Scandic

Proposal regarding (A) the implementation of a long-term incentive program 2018 and (B) hedging arrangements in respect thereof

Background
The Board of Directors of Scandic Hotels Group AB (publ) ("**Scandic**") proposes that the annual general meeting 2018 resolves on the implementation of a long-term incentive program (the "**Program**" or "**LTIP 2018**"). In November 2015, an extraordinary general meeting resolved on the implementation of a long-term incentive program that was launched in connection with the initial public offering ("**LTIP 2015**") and the annual general meetings 2016 and 2017 approved long-term incentive programs based on the same principles, with an additional matching condition relating to Total Shareholder Return (TSR) ("**LTIP 2016**" and "**LTIP 2017**"). The vesting period for LTIP 2015 expires in connection with the announcement of Scandic's interim report for Q1 2018.

The Board of Directors considers the programs to be structured in an attractive and appropriate way and notes that nearly all employees who were offered to participate accepted such offer. Therefore, the Board of Directors now proposes that the annual general meeting 2018 adopts a long-term incentive program on, in all material respects, the same terms and conditions as LTIP 2017. However, compared to LTIP 2017, the Board of Directors proposes that LTIP 2018 shall not have any performance condition based on RGI (room revenue generation index), and that the number of participants to be invited is to be increased in order to create a long-term commitment for additional key employees and to align their interests with those of the shareholders. Similar to previous programs, LTIP 2018 is proposed to be directed to the members of the Executive Committee, the Country Managing Directors, a number of Country Management Team members, and certain other key employees of the Scandic Group.

The overall purpose of the Program is to closely align the participants' interests with those of the shareholders and to create a long-term commitment to Scandic. The Program provides Scandic with a crucial component of a competitive total compensation package to attract and retain employees who are critical to Scandic's on-going success. The Board of Directors intends to propose that future annual general meetings of Scandic approve long-term incentive programs, since, for the above reasons, the Board of Directors considers that having recurring long-term incentive programs is a vital and important part of Scandic's total compensation program.

The Program shall be inspiring, achievable, easy to understand, cost effective to administer and easy to communicate. Following implementation of the Program, the Board of Directors intends to carry out an evaluation thereof in order to systematically analyse the achieved results in relation to the aims outlined above. The purpose of the evaluation will be to determine whether the Program satisfies its purposes, and this will also include the review of the outcome and the costs for the Program.

A. Implementation of the Program
The Board of Directors proposes that the implementation of the Program shall be made in accordance with the principal terms and conditions set out below.

(a) The Program is proposed to be open to no more than 80 permanent employees of the Scandic Group, who are divided into the following three groups: the Chief Executive Officer of Scandic ("**Group 1**"), no more than 9 members of the Executive Committee ("**Group 2**") and no more than 70 Country Management Team members or Key Employees ("**Group 3**"). Participants in Group 1–3 are collectively referred to as "**Participants**".

(b) The Program will allow the Participants to make investments of their own in common shares in Scandic or allocate already held common shares in Scandic to the Program ("**Saving Shares**"). The Saving Shares entitle a possibility to be allotted Matching Shares (as defined below) and Performance Shares (as defined below), following the expiration of a vesting period of approximately three years that ends in connection with the announcement of Scandic's interim report for Q1 2021 (the "**Vesting Period**").

(c) For each Saving Share, the Participants will have the possibility to be allotted up to one common share in Scandic free of charge, from Scandic, another company within the Scandic Group or from a designated third party ("**Matching Share**"). Such Matching Shares will be allotted in accordance with the following: for each Saving Share, zero point five (0.5) Matching Shares will be allotted subject to certain conditions relating to continued employment and uninterrupted holding of Saving Shares (as further described in section (k) below), and zero point five (0.5) Matching Shares will be allotted subject to an additional condition according to which the Total Shareholder Return during the financial years 2018–2020 shall exceed a certain level pre-determined by the Board of Directors (the "**Matching Condition**").

(d) Further, the Participants will, depending on satisfaction of certain Performance Conditions (as defined and described in paragraph (e) below), after the expiration of the Vesting Period have the possibility to be allotted additional common shares in Scandic free of charge from Scandic, another company within the Scandic Group or from a designated third party (the "**Performance Shares**"). For each Saving Share, the Participants may be allotted Performance Shares in accordance with the following:

- Participants in Group 1 may be allotted no more than five (5) Performance Shares (no more than two point five (2.5) Performance Shares based on the fulfilment of Performance Condition 1, as defined below, and no more than two point five (2.5) Performance Shares based on the fulfilment of Performance Condition 2, as defined below);

- Participants in Group 2 may be allotted no more than four (4) Performance Shares (no more than two (2) Performance Shares based on the fulfilment of Performance Condition 1 and no more than two (2) Performance Shares based on the fulfilment of Performance Condition 2); and

- Participants in Group 3 may be allotted no more than three (3) Performance Shares (no more than one point five (1.5) Performance Shares based on the fulfilment of Performance Condition 1 and no more than one point five (1.5) Performance Shares based on the fulfilment of Performance Condition 2).

(e) The allotment of Performance Shares shall depend on the degree of fulfilment of the Performance Conditions for the Program. The Performance Conditions shall be established by the Board of Directors and be based on Program specific financial targets related to the accumulated EBITDA[1] for the financial years 2018–2020 ("**Performance Condition 1**"), and the accumulated cash flow[2] for the financial years 2018–2020 ("**Performance Condition 2**" jointly referred to as the "**Performance Conditions**"). In connection with the expiry of the Vesting Period, the Board of Directors will publish the Performance Conditions levels and to what extent these have been fulfilled.

The number of Performance Shares that may be allotted shall be calculated in accordance with the following:

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[1] Defined as earnings before interest, taxes, depreciation and amortization, adjusted for non-recurring items not related to the ordinary business such as transactions and integration costs for acquisitions, excluding effects of financial leasing.

[2] Defined as EBITDA plus/minus changes in working capital minus capex (maintenance, IT and development), excluding extraordinary investments not included in budget, such as new hotel acquisitions.

- A condition for any allotment of Performance Shares to occur is that a certain starting point be exceeded (the "**Minimum Level**"). If the Minimum Level is not exceeded, no Performance Shares will be allotted.

- For maximum allotment of Performance Shares to occur, a certain higher level must be reached (the "**Maximum Level**").

- Should the degree of fulfilment exceed the Minimum Level but be between the Minimum Level and the Maximum Level, the Participants will receive a linear allotment of Performance Shares.

(f) The number of Matching Shares and Performance Shares that a Participant is entitled to be allotted shall be increased to compensate for any dividend relating to the financial years 2018–2020 on the Scandic shares during the Vesting Period in order to further align the Participants' interests with those of the shareholders.

(g) The maximum value per each right to receive a Matching Share or a Performance Share (or such number of Matching Shares or Performance Shares as follows from an adjustment for dividend as described in paragraph (f) above) shall be limited to SEK 261, corresponding to 300 per cent of the volume weighted average price of the Scandic share during the first five trading days in March 2018 (the "**Cap**"). Should the value of such right (calculated based on the volume weighted average price of the Scandic share during the five trading days immediately following the day of publication of the interim report for Q1 2021, after deduction of dividend approved by the general meeting of shareholders, where the share is still traded including the right to such dividend) exceed the Cap, a proportional reduction in the number of Matching Shares and Performance Shares to be allotted shall be made. For the avoidance of doubt, after such reduction, the value of each such right shall correspond to the Cap.

(h) The maximum number of Saving Shares each Participant may invest in or allocate to the Program depends on the Participant category that he/she belongs to in the Program, in accordance with the following:

- Each Participant in Group 1 and in Group 2 may at a maximum invest in or allocate to the Program a number of Saving Shares determined based on a share price of SEK 87.17, i.e. the volume weighted average price during the first five trading days in March 2018, and an investment amount corresponding to 10 per cent of the Participant's individual gross annual fixed salary as of 28 February 2018.

- Each Participant in Group 3 may at a maximum invest in or allocate to the Program a number of Saving Shares determined based on a share price of SEK 87.17, i.e. the volume weighted average price during the first five trading days in March 2018, and an investment amount of SEK 50,000.

(i) Participants must invest in Saving Shares (or, if Scandic shares are already held, must allocate such shares to the Program) during an investment period to be determined by the Board of Directors, which shall expire no later than 31 May 2018 (unless extended or postponed by the Board of Directors in an individual case).

(j) Matching Shares and Performance Shares may normally be allotted only after the expiration of the Vesting Period.

(k) In order for a Participant to be allotted any Matching Shares or Performance Shares, as applicable, it is a condition that, with certain exemptions, he/she has been permanently employed within the Scandic Group for the duration of the whole Vesting Period and that the Participant, until the expiration of the Vesting Period, has retained the Saving Shares invested in or allocated to the Program. Saving Shares disposed of prior to the expiration of the Vesting Period will not be included in the calculation to determine any allotment of Matching Shares or Performance Shares.

(l) If significant changes in the Scandic Group or in the market occur which, in the opinion of the Board of Directors, would result in a situation where the conditions for allotment of Performance Shares under the Program become unreasonable, the Board of Directors shall be entitled to make adjustments to the Program, including, among other things, to resolve on a reduced allotment of Performance Shares, or that no Performance Shares shall be allotted at all.

(m) The Board of Directors shall be authorised to establish the detailed terms and conditions for the Program. The Board of Directors may, in that regard, make necessary adjustments of these general terms and conditions to satisfy certain regulations or market conditions outside Sweden.

(n) Participation in the Program presupposes that such participation is legally possible in the various jurisdictions concerned and that the administrative costs and financial efforts are reasonable in the opinion of the Board of Directors.

(o) The Program shall comprise no more than 370,000 common shares in Scandic (Matching Shares, Performance Shares and dividend compensation included).

(p) The number of Matching Shares and Performance Shares will be subject to recalculation as a result of intervening bonus issues, splits, rights issues and/or other similar corporate events.

Costs for the Program etc.
The costs for the Program, which are charged in the profit and loss account, are calculated according to the accounting standard IFRS 2 and distributed over the Vesting Period. The calculation has been made based on the quoted closing price of the Scandic share as of 7 March 2018, i.e. SEK 87.40 per share, and based on the following assumptions: (i) an annual dividend yield of 4 per cent, (ii) an estimated annual turnover of personnel of 10 per cent, (iii) fulfilment of the Matching Condition, (iv) an average fulfilment of each of the Performance Conditions of 50 per cent, and (v) a total maximum of 370,000 Matching Shares and Performance Shares eligible for allotment. In addition to what is set forth above, the costs for the Program have been based on that the Program comprises approximately 80 Participants and that each Participant makes a maximum investment. In total, the costs according to IFRS 2 for the Program are estimated to approximately SEK 10.8 million excluding social security costs (SEK 18.5 million if average fulfilment of each of the Performance Conditions is 100 per cent). The costs for social security charges are calculated to approximately SEK 4.8 million, based on the above assumptions, and also assuming an annual share price increase of 10 per cent during the Program and a social security tax rate of 27 per cent (SEK 7.9 million if average fulfilment of each of the Performance Conditions is 100 per cent).

The expected annual costs of SEK 5.3 million, including social security charges, correspond to approximately 0.1 per cent of the Scandic Group’s total employee costs for the financial year 2017 (0.2 per cent if average fulfilment of each of the Performance Conditions is 100 per cent).

Assuming that the Cap (for this purpose calculated as 300 per cent of the volume weighted average price of the Scandic share during the first five trading days in March 2018, i.e. SEK 87.17) is reached and that all Participants are entitled to allotment of the maximum number of Matching Shares and Performance Shares in the Program and remain in the Program until the end of the Vesting Period, the maximum cost according to IFRS 2 for Scandic will amount to SEK 25.2 million and the maximum social security charges will amount to SEK 21.7 million.

Dilution
Upon maximum allotment of Matching Shares and Performance Shares and assuming a buffer

for dividend compensation, the number of shares to be allotted under the Program amounts to 370,000 common shares in Scandic, corresponding to approximately 0.36 per cent of the share capital and the votes (calculated based on 102,985,075 outstanding common shares in Scandic on 22 March 2018).

Effect on key ratios
If the Program had been introduced in 2017 with the assumptions above, the impact on basic earnings per share on a full year basis would have resulted in a dilution of 0.2 per cent or a decrease from SEK 6.87 to SEK 6.85 on a pro forma basis. The impact on the EBITDA margin and EBIT margin would be insignificant.

Hedging arrangements
The Board of Directors proposes that the general meeting resolves that the expected financial exposure of shares to be allotted under the Program shall be hedged, by Scandic being able to enter into an equity swap agreement with a third party on terms in accordance with market practice, whereby the third party in its own name shall be entitled to acquire and transfer to the Participants common shares in Scandic, in accordance with item B below.

Preparations of the proposal
The proposed Program has, pursuant to the guidelines issued by Scandic's Board of Directors, been prepared by the Compensation Committee of Scandic with the assistance of external advisors. The Compensation Committee has informed the Board of Directors of the work, who has subsequently resolved that the Program shall be proposed to the annual general meeting.

B. Hedging arrangements in respect of the Program
Equity swap agreement with a third party
The Board of Directors proposes that the general meeting resolves that the expected financial exposure of shares to be allotted under the Program shall be hedged by Scandic being able to enter into an equity swap agreement with a third party. Such swap agreement shall be on terms in accordance with market practice, whereby the third party against a fee undertakes to, in its own name, acquire and transfer to the Participants common shares in Scandic in accordance with the terms and conditions of the Program.

Conditions
The resolution to adopt the proposed long-term incentive program in accordance with item A above is conditional upon that the annual general meeting resolves on the hedging arrangements in accordance with item B.

Previous incentive programs in Scandic
Scandic has previously resolved to implement long-term incentive programs in 2015, 2016 and 2017, which in all material respects are based on the same terms and conditions as the above proposed LTIP 2018, with the exception that the 2015 year program does not contain any Matching Condition and that the previous long-term incentive programs contain an RGI-based performance condition. The programs are further described in note 06 of Scandic's annual report for the financial year 2017.

Stockholm in March 2018

Scandic Hotels Group AB (publ)
The Board of Directors