Scandic Hotels AB (publ)

Interim report January - June 1999

www.scandic-hotels.com

Summary

- Income after net financial items rose by 45 per cent to SEK 148 million (102m). This corresponds to an increase of 52 per cent for comparable hotels.
- Sales rose by 15 per cent to SEK 2,602 million (2,265m). For comparable hotels, sales rose by 7 per cent.
- The cash flow from current operations has been improved by SEK 172 million and stands at SEK 253 million.
- Nine new hotels were added to the Group's portfolio during the first six months of the year, four of which are located in Denmark, four in Estonia and one in Norway. The Group wound up operations at one hotel in Denmark and at two hotels in Sweden during the period. Further, agreements have been reached for operating a further three hotels.
- Earnings per share rose to SEK 1.57 (1.04) based on the number of shares following the 3 for 1 share split that was effected on 3 May 1999.

The market

Market demand has continued to grow in all countries where Scandic operates hotels, with the exception of the UK/London, where demand, although still strong, has gradually been declining. This trend of stable growth has been accompanied by limited new capacity at the same time as demand, and accordingly occupancy, has risen. This has also had a favourable effect on price trends.

In Germany, the demand for hotel accommodation continued to rise in most of those cities where Scandic operates hotels, whilst sales relating to conference facilities and restaurants have been adversely affected by the recent introduction of limitations to the deductions allowed for entertainment expenses.

Scandic's business operations

Scandic has either matched or outpaced growth in those countries where the Group operates hotels. For its Nordic operations, Scandic reported a 1 per cent increase in occupancy levels to 60.2 per cent compared with the first half of 1998. At the same time, average room rates have risen by 6 per cent to SEK 738. This has resulted in an 8 per cent increase of the revenue per available room (RevPAR) to SEK 444.

For its non-Nordic operations, both occupancy levels and RevPAR rose for comparable units, by 1.5 percentage points and SEK 51 respectively.

A further nine hotels were added to the Scandic chain's portfolio with a total of 1,016 rooms during the first six months of the year. Scandic took over four hotels in Denmark at the beginning of the year. Three of these hotels (two in Frederikshavn and one in Grenaa) are operated by Scandic based on management agreements on behalf of a principal, Stena Line, which owns the hotels. Scandic also took over a hotel in central Copenhagen, Scandic Hotel Webers.

In April, Scandic acquired 51 per cent of the shares in the Finest Hotel Group, comprising four hotels in Estonia. Two of the hotels are situated in Tallinn, one in Otepää and one in Pärnu. The two hotels in Tallinn were renamed as Scandic Hotel Palace and Scandic Hotel St. Barbara in June, marking their full incorporation into the Scandic chain. The acquisition is a natural step forward in the company's growth strategy to increase market coverage in the markets around the Baltic Sea.

A new hotel, Scandic Hotel Byporten with 240 rooms, was inaugurated in central Oslo in May. The hotel is extremely well situated, near Oslo's Central Station and with a direct connection to the new high-speed train terminal for the Gardermoen Airport. The hotel conforms fully to Scandic's environmental requirements. Another Scandic Hotel is currently being built in Oslo and is due to open for business at the turn of the year.

During the reporting period, agreements have been reached regarding the takeover of operations at two new hotels in Sweden: Hotel Portalen in Jönköping and Hotel Swania in Trollhättan. The takeover of these hotels will be completed during the autumn.

During the second quarter, the remaining 40 per cent of the shares in Nordic Hotel Oy were acquired. Nordic Hotel Oy, which was included in the acquisition of the Finnish hotel chain, Arctia, operates three of Scandic's hotels in Helsinki. The acquisition means that the hotels can be fully incorporated into Scandic's Finnish operations.

The company wound up operations at three hotels during the period: the Scandic Hotel Konserthuset in Malmö, a hotel in Fagersta, Sweden and a hotel in Vejen, Denmark. These hotels had a total of 254 rooms.

In July, an agreement was reached regarding the takeover of business operations at the Aarhus Plaza hotel in Denmark, with a total of 160 rooms. The takeover will come into effect on 15 August.

Scandic's hotel portfolio as at 30 June 1999			*Hotels under construction/ future acquisitions*			
Country	**No. of hotels**	**No. of rooms**	**No. of hotels**	**No. of rooms**	**Total hotels**	**Total rooms**
Sweden *)	55	9,586	2	321	57	9,907
Finland	20	3,554	1	350	21	3,904
Denmark	19	2,692	1	160	20	2,852
Norway	14	2,088	1	250	15	2,338
Germany	8	1,730			8	1,730
Austria	2	543			2	543
UK	1	368			1	368
Belgium	2	304			2	304
Netherlands	1	85	1	146	2	231
Estonia	4	227			4	227
Total	**126**	**21,177**	**6**	**1,227**	**132**	**22,404**

*) The hotel in Gothenburg/Mölndal will be replaced by a new hotel in the Year 2000, adding a further 80 rooms to existing capacity.

Sales and earnings trends

The Group's sales during the first six months of the year rose by 15 per cent to SEK 2,602 million (2,265m). For comparable hotels, and adjusted to take into account the effect of exchange rate movements, this corresponds to an increase of 7 per cent compared with the same period last year.

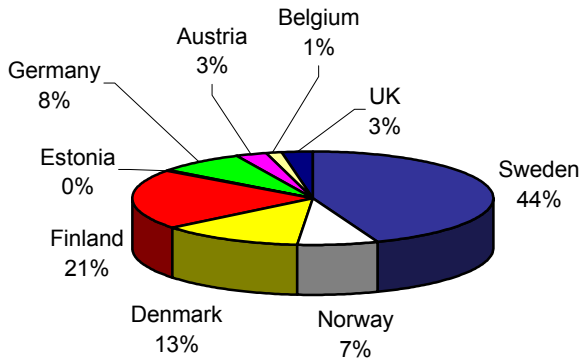
Operating income after depreciation amounted to SEK 142 million (108m), which corresponds to an increase of 32 per cent. As a result, the operating margin rose to 5.5 per cent (4.8%). Operating income amounted to SEK 133 million (93m) for the Group's Nordic operations and SEK 9 million (7m) for its non-Nordic operations. The Finnish hotels, which were acquired in April 1998, have been well received by the market. The work to raise productivity levels in the Finnish business continues. The recently acquired hotels in Estonia, in which Scandic has a 51 per cent stake, contributed favourably to the financial results of the Group's non-Nordic operations.

Income after net financial items rose by 45 per cent to SEK 148 million (102m) during the first six months of the year. This includes a SEK 12 million participation in the results of associated company Hotellus. For comparable hotels, the improvement in earnings was 52 per cent.

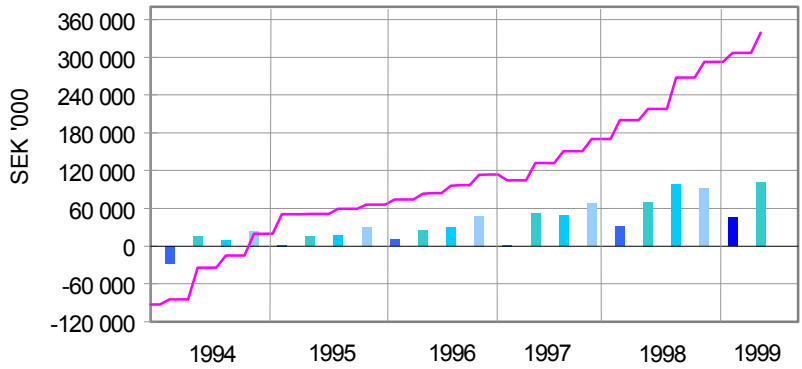
The comparability of the Group's results year on year is affected primarily by the formation of the property company Hotellus and the acquisition of the Finnish hotel operations. Hotellus, from which Scandic rents 14 properties, was a subsidiary company prior to the beginning of the year but is now an associated company. This means that, as of 1999, the Group's operating income will be charged with expenses relating to the rental costs of these properties. Last year, these expenses were reported as interest expenses. The negative effect that this will have on the operating margin will, however, be offset in the Group's net income by the earnings of the

associated company. The Finnish hotels were acquired on 1 April 1998 and were thus not a part of the Group's business operations during the traditionally weaker first quarter. This will have a negative effect on the financial results for 1999 compared with last year. The acquisition of the Finnish business operations included 25 independent restaurants, 23 of which were sold off during the first six months of 1999. The contracts for the two remaining restaurants expire on 31 December 1999. For the nine months in 1998 during which the restaurants were included in Scandic's business operations, their turnover amounted to SEK 245 million.

Sales by country for the period January – June 1999



Income after net financial items by quarter and rolling 12-month figures excluding the effect of non-comparable items



Financing and liquidity

The Group's interest-bearing liabilities as at 30 June 1999 amounted to SEK 288 million (542m). Net borrowing totalled SEK 99 million (464m). Net financial items remained unchanged compared with the previous year, at SEK -6 million (-6m).

Cash flow

The cash flow from current operations amounted to SEK 253 million (81m), an improvement of SEK 172 million. Year on year, the cash flow from investment activities improved by SEK 227 million, of which SEK 208 million is attributable to the fact that the property company Hotellus is no longer a subsidiary company. The cash flow for 1999 includes the income generated by the sale of independent restaurants in Finland. The post "Investments in new projects" relates primarily to the acquisition of the remaining shares in Nordic Hotels Oy and the recently-opened hotel in Oslo.

Cash flow	**Q1-2 1999**	**Q1-2 1998**
Income after financial income/expenses	148	102
Depreciation according to plan	177	155
Tax paid	-17	-2
Change in working capital and provisions	-55	-174
Cash flow from current operations	**253**	**81**
Acquisitions	-11	0
Investments in:		
- existing hotels	-96	-147
- new projects	-108	-24
- Hotellus	-	-208
- financial fixed assets	-75	-2
Sale of fixed assets	136	0
Cash flow from investment activities	**-154**	**-381**
Change in minority interests	-6	0
Change in borrowing	5	307
Dividend	-96	-53
Cash flow from financing	**-97**	**254**
Total cash flow	**2**	**-46**

In addition to the investments made in 1998 reported above, the Finnish hotel chain Arctia was acquired through a non-cash issue which raised SEK 783 million. This has not been included above, since it had no effect on the cash flow.

Parent Company

The Parent Company reported sales of SEK 1,146 million during the period (1,027m). The income after financial items amounted to SEK 190 million (134m). Capital expenditure totalled SEK 90 million (84m) and liquid assets as at 30 June 1999 were SEK 151 million (5m).

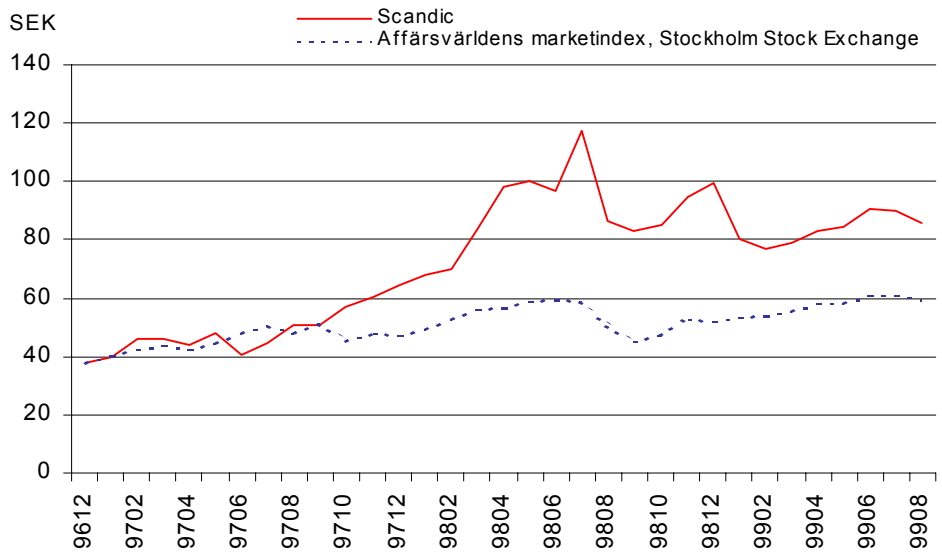
Year 2000

All systems of significance to the business have been tested or reviewed with suppliers and other external parties with regard to Year 2000 issues. The necessary upgrades and adjustments have been completed and Scandic is well prepared for the turn of the year. The preparations have been scrutinized by the company's auditors and by external consultants specializing in the field.

The Scandic share

In accordance with a resolution passed by the Annual General Meeting of shareholders, Scandic effected a 3 for 1 share split on 3 May. This meant that the par value of shares was changed from SEK 6 to SEK 2 and that each old share was replaced by three new shares. The share price following the split was SEK 86.

The Scandic share closed at SEK 86 on 6 August 1999. Adjusted for the share split, this corresponds to a fall of 14 per cent since the turn of the year. Affärsvärlden's market index rose by approximately 13 per cent during the same period.



INCOME STATEMENT

SEKm	Q1-2 1999	Q1-2 1998	12 months Rolling	Full year 1998
Net sales	**2,602**	**2,265**	**5,341**	**5,004**
Costs for goods sold	-2,138	-1,866	-4,302	-4,030
Gross income	**464**	**399**	**1,039**	**974**
Selling costs	-178	-161	-360	-343
Administrative costs	-154	-130	-328	-304
Other operating income	10	-	10	-
Item affecting comparability	-	-	-19	-19
Operating income	**142**	**108**	**342**	**308**
Income from associated companies	12		12	
Financial items	-6	-6	-34	-34
Income after net financial items	**148**	**102**	**320**	**274**
Tax	-47	-33	-65	-51
Minority shares in income	-1	-2	-14	-15
Net income	**100**	**67**	**241**	**208**

BALANCE SHEET	**30.6.99**	**30.6.98**	**31.12.98**
Assets			
Fixed assets			
Intangible fixed assets	476	477	490
Tangible fixed assets	1,167	1,747	1,295
Participations in associated companies	403		391
Financial fixed assets	99	44	40
Total fixed assets	*2,145*	*2,268*	*2,216*
Current assets			
Inventories	42	43	48
Current receivables	457	504	381
Receivables in associated companies	-		94
Short-term investments	87	-	95
Cash and bank	102	78	95
Total current assets	*688*	*625*	*713*
Total assets	**2,833**	**2,893**	**2,929**

Equity and liabilities			
Equity	*1,581*	*1,433*	*1,578*
Minority interests	*17*	*7*	*10*
Provisions			
Non-interest-bearing	71	60	66
Interest-bearing	52	51	52
Total provisions	*123*	*111*	*118*
Long-term liabilities			
Interest-bearing	203	437	255
Current liabilities			
Non-interest-bearing	876	851	936
Interest-bearing	33	54	32
Total current liabilities	*909*	*905*	*968*
Total equity and liabilities	**2,833**	**2,893**	**2,929**

Key ratios

Group

	Q1-2 1999	**Q1-2 1998**	**12 months rolling**	**Full year 1998**
• Operating margin, %	5.5	4.8	6.4	6.2
• Return on capital employed, %	9.3	8.3	19.8	24.7
• Return on equity, %	6.3	6.4	16.0	18.8
• Equity ratio, %	56	50		54
• Earnings per share, SEK *)	1.57	1.04	3.79	3.26

*)*Earnings per share have been calculated on the basis of the number of shares following the split, i.e. 63,750,150 shares.*

Information by business area	**Q1-2**	**Q1-2**

SEKm	1999	1998
Net sales		
Nordic Region	2,207	1,803
Outside the Nordic Region	395	462
Total for the Scandic Group	**2,602**	**2,265**
Net sales, hotel properties		
Internal rents	-	18
Item affecting comparability	-	-
Operating income		
Nordic Region [1)]	133	93
Outside the Nordic Region	9	7
Hotel properties		8
Total for the Scandic Group	**142**	**108**
Capital employed		
Nordic Region	1,556	1,220
Outside the Nordic Region	141	133
Hotel properties	-	551
Total for the Scandic Group	**1,697**	**1,904**
Key operating performance indicators		
Nordic Region		
Occupancy level, %	60.2	59.2
Average room rate, SEK	738	695
RevPAR, SEK	444	411
Average number of rooms available per day	17,408	15,320
Outside the Nordic Region		
Occupancy level, %	61.7	62.9
Average room rate, SEK	642	667
RevPAR, SEK	396	420
Average number of rooms available per day	3,021	3,489

Note. Conversion from local currencies to SEK has been calculated at the average exchange rate for the period.

1) All Group overhead costs, including information technology development costs, relate to the Nordic business.

Definition of key operating performance indicators

Occupancy level*:* Number of rooms sold as a percentage of the number of rooms available.

Average room rate: Room revenues divided by number of rooms sold.

Room revenues: Revenues from room lettings.

RevPAR: Room revenues divided by number of rooms available

Average number of rooms per day: Average room capacity available per day.

Stockholm, 10 August 1999

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President & CEO

This report has not been externally audited.

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Financial information 1999

The interim report covering the first nine months of the year will be issued on 28 October. It will be distributed directly to shareholders and, like other reports, may also be ordered from Scandic Hotels AB. The information is also available on Scandic's home page: www.scandic-hotels.com

Scandic Hotels AB is the largest hotel company in the Nordic region, with 126 hotels in 10 countries. Scandic's strategy is to be a dedicated hotel operator. Its business mission is "to offer many people the highest value for money when staying in its hotels, during work and leisure."

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