



Scandic Hotels AB (publ)

INTERIM REPORT JANUARY-MARCH 2000

www.scandic-hotels.com

QUARTERLY SUMMARY

- Income after net financial items rose by 41 per cent to SEK 65 million (46m).
- Sales totalled SEK 1,270 million (1,257m), corresponding to an increase of 1 per cent compared with the same period of the previous year. For comparable hotels, sales rose by 4 per cent.
- Operating income amounted to SEK 59 million (45m), corresponding to an operating margin of 4.6 per cent (3.6%).
- Earnings per share for the period amounted to SEK 1.04 (0.42).
- Scandic has sold its shareholding (49.9%) in the property company Hotellus International to the listed hotel property company Pandox. Scandic's stake in Pandox following completion of this deal corresponds to 20.8 per cent of the company's shares.
- After the end of the period, Scandic made a public offer for the shares in the listed hotel chain Provobis. The principal shareholders, who together control 60 per cent of the share capital and 69 per cent of the voting rights, have accepted the offer. Provobis has 16 good quality hotels in inner city locations in Sweden, one hotel under construction in Finland and four independent restaurants.
- Scandic has signed agreements regarding a further five hotels, two of which are located in Norway, one in Denmark, one in Finland and one in Germany. The agreement regarding the hotel in Germany was signed during the period, whilst the agreements for the other hotels were signed after the end of the period.
- Scandic's Board of Directors has decided to buy back company shares in accordance with the mandate granted by the Annual General Meeting of shareholders.

MARKET DEVELOPMENTS

The stable and positive trend of the previous year continued in Sweden, Germany, the Benelux countries and in the UK.

In Denmark, demand has continued to rise, albeit at a slow pace, following weaker growth during the autumn of 1999.

In Norway, market developments have remained patchy, with demand varying significantly from city to city. In Oslo, capacity growth has outpaced demand.

Market growth in Finland has been weaker than anticipated, particularly in Helsinki, where there is now excess capacity in the five-star segment.

SCANDIC'S BUSINESS OPERATIONS

Scandic has matched or outpaced market growth in all countries where it operates hotels.

For Scandic's Nordic operations, occupancy levels rose by just under a percentage unit to 57.8 per cent (57.0%), whilst the average room rate rose by 2 per cent to SEK 749 (736). This corresponds to an increase in the RevPAR of just over 3 per cent, to SEK 433. Sweden and Denmark have accounted for the strongest growth, although this has been weakened by the market conditions in Norway and Finland.

For non-Nordic operations, occupancy levels rose to 57.8 per cent (57.3%), an increase of 0.5 percentage units. The average room rate was SEK 652 (666). Adjusted for the effects of exchange rate movements, the average room rate has risen by 3 per cent, whilst the RevPAR has risen by 4% per cent, to SEK 377.

AGREEMENTS SIGNED FOR FIVE NEW HOTELS

Scandic has signed a lease to operate a hotel in central Cologne. The hotel, which is in a very good location close to the central station, will have 292 rooms. It is due to open for business during the autumn of 2001.

Agreements have been signed regarding two hotels in central Trondheim in Norway, one a lease, the other a franchising agreement. The hotels, which have 66 and 81 rooms respectively, will be incorporated into the Scandic chain as of 1 June and 1 October 2000 respectively.

Lease agreements have also been signed to operate a hotel with 117 rooms in northern Copenhagen and a hotel with 78 rooms in Pori in Finland. Both of these hotels will be incorporated into the Scandic chain as of 1 May 2000.

The hotel that is under construction in Mölndal will open for business in May, with a capacity of 208 rooms. In connection with this, the existing hotel in Mölndal will be closed.

Business operations at Scandic Hotel Vänersborg have been wound up and as of 30 September this year, the hotel will no longer be included in the portfolio.

The net effect of the above changes will provide Scandic with an additional 559 rooms.

<i>Scandic's hotel portfolio as at 31 March 2000</i>			<i>Hotels under construction/ future acquisitions</i>			
Country	No. of hotels	No. of rooms	No. of hotels	No. of rooms	Total hotels	Total rooms
Sweden	58	10,253			58	10,253
Finland	21	3,639	2	428	23	4,067
Denmark	19	2,778	1	117	20	2,895
Norway	14	2,088	3	397	17	2,485
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	22,533	7	1,234	140	23,767

Upon completion of the acquisition of Provobis, a further 16 hotels in Sweden, with a total of 3,115 rooms, plus one hotel currently under construction in Finland, with 120 rooms, will be added to the portfolio. The hotel in Gothenburg/Mölndal will be replaced by a new hotel in May 2000, adding a further 44 rooms to existing capacity.

SALES AND EARNINGS

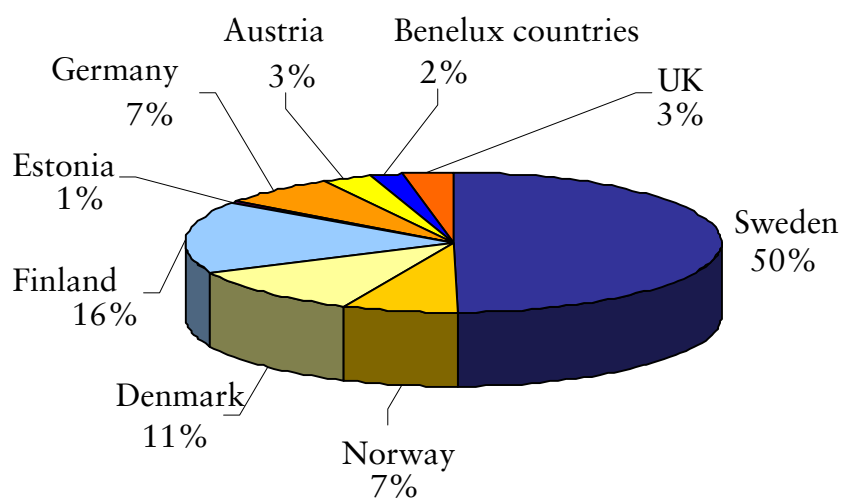
Sales for the first quarter amounted to SEK 1,270 million (1,257m). This corresponds to an increase of 1 per cent compared with the same period of the previous year. For comparable hotels and adjusted to take into account the effect of exchange rate movements, the increase was just over 4 per cent.

Operating income for the quarter rose by 31 per cent and amounted to SEK 59 million (45m), corresponding to an operating margin of 4.6 per cent (3.6%). Operating income amounted to SEK 54 million (44m) for the Group's Nordic operations and SEK 5 million (1m) for its non-Nordic operations.

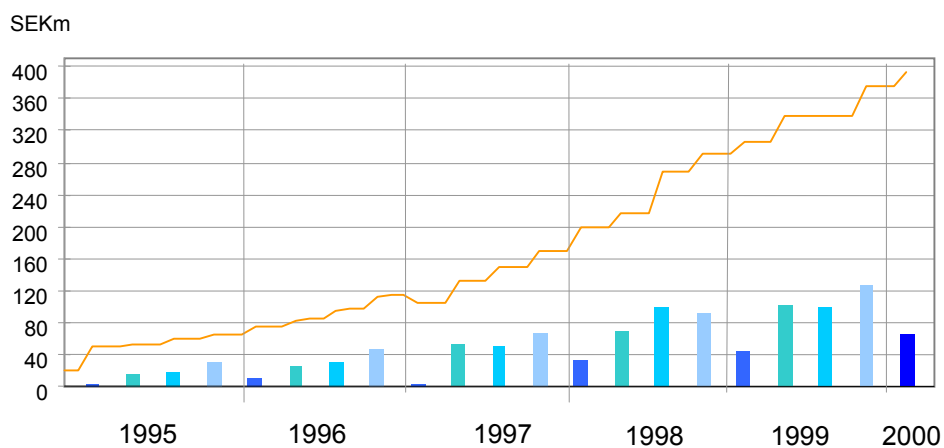
Income after net financial items improved by 41 per cent compared to the same period of the previous year and amounted to SEK 65 million (46m).

The comparability year-on-year is affected by the fact that part of the Easter break, which has an adverse effect on both sales and income, occurred during the first quarter of 1999, whereas this year, Easter will only affect second quarter figures. Comparison is also affected by the fact that the 20 independent Finnish restaurants that were sold off during the first quarter of 1999 are not included in this year's figures.

SALES BY COUNTRY FOR THE PERIOD JANUARY – MARCH 2000



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 March 2000 amounted to SEK 294 million (125m). Net borrowing totalled SEK 37 million (63m) and net financial items were SEK -2 million (-3m).

CASH FLOW

The cash flow from current operations amounted to SEK -94 million (3m). The cash flow from investment activities amounted to SEK -132 million (3m). This difference is primarily attributable to the sale of the majority of the Finnish independent restaurants during the previous year. Investments made in financial fixed assets during the period primarily concern transactions relating to the Hotellus/Pandox deal.

Cash flow (SEKm)	Q1 2000	Q1 1999
Income after net financial items	65	46
Adjustments for items not included in the cash flow	77	71
Tax paid	-56	-11
Change in working capital and provisions	-180	-103
Cash flow from current operations	-94	3
Sale of lines of business		108
Investments		
- existing hotels	-61	-52
- new hotels	-38	-16
- financial assets	-55	-37
Sale of		
- fixed assets	7	0
- financial assets	15	0
Cash flow from investment activities	-132	3
Change in borrowing	61	-132
Cash flow from financing	61	-132
Change in liquid assets	-165	-126

BUY-BACK OF THE COMPANY'S OWN SHARES

The Board of Scandic Hotels has decided to take advantage of the mandate granted by the Annual General Meeting of shareholders to buy back shares in the company. The acquisition will take place on OM Stockholm Stock Exchange and shares will be acquired at the market price that prevails on the date of the acquisition. The purpose of the buy-back of shares is to adjust the company's capital structure and to use shares that have been bought back to finance future acquisitions.

According to the Board's decision, a maximum of 10 per cent of all shares in the company will be acquired for a maximum value of SEK 400 million, which at the current share price, corresponds to approximately 4 million shares. The acquisition shall be effected during the period up to the next Annual General Meeting of shareholders.

At the current market price and based on the current level of earnings, a buy-back of approximately 4 million shares would, on a twelve-monthly basis, raise Scandic's return on equity by around 5 percentage units and its earnings per share by around 2 per cent.

SCANDIC LAUNCHES OFFER FOR PROVOBIS

On 12 April 2000, Scandic announced its decision to launch a public offer to the shareholders of hotel chain Provobis to acquire all shares in Provobis. Provobis is listed on OM Stockholm Stock Exchange.

Provobis operates 16 good quality hotels with central locations in major Swedish cities. Another new hotel is currently being built in Turku in Finland. Provobis also operates four independent restaurants. Provobis has a total of 3,115 rooms in Sweden. In 1999, the company reported sales of SEK 877 million and a pre-tax profit of SEK 51 million.

The growing demand that Scandic has experienced over the last few years has resulted in a shortage of capacity in a number of major locations. The acquisition of Provobis fulfils Scandic's need for additional hotel capacity in locations such as Stockholm, Gothenburg, Malmö and Umeå. Scandic will through the acquisition also gain hotels in Lund and Skövde, cities where it has previously lacked capacity. The acquisition will provide an opportunity to achieve greater economies of scale in areas such as sales and marketing, purchasing, IT and competence development, and possibilities for continued improvements in productivity for the Provobis business.

Scandic estimates that an acquisition of the Provobis hotels will have a positive effect on earnings per share from 2001 onwards.

In a forthcoming public offer, Scandic has decided to offer Provobis shareholders either a cash alternative, offering SEK 37 in cash for each series A share and SEK 31 in cash for each series B share, or a share alternative, offering three newly issued shares in Scandic for each multiple of 10 series A or series B shares in Provobis. The total value of Scandic's public offer will amount to approximately SEK 612 million in the cash alternative and approximately SEK 589 million in the share alternative based on Scandic's share price prior to the announcement of the offer.

The principal shareholders in Provobis, who together control approximately 60 per cent of the share capital and approximately 69 per cent of the voting rights, have agreed to tender their shares in Provobis in connection with a public offer. Following its announcement of the decision to launch a public offer, Scandic has acquired Provobis shares through OM Stockholm Stock Exchange. Scandic's holding, including those shares held by the principal shareholders in Provobis, corresponded to 68.5 per cent of the share capital and 75.3 per cent of the voting rights as at 30 April.

A public offer will be conditional upon, inter alia, a decision being taken by an Extraordinary General Meeting 19 May 2000 of shareholders in Scandic on a directed new issue (non-cash issue) and the decision of the competition authorities. It is estimated that completion of the deal will be possible during June.

OPTIONS PROGRAMME FOR SCANDIC HOTELS EMPLOYEES

The Board of Scandic Hotels has proposed that an offer for warrants be extended to all employees in Scandic Hotels. This proposal is subject to an Extraordinary General Meeting of shareholders 19 May 2000 deciding on a promissory note issue with separable warrants. The warrants will entitle 3,200,000 new shares in Scandic Hotels to be subscribed for during the period 2 June – 29 October 2003. This corresponds to a dilution of approximately 5 per cent.

SALE OF SHARES IN THE HOTEL PROPERTY COMPANY HOTELLUS INTERNATIONAL

Scandic has sold its shareholding (49.9%) in Hotellus International to the listed hotel property company Pandox. The deal was financed by a combination of shares in Pandox and a cash payment, with the effect that Scandic's stake in Pandox now amounts to 20.8 per cent. As a result, Pandox is now an associated company of Scandic.

As a result of the deal, Pandox has become the largest listed hotel property company in the Nordic region and an important strategic partner for Scandic in its future growth.

The deal does not result in any capital gain/loss for Scandic, but will enable the company to claim tax deductions in respect of losses carried forward in the range of SEK 335 million. For this reason, tax has not been charged to the income reported in respect of Swedish operations for the first quarter.

CONSOLIDATED INCOME STATEMENT (SEKm)	Q1 2000	Q1 1999	12 months rolling	Full year 1999
Net sales*	1,270	1,257	5,266	5,253
Costs for goods sold	-1,043	-1,066	-4,245	-4,268
Gross income	227	191	1,021	985
Selling costs	-90	-85	-349	-344
Administrative costs	-80	-71	-315	-306
Other operating income	2	10	11	19
Operating income	59	45	368	354
Income from associated companies	8	4	33	29
Financial items	-2	-3	-10	-11
Income after net financial items	65	46	391	372
Tax	0	-19	-56	-75
Minority interest	1	0	0	-1
Net income	66	27	335	296

* The net sales reported for 1999 have been adjusted to take into account a change in accounting principles for hotels operated under management contracts in Denmark.

**CONSOLIDATED BALANCE SHEET
SEKm**

	31.3.2000	31.3.1999	1.12.1999
Assets			
<i>Fixed assets</i>			
Intangible fixed assets	443	425	467
Tangible fixed assets	1,248	1,149	1,249
Participations in associated companies	380	395	421
Financial fixed assets	76	102	95
<i>Total fixed assets</i>	2,147	2,071	2,232
<i>Current assets</i>			
Inventories	41	42	42
Current receivables	498	441	320
Receivables in associated companies	101	70	2
Short-term investments	149	-	324
Cash and bank	108	62	100
<i>Total current assets</i>	897	615	788
Total assets	3,044	2,686	3,020

	31.3.2000	31.3.1999	31.12.1999
Equity and liabilities			
<i>Equity</i>	1,828	1,604	1,765
<i>Minority interest</i>	8	9	9
<i>Provisions</i>			
Non-interest-bearing	80	60	91
Interest-bearing	56	52	55
<i>Total provisions</i>	136	112	146
<i>Long-term liabilities</i>			
Interest-bearing	183	36	183
<i>Current liabilities</i>			
Non-interest-bearing	834	888	886
Interest-bearing	55	37	31
<i>Total current liabilities</i>	889	925	917
Total equity and liabilities	3,044	2,686	3,020

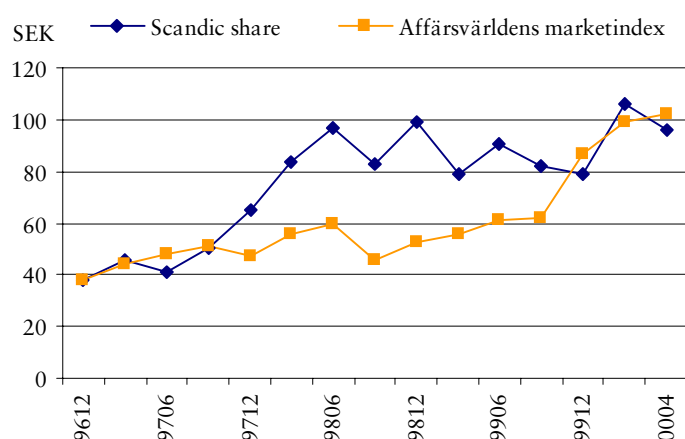
Key ratios

	Q1 2000	Q1 1999	12 months rolling	Full year 1999
• Operating margin (%)	4.6	3.6	7.0	6.7
• Return on capital employed (%)	3.9	3.7	22.8	23.9
• Return on equity (%)	3.7	1.7	19.5	17.7
• Equity ratio (%)	60	60		58
• Earnings per share (SEK) *	1.04	0.42	5.25	4.64

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

THE SCANDIC SHARE

The Scandic share's closing price on 27 April 2000 was SEK 96. At the turn of the year, the share price was SEK 79. This corresponds to an increase of 22 per cent. Affärsvärlden's market index rose by 17 per cent during the same period.



INFORMATION BY BUSINESS AREA

SEKm	Q1 2000	Q1 1999
<i>Net sales</i>		
Nordic region	1,082	1,071
Outside the Nordic region	188	186
Total for the Scandic Group	1,270	1,257
<i>Operating income</i>		
Nordic region ¹⁾	54	44
Outside the Nordic region	5	1
Total for the Scandic Group	59	45
<i>Capital employed</i>		
Nordic region	1,687	1,475
Outside the Nordic region	186	131
Total for the Scandic Group	1,873	1,606
<i>Key operating performance indicators</i>		
Nordic region		
Occupancy level (%)	57.8	57.0
Average room rate (SEK)	749	736
RevPAR (SEK)	433	419
Average number of rooms available per day	17 960	17 406
Outside the Nordic region		
Occupancy level (%)	57.8	57.3
Average room rate (SEK)	652	666 ²⁾
RevPAR (SEK)	377	381 ²⁾
Average number of rooms available per day	3 172	2 945

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) Cleared for the effect of exchange rate movements, the average room rate outside the Nordic region was SEK 631 in 1999 and the Rev PAR was SEK 362.

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, 2 May 2000

Roland Nilsson
President & CEO

This report has not been externally audited.

FINANCIAL INFORMATION 2000

Scandic intends to distribute the following financial information to shareholders during 2000:

Interim Report: Q2 10 August 2000

Interim Report: Q3 25 October 2000

Year-end report for 2000: 12 February 2001

Financial reports will be distributed directly to shareholders and may also be ordered from Scandic Hotels AB. The information is also available on Scandic's home page:
www.scandic-hotels.com

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Scandic Hotels AB is the largest hotel company in the Nordic region, with 135 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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