

# Padox Hotellfastigheter AB

Annual Report 1998



MARKET ANALYSIS

HOTEL PROPERTY

MARKET STRATEGY

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### FINANCIAL REPORT DATES

Annual General Meeting	March 25	1999
Three-month interim report	April 27	1999
Six-month interim report	August 24	1999
Nine-month interim report	October 22	1999

Pandox Hotellfastigheter AB (publ)  
Org. no.: 556030-7885  
Registered office of Board of Directors: Stockholm

# Pandox in brief

Pandox is a "pure" hotel-property company.

It has been listed on the Stockholm Stock Exchange since June 23, 1997.

The Pandox business concept is to own, develop and lease hotel properties. The objective is to obtain an optimal return and growth in value by applying specific knowledge of hotels, hotel properties and business development. The vision of Pandox is to be the leading and most profitable hotel property company in the Nordic region and that Pandox shares are to be a competitive investment alternative in the capital market.

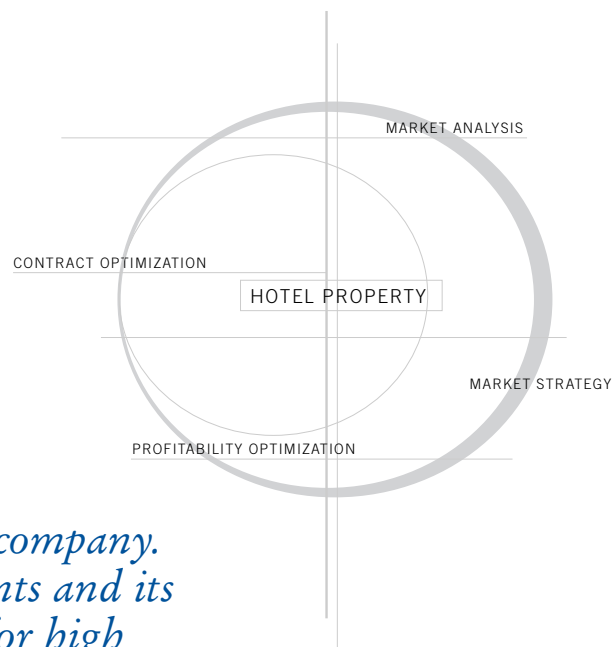
Pandox' real estate portfolio focuses on large hotels in metropolitan areas and regional centers. At December 31, 1998 Pandox owned 28 hotel properties at a book value including FF&E (Furniture, Fixture & Equipment) of SEK 2,085 M.



# The year in brief

- Income after tax amounted to SEK 61.5 M, equal to SEK 4.10 per share.
- The cash flow from operations was SEK 98.2 M, equal to SEK 6.55 per share.
- New shares totaling SEK 210 M were issued in January 1998.
- Pandox acquired and took possession of nine hotel properties for SEK 260 M. An agreement was also reached covering the right to acquire the Provobis Star Hotel property in Lund in January 1999 for SEK 101 M.
- The Board of Directors proposes that the Annual General Meeting approve payment of a dividend of SEK 2.00 per share.
- The hotel market in Sweden continued to develop favorably in 1998. The number of rooms sold increased by 5.1 percent, to 14.4 million, equal to an occupancy rate of 46 percent. The occupancy rate in Pandox' priority market segments was 61 (58) percent. The occupancy rate in Stockholm was 72 (68) percent, and in Malmö, 55 (52) percent. The occupancy rate in Gothenburg increased to 62 (60) percent.

# This is Pandox



*Pandox is a “pure” hotel property company. Its focus on selected market segments and its special expertise create conditions for high profitability and growth.*

## **BUSINESS CONCEPT, OBJECTIVE AND VISION**

Pandox’ business concept is to own, develop and lease hotel properties. The objective is to achieve an optimal return and growth in the value of the hotel property portfolio through specific knowledge of hotels, hotel properties and business development. The vision of Pandox is to be the leading and most profitable hotel property company in the Nordic region and for Pandox’ shares to be a competitive investment alternative in the capital market.

## **FINANCIAL OBJECTIVE**

Pandox’ equity/assets ratio shall amount to at least 35 percent. The equity/assets requirement should be viewed against the background of Pandox’ acquisition strategy and tax situation. It is to be reviewed regularly with the objective of achieving an optimal return for the shareholders. The intention of the Board of Directors is that the dividend should amount to between 30 and 50 percent of income from current operations, after tax. The Board will take into account Pandox’ growth opportunities, investment needs and financial situation in general in connection with future dividend proposals.

## **STRATEGY**

A number of strategies have been formulated to guide Pandox in achieving the objectives that have been set.

### **Focus on type of property**

Pandox’ principal strategy is to focus on a single type of property – hotel properties.

### **Portfolio and expansion strategy**

Pandox strengthens its focus by concentrating on a priority market segment. The hotel properties shall be large hotels with more than 75 rooms, centrally located in Sweden’s largest hotel markets: Stockholm, Gothenburg and Malmö, as well as in Swedish regional centers and university cities where the conditions are favourable for a stable hotel rooms demand. Acquisitions may also be made in capital cities and other large cities in the rest of the Nordic region.

### **Strategy for active ownership**

Pandox is an active hotel-property owner. All of its activities are designed to optimize cash flow from the hotel properties. Pandox accordingly conducts a continuous dialogue with its joint-venture partners in order to develop the cash flow from the hotel properties that is to be shared between the partners.

### **Strategy for forms of cooperation**

Pandox applies a situation-based strategy and concludes all types of agreements with all the major players in the hotel market. The objective is to be able to choose the best combination of agreements and forms of cooperation.

### **Cash flow strategy**

The hotel properties are to be evaluated regularly, with a special focus on market changes, efficient use of space, distribution and choice of partners. The Pandox system for optimizing cash flow is called the Pandox model.

## **THE PANDOX MODEL**

To be able to exercise active ownership, a hotel property owner requires insight and knowledge of the hotel operator’s market and operations. Pandox acquires this knowledge on a continuing basis by evaluating all hotel properties with the aid of the Pandox model. The model covers four areas: market analysis, market strategy, profitability optimization and contract structure. Each hotel property is evaluated continuously based on the four steps in the model. Similarly, each investment, acquisition and divestment is preceded by an evaluation.

### **Market analysis**

First, the local hotel market is analysed with respect to supply and demand in all price and product segments. Revenue from alternative areas in use is compared with hotel revenue. Competitive hotels are analysed. The market analysis provides answers to the types of revenue, and how much they amount to, in a specific market.

### Market strategy

Following the market analysis, a strategic plan is established for each hotel property. The strategic plan takes the hotel's specific conditions and market profile into account. The price and product profile that should be sought is determined by the physical configuration of the hotel and its competition. The choice of brand name, market segment and hotel product are key matters to which Pandox devotes special attention. The property's continuing usage and marketing strategy are evaluated continuously.

### Optimization of profitability

Based on the market analysis and the marketing strategy that has been established, the hotel should be managed by the operator in the most effective way possible. The operator's responsibility is to maintain market shares, operate in a cost-effective manner and meet the quality targets that have been set. Once it is understood that the profitability of the hotel operation directly affects the value of the property, the operator stands out as Pandox' most important partner.

To ensure a favorable trend of the hotel business, and thus in the value of the property, an operator is evaluated continuously. If the operator does not achieve the estimated profitability potential, one alternative for Pandox may be to take over the hotel operation itself. The Pandox organization possesses the expertise to operate hotels.

### Structure of contracts

When the prerequisites for an optimal cash flow have been created in a hotel property; then the profit is divided amongst Pandox, the operator and the other parties involved. Leases are structured so that all parties are motivated to continuously improve the profitability of the hotel property. Pandox uses revenue-based, result-based and fixed-fee lease agreements, or a combination of them.

### HOTEL OPERATIONS

Specific knowledge of hotels and hotel properties is a distinctive Pandox feature which enables the Company to operate hotels itself. The idea is to provide flexibility to make decisions and act, as needed, to increase profitability in a hotel when this is required. When corrective measures have been implemented and earnings have been increased, the idea is for Pandox to again sign a lease with an "external" hotel operator.

### ORGANIZATION

The Pandox organization is small and specialised. The organization possesses special expertise in the areas of hotels, hotel properties and business development. Approximately 12 persons within the Group are working with hotel properties.

Operations are divided into two areas that are headed by business area managers who are responsible for the operating surplus in each hotel property. Continuous cash flow development in each hotel property is an important part of the business area managers' work. The business area managers are also responsible for leasing. Since approximately 90 percent of Pandox' leasing revenue comes from hotel operations, it is natural for the business area managers to have a background in such operations. All work is performed in accordance with methods described in the Pandox model.

The concentration on hotel properties imposes special demands on

the orientation of Pandox' work.

The Company's analysts follow the trend of business in Pandox' hotel properties and the operations conducted in them. In addition, great emphasis is placed on following the trend of business in the hotel industry and in monitoring trends in the general business environment. An analyst is also responsible for development and maintenance of the IT (Information Technology) systems for market information (MIS), hotel property information (HFD) and media information (MIF).

The organization includes a chief engineering officer who is involved in technical management, property development and engineering, as well as in procurement and the implementation of investments. This work is performed in close cooperation with the business area managers. Property operations are handled externally. Financial control and reporting, administrative routines and financing are coordinated centrally at Pandox. It may also be noted that Pandox' central functions include the services of a Company lawyer who specializes in real estate law and legislation governing leases as well as hotel leases.

Business development through acquisitions and sales generally takes place in the form of projects and involves all types of personnel: business area managers, analysts, property managers, the legal counsel and chief financial officer.



Upper line from left: PG Wahlqvist, Niklas Berglund, Nevio Kucic, Salme Olsson, Anders Nissen och Claes Livijn. Lower line from left: Peter Tengström, Louise de Verdier-Madden, Folke Holmqvist, Marina Karlsson och Nils Lindberg.

# Message from the Managing Director

*The financial year 1998 was characterized by high growth for the hotel industry, continued restructuring and a sharp increase in earnings for Pandox.*

## TO OUR SHAREHOLDERS:

1998 was an exciting and active year for Pandox. The year was characterized by a great amount of activity related to taking possession of acquired hotel properties.

Pandox' business concept is simple: We are a "pure" hotel-property company. We have a strategy which we focus on selected market segments that is combined with a special knowledge in the fields of hotels, hotel properties and business development. This offers us favorable conditions under which we develop cash flow and value for our hotel properties.

At year-end 1998, Pandox consisted of 28 hotel properties in Sweden. Pandox' properties are of high quality in a well-defined segment of the market. This segment comprises hotels with more than 75 rooms, with a central location, business-travel profiles and located in large cities in Sweden and the Nordic region.

## ACQUISITIONS

During 1998 Pandox took possession of eight hotel properties that were acquired from Tornet. The Radisson SAS Hotel Luleå was acquired and, in line with Pandox' focus on hotel properties, Källhagens Wårdshus and an office building were sold. Following these sales, Pandox own hotel properties exclusively. At the end of the year an agreement was reached pertaining to rights to acquire the Provobis Star Hotel property in Lund in January 1999. All of the acquisitions contribute immediately to higher earnings and increased cash flow per share. Since the acquisitions are in line with our strategy focusing on large hotel properties in city locations in large communities, the quality of the portfolio has also been improved.

## SPECIALIZED EXPERTISE AND WORK METHOD

Being a successful hotel property owner requires specialized expertise in hotels, hotel properties and business development, Pandox has accordingly built up a small organization with in-depth and broad knowledge in these areas. To maintain and ensure high precision in daily decision-making, we have developed a work method, the so-called Pandox model. Strategies and decisions, as well as action plans for each hotel property, are formulated within the framework of the model. To create additional competitive advantages, Pandox has created IT systems for market information, a hotel property register and IT-based cash flow models as sources of data in connection with acquisitions and sales, as well as for operating matters.

The continuous development and enhancement of our properties is an important task. During 1998, based on the Pandox model, substantial work was devoted to starting development of all hotel properties that had been acquired in 1997 and 1998. As a hotel-property owner, it is important to have an open dialogue with one's partners and to be involved in the operation of a hotel in order to increase the cash flow. Examples of measures implemented during 1998 were changes of operators and brand names, new agreements, investments to strengthen and develop the hotel product and the conversion of inefficient space to new hotel rooms. All measures are controlled by the cash flow and yield growth in earnings.

The hotel market in Sweden continued to develop favorably during 1998. The number of rooms sold increased by 5.1 percent, to 14.4 million, equal to an occupancy rate

of 46 percent for the entire country. This statistic consists of many different geographical market segments, which in turn are segmented into different products and price levels.

The municipality of Stockholm is Sweden's largest market, with 2.7 million rooms sold in 1998, equal to an occupancy rate of 72 percent. Within Greater Stockholm there are approximately 10 geographical market segments with major variations in occupancy rates. Various product and price segments that contain substantial differences in efficiency and profitability stand out in these differentiated markets. The information required to evaluate a hotel property is therefore substantial and includes – in addition to knowledge of the hotel market – knowledge of the brand name and distribution of hotel rooms, space layout, hotel product and price segment, as well as the choice of an operator, partner and form of cooperation. The choice of priority market is therefore a key matter.

Hotels in Pandox' market segment are large centrally located business hotels in cities where there is a strong demand for rooms thus offering good conditions for operations. Of Sweden's 1,697 hotels, 207 are in Pandox' market segment. The occupancy rate in the segment is slightly more than 61 percent – 15 percentage points higher than the average for Sweden as a whole. Most operators demand large hotels, which means that we always have choices when we negotiate new hotel leases. Pandox' priority market segments are currently growing by about 6 percent, the highest rate in the industry in both absolute and relative figures.

## **CHOICE OF PARTNERS AND CONTRACT STRUCTURE**

An operator's ability to create profitability in his operation is critical in determining the value of a hotel property. Pandox has therefore adopted a situation-based strategy. Pandox enters into all types of agreements and works with all the large operators and brand names. This gives us many different business opportunities.

## **HOTEL PROPERTY MARKET**

A hotel property has special characteristics that distinguish it from other properties. A hotel property is a production unit in which cash flow is created. There is a double market dependence. The property is valued in terms of both market interest in real estate shares and the development of the hotel market. Another distinctive feature is that the tenant – the operator – has a decisive influence on the value of the property through his ability to produce cash flow. Moreover, the operator in many cases has the initiative in key matters despite the fact that the property owner is responsible for more than 90 percent of the investment capital and is thus taking the greatest risk.

## **INCREASED DEMAND FOR STREAMLINING**

The real estate industry is increasingly characterized by streamlining. A survey shows that the greater part of real estate companies are focusing on geographical streamlining or on types of properties. Today, 17 percent of the three hundred largest hotels in Sweden are owned by real estate companies that are not streamlined. A conversion to indirect ownership in hotel properties via Pandox would offer a number of benefits for both seller and buyer. The seller would be able to increase his liquidity and reduce risk. He would also achieve improved operational and financial efficiency by focusing on his priority markets. Pandox would gain increased growth and the Company's market positions would be strengthened. The shares would become more liquid.

## **CONFIDENCE IN PANDOX**

Pandox is a young company. A key task for the Board of Directors and Management involves building long-term confidence in the Company's business concept and strategy. We have chosen to conduct an open and straight-forward dialogue with the capital market in which we have an opportunity to explain and argue on behalf of our views and our development. Areas that have been given special attention are areas where profit and cash flow per share will increase through acquisitions and investment decisions as well as through internal programs involving existing hotel properties.

The Company will also produce clear and consistent information for its priority markets – the hotel market and the capital market – and will meet forecasts. It is gratifying that these efforts have been met by the markets' approval. During the year, for example, Pandox received the Deloitte & Touche prize for the best annual report issued by a real estate company, and in a survey conducted for Dagens Industri among Sweden's security analysts Pandox achieved an award for the best real estate company.

## **TREND OF HOTEL MARKET IN 1999**

The outlook for the hotel industry in 1999 is favorable, especially in Pandox' priority market segment. A continued high level economic activity together with low surplus capacity and an anticipated increase in private consumption are creating conditions for continued strong demand for hotel rooms. Growth in Pandox' priority market segment is expected to continue to exceed the national average. Accordingly, with an hotel-property portfolio that contains strong, well-positioned brand names, Pandox has good opportunities for further growth in earnings.

## **FORECAST FOR 1999**

Pandox' earnings in 1999 before changes in the property portfolio are expected to increase by 10 percent.

Ander Nissen  
Managing director



**ANDERS NISSEN**

## **MANAGING DIRECTOR**

Anders has an extensive background in the hotel industry, with nearly 20 years of experience. His merits include operating experience as the director of several hotels in Sweden. During 1989-1992, Anders held a number of executive positions within the RESO organization, the Swedish hotel operator.

In 1993, Anders was employed as Managing Director of Securum Hotel & Turism AB and managed efforts to structure Securum's hotel property portfolio. Anders was one of the initiators of Pandox and has been Managing Director of Pandox from the start, 1995.

# Padox share data

*Padox has been listed on the “O” List of the Stockholm Stock Exchange since June 23, 1997.*

### TREND OF SHARE PRICE

Since the listing on the Stockholm Stock Exchange in June 1997, Padox shares have increased 21.6 percent in value, from SEK 47.7 (adjusted for new issue of shares) to SEK 58 as of December 30, 1998. During the same period the Affärsvärlden General Index has risen by 11.5 percent, the Carnegie Real Estate Index increased by 6.9 percent and the Carnegie Small Cap Index was down by SEK 1.3 percent. The highest price paid per Padox share in 1998 was SEK 75,5 and the lowest was SEK 50. During the year 40 percent of the share traded. Padox’ market value as of December 31, 1998 was SEK 870 M.

### NEW ISSUE

In January, 1998, as a part of its financing the hotel portfolio acquisition from WASA, Padox issued new shares with preferential rights to the Company’s shareholders. The

issue was fully subscribed, with the result that shareholders’ equity, including share capital, increased by SEK 205 M, after issue costs.



### SHARE CAPITAL

As a result of the new issue in January, Padox’ share capital increased by SEK 75 M and the number of shares outstanding rose by 5 million, to 15 million. As of December

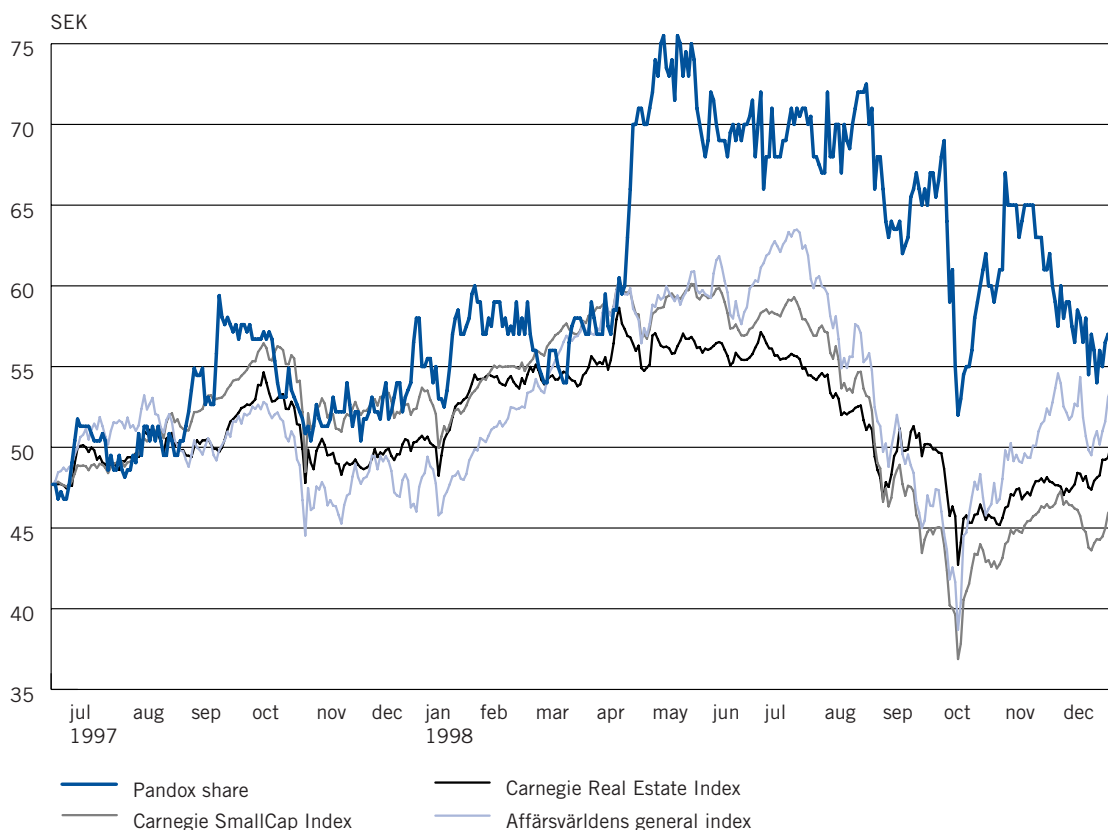
31, 1998, the share capital in Padox amounted to SEK 225 M, represented by 15 million shares. All shares carry equal rights to participate in the Company’s assets and earnings. Each share has a par value of SEK 15.

### SHAREHOLDERS

As of December 31, 1998 Padox had 2,221(2,675) shareholders. Institutions own 90 (83) percent of the shares and foreign shareholders own 15 (14.7) percent. 71 percent of the shareholders owned fewer than 500 shares.

### DIVIDEND POLICY

The Board of Directors’ intention is that the distributed dividend should amount to between 30 and 50 percent of earnings from current operations, after tax. In connection with dividend proposals in the future, the Board will take into account Padox’ growth opportunities, investment requirements and financial situation.





### Change in share capital

Year	Transaction	Change in nr of shares	Nr of shares	Share capital SEK M
1994	Foundation		2,500	150,000
1995	New issue	1,250,000	1,252,500	75,150,000
1995	Bonus issue	1,247,500	2,500,000	150,000,000
1997	Split 4:1	7,500,000	10,000,000	150,000,000
1998	New issue	5,000,000	15,000,000	225,000,000

### The following banks and brokerages follow Pandox on a continuing basis

Company	Name	Telephone
Alfred Berg Fondkommission	Lars-Åke Bokenberger	08-723 58 00
Carnegie Fondkommission	Fredrik Grevelius	08-676 86 84
Cheuvreux Nordic	Tomas Ramsälv	08-723 51 00
Hagströmer & Qviberg FK	Peter Wallin	08-696 18 19
Handelsbanken	Hans Derninger	08-701 10 00
Norske Bank	Lars Karlsson	08-440 58 62
Nordbanken	Stefan Albinsson	08-614 85 27

### LARGEST PANDOX SHAREHOLDERS, December 31, 1998

Name	Number of shares	Percent
Brummer & Partners, Zenit Fund	2,356,000	15.7%
Skanska AB	1,500,000	10.0%
Ratos Förvaltnings AB	1,499,500	10.0%
Hagströmer & Qviberg share funds	705,000	4.7%
SPP	690,500	4.6%
Nordbanken share funds	648,900	4.3%
Sixth National Pension Fund	551,450	3.7%
WASA share funds	465,100	3.1%
Skandia Life Insurance Company	320,000	2.1%
Swedish Industrial Salaried Employees Association	300,000	2.0%
Banco fonder	298,300	2.0%
Svolder AB	278,000	1.9%
Union Bank of Norway	251,800	1.7%
Pictet & Cie	230,000	1.5%
Sabis Invest	196,100	1.3%
Non-Swedish fund managers	1,798,046	12.0%
Others	2,911,304	19.4%
<b>Total</b>	<b>15,000,000</b>	<b>100.0%</b>

Total number of shareholders: 2 221

### Distribution of shareholdings

Number of shares	Nr of shareholders	Nr of shares held	Percentage of shares
Over 100 000	26	11,759,220	78.4%
50 001 - 100 000	12	903,759	6.0%
20 001-50 000	19	708,122	4.7%
10 001-20 000	19	282,151	1.9%
5 001-10 000	26	199,420	1.3%
2 001-5 000	74	264,336	1.8%
1 001-2 000	160	254,946	1.7%
501-1 000	297	224,370	1.5%
0-500	1,588	403,676	2.7%
<b>Total</b>	<b>2,221</b>	<b>15,000,000</b>	<b>100.0%</b>



**NAME: NILS LINDBERG**

### CHIEF FINANCIAL OFFICER

Nils has long experience working on economic and financial matters in industry and banking. He served as Controller and Treasurer for Dow Chemical Nordic Region. He was also Senior vice president at Nordbanken, working as an account executive in the Corporate Group unit. After that, Nils worked as a manager in Securum Finans. He joined Pandox in the middle of 1995.

Nils is responsible for economic and financial matters in the Group. Financial control and reporting, including reporting to the capital market, as well as financing, are key areas of responsibility. Active follow-ups at the hotel-property level in cooperation with the business area managers are other important tasks. Nils also participates in analyses and evaluations of acquisitions and divestments.

# Case project – How we increase the value of our hotel properties



*To illustrate the use of our specialized expertise and our work method – the Pandox model – we present an example that resulted in increased value: the changeover of Radisson SAS Grand Hotel Helsingborg from an old-fashioned and traditional hotel with profitability problems to a modern hotel with a solid basic business and increasing rental revenue for the property owner.*

Pandox acquired the Radisson SAS Grand Hotel, including operations and equipment, from Handelsbanken at the beginning of 1995. The work of developing a strategic plan based on our Pandox model work method began immediately. This work is described below.

## MARKET ANALYSIS

At the time the acquisition was made, the occupancy rate in the hotel market in Helsingborg was relatively low (45%). Demand had declined as a result of a weak hotel economy. New capacity had also come into the market, further depressing the occupancy rate and creating new price and product segments. Our market analysis yielded the following description of the situation:

- Excess capacity in all price and product segments in Helsingborg
- Declining average prices and lower occupancy rates
- Profitability problems for the operators
- Declining levels of rents for retailing and office space, due to economic conditions

The situation description for the Grand Hotel was as follows:

- The hotel had lost its position as the leader in Helsingborg
- There had been several changes in operators, due to bankruptcies
- The hotel product required upgrading and development
- Grand Hotel's well-known restaurant was reporting larger losses
- Investments in the building were required to put it in modern condition
- The hotel lacked both an operator and a distributor.

## MARKETING STRATEGY

Based on the market analysis, a strategy containing a number of projects and plans that would be implemented simultaneously was adopted.

Two months following the takeover, the hotel was damaged by a fire that delayed the changeover and made it more difficult.

*Strategy for distribution:* Link the locally well-known Grand Hotel with a national brand name.

*Action:* A franchise agreement with Radisson SAS.

*Strategy for more efficient use of space:* Improve the efficiency of space that was producing revenue and reduce the space that was not producing revenue.

*Action:* Convert space to hotel rooms. Increase number of double rooms to boost weekend occupancy. New bar in lobby.

*Target-group strategy:* Increased focus on business travelers.

*Action:* New brand name, including new guest-relations program.

*Strategy for hotel product:* Upgrade and develop hotel product while maintaining classic style.

*Action:* All rooms were renovated. New design for corridors.

Public spaces were enhanced and the reception area was given a new classic style. New sauna and recreation department.

*Strategy for restaurant product:* Minimize loss and create a modern restaurant product.

*Action:* The restaurant was divided into several “niced” products that broaden the guest base. Some restaurant space was converted to other uses. New breakfast-service profile.

#### **OPTIMIZATION OF PROFITABILITY**

To increase the focus on implementing the strategies that had been established, a management agreement was initially made with an “external” operator. Parallel with implementation of the measures that had been approved, the work of searching for, evaluating and negotiating with a future partner was under way,

#### **OPTIMIZATION OF LEASE**

Following a year’s operation, a revenue-based lease with a rent guarantee was arranged with a private operator, Sverigeråd AB, with whom we had worked earlier and knew well. Together with Sverigeråd AB, we concluded a franchise agreement with Radisson SAS Hotels. This then resulted in a management contract to further strengthen the link between operator and distributor.

#### **Evaluation following implementation of action program:**

- The Radisson SAS Grand Hotel is once again one of Helsingborg’s leading hotels. Pandox’ investments have had the following results:
- Grand Hotel has increased its share of a growing market by more than 40%.
- The hotel property and hotel product are in good condition.
- Profitability problems in the restaurant have been eliminated.
- The operator is managing a profitable business.
- Rental revenue, which was very low when Pandox took over, has increased substantially and is today on a solid market level. Rental revenue is expected to continue to grow in 1999.

In January 1999, in a rating appearing in Dagens Industri (Sweden’s daily business newspaper), the hotel was awarded 20 points for service and comfort, which is very favorable since the highest rating to date has been 21 points of 25 possible.



**CLAES LIVLIN**

#### **BUSINESS AREA MANAGER**

Claes received his training in the hotel industry in Switzerland. His long experience in the industry includes employment in the Hilton in Amsterdam, the Sheraton in Stockholm, as well as with SAS International Hotels and Sara Hotels in Sweden. With these employers he has held such positions as hotel vice president, manager responsible for establishing new hotels, and the management of hotels. Claes joined Securum Hotell & Turism in 1993 as a project manager. He participated in the formation of Pandox in 1995 and has been with the company since then.

As a business area manager, Claes is responsible for the financial results of part of the hotel-property portfolio. His daily work involves primarily relations with the hotel operators and coordinating Pandox’ specialized expertise in hotels, real estate, legal matters and analysis in order to optimize the operating net of the hotel properties. The business area manager is also responsible for leasing the hotel properties and for planning investments,

# Types of leases

*The structure of a hotel-property lease largely determines the value of the property.*

## HOTEL LEASES

Structuring a hotel lease is a complicated matter. Apart from legal expertise, substantial insight into conditions in the industry is required. Knowledge of what the value-creating process is like, and the ability to understand and utilize special features of a hotel property, are highly important. The starting point is that a hotel-property owner always has to take the initiative in matters that create cash flow.

A hotel property has specific characteristics. Like an office building, it is generally in a central location. But the value of the property is more dependent on the profitability of the business than is the case with an industrial building. The leasing cost constitutes a large part of hotel operation expenses, since the building is the raw material in the processed product that is rented out in the form of hotel rooms. And a hotel property generally has a single tenant, the hotel operator.

In brief, these special characteristics mean that very substantial demands are imposed on the structuring of a hotel lease, since rental revenue determines the value of the property. Each lease is a result of a comprehensive market analysis that includes changes in the market and the competitiveness of different players over the short and long term. Our leases govern a large number of issues between property owner and tenant and often are very comprehensive.

The structuring of our leases is “situation-adapted” and reflects Pandox’ work as an active owner. Rental revenue may decline due to a weaker hotel market or because the operator loses his ability to pay. Through the use of various techniques, we can limit our risk in a falling market at the same time that we are

participating in one that is rising. If the operator’s ability to pay worsens, we have the expertise to run the hotel business ourselves. This reduces the operating risk.

## TYPES OF LEASES

There are a number of types of leases that have completely different characteristics. Pandox works mainly with fixed-fee and revenue-based leases, or a combination of the two.

**The fixed-fee lease** is generally hedged against inflation by being linked to the trend of the Consumer Price Index (CPI). This form of lease is used in mature markets and with well-established products. The local competitive situation may also make it impossible to use other forms of leases. A fixed-fee lease limits our risk – but also our potential. Fixed-fee hotel leases account for 36 percent of Pandox’ total rental revenue.

**Revenue-based leases** are tied to the hotel business’ sales. This form of lease gives Pandox a share of growth in both the market as a whole and in market share. To limit our risk, leases generally specify a minimum amount of rental revenue. This means that the hotel operator guarantees that he will deliver at least that amount. Because various types of revenue have different margins, our revenue-based leases are generally differentiated. The rent is paid at different percentage rates based on the capacity inherent in the different types of revenue. Revenue-based leases constitute 54% of Pandox’ total rental revenue; of this amount, 63% is attributable to leases with minimum guarantees.

**With result-based leases**, the hotel-property owner shares in the operator’s operating results. The operating result is created by the market situation, the share of the market and the operator’s ability to run the business efficiently. This



-  Own operator companies
-  Result-based leases
-  Revenue-based leases
-  Revenue-based leases with minimums
-  Fixed-fee leases
-  Fixed-fee leases, other premises

form of lease imposes high demands on the hotel-property owner who has to understand fundamentals of the hotel industry and be able to judge whether the operator has the knowledge required to compete in a specific market. This type of lease also requires that the owner understands the financial control system in the operator's company. Result-based leases may sometimes be combined with changes in the business that create strong growth in earnings.

**With management contract**, the property owner retains the role of operator but purchases management know-how. For this he pays a fee that may be divided in many parts between revenue and earnings so that both parties will be motivated to run an efficient business. These leases that are common in the United States require active ownership and substantial knowledge of the hotel industry. Management leases can be suitable for hotel-property companies with specialized expertise, since such companies can integrate the operator's activities with their ownership and obtain a larger percentage of the operating profit.

**Property owner's operating company.** In some cases there may be reasons for a hotel-property owner to have maximum control over a hotel operation. For example, the operation may be in the build-up stage, or there is a need for a temporary solution while the owner is

changing operators. Operating a business yourself also provides full flexibility in connection with a sale, for example. Pandox has the expertise to operate hotels. Leases drawn up with Pandox operating companies are normally revenue-based, without minimum guarantees.

#### PANDOX' LEASE STRUCTURE

Pandox' lease structure reflects our active and situation-adapted ownership. The structure of leases is controlled by such factors as anticipated market trends, local competition and planned investments, as well as the choice of operators and distributors. By combining leases of various types, we achieve a lease structure that is 63% "flexible" and which gives us increased cash flow in a rising market, at the same time that we are 70% protected against a downturn in the market through fixed-fee leases and rental guarantees.

#### Rental revenue in 1998 distributed by type of lease

	SEK M	%
Own operator companies	3,4	2
Result-based leases	16,6	8
Revenue-based leases	44,2	20
Revenue-based leases with minimums	74,4	34
Fixed-fee leases	57,9	26
Fixed-fee leases, other premises	22,0	10
<b>Total</b>	<b>218,5</b>	<b>100</b>

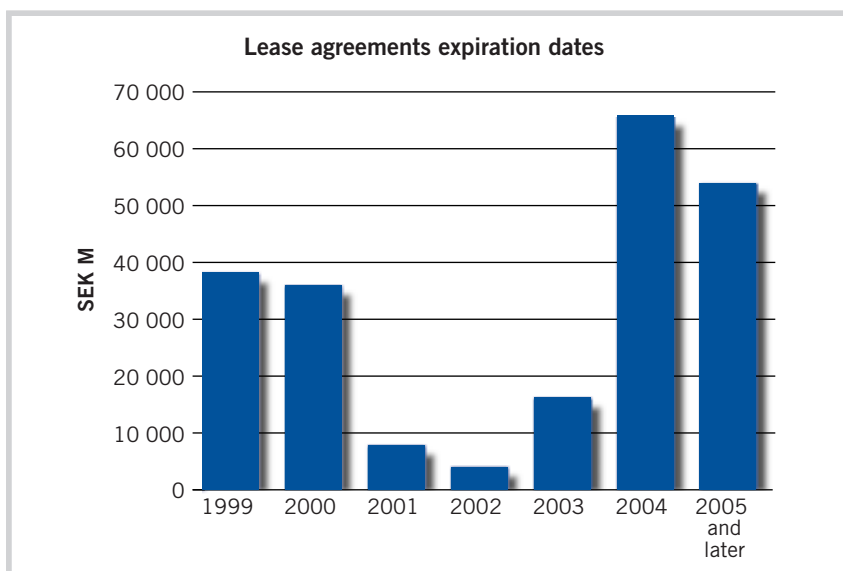


NEVIO KUCIC

#### LEGAL COUNSEL

After receiving his Master of Laws degree at Lund University and further studies at the University of Montreal, Nevio was employed in a district court and later in a law firm. He joined Pandox in 1996.

As legal counsel, Nevio provides the Group with legal expertise. This involves primarily structuring and preparing hotel leases and other leases, as well as work to optimize Pandox' leases. Nevio also works on leases and legal due diligence in connection with acquisitions and divestments of properties and real estate companies.



# Environment

*The hotel industry is attempting to create an environmental profile for its operations. Accordingly, the emphasis in the environmental program is on property management and cooperation with hotel operators. An environmental policy has been formulated by Pandox to deal with environmental matters.*

## **ENVIRONMENTAL POLICY**

Pandox will work actively to achieve operating controls that ensure environmentally correct and sustainable property management. The environmental program is to be conducted as an integral part of ongoing operation of properties.

Pandox will encourage property owners and hotel operators to jointly develop methods and systems for an ecologically sustainable approach.

The basic concept of Pandox' environmental program is to reduce emissions and the consumption of natural resources through use of renewable resources within a closed circuit.

Pandox will deal primarily with suppliers, contractors and consultants who have an explicit environmental policy.

## **ENVIRONMENTAL OBJECTIVES**

The basic objectives for the environmental program have been broken down and set forth concretely in the following terms:

- Systems for monitoring the consumption of water and energy are to be further developed in order to permit continuing savings of energy.
- Whenever possible, Pandox hotel properties are to be connected to district heating systems.
- Pandox will make active efforts to reduce the number and amounts of chemical products used in its management operations.
- The current conversion of refrigeration facilities to another, environmentally compatible medium is to be completed as soon as possible.
- In connection with the engineering and procurement of renovations and additions to properties, priority is to be given to solutions that are environmentally certified, adapted to closed circuits, and energy-efficient.
- The current environmental inventory of the company's property portfolio is to be completed during 1999.

# Year 2000

*Pandox' evaluation is that the risks to the company's operations in connection with the changeover to the new millennium are small.*

Pandox' program to correct identified problems related to the changeover to the new millennium has begun and will be completed during the first half of 1999. The "Year 2000 problem" affects Pandox primarily in three areas:

- Company business systems
- Technical installations in Pandox properties
- The preparedness of customers and suppliers.

Pandox currently uses two business systems that are important for its operations:

Lease-administration and financial systems. During the first half of 1999 both systems will be replaced with systems certified as "Year 2000 compliant."

Technical installations in Pandox properties have been surveyed and a corrective program will be completed shortly. In this connection, systems that are essential for the technical operation and functioning of the properties have been identified and the continuing studies have been

concentrated on them:

- Fire alarm systems.
- Elevators.
- Control and monitoring systems for ventilation, refrigeration and heating.

To ensure operation of control and monitoring systems that function in real time, an inventory is being taken with the objective of completing it, and any necessary modifications, during the second quarter of 1999.

As of December 31, 1998, approximately 90% of the systems had been checked and no defects had been noted.

As regards customers and suppliers, a continuing dialogue and review is under way with the most important counterparties, with the objective of receiving confirmation from them, not later than June 30, 1999, that their systems are secure.

In brief, Pandox believes that any risks to the company's operations associated with the changeover to the new millennium are small.



**FOLKE HOLMQVIST**

## **PROPERTY ASSET MANAGER**

Folke is basically a construction engineer, with twenty-five years of experience in contracting and five years as the managing director of a hotel company. Following that, he served as building manager at Securum Hotel & Turism.

Folke participated in the formation of Pandox in 1995 and has been with the company since that time.

Folke's area of responsibility includes operating and maintenance matters, as well as technical management in general for all of the Group's hotel properties. He is also responsible for the planning and implementation of renovations and additions to the hotel properties, and for relations with public authorities. When hotel properties are acquired, Folke is responsible for inspections and evaluations.

## Description of Market

*In order to understand and analyse the hotel-property market, it is important to know how the market works, who the players are, and how they operate. There are 1,697 hotels in Sweden that are owned, operated and distributed in many different ways.*

### PANDOX' MARKET

Pandox' priority market segment consists of hotel properties containing more than 75 rooms, in central locations, and with an emphasis on business travel. The hotels should be located in large cities in Sweden and the other Nordic countries. In Sweden, this segment comprises 168

properties with a total of 24,900 rooms. This is equal to 30 percent all the hotel rooms in Sweden and averages out to 148 rooms per hotel. The other 1,529 properties have a total of 60,400 rooms, with an average of 38 rooms.

Of the 28 properties owned by Pandox, 21 of them fulfill all these

criteria. This results in a 13 percent share of the capacity in the market segment.

### THE HOTEL MARKET PLAYERS

The hotel market as a whole includes a number of major players who have different priorities and different levels of activity, depending on economic conditions. Moreover, these players create their profitability in different ways. This makes the hotel industry complex and has a direct impact on the value of a property. The larger players are builders, owners of hotel properties and operators who run and own businesses, as well as sales organizations (distributors) who, by means of their brand names and marketing programs, supply the hotels with guests.

### BUILDERS

The builders initiate new hotel projects. Their interests lie primarily in building, not in being long-term owners of properties. They are often more active in boom periods.

### HOTEL PROPERTY OWNERS

There are different types of owners of hotel properties:

*Operators* – Hotel companies that both own and operate a property.

*Diversified property owners* – They own several types of properties and often lack specialized expertise in the hotel field.

*"Pure" hotel property owners* – They own hotel properties exclusively and, because they possess special expertise, they can actively own, manage and – as needed – operate hotels.

#### Distribution of hotels in Sweden

	Number of hotels	Number of rooms	Average number of rooms
All hotels	1 697	85 300	50
- of which, located in Pandox' priority markets	397	35 200	89
- of which, hotels with 75 or more rooms and with emphasis on business travel	207	32 100	155
and with more than 50% hotel-related space.	183	26 600	145
	168	24 900	148

Source: Pandox.

#### Swedish hotel-property owners

Number of hotels in Sweden, January 1999	Category
Capona	Pure hotel-property owner
Pandox	Pure hotel-property owner
Hotellus	Pure hotel-property owner
First Host	Pure hotel-property owner
Choice Hotels	Operator
Wihlborg	Diversified property owner
Fastighet Balder AB	Diversified property owner
Skandia	Diversified property owner
SSRS Holding	Operator / Hotel-property owner
Nordisk Renting	Renting company
CA Bygg	Builder / Diversified property owner
Folksam / AMF-S	Diversified property owner
NCC	Builder / Diversified property owner

Source: Pandox



## OPERATORS

If the owner of a hotel property elects not to run the business himself, one alternative is to lease the property to an operator. The operator then becomes responsible for running the hotel in an efficient and rational manner. The property owner can establish connections with the operator by means of various types of contracts such as fixed-fee or variable leases based on the revenue of a hotel or on its earnings. Another alternative is a management agreement whereby the hotel property owner also owns the hotel business and hires someone with knowledge of hotels to run the hotel.

## DISTRIBUTORS

The distributor's job is to market a hotel, notably in its remote markets. This is done mainly by providing a brand name, a sales organization, a reservations center and promotional activities such as loyalty programs. Good market coverage and well-developed information technology (IT) systems are important features. Some companies – Scandic Hotels,

for example – are both operators and distributors while others, like Best Western, are exclusively distributors.

## RENTING HOTEL ROOMS

A hotel generally involves a number of different businesses, including restaurants and conference facilities. However, the sale of hotel rooms is always the most important type of revenue since it produces the highest margins. Because demand varies strongly from one season to another and even during the week, a hotel generally works with a large number of combinations of prices and products. The ability to exploit these combinations – to sell the right product to the right customer and at the right price in order to thereby create optimal balance between volume and price – is known as yield management. The distributor's ability to generate revenue, combined with the operator's ability to create profitability, is totally decisive in determining the value of a property. It is therefore of utmost importance that a hotel property owner appreciates and understands this process.



**NIKLAS BERGLUND**

### BUSINESS AREA MANAGER

Niklas holds an M.B.A. degree from the Gothenburg School of Business. He has served as Business Controller for Policy Management at the Grand Hotel in Stockholm. He then worked as Business Controller and project manager for Securum Hotell & Turism. Niklas participated in the formation of Pandox in 1995 and has been with the company since then.

As a business area manager, Niklas is responsible for the financial results of part of Pandox' hotel-property portfolio. His daily work involves primarily contacts with hotel operators and coordinating Pandox' specialized expertise related to hotels, buildings, law and analysis in order to optimize the operating net from the hotel properties. The business area manager is also responsible for leasing hotel properties and planning investments,

### Large operators active in Sweden

Number of hotels in Sweden, January 1999	Brand names / Distributors
Scandic Hotels	57 Scandic
First Hotels	23 First
Provobis Hotels	14 Provobis / Supranational
SSRS Elite Hotels	11 Elite / Best Western
Software Hotels	10 Software
Choice Hotels	9 Choice
SAS Hotels AB	7 Radisson SAS Hotels Worldwide

Source: Pandox

### Leading distributors in Sweden

Number of hotels in Sweden	January 1999
Sweden Hotels	93
Scandic Hotels	60
Best Western Hotels	47
First Hotels	35
Provobis Hotels	14
Radisson SAS Hotels Worldwide	12
Choice Hotels	9
Sheraton Hotels	2

Source: Pandox

# The hotel market in Sweden in 1998

*A total of 14.4 million overnight stays were sold in Sweden in 1998, an increase of 5.1 percent compared with 1997.*

### CAPACITY

There are 1,697 facilities in Sweden that Statistics Sweden considers definable as "hotels." Statistics Sweden's definition comprises business hotels, tourist hotels, conference facilities, and training centers. The statistics comprise facilities ranging in size from two to 465 rooms, and with an average of 50 rooms. In Pandox priority communities there are 207 hotels with more than 75 rooms, totalling 32,100 rooms, with an average of 155 rooms.

### OCCUPANCY

A total of 14.4 million overnight stays were sold in Sweden in 1998, an increase of 5.1 percent compared with 1997. The utilization of capacity (occupancy rate) was 46%. Chart to the left below shows the trend of occupancy rates in Sweden during the 1989-1998 period, as well as the

rates in Stockholm, Gothenburg and Malmö. The chart shows that demand continues to be strong in all metropolitan markets.

Chart to the right below shows the occupancy rate in Sweden as a whole and in hotels with more than 75 rooms in Pandox' priority communities as well as the occupancy rate in the other hotels in Sweden.

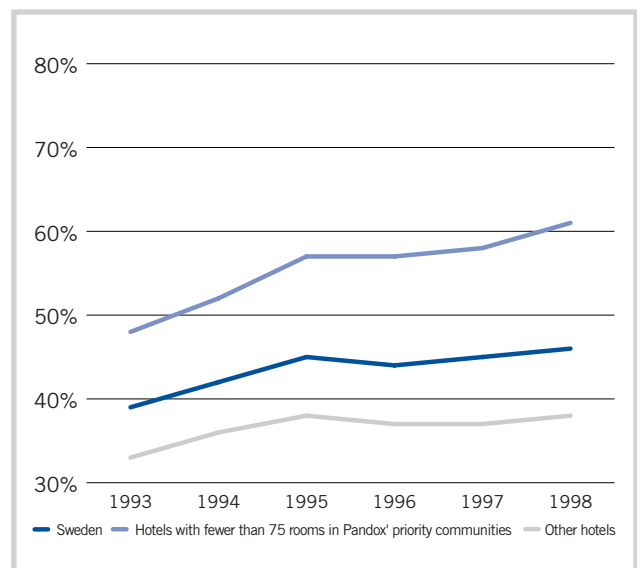
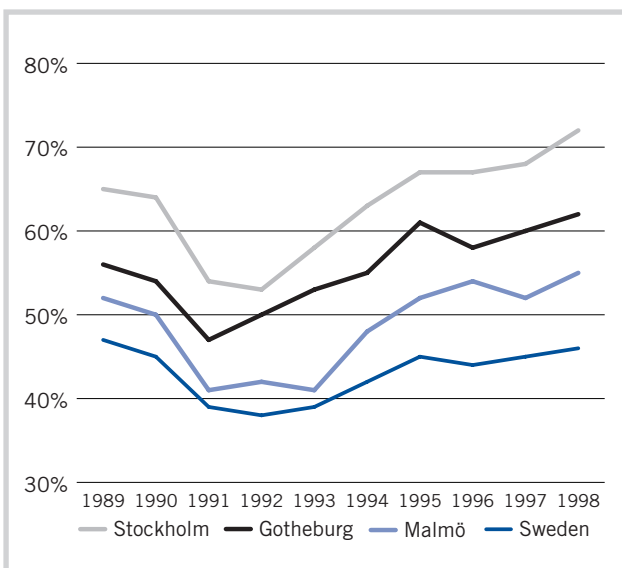
The chart shows that the occupancy rate in the larger hotels in Pandox' priority communities is distinctly higher than the national average. The average occupancy rate for these hotels is 61 percent. The average occupancy rate for the other hotels is 38 percent.

Not only is the local market important, but also the location within the community, This may be illustrated by the trend of occupancy in the three large cities – Stockholm, Gothenburg and Malmö. The total

occupancy rate in these cities is 66 percent. Pandox estimates that facilities in central locations have occupancy rates of approximately 75 percent, while those less centrally located are under 55 percent. The difference in revenue becomes even greater since there are also corresponding differences in terms of average room prices.

### TARGET GROUPS

In published statistics, all travelers are defined as tourists regardless of the purpose of the trip or overnight stay. These are then divided into the corporate market and the private market. The corporate market, in turn, is divided into individual travelers and convention travelers. Similarly, the private market is divided into group travelers and individual recreational travelers.



**Distribution by target group, 1997-1998 and change in thousands of overnight stays, and in percentages**

	Occupied rooms (000s)	%
Individuals	+481	+7
Convention	-29	-1
Corporate market	+452	+5
Group	+61	+5
Individual	+135	+5
Private market	+196	+5
<b>Total</b>	<b>+648</b>	<b>+5</b>

Source: Statistics Sweden

This table shows that the main growth is taking place in the corporate market segment. To obtain optimal occupancy, however, growth is required in all target groups since they complement each other well. During periods when business travel is low, recreational travel increases. This is one of the reasons why

hotels in large cities have higher occupancy rates than hotels in smaller communities.

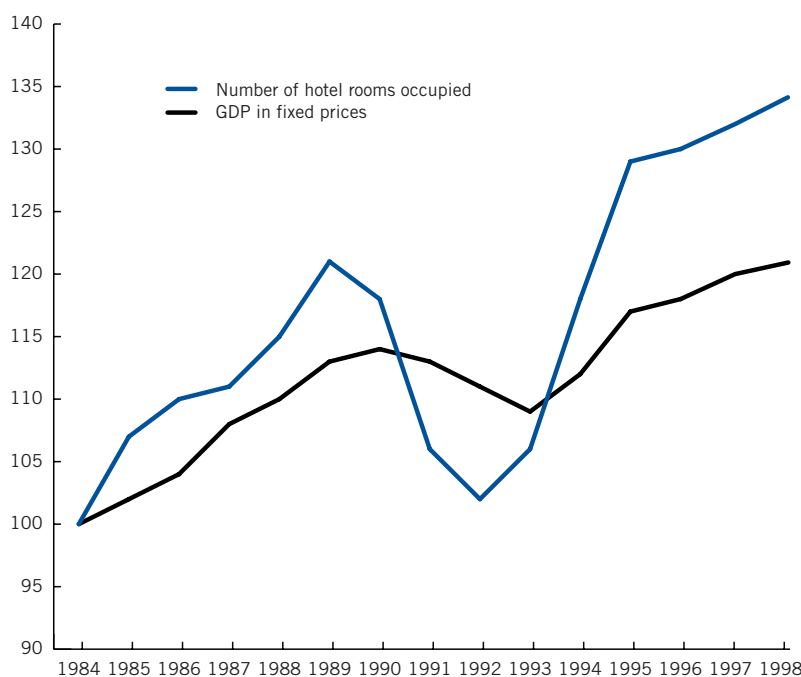
**DEPENDENCE ON ECONOMIC CONDITIONS**

The trend of business in the hotel industry normally follows the trend of the general economic climate in the country. The chart below shows how the number of occupied hotel rooms and the Gross Domestic Product (GDP) in Sweden developed during the 1984-1998 period. The chart clearly shows that the depressed economic climate in the beginning of the 1990s was reflected in the development of the hotel industry. A further correlation between hotel occupancy and the GDP can be found in Table below, which shows that the majority of hotel guests are domestic travelers, which clearly shows the dependence on industry and commerce.

**Percentages of hotel overnight stays, by nationality and segment**

Area of origin	%	Segment	%
Sweden	78	Business travel	52
Rest of Nordic region	6	Convention	17
Rest of Europe	11	Tourist	10
Rest of world	5	Group	21

Source: Statistics Sweden



**PETER TENGSTROM**

**ANALYST**

Peter was trained in the hotel industry in Switzerland and the United States. He received a Bachelor of Science degree in Hotel Administration from Cornell University in 1997. Peter has worked in hotels in Switzerland and Sweden. He also worked with the HVS International consulting firm in London, working on marketing and profitability studies for hotels.

After receiving his degree, Peter worked for the Hotel Partners International hotel-property brokerage firm in London, dealing with sales and strategic planning for international hotel chains. Peter joined Pandox in August 1998.

As an analyst, Peter evaluates and analyzes current operations, as well as investments and development projects in the existing hotel-property portfolio. This takes place in close cooperation with the business areas managers. In connection with acquisitions and divestments of properties, Peter is responsible for calculations pertaining to the operator's activities and for cash flow valuations of the hotel property. He is also responsible for the development and maintenance of Pandox' IT systems for market information, etc. This includes responsibility for systematically collecting, processing and organizing information about the hotel industry.

**THE HOTEL MARKET IN STOCKHOLM**

Since Stockholm was designated a European cultural capital city in 1998, demand in the market continued to rise. A new record was set during the year, with close to 2.7 million overnight stays that resulted in an occupancy rate of 72 percent, the highest in Sweden.

The Stockholm hotel market consists of geographical segments as well as different market segments. The variations among them are substantial. It is interesting to note that the Arlanda market is Sweden's fourth largest hotel market, after the three large-city markets.

Business travelers accounted for 66 percent of the hotel overnight stays in the Stockholm area in 1998. The total increase in number of overnight stays in Stockholm during the past three years was 14 percent for both the corporate market and the private market. But growth in the corporate market is a more important factor since revenues are generally higher in this segment. In 1998, 41 percent of the hotel guests in the Stockholm area were foreigners. The comparable figure for Sweden as a whole is 22 percent.

The Stockholm market consists of 105 hotels with a total capacity of approximately 10,350 rooms. The average size thus amounts to about 100 rooms per hotel. Many of the hotels are small; only 40 have 75 or more rooms. Stockholm's three largest hotels are the Sheraton, with 459 rooms, the First Hotel Amaranthen with 410 rooms; and the Provobis Sergel Plaza Hotel with 406 rooms.

Since Stockholm is by far Sweden's most important market, all the Swedish distributors are represented there. The number of international players is small, however. In addition to Sheraton, there is Radisson – in a joint venture with SAS – represented by five hotels.

**Percentage levels of occupancy, 1992-1998**

	Stockholm municipality,	Stockholm center	Stockholm north	Stockholm south	Arlanda
1992	53	60	42	36	44
1993	58	66	43	37	44
1994	63	73	48	43	48
1995	67	76	55	52	59
1996	67	77	56	51	60
1997	68	78	59	51	63
1998	72	81	64	57	68

Source: Statistics Sweden

**THE HOTEL MARKET IN GOTHENBURG**

Gothenburg's hotel market is the second-largest in Sweden. Demand in 1998 amounted to slightly more than 1.2 million overnight stays, an increase of 6 percent compared with 1997. The occupancy rate was 62 percent, second-highest in the country.

The increase in overnight stays in Gothenburg during the past three years amounts to 16 percent. In 1998 business travelers accounted for 69 percent of the overnight stays in hotels.

The Gothenburg market comprises 52 hotels with a total of approximately 5,560 rooms, of which 23 are city hotels with a total of 4,500 rooms. Gothenburg's five largest hotels are the Provobis Hotel Europa with 465 rooms, the Sheraton with 347 rooms, the Panorama Hotel, with 339 rooms, the Scandic Crown Hotel with 320 rooms and the Radisson SAS Park Avenue (owned by Pandox) with 318 rooms. A large number of new projects are being planned, including a new 140-room in the center of the city. An addition to capacity of this size will reduce the occupancy rate in Gothenburg by approximately one percentage point.

**Percentage levels of occupancy, 1992-1997**

	Gothenburg municipality	Gothenburg center
1992	50	55
1993	53	60
1994	55	61
1995	61	67
1996	58	65
1997	60	67
1998	62	71

Source: Statistics Sweden

**THE HOTEL MARKET IN MALMÖ**

Malmö is Sweden's third-largest hotel market. Demand in 1998 amounted to slightly more than 550,000 overnight stays, equal to an occupancy rate of 55 percent. The rate of increase in overnight stays leveled off in 1997 but continued upward in 1998. The number of overnight stays increased by 43 percent during the 1993-1998 period. The increase is attributable largely to the business travelers segment.

During 1998, 24 percent of the hotel guests in Malmö were foreigners, which is close to the national average. The Malmö market (Malmö municipality) comprises 29 hotels with a total capacity of approximately 2,700 rooms; of these, 14 are city hotels with a total of 1,984 rooms. Malmö's three largest hotels are the Scandic Hotel St. Jörgen (owned by Pandox) with 265 rooms, the Radisson SAS Hotel with 223 rooms, and the Scandic Hotel Triangeln, with 208 rooms.

**Percentage levels of occupancy, 1992-1997**

	Malmö municipality	Malmö center
1992	42	48
1993	41	46
1994	48	52
1995	52	54
1996	54	58
1997	52	56
1998	55	61

Source: Statistics Sweden

## REGIONAL AND UNIVERSITY CITIES

There are approximately 35 university and regional cities in Sweden. Of this number, Pandox has identified 20 that are included in the company's priority segments along with the metropolitan areas of Stockholm, Gothenburg and Malmö. These 20 cities were chosen because it can easily be shown that they have an underlying stable market in which the local GDP in recent years has increased sharply and in which it is expected to continue to do the same.

The hotel market in these communities is well segmented, which makes it possible for operators to manage their occupancy rates and average prices. This potential is highly important for the national and international operators with whom Pandox often works.

It may be seen in the table below that the average occupancy rate for the 20 cities increased by one percentage point in 1998. In general, it may be said that the trend was highly positive, with the exception of Kalmar, where growth was negative. This was due almost entirely to the fact that 1997 had been a record year when the city celebrated its 600th anniversary. The total supply comprised approximately 17,500 rooms in these 20 cities, with demand amounting to approximately 310,000 rooms.

In 1998 and in the beginning of 1999 Pandox acquired hotel properties in two priority cities – Luleå and Lund – where it had not been represented earlier. Detailed descriptions of these new "Pandox cities" are presented below.

Percentage levels of occupancy	1997	1998
Pandox priority regions and university cities	48	49
Uppsala	47	50
Linköping	47	49
Helsingborg	50	52
Jönköping	45	47
Karlstad	50	50
Kristianstad	37	42
Östersund	49	52
Luleå	43	44
Kalmar	49	43
Skövde	41	42

### THE HOTEL MARKET IN LULEÅ

There was demand for 146,000 overnight stays in Luleå in 1998. The occupancy rate amounted to approximately 44 percent in 1998 and has been very stable in recent years. The Luleå market consists of ten facilities with a total of slightly more than 900 rooms. The larger hotels include the Radisson SAS Luleå (owned by Pandox) with 217 rooms, the Scandic Hotel (159 rooms) and the Luleå Stads Hotell (135 rooms).

#### Percentage levels of occupancy, 1992-1998

	Luleå municipality
1992	44
1993	43
1994	49
1995	45
1996	43
1997	43
1998	44

Source: Statistics Sweden

### THE HOTEL MARKET IN LUND

Lund is one of Sweden's largest university cities and in recent years it has developed a strong industrial segment. There was a demand for 130,000 overnight stays in Lund in 1998. The occupancy rate was approximately 58 percent and has increased by 18 percent during the past three years. The Lund market comprises 11 facilities. Notable larger hotels include the Star Hotel (owned by Pandox) with 196 rooms, the Lundia Hotel (97 rooms), the Grand Hotel (80 rooms) and the Good Morning Hotel, with 60 rooms.

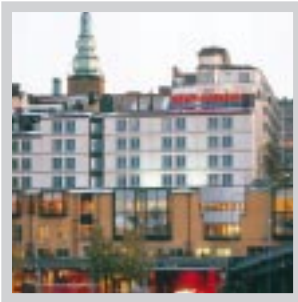
#### Percentage levels of occupancy, 1992-1998

	Lunds municipality
1992	43
1993	43
1994	50
1995	53
1996	55
1997	55
1998	58

Källa: Statistics Sweden



# Pandox hotel properties



## Scandic Hotel Slussen

*Guldgränd 8, Stockholm, +46 8 517 353 00*

*Operator: Scandic Hotels*

*Distributor: Scandic Hotels/Holiday Inn*

*Hotel leasing contract: Revenue-based*

The hotel is a first-class hotel located in the Slussen area in central Stockholm. The Scandic Hotel Slussen is designed to attract business travelers, conference groups and tourists. The hotel has 292 rooms, an auditorium, conference facilities, two restaurants, a bar, an exercise room and a pool.

The property consists of two newer hotel buildings built in 1989.



## Radisson SAS Arlanda Hotel

*Benstocksvägen 1, Stockholm-Arlanda, +46 8 593 618 00*

*Operator: SAS International Hotels*

*Distributor: Radisson SAS Hotels Worldwide*

*Hotel leasing contract: Fixed (Beginning in fourth quarter: revenue-based, with lower limit.*

Radisson SAS Arlanda Hotel is one of two "airport hotels" directly adjacent to Arlanda airport. The hotel caters mainly to air travelers and conference groups. The hotel, which is one of Sweden's largest, has 343 rooms, two restaurants, a bar, 30 conference and group rooms, a swimming pool and exercise room.

The five-story building was constructed in 1979 and enlarged in 1989. The property also includes two small wooden buildings; one is used as an office and the other for conference rooms.

## Provobis Star Hotel

*Aniaraplatsen 8, Sollentuna, +46 8 92 01 00*

*Operator: Provobis Hotels*

*Distributor: Provobis/Supranational*

*Hotel leasing contract: Revenue-based with lower limit*

The property is located close to the Sollentuna exhibition center facility in northern Stockholm. Provobis Star Hotel, which provides full service with substantial conference operations, has 269 rooms, of which 204 are suites. The hotel is Sweden's first suite hotel. Provobis took over operation of the hotel in March 1998.

The building was constructed during the years 1985/1988. Pandox owns 50 percent of the property and the remainder is owned by JM Byggnads och Fastighets AB. The property is owned through joint registration certificate, with each owner receiving its share of income and cash flow directly.



## Scandic Hotel Upplands-Väsby

*Hotellvägen 1, Upplands-Väsby, +46 8 590 931 00*

*Operator: Scandic Hotels*

*Distributor: Scandic Hotels/Holiday Inn*

*Hotel leasing contract: Revenue-based*

The hotel is located in Upplands-Väsby on the E4 highway between Stockholm and Arlanda airport. Scandic Hotel has 150 rooms, a restaurant and conference rooms. The hotel offers good value for money and is well located in a pivotal community, Upplands-Väsby, and for guests traveling by car.

The building was constructed in 1986.



## First Hotel Royal Star

*Mässvägen 1, Älvsjö, +46 8 99 02 20*

*Operator: Cadhotels AB*

*Distributor: First Hotels*

*Hotel leasing contract: Fixed*

The hotel is located adjacent to the Stockholm International Fair, about 15 minutes by car from the center of Stockholm. The First Royal Star has 103 rooms, a restaurant and conference rooms. The hotel is a medium-class facility designed to attract mainly fair visitors, business travelers and conference groups.

The five-story building was constructed in 1973. The site leasehold contains an utilized building permit for approximately 5,000 sqm of hotel floor space.



## Radisson SAS Park Avenue Hotel

*Kungsporsavenyn 36-38, Gothenburg, +46 31 17 65 20*

*Operator: SAS International Hotels AB*

*Distributor: Radisson SAS Hotels Worldwide*

*Hotel leasing contract: Revenue-based with lower limit*

Radisson SAS Park Avenue, one of Sweden's best-known hotels, occupies a very central location in Gothenburg on Kungsporsavenyn. The hotel has 318 rooms, a restaurant, a bar and substantial conference and banquet activities.

The building was erected in 1950 and enlarged in 1974. A major renovation was made in the early 1990s.



## Scandic Hotel S:t Jörgen

*Stora Nygatan 5, Malmö, +46 40 773 00*

*Operator: Scandic Hotels*

*Distributor: Scandic Hotels/Holiday Inn*

*Hotel leasing contract: Fixed*

The hotel, which is centrally located, is the largest hotel in Malmö. The Scandic Hotel St. Jörgen is a first-class establishment with 265 rooms, conference facilities, a restaurant, and bars. The hotel is designed to attract mainly business travelers, tourists and conference groups.

The building was constructed in 1967 and was partly renovated in 1995.

## Hotell Bohème

*Stora Badbusgatan 2B, Gothenburg, +46 31 17 40 50*

*Operator: Samhall Restaurang*

*Distributor: -*

*Hotel leasing contract: Revenue-based with lower limit*

The hotel is located in central Gothenburg's "moat" area and has 52 rooms, a breakfast room and conference rooms. Hotell Bohème is a budget-class hotel designed to attract business travelers and tourists.

The building was constructed as a residential building in 1929 but was converted to a hotel in 1987.





## Provobis Hotel Kramer

Stortorget 1, Malmö, +46 40 20 88 00

Operator: *Provobis Hotels*

Distributor: *Provobis Hotels/  
Supranational*

Hotel leasing contract: *Revenue-based with  
lower limit*

The Hotel Kramer, located at Stortorget in central Malmö, is one of Sweden's most classic hotels. The hotel has 113 rooms, a restaurant, a bar and conference facilities. With its international standard, Provobis Hotel Kramer is designed to attract mainly business travelers.

The building was constructed in 1875 and was completely renovated in 1994.



## First Express Malmö

Jörgen Kocksgatan 3, Malmö, +46 40 10 18 00

Operator: *First Hospitality*

Distributor: *First Hotels*

Hotel leasing contract: *Revenue-based with  
lower limit*

The hotel is centrally located and within walking distance of the highspeed boats to Copenhagen and the central station in Malmö. The First Express Malmö has 101 rooms, a breakfast room and lobby bar. First Express Malmö offers a value-for-money concept designed to attract mainly business travelers and tourists.

The building was constructed in 1970 and was converted to a hotel in 1976. The hotel portion was renovated in 1996.



## Radisson SAS Luleå

Storgatan 17, Luleå, +46 920 940 00

Operator: *Max Hotellgrupp AB*

Distributor: *Radisson SAS Hotels  
Worldwide*

Hotel leasing contract: *Revenue-based with  
lower limit*

The Radisson SAS Luleå, with 209 rooms, a restaurant, night club and conference facilities, is Luleå's largest hotel. The hotel is centrally located and caters to business travelers, tourists and conference groups.

The building was constructed in 1976 and enlarged in the 1970s and 1980s and is presently undergoing an extensive refurbishment.

## Provobis Stora Hotellet

Hotellplan, Jönköping, +46 36 10 00 00

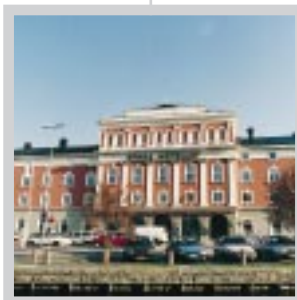
Operator: *Provobis Hotels*

Distributor: *Provobis Hotels/  
Supranational*

Hotel leasing contract: *Revenue-based with  
lower limit*

The Stora Hotellet, centrally located in Jönköping, is the city's best-known first-class hotel. The hotel is a traditional city hotel catering to business travelers, conference groups and tourists. The hotel has 114 rooms, two restaurants, three bars, conference facilities and a banquet hall that can accommodate 400 persons.

The building was constructed in 1860, was enlarged in the 1930s and partly renovated in 1995.





## First Hotel Plaza

*Västra Torggatan 2, Karlstad, +46 54 100 200*

*Operator: First Hospitality*

*Distributor: First Hotels*

*Hotel leasing contract: Fixed*

The hotel is centrally located in Karlstad. The First Plaza Hotel is one of the most popular hotels in Karlstad among business travelers and conference groups. The hotel has 121 rooms, two restaurants, a pub, a night club and conference facilities, and is a first-class hotel.

The building was constructed in 1929 and enlarged in 1991, at which time it was totally renovated.

## Scandic Hotel Karlstad

*Sandbäcksgatan 6, Karlstad, +46 54 18 71 20*

*Operator: Scandic Hotels*

*Distributor: Scandic Hotels/Holiday Inn*

*Hotel leasing contract: Revenue-based*

Scandic Hotel Karlstad is located on the E18 highway in Karlstad, about 10 minutes from the city center. The hotel has 143 rooms, a restaurant and conference facilities.

The building was constructed in 1969 and enlarged in stages in 1976 and 1983.



## Scandic Hotel Winn

*Norra Strandgatan 9–11, Karlstad, +46 54 10 22 20*

*Operator: Scandic Hotels*

*Distributor: Scandic Hotels/Holiday Inn*

*Hotel leasing contract: Revenue- and income-based*

The Scandic Hotel Winn is the largest hotel in the Värmland region catering to business travelers. The hotel, which is centrally located in Karlstad, has 199 rooms, a restaurant, a party room, conference facilities, a recreation room and a garage. The Hotel Winn is designed to attract business travelers and conference groups.

The building was constructed in 1984 and enlarged in 1990.

## Radisson SAS Hotel Östersund

*Prästgatan 16, Östersund, +46 63 12 77 40*

*Operator: Vanja Aronsson Hotel AB*

*Distributor: Radisson SAS Hotels  
Worldwide*

*Hotel leasing contract: Income-based*

The Radisson SAS Hotel Östersund is a first-class hotel designed to attract mainly business travelers, tourists and conference groups. The hotel is centrally located in Östersund and has 177 rooms, a restaurant, a bar, conference facilities and a swimming pool.

The building was constructed in 1978 and is owned by a tenant-owners association. The hotel premises of 8,766 sq.m. occupy 48% of the floor space of the property. Through its participation in the tenant-owners association, Pandox owns only the portion of the building pertaining to the hotel and, under the terms of an agreement with the other association members, is only responsible for the portion of the association's liabilities relating to the hotel.



## Radisson SAS Grand Hotel Helsingborg

Stortorget 8–12, Helsingborg, +46 42 12 01 70

Operator: Sverigeråd AB

Distributor: Radisson SAS Hotels  
Worldwide

Hotel leasing contract: Revenue-based with  
lower limit

The Radisson SAS Grand Hotel Helsingborg is centrally located in Helsingborg at Stortorget. The hotel has a classic profile with 117 rooms, a restaurant and bars, and conference facilities. The Radisson SAS Grand Hotel Helsingborg is a first-class hotel catering mainly to business travelers, tourists and conference groups.

The building was constructed in 1926 and renovated in 1996.



## First Hotel Linköping

Storgatan 70–76, Linköping, +46 13 13 02 00

Operator: First Hospitality

Distributor: First Hotels

Hotel leasing contract: Fixed

First Hotel Linköping is one of Linköping's leading hotels with 133 rooms, a restaurant, a bar and conference facilities. The hotel is centrally located and is renowned in part for its extensive selection of more than 200 malt whiskeys.

The building was constructed during the 1960s.



## Quality Grand Hotel

Östra Storgatan 12, Kristianstad, +46 44 10 36 00

Operator: Choice Hotels Scandinavia

Distributor: Choice Hotels

Hotel leasing contract: Revenue-based with  
lower limit

Quality Grand Hotel is centrally located in Kristianstad. The hotel is the municipality's largest, with 148 rooms, conference facilities and extensive restaurant and night club activities. The hotel has been operated by Choice Hotels since March 1998 under the Quality brand name, which is the Choice Hotel's brand name for full-service hotels.

The building was constructed during the 1960s and has been renovated and enlarged by stages, most recently in 1989.

## Provobis Billingen Plaza

Trädgårdsgatan 10, Skövde, +46 500 41 07 90

Operator: Provobis Hotels

Distributor: Provobis Hotels/  
Supranational

Hotel leasing contract: Fixed

This hotel property, with its traditional city hotel style, is favourably located opposite the railway station in Skövde. Provobis Billingen Plaza is a full-service hotel catering mainly to business travelers. The hotel has 106 rooms, comprehensive restaurant and entertainment activities, and conference facilities.

The building was erected in 1888 and enlarged in 1939 with an annex to which another story was added in 1965.



## First Hotel Linné

*Skolgatan 45, Uppsala, +46 18 10 20 00*

*Operator: Cadhotels AB*

*Distributor: First Hotels*

*Hotel leasing contract: Fixed*

First Hotel Linné is a medium-price hotel of good standard. The hotel is centrally located in Uppsala and has 117 rooms, a restaurant and extensive conference facilities. Pandox also owns an unimproved lot with a building permit adjoining the hotel.

The building was originally constructed in the late 19th century and has been renovated and enlarged by stages, most recently in 1987.



## Scandic Hotel Kalmar

*Dragonvägen 7, Kalmar, +46 480 46 93 00*

*Operator: Scandic Hotels*

*Distributor: Scandic Hotels/Holiday Inn*

*Hotel leasing contract: Revenue-based*

Scandic Hotel Kalmar is located on the E22 highway as it enters Kalmar. The hotel has 148 rooms, a restaurant and conference areas.

The building was originally constructed in 1969, with additions by stages in 1970, 1977 and 1986.

## First Hotel Mora

*Strandgatan 12, Mora, +46 250 717 50*

*Operator: First Hospitality*

*Distributor: First Hotels*

*Hotel leasing contract: Revenue-based with lower limit*

The hotel is centrally located in Mora and has 140 rooms, conference premises, a restaurant, a bar and swimming pool. First Hotel Mora is a medium-class hotel catering mainly to business travelers, tourists and conference groups.

The building was originally constructed during the 1830s, with additions at various times, most recently in 1990. A comprehensive renovation and reprofiling of the hotel was carried out during 1996 and 1997.

The hotel market in Mora comprises seven hotels with a total of 380 rooms. It may be estimated to amount to approximately 50,000 overnight stays.



## Hotell Sten Stensson Sten

*Stora Torget 12, Eslöv, +46 413 160 10*

*Operator: Hotell och Restaurang Sten Stensson AB*

*Distributor: Hotellbanken*

*Hotel leasing contract: Revenue-based with lower limit*

The hotel, the only one in Eslöv, is located at Stora Torget in the center of the city. With its 80 rooms, and comprehensive restaurant services, Sten Stensson Sten is Eslöv's "city hotel." Eslöv is about 20 minutes by car from Malmö and Lund.

The building was erected in 1915 and was totally renovated in 1988.



## Scandic Hotel Karlshamn

*Jannebergsvägen 2, Karlshamn, +46 454 166 60*

*Operator: Scandic Hotels*

*Distributor: Scandic Hotels/Holiday Inn*

*Hotel leasing contract: Revenue-based*

Scandic Hotel Karlshamn is located on the E22 highway as it enters Karlshamn, about three kilometers from the city center. The hotel has 99 rooms, a restaurant and conference facilities. The Karlshamn market consists of five hotels. In addition to the Scandic Hotel, notable facilities include the Hotell Karlshamn, which has 132 rooms.

The building was constructed in 1969 and enlarged in 1972.



## Stadshotellet Princess

*Smedsgatan 19, Sandviken, +46 26 25 40 50*

*Operator: Britta och Marco Restaurang AB*

*Distributor: -*

*Hotel leasing contract: Revenue-based with lower limit*

Stadshotellet Princess, Sandviken's leading hotel, caters mainly to business travelers. The hotel is centrally located in Sandviken and has 84 rooms, a restaurant that offers dancing, two bars and a large discotheque. The Kungsberget skiing complex is located a few kilometers from the hotel. The distance to central Gävle is about 15 kilometers.

The building was originally constructed in 1937 and has been renovated and enlarged by stages, most recently in 1986.

The Sandviken market consists of three hotels with an estimated average occupancy rate of 40%.

## First Hotel Park Astoria

*Kyrkogatan 7, Enköping, +46 171 290 50*

*Operator: First Hospitality*

*Distributor: First*

*Hotel leasing contract: Fixed*

The medium-class First Hotel Park Astoria, with 134 rooms, is Enköping's leading hotel, catering to business travelers, military personnel and conference groups. The hotel has a restaurant, a pub, conference facilities and a swimming pool. Until January 1, 1999, when First Hospitality took over as operator, Pandox had operated the hotel.

The building was originally constructed in 1950, with renovations and additions in 1984.



## Good Morning Hotel

*Kungsgatan 4, Boden, +46 921 558 60*

*Operator: AEM Hotell AB*

*Distributor: Good Morning Hotels*

*Hotel leasing contract: Fixed*

Good Morning Hotel is centrally located in Boden adjacent to the railway station. It is a low-price hotel of good standard with 51 rooms and a breakfast room. The Boden market consists of three facilities: the Good Morning Hotel with 51 rooms, the Hotell Bodensia with 99 rooms and the Hotell Standard with 11 rooms.

The building was constructed in 1990.



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# List of properties, 1998

Facility	Property designation <sup>1</sup>	No. of rooms	Total floor space (sqm)	Of which, hotel <sup>2</sup> (sqm)	office (sqm)	stores (sqm)	other (sqm)	Tax assessment value SEK M	Total rental revenue SEK M
<b>Stockholm area</b>									
Scandic Hotel Slussen, Stockholm	Överkikaren 31	T 292	18 416	15 725	2 097		594	176,0	
Provobis Star Hotel, Sollentuna <sup>5</sup>	Centrum 12	T 269	18 573	18 573			0	52,4	
Radisson SAS Arlandia Hotel, Arlanda	Benstocken 1:5	T 343	15 260	15 260			0	61,2	
Scandic Hotel, Upplands-Väsby	Vilunda 6:48	150	6 955	6 955			0	17,9	
First Hotel Royal Star , Älvsjö	Herrgården 2	T 103	4 900	4 900			0	13,9	
<b>Total Stockholm</b>		<b>1 157</b>	<b>64 104</b>	<b>61 413</b>	<b>2 097</b>	<b>0</b>	<b>594</b>	<b>321,4</b>	<b>69,0</b>
<b>Gothenburg</b>									
Radisson SAS Park Avenue, Göteborg	Lorensberg 28:4	318	21 998	21 998			0	226,8	
Hotell Bohème, Göteborg	Inom Vallgraven 46:3	52	1 652	1 652			0	10,5	
<b>Total Gothenburg</b>		<b>370</b>	<b>23 650</b>	<b>23 650</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>237,3</b>	<b>37,0</b>
<b>Malmö</b>									
Scandic Hotel S:t Jörgen, Malmö	S:t Jörgen 11	265	21 485	14 655		4 230	2 600	145,7	
First Express, Malmö	Hamnen 22:2	T 101	8 195	4 161	2 344		1 690	36,0	
Provobis Hotel Kramer, Malmö	Gripen 1	113	6 913	6 373		540	0	52,1	
<b>Total Malmö</b>		<b>479</b>	<b>36 593</b>	<b>25 189</b>	<b>2 344</b>	<b>4 770</b>	<b>4 290</b>	<b>233,8</b>	<b>35,0</b>
<b>Regional cities</b>									
Radisson SAS Hotel, Luleå	Tjädern 19	209	12 166	12 166			0	36,9	
Provobis Stora Hotellet, Jönköping	Alhambra 1	114	11 378	9 379		899	1 100	27,9	
Scandic Hotel Winn, Karlstad	Negern 2	199	10 580	10 580			0	57,2	
Radisson SAS Hotel, Östersund	Borgens 3	B 177	8 766	8 766			0	31,8	
Provobis Billingen Plaza, Skövde	Fjolner 7	106	7 743	6 844			899	8,9	
Radisson SAS Grand Hotel, Helsingborg	Högvakten 7	117	6 832	5 845		987	0	19,8	
First Hotel Plaza, Karlstad	Höken 1	121	5 907	5 581	326		0	44,2	
Quality Grand Hotell, Kristianstad	Hovrätten 41	148	7 524	7 075	0	449	0	26,5	
First Hotel, Linköping	Elden 9 och 10	133	6 540	6 195	0	145	200	26,1	
First Hotel Linné, Uppsala	Dragarbrunn 4:10 och 4:11	116	5 831	5 831	0	0	0	27,1	
Scandic Hotel, Karlstad	Sandbäcken 1:3	T 143	5 694	5 694	0	0	0	18,5	
Scandic Hotel, Kalmar	Hammaren 4	T 148	5 485	5 485	0	0	0	11,3	
<b>Total Regional cities</b>		<b>1 731</b>	<b>94 446</b>	<b>89 441</b>	<b>326</b>	<b>2 480</b>	<b>2 199</b>	<b>336,2</b>	<b>62,5</b>
<b>Other communities</b>									
First Hotel Mora , Mora	Stranden 37:3	140	9 161	7 670		446	1 045	14,0	
Stadshotellet Princess, Sandviken	Grillen 8	84	7 003	5 630	963	0	410	23,2	
Hotell Sten Stensson Sten, Eslöv	Köpmannen 11	80	5 833	4 762		1 071	0	11,1	
First Hotel Park Astoria, Enköping	Centrum 29:5	134	4 600	4 600			0	15,2	
Scandic Hotel, Karlshamn	Stampens Trädgård 2	99	3 335	3 335	0	0	0	4,8	
Good Morning Hotell, Boden	Tor 23	51	1 245	1 245	0	0	0	6,2	
<b>Total other communities</b>		<b>588</b>	<b>31 177</b>	<b>27 242</b>	<b>963</b>	<b>1 517</b>	<b>1 455</b>	<b>74,5</b>	<b>15,0</b>
<b>Pandox total</b>		<b>4 325</b>	<b>249 970</b>	<b>226 935</b>	<b>5 730</b>	<b>8 767</b>	<b>8 538</b>	<b>1 203,2</b>	<b>218,5</b>

1) T=Site leasehold, B=Tenant-owned.

2) Encompasses hotel, restaurant and conference space.

3) Incl. equipment rents.

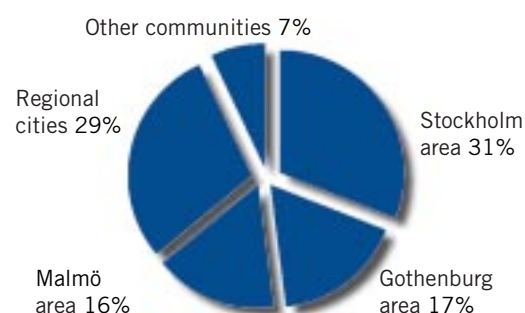
4) Incl. hotel equipment.

5) Statistical data refers to space (100%) while amounts refer to Pandox share (50%).

6) Operating surplus, adjusted for properties sold and purchased during year.

7) Adjusted operating surplus divided by book value of properties

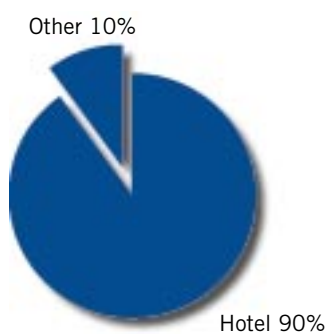
## Rental revenue by geographic area



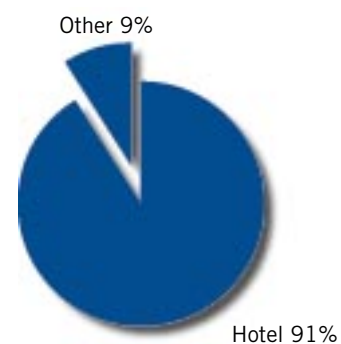


Of which hotel <sup>3</sup> SEK M	office SEK M	stores SEK M	other SEK M	Other property revenue SEK M	Total property revenue SEK M	Operations and maintenance SEK M	Oper- ating- net SEK M	Adjusted operating net <sup>6</sup> SEK M	Book value <sup>4</sup> SEK M	Yield <sup>7</sup> (%)
62,7	5,5	0,0	0,8	3,9	72,9	-15,5	57,4	56,2	605,8	9,3%
36,9	0,0	0,0	0,1	2,3	39,3	-4,1	35,2	35,2	415,3	8,5%
24,9	3,7	5,0	1,4	4,4	39,4	-8,2	31,2	31,2	303,5	10,3%
58,5	0,6	2,2	1,2	4,1	66,6	-14,7	51,9	59,6	642,4	9,3%
13,5	0,5	0,8	0,2	1,4	16,4	-5,3	11,1	12,4	118,2	10,5%
196,5	10,3	8,0	3,7	16,1	234,6	-47,8	186,8	194,6	2 085,2	9,3%

Rental revenue by type of premises

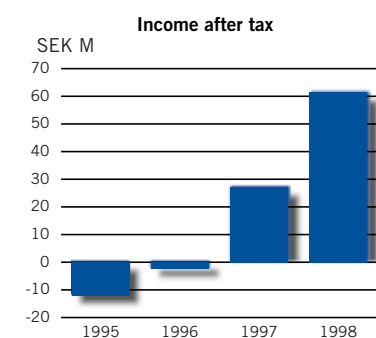
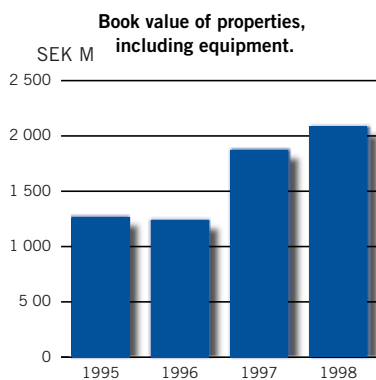
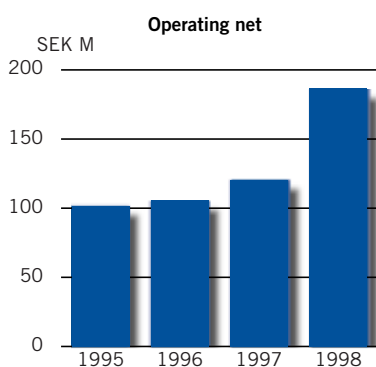
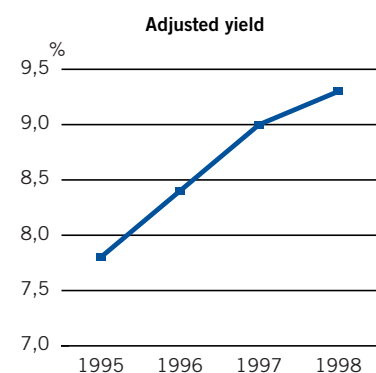


Floor space by type of premises



## Four-year summary

*The first four years of Pandox' operations were characterized by strong growth in the Company's income statement and balance sheet. Pandox has also participated actively in the structural change in the hotel property industry.*



### 1995

Pandox' began operations in January 1995 when Skanska and Securum brought together seven and eleven hotel properties, respectively, in a jointly owned company. The objective was to create added value in the property through focused and active management. The work of developing the 18 hotel properties that were part of the new company began right away. Parallel with this, operating systems and methods were developed. A nonstrategic hotel property was sold during the year and Pandox thus owned 17 hotel properties at year-end. The company operated three of the properties.

### 1996

Systems and methods for the Pandox model were refined during 1996. The active program of enhancing the hotel properties continued and three nonstrategic properties were sold. In connection with this, one of Pandox' hotel operations was also sold. During the year Pandox took over operations of the Mora Hotell and at year-end was operating three properties owned by the Group. Pandox owned 14 hotel properties at year-end.

### 1997

The Pandox Group's loan portfolio was refinanced during the spring. On June 23 Pandox shares were listed on the Stockholm Stock Exchange. The owners – Securum AB and Skanska AB – sold all respectively part of their holdings.

Seven hotel properties were acquired during the year. The total price for the seven properties – four of which were purchased from WASA for SEK 525 M – was SEK 667 M. The acquisition from WASA did not affect income in 1997. A nonstrategic property was divested.

On December 30, 1997 an agree-

ment was concluded with Fastighets AB Torne covering the acquisition of eight hotel properties, where Pandox was to take possession in March 1998. During the autumn a leasing agreement was signed with First Hospitality whereby First took over the operations in two properties that Pandox had been operating. Following this, Pandox operated one of its properties.

Pandox owned 20 properties at year-end 1997.

### 1998

A new issue of shares to Pandox' existing shareholders, which increased the Company's equity capital by SEK 205 M after issue costs, was completed in January. The issue was part of the financing of the acquisition from WASA. On March 2 Pandox took possession of the eight properties acquired from Torne. The financial settlement took place March 31, with the result that the properties were included in the Group accounts for nine months. On September 2 Pandox took possession of the Radisson SAS Luleå hotel property. The total cost of the nine properties acquired during 1998 amounted to SEK 260 M. In November an option agreement was concluded giving Pandox the right to acquire the Provobis Star Hotel Lund hotel property in January 1999 for SEK 101 M, including transaction costs. Two nonstrategic properties – Källhagens Wårdshus and the Överkikaren 19 office building – were sold. In December an agreement was concluded with First Hospitality whereby that company would become a tenant and operator in the Hotell Park Astoria in Enköping. As a result, Pandox has not been operating any of its properties since December 31, 1998.

The Group owned 28 properties at year-end.

**CONDENSED CONSOLIDATED INCOME STATEMENTS**

<b>SEK M</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>
Property operations				
Rental revenue	120.1	123.8	140.6	218.5
Other property revenue	6.7	12.4	11.6	16.1
Total property revenue	126.8	136.2	152.2	234.6
Operating and maintenance costs	- 24.9	- 30.5	- 31.5	- 47.8
Operating net	101.9	105.7	120.7	186.8
Depreciation <sup>1</sup>	- 23.2	- 23.9	- 26.0	- 36.0
Income, property operations	78.7	81.8	94.7	150.8
Hotel operations				
Operating revenue	33.7	29.0	41.5	18.5
Operating costs	- 38.2	- 29.8	- 42.2	- 18.7
Operating loss, hotel operations	- 4.5	- 0.8	- 0.7	- 0.2
Gross income	74.2	81.0	94.0	150.6
Administrative costs <sup>1</sup>	- 17.0	- 15.3	- 17.2	- 19.2
Nonrecurring income/expenses	- 2.1	0.9	1.0	1.4
Operating income	55.1	66.6	77.8	132.8
Net financial expense	- 69.0	- 69.0	- 50.3	- 71.3
Income after financial items	- 13.9	- 2.4	27.5	61.5
Deferred tax	1.9	0.2	- 0.3	0
Paid tax	0	0	0	0
Acquired income	- 0.1	—	—	—
Income/Loss for year	- 12.1	- 2.2	27.2	61.5

**CONDENSED CONSOLIDATED BALANCE SHEETS**

<b>SEK M, December 31</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>
Assets				
Properties including hotel equipment	1,268.2	1,239.5	1,874.3	2,085.2
Other long-term assets	19.4	18.5	17.3	16.5
Current assets	75.8	25.3	23.7	14.6
Liquid funds	27.4	43.7	14.4	82.9
Total assets	1,390.8	1,327.0	1,929.7	2,199.2
Shareholders' equity	557.9	555.7	582.9	830.1
Interest-bearing liabilities	785.1	703.7	1,078.3	1,281.8
Noninterest-bearing liabilities	47.8	67.6	268.5	87.3
Total liabilities and shareholders' equity	1,390.8	1,327.0	1,929.7	2,199.2

1) Depreciation according to plan on building is made by 1.5 percent, amounting in 1998 to a total of SEK 29.1 M. Depreciation in administration and hotel operations amounted in 1998 to SEK 0.5 M and SEK 0.2 M, respectively (1997: 0.4 and 0.1, respectively; 1996: 0.5 and 0.3, respectively; and 1995: 0.6 and 0.1, respectively).

**KEY DATA**

	1995	1996	1997	1998
<b>Property-related key data</b>				
Book value of properties, incl. hotel equipment, SEK M	1 268.2	1 239.5	1 874.3	2 085.2
Total property revenue, SEK M	126.8	136.2	152.2	234.6
Operating net, SEK M	101.9	105.7	120.7	186.8
Adjusted operating net, SEK M	98.8	104.6	169.1	194.6
Yield 1, %	7.8%	8.4%	9.0%	9.3%
Yield 2, %	7.2%	7.9%	8.6%	8.9%
<b>Financial key data</b>				
Interest coverage ratio, %	0.84	0.97	1.52	1.82
Return on total capital, %	5.5%	5.1%	5.9%	6.6%
Return on shareholders' equity, %	neg	neg	4.8%	7.6%
Equity/assets ratio, %	40.1%	41.9%	30.2%	37.7%
Cash flow before changes in working capital and investments, SEK M	9.7	22.3	54.0	98.2
Investments, excl. acquisitions. SEK M	49.3	27.3	11.2	22.6
Property acquisitions, SEK M	0	0	667	260
<b>Per-share data (15 million shares)<sup>1</sup></b>				
Income/loss for the year	- 1.10	- 0.20	2.47	4.10
Cash flow before changes in working capital and investments	0.88	2.02	4.90	6.55
Shareholders' equity per share	50.66	50.36	52.93	55.34
Dividend per share			1.25	2.00 <sup>2</sup>

1) The number of shares outstanding following the new issue of shares in 1998 amounts to 15,000,000. For 1995, 1996 and 1997, adjustment was made for the new share issue's bonus-issue element. The market price of SEK 58 on November 27, 1997 was used when calculating per-share data.

2) Proposed by the Board of Directors.

# Financial overview

## FINANCIAL POLICY

The basic objective of Pandox's financial policy is to achieve the lowest-possible financing costs while limiting its interest-rate and borrowing risks. By interest-rate risk it is meant the risk that the interest rate of receivables will affect Group income negatively. Borrowing risk means the risk that external financing may become more difficult.

## INTEREST-RATE RISK / INTEREST-RATE STRATEGY

Pandox' basic strategy is that interest-rate exposure should be adapted so that it shall be possible to compensate to a reasonable degree through higher revenue for increased costs resulting from interest-rate changes. Interest-rate risk must therefore be limited through varying fixed-interest-rate periods with the objective of creating an optimal due-date structure and fixed-interest-rate period. The long-term objective is that the average fixed-interest-rate period should be matched by the average periods when leases can be affected by a change in rates. (Zero risk)

## METHODS AND SYSTEMS

To permit active follow-up, Pandox has implemented systems and routines for continuously monitoring and reporting the trend of interest-rate risk.

## FINANCING STRATEGY

In order to gain flexibility and administrative benefits Pandox has centralised all borrowing into the Parent Company. The objective is to work with long-term framework agreements that provide scope for borrowing with varying maturities and fixed margins. To extend fixed-interest-rate periods, Pandox preferably uses derivative instruments such as swaps.

## CAPITAL STRUCTURE

The objective for the Group's capital structure is that the equity/assets ratio should amount to at least 35%. This is designed to meet the requirement for financial strength and thereby make continuing expansion possible.

## FINANCING

As of December 31, 1998, the Pandox Group's interest-bearing liabilities amounted to SEK 1,281.8 M. The loan portfolio had an average fixed-interest-rate period of 2.3 years. The average interest rate on loans on the same date was 5.85 per cent. All financing is arranged in Swedish kronor. On the same date, the Pandox Group's liquid funds totalled SEK 82.9 M. In addition, there were unutilized overdraft facilities of SEK 25 M.

## NEW ISSUE

In January 1998 Pandox issued new shares with preferential rights to the Company's shareholders. The issue was fully subscribed and increased equity capital by SEK 205 M, after issue costs. Following the new issue, the company has 15,000,000 shares.

## EQUITY CAPITAL

The Pandox Group's stated equity capital as shown in the balance sheet as of December 31, 1998 amounted to SEK 830.1 M, of which SEK 564.5 M was restricted equity and SEK 265.6 M was unrestricted equity.

## CASH FLOW BEFORE CHANGES IN WORKING CAPITAL AND INVESTMENTS

The Pandox Group's cash flow before changes in working capital and investments in 1998 amounted to SEK 98.2 M.

## WORKING CAPITAL

Pandox receives rental revenue in advance and pays most operating expenses and interest expenses in arrears, as a result of which the Group does not normally have to finance any working capital.

As shown in the balance sheet as of December 31, 1998, interest-free liabilities amounted to SEK 87.3 M, comprising a noninterest-bearing note in the amount of SEK 2.5 M and operating liabilities of SEK 84.8 M. Current assets, excluding liquid funds, amounted to SEK 14.2 M.

### Fixed-interest-rate structure

Fixed-interest-rate period, until year	Loan amount, SEK m	% of borrowing	Average interest rate
1999	410,8	32	4,53
2000	182,8	14	6,35
2001	186,4	14	6,79
2002	201,8	16	6,85
2003	150,0	12	6,25
2004 and later	150,0	12	5,96
<b>Total</b>	<b>1 281,8</b>	<b>100</b>	<b>5,85</b>

Pandox' average fixed-interest-rate period is 2.3 years.

# Factors that affect Pandox

*Pandox' operations and profitability are affected by a number of factors. The most important factors are described below.*

## TREND OF THE HOTEL MARKET

The trend of Pandox' earnings and the value of its properties, depend on how the hotel market develops. The trend in this market follows the trend of the general economy relatively closely. Business travel and conference activities normally increase during periods of high activity in the Swedish economy, while there is normally a decrease during periods of low economic activity. There is thus a strong connection between the trend of the economy and the trend of the hotel market. See also the chart on page 17. During the latter part of the 1980s many new hotel properties were built and excess capacity was created in the hotel market in Sweden. This excess capacity will continue for many years, although it is gradually declining parallel with growth in the economy and because some of regional capacity is being cut back (through the conversion of properties to other uses, for example). At present, there is little new production of hotels in Sweden. However, some increase in capacity may be expected – mainly in the three metropolitan areas, Stockholm, Gothenburg and Malmö – primarily through conversion of space to hotel rooms, as well as through new individual new-construction projects.

## TREND OF RENTAL REVENUE

Its heavy dependence on the trend in a single industry distinguishes Pandox from most of the other real estate companies in Sweden. In addition, Pandox has chosen, in most cases, to further strengthen its reliance on the financial development of its tenants by linking rental revenue wholly or in part to each operator's revenue or profit. Of the total external rental revenue in 1998, 64% was derived from revenue- and profit-based leases and 36% from fixed-fee leases.

The trend of rental revenue from other commercial space – offices and stores – is determined primarily by the general economic climate as well as by supply and demand for particular types of space and location.

## CONTRACT STRUCTURE

Pandox has a relatively large portion of variable (revenue- and profit-based) leases. See table in page 12.

Pandox, to a greater degree than other property owners, is directly dependent on the operations of the individual tenants.

In 1998, the four largest tenants in terms of amounts paid accounted for 73 percent of Pandox' total rental revenue of SEK 218.5 M.

## Largest tenants' shares of total rental revenue

%	1998
Scandic Hotels	30
SAS International Hotels	25
Provobis Hotels	10
First Hotels	8
Other tenants (76 tenants)	27
<b>Total</b>	<b>100</b>

Pandox' variable leases (including leases specifying base amounts) accounted for 64 percent of total rental revenues in 1998. More than half of the variable leases consist of leases specifying base amounts, with the result that only 30 percent of the leases are fully variable downward. A change in the occupancy rate and the average room revenue consequently affects Pandox very differently, depending on the direction of change.

## OCCUPANCY RATE

As of December 31, 1998, the space-based occupancy rate was 99.4%. Vacant space, amounting to 1,402 sq.m. consisted entirely of store and office premises.

As an owner of hotel premises, Pandox has far fewer tenants per property than other publicly listed real estate companies. If a hotel operator should for some reason choose to terminate its lease, Pandox has the

choice of searching for a suitable new operator as a tenant or continuing to operate the hotel under its own auspices. Thus, considering the specific knowledge of the industry that is available within Pandox, the risk of having a vacant hotel property is deemed to be low and manageable.

In the case of the other commercial space, which accounts for approximately 9% of total space in the Company's properties, Pandox is exposed to the same fluctuations in the supply and demand for space experienced by other real estate owners.

#### DECISIONS BY PUBLIC AUTHORITIES

The hotel market can be affected by decisions made by public authorities. Examples of such decisions could include changes in regulations governing the treatment of per diem allowances for purposes of taxation, and general or industry-specific changes in the value-added tax regulations. One such recent decision is that, since January 1, 1997, deductions for representation meal expenses have been further restricted. It is still too soon to determine what effect this will have on the hotel and restaurant business in Sweden.

#### PROPERTY TAX

Since January 1, 1996, the property tax on the type of properties owned by Pandox has amounted to 1.0% of the tax assessment value. Changes in the tax rate or in the tax assessment value, which are adjusted annually, affect Pandox' earnings. In 1998, 62% of the property tax was debited to tenants, which means that the net effect on Pandox' earnings amounted to SEK 4.3 M.

#### SITE LEASEHOLD RENTS

As of December 31, 1998, Pandox held eight properties via site leasehold rights. The rents on these properties are calculated in such a manner that the municipality obtains what is deemed to be a reasonable real rate of interest on the estimated market value of the land. Site leasehold rents generally extend over periods of 10 to 20 years.

#### INTEREST RATES

Interest expense is Pandox' largest single cost item. Continuing fluctuations in interest rates will therefore have an impact on the Company's earnings. In order to limit its financial risk, Pandox' average fixed-interest-rate period is 2.3 years. Accordingly, the full effects of a change in interest rates are not felt for several years.

#### SENSITIVITY ANALYSIS

The table below illustrates how Pandox' earnings are affected by changes in certain key factors.

##### Earnings impact

Mkr	1998
<b>Change in rental revenue</b>	
Occupancy +5 percentage points	+6.6
Occupancy -5% percentage points	-5.1
Average room revenue SEK +50	+ 5.6
Average room revenue SEK -50	- 4.6
Other commercial premises +/- 5 percentage points	+/- 1.1
<b>Change in other variables:</b>	
Interest expense during the year, +/- 1 percentage point	-/+ 4.1
Average interest expense, +/- 1 percentage points	-/+ 12.8
Operating and maintenance costs +/- 5 percentage points	-/+ 1.5

1) The figures are standardized so that the effects of changes in rental revenue and in interest rates in the table are immediate, although such changes do not in reality have an effect until leases and loan agreements are renegotiated.

# Pandox' tax situation

## THE COMPANY'S TAX SITUATION

The Pandox Group includes companies which for tax purposes are considered as property-management companies as well as companies that are viewed as conducting commercial trading of properties.

Property holdings and holdings of shares and participations in property-management subsidiaries comprise fixed assets in a property-management company. Since the assets are considered fixed assets for tax purposes, deductions for any write-downs do not arise until the loss is realised. This, for example, may occur in connection with the sale to a buyer outside the Group. If, instead, the owning company conducts commercial trading of properties, holdings of properties and shares and participations in real-estate management subsidiaries are considered as current assets for tax purposes. Tax deductions arise for write-downs of properties which are current assets already at the time of the write-down in accordance with the lowest-value principle. A subse-

quent appreciation in value means that the write-down must be reversed for taxation. Such a reversal increases the taxable residual value of current assets.

The consolidated book value of properties reported December 31, 1998 amounted to SEK 2,070.1 M, of which group residual values amounted to SEK 513.7 M.

## NET ACCOUNTING FOR DEFERRED TAX

Pandox' consolidated balance sheet as of December 31, 1998 includes a deferred tax claim of SEK 1.5 M, corresponding to the net of a tax claim of SEK 75.8 M and deferred tax liabilities of SEK 74.3 M. As a rule, deductions for annual depreciation of properties have been applied at a rate of 3 per cent of the acquisition costs of the building. This means that taxable depreciation exceeds the book depreciation which, as of December 31, 1998, gave rise to a deferred tax liability of about SEK 14.9 M. The remaining portion of the deferred tax liability

of SEK 59.4 M, is attributable to the discounted value of the estimated deferred tax liabilities for property included in acquired companies. The liability has been valued on the basis of the shortest holding period for each property and represents an average tax rate of approximately 12 per cent.

The deferred tax receivable relates mainly to a loss deduction established in connection with taxation in 1997. The remaining portion is expected to be established in connection with 1998 taxation. In the consolidated accounts, these deductions have been assigned a value which is slightly less than half of the gross amount.

In addition to loss carryforwards in the consolidated accounts, there are deductions amounting to approximately SEK 36 M in separate legal entities.

Taking into account the situation described above, Pandox is unlikely to incur any tax expense in the years immediately ahead.



# Value of the property portfolio

## CASH FLOW EVALUATION

Pandox continuously evaluates all of its properties in accordance with a valuation model based on the properties' cash flow. The value calculated is the present value of the next ten years' cash flow, with a supplement for the present value of the properties' residual value after ten years. The valuation model is based on the following assumptions.

- Changes in rental revenue during the calculation period are based on the formulation of individual contracts' and on underlying factors.
- Inflation is assumed to amount to an average of 2.0% annually during the calculation period.
- Operating costs are assumed to increase parallel with inflation.
- The calculated interest rate amounts to between 7.0% and 12.0% and has been calculated based on the real interest rate plus a risk premium based on locality risk, contract risk and form of ownership.

An internal valuation of Pandox' 28 hotel properties in accordance with this method as of December 1998 results in a value which exceeds the book value by a comfortable margin.

## YIELD VALUATION

A yield valuation model is based on a normalized operating net for the property portfolio divided by a yield requirement. The normalized operating net is charged with a portion of the administration costs related to management and development of the properties.

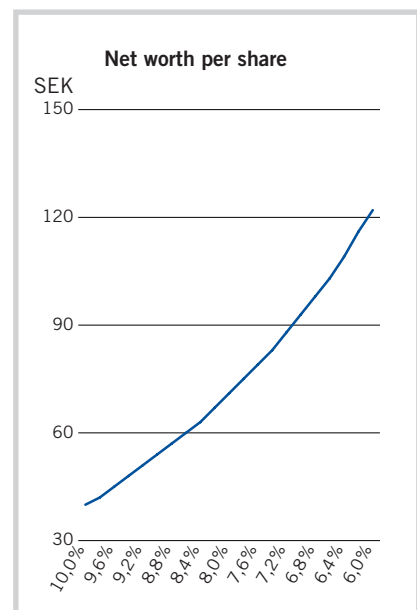
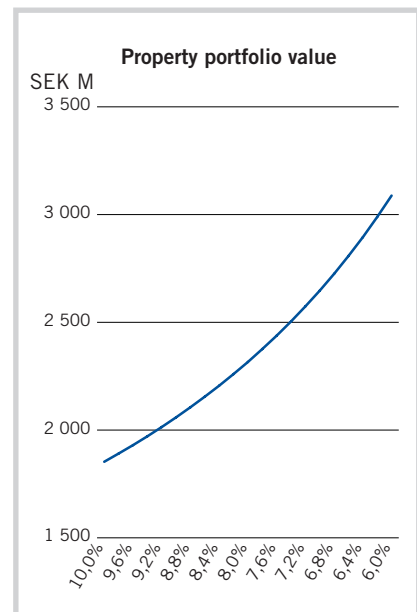
The value obtained is then adjusted with the present value of interest subsidies, the effects of estimated long-term occupancy level and possible surpluses or deficits in rental revenues.

Pandox received no interest subsidy in 1998. At year-end the occupancy level was 99.4%. The existing vacancies (1,402 sq.m.) were wholly attributable to non-hotel-related floor space, which accounted for 9% of the total space in the portfolio. The implication of Pandox' operations and work methodology is that, in principle, no vacancy in hotel-related floor space can occur. Accordingly, there is no need to adjust for the long-term occupancy level. Nor are any surplus rental revenues deemed to exist.

## Normalized operating net

	SEK M
Operating surplus as shown in 1998 income statement	186.8
+ Adjustment for properties bought	9.0
- Adjustment for properties divested	-1.2
- Property-related administration	-9.2
Normalized operating surplus, 1998	185.4

The accompanying charts show the property portfolio's value and net worth per share at different yield requirements. No tax charge is included. See section dealing with "Pandox tax situation."



# Board of Directors' Report

*The Board of Directors and the Managing Director of Padox Hotellfastigheter AB (publ), Org. no. 556030-7885, herewith submits its annual report and financial statements for 1998, its fourth year of operation.*

## OPERATIONS

Padox' business concept is to own, develop and lease hotel properties. The objective is to achieve an optimal return and growth in value in its property portfolio based on its specific knowledge of hotel properties, hotel operations and business development.

Padox Hotellfastigheter AB has been listed on the "O" List of the Stockholm Stock Exchange since June 23, 1997.

An issue of new shares carrying preferential subscription rights for Padox' shareholders was effected in January 1998. The issue, in the amount of SEK 210 M, before issue costs, strengthened Padox' equity capital and was part of the financing of four hotel properties acquired from WASA Mutual Life at the end of 1997.

Padox continued to develop its property portfolio during 1998. The Company took possession of nine properties, entered into agreement to acquire another property, and sold two properties during the year.

## PROPERTY OPERATIONS

Total rental revenues for 1998 amounted to SEK 234.6 M (152.2). The operating net increased by SEK 66.1 M to SEK 186.8 M (120.7). Compared with 1997, the change is attributable primarily to the surplus from properties bought and sold during 1997 and 1998. In addition,

the strong hotel economy resulted in increased revenues from revenue-based and profit-based leases. Profit includes nonrecurring rental income of SEK 0.7 M. Adjusted for properties sold and purchased, the operating surplus amounted to SEK 194.6 M (169.1). The adjusted direct return for full year 1998 amounted to 9.3%, excluding administrative costs.

## HOTEL OPERATIONS

Operating revenue for the period amounted to SEK 18.5 M (41.5). After operating net, depreciation and internal rent, Padox incurred a loss of SEK 0.2 M (-0.8). Costs of liquidating the operating company in Grand Hotel Kristianstad, which was included in the acquisition from Tornet, were charged against income, causing overall results of hotel operations to be negative.

On January 1, 1999 First Hospitality AB took over the operation of Hotel Park Astoria in Enköping. As a result, Padox is not conducting any of its own hotel operations.

## INCOME

Group income after tax for the full year improved by SEK 34.3 M, to SEK 61.5 M (27.2). The improvement in income was mainly due to improved operating net from property operations. The raising of new loans to finance acquired properties resulted in higher interest expense

and weaker net financial income. Income was also affected by nonrecurring income of SEK 3.5 from the sale of Källhagens Wårdshus and nonrecurring expense of SEK 2.1 M pertaining to a reserve for additional charge. The ruling on the additional charge has been appealed. See Note 4.

## CASH FLOW

Cash flow before changes in working capital and investments in 1998 amounted to SEK 98.2 M (54.0), equal to SEK 6.55 (4.91) per share.

## LIQUIDITY AND FINANCING

Net financial expense for the year amounted to SEK -71.3 M (-50.3). The change is an effect of the increased borrowing at the end of 1997 and during the spring of 1998 to finance the acquisition of new properties.

The Group's interest-bearing liabilities at December 31, 1998 amounted to SEK 1,281.8 M. The loan portfolio has a distributed due-date structure, with an average fixed interest rate period of 2.3 years. The average interest rate on loans as of December 31, 1998 was 5.85 per cent. The properties' mortgaging ratio was 62 percent.

The equity/assets ratio amounted to 37.7 (30.2) percent.

The Padox Group's available liquid funds totalled SEK 107.9 M, including unutilized overdraft facilities of SEK 25 M.

**MARKET**

The hotel market in Sweden is continuing to develop favorably. More than 14 million rooms, equal to an occupancy rate of 46 percent, were sold during 1998. The growth in Pandox' priority market segments during the year amounted to about 6 percent in volume, and the occupancy rate increased from 58 to 61 percent.

The structural change that has begun in the hotel-property market continued in 1998, in part through Pandox' transactions, the formation of more hotel-property companies and the strong expansion of hotel chains.

**PROPERTY PORTFOLIO AND INVESTMENTS**

Pandox took possession of nine hotel properties during 1998. On March 2 the Company took possession of the eight properties that had been acquired from Fastighets AB Tornet. The final financial settlement took place March 31. In June an agreement was concluded covering acquisition of the Radisson SAS Luleå hotel property, with Pandox taking possession on September 2.

The total acquisition value of the nine properties, including registration fees and planned investments, amounted to SEK 260 M. Two non-strategic properties – the Källhagens Wårdshus hotel and restaurant property and the Överkika-

ren 19 office building – were sold. The total sales amounted to SEK 49 M, yielding a capital gain of SEK 3.5 M, which was related entirely to Källhagens Wårdshus.

In November 1998 an option agreement was reached whereby Pandox gained the right to acquire the Provobis Star Hotel property in Lund. The acquisition price, including transaction costs, was SEK 101 M.

Pandox' property portfolio as per December 31, 1998, excluding Star Hotel Lund, comprised 28 hotel properties, with a total of 4,325 hotel rooms and combined floor space of 249,970 sq.m. The book value of the properties, including hotel equipment, amounted to SEK 2,085.2 M. The Group's investments during the period amounted to SEK 22.6 M (11.2), which pertained mainly to product improvements in a number of properties.

**PERSONNEL**

At year-end 1998, central administration amounted to 11 persons. In addition, there were 27 persons in the operating companies during the year. Since operations in the operator company were transferred to an outside party on January 1, 1999, there are at present no employees in Group-owned operating companies.

Data pertaining to average number of employees and wages, salaries and remuneration are provided in Note 16.

**EVENTS AFTER YEAR-END**

In January 1999 Pandox exercised its option to acquire the Provobis Star Hotel Lund property. The Company took possession January 21, with the financial settlement effective as of January 1. Operating income from the property will be consolidated for the full year 1999.

**OUTLOOK FOR 1999**

Economic conditions in the hotel market in 1999 are expected to remain at the high level of 1998. Pandox' earnings in 1999, before changes in the property portfolio, are expected to increase by 10 percent.

**PARENT COMPANY**

The property operations of the Group's property-owning companies are managed through personnel employed within the Parent Company, Pandox Hotellfastigheter AB. The costs of these services are invoiced to the subsidiaries. Invoicing during 1998 amounted to SEK 18.7 M (15.6). Nonrecurring revenue pertains mainly to gains on sales of shares in subsidiaries. Income for the year, after tax, amounted to SEK 24.0 M, as against a loss of SEK 3.6 M in 1997.

# Income statement

SEK 000s		Group		Parent Company	
		1998	1997	1998	1997
Property operations					
Rental revenue	Note 1, 2	218 503	140 589	-	-
Other property revenue		16 130	11 593	-	-
Total property revenue		234 633	152 182	-	-
Operating and maintenance costs		-47 856	-31 490	-	-
Operating net		186 777	120 692	-	-
Depreciation according to plan	Note 3	-35 977	-25 974	-	-
Income, property operations		150 800	94 718	-	-
Hotel operations					
Operating revenue	Note 1	18 492	41 501	-	-
Operating costs	Note 3	-18 709	-42 226	-	-
Operating loss, hotel operations		-217	-725	-	-
Gross income		150 583	93 993	-	-
Administrative costs	Note 3	-19 157	-17 236	-17 709	-17 026
Nonrecurring income/expenses	Note 4	1 361	1 026	3 483	2 956
Other income		-	-	18 705	15 573
Operating income		132 787	77 783	4 479	1 503
Interest income	Note 5	4 684	2 226	62 241	27 292
Interest expense		-75 446	-52 122	-73 160	-35 448
Other financial income and expense		-481	-405	-379	-164
Income after financial items		61 544	27 482	-6 819	-6 817
Shareholder advance, received		-	-	-	27 400
Shareholder advance, granted		-	-	-	-27 264
Group contribution		-	-	30 819	3 095
Income before taxes		61 544	27 482	24 000	-3 586
Taxes	Note 6	-	-311	-	-
<b>Income/Loss for year</b>		<b>61 544</b>	<b>27 171</b>	<b>24 000</b>	<b>-3 586</b>

## Comment on consolidated income statement

### RENTAL REVENUE

Rental revenue pertains to rental of hotel space, hotel equipment and other commercial space. Rental revenue in 1998 amounted to SEK 218.5 M (140.6). The increase was attributable mainly to the surplus provided by properties acquired in 1997 and 1998. The strong hotel market also resulted in higher revenue from revenue-based and income-based leases.

### OCCUPANCY RATE

Vacant space as of December 31, 1998 amounted to 1,402 sq.m., resulting in an occupancy rate of 99.4 percent. The vacant space was exclusively in the non-hotel-related operations that account for 9 percent of the total space in the portfolio.

### OTHER PROPERTY REVENUE

Other property revenue pertains mainly to costs debited, primarily for heat, electricity and taxes.

#### Distribution of Other property revenue

SEK M	1998	1997
Payment for operating costs	9,1	8,0
Real estate tax debited	7,0	3,6
<b>Total</b>	<b>16,1</b>	<b>11,6</b>

Payments for operating costs amounted to 62 (63) percent of total operating costs and to 62 (56) percent of the total real estate tax.

### PROPERTY COSTS

#### Operating costs

Operating costs are costs that are directly attributable to operation of the properties, such as costs of heat, water, electricity and maintenance of the properties. Costs are reported in gross amounts; the portion of costs passed along to tenants is shown as revenue under "Other property revenue" and the total cost is included among costs.

#### Maintenance costs

Maintenance costs are costs incurred to maintain the standards of build-

ings and building equipment.

Pandex' leases are in most cases structured so that the tenants – the hotel operators – are responsible for the greater part of interior maintenance of the properties.

#### Ground rent

In all, seven Pandex properties are held under site leasehold rights. The conditions and maturities in all cases are based on market terms.

#### Real estate tax

Since January 1, the real estate tax on hotels, stores, offices and similar commercial premises has been 1.0 percent of the assessed value.

#### Other costs

These costs include costs of legal counsel on leasing matters, insurance premiums, costs of leasing external space, and auditing fees.

#### Distribution of property costs

SEK M	1998	1997
Operating costs	14,7	12,8
Maintenance costs	14,4	6,9
Ground rents	4,4	4,2
Real estate tax	11,3	6,4
Other costs	3,1	1,2
<b>Total</b>	<b>47,9</b>	<b>31,5</b>

The increase in costs between 1997 and 1998 is due mainly to the properties acquired at the end of 1997 and the beginning of 1998.

### OPERATING NET

Operating net in 1998 amounted to SEK 186.8 M, an increase of SEK 66.1 M. The adjusted yield, excluding administrative costs, amounted to 9.3 (9.0) percent.

### DEPRECIATION ACCORDING TO PLAN

Depreciation according to plan on buildings amounts to 1.5 percent. Equipment is depreciated at rates between 15 and 33 percent.

Depreciation in 1998 increased from SEK 26 M to SEK 36 M, mainly as a result of acquisitions of properties.

### HOTEL OPERATIONS

For accounting purposes, the hotel operations conducted by Pandex are charged with internal rent. The internal rent is linked to the operator-company's revenue and is based on what are estimated to be market terms. Internal rent is debited in the hotel operation and credited to revenue in property management. During 1998 Pandex operated the Hotell Park Astoria in Enköping. In 1997 Pandex operated the Hotell Favorit in Malmö and Mora Hotell (nine months). Pandex is not operating any hotels at the present time.

### ADMINISTRATIVE COSTS

Of the total administrative costs of SEK 17.2 M for 1997 and SEK 19.2 M for 1998, SEK 9.9 M and SEK 10.0 M, respectively, pertained to costs of central administration and maintenance of the Company's Stockholm Stock Exchange listing. The remaining SEK 7.3 M and SEK 9.2 M, respectively, pertained to costs related to the management and development of properties. Nonrecurring costs of SEK 0.9 M were charged in 1998.

### NONRECURRING REVENUE / COSTS

This amount in 1998 includes a capital gain of SEK 3.5 M on the sale of Källhagens Wårdshus and a reserve of SEK -2.1 M for an additional tax charge. (See Note 4.)

### FINANCIAL INCOME AND EXPENSE

The increase in interest expense for the year is a consequence of the new borrowing in connection with the financing of newly acquired properties. See "Financial overview," page 35.

### TAXES

No tax expense on income arose in 1998, due to Pandex' substantial loss carryforwards. See "Pandex' tax situation," page 38.

# Balance Sheet

SEK M		Group		Parent Company	
		Dec 31, 1998	Dec 31, 1997	Dec 31, 1998	Dec 31, 1997
<b>Assets</b>					
Fixed assets					
Tangible assets					
Land and buildings	Note 7	2 070 054	1 856 421	-	-
Equipment	Note 8	16 466	19 029	962	1 154
		<u>2 086 520</u>	<u>1 875 450</u>	<u>962</u>	<u>1 154</u>
Financial assets					
Shares and participations in subsidiaries	Note 10	-	-	829 637	829 067
Receivables from Group companies		-	-	482 536	198 035
Tax claim		1 489	1 489	-	-
Other receivables		13 677	14 670	-	-
		<u>15 166</u>	<u>16 159</u>	<u>1 312 173</u>	<u>1 027 102</u>
<b>Total fixed assets</b>		<b>2 101 686</b>	<b>1 891 609</b>	<b>1 313 135</b>	<b>1 028 256</b>
Current assets					
Inventories		171	218	-	-
Accounts receivable – trade	Note 9	6 002	6 643	-	-
Receivables from Group companies		-	-	683 169	544 254
Tax claim		-	294	-	301
Other receivables		3 294	5 299	22	2 138
Prepaid expenses and accrued income		5 107	11 258	1 736	6 619
		<u>14 574</u>	<u>23 712</u>	<u>684 927</u>	<u>553 312</u>
Cash and bank balances		82 979	14 386	73 042	9 484
<b>Total current assets</b>		<b>97 553</b>	<b>38 098</b>	<b>757 969</b>	<b>562 796</b>
<b>Total assets</b>		<b>2 199 239</b>	<b>1 929 707</b>	<b>2 071 104</b>	<b>1 591 052</b>
<b>Equity and liabilities</b>					
Equity					
Note 11					
Restricted equity					
Share capital		225 000	150 000	225 000	150 000
Restricted reserves		339 514	210 020	339 454	210 000
		<u>564 514</u>	<u>360 020</u>	<u>564 454</u>	<u>360 000</u>
Unrestricted equity					
Unrestricted reserves		204 083	195 702	187 100	209 436
Income/Loss for year		61 544	27 171	24 000	-3 586
		<u>265 627</u>	<u>222 873</u>	<u>211 100</u>	<u>205 850</u>
<b>Total equity</b>		<b>830 141</b>	<b>582 893</b>	<b>775 554</b>	<b>565 850</b>
Liabilities					
Note 12					
Liabilities to credit institutions					
		1 281 839	1 078 306	1 259 300	1 008 350
Debenture loans		-	-	-	-
Accounts payable – trade		16 076	7 404	15 604	6 974
Liabilities to Group companies		-	-	-	-
Other liabilities	Note 13	12 786	218 273	587	241
Accrued expenses and prepaid income	Note 14	58 397	42 831	20 059	9 637
		<u>1 369 098</u>	<u>1 346 814</u>	<u>1 295 550</u>	<u>1 025 202</u>
<b>Total liabilities</b>		<b>1 369 098</b>	<b>1 346 814</b>	<b>1 295 550</b>	<b>1 025 202</b>
<b>Total equity and liabilities</b>		<b>2 199 239</b>	<b>1 929 707</b>	<b>2 071 104</b>	<b>1 591 052</b>
Assets pledged					
	Note 15	1 307 320	1 084 200	-	-
Contingent liabilities	Note 15	110	-	680	47 000

## Comment on consolidated balance sheet

### PROPERTIES AND EQUIPMENT

The book value of the properties, excluding hotel equipment, increased in a net amount of SEK 213.7 M, to SEK 2,070.1 M. During the year properties were acquired at a cost of SEK 259.7 M. In addition there were capitalized land registration certificates amounting to SEK 11.0 M pertaining to properties acquired at the end of 1997, a sale of a property at book value of SEK 45.4 M, depreciation of SEK 29.9 M for the year, and investments of SEK 18.3 M during the year. The net book value of equipment declined to SEK 16.5 M (19.0), since depreciation exceeded investments. Investments in equipment in 1998 amounted to SEK 4.3 M.

The greater part of the book value of equipment, SEK 15.1 M, pertained to hotel equipment used by hotel operators. In some cases these items are included as an unspecified portion of rent, and in other cases as a separate rental charge. When these revenues are included in rental revenues, Pandox includes the value of the equipment in the property value that is used to calculate yield from the properties. At December 31, 1998, the book value of the properties, including hotel equipment, amounted to SEK 2,085.2 M. "Other equipment" consists of equipment valued at SEK 1.3 M in the Parent Company.

### DEFERRED TAX CLAIM

This item is the net of a deferred tax claim of SEK 75.8 M and a deferred tax liability of SEK 74.3 M. A detailed description is presented in the section "Pandox' tax situation," on page 38.

### OTHER LONG-TERM RECEIVABLES

Pertains mainly to a prepaid ground rent. The receivable carries interest and is being amortized by a deduction against the annual ground rent charge. The cost of the ground rent is accrued annually and does not have any effect on liquidity.

### INVENTORIES

Pertains to inventories of consumable goods in a Pandox' operating company. In connection with the sale of the operating company to an outside party as of January 1, 1999, the inventory was also divested.

### ACCOUNTS RECEIVABLE-TRADE

Pandox' accounts receivable normally consist entirely of rental receivables. Since rent is generally paid quarterly or monthly in advance, amounts outstanding at year-end consist mainly of accrued revenue-based and income-based rents.

### OTHER RECEIVABLES

Current receivables such as those pertaining to expenses that are debited to external parties.

### PREPAID COSTS AND ACCRUED INCOME

This item comprises mainly of prepaid expenses for the following year, such as insurance premiums and rents.

### CASH AND BANK DEPOSITS

The liquidity of the Pandox Group is managed by the Parent Company through a central account in a bank. In addition to time deposits amounting to SEK 35 M, liquidity was invested in an interest-bearing transaction account in a bank. In addition, Pandox has unutilized overdraft facilities amounting to SEK 25 M.

### EQUITY

The new issue of shares that was completed in January 1998 increased equity by SEK 205 M, after issue costs. This amount was used to increase share capital by SEK 75 M and restricted funds by SEK 130 M. The number of shares increased by five million, to 15 million.

### LIABILITIES TO CREDIT INSTITUTIONS

As of December 31, 1998, Pandox' total interest-bearing liabilities amounted to SEK 1,281.8 M, distributed among five lenders. Because financing is arranged mainly through long-term credit agreements, all debt may in principle be considered long-term. As regards fixed-interest-rates, debt amounting to SEK 410 M carries a fixed rate for a period of less than a year. See the section "Financial overview," page 35.

### LIABILITIES TO SUPPLIERS

Liabilities to suppliers increased in 1998, compared with 1997, due to higher costs. In addition, a number of investment projects were completed during the year, resulting in a larger-than-normal volume of liabilities to suppliers.

### OTHER LIABILITIES

The balance sheet as of December 31, 1997 included an interest-free liability of SEK 210 M, which was part of the financing of the four properties acquired from WASA as of December 30, 1997. This liability was liquidated in February 1998 in connection with Pandox' receipt of the proceeds of the new issue of shares. The balance sheet also included net liability for value-added taxes.

### ACCRUED EXPENSES AND PREPAID REVENUE

The amount pertains mainly to accrued interest expense and prepaid rent. See Note 14.

### ASSETS PLEDGED

Pertains in its entirety to a property mortgage pledged to a credit institution as collateral for loan

### CONTINGENT LIABILITIES

This item pertains mainly to guarantees to VPC (Swedish Securities Register Center).

# Statements of changes in financial position

SEK 000	Group		Parent Company	
	1998	1997	1998	1997
Income after financial items	61 544	27 482	-6 819	-6 817
Depreciation	36 705	26 541	562	419
Cash flow before change in working capital and investments	98 249	54 023	-6 257	-6 398
Change in working capital				
Current noninterest-bearing receivables	9 138	1 607	-131 615	-480 812
Current noninterest-bearing liabilities	-181 249	200 887	19 398	-381 277
Total change in working capital	-172 111	202 494	-112 217	-862 089
Cash flow before investments	-73 862	256 517	-118 474	-868 487
Investments				
Investments in shares and participations	-	-	-570	102 860
Investments in equipment	-4 309	-4 816	-370	-579
Investments in properties	-288 949	-675 078	-	-
Sales of fixed assets	45 483	18 373	-	-
Total investments	-247 775	-661 521	-940	102 281
Cash flow after investments	-321 637	-405 004	-119 414	-766 206
External financing				
Change in financial assets	993	1 137	-284 501	-66 694
Change in interest-bearing liabilities	203 533	374 590	250 950	798 350
New issue of shares	204 454	-	204 454	-
Dividend	-18 750	-	-18 750	-
Group contribution	-	-	30 819	3 095
Shareholder advance, received	-	-	-	136
Total external financing	390 230	375 727	182 972	734 887
Change in liquid funds	68 593	-29 277	63 558	-31 319

## Comment on statement of changes in financial position

### CASH FLOW BEFORE CHANGES IN WORKING CAPITAL AND INVESTMENTS

The cash flow from operations in 1998 amounted to SEK 98.2 M (54.0), an increase of SEK 44.2 M. Income was not charged with any tax since Pandox has utilized part of its loss carryforwards.

### CHANGE IN WORKING CAPITAL

The major change in working capital was due to the interest-free loan of SEK 210 M that was included "Other liabilities" in the balance sheet as of December 31, 1997. The loan was liquidated in February 1998 with funds from the issue of new shares.

### INVESTMENTS

Excluding acquisitions of companies, Pandox Group investments in 1998 amounted to SEK 22.6 M (11,2).

Pandon properties are generally deemed to be in good condition; accordingly the need for investments relates primarily to programs to upgrade the hotel product. In most cases, Pandox's contracts with hotel operators specify that the operators are responsible for maintenance of all or part of the hotel interiors. However, when leases are renegotiated a joint investment to upgrade the hotel product may be an element in the new lease.

See also comment under the heading "Properties and equipment" on page 40.

### EXTERNAL FINANCING

The change in this item during the year was due to the manner in which the major acquisitions made at the end of 1997 and in 1998 were financed. In addition to net borrowing of SEK 203.5 M from a bank, the new issue of shares in January provided SEK 204.5 M after issue costs, thereby increasing external financing by SEK 408 M in 1998. A dividend totaling SEK 18.8 was paid to the shareholders during the year.

### CHANGE IN LIQUID FUNDS

Cash and bank deposits increased by SEK 68.5 M, from SEK 14.4 M to SEK 82.9 M.



# Accounting principles

## ANNUAL ACCOUNTS ACT

The annual report has been made in accordance with the annual account act and good accounting practice.

## CONSOLIDATED ACCOUNTING

The consolidated accounts include all subsidiaries at fiscal year-end.

The Swedish Accounting Standards Council's recommendation RR 1:96 has been applied in the preparation of the financial statements. The consolidated accounts have been prepared in accordance with the purchase method, whereby assets and liabilities have been taken over at market value in accordance with the acquisition analysis that was prepared. The difference between acquisition value and acquired shareholders' equity has been added to buildings and land as goodwill. Goodwill is amortized in accordance with the same principle used for properties. Estimated deferred tax liabilities with respect to Group goodwill and estimated deferred tax claims are reported net as a deferred tax claim in the balance sheet.

## PROPORTIONAL CONSOLIDATION

The Radisson SAS Hotel Östersund property is owned as a participation in a tenant-owners association. The financial structure of the ownership is comparable to a joint venture in

which each shareholder handles his/her own costs and revenue. Against this background, the property has been consolidated in accordance with the proportional method.

## PROPERTY OPERATIONS

The Group's properties are reported in the balance sheet as fixed assets since the purpose of the holding is the long-term ownership, management and development of the properties.

## HOTEL OPERATIONS

Operations conducted by Padox are charged with internal rent for accounting purposes. The internal rent is linked to the operating companies' revenue and based on what are deemed to be market conditions. The internal rent is expensed to hotel operations and carried as revenue in property operations.

## TANGIBLE ASSETS

When construction or enlargements are carried out, all direct costs including project costs are capitalized.

In the case of renovations, direct costs involving improvement of the properties compared with their original condition are capitalized.

Costs of renovating the property to its original condition are not capitalized. An exception to this princi-

ple involves the costs of measures that come under the heading of neglected maintenance in connection with an acquisition, with due adjustment in the acquisition price.

Costs of tenant-modifications resulting in increased rental are capitalized and depreciated over the remaining period of the lease.

Depreciation according to plan is calculated in accordance with the following percentages.

Buildings	1,5%
Land improvements	3,5%
Equipment	6,7-33%

Depreciation according to plan is calculated based on acquisition value.

## SHARES AND PARTICIPATIONS

Shares in subsidiaries and subsidiaries of subsidiaries have been stated at acquisition value with the exception of holdings that may have been written down to estimated market value.

## OTHER RECEIVABLES AND LIABILITIES

Receivables have been stated in the amounts expected to be received. Other assets and liabilities have been stated at nominal values. There are no liabilities denominated in foreign currencies.

# Notes

## NOTE 1

Hotel operations in one of the Group's properties were conducted by a wholly owned operating company in 1998. The rent and compensation for other costs that the hotel operating company paid to the property company have been reported gross; they have not been eliminated in the income statement. This is done to provide a more accurate picture of the operating net of the property company and the operating income of the hotel operating company. With the elimination of these items, rental revenue, other property revenue and the operating expenses of the hotel operator would be reduced by SEK 3,409,000 for 1998 (9,491,000 for 1997).

## NOTE 2 GEOGRAPHIC DISTRIBUTION OF RENTAL REVENUE

	1998	1997
Stockholm	31%	41%
Gothenburg	17%	1%
Malmö	16%	26%
Regional cities	29%	27%
Other communities	7%	5%
	100%	100%

## NOTE 3 DEPRECIATION ACCORDING TO PLAN FOR THE YEAR (SEK 000)

	Group		Parent Company	
	1998	1997	1998	1997
Buildings	-29 077	-19 581	-	-
Land improvements	-811	-816	-	-
Equipment	-6 817	-6 144	-562	-419
<b>Total depreciation</b>	<b>-36 705</b>	<b>-26 541</b>	<b>-562</b>	<b>-419</b>

Of depreciation totaling SEK 36,705,000, the sum of SEK 35,977,000 (25,974,000) is attributable to property operations, SEK 166,000 (148,000) to hotel operations and SEK 562,000 (419,000) to administration.

## NOTE 4 NONRECURRING INCOME/EXPENSE

In addition to a capital gain of SEK 3.5 M on the sale of Källhagens Wårdshus, this item includes a reserve for an additional tax charge. The tax authorities have decided not to approve a loss carryforward of SEK 21.5 M for the fiscal year 1997 in a subsidiary and have also assessed an additional tax of SEK 2.1 M. The loss carryforward was not utilized in the 1997 accounts and will be utilized in future accounts. However, a reserve for the additional tax of SEK 2.1 M has been established in the accounts for 1998. The decision has been appealed.

## NOTE 6 DEFERRED TAX CLAIM AND PAID TAX

The claim consists of the net between a deferred tax claim and deferred tax liabilities shown below (SEK 000)

	1998	1997
Deferred tax claim attributable to calculated and established loss carryforward	75 781	70 000
Deferred tax liabilities pertaining to calculated goodwill in acquired properties	-59 418	-59 418
Deferred tax liabilities pertaining to tax-related depreciation exceeding depreciation according to plan	-14 874	-9 093
	1 489	1 489
Tax expense for the year		
Tax paid	-	-
Change in deferred tax	-	-311

**NOTE 7 BUILDINGS AND LAND**

SEK 000	Group	
	1998	1997
Acquisition value, opening balance	2 002 207	1 344 293
Investments, properties acquired	270 654	668 702
Other investments	18 295	6 376
Sales	-50 851	-17 164
Accumulated acquisition value, closing balance	2 240 305	2 002 207
Depreciation, opening balance	-145 786	-125 862
Sales	5 423	473
Depreciation for the year	-29 888	-20 397
Accumulated depreciation for the year, closing balance	-170 251	-145 786
Residual value, closing balance	2 070 054	1 856 421
Tax assessment value	1 203 288	949 377
Of which, land	159 956	117 738

The acquisition value for buildings, land and equipment includes the value of the Company's hotel property in Östersund which is owned through a 47.56% participation in the Borgens tenant-owners association.

**NOTE 8 EQUIPMENT**

SEK 000	Group		Parent Company	
	1998	1997	1998	1997
Acquisition value, opening balance	44 506	43 207	1 986	1 407
Investments	7 714	4 816	370	579
Sales	-4 052	-3 517	-	-
Accumulated acquisition value, closing balance	48 168	44 506	2 356	1 986
Depreciation, opening balance	-25 477	-21 168	-832	-413
Sales	592	1 835	-	-
Depreciation for the year	-6 817	-6 144	-562	-419
Accumulated depreciation for the year, closing balance	-31 702	-25 477	-1 394	-832
Residual value, closing balance	16 466	19 029	962	1 154

**NOTE 9 ACCOUNTS RECEIVABLE**

The dispute in which a Padox subsidiary was involved with an operator, pertaining to the calculation of revenue-based rent, was resolved during the year. The outcome of the agreement had no effect on Padox's income in 1998 and will have only a marginal effect on future income.

**NOTE 10 SHARES AND PARTICIPATIONS IN SUBSIDIARIES**

(SEK 000)			Number	Par	Percent	Book
Parent Company	Org. no.	Registered office	of shares	value	owned	value
Hotab Förvaltning AB	556475-5592	Stockholm	1 000	100	100	285 050
Padox Förvaltning AB	556097-0815	Stockholm	550	550	100	434 429
Fastighets AB Hotell Kramer	556473-6402	Stockholm	1 000	100	100	37 267
Hotab 6 AB	556473-6352	Stockholm	1 000	100	100	100
Fastighets AB Grand Hotel i Helsingborg	556473-6329	Stockholm	1 000	100	100	15 877
Hotab 11 AB	556473-6303	Stockholm	1 000	100	100	2 261
Padox Fastighets AB	556473-6261	Stockholm	1 000	100	100	103
Fastighets AB Mora Hotell	556475-9370	Stockholm	1 000	100	100	7 647
Mora Hotell AB	556475-9461	Stockholm	1 000	100	100	130
Fastighets AB Stora Hotellet i Jönköping	556469-4064	Stockholm	1 000	100	100	30 108
Nya P.A. Hotell AB	556495-0078	Stockholm	1 000	100	100	227
Padox Hotel Management AB	556469-9782	Stockholm	1 000	100	100	100
Malmö Favorit Hotell AB	556475-9446	Stockholm	1 000	100	100	100
Grand Hotell i Kristianstad AB	556515-9216	Stockholm	1 000	100	100	610
KB Lorensberg 49:2	916833-3269	Göteborg			100	15 628
						829 637
<b>Group</b>						
Arlanda Flygshotell KB	916500-8021	Stockholm			100	100
KB Sjöstjärnan	916850-4554	Göteborg			100	20 259
Utkiken KB	916611-7755	Stockholm			100	6 528

Grand Hotell in Kristianstad was acquired for SEK 100,000 during the year. A conditional shareholder contribution of SEK 510,000 was also made to the company. Hotab 22 AB was sold for SEK 100,000. New P.A. Hotell AB has received a conditional share holder contribution of SEK 60,000.

**NOTE 11 SHAREHOLDERS' EQUITY**

SEK 000	Share	Restricted	Unrestricted	Income/loss	Total
Group	capital	reserves	reserves	for the year	
Opening balance	150 000	210 020	195 702	27 171	582 893
Disposition of unappropriated earnings	-	40	8 381	-8 421	0
Issue of new shares	75 000	129 454			204 454
Dividend				-18 750	-18 750
Result for year	-	-	-	61 544	61 544
	225 000	339 514	204 083	61 544	830 141
<b>SEK 000</b>	<b>Share</b>			<b>Income/loss</b>	<b>Total</b>
<b>Parent Company</b>	<b>capital</b>			<b>for the year</b>	
Opening balance	150 000		210 000	209 436	-3 586
Disposition of unappropriated earnings	-		-	-3 586	3 586
Issue of new shares	75 000	129 454			204 454
Dividend				-18 750	-18 750
Result for year	-	-	-	-	24 000
	225 000	129 454	210 000	187 100	24 000
					775 554

The number of shares outstanding at December 31, 1998 was 15,000,000, each carrying one vote and each with a par value of SEK 15.

**NOTE 12 LIABILITIES TO CREDIT INSTITUTIONS**

	Group		Parent Company	
	1998	1997	1998	1997
Liabilities falling due within one year following balance sheet closing date	31 195	47 000	31 195	-
Liabilities falling due one to four years following balance sheet closing date	1 250 644	581 306	1 228 105	558 350
Liabilities falling due five or more years following balance sheet closing date	-	450 000	-	450 000
<b>Total</b>	<b>1 281 839</b>	<b>1 078 306</b>	<b>1 259 300</b>	<b>1 008 350</b>

**NOTE 13 OTHER LIABILITIES**

The amount includes a noninterest-bearing loan in the amount of SEK 2,500,000 (212,500,000).

**NOTE 14 ACCRUED EXPENSES AND PREPAID INCOME**

SEK 000	Group		Parent Company	
	1998	1997	1998	1997
Prepaid rents	25 939	19 870	-	-
Accrued interest expenses	17 653	8 170	17 524	7 822
Real estate tax	7 374	5 959	-	-
Other expenses	7 431	8 832	2 535	1 815
	58 397	42 831	20 059	9 637

**NOTE 15 ASSETS PLEDGED AND CONTINGENT LIABILITIES**

SEK 000	Group		Parent Company	
	1998	1997	1998	1997
<b>Assets pledged</b>				
Mortgages	1 307 320	1 084 200	-	-
Contingent liabilities	110	-	680	-
Sureties for subsidiaries	-	-	-	47 000

**NOTE 16 PERSONNEL**

Average number employed	Group		Parent Company	
	1998	1997	1998	1997
Men	11	22	7	7
Women	27	55	4	4
Total	38	77	11	11

Wages, salaries and other remuneration SEK 000	Group		Parent Company	
	1998	1997	1998	1997
Board of Directors and Managing Director	2 581	1 801	1 622	1 523
Other employees	10 252	15 997	5 255	4 524
Total	12 833	17 798	6 877	6 047

Social security costs	Group		Parent Company	
	1998	1997	1998	1997
Board of directors and Managing Director	976	603	536	513
Other employees	3 449	5 492	1 736	1 619
Total	4 425	6 095	2 272	2 132

Of which, pension costs	Group		Parent Company	
	1998	1997	1998	1997
Board of directors and Managing Director	194	163	194	141
Other employees	1 382	1 136	1 117	696
Total	1 576	1 299	1 311	837

**PAYMENTS TO SENIOR EXECUTIVES**

Fees paid to the Board members amounted to SEK 400,000 of which the Chairman and other members each received SEK 100,000. The Vice Chairman of the Board did not accept his fee. The former owners, VF Holding AB and Skanska AB have paid a consulting fee of SEK 1,705,000 to the Vice Chairman for work involving business development and financing matters.

The Managing Director was paid SEK 1,224,000 in salary and other benefits in 1998. The pension commitment on behalf of the Managing Director is within the framework of the general pension plan.

The Managing Director is entitled to a notice-of-termination period of 24 months if terminated by the Company, with deduction in the event of employment during this period with another company. If termination is at the Managing Director's request, the notice-of-termination period is six months.

For other key personnel, there are pension provisions within the framework of the general pension plan. These employees are entitled to a notice-of-termination period of 12 months if terminated by the Company, with deduction in the event of employment during this period with another company. If termination is at the request of the employees, the notice-of-termination period is six months.

# Proposed disposition of earnings

## GROUP

As shown in the consolidated balance sheet, the Group's unrestricted equity amounts to SEK 265,627,000. A transfer to restricted reserves is proposed in the amount of SEK 68,000.

## PARENT COMPANY

The following earnings are available for disposition by shareholders at the Annual General Meeting:

Unrestricted reserves	187 099 815 kr
Profit/loss for the year	23 997 497 kr
	211 097 312 kr

The Board of Directors and Managing Director propose:

that a dividend of SEK 2.00 per share be distributed to the shareholders	30 000 000 kr
amounting to a total of that the following amount be carried forward	181 097 312 kr
	211 097 312 kr

Stockholm, February 19, 1999

Mats Mared  
Chairman

Bengt Kjell

Paul Lederhausen

Kai Ringenson

Mats G Ringesten

Anders Nissen  
Managing Director

Our auditors' report pertaining to this annual report and consolidated financial statements was submitted February 19, 1999.

Ulf Egenäs  
Authorized Public Accountant

Anders Scherman  
Authorized Public Accountant

# Auditors' Report

To the Annual General Meeting of Padox Hotellfastigheter AB (publ) Org. no. 556030-7885.

We have examined the Annual Report, the consolidated financial statements, accounts and administration of the Board of Directors and the Managing Director of Padox Hotellfastigheter AB (publ) for 1998.

The Board of Directors and the Managing Director are responsible for the accounting records and administration. Our responsibility is to comment on the Annual Report, the consolidated financial statements and the administration, based on our audit.

The audit was conducted in accordance with generally accepted auditing standards. This means that the audit is planned and executed to secure reasonable assurance that the Annual Report and consolidated financial reports contain no substantial errors. An audit involves examining a selection of underlying figures and other information in the accounting records. An audit also includes a check of the accounting principles and their application by the Board of Directors and Managing Director, and to evaluate the overall information content in the Annual Report and the consolidated financial statements. We examined the important decisions, actions and relationships in the company to determine if a Board member or the Managing Director has any financial obligation to the company or has otherwise acted in breach of the Swedish Companies Act, the Annual Accounts Act or the Articles of Association. We consider that our audit provides reasonable grounds for the statements below.

The Annual Report and the consolidated financial statements have been prepared in accordance with the Annual Accounts Act, and we therefore recommend that the income statement and balance sheet for the Parent Company and Group be adopted, and that the Parent Company's unappropriated earnings be dealt with in accordance with the proposal in the Board of Directors' Report.

The Board of Directors and Managing Director have taken no action nor been guilty of any negligence which, in our opinion, can entail any financial obligation to the company, and we therefore recommend that the Board of Directors and Managing Director be discharged from liability for the financial year 1998.

Stockholm, February 19, 1999.

Ulf Egenäs  
Authorized Public Accountant

Anders Scherman  
Authorized Public Accountant

# Board of Directors



**Mats Mared** Born 1944. Chairman. President of Drott AB. Member of the Board since 1995. Member of the boards of Drott AB, Fastighets AB Norrporten and AB Piren. Shareholding in Pandox: 1,000 shares.



**Kai Ringenson** Born 1950. Executive Vice President, Wyndham/Arcadian Int Ltd, Patriot Europe, a division of Patriot American Hospitality. Member of the Board since 1995. Member of the board of Conran Restaurant Ltd. Shareholding in Pandox: 750 shares.



**Bengt Kjell** Born 1954. Working Vice Chairman. Partner, Navet Affärsutveckling AB. Member of the Board since 1996. Member of the boards of Hoist International AB, Kungsleden AB and Franska Däckimporten AB. Shareholding in Pandox: 10,000 shares and purchase options corresponding to 22,200 shares.



**Mats G Ringesten** Born 1950. Partner in Neuman & Nydahl HB. Member of the Board since 1997. Member of the boards of Biora AB, Viking Sewing Machines AB, Pharmacia & Upjohn Diagnostics AB and Volvo Technology Transfer AB. Shareholding in Pandox: 750 shares.



**Paul Lederhausen** Born 1936. Executive. Member of the Board since 1998. Chairman of Svenska McDonalds AB. Member of the board of Polarn och Pyret AB. Shareholding in Pandox: 10,000 shares.

## THE WORK OF THE BOARD OF DIRECTORS

The Pandox Board of Directors is composed and dimensioned to enable it to actively and effectively support Management in developing the company, and to enable it to monitor and control the business.

In a publicly listed company like Pandox, expertise and experience gained in the following areas is of major importance:

- knowledge of hotel operations and of the hotel market
- knowledge of buildings and the real estate industry
- experience gained working in publicly listed companies
- knowledge and experience in the area of business development
- knowledge of financing

Broad experience and knowledge from all of these areas is available in Pandox' Board of Directors. In addition, it is important that Board members possess high integrity, are interested in the Company's operations, are profit-oriented, and are prepared to serve the best interests of all shareholders.

In addition to its organizational meeting, the Pandox Board has six scheduled meetings [during the year]. Board material is sent to the members approximately a week in advance. The Company's auditors are present at least one meeting per year to present a report on their audit and their review of the Company's internal control systems. Kjell Solbe, previously corporate attorney in Securum Finans AB, is the Board's secretary.

The Board has adopted procedures for its work and directives for the Managing Director, and has given management instructions on reporting. The Board has also adopted a financial policy as a basis for its work in raising loans, selecting credit periods and fixed-interest-rate periods, etc.



## Senior executives



**Anders Nissen** Born 1957. Managing Director Employed since 1995. Shareholding in Pandox: 1,500 shares and purchase options corresponding to 22,200 shares.



**Nils Lindberg** Born 1947. Chief Financial Officer, CFO, Employed since 1995. Shareholding in Pandox: 1,150 shares and purchase options corresponding to 8,880 shares.

## Auditors



**Ulf Egenäs** Born 1938. Authorized Public Accountant Deloitte & Touche AB.



**Anders Scherman** Born 1944. Authorized Public Accountant Ernst & Young AB.

# Definitions

## PROPERTY-RELATED

### Total management revenue

The sum of rental revenue and other property revenue.

### Operating net

Management revenue reduced by operating and maintenance costs, real estate tax, ground rent and property expenses.

### Adjusted operating net

Operating net adjusted to reflect sales and purchases of properties during the year.

### Direct yield 1

Adjusted operating net as a percentage of book value of properties and hotel equipment at year-end. The book value of hotel equipment is included in the denominator since equipment rent is included in the numerator.

### Direct yield 2

Adjusted operating net including property-related administration as a percentage of the book value of the properties.

### Property-related administration

The portion of total administration costs that is related directly to management and development of a property. Other administration costs pertain to central administration and costs of maintaining the company's stock exchange listing.

## FINANCIAL

### Interest-coverage ratio

Income after net financial items plus financial expense as a percentage of financial expense.

### Return on equity

Income after net financial items and paid tax as a percentage of average equity capital. The average equity capital in 1997 has been adjusted to reflect the issue of new shares.

### Return on total capital

Income after net financial items plus financial expense as a percentage of average total assets. The calculation of average total assets as of December 1997 does not include properties acquired from WASA (SEK 525 M) to which Pandox gained possession December 30, 1997.

### Equity/assets ratio

Equity capital at year-end as a percentage of total assets.

## HOTEL MARKET-RELATED

### Room occupancy

Number of overnight stays sold during a given period, normally one year.

### Room availability

Room-capacity available during a given period, normally one year.

### Occupancy rate

Number of rooms occupied divided by the number of available rooms.

### Average room price

Total revenue from rooms sold divided by number of rooms occupied.

### REVPAR (Average revenue per available room)

Total revenue from rooms sold divided by number of available rooms.

### Market penetration

The occupancy rate of an individual hotel in relation to the average for the market.

### GOP

Net profit in a hotel operating company before depreciation, rent, net financial items and taxes.

# Welcome to the Padox Annual General Meeting in Stockholm, March 25, 1999

## **TIME AND PLACE**

The Annual General Meeting will be held at 5:00 p.m. on Thursday, March 25, 1999 in the Auditorium of Hotel Scandic Slussen, Gullgränd 8, Stockholm, Sweden.

## **NOTIFICATION**

Shareholders who wish to participate in the business of the Meeting must be recorded in the share register maintained by Värdepapperscentralen VPC AB (Swedish Securities Register Center) not later than Monday, March 15, 1999, and must give notice of intention to attend by mail not later than 12.00 noon Friday, March 19, 1999 to Padox Hotellfastigheter AB, Box 5364, 102 40 Stockholm, Sweden, or by telephone, +46-8 506 205 50. When giving notice of intention to participate in the Annual General Meeting, the shareholder must specify his/her name, personal identification number, telephone number and number of shares held.

To be eligible to vote at the Meeting, shareholders whose shares are registered in the name of a trustee must temporarily reregister their shares in the VPC register. Shareholders must advise the trustee of this in good time prior to Monday, March 15, 1999. If a shareholder plans to be represented by a proxy, written authorization must be issued to the proxy. The authorization must be sent prior to the Meeting, together with a certificate of registration for a legal entity.

## **DIVIDEND**

The Board of Directors proposes that a dividend of SEK 2.00 per share be paid for 1998. The proposed record date for payment of dividends is Friday, March 30, 1999.

If the Annual General Meeting approves the proposal, it is expected that dividends will be paid via VPC on Monday, April 8, 1999.



CONTRACT OPTIMIZATION

PROFITABILITY OPTIMIZATION

**P A N D O X**

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# Padox Hotellfastigheter AB



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