Scandic Hotels AB (publ)

Year-End Report 1999

www.scandic-hotels.com

The year in brief

- Income after net financial items amounted to SEK 372 million (274m), an improvement of 36 per cent. For comparable hotels, the year-on-year improvement was 28 per cent.
- Net sales in 1999 amounted to SEK 5,320 million (5,004m), corresponding to an increase of 6 per cent. For comparable hotels, the increase was also 6 per cent.
- Operating income amounted to SEK 354 million (308m), corresponding to an operating margin of 6.7 per cent (6.2%).
- The cash flow remained strong and stood at SEK 239 million (101m) after investments and financial transactions. The cash flow from current operations totalled SEK 661 million (622m).
- Earnings per share rose by 50 per cent to SEK 4.64 (3.10).
- A dividend of SEK 2.00 (1.50) is proposed.
- A total of 17 new hotels were added to the Group's portfolio during the year, in both Nordic markets and elsewhere. Four of the Group's new hotels are situated in Estonia, which is a new market for Scandic. Operations have been wound up at four hotels. Overall, the chain has boosted its room capacity by 2,055 rooms, corresponding to a growth of 10 per cent.
- Since the end of the period, Scandic has reached an agreement regarding the sale of Hotellus to the listed hotel property company Pandox. As settlement for the deal, Scandic will mainly receive shares in Pandox.
- In order to achieve a more efficient capital structure, Scandic's Board of Directors has decided to propose to the Annual General Meeting of shareholders that it authorizes the Board to take a decision regarding the buy-back of company shares in order to be able to use the shares that have been bought back to finance future acquisitions and to improve the return on equity and earnings per share.

Market developments

The market developments in those countries where Scandic operates hotels have generally been positive. In Sweden, there has been very limited capacity growth in the form of new hotels in the market, whilst demand has continued to rise. This has had a positive effect on both occupancy levels and prices.

The market in Finland has developed along similar lines as the Swedish market, albeit at a slightly slower rate. In Helsinki, two new hotels opened for business, creating excess supply in the five-star segment and subduing prices and occupancy levels in the city.

In Denmark, market growth was weak during the summer months, and this limited growth for the year as a whole. However, a recovery in demand was noted towards the end of the year. Looking to the year as a whole, hotel capacity in the Danish market rose slightly, whilst demand remained unchanged. This combination led to a slight drop in occupancy levels. However, price trends in Denmark have remained positive.

The hotel market in Norway has for several years been characterized by rapid growth in capacity in the form of new hotels, particularly in the major cities. At the same time, demand has risen at an even faster rate, resulting in a positive growth in occupancy levels and prices. However, during the last six months of 1999, demand stopped rising, whilst capacity has continued to grow, albeit at a slower rate than before. Occupancy levels in Norway have therefore fallen, but remain high. As the result of the imbalance between supply and demand, prices in Norway have fallen over the past six months.

In Estonia, a market in which Scandic started operating on 1 May, demand from international travellers, above all, has risen. At the same time, the competition in Scandic’s segment has grown increasingly fierce due to the opening of new hotels and renovation of existing properties.

The German market has continued to show positive growth, although the situation can vary considerably from city to city. Overall, demand has risen at a slightly faster rate than capacity, resulting in improvements in occupancy levels and prices. The new regulations introduced during the first quarter, which limit the extent to which value added tax on restaurant services can be deducted for tax purposes, have had an adverse effect on restaurant and conference business.

Scandic’s other markets have generally experienced positive growth, with the exception of Vienna, where hotel capacity has in the past year risen at a faster rate than demand.

Scandic’s business operations

Scandic has enjoyed positive growth during the year, increasing its market share in all markets. Occupancy levels and room rates have risen for both Nordic and non-Nordic operations. The Swedish business accounts for the strongest growth. The Finnish business, which has now completed its first full year as a subsidiary of the Scandic Group, reported an increase in both market share and revenue per available room, as well as improvements in productivity. Even in Denmark and Norway, where the market climate has been weaker in 1999, Scandic has been able to report positive growth, with rising revenues per available room.
Overall, Scandic’s occupancy levels for its Nordic operations rose to 62.5 per cent (61.8%). The

average room rate for the year was SEK 714. Due to a change in the reporting of breakfast revenues in Sweden, the average room rate reported in 1998 has been revised from SEK 694 to SEK 679. This means that the actual average room rate rose by 5 per cent. Calculated in the same way, the revenue per available room (RevPAR) rose by 6 per cent to SEK 446 (420).

For the non-Nordic business, the average room rate amounted to SEK 628 (640) and the RevPAR amounted to SEK 397 (408). Adjusted for non-comparable units, the average room rate amounted to SEK 634 (617) and the RevPAR rose by 2 per cent to SEK 395 (389).

In 1999, the Scandic chain added 17 new hotels to its portfolio and wound up operations at 4 hotels. This provided the chain with a further 2,055 rooms, corresponding to a 10 per cent increase in capacity.

In Sweden, Scandic has taken over operations at the Swania Hotel in Trollhättan and Ariadne Hotel in Stockholm and, in Jönköping, opened the Portalen Hotel for business. The Group has also wound up operations at two hotels, one in Malmö and one in Fagersta.

In Denmark, five hotels have been added to the Scandic chain's portfolio, including one in central Copenhagen, one in Århus, one in Grenå and two in Fredrikshavn. The last three hotels, owned by Stena Line, are operated by Scandic on behalf of the principal. The Group wound up operations at Scandic Hotel Vejen and at a hotel in Fredrikshavn.

In Norway, Scandic Hotel Byporten opened for business in May. The hotel, situated close to Oslo's Central Station, has a direct link to the terminal for the new high-speed shuttle to Gardermoen Airport. Another hotel currently under construction in central Oslo is expected to open for business during the autumn of 2000.

At the turn of the year, the Inter-Continental and Gateway Hotels in Helsinki changed names to Scandic Hotel Continental and Scandic Hotel Gateway respectively and were incorporated into Scandic's marketing systems. In consequence, the Scandic Hotel Continental is being re-profiled to fit into the volume segment favoured by Scandic as opposed to the over-represented five-star segment to which the hotel previously belonged. Also in the Finnish market, a franchise agreement has been reached with the Savoy Hotel in Mariehamn, which is now being operated under the Scandic brand. Another Scandic Hotel is currently under construction in the very centre of Helsinki. This hotel, which will have 350 rooms, is due to open for business in June 2000. Further, 23 of the 25 independent Finnish restaurants that were included in the acquisition of the Arctia chain were sold off during the first six months of 1999. This was in line with Scandic's strategy to be a dedicated hotel operator. Since the turn of the year, only one smaller restaurant remains.

During the year, Scandic acquired 86 per cent of the Finest Hotel Group, an Estonian chain which operates four hotels with a total of 227 rooms. Two of the hotels are situated in Tallinn, one in Otepää and one in Pärnu. The two hotels in Tallinn were renamed as Scandic Hotels in June, whilst the remaining two changed names during the last quarter of the year.

In the Benelux region, three new hotels have been added to the Group's portfolio during the last quarter. Two hotels in the Netherlands, in IJmuiden and Nijmegen, and one hotel in Belgium, the Albert Premier Hotel in central Brussels. These hotels are operated on behalf of the principal under management contracts. The hotels in Nijmegen and Brussels will be renamed as Scandic Hotels after refurbishment. The refurbishment of the hotel in Nijmegen is expected to be completed in June 2000, whilst the work at the Albert Premier Hotel is expected to be completed during the last six months of 2001.

All of the above-mentioned hotels are leased by Scandic, with the exception of the hotels in Denmark owned by Stena and the three hotels in the Benelux region, which Scandic operates under management contracts. As mentioned previously, the hotel in Mariehamn is a franchise hotel.

In January 2000, Scandic signed a lease in respect of a hotel in central Cologne. The hotel is due to open for business in September 2001 and will be operated under the Scandic brand. The hotel is situated near the railway station in direct connection to business districts, shopping areas and restaurants.

Scandic's hotel portfolio as at 31 December 1999 | ***Hotels under construction/ future acquisitions***

Country	No. of hotels	No. of rooms	No. of hotels	No. of rooms	Total hotels	Total rooms
Sweden [*)]	58	10,190			58	10,190
Finland	21	3,639	1	350	22	3,989
Denmark	19	2,778			19	2,778
Norway	14	2,088	1	250	15	2,338
Germany	8	1,730	1	292	9	2,022
Belgium	3	591			3	591
Austria	2	543			2	543
UK	1	368			1	368
Netherlands	3	316			3	316
Estonia	4	227			4	227
Total	**133**	**22,470**	**3**	**892**	**136**	**23,362**

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

Room capacity - a five-year summary

	1995	1996	1997	1998	1999
No. of rooms	15,379	16,782	17,369	20,415	22,470

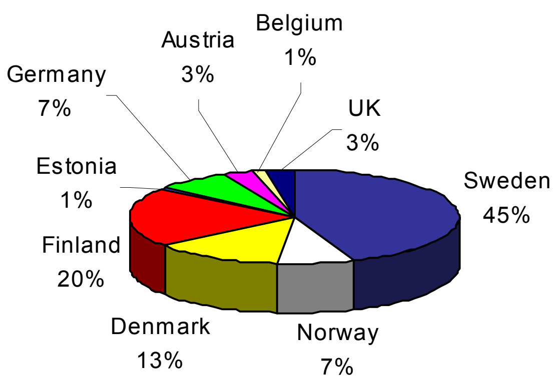
Sales and earnings

The Scandic Group's sales in 1999 amounted to SEK 5,320 million (5,004m), corresponding to a year-on-year increase of 6 per cent. For comparable hotels and adjusted to take into account the effect of exchange rate movements, the increase was also 6 per cent.

Operating income amounted to SEK 354 million (308m), corresponding to an operating margin of 6.7 per cent (6.2%). Operating income for comparable units amounted to SEK 278 million (214m), corresponding to an operating margin of 7.0 per cent (5.8%). Operating income amounted to SEK 331 million (233m) for the Group's Nordic operations and SEK 23 million (26m) for its non-Nordic operations.

Income after net financial items improved by 36 per cent to SEK 372 million (274m). For comparable units, the improvement in earnings was 28 per cent.

Sales by country for the period January – December 1999



Q4 earnings

Q4 sales totalled SEK 1,410 million (1,426m), down by 1 per cent compared with the same period of the previous year. For comparable units, sales rose by 5 per cent. Income after net financial items amounted to SEK 125 million (73m) for the fourth quarter. The earnings for the fourth quarter of 1998 included a non-recurring expense of SEK 9 million, attributable to the development of the "Scandic Nöjesweekend" package aimed at leisure travellers, and an item affecting comparability of SEK 19 million regarding a provision made in respect of additional value added tax.

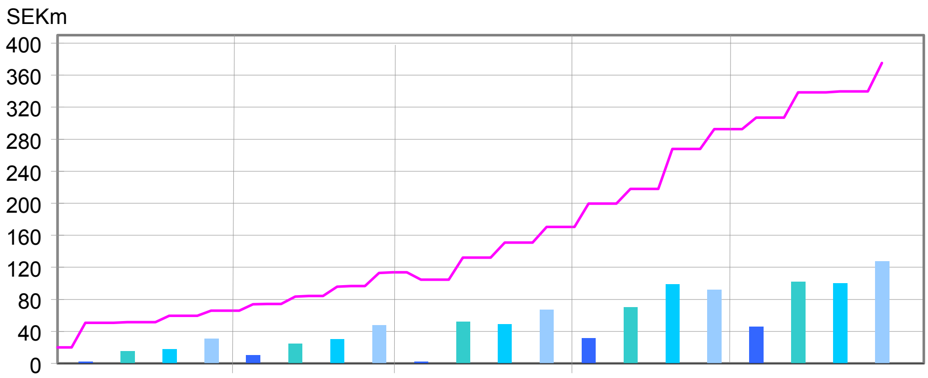
Year-on-year comparability

The year-on-year comparability of 1999 with 1998 has been affected by the fact that the Finnish business was not included in the Group during the first quarter of 1998, which is traditionally a weaker quarter than the rest of the year. The Finnish independent restaurants, which were sold off during the first six months of 1999, had a positive effect on both sales and earnings in 1998. Hotellus was in 1999 no longer a subsidiary company, and consequently, the operating income as of 1999 has been charged with rents that in 1998 were largely reported as interest expenses and minority shares in the income of subsidiaries.

Parent Company

The Parent Company's sales for the year amounted to SEK 2,335 million (2,117m). Income after financial items amounted to SEK 325 million (174m). Liquid assets as at 31 December 1999 totalled SEK 332 million (99m). Investments totalled SEK 257 million (390m).

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

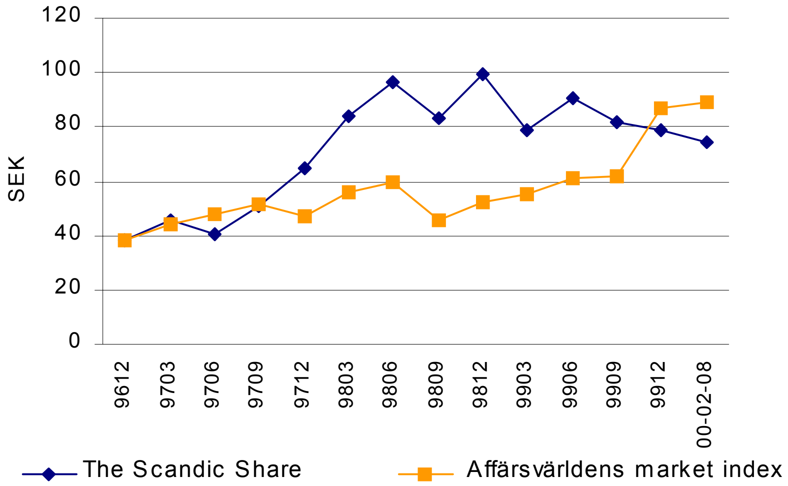


Financing and liquidity

The Group's interest-bearing liabilities as at 31 December 1999 amounted to SEK 269 million (339m). The company's net investment/debt amounted to SEK 155 million (-149m). Net financial items improved to SEK -11 million (-34m) due to a lower debt/equity ratio.

The Scandic share

Scandic effected a 3 for 1 share split on 3 May, with the result that one old share was replaced by three new shares. The share price following the split was SEK 86. The Scandic share's closing price on 30 December 1999 was SEK 79. Adjusted to take into account the share split, this represents a reduction of 20 per cent since the turn of the year. Affärsvärlden's market index rose by 66 per cent during the same period. On 8 February 2000, the Scandic share closed at SEK 74.



Cash flow

The cash flow from current operations amounted to SEK 661 million (622m). Investments in subsidiaries totalled SEK 140 million and included the acquisition of 86 per cent of the shares in the Finest Hotel Group, and Estonian company, and the remaining 40 per cent of the shares in Nordic Hotel Oy. The sale of lines of business, amounting to SEK 109 million, concerns primarily the Finnish independent restaurants.

Cash flow	**1999**	**1998**
Income after financial income/expenses	372	274
Depreciation according to plan	348	347
Income from associated companies, capital gains	-43	-
Tax paid	-33	-20
Change in working capital and provisions	17	21
Cash flow from current operations	**661**	**622**
Acquisitions, subsidiary companies	-140	25
Investments in:		
- existing hotels	-221	-220
- new hotels	-151	-171
- financial assets	-17	-
Net investments, Hotellus		-134
Sale of fixed assets	-	11
Sale of line of business	109	-
Cash flow from investment activities	**-420**	**-489**
Change in borrowing	94	21
Dividend	-96	-53
Cash flow from financing	**-2**	**-32**
Total cash flow	**239**	**101**

CONSOLIDATED INCOME STATEMENT SEKm	**Full year 1999**	**Full year 1998**	**Q4 1999**	**Q4 1998**
Net sales	**5,320**	**5,004**	**1,410**	**1,426**
Costs for goods sold	-4,332	-4,030	-1,134	-1,134
Gross income	**989**	**974**	**276**	**292**
Selling costs	-348	-343	-83	-97
Administrative costs	-302	-304	-79	-90
Other operating income	16	-	4	-1
Item affecting comparability	-	-19	-	-19
Operating income	**354**	**308**	**118**	**85**
Income from associated companies	29		8	
Financial items	-11	-34	-1	-12
Income after net financial items	**372**	**274**	**125**	**73**
Tax	-75	-61	4	-11
Minority interest	-1	-15	0	-6
Net income	**296**	**198**	**129**	**56**

CONSOLIDATED BALANCE SHEET SEKm	**31.12.99**	**31.12.98**
Assets		
Fixed assets		
Intangible fixed assets	467	490
Tangible fixed assets	1,250	1,295
Participations in associated companies	421	391
Financial fixed assets	94	40
Total fixed assets	***2,232***	***2,216***
Current assets		
Inventories	42	48
Current receivables	321	380
Interest-bearing receivables in associated companies	1	94
Short-term investments	324	95
Cash and bank	100	96
Total current assets	***788***	***713***
Total assets	**3,020**	**2,929**

Equity and liabilities	**31.12.99**	**31.12.98**
Equity	*1,765*	*1,578*
Minority interest	*9*	*10*
Provisions		
Non-interest-bearing	91	66
Interest-bearing	55	52
Total provisions	*146*	*118*
Long-term liabilities		
Interest-bearing	183	255
Current liabilities		
Non-interest-bearing	886	936
Interest-bearing	31	32
Total current liabilities	*917*	*968*
Total equity and liabilities	**3,020**	**2,929**

Key ratios

Group	**1999**	**1998**
• Operating margin (%)	6.7	6.2
• Return on capital employed (%)	23.9	24.7
• Return on equity (%)	17.7	17.8
• Equity ratio (%)	58	54
• Earnings per share (SEK) *	4.64	3.10

* 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 SEKm	1999	1998
Net sales, hotel operations		
Nordic region	4,531	4,144
Outside the Nordic region	789	860
Total for the Scandic Group	**5,320**	**5,004**
Net sales, hotel properties		
Internal rents		90
Items affecting comparability		
Nordic region	-	-19
Outside the Nordic region	-	-
Hotellus		-
Total for the Scandic Group	**-**	**-19**
Operating income		
Nordic region [1)]	331	233
Outside the Nordic region	23	26
Hotellus		49
Total for the Scandic Group	**354**	**308**
Capital employed		
Nordic region	1,479	1,591
Outside the Nordic region	138	146
Total for the Scandic Group	**1,617**	**1,737**
Key operating performance indicators		
Nordic region		
Occupancy level (%)	62.5	61.8
Average room rate (SEK)	714	679 [2)]
RevPAR (SEK)	446	420 [2)]
Average number of rooms available per day	17 666	16 092
Outside the Nordic region		
Occupancy level (%)	63.2	63.7
Average room rate (SEK)	628	640
RevPAR (SEK)	397	408
Average number of rooms available per day	2 945	3 215

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.

2) The figures reported for 1998 have been adjusted due to a change in the accounting principles in respect of breakfast revenues in Sweden with effect from 1999.

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.

Share of SPP’s surplus funds

The Swedish insurance company SPP has, as a result of an excessive strengthening of its balance sheet, decided to issue a lump-sum dividend payment to its corporate customers. In the event of a dividend payment being made, it is estimated that Scandic Hotels’ Swedish companies would receive approximately SEK 50 million. As it has not yet been decided when or in what manner SPP will make such a dividend payment, Scandic has not yet decided how to include these funds in the accounts.

Sale of shares in the hotel property company Hotellus

Since the end of the period, Scandic has reached an agreement with the hotel property company Pandox regarding the sale of shares in Hotellus. The sale is subject to Pandox’s due diligence and to Pandox’s Annual General Meeting of shareholders, to be held on 30 March 2000, approving the Board’s decision regarding a non-cash issue. The settlement will be financed by a combination of a new share issue from Pandox and a cash payment. Following completion of the deal, Scandic will gain a stake in Pandox corresponding to 20.8 per cent. Following completion of the deal, Pandox will become the largest listed hotel property company in the Nordic region and an important strategic partner for Scandic in the company’s growth in the Nordic region and Northern Europe. The transaction does not give rise to any capital gains/losses for Scandic, but is nevertheless expected to warrant a claim for tax deductions in respect of losses incurred earlier in the region of SEK 350 million.

Proposal for buying back shares

In order to achieve a more efficient capital structure, Scandic’s Board of Directors has decided to propose to the Annual General Meeting of shareholders that it authorizes the Board to take a decision regarding the buy-back of company shares in order to be able to use the shares that have been bought back to finance future acquisitions and to improve the return on equity and earnings per share. The Board intends to issue further information in connection with the Annual General Meeting of shareholders.

Dividend

In respect of the 1999 financial year, the Board’s proposal to the Annual General Meeting of shareholders is that a dividend of SEK 2.00 per share be paid (1.50).Scandic’s dividend policy is that at least 30 per cent of net profits be distributed as a dividend. The proposed dividend corresponds to approximately 43 per cent of the profit after tax.

Stockholm, 10 February 2000

Roland Nilsson
President & CEO

Financial information 2000

Scandic will publish and distribute the following financial information to shareholders during 2000:

Annual Report	March 2000
Interim report, Q1	2 May 2000
Interim report, Q2	10 August 2000
Interim report, Q3	25 October 2000

Financial reports will be distributed directly to shareholders and may also be ordered from Scandic Hotels AB at the address given below.

This information and comments to the year-end report with sound and pictures are available on Scandic's home page: www.scandic-hotels.com

The Annual General Meeting of shareholders will be held at 4.30 p.m. on 5 April 2000 at Scandic Hotel Slussen, Stockholm.

Nomination of board members

To ensure that the procedures regarding the nomination of board members and the presentation of proposals for board fees can be handled smoothly and efficiently during the Annual General Meeting of shareholders, the Board has appointed the Chairman of the Board, Urban Jansson, as the company's official contact in these matters. Shareholders are invited to forward any proposals/views on these matters to Urban Jansson, Chairman of the Board, Scandic Hotels AB, Box 6197, SE-102 33 Stockholm, Sweden.

For further information, please contact:

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Scandic Hotels AB is the largest hotel company in the Nordic region, with 133 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."

SCANDIC HOTELS

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