

## **CHOICE HOTELS SCANDINAVIA ASA**

*Choice Hotels Scandinavia's hotel products are divided into three market segments in Scandinavia under the Comfort, Quality and Clarion trademarks. As at 24.02.00, the chain comprises 104 hotels, of which the Group has a trademark for 101. The hotels are distributed on 26 owned, 48 leased and 30 franchised hotels. At the same time last year, the chain comprised 90 hotels.*

### **INTERIM PROFIT FOR 1999 – THE DIRECTORS' REPORT**

#### **CHOICE HOTELS SCANDINAVIA ASA - THE GROUP**

The consolidated operating income of the Group (CHS) for 1999 was NOK 1,919.1 million, which is an increase of NOK 402.2 million compared with the same period last year. Operating income for the fourth quarter was NOK 576.8 million, which is an increase of NOK 152.3 million compared with the same period last year.

The operating profit for 1999 was NOK 126.4 million, which is an increase of NOK 33.8 million compared with the same period last year. A comparison of the profit from operations (operating profit less gains on properties sold, which amounted to NOK 27.8 million in 1998) shows an increase in profit of NOK 61.6 million compared with the same period last year and an increase in operating margin from 4.3% to 6.6%.

In the fourth quarter, the profit from operations shows an increase in profit of NOK 18.3 million compared with the same period last year and an increase in operating margin from 5.5% to 7.2%.

The profit from operations before tax for 1999 is NOK 90.1 million, which is an increase in profit of NOK 35.6 million. The profit from operations before tax for the fourth quarter is NOK 30.1 million, which is an increase in profit of NOK 11.1 million. The Group improved its cash flow from operations by 50% from NOK 105.8 million in 1998 to NOK 157.1 million in 1999 and by 75% from NOK 33.4 million in the fourth quarter of 1998 to NOK 58.5 million in the fourth quarter of 1999.

The fourth quarter has been characterised by continued expansion for the chain. Through an agreement with Fastighets AB Balder in Sweden, in October CHS took over the hotel properties Prince Philip in Stockholm, Selma Lagerlöfs Spa and Rotneros Restaurant in Sunne, Stenungsbaden Yacht Club, Lorensberg in Gothenburg and Hässelholm. The agreement also covers the takeover of the operating companies Prince Philip, Selma Lagerlöf Spa and Stenungsbaden Yacht Club. Under the same agreement, CHS also acquired an option to take over the operation of Globe Hotel in Stockholm from January 2000 with a right subsequently to buy the property at the same place. In October, CHS also took over the operation of Fogg's Hotel in Stockholm. In November, CHS acquired Lundehaven AS, which owns the hotel building Comfort Home Hotel Hammer in Lillehammer.

## Occupancy rates 01.01-31.12.1999

Occupancy rates show the average number of rooms sold.

<b>The Group's hotels</b>	<b>The year</b>		<b>Fourth quarter</b>	
	<b>1999</b>	<b>1998</b>	<b>1999</b>	<b>1998</b>
Norway	62.5 %	64.7 %	53.9 %	61.3 %
Sweden	58.4 %	55.6 %	54.2 %	52.5 %
Copenhagen (-98 from June)	70.5 %	80.0 %	65.3 %	66.0 %
<b>Total</b>	<b>60.6 %</b>	<b>61.9 %</b>	<b>54.1 %</b>	<b>58.6 %</b>

<b>The hotel market</b>	<b>The year</b>		<b>Fourth quarter</b>	
	<b>1999</b>	<b>1998</b>	<b>1999</b>	<b>1998</b>
Norway	53.1 %	53.7 %	45.8 %	49.9 %
Sweden	47.4 %	46.1 %	46.2 %	44.7 %
Copenhagen	73.2 %	76.3 %	66.7 %	70.0 %

( Sources: SSB/RBL (Norway), SCB (Sweden), DST (Denmark)).

## Operating Income and Profit for the Segments

### Comfort Hotels

*Comfort Hotels are the Bed & Breakfast hotels of the chain. The Comfort Home Hotel concept with individual service and a feel of home contributes to strengthening the Comfort segment on the Scandinavian market. As at the year-end, Comfort Hotels consisted of 35 hotels comprising 10 owned, 19 leased and 6 franchised hotels. Comfort Hotels have 19 hotels in Norway, 14 in Sweden and 2 in Denmark.*

CHS' four Eurostop Hotels in Sweden have been rebranded from Comfort to Quality and are reported under the Quality segment in 1999.

In 1999, Comfort Hotels had operating income of NOK 461.6 million, which is NOK 50.3 million down on the same period last year. In the fourth quarter, Comfort Hotels had operating income of NOK 117.1 million, which is NOK 15.7 million down on the same period last year. The reduction in operating income must be seen in connection with the rebranding of the Eurostop Hotels. The Eurostop Hotels' operating income for 1998 amounted to NOK 94.8 million. With a few exceptions, the development for the Comfort Hotels has been sound in 1999.

The operating profit before depreciation and financial items for 1999 was NOK 72.8 million against NOK 49.3 million last year. The operating profit before depreciation and financial items for the fourth quarter was NOK 21.6 million against NOK 16.2 million last year.

The average occupancy rate for owned and leased hotels for 1999 was 64.5% in Norway, 64.8% in Sweden and 70.5% for our only hotel in operation so far in Denmark. In the fourth quarter, the average occupancy rate for owned and leased hotels was 56.6% in Norway, 63.4% in Sweden and 65.3% for our hotel in Denmark.

In the fourth quarter, CHS took over the property Comfort Home Hotel Hammer in Lillehammer.

## **Quality Hotels**

*Quality Hotels are the chain's full-service offer, which mainly caters for the course/conference, holiday and leisure markets. As at the year-end, Quality Hotels consisted of 58 hotels comprising 12 owned, 23 leased and 23 franchised hotels. Quality Hotels have 35 hotels in Norway, 17 hotels in Sweden and 2 hotels in Denmark.*

In 1999, Quality Hotels had operating income of NOK 1,017.9 million, which is an increase of NOK 436.3 million compared with the same period last year. The Eurostop Hotels' operating income for 1999 amounted to NOK 105.8 million. In the fourth quarter, Quality Hotels had operating income of NOK 348.1 million, which is an increase of NOK 181.5 million compared with the same period last year. The Group's investment in Sweden, with the many takeovers in October, is the principal reason for the increase in operating income in the Quality segment.

The operating profit before depreciation and financial items for 1999 was NOK 80.3 million against NOK 34.6 million last year. The operating profit before depreciation and financial items for the fourth quarter was NOK 34.0 million against NOK 10.1 million last year. With a few exceptions, the hotels under the Quality segment are showing profits above those expected. However, experience shows that it often takes some time to achieve satisfactory profits for new hotels in operation.

The average occupancy rate of Quality Hotels for owned and leased hotels for 1999 was 62.0% in Norway and 52.7% in Sweden. The average occupancy rate of Quality Hotels for owned and leased hotels for the fourth quarter was 52.1% in Norway and 50.0% in Sweden.

In the fourth quarter, the Quality segment has had considerable growth in Sweden in connection with all the hotels which were taken over under the agreement with Fastighets AB Balder and Hotel Nacka in Stockholm being branded under the Quality segment.

## **Clarion Hotels**

*Clarion Hotels are the chain's full-service business hotels with a central location. The segment caters for customer groups who demand high quality. As at the end of the fourth quarter, Clarion Hotels consisted of 7 hotels comprising 1 owned hotel, 5 leased hotels and 1 franchised hotel, all located in Norway. As at the end of 1999, the segment does not have any hotels in Sweden or Denmark.*

In 1999, Clarion Hotels had operating income of NOK 421.7 million, which is NOK 60.2 million up on the same period last year. The increase in 1999 is primarily due to the turnover at Clarion Oslo Airport Hotel at Gardermoen, which opened in July 1998. The operating income of Clarion Hotels for the fourth quarter was NOK 108.8 million, which is NOK 5.6 million down on the same period last year.

The operating profit before depreciation and financial items for 1999 was NOK 24.2 million against NOK 9.3 million last year. The operating profit before depreciation and financial items for the fourth quarter was NOK 6.5 million against NOK 8.4 million last year.

The average occupancy rate for the segment was 61.3% for 1999 and 54.2% for the fourth quarter.

## **Choice Hotels – Sales & Franchise**

*The franchise business is organised in Choice Sales & Franchise. Own leased and owned hotels as well as pure franchise hotels have a franchise agreement with Choice Hotels AS. Under the franchise concept, the hotels of the chain are offered concepts and system products within sales, marketing, distribution, purchasing and loyalty programmes. As at the beginning of 2000, the franchising business comprises as many as 101 hotel businesses in Scandinavia.*

In 1999, Choice Sales & Franchise had total operating income of NOK 70.5 million, an increase of NOK 7.5 million from NOK 63.0 million in 1998. The increase is due to the heavy increase in turnover at the hotels of the chain. In the fourth quarter, Choice Sales & Franchise had total operating income of NOK 17.2 million, a decrease of NOK 3.7 million from NOK 20.9 million in 1998, when the company had extraordinary income in connection with two hotels leaving the chain. In 1999, income from pure franchise hotels amounted to NOK 13.7 million, which is NOK 3.8 million down on 1998. The income for the fourth quarter from pure franchise hotels shows a decrease of NOK 1.5 million, from NOK 5.3 million in 1998 to NOK 3.8 million in 1999.

The operating profit before depreciation and financial items for the franchising business was NOK 17.3 million in 1999 against NOK 11.0 million in 1998. The operating profit before depreciation and financial items for the fourth quarter was NOK 7.5 million against NOK 6.77 million in 1998.

In 1999, a 5-year agreement was entered into with Choice Hotels International on a reduction of franchise fees. The total fee reduction for CHS will amount to approx. NOK 5.0 million per annum.

### **Cash Flow, Investments, Financing and Liquidity**

The net consolidated cash flow from operations for 1999 is NOK 157.1 million against NOK 133.0 million in 1998 incl. sale of property companies. The net cash flow for the fourth quarter is NOK 58.5 million against NOK 33.4 million last year. In the first quarter, the Group acquired the remaining 40% of the shares in Prize Hotels AB, and the Group now owns 100% of the shares in the company. In January, Prize Hotels took over the operation of Hotel Sundsvall. In January, CHS took over all shares in Hotellservice AS, which owns the property and runs Quality Ringerike Hotel AS.

CHS also acquired all shares in Ekoxen Hotel AB in Linköping with accompanying buildings, operations and the Collegium conference centre. In the first quarter, an agreement was entered into on leasing Comfort Hotel Nobel in Molde. Furthermore, the operation of Hotel Konserthuset in Malmö was taken over as from March. In April, CHS took over the operation of Quality Fagernes Hotel, at the same time acquiring approx. 85.0% of the shares in the property company at the same place through an acquisition of 100% of the shares in the holding company Dahl, Inge Arnfinn AS. In September, CHS took over the operation of Quality Hotel Leangkollen, Quality Hotel Halvorsbøle and Quality Grand Hotel Farris, Larvik as well as the properties at and the operation of Quality Savoy Hotel and Comfort Hotel Skagerak and the property at Quality Arcticus Hotel.

In October, CHS took over the hotel properties Prince Philip in Stockholm, Selma Lagerlöfs Spa and Rotneros Restaurant in Sunne, Stenungsbaden Yacht Club, Lorensberg in Gothenburg and Hässelholm, as well as the operating companies Prince Philip, Selma Lagerlöf Spa and Stenungsbaden Yacht Club. In October, CHS also took over the operation of Fogg's Hotel in Stockholm. In November, CHS acquired Lundehaven AS, which owns the hotel building Comfort Home Hotel Hammer in Lillehammer.

As at the end of 1999, CHS with subsidiaries has acquired 8.17% of the shares in its own company. The investments in operating companies and own shares have been financed through the Group's disposable liquid funds, which, at the year-end, amount to NOK 228.7 million. In addition, Choice Hotels Scandinavia ASA has at its disposal drawing rights in Norway and Sweden of NOK 50 million and SEK 15.0 million respectively. Refinancing of loans attached to the Group's Norwegian properties and Quality Hotel Ekoxen in Linköping was implemented in the third quarter.

The Group's interest-bearing debt amounts to NOK 1,250.0 million at the end of the fourth quarter, all of which has been booked as long-term debt. For a large share of the interest-bearing debt in Sweden, the interest rate is fixed long term at rates of interest varying between 5.21% and 5.79%.

Norwegian loans have mainly been refinanced at a variable rate of interest, currently varying between 6.70% and 7.00%. Loans in connection with the acquisition of buildings from Fastighets AB Balder have been raised at a variable rate of interest, currently varying from 4.60% - 4.83%.

The consolidated current assets have increased by NOK 83.1 million in the fourth quarter and amounted to NOK 422.0 million as at 31.12.99. The ratio between current assets and short-term debt was 1.25 as at 31.12.99 against 1.14 as at 30.09.99 and 1.59 as at 31.12.98.

Following a revision in accordance with the new Norwegian Company Accounts Act, the Group's equity ratio amounts to 21.9% as at 31.12.99 against 28.9% as at 30.09.99 and 43.5% as at 31.12.98.

### Acquisition of Own Shares

CHS traded own shares in the course of 1999. At the end of the fourth quarter, CHS owns 3,239,810 shares, equivalent to 8.17% of the shares in its own company. The shareholding has been acquired at an average price of 15.57. The cost price and sales price for the trade in own shares have been entered directly against the equity capital.

### Dividend

The Board of Directors will recommend to the company's General Meeting that a dividend of NOK 1.50 per share be distributed.

### Shareholders

	SHAREHOLDERS	NO. OF SHARES	%
1.	Petter Anker Stordalen and companies	13 479 949	34.0%
2.	Choice Hotels Scandinavia ASA	3 239 810	8.2%
3.	Credit Suisse Equity Fund	2 600 000	6.6%
4.	Morgan Stanley & Co.	1 850 000	4.7%
5.	Storebrand	1 657 700	4.2%
6.	State Street Bank & Trust	1 133 000	2.9%
7.	Alfred Berg	1 120 910	2.8%
8.	Verdipapirfondet Delphi Norge	1 082 500	2.7%
9.	AB Invest AS	1 002 500	2.5%
10.	Sektor Eiendomsutvikling AS	1 000 000	2.5%
11.	Joh-System AS	1 000 000	2.5%
12.	Harald Jacobsen	784 515	2.0%
13.	Tine Pensjonskasse	684 500	1.7%
14.	CG Holding AS	625 000	1.6%
15.	Statoils Pensjonskasse	615 000	1.6%
16.	Verdipapirfondet Avanse	564 000	1.4%
17.	Varner Finans	500 000	1.3%
18.	Industrifinans Aksje Norge	448 887	1.1%
19.	Orkla AS	441 900	1.1%
20.	Leif Vinge	281 185	0.7%
20.	Lasse Aunaas	281 185	0.7%
	Other shareholders	5 247 744	13.2%
	<b>TOTAL NO. OF SHARES</b>	<b>39 640 285</b>	<b>100.0%</b>

## CHOICE HOTELS SCANDINAVIA ASA

### Profit & Loss Account (NOK mill)

	The year		4th quarter		3rd qu.	2nd qu.	1st qu.
	1999	1998	1999	1998	1999	1999	1999
<b>Operating revenues</b>	<b>1 919,1</b>	<b>1 516,9</b>	<b>576,8</b>	<b>424,5</b>	<b>463,9</b>	<b>459,0</b>	<b>419,4</b>
Materials	224,3	171,3	75,1	45,9	50,5	50,4	48,3
Personnel costs	682,6	522,0	209,8	142,5	160,6	159,7	152,5
Other operating expenses	796,5	672,0	216,9	194,8	197,4	199,3	182,9
Depreciation	82,0	54,3	29,9	15,2	19,0	16,7	16,4
Bad debts	7,3	4,7	3,6	2,9	2,0	0,7	1,0
Total operating expenses	1792,7	1424,3	535,3	401,3	429,5	426,8	401,1
<b>Operating profit/loss</b>	<b>126,4</b>	<b>92,6</b>	<b>41,5</b>	<b>23,2</b>	<b>34,4</b>	<b>32,2</b>	<b>18,3</b>
Financial revenues	11,7	20,2	7,1	5,0	2,2	0,9	1,5
Financial expenses	48,0	30,5	18,5	9,2	12,7	8,0	8,8
<b>Net financial items</b>	<b>-36,3</b>	<b>-10,3</b>	<b>-11,4</b>	<b>-4,2</b>	<b>-10,5</b>	<b>-7,1</b>	<b>-7,3</b>
<b>Profit/Loss before tax</b>	<b>90,1</b>	<b>82,3</b>	<b>30,1</b>	<b>19,0</b>	<b>23,9</b>	<b>25,1</b>	<b>11,0</b>
Tax	-22,8	-33,4	-2,5	-8,4	-8,1	-8,5	-3,7
Minority interests	0,0	0,8	0,0	0,1	0,0	0,0	0,0
<b>Profit/Loss for the period</b>	<b>67,3</b>	<b>49,7</b>	<b>27,6</b>	<b>10,7</b>	<b>15,8</b>	<b>16,6</b>	<b>7,3</b>
<b>Cash flow for the period</b>	<b>160,2</b>	<b>133,0</b>	<b>61,6</b>	<b>33,4</b>	<b>33,4</b>	<b>37,8</b>	<b>27,4</b>

### Balance sheet (NOK mill)

	1999	1998
	<b>31.12</b>	<b>31.12</b>
Fixed assets	1 616,1	684,7
Deferred tax assets	71,7	77,5
Other current assets	193,3	163,6
Cash and cash equivalents	228,7	223,6
<b>Total assets</b>	<b>2 109,8</b>	<b>1 149,4</b>
Equity	469,5	499,5
Minority interests	6,4	4,3
Deferred tax	46,7	19,3
Long-term debt	1 251,1	382,8
Short-term debt	336,1	243,5
<b>Total liabilities and equity</b>	<b>2 109,8</b>	<b>1 149,4</b>

### Revision on accounting figures in accordance with the new Norwegian Company Accounts Act.

The accounting figures have been revised in accordance with the new Norwegian Company Accounts Act.

The revision has been made on the basis of provisional estimates. The most important change is attached to accounting treatment of tax.

As at 31.12.98, the equity capital has increased by NOK 58.2 million compared with the presented accounts for 1998

as a result of entry of tax advantages in the balance sheet.

### Key figures for the 4th quarter

	The year		4th quarter		3rd qu.	2nd qu.	1st qu.
	1999	1998	1999	1998	1999	1999	1999
Earnings per share (NOK) *)	1,70	1,25	0,70	0,27	0,40	0,42	0,18
Cash flow per share (NOK)	4,04	3,36	1,55	0,84	0,84	0,95	0,69
Operating margin, % **)	6,6 %	6,1 %	7,2 %	5,5 %	7,4 %	7,0 %	4,4 %

\*) Profit/loss for the period/Total number of shares at the end of the period

\*\*\*) Operating profit/loss/Operating revenue

Oslo, 24 February 2000  
The Board of Directors in Choice Hotels Scandinavia ASA