THE LEADING NORDIC HOTEL COMPANY

Scandic

ANNUAL REPORT 2017

CONTENTS

Scandic is a Swedish company subject to Swedish laws. All values are expressed in Swedish kronor. Figures in parentheses refer to 2016 unless otherwise specified. Data on markets and the competitive situation is based on Scandic's own assessments unless a specific source is indicated. Such assessments are based on the best and latest available facts from published sources. The annual accounts and consolidated accounts of the company are included on pages 62–119 of this document.

THIS IS SCANDIC

THE LEADING HOTEL COMPANY IN THE NORDIC COUNTRIES

Scandic has the largest and widest hotel network in the Nordic market. This creates a unique offering to customers and high efficiency. Scandic conducts operations under a single, fully-owned brand that is the best-known hotel brand in the Nordic hotel market.

55,000
HOTEL ROOMS
IN OPERATION AND UNDER DEVELOPMENT

FORERUNNER IN SUSTAINABILITY

Doing business responsibly is important to Scandic. The company is the driving force in the hotel industry in the area of sustainability, both when it comes to environmental and social issues. Scandic's efforts in this area reduce the use of resources and thereby lower costs. They also strengthen the company's brand since guests – like Scandic – feel increasingly strongly about these issues.

280
HOTELS IN OPERATION AND UNDER DEVELOPMENT

130
LOCATIONS

CORPORATE CUSTOMERS DOMINATE

About 70 percent of Scandic's revenue comes from business travelers and conferences. Scandic is a full-service provider of accommodations, restaurants and conference facilities with a range of services tailored to local markets. Scandic constantly differentiates its offering in relation to competitors. Returning guests should feel that Scandic offers distinct and meaningful added value.

STRATEGIC COOPERATION

In the Nordic market, leasing is the most common model for operating hotels and Scandic focuses on hotels with long-term revenue-based leasing agreements. In addition to giving Scandic financial stability, the leasing model links the interests of Scandic and the property owners. This allows for long-term positive development of properties and good financial results. Scandic's value-creating model means that it is the first choice for many property owners when it comes to new hotel projects.

A LOYAL CUSTOMER BASE

Over the years, Scandic has been a pioneer and driven development in the hotel industry. Guests have appreciated Scandic's innovation and today, the company enjoys a high percentage of repeat customers. This is manifested in the Scandic Friends loyalty program – the largest in the Nordic countries. Members earn valuable points each night they stay and Scandic Friends members account for about 35 percent of Scandic's reservations.

18 **HOTELS IN THE PIPELINE**

HIGH-QUALITY HOTEL PORTFOLIO

Scandic works constantly to optimize its existing hotel portfolio through additions and reconfigurations. It has also successfully built a pipeline of new hotels. As of December 31, 2018, the pipeline included 18 exciting new hotels that will open by the end of 2021.

A 50-YEAR HISTORY

Scandic was founded as Esso Motor Hotel in Laxå, Sweden in 1963. Within just ten years, Esso was the largest hotel chain in Sweden. The Scandic brand was established in 1983. The journey since then has been marked by strong organic growth combined with strategic acquisitions. The model has always been to transform hotels into Scandic ones right away – a successful strategy that has laid the foundation for Scandic's strong brand. Ownership of the company has changed over the years. Between 1996 and 2001, Scandic was listed on the stock exchange. The re-listing of Scandic's shares in the fall of 2015 marked a comeback.

16,000
TEAM MEMBERS

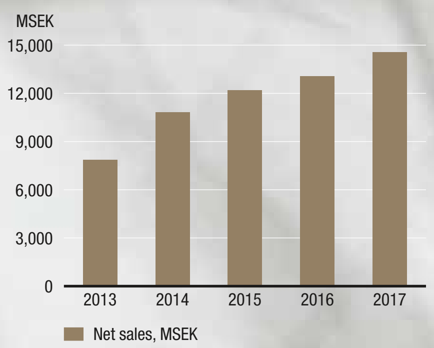
ENGAGED EMPLOYEES

Employee satisfaction at Scandic is high, which is a prerequisite for being able to maintain strong customer loyalty. As an employer, Scandic is ranked high in many different types of external surveys.

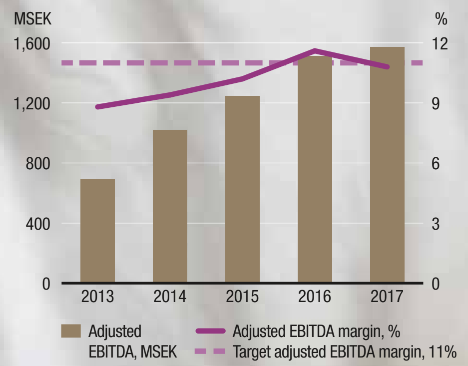
THE LEADING HOTEL COMPANY IN THE NORDICS

55,958 hotel rooms. At 280 hotels in operation and under development. In about 130 different locations. These three figures underline Scandic's role as the leading hotel operator in the Nordic region. Scandic focuses on hotels in the mid-market segment. Annual sales for 2017 totaled more than SEK 14.6 billion. Scandic has more than 16,000 team members. And each person is equally important for creating the positive hotel experiences that Scandic is known for.

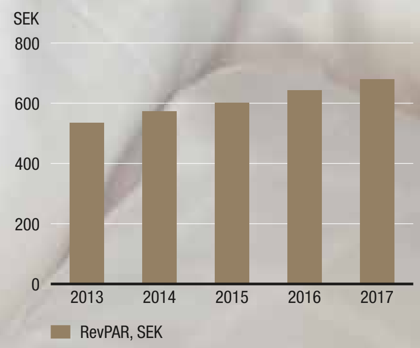
NET SALES



ADJUSTED EBITDA AND EBITDA MARGIN



REVPAR



OUR NORDIC DNA

The Nordic way of thinking has been in Scandic's DNA since its inception over 50 years ago. It is reflected in our design, our service and our people. It steers our culture, our thinking and our leadership. It is reflected in our curiosity and our openness to the world and its diversity. In thinking big, challenging ingrained ideas, working as a team and being driven by the conviction that nothing, absolutely nothing, is impossible. And naturally, it is the foundation of our vision, our mission and our values.

AN EVENTFUL YEAR FOR SCANDIC

2017 was an active year for Scandic with strong sales growth and improved underlying earnings. Growth was driven by strong demand in our markets combined with more hotels in operation. Market development was especially strong in Norway and Finland, where both occupancy and average room rates increased during the year.

HOW WOULD YOU SUMMARIZE 2017?
2017 was an eventful year for Scandic. We enjoyed good sales growth driven by underlying growth in the market and the addition of new hotels. During the year, our turnover increased by 11.5 percent and we improved our adjusted EBITDA. That said, we're not entirely satisfied with the way we ended the year with lower results in our Swedish operations, concentrated to Stockholm. However, at the beginning of 2018, we implemented measures to ensure profitability and revenue going forward.

The biggest event during the year was undoubtedly the acquisition of Restel, which is a big step for us in Finland where we now have a market-leading position. We also opened a record number of new hotels during the year. And internally, among other things, we focused on developing leadership in the organization as part of our cultural platform, Inspiring Nordic.

WHAT'S YOUR IMPRESSION OF SCANDIC SO FAR?
I have visited a large number of hotels and have to say that I am pleased by the consistent high quality of our portfolio. Not only do we have the largest hotel network in the Nordic region, but the product we offer is something we should be proud of. It's also been great to get to know the positive and inspiring culture we have at our hotels, something we must continue to nurture.

There is great strength in our business model of variable leases that gives us a flexible cost base. We have a positive relationship with our property owners with a common interest in improving and developing our hotels over time, since higher revenues for us also means greater incomes for them. Combined with our market-leading position and distribution capacity, we are seen as a very attractive partner in the market.

"THERE IS GREAT STRENGTH IN OUR BUSINESS MODEL WITH VARIABLE LEASE AGREEMENTS THAT GIVE US A FLEXIBLE COST BASE."

WHAT AREAS DOES SCANDIC NEED TO IMPROVE?
Scandic has grown quickly in a short time and we need to ensure that we work efficiently and draw the full benefits of the economies of scale we have. Not only that, the travel industry has become increasingly dynamic in recent years, with new types of distributors and competitors gaining ground. We need to be a bit more agile so we can quickly adapt to changes and new opportunities in the market. We also need to prioritize our efforts to constantly optimize our hotel portfolio and further develop our offering. Furthermore, we need to strengthen our ability to foresee, and respond quickly to, potential changes in external factors in our main markets.

HOW WAS MARKET DEVELOPMENT DURING THE YEAR?
Our markets developed relatively well in 2017, and RevPAR increased in all countries. We saw continued growth in our base of Nordic corporate customers, while the leisure segment continued to grow significantly, not least from international guests who see the Nordic region as an increasingly attractive tourist destination.

The most positive development was in Norway and Finland, which both showed strong RevPAR development due to higher demand and a relatively unchanged supply. The Finnish economy seems to be on its way up again after a weak period, and the Finnish travel industry is also being spurred by significant increases in air traffic from Asia.

Parts of the Norwegian market fell sharply in connection with the oil crisis a few years ago, but we have now seen a recovery at the oil destinations in western Norway. What is clear is that Norway is becoming more attractive as a tourist destination. For example, we are now seeing that some of our hotels in northern Norway that have previously been summer destinations also have high occupancy during the winter months.

The market also grew in Sweden and Denmark, however, it declined towards the end of the year. In Stockholm, supply increased by 6 to 7 percent while growth in demand gradually tapered off, resulting in negative RevPAR at the end of the year.

In Copenhagen, occupancy is at a historically high level and the market needs more hotel rooms. That said, our comparative figures during the second half of last year were unusually high due to a high level of conference activity during the corresponding period in 2016.

WHAT ARE YOUR THOUGHTS ON THE ACQUISITION OF RESTEL?

We completed the acquisition of Restel just before the end of the year. This is a big step for Scandic since we have gone from number three to number one in Finland and we now have a comprehensive network in the country. And we have started rebranding the hotels with full force. While there are cost synergies as a result of the deal, we see the greatest potential in being able to generate more revenue once the hotels have been integrated into Scandic's distribution system and gain access to our large Nordic customer base and loyalty program. I am convinced that our existing base of corporate customers will appreciate

"WE HAVE GONE FROM NUMBER THREE TO THE MARKET LEADER IN FINLAND AND WE NOW HAVE A COMPREHENSIVE NETWORK IN THE COUNTRY."

that we now have a geographically comprehensive offering in the Finnish market. At the same time, the acquisition also gives us increased exposure to the growing leisure segment. I also think the deal was timely. After several years of weak economic development, the Finnish economy has improved and the hotel market showed positive development in 2017.

The acquisition of Restel also gives us a better geographical balance in the portfolio. Since each Nordic country has its own character and driving forces, this will contribute to increased stability over time.

MANY NEW HOTELS OPENED DURING THE YEAR. CAN YOU TELL US MORE?
In 2017, we opened a total of 11 hotels with over 2,700 rooms, which is a record level for Scandic. Most of them were conversions, that is, where we took over existing capacity. The advantage of conversions is that they allow us to grow without affecting supply on the market and the time between the agreement and takeover is relatively short. Eight of the hotels were the result of taking over the operation of a portfolio from Pandox and Eiendomsspar, which included the Grand Hotel in Oslo. This was carried out with no consideration and with fully variable lease agreements – a deal that demonstrates the strength of our business model.

At the end of the year, our pipeline consisted of 18 hotels with a total of close to 6,000 rooms, which corresponds to 12 percent of our existing portfolio including Restel. About half of the new hotels will open in 2018 and will contribute to growth in the coming year.

WHAT ABOUT SCANDIC'S OPERATIONS IN GERMANY?
Our explicit ambition is to grow in the largest cities in Germany. Our existing hotels in Berlin and Hamburg have developed well, which shows that our way of operating hotels also works in Germany, and our brand and offering have been received well. Germany has a fragmented hotel market and like the Nordic region, it is dominated by long-term leases and a high share of domestic business travelers. But here, it is important to emphasize that we are not aiming to grow at any price. Any business we do must contribute to our profitability, which is why we are being very selective.

"OUR SUSTAINABILITY WORK IS SOMETHING I FEEL STRONGLY ABOUT. IT IS THE RIGHT THING TO DO AND AN IMPORTANT PART OF OUR BUSINESS MODEL."

In February 2018, we took over a hotel in Frankfurt and in December 2017, we signed an agreement to operate a big new conference hotel in Frankfurt located next to the headquarters of the European Central Bank. Our two hotels in Frankfurt will complement each other and there are obvious synergies to enjoy when we operate several hotels in the same city.

HOW DO YOU VIEW SCANDIC'S SUSTAINABILITY INITIATIVES?
Our sustainability work is something I feel strongly about. It is the right thing to do and an important part of our business model. I feel very positive about what I have seen here at Scandic so far. Everything from our commitment to the environment, for example our efforts to reduce food waste, to work to include people in society and at our hotels. Our cooperation with the Helt Med organization in Norway and My Dream Now in Sweden are excellent examples of the latter.

We are members of the UN Global Compact and we have also examined how we can best contribute to Agenda 2030 and the UN's 17 Sustainable Development Goals. During the year, we quantified our sustainability goals, both in terms of social and environmental aspects. Sustainability is something that our corporate customers and guests are demanding more and more, and at the same time, our sustainability initiatives foster pride and increase motivation among our team members. Scandic in Society, a program where our hotels carry out activities to support their local communities, is a great example of this. Being sustainable is also about attracting future talents to the hotel industry. By reducing barriers to the labor market by, for example, offering people work experience at our hotels, we contribute to integration in society while increasing the chances that more people will choose Scandic as an employer in the future. In 2018, we will revise our sustainability targets for 2030 with the goal of ensuring that Scandic contributes even more clearly to Agenda 2030 and continues to be a model when it comes to environmental issues and social sustainability.

CAN YOU TELL US ABOUT ANY INTERNAL INITIATIVES DURING THE YEAR?
Internally, we focused on developing leadership as part of our Inspiring Nordic cultural platform. Our aim was to strengthen our employees' abilities and power to take initiative. We also implemented a new digital tool for social learning. Each year, we carry out a comprehensive employee survey and the results this past year improved from already high levels. We are convinced that satisfied and committed team members contribute to our guests' experience at Scandic.

WHAT IS YOUR OUTLOOK FOR 2018?
It's going to be a busy and exciting year. We have a number of important hotel openings to look forward to and we have already started integrating Restel. We also recently rolled out a new version of our comprehensive customer loyalty program, Scandic Friends. At the same time as we focus on growing and strengthening our positions, we need to ensure that we operate efficiently and that we are responsive to changes in the market.

We have a good geographic balance in the portfolio, which will contribute to increased stability for Scandic over time.

ANY CONCLUDING REMARKS?
I would like to thank all of our team members who do such a great job all year round. Their daily interactions with guests are critical to the guests' experience at Scandic and they shape and develop our brand over time.

Even Frydenberg,
President & CEO

2017 IN SUMMARY

2017 was an active year for Scandic with strong sales growth and improved underlying earnings. Growth was driven by good demand in our markets combined with more hotels in operation. Market development was especially strong in Norway and Finland where both occupancy and average room rates went up during the year.

Scandic opened 11 hotels in 2017, which in itself is a record. In addition, a number of new hotel agreements were signed and Scandic has a solid pipeline that provides a good foundation for continued growth. At the end of the year, the company acquired the Finnish hotel company Restel, making Scandic the market leader in Finland.

IMPORTANT EVENTS 2017

ACQUISITION IN FINLAND
In December, Scandic completed the acquisition of the hotel operations of Finnish Restel, with a total of 7,600 rooms at 43 hotels. This gives Scandic a comprehensive network in Finland.

TAKEOVER OF PORTFOLIO FROM PANDOX & EIENDOMSSPAR
At the beginning of the year, Scandic announced the acquisition of a portfolio of eight Nordic hotels from Pandox and Eiendomsspar, including the classic Grand Hotel in Oslo, which became a new signature hotel. The transaction was carried out without consideration and with fully variable leases. The hotels opened as Scandic hotels during the second quarter.

CHANGE OF CEO
On August 1, Even Frydenberg took over as President & CEO after Frank Fiskers decided to leave his position as CEO of Scandic.

TWO NEW HOTEL PROJECTS IN COPENHAGEN
During the year, Scandic announced two new hotel projects in Copenhagen: the centrally located Scandic Spectrum, which will be Scandic's largest hotel, and Scandic Copenhagen Airport, which will be located adjacent to Kastrup Airport.

NEW HOTELS IN GERMANY
During the year, Scandic announced that it would take over two hotels in Frankfurt in line with its strategy to grow selectively in Germany.

SCANDIC'S STRATEGY AND VISION

WHAT WE WANT TO BE IN 2020

FAVORITE AMONG HOTEL BRANDS
Scandic is known for creating exceptional hotel experiences characterized by personal service and a generous breakfast. Our social spaces are warm and welcoming and our hotel rooms feel like bedrooms where you can get a good night's sleep.

The entire hotel experience is seamless thanks to our guests' mobile devices and our knowledge about each guest – it's always easy to book and travel to and from our hotels and each stay is facilitated by giving guests the right information at the right time.

Our guests know what to expect, but they are still pleasantly surprised when they visit us. This makes them want to come back and to share their experiences with friends and in social media.

INSPIRING CULTURE
Our team members live our values: be caring, be you, be a pro and be bold. Scandic's leaders ensure that we cooperate and build trust by asking for and giving feedback. Our leaders inspire and develop people by setting clear goals while coaching and creating opportunities for their teams to constantly develop and grow. Scandic's culture attracts talents and makes people want to stay and develop in the company.

Scandic has adopted a flexible working approach with clear responsibilities and fact-based decision making.

Our employees are given the right tools and processes to work successfully, collaborate with each other and create the best hotel experiences.

DEDICATED CORPORATE CITIZEN
We are an inspiration through the strong engagement and clear responsibility we take in society. We comply with UN Global Compact and support the UN's Sustainable Development Goals.

Scandic's work environment encourages a healthy lifestyle and is characterized by cooperation, diversity and inclusion. Our team members feel respected and appreciated for who they are. Scandic inspires others by successfully including our employees and through our quest to reflect the society in which we live.

Scandic has the lowest CO_2 emissions, water consumption and waste volumes in the industry. We are constantly implementing improvements both large and small in the guest experience and in our business to further enhance our sustainable footprint.

Scandic's strong commitment to sustainability makes our employees proud, attracts guests and inspires companies both in and outside of our industry.

OUTPERFORMING THE MARKET
Scandic's high customer satisfaction is made possible by competitive hotel, meeting and restaurant offerings that attract both leisure travelers and corporate customers willing to pay a premium. Our wide reach and high RevPAR are the result of good visibility in the most relevant distribution channels, attractive partnerships and ability to continuously attract guests from new markets. Scandic's loyalty program strengthens our relationships with our most important guests, increases willingness to pay and reduces distribution costs.

Scandic is cost-effective and leverages economies of scale. Many processes have been simplified or digitalized and our employees have systems and tools to work efficiently and enable a seamless guest experience.

Scandic has centralized systems, tools and IT ecosystems that enable the company to further drive and optimize sales, customer knowledge and operational efficiency.

We drive cost-efficiency through continuous improvements and take advantage of our size within purchasing and operations by sharing best practices.

CAPITALIZING ON MARKET DYNAMICS
Scandic is in the driver's seat when it comes to detecting trends in our industry and society and the continuous change in the distribution landscape, use of new technology and digitalization.

We drive change through analysis and innovation to identify shifts in guests' preferences and behaviors as well as new dynamics among competitors and other industry players.

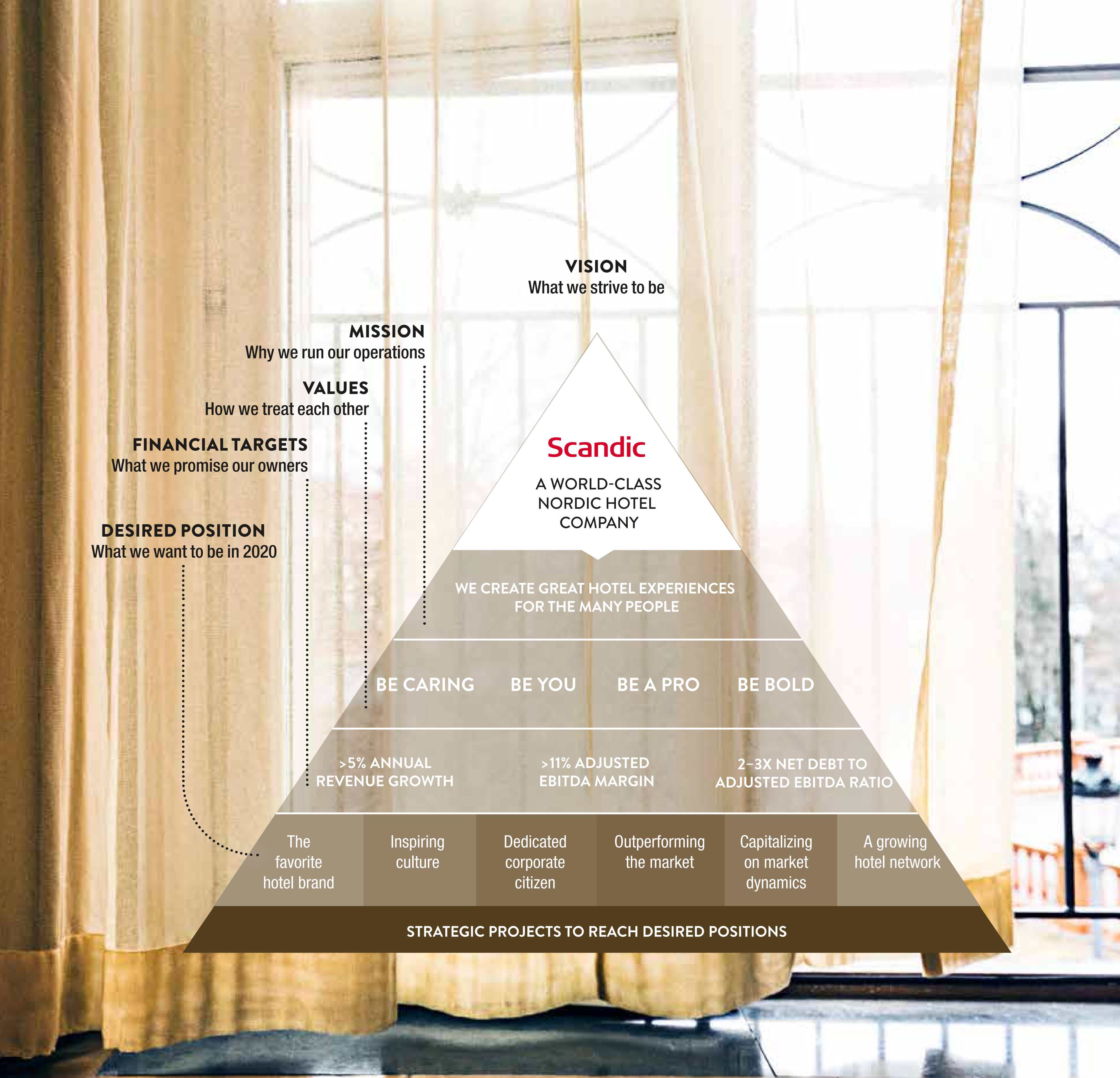
Our employees use knowledge about our guests and are curious about their changing preferences when developing new offerings and experiences. For example, we use this knowledge to improve the room experience and drive bookings through our own channels, allowing us to control distribution and costs.

Scandic is adaptable and continually makes improvements to our offering and in our operations instead of running major development projects. This improves our ability to react quickly and shortens time-to-market.

A GROWING HOTEL NETWORK
Scandic is the largest hotel operator in the Nordic countries, with a strong presence in all large cities and key destinations. With our unbeatable geographic reach, we are well-known and appreciated among Nordic business travelers, distribution partners, property owners and developers.

We have a platform in Germany with attractively-located brand-building hotels that are performing better than our competitors. We have established a strong network of property owners, investors and other potential partners in Germany who see Scandic as a reliable partner and the best hotel operator.

Scandic has a clear strategy for future growth that takes advantage of opportunities and optimizes existing hotels through proactive work on our existing portfolio and new hotels in the Nordic countries and Germany.


VISION
What we strive to be
MISSION
Why we run our operations
VALUES
How we treat each other
FINANCIAL TARGETS
What we promise our owners
DESIRED POSITION
What we want to be in 2020
Scandic
A WORLD-CLASS NORDIC HOTEL COMPANY
WE CREATE GREAT HOTEL EXPERIENCES FOR THE MANY PEOPLE
BE CARING
BE YOU
BE A PRO
BE BOLD
>5% ANNUAL REVENUE GROWTH
>11% ADJUSTED EBITDA MARGIN
2–3X NET DEBT TO ADJUSTED EBITDA RATIO
The favorite hotel brand
Inspiring culture
Dedicated corporate citizen
Outperforming the market
Capitalizing on market dynamics
A growing hotel network
STRATEGIC PROJECTS TO REACH DESIRED POSITIONS

HIGH PROFITABILITY OVER TIME

Scandic has adopted clear financial goals for its operations. These involve sales growth, profitability and financial strength. The goals are medium- to long-term and were adopted at the end of 2015.

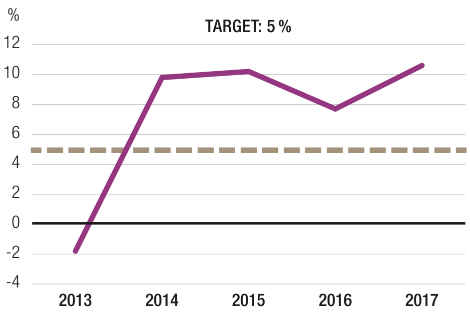
FINANCIAL TARGETS

1

GROWTH

The Group shall have revenue growth of at least 5 percent per year over a business cycle, excluding acquisitions and adjusted for exchange rate fluctuations.

TARGET AND OUTCOME 2013–2017



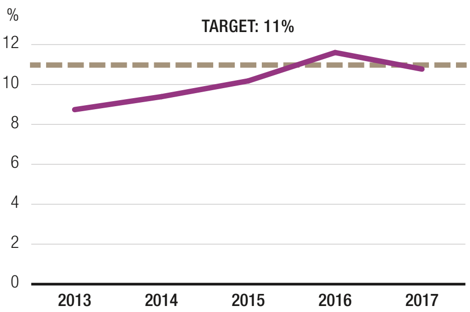
In 2017, revenue growth adjusted for exchange rate fluctuations was 10.6 percent. Growth was attributable to good RevPAR development in the existing hotel network as well as the strong performance of hotels that were established in 2017.

2

PROFITABILITY

The adjusted EBITDA margin of the Group shall be at least 11 percent on average over a complete business cycle.

TARGET AND OUTCOME 2013–2017



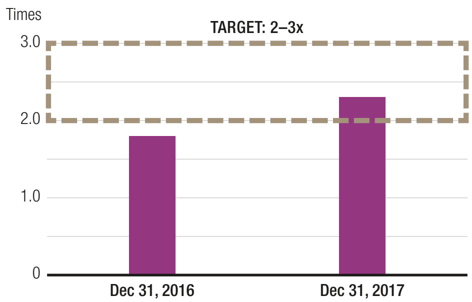
In 2017, the adjusted EBITDA margin was 10.8 percent for the Group. The margin decreased in Sweden but increased in Norway as well as in the other Nordic countries and Europe.

3

CAPITAL STRUCTURE

The Group shall have net debt in relation to adjusted EBITDA of 2–3x.

TARGET AND OUTCOME 2016 AND 2017



At the end of 2017, net debt in relation to adjusted EBITDA was 2.3x, and 2.1x including Restel. Underlying cash flow was strong during the year at the same time as the payment for the acquisition of Restel was carried out at the end of 2017.

AN ATTRACTIVE FINANCIAL PROFILE

Scandic's ability to deliver good profitability over time rests on four pillars.

1

STABLE GROWING SALES

Scandic has stable growing sales with a large share of returning guests. Its strong market position in the mid-market segment and good geographic footprint means that Scandic is often the first choice for Nordic business travelers. This can be seen in the large number of framework agreements with companies and organizations, many of which are renewed every year.

Recurring sales are strengthened by the Scandic Friends loyalty program. This demonstrates the company's ability to retain its guests, which is a strong contributing factor for stable revenue growth.

Strong sales and loyal guests make Scandic an attractive partner for property owners, and a leasing model with variable rent contributes to creating a platform of common values between Scandic and property owners. This is a precondition for continuing to expand the hotel network in attractive locations.

2

FLEXIBLE COST STRUCTURE

Scandic has a flexible cost structure. About 25 percent of costs are fully variable in the form of consumables and sales-related costs such as rents and commissions. Accordingly, these costs vary directly with the sales volume. About 55 percent of Scandic's costs are semi-flexible. To adapt these costs to current business conditions, Scandic closely monitors the order status at all levels of operation. This allows the company to address deviations quickly.

3

STABLE EBITDA MARGINS

A large share of recurring sales and a flexible cost structure have provided Scandic with high and stable EBITDA margins in recent years. The acquisitions of Rica in Norway in 2014 and Restel in Finland in 2017 have contributed to reducing the market risk, which stabilizes EBITDA margins. Another contributing factor is cost efficiencies at all levels through careful planning of staffing and economies of scale within IT, purchasing and administration. The company focuses on the mid-market segment of the hotel industry. Historically, this segment has proven to be less cyclical than other hotel segments. The business model with variable leases contributes to stable margins over time.

4

STABLE CASH FLOWS

Scandic is good at generating cash flows. This is because little capital is tied up in its working capital. Since customers generally pay when checking in and suppliers are paid with the usual terms of credit, Scandic has negative working capital. Even the requirement for investments in fixed capital is limited through the division of responsibilities between the property owners and Scandic. The need for reinvestments in the hotel business – excluding the construction of new hotels – usually amounts to 3.5 to 4 percent of sales. The ability to convert profit into cash flow, or cash conversion, is a result of the low level of capital tied up.

SCANDIC'S CONCEPTS FOR SUCCESS

ONE STRONG PROPRIETARY BRAND

Scandic operates under a single, fully-owned brand that is clearly the most well-known brand in the Nordic hotel industry. The company consistently delivers a quality offering in all markets and at all hotels. The company is positioned in the mid-market segment which is less cyclical than other segments. It is also the dominant segment in the Nordic markets. The brand is developed over time through daily interactions between Scandic and its guests. Scandic stands for an informal approach, openness, personal service, Nordic design and diversity.

MARKET-LEADING POSITION

Scandic has the largest and broadest hotel network in the Nordic market. The hotels are strategically located in cities and close to business parks, airports and other communication hubs. Over time, Scandic has built up a strong relationship with a large number of corporate customers and organizations that appreciate its unique offering while also being well positioned to take advantage of increases in leisure travel. The Nordic hotel market is attractive and has developed well in recent years. Market development differs from one country to another and today, Scandic has a good geographic balance that helps stabilize profitability over time. Having a market-leading position enables Scandic to enjoy unique economies of scale in its operations compared with its competitors. Scandic's operations are based on clear concepts and processes with centralized support functions while the hotels focus on interacting with guests and optimizing local operations.

COMMERCIAL PLATFORM

Scandic has a central organization that manages and develops the company's brand, offering, distribution and ability to drive revenue. At the same time, individual hotels have full responsibility for their revenues and adapt their offering to the local market. The basis for Scandic's concept and development is regular customer surveys that provide insight into how the offering can be developed further. Scandic's customer satisfaction is at a high level. Corporate customers form the backbone of Scandic's business and almost 70 percent of Scandic's revenue comes from business travel and conferences. The Scandic Friends loyalty program, which is clearly the largest in the Nordic hotel market, is an important tool for establishing a direct relationship with guests and helps increase customer loyalty. A significant part of Scandic's distribution and an increasing share of customer bookings are being made via digital channels, and Scandic is working on new concepts to meet customers' changing digital behavior.

VARIABLE LEASE MODEL

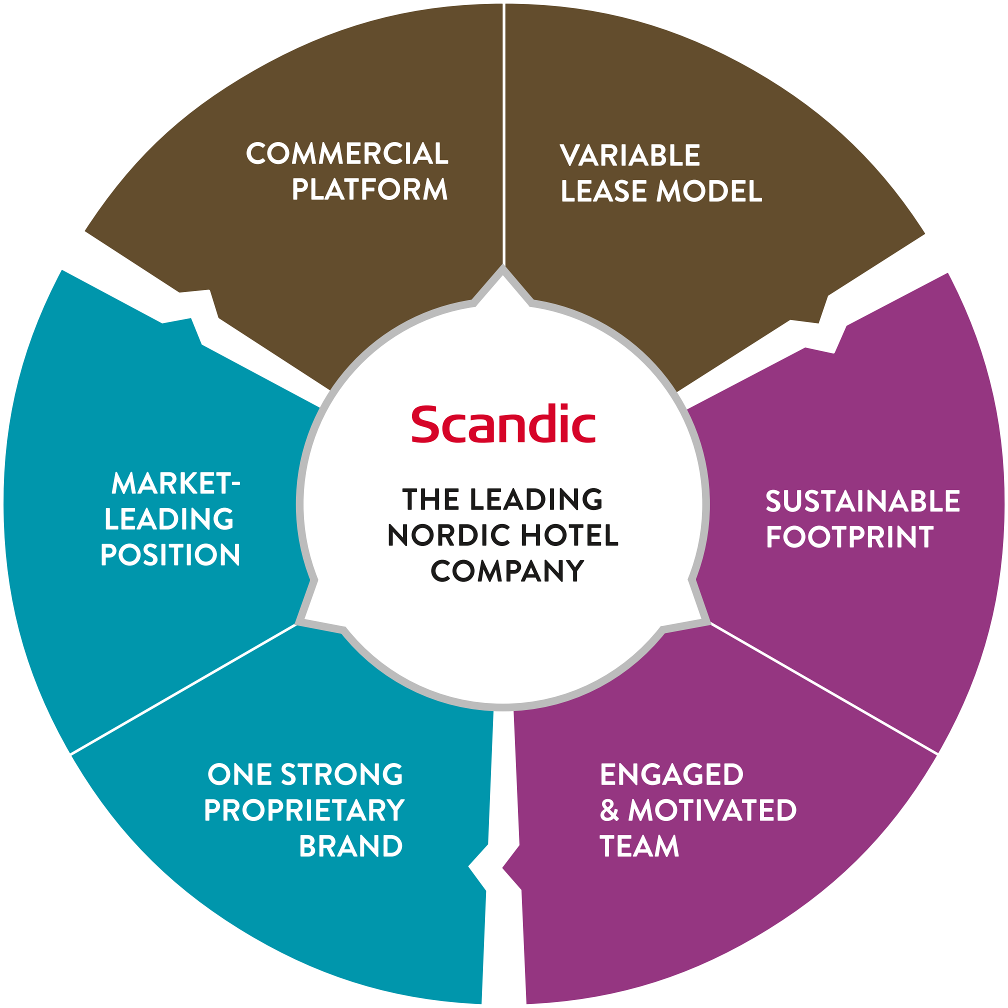
Scandic focuses on rental agreements as a model for operating hotels. The leases are generally long-term and usually involve variable rent based on the hotel's revenues and a shared investment commitment with the property owner. The variable rent model has been successful. This contributes to Scandic having a flexible cost structure and the company is thus more able to sustain profitability during weaker periods. Scandic has a constructive cooperation with property owners where both parties have a common interest in continuously developing and improving the property. The fact that the Nordic hotel market is dominated by leases has limited the presence of major international hotel chains.

SUSTAINABLE FOOTPRINT

Scandic is a pioneer in the hotel industry when it comes to sustainability and works proactively to maintain its position as a responsible hotel company. Its sustainability initiatives affect the way guests and society perceive Scandic as a company. The company has clear sustainability goals within priority areas such as diversity, inclusion, health and the environment. In the environmental area, the focus is on reducing CO_2 emissions and waste, which is appreciated by guests and also reduces costs for Scandic. The company's efforts to increase diversity and employee commitment also help provide a better experience to guests.

ENGAGED & MOTIVATED TEAM

Scandic has over 16,000 team members in six countries. Employee engagement is high and Scandic as an employer is ranked high in external surveys. Scandic's cultural work is built on its common cultural platform, Inspiring Nordic, which is the starting point for all daily relationships, both external and internal. Inclusion and diversity, gender equality and employee well-being are prioritized areas within Scandic that help boost competitiveness.



Scandic's value creation builds on its strong brand and leading position in the attractive Nordic hotel market. The company has a broad offering that is appreciated by a returning customer base and it cooperates with property owners and customers to constantly develop its offering. Scandic's work in the area of sustainability is prioritized and contributes to increased competitiveness.

ONE STRONG PROPRIETARY BRAND

Scandic conducts and controls its operations under a single, fully-owned brand. The company has the strongest brand in the Nordic hotel industry, as recently confirmed by a survey carried out in the Nordic countries. Work on the company's cultural platform, Inspiring Nordic, which contributes to strenghtening the brand both internally and externally, is now in its third year.

THE STRONGEST BRAND IN THE NORDIC HOTEL MARKET

ONE STRONG PROPRIETARY BRAND

Unlike many other hotel companies, Scandic controls its operations by running most of its hotels under a single, fully-owned brand. This enables the company to provide a consistent quality offering in all markets and at all hotels, thus ensuring that it meets the expectations of guests.

This clear ownership creates good opportunities to run business efficiently and allows the company to implement changes and launch new concepts and processes quickly in all markets.

BRAND RECOGNITION REFLECTS MARKET POSITION

Scandic's market share in the Nordic region is about 15 percent, making it the market leader in the Nordic countries. This position is particularly strong among business travelers. In October 2017, a Sifo survey showed that Scandic's brand awareness reflects its market share. The survey was carried out in all Nordic countries among people aged 20–65 who had stayed at hotels in the country at some time during the year. The results showed that on a Nordic basis, Scandic is clearly number one when it comes to brand awareness.

Scandic is the "top of mind" (number one) in both Sweden and Denmark, number two in Norway and number three in Finland. When the survey was conducted, the Restel deal had not been completed. Through the acquisition, the Cumulus brand, which was previously in second place in Finland, will be replaced by Scandic.

STRONG EMPLOYER BRAND

Scandic also adds value to its brand through its work on sustainability and employment issues. According to The Sustainable Brand Index 2017, which presents a list of sustainable brands in the Nordic region each year, Scandic ranked among the top 100 companies in the Nordic markets, placing 29th in Sweden, which was the best in the industry by a good margin. The brand is also reinforced in rankings by business students. When more than 30,000 students ranked the most attractive employers in the Nordic region, Scandic was the only hotel operator included on the list.

A BRAND EVOLVING OVER TIME

Scandic's brand is strengthened in every customer interaction

Scandic is positioned in the mid-market segment, which is by far the largest segment in the Nordic market. Scandic stands for an informal approach and its culture is characterized by Nordic values and openness, personal service, Nordic design and diversity. But Scandic's brand is not static – it has to be nurtured over time.

High brand recognition with targeted offering

The brand is strengthened among other things by well-established concepts that guests recognize from their interactions with Scandic. In addition to its basic offering of hotels, in 2017, Scandic continued to launch signature hotels that are more experience-based and have been developed to meet customer demand and attract customers with other preferences. At the moment, Scandic has signature hotels in Stockholm and Oslo.

Clear brand platform

Having a distinct customer focus is an important driving force for achieving success and having a strong internal culture is a prerequisite for being able to serve customers best. This is why since 2015, Scandic has been working to build its cultural platform, Inspiring Nordic, which is described on page 46. Inspiring Nordic is based on the Nordic values presented on the next page and one goal of Scandic's work with Inspiring Nordic is to emphasize how to apply the company's common values when interacting with guests.

BRAND RECOGNITION

99%

Source: Study carried out by Evidence for Scandic.

A SINGLE, FULLY-OWNED BRAND

Unlike many other hotel companies, Scandic controls its operations by running most of its hotels itself under a single, fully-owned brand. This enables the company to provide a consistent quality offering.

MARKET-LEADING POSITION

Scandic is the leading hotel company in the Nordic hotel market. Customers enjoy a unique, comprehensive network at the same time as there are good opportunities to run business efficiently.

A DYNAMIC MARKET

MORE TRANSPARENCY WITH DIGITALIZATION

The global hotel industry is developing rapidly and customers are increasingly searching for and booking hotels via digital channels. Digital booking sites, or online travel agencies (OTAs), have gained ground in a short period of time. And websites such as Tripadvisor.com where customers can read reviews and compare prices before booking hotels have achieved increasing influence on the market. This has created increased transparency where hotels that do not meet customer expectations and get bad reviews find it hard to survive competition. A poor review affects business very quickly, while a hotel with good reviews and attractive prices will enjoy competitive advantages. Customers are increasingly also sharing their experiences, both positive and negative, in social media and also directly with hotels. It has become crucial for all hotel companies to address the more open dialogue with customers.

Another global trend is the growth of Airbnb and similar online marketplaces for renting and booking private accommodations. Airbnb is estimated to account for about 3 percent of rooms sold in the larger Nordic cities and it is likely to have a lower share in smaller towns. This competition has had a certain impact on the hotel market. Services like Airbnb, however, do not have a significant influence on Scandic, which has a high share of corporate customers and an average overnight stay of less than two nights. Airbnb has probably contributed to increasing the total market for overnight stays in recent years.

GOOD CONDITIONS IN THE NORDICS

The Nordic hotel market is somewhat different than the international market. The major international hotel chains have a relatively limited presence in the Nordic countries because they usually prefer franchise and management agreements rather than the lease model that is dominant in the Nordic region. Generally, a larger share of customer bookings takes place through Nordic hotel companies' own channels and they strive to own the entire relationship with the customer to a greater extent – from first contact to follow-up after the hotel stay.

HIGH SHARE OF OWN DISTRIBUTION

Scandic's strong brand and market position as well as its high proportion of returning corporate customers have helped the company maintain a strong distribution capacity. OTAs currently account for about 17 percent of booked nights at Scandic. A total of 63 percent of bookings are made via Scandic's own channels – on the website, through call centers and directly at hotels. The percentage of bookings made digitally is increasing rapidly at the expense of analogue channels, and in the past year, bookings via Scandic's website increased significantly.

Scandic considers OTAs and similar players as an important complement to its own distribution since they make it possible to reach customers outside the Nordic region that Scandic itself cannot reach as easily through its own channels. Nonetheless, Scandic aims to control inter-Nordic bookings to the greatest extent possible.

NORDIC HOTEL MARKET GROWING

The trend has generally been positive in the Nordic hotel market in recent years. Since 2010, the average demand for hotel nights has grown by between 2 and 5 percent per year, while the total capacity of available rooms is going up about 2 percent per year. This has resulted in a positive RevPAR development for the market as a whole, although there have been some variations between countries.

Growth in demand has been particularly strong in the leisure segment, which is less cyclical than the corporate segment, which accounts for almost half of the total market. The share of non-Nordic guests, which today only represent 15 to 20 percent of the Nordic hotel market, has shown strong growth during the period. The Nordic region has become an increasingly popular tourist and meeting destination and it is becoming more common for international conferences to be held in the larger Nordic cities. Major new entertainment and sports arenas have been built and communications have improved. Additionally, demand has risen in prime tourist destinations, especially in the Norwegian market. The majority of non-Nordic guests come from Germany, the UK and the US. Demand from foreign guests has grown sharply in recent years, not least from Asia.

CONTINUED GOOD MARKET DEVELOPMENT IN 2017

As a whole, the Nordic hotel markets developed well in 2017 and conditions are good for continued growth in demand going forward. GDP growth, which is an important driver of the hotel market, is expected to remain stable in the coming years.

In 2017, demand for hotel nights in the Nordic region and RevPAR increased in all Nordic countries, driven mainly by higher average room prices. The growth was especially strong in Norway and Finland. In the Nordic region, demand generally exceeded the availability of hotel rooms. In Stockholm, RevPAR fell in the second half of the year due to a short-term rise of between 6 and 7 percent in the availability of hotel rooms.

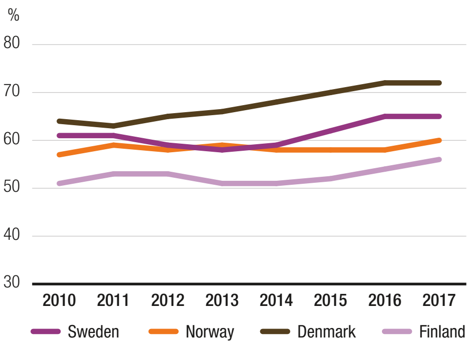
In Copenhagen, RevPAR also fell in the second half of the year, driven by very high demand during the previous year due to a high level of conference activity.

POSITIVE GEOGRAPHIC MIX

Scandic's geographic mix has changed in recent years after the acquisition of Rica in Norway in 2014 and Finnish Restel at the end of 2017. The four Nordic markets are different in character and do not always follow the same trends. Consequently, Scandic has gradually become less sensitive to changes in market conditions in each country. For example, the domestic economy in Finland has improved following a long period of weak economic development, while growth in Sweden has been strong in recent years. Parts of the Norwegian market were heavily affected by the oil crisis after 2015, but have now recovered. The most international hotel destination in the Nordic region is Copenhagen, where occupancy has been at a historically very high level after a period of strong demand from major international congresses and conferences.

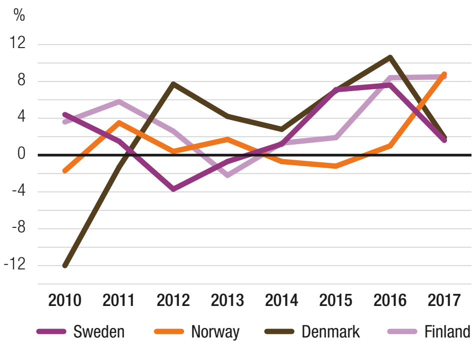
"THE NORDIC HOTEL MARKETS DEVELOPED WELL IN 2017 AND CONDITIONS ARE GOOD FOR CONTINUED GROWTH IN DEMAND GOING FORWARD."

OCCUPANCY



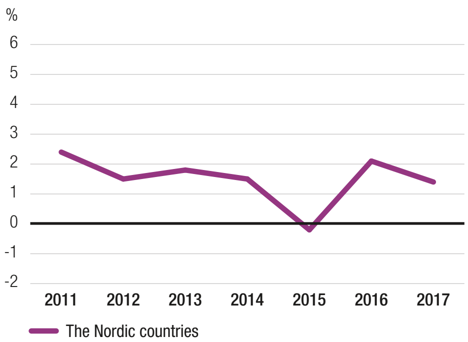
Source: Benchmarking Alliance and Finland Statistics.

ANNUAL CHANGE IN RevPAR



Source: Benchmarking Alliance and Finland Statistics.

ANNUAL CHANGE IN NUMBER OF AVAILABLE ROOMS



Source: Benchmarking Alliance and Finland Statistics.

A STRONG OFFERING FOR CONTINUED GROWTH

Scandic is clearly the leading hotel operator in the Nordic market. With a hotel network of 280 hotels in operation and under development in close to 130 different locations, Scandic offers unique reach for customers.

A STRONG PIPELINE FOR CONTINUED GROWTH

2017 was an active year for Scandic, with a record number of hotel openings that contributed to growth at the end of the year. A total of 11 hotels were opened with over 2,700 rooms. Most of the new hotels during the year were conversions, that is, hotel operations at existing hotels that Scandic took over. The advantage of this type of expansion is that there is a relatively short amount of time between signing an agreement and taking over a hotel, giving Scandic the opportunity to grow without affecting supply on the market. Eight of the hotels that were opened during the year came from an agreement with property owners Pandox and Eiendomspar to take over a hotel portfolio that included the magnificent Grand Hotel in Oslo.

At the end of 2017, Scandic had a signed pipeline of agreements for 18 hotels and close to 6,000 rooms, which corresponds to approximately 12 percent of the current portfolio including Restel. Scandic's pipeline is at a historically high level and provides good conditions for continued growth in the coming years. About half of the hotels will start operating as Scandic hotels in 2018. Five of the hotels in the pipeline are conversions while the rest are new constructions.

Four of the planned hotels are in Copenhagen, including a new centrally-located hotel near the central station and Tivoli Gardens. With its 632 rooms, the hotel, which will be called Scandic Spectrum, will be the largest in Scandic's portfolio. In addition, during the year, Scandic announced a new hotel in the emerging Scanport area adjacent to Kastrup Airport that is scheduled to open in 2020.

In addition to new hotels, the company is constantly working to optimize its existing hotel portfolio together with the property owners through improvements, extensions and reconfigurations. At the end of 2017, Scandic had ongoing extensions including 285 rooms, which corresponds in capacity to one new hotel. Scandic is also involved in a number of ongoing negotiations regarding additional agreements.

AN ATTRACTIVE PARTNER FOR PROPERTY OWNERS

Scandic is constantly looking for new properties to add to its portfolio and aims to grow by 2 to 4 hotels per year. In recent years, growth has been significantly greater than that. Scandic's market-leading position provides economies of scale that enable efficient hotel operations. In addition, Scandic offers strong distribution capacity with its large base of returning business customers and the market's largest loyalty program, Scandic Friends. All of this makes Scandic an attractive partner for property owners, both when it comes to new hotels and taking over existing ones.

A LEADING POSITION

Scandic's total market share in the Nordic region was about 13 percent before the acquisition of Restel in Finland and approximately 15 percent including Restel. Scandic is a market leader in Sweden as well as in Denmark and after the acquisition of Restel, it will also lead the market in Finland.

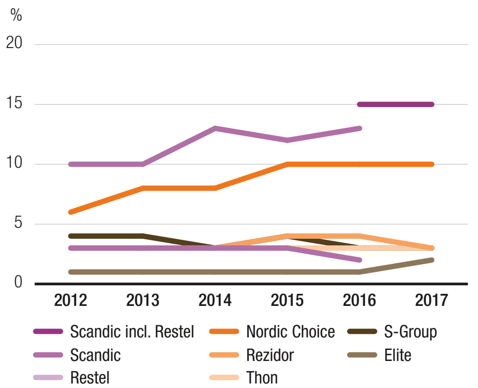
Today, about half of the hotels in the Nordic market are run by hotel chains and the rest by small operators. There is a clear trend where the largest hotel chains are growing

MARKET SHARES IN THE NORDICS 2017 – BASED ON NO. OF ROOMS

Hotel brands	Sweden	Norway	Denmark	Finland	Total
Scandic	16,580	13,082	3,879	12,282	45,823
Nordic Choice	15,404	12,966	1,200	755	30,325
S-Group				10,325	10,325
Rezidor	2,046	6,303	1,838		10,187
Thon	200	9,023			9,223
Elite	4,742				4,742
Others	84,044	45,699	38,516	27,364	195,624
Total market	**123,016**	**87,073**	**45,433**	**50,726**	**306,249**
Scandic's market share, %	13.5	15.0	8.5	24.2	15.0

Source: Nordic Hotel Database.

MARKET SHARES 2012–2017



Source: Nordic Hotel Database.

faster than the market over time by taking market share from smaller players. Operational economies of scale and stronger distribution capacity combined with financial capacity are contributing to this development, which is expected to continue in the future.

The market is dominated by Nordic companies, with little significant presence of any major international chains. The Nordic market is dominated by the long-term leasing model and the model of franchise and management agreements preferred by international chains is not as widespread in the Nordic countries.

LEADING WITHIN ACCESSIBILITY

Scandic has had a Director of Accessibility for many years who works to make Scandic's hotels accessible. This work is supported by Scandic's 135-point Sustainability Standard that all hotels must follow when implementing solutions to make their premises as accessible as possible. For Scandic, all guests are equally important, no matter what their abilities.

"2017 WAS AN ACTIVE YEAR FOR SCANDIC, WITH A RECORD NUMBER OF HOTEL OPENINGS THAT CONTRIBUTED TO GROWTH AT THE END OF THE YEAR."

HOTEL PORTFOLIO

Openings during the year	Location	Type	No. of rooms
Scandic Drammen	Drammen, Norway	Conversion	287
Scandic Flesland Airport	Bergen, Norway	New	300
Grand Hotel by Scandic	Oslo, Norway	Conversion	274
Scandic Sørlandet	Kristiansand, Norway	Conversion	210
Scandic Valdres	Fagernes, Norway	Conversion	139
Scandic Kista	Stockholm, Sweden	Conversion	149
Scandic Sluseholmen	Copenhagen, Denmark	Conversion	215
Scandic Lillehammer Hotel	Lillehammer, Norway	Conversion	303
Scandic Hafjell	Hafjell, Norway	Conversion	210
Scandic Prince Philip	Stockholm, Sweden	Conversion	208
Downtown Camper by Scandic	Stockholm, Sweden	Re-opening	494
			2,789

Pipeline, year	Hotel	Location	Type	No. of rooms
2018	Scandic Central Elverum	Elverum, Norway	Franchise	98
	Scandic Leknes	Leknes, Norway	Franchise	63
	Scandic The Mayor	Aarhus, Denmark	Conversion	162
	Scandic Franfurt Museumsufer	Frankfurt, Germany	Conversion	293
	Scandic Lillestrøm	Lillestrom, Norway	New	220
	Scandic Helsinki Airport	Helsinki, Finland	New	150
	Scandic Brennemoen	Eidsberg, Norway	Franchise	100
	Hotel Norge by Scandic	Bergen, Norway	Conversion	417
	Scandic Kødbyen	Copenhagen, Denmark	New	372
	Holiday Inn West (part of the Restel acquisition)	Helsinki, Finland	Renovation	256
2019	Scandic Falconer	Copenhagen, Denmark	Conversion	336
	Scandic Marski	Helsinki, Finland	Conversion	363
2020	Scandic Platinan	Gothenburg, Sweden	New	362
	Scandic Landvetter Airport	Gothenburg, Sweden	New	220
	Scandic Helsinki Railway Station	Copenhagen, Denmark	New	483
	Scandic Copenhagen Airport	Copenhagen, Denmark	New	357
2021	Scandic Spectrum	Copenhagen, Denmark	New	632
	Scandic Hamburger Börs	Turku, Finland	Conversion	300
	Scandic Hafenpark	Frankfurt, Germany	New	506
	Ongoing extensions			285
				5,975

POSITION IN MID-MARKET SEGMENT

There are three price segments in the hotel industry: the premium, mid-market and economy segments. Scandic operates in the mid-market segment, which includes about 80 percent of the total hotel capacity in the Nordic region. This segment is characterized by being less cyclical than the other segments and is the most popular among Nordic hotel guests. Historically, cyclical fluctuations affect the mid-market segment to a lesser extent.

Scandic delivers a high-quality product. Its hotels maintain a high standard, their geographic network is unique in the Nordic region and the company has a strong distribution capacity. Given these factors and the strength of the Scandic brand, Scandic sees potential to increase revenues further in the future. One key is to succeed in communicating its products and concepts even better.

POTENTIAL IN GERMANY

Scandic's base is the Nordic market, but as of February 2018, the company also had six hotels outside of the Nordic region, four of them in Germany. The positive experience from these hotels has led Scandic to see good opportunities for growth in this large market.

The German hotel market is about twice the size of the Nordic market based on the number of rooms and it is considerably more fragmented. Scandic is a small player in the German hotel market and at the beginning of the year, the company had about 1,100 rooms at three hotels. As in the Nordic region, the leasing model used by Scandic is the most common basis for cooperation among German property owners. Another similarity with the Nordic region is that the market is dominated by domestic business travelers, which provides a certain degree of stability over the business cycle. This fits well into Scandic's business model, as inter-Nordic corporate travelers are the foundation of Scandic's business in its domestic markets. In addition, the Nordic way of taking care of guests and designing hotels is appreciated. And profitability has developed very positively at Scandic's three existing hotels, which shows that Scandic's way of operating hotels effectively is competitive in Germany as well. With this as a base, Scandic has an ambition to continue growing in Germany by establishing hotels in a number of the largest cities.

Since the fall 2016, Scandic has had a business developer responsible for Scandic's business development in the German market. One challenge is that Scandic is still a relatively unknown player in the market. In addition, the leasing model is a bit different, with a higher proportion of fixed rent unlike the Nordic model. For this reason, it is important to grow selectively to secure profitable growth. Expansion should not be at any price and expected returns on hotel investments should contribute to Scandic achieving its financial goals. It is likely that future growth will consist of a combination of acquisitions of existing capacity and new construction.

INITIAL POSITIVE DEVELOPMENT

Scandic's first hotel in Berlin, Scandic Potsdamer Platz, opened in 2010 and two years later, Scandic Hamburg Emporio opened in Hamburg. In 2014, the company opened its second hotel in Berlin under the name Scandic Kurfürstendamm. All of the hotels have had a positive RevPAR development in recent years and two have achieved profitability exceeding the average in the Group.

ETABLISHMENT IN FRANKFURT

At the end of June, Scandic signed an agreement to take over the operation of the Wyndham Grand Frankfurt hotel, which has 293 rooms. The centrally-located hotel opened as Scandic Frankfurt Museumsufer in early 2018. In December, Scandic also signed an agreement to operate a new large conference hotel next to the European Central Bank's new headquarters. The hotel will have 506 rooms and will be one of Frankfurt's largest conference hotels when it opens in 2021.

Frankfurt is an exciting hotel market, as it is Germany's financial center and a major trade fair city. It is also home to one of Europe's busiest airports, which is being expanded further.

MARKET LEADER IN FINLAND WITH RESTEL

At the end of 2017, Scandic acquired Restel Hotelit Oy in Finland. Scandic had previously held a leading position in the Helsinki area and was the third largest hotel operator in the entire Finnish market.

The acquisition of Restel has contributed 43 hotels with about 7,600 rooms, most of which have been operated under the Cumulus brand except for seven that were operated under franchise agreements by IHG. The Finnish Competition and Consumer Authority approved the transaction subject to the divestment of one hotel in Lahti, one in Pori and one in Kuopio within a 12-month period. Additionally, the transaction was conditioned on Scandic committing not to participate in certain announced hotel projects in Lappeenranta and Vantaa.

Restel's hotel portfolio complements Scandic's existing network and provides access to nearly 15 new locations, giving the company a comprehensive offering in the Finnish market. In addition, Scandic will enjoy significantly greater exposure to the growing leisure segment than previously in Finland. Restel currently has lower profitability than Scandic in Finland, but there are considerable opportunities to increase profitability in the acquired business after rebranding and integration.

"SCANDIC SEES GREAT OPPORTUNITIES TO STRENGTHEN REVPAR ONCE THE HOTELS GAIN ACCESS TO SCANDIC'S STRONG NORDIC DISTRIBUTION CAPACITY AND LOYALTY PROGRAM."

SIGNIFICANT SALES SYNERGIES

As soon as the deal was completed on December 29, 2017, work began to rebrand the acquired hotels into Scandic hotels. From late February, Scandic began working to rebrand three hotels per week.

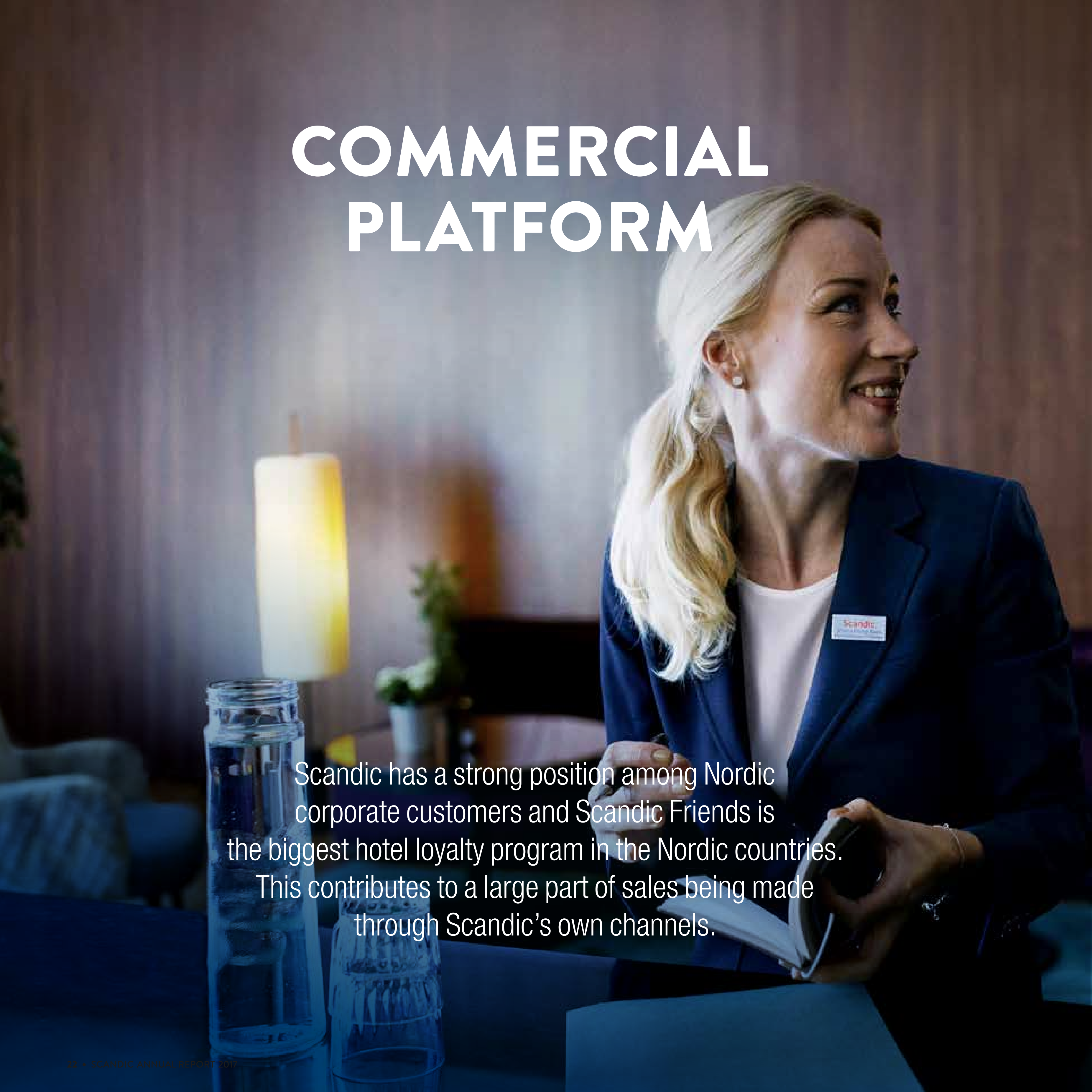
Integration work began in early 2018 and Scandic sees synergies in areas such as purchasing and administration, where the company can benefit from existing back office functions.

The largest benefit of the Restel acquisition, however, is not on the cost side but rather the opportunity to drive sales growth. At present, both occupancy and average room rates are lower in Restel's hotels than in Scandic's. Scandic sees great opportunities to strengthen RevPAR once the hotels gain access to Scandic's strong Nordic distribution capacity and loyalty program. The acquisition also will make Scandic a more attractive partner for corporate customers now that the company has a more comprehensive offering in the Finnish market.

In its integration work, Scandic can benefit from the experience gained from acquiring Rica in 2014, which strengthened Scandic's position in Norway. In addition to the obvious cost benefits, there was a clear effect from increased corporate customers and government organizations once Scandic had a more complete offering in the Norwegian market.

FINNISH MARKET DEVELOPING WELL

The Finnish economy improved in 2017 after a long period of low or negative GDP growth, and there has also been a positive trend in the hotel market in Finland in recent years. In total, RevPAR increased by 10.3 percent driven by both higher average room rates and greater occupancy. At the same time as demand for hotel nights has risen, the total range of hotels in Finland has remained relatively stable in the last few years.



COMMERCIAL PLATFORM

Scandic has a strong position among Nordic corporate customers and Scandic Friends is the biggest hotel loyalty program in the Nordic countries. This contributes to a large part of sales being made through Scandic's own channels.

CONTROLLED DISTRIBUTION

Scandic sells most of its hotel rooms through its own booking channels – through direct contact with the hotels, its website and its call centers. The primary external booking channels are contracted dealers, global distribution systems (GDS) and online travel agencies (OTAs). The latter are especially important for reaching new customers and international travelers. The division of distribution between Scandic's own channels and external partners in 2017 was about the same as during the previous year, which means that Scandic sells about 63 percent of its hotel rooms through its own distribution channels. This is a relatively high proportion in the hotel industry and it gives Scandic considerable control over the dynamic market that is connected to the travel industry.

SHARP INCREASE IN SALES VIA WEBSITE

Over time, customers have moved from traditional channels to digital channels, and during 2017, Scandic developed its digital platform additionally. In 2017, Scandic had sales growth in all distribution channels except for its call centers. Among its own channels, Scandic's website stands out. It enjoyed particularly strong development during the year.

RELATIONSHIPS WITH CUSTOMERS STRENGTHENED THROUGH OWN CHANNELS

In addition to the obvious advantage that all revenue goes to Scandic when customers make bookings through its own website, the website serves an important function in establishing and developing relationships with customers. Thanks to this, guests can receive relevant information and customized offers throughout their customer journey. Scandic expects a continuous increase in bookings via digital channels in the future. Having control of the customer journey and being present in all digital areas will be critical.

DIGITAL OPPORTUNITIES

CUSTOMER RELATIONSHIPS CENTRAL

Scandic further improved its work to map guest behavior during the year. Following the customer journey – from the planning phase to booking, staying and talking about the stay – has become central. Feedback from guests is analyzed to make constant improvements and provide as smooth a customer experience as possible.

STRONG DEVELOPMENT IN 2017

During the year, Scandic continued to develop its digital platform by recruiting skilled specialists and working to improve systems and digital marketing.

Scandic's website demonstrated strong growth in 2017. There are three reasons for the increase:

- Improved responsiveness on the website led to a higher conversion rate in the buying flow.
- Better content in all digital channels helped drive organic (search engine optimized) traffic to the site.
- Greater investments in digitally-purchased marketing led to a significant increase in bookings.

TECHNOLOGY IMPORTANT AT HOTELS

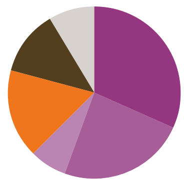
At Scandic's hotels, all housekeeping staff have access to tablets to share information about room cleaning. And since January 2017, all of Scandic's guests have been able to read more than 5,000 national and international newspapers on their digital devices through a partnership with the Pressreader app. This service is well in line with Scandic's digital initiatives and reducing the consumption of print publications fits in well with the company's sustainability profile. During the year, all hotels also gained access to a system that makes it possible to see the design of rooms before guests get their keys. Basic technical solutions such as digital meeting tools and free wifi have been offered at Scandic for several years.

CONTINUED DIGITAL DEVELOPMENT

Scandic understands that the companies that best understand the digital landscape and are most relevant to customers will be the winners of today and tomorrow. At the beginning of 2018, Scandic launched an app to improve the customer experience on mobile devices. The app integrates the new loyalty program and frequent guest benefits such as restaurant vouchers are now digitalized. Members can also now follow their journey as they level up in the program.

In the digital world, there is a need to constantly develop expertise among employees and the systems they work with. As both sales and marketing move into digital channels, work is becoming more data-driven, requiring new skills and greater adaptability. Scandic always stays up-to-date to meet the challenges of tomorrow and on a system level, the company maintains an overview of the entire digital platform, creating good conditions for the future.

SALES BY DISTRIBUTION CHANNEL



MAXIMIZING THE HOTEL EXPERIENCE

In 2017, Scandic invested significantly in developing and improving relevant parts of the hotel experience. Based on evaluations and feedback from guests, the company took steps to further develop its offering to maximize the guest experience. An upgraded food and beverage offering was launched during the year and in 2018, a room concept designed to have more emotional appeal will be introduced. Scandic is continuing to improve its service, which today scores high in customer service surveys, but this work will naturally never be completely finished. In 2017, a new meeting concept was launched, which has been well received by customers. Scandic strives to be the leading provider of meeting services in the industry and in total, about 600 team members have been trained as meeting advisors.

GENERAL MANAGERS HOLD THE KEY

Scandic's general managers play a major role in the Group's success both in terms of profitability and in ensuring that Scandic's culture lives and develops at the hotels. They have full responsibility for revenue and costs for their respective hotels, which is natural since they know their hotels and locations best. Their mission also includes adapting Scandic's offering to the local market. For general managers to fully focus on their local business, they have all the necessary support from Scandic's central functions such as finance, sales, HR and revenue management. Because they are fully responsible for the hotel's revenue and expenses, they work closely with the revenue manager for the region where the hotel is located.

FOCUS ON CORPORATE CUSTOMERS

CORPORATE CUSTOMERS

Scandic has a strong position in the Nordic countries when it comes to corporate agreements. About 70 percent of the company's revenues come from business travel and conferences and the remaining 30 percent from leisure travelers. Recurring business is central and more than 90 percent of corporate customers renew their agreements. Many contracts are signed at the end of the year and the contracted periods vary. Scandic has approximately 4,000 corporate customers and most of the largest companies in each Nordic country have an agreement with Scandic.

DEVELOPED OFFERING

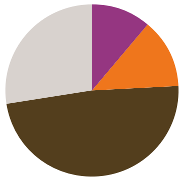
Corporate agreements form the backbone of Scandic's business. Scandic has a central sales organization where employees can share tips and experiences on how to best serve existing customers and establish new contacts. In 2017, a new meeting concept was launched that Scandic is convinced will strengthen its offering to companies and organizations that choose to meet at Scandic.

In 2017, some 15 percent of Scandic's revenues came from conferences. The box below illustrates the Group's distribution of sales.

LEISURE TRAVEL ON THE RISE

By 2017, the share of rooms sold to leisure travelers increased at Scandic. The trend is particularly strong in Norway and Sweden where room sales in the leisure segment increased more than corporate bookings, especially from international visitors. Scandic is working constantly to adapt its offering to meet the growing demand in the leisure segment.

SOLD ROOMS BY CUSTOMER SEGMENT



Leisure groups | Meetings & corporate groups | Individual corporate | Individual leisure

SHARE OF SCANDIC'S REVENUES

HOTEL NIGHTS
67%

MEETINGS & CONFERENCES
15%

FOOD & BEVERAGE
18%

CORPORATE AGREEMENTS
~4,000

LOYALTY PROGRAM

THE LARGEST BASE OF LOYAL CUSTOMERS IN THE NORDIC COUNTRIES

Loyal customers are a cornerstone of Scandic's business. The company's loyalty program, Scandic Friends, has seen a constant increase in members each year. At the end of 2017, Scandic Friends members continued to account for 35 percent of bookings. Within the industry, Scandic Friends is the Nordic region's largest loyalty program based on the number of active members.

NEW SCANDIC FRIENDS

In January 2018, Scandic launched an updated loyalty program. The new Scandic Friends has been modernized to ease the interaction between Scandic and its loyal customers. The starting point for the program is to offer more personal and relevant communication. Scandic has also expanded its network of partners within the framework of the program and in these agreements, there are more opportunities to earn and spend points at various partners.

Earlier, members could only earn points on hotel nights. Now they can earn points on all purchases at Scandic and booking through Scandic's own channels will earn them extra points. Along with the new loyalty program, Scandic also launched an app that is closely connected to the program and improves communication with customers. The app is partly based on gamification where members can follow their journey to the next level within the program.

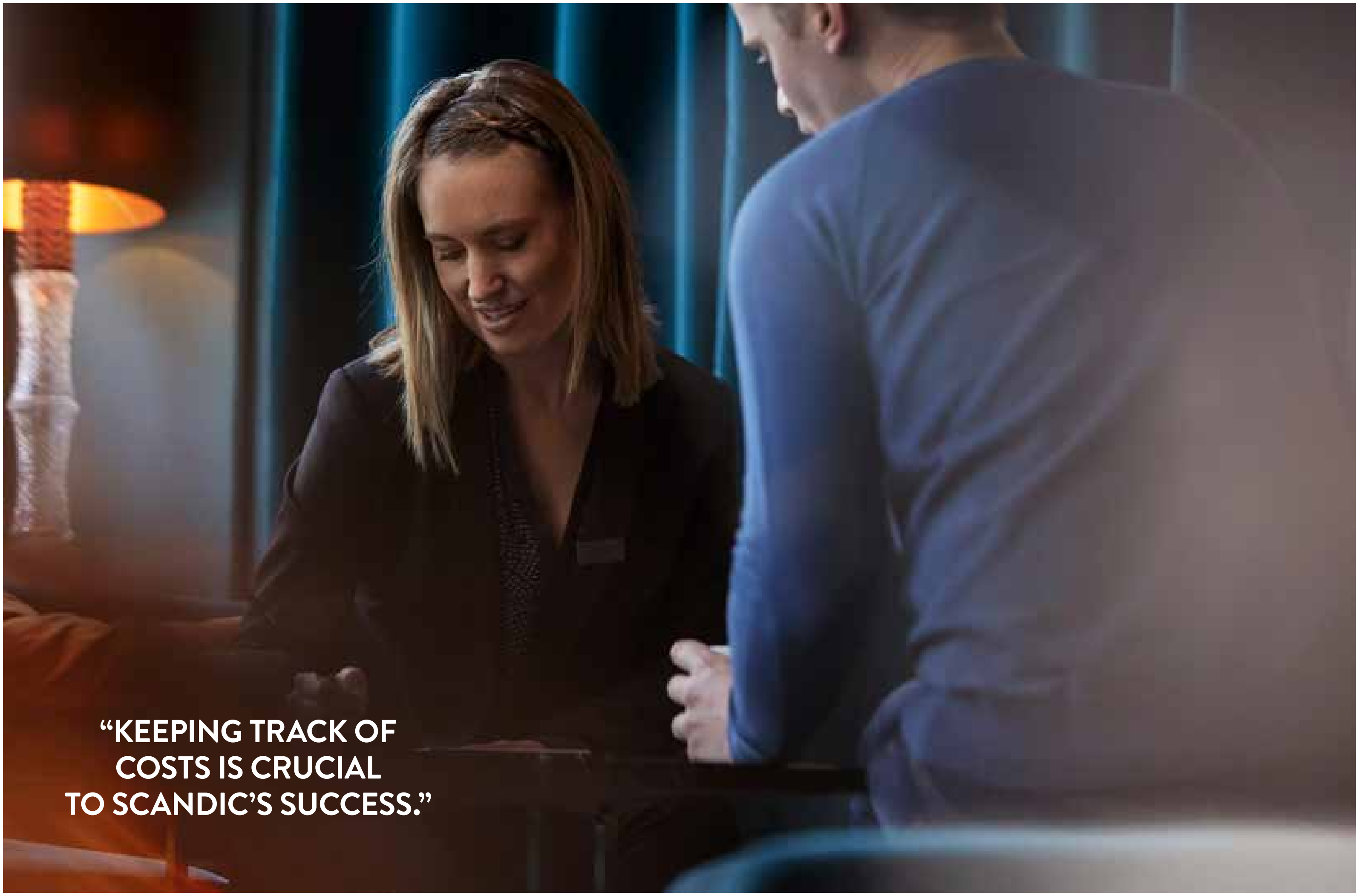
"IN JANUARY 2018, SCANDIC LAUNCHED AN UPDATED LOYALTY PROGRAM."

CUSTOMER SATISFACTION

Scandic measures customer satisfaction as an NPS, or Net Promoter Score, that shows the share of customers that would recommend Scandic to friends and colleagues. Scandic's NPS increased during 2017, with a positive development in all Nordic markets.

SCANDIC FRIENDS MEMBERS' SHARE OF BOOKINGS

35%



EFFECTIVE COST CONTROL

Scandic uses KPIs (key performance indicators) within its organization, important key figures that are used to evaluate how effectively its business is being operated. These can include, for example, working hours in relation to number of guests and resource allocation at breakfast or during cleaning. KPIs give quick and simple answers that can be used to take action. Keeping track of costs is crucial to Scandic's success.

EFFECTIVE SYSTEMS TO COLLECT & ANALYZE DATA

Thanks to the company's effective follow-up systems, data can be collected and analyzed. Every morning, each general manager can obtain an overview of the previous day. What was the revenue? How was it distributed? How many working hours were required? Based on this information, activities for the next day can be adapted and planned in the best way. The data from the hotels is collected centrally so that Scandic can evaluate each hotel and compare it with other hotels in the portfolio. Successful measures that reduce costs in one hotel can then be implemented widely.

VARIABLE LEASES

The model with variable leases has proven successful for Scandic. A flexible cost base contributes to stable earnings while both Scandic and property owners share a vested interest in making investments to drive sales growth.

LEASES

VARIABLE LEASES MEAN A FLEXIBLE COST STRUCTURE

Scandic's business model is based on hotels that are operated through leases. These leases are generally long term with variable rents based on the hotel's revenue. This model gives Scandic a relatively flexible cost structure with relatively stable margins throughout the economic cycle. Historically, Scandic has been very good at remaining profitable during weak periods in the hotel industry. One such example is Scandic's Norwegian operations, where the company was able to maintain positive margins in the Stavanger region during the 2015 oil crisis even though demand for hotel nights dropped drastically in a short time at the same time as supply increased.

At the end of 2017, 240 of Scandic's 262 hotels were operated through lease agreements. Two-thirds had variable leases with a minimum guarantee, roughly 20 percent had fully variable leases and only 10 percent had fixed leases.

GOOD RELATIONSHIPS WITH PROPERTY OWNERS

The lease model has created long-term relationships with landlords. Scandic's leases generally have an initial term of 15 to 20 years. In Sweden and to some extent in Denmark, there is a legal tenure, meaning that the tenant is entitled to extend the lease on market terms. In other countries, Scandic's leases generally include an option to extend the original agreement. At the end of 2017, the average remaining length of leases was just over 11 years.

Responsibility for investments is clearly regulated in the lease agreement. In general, the property owner is responsible for maintaining and refurbishing the building as well as technical installations and bathrooms. Scandic, on the other hand, is responsible for maintaining and renovating the hotels' furniture, fixtures and equipment.

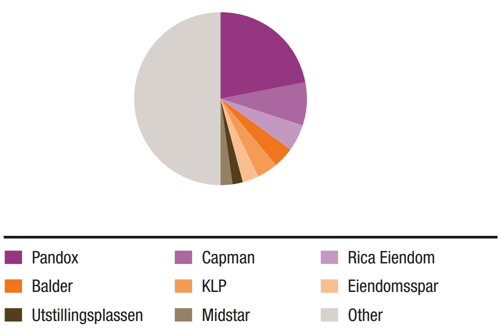
Scandic's hotel portfolio is in good shape and the company regularly invests 3.5 to 4 percent of sales in maintenance. Over time, the model with long-term variable leases has led to constructive cooperation between Scandic and the property owners, with a joint interest for both parties to continuously develop and improve the properties since increased revenues for Scandic also generate higher rents for the property owner. Scandic's largest partner is Pandox, which owns approximately 20 percent of the hotel portfolio, and a total of eight property owners hold approximately half of the hotel portfolio.

"THE LEASE MODEL HAS CREATED CONSTRUCTIVE AND LONG-TERM RELATIONSHIPS BETWEEN SCANDIC AND PROPERTY OWNERS."

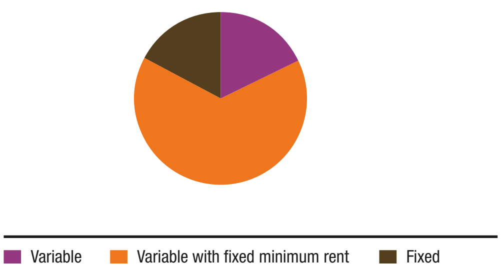
LIMITED PRESENCE OF GLOBAL HOTEL CHAINS

The model with long-term leases is dominant in the Nordic hotel markets. The major global hotel chains focus mainly on franchise and management agreements, which is why their presence in the Nordic countries is limited.

LARGEST PROPERTY OWNERS[1]

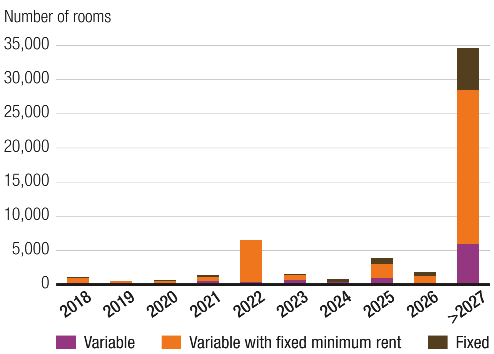


BREAKDOWN OF LEASE AGREEMENTS[1]



[1] Excluding pipeline.

REMAINING LEASE LENGTHS[2]



[2] Including pipeline.

LONG-TERM PARTNERSHIPS

TAKEOVER OF 8 HOTELS DEMONSTRATES STRENGTH OF BUSINESS MODEL

On January 18, 2017, Scandic signed an agreement with property owners Pandox and Eiendomsspar to take over the operation of a portfolio of eight hotels with a total of 1,708 rooms, of which 1,136 were in Norway, 357 in Stockholm and 215 in Copenhagen. Seven of the hotels are owned by Pandox and one by Eiendomsspar, and Pandox was previously responsible for operating the hotels, all of which had been renovated by the time of the takeover. The transaction took place without consideration and it was based on long-term, fully-variable income-based leases. The agreement includes Oslo's leading hotel, the Grand Hotel, a hotel that recently underwent an extensive renovation and that dates back to the late 19th century. The Grand Hotel, which is owned by Eiendomsspar, has become a signature hotel.

The fact that Scandic's most important partner entrusts the operation of hotels to Scandic without consideration and with fully variable rents illustrates the strength of Scandic's business model and the partnerships the company has with its property owners.

SUSTAINABLE FOOTPRINT

"Our sustainability work is something I feel strongly about. It is simply the right thing to do, good for business and an important part of our business model."

EVEN FRYDENBERG, PRESIDENT & CEO

GOAL-ORIENTED SUSTAINABILITY INITIATIVES

Scandic's continued commitment to sustainability increases motivation among its team members. We also see a growing demand for sustainable alternatives from corporate customers and guests. Sustainability is not just a responsibility for Scandic, it is a business opportunity.

SCANDIC'S 4 MAIN SUSTAINABILITY GOALS

1 DIVERSITY & INCLUSION

Goal 2020
Scandic will lead the hotel industry in giving all employees the same opportunities and reflect the society in which we operate.

2 HEALTH

Goal 2020
Scandic will be the premier hotel choice for customers who prioritize a healthy lifestyle and an attractive employer when it comes to work-life balance.

3 CO_2 EMISSIONS

Goal 2020
Scandic will be the hotel company with the lowest CO_2 emissions.

4 WASTE

Goal 2020
Scandic will continually work to reduce total waste and increase the share of recycled waste.

1

DIVERSITY & INCLUSION

Diversity refers to the mix of people of various backgrounds and characteristics, while inclusion is how to manage the mix to achieve the best possible results. Today, Scandic is highly diverse. For example, it employs more than 120 nationalities and there is a relatively even gender distribution within the organization. Scandic's new Diversity & Inclusion Policy emphasizes the fact that diversity is a prerequisite for the company's success because it provides a better recruiting base, improves the company's ability to interact with guests and raises the level of creativity and sense of community. Scandic is equally clear on the point that no discrimination in this area is tolerated.

Scandic doesn't just have a clear policy in place. It is also inclusive by working constantly on values and leadership aimed at encouraging inclusion throughout the organization.

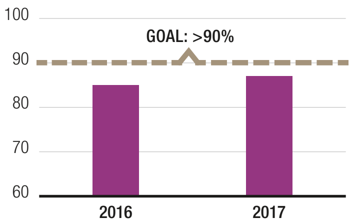
The hotels in all countries also offer practical work experience programs. This helps people gain on-the-job training at Scandic, bringing them closer to the job market. About 84 percent of Scandic's hotels have offered some form of work experience program in the last 12 months. This work is important, both from the perspective of being a responsible corporate citizen and as a means of reaching future team members.

In Norway, the Helt Med project, carried out in cooperation with the SOR organization and the Norwegian authorities, was started to offer people with disabilities work experience, in some cases followed by a job offer at Scandic. The outcome has been positive and several of the people involved are now employed by the company. In Sweden, Scandic cooperates with several organizations that help new arrivals find work through mentorships (Mitt Liv) and give youths an understanding of working life (My Dream Now).

KPI – Goal 2020

- At least 90 percent of all employees shall state in the employee survey that there is a good level of diversity in the organization.

Outcomes



2

HEALTH

Leadership and culture promote health

Scandic constantly focuses on the well-being of its employees. In 2016 and 2017, it carried out major initiatives to introduce a new cultural platform with updated values. The company has also reviewed the way Scandic's leadership should be to allow all team members to demonstrate the company's values. To this end, Scandic has developed a tool called the "Leadership Compass." Over the year, all leaders at Scandic were trained in the new model, both via the digital training platform Fuse and in physical meetings in the "Leadership Lab" project where they practiced leadership skills together. Scandic wants these leadership training programs to instill a sense of confidence in all employees. Ultimately, the company is convinced that this will lead to increased job satisfaction and happier guests.

In all countries, the physical and psychosocial work environments are monitored regularly through safety inspections, employee surveys and personal dialogues between managers and team members.

One result of Scandic's focus on team members is that all countries achieved the Excellent level in the annual employee survey. In addition, Scandic was named best workplace of the year in 2017 in Finland and Denmark according to the Great Place to Work survey.

Human rights

Scandic's Code of Conduct covers human rights. It states that fundamental human rights and working conditions shall be known, respected and apply equally to all employees, regardless of their form of employment.

When suppliers are procured, those who meet the UN Global Compact criteria are prioritized. One such example is Scandic's cooperation with Fairtrade, which ensures good working conditions for people working with its products.

Scandic takes an active stance against forced labor, child labor, discrimination, corporal punishment and the unlawful deprivation of liberty. The company safeguards people's freedom of association and their right to join a union. Trafficking and prostitution and the consequences of these activities are human rights violations. Scandic realizes that such violations

For more KPIs within Sustainable footprint, see the table on page 50.

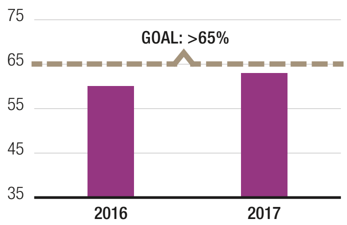
GRI: G4-15, G4-19, G4-56, G4-DMA, LA-8, HR-2

may occur in its hotels and therefore works to prevent them. Since 2015, Scandic has been training team members on how to more easily detect trafficking and/or prostitution in their hotels and act to prevent them. This training will continue in 2018.

KPI – Goal 2020

- At least 65 percent of employees shall state that they are positive about being able to manage stress in the annual employee survey.

Outcome



3

REDUCING CO_2 EMISSIONS

Protecting the environment is a matter of survival

Our environmental work is a central part of our natural responsibility for our planet. And corporate customers and guests are increasingly requesting more sustainable hotel services. This means that Scandic's environmental initiatives are an important part of the business. Scandic has an Environmental Policy that applies to all hotels and team members. The policy covers energy consumption, greenhouse gases, transport and travel, sustainable design, choice of materials, endangered species and biodiversity, waste, water consumption, chemicals and hazardous substances, responsible procurement, and certification and labelling.

In 2017, Scandic's total CO_2 emissions decreased by more than 40 percent/hotel night (from 2.64 kg/hotel night to 1.55 kg/hotel night). This is primarily due to updated emission factors for CO_2, more climate-smart energy solutions in the municipalities where Scandic operates and better follow-up at all hotels.

Data & responsibility are key

To monitor the development of its environmental initiatives, Scandic has a system for reporting environmental data, both centrally and locally at each hotel. The aim is for this reporting to be more transparent in 2018 so that external parties can more easily monitor Scandic's carbon footprint. In 2017, responsibility for environmental issues was clarified and reinforced at all hotels. The general manager at each hotel is now responsible for ensuring that Scandic's sustainability initiatives are carried out according to its overarching procedures.

Environmental standards are the driver

Scandic places a high value on its responsibility within the environmental area. Third-party environmental certifications are the driver for each hotel's environmental initiatives. Hotels in the Nordic countries are certified according to the Nordic Swan Ecolabel while hotels in Germany and Poland are certified according to the Green Globe and EU Eco Label respectively. Certification involves criteria for waste management, water consumption, energy consumption, carbon emissions and chemical use. The goal is for each hotel to be certified within one year of becoming a Scandic hotel. By the end of 2017, 90 percent of the hotels had achieved this goal. Other examples of environmental standards include serving organic food in all countries.

In 2017, the environmental criteria for purchasing various materials were also revised. The aim is for the guidelines to help Scandic be more environmentally-friendly when renovating and building new hotels. They also state that Scandic shall work towards a circular economy – work that includes smarter solutions aimed at avoiding all types of waste. A plan for this work will be developed in 2018.

Charging stations for electric cars

Scandic will extend its existing network of charging stations for electric cars in connection with its hotels. In Finland, a decision was made to offer charging stations at hotels from Helsinki to Rovaniemi. In Sweden, thanks to a new procurement, charging stations will be implemented at many more hotels all over the country. The goal is for Scandic to offer a comprehensive charging network in the Nordic countries that will also help each country in the shift towards an electric vehicle fleet.

For more KPIs within Sustainable footprint, see the table on page 50.

Award-winning environmental initiatives

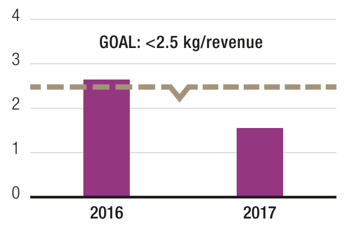
In 2017, Scandic Sweden was ranked as Sweden's most sustainable brand in its industry, according to the Sustainable Brand Index.

Scandic was also recognized during the year by the CDP, a non-profit organization that offers a global system for measuring a company's environmental impact. As such, it is the leading environmental and climate index for investors. According to the CDP's report over the two past years, Scandic achieved a level B ranking, above the average for the 260 largest Nordic companies. This classification shows that Scandic is working in a coordinated way on matters related to its climate impact.

KPI – Goal 2020

- 10 percent reduction in CO_2 emissions/revenue

Outcomes



4

WASTE MANAGEMENT

Work to reduce waste has been ongoing for several years throughout the Group. In 2017, 79 percent of Scandic's waste was recycled, which is an increase compared with 2016, when the figure was 69 percent. However, total waste increased by slightly more than 8 percent partly due to increased revenues for Food & Beverage.

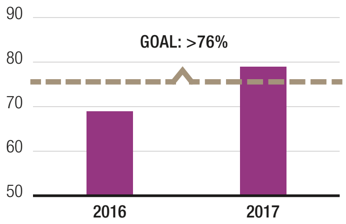
To manage food waste, Scandic is implementing a program at all hotels where breakfast waste will be weighed while other initiatives (such as using smaller breakfast plates) are helping guests throw away less food. In Sweden, Norway and Denmark, cooperation with Karma and Too good to go are ensuring that leftover food that would normally have gone to waste is being sold on digital platforms.[1)] In Norway and Denmark, Scandic is cooperating with a supplier called Winnow to weigh and analyze all food waste. This working method will also be tested in Sweden and Germany in 2018.

[1)] This initiative is not being carried out in Finland due to more restrictive regulations for food handling.

KPI – Goal 2020

- 10 percent more waste recycled

Outcome



For more KPIs within Sustainable footprint, see the table on page 50.

UN'S SUSTAINABLE DEVELOPMENT GOALS

Scandic has an established Code of Conduct that applies to all employees. The code is based on UN Global Compact principles that address anti-corruption, work environment, the environment and human rights. Scandic is a signatory of Agenda 2030 and the UN's 17 Sustainable Development Goals. While Scandic works towards most of the goals, the company has a specific focus on the following four goals.

UN'S SUSTAINABLE DEVELOPMENT GOALS[1]		HOW SCANDIC CONTRIBUTES
5 GENDER EQUALITY	Equality is an end in itself as well as a prerequisite for sustainable and peaceful development. Gender equality is achieved when both women and men, girls and boys, enjoy equal rights, conditions, opportunities and the power to shape their lives themselves and contribute to the development of society.	Analyzes and takes action to achieve gender balance in recruiting through internal programs as well as internal and external recruiting.
8 DECENT WORK AND ECONOMIC GROWTH	Work for inclusive and long-term sustainable economic growth, with full and productive employment and decent working conditions for all.	Offers equal conditions and follows up on work environment. Has a Global Compact for suppliers. Offers work experience programs for people outside the labor market.
10 REDUCED INEQUALITIES	Reduce inequality within and between countries.	Offers equal conditions regardless of gender, disability, ethnic background, etc. through value and leadership development. Also offers work experience for people outside the labor market and has a focus on Fairtrade products.
12 RESPONSIBLE CONSUMPTION AND PRODUCTION	Promote sustainable consumption and production patterns through the efficient use of resources, consideration for ecosystem services that are necessary for supply and reduce the impacts of hazardous chemicals.	Third-party environmental certifications of all hotels and individual products. This means lower use of energy, water and chemicals and less waste. Environmental requirements for all suppliers.

1) Read more about how Scandic contributes to the UN's Sustainable Development Goals on pages 56–57.

GRI: G4-56, G4-DMA, LA-8

ENGAGED PARTNER IN SOCIETY

ANTI-CORRUPTION

Scandic operates hotels in several countries and complies with all relevant national legislation. Scandic has a special Anti-Corruption Policy that stipulates that Scandic shall never engage in any form of corruption. Scandic is working to eliminate all forms of corruption, including extortion, bribery, nepotism, fraud and money laundering. Scandic must ensure that all employees, partners and suppliers understand that corruption is unacceptable. Confidence and trust between companies and their customers, employees and the public are very important factors for corporate development. Scandic is committed to complying with good business practices and acting in a sustainable way based on internationally-accepted principles of anti-corruption. Scandic has signed the UN Global Compact and complies with its principles. The principle applicable to Scandic's Anti-Corruption Policy is Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery. The document covers compliance and responsibility as well as the consequences of breaches, bribery or "lubrication payments". It also deals with how Scandic regards gifts, donations, sponsorship and political party contributions, fraud, extortion and money laundering, conflicts of interests, fair competition and insider trading (for which there is a special policy).

In 2018, training programs on anti-corruption and follow-up for team members will be improved.

SCANDIC IN SOCIETY

Local involvement is critical to Scandic's success. It is also the driver behind the internal "Scandic in Society" program, which involves all hotels. The starting point is that each hotel should carry out at least three activities per year to contribute to the local community. This means that Scandic hotels make resources such as employees' time, premises and/or food available. Scandic's team members give of their enthusiasm and engagement to help where it is needed most. In addition to the joy and satisfaction it gives Scandic's team members to be active in creating a better and safer society, it promotes team spirit.

One example of an activity carried out in 2017 is language courses for team members who need to develop local language proficiency. Many hotels also offer conference rooms free of charge to social organizations and charities. In all countries, hotels also offer on-the-job training for people outside the labor market.

SAFETY & SECURITY

Security is important for both guests and corporate customers and a key area of focus for Scandic. Scandic is highly committed to safety and security at its hotels and hopes to inspire other companies to do the same.

Scandic's team members receive regular training in basic security issues, both interactively and practically, and two mandatory fire and evacuation drills are carried out each year.

In addition, every six months, Scandic carries our comprehensive crisis management exercises to simulate possible and relevant events. This includes lock-down exercises that simulate situations where the hotel closes entrances and exits to increase guest security. These exercises are run by Scandic's central crisis unit, which follows up on the results. All hotels also have access to emergency help from the 24-hour Scandic Crisis Call Center, which was very helpful during the terrorist attack in Stockholm on April 7, 2017. Additionally, once a year, Scandic runs first aid courses that focus on CPR and using AEDs (automated external defibrillators).

POLICIES THAT STEER SUSTAINABILITY INITIATIVES

Scandic has an established Code of Conduct that applies to all employees in both the Parent Company and its subsidiaries. It is based on the UN Global Compact principles dealing with anti-corruption, working environment, the environment, employees and human rights. All managers within the company are responsible for providing their team members with information about the content of the code. Thereafter, it is the responsibility of each manager and team member to follow the content of the code in their everyday work.

POLICIES AND FOLLOW-UP

All of Scandic's policies have been adopted by Scandic's Board of Directors. Within the framework of all policies, team members are encouraged to first contact their managers if they notice irregularities or if there are problems interpreting the content of the policies.

UPDATED WHISTLEBLOWING SERVICE

If employees or external parties discover deviations from these policies, these can be reported anonymously through Scandic's Whistleblowing Service, a service that guarantees anonymity. Scandic has also introduced a whistleblowing function made up of both representatives from Scandic's Executive Committee and Board of Directors to handle any reported whistleblowing issues.

CODE OF CONDUCT

Owned by the CEO.
Members of the management team are responsible for implementing the Code within their units.

ANTI-CORRUPTION

Owned by the CFO.
Members of the Executive Committee are responsible for implementing the Code within their units.

DIVERSITY & INCLUSION

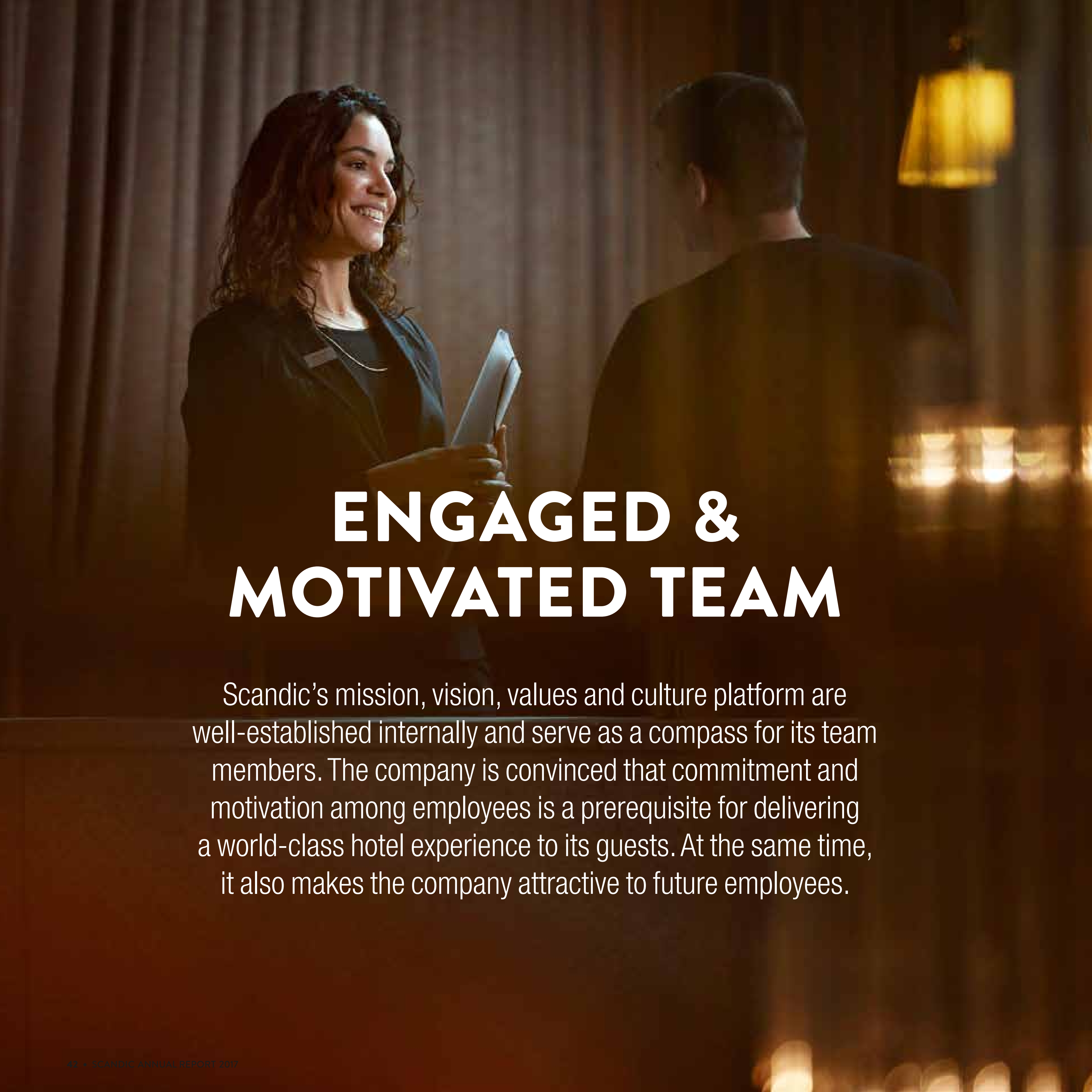
Owned by the SVP HR & Sustainability.
Members of the Executive Committee are responsible for implementation within their units.

SUPPLIER CODE OF CONDUCT

Owned by the CFO.
The Director Group Procurement and Country Heads are responsible for implementing the content of the Supplier Code of Conduct.

ENVIRONMENT

Owned by the SVP HR & Sustainability.
Members of the Executive Committee are responsible for implementation within their units.



ENGAGED & MOTIVATED TEAM

Scandic's mission, vision, values and culture platform are well-established internally and serve as a compass for its team members. The company is convinced that commitment and motivation among employees is a prerequisite for delivering a world-class hotel experience to its guests. At the same time, it also makes the company attractive to future employees.

MISSION, VISION AND VALUES

OUR VISION

To be a world-class Nordic hotel company

With the help of our Nordic spirit, corporate culture and way of doing things, we will be the best hotel company we can be. World class isn't about five stars, red carpets or the number of hotels, but about delivering an appreciated experience every day, both on stage and behind the scenes for our guests, customers, employees and owners. This is how we will make the coming years the proudest and most successful in Scandic's already very proud history – and become one of the world's most outstanding hotel companies.

OUR MISSION

To create great hotel experiences for the many people

We want to cater to as many people as we can. No matter who they are, how they dress, where they are from or where they are heading, we get up every morning to create great hotel experiences for everyone – from the moment our guests first think of us until they check out and tell their friends about us. We think a fantastic hotel experience is more than a nice room or a delicious breakfast or dinner. It's a friendly smile, an inviting atmosphere, genuine service and that little extra – in other words, the entire experience we create for our guests.

OUR CULTURE & VALUES

The foundation for the culture that characterizes Scandic was built 50 years ago when the first Esso Motor Hotel opened. Even though today we have thousands of employees in six countries, we always try to live up to the driving forces that once laid the foundation for Scandic. This legacy runs like a common thread throughout our entire organization and also governs the way we recruit new team members.

Our culture can be summed up in four main values. The idea is for all team members to apply these concepts in their daily work and in all relationships, both internal and external. They are formulated and communicated internally as follows.

OUR VALUES

BE CARING

We are warm and welcoming, meeting everyone with open arms and open minds. And we care for the people, planet and society around us.

BE A PRO

We are reliable and deliver high, consistent quality in everything we do. But we also go beyond what is expected of us and know that the key to success is about focusing on every little detail and a constant endeavor to be even better.

BE YOU

We are ourselves celebrating each other's unique potential and appreciating the advantage of our differences – just as we see and treat each guest as a unique individual.

BE BOLD

We dare to do things differently, to go outside of our comfort zone and to spend more time looking forward than back – always aspiring to be an inspiration to our guests, to each other, to owners and to society at large.

GRI: G4-56

INSPIRING NORDIC

THIRD YEAR FOR SCANDIC'S INTERNAL CULTURAL PLATFORM

Scandic is a relationship-based company. Interactions with guests are central to its operations. Scandic is convinced that a strong internal culture is a prerequisite for interacting with customers and guests in the best possible way. The internal cultural platform, Inspiring Nordic, was introduced in 2015 as an aid and a concrete measure to support the company's mission, vision and values Be Caring, Be You, Be a Pro and Be Bold. In 2016, extensive work began involving the entire Scandic team in workshops and competitions to help team members and their teams become engaged in and apply what Inspiring Nordic means in their work and at their workplace. In 2017, Inspiring Nordic entered its third year, team members were further involved and insights from previous years were used to create new guiding stars and ways of working.

LEADERSHIP THAT SUPPORTS VALUES

Leaders play an important role in any work on a cultural platform. A natural next step was therefore to ensure that Scandic has leadership that supports its way of working and encourages team members to live the company's values. Internally, 2017 was called "the leadership year" where the goal has been to develop leaders and give them the tools to strengthen and develop their teams. Scandic is convinced that this will improve relationships with and experiences for customers while making Scandic an attractive employer. An important part of this work with values and leadership has been to give team members a greater mandate to make their own decisions. In this way, power has been moved closer to guests. And in the employee satisfaction survey 2017, 80 percent of Scandic's team members indicated that they fully understand Scandic's vision.

LEADERSHIP COMPASS POINTS THE WAY

Against this backdrop, in 2017, Scandic launched the Leadership Compass, a tool for Scandic's leaders. The Leadership Compass was developed through internal sessions with leaders and team members throughout the organization, from all countries and all levels. These sessions allowed Scandic to identify how leadership should be to enable team members to live the company's values. The Leadership Compass is intended to make it easier for leaders to do the right thing. The compass has four directions: Build trust, Inspire, Collaborate and Empower. Scandic strives towards a leadership that signals trust, confidence and cooperativeness in an inspiring environment. All leaders at Scandic, both on the Group and management levels, have since learned about the Leadership Compass digitally and through the "Leadership Lab." The Leadership Lab is a workshop where leaders get the opportunity to work in groups and use Leadership Compass tools to support them in their roles. Furthermore, Scandic's internal measurement tool, the Leadership Index, shows that 80 percent of the company's team members believe that its leaders demonstrate Scandic's values in their daily work.

To further support its internal culture and bring leaders and team members closer together in a fast-moving digital world, Scandic introduced a new digital tool for social learning and internal communication called Fuse. The tool is intended facilitate sharing news, experiences, best practice and inspiration. All employees now have access to Fuse via a smart phone app and/or computer. In 2018 and going forward, Scandic will continue to focus on Inspiring Nordic and engaging team members in its work on its internal culture.

SCANDIC'S LEADERSHIP COMPASS

BUILD TRUST

As a leader, I am myself, I focus on leading myself and I demonstrate self-awareness.

I make sure we talk about and learn from our mistakes. I live as I learn and ensure I walk the talk. I take full responsibility for end results and demonstrate responsibility in every situation.

INSPIRE

As a leader, I set clear and inspiring goals and communicate in a transparent way.

I focus on and communicate the "why." I challenge myself and team members by constantly striving to be "world-class". I encourage innovation, creativity and new ideas based on our values.

COLLABORATE

As a leader, I create an environment and conditions where people dare to be open and where we use everyone's strengths.

I develop a diverse team where everyone cooperates, respects each other and has the company's best interests in focus. I ensure we share best practices, encourage each other and celebrate success.

EMPOWER

As a leader, I communicate clear expectations and believe that my team members find the best way to achieve our goals.

I am present, I coach and I support, allowing others to shine. I focus on developing others by giving clear feedback regularly. I take responsibility for my own development and always look for new ways to grow.

FUSE FACILITATES SOCIAL LEARNING AND INTERNAL COMMUNICATION

A NEW WAY TO LEARN

Fuse is a new digital learning and communication tool that promotes learning and internal communication in a new way. It is a social platform based on social media that encourages all forms of involvement. Fuse is a digital space for knowledge sharing, education and development as well as for internal news and communication. Fuse also makes it easier to meet and collaborate across countries and functional boundaries.

Fuse was initially offered to Scandic's leaders during the first half-year of 2017 and then to the rest of the Scandic team at the end of the year. Training hours in the program are measured differently compared with measuring traditional training hours. In 2018, Scandic will report training hours in the new way once Fuse is fully implemented.

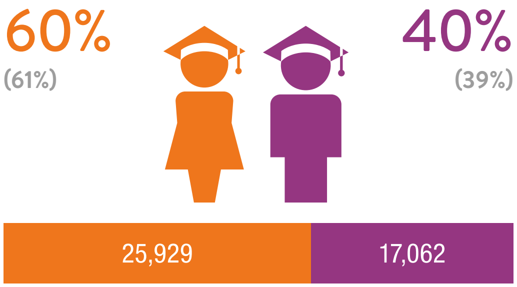
Together, digital and analogue learning during 2017 achieved a level slightly lower than the results for 2016. Digital learning within Fuse was not included in this compilation. Further training within Inspiring Nordic and Scandic's Leadership Lab accounted for the greatest share of total training hours during the year.

Activity in Fuse is already at a high level, with almost 2,000 active users. Much of the material in Fuse is user-based where everyone can contribute their best tips, inspire and help others on their journey to make Scandic a world-class hotel company.

"FINALLY, A PLATFORM FOR ALL SCANDIC TEAM MEMBERS."

ANONYMOUS SCANDIC TEAM MEMBER

PROFESSIONAL DEVELOPMENT, SCANDIC BUSINESS SCHOOL, WOMEN/MEN



TOTAL NUMBER OF TRAINING HOURS

42,991

DIVERSITY MAKES US COMPETITIVE

AN INCLUSIVE CULTURE WITH A CLEAR FOCUS ON DIVERSITY

Scandic strives to have an inclusive culture throughout its operations. By reflecting the society in which it operates, Scandic can deliver a better guest experience. This is why the company has developed a Diversity & Inclusion Policy and has adopted clear goals in this area (see page 52 for information about the policy and its goals). This is also expressed in the corporate social responsibility initiatives Scandic supports. Read more on page 53.

Gender distribution within the Group during the year was very similar to 2016, with 63 percent women and 37 percent men. Among general managers, the figure for women increased by one percentage point to 52 percent. Almost 60 percent of the 1,400 new team members hired in 2017 were under 30. In the Group as a whole, 40 percent of employees are under 30. This is natural, as Scandic's operations are affected by seasonality and temporary highs. To meet these changes in an effective way, Scandic has a great need for temporary employees. In this respect, Scandic has a key role to play as a first employer. Scandic offers young people the opportunity to gain valuable professional experience. Scandic's temporary employees are an important recruiting base for its operations, and many people are offered permanent employment with the company. About 12 percent of the company's team members are over 50. There are more than 120 nationalities working at Scandic's hotels. Scandic strives to develop a rich culture with a strong diversity of skills and languages among its team members.

A total of 87 percent of Scandic's team members believe that the company is diverse and that all employees, regardless of background, contribute and help create value.

NUMBER OF NATIONALITIES

120+

TOTAL NUMBER OF EMPLOYEES

63% (63%) — 37% (37%)

10,484 women | 6,277 men

TOTAL NUMBER OF EMPLOYEES
16,761

5,751 women | 3,563 men

PERMANENT EMPLOYEES: 9,314

4,447 women | 2,562 men

TEMPORARY EMPLOYEES: 7,009

287 women | 151 men

CONTRACTED WORKERS: 438

GENDER DISTRIBUTION, GEN. MANAGERS

52% (51%) — 48% (49%)

women | men

GENDER DISTRIBUTION, NEW EMPLOYEES[1)]

55% (53%) — 45% (47%)

779 women | 639 men

[1)] Data refers to permanent employees.

GRI: G4-9

AN ATTRACTIVE EMPLOYER

POSITIVE DEVELOPMENT IN 2017

Every year, Scandic carries out an extensive employee survey that results in a Voice Index. The 2017 Voice Index was 774, which is strong. In recent years, Scandic has nearly doubled in size, counted in the number of hotels. In spite of this, this year's result is the best since Scandic began measuring employee satisfaction. Also, the response frequency is consistently high in all countries. This result places Scandic in the Excellent category among companies using the same measurement tools.

Within the framework of the Voice survey, there are special categories that measure commitment, loyalty and work environment. Some 85 percent of employees say that they are proud to work at Scandic and are happy to speak positively about Scandic to others. A total of 85 percent of employees believe strongly in the company and its future direction. And 94 percent say that they always try to create a fantastic hotel experience for guests, no matter who they are. All of these percentages improved in 2017.

Over the year, the total number of employees increased by 9 percent. The increase was greatest in Norway, which is attributable to the opening of six new hotels over the year. Employee turnover in 2017 was 25 percent in total among permanent employees compared with 2016, when the figure was 35 percent.

In 2017, just as in 2016, Scandic was named Sweden's best hotel company by the Sustainable Brand Index. Over the year, Scandic was also ranked as Denmark and Finland's Best Workplace. When business students in Sweden ranked their dream employers, Scandic placed in the top 50, regardless of industry, in both 2016 and 2017.

According to a survey by the industry organization Visita in 2017, Scandic Hotels is the most attractive employer in the Swedish hospitality industry.

SCANDIC CARES ABOUT TEAM MEMBERS (CORPORATE SOCIAL RESPONSIBILITY)

Scandic knows that a happy, healthy workplace is a competitive advantage when it comes to recruiting. One appreciated benefit of working at Scandic is that all hotel employees are offered nutritious meals at work. Staff meals are an area that Scandic paid particular attention to in 2017. The company generally strives to provide a good work-life balance for its employees. Read more about Scandic's work to promote good health among team members on pages 36–37 (Sustainable footprint).

The company aims to comply with national legislation and rules to ensure a good working environment for its team members. Employees receive remuneration based on local salary levels and market practices, and the remuneration model is based on clearly set criteria regardless of gender, origin, ethnicity, age or other irrelevant factors.

Scandic greatly values being a committed corporate citizen (see page 7 under Scandic's strategy – what we want to be in 2020, and page 12 for a description of our corporate social responsibility). The company seeks to reflect the society in which its hotels operate and consequently analyzes appointments of new positions from an equality and equal opportunities perspective. For many roles, development is carried out through Scandic's internal training and culture. For other roles, experts with specific skills are required.

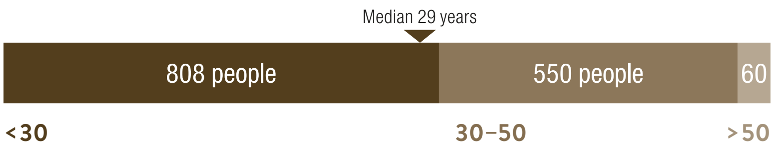
"SCANDIC IS THE WORLD'S BEST EMPLOYER. I'M REALLY PROUD TO BE PART OF THE SCANDIC FAMILY."

SCANDIC TEAM MEMBER IN DENMARK[2)]

AGE DISTRIBUTION, NEW EMPLOYEES[1)]

1,418

NEW HIRES 2017



[1)] Data refers to permanent employees.

AN ATTRACTIVE EMPLOYER

GREAT PLACE TO WORK

1st place in Denmark 2017

1st place in Finland 2017

1st place in Finland 2016

VOICE INDEX

2017: 774

2016: 760

2015: 763

(700 = Excellent)

[2)] Quote from Great Place to Work.

MORE IN-DEPTH SUSTAINABILITY REPORTING

Scandic's sustainability strategy is built on a materiality analysis where different stakeholders rank sustainability issues. Based on the results and in combination with Scandic's overall long-term goals, the company has developed an overall strategy. The results of this strategy are presented on pages 35–38 of this Annual Report.

STAKEHOLDER DIALOGUES

Scandic's sustainability initiatives need to be in line with the interests of different stakeholders. Stakeholder dialogues are therefore an important part of Scandic's sustainability strategy. Ultimately, Scandic's Board of Directors determines the company's final sustainability strategy.

STAKEHOLDERS' EXPECTATIONS ON MATERIAL ASPECTS

The stakeholders invited to the annual dialogue are internal and external stakeholders who have shown commitment to sustainability issues and a supplementary group of external stakeholders from whom Scandic wants input only for the materiality analysis. The dialogues were conducted online and through questionnaires and personal meetings. Scandic reports to the Board of Directors annually on developments within its sustainability work and it considers the stakeholders' responses to meet external expectations on sustainability and on Scandic's development.

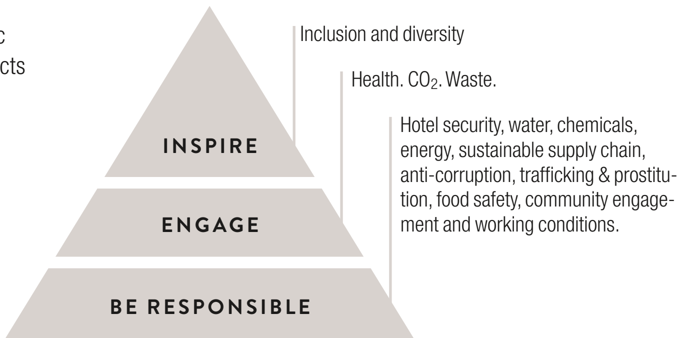
HOW SCANDIC SELECTED MATERIAL ASPECTS

In 2015, Scandic conducted its first annual materiality analysis to determine relevant sustainability aspects affecting the company. Internal and external stakeholders were asked to rank the sustainability issues they thought Scandic should address. The starting point was the expectations that customers have on a sustainable hotel chain and the sustainability issues that different groups of stakeholders perceive as important for Scandic. Based on the results of stakeholder dialogues, Scandic presented a materiality analysis that formed the basis for an Executive Committee decision on a sustainability strategy. During 2017, the materiality analysis was evaluated and deemed to confirm the current strategy. Scandic will re-evaluate the strategy in 2018. All essential sustainability aspects are controlled by the company.

Stakeholder group	Main aspects
Employees	• Satisfied customers • Hotel security • Minimizing waste
Owners and investors	• Reducing CO_2 emissions • Minimizing waste • The Board and Executive Committee's commitment to sustainability issues
Non-government organizations	• Reducing CO_2 emissions • Minimizing waste • Fair working conditions
Future employees	• Fair working conditions • Minimizing waste
Guests	• Minimizing waste • Reducing CO_2 emissions • Occupational health and safety
Corporate customers	• Fair working conditions • Occupational health and safety • Choosing interiors with consideration for environmental impacts
ESG analysts	• Active work to prevent trafficking and prostitution • Reducing CO_2 emissions • The Board and Executive Committee's commitment to sustainability issues
Business partners	• Ensuring that all employees have equal rights and opportunities • Active efforts to prevent trafficking and prostitution • Fair working conditions

SCANDIC'S SUSTAINABILITY STRATEGY

The aspects where Scandic aims to **inspire**, focus aspects where Scandic aims to **be engaged** and areas where Scandic **takes responsibility**.



SCANDIC'S SUSTAINABILITY GOALS

During 2017, Scandic's sustainability goals were quantified to facilitate steering and follow-up of its sustainability work.

1

DIVERSITY & INCLUSION

Goal 2020
Scandic will lead the hotel industry in giving all employees the same opportunities and reflect the society in which we operate.

2

HEALTH

Goal 2020
Scandic will be the premier hotel choice for customers who prioritize a healthy life-style and an attractive employer when it comes to work-life balance.

3

CO_2 EMISSIONS

Goal 2020
Scandic will be the hotel company with the lowest CO_2 emissions.

4

WASTE

Goal 2020
Scandic will continually work to reduce total waste and increase the share of recycled waste.

4 MAIN SUSTAINABILITY GOALS

			Outcome	
		Goal 2020	2017	2016
1	Share of employees who state in the employee satisfaction survey that Scandic has a good level of diversity in the organization	>90	87	85
2	Total employee index in the employee satisfaction survey	>800	774	760
	Increase of 4 points in employee satisfaction survey regarding recovery from stress, physical work environment and leadership index	>65	63	61
3	Share of hotels using renewable electricity, %	100	99.60	86
	CO_2 emissions kg/revenue KSEK	<2.5	1.62	2.75
	CO_2 emissions kg /hotel night	<2.3	1.55	2.64
	% share of hotels that are environmentally certified after opening or rebranding	100	90	N/A
	Water use (m^3)/hotel night)	0.16	0.18	0.18
	Share of environmentally-certified chemicals	95	82	78
4	Total kg waste/hotel night	0.62	0.76	0.65
	Recycled waste	>76	79	69

GRI: G4-DMA, EN-18

COOPERATION & ECONOMIC VALUE CREATION

Scandic's sustainability work is built on the valuable cooperation it has with companies, organizations and authorities. Scandic's operations also create value for their stakeholders from a broader social perspective.

EXAMPLES OF INITIATIVES THAT SCANDIC SUPPORTS

Organization	Description	Country	Type of cooperation
Mitt Liv	Works to promote an inclusive society and a labor market that values diversity through mentoring, training and broad contact networks.	Sweden	Scandic is a partner
My Dream Now	Works to link the labor market with students from upper secondary schools in vulnerable areas.	Sweden	Scandic is a partner
Diversity Charter Finland	Part of Diversity Charter's European network. Works to promote diversity and an inclusive perspective in companies and organizations.	Finland	Scandic is a member and one of the founders in Finland
The Finnish Paralympic Committee	Encourages young athletes and contributes to research and training within sports for the disabled.	Finland	Scandic is a sponsor
Food Bank Charity	Project to reduce food waste.	Poland	Scandic is a partner
GOT – Gdansk Tourism Organisation	Networks in tourism and hotels with focus on experience exchange and training as well as opportunity to participate in charity projects.	Poland	Scandic is a member
Budnianer hilfe e.V.	Provides physical and social support for marginalized children and young adults.	Germany	Scandic supports the organization
Joblinge	Partnerships between companies, individuals and authorities to support vulnerable young people. The goal is to integrate them into working life so they can earn their own living.	Germany	Scandic is a partner
Helt Med	Aims to create meaningful work for people with physical and/or learning disabilities.	Norway	Scandic is a partner
Confederation of Norwegian Enterprise (NHO)	Works to improve conditions for recruiting people outside of the labor market.	Norway	Scandic is a partner
Dansk Erhverv CSR netværk	Network for the service industry in Denmark, which represents 17,000 Danish companies.	Denmark	Scandic is a member
ReFood	Collects and distributes leftover food from restaurants.	Denmark	Scandic is a member

ECONOMIC VALUE RESULTING FROM INTEGRATED SUSTAINABILITY WORK

Economic value creation, MSEK	2017	2016
Direct economic value generated	**14,592**	**13,360**
Revenues	14,592	13,360
Economic value distributed	**13,882**	**12,478**
Operating costs	8,920.0	7,958.8
Employee wages and benefits	4,738	4,211
Financial costs	133	133
Taxes	90	175
Community investments[1)]	1.18	0.17
Remaining economic value	**709.82**	**882.00**

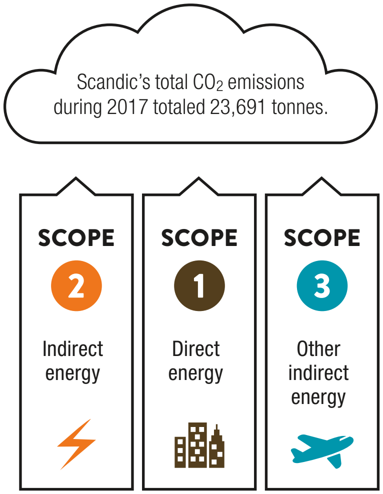
1) Investments in society, SEK	2017
Denmark	24,559
Norway	11,290
Sweden	1,000,000
Europe	139,820

1) Investments in society, SEK	2016
Denmark	105,200
Poland	7,700
Germany	57,400

The information in this table shows generated and distributed economic value. This indicates how Scandic has created value for stakeholders from a broader social perspective. Scandic's operations are run in a sound way with a sustainable distribution of operating costs including wages, taxes and community investments while there is still good profitability for shareholders.

ENVIRONMENTAL IMPACTS

Scandic measures its environmental impacts by monitoring energy consumption and CO_2 emissions and the amount of waste it generates. For 2017, franchise hotels (a total of 21 hotels) that were not included in 2016 were also included. This has generally led to an increase in consumption.



SCOPE 2

Scope 2 includes emissions from the energy Scandic buys ready-made, which is known as indirect energy. During 2017, emissions decreased dramatically due to lower release factors and the fact that almost 100 percent of Scandic's hotels use renewable electricity.

	2017	2016
Energy consumption, MWh		
Electricity	290,835.0	222,596.6
District heating	213,176.3	196,096.2
District cooling	12,383.1	13,377.0
	516,394.4	**432,069.8**
CO_2 emissions, tonnes		
Electricity	85.9	3,054.9
District heating[1]	20,553.4	28,442.3
District cooling	461.5	2,555.0
	21,100.8	**34,052.2**

SCOPE 1

Scope 1 includes emissions from gas and oil that Scandic purchases in the form of raw materials. This is known as direct energy. Scandic uses gas and oil to heat certain hotels, but the company is working continually to phase these out as sources of heat. Some hotels use propane or kitchen gas in their restaurant kitchens, both of which are being phased out.

	2017	2016
Energy consumption, MWh		
Propane gas	1,774.8	1,713.2
Natural gas	5,229.2	6,139.3
Biogas	311.6	n/a
Heating oil[2]	1,089.0	215.4
	8,404.6	**8,067.9**
CO_2 emissions, tonnes		
Propane gas	416.0	398.4
Natural gas	997.6	1,099.9
Biogas	10.5	n/a
Heating oil	287.3	56.8
	1,711.4	**1,555.1**

SCOPE 3

Scope 3 includes emissions from employees' air travel. These emissions, like those in Scope 2, are released from purchased energy but come from a third party, for example, airlines.

	2017	2016
Air		
Total km[3]	7,251,664	3,006,083
CO_2 emissions, tonnes	879.1	388.9
Train		
Total km	1,306,348	807,175
CO_2 emissions, tonnes	0.003	0.003

[1] During 2017, emission factors were updated, which resulted in a significant decrease in CO_2 emissions.

[2] Oil use in 2017 was higher than in 2016 as a result of more thorough follow-up of the hotels' environmental reporting.

[3] During 2017, air travel increased compared with 2016. Due to a change of travel provider, the data for 2017 and 2016 are not fully comparable.

WASTE

In 2017, Scandic recycled 79 percent of its waste, an increase of 10 percent compared with 2016.

Household waste, which constitutes a high share of total waste, is excluded in this calculation as a result of difficulties in sourcing reliable information mainly from Sweden's municipalities.

In 2016 information about weight of "Other waste" such as grease was presented (329.8 tonnes). This information is not presented in 2017 due to unreliable data.

Total weight per method of disposal, tonnes	2017 Hazardous waste	2017 Waste	2016 Hazardous waste	2016 Waste
Reuse	0	0	0	0
Recycling	5.9	9,191.5	9.0	6,583.8
Energy recovery	26.0	2,073.6	18.4	2,502.4
Combustion	35.9	0	29.1	4.0
Landfill	4.7	300.0	3.1	83.4
Total	**72.4**	**11,565.1**	**59.6**	**9,173.6**

Total weight per type of waste, tonnes	2017	2016
Paper	2,229.5	1,990.5
Glass	1,854.3	1,385.6
Metal	218.6	171.0
Plastic	303.3	193.2
Other waste[1]	6,959.4	5,433.3

[1] 2017 includes food waste from all hotels compared with 2016 when only data from a limited number of hotels was included.

GRI: G4-22, G4-23, G4-DMA, EN-3, EN-15, EN-16, EN-17, EN-23

SUSTAINABLE SUPPLIER MANAGEMENT

As the leading hotel company in the Nordic countries, Scandic buys goods and services worth substantial amounts every year. For this reason, procurement and supplier control are important elements of the company's sustainability initiatives. Scandic works systematically to ensure that only suppliers that live up to the company's requirements are contracted.

SUSTAINABILITY – A NATURAL PART OF THE SELECTION PROCESS

To ensure that Scandic only cooperates with suppliers that share its values, sustainability is included as an item in the selection process when it comes to cooperation. A special sustainability screening is carried out by Scandic's procurement team as a first step in the process. This involves criteria regarding the environment, anti-corruption, human rights and work environment. Suppliers that pass the sustainability screening process then undergo a more extensive risk assessment based on a self-assessment. During the year, all suppliers that were screened and accepted agreed to adhere to the principles in Scandic's Supplier Code of Conduct.

Scandic also regularly carries out risk assessments of the entire supplier base. If there is uncertainty regarding a supplier, a more in-depth assessment is carried out through a self-assessment that may also be followed by an onsite audit of the supplier. All deviations identified during self- or third-party audits must be addressed in the manner described in a corrective action plan approved by Scandic. The measures stated must be implemented within the agreed timeframe for the supplier to remain under contract. During 2017, work on audits and a first review at a supplier were completed at the end of the year.

COOPERATION

After decades of working with sustainability, Scandic has extensive knowledge and gladly shares this knowledge with its suppliers. The company encourages a continuous dialogue with suppliers parallel to the screening process in order to support and help develop the suppliers' own sustainability work.

In Norway, Scandic is driving supplier sustainability forward together with other companies through the purchasing company GRESS. And in January 2018, Scandic Sweden held a conference at which its larger suppliers and general managers were invited to develop this work further.

UNDER CONSTANT DEVELOPMENT

Scandic has successfully worked with systematizing its process for supplier management. To support the process, the company constantly works with skills development and follows up on the procurement team as regards challenges in the area. Scandic has many different suppliers that each stand for a small part of its turnover. Going forward, Scandic aims to decrease this part in order to simplify the entire process. During 2017, the criteria for which materials and substances are suitable for use from a sustainability perspective were updated and clarified. The aim is to update criteria for food and beverages in 2018 to facilitate work for employees who are responsible for purchasing as well as to clarify expectations for suppliers who sell to Scandic.

KEY FIGURES PROCUREMENT

97%
OF ALL CONTRACTED SUPPLIERS SCREENED (GOAL: 90%)

4.3
SEK BILLION PURCHASING VOLUME

100
SUPPLIERS ACCOUNT FOR 70% OF SPENDING

EMPLOYEE DATA

Scandic is continuing to grow, both in terms of the number of hotels and employees. Both demographically and geographically, the distribution of employees was generally unchanged in 2017 compared with 2016.

	2017			2016		
Total number of employees[1]	**Women**	**Men**	**Total**	**Women**	**Men**	**Total**
Total number	10,484	6,277	16,761	9,688	5,639	15,327
Permanent employment	5,751	3,563	9,314	5,270	3,224	8,494
Full-time	3,436	2,605	6,041	3,184	2,402	5,586
Part-time	2,315	957	3,272	2,086	822	2,908
Temporary	4,447	2,562	7,009	4,176	2,295	6,471
Contracted workers	287	151	438	242	120	362

[1] The total number of employees for 2015 has been adjusted to include contracted workers.

		2017		2016	
New hires[1]		**Number**	**Share, %**	**Number**	**Share, %**
Total number and % of total		1,418	8.5	1,237	14.6
Of which	Women	779	54.9	656	53.0
	Men	639	45.1	581	47.0
Of which	Age <30	808	57.0	675	54.6
	Age 30–50	550	38.8	515	41.6
	Age >50	60	4.2	47	3.8
Of which	Sweden	534	37.7	514	41.6
	Norway	341	24.0	272	22.0
	Finland	94	6.6	83	6.7
	Denmark	328	23.1	242	19.6
	Other European	121	8.5	126	10.2

[1] Data refers to permanent employment.

		2017		2016	
Employee turnover[1]		**Number**	**Share, %**	**Number**	**Share, %**
Total number and % of total		1,807	10.8	1,667	19.6
Of which	Women	974	53.9	935	56.1
	Men	833	46.1	732	43.9
Of which	Age <30	803	44.4	764	45.8
	Age 30–50	856	47.4	760	45.6
	Age >50	148	8.2	143	8.6
Of which	Sweden	707	39.1	660	39.6
	Norway	445	24.6	462	27.7
	Finland	128	7.1	118	7.1
	Denmark	386	21.4	296	17.8
	Other European	141	7.8	131	7.9

[1] Data refers to permanent employment.

Geographic breakdown		2017 Women	2017 Men	2017 Total	2016 Women	2016 Men	2016 Total
Total		10,484	6,277	16,761	9,688	5,639	15,327
Of which	Sweden	4,966	2,650	7,616	4,586	2,420	7,006
	Norway	3,235	2,178	5,413	2,957	1,864	4,821
	Finland	913	481	1,394	878	435	1,313
	Denmark	1,085	761	1,846	1,013	738	1,751
	Other European	286	206	492	254	182	436

The table shows the total number of employees at Scandic including contracted workers. The Board of Directors is not included.

Demographic breakdown 2017	Total number of employees, %		Board of Directors, %		Executive Committee, %		Managers, %		Employees, %	
Women	10,198	62.5	4	40.0	1	11.1	731	54.3	9,466	63.2
Men	6,125	37.5	6	60.0	8	88.9	615	45.7	5,502	36.8
Age <30	7,135	43.7	-	0.0	-	0.0	157	11.7	6,978	46.6
Age 30–50	7,237	44.3	1	10.0	6	66.7	947	70.4	6,284	42.0
Age >50	1,950	11.9	9	90.0	3	33.3	242	18.0	1,705	11.4
Total number	**16,323**		**10**		**9**		**1,346**		**14,968**	

Demographic breakdown 2016	Total number of employees, %		Board of Directors, %		Executive Committee, %		Managers, %		Employees, %	
Women	9,446	63.1	3	25.0	1	10.0	677	53.5	8,768	64.0
Men	5,519	36.9	9	75.0	9	90.0	588	46.5	4,922	36.0
Age <30	6,564	43.9	0	0.0	0	0.0	143	11.3	6,421	46.9
Age 30–50	6,667	44.5	4	33.3	8	80.0	908	71.8	5,751	42.0
Age >50	1,734	11.6	8	66.7	2	20.0	214	16.9	1,518	11.1
Total number	**14,965**		**12**		**10**		**1,265**		**13,690**	

The table shows the total number of employees at Scandic including the Board of Directors. Contracted workers are not included.

Average training time, hours		2017	2016
Total number		2.6	3.3
Of which	Women	2.5	3.2
	Men	2.7	3.6
Of which	Executive Committee	12.7	10.1
	Managers	19.1	18.0
	Employees	1.1	2.0

Comparisons between 2016 and 2017: During the year, the total number of employees increased by 9 percent. The increase was greatest in Norway, mainly due to the new hotels that opened during the year. There were also changes in the Board as a result of new owners in 2017. Both demographically and geographically, distribution was largely unchanged. In terms of permanent new positions and left positions in 2017, the share of people under 30 who were recruited increased and the share of people who left decreased. The proportion of women followed the same pattern: more women were hired and fewer women left permanent positions during 2017. It is important to take into account that the information in the tables relates only to new permanent positions and does not take into account re-employment of former employees.

NEW PERMANENT EMPLOYEES DURING THE YEAR

1,418

SCANDIC'S CONTRIBUTION TO THE UN'S GLOBAL SUSTAINABLE DEVELOPMENT GOALS

Scandic is a signatory of Agenda 2030 and the UN's 17 Sustainable Development Goals. Scandic focuses mainly on four of the goals, but also works to a certain degree to achieve seven others.

5 GENDER EQUALITY

Equality is an end in itself as well as a prerequisite for sustainable and peaceful development. Gender equality is achieved when both women and men, girls and boys, enjoy equal rights, conditions, opportunities and the power to shape their lives themselves and contribute to the development of society.

8 DECENT WORK AND ECONOMIC GROWTH

Work for inclusive and long-term sustainable economic growth, with full and productive employment and decent working conditions for all.

10 REDUCED INEQUALITIES

Reduce inequality within and between countries.

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

Promote sustainable consumption and production patterns through the efficient use of resources, consideration for ecosystem services that are necessary for supply and reduce the impacts of hazardous chemicals.

The UN's Global Sustainable Development Goals		How Scandic contributes
3 GOOD HEALTH AND WELL-BEING	Ensure healthy lives and promote well-being for all at all ages.	Encourages physical activity and focuses on leadership development and empowerment. Support for employees with alcohol and drug problems.
4 QUALITY EDUCATION	Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all. Focus on knowledge that supports sustainable development.	Provides training in sustainable development for all new employees including the environment, human rights, diversity and inclusion.
6 CLEAN WATER AND SANITATION	Ensure availability and sustainable management of water and sanitation for all. Focus on responsible water stewardship.	The environmental certification of Scandic's hotels includes a program for efficient water management.
14 LIFE BELOW WATER	Conserve and sustainably use the oceans, seas and marine resources for sustainable development. End illegal, unreported and unregulated fishing and destructive fishing methods.	Only serves fish approved by the WWF's Seafood Guide. Also serves MSC-certified fish.
15 LIFE ON LAND	Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desert-ification, and halt and reverse land degradation and biodiversity loss.	Includes environmental criteria in the purchasing process and buys environmentally-certified products that promote biodiversity (e.g. KRAV, Debio, Luomu, Ø-märkt).
16 PEACE AND JUSTICE STRONG INSTITUTIONS	Provide access to justice for all and build effective, accountable and inclusive institutions at all levels by, for example, reducing corruption and bribery.	Policy and training for employees as well as a Code of Conduct for Suppliers that regulates corruption and bribery.
17 PARTNERSHIPS FOR THE GOALS	Strengthen the means of implementation and revitalize the global partnership for sustainable development.	Partners with authorities and non-government organizations around issues such as integration and education.

GRI: G4-DMA

GRI INDEX

This is Scandic's third Annual Sustainability Report. The report was prepared in accordance with GRI G4 on a self-declared Level Core. The Sustainability Report can be found on pages 1–11 and 34–59 and it fulfills the requirements for sustainability reporting as stipulated by the Accounts Act. It also constitutes Scandic's COP to the Global Compact on the Active level. The sustainability information provided has not been externally assured by a third party. The report includes all of Scandic's hotels operated under lease agreements in all countries of operation, as well as the Group's various support offices. Scandic's partner hotels and franchises are excluded as they act under their own governance systems. When calculating environmentally-certified hotels, however, all hotels are included.

The report refers to the period from January 1 to December 31, 2017. The previous report was published on April 19, 2017. The base year for environmental data is 2015. Emissions data is calculated based on the GHG protocol, supplier information and third-party reports on emission factors for district heating and cooling. Waste data is based on a compilation provided by Scandic's waste management suppliers. Human resources data is compiled using Scandic's HR system and supplier data is compiled based on Scandic's risk assessment tool. Customer satisfaction data is compiled from monthly surveys.

CONTACT DETAILS

Scandic's contact for questions regarding Scandic's operational sustainability work is Scandic's Director Sustainable Business. Questions regarding Scandic's Annual Report and Sustainability Report should be directed to the Investor Relations department at ir@scandichotels.com. Both functions are located at Scandic's head office in Stockholm, Sweden.

● Fulfilled ◒ Partially fulfilled

GENERAL STANDARD DISCLOSURES

	Title	Page	Fulfill-ment	Comments
Strategy and analysis				
G4-1	Statement from the most senior decision-maker of the organization	p. 2–4	●	
Organizational profile				
G4-3	Name of the organization	p. 62	●	
G4-4	Primary brands, products and services	p. 10, 17	●	
G4-5	The organization's headquarters	p. 62	●	
G4-6	Number of countries where the organization operates and names of countries where either the organization has significant operations or that are specifically relevant to the sustainability topics covered in the report	p. 17, 67	●	
G4-7	Nature of ownership and legal form	p. 62, 73	●	
G4-8	Markets served by the organization	p. 17, 67	●	
G4-9	Scale of the organization	p. 17, 46, 67, 84–85	●	
G4-10	Compilation of the organization's employees	p. 54–55	●	GC Principle 6
G4-11	Percentage of employees covered by collective bargaining agreements	p. 45	●	GC Principle 3
G4-12	The organization's supply chain	p. 53	●	
G4-13	Significant changes during the reporting period	p. 73	●	
G4-14	Whether and how the precautionary principle is addressed by the organization	p. 58	●	GC Principle 7
G4-15	Externally developed economic, environmental and social charters, principles or other initiatives to which the organization subscribes or which it endorses	p. 36–38	●	
G4-16	List of memberships in associations (e.g. trade associations) and national or international advocacy organizations	p. 51	●	
Identified material aspects and boundaries				
G4-17	Entities included in the financial statements	p. 58, 62	●	
G4-18	Process for defining material aspects	p. 49	●	
G4-19	Material aspects	p. 35–38, 49	●	
G4-20	Aspect boundary within the organization	p. 49	●	
G4-21	Aspect boundary outside of the organization	p. 49	●	
G4-22	Restatements of information provided in previous reports and the reason for these restatements	p. 52, 58	●	
G4-23	Significant changes from previous reporting periods in the scope and aspect boundaries	p. 52, 58	●	

	Title	Page	Fulfillment	Comments
Stakeholder engagement				
G4-24	List of stakeholder groups	p. 49	●	
G4-25	Method for identification and prioritization of which stakeholders with whom to engage	p. 49	●	
G4-26	The organization's approach to stakeholder engagement	p. 49	●	
G4-27	Key topics and concerns that have been raised through stakeholder engagement	p. 49	●	
Reporting profile				
G4-28	Reporting period	p. 58	●	
G4-29	Date of most recent published report	p. 58	●	April 19, 2017
G4-30	Reporting cycle	p. 58	●	

	Title	Page	Fulfillment	Comments
G4-31	Contact point for questions regarding the report or its contents	p. 58	●	
G4-32	GRI Content Index	p. 58–59	●	
G4-33	Assurance process	p. 58	N/A	
Governance				
G4-34	The governance structure of the organization, including committees responsible for economic, environmental and social issues	p. 72, 76	●	
Ethics and integrity				
G4-56	The organization's values, principles, standards and code of conduct	p. 36, 39, 41, 43, 53, 72, 76	●	GC Principle 10

SPECIFIC STANDARD DISCLOSURES

DMA and indicators	Title	Page	Fulfillment	Comments
G4-DMA	Disclosure regarding sustainability governance	p. 35–41, 49–58	●	GC Principles 1, 2, 3, 7, 8, 9, 10
Economic performance				
EC-1	Direct economic value	p. 51	●	
Energy consumption and emission of greenhouse gases				
EN-3	Energy consumption within the organization	p. 52, 58	●	GC Principles 7, 8
EN-15	Direct greenhouse gas emissions (Scope 1)	p. 52, 58	●	GC Principles 7, 8
EN-16	Indirect greenhouse gas emissions (Scope 2)	p. 52, 58	●	GC Principles 7, 8
EN-17	Other indirect greenhouse gas emissions (Scope 3)	p. 52, 58	●	GC Principles 7, 8
EN-18	Greenhouse gas emission intensity	p. 50	●	Includes Scopes 1, 2 and 3, GC Principle 8
EN-23	Total weight of waste by type and disposal method	p. 52, 58	●	GC Principle 8
Supplier assessment				GC Principle 8
EN-32	Screening of suppliers using environmental criteria	p. 53	●	GC Principles 7, 8, 9
LA-14	Screening of suppliers using labor practices criteria	p. 53	●	GC Principles 3, 4, 5, 6

DMA and indicators	Title	Page	Fulfillment	Comments
HR-10	Screening of suppliers using human rights criteria	p. 53	●	GC Principles 1, 2
SO-9	Screening of suppliers using criteria for impacts on society	p. 53	●	
Employment				
LA-1	New employee hires and employee turnover	p. 54	●	GC Principle 6
Health and safety				
LA-8	Health and safety topics covered in formal agreements	p. 36, 39, 47	●	
Training				
LA-9	Average hours of training	p. 55	●	
Diversity and equal opportunity				
LA-12	Composition of the Board of Directors and the Executive Management, and breakdown of employees per employee category	p. 55	●	GC Principle 6 Employee figures have not been divided into all diversity categories desired by the GRI, as this would contravene Swedish law.
Training on human rights				
HR-2	Employee training on human rights	p. 36–37	◒	GC Principles 1, 2
Customer satisfaction				
PR-5	Customer satisfaction	p. 28	●	

AUDITOR'S REPORT ON THE STATUTORY SUSTAINABILITY REPORT

To the general meeting of the shareholders in Scandic Hotels Group AB (publ), corporate identity number 556703-1702

ENGAGEMENT AND RESPONSIBILITY

The Board of Directors is responsible for the statutory sustainability report for the year 2017 on pages 1–11 and 34–59 and for ensuring that it has been prepared in accordance with the Annual Accounts Act.

THE SCOPE OF THE AUDIT

Our examination has been conducted in accordance with FARs auditing standard RevR 12: The auditor's opinion regarding the statutory sustainability report. This means that our examination of the statutory sustainability report is substantially different and less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with a sufficient basis for our opinion.

OPINION

A statutory sustainability report has been prepared.

Stockholm, March 23, 2018
PricewaterhouseCoopers AB

Magnus Brändström
Authorized public accountant
Auditor in charge

CONTENTS

ADMINISTRATION REPORT

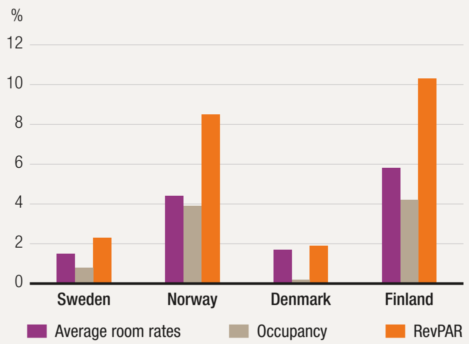
OPERATIONS

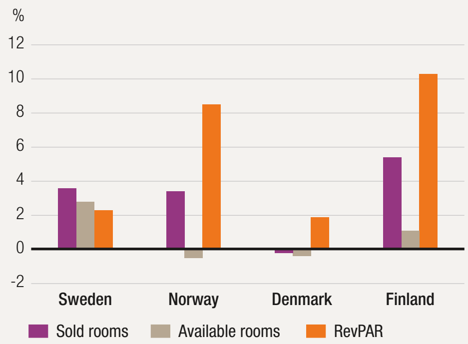
2017 in summary

- Net sales increased by 11.5 percent to 14,582 MSEK (13,082) due to higher RevPAR and more rooms in operation.
- Adjusted EBITDA totaled 1,570 MSEK (1,513), corresponding to a margin of 10.8 percent (11.6).
- Earnings per share amounted to 6.86 SEK (8.58). Excluding items affecting comparability and currency effects related to the revaluation of loans, earnings per share totaled 7.04 SEK (6.85).
- The acquisition of the hotel company Restel was concluded in December. In total, the acquisition included 43 hotels and the consideration was 1,160 MSEK. In 2017, Restel had pro forma adjusted EBITDA totaling 196 MSEK corresponding to a margin of 9.1 percent.
- Net debt/adjusted EBITDA including Restel pro forma was 2.1 at the end of the year as a result of a strong operating cash flow during the fourth quarter.

Group key ratios, MSEK	2017	2016	Change, %
Financial key ratios			
Net sales	14,582	13,082	11.5
Net sales growth, %	11.5	7.3	
Net sales growth LFL, %	4.7	6.6	
Adjusted EBITDAR	5,335	4,896	9.0
Adjusted EBITDA	1,570	1,513	3.8
EBITDA	1,473	1,462	0.8
EBIT (Operating profit/loss)	925	925	-
Adjusted EBITDA margin, %	10.8	11.6	
Earnings per share, SEK	6.86	8.58	
Hotel-related key ratios			
RevPAR (Average Revenue Per Available Room), SEK	680	643	5.7
ARR (Average Room Rate), SEK	1,012	976	3.7
OCC (Occupancy), %	67.1	65.9	

HOTEL MARKET DEVELOPMENT IN THE NORDIC COUNTRIES 2017[1)]





1) Source: Benchmarking Alliance and STR Global.

Scandic Hotels Group AB (publ) Corp. Id. 556703-1702

The Board of Directors and the CEO of Scandic Hotels Group AB (publ), with its registered office in Stockholm, hereby submit the Annual Report and consolidated financial statements for the 2017 financial year.

Operations

The company owns 100 percent of the Scandic Group through its wholly-owned subsidiary, Scandic Hotels Holding AB. Over the year, Scandic conducted hotel operations in seven countries. On the reporting date, Scandic had 49,983 rooms in operation at 262 hotels, of which 240 had lease agreements.

Nordic hotel market development

Development in the Nordic hotel market was good during the year. In Sweden, the number of sold rooms increased by 3.6 percent and RevPAR increased by 2.3 percent with a rise in occupancy and slightly higher average room prices. The number of sold rooms in Norway went up 3.4 percent and RevPAR increased 8.5 percent. There was also an increase in average room prices as well as occupancy. In the Danish market, the number of sold rooms remained largely unchanged compared with the previous year while RevPAR increased by 1.9 percent. Average room prices rose slightly during the year while occupancy was unchanged. In Finland, the number of sold rooms increased 5.4 percent during the year and RevPAR went up by 10.3 percent driven by higher average room prices and higher occupancy.

Seasonal variations

Scandic operates in a sector affected by seasonal variations. Revenues and earnings fluctuate during the year. The first quarter and other periods with low levels of business travel such as the summer months, Easter and Christmas/New Year's are generally the weakest periods. The Easter holiday may fall in both the first and second quarters, so this should be taken into account when making comparisons between years. Approximately 70 percent of Scandic's revenue comes from business travel and conferences while the remaining 30 percent comes from leisure travel.

Sales and profit/loss

Net sales rose by 11.5 percent to 14,582 MSEK (13,082). For comparable units, the increase was 4.7 percent, driven by good demand in all markets. Currency effects impacted net sales positively by 0.9 percent. Net changes in the hotel portfolio contributed 5.8 percent or 765 MSEK to the increase in sales. The greatest contribution was from Downtown Camper by Scandic, which opened in Stockholm on September 1, 2017, the eight hotels that were added through the Pandox and Eiendomsspar transaction in the second quarter of 2017, and the hotels Scandic Continental and Haymarket by Scandic that were opened in 2016.

Average Revenue Per Available Room (RevPAR) increased by 4.9 percent in local currencies compared with the previous year. For comparable units, RevPAR increased by 4.9 percent and all main markets contributed positively to the development, with Norway and Finland in the lead with an increase of over 9 percent.

Revenue from restaurant and conference operations grew by 12.9 percent and the share of total net sales amounted to 33.3 percent (32.9 percent).

Rental costs accounted for 25.8 percent (25.9) of net sales. Fixed and guaranteed rental costs were 61.7 percent (65.1) of total rental costs. The decline is a result of increased sales and additional contracts with lower or no guarantee levels.

Central costs and Group adjustments increased somewhat to -401 MSEK (-347). Costs for the central functions of IT and Commercial grew, driven by increased investments within digitalization, infrastructure and IT security. The increase is also explained by a number of non-recurring items in the fourth quarter, including costs for Scandic's long-term incentive program and personnel costs.

Adjusted EBITDA before opening costs for new hotels increased to 1,570 MSEK (1,513). The adjusted EBITDA margin fell to 10.8 percent (11.6). Last year's result included a one-off compensation of 65 MSEK. The decline is chiefly attributable to Scandic's operations in Stockholm, where sales dropped in the latter part of the year without it being possible to adjust costs to the same extent. RevPAR growth affected the margin positively, while the hotels that were added during the year initially contributed a margin below the Group average.

Pre-opening costs for new hotels amounted to -67 MSEK (-51).

Items affecting comparability totaled -30 MSEK (0), comprising -47 MSEK in transaction costs related to the acquisition of Restel's hotel operations in Finland and 17 MSEK in capital gains from the sale of Scandic Vierumäki's hotel operations in Finland.

Consequently, EBITDA was 1,473 MSEK (1,462).

EBIT totaled 925 MSEK (925), corresponding to an EBIT margin of 6.3 percent (7.1 percent). Depreciation and amortization rose to -549 MSEK during the period (-537).

The Group's net financial expense amounted to -124 MSEK (132). The interest expense was -110 MSEK (-133). The lower interest expense is the result of lower average debt and the effects of the new loan agreement that was concluded on June 22, 2017. The result of exchange rate fluctuations from the revaluation of loans and investments totaled -23 MSEK (225).

Reported tax amounted to -90 MSEK (-175). Reported tax was affected positively by 42 MSEK, with a valuation of tax losses in Norway from the Rica acquisition that are now estimated to be utilized.

Net profit dropped to 711 MSEK (882). Earnings per share after dilution totaled 6.86 SEK per share (8.58). Excluding currency effects related to the revaluation of loans, earnings per share after dilution amounted to 7.04 SEK per share (6.85).

Growth in RevPAR and net sales compared with 2016

Jan–Dec 2017	RevPAR, SEK	RevPAR, %	Net sales, MSEK	Net sales, %
LFL contribution to growth	31	4.9	621	4.7
Exchange rate impact	6	0.8	114	0.9
New/exit hotels	0	0.0	765	5.8
Reported growth	**37**	**5.7**	**1,500**	**11.5**

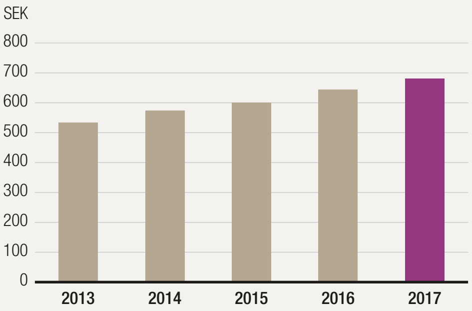
LFL contribution to growth = LFL portfolio change in RevPAR and net sales in relation to the total portfolio.

Financial targets

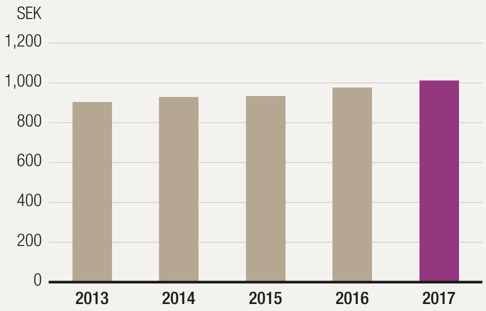
In September 2015, Scandic adopted the following medium- to long-term financial targets:

- Annual net sales growth of at least 5 percent on average over a business cycle, excluding potential M&As.
- An adjusted EBITDA margin of at least 11 percent on average over a business cycle.
- A net debt in relation to adjusted EBITDA of 2–3x.
- The dividend shall amount to 50 percent of the year's results. For 2017, the Board of Directors proposes that the Annual General Meeting resolve on a dividend of 3.40 SEK (3.15) per share. The dividend will be paid out in two equal amounts on two occasions during the year.

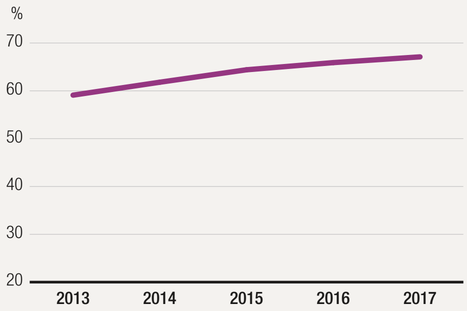
RevPAR, SCANDIC



AVERAGE ROOM RATES, SCANDIC



OCCUPANCY, SCANDIC



Five-year summary

MSEK	2017	2016	2015	2014	2013
Financial key ratios – income statement					
Net sales	14,582	13,082	12,192	10,826	7,882
Net sales growth, %	11.5	7.3	12.6	37.4	-1.9
Net sales growth LFL, %	4.7	6.6	7.3	4.5	-3.5
Adjusted EBITDAR	5,335	4,896	4,406	3,826	2,734
Adjusted EBITDA	1,570	1,513	1,246	1,019	693
EBITDA	1,473	1,462	1,114	686	589
Adjusted EBIT	1,022	976	745	544	292
EBIT (Operating profit/loss)	925	925	613	211	187
Adjusted EBITDAR margin, %	36.6	37.4	36.1	35.3	34.7
Adjusted EBITDA margin, %	10.8	11.6	10.2	9.4	8.8
EBITDA margin, %	10.1	11.2	9.1	6.3	7.5
Adjusted EBIT margin, %	7.0	7.5	6.1	5.0	3.7
Operating margin (EBIT), %	6.3	7.1	5.0	1.9	2.4
Profit/loss for the year attributable to the Parent Company	707	879	117	-439	-248
Financial key ratios – financial position					
Balance sheet total	16,964	14,144	12,900	13,456	11,322
Equity attributable to the Parent Company	7,356	7,103	6,205	3,614	3,126
Working capital	-1,501	-1,161	-1,132	-909.2	-690
Interest-bearing net liabilities	3,629	2,709	3,355	6,073	4,555
Interest-bearing net liabilities/adjusted EBITDA	2.3	1.8	2.7	6.0	6.6
Cash flow from operating activities	1,544	1,609	1,186	790	545
Operating cash flow	-549	890	401	-1,596	111
Key ratios per share					
Average number of shares [1)]	103,003,004	102,457,837	81,826,211	81,826,211	81,826,211
Earnings per share, SEK	6.86	8.58	1.43	-5.36	-3.03
Equity/share, SEK	71.4	69.3	75.8	44.2	38.2
Hotel-related key ratios					
RevPAR (Average Revenue Per Available Room), SEK	680	643	601	574	534
ARR (Average Room Rate), SEK	1,027	976	934	927	903
OCC (Occupancy), %	67.1	65.9	64.4	61.8	59.1

SEGMENT

Sweden

MSEK	Jan–Dec 2017	Jan–Dec 2016	Change, %
Net sales	5,977	5,637	6.0
Net sales growth, %	6.0	11.3	
Net sales growth LFL, %	1.7	6.6	
Adjusted EBITDA	875	975	-10.3
Adjusted EBITDA margin, %	14.6	17.3	
RevPAR, SEK	710	693	2.4
ARR, SEK	1,029	1,012	1.7
OCC, %	68.9	68.5	

Net sales rose by 6.0 percent to 5,977 MSEK (5,637). Net sales for comparable units grew by 1.7 percent. Market capacity in Stockholm increased gradually over the year, faster than demand, which resulted in lower occupancy.

Changes in the hotel portfolio contributed 4.3 percent or 242 MSEK to the increase in sales. The greatest contribution was from Downtown Camper by Scandic, which opened on September 1, 2017, from Haymarket by Scandic, which opened in Stockholm on May 10, 2016 and from Scandic Continental, which opened on April 1, 2016.

Average Revenue Per Available Room (RevPAR) increased by 2.4 percent compared with the same period the previous year. RevPAR for comparable units grew by 1.5 percent.

Adjusted EBITDA before pre-opening costs for new hotels dropped to 875 MSEK (975). Last year's figure included a non-recurring compensation of 65 MSEK from a property dispute. The adjusted EBITDA margin, excluding the non-recurring compensation, declined to 14.6 percent (16.1).

The decline in adjusted EBITDA is chiefly attributable to Scandic's operations in Stockholm, where sales dropped in the latter part of the year without it being possible to adjust costs to the same extent.

Norway

MSEK	Jan–Dec 2017	Jan–Dec 2016	Change, %
Net sales	4,586	3,744	22.5
Net sales growth, %	22.5	0.8	
Net sales growth LFL, %	9.4	–1.5	
Adjusted EBITDA	490	363	35.2
Adjusted EBITDA margin, %	10.7	9.7	
RevPAR, SEK	617	559	10.3
ARR, SEK	988	938	5.4
OCC, %	62.4	59.7	

Net sales rose by 22.5 percent to 4,586 MSEK (3,744). Net sales for comparable units grew by 9.4 percent.

Changes in the hotel portfolio contributed 11.7 percent or 440 MSEK to the increase in sales. Over the year, Scandic Ambassadeur Drammen and the Grand Hotel by Scandic in Oslo were opened in addition to four hotels that were added in the Pandox and Eiendomsspar transaction, which was implemented in the second quarter. Also, Scandic Flesland Airport was opened in Bergen on April 3, 2017 while a hotel in Tromsø was exited at the end of 2016.

Average Revenue Per Available Room (RevPAR) increased by 9.0 percent in local currency compared with the same period the previous year. RevPAR for comparable units grew by 9.4 percent.

Adjusted EBITDA before pre-opening costs for new hotels increased to 490 MSEK (363).

The adjusted EBITDA margin rose to 10.7 percent (9.7). RevPAR growth affected the margin positively, while new hotels initially contributed a margin below the average for the hotel portfolio in Norway.

Other Nordic countries and Europe

MSEK	Jan–Dec 2017	Jan–Dec 2016	Change, %
Net sales	4,019	3,701	8.6
Net sales growth, %	8.6	8.5	
Net sales growth LFL, %	4.6	10.8	
Adjusted EBITDA	606	522	16.1
Adjusted EBITDA margin, %	15.1	14.1	
RevPAR, SEK	708	659	7.5
ARR, SEK	1,012	958	5.7
OCC, %	70.0	68.8	

Net sales rose by 8.6 percent to 4,019 MSEK (3,701). Net sales for comparable units grew by 4.6 percent. Changes in the hotel portfolio contributed 2.2 percent or 83 MSEK to the increase in sales. It was mainly Scandic Sluseholmen in Copenhagen and the hotels that were opened in 2016, Scandic Vaasa in Finland and Scandic Aalborg City in Denmark, that contributed to the increase.

Average Revenue Per Available Room (RevPAR) increased by 5.8 percent in local currencies compared with the same period the previous year. RevPAR for comparable units grew by 6.0 percent.

Adjusted EBITDA before opening costs for new hotels increased to 606 MSEK (522).

The adjusted EBITDA margin grew to 15.1 percent (14.1), mainly due to positive margin development in Finland.

Central functions

Adjusted EBITDA for central functions and Group adjustments amounted to -401 MSEK (-347) for the year. Costs for central IT and Commercial functions increased, driven by greater investments in digitalization, infrastructure and IT security. The increase is also attributable to a number of non-recurring items in the fourth quarter including costs for Scandic's long-term incentive program and other personnel costs.

Financial position

The balance sheet total on December 31, 2017 was 16,964 MSEK, compared with 14,144 MSEK on December 31, 2016. The increase in the balance sheet total was largely attributable to the Restel acquisition, which is included in the balance sheet as of December 31, 2017. Interest-bearing net liabilities increased in the period from 2,709 MSEK on December 31, 2016 to 3,629 MSEK on December 31, 2017. In connection with the Restel acquisition, a finance lease liability of 1,735 MSEK was identified in relation to hotel property leases and corresponding tangible fixed assets. Financial lease liabilities are not included in the definition of interest-bearing net debt.

The increase in net debt over the year was largely due to the Restel acquisition, which was financed through a bank loan. Loans to credit institutions totaled 3,769 MSEK at the end of the year. Net debt on December 31, 2017 corresponded to 2.3x adjusted EBITDA for the past twelve months (1.8x as per December 31, 2016). In 2017, pro forma including adjusted EBITDA for Restel, net debt was 2.1x adjusted EBITDA.

On December 31, 2017, the total number of shares and votes was 103,003,004 after dilution. Total equity was 7,356 MSEK compared with 7,103 MSEK on December 31, 2016.

Cash flow and liquidity

Operating cash flow amounted to -549 MSEK (890) in 2017. The major reason for the change compared with the previous year is the Restel acquisition on December 29, 2017 of 1,146 MSEK.

The cash flow contribution from the change in working capital amounted to 196 MSEK (150) with a seasonally strong fourth quarter. The Group has negative operating capital as the majority of revenue is paid in advance or in direct connection with stays.

Paid tax amounted to -125 MSEK (-3) and included payment of -96 MSEK related to an assessment in Finland for the fiscal year 2008 that was announced on October 19, 2017. The decision has been appealed and no part of the paid tax has been expensed. The contingent liability has been updated to 404 MSEK considering total exposure for the years 2008 to 2016 excluding interest.

Net investments during the period amounted to -2,093 MSEK (-719), of which hotel renovations accounted for -618 MSEK (-450) and IT for -55 MSEK (-37). Investments in new hotels and increased room capacity totaled -291 MSEK (-232) and acquisitions and disposals of Restel of -1,146 MSEK (-) and Vierumäki of 17 (-).

Cash flow from financing activities was -372 MSEK (-107) over the year. The change is chiefly explained by a payment of 325 MSEK in dividends to shareholders in May. Net borrowing was 9 MSEK, comprising a net of amortization in connection with the refinancing in June and borrowing in connection with the Restel acquisition.

On June 22, 2017, Scandic Hotels Group AB entered into a 5,000 MSEK loan agreement with DNB Sweden AB, Svenska Handelsbanken AB (publ) and Nordea Bank AB (publ). The loan agreement replaces a previous agreement that was initially concluded on July 1, 2015, with an unchanged maturity of June 30, 2020 and an option to extend the agreement by two years. The 5,000 MSEK total credit line is divided into a 1,500 MSEK long-term loan and a 3,500 MSEK multicurrency revolving credit facility. The terms and conditions relating to margins and covenants remain unchanged. The loan agreement provides increased flexibility to avoid excess liquidity by adjusting utilized credit based on liquidity requirements and seasonal variations as well as the ability to take out loans in relevant currencies in an effective manner. Greater flexibility and a higher share of loans in SEK are expected to reduce the annual interest expense by approximately 15 MSEK, based on unchanged interest rate levels.

When the loan entered into force on June 30, 2017, the company ceased to apply hedge accounting aimed at hedging net investments in its foreign subsidiaries in Finland, Denmark and Norway. Only minor currency effects are expected in net financial items from this time. For the second half year, currency effects totaled 5 MSEK.

At the end of the period, the Group had 140 MSEK (1,068) in cash and cash equivalents. Unused credit facilities totaled 1,182 MSEK (1,000),

Acquisitions and divestments

At the end of the period, Scandic had 49,983 rooms in operation at 262 hotels. On June 21, 2017, the Scandic Group signed an agreement to acquire 100 percent of the share capital in Restel Hotellit Oy. On December 29, 2017, the Scandic Group completed the acquisition of 100 percent of the share capital of Restel Hotellit Oy for 1,160 MSEK. The acquisition price is preliminary and will be updated after a final reconciliation of liquid assets, working capital and investments compared with the targets for respective item that are stated in the acquisition agreement. Restel's operations include 43 hotels in Finland and through the acquisition, Scandic will gain nationwide coverage in the Finnish market. Restel's portfolio currently consists of approximately 7,600 hotel rooms at 43 hotels with long-term lease agreements, seven of which are operated through franchise agreements with InterContinental Hotels Group. Most of the hotels are operated under the Cumulus brand and will be converted into Scandic hotels over time.

Scandic sees good opportunities for sales growth and margin improvement in the acquired hotel portfolio in the coming years. There is potential to increase revenues through rebranding the hotels as Scandic hotels and the strengthened offering in the Finnish market. In addition, costs are expected to decrease through coordinating administration and purchasing.

Since the acquisition was carried out on December 29, 2017, the acquired company has not had an impact on Group earnings as per December 31, 2017.

Acquisition-related expenses of -47 MSEK are included in non-recurring items in the consolidated income statement as per December 31, 2017. For more information, see Note 29.

On September 29, the Scandic Group signed an agreement to divest its hotel operations at Scandic Vierumäki in Finland to the Vierumäki Country Club. The hotel, which has 180 rooms, had been operated by Scandic since 2010. The sale has given rise to a profit of 17 MSEK that is included in non-recurring items.

Portfolio development

At the end of the year, Scandic had 49,983 rooms at 262 hotels, of which 240 had lease agreements. On December 29, 2017, 42 more hotels with 7,324 rooms in Finland were added through the acquisition of Restel, which will contribute to Scandic's sales and results from January 1, 2018. During the year, the number of hotels in operation increased by a net of 39 and the number of rooms by 8,411. New hotels in operation during the year were Scandic Drammen, Norway (289 rooms), Scandic Flesland Airport, Norway (300 rooms), Grand Hotel by Scandic, Norway (283 rum), Scandic Valdres, Norway (139 rooms), Scandic Sørlandet, Norway (210 rooms), Scandic Hafjell, Norway (210 rooms), Scandic Lillehammer, Norway (303 rooms), Scandic Sluseholmen, Denmark (215 rooms), Scandic Kista, Sweden (149 rooms), Scandic Prince Philip, Sweden (208 rooms) and Downtown Camper by Scandic (494 rooms).

Research and development

No R&D work was carried out during the year since the operations of the company are not of the type requiring R&D.

Share and ownership structure

The Scandic share has been listed on Nasdaq Stockholm's Nordic Mid Cap list since December 2, 2015. According to the company's share register maintained by Euroclear Sweden AB, Scandic had 12,274 shareholders at year-end 2017. Each share has equal voting rights, equal rights to the assets and profits and an equal right to dividends of the share capital. Rolf Lundström through Novobis and private holdings was the largest shareholder, with 16.3 percent of the share capital and votes. Stena Sessan Rederi AB, which is part of the Stena sphere of companies, held 14.6 of the capital and votes in Scandic at year-end. Scandic has entered into a share swap agreement with a third party to ensure the delivery of shares that may be allotted according to the Long-Term Incentive Program (LTIP). If the full number of matching shares and performance shares is allotted, the total number of shares allotted under the LTIP will amount to 615,602, corresponding to approximately 0.60 percent of Scandic's share capital and votes.

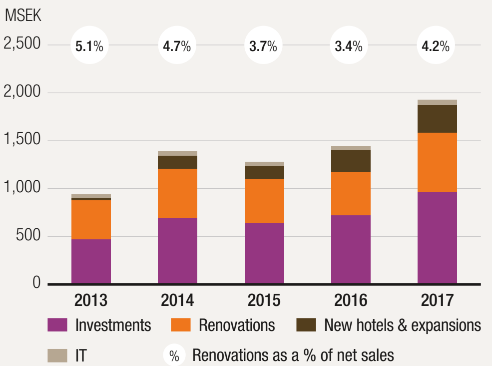
Risks and risk management

A description of Scandic's significant risks and uncertainties is provided in the Risks and risk management section on pages 68–71.

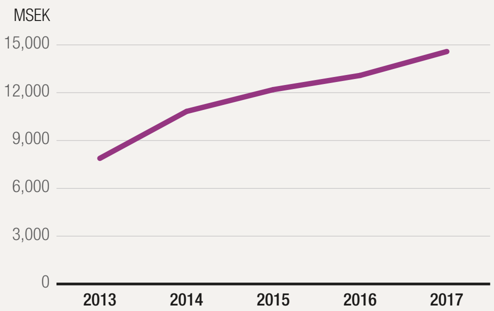
Employees

The average number of employees was 9,929 on December 31, 2017 compared with 9,359 on December 31, 2016. Scandic aims to be an equal opportunity employer and to provide a safe work environment, which among other things is governed by the Group's Code of Conduct. During the year, the annual employee survey again showed good results and improvements within

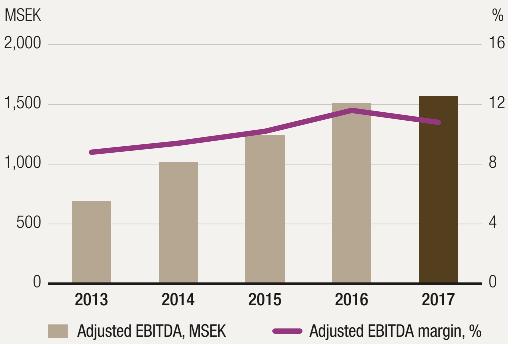
INVESTMENTS, 5 YEARS



NET SALES



ADJUSTED EBITDA AND MARGIN



leadership, motivation and commitment to the company. According to the research company TNS Sifo, Scandic is ranked as an "excellent" company from an employee perspective.

Sustainability report

Scandic has prepared a sustainability report in accordance with the Annual Accounts Act, which is submitted by the Board. The Sustainability Report can be found on pages 1–11 and 34–59. The Sustainability Report includes the Parent Company and the Swedish subsidaries.

Executive Committee and Board of Directors

Scandic has a diversified Executive Committee with solid experience from the hotel sector and consumer-oriented operations in various markets. The Executive Committee consists of the CEO and eight senior executives: The Chief Financial Officer (CFO), the Senior Vice President Human Resources & Sustainability (SVP Human Resources & Sustainability), the Vice President Business Development (VP Business Development) and the Heads of Sweden, Norway, Denmark, Finland and Europe. In addition, the CEO is also the acting Chief Commercial Officer (CCO). Five nationalities are represented in the Executive Committee, which is composed of eight men and one woman.

At the Annual General Meeting on May 10, 2017, Vagn Sørensen, Ingalill Berglund, Per G. Braathen, Grant Hearn, Lottie Knutson, Christoffer Lundström, Eva Moen Adolfsson and Fredrik Wirdenius were re-elected and Martin Svalstedt was elected as new member of the Board for the period until the next Annual General Meeting. Vagn Sørensen was re-elected as Chairman of the Board.

Guidelines for remuneration to senior executives

Guidelines for remuneration and other terms of employment for the CEO and senior executives were adopted at the Annual General Meeting held on May 10, 2017. See the Corporate Governance Report on page 72 for further information.

Long-Term Incentive Program

Scandic has a share-based Long-Term Incentive Program (LTIP). The expected financial exposure to shares that may be allotted under the LTIP and the delivery of shares to the participants of the LTIP have been hedged through Scandic's entering into a share swap agreement with a third party on market terms.

For further information, see Note 6 and page 72 of the Corporate Governance Report.

Events after the reporting date

On January 16, Scandic announced that it expected lower earnings for the fourth quarter 2017. This is a result of lower earnings in Swedish operations and non-recurring costs for central functions.

On January 30, Scandic launched a new version of its Scandic Friends loyalty program and a new app.

On February 15, it was agreed to amend the loan agreement, increasing the total credit line by 500 MSEK in the form of a multi-currency revolving credit facility that will apply until February 12, 2019.

On February 20, the Nomination Committee of Scandic Hotels Group AB announced that Vagn Sørensen had informed the committee that he would stand down as Chairman and member of the Board of Directors from the Annual General Meeting 2018. This is due to time constraints from other international board appointments.

On February 27, the Nomination Committee of Scandic Hotels Group AB announced that it would propose that the Annual General Meeting to be held on April 26, 2018 elect Per G Braathen as new Chairman of the Board of Directors and Frank Fiskers as new member of the Board.

Outlook

In total, there were 18 hotels in the pipeline with close to 6,000 rooms, which constitutes a good platform for growth in the coming years. Scandic estimates that revenue growth for comparable entities, adjusted for calendar effects, will be positive in the first quarter, in line with development in the fourth quarter. The fact that Easter falls partly in the first quarter of this year is expected to have a negative impact on the quarter's revenue of 4–5 percentage points.

Integration costs for Restel are expected to be approximately 150 MSEK in 2018 and investments related to integration are estimated at around 50 MSEK in 2018. Most of these costs are related to the first half of the year. Restel's revenue growth is expected to be impacted slightly by ongoing renovations in 2018. Most of Restel's sales are normally generated between the second and fourth quarter of the year.

Parent Company

The operations of the Parent Company, Scandic Hotels Group AB, include management services for the rest of the Group. Revenues for the period amounted to 54 MSEK (29). Operating losses totaled -17 MSEK (-7). The net financial expense for the period was till 8 MSEK (17) The Parent Company's profit before taxes was 325 MSEK (76).

Appropriation of profits

In accordance with the Board's dividend policy adopted on September 14, 2015, Scandic aims to distribute at least 50 percent of its net profit from the financial year 2016 onwards.

Decisions regarding the appropriation of profits are made with consideration to the company's future profits, financial position, capital requirements and macroeconomic conditions.

The Board proposes that the profits be distributed as follows:

	SEK
Dividend to shareholders, 3.40 SEK per share	350,149,255
To be carried forward	6,229,766,528
Total	**6,579,915,783**

Board of Directors proposes that dividend be paid out in two equal amounts of 1.70 SEK per share on two occasions. The proposed record date for the first payment is April 30, 2018 and for the second payment October 30, 2018.

For more information, please see the financial statements and notes.

Hotels and rooms in operation and under development

	Operational										Under development	
	Lease agreements		Management agreements		Franchise and partner agreements		Owned		Total		Total	
31 Dec 2017	Hotels	Rooms	Hotels	Rooms	Hotels	Rooms	Hotels	Rooms	Hotels	Rooms	Hotels	Rooms
Sweden	79	16,580	1	145	5	600	-	-	85	17,325	2	705
Norway	67	12,947	-	-	13	1,837	1	135	81	14,919	4	990
Denmark	23	3,879	1	210	-	-	-	-	24	4,089	5	1,859
Finland	66	12,158	-	-	1	67	-	-	67	12,225	5	1,622
Rest of Europe	5	1,425	-	-	-	-	-	-	5	1,425	2	799
Total	**240**	**46,989**	**2**	**355**	**19**	**2,504**	**1**	**135**	**262**	**49,983**	**18**	**5,975**

All hotels under development will be operated through lease agreements, except Scandic Gällivare (80 rooms) that will be operated under a franchise agreement.

RISKS AND RISK MANAGEMENT

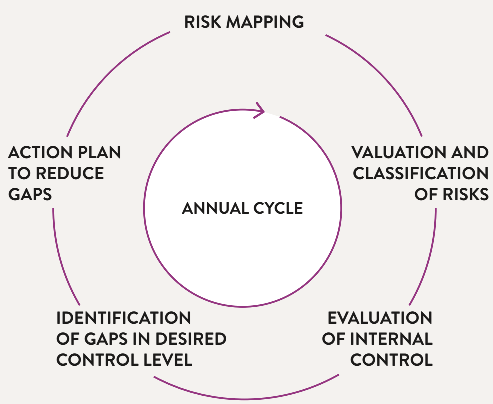
All business activities are associated with risks. Scandic has developed processes to handle different types of risks.

The ability to identify, assess, manage and monitor risks is an important part of the management and control of Scandic's business operations. The aim is that the Group's objectives will be achieved through well-considered risk-taking within established limits.

The risk management process includes strategic, operational and financial risks.

Scandic has good underlying risk diversification in the form of a geographically diverse and balanced customer base. The Group operates primarily in the Nordic market through 262 hotels that serve its customers. Of the Group's revenues, corporate travel accounts for approximately 70 percent and leisure travel for about 30 percent. Scandic is not dependent on a specific industry or a few customers.

For a detailed description of internal controls designed to manage risks relating to financial reporting, see pages 72–83 in Scandic's Corporate Governance Report.



Risk management process

Scandic has established a risk management process designed to identify and reduce risks that can have an adverse effect on the Group's earnings and cash flow, brand and reputation or long-term competitiveness. The process that provides a framework for the Group's risk management follows an annual cycle:

- The Executive Committee carries out risk mapping where risks are identified and measured based on the probability that they will occur as well as the consequences of their occurrence on the Group's operations and financial position. This results in a risk map where each risk is classified as low, medium or high. The internal controls and the control environment are then evaluated to ensure that relevant controls are in place that can reduce risks both in terms of probability and consequences.
- Based on the Group's risk profile and risk strategy, any gaps in relation to the desired level of control are identified. Thereafter, an action plan is developed to reduce gaps where the value of reducing the risk is measured against the cost of establishing and maintaining internal controls.
- The structure and frequency of monitoring risk status and action plans is determined. Strategic risks are reported to the Board and monitored in connection with strategy meetings, establishing business plans and regular Board meetings. Financial risks are reported and monitored both in financial reporting to the Board and at Audit Committee meetings according to the agenda adopted at the annual general meeting. Operational risks are managed by the Executive Committee, but more significant risks are reported regularly to the Board.

Responsibility and monitoring

The Board of Directors has overall responsibility for ensuring that the Group has appropriate risk management structures in place. The Board is also responsible for monitoring strategic risks. The Audit Committee is responsible for evaluating the efficacy of the structure and risk management processes. The Audit Committee is also responsible for monitoring financial risks in accordance with the committee's instructions.

The President & CEO is responsible for managing risks in accordance with the guidelines adopted by the Board. The risk management process and work within specially identified risk areas are driven centrally by the Group's Chief Financial Officer, who has overall responsibility. Operational risks are managed by the Executive Committee where each significant risk identified is assigned to a designated manager who is responsible for proposing measures to fill any gaps and ensure the execution of action plans. Financial risks are managed by Group Finance in accordance with Board-approved policies and instructions and are reported by the Chief Financial Officer to the Audit Committee.

Sustainability risks

Over the year, an evaluation of sustainability risks was carried out. The evaluation considered all four areas of the UN Global Compact: environment, human rights, labor and anti-corruption. The results were included in Scandic's work to develop its sustainability strategy. The company's business development and its operational and strategic decisions include sustainability as a parameter that is evaluated based on opportunities and risks. The management of sustainability risks is an integrated element of the Group's risk management process.

Strategic and operational risks

The following pages provide a description of the most significant risks to which Scandic's operations are exposed. These are not the only risks and there may be other risks that are currently considered immaterial that may have a negative effect on the Group's business, financial performance or position. The order in which risks are presented should not be considered an indication of the probability of the occurrence of the risk or the seriousness of the consequences.

Strategic risks include external factors that may affect Scandic's business and long-term competitiveness as well as internal factors that could lower the prospects of achieving Scandic's strategic business objectives. Operational risks are risks over which Scandic has control and primarily include processes, assets and people.

Business risk

A change in RevPAR due to variable rental costs and variable costs will have an impact of approximately 40 to 60 percent on EBITDA. Based on Group results and assuming that all other factors except RevPAR remain unchanged, Scandic assesses that an increase or decrease of 1 percent in RevPAR will have an impact of approximately 30 to 50 MSEK on EBITDA on an annual basis, where the higher value relates to a change driven entirely by the average room rate and the lower value refers to a change driven solely by occupancy.

MARKET RISKS

Scandic operates in a sector where demand for hotel nights and conferences is influenced by the underlying domestic development and purchasing power in the geographic markets in which Scandic does business, as well as development in countries from which there is a significant amount of travel to Scandic's domestic markets.

Additionally, profitability in the sector is impacted by changes in room capacity where when new hotels are established, occupancy can decrease in the short term. In the long term, however, greater availability of rooms can help generate interest in particular destinations for business and leisure travel, thereby increasing the number of hotel rooms sold.

Increased growth in apartment hotels and concepts such as Airbnb as well as the rising use of video conferencing may impact demand for traditional hotel and conference services.

Competition from digital distribution channels and search engine companies may reduce traffic to Scandic's own distribution channels, which could have a negative impact on Scandic's operations and profitability.

Risk management

Scandic operates in the mid-market hotel segment, which historically has demonstrated greater resilience in economic downturns.

Scandic's business model is based on lease agreements where approximately 90 percent of the agreements have variable, revenue-based rents. This results in lower profit risks since revenue losses are partly offset by reduced rental costs. Scandic's other expenses also include a high share of variable costs where above all, staffing flexibility is important to be able to adapt cost levels to variations in demand. All together, this means that by having a flexible cost structure, Scandic can lessen the effects of seasonal and economic fluctuations.

Scandic sells products to a wide range of customers and industries. The company has achieved a high percentage of satisfied and returning customers and guests.

A significant share of distribution, just over 60 percent, is achieved through Scandic's own channels, and a high level of revenues from members of Scandic's loyalty program contributes to revenue stability. Scandic invests regularly in achieving an optimal and customer-focused buying process and maintaining a leading digital dialogue with customers. To increase the inflow of international leisure travelers, distribution through digital channels with international reach is essential.

POLITICAL RISK, TAXES AND DECISIONS OF AUTHORITIES

Changes in VAT or other taxes may affect demand for hotel stays, conference facilities and restaurants. Changes in taxes, social security fees and other fees that increase Scandic's costs may have a negative effect on the Group's results. Scandic is also impacted by regulations and legislation on the EU and national levels. Among other things, Scandic's operations will be impacted when the EU introduces the General Data Protection Regulation (GDPR) that will come into effect on May 25, 2018 and lead to stricter requirements on handling personal data.

Risk management

Scandic operates only in countries that are politically mature and stable, which leads to a low political risk. Through geographic spread, the risk that changes to legislation and regulations in a single country may impact Scandic's earnings negatively is reduced. During 2017, Scandic worked to prepare for the new requirements resulting from the introduction of the GDPR in 2018.

LEASE AGREEMENTS – FINANCIAL COMMITMENTS

Scandic's business model is based on lease agreements. These agreements are signed for a period of typically 15 to 20 years, with the option to extend in many cases. According to these agreements, the property owner and the tenant (Scandic) share responsibility for investments in and maintenance of the property. Scandic's commitment relates in general to maintenance and replacement of finishes, furniture, fixtures and equipment. Historically, these investments have accounted for 3 to 4 percent of Scandic's net sales.

Risk management

The risk involved in long-term financial commitments is reduced through a high proportion of agreements with variable rent. Of Scandic's total lease agreements (based on the number of rooms), approximately 90 percent have fully variable rent or variable rent with a minimum guaranteed rent. The latter is the most common contract model in the Nordic countries.

Revenue-based rent and joint investment responsibility mean that the property owner and tenant have a common interest in developing and maintaining the property in order to increase guest satisfaction and generate revenue. Scandic prepares rolling plans for renovating and maintaining hotels to ensure their standard, attractiveness and ability to continue to generate good revenue.

According to Scandic's portfolio strategy, the company only enters into lease agreements for hotels in markets that have good, stable demand, that are in attractive locations and that have the scale and configuration that allow for good profitability and thereby low commercial risk. Where these criteria are not met and the risk of entering into a lease agreement is deemed too high, a franchise agreement may be considered if the geographic location of the property has a strategic value or may contribute to increasing the value of Scandic's loyalty program by improving geographic reach.

BRAND AND REPUTATION	Risk management
The hotel market is constantly evolving in terms of preferences and customer behavior. For this reason, it is extremely important for a hotel company to ensure that its brand and content as well as its perceived position remain relevant and appreciated at all times. Maintaining the strength and relevance of the Scandic brand and customer perception of Scandic's offering and concept is therefore critical to ensure long-term competitiveness.	Scandic is the leading brand in the Nordic countries and the Scandic brand is one of the Group's most valuable assets. Scandic's loyalty program, Scandic Friends, is the largest in the Nordic hotel industry. In 2017, Scandic Friends generated about 35 percent of the Group's revenues from accommodations. By owning its brand, Scandic can guarantee the consistency and quality of its offerings and service and also ensure that the content and offering are constantly adapted to the demands and preferences of both existing and new customers. Scandic's Code of Conduct is based on social and environmental sustainability as well as ethical business conduct in all areas of its operations. The Code applies to all employees and also places demands on Scandic's suppliers and partners.

HUMAN RESOURCES AND TALENT MANAGEMENT	Risk management
Scandic operates in the service industry where each customer and guest experience has a great impact on how the Group's offering, quality and service are perceived. Employee engagement is a key driver in terms of customer satisfaction and it is therefore also central to the Group's long-term results. The ability to attract, develop and retain talents and build a good service and corporate culture is thus critical to Scandic's success.	Scandic has a strong corporate culture and to strengthen it further, the company's cultural platform has been fully implemented in the Group. Each year, Scandic conducts an employee survey that has a very high response rate and high scores when it comes to job satisfaction. The insight obtained through this survey is an important tool for continued improvement throughout the entire organization. Scandic develops leadership through regular evaluation and development programs at all levels of the organization, including Scandic Business School. Talent@Scandic is the Group's program for training leaders and developing talents.

SUSTAINABILITY	Risk management
Hotel security The risk of incidents associated with hotel security, such as fire, accidents involving staff or guests or terror incidents.	Scandic has a security program that includes crisis management in the event of fire, accidents or terror incidents. The security program includes having AEDs (automated external defibrillators) in all hotels. All employees receive regular training and self-inspections are carried out twice per year. In 2018, an evaluation will be carried out and measures will be implemented to ensure that the internal organization for security is optimal in all countries.
Supply chains Scandic requires all suppliers to comply with the UN Global Compact criteria. In addition, Scandic has detailed requirements, including environmental aspects. There is a risk that suppliers do not comply with these detailed requirements.	Scandic has a process requiring suppliers to report on their sustainability work. In 2017, audits, i.e. onsite follow-up at the suppliers' premises, were also carried out to ensure compliance with the requirements.
Working conditions There is a risk that working conditions do not reach the level where the health and safety of employees can be guaranteed.	Scandic carries out regular safety audits in its hotels to ensure employee safety. These are followed up with annual self-inspections and evaluations by the employees of their physical and psychosocial work environment as part of the annual employee survey. In 2017, Scandic also introduced an anonymous Whistleblowing Service that makes it possible to report serious deviations/incidents anonymously.

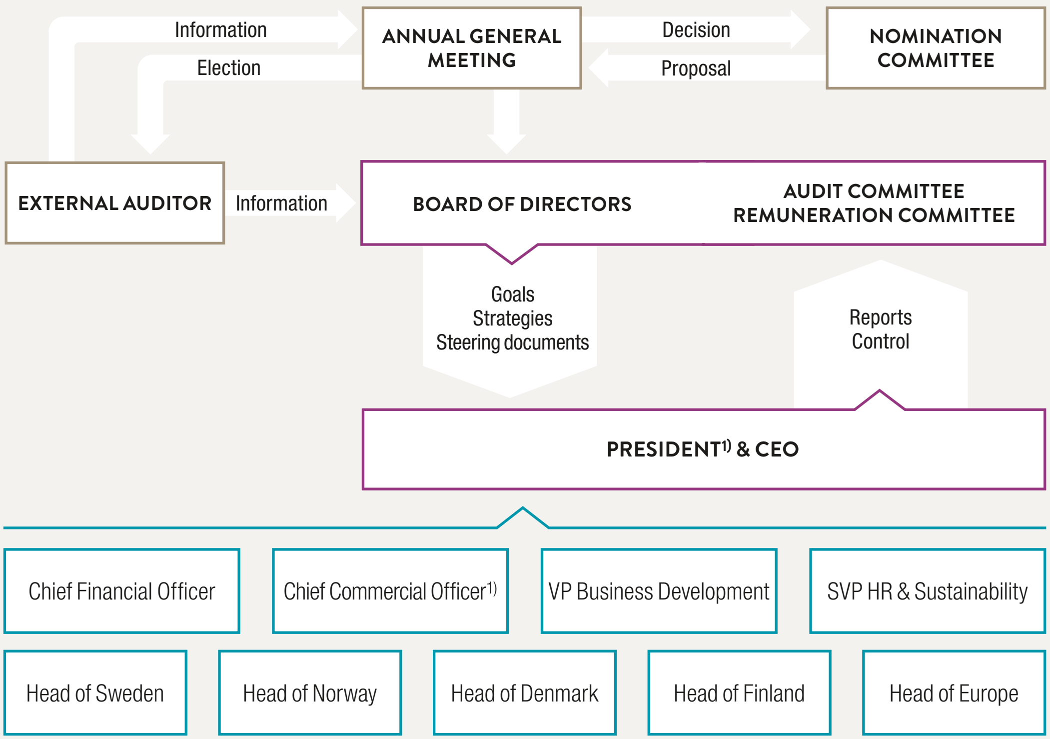
SUSTAINABILITY cont.	Risk management
Property ownership structure Scandic does not own any hotel properties. This means that Scandic is dependent on the property owners implementing measures to reduce their environmental impact, such as systems for ventilation and heating. There is a risk that property owners do not want to make this type of investment, which makes it more difficult for Scandic to meet its CO_2 emission targets.	Scandic is engaged in continuous dialogue with its property owners, encouraging them to implement measures to reduce their environmental impact.
Corruption and fraud There is a risk that Scandic's routines are not secure enough to prevent corruption and/or fraud in various forms.	Scandic has internal rules and procedures in place that are intended to prevent corruption and fraud. Managers and leaders also receive training in these areas. In 2018, Scandic will review the structure to ensure compliance with the rules and procedures.
Trafficking and prostitution Hotels are locations where prostitution and various forms of trafficking may occur. This is a risk, as this type of activity attracts other forms of crime and poses a direct danger to the victims.	In cooperation with the police, the employer organization, the unions and the authorities, Scandic has developed a training program aimed at helping hotel employees detect if trafficking or prostitution is occurring at a hotel. In 2018, this training program will also be offered in Norway, Denmark and Finland.

FINANCIAL RISKS	Risk management
The Group's activities expose it to a variety of financial risks: market risk (including exchange rate risk and interest rate risk), credit risk and liquidity risk. The Group's overall financial policy focuses on the unpredictability of the financial markets and seeks to minimize potential adverse effects on the Group's financial result.	Risk management is handled by Group Finance in accordance with policies established by the Board of Directors. These include overall risk management as well as risk management for specific areas such as exchange rate risk, interest rate risk, credit risk, the use of derivatives and non-derivative financial instruments and investment of excess liquidity. Group Finance identifies, evaluates and hedges financial risks in close collaboration with the Group's operating units. For a description of the management of financial risks, see Notes 20b and 20c.

CORPORATE GOVERNANCE

Scandic is a Swedish public limited liability company, with its registered office in Stockholm, whose shares are listed on Nasdaq Stockholm's Nordic Mid Cap list. Scandic applies the Swedish Corporate Governance Code and hereby submits its Corporate Governance Report for the 2017 financial year.

CORPORATE GOVERNANCE AT SCANDIC



EXTERNAL STEERING INSTRUMENTS
- Swedish Companies Act
- Annual Accounts Act
- Other applicable legislation
- Nasdaq Stockholm's Rulebook for Issuers
- The Swedish Corporate Governance Code

INTERNAL STEERING INSTRUMENTS
- Articles of Association
- Rules of Procedure and Instructions for the Board/CEO
- Values
- Code of Conduct
- Policies and guidelines

[1] Even Frydenberg is acting Chief Commercial Officer.

THE BASIS OF SCANDIC'S CORPORATE GOVERNANCE

Scandic's corporate governance aims to support the Board of Directors and the Executive Committee so that all operations create long-term value for shareholders and other stakeholders. Governance includes upholding:
- an efficient organizational structure;
- systems for risk management and internal control; and
- transparent internal and external reporting.

GOVERNANCE STRUCTURE

Responsibility for the governance and control of Scandic is distributed between the shareholders, the Board of Directors, its appointed committees and the CEO. The governance of Scandic is based on external and internal governance instruments. The external governance framework includes the Swedish Companies Act, Nasdaq Stockholm's Rule Book for Issuers, the Swedish Corporate Governance Code (the "Code") and other applicable Swedish and foreign laws and regulations.

The internal binding governance instruments include the Articles of Association, the Rules of Procedure for the Board, instructions for the Board's committees and the CEO, values, the Code of Conduct, the authorization and delegation procedure, the Finance Policy, the Information Policy, the Insider Policy, the IT Security Policy, the Diversity and Inclusion Policy and guidelines for leases as well as for remuneration to senior executives.

GRI: G4-34, G4-56

DEVIATIONS FROM THE CODE

Scandic complies with the Swedish Corporate Governance Code with the following exception:

- Rule 9.7: Incentive programs – In order to adapt the vesting period for potential future share-related incentive programs, the vesting period in the Long-Term Incentive Program implemented in December 2015 is approximately 2.4 years and accordingly, it does not meet the requirement that the vesting period to the date for the acquisition of shares be no less than three years.

SIGNIFICANT EVENTS IN 2017

During 2017, a new President & CEO was appointed. The Chief Commercial Officer left the Company and responsibility for the commercial organization was taken over until further notice by the Group's Chief Executive Officer. The Board of Directors appointed a new deputy chairman during the year. The Annual General Meeting approved the Board's proposal to adopt a Long-Term Incentive Program for a maximum of 50 senior executives and key employees in the Scandic Group.

SHARE AND SHAREHOLDERS

The Scandic share has been listed on Nasdaq Stockholm's Nordic Mid Cap list since December 2, 2015. At year-end 2017, the share capital of Scandic was 25.7 MSEK divided into 102,985,075 shares with all shares conferring equal voting rights, an equal share of assets and earnings and an equal share of any dividends. Of the total share capital, 52.3 percent was held by Swedish investors and 47.7 percent by foreign investors. The ten largest shareholders represented 50.4 percent of the share capital and votes in the Company. During the year, the previous largest shareholder, Sunstorm Holding AB, sold holdings corresponding to 20.4 percent of the share capital and votes in the Company to Stena Sessan AB and Rolf Lundström, through Novobis and privately. At year-end, Rolf Lundström, through Novobis and privately, was the largest shareholder with 16.3 percent of the share capital and votes. At year-end, Stena Sessan's shareholding totaled 14.6 percent of the Company's share capital and votes.

SHAREHOLDERS' INFLUENCE THROUGH THE GENERAL MEETING

The shareholders exercise influence at the general meeting, which is Scandic's highest decision-making body. The general meeting adopts the Articles of Association and at the Annual General Meeting, which is the regular general meeting held annually, the shareholders elect the Board members, the Chairman of the Board and the auditor, and determine their fees. The Annual General Meeting further adopts the income statement and the balance sheet and decides on the appropriation of profits and whether to discharge the Board members and the CEO from liability to the Company. The Annual General Meeting also appoints the Nomination Committee, determines their work and adopts principles of remuneration and terms of employment for the CEO and other senior executives. Scandic's Annual General Meeting is held annually in Stockholm before the end of June. Extraordinary general meetings may be held as and when needed.

2017 ANNUAL GENERAL MEETING

At the Annual General Meeting held on 10 May 2017 in Stockholm, resolutions were passed on the following:

- Adoption of the income statement and balance sheet for 2016.
- Decision in accordance with the Board of Directors' proposal that a dividend of 3.15 SEK per share for the 2016 financial year be paid and that the rest of the free equity be carried forward.
- Discharge of the Board of Directors and the CEO from liability to the Company.
- Vagn Sørensen, Per G. Braathen, Grant Hearn, Lottie Knutson, Eva Moen Adolfsson, Fredrik Wirdenius, Ingalill Berglund and Christoffer Lundström were re-elected as Board members.Martin Svalstedt was elected as a new member. Vagn Sørensen was re-elected as Chairman of the Board.
- PricewaterhouseCoopers was reappointed as auditor, with Magnus Brändström as the auditor-in-charge for the period until the end of the 2018 Annual General Meeting.
- Remuneration to the Board of Directors and the auditor.
- Adoption of guidelines for remuneration to senior executives in accordance with the proposal of the Board.
- Adoption of the Long-Term Incentive Program and hedging measures for the program in accordance with the proposal of the Board.

2018 ANNUAL GENERAL MEETING

Scandic's 2018 Annual General Meeting will be held on April 26, 2018 in Stockholm. For more information, see page 128.

NOMINATION COMMITTEE

The Nomination Committee represents the Company's shareholders and is tasked with preparing proposals for the Annual General Meeting regarding the election of the Chairman of the Annual General Meeting, Board members, the Chairman of the Board and the auditor, as well as proposals for fees to the Board of Directors, fees to the auditors and, to the extent it is considered required, proposed changes to the instructions to the Nomination Committee. The Nomination Committee has adopted the guidelines stipulated in section 4.1 of the Code as the diversity policy as regards the composition of the Board of Directors. Proposals should be justified to reflect the requirement that the Board have a composition that is appropriate based on the Company's needs, characterized by versatility and breadth. The Nomination Committee strives to meet the Code's requirements for an even gender distribution and diversity mainly with regard to age, nationality and skills.

The Company shall have a Nomination Committee consisting of the Chairman of the Board and a representative of each of the three largest shareholders, based on shareholder statistics from Euroclear Sweden AB, as at the last banking day in August every year. The Nomination Committee's term of office shall run until a new Nomination Committee has been appointed.

Unless otherwise agreed by the members of the Nomination Committee, the Chairman of the Nomination Committee shall be the member who represents the largest shareholders based on the number of votes. If a shareholder should cease to be one of the three largest shareholders by number of votes during the Nomination Committee's term of office, the representative appointed by the shareholder in question shall resign, and the shareholder who has become one of the three largest shareholders by number of votes shall appoint a representative. Such a change is not necessary if the change in votes is marginal or if the change occurs later than three months prior to the Annual General Meeting, unless there are special reasons for it.

The names of the three shareholder representatives and the names of the shareholders represented by them shall be announced no later than six months prior to the Annual General Meeting.

The Nomination Committee for the 2018 Annual General Meeting

The Nomination Committee for the 2018 Annual General Meeting consists of four members and in addition to the Chairman of the Board of Directors includes representatives from the three largest shareholders. The work of the Nomination Committee was led by Joel Lindeman of Novobis AB. The composition of the Nomination Committee was published in a press release on October 11, 2017.

Nomination Committee	Representing	% of the number of votes as at 31 Dec 2017
Vagn Sørensen		
Joel Lindeman	Novobis AB	16.3
Johan Wester	Stena Sessan AB	14.6
Staffan Ringwall	Handelsbankens Fonder	4.4

In the work on nominations for the 2018 Annual General Meeting, the Nomination Committee assessed the size and composition of the current Board of Directors as well as Scandic's operations. Special weight was attached to industry-specific and financial expertise and an even gender distribution. The Nomination Committee complies with the guidelines in the Code regarding Board Member independence. Scandic's Diversity Policy was taken into account chiefly as regards equal gender distribution.The 2018 Nomination Committee held six meetings and maintained communication in between. The Nomination Committee based its work on the Chairman of the Board's report on the work of the Board of Directors and discussions with the CEO about the operations of the Company.

The proposals of the Nomination Committee will be presented at the 2018 Annual General Meeting and on Scandic's website at www.scandichotelsgroup.com

The website also presents the motivation behind the proposals, a report on the committee's work as well as a full presentation of the proposed members.

The Nomination Committee can be reached at nominationcommittee@scandichotels.com. For the Nomination Committee to consider suggestions, shareholders who wish to submit proposals may do so at any time, however before December 31. More information is available at www.scandichotelsgroup.com

JAN	FEB	MAR	APR	MAY	JUN
1	2 3	4	5	6 7 8	9 10
JUL	**AUG**	**SEP**	**OCT**	**NOV**	**DEC**
11		12	13	14	15

1. Investment decisions (per capsulam)
2. Change of President & CEO
3. Year-end report Q4, Investment decisions
4. Investment decisions, Follow-up on investments, Remuneration to senior executives
5. Investment decisions, Preparation for AGM
6. Q1 Interim Report, Investment decisions, Follow-up on investments, Evaluation of Executive Committee
7. Board meeting following election (per capsulam)
8. Investment decisions (per capsulam)
9. Investment decisions, Approval of binding offer for Restel, Financing decisions
10. Investment decisions, Approval of Restel transaction, Follow-up on investments, Follow-up on business plan for 2017, Strategy, Risk analysis
11. Q2 Interim Report
12. Investment decisions, Follow-up on investments, Approval of policies
13. Q3 Interim Report, Investment decisions, Succession planning, Evaluation of Board of Directors
14. Investment decisions
15. Investment decisions, Follow-up on investments, Short-term incentive program 2018, Budget 2018

BOARD OF DIRECTORS

The Board of Directors is responsible for Scandic's organization and the management of the Company's affairs. According to the Articles of Association, the Board of Directors shall consist of no fewer than three and no more than eleven Board members, with no more than two alternates. In addition, trade unions are entitled to appoint two regular Board members and two alternates. Board members are elected annually at the Annual General Meeting for the period up until the end of the subsequent Annual General Meeting.

Composition of the Board of Directors 2017

The Board of Directors currently comprises nine members and one employee representative elected for the period up until the end of the 2018 Annual General Meeting. Three of the nine Board members are foreign nationals. The CEO and the Group's Chief Financial Officer participate in Board meetings, as well as the Board's secretary. Other employees of the Group participate in Board Meetings as and when necessary to report on special matters.

Independence

None of the Board members are employed by the Scandic Group. All Board members are considered to be independent in relation to the Company and the senior executives. Seven of the nine Board members, who are independent in relation to the Company and the senior executives, are also independent in relation to the Company's major shareholders. Scandic thereby complies with the requirements in the Code regarding the Board of Directors' independence in relation to the Company, the senior executives and the Company's major shareholders.

Work of the Board of Directors

The duties of the Board of Directors are regulated in the Swedish Companies Act, the Company's Articles of Association and the Code. The work and procedures of the Board of Directors are decided annually in written Rules of Procedure. These rules govern the distribution of work and responsibilities among the Board members, the Chairman of the Board and the CEO, and the routines for financial reporting. The Board of Directors also adopts instructions for the committees of the Board of Directors.

Name	Position	Elected, year	Independent in relation to the company and senior executives	Independent in relation to the largest shareholders	Attendance and number of meetings[1)]	Committees, attendance and number of meetings[1)]	Remuneration 2017
Vagn Sørensen	Chairman	2007	Yes	Yes	15 (15)	4 (4) Remuneration	761,667
Ingalill Berglund	Member	2016	Yes	Yes	14 (15)	7 (7) Audit	475,833
Per G. Braathen	Vice Chairman	2007	Yes	Yes	15 (15)	2 (2) Remuneration	454,167
Albert Gustafsson	Member	2016	Yes	Yes	6 (15)	3 (7) Audit	154,166
Grant Hearn	Member	2014	Yes	Yes	14 (15)	4 (4) Remuneration	375,833
Lottie Knutson	Member	2015	Yes	Yes	13 (15)		325,833
Stephan Leithner	Member	2016	Yes	Yes	4 (15)	1 (4) Remuneration	154,167
Christoffer Lundström	Member	2016	Yes	No	15 (15)	4 (7) Audit	355,000
Eva Moen Adolfsson	Member	2014	Yes	Yes	15 (15)	4 (4) Remuneration	425,833
Niklas Sloutski	Member	2011	Yes	Yes	6 (15)	2 (7) Audit	154,167
Martin Svalstedt	Member	2017	Yes	No	8 (15)	3 (7) Audit	221,667
Fredrik Wirdenius	Member	2015	Yes	Yes	13 (15)	4 (7) Audit	355,000
Marianne Sundelius	Employee repres.	2017	No	Yes	6 (15)		24,000
Jan Wallmark	Employee repres.	2015	No	Yes	10 (15)		26,667
Total							**4,264,000**

1) Total number of meetings during the year. Martin Svalstedt joined the Board on 10 May 2017 and therefore was unable to attend all of the meetings in 2017. Albert Gustavsson, Stephan Leithner and Niklas Sloutski left the Board on 10 May 2017. Marianne Sundelius replaced Jan Wallmark as employee representative on 10 May 2017.

The duties of the Board of Directors include appointing the CEO, adopting strategies, business plans, budgets, interim reports, year-end accounts and annual reports as well as instructions, policies and guidelines. The Board of Directors shall also monitor the financial performance of the Company, ensure the quality of financial reporting and internal control and evaluate the operations in relation to the objectives and guidelines adopted by the Board of Directors. The Board of Directors also resolves whether to enter into or extend leases, franchise agreements and management agreements and whether significant investments or changes in the Group's organization and operations should be made. During the year, the Board also made decisions regarding the change of CEO and the acquisition of Restel.

The Chairman of the Board is responsible for the work of the Board of Directors, including ensuring that the work of the Board of Directors is conducted efficiently and that it fulfils its obligations in accordance with applicable laws and regulations. The Chairman of the Board shall, in close cooperation with the CEO, monitor the Company's performance and prepare and lead Board meetings. The Chairman of the Board is also responsible for ensuring that the Board members evaluate their work annually and continually receive the information required to conduct their work efficiently. The Chairman of the Board represents the Company vis-à-vis the shareholders.

Work during the year

During the year, nine regular Board meetings were held, of which one per capsulam, and six extraordinary meetings, of which three per capsulam. The Board dealt with issues related to investment decisions, property development, policies, remuneration to senior executives, the change of CEO and the potential acquisition of Finnish Restel.

COMMITTEES OF THE BOARD OF DIRECTORS

The Board of Directors has two committees: The Audit Committee and the Remuneration Committee. Neither committee is authorized to make decisions, but they prepare matters and present them to the Board of Directors for decisions. The work of the committees is conducted in accordance with the written procedures for each committee, as adopted by the Board of Directors and the Rules of Procedure for the Board.

Remuneration Committee

The Remuneration Committee prepares resolutions in matters involving remuneration principles, salaries, benefits and remuneration to the CEO and senior executives who are subordinate to the CEO. The Remuneration Committee shall also supervise and evaluate the outcome of programs for variable remuneration and the Company's compliance with the guidelines for remuneration adopted at a general meeting.

The Remuneration Committee shall consist of at least three Board members elected at a general meeting. The Chairman of the Board can also be the Chairman of the Remuneration Committee. The other members of the Committee shall be independent in relation to the Company and its senior executives.

The Remuneration Committee consists of Eva Moen Adolfsson (Chairman), Vagn Sørensen, Per G. Braathen and Grant Hearn.

The Remuneration Committee held four meetings during the year. The Committee conducted a review of the basic remuneration of senior executives, the bonus program, other remuneration and the Long-Term Incentive Program.

Audit Committee

The Audit Committee prepares the Board of Directors' work on matters involving risk assessments, internal control, internal audit, accounting, financial reporting and audits. The Committee's work aims to ensure compliance with the adopted principles for financial reporting and internal control and that the Company's relationship with its auditors is appropriate for the purpose.

The Audit Committee shall also evaluate the audit and provide a report to the Nomination Committee. It shall also propose auditors to the Nomination Committee.

The Audit Committee also follows up and comments on non-auditing related services that Scandic procures from the Company's auditor.

The Audit Committee shall consist of at least three members. The majority of the members shall be independent in relation to the Company and the senior executives, and at least one member shall be independent in relation to the Company, the Company's senior executives and the Company's major shareholders, and shall have experience in auditing or accounting.

The Audit Committee consists of Ingalill Berglund (Chairman), Christoffer Lundström, Martin Svalstedt and Fredrik Wirdenius. The requirements of the Swedish Companies Act regarding independence and accounting or auditing expertise are thus met.

The Audit Committee held seven meetings during the year, all of which were attended by the Company's auditor.

The following matters were handled at the Audit Committee meetings:

- Interim reports – review prior to approval by the Board of Directors.
- Status of internal control and risk analysis, and evaluation of the structures and efficiency of internal control.
- Auditors' reports on the review of the annual accounts, the interim report for the third quarter, "early warning" and internal control.
- Audit plan and auditors' fees, and evaluation of auditors' work and independence.
- Evaluation of the requirement for an internal audit function for recommendation to the Board of Directors.
- IT Security Policy – review prior to approval by the Board of Directors.
- Status of ongoing disputes and legal matters – standing item at all meetings.

EVALUATION OF THE WORK OF THE BOARD OF DIRECTORS

The Chairman of the Board is responsible for evaluating the work of the Board of Directors. The Board of Directors evaluates its work annually. This evaluation concerns the procedure and main direction for the work of the Board of Directors. The evaluation also focuses on access to and the need for special expertise on the Board of Directors. The evaluation in 2017 included evaluation of the work of the Board by the members of the Board as well as a survey of the Board's current level of expertise and need for expertise, which was carried out with the assistance of an external consultant. The results were presented and discussed by the Board of Directors and the Nomination Committee. The evaluation was used as a tool to develop the work of the Board of Directors and also constitutes support for the work of the Nomination Committee.

Auditors

PricewaterhouseCoopers has been the Company's auditor since 2012. At the Annual General Meeting held on 10 May 2017, PricewaterhouseCoopers was reappointed as auditor, with Magnus Brändström as the auditor-in-charge, for the time until the end of the 2018 Annual General Meeting. Magnus Brändström is an authorized public accountant and a member of FAR. During 2017, the auditor reported its observations on one occasion times to the Board of Directors. No members of the Executive Committee were present. Thereafter, the auditor participated in five meetings with the Audit Committee.

The Audit Committee evaluates the auditors' work and independence annually.

The auditor receives a fee for its work, according to a resolution at the Annual General Meeting. Information on auditors' fees is provided in Note 4 on page 96.

EXECUTIVE COMMITTEE

Scandic's Executive Committee has solid experience from the hotel sector and consumer-oriented operations in various markets. The Executive Committee consists of the CEO and eight senior executives: The Chief Financial Officer (CFO), the Senior Vice President Human Resources & Sustainability (SVP HR & Sustainability), the Vice President Business Development (VP Business Development) and the Group's five Country Heads. The previous CEO left the Company and was replaced on August 1, 2017. The Chief Commercial Director (CCO) left the Company in October and his responsibilities have been temporarily assumed by the CEO. Five different nationalities are represented in the Executive Committee, which is composed of eight men and one woman. During the year, one new member joined the Executive Committee. See page 83 for more information.

The CEO's areas of responsibility and powers are governed by the Rules of Procedure for the Board of Directors and instructions for the CEO. The CEO is responsible for communicating and implementing Scandic's strategy, business plans and other decisions in the organization. The CEO is also ultimately responsible for ensuring that the governance, organization, risk management, internal processes and IT infrastructure are satisfactory.

To achieve economies of scale and ensure a consistent customer offering, Scandic has gathered a number of support functions centrally including accounting and finance, HR, purchasing, IT, marketing, product development, revenue management, and restaurant and conference operations. Personnel in charge of the various Group functions are also in charge of developing Group-wide policies, guidelines and working methods and for following up on and ensuring that the Group's operations are conducted in compliance with adopted policies and standards.

Sustainability

Sustainability is an integrated part of Scandic's governance and reporting. The understanding of and commitment to challenges such as climate change, creating ethical and safe workplaces and being a responsible purchasing party are of major importance to the Group. All countries strive to employ people who reflect the society in which the hotels operate at the same time as discrimination and harassment are prohibited. In these contexts, Scandic's governance documents are Scandic's Code of Conduct, the Code of Conduct for Suppliers, the Anti-Corruption Policy, the Environmental Policy and the Diversity and Inclusion Policy. Scandic's Diversity and Inclusion Policy, which was formulated during 2017, is an underlying policy to Scandic's Code of Conduct. The policy sets out that diversity contributes to business success and clearly stipulates that no form of discrimination is accepted.

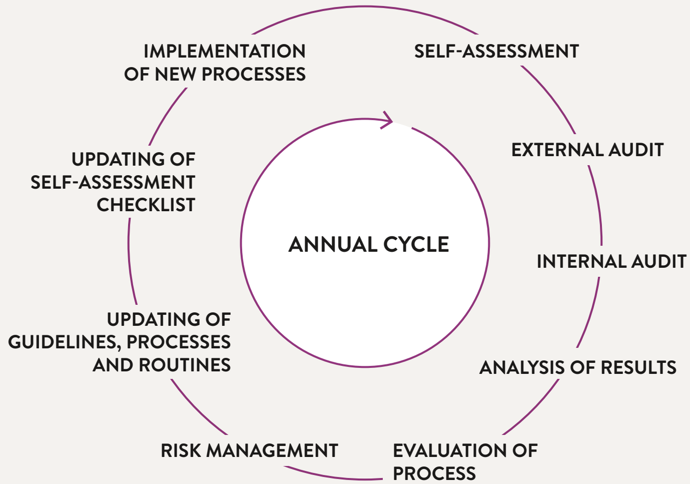
When appointing Board members, Scandic strives for diversity mainly with respect to gender, age, nationality and skills. The Board of Directors has joint responsibility for sustainability. Within the Executive Committee, sustainability is delegated to the head of each function: the CFO is responsible for anti-corruption and supplier control and the SVP HR & Sustainability is responsible for reporting and ESG information, employment law, diversity and equality as well as for sustainability as a whole within Scandic.

SIGNIFICANT EVENTS HANDLED BY THE CEO AND THE EXECUTIVE COMMITTEE IN 2017

During the year, the Chief Commercial Officer (CCO) left the Company and was temporarily replaced by the CEO. In addition, the Executive Committee handled work related to the approval of new leases and extensions of existing leases as well as the acquisition of Restel's Finnish hotel operations.

At the Annual General Meeting held on May 10, 2017, guidelines for remuneration and other terms of employment for senior executives, including the CEO, were adopted. These guidelines are only applicable to new employment agreements entered into between the Company and the respective senior executives, which is why there are employment agreements that were entered into before the guidelines were introduced that do not fully conform to the currently applicable guidelines.

ANNUAL CYCLE OF THE EXECUTIVE COMMITTEE



Guidelines for remuneration to the CEO and senior executives

Scandic's senior executives are the members of the Executive Committee. Following a resolution passed at the Annual General Meeting held on May 10, 2017, the following guidelines apply:

Scandic shall offer terms that are in line with market conditions and that enable the Company to recruit and retain the managers required to meet its short- and long-term targets. Remuneration to senior executives may consist of a fixed salary, variable salary, pension and other benefits. The fixed salary of the CEO and the senior executives shall be commensurate with market conditions and reflect the demands and responsibility that the position entails, as well as individual performance. The fixed salary of the CEO and the senior executives shall be reviewed annually. The variable salary of the CEO and the senior executives shall be based on the Company's fulfillment of criteria set in advance. The variable salary shall amount to no more than 60 percent of the fixed annual salary of the CEO and 35 to 50 percent of the fixed annual salary of other senior executives. Long-Term Incentive Programs may be offered as a supplement to the above in order to create long-term commitment.

The pension benefits to the CEO and other senior executives shall chiefly consist of defined contribution pension schemes, but they may also be defined benefit schemes if required by a collective bargaining agreement. Fixed salary during notice periods and severance pay, including compensation for anti-competition restrictions, shall in aggregate not exceed an amount corresponding to the fixed salary for 18 months. The total severance pay for all members of the Executive Committee shall not exceed the fixed monthly salary for the remaining years until the employee reaches 65 years of age. Other remuneration may consist of customary benefits, such as health insurance, which shall not constitute a significant part of the total remuneration. Additional remuneration may be paid in extraordinary circumstances, provided such remuneration is intended to recruit or retain senior executives, and is then to be agreed upon in the individual case. Such extraordinary arrangements may include a lump sum cash payment or a benefit package in the form of a relocation allowance, income tax support and similar.

The Board of Directors has the right to deviate from the above-mentioned guidelines in individual cases if it is of the opinion that there are special reasons to do so. The 2016 guidelines for remuneration gave the Board the right to deviate from the guidelines in individual cases if it was of the opinion that there were special reasons to do so. The guidelines stated that the fixed salary during the notice period and severance pay, including compensation for any anti-competition restrictions, should not exceed an amount corresponding to the fixed salary for 18 months.

In 2017, the Board resolved to approve an employment agreement for the CEO according to which such payment shall not exceed an amount equivalent to the fixed salary for 18 months i.e. in accordance with the guidelines, but including a provision to the effect that severance payment (if any) shall qualify for pension. The Board considered such a deviation justified considering that the company recruited a new CEO with an international background and made the assessment that the CEO's overall remuneration package was reasonable and well balanced. More information about remuneration to the CEO is provided in note 6 in the Annual Report for 2017.

In February 2017, the Board decided that the former CEO's fixed salary during the notice period and severance pay, including compensation for anti-competition restrictions, would amount to a sum corresponding to the fixed salary for 19 months, marginally exceeding the 18-month limitation set out in the guidelines. The Board deemed that such a deviation was motivated on the grounds that the CEO would be available to support his successor during his extended period of notice.

Additionally, variable remuneration for a member of the Executive Committee amounted to 41 percent of the fixed salary due to a one-off payment. According to the employment contract, the variable salary shall be payable up to a maximum of 35 percent of the fixed salary. For more information, see Note 6 on pages 98–100.

Remuneration

For information on remuneration to the CEO and senior executives, see Note 6 on pages 98–100.

Resolved remuneration not yet payable

The company has decided on an one-off compensation to a senior executive that can amount to up to 50,000 EUR subject to the succesful integration of Restel. The compensation will be paid out in 2018.

Long-Term Incentive Program

At the Extraordinary General Meeting held on November 15, 2015, Scandic adopted a performance-based Long-Term Incentive Program, and additional programs were adopted at the Annual General Meetings in 2016 and 2017. Terms and conditions for both programs are provided in Note 6 on pages 98–100.

Guidelines for remuneration to senior executives before the 2018 Annual General Meeting

The Board of Directors has proposed that the Annual General Meeting 2018 adopt guidelines that in all material aspects correspond to the guidelines adopted at the Annual General Meeting 2017. The 2017 guidelines authorize the Board of Directors to deviate from the guidelines if, in any individual case, there are special circumstances justifying such.

THE BOARD OF DIRECTORS' REPORT ON INTERNAL CONTROL

This description has been prepared in compliance with the Swedish Annual Accounts Act and the Swedish Corporate Governance Code (the "Code") and is therefore limited to internal control related to financial reporting. The report has not been reviewed by the Company's auditor.

According to the Swedish Companies Act and the Code, the Board of Directors is responsible for ensuring that internal control mechanisms are developed, communicated to and understood by the employees of Scandic who carry out individual control measures, and for ensuring that such control measures are carried out, monitored, updated and maintained.

Executives at all levels are responsible for ensuring that internal control mechanisms are established in their respective areas and that these controls achieve the desired results. Scandic's CFO is ultimately responsible for ensuring that the monitoring of and the work on Scandic's internal control is conducted in the format determined by the Board of Directors.

Scandic's structure for internal control is based on the COSO model, the framework of which is applied to Scandic's operations and conditions. According to the COSO model, a review and assessment is made within the areas of control environment, risk assessment, control activities, information and communication and monitoring activities. Based on this review, certain areas of development are identified and prioritized in the ongoing internal control work.

The procedures for internal control, risk assessment, control activities and monitoring of financial reporting have been devised to ensure reliable and relevant reporting and external financial reporting in accordance with the IFRS, applicable laws and regulations and other requirements of companies listed on the Nasdaq Stockholm exchange. This work involves the Board of Directors, the senior executives and other employees.

The manner in which the Board of Directors monitors and ensures the quality of internal control is documented in the adopted Rules of Procedure for the Board of Directors and the instructions for the Audit Committee. The Audit Committee's duties include evaluating the Company's structure and guidelines for internal control.

Financial reporting to the Board of Directors is carried out on a monthly basis according to a format described in the CEO's instructions for financial reporting. The Company's CFO also conducts a review of the financial performance and latest forecast for the current year at each regular Board meeting. Drafts of interim reports are first presented to the Audit Committee for discussion and consideration at a committee meeting before they are presented to the Board of Directors for approval.

The internal financial reporting complies with a standardized format where a common set of definitions and key ratios is used for all subsidiaries and hotels. Reporting is carried out through a Group-wide reporting system that allows a high level of transparency and comparability of financial data. Financial performance is monitored through monthly reports from the subsidiaries and quarterly reviews where members of the Executive Committee, the central accounting department and the relevant country management team participate. Detailed follow-up of key ratios for different parts of Scandic's hotel operations enables benchmarking between hotels and also provides information quickly on deviations in operating margins and operating profit/loss compared to the expected outcome. Detailed follow-up is an important tool for ensuring internal control.

Scandic uses "BINC" (Best in Class), which involves benchmarking key ratios for revenues, operational efficiency and customer satisfaction where key ratios per hotel are compared with other comparable hotels in a "BINC group." The purpose is to create a tool to identify good examples and stimulate learning and continual improvement of best practices.

Control environment

The control environment forms the basis of internal control of financial reporting. An important element of the control environment is that channels for decision-making, authority and responsibility are clearly defined and communicated between different levels of the organization and that governance documents in the form of internal policies and guidelines are available. A good control environment is created through communication and training to ensure understanding of and compliance with policies and regulatory frameworks. The control environment is strengthened by a positive corporate culture and the transparent and relevant monitoring of financial performance and key ratios at all levels in the Group.

Risk assessment

Internal control is based on a risk analysis. The risk analysis related to internal control and the risk of errors in the financial reporting form a part of the risk analysis that the Executive Committee performs and presents to the Audit Committee and Board of Directors annually. This analysis identifies and valuates risks based on their likelihood of occurring and the potential impact of the incident on the operations and financial position of the Group. Thereafter, the Group's internal controls and control environment are evaluated and any gaps compared with the desired level of control are identified. An action plan aimed at reducing gaps is established where the value of and possibility to reduce the risk is weighed against the cost of establishing and maintaining internal controls. Based on the risk analysis, control activities are designed aimed at reducing risk at a reasonable cost. The activities shall also contribute to improved internal procedures and operational efficiency.

Control activities

Scandic's internal control is based on the Company's established channels for decisions and the delegation and authorization procedures documented in governing policies and guidelines.

Control activities may be IT based or manual. To the greatest extent possible, they shall be an integrated part of defined and documented processes and procedures.

A number of control activities that are common to all companies within the Group have been established. Some of these are implemented on the hotel level and some are implemented in the centralized accounting departments in each country. Control activities are described in Group-wide instructions.

Information and communication

The part of Scandic's governance documents in the form of policies, guidelines and manuals that involve financial reporting is chiefly communicated via monthly meetings, where all financial managers participate, and via the Group's finance handbook. The finance handbook is published on the intranet and is updated regularly based on changes in external requirements and in Scandic's operations.

Communication with internal and external parties is governed by a Communication Policy that provides guidelines on how such communication should be conducted. The purpose of the policy is to ensure compliance with all disclosure requirements in a correct and complete manner. Internal communication aims to make each employee understand Scandic's values and business operations. To achieve the aim of informed employees, work is carried out internally, whereby information is communicated regularly via the Group's intranet.

Monitoring

Scandic's accounting functions are integrated through a common finance and accounting system and common accounting instructions. The Board of Directors and the Executive Committee regularly receive information on the Group's performance and financial position and the development of its operations. The efficiency of the internal control is evaluated annually by the Company and the Audit Committee. It is also reviewed by the external auditors. The result of the evaluation forms the basis for improvements to processes and controls for subsequent years.

Internal control at hotel and country levels is monitored through self-assessments and onsite audits.

- All hotels conduct self-assessments at least once a year based on a Group-wide checklist with mandatory and recommended controls.
- Internal audit visits are carried out by employees at the Company's central accounting department for a number of hotels per year. These involves a control checklist, spot checks within relevant areas and a general discussion with the general manager and department heads to ensure the understanding of and compliance with internal control.

The results of the self-assessments and onsite audits are reported by the local heads of finance to the management team of the country in question. The results are reported by the Group's CFO to the Audit Committee, together with a report of measures undertaken to improve internal control if the results indicate that there is a need to do so either at the hotel level or in general.

As part of their review, external auditors make additional hotel visits during which they test controls according to the internal checklist. The aim is that these onsite audits, from both Scandic's accounting department and the external auditors, shall cover approximately one-third of all hotels every year.

Internal audit

Based on the Audit Committee's evaluation, the Board of Directors has decided not to establish a separate internal audit function. The decision is based on the assessment that the existing process for internal control is well established, efficient and supported by a good control environment, a clear governance model and well-functioning regular financial monitoring. The Board of Directors evaluates the need for a special internal audit function on an annual basis.

Measures in 2017

Scandic continued to focus its risk analysis to gain a better understanding of the financial reporting and analysis. Special focus was put on IT security and the new GDPR regulations in the work of the Board of Directors and its committees. Self-assessment for internal control was discussed regularly by the Audit Committee.

BOARD OF DIRECTORS

VAGN SØRENSEN
Chairman of the Board of Directors since 2007. Member of the Remuneration Committee.

Born: 1959.
Danish citizen.

Education:
Master of Business Administration from Aarhus University, Denmark.

Other current assignments:
Chairman of the Board of F L Smidth A/S, SPP Group Plc, Tia Technology A/S Air Canada and Zebra A/S (Flying Tiger Copenhagen). Deputy Chairman of the Board of Nordic Aviation Capital A/S. Board member of Braganza AB, CP DYVIG A/S, Royal Caribbean Cruises Ltd, Unilode Aviation Solutions and VFS Global.

Previous assignments:
CEO of Austrian Airlines Group 2001–2006, Executive Vice President & Deputy CEO of Scandinavian Airlines Systems 1984–2001. Chairman of the Board of TDC A/S and KMD A/S. Deputy Chairman of DFDS A/S. Board member of VEGA and JP/Politikens Hus.

Shareholding: 60,676

Independent in relation to major shareholders: Yes

Independent in relation to the company and management: Yes

EVA MOEN ADOLFSSON
Member of the Board of Directors since 2014. Chairman of the Remuneration Committee.

Born: 1960.
Swedish and American citizen.

Education:
Bachelor of Business Administration from University of Gothenburg, Sweden.

Other current assignments:
President & CEO of Resia Travel Group AB and Board assignments in companies within the Resia Group. Board member of Svenska Resebyråföreningens Service AB.

Previous assignments:
Board member of Västsvenska Handelskammaren Service AB;
General Manager, Scandic Rubinen; General Manager, Scandinavian Service Partner; CFO, Radisson SAS Park Avenue Hotel and CFO, AVAB Elektronik.

Shareholding: 3,134

Independent in relation to major shareholders: Yes

Independent in relation to the company and management: Yes

INGALILL BERGLUND
Member of the Board of Directors since 2016. Chairman of the Audit Committee.

Born: 1964.
Swedish citizen.

Education:
Special advanced course in economics, Frans Schartau Business Institute.

Other current assignments:
Interim Managing Director AxFast AB. Board member of Veidekke ASA, AxFast AB, Handelsbanken Regionbank Stockholm, Kungsleden AB (publ), Bonnier Fastigheter AB and Stiftelsen Danvikshem. Member of Balco Group AB, Juni Strategi and Analys AB.

Previous assignments:
President & CFO at Atrium Ljungberg AB. Twenty years of experience from the real estate sector.

Shareholding: 3,000

Independent in relation to major shareholders: Yes
Independent in relation to the company and management: Yes

PER G. BRAATHEN
Deputy Chairman of the Board of Directors since 2017. Member of the Board of Directors since 2007. Member of the Remuneration Committee.

Born: 1960.
Norwegian citizen.

Education:
MBA from Schiller University London, UK.

Other current assignments:
Chairman of the Board of Braathens Regional Airlines (BRA), Bramora Ltd. Chairman of the Board and CEO of Braganza AB. Board member of Wayday Travel AS.

Previous positions:
Chairman/CEO Tjæreborg, Always and Saga Tours. Chairman of Escape Travel A/S SunHotels AG. Board member at Arken Zoo Holding AB and Kristiansand Dyrepark AS, Ticket Leisure Travel AB and Ticket Biz AB.

Shareholding: 14,925
(through companies)
Independent in relation to major shareholders: Yes
Independent in relation to the company and management: Yes

GRANT HEARN
Member of the Board of Directors since 2014. Member of the Remuneration Committee.

Born: 1958.
British citizen.

Education:
Diploma in Hotel and Tourism Management, Shannon College of Hotel Management, Ireland.

Other current assignments:
Chairman of the Board of Amaris Hospitality and Shearings Holidays Ltd.

Previous assignments:
Chairman of the Board of The Hotel Collection; Board member of London & Partners Ltd, Thame and London Ltd, TLLC Group Holdings Ltd and Travelodge Hotels Ltd.

Shareholding: 3,000

Independent in relation to major shareholders: Yes

Independent in relation to the company and management: Yes

Number of shares as per December 31, 2017.

LOTTIE KNUTSON
Member of the Board of Directors since 2015.

Born: 1964.
Swedish citizen.

Education:
Bachelor from the Department of Media Studies, Stockholm University, Sweden. Diplôme de l'Université Paris IV.

Other current assignments:
Board member of Cloetta AB, Stena Line BV, STS Alpresor AB, Swedavia AB and Talently Online Group AB.

Previous assignments:
Board member of H&M Hennes & Mauritz AB, Actic AB, Wise Group AB and TUI Nordic Holding AB.

Shareholding: 3,134

Independent in relation to major shareholders: Yes

Independent in relation to the company and management: Yes

CHRISTOFFER LUNDSTRÖM
Member of the Board of Directors since 2016. Member of the Audit Committee.

Born: 1973. Swedish citizen.

Education:
Bachelor of Arts, Webster University and Hotel Management Diploma, HOSTA.

Other current assignments:
Owner & President of investment company RCL Holding AB. Board member of Collector AB, Feelgood Svenska AB, Rasta Group AB (until 2018), Provobis Invest AB, Harrys Pubar AB, RCL Holding AB, KL Capital AB, Future Pawnbroker AB and Tableflip Entertainment AB. Chairman of the Board of AM Brands AB.

Shareholdings: 205,219

Independent in relation to major shareholders: No
(Rolf Lundström/Novobis)

Independent in relation to the company and management: Yes

MARTIN SVALSTEDT
Member of the Board of Directors since 2017.
Member of the Audit Committee.

Born: 1963.
Swedish citizen.

Education:
Education: Bachelor of Science in Business Administration and Law from the University of Karlstad, Sweden.

Other current assignments:
CEO Stena Adactum AB and Stena Sessan AB, Chairman of the Board in Ballingslöv International, Gunnebo and Stena Renewable. Vice chairman of the Board in Envac. Board member in Svedbergs, Stena Sessan and Stena Adactum. Member of the Stena Sphere Coordination Group.

Previous assignments:
Chairman of the board of Meda, Envac, Mediatec Group and Blomsterlandet. Experience from operational roles such as CFO at Capio and other senior financial positions.

Shareholdings: 20,000 (In addition, Stena Sessan Rederi AB held 15,025,982 shares)

Independency in relation to major shareholders: No (Stena)

Independency in relation to the company and management: Yes

FREDRIK WIRDENIUS
Member of the Board since 2015.
Member of the Audit Committee.

Born: 1961.
Swedish citizen.

Education:
Master of Science in Engineering, KTH Royal Institute of Technology, Stockholm, Sweden.

Other current assignments:
CEO of Vasakronan AB. Board member of RICS Sweden.

Previous assignments:
Board member of Vasakronan AB.

Shareholding: 3,134

Independent in relation to major shareholders: Yes

Independent in relation to the company and management: Yes

MARIANNE SUNDELIUS
Member of the Board of Directors since 2017.
Employee representative.

Born: 1967.
Swedish citizen.

Education:
University courses in leadership and psychology. Studies in economics.

Other current assignments: –

Previous assignments:
Employee representative at Sara Hotels AB and Reso Hotels AB.

Shareholdings in Scandic: –

Independent in relation to major shareholders: Yes

Independent in relation to the company and management: No (employee representative).

Number of shares as per December 31, 2017.

EXECUTIVE COMMITTEE

Standing, from left to right: Aki Käyhkö, Jan Johansson, Michel Schutzbach, Linda Eriksson, Svein Arild Steen-Mevold.
Sitting, from left to right: Lena Bjurner, Even Frydenberg, Jesper Engman, Jens Mathiesen, Peter Jangbratt.

EVEN FRYDENBERG
President & CEO

Born: 1964. Employed and member of Scandic's Executive Committee since 2017. Norwegian citizen.

Other assignments: –

Education: Master of Business Administration from Stanford University and Bachelor of Science in International Business from University of San Francisco.

Previous assignments: Several senior positions within Starwood Hotels & Resorts and Marriott International; SVP Operations Western Europe & Global Initiatives; VP Six Sigma Europe Africa Middle East. Latest role was Chief Operations & Franchise Support Officer Europe, Marriott Hotels Europe.

Shareholdings: 5,500.

LENA BJURNER
Senior Vice President HR & Sustainability

Born: 1968. Employed and member of Scandic's Executive Committee since 2015. Swedish citizen.

Other assignments: Board member of UNHCR in Sweden.

Education: Bachelor of Business Administration, Falun/Borlänge University, Sweden.

Previous experience: Several senior positions within American Express: VP HR Head of Market HR Nordics, Central Eastern Europe, Benelux and France, Director HR Business Partner Customer Service Organisation Latin America/Canada and Director, Head of Commercial Card & Business Travel Account Management Nordic.

Number of shares: 5,907

JESPER ENGMAN
Vice President Business Development

Born: 1974. Employed since 2006. Member of Scandic's Executive Committee since 2014. Swedish citizen.

Other assignments: –

Education: Master of Real Estate Development, KTH Royal Institute of Technology, Stockholm, Sweden.

Previous experience: Business Area Director and Analyst, Pandox. Analyst, Hotellus.

Number of shares in Scandic: 5,970

LINDA ERIKSSON
(adjunct member) Director Group Strategy

Born: 1983. Employed and adjunct member of Scandic's Executive Committee since August 2015. Swedish citizen.

Other assignments: –

Education: Master of Science in Engineering, Media Technology and Master of Industrial Management from KTH Royal Institute of Technology, Stockholm, Sweden.

Previous experience: Management Consultant at Bain & Company and Head of Marketing at Norvida.

Number of shares: 590

PETER JANGBRATT
Head of Sweden

Born: 1967. Employed by the Group 1995–2008 and since 2015. Member of Scandic's Executive Committee since September 2016. Swedish citizen.

Other assignments: –

Education: Scandic Business School and Hilton.

Previous experience: Several senior positions at Scandic including Director of Marketing & Communications, Head of Operations Sweden and CEO of Rica Hotels Sweden.

Number of shares in Scandic: 11,194

JAN JOHANSSON
Chief Financial Officer

Born: 1962. Employed and member of Scandic's Executive Committee since September 2016. Swedish citizen.

Other assignments:

Education: Master of Business Administration, Uppsala University, Sweden.

Previous experience: CFO, Apoteket; CFO, Nobia AB and CFO, Eniro.

Number of shares in Scandic: 2,600

AKI KÄYHKÖ
Head of Finland

Born: 1968. Employed by the Group since 2012. Member of Scandic's Executive Committee since September 2016. Finnish citizen.

Other assignments: Vice Chairman of the Board of the Finnish Hospitality Industry Association. Member of the Board of RGE Holding Oy.

Education: Bachelor of Business Administration in International Business and Management, Schiller International University, London.

Previous experience: Several senior positions at Procter & Gamble and Reckitt Benckiser; Commercial Director, Oy Hartwall and CEO, Palace Kämp Group.

Number of shares: 11,194

JENS MATHIESEN
Head of Denmark

Born: 1969. Employed by the Group since 2008. Member of Scandic's Executive Committee since September 2016. Danish citizen.

Other assignments: Chairman of the Board of Dansk Erhverv and Board member of DA (Dansk Erbejdsgiverforening) and Wonderful Copenhagen.

Education: Shipping Broker, Transocean Shipping, Denmark.

Previous experience: Director of Sales & Marketing, Choice Hotels Scandinavia; CEO, Fountain Scandinavia A/S and Head of Sales & Marketing, Avis Rent a Car.

Number of shares: 11,194

MICHEL SCHUTZBACH
Head of Europe

Born: 1961. Employed by the Group since 2009. Member of Scandic's Executive Committee since September 2016. Swiss citizen.

Other assignments: –

Education: Diploma from Hotels & Management School, Glion, Switzerland.

Previous experience: Several senior positions within Rezidor, including Vice President HR and Regional Director Poland and Ireland.

Number of shares: 11,194

SVEIN ARILD STEEN-MEVOLD
Head of Norway

Born: 1967. Employed by the Group since 2010. Member of Scandic's Executive Committee since September 2016. Norwegian citizen.

Other assignments: Chairman of the Board of Norsk Reiseliv, Board member of Næringslivets hovedorganisasjon (NHO), Oris Dental and Guma Sport Ltd.

Education: Bachelor in Service Management, Norwegian School of Hotel Management.

Previous experience: Several senior positions within Scandic; General Manager, Radisson SAS and Vice President and member of Executive Committee, Nordic Choice Hotels AS with responsibility for Clarion Collection Hotels chain.

Number of shares in Scandic: 11,194

Number of shares as per December 31, 2017.

CONSOLIDATED INCOME STATEMENT

GROUP

MSEK	Notes	2017	2016
INCOME	2, 3		
Room revenue		9,464	8,530
Restaurant and conference revenue		4,853	4,299
Franchise and management fees		26	29
Other hotel-related revenue		239	224
Net sales		***14,582***	***13,082***
Other income		1	13
TOTAL OPERATING INCOME		**14,853**	**13,095**
OPERATING COSTS			
Raw materials and consumables		-1,295	-1,138
Other external costs	4, 5	-3,215	-2,850
Personnel costs	6	-4,738	-4,211
Adjusted EBITDAR		**5,335**	**4,896**
Fixed and guaranteed rental charges	5	-2,323	-2,203
Variable rental charges	5	-1,442	-1,180
Adjusted EBITDA		**1,570**	**1,513**
Pre-opening costs		-67	-51
Non-recurring items	7	-30	-
EBITDA		**1,473**	**1,462**
Depreciation	12,13	-549	-537
TOTAL OPERATING COSTS		**-13,658**	**-12,170**
Adjusted EBIT		**1,022**	**976**
EBIT (Operating profit/loss)		**925**	**925**
Financial items			
Financial income	8	9	265
Financial expenses	9	-133	-133
Net financial items		**-124**	**132**
EBT (Profit/loss before tax)		**800**	**1,057**
Tax	10	-90	-175
PROFIT/LOSS FOR THE YEAR		**711**	**882**
Attributable to: Parent Company shareholders		707	879
Non-controlling interests		4	3
Profit/loss per share before dilution, attributable to: Parent Company shareholders (SEK per share)	11	6.87	8.58
Profit/loss per share after dilution, attributable to: Parent Company shareholders (SEK per share)	11	6.86	8.58

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

GROUP

MSEK	Notes	2017	2016
Profit/loss for the year		711	882
Other comprehensive income			
Items that may be reclassified to profit and loss:			
Translation differences for the year		-56	169
Hedge of net investment in foreign operations, net of tax		-	-124
Items that will not be reclassified to profit and loss:			
Actuarial gains/losses for the year		-79	-6
Total other comprehensive income, net of tax		**-135**	**39**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**576**	**921**

CONSOLIDATED BALANCE SHEET

GROUP

	Notes	31 Dec 2017	31 Dec 2016
ASSETS			
Fixed assets			
Goodwill	12	6,303	5,793
Trademarks	12	3,153	3,145
Other intangible assets	12	213	165
Land & buildings	13	1,764	95
Equipment, fixtures and fittings	13	3,835	2,882
Shares in associated companies	14	21	10
Financial investments	15	9	8
Other long-term assets		106	14
Deferred tax assets	25	34	35
Total fixed assets		**15,438**	**12,147**
Current assets			
Inventory	16	128	92
Accounts receivable – trade	17	626	498
Current tax assets		-	-
Other current receivables		161	134
Assets held for sale	18	101	-
Prepaid expenses and accrued income	19	370	205
Cash and cash equivalents	20	140	1,068
Total current assets		**1,526**	**1,997**
TOTAL ASSETS		**16,964**	**14,144**

	Notes	31 Dec 2017	31 Dec 2016
EQUITY AND LIABILITIES			
Equity			
Share capital	21	26	26
Other contributions		7,865	7,865
Translation reserve		-86	-29
Retained earnings		-482	-790
Equity attributable to owners of Parent Company		**7,323**	**7,072**
Non-controlling interest		33	31
Total equity		**7,356**	**7,103**
Long-term liabilities			
Liabilities to credit institutions	22	3,769	3,777
Provisions for pensions and similar commitments	23	542	413
Other provisions	24	128	133
Other liabilities		0	47
Finance lease liabilities		1,607	1
Deferred tax liabilities	25	642	560
Total long-term liabilities		**6,688**	**4,931**
Current liabilities			
Advance payments from customers		164	112
Accounts payable – trade		786	527
Derivative instruments		5	20
Current tax liabilities		9	5
Current liabilities for finance lease	5	58	-
Liabilities held for sale	18	70	-
Other liabilities		367	222
Accrued expenses and prepaid income	26	1,461	1,224
Total current liabilities		**2,920**	**2,110**
Total liabilities		**9,608**	**7,041**
TOTAL EQUITY AND LIABILITIES		**16,964**	**14,144**

CONSOLIDATED CASH FLOW STATEMENT

GROUP

MSEK	Notes	2017	2016
Operating activities			
Operating profit/loss		925	925
Adjustment for items not included in cash flow, etc.	27	548	537
Income tax paid		-125	-3
Cash flow before changes in working capital		**1,348**	**1,459**
Changes in working capital			
Inventory		-19	-7
Accounts receivable – trade		-64	-11
Other current receivables		-159	179
Accounts payable – trade		231	23
Other current liabilities		207	-34
Cash flow from operating activities		**1,544**	**1,609**
Investing activities			
Acquisition of fixed tangible assets	13	-964	-719
Sale of associated companies		17	-
Acquisition of subsidiaries	29	-1,146	-
Cash flow from investing activities		**-2,093**	**-719**
Operating cash flow		**-549**	**890**
Financing activities			
Share issue		30	-
Borrowings	22	4,683	475
Amortization	22	-4,674	-475
Refinancing costs		-6	-
Interest paid	9	-80	-101
Dividend		-325	-3
Cash flow from financing activities		**-372**	**-104**
CASH FLOW FOR THE YEAR		**-921**	**786**
Cash and cash equivalents at the beginning of the year		1,068	248
Translation differences in cash and cash equivalents		-7	34
Cash flow for the year		-921	786
Cash and cash equivalents at the end of the year		**140**	**1,068**

CHANGES IN EQUITY

GROUP

MSEK	Equity attributable to owners of the Parent Company: Share capital	Other contributions	Translation reserves	Retained earnings	Total	Non-controlling interest	Total equity
OPENING BALANCE 1 Jan 2016	**26**	**7,865**	**-71**	**-1,643**	**6,177**	**28**	**6,205**
Profit/loss for the year	**-**	**-**	**-**	**879**	**879**	**3**	**882**
Other comprehensive income:							
Items that may be reclassified to profit and loss:							
Currency fluctuations from translation of foreign operations	-	-	166	-	166	3	169
Hedge of net investment in a foreign operation, net after tax	-	-	-124	-	-124	-	-124
Items that will not be reclassified to profit and loss:							
Actuarial gains/losses for the year, net after tax	-	-	-	-6	-6	-	-6
Total other comprehensive income	**0**	**0**	**42**	**-6**	**36**	**3**	**39**
Total comprehensive income	**0**	**0**	**42**	**873**	**915**	**6**	**921**
Transactions with shareholders:							
Dividend	-	-	-	-	-	-3	**-**
Share-based payments	-	-	-	5	5	-	**5**
Forward contract to repurchase own shares	-	-	-	-25	-25	-	**-25**
Total transactions with shareholders	**0**	**0**	**0**	**-20**	**-20**	**-3**	**-23**
CLOSING BALANCE 31 Dec 2016	**26**	**7,865**	**-29**	**-790**	**7,072**	**31**	**7,103**
Profit/loss for the year	**-**	**-**	**-**	**707**	**707**	**4**	**711**
Other comprehensive income:							
Items that may be reclassified to profit and loss:							
Currency fluctuations from translation of foreign operations	-	-	-57	-	-57	1	-56
Hedge of net investment in a foreign operation, net after tax	-	-	0	-	0	-	0
Items that will not be reclassified to profit and loss:							
Actuarial gains/losses for the year, net after tax	-	-	-	-79	-79	-	-79
Total other comprehensive income	**0**	**0**	**-57**	**-79**	**-136**	**1**	**-135**
Total comprehensive income	**0**	**0**	**-57**	**628**	**571**	**5**	**576**
Transactions with shareholders:							
Dividend	**-**	**-**	**-**	**-322**	**-322**	**-3**	**-325**
Share-based payments	**-**	**-**	**-**	**12**	**12**	**-**	**-12**
Forward contract to repurchase own shares	**-**	**-**	**-**	**-10**	**-10**	**-**	**-10**
Total transactions with shareholders	**0**	**0**	**0**	**-320**	**-320**	**-3**	**-323**
CLOSING BALANCE 31 Dec 2017	**26**	**7,865**	**-86**	**-482**	**7,323**	**33**	**7,356**

INCOME STATEMENT

PARENT COMPANY

MSEK	Notes	2017	2016
Net sales		**54**	**29**
Operating expenses			
Other external expenses	4, 5	-11	-8
Personnel expenses	6	-60	-28
Total operating expenses		**-71**	**-36**
Operating profit/loss		**-17**	**-7**
Financial items			
Interest income and similar items	8	113	114
Interest expenses and similar items	9	-104	-97
Net financial items		**9**	**17**
Appropriations		**334**	**66**
Profit/loss before tax		**325**	**76**
Income tax	10	-71	-11
PROFIT/LOSS FOR THE YEAR		**254**	**65**

STATEMENT OF COMPREHENSIVE INCOME

PARENT COMPANY

MSEK	Notes	2017	2016
Profit/loss for the year		**254**	**65**
Other comprehensive income:			
Other comprehensive income that may be reclassified to profit and loss		-	-
Other comprehensive income that will not be reclassified to profit and loss		-	-
Total other comprehensive income, net of tax		**0**	**0**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**254**	**65**

BALANCE SHEET

PARENT COMPANY

MSEK	Notes	31 Dec 2017	31 Dec 2016
ASSETS			
Financial assets			
Participations in Group companies	30	5,039	4,590
Receivables from Group companies		5,174	5,067
Deferred tax assets	25	0	71
Total fixed assets		**10,213**	**9,728**
Current assets			
Receivables from Group companies		333	66
Current receivables		27	6
Prepaid expenses and accrued income		1	-
Cash and cash equivalents	20	0	790
Total current assets		**361**	**862**
TOTAL ASSETS		**10,574**	**10,590**

MSEK	Notes	31 Dec 2017	31 Dec 2016
EQUITY AND LIABILITIES			
Equity			
Share capital	21	26	26
Total restricted equity		**26**	**26**
Non-restricted reserves		6,326	6,581
Net profit/loss for the year		254	65
Total non-restricted equity		**6,580**	**6,646**
Total equity		**6,606**	**6,672**
Liabilities			
Long-term liabilities			
Liabilities to credit institutions		3,813	3,839
Liabilities to affiliated companies	29	-	-
Other liabilities		-	47
Total long-term liabilities		**3,813**	**3,886**
Current liabilities			
Other liabilities		118	8
Accrued expenses and prepaid income	26	37	24
Total current liabilities		**155**	**32**
Total liabilities		**3,968**	**3,918**
TOTAL EQUITY AND LIABILITIES		**10,574**	**10,590**

CASH FLOW STATEMENT

PARENT COMPANY

MSEK	Notes	2017	2016
Operating activities			
Operating profit/loss		-17	-7
Adjustment for items not included in cash flow, etc.	27	-	-
Income tax paid		-	-
Cash flow before changes in working capital		**-17**	**-7**
Changes in working capital			
Other current receivables		-1	-5
Other current liabilities		3	-34
Cash flow from operating activities		**-15**	**-46**
Investing activities		-	-
Shareholders' contribution to subsidiaries		-448	-
Cash flow from investing activities		**-448**	**0**
Operating cash flow		**-463**	**-46**
Financing activities			
Borrowings	22	4,683	475
Amortization	22	-4,674	-475
Dividend		-322	-
Refinancing costs		-6	-
Interest paid		-80	-92
Loans to subsidiaries		69	925
Cash flow from financing activities		**-330**	**833**
CASH FLOW FOR THE YEAR		**-793**	**787**
Cash and cash equivalents at the beginning of the year		790	2
Translation differences in cash and cash equivalents		3	1
Cash flow for the year		-793	787
Cash and cash equivalents at the end of the year		**0**	**790**

CHANGES IN EQUITY

PARENT COMPANY

MSEK	Restricted equity Share capital	Non-restricted equity Share premium reserve	Retained earnings	Total equity
OPENING BALANCE 1 Jan 2016	**26**	**1,534**	**5,088**	**6,648**
Net profit/loss for the year	**-**	**-**	**65**	**65**
Other comprehensive income	**-**	**-**	**-**	**0**
Total comprehensive income	**0**	**0**	**65**	**65**
Transactions with shareholders:				
Share-based payments	-	-	5	5
Forward contract to repurchase own shares	-	-	-46	-46
Total transactions with shareholders	**0**	**0**	**-41**	**-41**
CLOSING BALANCE 31 Dec 2016	**26**	**1,534**	**5,112**	**6,672**
Net profit/loss for the year	**-**	**-**	**254**	**254**
Other comprehensive income	**-**	**-**	**-**	**0**
Total comprehensive income	**0**	**0**	**254**	**254**
Transactions with shareholders:				
Dividend	-	-	-322	-322
Share-based payments	-	-	12	12
Forward contract to repurchase own shares	-	-	-10	-10
Total transactions with shareholders	**0**	**0**	**-320**	**-320**
CLOSING BALANCE 31 Dec 2017	**26**	**1,534**	**5,046**	**6,606**

NOTES

Notes common to the Group and the Parent Company. Amounts in MSEK unless otherwise stated.

NOTE 01 Accounting principles

Basis for presentation

The consolidated accounts have been prepared in accordance with International Financial Reporting Standards (IFRS) adopted by the EU and in accordance with RFR 1 Supplementary accounting principles for groups of companies and the Swedish Annual Accounts Act. The annual accounts have been prepared in accordance with the Swedish Annual Accounts Act and RFR 2 Accounting for legal entities.

The consolidated accounts have been drawn up in accordance with the acquisition value method, except in respect of certain financial assets and liabilities that are valued at actual value in the income statement.

Drawing up annual accounts in accordance with the IFRS requires the use of a number of important accounting estimations. The Board of Directors and Executive Committee are also required to make assessments when implementing the company's accounting principles. The areas that include a large degree of assessments that are complex, or areas where assumptions and estimations are of significant importance for the consolidated accounts, are detailed in each note.

Consolidated accounts

The consolidated accounts cover the companies, including branches, in which the Group's ownership is equivalent to at least one half of the votes or where the Group in another way exercises a controlling influence over the business, these are fully consolidated into the Group. Subsidiaries are entities over which the Group has a controlling interest. The Group controls a company when it is exposed to or has the right to the variable returns from its stake in the company and has the opportunity to influence the return through its influence in the company. In subsidiaries that are not wholly owned, non-controlling interest is presented as minority owner's portion of equity. This is included as part of the Group's equity. The income statement includes the portion attributable to non-controlling interest and information is provided in connection to the income statement.

The acquisition of companies or businesses is accounted for using the acquisition method. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition are recognized at the fair value on the acquisition date. Goodwill and other intangible assets arising from an acquisition are recognized as an asset that is the excess of the cost of the business combination over the net fair value of the identifiable assets, liabilities and contingent liabilities recognized. If the acquisition value is less than the actual value of the purchased operation's assets, liabilities and contingent liabilities, the difference is reported directly in the income statement. Acquisition-related costs are expensed as incurred.

Associated companies are incorporated in the Group's financial statement using the equity method. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost, adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments.

Internal Group transactions, undertakings and unrealized earnings from transactions between Group companies are eliminated.

Sales between Group companies are priced according to market terms. Internal profits arising in conjunction with sales within the Group are eliminated in their entirety.

Pre-opening costs relate to costs associated with the opening of new hotels. Items affecting comparability pertain to non-recurring items, such as integration costs for acquisitions and expenses in connection with the IPO or capital gains/losses connected to the sale of businesses. Normally, there are no items affecting comparability.

Translation of foreign currencies

The consolidated financial statements are presented in Swedish kronor (SEK), which is the functional and reporting currency of the Parent Company.

The results and financial position of all Group companies using a functional currency other than the reporting currency are translated into the Group's reporting currency as follows:

a) Assets and liabilities for each of the balance sheets are translated at the daily closing rate.
b) Income and expenditure for each of the income statements are translated at the average exchange rate.
c) All exchange rate differences that arise are reported in Other comprehensive income and accumulated in the translation reserve in equity.

Goodwill and fair value adjustments arising in the acquisition of foreign operations are treated as assets and liabilities of the entity and translated at the daily closing rate.

Transactions in foreign currencies are translated into the functional currency according to the exchange rates that apply on the transaction date or the date on which the items were translated. Exchange rate gains and losses that arise when paying such transactions and in translation of monetary assets and liabilities in foreign currency at the daily closing rate are reported in the income statement. The Group applied hedge accounting for net investments in foreign subsidiaries until May 2017. Thereafter, any exchange gains and losses have been recognized in the income statement.

The below exchange rates are used in the consolidation

Exchange rates	Jan–Dec 2017	Jan–Dec 2016
SEK = EUR		
Income statement (average)	9.6326	9.4704
Balance sheet (at end of period)	9.8497	9.5669
SEK = NOK		
Income statement (average)	1.0330	1.0199
Balance sheet (at end of period)	1.0011	1.0540
SEK = DKK		
Income statement (average)	1.2949	1.2720
Balance sheet (at end of period)	1.3229	1.2869

New and amended International Financial Reporting Standards (IFRS)

New and amended standards adopted by the Group

Accounting principles and the basis for calculations are in all material aspects unchanged compared with the Annual Report 2016. Amendments and interpretations of standards that enter into force for the fiscal year beginning January 1, 2017 have not had any material effect on the Group's financial reporting.

New standards and interpretations yet to be applied by the Group

The following amendments to IFRS will only come into force until the financial year 2018 and beyond and have not been applied in the preparation of these financial statements.

IFRS 2 Share-based payments

On June 20, 2016, the IASB published three extensions to IFRS 2 Share-based payments. The change is intended to eliminate non-uniform practices in three main areas:

a) How effects of vesting conditions in the valuation of share-based payment transactions that are settled in cash should be regulated.
b) The classification of share-based payments, which includes the employee's obligation to pay withholding taxes on compensation.
c) Accounting for a change in the terms of share-based payments, which means that the rating will be changed from settlement in cash to settlement in equity instruments.

The changes apply to financial years beginning on January 1, 2018 or later. As currently no cash-settled remuneration plans exist, the effect is assessed to be limited for the Group.

IFRS 9 Financial instruments

This standard deals with the classification, measurement and recognition of financial assets and liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the sections of IAS 39 that deal with the classification and measurement of financial instruments. The standard shall be applied in the financial year starting on January 1, 2018. Application of the standard before this date was allowed. If the Group had applied the standard from January 1, 2017, the impact on doubtful accounts receivable would have been an additional 0 MSEK. This is partly due to the fact that Scandic does not have any material amounts for writing off receivables and partly that a very small portion of the Group's net sales are invoiced to the customers as the majority of payments are made by credit card.

IFRS 15 Revenue from contracts with customers

IFRS 15 replaces IAS 18 Revenue and IAS 11 Construction Contracts and the related SIC and IFRIC. The standard regulates the recognition of revenue. The principles that IFRS 15 is based on shall provide users of financial statements with more useful information on the company's revenues. The increased disclosure requirement means that information shall be provided on the nature of the revenue, the time of settlement, any uncertainties connected with revenue recognition and cash flow linked to the company's contracts with customers. According to IFRS 15, revenue shall be recognized when the customer assumes control of the sold goods or services and is able to use and derive benefit from the goods or services – a principle that replaces the previous principle that revenue is recognized when the risks and rewards have been transferred to the buyer. A company can choose between "full retroactivity" or prospective application with additional disclosures.

IFRS 15 entered into force on January 1, 2018. Earlier adoption was allowed. The introduction of IFRS 15 had a limited effect on Scandic since only accounting related to Scandic's loyalty program is subject to calculations according to the new standard. The new standard states that revenue from the customer will be allocated to earned points and the goods on the basis of relative independent sales prices rather than based on the residual value method. This can affect the amounts allocated to the goods sold and the date of presentation of a certain portion of the revenues. Approximately 1 percent of the Group's revenue will be affected by accounting under IFRS 15. The estimated effect of IFRS 15, based on 2017 figures, is 0 MSEK.

IFRS16 Leases

In January 2016, the IASB issued a new lease standard that will replace IAS 17 Leases and the related interpretations IFRIC 4, SIC-15 and SIC-27. The implementation of the standard will mean that nearly all lease agreements will be recognized in the balance sheet, as no distinction will be made between operational and financial leases. According to the new standard, an asset (the right to use the leased asset) and a financial obligation to pay leasing fees are accounted for. Contracts of short duration and contracts of lesser value are excluded. The accounting for lessors will in all material aspects remain unchanged.

The standard is effective for financial years from January 1, 2019. Early adoption is permitted if IFRS 15 Revenue from contracts with customers also is applied. The Group currently does not intend to apply the standard early.

The introduction of the new standard will require recalculation of comparative figures and some key ratios where the effect of the introduction of IFRS 16 is shown. The impact of the introduction of IFRS 16 concerns Scandic on the Group level only and not the legal entity, meaning that the introduction of IFRS 16 will not affect the Parent Company's capacity to pay dividends.

Scandic will report according to the new standard from the first quarter 2019. The effect of the transition will be presented in the Annual Report for 2018 and communicated prior to the press release for the first quarter 2019.

The new leasing standard will primarily affect the accounting of the Group's operating leases and is expected to have significant effects on Scandic's balance sheet when leases are reported in the balance sheet. For amounts of non-cancellable contracts, see Note 5 Operational leasing agreements. The income statement is also expected to be impacted primarily by adjustments between income statement items. In 2017, the Group began the evaluation and quantification of the changed accounting in accordance with IFRS 16. This work will continue in 2018.

None of any other IFRS or IFRIC interpretations yet to be applied is expected to have a material impact on the Group's financial statements.

The Parent Company's accounting principles

Unless otherwise stated, the Parent Company applies the same accounting principles as the Group.

The Parent Company has prepared its annual accounts in accordance with the Swedish Annual Accounts Act and RFR 2 Accounting for legal entities.

Differences between the accounting principles of the Group and the Parent Company

The Parent Company applies the alternative rule for Group contributions and reports both received and paid Group contributions as appropriations. In this respect, the Parent Company does not comply with IAS 27.

Financial instruments in the Parent Company are not reported according to IAS 39 in view of the connection between reporting and taxation. Instead IFRS 7 is applied when applicable and disclosure requirements are applied according to chapter 5 in The Annual Accounts Act.

Remuneration to employees in the Parent Company is not reported according to IAS 19, as the Parent Company, in accordance with RFR 2, applies reporting according to the Pension Obligations Vesting Act.

NOTE 02 Revenue by type of agreement

	Group	
MSEK	2017	2016
Lease agreements	14,507	13,019
Management agreements	11	11
Franchise and partner agreements	22	27
Owned	43	38
Total	**14,583**	**13,095**
Other	54	29
Group eliminations	-54	-29
Group	**14,583**	**13,095**

§ Accounting principles

Revenue recognition

Revenue consists of the value of goods and services generated in hotels under lease agreements, management and franchise fees and other income generated in the Group's operations. Revenue is reported at the actual value of what has been received or will be received and corresponds to the amount to claim for delivered goods and services, less any discounts given and sales-related taxes. The Group has a customer loyalty program in which customers earn points from completed purchases. These points give the customer a discount on future purchases. Revenues are accounted for when the points have been used. See also Note 24. Below is a description of the composition of the Group's revenue:

Lease agreements – revenues from hotel operations, including all income from sold rooms, conferences, food and beverage sales and other services. Revenue is reported when the goods or services have been consumed, i.e. when checkout or invoicing of the services takes place.

Management fees – from hotels managed by the Group through long-term agreements with hotel owners. Management fees usually consist of a proportion of the revenue from the hotel and/or profits and are recognized in the income statement at the end of the month in question and are realizable according to the terms of the agreement. Invoicing occurs monthly in arrears.

Franchise fees – received in conjunction with licence fees for the Group's trademarks, through long-term agreements with hotel owners. Franchise fees consist of a proportion of the revenue from the hotel and are reported in the income statement based on the underlying terms of the agreement. The fee is recognized in the income statement at the end of the month and invoicing occurs monthly in arrears.

NOTE 03 Segment reporting

Scandic's main markets in which the Group operates are:

Sweden – Swedish hotels that are operated under the Scandic brand.

Norway – Norwegian hotels that are operated under the Scandic brand. Norwegian partner hotels are operated under their own brands.

Other Nordic countries & Europe – Hotel operations under the Scandic brand in Belgium, Denmark, Finland, Poland and Germany as well as hotel operations under the Hilton brand in Finland. The hotel operations in Belgium have been discontinued as of November 30, 2017. The different countries have been aggregated to one segment based on the fact that the countries involved have similar economic situations, they operate their business in similar ways and have similar types of customers. They also have the same currency, EUR, or a currency pegged to EUR.

Central functions – Costs for financial control, business development, investor relations, communications, technical development, human resources, branding, marketing, sales, IT and purchasing. These central functions support all of the hotels in the Group, including those under lease agreements as well as management and franchise agreements.

The split of net sales between segments is based on the location of the business activities and segment reporting is carried out after the elimination of inter-Group transactions. Net sales come from a large number of customers in all segments.

The segments are reviewed and analyzed based on adjusted EBITDA. Adjusted EBITDA is earnings before interest, taxes, depreciation and amortization and excludes non-recurring items that are not directly related to the normal operations of the company, for example, costs for transactions, exits and restructuring. Adjusted EBITDA also excludes pre-opening costs that refer to expenses for contracted and new hotels before opening day.

2017 MSEK	Sweden	Norway	Other Nordic countries & Europe	Central functions	Group
External net sales	5,977	4,586	4,019	-	14,582
Other income	1	-	-	-	1
Internal transactions	-	-	-	54	54
Group eliminations	-	-	-	-54	-54
Total operating income	**5,978**	**4,586**	**4,019**	**0**	**14,583**
Expenses	-5,103	-4,096	-3,413	-401	-13,013
Adjusted EBITDA	**875**	**490**	**606**	**-401**	**1,570**
Adjusted EBITDA margin, %	14.6	10.7	15.1	-	10.8
EBITDA	**-**	**-**	**-**	**-**	**1,473**
EBITDA margin, %	-	-	-	-	10.1
Depreciation	-	-	-	-	-548
EBIT (Operating profit/loss)	**-**	**-**	**-**	**-**	**925**
Net financial income/expense	-	-	-	-	-124
EBT (Profit/loss before tax)	**-**	**-**	**-**	-	**800**

2016 MSEK	Sweden	Norway	Other Nordic countries & Europe	Central functions	Group
External net sales	5,637	3,744	3,701	-	13,082
Other income	13	-	-	-	13
Internal transactions	-	-	-	29	29
Group eliminations	-	-	-	-29	-29
Total operating income	**5,650**	**3,744**	**3,701**	**-**	**13,095**
Expenses	-4,675	-3,381	-3,179	-347	-11,582
Adjusted EBITDA	**975**	**363**	**522**	**-347**	**1,513**
Adjusted EBITDA margin, %	17.3	9.7	14.1	-	11.6
EBITDA	**-**	**-**	**-**	**-**	**1,462**
EBITDA margin, %	-	-	-	-	11.2
Depreciation	-	-	-	-	-537
EBIT (Operating profit/loss)	**-**	**-**	**-**	**-**	**925**
Net financial income/expense	-	-	-	-	132
EBT (Profit/loss before tax)	**-**	**-**	**-**	-	**1,057**

Assets and investments by segment	Sweden		Norway		Other Nordic countries & Europe		Central functions		Group	
MSEK	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Fixed assets	5,582	5,176	3,577	3,658	6,194	3,103	85	210	15,438	12,147
Investments in fixed assets	433	341	220	210	252	131	59	37	964	719

	Sweden		Norway		Other Nordic countries & Europe		Total	
RevPAR development	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
RevPAR, SEK	710	693	617	559	708	659	680	643
Exchange rate differences	-	-	7	-	12	-	6	-
New/left hotels	7	-	-3	-	-2	-	0	-
LFL	10	-	53	-	39		31	-
ARR	1,029	1,012	988	938	1,012	958	1,012	976
OCC, %	68.9	68.5	62.4	59.7	70.0	68.8	67.1	65.9

For definitions of key ratios, see page 126.

§ Accounting principles

Segment disclosures

Segments are reported in accordance with IFRS 8 Operating segments. Scandic operates similar businesses in several countries in Europe where the main markets are in Sweden and Norway and the segments have therefore been identified based on geography and the financial importance of each segment. The segments monitored by management are divided into Sweden, Norway, Other Nordic countries and Europe and Central functions. Segment information corresponds to the internal reporting to executive decision-makers: the CEO, the Executive Committee and the Board of Directors.

Revenue and fixed assets per country	Revenue from external customers		Fixed assets	
MSEK	2017	2016	31 Dec 2017	31 Dec 2016
Sweden	5,978	5,650	5,582	5,119
Belgium	23	22	-	0
Denmark	1,535	1,412	694	656
Finland	1,915	1,750	5,423	2,380
Norway	4,586	3,744	3,577	3,658
Poland	73	76	16	15
Germany	473	444	60	52
Group assets	-	-	86	267
Total for the Group	**14,583**	**13,095**	**15,438**	**12,147**

The allocation of income and assets is based on where the Group is domiciled, i.e. where the individual hotel is located. Scandic does not have any large customers where the revenue from the customer exceeds 10 percent of the total revenue of the Group.

NOTE 04 Audit fees

Fees to audit companies	Group		Parent Company	
MSEK	2017	2016	2017	2016
Audit assignments				
PwC	5	4	1	-
Others	1	0	-	-
Other statutory assignments				
PwC	-	-	-	-
Others	-	-	-	-
Tax consultancy services				
PwC	1	1	-	-
Others	0	1	-	-
Other				
PwC	3	1	-	-
Others	0	-	-	-
Total fees to audit companies	**10**	**7**	**1**	**-**

The auditing assignment includes auditing the Annual Report and accounts as well as the administration of the company by the Board of Directors and CEO, other duties the company auditor must perform as well as advice and other assistance arising from the audit or in carrying out these duties.

The Parent Company's audit fee has been charged to the subsidiary Scandic Hotels AB. Of the fees for audit assignments, MSEK 3 relates to PwC Sweden, for other statutory assignments MSEK 0 refers to PwC Sweden, for tax consultancy services 0 MSEK refers to PwC Sweden and for other services MSEK 3 refers to PwC Sweden.

Other services mainly refers to services related to the Group's GDPR project as well as a certificate for variable rent. Tax consultancy services mainly refers to services related to compliance.

NOTE 05 Leasing agreements

Operational leasing

Leasing fees according to operational leasing agreements MSEK	2017 Lease of premises	2017 Other leasing agreements	2017 Total	2016 Lease of premises	2016 Other leasing agreements	2016 Total
Leasing fees paid during the year	3,765	101	3,866	3,383	94	3,477
– of which minimum fees	2,323	57	2,380	2,203	69	2,272
– of which contingent rents	1,442	45	1,487	1,180	2	1,205
Future leasing undertakings due						
– within 1 year	2,806	80	2,886	2,293	95	2,388
– in 1 to 5 years	11,236	176	11,412	8,918	183	9,101
– in more than 5 years	18,318	3	18,321	15,663	0	15,663
Total future leasing undertakings	**32,360**	**258**	**32,618**	**26,874**	**278**	**27,152**

! Important estimations and assumptions

Leasing undertakings relating to premises relate in all significant respects to the premises on which Scandic's hotel operations are carried out. The amounts relating to future leasing undertakings refer to minimum leasing fees, i.e. fixed rental fees. In most lease agreements, the majority of the rental cost is dependent upon revenue from the leased premises. Revenue-related leasing costs are not included in the amounts. The table, therefore, does not provide a full view of Scandic's future leasing costs. Lease agreements have a duration of between 15 and 20 years and are generally not cancellable during the time of duration. The leasing terms, index clauses and presence of conditions to extend agreements vary. For most agreements, the agreements are extended when the leasing period has ended, after renegotiation with the lessors. Options to extend agreements are often regulated in the leasing terms.

Scandic's business model is based on lease agreements where the property owner and Scandic share responsibility for investing in and maintaining the properties. Scandic's commitment relates in general to maintenance and replacement of finishes, furniture, fixtures and equipment. The extent of obligations is regulated by the demarcation list of the lease agreement. Historically, these investments have accounted for just over 5 percent of Scandic's net sales. Investment commitments regarding signed agreements for new hotels and expansions are estimated at 1,028 MSEK during 2018, 993 MSEK during 2019 and 986 MSEK during 2020.

§ Accounting principles

Operational leasing agreements

As of December 31, 2017, most of the Group's leases were classified as operating leases. In these hotel leases, Scandic is only responsible for the risks associated with the operation of the hotel. The cost of operating leases is reported on a straight-line basis unless another systematic method better reflects how the financial resources of the leased assets are recognized.

NOTE 06 Employees, personnel expenses and remuneration to the Board of Directors

Personnel expenses MSEK	Group 2017	Group 2016	Parent Company 2017	Parent Company 2016
Salaries and other remuneration	3,804	3,311	35	19
Payroll overhead excluding pension expenses	532	535	13	5
Pension costs	402	365	12	4
Total personnel expenses	**4,738**	**4,211**	**60**	**28**

The management of the Group is employed by the Parent Company and the subsidiaries Scandic Hotels Holding AB, Scandic Hotels AB, Scandic Hotel A/S, Scandic Hotels AS and Scandic Hotels Deutschland GmbH.

For the Group's current CEO, a mutual notice period of 9 months applies. In addition, he is entitled to severance pay corresponding to 9 months' salary at the end of his employment in the case where the company gives notice of termination or that his duties are substantially changed after a change of control in the company, with the result that he resigns within one year after the change of control.

For the Group's former CEO, upon termination by the company, a notice period of 12 months was applicable and he was entitled to severance pay corresponding to 6 months salary at the end of the employment. In the case of termination by the CEO, the notice period was 6 months.

For other senior executives, upon termination by the company, entitlement to severance pay of 6–12 months applies and upon termination at their own request, a notice period of 6 months applies.

Remuneration and other compensation

Remuneration and other compensation to the Board of Directors, SEK	2017 Board fees	Compensation for committee work	Other compensation	Total
Vagn Sörensen, Chairman of the Board	711,667	50,000	-	761,667
Ingalill Berglund	325,833	150,000	-	475,833
Per G. Braathen	425,000	29,167	-	454,167
Albert Gustafsson [1]	133,333	20,833	-	154,166
Grant Hearn	325,833	50,000	-	375,833
Lottie Knutson	325,833	-	-	325,833
Stephan Leithner [2]	133,334	20,833	-	154,167
Christoffer Lundström	325,833	29,167	-	355,000
Eva Moen Adolfsson	325,833	100,000	-	425,833
Niklas Sloutski [3]	133,334	20,833	-	154,167
Martin Svalstedt [4]	192,500	29,167	-	221,667
Fredrik Wirdenius	325,833	29,167	-	355,000
Marianne Sundelius, employee representative	24,000	-	-	24,000
Jan Wallmark, employee representative	26,667	-	-	26,667
Total remuneration and other compensation	**3,734,833**	**529,167**	**-**	**4,264,000**

1) Albert Gustafsson resigned from the Board at the AGM on May 10, 2017.
2) Stephan Leithner resigned from the Board at the AGM on May 10, 2017.
3) Niklas Sloutski resigned from the Board at the AGM on May 10, 2017.
4) Martin Svalstedt was elected to the Board at the AGM on May 10, 2017.
5) Jan Wallmark was replaced by Marianne Sundelius as employee representative after the Annual General Meeting on May 10, 2017.

Remuneration and other compensation to the Board of Directors, SEK	2016 Board fees	Compensation for committee work	Other compensation	Total
Vagn Sörensen, Chairman of the Board	658,334	70,833	-	729,167
Ingalill Berglund [1]	186,667	87,500	-	274,167
Per G. Braathen	311,667	-	-	311,667
Caspar Callerström [2]	100,000	50,000	-	150,000
Albert Gustafsson [3]	186,667	29,166	-	215,833
Grant Hearn	311,667	70,833	-	382,500
Lottie Knutson	311,667	-	-	311,667
Stephan Leithner [4]	186,667	29,166	-	215,833
Christoffer Lundström [5]	186,667	-	-	186,667
Eva Moen Adolfsson	311,667	79,166	-	390,833
Niklas Sloutski	253,334	79,166	-	332,500
Rikard Steiber [6]	125,000	-	-	125,000
Fredrik Wirdenius	311,667	-	-	311,667
Jan Wallmark, employee representative	42,000	-	-	42,000
Total remuneration and other compensation	**3,483,671**	**495,830**	**-**	**3,979,501**

1) Ingalill Berglund was elected to the Board at the AGM on May 12, 2016.
2) Caspar Callerström resigned from the Board at the AGM on May 12, 2016.
3) Albert Gustafsson was elected to the Board at the AGM on May 12, 2016.
4) Stephan Leithner was elected to the Board at the AGM on May 12, 2016.
5) Christoffer Lundström was elected to the Board at the AGM on May 12, 2016.
6) Rikard Steiber resigned from the Board at the AGM on May 12, 2016.

Remuneration to senior managers, SEK	2017 Base remuneration	Variable remuneration[1]	Other compensation[2]	Pension costs	Total
Frank Fiskers, President & CEO	4,403,002	3,396,770	9,316,469	1,519,273	18,635,514
Even Frydenberg, President & CEO	2,416,667	1,414,567	54,549	797,500	4,683,283
Other members of Executive Committee (9 people)	19,505,301	10,784,553	7,602,081	4,558,936	42,450,871
Total remuneration and other compensation	**26,324,970**	**15,595,890**	**16,973,099**	**6,875,709**	**65,769,668**

1) Variable renumeration includes share-based payments of 173,367 SEK for the current CEO, 973,861 SEK for the former CEO and 4,539,581 SEK for other members of the Executive Committee.
2) Remuneration for the former CEO and other members of the Executive Committee, 1 person, includes severance pay as well as base and variable remuneration during the notice period. The number of other members of the Executive Committee above refers to the total for the entire year. At year-end, the number was 8 people.

Remuneration to senior managers, SEK	2016 Base remuneration	Variable remuneration[1]	Other compensation	Pension costs	Total
Frank Fiskers, President & CEO	7,400,000	4,257,327	494,250	2,595,978	14,747,555
Other members of Executive Committee (13 people) [2]	17,300,921	6,944,539	1,301,557	3,111,705	28,658,722
Total remuneration and other compensation	**24,700,921**	**11,201,866**	**1,795,807**	**5,707,683**	**43,406,277**

1) Variable renumeration includes share-based payments of 1,193,727 SEK for the CEO and 1,820,319 SEK for the other members of the Executive Committee. The remuneration for other members of the Executive Committee includes severance pay as well as base and variable remuneration for 2 people during the notice period.
2) The number of other members of the Executive Committee above refers to the total for the entire year. At year-end, other members of the Executive Committee totaled 9 people.

Remuneration to the CEO and other senior managers can consist of fixed salary, variable salary, pension and other compensation. Terms and conditions for remuneration to senior management are described in the Corporate Governance Report on page 72.

Pensions

The CEO is covered by a defined contribution pension plan until he reaches age 65. The pension premium for the Group's current CEO amounts to 33 percent of the fixed salary and for the Group's former CEO, it amounted to 35 percent of the fixed salary. The CEO has no part in pension liability.

Other members of the senior management are covered by defined contribution pension plans, and to a lesser extent defined benefit pension plans. The retirement age is in accordance with applicable local laws and collective agreements. Other members of the senior managements' part of the pension liability was 1 (1) MSEK.

Long-Term Incentive Program

In December 2015, Scandic implemented a share-based Long-Term Incentive Program (LTIP 2015). A corresponding incentive program LTIP program was decided upon at the Annual General Meeting 2016 (LTIP 2016) and at the Annual General Meeting 2017 (LTIP 2017). The LTIP enables participants to receive matching shares and performance shares provided they make their own investments in shares or allocate shares already held to the program. For each such savings share, the participants in the LTIP 2015 can be assigned a matching share. In the LTIP 2016 and LTIP 2017, the allocation of matching shares to 50 percent due to a requirement related to the total return on the shares (TSR) is being met and 50 percent are free of charge. In addition, the participants may receive a number of performance shares, free of consideration, depending on the degree of meeting certain performance criteria adopted by the Board of Directors for which criteria are related to EBITDA, cash flow and RGI (Revenue Generation Index = RevPAR in relation to the RevPAR of the competition group) for the financial years 2015–2017 (LTIP 2015), 2016–2018 (LTIP 2016) and 2017–2019 (LTIP 2017) financial years.

Matching shares and performance shares will be allotted after the end of a vesting period until the date of publication of Scandic's interim report for the first quarter of 2018, the first quarter of 2019 and the first quarter of 2020 respectively, subject to the participant remaining a permanent employee within the Group and retaining the savings shares.

The expected financial exposure to shares that may be allotted under LTIP 2015, LTIP 2016 and LTIP 2017 and the delivery of shares to the participants has been hedged by Scandic's entering into a share swap agreement with a third party on market terms.

Granted rights outstanding:

	2017	2016	2015
As of January 1	516,610	286,945	-
Granted	188,510	295,047	286,945
Allotted	-	-	-
Forfeited	89,518	65,382	-
Total at December 31	615,602	516,610	286,945
– of which currently exercisable	-	-	-

The rights have no exercise price.

Grant date	Due date	Number of rights Dec 31, 2017	Number of rights Dec 31, 2016	Number of rights Dec 31, 2015
December 2, 2015	April/ May 2018[1)]	251,952	251,952	286,945
June 10, 2016	April/ May 2019[1)]	183,890	264,658	-
September 25, 2017	April/ May 2020[1)]	179,760	-	-
Total		**615,602**	**516,610**	**286,945**

1) The due date is after the Scandic's interim report for the first quarter will be published. The date for this is still to be confirmed.

Fair value calculations

The fair value is measured through the use of generally accepted valuation models with the following input factors:

	LTIP 2017	LTIP 2016	LTIP 2015
Weighted average share price, SEK	109,75	62	67
Right life	2.62 year	2.92 year	2.45 year
Deduction of expected dividends	3%	4%	3%
Risk-free interest	non applicable	non applicable	non applicable
Expected volatility	non applicable	non applicable	non applicable

As the exercise price (zero) is significantly lower than the share price on the grant date, the value has a limited sensitivity expected volatility and risk-free interest.

Cost of share-based payments that are regulated by equity instruments

	LTIP 2017		LTIP 2016		LTIP 2015	
MSEK	Group	Parent Company	Group	Parent Company	Group	Parent Company
Expected cost of the entire program	13	2	7	0	15	5
The maximum cost of the entire program	35	7	21	1	36	11
Cost in 2017	1	0	2	0	6	2
Cost in 2016	-	-	2	1	5	1
Cost in 2015	-	-	-	-	0	0

The cost of the programs, which is included in the income statement for the Group, is calculated in accordance with IFRS 2 and is distributed over the vesting period. The calculation has been made based on the following assumptions: (i) an annual dividend yield of 3 percent for LTIP 2015, 4 percent for LTIP 2016 and 3 percent for LTIP 2017, (ii) an estimated annual turnover of personnel of 10 percent, (iii) an average fulfillment of each performance condition of 50-100 percent, and (iv) a maximum of 615,602 matching shares and performance shares that may be awarded. In total, the costs for the programs are estimated to total 35 MSEK including social security fees. The estimation is also based on the assumption of an annual share price increase of 10 percent during the program.

Assuming that the cap is reached and that participants are entitled to allotment of the maximum number of matching and performance shares and remain in the program until the end of the vesting period, the maximum cost for the programs will amount to 92 MSEK, including social security fees.

The expected financial exposure to shares that may be allotted under the LTIP and the delivery of shares to the participants of the LTIP has been hedged through Scandic's entering into a swap agreement with a third party on market terms, whereby the third party undertakes to, in its own name, acquire and transfer shares to the participants.

Average number of employees per country	2017 Average number of employees	2017 of which men	2016 Average number of employees	2016 of which men
Parent Company				
Sweden	4	2	2	2
Subsidiaries				
Sweden	4,876	1,708	4,609	1,678
Belgium	14	6	16	12
Denmark	1,106	453	1,083	433
Finland	692	236	680	250
Norway	2,822	1,125	2,563	1,108
Poland	114	39	112	36
Germany	301	132	294	134
Total for the Group	**9,929**	**3,701**	**9,359**	**3,653**

Gender division of the Board and Executive Committee on the balance sheet date	2017 Total	2017 of which men	2016 Total	2016 of which men
Board of Directors	9	6	11	8
Executive Committee	9	8	10	9
Total for the Group	**18**	**14**	**21**	**17**

§ Accounting principles

Severance payments

Employees receive severance payments on termination before normal retirement age or when they voluntarily accept termination in exchange for such compensation. The Group recognizes severance payments where it is under a manifest obligation either to give notice to employees following a detailed, formal plan without right to rescission or to provide compensation in the event of termination as a result of an offer made as an incentive for voluntary resignation. Benefits that become due more than 12 months after the balance sheet date are discounted to the present value.

Share-based payments

The Group has a share-based incentive plan where the settlement is carried out in shares and the Group is provided with services from the employees as payment for the shares. The cost of the program amounts to the fair value of the share on the grant date multiplied by the number of vested shares and the cost is distributed over the vesting period.

At the end of each reporting period, the Group reviews its assessment of the number of shares that are expected to be earned based on the non-market vesting conditions and terms of employment.

Any deviation from the original assessment that the review raises are recognized in the income statement and the corresponding adjustments are made in equity.

It can sometimes happen that the employees render services before the grant date, in which case an estimate of the fair value is made in order to recognize a cost to be distributed for a fee reported to be spread over the period between the time the employee begins performing services and the grant date.

The social security costs that arise with the granting of equity rights are seen as an integrated part of the allotment and are treated as a cash settled program.

Swap agreement for repurchase of own shares

Scandic has a swap agreement with Nordea for purchasing its own shares. This swap agreement is reported as a financial liability for the agreed amount payable on the maturity date and as a deduction from equity. Interest costs related to the swap agreement are accounted for in the income statement in the period they occur. When the agreement has reached the maturity date and the obligation and agreed amounts have been paid, the liability will be derecognized from the balance sheet.

NOTE 07 Non-recurring items

Non-recurring items MSEK	Group 31 Dec 2017	Group 31 Dec 2016
Transaction costs	-47	-
Sales of operations	17	-
Total	**-30**	**0**

Non-recurring items refer to items that are not directly related to the Group's normal activities, such as transaction costs when buying or selling a business, cost for leaving hotels and restructuring costs. Costs for the year are transaction costs related to the aquisition of Finnish Restel's hotel operations, as well as the result of selling the hotel operations of Scandic Vierumäki in Finland.

NOTE 08 Financial income

Division by income type MSEK	Group 2017	Group 2016	Parent Company 2017	Parent Company 2016
Interest income	2	3	0	0
Interest income from Group companies	-	-	112	68
Revaluation of derivative instruments	6	35	-	-
Results from associated companies	1	2	-	-
Exchange rate gains, net	-	225	-	46
Total	**9**	**265**	**112**	**114**

NOTE 09 Financial expenses

Division by type of cost MSEK	Group 2017	Group 2016	Parent Company 2017	Parent Company 2016
Interest expenses, bank	-79	-104	-78	-96
Interest expenses, pension plan	-12	-11	-	-
Interest expenses to Group companies	-	-	-2	-1
Exchange rate losses, net	-23	-	-24	-
Share of transaction costs expensed during the year[1)]	-19	-18	-	-
Total	**-133**	**-133**	**-104**	**-97**

1) Part of interest expenses has been expensed over the duration of the borrowings, see Note 22.

§ Accounting principles

Financial income and expenses

All interest income and interest expenses are accounted for at their amortized cost. Interest derivatives are accounted for at the fair value through profit or loss. Revaluation of electricity derivatives is accounted for as other external costs. Associated companies are accounted for using the equity method.

NOTE 10 Income tax

MSEK	Group 2017	Group 2016	Parent Company 2017	Parent Company 2016
Tax expenses				
Current tax expenses	-8	-3	-	-
Adjustment of tax for previous year	-5	-	-	-
Deferred tax relating to temporary differences	28	9	-	-
Deferred tax relating to untaxed reserves	-3	1	-	-
Deferred tax relating to loss carried forward	-108	-185	-71	-11
Income due to change in tax rate	6	3	-	-
Total tax income/expenses	**-90**	**-175**	**-71**	**-11**
Connection between tax expenses for the year and reported profit before tax, MSEK				
Tax in accordance with current rate, 22.0%	-176	-233	-71	-11
Adjustment of tax expense from previous year	-5	-	-	-
Tax effect of non-deductible expenses	-4	-5	-	-
Tax effect of non-taxable income	47	45	-	-
Adjustment for differing tax rates	3	0	-	-
Tax effect of non-offsettable losses	0	-4	-	-
Loss carried forward from previous year for which deferred tax asset has not been reported	6	40	-	-
Loss carried forward from previous year for which deferred tax asset has been reported	33	-22	-	-
Tax effect on changed tax rate on deferred taxes	6	4	-	-
Total tax income/expenses	**-90**	**-175**	**-71**	**-11**

The current tax rate, 22 percent (22 percent) has been calculated on the basis of the tax rate applicable to the Parent Company.

The tax rate in Norway was changed from 24 percent in 2017 to 23 percent from 2018. All deferred tax relating to Norway has subsequently been recalculated.

Deferred tax has been reported in Other comprehensive income relating to actuarial gains of 22 MSEK (2) and deferred tax on hedging of net investments of foreign operations amounts to 0 MSEK (-24) .

NOTE 11 Earnings per share

Basic **Group**	**2017**	**2016**
Profit/loss for the year attributable to shareholders of the Parent Company, MSEK	707	879
Average number of shares outstanding, basic	102,959,870	102,428,053
Earnings per share, SEK	6.87	8.58

Diluted **Group**	**2017**	**2016**
Profit/loss for the year attributable to shareholders of the Parent Company, MSEK	707	879
Average number of shares outstanding, basic[1)]	102,959,870	102,428,053
Dilutive effect of stock purchase plans	43,134	29,784
Average number of shares outstanding, diluted[1)]	103,003,004	102,457,837
Earnings per share, diluted, SEK	6.86	8.58

The calculation of basic earnings per share is based on the profit/loss for the year attributable to shareholders of the Parent Company divided by the weighted average numbers of shares outstanding during the year. When calculating diluted earnings per share, the average number of shares is adjusted to take into account the effects of dilutive potential ordinary shares originating during the reported periods from share-based payment programs that have been offered to employees. Dilutions from share-based payment programs affect the number of shares and only occur when the strike price is less than the share price. Potential ordinary shares are not viewed as dilutive if they result in better earnings per share after dilution, which occurs when the net income is negative.

NOTE 12 Intangible fixed assets

Group, MSEK	2017 Acquisition value	2017 Accumulated depreciation	2017 Reported residual value	2016 Acquisition value	2016 Accumulated depreciation	2016 Reported residual value
Goodwill						
Opening balance	5,793	-	5,793	5,575	-	5,575
Acquisition of businesses	530	-	530	-	-	0
Exchange rate differences	-20	-	-20	218	-	218
Closing balance	**6,303**	0	**6,303**	**5,793**	0	**5,793**
Trademarks						
Opening balance	3,187	-42	3,145	3,177	-26	3,151
Acquistion of businesses	49	-	49	-	-	0
Depreciation for the year	-	-15	-15	-	-16	-16
Exchange rate differences	-26	-	-26	10	-	10
Closing balance	**3,210**	**-57**	**3,153**	**3,187**	**-42**	**3,145**
Other intangible assets						
Opening balance	344	-179	165	323	-142	181
Reclassifications	-1	1	0	-	-	0
Acquisition of businesses	85	-6	79	-	-	0
Purchases	1	-	1	3	-	3
Depreciation for the year	-	-25	-25	-	-35	-35
Exchange rate differences	-7	0	-7	18	-2	16
Closing balance	**422**	**-209**	**213**	**344**	**-179**	**165**
Total intangible fixed assets						
Opening balance	9,324	-221	9,103	9,075	-168	8,907
Reclassifications	-1	1	0	-	-	0
Acquisition of businesses	664	-6	658	-	-	0
Purchases	1	-	1	3	-	3
Depreciation for the year	-	-40	-40	-	-51	-51
Exchange rate differences	-53	0	-53	246	-2	244
Closing balance	**9,935**	**-266**	**9,669**	**9,324**	**-221**	**9,103**

Impairment testing

Impairment testing of goodwill and brands occurs annually and at any given time when indications of impairment are identified. Today, the Group has three cash-generating units: Sweden, Norway and Other Nordic countries and Europe, see also Note 3.

The recoverable amount for cash-generating units is determined based on calculations of value in use. These estimates are based on estimated future cash flows before tax based on a five-year period. Cash flow for 2018 is based on a budget established by the company's Board and for 2019 to 2020 based on the company's long-term forecast. For the subsequent two years, cash flow is based on assessed market growth and estimated cost increases. Revenue forecasts are based on industry data relating to market development and historical experience regarding the development of new and newly renovated hotels. Cost forecasts are based on industry data regarding inflation and wage development and historical experience.

After 2020, market growth has been estimated to amount to 2.5 (2.5) percent per year in the period 2021 to 2022. When calculating value in use, a discount rate before tax and a sustained growth rate have been used in accordance with the following table. Cash flow after the five-year period is extrapolated with a growth rate of 2.5 percent per year. The impairment test for the year showed that there were no impairment losses for any of the segments, even with reasonable changes in the parameters, such as an individual change +/- 1.0 percent on the discount rate before tax and on the EBITDA margin.

At a discount rate before tax of 15.7 percent for Sweden, 14.3 percent for Norway and 13.4 percent for Other Nordic countries and Europe, there is a need for impairment at the retained EBITDA margin.

	Sweden	Norway	Other Nordic countries & Europe
Forecast period, years	5 (5)	5 (5)	5 (5)
WACC rate, pre tax %	9.4 (9.4)	10.5 (9.5)	9.0 (9.2)
Terminal growth rate, %	2.5 (2.5)	2.5 (2.5)	2.5 (2.5)

Goodwill and trademark, MSEK	Goodwill 31 Dec 2017	Goodwill 31 Dec 2016	Trademark 31 Dec 2017	Trademark 31 Dec 2016	Total 31 Dec 2017	Total 31 Dec 2016
Sweden	1,866	1,866	2,312	2,312	4,178	4,238
Norway	1,667	1,752	578	625	2,245	2,332
Other Nordic countries & Europe	2,770	2,175	263	208	3,033	2,368
Total goodwill and trademark	**6,303**	**5,793**	**3,153**	**3,145**	**9,456**	**8,938**

§ Accounting principles

Intangible fixed assets

Goodwill

Goodwill represents the excess of the value of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired operation on the date of acquisition. Goodwill on acquisitions of operations is reported as an intangible asset. Goodwill accounted for is tested annually in order to identify any impairment requirement and is reported at the acquisition value less the accumulated impairment.

Goodwill is allocated across cash-generating units when an assessment of any impairment requirement is made. The allocation is made to the cash-generating units or groups of cash-generating units that are expected to benefit from the acquisition of an operation giving rise to the goodwill item.

Trademarks

Trademarks acquired are reported at the acquisition value less depreciation and any impairment. The trademark Scandic Hotels with an uncertain useful life is not depreciated, but instead assessed annually with regard to any impairment requirement. The trademark Scandic Hotels, in the acquired companies in the Scandic Group, has existed on the market since 1984 and today constitutes the basis for the Group's operations. The trademark is used on all markets where the companies are established.

The brand Rica Hotels, which was acquired in April 2014, has a fixed useful life of eight years, mainly regarding franchise and partnership agreements entered into by Rica Hotels. The Cumulus brand, which was acquired in December 2017, also has a fixed useful life of eight years. Depreciation takes place linearly over the estimated useful life.

Other intangible assets

Customer relationships identified in connection with the acquisition of Rica hotels and Restel Hotellit Oy are also accounted for under Other intangible assets. Customer relationships have a defined useful life of over ten years, and depreciation takes place linearly over the estimated useful life.

Development costs directly attributable to the development of identifiable systems for the business are capitalized as intangible fixed assets when the following criteria are met:

- it is technically possible to complete the software so that it can be used;
- it is the company's intention to complete the software and to use it;
- there are prerequisites for using the software;
- it can be shown how the software will generate probable future financial benefits;
- adequate technical, financial and other resources exist for completing the development and for using the software; and
- the expenses attributable to the software during its development can be calculated in a reliable way.

During 2009, Scandic began a major investment in a new operational system that came into use at the first hotels during 2010 and was operational at all hotels at the end of 2011. The investment consists of both licence costs and considerable implementation work. The investment has been divided into stages based on when the system becomes operational at different hotels. Depreciation of each stage started when the system became operational. The system has been fully depreciated since December 2016.

During 2012, another major investment began on a new Group reporting system. The investment was completed in December 2013 and has been the subject of depreciation. During 2016, an upgrade of the system was carried out. These two proprietary systems are capitalized under Other intangible assets and will be written off over five years.

! Important estimations and assumptions

The estimations that may have the greatest effect on the future profit and position of the Group are the assumptions made when considering the impairment of intangible assets. Every year, the Group investigates whether any need for impairment exists for goodwill and trademarks in accordance with the accounting principle described above. Recoverable amounts for cash-generating units have been determined through calculation of the value in use. Assumptions made in this calculation are described in the table in the section Impairment testing, from which it emerges that revenue was expected to rise in the coming years. Should growth be considerably weaker, an impairment requirement that significantly affects the Group's profit and position may arise.

NOTE 13 Tangible fixed assets

Group, MSEK	2017 Acquisition value	2017 Accumulated depreciation and write-down	2017 Reported residual value	2016 Acquisition value	2016 Accumulated depreciation	2016 Reported residual value
Land and buildings[1)]						
Opening balance	116	-21	95	107	-18	89
Acquisition of businesses	1,675	0	1,675	-	-	0
Depreciation for the year	-	-2	2	-	-1	-1
Exchange rate differences	-6	1	-5	9	-2	7
Closing balance	**1,785**	**-22**	**1,764**	**116**	**-21**	**95**
Equipment, fixtures and fittings						
Opening balance	8,190	-5,308	2,882	7,502	-4,953	2,549
Acquisition of businesses	653	-122	531	-	-	0
Purchases	964	-	964	719	-	719
Sales/disposals	-364	349	-15	-327	321	-6
Depreciation for the year	-	-495	-495	-	-473	-473
Write-down during the year	-	-10	-10	-	-12	-12
Exchange rate differences	-72	50	-22	296	-191	105
Closing balance	**9,371**	**-5,536**	**3,835**	**8,190**	**-5,308**	**2,882**
Total tangible fixed assets						
Opening balance	8,307	-5,329	2,977	7,609	-4,971	2,638
Acquisition of businesses	2,328	-122	2,206	-	-	0
Purchases	964	-	964	719	-	719
Sales/disposals	-364	349	-15	-327	321	-6
Depreciation for the year	-	-495	-495	-	-474	-474
Write-down during the year	-	-10	-10	-	-12	-12
Exchange rate differences	-78	50	-28	305	-193	113
Closing balance	**11,156**	**-5,557**	**5,559**	**8,307**	**-5,329**	**2,977**

1) Of buildings and land, 88 (95) of the reported residual values relates to the property in Gardermoen, Norway.

Inventories, installations and equipment include ongoing facilities of 422 (241) MSEK.

Finance lease

In connection with the acquisition of Restel Hotellit Oy in December 2017, ten lease contracts were identified for hotel properties as finance leases. Lease payments consist of both minimum lease payments and partly variable fees. Leases have a remaining maturity of up to 30 years and depreciation is calculated over the same term.

In Land and buildings above, leasing assets that the Group has under finance leases are included in the following amounts:

Finance leased assets	31 Dec 2017 Acquisition value	31 Dec 2017 Accumulated depreciation and write-down	31 Dec 2017 Reported residual value
Buildings			
Opening balance	0	0	0
Acquisition of businesses	1,675	-	1,675
Exchange rate differences	-	-	-
Closing balance financial leased assets	**1,675**	**0**	**1,675**

Future minimum leasing fees, nominal and discounted amounts, for finance lease agreements at closing date	Future minimum leasing fees	Present value of future minimum leasing fees
Due for payment:		
– within 1 year	123	121
– between 1 and 5 years	493	437
– later than 5 years	1,933	1,107
Total	**2,549**	**1,665**

§ Accounting principles

Tangible fixed assets

Land and buildings comprises mainly hotel buildings. Land and buildings is reported at the Group's acquisition value, based on an external valuation made in conjunction with the acquisition of the operations less depreciation of buildings made subsequently. Buildings are the subject of component depreciation, where different parts of the building are depreciated based on differing useful lives. The depreciation period for buildings is between 25 and 50 years. Land is not subject to depreciation.

Equipment, fixtures and fittings are reported at the acquisition value less depreciation and impairment. The acquisition value includes expenditure that is directly attributable to the acquisition of the asset. Assets are depreciated in a linear way over the calculated useful life, which varies depending on the character of the assets. Assets consist of many different types of equipment, fixtures and fittings such as furniture, fixtures and fittings in hotel rooms and public areas, kitchen equipment and IT equipment with varying useful lives. For this reason, a number of different depreciation periods are used. In general, IT equipment is depreciated over three years, while other fixtures and fittings, installations and equipment are depreciated over three to 20 years. Equipment, fixtures and fittings with a useful life shorter than three years are reported as expenses in the income statement.

Finance lease agreements

When Restel Hotellit Oy was acquired on December 29, 2017, ten of the lease contracts were identified as finance lease. This is due to the fact that the financial benefits and risks that are connected with owning the properties in all material respects are transferred from the lessor to the lessee, and that the leasing period covers the major part of the financial life of the properties of 50 years. The effect for Scandic is the change of EBITDA, depreciation and interest costs as well as a finance lease liability, however with a limited effect on cash flow, equity and earnings per share.

! Important estimations and assumptions

Additional expenditure is added to the reported value of the asset only when it is probable that the future financial benefits associated with the asset will benefit the Group and that the acquisition value of the asset can be measured in a reliable way. All other forms of maintenance of a tangible fixed asset are reported as expenses in the income statement.

If there is a need for impairment, tangible fixed assets are impaired to the lowest of the recoverable amount and the reported value.

NOTE 14 Shares in associated companies

Group, MSEK	Share 31 Dec 2017	Share 31 Dec 2016	Reported value 31 Dec 2017	Reported value 31 Dec 2016
Gress-Gruppen AS	33%	33%	10	10
Aulangon Kylpä Oy	25%	-	9	-
Rukan Kokouskeskus Oy	33%	-	2	-
Total			**21**	**10**

Changes during the year, MSEK	2017	2016
Accumulated acquisition values, opening balance	10	10
Acquisitions	11	-
Result/dividends	-	-
Sales	-	-
Exchange rate differences	0	0
Accumulated acquisition values, closing balance	**21**	**10**

Gress-Gruppen is one of Norway's largest purchasing companies where Scandic together with the other owners and paying members combine their purchasing volumes. The purpose of the ownership is to have efficient purchasing and enjoy the best possible terms and conditions from suppliers.

Aulangon Kylpylä Oy and Rukan Kokouskeskus Oy were included in the Restel acquisition that the Group made at the end of 2017. Both companies are involved in cooperations with the Group concerning spa and conference facilities at two hotels in Finland.

§ Accounting principles

Shares in associated companies

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. Significant influence is normally present in situations where the company has a shareholding of between 20 and 50 percent of the voting rights.

The share of income represents the company's share in the net income (after tax) from these associates and is directly accounted for in the income statement.

NOTE 15 Financial investments

Changes during the year, MSEK	2017	2016
Accumulated acquisition values, opening balance	8	4
Acquisitions	0	0
Disposals	0	0
Reclassification[1)]	1	3
Exchange rate differences	0	1
Accumulated acquisition values, closing balance	**9**	**8**

1) During the year, there was a reclassification of other long-term receivables to financial investments of 3 MSEK.

The financial investments on the balance sheet date consist of approximately 60 (50) smaller investments.

NOTE 16 Inventory

The Group's inventory consists in its entirety of raw materials, mainly for restaurant operations.

§ Accounting principles

Inventory

Inventory is reported at the lower of the acquisition value or net selling price. The acquisition value is determined using the first in, first out (FIFO) principle.

NOTE 17 Accounts receivable

Accounts receivable, gross values, MSEK	31 Dec 2017	31 Dec 2016
Total accounts receivable	638	511
Deducted provision for doubtful accounts	-12	-13
Accounts receivable, book value	**626**	**498**

Change in deducted provision for doubtful accounts receivable	2017	2016
1 January	-13	-15
Provision for doubtful accounts	-3	-3
Receivables written off during the year as uncollectable	-4	-4
Reversed unutilized amount	8	8
Exchange rate differences	0	1
31 December	**-12**	**-13**

Age analysis, MSEK	31 Dec 2017	31 Dec 2016
Receivables not matured	430	329
Receivables matured 1–30 days	146	138
Receivables matured 31 –60 days	44	15
Receivables matured 61–90 days	9	9
Receivables matured 91–120 days	3	9
Receivables matured more than 120 days	6	11
Accounts receivable, reported value	**638**	**511**

§ Accounting principles

Loans receivable and accounts receivable

Loans receivable and accounts receivable are financial assets that are not derivatives, that are not listed in an active market and that have fixed or determinable payments. They are part of current assets, with the exception of items with due dates more than 12 months after the balance sheet date, in which case they are classified as fixed assets. Loans receivable and accounts receivable are classified as accounts receivable and other receivables in the balance sheet.

Loans receivable and accounts receivable are reported at the acquisition value less any provision for depreciation. According to IAS 39, loans receivable and accounts receivable shall be valued at the accrued acquisition value using the effective interest method, but since accounts receivable have very short durations and the interest effects are very small, the value reported by the Group is not deemed to diverge materially from the actual value. Loans receivable run with a variable rate of interest and therefore the actual value is not deemed to diverge materially from the reported value.

! Important estimations and assumptions

A provision for depreciation of accounts receivable is made when there is objective proof that the Group will not be able to recover all of the amounts due in accordance with the original terms and conditions of the accounts receivable. The provision amount constitutes the difference between the asset's reported value and the present value of future cash flows, discounted at the effective interest rate. The provision amount is reported in the income statement.

NOTE 18 Discontinued operations

MSEK	31 Dec 2017	31 Dec 2016
Assets classified as held for sale		
Goodwill	8	-
Buildings	70	-
Property, plant and equipment	23	-
Accounts receivable and prepaid expenses	0	-
Total assets of disposal group held for sale	**101**	**0**
Liabilities directly associated with assets classified as held for sale		
Financial leases	69	-
Accounts payable	1	-
Accrued expenses	0	-
Total liabilities of disposal group held for sale	**70**	**0**

§ Accounting principles

Discontinued operations

Assets classified as held for sale are valued at the lower of the book value and fair value after deducting the cost of sales. Fixed assets are classified as assets or liabilities held for sale if their carrying amount will be recycled at a potential sale, rather than through continued usage. This is considered fulfilled when the Executive Committee and the Board have made a decision to divest the business, an active sales process has been initiated, the assets are disposable for an immediate sale in their present condition and it is likely that the disposal will be carried out within the upcoming year.

The approval of the acquisition of Restel Hotellit Oy at the end of 2017 was conditioned by the disposal of three hotels, of which one existing hotel and two acquired hotels, in accordance with the decision of the Finnish Competition Authority. The above refers to identifiable assets and liabilities for these three hotels. Revenue of 34 MSEK and net income of 7 MSEK for Scandic Lahti is included in the Group's financial statements for 2017.

NOTE 19 Prepaid expenses

Division by type of expense	Group		Parent Company	
MSEK	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016
Prepaid rent	193	81	-	-
Other prepaid expenses	129	124	-	0
Accrued interest	1	-	1	-
Accrued income	47	-	-	-
Total	**370**	**205**	**1**	**0**

NOTE 20 Cash and cash equivalents

	Group		Parent Company	
MSEK	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016
Cash and bank balances	140	1,068	0	790
Total	**140**	**1,068**	**0**	**790**

The Parent Company does not have any balance in the bank since all excess liquidity is used for amortization of loans. This also explains the decrease in cash for the Group compared with the previous year.

§ Accounting principles

Cash and cash equivalents

Cash and cash equivalents include cash, bank balances and other current investments with a due date within three months from the time of acquisition.

NOTE 21 Share capital

	Ordinary shares	Total number of shares	Change in share capital, SEK	Share capital, SEK	Quota value, SEK
Number of shares on 31 December 2016	102,985,075	102,985,075	-	25,746,269	0.25
Number of shares on 31 December 2017	102,985,075	102,985,075	-	25,746,269	0.25

NOTE 22A Borrowings

Changes during the year, MSEK	Liabilities to credit institutions	Financial leasing	Total borrowings
Opening balance 1 Jan 2016	**3,600**	**0**	**3,600**
Borrowings	475	-	475
Transaction costs expensed during the year[1)]	17	-	17
Amortization of loans	-475	-	-475
Exchange rate differences	160	-	160
Opening balance 1 Jan 2017	**3,777**	**0**	**3,777**
Borrowings	4,667	-	4,667
Acquisition of businesses	-	1,665	1,665
Capitalization of transaction cost[1)]	-6	-	-6
Transaction costs expensed during the year[1)]	19	-	19
Amortization of loans	-4,674	-	-4,674
Loans converted to shareholders' contribution	16	-	16
Exchange rate differences	-29	-	-29
Closing balance 31 Dec 2017	**3,769**	**1,665**	**5,434**

1) Existing loans were renegotiated in June 2017 and resulted in transaction costs of 6 (0) MSEK. These costs have been capitalized and are distributed in a linear manner over the borrowing period.

The company's external loans were renegotiated in June 2017 with new terms and maturity. The loan relates to a fixed loan of MSEK 1,500, with a maturity of three years, with interest from Stibor +1.00 to 2.00 percentage points, and a revolving lending facility in several currencies of 3,500 MSEK with a maturity of three years, with interest at base rate +1.00 to 2.00 percentage points.

The margin within the range is for all loans dependent on the company's indebtedness. The loan terms stipulate that the following covenants should be within certain limits: interest coverage and net debt in relation to adjusted EBITDA. At each measurement period and on the balance sheet date, all loan terms were met. There are no claims for amortization and no collateral has been pledged for the loans. The Board closely monitors the company's financial position with respect to the fulfillment of the loan terms.

The finance lease debt consists of ten lease contracts identified as finance lease when acquiring Restel Hotellit Oy in December 2017. The leasing fees consists of both miminum lease payments and variable fees. The lease agreements have a remaining lease period of up to 30 years.

§ Accounting principles

Borrowings

Borrowings are financial liabilities that are initially reported at actual value, net after transaction costs. Borrowings are subsequently reported at the accrued acquisition value and any difference between proceeds (net of transaction costs) and the redemption value is reported in the income statement allocated over the period of the borrowing using the effective interest method. Borrowings are classified as liabilities to credit institutions and as internal loans in the balance sheet. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer the payment of the liability for at least 12 months after the balance sheet date. The finance lease is booked at the fair value since it was first reported on the acquisition date of December 29, 2017.

NOTE 22B Management of financial risks

Market risk – Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities and net investments in foreign operations.

Risk management

Foreign exchange risk arises when future business transactions or recognized assets or liabilities are denominated in a currency that is not the entity's functional currency. The operations of the Scandic Group companies are mainly local, with revenues and expenses denominated in domestic currencies, and the Group's internal sales are low. This means that exchange rate exposure related to transactions is limited. According to the Group's Financial Policy, which requires Group companies to manage their foreign exchange risk against their functional currency, the Group companies hedge their foreign exchange risk in larger future business transactions via Group Finance. To manage the foreign exchange risk arising from future commercial transactions, the Group companies use forward contracts signed with Group Finance.

Exchange rate effects in the Group arise from the translation of foreign subsidiaries' financial statements into SEK. For the year, 41 (43) percent of the Group's sales were in SEK, 31 (29) percent in NOK and 28 (28) percent in EUR and other currencies. Borrowings in EUR and NOK are matched by the Parent Company's loans to subsidiaries. The currency exposure arising from internal loans to the Group's foreign operations is eliminated by borrowing in the same currencies, which is referred to as a natural hedge.

The Group's borrowings broken down by different currencies are shown in the table below. The Board has decided that other currency risks for assets and liabilities should not be hedged.

	31 Dec 2017	31 Dec 2016
Group borrowings by currency		
SEK, %	70	40
EUR, %	15	31
NOK, %	15	29

Market risk – Interest rate risk

Interest rate risk arises from changes in market interest rates that can have a negative effect on the Group's revenue, cash flow and interest-bearing assets and liabilities.

Risk management

Since the Group has no significant interest-bearing assets, the Group's revenues and cash flow from operating activities are essentially independent of changes in market interest rates.

The Group's interest rate risk arises from long-term borrowings. Loans issued at variable rates expose the Group to interest rate risk in respect of cash flow. Loans issued at fixed rates expose the Group to interest rate risk in respect of fair value. The Group's Financial Policy stipulates that 25 to 75 percent of Scandic's loans must be taken at fixed interest rates. Deviations from this must be approved by the Board. The Group uses, when needed, interest rate swaps to manage this. The Group's borrowings on the balance sheet date are shown below.

The Group normally takes long-term loans at variable interest rates and converts them into fixed interest rates using interest rate swaps. In such transactions, the Group agrees with other parties to exchange, at specified intervals, the difference between the agreed fixed and variable interest rates, calculated based on the agreed nominal value.

	31 Dec 2017	31 Dec 2016
Group borrowings by fixed and variable interest		
Fixed interest, %	39	63
Variable interest, %	61	37

All external borrowings at fixed interest rates have been carried out using interest rate swaps.

Credit risk

Credit risk refers to the risk that counterparties cannot fulfill their obligations. Credit risk arises from cash and cash equivalents, derivative instruments and deposits with banks and financial institutions as well as credit exposures to customers, including outstanding receivables and agreed transactions.

Risk management

Credit risk is managed on the Group level. Only banks and financial institutions that have received an independent minimum rating of A-1 are accepted. In cases where no independent credit rating exists, a risk assessment of the customer's creditworthiness is carried out considering the customer's financial position, previous experience and other factors. The use of credit limits is monitored regularly. Sales in the company's operations are primarily settled by cash or credit cards, although invoicing is also used. Credit losses relating to customers as per December 31, 2017 amounted to 3 (3) MSEK, see Note 17.

Group, MSEK	< 1 year	1–5 years	> 5 years
As at 31 December 2017			
Liabilities to credit institutions [1]	67	3,986	-
Financial leasing [2]	121	437	1,107
Derivative instruments [3]	-	5	-
Accounts payable and other liabilities	786	-	-

Group, MSEK	< 1 year	1–5 years	> 5 years
As at 31 December 2016			
Liabilities to credit institutions [1]	99	4,087	-
Derivative instruments [3]	-	20	-
Accounts payable and other liabilities	527	-	-

1) Liabilities to credit institutions include future cash flows regarding liabilties such as future interest payments.
2) For future minimum lease payments, see Note 13.
3) Market value on December 31.

Liquidity risk

Liquidity risk is the risk that the Group does not have sufficient liquidity to pay its debts and meet its commitments.

Risk management

Liquidity risk is managed by maintaining within the Group sufficient cash and cash equivalents and short-term investments with a liquid market, available financing through agreed credit facilities and the ability to close market positions. The Group's liquidity in the form of cash and cash equivalents and short-term investments is monitored and forecast on a daily basis by Group Finance. The Group's liquidity reserve on December 31, 2017, consisting of cash and unutilized credit facilities, amounted to 1,322 (2,068) MSEK.

Sensitivity analysis as at 31 Dec 2017	Change	Result effect MSEK
Interest expense from changed interest rates	+/- 1%	-/+ 23
Interest expense from the change in the average level of interest rates	+/- 1%	-/+ 38

If the variable market rate differs from the current fixed rate of derivative instruments, a theoretical over- or under valuation of the financial instrument will occur. The derivatives are recognized at the fair value in the statement of financial position and the change in value, which does not impact cash flow, is recognized in profit for the year. The sensitivity analysis is based on net debt.

NOTE 22C Management of capital risk

The Group's goal for capital structure is to safeguard the Group's ability to maintain its operations so that it can continue to generate returns for shareholders and benefits for other stakeholders, as well as to maintain an optimal capital structure to keep capital costs down.

The Group's managed capital is made up of shareholders' equity. To maintain or adjust the capital structure, the Group may change the dividend paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce liabilities.

In the same way as other companies in the industry, the Group assesses capital on the basis of the debt/equity ratio. This key figure is calculated as net debt divided by shareholders' equity. Interest-bearing net debt is calculated as total borrowing from credit institutions excluding financial leasing less cash and cash equivalents.

Group, MSEK	31 Dec 2017	31 Dec 2016
Total borrowings	5,434	3,777
Excluding finance lease	-1,665	-
Excluding cash and cash equivalents	-140	-1,068
Interest-bearing net liabilities	3,630	2,709
Total shareholders' equity	7,356	7,103
Debt/equity ratio	0.5 times	0.4 times

	31 Dec 2017		31 Dec 2016	
Due dates, MSEK	Liabilities to credit institutions	Finance lease	Liabilities to credit institutions	Finance lease
Liabilities due for payment				
– within 1 year	-	121	-	-
– between 1 and 5 years	3,769	437	3,777	-
– later than 5 years	-	1,107	-	-
Total	**3,769**	**1,665**	**3,777**	**0**

Bank overdraft facilities, MSEK	31 Dec 2017	31 Dec 2016
Amounts utilized	-	-
Amounts not utilized	1,182	1,000
Total bank overdraft facilities granted	**1,182**	**1,000**

NOTE 23 Provisions for pensions and similar obligations

Provisions for pensions and similar obligations refer in their entirety to defined benefit pension plans in which the employees have the right to benefits after their employment ends, and where the level of benefits is based on final salary and length of service. Provision for such plans has been made for FPG/PRI occupational pensions in Sweden (ITP 2 plan). In other countries, defined contribution pension plans have been adopted. The defined benefit plan in Sweden provides employees with a guaranteed level of pension payouts during their lifetime. The defined benefit plan is adjusted for annual inflation of 1.5 percent. The Swedish Central Bank has a long-term inflation target of 2 percent.

Defined benefit pension plans

Calculation of provision, MSEK	31 Dec 2017	31 Dec 2016
Present value of obligations	542	413
Actual value of plan assets	-	-
Total provision for defined benefit pension plans	**542**	**413**

Changes in provision during the year, MSEK	2017	2016
Net liability, opening balance	413	380
Remeasurements reported in Other comprehensive income[1]	82	6
Net expense reported in the income statement	30	28
Pensions paid	-5	-5
Change in special employer's contribution	22	4
Net liability, closing balance[2]	**542**	**413**

[1] Items reported in Other comprehensive income consist of a loss in 2017 due to changes in financial assumptions of -72 (-8) MSEK and a loss from experience based adjustments of -9 (2) MSEK.
[2] The weighted average duration of pension obligations is 25 years.

Important estimations and assumptions

Important actuarial assumptions	31 Dec 2017	31 Dec 2016
Discount rate, %	2.75	3.05
Future salary increases, %	3.00	3.00
Future pension increases (inflation), %	2.00	1.50
Employee turnover, %	3.00	3.00

Sensitivity analysis in actuarial assumptions	Change	Increase	Decrease
Discount rate, %	+/- 0.5	13.1	-11.2
Future salary increases, %	+/- 0.5	4.8	-3.7
Future pension increases (inflation), %	+/- 0.5	9.8	-8.6
Life expectancy	+/- 1 year	3.7%	-3.7%

Pension expenses for defined benefit and defined contribution pension plans

MSEK	2017	2016
Expenses relating to service during the current year, defined benefit pension plans	-18	-17
Expenses relating to service during the current year, defined contribution pension plans	-384	-348
Total pension expenses included in personnel expenses	**-402**	**-365**
Interest expenses for defined benefit pension plans	-12	-11
Total expenses in the income statement	**-414**	**-376**

Payments for the next year are expected to be at the same level as this year.

Multi-employer plans

The company has secured the ITP plan through insurance from the insurance company Alecta. Although this plan is classified as a defined benefit plan, it is not possible to get sufficient information from Alecta to be able to report it as a defined benefit plan. Information regarding allocation between employers is missing and instead, all earnings are allocated to the previous employer. A breakdown of Alecta's assets and provisions for individuals is not possible, which means that these plans are accounted for as defined contribution plans. Collective consolidation is the buffer of Alecta's insurance commitments to be able to handle fluctuations in investment returns and insurance risks, and it is calculated as the difference between investments and the insurance commitments. The consolidation level is calculated as Alecta's assets in relation to the insurance commitments. Alecta has a target ratio of 140 percent for the consolidation level and during 2017, the consolidation level was 154 percent (149 percent). For 2018, the contribution to the plan is estimated to be at the same level as 2017, which was 67 (45) MSEK.

§ Accounting principles

Pension undertakings

Group companies operate various pension schemes. These pension plans are usually financed through payments to insurance companies or managed funds where the payments are determined according to actuarial calculations. The Group has both defined benefit and defined contribution plans. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate legal entity. The Group has no legal or constructive obligations to pay further contributions if this legal entity does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan where the contribution is not defined, but defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary. Within the Group, defined benefit plans only exist in Sweden.

For defined contribution pension plans, the Group pays fees to publicly or privately managed pension insurance schemes on an obligatory, contractual or voluntary basis. The Group has no further payment obligations once the fees are paid. The fees are reported as personnel expenses during the period they relate to.

The liability recognized in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation on the balance sheet date less the actual value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The net present value of the defined benefit obligation is determined by discounting the estimated future cash outflows. The calculation uses interest rates of first-class corporate bonds that are denominated in the same currency that the benefits will be paid in and that have terms of maturity approximating the terms in the related pension liability.

Actuarial gains and losses that arise from experience-based adjustments and changes in actuarial assumptions are reported in Other comprehensive income during the period when they arise.

Past-service costs are recognized immediately as income unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are allocated on a linear basis over the vesting period.

NOTE 24 Other provisions

Changes in other provisions during the year, MSEK	31 Dec 2017 Provision for loyalty program	31 Dec 2017 Other provisions	31 Dec 2017 Total other provisions	31 Dec 2016 Provisions for loyalty program	31 Dec 2016 Other provisions	31 Dec 2016 Total other provisions
Opening balance	**131**	**2**	**133**	**121**	**3**	**124**
Change through the income statement	-4	-1	-5	10	-1	9
Closing balance	**127**	**1**	**128**	**131**	**2**	**133**

Scandic has a loyalty program, Scandic Friends, in which members earn points for overnight stays that can then be used for free overnight stays. This loyalty program is covered by the rules in IFRIC 13. The liability is valued at the market value of the anticipated free-night usage. In measuring the liability for the loyalty program, the first step is to calculate the liability for the number of free nights expected to be used on the basis of the level of utilization and estimated points withdrawal per free night, based on the outstanding balance of points. The anticipated utilization of free nights is then multiplied by the average market price of such free nights. That part of the liability that is expected to be utilized after more than one year is reported under Other provisions above, while that part that is expected to be utilized within one year is recognized as deferred income under Accrued expenses and deferred income (see note 26). The total liability for the loyalty program and its allocation between current and non-current liabilities is shown in the table below. The provision is expected to be utilized within five years.

Total liability regarding loyalty program	2017 Non-current provision	2017 Current provision	2017 Total liability in respect of loyalty program	2016 Non-current provision	2016 Current provision	2016 Total liability in respect of loyalty program
Opening balance	131	87	218	121	87	208
Change through the income statement	-4	2	-6	10	0	10
Closing balance	**127**	**85**	**212**	**131**	**87**	**218**

The assessed market value of free overnight stays used during 2017 amounted to 115 (116) MSEK. For the current provision, see Note 26.

§ Accounting principles

Provisions

Provisions for environmental restoration measures, restructuring expenses and legal claims are reported when the Group has a legal or informal obligation as a result of earlier events, when it is probable that an outflow of resources will be required to settle the undertaking and when the amount has been calculated in a reliable manner. Provisions are valued based on the best possible estimate of expenditure that will be required to resolve the obligation in question on the balance sheet date. Provisions for restructuring include costs for terminating leasing agreements and severance pay. No provisions are made for future operating losses.

! Important estimations and assumptions

Reporting of provisions for loyalty programs for customers

In accordance with IFRIC 13, provisions for loyalty programs for customers are reported as a reduction in revenue in conjunction with the earning of the right to future use. The reserve outstanding at any time is divided into a long-term part, which is reported under Other provisions, and a short-term part, which is reported under Accrued costs and prepaid income.

NOTE 25 Deferred tax assets and tax liabilities

Deferred tax assets and liabilities are reported net when there is a legally enforceable right to offset the recognized tax assets and liabilities and when the deferred taxes are expected to be settled at the same time. No such offsetting has been carried out in these annual accounts.

	31 Dec 2017				
Distribution of deferred tax items on underlying balance sheet items and their changes during the year, MSEK	**Pensions**	**Derivative instruments**	**Elimination of internal goodwill**	**Losses carried forward**	**Total deferred tax assets**
Deferred tax assets					
Opening balance 1 Jan 2017	39	4	5	203	251
Reported in income statement	2	-2	-	-72	-72
Tax attributable to items in Other comprehensive income	22	-	-	-	22
Exchange rate differences	-	-	0	1	1
Closing balance 31 Dec 2017	**63**	**2**	**5**	**132**	**202**
– of which receivables to be utilized within 12 months	-	-	-	-	-

	Intangible fixed assets	Land & buildings	Untaxed reserves	Accelerated depreciation	Total deferred tax liabilities
Deferred tax liabilities					
Opening balance 1 Jan 2017	-735	-13	-3	-24	-775
Reported in income statement	-2	1	-1	-3	-5
Acqusition of businesses	-24	-	-	-	-24
Exchange rate differences	-6	1	-	-1	-6
Closing balance 31 Dec 2017	**-767**	**-11**	**-4**	**-28**	**-810**
– of which liabilities to be paid within 12 months	*-33*	*-1*	-	-	*-34*

	Deferred tax liabilities, net
Net deferred tax liabilities	
Opening balance 1 Jan 2017	-524
Reported in income statement	-77
Tax attributable to items in Other comprehensive income	22
Acquisition of businesses	-24
Exchange rate differences	-5
Closing balance 31 Dec 2017	**-608**

Distribution of deferred tax items on underlying balance sheet items and their changes during the year, MSEK	31 Dec 2016 Pensions	Derivative instruments	Elimination of internal goodwill	Losses carried forward	Issuing costs	Total deferred tax assets
Deferred tax assets						
Opening balance 1 Jan 2016	35	12	5	370	6	428
Reported in income statement	2	-8	0	-169	-6	-181
Tax attributable to items in Other comprehensive income	2	-	-	-	-	2
Exchange rate differences	-	-	-	2	-	2
Closing balance 31 Dec 2016	**39**	**4**	**5**	**203**	**0**	**251**
– of which receivables to be utilized within 12 months	-	-	-	-	-	-

	Intangible fixed assets	Land & buildings	Untaxed reserves	Accelerated depreciation	Hedge accounting	Total deferred tax liabilities
Deferred tax liabilities						
Opening balance 1 Jan 2016	-734	-12	-26	-25	-11	-808
Reported in income statement	5	1	0	1	-24	-17
Items recognized in equity	-	-	24	-	35	59
Exchange rate differences	-6	-2	-1	0	-	-9
Closing balance 31 Dec 2016	**-735**	**-13**	**-3**	**-24**	**0**	**-775**
– of which liabilities to be paid within 12 months	*-33*	*-1*	-	-	-	*-34*

	Deferred tax liabilities, net
Net deferred tax liabilities	
Opening balance 1 Jan 2016	-380
Reported in income statement	-198
Tax attributable to items in Other comprehensive income	2
Items recognized in equity	59
Exchange rate differences	-7
Closing balance 31 Dec 2016	**-524**

Tax losses carried forward

The Group has reported loss carry-forwards amounting to 599 MSEK (909) mainly in Sweden, Norway and Denmark. These loss carry-forwards can be utilized against future taxable surpluses. Recorded deferred tax assets related to reported loss carry-forwards amounted to 132 (203) MSEK, the Group has assessed that it will be possible to offset these carry-forwards in the future, based on the forecasts of the Group for coming years. Non-recorded deficiencies amounted to 882 (1,038) MSEK and are mainly related to Finland, Denmark, Germany, Poland and Belgium where it still is uncertain to what extent they can be offset towards taxable surpluses. These deficiencies amount to 178 MSEK (216).

Tax on previous, not recognized, loss carry-forwards amounted to 43 MSEK (39). None of the deductible deficiencies are limited in time. All deferred tax on deductible deficiencies is valued on taxable deficiencies.

Deferred tax assets, Parent Company	31 Dec 2017	31 Dec 2016
Opening balance	**71**	**82**
Reported in income statement	-71	-11
Reported in equity	-	-
Closing balance	**0**	**71**

Deferred tax assets in the Parent Company consist solely of unused deductible deficiencies that the Parent Company had on the closing date.

§ Accounting principles

Deferred income tax

Deferred income tax is reported using the liability method on all temporary differences arising between the tax bases of assets and liabilities and their reported amounts in the balance sheet. However, deferred tax is not reported if it arises as a result of a transaction that constitutes the first reporting of an asset or liability that is not an operational acquisition and which, at the time of the transaction, affects neither the reported nor the tax result. Deferred tax is not reported either on the first reporting of goodwill. Deferred income tax is determined using the tax rates (and laws) that have been applied or notified by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred tax assets are reported to the extent it is probable that future tax surpluses will be available, against which the temporary differences can be utilized. The Group accounts net for deferred tax assets and deferred tax liabilities in the balance sheet where there is a legal right to offset.

The Parent Company and its wholly-owned subsidiaries have applied the tax consolidation legislation which means that these entities are taxed as a single entity.

NOTE 26 Accrued expenses and deferred income

Division into type of expense, MSEK	Group 31 Dec 2017	Group 31 Dec 2016	Parent Company 31 Dec 2017	Parent Company 31 Dec 2016
Accrued leasing expenses	100	35	-	-
Accrued personnel expenses	829	654	17	6
Accrued interest expenses	0	7	0	7
Deferred income, current portion of loyalty program	85	87	-	-
Deferred income, bonus checks[1)]	66	58	-	-
Other items	380	383	20	11
Total	**1,461**	**1,224**	**37**	**24**

[1)] The bonus check liability is a payment method permitting discounted stays at all Scandic hotels. Bonus checks have a limited period of validity. When bonus check booklets are sold, a liability is recorded. The liability is liquidated when the checks are utilized or when the customer is deemed to be no longer able to utilize or redeem the bonus check.

NOTE 27 Adjustment for items not included in cash flow

Adjustment for items not included in cash flow, MSEK	Group 2017	Group 2016	Parent Company 2017	Parent Company 2016
Depreciation	549	537	-	-
Gain/loss on sale of associated companies	-	-	-	-
Change in accrued expenses/income and provisions	-1	0	-	19
Total	**548**	**537**	**0**	**19**

§ Accounting principles

The cash flow analysis has been prepared in accordance with the indirect method. The cash flow reported includes only transactions that involve payments in or out.

In addition to cash and bank balances, short-term financial investments are classified as liquid funds since these are exposed only to an insignificant risk of value fluctuations or have a remaining term of less than three months from the acquisition date.

NOTE 28 Statement of cash flow

MSEK	Opening balance 2017-01-01	Cash flow from financial activities	Non cash flow: Transaction costs	Non cash flow: Exchange difference	Non cash flow: Acquisition	Interest cost	Closing balance 2017-12-31
Borrowings	3,777	3	19	-30	-	-	3,769
Finance lease	0	-	-	-	1,665	-	1,665
Accrued interest	7	-80	-	-	-	73	0
Subtotal	**3,784**	**-77**	**19**	**-30**	**1,665**	**73**	**5,434**
Cash and cash equivalents	-1,068	921	-	8	-	-	-140
Total	**2,716**	**844**	**19**	**-23**	**1,665**	**73**	**5,294**

The table above shows the changes in financial liabilities that affect cash flow.

NOTE 29 Business combinations

On June 21, 2017, the Scandic Group signed an agreement to acquire 100 percent of the share capital in Restel Hotellit Oy. On December 29, 2017, the Scandic Group completed the acquisition of 100 percent of the share capital of Restel Hotellit Oy for 1,160 MSEK. The purchase price is preliminary and will be updated after a final reconciliation of liquid assets, working capital and the investments compared with the targets for respective items that are stated in the acquisition agreement. Restel's operations include 43 hotels in Finland and through the acquisition, Scandic will gain nationwide coverage in the Finnish market. Restel's portfolio currently consists of approximately 7,600 hotel rooms at 43 hotels with long-term lease agreements, seven of which are operated through franchise agreements with Intercontinental Hotels Group. Most of the hotels are operated under the Cumulus brand and will be converted into Scandic hotels over time.

Scandic sees good opportunities for sales growth and margin improvement in the acquired hotel portfolio in the coming years. There is potential to increase revenues through rebranding the hotels as Scandic hotels and the strengthened offering in the Finnish market. In addition, costs are expected to decrease through coordinating administration and purchasing.

Since the acquisition was carried out on December 29, 2017 the acquired company has not had an impact on Group earnings as per December 31, 2017.

If the acquired company had been consolidated from January 1, 2017, the consolidated income statement would have shown revenues of 16,745 MSEK and a profit of 726 MSEK.

Acquisition-related expenses of -47 MSEK are included in the non-recurring items in the consolidated income statement as per December 2017.

Goodwill of 537 MSEK that has arisen as a result of the acquisition is related primarily to the value of additional sales in the future that the Group expects as well as the positive effects of the leasing model with which Scandic operates. The identified intangible assets that have been valuated relate mainly to customer relationships and the brand.

The acquisition was approved by the Finnish Competition and Consumer Authority subject to the divestments of two of the acquired hotels, Cumulus Asema Kuopio and Cumulus City Pori, as well as the divestment of Scandic's existing hotel, Scandic Lahti, by the end of November 2018. In 2017, sales from the two acquired hotels amounted to 48 MSEK and their share of goodwill was 8 MSEK. The assets and liabilities of the three hotels are reported as assets held for sale in the balance sheet.

No part of the recognized goodwill is expected is expected to be tax deductible.

The following table outlines the purchase price paid for the acquired companies as well as the fair value of assets acquired and liabilities taken over. The table below summarizes the paid consideration and true value of the acquired assets and liabilities. The acquistion analysis is preliminary and may be adjusted within 12 months from the time of the acquisition.

Purchase price on 29 December, 2017, MSEK	Group
Cash and cash equivalents	1,149
Total purchase price paid	**1,149**
Recognized amounts of identifiable assets acquired and liabilities taken over	
Tangible fixed assets	2,299
Trademark	49
Customer relationships	69
Intangible fixed assets	11
Long-term receivables	12
Inventories	18
Accounts receivable and other receivables	103
Cash and cash equivalents	27
Deferred tax liabilities, net	-24
Finance lease	-1,735
Accounts payable and other liabilities	-218
Total identifiable net assets	**612**
Goodwill	537
Effects on Group cash and cash equivalents	
Cash purchase price	-1,160
Acquisition costs	-13
Acquired cash and cash equivalents	27
Cash flow from acquistion of subsidiary	**-1,146**

Pro forma income statement Restel Hotellit Oy, 1 Jan – 31 Dec 2017

MSEK	Restel Hotellit Oy Pro forma	Adjustment for Finance lease	Restel Hotellit Oy Pro forma excl. Finance lease
Total revenue	2,163	-	2,163
Adjusted EBITDA	321	-125	196
EBITDA	321	-125	196
Depreciation and amortization [1]	-224	86	-138
EBIT (Operating profit/loss)	97	-39	58
Net financial items	-94	67	-28
EBT (Profit/loss before tax)	2	28	30
Tax	13	-6	8
Profit/loss for the year	16	22	38

1) Of which amortization for intangible assets identified at the acquisition is 13 MSEK.

NOTE 30 Participations in Group companies

Changes during the year MSEK	Parent Company 2017	2016
Accumulated acquisition values, opening balance	4,590	3,536
Given shareholders' contribution	449	1,054
Accumulated acquisition values, closing balance	**5,039**	**4,590**

Holdings on the balance sheet date	Organization number	Registered address	31 Dec 2017 Shareholding	31 Dec 2016 Shareholding	31 Dec 2017 Reported value	31 Dec 2016 Reported value
Scandic Hotels Holding AB	**556723-5725**	**Stockholm, Sweden**	**100**	**100**	**5,039**	**4,590**
● Scandic Hotels AB	556299-1009	Stockholm, Sweden	100	100	-	-
● Scandic Hotels AS	953 149 117	Oslo, Norway	100	100	-	-
● Scandic Hotels Holding A/S	30 61 64 56	Copenhagen, Denmark	100	100	-	-
● Scandic Hotel A/S	12 59 67 74	Copenhagen, Denmark	100	100	-	-
● Scandic Polen Sp.z o. o.	288532	Warsaw, Poland	100	100	-	-
● Scandic Hotels Europe AB	556351-7373	Stockholm, Sweden	100	100	-	-
● Scandic Hotels Deutschland GmbH	HRB 146065 B	Berlin, Germany	100	100	-	-
Scandic Berlin Kurfürstendamm GmbH	HRB 158329 B	Berlin, Germany	100	100	-	-
● Scandic Hotel NV	462 318 529	Antwerp, Belgium	100	100	-	-
● Scandic Hotels Holding AS[1)]	912 198 022	Oslo, Norway	-	100	-	-
● Rica Hotels AS[1)]	984 695 322	Oslo, Norway	-	100	-	-
Rica Hotels AB	556520-9797	Stockholm, Sweden	100	100	-	-
Scandic Hotels Gardermoen AS	880 289 772	Gardermoen, Norway	50	50	-	-
● Scandic Hotels Oy	1447914-7	Helsinki, Finland	100	100	-	-
● Restel Hotellit Oy[2)]	0753772-4	Helsinki, Finland	100	-	-	-
Total					**5,039**	**4,590**

1) In 2017, the company merged with Scandic Hotels AS and has ceased to exist.
2) The company was acquired as of December 29, 2017.

NOTE 31 Pledged assets and contingent liabilities

MSEK	Group 31 Dec 2017	Group 31 Dec 2016	Parent Company 31 Dec 2017	Parent Company 31 Dec 2016
Pledged assets				
Floating charges	-	-	-	-
Total pledged assets	**0**	**0**	**0**	**0**
Contingent liabilities				
Guarantee undertakings, FPG/PRI	5	5	-	-
Lease guarantees	119	121	-	-
Tax dispute	404	142	-	-
Travel guarantees	6	3	-	-
Total contingent liabilities	**534**	**271**	**0**	**0**

Lease guarantees relate mainly to guarantees for lease contracts for premises in the Danish and Norwegian subsidiaries. These have remaining periods of contract of up to 13 years. Fixed rental fees for the whole remaining period have been accounted for above. These rental fees are included in future leasing undertakings in Note 5.

No significant liabilities are expected to arise due to the contingent liabilities reported. Scandic is involved in a small number of commercial disputes. None of these disputes is deemed to have any major negative impact on the company's financial position or profit. No contingent assets have been identified within the Group.

! Important estimations and assumptions

On October 19, 2017, Scandic announced that the Finnish Tax Administration had decided to make an additional assessment for the 2008 tax year. The Finnish Tax Administration is of the opinion that Scandic's Finnish operations should be subject to additional taxes, fees and interest totaling 96 MSEK as the deduction of intra-Group loans has been denied.

Scandic and its tax advisors are of the opinion that the company has acted correctly and in compliance with the applicable legislation and, accordingly, believe that the Finnish Tax Administration's decision is incorrect. The company will appeal the decision and request that the tax decision be rejected in its entirety.

The amount for the contingent liability has been increased to 404 MSEK, which is the total exposure in the years 2008–2016 excluding interest.

NOTE 32 Financial assets and liabilities

31 Dec 2017, MSEK	Loans receivable and accounts receivable	Financial liabilities at fair value through profit and loss	Borrowings	Other financial receivables/liabilities	Total value reported
Financial investments	-	-	-	9	9
Accounts receivable	626	-	-	-	626
Cash equivalents	140	-	-	-	140
Total financial assets	**766**	**0**	**0**	**9**	**775**
Liabilities to credit institutions	-	-	3,769	-	3,769
Finance lease	-	-	1,665	-	1,665
Advance payments from customers	-	-	-	165	165
Accounts payable	-	-	-	786	786
Derivative instruments	-	5	-	-	5
Total financial liabilities	**0**	**5**	**5,434**	**951**	**6,390**

31 Dec 2016, MSEK	Loans receivable and accounts receivable	Financial liabilities at fair value through profit and loss	Borrowings	Other financial receivables/liabilities	Total value reported
Financial investments	-	-	-	8	8
Accounts receivable	498	-	-	-	498
Cash equivalents	1,068	-	-	-	1,068
Total financial assets	**1,566**	**0**	**0**	**8**	**1,574**
Liabilities to credit institutions	-	-	3,777	-	3,777
Advance payments from customers	-	-	-	112	112
Accounts payable	-	-	-	527	527
Derivative instruments	-	20	-	-	20
Total financial liabilities	**0**	**20**	**3,777**	**639**	**4,436**

Liabilities to credit institutions have variable interest rates and are reported at the accrued acquisition value. A fixed rate of interest is achieved through interest rate swaps. Variable unit prices for electricity have been swapped to fixed prices for parts of the Group's electricity consumption.

The Group also entered into a share swap agreement related to the Long-Term Incentive Program, see Note 6. These are accounted for using the fair value through profit and loss and are reported as derivative instruments above. The actual value of other financial assets and liabilities is not assessed as diverging materially from the reported value.

Fair value

The table below shows the Group's financial assets and financial liabilities at the fair value and categorized in the fair value hierarchy. The different levels are defined as follows:
Level 1: Quoted prices on an active market for identical assets or liabilities.
Level 2: Other observable data than quoted prices included in Level 1, either directly or indirectly.
Level 3: Data not based on observable market data.

Liabilities to credit institutions and the shareholder loan are booked at the fair value. There were no financial assets at the fair value during 2017 and 2016.

31 Dec 2017, MSEK	Level 1	Level 2	Level 3	Total
Liabilities to credit institutions	-	3,769	-	3,769
Derivative instruments used for hedging	-	5	-	5
Total financial liabilities	**0**	**3,774**	**0**	**3,774**

31 Dec 2016, MSEK	Level 1	Level 2	Level 3	Total
Liabilities to credit institutions	-	3,777	-	3,777
Derivative instruments used for hedging	-	20	-	20
Total financial liabilities	**0**	**3,797**	**0**	**3,797**

In accordance with the Group's Financial Policy, the Group uses derivative instruments and has entered into an interest rate swap in order to hedge the Group against interest rate risk. These interest rate swaps were valued on the reporting date at the market value declared by the issuers, which constitutes a Level 2 valuation under IFRS 7.

§ Accounting principles

Financial assets and liabilities

The Group classifies its significant financial assets and liabilities into the following categories: financial assets valued at actual value through the income statement, loans receivable and accounts receivable, borrowings and accounts payable. The classification depends on the purpose for which the financial asset or liability was acquired. The management determines the classification of the financial assets and liabilities at the first time of reporting and reassesses this decision at each time of reporting.

a) Financial assets/liabilities reported at actual value through the income statement

Financial assets/liabilities valued at actual value through the income statement are financial assets/liabilities held for resale. A financial asset/liability is classified in this category if it is acquired mainly for the purpose of being resold shortly thereafter. Derivatives are classified as if held for resale unless they are identified as hedges. Assets/liabilities in this category are classified as current assets/liabilities. Changes in the value of these financial assets/liabilities are reported as financial income/expenses in the income statement. Scandic applies hedge accounting for net investments.

b) Loans receivable and accounts receivable

Loans receivable and accounts receivable are financial assets that are not derivatives, not listed on an active market and that have fixed or determinable payments. They are part of the current assets, with the exception of items with due dates more than 12 months after the balance sheet date, in which case they are classified as fixed assets. Loans receivable and accounts receivable are classified as accounts receivable and other receivables on the balance sheet.

Loans receivable and accounts receivable are reported at the acquisition value less any provision for depreciation. According to IAS 39, loans receivable and accounts receivable shall be valued at the accrued acquisition value using the effective interest method, but as accounts receivable have very short durations and the interest effects are very small, the reported value of the Group is not deemed to diverge materially from the actual value. Loans receivable have a variable interest rate and therefore the actual value is not deemed to diverge materially from the reported value.

A provision for depreciation of accounts receivable is made when there is objective proof that the Group will not be able to receive all of the amounts due in accordance with the original terms and conditions of the accounts receivable. The provision amount constitutes the difference between the asset's reported value and the present value of future cash flows, discounted at the effective interest rate. The provision amount is reported in the income statement.

c) Borrowings

Borrowings are financial liabilities that are initially reported at the actual value, net after transaction costs. Borrowings are subsequently reported at the accrued acquisition value and any difference between proceeds (net of transactions costs) and the redemption value is reported in the income statement allocated over the period of the borrowing using the effective interest method. Borrowings are classified as liabilities to credit institutions and as internal loans in the balance sheet. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer the payment of the liability for at least 12 months after the balance sheet date.

d) Accounts payable

Accounts payable are financial liabilities with fixed or determinable payments that are not quoted in an active market. They are part of current liabilities, with the exception of items with due dates more than 12 months after the balance sheet date, in which case they are classified as long-term liabilities. Accounts payable are reported at the acquisition value.

According to IAS 39, accounts payable shall be valued at the accrued acquisition value using the effective interest method, but as the Group's accounts payable have very short durations and the interest effects are very small, the reported value of the Group is not deemed to diverge materially from the actual value.

NOTE 33 Transactions with related parties

The group Braganza AB is treated as related party based on its ownership and representation on the Board during the year. For transactions with subsidaries, OECD's guidelines for Transfer Pricing are applied. The following transactions were carried out with related parties:

	Group		Parent Company	
MSEK	**31 Dec 2017**	**31 Dec 2016**	**31 Dec 2017**	**31 Dec 2016**
Purchases of services				
Braganza AB	-	-	-	-
Total purchases of services	**0**	**0**	**0**	**0**
Sales of services			-	
Braganza AB [1]	10	11	-	-
Subsidiaries	-	-	54	29
Total sales of services	**10**	**11**	**54**	**29**
Closing balances at year-end from purchases and sales of services				
Receivables from related parties				
Braganza AB	1	1	-	-
Subsidiaries	-	-	333	66
Total receivables from related parties	**1**	**1**	**333**	**66**
Liabilities to related parties:				
Braganza AB	-	-	-	-
Subsidiaries	-	-	-	-
Total liabilities from related parties	**0**	**0**	**0**	**0**
Loans to related parties				
Subsidiaries				
Opening balance	-	-	5,067	6,779
Transactions during the year	-	-	12	-1,801
Interest	-	-	111	66
Exchange rate differences	-	-	-16	23
Closing balance	**0**	**0**	**5,174**	**5,067**

[1] Sales relate entirely to income from accommodations.

Receivables and liabilities in the Parent Company from/to Group companies consist of receivables and liabilities within the cash pool of the Group. These are classified as long term.

For terms and remuneration to the Executive Committee, see the Corporate Governance Report.

NOTE 34 Appropriation of profits and dividend per share

In accordance with the Board's dividend policy adopted on September 14, 2015, Scandic aims to distribute at least 50 percent of its net profit from the financial year 2016 and onwards.

Appropriation of profits

The Board proposes that the following available amounts in the Parent Company's balance sheet, KSEK:	
Share premium reserve	1,534,254
Retained earnings	4,791,432
Net profit for the year	254,230
Total	**6,579,916**
Be distributed as follows:	
Dividend to be paid to the shareholders, 3.40 SEK per share, KSEK	**350,149**
To be carried forward	6,229,767
Total, KSEK	**6,579,916**

The Board proposes that the dividend be paid out on two separate occasions with 1.70 SEK per share on each occasion. The proposed record dates for the payment of dividends are April 30, 2018 and October 30, 2018.

The Board believes that the proposed dividend is justified in relation to the requirements that come with the nature of the Group, the scope and risks of the Group's equity, as well as the Group's need for consolidation, liquidity and general position. The proposed dividend reduces the Group's solvency from 39 to 37 percent and that of the Parent Company from 62 to 59 percent, calculated as per December 31, 2017.

The Board of Directors and the CEO certify that the consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and give a true and fair view of the Group's financial position and results of operations. The annual accounts have been prepared in accordance with accounting standards and give a true and fair view of the Parent Company's financial position and results of operations.

Income statements and balance sheets will be submitted to the Annual General Meeting on April 26, 2018 for adoption.

NOTE 35 Events after the reporting date

On January 16, Scandic announced that it expected lower earnings for the fourth quarter 2017. This is a result of lower earnings in the company's Swedish operations and non-recurring costs for central functions.

On January 30, Scandic launched a new version of its Scandic Friends loyalty program and a new app.

On February 15, it was agreed to extend the loan agreement, increasing the total credit line by 500 MSEK in the form of a multicurrency revolving credit facility that will apply until February 12, 2019.

On February 20, Scandic announced that the Nomination Committee had received notice that Vagn Sørensen would stand down as Chairman and member of the Board from Scandic's Annual General Meeting 2018.

On February 27, Scandic announced that the Nomination Committee would propose that Per G. Braathen be elected as new Chairman of the Board of Directors and Frank Fiskers be elected as new Board member at the Annual General Meeting on April 26, 2018.

ADOPTION

The Board of Directors and the CEO hereby certify that the consolidated accounts have been prepared in accordance with the International Reporting Standards, IFRS, as endorsed by the European Union, and that they give a true and fair view of the Group's financial position and results of operations.

The Administration Report of the Group and Parent Company gives a true and fair view of the progress of the Group and Parent Company's operations, financial position and results of operations, and states significant risks and uncertainty factors facing the Parent Company and Group companies.

Income statements and balance sheets will be submitted to the Annual General Meeting on April 26, 2018 for approval.

Stockholm, March 22, 2018

Vagn Sørensen
Chairman of the Board

Ingalill Berglund
Board member

Per G. Braathen
Deputy Chairman

Grant Hearn
Board member

Lottie Knutson
Board member

Christoffer Lundström
Board member

Eva Moen Adolfsson
Board member

Martin Svalstedt
Board member

Fredrik Wirdenius
Board member

Marianne Sundelius
Employee representative

Even Frydenberg
President & CEO

Our audit report was presented on March 23, 2018
PricewaterhouseCoopers AB

Magnus Brändström
Authorized Public Accountant
Auditor-in-charge

AUDITOR'S REPORT

To the general meeting of shareholders of Scandic Hotels Group AB (publ), corporate identity number 556703-1702

REPORT ON THE ANNUAL ACCOUNTS AND CONSOLIDATED ACCOUNTS

Opinions

We have audited the annual accounts and consolidated accounts of Scandic Hotels Group AB for the year 2017 with the exception of the Corporate Governance Report on pages 72–83. The annual accounts and consolidated accounts of the company are included on pages 62–119 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the parent company as of 31 December 2017 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with The Annual Accounts act and present fairly, in all material respects, the financial position of the Group as of 31 December 2017 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts act. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet for the parent company and the Group.

Our opinions in this report on the annual accounts and the consolidated accounts are consistent with the content of the additional report that has been submitted to the parent company's audit committee in accordance with the Audit Regulation (537/2014) Article 11.

Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements. This includes that, based on the best of our knowledge and belief, no prohibited services referred to in the Audit Regulation (537/2014) Article 5.1. have been provided to the audited company or, where applicable, its parent company or its controlled companies within the EU.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Our audit activities

The focus and scope of the audit

We designed our audit by determining materiality and assessing the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements, for example, in respect of significant accounting estimates involving assumptions and considering future events which are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there is evidence of bias representing a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the group, the accounting processes and controls, and the industry in which the group operates.

The major portion of Scandic's operations are in Sweden and Norway and represent slightly more than 72 percent of the group's net sales in 2017 and slightly more than 87 percent of the group's adjusted EBITDA. For the largest reporting units in Sweden and Norway, including the parent company and consolidation, we have examined the year-end book closing, executed a review of the interim report as of 30 September, we have undertaken hotel visits on an ongoing basis and we have executed an assessment and testing of key controls regarding the financial reporting.

For the reporting units in Denmark and Finland, we have audited the annual book closing and have executed a review of the September book closing as a part of the overall review of the group's interim report. We have also undertaken hotel visits, on an ongoing basis, and have tested certain key controls.

The consolidated accounts, disclosures in the notes in the annual report and complex transactions of a one-off nature have been examined by the group team. This has included impairment testing of the group's goodwill and brands which are not subject to ongoing depreciation.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually, or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality of the financial statements as a whole. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Key audit matters

Key audit matters of the audit are those matters that, in our professional judgment, were most significant in our audit of the annual accounts and consolidated accounts of the cur-

Key audit matters	How our audit addressed the key audit matter
Valuation of goodwill and other acquisition-related assets *We refer to Note 12 Intangible assets* Goodwill and other acquisition-related assets, including brands, comprise a significant portion of the Scandic group's balance sheet total. As at 31 December, goodwill and brands amounted to MSEK 9,456 which is equivalent to 56 percent of the balance sheet total. These items are not only significant in terms of their amount but also in their nature, as they are impacted by management's estimations and judgements. Due to the significance of this item and its nature, this has been deemed to comprise a key audit area in the audit. Management and the Board of Directors annually undertake an impairment test of the value of goodwill and brands, and in conjunction with each occasion on which there are indications that a decline in value has been identified, to assess whether there is an impairment requirement. The estimated value is based on the Board of Director's approved future budgets and forecasts for the next five years. The cash flow for the years after the next five year period is extrapolated based on the business plan. This assessment includes, therefore, assumptions of significant importance to the testing of an impairment requirement. This includes assumptions on sales growth, the development of margins and the discount rate (WACC). The value that is calculated in the testing is equivalent to the value of the discounted cash flows for the identified cash-generating units: Sweden, Norway and Other Nordics and Europe. Even if a given unit shows no impairment requirement in a testing, future developments negatively deviating from the assumptions and judgements providing the basis of that testing can lead to an impairment requirement. Other acquisition-related intangible assets are subject to ongoing depreciation. For these assets, a testing of the valuation is undertaken if there is a suspicion that the value of the assets has decreased so that a write-down needs to be undertaken. Based on the impairment testing undertaken for goodwill and brands, which is based on best estimate and on the information available in preparing the annual testing, Scandic's assessment is that there is no impairment requirement regarding the above-mentioned assets as at 31 December 2017.	In testing the impairment requirement for goodwill, brands and other acquisition-related intangible assets, we executed, the following audit activities in order to ensure, primarily, the valuation and correctness of these items: We have undertaken measures to substantiate the mathematical correctness of the company's impairment testing, the correctness of the model applied, as such, and have determined if the model agrees with IFRS. We also challenged and evaluated the reasonability of significant assumptions made by management. In order to examine the model, itself, we have utilised PwC's valuation experts to test and evaluate the applied models and methods, as well as significant assumptions. On a random sample basis, we have tested and challenged the details applied in the calculations against the company's budgets and financial plan and, where possible, external information. We have, then, focused on the assumptions regarding growth, margin development and the applied discount rate per cash-generating unit. We have also followed up the correctness in forecasting business and financial plans through analysing historical outcome, where we compare previous years' assumptions regarding future earnings and growth against actual outcomes. We have implemented a sensitivity analysis of the valuation of negative changes in significant parameters which, individually or on a collective basis, could imply that an impairment requirement exists. Based on our examination, we have identified no observations significant to the audit in its entirety as regards Scandic's impairment testing of goodwill and brands, which should be reported to report to the Audit Committee.
Acquisition analysis regarding the acquisition of Restel Hotellit Oy *We refer to Note 29 Business Combinations* At the end of December, Scandic acquired 100 percent of the shares in Restel Htellit Oy for a purchase price of MSEK 1,160. Restel is the largest acquisition undertaken by Scandic since the acquisition of Rica in 2014, which is the reason we deem the acquisition analysis to comprise a special focus area in the 2017 audit. The acquisition analysis contains significant values as regards goodwill, MSEK 537, and as regards brands and client relationships, MSEK 118. As the acquisition analysis presented in the annual financial statements is preliminary, there is a risk that the assets and liabilities reported as at acquisition date will be adjusted.	Concerning the acquisition of Restel, we have performed, in addition to the above-mentioned audit measures regarding the valuation of goodwill and other acquisition-related assets, amongst other things, the following audit activities: The group audit team has had meetings, together with the local Finnish audit team, and has discussed the annual bookclosing figures which are also equivalent to the opening balances as at acquisition date which were examined and reported by Restel's auditors in testing the acquisition analysis. We have evaluated to determine whether the accounts have been included in Scandic's consolidation in a correct manner in accordance with IFRS. We have evaluated the model for identifying and calculating depreciable acquired assets and to determine if this model is in accordance with Scandic's principles, as well as evaluating significant applied assumptions based reasonability. The acquisition analysis is preliminary up to 29 December 2018 and might, therefore, be adjusted. Based on our audit, we have reported no significant observations to the Audit Committee.

rent period. These areas, which amongst other things, include the valuation of deferred tax, valuation of fixed assets and management's assessment of provisions have been addressed within the framework of the audit and in in forming our opinion regarding the annual accounts and consolidated accounts as a whole, but we do not provide a separate opinion on these matters.

Other Information than the annual accounts and consolidated accounts

This document also contains other information than the annual accounts, consolidated accounts and are included on pages 1–61 and 124–127. The Board of Directors and the Managing Director are responsible for the other information.

Our opinion on the annual accounts and consolidated accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts and consolidated accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts and consolidated accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If we, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of the annual accounts and consolidated accounts and that they give a fair presentation in accordance with the Annual Accounts Act and in accordance with IFRS as adopted by the EU. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts and consolidated accounts, The Board of Directors and the Managing Director are responsible for the assessment of the company's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the Managing Director intends to liquidate the company, to cease operations, or has no realistic alternative but to do so.

The Audit Committee of the Board of Directors shall, without prejudice to the Board of Director's responsibilities and tasks in general, among other things oversee the company's financial reporting process.

Auditor's responsibility

Our objectives are to obtain reasonable assurance about whether the annual accounts and consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts and consolidated accounts.

A further description of our responsibility for the audit of the annual accounts and consolidated accounts is available on the Swedish Inspectorate of Auditors' website: www.revisorsinspektionen.se/rn/showdocument/documents/rev dok/revisors_ansvar.pdf. This description is part of the auditor´s report.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of Scandic Hotels Group AB for the year 2017 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

Basis for Opinions

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the Group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's type of operations, size and risks place on the size of the parent company's and the Groups equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's and the group's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner. The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

Auditor's responsibility

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

A further description of our responsibility for the audit of the administration is available on the Swedish Inspectorate of Auditors' website: www.revisorsinspektionen.se/rn/showdocument/documents/rev dok/revisors_ansvar.pdf. This description is part of the auditor´s report.

The auditor's examination of the corporate governance statement

The Board of Directors is responsible for that the corporate governance statement on pages 72–83 has been prepared in accordance with the Annual Accounts Act.

Our examination of the corporate governance statement is conducted in accordance with FAR´s auditing standard RevU 16 The auditor´s examination of the corporate governance statement. This means that our examination of the corporate governance statement is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinions.

A corporate governance statement has been prepared. Disclosures in accordance with chapter 6 section 6 the second paragraph points 2-6 of the Annual Accounts Act and chapter 7 section 31 the second paragraph the same law are consistent with the other parts of the annual accounts and consolidated accounts and are in accordance with the Annual Accounts Act.

PricewaterhouseCoopers AB, Stockholm, was appointed auditor of Scandic Hotels Group AB (publ) by the general meeting of shareholders on 10 May 2017 and has been the company's auditors since 9 May 2012.

Stockholm 23 March 2018
PricewaterhouseCoopers AB

Magnus Brändström
Authorized Public Accountant
Auditor-in-Charge

SIGNIFICANT CHANGES IN MAJOR SHAREHOLDERS

SHARE PRICE TREND

Based on the closing price on the first day of trading in the Scandic share, December 2, 2015 (63.75), up until the closing price on the last day of trading in 2017 (117.75), the Scandic share increased 84.7 percent compared with the sector index OMX Stockholm Travel & Leisure that went down by 5.7 percent and the broad index OMX Stockholm that increased 7.7 percent during the corresponding period. From the listing day until the last day of trading in 2017, the stock market value of the company grew from approximately 6.6 SEK billion to about 12.1 SEK billion. On January 16, 2018, Scandic announced that the company expected lower earnings for the fourth quarter mainly as a result of lower profitability in the company's Swedish operations. This led to a drop in share price of about 20 percent. After the publication of Scandic's Year-end Report 2017 on February 20, 2018, the closing price for the share was 89.90.

SHARE CAPITAL AND OWNERSHIP STRUCTURE

The share capital amounts to 25.7 MSEK divided into 102,985,075 shares, conferring one vote each. At the end of 2017, Scandic had 12,274 shareholders, which is an increase compared with the beginning of 2016 when there were 6,196 shareholders.

CHANGES IN MAIN SHAREHOLDERS

On March 23, 2017, Sunstorm Holding AB announced that it would sell its remaining 21,026,982 shares in Scandic. A total of 6,000,000 of the shares were sold to Novobis AB, which after the transaction controlled about 15.8 percent of the shares in Scandic. The holdings of Rolf Lundström and closely related parties – via Novobis AB and privately – totaled 16,803,800 shares at the end of 2017, corresponding to 16.3 percent of the votes and capital in the company. At the same time, Stena Sessan Rederi AB, which is part of the Stena sphere, bought 15,026,982 shares from Sunstorm Holding AB, corresponding to 14.6 percent of the capital and shares in Scandic at year-end 2017. On January 17, 2018, Stena Sessan Rederi AB reported that they had bought additional shares in Scandic, bringing their total holdings up to 15.1 percent of the votes and capital.

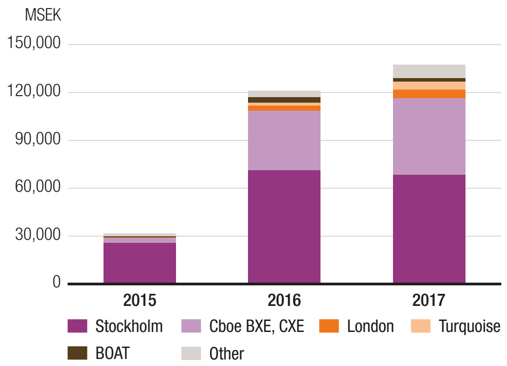
INCREASED FOREIGN OWNERSHIP

During the year, there was a steady increase in foreign ownership of Scandic. At year-end, 52.3 percent of Scandic's shares were held by Swedish investors and the estimated foreign ownership was 47.7 percent. Some 23.0 percent of the shares in Scandic were controlled by anonymous owners at year-end.

TURNOVER

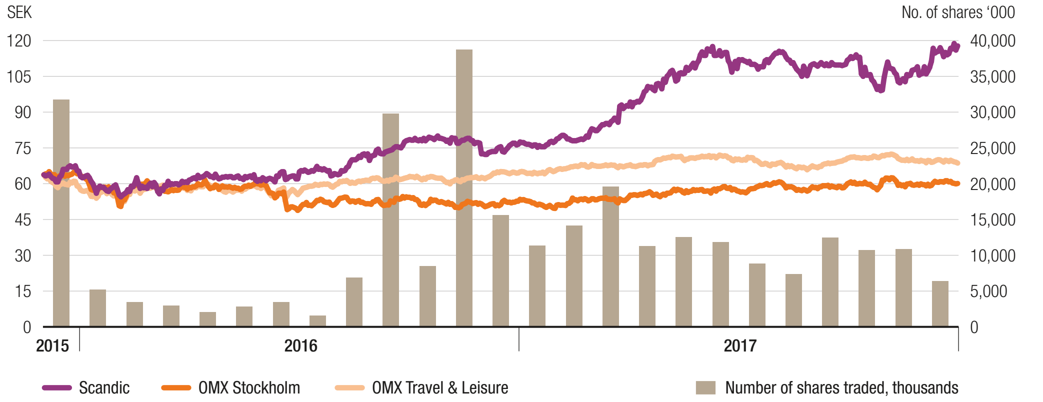
In 2017, 137.4 million shares in Scandic worth 13.6 SEK billion were traded in more than ten market places. Trading on Nasdaq Stockholm accounted for about 50 percent of the total turnover.

MARKETS WHERE SCANDIC SHARE WAS TRADED



Source: Fidessa.

THE SHARE PRICE AND TURNOVER TREND, DEC 2, 2015 – DEC 29, 2017



Source: SIX Trust and Fidessa.

DIVIDEND AND DIVIDEND POLICY

The Board of Directors has adopted a dividend policy that aims to distribute at least 50 percent of the net profit from the 2016 financial year. For 2017, the Board of Directors proposes a dividend of 3.40 SEK (3.15) per share paid in two equal amounts on two occasions during the year. The record dates are April 30 and October 30.

Analysts following Scandic	
Stefan Andersson	SEB
Vaughan Lewis	Morgan Stanley
Andreas Lundberg	ABG
Geoffrey d'Halluin	Deutsche Bank
Karl-Johan Bonnevier	DNB
Marcela Klang	Handelsbanken

Owners by holdings	Number of shares	Number of known owners	Share of capital and votes, %
Size category			
1 – 1,000	1,577,867	11,363	1.5
1,001 – 250,000	10,406,855	597	10.1
250,001 – 5,000,000	35,427,318	39	34.4
10,000,001 –	31,830,782	2	30.9
Total known owners	**79,242,822**	**12,001**	**76.9**
Foreign owners, nominee-registered	23,742,253		23.1
Total	**102,985,075**		**100.0**

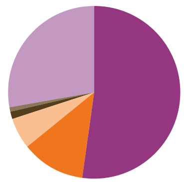
Source: Holdings of Modular Finance AB as per 2017-12-31.

Share data	
Ticker symbol	SHOT
ISIN	SE0000635401
Trading lot	1 share
List	Nasdaq Stockholm Mid Cap-list
Sector index	OMX Stockholm Travel & Leisure

Shareholders	Share capital, %	Votes, %	Number of shares
Rolf Lundström	16.3	16.3	16,803,800
Stena	14.6	14.6	15,026,982
Handelsbanken Fonder	4.4	4.4	4,556,595
Investec Asset Management	3.9	3.9	3,980,663
SEB Fonder	3.1	3.1	3,198,004
Swedbank Robur Fonder	2.2	2.2	2,298,259
Vanguard	1.6	1.6	1,650,475
JP Morgan Asset Management	1.6	1.6	1,640,669
Svolder	1.4	1.4	1,422,548
Principal Global Investors	1.3	1.3	1,370,261
Tredje AP-fonden	1.1	1.1	1,174,522
Norges Bank	1.0	1.0	1,050,403
Goldman Sachs Asset Management	0.9	0.9	884,935
Florida Retirement System	0.8	0.8	861,209
Dimensional Fund Advisors	0.7	0.7	733,521
Total 15 largest shareholders	**55.0**	**55.0**	**56,652,846**
Other	45.0	45.0	46,332,229
Total number of shares	**100**	**100**	**102,985,075**

Source: Holdings of Modular Finance AB as per 2017-12-31 (verification dates can vary for foreign owners).

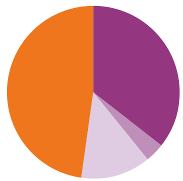
GEOGRAPHIC DISTRIBUTION OF SHARE CAPITAL, %[1]



Sweden 71.3 · US 12.0 · UK 5.8 · Norway 1.4 · Luxembourg 0.8 · Other 27.6

Source: Holdings of Modular Finance AB as per 2017-12-31.

OWNERSHIP STRUCTURE, %[1]



Swedish institutions 35.6 · Swedish mutual funds 13.0 · Swedish retail investors 3.8 · Foreign ownership 47.6

Source: Holdings of Modular Finance AB as per 2017-12-31.

[1] Refers to known owners.

DEFINITIONS

HOTEL-RELATED KEY RATIOS

ARR (Average Room Rate)
The average room rate is the average room revenue per sold room.

Full-time equivalents (FTEs)
The number of full-time employees calculated as the total number of working hours for the period divided by annual working time.

LFL (Like-for-Like)
LFL refers to the hotels that were in operation during the entire period as well as during the corresponding period of the previous year.

OCC (Occupancy)
Refers to sold rooms in relation to the number of available rooms. Expressed as a percentage.

Pre-opening costs
Refers to costs for contracted and newly opened hotels before opening day.

RevPAR (Revenue Per Available Room)
Refers to the average room revenue per available room.

EQUITY-RELATED KEY RATIOS

Earnings per share
The profit/loss during the period related to the shareholders of the Parent Company, divided by the average number of shares.

Equity per share
Equity related to the shareholders of the Parent Company, divided by the number of shares outstanding at the end of the period.

FINANCIAL KEY RATIOS & ALTERNATIVE PERFORMANCE MEASURES

EBT
Earnings before tax.

EBIT
Earnings before interest and taxes.

EBITDA
Earnings before interest, taxes, depreciation and amortization.

EBITDA margin
EBITDA as a percentage of net sales.

Adjusted EBIT
Earnings before pre-opening costs, non-recurring items, interest and taxes.

Adjusted EBITDA
Earnings before pre-opening costs, non-recurring items, interest, taxes, depreciation and amortization, adjusted for the effects of the finance lease.

Adjusted EBITDAR
Earnings before pre-opening costs, non-recurring items, interest, taxes, depreciation, amortization and rent, adjusted for the effects of the finance lease.

Non-recurring items
Items that are not directly related to the normal operations of the company, for example, costs for transactions, exits and restructuring.

Interest-bearing net liabilities
Interest-bearing assets minus interest-bearing liabilities.

Interest-bearing net liabilities	Dec 31, 2017	Dec 31, 2016
Interest-bearing liabilities, excluding finance leases	3,769	3,778
Cash and cash equivalents	-140	-1,068
Interest-bearing net liabilities	3,629	2,710

Justification: Interest-bearing net liabilities are used to calculate the company's indebtedness, which is one of Scandic's financial targets. The definition chosen corresponds to the definition used for the calculation of indebtedness according to Scandic's loan agreements.

Working capital
Current assets, exclusive of cash and cash equivalents, minus current liabilities, exclusive of derivative instruments and the current part of the finance lease liabilities.

Working capital	Dec 31, 2017	Dec 31, 2016
Current assets, excluding cash and cash equivalents	1,285	929
Current liabilities	-2,786	-2,110
Working capital, net	-1,501	-1,181

Justification: There is a need to optimize cash generation to create value for Scandic's shareholders. The management team is therefore focused on working capital and on reducing lead times between income generation and payments received.

INFORMATION TO THE SHAREHOLDERS

ANNUAL GENERAL MEETING

26 APRIL, 2018

STOCKHOLM

2018 ANNUAL GENERAL MEETING

The Annual General Meeting of the shareholders in Scandic Hotels Group AB (publ) will be held at 13:00 CET on Thursday, April 26, 2018 at Scandic Alvik in Stockholm. Registration will begin at 12:00 CET.

Participation in the Annual General Meeting

Shareholders who wish to participate in the Annual General Meeting must be included in the share register maintained by Euroclear Sweden AB and notify their intention to participate in the Annual General Meeting no later than Friday, April 20, 2018.

The notice may be sent to: Computershare AB c/o Scandics årsstämma, Box 610, 182 16 Danderyd, Sweden or alternatively be given by phone at +46 771 24 64 00.

The notice should contain the name, personal or corporate identify number, address and telephone number and any accompanying assistant. Shareholders attending by proxy shall state the name and the corporate or personal identity number of the proxy.

To participate in the Annual General Meeting, shareholders whose shares are nominee registered must temporarily register the shares in their own names with Euroclear Sweden AB. Shareholders should inform the nominees well in advance of notifying their attendance.

Notice convening the Annual General Meeting

The Annual General Meeting is convened through a notice on the Company's website and an announcement in the Swedish Official Gazette (Post- och Inrikes Tidningar). The fact that the notice has been published will be announced in Svenska Dagbladet.

Any documents that are to be presented at the Annual General Meeting will be made available on the Company's website at least three weeks prior to the Annual General Meeting and on the day of the Annual General Meeting.

NOMINATION COMMITTEE

Joel Lindeman	Provobis through Novobis AB (Chairman of the Nomination Committee)
Johan Wester,	Stena Sessan Investment AB
Staffan Ringvall	Handelsbanken Fonder AB
Vagn Sørensen	Chairman of the Board of Directors

Among other things, the Nomination Committee proposes Board Members to the Annual General Meeting and if applicable, auditors and fees to the Board of Directors.

FINANCIAL INFORMATION 2018

Interim Report January–March 2018
April 26, 2018
Interim Report January–June 2018
July 20, 2018
Interim Report January–September 2018
October 25, 2018

Financial reports are available on the company's website at www.scandichotelsgroup.com

To subscribe for Scandic's press releases and interim reports, register your email address on Scandic's website.

CONTACT DETAILS

Jan Johansson, Chief Financial Officer
jan.johansson@scandichotels.com

Henrik Vikström, Director Investor Relations
henrik.vikstrom@scandichotels.com

Production: Scandic in cooperation with Hallvarsson & Halvarsson. **Printing:** Göteborgstryckeriet 2018.

Scandic

SCANDICHOTELSGROUP.COM