

# NH25

HOTELES YEARS



**Corporate Presentation**  
February 2004

## **NH Hoteles strategic steps towards value reinforcement**

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## **Outlook for 2004**

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## NH HOTELES 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: €3m cost savings.
  - Target 2004: €2m 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. Saving 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>

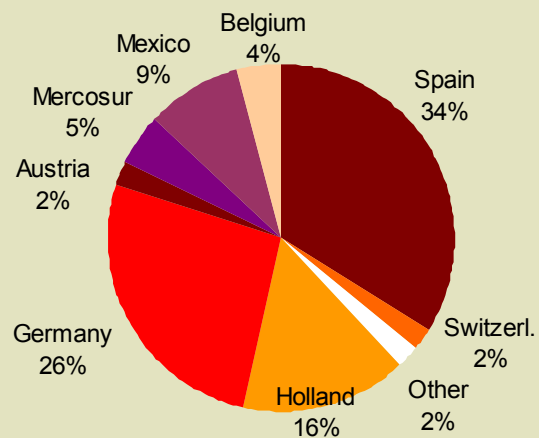


## 2. Portfolio management: to freeze any further investment in the short term

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

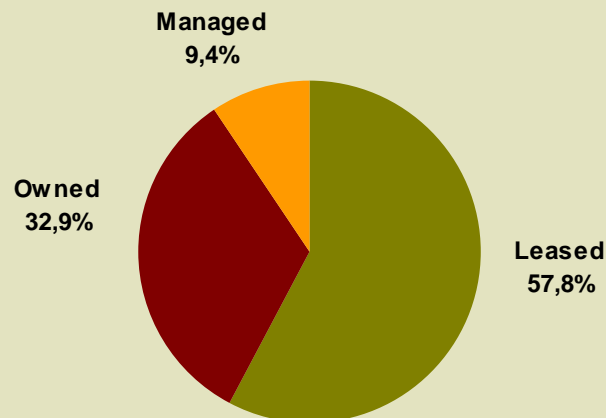
- In 2003, 11 hotels (1,727 rooms) were added to NH Hoteles portfolio: 7 hotels in Spain, 2 in Germany, 1 in Budapest and 1 in Mexico.
- 90% of these new rooms are under lease contracts, with limited capex for NH Hoteles.
- The chain's organic growth is based upon a current pipeline of 28 projects which will add 3,981 new rooms, 67% 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)

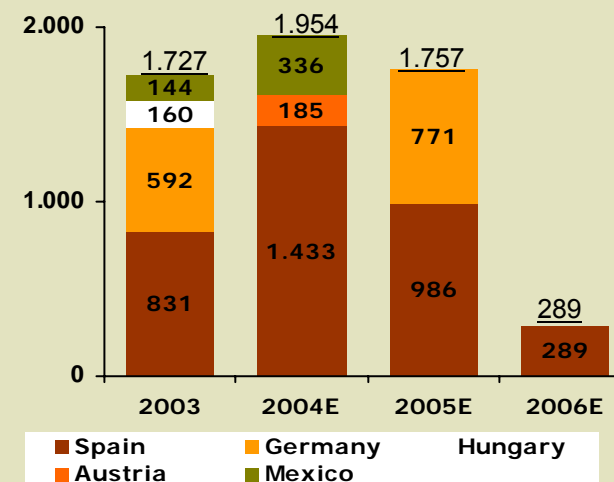


81% of the portfolio is located in Spain, Germany and Benelux

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.**



## 4. Higher Contribution from Sotogrande

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

**SOTOGRADE**



### Sotogrande: an increased contribution to the group EBITDA...

- Sotogrande continues to perform extraordinarily well. In 2003 the real estate activity reached historical records with pre-contract sales of €70.2m vs. €34.8m at the end of 2002.
- These sales correspond mainly to plots and golf lodges in “La Reserva de Sotogrande” and to the deliveries of houses in “Los Cármenes de Almenara”.
- Earnings YTD and the negotiations in progress for the sale of products suggest that the real estate activity is likely to contribute with EBITDA of more than €40m per year over the next three years.

### ... and to NH Hoteles Valuation

- More than three million m2 of plots for sale, as well as other property assets. Auguste Thouard values the property assets at €1,038m.
- Sotogrande is valued at €130m in the consolidated statements on NH Hoteles.
- Current Market Capitalisation has increased to €324.19m (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

#### A healthy financial situation..

- As a result of the progress made in the 2003-2004 business plan, the net indebtedness of NH Hoteles is below €500m at the end of 2003 compared to €660m as for December 2002.
- The current financial leverage is below NH Hoteles´ contractual covenants.

#### ... allows for share holders remuneration

- NH Hoteles will present for the approval of its shareholders the possibility of allocating the free cash-flow generated to remunerate shareholders.
- The goal is to pay-out a dividend yield in line with the Spanish stock market average.



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## Outlook for 2004



**In 2003 the operating performance and the profitability was affected by the difficult market conditions and the restructuring process**

### Overall market factors

- **General economic situation: correlation between GDP and RevPar.**
- **The geopolitical situation (terrorist attacks, the war in Iraq, SARS etc.) had a negative impact on RevPar in all European cities.**
- **The weakness of the German economy is having a negative impact on occupancy and pricing levels, as well as on the profitability of NH hotels because of the high operating leverage of the hotels in Germany.**

### Portfolio restructuring process and internal reorganisation

- **In 2003 NH went through an internal reorganisation process which obscured the real and potential profitability of the business:**
  - **Portfolio reorganisation and alignment of the group's brands, a process that was completed in May 2003.**
  - **Integration of the hotels acquired from Astron.**
  - **Restructuring of central services and IT systems in order to improve efficiency and achieve cost-savings.**



## Outlook for 2004

### Recent REVPAR figures could anticipate better expectations for 2004

- In 2003, the RevPar performance was weak, but slightly better than the sector average in Spain and Benelux while the hotels in Germany underperformed the market.
- In Q403, RevPar showed some recovery in most markets. This improvement could be the first signal of an upturn in the RevPar trends in 2004.

#### NH Hoteles RevPar performance on year-on year basis in the European Business Units

##### RevPar (\*)

Business Units in Europe	RevPar		RevPar		RevPar	
	9m2003	YoY	Q42003	YoY	FY2003 (2)	YoY
	€/room	%Chg.	€/room	%Chg.	€/room	%Chg.
SPAIN	56,8	-4,7	58,9	-1,9	59,7	-4,0
BENELUX	54,9	-10,0	54,4	-2,4	59,7	-8,2
SWITZ&AUSTRIA	46,4	-4,8	46,0	5,4	47,4	-2,4
GERMANY	30,6	-13,8	30,5	-11,2	30,6	-13,1

(\*) comparable hotels.

Figures do not include Princesa Sofia



## 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 105 hotels in Spain (11,536 rooms) NH ranks second in the urban hotel market, with 9% share. It is leader in main cities like Madrid, Barcelona and Valencia.
- Its market position will be further consolidated with 22 new projects signed (2,635 rooms).

#### 2004 Outlook

- For 2004, RevPar could continue an improvement trend based on estimated GDP growth of 3%:
  - The focus is to improve occupancy and maintain rates. A solid demand is absorbing the increasing competition in the market.
  - 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%	11,9%	
Barcelona	17.704	5.854	33,1%
NH Market share	6,8%	7,2%	

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 the suggested awareness has 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

- **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.**

### **Portfolio management in Benelux**

#### **2002-2003 period:**

- Sale and lease-back of Lord Charles in Cape Town. Sale of hotel resort in Champéry (Switzerland) and three restaurants.
- Sale of Crowne Plaza (Brussels),
- Withdrawal from hotels in Israel, Malta, Tunis, Hilvarenbeek (Holland) and Plaza Biel (Belgium)
- Termination of management contracts of 5 Alfa branded hotels in Belgium.



## 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 is 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 strengthen once the re-branding and the integration process of the former "Astron" hotels into the "NH world" is now completed.

#### 2004 Outlook

- 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 26 hotels (4,657 rooms), 11 in Mercosur and 15 in México.
- In Argentina the NH brand is leader in the 4stars 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 5hotels in 2002-2003 period. In 2003, three lease contracts were signed with good financial conditions.

#### 2004 Outlook

- The outlook for 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.



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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 suggested brand awareness has 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

- In 2003 the weakness of the German economy strongly hit the operating performance. Besides, the integration of Astron into the NH world and the re-branding process created low results visibility.
- Results are affected by the low level of sales and the high operating leverage of these hotels, most of them under lease contracts:
  - Occupancy to 57%, 8 p.p. below the average of NH in Europe. The ADR of €53.9 is the lowest within NH chain.
  - EBITDA was a negative €-9.8m in 9m03 and is expected to reach €-13m in 2003.



## 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.
Commercial	■ Focus on occupancy, strengthening the presence in Corporate and MCI markets as base business, but also increasing Leisure (individual & groups) in need-periods.
Loyalty	■ Introduction of NH World loyalty programme and inclusion in the Lufthansa Miles&More Program.
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.
Portfolio Management	■ All lease contracts are under revision, some of them to be turned into management contracts. Some of the signed projects were discontinued in 2003.

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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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