

Pressrelease from Pandox Hotellfastigheter AB (publ)

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Preliminary Report on 1998 Operations

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- **The operating net rose by SEK 66.1 M to SEK 186.8 M (120.7).**
- **Cash flow from operations amounted to SEK 98.2 M (54.0), corresponding to SEK 6.55 per share.**
- **The Board proposes a dividend of SEK 2.00 per share (1.25).**

Property revenue for 1998 amounted to SEK 234.6 M (152.2). The operating net rose by SEK 66.1 M to SEK 186.8 M (120.7). This increase is attributable mainly to acquired hotel properties. In addition, the strong hotel business climate resulted in increased revenues from sales- and income-related leases.

The adjusted direct return for the period was 9.3% (9.0).

Net financial expense for the period amounted to SEK 71.3 M (expense: 50.3).

Group income, after tax, for the period improved by SEK 34.3 M and amounted to SEK 61.5 M (27.2).

During the year, Pandox acquired and took possession of nine hotel properties. During March, the Group took possession of eight hotel properties acquired from Fastighets AB Tornet, while the Radisson SAS Hotel in Luleå, which was acquired from the Max Group, was taken over in September. Källhagens Wårdshus and the office property Överkikaren 19 were sold, whereby Pandox owns exclusively hotel properties. In November 1998, agreement was reached covering the right to acquire the Provobis Star Hotel in Lund. In 1999, Pandox exercised its right and took possession of the property on January 26, 1999.

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Encl: Complete Preliminary Report on 1998 Operations.

Preliminary Report on 1998 Operations

Pandox Hotellfastigheter AB (publ), January 1, 1998 – December 31, 1998

- **Income, after tax amounted to SEK 61.5 M (27.2), corresponding to profit per share of SEK 4.10 (2.47).**
- **The operating net rose by SEK 66.1 M to SEK 186.8 M (120.7).**
- **Cash flow from operations amounted to SEK 98.2 M (54.0), corresponding to SEK 6.55 per share.**
- **The Board proposes a dividend of SEK 2.00 per share (1.25).**

Hotel market in 1998

The hotel market in Sweden continued to develop favorably in 1998. The occupancy rate rose by 5.1% to 14.4 million overnight room bookings, corresponding to a 46% occupancy rate. Occupancy for large hotels in areas prioritised by Pandox posted growth clearly exceeding the national average. Occupancy in the area amounted to 61%.

Revenue and operating net – property operations

Operating revenue for 1998 amounted to SEK 234.6 M (152.2). Property costs, excluding depreciation, amounted to SEK 47.8 M (31.5).

Operating net rose by SEK 66.1 M to 186.8 M (120.7). This change compared with 1997 is mainly attributable to the income from the properties acquired during 1997 and the eight properties acquired from Tornet, which have been included in the income for nine months. The strong business cycle for hotels resulted in increased revenue from sales and income-related leases. Adjusted for properties sold and acquired, operating net amounted to SEK 194.6 M (169.1). The adjusted direct return for the period 9.3% (9.0), excluding management costs. Adjusted direct return, including property-related management costs, amounted to 8.9% (8.6).

Revenue and income – hotel operations

Operating revenue for the period amounted to SEK 18.5 M (41.5). During 1998, Hotel Park Astoria in Enköping was the only hotel operating under own management. Loss for the period amounted to SEK 0.2 M (loss: 0.7). Operation of the Quality Grand Hotel Kristianstad, which was taken over from Fastighetsbolaget Tornet on March 2, 1998, was transferred to Choice Hotels Scandinavia ASA (CHS) as of the same date. The cost of winding-up the Quality Grand Hotel operating company amounting to SEK 0.5 M was charged against earnings. The hotel management operations in the Hotel Park Astoria was transferred on January 1, 1999 to an external tenant. Accordingly, Pandox currently is not conducting any hotel management operations.

Income

Group income, after tax, improved by SEK 34.3 M compared with the preceding year and income for the period amounted to SEK 61.5 M (27.2). The increase in income is chiefly attributable to an improved operating net from property operations, which, in turn, is mainly due to acquisitions. Net financial expense increased by SEK 21.0 M due to increased borrowing related to acquired properties. Income was also affected by the nonrecurring gain of SEK 3.5 M on the sale of Källhagens Wårdshus and a provision for a tax surcharge of SEK 2.1 M, which is included in net nonrecurring items totaling SEK 1.4 M (1.0). The tax ruling has been appealed.

New share issue

A new share issue, with preferential rights for Pandox shareholders, was effected in January. The new issue, which was fully subscribed, contributed proceeds of SEK 205 M to Pandox after issue costs. Following the new issue, the number of shares amounts to 15,000,000.

Financing and cash flow

Net financial expense for the period amounted to SEK 71.3 M (expense: 50.3). The Group's interest-bearing liabilities at December 31, 1998 amounted to SEK 1,281,8 M (1,078.3). The due dates for the loan portfolio are spread out with an average fixed interest-rate period of 2.3 years. The average rate of interest on loans at year-end was 5.85%. Mortgaging rate on properties 62%.

Disposable liquid funds, including SEK 25 M in unutilized overdraft facilities, amounted to SEK 107.9 M (39.4). Cash flow before changes in working capital and investments for the period amounted to SEK 98.2 M (54.0).

Property portfolio

During 1998, Pandox took over nine hotel properties. On March 2, 1998, Pandox took over the eight properties acquired from Fastighets AB Tornet. The final financial accounting took place on March 31, 1998. In July, 1998, a contract was signed covering the acquisition of the hotel property Radisson SAS in Luleå, which was taken over on September 2, 1998. The acquisition cost for the nine properties amounted to SEK 260 M. During the year, the hotel and restaurant property, Källhagens Wårdshus, and the office property, Överkikaren 19 were sold. The combined divestment proceeds amounted to SEK 49 M, resulting in a capital gain of SEK 3.5 M, which pertains entirely to Källhagen. In November 1998, agreement was reached covering the right to acquire the Provobis Star Hotel in Lund for a total of SEK 101 Mm including transaction costs. The Pandox property portfolio as of December 31, 1998, excluding the Provobis Star Hotel in Lund, comprised a total of 28 hotel properties with 4,325 hotel rooms and a total area of 249,970 m². The properties' book value, including hotel equipment, was SEK 2,085.2 M (1,874.3). Group investments during the period were SEK 22.6 M (11.2). This was chiefly accounted for by improvements in hotel products in a number of properties.

Events after year-end

In January 1999, Padox exercised its right to acquire the Provobis Star Hotel and took possession of the property on January 26, 1999, with financial accounting as of January 1, 1999. The operating net from the property will be consolidated in Padox's earning for full-year 1999.

Forecast 1999

The hotel business climate in Padox prioritised areas, is expected to remain during 1999 at the high level attained in 1998. Padox income, before changes in the property portfolio, is expected to increase by 10%.

Condensed consolidated income statement

SEK M	1998	1997
Property operations		
Rental revenue	218,5	140,6
Other property revenue	16,1	11,6
<i>Total property revenue</i>	234,6	152,2
Property costs	-47,8	-31,5
Operating net	186,8	120,7
<u>Depreciation¹</u>	<u>-36,0</u>	<u>-26,0</u>
<i>Income from property operations</i>	150,8	94,7
Hotel operations		
Operating revenue	18,5	41,5
<u>Operating expense¹</u>	<u>-18,7</u>	<u>-42,2</u>
<i>Loss from hotel operations</i>	-0,2	-0,7
Gross income	150,6	94,0
Administrative costs ¹	-19,2	-17,2
<u>Nonrecurring income/expense</u>	<u>1,4</u>	<u>1,0</u>
Operating income	132,8	77,8
Net financial expense	-71,3	-50,3
Income after net financial expense	61,5	27,5
Deferred tax ²	0,0	-0,3
<i>Net income for the period</i>	61,5	27,2

1. Depreciation on property is made by 1.5% and amount to a total of 29,077,000. Depreciation for the period amounted to SEK 36,705,000, of which property operations accounted for SEK 35,977,000, hotel operations for SEK 166,000 and administrative costs for SEK 562,000 (Total 1997 SEK 26,541,000 of which property operations accounted for SEK 25,974,000, hotel operations for SEK 148,000 and administrative costs for SEK 419,000).

2. Since Pandox has substantial loss carryforward, no tax expense arise.

Condensed consolidated balance sheet

SEK 000s	Dec. 31, 1998	Dec. 31, 1997
Properties, including equipment	2 085,2	1 874,3
Other fixed assets	16,5	17,3
Current assets	14,6	23,7
<u>Liquid funds</u>	<u>82,9</u>	<u>14,4</u>
Total assets	2 199,2	1 929,7

Shareholders' equity and liabilities

Shareholders' equity	830,1	582,9
Interest-bearing liabilities	1 281,8	1 078,3
<u>Noninterest-bearing current liabilities</u>	<u>87,3</u>	<u>268,5</u>
Total shareholders' equity and liabilities	2 199,2	1 929,7

Condensed consolidated cash flow analysis

	1998	1997
Income after net financial items	61,5	27,5
Depreciation	36,7	26,5
Cash flow before change in working capital and investments	98,2	54,0
<i>Total change in working capital</i>	<i>-172,1</i>	<i>202,5</i>
Cash flow before investments	-73,9	256,5
<i>Total investments, net</i>	<i>-247,8</i>	<i>-661,5</i>
Cash flow after investments	-321,6	-405,0
Change in financial fixed assets	1,0	1,1
Change in interest-bearing loans	203,5	374,6
New issue	204,5	0,0
Dividend	-18,8	0,0
<i>Total external financing</i>	<i>390,2</i>	<i>375,7</i>
<i>Change in liquid funds for the year</i>	<i>68,6</i>	<i>-29,3</i>

Key data

	1998	1997
Property-related key data		
Book value of properties, including equipment, SEK M	2 085,2	1874,3
Total property revenue, SEK M	234,6	152,2
Operating net, SEK M	186,8	120,7
Adjusted operating net, SEK M	194,6	169,1
Direct return 1, %	9,3%	9,0%
Direct return 2, %	8,9%	8,6%
Financial key data		
Interest coverage ratio, times	1,82	1,52
Return on total capital, %	6,6%	5,8%
Return on shareholders' equity, %	7,6%	4,8%
Equity/assets ratio, %	37,7%	30,2%
Cash flow before change in working capital and investments, SEK M	98,2	54,0
Investments, SEK M	22,6	11,2
Acquisitions of properties, SEK M	260	667
Per-share data ¹		
Income for the period	4,10	2,47
Cash flow	6,55	4,91
Shareholders' equity	55,34	52,93

1. Following the 1998 share issue, the number of shares is 15,000,000. The figures for 1997 have been adjusted to take into account the bonus issue element in the new issue. The stock market price of SEK 58 on November 27, 1997 has been used in adjusting the per-share data.

Dates for financial information

Annual General Meeting	March 25, 1999
Interim report, first three months of 1999	April 27, 1999
Interim report, first six months of 1999	August 24, 1999
Interim report, first nine months of 1999	October 22, 1999

Stockholm, February 15, 1999

Anders Nissen
Managing Director

Definitions

Property-related

Total property revenue

Sum total of rental revenue and other revenue.

Operating net

Property revenue, less operating and maintenance costs, property tax, leasehold fees and other property costs.

Adjusted operating net

Operating net adjusted for properties sold and purchased during the period.

Direct return 1

Adjusted operating net as a percentage of book value of the properties and hotel equipment at the end of the period. The book value of hotel equipment has been included in the denominator because the leasing costs for the equipment were included in the numerator.

Direct return 2

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

Property-related management

That part of total administration costs directly connected to the management and development of the properties. Other administration costs pertain to central administration costs and costs for maintaining the company's stock market listing.

Financial

Interest coverage

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

Return on shareholders' equity

Profit after net financial items and paid taxes, as a percentage of average shareholders' equity. The average shareholders' equity has been adjusted to take into account the new share issue.

Return on total capital

Profit after net financial items plus financial expense as a percentage of average total assets. When computing average total assets for December 1997, the acquisition from WASA (SEK 525 M) which became effective on December 30, 1997, is not included.

Equity/assets ratio

Shareholders' equity at year-end as a percentage of total assets.

PANDOX'S PROPERTY PORTFOLIO, December 31, 1998

<u>Hotel</u>	<u>Rooms</u>	<u>Size of property (square meters)</u>
Scandic Hotel Slussen, Stockholm	292	18 416
Provobis Star Hotel, Sollentuna ¹	269	18 573
Radisson SAS Arlandia Hotel, Arlanda	343	15 260
Scandic Hotel, Upplands-Väsby	150	6 955
First Hotel Royal Star, Älvsjö	103	4 900
Total, Stockholm	1 157	64 104
Radisson SAS Park Avenue, Göteborg	318	21 998
Hotell Bohème, Göteborg	52	1 652
Total Gothenburg	370	23 650
Scandic Hotel S:t Jörgen, Malmö	265	21 485
First Express, Malmö	101	8 195
Provobis Hotel Kramer, Malmö	113	6 913
Total Malmö	479	36 593
Radisson SAS Hotel, Luleå	209	12 166
Provobis Stora Hotellet, Jönköping	114	11 378
Scandic Hotel Winn, Karlstad	199	10 580
Radisson SAS Hotel, Östersund	177	8 766
Provobis Billingen Plaza, Skövde	106	7 743
Quality Grand Hotell, Kristianstad	148	7 524
Radisson SAS Grand Hotel, Helsingborg	117	6 832
First Hotel, Linköping	133	6 540
First Hotel Plaza, Karlstad	121	5 907
First Hotel Linné, Uppsala	116	5 831
Scandic Klarälven, Karlstad	143	5 694
Scandic Hotel, Kalmar	148	5 485
Total, regional centers	1 731	94 446
First Hotel Mora , Mora	140	9 161
Stadshotellet, Sandviken	84	7 003
Sten Stensson Sten, Eslöv	80	5 833
First Hotel Park Astoria, Enköping	134	4 600
Scandic Hotel, Karlshamn	99	3 335
Good Morning Hotell, Boden	51	1 245
Total, other areas	588	31 177
Total, Pandox	4 325	249 970

¹ Pandox share 50%. Information relates to the entire property.