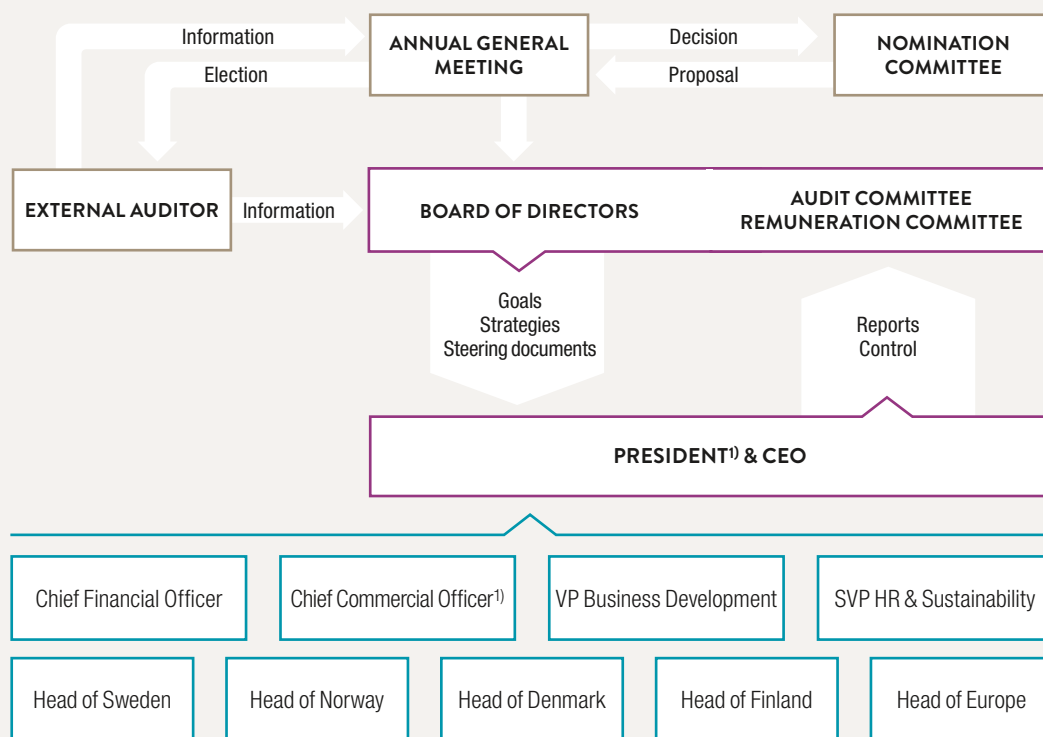


CORPORATE GOVERNANCE

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

CORPORATE GOVERNANCE AT SCANDIC



THE BASIS OF SCANDIC'S CORPORATE GOVERNANCE

Scandic's corporate governance aims to support the Board of Directors and the Executive Committee so that all operations create long-term value for shareholders and other stakeholders. Governance includes upholding:

- an efficient organizational structure;
- systems for risk management and internal control; and
- transparent internal and external reporting.

GOVERNANCE STRUCTURE

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

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

EXTERNAL STEERING INSTRUMENTS

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



INTERNAL STEERING INSTRUMENTS

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

¹⁾ Even Frydenberg is acting Chief Commercial Officer.

DEVIATIONS FROM THE CODE

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

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

SIGNIFICANT EVENTS IN 2017

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

SHARE AND SHAREHOLDERS

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

SHAREHOLDERS' INFLUENCE THROUGH THE GENERAL MEETING

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

2017 ANNUAL GENERAL MEETING

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

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

- Remuneration to the Board of Directors and the auditor.
- Adoption of guidelines for remuneration to senior executives in accordance with the proposal of the Board.
- Adoption of the Long-Term Incentive Program and hedging measures for the program in accordance with the proposal of the Board.

2018 ANNUAL GENERAL MEETING

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

NOMINATION COMMITTEE

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

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

Unless otherwise agreed by the members of the Nomination Committee, the Chairman of the Nomination Committee shall be the member who represents the largest share-

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

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

The Nomination Committee for the 2018 Annual General Meeting

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

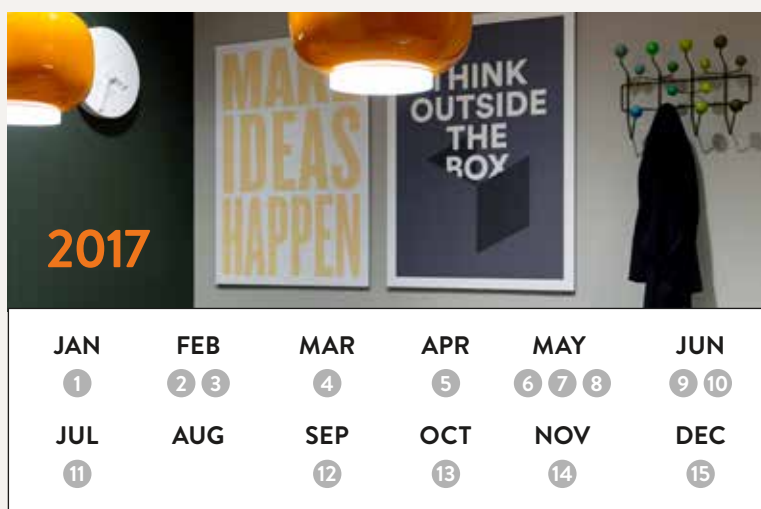
Nomination Committee	Representing	% of the number of votes as at 31 Dec 2017
Vagn Sørensen		
Joel Lindeman	Novobis AB	16.3
Johan Wester	Stena Sessan AB	14.6
Staffan Ringwall	Handelsbankens Fonder	4.4

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

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

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

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



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

BOARD OF DIRECTORS

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

Composition of the Board of Directors 2017

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

Independence

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

Work of the Board of Directors

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

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

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

Work during the year

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

COMMITTEES OF THE BOARD OF DIRECTORS

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

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

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

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 with variable remuneration and the Company's compliance with the guidelines for remuneration adopted at a general meeting.

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

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

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

Audit Committee

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

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

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

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

The Audit Committee consists of Ingallil Berglund (Chairman), Christoffer Lundström, Martin Svalstedt and Fredrik Wirdenius. The requirements of the Swedish Companies Act

regarding independence and accounting or auditing expertise are thus met.

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

The following matters were handled at the Audit Committee meetings:

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

EVALUATION OF THE WORK OF THE BOARD OF DIRECTORS

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

Auditors

PricewaterhouseCoopers has been the Company's auditor since 2012. At the Annual General Meeting held on 10 May 2017, PricewaterhouseCoopers was reappointed as auditor, with Magnus Brändström as the auditor-in-charge, for the time until the end of the 2018 Annual General Meeting.

Magnus Brändström is an authorized public accountant and a member of FAR. During 2017, the auditor reported its observations on one occasion times to the Board of Directors. No members of the Executive Committee were present. Thereafter, the auditor participated in five meetings with the Audit Committee.

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

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

EXECUTIVE COMMITTEE

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

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

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

Sustainability

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

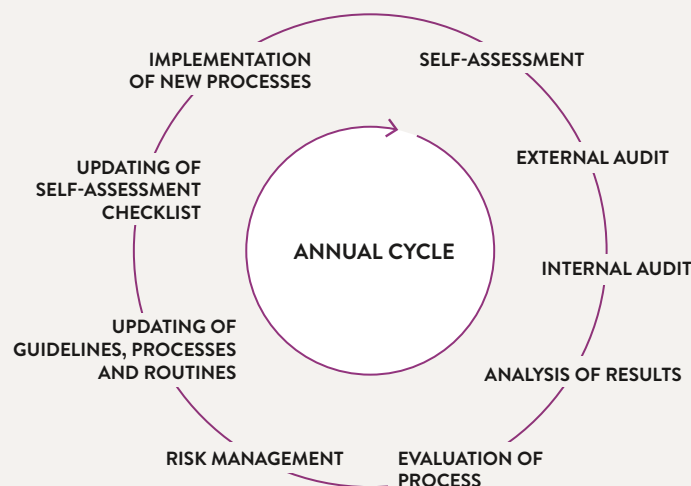
When appointing Board members, Scandic strives for diversity mainly with respect to gender, age, nationality and skills. The Board of Directors has joint responsibility for sustainability. Within the Executive Committee, sustainability is delegated to the head of each function: the CFO is responsible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

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

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

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

ANNUAL CYCLE OF THE EXECUTIVE COMMITTEE



Guidelines for remuneration to the CEO and senior executives

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

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

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

The Board of Directors has the right to deviate from the above-mentioned guidelines in individual cases if it is of the opinion that there are special reasons to do so. The 2016 guidelines for remuneration gave the Board the right to deviate from the guidelines in individual cases if it was of

the opinion that there were special reasons to do so. The guidelines stated that the fixed salary during the notice period and severance pay, including compensation for any anti-competition restrictions, should not exceed an amount corresponding to the fixed salary for 18 months.

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

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

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

Remuneration

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

Resolved remuneration not yet payable

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

Long-Term Incentive Program

At the Extraordinary General Meeting held on November 15, 2015, Scandic adopted a performance-based Long-

Term Incentive Program, and additional programs were adopted at the Annual General Meetings in 2016 and 2017. Terms and conditions for both programs are provided in Note 6 on pages 98–100.

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

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

THE BOARD OF DIRECTORS' REPORT ON INTERNAL CONTROL

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

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

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

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

The procedures for internal control, risk assessment, control activities and monitoring of financial reporting have been devised to ensure reliable and relevant reporting and

external financial reporting in accordance with the IFRS, applicable laws and regulations and other requirements of companies listed on the Nasdaq Stockholm exchange. This work involves the Board of Directors, the senior executives and other employees.

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

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

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

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

Control environment

The control environment forms the basis of internal control of financial reporting. An important element of the control

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

Risk assessment

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

Control activities

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

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

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

Information and communication

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

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

Monitoring

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

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

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

The results of the self-assessments and onsite audits are reported by the local heads of finance to the management team of the country in question. The results are reported by

the Group's CFO to the Audit Committee, together with a report of measures undertaken to improve internal control if the results indicate that there is a need to do so either at the hotel level or in general.

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

Internal audit

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

Measures in 2017

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

BOARD OF DIRECTORS



VAGN SØRENSEN

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

Born: 1959.
Danish citizen.

Education:

Master of Business Administration from Aarhus University, Denmark.

Other current assignments:

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

Previous assignments:

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

Shareholding: 60,676

Independent in relation to major shareholders: Yes

Independent in relation to the company and management: Yes



EVA MOEN ADOLFSSON

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

Born: 1960.
Swedish and American citizen.

Education:

Bachelor of Business Administration from University of Gothenburg, Sweden.

Other current assignments:

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

Previous assignments:

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

Shareholding: 3,134

Independent in relation to major shareholders: Yes

Independent in relation to the company and management: Yes



INGALILL BERGLUND

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

Born: 1964.
Swedish citizen.

Education:

Special advanced course in economics, Frans Schartau Business Institute.

Other current assignments:

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

Previous assignments:

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

Shareholding: 3,000

Independent in relation to major shareholders: Yes

Independent in relation to the company and management: Yes



PER G. BRAATHEN

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

Born: 1960.
Norwegian citizen.

Education:

MBA from Schiller University London, UK.

Other current assignments:

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

Previous positions:

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

Shareholding: 14,925
(through companies)

Independent in relation to major shareholders: Yes

Independent in relation to the company and management: Yes



GRANT HEARN

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

Born: 1958.
British citizen.

Education:

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

Other current assignments:

Chairman of the Board of Amaris Hospitality and Shearings Holidays Ltd.

Previous assignments:

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

Shareholding: 3,000

Independent in relation to major shareholders: Yes

Independent in relation to the company and management: Yes

Number of shares as per December 31, 2017.

**LOTTIE KNUTSON**

Member of the Board of Directors since 2015.

Born: 1964.
Swedish citizen.

Education:

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

Other current assignments:

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

Previous assignments:

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

Shareholding: 3,134

Independent in relation to major shareholders: Yes

Independent in relation to the company and management: Yes

**CHRISTOFFER LUNDSTRÖM**

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

Born: 1973. Swedish citizen.

Education:

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

Other current assignments:

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

Shareholdings: 205,219

Independent in relation to major shareholders: No

(Rolf Lundström/Novobis)

Independent in relation to the company and management: Yes

**MARTIN SVALSTEDT**

Member of the Board of Directors since 2017.

Member of the Audit Committee.

Born: 1963.
Swedish citizen.

Education:

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

Other current assignments:

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

Previous assignments:

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

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

Independency in relation to major shareholders: No (Stena)

Independency in relation to the company and management: Yes

**FREDRIK WIRDENIUS**

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

Born: 1961.
Swedish citizen.

Education:

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

Other current assignments:

CEO of Vasakronan AB. Board member of RICS Sweden.

Previous assignments:

Board member of Vasakronan AB.

Shareholding: 3,134

Independent in relation to major shareholders: Yes

Independent in relation to the company and management: Yes

**MARIANNE SUNDELIUS**

Member of the Board of Directors since 2017.

Employee representative.

Born: 1967.
Swedish citizen.

Education:

University courses in leadership and psychology. Studies in economics.

Other current assignments: –

Previous assignments:

Employee representative at Sara Hotels AB and Reso Hotels AB.

Shareholdings in Scandic: –

Independent in relation to major shareholders: Yes

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

EXECUTIVE COMMITTEE



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

EVEN FRYDENBERG**President & CEO**

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

Other assignments: –

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

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

Shareholdings: 5,500.

LENA BJURNER**Senior Vice President HR & Sustainability**

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

Other assignments: Board member of UNHCR in Sweden.

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

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

Number of shares: 5,907

JESPER ENGMAN**Vice President Business Development**

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

Other assignments: –

Education: Master of Real Estate Development and Analyst, Pandox. Analyst, Hotellus, Stockholm, Sweden.

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

Number of shares in Scandic: 5,970

LINDA ERIKSSON**(adjunct member) Director Group Strategy**

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

Other assignments: –

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

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

Number of shares: 590

PETER JANGBRATT**Head of Sweden**

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

Other assignments: –

Education: Scandic Business School and Hilton.

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

Number of shares in Scandic: 11,194

JAN JOHANSSON**Chief Financial Officer**

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

Other assignments:

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

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

Number of shares in Scandic: 2,600

AKI KÄYHKÖ**Head of Finland**

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

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

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

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

Number of shares: 11,194

JENS MATHIESEN**Head of Denmark**

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

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

Education: Shipping Broker, Transocean Shipping, Denmark.

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

Number of shares: 11,194

MICHEL SCHUTZBACH**Head of Europe**

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

Other assignments: –

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

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

Number of shares: 11,194

SVEIN ARILD STEEN-MEVOLD**Head of Norway**

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

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

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

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

Number of shares in Scandic: 11,194

AUDITOR'S REPORT

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

REPORT ON THE ANNUAL ACCOUNTS AND CONSOLIDATED ACCOUNTS

Opinions

We have audited the annual accounts and consolidated accounts of Scandic Hotels Group AB for the year 2017 with the exception of the Corporate Governance Report on pages 72–83. The annual accounts and consolidated accounts of the company are included on pages 62–119 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the parent company as of 31 December 2017 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with The Annual Accounts act and present fairly, in all material respects, the financial position of the Group as of 31 December 2017 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts act. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet for the parent company and the Group.

Our opinions in this report on the annual accounts and the consolidated accounts are consistent with the content of the additional report that has been submitted to the parent company's audit committee in accordance with the Audit Regulation (537/2014) Article 11.

Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities

section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements. This includes that, based on the best of our knowledge and belief, no prohibited services referred to in the Audit Regulation (537/2014) Article 5.1. have been provided to the audited company or, where applicable, its parent company or its controlled companies within the EU.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Our audit activities

The focus and scope of the audit

We designed our audit by determining materiality and assessing the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements, for example, in respect of significant accounting estimates involving assumptions and considering future events which are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there is evidence of bias representing a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the group, the accounting processes and controls, and the industry in which the group operates.

The major portion of Scandic's operations are in Sweden and Norway and represent slightly more than 72 percent of the group's net sales in 2017 and slightly more than 87 percent of the group's adjusted EBITDA. For the largest reporting units in Sweden and Norway, including the parent company and consolidation, we have examined the year-end book closing, executed a review of the interim report as

of 30 September, we have undertaken hotel visits on an ongoing basis and we have executed an assessment and testing of key controls regarding the financial reporting.

For the reporting units in Denmark and Finland, we have audited the annual book closing and have executed a review of the September book closing as a part of the overall review of the group's interim report. We have also undertaken hotel visits, on an ongoing basis, and have tested certain key controls.

The consolidated accounts, disclosures in the notes in the annual report and complex transactions of a one-off nature have been examined by the group team. This has included impairment testing of the group's goodwill and brands which are not subject to ongoing depreciation.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually, or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality of the financial statements as a whole. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Key audit matters

Key audit matters of the audit are those matters that, in our professional judgment, were most significant in our audit of the annual accounts and consolidated accounts of the cur-

Key audit matters

Valuation of goodwill and other acquisition-related assets

We refer to Note 12 Intangible assets

Goodwill and other acquisition-related assets, including brands, comprise a significant portion of the Scandic group's balance sheet total. As at 31 December, goodwill and brands amounted to MSEK 9,456 which is equivalent to 56 percent of the balance sheet total. These items are not only significant in terms of their amount but also in their nature, as they are impacted by management's estimations and judgements. Due to the significance of this item and its nature, this has been deemed to comprise a key audit area in the audit.

Management and the Board of Directors annually undertake an impairment test of the value of goodwill and brands, and in conjunction with each occasion on which there are indications that a decline in value has been identified, to assess whether there is an impairment requirement.

The estimated value is based on the Board of Director's approved future budgets and forecasts for the next five years. The cash flow for the years after the next five year period is extrapolated based on the business plan. This assessment includes, therefore, assumptions of significant importance to the testing of an impairment requirement. This includes assumptions on sales growth, the development of margins and the discount rate (WACC).

The value that is calculated in the testing is equivalent to the value of the discounted cash flows for the identified cash-generating units: Sweden, Norway and Other Nordics and Europe.

Even if a given unit shows no impairment requirement in a testing, future developments negatively deviating from the assumptions and judgements providing the basis of that testing can lead to an impairment requirement.

Other acquisition-related intangible assets are subject to ongoing depreciation. For these assets, a testing of the valuation is undertaken if there is a suspicion that the value of the assets has decreased so that a write-down needs to be undertaken.

Based on the impairment testing undertaken for goodwill and brands, which is based on best estimate and on the information available in preparing the annual testing, Scandic's assessment is that there is no impairment requirement regarding the above-mentioned assets as at 31 December 2017.

Acquisition analysis regarding the acquisition of Restel Hotellit Oy

We refer to Note 29 Business Combinations

At the end of December, Scandic acquired 100 percent of the shares in Restel Htellit Oy for a purchase price of MSEK 1,160. Restel is the largest acquisition undertaken by Scandic since the acquisition of Rica in 2014, which is the reason we deem the acquisition analysis to comprise a special focus area in the 2017 audit. The acquisition analysis contains significant values as regards goodwill, MSEK 537, and as regards brands and client relationships, MSEK 118. As the acquisition analysis presented in the annual financial statements is preliminary, there is a risk that the assets and liabilities reported as at acquisition date will be adjusted.

How our audit addressed the key audit matter

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.

Concerning the acquisition of Restel, we have performed, in addition to the above-mentioned audit measures regarding the valuation of goodwill and other acquisition-related assets, amongst other things, the following audit activities:

The group audit team has had meetings, together with the local Finnish audit team, and has discussed the annual bookclosing figures which are also equivalent to the opening balances as at acquisition date which were examined and reported by Restel's auditors in testing the acquisition analysis.

We have evaluated to determine whether the accounts have been included in Scandic's consolidation in a correct manner in accordance with IFRS.

We have evaluated the model for identifying and calculating depreciable acquired assets and to determine if this model is in accordance with Scandic's principles, as well as evaluating significant applied assumptions based reasonability.

The acquisition analysis is preliminary up to 29 December 2018 and might, therefore, be adjusted. Based on our audit, we have reported no significant observations to the Audit Committee.

rent period. These areas, which amongst other things, include the valuation of deferred tax, valuation of fixed assets and management's assessment of provisions have been addressed within the framework of the audit and in forming our opinion regarding the annual accounts and consolidated accounts as a whole, but we do not provide a separate opinion on these matters.

Other Information than the annual accounts and consolidated accounts

This document also contains other information than the annual accounts, consolidated accounts and are included on pages 1–61 and 124–127. The Board of Directors and the Managing Director are responsible for the other information.

Our opinion on the annual accounts and consolidated accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts and consolidated accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts and consolidated accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If we, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of the annual accounts and consolidated accounts and that they give a fair presentation in accordance with the Annual Accounts Act and in accordance with IFRS as adopted by the EU. The Board of Directors and the Managing Director are also responsible

for such internal control as they determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts and consolidated accounts, The Board of Directors and the Managing Director are responsible for the assessment of the company's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the Managing Director intends to liquidate the company, to cease operations, or has no realistic alternative but to do so.

The Audit Committee of the Board of Directors shall, without prejudice to the Board of Director's responsibilities and tasks in general, among other things oversee the company's financial reporting process.

Auditor's responsibility

Our objectives are to obtain reasonable assurance about whether the annual accounts and consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts and consolidated accounts.

A further description of our responsibility for the audit of the annual accounts and consolidated accounts is available on the Swedish Inspectorate of Auditors' website: www.revisorsinspektionen.se/rn/showdocument/documents/revdok/revisors_ansvar.pdf. This description is part of the auditor's report.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of Scandic Hotels Group AB for the year 2017 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

Basis for Opinions

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the Group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's type of operations, size and risks place on the size of the parent company's and the Groups equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous

assessment of the company's and the group's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner. The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

Auditor's responsibility

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

A further description of our responsibility for the audit of the administration is available on the Swedish Inspectorate of Auditors' website: www.revisorsinspektionen.se/rn/showdocument/documents/rev_dok/revisors_ansvar.pdf. This description is part of the auditor's report.

The auditor's examination of the corporate governance statement

The Board of Directors is responsible for that the corporate governance statement on pages 72–83 has been prepared in accordance with the Annual Accounts Act.

Our examination of the corporate governance statement is conducted in accordance with FAR's auditing standard RevU 16 The auditor's examination of the corporate governance statement. This means that our examination of the corporate governance statement is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinions.

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

PricewaterhouseCoopers AB, Stockholm, was appointed auditor of Scandic Hotels Group AB (publ) by the general meeting of shareholders on 10 May 2017 and has been the company's auditors since 9 May 2012.

Stockholm 23 March 2018
PricewaterhouseCoopers AB

Magnus Brändström
Authorized Public Accountant
Auditor-in-Charge