsidiary and the other group companies

Identify the mechanisms established to resolve potential conflicts of interest between the listed subsidiary and other group companies:

Mechanisms established to resolve potential conflicts of interest

E. Risk control and management systems

E.1 Explain the scope of the Company's Risk Control and Management System, including the system for managing tax risks.

The Meliá Hotels International Group has an integrated and continuous risk management model which operates on a comprehensive and ongoing basis and provides the Risk Map of the Group, through the consolidation of the Individual Risk Maps for the different Departments and Business Areas. This model is based on the COSO II Enterprise Risk Management (ERM) methodology and consists of the following stages:

1. **Identification of relevant risks**, including tax risks, through the collection and analysis of internal and external information.

2. **Assessment of those risks**, for each of the business areas and support units, prioritising the most relevant risks and obtaining the different Individual Risk Maps.

3. **Response to risk** through the allocation of responsibilities for the most relevant risks and the definition of action plans to effectively contribute to their management.

4. **Regular monitoring and control** of risks, through indicators defined for the most relevant risks, the annual update of Risk Maps, and the monitoring of actions designed for their mitigation.

5. **Regular and transparent communication** of the results to Senior Management, the Audit and Compliance Committee and the Board of Directors, providing feedback and thus contributing to the continuous improvement of the process.

The management team of Meliá Hotels International regularly identifies the risks that jeopardise the achievement of targets (Stage 1), and evaluates such risks estimating their probability of occurrence and the impact in case the materialise (Stage 2).

In February 2017, the Board of Directors of Meliá Hotels International approved the update of the Risk Control, Analysis and Assessment Policy. This Policy applies to the whole Group in the different countries in which it operates, and establishes the basic principles that govern risk management and the overall framework for action to control, analyse and assess risks, including tax risks. These basic principles are:

a. Promote an appropriate internal environment and a culture of risk awareness.
b. Adapt the strategy to the risks identified.
c. Ensure 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 range of risks that affect the Group, ensuring their correct allocation.
e. Ensure the appropriate management of the most relevant risks.

f. Improve processes and decisions of risk response.

g. Provide integrated responses to multiple risks.

h. Report and communicate with transparency and in a consistent manner the Group's risks to the entire Organisation.

i. Ensure that the Group acts at all times in compliance with current legislation, the Group's internal regulations and the Code of Ethics.

In 2017, the Internal Risk Control and Analysis Regulations implementing the above-mentioned Policy were also updated to ensure the correct and efficient performance of the Risk Control system, by defining the rules, guidelines and criteria to be followed in updating Risk Maps within the Group, so that the latter is completely aligned with its global strategy, the leadership model and the culture and values of Meliá Hotels International. The Regulations also define the basic responsibilities in risk management of governance bodies and the different areas within the organisation.

In the area of taxation, Meliá Hotels International has in place a Tax Strategy Policy -which has been updated and published on the corporate website in 2018- as well as the Internal Tax Risk Control and Management Regulations.

E.2 Identify the company's bodies responsible for creating and executing the Risk Control and Management System, including the system for managing tax risks:

The Risk Control & Compliance Department (which is 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 prioritisation 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 Departments and Business Areas which make up the Group.

This Department reports on its activities to the Audit and Compliance Committee, both periodically and through an Annual Report established for this purpose.

Likewise, 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 reporting systems (Article 5 of the Regulations of the Board). On the other hand, the Audit and Compliance Committee is responsible for supervising internal audit services and the financial reporting and internal control systems processes (Art. 14.2 of the Regulations of the Board).

In addition to the above, Meliá has other bodies or departments with responsibilities and/or functions related to risk management:

- **Senior Executive Team**

One of its functions is to develop and promote control in order to improve the quality of the Group's corporate governance and risk management.

- **Strategic Planning Committee**

Its tasks include the monitoring of the results and the level of compliance with the strategic plan and the alignment with the Risk Map.

- **Expansion Committee**

One of its functions consists of preparing and approving risk evaluation sheets for expansion projects.

- **Investment Committee**

It ensures that part of the Group's annual resources is devoted to executing investments classed and prioritised according to risk criteria.

- **Internal Audit**

The department in charge of verifying the proper operation of internal control systems, by ensuring that risks are identified, quantified and controlled, as well as verifying compliance with regulations.

- **Corporate Governance**

One of the tasks of Corporate Governance is to ensure the update of the Group's policies and internal regulations, so that they are continuously tailored to the needs existing at any time.

- **Credit and Insurance Management**

Its main activities include credit risk management and procurement of insurance policies at corporate level to cover certain risks, always under the guidelines established in the Internal Insurance Regulations, where the Group's insurance procurement and treatment processes are established.

- **Occupational Health**

Its responsibilities include occupational risk prevention.

- **Works and Maintenance**

It collaborates in risk identification and assessment at the premises based on criteria which subsequently enable to centrally prioritise certain investments.

- **Global Tax**

With regard to taxes, the Global Tax Department coordinates and centralises tax risk control and management, and regularly reports the results to Senior Management, the Audit and Compliance Committee and the Risk Control & Compliance Department.

The bodies/departments responsible for the preparation and implementation of the Risk Management System have available the Code of Ethics, the Whistleblowing Channel, and the Internal Policies and Regulations of Meliá Hotels International as key tools for risk management.

E.3 State the primary risks, including tax compliance risks, and those deriving from corruption (with the scope of these risks as set out in Royal Decree Law 18/2017), to the extent that these are significant, which may affect the achievement of business objectives.

All business and business activity involve inherent risks, whose identification, assessment and control are essential to achieve targets.

The structure of the risks that are faced by the Group has not changed with respect to previous years and is classified in the following categories:

1. **Global Risks.** They go beyond the capacity for action of the Company itself and economic agents. Some examples are: natural catastrophes or disasters, pandemics, health or food crises, geopolitical risks.

   In destinations where there is greater exposure to this type of risks, the Company has in place the relevant coverages required for this type of events, as well as the action protocols to ensure the health and safety of customers and employees, as well as the normal operation of business and, where appropriate, its protection and restoration.

2. **Financial Risks.** The risks 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.** They arise from changes in the variables inherent to the business, such as characteristics 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.** The result of possible deficiencies in internal processes, human resources, equipment or computer systems, or the inadequacy thereof.

5. **Compliance Risks.** Risks derived from regulatory changes established by regulatory bodies and/or non-compliance with the applicable legislation or the internal policies and regulations.

   Meliá Hotels International's policies and internal regulations, the Code of Ethics and the Whistleblowing 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.

   In October 2018, the Board of Directors approved the Compliance Policy, whereby Meliá is committed to:

   - Comply with the legislation and regulatory obligations (both internal and external).

   - Ensure that internal regulations and actions carried out by its executives and managers are based on ethical standards which are aligned with the Company's principles and values, as well as its Code of Ethics.

6. **Information Risks** They are mainly caused by the inappropriate use, generation and disclosure of information.

The Internal Control over Financial Reporting (ICFR) described in section F of this report deserves special attention.

Tax risks as well as risks deriving from corruption, depending on the risk in question, are included within the category of Operational or Compliance Risks.

E.4 Identify whether the company has a risk tolerance level, including tolerance for tax compliance risk.

Tolerance levels according to the different risk categories are established in the Risk Control, Analysis and Assessment Policy, which was updated in February 2017.

The 2 Stage of the model (Risk Assessment) is carried out at residual risk level, i.e., considering existing control mechanisms, and is based on probability and impact variables using quantitative and qualitative criteria (financial, operational, regulatory, reputational, strategic, etc.) whose different ranges constitute a standardised rating scale on the basis of which risks are prioritised and acceptable risk is set.

Once the Group's Risk Map is completed, an analysis is made by risk type at Group Area or Management level. All this information is included in an annual report submitted to the Audit and Compliance Committee and the Board of Directors.

The Risk Map is aligned with the Strategic Plan and the objective setting process. Every year we aim to ensure that measures for mitigating the most important risks are linked to annual objectives and/or the Strategic Plan. Therefore, monitoring and degree of achievement of objectives, as well as the Strategic Plan also define risk tolerance levels.

E.5. Identify which risks, including tax compliance risks, have materialised during the year.

Business Risks: Increase in Competition

North Africa and Turkey destinations have come onto the scene, recovering the tourism demand they lost over the last few years due to the political instability and insecurity.
However, hotels in Spanish and Mediterranean destinations, in general, have continued to grow, since the Company has managed to develop a sustainable growth model based on quality improvement and commercial offering repositioning, rather than on an artificial demand created as a result of problems in other destinations. In this way, the investment made in recent years in Spanish hotels, in line with the brand strategy, together with our commercial and digital strength, international expansion and a business model increasingly geared to management solutions, have contributed to consolidate the strength and soundness of the Group's hotel business.

Financial Risks: Exchange Rate

The 15% devaluation of the USD against the EUR during the first quarter of the year has had a significant impact on the Group's operating profit. Likewise, the severe hyperinflation in Venezuela and the use of a synthetic exchange rate which properly reflects the economic reality of such country, have also had significant impacts which are duly described in the relevant sections of the consolidated financial statements.

Global Risks: Geopolitical Risks

Most prominent risks are:

- The new regulations imposed by the Government of Trump which affect the international travels of U.S. citizens.
- The outcome of Brexit negotiations.
- Political situation in Catalonia.

The Company has developed and implemented contingency plans and commercial initiatives with the purpose of limiting the potential impact of these risks on its activities.

E.6. Explain the response and monitoring plans for all major risks, including tax compliance risks, of the company, as well as the procedures followed by the company in order to ensure that the Board of Directors responds to any new challenges that arise.

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 compliance risks. Therefore, this management is fully integrated into the day-to-day activities of the areas themselves and fully aligned with the strategy and objectives.

One of the functions of the SET- Senior Executive Team - regarding risk management is to analyse the results of 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).

KRIs (Key Risk Indicators) are defined annually to monitor and control the most important risks (Stage 4 of the model). These indicators are reported periodically to the SET.

The results of updating the Risk Map are discussed and form part of the agenda of the SET, as well as of other governing bodies within Meliá Hotels International.

On the other hand, in order that the Board of Directors and the Audit and Compliance Committee may face the new challenges, periodically, they are informed of both the results of the Risk Map and the actions arising therefrom.

In particular, the Risk Map is submitted to the Board of Directors once updated, and at the different sessions of the Audit and Compliance Committee held during the year, detailed analyses of the main risks have been reported, in which, in addition to a context and evolution analysis of such risks, the indicators established for their control and monitoring are reported, as well as any risk mitigation measures (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 in connection with the Process of Publishing Financial Information (ICFR)

Describe the mechanisms comprising the system of Internal Control over Financial Reporting (ICFR) of your company.

F.1 Company's control environment

Specify at least the following components with a description of their principal features:

F.1.1. The bodies and/or departments that are responsible for (i) the existence and maintenance of an adequate and effective ICFR; (ii) their implementation; and (iii) their supervision.

The bodies within the Meliá Group responsible for ensuring the existence, maintenance, design, implementation and supervision of an adequate and effective ICFR and the functions and responsibilities attributed to them are as follows:

Board of Directors

According to the provisions of article 529 ter of the Corporate Enterprises Act, the Board of Directors is directly responsible for determining the risk control and management policy, including tax compliance risks, and for monitoring internal reporting and control systems.

Article 5 of the Regulations of the Board of Directors gives the Board the responsibility, among others, to "Identify the most important risks for the Company, especially tax compliance risks and those arising from transactions with derivatives, and the implementation and monitoring of appropriate internal control and reporting systems."

Audit and Compliance Committee

Article 14 of the Regulations of the Board of Directors gives the Audit and Compliance Committee the responsibility, among others, to "c) monitor the effectiveness of internal control in the company, Internal Audit services and risk management systems, including tax compliance risks, as well as discuss 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) monitor the preparation and presentation of mandatory financial information and recommendations or proposals to the Board of Directors designed to safeguard its integrity".

The organisation and operation of the Audit and Compliance Committee is regulated in the above-mentioned Article 14 of the Regulations of the Board of Directors. It currently consists of five (5) directors, three (3) of them independent, one external director under the category of "other external" and a fifth proprietary director, who have all held positions of responsibility in financial areas and positions as director in various companies.

Additionally, and as a general rule, representatives of the internal audit department and external auditors, as well as representatives of the Group's Senior Management also attend Committee meetings depending on the issues to be discussed. In 2018, the representatives of internal and external audit attended eight (8) out of a total of ten (10) meetings.

Senior Management

The Meliá Hotels International Group gives Senior Management the responsibility to design, implement and maintain the ICFR, with each Region or Department responsible for its area of influence. This responsibility thus affects the entire Organisation insofar as the financial information is based on the activity and the information generated by the business areas and by the rest of the support areas.

Internal Audit Department

The Audit and Compliance Committee is the body responsible for supervising the ICFR and it is the responsibility of the Internal Audit Department to verify its correct operation, keeping the Board of Directors (through the Audit and Compliance Committee) and Senior Management informed about whether the mechanisms implemented by the Management effectively mitigate the risk of errors with a material impact on financial information.

F.1.2. Whether the following components exist, especially in connection with the financial reporting process:

The departments and/or mechanisms in charge of: (i) the design and review of the organisational structure; (ii) defining clearly the lines of responsibility and authority, with an appropriate distribution of tasks and functions; and (iii) assurance that adequate procedures exist for proper communication throughout the company.

The definition and review process of the organisational structure is regulated by the Group's Human Resources Regulations and applies to all the Group companies. According to the provisions of such Regulations, which were approved by the Group's Senior Management in January 2012, the Human Resources Department is responsible for ensuring equity, balance and the optimisation of the Company's organisational structure and its periodic review. The heads of the different areas within the Group must ensure that the size of its staff is appropriate and optimal to address the department and business unit operations.

Any change in the organisational structure, as well as the appointment and dismissal of senior executives and their compensation, must be proposed by the Appointments and Remuneration Committee and approved by the Board of Directors.

Likewise, the Organisation area, which reports to the Human Resources Department, is responsible, together with the different areas within the Group, for the analysis and determination of processes, as well as the job descriptions, functions and responsibilities, including positions related to the preparation of financial reporting. The Human Resources Regulations and the Group's organisational chart duly updated are available to employees through the Employee Portal.

Code of conduct, the body approving it, degree of dissemination and instruction, principles and values covered (stating whether it makes specific reference to record keeping and financial reporting), body in charge of reviewing breaches and proposing corrective actions and sanctions.

The Meliá Hotels International Group has several documents relating to conduct of its employees, suppliers and other stakeholders:

Code of Ethics

The Meliá Hotels International Group has a Code of Ethics that was approved by the Board of Directors in 2012 and which has been updated in 2018.

This Code and all the information necessary for a proper understanding thereof, is available to the Group's employees through the Employee Portal, as well as to any stakeholder through the company's corporate website (www.meliahotelsinternational.com). The Code of Ethics is available in the following languages: Spanish, English, German, Italian, Portuguese, Chinese and Vietnamese.

The Code of Ethics is a set of principles of action that organise and give meaning to the values of the Company, helping to understand them and learn how they should be applied and prioritised. The Code of Ethics is the summit of the entire internal regulatory framework. It establishes the bases on which policies, regulations, processes and internal procedures are created.

The Code of Ethics is divided into five main areas:

1. Universal values.

2. Values and principles of action.

3. Commitments of Meliá Hotels International.

4. Principles of action for employees.

5. Operating systems.

Corporate values included in the Code of Ethics are as follows:

- Proximity
- Excellence and consistency
- Commitment to service
- Innovation

Regarding commitments and principles, the Code of Ethics organises them depending on the different parties concerned:

- Employees
- Customers
- Shareholders and investors
- Owners and partners
- Suppliers
- Tourism sector and competition
- Community
- Environment
- Public administrations
- Media

In particular, the Code of Ethics includes a section that regulates the principles applicable to the relationship with shareholders and investors, where the following commitments are expressly stated: i) ensuring maximum reliability and accuracy of accounting and financial records, ii) complying with the obligations regarding transparency in the stock markets, iii) maintaining a proactive attitude towards the identification, prevention and mitigation of financial and non-financial risks, and iv) providing the shareholders and investors with transparent, sufficient, accurate, timely and clear financial and non-financial information.

The Code of Ethics Office is responsible for keeping the Code in operation, and is a body created to review and permanently update the Code of Ethics and resolve any questions regarding its content and application that may arise in ordinary operations.

The responsibility for managing complaints about any breach or behaviour infringing the contents of the Code of Ethics lies with the Ethics Committee, an independent body whose main function is to manage claims or complaints submitted through the Whistleblowing Channel. Likewise, it is the body in charge of proposing the appropriate corrective actions or sanctions.

Ultimate responsibility lies with the Board of Directors, which, through the Audit and Compliance Committee, is in charge of its implementation. Complaints are sent directly to the Chairman of the Audit and Compliance Committee and to the Company's Compliance Officer.

In 2018 an internal training has been launched, which is mandatory and consists of (3) separate modules, one of them regarding the Code of Ethics and the Whistleblowing Channel. This training is intended for all corporate personnel worldwide and for Managers, Assistant Managers and Leaderships in the hotels, and is accessible through the Company's online internal training platform.

<u>Supplier's Code of Ethics</u>

On 6 June 2018, the Board of Directors approved the first Supplier's Code of Ethics, which contains the principles and commitments expected from suppliers, including those providing services.

This document reinforces the management and relationship model that the Company aims to promote globally, including the principles and commitments of the Company's Code of Ethics itself, and transmitting our commitments to the supply chain.

By means of this Code, Meliá Hotels International enhances the coherence of its procurement model and strengthens the relationship with suppliers on the basis of its values, Code of Ethics and the public commitments which it has assumed.

Like the Code of Ethics, the Supplier's Code of Ethics is available on the corporate website of the Company. In November 2018, the CEO issued a release informing on its approval and implementation and prompting its dissemination among the suppliers of the Group. Currently, the Supplier's Code of Ethics is available in Spanish and English, and additional versions in other languages are foreseen.

In order to reinforce transparency and trusting relationships, the suppliers are provided with a new whistleblowing channel through which they may report or denounce any behaviours that are contrary to the mentioned Code. The Suppliers'

Whistleblowing Channel, as well as the employees' whistleblowing channel, will be managed by the Ethics Committee and will be available on the corporate website (meliahotelsinternational.com).

Internal Code of Conduct on Matters Relating to the Stock Market .

This code is applicable to all members of the Board of Directors and the recipients defined in the subjective scope of application. Among other things, the code contains the "Procedures for the Treatment of Privileged Information".

This code is communicated and delivered in writing to the people to whom it applies at the time of their recruitment and/or according to the provisions of the code, at the time they are considered as Recipients. It must be signed and accepted by Recipients. The Chief Legal & Compliance Officer is in charge of monitoring and controlling compliance with such code, reporting any matters in relation thereto to the Audit and Compliance Committee.

Executive Behaviour Regulations and Human Resources Regulations

Meliá also has Executive Behaviour Regulations and Human Resources Regulations, the first one regulating the conduct of its executives and the second one of the Group's employees, in respect of certain matters.

Whistleblowing channel, which makes it possible to report any irregularities of a financial or accounting nature to the audit committee, as well as possible breaches of the code of conduct and irregular activities at the organisation, stating whether reports made through this channel are confidential.

On the occasion of the Code of Ethics in 2012, the Meliá Hotels International Group set up a Whistleblowing Channel for employees to register any complaints related to non-compliance with the contents of 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 breaches, lack of internal control, financial irregularities or situations or events that may require the attention and immediate action of Senior Management.

The procedure ensures, in every case, an independent and confidential analysis. The Chairman of the Audit and Compliance Committee has direct access to all the complaints received.

The whistleblowing channel is managed by the Ethics Committee, which acts independently and with due respect for the confidentiality of the complaints received, reporting regularly any matters in relation to this channel, directly to the Audit and Compliance Committee.

The main function of the Ethics Committee is to receive, manage and coordinate the complaint and inquiry procedure through the whistleblowing channel and is the only body with access to the complaints received, thus ensuring confidentiality.

Operation of the channel is regulated in a corporate procedure and is available for all employees on the intranet.

The channels available for filing complaints are: Intranet (Employee Portal), Internet (corporate website) and regular mail addressed to the Ethics Committee.

In 2016, the existence of the whistleblowing channel was communicated to all business areas and corporate offices worldwide, reporting regarding its implementation to the Audit and Compliance Committee.

Likewise, following the approval of the Supplier's Code of Ethics, in June 2018, a Whistleblowing Channel for suppliers was created. This whistleblowing channel is also managed by the Ethics Committee.

Operation of the channel is also regulated in a corporate procedure and is available for suppliers through the whistleblowing channel access platform.

The channels available for suppliers to file complaints are: Internet (corporate website) and regular mail addressed to the Ethics Committee.

Training and refresher programmes for personnel involved in the preparation and review of the financial information, as well as in the evaluation of ICFR, which address, at least, accounting rules, auditing, internal control and risk management.

Managers responsible for departments that prepare financial information must ensure that employees working in these areas 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 2018, 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.

The departments involved in training programmes and regular updates are: Internal Audit, Risk Control & Compliance, and Statutory Accounts & Consolidation, and more than 120 hours a year have been dedicated to such training programmes.

In particular, in 2018, the following training activities have been carried out, among others, (for the purposes of this report, the most relevant ones have been included):

Training activity	Duration (hours)	Date	Provider	Department
Conference: *"Corruption offences in business"*	2	05/04/2018	Ilustres Colegio de Abogados de las Islas Baleares (ICAIB) [Bar Association of Balearic Islands]	Risk Control & Compliance / Corporate Governance
International Compliance Congress	16	31/05/2018 to 01/06/2018	Thomson Reuters and Asociación Española de Compliance (ASCOM) [Spanish Compliance Association]	Risk Control & Compliance

IX National Meeting on Risk Management	4.5	06/06/2018	Deloitte	Risk Control & Compliance
Course: Management of criminal compliance. UNE 19601 Standard	7	07/06/2018	Asociación Española de Normalización y Certificación (AENOR) [Spanish Association for Standardisation and Certification]	Risk Control & Compliance
Breakfast: "*The role of the Compliance Officer and the Risk function in the digital age*"	1.5	10/07/2018	Asociación Española de Compliance (ASCOM)	Risk Control & Compliance
How to create a Compliance risk monitoring plan	1.5	19/07/2018	Asociación Española de Compliance (ASCOM)	Risk Control & Compliance
International Conference on CSR and Anti-Corruption	6	23/10/2018	International Chamber of Commerce (ICC)	Risk Control & Compliance
Course: Management of criminal compliance. UNE 19601 Standard	7	29/11/2018	Asociación Española de Normalización y Certificación (AENOR)	Risk Control & Compliance /
Basis for fraud detection	4	2018	Instituto de Auditores Internos (IAI) (Internal Auditors Institute)	Internal Audit
Guide to successfully implement ongoing audit	4	09/07/2018	Instituto de Auditores Internos (IAI)	Internal Audit
Masters in Accounts Auditing	1 year	2017 & 2018	Universidad a distancia de Madrid (UDIMA) [Open University of Madrid]	Internal Audit
Topics of interest in the areas of finance and taxation in the digital environment	4	30/01/2018	KPMG	Statutory Accounts & Consolidation
AECA Seminar on Standardisation and Accounting Law	5	17/05/2018	Asociación Española de Contabilidad y Administración de Empresas (AECA)	Statutory Accounts & Consolidation

			[Spanish Accounting and Business Administration Association]	
Consolidation of accounts of business groups	12	31/05/2018 to 01/06/2018	Asociación Española de Contabilidad y Administración de Empresas (AECA)	Statutory Accounts & Consolidation
ICAC (Accounting and Auditing Institute) resolution project of accounting of companies	7	10/05/2018	Asociación Española de Contabilidad y Administración de Empresas (AECA)	Statutory Accounts & Consolidation
Reform of the General Accounting Plan and supplementary standards: financial instruments and revenue recognition	7	23/10/2018	Asociación Española de Contabilidad y Administración de Empresas (AECA)	Statutory Accounts & Consolidation

The Company also receives external advice to support the knowledge development of the team members involved, and also collaborates with IAI [Internal Audit Institute] and AECA [Spanish Accounting and Business Administration Association] as corporate partner.

Likewise, the Company is subscribed to the following publications:

Subscription	Frequency	Provider
Asociación Española de Contabilidad y Administración de Empresas	Weekly	Asociación Española de Contabilidad y Administración de Empresas (AECA)
PWC - Boletín Técnico NIIF (IFRS Technical Bulleting)	Monthly	PriceWaterhouseCoopers
Instituto Auditores Internos Al día (Up-to-date)	Weekly	Instituto de Auditores Internos (IAI)
Instituto Auditores Internos - Revista IAI (IAI Magazine)	Monthly	Instituto de Auditores Internos (IAI)
Breaking News	Monthly	KPMG

F2 Risk assessment in financial reporting

F.2.1 Indicate what are the key features of the risk identification process, including error and fraud risk, with regard to:

• Whether the process exists and is documented.

The Meliá Hotels International Group has:

- A Risk Control, Analysis and Assessment Policy approved by the Board of Directors in February 2017. This Policy is public and available on the corporate website.
- Risk Control Regulations approved by Senior Management in November 2017 and which implements the said policy.
- Risk Control and Analysis Regulations approved by Senior Management in 2016.
- A Risk Map preparation process.

The two Regulations are available to all employees on the Employee Portal.

• Whether the process covers all financial reporting objectives (existence and occurrence, completeness, valuation, presentation, disclosure and comparability, and rights and obligations), and if it is updated and how often.

The Risk Control Department leads the periodic review of the Group's Risk Map and monitors the definition and implementation of actions and assignment of responsibilities in order to mitigate the most important risks.

In the annual update of the Risk Map, senior managers in all Departments and areas within the Group identify and assess the different risks that affect them, including risks related to financial reporting. Therefore, in addition to a Consolidated Risk Map for the Group, Risk Maps are also generated for each of the different Departments and areas within the Organisation.

In cooperation with the Internal Audit Department, every year the Risk Inventory is reviewed to detect which of the identified risks may affect the financial reporting objectives defined by the CNMV: existence and occurrence, completeness, valuation, presentation, disclosure and comparability.

• A specific process is in place to define the scope of consolidation, with reference to the possible existence of complex corporate structures, special purpose vehicles, holding companies, etc.

For the purpose of identifying the scope of consolidation 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 scope of consolidation are defined in a manual which complements the provisions of Corporate and Joint Venture Regulations. The scope of consolidation is updated monthly according to the provisions of the International Accounting Standards and other local accounting regulations.

Regarding the possible existence of complex corporate structures, special purpose vehicles or holding companies, in general, prior approval of the Board of Directors is required for their creation.

Likewise, according to the provisions of the Tax Strategy Policy (as amended by the Board of Directors on 6 June 2018 and available on the corporate website), one of the guiding principles is “to avoid the creation of companies of opaque nature or residing in tax havens as interpreted by the European Union, unless their existence is motivated by economic or business reasons. It is reiterated that “the creation or acquisition of interests in special purpose vehicles or entities residing in countries or territories considered as tax havens” must be approved by the Board of Directors.

• Whether the process addresses other types of risk (operational, technological, financial, legal, reputational, environmental, etc.) insofar as they may affect the financial statements.

The impact that risks may have on financial statements is considered in updating the Risk Map, regardless of the type of risk. The Meliá Hotels International Group has categorised risks as follows:

• Global Risks.

• Financial Risks.

• Business Risks.

• Operational Risks.

• Compliance Risks.

• Information Risks.

• What governing body of the company is responsible for overseeing the process.

The results obtained in the process of updating the Risk Map are reported to and reviewed by Senior Management, the Audit and Compliance Committee and the Board of Directors.

F3 Control activities

Please inform, indicating its main characteristics, if the Company has at least:

F.3.1 Procedures for reviewing and authorising the financial information and description of ICFR to be disclosed to the securities markets, stating who is responsible in each case and the documentation describing the flow of activities and controls (including those addressing the risk of fraud) for each type of transaction that may materially affect the financial statements, including procedures for the closing of accounts and for the separate review of critical judgements, estimates, evaluations and projections.

Meliá Hotels International 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 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 that it receives. It is worth mentioning that since 2012, the Company submits the 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 has 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 the securities markets.

Since 2013, two ad hoc meetings of the Audit and Compliance Committee have been established to approve the Intermediate Management Report for the first and third quarter. Once approved and for information purposes, the information is made available to the Board of Directors for approval.

The Meliá Hotels International Group has a procedure manual which defines the internal process for the preparation and submission 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 potentially may affect in a significant manner the Group's Annual Accounts, have controls in the critical processes to ensure the reliability of financial information. These controls are included in internal procedures or in the IT systems used for the preparation of financial information.

The methodology uses the analysis of the Consolidated Annual Accounts to select the most relevant accounting headings and notes to the accounts in accordance with quantitative (materiality) and qualitative criteria (automation, likelihood of fraud or error, accounting complexity, degree of estimation and risk of loss or contingent liabilities). The selected headings and notes are grouped into processes. The majority of the critical processes and their associated control activities have been systematically documented. This documentation includes descriptive components and flow charts of the processes and risk and control matrices. Additionally, and throughout this process, potential risks of fraud have also been identified along with controls to mitigate them.

The activities that are required to be formally documented are included in the processes within 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 critical judgements, estimates and projections needed to measure certain assets, liabilities, revenues, expenses and commitments recorded or disclosed in the Annual Accounts are carried out 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 judgement or estimation, as well as the key assumptions 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 property investment, pension contributions and the useful life of property, plant and equipment and intangible assets.

One of the documented processes is an accounting closure procedure which defines the closure, review and authorisation of financial information generated by the different units before all the information is consolidated.

F.3.2 Internal control policies and procedures for IT systems (including secure access, control of changes, system operation, continuity and segregation of duties) giving support to key processes of the company regarding the preparation and publication of financial information.

The IT Department at the Meliá Hotels International Group has a set of 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 formalised procedures for changes to the financial management platform and a transaction development and maintenance process. These procedures establish the controls that ensure a proper development and maintenance of applications, evaluating the impact of changes and associated risks, and they also have processes to test changes before they are implemented in production systems.

There is a management model for access and authorisation based on the segregation of functions on the systems that support financial management processes, having defined the control procedures and avoiding users to be involved in the handling of such information.

Likewise, controls have been established for the appropriate management and monitoring of the assignment of special privileges in systems that support financial information.

In 2018, the implementation of the processes mainly affecting SAP was completed, both in hotels and corporate units. In order to control and direct the access to the company's information, in the course of 2019 progress will continue to be made towards the integration and adaptation of other services to such processes.

F.3.3 Internal control policies and procedures for overseeing the management of outsourced activities, and of the appraisal, calculation or valuation services commissioned from independent experts, when these may materially affect the financial statements.

Outsourcing is governed by the Regulation on Service Contract that regulates the approval by the General Management of the contracting area and the verification that the supplier has sufficient professional qualifications to deliver the contracted services and that, where appropriate, he/she is registered with the corresponding professional body. This Regulation is available to all employees on the Employee Portal.

Additionally, the Group has in place an Approval Process for services other than audit services carried out by the account auditor, under which the authorisation process for procurement of audit and non-audit services is established.

It is worth stressing that the Tax Strategy Policy establishes that the "Tax Department may avail itself of advice from independent and recognised tax experts, except for the auditor or audit firm carrying out the audit of the Group's 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 personnel capable of validating the reasonableness of the conclusions thereof, defining and managing the appropriate service levels in each case.

In 2018, an independent expert on asset valuation (JLL) has been engaged, whose procurement and outcome have been reported to the Audit and Compliance Committee.

F4 Information and Communication

Please inform, indicating its main characteristics, if the Company has at least

F.4.1 A specifically assigned function for defining and updating accounting policies (accounting policy area or department) and resolving doubts or conflicts arising from their interpretation, maintaining fluid communications with those responsible for operations at the organisation, as well as an up-to-date accounting policy manual distributed to the business units through which the company operates.

The Annual Accounts and Consolidation Department is in charge of the definition and updating of accounting policies, as well as the interpretation thereof, and other accounting regulations that affect the financial statements of the Meliá Hotels International Group. Among others, the functions of this department are as follows:

- Definition of the Group's accounting policies.
- Analysis of the operations and individual transactions carried out or to be carried out by the Group to determine their appropriate accounting treatment.
- Monitoring of the new regulations planned as well as the new rules approved by the International Accounting Standards Board (IASB) which are adopted by the European Union, and analysis of the impact that their implementation will have on the Group's Consolidated Accounts.
- Resolution of any doubts of Group companies regarding the application of Group's accounting policies.

There is a formal communication channel to coordinate doubts about the interpretation of the 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 the Group's accounting books.

The channel was launched with a notice on the Group intranet explaining its operation. This consists of a mailbox managed by the Annual Accounts and Consolidation Department.

The Meliá Hotels International Group presents its Consolidated Annual Accounts in accordance with the International Financial Reporting Standards adopted by the European Union. The company has an updated accounting policy manual that is reviewed whenever the accounting regulations applicable to the financial statements of the Group are modified in any significant respect.

All personnel responsible for preparing the financial statements of the companies within the Group have access to this document through the Intranet.

F.4.2 Mechanisms for capturing and preparing financial information with consistent formats for application and use by all of the units of the company or the group, and which contain the main financial statements and notes, as well as detailed information regarding ICFR.

The Meliá Hotels International Group has an integrated financial management tool to address the reporting needs of individual financial statements and which facilitates the subsequent consolidation and analysis process.

This tool centralises in a single system all the accounting information of the Group subsidiaries, which is the basis for the preparation of individual annual accounts and the consolidated annual accounts for the Group. The system is managed centrally from the Head Office.

F5 Supervision of system performance

Please inform, indicating its main characteristics, if the Company has at least

F.5.1 The activities of the audit committee in overseeing ICFR, as well as whether the entity has an internal audit function whose duties include providing support to the committee in its work of supervising the internal control system, including ICFR. Additionally, describe the scope of ICFR assessment made during the year and the procedure through which the person responsible prepares the assessment reports on its results, whether the company has an action plan describing possible corrective measures, and whether its impact on financial reporting is considered.

The activities of supervision of Internal Control over Financial Reporting (ICFR) carried out by the Audit and Compliance Committee mainly include: (i) regular meetings with external auditors, internal auditors and senior management to review, analyse and comment on the financial information, the applied accounting criteria, and, where applicable, any significant internal control weaknesses, and (ii) review with the Internal Audit Department of the effectiveness of and compliance with the processes within the internal control system. In 2018, the external auditors and the internal audit management attended eight (8) meetings out of a total of ten (10) meetings.

At the meetings of the Audit and Compliance Committee, information on the ICFR evaluation activities conducted by the Internal Audit Department is included as an agenda item.

According to the Company's Bylaws and the Internal Auditing Regulations of the Group (reviewed and updated in 2017), the Internal Audit Department is responsible for verifying the correct operation of the 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 hierarchically reports to the Audit and Compliance Committee and functionally reports to the Chief Legal & Compliance Officer, who in turn, reports to the Vice Chairman and the Chief Executive Officer of the Group. The head of Internal Audit has direct access to the Vice Chairman and the Chief Executive Officer, as well as to the Audit and Compliance Committee and, where appropriate, to the Board of Directors. Some of the functions 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.

For the purpose of ensuring 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 functions other than those of internal audit. Except for the internal auditor of systems, who is in turn member of the Data Protection Office and who exercises both functions.

In the internal audit plan for year 2018, 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 areas, including those processes related to ICFR. The checklist of audit control points is reviewed and updated on an annual basis.

The methodology of the activities carried out by the Internal Audit team has mainly consisted of direct on-site evaluation by the Group's auditors, although continuous monitoring, massive data analysis and self-evaluations of controls have also been carried out. 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 potentially involving a risk for the organisation.

Regarding control of financial information in the business area, in 2018, two (2) cycles have been audited (revenues cycle and inventories cycle), which contain eight (8) processes, divided into twenty-five (25) sub-processes, and three thousand three hundred and ninety-six (3,396) control activities have been carried out.

These reviews have been carried out at one hundred and sixty (160) hotels located in Spain (97) EMEA (35), America (15) and APAC (13).

According to the Auditing Regulations, if a review by the Audit Department detects control weaknesses in the audited area or process, these are reported to the Management of the audited area, and also to Senior Management and the Audit and Compliance Committee, if deemed appropriate. The heads of such areas must then respond to the weaknesses, either through corrective measures or the implementation of preventive plans.

F.5.2 Whether there is a procedure by which the account auditor (as provided in the Technical Auditing Standards), the internal auditor and other experts may inform senior management and the audit committee or senior managers of the company of the significant internal control weaknesses detected during the review of the annual accounts or such other reviews as may have been entrusted to them. Information shall also be provided on whether an action plan is available for correcting or mitigating the weaknesses found.

The Board of Directors, according to its Regulations, must meet at least six (6) times a year. Coinciding with these meetings, the Audit and Compliance Committee also meets, with the meetings being regularly attended by the internal and external auditors as guests, and also by Senior Management, when appropriate.

The external auditor must attend, at least, the Board meeting in which Annual Accounts are prepared and, additionally, any other Board meeting at which his/her attendance is required. The Internal Audit Department is in constant communication with Senior Management and periodically informs the Audit and Compliance Committee of any internal control weaknesses detected in internal audits.

Likewise, on an annual basis, the external auditor provides the Audit and Compliance Committee with a report detailing the internal control weaknesses detected.

Such report is internally monitored through an action plan.

F.6 Other relevant information

N/A

F.7 External auditor's report

Report on:

F.7.1 Whether the ICFR information submitted to the markets has been subject to review by the external auditor, in which case the entity shall include its report as an attachment. If not, reasons why should be given.

The information on the system of internal control of financial reporting included in the Annual Corporate Governance Report has been subject to review by an external auditor, whose report is attached to the Group's Management Report.

2018 ANNUAL CORPORATE GOVERNANCE REPORT
TRANSLATION FOR INFORMATION PURPOSES ONLY

G. Extent of Compliance with Corporate Governance Recommendations

Specify the company's level of compliance with recommendations from the Good Governance Code of Listed Companies.

In the event that a recommendation is not followed or only partially followed, a detailed explanation should be included explaining the reasons in such a manner that shareholders, investors and the market in general have enough information to judge the company´s actions. Explanations of general nature shall not be acceptable.

1. That the Bylaws of listed companies do not limit the maximum number of votes that may be cast by one shareholder or contain other restrictions that hinder the takeover of control of the company through the acquisition of shares on the market.

Complies ☒ Explanation ☐

2. That when the parent company and a subsidiary are listed on the stock market, both should publicly and specifically define:

a) The respective areas of activity and possible business relationships between them, as well as those of the listed subsidiary with other group companies.

b) The mechanisms in place to resolve possible conflicts of interest.

Complies ☐ Complies Partially ☐ Explanation ☐ **Not Applicable** ☒

3. That, during the course of the ordinary General Shareholders' Meeting, complementary to the distribution of a written Annual Corporate Governance Report, the chairman of the Board of Directors verbally informs shareholders in sufficient detail of the most relevant aspects of the company's corporate governance, and in particular:

a) Changes taking place since the last General Shareholders' Meeting.

b) Specific reasons why the company did not follow one or more of the recommendations of the Code of Corporate Governance and, if so, the alternative rules that were followed instead.

Complies ☐ Complies Partially ☐ **Explanation** ☒

At the Ordinary General Shareholders' Meeting held on 6 June 2018, the Chairman and the Chief Executive Officer informed the shareholders of the most important progress achieved with respect to Corporate Governance. The Chairman of the Audit and Compliance Committee (whose assigned functions include reviewing the company's governance regulations and making proposals for their improvement) gave details of the most important work carried out over the year with respect to Corporate Governance.

The company provides information on relevant changes in Corporate Governance matters in the Annual Corporate Governance Report, which is available to all shareholders and includes information on the extent of compliance with recommendations and, if appropriate, reasons why some recommendations are implemented in a different way.

Likewise, the Integrated Annual Report includes the roadmap with specific objectives in Corporate Governance matters.

The foregoing is without prejudice to the possibility that shareholders may request any clarification or additional information in that regard, in accordance with the systems set forth in the applicable regulations.

4. That the company has defined and promoted a policy of communication and contact with shareholders, institutional investors and proxy advisors that complies in all aspects with rules preventing market abuse and gives equal treatment to similarly situated shareholders.

And that the company has made such a policy public through its web page, including information related to the manner in which said policy has been implemented and the identity of contact persons or those responsible for implementing it.

Complies ☒ Complies Partially ☐ Explanation ☐

5. That the Board of Directors should not propose to the General Shareholders' Meeting any proposal for delegation of powers allowing the issuance of shares or convertible securities without pre-emptive rights in an amount exceeding 20% of equity at the time of delegation.

And that whenever the Board of Directors approves any issuance of shares or convertible securities without pre-emptive rights the company immediately publishes reports on its web page regarding said exclusions as referenced in applicable company law.

Complies ☐ Complies Partially ☐ **Explanation** ☒

The Company submitted to the General Shareholders' Meeting held on 4 June 2015 a proposal for delegation of powers allowing an increase capital and the issuance of bonds. Although the amounts subject to approval exceed the percentage indicated in the recommendation, as explained in the relevant reports (which are available to shareholders), this power was considered to be necessary to raise on the stock markets the funds necessary for the appropriate management of company interests, giving the Board the broadest capacity to respond. The possibility of exclusion of pre-emptive rights is a power that must be analysed and applied in each specific case, depending on the specific conditions for the issuance. Likewise, the approved authorisation is within the legal maximum.

6. That listed companies which draft any reports listed below, whether under a legal obligation or voluntarily, publish them on their website with sufficient time before the General Shareholders' Meeting, even when their publication is not mandatory:

a) Report on the auditor's independence.

b) Reports on the operation of the audit committee and the appointments and remuneration committee.

c) Report by the audit committee regarding related-party transactions

d) Report on the corporate social responsibility policy.

Complies ☐ **Complies Partially** ☒ Explain ☐

The Company has prepared and published on the corporate website the report on the auditor's independence, the activity reports of the audit and compliance committee and the appointments and remuneration committee, as well as the report on related-party transactions, independently and before the holding of the General Shareholders' Meeting of year 2018.

Regarding the report on the corporate social responsibility policy, all the information on progress and indicators in respect thereof are included in the integrated annual report of year 2018.

7. That the company reports in real time, through its web page, the proceedings of the General Shareholders' Meetings.

Complies ☒ Explanation ☐

8. That the audit committee ensures that the Board of Directors presents the financial statements to the General Shareholders' Meetings without qualifications or reservations and that, in the exceptional circumstances in which qualifications may appear, that the chairman of the audit committee and the auditors clearly explain to the shareholders the content and scope of said qualifications or reservations.

Complies ☒ Complies Partially ☐ Explain ☐

9. That the company permanently maintains on its web page the requirements and procedures for certification of share ownership, the right of attendance at the General Shareholders' Meetings, and the exercise of the right to vote or to issue a proxy.

And that such requirements and procedures promote attendance and the exercise of shareholder rights in a non-discriminatory manner.

Complies ☒ Complies Partially ☐ Explain ☐

10. That when a verified shareholder has exercised his right to make additions to the agenda or to make new proposals to it with sufficient time in advance of the General Shareholders' Meeting, the company:

a) Immediately distributes the additions and new proposals.

b) Publishes the attendance card credential or proxy form or form for distance voting with the changes such that the new agenda items and alternative proposals may be voted upon under the same terms and conditions as those proposals made by the Board of Directors.

c) Submits all of these items on the agenda or alternative proposals to a vote and applies the same voting rules to them as are applied to those drafted by the Board of Directors including, particularly, assumptions or default positions regarding votes for or against.

d) Communicates a breakdown of the results of said additions or alternative proposals after the General Shareholders' Meeting.

Complies ☐ Complies Partially ☐ Explanation ☐ **Not Applicable** ☒

11. That, in the event the company intends to pay for attendance at the General Shareholders' Meeting, it establishes in advance a general policy of long-term effect regarding such payments.

Complies ☐ Complies Partially ☐ Explanation ☐ **Not Applicable** ☒

12. That the Board of Directors completes its duties with a unity of purpose and independence, treating all similarly situated shareholders equally and that it is guided by the best interests of the company, which is understood to mean the pursuit of a profitable and sustainable business in the long term, and the promotion of continuity and maximisation of the economic value of the business.

And that in pursuit of the company's interest, in addition to complying with applicable law and rules and in engaging in conduct based on good faith, ethics and a respect for commonly accepted best practices, it seeks to reconcile its own company interests, when appropriate, with the interests of its employees, suppliers, clients and other stakeholders, as well as the impact of its corporate activities on the communities in which it operates and the environment.

Complies ☒ Complies Partially ☐ Explain ☐

13. That the Board of Directors is of an adequate size to perform its duties effectively and in a participatory manner, and that its optimum size is between five and fifteen members.

Complies ☒ Explanation ☐

14. That the Board of Directors approves a selection policy for directors that:

a) Is concrete and verifiable.

b) Ensures that proposals for appointment or re-election are based upon a prior analysis of the needs of the Board of Directors.

c) Favours diversity in knowledge, experience and gender.

That the resulting prior analysis of the needs of the Board of Directors is contained in the supporting report from the appointments committee published upon a call from the General Shareholders' Meeting submitted for ratification, appointment or re-election of each director.

And that the selection policy for directors promotes the objective that by the year 2020 the number of female directors accounts for at least 30% of the total number of members of the Board of Directors.

The appointments committee will annually verify compliance with the selection policy of directors and explain its findings in the Annual Corporate Governance Report.

Complies ☒ Complies Partially ☐ Explain ☐

15. That proprietary and independent directors constitute a substantial majority of the Board of Directors and that the number of executive directors is kept at a minimum, taking into account the complexity of the corporate group and the percentage of equity participation of executive directors.

Complies ☒ Complies Partially ☐ Explain ☐

16. That the percentage of proprietary directors divided by the number of non-executive directors is no greater than the proportion of the equity interest in the company represented by said proprietary directors and the remaining share capital.

This criterion may be relaxed:

a) In large cap companies in which interests that are legally considered significant are minimal.

b) In companies where a diversity of shareholders is represented on the Board of Directors without ties among them.

Complies ☒ Explanation ☐

17. That the number of independent directors represents at least half of the total number of directors.

Nonetheless, when the company does not have a high level of market capitalisation or in the event that it is a large cap company with one shareholder or a group acting in a coordinated manner who together control more than 30% of the company's capital, the number of independent directors represents at least one third of the total number of directors.

Complies ☒ Explanation ☐

18. That companies publish and update the following information regarding directors on the company website:

a) Professional profile and biography.

b) Any other Boards to which the director belongs, regardless of whether the companies are listed, as well as any other remunerated activities engaged in, regardless of type.

c) Category of directorship, indicating, in the case of proprietary directors, the shareholder that they represent or to which they are connected.

d) The date of their first appointment as a director of the company's Board of Directors, and any subsequent re-election.

e) The shares and options they own.

Complies ☒ Complies Partially ☐ Explain ☐

19. That the Annual Corporate Governance Report, after verification by the appointments committee, explains the reasons for the appointment of proprietary directors at the proposal of the shareholders whose equity interest is less than 3%. It should also explain, where applicable, why formal requests from shareholders for membership on the Board meeting were not honoured, when their equity interest is equal to or exceeds that of other shareholders whose proposal for proprietary directors was honoured.

Complies ☐ Complies Partially ☐ Explanation ☐ **Not Applicable** ☒

20. That proprietary directors must resign from the Board if the shareholder they represent disposes of its entire equity interest. They should also resign, in a proportional manner, in the event that said shareholder reduces its percentage interest to a level that requires a decrease in the number of proprietary directors representing this shareholder.

Complies ☐ Complies Partially ☐ Explanation ☐ **Not Applicable** ☒

21. That the Board of Directors may not propose the dismissal of any independent director before the completion of the director's term provided for in the Bylaws, unless the Board of Directors finds just cause and a prior report has been prepared by the appointments committee. Specifically, just cause is considered to exist if the director takes on new duties or commits to new obligations that would interfere with his or her ability to dedicate the time necessary for attention to the duties attendant to his post as a director, fails to complete the tasks inherent to his or her post, or enters into any of the circumstances which would cause the loss of independent status in accordance with applicable law.

The dismissal of independent directors may also be proposed as a result of a public takeover bid, merger or similar transaction entailing a change in the shareholder structure of the company, provided that such changes in the structure of the Board are the result of the proportionate representation criteria provided for in Recommendation 16.

Complies ☒ Explanation ☐

22. That companies establish rules requiring that directors inform the Board of Directors and, where appropriate, resign from their posts, when circumstances arise which may damage the company's standing and reputation. Specifically, directors must be required to report any criminal acts with which they are charged, as well as the consequent legal proceedings.

And that should a director be indicted or tried for any of the offences set out in company law legislation, the Board of Directors must investigate the case as soon as possible and, based on the particular situation, decide whether the director should continue in his or her post. And that the Board of Directors must provide a reasoned written account of all these events in its Annual Corporate Governance Report.

Complies ☐ Complies Partially ☐ **Explanation** ☒

According to article 31 of the Regulations of the Board of Directors, Directors "should inform and, if appropriate, to resign in those cases which may damage the credit and reputation of the Company and shall in any event inform the criminal cases in which they are involved, and their subsequent trial, in which case the Board of Directors must examine the case as soon as possible, and in view of the specific circumstances, decide whether or not, that the Director should remain in office."

Accordingly, the Company considers that the answer would be "Not applicable", since the circumstance described in the question has not taken place.

23. That all directors clearly express their opposition when they consider any proposal submitted to the Board of Directors to be against the company's interests. This particularly applies to independent directors and directors who are unaffected by a potential conflict of interest if the decision could be detrimental to any shareholders not represented on the Board of Directors.

Furthermore, when the Board of Directors makes significant or repeated decisions about which the director has serious reservations, the director should draw the appropriate conclusions and, in the event the director decides to resign, explain the reasons for this decision in the letter referred to in the next recommendation.

This recommendation also applies in the case of the secretary of the Board of Directors, despite not being a director.

Complies ☒ Complies Partially ☐ Explanation ☐ Not Applicable ☐

24. That whenever, due to resignation or any other reason, a director leaves before the completion of his or her term, the director should explain the reasons for this decision in a letter addressed to all the directors of the Board of Directors. Irrespective of whether the resignation has been reported as a relevant fact, it must be included in the Annual Corporate Governance Report.

Complies ☐ Complies Partially ☐ Explanation ☐ **Not Applicable** ☒

25. That the appointments committee ensures that non-executive directors have sufficient time in order to properly perform their duties.

And that the Regulations of the Board establish the maximum number of company Boards on which directors may sit.

Complies ☐ **Complies Partially** ☒ Explain ☐

The Company does not consider it necessary to establish a maximum number of company Boards on which directors may sit since, prior to the appointment or re-election of directors the availability of candidates is reviewed, as provided for in the Selection Policy for Directors. 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 its business, and participate in Board meetings and Commissions of which they are members, if any.

In fact, no Director sits in more than two Board of Directors of public companies, as indicated in paragraph C.1.11 of this report.

26. That the Board of Directors meet frequently enough so that it may effectively perform its duties, at least eight times per year, following a schedule of dates and agenda established at the beginning of the year and allowing each director individually to propose items do not originally appear on the agenda.

Complies ☐ **Complies Partially** ☒ Explain ☐

The Regulations of the Board of Directors establish a minimum of six meetings. In fiscal year 2018 it was not necessary to increase this number to meet the needs of the company.

Likewise, Article 25 of the Regulations of the Board of Directors states that the obligations of Directors include asking persons with capacity to call meetings to call an extraordinary meeting of the Board or to include such items as they deem appropriate in the agenda of the next meeting to be held.

In any case, at the beginning of each fiscal year, the Board examines, proposes and approves the schedule of meetings for the next year, taking into account the needs of the Company.

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27. That director absences only occur when absolutely necessary and are quantified in the Annual Corporate Governance Report. And when absences occur, that the director appoints a proxy with instructions.

Complies ☒ Complies Partially ☐ Explanation ☐

28. That when directors or the secretary express concern regarding a proposal or, in the case of directors, regarding the direction in which the company is headed and said concerns are not resolved by the Board of Directors, such concerns should be included in the minutes, upon a request from the protesting party.

Complies ☒ Complies Partially ☐ Explanation ☐ Not Applicable ☐

29. That the company establishes adequate means for directors to obtain appropriate advice in order to properly fulfil their duties including, should circumstances warrant, external advice at the company's expense.

Complies ☒ Complies Partially ☐ Explanation ☐

30. That, without regard to the knowledge necessary for directors to complete their duties, companies make refresher courses available to them when circumstances require.

Complies ☒ Explanation ☐ Not applicable ☐

31. That the agenda for meetings clearly states those matters about which the Board of Directors are to make a decision or adopt a resolution so that the directors may study or gather all relevant information ahead of time.

When, under exceptional circumstances, the chairman wishes to bring urgent matters for decision or resolution before the Board of Directors which do not appear on the agenda, prior express agreement of a majority of the directors shall be necessary, and said consent shall by duly recorded in the minutes.

Complies ☒ Complies Partially ☐ Explanation ☐

32. That directors shall be periodically informed of changes in equity ownership and of the opinions of significant shareholders, investors and rating agencies of the company and its group.

Complies ☒ Complies Partially ☐ Explanation ☐

33. That the chairman, as the person responsible for the efficient operation of the Board of Directors, in addition to carrying out his duties required by law and the Bylaws, should prepare and submit to the Board of Directors a schedule of dates and matters to be considered; should organise and coordinate the periodic evaluation of the Board as well as, if applicable, the chief executive of the company, should be responsible for leading the Board and the effectiveness of its operation; should ensure that sufficient time is devoted to considering strategic issues, and approve and supervise refresher courses for each director when circumstances so dictate.

Complies ☒ Complies Partially ☐ Explanation ☐

34. That when there is a coordinating director, the Bylaws or the Regulations of the Board should confer upon him the following competencies in addition to those conferred by law: chairman of the Board of Directors in the absence of the chairman and deputy chairmen, should there be any; reflect the concerns of non-executive directors; liaise with investors and shareholders in order to understand their points of view and respond to their concerns, in particular as those concerns relate to corporate governance of the company; and coordinate a succession plan for the chairman.

Complies ☐ **Complies Partially** ☒ Explanation ☐ Not Applicable ☐

The Company considers that, given the absence of an Executive Chairman since December 2016, the figure of a Coordinating Director is not mandatory. Nevertheless, in line with current 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 the convening of meetings of the Board of Directors or the inclusion of new items 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 Directors. These powers do not entirely match the powers included in the recommendation.

35. That the secretary of the Board of Directors should pay special attention to ensure that the activities and decisions of the Board of Directors take into account the recommendations regarding good governance contained in this Good Governance Code and which are applicable to the company.

Complies ☒ Explanation ☐

36. The Board of Directors in full session should conduct an annual evaluation, adopting, when necessary, an action plan to correct weaknesses detected in:

a) The quality and efficiency of the Board of Director's operation.
b) The performance and composition of its committees.
c) Diversity of membership and competence of the Board of Directors.
d) Performance of the chairman of the Board of Directors and the chief executive officer of the company.

e) Performance and input of each director, paying particular attention to those in charge of the various Board committees.

In order to perform its evaluation of the various committees, the Board of Directors will take a report from the committees themselves as a starting point and for the evaluation of the Board, a report from the appointments committee.

Every three years, the Board of Directors will rely upon the assistance of an external advisor for its evaluation, whose independence shall be verified by the appointments committee.

Any business relationships between the external advisor or any member of the advisor's group and the company or any company within its group shall be specified in the Annual Corporate Governance Report.

The process and the areas evaluated shall be described in the Annual Corporate Governance Report.

Complies ☒ Complies Partially ☐ Explanation ☐

37. That if there is an executive committee, the proportion of each different director category must be similar to that of the Board itself, and its secretary must be the secretary of the Board.

Complies ☐ Complies Partially ☐ Explanation ☐ **Not Applicable** ☒

38. That the Board of Directors must always be aware of the matters discussed and decisions adopted by the executive committee and that all members of the Board of Directors receive a copy of the minutes of meetings of the executive committee.

Complies ☐ Complies Partially ☐ Explanation ☐ **Not Applicable** ☒

39. That the members of the audit committee, particularly its Chairman, are appointed in consideration of their knowledge and experience in accountancy, audit and risk management matters, and that a majority of its members be independent directors.

Complies ☒ Complies Partially ☐ Explanation ☐

40. That under the supervision of the audit committee, there must be a unit in charge of the internal audit function, which ensures that information and internal control systems operate correctly, and which reports to the non-executive chairman of the Board or of the audit committee.

Complies ☒ Complies Partially ☐ Explanation ☐

41. That the person in charge of the unit performing the internal audit function should present an annual work plan to the audit committee, reporting directly on any issues that may arise during the implementation of this plan, and present an activity report at the end of each year.

Complies ☒ Complies Partially ☐ Explanation ☐ Not Applicable ☐

42. That in addition to the provisions of applicable law, the audit committee should be responsible for the following:

With respect to information systems and internal control:

a. Supervise the preparation and integrity of financial information relative to the company and, if applicable, the group, monitoring compliance with governing rules and the appropriate application of consolidation and accounting criteria.

b. Ensure the independence and effectiveness of the unit charged with the internal audit function; propose the selection, appointment, re-election and dismissal of the head of internal audit; draft a budget for this department; approve its goals and work plans, making sure that its activity is focused primarily on material risks to the company; receive periodic information on its activities; and verify that senior management takes into account the conclusions and recommendations of its reports.

c. Establish and supervise a mechanism that allows employees to report confidentially and, if appropriate, anonymously, any irregularities with important consequences, especially those of a financial or accounting nature, that they observe in the company.

In relation to the external auditor:

a. In the event that the external auditor resigns, examine the circumstances which caused said resignation.

b. Ensure that the remuneration paid to the external auditor for its work does not compromise the quality of the work or the auditor’s independence.

c. Ensure that the company files a relevant fact with the CNMV when there is a change of auditor, along with a statement on any differences that arose with the outgoing auditor and, if applicable, the contents thereof.

d. Ensure that the external auditor holds an annual meeting with the Board of Directors in plenary session in order to make a report regarding the tasks accomplished and regarding the development of its accounting and risks faced by the company.

e. Ensure that the company and the external auditor comply with applicable rules regarding the provision of services other than auditing, the limits on concentration of the auditor's business, and all other rules regarding the auditor’s independence.

Complies ☒ Complies Partially ☐ Explanation ☐

43. That the audit committee may require the presence of any employee or manager of the company, even without the presence of any other member of management.

Complies ☒ Complies Partially ☐ Explanation ☐

44. That the audit committee be kept abreast of any corporate and structural changes planned by the company in order to perform an analysis and draft a report beforehand to the Board of Directors regarding economic conditions and accounting implications and, in particular, any exchange ratio involved.

Complies ☒ Complies Partially ☐ Explanation ☐ Not Applicable ☐

45. That the risk control and management policy identify at least:

a) The different types of financial and non-financial risks (among those operational, technological, legal, social, environmental, political and reputational) which the company faces, including financial or economic risks, contingent liabilities and other off-balance sheet risks.

b) Fixing of the level of risk the company considers acceptable.

c) Measures identified in order to minimise identified risks in the event they occur.

d) Internal control and information systems to be used in order to control and manage identified risks, including contingent liabilities and other off-balance sheet risks.

Complies ☒ Complies Partially ☐ Explanation ☐

46. That under the direct supervision of the audit committee or, if applicable, of a specialised committee of the Board of Directors, an internal control and management function should exist delegated to an internal unit or department of the company which is expressly charged with the following responsibilities:

a) Ensure the proper operation of risk management and control systems and, in particular, that they adequately identify, manage and quantify all material risks that may affect the company.

b) Actively participate in the creation of the risk strategy and in important decisions regarding risk management.

c) Ensure that the risk management and control systems adequately mitigate risks as defined by policy issued by the Board of Directors.

Complies ☒ Complies Partially ☐ Explanation ☐

47. That members of the appointment and remuneration committee – or of the appointments committee and the remuneration committee if they are separate – are chosen taking into account the knowledge, ability and experience necessary to perform the duties they are called upon to carry out and that the majority of said members are independent directors.

Complies ☒ Complies Partially ☐ Explanation ☐

48. That large cap companies have formed separate appointments and remuneration committees.

Complies ☐ Explanation ☐ **Not applicable** ☒

49. That the appointments committee consult with the chairman of the Board of Directors and the chief executive of the company, especially in relation to matters concerning executive directors.

And that any director may ask the appointments committee to consider potential candidates he or she considers appropriate to fill a vacancy on the Board of Directors.

Complies ☒ Complies Partially ☐ Explanation ☐

50. That the remuneration committee exercises its functions independently and that, in addition to the functions assigned to it by law, it should be responsible for the following:

a) Propose basic conditions of employment for senior management.

b) Verify compliance with company remuneration policy.

c) Periodically review the remuneration policy applied to directors and senior managers, including remuneration involving the delivery of shares, and guarantee that individual remuneration be proportional to that received by other directors and senior managers.

d) Ensure that potential conflicts of interest do not undermine the independence of external advice rendered to the Board.

e) Verify information regarding remuneration paid to directors and senior managers contained in the various corporate documents, including the Annual Report on Director Remuneration.

Complies ☒ Complies Partially ☐ Explanation ☐

51. That the remuneration committee consults with the chairman and the chief executive of the company, especially in matters relating to executive directors and senior management.

Complies ☒ Complies Partially ☐ Explanation ☐

52. That the rules regarding composition and operation of supervision and control committees appear in the Regulations of the Board of Directors and that they are consistent with those that apply to mandatory committees in accordance with the recommendations above, including:

a) That they are comprised exclusively of non-executive directors, with a majority of them independent.

b) That their chairmen be independent directors.

c) That the Board of Directors select members of these committees taking into account their knowledge, skills and experience and the duties of each committee; discuss their proposals and reports; and detail their activities and accomplishments during the first plenary session of the Board of Directors held after the committee's last meeting.

d) That the committees be allowed to avail themselves of external advice when they consider it necessary to perform their duties.

e) That their meetings be recorded, and the minutes be made available to all directors.

Complies ☐ Complies Partially ☐ Explanation ☐ **Not Applicable** ☒

53. . That verification of compliance with corporate governance rules, internal codes of conduct and social corporate responsibility policy be assigned to one or split among more than one committee of the Board of Directors, which may be the audit committee, the appointments committee, the corporate social responsibility committee in the event that one exists, or a special committee created by the Board of Directors pursuant to its powers of self-organisation, which at least the following responsibilities shall be specifically assigned thereto:

a) Verification of compliance with internal codes of conduct and the company's corporate governance rules.

b) Supervision of the communication strategy and relations with shareholders and investors, including small- and medium-sized shareholders.

c) The periodic evaluation of the suitability of the company's corporate governance system, with the goal that the company promotes company interests and take into account, where appropriate, the legitimate interests of other stakeholders.

d) Review of the company's corporate social responsibility policy, ensuring that it is orientated towards value creation.

e) Follow-up of social responsibility strategy and practice, and evaluation of degree of compliance.

f) Supervision and evaluation of the way relations with various stakeholders are handled.

g) Evaluation of everything related to non-financial risks to the company, including operational, technological, legal, social, environmental, political and reputational.

h) Coordination of the process of reporting on diversity and reporting non-financial information in accordance with applicable rules and international benchmarks.

Complies ☐ **Complies Partially** ☒ Explanation ☐

The Regulations of the Board of Directors do not expressly include a detailed description of some of the recommendations it contains, 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 analysing compliance with Internal Code of Conduct in the Securities Markets, the Regulations of the Board of Directors and, in general, the rules for Company's Governance and making proposals for improvement.

All the listed functions are assumed by the Committee or directly by the Board of Directors, in particular:

a) The Annual Report detailing 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 Executive Behaviour Regulations as code of conduct, compliance therewith and its periodic updating.

54. That the corporate social responsibility policy includes principles or commitments which the company voluntarily assumes regarding specific stakeholders and identifies, as a minimum:

a) The objectives of the corporate social responsibility policy and the development of tools to support it.

b) Corporate strategy related to sustainability, the natural environment and social issues.

c) Concrete practices in matters related to shareholders, employees, clients, suppliers, social issues, the natural environment, diversity, fiscal responsibility, respect for human rights, and the prevention of unlawful conduct.

d) Means or systems for monitoring the results of the application of specific practices described in the immediately preceding paragraph, associated risks, and their management.

e) Mechanisms for supervising non-financial risk, ethics and business conduct.

f) Communication channels, participation and dialogue with stakeholders.

g) Responsible communication practices that impede the manipulation of data and protect integrity and honour.

Complies ☒ Complies Partially ☐ Explanation ☐

55. That the company reports, in a separate document or within the management report, on matters related to corporate social responsibility, following internationally recognised methodologies.

Complies ☒ Complies Partially ☐ Explanation ☐

56. That director remuneration be sufficient in order to attract and retain directors who meet the desired professional profile and to adequately compensate them for the dedication, qualifications and responsibility demanded of their posts, while not being so excessive as to compromise the independent judgment of non-executive directors.

Complies ☒ Explain ☐

57. That only executive directors receive remuneration linked to corporate results or personal performance, as well as remuneration in the form of shares, options or rights to shares or instruments whose value is indexed to share value, or long-term savings plans such as pension plans, retirement accounts or any other retirement plan.

Shares may be given to non-executive directors under the condition that they maintain ownership of the shares until they leave their posts as directors. The forgoing shall not apply to shares that the director may be obliged to sell in order to meet the costs related to their acquisition.

Complies ☒ Complies Partially ☐ Explanation ☐

58. That as regards variable remuneration, the policies incorporate limits and administrative safeguards in order to ensure that said remuneration is in line with the work performance of the beneficiaries and is not based solely upon general developments in the markets or in the sector in which the company operates, or other similar circumstances.

And, in particular, that variable remuneration components:

a) Are linked to pre-determined and measurable performance criteria and that such criteria take into account the risk undertaken to achieve a given result.

b) Promote sustainability of the company and include non-financial criteria that are geared towards creating long term value, such as compliance with rules and internal operating procedures and risk management and control policies.

c) Are based upon balancing short-, medium- and long-term objectives, permitting the reward of continuous achievement over a period of time long enough to judge creation of sustainable value such that the benchmarks used for evaluation are not comprised of one-off, seldom occurring or extraordinary events.

Complies ☒ Complies Partially ☐ Explanation ☐ Not Applicable ☐

59. That a material portion of variable remuneration components be deferred for a minimum period of time sufficient to verify that previously established performance criteria have been met.

Complies ☒ Complies Partially ☐ Explanation ☐ Not Applicable ☐

60. That remuneration related to company results takes into account any reservations which may appear in the external auditor's report which would diminish said results.

Complies ☒ Complies Partially ☐ Explanation ☐ Not Applicable ☐

61. That a material portion of variable remuneration for executive directors depends upon the delivery of shares or instruments indexed to share value.

Complies ☐ Complies Partially ☐ **Explanation** ☒ Not Applicable ☐

The Company understands that the recommendation intends to ensure the involvement of Executive Directors in the results of the Company and its performance.

In view of the specific situation and given that the Company is a family-owned business, the distribution of shares to the Executive Director is deemed unnecessary.

Notwithstanding the above, the new Remuneration Policy for Directors, approved by the General Shareholders' Meeting of June 6, 2018, refers to "establishing the remuneration systems referenced to the value of the share price that is complied with delivery of shares or option rights over these.

62. That once shares or options or rights to shares arising from remuneration schemes have been delivered, directors are prohibited from transferring ownership of a number of shares equivalent to two times their annual fixed remuneration, and the director may not exercise options or rights until a term of at least three years has elapsed since they received said shares.
The forgoing shall not apply to shares which the director may need to sell in order to meet the costs related to their acquisition.

Complies ☐ Complies Partially ☐ Explanation ☐ **Not Applicable** ☒

63. That contractual arrangements include a clause which permits the company to seek reimbursement of variable remuneration components in the event that payment does not coincide with performance criteria or when delivery was made based upon data later deemed to be inaccurate.

Complies ☐ Complies Partially ☐ **Explanation** ☒ 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 calendar days after the formulation of the annual accounts, prior approval by the Board following proposal from the Appointments and Remuneration Committee.

64. That payments made for contract termination shall not exceed an amount equivalent to two years of total annual remuneration and that it shall not be paid until the company has verified that the director has fulfilled all previously established criteria for payment.

Complies ☒ Complies Partially ☐ Explanation ☐ Not Applicable ☐

H. Further information of interest

H.1 If there is any aspect regarding corporate governance in the company or other companies in the group that has not been included in other sections of this report, but which is necessary in order to obtain a more complete and comprehensible picture of the structure and governance practices in the company or group, describe it briefly below.

At the date of approval of this Annual Corporate Governance Report, the merger of the company Majorcan Hotels Exlux, SL, a significant shareholder of Meliá Hotels International, SA, has been reported, as detailed in section A. 3 of this report.

The company Majorcan Hotels Exlux, S.L.U. has been absorbed by its sole shareholder, Majorcan Exhold, S.L.U., which in turn has been subsequently absorbed by its sole shareholders, Tulipa Inversiones 2018, S.A., with an effective date of December 2018.

The information on the aforementioned mergers, and consequently, on the ownership of the shares of Meliá Hotels International, S.A., has been correspondingly notified to the National Securities Market Commission (CNMV).

H.2 This section may also include any other information, explanation or clarification relating to previous sections of the report, so long as it is relevant and not redundant.

Specifically, state whether the company is subject to any corporate governance legislation other than that prevailing in Spain and, if so, include any information required under this legislation that differs from the data requested in this report.

H.3 The company may also state whether it voluntarily complies with other ethical or best practice codes, whether international, sector-based, or other.

In such a case, name the code in question and the date the company began following it. It should be specifically mentioned that the company adheres to the Code of Good Tax Practices of 20 July 2010.

Meliá Hotels International adheres to the following ethical or best practice codes:

Code	Organisation	Scope	Year
ECPAT - Code of Conduct for the Protection of Children from Sexual Exploitation in Travel and Tourism	The Code International	Global	2006
Principles of Global Compact	UN Global Compact	Global	2008
CSR Best Practices and Suitability	FTSE4 Good Ibex	Spain	2008
Global Code of Ethics for Tourism	UNWTO	Global	2011
Climate change	CDP - Carbon Disclosure Project	Global	2011

Social dialogue and employment rights	IUF-UITA International Trade Unions	Global	2013
Paris Agreements	United Nations Conference on Climate Change in Paris (COP21)	Global	2015
Corporate Responsibility and Anti-corruption Commission	International Chamber of Commerce (ICC)	Global	2016
World Travel & Tourism Council	WTTC	Global	2016
Transparency, Governance and Integrity Cluster	Forética	Spain	2017
Climate Change Cluster	Forética	Spain	2017

Since 2018, Meliá Hotels International has strengthened its link with Global Compact as a signatory company.

The Meliá Hotels International Group has a Code of Ethics that was approved by the Board of Directors in 2012 and which has been updated in 2018.

Likewise, in 2018, the first Supplier's Code of Ethics was created and approved.

The Company does not adhere to the Code of Good Tax Practices of 20 July 2010.

This annual corporate governance report has been approved by the Board of Directors of the Company, at its meeting held on February 27, 2019.

Indicate whether there have been directors who voted against or abstained in relation to the approval of this report.

YES ☐ **NO ☒**

MELIÃ HOTELS INTERNATIONAL

Leisure at heart,
business in mind

GRAN MELIÁ HOTELS & RESORTS · ME BY MELIÃ · PARADISUS BY MELIÃ · MELIÃ HOTELS & RESORTS · INNSiDE BY MELIÃ · TRYP · SOL BY MELIÃ · CIRCLE BY MELIÃ · MELIÃ REWARDS · MELIÃ pro