



**NH25**

HOTELES YEARS

**Corporate Presentation**  
May 2004

## **Strategic steps towards value reinforcement**

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## Strategic Steps Towards Value Reinforcement

Driving lines  
presented last  
July 2003

- 1) To concentrate management efforts in improving the efficiency over the next six months, with the targeted results:
  - Target 2003: €8m cost savings.
  - Target 2004: €22m cost savings.
  
- 2) To freeze any further development project during the next 12 months. Only the capex related to the pipeline of new hotels already signed will be carried out.
  
- 3) To optimise the portfolio of hotels through divestments of non-strategic hotels and punctual sale&lease-back transactions aimed at signing contracts with variable lease payments.

€ Mn	Non-strategic Divestments	Variable Sale&Lease- Back	Total
Target 2003	182	25	207
Target 2004	100	125	225
<b>Total</b>	<b>282</b>	<b>150</b>	<b>432</b>

- 4) To speed up the process of crystallising the value in Sotogrande:
  - To increase the contribution of the real estate activity EBITDA in the following 12 months.
  - No further investments in real estate developments are considered.
  
- 5) To allocate the free cash-flow generated to reduce the level of net debt and to remunerate NH Hoteles shareholders.



## 1. Cost Savings Plan analysis

Savings achieved exceed the target set up for 2003 and make 2004 objectives easier to make

- The €8m savings targeted for 2003 were achieved by reducing staff costs and corporate expenses:
  - Staff cost in comparable hotels at December 2003: €2.4m lower than at December 2002 (-1.2%). Considering an average 4% CPI impact in salaries, total savings are €10.57m.
  - At the end of 2003, the number of FTE in total comparable hotels was 7.218, 348 FTE less than in 2002.
  - Corporate expenses (HH.OO): €6.9m savings obtained.
- With the efforts made in 2003, the savings plan for 2004 is now progressing faster and it possible that the objectives set up for 2004 are met in excess.
- For 2004 the savings plan is focused on improving efficiency in Holland, Spain and Mexico.

### Total Savings Summary - 2003

€ Mn	Total 2003
Total Annualized Staff Costs Savings - 2003/2002 - Comparable hotels	9,96
Total Annualized Staff Costs Savings - H203/H103 - Central Services	1,83
Corporate Savings 2003 / Budget 2003	6,88
Other Savings 2003	5,17
<b>Total</b>	<b>23,84</b>

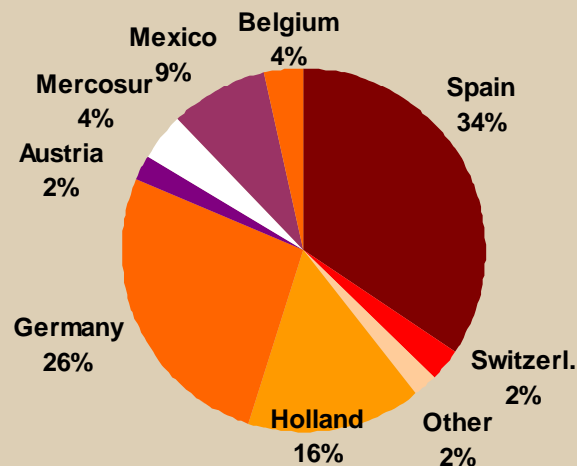


## 2. Portfolio management: to freeze investments in the short term

NH Hoteles remained growing with limited capex requirements. No other additions to the portfolio were made in 2003 but those signed before 2003

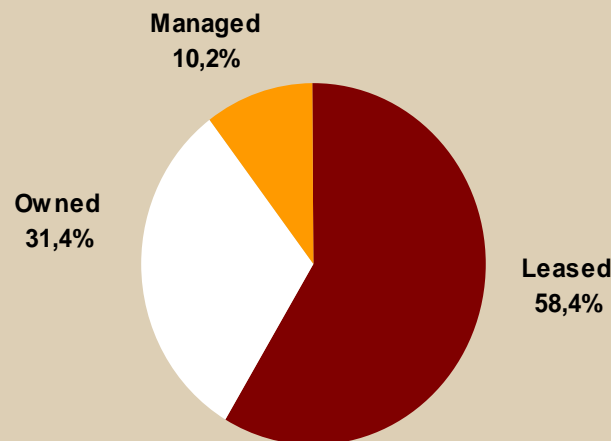
- In 2003, 11 hotels (1,696 rooms) were added to NH Hoteles portfolio: 7 hotels in Spain, 2 in Germany, 1 in Budapest and 1 in Mexico.
- 90% of these new rooms are under lease contracts, with limited capex for NH Hoteles.
- The chain's organic growth is based upon a current pipeline of 28 projects which will add 4,021 new rooms, 61% in Spain. 79% of these projects are signed under lease contracts.
- NH hoteles is currently negotiating projects that could add some 1,500 new rooms to the portfolio. The chain continues looking for opportunities to maintain the rhythm of growth in 2006 and onwards.

Portfolio by countries (rooms)

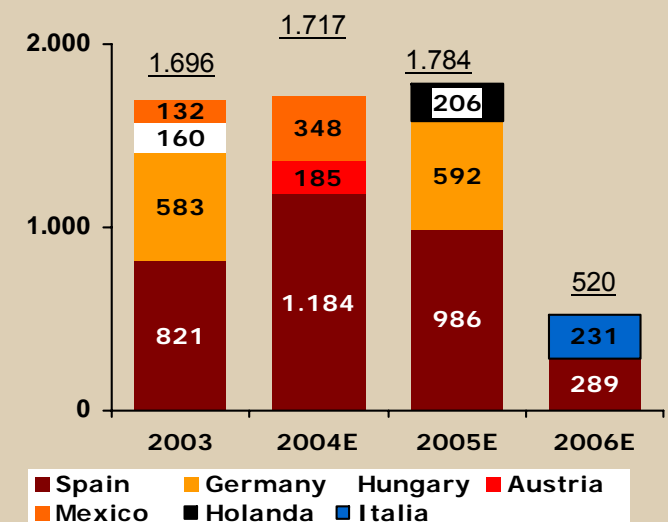


81% of the portfolio is located in Spain, Germany and Benelux

Portfolio structure by types of contract (rooms)



Evolution of organic growth as for Dec 2003 (rooms added per year)





### 3. Divestments Plan achievements

#### Selective divestment of non-strategic hotels: Targets fully reached

- NH Hoteles has completed the process of selective divestments of those hotels identified as non-strategic, which do not fit the portfolio due to either their location or product.
- This process has been focused on maintaining product homogeneity and ROCE improvement.
- Divestments made:
  - Between 2002 and 2003, NH Hoteles divested of 14 hotels (2,327 rooms) for €286m. In January 2004 NH Hoteles signed the sale of NH Krystal Cancun (325 rooms) for \$28m.
  - All these transactions were not dilutive, EV/EBITDA multiples were above 10x.
  - The divestment plan is now completed with some further small hotels under negotiations to be sold in 2004.

#### Asset divestments July 2003 – 2004 (figures in €m)

Figures in €m	Estimated Sale Price (2003 - 2004)	Agreed Sale Price
Princesa Sofia	130	135,5
Crowne Plaza	30	31,8
Krystal Cancun hotel resort (pending signature)	25	22,3
Hilton Guadalajara (sale&lease back)	42	-
Other hotels (10 units) (*)	55	8,5
<b>TOTAL</b>	<b>282</b>	<b>198</b>

Note: before taxes and minority interests

(\*) Properties sold as for february 2004: NH Sant Angelo.



## 4. Higher Contribution from Sotogrande

With solid growth and increasing value, Sotogrande is a good source of financing for NH Hoteles

**SOTOGRA**  
**GRANDE**



### Extraordinary operating performance of Sotogrande in 2003 and Q1 2004

- At 31st March, there were €82m of confirmed sales pending inclusion in the accounts, 17% more than at 31st December 2003 and 115% more than at 31st March 2003.
- Sotogrande sold a very large plot for €21m, with an EBITDA contribution of €19.6m. The plot has a building area of 25,249m<sup>2</sup> and the buyer is obliged to follow the outline planning requirements determined by Sotogrande.
- The real estate activity is expected to contribute €40m EBITDA per year over the next three years.

### Important revaluation of Sotogrande in 2003

- Close to three million m<sup>2</sup> of land for sale, as well as other property assets. Auguste Thouard valued the property assets at around €900m.
- Better recognition of its intrinsic value: 77% revaluation of the share price since the end of 2002 end. Current market cap is €334m (free-float is a mere 4% of share capital).

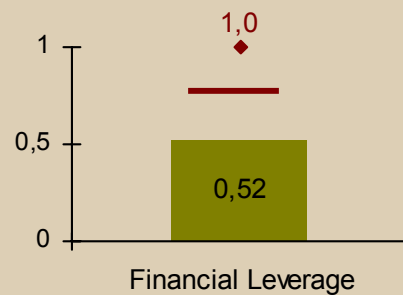


## 5. Sound Financial situation allows for paying-out dividends

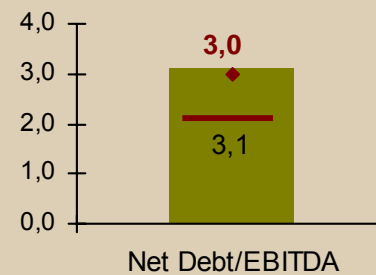
### Shareholders will benefit from a healthier financial situation

- As a result of the progress made in the business plan, the net indebtedness of NH Hoteles has been reduced a 32%, from €667m at the beginning of 2002 to €454m at the end of Q1 of 2004.
- The financial leverage of NH Hoteles is below 2002 levels and below internal covenants.
- NH Hoteles will pay out a dividend to the shareholders of 0.25 euros per share. The dividend yield is in line with the Spanish stock market average, between 2,7%-2,8%.

#### Financial Structure

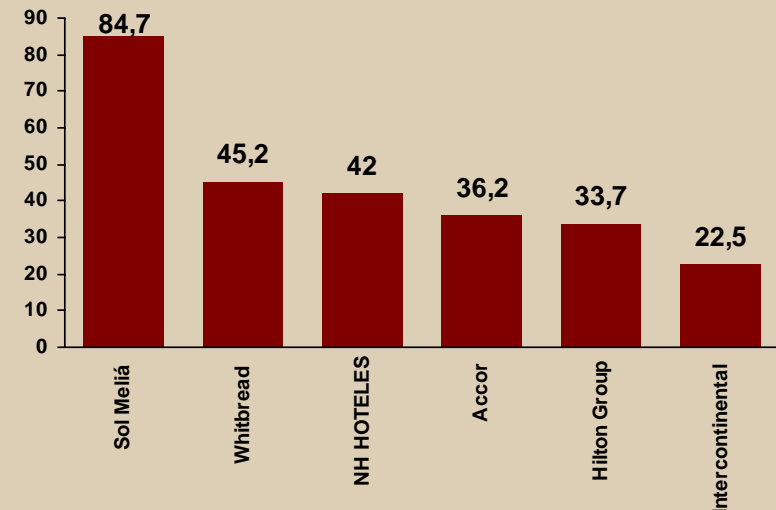


■ NH Current level  
◆ Internal Covenant



■ NH Current level  
◆ Internal Covenant

#### \* Comparison of Financial Leverage (%)



Financial leverage: Net Debt / Total Equity+Minorities

\* Comparison made as for 31<sup>st</sup> of december of 2003

\*\*Financial leverage defined as a % of Net Debt/Market Capitalisation



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**Strategic steps towards value reinforcement in the short term**

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**Performance in Q1 of 2004**

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**Outlook for 2004**

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**Germany: The challenge for NH Hoteles**

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## Performance in Q1 of 2004

### NH Hoteles is performing relatively well in difficult market conditions

#### Overall market factors

- Continental Europe is lagging the cyclical hotel recovery which is seen clearly in the US, the UK and Asia.
- Spain: Madrid Bombings and political elections as short term set backs and oversupply pressing prices.
- The relative strength of the euro/dollar causes to decrease number of US travellers coming to Europe, and mostly Amsterdam.
- German economy is not getting worse and may be at its lowest level.

#### Specific Issues Resolved

- The costs savings plan has improved the operating expenses ratios, which has been notoriously reflected in the results of the B.U. of Holland.
- In Germany, the rebranding process and the efforts made by the new corporate sales team are starting to show results.
- The extraordinary performance of the hotels in Latin America is partially offsetting the negative impact of the currency exchange rate.



## Performance in Q1 of 2004

**NH Hoteles is performing relatively well in some difficult geographic markets**

### HIGHLIGHTS

- In Spain, terrorist and political issues overweighed negative impact on the traditionally weakest quarter of the year, the first one.
- Hotels in Germany have begun to turn a very long corner.
- In Holland results are coming from an improved efficiency of the hotels; the evolution of the business is encouraging.
- Hotels in Belgium are worth of mention. RevPar in comparables hotels picked up sharply.
- In Latam operating performance is very strong.

### NH Hoteles RevPar Vs Market RevPar in some European key cities

Cities	NH RevPar			Market RevPar (**)		
	Occupancy	ADR	Revpar	Occupancy	ADR	Revpar
	Change p.p	%Chg.	%Chg.	Change p.p	%Chg.	%Chg.
MADRID	-1,0	-3,4	<b>-4,9</b>	-3,3	-4,7	<b>-7,8</b>
BARCELONA	0,0	-1,8	<b>-1,8</b>	-1,5	-1,6	<b>-3,1</b>
AMSTERDAM	-0,2	-4,8	<b>-5,6</b>	-2,3	-5,6	<b>-7,8</b>
BRUSSELS	10,3	0,8	<b>26,2</b>	5,6	-2,6	<b>2,8</b>

(\*) comparable hotels.

(\*\*) Deloitte & Touche Hotelbenchmark survey

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## Outlook for 2004

### SPAIN remains the biggest contributor to the group results and a good opportunity for growth

#### Market position

- NH is the best recognized brand in Spain, well above the rest of its competitors. The suggested brand awareness is a 93%.
- With 106 hotels in Spain (11,929 rooms) NH ranks second in the urban hotel market, with 9% share.
- Its market position will be further consolidated with 21 new projects signed (2,459 rooms).

#### 2004 Outlook

- For the rest of 2004:
  - RevPar could improve considering an estimated GDP growth of 3%.
  - The focus is to improve occupancy and maintain rates.
  - Tight cost control will help for GOP margins to improve in comparable hotels.

#### New supply in main cities (December 2003)

New supply	Existing Supply	Proposed Supply 2004 and 2005	% growth
Madrid	22.234	4.795	21,6%
NH Market share	13,3%	14,2%	
Barcelona	17.704	5.854	33,1%
NH Market share	6,8%	8,4%	

#### NH New supply by segment

City	NH Segment	Existing Supply	% growth NH Supply 2004 and 2005
	Standard NH	2.615	9%
Madrid	Economic	763	32%
	Total	3.375	14%
	Standard NH	1.031	37%
Barcelona	Economic	448	28%
	Total	1.479	34%

Source: HVS



## Outlook for 2004

### BENELUX is a mature but challenging market for NH Hoteles

#### Market position

- NH Hoteles counts on 43 hotels in Benelux (7,257 rooms). It is leader in Amsterdam with 11 hotels and a market share of 15%.
- NH brand awareness is increasing as the product consistency is improving. In the last six months of 2003 suggested awareness improved from 25% to 32% in Holland (24% in Belgium).
- The strategy of portfolio management is focused on “NH style” hotels, which also makes sales actions more efficient.

#### 2004 Outlook

- In Q1 of 2004 the improvement of the operating margins due to cost reduction will continue over the rest of the year.
- For the rest of 2004 performance is expected to be more stable, room rates will continue to suffer some pressure but the NH focus will be volumes, upon initiatives aimed at:
  - Offering the “best-rate-availability” to corporate accounts.
  - Increasing the penetration in the MCI activity.
  - Pushing the “City breaks” in Amsterdam.
  - Benefiting from the impact of the extension of the E.U. on potential demand for Brussels.



## Outlook for 2004

### SWITZERLAND, AUSTRIA & HUNGARY is a platform to grow into Eastern Europe

#### Market position

- NH Hoteles counts on 5 hotels in Switzerland, 6 in Austria and one in Hungary (totalling 1,625 rooms).
- The presence of NH brand in these markets will allow NH to better approach new clients from Eastern European countries and to offer a pan-European portfolio to its customers.
- The market position of these hotels will be strengthened once the re-branding and the integration process of the former "Astron" hotels into the "NH world" is now completed.

#### 2004 Outlook

- For the rest of 2004 outlook is more positive:
  - Vienna: the focus is on higher volumes in both the leisure and corporate segments.
  - Geneva: 2004 is foreseen as a good congress-year, however Switzerland remains affected by the reductions of flights and Swissair groundings.
  - Budapest: 2004 will be a moderate start-up year. The main feeder market Germany remains weak and the NH brand awareness is low, but the hotel will compete on its good location.



## Outlook for 2004

### THE AMERICAS: On the pathway to better operating performance and higher efficiency

#### Market position

- NH Hoteles is present in Latin America with 24 hotels (4,286 rooms), 10 in Mercosur and 14 in México.
- In Argentina the NH brand is leader in the 4 stars urban segment. It is the second best known brand, after upper scale Sheraton, with a suggested awareness of 52%.
- The presence in Mexico is now stronger after incorporating 5 hotels in 2002-2003 period. In 2004 NH will open another 3 hotels in this country.

#### 2004 Outlook

- The outlook for the rest of 2004 is optimistic, the influence of a better macro environment in North America gives confidence that occupancy levels can be held with a further rise in rates.
  - The strategy is aimed at increasing sales in all sectors, corporate, consortiums, MCI, internet webs, promote international sales and increase cross selling focus.
  - The efforts to reduce direct costs and management expenses will be seen in '04 EBITDA.



● Regions with no presence



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## Germany: The challenge for NH Hoteles

**The situation in Germany: aggravated by economic weakness and the high leverage of the leased hotels**

### Market position

- With 53 hotels in Germany (9,085 rooms) NH ranks third in the German urban hotel market.
- The brand awareness improved in the last six months, from a 14% to a 26%, and is not far from the most important brands in the market.

### Weak performance in 2003 but...

- In 2003 the weakness of the German economy strongly hit the operating performance. Besides, the process of integration of Astron into the NH world created low results visibility.
- In Q1 of 2004 RevPar in comparable has increased by 0,36% and the outlook for the rest of the year is to continue improving RevPar.

### Potential for growth in the future

- Germany is the most efficient part of the NH group measured by FTE/room.
- The terms and conditions of the leasing contracts in Germany are very favourable:
  - The lease costs per room (€7,200) is lower than in the hotels in Spain and Benelux. Besides, capex in equipment and refurbishment is at the charge of the lessor.
  - Leasing costs are indexed at below the rate of inflation.



## Germany: The challenge for NH Hoteles

### Strategic steps to improve the market positioning and operating performance

#### Management

- New Country Manager since May 2003. New Sales Director appointed in January 2004.
- Reallocation of hotel managers

#### Commercial

- The focus is on occupancy, strengthening the presence in Corporate and MCI markets as base business, but also increasing Leisure (individual & groups) in need-periods.
  - New contracts with 500 big corporate clients and other 3,000 small/mid corporate clients
  - 7 new contracts with German Travel Groups and 300 new contracts with MCI Corporate accounts.
- Improvement of commercial items: hotel signs, WEB

#### Product /Quality

- Compliance to 85% of NH standards in software, new F&B concepts, training, WiFi installation in March 04.

#### Sales

- Efficient sales team in place and a completed data base now allow for good knowledge management.
- Pro-active sales promotion of all properties to key accounts and small&medium potential clients.

#### Rate/Yield

- More effective Yield Management policies.



## Germany: The challenge for NH Hoteles

### Strategic steps to optimise the portfolio structure and reduce the operating leverage

#### Portfolio Management

- 2003 EBITDA losses are concentrated in 10 hotels.
- NH Hoteles main target is to restructure the portfolio optimising the current contract conditions:
  - Lease contracts are under revision, some of them to be turned into management contracts.
  - Two contracts have been renovated with better financial conditions.
  - Pipeline Management:
    - Some of the signed projects were discontinued (Berlin Convention Centre, Frankfurt Neue Börse, Stuttgart Pragsattel and Grosshardern)
    - Only two projects remain in place: Hamburg Airport (286 rooms) and Nürnberg City (244 rooms), both of very high interest for NH Hoteles.
- NH Hoteles remain committed to improve its market position in Germany. Since the acquisition of Astron in May 2002, four new hotels have been opened with 1,175 rooms (Köln, München Dornach, Niederrad Frankfurt, Frankfurt City, Düsseldorf City North).

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## Long term strategy: Looking for profitable growth opportunities

Objective: Consolidation of NH Hoteles as of a truly multinational hotel chain

### GROWING TOWARDS A MULTINATIONAL HOTEL CHAIN

#### GEOGRAFICAL MARKETS

- The goal is to offer a global solution for NH customers' needs anywhere, while keeping up the standard of quality and service expected:
  - To consolidate or increase the market position in countries where NH Hoteles is already present.
  - Most interesting markets at the moment are MEXICO and SPAIN.
  - To enter new markets where the NH Model can be successfully implemented: ITALY.

#### NH BUSINESS MODEL

- The goal is to consolidate a hotel business model based on guest information which will ultimately develop into a personalised hotel service.
  - To complete the Internal reorganisation and gain efficiency and productivity.
  - To achieve 100% homogeneity and NH quality standards within the whole portfolio.
  - To improve the international client base.
  - To enhance NH brand awareness.
  - To introduce innovative F&B products like "nHube" and "Fast Good".



## Important Note

### Disclaimer

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