



Scandic Hotels AB (publ)

INTERIM REPORT JANUARY – JUNE 2000

www.scandic-hotels.com

SUMMARY

- Scandic's strong growth continues. During the period, the group has increased its room capacity by 17 per cent, including the acquisition of Provobis.
- Income after net financial items rose by 40 per cent to SEK 207 million (148m). For comparable operations, income rose by 18 per cent.
- Sales rose by 2.5 per cent to SEK 2,633 million (2,568m). For comparable hotels and adjusted to take into account the effect of exchange rate movements, the increase was 3.5 per cent.
- Operating income amounted to SEK 198 million (142m), corresponding to an operating margin of 7.5 per cent (5.5%). In comparable operations, the operating margin was 6.2 per cent (5.6%).
- Earnings per share for the period were doubled, totalling SEK 3.15 (1.57).
- The Annual General Meeting of shareholders granted Scandic's Board of Directors a mandate to buy back a maximum 10 per cent of the company's shares. At 30 June, Scandic had bought back shares corresponding to just under 2.7 per cent of the total number of shares issued.

MARKET DEVELOPMENTS

Demand on all Scandic's markets has remained stable and the positive growth trend has continued with Norway as the only exception. Capacity growth in the form of new hotels has also been limited in all markets bar Finland, where capacity has risen at a slightly faster rate than demand

growth. Demand in the Norwegian market has weakened further, and this, in combination with the addition of new capacity, has resulted in a decline in occupancy levels.

Demand during the second quarter was adversely affected by the timing of the Easter period, compared with the previous year. In the Nordic countries, second quarter performance was also affected more than usual by the fact that both the Ascension Day and Whitsun Bank Holidays occurred in June.

SCANDIC'S BUSINESS OPERATIONS

Scandic is either consolidating or maintaining its position in all markets.

The revenue per available room (RevPAR) in Scandic's Nordic operations has improved, despite the weakness of the Norwegian market. Occupancy levels during the period remained on a par with the previous year, amounting to 60.3 per cent (60.2%), whilst the average room rate rose by just under one per cent to SEK 746 (742). This produced a RevPAR of SEK 450 (447) for the Nordic business, corresponding to an increase of one per cent. Adjusted for the effects of exchange rate movements, the average room rate and the RevPAR rose by 4 per cent for Nordic operations.

The company also noted positive developments in its non-Nordic operations. Occupancy levels rose by three percentage units to 64.7 per cent (61.7%) and the average room rate rose by 2 per cent to SEK 652 (642). This corresponds to a 7 per cent increase in the RevPAR. Adjusted for the effects of exchange rate movements, the average room rate for non-Nordic operations rose by 7 per cent and the RevPAR rose by 12 per cent.

SCANDIC ACQUIRES PROVOBIS

During the period, Scandic acquired Provobis Hotel & Restauranger, which comprises 16 first-class hotels in inner city locations and four independent restaurants in Sweden. A hotel is also being built in Finland. Provobis has a total of 3,057 rooms in Sweden. As Provobis is, like Scandic, dedicated to operating hotels, the acquisition does not involve any hotel properties. In 1999, Provobis reported sales of SEK 877 million and a pre-tax profit of SEK 51 million.

The takeover of the business was completed at the end of June. For this reason, the sales and earnings generated by Provobis are not included in Scandic's income statement for the current reporting period. However, Provobis is included in Scandic's balance sheet as at 30 June.

In connection with the acquisition, Provobis shareholders were offered a cash alternative or given the opportunity to exchange ten Provobis shares for three Scandic shares. Of Provobis' 19.6 million shares, 7.5 million were submitted according to the terms of the share alternative, which led to an issue of 2,253,338 new Scandic shares. This corresponds to a 3.5 per cent increase in Scandic's share capital. Scandic now owns 99 per cent of the shares in Provobis.

Provobis reported sales of SEK 453 million for the first six months of the year (414m), whilst the company's operating income amounted to SEK 22 million (13m), producing an operating margin of 4.9 per cent (3.1%). The pre-tax profit amounted to SEK 21 million (11m).

Through its acquisition of Provobis, Scandic has added some excellent hotels to its Swedish portfolio in major cities such as Stockholm, Gothenburg and Malmö, where the potential for market growth is good, and also in Lund and Skövde, locations where Scandic has previously lacked capacity. The acquisition will create opportunities for achieving greater economies of scale and further productivity gains in the Provobis business.

During the year, the Provobis hotels will gradually be re-profiled to be operated under the Scandic brand and included in its marketing and operating systems. Two of the hotels have already been renamed as Scandic hotels, and the remainder will follow suit once Scandic's IT systems have been installed at the hotels.

The acquisition will give rise to goodwill depreciation and restructuring costs in connection with the integration of the hotels into Scandic's systems. The Provobis hotels are expected to have a positive effect on earnings per share from 2001 onwards.

AGREEMENTS REGARDING A FURTHER SIX HOTELS

During the first six months of the year, agreements were signed regarding a further six hotels, three of which are already operating under the Scandic brand.

In Norway, a lease has been signed in respect of the Residence hotel in Trondheim, which was taken over by Scandic on 1 June. The hotel has 66 rooms. With effect from 1 October, the Prinsen hotel in Trondheim, with 81 rooms, will also be added to the Scandic portfolio under a franchise agreement. Another Scandic Hotel is currently being built in central Oslo, and will open for business in September this year. An agreement has also been signed to operate a hotel currently under construction in Trondheim. The hotel, which will have a total of 150 rooms, is due to open for business in 2003.

In Germany, a lease has been signed in respect of a hotel currently under construction in central Cologne. The hotel, which will have a total of 292 rooms, is due to open for business in the autumn of 2001.

In Finland, effective 1 May, Scandic took over operations at the Jazz hotel in Pori, which has 78 rooms. In June, the new Scandic Hotel Simonkenttä in Helsinki opened for business. The hotel, which has 360 rooms, has a prime location in central Helsinki.

In Sweden, Scandic opened a new hotel with a total of 208 rooms in Mölndal on the outskirts of Gothenburg. This means that, after winding up operations at its former hotel there, Scandic has added 44 rooms to its overall room capacity. Scandic has disposed of its hotel operations in Vänersborg, and will wind up operations there on 30 September.

In Denmark, effective 1 May, Scandic took over operations at the Eremitage hotel in northern Copenhagen, which has 117 rooms.

As a result of these developments, Scandic increased its overall room capacity by 3,768 rooms during the period, corresponding to an increase of 17 per cent.

<i>Scandic's hotel portfolio as at 30 June 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	74	13,354			74	13,354
Finland	23	4,077	1	120	24	4,197
Denmark	20	2,895			20	2,895
Norway	15	2,154	3	484	18	2,638
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	153	26,255	5	896	158	27,151

SALES TRENDS AND EARNINGS TRENDS

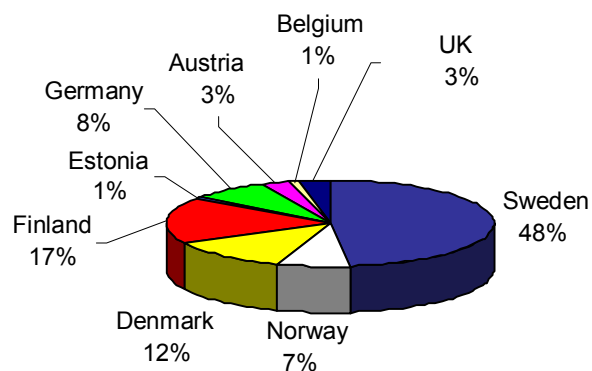
The Scandic Group reported sales of SEK 2,633 million for the first six months of the year (2,568m), an increase of 2.5 per cent compared to the same period of the previous year. For comparable hotels and adjusted to take into account the effect of exchange rate movements, sales rose by 3.5 per cent.

Operating income for the period rose by 39 per cent and amounted to SEK 198 million (142m), corresponding to an operating margin of 7.5 per cent (5.5%). Operating income includes an item affecting comparability, relating to a lump sum dividend payment of SEK 39 million by insurance company SPP as a result of an excessive strengthening of its balance sheet. Adjusted to take into account non-comparable units and the item affecting comparability, operating income rose by 17 per cent on the previous year, corresponding to an operating margin of 6.2 per cent (5.6%). Operating income amounted to SEK 167 million (133m) for the Group's Nordic operations and SEK 31 million (9m) for its non-Nordic operations.

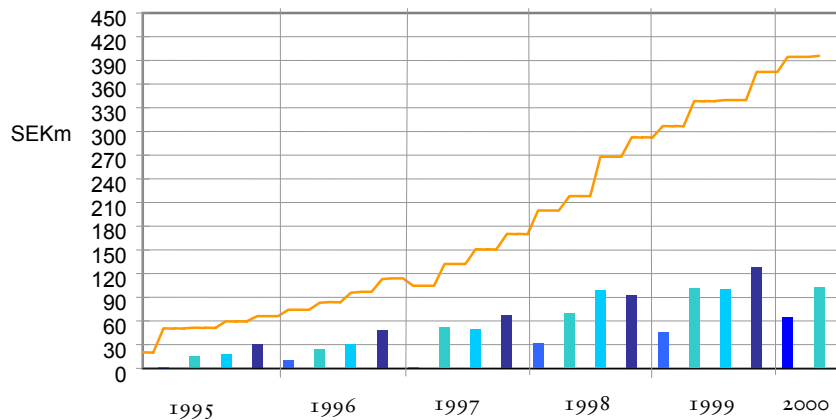
Income after net financial items amounted to SEK 207 million (148m), an increase of 40 per cent. For comparable hotels and adjusted to take into account the item affecting comparability, the improvement in earnings amounted to 18 per cent. These figures include Scandic's share in the associated company Pandox, SEK 15 million (12m).

The comparability of quarterly performance 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 only affected second quarter figures. Comparability is also affected by the fact that the 20 independent Finnish restaurants sold off during the first quarter of 1999 are not included in this year's figures.

SALES BY COUNTRY FOR THE PERIOD JANUARY – JUNE 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 30 June amounted to SEK 699 million (288m). Net borrowing totalled SEK 575 million (96m). The change year on year is primarily attributable to the acquisition of Provobis and the buy-back of company shares. Net financial items for the period were SEK -6 million (-6m).

CASH FLOW

The cash flow for the first six months of the year amounted to SEK 113 million from current operations (136m) and to SEK -519 million from investment activities (-139m). The acquisition of subsidiary companies relates primarily to the cash element of the acquisition of Provobis Hotel & Restauranger. The cash flow for the first six months of 1999 included the sale of the independent Finnish restaurants included in the acquisition of the Arctia chain.

Cash flow (SEKm)	Q1-Q2 2000	Q1-Q2 1999
Income after financial items	207	148
Adjustments for items not included in the cash flow	117	153
Tax paid	-64	-17
Change in working capital and provisions	-147	-148
Cash flow from current operations	113	136
Sale of lines of business	-	109
Acquisition of subsidiary companies	-370	-95
Investments in		
- existing hotels	-117	-96
- new hotels	-103	-37
- financial assets	-	-20
Disposals		
- fixed assets	6	0
- financial assets	65	0
Cash flow from investment activities	-519	-139
Dividend paid	-127	-96
Buy-back of shares	-169	
Change in borrowing	403	101
Cash flow from financing	107	5
Change in liquid assets	-299	2

PARENT COMPANY

The Parent Company's sales for the period amounted to SEK 1,191 million (1,146m). Income after financial items amounted to SEK 169 million (190m). Liquid assets as at 30 June totalled SEK 4 million (151m) and investments in existing hotels amounted to SEK 102 million (90m).

OPTIONS PROGRAMME FOR EMPLOYEES

An offer for warrants was extended to all Scandic employees. Around 40 per cent of employees subscribed for a total of 1,753,900 options, corresponding to 60 per cent of the total offer.

An options programme aimed at senior company executives has also been completed. The offer, which was for a total of 637,500 synthetic options, has been subscribed in full.

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 Padox. As part payment, Scandic has received shares in Padox corresponding to a 20.8 per cent stake in the company. As a result, Padox is now an associated company of Scandic.

The deal did not result in any capital gain/loss for Scandic, but does mean that the company will in Sweden be able to claim tax deductions in respect of losses carried forward in the region of SEK 335 million. For this reason, tax has not been charged to the income reported in respect of Swedish operations for the first six months of the year.

CONSOLIDATED INCOME STATEMENT (SEKm)	Q2 2000	Q2 1999	Q1-Q2 2000	Q1-Q2 1999	12 months rolling	Full year 1999
Net sales ¹⁾	1,363	1,311	2,633	2,568	5,318	5,253
Costs for goods sold	-1,100	-1,042	-2,143	-2,108	-4,303	-4,268
Gross income	263	269	490	460	1,015	985
Selling costs	-93	-91	-183	-176	-350	-344
Administrative costs	-76	-83	-156	-154	-309	-306
Other operating income	6	2	8	12	15	19
Items affecting comparability	39	-	39	-	39	-
Operating income	139	97	198	142	410	354
Income from associated companies	7	8	15	12	33	29
Financial items	-4	-3	-6	-6	-11	-11
Income after net financial items	142	102	207	148	432	372
Tax	-6	-28	-6	-47	-35	-75
Minority interest	-1	-1	0	-1	0	-1
Net income	135	73	201	100	397	296

1) Net sales for 1999 have been adjusted to take into consideration the change in accounting principles for hotels operated under management contracts in Denmark.

BALANCE SHEET (SEKm)	30.6.2000	30.6.1999	31.12.1999
Assets			
<i>Fixed assets</i>			
Intangible fixed assets	1,037	476	467
Tangible fixed assets	1,393	1,167	1,249
Participations in associated companies	388	403	421
Financial fixed assets	104	99	95
Total fixed assets	2,922	2,145	2,232
<i>Current assets</i>			
Inventories	53	42	42
Current receivables	636	457	320
Receivables, associated companies	-	-	2
Short-term investments	-	87	324
Cash and bank	124	102	100
Total current assets	813	688	788
Total assets	3,735	2,833	3,020
Equity and liabilities			
<i>Equity</i>	1,888	1,581	1,765
Minority interest	8	17	9
<i>Provisions</i>			
Non-interest-bearing	80	71	91
Interest-bearing	56	52	55
Total provisions	136	123	146
<i>Long-term liabilities</i>			
Interest-bearing	403	203	183
<i>Current liabilities</i>			
Non-interest-bearing	1,060	876	886
Interest-bearing	240	33	31
Total current liabilities	1,300	909	917
Total equity and liabilities	3,735	2,833	3,020

Key ratios

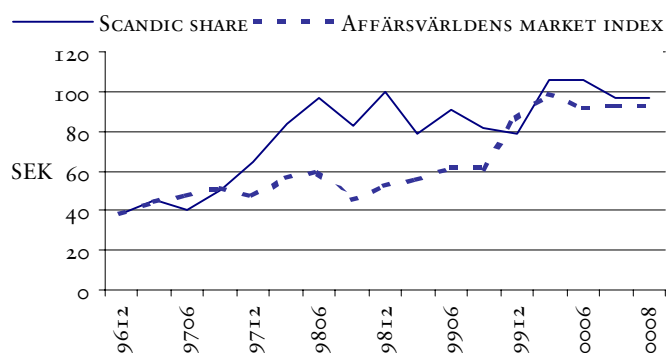
	Q1-Q2 2000	Q1-Q2 1999	Rolling 12 months	Full year 1999
• Operating margin (%)	7.5	5.5	7.7	6.7
• Operating margin, excluding item affecting comparability (%)	6.0		7.0	
• Return on capital employed (%)	10.5	9.3	21.5	23.9
• Return on equity (%)	11.3	6.3	22.9	17.7
• Equity ratio (%)	51	56		58
• Earnings per share (SEK1 ¹)	3.15	1.57	6.22	4.64

1) The number of shares has been calculated on the basis of a weighted average that takes into consideration the new issue of shares effected in connection with the acquisition of Provobis and the buy-back of company shares.

THE SCANDIC SHARE

The Scandic share's closing price on 9 August 2000 was SEK 97, to be compared with SEK 79 at the turn of the year. This corresponds to an increase of 23 per cent. Affärsvärlden's market index has risen by 6 per cent since the turn of the year.

During the period, 2,253,338 new shares were issued, with the effect that the total number of shares in the company rose to 66,003,488. A total of 1,754,320 shares have been bought back.



INFORMATION BY BUSINESS AREA

SEKm	Q1-Q2 2000	Q1-Q2 1999
<i>Net sales, hotel operations</i>		
Nordic region	2,232	2,184
Outside the Nordic region	401	384
Total for the Scandic Group	2,633	2,568
<i>Item affecting comparability</i>	39	-
<i>Operating income</i>		
Nordic region ¹⁾	167	133
Outside the Nordic region	31	9
Total for the Scandic Group	198	142
<i>Capital employed</i>		
Nordic region	2,290	1,556
Outside the Nordic region	181	141
Total for the Scandic Group	2,471	1,697
<i>Key operating performance indicators</i>		
Nordic region		
Occupancy level (%)	60.3	60.2
Average room rate (SEK)	746	742 ²
RevPAR (SEK)	450	447 ²
Average number of rooms available per day	18,399	17,310
Outside the Nordic region		
Occupancy level (%)	64.7	61.7
Average room rate (SEK)	652	642 ²
RevPAR (SEK)	422	396 ²
Average number of rooms available per day	3,174	3,021

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 for the Nordic region was SEK 720 in 1999 and the RevPAR was SEK 433. Outside the Nordic region, the average room rate for 1999 was SEK 611 and RevPAR SEK377 cleared for the effect of the exchange rate movements..

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 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, 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 153 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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