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# Scandic Hotels AB (publ)

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## INTERIM REPORT JANUARY-MARCH 2001

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[www.scandic-hotels.com](http://www.scandic-hotels.com)

### QUARTERLY SUMMARY

- Income after net financial items rose by 29 per cent to SEK 84 million (65m).
- Sales totalled SEK 1,622 million (1,270m), corresponding to an increase of 28 per cent compared with the same period last year. For comparable hotels and adjusted to take into account the effect of exchange rate movements, sales rose by 6 per cent.
- Operating income rose by 37 amounted to SEK 81 million (59m), corresponding to an operating margin of 5.0 per cent (4.6%).
- Earnings per share for the period amounted to SEK 0.92 (0.62).
- Agreements have been signed for 4 new hotels with a total of 747 rooms.
- After the end of the quarter, Hilton Group plc made a public offer for Scandic, the value of which corresponds to SEK 144 per Scandic share. Scandic's board of directors unanimously recommends its shareholders to accept the offer.

All key ratios for 2000 have been restated to follow new accounting recommendations.

### FAVOURABLE MARKET TRENDS

Market trends in most of the countries in which Scandic operates have remained positive. The only exceptions are Norway, where demand has continued to decline, even though the situation has varied considerably from region to region and city to city, the UK and Austria. Market conditions in the latter two countries have had a limited impact on Scandic, since the company only operates a few hotels there.

In all other markets, demand has continued to improve, whilst capacity growth has remained low.

## CONTINUED STRONG GROWTH IN SALES AND EARNINGS

The Group's sales for the first quarter totalled SEK 1,622 million (1,270m), corresponding to an increase of 28 per cent compared with the same period last year. This increase is an effect of continued positive market trends, and Scandic's capacity expansion, e.g. through its acquisition of the Swedish hotel chain Provobis. The Group's sales abroad also renders a higher value in Swedish currency, due to the weakening of the Swedish krona in 2001. For comparable hotels and adjusted to take into account the effect of exchange rate movements, sales rose by 6 per cent.

Operating income rose by 37 per cent to SEK 81 million (59m). This corresponds to an operating margin of 5.0 per cent (4.6%). Operating income amounted to SEK 72 million (54m) for the Group's Nordic operations and SEK 9 million (5m) for its non-Nordic operations.

Income after net financial items amounted to SEK 84 million (65m) for the first quarter. For comparable hotels, income after net financial items rose by 2 per cent compared with the previous year. These figures include Scandic's share in the associated company Pandox, SEK 12 million (8m).

## SCANDIC'S OPERATIONS – A GOOD START TO 2001.

Scandic has enjoyed a good start to 2001 and preserved or increased market share in all markets where it has business operations. The sale of three of the Provobis hotels acquired has now been completed and the process of incorporating the remaining hotels into the chain and re-profiling them as Scandic hotels has proceeded according to plan.

Occupancy levels for the Group rose by 1.4 percentage points to 59.2 per cent (57.8%). Average room rates rose to SEK 802 (736), resulting in an average revenue per available room (RevPAR) of SEK 475 (425), an increase of 12 per cent. Adjusted for exchange rate movements, RevPAR rose by 9 per cent.

The Nordic region accounted for the strongest growth trend, despite the poor market climate in Norway. For Scandic's Nordic operations, occupancy levels rose by two percentage points to 59.8 per cent (57.8%), whilst the average room rate rose by 9 per cent to SEK 815 (749), corresponding to a 13 per cent increase in RevPAR to SEK 487 (433). Adjusted to take into account the effects of exchange rate movements, RevPAR for the Nordic region rose by 10 per cent.

For non-Nordic operations, occupancy levels fell by 2.7 percentage points to 55.1 per cent (57.8%). The average room rate rose to SEK 710 (652), which resulted in a 4 per cent increase in RevPAR to SEK 391 (377). Adjusted to take into account the effect of exchange rate movements, the average room rate rose by 3 per cent, whilst RevPAR fell by 2 per cent. The slightly weaker performance reported by Scandic's non-Nordic operations is primarily attributable to market trends in the UK and Austria.

Scandic signed agreements regarding a further three hotels during the first quarter of 2001 and an additional agreement following the end of the period. Two of these hotels are situated in Copenhagen and have a total of 487 rooms. The other hotels are in Vilnius in Lithuania (60 rooms) and Dresden in Germany (200 rooms). The hotel in Vilnius will open for business in

May 2001, whilst the other properties, which are all still under construction, are expected to open for business at the end of 2002 or in early 2003.

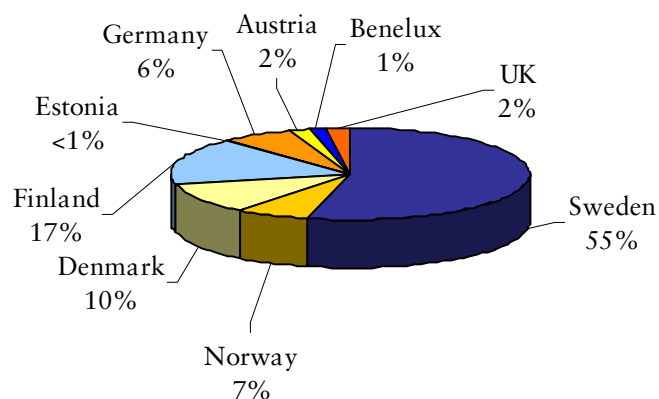
<b>Scandic's hotel portfolio as at 31 March 2001</b>				
<b>Country</b>	<b>Total no. of hotels</b>	<b>Total no. of rooms</b>	<i>Hotels under construction/ future acquisitions</i>	
			<b>No. of hotels</b>	<b>No. of rooms</b>
Sweden <sup>1)</sup>	69	12,875	2	554
Finland	24	4,218		
Denmark <sup>3)</sup>	20	2,922	1	207
Norway <sup>2)</sup>	18	2,654	1	153
<b>Total Nordic region</b>	<b>131</b>	<b>22,669</b>	<b>4</b>	<b>914</b>
Germany	8	1,730	2	492
Belgium	3	591		
Austria	2	543		
UK	1	368		
Netherlands	3	316		
Estonia	4	235		
Lithuania			1	60
<b>Total outside Nordic region</b>	<b>21</b>	<b>3,783</b>	<b>3</b>	<b>552</b>
<b>TOTAL</b>	<b>152</b>	<b>26,452</b>	<b>7</b>	<b>1,466</b>

1) Three hotels with a total of 366 rooms that were included as part of the Provobis acquisition have been sold off.

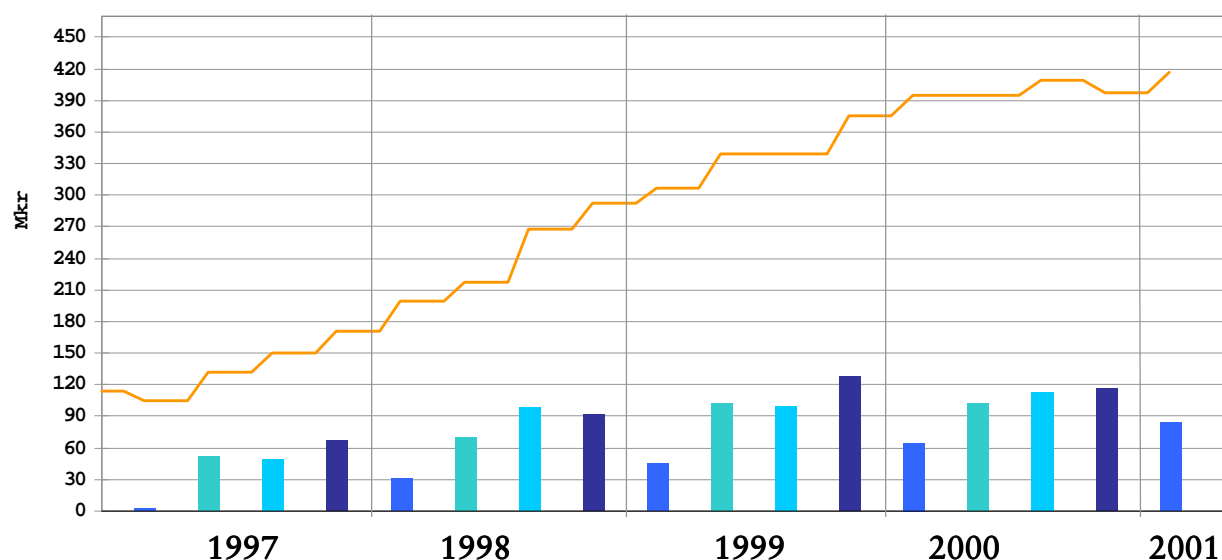
2) On 1 February, a franchising agreement with Bergen Hotel, which has 171 rooms, was signed.

3) An agreement regarding a hotel in Copenhagen, which has 280 rooms, was signed after the end of the quarter.

#### **SALES BY COUNTRY FOR THE PERIOD JANUARY – MARCH 2001**



## INCOME AFTER NET FINANCIAL ITEMS BY QUARTER AND ROLLING 12-MONTH FIGURES, EXCLUDING ITEMS AFFECTING COMPARABILITY



## FINANCING AND LIQUIDITY

The Group's interest-bearing liabilities as at 31 March amounted to SEK 691 million (294m) and the net debt stood at SEK 673 million (37m). Net financial items for the quarter were SEK -9 million (-2m).

Net financial items include dividend payments corresponding to SEK 3 million from the Finnish restaurant company Royal Rest Oy, in which Scandic has a 19 per cent stake. The changes year on year are primarily attributable to increased borrowing following the acquisition of Provobis and the buy-back of company shares.

## CASH FLOW

The cash flow from current operations improved further, totalling SEK 8 million for the first quarter (-94m). Adjustments for items not included in the cash flow concern primarily depreciation, including depreciation of goodwill amounting to SEK 23 million (12m).

The cash flow from investment activities amounted to SEK -49 million (-132m). Investments made in financial fixed assets during last year primarily concerned transactions relating to the sale to Pandox of Scandic's shareholding interests in Hotellus.

<b>Cash flow (SEKm)</b>	<b>Q1 2001</b>	<b>Q1 2000</b>
Income after financial items	84	65
Adjustment for items not included in the cash flow	101	77
Tax paid	-29	-56
Change in working capital and provisions	-148	-180
<b>Cash flow from current operations</b>	<b>8</b>	<b>-94</b>
Investments		
- existing hotels	-40	-61
- new hotels	-26	-38
- financial assets	-5	-55
Disposals		
- fixed assets	22	7
- financial assets	-	15
<b>Cash flow from investment activities</b>	<b>-49</b>	<b>-132</b>
Buy-back of shares	-17	-
Change in borrowing	-125	61
<b>Cash flow from financing</b>	<b>-142</b>	<b>61</b>
<b>Change in liquid assets</b>	<b>-183</b>	<b>-165</b>

## **HILTON MAKES OFFER FOR SCANDIC**

On 23 April 2001, after the end of the reporting period, Hilton Group plc announced a public offer to Scandic's shareholders and warrant holders, in which it invited shareholders to transfer their shares to Hilton in exchange for a cash payment of SEK 108 plus 1.1238 newly-issued Hilton shares for each Scandic share and warrant holders to transfer their warrants for a cash payment of SEK 25 per warrant. The same day, Scandic's board of directors issued a unanimous recommendation to shareholders and warrant holders to accept the offer.

CONSOLIDATED INCOME STATEMENT (SEKm)	Q1 2001	Q1 2000	Rolling 12 months	Full year 2000
Net sales	1,622	1,270	6,323	5,971
Costs for goods sold <sup>1)</sup>	-1,353	-1,043	-5,128	-4,818
<b>Gross income</b>	<b>269</b>	<b>227</b>	<b>1,195</b>	<b>1,153</b>
Selling costs	-101	-90	-437	-426
Administrative costs	-89	-80	-362	-353
Other operating income	2	2	18	18
Items affecting comparability	-	-	63	63
<b>Operating income</b>	<b>81</b>	<b>59</b>	<b>477</b>	<b>455</b>
Income from associated companies	12	8	44	40
Financial items	-9	-2	-39	-32
Income after net financial items	84	65	482	463
Tax <sup>1)</sup>	-28	-27	-145	-144
Minority interest	1	1	0	0
<b>Net income</b>	<b>57</b>	<b>39</b>	<b>337</b>	<b>319</b>

<sup>1)</sup> Last year's income has been restated due to a change in accounting principles regarding intangible fixed assets and deferred tax.

**CONSOLIDATED BALANCE SHEET  
SEKm**
**Assets**
***Fixed assets***

Intangible fixed assets <sup>1)</sup>	976	431	987
Tangible fixed assets	1,516	1,248	1,530
Participations in associated companies	424	380	413
Financial fixed assets <sup>1)</sup>	195	229	184
<b>Total fixed assets</b>	<b>3,111</b>	<b>2,288</b>	<b>3,114</b>

***Current assets***

Inventories	50	41	50
Current receivables	721	498	577
Receivables from associated companies	-	101	-
Short-term investments	-	149	-
Cash and bank	18	108	201
<b>Total current assets</b>	<b>789</b>	<b>897</b>	<b>828</b>

<b>Total assets</b>	<b>3,900</b>	<b>3,185</b>	<b>3,942</b>
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	<b>31.3.2001</b>	<b>31.3.2000</b>	<b>31.12.2000</b>
<b>Equity and liabilities</b>			
<b><i>Equity*</i></b>	<b>1,987</b>	<b>1,953</b>	<b>1,939</b>
Minority interest	9	8	10
<b><i>Provisions</i></b>			
Non-interest-bearing*	95	96	93
Interest-bearing	62	56	62
<b>Total provisions</b>	<b>157</b>	<b>152</b>	<b>155</b>
<b><i>Long-term liabilities</i></b>			
Non-interest-bearing	3	-	3
Interest bearing	487	183	487
<b>Total long-term liabilities</b>	<b>490</b>	<b>183</b>	<b>490</b>
<b><i>Current liabilities</i></b>			
Non-interest-bearing	1,115	834	1,113
Interest-bearing	142	55	235
<b>Total current liabilities</b>	<b>1,257</b>	<b>889</b>	<b>1,348</b>
<b>Total equity and liabilities</b>	<b>3,900</b>	<b>3,185</b>	<b>3,942</b>

<sup>1)</sup> Last year's figures have been restated due to a change in accounting principles regarding intangible fixed assets and deferred tax.

<b>Key ratios</b>	<b>Q1 2001</b>	<b>Q1 2000*</b>	<b>12 months rolling</b>	<b>Full year 2000*</b>
• Operating margin (%)	5.0	4.6	7.5	7.6
• Return on capital employed (%)	3.7	3.6	22.6	23.2
• Return on equity (%)	2.9	2.0	17.1	16.5
• Equity ratio (%)	51	61		49
• Earnings per share (SEK) *	0.92	0.62	5.35	5.03
• Earnings per share after share dilution	0.92	0.62	5.32	5.01

\*) All key ratios for 2000 have been restated due to new accounting recommendations regarding intangible fixed assets and deferred tax.

\*\*) Taking account of the warrants programme.

## CHANGES IN EQUITY

<b>SEKm</b>	<b>Q1 2001</b>	<b>Q1 2000</b>	<b>Full year 2000</b>
<b>Opening balance</b>	<b>1,889</b>	<b>1,765</b>	<b>1,765</b>
Change due to changes in accounting principles	<u>50</u>	<u>152</u>	<u>152</u>
<b>Opening balance after change</b>	<b>1,939</b>	<b>1,917</b>	<b>1,917</b>
New share issue			227
Dividend			-128
Buy-back of the company's own shares	-17		-401
Warrants			13
Warrants, costs			-14
Net income for the period	57	39	319
Translation difference	19	-14	17
Hedging measures	<u>-11</u>	<u>11</u>	<u>-11</u>
<b>Closing balance</b>	<b>1,987</b>	<b>1,953</b>	<b>1,939</b>

With effect from 2001, a number of the new recommendations issued by the Swedish Financial Accounting Standards Council (Redovisningsrådet) came into force, including a recommendation regarding income tax (RR9). A number of other recommendations are due to come into force in 2002, including RR15, which deals with intangible assets. Scandic has chosen to apply all of these recommendations with immediate effect.

For Scandic, this has meant that equity at the beginning of the year was increased by SEK 61 million regarding deferred tax assets, primarily due to unutilized deductions for losses carried forward. In addition, opening equity at the beginning of the year was reduced by SEK 11 million regarding intangible assets. All relevant comparative figures appearing in the income statement, balance sheet and key ratios have been adjusted in accordance with the changes in accounting principles.

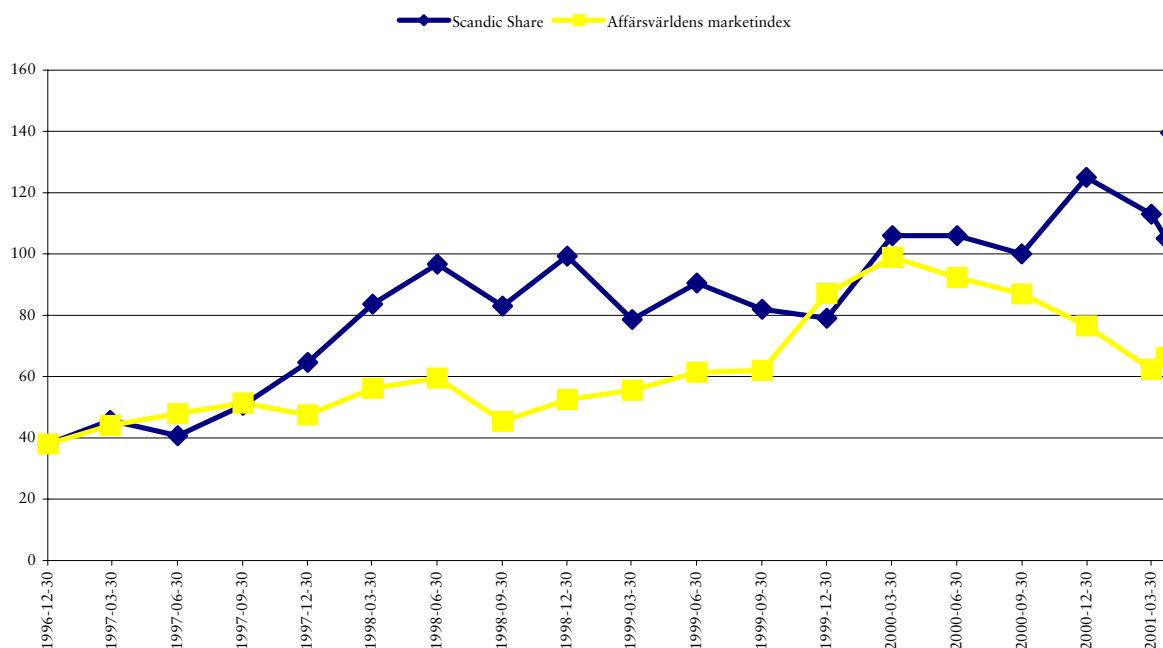


## THE SCANDIC SHARE

The Scandic share's closing price on 20 April, the last day of trading prior to the announcement of Hilton's offer for Scandic, was SEK 110. Since the turn of the year, when it stood at SEK 125, the share price has fallen by 12 per cent. During the same period, Affärsvärldens market index fell by 13.4 per cent. In connection with the offer made by Hilton, Scandic's share price climbed to around SEK 140 and has since remained at this level.

At the Annual General Meeting of shareholders held on 29 March, the board of directors was authorized to continue to buy back a maximum 10 per cent of the company's shares. Prior to the meeting, 3,930,968 shares had been bought back, corresponding to just under 6 per cent. Since the meeting, a further 376,800 shares have been bought back. Scandic now owns 6.5 per cent of the total number of company shares issued. The number of shares in circulation, excluding those bought back by Scandic, is 61,695,720 as of today.

## SHARE PRICE TREND



## INFORMATION BY BUSINESS AREA

SEKm	Q1 2001	Q1 2000
<b><i>Net sales</i></b>		
Nordic region	1,422	1,082
Outside the Nordic region	200	188
<b>Total for the Scandic Group</b>	<b>1,622</b>	<b>1,270</b>
<b><i>Operating income</i></b>		
Nordic region <sup>1)</sup>	72	54
Outside the Nordic region	9	5
<b>Total for the Scandic Group</b>	<b>81</b>	<b>59</b>
<b><i>Capital employed</i></b>		
Nordic region	2,505	1,773
Outside the Nordic region	164	225
<b>Total for the Scandic Group</b>	<b>2,669</b>	<b>1,998</b>
<b><i>Key operating performance indicators</i></b>		
Nordic region		
Occupancy level (%)	59.8	57.8
Average room rate (SEK)	815	749
RevPAR (SEK)	487	433
Average number of rooms available per day	21,734	17,960
Outside the Nordic region		
Occupancy level (%)	55.1	57.8
Average room rate (SEK)	710	652
RevPAR (SEK)	391	377
Average number of rooms available per day	3,180	3,172

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) Adjusted for the effect of exchange rate movements, the average room rate in the Nordic region was SEK 766 in 2000 and Rev PAR was SEK 443. The average room rate outside the Nordic region, after adjustments for such exchange rate movements, was SEK 687 and Rev PAR was SEK 397.

### *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.

Roland Nilsson  
President & CEO

This report has not been externally audited.

## FINANCIAL INFORMATION 2001

Scandic Hotels has planned to issue the following financial information for 2001:

Interim report, Q2	10 August 2001
Interim report, Q3	31 October 2001
Year-end report for 2001	11 February 2002.

Financial reports will be distributed directly to shareholders or may be ordered from Scandic Hotels AB. The information is also available on Scandic's home page: [www.scandic-hotels.com](http://www.scandic-hotels.com)

Should Hilton's acquisition of Scandic proceed, Scandic will be delisted from Stockholmsbörsen upon completion of the deal and its financial information will be reported as part of Hilton's accounts. Accordingly, the above-mentioned reports concerning Scandic's business operations will in this event not be issued. It is estimated that a prospectus regarding Hilton's public offer for Scandic Hotels will be distributed to Scandic's shareholders by Hilton around 16 May. For further information regarding Hilton's offer for Scandic and other financial information about Hilton, please contact Hilton Group plc in London.

### For further information, please contact:

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*Scandic Hotels AB is the largest hotel company in the Nordic region,  
with 152 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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