Scandic

ANNUAL REPORT 2016

A WORLD-CLASS HOTEL COMPANY

A STRONG BRAND | UNRIVALLED GEOGRAPHIC NETWORK | STRONG CORPORATE CULTURE | COMMERCIAL AND OPERATIONAL LEADERSHIP | HIGH-QUALITY PIPELINE | CLEAR GROWTH STRATEGY

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Scandic is a Swedish company subject to Swedish laws. All values are expressed in Swedish kronor. Figures in parentheses refer to 2015 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.

This document is a translation of the official Swedish Annual Report for Scandic Hotels Group AB (publ) for the 2016 financial year. Only the Swedish Annual Report has been audited.

THIS IS SCANDIC

A SOLID BRAND
Today, Scandic is the strongest hotel brand in the Nordic region. This is because the company controls operations and the customer experience – from booking to following up. This creates a secure base. But a strong brand is perishable. To keep the brand alive, each Scandic employee needs to live up to the expectations of guests, every time they interact. At the same time, the content and perceived values of the brand need to be constantly developed so that it remains relevant and appreciated.

42,000
HOTEL ROOMS

223
HOTELS

120
PLACES

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

CORPORATE CUSTOMERS DOMINATE
About 70 percent of Scandic's revenue comes from business travelers and conferences. The remaining 30 percent is from leisure travel. 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.

1.9 MILLION LOYAL GUESTS
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 loyalty program Scandic Friends – the largest in the Nordic hotel industry with more than 1.9 million members. Members earn valuable points each night they stay, and Scandic Friends members account for about 40 percent of Scandic's reservations.

16 HOTELS IN 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. In February 2017, the pipeline included 16 exciting new hotels that will open by 2020.

15,000
EMPLOYEES

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.

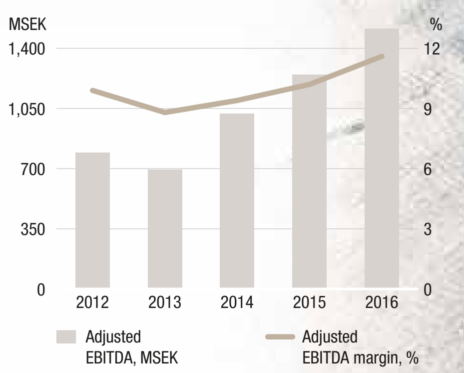
FORERUNNER IN SUSTAINABILITY
Doing business responsibly is important to Scandic. The company is the driving force in the hotel industry in the area of sustainability, both when it comes to environmental and social issues. This leading position was confirmed when Scandic was named the most sustainable hotel operator for the sixth year in a row in last year's survey by Sustainable Brands in Sweden. Scandic's efforts in this area reduce costs and increase revenues. They also strengthen the company's brand since guests – like Scandic – feel increasingly strongly about these issues.

THE LEADING HOTEL COMPANY IN THE NORDICS

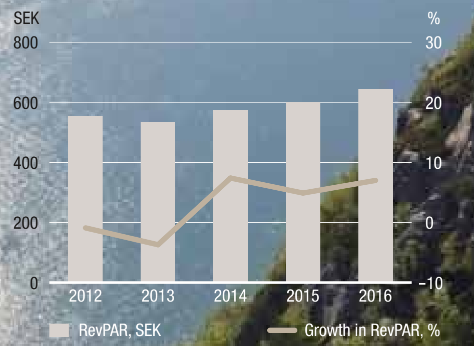
41,572 hotel rooms. At 223 hotels in operation. In about 120 cities. These three figures underline Scandic's role as the leading hotel operator in the Nordic region. Scandic focuses on hotels in the mid-market segment. Annual sales for 2016 totaled more than SEK 13 billion. Scandic has more than 15,300 team members. And each person is equally important for creating the positive customer experience that Scandic is known for.

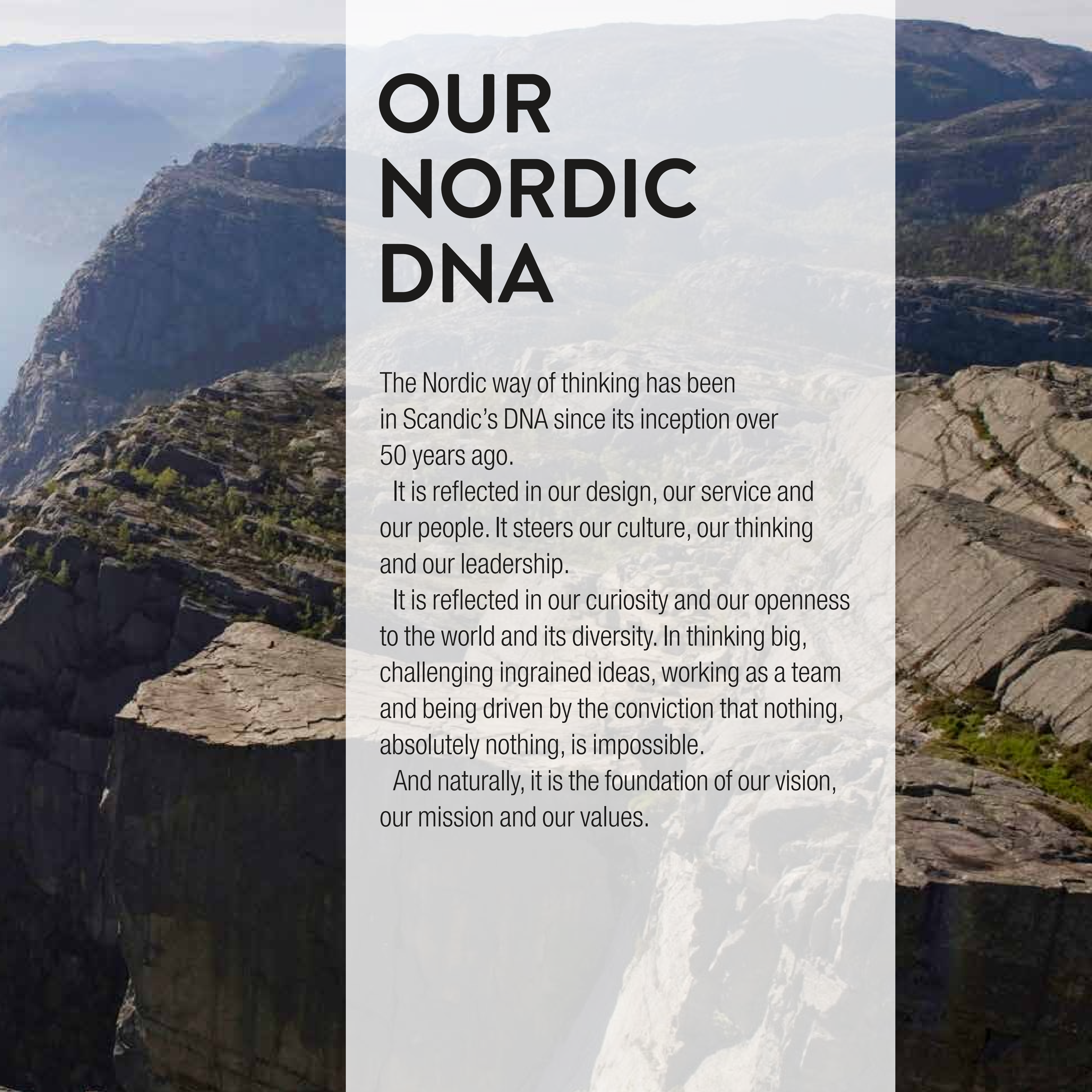
NET SALES AND GROWTH

ADJUSTED EBITDA AND EBITDA MARGIN



REVPAR AND GROWTH





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.

"IN 2016, MOST THINGS WENT OUR WAY"

HOW WOULD YOU SUM UP 2016?

– As a really good year for Scandic. We're now in a period where external conditions are favorable, with continued good economic conditions in the Nordic countries and a growing hotel market. Not only that, Scandic has a strategy that is working well, which means that we're taking market share all the time. We have successfully introduced our cultural platform, Inspiring Nordic, and created get-up-and-go in our organization. Our employee satisfaction is high, as is customer satisfaction. In short, it feels like most things went our way in 2016. And that we're stronger than ever.

HOW DID THE MARKET DEVELOP DURING THE YEAR?

– The European hotel market has experienced a long period of growth. In line with this, the Nordic markets are also favorable. Scandic has a stable and recurring customer base thanks to its strong position in the business community. Corporate customers and organizations account for about 70 percent of our business and with our wide network of hotels, we can satisfy virtually any need.

– Moreover, we see that the Nordic countries are becoming more popular tourist and meeting destinations for international guests. Holding conferences in major Nordic cities has become increasingly attractive. The geopolitical climate is positive in our part of the world. And our Nordic lifestyle and design inspire people to visit. So altogether, things are generally pointing in the right direction.

HOW DID INTERNAL WORK PROGRESS DURING THE YEAR?

– In 2016, we rolled out our culture platform, Inspiring Nordic, throughout the organization. Through films, workshops and discussions involving all of our team members, we have tried to create an understanding of our vision, mission and values and what they mean in practice.

– Our team members have been extremely engaged in this process. I think everyone feels that they have an important role and that the success of the company is based on the contribution of each person. We've always had a strong culture and proud employees at Scandic, so Inspiring Nordic is more an evolution than a revolution.

"SCANDIC IS WELL EQUIPPED FOR THE FUTURE WITH EXCITING HOTELS IN THE PIPELINE IN A MARKET THAT CONTINUES TO BE STRONG."

WHAT'S THE FOCUS FOR 2017?

– For us, 2017 is the year of leadership. We are committed to developing the leaders we have and becoming a hothouse for talented employees so they can grow personally and in their roles within Scandic.

During the year, we will also launch a number of new concepts to make the customer experience even better. With our new meetings concept, we can offer more effective and inspiring conferences and we are continuing to strengthen our digital platform – all to create an inspiring experience for our customers. We're also continuing to develop our loyalty program, Scandic Friends.

HOW DO YOU STEER SCANDIC'S OPERATIONS IN DIFFERENT COUNTRIES?

– Last year, we carried out a reorganization where all country managers now report directly to me. They are now also part of the Executive Committee. This has shortened decision-making paths and it highlights the importance of having local leadership in our different geographic markets. Within the framework of our strong, clear Scandic culture, we've made room for each country to run operations their own way, with local nuances. Scandic is now so big and strong in the Nordic markets that we need to allow a certain degree of flexibility for local adaptation. This can't be steered from our head office, but with an ear to the ground.

HOW ARE THE DIFFERENT MARKETS DEVELOPING?

– In Sweden, which is our largest market, we added new capacity in 2016. Scandic Continental opened as well as our first signature hotel, Haymarket by Scandic. Both are true success stories. In my career in the hotel industry, I've never seen anything like it. Typically, it takes 18 to 24 months for a new hotel to become profitable. Scandic Continental had high occupancy and was profitable from day one.

– The success of Haymarket by Scandic shows that our investment in signature hotels is absolutely right. The initiative continued in 2016 with Grand Central by Scandic and in 2017, we will launch Downtown Camper by Scandic, which is also in Stockholm, and Grand Hotel by Scandic in Oslo. The latter is part of the takeover of the operation of eight hotels that we carried out in January 2017. In 2019, we will continue by opening the signature hotels Marski by Scandic in Helsinki and Hotel Norge by Scandic in Bergen.

– In Finland, the macroeconomic situation continued to be weak last year, but the hotel market still showed positive growth. We strengthened our position in the country by establishing a hotel in Vaasa and our leading position in the capital was accentuated by our recently announced investment in a new hotel at Helsinki-Vantaa Airport.

– In Denmark, business remained strong during 2016 and both the corporate and leisure markets grew. We acquired a hotel in Aalborg, which is a strategic market for us. And in 2019, the Kødbyen and Falconer hotels will be finished. This will make our position in the Copenhagen area even stronger.

WHAT ABOUT SCANDIC IN NORWAY?

– The Norwegian market is still a bit of an uphill battle because of low oil prices. For Scandic's part, we've succeeded in isolating the effects of this to the oil destination Stavanger. There, the hotel market has declined by about 30 percent.

But we've managed to handle the situation and none of our hotels are in the red. This demonstrates the power and strength of our business model. Thanks to our variable ▶

▶ leasing model and staffing flexibility, we are quite resistant to market volatility.

– The integration of Rica continued according to plan. The focus last year was on reducing costs and in 2017, we will direct our efforts to generating more sales.

– Otherwise, the Norwegian market was stable. We have many hotels in the northern parts of the country. These attract tourists, but they also play an important role as conference hotels. Norway has outsourced various agencies as part of its rural development movement and this is benefiting our hotels. Today, we have a market position that allows us to win even large contracts.

AND SCANDIC'S POSITION IN GERMANY?

– Our three existing hotels are doing well and have improved their operating margins. Thanks to our decision in 2016 to build up qualified resources for business development in Germany, we have created the conditions for further expansion in this huge market. German hotel guests like our Nordic concepts and we tend to emphasize them a bit more at these hotels. We would be happy to establish more hotels in the same city since we can see how our two hotels in Berlin complement each other.

– We have a selective focus for our expansion with an emphasis on the six largest cities.

HOW IS THE PIPELINE LOOKING?

– As it is now in February 2017, we will increase the number of rooms by 10 percent in the next two years. And we have interesting new projects in the pipeline for 2018 and 2019. This means we are well positioned relative to our growth objectives.

In January this year, we took over eight hotels in Norway, Sweden and Denmark with a total of 1,700 rooms. One of these was the prestigious Grand Hotel in Oslo. And in February, we signed agreements for a new hotel in central Gothenburg and one at Helsinki Airport.

HOW IS YOUR SUSTAINABILITY PROGRAM STRENGTHENING YOUR BUSINESS?

– We are convinced that our sustainability work strongly influences how our guests and society in general see Scandic as a company. It has led to greater diversity and more committed team members, which in turn improves the customer experience. Our sustainability work has also resulted in lower costs in the form of reduced energy consumption and waste.

– Our sustainability program is based on the Ten Principles of the UN Global Compact and we have a systematic approach with established processes and procedures that integrate sustainability throughout the entire value chain. In the areas of inclusion and diversity, health, carbon emissions and waste, Scandic has concrete, time-bound targets that are constantly monitored.

– Some examples of projects during the year include our commitment to the Fast Track program that helps newcomers with chef's training enter the workforce faster. We also continued working to reduce waste at our hotels, a project that will be expanded next year.

SCANDIC POSTED RECORD RESULTS. AGAIN. WHAT'S THE SECRET?

– Basically, at Scandic we're driven by very simple principles. We listen to our guests and understand what they want. We are faithful to the mid-market segment. We have great hotels in good locations. And we have a clear strategy that we follow to the letter. Everything we said we would do at the time of our IPO in December 2015 we've done.

In 2016, our net sales rose by 7.3 percent, mainly driven by increased RevPAR and more rooms in operation. Our adjusted EBITDA margin reached our long-term target of 11 percent and we strengthened our financial position.

Being listed on the stock exchange has given us greater transparency and increased visibility in the media. And our share has been well received in the market. In fact, globally, Scandic was the hotel share that developed the most positively last year. Swedish investors have gotten to know us and they're confident of Scandic's development potential and prospects. We also see growing interest from international investors. This is very gratifying.

"OUR SUSTAINABILITY WORK HAS LED TO INCREASED DIVERSITY AND MORE COMMITTED TEAM MEMBERS, WHICH IN TURN IMPROVES THE CUSTOMER EXPERIENCE."

WHAT'S THE OUTLOOK FOR 2017?

– Scandic is well positioned for the future with exciting hotels in the pipeline in a market that continues to be strong. At the beginning of 2017, we had already sold half of our volume. Based on our cultural platform, we will continue developing our team members, our concepts and our customer program.

AND NOW THAT THINGS ARE GETTING REALLY EXCITING, YOU'RE LEAVING?

– Yes. After more than thirty years in the hotel industry and eight years at Scandic, I have decided to stop working operatively. It's time for me to do something else in life. This is why I have decided to leave my position as President & CEO on July 31 when I will hand over the reins to Even Frydenberg whom I'd like to welcome warmly to Scandic. But until then, I look forward to carrying on with full force to continue developing the leading hotel company in the Nordic countries.

– Finally, I'd like to thank everyone for putting their hearts and souls into making our guests feel welcome. At every hotel. Around the clock. Your daily interaction with our guests is what strengthens and molds the Scandic brand. I'm so glad to have you on our team.

Frank Fiskers,
President & CEO

SCANDIC'S CONCEPT FOR SUCCESS

Scandic's value creation builds on its strong brand and proven repetitive business concept. Together, these have given the company a leading position in the attractive Nordic hotel market. The driving force is to work close to customers and constantly develop the offering. By being a pioneer, Scandic creates competitiveness – and thereby continued good and profitable growth.

A PROVEN BUSINESS MODEL

Scandic is a hotel operator that conducts its operations under a single brand it owns in full. This allows Scandic to deliver an offering at each hotel that meets customer expectations.

The company is positioned in the mid-market segment, which is less cyclical than other segments. This segment is also dominant in the Nordic markets.

Scandic's business model is based on clear concepts and strategies as well as economies of scale. By centralizing support functions, hotel employees can instead concentrate on taking care of guests and optimizing operations locally.

Scandic focuses on lease agreements as a model for operating hotels. These usually involve variable rents based on the hotel's revenue and a shared investment commitment with the property owner.

Read more about Scandic's business model on pages 8–21.

SCANDIC'S STRENGTHS

Scandic has the largest and widest network of hotels in the Nordic region. Its hotels are strategically located in premium locations, adjacent to business parks, airports and selected communication hubs. Several hotels can be located in the same city, complementing each other.

Scandic is a brand based on common tools and a winning culture that pervades all of its employees. This ensures consistent high quality and effective implementation of clear business concepts based on the customers' needs and wishes. All guests are warmly welcomed at Scandic and offered a hotel stay that meets expectations.

Activities and results are regularly followed up at all levels – on the department, hotel, country and Group levels – and key ratios can be compared within one country as well as between countries.

The glue that holds Scandic's 15,300 team members together is a strong common cultural platform. This forms the basis for all employees in their daily interactions, both internal and external.

Read more about Scandic's strengths on pages 22–37.

VALUE CREATION AT ALL LEVELS

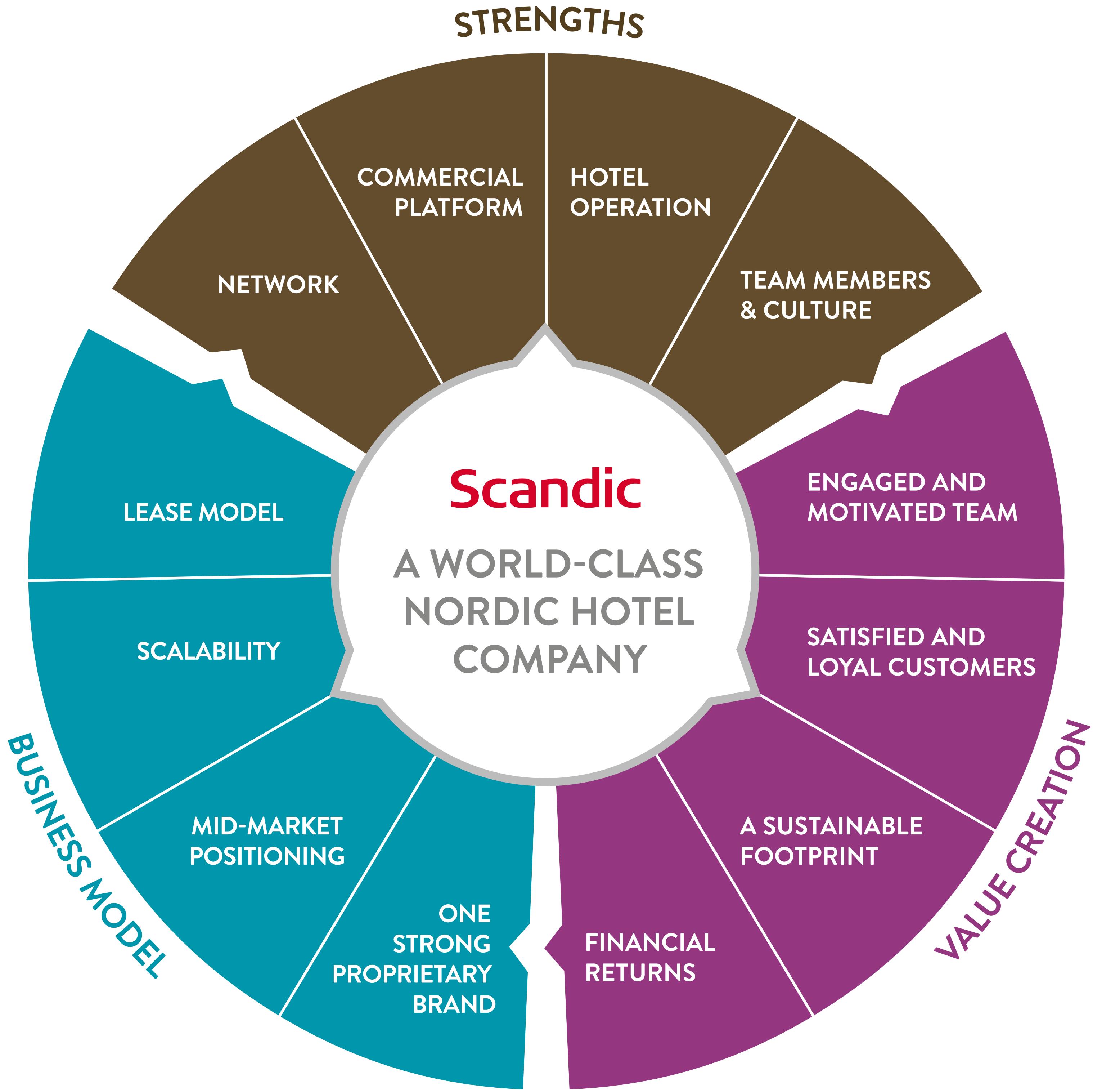
Scandic has a high ESI (Employee Satisfaction Index). As an employer, Scandic is always ranked highly in surveys.

Scandic is the strongest hotel brand in the Nordic region with sustainably high guest satisfaction. Loyal customers are rewarded through the Scandic Friends program. In 2016, the number of members rose to over 1.9 million.

Scandic has a sharp focus on being a responsible hotel company. The company has adopted clear sustainability goals in a number of areas. Scandic is actively committed to diversity and inclusion, which also covers gender equality.

Scandic has also adopted clear financial goals for its operations. These include revenue growth, EBITDA margin and debt. In 2016, Scandic achieved all of them.

Read more about how Scandic creates value on pages 38–53.


STRENGTHS
NETWORK
COMMERCIAL PLATFORM
HOTEL OPERATION
TEAM MEMBERS & CULTURE
Scandic
A WORLD-CLASS NORDIC HOTEL COMPANY
LEASE MODEL
SCALABILITY
MID-MARKET POSITIONING
ONE STRONG PROPRIETARY BRAND
BUSINESS MODEL
ENGAGED AND MOTIVATED TEAM
SATISFIED AND LOYAL CUSTOMERS
A SUSTAINABLE FOOTPRINT
FINANCIAL RETURNS
VALUE CREATION

ONE STRONG PROPRIETARY BRAND

Scandic is a hotel operator that conducts and controls its operations under a single, fully-owned brand. This provides many opportunities for the company to influence the customer experience and Scandic has long been the strongest and most well-known brand in the Nordic hotel market. Work on the company's cultural platform, Inspiring Nordic, is continuing in stages to fortify the brand, both internally and externally.

BRAND AWARENESS AMONG BUSINESS AND LEISURE TRAVELERS

BUSINESS TRAVELERS	LEISURE TRAVELERS
100%	100%

Source: Study conducted by Evidence on behalf of Scandic.

Unlike many of its competitors, Scandic controls its operations by conducting operations itself under a single, wholly-owned brand. This allows Scandic to deliver a consistent offering with consistent high quality in all markets and at all hotels. It also creates the conditions required to control the customer experience and meet customer expectations.

This clear ownership is also the basis for Scandic's effective cost control. There is high transparency and operations and performance are monitored regularly at all levels. Likewise, changes can be implemented swiftly in all areas of the business and new concepts and procedures can be introduced with full leverage.

BEST-KNOWN BRAND

Scandic is the best-known hotel brand in the Nordic region and the first choice for business and leisure travelers and conference guests alike. This position is based on an offering with a standard concept at heart. Guests always recognize a Scandic hotel and the experience meets their expectations.

Depending on the market, Scandic either ranks first or second in brand recognition in the Nordic countries. Scandic holds a particularly strong position among business travelers. Consolidated for the entire Nordic region, Scandic is the clear leader.

The strong brand is also notable in other surveys. For example, Scandic is ranked 20th in the Sustainable Brand Index among Sweden's best companies within sustainability. It is also ranked as one of the most attractive employers by business students.

BUILDING THE BRAND IN ALL CUSTOMER INTERACTION

Scandic's brand is not a theoretical concept. And it is not built mainly though advertisements and PR activities. It is polished, tested and developed every hour of the day in the constant interaction between Scandic and its guests. There are no shortcuts and cheating is not possible. Scandic's brand is perishable.

Scandic currently has about 15,300 team members in seven countries. The glue that holds these individuals together is the company's strong common cultural platform. This, however, does not mean that everyone is cast in the same mold. Scandic's culture is more of a framework that creates scope for variation and improvisation and allows people to develop in

their roles. This creates committed team members, which in turn leads to satisfied guests – and ultimately, an even stronger brand.

A CLEAR BRAND PLATFORM

Scandic is a relationship-oriented company. Clear customer focus is therefore one of the company's key drivers for success. This is the basis for Scandic's new cultural platform, Inspiring Nordic, which is described on the next pages.

Inspiring Nordic is based on the company's existing corporate culture but raised to the next level. The starting point is Nordic values and the lifestyle they represent. Scandic's guests like an informal approach. They appreciate openness, personal service, Nordic design and diversity. This forms the foundation on which Scandic is based – and what Scandic has always rested on.

The Inspiring Nordic platform was introduced in 2015 and in 2016, extensive culture-related work was carried out in the Group. Before the summer, all hotel directors and the heads of all functions were invited to take part and through them, the rest of the Scandic team has become involved in this cultural evolution. This has taken place through workshops, competitions and other fun and inspiring activities. The aim is for Scandic's team members to understand and adopt the platform in an intuitive and honest manner.

The work on Inspiring Nordic will continue in full force in 2017, emphasizing the application of the common values in interactions with customers. Keeping Scandic's culture alive is a never-ending process.

"SCANDIC'S BRAND IS NOT A THEORETICAL CONCEPT. IT IS POLISHED AND DEVELOPED IN EVERY INTERACTION BETWEEN SCANDIC AND ITS GUESTS."

OUR JOURNEY

THROUGH OUR PAST PRESENT AND FUTURE

OUR VISION

A WORLD-CLASS NORDIC HOTEL COMPANY

OUR MISSION

CREATE GREAT HOTEL EXPERIENCES FOR THE MANY PEOPLE

"LOVELY"
Just arrived at Scandic. Lovely room, lovely staff as always.

@andreatrudi

"WOW!"
Just wow! Great reception, big and nice hotel room, a real Nordic feel and the best breakfast I've ever had.

mette2015

OUR CULTURE IS OUR BRAND

"A VIEW TO KILL FOR"
Have you tried the yoga space at Continental, with a view to kill for and giving peace to life?

@karen78

"AT EASE"
I don't think I have ever felt so at ease at a hotel before. The staff was so genuine, so down-to-earth in a really good way.

mimmi_k

"THE DETAILS"
Feeling welcome! It's all about the details.

zarahsophie

"WE MIGHT TAKE SCANDIC OUT OF THE NORDICS, BUT WE WILL NEVER TAKE THE NORDICS OUT OF SCANDIC."

FRANK FISKERS
PRESIDENT & CEO

"YES"
Party at Scandic last night. Yes, Scandic.

therealbob

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 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 A PRO

We are reliable and deliver high, consistent quality in everything we do. But we also go above and beyond what's expected, knowing that the key to success is about attention to every little detail and a constant obsession with going from good to great.

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.

"GREAT RESTAURANT"
Really great restaurant and bar at Scandic, didn't expect that! Met up with friends and we had so much fun!

@alwayslisa

"WHAT A VIEW"
Just love the Nordic environment that is always near Scandic.

mrright

CLEAR MARKET POSITIONING

The global hotel industry is in constant change, both with regard to demand and customer behavior. And alternative forms of distribution have also emerged. The mid-market segment, which is Scandic's focus, is the dominant alternative for business and leisure travelers in the Nordic region, and it is less cyclical than other segments.

A DISTINCT INTERNATIONAL TREND

The global hotel industry is in a stage of dynamic development. Digital travel agents, known as Online Travel Agents (OTAs), are changing the game. In the US, which is leading the development in this area, digital booking sites currently account for nearly 20 percent of hotel booking volumes. The winners are mainly smaller hotels that are widening their recruitment base. The losers are chiefly major hotel chains operated according to the franchise model. They are gradually losing control of their distribution, resulting in reduced profitability as costs for commissions increase. According to an analysis by the American investment bank Morgan Stanley, commissions to OTAs amounted to 16 billion USD in a global perspective.

GREATER TRANSPARENCY

Through their increasingly dominant position, OTAs have major influence on customer behavior when choosing hotels. Other websites that provide hotel information and reviews, such as Tripadvisor.com, also allow customers to compare types of accommodation and prices when booking.

This transparency makes it difficult for hotels that do not meet customer expectations to survive the competition. A poor review affects business very quickly, while a hotel with good reviews and attractive prices will enjoy competitive advantages.

Increased digital interaction

Another global trend is that customers expect to interact digitally with hotels before, during and after their stay, just as with many e-commerce sites and in other industries. Information has to be easily accessible and it must be easy to book and interact with the hotel, even on mobile phones. The line between analog and digital is disappearing.

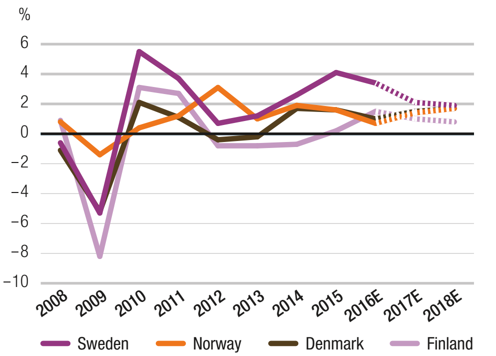
For customers, it is natural to share their experiences in social media. They communicate regularly with other hotel guests and enter into discussions with hotels about their experiences, both good and bad. This openness is part of the new reality that all companies are finding themselves in. Within the hotel industry, which is an "experience industry," this dialog is highly business-critical and something every successful hotel company must address.

INCREASE IN GLOBAL TRAVEL

Sales in the global travel industry (travel and tourism) account for 3.1 percent of the world's GNP, which is equivalent to the banking industry.

International travel to Europe has increased by about 50 percent since 2000. During the same period, travel to Sweden grew by about 60 percent.

DEVELOPMENT OF GDP



Source: Nordea Economic Outlook (Dec 2016).

THE NORDIC HOTEL MARKET

The Nordic hotel market is not a mirror image of the international hotel market. Most importantly, OTAs do not have the same strong position here. The dominant hotel chains in the Nordic region operate their own hotels and remain largely in control of bookings. This means that they strive to own the entire value chain as well as relationships with their customers, from the first point of contact to follow-up after the hotel stay. OTAs have more of a partnership role, securing distribution in international markets outside of the hotel company's footprint.

Lifestyle steers hotel choice

According to a customer survey of 4,000 people that Scandic carried out last year, Nordic hotel guests prefer when things are functional, rational and relaxed. In line with the Nordic lifestyle, mid-market hotels have become the dominant option for both leisure and business travelers in the Nordic countries.

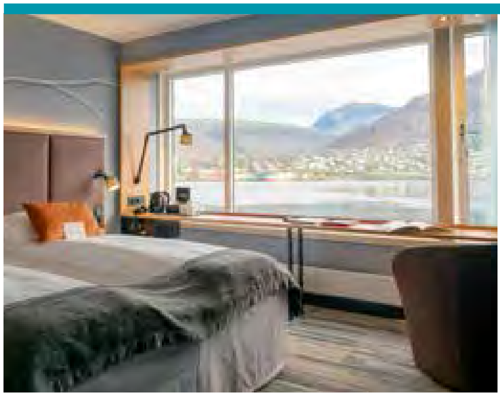
A growing number of hotel guests also expect personal treatment and to have specific needs met. They want to be seen and rewarded for their loyalty. And they want a welcoming atmosphere that makes it easy to socialize.

In addition, today's hotel customers have a focus on health and well-being. Many guests expect a wide offering of organic food, and people with allergies want adequate food options. Access to a spa and gym is also an important factor for many people when choosing a hotel. The opportunity to relax is particularly important in connection with conferences.

Continued growth in the Nordic countries

Growth in GDP is a strong driver for the hotel industry. As growth in GDP in the Nordic countries is expected to remain stable in coming years, development in the hotel industry is likely to be positive. According to the industry organization Visita, higher growth is expected in the hotel sector than in the economy as a whole. Demand is being driven by business travel, tourism, congresses and conferences.

Travel and tourism is one of the world's largest industries. There is an accelerating trend where the Nordic



countries are becoming more popular as tourist and meeting destinations. Holding international conferences in major Nordic cities has become more attractive. Large new entertainment and sports venues have been built and communications have improved. The Nordic region is an easily accessible and interesting destination.

POSITIVE DEVELOPMENT IN REVPAR

The share of occupied hotel rooms in the Nordic region has shown a positive trend for many years. The most important measure of the performance of the hotel market as a whole is RevPAR (Revenue Per Available Room). In 2016, RevPAR went up in all Nordic markets.

STRONG REGIONAL OPERATORS

The Nordic hotel market offers a total of 291,000 rooms. The largest operators in each country account for 153,000 rooms, which is more than half of the total room capacity. These hotel companies operate primarily in the mid-market segment and room rates normally range between premium and economy class. Based on the number of rooms, Scandic's market share is 13 percent. In the mid-market segment, Scandic's market share is 25 percent.

In general, the mid-market segment is less cyclical than other segments. Experience shows that changes in the general economic climate affect operations in this segment to a lesser extent compared with other segments.

The major global hotel companies – Hilton, Marriott, IHG and Accor – are underrepresented in the Nordic countries. One reason for this is that the Nordic hotel concept is primarily based on lease agreements. Global chains normally operate based on other business models, usually franchising.

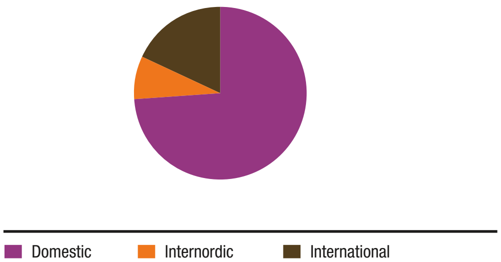
SCANDIC'S OFFERING

Sold rooms account for 67 percent of Scandic's revenue. The rest is attributable to sales of Food & Beverage (19 percent) and conferences (14 percent). The backbone of Scandic's business is providing accommodation and conference facilities to the business community, which accounts for 70 percent of Scandic's business. Conference operations are central to the offering at many of Scandic's hotels.

Thanks to its wide network of hotels, the company is able to handle even the biggest contracts. Scandic can also manage growing security requirements, primarily from international customers.

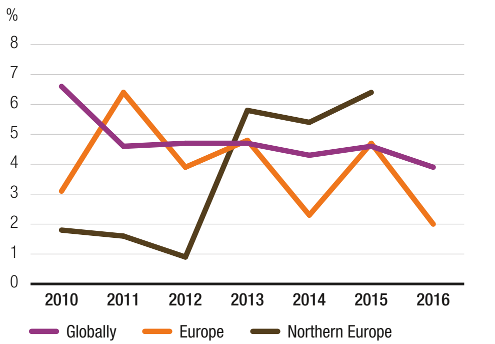
Scandic has about 5,200 corporate contracts in total. Corporate customers include private companies and public institutions. These corporate contracts create

SHARE OF HOTEL NIGHTS IN THE NORDIC MARKET, GUESTS



Source: Scandic.

GROWTH IN INTERNATIONAL TOURISTS



Source: UNWTO.

GRI: G4-4

BREAKDOWN OF SCANDIC'S TURNOVER

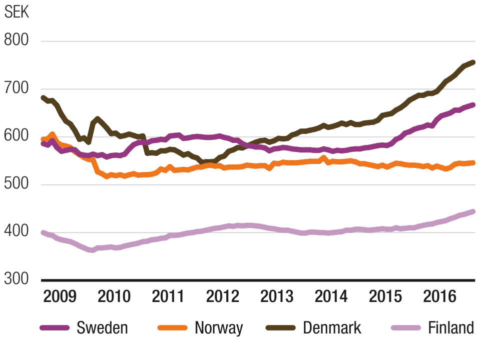
HOTEL NIGHTS **67%**

MEETINGS & CONFERENCES **14%**

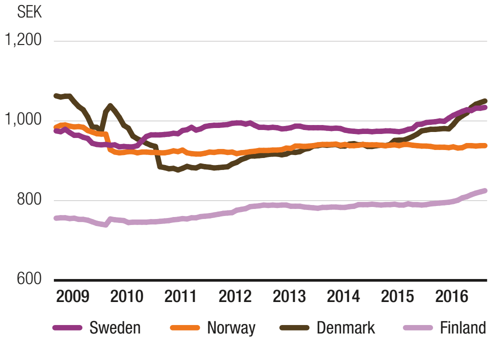
FOOD & BEVERAGE **19%**

a stable base for all of Scandic's activities. At the beginning of each year, a large portion of the year's volume is already contracted. The ten largest corporate customers account for about 18 percent of the number of sold rooms.

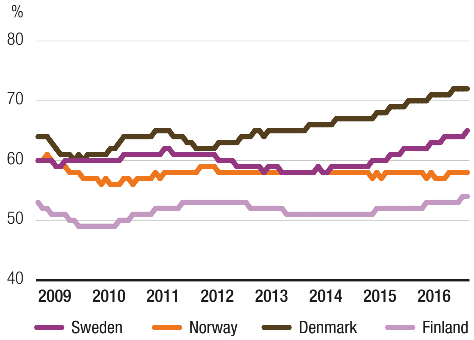
REVPAR IN THE MARKET (REVENUE PER AVAILABLE ROOM)[1)]



AVERAGE ROOM RATES IN THE MARKET (ARR)[1)]



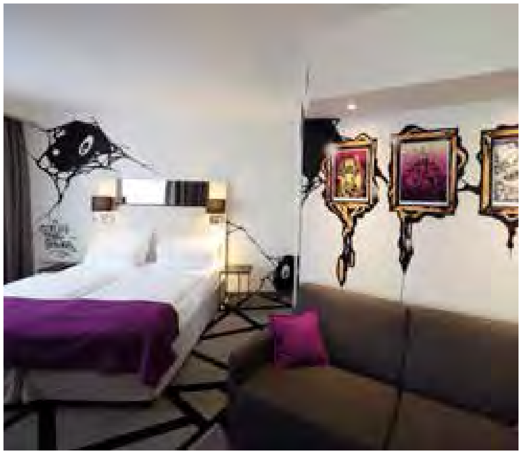
OCCUPANCY IN THE MARKET (OCC)[1)]



[1)] Source: Benchmarking Alliance and Finland Statistics.

GERMANY: AN ATTRACTIVE MARKET

Scandic has a Nordic soul. But this doesn't mean that its operations have to be limited to the Nordic countries. Today, the company has six hotels outside of the Nordic region. Three are in Germany. And based on Scandic's positive experience so far, the company sees potential to advance its position in this huge market. This is an integral part of Scandic's growth strategy.



SCANDIC HAS WHAT IT TAKES

With about 800,000 rooms, the German hotel market is many times larger than the Nordic market. Today, with three hotels and more than 1,100 rooms, Scandic is a small player, but the company sees possibilities for successful expansion in this large market. This is based on the fact that the leasing model used by Scandic is the most common basis for cooperation among German property owners. In addition, Scandic's financial strength and ability to generate revenue make the company an attractive tenant. Scandic has also proven that it is already successful in Germany. 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.

Scandic has decided to continue growing in the German market by establishing hotels in a number of the largest cities and at regional hubs. Germany is a large market for exhibitions and conferences, and this fits in well with Scandic's operations. Corporate customers are Scandic's motor.

As the first step, in 2016, Scandic recruited a business developer responsible for Scandic's business development in the German market. She has solid experience in the industry and is stationed in Berlin.

SUCCESSFULLY ESTABLISHED

In 2010, Scandic opened Scandic Potsdamer Platz in Berlin and two years later, Scandic Emporio opened its doors in Hamburg. In early autumn 2014, Scandic took over the operations of Alsterhof Hotel in the capital, thus establishing its third hotel in Germany. The hotel, which has 217 rooms, is strategically located near shopping and entertainment, within walking distance of Kurfürstendamm avenue. The new name was obvious: Scandic Kurfürstendamm.

When Scandic took over the hotel, it had been newly renovated but it wasn't profitable. Scandic hired the existing staff and immediately started to introduce the proven Scandic concept. A new commercial strategy was established. A customer base of corporate customers was quickly built up and cooperation with Scandic's central functions led to direct synergies.

Within two years, revenues from Scandic Kurfürstendamm had increased by almost 60 percent. In 2016, RevPAR (Revenue Per Available Room) was up 20 percent – proof that Scandic's model works exceptionally in the German market as well.

"THE NORDIC WAY OF TAKING CARE OF GUESTS AND DESIGNING HOTELS IS APPRECIATED IN THE GERMAN MARKET."

Sylvia Schnelle
Director Business Development

FOCUS ON SCALABILITY

Scandic's business model allows the company to implement clear concepts and strategies throughout its entire hotel portfolio. This ensures consistency from a marketing perspective and strengthens the brand. Since all operations are based on common platforms, customers can always expect an experience that meets expectations, regardless of which Scandic hotel they choose.

COMMON CONCEPTS

Scandic's successful concept is based on creating satisfied customers who choose to return to Scandic when they are looking for accommodations, arranging conferences or eating out. The Scandic brand represents functionality, reliability, excellent service, consistent high quality and a pleasant experience. Since Scandic is a hotel operator that conducts business under its own brand, the company can consistently ensure that the customer experience remains at the same high level at each of its 223 hotels.

This is achieved by developing concepts centrally and implementing them locally. Through benchmarking and best practices, these concepts can be further improved. Scandic also tracks customer views and expectations through market studies and customer surveys. New trends are identified. This way, the company can develop and implement new concepts quickly. Customers should feel that Scandic always meets or exceeds their expectations.

"SCANDIC'S STRENGTH LIES IN COMBINING ECONOMIES OF SCALE WITH INTIMACY AND A PERSONAL TOUCH IN INTERACTIONS WITH CUSTOMERS."

A REPETITIVE MODEL

Scandic's way of working is based on a repetitive and proven way of interacting with guests. Customers should always recognize and get the reception and level of service they have come to expect. Scandic's strength lies in combining economies of scale with intimacy and a personal touch in interactions with customers. This is reflected in the fact that 95 percent of corporate customers renew their contracts each year. It is also evident in the rapid increase in the number of members of the Scandic Friends loyalty program. In the past seven years, the number has grown from about 440,000 to around 1,900,000, an increase of more than 300 percent.

At the same time, Scandic listens. What is good now can be even better. New customer requests are used to develop the business and create new potential revenue streams.

SIZE MATTERS

Scandic is the largest and leading hotel operator in the Nordic region. Its size leads to advantages, not only in its work addressing the market. It also creates conditions for negotiating competitive and adapted solutions with providers throughout the entire value chain.

Behind the scenes, Scandic uses a purely industrial approach that streamlines flows and reduces the number of suppliers. This makes it possible to maximize cooperation and minimize lead times. All to reduce total costs and increase margins. This isn't seen or experienced by hotel guests. But it benefits them by ensuring that they enjoy a well-functioning hotel stay that offers good value for money.

FLEXIBLE COST STRUCTURE

Through using central and systematic cost control, Scandic can easily adapt its operations to changes in demand. Salary costs are the single largest item. By having the right mix of permanent and temporary employees, the company can adapt quickly to new market conditions. Variable leases also act as an economic buffer in a downturn. In this way, lower occupancy results in reduced rental and salary costs.

THE RIGHT SPECIALIST FOR THE RIGHT JOB

Scandic has centralized a number of support functions in its operations. These include IT and support, revenue optimization and procurement. This leads to control of the entire cost structure and optimization of resources. A particular task is performed in only one place in the organization – by specialists in that particular area. This ensures professionalism, focus and cost efficiency.

Above all, it means that employees at Scandic's hotels can concentrate on their main task – keeping Scandic's guests satisfied.

IN 7 YEARS MEMBERSHIP IN SCANDIC FRIENDS HAS INCREASED BY

+300%

VARIABLE LEASES

Scandic focuses on lease agreements as a model for operating hotels. These usually involve variable rents based on the hotel's revenue and a shared investment commitment with the property owner. This model, which is the most common model in the Nordic region, reduces the risk of conflicts by evening out margins in an economic cycle. Dividing responsibilities clearly leads to a fruitful cooperation between the parties.

CLOSE COOPERATION

Global chains usually operate using a business model based on management or franchise agreements. Scandic has made a strategic decision to focus on long-term leases with variable rent. This is the most common model for operating larger hotels in the Nordic region.

In general, the leasing model means that the property owner is responsible for maintaining and refurbishing the building as well as technical installations and bathrooms. Scandic is responsible for maintaining and renovating the hotels' furniture, fixtures and equipment.

This division creates the conditions needed for fruitful cooperation. Both parties are driven by a common ambition that enables long-term positive development of the property and strong financial performance. Of Scandic's 223 hotels, 192 have leases.

LONG-TERM LEASES

Scandic's leases generally have an initial term of 15 to 20 years with an option to extend. Scandic continually assesses hotel profitability and then normally chooses to extend agreements after the contract period. If conditions for continued profitable operations are considered to be poor, leases may occasionally be terminated. In Sweden and to some extent in Denmark, there is a legal tenure in connection with the extension of leases. This means that the tenant is entitled to an extension on market terms. In other countries, there is usually an option to extend the original agreement.

NEW TOOL FOR CREATING GROWTH

In 2016, Scandic adopted a new tool for accelerating the development of the hotel portfolio. This includes Scandic entering as a combined property owner and operator at the initial stage of the development of a new hotel. This way, the company can capture and develop business opportunities that are considered to have long-term viability. The investment must always be kept at such a level that it does not affect Scandic's overarching financial objectives.

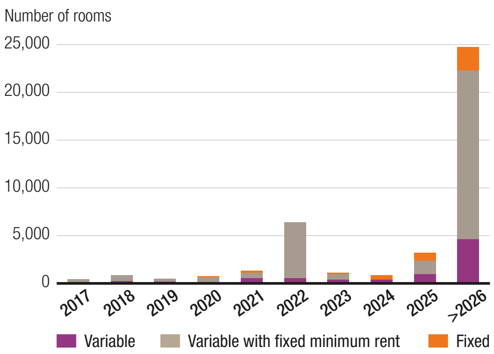
About half of Scandic's hotels are owned by seven reputable property owners. The largest individual partner is Pandox. The average rental period in the current portfolio is 11 years.

CONTINUAL UPGRADES

Scandic has a modern and well-invested hotel portfolio. Three quarters of its rooms are less than ten years old. To ensure the long-term quality of its hotels, Scandic invests 3 to 4 percent of sales annually in renovation and development. This is usually carried out in cooperation with the property owners.

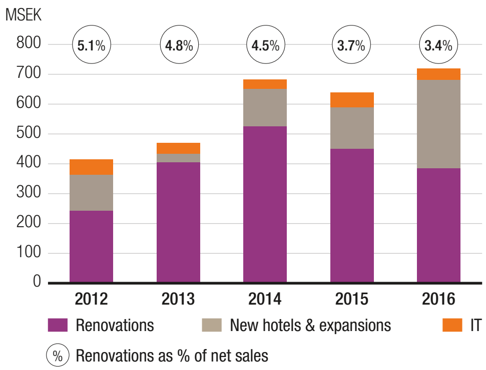
In 2016, Scandic and Pandox agreed to extend the leases for 19 hotels in the Nordic region. In connection with the lease, a joint investment of 470 MSEK was agreed upon, divided evenly between the parties, to renovate and extend these hotels. The program covers 1,600 hotel rooms and bathrooms and extensive meeting and restaurant areas. The cooperation is in line with the successful working model established by the companies in connection with a previous renovation program that ended in 2016. This involved extensive renovations and the development of 40 hotels, and was based on a joint investment of about 1,600 MSEK.

REMAINING LEASE LENGTH[1)]

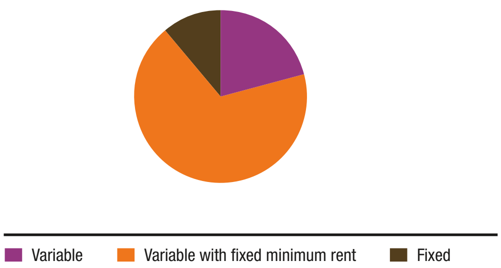


1) Including pipeline.

INVESTMENTS, 5 YEARS

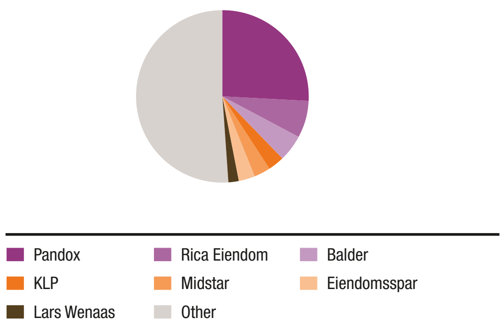


BREAKDOWN OF LEASE AGREEMENTS[2)]



2) Excluding pipeline.

LARGEST PROPERTY OWNERS[2)]



WIDEST NETWORK

Scandic is the largest and leading hotel operator in the Nordic countries. With 223 hotels in close to 120 places, Scandic offers unique reach for private and corporate customers alike. Scandic targets the mid-market segment and about half of its hotels are located in big cities. The goal is to continue developing the portfolio by establishing two to four new hotels each year.

RIGHT HOTELS IN THE RIGHT PLACES

Scandic is the Nordic market leader based on number of hotel rooms. At the turn of 2016/2017, Scandic had 41,572 rooms at 223 hotels. About 95 percent of Scandic's room capacity is in the Nordic region. This represents about 30 percent of the total number of rooms in hotels operated by hotel companies in the Nordic countries in what is known as the "branded" market.

On the national level, Scandic is the largest hotel operator in Sweden and Denmark, the second largest in Norway and the third largest in Finland – although the company is the biggest player in the Helsinki area. Scandic has six hotels in selected locations in Germany, Poland and Belgium. And the company has communicated its ambition to grow particularly in the German market.

Scandic hotels are strategically located in premium locations in city centers and adjacent to business parks, airports and other important communication hubs. The locations of its hotels are chosen to suit corporate customers, conference and business groups and leisure travelers. Historically, more than 70 percent of Scandic's revenues come from corporate customers and conferences.

An overview of the development of Scandic's total hotel portfolio can be found on the following pages.

A STRONG PIPELINE

Scandic has a proactive and successful approach to identifying and realizing new hotel and revenue opportunities. One fundamental part is that the company constantly works to optimize its existing hotel portfolio through improvements, expansions and reconfigurations. At the beginning of 2017, there were ongoing expansions of 430 rooms at existing hotels. This corresponds to the capacity of two new hotels. Additionally, Scandic's goal is to open two to four new hotels every year. Scandic's long-term development plan has resulted in today's well-diversified hotel portfolio of high quality combined with a strong pipeline of major hotel projects that will be realized in the near future.

In 2016, Scandic opened five new hotels with a total of 1,112 rooms. Two of these, Haymarket by Scandic and Scandic Continental in Stockholm, are presented on pages 26–27.

In the next two years, Scandic will complete and open 16 new hotels. In total, this will add more than 5,000 rooms.

Scandic is constantly looking for new hotels to add to its portfolio. Germany, with a hotel market that is many times greater than the Nordic market, is an area of focus. Scandic's offering fits well into the German market and the company is preparing to expand in the country. Read more on pages 16–17.

"BY SCANDIC"

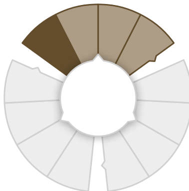
By positioning its hotels in different ways, Scandic can operate several hotels at the same location without the hotels directly competing with each other. The opening of the company's first two signature hotels – Haymarket by Scandic and Scandic Grand Central – is in line with this strategy. The signature hotels offer unique hotel experiences and offerings in characteristic environments and give Scandic opportunities to capitalize on these special features and attract new customers.

Adding the suffix "by Scandic" on the names of signature hotels also strengthens Scandic's brand. In 2017 and 2018, four more signature hotels will open – one each in Stockholm, Helsinki, Oslo and Bergen.

MARKET SHARE IN THE NORDIC COUNTRIES – BASED ON NUMBER OF ROOMS, 2016

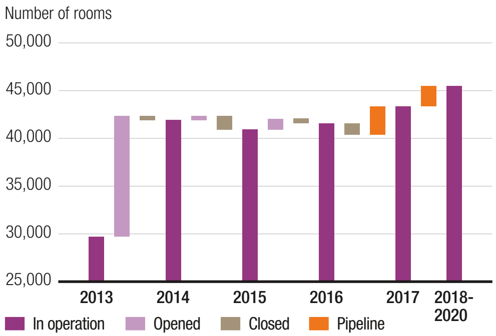
Number of rooms per brand	Sweden	Norway	Denmark	Finland	Total
Scandic	16,652	14,001	3,874	5,536	40,063
Nordic Choice	14,981	15,074	1,050	687	31,792
Best Western	7,426	2,002	1,585	800	11,813
Rezidor	4,002	7,184	1,978	1,627	14,791
Other large hotel companies	9,168	678	10,725	16,337	36,908
Others, including independent hotels	14,981	15,074	1,050	687	31,792
Total	120,090	85,665	43,432	50,368	299,555
Scandic's market share, %					
Of entire market	14	16	9	11	13
Of other large hotel companies	32	36	20	22	30

Source: Scandic Nordic Hotel Database.



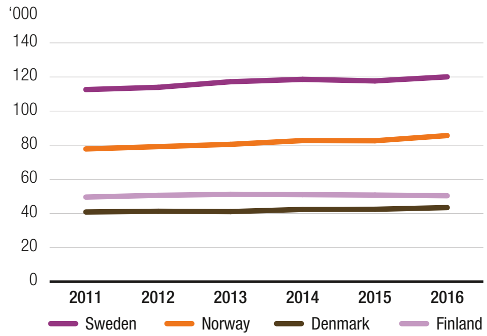
41,572 ROOMS AT 223 HOTELS

DEVELOPMENT OF HOTEL PORTFOLIO



This graph shows Scandic's pipeline in February 2017.

NUMBER OF AVAILABLE ROOMS IN THE NORDIC MARKET



Source: Own information, external sources and company websites.

DIVERSIFIED PORTFOLIO

Scandic offers a wide range of hotels in terms of geography and targeting. The portfolio includes centrally located hotels in capitals and other major cities and hotels in strategically selected locations outside of major cities – at airports, business parks and communication hubs. In other words, Scandic has the Nordic map well covered.

LEADING IN SWEDEN

Scandic is the market leading hotel operator in Sweden based on number of rooms. Scandic is also the hotel company with the most well-recognized brand and the first choice for corporate and leisure customers.

SWEDEN

84 HOTELS

16,652 ROOMS

4,541 EMPLOYEES (FTE)

5,650 MSEK IN SALES

HOTELS ACROSS NORWAY

Scandic is Norway's second largest hotel company and it enjoys a very strong position in both the corporate and leisure segments. Brand recognition has increased quickly in the past few years and Scandic is now ranked second in the country. The company has a strong offering for tourists visiting northern Norway.

NORWAY

82 HOTELS

14,001 ROOMS

2,992 EMPLOYEES (FTE)

3,744 MSEK IN SALES

MARKET LEADER IN DENMARK

Most of Scandic's Danish hotels are located in and around Copenhagen. The hotels in the Danish portfolio have undergone a complete renovation in recent years and capacity is being expanded significantly. This will further strengthen Scandic's position as the market leader in Denmark.

DENMARK

23 HOTELS

3,874 ROOMS

1,185 EMPLOYEES (FTE)

1,412 MSEK IN SALES

FOCUS ON LARGER CITIES IN FINLAND

Scandic's Finnish portfolio is concentrated in major cities, particularly in Helsinki where Scandic is the leading hotel company. The newly-renovated Scandic Park has quickly become a great success in the capital. In the entire country, Scandic is the third largest hotel company.

FINLAND

28 HOTELS

5,536 ROOMS

1,248 EMPLOYEES (FTE)

1,750 MSEK IN SALES

> “SCANDIC’S GOAL IS TO GROW BY 2 TO 4 HOTELS EACH YEAR.”

SELECTIVE GROWTH IN GERMANY

Today, Scandic has six hotels outside of the Nordic region – three in Germany, two in Poland and one in Belgium. The company sees significant potential to advance its position in Germany through selective growth in attractive locations in the largest cities.

EUROPE

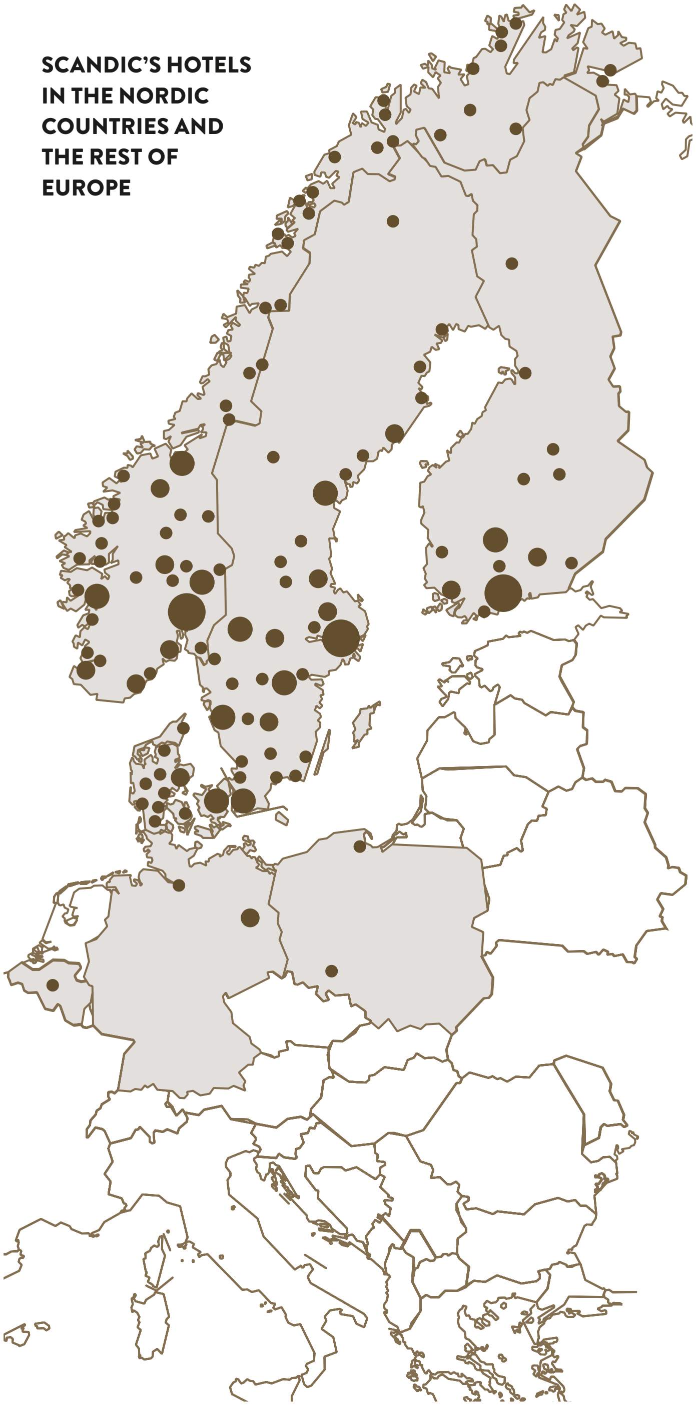
6
HOTELS

1,509
ROOMS

581
EMPLOYEES (FTE)

539
MSEK IN SALES

SCANDIC’S HOTELS IN THE NORDIC COUNTRIES AND THE REST OF EUROPE



"BOTH HOTELS HAVE QUICKLY FILLED A NEED AMONG GUESTS"

TWO NEW LANDMARKS IN STOCKHOLM

In 2016, Scandic established new hotels at a high tempo. Five new hotels were opened, increasing room capacity by more than 1,100 rooms. Most of the rooms were at the two large hotels that opened in Stockholm: Scandic Continental and Haymarket by Scandic. And both hotels have become new landmarks for the city and Scandic alike.

SCANDIC CONTINENTAL – CLASSIC LOCATION

On April 1 last year, Scandic Continental opened its doors after a total refurbishment. The hotel is located just opposite Stockholm's Central Station where since the 1870s there has always been a hotel. Scandic Continental enjoys the most central location a hotel can have in the city today. It's at the hub of all public transportation and 60 meters below, a new underground commuter train station is in the works. Every day, an estimated 80,000 commuters pass through the arcade around the building. The atmosphere in and around the hotel is truly continental.

Scandic Continental has 392 rooms and focuses on business travelers and conferences. With 25 conference rooms, the hotel can welcome up to 900 participants simultaneously. The largest conference room holds 300 people. And after a productive day, the hotel offers many great opportunities for relaxation. On the eleventh floor, guests can stimulate body and mind with outdoor activities when the weather permits. Three floors below are the hotel bar and terrace that offer stunning views of the city. Since it opened, the bar has become one of Stockholm's most popular rooftop venues. In addition, the hotel has a restaurant, another bar and a café.

HAYMARKET BY SCANDIC – MORE THAN A HOTEL

Haymarket by Scandic, which opened a bit more than a month after Scandic Continental, marked the launch of Scandic's first signature hotel. It is located in the former PUB department store next to Hötorget (Haymarket Square) in Stockholm, hence the name.

Haymarket is more than a hotel. It's a destination in itself. People don't just come to stay and sleep. The famous building offers inspiring environments, exciting restaurants and unique venues that take guests back to the vibrant 1920s. Beautiful art deco features have been restored to recreate the building's timeless, classic charm. Inspiration for the hotel comes from the fact that Greta Garbo once worked here as a shop girl. The past, present and future mingle in an exciting way. And Haymarket has been designed to be a new social meeting place for Stockholmers.

Haymarket has 405 rooms, including 16 suites. Among these is a high-class suite of 50 square meters with its own private terrace. The hotel also has a complete floor that offers fantastic opportunities for events. Its exclusive, intimate theater is also a special attraction. Here, guests can enjoy film classics from the 1920s in the spirit of the hotel.

FLYING START

Scandic Continental and Haymarket by Scandic have quickly filled a need among guests and are meeting expectations, both financially and qualitatively.

LEADING COMMERCIAL PLATFORM

Scandic has a stable repeat customer base with an emphasis on corporate customers. High and consistent quality is guaranteed through clear concepts and common tools as well as a culture that imbues all team members. This means that guests experience Scandic as one company and always enjoy a warm reception. Scandic is currently working to strengthen the company's commercial offering further.

FOCUS ON CORPORATE CUSTOMERS

Scandic has a solid commercial foundation with faithful customers and a high repurchasing rate. Corporate customers are the backbone of Scandic's business and about 70 percent of Scandic's revenue comes from business travelers and conferences. Scandic has corporate agreements with over 4,000 companies and more than 95 percent renew their contracts every year. This customer base is well diversified, both in terms of company type and sector. Some 17 percent of the revenue from corporate customers comes from state-owned companies. About 60 percent of the 500 largest companies in each Nordic country have agreements with Scandic.

Scandic also has agreements with about 350 agencies that arrange leisure travel, for example, to theater and sporting events, as well as with all major business travel agencies (BTAs). Through cooperation with sports clubs and commercial partners, Scandic creates additional opportunities for occupancy at its hotels.

Scandic has an effective central sales department focused on both the corporate and leisure markets. This direct contact builds long-term relationships and loyalty among customers. Offerings can be adapted to customers' direct requirements and it is easy to follow up between countries.

> **"70 PERCENT OF SCANDIC'S REVENUE COMES FROM BUSINESS TRAVEL AND CONFERENCES."**

Through Scandic's wide range of guests, flexible pricing and the large number of corporate agreements, the company can adapt quickly to changing conditions. This means that revenue can be optimized in different markets and according to local circumstances.

EVERY THIRD GUEST A LEISURE TRAVELER

Of Scandic's revenue, 30 percent is attributable to leisure travelers. Scandic's Norwegian hotels in particular have a strong profile in the tourism market with a number of hotels in the northern part of the country offering world-class outdoor experiences.

The Nordic hotel market is largely a domestic and internordic market at the moment. About 72 percent of Scandic's guests are from the Nordic countries. Non-Nordic customers are generally leisure travelers mainly from Germany, Russia, the US and the UK. Scandic is making a concentrated effort to increase the number of international guests by cooperating more closely with selected partners and though an international sales and distribution strategy.

STRENGTHENED COMMERCIAL RESOURCES

Today, Scandic already has a very strong position in the hotel market. Based on this platform, the company is now continuing work to consolidate its position as the industry leader and create additional growth. From 2015 to 2016, Scandic established a strong central organization aimed at managing and developing the company's brand, customer offering, distribution and ability to drive revenue.

One current project involves providing room keys on mobile phones, which is being tested at selected hotels. Guests can now also read about 5,000 newspapers and magazines from all over the world on their devices when they stay at any Scandic hotel.

In the second quarter of 2017, Scandic will also launch a new meetings concept. It aims to reinforce Scandic's position as the leading meeting provider in the conference market by enabling more efficient and inspiring meetings and conferences.

THE ROAD AHEAD

Based on the new cultural platform, Inspiring Nordic, Scandic is currently undertaking a number of long-term initiatives to develop its offering and strengthen the customer experience.

Repeat customers are one of Scandic's important assets. The Scandic Friends loyalty program is an important factor in this respect and will be further strengthened and developed. Effective control of distribution channels is already an important key to success for Scandic and through a new strategy, the company intends to strengthen customer relationships even further. Finally, the new digital landscape is creating opportunities in the hotel industry. Scandic intends to become a leader in digital development.

CREATING THE BEST CUSTOMER EXPERIENCE

At Scandic, product and concept development is always based on the customer perspective. The basis for this is the customer surveys that are regularly conducted by the company. These surveys aim to find out how well Scandic delivers on customer expectations and also provide insight on

how the company can develop its offering further. For example, who are the customers of tomorrow and what drives their choice of hotels?

Based on an extensive survey of 4,000 people in the Nordic region, Scandic has established three focus areas intended to drive revenue and create the best hotel experience for guests – service, food and accommodation.

CONTROLLED DISTRIBUTION

Scandic sells most of its hotel rooms through its own booking channels – its hotels, website and 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.

About 70 percent of Scandic's rooms are sold through its own distribution channels. This high proportion gives Scandic control over the rapidly changing hotel booking market. Reservations through Scandic's own distribution channels also cost less and increase opportunities to establish a smooth and personal relationship with guests as well as create unique and individually-tailored offers. Scandic begins to shape the customer relationship already at this stage.

Scandic expects bookings through digital channels to grow. This is why the company is developing new concepts to meet its customers' changing online behavior. Scandic's new website and mobile solutions will play an important role in this strategy by facilitating contact with the customer early on.

INCREASING CUSTOMER LOYALTY

Scandic Friends is the largest loyalty program in the Nordic hotel industry. The number of members is constantly growing and it reached 1.9 million by the end of last year. In Germany, where Scandic currently has three hotels, 40,000 people have joined Scandic Friends.

As members of Scandic Friends, guests earn points when they stay at Scandic hotels. Points can be used for reward nights at any Scandic hotel. The more nights a guest stays during a twelve-month period,

BOOKINGS THROUGH OWN DISTRIBUTION CHANNELS

70%

▶ the greater the benefits. In 2016, Scandic Friends members accounted for nearly 40 percent of room revenues, representing a very high percentage of repeat guests. Scandic Friends is an important tool for creating relevant communication and establishing a direct relationship with guests. The program helps increase brand awareness, resulting in a steady demand. It is also a low-cost way to attract new guests.

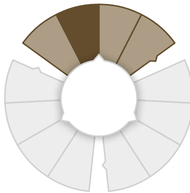
Scandic is currently carrying out development work to strengthen the company's loyalty program further.

LEVERAGING DIGITAL OPPORTUNITIES

The constantly evolving digital landscape is opening up new business opportunities. In 2016, Scandic launched a new digital platform, including an updated website that facilitates interaction with customers. This helps Scandic improve the customer experience and create relationships during the entire customer journey – from the dream stage and first contact to booking, staying, checkout and follow-up. In the next few years, Scandic will accelerate investments in its e-commerce offering.

"RETURNING GUESTS ARE AN ASSET."

Scandic is currently enhancing its digital platform by adding an optimization system. The aim is to offer customers a smart, interactive, seamless and inspiring digital experience. The platform will be based on data-driven insights that offer increased availability and opportunities for customization that strengthen customer relationships with Scandic. The company aims to achieve a leading digital position in the industry with an offering that appeals to the new generation of guests who grew up in the digital era.



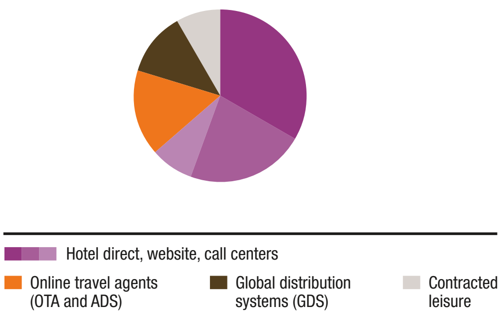
EVERYONE IS WELCOME!

It should be obvious to any hotel company that wants to call itself a leader to make hotels accessible to everyone. This includes anyone who has a broken leg, has a hearing impairment, uses a wheelchair or in any other way needs special consideration. This isn't always the case. But at Scandic, every guest can feel welcome.

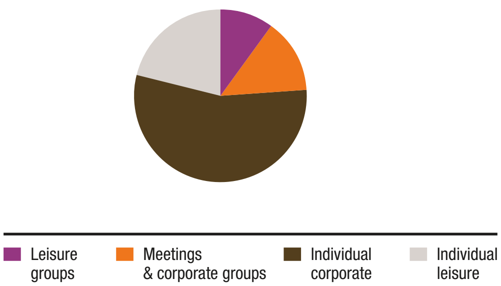
Scandic is the only hotel company to have an Accessibility Ambassador. It also has a separate and unique Accessibility Standard covering 135 points that is implemented at all of its hotels.

Scandic is also the first hotel company in the world to offer interactive online training in accessibility. The training gives employees tips and advice that can be applied in their daily work.

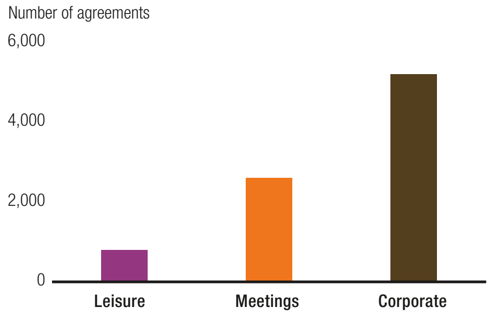
SALES BY DISTRIBUTION CHANNEL



SOLD ROOMS BY CUSTOMER SEGMENTS



TYPES OF AGREEMENTS



OPERATIONAL LEADERSHIP

Scandic's success is partly founded on its constant focus on the customer and on meeting expectations. It is also based on creating operational excellence. This work, which most often goes on behind the scenes, is grounded on industrial thinking. All team members act according to a common model and framework. This allows Scandic to control costs carefully and optimize its investments.

ONE COMPANY, ONE PLATFORM

Unlike many other actors within the hotel industry, everyone at Scandic works based on a common concept and model for follow-up. This drives and optimizes RevPAR (Revenue Per Available Room).

Scandic's operations are based on the same platform. This system brings together data on revenue and expenditure, customer statistics, deviations from the budget – all broken down in detail. Transparency is high. This means that key figures can be compared within one country as well as between countries.

The common platform also allows for benchmarking, which creates conditions for establishing best practices throughout the entire company.

EFFECTIVE COST CONTROL

Key performance indicators (KPIs) are used as important key ratios within Scandic's organization when evaluating how effectively its operations are conducted. These can include hours worked compared to the number of guests or the resource allocation during breakfast or cleaning. KPIs provide fast and simple answers that can be used immediately to take action.

Cost control is key to Scandic's success and made possible by the company's effective follow-up system. Every morning, each hotel director 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.

HOTEL MANAGERS ARE KEY

The managers of Scandic's 223 hotels are the key to the Group's success. They know their markets. This is why it is natural that they have full responsibility for revenue and expenses at their hotels. Their duties include adapting Scandic's offering to their local markets.

To allow hotel managers to focus fully on their local businesses, they have the full support of Scandic's central functions such as finance, salaries, HR and technical functions. Agreements with major companies are also handled centrally. The primary task of each hotel is to ensure that its guests are satisfied.

A COMPLEX PROCESS

Scandic is establishing new hotels at a rapid pace. This includes both new construction and conversion of existing properties. Developing, opening and operating hotels is a complex business. It involves many stakeholders, tight deadlines and budgets that must be kept. Everything also needs to be done seamlessly.

Scandic has built up a strong organization to establish, manage and develop its hotel portfolio. This is based on a proven program that ensures the process, from the initial contact to the opening of the hotel. This way, the interiors of the hotels can be standardized, depending on the potential of each hotel. In addition, common renovation needs at several hotels can be met by fewer suppliers. These functions also help Scandic increase value and improve quality control. And in this area, Scandic considers itself to be an industry leader.

"SCANDIC'S CENTRAL FUNCTIONS SUPPORT LOCAL OPERATIONS."

COMPREHENSIVE APPROACH TO SECURITY

Security issues are high on the agenda when corporate customers book hotels for their staff. Scandic has a strong concept in this area and aims to inspire others. Scandic employees receive regular training in security issues. Two mandatory fire drills and training sessions are held each year. And every six months, the company arranges comprehensive crisis training where potential incidents are simulated. Scandic's central crisis team coordinates this work and follows up on the results.

THE GOP MODEL

The Target GOP model is one of Scandic's control measures. It provides hotel managers with a tool for measuring how successfully the hotel has managed to convert revenue into gross profits. It takes changes in the business mix into account and is used by all hotels.

A STRONG CULTURE

Scandic currently has about 15,300 employees in seven countries. The Inspiring Nordic platform is the glue that binds each member of Team Scandic and builds a common culture. It constitutes a framework for all of the company's employees in their daily internal and external contacts.

STRONG CORE VALUES

Scandic's firmly rooted culture does not mean that all team members are cast in the same mold. Rather, it constitutes a basic approach that creates room for variation and improvisation. When it comes to recruiting, Scandic's philosophy is simple: choose people with the right attitude and skills, motivate them and provide clear rules and conditions so they can develop, both in their professional roles and as individuals. This approach creates happy team members that feel safe, which is the key to creating satisfied guests.

Scandic can only maintain its strong customer loyalty and bring customers even closer if its team members act according to the company's core values. Scandic's long-term and extensive work in human resources takes this into account.

INSPIRING NORDIC SHOWS THE WAY

All internal work is based on the cultural platform Inspiring Nordic (described on pages 10–11) that was introduced in 2016. Last year, all Scandic teams were introduced to the platform in different ways and work is continuing in 2017. It constitutes the natural framework for engaging and sparking enthusiasm among Scandic's employees.

TRAINING AT SCANDIC

Scandic's team members learn and develop in their professional roles through their daily interaction with guests. Training in a more formalized format is provided through Scandic Business School. This is Scandic's internal and customized concept for staff training and development. It is greatly appreciated internally and it has been recognized and praised by several organizations.

Scandic Business School offers a wide range of courses for employees. Through e-learning, 60 inspiring courses and training programs adapted to the company's specific needs are offered every year. Participation in courses is determined together between employees and managers. In addition to standard courses, it is also possible to attend individually-tailored external courses.

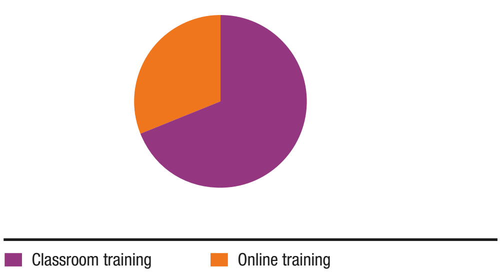
Scandic also works constantly to ensure the regrowth of hotel managers internally. This is carried out through specially-adapted training courses and programs in leadership development. In total, 63 percent of Scandic's 223 current hotel managers have been recruited within the organization.

"ALL TEAM MEMBERS AND MANAGERS ARE INVOLVED IN SCANDIC'S INSPIRING NORDIC CULTURAL PLATFORM."

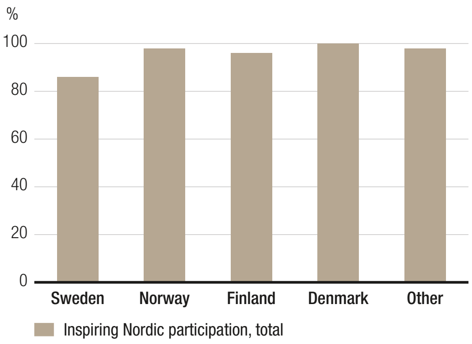
SCANDIC'S TEAM MEMBERS

Scandic's business is seasonal with particular highs. To meet this challenge effectively, Scandic has a great need for temporary employees. In this respect, Scandic has an important role to play as a first employer. Scandic offers young people the opportunity to gain valuable professional experience. Scandic's temporary employees constitute an important recruiting base for the company and many are offered permanent employment.

BREAKDOWN OF TOTAL TRAINING HOURS BY TYPE OF TRAINING



TRAINING IN INSPIRING NORDIC



GRI: G4-DMA

GENDER DISTRIBUTION, COMPANY IN TOTAL

63% (64%) 37% (36%)

9,446 women | 5,518 men

GENDER DISTRIBUTION, NEW HIRES[1]

53% (53%) 47% (47%)

581 women | 656 men

[1] Data refers to permanent employees.

GENDER DISTRIBUTION, HOTEL DIRECTORS

51% (46%) 49% (54%)

women | men

AGE DISTRIBUTION, NEW HIRES[1]

1,237

NEW HIRES IN 2016

Median 29 years

675 people | 515 people | 47

<30 | 30–50 | >50

[1] Data refers to permanent employees.

Scandic's employees in all countries, including short-term and temporary staff, have full protection and coverage regarding health and safety, either through their contracts or applicable collective bargaining agreements. Around 87 percent of employees are covered by collective bargaining agreements. Scandic knows that a happy, healthy workplace is a competitive advantage when it comes to recruiting. Another appreciated benefit is that all hotel employees are offered nutritious meals at work. The company generally strives to provide a good work-life balance for its employees.

EMPLOYEES FROM 120 COUNTRIES

Inclusion, gender equality and diversity are prioritized areas within Scandic. The company wants its organization to reflect the diversity found in society and to have an inclusive approach to employees, guests and society at large. Scandic believes this is a strong competitive advantage for the company. This is also supported by research in the area.

HOTEL DIRECTORS RECRUITED INTERNALLY

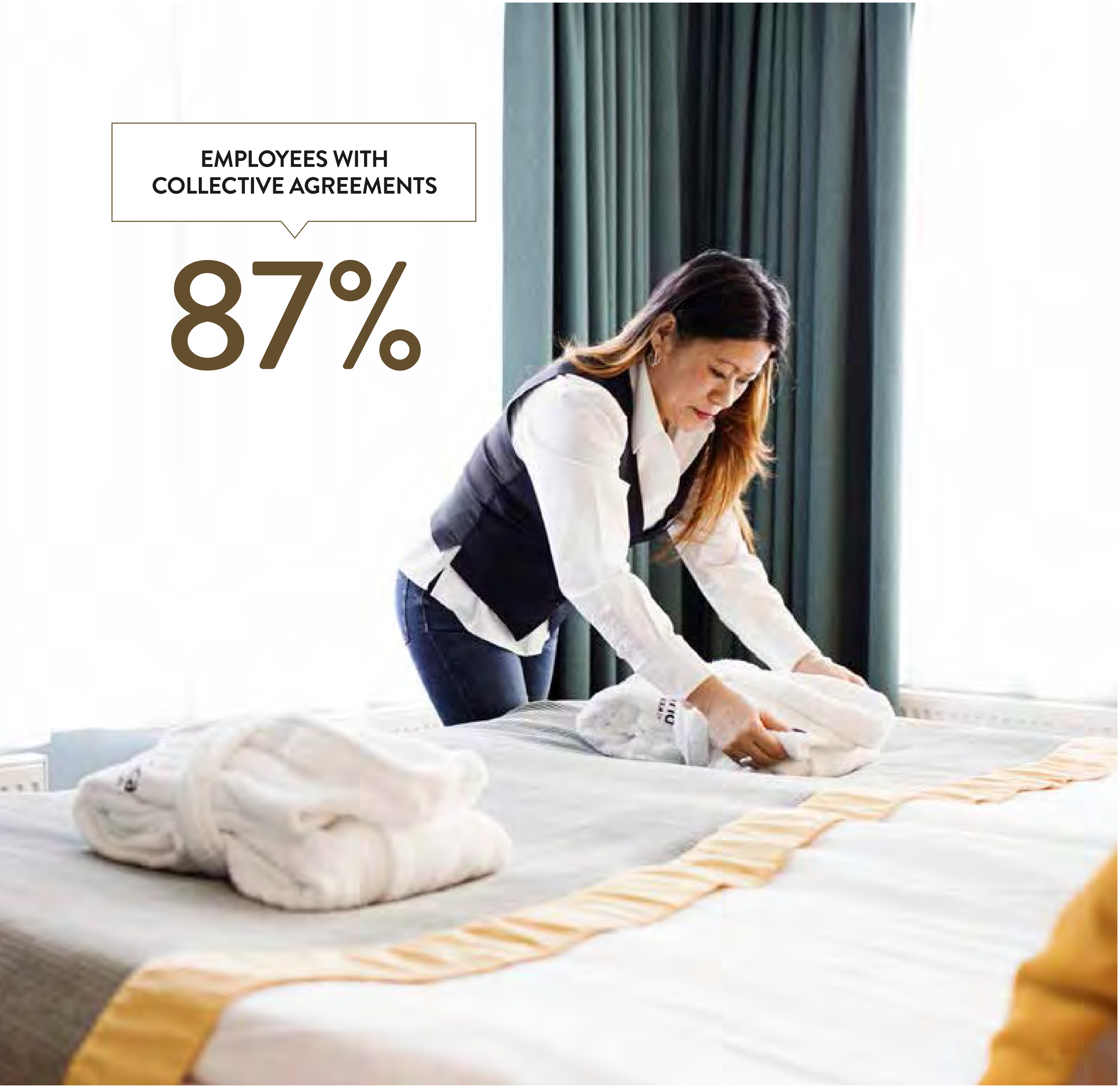
63%

▶ All Scandic employees should be treated with consideration and respect, regardless of age, origin, ethnicity, gender or sexual orientation. Today, the company employs people from no less than 120 countries, and according to the latest employee survey, Scandic is perceived as a workplace where diversity is appreciated.

Scandic regularly carries out important initiatives that aim to create employment possibilities for people outside of the labor market, such as the many skilled newcomers that now live in our part of the world. Traineeships have been established for youths, providing them with work experience. Scandic's recruitment work focuses on creating diversity within the organization.

The distribution between men and women is good on most levels in the company. Among part-time employees, there is a larger share of women.

Employees receive remuneration based on local salary levels and market practices. The remuneration model is based on clear criteria that disregard gender, origin, ethnicity, age and other irrelevant factors.



EMPLOYEES WITH COLLECTIVE AGREEMENTS

87%

INSPIRING LEADERSHIP

How are market dynamics changing in the hotel industry? What drives customers? And how can Scandic best live up to customer expectations and further strengthen the customer experience? What leadership do we need within our organization? How can we maintain and develop the strong commitment of our team members? And how can we reach Scandic's targets for 2020?

“OUR WORLD IS CHANGING RAPIDLY, SO WE MUST ALWAYS BE READY.”

“BY INSPIRING EACH OTHER, WE INSPIRE OUR GUESTS.”

“THE CUSTOMER EXPERIENCE IS ALWAYS IN FOCUS.”

700 SCANDIC MANAGERS TOGETHER

There were many important issues on the agenda when Scandic gathered leaders in the Group for a jam-packed and productive day at its annual event in March 2017. About 700 managers participated, representing all functions within the Group. The program included a retrospective of 2016 and a presentation of the current situation, but above all, it looked at how to navigate the future with a focus on the compasses Scandic provides for strong leadership. All managers at Scandic should know what is expected of them, what is happening in the company and how it can benefit them in their work.

CONTINUED DEVELOPMENT OF CUSTOMER JOURNEY

Among other things, Scandic’s concept that offers customers more effective and exciting conferences was introduced. The status of work on the new loyalty program was presented. There was also an update on how Scandic’s expanded communication concept supports and develops the company’s profile – all activities with a focus on creating an inspiring customer journey from the first contact to following up.

BEING A LEADER AT SCANDIC NOT JUST A TITLE

Getting leaders together at the same time fosters team spirit. It allows people to share experiences and make important informal contacts. It also helps calibrate Scandic’s employees so that they act unanimously.

Being a leader at Scandic isn’t just a title on a business card. With leadership comes a responsibility to inspire and show the way when it comes to interacting with guests according to the company’s values. Customers should feel that they always get the same good service, regardless of whether they stay at a hotel, hold a meeting or eat at Scandic’s restaurants.

ENGAGED AND MOTIVATED TEAM

By recruiting the right people, engaging and developing them, and providing the right conditions for them to grow professionally and personally, Scandic creates satisfied employees. This is reflected in the regular measurements the company carries out. And the investment in the new cultural platform, Inspiring Nordic, aims to further strengthen employee commitment.

ROLLOUT OF INSPIRING NORDIC

Before the summer of 2016, Scandic began introducing its new cultural platform, Inspiring Nordic. Initially, all hotel directors and functional managers were included, with the rest of the Scandic team engaged in the process gradually. This was carried out in a structured dialog process in which the platform was introduced, discussed and brought to life through concrete case studies combined with inspiring practical exercises. Involving the entire Scandic team at all levels of the company has created the personal commitment for which Scandic is known.

Internally, the launch was very well received. In many places, participation was 100 percent. Participants ranked the concrete benefits of the exercises at a level of 3.4 on a four-point scale and the ability to engage people was appreciated to the same high extent. During the first half of 2017, work will continue to involve employees in the cultural platform through workshops and other activities at all Scandic hotels.

HIGH LEVEL OF ENGAGEMENT

Scandic carries out comprehensive surveys annually to measure team members' drive and motivation. The results are summarized in the Voice Index, which is an Employee Satisfaction Index (ESI).

AN ATTRACTIVE EMPLOYER

GREAT PLACE TO WORK

1st PLACE IN FINLAND

2nd PLACE IN DENMARK

VOICE INDEX

2016: 760

2015: **763**
2014: **732**

(700 = EXCELLENT)

This index has historically been at a high level and the trend is positive over time. The employee survey carried out in 2016 had a response rate of 94 percent and resulted in an index of 760 as a consolidated value for the entire Scandic Group. This was the same level as the previous year. An index of more than 700 is considered an "excellent" level, placing Scandic high compared with other companies. Voice indexes vary within Scandic from country to country. Denmark and Finland have the highest indexes, placing them on the "best performer" level.

AMONG DREAM EMPLOYERS

Each year, Great Place to Work identifies the "best company to work for." And in 2016, Scandic in Denmark and Finland participated in the survey. In the "Large organization" category, Scandic in Finland came in first place and was recognized for its open work environment characterized by trust, where employees share the same cultural values and together strive to create great hotel experiences. In Denmark, Scandic won second place, improving its position compared with last year. 2016 marked the first year that Finland participated in the survey.

Every year, the research firm Universum asks about 18,000 business students to vote for their dream employer. In the past couple of years, Scandic has been included in the exclusive Top 50 List. In 2016, Scandic came in 30th place, in line with the ranking the company has had since 2014.

HIGH DEMAND FOR TRAINING

Employees' personal development is a key component of Scandic's constant efforts to strengthen the brand and its attractiveness as an employer. The company therefore aims to provide the industry's best training opportunities.

Scandic Business School was established more than 20 years ago. Demand is high among Scandic's employees. About 20,000 online courses are completed each year. In 2016, the total number of training hours at Scandic Business School was 50,216. This corresponds to about 1,300 weeks of training.

Scandic Business School also offers classroom training. One of the programs is Talent@Scandic that develops talented employees into hotel directors and other leaders within the company. In 2016, 20 people took part in the program.

VOCATIONAL TRAINING, SCANDIC BUSINESS SCHOOL, WOMEN/MEN

61% (66%) | 39% (34%)

30,412 | 19,804

TOTAL NUMBER OF TRAINING HOURS
50,216

GENDER DISTRIBUTION, EMPLOYEE TURNOVER[1]

56% (58%) | 44% (42%)

935 women | 732 men

[1] Data refers to permanent employees.

GEOGRAPHIC DISTRIBUTION, GENDER

SWEDEN	4,586	2,419
NORWAY	2,957	1,864
FINLAND	878	435
DENMARK	1,013	738
OTHER EUROPEAN	254	182

TOTAL NUMBER OF EMPLOYEES

63% (64%) | 37% (36%)

9,688 women | 5,638 men

TOTAL NUMBER OF EMPLOYEES
15,326

5,270 women | 3,223 men

PERMANENT EMPLOYEES: 8,493

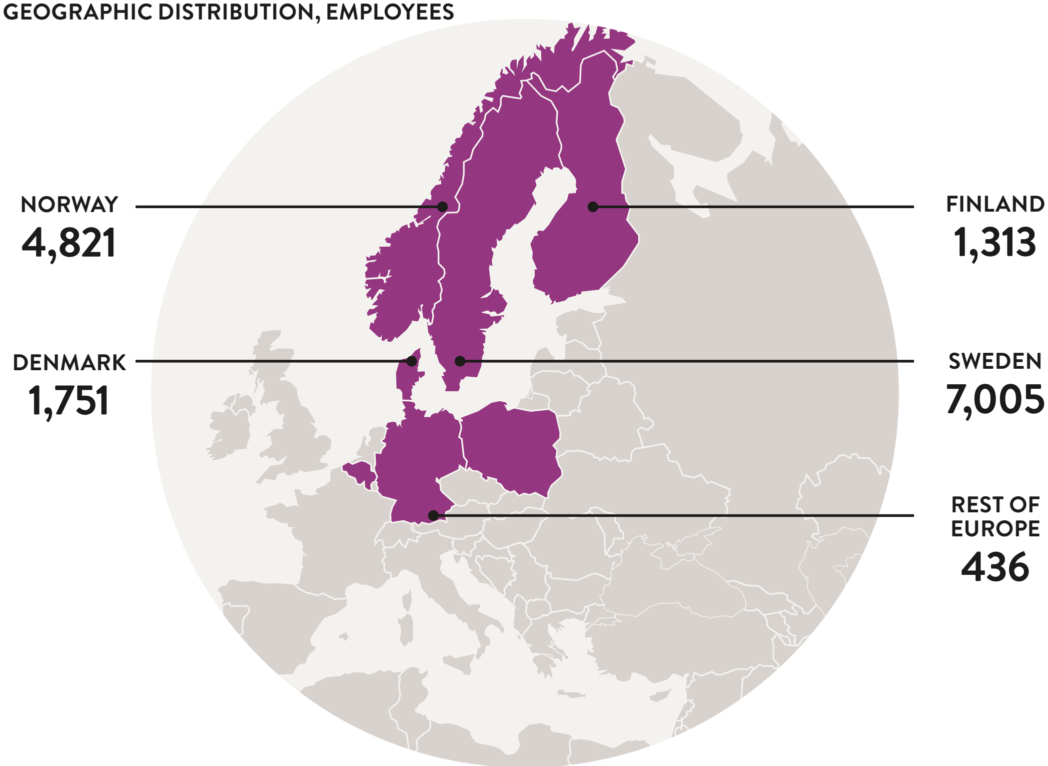
4,176 women | 2,295 men

TEMPORARY EMPLOYEES: 6,471

242 women | 120 men

CONTRACTED WORKERS: 362

GEOGRAPHIC DISTRIBUTION, EMPLOYEES



BUSINESS DIAMOND OF THE YEAR

In 2016, Roshan Malalatunga was named Business Diamond of the Year in Linköping, Sweden. Roshan manages the three Scandic hotels in the city and is passionate about recruiting trainees and apprentices so they can have careers and a future at Scandic. Just as he was given the chance to develop within the company.

TAKING THE LONG WAY

Roshan came to Sweden from Sri Lanka as a student when he was 22. He began studying accounting at Umeå University. His first job was as a temporary controller at Scandic Swania in Trollhättan. And his manager at the time acted as any good leader should: He saw the potential of his new employee and gave him the opportunity to grow in the position.

"He was a legendary manager," says Roshan. "I think 15 or 16 people who worked for him all went on to become hotel managers at Scandic."

It wasn't long before Scandic offered Roshan a job as hotel manager at Scandic Bollnäs. There, he learned everything from scratch in three years. And in 2011, it was time to move to his current position as hotel manager for the three Scandic hotels in Linköping.

"I SEE MYSELF AS A COACH IN THE BUSINESS."

A COACH IN MANY WAYS

"Right now, we're busy building additions on two of the hotels. The biggest project is at Scandic Frimurarehotellet – or Frimis, as we say here in Linköping. We're adding 54 rooms and a large conference area. Frimis has played an important role in tourism in the city for the last 100 years and now we're focusing on the next 100," says Roshan.

"I see myself as a coach in the business. Naturally, I have an overview of everything and can go into detail, but I let my department heads manage their operations themselves. I encourage them and try to create a good working environment."

"I also like when I get invited to visit companies and schools that want to learn more about our business. And I participate in a mentoring program for newly-arrived academics. We're good at recruiting young people from other countries. We are demanding, but anyone who is prepared to work hard can have a great future with us at Scandic. My advice to them is to make Swedish friends and learn more about Swedish culture. Don't live as if you're somewhere else. Pick the best things from your country and blend them with the best of Sweden," says Roshan.

SATISFIED AND LOYAL CUSTOMERS

Scandic aims to offer guests the best possible experience during the entire customer journey – from planning to checking out. Scandic's ongoing surveys show that customer satisfaction is at a consistently high and stable level. And the trend continues to be positive. The company rewards customer loyalty through the Scandic Friends program whose members account for 40 percent of Scandic's room revenue.

HIGH LEVEL OF CUSTOMER SATISFACTION

Every day, Scandic carries out surveys among guests. They can share their opinions about their stays at the hotels in a number of dimensions including service, food, the room experience and more. The results are used as direct feedback by the respective hotel. The surveys are an important tool to ensure that Scandic's offering and service are attractive. In addition, the information constitutes input for further developing offerings.

The results of these surveys are summarized in the Total Guest Satisfaction (TGS) chart below that shows an aggregate of all investigated parameters with a value for Scandic in each country and on the Group level. The value continues to remain stable at a high level.

Because of the increasingly strong position the internet has as an information and distribution channel, in 2016, Scandic introduced a web-based tool that gives the company access to reviews on 50 major rating and review sites such as TripAdvisor, Booking.com and Google. Scandic receives a notification every time a question is asked or a review is posted, allowing it to quickly step in and respond.

During the first year, 2016, the tool gave Scandic's employees a full overview of how the company is viewed online. At the same time, Scandic's ranking on TripAdvisor improved by 8 percent and the number of reviews on review sites grew by 51 percent.

LARGEST LOYALTY PROGRAM IN THE NORDIC HOTEL INDUSTRY

Scandic Friends has long been the Nordic region's largest loyalty program for hotel guests. The number of members is growing all the time and in 2016, the program included more than 1.9 million people. During 2016, 40 percent of Scandic's room revenue was generated by loyalty program members, a very high share of returning guests. The content of the Scandic Friends program is continually being developed.

MOMENTUM IN FOOD & BEVERAGE

Since 2010, Scandic's customer satisfaction in the area of food and beverage has risen from 65 to 74. This substantial increase reflects the fact that sales in this area during the same period almost doubled – rising from 2.2 to 4.2 SEK billion. The trend is positive and expected to continue.

In the Norwegian market, Scandic is known for having the country's best breakfast. The designation comes from the annual Twinings Best Breakfast competition, which is the unofficial Norwegian breakfast championship. Scandic dominated and Scandic's hotels won in 12 of 19 regions.

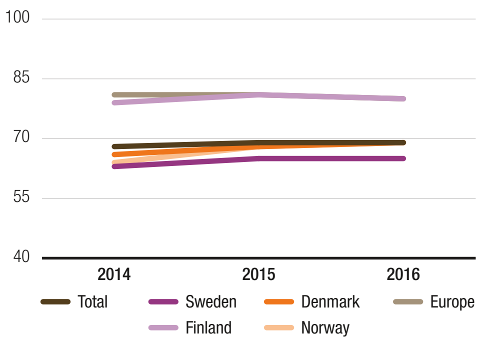
INVESTMENTS IN ACCESSIBILITY

There are more than 10 million people in Europe with some form of disability. Scandic has a world-leading offering within accessibility that is constantly being developed. This is reflected in the following highlights from 2016:

- Scandic's Accessibility Standard, which includes 135 points, was implemented at all former Rica hotels.
- Thanks to a unique partnership, Scandic was able to provide mobile lifts for guests with disabilities at 28 hotels in the Nordic countries at the end of the year.
- The new Scandic Continental opened with 40 of its rooms "designed for all." These comfortable rooms have accessible features built into the design and they can be booked by anyone. This initiative is in line with the increase in requests for accessible rooms in connection with conferences.
- Work to make Scandic accessible is not limited to the physical environment. Last year, Scandic's breakfast buffet welcomed a much-appreciated addition: a new section developed for guests with food allergies and vegans.

Scandic's work to make its hotels accessible is also recognized outside of the Nordic countries. In 2016, Scandic was a sponsor of the Paralympics in Rio de Janeiro and Scandic's Accessibility Ambassador was on hand to speak about how Scandic works to make its hotels accessible. He was also invited by the Swedish Embassy in Singapore to talk about smart, stylish design adapted to all guests.

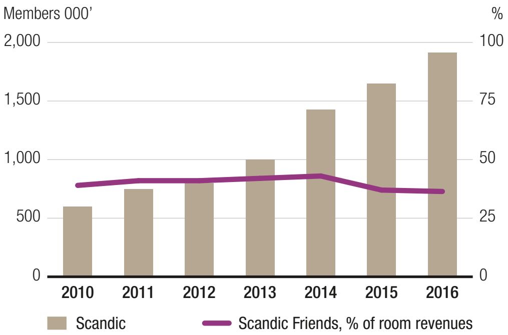
TOTAL GUEST SATISFACTION (TGS)



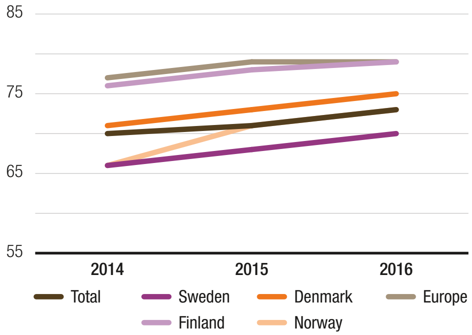
TOTAL GUEST SATISFACTION (TGS)

69/100

LOYAL MEMBERS' SHARE OF ROOM REVENUES



DEVELOPMENT OF CUSTOMER SATISFACTION F&B



A SUSTAINABLE FOOTPRINT

Since 1993, Scandic has been working to move forward and establish an industry standard when it comes to responsible and sustainable hotel operations. Diversity, inclusion, health and the environment are priority areas. Scandic's efforts are based on commercial, social and environmental benefits. The company regularly introduces activities and procedures that contribute to running the business in accordance with the UN Global Compact and its precautionary principle.

PURPOSEFUL SUSTAINABILITY WORK

In 2015, Scandic signed the UN Global Compact principles for sustainability. These include human rights, working conditions, the environment and anti-corruption. In addition to reporting regularly on the company's performance in relation to these principles, Scandic is also required to make continual progress in these areas.

Scandic's sustainability efforts are supported by and evaluated against a number of long-term goals set by the company. These refer to four areas: inclusion and diversity, health, CO_2 emissions and waste. All of these dimensions are critical to the continued strengthening of Scandic's established and strong profile within sustainability.

All areas include measurements that make it possible to follow up on the company's work. These goals are an important part of Scandic's 2020 strategy.

SUSTAINABILITY AND INCLUSION AS COMPETITIVE ADVANTAGES

Today, Scandic employs people from no less than 120 countries. All employees are treated with consideration and respect, regardless of age, ethnicity, gender or sexual orientation. Scandic regards diversity as a unique competitive advantage for its brand. Active support for integration in society is key if Scandic's work on inclusion is to succeed.

One current example is the Fast Track project launched by the Swedish Government together with the industry organization Visita and the hotel and restaurant union HRF. As part of this project, Scandic has undertaken to evaluate and validate skills among new arrivals with chef's training. The aim is to help them enter the labor market faster. The project has been successful and in 2016, Scandic hired ten chefs as part of its commitment.

AT THE FOREFRONT WITHIN HEALTH

Scandic wants to make staying at hotels a pleasant experience for the growing group of customers who prioritize a healthy lifestyle. Today, all of the company's hotels have gyms, offering guests a chance to exercise or relax. And to help guests make healthy and responsible food choices, Scandic offers a wide range of organic and certified products. With its new breakfast concept, Scandic provides alternatives for guests with special dietary requirements, offering vegan, gluten-free and lactose-free food.

Scandic constantly strives to give its employees a good balance between work, personal development and leisure time. To the greatest extent possible, working hours are set based on dialog between managers and employees.

CONTINUED LOW CO_2 EMISSIONS

The total amount of energy consumed in 2016 was 440,138 MWh. Roughly 95 percent is attributable to the energy Scandic buys ready-made, which is known as indirect energy (Scope 2). This energy includes the electricity, district heating and district cooling required to operate its hotels. A total of 86 percent of the electricity is from renewable sources such as wind and hydroelectric power.

Scandic currently uses gas and oil to heat certain hotels. The resulting CO_2 emissions are referred to as direct energy (Scope 1). All of this energy comes from non-renewable sources and it accounts for about 5 percent of total CO_2 emissions. There are also emissions from other indirect energy (Scope 3) associated with employee travel which account for about 1 percent of total emissions. Scandic is constantly striving to ▶

GOAL 2020

INCLUSION AND DIVERSITY

"Scandic will lead the hotel industry in giving all employees the same opportunities."

GOAL 2020

HEALTH

"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."

GOAL 2020

CO_2 EMISSIONS

"Scandic will be the hotel company with the lowest CO_2 emissions."

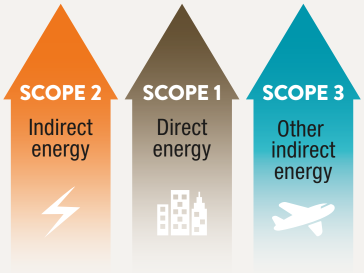
GOAL 2020

WASTE

"Scandic will continue to reduce total waste and increase the percentage of recycled waste."

GRI: G4-14, G4-15, G4-19, G4-DMA, EN-3, EN-15, EN-16, EN-17

Scandic's total CO_2 emissions during 2016 totaled 35,996 tonnes.



86% RENEWABLE ELECTRICITY

SCOPE 2

Scope 2 includes emissions from the energy Scandic buys ready-made, which is known as indirect energy. This includes electricity, district heating and district cooling to operate hotels through, for example, ventilation, lighting and operations. Today, 86% of the electricity that Scandic purchases comes from renewable sources such as wind and hydroelectric power. Scandic prioritizes district heating and cooling above local cooling systems.

	2015	2016
Energy consumption, MWh		
Electricity	250,395.4	222,596.6
District heating	180,269.8	196,096.2
District cooling	11,410.4	13,377.0
	442,075.6	**432,069.8**
CO_2 emissions, tonnes		
Electricity	3,856.7	3,054.9
District heating	25,369.9	28,442.3
District cooling	2,179.4	2,555.0
	31,406.0	**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.

	2015	2016
Energy consumption		
Gas, MWh	7,697.4	6,139.3
Propane gas, MWh	954.6[1)]	1,713.2
Heating oil, MWh	404.3	215.4
	9,056.3	**8,067.9**
CO_2 emissions, tonnes		
Gas	1,717.8[1)]	1,498.3
Heating oil	106.7[1)]	56.8
	1,824.5	**1,555.1**

1) Scandic's data collection method for CO_2 emissions has been refined, which is why the figures for 2015 have been adjusted compared with figures stated in Scandic's Annual Report 2015. Propane gas use was higher in 2016 than in 2015 as a result of more accurate follow-up on the hotels' reporting of environmental data.

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.

	2015	2016
Air		
Total km[2)]	2,848,408	3,006,083
CO_2 emissions, tonnes	366.1	388.9
Train		
Total km[3)]	–	807,175
CO_2 emissions, tonnes[3)]	–	0.003

2) During 2015, flight data for Scandic Grand Palace Bryssel, Scandic Gdansk and Scandic Wroclaw was excluded since these hotels did not have systems for recording the number of km traveled. For 2016, these hotels are included.
3) There was no follow-up on this data in 2015.

WASTE

In 2016, 69 percent of Scandic's waste was recycled, an increase of 2 percent compared with 2015. Of the remaining part, combustible waste was burned to release new energy. It is impossible for Scandic to avoid hazardous waste, as electronics and appliances need to be replaced and construction materials are sometimes left over from renovations. Today, however, half of all hazardous waste is recycled, resulting in a large reduction in Scandic's environmental impact.

In 2015, not all hotels were included in the reporting. In 2016, all hotels are included, which explains the large discrepancy between the years.

Total weight per method of disposal, tonnes	2015		2016	
	Hazardous waste	Waste	Hazardous waste	Waste
Reuse	0	43.1	0	0
Recycling	125.3	5,233.1	9.0	6,583.8
Energy recovery	0.0	1,761.4	18.4	2,502.4
Combustion	124.5	41.2	29.1	4.0
Landfill	25.4	84.2	3.1	83.4
Other[1)]	0.1	656.5	0	329.8
Total	**275.3**	**7,819.5**	**59.6**	**9,503.4**

Total weight per type of waste, tonnes	2015	2016
Paper	775.5	1,990.5
Glass	1,377.8	1,385.6
Metal	124.3	171.0
Plastic	244.6	193.2
Other waste	5,572.4	5,763.1

1) Waste disposed of through other means includes fats and residual waste. Municipal waste is excluded.

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

optimize its operations with regard to energy consumption and emissions. This work is calculated as an intensity figure, which was 2.75 tonnes CO_2/MSEK in 2016. The corresponding figure for 2015 was 2.79.

AWARD-WINNING ENVIRONMENTAL WORK

The Carbon Disclosure Project (CDP) is a non-profit organization that offers a global system for measuring and reporting a company's environmental impact. This is the leading environmental and climate index for investors. According to CDP's 2016 report, Scandic achieved level B, ranking above the average for the 260 largest Nordic companies. The ranking acknowledges Scandic's long-term and focused work to reduce the company's environmental impact and contribute to a reduction in CO_2 emissions.

ENVIRONMENTALLY CERTIFIED HOTELS

To ensure that sustainability is systematically integrated into Scandic's daily business, Scandic requires all of its hotels to be environmentally certified. At the end of 2016, 82 percent of all hotels were certified, with 180 of 223 hotels certified with the Nordic Ecolabel or the EU Ecolabel. Two hotels in Germany had Green Globe certification. This means that the hotels operate from a life cycle principle and meet established environmental demands for energy conservation, waste minimization and the use of recycled materials. The hotels constantly aim to minimize the negative environmental impact of their operations in large and small ways. All to reduce Scandic's impact on the climate.

Each Scandic hotel has an employee responsible for environmental issues who ensures that the hotel lives up to environmental requirements and reports regularly on the use of energy, water, chemicals and waste. Based on this information, Scandic can follow up and analyze its environmental work.

REUSING WASTE

The basic principle is that Scandic should not generate any waste. And waste that is generated should be reused or recycled to the greatest extent possible. In 2016, as much as 69 percent of Scandic's waste was recycled, compared with 67 percent in 2015. This shows the success of the team members at Scandic's hotels who are working purposefully and with great commitment to reduce waste. For example, by minimizing the use of disposable plastic packaging – such as by serving butter from a plate or offering shampoo in wall containers – Scandic uses about 50 million fewer plastic packages every year.

Combustible waste that cannot be recycled is burned to release new energy. It is impossible for Scandic to avoid hazardous waste entirely, as electronics and appliances need to be replaced occasionally and construction materials are sometimes left over from renovations. However, half of all hazardous waste is recycled today, resulting in a large reduction in Scandic's impact on the climate.

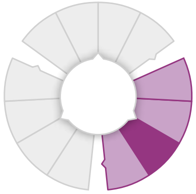
SUSTAINABLE AND RESPONSIBLE FOOD

Scandic prioritizes sustainable food options. To the greatest extent possible, the aim is to offer guests food and beverages that are good for both them and the planet. Scandic's breakfast buffet contains a wide selection of organic products and the company serves over 100,000 cups of Fairtrade-certified coffee every day, ensuring good working conditions for the producers. Fish and seafood purchased follows the WWF's Seafood Guide and largely comes from sustainable fishing. Scandic also naturally offers organic wine and beer. For younger guests, Scandic Sweden always offers organic kids' meals served with wholesome organic vegetables and beverages free from additives and food coloring.

Another important aspect is hygiene and food safety in kitchens and restaurants. To ensure maximum quality and food safety in its operations, Scandic has developed a training program on these issues for all kitchen and serving staff. This program has now been implemented in all countries.

NEVER-ENDING EFFORT

To reduce the company's environmental footprint, Scandic is implementing energy-saving initiatives at its hotels. All light bulbs are regularly replaced with LED lights and switches are being replaced to enable custom lighting. Static air conditioning is



being replaced by demand-controlled ventilation systems. Large refrigeration units have been replaced with individual refrigerators with glass doors that allow employees to see their contents without releasing expensive and energy-heavy cooled air.

Scandic always aims to reduce water consumption and has water and energy efficient appliances in kitchens and bathrooms. In 2016, Scandic consumed a total of 2,492,116 m^3 of water. This is an increase of approximately 7 percent compared with the previous year, which is explained by the addition of new hotels. But it also signals that consumption must be monitored more closely and additional methods of reducing it need to be found. Scandic is working purposefully to minimize the use of hazardous chemicals. To the greatest extent possible, volumes are controlled by automatic dosing. Last year, Scandic used only 445 tonnes of chemicals at all hotels, a reduction of about 4 percent compared with 2015. In 2016, 78 percent of chemicals were environmentally certified, compared with 77 percent in 2015.

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 and in which team members take part in various ways. The starting point is that Scandic makes resources such as premises and food available. Scandic's team members give of their hearts and energy to help the most vulnerable people in society. In addition to the joy and satisfaction it gives Scandic to be active in creating a better and safer society, it promotes team spirit.

In Berlin, Scandic employees regularly donate their own clothes and clothes left behind (and which are unclaimed) by guests to a charity for homeless people. In a special activity, Scandic invited a group of 20 refugee children to cook food with the company's chefs. They were also given clothes that had been donated in various ways.

In Denmark, four Scandic Glostrup employees began a spontaneous initiative to help refugees in Lesbos. This resulted in half a million Danish kroner in cash collected and three containers fully loaded with clothes, which were sent directly to people in distress.

STANDING UP FOR VALUES

Being a responsible partner in society does not only mean complying with requirements and regulations. Scandic has chosen to be an active and committed member of society with clear values that the company is prepared to stand up for in the communities in which it operates.

Human trafficking is area of responsibility for the entire hotel industry. Scandic has taken a clear stance on human rights and cooperates actively with the police to prevent human trafficking at its hotels. In 2015/2016, Scandic's internal training course was offered at 117 hotels. It is based on teaching employees how to act in cases of suspected trafficking and prostitution. In 2017, the contents of the course will be reviewed before the training continues throughout the organization. Scandic also supports the RealStars organization that works to prevent sex trafficking through dialog and advocacy in the community.

THE FISH AND SEAFOOD WE SERVE AT SCANDIC COMES MAINLY FROM SUSTAINABLE FISHERIES AND WE FOLLOW THE WWF'S SEAFOOD GUIDE

KRAV
ENVIRONMENT

DEBIO
ENVIRONMENT

Ø LABELED
ENVIRONMENT

LUOMU
ENVIRONMENT

EU ORGANIC
ENVIRONMENT

FAIRTRADE
WORKING CONDITIONS

RAINFOREST ALLIANCE
WORKING CONDITIONS AND ENVIRONMENT

UTZ
WORKING CONDITIONS

LETTING NOTHING GO TO WASTE

An important part of Scandic's sustainability program is recycling as much of the waste from its operations as possible. One particular challenge is reducing food waste. In the past few years, the company has been working systematically to reduce food waste, especially from breakfast. And the results show that there are gains to be made in this area.

LESS WASTED FOOD MEANS LESS GARBAGE

Breakfast at Scandic is popular. Each year, hotel guests consume more than 18 million eggs and drink the equivalent of 14 million oranges as juice. At the same time, breakfasts generate 912 tonnes of waste. And a significant amount is uneaten food that is thrown out.

What if Scandic could reduce this waste? How could it be done? And what would Scandic gain? These were questions Scandic's Food & Beverage unit asked a few years ago. And to get answers, Scandic ran a number of pilot projects. The results were so positive that now all of Scandic's hotels are working to reduce food waste from breakfast operations.

TEAM EFFORT GIVES RESULTS

"Reducing food wastage isn't a complex science but something we can achieve through small, practical things. This is why both the kitchen and serving staff need to be involved," says Thomas Fankl, who has overall responsibility for the food at Scandic's Swedish hotels. "It's basically about using common sense. Adapting volumes on the breakfast buffet, for example, to the number and type of guests in a smart way that doesn't come across as being stingy."

So what does this involve in practice? According to Thomas, "We communicate with our guests to help them to think in the right way and not take more food than they can eat. And we can achieve gains by adjusting the logistics of serving. The selection on the buffet can also be changed. Serving utensils can be refined. We also use transparent garbage bags in our kitchens so we can see how much food we're throwing out. This helps remind our team members about the issue. They can also help guide guests in making choices. The whole is greater than the sum of its parts.

ENVIRONMENTAL AND FINANCIAL WINS

By working to reduce food wastage, Scandic has achieved significant improvements. Results vary between hotels since they operate under different conditions. Some hotels have been able to decrease food waste by up to 50 percent. And all hotels have achieved reductions of more than 15 percent.

Based on these initial results, Scandic has calculated that a "standard hotel" with 250 rooms could save more than 100,000 SEK per year by working systematically to reduce food waste from breakfast. Scandic will continue to run the project in 2017 and will roll it out on a larger scale across the entire organization. This includes an app that allows Scandic to sell leftover food to people who can order and pick it up directly at the hotels. And all of these activities will have a positive impact on both Scandic's environmental work and the company's financial results.

HIGH PROFITABILITY OVER TIME

Scandic has adopted clear financial goals for its operations. These involve sales growth, profitability and financial strength. Scandic met its goals for all parameters in 2016. The goals are medium- to long-term and were adopted at the end of 2015.

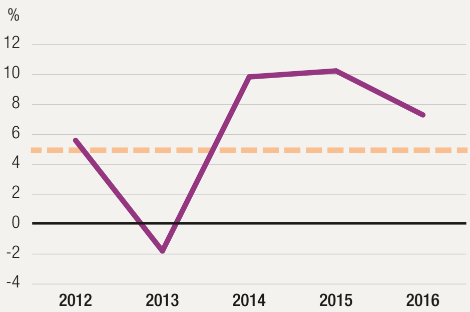
FINANCIAL TARGETS

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, 2012–2016



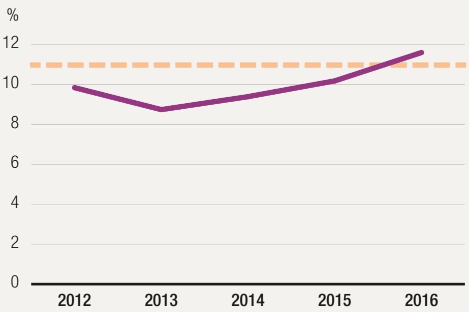
In 2016, revenue growth adjusted for exchange rate fluctuations was 7.3 percent. The revenue growth was attributable to high RevPAR in the existing hotel network as well as the strong performance of hotels that were established in 2016.

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, 2012–2016



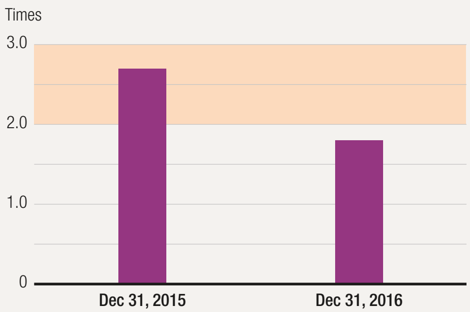
In 2016, the adjusted EBITDA margin was 11.6 percent for the Group. The margin increased in all segments, that is, in Sweden and Norway as well as in the other Nordic countries and Europe.

3

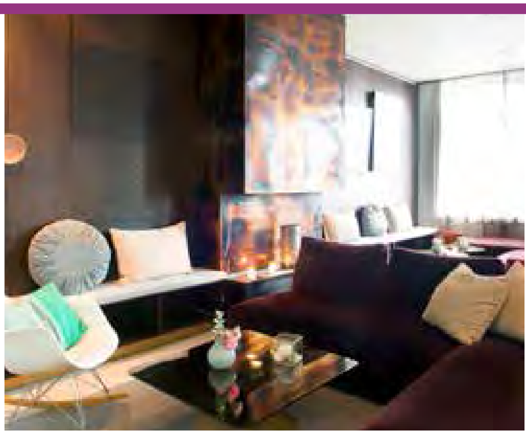
CAPITAL STRUCTURE

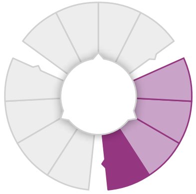
The Group shall have net debt in relation to adjusted EBITDA of 2–3x.

TARGET AND OUTCOME, 2015 AND 2016



In 2016, net debt in relation to adjusted EBITDA dropped to 1.8x compared with 2.7x at the end of 2015. The reduction was the result of the strong cash flow.





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 return guests. The strong market position in the mid-market segment and the 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, which had about 1,900,000 members at year-end. This demonstrates the company's ability to retain its guests, which is a strong contributing factor for stable revenue growth.

Strong sales and faithful 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 condition for continuing the expansion of the hotel network in attractive locations.

2

A 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 rent and commissions. Accordingly, these costs vary directly with the sales volume. About 55 percent of Scandic's costs are semi-flexible. To adapt such costs to current business conditions, Scandic closely monitors the order situation at all levels of operation. This allows the company to address deviations quickly.

3

STABLE EBITDA MARGINS

The large share of recurring sales and the flexible cost structure have provided Scandic with high and stable EBITDA margins in recent years. 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. As 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 – cash conversion – is a result of the low level of capital tied up.

SCANDIC'S 2020 STRATEGY

Scandic's strategy focuses on maintaining and further strengthening the company's leading market position in the Nordic countries as well as selective growth in the German market. The focus is on growing, improving and refining the company's business based on changes in customer behavior and digitalization in the hotel industry.

FUTURE STATES AND HOW WE GET THERE

Scandic has formulated a clear vision of what the company will achieve by 2020. The goals are summarized in six future states that describe how Scandic will be experienced at this time. The strategy also includes a description of how each state will be achieved. This is the basis for determining which projects will be initiated and prioritized from a strategic point of view.

THE FAVORITE HOTEL BRAND

FUTURE STATE Our brand is a promise that creates expectations. At Scandic, we deliver on this promise and also consistently raise these expectations, creating a cycle of increasing performance with the goal of providing a great hotel experience that guests want to return to and tell their friends about.

HOW WE GET THERE Scandic aims to strengthen its leading position as the favorite hotel brand in the Nordic market by creating great experiences across all touch points – from the phase of dreaming and planning to the interaction and sharing of the experience with colleagues, friends and family after the stay. We will ensure that our service and offering are relevant, authentic, meaningful and remarkable in both a rational and emotional way.

We will develop our offering with a focus on the service, food and room experience. Offerings and services that are the most relevant to our guests and enhance their experience will be prioritized, leveraging data and customer insights in the decision making. Through customer centricity and by removing pain points, we will make the customer journey seamless. However, it is the moment of execution that matters and makes the difference to our guests. This is why it is the most important focus area for the organization while we live our values BE CARING, BE YOU, BE A PRO and BE BOLD.

INSPIRING CULTURE

FUTURE STATE Our culture is one of our key strengths and it is characterized by energy, engagement, empowerment and inclusion. We appreciate diversity and inspire team members to develop and grow. We live our values of being caring, you, a pro and bold and this creates great hotel experiences for our guests.

HOW WE GET THERE Scandic's team members are the key to our success. We actively engage our diverse workforce and recognize the value of collaboration and representing multiple views and insights. By engaging all team members in bringing our cultural platform, Inspiring Nordic, to life, we will be equipped to exceed tomorrow's expectations from our guests.

The role of our leaders is increasingly important. By practicing inspirational and empowering leadership, we will foster a culture that constantly engages our team members. We will ensure we have a learning culture that also visualizes opportunities for growth, regardless of whether our team members are working with us temporarily or have been with us for many years.

We are adjusting the way we review and reward performance, appreciating what is being delivered as well as how it is being accomplished.

DEDICATED CORPORATE CITIZEN

FUTURE STATE We are an inspiration through the strong engagement and clear responsibility we take in society. Our dedication to sustainability is appreciated by our key stakeholders and is a strength for our business.

HOW WE GET THERE Scandic is a leading company in environmental sustainability. We are proud of our many great environmental innovations that have now become industry practice. Encouraging guests to reuse towels, using refillable shampoo and soap containers and eliminating bottled water are just a few examples of Scandic's innovations that now help us and other hotel chains minimize environmental impact.

Scandic also has a strong tradition of taking social responsibility and we aim to strengthen this position further to become an inspiring company in society. This will be achieved through a focused approach within diversity and inclusion for team members, guests and society. We aim to facilitate and resolve societal challenges together with governments, local authorities and other companies.

We will show commitment to and encourage well-being among our team members, guests and people in society. Scandic will also proactively support our shared responsibility for a sustainable future. Important areas that we are continuing to focus on include waste management and CO_2 emissions.

OUTPERFORMING THE MARKET

FUTURE STATE Our strong brand, offering, network, recurring business and commercial capabilities drive stronger revenue generation compared with our competitors. Our repeatable operating model, economies of scale and sharing of best practice generate high and stable margins, thus reducing cyclical effects.

HOW WE GET THERE Scandic's success is based on continual improvements in all parts of our operations. The Group sets the overarching strategy to leverage the company's scale in brand, revenue generation and operating model. Each country has its own profit and loss responsibility to drive revenue premium and operating margins.

Through partnerships and a strong distribution platform, Scandic will expand its reach for new customers. Our web

VISION
What we strive to be

Scandic
A WORLD-CLASS NORDIC HOTEL COMPANY

MISSION
Why we run our operations

WE CREATE GREAT HOTEL EXPERIENCES FOR THE MANY PEOPLE

VALUES
How we treat each other

BE CARING | **BE YOU** | **BE A PRO** | **BE BOLD**

FINANCIAL TARGETS
What we promise our owners

>5% ANNUAL REVENUE GROWTH | **>11% ADJUSTED EBITDA MARGIN** | **2–3X NET DEBT TO ADJUSTED EBITDA RATIO**

DESIRED POSITION
What we want to be in 2020

The favorite hotel brand | Inspiring culture | Dedicated corporate citizen | Outperforming the market | Capitalize on market dynamics | A growing hotel network

STRATEGIC PROJECTS TO REACH DESIRED POSITIONS

platform, loyalty program, total revenue management, international sales, meetings and upselling are important commercial focus areas. In our operations, we will increase best practice sharing between hotels and countries. Across our business, we aim to maintain our cost leadership and leverage opportunities from digitalization with clear governance.

CAPITALIZE ON THE MARKET DYNAMICS

FUTURE STATE We continuously act on insights and we are agile in our approach to stay ahead in the industry. We proactively embrace and leverage the constant changes in guest behavior and market dynamics.

HOW WE GET THERE There are constant changes and opportunities in the hotel industry and market dynamics. New players are entering the market, changing the value chain and challenging relationships with customers. Digitalization impacts the entire industry, the way customers behave and the way we operate. Social media is creating transparency, with customers controlling the communication and shaping of brands. In addition, we see changes in the expectations of tomorrow's workforce, in the competitive landscape and in legislation. Companies are also expected to take a different responsibility for society.

Scandic acts rapidly on changes and new opportunities in the market. We will closely monitor the market and understand potential changes as well as the pace of these changes. This means we will be able to proactively decide regarding Scandic's role and approach to these changes.

A GROWING HOTEL NETWORK

FUTURE STATE We have an undisputed market-leading position across the Nordics and have strengthened our presence in Germany. We continuously develop and extend existing hotels and add new hotels.

HOW WE GET THERE Our expansion rate is high and our ambition is to open two to four new hotels every year in the Nordic region. This includes new builds and takeovers of existing hotels. Scandic's ability to deliver higher revenues than comparable competitors coupled with good, long-term relationships make us an attractive partner for property developers and owners.

In Germany, we are expanding our existing network by establishing new hotels in attractive locations in major cities. These hotels will meet our high requirements on profitability and terms and conditions in leases.

Existing hotels will be subject to constant evaluation with regard to innovation and extensions. Our investment in signature hotels creates continued opportunities to strengthen the customer experience and get a better yield from selected hotels.

ADMINISTRATION REPORT

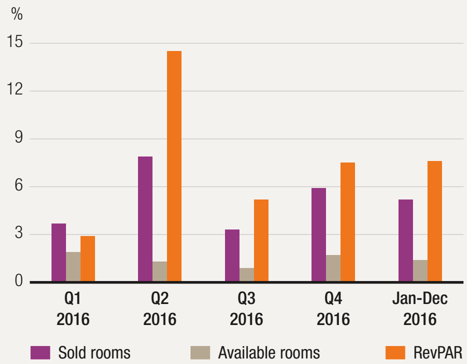
OPERATIONS

Significant events in 2016

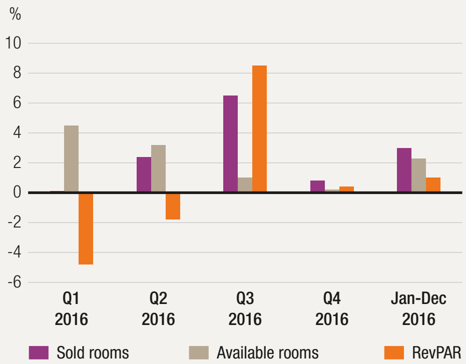
- RevPAR grew by 7.0 percent. LFL in local currency, RevPAR went up by 6.3 percent as a result of higher occupancy and average room rates.
- Net sales increased by 7.3 percent to 13,082 (12,192) MSEK.
- Net sales LFL in local currency climbed 5.3 percent mainly due to higher occupancy and increased average room rates.
- Adjusted EBITDA rose to 1,513 (1,246) MSEK, corresponding to a margin of 11.6 (10.2) percent.
- The margin improvement is a result of higher margins in Norwegian and European operations. Margins also were higher in Sweden as a result of an indemnity received.
- Net debt on the reporting date totaled 2,710 MSEK, corresponding to 1.8x adjusted EBITDA.

Group key ratios, MSEK	2016	2015	Change, %
Financial key ratios			
Net sales	13,082	12,192	7.3
Net sales growth, %	7.3	12.6	
Net sales growth LFL, %	6.6	7.7	
Adjusted EBITDAR	4,896	4,406	11.1
Adjusted EBITDA	1,513	1,246	21.4
EBITDA	1,462	1,114	31.2
EBIT (Operating profit/loss)	925	613	51.0
Adjusted EBITDA margin, %	11.6	10.2	
Earnings per share, SEK	8.58	1.43	
Hotel-related key ratios			
RevPAR (Average Revenue Per Available Room), SEK	643.3	601.3	7.0
ARR (Average Room Rate), SEK	976.1	933.9	4.5
OCC (Occupancy), %	65.9	64.4	

HOTEL MARKET DEVELOPMENT IN SWEDEN 2016[1)]



HOTEL MARKET DEVELOPMENT IN NORWAY 2016[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 2016 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 223 hotels operated through 10 subsidiaries.

Nordic hotel market development

Demand for hotel nights in the Nordic markets was good during the year. In Sweden, the number of sold rooms went up by 5.2 percent and RevPAR in the Swedish market rose 7.6 percent as a result of higher occupancy and increased average room rates. RevPAR in the Norwegian market increased by 1.0 percent, with slight changes in occupancy and average room rates. In the Danish market, RevPAR went up by 10.6 percent driven mainly by higher average room rates while RevPAR in the Finnish market grew 7.8 percent, largely driven by higher average room rates.

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 must be taken into account when making comparisons between years. Approximately 70 percent of Scandic's revenues come from business travel and conferences while the remaining 30 percent is from leisure travel.

Sales and profit/loss

Net sales rose by 7.3 percent to 13,083 (12,192) MSEK. LFL in local currency, net sales went up by 5.3 percent due to an increased number of rooms sold, higher room rates and greater demand within restaurant and conference operations. New hotels contributed to revenue growth of 3.8 percent. Divested hotels had a negative impact on growth of 1.4 percent. In addition, exchange rate effects had a negative impact on revenue of 0.4 percent.

RevPAR grew by 7.0 percent (6.3 percent LFL in local currency) with good growth LFL in all countries, where Scandic is estimated to have grown more than the market. Strong demand within the leisure travel segment during the summer, large congresses and conferences during the second and third quarters, and a fourth quarter with continued strong demand particularly in Sweden and Denmark led to a good market growth. This, together with the positive development of hotels that were opened during the year, Scandic's commercial activities, expanded distribution agreements and renovations to hotels, contributed to increased occupancy and higher average room rates.

In Norway, lower levels of activity within the Norwegian oil sector continued to result in a decrease in occupancy and average room rates at destinations dependent on the oil industry. This, however, was offset by good demand in other parts of the Norwegian market. New hotels contributed positively to RevPAR, which increased by 1.3 percent, and divested hotels had a negative impact of 0.2 percent on growth.

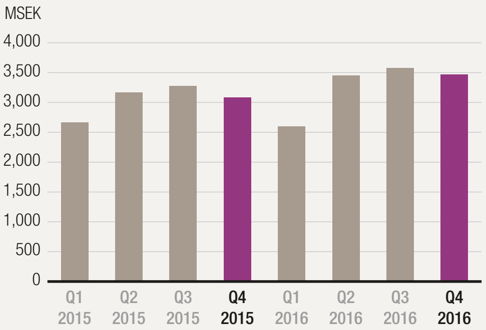
The Group's restaurant and conference revenues grew by 5.7 percent. Meeting and conference operations continued to show positive development and higher occupancy had a positive effect on breakfast and restaurant revenues. Restaurant and conference revenues contributed to net sales growth of 32.9 (33.4) percent.

Rental costs accounted for 25.9 percent (25.9) of net sales and fixed and guaranteed rental costs accounted for 16.8 percent (17.2) of net sales. The decrease in fixed and guaranteed rental costs is a result of revenue growth and subsequent higher variable rent.

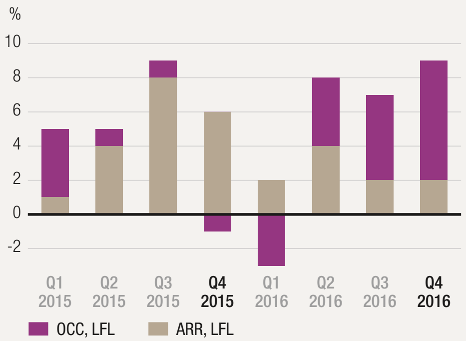
Personnel costs and Other external costs decreased in relation to net sales, primarily as a result of increased turnover.

Adjusted EBITDA before pre-opening costs for new hotels and non-recurring items increased to 1,513 (1,246) MSEK as a result of higher revenue. The adjusted EBITDA margin was 11.6 (10.2) percent. Excluding a non-recurring payment from a property dispute with Folkets Hus & Park in Sundsvall of approximately 65 (10) MSEK, the adjusted EBITDA margin went up from 10.1 to 11.1 percent.

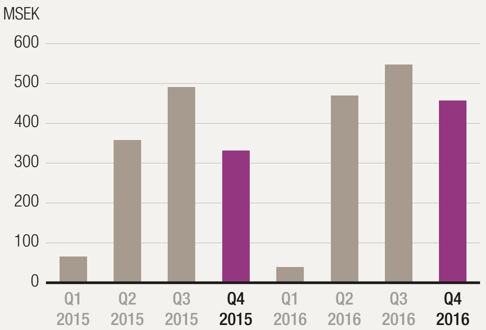
NET SALES, PER QUARTER



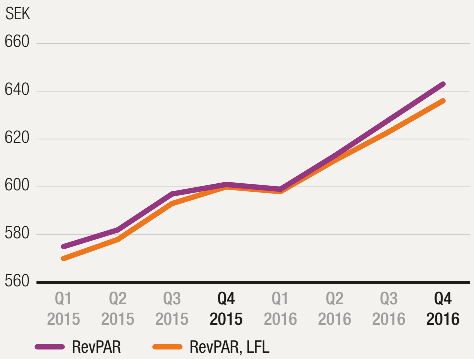
OCC & ARR, LFL – CHANGE PER QUARTER



ADJUSTED EBITDA , PER QUARTER



RevPAR, ROLLING 12 MONTHS



Pre-opening costs for new hotels amounted to -51 (-28) MSEK. In 2015, non-recurring items had a -104 MSEK impact on results. This includes costs of -52.0 MSEK related to the integration of Rica Hotels and -39.3 MSEK for IPO preparations. EBITDA increased to 1,462 (1,114) MSEK.

The Group reported a net financial expense of 132 (-497) MSEK. Interest expenses decreased to -133 (-500) MSEK as a result of refinancing and repayment of loans in connection with the company's IPO in December 2015. Exchange rate fluctuations from the revaluation of derivatives had a positive effect of 35 (-14) MSEK on the net financial expense.

Reported taxes amounted to -175 (5) MSEK and were impacted positively by non-taxable income.

Earnings per share before and after dilution totaled 8.58 (1.43) SEK. Adjusted for positive exchange rate effects due to the revaluation of loans and investments, earnings per share totaled 6.86 SEK.

Growth in RevPAR and net sales compared with 2015

Jan–Dec 2016	RevPAR, SEK	RevPAR, %	Net sales, MSEK	Net sales, %
LFL contribution to growth	38.1	6.3	643	5.3
Exchange rate impact	–2.2	–0.4	–53	–0.4
Exit hotels	–1.5	–0.2	–168	–1.4
New hotels	7.6	1.3	467	3.8
Reported growth	**42**	**7.0**	**890**	**7.3**

Growth LFL = LFL portfolio growth. 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.

Five-year summary

MSEK	2016	2015	2014	2013	2012
Financial key ratios – income statement					
Net sales	13,082	12,192	10,826	7,882	8,035
Net sales growth, %	7.3	12.6	37.4	–1.9	5.6
Net sales growth LFL, %	6.6	7.3	4.5	–3.5	1.0
Adjusted EBITDAR	4,896	4,406	3,826	2,734	2,807
Adjusted EBITDA	1,513	1,246	1,019	693	792
EBITDA	1,462	1,114	686	589	706
Adjusted EBIT	976	745	544	292	366
EBIT (Operating profit/loss)	925	613	211	187	281
Adjusted EBITDAR margin, %	37.4	36.1	35.3	34.7	34.9
Adjusted EBITDA margin, %	11.6	10.2	9.4	8.8	9.9
EBITDA margin, %	11.2	9.1	6.3	7.5	8.8
Adjusted EBIT margin, %	7.5	6.1	5.0	3.7	4.6
Operating margin (EBIT), %	7.1	5.0	1.9	2.4	3.5
Profit/loss for the year attributable to the Parent Company	879	117	–439	–248	148
Financial key ratios – financial position					
Balance sheet total	14,144	12,900	13,456	11,322	11,104
Equity attributable to the Parent Company	7,103	6,205	3,614	3,126	3,221
Working capital	–1,181	–1,132	–909.2	–690	–802.3
Interest-bearing net liabilities	2,710	3,355	6,073	4,555	4,205
Interest-bearing net liabilities/adjusted EBITDA	1.8	2.7	6.0	6.6	5.3
Cash flow from operating activities	1,609	1,186	790	545	611
Operating cash flow	890	401	–1,596	111	195
Key ratios per share					
Average number of shares [1]	102,457,837	81,826,211	81,826,211	81,826,211	81,826,211
Earnings per share, SEK	8.58	1.43	–5.36	–3.03	1.81
Equity/share, SEK	69.3	75.8	44.2	38.2	39.4
Hotel-related key ratios					
RevPAR (Average Revenue Per Available Room), SEK	643.3	601.3	573.5	534.1	554.5
ARR (Average Room Rate), SEK	976.1	933.9	927.4	903.3	910.6
OCC (Occupancy), %	65.9	64.4	61.8	59.1	60.9

1) The average number of shares has been recalculated with regard to events during 2015. See Note 19. The number of shares outstanding on December 31, 2015, was 102,985,075, earnings per share on December 31, 2015, was 1.13 SEK/share.

SEGMENT

Sweden

MSEK	Jan-Dec 2016	Jan-Dec 2015	Change, %
Net sales	5,637	5,065	
Net sales growth, %	11.3	11.9	
Net sales growth LFL, %	6.6	11.9	
Adjusted EBITDA	975	828	
Adjusted EBITDA margin, %	17.3	16.3	
RevPAR, SEK	693	644.4	
ARR, SEK	1,012.3	957.0	
OCC, %	68.5	67.3	

Net sales increased by 11.3 percent (6.6 percent LFL) during the year to 5,637 (5,065) MSEK, mainly driven by the positive market trend and contributions from new hotel openings. RevPAR went up by 7.5 percent mainly as a result of higher occupancy and increased average room rates. During the year, two new hotels opened in Stockholm: Haymarket by Scandic and Scandic Continental, both of which showed positive results during the year.

Adjusted EBITDA and the adjusted EBITDA margin were higher compared with 2015. The margin improvement can be attributed to a positive non-recurring payment related to a property dispute of 65 (10) MSEK. The abolishment of reduced social security contributions for employees under the age of 26 in 2015, known as the youth discount, had a negative effect of approximately 30 MSEK on EBITDA.

Norway

MSEK	Jan-Dec 2016	Jan-Dec 2015	Change, %
Net sales	3,744	3,716	
Net sales growth, %	0.8	16.7	
Net sales growth LFL, %	–1.5	25.8	
Adjusted EBITDA	363	321	
Adjusted EBITDA margin, %	9.7	8.6	
RevPAR, SEK	559.4	551.0	
ARR, SEK	937.7	956.6	
OCC, %	59.7	57.6	

Net sales increased by 0.8 percent during the year to 3,744 (3,716) MSEK. The Norwegian market showed uneven development. Reduced investments and activities within the oil industry led to a slump in demand and room rates at destinations dependent on the oil industry, primarily Stavanger. This was offset, however, by strong demand from leisure travelers in the summer months coupled with continued growth in northern Norway and the Oslo region. RevPAR increased by 1.5 percent and RevPAR LFL in local currency grew by 4.3 percent.

Adjusted EBITDA and the adjusted EBITDA margin were higher compared with the previous year due to an underlying increase in RevPAR and improved efficiency due to the integration of the former Rica hotels.

Other Nordic countries and Europe

MSEK	Jan-Dec 2016	Jan-Dec 2015	Change, %
Net sales	3,701	3,412	
Net sales growth, %	8.5	9.4	
Net sales growth LFL, %	10.8	10.6	
Adjusted EBITDA	522	400	
Adjusted EBITDA margin, %	14.1	11.7	
RevPAR, SEK	658.8	592.7	
ARR, SEK	957.9	879.5	
OCC, %	68.8	67.4	

Net sales increased by 8.5 percent (10.8 percent LFL) to 3,701 (3,411) MSEK. RevPAR in local currencies grew by 8.8 to 10.8 percent in Scandic's main markets in the segment, i.e. Denmark, Finland and Germany. Growth was driven by both volume and rates. The new hotels that opened in this segment, Scandic Vaasa in Finland and Scandic Aalborg City in Denmark, got off to a good start and are delivering revenue according to plan. Scandic's three hotels in Germany reported continued growth in revenue and improved margins with shared support functions between the two hotels in Berlin contributing to lower costs.

Adjusted EBITDA and the adjusted EBITDA margin improved compared with the previous year, mainly as a result of higher revenues and cost synergies.

Central functions

Adjusted EBITDA for central functions amounted to -347 (-303) MSEK. Central costs increased among other things as a result of measures to strengthen the Group's commercial organization and increased investments in digital development.

Financial position

The balance sheet total on the reporting date was 14,144 MSEK compared with 12,900 MSEK on December 31, 2015. Interest-bearing net debt decreased from 3,355 to 2,710 MSEK at the end of 2016. Exchange rate fluctuations had a 125 MSEK impact on the reduction. Loans to credit institutions amounted to 3,777 MSEK for the year. Net debt on the balance sheet day corresponded to 1.8 times adjusted EBITDA (2.7 times on December 31, 2015).

On December 31, 2016, the total number of shares and votes after dilution was 102,457,837. On the reporting date, total equity amounted to 7,103 MSEK compared with 6,205 MSEK on December 31, 2015.

Cash flow and liquidity

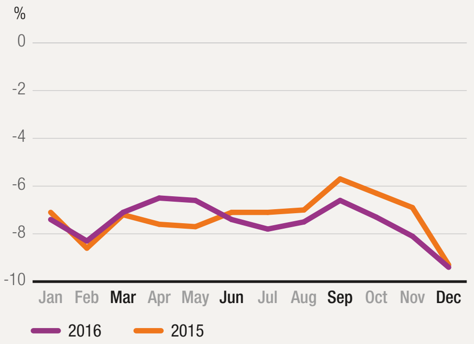
Operating cash flow amounted to 890 (401) MSEK. The increase is due to higher operating profit and lower working capital. The cash flow contribution from the negative working capital amounted to 150 (54) MSEK. The Group has negative working capital since most of its revenue derives from payments made in advance or in connection with stays.

Net investments during the period totaled -719 (-785) MSEK, with -450 (434) MSEK from hotel renovations and -37 (-50) MSEK from IT. Investments in new hotels and increased room capacity totaled -232 (-139) MSEK).

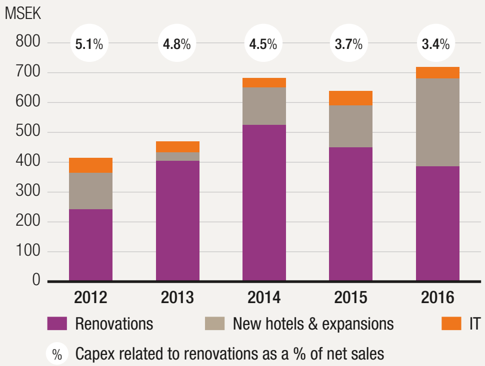
Cash flow from financing operations during the year amounted to -104, mainly as a result of interest payments.

At the end of the period, the Group had 1,068 (248) MSEK in cash and cash equivalents. Unused credit facilities amounted to 1,000 (600) MSEK. During the year, the Group's revolving credit facility increased from 600 to 1,000 MSEK.

WORKING CAPITAL/NET SALES, ROLLING 12 MONTHS



INVESTMENTS, 5 YEARS



Hotels and rooms in operation and under development

	Operational										Under development	
	Lease agreements		Management agreements		Franchise and partner agreements		Owned		Total		Total	
31 Dec 2016	Hotels	Rooms	Hotels	Rooms	Hotels	Rooms	Hotels	Rooms	Hotels	Rooms	Hotels	Rooms
Sweden	77	15,781	1	145	6	726	–	–	84	16,652	1	700
Norway	61	11,344	–	–	20	2,522	1	135	82	14,001	4	1,366
Denmark	22	3,664	1	210	–	–	–	–	23	3,874	2	670
Finland	26	5,303	–	–	2	233	–	–	28	5,536	–	70
Rest of Europe	6	1,509	–	–	–	–	–	–	6	1,509	–	16
Total	**192**	**37,601**	**2**	**355**	**28**	**3,481**	**1**	**135**	**233**	**41,572**	**7**	**2,822**

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

Portfolio development

At the end of the period, Scandic had 41,572 rooms at 223 hotels, of which 192 had lease agreements. During the year, the net increase in the number of hotels in operation was 2 and the number of rooms grew by 652. New hotels that opened during the year included Haymarket by Scandic (405 rooms), Scandic Continental (392 rooms), Scandic Aalborg City (168 rooms), Scandic Vaasa (68 rooms) and Scandic Gällivare (80 rooms). The opening of Haymarket by Scandic in May also marked the launch of the Group's first signature hotel. In September, Scandic Grand Central in Stockholm was rebranded as a signature hotel and changed its name to Grand Central by Scandic.

Research and development

No R&D work was carried out during the year.

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 6,244 shareholders at year-end 2016 with equal voting rights, equal rights to the assets and profits and an equal right to dividends of the total share capital. Sunstorm Holding AB was the largest shareholder, with 20.4 percent of the share capital and votes. At the end of the year, total Swedish ownership amounted to 71.3 percent of the shares of which 42.7 percent were held by Swedish institutions, 25.4 percent by Swedish mutual funds and 3.2 percent by private investors.

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) that was implemented in December 2015. If the full number of matching shares and performance shares is allotted, the total number of shares allotted under the LTIP will amount to 286,886, corresponding to approximately 0.28 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 63–65.

Employees

The number of full-time employees (FTEs) including temporary staff increased to 10,694 (10,505) during the year. The average number of employees in the Group was 9,359 on December 31, 2016 compared with 9,887 on December 31, 2015. 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 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.

Executive Committee and Board of Directors

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 nine senior executives: The Chief Financial Officer (CFO), the Chief Commercial Officer (CCO), 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. Five nationalities are represented in the Executive Committee, which is composed of nine men and one woman. During the year, the Country Heads were included in the Executive Committee at the same time as the position of Chief Operating Officer was phased out.

At the Annual General Meeting 2016, Ingalill Berglund, Albert Gustafsson, Stephen Leithner and Christoffer Lundström were elected as new Board members while Casper Callerström and Rikard Steiber resigned from the Board on May 12, 2016.

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 12, 2016. See the Corporate Governance Report on page 111 for further information.

Long-Term Incentive Program

Scandic has a share-based Long-Term Incentive Program. 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 111 of the Corporate Governance Report.

Events after the reporting date

On January 18, Scandic signed an agreement with property owners Pandox and Eiendomsspar to take over the operation of eight hotels in Norway, Sweden and Denmark with a total of 1,708 rooms. The agreement includes Grand Hotel in Oslo, which will become Scandic's sixth signature hotel. The transfer was carried out without consideration and all of the hotels will contribute positively to EBITDA from 2017.

On January 19, Scandic signed a long-term lease with LAK Real Estate Oy, a subsidiary of Finavia, regarding the establishment and operation of a new hotel at Helsinki Airport. Work to complete the hotel, Scandic Helsinki Airport, started in January 2017 and the opening is planned for the first half of 2018. The hotel will have 148 rooms.

On February 3, Scandic announced that the company had signed a long-term lease with the property company Vasakronan. The agreement covers the operation of a new hotel in the Platinan area in Gothenburg. The hotel will have 362 rooms and 15 conference rooms including a large multifunctional event space (Black Box) of 1,000 m^2. The hotel is planned to open at the end of 2020.

On February 9, the Board of Directors of Scandic Hotels announced that Even Frydenberg will take over as President & CEO after Frank Fiskers announced plans to leave Scandic during the summer. Even Frydenberg will start the new position on July 31, 2017.

Prospects

2016 can be summarized as a year of strong results for Scandic. RevPAR and net sales developed positively and margins improved.

Scandic has entered 2017 with an extremely large project portfolio. The current macroeconomic situation in the Nordic countries is favorable for the hotel industry and at the same time, statistics show that the Nordic region is continuing to grow as a tourist and meeting destination, which is expected to drive demand for hotel rooms going forward. Scandic expects market conditions for the industry to remain favorable during 2017. Today, Scandic is Scandinavia's largest hotel company with a popular offering, a well-invested hotel portfolio and a strong geographical network. The company's existing business together with its pipeline of new hotels provide a solid basis for continued strong growth in the future.

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 29 (21) MSEK. Operating losses totaled -7(-31) MSEK.

The net financial expense for the period was 17 (-13) MSEK. The Parent Company's profit before taxes was 76 (531) MSEK.

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, 3.15 SEK per share	324,402,986
To be carried forward	6,321,481,846
Total	**6,645,884,832**

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

RISKS AND RISK MANAGEMENT

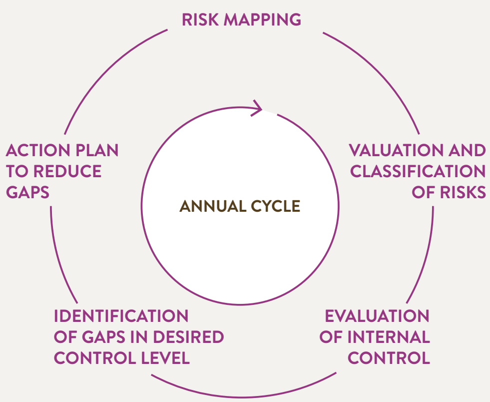
All business activities are associated with risks. Risks that are managed well can lead to opportunities and create value, while risks that are not managed properly can lead to damage and losses.

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 223 hotels that serve its main target groups: business and leisure travelers. 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 111–113 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 where a high level of control 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 seminars, 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 and higher or more critical risks are also regularly reported 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

During the year, an assessment of sustainability risks was carried out. This assessment considered all four areas of the UN Global Compact: environment, human rights, labor rights and anti-corruption. The results were included in Scandic's work to develop its sustainability strategy. In Scandic's business development, operational and strategic decisions included sustainability as a parameter evaluated based on opportunities and risks. The management of sustainability risks is an integral part 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.

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 web-based 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 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. Scandic has a high percentage of satisfied and returning customers and guests.

A high share of distribution, or close to 70 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-friendly buying process and maintaining a leading digital dialog with customers. To increase the inflow of private international travel, Scandic has entered into strategic cooperation agreements with relevant online travel agencies (OTAs).

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.

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.

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 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 the renovation and maintenance of 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 lease agreements is deemed too high, franchise agreements 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 2016, Scandic Friends generated about 40 percent of the Group's revenues from accommodation. 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 crucial to Scandic's success.	Scandic has a strong corporate culture that is being strengthened further through the continued development of the Group's cultural platform that has been in place since 2015. During 2016, the platform was implemented fully 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 management training and talent development.

Sensitivity analysis

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 from 2016 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.

Financial risks

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.

CONSOLIDATED INCOME STATEMENT

GROUP

MSEK	Notes	2016	2015
INCOME	2, 3		
Room revenue		8,530	7,869
Restaurant and conference revenue		4,299	4,068
Franchise and management fees		29	35
Other hotel-related revenue		224	220
Net sales		***13,082***	***12,192***
Other income		13	16
TOTAL OPERATING INCOME		**13,095**	**12,208**
OPERATING COSTS			
Raw materials and consumables		–1,138	–1,092
Other external costs	4, 5, 6	–2,850	–2,700
Personnel costs	6	–4,211	–4,010
Adjusted EBITDAR		**4,896**	**4,406**
Fixed and guaranteed rental charges	5	–2,203	–2,091
Variable rental charges	5	–1,180	–1,069
Adjusted EBITDA		**1,513**	**1,246**
Pre-opening costs		–51	–28
Non-recurring items		–	–104
EBITDA		**1,462**	**1,114**
Depreciation	11, 12	–537	–502
TOTAL OPERATING COSTS		**–12,170**	**–11,596**
Adjusted EBIT		**976**	**745**
EBIT (Operating profit/loss)		**925**	**613**
Financial items			
Financial income	7	265	3
Financial expenses	8	–133	–500
Net financial items		**132**	**–497**
EBT (Profit/loss before tax)		**1,057**	**115**
Tax	9	–175	5
PROFIT/LOSS FOR THE YEAR		**882**	**120**
Attributable to: Parent Company shareholders		879	117
Non-controlling interests		3	3
Profit/loss per share before dilution, attributable to: Parent Company shareholders (SEK per share)	10	8.58	1.43
Profit/loss per share after dilution, attributable to: Parent Company shareholders (SEK per share)	10	8.58	1.43

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

GROUP

MSEK	Notes	2016	2015
Profit/loss for the year		882	120
Other comprehensive income			
Items that may be reclassified to profit and loss:			
Translation differences for the year		169	–145
Hedge of net investment in foreign operations, net of tax		–124	39
Items that will not be reclassified to profit and loss:			
Actuarial gains/losses for the year		–6	73
Total other comprehensive income, net of tax		**39**	**–33**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**921**	**87**

CONSOLIDATED BALANCE SHEET

GROUP

	Notes	31 Dec 2016	31 Dec 2015
ASSETS			
Fixed assets			
Goodwill	11	5,793	5,575
Trademarks	11	3,145	3,151
Other intangible assets	11	165	181
Land & buildings	12	95	89
Equipment, fixtures and fittings	12	2,882	2,549
Shares in associated companies	13	10	10
Financial investments	14	8	4
Other long-term assets		14	17
Deferred tax assets	23	35	32
Total fixed assets	3	**12,147**	**11,608**
Current assets			
Inventory	15	92	81
Accounts receivable – trade	16	498	464
Current tax assets		–	2
Other current receivables		134	232
Prepaid expenses and accrued income	17	205	265
Cash and cash equivalents	18	1,068	248
Total current assets		**1,997**	**1,292**
TOTAL ASSETS		**14,144**	**12,900**

	Notes	31 Dec 2016	31 Dec 2015
EQUITY AND LIABILITIES			
Equity			
Share capital	19	26	26
Other contributions		7,865	7,865
Translation reserve		–29	–71
Retained earnings		–790	–1,643
Equity attributable to owners of Parent Company		**7,072**	**6,177**
Non-controlling interest		31	28
Total equity		**7,103**	**6,205**
Long-term liabilities			
Liabilities to credit institutions	20	3,777	3,600
Provisions for pensions and similar commitments	21	413	380
Other provisions	22	133	124
Other liabilities		47	–
Financial leases		1	3
Deferred tax liabilities	23	560	412
Total long-term liabilities		**4,931**	**4,519**
Current liabilities			
Advance payments from customers	28	112	88
Accounts payable – trade	28	527	482
Derivative instruments	28	20	77
Current tax liabilities	20	5	–
Other liabilities		222	190
Accrued expenses and prepaid income	24	1,224	1,339
Total current liabilities		**2,110**	**2,176**
Total liabilities		**7,041**	**6,695**
TOTAL EQUITY AND LIABILITIES		**14,144**	**12,900**

CONSOLIDATED CASH FLOW STATEMENT

GROUP

MSEK	Notes	2016	2015
Operating activities			
Operating profit/loss		925	613
Adjustment for items not included in cash flow, etc.	25	537	521
Income tax paid		–3	–1
Cash flow before changes in working capital		**1,459**	**1,132**
Changes in working capital			
Inventory		–7	2
Accounts receivable – trade		–11	–36
Other current receivables		179	–34
Accounts payable – trade		23	–30
Other current liabilities		–34	152
Cash flow from operating activities		**1,609**	**1,186**
Investing activities			
Acquisition of fixed tangible assets	12	–719	–639
Sale of associated companies		–	16
Acquisition of subsidiaries		–	–162
Cash flow from investing activities		**–719**	**–785**
Operating cash flow		**890**	**401**
Financing activities			
Share issue		–	1,540
Share issuing costs		–	–23
Borrowings	20	475	4,742
Amortization		–475	–6,801
Refinancing costs		–	–98
Interest paid	7, 8	–101	–221
Dividend		–3	–
Cash flow from financing activities		**–104**	**–861**
CASH FLOW FOR THE YEAR		**786**	**–460**
Cash and cash equivalents at the beginning of the year		248	716
Translation differences in cash and cash equivalents		34	–8
Cash flow for the year		786	–460
Cash and cash equivalents at the end of the year		**1,068**	**248**

CHANGES IN EQUITY

GROUP

MSEK	Equity attributable to owners of the Parent Company					Non-controlling interest	
	Share capital	Other contributions	Translation reserves	Retained earnings	Total		Total equity
OPENING BALANCE 1 Jan 2015	**0**	**5,294**	**35**	**–1,742**	**3,587**	**27**	**3,614**
Profit/loss for the year	**–**	**–**	**–**	**117**	**117**	**3**	**120**
Other comprehensive income:							
Items that may be reclassified to profit and loss:							
Currency fluctuations from translation of foreign operations	–	–	–145	–	–145	0	–145
Hedge of net investment in a foreign operation, net of tax	–	–	39	–	39	–	39
Items that will not be reclassified to profit and loss:							
Actuarial gains/losses for the year, net of tax	–	–	–	73	73	–	73
Total other comprehensive income			**–106**	**73**	**–33**	**0**	**–33**
Total comprehensive income	**–**	**–**	**–106**	**190**	**84**	**3**	**87**
Bonus issue	20	–	–	–20	–	–	–
Transactions with shareholders:							
Share issue and share issue cost	6	1,535	–	–49	1,492	–	1,492
Shareholders' contribution received	–	1,036	–	–	1,036	–	1,036
Dividend	–	–	–	–	–	–2	–2
Share-based payments	–	–	–	0	0	–	0
Forward contract to repurchase own shares	–	–	–	–22	–22	–	–22
Total transactions with shareholders	**6**	**2,571**	**–**	**–71**	**2,506**	**–2**	**2,504**
CLOSING BALANCE 31 Dec 2015	**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	**–**	**–**	**42**	**–6**	**36**	**3**	**39**
Total comprehensive income	**–**	**–**	**42**	**873**	**915**	**6**	**921**
Transactions with shareholders:							
Dividend	**–**	**–**	**–**	**–**	**–**	**–3**	**–3**
Share-based payments	**–**	**–**	**–**	**5**	**5**	**–**	**5**
Forward contract to repurchase own shares	**–**	**–**	**–**	**–25**	**–25**	**–**	**–25**
Total transactions with shareholders	**–**	**–**	**–**	**–20**	**–20**	**–3**	**–23**
CLOSING BALANCE 31 Dec 2016	**26**	**7,865**	**–29**	**–790**	**7,072**	**31**	**7,103**

INCOME STATEMENT
PARENT COMPANY

MSEK	Notes	2016	2015
Net sales	29	**29**	**21**
Operating expenses			
Other external expenses	4, 6	–8	–24
Personnel expenses	6	–28	–28
Total operating expenses		**–36**	**–52**
Operating profit/loss		**–7**	**–31**
Financial items			
Interest income and similar items	7	114	99
Interest expenses and similar items	8	–97	–112
Net financial items		**17**	**–13**
Appropriations		**66**	**574**
Profit/loss before tax		**76**	**531**
Income tax	9	–11	–116
PROFIT/LOSS FOR THE YEAR		**65**	**415**

STATEMENT OF COMPREHENSIVE INCOME
PARENT COMPANY

MSEK	Notes	2016	2015
Profit/loss for the year		**65**	**415**
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		**–**	**–**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**65**	**415**

BALANCE SHEET

PARENT COMPANY

MSEK	Notes	31 Dec 2016	31 Dec 2015
ASSETS			
Financial assets			
Participations in Group companies	26	4,590	3,536
Receivables from Group companies	29	5,067	6,778
Deferred tax assets	23	71	82
Total fixed assets		**9,728**	**10,396**
Current assets			
Current receivables		6	2
Receivables from Group companies	29	66	–
Cash and cash equivalents	18	790	2
Total current assets		**862**	**4**
TOTAL ASSETS		**10,590**	**10,400**

MSEK	Notes	31 Dec 2016	31 Dec 2015
EQUITY AND LIABILITIES			
Equity			
Share capital	19	26	26
Total restricted equity		**26**	**26**
Non-restricted reserves		6,581	6,207
Net profit/loss for the year		65	415
Total non-restricted equity		**6,646**	**6,622**
Total equity		**6,672**	**6,648**
Liabilities			
Long-term liabilities			
Liabilities to credit institutions		3,839	3,679
Liabilities to affiliated companies	29	–	8
Other liabilities		47	–
Total long-term liabilities		**3,886**	**3,687**
Current liabilities			
Other liabilities		8	2
Accrued expenses and prepaid income	24	24	63
Total current liabilities		**32**	**65**
Total liabilities		**3,918**	**3,752**
TOTAL EQUITY AND LIABILITIES		**10,590**	**10,400**

CASH FLOW STATEMENT
PARENT COMPANY

MSEK	Notes	2016	2015
Operating activities			
Operating profit/loss		–7	–31
Adjustment for items not included in cash flow, etc.	25	–	87
Income tax paid		–	–
Cash flow before changes in working capital		**–7**	**56**
Changes in working capital			
Other current receivables		–5	–2
Other current liabilities		–34	2
Cash flow from operating activities		**–46**	**56**
Investing activities		–	–
Cash flow from investing activities		**–**	**–**
Operating cash flow		**–46**	**56**
Financing activities			
Share issue		–	1,540
Share issuing costs		–	–23
Borrowings		475	3,679
Amortization		–475	–
Interest paid		–92	–
Loans to subsidiaries		925	–5,251
Cash flow from financing activities		**833**	**–55**
CASH FLOW FOR THE YEAR		**787**	**1**
Cash and cash equivalents at the beginning of the year		2	1
Translation differences in cash and cash equivalents		1	–
Cash flow for the year		787	1
Cash and cash equivalents at the end of the year		**790**	**2**

CHANGES IN EQUITY

PARENT COMPANY

	Restricted equity	Non-restricted equity		
MSEK	Share capital	Share premium reserve	Retained earnings	Total equity
OPENING BALANCE 1 Jan 2015	**0**	**–**	**3,706**	**3,706**
Net profit/loss for the year	**–**	**–**	**415**	**415**
Other comprehensive income	**–**	**–**	**–**	**–**
Total comprehensive income	**–**	**–**	**415**	**415**
Bonus issue	20	–	–20	–
Transactions with shareholders:				
Received shareholders' contribution	–	–	1,036	1,036
Share issue and issue cost	6	1,534	–49	1,491
Share-based payments	–	–	0	0
Total transactions with shareholders	6	1,534	987	2,527
CLOSING BALANCE 31 Dec 2015	**26**	**1,534**	**5,088**	**6,648**
Net profit/loss for the year	–	–	65	65
Other comprehensive income	**–**	**–**	**–**	**–**
Total comprehensive income	**–**	**–**	**65**	**65**
Transactions with shareholders:				
Share-based payments	–	–	5	5
Forward contract to repurchase own shares	–	–	–46	–46
Total transactions with shareholders	**–**	**–**	**–41**	**–41**
CLOSING BALANCE 31 Dec 2016	**26**	**1,534**	**5,112**	**6,672**

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. 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 their influence in the company.

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. 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 applies hedge accounting for net investments in foreign subsidiaries.

The below exchange rates are used in the consolidation.

Exchange rates	Jan–Dec 2016	Jan–Dec 2015
SEK = EUR		
Income statement (average)	9.4704	9.3562
Balance sheet (at end of period)	9.5669	9.1350
SEK = NOK		
Income statement (average)	1.0199	1.0465
Balance sheet (at end of period)	1.0540	0.9556
SEK = DKK		
Income statement (average)	1.2720	1.2544
Balance sheet (at end of period)	1.2869	1.2242

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 2015. Amendments and interpretations of standards that enter into force for the fiscal year beginning January 1, 2016 have not had any material effect on the Group's financial reporting.

New standards and interpretations yet to be applied by the Group

A number of new standards and interpretations entered into force during the financial year that started on January 1, 2016 but have not been applied in the preparation of this report. None of these are expected to have a material impact on the Group's financial statements, except for the following:

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.

The Group will evaluate the impact of the introduction of the standard. 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 is allowed. The Group assesses that the effects of the adoption of the new standard will be limited.

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 will enter into force on January 1, 2018. Earlier adoption is allowed. The introduction of IFRS 15 is expected to have a limited effect on Scandic since the new standard will only have an effect on the accounting of the loyalty program. 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 2 percent of the Group's revenue will be affected by accounting under IFRS 15.

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 should be presented in the Annual Report for 2018 and communicated prior to the press release of 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. The income statement is also expected to be impacted primarily by adjustments between income statement items. The company intends to evaluate and quantify the effects of the recognition of IFRS 16 during 2017.

None of any other IFRS or IFRIC interpretations yet to be applied are 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.

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	**2016**	**2015**
Lease agreements	13,029	12,135
Management agreements	11	11
Franchise and partner agreements	18	24
Owned	37	38
Total	**13,095**	**12,208**
Other	29	21
Group eliminations	–29	–21
Group	**13,095**	**12,208**

§ 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. 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 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. 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 22.

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. Inovicing 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 in question 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 and hotel operations under the Hilton brand in Finland. The different countries have been aggregated to one segment based on the fact that the countries involved have similar economical situations, they operate the 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.

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 net sales	**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**

2015 MSEK	Sweden [1]	Norway [1]	Other Nordic countries & Europe[1]	Central functions	Group
External net sales	5,065	3,716	3,411	–	12,192
Other income	16	–	–	–	16
Internal transactions	–	–	–	21	21
Group eliminations	–	–	–	–21	–21
Total net sales	**5,081**	**3,716**	**3,411**	**–**	**12,208**
Expenses	–4,253	–3,395	–3,0119	–303	–10,962
Adjusted EBITDA	**828**	**321**	**400**	**–303**	**1,246**
Adjusted EBITDA margin, %	16.3	8.6	11.8	–	10.2
EBITDA	**–**	**–**	**–**	**–**	**1,114**
EBITDA margin, %	–	–	–	–	9.1
Depreciation	–	–	–	–	–502
EBIT (Operating profit/loss)	**–**	**–**	**–**	**–**	**613**
Net financial income/expense	–	–	–	–	–497
EBT (Profit/loss before tax)	**–**	**–**	**–**	–	**115**

[1] HTL's operations were integrated with Scandic Sweden and Scandic Norway from 2016 and are therefore included in the segment reporting for Sweden and Norway respectively. Comparative figures for 2015 have been recalculated.

Assets and investments by segment	Sweden		Norway		Other Nordic countries & Europe		Central functions		Group	
MSEK	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Fixed assets	5,095	5,512	3,658	3,372	1,203	835	2,191	1,889	12,147	11,608
Investments in fixed assets	341	267	210	170	131	159	37	43	719	639

RevPAR development by segment	OCC LFL [1]		ARR LFL [1]		RevPAR LFL [1]		RevPAR [1]	
SEK	2016	2015	2016	2015	2016	2015	2016	2015
Sweden	68.5%	66.9%	991.6	945.1	679.4	632.5	693.0	644.4
Norway	59.4%	58.8%	936.0	946.3	556.4	556.1	559.4	551.0
Other Nordic countries & Europe	68.6%	67.1%	956.3	873.0	656.1	586.1	658.8	592.7
Total	**65.8%**	**66.0%**	**966.2**	**917.9**	**636.0**	**605.8**	**643.3**	**601.3**

[1] For definitions of key ratios, see page 128.

§ 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 from a geographical perspective and economic size. The segments monitored by management are divided into Sweden, Norway, Other Nordic countries & other segments 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	2016	2015	31 Dec 2016	31 Dec 2015
Sweden	5,650	5,081	5,095	5,512
Belgium	22	76	0	0
Denmark	1,412	1,264	656	307
Finland	1,750	1,601	480	465
Norway	3,744	3,716	3,658	3,371
Poland	76	64	15	15
Germany	444	406	52	48
Group assets	–	–	2,191	1,889
Total for the Group	**13,095**	**12,208**	**12,147**	**11,608**

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.

Group assets refers to intangible assets identified on the acquisition of Scandic Hotels AB, but which have not been allocated by country.

NOTE 04 Audit fees

Fees to audit companies	Group		Parent Company	
MSEK	2016	2015	2016	2015
PricewaterhouseCoopers				
Fees for audit assignments	4	4	–	–
Fees for accounting assignments	1	5	–	4
Fees for tax assignments	1	2	–	1
Fees for other assignments	0	0	–	–
Other audit companies				
Fees for audit assignments	0	1	–	–
Fees for accounting assignments	–	0	–	–
Fees for tax assignments	1	0	–	–
Fees for other assignments	–	0	–	–
Total fees to audit companies	**7**	**12**	–	**5**

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. Fees for other assignments in 2015 relate mainly to preparations for the stock exchange listing in 2015.

NOTE 05 Operational leasing agreements

Leasing fees according to operational leasing agreements MSEK	2016 Lease of premises	2016 Other leasing agree-ments	2016 Total	2015 Lease of premises	2015 Other leasing agree-ments	2015 Total
Leasing fees paid during the year	3,383	94	3,477	3,066	100	3,166
– of which minimum fees	2,203	69	2,272	1,997	60	2,057
– of which contingent rents	1,180	2	1,205	1,069	40	1,109
Future leasing undertakings due						
– within 1 year	2,293	95	2,388	2,281	78	2,359
– in 1 to 5 years	8,918	183	9,101	9,203	185	9,388
– in more than 5 years	15,663	0	15,663	8,972	26	8,998
Total future leasing undertakings	**26,874**	**278**	**27,152**	**20,456**	**289**	**20,745**

! Important estimations and assumptions

Leasing undertakings relating to premises relate in all significant respects to the premises on which Scandic's hotel operation is 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 3 to 4 percent of Scandic's net sales. In 2015 and 2014, investments accounted for 4 to 5 percent of net sales as a result of the large joint investment program with Pandox.

Investment commitments regarding signed agreements for new hotels and expansions are estimated at 1,267 MSEK, of which 322 MSEK in 2017, 583 MSEK in 2018 and 362 MSEK in 2019.

§ Accounting principles

Operational leasing agreements

As per December 31, 2016, all of the Group's leasing agreements are classified as operational leasing agreements. In all operational leasing agreements regarding hotels, Scandic carries risks limited to operating the hotel and certain investment commitments. The leasing cost for operating leasing contracts is recognized on a straight-line basis except where another systematic basis is more representative of the time pattern in which the economic benefits from the leased assets are recognized.

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

Personnel expenses MSEK	Group 2016	Group 2015	Parent Company 2016	Parent Company 2015
Salaries and other remuneration	3,311	3,179	19	14
Payroll overhead excluding pension expenses	535	514	5	4
Pension costs	365	317	4	10
Total personnel expenses	**4,211**	**4,010**	**25**	**28**

The members of Scandic's Executive Committee are employed by the Parent Company and the subsidiaries Scandic Hotels Holding AB , Scandic Hotels AB, Scandic Hotels A/S, Scandic Hotels AS and Scandic Hotels Deutschland GmbH. As adopted at the Annual General Meeting held on April 27, 2015, members of the Board of Directors are remunerated by Scandic Hotels Group AB.

If notice is given by the Group, the Group's CEO has a notice period of 12 months and additional payment for 6 months. For notice given by the CEO, the notice period is 6 months. If notice is given by the Group to other members of the Executive Committee, the notice period is 6 to 12 months. For notice given by other members of the Executive Committee, the notice period is 6 months.

Remuneration and other compensation

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 and other compensation to Board of Directors, SEK	2015 Board fees	Compensation for committee work	Remuneration in connection with IPO	Total
Vagn Sörensen, Chairman of the Board	600,000	100,000	–	700,000
Per G. Braathen	300,000	–	–	300,000
Caspar Callerström [6]	–	–	–	–
Grant Hearn	300,000	83,333	300,000	683,333
Erika Henriksson [1] [6]	–	–	–	–
Lottie Knutson [2]	150,000	–	300,000	450,000
Eva Moen Adolfsson	300,000	66,667	300,000	666,667
Niklas Sloutski [6]	–	–	–	–
Rikard Steiber	300,000	–	–	300,000
Benny Zakrisson [3]	225,000	75,000	–	300,000
Fredrik Wirdenius [4]	125,000	–	300,000	425,000
Jan Wallmark, employee representative [5]	36,000	–	–	36,000
Total remuneration and other compensation	**2,336,000**	**325,000**	**1,200,000**	**3,861,000**

1) Erika Henriksson resigned from the Board on July 15, 2015.
2) Lottie Knutson was elected to the Board at an Extraordinary General Meeting on June 18, 2015.
3) Benny Zakrisson resigned from the Board on September 15, 2015.
4) Fredrik Wirdenius was elected to the Board at an Extraordinary General Meeting on July 15, 2015.
5) Jan Wallmark was appointed employee representative to the Board on May 22, 2015.
6) Caspar Callerström, Erika Henriksson and Niklas Sloutski have decided to refrain from accepting remuneration.

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 two 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 nine people.

Remuneration to senior management, SEK	2015 Base remuneration	Variable remuneration[1]	Other compensation	Pension costs	Total
Frank Fiskers, President & CEO	7,400,000	10,619,986	296,985	2,591,268	20,908,239
Other members of Executive Committee (6 people)	9,997,621	5,698,178	375,155	2,038,269	18,109,223
Total remuneration and other compensation	**17,397,621**	**16,318,339**	**672,140**	**4,629,537**	**39,017,462**

1) Variable non-recurring remuneration, in exception of current remuneration guidelines, for the CEO regarding the integration of Rica Hotels, was decided upon by the Board on January 20, 2015 and amounted to 850,001 SEK. Variable non-recurring remuneration, in exception of current remuneration guidelines, was decided upon by the Board on October 21, 2015 in connection with the IPO and amounted to 5,550,000 SEK for the CEO and 2,356,240 SEK for senior managers.

Remuneration to the CEO and other senior managers can consist of fixed salary, variable salary, pension and other compensation. For guidelines for remuneration to the CEO and senior management, see the Corporate Governance Report on page 111.

Pensions

The CEO has a defined contribution plan until age 65. The pension premium amounts to 35 percent of the fixed salary. The CEO had no share of the pension liability.

Other members of the Executive Committee are covered by a defined contribution pension plan, and to a lesser extent by a defined benefit pension plan. The retirement age is in compliance with applicable local laws and collective agreements. Other senior managers' part of the pension liability was 1 (0) MSEK at December 31, 2016.

Long-Term Incentive Program

In December 2015, Scandic implemented a share-based Long-Term Incentive Program (LTIP 2015) and an additional LTIP program (LTIP 2016) was decided upon at the Annual General Meeting on May 12, 2016. 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 LTIP 2015 can free of charge be assigned a matching share. In the LTIP 2016, the allocation of matching shares to 50 percent due to a requirement related to the total return on the shares (TSR) 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 for the financial years 2015–2017 and 2016–2018.

The allotment of performance shares shall depend on the degree of fulfillment of the performance conditions for the program. The performance conditions are related to accumulated EBITDA (defined as EBITDA adjusted for non-recurring items not related to the ordinary business such as transaction costs for acquisitions) for the financial years 2015 to 2017 and 2016 to 2018 (Performance Condition 1), accumulated cash flow (defined as EBITDA plus/minus changes in working capital minus capex, excluding extraordinary investments not included in the budget such as new business acquisitions) for the financial years 2015 to 2017 and 2016 to 2018 (Performance Condition 2) and accumulated RGI (defined as Revenue Generation Index = RevPAR in relation to the RevPAR of the competition group) change compared with the competition group for the financial years 2015–2017 and 2016–2018 (Performance Condition 3). The performance condition levels and to what extent these have been fulfilled will be published in connection with the expiry of the vesting period.

The number of performance shares that may be allotted shall be calculated in accordance with the following: for any allotment of performance shares to occur, a certain minimum level for the performance condition must be exceeded. For the maximum allotment of performance shares, a certain maximum level for the performance condition must be reached. Between the minimum and maximum levels for the performance condition, the participant will receive a linear allotment of performance shares.

Matching shares and performance shares will be allotted after the end of a vesting period starting on December 2, 2015 (LTIP 2015) and June 10, 2016 (LTIP 2016) and ending on the day of the publication of Scandic's interim report for the first quarter of 2018 and 2019, subject to the participant remaining a permanent employee within the Group and retaining the savings shares during the entire vesting period.

The number of matching shares and performance shares that a participant is entitled to be allotted shall be increased to compensate for any dividend paid on the Scandic shares during the vesting period.

The maximum value per entitlement to receive a matching share or performance share is limited to 300 percent of 67 SEK, the value of the Scandic share at the introduction price on December 2, 2015, and the average share price on the last five days of March 2016, 60 SEK. If the value of such a right exceeds the cap, a proportional reduction in the number of matching shares and performance shares shall be made.

Granted rights outstanding:

	2016	2015
As of January 1	286,945	–
Granted	295,047	286,945
Allotted	–	–
Forfeited	65,382	–
Total at December 31	516,610	286,945
– of which currently exercisable	–	–

The rights have no exercise price.

Grant date	Due date	Number of rights Dec 31, 2016	Number of rights Dec 31, 2015
December 2, 2015	April/ May 2018[1)]	251,952	286,945
June 10, 2016	April/ May 2019[1)]	264,658	–
Total		**516,610**	**286,945**

1) The due date is after the Scandic's quarterly report for the first quarter has been 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 2016	LTIP 2015
Weighted average share price, SEK	62	67
Right life	2.92 year	2.45 year
Deduction of expected dividends	4%	3%
Risk-free interest	non applicable	non applicable
Expected volatility	non applicable	non applicable

As the exercise price (zero for the LTIP 2015 and the LTIP 2016) is significantly lower than the share price on the grant date, the value has a limited sensitivity expected volatility and risk-free interest.

	LTIP 2016		LTIP 2015	
Cost of the program, MSEK	Group	Parent company	Group	Parent company
Expected cost of the entire program	10	3	12	3
The maximum cost of the entire program	32	11	36	11
Cost in 2016	2	1	5	1
Cost in 2015	–	–	0	0

The cost in the above table includes social security charges.

The cost of the programs, 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 of the LTIP 2015 and 4 percent of the LTIP 2016, (ii) an estimated annual turnover of personnel of 10 percent, (iii) an average fulfillment of each performance condition of 50 percent, and (iv) a maximum of 581,992 matching shares and performance shares eligible for allotment. In total, the costs for the programs are estimated to total 22 MSEK including social security charges. This 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 the 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 of the programs will amount to 68 MSEK, including social security charges.

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 by Scandic 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.

cont. Note 06

§ 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.

	2016		2015	
Average number of employees per country	**Average number of employees**	**of which men**	**Average number of employees**	**of which men**
Parent Company				
Sweden	2	2	2	2
Subsidiaries				
Sweden	4,609	1,678	4,190	1,510
Belgium	16	12	54	30
Denmark	1,083	433	994	418
Finland	680	250	661	245
Norway	2,563	1,108	3,569	1,375
Poland	112	36	112	41
Germany	294	134	305	151
Total for the Group	**9,359**	**3,653**	**9,887**	**3,772**

	2016		2015	
Gender division of the Board and Executive Committee on the balance sheet date	**Total**	**of which men**	**Total**	**of which men**
Board of Directors	11	8	9	7
Executive Committee [1]	10	9	7	4
Total for the Group	**21**	**17**	**16**	**11**

[1] The Executive Committee was extended to include the Country Heads during 2016.

NOTE 07 Financial income

Division by income type MSEK	Group 2016	Group 2015	Parent Company 2016	Parent Company 2015
Interest income	3	1	0	–
Interest income from Group companies	–	–	68	99
Revaluation of derivative instruments	35	–	–	–
Results from associated companies	2	2	–	–
Exchange rate gains, net	225	–	46	–
Total	**265**	**3**	**114**	**99**

NOTE 08 Financial expenses

Division by type of cost MSEK	Group 2016	Group 2015	Parent Company 2016	Parent Company 2015
Interest expenses, bank	–104	–313	–96	–8
Interest expenses, suppliers	0	0	–	–
Interest expenses, pension plan	–11	–11	–	–
Interest expenses to Group companies	–	–93	–1	–93
Revaluation of derivative instruments	–	–14	–	–
Exchange rate losses, net	–	–9	–	–11
Share of transaction costs expensed during the year[1)]	–18	–60	–	–
Total	**–133**	**–500**	**–97**	**–112**

1) Part of interest expenses has been expensed over the duration of the borrowings, see Note 20.

§ Accounting principles

Financial income and expenses

All interest income and interest expenses are accounted for at their amortized cost. Derivatives are accounted for at the fair value through profit or loss. Associated companies are accounted for using the equity method.

NOTE 09 Income tax

MSEK	Group 2016	Group 2015	Parent Company 2016	Parent Company 2015
Tax expenses				
Current tax expenses	–3	–1	–	–
Adjustment of tax for previous year	0	–6	–	–
Deferred tax relating to temporary differences	9	36	–	–
Deferred tax relating to untaxed reserves	1	–3	–	–
Deferred tax relating to loss carried forward	–185	–27	–11	–116
Income due to change in tax rate	3	6	–	–
Total tax income/expenses	**–175**	**5**	**–11**	**–116**
Connection between tax expenses for the year and reported profit before tax, MSEK				
Tax in accordance with current rate, 22.0%	–233	–25	–11	–117
Adjustment of tax expense from previous year	0	–6	–	–
Tax effect of non-deductible expenses	–5	–6	–	0
Tax effect of non-taxable income	45	55	–	–
Adjustment for differing tax rates	0	9	–	–
Tax effect of non-offsettable losses	–4	–	–	–
Loss carried forward from previous year for which deferred tax asset has not been reported	40	27	–	–
Loss carried forward from previous year for which deferred tax asset has been reported	–	–55	–	1
Tax effect on changed tax rate on deferred taxes	4	6	–	–
Total tax income/expenses	**–175**	**5**	**–11**	**–116**

The theoretical tax cost has been calculated on the basis of the tax rate applicable to the Parent Company, 22.0 percent.

Deferred tax on actuarial gains recognized in Other comprehensive income amounts to 2 (-21) MSEK and deferred tax on hedging of net investments of foreign operations amounts to -24 (-11) MSEK. Deferred tax related to the new issue has been accounted for in equity amounting to – (6) MSEK.

NOTE 10 Earnings per share

Basic Group	2016	2015
Profit/loss for the year attributable to shareholders of the Parent Company, MSEK	879	117
Average number of shares outstanding, basic[1)]	102,428,053	81,826,211
Earnings per share, SEK	8.58	1.43

Diluted Group	2016	2015
Profit/loss for the year attributable to shareholders of the Parent Company, MSEK	879	117
Average number of shares outstanding, basic[1)]	102,428,053	81,826,211
Dilutive effect of stock purchase plans	29,784	–
Average number of shares outstanding, diluted[1)]	102,457,837	81,826,211
Earnings per share, diluted, SEK	8.58	1.43

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 11 Intangible fixed assets

Group, MSEK	2016 Acquisition value	2016 Accumulated depreciation	2016 Reported residual value	2015 Acquisition value	2015 Accumulated depreciation	2015 Reported residual value
Goodwill						
Opening balance	5,575	–	5,575	5,674	–	5,674
Acquisition of businesses	–	–	–	97	–	97
Exchange rate differences	218	–	218	–196	–	–196
Closing balance	**5,793**	–	**5,793**	**5,575**	–	**5,575**
Trademarks						
Opening balance	3,177	–26	3,151	3,188	–12	3,176
Depreciation for the year	–	–16	–16	–	–14	–14
Exchange rate differences	10	–	10	–11	–	–11
Closing balance	**3,187**	–42	**3,145**	**3,177**	–26	**3,151**
Other intangible assets						
Opening balance	323	–142	181	313	–111	202
Acquisition of businesses	–	–	–	27	–	27
Purchases	3	–	3	–	–	–
Depreciation for the year	–	–35	–35	–	–33	–33
Exchange rate differences	18	–2	16	–17	2	–15
Closing balance	**344**	–179	**165**	**323**	–142	**181**
Total intangible fixed assets						
Opening balance	9,075	–168	8,907	9,175	–123	9,052
Acquisition of businesses	–	–	–	124	–	124
Purchases	3	–	3	–	–	–
Depreciation for the year	–	–51	–51	–	–47	–47
Exchange rate differences	246	–2	244	–224	2	–222
Closing balance	**9,324**	–221	**9,103**	**9,075**	–168	**8,907**

Impairment testing

Impairment tests on goodwill and trademark are carried out annually as well as every time indications of a diminution of value are identified. There are three cash-generating units in the Group: Sweden, Norway and Other Nordic countries & Europe. The recoverable amount for cash-generating units is established on the basis of determination of the value in use. The calculations are based on estimates of future cash flows before tax over a five-year period. The cash flow for 2017 is based on the budget approved by the Board of Directors and for 2018 to 2020 on the company's long-term forecasts. For the following year, cash flow estimates are based on estimated market growth of 2.5 (2.5) percent and estimated increases in costs.

The revenue forecasts are based on industry data regarding market development and on previous years' experience regarding the ramp-up of new and renovated hotels. The cost forecasts are based on industry data regarding inflation and salary increases, on estimated realization of the synergies from the Rica acquisition and the experience of previous years. When calculating the value in use, the WACC rate before tax and a sustainable terminal growth rate have been used as in the table below.

The impairment tests for the year show that no impairment is required for any of the segments' reasonable changes in the parameters, such as a single change +/- 1.0 percentage point of WACC rate before tax and on the EBITDA margin.

Impairment occurs at a WACC rate before tax of 13.8 percent for Sweden, 9.9 percent for Norway and 10.4 percent for Other Nordic countries & Europe, to maintain the EBITDA margin.

	Sweden	Norway	Other Nordic countries & Europe
Forecast period, years	5 (5)	5 (5)	5 (5)
WACC rate, %	7.8 (7.8)	7.7 (7.7)	7.8 (7.7)
Terminal growth rate, %	2.5 (2.5)	2.5 (2.5)	2.5 (2.5)

Goodwill and trademark, MSEK	Goodwill 31 Dec 2016	Goodwill 31 Dec 2015	Trademark 31 Dec 2016	Trademark 31 Dec 2015	Total 31 Dec 2016	Total 31 Dec 2015
Sweden	1,926	1,958	2,312	2,372	4,238	4,330
Norway	1,707	1,555	625	581	2,332	2,136
Other Nordic countries & Europe	2,160	2,062	208	198	2,368	2,260
Total goodwill and trademark	**5,793**	**5,575**	**3,145**	**3,151**	**8,938**	**8,726**

cont. Note 11

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 in all of the markets in which the companies are established. The trademark Rica Hotels, which was acquired in April 2014, has a certain useful life of eight years, mainly related to the franchise and management agreements Rica Hotels has signed, and depreciation is linear during the assessed useful life.

Other intangible assets

Customer relationships identified in the Rica Hotels acquisition are reported under Other intangible assets. Customer relationships have a certain useful life of nine years and depreciation is linear during the assessed useful life.

Development costs that are directly attributable to development of identifiable systems for the operations are also capitalized as intangible fixed assets when the following criteria are fulfilled:

- 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.
- The expenses attributable to the software during its development can be calculated in a reliable way.

In 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.

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 and completed during the year.

These two in-house developed 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 12 Tangible fixed assets

	2016			2015		
Group, MSEK	Acquisition value	Accumulated depreciation and write-down	Reported residual value	Acquisition value	Accumulated depreciation	Reported residual value
Land and buildings[1)]						
Opening balance	107	–18	89	119	19	100
Depreciation for the year	–	–1	–1	–	–1	–1
Exchange rate differences	9	–2	7	–12	2	–10
Closing balance	**116**	–21	**95**	**107**	–18	**89**
Equipment, fixtures and fittings						
Opening balance	7,502	–4,953	2,549	7,146	–4,732	2,414
Acquisition of businesses	–	–	–	38	–	38
Purchases	719	–	719	639	–	639
Sales/disposals	–327	321	–6	–47	47	0
Depreciation for the year	–	–473	–473	–	–454	–454
Write-down during the year	–	–12	–12	–	–	–
Exchange rate differences	296	–191	105	–274	186	–88
Closing balance	**8,190**	**–5,308**	**2,882**	**7,502**	**–4,953**	**2,549**
Total tangible fixed assets						
Opening balance	7,609	–4,971	2,638	7,265	–4,751	2,514
Acquisition of businesses	–	–	–	38	–	38
Purchases	719	–	719	639	–	639
Sales/disposals	–327	321	–6	–47	47	0
Depreciation for the year	–	–474	–474	–	–455	–455
Write-down during the year	–	–12	–12	–	–	–
Exchange rate differences	305	–193	112	–285	188	–97
Closing balance	**8,306**	**–5,329**	**2,977**	**7,609**	**–4,971**	**2,638**

1) Land and buildings refers to a property in Norway. This property was acquired in the Rica Hotels acquisition in April 2014. Ongoing construction costs amounting to 241(343) MSEK are included in Equipment, fixtures and fittings.

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.

cont. Note 12

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 13 Shares in associated companies

Group, MSEK	Share 31 Dec 2016	Share 31 Dec 2015	Reported value 31 Dec 2016	Reported value 31 Dec 2015
Gress-Gruppen AS	33%	33%	10	10
Total			**10**	**10**

Changes during the year, MSEK	2016	2015
Accumulated acquisition values, opening balance	10	32
Acquisitions	–	–
Result/dividends	–	2
Sales	–	–19
Exchange rate differences	0	5
Accumulated acquisition values, closing balance	**10**	**10**

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 14 Financial investments

Changes during the year, MSEK	2016	2015
Accumulated acquisition values, opening balance	4	5
Acquisitions	0	–
Disposals	0	0
Reclassification [1]	3	
Exchange rate differences	1	–1
Accumulated acquisition values, closing balance	**8**	**4**

[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 50 (50) smaller investments.

NOTE 15 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 16 Accounts receivable

Accounts receivable, gross values, MSEK	31 Dec 2016	31 Dec 2015
Total accounts receivable	511	479
Deducted provision for doubtful accounts	–13	–15
Accounts receivable, book value	**498**	**464**

Change in deducted provision for doubtful accounts receivable	2016	2015
1 January	–15	–16
Provision for doubtful accounts	–3	–6
Receivables written off during the year as uncollectable	–4	–4
Reversed unutilized amount	8	10
Exchange rate differences	1	1
31 December	**–13**	**–15**

Age analysis, MSEK	31 Dec 2016	31 Dec 2015
Receivables not matured	329	243
Receivables matured 1–30 days	138	165
Receivables matured 31 –60 days	15	32
Receivables matured 61–90 days	9	13
Receivables matured 91–120 days	9	19
Receivables matured more than 120 days	11	7
Accounts receivable, reported value	**511**	**479**

§ 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 17 Prepaid expenses

Division by type of expense	Group		Parent Company	
MSEK	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
Prepaid rent	81	141	–	–
Other items	124	124	0	0
Total	**205**	**265**	**0**	**0**

NOTE 18 Cash and cash equivalents

	Group		Parent Company	
MSEK	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
Cash and bank balances	1,068	248	790	2
Total	**1,068**	**248**	**790**	**2**

§ 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 19 Share capital

	Preference share	Ordinary share Class A	Ordinary share class B/ Ordinary shares[1]	Total number of shares	Change in share capital, SEK	Share capital, SEK	Quota value, SEK
Number of shares 1 Jan 2015	1	24,999,999	10,000,000	35,000,000	–	100,000	0.002857
Bonus issue	–	–	–	35,000,000	400,000	500,000	0.014286
Reduction of share capital incl. redemption of shares	–1	–24,999,999	–	10,000,000	–357,143	142,857	0.014286
Bonus issue	–	–	–	10,000,000	19,857,143	20,000,000	2
Share split (1:8)	–	–	70,000,000	80,000,000	–	20,000,000	0.25
New issue	–	–	22,985,075	102,985,075	5,746,269	25,746,269	0.25
Number of shares on 31 Dec 2015	**–**	**–**	**102,985,075**	**102,985,075**	**25,646,269**	**25,746,269**	**0.25**
Number of shares on 31 Dec 2016	**–**	**–**	**102,985,075**	**102,985,075**	**–**	**25,746,269**	**0.25**

[1] At the Extraordinary General Meeting held on September 15, 2015, the Articles of Association were amended so that Scandic Hotels Group AB has only one share class.

NOTE 20A Borrowings

Changes during the year, MSEK	Liabilities to credit institutions	Internal loans	Total borrowings
Opening balance 1 Jan 2015	**5,806**	**976**	**6,782**
Borrowings	4,765	–	4,765
Capitalization of interest	117	93	210
Capitalization of transaction costs[1]	–91	–	–91
Transaction costs expensed during the year[1]	60	–	60
Amortization of loans	–6,792	–	–6,792
Loan converted to shareholders' contribution	–	–1,036	–1,036
Exchange rate differences	–265	–33	–298
Opening balance 1 Jan 2016	**3,600**	**–**	**3,600**
Borrowings	475	–	475
Transaction costs expensed during the year[1]	17	–	17
Amortization of loans	–475	–	–475
Exchange rate differences	160	–	160
Closing balance 31 Dec 2016	**3,777**	**–**	**3,777**

[1] Existing loans were renegotiated in the middle of 2015 and resulted in transaction costs of – (91) MSEK. These costs have been capitalized and are distributed in a linear manner over the borrowing period.

The company's external loans were refinanced in July 2015 with new terms and prolonged maturity. The loans comprise three long-term credit facilities in SEK, NOK and EUR with terms that are within five years and interest based on Stibor/Euribor/Nibor +1.00 to 2.90 percentage points and a revolving multicurrency credit facility of 600 MSEK and duration of five years and interest based on a base rate +0.50 to 2.40 percentage points. During 2016, the revolving multicurrency credit facility was increased to 1,000 MSEK.The margin within the interest rate interval for all loans is dependent on the company's debt ratio. The loan terms stipulate that the following covenants shall be within certain ranges: interest cover and net debt in relation to adjusted EBITDA. At each measurement period and on the balance day, all covenants were fulfilled. There are no requirements for amortization and no assets have been pledged as security for the loans. The loan agreement also includes conditions for compulsory notification to the lender and possible refund prematurely up-to-date if someone other than the current owner EQT Fund V owns more than 50 percent or if Scandic were delisted from the stock exchange. The Board of Directors monitors the company's financial position regarding the fulfillment of the loan terms. For the loans in EUR and NOK, hedge accounting is applied to hedge net investments in foreign operations in Finland, Denmark and Norway. As the Danish krona is linked to the euro, it is also used for hedge accounting. The exchange loss of -160 (51) MSEK from the translation of the loans into SEK has been reported in Other comprehensive income and added to the translation reserve in equity. The hedges were efficient regarding hedge accounting of foreign operations.

In June 2013, the company received a shareholder loan to strengthen its financial position and ensure that no covenants would fail. This shareholder loan is reported as an internal loan and in 2015, it was converted into equity through an unconditional shareholders' contribution.

§ 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.

NOTE 20B 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 through 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, 43 (42) percent of the Group's sales were in SEK, 29 (30) percent in NOK and 28 (28) percent in EUR and other currencies. Currency exposure arising from the Group's foreign net assets is managed primarily through borrowings denominated in the currencies involved. The Group's borrowing in different currencies is shown in the table below. The Board has decided that the exchange rate risk of net assets and liabilities after borrowings should not be hedged.

	31 Dec 2016	31 Dec 2015
Group borrowings divided into different currencies		
SEK	40%	40%
EUR	31%	31%
NOK	29%	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, which was established in 2015, 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 2016	31 Dec 2015
Group borrowings divided between fixed and variable interest		
Fixed interest	63%	64%
Variable interest	37%	36%

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, 2016 amounted to 3 (6) MSEK, see Note 16.

Group, MSEK	< 1 year	1–3 years	4–5 years	> 5 years
As at 31 December 2016				
Liabilities to credit institutions [1]	99	4,087	–	–
Derivative instruments [2]	–	20	–	–
Accounts payable and other liabilities	527	–	–	–

Group, MSEK	< 1 year	1–3 years	4–5 years	> 5 years
As at 31 December 2015				
Liabilities to credit institutions [1]	103	309	3,731	–
Derivative instruments [2]	60	7	10	–
Accounts payable and other liabilities	672	–	–	–

1) Liabilities to credit institutions includes future cash flows regarding liabilties such as future interest payments.

2) 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, 2016, consisting of cash and unutilized credit facilities, amounted to 2,068 (848) MSEK.

Sensitivity analysis as at 31 Dec 2016	Change	Result effect MSEK
Interest expense from changed interest rates	+/– 1%	–/+ 4
Interest expense from the change in the average level of interest rates	+/– 1%	–/+ 28

If the variable market rate differs from the current fixed rate of derivative, 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 20c 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. Net debt is calculated as borrowings from credit institutions, internal loans and financial leases less cash and cash equivalents.

Group, MSEK	31 Dec 2016	31 Dec 2015
Total borrowings	3,777	3,603
Excluding cash and cash equivalents	–1,068	–248
Interest-bearing net liabilities	2,709	3,355
Total shareholders' equity	7,103	6,205
Debt/equity ratio	0.4 times	0.5 times

Due dates, MSEK	31 Dec 2016	31 Dec 2015
Liabilities due for payment		
– within 1 year	–	–
– between 1 and 3 years	3,777	–
– between 4 and 5 years	–	3,600
– later than 5 years	–	–
Total	**3,777**	**3,600**

Bank overdraft facilities, MSEK	31 Dec 2016	31 Dec 2015
Amounts utilized	–	–
Amounts not utilized	1,000	600
Total bank overdraft facilities granted	**1,000**	**600**

NOTE 21 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 2016	31 Dec 2015
Present value of obligations	413	380
Actual value of plan assets	–	–
Total provision for defined benefit pension plans	**413**	**380**

Changes in provision during the year, MSEK	2016	2015
Net liability, opening balance	–380	–462
Remeasurements reported in Other comprehensive income[1]	–6	76
Net expense reported in the income statement	–28	–17
Relocation of ITPK	–	0
Pensions paid	5	5
Change in special employer's contribution	–4	18
Net liability, closing balance[2]	**–413**	**–380**

1) Remeasurements recorded in Other comprehensive income during 2016 consist of actuarial gains from a change in financial assumptions of -8 (+73) MSEK. Experienced-based gains are +2 (+2) MSEK.
2) The weighted average duration of pension obligations is 25 years.

Important estimations and assumptions

Important actuarial assumptions	31 Dec 2016	31 Dec 2015
Discount rate, %	3.05	3.15
Future salary increases, %	3.00	3.00
Future pension increases (inflation), %	1.50	1.50
Employee turnover, %	3.00	3.00

Sensitivity analysis in actuarial assumptions	Change	Increase	Decrease
Discount rate	+/–0.5%	–12.8%	+11.0%
Future salary increases	+/–0.5%	+4.8%	–3.6%
Future pension increases (inflation)	+/–0.5%	+9.4%	–8.3%
Life expectancy	+/–1 year	+3.%	–3.4%

Pension expenses for defined benefit and defined contribution pension plans

MSEK	2016	2015
Expenses relating to service during the current year, defined benefit pension plans	–17	–5
Expenses relating to service during the current year, defined contribution pension plans	–348	–312
Total pension expenses included in personnel expenses	**–365**	**–317**
Interest expenses for defined benefit pension plans	–11	–11
Total expenses in the income statement	**–376**	**–328**

Payments for 2017 are expected to be at the same level as in 2016.

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 investement 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 2016, the consolidation level was 149 percent (153 percent). For 2017, the contribution to the plan is estimated to be at the same level as 2016, which was 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.

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 to 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 using interest rates of first-class corporate bonds that are denominated in the same currency in which the benefits will be paid 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 22 Other provisions

Changes in other provisions during the year, MSEK	31 Dec 2016 Provision for loyalty program	Other provisions	Total other provisions	31 Dec 2015 Provisions for loyalty program	Other provisions	Total other provisions
Opening balance	**121**	**3**	**124**	**117**	**3**	**120**
Change through the income statement	10	–1	9	4	0	4
Closing balance	**131**	**2**	**133**	**121**	**3**	**124**

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 24). 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	2016 Non-current provision	Current provision	Total liability in respect of loyalty program	2015 Non-current provision	Current provision	Total liability in respect of loyalty program
Opening balance	121	87	208	117	78	195
Change through the income statement	10	0	10	4	9	13
Closing balance	**131**	**87**	**218**	**121**	**87**	**208**

The assessed market value of free overnight stays used during 2016 amounted to 116 (107) MSEK. For the current provision, see Note 24.

§ 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 23 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.

	31 Dec 2016					
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**	**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	–	–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	–	1	–24	–17
Items recognized in equity	–	–	24	–	35	59
Exchange rate differences	–6	–2	–1	–		–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**

cont. Note 23

Distribution of deferred tax items on underlying balance sheet items and their changes during the year, MSEK	31 Dec 2015					
	Pensions	Derivative instruments	Elimination of internal goodwill	Losses carried forward	Issuing costs	Total deferred tax assets
Deferred tax assets						
Opening balance 1 Jan 2015	52	9	5	398	–	464
Reported in income statement	3	3	0	–27	–	–21
Tax attributable to items in Other comprehensive income	–20	–	–	–	–	–20
Items recognized in equity	–	–	–	–	6	6
Exchange rate differences	–	–	0	–1	–	–1
Closing balance 31 Dec 2015	**35**	**12**	**5**	**370**	**6**	**428**
– 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 2015	–749	–15	–68	–23	–	–855
Acquisition of businesses	–7	–	–	–	–	–7
Reported in income statement	8	0	29	–4	–	34
Tax attributable to items in Other comprehensive income	–	–	–	–	–11	–11
Exchange rate differences	14	3	12	2	–	31
Closing balance 31 Dec 2015	**–734**	**–12**	**–26**	**–25**	**–11**	**–808**
– of which liabilities to be paid within 12 months	*–36*	*–1*	–	–	–	*–37*

	Deferred tax liabilities, net
Net deferred tax liabilities	
Opening balance 1 Jan 2015	–391
Acquisition of businesses	–7
Reported in income statement	13
Tax attributable to items in Other comprehensive income	–31
Items recognized in equity	6
Exchange rate differences	30
Closing balance 31 Dec 2015	**–380**

Tax losses carried forward

The Group has reported losses carried forward amounting to 909 (1,644) MSEK mainly in Sweden, Norway and Denmark. These loss carry-forwards can be utilized against future taxable surpluses. Recorded deferred tax assets related to the reported loss carry-forwards amounted to 203 (370) MSEK and the Group has assessed that these losses carried forward can be to offset in the future, based on the forecasts of the Group for coming years. Non-recorded deficiencies amounted to 1,038 (1,381) MSEK in 2016 and are related to Finland, Denmark, Germany, Poland and Belgium where it still is uncertain to what extent they are offsettable towards taxable surpluses. These deficiencies amounted to 216 (277) MSEK. Tax on previous unrecognized losses carried forward amounted to 39 (27) MSEK. 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 2016	31 Dec 2015
Opening balance	**82**	**192**
Reported in income statement	–11	–116
Reported in equity	–	6
Closing balance	**71**	**82**

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.

NOTE 24 Accrued expenses and deferred income

	Group		Parent Company	
Division into type of expense, MSEK	**31 Dec 2016**	**31 Dec 2015**	**31 Dec 2016**	**31 Dec 2015**
Accrued leasing expenses	35	45	–	–
Accrued personnel expenses	654	607	6	6
Accrued interest expenses	7	11	7	6
Deferred income	–	31	–	–
Current portion of loyalty program	87	87	–	–
Other items[1]	441	558	11	51
Total	**1,224**	**1,339**	**24**	**63**

[1] The bonus check liability is included in Other items and amounted to 58 MSEK (63) and 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 25 Adjustment for items not included in cash flow

	Group		Parent Company	
Adjustment for items not included in cash flow, MSEK	**2016**	**2015**	**2016**	**2015**
Depreciation	537	502	–	–
Gain/loss on sale of associated companies	–	4	–	–
Change in accrued expenses/income and provisions	0	15	19	86
Total	**537**	**521**	**19**	**86**

§ 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 26 Participation in Group companies

Changes during the year MSEK	Parent Company 2016	Parent Company 2015
Accumulated acquisition values, opening balance	3,536	3,532
Given shareholders' contribution	1,054	4
Accumulated acquisition values, closing balance	**4,590**	**3,536**

Holdings on the balance sheet date	Organization number	Registered address	31 Dec 2016 Shareholding	31 Dec 2015 Shareholding	31 Dec 2016 Reported value	31 Dec 2015 Reported value
Scandic Hotels Holding AB	556723-5725	Stockholm, Sweden	100	100	4,590	3,536
Scandic Hotels AB	556299-1009	Stockholm, Sweden	100	100	–	–
HTL Hotels AB [1]	953 149 117	Oslo, Norway	100	100	–	–
HTL Hotels AS [2]	30 61 64 56	Copenhagen, Denmark	100	100	–	–
Scandic Hotels AS	12 59 67 74	Copenhagen, Denmark	100	100	–	–
Scandic Hotels Holding A/S	288532	Warsaw, Poland	100	100	–	–
Scandic Hotel A/S	556351-7373	Stockholm, Sweden	100	100	–	–
Scandic Polen Sp.z o. o.	HRB 8618 HL	Berlin, Germany	100	100	–	–
Scandic Hotels Europe AB	HRB 158329 B	Berlin, Germany	100	100	–	–
Scandic Hotels Deutschland GmbH	462 318 529	Antwerp, Belgium	100	100	–	–
Scandic Berlin Kurfürstendamm GmbH	807059602B01	Amstelveen, The Netherlands	–	100	–	–
Scandic Hotel NV	912 198 022	Oslo, Norway	100	100	–	–
Scandic Netherland B.V [3]	984 695 322	Oslo, Norway	100	100	–	–
Scandic Hotels Holding AS	941 654 614	Hammerfest, Norway	–	100	–	–
Rica Hotels AS	941 187 706	Furnes, Norway	–	100	–	–
Scandic Hotels Finnmark AS [2]	556520-9797	Stockholm, Sweden	100	100	–	–
Scandic Hotel Øst AS [2]	974 459 809	Tromsø, Norway	–	100	–	–
Rica Hotels AB	941 249 957	Hell, Norway	–	100	–	–
Scandic Hotels Troms AS [2]	981 045 467	Førde, Norway	–	100	–	–
Scandic Hotels Midt-Norge AS [2]	941 081 371	Bergen, Norway	–	100	–	–
Scandic Hotels Sunnfjord AS [2]	951 791 555	Sandefjord, Norway	–	100	–	–
Scandic Hotels Vest AS [2]	880 289 772	Gardermoen, Norway	50	50	–	–
Scandic Hotels Sør AS [2]	1447914-7	Helsinki, Finland	100	100	–	–
Scandic Hotels Gardermoen AS	556723-5717	Stockholm, Sweden	–	100	–	–
Scandic Hotels Oy	813 361 272	Oslo, Norway	–	100	–	–
Total					**4,590**	**3,536**

1) During 2016, the company merged with Scandic Hotels AB and has ceased to exist.
2) During 2016, the company merged with Scandic Hotels AS and has ceased to exist.
3) The company was liquidated during 2016.

NOTE 27 Pledged assets and contingent liabilities

MSEK	Group 31 Dec 2016	Group 31 Dec 2015	Parent Company 31 Dec 2016	Parent Company 31 Dec 2015
Pledged assets				
Floating charges	–	–	–	–
Real estate mortgages	–	45	–	–
Shares in subsidiaries	–	–	–	–
Total pledged assets	**–**	**45**	**–**	**–**
Contingent liabilities			–	
Guarantee undertakings, FPG/PRI	5	4	–	–
Lease guarantees	101	93	–	–
Tax dispute	142	107	–	–
Travel guarantees	3	3	–	–
Total contingent liabilities	**251**	**207**	**–**	**–**

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. No disputes have been identified within the Group for which any material payments are expected. 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

A few years ago, the company's Finnish branch received a challenge regarding the deductibility of interest expenses. Based on external tax experts, the company's assessment is that the final decision will likely be in the company's favor. As a result, no provisions have been made for this matter. It is, however, shown as a contingent liability of 142 MSEK.

NOTE 28 Financial assets and liabilities

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**	**–**	**–**	**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	**–**	**20**	**3,777**	**639**	**4,436**

31 Dec 2015, 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	–	–	–	4	4
Accounts receivable	464	–	–	–	464
Cash equivalents	248	–	–	–	248
Total financial assets	**712**	**–**	**–**	**4**	**716**
Liabilities to credit institutions	–	–	3,600	–	3,600
Advance payments from customers	–	–	–	88	88
Accounts payable	–	–	–	482	482
Derivative instruments	–	77	–	–	77
Total financial liabilities	**–**	**77**	**3,600**	**570**	**4,247**

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.

§ Accounting principles

Financial instruments

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.

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 2016 and 2015.

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	**–**	**3,797**	**–**	**3,797**

31 Dec 2015, MSEK	Level 1	Level 2	Level 3	Total
Liabilities to credit institutions	–	3,600	–	3,600
Derivative instruments used for hedging	–	77	–	77
Total financial liabilities	**–**	**3,677**	**–**	**3,677**

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.

NOTE 29 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 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
Purchases of services				
Owners	–	–	–	–
Braganza AB	–	0	–	–
Total purchases of services	–	**0**	–	**–**
Sales of services				
Owners	–	1	–	–
Braganza AB	11	3	–	–
Subsidaries	–	–	–	–
Total sales of services	**11**	**4**	–	**–**
Closing balances at year-end from purchases and sales of services				
Receivables from related parties				
Owners	–	–	–	–
Braganza AB	1	0	–	–
Subsidaries	–	–	–	–
Total receivables from related parties	**1**	**0**	–	**–**
Liabilities to related parties:				
Owners	–	0	–	–
Total liabilities from related parties	–	**0**	–	**–**

	Group		Parent Company	
MSEK	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
Loans to related parties				
Subsidiaries				
Opening balance	–	–	1,014	957
Transactions during the year	–	–	–1,054	–
Interest	–	–	17	98
Exchange rate differences	–	–	23	–41
Closing balance	**–**	**–**	**–**	**1,014**
Loans from related parties				
Group companies				
Opening balance	–	–976	–	–976
Transactions during the year	–	1,036	–	1,036
Interest	–	–93	–	–93
Exchange rate differences	–	33	–	33
Closing balance	**–**	**–**	**–**	**–**

Loans from the Parent Company consisted of the shareholder loan that the company received in order to ensure that no covenants were breached. The interest rate amounted to 10 percent and the loan expired within 10 years of the issuing date. In connection with Scandic's stock market listing the loan was converted to a shareholders' contribution.

Receivables and liabilities in the Parent Company from/to Group companies consists 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 30 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 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	5 046 639
Net profit for the year	64 992
Total	**6 645 885**
Be distributed as follows:	
Dividend to be paid to the shareholders, 3.15 SEK per share	**324 403**
To be carried forward	6 321 482
Total	**6 645 885**

The proposed record day for receiving dividends is May 12, 2017.

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 47 to 45 percent and that of the Parent Company from 63 to 60 percent, calculated as per December 31, 2016.

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 May 10, 2017 for adoption.

NOTE 31 Events after the reporting date

On January 18, Scandic signed an agreement with property owners Pandox and Eiendomsspar to take over the operation of eight hotels in Norway, Sweden and Denmark with a total of 1,708 rooms. The agreement also includes Grand Hotel in Oslo, which will become one of Scandic's six signature hotels. The transfer will be carried out without consideration and all of the hotels will contribute positively to Scandic Hotels' EBITDA already from 2017.

On January 19, Scandic signed a long-term lease agreement with LAK Real Estate Oy, a subsidiary of Finavia, to establish and operate a new hotel at Helsinki Airport. Work on the new hotel, Scandic Helsinki Airport, began in January 2017 and it will open during the first half year of 2018. The hotel will have 148 rooms.

On February 3, it was announced that Scandic had signed a long-term lease agreement with property company Vasakronan regarding the operation of a new hotel in the Platinan area, part of the new RiverCity urban development project in Gothenburg. The hotel will have 362 rooms and 15 conference rooms including a large multifunctional event space (Black Box) of almost 1,000 square meters. The hotel is expected to be completed at the end of 2020.

On February 9, the Board of Directors of Scandic Hotels announced that Even Frydenberg would take over the position of President & CEO. This is as a result Frank Fiskers' decision to leave Scandic in the summer. Even Frydenberg will start the new position on July 31, 2017.

Adoption

The Board of Directors and the CEO certify that the Annual Report has been prepared in accordance with the International Reporting Standards, IFRS, endorsed by the EU, and gives a true and fair view of the Group's financial position. The Annual Report has been prepared in accordance with accepted accounting principles in Sweden and gives a true and fair view of the Parent Company's financial position.

Income statements and balance sheets will be submitted to the Annual General Meeting on May 10, 2017 for approval.

Stockholm, April 4, 2017

Vagn Sørensen
Chairman of the Board

Ingalill Berglund
Board member

Per G. Braathen
Board member

Albert Gustafsson
Board member

Grant Hearn
Board member

Lottie Knutson
Board member

Stephan Leithner
Board member

Christoffer Lundström
Board member

Eva Moen Adolfsson
Board member

Niklas Sloutski
Board member

Fredrik Wirdenius
Board member

Jan Wallmark
Employee representative

Frank Fiskers
President & CEO

Our audit report was presented on April 4, 2017
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 2016. The annual accounts and consolidated accounts of the company are included on pages 56–105 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 2016 and their 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 2016 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.

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.

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 70% of the group's net sales in 2016 and slightly more than 85% 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 bookclosing, 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 bookclosing and have executed a review of the September bookclosing 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 current 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.

Key audit matters	How our audit addressed the key audit matter
Valuation of goodwill and other acquisition-related assets We refer to Note 11 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 8,938 which is equivalent to 63% 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 2016.	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.

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 1–55 and 126–129. 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.

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 Revisorsnämnden's 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 2016 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 Revisorsnämnden's website: www.revisorsinspektionen.se/rn/showdocument/documents/rev dok/revisors_ansvar.pdf. This description is part of the auditor´s report.

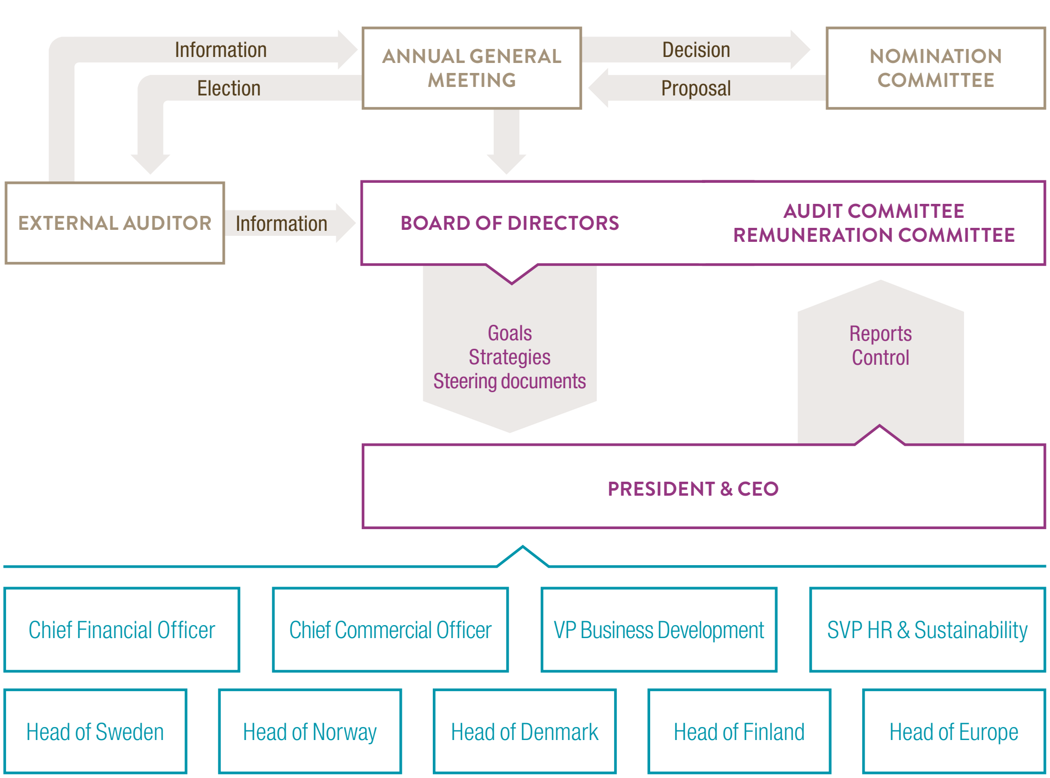
Stockholm, April 4, 2017
PricewaterhouseCoopers AB

Magnus Brändström
Authorized Public Accountant
Auditor in charge

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 2016 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/President
- Values
- Code of Conduct
- Policies and guidelines

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 and guidelines for leases as well as for remuneration to senior executives.

DEVIATIONS FROM THE CODE

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

- 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 2016

During 2016, changes were made to Scandic's Group management to further strengthen, focus and streamline the Group's operations and leadership. The Group's five country managers were added to the Executive Committee while the position of Chief Operating Officer was phased out. The 2016 Annual General Meeting resolved to amend the company's Article of Association § 6 whereby the maximum number of Board members was increased from ten to eleven members. The Meeting approved the Board's proposal to adopt a Long-Term Incentive Program for a maximum of 40 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 2016, 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, 71.3 percent was held by Swedish investors and 28.7 percent by foreign investors. The ten largest shareholders represented 60.4 percent of the share capital and votes in the Company. Sunstorm Holding AB was the largest shareholder with 20.4 percent of the share capital and votes. Sunstorm Holding AB is controlled by EQT V Ltd, advised by EQT Partners (an indirect holding of approximately 86 percent of the shares), with Accent Equity 2003 fund as a co-investor (an indirect holding of approximately 12 percent of the shares).

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.

2016 ANNUAL GENERAL MEETING

At the Annual General Meeting held on May 12, 2016 in Stockholm, resolutions were passed on the following:

- Adoption of the income statement and balance sheet for 2015.
- Approval of the Board of Directors' proposal that no dividend be paid for the 2015 financial year and that the year's profit be carried forward.
- To discharge the Board of Directors and the CEO from liability to the Company.
- That the Board of Directors shall consist of 11 members and no alternates.
- Vagn Sørensen, Per G. Braathen, Grant Hearn, Lottie Knutson, Eva Moen Adolfsson, Niklas Sloutski and Fredrik Wirdenius were re-elected as Board members. Ingalill Berglund, Albert Gustafsson, Stephan Leithner and Christoffer Lundström were elected as new members of the Board. 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 2017 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.

2017 ANNUAL GENERAL MEETING

Scandic's 2017 Annual General Meeting will be held on May 10, 2017 in Stockholm. For more information, see page 129.

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 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 2017 Annual General Meeting

The Nomination Committee for the 2017 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 Provobis. The composition of the Nomination Committee was published in a press release on October 11, 2016.

Nomination Committee	Representing	% of the number of votes as at Dec 31, 2016
Vagn Sørensen		
Stephan Leithner	Sunstorm Holding AB	20.4
Lars-Åke Bokenberger	AMF	9.4
Joel Lindeman	Provobis AB	9.2

In the work on nominations for the 2017 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 rules in the Code regarding Board Member independence. The 2017 Nomination Committee held three 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.

The proposals of the Nomination Committee will be presented at the 2017 Annual General Meeting and on Scandic's website at www.scandichotelsgroup.com.

The website also presents the motivations 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.

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 11 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.

2016

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

1. Investment decisions
2. Year-end Report 2016
   Remuneration to senior executives
3. Preparation for AGM
4. Q1 Interim Report
   Follow-up on investments
5. Board meeting following election, per capsulam
6. Investment decisions
   Strategic and business planning 2017
   Evaluation of Executive Committee
7. Q2 Interim Report
8. Change of company signatories
9. Development of properties
10. Investment decisions
    Approval of policies
    Succession planning
11. Q3 Interim Report
12. Investment decisions
    Evaluation of Board of Directors
13. Investment decisions
14. Investment decisions
    Short-term Incentive Program 2017

Composition of the Board of Directors 2016

The Board of Directors currently comprises 11 members and one employee representative elected for the period up until the end of the 2017 Annual General Meeting. Four of the 11 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. Eight of the 11 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.

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.

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 fulfills 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, eight regular Board meetings were held, of which one per capsulam, and six extraordinary meetings, of which two per capsulam. The Board dealt with issues related to investment decisions, property development, policies and remuneration to senior executives.

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 2016
Vagn Sørensen	Chairman	2007	Yes	Yes	14 (14)	Remun. Comm. 4 (4)	729,167
Ingalill Berglund	Member	2016	Yes	Yes	9 (14)	Audit Comm. 5 (8)	274,167
Per G. Braathen	Member	2007	Yes	Yes	14 (14)	–	311,667
Caspar Callerström	Member	2007	Yes	No	4 (14)	Audit Comm. 3 (8)	150,000
Albert Gustafsson	Member	2016	Yes	No	9 (14)	Audit Comm. 5 (8)	215,833
Grant Hearn	Member	2014	Yes	Yes	13 (14)	Remun. Comm. 2 (4)	382,500
Lottie Knutson	Member	2015	Yes	Yes	13 (14)	–	311,667
Stephan Leithner	Member	2016	Yes	No	10 (14)	Remun. Comm. 1 (4)	215,833
Christoffer Lundström	Member	2016	Yes	Yes	10 (14)	–	186,667
Eva Moen Adolfsson	Member	2014	Yes	Yes	14 (14)	Remun. Comm. 4 (4)	390,833
Niklas Sloutski	Member	2011	Yes	No	13 (14)	Audit Comm. 7 (8)	332,500
Rikard Steiber	Member	2014	Yes	Yes	2 (14)	–	125,000
Fredrik Wirdenius	Member	2015	Yes	Yes	14 (14)	–	311,667
Jan Wallmark	Employee repres.	2015	Yes	Yes	14 (14)	–	42,000
Totalt							**3,979, 501**

1) Total number of meetings during the year. Ingalill Berglund, Stephan Leithner, Albert Gustafsson and Christoffer Lundström joined the Board on May 12, 2016 and therefore they have not been able to attend all of the meetings during the year. Caspar Callerström and Rikard Steiber left the Board on May 12, 2016.

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, Grant Hearn and Stephan Leithner.

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 Remuneration Committee consists of Ingalill Berglund (Chairman), Albert Gustafsson and Niklas Sloutski. The requirements of the Swedish Companies Act regarding independence and accounting or auditing expertise are thus met.

The Audit Committee held eight meetings during the year, five 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.
- The 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 the 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 2016, in which members of the Board evaluated the work anonymously, was carried out with the help of an external consultant. The results were presented and discussed by the Board of Directors and 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 May 12, 2016, PricewaterhouseCoopers was reappointed as auditor, with Magnus Brändström as the auditor-in-charge, for the time until the end of the 2017 Annual General Meeting. Magnus Brändström is an authorized public accountant and a member of FAR. During 2016, the auditor reported its observations once 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 78.

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 nine senior executives: The Chief Financial Officer (CFO), the Chief Commercial Officer (CCO), 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. Five different nationalities are represented in the Executive Committee, which is composed of nine men and one woman. During the year, the Company's Country Heads were included in the Executive Committee and the position of Chief Operating Officer was phased out. The VP Communication & IR left the company in November 2016 and since then, neither function is represented in the Executive Committee. During the year, six new members joined the Executive Committee. See pages 116–117 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 restaurants & conferences. 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. In these contexts, Scandic's governance documents are Scandic's Code of Conduct, Code of Conduct for Suppliers, the Anti-Corruption Policy and the Environmental Policy. During 2015, Scandic updated its Code of Conduct. The Code sets out that diversity contributes to business success. Scandic's policy documents clearly stipulate that no form of discrimination is accepted. All countries strive to employee people who reflect the society in which the hotel operates at the same time as discrimination and harassment are prohibited. When appointing Board members, Scandic strives for diversity mainly with respect to gender, age, nationality and skills. In 2017, Scandic will formulate a specific diversity policy. 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 the Company.

SIGNIFICANT EVENTS HANDLED BY THE CEO AND THE EXECUTIVE COMMITTEE IN 2016

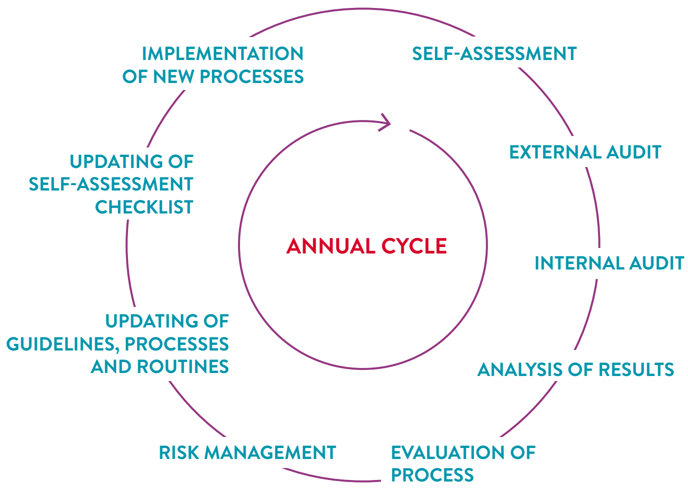
During the year, changes in the composition of the Executive Committee to include the Company's Country Heads were handled and the position of Chief Operating Officer was phased out. In addition, the Executive Committee handled work related to the approval of new leases and extensions of existing leases.

At the Annual General Meeting held on May 12, 2016, 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.

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 12, 2016, 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. The remuneration to the CEO and 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 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. For more information, see Note 6 on pages 80–82.

Remuneration

For information on remuneration to the CEO and senior executives, see Note 6 on pages 80–82.

Long-Term Incentive Program

At the Extraordinary General Meeting held on November 15, 2015, Scandic adopted a performance-based Long-Term Incentive Program, and another was adopted at the Annual General Meeting 2016. Terms and conditions for both programs are provided in Note 6 on pages 80–82.

Guidelines for remuneration to senior executives before the 2017 Annual General Meeting

The Board of Directors has proposed that the Annual General Meeting 2017 adopt guidelines that in all material aspects correspond to the guidelines adopted at the Annual General Meeting 2016. The 2016 guidelines authorize the Board of Directors to deviate from the guidelines if, in an individual case, there are special circumstances justifying such. In February 2017, the Board of Directors resolved to approve that the CEO's fixed salary during the notice period together with his severance payment, including payment for restriction on competition, total an amount corresponding to the fixed salary for approximately 19 months, i.e. marginally above the 18 months set forth in the guidelines. The Board of Directors considered such a deviation justified considering that the CEO will be available to support his successor during the extended notice period.

Resolved remuneration not yet payable

During 2017, the Company resolved on a lump sum payment of SEK 300,000 to be paid to a member of the senior management in order to retain expertise considered to be important to the Company. The remuneration is payable in 2018.

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 are 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.

The 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 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 monthly 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 the development 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 the 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 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 reducing 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 hotel 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 generally.

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 2016

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

AUDITOR'S REPORT ON THE CORPORATE GOVERNANCE STATEMENT

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

ENGAGEMENT AND RESPONSIBILITY

It is the board of directors who is responsible for the corporate governance statement for the year 2016 on pages106–117 and 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 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.

OPINIONS

A corporate governance statement has been prepared. Disclosures in accordance with chapter 6 section 6 the second paragraph points 2–6 the Annual Accounts Act and chapter 7 section 31 the second paragraph the same law are consistent with the annual accounts and the consolidated accounts and are in accordance with the Annual Accounts Act.

Stockholm, April 4, 2017
PricewaterhouseCoopers AB

Magnus Brändström
Authorized Public Accountant
Auditor in charge

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 and Tia Technology A/S. Deputy Chairman of the Board of Nordic Aviation Capital A/S. Board member of Air Canada, Braganza AB, CP DYVIG A/S, JP/Politikens Hus, Royal Caribbean Cruises Ltd, CHEP Aerospace and VFS Global.

Previous assignments:
CEO of Austrian Airlines Group 2001–2006, Executive Vice President and 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 and Board member of VEGA.

Number of shares in Scandic:
60, 676

EVA MOEN ADOLFSSON

Member of the Board of Directors since 2014. Chairman of the Remuneration Committee.

Born: 1960.
Swedish and American citizen.

Education:
Master 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 and Västsvenska Handelskammaren Service AB.

Previous assignments:
General Manager, Scandic Rubinen; General Manager, Scandinavian Service Partner; CFO, Radisson SAS Park Avenue Hotel and CFO, AVAB Elektronik.

Number of shares in Scandic:
3,134

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:
Self-employed. Board member of Veidekke ASA, AxFast AB and Handelsbanken Regionbank Stockholm. Member of Balco Group AB, Juni Strategi and Analys AB.

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

Number of shares in Scandic:
3,000

PER G. BRAATHEN

Member of the Board of Directors since 2007.

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 and Scenorama AS. Chairman of the Board and CEO of Braganza AB. Board member of Wayday Travel AS.

Previous assignments:
Chairman of the Board of Braganza AS, Escape Travel A/S, Europa Reiser A/S and SunHotels AG. Board member of Arken Zoo Holding AB, Ticket Leisure Travel AB and Ticket Biz AB.

Number of shares in Scandic:
14,925 (through companies)

ALBERT GUSTAFSSON

**Member of the Board of Directors since 2016.
Member of the Audit Committee.**

Born: 1977.
Swedish citizen.

Education:
Bachelor of Commerce from Gothenburg School of Business, Economics and Law.

Other current assignments:
Partner at EQT Partners AB. Board member of Frostbite Holding AB and Dometic Group AB (publ).

Previous assignments:
Board member of GG Holding AB and Granngården AB. Employed by Lehman Brothers International Europe Ltd.

Number of shares in Scandic: –

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, Shearings Holidays Ltd and The Hotel Collection.

Previous assignments:
Board member of London & Partners Ltd, Thame and London Ltd, TLLC Group Holdings Ltd and Travelodge Hotels Ltd.

Number of shares in Scandic:
3,000

Number of shares as per December 31, 2016.

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 Actic AB, Cloetta AB, Stena Line BV, STS Alpresor AB, Swedavia AB, Careereye Online Group AB and Wise Group AB.

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

Number of shares in Scandic:
3,134

STEPHAN LEITHNER
Member of the Board of Directors since 2016.
Member of the Remuneration Committee.

Born: 1966.
Austrian citizen.

Education:
PhD Business Administration, St. Gallen University, Switzerland.

Other current assignments:
Partner at EQT Partners in Germany.

Previous assignments:
Several senior positions and directorships within Deutsche Bank AG and Partner of McKinsey & Company Inc in Germany.

Number of shares in Scandic: –

CHRISTOFFER LUNDSTRÖM
Member of the Board of Directors since 2016.

Born: 1973.
Swedish citizen.

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

Other current assignments:
Owner and President of the investment company RCL Holding AB. Board member of Collector AB, Feelgood Svenska AB, Rasta Group AB, 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 and member of the Nomination Committee of Betsson AB and NetEnt AB.

Number of shares in Scandic:
205,219

NIKLAS SLOUTSKI
Member of the Board of Directors since 2011.
Member of the Audit Committee.

Born: 1976.
Swedish citizen.

Education:
Master of Business Administration, Stockholm School of Economics, Sweden and postgraduate certificate in Business Administration, Edinburgh Business School, UK. Courses in law and financial instruments from Stockholm University, Sweden and Harvard University, USA.

Other current assignments:
CEO and Board member of Accent Equity Partners AB. Chairman of the Board of Hoist Group Holding AB. Board member of RenoNorden ASA, Northpaw Capital AB and Southpaw Capital Equity Partner AB.

Number of shares in Scandic: –

FREDRIK WIRDENIUS
Member of the Board of Directors since 2015.

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.

Number of shares in Scandic:
3,134

JAN WALLMARK
Member of the Board of Directors since 2015.
Employee representative.

Born: 1951.
Swedish citizen.

Education:
IHM Business School, Stockholm, Sweden.

Other current assignments:
Employee within Scandic's hotel operations.

Number of shares in Scandic: –

Number of shares as per December 31, 2016.

EXECUTIVE COMMITTEE

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

FRANK FISKERS
President & CEO

Born: 1961. Employed and member of Scandic's Executive Committee since 2013. Danish citizen.

Other assignments: Industrial advisor to EQT Partners.

Education: Studies at Cornell University, USA, London Business School, UK and IMD Business School, Switzerland.

Previous experience: President & CEO, Kooperativa Förbundet (KF); Co-owner, Azure Property Group; President & CEO, Scandic Hotels (2007–2010); managerial positions within Hilton Hotels Corporation and Rezidor and President & CEO First Hotels. Chairman of the Board of Akademibokhandelsgruppen AB and KF Media AB. Board member of Svensk Dagligvaruhandel Ekonomisk Förening and Svensk Handel.

Number of shares in Scandic: 75, 441

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 in Scandic: 4,057

THOMAS ENGELHART
Chief Commercial Officer

Born: 1967. Employed and member of Scandic's Executive Committee since 2015. Norwegian citizen.

Other assignments: –

Education: Bachelor in Hotel Management, Glion Group/Hosta, Switzerland and Master in International Business, Ceram University, Grand Ecole, France.

Previous experience: Area Vice President Nordics, Rezidor AB; MD, Coop Marknad AB; Senior Vice President Commercial Operation & Brand Experience, Scandic Hotels and Vice President, Merchant Service, EMEA, American Express. Chairman of the Board of Coop Butiksutveckling AB, Coop Sverige AB and MedMera Bank AB.

Number of shares in Scandic: 14,924

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 in Scandic: –

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. Member of Scandic's Executive Committee 2002–2008.

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: Board member of Svensk Miljömärkning AB. Membership will cease as of the next general meeting.

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

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

Number of shares in Scandic: 1,000

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: Member of the Board of the Finnish Hospitality Industry Association.

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 in Scandic: 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 in Scandic: 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 in Scandic: 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: Board member of Guma Sport Ltd and Oris Dental AS.

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, 2016.

SUSTAINABILITY REPORT

Scandic's sustainability strategy is built on a materiality analysis where various stakeholders rank sustainability issues. Based on the results and in combination with Scandic's overall long-term goals, the company develops an overall strategy. The results of the strategy are presented on pages 34–51 of this Annual Report.

STAKEHOLDERS' EXPECTATIONS ON MATERIAL ASPECTS

The stakeholders invited to the annual dialog 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 dialogs 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 defined aspects related to Scandic's operations. The stakeholders were asked to prioritize the aspects they thought Scandic should focus on and prioritize in its sustainability work based on how these aspects affect the stakeholder's assessment and decision to choose Scandic as a hotel chain and based on Scandic's material impact in the social, environmental and economic aspects. The aspects were selected based on Scandic's governance, operations, employees and guests.

MAIN AREAS OF 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.

INSPIRE
Inclusion and diversity.

ENGAGE
Health. CO_2. Waste.

BE RESPONSIBLE
Hotel security, water, chemicals, energy, sustainable supply chain, anti-corruption, trafficking & prostitution, food safety, community engagement and working conditions.

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-governmental 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

GRI: G4-18, G4-19, G4-20, G4-21, G4-24, G4-25, G4-26, G4-27, G4-DMA

EXAMPLES OF INITIATIVES THAT SCANDIC SUPPORTS

Organization	Description	Country	Type of cooperation
Fast Track (Snabbspåret)	A national initiative that creates opportunities for newcomers with chef's training to validate their skills at Scandic through apprenticeships. Carried out in cooperation with the Government of Sweden and Visita.	Sweden	Scandic is a partner.
Mitt Liv	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 in the mentoring program, among others.
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 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.
Scandic ID league	The first football league for people with intellectual disabilities in Germany. The league has more than 300 members and plays in Berlin. The league is a member of the German Football Association and Berlin's organization for the disabled.	Germany	Scandic helped start the league and is now a sponsor.
Budnianer hilfe e.V.	The goal of the association is to provide physical and social support for marginalized children and young adults.	Germany	Scandic supports the organization.
Confederation of Norwegian Enterprise (NHO)	The overall goal of the project is to improve conditions for recruiting people outside of the labor market.	Norway	Scandic is a partner.
Stiftelsen for rekruttering til restaurant -og matfag	A national cooperation to increase the number of students in training programs within the hotel and restaurant industry with the intention of securing skills in the industry going forward.	Norway	Scandic is a member of the committee and project.
Dansk Erhverv CSR netværk	Network for the service industry in Denmark, which represents 17,000 Danish companies.	Denmark	Scandic is a member of the CSR network.
ReFood	Collects and distributes leftover food from restaurants.	Denmark	Scandic is a member.

ECONOMIC VALUE RESULTING FROM INTEGRATED SUSTAINABILITY WORK

Economic value creation	MSEK
Direct economic value generated	**12,211**
Revenues	12,211
Economic value distributed	**12,102.54**
Operating costs	7,641.7
Employee wages and benefits	3,954
Financial costs	500
Taxes	6.5
Community investments	0.34
Remaining economic value	**108.46**

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.

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 an important part of the company's sustainability work. Scandic works systematically to ensure that only suppliers that live up to the requirements of the company are accepted.

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 already 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. During 2016, 93 percent of all contracted suppliers underwent sustainability screening. 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. During 2016, Scandic assessed about 1,000 suppliers. 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. Scandic may also contract external experts to carry out the audit or to verify the answers 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.

COOPERATION

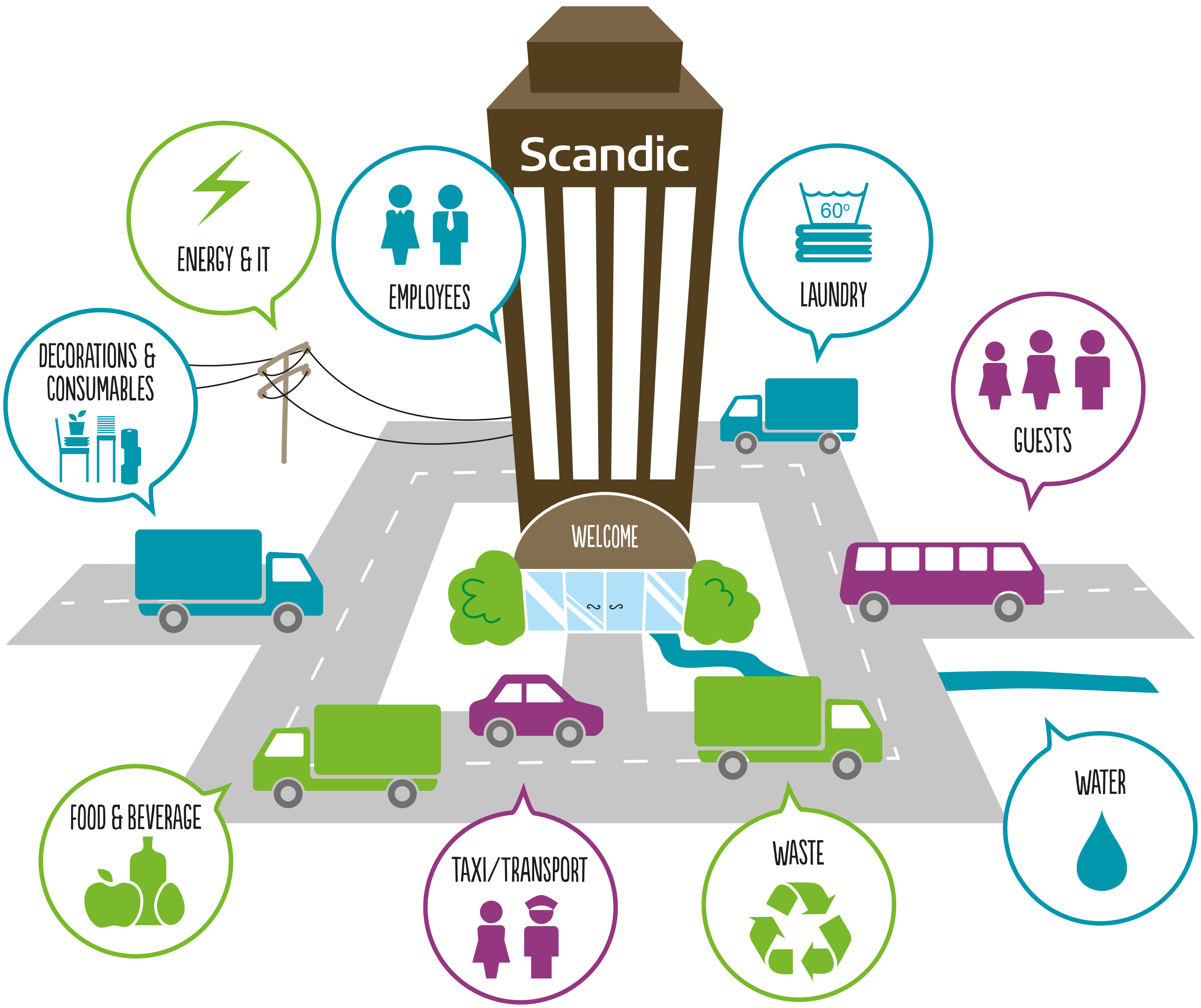
After decades of working with sustainability, Scandic has extensive knowledge and gladly shares this knowledge with suppliers. The company encourages a continuous dialog with suppliers parallel to the screening process in order to support and help develop the supplier's sustainability work.

In Norway, Scandic drives supplier sustainability forward together with other companies through the purchasing company GRESS. Among other things, Scandic's Code of Conduct has played a significant role in GRESS's work to secure its supplier chain.

UNDER CONSTANT DEVELOPMENT

Scandic has successfully worked with systematizing its process for supplier management. To support the process, the company continuously works with skills development and follows up on the procurement team as regards challenges in the area. Having secure and skilled team members creates long-term relationships and a close collaboration with suppliers means that Scandic has the conditions to create a socially and environmentally sustainable supplier chain.

GRI: G4-12, G4-56, G4-DMA, EN-32, LA-14, HR-10, SO-9



SCANDIC'S PROCESS INVOLVES THE FOLLOWING STEPS:

1. **SUSTAINABILITY SCREENING** PERFORMED BY SCANDIC'S PROCUREMENT TEAM
2. **SELF-ASSESSMENT FORMS** COMPLETED BY SUPPLIERS
3. **AUDITS OF SUPPLIERS** PERFORMED BY SCANDIC'S PROCUREMENT TEAM
4. **THIRD-PARTY AUDITS OF SUPPLIERS** CONSIDERED TO BE HIGH-RISK SUPPLIERS OR WHO HAVE BEEN INVOLVED IN TRANSGRESSIONS
5. **CORRECTIVE ACTION PLANS AND DIALOG** WITH SUPPLIERS TO SUPPORT THEIR DEVELOPMENT

EMPLOYEE DATA

Scandic is continuing to grow, both when it comes to hotels and employees. The demographic and geographic breakdown of employees remained mainly unchanged in 2016 compared with 2015.

The most significant change took place in the Executive Committee where the Country Heads were included and the Vice President Communication & IR left the company.

Scandic works constantly to analyze and identify discriminatory wages. In 2017, a framework for job classification will be implemented. This can be used to illustrate discriminatory pay for work of equal value. Since the framework was not in place in 2016, no detailed data on gender pay disparities will be published for 2016.

	2016			2015		
Total number of employees[1)]	**Women**	**Men**	**Total**	**Women**	**Men**	**Total**
Total number	9,688	5,638	15,326	9,389	5,354	14,743
Permanent employment	5,270	3,223	8,493	5,057	3,024	8,081
Full-time	3,184	2,401	5,585	3,077	2,266	5,343
Part-time	2,086	822	2,908	1,980	758	2,738
Temporary	4,176	2,295	6,471	4,128	2,226	6,354
Contracted workers	242	120	362	204	104	308

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

		2016		2015	
New hires[1)]		**Number**	**Share, %**	**Number**	**Share, %**
Total number and % of total		1,237	14.6	1,044	12.9
Of which	Women	656	53.0	553	53.0
	Men	581	47.0	491	47.0
Of which	Age <30	675	54.6	485	46.5
	Age 30–50	515	41.6	505	48.4
	Age >50	47	3.8	54	5.2
Of which	Sweden	514	41.6	234	22.4
	Norway	272	22.0	319	30.6
	Finland	83	6.7	68	6.5
	Denmark	242	19.6	337	32.3
	Other European	126	10.2	86	8.2

1) Data refers to permanent employment.

		2016		2015	
Employee turnover[1)]		**Number**	**Share, %**	**Number**	**Share, %**
Total number and % of total		1,667	19.6	1,793	22.2
Of which	Women	935	56.1	1,045	58.3
	Men	732	43.9	748	41.7
Of which	Age <30	764	45.8	765	42.7
	Age 30–50	760	45.6	865	48.2
	Age >50	143	8.6	163	9.1
Of which	Sweden	660	39.6	433	24.1
	Norway	462	27.7	861	48.0
	Finland	118	7.1	91	5.1
	Denmark	296	17.8	316	17.6
	Other European	131	7.9	92	5.1

1) Data refers to permanent employment.

Geographic breakdown		2016 Women	2016 Men	2016 Total	2015 Women	2015 Men	2015 Total
Total		9,688	5,638	15,326	9,389	5,354	14,743
Of which	Sweden	4,586	2,419	7,005	4,574	2,327	6,901
	Norway	2,957	1,864	4,821	2,841	1,762	4,603
	Finland	878	435	1,313	811	415	1,226
	Denmark	1,013	738	1,751	931	651	1,582
	Other European	254	182	436	232	199	431

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

1,237

NEW PERMANENT EMPLOYEES DURING THE YEAR

Demographic breakdown 2016	Total number of employees, %		Board of Directors, %		Executive Committee, %		Managers, %		Employees, %	
Women	9,446	63.1	3	25.0	1	11.1	677	53.5	8,768	64.0
Men	5,518	36.9	9	75.0	8	88.9	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	6,666	44.5	4	33.3	7	77.8	908	71.8	5,751	42.0
Age >50	1,734	11.6	8	66.7	2	22.2	214	16.9	1,518	11.1
Total number	**14,964**		**12**		**9**		**1,265**		**13,690**	

2015	Total number of employees, %		Board of Directors, %		Executive Committee, %		Managers, %		Employees, %	
Women	9,185	63.6	2	20.0	3	42.9	622	52.1	8,560	64.7
Men	5,250	36.4	8	80.0	4	57.1	573	47.9	4,673	35.3
Age <30	6,635	46.0	0	0.0	0	0.0	131	11.0	6,504	49.2
Age 30–50	6,183	42.8	3	30.0	5	71.4	870	72.8	5,308	40.1
Age >50	1,617	11.2	7	70.0	2	28.6	194	16.2	1,421	10.7
Total number	**14,435**		**10**		**7**		**1,195**		**13,233**	

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

Average training time, hours		2016	2015
Total number		3.3	2.4
Of which	Women	3.2	2.6
	Men	3.6	2.4
Of which	Executive Committee[1]	10.1	–
	Managers	18.0	13.1
	Employees	2.0	1.5

[1] Training hours for the Executive Committee are presented together with managers for 2015.

Comparison between 2015 and 2016: The number of permanent employees at Scandic grew while the geographic breakdown remained unchanged as a whole. The number of women on the Board of Directors increased while the number of female members of the Executive Committee decreased due to the fact that the Country Heads are now included in the Executive Committee and two female members left Scandic. The number of female managers at Scandic increased during the year.

GRI INDEX

This is Scandic's second Annual Sustainability Report and it 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 Annual Sustainability Report was prepared in accordance with GRI G4 on a self-declared Level Core. 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. Environmental data has been verified by Ethos International in accordance with AA1000AS.

The Report refers to the period from January 1 to December 31, 2016. The previous Report was published on April 21, 2016. 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 Communications & IR 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	Fulfillment	Comments
Strategy and analysis				
G4-1	Statement from the most senior decision-maker of the organization	p. 3–5	●	
Organizational profile				
G4-3	Name of the organization	p. 56	●	
G4-4	Primary brands, products and services	p. 6, 14	●	
G4-5	The organization's headquarters	p. 56	●	
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. 24–25	●	
G4-7	Nature of ownership and legal form	p. 56, 107	●	
G4-8	Markets served by the organization	p. 24–25	●	
G4-9	Scale of the organization	p. 24–25, 41, 66–67	●	
G4-10	Compilation of the organization's employees	p. 122–123	●	GC Principle 6
G4-11	Percentage of employees covered by collective bargaining agreements	p. 37	●	GC Principle 3
G4-12	The organization's supply chain	p. 120–121	●	
G4-13	Significant changes during the reporting period	p. 107	●	
G4-14	Whether and how the precautionary principle is addressed by the organization	p. 46	●	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. 46	●	
G4-16	List of memberships in associations (e.g. trade associations) and national or international advocacy organizations	p. 119	●	
Identified material aspects and boundaries				
G4-17	Entities included in the financial statements	p. 56, 124	●	
G4-18	Process for defining material aspects	p. 118	●	
G4-19	Material aspects	p. 46, 118	●	
G4-20	Aspect boundary within the organization	p. 118	●	
G4-21	Aspect boundary outside of the organization	p. 118	●	
G4-22	Restatements of information provided in previous reports and the reason for these restatements	p. 47	●	
G4-23	Significant changes from previous reporting periods in the scope and aspect boundaries	p. 47	●	

	Title	Page	Fulfill-ment	Comments
Stakeholder engagement				
G4-24	List of stakeholder groups	p. 118	●	
G4-25	Method for identification and prioritization of which stakeholders with whom to engage	p. 118	●	
G4-26	The organization's approach to stakeholder engagement	p. 118	●	
G4-27	Key topics and concerns that have been raised through stakeholder engagement	p. 118	●	
Reporting profile				
G4-28	Reporting period	p. 124	●	
G4-29	Date of most recent published report	p. 124	●	April 21, 2016
G4-30	Reporting cycle	p. 124	●	

	Title	Page	Fulfill-ment	Comments
G4-31	Contact point for questions regarding the report or its contents	p. 124	●	
G4-32	GRI Content Index	p. 124–125	●	
G4-33	Assurance process		N/A	The Annual Sustainability Report has been self-declared at Level Core. It has not been assured by a third party.
Governance				
G4-34	The governance structure of the organization, including committees responsible for economic, environmental and social issues	p. 106, 110	●	
Ethics and integrity				
G4-56	The organization's values, principles, standards and code of conduct	p. 11, 106, 110, 120	●	GC Principle 10

SPECIFIC STANDARD DISCLOSURES

DMA and indica-tors	Title	Page	Fulfill-ment	Comments
G4-DMA	Disclosure regarding sustainability governance	p. 34–41, 44–51, 118–124	●	GC Principles 1, 2, 3, 7, 8, 9, 10
Economic performance				
EC-1	Direct economic value	p. 119	●	
Energy consumption and emission of greenhouse gases				
EN-3	Energy consumption within the organization	p. 46, 124	●	GC Principles 7, 8
EN-15	Direct greenhouse gas emissions (Scope 1)	p. 46–47, 124	●	GC Principles 7, 8
EN-16	Indirect greenhouse gas emissions (Scope 2)	p. 46–47, 124	●	GC Principles 7, 8
EN-17	Other indirect greenhouse gas emissions (Scope 3)	p. 46–47, 124	●	GC Principles 7, 8
EN-18	Greenhouse gas emission intensity	p. 48	●	Includes Scopes 1, 2 and 3, GC Principle 8
EN-23	Total weight of waste by type and disposal method	p. 47–48, 124	●	GC Principle 8
Supplier assessment				GC Principle 8
EN-32	Screening of suppliers using environmental criteria	p. 120	●	GC Principles 7, 8, 9
LA-14	Screening of suppliers using labor practices criteria	p. 120	●	GC Principles 3, 4, 5, 6

DMA and indica-tors	Title	Page	Fulfill-ment	Comments
HR-10	Screening of suppliers using human rights criteria	p. 120	●	GC Principles 1, 2
SO-9	Screening of suppliers using criteria for impacts on society	p. 120	●	
Employment				
LA-1	New employee hires and employee turnover	p. 122	●	GC Principle 6
Health and safety				
LA-8	Health and safety topics covered in formal agreements	p. 35	●	
Training				
LA-9	Average hours of training	p. 123	●	
Diversity and equal opportunity				
LA-12	Composition of the Board of Directors and the Executive Management, and breakdown of employees per employee category	p. 123	●	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. 49	◒	GC Principles 1, 2
Customer satisfaction				
PR-5	Customer satisfaction	p. 44–45	●	

A STRONG FIRST YEAR ON THE STOCK EXCHANGE

On December 2, 2015 Scandic made a comeback on the stock exchange when its shares were listed on Nasdaq Stockholm. Scandic is listed on the exchange's Mid Cap list and is included in the Travel & Leisure sector index. During 2016, the company's share developed better than the OMX Stockholm Index as a whole and the largest shareholders decreased their holdings significantly.

SHARE PRICE TREND

Based on the closing price on December 2, 2015 (63.75 SEK), which was the first day of trading, up until year-end, Scandic's share rose by 20.0 percent while the sector index OMX Stockholm Travel & Leisure decreased 17.8 percent and the broad index OMX Stockholm went up by 3.0 percent. Based on the last price paid on December 30, 2016, which was 76.50 SEK, Scandic's total market capitalization was approximately 7.88 billion SEK compared with the market capitalization on December 31, 2015, which was approximately 6.95 billion SEK.

TURNOVER

During 2016, 121 million Scandic shares were traded at a value of 8,560 MSEK. The share was traded in 10 marketplaces. Trading on Nasdaq Stockholm accounted for approximately 59 percent of the total turnover.

SHARE CAPITAL AND OWNERSHIP STRUCTURE

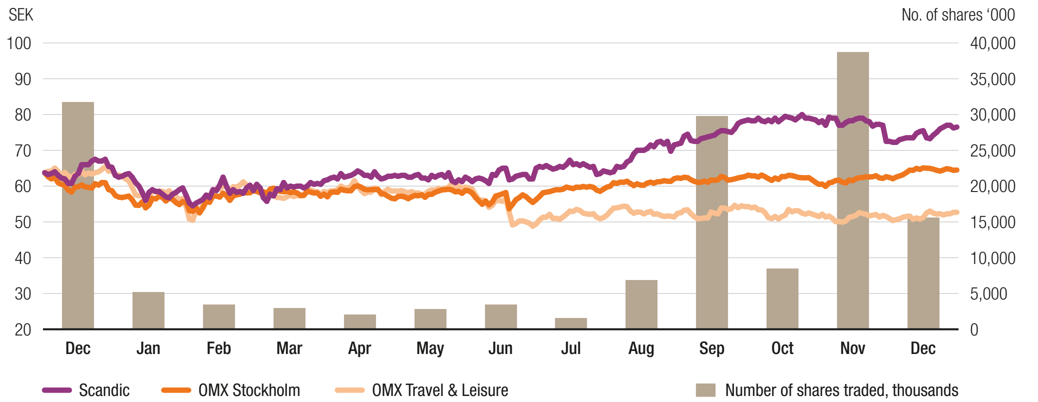
The share capital amounts to 25.7 MSEK divided into 102,985,075 shares, conferring one vote each. At the end of 2016, Scandic had 6,196 shareholders, which is an increase compared with the end of 2015 when there were 5,725 shareholders. During the year, Sunstorm Holding AB sold 46,065,557 shares, thereby reducing its shareholding to 20.4 percent of the votes and capital. At the end of 2016, the company was still the largest shareholder. At year-end, the total Swedish holding amounted to 71.3 percent of the shares of which Swedish institutions held 42.7 percent, Swedish mutual funds held 25.4 percent and private individuals held 3.2 percent. Foreign ownership increased during the year from 14.5 percent to 28.7 percent.

On March 23, 2017, Sunstorm Holding AB announced an agreement to sell 6,000,000 shares to Novobis AB and 15,026,982 shares to Stena Sessan Rederi AB.

DIVIDEND AND DIVIDEND POLICY

The Board of Directors adopted a dividend policy that aims to distribute at least 50 percent of the net profit from the 2016 financial year. For the 2016 financial year, the Board of Directors proposes a dividend of SEK 3.15 per share. The record day is May 12, 2017.

THE SHARE PRICE AND TURNOVER TREND, DEC 2, 2015 – DEC 30, 2016



Source: SIX Trust and Fidessa.

Shareholder	Share capital, %	Votes, %	Number of shares
Sunstorm Holding AB	20.4	20.4	21,026,982
AMF Försäkring & Fonder	9.4	9.4	9,647,032
Rolf Lundström[1)]	9.2	9.2	9,503,800
Handelsbanken Fonder	8.8	8.8	9,047,983
Lannebo Fonder	3.0	3.0	3,070,703
Tredje AP-Fonden	2.7	2.7	2,789,227
Investec Asset Management	2.6	2.6	2,667,505
Svolder	2.0	2.0	2,082,500
Norron Fonder	1.2	1.2	1,236,319
Andra AP-Fonden	1.1	1.1	1,083,447
Försäkringsbolaget PRI	0.9	0.9	926,479
Länsförsäkringar Fonder	0.8	0.8	855,135
Catella Fonder	0.7	0.7	744,874
XACT Fonder	0.6	0.6	587,336
Humle Fonder	0.5	0.5	560,000
Total 15 largest owners	**63.9**	**63.9**	**65,829,322**
Other	36.1	36.1	37,155,753
Total number of shares	**100**	**100**	**102,985,075**

Source: Holdings of Modular Finance AB as per 2016-12-31 (verification dates can vary for foreign owners). Data compiled and arranged from Euroclear, Morningstar and the Swedish Financial Supervisory Authority, among others.

1) Via Novobis AB and privately.

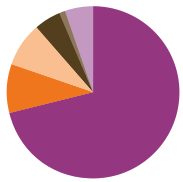
Analysts following Scandic	
Stefan Andersson	SEB
Jamie Rollo	Morgan Stanley
Andreas Lundberg	ABG
Geoffrey d'Halluin	Deutsche Bank
Karl-Johan Bonnevier	DNB

Ownership structure as at December 31, 2016	Proportion of owners, %	Number of owners	Proportion of votes and capital,%
Size categories			
1 – 1000	87.0	5,396	1.2
1,001 – 250,000	12.2	756	13.3
250,001 – 2,500,000	0.6	37	29.5
2,500,001 – 5,000,000	0.0	3	8.3
5,000,001 – 10,000,000	0.0	3	27.4
10,000,001 – 25,000,000	0.0	1	20.4
Total	**100**	**6,196**	**100**
Number of shares			**102,985,075**

Source: Holdings of Modular Finance AB as per 2016-12-31. Data compiled and arranged from Euroclear, Morningstar and the Swedish Financial Supervisory Authority, among others.

Share data	
Ticker symbol	SHOT
ISIN	SE0000635401
Trading lot	1 share
List	Nasdaq Stockholm Mid Cap list
Sector index	OMX Stockholm Travel & Leisure

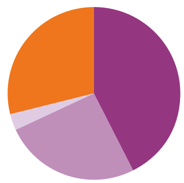
GEOGRAPHIC DISTRIBUTION OF OWNERS, %



Sweden 71.3 · UK 9.1 · US 8.3
Luxembourg 5.1 · Germany 1.0 · Other 5.1

Source: Holdings of Modular Finance AB as per 2016-12-31.
Data compiled and arranged from Euroclear, Morningstar and the Swedish Financial Supervisory Authority, among others.

OWNERSHIP STRUCTURE, %



Swedish institutions 42.7 · Swedish mutual funds 25.4
Swedish retail investors 3.2 · Foreign ownership 28.7

Source: Holdings of Modular Finance AB as per 2016-12-31.
Data compiled and arranged from Euroclear, Morningstar and the Swedish Financial Supervisory Authority, among others.

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 year and the previous year (no new or exit hotels are included).

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.

FINANCIAL KEY RATIOS AND 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 EBITDAR
Earnings before pre-opening costs, non-recurring items, interest, taxes, depreciation, amortization and rent.

Interest-bearing net liabilities
Interest-bearing assets minus interest-bearing liabilities.

Non-recurring items
Items that are not directly related to the normal operations of the Group, for example, costs for transactions, exits and restructuring.

Working capital, net
Total current assets excluding cash and cash equivalents minus current liabilities.

EQUITY-RELATED KEY RATIOS

Earnings per share
The profit/loss during the period attributable to the shareholders of the Parent Company divided by the average number of shares.

Equity per share
Equity attributable to the shareholders of the Parent Company divided by the number of shares at the end of the period.

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INFORMATION TO THE SHAREHOLDERS

ANNUAL GENERAL MEETING MAY 10, 2017 IN STOCKHOLM

2017 Annual General Meeting

The Annual General Meeting of the shareholders in Scandic Hotels Group AB (publ) will be held at 13:00 CET on Wednesday, May 10, 2017 at Scandic Continental 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 Thursday, May 4, 2017.

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)
Stephan Leithner	Sunstorm Holding AB
Lars-Åke Bokenberger	AMF
Vagn Sørensen	Chairman of the Board

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 2017

Interim report January–March 2017	May 10, 2017
Interim report January–June 2017	July 20, 2017
Interim report January–September 2017	October 26, 2017

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.

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