
Scandic

# ANNUAL & SUSTAINABILITY REPORT 2019

## CONTENTS

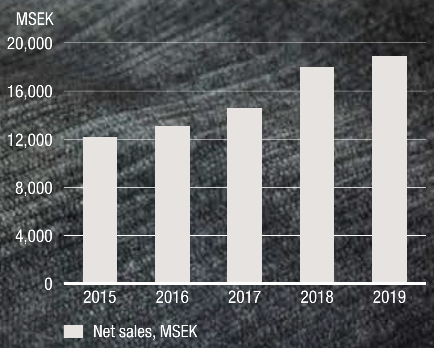


Scandic is a Swedish company subject to Swedish laws. All values are expressed in Swedish kronor. Figures in parentheses refer to 2018 unless otherwise specified. Data on markets and competition in Sweden is based on Scandic's own assessments unless a specific source is indicated. These assessments are based on the best and latest available facts from published sources. The annual accounts and consolidated accounts of the company are included on pages 78–134 of this document. The statutory sustainability report can be found on pages 1–19 and 44–75 in this document.

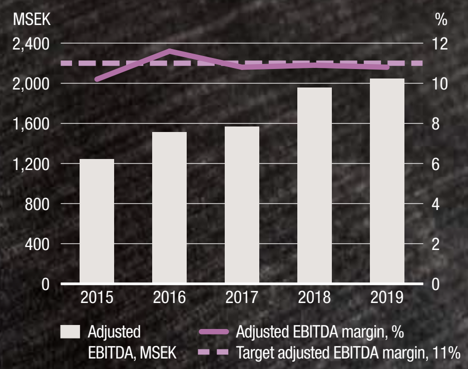
# THE LEADING NORDIC HOTEL COMPANY

With 53,000 hotel rooms in operation at 268 hotels, Scandic is the leading hotel company in the Nordic region. In 2019, net sales totaled 19 SEK billion.

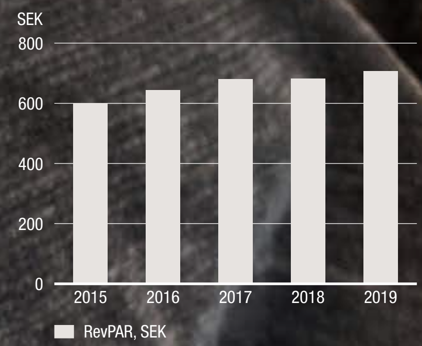
## NET SALES




## ADJUSTED EBITDA & EBITDA MARGIN




## REVPAR



# THIS IS SCANDIC

**THE LEADING HOTEL COMPANY IN THE NORDIC COUNTRIES**
Scandic has the largest and widest hotel network in the Nordic market. This creates a unique offering and enables high efficiency. Most of Scandic's hotels are operated under a fully-owned brand that is clearly the best known in the Nordic hotel market. Scandic has hotels in about 130 locations, with 58,637 rooms in operation and under development at 283 hotels.

**53,000**
**HOTEL ROOMS IN OPERATION**

**268**
**HOTELS IN OPERATION**

**130**
**LOCATIONS**

**A LOYAL CUSTOMER BASE**
Scandic has driven development in the Nordic hospitality industry. Its innovative thinking is appreciated by guests and the company enjoys a high share of returning customers. About 35 percent of Scandic's bookings are related to Scandic Friends, the leading loyalty program in the Nordic market.

**PIONEER IN SUSTAINABILITY**
For many years, Scandic has been a driving force in the hotel industry within sustainability, both when it comes to environmental and social issues. Scandic's sustainability initiatives contribute to reducing the use of resources, which is increasingly important to guests and helps lower the company's costs.

**STRATEGIC PARTNERSHIPS**
Most hotels in the Nordics are operated via long-term leasing agreements. Scandic focuses on revenue-based leasing agreements. This contributes to financial stability and also links the interests of Scandic and its property owners, enabling long-term positive development of the hotels. Thanks to Scandic's market position and business model, it is often the preferred partner for many property owners when it comes to new hotel projects.

**15 HOTELS IN THE PIPELINE**

**HIGH-QUALITY HOTEL PORTFOLIO**
At year-end, Scandic had a high-quality pipeline including 15 new hotels at attractive destinations that will open between 2020 and 2024. Scandic also works constantly to optimize its existing hotel portfolio through extensions, renovations and reconfigurations.

**15%**
**MARKET SHARE IN THE NORDIC COUNTRIES**

GRI: 102-2

# THE YEAR IN SUMMARY

Scandic's underlying operating profit continued to improve, reaching the highest level ever in 2019. Among other things, the earnings trend was driven by more rooms in operation and strong development in the Finnish market. Demand increased in Scandic's markets, which contributed to a slight increase in both average room rates and occupancy during the year.

In 2019, Scandic opened seven hotels with lease agreements and signed agreements for a number of new hotels. Scandic has an attractive pipeline of hotels that provides a good foundation for continued profitable growth in the coming years.

## IMPORTANT EVENTS IN 2019

### SCANDIC HASSELBACKEN SOLD

On February 7, Scandic signed an agreement to sell Scandic Hasselbacken, generating a profit of approximately 180 MSEK.

### EXPANDING HOTEL PORTFOLIO

In 2019, Scandic opened seven hotels under lease agreements, contributing 1,559 rooms in total. At year-end, Scandic's pipeline corresponded to 11 percent of the existing portfolio.

### JENS MATHIESEN NEW PRESIDENT & CEO

On January 17, 2019, Jens Mathiesen was appointed new President & CEO for Scandic.

### STRONG FOCUS ON PORTFOLIO DEVELOPMENT

In November, a new unit was established in the Executive Committee with overall responsibility for portfolio management in order to strengthen the focus on developing the hotel portfolio.

# STRONG FOCUS ON PROFITABILITY & EFFICIENCY

Scandic's sales rose by just over 5 percent in 2019 at the same time as both adjusted EBITDA and cash flow improved.

**Jens, how would you summarize your first year as CEO of Scandic?**
– 2019 was an eventful year. We saw continued positive demand in all markets. Sales rose by 5.2 percent and we improved both adjusted EBITDA and cash flow during the year. This is mainly due to strong performance in Finland, and it was gratifying to see a clear margin improvement at the former Restel hotels.

– During the year, we focused to a great extent on being clearer in our priorities to most effectively improve profitability and efficiency. Parallel to this, we worked to evaluate Scandic's long-term growth opportunities.

– Although we are obviously satisfied with Scandic's performance in 2019, our full focus right now is on dealing with the effects of the spread of the coronavirus. Travel has virtually ceased and in principle, all events have been canceled. For this reason, it is clear that 2020 will be a very challenging year for the hotel industry as a whole.

**What happened in the hotel market during the year?**
– The demand for hotel experiences is growing in our markets. We estimate that the number of sold rooms in the Nordic countries has increased about 3 to 4 percent per year since 2010, and growth in big cities has been somewhat higher. This can be explained by generally high economic activity in our markets combined with structural growth in tourism and greater numbers of international visitors. It's clear that the Nordic countries have become increasingly attractive to international visitors.

– Scandic's average RevPAR increased by slightly more than 2 percent during the year. RevPAR was particularly

strong in Finland, in part thanks to the Finnish EU Presidency during the second half of the year

– In our two largest markets, Sweden and Norway, RevPAR rose marginally during the year. The Swedish market was relatively stable, demonstrating a balance between the number of available and sold rooms. In Norway, the market was impacted by a substantial increase in hotel capacity in Oslo during the first half of 2019, but thankfully, this was fully offset by strong growth in demand during the year.

– The market most affected by an increase in supply was Copenhagen. Here, RevPAR went down in 2019 and it will probably continue to remain under pressure in 2020. In the slightly longer perspective, we have positive expectations for Copenhagen. It's a market with historically high occupancy levels, which means that new hotels are likely to drive demand. Scandic is underrepresented in Copenhagen compared to other Nordic capitals and going forward, we intend to strengthen our presence and offering in the city by opening attractive new hotels.

**What do you consider to be Scandic's biggest strengths?**
– Scandic has a strong, unique culture that is demonstrated by our team members and that is absolutely crucial for delivering great service to our guests. Our culture is something we should be extremely proud of and continue to nurture.

– We have a scalable business model with flexible leases and well-functioning partnerships with property owners that we've developed over time. In recent years, we have established a strong market position in the Nordic region.

Today, Scandic is the leading hotel company in the Nordic region, giving us economies of scale in operations and distribution that we intend to capitalize on.

**What is Scandic focusing on right now?**

– I am, of course, pleased that we once again have been able to report an improvement in adjusted EBITDA despite somewhat moderate growth in revenue per available room (RevPAR). At the same time, we can see that we haven't quite reached our 11 percent margin target. This is something we want to improve, which is why we've initiated a number of measures to further strengthen Scandic's profitability, cash flow and market position.

– We have carried out a review of our hotel portfolio and during the year, we exited four smaller hotels in Finland that had extensive renovation needs. Scandic operates a number of hotels with unsatisfactory profitability, however, and we will exit additional hotels if we cannot find ways to improve profitability.

– Scandic has also gradually established a more structured way of working with investments. After several years of significant investments in renovations, we now have a well-invested hotel network and we see opportunities to reduce the average investment per room in the future. In 2019, our renovation investments decreased both in relation to net sales and in absolute terms.

– During the year, we stepped up our focus to increase profitability from our restaurant and conference operations, which together account for about a third of Scandic's net sales but which also have significantly lower margins than room operations. For this reason, we are currently reviewing our modes of operation and offerings. During the year, a restaurant in one of our Copenhagen hotels signed an outsourcing agreement and I expect that we will see more agreements like this going forward.

– We've increased the pace of digitalization in the company to enhance cost efficiency and the customer experience. This year, Scandic also plans to launch online check-in and checkout and automate a number of manual processes.

– Finally, we have invested in improving our visibility in the market and strengthened our focus on international customers and distribution. It is clear that demand from international visitors has grown and we need to ensure we really take our share of this market. We saw a clear positive effect from these investments during the summer months when Scandic's RevPAR development was higher than the market in all Nordic countries.

**What can you tell us about Scandic's sustainability initiatives?**
– We are proud to say that Scandic is a pioneer in the hotel industry when it comes to sustainability. Since the early 1990s, we've implemented a number of initiatives that improve working environment and reduce resource consumption and waste at our hotels – ideas that other hotel companies have also adopted. This is something we are constantly building upon. For us, sustainability is a natural part of our business and our operations are characterized by a sustainable approach. Our corporate customers and hotel guests are also increasingly making demands on us to be even more sustainable. I know that our focus on sustainability also motivates our team members and makes them feel proud, which is absolutely critical for us to be able to deliver good service.

– Scandic supports the UN Global Compact and operates based on its ten principles for human rights, labor law, environment and anti-corruption. We also contribute to promoting sustainability in the hotel industry by participating in the International Tourism Partnership (ITP).

– During the year, we continued to develop our sustainability strategy that highlights our ambition for Scandic hotels to be the most sustainable places to meet, eat and sleep away from home. In 2020, we will present new ambitious sustainability goals linked to the new strategy.

## "IN 2019, WE INCREASED THE PACE OF DIGITALIZATION IN THE COMPANY."

**Are you pleased with Scandic's new hotels and pipeline?**
– Scandic opened seven hotels with lease agreements during the year, and in general, we're satisfied with these openings. In August, we celebrated the successful launch of the hotel and event center Scandic Falkoner in Copenhagen's theater district, which had high occupancy from day one. During the summer, we also reopened Marski by Scandic as a signature hotel in central Helsinki after an extensive renovation. The hotel got off to a good start with the help of the strong Helsinki market during the second half of the year.

– We also signed agreements for a number of attractive new hotels during the year in Copenhagen, Aarhus, Helsinki and Stavanger. At year-end, our pipeline consisted of 5,882 rooms, which corresponds to just over 11 percent of our existing portfolio. I'm very pleased with the quality of our pipeline, which is concentrated on large hotels in attractive locations in big cities with good prospects for continued growth.

**Were there any internal changes during the year?**
– To gain more control over our portfolio management and investments, we recently made organizational changes that involve coordinating expertise in areas from leasing to concept development and investment. I am convinced that this will strengthen Scandic's ability to develop and improve the hotel portfolio and streamline our investments over time.

**Can you tell us more about Scandic GO?**
– We recently introduced Scandic GO, a new brand in the growing economy segment. Scandic GO will offer online check-in and checkout and digital room keys for mobile devices. Scandic GO will be an attractive complement to our existing offering for customers who do not need a full-service hotel. In the long term, Scandic GO will strengthen our possibilities for growth. Initially, we will convert five existing hotels into Scandic GO hotels.

**What about Scandic's operations outside of the Nordic countries?**
– We're satisfied with the performance of our hotels in Germany. I think they demonstrate that Scandic's brand and business model also work well outside the Nordic region. We also have two more German hotels in the pipeline – one in Frankfurt and one in Munich.

– We continue to be interested in growing in the larger German cities. The advantage of expanding through new hotel projects is that we can control their configuration ourselves. The disadvantage is, of course, the long wait times for completion. That said, we're planning to put more effort into finding opportunities at individual hotels or smaller hotel chains, provided they meet our investment criteria.

**What's your market view for 2020?**
– We can see that the supply of hotels in the Nordic countries will continue to increase in 2020, although not to the same extent as in 2019. In the short term, we will continue to focus fully on dealing with the negative effects that the spread of the coronavirus has had on hotel demand. That said, it is currently difficult to assess when the market situation will be normalized.

**Anything else you'd like to add?**
– Demand is increasing over time in our markets and we have a clear ambition to continue to grow by adding new profitable hotels. Given the current uncertain market situation, it is of the utmost importance that we be accurate in our priorities and continue our initiatives to drive profitability, cash flow and market position. Our cost focus must be further increased to manage the crisis in demand that has been caused by the spread of the coronavirus.

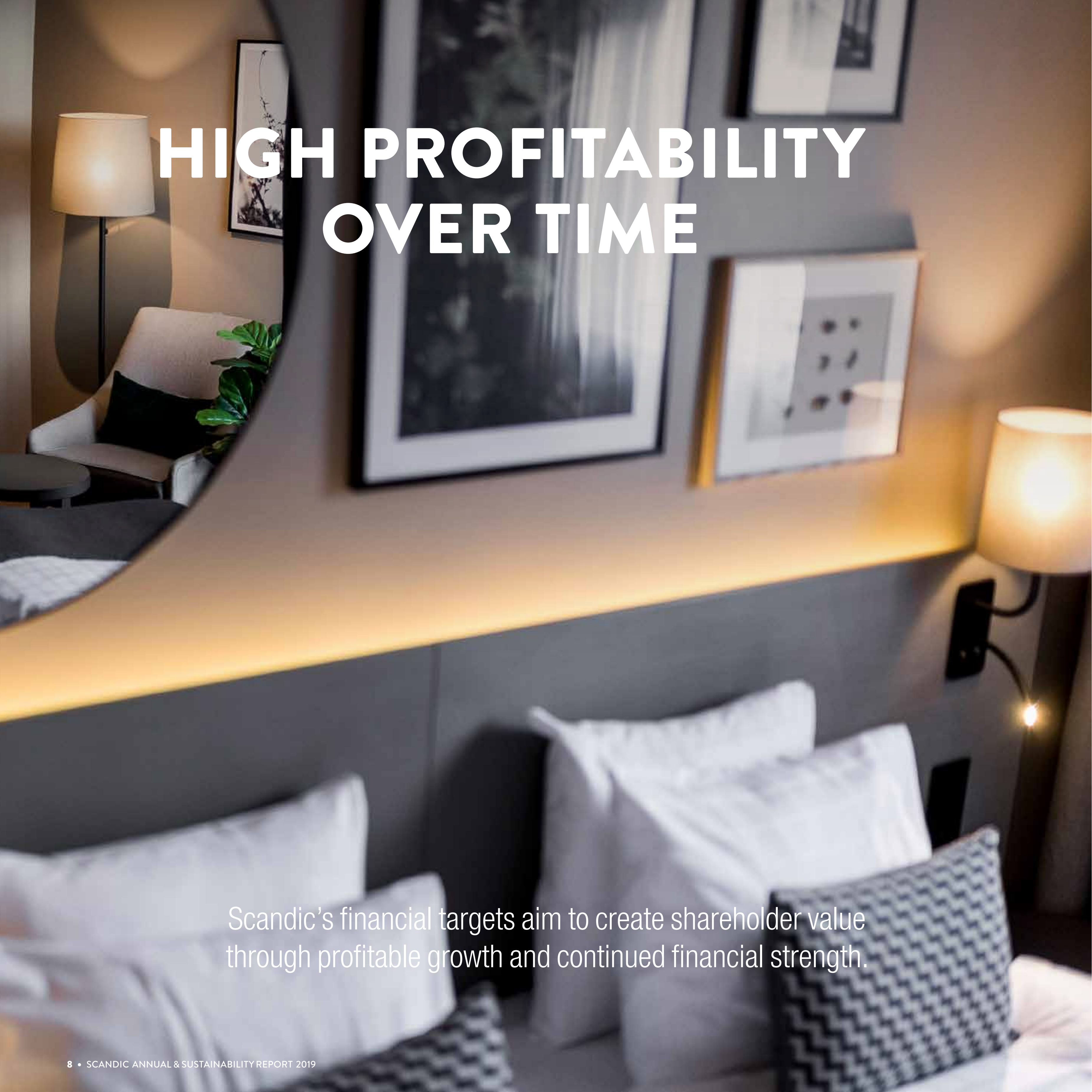
– Finally, I'd like to extend my gratitude to all Scandic team members who together do so much to create great hotel experiences for our guests. And thank you as well to our guests, owners and lenders for their trust in Scandic.

Jens Mathiesen,
President & CEO

# CREATING STAKEHOLDER VALUE

Scandic's strategy aims to optimize long-term value creation for all of its stakeholders while managing the external factors that impact the company.


EXTERNAL FACTORS
CHANGING DISTRIBUTION LANDSCAPE
EVOLVING CUSTOMER BEHAVIOR
DIGITALIZATION
SUPPLY/DEMAND BALANCE
SUSTAINABILITY
STRATEGY
Scandic's strategy is designed to handle external factors that affect the company
STAKEHOLDERS
CUSTOMERS
INVESTORS
TEAM MEMBERS
SOCIETY
PROPERTY OWNERS
SUPPLIERS
VALUE CREATION
The strategy aims to maximize long-term value creation for all of Scandic's stakeholders



# HIGH PROFITABILITY OVER TIME

Scandic's financial targets aim to create shareholder value through profitable growth and continued financial strength.

# RAPID ADJUSTMENT OF OPERATIONS DUE TO CORONAVIRUS

Substantial cost reductions to manage a period with very low occupancy.

### The world has changed

Naturally, we are happy with our financial performance in 2019, since our underlying profit reached its highest level ever. However, the world around us changed drastically in early 2020 due to the spread of the coronavirus. From the end of February, travel restrictions and government decisions in all of our markets contributed to reduced travel and a substantial increase in the number of canceled events.

### Comprehensive cost reductions implemented

At the time of writing this report, we expect occupancy to remain very low during the second quarter, gradually improving in the second half of the year. For this reason, Scandic has carried out a host of measures aimed at reducing costs and adapting the company's operations to the current situation. There have been significant cuts made to the number of employees, both in hotel operations and support functions. As a part of this, many hotels have been temporarily closed. The greatest cost reductions are taking place in Norway, Finland and Denmark, while the effect of the adjustment in Sweden is limited due to less generous furlough rules.

Scandic estimates that the Group's total costs, excluding rents, have been reduced by more than 70 percent from April 2020. Scandic is also striving to implement additional cost reductions in all markets and we need to prepare for the fact that demand will take a long time to recover.

### Measures to protect cash flow

In addition to comprehensive cost reductions, Scandic has also undertaken measures aimed at protecting the company's cash flow for a period with very low occupancy. Investments and ongoing projects have been reduced and payment of taxes and charges has been deferred in line with possibilities for deferrment in Scandic's markets. Scandic and its property owners have also agreed on a temporary solution for rent payments that is adapted to current market conditions.

### Strengthened financing

Due to the current situation, a financing solution was presented on April 29 involving a raised credit limit of 1,150 MSEK combined with a new issue of 1,750 MSEK. We are therefore of the opinion that Scandic's need for financing in the coming year due to the coronavirus crisis has been secured, even despite a more negative market situation.

**JAN JOHANSSON**
Chief Financial Officer

# FOCUS ON IMPROVING MARGINS, PROFITABILITY & CASH FLOW

Scandic has grown rapidly in recent years. Since 2013, both turnover and the number of hotels in operation have more than doubled driven by two acquisitions and significant organic growth. Although sales have increased, Scandic's margins were relatively stable between 2017 and 2019 at the same time as cash flow was affected by relatively high levels of investment. This is why in 2019, Scandic initiated a number of measures aimed at strengthening profitability, cash flow and market position.

## PORTFOLIO MANAGEMENT

During the year, Scandic began reviewing its hotel portfolio. In 2019, Scandic had upwards of 15 hotels that were not profitable and several others that were not contributing to the Group's cash flow after investments. Several of these hotels were acquired through the acquisitions of Rica and Restel. In 2019, Scandic exited four smaller hotels in Finland that had been making limited contributions to Scandic's results and that required major renovations. In the future, Scandic is likely to exit more hotels as their lease agreements expire. Scandic is also examining other measures to improve profitability, for example, through renegotiating leases and adjusting offerings.

## RESTAURANT & CONFERENCE OPERATIONS

Scandic has increased its focus on improving profitability in restaurant and conference operations, which together account for about one-third of the Group's net sales. Restaurant and conference operations have significantly lower profitability than room operations, which is why the company is working to adjust concepts and modes of operation throughout the organization. In some of the Group's restaurants, opening hours and staffing have been adjusted and, in some cases, it may be more feasible to outsource restaurant operations to established external partners to improve profitability. To increase the efficiency of its meetings business, Scandic has increasingly begun to centralize sales that were previously managed by individual hotels.

## CAPITAL EFFICIENCY

Scandic's investments have increased in recent years, partly driven by the planned high level of renovation in the hotels that were added from the Restel acquisition. Scandic has identified potential to reduce the average renovation cost per room and has successfully introduced a more coordinated way of working by improving planning, purchasing and execution to better leverage economies of scale. It is also important to ensure that investments in new hotel projects are as profitable as possible so that full focus is on hotels with the right location, configuration and rent levels. During the year, an organizational change was implemented where the responsibility for Scandic's renovation investments was merged with business and concept development, which is expected to contribute to improved efficiency.

**NUMBER OF ROOMS IN NEWLY-OPENED HOTELS DURING THE YEAR**

**1,559**

During 2019, Scandic opened 7 hotels with 1,559 rooms under lease agreements. Today, there are Scandic hotels in about 130 places.

## DISTRIBUTION

There is a clear trend in the Nordic market where demand from international visitors is growing faster than demand from Nordic guests. To be able to take its share of this growth, Scandic needs to be accessible in the distribution channels that are relevant to this new customer category. To exploit this potential, Scandic strengthened investments in international sales and distribution during the year. This had a positive effect, especially during the summer months, as Scandic's RevPAR development during this time was deemed higher than for the hotel market as a whole in the Nordic countries.

## DIGITALIZATION

Scandic is gradually increasing digitalization to drive cost efficiency and improve the customer experience. Guest behavior changes over time and digitalization is crucial to live up to customers' expectations for a smooth experience. In addition, obtaining data from customers enables more personalized offers. Digitalization is also an important tool for driving internal efficiency since there is still great potential to automate a number of manual processes both centrally and in Scandic's hotel operations.


**FOCUS ON IMPROVING MARGINS, PROFITABILITY & CASH FLOW:**

- **PORTFOLIO MANAGEMENT**
- **RESTAURANT & CONFERENCE OPERATIONS**
- **CAPITAL EFFICIENCY**
- **OPTIMIZED DISTRIBUTION**
- **DIGITALIZATION**

1. **SCANDIC STORA HOTELLET, NYKÖPING**
2. **SCANDIC KØDBYEN, COPENHAGEN**
3. **SCANDIC FRONT, COPENHAGEN**

# FINANCIAL TARGETS & OUTCOME

1

## GROWTH

The Group shall have organic growth, i.e. sales growth excluding acquisitions and adjusted for exchange rate fluctuations, of at least 5 percent on average over a complete business cycle.

2

## PROFITABILITY

The adjusted EBITDA margin of the Group shall be at least 11 percent on average over a complete business cycle.

3

## CAPITAL STRUCTURE

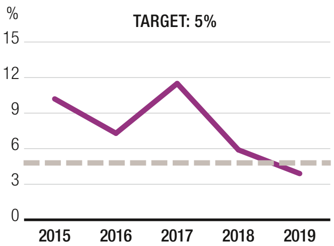
The Group shall have net debt in relation to adjusted EBITDA of 2 to 3x.

4

## DIVIDEND

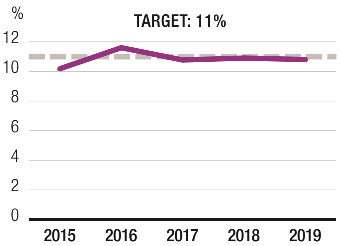
The dividend policy is to distribute at least 50 percent of net profit for the year.

### TARGET & OUTCOME 2015–2019



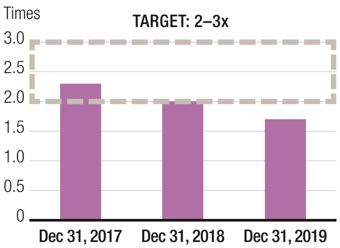

In 2019, organic growth was 3.9 percent. New hotels had a 3.5 percent impact on net sales while exited hotels had a negative impact of 1.1 percent during the year. For comparable units, sales rose by 1.5 percent.

### TARGET & OUTCOME 2015–2019



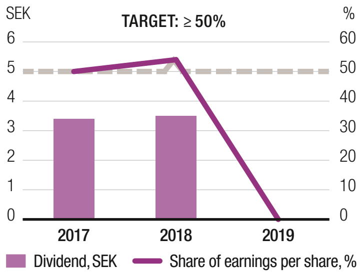

The adjusted EBITDA margin totaled 10.8 percent for the Group compared with 10.9 percent in 2018. Margins improved in Norway and Finland, remained relatively unchanged in Sweden and decreased in Other Europe.

### TARGET & OUTCOME 2017–2019




At the end of 2019, net debt in relation to adjusted EBITDA was 1.7 percent. Net debt dropped during the year due to improved EBITDA and lower levels of investment.

### TARGET & OUTCOME 2017–2019




As a result of the company's significantly worsened business situation due to the spread of the coronavirus at the beginning of 2020, the Board of Directors proposes that no dividend be paid for 2019.

# AN ATTRACTIVE FINANCIAL PROFILE

Scandic's ability to deliver good profitability over time rests on four pillars.

1

## SALES GROWTH

Demand for hotel experiences is growing in Scandic's markets. And with a strong market position in the mid-market segment and a unique geographic footprint, Scandic is often the hotel of choice for Nordic business travelers. Scandic has a large number of framework agreements with companies and organizations, many of which are renewed every year, and recurring sales are strengthened by the Scandic Friends loyalty program. Scandic also enjoys growing demand from leisure travelers in the Nordic countries, not least from international guests. The company is a highly attractive partner for property owners and its leasing model with variable rents contributes to creating a platform of common values between Scandic and the property owners – a prerequisite for continuing to expand.

2

## FLEXIBLE COST STRUCTURE

Scandic has a flexible cost structure with a high share of variable costs, about 25 percent of which are consumables and sales-related expenses such as rents and commissions. Accordingly, these costs vary based on sales volumes. About half of Scandic's costs are semi-flexible and include personnel expenses. Scandic closely monitors all levels of operations and follows up on expected occupancy to address deviations quickly by reducing costs.

3

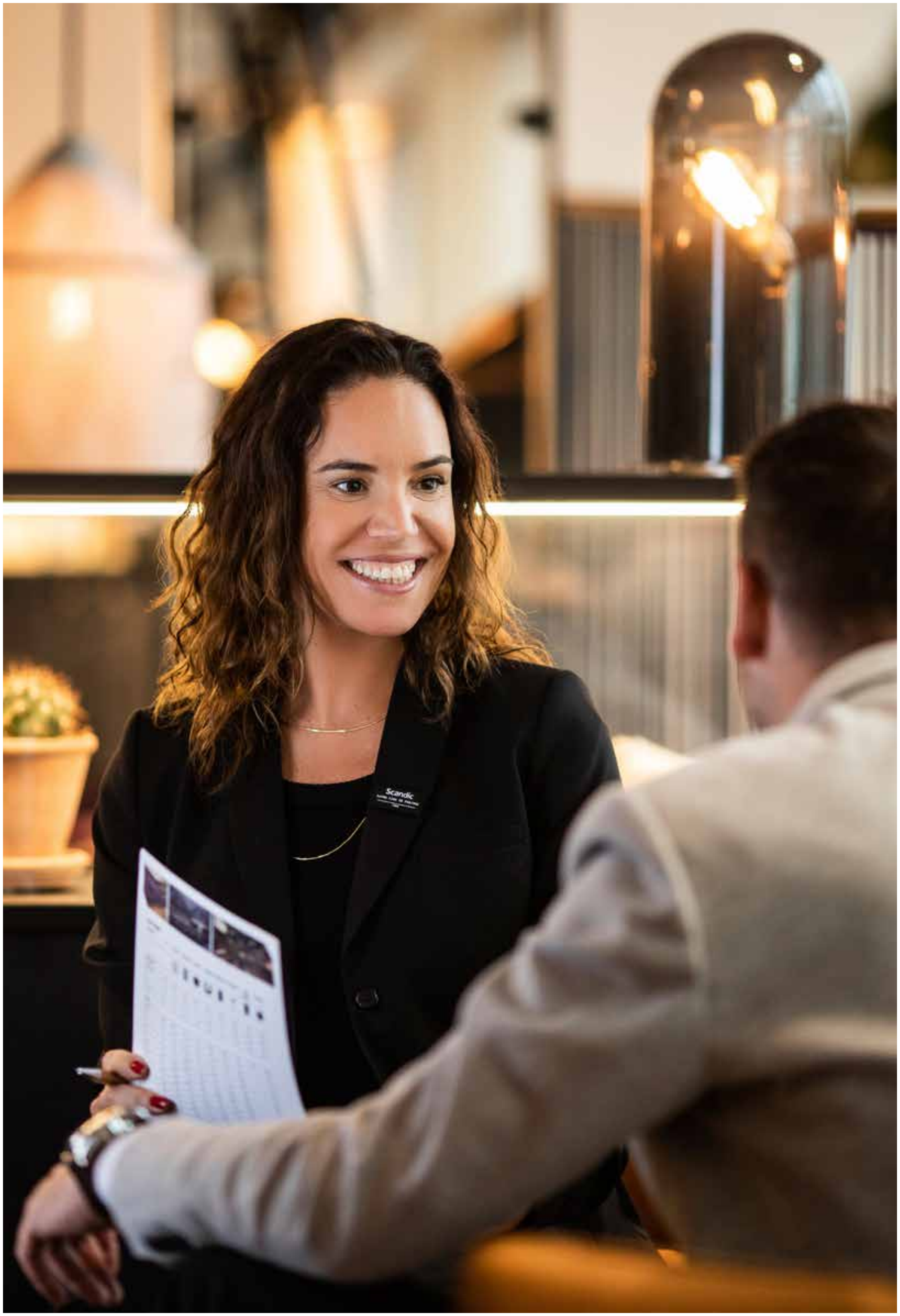
## STABLE EBITDA MARGINS

Scandic has enjoyed relatively stable EBITDA margins in recent years thanks to a large share of recurring sales and a flexible cost structure. Market risk has diminished over time following the acquisition of Rica in Norway in 2014 and Restel in Finland in 2017. Scandic aims to achieve cost efficiencies at all levels through careful planning of staffing and economies of scale within IT, purchasing and administration. In 2019, the company also introduced a number of measures to further strengthen profitability.

4

## CASH FLOW

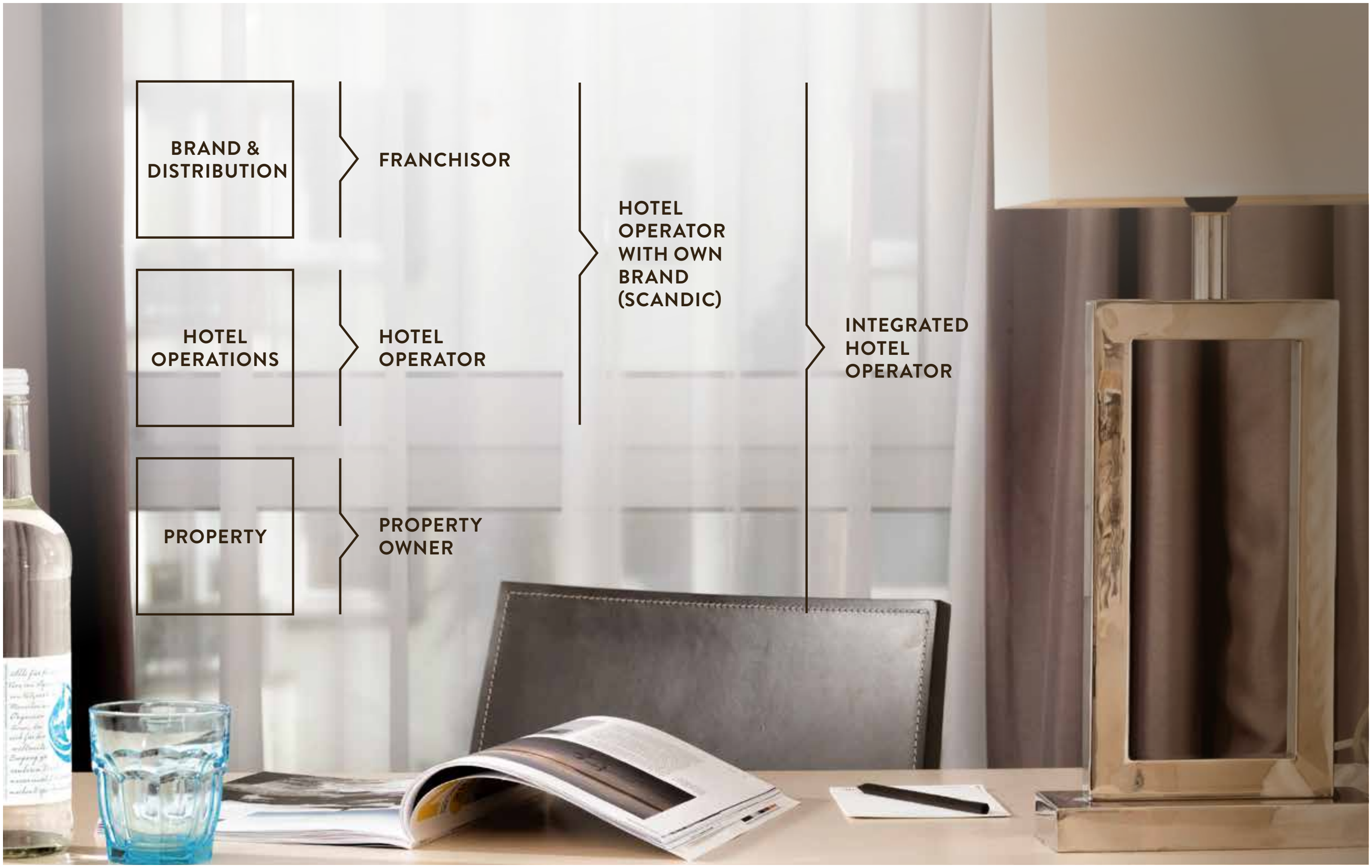
Scandic is good at generating cash flow. Since customers generally pay when they check in, Scandic has negative working capital. Investment needs are relatively limited thanks to the division of responsibility between property owners and Scandic. Excluding the construction of new hotels, the need to reinvest in the hotel business is 4 percent of sales at most. The ability to convert profits into cash flow, or cash conversion, is a result of the low level of capital tied up.



1. **HELPING CLIENTS PLAN MEETINGS**
2. **TEAMWORK AT SCANDIC**
3. **BREAD FOR SCANDIC'S BREAKFAST BUFFET**

# SCANDIC'S POSITION IN THE VALUE CHAIN

Scandic has chosen to focus on a model with long-term lease agreements with property owners where Scandic maintains full responsibility for the brand, hotel operations and distribution. This is the dominant model in the Nordic markets and in Germany. In many other countries, the franchise model where the hotel company controls the brand while operations are run by a specialized management company or the property owner is more common. And some hotel companies have a fully integrated model where the property owner is responsible for both operations and the brand.




**BENEFITS OF REVENUE-BASED LEASING MODEL**

- Stable profitability
- Full control over offering
- Economies of scale in operations and distribution
- Shared interests for Scandic and property owners

The leasing model means Scandic can ensure that its hotel offering is fully in line with what the company markets while also benefiting from economies of scale in operations and distribution. Since no capital is tied up owning properties, there is financial space to maintain high growth in the portfolio. Scandic's leasing agreements are revenue-based to a large extent, creating a common interest for both parties since increasing sales at Scandic mean more value for property owners. Additionally, variable rents ensure a flexible cost structure which helps to stabilize margins over time, even during periods of weak market growth.

# OUR STRATEGY

To realize the company's vision, mission and financial goals, Scandic has defined a number of strategic focus areas that clarify what the company strives to achieve in its daily operations. An inspiring culture with engaged and motivated team members and a sustainable approach are the foundation of Scandic's strategy and should be evident in all important decisions.

# STRATEGIC FOCUS AREAS

VISION

A WORLD-CLASS NORDIC HOTEL COMPANY

MISSION

GREAT HOTEL EXPERIENCES FOR THE MANY PEOPLE

FINANCIAL TARGETS

| ORGANIC GROWTH | MARGIN | CAPITAL STRUCTURE | DIVIDENDS |
|---|---|---|---|
| 5% | 11% | 2–3 x | ≥ 50 % |

VALUES

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

CORNERSTONES

ENGAGED & MOTIVATED TEAM MEMBERS

SUSTAINABLE BUSINESS

GROWING & IMPROVED HOTEL PORTFOLIO

ATTRACTIVE BRANDS & OFFERING

OPTIMIZED DISTRIBUTION

EFFICIENT OPERATING MODEL

# ENGAGED & MOTIVATED TEAM MEMBERS

Having engaged and motivated people is one of Scandic's biggest success factors. Our culture, leadership and what it means to be a Scandic team member should reflect trust, inspiration, cooperation and confidence in team members' abilities to make their own decisions. We also strive to be a leader in the hotel industry when it comes to diversity and inclusion, a prerequisite for attracting and keeping talents.

We aim to offer a workplace where people feel challenged and can develop professionally – a place they want to stay for a long time. We understand that our team members reflect the Scandic brand in every interaction with guests, which is why each person is empowered to make decisions in their area. To this end, work to develop Scandic's culture and team members is always ongoing.

# SUSTAINABLE BUSINESS

We aim to build on our long history of sustainability initiatives, understanding that each step in the right direction counts. Our sustainability measures intend to reduce negative environmental impacts, increase benefits for society and strengthen our business. Decision-making and implemented initiatives should always reflect Scandic's consideration for the environment, people and society.

We stand firmly behind the Paris Climate Agreement and the UN's Sustainable Development Goals (SDGs) and we constantly evaluate our ability to contribute to sustainable development. To this end, we formulate measurable goals related to the SDG where the company, its employees and its stakeholders have the greatest potential to make an impact. The areas where we can have the most significant impact are reducing food waste, promoting diversity and inclusion and ensuring that our hotel operations have the lowest possible climate impact.

Development in these areas is constantly monitored to ensure that each measure has the desired effect.

# A GROWING & IMPROVED HOTEL PORTFOLIO

Scandic aims to have a market-leading position at selected destinations in the Nordic countries. Our strategy is to develop and establish new hotels as well as acquire or take over existing ones in areas where demand is expected to remain high. Scandic's establishments should always meet clear requirements for profitability in terms of margins and capital intensity, and all new hotels should contribute to increasing profitability and minimizing negative climate impacts. The configuration of these hotels is key for ensuring a great guest experience and sustained profitability.

Our hotels are constantly evaluated in terms of profitability, cash flow, customer satisfaction and climate impact. Hotels that fail to meet these criteria may be exited. Alternative models of operation such as franchise and management agreements may also be considered. We prefer, however, to operate hotels ourselves under our own brand based on long-term lease agreements.

Long-term relationships with professional property owners and developers are a prerequisite for a profitable, growing hotel portfolio. The basic component of these relationships is long-term lease agreements. Agreements are constantly developed to ensure profitability, clear responsibility for maintenance and renovations and measures to reduce climate impacts.

When we establish hotels outside of the Nordic countries, the focus is Northern Europe, mainly Germany, based on the same investment criteria as for hotels in the Nordic region.

# ATTRACTIVE BRANDS & OFFERING

Scandic offers market-leading hotel and meeting experiences in the mid-market segment for leisure travelers, corporate customers and organizations. This is achieved by having an attractive brand and consistent product and service concepts.

Depending on demand, local competition and the opportunity to contribute to profitability, a hotel's offering may be supplemented by restaurant and bar offerings operated by Scandic or an external partner.

At destinations where there is sufficient demand, we may supplement our hotel offering with hotels in the upper mid-market segment and lower segments. These are usually operated under other brands, as with Scandic's signature hotels, or other companies' brands, for example franchises.

Providing great service is a central part of our offering. As guests at Scandic, leisure travelers, corporate customers and organizations should always enjoy service that demonstrates Scandic's values in both personal and digital interactions.

Caring for people and the environment should also be evident in the way Scandic develops its offering and throughout the entire supply chain.

At the moment, we are working to strengthen the guest experience through digitalization. Scandic's website should be easy to use and relevant, forming the basis for digital contact in all channels. Scandic's loyalty program, Scandic Friends, is also an important part of our offering as a way to create direct relationships with guests and strengthen customer loyalty.

# OPTIMIZED DISTRIBUTION

Scandic strives to make its offering available in all distribution channels that are relevant to customers. These include individual travelers with or without corporate agreements as well as groups that include companies, organizations and other leisure groups.

Scandic's agreements with companies and organizations as well as our loyalty program and its sales and distribution channels form the basis of our distribution with a high share of returning customers.

Scandic strives to maintain and develop its market-leading position among Nordic corporate customers. We are also working to strengthen our position in the growing leisure segment for Nordic and international travelers. To better reach international customers, we work with selected distribution partners.

In our work to optimize room revenues between different distribution channels, we focus on the net price.

We also coordinate sales and booking resources for different geographic submarkets to better capitalize on the meeting and conference market.


# EFFICIENT OPERATING MODEL

At Scandic, we aim to benefit fully from economies of scale in areas such as hotel operations, sales and marketing, IT, purchasing and administration.

We also capitalize on economies of scale through our shared brand and concept.

Internal efficiency is continually improved by developing and standardizing processes and systems as well as sharing best practice. This is done by using modern IT systems and services that are handled by a central IT function for the entire Group. Scandic's operations are also characterized by a clear division of responsibilities between hotels and central functions.

We aim to continually strengthen and develop our successful operating model, focusing on high resource efficiency to reduce costs and minimize negative impacts on the climate and environment.

# OUR MARKETS

Demand for hotel nights continued to grow in all markets and was particularly high in Finland during the year.

# TRENDS IN SCANDIC'S MARKETS

**DEMAND GROWING OVER TIME**

Over the past decade, the travel and tourism industry has grown faster than the global economy. In the markets where Scandic operate, demand for hotel experiences over the past ten years is estimated to have increased by between 2 and 5 percent per year.

**MORE TOURISM & INTERNATIONAL VISITORS**

International travel to the Nordic countries is increasing and the trend is clear. Scandic estimates that since 2010, demand from international guests has risen by 5 to 6 percent per year, while overall growth has averaged 3 to 4 percent. Currently, most international guests come from Germany, the UK and the US. New digital distribution channels have also helped drive demand, as they aggregate and show the hotel supply in markets that are not reached by Scandic's own channels.

The Nordic region is an increasingly popular destination. The Nordic hotel market has historically been dominated by the mid-market segment. With growing tourism and a trend towards increased individualization, the demand for new types of hotel experiences has grown. For example, Scandic is seeing more demand for centrally located hotels with a lower level of service and lower room rates. In cities such as Stockholm, Helsinki and Copenhagen, there is a clear increase in the number of international visitors. It has become more common for international conferences to be held in the Nordic capitals and large, new entertainment and sports arenas have been added at the same time as communications have improved. In recent years, the relatively weak Swedish krona has also contributed to increased tourism in Sweden, both from domestic and international visitors. In Helsinki, where Scandic currently dominates the market, demand has been buoyed by Finnair's leading position in air traffic from Asia to Northern Europe. The Nordic region is seen by many as an increasingly attractive alternative to many other European destinations where, in some places, signs of overtourism are evident and where the authorities are trying to limit the influx of visitors in various ways.

**"THE NORDIC REGION IS AN INCREASINGLY POPULAR DESTINATION."**

**NEW DISTRIBUTION CHANNELS SHOWCASE OFFERING**

Digital booking sites, or online travel agencies (OTAs), represent a growing share of hotel bookings and meta-search engines such as Tripadvisor.com are another important market player. These services allow customers to read reviews, compare prices and book rooms either through a hotel company's website or an OTA. Additionally, property-sharing services such as Airbnb have grown rapidly, increasing competition and creating new types of demand that hotels can capitalize on. In many markets, restrictions on property sharing have been introduced, which has slowed the growth of this market somewhat.

**GROWING DEMAND IN OUR MARKETS***

| MARKET GROWTH | KEY DESTINATIONS | LEISURE SEGMENT | INTERNATIONAL VISITORS |
|---|---|---|---|
| 3–5% | 5–6% | 5–6% | 5–6% |

* Average growth in demand in the Nordic hotel market, 2010–2019. Source: National Statistics.

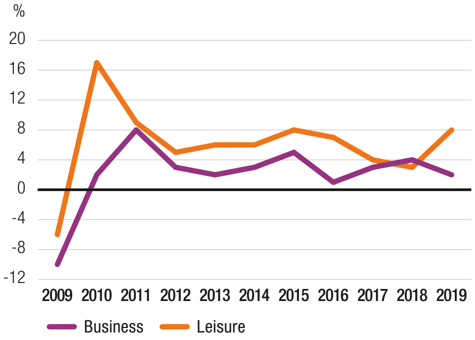
## INCREASED DEMAND IN 2019

Demand continued to grow in Scandic's markets during the year. In total, net sales per available room, or RevPAR, grew in general in the entire Nordic region. Demand was especially strong during the third quarter thanks to increased tourism during the summer months and in Helsinki, it was high during the second half of the year when Finland took over the EU presidency.

## UNCERTAIN PROSPECTS FOR 2020

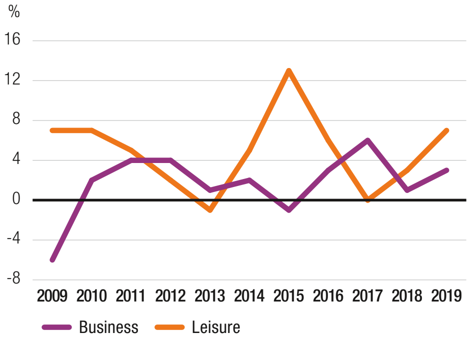
The outlook for 2020 is uncertain as a result of the spread of the coronavirus that led to fewer bookings and more cancellations at the beginning of the year. This is mainly due to changes in customer behavior with fewer international visitors, travel restrictions and canceled events.

### DENMARK: GROWTH IN GUEST NIGHTS PER SEGMENT



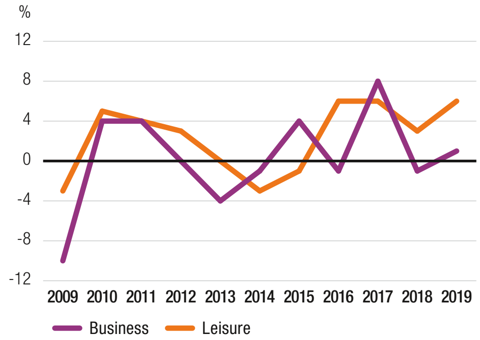

Source: Statistics Denmark.

### NORWAY: GROWTH IN GUEST NIGHTS PER SEGMENT



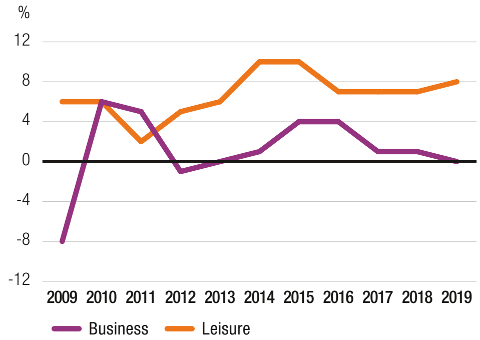

Source: Statistics Norway.

### FINLAND: GROWTH IN SOLD ROOMS PER SEGMENT



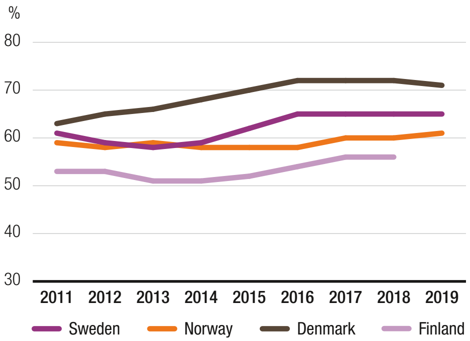

Source: Statistics Finland.

### SWEDEN: GROWTH IN NUMBER OF OCCUPIED ROOMS PER SEGMENT



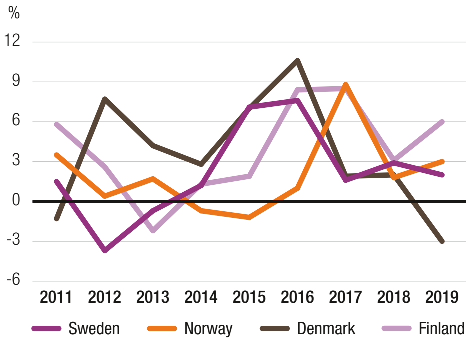

Source: SCB.

## OCCUPANCY IN THE MARKET



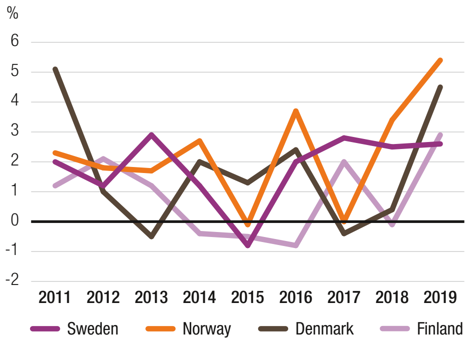

Source: Benchmarking Alliance and Statistics Finland.

## ANNUAL CHANGE IN REVPAR




Source: Benchmarking Alliance and Statistics Finland.

## ANNUAL CHANGE IN NUMBER OF AVAILABLE ROOMS




Source: Benchmarking Alliance and Statistics Finland.

# GROWING & IMPROVED HOTEL PORTFOLIO

With presence at almost 130 locations, Scandic is clearly the leading hotel company in the Nordic region.

# STRONG PIPELINE & ACTIVE PORTFOLIO MANAGEMENT

### POSITIVE START FOR NEW HOTELS

At year-end, Scandic had 268 hotels in operation with a total of 52,755 rooms. During the year, seven hotels opened, adding a total of 1,559 rooms. Three were reopenings of hotels that had been closed for renovations, and overall, the new hotels got off to a good start.

"OUR NEW HOTELS HAVE HAD A PROMISING START."

### NEW SIGNATURE HOTEL IN HELSINKI

One of Scandic's new hotels was Marski by Scandic in Helsinki, which after an extensive renovation opened as Scandic's fifth signature hotel in the summer of 2019, just in time to benefit from the strong market in Helsinki during the second half of the year. Marski by Scandic is a centrally located hotel with 363 rooms and a look and feel inspired by the local urban environment and a longing for nature. As at all Scandic hotels, sustainability initiatives are clearly evident at Marski by Scandic. During the renovation, the hotel was improved to meet today's demands for energy efficiency. Marski has been Nordic Ecolabeled based on strict requirements for limiting consumption of energy, water and chemicals as well as sorting of waste, and recycled materials have been used wherever possible.

### NEW HOTEL IN COPENHAGEN'S THEATER DISTRICT

In August, Scandic opened the hotel and event center Scandic Falkoner in Copenhagen's Frederiksberg theater district with high occupancy from day one. The hotel underwent a two-year renovation where room capacity was doubled to offer 334 rooms with a classic Nordic design and beautiful details inspired by the world of theater. With its central location, Scandic Falkoner offers proximity to shopping, cafés, restaurants and green areas. The hotel also welcomes guests and Copenhageners alike with its newly opened bar and restaurant. As part of the hotel, Scandic also operates the event areas in the historic Falkoner Concert Center, which has previously hosted legendary artists such as the Rolling Stones, Louis Armstrong and Leonard Cohen.

### A STRONG PIPELINE

At year-end, Scandic's contracted pipeline for 2020–2024 consisted of 15 hotels with a total of 5,882 rooms, which corresponds to just over 11 percent of the current portfolio.

The focus of the pipeline is mainly on hotels with at least 200 rooms at attractive locations in major Nordic cities. The most important destinations are Copenhagen and Helsinki, where three hotels will be opened at each destination in the coming years. The pipeline also includes two new hotels in Germany – one in Frankfurt and one in Munich – to complement existing hotels in the German market. In addition to these contracted hotels, Scandic is involved in negotiations for additional establishments.

### ACTIVE PORTFOLIO MANAGEMENT

Scandic constantly strives to optimize its hotel portfolio. In addition to new hotels, Scandic is always working with property owners to optimize the hotel portfolio through improvements, extensions and reconfigurations. Scandic's ongoing extensions include 585 rooms, which is roughly equivalent to the size of two normal-sized hotels. An increasingly important part of

### HOTEL PORTFOLIO

| Hotel openings during 2019 | Location | Type | No. rooms |
|---|---|---|---|
| Scandic Alexandra | Norway, Molde | Conversion | 165 |
| Scandic Vestfjord | Norway, Svolvær | Conversion | 63 |
| Holiday Inn Messukesus | Finland, Helsinki | Renovation | 244 |
| Scandic Bergen Strand | Norway, Bergen | Renovation | 173 |
| Marski by Scandic | Finland, Helsinki | Renovation | 363 |
| Scandic Falkoner | Denmark, Copenhagen | Conversion | 336 |
| Scandic Royal Stavanger | Norway, Stavanger | Conversion | 215 |
| | | | **1,559** |

SCANDIC'S MARKET SHARE IN NORDIC COUNTRIES

15%

A HOTEL NETWORK WITH UNIQUE REACH FOR CUSTOMERS

130 LOCATIONS

managing the portfolio is making decisions to exit hotels with low profitability and extensive renovation needs. In 2019, Scandic exited four smaller hotels in Finland and it is likely that a number of hotels will also be exited in 2020. Scandic maintains regular dialogue with property owners and developers about sustainability and strives for low energy consumption at environmentally certified properties.

## MARKET LEADER IN THE NORDICS

Scandic is clearly the leading hotel company in the Nordic region with a market share of about 15 percent and presence at about 130 locations. This strong position means that the company can offer significant geographic reach to corporate customers while at the same time benefiting from economies of scale in both operations and distribution. This, in turn, makes Scandic an attractive partner for property owners.

In the Nordic region, hotel chains account for about half of the total hotel market and independent operators for the other half. The most consolidated market is Finland, where Scandic became the market leader following the acquisition of Restel, which was completed in 2017. The most fragmented market is Denmark, where there are a large number of smaller operators and where Scandic has 27 hotels, making it the largest hotel company in the country.

## NEW HOTELS & EXTENSIONS

| Pipeline, year | Hotel | Location | Type | No. rooms |
|---|---|---|---|---|
| 2020 Q1 | Scandic Voss | Norway, Voss | New | 220 |
| Q2 | Scandic Pasila | Finland, Helsinki | Conversion | 178 |
| 2021 Q1 | Scandic Helsinki Railway Station | Finland, Helsinki | New | 491 |
| Q1 | Scandic by Copenhagen Airport | Denmark, Copenhagen | New | 357 |
| Q1 | Scandic Landvetter Airport | Sweden, Gothenburg | New | 223 |
| Q1 | Scandic Sortland | Norway, Sortland | New | 130 |
| Q1 | Scandic Nørreport | Denmark, Copenhagen | New | 100 |
| Q3 | Scandic Spectrum | Denmark, Copenhagen | New | 632 |
| Q4 | Scandic Hamburger Börs | Finland, Turku | Conversion | 272 |
| 2022 Q1 | Scandic Platinan | Sweden, Gothenburg | New | 451 |
| Q1 | Scandic Ferrum | Sweden, Kiruna | New | 230 |
| Q1 | Scandic Helsingborg Harbor | Sweden, Helsingborg | New | 184 |
| Q1 | Scandic Örebro Central | Sweden, Örebro | New | 160 |
| Q2 | Scandic Macherei | Other Europe, Munich | New | 234 |
| Q3 | Scandic Trondheim | Norway, Trondheim | New | 425 |
| Q3 | Scandic Avenue | Finland, Helsinki | New | 350 |
| 2023 Q1 | Scandic Hafenpark | Other Europe, Frankfurt | New | 505 |
| 2024 Q1 | Scandic Århus Harbour | Denmark, Aarhus | New | 485 |
| Ongoing extensions | | | | 585 |
| Exits | | | | -330 |
| **Total pipeline, net** | | | | **5,882** |

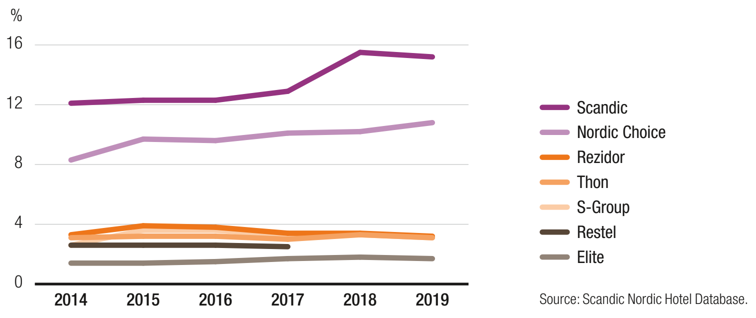
**NUMBER OF ROOMS IN PIPELINE**

**5,882**

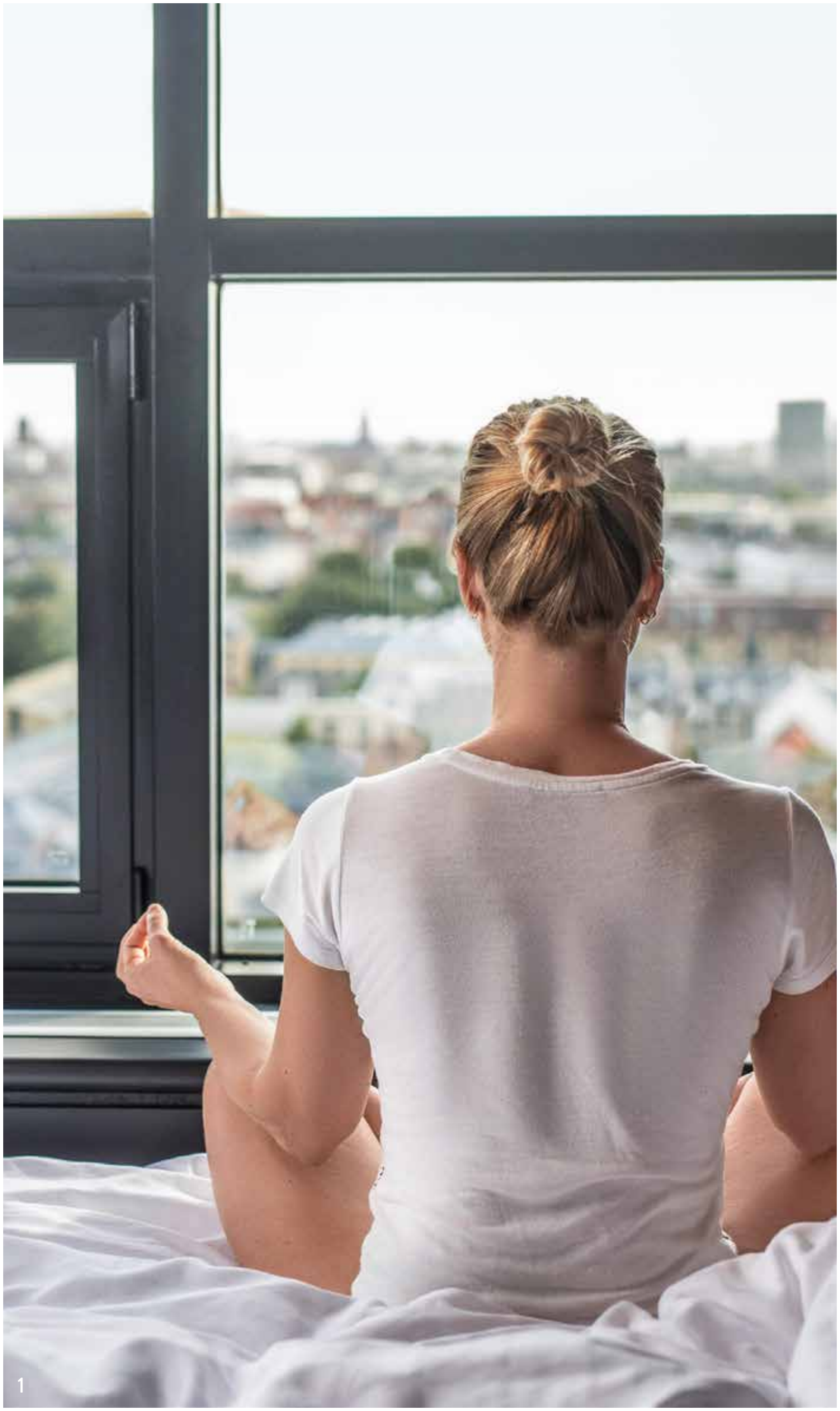
**PIPELINE'S SHARE OF CURRENT PORTFOLIO**

**11%**

## MARKET SHARE 2014–2019




Source: Scandic Nordic Hotel Database.




## NEW HOTELS

1. **MARSKI BY SCANDIC, HELSINKI**
2. **SCANDIC VESTFOLD, LOFOTEN**
3. **SCANDIC FALCONER, COPENHAGEN**


## "THE PROPERTY OWNER HAS RESPONSIBILITY FOR MOST INVESTMENTS MADE IN A HOTEL."

### VARIABLE LEASES = FLEXIBLE COST BASE

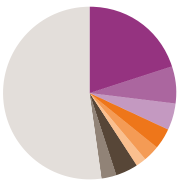
Scandic's business model is based on hotels that are operated through leases with property owners. These agreements are generally long-term variable leases based on the hotel's revenue. In the Nordic countries, there is a legal tenure, meaning that the tenant is entitled to extend the lease on market terms at the end of the original contract.

This revenue-based leasing model has been developed over time and Scandic enjoys close, long-term cooperation with property owners. At the end of 2019, 91 percent of Scandic's hotels were operated through leasing agreements and the average remaining leasing period was about 12 years. Today, the eight largest property owners represent half of Scandic's total hotel portfolio. The largest owner is Pandox, which owns about 20 percent of Scandic's hotels.

Responsibility for investments is clearly regulated in the leases. In general, Scandic is responsible for maintaining and renovating furniture, fixtures and equipment while the property owner is responsible for the building as well as technical installations and bathrooms. Accordingly, the property owner has responsibility for most investments made in a hotel over time.

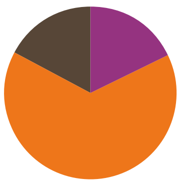
A clear advantage of the model is that it provides a flexible cost structure since rents decrease when hotel revenues go down. Revenue-based leases also encourage constructive cooperation between Scandic and property owners, with a joint interest for both parties to develop and improve the properties continuously.

### LARGEST PROPERTY OWNERS[1]



Pandox, Rica Eiendom, KLP, Capman, Eiendomsspar, Utstillingsplassen, Balder, Midstar, Other

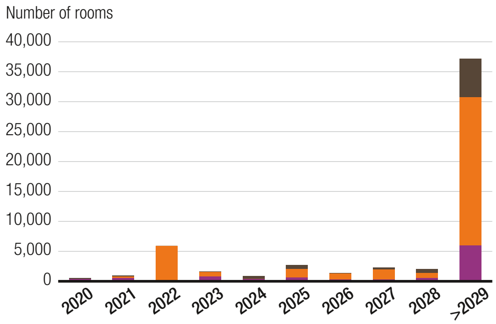
### BREAKDOWN OF LEASE AGREEMENTS[1]



Variable, Variable with fixed minimum rent, Fixed

[1] Excluding pipeline.

### REMAINING LEASE LENGTHS[2]




Variable, Variable with fixed minimum rent, Fixed

[2] Including pipeline.

# ATTRACTIVE BRANDS & OFFERING

The core of Scandic's offering is market-leading hotel and meeting experiences in the mid-market segment.

# STRONG OFFERING

## SCANDIC – THE CLEAR LEADER IN MID-MARKET SEGMENT

Scandic is positioned in the mid-market segment, which constitutes a large proportion of the Nordic hotel market.

Although all of Scandic's hotels operate in the same market category, there are differences in the product offering, location and customer mix, which enables a certain degree of segmentation. This is especially true in bigger cities where Scandic has a large presence. Since 2016, Scandic has offered signature hotels as a complement to its other hotels. These hotels are in a somewhat higher price segment, are individually designed and have a more experience-based character, which means that they attract another type of customer than Scandic's regular hotels. Today, Scandic has five signature hotels in Sweden, Norway and Finland. The latest addition is Marski by Scandic in Helsinki, which opened during the summer of 2019.

In Finland, Scandic also operates 10 hotels under international brands – three Hilton hotels in Helsinki that the company has been operating for some time and and seven IHG hotels under the Holiday Inn, Crown Plaza and Indigo brands that the company took over in connection with the Restel acquisition. As the number of international visitors to Scandic's markets increases, these hotels have the potential to reach a greater share of these customers at the same time as the hotels themselves can benefit from Scandic's efficient hotel operation.

**"DISTINCT HOTEL PRODUCTS, LOCATION AND CUSTOMER MIX ALLOW SEGEMENTATION."**

## SCANDIC GO REACHES NEW SEGMENT WITH GREAT POTENTIAL

In early 2020, Scandic launched Scandic GO, a new brand that offers a slimmer, more playful hotel concept within the growing economy segment. Scandic's ambition is for Scandic GO to create a strong presence in city locations in the Nordic countries. Full service restaurants, gyms and meeting facilities have been removed. Instead, Scandic GO stands for what is most important – getting a great night's sleep at a great location for a great price.

The first step will be to convert and open a total of five hotels under the new brand – two in Stockholm, two in Oslo and one in Copenhagen. With Scandic GO, Scandic will strengthen its long-term growth potential in the Nordic markets. With a high proportion of room revenue, Scandic GO is expected to contribute positively to Scandic's profitability and return on capital over time.

## SCANDIC FRIENDS STRENGTHENS CUSTOMER RELATIONSHIPS

Scandic Friends is by far the largest loyalty program in the Nordic hotel industry. The program has close to 2.5 million members who account for about 35 percent of the company's room sales. With Scandic Friends, members earn points and enjoy benefits that increase the more they spend at Scandic. The program allows Scandic to offer personal communication, relevant offers and a wide network of partners that also offer possibilities to earn and spend points. The benefits of the program naturally help build

**SCANDIC GO**

**5 HOTELS**

TO BE CONVERTED INTO SCANDIC GO

**SCANDIC FRIENDS**

**>2.5**

MILLION MEMBERS IN SCANDIC'S LOYALTY PROGRAM


customer loyalty, but Scandic also has a clear ambition to create more emotional loyalty among customers.

One purpose of Scandic Friends is, of course, to boost customer loyalty so that guests continue to stay at Scandic and act as ambassadors for the company. The program also allows Scandic to be more data driven. Thanks to the dialogue Scandic Friends creates between Scandic and members, the company can also gain important knowledge about guests' preferences when they stay at Scandic.

## DIGITALIZATION DRIVES CUSTOMER BENEFITS & EFFICIENCY

Scandic needs to constantly develop its offering. Customers expect a smooth experience at Scandic, from booking to checkout. There are significant opportunities to improve the customer journey through digitalization. For example, guests will soon be able to check in and out online using a special fast track service. Changes like these will enhance the customer experience and at the same time reduce costs and free up time that can be spent providing more personal service. In general, an increasing portion of the relationship between Scandic and guests will take place digitally, from selecting particular rooms when booking to using digital room keys on mobile phones.

Digitalization is not an end in itself and it is important for Scandic to prioritize solutions that create real value. In addition to improving the customer experience, Scandic uses digitalization to collect and analyze customer data so it can offer the best possible experience and thereby drive sales. To this end, Scandic ran a number of A/B tests during the year where different campaigns and offers were tested against each other in digital channels to see how to best optimize revenue.


# SCANDIC GO

A GREAT LOCATION AT A GREAT PRICE

# OPTIMIZED DISTRIBUTION

Scandic ensures its offering is visible in distribution channels that are relevant for its customers.

# STRONG INTERNATIONAL DISTRIBUTION

### IMPORTANT TO REACH ALL POTENTIAL CUSTOMERS

For Scandic, it is important to be able to reach as many potential customers as possible. Since international visitors represent an increasing share of the market, it has become even more important to cooperate with a variety of distribution partners to reach customers that Scandic cannot easily reach through its own channels and who are not familiar with the Scandic brand. Although Scandic strives to have high distribution through its own channels, increasing cooperations with OTAs need not be negative for Scandic as long as their customers come from abroad. Scandic will always, however, strive to attract Nordic customers that book through its own website and app.

### DIGITAL CHANNELS DOMINATE

Hotel stays are increasingly booked in digital channels. The number of bookings made via Scandic's website grew 12 percent over the past year and has doubled since 2013. At the same time, there has also been a constant increase in the number of bookings via OTAs and other digital distribution partners while analogue channels such as direct bookings at hotels are decreasing. One exception is booking meetings, which to a certain extent is still done in direct contact with hotels to adapt events to individual requirements.

**"SIGNIFICANT INVESTMENTS IN EHHANCING SCANDIC'S WEBSITE."**

### STRONG DISTRIBUTION CHANNELS

With a strong market position among Nordic corporate customers combined with a leading loyalty program, Scandic's own distribution channels are strong, accounting for about 60 percent of the number of rooms sold in 2019. About half of Scandic's distribution is through digital channels, and in recent years, Scandic has made investments in improving its digital solutions, which has had a positive impact. The rest of Scandic's bookings are made through a central reservation service or directly at hotels, but this is expected to continue to decrease.

There are several reasons why distribution through Scandic's own channels is positive. Scandic controls the entire booking when it is made through the company rather than having to pay commissions for bookings via OTAs. Additionally, Scandic can use bookings through its own channels to develop relationships with guests, which increases understanding of their behavior from searching to booking and staying.

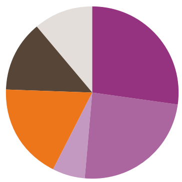
### POSITIVE EFFECTS FROM INCREASED INVESTMENTS

During the first half of 2019, Scandic increased its focus on visibility and campaigns in digital channels, which contributed to RevPAR development higher than the Nordic market as a whole between July and September 2019. As a result of new travel patterns, there has been a gradual change in seasonal variations where the tourist season during the summer months has become an increasingly important period for Scandic.

### DISTRIBUTION 2017–2019

| % guest nights | 2017 | 2018 | 2019 |
|---|---|---|---|
| Scandic's website & app | 24 | 25 | 27 |
| Hotel direct | 32 | 30 | 24 |
| Call center | 7 | 7 | 6 |
| **Direct** | **63** | **62** | **57** |
| OTAs | 17 | 17 | 18 |
| GDS | 12 | 13 | 13 |
| Wholesalers | 9 | 8 | 11 |
| **Indirect** | **38** | **38** | **42** |

### SALES BY DISTRIBUTION CHANNEL




**INCREASE IN BOOKINGS ON SCANDIC'S WEBSITE**

**12%**


# EFFECTIVE OPERATIONAL MODEL

Scandic benefits from economies of scale within areas such as IT, purchasing and administration. Efficiency is constantly being improved through standardization and sharing of best practices.

# ECONOMIES OF SCALE

## ECONOMIES OF SCALE ENABLE GOOD PROFITABILITY

As the largest hotel company in the Nordic countries, Scandic enjoys economies of scale that contribute to the Group having what is considered the highest profitability in the Nordic hotel industry. With a clear division of responsibilities between hotels and central functions, Scandic has excellent opportunities to benefit from these economies of scale in a number of important areas such as IT, purchasing, investments and administration. Scandic's strong market position also helps the company control distribution costs. This is a clear advantage compared with independent hotels and smaller hotel chains. This position is also valuable when negotiating with property owners that want to sign agreements with operators that have the strongest distribution capacity and the most efficient hotel operations.

## SUCCESSFUL MODEL FOR INTEGRATING NEW HOTELS

Scandic has a proven model to quickly integrate new hotels so they can be run as efficiently as possible. This applies to individual hotels and major acquisitions alike. General managers have full responsibility for revenue and costs for their respective hotels, with all the necessary support from Scandic's central functions. If one hotel implements measures that improve profitability and efficiency, they can be easily implemented in the rest of the Group thanks to efficient monitoring systems.

## ADDITIONAL POTENTIAL

There is room to further improve efficiency at Scandic. By increasing digitalization, Scandic can optimize manual processes that still exist at some hotels. Scandic is also implementing a new Group-wide ERP system to further improve governance. In the area of distribution, Scandic has also taken measures to increase coordination and efficiency. One example is coordinating the sale of meetings and conferences. Earlier, each individual hotel had responsibility for these sales which have now been recently merged to form "destination desks" at a number of locations.

# SUSTAINABLE BUSINESS

Doing business sustainably is fundamental to Scandic. Sustainability is included in all decision-making with the aim to strengthen Scandic's business, increase benefits for society and reduce negative environmental impacts.

# VISION, MISSION & VALUES

### OUR VISION

**To be a world-class Nordic hotel company**

With the help of our Nordic spirit, corporate culture and way of doing things, we will be the best hotel company we can be. World class isn't about five stars, red carpets or the number of hotels, but about delivering an appreciated experience every day, both on stage and behind the scenes for our guests, customers, team members and owners.

### OUR MISSION

**To create great hotel experiences for the many people**

We want to cater to as many people as we can. No matter who they are, how they dress, where they are from or where they are heading, we get up every morning to create great hotel experiences for everyone – from the moment guests first think of us until they check out and tell their friends.

### OUR VALUES

The foundation for the culture that characterizes Scandic was built 50 years ago when the first Esso Motor Hotel opened. Even though we now have thousands of team members in six countries, we always try to exemplify the driving forces that laid the foundation for Scandic. This legacy runs like a common thread throughout our entire organization and governs the way we recruit new team members.

Our culture can be summed up in four main values that team members can apply in their daily work and in all relationships, both internal and external. They are formulated and communicated internally as follows.

## OUR VALUES

## BE CARING

We are warm and welcoming, meeting everyone with open arms and minds. And we care for the people, planet and society around us.

## BE A PRO

We are reliable and always deliver consistent high quality. But we also exceed expectations. We know that the key to success is focusing on details and constantly endeavoring to be even better.

## BE YOU

We are ourselves. We celebrate each other's potential and appreciate our differences, just as we treat each guest as a unique individual.

## BE BOLD

We dare to do things differently. We leave our comfort zone and look forward, always aspiring to inspire our guests, our stakeholders, each other and society at large.

# ENGAGED & MOTIVATED TEAM MEMBERS

## MORE FEEDBACK FOR TEAM MEMBERS

2019 was the fifth year for Scandic's cultural platform, Inspiring Nordic. In recent years, the platform has contributed to developing the company's service as team members feel more empowered to take decisions when interacting with guests. During the year, Scandic primarily focused on strengthening feedback throughout the organization, since this had been identified as an area of importance. Requesting feedback and boosting each other should be a natural part of work that contributes to meeting goals and increasing job satisfaction and during 2019, Scandic strove to facilitate more conversation between team members and leaders across the organization through workshops combined with digital training.

## RESTEL SUCCESSFULLY INTEGRATED

At the end of 2017, Scandic completed the acquisition of Restel, which doubled the company's Finnish operations. In 2019, Scandic worked purposefully to integrate Restel, which included strengthening employee engagement and pride. It is gratifying to see clear positive effects from these efforts in the 2019 Voice annual employee survey.

## REDUCING STAFF TURNOVER

The hotel industry is an industry with high employee turnover and a large number of temporary employees. It is therefore invaluable to offer them a smooth transition into the company while making them feel they can grow and develop professionally at Scandic. In the fall, an initiative for role-specific onboarding was launched to give new team members training and information about Scandic prior to starting their new jobs so they would have a smoother start at work. As a growing company, Scandic also needs to continually identify candidates internally for managerial positions. Each year, Scandic runs a program called Talent at Scandic which includes several projects linked to Scandic's strategy.

## DIGITAL TRAINING GROWING

In 2017, Scandic launched Fuse, a digital tool for social learning and internal communication. Scandic's team members have gradually increased their use of Fuse and at the end of 2019, more than half used Fuse to communicate and share information. It is clear that those who use Fuse regularly feel more empowered and find it easier to cooperate. They are also more likely to recommend Scandic as an employer.

**TEAM MEMBERS WITH COLLECTIVE AGREEMENTS**

**89%**

**GENERAL MANAGERS RECRUITED INTERNALLY**

**74%**

**"1 IN 3 TEAM MEMBERS USES FUSE FOR SOCIAL LEARNING AND INTERNAL COMMUNICATION."**

**SUCCESSFUL INTEGRATION OF RESTEL**

In 2019, Scandic worked purposefully to integrate Restel, which included strengthening employee engagement and pride.

# ATTRACTIVE EMPLOYER

## AN INCLUSIVE CULTURE

Scandic strives to have an inclusive culture throughout its operations and has set clear goals for this. Gender distribution in the Group is 63 percent women and 37 percent men and women account for 53 percent of general managers. The total number of team members remained unchanged during the year at nearly 19,000, of which about 11,000 were permanently employed.

More than half of the new team members hired in 2019 were under 30. Of all of the Group's team members, about 40 percent are under 30. This is natural, as Scandic's operations are affected by seasonality and temporary highs. To meet these changes effectively, Scandic has a great need for temporary employees. In this respect, Scandic has a key role to play as a first employer and offers young people the opportunity to gain valuable professional experience. Scandic's temporary employees constitute an important recruiting base for its operations, and many employees are offered permanent employment. People from more than 120 nationalities currently work at the Group's hotels. Scandic strives to develop a rich culture with a strong diversity of skills and languages among its team members. About 90 percent of Scandic's team members think the company is diverse and that all team members, regardless of background, contribute and help create value.

**"HAVING A HAPPY, HEALTHY WORKPLACE GIVES SCANDIC A COMPETITIVE EDGE WHEN RECRUITING."**

## A HIGHLY APPRECIATED EMPLOYER

Every year, Scandic carries out an extensive employee survey that results in a Voice Index. In 2019, the response rate was 93 percent and the index score was 81 compared with 80 percent in previous years. Scandic's results correspond to the 'Excellent' level among companies using the same measuring tool. The increase over the year was mainly due to higher scores in Finland following the successful integration of Restel.

Within the framework of the Voice survey, special categories measure commitment, loyalty and work environment. Four out of five team members stated that they are proud to work at Scandic and happy to speak positively about Scandic. The same proportion believe strongly in the company and its future direction. Just as many team members said that they can make decisions themselves, regardless of their position, which is important in a fast-moving industry where customer focus is key.

Having a happy, healthy workplace gives Scandic a competitive edge when recruiting, and the company always strives to provide a good work-life balance for its team members.

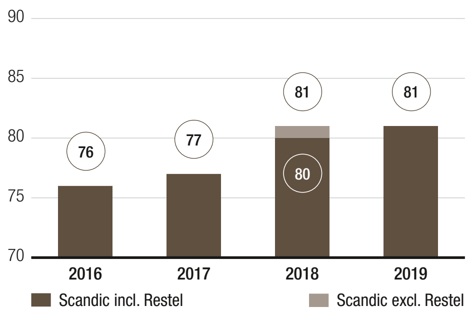
Scandic complies with national legislation and rules to ensure a good working environment. Employees receive remuneration based on local salary levels and market practices, and the remuneration model is based on clearly-set criteria regardless of gender, origin, ethnicity or age. Scandic also greatly values being a committed corporate citizen. The company seeks to reflect the society in which its hotels operate and consequently analyzes appointments of new positions from an equality and equal opportunities perspective. For many roles, development is carried out through Scandic's internal training program[1]. For other roles, externally recruited experts are required.

[1] Scandic does not measure the average number of training hours (deviation from GRI 404-1). Read more about digital training on page 46.



GRI: 401-1, 403-4, 103-1/ -2/ -3

## VOICE INDEX DEVELOPMENT




## GENDER DISTRIBUTION, GENERAL MANAGERS

53% (56%)

47% (44%)

women | men

## GENDER DISTRIBUTION, NEW EMPLOYEES[1)]

57% (57%)

43% (43%)

697 women | 517 men

## TOTAL NUMBER OF EMPLOYEES

63% (63%)

37% (37%)

11,973 women | 7,006 men

**TOTAL NUMBER OF EMPLOYEES:** 18,979

6,849 women | 4,107 men

**PERMANENT EMPLOYEES:** 10,956

4,595 women | 2,672 men

**TEMPORARY EMPLOYEES:** 7,267

530 women | 226 men

**CONTRACTED WORKERS:** 756

## NUMBER OF NATIONALITIES

**120+**

## AGE DISTRIBUTION, NEW EMPLOYEES[1)]

**1,214**

**NEW HIRES IN 2019**

Median 34 years

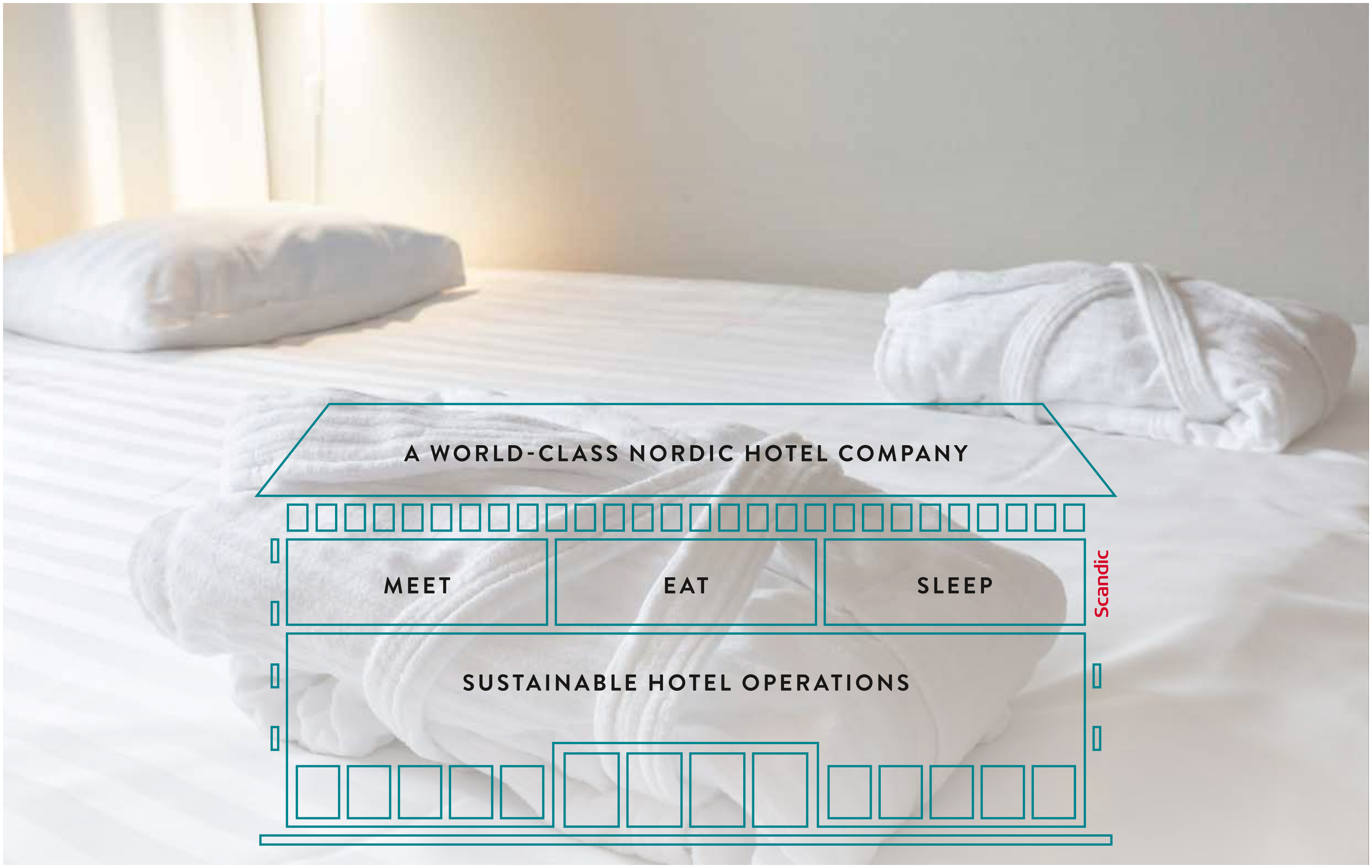
| <30 | 30–50 | >50 |
|---|---|---|
| 51% | 44% | 5% |

[1)] Refers to permanent employees.

GRI: 102-7, 401-1, 103-1/-2/-3

# INDUSTRY PIONEER POISED FOR NEXT STEP

Scandic is a pioneer in the hotel industry when it comes to sustainability. Since the early 1990s, the company has implemented a number of sustainability initiatives to make its hotels more energy efficient, reduce water consumption and waste, and improve the working environment for team members, suppliers and subcontractors. Scandic has also benefited society, increased the accessibility of hotel offerings, made its hotels more energy efficient, reduced water use and waste and improved security for vulnerable people. Each initiative has been implemented with the knowledge that environmental and social sustainability also create financial value. During the year, many activities illustrating this conviction were carried out.




# NEW SUSTAINABILITY STRATEGY SHOWS WAY

In December 2019, Scandic announced a new sustainability strategy based on its updated materiality analysis and supplementary stakeholder dialogues. The strategy sets out the direction for Scandic's future sustainability initiatives and includes clearer goals that are more closely linked to the three core areas that make up Scandic's business. Scandic strives to lead the development of sustainability in these areas and the three pillars stand on the foundation to implement sustainability in all operations every day. The new strategy will help Scandic realize its vision to deliver world-class Nordic hotel experiences at hotels that are the most sustainable places to meet, eat and sleep away from home.

## UPDATED MATERIALITY ANALYSIS

Within the framework of Scandic's materiality analysis, all stakeholder groups are selected based on whether they can influence or are influenced by the company's business. No stakeholder group was excluded and dialogues were conducted at various frequencies. Scandic meets owners and investors, ESG analysts, corporate clients, partners and suppliers in more or less formal meetings several times a year. Other stakeholder groups interact with Scandic mainly through evaluations, surveys and seminars. In addition to the systematic dialogue on sustainability issues, there are also ongoing discussions with employees and guests. Responses from the various stakeholder groups help Scandic in its sustainability initiatives and reporting. During 2019, work to update and further develop the materiality analysis continued with a focus on external stakeholders, which included participation in various industry organizations such as the International Tourism Partnership (ITP) and Dansk Ehrverv.

Below is an overview of the modified materiality analysis with the areas identified based on dialogues that were conducted. The starting point has been to select strategically important areas where permanent value can be created and where Scandic's opportunities to have an influence are considered to be highest. To the right is a table of stakeholders and stakeholder groups' most important issues based on completed and ongoing stakeholder dialogues. Scandic describes how these issues are addressed in its sustainability report (see definition on page 83).

Sustainability is integrated into Scandic's business model and since Scandic wants to demonstrate corporate social responsibility, these issues are of the utmost importance for the company as well as the environment, for people and for performing well financially. Scandic's employee resources and goals play an important role in sustainability management as do the company's policies (see page 68). Ultimately it is Scandic's Board of Directors that has overall responsibility for the company's sustainability strategy. Sustainability issues are governed by the Executive Committee and the Board is constantly updated. Scandic's central sustainability unit monitors ongoing work in the company and reports to the Executive Committee. The effectiveness of the governance of sustainability work is evaluated through KPIs where outcomes are measured against set goals. Scandic is well positioned in relation to its targets for 2020, management of sustainability issues is effective and progress is being made.

## MATERIALITY ANALYSIS

### Areas where Scandic drives change

Environmental issues – many of these areas are interconnected and when aggregated help contribute to reducing $CO_2$ emissions.

Social issues – these are especially important for Scandic as part of the service industry and in its role as a driver of integration in society.

- Diversity and inclusion (Scandic)
- Health (Scandic)
- Waste – reduction and recycling (Scandic and guests )
- Energy – heating/cooling and electricity (Scandic and property owners)
- Food & beverage (Scandic)
- $CO_2$ emissions (Scandic and guests)
- Water (Scandic and guests)
- Materials & construction (Scandic and property owners)

### Areas where Scandic strives for excellence every day

These key areas are integrated in Scandic's daily operations and must be fulfilled to ensure Scandic's success.

- Anti-trafficking (Scandic and guests)
- Fair and decent working conditions (Scandic)
- Health and safety – team members (Scandic and guests)
- Hotel safety – guests (Scandic and guests)
- Equal opportunities – gender (Scandic)
- Financial governance (Scandic)
- Transparency (Scandic)
- Anti-corruption (Scandic and suppliers)
- Customer privacy (Scandic)

| Stakeholder group | Main sustainability aspects based on earlier stakeholder dialogues |
|---|---|
| **Employees** | • Satisfied customers<br>• Hotel security<br>• Minimizing waste |
| **Owners and investors** | • Reducing $CO_2$ emissions<br>• Minimizing waste<br>• Commitment of Board and Executive Committee to sustainability |
| **NGOs** | • Reducing $CO_2$ emissions<br>• Minimizing waste<br>• Fair working conditions |
| **Future employees** | • Fair working conditions<br>• Minimizing waste<br>• Influence |
| **Guests** | • Minimizing waste<br>• Reducing $CO_2$ emissions<br>• Occupational health and safety<br>• Contribute by making good choices |
| **Corporate customers** | • Fair working conditions<br>• Occupational health and safety<br>• Choosing interiors with consideration for environmental impacts |
| **ESG analysts** | • Measures to prevent trafficking/prostitution<br>• Reducing $CO_2$ emissions<br>• Commitment of Board and Executive Committee to sustainability |
| **Business partners** | • Ensuring all employees have equal rights and opportunities<br>• Measures to prevent trafficking/prostitution<br>• Fair working conditions |

# HIGHLIGHTS 2019

## 155,000 PORTIONS OF FOOD

Saved from being thrown away through partnerships with digital platforms.


Zero Waste Ale – beer brewed from bread left over from the breakfast buffet in cooperation with Spendrups.

## 73 HOTEL VOUCHERS

Donated by Scandic team members in Finland through charities.

All countries improved their already-high levels in the Sustainable Brand Index. Scandic in Sweden continues to be Number 1 in the industry.

New supplier for towels and bed linens to reduce $CO_2$ emissions by 25 percent each year.

## 8 HOTELS

Environmentally certified with Nordic Ecolabel. 20 years since the first Scandic hotels were certified.

Standard for allergy-friendly rooms introduced at all hotels.

## 17 MILLION LITERS OF WATER

Saved thanks to new laundry routines.

Named Denmark's most inclusive workplace by Great Place To Work.

## 25 NEW TEAM MEMBERS

Hired via HELT MED in Norway, an organization that helps people with intellectual disabilities enter the labor market.

# SCANDIC'S 2020 GOALS

Prior to 2020, Scandic had four main goals within sustainability. Each was chosen based on its high relevance to Scandic's operations. During 2020, Scandic will communicate new goals within the framework of the company's new strategy, which is presented on page 51. Below are the results of Scandic's 2020 goals.

**1**

### DIVERSITY & INCLUSION

**Goal 2020**
Scandic will lead the hotel industry in giving all employees the same opportunities and reflect the society in which it operates.

**2**

### HEALTH

**Goal 2020**
Scandic will be the premier hotel choice for customers who prioritize a healthy lifestyle and an attractive employer when it comes to work-life balance.

**3**

### $CO_2$ EMISSIONS

**Goal 2020**
Scandic will be the hotel company with the lowest $CO_2$ emissions.

**4**

### WASTE

**Goal 2020**
Scandic will continually work to reduce total waste and increase the share of recycled waste.

### 4 MAIN SUSTAINABILITY GOALS

| | | 2017 | 2018 | 2019 | Goal 2020 |
|---|---|---|---|---|---|
| 1 | Share of employees who state in the employee satisfaction survey that Scandic has a good level of diversity in the organization | 87 | 86 | 89 | >90 |
| 2 | Total employee index in the employee satisfaction survey | 77 | 80 | 81 | 82 |
| | Increase of 4 points in employee satisfaction survey regarding recovery from stress, physical work environment and leadership index | 63 | 64 | 68 | >65 |
| 3 | Share of hotels using renewable electricity, % | 99.6 | 97.0 | 97.8 | 100 |
| | $CO_2$ emissions kg/revenue, KSEK | 1.62 | 2.45 | 1.97 | <2.5 |
| | $CO_2$ emissions kg/guest night | 1.55 | 2.42 | 1.96 | <2.3 |
| | % share of hotels that are environmentally certified 1 year after opening/rebranding | 90 | 90 | 77 | 100 |
| | Water use ($m^3$)/guest night) | 0.18 | 0.19 | 0.18 | <0.16 |
| | Share of environmentally-certified chemicals | 82 | 81 | 87 | >95 |
| 4 | Total kg waste/guest night [1)] | 0.76 | 0.64 | 0.61 | <0.62 |
| | Recycled waste [1)] | 79 | 89 | 97 | >76 |

[1)] Excluding household waste due to difficulties sourcing reliable information. This is because in many Swedish municipalities, household waste is not weighed at collection.

1

## DIVERSITY AND INCLUSION

Diversity refers to the mix of people with various backgrounds and characteristics, while inclusion is how to manage them to achieve the best possible results. Scandic is an employee-driven company that wants to have as many guests as possible, so a sense of openness and inclusion should characterize its operations. Scandic is convinced that diversity and inclusion create stronger teams, which in turn leads to better service. This goal links to three of the UN's Sustainable Development Goals **5: Gender equality**, **8: Decent work and economic growth** and **10: Reduced inequalities**.

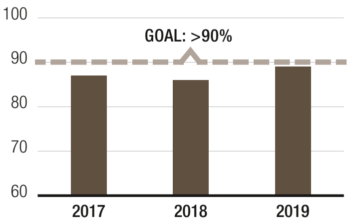
Scandic has a relatively even gender distribution and over 120 nationalities represented in its organization. The company strives to recruit people who reflect society at large. As Scandic offers many entry-level jobs, the company can help integrate new arrivals in society. Scandic is convinced that great diversity and an inclusive culture make society and its own organization healthier. In addition to daily activities at its 268 hotels, Scandic provides team members with support through initiatives such as digital training in professional Swedish and Danish. Scandic also strives to make its hotels and offerings accessible to people with accessibility needs and allergies. In 2019, Scandic's accessibility initiatives included introducing a standard for allergy-friendly rooms at all hotels and online accessibility training, available to all. It was thanks to these initiatives that Scandic was once again nominated in the European Diversity Awards at the end of the year.

Scandic's annual employee survey measures team members' perception of whether the organization is highly diverse. In the 2019 survey, 89 percent of team members stated that Scandic has a good level of diversity, which is close to/exceeds the company's goal of at least 90 percent. The response rate in the most recent employee survey was 93 percent.

### KPI – GOAL 2020

At least 90 percent of employees shall state in the employee survey that there is a good level of diversity in the company.

### OUTCOME




2

## HEALTH

Scandic's goal for health is linked to the UN's Sustainable Development Goal **8: Decent growth and economic growth**, and it is of great importance, as Scandic believes that team members who feel good perform better at work.

Scandic regularly monitors physical and psycho-social work environments through safety inspections, employee surveys and conversations with team members. The goal for health presented in the graph below is prepared by evaluating team members' perceptions of how they recover from stress, rank their leaders and regard their physical work environment. In 2019, the index score from this evaluation was 68, which is higher than the >65 goal.

Scandic's Code of Conduct includes respect for human rights. It states that fundamental human rights and working conditions shall be known, respected and applied equally to all team members, regardless of their form of employment. When suppliers are procured, those who meet the UN Global Compact criteria are prioritized.

During the fall, representatives from Scandic and Scandic's coffee supplier traveled to Peru to visit a Fairtrade cooperative and meet individual coffee growers. Fairtrade promotes good working conditions for farmers. Scandic has purchased Fairtrade coffee for several years to contribute to more sustainable production and fair working conditions.

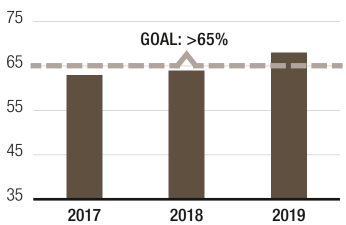
In 2018, Scandic Health Club, a club for Scandic's team members, was introduced to spread exercise and food inspiration and all Scandic hotels now have designated health inspirers.

Scandic has long worked to prevent trafficking, drug use and destructive alcohol consumption. During the year, the company continued to train team members on how to manage difficult situations that may arise in its hotels. In Stockholm, Scandic also joined the organization Krogar Mot Knark (Restaurants Against Drugs), which is run by STAD, to support team members and help them identify and manage guests under the influence of drugs.

### KPI – GOAL 2020

At least 65 percent of employees shall state that they are positive about being able to manage stress in the annual employee survey.

### OUTCOME

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## $CO_2$ EMISSIONS

Scandic's goal to reduce carbon dioxide emissions fits in well under two of the UN's Sustainable Development Goals **11: Sustainable cities and communities** and **13: Climate action**. The company is able to impact emissions by increasing awareness among its team members, guests, partners and property owners.

Scandic's main goal is to reduce carbon dioxide emissions in relation to revenue to less than 2.5 kg/KSEK, a target that the company reached in 2019. All emission-related goals were reached or nearly reached. The hotels that Scandic acquired in Finland in 2018 are still less energy efficient than the average in the hotel portfolio, but Scandic is cooperating with property owners to increase energy efficiency and progress was made in 2019.

In 1999, the first Scandic hotel was Nordic Ecolabeled and more than half of all hotels are now certified with the Nordic Ecolabel, or the Green Globe or EU Ecolabel for Germany and Poland, respectively. These certifications require hotels to meet the organizations' guidelines for carbon dioxide emissions, water and energy consumption, waste management and chemical use.

In 2019, Scandic reduced cleaning of rooms used for several nights by the same guest, which lowered water consumption by 17 million liters in Sweden alone in the first three months. In connection with renovations, many hotels were also fitted with water-saving showers.

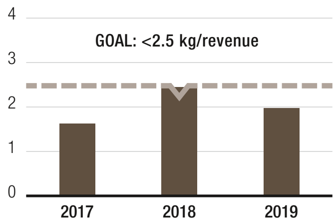
Over the year, meetings to address sustainability were held in every hotel. The aim was to involve all team members in an initiative to reduce water consumption, waste and carbon dioxide emissions. Scandic will continue holding these meetings as they improve the use of resources and increase employee engagement.

Together with its suppliers, Scandic has carried out an extensive overview of all of the chemicals the company purchases. This overview will be finalized in 2020 to ensure that Scandic's use of chemicals is as sustainable as possible.

### KPI – GOAL 2020

10 percent reduction in $CO_2$ emissions/revenue.

### OUTCOME



4

## WASTE MANAGEMENT

Scandic's efforts to reduce the amount of waste it produces and increase the amount of waste that is recycled support two of the UN's Sustainable Development Goals **6: Clean water and sanitation** and **12: Responsible consumption and production**. Scandic operates restaurants that serve breakfast, lunch and dinner. In addition, Scandic uses consumables in the accommodation part of its operations. As a result, Scandic has a significant opportunity to make a difference through good waste management.

During the year, Scandic tested a food waste tool at several hotels. The system is based on artificial intelligence (AI) and aims to increase awareness and change the behavior of team members and guests. The system comprises scales connected to a computer screen that can identify which raw material was discarded, the price of the raw material and if the loss was from a guest's plate or production.

In addition to the AI system test, Scandic also constantly strives to review how meals are served, how much food is offered on its buffets and how to reduce the amount of plastic used in toiletries. Several initiatives linked to waste management and reducing the use of resources were also initiated by team members. One such initiative is "Turn off the Taps" where team members at three hotels in Oslo inspired guests to use less water. Scandic Norway is also a founding member of the organization Kutt Matsvinn 2020, which aims to drive the entire industry towards reducing food waste by 20 percent by 2020 and 50 percent by 2030. These goals are in line with the UN's Sustainable Development Goal target **12.3: Halve global per capita food waste**.

In 2018, Scandic began cooperating with digital resellers of leftover food. These projects were developed during the year and resulted in 155,000 portions being sold onward instead of being thrown away as well as a decrease in $CO_2$ emissions of 280 kg.

### WASTE

Scandic works constantly to reduce waste and increase recycling. In 2019, 96.7 percent of Scandic's waste was recycled, an increase of 8 percent year-on-year. Household waste, which represents a large share of total waste, is excluded in this report due to difficulties in obtaining reliable information, mainly from municipalities in Sweden.

| | 2018 | | 2019 | |
|---|---|---|---|---|
| **Total weight per method of disposal, tonnes** | **Hazardous waste** | **Non-hazardous waste** | **Hazardous waste** | **Non-hazardous waste** |
| Reuse | 0 | 0 | 0 | 0 |
| Recycling | 15.82 | 10,249.93 | 14.02 | 11,301.21 |
| Energy recovery | 23.08 | 1,025.62 | 29.79 | 274.40 |
| Combustion | 28.16 | 0.00 | 38.60 | 0.00 |
| Landfill | 3.67 | 234.15 | 5.06 | 41.13 |
| **Total** | **70.7** | **11,509.7** | **87.5** | **11,616.7** |

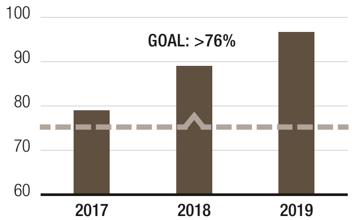
Data on waste from newly-acquired Restel hotels is insufficient.

| Total weight per type of waste, tonnes | 2018 | 2019 |
|---|---|---|
| Paper | 2,396.4 | 2,539.7 |
| Glass | 2,067.4 | 2,255.3 |
| Metal | 161.9 | 199.9 |
| Plastic | 304.9 | 331.0 |
| Other | 6,579.1 | 5,975.3 |

### KPI – GOAL 2020

10 percent more waste recycled.

### OUTCOME



# SCANDIC SUPPORTS THE UN'S SUSTAINABLE DEVELOPMENT GOALS & CONTRIBUTES TO MANY OF THEM

Scandic has a Code of Conduct that applies to all team members. The code is based on the UN Global Compact principles dealing with anti-corruption, working environment, the environment and human rights. Scandic is a signatory of Agenda 2030 and the UN's 17 Sustainable Development Goals. The company contributes to most of them to varying degrees, but significantly to the following goals:

| SUSTAINABLE DEVELOPMENT GOALS | | HOW SCANDIC CONTRIBUTES |
|---|---|---|
| 5 GENDER EQUALITY | Equality is a goal in itself as well as a prerequisite for sustainable and peaceful development. Gender equality is achieved when both women and men, girls and boys, enjoy equal rights, conditions, opportunities and the power to shape their lives themselves and contribute to the development of society. | Scandic analyzes and acts to achieve gender balance in recruiting through internal programs as well as internal and external recruiting. Scandic is conscientious in ensuring that its team reflects society and the company strives for gender balance at all levels in the Group. |
| 8 DECENT WORK AND ECONOMIC GROWTH | Work for inclusive and long-term sustainable economic growth, with full and productive employment and decent working conditions for all. | Scandic offers equal conditions, follows up on work environment and has a Supplier Code of Conduct. The company also offers work experience programs for people outside the labor market such as Helt Med in Norway. Read more on page 52. |
| 10 REDUCED INEQUALITIES | Reduce inequality within and between countries. | Scandic offers equal conditions regardless of gender, disability, ethnic background, etc. through value and leadership development. The company also offers work experience for people outside the labor market. In addition, Scandic focuses on Fairtrade products and serves only Fairtrade coffee at its hotels. |

| SUSTAINABLE DEVELOPMENT GOALS | | HOW SCANDIC CONTRIBUTES |
|---|---|---|
| 12 RESPONSIBLE CONSUMPTION AND PRODUCTION | Promote sustainable consumption and production patterns through the efficient use of resources, consideration for ecosystem services that are necessary for supply and reduce the impacts of hazardous chemicals. | Scandic carries out third-party environmental certifications of all of its hotels, for example Nordic Ecolabel certification and similar certifications. This helps reduce energy, water and chemical use and waste. It also has environmental requirements for suppliers. In 2018, digital partnerships contributed to selling more than 155,000 portions of leftover food onward. |
| 6 CLEAN WATER AND SANITATION | Ensure availability and sustainable management of water and sanitation for all. Focus on responsible water stewardship. | All of Scandic's hotels must be certified with the Nordic Ecolabel. When taking over new hotels, the hotel must be certified within the first year. Water-reducing shower heads have been installed at several hotels and water consumption is monitored and reported regularly. |
| 11 SUSTAINABLE CITIES AND COMMUNITIES | Make cities inclusive, safe, resilient and sustainable. | Initiatives to primarily reduce the amount of waste and recycle a greater share of waste. Integration projects for new arrivals and work training for people with accessibility needs. Regular security and anti-trafficking training at hotels. |
| 13 CLIMATE ACTION | Take urgent action to combat climate change and its impacts. | 97.8 percent of the electricity Scandic buys comes from renewable sources. Across the Group, cooling systems are mainly hydroelectric. During 2019, Scandic reduced $CO_2$ emissions for comparable units. |
| 17 PARTNERSHIPS FOR THE GOALS | Strengthen the means of implementation and revitalize the global partnership for sustainable development. | Scandic cooperates closely with suppliers to identify and develop more sustainable solutions. Scandic is also engaged in public debate and participates through partnerships such as Kutt Matsvinn 2020 in Norway. |

# SUSTAINABILITY INITIATIVES BUILT ON PARTNERSHIPS

Scandic's sustainability initiatives are mainly based on valuable collaborations with other companies, organizations and authorities. These partnerships also create value for Scandic's stakeholders and for society as a whole. Scandic does not take any political positions or donate to political parties or lobbying groups. Instead, the company makes an impact by supporting initiatives in its markets.

## EXAMPLES OF INITIATIVES SCANDIC SUPPORTS

| Organization | Description | Country | Type of cooperation |
|---|---|---|---|
| Mitt liv | Works to promote an inclusive society and labor market diversity through mentoring, training and networking. | Sweden | Partner |
| My Dream Now | Works to link the labor market with students from upper secondary schools in vulnerable areas. | Sweden | Partner |
| Diversity Charter Sverige | Part of Diversity Charter's European network. Works to promote diversity and inclusion in companies and organizations. | Sweden | Member and one of the founders |
| The Finnish Paralympic Committee | Encourages young athletes and contributes to research and training within sports for people with disabilities. | Finland | Sponsor |
| Food Bank Charity | Project to reduce food waste. | Poland | Partner |
| GOT – Gdansk Tourism Organisation | Network in hospitality industry that focuses on sharing experience as well as opportunities to participate in projects for charity. | Poland | Member |
| Budnianer hilfe e.V. | Provides physical and social support for marginalized children and young adults. | Germany | Supporter |

| Organization | Description | Country | Type of cooperation |
|---|---|---|---|
| Joblinge | Partnerships between companies, individuals and authorities to support vulnerable youth and integrate them in the labor market. | Germany | Partner |
| Helt Med | Aims to create meaningful work for people with physical and/or learning disabilities. | Norway | Partner |
| Ringer i vannet (NHO) | Works to improve conditions for recruiting people outside the labor market. | Norway | Partner |
| Dansk Erhverv CSR netværk | Network for the service industry in Denmark (17,000 Danish companies). | Denmark | Member |
| ReFood | Collects and distributes leftover food from restaurants. | Denmark | Member |

# RESPONSIBLE PARTNER IN SOCIETY

## SECURITY

Security is a key area of focus for Scandic. Scandic's team members undergo regular training in basic security issues, both interactively and through practice, and two mandatory fire and evacuation drills are carried out each year. In addition, every six months, Scandic carries out comprehensive crisis management exercises to simulate possible and relevant events. For example, the hotels have carried out more than 600 exercises related to extraordinary events such as terror attacks and lockdowns. These are run by Scandic's Central Crisis Unit, which follows up on the results. All hotels also have access to emergency help from the Scandic Crisis Call Center, a 24-hour emergency service run by specially-trained security staff. Crisis support can, among other things, involve contact with psychologists and crisis support staff at all times of the day. Additionally, every year, all hotels hold first aid courses focused on CPR and using AEDs (automated external defibrillators).

All activities related to security are collected in a digital tool that enables easy follow-up, analysis and continued development of Scandic's security initiatives.

**"SECURITY IS A KEY AREA OF FOCUS FOR SCANDIC."**

## ANTI-CORRUPTION

Scandic has a special Anti-Corruption Policy that stipulates that Scandic shall never engage in any form of corruption.

Scandic works to eliminate all forms of corruption, including extortion, bribery, nepotism, fraud and money laundering. Scandic works to ensure that all team members, partners and suppliers understand that corruption is unacceptable. Confidence and trust between companies and their customers, employees and the public are very important factors for corporate development.

Scandic is committed to complying with good business practices and acting in a sustainable way based on internationally-accepted principles of anti-corruption. Scandic complies with all relevant national legislation. The company has also signed the UN Global Compact and complies with its principles. The principle applicable to Scandic's Anti-Corruption Policy is Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery. The policy covers compliance and responsibility as well as the consequences of breaches, bribery or "lubrication payments." It also deals with how Scandic regards gifts and entertainment, donations, sponsorship and political party contributions, fraud, extortion and money laundering, conflicts of interests, fair competition and insider trading (for which there is a special policy). For Scandic, it is of the utmost importance that the company adheres to good business practices in all contexts for society, people and Scandic to perform well.

# CLIMATE IMPACT

Reducing greenhouse gas emissions is one of the biggest challenges society faces today. In 2015, the countries of the world adopted the Paris Agreement by agreeing to keep global heating below 2°C, but preferably under 1.5°C, in this century to avoid the most serious effects of climate change.

For Scandic, it is of the utmost importance to contribute to reducing carbon dioxide emissions for both physical and financial reasons. For the company, climate change could lead to increased energy costs, taxes on emissions, new legislation, water restrictions, floods, changes in customer behavior and negative impacts on suppliers.

Scandic has the possibility to impact emissions both through its own initiatives and by working together with property owners, for example, by jointly procuring and installing climate-friendly heating sources and fossil-free electricity. When new hotel properties are being planned, Scandic aims to contribute to a sustainable value chain. Scandic can also make demands on its suppliers and encourage guests to make sustainable choices. These measures support the UN's Sustainable Development Goal **11: Sustainable cities and societies** and Goal **13: Climate action**.

Scandic measures its environmental impact by following up on energy consumption, $CO_2$ emissions and volumes of waste. As part of its new sustainability strategy, Scandic will present new climate-related goals in 2020.

**"SCANDIC CAN IMPACT EMISSIONS RELATED TO OPERATIONS BY WORKING WITH PROPERTY OWNERS."**

Calculations of emissions in Scopes 1 to 3 are carried out by Scandic's central sustainability department using data from hotels as well as from Scandic's energy suppliers and travel agencies. In 2019, Scandic's total emissions decreased for comparable units.

The need to also consider other indirect – or Scope 3 – emissions is increasing. For Scandic, this requires closer collaboration with suppliers and partners as well as continued work to help guests make more sustainable choices.

2

## INDIRECT EMISSIONS

Scope 2 – indirect $CO_2$ emissions – includes emissions from the electricity and district heating/cooling that Scandic uses.

During 2019, indirect emissions went down mainly because the use of district heating decreased and many Finnish hotels switched to renewable sources of electricity. In addition, less hot water was used during the year, which also saved energy. Many hotels also made energy use more transparent in an effort to be more energy efficient.

Scandic states and analyzes emissions based on market-based calculations, since the values depend on suppliers' material choices and calculations are based on supplier reports.

| | 2018 | 2019 |
|---|---|---|
| **Energy consumption, MWh** | | |
| Electricity | 362,670.7 | 359,421.3 |
| District heating | 299,452.2 | 287,128.6 |
| District cooling | 23,648.1 | 20,233.0 |
| | **685,771.0** | **666,782.9** |
| **$CO_2$ emissions, tonnes** | | |
| Electricity | 7,125.6 | 911.5 |
| District heating | 33,488.1 | 33,419.4 |
| District cooling | 682.1 | 617.9 |
| | **41,295.8** | **34,948.8** |

1

## DIRECT EMISSIONS

Scope 1 – direct $CO_2$ emissions – includes emissions from oil and gas that Scandic uses in its operations.

Direct $CO_2$ emissions decreased during the year. Scandic is increasingly using biofuel and many hotels that use heating oil are looking at the possibility of switching to bio-based fuels (that do not generate emissions). One Scandic hotel in Frankfurt also took a step forward by starting to compensate for its biofuel use by investing in tree-planting initiatives.

In general, Scandic is working to replace gas and heating oil with district heating. Scandic uses the Greenhouse Gas (GHG) protocol to calculate $CO_2$ emissions.

| | 2018 | 2019 |
|---|---|---|
| **Energy consumption, MWh** | | |
| Propane | 1,702.1 | 1,476.1 |
| Natural and city gas | 5,590.2 | 6,402.1 |
| Biofuel | 871.8 | 808.0 |
| Heating oil | 67.8 | 404.2 |
| | **8,231.9** | **9,090.4** |
| **$CO_2$ emissions, tonnes** | | |
| Propane | 398.9 | 336.2 |
| Natural and city gas | 1,117.4 | 1,296.7 |
| Biofuel | 421.9 | 54.6 |
| Heating oil | 17.9 | 110.3 |
| | **1,956.2** | **1,797.7** |

3

## OTHER EMISSIONS

In scope 3 – other emissions – Scandic reports only on emissions from business travel (air and train). Calculations are based on data Scandic receives from travel agents. Based on this data, Scandic uses the GHG protocol to calculate $CO_2$ emissions. Scope 3 also includes emissions from manufacturing and shipping products that Scandic buys, such as food for restaurants and towels and bed linens for accommodations. Bedding and towels are laundered by an external supplier. Guests' trips to and from Scandic's hotels are also included in Scope 3.

During the year, emissions attributable to air travel decreased by 16 percent. Journeys by train, measured as the number of kilometers, increased by 28 percent as a result of Scandic encouraging team members to choose the train for domestic trips.

Scandic recognizes the importance of having close collaboration and dialogues with suppliers to help reduce their emissions as well. Scandic also encourages guests to make sustainable choices. Work is ongoing on how to make reliable calculations of these emissions in the future.

| | 2018 | 2019 |
|---|---|---|
| **Air** | | |
| Total km | 6,303,974 | 5,618,904 |
| $CO_2$ emissions, tonnes | 790.9 | 666.6 |
| **Train** | | |
| Total km | 1,199,545 | 1,538,539 |
| $CO_2$ emissions, tonnes | 0.003 | 0.005 |

SCOPE 2 Indirect emissions

SCOPE 1 Direct emissions

SCOPE 3 Other emissions

# COOPERATING WITH SUPPLIERS

As the leading hotel company in the Nordic countries, Scandic buys goods and services worth substantial amounts each year. For this reason, procurement and supplier control are important elements of the company's sustainability initiatives. Only suppliers that live up to the company's requirements are contracted.

## SUSTAINABILITY SCREENING – A NATURAL PART OF SELECTING SUPPLIERS

To ensure that Scandic only cooperates with suppliers that share its values, sustainability is included as an item in the selection process when it comes to cooperation. In terms of environmental criteria, Scandic always applies the precautionary principle. A special sustainability screening is carried out by Scandic's procurement team as a first step. This involves criteria regarding the environment, anti-corruption, human rights and work environment. During the year, all suppliers that underwent and passed the selection process undertook to follow the principles in Scandic's Code of Conduct for Suppliers. Scandic also regularly carries out risk assessments of the entire supplier base. If there is uncertainty regarding a supplier, a more in-depth assessment is carried out through self-assessments that may also be followed by an onsite audit of the supplier. All deviations identified during self or third-party audits must be addressed in the manner described in a corrective action plan approved by Scandic. The measures stated must be implemented within the agreed timeframe for the supplier to remain under contract.

## CLOSE COOPERATION

Scandic has a continuous dialogue with its suppliers in parallel with reviewing processes in order to help support and develop the sustainability initiatives of its suppliers. Since Scandic is a large company, it can place high demands on its suppliers and, in special cases, even help them to change their operations to meet Scandic's sustainability requirements.

During the spring 2019, Scandic invited some 200 suppliers to a full-day event in Stockholm. The goal of the event was to talk about their sustainability initiatives and to share experiences and insights. Scandic also awarded a prize to carpet supplier Ege Apper for its environmental thinking at all stages of the production chain.

Additionally, during the year, Scandic also began working with a new supplier of towels and bedding that is certified by the EU Ecolabel. This will reduce carbon dioxide emissions by 25 percent once it is fully implemented. Duvet covers and pillowcases used in Sweden and Denmark will be made of a new blend of cotton and polyester, with more polyester in the core and more cotton in the exterior of the fibers. This is expected to reduce water consumption by about 25 percent since this composition gives the product a longer life and considerably less water is required to produce polyester than cotton. In addition, Scandic has helped its laundry partners acquire Nordic Ecolabel certification by encouraging more sustainable operations.

## CONSTANT WORK TO SIMPLIFY & IMPROVE PROCESSES

Scandic has successfully worked with systemizing processes for its supplier management. The company is constantly working to improve skills development and follows up on procurement to identify challenges in the area. To simplify the process for team members responsible for procurement and to simplify requirements for suppliers, Scandic has general criteria for materials and substances to ensure sustainability in purchasing. These include specific guidelines for which materials and substances are suitable for use from a sustainability perspective, including requirements to always apply the precautionary principle.

### KEY FIGURES PROCUREMENT

**100%**
OF ALL CONTRACTED SUPPLIERS SCREENED (GOAL 95%)

**5.3**
SEK BILLION PURCHASING VOLUME

**1%**
SUPPLIERS ACCOUNT FOR 76% OF SPENDING

# AWARDS 2019

During the year, Scandic received a number of awards and designations for its sustainability initiatives. These include being named Most Sustainable Brand in the hotel industry for the ninth year in a row.

- **Sustainable Brand Index.** For the ninth year running, Scandic was named most sustainable brand in the industry in Sweden. In the other Nordic countries, Scandic placed second, an improvement on 2018 in all markets.
- **Great Place To Work.** For the second year in a row, Scandic Denmark was named the country's most inclusive workplace.
- **European Diversity Awards.** Scandic was nominated in the Accessibility category for its online accessibility training course launched during the year.
- **CDP.** Scandic retained its A- rating and ranks among the top 15 percent in the industry.

# POLICIES THAT STEER SUSTAINABILITY INITIATIVES

Scandic has a Code of Conduct that applies to all team members in the Parent Company and its subsidiaries. It is based on the UN Global Compact principles dealing with the environment, anti-corruption, work environment, employees and human rights. All Scandic managers are responsible for providing team members with information about the content of the code. It is then the responsibility of each manager and team to comply with the code in their daily work.

## POLICIES & FOLLOW-UP

All of Scandic's policies have been adopted by Scandic's Board of Directors. Within the framework of Scandic's policies, team members are encouraged to first contact their managers if they notice irregularities or if there are problems interpreting the content.

### EXPANDED WHISTLEBLOWING SERVICE

If team members or external parties discover deviations from these policies, they can be reported anonymously through Scandic's Whistleblowing Service, which guarantees anonymity. Scandic also has a whistleblowing function made up of representatives from Scandic's Executive Committee and Board of Directors to handle reported issues.

### CODE OF CONDUCT

Owned by the CEO.
Members of the Executive Committee are responsible for implementation within their units.

### ANTI-CORRUPTION

Owned by the CFO.
Members of the Executive Committee are responsible for implementation within their units.

### DIVERSITY & INCLUSION

Owned by the SVP HR & Sustainability.
Members of the Executive Committee are responsible for implementation within their units.

### SUPPLIER CODE OF CONDUCT

Owned by the CFO.
The Director Group Procurement and Country Heads are responsible for implementation.

### ENVIRONMENT

Owned by the SVP HR & Sustainability.
Members of the Executive Committee are responsible for implementation within their units.

# EMPLOYEE DATA

## Breakdown by type of employment

| 2019 | Sweden Women | Sweden Men | Norway Women | Norway Men | Finland Women | Finland Men | Denmark Women | Denmark Men | Other Europe Women | Other Europe Men | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Total number | 5,122 | 2,797 | 3,323 | 2,283 | 1,961 | 838 | 1,281 | 898 | 287 | 189 | **18,979** |
| Permanent employment | 2,623 | 1,452 | 1,855 | 1,324 | 1,301 | 571 | 831 | 588 | 239 | 172 | **10,956** |
| Full-time | 1,472 | 987 | 1,110 | 946 | 711 | 376 | 425 | 437 | 221 | 164 | **6,849** |
| Part-time | 1,148 | 466 | 744 | 378 | 590 | 195 | 406 | 151 | 18 | 8 | **4,104** |
| Temporary | 2,499 | 1,345 | 1,468 | 959 | 130 | 41 | 450 | 310 | 48 | 17 | **7,267** |
| Contracted workers | | | | | 530 | 226 | | | | | **756** |

| 2018 | Sweden Women | Sweden Men | Norway Women | Norway Men | Finland Women | Finland Men | Denmark Women | Denmark Men | Other Europe Women | Other Europe Men | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Total number | 5,201 | 2,869 | 3,220 | 2,261 | 2,047 | 807 | 1,191 | 830 | 268 | 213 | **18,907** |
| Permanent employment | 2,619 | 1,442 | 1,827 | 1,278 | 1,476 | 597 | 770 | 541 | 242 | 191 | **10,983** |
| Full-time | 1,489 | 1,013 | 1,090 | 947 | 753 | 380 | 396 | 410 | 234 | 184 | **6,896** |
| Part-time | 1,128 | 429 | 735 | 331 | 724 | 217 | 374 | 131 | 9 | 7 | **4,085** |
| Temporary | 2,582 | 1,427 | 1,393 | 983 | 119 | 32 | 421 | 289 | 26 | 22 | **7,294** |
| Contracted workers | 0 | 0 | 0 | 0 | 452 | 178 | 0 | 0 | 0 | 0 | **630** |

## New hires[1)]

| | | 2019 Number | 2019 Share, % | 2018 Number | 2018 Share, % |
|---|---|---|---|---|---|
| Total number / % of total | | 1,214 | 6.4 | 1,468 | 8.8 |
| Of which | Women | 697 | 57.4 | 836 | 56.9 |
| | Men | 517 | 42.6 | 632 | 43.1 |
| Of which | Age <30 | 616 | 50.7 | 819 | 55.8 |
| | Age 30–50 | 530 | 43.7 | 580 | 39.5 |
| | Age >50 | 68 | 5.6 | 69 | 4.7 |
| Of which | Sweden | 419 | 34.5 | 456 | 31.1 |
| | Norway | 388 | 32.0 | 375 | 25.5 |
| | Finland | 122 | 10.0 | 174 | 11.9 |
| | Denmark | 218 | 18.0 | 349 | 23.8 |
| | Other Europe | 67 | 5.5 | 114 | 7.8 |

[1)] Permanent employees only.

## Employee turnover[1)]

| | | 2019 Number | 2019 Share, % | 2018 Number | 2018 Share, % |
|---|---|---|---|---|---|
| Total number / % of total | | 2,221 | 11.7 | 2,218 | 10.8 |
| Of which | Women | 1,320 | 59.4 | 1,296 | 53.9 |
| | Men | 901 | 40.6 | 922 | 46.1 |
| Of which | Age <30 | 866 | 39.0 | 979 | 44.4 |
| | Age 30–50 | 1,102 | 49.6 | 1,017 | 47.4 |
| | Age >50 | 253 | 11.4 | 222 | 8.2 |
| Of which | Sweden | 743 | 33.5 | 800 | 39.1 |
| | Norway | 445 | 20.0 | 431 | 24.6 |
| | Finland | 451 | 20.3 | 428 | 7.1 |
| | Denmark | 422 | 19.0 | 416 | 21.4 |
| | Other Europe | 160 | 7.2 | 143 | 7.8 |

[1)] Permanent employees only.



GRI: 102-7, 102-8, 401-1, 405-1

## Demographic breakdown

| 2019 | Total number of employees, % | | Board of Directors, % | | Executive Committee, % | | Managers, % | | Employees, % | |
|---|---|---|---|---|---|---|---|---|---|---|
| Men | 6,779 | 37.2 | 5 | 55.6 | 10 | 83.3 | 675 | 44.9 | 6,094 | 36.5 |
| Women | 11,444 | 62.8 | 4 | 44.4 | 2 | 16.7 | 830 | 55.1 | 10,612 | 63.5 |
| Age <30 | 7,497 | 41.1 | | | | | 154 | 10.2 | 7,343 | 44.0 |
| Age 30–50 | 8,247 | 45.3 | 2 | 22.2 | 4 | 33.3 | 1,030 | 68.4 | 7,213 | 43.2 |
| Age >50 | 2,478 | 13.6 | 7 | 77.8 | 8 | 66.7 | 310 | 20.6 | 2,160 | 12.9 |
| **Total** | **18,223** | | **9** | | **12** | | **1,505** | | **16,706** | |

| 2018 | Total number of employees, % | | Board of Directors, % | | Executive Committee, % | | Managers, % | | Employees, % | |
|---|---|---|---|---|---|---|---|---|---|---|
| Men | 6,802 | 37.2 | 5 | 55.6 | 10 | 83.3 | 678 | 44.5 | 6,114 | 36.5 |
| Women | 11,475 | 62.8 | 4 | 44.4 | 2 | 16.7 | 845 | 55.5 | 10,628 | 63.5 |
| Age <30 | 7,711 | 42.2 | | | | | 164 | 10.8 | 7,547 | 45.1 |
| Age 30–50 | 8,163 | 44.7 | 1 | 11.1 | 6 | 50 | 1,050 | 68.9 | 7,097 | 42.5 |
| Age >50 | 2,403 | 13.1 | 8 | 88.9 | 6 | 50 | 299 | 19.6 | 2,098 | 12.5 |
| **Total** | **18,277** | | **9** | | **12** | | **1,523** | | **16,742** | |

**EMPLOYEES UNDER AGE 30**

**41%**

The number of team members remained largely unchanged during the year. More than half of Scandic's team members have permanent employment and just over 40 percent are under age 30. To manage seasonal fluctuations, the company has a great need for temporary employees. Scandic thus plays an important role as a first employer and creates the opportunity for young people to gain valuable professional experience. Scandic's temporary staff constitute an important recruitment base for the company and many people are offered permanent employment.

# SCANDIC IN SOCIETY

### 3+ ACTIVITIES PER YEAR

The Scandic in Society program kicked off in 2001. As part of the program, team members at Scandic hotels participate in at least three activities that contribute to the local community. Supporting the local community is important to Scandic. It instills pride in team members while nurturing important relationships with local residents and stakeholders. Activities are usually initiated by team members themselves and supported by local partners. They also contribute to United Nations Sustainable Development Goal **11: Sustainable cities and communities** and Goal **17: Implementation and global partnership**.

In 2019, Scandic in Society ran more than 500 different activities that involved over 4,400 team members and 45,000 people. Notable initiatives included a beach clean in Norway where more than 40,000 volunteers helped clean up garbage and enjoyed breakfast afterwards at 27 Scandic hotels. In Poland, team members and their families planted trees in an area ravaged by natural disasters, and in Denmark, one Scandic hotel held a course in sign language to make it easier for team members to communicate with guests who have hearing impairments.

### DIRECT ECONOMIC VALUE GENERATED AND DISTRIBUTED

| Direct Economic Value Generated, MSEK | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|
| Revenues | 13,360 | 14,592 | 18,019 | 18,956 |
| **Economic Value Distributed** | **12,478** | **13,882** | **17,343**[2] | **18,234** |
| Operating costs | 7,959 | 8,920 | 11,405 | 10,932 |
| Employee wages & benefits | 4,211 | 4,738 | 5,620 | 5,869 |
| Payments to providers of capital | 133 | 133 | 185 | 1,253 |
| Payments to government | 175 | 90 | 131 | 177 |
| Community investments[1] | 0.17 | 1.18 | 2.29 | 3.03 |
| **Economic Value Retained** | **881,83** | **709,82** | **675,71** | **721,97** |

| [1] Community investments, SEK | 2016 |
|---|---|
| Denmark | 105,200 |
| Poland | 7,700 |
| Germany | 57,400 |

| [1] Community investments, SEK | 2017 |
|---|---|
| Denmark | 24,559 |
| Norway | 11,290 |
| Sweden | 1,000,000 |
| Other Europe | 139,820 |

| [1] Community investments, SEK | 2018 |
|---|---|
| Sweden | 2,000,000 |
| Finland | 20,000 |
| Norway | 206,800 |
| Denmark | 36,701 |
| Other Europe | 28,620 |

| [1] Community investments, SEK | 2019 |
|---|---|
| Sweden | 2,460,000 |
| Finland | 113,800 |
| Norway | 322,410 |
| Denmark | 49,641 |
| Germany | 73,950 |
| Poland | 12,547 |

[2] Total Distributed Economic Value 2018 has been corrected.

The information in the table shows generated and distributed economic value. This indicates how Scandic has created value for its stakeholders from a wider social perspective. Scandic's operations are run in a sound way with a sustainable distribution of operating costs, including salaries, taxes and social investments, while maintaining good profitability for shareholders.


# GRI INDEX 2019

This is Scandic's fifth Annual Sustainability Report. The report was prepared in accordance with GRI G4, Level Core and has been prepared based on the results of the materiality analysis, taking into account GRI accounting principles.

The Sustainability Report can be found on pages 1–19 and 44–75 in this report and it fulfills the requirements for sustainability reporting as stipulated by the Swedish Annual Accounts Act. The scope of the sustainability report is the same as in previous years. It also constitutes Scandic's Communication on Progress (COP) to the Global Compact on the Signatory level. The sustainability information provided has been verified by Ethos International in accordance with AA1000AS. The report includes all of Scandic's hotels operated under lease agreements in all countries of operation as well as the Group's support offices. Scandic's partner hotels and franchises are excluded as they act under their own governance systems. When calculating environmentally certified hotels, however, all hotels are included.

The report covers the period from January 1 to December 31, 2019. The previous report was published on April 12, 2019 and the base year for environmental data is 2015. Emissions data is calculated based on the GHG protocol, supplier information and third-party reports on emission factors for district heating and cooling. Waste data is based on a compilation provided by Scandic's waste management suppliers. Employee data is compiled using Scandic's HR system and supplier data is compiled based on Scandic's risk assessment tool. Customer satisfaction data is compiled from monthly customer surveys.

## CONTACT DETAILS

For questions regarding Scandic's operational sustainability work, please contact Scandic's Director Sustainable Business. Questions regarding Scandic's Annual Report & Sustainability Report should be directed to the Investor Relations department at ir@scandichotels.com. Both units are located at Scandic's head office in Stockholm, Sweden.

## GENERAL DISCLOSURES

| Disclosure | | Page | Comment |
|---|---|---|---|
| **GRI 102: GENERAL DISCLOSURES** | | | |
| **Organizational profile** | | | |
| 102-1 | Name of the organization | 78 | |
| 102-2 | Activities, brands, products, and services | 17, 23, 37 | |
| 102-3 | Location of headquarters | 78 | |
| 102-4 | Location of operations | 28, 78, 83 | |
| 102-5 | Ownership and legal form | 78 | |
| 102-6 | Markets served | 28, 83 | |
| 102-7 | Scale of the organization, including total number of employees, operations, net sales, and capitalization | 30–31, 49, 70, 78, 100–101 | |
| 102-8 | Information on employees and other workers | 70–71 | GD principle 6 |
| 102-9 | Supply chain | 66 | |
| 102-10 | Significant changes to the organization and its supply chain | 82, 88, 100–101 | |
| 102-11 | Precautionary Principle or approach | 66 | GD principle 7 |
| 102-12 | External initiatives | 5, 58–59 | |
| 102-13 | Membership of associations | 60 | |
| **Strategy and analysis** | | | |
| 102-14 | Statement from senior decision-maker | 3–5 | |
| **Ethics and integrity** | | | |
| 102-16 | Values, principles, standards, and norms of behavior | 44–45, 66, 68 | GD principle 10 |
| **Governance** | | | |
| 102-18 | Governance structure | 88, 90–92 | |

| Disclosure | | Page | Comment |
|---|---|---|---|
| **Stakeholder engagement** | | | |
| 102-40 | List of stakeholder groups | 52 | |
| 102-41 | Collective bargaining agreements | 46 | GD principle 3 |
| 102-42 | Identifying and selecting stakeholders | 52 | |
| 102-43 | Approach to stakeholder engagement | 52 | |
| 102-44 | Key topics and concerns raised | 52 | |
| **Reporting methodology** | | | |
| 102-45 | Entities included in the consolidated financial statement | 78 | |
| 102-46 | Defining report content and topic Boundaries | 52, 73 | |
| 102-47 | List of material topics | 52 | |
| 102-48 | Restatements of information | 72 | |
| 102-49 | Changes in reporting | 73 | |
| 102-50 | Reporting period | 73 | |
| 102-51 | Date of most recent report | 73 | April 12, 2019 |
| 102-52 | Reporting cycle | 73 | |
| 102-53 | Contact point for questions regarding the report | 73 | |
| 102-54 | Claims of reporting in accordance with the GRI Standards | 73 | |
| 102-55 | GRI content index | 73–75 | |
| 102-56 | External assurance | 73, 76 | |
| **GRI 103: MANAGEMENT APPROACH 2016** | | | |
| 103-1 | Explanation of the material topic and its boundary | 46, 48–49, 52, 56, 57, 63, 64–65, 66, 73 | |
| 103-2 | The management approach and its components | 46, 48–49, 52, 56, 57, 63, 64–65, 66, 73 | |
| 103-3 | Evaluation of the management approach | 46, 48–49, 52, 56, 57, 63, 64–65, 66, 73 | |

## SPECIFIC DISCLOSURES

| Disclosure | | | Page | Comment/UNGC |
|---|---|---|---|---|
| **GRI 200: ECONOMIC** | | | | |
| GRI 201: Economic performance 2016 | 201-1 | Direct economic value generated and distributed | 72 | |
| **GRI 300: ENVIRONMENTAL** | | | | |
| GRI 302: Energy 2016 | 302-1 | Energy consumption within the organization | 56, 65 | |
| GRI 305: Emissions 2016 | 305-1 | Direct (Scope 1) GHG emissions | 65 | GC principle 7, 8 |
| | 305-2 | Indirect (Scope 2) GHG emissions | 65 | GC principle 7, 8 |
| | 305-3 | Other indirect (Scope 3) GHG emissions | 65 | GC principle 7, 8 |
| | 305-4 | GHG emissions intensity | 65 | GC principle 8 |
| GRI 306: Effluents and Waste 2016 | 306-2 | Waste by type and disposal method | 57 | GC principle 8 |
| GRI 308: Supplier environmental assessment 2016 | 308-1 | New suppliers that were screened using environmental criteria | 66 | GC principle 8 |
| **GRI 400: SOCIAL** | | | | |
| GRI 401: Employment 2016 | 401-1 | New employee hires and employee turnover | 46, 48–49, 70–71 | GC principle 6 |
| GRI 403: Occupational Health 2016 | 403-4 | Health and safety topics covered in formal agreements with trade unions | 46, 48, 56 | |
| GRI 404: Training and education 2016 | 404-1 | Average hours of training per year per employee | 48 | GC principle 6 |
| GRI 405: Diversity and equal opportunity 2016 | 405-1 | Diversity of governance bodies and employees | 70–71 | |
| GRI 412: Human Rights Assessment 2016 | 412-2 | Employee training on human rights policies or procedures | 56, 68 | GC principle 1 |
| GRI 414: Supplier Social Assessment 2016 | 414-1 | New suppliers that were screened using social criteria | 66 | GC principle 2 |

# AUDITOR'S REPORT ON THE STATUTORY SUSTAINABILITY REPORT

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

## ENGAGEMENT AND RESPONSIBILITY

The Board of Directors is responsible for the statutory sustainability report for the year 2019 on pages 1–19 and 44–75 and for ensuring that it has been prepared in accordance with the Annual Accounts Act.

## THE SCOPE OF THE AUDIT

Our examination has been conducted in accordance with FARs auditing standard RevR 12: The auditors opinion regarding the statutory sustainability report. This means that our examination of the statutory sustainability report is substantially different and less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinion.

## OPINION

A statutory sustainability report has been prepared.

Stockholm, May 12, 2020
PricewaterhouseCoopers AB

Sofia Götmar-Blomstedt
Authorized Public Accountant
Auditor-in-Charge

# CONTENTS

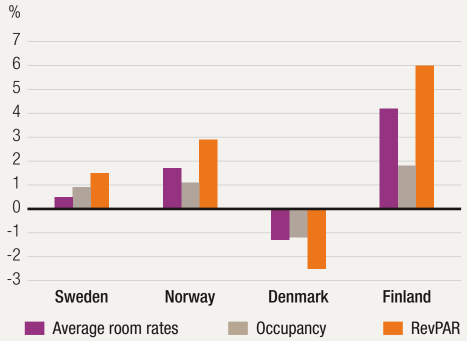
# ADMINISTRATION REPORT

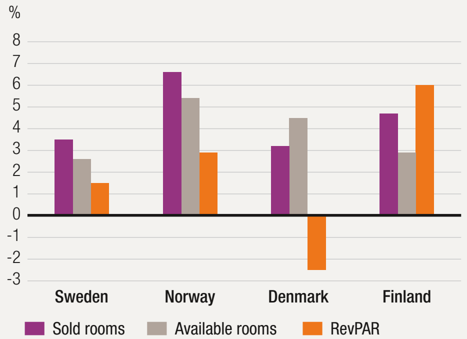
## OPERATIONS

### 2019 in summary

- Net sales rose by 5.2 percent to 18,945 (18,007) MSEK and organic growth was 3.9 percent. For comparable units, net sales increased 1.5 percent.
- The free cash flow improved during the period and amounted to 777 (263) MSEK. The increase is due to higher adjusted EBITDA, improved working capital development and reduced investments.
- Adjusted for effects of leases and items affecting comparability, earnings per share totaled 7.49 (7.87) SEK.
- For 2019, the Board of Directors resolved to hold an extraordinary Board meeting to resolve to withdraw its earlier dividend proposal to the Annual General Meeting.

### HOTEL MARKET DEVELOPMENT IN THE NORDIC COUNTRIES 2019 [1)]




[1)] Source: Benchmarking Alliance.

| Group key ratios, MSEK | 2019 | 2018 | Change, % |
|---|---|---|---|
| **Financial key ratios** | | | |
| Net sales | 18,945 | 18,007 | 5.2 |
| Adjusted EBITDA | 2,046 | 1,957 | 4.5 |
| Adjusted EBITDA margin, % | 10.8 | 10.9 | |
| EBITDA | 5,425 | 1,853 | 192.8 |
| EBIT (Operating profit/loss) | 2,144 | 983 | 118.1 |
| Profit/loss before taxes | 902 | 810 | 11.4 |
| Net profit/loss for year | 725 | 678 | 6.9 |
| Earnings per share, SEK | 7.01 | 6.54 | 7.2 |
| Earnings per share, SEK, excl. effect leases | 9.15 | 6,80 | 34.6 |
| Earnings per share, SEK. excl effect leases & items affecting comparability | 7.49 | 7.87 | -4.8 |
| **Hotel-related key ratios** | | | |
| RevPAR (Revenue Per Available Room), SEK | 707 | 683 | 3.5 |
| ARR (Average Room Rate), SEK | 1,071 | 1,045 | 2.5 |
| OCC (Occupancy), % | 66.0 | 65.3 | |
| Total number of rooms at year-end | 52,755 | 51,693 | 2.1 |

### Scandic Hotels Group AB (publ) Corp. Id. 556703-1702

The Board of Directors and the CEO of Scandic Hotels Group AB (publ), with its registered office in Stockholm, hereby submit the Annual Report and consolidated financial statements for the 2019 financial year.

### Operations

The company owns 100 percent of the Scandic Group through its wholly-owned subsidiary, Scandic Hotels Holding AB. During the year, Scandic conducted hotel operations in six countries: Sweden, Norway, Finland, Denmark, Germany and Poland. On the reporting date, Scandic had 52,755 (2018: 51,693) rooms in operation at 268 (268) hotels, of which 244 (242) had lease agreements.

### Nordic hotel market development

Demand for hotel nights is growing in Scandic's markets. Scandic estimates that the number of sold rooms in the Nordic countries has increased by about 3–4 percent per year since 2010, and growth in demand in 2019 was fully in line with this trend. Among other things, growth is being driven by increased tourism and more international visitors, not least in the big cities.

In Sweden, the number of sold rooms increased by 3.5 percent and RevPAR went up 1.5 percent with a certain increase in both occupancy and average room rates. Stockholm showed a similar trend with a 4.6 percent increase in sold rooms and RevPAR growth of 1.4 percent.

In Norway, the number of sold rooms increased by 6.6 percent and RevPAR by 2.9 percent. In Oslo, the number of available rooms grew by 13.8 percent, which contributed to a decline in RevPAR of 4.2 percent despite an increase in the number of sold rooms of 11.2 percent.

In Finland, the number of sold rooms went up 4.7 percent and RevPAR rose by 6.0 percent mainly because of higher prices. In Helsinki, the number of sold rooms grew by 6.9 percent and RevPAR by 6.2 percent. The Finnish EU Presidency is thought to have had a positive effect on market development.

In Denmark, the number of sold rooms grew by 3.2 percent and RevPAR decreased 2.5 percent. In Copenhagen, the number of available rooms went up by 5.0 percent, which contributed to a decline in RevPAR of 3.4 percent despite good demand with an increase in the number of sold rooms of 3.1 percent.

### Seasonal variations

Scandic operates in a sector affected by seasonal variations. Revenues and earnings fluctuate during the year. The first quarter and other periods with low levels of business travel such as the summer months, Easter and Christmas/New Year's are generally the weakest periods. The Easter holiday may fall in both the first and second quarters, so this should be considered when making comparisons between years. Approximately 70 percent of Scandic's revenue comes from business travel and conferences while the remaining 30 percent comes from leisure travel.

### Sales & adjusted EBITDA

**Net sales** rose by 5.2 percent to 18,945 (18,007) MSEK. Currency effects affected net sales positively by 1.3 percent.



GRI: 102-1, 102-3, 102-4, 102-5, 102-7, 102-45

Organic growth, i.e. growth excluding currency effects and acquisitions, amounted to 3.9 percent or 699 MSEK.

All segments contributed positive organic growth. At 9.8 percent, Other Europe had the highest organic growth, mainly due to the opening of Scandic Kødbyen and Scandic Falkoner in Copenhagen.

**Average Revenue Per Available Room** (RevPAR) rose by 2.2 percent in local currency compared with the previous year. For comparable units, RevPAR grew by 1.3 percent. RevPAR for comparable units grew in all segments except Other Europe, where increased capacity in Copenhagen contributed to lower RevPAR.

**Revenue from restaurant and conference operations** rose by 4.0 percent and the share of total net sales fell to 32.2 percent (32.6).

**Rental costs** excluding the effect of leases accounted for 26.7 (26.5) of net sales. Fixed and guaranteed rental costs were 66.5 percent (65.0) of total rental costs. The increase is due to newly opened hotels that are paying rent according to the guarantee level during the startup phase.

**Results for central functions** fell to -408 (-349) MSEK. The reason for the decrease is that the previous year was affected positively by 43 MSEK due to the market valuation of forward contracts for electricity. Increased IT costs contributed to the decrease in results.

**Adjusted EBITDA** rose to 2,046 (1,957) MSEK. The adjusted EBITDA margin fell somewhat to 10.8 (10.9) percent. Currency translation effects had a positive impact of 31 MSEK on adjusted EBITDA compared with the previous year. The increase in adjusted EBITDA is mainly due to newly opened hotels and the improved performance of the hotels that were added in the Restel acquisition.

## Effects of IFRS 16

As of January 1, 2019, the Group applies IFRS 16 Leases. The new accounting principle means that lease agreements with fixed or minimum rent are recognized in the balance sheet as a right-of-use asset and a lease liability. IFRS 16 has a substantial impact on Scandic's income statement and balance sheet. Reported EBITDA increases as the cost of leases falls while depreciation of right-of-use assets and interest expenses for the lease liability increases. With the current portfolio of lease agreements at the end of 2019, net profit after tax for 2020 is expected to be negatively impacted by about 180 (217) MSEK. With an unchanged portfolio of lease agreements and unchanged assumptions, the negative effect on results is expected to diminish over time and affect the net result positively from 2026. The reason for this is that interest expenses for the lease debt decrease over time as the debt is constantly amortized.

The definition of adjusted EBITDA has not changed compared with the previous year and excludes the effect of leases. The year 2018 includes leases according to IAS 17 from the right-of-use asset and corresponding lease liability from the acquisition of Restel. The effect of leases for the full year 2018 on EBITDA was 129 MSEK and the effect on net profit after tax was -22 MSEK. The table below shows the bridge between the income statement excluding the effect of leases to the reported income statement according to IFRS.

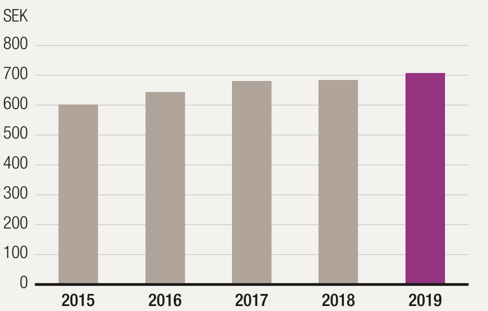
### Summary of the effects of IFRS 16

| | 2019 | | |
|---|---|---|---|
| | Excl. effects of IFRS 16 | Effect of IFRS 16 | Reported |
| Net sales | 18,945 | 0 | 18,945 |
| EBITDAR | 7,107 | 0 | 7,107 |
| Total rental charges | -5,061 | 3,291 | -1,770 |
| Adjusted EBITDA | 2,046 | | |
| Pre-opening costs | -81 | 0 | -81 |
| Items affecting comparability | 169 | 0 | 169 |
| EBITDA | 2,134 | 3,291 | 5,425 |
| Depreciation and amortization | -859 | -2,421 | -3,281 |
| EBIT (Operating profit/loss) | 1,275 | 869 | 2,144 |
| Net financial items | -99 | -1,143 | -1,242 |
| EBT (Profit before tax) | 1,176 | -274 | 902 |
| Tax | -234 | 57 | -177 |
| Profit/loss for period | 942 | -217 | 725 |
| Earnings per share, SEK | 9.15 | -2.11 | 7.01 |

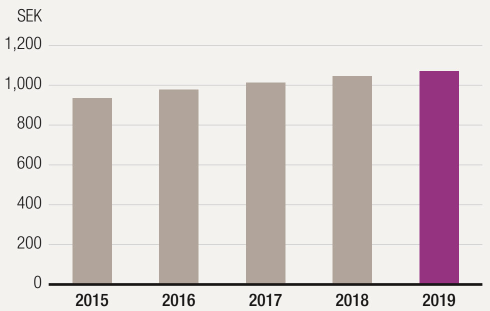
### Result excluding effect of leases

| | 2019 | 2018 |
|---|---|---|
| Net sales | 18,945 | 18,007 |
| EBITDAR | 7,107 | 6,721 |
| Total rental charges | -5,061 | -4,764 |
| Adjusted EBITDA | 2,046 | 1,957 |
| Pre-opening costs | -81 | -92 |
| Items affecting comparability | 169 | -141 |
| EBITDA | 2,134 | 1,724 |
| Depreciation and amortization | -859 | -781 |
| EBIT (Operating profit/loss) | 1,275 | 943 |
| Net financial items | -99 | -105 |
| EBT (Profit before tax) | 1,176 | 838 |
| Tax | -234 | -138 |
| Profit/loss for period | 942 | 700 |
| Earnings per share, SEK | 9.15 | 6.8 |

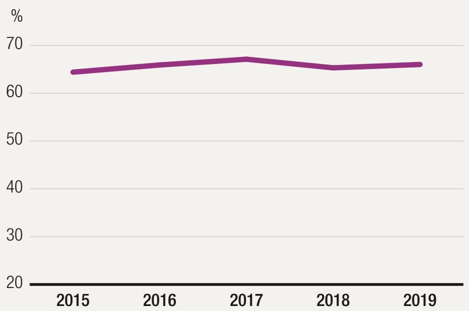
**RevPAR, SCANDIC**




**AVERAGE ROOM RATES, SCANDIC**




**OCCUPANCY, SCANDIC**



## Total rental costs

| | 2019 | 2018 |
|---|---|---|
| Fixed and guaranteed rental costs according to income statement | -74 | -2,968 |
| Fixed and guaranteed rental costs, reversed effect of leases | -3,291 | -129 |
| Total fixed and guaranteed rental costs | -3,365 | -3,097 |
| Variable rental costs | -1,696 | -1,667 |
| Total rental costs | -5,061 | -4,764 |
| Fixed and guaranteed rental costs, % of net sales | 17.8 | 17.2 |
| Variable rental costs, % of net sales | 9.0 | 9.3 |
| Total rental costs, % of net sales | 26.7 | 26.5 |

## Reported result

EBITDA was 5,425 (1,853) MSEK and 2,134 (1,724) MSEK excluding the effect of leases. EBITDA included pre-opening costs for new hotels of -81 (-92) MSEK and items affecting comparability of 169 (-141) MSEK. In 2019, items affecting comparability comprised a capital gain of 181 MSEK from the sale of Scandic Hasselbacken in Stockholm and costs of -12 MSEK in connection with the change of President & CEO. In 2018, items affecting comparability amounted to -141 MSEK comprising integration and transaction costs of 135 MSEK related to the acquisition of Restel and restructuring costs.

**EBIT** amounted to 2,144 (983) MSEK and 1,275 (943) MSEK excluding the effect of leases. Depreciation and amortization totaled -3,281 (-870) MSEK. The increase is primarily due to the effect of leases. Excluding the effect of leases, depreciation and amortization amounted to -859 (-781) MSEK. Depreciation includes a write-down of 14 MSEK on equipment in four Norwegian hotels.

**The Group's net financial expense** amounted to 1,242 (-173) MSEK and -99 (-105) MSEK excluding the effect of leases. The interest expense, excluding the effect of leases, was -101 (-113) MSEK.

**Profit before tax** was 902 (810) MSEK and 1,176 (838) MSEK excluding the effect of leases.

**Reported tax** amounted to -177 (-132) MSEK. Reported tax in the previous year was positively impacted by 40 MSEK due to the decision to reduce the corporate tax rate in Sweden.

**Net profit** rose to 725 (678) MSEK and 942 (700) MSEK excluding the effect of leases.

**Earnings per share** after dilution amounted to 7.01(6.54) SEK per share and 9.15 (6.80) SEK per share excluding finance leases. Adjusted for items affecting comparability, earnings per share amounted to 7.49 (7.87) SEK.

## Growth in RevPAR and net sales compared with 2018

| Jan–Dec 2019 | RevPAR, SEK | RevPAR, % | Net sales MSEK | Net sales % |
|---|---|---|---|---|
| Currency effects | 9 | 1.3 | 239 | 1.3 |
| Organic growth | 15 | 2.1 | 699 | 3.9 |
| – New hotels | 4 | 0.6 | 626 | 3.5 |
| – Exited hotels | 2 | 0.2 | -195 | -1.1 |
| – LFL | 9 | 1.3 | 268 | 1.5 |
| Reported growth | 24 | 3.4 | 938 | 5.2 |

LFL contribution to growth = LFL portfolio change in RevPAR and net sales in relation to the total portfolio.

## Financial targets

At the beginning of 2016, Scandic adopted the following 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 to 3x.
- The dividend shall amount to at least 50 percent of the year's results. For 2019, the Board decided at an extra-ordinary board meeting to withdraw the previous dividend proposal and to propose that no dividend be paid.

## Five-year summary

| MSEK | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|---|
| **Financial key ratios – income statement** | | | | | |
| Net sales | 18,945 | 18,007 | 14,582 | 13,082 | 12,192 |
| Net sales growth, % | 5.2 | 23.5 | 11.5 | 7.3 | 12.6 |
| Net sales growth, LFL % | 1.5 | 1.2 | 4.7 | 6.6 | 7.3 |
| Adjusted EBITDA | 2,046 | 1,957 | 1,573 | 1,513 | 1,246 |
| Adjusted EBITDA margin, % | 10.8 | 10.9 | 10.8 | 11.6 | 10.2 |
| EBIT (Operating profit/loss) | 2,144 | 983 | 925 | 925 | 613 |
| Operating margin (EBIT), % | 11.3 | 5.5 | 6.3 | 7.1 | 5.0 |
| Profit/loss for year attributable to Parent Company | 721 | 674 | 707 | 879 | 117 |
| Profit/loss excl. effect of finance leases | 942 | 700 | 711 | 882 | 120 |
| **Financial key ratios – Financial position** | | | | | |
| Balance sheet total | 43,509 | 17,737 | 16,964 | 14,144 | 12,900 |
| Equity | 6,601 | 7,806 | 7,356 | 7,103 | 6,205 |
| Working capital | -1,972 | -1,575 | -1,501 | -1,161 | -1,132 |
| Interest-bearing net liabilities | 3,497 | 3,837 | 3,629 | 2,709 | 3,355 |
| Interest-bearing net liabilities/adjusted EBITDA | 1.7 | 2.0 | 2.3 | 1.8 | 2.7 |
| Cash flow from operating activities | 5,067 | 1,723 | 1,544 | 1,609 | 1,186 |
| Free cash flow | 782 | 263 | -629 | 789 | 180 |
| **Key ratios per share** | | | | | |
| Average number of shares after dilution | 103,036,484 | 103,075,976 | 103,003,004 | 102,457,837 | 81,826,211 |
| Earnings per share, SEK, excl. effect of leases | 7.01 | 6.54 | 6.86 | 8.58 | 1.43 |
| Earnings per share, SEK, excl. effect of leases & items affecting comparability | 9.15 | 6.80 | 6.86 | 8.58 | 1.43 |
| Earnings per share, SEK | 7.49 | 7.87 | 7.04 | 6.85 | 2.70 |
| Equity/share, SEK | 64.1 | 75.4 | 71.4 | 69.3 | 75.8 |
| **Hotel-related key ratios** | | | | | |
| RevPAR (Average Revenue Per Available Room), SEK | 707 | 683 | 680 | 643 | 601 |
| ARR (Average Room Rate), SEK | 1,071 | 1,045 | 1,012 | 976 | 934 |
| OCC (Occupancy), % | 66.0 | 65.3 | 67.1 | 65.9 | 64.4 |
| Number of rooms at year-end | 52,755 | 51,693 | 42,659 | 41,572 | 40,920 |

## SEGMENT

### Sweden

| MSEK | 2019 | 2018 | Change, % |
|---|---|---|---|
| Net sales | 6,291 | 6,275 | 0.3 |
| Net sales growth, % | 0.3 | 5.0 | |
| Organic growth, % | 0.3 | 5.0 | |
| Net sales growth LFL, % | 1.6 | 0.6 | |
| Adjusted EBITDA | 910 | 910 | 0.0 |
| Adjusted EBITDA margin, % | 14.5 | 14.5 | |
| RevPAR, SEK | 727 | 719 | 1.1 |
| ARR, SEK | 1,052 | 1,054 | -0.1 |
| OCC, % | 69.0 | 68.2 | |

Net sales rose by 0.3 percent to 6,291 (6,275) MSEK. For comparable units, net sales increased by 1.6 percent.

Scandic Hasselbacken in Stockholm was sold on March 1, 2019, which affected net sales negatively by 82 MSEK compared with the previous year.

Average Revenue Per Available Room (RevPAR) increased by 1.1 percent compared with the previous year. For comparable units, RevPAR increased by 1.4 percent.

Adjusted EBITDA rose to 910 MSEK and remained unchanged compared with the previous year (910). Despite unchanged price levels, cost-efficiency initiatives fully offset the underlying cost increases. The adjusted EBITDA margin was 14.5 percent, which was the same as the previous year (14.5).

### Norway

| MSEK | 2019 | 2018 | Change, % |
|---|---|---|---|
| Net sales | 5,343 | 5,116 | 4.5 |
| Net sales growth, % | 4.5 | 11.6 | |
| Organic growth, % | 3.9 | 8.1 | |
| Net sales growth LFL, % | 0.3 | 0.9 | |
| Adjusted EBITDA | 539 | 502 | 7.4 |
| Adjusted EBITDA margin, % | 10.1 | 9.8 | |
| RevPAR, SEK | 654 | 646 | 1.2 |
| ARR, SEK | 1,062 | 1,044 | 1.7 |
| OCC, % | 61.6 | 61.9 | |

Net sales rose by 4.5 percent to 5,343 (5,116) MSEK. Net sales for comparable units grew by 0.3 percent.

Changes in the hotel portfolio contributed 186 MSEK to net sales. The greatest contributors were Hotel Norge by Scandic in Bergen, which opened on July 1, 2018, and Scandic Alexandra in Molde, which opened on January 1 2019.

Average Revenue Per Available Room (RevPAR) increased by 0.6 percent in local currency compared with the previous year. For comparable units, RevPAR went up by 0.4 percent. RevPAR increased in all areas except Oslo and eastern Norway.

Adjusted EBITDA rose to 539 (502) MSEK, chiefly due to contributions from newly opened hotels. Profitability was affected negatively by increased capacity in Oslo, which was partly offset by the positive development in western and northern Norway and by improved cost efficiency.

The adjusted EBITDA margin rose to 10.1 (9.8) percent.

### Finland

| MSEK | 2019 | 2018 | Change, % |
|---|---|---|---|
| Net sales | 4,547 | 4,168 | 9.1 |
| Net sales growth, % | 9.1 | 117.7 | |
| Organic growth, % | 5.9 | -1.1 | |
| Net sales growth LFL, % | 4.3 | 4.1 | |
| Adjusted EBITDA | 707 | 590 | 19.8 |
| Adjusted EBITDA margin, % | 15.5 | 14.2 | |
| RevPAR, SEK | 676 | 612 | 10.5 |
| ARR, SEK | 1,079 | 1,001 | 7.8 |
| OCC, % | 62.7 | 61.1 | |

Net sales rose by 9.1 percent to 4,547 (4,168) MSEK. Net sales for comparable units grew by 4.3 percent.

New hotels/exits contributed 64 MSEK net. Hotel Marski by Scandic in Helsinki, which opened on June 3, 2019 after a complete renovation, made the greatest positive contribution.

Average Revenue Per Available Room (RevPAR) increased by 7.2 percent in local currency compared with the previous year. For comparable units, RevPAR increased by 4.9 percent. RevPAR for hotels included in the Restel acquisition continued to develop better than average for the Finnish hotels. The EU presidency (July 1 to December 31) also had a positive effect on RevPAR, particularly in the Helsinki area.

Adjusted EBITDA rose to 707 (590) MSEK. Higher RevPAR and cost synergies after the Restel acquisition contributed to the improved profits.

The adjusted EBITDA margin rose to 15.5 (14.2) percent.

### Other Europe

| MSEK | 2019 | 2018 | Change, % |
|---|---|---|---|
| Net sales | 2,764 | 2,448 | 12.9 |
| Net sales growth, % | 12.9 | 16.4 | |
| Organic growth, % | 9.8 | 10.0 | |
| Net sales growth LFL, % | -0.9 | 0.6 | |
| Adjusted EBITDA | 298 | 304 | -2.0 |
| Adjusted EBITDA margin, % | 10.8 | 12.4 | |
| RevPAR, SEK | 831 | 811 | 2.4 |
| ARR, SEK | 1,124 | 1,100 | 2.2 |
| OCC, % | 73.9 | 73.7 | |

Net sales rose by 12.9 percent to 2,764 (2,448) MSEK. For comparable units, net sales fell by 0.9 percent.

New hotels contributed 263 MSEK in total. Scandic Frankfurt Museumsufer, Scandic Kødbyen and Scandic Falkoner in Copenhagen were the greatest contributors to the increase.

Average Revenue Per Available Room (RevPAR) decreased by 0.7 percent in local currency compared with the previous year. For comparable units, RevPAR fell by 2.5 percent. RevPAR rose in Germany and Poland, while Denmark reported reduced RevPAR due to increased capacity in Copenhagen.

Adjusted EBITDA decreased to 298 (304) MSEK. Results improved in Germany and Poland but weakened in Denmark. All new hotels made positive contributions to adjusted EBITDA, while increased capacity in Copenhagen had a negative effect. The adjusted EBITDA margin dropped to 10.8 (12.4) percent.

### Central functions

Adjusted EBITDA for central functions was -408 (-349) MSEK in 2019. The previous year was affected positively by 43 MSEK due to the market valuation of forward contracts.

### Cash flow and financial position

Operating cash flow, excluding leases, was 1,705 (1,517) MSEK for 2019. The cash flow contribution from the change in working capital amounted to 158 (45) MSEK. The improvement is due to a reduction in accounts receivable, an increase in deferred income and an increase in operating liabilities.

Paid tax was -343 (-174) MSEK, of which approximately 180 MSEK refers to a decision on supplementary taxation in Finland for the years 2012 to 2017. Scandic and its tax advisors are of the opinion that the company has complied with applicable legislation and, accordingly, that the decision is incorrect. The company has appealed the decision and requested that the tax decision be rejected in its entirety. The company does therefore not include any cost for the taxes imposed in the accounts. Scandic's assessment is that the total exposure for the years 2007 to 2017 is approximately 403 MSEK including interest, which is recognized as a contingent liability. The amount has been paid in full.

Net investments totaled -1,155 (-1,216) MSEK, of which hotel renovations accounted for -717 (-708) MSEK and IT for -71 (-93) MSEK. Investments in new hotels and increased room capacity totaled -367 (-415) MSEK. During the year, Scandic received the final purchase price of 232 MSEK for the divestment of Scandic Hasselbacken.

In total, free cash flow improved and amounted to 782 (263) MSEK, mainly due to the increased profit, improved working capital development and reduced investments.

| Working capital | Dec 31, 2019 | Dec 31, 2018 |
|---|---|---|
| Current assets, excluding cash and cash equivalents | 1,294 | 1,321 |
| Current liabilities | -3,266 | -2,896 |
| Working capital | -1,972 | -1,575 |

### Operating cash flow

| MSEK | 2019 | 2018 |
|---|---|---|
| Adjusted EBIDTA | 2,046 | 1,957 |
| Pre-opening costs | -81 | -92 |
| Items affecting comparability | 169 | -141 |
| Items not included in cash flow | -173 | -1 |
| Paid tax | -343 | -174 |
| Change in working capital | 158 | 45 |
| Paid interest, credit institutions | -71 | -77 |
| **Cash flow from operations** | **1,705** | **1,517** |
| Investments in hotel renovations | -717 | -708 |
| Investments in IT | -71 | -93 |
| **Free cash flow before investments in expansions** | **917** | **716** |
| Acquisitions/sales of operations | 232 | -38 |
| Investments in new capacity | -367 | -415 |
| **Free cash flow** | **782** | **263** |
| Other items in financing activities | -20 | -47 |
| Transaction costs expensed | -8 | -11 |
| Exchange difference in net debt | -55 | -61 |
| Dividends | -360 | -352 |
| **Exchange difference in net debt** | **339** | **-208** |

The balance sheet total on December 31, 2019 was 43,509 MSEK compared with 17,737 MSEK on December 31, 2018. When IFRS 16 was introduced on January 1, 2019, the Group's total assets increased by approximately 24 billion SEK.

Interest-bearing net liabilities, excluding lease liabilities, decreased by 339 MSEK during the year to 3,497 MSEK. The reduction was due to the increase in free cash flow, dividends and currency effects.

Net debt on December 31, 2019 corresponded to 1.7 x adjusted EBITDA for the past twelve months (2.0 x as per December 31, 2018).

| Interest-bearing net liabilities | Dec 31, 2019 | Dec 31, 2018 |
|---|---|---|
| Liabilities to credit institutions | 3,036 | 2,940 |
| Liabilities, commercial papers | 487 | 1,000 |
| Cash and cash equivalents | -26 | -103 |
| Interest-bearing net liabilities | 3,497 | 3,837 |

Total credit facilities amounted to 5,500 MSEK. Loans from credit institutions totaled 3,036 MSEK, commercial papers amounted to 487 MSEK and cash and cash equivalents totaled 26 MSEK at year-end.

On December 31, 2019, the average number of shares and votes was 103,036,484 after dilution. Equity was 6,601 MSEK compared with 7,806 MSEK on December 31, 2018 and was affected negatively by 1,466 MSEK due to the implementation of IFRS 16.

### Acquisitions and exits

On February 7, 2019, Scandic signed an agreement to sell Scandic Hasselbacken in Stockholm. The sales price was 232 MSEK on a debt-free basis and the transaction generated a capital gain of 181 MSEK for Scandic. The new owners took over the operations of the hotel, which has 113 rooms, on March 1, 2019.

On April 25, 2019, Scandic signed an agreement to sell the hotel operations of Scandic Lahti. The operations of the hotel, which has 139 rooms, were transferred to the buyer on August 1, 2019. The reason for the sale was that the Finnish Competition and Consumer Authority's approval of Scandic's acquisition of Restel was subject to the condition that Scandic must exit a hotel in Pori, a hotel in Kuopio and a hotel in Lahti. In 2018, Scandic announced the exit of Cumulus Pori and Cumulus Kuopio Station. Following the sale of Scandic Lahti, Scandic has now fulfilled its undertaking to the Finnish Competition and Consumer Authority. The sales price was 1 MSEK with only a marginal capital gain.

### Portfolio development

At year-end, Scandic had a total of 52,755 rooms in operation at 268 hotels, 244 of which had lease agreements. The net number of hotels in operation was the same at the end of 2019 as at the end of 2018 while the number of rooms grew by 1,062. New hotels in operation over the year include Scandic Falkoner, Denmark (334 rooms), Scandic Alexandra, Norway (165 rooms), Scandic Vestfjord, Norway (63 rooms) and Scandic Royal, Norway (215 rooms). In addition, the following hotels were reopened: Marski by Scandic, Finland (296 rooms), Holiday Inn Expo, Finland (245 rooms) and Scandic Torget, Norway (173 rooms).

### Research and development

No R&D work was carried out during the year since the operations of the company are not of the type requiring R&D.

### Share and ownership structure

Scandic's share has been listed on Nasdaq Stockholm since December 2, 2015. According to the company's share register kept by Euroclear Sweden AB, Scandic had 14,862 shareholders at the end of 2019. All shares have equal voting rights, the same share of assets and profits and a right to the same dividend. Of the total share capital, Stena Sessan AB was the largest shareholder with 17.4 percent of the votes and capital. Rolf Lundström, through Novobis AB and private holdings, was the second largest shareholder with 16.3 percent of the votes and shares. Scandic has entered into a share swap agreement with a third party to ensure the delivery of shares that may be allotted according to the long-term incentive program, LTIP. If the full number of matching shares and performance shares is allotted, the total number of shares allotted under the LTIP will be 614,867, which corresponds to approximately 0.6 percent of Scandic's share capital and votes.

### Risks and risk management

A description of Scandic's significant risks and uncertainties is provided in the Risks and risk management section on pages 84–87.

### Employees

The average number of employees was 11,666 as per December 31, 2019 compared with 11,560 as per December 31, 2018. Scandic strives to be an equal opportunity employer and to provide a safe work environment, which among other things is governed by the Group's Code of Conduct. During the year, the annual employee survey again showed good results and improvements within leadership and understanding of the company's goals and strategy.

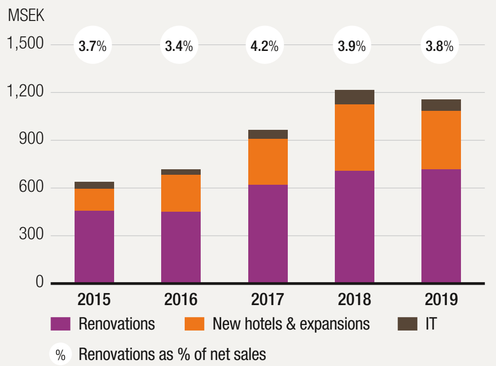
### Sustainability Report

Scandic has prepared a Sustainability Report in accordance with the Swedish Annual Accounts Act, which has been submitted by the Board of Directors. The Sustainability Report is available on pages 1–19 and 44–75. The Sustainability Report covers the Parent Company and the Group.

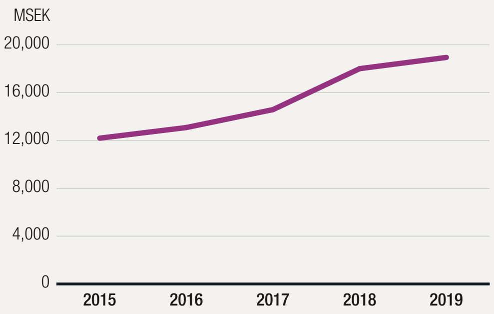
### Executive Committee and Board of Directors

Scandic's Executive Committee is diversified and has solid experience from the hotel sector and consumer-oriented operations in various markets. The Executive Committee comprises the CEO and eleven senior managers: The Chief Financial Officer (CFO), SVP HR

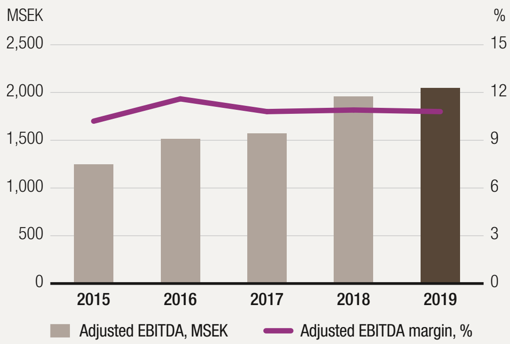
### INVESTMENTS, 5 YEARS




### NET SALES




### ADJUSTED EBITDA & MARGIN



& Sustainability, Chief Portfolio Officer, Chief Customer Officer, Chief Commercial Optimization Officer , Chief Information Officer and the Group's five country heads. Five nationalities are represented in the Executive Committee, which consists of ten men and two women.

Scandic's Board of Directors is responsible for Scandic's organization and management of the company's affairs. According to the Articles of Association, the Board shall consist of a minimum of three and a maximum of eleven members, and a maximum of two alternates. In addition, employee organizations have the right to appoint two ordinary board members and two alternates. Board members are elected annually at the Annual General Meeting for the period up to the end of the next Annual General Meeting. At the 2019 Annual General Meeting, eight members were elected and one employee representative was appointed. Four of the eight members are foreign nationals.

### Guidelines for remuneration to senior executives

Guidelines for remuneration and other terms and conditions for the CEO and other senior managers were adopted at the Annual General Meeting held on May 7, 2019. See page 88 of the Corporate Governance Report for more information.

### Long-Term Incentive Program

Scandic has a share-based long-term incentive program. The expected financial exposure to shares that may be allotted under the LTIP and the delivery of shares to the participants of the LTIP has been hedged through Scandic's entering into a share swap agreement with a third party on market terms.

See Note 6 and page 88 of the Corporate Governance Report for further details.

### Events after the reporting date

On February 18, 2020, Scandic launched Scandic GO, a new brand in the growing economy hotel segment that will strengthen Scandic's growth potential.

During the first quarter, the spread of the coronavirus (Covid-19) led to a significant deterioration of the business situation for Scandic Hotels Group AB. For this reason, 2,000 team members in Sweden were given notice of termination on March 12, 2020, which corresponds to about half of the company's permanent employees in its Swedish operations. Scandic also announced that significant cutbacks would be required in its other markets. The severely deteriorating business situation is an indication that there may be a need for impairment of intangible assets. Work to test the need for such impairment has begun, however it was not completed by the time this annual report was submitted.

At an extraordinary board meeting held on March 16, 2020, the Board of Directors of Scandic Hotels Group AB resolved to withdraw its previous dividend proposal to the Annual General Meeting of 3.70 SEK per share due to the significantly worsened business situation.

The Administrative Court in Finland rejected Scandic's claim regarding supplementary taxation of the Finnish branch of Scandic Hotels AB in the years 2007–2017. The supplementary taxation amounts to approximately 400 MSEK, which is marginally lower than the company's previous payment to the Finnish Tax Administration. Scandic will therefore receive approximately 15 MSEK. Scandic is analyzing the judgment and thus far, the previous assessment remains.

On April 29, 2020, Scandic's Board of Directors resolved on a rights issue of approximately 1.75 billion SEK before transaction costs with preferential rights for existing shareholders. The rights issue is subject to the approval of the Extraordinary General Meeting that will be held on May 28, 2020. On the same date, Scandic also entered into an agreement for a new 1.15 billion SEK credit facility.

### Outlook

As a direct result of the Covid-19 pandemic, Scandic has been impacted by a significant loss of revenue with highly negative consequences for profits and cash flow. For this reason, Scandic initiated a process already in mid-March to ensure that the Group would have sufficient liquidity both during the outbreak of the pandemic and for the period until demand has reached a level where positive cash flow may be expected.

The calculations assume that Scandic's business situation will be very weak with occupancy expected to be between 7 and 11 percent until the second quarter 2020, followed by a gradual recovery in the second half of the year. In 2021, RevPAR is expected to be 15 to 25 percent lower than in 2019.

Combined with measures taken to cut costs and strengthen cash flow, this has resulted in a need for additional liquidity including a requisite safety margin and operational liquidity needs of 2.9 billion SEK until the end of 2021. The need is expected to be greatest in the first six months of 2021 due to the seasonal increase in working capital and the payment of deferred taxes and fees.

At the end of April, a solution to the liquidity needs was presented when the Board of Directors resolved on a 1.75 billion SEK rights issue with preferential rights for shareholders and also entered into an agreement with the existing lending banks for an additional 1.15 billion SEK credit facility. In addition to customary terms and conditions, the credit facility is conditional upon the rights issue being fully underwritten.

The rights issue has strong support among Scandic's current shareholders and Stena Sessan, AMF and Formica Capital have entered into subscription undertakings for 41.6 percent of the shares. AMF has made an additional subscription undertaking for 500 MSEK, or 28.6 percent of the votes, provided its ownership does not exceed 29.9 percent after the rights issue is finalized. In addition, Swedbank Robur has expressed its intention to subscribe for its 5.7 percent share. As regards the remaining part of the issue, DnB and Goldman Sachs have confirmed that they will enter into an underwriting agreement at the point in time when the rights issue is initiated.

Even if it is still highly uncertain how long the Covid-19 pandemic will continue and how Scandic's business will be affected, it is highly likely that the measures described above, combined with continued good business practices regarding managing revenue, expenses and cash flow, will suffice to ensure liquidity and continuity both this year and the next.

### 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 57 (34) MSEK. The operating profit was 0 (1) MSEK. Net financial items for the period totaled 6 (143) MSEK. The Parent Company's profit before taxes was 486 (loss: -1) MSEK.

### Appropriation of profits

In accordance with the Board of Directors' dividend policy adopted on September 14, 2015, Scandic aims to distribute at least 50 percent of its net profit from the financial year 2016 onwards. Decisions regarding appropriation of profits are made with consideration for the company's future profits, financial position, capital requirements and macro-economic conditions.

The Board of Directors proposes that the profits be distributed as follows:

| | SEK |
|---|---|
| To be carried forward | 6,335,159,221 |
| **Total** | **6,335,159,221** |

The Board of Directors proposes that no dividend be paid and that all profits be carried forward.

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

## HOTELS AND ROOMS IN OPERATION AND UNDER DEVELOPMENT

| | Operational | | | | | | | | | | Under development | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Lease agreements | | Management agreements | | Franchise and partner agreements | | Owned | | Total | | Total | |
| **Dec 31, 2019** | Hotels | Rooms | Hotels | Rooms | Hotels | Rooms | Hotels | Rooms | Hotels | Rooms | Hotels | Rooms |
| Sweden | 78 | 16,687 | 1 | 145 | 5 | 647 | | | 84 | 17,479 | 4 | 1,248 |
| Norway | 71 | 14,155 | | | 15 | 1,985 | 1 | 135 | 87 | 16,275 | 3 | 1,122 |
| Denmark | 26 | 4,745 | 1 | 210 | | | | | 27 | 4,955 | 4 | 1,574 |
| Finland | 63 | 12,261 | | | 1 | 67 | | | 64 | 12,328 | 2 | 1,199 |
| Other Europe | 6 | 1,718 | | | | | | | 6 | 1,718 | 2 | 739 |
| **Total** | **244** | **49,566** | **2** | **355** | **21** | **2,699** | **1** | **135** | **268** | **52,755** | **15** | **5,882** |

# RISKS & RISK MANAGEMENT

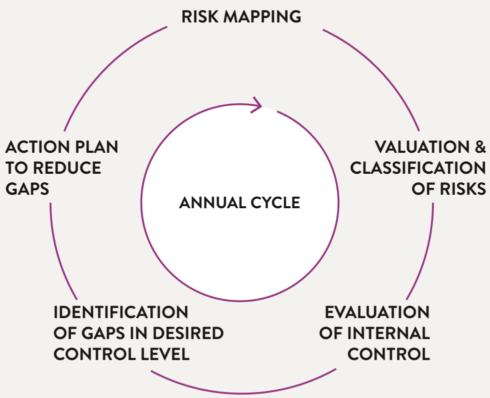
All business activities are associated with risks. Scandic has developed processes to handle different types of risks.

The ability to identify, assess, manage and monitor risks is an important part of the management and control of Scandic's business operations. The aim is for the Group to achieve its objectives through well-considered risk-taking within established limits.

The risk management process includes strategic, operational and financial risks.

Scandic has good underlying risk diversification in the form of a geographically diverse and balanced customer base. The company operates primarily in the Nordic market. Of the Group's revenues, corporate travel accounts for approximately 70 percent and leisure travel for about 30 percent. Scandic is not dependent on a specific industry or a few customers.

For a detailed description of internal controls designed to manage risks relating to financial reporting, see pages 88–95 of Scandic's Corporate Governance Report.




## Risk management process

In addition to managing risks involved in day-to-day business, Scandic has a risk management process designed to identify and reduce risks that can have an adverse effect on the Group's earnings, cash flow, brand and reputation or long-term competitiveness. The process that provides a framework for the Group's risk management follows an annual cycle:

- The Executive Committee carries out risk mapping where risks are identified and measured based on the probability that they will occur as well as the consequences of their occurrence on the Group's operations and financial position. This results in a risk map where each risk is classified. The internal controls and the control environment are then evaluated to ensure that relevant controls are in place that can reduce risks both in terms of probability and consequences.
- Based on the Group's risk profile and risk strategy, any gaps in relation to the desired level of control are identified. Thereafter, an action plan is developed to reduce gaps where the value of reducing the risk is measured against the cost of establishing and maintaining internal controls.
- The structure and frequency of monitoring risk status and action plans is determined. Strategic risks are reported to the Board and monitored in conjunction with strategy meetings, establishing business plans and regular Board meetings. Financial risks are reported and monitored both in financial reporting to the Board and at Audit Committee meetings. Operational risks are managed by the Executive Committee, but more significant risks are reported regularly to the Board.

## Responsibility and monitoring

The Board of Directors has overall responsibility for ensuring that the Group has appropriate risk management structures in place, including following up on strategic risks. The Audit Committee is responsible for evaluating the efficacy of the structure and risk management processes and monitoring financial risks.

The President & CEO is responsible for managing risks in line with the guidelines adopted by the Board. The risk management process and work within specially identified risk areas are driven centrally by the Group's Chief Financial Officer. Operational risks are managed by the Executive Committee where each significant risk identified is assigned to a designated manager who is responsible for proposing measures to fill any gaps and ensure the execution of action plans. Financial risks are managed by Group Finance in accordance with Board-approved policies and instructions and are reported by the Chief Financial Officer to the Audit Committee.

## Sustainability risks

Managing sustainability risks is an integral part of the Group's risk management process and sustainability is taken into consideration in risk analysis as a whole. In addition, sustainability risks are evaluated specifically, including in all areas of the UN Global Compact: environment, human rights, labor law and anti-corruption. Evaluated risks are managed in accordance with the ordinary risk management process and also included in work to develop the company's sustainability strategy.

## Strategic and operative risks

The following pages provide a description of the most significant risks within Scandic's operations. These are not the only risks and there may be other risks that are currently considered immaterial that may have a negative effect on the Group's business, financial performance or position. The order in which risks are presented should not be considered an indication of the probability of the occurrence of the risk or the seriousness of the consequences.

Strategic risks include external factors that may affect Scandic's business and long-term competitiveness as well as internal factors that could lower the prospects of achieving Scandic's strategic business objectives. Operational risks are risks over which Scandic has control and primarily include processes, assets and people.

## Business risk

Based on figures for the full year 2019, it is estimated that a rise or fall in occupancy or a change in volume in restaurant and conference operations of 1 percent would affect adjusted EBITDA by approximately 150 MSEK and the adjusted EBITDA margin by 0.6 percent on an annual basis. The assessment refers to changes in volume within a minor interval (+/- 2 percent) and assumes that the change in sales would not cause any leases to pass the minimum rent threshold.

## MARKET RISKS

Scandic operates in a sector where demand for hotel nights and conferences is influenced by the underlying domestic development and purchasing power in the geographic markets in which Scandic does business as well as development in countries from which there is a significant amount of travel to Scandic's domestic markets. In addition, general attitudes in society towards travel, especially as it concerns the environment, impact the demand for Scandic's services

Additionally, profitability in the sector is impacted by changes in room capacity. When new hotels are established, occupancy can decrease in the short term. In the long term, however, greater availability of rooms can help generate interest in particular destinations for business and leisure travel, thereby increasing the number of hotel rooms sold.

Increased growth in apartment hotels and concepts such as Airbnb as well as the growing use of video conferencing may also impact demand for traditional hotel and conference services.

Competition from digital distribution channels and search engine companies may reduce traffic to Scandic's own distribution channels, which could have a negative impact on Scandic's operations and profitability.

### Risk management

Scandic operates in the mid-market hotel segment, which historically has demonstrated greater resilience in economic downturns.

Scandic's business model is based on lease agreements where approximately 84 percent of the agreements have variable rents or variable rents with a guaranteed minimum rents. This results in lower profit risks since revenue losses are partly offset by reduced rental costs. Fixed and guaranteed rents make up 66 percent of total rental costs, which limits flexibility in the event of significant drops in occupancy, for example, due to a pandemic. Scandic's other expenses also include a high share of variable costs where above all, staffing flexibility is important to be able to adapt cost levels to variations in demand. All together, this means that by having a flexible cost structure, Scandic can lessen the effects of seasonal and economic fluctuations.

Scandic sells products to a wide range of customers and sectors. Scandic enjoys a high percentage of satisfied and returning customers and guests.

A significant share of distribution, just over 60 percent, is achieved through Scandic's own channels, and a high level of revenue from members of Scandic's loyalty program contributes to revenue stability. Scandic invests regularly in its own digital distribution channels. To increase the inflow of international leisure travelers, distribution through digital channels with international reach is essential.

## CHANGING ENVIRONMENT, TAXES & DECISIONS OF AUTHORITIES

Scandic is affected by a changing environment where there is the risk of unrest such as terror incidents or pandemics that could impact security at its hotels. Furthermore, there is a risk of incidents such as fire and accidents involving team members or guests.

Changes in value added tax and other taxes can impact demand for hotel nights, conferences and restaurants. Changes in taxes, social security fees and other fees that increase Scandic's costs may also have a negative effect on the Group's results.

### Risk management

Scandic is working on a number of initiatives to adapt and maintain an adequate level of security. Scandic has a security program that includes crisis management in the event of fire, accidents or terror incidents. All employees receive regular training and self-inspections are carried out twice a year.

Through geographic spread, the risk that changes to legislation and regulations in a single country may impact Scandic's earnings negatively is reduced.

## LEASE AGREEMENTS – FINANCIAL COMMITMENTS

Scandic's business model is based on lease agreements. These agreements are signed for a period of typically 15 to 20 years, with the option to extend in many cases. According to these agreements, the property owner and the tenant (Scandic) share responsibility for investments in and maintenance of the property. Scandic's commitment relates in general to maintenance and replacement of finishes, furniture, fixtures and equipment. Historically, these investments have accounted for 3 to 4 percent of Scandic's net sales.

### Risk management

The risk involved in long-term financial commitments is reduced through a high proportion of agreements with variable rents. Of Scandic's total lease agreements (based on the number of rooms), approximately 84 percent have fully variable rent or variable rent with a minimum guaranteed rent. The latter is the most common contract model in the Nordic countries. Fixed and guaranteed rents make up 66 percent of total rental costs.

Revenue-based rent and joint investment responsibility means that the property owner and Scandic have a common interest in developing and maintaining the property in order to increase guest satisfaction and generate revenue. Scandic prepares rolling plans for renovating and maintaining hotels to ensure their standard, attractiveness and ability to continue to generate good revenue.

According to Scandic's portfolio strategy, the company only enters into lease agreements for hotels in markets that have good, stable demand, that are in attractive locations and that have the scale and configuration that allow for good profitability and thereby low commercial risk. Where these criteria are not met and the risk of entering into a lease agreement is deemed too high, a franchise agreement may be considered if the geographic location of the property has a strategic value or may contribute to increasing the value of Scandic's loyalty program by improving the company's geographic reach.

| BRAND & REPUTATION | Risk management |
|---|---|
| The hotel market is constantly evolving in terms of preferences and customer behavior. For this reason, it is extremely important for a hotel company to ensure that its brand and content as well as its perceived position remain relevant and appreciated at all times. Maintaining the strength and relevance of the Scandic brand and customer perception of Scandic's offering and concept is therefore critical to ensure long-term competitiveness. | Scandic is the leading hotel brand in the Nordic countries and the Scandic brand is one of the Group's most valuable assets. Scandic's loyalty program, Scandic Friends, generates about 35 percent of the Group's revenues from accommodations. By owning its brand, Scandic can guarantee the consistency and quality of its offerings and services and also ensure that the content and offering are constantly adapted to the demands and preferences of both existing and new customers.<br>Scandic's Code of Conduct is based on social and environmental sustainability as well as ethical business conduct in all areas of its operations. The Code applies to all employees and also places demands on Scandic's suppliers and partners. |

| HUMAN RESOURCES & TALENT MANAGEMENT | Risk management |
|---|---|
| Scandic operates in the service industry where each customer and guest experience has a great impact on how the Group's offering, quality and service are perceived. Employee engagement is a key driver in terms of customer satisfaction and is therefore also central to the Group's long-term results. The ability to attract, develop and retain talents and build a good service and corporate culture is therefore critical. | Scandic has a strong corporate culture and works to maintain it fully in the Group. Each year, Scandic conducts an employee survey that has a very high response rate and high scores when it comes to job satisfaction. The insights obtained through this survey are an important tool for continued improvement throughout the entire organization.<br>Scandic develops leadership through regular evaluation and development programs at all levels of the organization. |

| SUSTAINABILITY | Risk management |
|---|---|
| **Supply chains**<br>Scandic requires all suppliers to comply with the UN Global Compact criteria. In addition, Scandic has detailed requirements, including environmental aspects. There is a risk that suppliers may not comply with these high requirements. | Scandic has a process where all suppliers are reviewed on the basis of different risk criteria during procurement. If Scandic identifies a potential risk, careful checks are carried out covering all areas of sustainability. |
| **Working conditions**<br>There is a risk that working conditions may not reach the level where the health and safety of team members can be guaranteed. | Scandic carries out regular safety audits in all hotels to ensure employee safety. These are followed up with annual self-inspections and evaluations by the employees of their physical and psycho-social work environment as part of the annual employee survey. In addition, Scandic has an anonymous whistleblowing system that enables employees and external parties to report gross deviations/incidents anonymously. |
| **Property ownership structure**<br>Scandic does not own any hotel properties. This means that Scandic is dependent on the property owners implementing measures to reduce their environmental impact, such as systems for ventilation and heating. There is a risk that Scandic and property owners may not agree fully about these types of investments, making it more difficult for Scandic to meet its $CO_2$ emission targets. | Scandic is engaged in continuous dialogue with property owners and works to ensure that measures are taken to reduce environmental impact. |
| **Corruption and fraud**<br>There is a risk that Scandic's routines are not followed which can lead to corruption and/or fraud in various forms. | Scandic has internal rules and procedures in place that are intended to prevent corruption and fraud. These rules and procedures are updated and communicated continually. Managers and leaders also receive training in these areas. |

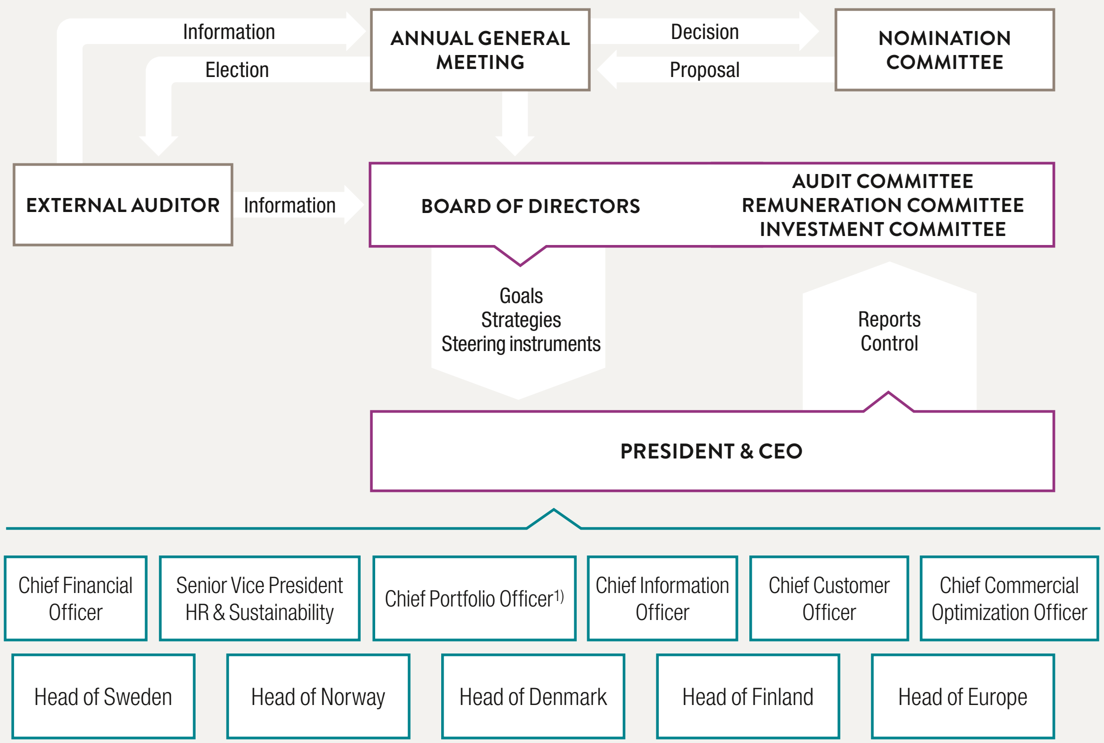
| SUSTAINABILITY cont. | Risk management |
| --- | --- |
| **Trafficking and prostitution**<br>Hotels are locations where prostitution and trafficking may occur. This poses a direct danger to victims and constitutes a risk since these types of activity attract other forms of crime. | In cooperation with the police, the employer organization, the unions and the authorities, Scandic has developed a training program aimed at helping hotel employees detect if trafficking or prostitution is occurring at a hotel. This training is carried out regularly. |
| **Climate change**<br>Climate change is probably the most critical issue of our time. It can potentially affect Scandic's operations both physically and financially.<br>Altered weather conditions can lead to flooding or cause other damage to hotel properties. Here, Scandic must work closely with property owners to ensure that buildings are developed and renovated with these risks in mind. Climate change could also affect the ability of suppliers to produce the goods that Scandic purchases.<br>In addition to physical damage and problems in the supply chain, which in themselves could have negative financial consequences for Scandic, energy costs could increase and new rules and taxes could be introduced. New emission taxes for companies or restrictions on people's travel could have a significant impact on Scandic. Failure to analyze climate risks could therefore result in unforeseen costs. | Scandic follows international reporting on climate issues and maintains close contact with property owners and suppliers in order to be proactive. |
| **Reputation and sustainability**<br>Scandic's brand and financial performance could suffer it fails to communicate its sustainability initiatives adequately. Sustainability is increasingly highlighted and becoming more important to customers who want to live healthy lives and make environmentally conscious choices. If Scandic is not receptive to these trends, there is a risk that it will offer products that are not appreciated and in addition disappoint its team members. | Scandic has been offering a rich selection of plant-based and allergy-adapted foods for many years. The company's entire new sustainability strategy is built on Scandic being the most sustainable option for eating, sleeping and meeting. Scandic strives to be a role model within and outside of the industry and in this way hopes to grow its business by attracting customers and making its team members proud. |

| FINANCIAL RISKS | Risk management |
| --- | --- |
| The Group's activities expose it to financial risks: exchange rate risk, interest rate risk, credit risk and liquidity risk. The Group's Finance Policy focuses on the unpredictability of the financial markets and seeks to minimize potential adverse effects on the Group's results and financial performance. | Risk management is handled by Group Finance in accordance with policies established by the Board of Directors. These include overall risk management as well as risk management for specific areas such as exchange rate risk, interest rate risk, credit risk, the use of derivatives and non-derivative financial instruments and investment of excess liquidity. Group Finance identifies, evaluates and hedges financial risks in close collaboration with the Group's operating units. For a description of financial risks and their management, see Notes 22b and 22c. |

# CORPORATE GOVERNANCE

Scandic is a Swedish public limited liability company, with its registered office in Stockholm, whose shares are listed on Nasdaq Stockholm's Nordic Mid Cap list. Scandic applies the Swedish Corporate Governance Code and hereby submits its Corporate Governance Report for the 2019 financial year.

## CORPORATE GOVERNANCE AT SCANDIC




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


**INTERNAL STEERING INSTRUMENTS**
- Articles of Association
- Rules of Procedure and Instructions for the CEO and the Board
- Values
- Code of Conduct
- Policies and guidelines

[1] On January 1, 2020, the position of Chief Portfolio Officer was created to replace the Vice President Business Development.

### THE BASIS OF SCANDIC'S CORPORATE GOVERNANCE

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

Governance includes upholding:
- an efficient organizational structure
- systems for risk management and internal control
- transparent internal and external reporting
- complicance

### GOVERNANCE STRUCTURE

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

Scandic's internal binding governance instruments include the Articles of Association, the Rules of Procedure for the Board of Directors, instructions for the Board's committees and the CEO, Scandic's Code of Conduct, the authorization and delegation procedure, the Finance Policy, the Information Policy and the Insider Policy.

### SIGNIFICANT EVENTS IN 2019

On January 17, 2019, Scandic announced that Jens Mathiesen would replace Even Frydenberg as President & CEO. Søren Faerber then took over as Country Head for Scandic Denmark after Jens Mathiesen. During the year, Senior Vice President HR & Sustainability Lena Bjurner left Scandic and was replaced by Bitte Ferngren.



GRI: 102-10, 102-18

At the 2019 Annual General Meeting, Susanne Mørch Koch and Riitta Savonlahti were elected as new Board members. In accordance with the Board's proposal, the Annual General Meeting adopted a long-term incentive program aimed at a maximum of 80 senior executives and key personnel within the Scandic Group.

## SHARE AND SHAREHOLDERS

The Scandic share has been listed on Nasdaq Stockholm's Nordic Mid Cap list since December 2, 2015. At year-end 2019, the share capital of Scandic was 25.7 MSEK divided into 102,985,075 shares with all shares conferring equal voting rights, an equal share of assets and earnings and an equal share of any dividends. Of the total share capital, 66.1 percent was held by Swedish investors and 33.9 percent by foreign investors. The ten largest shareholders represented 65.8 percent of the share capital and votes in the company. At year-end, Stena Sessan was the largest shareholder with holdings corresponding to 17.4 percent of the company's share capital and votes. Rolf Lundström's holdings through Novobis and privately totaled 16.3 percent of the share capital and votes at year-end.

## SHAREHOLDERS' INFLUENCE THROUGH THE GENERAL MEETING

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

## ANNUAL GENERAL MEETING 2019

At the Annual General Meeting held on May 7, 2019 in Stockholm, resolutions on the following were passed:

- Adoption of the income statement and balance sheet for 2018.
- Decision in accordance with the Board of Directors' proposal that a dividend of 3.50 SEK per share for the 2018 financial year be paid out in two separate payments of 1.75 SEK per payment and share and that the rest of the free equity be carried forward.
- Discharge of the Board of Directors and the CEO from liability to the company.
- Per G. Braathen, Grant Hearn, Fredrik Wirdenius, Ingalill Berglund, Martin Svalstedt and Christoffer Lundström were re-elected as Board members. Susanne Mørch Koch and Riitta Savonlahti were elected as new Board members. Per G. Braathen was re-elected as Chairman of the Board.
- PricewaterhouseCoopers was reappointed as auditor with Sofia Götmar-Blomstedt as auditor-in-charge for the period until the end of the Annual General Meeting 2020.
- Remuneration for the Board of Directors and the auditor.
- Guidelines for remuneration for senior executives in accordance with the proposal of the Board.
- Adoption of the Long-Term Incentive Program and hedging measures for the program in accordance with the proposal of the Board.

## ANNUAL GENERAL MEETING 2020

Scandic's Annual General Meeting 2020 will be held in Stockholm on June 15, 2020. For more information, see page 143.

## NOMINATION COMMITTEE

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

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

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

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

### The Nomination Committee for the Annual General Meeting 2020

The Nomination Committee for the Annual General Meeting 2020 consists of four members and in addition to the Chairman of the Board of Directors includes representatives from the three largest shareholders as at August 31, 2019. The work of the Nomination Committee was led by Kristina Patek of Stena Sessan AB. The composition of the Nomination Committee was published in a press release on October 4, 2019.

| Nomination Committee | Representing | % of the number of votes as at December 31, 2019 |
|---|---|---|
| Per G. Braathen | | |
| Kristina Patek | Stena Sessan AB | 17.4 |
| Joel Lindeman | Novobis AB | 16.3 |
| Dick Bergqvist | AMF Försäkring och Fonder | 11.2 |

In the work on nominations for the Annual General Meeting 2020, the Nomination Committee assessed the size and composition of the current Board of Directors. Special consideration was given to industry-specific and financial expertise and an even gender distribution. The Nomination Committee complies with the guidelines in the Code regarding Board member independence. Scandic's Diversity Policy was considered chiefly as regards equal gender distribution and geographic distribution. The 2020 Nomination Committee held three meetings and maintained communication in between. The Nomination Committee based its work on the Chairman of the Board's report on the work of the Board of Directors and the Board evaluation that was carried out with the help of an external advisor.

The proposals of the Nomination Committee will be presented at the Annual General Meeting 2020 and on Scandic's website at scandichotelsgroup.com

The reasoning behind the proposals, a report on the committee's work and a full presentation of the proposed members will also be published on the site.

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

## BOARD OF DIRECTORS

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

### Composition of the Board of Directors in 2019

The Annual General Meeting 2019 elected eight Board members and appointed one employee representative. Four of the eight Board members are foreign nationals. The CEO and the Group's Chief Financial Officer participate in Board meetings as well as the Board's secretary. Other employees of the Group participate in Board meetings to report on special matters as and when necessary.

### Independence

None of the Board members elected at the Annual General Meeting are employed within the Scandic Group and all Board members are considered to be independent in relation to the company and the senior executives. Six of the eight Board members that are


| | | | | | |
|---|---|---|---|---|---|
| JAN | FEB | MAR | APR | MAY | JUN |
| 1 | 2 | | 3 | 4 5 | 6 |
| JUL | AUG | SEP | OCT | NOV | DEC |
| 7 | | 8 | 9 | | 10 |

1 Change of CEO

2 Q4 Report, investment decisions, Board evaluation, employee survey results

3 Approval of documents for AGM, investment decisions, decision regarding remuneration to senior executives

4 Q1 Report, investment decisions, review of pipeline for decided investments, remuneration for Executive Committee, succession plan, review of IT-related issues and investments

5 Statutory Board meeting, approval of Rules of Procedure, instructions for CEO and instructions to the committees of the Board, follow-up on evaluation of Board and CEO

6 Strategy review, review of growth opportunities, investment decisions, risk analysis

7 Q2 Report

8 Approval of policies, investment decisions, review of financial goals, review of commercial initiatives within distribution, review of German operations

9 Q3 Report, investment decisions, follow-up on Restel acquisition, review of Swedish operations, review of investors' view of company

10 Investment decisions, budget for 2020, review of Norwegian operations, remuneration to the CEO

independent in relation to the company and the senior executives are also independent in relation to the company's major shareholders. Scandic thereby complies with the requirements in the Code regarding the Board of Directors' independence in relation to the company, the senior executives and the company's major shareholders.

### Work of the Board of Directors

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

The duties of the Board of Directors include appointing the CEO, adopting strategies, business plans, budgets, interim reports, year-end accounts and annual reports as well as adopting instructions and guidelines. The Board of Directors also monitors the financial performance of the company, ensures the quality of financial reporting and internal control and evaluates the operations in relation to the objectives and guidelines adopted by the Board of Directors. Furthermore, the Board of Directors also resolves whether to enter into or extend leases, franchise agreements and management agreements and whether significant investments or changes in the Group's organization and operations should be made.

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

### Composition of the Board of Directors, independence, attendance, committees and remuneration

| Name | Position | Elected, year | Independent in relation to the company and senior executives | Independent in relation to the largest shareholders | Attendance and number of meetings[1] | Committees, attendance and number of meetings[1] | Remuneration 2019 |
|---|---|---|---|---|---|---|---|
| Per G Braathen | Chairman | 2007 | Yes | Yes | 10 (10) | 6 (6) Investment Committee, 6 (6) Remuneration Committee | 850,000 |
| Ingalill Berglund | Member | 2016 | Yes | Yes | 9 (10) | 6 (6) Audit Committee | 496,667 |
| Grant Hearn | Member | 2014 | Yes | Yes | 10 (10) | 6 (6) Investment Committee, 6 (6) Remuneration Committee | 463,334 |
| Lottie Knutsson[1] | Member, resigned | 2016 | Yes | Yes | 3 (10) | | 113,333 |
| Christoffer Lundström | Member | 2016 | Yes | No | 10 (10) | 6 (6) Audit Committee | 403,334 |
| Eva Moen Adolfsson[1] | Member, resigned | 2014 | Yes | Yes | 2 (10) | 4 (6) Remuneration Committee | 146,666 |
| Susanne Mørch Koch[1] | Member | 2019 | Yes | Yes | 5 (10) | | 273,333 |
| Riitta Savonlahti[1] | Member | 2019 | Yes | Yes | 6 (10) | 2 (6) Remuneration Committee | 300,000 |
| Martin Svalstedt | Member | 2017 | Yes | No | 9 (10) | 5 (6) Investment Committee, 5 (6) Audit Committee | 436,667 |
| Fredrik Wirdenius | Member | 2015 | Yes | Yes | 9 (10) | 5 (6) Investment Committee, 2 (6) Audit Committee | 396,667 |
| Marianne Sundelius | Employee rep. | 2017 | No | Yes | 10 (10) | | 40,000 |
| **Total** | | | | | | | **3,920,000** |

[1] Total number of meetings during the year. Lottie Knutsson and Eva Moen Adolfsson left the Board at the AGM on May 7, 2019. At the same time, Susanne Mørch Koch and Riitta Savonlahti were elected as new members of the Board.

### Work during the year

During the year, 9 regular Board meetings were held and 1 extraordinary meeting was held. Among other things, the Board dealt with issues related to the evaluation of the Executive Committee and change of CEO, investment decisions and policies. In addition, the Board addressed commercial initiatives, the development of Scandic's strategy and the development of the new Scandic GO brand.

## COMMITTEES OF THE BOARD OF DIRECTORS

The Board of Directors has established three committees: the Audit Committee, the Remuneration Committee and the Investment Committee. None of the committees are authorized to make decisions, but they prepare matters and present them to the Board of Directors for decisions. The work of the committees is carried out in accordance with the written procedures for each committee as adopted by the Board.

### Remuneration Committee

The Remuneration Committee prepares resolutions in matters involving remuneration principles, salaries, benefits and remuneration for the CEO and senior executives who are subordinate to the CEO. The Remuneration Committee also supervises and evaluates the outcome of programs for variable remuneration and the company's compliance with the guidelines for remuneration adopted at the Annual General Meeting.

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

The Remuneration Committee consists of Riitta Savonlahti (Chairman), Per G. Braathen and Grant Hearn.

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

### Audit Committee

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

The Audit Committee also evaluates the audit and provides a report to the Nomination Committee and proposes auditors to the Nomination Committee. In addition, the Audit Committee follows up and comments on non-auditing related services that Scandic procures from the company's auditor.

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

The Audit Committee consists of Ingalill Berglund (Chairman), Christoffer Lundström, Martin Svalstedt and Susanne Mørch Koch. The requirements of the Swedish Companies Act regarding independence and accounting or auditing expertise are thus satisfied.

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

The following matters were addressed at the Audit Committee meetings:

- Interim reports – review prior to approval by the Board of Directors.
- Status of internal control and risk analysis as well as evaluation of the structures and efficiency of internal control.
- Auditors' reports on the review of the annual accounts, the interim report for the third quarter, "early warning" and internal control.
- Audit plan and auditors' fees as well as evaluation of the work and independence of the auditors.
- Evaluation of the requirement for an internal audit function for recommendation to the Board of Directors.
- IT Security Policy – review prior to approval by the Board of Directors.
- Status of ongoing disputes and legal matters – standing item at all meetings.
- The effects of changes in accounting principles related to finance leases (IFRS 16).
- The status of work to introduce a Group-wide accounting program (ERP).

### Investment Committee

The Investment Committee was established in 2018 and prepares decisions on issues related to investment proposals such as new investments and extensions as well as extensions of lease agreements. The Investment Committee shall also continually evaluate hotel investments and regularly review the development of the hotel portfolio, investment criteria and the process for managing the Group's investments.

The Investment Committee shall consist of at least three members of the Board elected at the Annual General Meeting. The Investment Committee consists of Grant Hearn (Chairman), Per G. Braathen, Martin Svalstedt and Fredrik Wirdenius. During 2019, the Investment Committee held 7 meetings.

## EVALUATION OF THE WORK OF THE BOARD OF DIRECTORS

The Chairman of the Board is responsible for evaluating the work of the Board of Directors. The Board of Directors also evaluates its work annually. This evaluation concerns the procedure and main direction for the work of the Board. The evaluation also includes an evaluation of the need for and access to special expertise on the Board of Directors. The evaluation in 2019 was carried out with the help of an external party. The results were presented and discussed by the Board of Directors and the Nomination Committee. The evaluation was used as a tool to develop the work of the Board of Directors and also constitutes support for the work of the Nomination Committee.

### Auditors

PricewaterhouseCoopers has been the company's auditor since 2012. At the Annual General Meeting held on May 7, 2019, PricewaterhouseCoopers was reappointed as auditor with Sofia Götmar-Blomstedt as the Auditor-in-Charge for the time until the end of the Annual General Meeting 2020. Sofia Götmar-Blomstedt is an authorized public accountant and a member of FAR (the institute for the accountancy profession in Sweden). During 2019, the auditor reported observations on 1 occasion to the Board of Directors. No members of the Executive Committee were present. Thereafter, the auditor participated in 6 meetings with the Audit Committee.

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

The auditor receives a fee for its work, according to a resolution of the Annual General Meeting. Information on auditors' fees is provided in Note 4 on page 112.

## EXECUTIVE COMMITTEE

Scandic's Executive Committee has solid experience from the hotel sector and consumer-oriented operations in various markets. The Executive Committee consists of the CEO and 11 senior executives: the Chief Financial Officer (CFO), the Senior Vice President Human Resources & Sustainability (SVP HR & Sustainability), the Vice President Business Development (VP Business Development), the Chief Customer Officer, the Chief Commercial Optimization Officer, the Chief Information Officer and the Group's five Country Heads. Five nationalities are represented in the Executive Committee, which is composed of ten men and two women. During the year, one new member joined the Executive Committee. An organizational change was made with a view to strengthen Scandic's focus on developing the hotel portfolio. Svein Arild Steen-Mevold, who was Head of Norway, was appointed as Chief Portfolio Officer with overall responsibility for the development of the hotel portfolio which among other things includes leases, relationships with property owners, design concepts and project management for renovations and new investments. The change took effect on January 1, 2020. See pages 98–99 for more information about the Executive Committee.

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

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

### Sustainability

Sustainability is an integrated part of Scandic's governance and reporting. The understanding of and commitment to challenges such as climate change, creating ethical and safe workplaces and being a responsible purchasing party are of major importance to the Group. In all of the countries where Scandic does business, the company strives to employ people who reflect the society in which the hotels operate. In this context, Scandic's governance documents in this area include the Code of Conduct, the Code of Conduct for Suppliers, the Anti-Corruption Policy, the Environmental Policy and the Diversity & Inclusion Policy. Scandic's Diversity & Inclusion Policy is an underlying policy for Scandic's Code of Conduct. The policy sets out that diversity contributes to business success and clearly stipulates that no form of discrimination is accepted.

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

## SIGNIFICANT EVENTS DURING 2019

**During 2019, the work of the Executive Committee was characterized mainly by developing measures that aim to strengthen Scandic's profitability, cash flow and market position.**

1. Portfolio overview – reviewed hotel portfolio to manage hotels that are not contributing financially
2. Restaurant & conference – strengthened focus on improving profitability in restaurant and conference operations
3. Capital efficiency – implemented a more coordinated way of working to streamline investment activities
4. Distribution – strengthened investment in international sales and distribution
5. Digitalization – increased digitalization grade to drive cost efficiency and improve the customer experience

## SIGNIFICANT EVENTS HANDLED BY THE CEO AND EXECUTIVE COMMITTEE IN 2019

During the year, the Executive Committee worked to ensure the implementation of the company's strategic direction and to maintain a high business pace. Significant focus was placed on investment activities related to both new establishments and existing operations.

### Guidelines for remuneration for the CEO and senior executives

The Annual General Meeting held on May 7, 2019 adopted guidelines for remuneration and other terms of employment for senior executives, including the CEO. These guidelines are only applicable to new employment agreements entered into between the company and the respective senior executives, which is why there are employment agreements that were entered into before the guidelines were introduced that do not fully conform to the current guidelines. Scandic's senior executives are the members of the Executive Committee. Pursuant to a resolution passed at the Annual General Meeting held on May 7, 2019, the following guidelines apply:

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

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

The Board of Directors has the right to deviate from the above-mentioned guidelines in individual cases if it is of the opinion that there are special reasons to do so. For more information, see Note 6 on pages 114–116.

In April 2019, the Board resolved to approve one-off payments to three members of the Executive Committee, which means that thereafter the variable remuneration for these employees was 59 percent, 62 percent and 62 percent respectively of the fixed salary for 2019. According to the guidelines, variable salary can be a maximum of 60 percent of the fixed annual salary for the CEO and 35-50 percent of the fixed annual salary for other senior executives. According to the employment contracts, the variable salary for these employees amounts to a maximum of 50 percent of the fixed salary. The Board considered that such a deviation was justified since other variable remuneration for 2019 was determined in accordance with the delivery of predetermined requirements. Further information on Remuneration to senior executives can be found in Note 6 on pages 114–116.

### Remuneration

For information on remuneration for the CEO and senior executives, see Note 6 on pages 114–116.

### Long-Term Incentive Program

Scandic has an annual performance-based long-term incentive program. The most recent program, which was adopted at the Annual General Meeting held on May 7, 2019, is described in Note 6 on pages 114–116.

The LTIP program launched in December 2016 ended during the second quarter 2018. The goals and degree to which the conditions for performance shares were met can be found in Scandic's Interim Report for the second quarter 2019. Results and the allotment of shares are described in Note 6 on pages 114–116. Terms and conditions for the program are also outlined in Note 6 on pages 114–116.

### Guidelines for remuneration to senior executives before the Annual General Meeting 2020

The Board of Directors has proposed that the Annual General Meeting 2020 resolve on guidelines that are adapted to the EU's new rules and regulations on shareholder rights. For this reason, the Board intends to include a general cap on variable remuneration, a clawback clause, and demands regarding shareholding in Scandic in the guidelines for the Executive Committee.

## THE BOARD OF DIRECTORS' REPORT ON INTERNAL CONTROL

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

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

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

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

The procedures for internal control, risk assessment, control activities and monitoring of financial reporting have been devised to ensure reliable and relevant reporting and external financial reporting in accordance with the IFRS, applicable laws and regulations and other requirements of companies listed on Nasdaq Stockholm. This work involves the Board of Directors, the senior executives and other employees.

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

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

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

### Control environment

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

### Risk assessment

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

### Control activities

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

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

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

### Information and communication

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

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

### Monitoring

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

Internal control on the hotel and country levels is monitored through self-assessments and onsite audits as follows:

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

The results of the self-assessments and onsite audits are reported by the local heads of finance to the management team of each country. The results are reported by the Group's CFO to the Audit Committee together with a report of measures undertaken to improve internal control if the results indicate a need to do so either on the hotel level or in general.

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

### Internal audit

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

### Measures in 2019

Scandic works constantly to mitigate the risks that result from a changing market.

In 2019, in the work of the Board of Directors and its committees, great emphasis was placed on IT security issues as well as market analysis and business intelligence. The company continued to strengthen its risk analysis to gain a better understanding of financial reporting and analysis. During the year, the work of the Board of Directors and its committees focused mainly on market analysis and business intelligence. Self-assessment for internal control was also discussed regularly by the Audit Committee. The Board also addressed issues related to modernizing and harmonizing the Group's accounting system.

# BOARD OF DIRECTORS

**PER G. BRAATHEN**
**Chairman of the Board since 2018. Member of the Board since 2007. Member of Remuneration Committee and Investment Committee.**

Born: 1960.
Norwegian citizen.

**Education:**
MBA from Schiller University London, UK.

**Other current assignments:**
Chairman of the Board and CEO of Braganza AB. Member of the Board of Braathens Regional Airlines (BRA), Escape Travel AS, BRABank ASA, Wayday Travel AS and Parques Reunidos S.A. Chairman of the Board of Bramora Ltd. Industrial consultant at EQT.

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

**Shareholding:** 771,781 (through companies)

**Independent in relation to major shareholders:** Yes

**Independent in relation to the company and management:** Yes

**INGALILL BERGLUND**
**Member of the Board since 2016. Chairman of Audit Committee.**

Born: 1964.
Swedish citizen.

**Education:**
Special advanced course in economics, Frans Schartau Business Institute.

**Other current assignments:**
Board member of Veidekke ASA, AxFast AB, Kungsleden AB (publ), Bonnier Fastigheter AB samt Stiftelsen Danvikshem. Member of Balco Group AB, Juni Strategi and Analys AB, Fastighets AB Stenvalvet and Handelsbanken Regionbank Stockholm.

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

**Shareholding:** 5,000

**Independent in relation to major shareholders:** Yes

**Independent in relation to the company and management:** Yes

**GRANT HEARN**
**Member of the Board since 2014. Chairman of Remuneration Committee and Investment Committee.**

Born: 1958.
British citizen.

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

**Other current assignments:**
Chairman of the Board of UK Hospitality.

**Previous assignments:**
Chairman of the Board of The Hotel Collection; Board member of Amaris Hospitality and Shearings Holidays Ltd, London & Partners Ltd, Thame and London Ltd, TLLC Group Holdings Ltd and Travelodge Hotels Ltd.

**Shareholding:** 3,000

**Independent in relation to major shareholders:** Yes

**Independent in relation to the company and management:** Yes

**CHRISTOFFER LUNDSTRÖM**
**Member of the Board since 2016. Member of Audit Committee.**

Born: 1973.
Swedish citizen.

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

**Other current assignments:**
Owner, President and board member of the investment company RCL Holding AB. Board member of Collector AB, Feelgood Svenska AB and Netent AB. Also member of a number of other boards, mainly within the RCL Holding Group.

**Shareholding:** 230,000

**Independent in relation to major shareholders:** Yes

**Independent in relation to the company and management:** Yes

**SUSANNE MØRCH KOCH**
**Member of the Board since 2019. Member of Audit Committee.**

Born: 1973.
Danish citizen.

**Education:**
Master of Science in International Business Administration and Modern Languages from Copenhagen Business School.

**Other current assignments:** CEO, Danske Spil A/S since 2017, Board member, Coop Danmark A/S since 2016.

**Previous assignments:**
Number of management positions within the DSB Group 2002–2006 and 2008–2017, of which as Chief Commercial Officer 2013–2017 and as member of the Executive Team, Chief Commercial Officer at Arriva Scandinavia 2006–2007 and Head of Business Development, Marketing and Communication at KPMG Denmark 2007–2008.

**Shareholding:** –

**Independent in relation to major shareholders:** Yes

**Independent in relation to the company and management:** Yes

Number of shares as per December 31, 2019.

**RIITTA SAVONLAHTI**
**Member of the Board since 2019. Chairman of the Remuneration Committee.**

Born: 1964.
Finnish citizen.

**Education:** Master of Science in Economics, University of Vaasa, Finland.

**Other current assignments:** Executive Vice President, Human Resources, Member of the Group Executive Team at UPM-Kymmene Corporation, Supervisory Board member of Ilmarinen Mutual Pension Insurance Company, Member of Labor Markets Committee of the Finnish Forest Industries Federation (FFIF), Member of Work, Education and Skills Committee of the Finland Chamber of Commerce.

**Previous assignments:**
Member of the Board of Posti Group Oyj, member of the Board, Management Institute of Finland MIF 2012–2014, Senior Vice President, Human Resources at Elcoteq Network Corporation 2001–2004 and Raisio Group 2000–2001.

**Shareholding:** –

**Independent in relation to major shareholders:** Yes

**Independent in relation to the company and management:** Yes

**MARTIN SVALSTEDT**
**Member of the Board since 2017. Member of Audit Committee and Investment Committee.**

Born: 1963.
Swedish citizen.

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

**Other current assignments:**
CEO Stena Adactum AB, Chairman of the Board of Ballingslöv International, Gunnebo and Stena Renewable. Vice Chairman of the Board of Envac. Board member of Svedbergs and Stena Adactum. Member of the Stena Sphere Coordination Group.

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

**Shareholding:** 80,000

**Independency in relation to major shareholders:** No (Stena)

**Independency in relation to the company and management:** Yes

**FREDRIK WIRDENIUS**
**Member of the Board since 2015. Member of Audit Committee and Investment Committee.**

Born: 1961.
Swedish citizen.

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

**Other current assignments:**
Member of the Board of RICS Sweden.

**Previous assignments:**
Board member of Vasakronan AB.
CEO of Vasakronan AB.

**Shareholding:** 3,134

**Independent in relation to major shareholders:** Yes

**Independent in relation to the company and management:** Yes

**MARIANNE SUNDELIUS**
**Member of the Board since 2017. Employee representative.**

Born: 1967.
Swedish citizen.

**Education:**
Studies in economics at secondary school. University courses in leadership and psychology.

**Other current assignments:** –

**Previous assignments:**
Employee representative at Sara Hotels AB and Reso Hotels AB.

**Shareholding:** –

**Independent in relation to major shareholders:** Yes

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

Number of shares as per December 31, 2019.

# EXECUTIVE COMMITTEE

**JENS MATHIESEN**
**President & CEO**

Born: 1969. Employed since 2008. Member of Scandic's Executive Committee since 2016.

Danish citizen.

**Education:** Shipping Broker, Trans-ocean Shipping, Denmark.

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

**Other assignments:** Chairman of the Board of Dansk Erhverv (Danish Chamber of Commerce).

**Shareholding:** 80,070

**NIKLAS ANGERGÅRD**
**Chief Customer Officer**

Born: 1971. Employed since 2018. Member of Scandic's Executive Committee since 2018.

Swedish citizen.

**Education:** Master of Science in Business Administration from Stockholm School of Economics.

**Previous experience:** CMO at Tieto, VP Brand & Marketing at Klarna, Marketing Director at Telia, VP Brand & Global Marketing at SAS, founder of Storåkers McCann, management consultant at Arthur D. Little.

**Other assignments:** –

**Shareholding:** 2,700

**SØREN FAERBER**
**Head of Denmark**

Born: 1970. Employed since 2006. Member of Scandic's Executive Committee since 2019.

Danish citizen.

**Education:** Currently attending MBA at Edinburgh Business School. Higher Commercial Examination Accounting and Finance.

**Previous experience:** District director Copenhagen & Denmark East, Scandic. Director of Food & Beverage Denmark and Southern Europe, Scandic. Regional Director, Hard Rock International.

**Other assignments:** –

**Shareholding:** 8,331

**PETER JANGBRATT**
**Head of Sweden**

Born: 1967. Employed 1995–2008 and since 2015. Member of Scandic's Executive Committee since 2016 as well as 2003–2008.

Swedish citizen.

**Education:** Scandic Business School and Hilton.

**Previous experience:** VP Brand, Marketing & Communication Scandic Hotels, COO Scandic Sweden, CEO Rica Hotels Sweden.

**Other assignments:** Member of the Board of Visita; Member of the Board of Svenskt Näringsliv.

**Shareholding:** 19,072

**JAN JOHANSSON**
**Chief Financial Officer**

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

Swedish citizen.

**Education:** Bachelor of Science in Economics from Uppsala University, Sweden.

**Previous experience:** CFO Apoteket; CFO Nobia AB; CFO Eniro.

**Other assignments:** –

**Shareholding:** 13,872

During 2019, Ann Hellenius, Chief Information Officer and Bitte Ferngren, Senior Vice President Human Resources & Sustainability were members of the Executive Committee.

Number of shares as per December 31, 2019.

**AKI KÄYHKÖ**
**Head of Finland**

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

Finnish citizen.

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

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

**Other assignments:** Deputy Chairman of the Board of the Finnish Hospitality Industry Association. Chairman of the Board of Ski Sport Finland. Alternate member of the Board of Pension Insurance Company Elo.

**Shareholding:** 16,192

**JAN LUNDBORG**
**Chief Commercial Optimization Officer**

Born: 1962. Employed by the Group since 2009. Member of Scandic's Executive Committee since 2018.

Swedish citizen.

**Education:** Bachelor in Business Administration from Uppsala University, Sweden.

**Previous experience:** Several senior management positions at SAS, COO of AirBaltic & AMADEUS General Manager Southeast Asia & Pacific.

**Other assignments:** –

**Shareholding:** 9,577

**MICHEL SCHUTZBACH**
**Head of Europe**

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

German and Swiss citizen.

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

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

**Other assignments:** –

**Shareholding:** 20,993

**SVEIN ARILD STEEN-MEVOLD**
**Chief Portfolio Officer**

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

Norwegian citizen.

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

**Previous experience:** Several senior positions within Scandic, General Manager Radisson SAS and Senior Vice President Clarion Collection, Nordic Choice. Head of Scandic Norway 2010–2019.

**Other assignments:** Member of the Board of Scandic Hotels AS, Forum for Reiseliv, 3v3 Norge AS, NHO. Chairman of the Board of Scandic Gardermoen AS.

**Shareholding:** 12,540

**ASLE PRESTEGARD**
**Acting Head of Norway**

Born: 1968. Employed by the Group since 2001. Member of Scandic's Executive Committee since January 2020.

Norwegian citizen.

**Education:** Norwegian School of Hotel Management.

**Previous experience:** Member of the Board of Visit Bergen. General Manager Bergen Hotel Gruppen AS. General Manager Scandic Bergen City.

**Other assignments:** District Director West Norway, Scandic Hotels AS

**Shareholding:** 5,000

Number of shares as per December 31, 2019.

# CONSOLIDATED INCOME STATEMENT

## GROUP

| MSEK | Notes | 2019 | 2018 |
|---|---|---|---|
| **INCOME** | 2, 3 | | |
| Room revenue | | 12,416 | 11,721 |
| Restaurant and conference revenue | | 6,095 | 5,862 |
| Franchise and management fees | | 30 | 29 |
| Other hotel-related revenue | | 404 | 395 |
| ***Net sales*** | | ***18,945*** | ***18,007*** |
| Other income | | 0 | 0 |
| **TOTAL OPERATING INCOME** | | **18,945** | **18,007** |
| **OPERATING COSTS** | | | |
| Raw materials and consumables | | -1,634 | -1,605 |
| Other external costs | 4, 5 | -4,335 | -4,062 |
| Personnel costs | 6 | -5,869 | -5,620 |
| Fixed and guaranteed rental charges | 5 | -74 | -2,968 |
| Variable rental charges | 5 | -1,696 | -1,667 |
| Pre-opening costs | | -81 | -92 |
| Non-recurring items | 7 | 169 | -141 |
| **EBITDA** | | **5,425** | **1,853** |
| Amortization, depreciation and impairment losses | 12,13 | -3,281 | -870 |
| **TOTAL OPERATING COSTS** | | **-16,801** | **-17,025** |
| **EBIT (Operating profit/loss)** | | **2,144** | **983** |
| **Financial items** | | | |
| Financial income | 8 | 11 | 12 |
| Financial expenses | 9 | -1,253 | -185 |
| **Net financial items** | | **-1,242** | **-173** |
| **EBT (Profit/loss before tax)** | | **902** | **810** |
| Tax | 10 | -177 | -131 |
| **PROFIT/LOSS FOR THE YEAR** | | **725** | **678** |
| Attributable to: Parent Company shareholders | | 722 | 674 |
| Non-controlling interests | | 3 | 4 |
| Profit/loss per share before dilution, attributable to: Parent Company shareholders (SEK per share) | 11 | 7.01 | 6.54 |
| Profit/loss per share after dilution, attributable to: Parent Company shareholders (SEK per share) | 11 | 7.01 | 6.54 |

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

## GROUP

| MSEK | Notes | 2019 | 2018 |
|---|---|---|---|
| **Profit/loss for the year** | | **725** | **678** |
| **Other comprehensive income** | | | |
| *Items that may be reclassified to profit and loss:* | | | |
| Translation differences for the year | | 104 | 171 |
| Changes in the value of electricity hedges, net of tax | | -35 | 5 |
| *Items that will not be reclassified to profit and loss:* | | | |
| Actuarial gains/losses for the year | | -159 | -40 |
| **Total other comprehensive income, net of tax** | | **-90** | **136** |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | | **635** | **814** |



GRI: 102-7, 102-10

# CONSOLIDATED BALANCE SHEET

## GROUP

| | Notes | Dec 31, 2019 | Dec 31, 2018 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Goodwill | 12 | 6,641 | 6,560 |
| Trademarks | 12 | 3,147 | 3,156 |
| Other intangible assets | 12 | 153 | 184 |
| Land & buildings | 13 | 26,759 | 1,676 |
| Furniture, fittings and equipment | 13 | 4,865 | 4,359 |
| Shares in associated companies | 14 | 22 | 22 |
| Financial investments | 15 | 7 | 9 |
| Other long-term receivables | | 460 | 261 |
| Deferred tax assets | 25 | 127 | 41 |
| **Total non-current assets** | | **42,181** | **16,267** |
| **Current assets** | | | |
| Inventory | 16 | 133 | 133 |
| Accounts receivable – trade | 17 | 649 | 689 |
| Derivative instruments | | 8 | 46 |
| Other current receivables | | 84 | 76 |
| Assets held for sale | 18 | - | 2 |
| Prepaid expenses and accrued income | 19 | 429 | 422 |
| Cash and cash equivalents | 20 | 26 | 103 |
| **Total current assets** | | **1,328** | **1,470** |
| **TOTAL ASSETS** | | **43,509** | **17,737** |

| | Notes | Dec 31, 2019 | Dec 31, 2018 |
|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | | | |
| Share capital | 21 | 26 | 26 |
| Other contributions | | 7,865 | 7,865 |
| Translation reserve | | 148 | 85 |
| Retained earnings | | -1,481 | -208 |
| **Equity attributable to the Parent Company shareholders** | | **6,557** | **7,767** |
| Non-controlling interests | | 43 | 38 |
| **Total equity** | | **6,601** | **7,805** |
| **Non-current liabilities** | | | |
| Liabilities to credit institutions | 22 | 3,036 | 2,940 |
| Provisions for pensions and similar commitments | 23 | 872 | 627 |
| Other provisions | 24 | 149 | 138 |
| Other liabilities | | 49 | 58 |
| Lease liabilities | 22 | 26,661 | 1,543 |
| Deferred tax liabilities | 25 | 272 | 666 |
| **Total non-current liabilities** | | **31,039** | **5,972** |
| **Current liabilities** | | | |
| Advance payments from customers | | 226 | 206 |
| Accounts payable – trade | | 767 | 791 |
| Current liabilities, commercial papers | 22 | 487 | 1,000 |
| Current tax liabilities | | 174 | 30 |
| Current liabilities for leases | 22 | 2,116 | 63 |
| Liabilities held for sale | 18 | - | 1 |
| Other liabilities | | 365 | 330 |
| Accrued expenses and prepaid income | 26 | 1,735 | 1,538 |
| **Total current liabilities** | | **5,869** | **3,959** |
| **Total liabilities** | | **36,909** | **9,931** |
| **TOTAL EQUITY AND LIABILITIES** | | **43,509** | **17,737** |

# CONSOLIDATED CASH FLOW STATEMENT

## GROUP

| MSEK | Notes | 2019 | 2018 |
|---|---|---|---|
| **Operating activities** | | | |
| Operating profit/loss | | 2,144 | 983 |
| Adjustment for items not included in cash flow, etc. | 27 | 3,108 | 869 |
| Income tax paid | | -343 | -174 |
| **Cash flow before changes in working capital** | | **4,909** | **1,678** |
| | | | |
| **Changes in working capital** | | | |
| Inventory | | 3 | -2 |
| Accounts receivable – trade | | 51 | -50 |
| Other current receivables | | -120 | 39 |
| Accounts payable – trade | | -17 | 28 |
| Other current liabilities | | 241 | 30 |
| **Cash flow from operating activities** | | **5,067** | **1,723** |
| | | | |
| **Investing activities** | | | |
| Acquisition of fixed tangible assets | 13 | -1,155 | -1,216 |
| Sale of operations | | 232 | 16 |
| Acquisition of subsidiaries | | - | -54 |
| **Cash flow from investing activities** | | **-923** | **-1,254** |
| | | | |
| **Operating cash flow** | | **4,144** | **469** |
| | | | |
| **Financing activities** | | | |
| Dividend, share swap agreement | | -14 | -41 |
| Borrowings, credit institutions | 22 | 626 | 878 |
| Amortization, credit institutions | 22 | -574 | -1,755 |
| Amortization, leases | 22 | -2,147 | -61 |
| Issue of commercial papers | 22 | -513 | 1,000 |
| Refinancing costs | 22 | -6 | -6 |
| Paid interest, credit institutions | | -71 | -77 |
| Paid interest, leases | | -1,143 | -68 |
| Dividends | | -361 | -352 |
| **Cash flow from financing activities** | | **-4,203** | **-482** |
| | | | |
| **CASH FLOW FOR THE YEAR** | | **-59** | **-13** |
| | | | |
| Cash and cash equivalents at the beginning of the year | | 103 | 140 |
| Translation differences in cash and cash equivalents | | -18 | -24 |
| Cash flow for the year | | -59 | -13 |
| **Cash and cash equivalents at the end of the year** | | **26** | **103** |

# CHANGES IN EQUITY

## GROUP

| MSEK | Equity attributable to the Parent Company shareholders: Share capital | Other contributions | Translation reserves | Retained earnings | Total | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|
| **OPENING BALANCE Jan 1, 2018** | **26** | **7,865** | **-86** | **-482** | **7,323** | **33** | **7,356** |
| **Profit/loss for the year** | **-** | **-** | **-** | **674** | **674** | **4** | **678** |
| **Other comprehensive income:** | | | | | | | |
| *Items that may be reclassified to profit and loss:* | | | | | | | |
| Currency fluctuations from translation of foreign operations | - | - | 166 | - | 166 | 5 | 171 |
| Hedge of net investment in a foreign operation, net after tax | | | 5 | - | 5 | - | 5 |
| *Items that will not be reclassified to profit and loss:* | | | | | | | |
| Actuarial gains/losses for the year, net after tax | - | - | - | -40 | -40 | - | -40 |
| **Total other comprehensive income** | **0** | **0** | **171** | **-40** | **131** | **5** | **136** |
| **Total comprehensive income** | **0** | **0** | **171** | **634** | **805** | **9** | **814** |
| **Transactions with shareholders:** | | | | | | | |
| Dividend | - | - | - | -347 | -347 | -4 | -351 |
| Share-based payments | - | - | - | 7 | 7 | - | 7 |
| Share swap agreement to repurchase own shares | - | - | - | -20 | -20 | - | -20 |
| **Total transactions with shareholders** | **0** | **0** | **0** | **-360** | **-360** | **-4** | **-364** |
| **CLOSING BALANCE Dec 31, 2018** | **26** | **7,865** | **85** | **-208** | **7,768** | **38** | **7,805** |
| Change of accounting principles | - | - | - | -1,466 | -1,466 | - | 1,466 |
| **OPENING BALANCE Jan 1, 2019** | **26** | **7,865** | **85** | **-1,674** | **6,302** | **38** | **6,340** |
| **Profit/loss for the year** | **-** | **-** | **-** | **722** | **722** | **3** | **725** |
| **Other comprehensive income:** | | | | | | | |
| *Items that may be reclassified to profit and loss:* | | | | | | | |
| Currency fluctuations from translation of foreign operations | - | - | 98 | - | 98 | 6 | 104 |
| Changes in the value of electricity hedges, net of tax | - | - | -35 | - | -35 | - | -35 |
| *Items that will not be reclassified to profit and loss:* | | | | | | | |
| Actuarial gains/losses for the year, net after tax | - | - | - | -159 | -159 | - | -159 |
| **Total other comprehensive income** | **0** | **0** | **63** | **-159** | **-96** | **6** | **-90** |
| **Total comprehensive income** | **0** | **0** | **63** | **563** | **626** | **9** | **635** |
| **Transactions with shareholders:** | | | | | | | |
| Dividend | - | - | - | -357 | -357 | -4 | -361 |
| Share-based payments | - | - | - | 3 | 3 | - | 3 |
| Share swap agreement to repurchase own shares | - | - | - | -16 | -16 | - | -16 |
| **Total transactions with shareholders** | **0** | **0** | **0** | **-370** | **-370** | **-4** | **-374** |
| **CLOSING BALANCE Dec 31, 2019** | **26** | **7,865** | **148** | **-1,481** | **6,558** | **43** | **6,601** |

# INCOME STATEMENT

## PARENT COMPANY

| MSEK | Notes | 2019 | 2018 |
| --- | --- | --- | --- |
| **Net sales** | | **57** | **34** |
| **Operating expenses** | | | |
| Other external expenses | 4 | -16 | -2 |
| Personnel expenses | 6 | -41 | -31 |
| **Total operating expenses** | | **-57** | **-33** |
| **Operating profit/loss** | | **0** | **1** |
| **Financial items** | | | |
| Interest income and similar items | 8 | 155 | 247 |
| Interest expenses and similar items | 9 | -149 | -104 |
| **Net financial items** | | **6** | **142** |
| **Appropriations** | | **613** | **-144** |
| **Profit/loss before tax** | | **619** | **-1** |
| Income tax | 10 | -133 | 0 |
| **PROFIT/LOSS FOR THE YEAR** | | **486** | **-1** |

# STATEMENT OF COMPREHENSIVE INCOME

## PARENT COMPANY

| MSEK | Notes | 2019 | 2018 |
| --- | --- | --- | --- |
| **Profit/loss for the year** | | **486** | **-1** |
| **Other comprehensive income:** | | | |
| Other comprehensive income that may be reclassified to profit and loss | | - | - |
| Other comprehensive income that will not be reclassified to profit and loss | | - | - |
| **Total other comprehensive income, net of tax** | | **0** | **0** |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | | **486** | **-1** |

# BALANCE SHEET

## PARENT COMPANY

| MSEK | Notes | Dec 31, 2019 | Dec 31, 2018 |
|---|---|---|---|
| **ASSETS** | | | |
| **Financial assets** | | | |
| Participations in Group companies | 29 | 5,039 | 5,039 |
| Receivables from Group companies | 32 | 4,397 | 5,377 |
| Other receivables | | 23 | 27 |
| **Total non-current assets** | | **9,459** | **10,443** |
| | | | |
| **Current assets** | | | |
| Receivables from Group companies | 32 | 618 | 3 |
| Current receivables | | 0 | 0 |
| Prepaid expenses and accrued income | | 0 | 0 |
| Cash and cash equivalents | 20 | 0 | 1 |
| **Total current assets** | | **618** | **4** |
| | | | |
| **TOTAL ASSETS** | | **10,077** | **10,447** |

| MSEK | Notes | Dec 31, 2019 | Dec 31, 2018 |
|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | | | |
| Share capital | 21 | 26 | 26 |
| **Total restricted equity** | | **26** | **26** |
| | | | |
| Non-restricted reserves | | 5,849 | 6,220 |
| Net profit/loss for the year | | 486 | -1 |
| **Total non-restricted equity** | | **6,335** | **6,219** |
| **Total equity** | | **6,361** | **6,245** |
| | | | |
| **Liabilities** | | | |
| **Non-current liabilities** | | | |
| Liabilities to credit institutions | 22 | 3,036 | 2,940 |
| Other liabilities | | 23 | 27 |
| **Total non-current liabilities** | | **3,059** | **2,967** |
| | | | |
| **Current liabilities** | | | |
| Liabilities to credit institutions | 22 | 487 | 1,000 |
| Liabilities to Group companies | 32 | 0 | 144 |
| Other liabilities | | 143 | 73 |
| Accrued expenses and prepaid income | 26 | 28 | 18 |
| **Total current liabilities** | | **657** | **1,234** |
| | | | |
| **Total liabilities** | | **3,716** | **4,201** |
| | | | |
| **TOTAL EQUITY AND LIABILITIES** | | **10,077** | **10,447** |

# CASH FLOW STATEMENT

## PARENT COMPANY

| MSEK | Notes | 2019 | 2018 |
|---|---|---|---|
| **Operating activities** | | | |
| Operating profit/loss | | 0 | 1 |
| Adjustments for items not included in cash flow, etc. | 27 | - | - |
| Income tax paid | | -68 | - |
| **Cash flow before changes in working capital** | | **-68** | **1** |
| | | | |
| **Changes in working capital** | | | |
| Other current receivables | | 0 | 1 |
| Other current liabilities | | 11 | -29 |
| **Cash flow from operating activities** | | **-57** | **-27** |
| | | | |
| **Investing activities** | | | |
| Shareholders' contribution to subsidiaries | | - | - |
| **Cash flow from investing activities** | | **0** | **0** |
| | | | |
| **Operating cash flow** | | **-57** | **-27** |
| | | | |
| **Financing activities** | | | |
| Borrowings, credit institutions | 22 | 626 | 879 |
| Amortizations, credit institutions | 22 | -574 | -1,755 |
| Issue of commercial papers | 22 | -513 | 1,000 |
| Dividend | | -357 | -347 |
| Refinancing costs | 22 | -6 | -6 |
| Interest paid, credit institutions | | -72 | -77 |
| Loans to subsidiaries | | 970 | 359 |
| **Cash flow from financing activities** | | **74** | **52** |
| | | | |
| **CASH FLOW FOR THE YEAR** | | **17** | **25** |
| | | | |
| Cash and cash equivalents at the beginning of the year | | 1 | 0 |
| Translation differences in cash and cash equivalents | | -18 | -24 |
| Cash flow for the year | | 17 | 25 |
| **Cash and cash equivalents at the end of the year** | | **0** | **1** |

# CHANGES IN EQUITY

## PARENT COMPANY

| MSEK | Restricted equity<br>Share capital | Non-restricted equity<br>Share premium reserve | Retained earnings | Total equity |
|---|---|---|---|---|
| **OPENING BALANCE Jan 1, 2018** | **26** | **1,534** | **5,112** | **6,672** |
| **Net profit/loss for the year** | **-** | **-** | **-1** | **-1** |
| **Other comprehensive income** | **-** | **-** | **-** | **-** |
| **Total comprehensive income** | **0** | **0** | **-1** | **-1** |
| **Transactions with shareholders:** | | | | |
| Dividend | - | - | -347 | -347 |
| Share-based payments | - | - | 7 | 7 |
| Share swap agreement to repurchase own shares | - | - | -20 | -20 |
| **Total transactions with shareholders** | **0** | **0** | **-360** | **-360** |
| **CLOSING BALANCE Dec 31, 2018** | **26** | **1,534** | **4,685** | **6,245** |
| | | | | |
| **Net profit/loss for the year** | **-** | **-** | **486** | **486** |
| **Other comprehensive income** | **-** | **-** | **-** | **-** |
| **Total comprehensive income** | **0** | **0** | **486** | **486** |
| **Transactions with shareholders:** | | | | |
| Dividend | - | - | -357 | -357 |
| Share-based payments | - | - | 3 | 3 |
| Share swap agreement to repurchase own shares | - | - | -16 | -16 |
| **Total transactions with shareholders** | **0** | **0** | **-370** | **-370** |
| **CLOSING BALANCE Dec 31, 2019** | **26** | **1,534** | **4,801** | **6,361** |

# NOTES

Notes common to the Group and the Parent Company. Amounts in MSEK unless otherwise stated.

## NOTE 01 Accounting principles

### Basis for presentation

The consolidated accounts have been prepared in accordance with International Financial Reporting Standards (IFRS) adopted by the EU and in accordance with RFR 1 Supplementary accounting principles for groups of companies and the Swedish Annual Accounts Act. The annual accounts have been prepared in accordance with the Swedish Annual Accounts Act and RFR 2 Accounting for legal entities.

The consolidated accounts have been drawn up in accordance with the cost method except in respect to certain financial assets and liabilities that are valued at the fair value in the income statement.

Drawing up annual accounts in accordance with the IFRS requires certain important accounting estimations. The Board of Directors and Executive Committee are also required to make assessments when implementing the company's accounting principles. The areas that include a large degree of complex assessments, or areas where assumptions and estimations are of significant importance for the consolidated accounts, are detailed in each note.

### Consolidated accounts

The consolidated accounts cover the companies, including branches, in which the Group's ownership is equivalent to at least one half of the votes or where the Group in another way exercises a controlling influence over the business, these are fully consolidated into the Group. Subsidiaries are entities over which the Group has a controlling interest. The Group controls a company when it is exposed to or has the right to the variable returns from its stake in the company and has the opportunity to influence the return through its influence in the company. In subsidiaries that are not wholly owned, non-controlling interest is presented as a minority owner's portion of equity. This is included as part of the Group's equity. The income statement includes the portion attributable to the non-controlling interest and information is provided along with the income statement.

The acquisition of companies or businesses is recognized using the acquisition method. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition are recognized at the fair value on the acquisition date. Goodwill and other intangible assets arising from an acquisition are recognized as an asset that is the excess of the cost of the business combination over the fair value of the identifiable assets, liabilities and contingent liabilities recognized. If the acquisition value is less than the fair value of the purchased operation's assets, liabilities and contingent liabilities, the difference is reported directly in the income statement. Acquisition-related costs are expensed as incurred.

Associated companies are incorporated in the Group's financial statement using the equity method. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost, adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments.

Internal Group transactions, undertakings and unrealized earnings from transactions between Group companies are eliminated.

Sales between Group companies are priced according to market terms. Internal profits arising in conjunction with sales within the Group are eliminated in their entirety.

### Translation of foreign currency

The consolidated financial statements are presented in Swedish kronor (SEK), which is the functional and reporting currency of the Parent Company.

The results and financial position of all Group companies using a functional currency other than the reporting currency are translated into the Group's reporting currency as follows:

a) Assets and liabilities for each of the balance sheets are translated at the daily closing rate;
b) Income and expenditure for each of the income statements are translated at the average exchange rate;
c) All exchange rate differences that arise are reported in Other comprehensive income and accumulated in the translation reserve in equity.

Transactions in foreign currencies are translated into the functional currency according to the exchange rates that apply on the transaction date or the date on which the items were revaluated. Exchange rate gains and losses that arise when paying such transactions and in the translation of monetary assets and liabilities in foreign currency at the daily closing rate are reported in the income statement.

**The below exchange rates have been used in the consolidation**

| Exchange rates | Jan–Dec 2019 | Jan–Dec 2018 |
|---|---|---|
| **SEK = EUR** | | |
| Income statement (average) | 10.5892 | 10.2567 |
| Balance sheet (at end of period) | 10.4336 | 10.2753 |
| | | |
| **SEK = NOK** | | |
| Income statement (average) | 1.0747 | 1.0687 |
| Balance sheet (at end of period) | 1.0579 | 1.0245 |
| | | |
| **SEK = DKK** | | |
| Income statement (average) | 1.4183 | 1.3762 |
| Balance sheet (at end of period) | 1.3968 | 1.3760 |

## New and amended International Financial Reporting Standards (IFRS)

### New and amended standards adopted by the Group

#### IFRS 16 Leases

On January 1, 2019, IFRS 16 Leases replaced IAS 17 Leases, which means that nearly all of the Group's leases are recognized in the balance sheet as no distinction is made between operating and finance leases. According to the new standard, a right-of-use asset (the right to use the leased asset) and a financial obligation to pay leasing fees are recognized. Contracts of short duration, i.e. with a term of less than 12 months, and contracts of lesser value, i.e. below 50,000 SEK, are excluded.

Scandic applies the simplified approach using a retrospective calculation of right-of-use assets, which means that the part of the depreciation that is attributable to the time before the start date of the lease and the standard's entry into force will affect the accumulated profit or loss in the opening balance as at January 1, 2019 without restatement of comparative figures. This means that remaining lease payments as per January 1, 2019 are discounted at present value and reported as a lease liability. The effect of the introduction of IFRS 16 only affects Scandic on the Group level and not as a legal entity, which means that the introduction of IFRS 16 does not affect the Parent Company's ability to pay dividends.

As of January 1, 2019, right-of-use assets increased by 24.8 billion SEK in buildings and by 109 MSEK in furniture, fittings and equipment. In addition, lease liabilities grew by 26.6 billion SEK and equity fell by 1.4 billion SEK, including the effect of deferred taxes of 394 MSEK.

**Bridge between operating and finance leases according to IFRS 16, MSEK**

| | |
|---|---|
| **Operating lease commitments disclosed as at December 31, 2018** | **33,093** |
| Discounted using the Group's incremental borrowing rate | -16,090 |
| Added: finance lease liabilities recognized as at December 31, 2018 | 1,606 |
| Deducted: low-value assets recognized on a straight-line basis as an expense | -331 |
| Added: adjustments relating to changes in the indexes | 8,312 |
| **Lease liability recognized as at January 1, 2019** | **26,590** |

The weighted average marginal interest rate used for discounting was 4.0 percent as of January 1, 2019.

In 2019, Scandic used the term finance lease for all leasing according to IFRS 16. In the 2019 annual report, the term leasing is used instead, in accordance with IFRS 16.

For accounting principles, see also Note 5 Leasing, Note 13 Tangible fixed assets and Note 22B Management of financial risks.

## New standards and interpretations yet to be applied by the Group

No IFRS or IFRIC interpretations yet to be applied are expected to have a material impact on the Group's financial statements.

## The Parent Company's accounting principles

Unless otherwise stated, the Parent Company applies the same accounting principles as the Group.

The Parent Company has prepared its annual accounts in accordance with the Swedish Annual Accounts Act and RFR 2 Accounting for legal entities.

### Differences between the accounting principles of the Group and the Parent Company

The Parent Company applies the alternative rule for Group contributions and reports both received and paid Group contributions as appropriations. In this respect, the Parent Company does not comply with IAS 27.

Financial instruments in the Parent Company are not reported according to IFRS 9 in view of the connection between reporting and taxation. Instead, IFRS 7 is applied when applicable and disclosure requirements are applied according to Chapter 5 of the Annual Accounts Act.

Remuneration to employees in the Parent Company is not reported according to IAS 19 as the Parent Company, in accordance with RFR 2, applies reporting according to the Pension Obligations Vesting Act. The leasing commitments of the Parent Company are reported as operational or financial leasing agreements in accordance with BFNAR 2012:1, which means that the Parent Company does not apply IFRS 16.

## NOTE 02 Revenue by type of agreement

| 2019, MSEK | Sweden | Norway | Finland | Other Europe | Central functions | Group |
|---|---|---|---|---|---|---|
| Lease agreements | 6,280 | 5,294 | 4,546 | 2,757 | - | 18,877 |
| Management agreements | 5 | - | - | 7 | - | 12 |
| Franchise and partner agreements | 6 | 9 | 1 | - | - | 16 |
| Owned | - | 40 | - | - | - | 40 |
| **Total** | **6,291** | **5,343** | **4,547** | **2,764** | **0** | **18,945** |
| Other | - | - | - | - | 57 | 57 |
| Group eliminations | - | - | - | - | -57 | -57 |
| **Group** | **6,291** | **5,343** | **4,547** | **2,764** | **0** | **18,945** |

| 2018, MSEK | Sweden | Norway | Finland | Other Europe | Central functions | Group |
|---|---|---|---|---|---|---|
| Lease agreements | 6,264 | 5,060 | 4,168 | 2,441 | - | 17,933 |
| Management agreements | 5 | - | - | 7 | - | 12 |
| Franchise and partner agreements | 6 | 11 | 0 | - | - | 17 |
| Owned | - | 45 | - | - | - | 45 |
| **Total** | **6,275** | **5,116** | **4,168** | **2,448** | **0** | **18,007** |
| Other | - | - | - | - | 34 | 34 |
| Group eliminations | - | - | - | - | -34 | -34 |
| **Group** | **6,275** | **5,116** | **4,168** | **2,448** | **0** | **18,007** |

### § Accounting principles

**Revenue recognition**

The Group's revenue consists of the value of goods and services generated in hotels under lease agreements, management and franchise fees and other revenue generated in the Group's operations. All revenue is recognized in accordance with with IFRS 15. Revenue is reported at the fair value of what has been received or will be received and corresponds to the receivable for delivered goods and services, less any discounts given and sales-related taxes. Scandic has no performance comittment contracts exceeding 12 months. Below is a description of the composition of the Group's revenue:

**Lease agreements** – Revenues from hotel operations, including all income from sold rooms, conferences, food and beverage sales and other services. Revenue is reported when the goods or services have been consumed, i.e. during checkout or when the services are invoiced.

**Management fees** – Fees from hotels managed by the Group through long-term agreements with hotel owners. Management fees usually consist of a proportion of the revenue and/or profits from the hotel, are and are recognized in the income statement at the end of the month in question and are realizable according to the terms and conditions of the agreement. Invoicing occurs monthly in arrears.

**Franchise fees** – Fees that are received in conjunction with licence fees for the Group's trademarks through long-term agreements with hotel owners. Franchise fees consist of a proportion of the revenue from the hotel and are reported in the income statement based on the underlying terms and conditions of the agreement. The fee is recognized in the income statement at the end of the month and is invoiced monthly in arrears.

**Customer loyalty program** – The Group has a customer loyalty program where customers are rewarded points for nights spent. These points give the customer future discounts. Revenue from bonus points is reported when the points are redeemed or when they expire, which is 36 months after the points are rewarded. A liability is reported until the points are used or expire. See also Note 24.

In accordance with IFRS 15, the total remuneration has been allocated to the bonus points based on relative stand-alone sales prices. The method means that the amount that is allocated to the bonus points is higher than the amounts allocated based on the residual value method.

# NOTE 03 Segment reporting

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

**Sweden –** Swedish hotels that are operated under the Scandic brand.

**Norway –** Norwegian hotels that are operated under the Scandic brand.

**Finland –** Finnish hotels that are operated under the Scandic brand as well as under the Hilton, Crowne Plaza and Holiday Inn brands.

**Other Europe –** Hotel operations under the Scandic brand in Denmark, Poland and Germany. The different countries have been aggregated into one segment based on the fact that they have similar economic situations, they operate their business in similar ways and they have similar types of customers. They also have the same currency, EUR, or a currency pegged to EUR.

**Central functions –** Costs for financial control, business development, investor relations, communication, technical development, human resources, branding, marketing, sales, IT and purchasing. These central functions support all of the hotels in the Group including those under lease agreements as well as management and franchise agreements.

The distribution of net sales between segments is based on the location of the business activities and segment reporting is carried out after the elimination of intra-Group transactions. Net sales are derived from a large number of customers in all segments.

The segments are reviewed and analyzed based on adjusted EBITDA. Adjusted EBITDA is earnings before interest, taxes, depreciation and amortization and excludes the effect of leasing as well as items affecting comparability that are not directly related to the normal operations of the company, for example, costs for transactions and restructuring. Adjusted EBITDA also excludes pre-opening costs that refer to expenses for contracted and new hotels before opening day.

| 2019 MSEK | Sweden | Norway | Finland | Other Europe | Central functions | Group |
|---|---|---|---|---|---|---|
| Room revenue | 4,309 | 3,231 | 2,998 | 1,878 | - | 12,416 |
| Restaurant and conference revenue | 1,897 | 1,947 | 1,398 | 853 | - | 6,095 |
| Franchise and management fees | 11 | 11 | 1 | 7 | - | 30 |
| Other hotel-related revenue | 74 | 154 | 150 | 26 | - | 404 |
| **Net sales** | **6,291** | **5,343** | **4,547** | **2,764** | **0** | **18,945** |
| Other income | - | - | - | - | - | 0 |
| Internal transactions | - | - | - | - | 57 | 57 |
| Group eliminations | - | - | - | - | -57 | -57 |
| **Total operating income** | **6,291** | **5,343** | **4,547** | **2,764** | **0** | **18,945** |
| Expenses | -5,381 | -4,804 | -3,840 | -2,466 | -408 | -16,899 |
| **Adjusted EBITDA** | **910** | **539** | **707** | **298** | **-408** | **2,046** |
| Adjusted EBITDA margin, % | 14.5 | 10.1 | 15.5 | 10.8 | - | 10.8 |
| **EBITDA** | **-** | **-** | **-** | **-** | **-** | **5,425** |
| EBITDA margin, % | - | - | - | - | - | 28.6 |
| Amortization and depreciation | - | - | - | - | - | -3,281 |
| **EBIT (Operating profit/loss)** | **-** | **-** | **-** | **-** | **-** | **2,144** |
| Net financial income/expense | - | - | - | - | - | -1,242 |
| **EBT (Profit/loss before tax)** | **-** | **-** | **-** | **-** | - | **902** |

| 2018 MSEK | Sweden | Norway | Finland | Other Europe | Central functions | Group |
|---|---|---|---|---|---|---|
| Room revenue | 4,253 | 3,071 | 2,695 | 1,702 | - | 11,721 |
| Restaurant and conference revenue | 1,941 | 1,892 | 1,310 | 719 | - | 5,862 |
| Franchise and management fees | 11 | 11 | 0 | 7 | - | 29 |
| Other hotel-related revenue | 70 | 142 | 163 | 20 | - | 395 |
| **Net sales** | **6,275** | **5,116** | **4,168** | **2,448** | **0** | **18,007** |
| Other income | - | - | - | - | - | 0 |
| Internal transactions | - | - | - | - | 34 | 34 |
| Group eliminations | - | - | - | - | -34 | -34 |
| **Total operating income** | **6,275** | **5,116** | **4,168** | **2,448** | **0** | **18,007** |
| Expenses | -5,365 | -4,614 | -3,578 | -2,144 | -349 | -16,050 |
| **Adjusted EBITDA** | **910** | **502** | **590** | **304** | **-349** | **1,957** |
| Adjusted EBITDA margin, % | 14.5 | 9.8 | 14.2 | 12.4 | - | 10.9 |
| **EBITDA** | **-** | **-** | **-** | **-** | **-** | **1,853** |
| EBITDA margin, % | - | - | - | - | - | 10.3 |
| Amortization and depreciation | - | - | - | - | - | -870 |
| **EBIT (Operating profit/loss)** | **-** | **-** | **-** | **-** | **-** | **983** |
| Net financial income/expense | - | - | - | - | - | -173 |
| **EBT (Profit/loss before tax)** | **-** | **-** | **-** | **-** | - | **810** |

| Assets and investments by segment | Sweden | | Norway | | Finland | | Other Europe | | Central functions | | Group | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| MSEK | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| Fixed assets | 10,862 | 5,761 | 11,913 | 3,766 | 13,923 | 5,584 | 5,394 | 982 | 89 | 174 | 42,181 | 16,267 |
| Investments in fixed assets | 303 | 341 | 291 | 317 | 244 | 255 | 242 | 226 | 75 | 92 | 1,155 | 1,216 |

For definitions of key ratios, see page 142.

## § Accounting principles

### Segment disclosures

Segments are reported in accordance with IFRS 8 Operating segments. Scandic operates similar businesses with the same type of customers in a number of countries in Europe. After acquiring Restel, Finland became a new segment from January 1, 2018 compared with 2017 when it was included in the segment Other Nordic countries & Europe. The remaining part of this former segment has been renamed Other Europe. The largest markets for Scandic after the acquistion are Sweden, Norway and Finland. The segments were therefore identified on a geographic basis and based on the economic importance of each segment.

Management follows up on the segments Sweden, Norway, Finland, Other Europe and Central functions. Segment information is reported according to the same model and is followed up by the executive decision-makers: the CEO, the Executive Committee and the Board of Directors.

| Revenue and fixed assets by geographic market | Revenue from external customers | | Fixed assets | |
|---|---|---|---|---|
| MSEK | 2019 | 2018 | Dec 31, 2019 | Dec 31, 2018 |
| Sweden | 6,291 | 6,275 | 10,862 | 5,761 |
| Denmark | 1,979 | 1,736 | 3,883 | 873 |
| Finland | 4,547 | 4,168 | 13,923 | 5,584 |
| Norway | 5,343 | 5,116 | 11,913 | 3,766 |
| Poland | 89 | 79 | 17 | 17 |
| Germany | 696 | 633 | 1,494 | 92 |
| Group assets | - | - | 89 | 174 |
| **Total for the Group** | **18,945** | **18,007** | **42,181** | **16,267** |

The allocation of revenue and assets is based on where the Group is domiciled, i.e. where the individual hotels are located. Scandic does not have any large customers from which the revenue exceeds 10 percent of the total revenue of the Group.

# NOTE 04 Audit fees

| | Group | | Parent Company | |
|---|---|---|---|---|
| MSEK | 2019 | 2018 | 2019 | 2018 |
| **Audit assignments** | | | | |
| PwC | 5 | 5 | - | - |
| Others | 0 | 0 | - | - |
| **Other statutory assignments** | | | | |
| PwC | 0 | 0 | - | - |
| Others | - | - | - | - |
| **Tax consultancy services** | | | | |
| PwC | 1 | 1 | - | - |
| Others | - | 1 | - | - |
| **Other** | | | | |
| PwC | 1 | 3 | - | - |
| Others | - | - | - | - |
| **Total fees** | **7** | **10** | **0** | **0** |

The auditing assignment includes auditing the Annual Report and accounts as well as the administration of the company by the Board of Directors and CEO, other duties the company auditor must perform as well as advice and other assistance arising from the audit or in carrying out these duties.

The Parent Company's audit fee has been charged to the subsidiary Scandic Hotels AB. 2 MSEK of the fees for audit assignments relates to PwC Sweden, 0 MSEK of the fees for other statutory assignments refers to PwC Sweden, 1 MSEK of the fees for tax consultancy services refers to PwC Sweden and 0 MSEK of the fees for other services refers to PwC Sweden.

Other services mainly refer to services related to certificates for variable rent. Tax consultancy services mainly refer to services related to compliance.

# NOTE 05 Leasing

**Leasing according to IAS 17 regarding 2018**

| Leasing fees according to operating lease agreements, MSEK | 2018 Lease of premises | Other leasing agreements | Total |
|---|---|---|---|
| Leasing fees paid during the year | 4,764 | 427 | 5,191 |
| – of which minimum fees | 3,097 | 66 | 3,163 |
| – of which contingent rents | 1,667 | 361 | 2,028 |
| **Future lease commitments due** | | | |
| – within 1 year | 2,974 | 71 | 3,045 |
| – in 1 to 5 years | 11,584 | 150 | 11,734 |
| – in more than 5 years | 18,311 | 3 | 18,314 |
| **Total future lease commitments** | **32,870** | **223** | **33,093** |

**Leasing according to IFRS 16 from January, 1 2019**

**Amounts for leasing included in income statement**

| MSEK | 2019 |
|---|---|
| Depreciation of right-of-use assets | -2,422 |
| Interest expense, lease liabilities | -1,144 |
| Expenses related to short-term leases | -7 |
| Expenses related to leases of low value | -34 |
| Variable lease expenses not included in the lease liability | -1,696 |
| Total cash outflow for lease agreements amounted to 3,291 MSEK in 2019 | |

## § Accounting principles

### Leases in 2018 according to IAS 17

As of December 31, 2018, most of the Group's leases were classified as operating leases. In these hotel leases, Scandic was only responsible for the risks associated with the operation of the hotel. The cost of operating leases was reported on a straight-line basis unless another systematic method better reflected how the financial resources of the leased assets were recognized.

At the acquisition of Restel Hotellit Oy, 10 of the lease agreements were identified as finance leases. As of December 31, 2018, there were nine agreements left. The leasing fees consisted of minimum lease payments as well as contingent rents. At the time of the acquisition, the lease agreements had a remaining lease period of up to thirty years and the depreciation that was carried out in 2018 was calculated over the same number of years. These were recognized in accordance with IAS 17 in 2018.

### Leases according to IFRS 16 from January 1, 2019

In all material respects, lease commitments refer to the premises at which Scandic's hotel operations are carried out. In addition, Scandic leases vehicles, machines and other equipment. In most lease agreements for premises, the majority of the rental cost is dependent on the revenue from the leased premises. Scandic has three different types of rental agreements: those that only have fixed rental fees, those that have a combination of fixed fees and revenue-based fees and finally, those where the rent is fully revenue-based. As of January 1, 2019, the Group applies IFRS 16 to lease agreements. This means that all lease agreements that include a fixed or minimum rent agreement are reported as a right-of-use asset and a corresponding lease liability, the date when the leased asset is available to the Group. Assets and liabilities arising out of lease agreements are initially recognized at present value. The lease liability includes the present value of future lease payments in the form of fixed fees as well as index. Lease payments that are expected to be made for reasonably certain options to extend are also included in the lease liability. The Group also has commitments for rental agreements that have been signed but where the lease period has not yet started. These contracts are not included in the lease liability, as the right-of-use asset is not yet available to Scandic. By the end of 2019, these obligations amounted to approximately 13 billion SEK in future undiscounted lease payments.

The right-of-use assets are recognized at the acquisition value and include the amount at which the lease liability was initially recognized as well as lease fees paid on or before the starting date. Lease payments are divided into depreciation and interest on the liability. Interest is recognized in the income statement over the lease period. The right-of-use asset is normally depreciated on a straight-line basis over the shortest of the useful life and the lease period. Revenue-based rents are expensed as variable rental charges in profit and loss in the period when the term or condition that gives rise to the fee originates.

The Group is exposed to potential future increases in variable lease payments based on an index or an interest rate, which are not included in the lease liability until they enter into force. When adjustments are made to lease payments based on an index or an interest rate, the lease liability is revalued and the right-of-use asset is also adjusted accordingly.

The lease payments are discounted with the implicit interest rate of the rental agreement. If this interest rate cannot easily be determined, which is normally the case for the Group's lease agreements, the lessee's marginal interest rate should be used. The marginal interest is calculated based on how the underlying asset, a building, should have been financed in a corresponding term period as the rental agreements, via an evaluated marketable split between senior and junior loans. Scandic has lease agreements in all countries where the Group operates and the same discount rate has been used for portfolios of contracts that are in the same country. Lease contracts of lower value, less than 50,000 SEK, and lease contracts with a lease period of less than 12 months are not included in the lease liability, but are expensed on a straight-line basis over the leasing period. Direct acquisition expenses in the valuation of right-of-use assets have also been excluded. See also Note 13 for information on depreciation and reported amounts for right-of-use assets and Note 22b for maturity analysis for leasing.

## ! Important estimations and assumptions

As described above, Scandic's lease commitments mainly consist of the premises on which the hotel operations take place. The lease agreements have a duration of between 15 and 35 years and are generally not cancellable during the lease period. The average remaining lease period at the end of 2019 was approximately 13 years. The terms and conditions, index clauses and presence of options to extend agreements vary. Options to extend the agreements on market terms are often already regulated in the terms and conditions. Most agreements are extended when the leasing period is about to expire, after renegotiation with the lessors.

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

| Personnel expenses MSEK | Group 2019 | Group 2018 | Parent Company 2019 | Parent Company 2018 |
|---|---|---|---|---|
| Salaries and other remuneration | 4,713 | 4,468 | 24 | 21 |
| Payroll overhead excluding pension expenses | 780 | 675 | 8 | 3 |
| Pension costs | 376 | 476 | 9 | 7 |
| **Total personnel expenses** | **5,869** | **5,620** | **41** | **31** |

The Executive Committee of the Group is employed by the Parent Company and the subsidiaries Scandic Hotels Holding AB, Scandic Hotels AB, Scandic Hotel A/S, Scandic Hotels AS and Scandic Hotels Deutschland GmbH.

A 12-month notice period applies if the CEO is terminated by the Company and a 9-month notice period applies if the CEO resigns. In addition, the CEO is entitled to severance pay corresponding to 6 months' salary at the end of the employment if the company gives notice of termination or the duties are substantially changed after a change of control in the company, resulting in the CEO's resignation within one year after the change of control.

If other senior executives are terminated by the company, they are entitled to 6 to 12 months of severance pay, and if they resign at their own request, a notice period of 6 months applies.

### Remuneration and other benefits

| Remuneration to the Board of Directors, SEK | 2019 Board fees | Fees for committee work | Other remuneration | Total |
|---|---|---|---|---|
| Per G. Braathen, Chairman of the Board | 766,667 | 83,333 | - | 850,000 |
| Ingalill Berglund | 346,667 | 150,000 | - | 496,667 |
| Grant Hearn | 346,667 | 116,667 | - | 463,334 |
| Lottie Knutson[1)] | 113,333 | - | - | 113,333 |
| Christoffer Lundström | 346,667 | 56,667 | - | 403,334 |
| Eva Moen Adolfsson[2)] | 113,333 | 33,333 | - | 146,666 |
| Martin Svalstedt | 346,667 | 90,000 | - | 436,667 |
| Fredrik Wirdenius | 346,667 | 50,000 | - | 396,667 |
| Susanne Mørch Koch[3)] | 233,333 | 40,000 | - | 273,333 |
| Riitta Savonlahti[4)] | 233,333 | 66,667 | - | 300,000 |
| Marianne Sundelius, employee representative | 40,000 | - | - | 40,000 |
| **Total remuneration** | **3,233,333** | **686,667** | **0** | **3,920,000** |

1) Lottie Knutson resigned from the Board at the AGM on May 7, 2019.
2) Eva Moen Adolfsson resigned from the Board at the AGM on May 7, 2019.
3) Susanne Mørch Koch was elected to the Board at the AGM on May 7, 2019.
4) Riitta Savonlahti was elected to the Board at the AGM on May 7, 2019.

| Remuneration to the Board of Directors, SEK | 2018 Board fees | Fees for committee work | Other benefits | Total |
|---|---|---|---|---|
| Per G. Braathen, Chairman of the Board | 708,333 | 54,167 | - | 762,500 |
| Ingalill Berglund | 364,167 | 162,500 | - | 526,667 |
| Frank Fiskers[2)] | - | - | - | 0 |
| Grant Hearn | 364,167 | 87,500 | - | 451,667 |
| Lottie Knutson | 364,167 | - | - | 364,167 |
| Christoffer Lundström | 364,167 | 54,167 | - | 418,334 |
| Eva Moen Adolfsson | 364,167 | 75,000 | - | 439,167 |
| Martin Svalstedt | 364,167 | 54,167 | - | 418,334 |
| Fredrik Wirdenius | 364,167 | 54,167 | - | 418,334 |
| Vagn Sörensen[1)] | 300,000 | 20,833 | - | 320,833 |
| Marianne Sundelius, employee representative | 40,000 | - | - | 40,000 |
| **Total remuneration and other compensation** | **3,597,502** | **562,501** | **0** | **4,160,003** |

1) Vagn Sörensen resigned from the Board at the AGM on April 26, 2018.
2) Frank Fiskers was elected to the Board at the AGM on April 26, 2018. He resigned from the Board at the end of November 2018.

| Remuneration to senior executives, SEK | 2019 Base remuneration | Variable remuneration[2)] | Other benefits[3)] | Pension costs | Total |
|---|---|---|---|---|---|
| Jens Mathiesen, President & CEO[1)] | 5,328,750 | 3,776,139 | 286,981 | 1,554,212 | 10,946,082 |
| Even Frydenberg, President & CEO | 241,667 | 28,836 | 13,857,214 | 159,828 | 14,287,544 |
| Other senior executives (13 people) | 23,402,748 | 14,279,466 | 4,832,250 | 4,998,212 | 47,512,676 |
| **Total remuneration and other benefits** | **28,973,165** | **18,084,441** | **18,976,445** | **6,712,252** | **72,746,302** |

1) Jens Mathiesen took over as President and CEO on January 17, 2019 at the same time as Even Frydenberg resigned.
2) Variable renumeration includes share-based payments of 742,725 SEK for the CEO and 2,982,175 SEK for other members of the Executive Committee.
3) Other benefits to the former CEO and other members of the Executive Committee, 1 person, includes severence pay of 4,350,000 SEK and as well as salaries and remuneration of 920,861 SEK during the notice period.

The number of other senior executives above is the total over the year. At year-end, other senior executives included 11 people.

| Remuneration to senior executives, SEK | 2018 Base remuneration | Variable remuneration[1)] | Other benefits | Pension costs | Total |
|---|---|---|---|---|---|
| Even Frydenberg, President & CEO | 5,800,000 | 866,340 | 374,381 | 1,917,930 | 8,958,651 |
| Other senior executives (11 people) | 19,034,015 | 9,620,665 | 3,177,715 | 4,044,443 | 35,876,838 |
| **Total remuneration and other benefits** | **24,834,015** | **10,487,005** | **3,552,096** | **5,962,373** | **44,835,489** |

1) Variable renumeration includes share-based payments of 866,340 SEK for the CEO and 3,215,555 SEK for other senior executives.

The number of other senior executives above is the total over the year. At year-end, other senior executives included 11 people.

Remuneration to the CEO and other senior executives may include fixed salary, variable salary, pension and other benefits. Terms and conditions for remuneration to senior executives are described in the Corporate Governance Report on page 88.

### Pensions

The CEO is covered by a defined contribution pension plan until he reaches the age of 65. The pension premium for the Group's current CEO amounts to 30 percent of the fixed salary. The CEO has no part in the pension liability.

Other senior executives are covered by defined contribution pension plans, and to a lesser extent defined benefit pension plans. The retirement age is in accordance with applicable local laws and collective agreements. Other senior executives' part of the pension liability was 1 (1) MSEK.

## Long-Term Incentive Program

In December 2015, at the IPO, Scandic implemented a share-based Long-Term Incentive Program (LTIP). The share-based Long-Term Incentive Program that was implemented in 2016 (LTIP 2016) expired on the same day that Scandic published its quarterly report for the first quarter 2019. The allotment according to the program was 120,132 shares and the total cost was 9 MSEK.

The LTIP enables participants to receive matching shares and performance shares, provided they make their own investments in shares or allocate shares already held to the program. For each such savings share, the participants in LTIP 2017, LTIP 2018 and LTIP 2019 may, free of charge, be assigned matching shares, where 50 percent are subject to the meeting of a requirement related to the total return on the shares (TSR) and 50 percent are free of charge. In addition, the participants may receive a number of performance shares, free of consideration, depending on the extent to which certain performance criteria adopted by the Board of Directors are met for which criteria are related to EBITDA, cash flow and RGI (Revenue Generation Index = RevPAR in relation to the RevPAR of the competition group) for the financial years 2017–2019 (LTIP 2017). For LTIP 2018 and LTIP 2019 the performance conditions are connected to EBITDA and cash flow.

Matching shares and performance shares will be allotted after the end of a vesting period, which runs until the date of publication of Scandic's interim report for the first quarter of 2020, the first quarter of 2021 and the first quarter of 2022 respectively, subject to the participant remaining a permanent employee within the Group and retaining the savings shares.

The expected financial exposure to shares that may be allotted under LTIP 2017, LTIP 2018 and LTIP 2019 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.

**Summary of granted rights in LTIP:**

| | 2019 | 2018 | 2017 | 2016 |
|---|---|---|---|---|
| As of January 1 | 579,546 | 615,602 | 516,610 | 286,945 |
| Granted during the year | 252,214 | 236,626 | 188,510 | 295,047 |
| Allotted during the year | -120,132 | -246,820 | - | - |
| Forfeited during the year | -96,761 | -25,862 | -89,518 | -65,382 |
| Total as at December 31 | 614,867 | 579,546 | 615,602 | 516,610 |
| – of which currently exercisable | - | - | - | - |

The rights have no exercise price.

| | | Number of rights | | | |
|---|---|---|---|---|---|
| **Grant date** | **Due date** | **Dec 31, 2019** | **Dec 31, 2018** | **Dec 31, 2017** | **Dec 31, 2016** |
| December 2, 2015 | May 8, 2018 | - | - | 251,952 | 251,952 |
| June 10, 2016 | May 14, 2019 | - | 170,162 | 183,890 | 264,658 |
| September 25, 2017 | May 5, 2020 | 162,689 | 176,685 | 179,760 | - |
| May 31, 2018 | April/May 2021[1)] | 203,443 | 232,699 | - | - |
| June 14, 2019 | April/May 2022[1)] | 248,735 | - | - | |
| **Total** | | **614,867** | **579,546** | **615,602** | **516,610** |

1) The due date is after the publishing of Scandic's interim report for the first quarter, which is still to be determined.

### Fair value calculations

The fair value is measured through the use of a combination of the Black-Scholes model and Monte Carlo simulation. The following input factors have been used:

| | LTIP 2019 | LTIP 2018 | LTIP 2017 | LTIP 2016 |
|---|---|---|---|---|
| Share price on the grant date, SEK | 80.55 | 85.95 | 109.75 | 62 |
| Duration | 2.90 years | 2.91 years | 2.62 years | 2.92 years |
| Deduction of expected dividends | 4% | 4% | 3% | 4% |
| Risk-free interest | not applicable | not applicable | not applicable | not applicable |
| Expected volatility | not applicable | not applicable | not applicable | not applicable |
| Fair value, SEK, Dec 31, 2019 | 197 | 151 | 93 | not applicable |
| Fair value, SEK, Dec 31, 2018 | not applicable | 102 | 190 | 121 |

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

### Cost of share-based payments that are regulated by equity instruments

| | LTIP 2019 | | LTIP 2018 | | LTIP 2017 | | LTIP 2016 [1)] | |
|---|---|---|---|---|---|---|---|---|
| MSEK | Group | Parent Company | Group | Parent Company | Group | Parent Company | Group | Parent Company |
| Expected cost of the entire program | 15 | 3 | 8 | 2 | 6 | 2 | 7 | 0 |
| Maximum cost of the entire program | 35 | 7 | 31 | 8 | 30 | 10 | 18 | 0 |
| Cost in 2019 | 3 | 1 | 3 | 1 | 2 | 1 | 1 | 0 |
| Cost in 2018 | - | - | 2 | 0 | 4 | 1 | 2 | 0 |
| Cost in 2017 | - | - | – | – | 1 | 0 | 2 | 0 |
| Cost in 2016 | - | - | – | – | – | – | 2 | 1 |

1) Expected cost for LTIP 2016 corresponds to the actual cost for the entire program.

The cost of the programs, which is included in the income statement for the Group, is calculated in accordance with IFRS 2 and distributed over the vesting period. The calculation is based on the following assumptions: (i) an annual dividend yield of 3 percent for LTIP 2017 and 4 percent for LTIP 2018 and for LTIP 2019; (ii) an estimated annual turnover of personnel of 10 percent; (iii) an average fulfillment of each performance condition of 50 to 100 percent; and (iv) a maximum of 614,867 matching shares and performance shares that may be awarded. In total, the costs of the programs are estimated to total 29 MSEK including social security fees. The estimate is also based on the assumption of an annual share price increase of 10 percent during the program.

Assuming that the cap is reached and that participants are entitled to the allotment of the maximum number of matching and performance shares and remain in the program until the end of the vesting period, the maximum cost of the programs will amount to 96 MSEK, including social security fees.

The expected financial exposure to shares that may be allotted under LTIP and the delivery of shares to the participants of the LTIP has been hedged through Scandic's entering into a swap agreement with a third party on market terms, whereby the third party undertakes to, in its own name, acquire and transfer shares to the participants.

| Average number of employees per country | 2019 Average number of employees | 2019 of which men | 2018 Average number of employees | 2018 of which men |
|---|---|---|---|---|
| **Parent Company** | | | | |
| Sweden | 11 | 4 | 10 | 4 |
| **Subsidiaries** | | | | |
| Sweden | 4,951 | 1,750 | 5,027 | 1,809 |
| Denmark | 1,312 | 538 | 1,180 | 484 |
| Finland | 1,671 | 501 | 1,722 | 483 |
| Norway | 3,281 | 1,348 | 3,158 | 1,292 |
| Poland | 96 | 27 | 105 | 36 |
| Germany | 344 | 193 | 358 | 169 |
| **Total for the Group** | **11,666** | **4,361** | **11,560** | **4,277** |

| Gender division of the Board and Executive Committee on the balance sheet date | 2019 Total | 2019 of which men | 2018 Total | 2018 of which men |
|---|---|---|---|---|
| Board of Directors | 9 | 5 | 8 | 5 |
| Executive Committee | 11 | 9 | 11 | 9 |
| **Total for the Group** | **20** | **14** | **19** | **14** |

## § Accounting principles

### Severance payments

Employees receive severance payments on termination before the normal retirement age or when they voluntarily accept termination in exchange for such compensation. The Group recognizes severance payments where it is under a manifest obligation either to give notice to employees following a detailed formal plan without the right to rescission or as compensation in the event of termination due to an offer made as an incentive for voluntary resignation. Benefits that fall due more than 12 months after the balance sheet date are discounted to the present value.

### Share-based payments

The Group has a share-based incentive plan where the settlement is carried out in shares and the Group is provided with services from the employees as payment for the shares. The cost of the program amounts to the fair value of the share on the grant date multiplied by the number of vested shares and the cost is distributed over the vesting period.

At the end of each reporting period, the Group reviews its assessment of the number of shares that are expected to be earned based on the non-market vesting conditions and terms of employment.

Any deviations from the original assessment that the review raises are recognized in the income statement and the corresponding adjustments are made in equity.

It can sometimes happen that employees render services before the grant date, in which case an estimate of the fair value is made in order to recognize a cost to be distributed for a fee reported to be spread over the period between the time the employee begins performing services and the grant date.

The social security costs that arise with the granting of equity rights are seen as an integrated part of the allotment and are treated as cash-settled share-based remuneration.

### Pensions

The Group has defined contribution pension plans as well as defined benefit pension plans. For the defined contribution plans, the Group makes payments to public or privately administered pension insurance plans. These payments can either be mandatory, according to an agreement or voluntary. The Group has no further obligations after these payments are made. The fees are recognized as personnel costs in the period they refer to. See Note 23 for further information regarding pension plans for the Group.

### Swap agreement for repurchase of own shares

Scandic has a swap agreement with Nordea for repurchasing its own shares. This swap agreement is reported as a financial liability for the agreed amount payable on the maturity date and as a deduction from equity. Interest expenses related to the swap agreement are recognized in the income statement in the period they occur. When the agreement has reached the maturity date and the obligation and agreed amounts have been paid, the liability will be derecognized from the balance sheet.

# NOTE 07 Items affecting comparability

| Items affecting comparability MSEK | Group Dec 31, 2019 | Group Dec 31, 2018 |
|---|---|---|
| Transaction costs | - | -2 |
| Integration costs | - | -133 |
| Restructuring costs | -11 | -6 |
| Sales of operations | 180 | - |
| **Total** | **169** | **-141** |

Items affecting comparability refer to items that are not directly related to the Group's normal activities, such as transaction costs when buying or selling a business, integration costs, restructuring costs as well as capital gains/losses from the sale of operations.

# NOTE 08 Financial income

| Division by income type MSEK | Group 2019 | Group 2018 | Parent Company 2019 | Parent Company 2018 |
|---|---|---|---|---|
| Interest income | 2 | 3 | - | 2 |
| Interest income from Group companies | - | - | 155 | 152 |
| Revaluation of derivative instruments | 7 | 5 | - | - |
| Profit/loss from associated companies | 2 | 1 | - | - |
| Exchange rate gains, net | - | 3 | - | 93 |
| **Total** | **11** | **12** | **155** | **247** |

## NOTE 09 Financial expenses

| Division by type of expense MSEK | Group 2019 | Group 2018 | Parent Company 2019 | Parent Company 2018 |
|---|---|---|---|---|
| Interest expenses, bank | -74 | -86 | -74 | -84 |
| Interest expenses, pension plan | -15 | -14 | - | - |
| Interest expenses to Group companies | - | - | -13 | -3 |
| Interest expenses, leasing | -1,144 | -68 | - | - |
| Revaluation of financial investments | -2 | - | - | - |
| Exchange rate losses, net | -4 | 0 | -48 | - |
| Share of transaction costs expensed during the year[1)] | -14 | -17 | -14 | -17 |
| **Total** | **-1,253** | **-185** | **-149** | **-104** |

1) Part of interest expenses was expensed over the duration of the borrowings, see Note 22.

### § Accounting principles

**Financial income and expenses**

All interest income and interest expenses are recognized at the amortized cost. Interest derivatives are recognized at the fair value through profit or loss. Revaluation of electricity derivatives is recognized as other external costs. Associated companies are recognized using the equity method.

## NOTE 10 Income tax

| MSEK | Group 2019 | Group 2018 | Parent Company 2019 | Parent Company 2018 |
|---|---|---|---|---|
| **Tax expenses** | | | | |
| Current tax expenses | -159 | -78 | -133 | 0 |
| Adjustment of tax for previous year | -51 | -29 | - | - |
| Deferred tax relating to temporary differences | -31 | -34 | - | - |
| Deferred tax relating to untaxed reserves | 7 | -7 | - | - |
| Deferred tax relating to loss carried forward | -1 | -23 | - | - |
| Deferred tax relating to IFRS 16 | 57 | - | - | - |
| Income due to change in tax rate | 1 | 40 | - | 0 |
| **Total tax income/expenses** | **-177** | **-131** | **-133** | **0** |
| **Connection between tax expenses for the year and reported profit before tax, MSEK** | | | | |
| Tax in accordance with current rate, 21.4% (22.0%) | -193 | -178 | -133 | 0 |
| Adjustment of tax expense from previous year | -50 | -29 | - | - |
| Tax effect of non-deductible expenses | -41 | -47 | -1 | 0 |
| Tax effect of non-taxable income | 75 | 43 | - | - |
| Adjustment for differing tax rates | -1 | -1 | - | - |
| Tax effect of non-offsettable losses | - | 0 | - | - |
| Loss carried forward from previous year for which deferred tax asset has not been reported | 31 | 41 | 1 | - |
| Loss carried forward from previous year for which deferred tax asset has been reported | - | 0 | - | - |
| Tax effect of changed tax rate on deferred taxes | 1 | 40 | - | - |
| **Total tax income/expenses** | **-177** | **-131** | **-133** | **0** |

The current tax rate, 21.4 percent (22 percent), was calculated on the basis of the tax rate applicable to the Parent Company.

The tax rate in Sweden was changed from 22 percent in 2018 to 21.4 percent from 2019 and will be changed further to 20.6 percent on January 1, 2021. All deferred tax relating to Sweden has subsequently been restated depending on when temporary differences will be reversed and/or when loss carryforwards will be utilized.

Deferred tax has been reported in Other comprehensive income relating to actuarial gains of -33 MSEK (9) and deferred tax on hedging of net investments of foreign operations which amounts to 10 MSEK (-1).

## NOTE 11 Earnings per share

| Before dilution Group | 2019 | 2018 |
|---|---|---|
| Profit/loss for the year attributable to shareholders of the Parent Company, MSEK | 722 | 674 |
| Average number of shares outstanding, before dilution | 103,006,267 | 102,990,062 |
| Earnings per share, SEK | 7.01 | 6.54 |

| After dilution Group | 2019 | 2018 |
|---|---|---|
| Profit/loss for the year attributable to shareholders of the Parent Company, MSEK | 722 | 674 |
| Average number of shares outstanding, before dilution | 103,006,267 | 102,990,062 |
| Dilutive effect of stock purchase plans | 30,217 | 85,914 |
| Average number of shares outstanding, after dilution | 103,036,484 | 103,075,976 |
| Earnings per share, diluted, SEK | 7.01 | 6.54 |

The calculation of earnings per share before dilution is based on the profit/loss for the year attributable to shareholders of the Parent Company divided by the weighted average number of shares outstanding during the year. When calculating earnings per share after dilution, the average number of shares is adjusted to take into account the effects of the dilutive potential of ordinary shares originating during the reported periods from share-based payment programs that have been offered to employees. Dilutions from share-based payment programs affect the number of shares and only occur when the strike price is less than the share price. Potential ordinary shares are not viewed as dilutive if they result in better earnings per share after dilution, which occurs when the net income is negative.

# NOTE 12 Intangible fixed assets

| Group, MSEK | 2019 Acquisition value | 2019 Accumulated amortization | 2019 Reported residual value | 2018 Acquisition value | 2018 Accumulated amortization | 2018 Reported residual value |
|---|---|---|---|---|---|---|
| **Goodwill** | | | | | | |
| Opening balance | 6,571 | -11 | 6,560 | 6,303 | - | 6,303 |
| Acquisition of businesses | - | - | 0 | 17 | - | 17 |
| Sale of businesses | -30 | - | -30 | - | - | 0 |
| Reclassification | 38 | - | 38 | 69 | - | 69 |
| Exchange rate differences | 101 | -28 | 73 | 182 | -11 | 171 |
| **Closing balance** | **6,680** | **-39** | **6,641** | **6,571** | **-11** | **6,560** |
| **Trademarks** | | | | | | |
| Opening balance | 3,236 | -80 | 3,156 | 3,210 | -57 | 3,153 |
| Amortization for the year | - | -32 | -32 | - | -22 | -22 |
| Exchange rate differences | 24 | -1 | 23 | 26 | -1 | 25 |
| **Closing balance** | **3,260** | **-113** | **3,147** | **3,236** | **-80** | **3,156** |
| **Other intangible assets** | | | | | | |
| Opening balance | 423 | -240 | 183 | 422 | -209 | 213 |
| Reclassifications | - | - | 0 | -9 | 9 | 0 |
| Purchases | 1 | - | 1 | 3 | - | 3 |
| Amortization for the year | - | -36 | -36 | - | -38 | -38 |
| Exchange rate differences | 8 | -3 | 5 | 7 | -2 | 5 |
| **Closing balance** | **432** | **-279** | **153** | **423** | **-240** | **184** |
| **Total intangible fixed assets** | | | | | | |
| Opening balance | 10,230 | -331 | 9,899 | 9,935 | -266 | 9,669 |
| Acquisition of businesses | - | - | 0 | 17 | - | 17 |
| Sale of Group companies | -30 | - | -30 | - | - | 0 |
| Reclassifications | 38 | - | 38 | 60 | 9 | 69 |
| Purchases | 1 | - | 1 | 3 | - | 3 |
| Amortization for the year | - | -68 | -68 | - | -60 | -60 |
| Exchange rate differences | 133 | -32 | 101 | 215 | -14 | 201 |
| **Closing balance** | **10,372** | **-431** | **9,941** | **10,230** | **-331** | **9,899** |

### Impairment testing

Impairment testing of goodwill and all brands occurs annually and at any given time when indications of impairment are identified. Today, the Group has four cash-generating units: Sweden, Norway, Finland and Other Europe, see also Note 3.

The recoverable amount for cash-generating units is determined based on calculations of value in use. These estimates are based on estimated future cash flows before tax based on a five-year period. Cash flow for 2020 is based on a budget established by the Board and for 2021 to 2022, based on the company's long-term forecast. For the subsequent two years, cash flow is based on assessed market growth and estimated cost increases. For the years 2020 to 2022 the revenue growth is estimated at 3 to 15 percent, including the opening of new hotels. Revenue forecasts are based on industry data relating to market development and historical experience regarding the development of new and newly renovated hotels. Cost forecasts are based on industry data regarding inflation and wage development and historical experience.

After 2022, market growth has been estimated to be 2 (2) percent per year from 2023 to 2024. When calculating value in use, a discount rate before tax and a sustained growth rate have been used in accordance with the following table. Cash flow after the five-year period is extrapolated with a growth rate of 2 percent per year.

The impairment test for the year showed that there were no impairment losses for any of the segments, even with reasonable changes in the parameters, such as an individual change +/-1.0 percent on the discount rate before tax and on the EBITDA margin.

At a discount rate before tax of 12.3 percent for Sweden, 11.2 percent for Norway, 12.7 percent for Finland and 13.5 percent for Other Europe, there is a need for impairment at the retained EBITDA margin.

| | Sweden | Norway | Finland | Other Europe |
|---|---|---|---|---|
| Forecast period, years | 5 (5) | 5 (5) | 5 (5) | 5 (5) |
| WACC rate, before tax % | 10.0 (9.7) | 10.0 (10.5) | 9.8 (9.7) | 10.0 (9.3) |
| Terminal growth rate, % | 2 (2) | 2 (2) | 2 (2) | 2 (2) |

| Goodwill and trademark, MSEK | Goodwill Dec 31, 2019 | Goodwill Dec 31, 2018 | Trademark Dec 31, 2019 [1)] | Trademark Dec 31, 2018 | Total Dec 31, 2019 | Total Dec 31, 2018 |
|---|---|---|---|---|---|---|
| Sweden | 1,836 | 1,866 | 2,312 | 2,312 | 4,148 | 4,178 |
| Norway | 1,756 | 1,692 | 579 | 576 | 2,335 | 2,268 |
| Finland | 2,881 | 2,837 | 30 | 45 | 2,911 | 2,882 |
| Other Europe | 168 | 165 | 226 | 223 | 394 | 388 |
| **Total goodwill and trademark** | **6,641** | **6,560** | **3,147** | **3,156** | **9,788** | **9,716** |

1) The Scandic Hotels trademark, which has an indefinite useful life, has a book value as per December 31, 2019 of 2,029 (3,061) MSEK. The full amount is recognized in Sweden.

## Accounting principles

### Intangible fixed assets

**Goodwill**

Goodwill represents the excess of the value of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired operation on the date of acquisition. Goodwill on acquisitions of operations is reported as an intangible asset. Goodwill recognized is tested annually for impairment and is reported at the acquisition value less the accumulated impairment.

Goodwill is allocated across cash-generating units when tested for impairment. The allocation is made to the cash-generating units or groups of cash-generating units that are expected to benefit from the acquisition of the operation that gives rise to the goodwill item.

A contingent consideration of 17 MSEK was paid during the first quarter 2018 for the acquisition of Restel Hotellit Oy and is fully recognized as an increase in goodwill.

**Trademarks**

Trademarks acquired are reported at the acquisition value less amortization and any impairment. The Scandic Hotels trademark has an indefinite useful life and is not amortized, but instead tested annually for impairment. In the acquired companies in the Scandic Group, the Scandic Hotels trademark has existed in the market since 1984 and currently forms the basis of the Group's operations. The trademark is used in all markets where the companies are established.

The Rica Hotel brand, which was acquired in April 2014, and the Cumulus brand, which was acquired in December 2017, have a fixed useful life of eight years. In 2018, the amortization period of the Cumulus brand was reassessed and changed to 4 years. The remaining amortization period as at December 31, 2019, is therefore two years. Amortization is carried out on a straight-line basis over the estimated useful life.

**Other intangible assets**

Other intangible assets include customer relationships identified in connection with the acquisition of Rica Hotels and the acquisition of Restel Hotellit Oy. Customer relationships have a defined useful life of 10 years and are amortized on a straight-line basis over the estimated useful life.

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

- It is technically possible to complete the software so that it can be used;
- It is the company's intention to complete the software and to use it;
- There are prerequisites for using the software;
- It can be shown how the software will generate probable future financial benefits;
- Adequate technical, financial and other resources for completing the development and using the software are available; and
- The expenses attributable to the software during its development can be calculated in a reliable way. Amortization is carried out on a straight-line basis over the estimated useful life.

## Important estimates and assumptions

The estimates that may have the greatest effect on the future performance and position of the Group are the assumptions made when considering the impairment of intangible assets. Every year, the Group tests goodwill and trademarks for impairment in accordance with the accounting principle described above. Recoverable amounts for cash-generating units have been determined through calculation of the value in use. Assumptions made in this calculation are described in the table in the section Impairment testing from which it emerges that revenue was expected to rise in coming years. Should growth be considerably weaker, an impairment loss that significantly affects the Group's performance and position may arise.

# NOTE 13 Tangible fixed assets

| Group, MSEK | 2019 Acquisition value | 2019 Accumulated depreciation and impairment | 2019 Reported residual value | 2018 Acquisition value | 2018 Accumulated depreciation and impairment | 2018 Reported residual value |
|---|---|---|---|---|---|---|
| **Land and buildings[1)]** | | | | | | |
| Opening balance | 1,788 | -112 | 1,676 | 1,785 | -22 | 1,764 |
| Reversed finance lease according to IAS 17 as of January 1, 2019 [2)] | -1,677 | 89 | -1,588 | - | - | 0 |
| Sales/disposals | - | - | 0 | -70 | - | -70 |
| Depreciation for the year | - | -2 | -2 | - | -91 | -91 |
| Exchange rate differences | 4 | 1 | 5 | 73 | 1 | 74 |
| **Closing balance** | **114** | **-25** | **89** | **1,788** | **-112** | **1,676** |
| **Furniture, fittings and equipment** | | | | | | |
| Opening balance | 10,054 | -5,695 | 4,359 | 9,371 | -5,536 | 3,835 |
| Purchases | 1,155 | - | 1,155 | 1,216 | - | 1,216 |
| Sales/disposals | -342 | 309 | -34 | -729 | 720 | -9 |
| Depreciation for the year | - | -774 | -774 | - | -709 | -709 |
| Impairment loss during the year | - | -14 | -14 | - | -10 | -10 |
| Reclassification | - | - | 0 | - | -69 | -69 |
| Exchange rate differences | 135 | -73 | 62 | 196 | -90 | 105 |
| **Closing balance** | **11,001** | **-6,247** | **4,754** | **10,054** | **-5,695** | **4,359** |
| **Total tangible fixed assets** | | | | | | |
| Opening balance | 11,842 | -5,806 | 6,035 | 11,156 | -5,557 | 5,599 |
| Reversed finance lease according to IAS 17 as of January 1, 2019 [2)] | -1,677 | 89 | -1,588 | - | - | 0 |
| Purchases | 1,155 | - | 1,155 | 1,216 | - | 1,216 |
| Sales/disposals | -342 | 309 | -34 | -799 | 720 | -79 |
| Depreciation for the year | - | -776 | -776 | - | -800 | -800 |
| Impairment loss during the year | - | -14 | -14 | - | -10 | -10 |
| Reclassification | - | - | 0 | - | -69 | -69 |
| Exchange rate differences | 138 | -72 | 66 | 269 | -89 | 179 |
| **Closing balance** | **11,115** | **-6,271** | **4,844** | **11,842** | **-5,806** | **6,035** |

1) Of buildings and land, 89 (87) MSEK of the reported residual values relate to the property in Gardermoen in Oslo, Norway.
2) Reversed value refers to finance leases according to IAS 17 from 2018. From January 1, 2019, these are included in the table for right-of-use assets below.

Inventories, installations and equipment include ongoing new establishments of 375 (275) MSEK.

In connection with the acquisition of Restel Hotellit Oy, 10 of the acquired lease contracts were identified as finance leases. The lease payments consisted of both minimum lease and variable fee payments. The lease contracts had a remaining lease period of up to 30 years and depreciation is calculated over the same term. These contracts were recognized in accordance with IAS 17 for 2018 and IFRS 16 for 2019. The item land and buildings above includes assets lease by the Group in 2018 under finance lease agreements, with the following amounts: acquisition value of 1,677 MSEK, accumulated depreciation of -89 MSEK and reported residual value of 1,588 MSEK. For 2019, the remaining contracts are included in the table below, in accordance with IFRS 16.

## Right-of-use assets

| Group, MSEK | Acquisition value | Accumulated depreciation | Reported value |
|---|---|---|---|
| **Buildings** | | | |
| January 1, 2019 | 36,473 | -11,673 | 24,800 |
| Adjustment of right-of-use assets | 3,921 | - | 3,921 |
| Depreciation for the year | - | -2,393 | -2,393 |
| Exchange rate differences | 426 | -85 | 341 |
| **Closing balance** | **40,820** | **-14,150** | **26,670** |
| **Furniture, fittings and equipment** | | | |
| January 1, 2019 | 193 | -84 | 109 |
| Adjustment of right-of-use assets | 27 | - | 27 |
| Depreciation for the year | - | -29 | -29 |
| Exchange rate differences | 6 | -2 | 4 |
| **Closing balance** | **226** | **-115** | **111** |

## § Accounting principles

### Tangible fixed assets

Land and buildings comprise mainly hotel buildings. Land and buildings are reported at the Group's acquisition value based on an external valuation made in conjunction with the acquisition of the operations less subsequent depreciation of buildings.

Buildings are the subject of component depreciation, where different parts of the building are depreciated based on differing useful lives. The depreciation period for buildings is between 25 and 50 years. Land is not subject to depreciation.

Furniture, fittings and equipment are reported at the acquisition value less depreciation and impairment. The acquisition value includes expenditure that is directly attributable to the acquisition of the asset. Assets are depreciated on a straight-line basis over the calculated useful life, which varies depending on the character of the assets. Assets consist of different types of furniture, fittings and equipment such as furniture, fixtures and fittings in hotel rooms and public areas, kitchen equipment and IT equipment, with varying useful lives. For this reason, a number of depreciation periods are used. In general, IT equipment is depreciated over 3 years, while other fixtures and fittings, installations and equipment are depreciated over 3 to 20 years.

Furniture, fittings and equipment with a useful life of less than 3 years are reported as expenses in the income statement.

For accounting principles for right-of-use assets, see Note 5.

## ! Important estimates and assumptions

Additional expenditure is added to the reported value of the asset only when it is probable that the future financial benefits associated with the asset will benefit the Group and that the acquisition value of the asset can be measured in a reliable way.

All other forms of maintenance of a tangible fixed asset are reported as expenses in the income statement.

If there is an impairment loss, tangible fixed assets are written down to the lowest of the recoverable amount and the reported value.

## NOTE 14 Participations in associated companies

| Group, MSEK | Share Dec 31, 2019 | Share Dec 31, 2018 | Reported value Dec 31, 2019 | Reported value Dec 31, 2018 |
|---|---|---|---|---|
| Gress-Gruppen AS | 33% | 33% | 11 | 11 |
| Aulangon Kylpä Oy | 25% | 25% | 9 | 9 |
| Rukan Kokouskeskus Oy | 33% | 33% | 2 | 2 |
| **Total** | | | **22** | **22** |

| Changes during the year, MSEK | 2019 | 2018 |
|---|---|---|
| Accumulated acquisition values, opening balance | 22 | 21 |
| Acquisitions | - | - |
| Profit participations/dividends during year | - | - |
| Sales | - | - |
| Exchange rate differences | - | 1 |
| **Accumulated acquisition values, closing balance** | **22** | **22** |

Gress-Gruppen is one of Norway's largest purchasing companies in which Scandic and the other owners and paying members combine their purchasing volumes. The purpose of the ownership is to ensure efficient purchasing and achieve the best possible terms and conditions from suppliers.

Aulangon Kylpylä Oy and Rukan Kokouskeskus Oy were included in the Restel acquisition made by the Group at the end of 2017. Both companies are involved in cooperation with the Group related to spa and conference facilities at two hotels in Finland.

### § Accounting principles

**Investments in associated companies**

An associated company is an entity over which the Group has control that is neither a subsidiary nor an interest in a joint venture. Control is the power to participate in the financial and operating policy decisions of the investee but does not entail control or joint control of such policies. A company normally has control if it holds shares or participations conferring between 20 and 50 percent of the voting rights.

The profit participation represents the company's share in the net income (after tax) from these associated companies and is recognized directly in the income statement. Transactions with associated companies were immaterial in 2019 and 2018.

## NOTE 15 Financial investments

| Changes during the year, MSEK | 2019 | 2018 |
|---|---|---|
| Accumulated acquisition values, opening balance | 9 | 9 |
| Acquisitions | 0 | 0 |
| Disposals | 0 | - |
| Impairment losses | -2 | - |
| Exchange rate differences | 0 | 0 |
| **Accumulated acquisition values, closing balance** | **7** | **9** |

Financial investments on the balance sheet date consisted of approximately 70 (70) minor investments.

## NOTE 16 Inventories

The Group's inventories consist entirely of raw materials, mainly for restaurant operations.

### § Accounting principles

**Inventories**

Inventories are reported at the lower of the acquisition value or net realizable value. The acquisition value is determined using the first in, first out (FIFO) principle.

## NOTE 17 Accounts receivable

| Accounts receivable, gross values, MSEK | Dec 31, 2019 | Dec 31, 2018 |
|---|---|---|
| Total accounts receivable | 656 | 700 |
| Deducted provision for doubtful accounts receivable | -7 | -11 |
| **Accounts receivable, book value** | **649** | **689** |

| Change in provision for doubtful accounts receivable | Dec 31, 2019 | Dec 31, 2018 |
|---|---|---|
| January 1 | -11 | -12 |
| Provision for doubtful accounts receivable | -2 | -5 |
| Receivables written off during the year as uncollectable | 3 | 5 |
| Reversed unutilized amount | 3 | 1 |
| Exchange rate differences | 0 | 0 |
| **December 31** | **-7** | **-11** |

| Age analysis, MSEK | Dec 31, 2019 | Dec 31, 2018 |
|---|---|---|
| Current receivables | 425 | 419 |
| Receivables, 1–30 days past due | 193 | 205 |
| Receivables, 31 –60 days past due | 25 | 32 |
| Receivables, 61–90 days past due | 5 | 13 |
| Receivables, 91–120 days past due | 6 | 20 |
| Receivables, more than 120 days past due | 3 | 11 |
| **Accounts receivable, reported value** | **656** | **700** |

### § Accounting principles

**Loans receivable and accounts receivable**

Loans receivable and accounts receivable are recognized in accordance with IFRS 9 within the category financial assets valued at the amortized cost. According to IFRS 9, loans receivable and accounts receivable shall be valued at the amortized cost using the effective interest method, but as accounts receivable have very short durations and the interest effects are very small, the reported value of the Group is not deemed to diverge materially from the book value. Loans receivable and accounts receivable are therefore recognized at the acquisition value, less any potential credit loss provisions.

### ! Important estimates and assumptions

According to IFRS 9, the provision for depreciation of accounts receivable should be calculated based on an impairment model for expected future credit losses. According to this model, expected changes in the customers' markets should also be considered. Since the majority of Scandic's sales are paid at booking or when staying at the hotel, the part that is invoiced is very small.

The Group applies the simplified method for provision of accounts receivable. This means that a provision is made in the amount of the expected losses for the remaining term. The provision amount is reported in the income statement. A write-off for accounts receivable is made when there is objective proof that the Group will not be able to recover all of the amounts due in accordance with the original terms and conditions of the accounts receivable.

cont. Note 17

## NOTE 18 Assets classified as held for sale

| MSEK | Dec 31, 2019 | Dec 31, 2018 |
|---|---|---|
| **Assets classified as held for sale** | | |
| Goodwill | - | 0 |
| Furniture, fittings and equipment | - | 1 |
| Accounts receivable and prepaid expenses | - | 1 |
| **Total assets of disposal group held for sale** | **0** | **2** |
| **Liabilities directly associated with assets classified as held for sale** | | |
| Accounts payable | - | 1 |
| Accrued expenses | - | 0 |
| **Total liabilities of disposal group held for sale** | **0** | **1** |

### § Accounting principles

#### Assets classified as held for sale

Assets classified as held for sale are valued at the lower of the book value and fair value after deducting the cost of sales. Non-current assets are classified as assets held for sale if their carrying amount will be recovered at a potential sale rather than through continued use. This is considered fulfilled when the Executive Committee and the Board have resolved to exit the business, an active sales process has been initiated, the assets are available for an immediate sale in their present condition and it is likely that the exit will be carried out within one year.

The approval of the acquisition of Restel Hotellit Oy at the end of 2017 was subject to the exit of three hotels, of which one existing hotel and two acquired hotels, in accordance with the decision by the Finnish Competition and Consumer Authority. At year-end 2018, one hotel remained to be sold, Scandic Lahti, and the balances above for 2018 refer to identifiable assets and liabilities for this hotel. Scandic Lahti was exited in 2019.

## NOTE 19 Prepaid expenses

| Distribution by type of expense | Group | | Parent Company | |
|---|---|---|---|---|
| MSEK | Dec 31, 2019 | Dec 31, 2018 | Dec 31, 2019 | Dec 31, 2018 |
| Prepaid rent | 199 | 253 | - | - |
| Other prepaid expenses | 170 | 144 | - | - |
| Accrued income | 60 | 25 | - | - |
| **Total** | **429** | **422** | **0** | **0** |

## NOTE 20 Cash and cash equivalents

| | Group | | Parent Company | |
|---|---|---|---|---|
| MSEK | Dec 31, 2019 | Dec 31, 2018 | Dec 31, 2019 | Dec 31, 2018 |
| Cash and bank balances | 26 | 103 | 0 | 1 |
| **Total cash and cash equivalents** | **26** | **103** | **0** | **1** |

The Parent Company does not have any bank balances as all excess liquidity is used to amortize long-term loans. This also explains the decrease in cash and cash equivalents for the Group compared with the previous year.

### § Accounting principles

#### Cash and cash equivalents

Cash and cash equivalents include cash, bank balances and other current investments with a due date within 3 months of the time of acquisition.

## NOTE 21 Share capital

| | Ordinary shares | Total number of outstanding shares | Change in share capital, SEK | Share capital, SEK | Quota value, SEK |
|---|---|---|---|---|---|
| Number of shares on December 31, 2018 | 102,985,075 | 102,985,075 | - | 25,746,269 | 0.25 |
| Number of shares on December 31, 2019 | 102,985,075 | 102,985,075 | - | 25,746,269 | 0.25 |

## NOTE 22A Borrowings

| Changes during the year, MSEK | Liabilities to credit institutions | Commercial papers | Leasing | Total borrowings |
|---|---|---|---|---|
| **Opening balance Jan 1, 2018** | **3,769** | **0** | **1,665** | **5,434** |
| Borrowings | 843 | 999 | - | 1,842 |
| Capitalization of interest | - | 1 | - | 1 |
| Capitalization of transaction costs[1)] | -6 | - | - | -6 |
| Transaction costs expensed during the year[1)] | 17 | - | - | 17 |
| Amortization | -1,755 | - | -62 | -1,817 |
| Sale | - | - | -71 | -71 |
| Changes in overdraft facilities | 36 | - | - | 36 |
| Exchange rate differences | 36 | - | 74 | 110 |
| **Opening balance Jan 1, 2019** | **2,940** | **1,000** | **1,606** | **5,546** |
| Effect IFRS 16, Jan 1, 2019 | - | - | 24,984 | 24,984 |
| Borrowings | 372 | - | - | 372 |
| Capitalization of transaction costs[1)] | -6 | - | - | -6 |
| Transaction costs expensed during the year[1)] | 14 | - | - | 14 |
| Amortization | -574 | -513 | -2,147 | -3,234 |
| Sale | - | - | - | 0 |
| Changes in overdraft facilities | 254 | - | - | 254 |
| Added financial liabilities under IFRS 16 | - | - | 3,906 | 3,906 |
| Exchange rate differences | 36 | - | 428 | 464 |
| **Closing balance Dec 31, 2019** | **3,036** | **487** | **28,777** | **32,300** |

1) Existing loans were renegotiated in June 2018 and prolonged in June 2019, which resulted in transaction costs of 6 (6) MSEK. These costs have been capitalized and are distributed on a straight-line basis over the borrowing period.

In June 2019, company's external loans were extended until June 2022. The loan relates to a fixed loan of 1,500 MSEK, with an interest rate of Stibor +1.00 to 2.00 percentage points, and a revolving lending facility in several currencies of 4,000 MSEK with an interest rate corresponding to the base rate +1.00 to 2.00 percentage points.

With the unused part of the revolving credit facility as a backup, a 2,000 MSEK commercial paper program was established. As at December 31, 2019, 487 MSEK was utilized. The commercial papers have a maturity of up to 5 months.

For all loans, the margin within the range is dependent on the company's indebtedness. The terms and conditions of the loan stipulate that the following covenants should be within certain limits: interest coverage and net debt in relation to adjusted EBITDA. At each measurement period and on the balance sheet date, all terms and conditions of the loan were met. No amortizations are required and no collateral has been pledged for the loans. The Board closely monitors the company's financial position with respect to the fulfillment of the terms and conditions of the loans.

The lease liability consists of future rent payments that are discounted to the present value and recognized as a lease liability. See also Note 5.

### § Accounting principles

### Borrowings

Borrowings are financial liabilities that are initially reported at the fair value, net after transaction costs. Borrowings are subsequently reported at the amortized cost and any difference between the proceeds (net of transaction costs) and the redemption value is reported in the income statement, allocated over the term of the borrowing using the effective interest method. Borrowings are classified as liabilities to credit institutions and as leases in the balance sheet. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer the payment of the liability for at least 12 months after the balance sheet date. From January 1, 2019, the Group applies IFRS 16 to leases, which means that the majority of all former operational leases are recognized as lease liabilities. The implicit interest rate of the lessee as of January 1, 2019 was used for the calculation. The Group's incremental borrowing rate applied to these lease liabilities as of January 1, 2019 was between 3.60 and 6.23 percent. See Note 1 for the Group's weighted average incremental borrowing rate for discounting as per January 1, 2019.

## NOTE 22B Management of financial risks

### Market risk – foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities and net investments in foreign operations.

### Risk management

Foreign exchange risk arises when future business transactions or recognized assets or liabilities are denominated in a currency that is not the entity's functional currency. The operations of the Scandic Group companies are mainly local, with revenues and expenses denominated in domestic currencies, and intra-Group sales are low. This means that the exchange rate exposure related to transactions is limited. According to the Group's Finance Policy, which requires Group companies to manage their foreign exchange risk against their functional currency, the Group companies hedge their foreign exchange risk in major future business transactions via Group Finance. To manage the foreign exchange risk arising from future commercial transactions, the Group companies use forward contracts signed with Group Finance.

Exchange rate effects in the Group arise from the translation of foreign subsidiaries' financial statements into SEK. In 2019, 33 (35) percent of the Group's sales were in SEK, 28 (28) percent in NOK and 39 (37) percent in EUR and other currencies.

Borrowings in EUR and NOK are matched by the Parent Company's loans to subsidiaries. The currency exposure arising from internal loans to the Group's foreign operations is reduced by borrowing in the corresponding currencies, which is referred to as a natural hedge.

The Group's borrowings broken down by currency are shown in the table below. The Board has resolved that other currency risks for assets and liabilities should not be hedged.

| | Dec 31, 2019 | Dec 31, 2018 |
|---|---|---|
| **Group borrowings by currency** | | |
| SEK, % | 72 | 64 |
| EUR, % | 10 | 21 |
| NOK, % | 18 | 15 |

### Sensitivity analysis

The book value of liabilities to credit institutions is exposed to currency risk for the part where the borrowing is in a foreign currency. The sensitivity analysis below presents how changes in relevant foreign currencies affect the book value of liabilities to credit institutions as well as net debt.

| Sensitivity analysis for currencies as at Dec 31, 2019 | Change, % | Effect on net debt, MSEK |
|---|---|---|
| *Exposure of liabilities to credit institutions at a change in:* | | |
| NOK/SEK | +/- 1 | +/- 6 |
| EUR/SEK | +/- 1 | +/- 4 |

## Market risk – interest rates

Interest rate risk arises from changes in market interest rates that can have a negative effect on the Group's revenue, cash flow and interest-bearing assets and liabilities.

### Risk management

As the Group has no significant interest-bearing assets, the Group's revenues and cash flow from operating activities are essentially independent of changes in market interest rates.

The Group's interest rate risk arises from long-term borrowings. Loans issued with variable interest expose the Group to interest rate risk related to cash flow. Loans issued with fixed interest expose the Group to interest rate risk related to the fair value. The Group's Finance Policy stipulates that 25 to 75 percent of Scandic's loans must be taken at fixed interest rates. Any deviations from the policy must be approved by the Board. When needed, the Group uses interest rate swaps to achieve this. The Group's borrowings on the balance sheet date are shown below.

The Group normally takes out long-term loans at variable interest rates and converts them into fixed interest rates using interest rate swaps. In such transactions, the Group agrees with other parties to exchange, at specified intervals, the difference between the agreed fixed and variable interest rates, calculated based on the agreed nominal value.

| | Dec 31, 2019 | Dec 31, 2018 |
|---|---|---|
| **Group borrowings by fixed and variable interest** | | |
| Fixed interest, % | 37 | 39 |
| Variable interest, % | 63 | 61 |

All external borrowings at fixed interest rates are achieved using interest rate swaps.

## Credit risk

Credit risk refers to the risk that counterparties cannot fulfill their obligations. Credit risk arises from cash and cash equivalents, derivative instruments and deposits with banks and financial institutions as well as credit exposures to customers, including outstanding receivables and agreed transactions.

### Risk management

Credit risk is managed on the Group level. Only banks and financial institutions that have received an independent minimum rating of A-1 are accepted. In cases where no independent credit rating is available, a risk assessment of the customer's creditworthiness is carried out based on the customer's financial position, previous experience and other factors. The use of credit limits is followed up regularly. Sales in the company's operations are primarily settled in cash by credit card, although invoicing is also used. Credit losses relating to customers as at December 31, 2019 amounted to 2 (5) MSEK, see also Note 17.

| Group, MSEK | < 1 year | 1–3 years | 3–5 years | > 5 years |
|---|---|---|---|---|
| **As at December 31, 2019** | | | | |
| Liabilities to credit institutions [1] | 74 | 3,178 | - | - |
| Commercial papers | 487 | - | - | - |
| Derivative instruments [2] | - | 0 | - | - |
| Accounts payable and other liabilities | 767 | - | - | - |

| Group, MSEK | < 1 year | 1–3 years | 3–5 years | > 5 years |
|---|---|---|---|---|
| **As at December 31, 2018** | | | | |
| Liabilities to credit institutions [1] | 84 | 3,188 | - | - |
| Commercial papers | 1,200 | - | - | - |
| Finance leases | 121 | 228 | 210 | 1,047 |
| Derivative instruments [2] | - | 8 | - | - |
| Accounts payable and other liabilities | 791 | - | - | - |

1) Liabilities to credit institutions includes future cash flows related to liabilities such as future interest payments.
2) Market value as at December 31.

### Maturity analysis of leasing

Leases in 2018 are described in the table above. In accordance with IFRS 16, remaining leases are included in the table below for 2019.

| Group, MSEK | Dec 31, 2019 |
|---|---|
| Years 1–3 | 9,551 |
| Years 3–5 | 5,457 |
| Years 5–10 | 11,573 |
| Years 10–15 | 7,211 |
| Years <15 | 5,316 |
| **Total payments** | **39,108** |
| Effect of discounted amounts | -10,331 |
| **Total liabilities according to balance sheet** | **28,777** |
| **Classfication:** | |
| Non-current liabilities | 26,661 |
| Current liabilities | 2,116 |

The above maturity analysis includes contractual undiscounted cash flows.

## Liquidity risk

Liquidity risk is the risk that the Group does not have sufficient liquidity to pay its debts and meet its commitments.

### Risk management

Liquidity risk is managed by maintaining within the Group sufficient cash and cash equivalents and short-term investments with a liquid market, available financing through agreed credit facilities and the ability to close market positions. The Group's liquidity in the form of cash and cash equivalents and short-term investments is monitored and forecast on a daily basis by Group Finance. The Group's liquidity reserve on December 31, 2019, consisting of cash and unutilized credit facilities, amounted to 1,973 (1,625) MSEK.

| Sensitivity analysis for interest swaps as at Dec 31, 2019 | Change % | Result effect MSEK |
|---|---|---|
| Interest expense at the current fixed interest rate in the case of a change in interest rates | +/- 1 | +/- 23 |
| Interest expense in the case of a change in the average interest rate level | +/- 1 | +/- 36 |

If the variable market rate differs from the current fixed rate of the interest swaps, a theoretical over or undervaluation of the financial instrument will occur. Interest swaps are recognized at the fair value in the statement of financial position and the change in value, which does not impact cash flow, is recognized in profit for the year. The sensitivity analysis is based on net debt.

### Electricity derivatives

From July 1, 2018, the Group has used cash flow hedging to hedge against fluctuations in electricity prices. The electricity derivatives used by the Group have been identified as cash flow hedges. The relationship between the derivatives and the hedged risk is documented when the cash flow hedge is set up. Efficiency controls are carried out at the starting point of the hedge and further on a monthly basis during the term of the cash flow hedge. The efficient part of the value change in the derivatives, which meets the requirements for cash flow hedging, is recognized in Other comprehensive income. The inefficient part of the value change in the derivatives is recognized directly in other external expenses. The efficient part of the hedge is recognized in other external expenses when the hedged item affects profit/loss.

In 2019, the inefficient part of the value change for electricity derivatives amounted to -2 MSEK (2).

## NOTE 22c Management of capital risk

The Group's goal for capital structure is to safeguard the its ability to maintain its operations so that it can continue to generate returns for shareholders and benefits for other stakeholders, as well as to maintain an optimal capital structure to keep capital costs down.

The Group's managed capital is made up of shareholders' equity. To maintain or adjust the capital structure, the Group may change the dividend paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce liabilities.

The debt/equity ratio is calculated as net debt divided by shareholders' equity. Interest-bearing net debt is calculated as liabilities to credit institutions and commercial papers less cash and cash equivalents.

| Group, MSEK | Dec 31, 2019 | Dec 31, 2018 |
|---|---|---|
| Total borrowings | 32,300 | 5,546 |
| Less: leasing | -28,777 | -1,606 |
| Less: cash and cash equivalents | -26 | -103 |
| Interest-bearing net liabilities | 3,497 | 3,837 |
| Total shareholders' equity | 6,601 | 7,805 |
| Debt/equity ratio | 0.5 x | 0.5 x |

| | Dec 31, 2019 | | Dec 31, 2018 | |
|---|---|---|---|---|
| **Due dates, MSEK** | **Liabilities to credit institutions** | **Commercial papers** | **Liabilities to credit institutions** | **Commercial papers** |
| **Liabilities due for payment** | | | | |
| – within 1 year | - | 487 | - | 1,000 |
| – between 1 and 5 years | 3,036 | - | 2,940 | - |
| – later than 5 years | - | - | - | - |
| **Total** | **3,036** | **487** | **2,940** | **1,000** |

| Revolving credit facility, MSEK | Dec 31, 2019 | Dec 31, 2018 |
|---|---|---|
| Amount utilized | 2,053 | 2,478 |
| Amount not utilized | 1,947 | 1,522 |
| **Total revolving credit facility** | **4,000** | **4,000** |

## NOTE 23 Provisions for pensions and similar obligations

Provisions for pensions and similar obligations refer in their entirety to defined benefit pension plans in which the employees have the right to benefits after their employment ends and where the level of benefits is based on final salary and length of service. Provision for such plans has been made for FPG/PRI occupational pensions in Sweden (ITP 2 plan). In other countries, defined contribution pension plans have been adopted. The defined benefit plan in Sweden provides employees with a guaranteed level of pension payments during their lifetime. The defined benefit plan is adjusted for annual inflation of 2 percent which corresponds to assumptions about inflation from the Swedish Central Bank.

### Defined benefit pension plans

| Calculation of provision, MSEK | Dec 31, 2019 | Dec 31, 2018 |
|---|---|---|
| Present value of obligations | 872 | 627 |
| Fair value of plan assets | - | - |
| **Total provision for defined benefit pension plans** | **872** | **627** |

| Changes in provision during the year, MSEK | 2019 | 2018 |
|---|---|---|
| Net liability, opening balance | 627 | 542 |
| Revaluations reported in Other comprehensive income[1] | 164 | 40 |
| Net expense reported in the income statement | 44 | 37 |
| Pensions paid | -6 | -5 |
| Change in special employer contribution | 43 | 13 |
| **Net liability, closing balance[2]** | **872** | **627** |

1) Items reported in Other comprehensive income consist of a loss of -158 (-32) MSEK in 2019 due to changes in financial assumptions and a loss of -6 (-8) MSEK from experience-based adjustments.
2) The weighted average duration of pension obligations is 25 years.

### ! Important estimates and assumptions

| Important actuarial assumptions, % | Dec 31, 2019 | Dec 31, 2018 |
|---|---|---|
| Discount rate | 1.55 | 2.50 |
| Future annual salary increases | 3.00 | 3.00 |
| Future annual pension increases (inflation) | 2.00 | 2.00 |
| Employee turnover | 3.00 | 3.00 |

| Sensitivity analysis in actuarial assumptions | Change | Increase % | Decrease % |
|---|---|---|---|
| Discount rate | +/- 0.5% | 13.6 | -11.7 |
| Future salary increases | +/- 0.5% | -4.0 | 5.1 |
| Future annual pension increases (inflation) | +/- 0.5% | -8.9 | 10.1 |
| Life expectancy | +/- 1 year | -4.2 | 4.2 |

The above sensitivity analysis is based on a change in an assumption while keeping all other assumptions constant. In practice, this is unlikely to occur and changes in some of the assumptions may be correlated. The above table shows the percentage effect on the pension liability when such changes occur. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions, the same method has been applied as when calculating the defined benefit liability recognized in the balance sheet. The methods and assumptions used in preparing the sensitivity analysis are unchanged compared with the previous year.

**Pension expenses for defined benefit and defined contribution pension plans**

| MSEK | 2019 | 2018 |
|---|---|---|
| Current service cost, defined benefit pension plans | -28 | -23 |
| Current service cost, defined contribution pension plans | -348 | -453 |
| **Total pension expenses included in personnel expenses** | **-376** | **-476** |
| Interest expenses for defined benefit pension plans | -15 | -14 |
| **Total expenses in the income statement** | **-391** | **-490** |

Payments in 2020 are expected to be at the same level as in 2019.

### Multi-employer plans

The company has insured the ITP plan through insurance from the insurance company Alecta. Although this plan is classified as a defined benefit plan, it is not possible to obtain sufficient information from Alecta to report it as a defined benefit plan. Information on the allocation between employers is missing and instead, all earnings are allocated to the most recent employer. A breakdown of Alecta's assets and provisions for individuals is not possible, which means that these plans are recognized as defined contribution plans. Collective consolidation is the buffer of Alecta's insurance commitments against fluctuations in investment returns and insurance risks, and it is calculated as the difference between investments and insurance commitments. The consolidation level is calculated as Alecta's assets in relation to the insurance commitments. Alecta has a target consolidation level of 140 percent and in 2019, the consolidation level was 148 percent (142 percent). Contributions to the plan are expected to be at the same level as in 2019, which is 24 MSEK.

## § Accounting principles

### Pension commitments

Group companies operate various pension schemes. These are usually financed through payments to insurance companies or managed funds where the payments are determined according to actuarial calculations. The Group has both defined benefit and defined contribution plans. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate legal entity. The Group has no legal or constructive obligations to pay further contributions if this legal entity does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan. Defined benefit plans define the amount the employee will receive in pension benefits on retirement, usually dependent on one or more factors such as age, years of service and salary. Within the Group, defined benefit plans exist only in Sweden.

For defined contribution pension plans, the Group pays fees to publicly or privately managed pension insurance schemes on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the fees are paid. The fees are reported as personnel expenses during the period to which they relate.

The liability recognized in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation on the balance sheet date less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The net present value of the defined benefit obligation is determined by discounting the estimated future cash outflows. The calculation uses interest rates of government and corporate bonds that are denominated in the same currency that the benefits will be paid in and that have maturities that are comparable with the terms of the related pension liability.

Actuarial gains and losses that arise from experience-based adjustments and changes in actuarial assumptions are reported in Other comprehensive income during the period in which they arise.

Past service costs are recognized directly in the income statement.

# NOTE 24 Other provisions

| | Dec 31, 2019 | | | Dec 31, 2018 | | |
|---|---|---|---|---|---|---|
| **Changes in other provisions during the year, MSEK** | **Provision for loyalty program** | **Other provisions** | **Total other provisions** | **Provision for loyalty program** | **Other provisions** | **Total other provisions** |
| **Opening balance** | **138** | **0** | **138** | **127** | **1** | **128** |
| Change through the income statement | 11 | 0 | 11 | 11 | -1 | 10 |
| **Closing balance** | **149** | **0** | **149** | **138** | **0** | **138** |

Scandic has a loyalty program, Scandic Friends, in which members earn points for overnight stays that can then be used for free overnight stays. This loyalty program is covered by the rules in IFRS 15. The liability is valued at the market value of the anticipated free-night usage. In measuring the liability for the loyalty program, the first step is to calculate the liability for the number of free nights expected to be used on the basis of the level of utilization and estimated points withdrawal per free night, based on the outstanding balance of points. The anticipated utilization of free nights is then multiplied by the average market price of such free nights. The part of the liability that is expected to be utilized after more than one year is reported under Other provisions above, while the part that is expected to be utilized within one year is recognized as deferred income under Accrued expenses and deferred income (see Note 26). The total liability for the loyalty program and its allocation between current and non-current liabilities is shown in the table below. The provision is expected to be utilized within 3 years.

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| **Total liability for loyalty program** | **Non-current provision** | **Current liability** | **Total liability in respect of the loyalty program** | **Non-current provision** | **Current liability** | **Total liability in respect of the loyalty program** |
| Opening balance | 138 | 92 | 230 | 127 | 85 | 212 |
| Change through the income statement | 11 | 8 | 19 | 11 | 7 | 18 |
| **Closing balance** | **149** | **100** | **249** | **138** | **92** | **230** |

The assessed market value of free overnight stays used during 2019 amounted to 161 (115) MSEK. For the current liability, see Note 26.

## § Accounting principles

### Provisions

Provisions for environmental restoration measures, restructuring expenses and legal claims are reported when the Group has a legal or informal obligation as a result of prior events, when it is probable that an outflow of resources will be required to settle the undertaking and when the amount has been calculated in a reliable manner. Provisions are valued based on the best possible estimate of the expenditure required to resolve the obligation in question on the balance sheet date. Provisions for restructuring include costs for terminating lease agreements and severance pay. No provisions are made for future operating losses.

## ! Important estimations and assumptions

### Reporting of provisions for loyalty programs for customers

In accordance with IFRS 15, provisions for loyalty programs for customers are reported as a reduction in revenue in conjunction with earning the right to future use. The reserve outstanding at any time is divided into a long-term portion, which is reported under Other provisions, and a short-term portion, which is reported under Accrued expenses and deferred income.

## NOTE 25 Deferred tax assets and liabilities

Deferred tax assets and liabilities are reported net when there is a legally enforceable right to offset the recognized tax assets and liabilities and when the deferred taxes are expected to be settled at the same time.

| | Dec 31, 2019 | | | | | |
|---|---|---|---|---|---|---|
| **Distribution of deferred tax items by underlying balance sheet items and their changes during the year, MSEK** | **Pensions** | **Derivative instruments** | **Elimination of goodwill on aquired assets** | **Losses carried forward** | **Net of right-of-use assets & lease liability** | **Total deferred tax assets** |
| **Deferred tax assets** | | | | | | |
| Opening balance, Jan 1, 2019 | 75 | 2 | 8 | 98 | 0 | 183 |
| Effect of IFRS 16, Jan 1, 2019 | - | - | - | - | 394 | 394 |
| Reported in the income statement | 3 | -2 | 2 | -25 | 57 | 35 |
| Tax attributable to items in Other comprehensive income | 44 | 0 | - | - | - | 44 |
| Exchange rate differences | - | - | 0 | 4 | 1 | 5 |
| **Closing balance as at Dec 31, 2019** | **122** | **0** | **10** | **76** | **452** | **660** |
| *– of which receivables to be utilized within 12 months* | - | - | - | - | - | *0* |

| | **Intangible fixed assets** | **Land & buildings** | **Untaxed reserves** | **Accelerated depreciation** | **Hedge accounting** | **Total deferred tax liabilities** |
|---|---|---|---|---|---|---|
| **Deferred tax liabilities** | | | | | | |
| Opening balance Jan 1, 2019 | -740 | -10 | -32 | -14 | -12 | -808 |
| Reported in the income statement | -8 | 0 | 7 | -2 | 0 | -2 |
| Reclassification | - | - | - | - | - | 0 |
| Tax attributable to items in Other comprehensive income | - | - | - | - | 10 | 10 |
| Exchange rate differences | -3 | 0 | 0 | 0 | - | -4 |
| **Closing balance as at Dec 31, 2019** | **-752** | **-10** | **-25** | **-16** | **-2** | **-804** |
| *– of which liabilities to be paid within 12 months* | *-57* | *-1* | - | - | - | *-58* |

| | **Deferred tax liabilities, net** |
|---|---|
| **Net deferred tax liabilities** | |
| Opening balance, Jan 1, 2019 | -625 |
| Effect of IFRS 16, Jan 1, 2019 | 394 |
| Reported in the income statement | 33 |
| Tax attributable to items in Other comprehensive income | 54 |
| Exchange rate differences | 1 |
| **Closing balance as at Dec 31, 2019** | **-144** |

| Distribution of deferred tax items by underlying balance sheet items and their changes during the year, MSEK | Pensions | Derivative instruments | Elimination of goodwill on aquired assets | Losses carried forward | Total deferred tax assets |
|---|---|---|---|---|---|
| | Dec 31, 2018 | | | | |
| **Deferred tax assets** | | | | | |
| Opening balance, Jan 1, 2018 | 63 | 2 | 5 | 132 | 202 |
| Reported in the income statement | 1 | -1 | 2 | -38 | -36 |
| Tax attributable to items in Other comprehensive income | 11 | 1 | - | - | 12 |
| Exchange rate differences | - | - | 1 | 4 | 5 |
| **Closing balance as at Dec 31, 2018** | **75** | **2** | **8** | **98** | **183** |
| *– of which receivables to be utilized within 12 months* | - | - | - | - | *0* |

| | Intangible fixed assets | Land & buildings | Untaxed reserves | Accelerated depreciation | Hedge accounting | Total deferred tax liabilities |
|---|---|---|---|---|---|---|
| **Deferred tax liabilities** | | | | | | |
| Opening balance, Jan 1, 2018 | -767 | -11 | -4 | -28 | 0 | -810 |
| Reported in the income statement | 33 | 1 | -22 | 9 | -1 | 20 |
| Reclassification | - | - | -6 | 6 | - | 0 |
| Tax attributable to items in Other comprehensive income | -1 | - | - | - | -11 | -12 |
| Exchange rate differences | -6 | 0 | 0 | -1 | - | -7 |
| **Closing balance as at Dec 31, 2018** | **-740** | **-10** | **-32** | **-14** | **-12** | **-808** |
| *– of which liabilities to be paid within 12 months* | *-54* | *-1* | - | - | - | *-55* |

| | Deferred tax liabilities, net |
|---|---|
| **Net deferred tax liabilities** | |
| Opening balance, Jan 1, 2018 | -608 |
| Reported in the income statement | -16 |
| Tax attributable to items in Other comprehensive income | 0 |
| Exchange rate differences | 2 |
| **Closing balance as at Dec 31, 2018** | **-625** |

### Tax losses carried forward

The Group has reported loss carryforwards amounting to 356 MSEK (458) mainly in Norway, Denmark and Germany. These loss carryforwards can be utilized against future taxable surpluses. Recorded deferred tax assets related to reported loss carryforwards amounted to 76 (98) MSEK. The Group has assessed that it will be possible to offset these carryforwards in the future, based on the forecasts of the Group for coming years. Non-recorded deficiencies amounted to 162 (1,355) MSEK and are mainly related to Finland and Denmark where it still is uncertain to what extent they can be offset towards taxable surpluses. These deficiencies amount to 36 MSEK (274).

None of the deductible deficiencies are limited in time.

## § Accounting principles

### Deferred income tax

Deferred income tax is reported using the balance sheet method on all temporary differences arising between the tax bases of assets and liabilities and their reported amounts in the consolidated accounts. However, deferred tax is not reported if it arises as a result of a transaction that constitutes the first reporting of an asset or liability that is not an operational acquisition and which, at the time of the transaction, affects neither the reported nor the tax profit/loss. Deferred tax is also not reported on the first reporting of goodwill. Deferred income tax is determined using the tax rates (and laws) that have entered into force or been announced on the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred tax assets are reported to the extent it is probable that future tax surpluses will be available against which the temporary differences can be offset. The Group accounts net for deferred tax assets and deferred tax liabilities in the balance sheet where there is a legal right to offset.

The Parent Company and its wholly-owned subsidiaries have applied tax consolidation legislation, which means that these entities are taxed as a single entity.

## NOTE 26 Accrued expenses and deferred income

| Distribution by type of expense, MSEK | Group Dec 31, 2019 | Group Dec 31, 2018 | Parent Company Dec 31, 2019 | Parent Company Dec 31, 2018 |
|---|---|---|---|---|
| Accrued leasing expenses | 214 | 137 | - | - |
| Accrued personnel expenses | 903 | 894 | 11 | 8 |
| Accrued interest expenses, leasing | 96 | - | - | |
| Accrued interest expenses, other | 2 | 3 | 2 | 3 |
| Deferred income, current portion of loyalty program | 100 | 92 | - | - |
| Deferred income, bonus checks[1)] | 29 | 37 | - | - |
| Other items | 391 | 375 | 14 | 6 |
| **Total** | **1,735** | **1,538** | **28** | **18** |

1) Bonus checks are a payment method permitting discounted stays at all Scandic hotels. Bonus checks have a limited period of validity. When bonus check booklets are sold, a liability is recorded. The liability is liquidated when the checks are utilized or when it is deemed that the customer is no longer able to utilize or redeem the bonus check.

## NOTE 27 Adjustment for items not included in cash flow

| Adjustment for items not included in cash flow, MSEK | Group 2019 | Group 2018 | Parent Company 2019 | Parent Company 2018 |
|---|---|---|---|---|
| Amortization, depreciation and impairment losses | 3,281 | 870 | - | - |
| Change in accrued expenses/income and provisions | -173 | -1 | - | - |
| **Total** | **3,108** | **869** | **0** | **0** |

### § Accounting principles

The cash flow analysis has been prepared in accordance with the indirect method. The cash flow reported includes only transactions that involve payments made or received.

In addition to cash and bank balances, short-term financial investments are classified as cash and cash equivalents, as they are exposed only to an insignificant risk of value fluctuations or have a remaining maturity of less than 3 months from the acquisition date.

## NOTE 28 Statement of cash flow

| MSEK | Opening balance Jan 1, 2019 | Effect of IFRS 16 as at Jan 1, 2019 | Cash flow from financing activities | Non cash flow: Transaction costs | Non cash flow: Exchange rate difference | Non cash flow: Interest expense | Non cash flow: Net lease liability, IFRS 16 | Closing balance Dec 31, 2019 |
|---|---|---|---|---|---|---|---|---|
| Borrowings | 3,940 | - | -461 | 8 | 36 | - | - | 3,523 |
| Leasing | 1,606 | 24,984 | -2,147 | - | 428 | - | 3,906 | 28,777 |
| Accrued interest expenses, leasing | 0 | - | -1,143 | - | - | 1,144 | 95 | 96 |
| Accrued interest expenses, other | 3 | - | -71 | - | -33 | 103 | - | 2 |
| **Subtotal** | **5,549** | **24,984** | **-3,822** | **8** | **431** | **1,247** | **4,001** | **32,398** |
| Cash and cash equivalents | -103 | - | 59 | - | 18 | - | - | -26 |
| **Total** | **5,446** | **24,984** | **-3,763** | **8** | **449** | **1,247** | **4,001** | **32,372** |

| MSEK | Opening balance Jan 1, 2018 | Cash flow from financing activities | Non cash flow: Transaction costs | Non cash flow: Exchange rate difference | Non cash flow: Sale of operations | Non cash flow: Interest expense | Closing balance Dec 31, 2018 |
|---|---|---|---|---|---|---|---|
| Borrowings | 3,769 | 117 | 17 | 37 | - | - | 3,940 |
| Leasing | 1,665 | -129 | - | 0 | 70 | - | 1,606 |
| Accrued interest expenses | 0 | -77 | - | -36 | - | 116 | 3 |
| **Subtotal** | **5,434** | **-89** | **17** | **1** | **70** | **116** | **5,549** |
| Cash and cash equivalents | -140 | 13 | - | 24 | - | - | -103 |
| **Total** | **5,294** | **-76** | **17** | **25** | **70** | **116** | **5,446** |

The table above shows the changes in non-current liabilities affecting cash flow.

## NOTE 29 Participations in Group companies

| Changes during the year MSEK | Parent Company 2019-12-31 | Parent Company 2018-12-31 |
|---|---|---|
| Accumulated acquisition values, opening balance | 5,039 | 5,039 |
| **Accumulated acquisition values, closing balance** | **5,039** | **5,039** |

| Holdings on the balance sheet date | Corporate identity number | Registered address | Dec 31, 2019 Proportion of equity | Dec 31, 2018 Proportion of equity | Dec 31, 2019 Carrying amount | Dec 31, 2018 Carrying amount |
|---|---|---|---|---|---|---|
| **Scandic Hotels Holding AB** | **556723-5725** | **Stockholm, Sweden** | **100** | **100** | **5,039** | **5,039** |
| ● Scandic Hotels AB | 556299-1009 | Stockholm, Sweden | 100 | 100 | - | - |
| ● Hotell Hasselbacken AB[1] | 559177-6777 | Stockholm, Sweden | - | 100 | - | - |
| ● Rica Hotels AB[2] | 556520-9797 | Stockholm, Sweden | 100 | 100 | - | - |
| ● Scandic Hotels AS | 953 149 117 | Oslo, Norway | 100 | 100 | - | - |
| *Scandic Hotels Gardermoen AS* | 880 289 772 | Gardermoen, Norway | 50 | 50 | - | - |
| ● Scandic Hotels Holding A/S | 30 61 64 56 | Copenhagen, Denmark | 100 | 100 | - | - |
| ● Scandic Hotel A/S | 12 59 67 74 | Copenhagen, Denmark | 100 | 100 | - | - |
| ● Scandic Polen Sp.z o. o. | 288532 | Warsaw, Poland | 100 | 100 | - | - |
| ● Scandic Hotels Europe AB[3] | 556351-7373 | Stockholm, Sweden | 100 | 100 | - | - |
| ● Scandic Hotels Deutschland GmbH | HRB 146065 B | Berlin, Germany | 100 | 100 | - | - |
| *Scandic Berlin Kurfürstendamm GmbH*[4] | HRB 158329 B | Berlin, Germany | - | 100 | - | - |
| ● Scandic Hotels Oy | 1447914-7 | Helsinki, Finland | 100 | 100 | - | - |
| **Total** | | | | | **5,039** | **5,039** |

1) Hotell Hasselbacken AB was divested in March, 2019.
2) Rica Hotels AB was sold by Scandic Hotels AS to Scandic Hotels AB in October 2019.
3) Scandic Hotels Europe AB was sold by Scandic Hotels AB to Scandic Hotels Holding AB in October 2019.
4) Scandic Berlin Kurfürstendamm GmbH merged with Scandic Hotels Deutschland GmbH in June 2019.

## NOTE 30 Pledged assets and contingent liabilities

| MSEK | Group Dec 31, 2019 | Group Dec 31, 2018 | Parent Company Dec 31, 2019 | Parent Company Dec 31, 2018 |
|---|---|---|---|---|
| **Pledged assets** | | | | |
| Property mortage | - | - | - | - |
| **Total pledged assets** | **0** | **0** | **0** | **0** |
| **Contingent liabilities** | | | | |
| Guarantee undertakings, FPG/PRI | 6 | 5 | - | - |
| Lease guarantees | 125 | 122 | 43 | - |
| Tax disputes | 403 | 369 | - | - |
| Travel guarantees | 3 | 4 | 2 | - |
| **Total contingent liabilities** | **537** | **500** | **45** | **0** |

Lease guarantees relate mainly to guarantees for lease contracts for premises in Scandic's Danish and Norwegian subsidiaries. These have remaining terms of up to 13 years. Fixed rental fees for the whole remaining period have been reported above.

No significant liabilities are expected to arise due to the contingent liabilities reported. Scandic is involved in a few commercial disputes. None of these disputes is deemed to have any major negative impact on the company's financial position or profit. No contingent assets have been identified within the Group.

### ! Important estimates and assumptions

On October 19, 2017, Scandic announced that the Finnish Tax Administration had decided to make an additional assessment for the 2008 tax year. The Finnish Tax Administration is of the opinion that Scandic's Finnish operations should be subject to additional taxes, fees and interest as the deduction of intra-Group loans was denied. Since then, the Finnish Tax Administration has made similar decisions for the tax year 2009–2017.

Scandic and its tax advisors are of the opinion that the company has acted correctly and in compliance with the applicable legislation and, accordingly, believe that the Finnish Tax Administration's decision is incorrect. The company has appealed the decision and requested that the tax decision be rejected in its entirety. The company has therefore not reported any cost for the imposed taxes. Scandic has assessed that the contingent liability is 403 MSEK, which is the total exposure in the years 2007–2017 including interest. The full amount has been paid and is recognized as Other non-current receivables.

# NOTE 31 Financial assets and liabilities

| Dec 31, 2019 MSEK | Financial assets/liabilities valued at amortized cost | Financial assets/liabilities valued at fair value via the income statement | Financial assets/liabilities valued at fair value via other comprehensive income | Total reported value |
|---|---|---|---|---|
| Financial investments | - | 7 | - | 7 |
| Accounts receivable | 649 | - | - | 649 |
| Derivative instruments – electricity derivatives | - | 8 | - | 8 |
| Cash and cash equivalents | 26 | - | - | 26 |
| **Total financial assets** | **675** | **15** | **0** | **690** |
| Liabilities to credit institutions | 3,036 | - | - | 3,036 |
| Liabilities for commercial papers | 487 | - | - | 487 |
| Accounts payable | 767 | - | - | 767 |
| Derivative instruments – interest swaps | - | 0 | - | 0 |
| Current liabilities – share swap | - | - | 73 | 73 |
| **Total financial liabilities** | **4,290** | **0** | **73** | **4,363** |

| Dec 31, 2018 MSEK | Financial assets/liabilities valued at amortized cost | inancial assets/liabilities valued at fair value via the income statement | Financial assets/liabilities valued at fair value via other comprehensive income | Total reported value |
|---|---|---|---|---|
| Financial investments | - | 9 | - | 9 |
| Accounts receivable | 689 | - | - | 689 |
| Derivative instruments – electricity derivatives | - | 54 | - | 54 |
| Cash and cash equivalents | 103 | - | - | 103 |
| **Total financial assets** | **792** | **63** | **0** | **855** |
| Liabilities to credit institutions | 2,940 | - | - | 2,940 |
| Liabilities for commercial papers | 1,000 | - | - | 1,000 |
| Accounts payable | 791 | - | - | 791 |
| Derivative instruments – interest swaps | - | 8 | - | 8 |
| Current liabilities – share swap | - | - | 69 | 69 |
| **Total financial liabilities** | **4,731** | **8** | **69** | **4,808** |

The Group has entered into a share swap agreement related to the Long-Term Incentive Program, see Note 6.

The fair value of other financial assets and liabilities is not considered to diverge materially from the carrying value. See Note 15.

## Fair value

The table below shows the Group's financial assets and financial liabilities at the fair value and classified in the fair value hierarchy. The different levels are defined as follows:

**Level 1:** Quoted prices in an active market for identical assets or liabilities.

**Level 2:** Observable data other than quoted prices included in Level 1, either directly or indirectly.

**Level 3:** Data not based on observable market data.

For liabilities to credit institutions and liabilities for commercial papers, the carrying value is the same as the fair value. Financial assets and liabilities valued at the fair value refer to electricity derivatives and interest swaps.

| Dec 31, 2019, MSEK | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Dervative instruments used for hedging | - | 8 | - | 8 |
| **Total financial assets** | **0** | **8** | **0** | **8** |

| Dec 31, 2018, MSEK | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Dervative instruments used for hedging | - | 54 | - | 54 |
| **Total financial assets** | **0** | **54** | **0** | **54** |
| Dervative instruments used for hedging | - | 8 | - | 8 |
| **Total financial liabilities** | **0** | **8** | **0** | **8** |

In accordance with the Group's Finance Policy, the Group has recognized derivative instruments, interest swaps and electricity derivatives. The Group has entered into an interest rate swap in order to hedge the Group against interest rate risk and invested in derivatives to hedge the Group against the price risk for electricity. On the reporting date, these derivative instruments were valued at the market value declared by the issuers, which constitutes a Level 2 valuation under IFRS 7. Market values are calculated using mid-rates based on current available market rates.

## § Accounting principles

### Financial assets and liabilities

The Group classifies its significant financial assets and liabilities into the following categories: financial assets/liabilities valued at the amortized cost, fair value via the income statement and fair value via other comprehensive income. The classification of financial assets is based on the Group's business model for managing assets and the asset's contractual cash flow characteristics. The Group's financial liabilities are classified based on the purpose of the acquired liability.

**a) Financial assets/liabilities reported at fair value through the income statement**

Financial assets/liabilities valued at the fair value through the income statement are financial assets/liabilities held for resale or hedging. Assets/liabilities in this category are classified as current assets/liabilities. Changes in the value of these financial assets/liabilities are reported as financial income/expenses in the income statement.

**b) Financial assets/liabilities reported at amortized cost**

Accounts receivable are part of current assets, with the exception of items with due dates more than 12 months after the balance sheet date, in which case they are classified as non-current assets.

Cash and cash equivalents and accounts receivable less any provision for depreciation are recognized at the amortized cost. According to IFRS 9, accounts receivable should be valued at the amortized cost using the effective interest method, but as accounts receivable have very short durations and the interest effects are very small, the reported value of the Group is not deemed to diverge materially from the fair value. See also Note 17, Accounts receivable.

Financial liabilities are initially reported at the fair value, net after transaction costs. They are subsequently reported at the amortized cost and any difference between proceeds (net of transactions costs) and the redemption value is reported in the income statement, allocated over the term of the loan, using the effective interest method.

Liabilities to credit institutions and commercial papers are classified as current liabilities unless the Group has an unconditional right to defer the payment of the liability for at least 12 months after the balance sheet date.

Accounts payable are part of current liabilities, with the exception of items with due dates more than 12 months after the balance sheet date, in which case they are classified as non-current liabilities. Accounts payable are reported at the amortized cost.

According to IFRS 9, accounts payable should be valued at the amortized cost using the effective interest method, but as the Group's accounts payable have very short durations and the interest effects are very small, the reported value of the Group is not deemed to diverge materially from the fair value.

**c) Financial assets/liabilities reported at fair value via other comprehensiv income**

The share swap agreement to repurchase Scandic's own shares is reported as a financial liability with the agreed amount to be paid on the due date.

# NOTE 32 Transactions with related parties

The group Braganza AB is treated as a related party based on its ownership and representation on the Board during the year. For transactions with subsidaries, OECD's guidelines for Transfer Pricing are applied. The following transactions were carried out with related parties:

| | Group | | Parent Company | |
|---|---|---|---|---|
| **MSEK** | **Dec 31, 2019** | **Dec 31, 2018** | **Dec 31, 2019** | **Dec 31, 2018** |
| **Purchases of services** | | | | |
| Braganza AB [1] | 1 | 1 | - | - |
| **Total purchases of services** | **1** | **1** | **0** | **0** |
| **Sales of services** | | | | |
| Braganza AB [2] | 4 | 9 | - | - |
| Subsidiaries | - | - | 57 | 34 |
| **Total sales of services** | **4** | **9** | **57** | **34** |
| **Closing balances at year-end from purchases and sales of services** | | | | |
| **Receivables from related parties** | | | | |
| Braganza AB | 0 | 0 | - | - |
| Subsidiaries | - | - | 618 | 3 |
| **Total receivables from related parties** | **0** | **0** | **618** | **3** |
| **Liabilities to related parties:** | | | | |
| Braganza AB | - | - | - | - |
| Subsidiaries | - | - | 0 | 144 |
| **Total liabilities to related parties** | **0** | **0** | **0** | **144** |
| **Loans to related parties** | | | | |
| *Subsidiaries* | | | | |
| Opening balance | 0 | 0 | 5,377 | 5,174 |
| Payments made or received during the year | - | - | -1,171 | 15 |
| Interest | - | - | 142 | 152 |
| Exchange rate differences | - | - | 49 | 36 |
| **Closing balance** | **0** | **0** | **4,397** | **5,377** |

1) The purchases mainly relate to airfare.
2) Sales relate entirely to income from acommodations.

The Parent Company's loan to related parties consists of long-term loans to Group companies as well as receivables and liabilities within the cash pool of the Group. These are classified as long term. The current liability in the Parent Company to related parties consists of not yet paid Group contributions.

For information on terms of employment and remuneration to senior executives, see the Corporate Governance Report.

# NOTE 33 Appropriation of profits

In accordance with the Board's dividend policy as adopted on September 14, 2015, Scandic aims to distribute at least 50 percent of its net profit from the financial year 2016 and onwards. However, for 2019, the Board proposes that no dividend be paid due to the current market situation.

| **Appropriation of profits** | |
|---|---|
| The Board proposes that the following available amounts in the Parent Company's balance sheet, in KSEK | |
| Share premium reserve | 1,534,254 |
| Retained earnings | 4,314,295 |
| Net profit for the year | 486,610 |
| **Total, KSEK** | **6,335,159** |
| Be distributed as follows: | |
| To be carried forward | 6,335,159 |
| **Total, KSEK** | **6,335,159** |

The Board of Directors and the CEO certify that the consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and give a true and fair view of the Group's financial position and results of operations. The annual accounts have been prepared in accordance with generally accepted accounting standards and give a true and fair view of the Parent Company's financial position and results of operations.

Income statements and balance sheets will be submitted for adoption to the Annual General Meeting on June 15, 2020.

# NOTE 34 Events after the reporting date

On February 18, 2020, Scandic launched Scandic GO, a new brand in the growing economy hotel segment that will strengthen Scandic's growth potential.

During the first quarter, the spread of the coronavirus (Covid-19) led to a significant deterioration of the business situation for Scandic Hotels Group AB. For this reason, 2,000 team members in Sweden were given notice of termination on March 12, 2020, which corresponds to about half of the company's permanent employees in its Swedish operations. Scandic also announced that significant cutbacks would be required in its other markets. The severely deteriorating business situation is an indication that there may be a need for impairment of intangible assets. Work to test the need for such impairment has begun, however it was not completed by the time this annual report was submitted.

At an extraordinary board meeting held on March 16, 2020, the Board of Directors of Scandic Hotels Group AB resolved to withdraw its previous dividend proposal to the Annual General Meeting of 3.70 SEK per share due to the significantly worsened business situation.

The Administrative Court in Finland rejected Scandic's claim regarding supplementary taxation of the Finnish branch of Scandic Hotels AB in the years 2007–2017. The supplementary taxation amounts to approximately 400 MSEK, which is marginally lower than the company's previous payment to the Finnish Tax Administration. Scandic will therefore receive approximately 15 MSEK. Scandic is analyzing the judgment and thus far, the previous assessment remains.

On April 29, 2020, Scandic's Board of Directors resolved on a rights issue of approximately 1.75 billion SEK before transaction costs with preferential rights for existing shareholders. The rights issue is subject to the approval of the Extraordinary General Meeting that will be held on May 28, 2020. On the same date, Scandic also entered into an agreement for a new 1.15 billion SEK credit facility.

# ADOPTION

The Board of Directors and the CEO hereby certify that the consolidated accounts have been prepared in accordance with the International Reporting Standards, IFRS, as adopted by the European Union, and that they give a true and fair view of the Group's financial position and results of operations. The Administration Report of the Group and Parent Company gives a true and fair view of the progress of the Group and Parent Company's operations, financial position and results of operations, and states significant risks and uncertainty factors facing the Parent Company and Group companies. Income statements and balance sheets will be submitted to the Annual General Meeting on June 15, 2020 for adoption.
This Annual Report has been prepared in accordance with generally accepted accounting principles and gives a true and fair view of the Parent Company's financial position and results of operations.

Stockholm, May 12, 2020

**Per G. Braathen**
Chairman of the Board

**Ingalill Berglund**
Board member

**Grant Hearn**
Board member

**Christoffer Lundström**
Board member

**Susanne Mørch Koch**
Board member

**Riitta Savonlahti**
Board member

**Martin Svalstedt**
Board member

**Fredrik Wirdenius**
Board member

**Marianne Sundelius**
Employee representative

**Jens Mathiesen**
President & CEO

Our audit report was presented on May 12, 2020
PricewaterhouseCoopers AB

**Sofia Götmar-Blomstedt**
Authorized Public Accountant
Auditor-in-Charge

# AUDITOR'S REPORT

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

## REPORT ON THE ANNUAL ACCOUNTS AND CONSOLIDATED ACCOUNTS

### Opinions

We have audited the annual accounts and consolidated accounts of Scandic Hotels Group AB (publ) for the year 2019. The annual accounts and consolidated accounts of the company are included on pages 78–87 and 100–134 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the parent company as of 31 December 2019 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with The Annual Accounts act and present fairly, in all material respects, the financial position of the Group as of 31 December 2019 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts act. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

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

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

### Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements. This includes that, based on the best of our knowledge and belief, no prohibited services referred to in the Audit Regulation (537/2014) Article 5.1. have been provided to the audited company or, where applicable, its parent company or its controlled companies within the EU.

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

### Our audit activities

*The focus and scope of the audit*

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

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

The major portion of Scandic's operations are in Sweden, Norway and Finland and represent slightly more than 85% of the group's net sales and EBITDA. For the largest reporting units, we have examined the year-end book closing, undertaken hotel visits and we have assessed and tested key controls regarding the financial reporting. The consolidated accounts, disclosures in the notes in the annual report and complex transactions of a one-off nature have been examined by the group team. This has included impairment testing of the group's goodwill and brands which are not subject to ongoing depreciation.

The Covid-19 pandemic has during 2020, significantly affected Scandic's business. A significant loss of revenue has resulted in negative consequences for both profits and cash flow. Extensive measures have been taken to ensure the continuity of the Group and future financing and liquidity needs.

*Materiality*

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

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

### Key audit matters

Key audit matters of the audit are those matters that, in our professional judgment, were most significant in our audit of the annual accounts and consolidated accounts of the current period. These areas were addressed in the context of our audit of, and in in forming our opinion thereon, the annual accounts and consolidated accounts as a whole, but we do not provide a separate opinion on these matters.

| Key audit matters | How our audit addressed the key audit matter |
|---|---|
| **Going concern – Financing and liquidity needs**<br>*We refer to the Administration report and the heading Outlook and Note 34 Events after the reporting date*<br>Management has, as a consequence of the Covid-19 Pandemic, updated their assessment of the Group's ability to continue operations and future liquidity and financing needs. A business plan for the period 2020–2022 and a cash flow forecast until the end of 2021 have been prepared.<br>Management's assessment combined with measures taken to cut costs and strengthen cash flow has resulted in a need for additional liquidity of 2.9 billion SEK until the end of 2021.<br>As a result the Board of Directors has resolved on a 1.75 billion SEK rights issue with preferential rights for shareholders and an agreement for an additional 1.15 billion SEK credit facility. In addition to customary terms and conditions, the credit facility is conditional upon the rights issue being fully underwritten. The Rights Issue has strong support from the Company's largest shareholders but is subject to approval by an extraordinary general meeting.<br>Based on the prepared business plan and the cash flow forecast, which is based on management's best estimate and the information available at the time of preparation of the documents, it is Scandic's assessment that even if it is still highly uncertain how long the Covid-19 pandemic will continue and how Scandic's business will be affected, it is highly likely that the taken measures combined with a good management of revenue, expenses and cash flow, will suffice to ensure the Group's continuity for both this year and the next. | To assess the Company's and Group's going concern and that the provided disclosures in the Annual report gives a true and fair view of the estimated future financing and liquidity needs we have performed the following audit procedures:<br>We have obtained management's reporting to the Board of Directors of the expected business impact of the Covid-19 pandemic and the updated business plan.<br>We have challenged and assessed the reasonability of significant assumptions made by management and by random sample, tested the details and calculations.<br>We have also performed a sensitivity analysis to assess the impact of underlying assumptions in the cash flow forecast.<br>As for the resolved financing arrangements, in terms of the Right Issue with preferential rights and the new credit facility, we have obtained evidence of subscription commitments from Stena Sessan, AMF and Formica Capital as well as evidence of agreement of the additional credit facility. |
| **Valuation of goodwill and other acquisition-related assets**<br>*We refer to Note 12 Intangible assets and Note 34 Events after the reporting date.*<br>Goodwill and other acquisition-related assets, including brands, comprise a significant portion of the Scandic group's balance sheet total. As at 31 December, goodwill and brands amounted to MSEK 9,788 which is equivalent to 58% of the balance sheet total (excl IFRS16). These items are not only significant in terms of their amount but also in their nature, as they are impacted by management's estimations and judgements. Due to the significance of this item and its nature, this has been deemed to comprise a key audit area in the audit.<br>Management and the Board of Directors annually undertake an impairment test of the value of goodwill and brands, and in conjunction with each occasion on which there are indications that a decline in value has been identified, to assess whether there is an impairment requirement.<br>The estimated value is based on the Board of Director's approved future budgets and forecasts for the next five years. The cash flow for the years after the next five-year period is extrapolated based on the business plan. This assessment includes, therefore, assumptions of significant importance to the testing of an impairment requirement. This includes assumptions on sales growth, the development of margins and the discount rate (WACC).<br>The value that is calculated in the testing is equivalent to the value of the discounted cash flows for the identified cash-generating units: Sweden, Norway, Finland and Other Europe.<br>Even if a given unit shows no impairment requirement in a testing as per 31 December 2019, future developments negatively deviating from the assumptions and judgements providing the basis of that testing can lead to an impairment requirement.<br>Other acquisition-related intangible assets are subject to ongoing depreciation. For these assets, a testing of the valuation is undertaken if there is a suspicion that the value of the assets has decreased so that a write-down needs to be undertaken.<br>Based on the impairment testing undertaken for goodwill and brands, which is based on best estimate and on the information available in preparing the annual testing as per 31 December 2019, Scandic's assessment is that there is no impairment requirement regarding the above-mentioned assets as at 31 December 2019.<br>The significant deterioration in the business situation after the end of the financial year is an indication that there might be a need for an impairment of intangible assets. Work on assessing the need for impairment has begun but has not been completed at the submission of the annual report. | In testing the impairment requirement for goodwill, brands and other acquisition-related intangible assets, we executed, the following audit activities in order to ensure, primarily, the valuation and correctness of these items:<br>We have undertaken measures to substantiate the mathematical correctness of the company's impairment testing, the correctness of the model applied, as such, and have determined if the model agrees with IFRS. We also challenged and evaluated the reasonability of significant assumptions made by management. In order to examine the model, itself, we have utilised valuation experts to test and evaluate the applied models and methods, as well as significant assumptions.<br>On a random sample basis, we have tested and challenged the details applied in the calculations against the company's budgets and financial plan prepared as per 31 December 2019. We have, then, focused on the assumptions regarding growth, margin development and the applied discount rate per cash-generating unit. We have also followed up the correctness in forecasting business and financial plans through analysing historical outcome, where we compare previous years' assumptions regarding future earnings and growth against actual outcomes. We have also, where possible, evaluated and challenged against available external information.<br>Furthermore, we have reviewed the sensitivity analysis that has been prepared by the Company in regards of the valuation of negative changes in significant parameters which, individually or on a collective basis, could imply that an impairment requirement exists. |

### Other Information than the annual accounts and consolidated accounts

This document also contains other information than the annual accounts, consolidated accounts and are included on pages 1–75 and 140–145. The Board of Directors and the Managing Director are responsible for this other information.

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

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

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

### Responsibilities of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of the annual accounts and consolidated accounts and that they give a fair presentation in accordance with the Annual Accounts Act and, concerning the consolidated accounts, in accordance with IFRS as adopted by the EU. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

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

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

### Auditor's responsibility

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

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

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

### Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of Scandic Hotels Group AB (publ) for the year 2019 and the proposed appropriations of the company's profit or loss.

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

### Basis for Opinions

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

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

### Responsibilities of the Board of Directors and the Managing Director

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

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

### Auditor's responsibility

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

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

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

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

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

### The auditor's examination of the corporate governance statement

The Board of Directors is responsible for that the corporate governance statement on pages 88–99 has been prepared in accordance with the Annual Accounts Act.

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

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

PricewaterhouseCoopers AB, Stockholm, was appointed auditor of Scandic Hotels Group AB (publ) by the general meeting of shareholders on 7 May 2019 and has been the company's auditors since 9 May 2012.

Stockholm 12 May 2020
PricewaterhouseCoopers AB

Sofia Götmar-Blomstedt
Authorized Public Accountant

# THE SHARE & SHAREHOLDERS

## SHARE PRICE TREND

Based on the closing price on the first day of trading in the Scandic share, December 2, 2015 (63.75), until the closing price on the last day of trading in 2019 (103.75), the Scandic share rose 62.7 percent. Scandic's sector index, OMX Stockholm Travel & Leisure, was primarily unchanged while the OMX Stockholm Index increased 29 percent during the same period. Including dividends for three financial years, the total return on Scandic's shares was 78.8 percent.

During the financial year 2019, Scandic's share increased 32.8 percent from 78.10 to 103.75, while the OMX Stockholm Index went up 29.4 percent during the same period. Including dividends, the total return was 37.3 percent. At year-end 2019, Scandic's stock market value was approximately 10.7 billion SEK.

## STABLE OWNERSHIP STRUCTURE

Scandic's two largest owners are the Stena sphere via Stena Sessan AB which owns 17.4 percent of the company and Novobis AB which owns 16.3 percent. The holdings of each remained unchanged during 2019. During the year, AMF Försäkring & Fonder increased its shareholding from 6.3 to 11.2 percent, making it Scandic's third largest owner on December 31, 2019. Scandic's fourth largest owner at the end of the year was Swedbank Robur, which increased its shareholding from 4.0 to 5.7 percent.

## INCREASED SWEDISH OWNERSHIP

The share of Swedish owners increased somewhat during 2019 and at year-end, Swedish owners accounted for 66.1 percent of ownership compared with 64.1 percent in 2018. Foreign ownership amounted to 33.9 percent compared with 35.9 percent during the previous year. Shareholders in Norway and the US together accounted for almost half of the foreign ownership of Scandic.

## SHARE CAPITAL

At the end of the year, Scandic's share capital amounted to 26 MSEK divided into 102,985,075 shares conferring one vote each.

## DROP IN SHARE PRICE AT START OF 2020

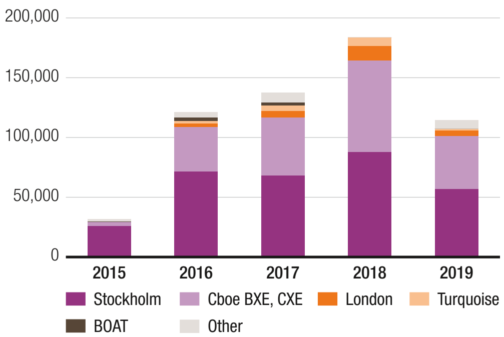
The performance of Scandic's share has been weak during the first quarter 2020. The reason for this is the spread of the coronavirus at the end of February that had a significant negative impact on Scandic's occupancy.

## DIVIDEND & DIVIDEND POLICY

The Board of Directors has adopted a dividend policy that aims to distribute at least 50 percent of the net profit from the 2016 financial year. The dividend is based on the net result excluding effects from IFRS 2016.

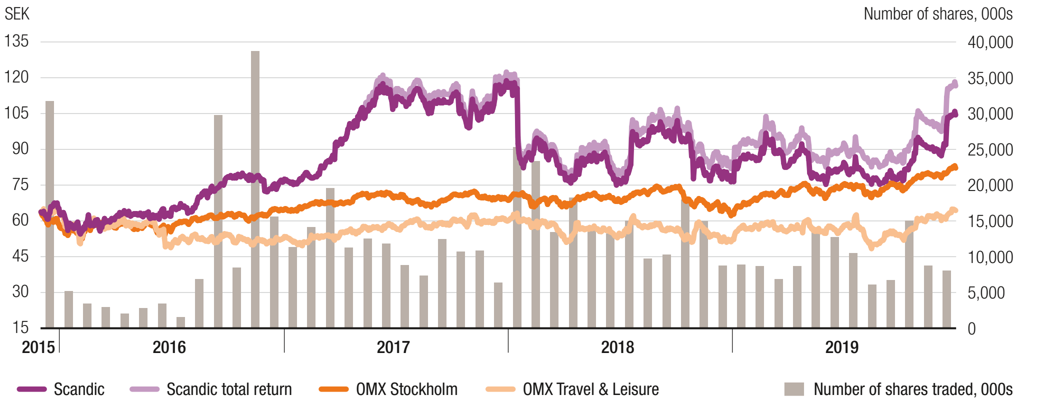
For 2019, the Board decided at an extraordinary board meeting to withdraw the previous dividend proposal and to propose that no dividend be paid.

## MARKETS WHERE SCANDIC SHARE WAS TRADED




Source: Fidessa.

## SHARE PRICE AND TURNOVER, DEC 2, 2015 – DEC 30, 2019




Source: Bloomberg and Fidessa.

| Analysts following Scandic | |
|---|---|
| Stefan Andersson | SEB |
| Christer Beckard | Nordea |
| Fehmi Ben Naamane | Oddo BHF |
| Karl-Johan Bonnevier | DNB |
| Carina Elmgren | Handelsbanken |
| Markus Gustafsson | Kepler Cheuvreux |
| Annabel Hay-Jahans | Berenberg |
| André Juilliard | Deutsche Bank |
| Jamie Rollo | Morgan Stanley |

| Shareholder concentration | Capital and votes |
|---|---|
| 10 largest shareholders | 65.8% |
| 25 largest shareholders | 73.0% |
| 30 largest shareholders | 76.3% |

Source: Monitor of Modular Finance AB. Compiled and processed data from Euroclear, Morningstar and the Swedish Financial Supervisory Authority, among others.

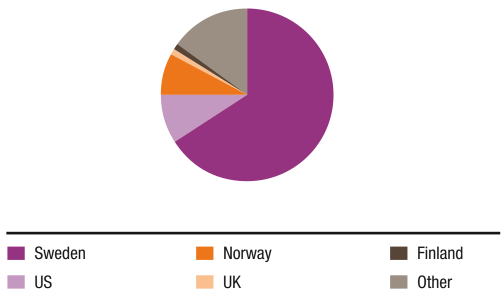
| Share data | |
|---|---|
| Ticket symbol | SHOT |
| ISIN | SE0000635401 |
| Trading lot | 1 share |
| List | Nasdaq Stockholm Nordic Mid Cap list |
| Sector index | OMX Stockholm Travel & Leisure |

| Shareholders | Share capital and votes, % | Number of shares |
|---|---|---|
| Stena | 17.4 | 17,947,735 |
| Rolf Lundström[1)] | 16.3 | 16,803,800 |
| AMF Försäkring & Fonder | 11.2 | 11,500,000 |
| Swedbank Robur Fonder | 5.7 | 5,849,624 |
| Periscopus AS | 5.0 | 5,138,955 |
| Handelsbanken Fonder | 2.8 | 2,835,000 |
| Dimensional Fund Advisors | 2.0 | 2,011,835 |
| Svolder | 1.9 | 2,000,000 |
| Vanguard | 1.9 | 1,987,302 |
| Norges Bank | 1.7 | 1,739,647 |
| Thompson, Siegel & Walmsley LLC | 1.2 | 1,211,100 |
| BlackRock | 0.9 | 895,696 |
| JP Morgan Asset Management | 0.8 | 773,650 |
| XACT Fonder | 0.7 | 745,193 |
| Baring Asset Management | 0.7 | 724,077 |
| **Total 15 largest shareholders** | **70.1** | **72,163,614** |
| Other | 29.9 | 30,821,461 |
| **Total** | **100.0** | **102,985,075** |

1) In April 2020, Rolf Lundström sold the majority of his holdings in Scandic.

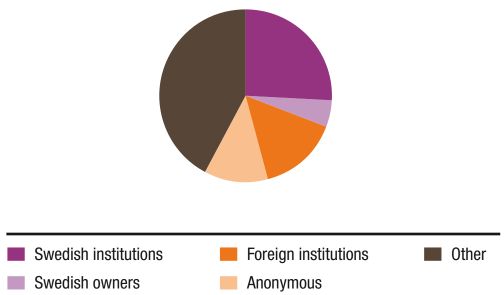
Source: Monitor of Modular Finance AB. Compiled and processed data from Euroclear, Morningstar and the Swedish Financial Supervisory Authority, among others.

## SHARE OWNERSHIP, GEOGRAPHIC DISTRIBUTION, %




Source: Monitor of Modular Finance AB. Compiled and processed data from Euroclear, Morningstar and the Swedish Financial Supervisory Authority, among others.

## SHARE OWNERSHIP




Source: Monitor of Modular Finance AB. Compiled and processed data from Euroclear, Morningstar and the Swedish Financial Supervisory Authority, among others.

# DEFINITIONS

## HOTEL-RELATED KEY RATIOS

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

**Full-time equivalents (FTEs)**
The number of full-time employees calculated as the total number of working hours for the period divided by annual working time.

**LFL (Like-for-Like)**
LFL refers to the hotels that were in operation during the entire 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.

## 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.

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

**Earnings per share, excluding effect of leasing and items affecting comparability**
The profit/loss during the period related to the shareholders of the Parent Company divided by the average number of shares, excluding effect of leasing and items affecting comparability.

**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.

## FINANCIAL KEY RATIOS & ALTERNATIVE PERFORMANCE MEASURES

**EBIT**
Earnings before interest and taxes.

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

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

**EBT**
Earnings before tax.

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

**Items affecting comparability**
Items that are not directly related to the normal operations of the company, for example, costs for transactions, integration, restructuring and capital gains/losses from sale of operations.

**Free cash flow**
Adjusted EBITDA less pre-opening costs, items affecting comparability, items not included in cash flow, paid tax, change of cash flow, interest paid to credit institutions and investments in fixed assets as well as net of acquisition/sale of business.

**Interest-bearing net liabilities**
Liabilities to credit institutions and commercial papers less cash and cash equivalents.

| Interest-bearing net liabilities | Dec 31, 2019 | Dec 31, 2018 |
|---|---|---|
| Liabilities to credit institutions | 3,036 | 2,940 |
| Commercial papers | 487 | 1,000 |
| Cash and cash equivalents | -26 | -103 |
| Interest-bearing net liabilities | 3,497 | 3,837 |

**Justification:** Interest-bearing net liabilities are used to calculate the company's indebtedness, which is one of Scandic's financial targets. The definition chosen corresponds to the definition used for the calculation of indebtedness according to Scandic's loan agreements.

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

| Working capital | Dec 31, 2019 | Dec 31, 2018 |
|---|---|---|
| Current assets, excluding cash and cash equivalents | 1,294 | 1,321 |
| Current liabilities | -3,266 | -2,896 |
| Working capital, net | -1,972 | -1,575 |

**Justification:** There is a need to optimize cash generation to create value for Scandic's shareholders. The management team is therefore focused on working capital and on reducing lead times between income generation and payments received.

A more comprehensive list of definitions and alternative performance measures and related justifications is available at scandichotelsgroup.com/en/definitions

# INFORMATION TO THE SHAREHOLDERS

ANNUAL GENERAL MEETING

JUNE 15, 2020

STOCKHOLM

## 2020 ANNUAL GENERAL MEETING

The Annual General Meeting of the shareholders in Scandic Hotels Group AB will be held at 10:00 CET on Monday, June 15, 2020 at Vasateatern, Scandic Grand Central, Stockholm. Registration will begin at 9:00 CET.

### Participation in the Annual General Meeting

Shareholders who wish to participate in the Annual General Meeting must be recorded in the share register kept by Euroclear Sweden AB on Monday, June 8, 2020 and give notice to the company of their intent to participate not later than on Monday, June 8, 2020.

Shareholders may register by calling +46 8-402 92 48 or in writing to Scandic Hotels Group AB (publ), AGM 2020, c/o Euroclear Sweden, P.O. Box 191, SE-101 23 Stockholm.

Shareholders shall in their notice state their name, social insurance number or corporate identity number, address, telephone number and the number of advisors (if any). Shareholders attending by proxy or representative should send documents of authorization to the mail address above in good time before the Annual General Meeting. A power of attorney template in Swedish and in English is available on the company's website at scandichotelsgroup.com. For information on how personal data is processed, please visit euroclear.com/dam/ESw/Legal/Privacy-notice-bolagsstammor-engelska.pdf.

To participate in the Annual General Meeting, shareholders whose shares are nominee-registered must temporarily register the shares in their own names. Shareholders should thus inform the nominees well in advance of Monday, June 8, 2020.

### Notice convening the Annual General Meeting

The Annual General Meeting is convened through a notice on the company's website and an announcement in the Swedish Official Gazette (*Post- och Inrikes Tidningar*).

Any documents that are to be presented at the Annual General Meeting will be made available on the company's website at least three weeks prior to the Annual General Meeting and on the day of the Annual General Meeting.

## NOMINATION COMMITTEE

| | |
|---|---|
| Kristina Patek | Stena Sessan AB (Chairman of the Nomination Committee) |
| Joel Lindeman | Novobis AB |
| Dick Bergqvist | AMF Försäkring och Fonder |
| Per G Braathen | Chairman of the Board of Directors |

Among other things, the Nomination Committee proposes Board members to the Annual General Meeting and if applicable, auditors and fees to the Board of Directors.

## FINANCIAL INFORMATION 2020

**Interim Report January–March 2020**
May 20, 2020

**Interim Report January–June 2020**
July 17, 2020

**Interim Report January–September 2020**
November 3, 2020

Financial reports are available on the company's website at scandichotelsgroup.com

To subscribe for Scandic's press releases and interim reports, sign up on Scandic's website.

## CONTACT DETAILS

**Jan Johansson,** Chief Financial Officer
jan.johansson@scandichotels.com

**Henrik Vikström,** Director Investor Relations
henrik.vikstrom@scandichotels.com

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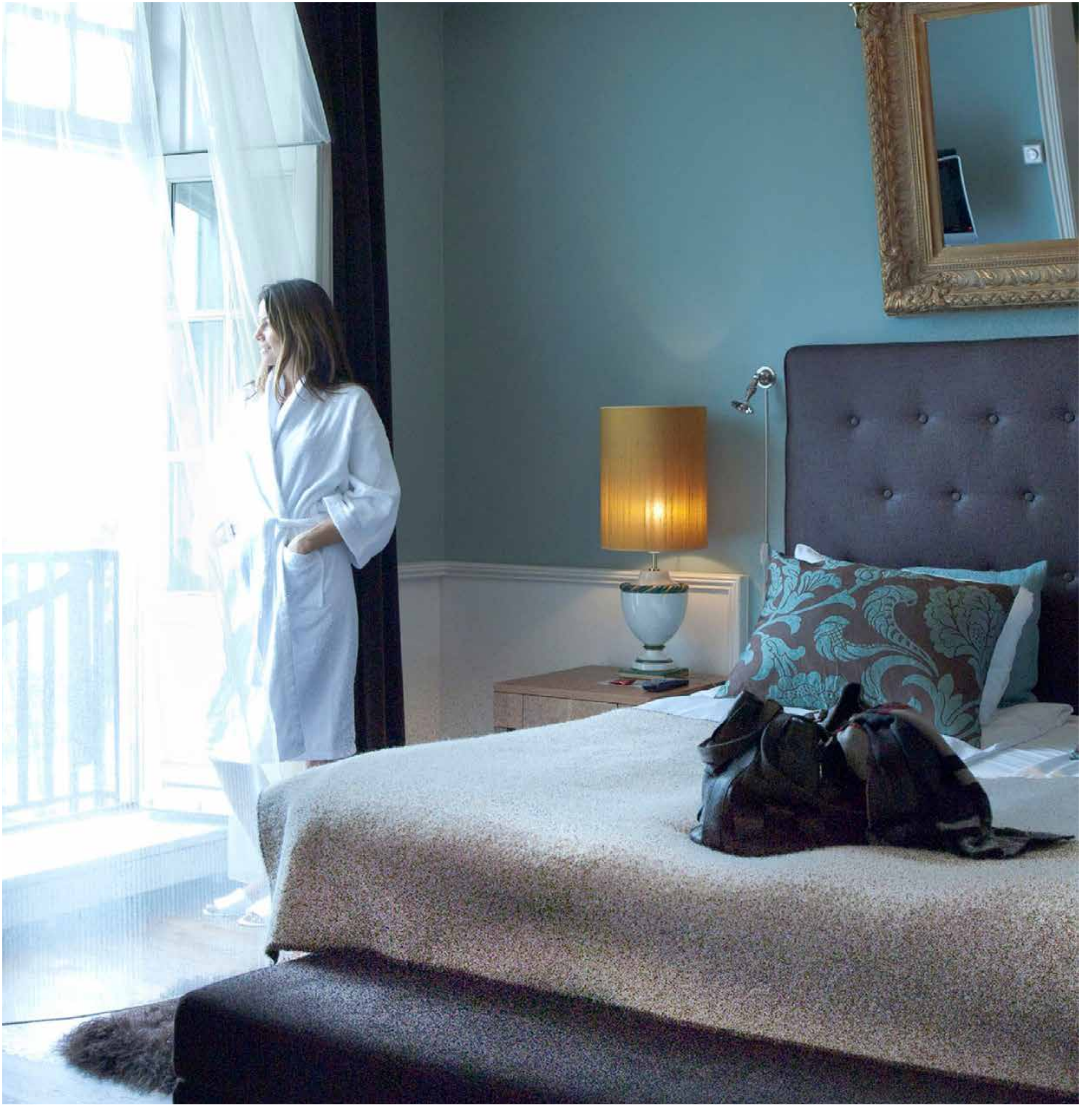
**A SCANDIC EXPERIENCE**

1. **BUSINESS MEETING, BUFFET**
2. **SCANDIC EMPORIO, HOUSE KEEPING**
3. **SCANDIC CONTINENTAL, BREAKFAST**
4. **SCANDIC GRAND HOTELL OSLO, JUNIOR SUITE**



Scandic

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