Scandic

The leading hotel company in the Nordics

**January–March 2018**

# INCREASED FOCUS ON COSTS

## FIRST QUARTER IN SUMMARY

- Net sales rose by 22.5 percent to 3,791 MSEK (3,095), driven by more rooms in operation and the Restel acquisition.
- The Easter holiday fell partly in March, so the quarter is not fully comparable with the first quarter of 2017. It is estimated that calendar effects affected net sales negatively by approximately 4 percentage points.
- Net sales for comparable units dropped by 1.2 percent but rose by approximately 3 percent when adjusted for calendar effects.
- Adjusted EBITDA totaled 115 MSEK (154), corresponding to a margin of 3.0 percent (5.0). The margin was affected negatively by calendar effects and the consolidation of Restel.
- The integration of Restel is progressing according to plan. At present, 17 of the acquired hotels are operating under the Scandic brand. The rebranding of all Cumulus hotels is expected to be finalized in the second quarter of the year.
- Integration costs related to the Restel acquisition were 24 MSEK.
- Establishment of a 2,000 MSEK Swedish commercial paper program that will reduce financing costs. At the same time, the total credit line was increased by 500 MSEK.
- Earnings per share amounted to -1.39 SEK (-0.35). Excluding the effect of finance leases and currency effects from the revaluation of loans, earnings per share totaled -1.38 SEK (-0.27).

## EVENTS AFTER THE END OF THE REPORTING DATE

- An agreement was signed for a new 180-room hotel in Helsingborg that is planned to open in 2021.

## GROUP KEY RATIOS

| MSEK | Jan-Mar 2018 | Jan-Mar 2017 | % change | Jan-Dec 2017 | Apr-Mar 2017/2018 |
|---|---|---|---|---|---|
| **Financial key ratios** | | | | | |
| Net sales | 3,791 | 3,095 | 22.5% | 14,582 | 15,278 |
| Adjusted EBITDA | 115 | 154 | -25.3% | 1,570 | 1,530 |
| Adjusted EBITDA margin, % | 3.0 | 5.0 | | 10.8 | 10.0 |
| EBITDA | 88 | 137 | -35.8% | 1,473 | 1,424 |
| EBIT (Operating profit/loss) | -110 | 6 | | 925 | 809 |
| Profit/loss before taxes | -146 | -31 | | 800 | 686 |
| Net profit/loss for the period | -141 | -34 | | 711 | 604 |
| Earnings per share, SEK | -1.39 | -0.35 | | 6.86 | 5.83 |
| Net debt/Adjusted EBITDA, LTM | 2.8 | 1.8 | | 2.3 | 2.8 |
| **Hotel-related key ratios** | | | | | |
| RevPAR (SEK) | 572 | 596 | -4.0% | 680 | 668 |
| ARR (Average Room Rate), SEK | 979 | 978 | 0.1% | 1,012 | 1,011 |
| OCC (Occupancy), % | 58.5 | 60.9 | | 67.1 | 66.1 |
| Total number of rooms at reporting date | 50,784 | 40,750 | 24.6% | 49,983 | 50,784 |

# CEO'S COMMENTS

## Underlying growth in line with the previous quarter

Scandic's sales growth was 22.5 percent in the first quarter, driven primarily by more rooms in operation. In addition to rooms added through the Restel transaction, there was a significant contribution from the hotels we opened in 2017. Hotels that opened during the quarter in Lilleström, Århus, Frankfurt and Helsinki during the quarter added a total of more than 800 rooms.

Due to the fact that Easter fell partly during the first quarter of the year, net sales for comparable units decreased by 1.2 percent. We estimate that these calendar effects had a negative impact on sales of approximately 4 percentage points, which means that underlying revenue growth was about 3 percent. Underlying growth was positive in Sweden, Norway and Finland and marginally negative in Denmark. In Stockholm, RevPAR continued to decrease due to increased capacity.

During the quarter, we relaunched our Scandic Friends program, the largest loyalty program in the Nordic hotel industry, together with a new app. The program includes a series of new partnerships, better benefits for our guests and more ways to spend earned Scandic Friends points.

## Increased focus on costs

Adjusted EBITDA amounted to 115 MSEK (154) despite negative calendar effects. The measures taken to adjust the cost for the lower occupancy rate mainly in the Stockholm region have given effect and we will continue to adjust costs regularly to market conditions.

## Integration of Restel according to plan

The integration of Restel started at the beginning of the quarter and it has gone according to plan. At present there are 17 former Restel hotels operating under the Scandic brand and we expect to convert all Cumulus hotels into Scandic hotels during the second quarter. We have identified cost synergies in a number of areas in Restel such as marketing, sales, purchasing and IT that are expected to have a positive impact in 2018. However, we expect the greatest potential on the revenue side when we fully integrate the hotels with Scandic's strong distribution capacity. During the quarter, Restel had only a marginal impact on adjusted EBITDA in Finland.

**Prospects for the coming quarter**
For the second quarter of the year, we expect positive revenue growth for comparable units, adjusted for calendar effects, but at a slightly lower level than in the previous quarter. RevPAR in Stockholm is expected to remain under some pressure while we expect more positive development in other parts of Sweden. We see conditions for continued positive development in Finland and Norway.

**Even Frydenberg**
President & CEO

"The measures taken to adjust the cost for the lower occupancy rate mainly in the Stockholm region have given effect"

17
Number of Restel hotels operating as Scandic hotels

"We have identified cost synergies within a number of areas in Restel."

NORDIC HOTEL MARKET DEVELOPMENT

RevPAR growth in the first quarter was marginally negative in Sweden, Norway and Denmark. However, development was affected negatively by the fact that Easter fell partly in March 2018. Adjusted for calendar effects, the underlying RevPAR growth was positive in Sweden, Norway and Finland and marginally negative in Denmark.

## Sweden

In the Swedish market, supply increased by 3.3 percent in terms of available rooms compared with the first quarter of 2017, while demand rose by 2.8 percent. RevPAR in the market dropped by 0.5 percent driven by somewhat lower occupancy, while the average room rate grew marginally. A large part of the increase in capacity in Sweden occurred in Stockholm, where the number of available rooms grew by 6–7 percent compared with the first quarter the previous year, which exceeded growth in demand by 0.9 percent. As a result, in Stockholm, RevPAR in the market dropped 7.7 percent, chiefly driven by lower average occupancy. In 2018, the number of available rooms is expected to increase by about 4 percent in the Stockholm area and remain relatively unchanged in both Gothenburg and Malmö.

## Norway

The number of sold rooms in the Norwegian market dropped by 1.1 percent in the first quarter. The total number of available rooms rose by 3 percent compared with the previous year, largely driven by the considerable increase in supply in Bergen. RevPAR in the market decreased by 2.2 percent, but was significantly impacted by negative calendar effects. All larger regions except Bergen had good underlying RevPAR development in the quarter. In Oslo, the number of available rooms is expected to increase by about 4 percent in 2018 after having dropped in 2017 due to renovations.

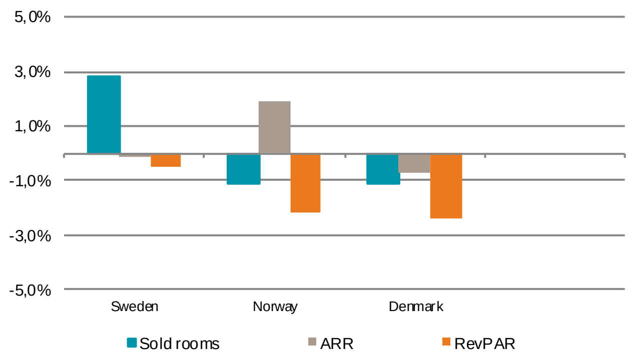
## Denmark

In Denmark, RevPAR in the market fell by 2.4 percent, mainly as a result of somewhat lower occupancy. The number of available rooms rose by 0.6 percent while the number of sold rooms declined marginally. Occupancy in Copenhagen remained high in the first quarter, but Scandic expects supply to rise by about 4 percent in 2018.

## Finland

In the Finnish market, the number of sold rooms increased by about 4 percent in the first two months of the year while the number of available rooms in the market as a whole increased by approximately 1 percent. Market RevPAR increased by a total of approximately 8 percent in January and February, driven by higher average room rates and increased occupancy, and the trend is considered positive also for the quarter as a whole. All major cities in Finland showed positive RevPAR development during the period. The number of available rooms is expected to rise by just above 3 percent in Helsinki in 2018 and remain relatively unchanged in Tampere.

MARKET DEVELOPMENT JANUARY–MARCH 2018
CHANGE YEAR-ON-YEAR




Source: Benchmarking Alliance

# HOTEL PORTFOLIO

## Existing hotel portfolio

At the end of the period, Scandic had a total of 50,784 rooms in operation at 267 hotels, of which 243 were operated under lease agreements. The number of rooms in operation in the acquired Restel hotels was 7,080. During the quarter, four hotels were opened under lease agreements: Scandic Helsinki Airport and Scandic Lilleström as well as the two conversions Scandic Museumsufer in Frankfurt and Scandic The Mayor in Aarhus. The number of rooms in existing hotels decreased slightly during the quarter, mainly due to one Restel hotel that was closed for renovation during the quarter. In total, the number of rooms Scandic had in operation increased by about 800 during the first quarter.

| **Portfolio changes** | **Number of rooms** |
|---|---|
| Opening balance January 1, 2018 | 49,983 |
| | |
| **New hotels** | |
| Helsinki Airport, Finland | 150 |
| The Mayor, Denmark | 162 |
| Lilleström, Norway | 220 |
| Frankfurt Museumsufer, Germany | 293 |
| Franchise hotels | 151 |
| **Total** | **976** |
| | |
| **Change current portfolio** | **-175** |
| | |
| **Total change during the quarter** | **801** |
| | |
| **Closing balance March 31, 2018** | **50,784** |

## Number of hotels in operation and in pipeline

| | **Operational on Mar 31, 2018** | | | | **Pipeline on Mar 31, 2018** | |
|---|---|---|---|---|---|---|
| | Hotels | of which with Lease contracts | Rooms | of which with Lease contracts | Hotels | Rooms |
| Sweden | 85 | 79 | 17 341 | 16 596 | 2 | 697 |
| Norway | 84 | 68 | 15 343 | 13 233 | 2 | 626 |
| Finland | 67 | 66 | 12 131 | 12 064 | 2 | 1 325 |
| Denmark | 25 | 24 | 4 251 | 4 041 | 4 | 1 697 |
| Rest of Europe | 6 | 6 | 1 718 | 1 718 | 1 | 506 |
| **Total** | **267** | **243** | **50 784** | **47 652** | **11** | **4 851** |
| *Change during the quarter* | *5* | *3* | *801* | *663* | *-7* | *-1 124* |

## High quality pipeline

At the end of the period, Scandic had a net of 11 hotels with a total of 4,851 rooms in the pipeline. The pipeline includes three Finnish hotels with a total of 863 rooms that are currently closed for renovation, one of which is expected to open again in the second quarter. In addition, the pipeline has been affected negatively by the three hotels in Finland that will be divested as a condition for completing the Restel acquisition.

# NET SALES AND RESULTS

## Group

| | Jan-Mar 2018 | Jan-Mar 2017 | % |
|---|---|---|---|
| **Net sales (MSEK)** | **3,791** | **3,095** | **22.5%** |
| Currency effects | 19 | | 0.7% |
| New hotels | 750 | | 24.2% |
| Exits | -37 | | -1.2% |
| LFL | -36 | | -1.2% |
| | | | |
| **Adjusted EBITDA** | **115** | **154** | **-25.3%** |
| % margin | 3.0% | 5.0% | |
| | | | |
| **RevPAR (SEK)** | **572** | **596** | **-3.9%** |
| Currency effects | 4 | | 0.7% |
| New hotels/exits | -18 | | -3.1% |
| LFL | -10 | | -1.6% |

**First quarter**

**Net sales** rose by 22.5 percent to 3,791 MSEK (3,095). The Restel acquisition is included in the income statement as of January 1, 2018, and the contribution to net sales was 482 MSEK in the first quarter. Net sales for comparable units dropped by 1.2 percent. Most of the Easter holiday fell in March, so the quarter is not fully comparable with the first quarter of 2017, when Easter fell entirely in April. It is estimated that calendar effects impacted revenue growth negatively in the first quarter by about 4 percentage points for comparable units, resulting in underlying revenue growth of approximately 3 percent. Calendar effects had the greatest impact on the operations in Norway and Sweden.

Currency effects impacted net sales positively by 0.7 percent. Changes in the hotel portfolio contributed 23.0 percent or 713 MSEK to the revenue growth. Except for Restel, the greatest contributors to revenue growth were the eight hotels that were added in the Pandox and Eiendomsspar transactions, which took place in the second quarter of 2017, Downtown Camper by Scandic in Stockholm, which was opened on September 1, 2017, and the hotels Scandic Lilleström and Scandic Museumsufer in Frankfurt, which were opened during the year.

**Average Revenue Per Available Room** (RevPAR) dropped by 4.6 percent in local currency compared with the previous year. RevPAR was affected negatively by Restel, which initially had lower average RevPAR than Scandic Finland. It is estimated that calendar effects affected RevPAR negatively by approximately 4 percentage points. RevPAR for comparable units dropped by 1.6 percent. In Finland and the Rest of Europe, RevPAR grew for comparable units, while the trend was negative in Norway and Sweden.

**Revenue from restaurant and conference operations** grew by 20.7 percent and the share of total net sales amounted to 35.1 percent (35.7).

**Rental costs** accounted for 27.4 percent (26.5) of net sales but declined to 25.8 percent excluding Restel. Fixed and guaranteed rental costs were 71.7 percent (69.8) of the total rental costs. The increase is due to Restel’s different lease agreement structure, which has a higher proportion of fixed rental costs. Excluding Restel, fixed rental costs fell as a result of increased sales and additional contracts with lower or no guarantee levels.

**Central costs and group adjustments** declined to -91 MSEK (-99). The market revaluation of power supply hedging had a positive effect of 7 MSEK (-9) on results. Excluding the effect on power supply hedging, underlying central costs increased somewhat, primarily due to increased costs for the central functions of IT and Commercial, which were driven by increased investments in digitalization, infrastructure and IT security.

**Adjusted EBITDA** before opening costs for new hotels, adjusted for the effect of financial leases, declined to 115 MSEK (154). The adjusted EBITDA margin dropped to 3.0 percent (5.0). The reduction in adjusted EBITDA is largely due to negative calendar effects. Measures implemented to adapt costs to the lower occupancy, primarily in the Stockholm region, have had a positive impact. As expected, Restel had a marginal impact on the Group's adjusted EBITDA in the first quarter.

Pre-opening costs for new hotels amounted to -33 MSEK (-17).

Items affecting comparability amounted to -24 MSEK (-), comprising integration costs related to the Restel acquisition.

Consequently, EBITDA was 88 MSEK (137).

**EBIT** amounted to -110 MSEK (6). The EBIT margin was -2.9 percent (0.2 percent) and depreciation and amortization were -198 MSEK (-131). The increase in depreciation and amortization is largely due to depreciation and amortization of assets from the Restel acquisition.

The **Group's net financial expense** amounted to -36 MSEK (-37). The interest expense, excluding the effect of finance leases, was -29 MSEK (-30). The new loan agreement concluded on June 22, 2017 and the establishment of a commercial paper program in the quarter reduced the average interest on loans, counteracting the effect of higher interest expenses due to a higher loan volume after the Restel acquisition. The result of exchange rate fluctuations from the revaluation of loans and investments amounted to 7 MSEK (-10).

**The profit/loss before tax** amounted to -146 MSEK (-31) The effect of financial leases affected results by -8 MSEK during the quarter. For additional information on the effect of finance leases, see the table on page 22.

**Reported tax** amounted to 5 MSEK (-3).

**Net profit** dropped to -141 MSEK (-34). Earnings per share after dilution totaled -1.39 SEK per share (-0.35). Excluding currency effects related to the revaluation of loans and the effect of finance leases, earnings per share after dilution amounted to -1.38 SEK (-0.27).

## Segment reporting

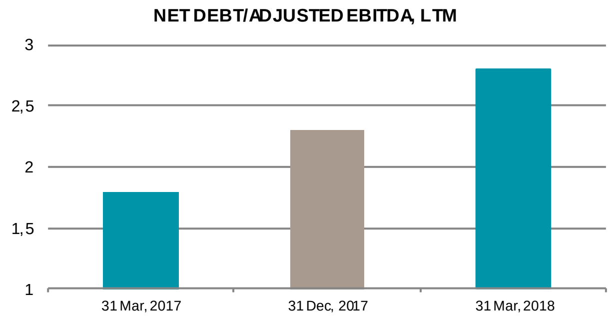
| **Quarterly, Jan-Mar** | **Net sales** | | **Adjusted EBITDA** | | **Adjusted EBITDA margin** | |
|---|---|---|---|---|---|---|
| MSEK | **2018** | **2017** | **2018** | **2017** | **2018** | **2017** |
| Sweden | 1,364 | 1,320 | 122 | 145 | 8.9% | 11.0% |
| Norway | 1,038 | 936 | 28 | 52 | 2.7% | 5.6% |
| Finland | 918 | 423 | 56 | 52 | 6.1% | 12.3% |
| Other Europe | 471 | 416 | 0 | 4 | 0.0% | 1.0% |
| Central costs and group adjustments | - | - | -91 | -99 | - | - |
| **Total Group** | **3,791** | **3,095** | **115** | **154** | **3.0%** | **5.0%** |

## BALANCE SHEET AND CASH FLOW

The balance sheet total on March 31, 2018 was 18,014 MSEK compared with 16,964 MSEK on December 31, 2017. Interest-bearing net liabilities increased in the period from 3,629 MSEK on December 31, 2017 to 4,309 MSEK on March 31, 2018. In connection with the Restel acquisition, a financial lease liability of 1,725 MSEK as at March 31, 2018 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 seasonally higher working capital in the period and high investments. Loans from credit institutions amounted to 3,273 MSEK and commercial papers totaled 1,199 MSEK at the end of the period. Net debt on March 31, 2018 corresponded to 2.8x adjusted EBITDA for the past 12 months (2.3x per December 31, 2017). Pro forma including adjusted EBITDA for Restel, net debt was 2.6x the adjusted EBITDA.

On March 31, 2018, the total number of shares and votes was 103,052,650 after dilution. Equity was 7,458 MSEK compared with 7,356 MSEK on December 31, 2017.




Operating cash flow amounted to -575 MSEK (-272) in the first quarter of 2018. The cash flow contribution from the change in working capital amounted to -293 MSEK (-268). The Group has negative working capital as the majority of the revenue is paid in advance or in direct connection with stays.

Paid tax amounted to -17 MSEK (-5).

Net investments during the period amounted to -305 MSEK (-146), of which hotel renovations accounted for -160 MSEK (-101) and IT for -18 MSEK (-7). Investments in new hotels and increased room capacity totaled -127 MSEK (-38). In the period, adjusted consideration and transaction costs for Restel of -52 MSEK were paid.

Cash flow from financing activities amounted to 619 MSEK during the period (-23). The change is chiefly due to an increase in net borrowing, where the utilization of the loan agreement declined by -561 MSEK while commercial papers of 1,199 MSEK were issued. Scandic has established a 2,000 MSEK Swedish commercial paper program. The issued commercial papers will have a duration from three months to one year. The issued commercial papers will affect the total credit line and replace other short-term financing and be used as short-term financing of working capital, and it is expected to reduce Scandic's financing costs.

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 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 used 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 greater share of loans in SEK are expected to reduce the annual interest expense by approximately 15 MSEK, based on unchanged interest rate levels. On February 15, 2018, it was agreed to amend 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.

At the end of the period, the Group had 163 MSEK (765) in cash and cash equivalents.

Unused credit facilities totaled 984 MSEK (1,000).

## Cash flow

| MSEK | Jan-Mar 2018 | Jan-Mar 2017 |
|---|---|---|
| Cash flow before changes in working capital | 75 | 142 |
| Changes in working capital | -293 | -268 |
| Investments | -305 | -146 |
| **Operating cash flow before acquisitions/disposals** | **-523** | **-272** |
| Acquisitions/disposals | -52 | 0 |
| **Operating cash flow** | **-575** | **-272** |

## EMPLOYEES

The average number of employees in the Group was 10,863 as at March 31, 2018 compared with 9,040 as at March 31, 2017.

## SEGMENT REPORTING

### Sweden

| | Jan-Mar 2018 | Jan-Mar 2017 | % |
|---|---|---|---|
| **Net sales (MSEK)** | **1,364** | **1,320** | **3.3%** |
| New hotels | 71 | | 5.4% |
| Exits | 0 | | -0.1% |
| LFL | -27 | | -2.0% |
| **Adjusted EBITDA** | **122** | **145** | **-15.9%** |
| % margin | 8.9% | 11.0% | |
| **RevPAR (SEK)** | **610** | **632** | **-3.4%** |
| New hotels/Exits | 2 | | 0.3% |
| LFL | -24 | | -3.7% |
| ARR (SEK) | 1,002 | 1,004 | -0.2% |
| OCC % | 60.9% | 62.9% | |

**First quarter**

Net sales rose by 3.3 percent to 1,364 MSEK (1,320). For comparable units, net sales dropped by 2.0 percent. Calendar effects, chiefly attributable to Easter, had a negative impact of approximately 3-4 percentage points on net sales for comparable units. Market capacity in Stockholm increased by 6–7 percent in the first quarter while the number of sold rooms rose more slowly. Scandic's occupancy in Stockholm dropped as a result, leading to a negative sales trend in Stockholm and negative RevPAR development for Sweden as a whole.

Changes in the hotel portfolio contributed 5.3 percent or 71 MSEK to the increase in sales. The greatest contribution was from Downtown Camper by Scandic, which opened in Stockholm on September 1, 2017.

Average Revenue Per Available Room (RevPAR) declined by 3.4 percent compared with the same quarter the previous year. RevPAR for comparable units dropped by 3.7 percent.

Adjusted EBITDA before pre-opening costs for new hotels dropped to 122 MSEK (145), mainly due to negative calendar effects. The adjusted EBITDA margin declined from 11.0 percent to 8.9 percent. Measures implemented to adapt costs to the lower occupancy, primarily in the Stockholm region, had a positive impact.

## Norway

| | Jan-Mar 2018 | Jan-Mar 2017 | % |
|---|---|---|---|
| **Net sales (MSEK)** | **1,038** | **936** | **10.9%** |
| Currency effects | -21 | | -2.2% |
| New hotels | 156 | | 16.7% |
| Exits | -2 | | -0.3% |
| LFL | -31 | | -3.3% |
| | | | |
| **Adjusted EBITDA** | **28** | **52** | **-46.2%** |
| % margin | 2.7% | 5.6% | |
| | | | |
| **RevPAR (SEK)** | **526** | **553** | **-4.8%** |
| Currency effects | -12 | | -2.2% |
| New hotels/Exits | 1 | | 0.3% |
| LFL | -16 | | -2.9% |
| | | | |
| ARR (SEK) | 976 | 985 | -0.9% |
| OCC % | 53.9% | 56.1% | |

### First quarter

Net sales rose by 10.9 percent to 1,038 MSEK (936). Net sales for comparable units dropped by 3.3 percent. Calendar effects, chiefly attributable to Easter, are considered to have had a negative impact of approximately 7-8 percentage points on net sales for comparable units.

Changes in the hotel portfolio contributed 16.4 percent or 154 MSEK to the increase in sales. The greatest contributors were the Grand Hotel Oslo and an additional four hotels that were added in the Pandox and Eiendomsspar transaction, which was implemented in the second quarter 2017. Other contributors include Scandic Flesland Airport in Bergen, which opened on April 3, 2017, and Scandic Lillestrøm, which opened on January 9, 2018.

Average Revenue Per Available Room (RevPAR) dropped by 2.6 percent in local currency compared with the same quarter the previous year. RevPAR for comparable units dropped by 2.9 percent.

Adjusted EBITDA before pre-opening costs for new hotels dropped to 28 MSEK (52), chiefly due to negative calendar effects.

The adjusted EBITDA margin declined to 2.7 percent (5.6). The hotels added in 2017, which initially contributed to a lower margin, kept developing well in the first quarter. In particular, the Grand Hotel Oslo showed strong RevPAR development.

## Finland

| | Jan-Mar 2018 | Jan-Mar 2017 | % |
|---|---|---|---|
| **Net sales (MSEK)** | **918** | **423** | **116.9%** |
| Currency effects | 20 | | 4.8% |
| New hotels | 484 | | 114.5% |
| Exits | -28 | | -6.8% |
| LFL | 19 | | 4.4% |
| | | | |
| **Adjusted EBITDA** | **56** | **52** | **7.7%** |
| % margin | 6.1% | 12.3% | |
| | | | |
| **RevPAR (SEK)** | **536** | **575** | **-6.6%** |
| Currency effects | 28 | | 4.8% |
| New hotels/Exits | -96 | | -16.7% |
| LFL | 30 | | 5.3% |
| | | | |
| ARR (SEK) | 940 | 939 | 0.2% |
| OCC % | 57.0% | 61.2% | |

### First quarter

As a result of the Restel acquisition, Scandic's Finnish operations are reported as a separate business segment as of January 1, 2018.

The integration of Restel was initiated in the beginning of the year and is progressing according to plan. Integration costs in the first quarter were 24 MSEK and are recognized in items affecting comparability, while investments in connection with rebranding the hotels as Scandic hotels totaled 3 MSEK. At the end of March, four hotels from the acquisition were operating under the Scandic brand. The plan is to rebrand all Cumulus hotels as Scandic hotels in the second quarter of 2018. Cost synergies within marketing, sales, purchasing and IT have been identified and are expected to have a certain positive effect in 2018. It is expected that the greatest synergies will be realized as revenue when the acquired hotels are integrated with Scandic's distribution capacity. The first quarter is a weak quarter seasonally for Restel and net sales from the acquired hotels amounted to 482 MSEK, which, as expected, only had a marginal effect on adjusted EBITDA. Initially, Restel's RevPAR is approximately 20 percent lower than the average in the rest of Scandic's Finnish operations.

Net sales in the first quarter increased by 116.9 percent in total in the first quarter, to 918 MSEK (423). Net sales for comparable units grew by 4.4 percent.

Changes in the hotel portfolio contributed 107.7 percent or 456 MSEK to the increase in sales. In addition to the newly added hotels from the Restel acquisition, Scandic Helsinki Airport was opened at the end of the quarter. Scandic Vierumäki, which was divested on September 30, 2017, was included in the first quarter of the previous year.

Average Revenue Per Available Room (RevPAR) dropped by 11.4 percent in local currency compared with the same quarter the previous year. RevPAR for comparable units grew by 5.3 percent, driven by higher average room rates.

Adjusted EBITDA before pre-opening costs for new hotels increased to 56 MSEK (52).

The adjusted EBITDA margin declined to 6.1 percent (12.3). The adjusted EBITDA margin rose marginally, excluding Restel.

## Rest of Europe

| | Jan-Mar 2018 | Jan-Mar 2017 | % |
|---|---|---|---|
| **Net sales (MSEK)** | **471** | **416** | **13.3%** |
| Currency effects | 20 | | 4.8% |
| New hotels | 39 | | 9.3% |
| Exits | -6 | | -1.4% |
| LFL | 2 | | 0.6% |
| **Adjusted EBITDA** | **0** | **4** | **-100.0%** |
| % margin | 0.0% | 1.0% | |
| **RevPAR (SEK)** | **643** | **600** | **7.2%** |
| Currency effects | 29 | | 4.8% |
| New hotels/Exits | 4 | | 0.8% |
| LFL | 10 | | 1.6% |
| ARR (SEK) | 992 | 928 | 7.0% |
| OCC % | 64.8% | 64.7% | |

### First quarter

As of January 1, 2018, the Rest of Europe segment includes Scandic's operations in Denmark, Germany and Poland.

Net sales rose by 13.3 percent to 471 MSEK (416). Net sales for comparable units grew by 0.6 percent, driven by positive development in Germany. The opening of Scandic Frankfurt Museumsufer on February 1, 2018, went according to plan.

Changes in the hotel portfolio contributed 7.9 percent or 33 MSEK to the increase in sales. Scandic Sluseholmen in Copenhagen and Scandic Frankfurt Museumsufer were the greatest contributors to the increase.

Average Revenue Per Available Room (RevPAR) increased by 2.4 percent in local currency compared with the same quarter the previous year. RevPAR for comparable units grew by 1.6 percent. Development in .

Germany and Denmark were positive, while development in Poland was marginally negative.

Adjusted EBITDA before pre-opening costs for new hotels dropped to 0 MSEK (4).

The adjusted EBITDA margin declined to 0.0 percent (1.0

### Central functions

Adjusted EBITDA for central functions and Group adjustments amounted to -90 MSEK (-99) during the quarter. Market valuation of forward contracts for electricity positively affected earnings by 7 MSEK (-9). Excluding the effects of forward contracts, underlying central costs increased slightly, mainly as a result of higher costs for central IT and commercial functions that were driven by increased investments in digitalization, infrastructure and IT security

## EVENTS AFTER THE REPORTING DATE

On April 23, Scandic announced that it had signed an agreement with Midroc regarding the operation of a new hotel in Helsingborg that is expected to open in 2021. The hotel will have 180 rooms.

## OUTLOOK

For the second quarter, we estimate that sales growth LFL, adjusted for calendar effects, will be positive but at a lower level than the previous quarter. We expect RevPAR in Stockholm to continue to be under a certain degree of pressure at the same time as we aniticpate more positive development in other parts of Sweden. We also see conditions for continued positive development in Finland and Norway.

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. Most of Restel's 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 percent on average over a business cycle, excluding potential M&As.
- An adjusted EBITDA margin of at least 11 percent on average over a business cycle.
- 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

Scandic's Annual General Meeting will be held on April 26, 2018 at 13:00 at Scandic Alvik in Stockholm. 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 be paid out in two equal amounts of 1.70 SEK on two occasions, with the record dates on April 30, 2018 and October 30, 2018 respectively.

## PRESENTATION OF THE REPORT

The presentation of Scandic's Interim Report will take place at 9:00 CET on April 26, 2018 with President & CEO Even Frydenberg and CFO Jan Johansson available by phone. To participate, just dial +46 8 503 36563 (Sweden) or +44 203 0089811 (UK). Please call in five minutes before the start. The presentation will also be available afterwards at scandichotelsgroup.com

## FOR MORE INFORMATION

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## FINANCIAL CALENDAR

| | |
|---|---|
| 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 its 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.

On March 31, 2018, Scandic's goodwill and intangible assets amount to 9,925 MSEK. 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 negatively, and consequently 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 | Jan-Mar 2018 | Jan-Mar 2017 | Jan-Dec 2017 | Apr-Mar 2017/2018 |
|---|---|---|---|---|
| **INCOME** | | | | |
| Room revenue | 2,380 | 1,950 | 9,464 | 9,894 |
| Restaurant and conference revenue* | 1,332 | 1,104 | 4,853 | 5,081 |
| Franchise and management fees | 7 | 5 | 26 | 28 |
| Other hotel-related revenue | 72 | 36 | 239 | 275 |
| ***Net sales*** | ***3,791*** | ***3,095*** | ***14,582*** | ***15,278*** |
| Other income | - | 2 | 1 | -1 |
| **TOTAL OPERATING INCOME** | **3,791** | **3,097** | **14,583** | **15,277** |
| | | | | |
| **OPERATING COSTS** | | | | |
| Raw materials and consumables | -353 | -282 | -1,295 | -1,366 |
| Other external costs | -938 | -755 | -3,215 | -3,398 |
| Personnel costs | -1,349 | -1,085 | -4,738 | -5,002 |
| **Adjusted EBITDAR** | **1,151** | **975** | **5,335** | **5,511** |
| | | | | |
| Fixed and guaranteed rental charges | -713 | -573 | -2,323 | -2,463 |
| Variable rental charges | -293 | -248 | -1,442 | -1,487 |
| | | | | |
| Pre-opening costs | -33 | -17 | -67 | -83 |
| Items affecting comparability | -24 | - | -30 | -54 |
| **EBITDA** | **88** | **137** | **1,473** | **1,424** |
| | | | | |
| Depreciation and amortization | -198 | -131 | -549 | -616 |
| **TOTAL OPERATING COSTS** | **-3,901** | **-3,091** | **-13,659** | **-14,469** |
| | | | | |
| **EBIT (Operating profit/loss)** | **-110** | **6** | **925** | **809** |
| | | | | |
| **Financial items** | | | | |
| Financial income | 10 | 3 | 9 | 16 |
| Financial expenses | -46 | -40 | -133 | -139 |
| **Net financial items** | **-36** | **-37** | **-124** | **-123** |
| | | | | |
| **EBT (Profit/loss before taxes)** | **-146** | **-31** | **800** | **686** |
| | | | | |
| Taxes | 5 | -3 | -90 | -82 |
| **PROFIT/LOSS FOR PERIOD** | **-141** | **-34** | **711** | **604** |
| | | | | |
| Profit/loss for period relating to: | | | | |
| Parent Company shareholders | -143 | -36 | 707 | 600 |
| Non-controlling interest | 2 | 2 | 4 | 4 |
| **Profit/loss for period** | **-141** | **-34** | **711** | **604** |
| | | | | |
| Average number of outstanding shares before dilution | 102,985,075 | 102,985,075 | 102,959,870 | 102,959,870 |
| Average number of outstanding shares after dilution | 103,052,650 | 103,029,610 | 103,003,004 | 103,003,004 |
| | | | | |
| **Earnings per share before dilution, SEK** | **-1.39** | **-0.35** | **6.87** | **5.83** |
| **Earnings per share after dilution, SEK** | **-1.39** | **-0.35** | **6.86** | **5.83** |
| | | | | |
| Adjusted EBITDAR margin, % | 30.4 | 31.5 | 36.6 | 36.1 |
| EBITDA margin, % | 2.3 | 4.4 | 10.1 | 9.3 |
| EBIT margin, % | -2.9 | 0.2 | 6.3 | 5.3 |

**) Revenue from bars, restaurants, breakfasts and conferences including rental of premises.*

# Consolidated statement of comprehensive income

| MSEK | Jan-Mar 2018 | Jan-Mar 2017 | Jan-Dec 2017 | Apr-Mar 2017/2018 |
|---|---|---|---|---|
| Profit/loss for period | -141 | -34 | 711 | 604 |
| | | | | |
| Items that may be reclassified to the income statement | 242 | -25 | -56 | 211 |
| Items that may not be reclassified to the income statement | -2 | -7 | -79 | -74 |
| **Other comprehensive income** | **240** | **-32** | **-135** | **137** |
| **Total comprehensive income for period** | **99** | **-66** | **576** | **741** |
| | | | | |
| Relating to: | | | | |
| Parent Company shareholders | 96 | -67 | 571 | 734 |
| Non-controlling interest | 3 | 1 | 5 | 7 |

# Consolidated balance sheet, summary

| MSEK | 31 Mar 2018 | 31 Mar 2017 | 31 Dec 2017 |
|---|---|---|---|
| **ASSETS** | | | |
| Intangible assets | 9,925 | 9,055 | 9,669 |
| Tangible assets | 5,913 | 2,988 | 5,599 |
| Financial fixed assets | 233 | 66 | 170 |
| **Total fixed assets** | **16,071** | **12,109** | **15,438** |
| | | | |
| Current assets | 1,675 | 1,327 | 1,285 |
| Assets held for sale | 105 | - | 101 |
| Cash and cash equivalents | 163 | 765 | 140 |
| **Total current assets** | **1,943** | **2,092** | **1,526** |
| **TOTAL ASSETS** | **18,014** | **14,201** | **16,964** |
| | | | |
| **EQUITY AND LIABILITIES** | | | |
| Equity attributable to owners of the Parent Company | 7,422 | 7,007 | 7,323 |
| Non-controlling interest | 36 | 32 | 33 |
| **Total equity** | **7,458** | **7,039** | **7,356** |
| | | | |
| Liabilities to credit institutions | 3,273 | 3,765 | 3,769 |
| Finance lease liabilities | 1,661 | 1 | 1,607 |
| Other long-term liabilities | 1,381 | 1,117 | 1,312 |
| **Total long-term liabilities** | **6,316** | **4,883** | **6,688** |
| | | | |
| Derivative instruments | 18 | 27 | 5 |
| Current liabilities for finance leases | 64 | - | 58 |
| Current liabilities, commercial papers | 1,199 | - | - |
| Liabilities held for sale | 74 | - | 70 |
| Other current liabilities | 2,886 | 2,252 | 2,786 |
| **Total current liabilities** | **4,240** | **2,279** | **2,919** |
| **TOTAL EQUITY AND LIABILITIES** | **18,014** | **14,201** | **16,964** |
| | | | |
| Equity per share, SEK | 72.1 | 68.0 | 71.1 |
| Total number of shares outstanding, end of period | 102,985,075 | 102,985,075 | 102,985,075 |
| Working capital | -1,180 | -925 | -1,470 |
| Interest-bearing net liabilities | 4,309 | 3,000 | 3,629 |
| Interest-bearing net liabilities/adjusted EBITDA | 2.8 | 1.8 | 2.3 |

# Changes in Group equity

| MSEK | Share capital | Share premium reserve | Translation reserve | Retained earnings | Total | Non-controlling interest | Total equity |
|---|---|---|---|---|---|---|---|
| **OPENING BALANCE 01/01/2017** | **26** | **7,865** | **-29** | **-790** | **7,072** | **31** | **7,103** |
| **Profit/loss for the period** | **-** | **-** | **-** | **-36** | **-36** | **2** | **-34** |
| *Total other comprehensive income, net after tax* | *-* | *-* | *-24* | *-7* | *-31* | *-1* | *-32* |
| **Total comprehensive income for the year** | **-** | **-** | **-24** | **-43** | **-67** | **1** | **-66** |
| *Total transactions with shareholders* | *-* | *-* | *-* | *2* | *2* | *-* | *2* |
| **CLOSING BALANCE 03/31/2017** | **26** | **7,865** | **-53** | **-831** | **7,007** | **32** | **7,039** |
| **Profit/loss for the period** | **-** | **-** | **-** | **743** | **743** | **2** | **745** |
| *Total other comprehensive income, net after tax* | *-* | *-* | *-33* | *-72* | *-105* | *2* | *-103* |
| **Total comprehensive income for the year** | **-** | **-** | **-33** | **671** | **638** | **4** | **642** |
| *Total transactions with shareholders* | *-* | *-* | *-* | *-322* | *-322* | *-3* | *-325* |
| **CLOSING BALANCE 12/31/2017** | **26** | **7,865** | **-86** | **-482** | **7,323** | **33** | **7,356** |
| *Change accounting principles* | *-* | *-* | *-* | *-* | *-* | *-* | *-* |
| **OPENING BALANCE 01/01/2018** | **26** | **7,865** | **-86** | **-482** | **7,323** | **33** | **7,356** |
| **Profit/loss for the period** | **-** | **-** | **-** | **-143** | **-143** | **2** | **-141** |
| *Total other comprehensive income, net after tax* | *-* | *-* | *-2* | *241* | *239* | *1* | *240* |
| **Total comprehensive income for the year** | | | **-2** | **98** | **96** | **3** | **99** |
| *Total transactions with shareholders* | *-* | *-* | *3* | *-* | *3* | *-* | *3* |
| **CLOSING BALANCE 03/31/2018** | **26** | **7,865** | **-85** | **-384** | **7,422** | **36** | **7,458** |

# Consolidated cash flow statement

| | Jan-Mar 2018 | Jan-Mar 2017 | Jan-Dec 2017 | Apr-Mar 2017/2018 |
|---|---|---|---|---|
| **OPERATING ACTIVITIES** | | | | |
| EBIT (Operating profit/loss) | -110 | 6 | 925 | 809 |
| Depreciation | 198 | 131 | 549 | 616 |
| Items not included in cash flow | 4 | 10 | -1 | -7 |
| Paid tax | -17 | -5 | -125 | -137 |
| Change in working capital | -293 | -268 | 196 | 171 |
| **Cash flow from operating activities** | **-218** | **-126** | **1,544** | **1,452** |
| | | | | |
| **INVESTING ACTIVITIES** | | | | |
| Net investments | -305 | -146 | -964 | -1,123 |
| Sale of operations | | | 17 | 17 |
| Acquisitions | -52 | - | -1,146 | -1,198 |
| **Cash flow from investing operations** | **-357** | **-146** | **-2,093** | **-2,304** |
| | | | | |
| **OPERATIVE CASH FLOW** | **-575** | **-272** | **-549** | **-852** |
| | | | | |
| **FINANCING OPERATIONS** | | | | |
| Interest payments | -19 | -23 | -80 | -76 |
| Dividends | - | - | -325 | -325 |
| Refinancing of loans | - | - | -6 | -6 |
| Dividend, share swap agreement | - | - | 30 | 30 |
| Net Borrowing/Amortization, credit institutions | -561 | - | 9 | -552 |
| Issue commercial papers | 1,199 | - | - | 1,199 |
| **Cash flow from financing operations** | **619** | **-23** | **-372** | **270** |
| **CASH FLOW FOR PERIOD** | **44** | **-295** | **-921** | **-582** |
| | | | | |
| **Cash and cash equivalents at beginning of period** | **140** | **1,068** | **1,068** | **765** |
| Translation difference in cash and cash equivalents | -21 | -8 | -7 | -20 |
| Cash and cash equivalents at end of the period | 163 | 765 | 140 | 163 |

# Parent Company income statement, summary

| MSEK | Jan-Mar 2018 | Jan-Mar 2017 | Jan-Dec 2017 | Apr-Mar 2017/2018 |
|---|---|---|---|---|
| Net sales | 9 | 7 | 54 | 56 |
| Expenses | -9 | -8 | -71 | -72 |
| **EBIT (Operating profit/loss)** | **0** | **-1** | **-17** | **-16** |
| | | | | |
| Financial income | 41 | 22 | 113 | 132 |
| Financial expenses | -26 | -25 | -104 | -105 |
| **Net financial items** | **15** | **-3** | **9** | **27** |
| | | | | |
| Appropriations | - | - | 334 | 334 |
| | | | | |
| **EBT (profit/loss before tax)** | **15** | **-4** | **326** | **345** |
| | | | | |
| Tax | -3 | 1 | -71 | -75 |
| **PROFIT/LOSS FOR PERIOD** | **12** | **-3** | **254** | **270** |

# Consolidated statement of comprehensive income

| MSEK | Jan-Mar 2018 | Jan-Mar 2017 | Jan-Dec 2017 | Apr-Mar 2017/2018 |
|---|---|---|---|---|
| **Profit/loss for period** | **12** | **-3** | **254** | **270** |
| | | | | |
| 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** | **12** | **-3** | **254** | **270** |

# Parent Company balance sheet, summary

| MSEK | 31 Mar 2018 | 31 Mar 2017 | 31 Dec 2017 |
|---|---|---|---|
| **ASSETS** | | | |
| Investments in subsidiaries | 5,039 | 4,590 | 5,039 |
| Group company receivables | 6,123 | 5,044 | 5,174 |
| Deferred tax assets | - | 72 | - |
| Other receivables | 21 | - | - |
| **Total fixed assets** | **11,183** | **9,706** | **10,213** |
| | | | |
| Current receivables | - | 9 | 27 |
| Group company receivables | - | 66 | 334 |
| Cash and cash equivalents | 57 | 790 | - |
| **Total current assets** | **57** | **865** | **361** |
| **TOTAL ASSETS** | **11,240** | **10,571** | **10,574** |
| | | | |
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | **6,621** | **6,670** | **6,606** |
| | | | |
| Liabilities to credit institutions | 3,273 | 3,822 | 3,813 |
| Deferred tax liabilities | 3 | - | - |
| Other liabilities | 21 | - | - |
| **Total long-term liabilities** | **3,297** | **3,822** | **3,813** |
| | | | |
| Liabilities commercial papers | 1,199 | - | - |
| Other liabilities | 95 | 58 | 118 |
| Accrued expenses and prepaid income | 27 | 21 | 37 |
| **Total current liabilities** | **1,322** | **79** | **155** |
| **TOTAL EQUITY AND LIABILITIES** | **11,240** | **10,571** | **10,574** |

# Changes in Parent Company's equity

| MSEK | Share capital | Share premium reserve | Translation reserve | Retained earnings | Total equity |
|---|---|---|---|---|---|
| **OPENING BALANCE 01/01/2017** | **26** | **1,534** | **-** | **5,112** | **6,672** |
| **Profit/loss for period** | **-** | **-** | **-** | **-3** | **-3** |
| *Total other comprehensive income, net after tax* | - | - | - | - | - |
| **Total other comprehensive income** | | | | **-3** | **-3** |
| *Total transactions with shareholders* | - | - | - | *1* | *1* |
| **CLOSING BALANCE 03/31/2017** | **26** | **1,534** | **-** | **5,110** | **6,670** |
| **Profit/loss for period** | **-** | **-** | **-** | **257** | **257** |
| *Total other comprehensive income, net after tax* | - | - | - | - | - |
| **Total other comprehensive income** | **-** | **-** | **-** | **257** | **257** |
| *Total transactions with shareholders* | - | **-** | **-** | -321 | -321 |
| **OPENING BALANCE 01/01/2018** | **26** | **1,534** | | **5,046** | **6,606** |
| **Profit/loss for period** | **-** | **-** | **-** | **12** | **12** |
| *Total other comprehensive income, net after tax* | - | - | - | - | - |
| **Total other comprehensive income** | **-** | **-** | **-** | **12** | **12** |
| *Total transactions with shareholders* | - | - | - | *3* | *3* |
| **CLOSING BALANCE 03/31/2018** | **26** | **1,534** | | **5,061** | **6,621** |

### 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 9 MSEK (7). The operating profit was 0 MSEK (-1).

Net financial items for the period totaled 15 MSEK (-3). The Parent Company's profit before tax was 15 MSEK (-4).

### 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 3 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 2017 and are outlined in Note 1, Accounting principles.

From January 1, 2019 the Group applies a new standard, IFRS 16, Leasing. The new standard will primarily affect the accounting of the Group's operating leases and is expected to have significant effects on the Group's balance sheet. The income statement is also expected to be impacted primarily by adjustments between income statement lines. In 2017, the Group began the evaluation and quantification of the changed accounting and this work has been continued during the first quarter of 2018 with an evaluation of system support among other things.

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 definitions and explanations of the alternative performance measures can be found on the company website: www.scandichotelsgroup.com/en/definitions.

## 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.

Finland – Finnish hotels operated under the Scandic brand as well as hotels operated under the Hilton and Cumulus brands.

Other Europe – hotels operated under the Scandic brand in Belgium, Denmark, Poland and Germany.

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 disclosures are 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.

# Segment disclosures

| Jan-Mar | Sweden | | Norway | | Finland | | Other Europé | | Central functions | | Group | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| MSEK | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| Room revenue | 885 | 861 | 604 | 549 | 576 | 266 | 316 | 275 | - | - | 2,381 | 1,951 |
| Restaurant and conference revenue | 462 | 444 | 419 | 374 | 301 | 150 | 149 | 136 | - | - | 1,331 | 1,104 |
| Franchise and managment fees | 2 | 2 | 3 | 1 | -0 | 0 | 2 | 1 | - | - | 7 | 4 |
| Other hotel-related income | 15 | 13 | 12 | 12 | 41 | 7 | 4 | 4 | - | - | 72 | 36 |
| **Net sales** | **1,364** | **1,320** | **1,038** | **936** | **918** | **423** | **471** | **416** | **-** | **-** | **3,791** | **3,095** |
| Other income | - | 2 | - | - | - | - | - | - | - | - | - | 2 |
| Internal transactions | - | - | - | - | - | - | - | - | 9 | 7 | 9 | 7 |
| Group eliminations | - | - | - | - | - | - | - | - | -9 | -7 | -9 | -7 |
| **Total income** | **1,364** | **1,322** | **1,038** | **936** | **918** | **423** | **471** | **416** | **-** | **-** | **3,791** | **3,097** |
| Expenses | -1,242 | -1,177 | -1,010 | -884 | -862 | -371 | -471 | -412 | -91 | -99 | -3,676 | -2,943 |
| **Adjusted EBITDA** | **122** | **145** | **28** | **52** | **56** | **52** | **-** | **4** | **-91** | **-99** | **115** | **154** |
| Adjusted EBITDA margin, % | 8.9 | 11.0 | 2.7 | 5.6 | 6.1 | 12.3 | - | 1.0 | - | - | 3.0 | 5.0 |
| **EBITDA** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **88** | **137** |
| EBITDA margin, % | - | - | - | - | - | - | - | - | - | - | 2.3 | 4.4 |
| Depreciation and amortization | - | - | - | - | - | - | - | - | - | - | -198 | -131 |
| Net financial items | - | - | - | - | - | - | - | - | - | - | -36 | -37 |
| **EBT (Profit/loss before tax)** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-146** | **-31** |

# Assets and investments by segment

| 31 Mar | Sweden | | Norway | | Finland | | Other Europé | | Central functions | | Group | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| MSEK | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| Fixed assets | 5,632 | 5,067 | 3,861 | 3,665 | 5,686 | 2,372 | 862 | 751 | 30 | 254 | 16,071 | 12,109 |
| Investments in fixed assets | 60 | 49 | 101 | 49 | 75 | 12 | 51 | 29 | 18 | 7 | 305 | 146 |

# Revenue by country

| MSEK | Jan-Mar 2018 | Jan-Mar 2017 | Jan-Dec 2017 | Apr-Mar 2017/2018 |
|---|---|---|---|---|
| Sweden | 1,364 | 1,322 | 5,979 | 6,019 |
| Norway | 1,038 | 936 | 4,585 | 4,688 |
| Finland | 918 | 423 | 1,915 | 2,410 |
| Denmark | 328 | 295 | 1,535 | 1,568 |
| Germany | 129 | 102 | 473 | 500 |
| Poland | 14 | 13 | 73 | 74 |
| Belgium | - | 6 | 23 | 18 |
| **Total countries** | **3,791** | **3,097** | **14,583** | **15,277** |
| Other | 9 | 7 | 54 | 56 |
| Group eliminations | -9 | -7 | -54 | -56 |
| **Group** | **3,791** | **3,097** | **14,583** | **15,277** |

# Revenue by type of agreement

| MSEK | Jan-Mar 2018 | Jan-Mar 2017 | Jan-Dec 2017 | Apr-Mar 2017/2018 |
|---|---|---|---|---|
| Lease agreements | 3,769 | 3,079 | 14,507 | 15,197 |
| Management agreements | 3 | 2 | 11 | 12 |
| Franchise and partner agreements | 7 | 4 | 22 | 25 |
| Owned | 12 | 12 | 43 | 43 |
| **Total** | **3,791** | **3,097** | **14,583** | **15,277** |
| Other | 9 | 7 | 54 | 56 |
| Group eliminations | -9 | -7 | -54 | -56 |
| **Group** | **3,791** | **3,097** | **14,583** | **15,277** |

# Effect of finance lease

| **The following items in EBT has been affected of finance lease accounting** | 31 Mar 2018 | 31 Mar 2017 | 31 Dec 2017 |
|---|---|---|---|
| Fixed and guaranteed rental charges | 31 | 0 | 0 |
| Depreciations | -22 | 0 | 0 |
| Financial expenses | -17 | 0 | 0 |
| **Total effect of finance lease accounting in EBT** | **-8** | **0** | **0** |

# Total rental charges

| **Total rental charges** | 31 Mar 2018 | 31 Mar 2017 | 31 Dec 2017 |
|---|---|---|---|
| Fixed and guaranteed rental charges according to income statement | -713 | -573 | -2,323 |
| Fixed and guaranteed rental charges, reversed effect of finance lease | -31 | 0 | 0 |
| **Total fixed and guaranteed rental charges** | **-744** | **-573** | **-2,323** |
| Variable rental charges | -293 | -248 | -1,442 |
| **Total rental charges** | **-1,037** | **-821** | **-3,765** |
| | | | |
| Fixed and guaranteed rental charges | 19.6% | 18.5% | 15.9% |
| Variable rental charges | 7.7% | 8.0% | 9.9% |
| Total rental charges | 27.4% | 26.5% | 25.8% |

# Quarterly data

| MSEK | Q1 2018 | Q4 2017 | Q3 2017 | Q2 2017 | Q1 2017 | Q4 2016 |
|---|---|---|---|---|---|---|
| RevPAR, SEK | 572 | 640 | 758 | 719 | 596 | 639 |
| Net sales | 3,791 | 3,743 | 3,974 | 3,770 | 3,095 | 3,463 |
| Adjusted EBITDAR | 1,151 | 1,276 | 1,650 | 1,434 | 975 | 1,330 |
| Adjusted EBITDA | 115 | 333 | 622 | 461 | 154 | 457 |
| EBITDA | 88 | 279 | 625 | 432 | 137 | 453 |
| Adjusted EBIT | -83 | 179 | 490 | 330 | 23 | 321 |
| EBIT (Operating profit/loss) | -110 | 125 | 493 | 301 | 6 | 317 |
| EBT (Profit/loss before tax) | -146 | 106 | 470 | 255 | -31 | 293 |
| Adjusted EBITDAR margin, % | 30.4 | 34.1 | 41.5 | 38.0 | 31.5 | 38.4 |
| Adjusted EBITDA margin, % | 3.0 | 8.9 | 15.7 | 12.2 | 5.0 | 13.2 |
| EBITDA margin, % | 2.3 | 7.5 | 15.7 | 11.5 | 4.4 | 13.1 |
| Adjusted EBIT margin, % | neg | 4.8 | 12.3 | 8.8 | 0.7 | 9.3 |
| EBIT margin, % | neg | 3.3 | 12.4 | 8.0 | 0.2 | 9.2 |
| Fixed and guaranteed rental charges, % of net sales | 19.6 | 15.9 | 14.8 | 15.5 | 18.5 | 16.3 |
| Variable rental charges, % of net sales | 7.7 | 9.9 | 11.0 | 10.3 | 8.0 | 8.9 |
| Total rental charges, % of net sales | 27.4 | 25.8 | 25.9 | 25.8 | 26.5 | 25.2 |
| Earnings per share after dilution, SEK | neg | 1.52 | 3.65 | 2.02 | neg | 2.79 |

Q1

# Quarterly data per segment

| | Q1 2018 | Q4 2017 | Q3 2017 | Q2 2017 | Q1 2017 | Q4 2016 |
|---|---|---|---|---|---|---|
| **Net sales** | | | | | | |
| Sweden | 1,364 | 1,579 | 1,550 | 1,528 | 1,320 | 1,521 |
| Norway | 1,038 | 1,146 | 1,333 | 1,171 | 936 | 976 |
| Finland | 918 | 495 | 508 | 489 | 423 | 458 |
| Other Europé | 471 | 523 | 583 | 582 | 416 | 508 |
| **Total net sales** | **3,791** | **3,743** | **3,974** | **3,770** | **3,095** | **3,463** |
| | | | | | | |
| **Adjusted EBITDA** | | | | | | |
| Sweden | 122 | 203 | 283 | 244 | 145 | 329 |
| Norway | 28 | 113 | 213 | 112 | 52 | 90 |
| Finland | 56 | 92 | 107 | 87 | 52 | 74 |
| Other Europé | - | 65 | 104 | 95 | 4 | 67 |
| Central functions | -91 | -140 | -85 | -77 | -99 | -103 |
| **Total adj EBITDA** | **115** | **333** | **622** | **461** | **154** | **457** |
| *Adjusted EBITDA margin, %* | *3.0%* | *8.9%* | *15.7%* | *12.2%* | *5.0%* | *13.2%* |

# Exchange rates

| SEK/EUR | Jan-Mar 2018 | Jan-Mar 2017 | Jan-Dec 2017 |
|---|---|---|---|
| Income statement (average) | 9.9641 | 9.5065 | 9.6326 |
| Balance sheet (at end of period) | 10.2931 | 9.5464 | 9.8497 |
| | | | |
| SEK/NOK | | | |
| Income statement (average) | 1.0343 | 1.0577 | 1.0330 |
| Balance sheet (at end of period) | 1.0626 | 1.0412 | 1.0011 |
| | | | |
| SEK/DKK | | | |
| Income statement (average) | 1.3381 | 1.2786 | 1.2949 |
| Balance sheet (at end of period) | 1.3811 | 1.2835 | 1.3229 |

# Alternative performance measures

| **Adjusted EBITDA** | 31 Mar 2018 | 31 Mar 2017 | 31 Dec 2017 |
|---|---|---|---|
| EBITDA | 88 | 137 | 1,473 |
| Effect of finance lease, fixed and guaranteed rental charges | -31 | 0 | 0 |
| Pre-opening costs | 33 | 17 | 67 |
| Items affecting comparability | 24 | 0 | 30 |
| **Adjusted EBITDA** | **115** | **154** | **1,570** |

| **Interest-bearing net liabilities** | 31 Mar 2018 | 31 Mar 2017 | 31 Dec 2017 |
|---|---|---|---|
| Liabilities to credit institutions | 3,273 | 3,765 | 3,769 |
| Liabilities, commercial papers | 1,199 | 0 | 0 |
| Cash and cash equivalents | -163 | -765 | -140 |
| **Interest-bearing net liabilities** | **4,309** | **3,000** | **3,629** |

| **Working capital** | 31 Mar 2018 | 31 Mar 2017 | 31 Dec 2017 |
|---|---|---|---|
| Current assets, excl cash and bank balances | 1,780 | 1,327 | 1,386 |
| Current liabilities | -2,960 | -2,252 | -2,856 |
| **Working capital** | **-1,180** | **-925** | **-1,470** |

Definitions and alternative performance measures can be found on Scandic's website at scandichotelsgroup.com/en/definitions

## 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, 176,736 shares for LTIP 2016 and 179,760 shares for LTIP 2017 corresponding to approximately 0.6 percent of Scandic's share capital and votes. The expected costs for the program are estimated to be 32 MSEK, excluding social security contributions, and the costs included in the income statement for the Group in accordance with IFRS 2 amounted to 5 MSEK for the first quarter 2018, including social security contributions. The maximum cost of the program, including social security contributions, is estimated to be 85 MSEK. For more information about the program, see Note 6 in Scandic's Annual Report 2017.

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.

For the LTIP 2015, the goals and the outcome of the performance conditions for the performance shares are the following:

| **Performance conditions** | Minimum level | Maximum level | Outcome | Level of fulfillment |
|---|---|---|---|---|
| Accumulated EBITDA 1) | 3 577 317 | 4 106 942 | 4 183 052 | 101.9% of max |
| Accmulated cash flow 2) | 1 726 116 | 2 121 866 | 2 287 159 | 107.8% of max |
| Accumulated increase of RGI 3) | 0.19 | 0.0445 | 0,0396 | 81% linear btw min and max |

1) Defined as operating profit before depreciation, financial items and taxes, adjusted for items affecting comparability such as transaction and integration costs in connection with acquisitions for the financial years 2015-2017.
2) Defined as EBITDA plus/minus changes in working capital less investments (maintenance, IT and development) excluding extraordinary investments not included in the budget such as acquisitions of new hotels for the financial years 2015-2017.
3) Defined as a relative market share for accommodation revenue (room revenue generation index) compared to competitors for the financial years 2015-2017.

A total of 34 employees participated in the LTIP 2015. The total cost of the program, including social security contributions, is estimated at 23 MSEK. The dilution effect of the program amounts to 43,493 shares, which is equivalent to 0.05 percent of the number of outstanding shares as at March 31, 2018. However, the number of issued shares in the company will not change due to the allocation of shares in LTIP 2015 as a share swap agreement exists with a third party.

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, April 26, 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 & ALTERNATIVE PERFORMANCE MEASURES

**EBT**
Earnings before tax.

**EBIT**
Earnings before interest and taxes.

**Adjusted EBITDAR**
Earnings before pre-opening costs, items affecting comparability, interest, taxes, depreciation, amortization and rental charges, adjusted for the effects of finance lease.

**Adjusted EBITDA**
Earnings before pre-opening costs, items affecting comparability, interest, taxes, depreciation and amortization, adjusted for the effects of finance lease.

**EBITDA**
Earnings before interest, taxes, depreciation and amortization.

**EBITDA margin**
EBITDA as a percentage of net sales.

**Adjusted EBIT**
Earnings before pre-opening costs, items affecting comparability, interest and taxes, adjusted for the effects of finance lease.

**Items affecting comparability**
Items that are not directly related to the normal operations of the company, for example, costs for transactions and restructuring.

**Interest-bearing net debt**
Debts to credit institutions and commercial papers less Cash and cash equivalents.

**Working capital, net**
Total current assets excluding cash and cash equivalents less total current liabilities, excluding financial instruments, current portion of finance lease liabilities and commercial papers.

## 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.

A more comprehensive list of definitions can be found on company's website at www.scandichotelsgroup.com/en/definitions

## 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)

**2018-03-27** Scandic publishes its Annual Report 2017

**2018-03-12** Scandic establishes a Commercial Paper Progr

**2018-02-27** Scandic's Nomination Committee announces pr for new Chairman and presents its proposal for Annual General Meeting

**2018-02-20** Vagn Sørensen to leave position as Chairman a member of Scandic's Board of Directors

**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

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