Scandic

The largest hotel company in the Nordics

January–December 2017

CONTINUED GROWTH BUT HIGH COSTS IN THE QUARTER

FOURTH QUARTER IN SUMMARY

- Net sales increased by 8.1% to 3,743 MSEK (3,463) due to more rooms in operation and higher RevPAR.
- Adjusted EBITDA totaled 333 MSEK (457), corresponding to a margin of 8.9% (13.2). The comparative period was positively impacted by a non-recurring compensation of 65 MSEK.
- Lower occupancy in Stockholm, combined with high costs affected results negatively in Sweden in the quarter.
- Earnings per share amounted to 1.52 SEK (2.79). Excluding currency effects related to the revaluation of loans, earnings per share totaled 1.48 SEK (2.90).
- The acquisition of the Finnish hotel company Restel was completed in December. The acquisition included 43 hotels and the consideration amounted to 1,160 MSEK.
- Net debt/adjusted EBITDA including Restel proforma was 2.1 at year-end thanks to strong operating cash flow in the fourth quarter.

THE YEAR IN SUMMARY

- Net sales increased by 11.5% to 14,582 MSEK (13,082) due to higher RevPAR and more rooms in operation.
- Adjusted EBITDA totaled 1,570 MSEK (1,513), corresponding to a margin of 10.8% (11.6).
- Earnings per share amounted to 6.86 SEK (8.58). Excluding currency effects related to the revaluation of loans, earnings per share totaled 7.04 SEK (6.85).
- In 2017, Restel had pro forma adjusted EBITDA totaling 196 MSEK, corresponding to a margin of 9.1%.
- For 2017, the Board of Directors proposes a dividend of 3.40 SEK (3.15) per share paid in two equal amounts on two occasions during the year.

GROUP KEY RATIOS

MSEK	Oct-Dec 2017	Oct-Dec 2016	% change	Jan-Dec 2017	Jan-Dec 2016	% change
Financial key ratios						
Net sales	3,743	3,463	*8.1%*	14,582	13,082	*11.5%*
Adjusted EBITDA	333	457	*-27.1%*	1,570	1,513	*3.8%*
Adjusted EBITDA margin, %	8.9	13.2		10.8	11.6	
EBITDA	279	453	*-38.4%*	1,473	1,462	*0.8%*
EBIT (Operating profit/loss)	125	317	*-60.6%*	925	925	
Profit/loss before taxes	106	293	*-63.8%*	800	1,057	*-24.3%*
Net profit/loss for the period	159	286	*-44.4%*	711	882	*-19.4%*
Earnings per share, SEK	1.52	2.79	*-45.4%*	6.86	8.58	*-20.0%*
Net debt/Adjusted EBITDA, LTM	2.3	1.8		2.3	1.8	
Hotel-related key ratios						
RevPAR (SEK)	640	639	*0.3%*	680	643	*5.7%*
ARR (Average Room Rate), SEK	1,027	1,022	*0.5%*	1,012	976	*3.7%*
OCC (Occupancy), %	62.3	62.5		67.1	65.9	
Total number of rooms at reporting date	42,659	41,572	*2.6%*	42,659	41,572	*2.6%*

CEO'S COMMENTS

Unsatisfactory results in Sweden during the quarter

Scandic's sales growth was 8 percent in the fourth quarter, driven mainly by contribution from new hotels and increased RevPAR in Norway and Finland. Despite growing sales, Scandic's EBITDA dropped during the quarter, mainly due to lower profitability in our Swedish operations. RevPAR in Stockholm was weak at the end of the quarter because of increased capacity during the year. Earnings were also affected by unsatisfactory cost-efficiency as we didn't fully adjust our costs to meet the lower occupancy in the Stockholm region. We have taken measures to improve cost-efficiency in Sweden combined with increased sales efforts. We are convinced that the increased capacity in Stockholm will be absorbed by the market over time.

"We have taken measures to improve cost-efficiency in Sweden"

Other operations developed well

Our operations in Sweden outside of Stockholm generally developed well and results continued to improve in Norway and in Other Nordics & Europe. Thanks to a strong cash flow, our gearing is in the lower range of our target for 2-3x adjusted EBITDA despite the acquisition of Restel at the end of the year.

Market leader in Finland

The acquisition of Restel, with 43 hotels and around 7,600 rooms, was completed in the end of December and Scandic is now the clear market leader with an extensive nationwide hotel network in Finland. The Finnish market was strong in 2017 and it is gratifying to see Restel's improvement in earnings during the year and that the EBITDA margin improved to over 9 percent. We have already started rebranding the Restel hotels and see significant potential for synergies when the hotels are able to fully access our strong distribution capacity.

7,600

Number of rooms in Restel

A growing pipeline gives good foundation for growth

During the quarter, we added three hotels with lease agreements to our pipeline, including a big new conference hotel in Frankfurt. In total, at the end of 2017, we had 18 hotels with almost 6,000 rooms in the pipeline, giving us a good foundation for growth in the coming years. We expect continued positive underlying sales growth in the first quarter, excluding calendar effects, in line with the development in the fourth quarter. In addition, Restel will contribute to our revenues from January 1, 2018.

"It is gratifying to see Restel's improvement in earnings during the year"

Increased customer focus

At the end of the year, we initiated a review of our organization. Scandic has grown rapidly in recent years and we see a need to be more customer focused while clarifying roles and mandates in our support functions and ensuring that we have the right skills in the right place. Our goal is to create the conditions for continued growth and improve our adaptability in an increasingly dynamic and digital travel industry. In January, we relaunched Scandic Friends, the Nordic region's largest loyalty program in the hotel industry. The new program includes a number of new partnerships, better benefits for our guests and more ways of spending accrued loyalty points.

Even Frydenberg
President & CEO

NORDIC HOTEL MARKET DEVELOPMENT

Development in the Nordic hotel market was relatively good during the fourth quarter. RevPAR growth was strong in both Norway and Finland thanks to positive demand combined with a relatively stable supply. In Sweden and Denmark declined slightly in the quarter.

Sweden

In the Swedish market, supply measured in terms of available rooms increased by 3.3% while demand went up 2.1%. RevPAR in the market decreased marginally by 0.7%. A large part of the increase in capacity in Sweden occurred in Stockholm, where the number of available rooms grew by 6-7% compared with the previous year, which exceeded growth in demand by 2.9%. As a result, in Stockholm, RevPAR in the market dropped 4.2% during the quarter and occupancy was lower while average room rates remained largely unchanged. Development in Stockholm was particularly weak in December. During 2018, the number of available rooms is expected to increase by about 4% in the Stockholm area and remain relatively unchanged in both Gothenburg and Malmö.

Norway

The number of sold rooms in the Norwegian market rose by 5.3% in the fourth quarter. The total number of available rooms rose marginally compared with the previous year, where a sharp increase in supply in Bergen was offset by a decline in other regions. RevPAR in the market increased by 9.0%, with an increase in the average occupancy and higher average room rates. All major regions except Bergen had positive RevPAR development during the quarter. In Oslo, the number of available rooms is expected to increase by about 4% after having dropped slightly in 2017 due to renovations.

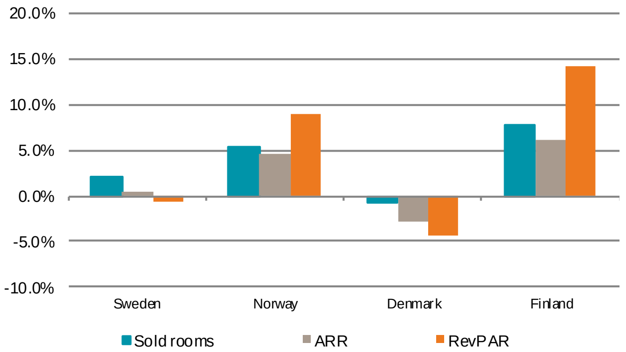
Denmark

In Denmark, RevPAR in the market fell by 4.4% and both average room rates and occupancy declined slightly. The number of available rooms increased by 1.0% while the number of sold rooms decreased slightly. The decline in market RevPAR is mainly due to high comparative figures as a result of a number of major congresses in Copenhagen during the fourth quarter of the previous year. Occupancy in Copenhagen was still high during the fourth quarter of 2017 and Scandic estimates that the number of available rooms will increase by about 4% in 2018.

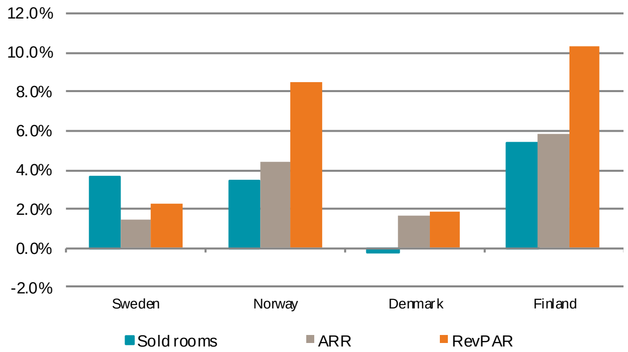
Finland

In the Finnish market, the number of sold rooms increased by 7.7% during the fourth quarter while the number of available rooms on the market as a whole remained stable. Market RevPAR increased by 14.2% driven by increased occupancy and higher average room prices. All major Finnish cities had positive RevPAR development during the quarter. The number of available rooms is expected to rise by just above 3% in Helsinki in 2018 and remain relatively unchanged in Tampere.

MARKET DEVELOPMENT OCTOBER–DECEMBER 2017
CHANGE YEAR-ON-YEAR



MARKET DEVELOPMENT JANUARY–DECEMBER 2017
CHANGE YEAR-ON-YEAR



Source: Benchmarking Alliance & STR Global.

HOTEL PORTFOLIO

Existing hotel portfolio

At the end of the period, Scandic had 49,983 rooms in operation at 262 hotels, of which 240 had lease agreements. During the quarter, 7 324 rooms were added from the acquisition of Restel, which was concluded at the end of the year and will contribute to Scandic's sales and earnings from January 1, 2018. Scandic exited one hotel in Sweden and one in Belgium in addition to selling Scandic Vierumäki in Finland at the end of the third quarter. Scandic Marski in Helsinki was also closed for renovations. Scandic Marski is expected to reopen during the second quarter of 2019 with an additional 74 rooms. During the quarter, the top two floors of Downtown Camper by Scandic in Stockholm opened with 168 rooms. The hotel now has 494 rooms in operation.

Portfolio changes	**Number of rooms**
Opening balance September 30, 2017	43,149
Exits	
Grand Place, Belgium	-100
Vierumäki, Finland	-180
Östersund C, Sweden	-126
Total	**-406**
Change	**-84**
Acquisition Restel	**7,324**
Total change during the quarter	**6,834**
Closing balance December 31, 2017	**49,983**

The number of rooms in Restel in the table above excludes one hotel that is closed for renovation with planned opening during the first half of 2018.

Number of hotels in operation and in pipeline

	Operational on Dec 31, 2017				**Pipeline**	
		of which		of which	31 Dec, 2017	
	Hotels	Leased	Rooms	Leased	Hotels	Rooms
Sweden	85	79	17,325	16,580	2	705
Norway	81	67	14,919	12,947	4	990
Denmark	24	23	4,089	3,879	5	1,859
Finland	67	66	12,225	12,158	5	1,622
Rest of Europe	5	5	1,425	1,425	2	799
Total	**262**	**240**	**49,983**	**46,989**	**18**	**5,975**
Change during the quarter	*38*	*39*	*6,834*	*6,960*	*6*	*1,542*

High-quality pipeline

During the quarter, Scandic announced an agreement to operate a new conference hotel in Frankfurt. The hotel, which will have 506 rooms, will be located beside the European Central Bank's headquarters and will open in 2021. It will be Scandic's fifth hotel in the German market.

Scandic also signed an agreement to take over Hamburger Börs in Turku. The hotel will have 300 rooms when it opens in 2021 after a complete renovation. Two Nordic franchise hotels that will open in 2018 with a total of 163 rooms were added to Scandic's pipeline during the quarter. The pipeline does also include one hotel from Restel that is closed for renovation with planned opening in the first half of 2018.

At the end of the quarter, Scandic had 18 hotels with a total of 5,975 rooms in the pipeline, which is a historically high level for Scandic.

NET SALES AND RESULTS

Group

	Oct-Dec 2017	Oct-Dec 2016	%	Jan-Dec 2017	Jan-Dec 2016	%
Net sales (MSEK)	**3,743**	**3,463**	**8.1%**	**14,582**	**13,082**	**11.5%**
Currency effects	-51		-1.5%	114		0.9%
New hotels	226		6.5%	828		6.3%
Exits	-14		-0.4%	-63		-0.5%
LFL	119		3.4%	621		4.7%
Adjusted EBITDA	**333**	**457**	**-27.1%**	**1,570**	**1,513**	**3.8%**
% margin	8.9%	13.2%		10.8%	11.6%	
RevPAR (SEK)	**640**	**639**	**0.2%**	**680**	**643**	**5.7%**
Currency effects	-10		-1.6%	6		0.8%
New hotels/exits	-8		-1.3%	0		0.0%
LFL	20		3.1%	31		4.9%

Fourth quarter

Net sales rose by 8.1% to 3,743 MSEK (3,463). For comparable units, the increase was 3.4%. All markets contributed to the growth, with the highest growth rate in Norway. Currency effects impacted net sales negatively by -1.5%. Changes in the hotel portfolio contributed 6.1% or 212 MSEK to the increase in sales. The greatest contribution to sales was from Downtown Camper by Scandic, which opened in Stockholm on September 1, 2017, and the eight hotels that were added through the Pandox and Eiendomsspar transaction in the second quarter of 2017.

Average Revenue Per Available Room (RevPAR) increased by 1.8% in local currencies compared with the previous year. RevPAR for comparable units grew by 3.1%. RevPAR grew in all segments except Sweden, where it dropped by 1.3%. In Sweden, RevPAR increased in all areas except Stockholm.

Revenue from restaurant and conference operations grew by 10.7% and the share of total net sales amounted to 28.8% (28.9).

Rental costs accounted for 25.2% (25.2) of net sales. Fixed and guaranteed rental costs were 61.2% (64.9) of the total rental costs. The reduction is a result of increased sales and additional contracts with lower or no guarantee levels.

Central costs and group adjustments grew to -140 MSEK (-103). The increase is largely explained by a number of non-recurring items, including costs for Scandic's long-term incentive program and other personnel costs of a non-recurring nature. The costs for the central functions of IT and Commercial have grown, driven by increased investments within digitalization, infrastructure and IT security.

Adjusted EBITDA before opening costs for new hotels dropped to 333 MSEK (457). The adjusted EBITDA margin declined to 8.9% (13.2). Last year's result included a one-off compensation of 65 MSEK. The decline in adjusted EBITDA is chiefly attributable to Scandic's operations in Stockholm, where sales dropped in the quarter and cost were not adjusted as well as negative accrual effects.

Pre-opening costs for new hotels amounted to -19 MSEK (-4), largely attributable to the opening of Downtown Camper by Scandic.

Non-recurring items amounted to -35 MSEK (0), comprising transaction costs related to the Restel acquisition.

Consequently, EBITDA was 279 MSEK (453).

EBIT amounted to 125 MSEK (317). The EBIT margin was 3.3% (9.2%) and depreciation and amortization were -154 MSEK (-136).

The **Group's net financial expense** amounted to -19 MSEK (-24). The interest expense was -25 MSEK (-33), positively impacted by the new loan agreement that was concluded on June 22, 2017. The result of exchange rate fluctuations from the revaluation of loans and investments amounted to 6 MSEK (-14).

Reported tax totaled 53 MSEK (-7). Reported tax was affected positively by 42 MSEK, with a valuation of tax losses in Norway from the Rica acquisition that now are estimated to be utilized.

Net profit dropped to 158 MSEK (286). Earnings per share after dilution totaled 1.52 SEK per share (2.79). Excluding currency effects related to the revaluation of loans, earnings per share after dilution amounted to 1.48 SEK per share (2.90).

January–December

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

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

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

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

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

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

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

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

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

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

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

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

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

Segment reporting

Quarterly, Oct-Dec	Net sales		Adjusted EBITDA		Adjusted EBITDA margin	
MSEK	2017	2016	2017	2016	2017	2016
Sweden	1,579	1,521	203	329	12.9%	21.6%
Norway	1,146	976	113	90	9.9%	9.2%
Other Nordics & Europe	1,018	966	157	141	15.4%	14.6%
Central costs and group adjustments	-	-	-140	-103	-	-
Total Group	**3,743**	**3,463**	**333**	**457**	**8.9%**	**13.2%**

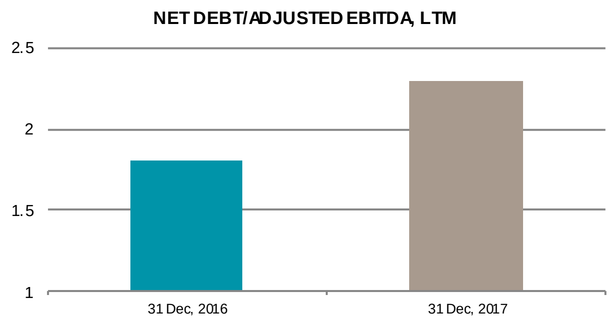
Jan-Dec	Net sales		Adjusted EBITDA		Adjusted EBITDA margin	
MSEK	2017	2016	2017	2016	2017	2016
Sweden	5,977	5,637	875	975	14.6%	17.3%
Norway	4,586	3,744	490	363	10.7%	9.7%
Other Nordics & Europe	4,019	3,701	606	522	15.1%	14.1%
Central costs and group adjustments	-	-	-401	-347	-	-
Total Group	**14,582**	**13,082**	**1,570**	**1,513**	**10.8%**	**11.6%**

BALANCE SHEET AND CASH FLOW

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

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

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



Operating cash flow amounted to -549 MSEK (890) in 2017. The major reason for the change compared with the previous year is the Restel acquisition on December 29, 2017 of 1,146 MSEK. The cash flow contribution from the change in working capital amounted to 196 MSEK (150) with a seasonally strong fourth quarter. The Group has negative operating capital as the majority of revenue is paid in advance or in direct connection with stays.

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

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

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

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

When the loan entered into force on June 30, 2017, the company ceased to apply hedge accounting aimed at hedging net investments in its foreign subsidiaries in Finland, Denmark and Norway. Only minor currency effects are expected in net financial items from this time. Exchange rate fluctuations were 5 MSEK in the last six months of the year.

At the end of the period, the Group had 140 MSEK (1,068) in cash and cash equivalents.

Unused credit facilities totaled 1,182 MSEK (1,000),

Cash flow

MSEK	Oct-Dec 2017	Oct-Dec 2016	Jan-Dec 2017	Jan-Dec 2016
Cash flow before changes in working capital	181	456	1,348	1,459
Changes in working capital	582	399	196	150
Investments	-388	-251	-964	-719
Operating cash flow before acquisitions/disposals	**375**	**604**	**580**	**890**
Acquisitions/disposals	-1,131	0	-1,129	0
Operating cash flow	**-756**	**604**	**-549**	**890**

EMPLOYEES

The average number of employees in the Group was 9,928 as at December 31, 2017 compared with 9,359 as at December 31, 2016.

SEGMENT REPORTING

Sweden

	Oct-Dec 2017	Oct-Dec 2016	%	Jan-Dec 2017	Jan-Dec 2016	%
Net sales (MSEK)	**1,579**	**1,521**	**3.8%**	**5,977**	**5,637**	**6.0%**
New hotels	57		3.8%	276		4.9%
Exits	-8		-0.6%	-34		-0.6%
LFL	9		0.6%	98		1.7%
Adjusted EBITDA	**203**	**329**	**-38.3%**	**875**	**975**	**-10.3%**
% margin	12.9%	21.6%		14.6%	17.3%	
RevPAR (SEK)	**690**	**699**	**-1.3%**	**710**	**693**	**2.4%**
New hotels/Exits	0		0.0%	7		0.9%
LFL	-9		-1.3%	10		1.5%
ARR (SEK)	1,055	1,043	1.1%	1,029	1,012	1.7%
OCC %	65.4%	67.0%		68.9%	68.5%	

Fourth quarter

Net sales rose by 3.8% to 1,579 MSEK (1,521). Net sales for comparable units grew by 0.6%. Market capacity in Stockholm increased by 6–7% in the third quarter while the number of sold rooms rose more slowly. This resulted in a reduced occupancy in Stockholm, which lead to weak sales development in Stockholm and negative RevPAR for Sweden as a whole.

Changes in the hotel portfolio contributed 3.2% or 49 MSEK to the increase in sales. The greatest contribution to sales was from Downtown Camper by Scandic, which opened in Stockholm on September 1, 2017.

Average Revenue Per Available Room (RevPAR) declined by 1.3% compared with the same quarter the previous year. RevPAR for comparable units dropped by 1.3%. RevPAR increased in all regions except Stockholm.

Adjusted EBITDA before opening costs for new hotels dropped to 203 MSEK (329). Last year's figure included a non-recurring compensation of 65 MSEK from a property dispute. The adjusted EBITDA margin, excluding the non-recurring compensation, declined from 17.4% to 12.9%. The decline in adjusted EBITDA is mainly attributable to Scandic's operations in Stockholm, where sales dropped in the quarter without it being possible to adjust costs to the same extent. Additionally, effects from accruals contributed to the negative earnings trend.

January–December

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

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

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

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

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

Norway

	Oct-Dec 2017	Oct-Dec 2016	%	Jan-Dec 2017	Jan-Dec 2016	%
Net sales (MSEK)	**1,146**	**976**	**17.4%**	**4,586**	**3,744**	**22.5%**
Currency effects	-56		-5.7%	49		1.4%
New hotels	149		15.2%	469		12.5%
Exits	-4		-0.4%	-29		-0.8%
LFL	81		8.3%	353		9.4%
Adjusted EBITDA	**113**	**90**	**25.4%**	**490**	**363**	**35.2%**
% margin	9.9%	9.2%		10.7%	9.7%	
RevPAR (SEK)	**547**	**545**	**0.4%**	**617**	**559**	**10.3%**
Currency effects	-36		-6.5%	7		1.3%
New hotels/Exits	-13		-2.4%	-3		-0.4%
LFL	51		9.3%	53		9.4%
ARR (SEK)	989	1,020	-3.0%	988	938	5.4%
OCC %	55.3%	53.5%		62.4%	59.7%	

Fourth quarter

Net sales rose by 17.4% to 1,146 MSEK (976). Net sales for comparable units grew by 8.3%.

Changes in the hotel portfolio contributed 14.8% or 145 MSEK to the increase in sales. The greatest contributors were Grand Hotel Oslo and an additional four hotels that were added in the Pandox and Eiendomsspar transaction, which was implemented in the second quarter. Scandic Flesland Airport in Bergen, which opened on April 3, 2017 and Scandic Ambassadeur in Drammen which opened on January 1, 2017 did also contribute.

Average Revenue Per Available Room (RevPAR) increased by 6.9% in local currency compared with the same quarter the previous year. RevPAR for comparable units grew by 9.3%.

Adjusted EBITDA before pre-opening costs for new hotels increased to 113 MSEK (90).

The adjusted EBITDA margin rose to 9.9% (9.2). Increased RevPAR impacted the margin positively. New hotels that initially contributed a lower margin continued to show positive development in the fourth quarter, approaching the average for the hotel portfolio in Norway.

January–December

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

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

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

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

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

Other Nordic countries & Europe

	Oct-Dec 2017	Oct-Dec 2016	%	Jan-Dec 2017	Jan-Dec 2016	%
Net sales (MSEK)	**1,018**	**966**	**5.4%**	**4,019**	**3,701**	**8.6%**
Currency effects	3		0.4%	66		1.8%
New hotels	21		2.1%	83		2.2%
Exits	-1		-0.1%	0		0.0%
LFL	29		3.0%	169		4.6%
Adjusted EBITDA	**157**	**141**	**11.5%**	**606**	**522**	**16.1%**
% margin	15.4%	14.6%		15.1%	14.1%	
RevPAR (SEK)	**675**	**647**	**4.5%**	**708**	**659**	**7.5%**
Currency effects	2		0.3%	12		1.7%
New hotels/Exits	-3		-0.3%	-2		-0.2%
LFL	29		4.5%	39		6.0%
ARR (SEK)	1,023	990	3.3%	1,012	958	5.7%
OCC %	66.0%	65.3%		70.0%	68.8%	

Fourth quarter

Net sales rose by 5.4% to 1,018 MSEK (966). Net sales for comparable units grew by 3.0%. All markets were positive contributors to the increase in sales, driven by Finland with a 7.8% increase in local currency.

Changes in the hotel portfolio contributed 2.0% or 20 MSEK to the increase in sales. Scandic Sluseholmen in Copenhagen was the greatest contributor to the increase.

Average Revenue Per Available Room (RevPAR) increased by 4.2% in local currency compared with the same quarter the previous year. RevPAR for comparable units grew by 4.5%. Development was strong in Finland while in Denmark and Germany, it was marginally negative.

Adjusted EBITDA before pre-opening costs for new hotels increased to 157 MSEK (141).

The adjusted EBITDA margin rose to 15.4% (14.6).

January–December

Net sales rose by 8.6% to 4,019 MSEK (3,701). Net sales for comparable units grew by 4.6%.

Changes in the hotel portfolio contributed 2.2% or 83 MSEK to the increase in sales. Scandic Sluseholmen in Copenhagen and the hotels that were opened in 2016, Scandic Vaasa in Finland and Scandic Aalborg City in Denmark, contributed to the increase.

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

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

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

Central functions

Adjusted EBITDA for central functions and Group adjustments amounted to -140 MSEK (-103) during the quarter and -401 MSEK (-347) for the year. The increase in costs is largely related to strengthening of the Group's central IT and Commercial functions and greater investments in digitalization, infrastructure and IT security. The increase is also attributable to a number of non-recurring items in the fourth quarter including costs for Scandic's long-term incentive program and other personnel costs.

EVENTS AFTER THE REPORTING DATE

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

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

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

OUTLOOK

We estimate that sales growth LFL, adjusted for calendar effects, will be positive in the first quarter, in line with development in the fourth quarter. The fact that Easter falls partly in the first quarter of this year is expected to have a negative impact on sales of 4-5 percentage points.

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

FINANCIAL TARGETS

At the beginning of 2016, Scandic adopted a clear long-term strategy aimed at developing operations in line with the following medium- and long-term financial targets:

- Annual net sales growth of at least 5% on average over a business cycle, excluding potential M&As.
- An adjusted EBITDA margin of at least 11% on average over a business cycle.
- Net debt in relation to adjusted EBITDA of 2–3x.

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. Approximately 70 percent of Scandic's revenue comes from business travel and conferences while the remaining 30 percent comes from leisure travel.

DIVIDEND

For 2017, the Board of Directors proposes that the Annual General Meeting resolve on a dividend of 3.40 SEK (3.15) per share. The Board proposes that the dividend will be paid out in two equal amounts of 1.70 SEK on two occasions.

PRESENTATION OF THE REPORT

The presentation of Scandic's Interim Report will take place at 9:00 CET on February 20, 2018 with President & CEO Even Frydenberg and CFO Jan Johansson available by phone. To participate, just dial +46 8 566 19353 or +44 203 0089806. Please call in five minutes before the start. The presentation will also be available afterwards at scandichotelsgroup.com

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FINANCIAL CALENDAR

2018-04-26	Interim Report Q1 2018 (silent period from March 26, 2018)
2018-04-26	Annual General Meeting
2018-07-20	Interim Report Q2 2018 (silent period from June 20, 2018)
2018-10-25	Interim Report Q3 2018 (silent period from September 25, 2018)

SIGNIFICANT RISKS AND RISK FACTORS

Scandic operates in a sector where demand for hotel nights and conferences is influenced by the underlying domestic economic development and purchasing power in the geographic markets in which Scandic does business as well as in the markets from which there is a significant amount of travel to the Nordic countries. Additionally, profitability in the sector is impacted by changes in room capacity where establishing new hotels can initially lead to lower occupancy in the short term, but in the long term, greater room capacity can help stimulate interest in particular destinations for business and leisure travel, which can increase the number of rooms sold.

Scandic's business model is based on lease agreements where approximately 90 percent of the hotels (based on the number of rooms) have variable revenue-based rents. This results in lower profit risks since revenue losses are partly offset by reduced rental costs. Scandic's other costs 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. Together, this means that by having a flexible cost structure, Scandic can lessen the effects of seasonal and economic fluctuations.

Scandic's goodwill and intangible assets amount to 9,669 MSEK (9,103). The recognized value mainly relates to operations in Sweden, Norway and Finland. A significant downturn in the hotel markets in those countries would affect expected cash flow and the value of goodwill and other intangible assets.

SENSITIVITY ANALYSIS

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

The operations of Scandic's subsidiaries are mainly local with revenues and expenses in domestic currencies, and the Group's internal sales are low. This means that currency exposure due to transactions is limited to the operating profit/loss. Exchange rate fluctuations in the Group arise from the revaluation of Scandic's foreign subsidiaries' income statements and balance sheets to SEK.

Consolidated income statement

MSEK	Oct-Dec 2017	Oct-Dec 2016	Jan-Dec 2017	Jan-Dec 2016
INCOME				
Room revenue	2,285	2,136	9,464	8,530
Restaurant and conference revenue*	1,420	1,282	4,853	4,299
Franchise and management fees	6	7	26	29
Other hotel-related revenue	32	38	239	224
Net sales	***3,743***	***3,463***	***14,582***	***13,082***
Other income	-	3	1	13
TOTAL OPERATING INCOME	**3,743**	**3,466**	**14,583**	**13,095**
OPERATING COSTS				
Raw materials and consumables	-357	-319	-1,295	-1,138
Other external costs	-886	-721	-3,215	-2,850
Personnel costs	-1,224	-1,097	-4,738	-4,211
Adjusted EBITDAR	**1,276**	**1,330**	**5,335**	**4,896**
Fixed and guaranteed rental charges	-577	-566	-2,323	-2,203
Variable rental charges	-366	-307	-1,442	-1,180
Adjusted EBITDA	**333**	**457**	**1,570**	**1,513**
Pre-opening costs	-19	-4	-67	-51
Items affecting comparability	-35	-	-30	-
EBITDA	**279**	**453**	**1,473**	**1,462**
Depreciation and amortization	-154	-136	-549	-537
TOTAL OPERATING COSTS	**-3,618**	**-3,150**	**-13,659**	**-12,170**
Adjusted EBIT	179	321	1,022	976
EBIT (Operating profit/loss)	**125**	**317**	**925**	**925**
Financial income	6	23	9	265
Financial expenses	-25	-47	-133	-133
Net financial items	**-19**	**-24**	**-124**	**132**
EBT (Profit/loss before taxes)	**106**	**293**	**800**	**1,057**
Taxes	53	-7	-90	-175
PROFIT/LOSS FOR PERIOD	**159**	**286**	**711**	**882**
Profit/loss for period relating to:				
Parent Company shareholders	157	286	707	879
Non-controlling interest	1	-	4	3
Profit/loss for period	**158**	**286**	**711**	**882**
Average number of outstanding shares before dilution	102,959,870	102,428,053	102,959,870	102,428,053
Average number of outstanding shares after dilution	103,003,004	102,457,837	103,003,004	102,457,837
Earnings per share before dilution, SEK	**1.52**	**2.79**	**6.87**	**8.58**
Earnings per share after dilution, SEK	**1.52**	**2.79**	**6.86**	**8.58**
Adjusted EBITDAR margin, %	34.1	38.4	36.6	37.4
Adjusted EBITDA margin, %	8.9	13.2	10.8	11.6
EBITDA margin, %	7.5	13.1	10.1	11.2
Adjusted EBIT margin, %	4.8	9.3	7.0	7.5
EBIT margin, %	3.3	9.2	6.3	7.1
Fixed and guaranteed rental charges, % of net sales	15.4	16.3	15.9	16.8
Variable rental charges, % of net sales	9.8	8.9	9.9	9.0
Total rental charges, % of net sales	25.2	25.2	25.8	25.9

*) Revenue from bars, restaurants, breakfasts and conferences including rent

Consolidated statement of comprehensive income

MSEK	Oct-Dec 2017	Oct-Dec 2016	Jan-Dec 2017	Jan-Dec 2016
Profit/loss for period	159	286	711	882
Items that may be reclassified to the income statement	7	-	-56	45
Items that may not be reclassified to the income statement	-43	-55	-79	-6
Other comprehensive income	**-36**	**-55**	**-135**	**39**
Total comprehensive income for period	**123**	**231**	**576**	**921**
Relating to:				
Parent Company shareholders	123	231	571	918
Non-controlling interest	-	-	5	3

Consolidated balance sheet, summary

MSEK	31 Dec 2017	31 Dec 2016
ASSETS		
Intangible assets	9,669	9,103
Tangible assets	5,599	2,977
Financial fixed assets	170	67
Total fixed assets	**15,438**	**12,147**
Current assets	1,285	929
Assets held for sale	101	-
Cash and cash equivalents	140	1,068
Total current assets	**1,526**	**1,997**
TOTAL ASSETS	**16,964**	**14,144**
EQUITY AND LIABILITIES		
Equity attributable to owners of the Parent Company	7,323	7,072
Non-controlling interest	33	31
Total equity	**7,356**	**7,103**
Liabilities to credit institutions	3,769	3,777
Finance lease liabilities	1,607	1
Other long-term liabilities	1,312	1,153
Total long-term liabilities	**6,688**	**4,931**
Derivative instruments	5	20
Current liabilities for finance leases	58	-
Liabilities held for sale	70	-
Other current liabilities	2,786	2,090
Total current liabilities	**2,920**	**2,110**
TOTAL EQUITY AND LIABILITIES	**16,964**	**14,144**
Equity per share, SEK	71.1	68.7
Total number of shares outstanding, end of period	102,985,075	102,985,075
Working capital	-1,501	-1,161
Interest-bearing net liabilities	3,629	2,709
Interest-bearing net liabilities/adjusted EBITDA	2.3	1.8

Changes in Group equity

MSEK	Share capital	Share premium reserve	Translation reserve	Retained earnings	Total	Non-controlling interest	Total equity
OPENING BALANCE 01/01/2016	**26**	**7,865**	**-71**	**-1,643**	**6,177**	**28**	**6,205**
Profit/loss for the period	**-**	**-**	**-**	**879**	**879**	**3**	**882**
Total other comprehensive income, net after tax	*-*	*-*	*42*	*-6*	*36*	*3*	*39*
Total comprehensive income for the year	**-**	**-**	**42**	**873**	**915**	**6**	**921**
Total transactions with shareholders	*-*	*-*	*-*	*-20*	*-20*	*-3*	*-23*
CLOSING BALANCE 12/31/2016	**26**	**7,865**	**-29**	**-790**	**7,072**	**31**	**7,103**
Profit/loss for the period	**-**	**-**	**-**	**707**	**707**	**4**	**711**
Total other comprehensive income, net after tax	*-*	*-*	*-57*	*-79*	*-136*	*1*	*-135*
Total comprehensive income for the year	**-**	**-**	**-57**	**628**	**571**	**5**	**576**
Total transactions with shareholders	*-*	*-*	*-*	*-320*	*-320*	*-3*	*-323*
CLOSING BALANCE 12/31/2017	**26**	**7,865**	**-86**	**-482**	**7,323**	**33**	**7,356**
Change accounting principles	-	-	-	0	0	-	0
OPENING BALANCE 01/01/2018	**26**	**7,865**	**-86**	**-482**	**7,323**	**33**	**7,356**

Consolidated cash flow statement

	Oct-Dec 2017	Oct-Dec 2016	Jan-Dec 2017	Jan-Dec 2016
OPERATING ACTIVITIES				
EBIT (Operating profit/loss)	125	317	925	925
Depreciation	154	136	549	537
Items not included in cash flow	4	2	-1	
Paid tax	-102	1	-125	-3
Change in working capital	582	399	196	150
Cash flow from operating activities	**763**	**855**	**1,544**	**1,609**
INVESTING ACTIVITIES				
Net investments	-388	-251	-964	-719
Sale of operations	15	-	17	-
Acquisitions	-1,146	-	-1,146	-
Cash flow from investing operations	**-1,519**	**-251**	**-2,093**	**-719**
OPERATIVE CASH FLOW	**-756**	**604**	**-549**	**890**
FINANCING OPERATIONS				
Interest payments	-16	-26	-80	-101
Dividends	-3	-	-325	-3
Refinancing of loans	-	-	-6	-
Dividend, share swap agreement	-5	-	30	-
Net Borrowing/Amortization	798	-	9	-
Cash flow from financing operations	**774**	**-26**	**-372**	**-104**
CASH FLOW FOR PERIOD	**18**	**578**	**-921**	**786**
Cash and cash equivalents at beginning of period	**121**	**440**	**1,068**	**248**
Translation difference in cash and cash equivalents	1	50	-7	34
Cash and cash equivalents at end of the period	140	1,068	140	1,068

Parent Company income statement, summary

MSEK	Oct-Dec 2017	Oct-Dec 2016	Jan-Dec 2017	Jan-Dec 2016
Net sales	34	10	54	29
Expenses	-32	-11	-71	-36
EBIT (Operating profit/loss)	**2**	**-1**	**-17**	**-7**
Financial income	39	68	113	114
Financial expenses	-17	-23	-104	-97
Net financial items	**22**	**45**	**9**	**17**
Appropriations	334	66	334	66
EBT (profit/loss before tax)	**358**	**110**	**325**	**76**
Tax	-78	-18	-71	-11
PROFIT/LOSS FOR PERIOD	**280**	**92**	**254**	**65**

Consolidated statement of comprehensive income

MSEK	Oct-Dec 2 017	Oct-Dec 2 016	Jan-Dec 2 017	Jan-Dec 2 016
Profit/loss for period	**280**	**92**	**254**	**65**
Items that may be reclassified to the income statement	-	-	-	-
Items that may not be reclassified to the income statement	-	-	-	-
Other comprehensive income	**-**	**-**	**-**	**-**
Total comprehensive income for period	**280**	**92**	**254**	**65**

Parent Company balance sheet, summary

MSEK	31 Dec 2017	31 Dec 2016
ASSETS		
Investments in subsidiaries	5,039	4,590
Group company receivables	5,174	5,067
Deferred tax assets	-	71
Total fixed assets	**10,213**	**9,728**
Current receivables	28	6
Group company receivables	333	66
Cash and cash equivalents	-	790
Total current assets	**361**	**862**
TOTAL ASSETS	**10,574**	**10,590**
EQUITY AND LIABILITIES		
Equity	**6,606**	**6,672**
Liabilities to credit institutions	3,813	3,839
Total long-term liabilities	**3,813**	**3,886**
Other liabilities	118	8
Accrued expenses and prepaid income	37	24
Total current liabilities	**155**	**32**
TOTAL EQUITY AND LIABILITIES	**10,574**	**10,590**

Changes in Parent Company's equity

	Share capital	Share premium reserve	Translation reserve	Retained earnings	Total equity
MSEK					
OPENING BALANCE 01/01/2016	**26**	**1,534**	**-**	**5,088**	**6,648**
Profit/loss for period	**-**	**-**	**-**	**65**	**65**
Total other comprehensive income, net after tax	-	-	-	-	-
Total other comprehensive income				**65**	**65**
Total transactions with shareholders	-	-	-	*-41*	*-41*
CLOSING BALANCE 12/31/2016	**26**	**1,534**	**-**	**5,112**	**6,672**
OPENING BALANCE 01/01/2017	**26**	**1,534**		**5,112**	**6,672**
Profit/loss for period	**-**	**-**	**-**	**254**	**254**
Total other comprehensive income, net after tax	-	-	-	-	-
Total other comprehensive income	**-**	**-**	**-**	**254**	**254**
Total transactions with shareholders	-	-	-	*-320*	*-320*
CLOSING BALANCE 12/31/2017	**26**	**1,534**	**-**	**5,046**	**6,606**

Parent Company

The operations of the Parent Company, Scandic Hotels Group AB, include management services for the rest of the Group. Revenues for the period amounted to 54 MSEK (29). The operating profit was -17 MSEK (-7).

Net financial items for the period totaled 8 MSEK (17). The Parent Company's profit before tax was 325 MSEK (76).

Transactions between related parties

The Braganza AB Group is considered to be a related party in terms of participating interest and Board representation during the year. Accommodation revenues from related parties amounted to 10 MSEK for the period. For transactions with subsidiaries, the OECD's recommendations for Transfer Pricing are applied.

ACCOUNTING PRINCIPLES

The Group applies International Financial Reporting Standards, IFRS, as endorsed by the EU. This interim report has been prepared in accordance with IAS 34 Interim Financial Reporting and the Annual Accounts Act.

The accounting principles and methods of calculation applied in this report are the same as those used in the preparation of the Annual Report and consolidated financial statements for 2016 and are outlined in Note 1, Accounting principles.

From January 1, 2018, the Group applies two new accounting principles, IFRS 9, Financial instruments, and IFRS 15, Revenue recognition. The Group has calculated the effects of the principles on the accounts for 2017 and the effects together amount to MSEK 0. Changes in the Group's equity include the effect as a change in accounting principles as per January 1, 2018.

The Parent Company applies the Annual Accounts Act and RFR 2, Accounting for legal entities. This means that IFRS is applied with certain exceptions and additions.

This interim report gives a true and fair view of the Parent Company and Group's operations, financial position and results of operations and also describes the significant risks and uncertainties to which the Parent Company and Group companies are exposed. All amounts in this report are expressed in MSEK unless otherwise stated. Rounding differences may occur.

The information for the interim period on pages 1–26 is an integral part of these financial statements.

ALTERNATIVE PERFORMANCE MEASURES

The company uses alternative performance measures for its financial statements. From the second quarter 2016, the company has applied the ESMA's (European Securities and Markets Authority) new guidelines for alternative performance measures.

Alternative performance measures are reported to help investors evaluate the performance of the company. They are used by the management for the internal evaluation of operating activities and for forecasting and budgeting. Alternative performance measures are also used in part as criteria in LTIP programs.

These measures aim to measure Scandic's activities and may therefore differ from the way that other companies calculate similar dimensions.

The definition of alternative performance measures can be found under Financial key ratios and Alternative performance measures.

CALCULATION OF FAIR VALUE

The fair value of financial instruments is determined by their classification in the hierarchy of actual value. The different levels are defined as follows:

Level 1: Listed prices for identical assets or liabilities on active markets.

Level 2: Other observable data than what is included in Level 1 regarding the asset or liability, either direct or indirect.

Level 3: Data for the asset or liability that is not based on observable market data.

The Group's derivative instruments and loans from credit institutions are classified as Level 2. For liabilities to credit institutions, the booked value is the fair value.

SEGMENT DISCLOSURES

Segments are reported according to IFRS 8 Operating segments. Segment information is reported in the same way as it is analyzed and studied internally by executive decision-makers, mainly the CEO, the Executive Committee and the Board of Directors.

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

Sweden – Swedish hotels operated under the Scandic brand.

Norway – Norwegian hotels operated under the Scandic brand.

Other Nordic countries & Europe – hotels operated under the Scandic brand in Belgium, Denmark, Finland, Poland and Germany as well as hotels operated under the Hilton brand in Finland.

Central functions – costs for finance, business development, investor relations, communication, technical development, human resources, branding, marketing, sales, IT and purchasing. These functions support all hotels in the Group, including those under lease agreements and management and franchise agreements.

The division of revenues between segments is based on the location of the business activities and segment disclosure is determined after eliminating inter-group transactions. Revenues derive from a large number of customers in all segments.

Segment results are analyzed based on adjusted EBITDA.

From 2018, all hotel operations in Finland that are conducted under the Scandic brand, Hilton and brands that have been contributed in connection with the acquisition of Restel will be reported in their own segment – Finland.

Segment disclosures

Oct-Dec	Sweden		Norway		Other Nordic countries & Europe		Central functions		Group	
MSEK	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Net sales	1,579	1,521	1,146	976	1,018	966	-	-	3,743	3,463
Other income	-	3	-	-	-	-	-	-	-	3
Internal transactions	-	-	-	-	-	-	34	10	34	10
Group eliminations	-	-	-	-	-	-	-34	-10	-34	-10
Total income	**1,579**	**1,524**	**1,146**	**976**	**1,018**	**966**	**-**	**-**	**3,743**	**3,466**
Expenses	-1,376	-1,195	-1,033	-886	-861	-825	-140	-103	-3,410	-3,009
Adjusted EBITDA	**203**	**329**	**113**	**90**	**157**	**141**	**-140**	**-103**	**333**	**457**
Adjusted EBITDA margin, %	12.9	21.6	9.9	9.2	15.4	14.6	-	-	8.9	13.2
EBITDA	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**279**	**453**
EBITDA margin, %	-	-	-	-	-	-	-	-	7.5	13.1
Depreciation and amortization	-	-	-	-	-	-	-	-	-154	-136
EBIT (Operating profit/loss)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**125**	**317**
Net financial items	-	-	-	-	-	-	-	-	-19	-24
EBT (Profit/loss before tax)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**106**	**293**

Jan-Dec	Sweden		Norway		Other Nordic countries & Europe		Central functions		Group	
MSEK	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Net sales	5,977	5,637	4,586	3,744	4,019	3,701	-	-	14,582	13,082
Other income	1	13	-	-	-	-	-	-	1	13
Internal transactions	-	-	-	-	-	-	54	29	54	29
Group eliminations	-	-	-	-	-	-	-54	-29	-54	-29
Total income	**5,978**	**5,650**	**4,586**	**3,744**	**4,019**	**3,701**	**-**	**-**	**14,583**	**13,095**
Expenses	-5,103	-4,675	-4,096	-3,381	-3,413	-3,179	-401	-347	-13,013	-11,582
Adjusted EBITDA	**875**	**975**	**490**	**363**	**606**	**522**	**-401**	**-347**	**1,570**	**1,513**
Adjusted EBITDA margin, %	14.6	17.3	10.7	9.7	15.1	14.1	-	-	10.8	11.6
EBITDA	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,473**	**1,462**
EBITDA margin, %	-	-	-	-	-	-	-	-	10.1	11.2
Depreciation and amortization	-	-	-	-	-	-	-	-	-548	-537
EBIT (Operating profit/loss)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**925**	**925**
Net financial items	-	-	-	-	-	-	-	-	-124	132
EBT (Profit/loss before tax)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**800**	**1,057**

Assets and investments by segment

31 Dec	Sweden		Norway		Other Nordic countries & Europe		Central functions		Group	
MSEK	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Fixed assets	5,582	5,119	3,577	3,658	6,194	3,103	85	267	15,438	12,147
Investments in fixed assets	433	341	220	210	252	131	59	37	964	719

Revenue by country

MSEK	**Oct-Dec 2017**	**Oct-Dec 2016**	**Jan-Dec 2017**	**Jan-Dec 2016**
Sweden	1,579	1,524	5,979	5,650
Norway	1,146	976	4,585	3,744
Denmark	385	370	1,535	1,412
Finland	494	458	1,915	1,750
Germany	116	115	473	444
Poland	17	17	73	73
Belgium	6	6	23	22
Total countries	**3,743**	**3,466**	**14,583**	**13,095**
Other	34	10	54	29
Group eliminations	-34	-10	-54	-29
Group	**3,743**	**3,466**	**14,583**	**13,095**

Revenue by type of agreement

MSEK	Oct-Dec 2017	Oct-Dec 2016	Jan-Dec 2017	Jan-Dec 2016
Lease agreements	3,725	3,447	14,507	13,019
Management agreements	3	3	11	11
Franchise and partner agreements	5	6	22	27
Owned	10	10	43	38
Total	**3,743**	**3,466**	**14,583**	**13,095**
Other	34	10	54	29
Group eliminations	-34	-10	-54	-29
Group	**3,743**	**3,466**	**14,583**	**13,095**

Quarterly data

MSEK	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016
RevPAR, SEK	640	758	719	596	639	728
Net sales	3,743	3,974	3,770	3,095	3,463	3,577
Adjusted EBITDAR	1,276	1,650	1,434	975	1,330	1,480
Adjusted EBITDA	333	622	461	154	457	547
EBITDA	279	625	432	137	453	542
Adjusted EBIT	179	490	330	23	321	392
EBIT (Operating profit/loss)	125	493	301	6	317	387
EBT (Profit/loss before tax)	106	470	255	-31	293	557
Adjusted EBITDAR margin, %	34.1	41.5	38.0	31.5	38.4	41.4
Adjusted EBITDA margin, %	8.9	15.7	12.2	5.0	13.2	15.3
EBITDA margin, %	7.5	15.7	11.5	4.4	13.1	15.1
Adjusted EBIT margin, %	4.8	12.3	8.8	0.7	9.3	11.0
EBIT margin, %	3.3	12.4	8.0	0.2	9.2	10.8
Earnings per share after dilution, SEK	1.52	3.65	2.02	-0.35	2.79	4.22

Quarterly data per segment

	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016
Net sales						
Sweden	1,579	1,550	1,528	1,320	1,521	1,498
Norway	1,146	1,333	1,171	936	976	1,063
Other Nordic countries & Europe	1,018	1,091	1,071	839	966	1,016
Total net sales	**3,743**	**3,974**	**3,770**	**3,095**	**3,463**	**3,577**
Adjusted EBITDA						
Sweden	203	283	244	145	329	291
Norway	113	213	112	52	90	154
Other Nordic countries & Europe	157	211	182	56	141	182
Central functions	-140	-85	-77	-99	-103	-80
Total adj EBITDA	**333**	**622**	**461**	**154**	**457**	**547**
Adjusted EBITDA margin, %	*8.9%*	*15.7%*	*12.2%*	*5.0%*	*13.2%*	*15.3%*

Exchange rates

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

Alternative performance measures

Interest-bearing net liabilities	31 Dec 2017	31 Dec 2016
Liabilities to credit institutions	3,769	3,778
Cash and cash equivalents	-140	-1,068
Interest-bearing net liabilities	3,629	2,710

Definition

Liabilities to credit institutions less cash.

Motivation

Interest bearing net liabilities is used to calculate the company's financial gearing which is one of Scandic's financial targets. The chosen definition corresponds to the definition that is used for calculation of financial gearing according to Scandic's loan agreement.

Working capital	31 Dec 2017	31 Dec 2016
Current assets, excl cash and bank balances	1,285	929
Current liabilities	-2,786	-2,090
Working capital [1]	-1,501	-1,161

[1] Comparative numbers have been adjusted due to change in the definition of working capital.

Definition

Current assets excluding cash and cash equivalents, minus current liabilities excluding derivative instruments and short-term part of financial leasing debt.

Motivation

There is a need to optimize cash generation to create value for shareholders. For this reason, the Group is focusing on working capital and reducing lead times between revenue generation and received payment.

ACQUISITION ANALYSIS

Acquisition of Restel's hotel operations in Finland

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

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

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

If the acquired company had been consolidated from January 1, 2017, the consolidated income statement would have shown revenues of 16,745 MSEK and a profit of 726 MSEK.

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

Goodwill of 537 MSEK that has arisen as a result of the acquisition is related primarily to the value of additional sales in the future that the Group expects as well as the positive effects of the leasing model with which Scandic operates. The identified intangible assets that have been valuated relate mainly to customer relationships and the brand.

The acquisition was approved by the Finnish Competition and Consumer Authority subject to the divestment of two of the acquired hotels, Cumulus Asema Kuopio and Cumulus City Pori, as well as the divestment of Scandic's existing hotel, Scandic Lahti, by the end of November 2018. In 2017, sales from the two acquired hotels amounted to 48 MSEK and their share of goodwill is 8 MSEK. The assets and liabilities of the three hotels are reported as assets and liabilities held for sale in the balance sheet.

No part of the recognized goodwill is expected to be tax deductible.

The following table outlines the purchase price paid for the acquired companies as well as the fair value of assets acquired and liabilities taken over. The table below summarizes the paid consideration and true value of the acquired assets and liabilities. The acquisition analysis is preliminary and may be adjusted within twelve months from the time of the acquisition.

Purchase price on December 29, 2017

Cash and cash equivalents	1,149
Total purchase price paid	**1,149**
Recognized amounts of identifiable assets acquired and liabilities taken over	
Tangible fixed assets	2,299
Trademark	49
Customer relationships	69
Intangible fixed assets	11
Long-term receivables	12
Inventories	18
Accounts receivable and other receivables	103
Cash and cash equivalents	27
Deferred tax liabilities, net	-24
Finance lease	-1,735
Accounts payable and other liabilities	-218
Total identifiable net assets	**612**
Goodwill	537
	1,149
Effects on Group cash and cash equivalents	
Cash purchase price	-1,160
Acquisition costs	-13
Acquired cash and cash equivalents	27
Cash flow from acquisition of subsidiary	**-1,146**

Restel pro forma income statement, January 1 – December 31, 2017

MSEK	Restel Hotellit Oy Pro forma	Adjustment for Finance lease	Restel Hotellit Oy Pro forma excl. Finance lease
Total revenue	**2,163**	**-**	**2,163**
Adjusted EBITDA	**321**	**-125**	**196**
EBITDA	**321**	**-125**	**196**
Depreciation and amortisation*	-224	86	-138
EBIT (Operating profit/loss)	**97**	**-39**	**58**
Net financial items	**-94**	**67**	**-28**
EBT (Profit/loss before tax)	**2**	**28**	**30**
Tax	13	-6	8
Profit/Loss for the year	**16**	**22**	**38**

*) Whereof amortisation for intangible assets identified at the acquisition is 13 MSEK

LONG-TERM INCENTIVE PROGRAM

In December 2015, Scandic implemented a share-based Long-Term Incentive Program (LTIP 2015). A corresponding incentive program LTIP program was decided upon at the Annual General Meeting 2016 (LTIP 2016) and at the Annual General Meeting 2017 (LTIP 2017). The LTIP enables participants to receive matching shares and performance shares provided they make their own investments in shares or allocate shares already held to the program. For each such savings share, the participants in the LTIP 2015 can be assigned a matching share free of consideration. In the LTIP 2016 and LTIP 2017, the allocation of matching shares to 50 percent due to a requirement related to the total return on the shares (TSR) is being met and 50 percent are free of consideration. 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 the 2015-2017 (LTIP 2015), 2016-2018 (LTIP 2016) and 2017-2019 (LTIP 2017) financial years.

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

Senior managers have invested in the program and may be allotted a maximum of 251,952 shares for LTIP 2015, 183,890 shares for LTIP 2016 and 179,760 shares for LTIP 2017 corresponding to approximately 0.60 percent of Scandic's share capital and votes. The expected costs for the program are estimated to be 35 MSEK, and the costs included in the income statement for the Group in accordance with IFRS 2 amounted to 8 MSEK for 2017, including social security contributions. The maximum cost of the program, including social security contributions, is estimated to be 92 MSEK. For more information about the program, see Note 6 in Scandic's Annual Report 2016.

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

The Board of Directors and the CEO affirm that this interim report gives a true and fair view of the Parent Company and Group's operations, financial position and results of operations and that it also describes the significant risks and uncertainties to which the Parent Company and Group companies are exposed.

Stockholm, February 20, 2018

Vagn Sørensen
Chairman

Ingalill Berglund
Member of the Board

Per G. Braathen
Vice Chairman

Grant Hearn
Member of the Board

Lottie Knutson
Member of the Board

Christoffer Lundström
Member of the Board

Eva Moen Adolfsson
Member of the Board

Martin Svalstedt
Member of the Board

Fredrik Wirdenius
Member of the Board

Marianne Sundelius
Employee representative

Even Frydenberg
President & CEO

AUDITORS' REVIEW

This report has not been the subject of any review by the company's auditors.

Definitions

HOTEL-RELATED KEY RATIOS

ARR (Average Room Rate)
The average room rate is the average room revenue per sold room.

LFL (Like-for-Like)
LFL refers to the hotels that were in operation during the entire period as well as during the corresponding period of the previous year.

OCC (Occupancy)
Refers to sold rooms in relation to the number of available rooms. Expressed as a percentage.

RevPAR (Revenue Per Available Room)
Refers to the average room revenue per available room.

Pre-opening costs
Refers to costs for contracted and newly opened hotels before opening day.

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 for the effects of financial leasing.

Adjusted EBITDAR
Earnings before pre-opening costs, non-recurring items, interest, taxes, depreciation, amortization and rent, adjusted for the effects of financial leasing.

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

Interest-bearing net debt
Debts to credit institutions minus Cash and cash equivalents.

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

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

EQUITY-RELATED KEY RATIOS

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

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

Scandic Hotels Group

Scandic is the largest hotel company in the Nordic countries with more than 55,000 rooms at about 280 hotels in operation and under development. In 2017, the Group had annual sales of SEK 14.6 billion.

We operate within the mid-market hotel segment under our industry-leading Scandic brand. About 70 percent of our revenue comes from business travel and conferences and the remaining 30 percent from leisure travel. We have a high share of returning guests and our Scandic Friends loyalty program is the largest in the Nordic hospitality industry with 2 million members.

Since it was founded in 1963, Scandic has been a pioneer and driven development in the hotel industry.

Scandic was listed on the Nasdaq Stockholm exchange on December 2, 2015.

Press releases (selection)

2018-01-30 Unique partnerships and new app when Scandic launches new loyalty program

2018-01-16 Scandic predicts lower earnings for the fourth quarter

2017-12-29 Scandic completes acquisition of Restel

2017-12-21 Scandic Hotels to open one of Frankfurt’s largest conference hotels

2017-12-05 The Finnish Competition and Consumer Authority approves Scandic Hotels’ acquisition of Restel, subject to conditions

2017-12-04 Scandic to take over hotel The Mayor in the heart of Aarhus

2017-11-22 Extension of review regarding acquisition of Restel’s hotel operations

2017-11-14 Scandic Hotels named Denmark’s Best Workplace

2017-10-19 Decision regarding additional assessment in Finland for the 2008 tax year

2017-10-18 Agreement to operate hotel in Hamburger Börs in Turku

2017-10-16 Thomas Engelhart to leave Scandic Hotels

2017-09-29 Divestment of Scandic Vierumäki in Finland

2017-09-20 Scandic continues to expand in Copenhagen

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