



2003

Hilton Stockholm Slussen – Designated Sweden's Best Business Travel Hotel 2002



Interim Report January–March

Interim Report January–March 2003

- Pandox' property revenue amounted to SEK 134.1 (133.2) million. For comparable units, the increase was 2 percent compared with the preceding year.
- Income before tax, excluding non-recurring revenue, amounted to SEK 45.2 (42.2) M.
- Cash flow from operating activities amounted to SEK 61.4 (58.0) M, equivalent to SEK 2.47 (2.33) per share.
- Property revenue and income before tax is estimated to have benefited by just over SEK 2 M from the shift in the date of Easter between the years.
- During the period, the hotel property First Hotel Enköping was sold, with a capital gain of SEK 7.4 M, and a contract was signed for the acquisition of the Scandic Hotel Swania in Trollhättan, at an acquisition cost of SEK 89 M

Pandox' revenue increased by 0.6 percent, equivalent to SEK 0.9 M. Income, excluding non-recurring revenue, improved by 7 percent, and cash flow amounted to SEK 61.4 M, a rise of 6 percent. The positive difference, despite a weaker market, was achieved through excellent growth in the hotel property portfolio, and the fact that Easter was in March last year. The shift in the date of Easter between the years generated a greater number of business-travel days this year, and this is estimated as having a beneficial influence on revenue and income for the period of just over SEK 2 M. The value added for comparable units was 2 percent.

Reduced demand

The downturn in the global economy, the war in Iraq, the SARS virus and the nervousness on the financial markets has reduced the demand for hotel services. The worst affected sector is the international high-price market, which has a large proportion of American guests, while the domestic markets are, in general, relatively stable. There has been a positive trend in the US hotel market in recent months, in Pandox' view and the prospects that it will level out at 2002 levels appears good. The war in Iraq has, however, steepened the downturn, and postponed the date of levelling out. The trend for the current year is minus 2–3 percent. London shows a similar pattern, with the reduction due to lower volumes. The decrease in RevPAR (average revenue per available room) in Brussels has continued at an accelerating rate. Antwerp has had a surprisingly good start to 2003, and is showing a slight upturn. The domestic hotel market in Germany remains relatively stable, and

the towns in which Pandox has a presence have enjoyed a good start to the year. In Copenhagen, the slowdown continues, partly as a result of new capacity. The effect on the Swedish hotel market has been marginal so far, and the RevPAR rose slightly last year, due to increased demand in the tourist segment. The current trend shows signs of slowing down, particularly in volume terms. Stockholm has the largest negative difference, with all segments suffering. Revenue in Göteborg continues to grow, and at the moment it appears to be one of Scandinavia's strongest hotel markets. Malmö, where the occupancy rate fell steadily last year, has increased its RevPAR by 6 percent during the early months of the year. Pandox predicts that the upturn will be temporary. Demand in regional centres and university towns remains relatively stable. If individual towns are examined, Luleå, Kiruna and Halmstad have begun well, while the RevPAR in Linköping has fallen by just over 20 percent as a result of new capacity. This trend confirms that it is almost impossible to build new hotels and achieve profitability for both owners and operators.

Better than average

In the current state of uncertainty, Pandox' hotel property portfolio continues to perform considerably better than the market average. RevPAR fell by approximately 8 percent in Pandox' market area, while the company's revenue, for comparable units, rose by 2 percent. The improvement depends on a combination of the company's strategy of concentrating on a selected market segment, cooperation with strong brand names,

the quality of the hotel property portfolio, the agreement structure and active ownership. In the early part of the year, the majority of Pandox-owned hotels maintained or increased their market share as a consequence of active measures, including investments aimed at improving cash flow. The Hilton Stockholm Slussen, recently designated Sweden's best business travel hotel, continues to perform well in a weakening price segment. The Radisson SAS Arlandia has increased its share of the conference market, and achieved higher revenue in comparison with last year. Other Pandox-owned hotels in Stockholm reflect the trend in their markets. The pattern is similar in Malmö, while Göteborg's portfolio has beaten the market. In Copenhagen, the large Pandox 484-room hotel continues to outperform the market. The same pattern was visible in Germany, where the Hilton Dortmund had an excellent beginning to the year. The London Hilton Docklands completed its rebranding during the period, upgrading 147 rooms, and, despite the reduction in capacity, has matched the performance of its competitor group.

Increased revenue

Revenue rose during the period at the same time as cost control has been effective. Despite increased property taxes and insurance expenses, efficiency has been on the same level as last year. The company has taken advantage of changes in interest levels to reduce finance costs. The results in the operator business are attributable to the Hilton Brussels City and the First Hotel Mora. The Brussels hotel is managed by Hilton on behalf of

Pandox, and has recently undergone extensive upgrading and rebranding. In a weakening market, the hotel continues to increase its revenue and profits. Pandox took over the management of the First Hotel Mora on its own account on 1 July last year. The operation returned a small profit during the first quarter.

Consistently following its strategy

The quality of Pandox' hotel property portfolio continues to improve. During the period, the Scandic Hotel Swania in Trollhättan was acquired, and the First Hotel Park Astoria in Enköping was sold. The sale is part of the strategy of concentrating on the ownership of large hotels in large hotel markets. The disposal realised a capital gain of SEK 7.4 M, which confirms that the book value of the portfolio is low. The acquisition is in line with Pandox' strategy, the Scandic Hotel Swania is the leading hotel in the three-towns area Trollhättan-Uddevalla-Vänersborg, where there is a market of about 170,000 room-nights. The hotel has a well-developed full-service product, offering 196 rooms in a prime location. It has the region's strongest brand name, which provides excellent potential while limiting risk.

Revenue and operating net – Property operations

Property revenue for the first quarter of 2003 amounted to SEK 134.1 M (133.2), which is equivalent to an increase of 0.6 percent compared with the preceding year. The increase in revenue is explained by the good performance of the hotel portfolio despite a weaker market, and the fact that Easter fell in March last year. The shift in the date of Easter between the years has generated more business-travel days this year, and the positive effect on revenue for the period is estimated at just over SEK 2 M. For comparable units, the rate of growth in the portfolio was 2.0 percent. Property expenses excluding depreciation totalled SEK 23.3 M (23.0).

The operating net increased by SEK 0.6 M to SEK 110.8, (110.2). The adjusted direct yield before administrative expenses for the period amounted to 9.4 percent (9.6).

Revenue and income – hotel operations

Revenue from hotel operations relates to the operation on the Hilton Brussels City, which is operated under a management agreement with Hilton, and to the First Hotel Mora which is managed by Pandox on its own behalf. The hotel operations in the First Hotel Mora is included in the accounts from the date of acquisition, 1 July 2002. Total revenue from hotel operations for the period amounted to SEK 17.5 M (10.1) of which Mora accounted for SEK 5.7 M (0.0). Income improved by SEK 0.7 M to SEK -0.4 M (-1.1) which is considered very satisfactory when taking the seasonal effects in to account. The full year of 2003 is estimated to show a profit.

Income

Group income before tax and excluding non-recurring revenue for the first quarter of 2003 amounted to SEK 45.2 M (42.2). Income after tax and including non-recurring revenue amounted to SEK 49.6 M (33.9), an increase of SEK 15.7 M on the preceding year. The improvement in income is due to improved operating profits and net financial expense, as well as to non-recurring revenue relating to the sale of property, and to taxation. In addition to the capital gain of SEK 7.4 M from the sale of the First Hotel Enköping, tax expense for the year has been reduced by SEK 11.7 M. This was due to the reversal of tax reserves, which, following the decision in a tax case, are no longer required. Due to a loss carry-forward, in principle, no paid tax will arise. The estimated deferred tax expense for the period amounts to SEK 14.6 M (8.3), of which SEK 3.5 M relates to estimated tax on non-recurring revenue.

Financing and cash flow

Net financial expense for the period January to March 2003 totalled SEK -40.4 M (-42.5). The Group's interest-bearing liabilities as at 31 March 2003 amounted to SEK 3,050.1 M (3,138.1). The maturity structure of the loan portfolio has a spread with an average fixed interest term of 2.3 years. The average interest on loans was 5.5 percent. The borrowing level on property was 62 percent. Disposable liquid assets including unutilised bank overdraft facilities of SEK 100 M and short-term investments of SEK 100 M amounted to SEK 327.2 M (232.6). Cash flow before changes in working capital and investments increased by 6 percent to SEK 61.4 M (58.0).

Investments and divestments

The Pandox Group's investments during the period totalled SEK 22.1 M (8.7). The bulk of investments went into product improvements and rebranding to Hilton, and in particular to the Hilton London Docklands. During the period, the First Hotel Park Astoria in Enköping was sold realising a capital gain of SEK 7.4 M. The buyer takes over the hotel on 1 April 2003. Disposals are part of Pandox' strategy of concentrating ownership to prioritised locations and segments.

The book value of the hotel properties including hotel equipment amounted to SEK 4,938.2 M (4,981.0).

Outlook

The hotel market in Pandox' market area remains difficult to predict. The market is affected by the economic downturn, the negative effects of the Iraq war and the uncertainties regarding the Sars virus.

However, Pandox' focused strategy, selected market segment and high quality hotel property portfolio create continued excellent conditions for further development of the company. With the current hotel property portfolio, income before tax in 2003 is forecast to reach SEK 195 M.

Condensed income statement

SEK M	January–March		Full year	Rolling
	2003	2002	2002	12 month
Property operations				
Rental revenue ¹⁾	127.6	127.1	536.2	536.6
Other property revenue	6.5	6.1	26.0	26.4
Total property revenue	134.1	133.2	562.2	563.0
Operating and maintenance costs	-23.3	-23.0	-93.2	-93.4
Operating net	110.8	110.2	469.0	469.6
Depreciation according to plan ²⁾	-16.1	-15.7	-63.2	-63.6
Income, property operations	94.7	94.5	405.8	406.0
Hotel operations				
Operating revenue	17.5	10.1	60.1	67.6
Operating costs ¹⁾	-17.9	-11.2	-58.2	-65.0
Operating profit, hotel operations	-0.4	-1.1	1.9	2.6
Gross income	94.3	93.4	407.7	408.6
Administrative costs ²⁾	-8.7	-8.7	-34.5	-34.4
Nonrecurring income/expenses	7.4	–	28.8	36.2
Operating income	93.0	84.7	402.0	410.4
Financial net	-40.4	-42.5	-171.0	-168.3
Income before taxes	52.6	42.2	231.0	242.1
Paid tax ³⁾	11.6	–	-0.1	11.7
Deferred tax ⁴⁾	-14.6	-8.3	-44.2	-50.6
INCOME AFTER TAX	49.6	33.9	186.7	203.2

1) Rental revenue and operating expenses include an internal rent of SEK 3.9 million (2.3).

2) Total depreciation for the period amounted to SEK -16.2 million (-15.8), SEK -16.1 million (-15.7) of which relates to the property operation and SEK -0.1 million (-0.1) is included among administrative expenses.

3) Tax includes a reversal of tax reserves of SEK 11.7 million after a tax case found in Pandox' favour.

4) Of the deferred tax for the year, SEK 3.5 million relates to estimated tax on non-recurring revenue.

Per-share data

	January–March		Full year	Rolling
	2003	2002	2002	12 month
Number of shares (in thousands)	24,900	24,900	24,900	24,900
Income per share inclusive non-recurring items, SEK	1.99	1.36	7.50	8.16
Income per share exclusive non-recurring items, SEK	1.36	1.36	6.76	6.79
Income per share inclusive non-recurring items, after dilution, SEK	1.95	1.33	7.35	8.00
Income per share exclusive non-recurring items, after dilution, SEK	1.34	1.33	6.63	6.72

Condensed balance sheet

SEK M	March 31 2003	March 31 2002	December 31 2002
Assets			
Properties inclusive hotel equipment ¹⁾	4,938.2	4,981.0	4,961.4
Other fixed assets	0.8	1.7	6.9
Current assets	84.6	94.0	29.5
Liquid assets	227.2	132.6	213.2
Total assets	5,250.8	5,209.3	5,211.0
Equity and liabilities			
Equity	1,902.4	1,812.4	1,853.9
Deferred tax liabilities, net	98.1	45.3	83.5
Interest-bearing liabilities	3,050.1	3,138.1	3,070.6
Non-interest-bearing liabilities	200.2	213.5	203.0
Total equity and liabilities	5,250.8	5,209.3	5,211.0

1) According to an internal market valuation, the market value of the hotel properties considerably exceeds SEK 6 billion. A more detailed report on market valuation will be released during the year.

The accounting principles adopted by the company are the same as those used in the latest annual report. The interim report has been drawn up in accordance with the Swedish Financial Accounting Standards Council's recommendation RR20 Interim financial reporting.

Change in equity capital

SEK M	March 31 2003	March 31 2002	December 31 2002
The group			
Equity, opening balance	1,853.9	1,772.0	1,772.0
Dividend	–	–	-99.6
Translation differences	-1.1	6.5	-5.2
Net income/loss for the period	49.6	33.9	186.7
Equity, closing balance	1,902.4	1,812.4	1,853.9

Condensed cash flow statement

SEK M	January–March 2003		Full year 2002
Pre-tax profits	52.6	42.2	231.0
Depreciation	16.2	15.8	63.7
Paid tax	–	–	-0.1
Nonrecurring revenue/cost	-7.4	–	-28.8
Cash flow from operating activities	61.4	58.0	265.8
Total change in working capital	-27.8	26.4	78.1
Cash flow from operating activities after changes in working capital	33.6	84.4	343.9
Investments	-22.1	-8.7	-67.3
Acquisitions of hotel properties and hotel equipment	–	–	–
Sale of fixed assets	24.6	–	60.0
Cash flow after investments	36.1	75.7	336.6
Change in financial fixed assets	-1.6	2.3	-3.2
Change in interest-bearing loans	-20.5	-32.1	-107.9
Dividend	–	–	-99.6
Total cash flow financing activities	-22.1	-29.8	-210.7
The period's change in liquid assets	14.0	45.9	125.9

This report has not been audited by the company auditors.

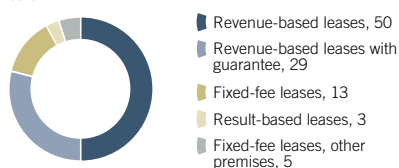
Key data

SEK M	January–March		Full year	Rolling
	2003	2002	2002	12 month
Property-related key data				
Book value of properties, inclusive hotel equipment	4 938.2	4 981.0	4 961.4	4 938.2
Total property revenue	134.1	133.2	562.2	563.0
Operating net	110.8	110.2	469.0	469.6
Adjusted operating net	110.1	107.7	463.5	465.9
Direct yield 1, %	9.4	9.6	9.3	9.4
Direct yield 2, %	9.0	9.3	9.0	9.0
Financial key data				
Interest coverage ratio	2.25	2.21	2.32	2.38
Return on total capital, %	8.0	7.6	7.8	8.0
Return on equity, %	10.9	10.0	10.2	10.9
Equity/assets ratio, %	36.2	34.8	34.8	36.2
Cash flow from operating activities and investments	61.4	58.0	265.8	269.8
Investments, excl. acquisitions	22.1	8.7	67.3	80.7
Property acquisitions	–	–	–	–

* For definitions see Pandox Annual Report.

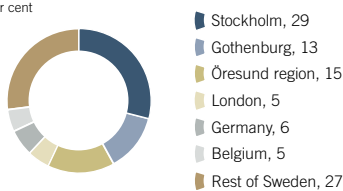
Rental revenue Q1, 2003 by type of lease

Per cent



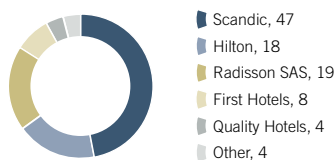
Rental revenue Q1, 2003 by geographical area

Per cent



Rental revenue Q1, 2003 by co-operating partners

Per cent



Interest-rate structure¹

SEK M	SEK	DKK	EUR	GBP	Total	Share, %	Interest rate, % ²
Due date							
2003	252.8	97.6	91.6	8.5	450.5	15	4.9
2004	752.0	186.5	99.1	–	1,037.6	34	4.8
2005	358.9	–	53.2	133.9	546.0	18	5.9
2006	480.0	–	3.2	–	483.2	16	6.1
2007	210.0	–	55.4	–	265.4	8	5.9
2008 and later	175.0	–	92.4	–	267.4	9	6.8
Total	2,228.7	284.1	394.9	142.4	3,050.1	100	5.5
Share, %	73	9	13	5	100		
Average interest rate, %	5.6	4.6	5.2	7.5	5.5		
Average interest rate period, year	2.3	0.7	3.6	2.2	2.3		

1) Converted to SEK.

2) Average interest rate.

Pandox shares

The trading volume in Pandox shares has steadily increased, and Pandox shares have been listed on the Stockholm Stock Exchange's Attract 40 list since the beginning of July 2002.

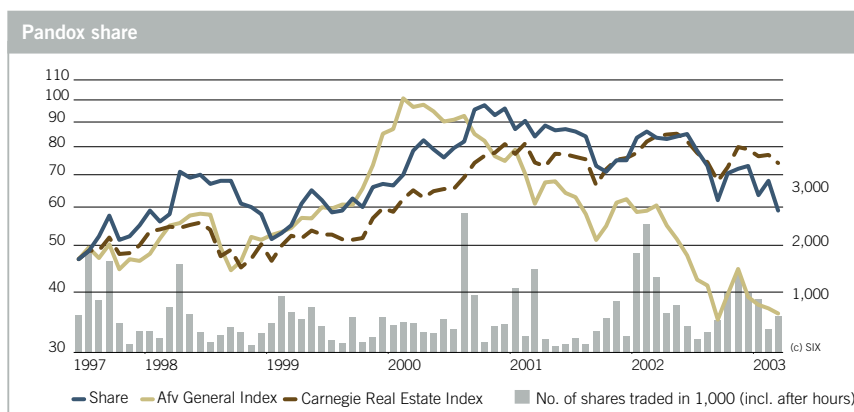
Price trend

During 2003, Pandox' share price has fallen by 19 percent, at the same time as the Affärsvärldens General Index of shares fell by 8 percent and the Carnegie Real Estate Index fell by 6 percent.

The highest price paid for Pandox' shares during the first quarter of 2003 was SEK 74, and the lowest SEK 58.50. At 31 March 2003, Pandox' market capitalization was SEK 1,469 M.

Trading volume

During the period, 2.1 million Pandox shares were traded on the Stockholm Stock Exchange, at a value of SEK 141.2 M, which is equivalent to 8 percent of the number of shares in Pandox. The shares are traded in blocks of 100 shares.



Largest Pandox shareholders on March 31, 2003

Name	No. of shares	%
Scandic Hotels	5,179,900	20.8
SEB Unit Trusts	4,691,221	18.8
Zenit, Brummer & Partners	2,494,800	10.0
Livförsäkrings AB Skandia	1,815,791	7.3
Second AP Fund	904,519	3.6
Boston Safe Deposit & Trust Co.	871,750	3.5
Handelsbanken Funds	552,391	2.2
Odin Funds	725,500	2.9
Robur Unit Trusts	663,600	2.7
Carlson Small Cap Fund	397,000	1.6
Bengt Norman with family	375,000	1.5
Östersjöstiftelsen	293,300	1.2
Pictet & Cie	257,200	1.0
Länsförsäkringar Real Estate Fund	228,300	0.9
Third AP Fund	212,900	0.9
S I F	200,100	0.8
Other foreign shareholders	1,322,792	5.3
Other	3,713,936	14.9
Total	24,900,000	100.0

Pandox hotel properties

MARCH 31, 2003

Property	Number of rooms	Location
Radisson SAS Arlandia Hotel, Arlanda	337	International airport
Hilton Stockholm Slussen	288	Downtown
Scandic Hotel Star, Sollentuna	269	Exhibition center
Scandic Hotel Järva Krog, Stockholm	215	Northern Stockholm
Scandic Hotel Park, Stockholm	198	Downtown
Scandic Hotel, Upplands-Väsby	150	Northern Stockholm
Mr Chip Hotel, Kista	150	Northern Stockholm
Quality Hotel Nacka, Stockholm	146	Sickla-Nacka
Scandic Hotel Bromma, Stockholm	144	Western Stockholm
First Hotel Royal Star, Älvsjö	103	Exhibition center
Total Stockholm	2,000	
Scandic Hotel Crown, Gothenburg	333	Downtown
Radisson SAS Park Avenue, Gothenburg	318	Downtown
Scandic Hotel Mölndal	208	Downtown
Total Gothenburg	859	
Scandic Hotel Copenhagen	484	Downtown
Scandic Hotel S:t Jörgen, Malmö	265	Downtown
Scandic Hotel Star, Lund	196	Central
Radisson SAS Grand Hotel, Helsingborg	117	Downtown
Scandic Hotel Kramer, Malmö	113	Downtown
Hotel Högvakten, Helsingborg	42	Downtown
Total Öresund	1,217	
Scandic Hotel Grand, Örebro	219	Downtown
Quality Hotel, Luleå	209	Downtown
Scandic Hotel Winn, Karlstad	199	Downtown
Radisson SAS Hotel, Östersund	177	Downtown
Scandic Hotel Ferrum, Kiruna	170	Downtown
First Hotel Grand, Borås	158	Downtown
Quality Grand Hotel, Kristianstad	149	Downtown
Scandic Hotel Väst, Kalmar	148	Ring road
Scandic Hotel, Karlstad	143	Ring road
Scandic Hotel Hallandia, Halmstad	133	Downtown
First Hotel, Linköping	133	Downtown
Radisson SAS Plaza, Karlstad	131	Downtown
Elite Stora Hotellet, Jönköping	135	Downtown
First Hotel Linné, Uppsala	116	Downtown
Scandic Hotel Billingen, Skövde	106	Downtown
Total regional centers	2,326	
First Hotel Mora, Mora	135	Central
Stadshotellet Princess, Sandviken	84	Central
Total other locations	219	
Hilton London Docklands	368	Docklands
Hilton Brussels City	285	Downtown
Scandic Hotel Grand Place, Brussels	100	Downtown
Scandic Hotel Antwerp	204	Ring road
Hilton Bremen	235	Downtown
Hilton Dortmund	190	Exhibition center
Scandic Hotel Lübeck	158	Ring road
Total International	1,540	
Total Pandox	8,161	

FINANCIAL REPORTS DATES

Interim report, 6 months	August 21, 2003
Interim report, 9 months	October 23, 2003
Year-end report	February 12, 2004

