

# Twenty years of development and growth

Pandox – Excellence in hotel ownership and operations



121 hotels  
in a high quality portfolio

Active ownership  
that creates opportunities

Shared risk  
with strong tenants

Good growth  
and return



# 2015 a good year

**Pandox reports good growth and profitability.** Cash earnings increase by 29 percent to MSEK 1,130. The driving forces behind the good trend in earnings are continued improvements in the hotel market, increased growth within Property Management and rising demand and improved productivity within Operator Activities.

**Pandox B shares are listed** on Nasdaq Stockholm on 18 June 2015 for the second time in the Company's history. Pandox also celebrates 20 years as a leading hotel property company.

**Pandox acquires 18 hotel properties**, the majority under the Leonardo Hotels brand in Germany, for the equivalent of around MSEK 3,654. As part of the settlement Pandox signs 25-year revenue-based leases with good guaranteed rent levels with the hotel operator Fattal Hotels.

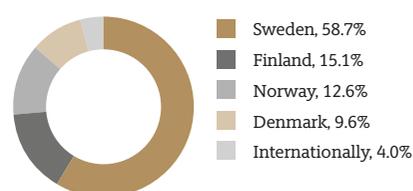
**Pandox initiates a review of its sustainability work**, which is based on the Company's financial responsibilities, environmental responsibilities and social responsibilities.

**Pandox owns 121 hotel properties** with a total of 25,190 rooms in eight countries at the end of the year. 103 of the hotel properties belong to the Property Management business segment and 18 belong to the Operator Activities business segment.

Summary (MSEK)	2015	2014	Change, %
Revenue Property Management	1,543	1,478	4
Net operating income Property Management	1,280	1,186	8
Net operating income Operator Activities	416	320	30
EBITDA	1,603	1,425	12
Net profit for the year	2,131	1,253	70
Earnings per share, SEK	14.21	8.35	70
Cash earnings	1,130	873	29
Cash earnings per share, SEK	7.53	5.82	29
Net interest-bearing debt, MSEK	15,376	12,587	22
Equity-to-asset ratio, %	38.6	38.1	n.m.
Loan-to-value, properties, %	49.5	48.7	n.m.
Interest cover ratio	3.6	2.6	n.m.
Property market value, MSEK	31,437	26,504	19
EPRA NAV per share, SEK	107.71	92.11	17

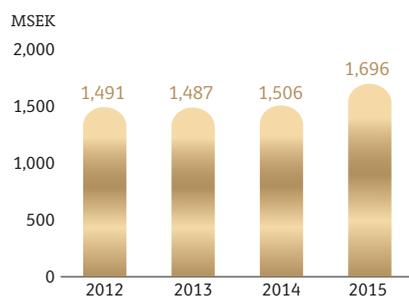
For definitions see page 116.

RENTAL INCOME BY COUNTRY 2015, %



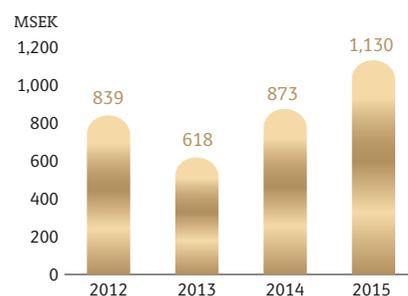
The Nordic region dominates in gross rental income for 2015.

TOTAL NET OPERATING INCOME, MSEK



Stable growth in net operating income in 2015.

CASH EARNINGS, MSEK



Good growth in cash earnings in 2015.

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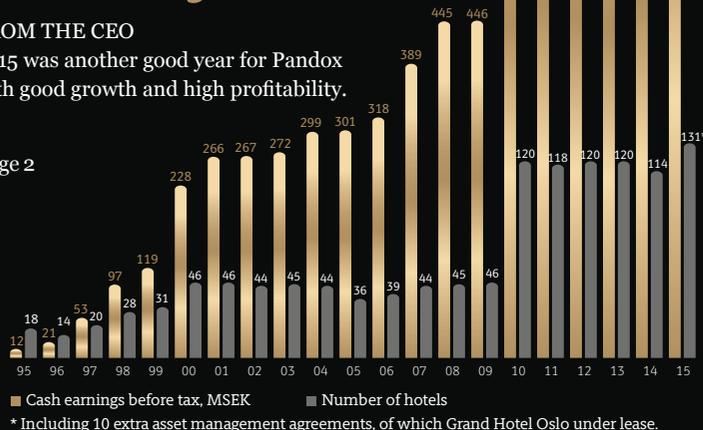
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# 20 years

of intense activity

FROM THE CEO  
2015 was another good year for Pandox with good growth and high profitability.

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Pandox's strategy and business model is well-tried and tested and has created a good return for its shareholders over time.



## WE OWN AND LEASE HOTELS

Pandox owns 103 large full-service hotels in strategic locations in good, stable markets that are leased out to strong operators.



## WE OWN AND OPERATE HOTELS

Pandox owns and operates 18 hotels itself, based on a proactive strategy of being active throughout the hotel value chain. Pandox also manages nine hotel properties and operates one hotel for external owners.



## INDIVIDUALS MAKE IT HAPPEN

Structures and methods are important, but the employees are more important. It's the creative and knowledgeable people who drive Pandox forward.

# From the CEO

## Twenty years of development, growth and profitability

2015 was another good year for Pandox. Cash earnings increased by 29 percent and the return on EPRA NAV, adjusted for dividends, was 18 percent. This reflects a strong hotel property portfolio, a business model that works well and a good underlying hotel market. International tourism increased in 2015 for the fourth successive year and RevPAR growth was good in most hotel markets globally.

Pandox reported strong earnings for 2015. The driving forces behind the higher earnings were continued improvements in the hotel market with an increased growth rate within Property Management, where, among other things, renovated hotels returned at full capacity and also contributed with increased market share, as well as good productivity in Operator Activities. Lower financing costs also contributed to the increased earnings. The growth in operating income in 2015, adjusted for currency effects and comparable units, was 8 percent for Property Management and 19 percent for Operator

Activities, which reflects a high quality hotel portfolio and operations with strong market positions, as well as well-developed operational expertise.

### A GOOD HOTEL MARKET CYCLE IN 2015

The world economy has seen relatively stable positive development in recent years and the economic cycle in the hotel industry has consistently strengthened in 2015, which had a positive effect throughout Pandox's hotel portfolio. With respect to individual locations that are key for Pandox, market growth in 2015 measured as RevPAR for Stockholm was

# 18%

**Return on EPRA NAV 2015, adjusted for dividends.**

**Jonny** becomes Pandox's first "Corporate Dog"



Significant events 1995–2015

**Sweden is in the grip of a severe financial crisis.** Securum is established by the Swedish government to recover assets taken over from Swedish banks.

1992–1995

**Pandox is formed** within Securum in 1994 when 18 small hotels are spun-off from Securum and placed in a separate company. **Pandox is merged** with construction and property company Skanska's hotel properties in 1995.

**The global economy** recovers despite major setbacks in emerging markets in 1997 and 1998.

1996–1999

**Pandox is listed** on the Stockholm Stock Exchange in 1997. Just two years later the property portfolio is already twice the size.

**The IT bubble** bursts and stock markets around the world plummet.

2000



**For Pandox times are good** and the Company acquires Hotellus and its 16 hotel properties for SEK 2.2 billion. This is the starting point for Pandox's international expansion.



**The terrorist attacks** in New York in 2001 hit the travel industry.

2001–2003

**Pandox continues to expand** its international operations with the conversion of five hotels to the Hilton brand in 2001. Eiendomsspar AS and Sundt AS make an offer for Pandox in 2003.

*“The hotel industry consistently strengthened in 2015, which was reflected positively in our hotel portfolio”*

9 percent, Oslo 8 percent, Copenhagen 11 percent and Brussels 2 percent. The Helsinki market improved despite weak economic growth in the country. After a long period of stable prices, we also saw a clear increase in the average room rate in Stockholm, Oslo and Copenhagen in the second half of the year. At the regional level in the Nordics, Pandox’s growth was good as a result of an active business, conference and event market, and renovated hotels improving their market share. Canada continued to benefit from a strong US dollar, which has increased the proportion of US guests in Montreal, for example, where Pandox owns and operates two large hotels.

**CLEAR LONG-TERM DRIVING FORCES FOR THE HOTEL MARKET**

There are several clear long-term driving forces that explain the positive development of the hotel market:

- *Stable economy* – The world economy has seen relatively stable growth for a number of years.
- *Increased prosperity* – Increased prosperity in a global perspective with a rapidly growing middle class, particularly in Asia, has contributed positively to demand, particularly in

the leisure segment. The number of new international travelers in the world has increased dramatically over the past fifteen years. In 2015, for example, nearly 140 million Chinese people are expected to travel internationally – fourteen times the number that travelled fifteen years ago. This is also a new and dynamic customer group, with demand that is changing rapidly and becoming increasingly sophisticated.

*Travel has higher priority* – At the same time as new international demand has been added, established customer groups are spending an ever greater share of their disposable income on travel, hotel and restaurant experiences, which is strengthening international, national and regional demand.

*A more robust hotel market* – Growth in large regional cities has created great dynamism at a regional level which is driving demand from both the business and the leisure segments in all of Pandox’s markets, resulting in a broader and more robust hotel market.

*Balanced additional capacity* – With a few exceptions, the hotel market has seen a balanced addition of new room capacity in recent years.

Enzo takes over as the Pandox “Corporate Dog”



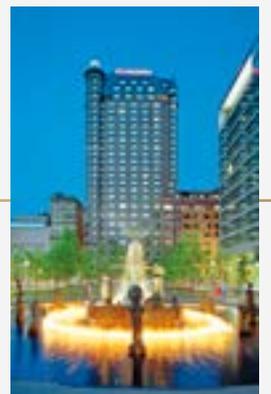
**Björn Skifs** tops the Swedish charts with “Håll mitt hjärta”.



**Pandox makes its largest single acquisition** when it purchases the Hotel Berlin, Berlin with 701 rooms.



**The global economy steams ahead** and the oil price reaches a new record high of 147 dollars in July.



**Pandox is delisted** and a new era of expansion begins with the acquisition of a number of large hotel properties in Berlin, Brussels, Basel, Copenhagen, Stockholm and Malmö.

**Pandox acquires** the Radisson SAS in Basel, Royal Crown in Brussels and Hotel 27 in Copenhagen and also carries out major renovations at the Elite Park Hotel in Gothenburg and at the Crowne Plaza in Brussels.



**Pandox’s international expansion continues** with the acquisition of the Inter-Continental Montreal.

Pandox is very well placed to capture the growth in the hotel market because the Company has a well-balanced hotel property portfolio with large hotel properties in the upper middle to high price segment in strategic locations in important business and leisure destinations. The hotels are mainly full-service products in international and regional cities with a high proportion of international and regional guests, which overall creates a good balance of demand. Most of the hotels have a very strong position in the business segment and many are in cities with a dynamic event market in both the business and leisure segments.

**FAIR PLAY AS A SUSTAINABILITY STRATEGY**

The hospitality industry is the world’s largest service industry and in 2015 accounted for around 10 percent of the world’s total GDP, with more than 1.1 billion arrivals around the world. The size of the industry and its impact on the world around it makes sustainability an important issue. Sustainability issues are integrated into Pandox’s business and are based on the Pandox Fair Play concept. Along with our employees,

tenants, partners and other stakeholders we are working for sustainable development. This work is forward-looking, long-term and based on a commitment among all employees within the organisation. During the financial year Pandox reviewed its sustainability work and developed its sustainability strategy to encompass Pandox’s financial responsibilities, environmental responsibilities and social responsibilities. The review was carried out in internal and external dialogue with major stakeholders and included a materiality analysis and a comparison with industry peers. Pandox’s sustainability work in operations was documented and analysed and good internal examples were identified.

**A CLEAR CORPORATE CULTURE**

Pandox’s vision is to be a world-leading hotel property company with expertise in active ownership, hotel property management and development and hotel operation. This kind of leadership requires Pandox to be able to create sustainable value for all stakeholders and also to gain their trust. This means doing the right things in the right way, and it is our values along with our Code of Conduct that make this possible.

We see many similarities between the sport of handball and our own corporate culture, the Pandox Spirit – in both, individual freedom, cooperation, creativity and integrity are highly valued. All employees are equally important and success requires a good team spirit and mutual respect for each other.

At Pandox, every day is game day. We love top goal-scorers in the office and consider it an honour to set each other up for a clean finish. Nothing feels better than a slick pass. The culture of winning is a hallmark of Pandox and we work systematically to become a better company. Our goal is to constantly create new opportunities to do new business and take Pandox to the next level. This in turn requires the basic game to be sound, which for Pandox means focusing on one type of asset – hotel properties – and a clear business model involving long leases for which Pandox generates an information advantage on an asset-by-asset basis, using specialist expertise in the areas of market analysis, market strategy, strategic profitability and agreement optimisation. We are an active owner with a business model based on long-term lease agreements with the best operators in the market. If these conditions are not in place Pandox has many years of



**Mr Harry** steps up the ladder to become the new “Corporate Dog”

**Lehman Brothers collapses** and the world economy enters its worst period since the 1930s.



**Pandox makes a further acquisition in Canada** with the purchase of the Hyatt Regency Montreal.

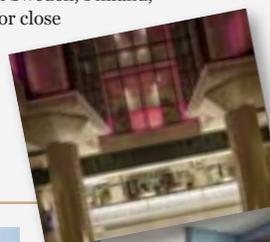
**The global economy is weak** and RevPAR falls substantially in many markets.



**Pandox carries out major renovations** at the Holiday Inn Brussels Airport, Hotel Berlin, Berlin, InterContinental Montreal, Hyatt Regency Montreal and Radisson Blu Basel.

**The world economy stabilises.** Pandox acquires Norgani in 2010 along with its 73 hotel properties in Sweden, Finland, Norway and Denmark for close to SEK 10 billion, which is the largest hotel transaction in the world that year.

2010



**Hotel demand increases** but cooperation in Europe is characterised by uncertainty regarding government debt, driven by Southern Europe.

2011

**Pandox begins a comprehensive** renovation programme (Shark) for 40 hotels in Sweden, Finland, Norway and Denmark in cooperation with Scandic.

experience in running hotel operations itself, which creates business opportunities throughout the hotel value chain and reduces the Company's operational risk.

**PANDOX BACK ON THE STOCK EXCHANGE**

As of 18 June 2015 Pandox is once again a listed company and I would again like to extend a warm welcome to all of our new shareholders. We are naturally very happy about the great reception Pandox has received and we feel a responsibility to handle the trust placed in us in a responsible way. As most of you know, Pandox was listed on the stock exchange from 1997 until 2004 when our current principal owners acquired the Company. The core of Pandox's operations remains the same, but today we are a better and stronger company in every respect. Our business model is well-tried and tested, our portfolio is larger and more stable and we have shown that we can generate a good return for our owners in different economic climates. We intend to continue on this path.

Proof that we remain hungry and practice what we preach is provided by our acquisition of 18 hotel properties, primarily under the Leonardo Hotels brand in Germany. This is a large acquisition that meets all of Pandox's strategic criteria as regards size, city, location, market position and profitability and which strengthens Pandox's position in the important German hotel market. As part of the agreement



*At Pandox, we are playing a match every day. We see many similarities between the sport of handball and our own corporate culture"*

Pandox signed 25-year revenue-based leases with good guaranteed rent levels with Fattal Hotels, which is fully in line with Pandox's business model. The deal is of strategic interest because it takes place in a market that is dominated by fixed leases. The acquisition of Leonardo Hotels is expected to contribute the equivalent of around MSEK 250 to Pandox's rental income and the equivalent of around MSEK 150 to cash earnings in 2016.

**HOTEL MARKET AND OWN INVESTMENTS ARE DRIVING CASH EARNINGS**

Pandox's main driving forces for cash earnings are the growth of the hotel market and the organic growth that we ourselves create through our good hotel portfolio and cash flow-driving investments, and also of course the opportunity for add-on acquisitions.

Finally, I would like to thank all of the employees, investors, Mr Harry and other important stakeholders for a successful 2015. Overall, Pandox is well equipped to move into 2016.



Stockholm in March 2016

Anders Nissen



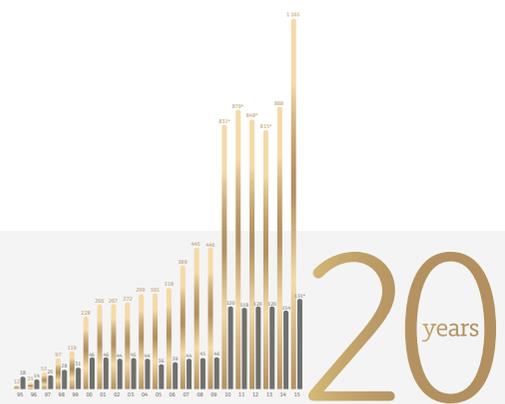
2012



2013



2014



**A strong hotel market** in a global perspective.

2015



**Pandox is listed on the stock market** for the second time on 18 June 2015 and demonstrates strong earnings growth over the year.

**Shark is in full swing**, along with the repositioning and opening of The Hotel Brussels.

**The hotel market** starts the year weak, but ends it strong.

**Pandox takes over** the operation of four hotels in Germany and Denmark.

**Pandox divests** 15 hotel properties and takes over operation of the Omena Hotel Copenhagen, which is then successfully repositioned as Urban House Copenhagen.

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# This is Pandox

## A property company specialising in hotels

### Pandox's vision

To be a world-leading hotel property company with expertise in active ownership, hotel property management and development and hotel operation.

Since 1997 Pandox has generated a return on equity of over 18 percent per year on average.\*

Long leases and active ownership generate strong cash flows

Pandox's core business is signing long leases with the best operators in the hotel industry and together creating a better hotel product that adds value for both parties.



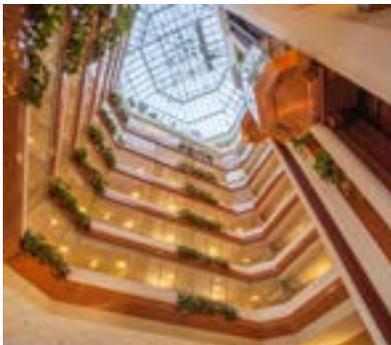
\* For the years 1997 to 2004 the calculation is based on the total return to shareholders on the shares listed on the Stockholm stock exchange. From 2004 to 2015 the calculations are based on the principal owners' internal interest rate, based on contributions and dividends and growth in value at year-end 2015 based on EPRA NAV.

# A focused and consistent strategy

## 1

### Focus on hotel properties

Pandox has a focused strategy, oriented entirely towards hotel properties as the sole asset type for which specialisation is absolutely crucial for the result.



## 2

### Large hotel properties in good locations

Pandox focuses on hotel properties in the full-service segment with good locations in strategic cities.



## 3

### Long leases with the best hotel operators

Pandox's core business involves signing long leases, with shared investment commitments, with the best operators in the industry.



## 4

### A high quality property portfolio

Pandox's lease model is based mainly on the revenue generated by the hotels. This provides a shared incentive to systematically develop the hotels along with the tenants, creating the conditions for a high quality hotel property portfolio.



## 5

### Geographical diversification reduces fluctuations

Pandox's hotel property portfolio is well diversified geographically, with a good mix of international and domestic demand which helps even out the effects of fluctuations in the hotel business cycle.



## 6

### Operator activities reduce risk and create opportunities

Pandox has substantial capacity for and specialist knowledge in operating hotels, which creates opportunities to be active throughout the hotel value chain.



## 7

### Expertise and systems for continuous improvement

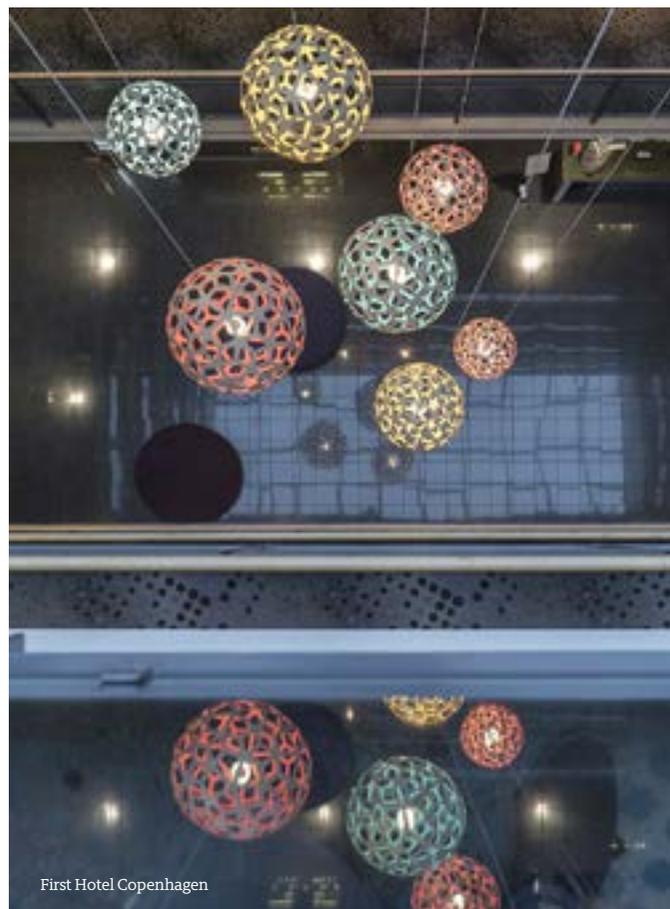
Pandox has a strong team of skilled employees with many years of experience in hotel properties and hotel operations, as well as tried and tested systems and models for hotel and business development.



# Value-adding business model

## We are active throughout the value chain

Pandox is an active owner. We have a thorough knowledge of both hotel operation and hotel properties, which means we can take advantage of opportunities throughout the value chain. This creates growth opportunities for Pandox and its partners, while also minimising the risks for Pandox and its shareholders.



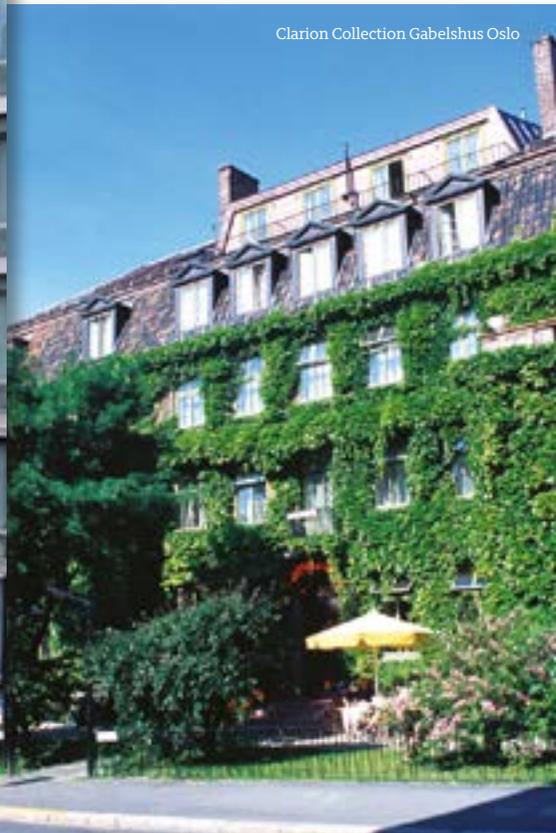
### We own and lease hotel properties

Pandox mainly owns full-service hotels with strategic locations in strong and stable markets such as Sweden, Denmark, Norway, Finland and Germany. The hotel portfolio maintains a consistently high quality with well-diversified revenue streams from international, regional and national markets. We have long leases with well-known hotel operators. This provides the Company with stable revenues, a lower investment requirement and reduced risk. We work with our partners to create mutual value through product development projects and renovations, in which both investments and future financial benefits of such investments are shared. A key aspect of our strategy is creating the necessary conditions for strong growth and improving the portfolio's quality and value growth over time.





InterContinental Montreal



Clarion Collection Gabelshus Oslo

**We own and operate hotels**

Pandox has many years of experience in hotel operations and owns and operates a number of hotels in Belgium, Germany, Denmark, Sweden, Norway, Finland and Canada. The ongoing consolidation and changed business models in the hotel market have led to a change in the risk profile between hotel owners and hotel operators. Pandox's response is a proactive strategy in which we take the position in the value chain that benefits Pandox the most in each individual case. This means that if the conditions are not in place for a profitable lease relationship, we can operate the hotel ourselves.

**We manage hotel properties owned by others**

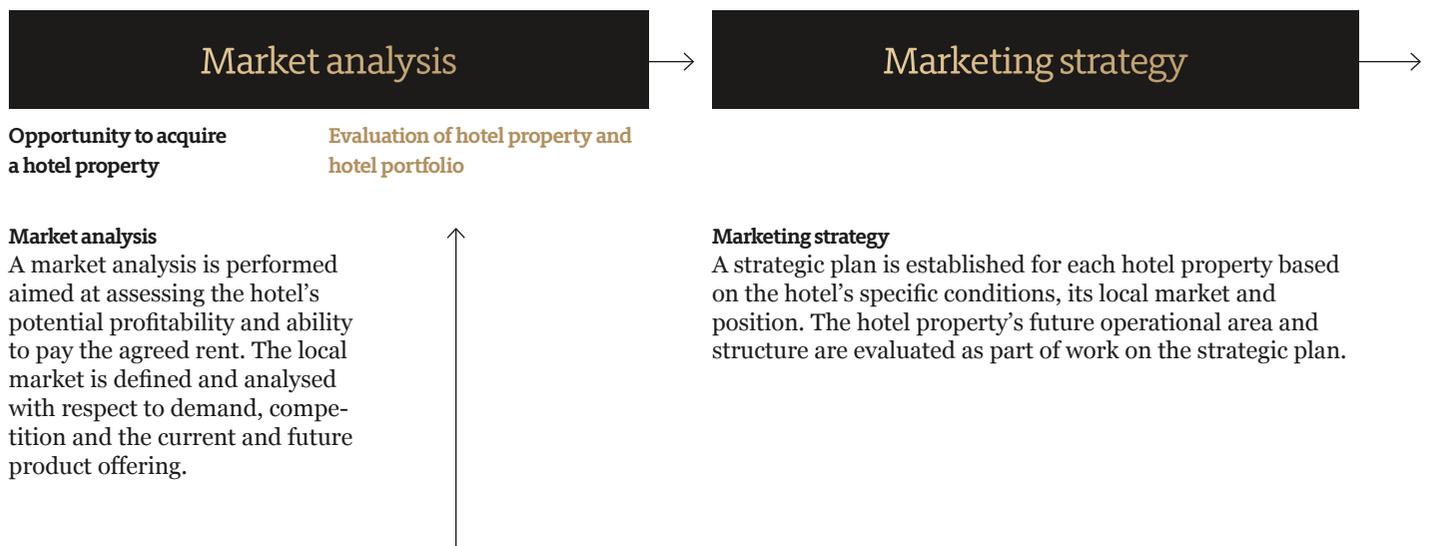
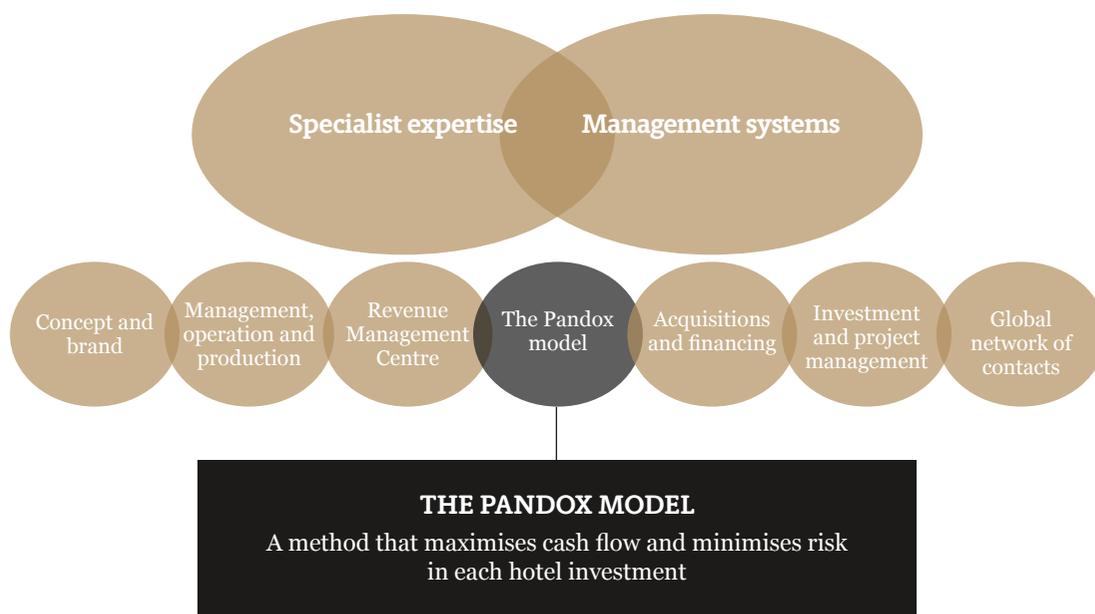
Our in-depth knowledge of hotel properties and hotel operations make us an attractive partner for external management of hotel properties. This is a complementary business for Pandox, but at the same time it is a valuable channel for business intelligence and increasing our understanding of the market.



# Expertise and systems

## Focus on cash flow

Supported by top-level expertise and tried and tested methods, Pandox works systematically to increase cash flow and property value – hotel property by hotel property – and thereby make room for new investments that support Pandox’s continued expansion.



**PANDOX'S WINNING CULTURE  
PRODUCES THE RIGHT FOCUS**

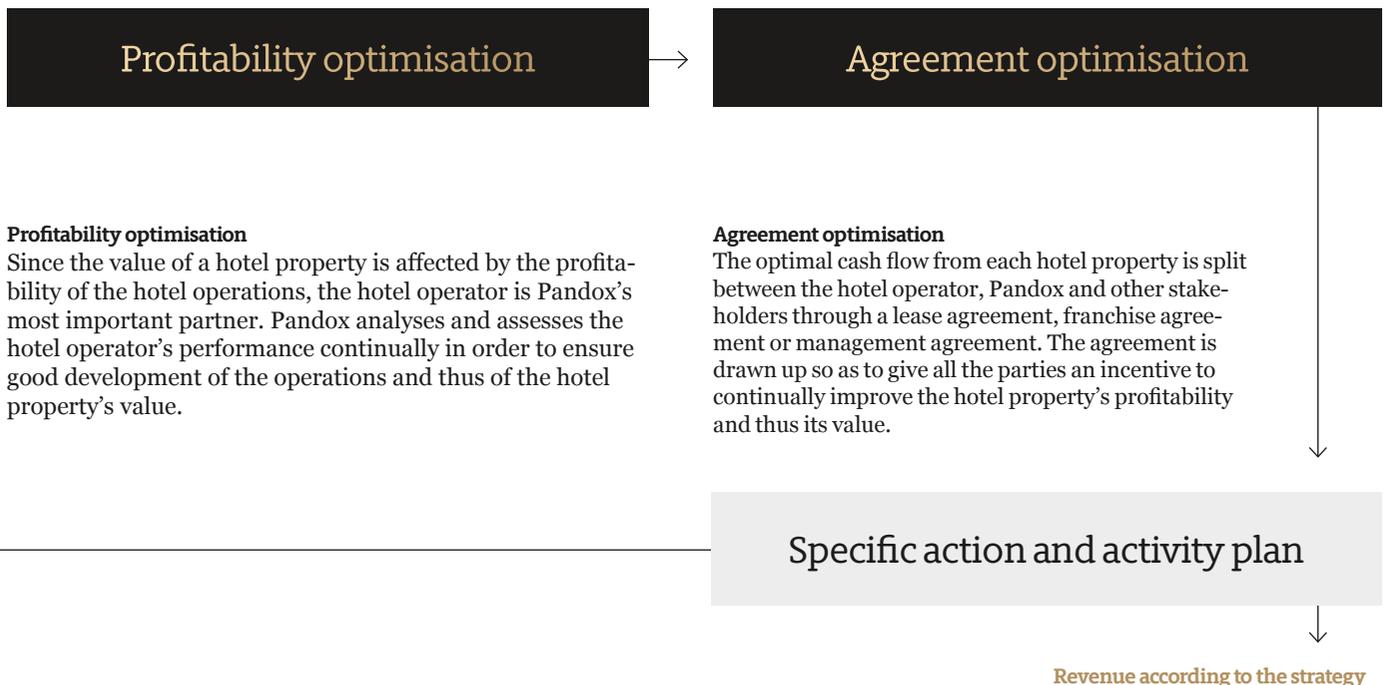
At Pandox we work to create a winning culture in which we minimise the risk of technical errors. The logic is that when we make few mistakes, we enable the employees to move forward, develop and creatively and rapidly take on the tasks that create the greatest possible value for Pandox and its stakeholders. One of the ways we do this is through the Pandox model, which is a method for working on market analysis, marketing strategy, profitability optimisation and agreement optimisation. The Pandox model lays the foundation for the ongoing performance assessment that is carried out hotel by hotel. The end goal is a high quality business analysis and strategy process that increases cash flow and reduces the risk of each individual hotel investment.

**PANDOX UNDERSTANDS THE WHOLE VALUE CHAIN**

Pandox is an active owner with a business model based on long-term revenue-based lease agreements with the best operators in

the market. In the absence of these conditions, Pandox has many years of experience of running hotel operations itself. Pandox's expertise and systems provide opportunities to do business throughout the hotel value chain:

- We know how to develop new hotel concepts, refine the brands and find a better position for a hotel product.
- We understand productivity, and know how to organise and manage hotel operations.
- We have the knowledge and systems to continually analyse and optimise the hotels' revenue and cost.
- We are very experienced in acquiring both substantial hotel portfolios and individual hotel properties.
- We have tried and tested models and extensive expertise in project management for making cash flow-driving investments jointly with our tenants, and of course also on our own.
- We have an extensive global network of contacts within the hotel industry and can quickly mobilise the best external expertise in various areas.



# The Pandox share

## A positive reception

Pandox aims to generate a good risk-adjusted total return on its shares.

### PANDOX IS LISTED ON THE STOCK EXCHANGE

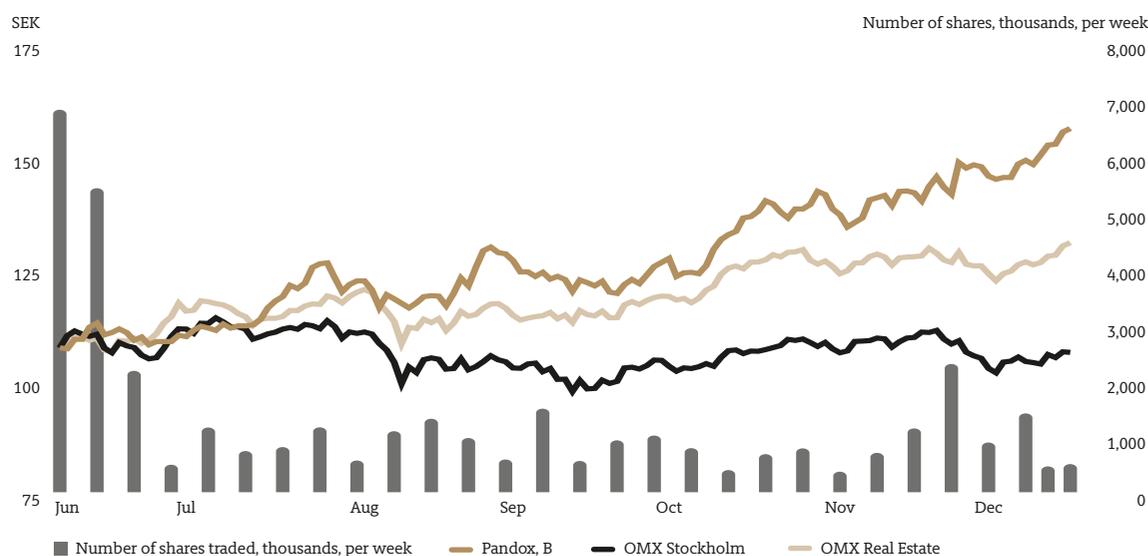
On 26 May 2015 the Board of Directors and owners of Pandox AB announced their intention to diversify the ownership through the sale of existing shares and to list the Company's B shares on Nasdaq Stockholm. The offering was aimed at the general public in Sweden and at Swedish and international institutional investors. The share price for the offering was set

at SEK 106 per share. The offering consisted of 60,000,000 B shares, of which 7,826,086 shares were in the form an over-allotment option. The over-allotment option was exercised in its entirety on 2 July 2015. The total value of the offering, including the over-allotment option, was MSEK 6,360. Trading in Pandox B shares on Nasdaq Stockholm started on 18 June 2015 under the ticker PNDX B.

### NUMBER OF SHARES AND RIGHTS

The total number of shares in Pandox is 150,000,000 and this is split into 75,000,000 A shares and 75,000,000 B shares. Only the B shares are listed on the stock exchange. The shares are denominated in SEK and each share has a quota value of SEK 2.50. The articles of association contain reservations concerning conversion of and preemptive rights for the Company's A shares. All the B shares are

### SHARE PRICE AND TRADING



### SHARE CAPITAL HISTORY

Year	Event	Change in number of shares		Number of shares after the transaction			Share capital, SEK	
		B	A	B	A	Total	Change	Total
1994	Company established	2,500	—	2,500	—	2,500	150,000	150,000
1995	New share issue	1,250,000	—	1,252,500	—	1,252,500	75,000,000	75,150,000
1995	Bonus issue	1,247,500	—	2,500,000	—	2,500,000	74,850,000	150,000,000
1997	Split 4:1	7,500,000	—	10,000,000	—	10,000,000	—	150,000,000
1998	New share issue	5,000,000	—	15,000,000	—	15,000,000	75,000,000	225,000,000
2000	New share issue	9,900,000	—	24,900,000	—	24,900,000	148,500,000	373,500,000
2013	New share issue	100,000	—	25,000,000	—	25,000,000	1,500,000	375,000,000
2015	New share series and 6:1 share split	50,000,000	75,000,000	75,000,000	75,000,000	150,000,000	—	375,000,000

freely transferable. Each A share in Pandox entitles the holder to three votes at the general meeting, while each B share in Pandox entitles the holder to one vote at the general meeting.

#### INDEX INCLUSIONS

During the year the Pandox share was included in a number of indices, including the EPRA NAREIT Index in July, the MSCI Sweden Small Cap in November and the Stockholm Benchmark Index in December. There is a link between inclusion in these indices, particularly the EPRA NAREIT Index, and increased liquidity of the Pandox share.

#### SHARE PRICE AND MARKET CAPITALISATION

On 31 December 2015 the last price paid for the B shares was SEK 155.90 and the visible market cap was MSEK 11,692. If the A shares are included at the same price as

the B shares, the market cap was MSEK 23,385. Calculated from the date of listing on 18 June 2015, the value of Pandox shares rose by 47.1 percent; this compared with the OMX Stockholm Benchmark PI index which fell by 4.3 percent and the OMX Stockholm Real Estate PI index which increased by 21.4 percent in the same period. The highest price paid for the shares during the year was SEK 158.70 and the lowest was SEK 106.20.

Trading on Nasdaq Stockholm accounted for more than 95 percent of all trading in Pandox shares in 2015. Ongoing trading transacted directly on the stock exchange amounted to around 50 percent, OTC trades reported on the stock exchange to around 38 percent and trading during the stock exchange's opening and closing procedures amounted to around 12 percent of the volumes traded.

Calculated from the date of first listing, 18 June 2015, just over 37.5 million

B shares – corresponding to 50 percent of outstanding B shares – were traded with a value of just over SEK 4.5 billion. Average daily trading in the same period amounted to 274,049 shares, corresponding to around MSEK 33.2 in value.

#### PANDOX'S OWNERS

As of 31 December 2015 Pandox had 3,846 shareholders. Pandox's largest shareholders were Eiendomsspar Sverige AB, Helene Sundt AB and Christian Sundt AB. Other major shareholders were, in descending order, AMF Insurance and Funds, Swedbank Robur Funds and Länsförsäkringar Fondförvaltning AB. Including the principal Norwegian shareholders in Pandox, which own their shares in Pandox via Swedish companies, foreign ownership in the Company amounted to 86.4 percent of the votes and 72.8 percent of the capital. There has been a certain increase in foreign ownership since the listing.

#### DIVIDEND AND CAPITAL STRUCTURE TARGETS

Pandox is aiming for a dividend pay-out ratio of 40–60 percent of cash earnings<sup>1)</sup>, with an average dividend pay-out ratio over time of around 50 percent. Future dividends, and the size of such dividends, depend on Pandox's future performance, financial position, cash flows, working capital requirement, investment plans and other factors. As far as the capital structure is concerned, Pandox is aiming for a loan-to-value ratio<sup>2)</sup> of 45–60 percent, depending on market development and current opportunities. At the 2016 Annual General Meeting the Board of Directors will propose a dividend of SEK 3.80 per share for the 2015 fiscal year, which is equivalent to just over 50 percent of cash earnings per share.

<sup>1)</sup> Defined as EBITDA plus financial income minus financial expense minus current tax.

<sup>2)</sup> Defined as interest-bearing liabilities in relation to the properties' market value at the end of the period.

#### SIZE OF SHAREHOLDINGS AS OF 31 DECEMBER 2015

Holding	Number of shareholders	Number of shares	% of share capital	% of votes
1–500	3,079	411,138	0.3	0.1
501–1,000	271	236,317	0.2	0.1
1,001–5,000	246	610,798	0.4	0.2
5,001–10,000	57	434,101	0.3	0.1
10,001–15,000	26	332,808	0.2	0.1
15,001–20,000	16	275,195	0.2	0.1
20,001–	151	147,699,643	98.5	99.2
<b>Total</b>	<b>3,846</b>	<b>150,000,000</b>	<b>100</b>	<b>100</b>

Source: Euroclear.

#### LARGEST SHAREHOLDERS

As of 31 December 2015 the fifteen largest registered shareholders in percentage of votes were as follows:

Shareholder	Number of A shares	Number of B shares	% of share capital	% of votes
Eiendomsspar Sverige AB	37,314,375	7,314,375	29.8	39.8
Helene Sundt AB	18,657,188	3,657,187	14.9	19.9
Christian Sundt AB	18,657,187	3,657,188	14.9	19.9
AMF Insurance & Funds		11,570,112	7.7	3.9
Swedbank Robur Funds		10,060,920	6.7	3.4
Länsförsäkringar Funds		7,890,779	5.3	2.6
Handelsbanken Fonder		3,088,808	2.1	1.0
Alecta Pensionsförsäkring		2,487,000	1.7	0.8
Catella Funds		2,100,814	1.4	0.7
Anders Nissen	371,250	371,250	0.5	0.5
AFA Insurance		1,000,000	0.7	0.3
Stichting Pensioenfonds ABP		850,000	0.6	0.3
Enter Fonder		727,600	0.5	0.2
iShares Europe ETF		721,876	0.5	0.2
Tredje AP-fonden (Third Swedish National Pension Fund)		718,509	0.5	0.2
<b>Total 15 shareholders</b>	<b>75,000,000</b>	<b>56,216,418</b>	<b>87.5</b>	<b>93.7</b>
<b>Other shareholders</b>		<b>18,783,582</b>	<b>12.5</b>	<b>6.3</b>
<b>Total</b>	<b>75,000,000</b>	<b>75,000,000</b>	<b>100</b>	<b>100</b>

Source: Holdings.

Key ratios	2015	2014	2013	2012
<b>Key ratios per share, after dilution effects<sup>1) 2)</sup></b>				
Total net operating income, SEK	11.31	10.04	9.95	9.97
Profit for the year, SEK	14.21	8.35	6.31	3.32
Cash earnings, SEK	7.53	5.82	4.10	5.60
Equity, SEK <sup>5)</sup>	80.61	69.35	69.52	62.89
Net asset value (EPRA NAV), SEK	107.71	92.11	82.60	74.80
Dividend, SEK <sup>3)</sup>	3.80	1.00	1.40	1.30
<b>Market cap and return</b>				
Market cap, MSEK	23,385	—	—	—
Return, Padox shares, % <sup>4)</sup>	47.1	—	—	—
Return, OMX Stockholm Benchmark Index, % <sup>4)</sup>	-4.3	—	—	—
Return, OMX Stockholm Real Estate Index, % <sup>4)</sup>	21.4	—	—	—
Dividend pay-out ratio of cash earnings, %	50.5	—	—	—
Dividend pay-out ratio of EPRA NAV, %	3.5	—	—	—
Yield, %	2.4	—	—	—
<b>Share data</b>				
Closing price, B shares, SEK	155.90	—	—	—
Highest price during the year, SEK	158.70	—	—	—
Lowest price during the year, SEK	106.20	—	—	—
Average price during the year, SEK	131.05	—	—	—
Average daily trading volume, number of B shares <sup>4)</sup>	274,049	—	—	—
Weighted average number of A shares, before dilution effects, thousands <sup>1)</sup>	75,000	—	—	—
Weighted average number of A shares, after dilution effects, thousands <sup>1)</sup>	75,000	—	—	—
Weighted average number of B shares, before dilution effects, thousands <sup>1)</sup>	75,000	150,000	149,412	149,400
Weighted average number of B shares, after dilution effects, thousands <sup>1)</sup>	75,000	150,000	149,412	149,400
Weighted average number of shares, total, after dilution effects, thousands <sup>1)</sup>	150,000	150,000	149,412	149,400

<sup>1)</sup> Retrospectively adjusted for share split in May 2015 for comparability when calculating key ratios.

<sup>2)</sup> For definitions of key ratios, see page 116.

<sup>3)</sup> For 2015 the Board's proposed dividend is stated. For 2014 the regular dividend is stated.

<sup>4)</sup> From the date of first listing, 18 June 2015.

<sup>5)</sup> Attributable to the shareholders of the parent company.

For more information on  
the Padox share  
see [www.padox.se](http://www.padox.se)

# FAQ about and to Pandox

## 1 Why has Pandox chosen a mixed business model involving both property ownership and hotel operation?

The ongoing consolidation and changed business models in the hotel market have led to a change in the risk profile between hotel owners and hotel operators. Pandox's response is a proactive strategy in which the Company takes the position in the value chain that benefits Pandox and its shareholders the most in each individual case. With its many years of experience of hotel development and hotel operation, if the conditions are not in place for a profitable lease relationship in properties that the Company owns, Pandox can choose to operate the hotel business itself. This may be done either through a franchise agreement with a well-known brand or through a separate brand via independent distribution channels. This allows Pandox to ensure the hotel property's value and development potential, which minimises risk.

## 2 What is driving growth in the hotel market?

In simple terms, growth in the hotel market is a function of general economic growth which increases demand from both the business and the leisure segments. In addition, there is a strong long-term positive trend in the global travel market as a result of the contribution from new travellers from countries with a rapidly growing middle class, such as China. It is estimated that 140 million Chinese people travelled internationally in 2015 compared with around 10 million in 2000. However, the majority of the travel in Pandox's markets is regional and national by nature, and is also affected by other factors such as events and conferences. Changes in exchange rates can also have a relatively large effect on demand in the short term, particularly within the leisure segment.

## 3 What type of lease agreement does Pandox have with its tenants?

Pandox's hotel lease agreements are linked to the hotel's sales and generally contain a minimum guaranteed rent level. This makes it possible to achieve both increased revenue in an improved market and protection against a market decline. The lease agreements have long terms and Pandox's

weighted average unexpired lease term (WAULT) at year-end was 11.2 years.

## 4 How does Pandox manage risk in the hotel market?

Pandox works systematically to identify and evaluate the main business risks in the hotel market based on its substantial expertise and good management systems. Through a focused and consistent strategy which focuses on one type of asset, good diversification both geographically and in terms of brands, and a high quality hotel property portfolio Pandox is laying the foundations for a good risk-adjusted return over time.



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Pandox was listed on Nasdaq Stockholm on 18 June 2015. Christian Ringnes, Chairman of the board, and Anders Nissen, CEO, rang the bell and started the trading day.



# Market overview

## Global market growth strong across the board

The global hotel market cycle continued to strengthen in 2015 with good demand in Pandox's key markets. According to UNWTO, global international tourism increased by just over 4 percent in 2015, the sixth consecutive year of positive growth. The terrorist attacks in Paris and the heightened security status in Brussels temporarily weakened the hotel market in Brussels in November and December.

### BROAD MARKET UPSWING

The hotel markets in Europe in general experienced an upswing on a broad front in 2015, driven by a strong increase in demand from the leisure segment during the holiday months of July and August, and by sustained high demand in the business segment, mainly during the second half of the year. Renewed concern over the global economy as a result of slower growth in China and other growth nations had no significant impact on demand during the year and demand for travel and hotel stays from the Chinese travel market continued to grow. The terrorist attacks in Paris in November had a clear negative short-term impact on Paris as a destination, but the effect gradually subsided and the booking situation had returned to normal in the beginning of 2016.

The same applies to Brussels, which was negatively impacted by the actions taken by the Belgian authorities following the Paris attacks. Variation in macro-economic growth for the Nordic countries continued during the year, with the Danish and above all the Swedish economy experiencing a positive trend. Development in Norway and Finland was relatively strong despite a low level of activity resulting from falling oil prices and general weak economic development.

### NORTH AMERICA STILL A STRONG ENGINE

In the US and Canada growth in RevPAR (revenue per available room) in 2015 amounted to 6 and 4 percent respectively. The strong trend in the US market since 2011 is expected to continue in 2016, partly

### GOOD DEVELOPMENT IN IMPORTANT HOTEL MARKETS

RevPAR development, quarterly change (in local currency)

	2012	2013	2014	2015	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015
USA	7%	5%	8%	6%	6%	8%	8%	9%	8%	7%	6%	5%
New York <sup>1)</sup>	6%	4%	3%	-2%	-1%	5%	4%	1%	-4%	-2%	1%	-2%
Montreal	-2%	6%	10%	7%	5%	7%	17%	7%	8%	9%	5%	6%
Europe	5%	2%	6%	7%	6%	4%	5%	7%	6%	6%	10%	6%
London <sup>1)</sup>	2%	1%	3%	2%	7%	1%	2%	4%	2%	-2%	5%	1%
Brussels	-2%	2%	3%	2%	5%	4%	3%	1%	2%	8%	13%	-10%
Berlin	9%	0%	5%	8%	2%	1%	10%	5%	5%	15%	7%	7%
Stockholm	-5%	0%	2%	9%	4%	0%	3%	1%	6%	-3%	23%	11%
Oslo	-3%	4%	1%	8%	7%	-5%	3%	0%	1%	14%	10%	7%
Helsinki	4%	-5%	2%	2%	2%	0%	4%	3%	-1%	-3%	6%	6%
Copenhagen	5%	6%	4%	11%	13%	2%	3%	1%	9%	10%	12%	14%

Source: STR (USA, Canada, Europe, Finland), Benchmarking Alliance (Sweden, Norway, Denmark).

<sup>1)</sup> Pandox does not have any direct business exposure to these markets but they are important for an assessment of the global hotel market.

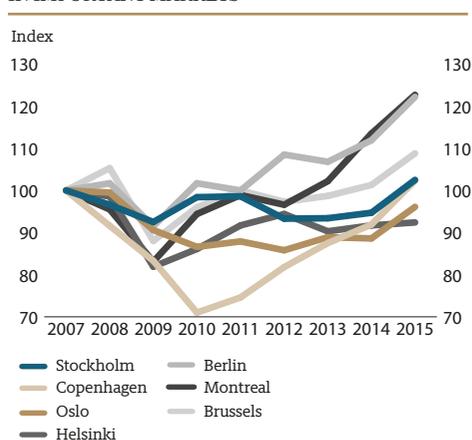
due to anticipated relatively limited new hotel room capacity in the country. The growth rate is, however, expected to be lower. There was a decline in the hotel market in 2015 in the parts of Canada that are dependent on the oil industry, while larger cities and international destinations presented healthy growth numbers, driven by both improved average prices and increased demand. A stronger US dollar, higher employment figures and a sustained positive development in the US economy have provided a boost to US international travel, which has been positive for Canada and key markets in Europe.

#### POSITIVE TREND IN EUROPE AND THE NORDIC REGION

The hotel markets in Europe experienced a positive trend in 2015 with RevPAR growth of 7 percent. The second half of the year was particularly strong, with high growth numbers in most large cities and regional towns due to strong demand from the leisure segment in July and August. Stockholm is a good example, where RevPAR increased by 23 percent in the third quarter and 11 percent in the fourth, supported by a good month of September for business and conferences. Oslo and Copenhagen experienced growth of 8 and 11 percent respectively in 2015. Despite weak economic growth in general in Finland, RevPAR increased by 2 percent in Helsinki. In Europe, Berlin saw stable growth of 8 percent and growth in Brussels was 2 percent, despite the negative impact of the heightened security status in November and December.

Since 2007, which was the peak year in the hotel market before the financial crisis hit, RevPAR has recovered in most

INDEXED REVPAR DEVELOPMENT  
IN IMPORTANT MARKETS



Source: STR (USA, Canada, Europe, Finland), Benchmarking Alliance (Sweden, Norway, Denmark).

of Pandox's markets. Overall the recovery has been relatively slow, with a significant spread in growth outcomes. Berlin and Montreal experienced the fastest growth and Helsinki and Oslo the slowest. It was not until 2015 that RevPAR (nominal) returned to the pre-financial crisis levels in Stockholm, Copenhagen and Brussels. In real terms, these markets are, however, still below the 2007 RevPAR levels.

### Short-term trends

#### The hotel market

Stable and positive, with good demand from both the business and leisure segments.

#### New capacity

Addition of new hotel rooms slightly below trend globally.

#### RevPAR development

Good occupancy has leveraged into higher room rates.

### Long-term market trends

#### Markets

Continued consolidation among hotel operators.

#### Brands

Consolidation among brand owners, alongside an increased spread and diversity in hotel brands.

#### Hotel concept

More diversified hotel products to meet different types of customer groups and needs.

#### Distribution

OTAs continue to grow and new business models are challenging the traditional models.

#### Changes in society

The ageless society is blurring the lines between young and old demanding more from the hotel industry.

# A property company specialising in hotels

## An active hotel property owner

Pandox's strategy is to own and lease sizeable full-service hotels in the upper-mid to high-end price segment in strategic locations in key leisure and corporate destinations. Pandox is an active owner with a business model based on long-term, revenue-based lease agreements with the best operators in the market. In the absence of these conditions, Pandox has many years of experience of running hotel operations itself. This creates business opportunities across the hotel value chain.

## Long leases with well-known tenants

At the end of 2015, Pandox's hotel property portfolio consisted of 121 hotels with a total of 25,190 hotel rooms in eight countries and a market value of MSEK 31,437. 103 of the hotel properties were leased on a long-term basis to well-known tenants with established brands, providing income stability, lower capital expenditure and less risk for the Company. The remaining 18 hotels are owned and operated by Pandox. In addition, Pandox had asset management agreements for nine hotels, and operates one additional hotel under a long-term lease agreement.



## Property Management

Read more on page 20

103

Owned and leased

Pandox's core business involves owning and leasing hotel properties to the best operators in the market. On 31 December 2015 the properties had a weighted average unexpired lease term (WAULT) of 11.2 years.

80%

MSEK 25,062  
Portfolio value

The majority of the hotel property portfolio consists of properties with long revenue-based leases and stable cash flows.

5.9%

Valuation yield

The market value of Investment Properties is assessed on an ongoing basis.

## Operator Activities

Read more on page 22

18

Owned and operated by Pandox

In the absence of the right conditions for leases, Pandox may choose to operate the hotel itself to ensure the hotel property's value and development.

20%

MSEK 6,375  
Portfolio value

A portion of the hotel portfolio consists of properties which Pandox owns and operates.

7.5%

Valuation yield

The market value of Operating Properties is assessed on an ongoing basis but reported for information purposes only.

## Pandox total

121

Hotel properties

Pandox's hotel portfolio consists of a total of 121 properties with an average size of 208 rooms mainly located in countries in Northern Europe.

MSEK 31,437  
Total portfolio market value

In 2015 the market value of the total hotel property portfolio increased by 19 percent.



# Property Management

## Good growth and earnings trend

Development for Property Management was strong, with net operating income growth of 8 percent, adjusted for one-time revenue, currency effects and comparable units, driven by positive development on the hotel market where renovated hotels have returned to full capacity and increased their market share.

At the end of 2015, Pandox's Property Management segment consisted of 103 (89) Investment Properties with 19,755 (17,195) hotel rooms in 6 (6) countries and constituted around 80 (79) percent of the hotel properties' total market value. In 2015 the total property revenue for Property Management amounted to MSEK 1,543 (1,478) and net operating income to MSEK 1,280 (1,186). During the year, three hotels were reclassified to Operator Activities following Pandox taking over operations, and agreements signed, two of which after the end of the period, to take over and reclassify an additional three hotels in 2016.

Property Management is a key component in Pandox's business model and involves long, revenue-based leases with good guaran-

teed minimum rent and stable earnings. The hotel properties are leased to highly reputable tenants who operate the hotels under well-known hotel brands. The Nordic countries account for 96 (96) percent of the segment's revenue and Sweden for 59 (59) percent. The types of agreement used in the hotel market vary depending on the geographical market. In the Nordic region leases are the most common type of agreement.

### TENANTS

The majority of Pandox's tenant base consists of well-known hotel operators with strong hotel brands in their respective markets. The tenants are both Nordic-oriented hotel operators, such as Scandic

RENTAL INCOME BY COUNTRY 2015, %



Percentage breakdown of rental income by country 2015 for Property Management.

PANDOX'S TENANTS BY BRAND 31 DECEMBER 2015

Tenant	No. of rooms	No. of hotels
Scandic	10,120	49
Leonardo Hotels	2,921	16
Nordic Choice Hotels*	2,421	15
Radisson Blu	965	4
Hilton	717	3
First Hotels	667	5
Holiday Inn	494	2
Elite Hotels	452	2
Best Western	355	3
Rantasipi	135	1
Private operators**	508	3
<b>Total</b>	<b>19,755</b>	<b>103</b>

\* Nordic Choice's brands include: Comfort Hotel, Quality Hotel, Quality Hotel & Resort, Clarion Hotel and Clarion Collection.

\*\* Private includes tenants who run their own hotels under the hotel chain's brand or under an independent brand.

(the largest hotel operator in the Nordic region with more than 200 hotels), Nordic Choice, and operators focused on other regions and global markets such as Fattal (Leonardo), Rezidor (Radisson Blu) and Hilton.

### LEASE STRUCTURE

Pandox's lease agreements are mainly linked to the hotel's revenue and generally contain a minimum guaranteed rent. This makes it possible to achieve both increased rental income in an improved market and downside protection in a weaker market. Pandox prefers revenue-based leases which normally include two rent levels: (1) A higher level of percentage rent based on the operator's room revenue and the operator's conference room hire revenue. (2) A lower level of percentage rent based on other operator revenue, mainly revenue from food and beverages, but also operator revenue that may be specific to the hotel's offering, such as parking and spa services.

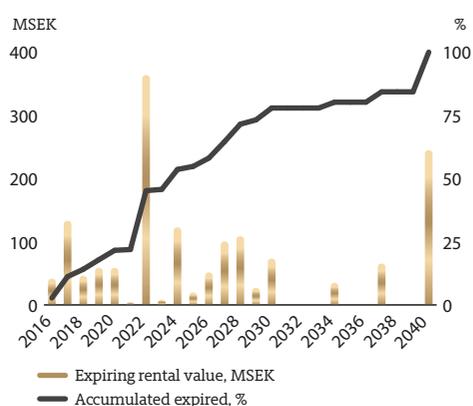
With revenue-based leases the property owner and operator have a joint incentive to develop the hotel property's profitability and yield. A good example is the joint development project that Pandox and Scandic have been running since 2011, where 40 hotels have been renovated and upgraded for a total of around MSEK 1,600, of which Pandox's share amounts to around MSEK 1,000.

Joint investment projects normally involve an option to extend the lease term and adjustment of the percentage of rent. New or renegotiated lease agreements usually have a term of 10–25 years.

On 31 December 2015 Pandox's lease portfolio had a weighted average unexpired lease term (WAULT) of 11.2 years. The maturity profile of the lease portfolio was further diversified in 2015 through the acquisition of 18 hotel properties in Germany.

The rent levels are considered to be sustainable in the long term based on tenants who pay revenue-based rent. Only 6 (8) of 103 (89) revenue-based leases, equivalent to 6 (8) percent or MSEK 71 (118) of the total rental revenue, were within the guarantee range in 2015. Of these, about a quarter is related to minimum rents as a consequence of renovations in Pandox's Finnish portfolio.

LEASE MATURITY PROFILE 31 DECEMBER 2015



Pandox's lease agreements are mainly linked to hotel revenue and normally contain a minimum guaranteed rent that provides both an operational upside and downside protection in the event the development of the hotel operator should be weaker.

### MAINTENANCE COSTS AND INVESTMENTS

The way maintenance costs and investments are distributed between the tenant and the property owner in hotel leases is an important factor that distinguishes hotel properties from other real estate segments, such as office properties. Hotel tenants are normally responsible for maintenance of all hotel rooms, restaurants, lobbies, other public areas and furnitures, fixtures and equipment. The property owner is normally responsible for technical investments and installations, technical maintenance, and normally bathrooms. Investments raise the standard of the hotels and make them more competitive and profitable, which means greater profitability for the operator and thereby higher revenue-based rents for Pandox. Due to the long lease terms combined with the tenant's responsibility for maintenance and cash-flow supportive investments, Pandox as the hotel property owner has a lower monetary responsibility for investments compared to an owner of a typical office building. Pandox assesses that hotel tenants contribute more than 50 percent of the total investment over time.

### PANDOX ASSET MANAGEMENT

Pandox Asset Management is a limited part of the Property Management business segment and manages hotel property assets on behalf of external owners. Pandox Asset Management was established in 2015 as a tool to create new relationships in the hotel market and to monitor developments in the industry and the market. The current portfolio consists of eight hotels with a total of 1,505 hotel rooms in Oslo, and the hotel property Pelican Bay Lucaya Resort on the island Grand Bahama which has 186 rooms. The property portfolio in Oslo and the Pelican Bay Lucaya Resort property are owned by Eiendomsspar AS, and companies related to Helene Sundt AS and CGS Holding AS respectively, which are parties related to Pandox AB. Revenue from asset management assignments is reported under Property Management, with the exception of the Pelican Bay Lucaya Resort property, which is reported under Operator Activities.

EXTERNAL ASSET MANAGEMENT ASSIGNMENTS 31 DECEMBER 2015

Hotels	No. of rooms
<b>Oslo, Norway</b>	
Clarion Collection Hotel Folketeatret	160
Clarion Collection Hotel Gabelshus	114
Scandic Gardermoen	135
Scandic Helsfyr	253
Scandic Holberg	133
Scandic Holmenkollen Park	336
Scandic Oslo City	175
Scandic Victoria	199
<b>Bahamas</b>	
Pelican Bay, Lucaya, Grand Bahama Island	186
<b>Total</b>	<b>1,691</b>

# Operator Activities

## Higher productivity and earnings

The Operator Activities segment developed well with net operating income growth of 19 percent, despite a temporary shortfall in net operating income in the fourth quarter due to the heightened security status in Brussels in response to the terrorist attacks in Paris in November and December. The increase is mainly explained by rising demand in the hotel markets with improved average room rates, renovated and repositioned hotels increasing their market share, and a certain contribution to gross profit from reclassifications.



At the end of 2015, Pandox's Operator Activities segment consisted of 18 (15) Operating Properties with a total of 5,435 (4,774) hotel rooms in 7 (7) countries and constituted around 20 (21) percent of the hotel properties' total market value. In 2015 revenues from Operator Activities amounted to MSEK 2,046 (1,598) and net operating income to MSEK 416 (320).

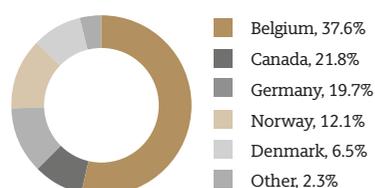
Operator Activities is an important element in Pandox's strategy of being active throughout the value chain and reflects the Company's active ownership model. Pandox's expertise and the capacity to operate hotels itself give the Company strategic room to manoeuvre. Pandox may choose to operate the hotels it owns itself if leases are not possible to enter into on attractive terms, and thereby balance the effect of changed business models and increased consolidation

in the hotel market. Having the ability to take over the operation of a hotel reduces the operational risk when leases expire, if the tenant cannot fulfil its obligations or in situations where hotels need to be completely renovated and it is not financially attractive to lease to third parties. Expertise in hotel management also enables Pandox to better monitor tenants' performance and result.

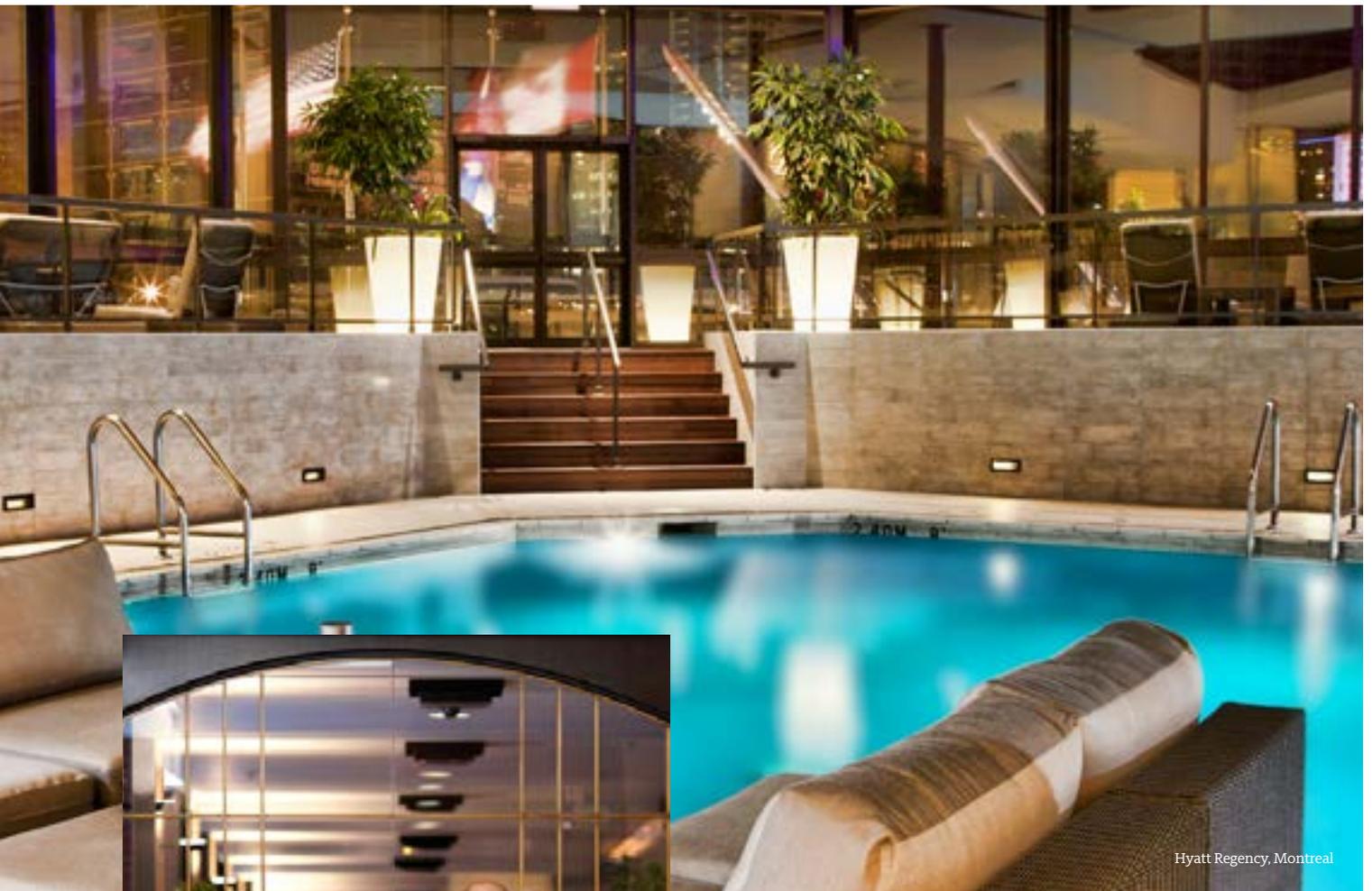
In the Operator Activities segment all of the hotels' revenue and net operating income flow to Pandox. Revenue includes room revenue i.e. the number of hotel rooms sold multiplied by the average room rate, revenue from food and beverages, conference room revenue and the hotels' other revenue streams. The costs include personnel, which is the single largest cost item and includes the cost of reception, housekeeping and restaurant staff. Other cost items include the cost of goods sold, indirect costs and other hotel-related costs. Pandox works actively to develop revenue and distribution strategies to optimise the hotels' overall performance. The important factors on the cost side for good profitability growth are productivity, which includes forecasting, planning, and monitoring of human resources at any given time for each individual hotel.

Pandox markets the hotels in the Operator Activities segment either under internationally known hotel brands, such as Radisson Blu or Hyatt Regency, or under its own independent hotel brands adapted for specific market conditions. As of 31 December 2015, ten hotel properties were operated within Operator Activities through franchise agreements (three with Radisson Blu, two with Crowne Plaza, two with Holiday Inn, one with Hilton, one with First and one with Nordic Choice Hotels) and two through management contracts (one with Hyatt and one with InterContinental). The remaining six

### REVENUE BY COUNTRY 2015, %



Percentage breakdown of revenue by country 2015 for Operator Activities.



Hyatt Regency, Montreal



InterContinental, Montreal

properties are operated under independent brands owned by Pandox (Hotel BLOOM! in Brussels, Hotel Berlin, Berlin, Hotel Korpilampi in Esbo, The Hotel Brussels in Brussels, Urban House Copenhagen in Copenhagen and Mr Chip Hotel in Kista). In addition to the 18 wholly owned hotel properties operated by Pandox, the Company is also operating Grand Hotel Oslo under a lease agreement with the related-party property owner Eiendomsspar AS since 1 March 2015.

In 2015 three hotels were reclassified from Property Management to Operator Activities following taking over of operations: Radisson Blu Lillehammer in Norway, Mr Chip Hotel in Sweden and Quality Hotel Prince Philip in Sweden. An agreement was signed to take over Quality Hotel & Resort Fagernes, which was

reclassified on 1 January 2016. After the end of the period agreements were signed to take over Quality & Resort Kristiansand and Hafjell respectively later in 2016.

As of 1 January 2016, Quality Hotel Prince Philip is being marketed under the Best Western PLUS brand and Radisson Blu Lillehammer Hotel under the own brand, Lillehammer Hotel.

#### GRAND HOTEL OSLO

Grand Hotel Oslo, which has 292 rooms and is owned by Eiendomsspar AS, has been operated by Pandox since 1 March 2015 under a revenue-based lease agreement with a term of 15 years. Total revenue 1 March– 31 December 2015 from Grand Hotel Oslo amounted to MSEK 195 (0).

# Pandox in practice

## Creating value in four different ways

# 1

## Portfolio acquisitions and investment

### Norgani and the Shark project

The project involved the acquisition of 73 hotels in the Nordic region in 2010 for a total of around MSEK 9,700, and the renovation, upgrade and development of 40 of these hotels (The Shark Project) in cooperation with Scandic for a total of around MSEK 1,600, of which Pandox's share is around MSEK 1,000. The investments cover four larger city hotels, 20 or so motels and several hotels in regional hubs in Sweden, Norway and Denmark. The project has provided good return in the form of increased rental income and cash flow.



Grand Marina, Helsinki



1. Portfolio acquisitions and investment
2. Lease extension and investment
3. Single acquisition and repositioning
4. Operations taken over

## Portfolio acquisitions outside the Nordic region **Leonardo Hotels**

On 31 December 2015 Pandox finalised the acquisition of 18 hotel properties in Germany with a total of 3,415 rooms for a final consideration of MSEK 3,654, on a debt-free basis including minority interests, from Leopard Group and Fattal Hotels. The hotels are in the upper-mid segment with a well-balanced demand and are primarily operated under the Leonardo Hotels brand. As part of the agreement, Pandox signed new 25-year revenue-based lease agreements with Fattal Hotels for all hotels with good rental guarantee levels. The acquisition is entirely in line with Pandox's business model, which is based on long leases, and also meets all of the Company's strategic criteria in terms of size, city, location, market position and profitability. It also strengthens Pandox's position in the important German hotel market, which is the largest in Europe. The acquisition, which is based on an initial yield of 6.3 percent, is expected to increase Pandox's rental income by the equivalent of around MSEK 250 and increase cash earnings by the equivalent of around MSEK 150 in 2016. Pandox is fully consolidating the acquired hotels in the balance sheet as of 31 December 2015 and in the income statement as of 1 January 2016, and is reporting them under the Property Management business segment.

### DRIVERS FOR THE ACQUISITION

- Germany is a prioritised market for Pandox.
- The hotels benefit from a balance in domestic and international demand.
- The hotels are full-service products and belong to the upper-mid segment with a good average size of 190 rooms.
- The hotels strengthen the lease portfolio through long-term revenue-based leases with guaranteed rents – the core of Pandox's business model.
- The hotels have good long-term development potential with shared investments with Fattal Hotels.
- Fattal Hotels will be a new, strong, long-term partner for Pandox under the Leonardo Hotels brand.

### PORTFOLIO OVERVIEW

The acquired hotel property portfolio consists of 18 hotels with 3,415 rooms in 12 German cities<sup>1)</sup>. The hotels, which will be marketed under the Leonardo brand, have either been recently renovated or are under renovation now. The hotels belong to the stable and long-term mid-price segment and are located in international cities like Frankfurt, Düsseldorf and Hamburg, with a high percentage of international guests, and in regional hubs like Cologne,

Hannover and Mönchengladbach, which altogether delivers a well-balanced demand. Most of the hotels have a very strong position in the business segment and many are in cities with a dynamic event market in both the corporate and leisure segments.

<sup>1)</sup> See page 48 for a full hotel list.



# 2

## Lease extension and investment

### Radisson Blu Arlandia

A textbook example of a development project in long-term partnership with the operator. Pandox's market analysis showed that there was potential for a profitable hotel upgrade. In partnership with the operator, the lobby, restaurant section, conference rooms and hotel rooms were upgraded to create a modern and attractive business, conference and leisure product close to Arlanda Airport. The total investment amounted to around MSEK 100, of which Pandox's share was around MSEK 40. The lease was renegotiated and extended based on an upgraded hotel product and anticipated improvement in hotel revenue. Good return on invested capital in the form of higher rental income and improved cash flow.

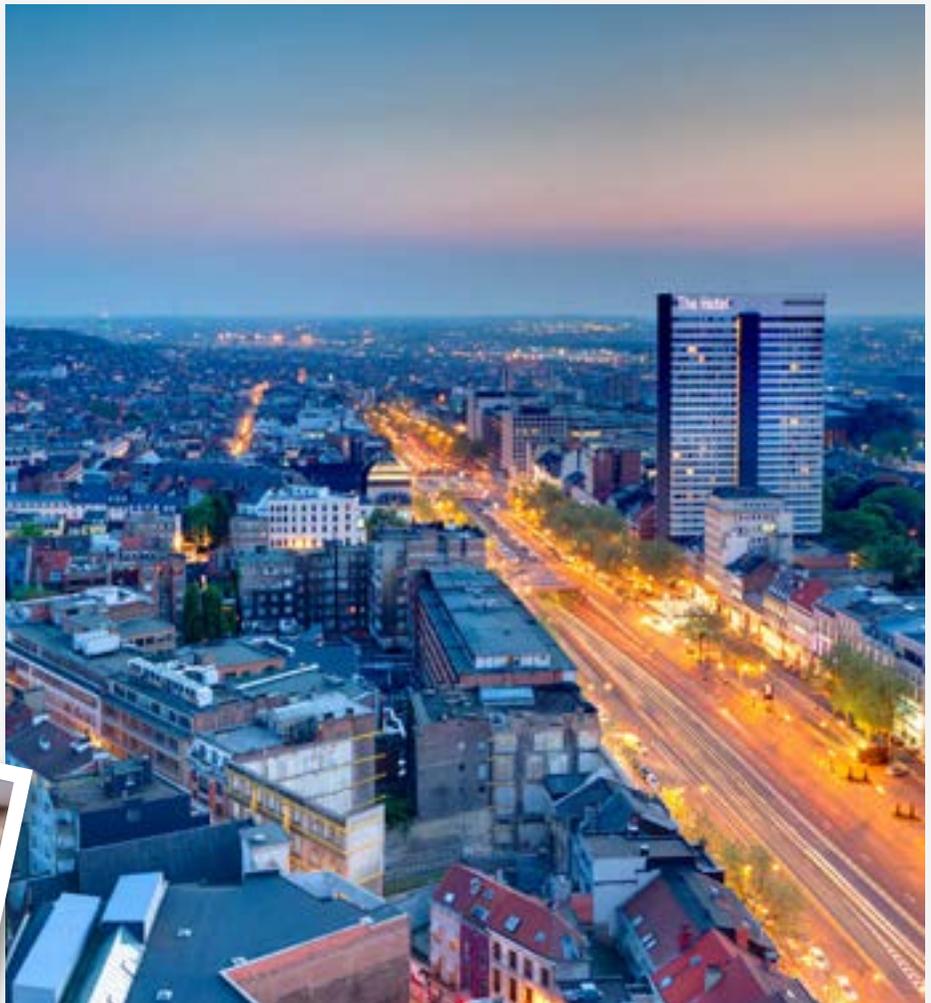


# 3

## Single acquisition and repositioning

### The Hotel Brussels

Acquisition of the underperforming flagship hotel Hilton Brussels Tower in 2010 for MEUR 29. Repositioning of the hotel based on market analysis and a new hotel concept with an independent profile. Total restructuring of operations and development of a new and modern organisation to improve the hotel's productivity. Investments totalling MEUR 35 were made in the period 2011–2013 to create a hotel product that was in line with the desired market position. Today The Hotel Brussels is the leading conference and business hotel in Brussels. Good return and increased property value.





# 4 Operations taken over

## Radisson Blu Bremen

When Pandox's partners Hilton and Scandic decided not to extend the leases in 2013, it was natural for Pandox to take over the hotel operations at the hotel properties the Company already owned. New brands were introduced that better matched the market demand and the desired position of the

## Radisson Blu Dortmund

## Holiday Inn Lübeck

hotels. Changes were made to management with an increased focus on productivity. At the same time, around MSEK 80 was invested in the hotels. Clear improvement in revenue, net operating income and increased property value since the takeover.



# Pandox Fair Play

“It’s about attitude, skills, creativity – working hard and having fun”

## **Honest, informal and entrepreneurial**

Ever since the start Pandox has been a company with strong values based on inspiration and entrepreneurship. Our leadership style is informal, with open doors and a free exchange of ideas. At Pandox we combine a high level of individual excellence and responsibility with an efficient organisation and effective methods to monitor performance. A fast pace creates value and we do what we can to enable it.

Being a listed company means that Pandox now has more stakeholders than before. Pandox’s sustainability work during the year has involved encouraging the employees to reflect on the Company’s values in various contexts. We received a strong response across the board – entrepreneurship, individual freedom, creativity, passion and integrity are all still essential in the new environment.

Pandox’s values form the basis of what we call the Pandox Spirit. The Pandox Spirit defines who we are, what we do and how we do it. We gladly work for each other with the aim of developing Pandox and ourselves every day. At Pandox we are passionate about the sport of handball and its values. We particularly like the fact that handball stands for fair play and that there are just as many girls as boys playing it. At the same time, it is without doubt one of the world’s toughest sports, filled with high intensity and excitement. We see many similarities between handball and our own corporate culture, where individual freedom, cooperation, creativity and integrity are highly valued assets. All employees are equally important, and success requires a good team spirit and mutual respect. This is Pandox Fair Play.

## The employees say it best!



**CORNELIA M. KAUSCH**  
*VP Pandox Development*

“Pandox believes in the power of the individual to make a difference. The culture is business focused, yet open and honest and places a lot of trust in each employee. It is a curious organisation which seeks continuous improvement not only in business, but also in social areas where the company can make a difference. In this way we create value for many different stakeholders.”



**THÉRÈSE BLOMQVIST**  
*Property Support*

“Pandox for me can be summarised as a company that sees opportunities, finds solutions and takes fast decisions. I’m fascinated by the fact that we as a Company have the strength and courage to venture into markets where others are afraid to go. This creates opportunities for both the Company and the employees to develop and grow.”



**HELGE KROGSBØL**  
*VP Pandox Operations Scandinavia*

“For me, Pandox is a unique organisation with an optimistic, team-player culture, hard-working colleagues and short lines of authority. I appreciate the fact that the people are more important than the system and that they are both entrusted with and supported in performing even difficult tasks. The values associated with fair play in sport are part of our DNA and they’ve created a corporate culture where we take on and perform tasks in a professional manner with vigour and a sense of humour.”



We focus on the future and the long-term perspective in our work”



## Code of Conduct Good leadership is the basis for good results

Our values and our Code of Conduct enable us to focus on sustainable development for our stakeholders.

Pandox’s vision is to be a world-leading hotel property company with expertise in active ownership, hotel property management and development, and hotel operations. This kind of leadership requires Pandox to create sustainable value for all stakeholders and also to win their trust. This means we have to do the right things in the right way. Our values and our Code of Conduct make that possible.

Pandox has during the year described what is expected of its employees when interacting with different stakeholders in a Code of Conduct. The task of informing and educating employees and suppliers on the Code of Conduct’s content and significance began in the year and will continue in 2016.

### ECONOMIC RESPONSIBILITY

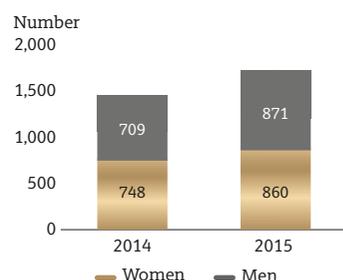
Pandox intends to provide its shareholders with a good risk-adjusted return on their investment. To achieve this, we take economic responsibility for our business through strong cash flows and a stable and secure financial position.

### Responsibility for the economy, the environment and social issues

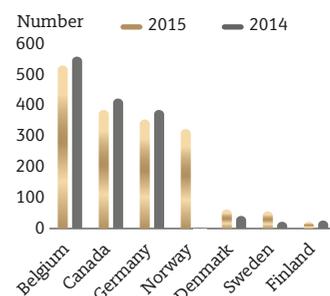
Sustainability is a natural and integrated part of Pandox’s operations and is based on Pandox Fair Play. Working together with our employees, tenants, partners and other stakeholders, we emphasise sustainable development. Our efforts are forward-looking, long term oriented and based on commitment among all of the employees in our organisation.

During the year Pandox has initiated a review of the sustainability work and the sustainability strategy, which are based on Pandox’s economic, environmental and social responsibility. This involved both internal and external dialogue with major stakeholders and included a materiality analysis and a comparison with industry counterparts. Pandox’s sustainability work was documented and analysed and good examples within the organisation were identified.

AVERAGE NUMBER OF EMPLOYEES



AVERAGE NUMBER OF EMPLOYEES BY COUNTRY



# Environmental responsibility

“Targeted investments  
with positive environmental effects”

As a large property owner, Pandox has a responsibility to work on its own behalf and in cooperation with tenants to promote sustainable development and to reduce climate impact. Pandox takes into consideration the environmental impact in its property investments and measures the hotels' energy use and water consumption on an ongoing basis. Our commitment to the environment permeates the entire company and we also work closely with our tenants on environmental issues.



## **Pandox is creating a positive environmental footprint in cooperation with Scandic Hotels**

Pandox is inspired by the successful environmental work our tenant Scandic Hotels has done for many years and of which we are a part. At the end of 2015 all of Pandox's 48 Scandic-operated hotel properties in the Nordics carried the Nordic Ecolabel through Scandic Hotels.

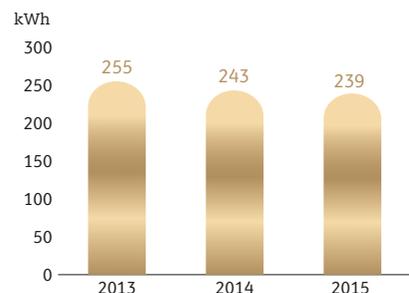
Since 2010 Pandox has renovated and upgraded 40 hotels in cooperation with Scandic Hotels. In this project we have chosen materials with a low environmental impact and technical solutions with a good environment effect, such as low-flow toilets and taps, new ventilation systems with heat recycling, lighting controlled by key cards, underfloor heating with timer settings and other modern heating solutions.

## **We measure and monitor**

In Belgium Pandox has two information systems for the hotels that are part of the Operator Activities segment. One system measures water and energy consumption with the aim of improving efficiency. The other system measures daily consumption and immediately registers any change in resource usage. This makes it possible to quickly identify possible water leaks, limit the damage quickly and thereby minimise the cost of any clean-up or renovation necessary following a leak. These systems together help to limit the operational risks at the same time as they enable greater efficiency in the use of resources in line with Pandox's goals.

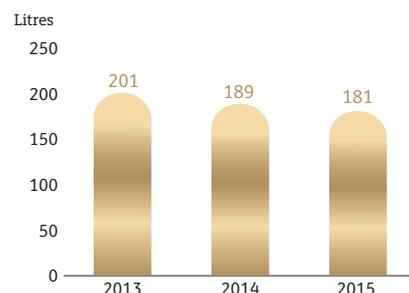
## **Resource consumption in Pandox owned hotel properties operated by Scandic in the Nordic region.**

### ENERGY CONSUMPTION PER M<sup>2</sup> AND YEAR



Based on hotel reported data, excluding Ringsaker and Bodø.

### WATER CONSUMPTION PER GUEST NIGHT



Based on hotel reported data, excluding Ringsaker and Bodø.

# Social responsibility

## “An attractive employer with a social conscience”

We want to have satisfied employees and to be the most attractive employer in the industry. This is why we always emphasise professional development, career planning and supporting our employees' health and wellbeing.

As an employer we want to offer safe and secure workplaces that are free from discrimination and harassment, where all employees are treated equally and with respect.

Working with others, we want to help create the necessary conditions for long-term sustainable development – both in terms of the environment and in social responsibility. Pandox has initiated a number of social partnerships.

### We also want to help promote social development in areas where we have expertise.



#### The Pandox Movement

A healthy work-life balance often creates a good working environment and the way to achieve this is to do enjoyable activities together. One initiative that combines business with pleasure is the Pandox Movement – our own sports club. We also encourage employees to challenge themselves and to aim high by, for example, entering the Vasaloppet cross-country ski race, running short or long distance races, or doing something else that challenges them in a positive way. We are big sports fans at Pandox.

#### Partnership with Freeset in India

Freeset in Calcutta, India, is a fair trade organisation offering jobs to women who are former sex workers. Freeset creates opportunities for the women to learn a craft, giving them a chance to improve their situation. Freeset also offers literacy courses. The products that Freeset produces – hand-sewn bags, fabric bags and T-shirts – are of a high quality and are sold in many Pandox hotel shops. For more information, please see [www.freesetglobal.org](http://www.freesetglobal.org).



#### Cooperation with non-profit organisations

##### Red Cross Belgium

In Belgium the Crowne Plaza Brussels is working with the Red Cross to offer housing for homeless families during the coldest weeks of the winter. In Berlin, Germany, Hotel Berlin, Berlin is working in partnership with the city's contact and advice centre for homeless youth on various support programmes.



##### Partnership benefiting vulnerable children and youth

Based on our interest in handball and fair play, and the need to promote positive development in particularly vulnerable areas of Nyeri, a town northwest of Nairobi in Kenya, we established the Pandox Youth Handball

Movement in cooperation with a local handball club in 2011. The goal for this project is to create better future opportunities for vulnerable children and youth, allow them to experience the positive values in handball and give them a meaningful spare-time activity. The project provides around 3,000 children with handball training and 175 teachers and coaches have been trained in handball coaching and leadership. In February 2016 40 teachers and 250 children took part in courses on HIV and sustainable development. The Pandox Youth Handball Movement has strong local ties and 16 schools are currently connected to the project. At the Hotel Market Day every year Pandox awards educational scholarships to children and youth in Nyeri. For more information, please see [www.msgkenya.com](http://www.msgkenya.com)

##### Partnership benefiting people with intellectual disabilities

Here at Pandox we are proud of our close ties with the Swedish Handball Federation. We are supporting “Härs & Tvärs” (In All Directions), the Federation's forward-looking initiative to establish and develop new ways to play handball. Pandox provided support, for example, for the Swedish handball team at the Special Olympics in Los Angeles in 2015, which included events for people with intellectual disabilities.

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Indi  
viduals  
as a  
team ...



## The Pandox Spirit

Pandox's core values are more about inspiration than control and more about people than the system. Structure and methods are important, but employees are more important. It is the creative and knowledgeable individuals that make Pandox unique. Our basic belief is that people who have fun together also do good work together. Pandox's recipe for success is based on experience, entrepreneurship, constant improvement, mutual respect, initiative and a desire to win.

The level of activity within Pandox is high, with a constant stream of fast-paced business events taking

# ... make it happen!

place. Investment projects are analysed and followed up, leases are negotiated and optimised, new acquisition prospects are screened and analysed, and new hotel concepts are developed and implemented. With 121 hotel properties in eight countries and two large business segments, Pandox needs employees with in-depth knowledge and expertise in many areas, such as management and organisational structures, marketing and acquisition analysis, management and development of properties and hotel concepts, and hotel operation and productivity.

Anders Berg, Manager Investor Relations

# Some of Pandox team members

Lars Haggström,  
SVP Asset and Technical Development

"I play match every day; it's great!"

Cornelia Kausch, VP Development

"Knowledge and a fighting spirit are my basic game!"

"I love all the individual teamwork!"

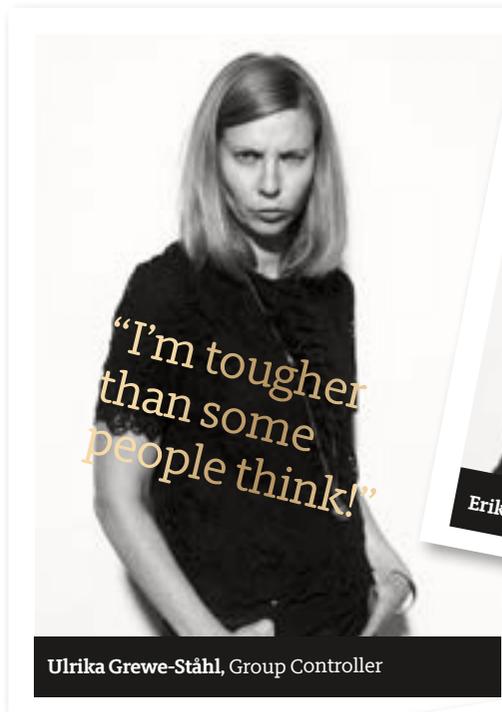
Liia Nõu, SVP CFO

"I don't let anyone cross the line!"

Anders Nissen, CEO

"I know. I'm so gifted and so humble, always."

Jonas Törner, VP Business Intelligence



# Property portfolio by country

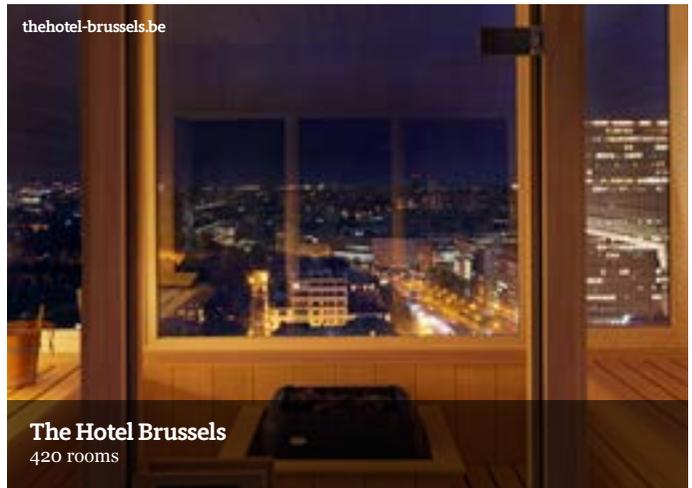
## Belgium Total number – Hotels 7 – Rooms 2,034 – Cities 2

[www.ihg.com](http://www.ihg.com)



**Holiday Inn Brussels Airport**  
310 rooms

[thehotel-brussels.be](http://thehotel-brussels.be)



**The Hotel Brussels**  
420 rooms



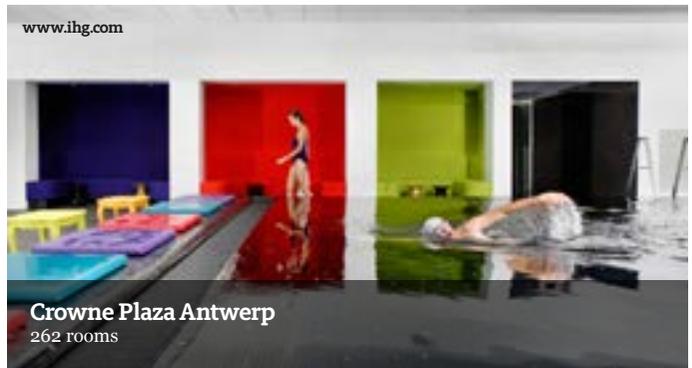
**Hilton Brussels City**  
284 rooms

[www.hotelbloom.com](http://www.hotelbloom.com)



**Hotel BLOOM!, Brussels**  
304 rooms

[www.ihg.com](http://www.ihg.com)



**Crowne Plaza Antwerp**  
262 rooms

[www.ihg.com](http://www.ihg.com)



**Crowne Plaza Brussels – Le Palace**  
354 rooms

# Denmark

Total number — Hotels 9 — Rooms 1,845 — Cities 2



**Scandic Hvidovre, Copenhagen**  
207 rooms



**First Hotel Mayfair, Copenhagen**  
106 rooms



**Scandic Copenhagen**  
486 rooms



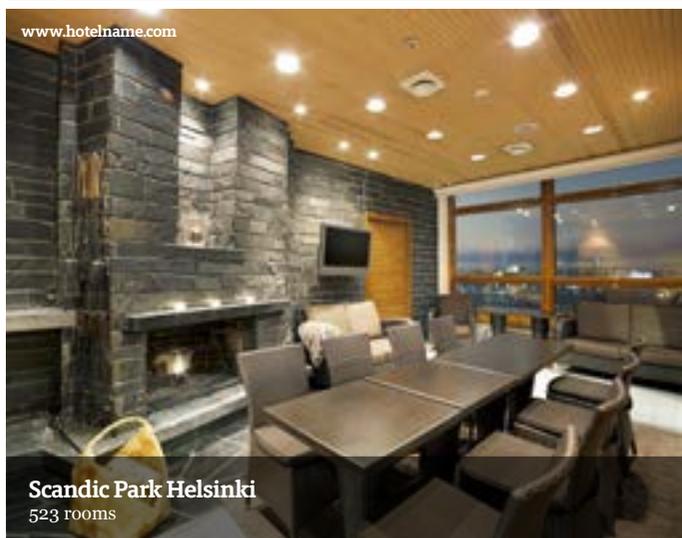
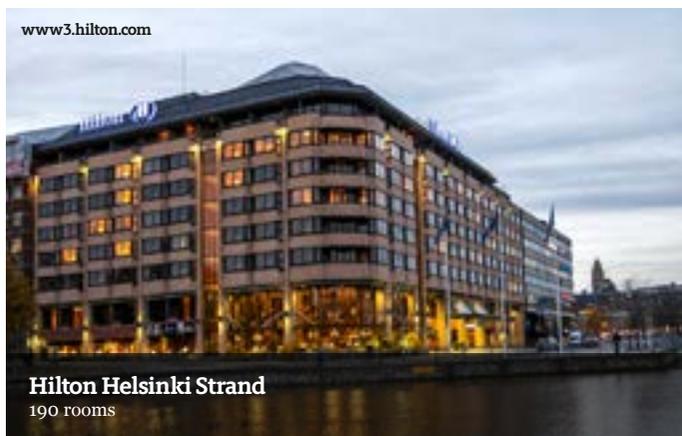
**First Hotel Copenhagen**  
215 rooms



**Urban House Copenhagen**  
1,022 beds

# Finland

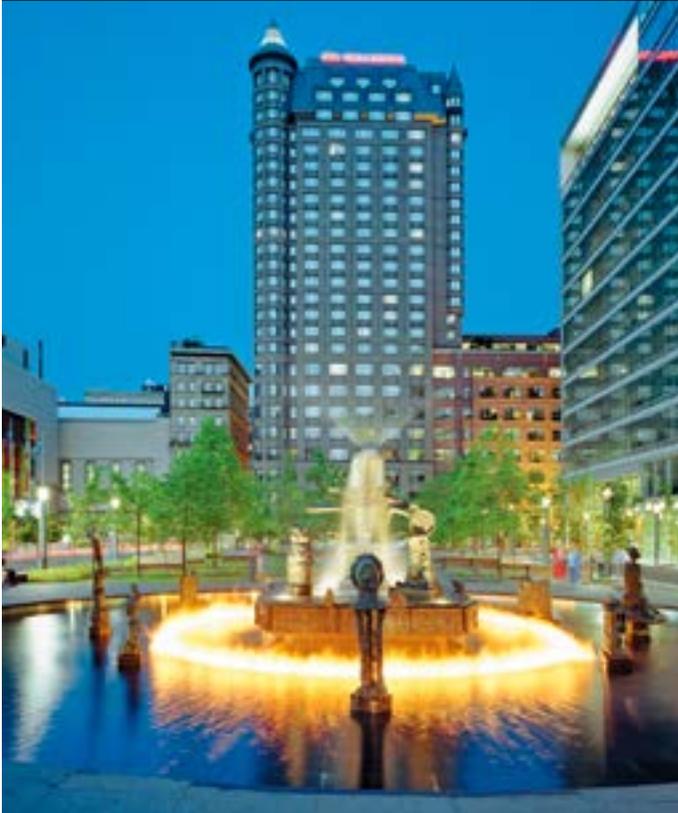
Total number — Hotels 14 — Rooms 3,062 — Cities 8



# Canada

Total number — Hotels 2 — Rooms 964 — Cities 1

**InterContinental, Montreal**  
357 rooms



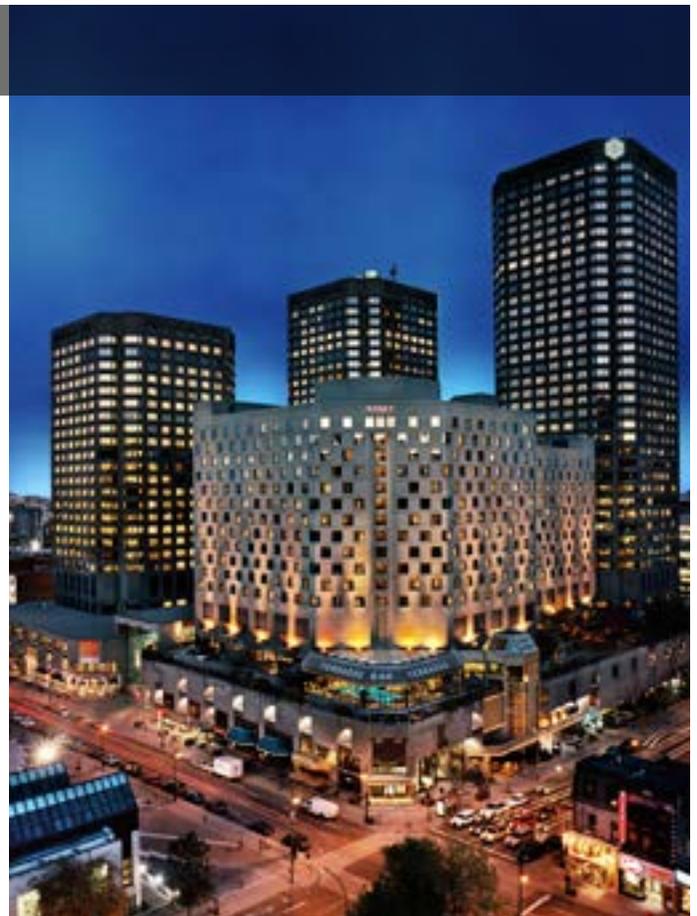
[www.montreal.intercontinental.com](http://www.montreal.intercontinental.com)



**Hyatt Regency, Montreal**  
607 rooms



[www.montreal.hyatt.com](http://www.montreal.hyatt.com)



# Norway

Total number — Hotels 14 — Rooms 2,502 — Cities 10

[www.scandichotels.com](http://www.scandichotels.com)

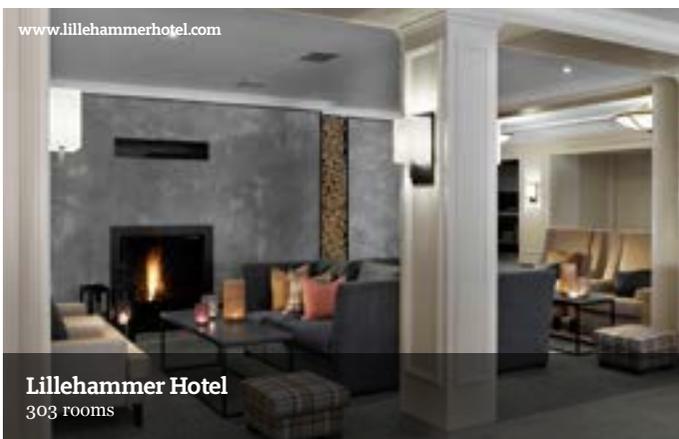


**Scandic Ringsaker, Hamar**  
176 rooms

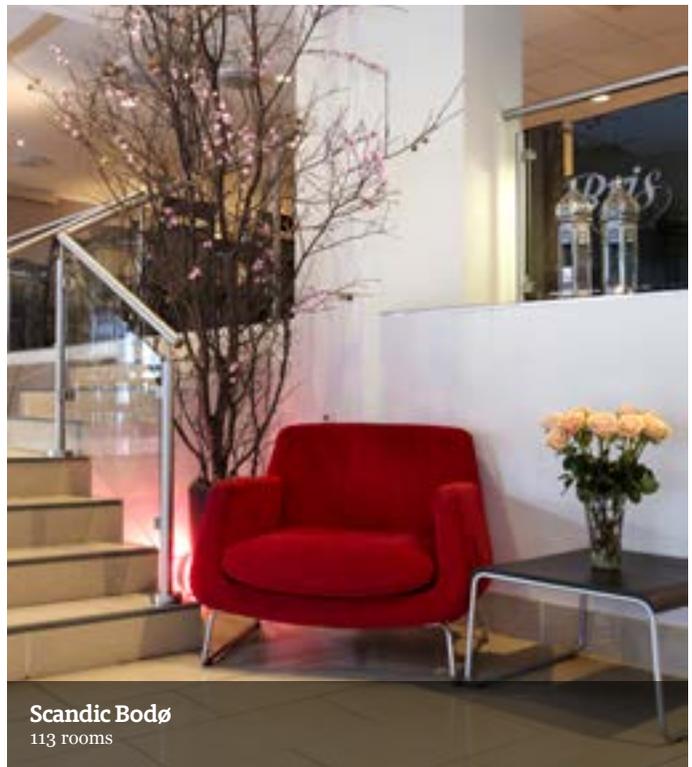


**Scandic Solli, Oslo**  
226 rooms

[www.lillehammerhotel.com](http://www.lillehammerhotel.com)



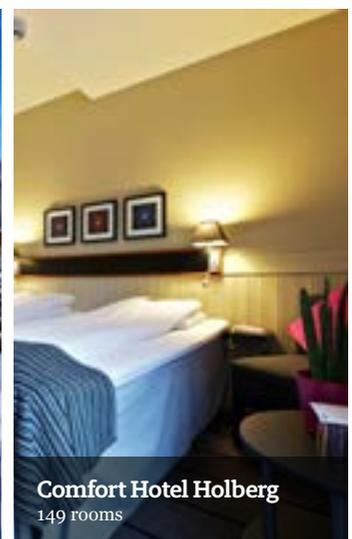
**Lillehammer Hotel**  
303 rooms



**Scandic Bodø**  
113 rooms



**Quality Hotel & Resort Hafjell, Øyer**  
210 rooms



**Comfort Hotel Holberg**  
149 rooms

# Sweden

Total number — Hotels 52 — Rooms 9,877 — Cities 30



# Switzerland

Total number — Hotels 1 — Rooms 206 — Cities 1

**Radisson Blu Hotel Basel**  
206 rooms



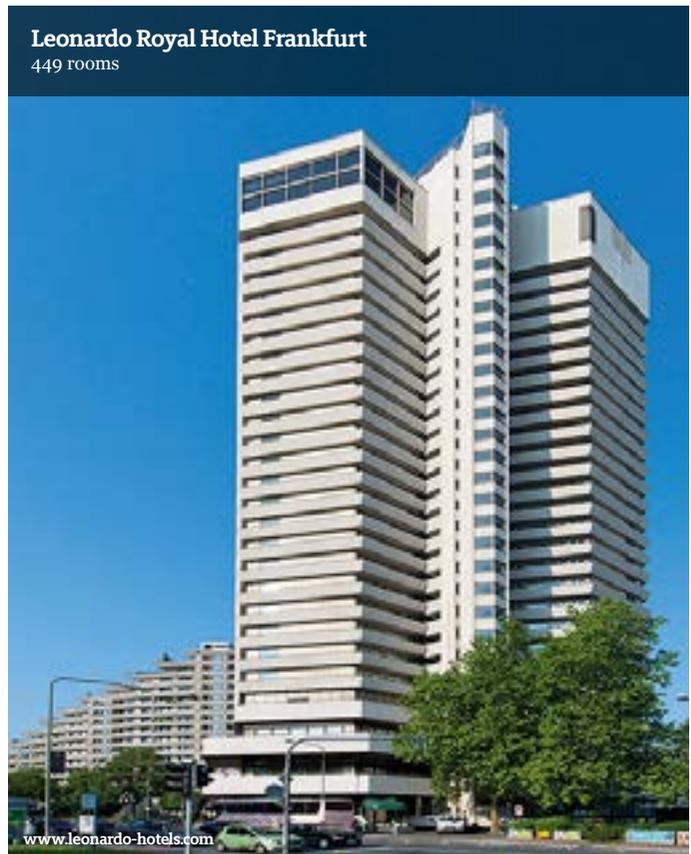
# Germany

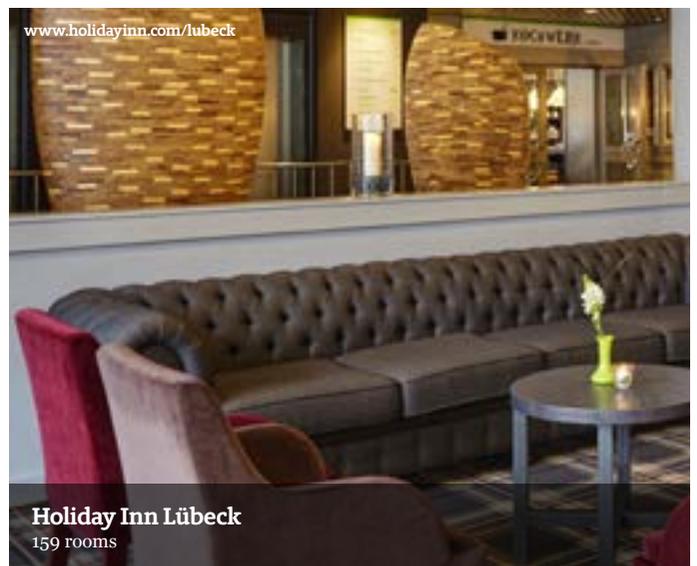
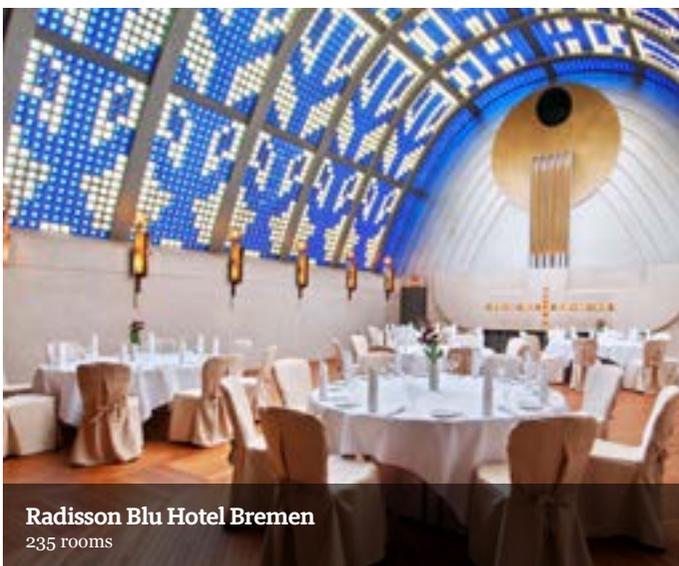
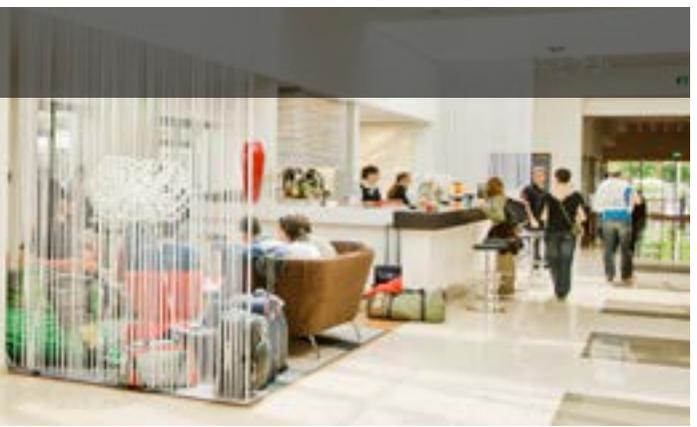
Total number — Hotels 22 — Rooms 4,700 — Cities 17

**Leonardo Hotel Mönchengladbach**  
128 rooms



**Leonardo Royal Hotel Frankfurt**  
449 rooms





## Property portfolio

At year-end 2015 Pandox's property portfolio consisted of 121 (104) hotel properties with 25,190 (21,969) hotel rooms in 8 (8) countries. The Nordic region makes up around 69 percent of the property portfolio in terms of market value and is Pandox's main geographical focus. Of the hotel properties, 103 are leased to third parties, which means that around 80 percent of the portfolio's market value is under long-term external leases. The remaining 18 hotel

properties, which make up the remaining 20 percent of the portfolio's market value, are owned and operated by Pandox.

The majority of Pandox's tenant base consists of reputable hotel operators with strong hotel brands in their respective markets. With the acquisition of 18 hotels in Germany, Pandox has gained a strong new partner in Fattal Hotels.

### PORTFOLIO OVERVIEW BY SEGMENT AND COUNTRY

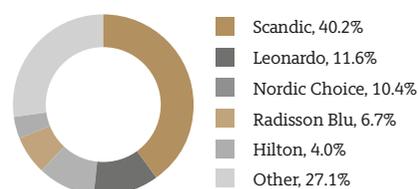
Property Management Investment Properties	Number of hotels	Number of rooms	Property value (MSEK)	Property value as % of total	Value per room (MSEK)
Sweden	50	9,519	13,193	42.0%	1.4
Norway	13	2,199	2,377	7.6%	1.1
Finland	13	2,911	2,978	9.5%	1.0
Denmark	7	1,405	2,041	6.5%	1.5
International	20	3,721	4,473	14.2%	1.2
<b>Total Investment Properties</b>	<b>103</b>	<b>19,755</b>	<b>25,062</b>	<b>79.8%</b>	<b>1.3</b>
<b>Operator Activities</b>					
<b>Operating Properties</b>					
Sweden	2	358	269	0.9%	0.8
Norway	1	303	234	0.7%	0.8
Finland	1	151	42	0.1%	0.3
Denmark	2	440	567	1.8%	1.3
International	12	4,183	5,262	16.7%	1.3
<b>Total Operating Properties</b>	<b>18</b>	<b>5,435</b>	<b>6,375</b>	<b>20.2%</b>	<b>1.2</b>
<b>Total owned properties</b>	<b>121</b>	<b>25,190</b>	<b>31,437</b>	<b>100%</b>	<b>1.2</b>

### PANDOX PORTFOLIO OVERVIEW BY BRAND

Brand	Number of hotels	Number of rooms	Countries
Scandic	49	10,120	SE, NO, FI, DK, BE
Leonardo	16	2,921	DE
Nordic Choice*	16	2,629	SE, NO
Radisson Blu	7	1,693	SE, NO, CH, DE
Hilton	4	1,001	SE, FI, BE
Holiday Inn	4	963	BE, DE
First Hotels	6	882	SE, DK
Crowne Plaza	2	616	BE
Hyatt	1	607	CAN
Elite	2	452	SE
InterContinental	1	357	CAN
Best Western	3	355	SE, FI
Rantasipi	1	135	FI
Independent brands	9	2,459	SE, FI, DK, BE, DE
<b>Total</b>	<b>121</b>	<b>25,190</b>	<b>8</b>

\* Nordic Choice's brands include: Comfort Hotel, Quality Hotel, Quality Hotel & Resort, Clarion Hotel and Clarion Collection.

### ROOMS PER BRAND 31 DECEMBER 2015



### PANDOX'S OWN BRANDS



## Change in property values

At year-end 2015 Pandox's property portfolio had a total market value of MSEK 31,437 (26,504), of which Investment Properties accounted for MSEK 25,062 (20,843) and Operating Properties for MSEK 6,375 (5,661). The market value of Operating Properties is reported for information purposes only.

The acquisition of 18 hotel properties in Germany (December) was consolidated as of 31 December 2015 and increased the market value for Investment Properties by MSEK 3,665.

During the year Radisson Blu Lillehammer Hotel in Norway (1 June), Mr Chip Hotel in Sweden (1 June) and Quality Hotel Prince Philip (1 October) were reclassified from Investment Properties to Operating Properties. Scandic Antwerpen, which was classified among Investment Properties, was divested on 1 December 2015.

Properties in the Operating Properties portfolio are recognised at cost less depreciation and any impairment. At the end of 2015 the carrying amount of the Operating Properties portfolio was MSEK 5,128 (4,858). The increase is mainly a result of the reclassifications described above.

### VALUATION YIELD

At year-end 2015 the average valuation yield for the Pandox Investment Properties was 5.9 (6.1) percent and for Operating Properties 7.5 (7.9) percent.

#### CHANGES IN VALUE, INVESTMENT PROPERTIES

	MSEK
Investment Properties, opening balance (1 January 2015)	20,843
+ Acquisitions	3,665
+ Investments in existing portfolio	220
- Divestments <sup>1)</sup>	-158
+/- Reclassifications	-517
+/- Change in value, unrealised	1,387
+/- Change in value, realised <sup>2)</sup>	12
+/- Exchange gain/loss	-390
<b>Investment Properties, closing balance (31 December 2015)</b>	<b>25,062</b>
<i>Less book value of properties classified as assets held for sale</i>	<i>-728</i>
<i>Investment Properties, adjusted closing balance</i>	<i>24,335</i>

#### CHANGES IN THE VALUE OF OPERATING PROPERTIES, REPORTED FOR INFORMATION PURPOSES ONLY

	MSEK
Operating Properties, opening balance (1 January 2015)	5,661
+ Acquisitions	—
+ Investments in existing portfolio	172
- Divestments	—
+/- Reclassifications	517
+/- Change in value, unrealised	322
+/- Change in value, realised	—
+/- Exchange gain/loss	-297
<b>Operating Properties, closing balance (31 December 2015)</b>	<b>6,375</b>

<sup>1)</sup> Of which around MSEK -8 relates to final settlement for the Hilton London Docklands, which was divested in April 2014, and around MSEK -151 to the Scandic Antwerpen, which was divested in December 2015.

<sup>2)</sup> Of which around MSEK -8 relates to final settlement for the Hilton London Docklands, which was divested in April 2014, and around MSEK -4 to the Scandic Antwerpen, which was divested in December 2015.



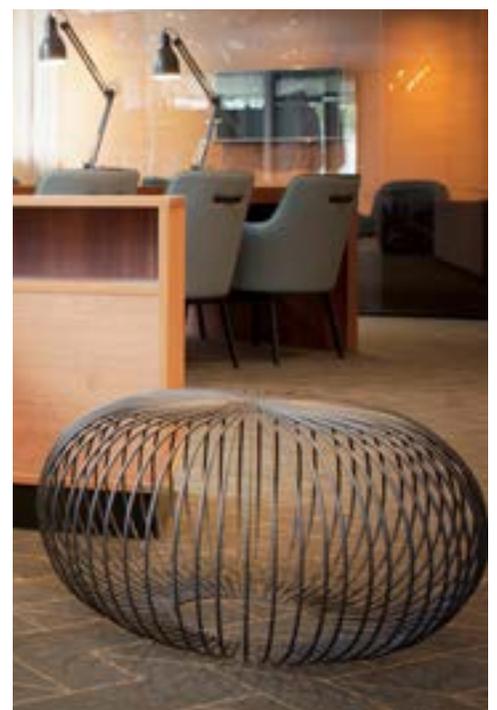
# Property list

## Property Management

Hotel	City	Location	Form of agreement <sup>1)</sup>
<b>Sweden</b>			
Best Western Mora Hotell & Spa	Mora	City centre	OG
Clarion Hotel Grand, Helsingborg	Helsingborg	City centre	OG
Clarion Hotel Grand, Östersund	Östersund	City centre	OG
Elite Park Avenue, Gothenburg	Gothenburg	City centre	OG
Elite Stora Hotellet, Jönköping	Jönköping	City centre	OG
First Hotel Grand, Borås	Borås	City centre	OG
First Hotel Mårtenson, Halmstad	Halmstad	City centre	OG
Best Western Royal Star, Älvsjö	Stockholm	Congress centre	OG
Hilton Stockholm Slussen	Stockholm	City centre	O
Quality Hotel Ekoen, Linköping	Linköping	City centre	OG
Quality Hotel Luleå	Luleå	City centre	OG
Quality Hotel Park, Södertälje	Södertälje	City centre	O
Quality Hotel Prisma, Skövde	Skövde	City centre	OG
Quality Hotel Winn, Gothenburg	Gothenburg	Ring road	OG
Radisson Blu Arlandia	Stockholm	Airport	OG
Radisson Blu Malmö	Malmö	City centre	OG
Scandic Alvik, Stockholm	Stockholm	Ring road	OG
Scandic Backadal, Gothenburg	Gothenburg	Ring road	OG
Scandic Billingen, Skövde	Skövde	City centre	O
Scandic Bollnäs	Bollnäs	City centre	OG
Scandic Crown, Gothenburg	Gothenburg	City centre	O
Scandic Elmia, Jönköping	Jönköping	Congress centre	OG
Scandic Ferrum, Kiruna	Kiruna	City centre	OG
Scandic Grand, Örebro	Örebro	City centre	O
Scandic Hallandia, Halmstad	Halmstad	City centre	O
Scandic Hasselbacken, Stockholm	Stockholm	City centre	OG
Scandic Helsingborg Nord	Helsingborg	Ring road	OG
Scandic Järva Krog, Stockholm	Stockholm	Ring road	O
Scandic Kalmar Väst	Kalmar	Airport	OG
Scandic Klarälven, Karlstad	Karlstad	Ring road	OG
Scandic Kramer, Malmö	Malmö	City centre	O
Scandic Kungens Kurva, Stockholm	Stockholm	Ring road	OG
Scandic Linköping Väst	Linköping	Ring road	OG
Scandic Luleå	Luleå	Ring road	OG
Scandic Malmen, Stockholm	Stockholm	City centre	OG
Scandic Mölndal, Gothenburg	Gothenburg	City centre	O
Scandic Norrköping Nord	Norrköping	Ring road	OG
Scandic Park, Stockholm	Stockholm	City centre	O
Scandic Plaza, Borås	Borås	City centre	O
Scandic S:t Jörgen, Malmö	Malmö	City centre	OG
Scandic Segevång, Malmö	Malmö	Ring road	OG
Scandic Star Sollentuna	Stockholm	City centre	OG
Scandic Sundsvall Nord	Sundsvall	Ring road	OG
Scandic Södertälje	Södertälje	Ring road	OG
Scandic Umeå Syd	Umeå	Ring road	OG
Scandic Winn, Karlstad	Karlstad	City centre	O
Scandic Örebro Väst	Örebro	Ring road	OG
Scandic Östersund Syd	Östersund	Ring road	OG
Stadshotellet Princess, Sandviken	Sandviken	City centre	OG
Vildmarkshotellet, Kolmården	Norrköping	Resort	OG
<b>Norway</b>			
Clarion Collection Hotel Arcticus, Harstad	Harstad	City centre	OG
Clarion Collection Hotel Bastion, Oslo	Oslo	City centre	O
Comfort Hotel Børsparken, Oslo	Oslo	City centre	OG
Comfort Hotel Holberg, Bergen	Bergen	City centre	OG
Quality Resort Fagernes	Fagernes	Resort	O
Quality Resort Hafjel, Øyer	Øyer	Resort	OG
Quality Resort Kristiansand	Kristiansand	Resort	OG
Quality Hotel Alexandra, Molde	Molde	City centre	OG
Radisson Blu Hotel Bodø	Bodø	City centre	OG
Scandic Bergen Airport	Bergen	Airport	OG
Scandic Hotel Bodø	Bodø	City centre	O

<sup>1)</sup> O = revenue-based, OG = revenue-based with guaranteed minimum rent level, OR = revenue-based and profit-based, R = profit-based, F = fixed, IO = international profit-based, M = management agreement, FR = franchise agreement, AM = asset management agreement

Operator/Brand	Number of rooms	Brand
Private/Best Western	140	Best Western
Nordic Choice Hotels/Clarion Hotel	158	Nordic Choice Hotels
Nordic Choice Hotels/Clarion Hotel	176	Nordic Choice Hotels
Elite/Elite Hotels	317	Elite Hotels
Elite/Elite Hotels	135	Elite Hotels
Private/First Hotels	158	First Hotels
First/First Hotels	103	First Hotels
Private/Best Western	103	Best Western
Hilton/Hilton	289	Hilton
Nordic Choice Hotels/Quality Hotel	190	Nordic Choice Hotels
Nordic Choice Hotels/Quality Hotel	218	Nordic Choice Hotels
Nordic Choice Hotels/Quality Hotel	157	Nordic Choice Hotels
Nordic Choice Hotels/Quality Hotel	107	Nordic Choice Hotels
Nordic Choice Hotels/Quality Hotel	121	Nordic Choice Hotels
Rezidor/Radisson Blu	339	Radisson Blu
Rezidor/Radisson Blu	229	Radisson Blu
Scandic/Scandic	324	Scandic
Scandic/Scandic	236	Scandic
Scandic/Scandic	124	Scandic
Scandic/Scandic	114	Scandic
Scandic/Scandic	338	Scandic
Scandic/Scandic	283	Scandic
Scandic/Scandic	171	Scandic
Scandic/Scandic	221	Scandic
Scandic/Scandic	156	Scandic
Scandic/Scandic	113	Scandic
Scandic/Scandic	237	Scandic
Scandic/Scandic	215	Scandic
Scandic/Scandic	148	Scandic
Scandic/Scandic	143	Scandic
Scandic/Scandic	113	Scandic
Scandic/Scandic	257	Scandic
Scandic/Scandic	150	Scandic
Scandic/Scandic	160	Scandic
Scandic/Scandic	332	Scandic
Scandic/Scandic	208	Scandic
Scandic/Scandic	150	Scandic
Scandic/Scandic	201	Scandic
Scandic/Scandic	169	Scandic
Scandic/Scandic	288	Scandic
Scandic/Scandic	166	Scandic
Scandic/Scandic	269	Scandic
Scandic/Scandic	159	Scandic
Scandic/Scandic	131	Scandic
Scandic/Scandic	161	Scandic
Scandic/Scandic	199	Scandic
Scandic/Scandic	204	Scandic
Scandic/Scandic	129	Scandic
Private/Independent	84	Independent
Private/Independent	213	Independent
Nordic Choice Hotels/Clarion Collection Hotel	75	Nordic Choice Hotels
Nordic Choice Hotels/Clarion Collection Hotel	99	Nordic Choice Hotels
Nordic Choice Hotels/Comfort Hotel	248	Nordic Choice Hotels
Nordic Choice Hotels/Comfort Hotel	149	Nordic Choice Hotels
Nordic Choice Hotels/Quality Hotel & Resort	139	Nordic Choice Hotels
Nordic Choice Hotels/Quality Hotel & Resort	210	Nordic Choice Hotels
Nordic Choice Hotels/Quality Hotel & Resort	210	Nordic Choice Hotels
Nordic Choice Hotels/Quality Hotel	165	Nordic Choice Hotels
Rezidor/Radisson Blu	191	Radisson Blu
Scandic/Scandic	199	Scandic
Scandic/Scandic	113	Scandic



Hotel	City	Location	Form of agreement <sup>1)</sup>
Scandic Hotel Ringsaker	Hamar	Ring road	OG
Scandic Solli, Oslo	Oslo	City centre	OG
<b>Denmark</b>			
First Hotel Excelsior, Copenhagen	Copenhagen	City centre	OG
First Hotel Mayfair, Copenhagen	Copenhagen	City centre	OG
Scandic Glostrup	Copenhagen	Ring road	O
Scandic Hvidovre	Copenhagen	Ring road	O
Scandic Kolding	Kolding	Ring road	OG
First Hotel Twentyseven, Copenhagen	Copenhagen	City centre	OG
Scandic Copenhagen	Copenhagen	City centre	O
<b>Finland</b>			
Airport Hotel Bonus Inn, Vantaa	Vantaa	Airport	OG
Best Western Hotel Pilotti, Vantaa	Vantaa	Airport	OG
Hilton Helsinki Kalastajatorppa	Helsinki	Ring road	OG
Hilton Helsinki Strand	Helsinki	City centre	OG
Rantasipi Imatran Valtionhotelli	Imatra	City centre	OG
Scandic Espoo	Espoo	Ring road	OG
Scandic Grand Marina, Helsinki	Helsinki	City centre	OG
Scandic Jyväskylä	Jyväskylä	City centre	OG
Scandic Kajanus, Kajaani	Kajaani	Congress centre	OG
Scandic Kuopio	Kuopio	City centre	OG
Scandic Park, Helsinki	Helsinki	City centre	OG
Scandic Rosendahl	Tampere	Resort	OG
Scandic Tampere City	Tampere	City centre	OG
<b>International</b>			
<b>Belgium</b>			
Scandic Grand Place, Brussels	Brussels	City centre	O
<b>Germany</b>			
Leonardo Royal Düsseldorf Königsallee	Düsseldorf	City centre	OG
Leonardo Royal Köln am Stadtwald	Cologne	City centre	OG
Leonardo Köln-Bonn Airport	Cologne	Airport	OG
Leonardo Düsseldorf City Center	Düsseldorf	City centre	OG
Holiday Inn Düsseldorf Airport Ratingen	Düsseldorf	Airport	OG
Leonardo Aachen	Aachen	City centre	OG
Leonardo Mönchengladbach	Mönchengladbach	City centre	OG
Leonardo Royal Baden-Baden	Baden-Baden	City centre	OG
Leonardo Mannheim City Center	Mannheim	City centre	OG
Leonardo Heidelberg-Walldorf	Heidelberg	City centre	OG
Leonardo Karlsruhe	Karlsruhe	City centre	OG
Leonardo Heidelberg	Heidelberg	City centre	OG
Leonardo Wolfsburg City Center	Wolfsburg	City centre	OG
Leonardo Hannover Airport	Hannover	Airport	OG
Leonardo Hannover	Hannover	City centre	OG
Leonardo Royal Frankfurt	Frankfurt	City centre	OG
Holiday Inn Frankfurt Airport North	Frankfurt	Airport	OG
Leonardo Hamburg City Nord	Hamburg	City centre	OG
<b>Switzerland</b>			
Radisson Blu Hotel, Basel	Basel	City centre	OG

<sup>1)</sup> O = revenue-based, OG = revenue-based with guaranteed minimum rent level, OR = revenue-based and profit-based, R = profit-based, F = fixed, IO = international profit-based, M = management agreement, FR = franchise agreement, AM = asset management agreement



Operator/Brand	Number of rooms	Brand
Scandic/Scandic	176	Scandic
Scandic/Scandic	226	Scandic
First/First Hotels	100	First Hotels
First/First Hotels	106	First Hotels
Scandic/Scandic	120	Scandic
Scandic/Scandic	207	Scandic
Scandic/Scandic	186	Scandic
First/First Hotels	200	First Hotels
Scandic/Scandic	486	Scandic
Private/Independent	211	Independent
Private/Best Western	112	Best Western
Scandic/Hilton	238	Hilton
Scandic/Hilton	190	Hilton
Restel/Rantasipi	137	Rantasipi
Scandic/Scandic	96	Scandic
Scandic/Scandic	462	Scandic
Scandic/Scandic	150	Scandic
Scandic/Scandic	181	Scandic
Scandic/Scandic	137	Scandic
Scandic/Scandic	523	Scandic
Scandic/Scandic	213	Scandic
Scandic/Scandic	263	Scandic
Scandic/Scandic	100	Scandic
Fattal/Leonardo	253	Leonardo
Fattal/Leonardo	150	Leonardo
Fattal/Leonardo	177	Leonardo
Fattal/Leonardo	134	Leonardo
Fattal/Holiday Inn	199	Holiday Inn
Fattal/Leonardo	99	Leonardo
Fattal/Leonardo	128	Leonardo
Fattal/Leonardo	121	Leonardo
Fattal/Leonardo	148	Leonardo
Fattal/Leonardo	161	Leonardo
Fattal/Leonardo	147	Leonardo
Fattal/Leonardo	169	Leonardo
Fattal/Leonardo	212	Leonardo
Fattal/Leonardo	213	Leonardo
Fattal/Leonardo	178	Leonardo
Fattal/Leonardo	449	Leonardo
Fattal/Holiday Inn	295	Holiday Inn
Fattal/Leonardo	182	Leonardo
Rezidor/Radisson Blu	206	Radisson Blu



## Operator Activities

Hotel	City	Location	Form of agreement <sup>1)</sup>
<b>Denmark</b>			
First Hotel Copenhagen	Copenhagen	Ring road	FR
Urban House Copenhagen	Copenhagen	City centre	IO
<b>Sweden</b>			
Mr Chip Hotel, Kista	Stockholm	City centre	IO
Quality Hotel Prince Philip, Stockholm	Stockholm	Ring road	IO
<b>Norway</b>			
Radisson Blu Lillehammer	Lillehammer	City centre	FR
<b>Finland</b>			
Hotel Korpilampi, Espoo	Espoo	Resort	IO
<b>International</b>			
<b>Belgium</b>			
Crowne Plaza Antwerp	Antwerp	Ring road	FR
Crowne Plaza Brussels – Le Palace	Brussels	City centre	FR
Hilton Brussels City	Brussels	City centre	FR
Holiday Inn Brussels Airport	Brussels	Airport	FR
Hotel BLOOM!, Brussels	Brussels	City centre	IO
The Hotel, Brussels	Brussels	City centre	IO
<b>Germany</b>			
Holiday Inn Lübeck	Lübeck	Ring road	FR
Hotel Berlin, Berlin	Berlin	City centre	IO
Radisson Blu Bremen	Bremen	City centre	FR
Radisson Blu Dortmund	Dortmund	Congress centre	FR
<b>Canada</b>			
Hyatt Regency, Montreal	Montreal	City centre	M
InterContinental Montreal	Montreal	City centre	M

## External agreements

Hotel	City	Location	Form of agreement <sup>1)</sup>
<b>Norway</b>			
Clarion Collection Hotel Folketeatret*	Oslo	City centre	AM
Clarion Collection Hotel Gabelshus*	Oslo	City centre	AM
Scandic Helsfyr*	Oslo	Ring road	AM
Scandic Holberg*	Oslo	City centre	AM
Scandic Holmenkollen Park*	Oslo	Resort	AM
Scandic Oslo City*	Oslo	City centre	AM
Scandic Victoria*	Oslo	City centre	AM
Scandic Gardermoen*	Oslo	Airport	AM
Grand Hotel Oslo**	Oslo	City centre	Operator Activities without property ownership under lease
<b>Bahamas</b>			
Pelican Bay, Grand Bahama Island***	Lucaya	Resort	AM

\* Owned by Eiendomsspar AS, which is a principal shareholder in Pandox. Pandox is paid based on a percentage of hotel rental income.

\*\* Owned by Eiendomsspar AS, which is a principal shareholder in Pandox. The hotel is operated by Pandox without property ownership under a lease agreement with Eiendomsspar AS.

\*\*\* Owned by Sundt AS, which is a related party of Helene Sundt AS and CGS Holding AS, which are principal shareholders in Pandox. Pandox is paid based on a percentage of the hotel's revenues.

<sup>1)</sup> O = revenue-based, OG = revenue-based with guaranteed minimum rent level, OR = revenue-based and profit-based, R = profit-based, F = fixed, IO = international profit-based, M = management agreement, FR = franchise agreement, AM = asset management agreement

Operator/Brand	Number of rooms	Brand
Padox/First Hotels	215	First Hotels
Padox/Independent	225	Independent
Padox/Independent	150	Independent
Padox/Quality Hotel	208	Nordic Choice Hotels
Padox/Radisson Blu	303	Radisson Blu
Padox/Independent	151	Independent
Padox/Crowne Plaza	262	Crowne Plaza
Padox/Crowne Plaza	354	Crowne Plaza
Padox/Hilton	284	Hilton
Padox/Holiday Inn	310	Holiday Inn
Padox/Independent	305	Independent
Padox/Independent	421	Independent
Padox/Holiday Inn	159	Holiday Inn
Padox/Independent	701	Independent
Padox/Radisson Blu	235	Radisson Blu
Padox/Radisson Blu	190	Radisson Blu
Padox/Hyatt Hotels	607	Hyatt
Padox/InterContinental	357	InterContinental



Operator/Brand	Number of rooms	Brand
Nordic Choice Hotels/Clarion Collection	160	Clarion Collection
Nordic Choice Hotels/Clarion Collection	114	Clarion Collection
Scandic/Scandic	253	Scandic
Scandic/Scandic	133	Scandic
Scandic/Scandic	336	Scandic
Scandic/Scandic	175	Scandic
Scandic/Scandic	199	Scandic
Scandic/Scandic	135	Scandic
Padox/Independent	292	Independent
Sundt AS/Independent	186	Independent



# Risk and risk management

## Continuous and structured process

A series of factors affect, or could affect, Pandox's operations, either directly or indirectly. Pandox works continuously and in a structured way to identify business risks in order to manage these as consciously and effectively as possible.

Pandox defines risk as an uncertainty factor that may affect the Company's ability to fulfil its objectives. It is therefore of the greatest importance that Pandox is able to identify and assess these uncertainties. The Board of Directors has overall responsibility for risk management, while operational work is delegated to the CEO and those responsible for the various business areas within Pandox.

### SENSITIVITY ANALYSIS (MSEK)

Financial effects of changes in certain key parameters as of 31 December 2015:

Investment Properties, effect on fair value	Change	Effect on value
Valuation yield	+/-0.5pp	-1,967 / +2,333
Change in currency exchange rates	+/- 1%	+/- 119
Net operating income	+/- 1%	+/- 235

Investment Properties, effect on revenues	Change	Revenue effect
RevPAR (assuming 50/50 split between occupancy and price)	+/- 1%	+/- 14

Operating Properties, effect on revenues	Change	Revenue effect
RevPAR (assuming 50/50 split between occupancy and price)	+/- 1%	+/- 17

Financial sensitivity analysis, effect on earnings	Change	Profit before changes in value
Interest expense with current fixed interest hedging of our portfolio, change in interest rates	+/- 1%	+/- 66
Interest expense with a change in the average interest rate level	+/- 1%	+/- 155
Remeasurement of interest-rate derivatives following shift in yield curves	+/- 1%	+/- 406

Operational risks	
Risks	Management
Value of hotel properties	
<p>The market for hotel properties is affected by macroeconomic factors such as the level of economic growth, inflation and risk appetite. An economic downturn could reduce the value of certain or all of Pandox's hotel properties. In addition, the property market could become less liquid, and insofar as Pandox wishes to divest parts of its property portfolio it is dependent on how liquid the investment market is.</p>	<ul style="list-style-type: none"> <li>• Strong balance sheet and strong cash flows.</li> <li>• A large number of sizeable hotel properties with a good geographical spread and a good balance between domestic and international demand.</li> <li>• Long leases with the market's best operators.</li> <li>• Value-driving investments with a focus on increased cash flow and long-term growth in value.</li> </ul>
Acquisitions and investments	
<p>Part of Pandox's strategy involves acquiring large, underperforming hotel properties in strategic locations that can be upgraded, renovated and/or repositioned. Property acquisitions are associated with a certain degree of risk and uncertainty, including the risk that the Company management's time and other resources are spent on acquisitions that are not completed, the risk of paying too much for assets, the risk of incorrect assumptions as regards future earnings of the acquired business, the risk of taking over leases that are unfavourable for the lessor and the risk of management attention being diverted from existing operations or other priorities.</p> <p>Pandox may also – because of competition for properties to acquire, among other things – fail to identify, acquire and develop new hotel properties.</p> <p>Pandox's leases generally stipulate that Pandox, as lessor, is responsible for investments and maintenance costs in respect of the property, such as the building, technical installations and bathrooms. Pandox is exposed to the risk that the costs of maintenance and improvements to properties for which Pandox is responsible under the lease may be higher than Pandox had estimated or than is reflected in the rent levels set in the relevant leases.</p>	<ul style="list-style-type: none"> <li>• Pandox has a well thought-out strategy in which the country, city, type of hotel, form of cooperation and yield are continually and consistently evaluated.</li> <li>• Pandox's way of working (the Pandox model) increases cash flow and limits risk for the hotel in question.</li> <li>• Pandox's long-term focus on hotel properties as a class of asset has generated extensive specialist expertise.</li> <li>• Tried and tested due diligence processes supported by internal and external specialists reduce the risk of incorrect acquisitions and investments.</li> <li>• Active Board and active principal shareholders, experienced management and sound basis for decisions.</li> <li>• Long-term investment management of measures implemented in the property stock.</li> <li>• Maintenance plans cover a period of three to five years.</li> <li>• Capital expenditure in excess of MSEK 6 is referred to the Board of Directors for decision.</li> <li>• Ongoing and active follow-up of investment budgets at Board level.</li> <li>• The costs of major investments are split with the tenant and are normally accompanied by a new and extended revenue-based lease with a guaranteed rent level.</li> </ul>
Risks within the hotel industry	
<p>Pandox invests only in hotel properties, which means that Pandox is exposed to certain risks that commonly occur in the hotel industry, including but not limited to changes in political circumstances, economic conditions and market conditions at a national, regional or local level in the areas where Pandox conducts its operations, outbreaks of disease and other health risks, terrorist threats or actual terrorist attacks, extreme weather conditions, natural disasters or other factors that could affect travel patterns and the number of travellers.</p>	<ul style="list-style-type: none"> <li>• A well thought-out strategy and business plan exists for each individual hotel property and geographical area. The ability to continually monitor economic conditions for each individual hotel property creates a readiness to make quick business decisions when needed.</li> </ul>
<p>The hotel industry is subject to intense competition. Pandox's competitiveness depends on Pandox being able to foresee future changes and trends in the industry and adapt quickly to existing and future market demand.</p>	<ul style="list-style-type: none"> <li>• Hotel properties require extensive specialist expertise if active ownership is to be conducted profitably and with low risk. Pandox has applied its strategy and business model since it started in 1995 and has in-depth expertise in hotel property ownership and hotel operation. Trends and market development are continually monitored by the Company and the individual hotels' business plans adapted accordingly.</li> </ul>
<p>In recent years the hotel industry has seen the emergence of new players in the market with business models that differ from the traditional business models of hotel owners and operators. Such players include, for example, Airbnb and HomeAway, which have introduced competition that could potentially disrupt the hotel market. If Pandox is not able to stand up to the competition its revenues and/or profits could reduce.</p>	<ul style="list-style-type: none"> <li>• Ongoing market analysis is carried out for each geographical area of operations and hotel property, which means that changes in the market are detected early on and measures can be initiated without delay.</li> </ul>
<p>The emergence of online travel agencies (OTAs) could have a significantly negative impact on Pandox's operations and profitability. Hotel rooms are increasingly being booked via internet-based travel agents such as Expedia.com, Hotels.com and Booking.com. An increase in the number of bookings through OTAs could reduce Pandox's margins and could affect its tenants' ability to pay their rents, which could have a significantly negative impact on Pandox's operations, financial position and earnings.</p>	<ul style="list-style-type: none"> <li>• Long leases, most agreements with external hotel operators contain provisions specifying a guaranteed minimum rent level and general deductions for commission are not generally permitted.</li> <li>• Pandox's working methods are based on optimising revenues taking into account the distribution landscape and its impact on revenue and costs, including through the support of a Group-wide Revenue Management Centre.</li> </ul>

Operational risks, cont.	
Risks	Management
<b>Risks as hotel operator</b>	
<p>Within Operator Activities, Pandox acts as a hotel operator and is therefore exposed to certain risks that commonly occur within hotel operations, including but not limited to:</p> <ul style="list-style-type: none"> <li>• increased operating costs, including the costs of energy, food, wages, benefits, insurance and unforeseen costs as a result of force majeure events, which cannot be fully compensated for by increased prices for hotel rooms or other services at the hotel;</li> <li>• costs and administrative obligations associated with compliance with applicable laws and regulations;</li> <li>• risks associated with forecasting of occupancy rates and average prices in the short and medium term, including retaining a flexible workforce and managing trade union actions that could affect the business, increase labour costs or limit management's ability to focus on running the hotel;</li> <li>• deterioration in the quality or reputation of one of Pandox's independent brands;</li> <li>• inability to keep pace with the necessary technical developments in hotel operations such as faults in, significant damage to or disruption of IT systems, software or websites; and</li> <li>• costs and risks associated with ensuring data protection and the security of guests.</li> </ul>	<ul style="list-style-type: none"> <li>• Pandox's group-wide Revenue Management Centre (RMC) follows up revenue per hotel on a continuous basis and supports ongoing work to optimise revenues for each hotel.</li> <li>• Planning, implementation and follow-up of hours are worked through Pandox's systematic support for productivity, in order to optimise inputs and thus costs.</li> <li>• Working methods and system support allow Pandox to forecast and head off any fluctuations in the hotel industry as regards future revenues and costs, and allows a flexible approach that remains close to the business.</li> </ul>
<b>External hotel operators</b>	
<p>Pandox is dependent on external hotel operators' reputation, brand and ability to successfully run their operations, as well as their financial position. As of 31 December 2015 Pandox owned 119 hotels situated in Northern Europe and two situated in Canada. 103 of these hotels are leased to external hotel operators. The majority of Pandox's leases with external hotel operators are revenue-based, which means that the rent is linked to the hotel operations' sales. Most of the revenue-based leases contain provisions stipulating a certain minimum guaranteed rent. Pandox could be significantly negatively impacted if the guaranteed rents cannot be maintained over time or in the event that the hotel operators fail to fulfil their payment obligations.</p>	<ul style="list-style-type: none"> <li>• Active ownership together with the hotel operator adds value for both parties.</li> <li>• Long revenue-based leases with the best hotel operators create good conditions for profitability and a good return for Pandox.</li> </ul>
<p>For the 2015 financial year rental income from Pandox's largest tenant, Scandic Hotels, amounted to MSEK 833 and the second largest tenant, Nordic Choice Hotels, to MSEK 185. If Pandox's tenants do not renew or extend their leases upon expiry, there is a risk that Pandox will be unable to find new external lessees for properties that are left vacant, or will not succeed in running operations successfully itself.</p>	<ul style="list-style-type: none"> <li>• Pandox has many years of experience of running hotel operations itself in the event that leases cannot be signed with an external hotel operator, leaving it well placed to run operations itself with a good level of profitability and providing good opportunities to ensure long-term increases in the value of the hotel property.</li> </ul>
<b>Skills</b>	
<p>Pandox's future success depends on the Company being able to attract and retain skilled personnel. Should Pandox be unable to retain key individuals or to recruit new talent, this could have a significantly negative impact on Pandox's operations, financial position and earnings.</p>	<ul style="list-style-type: none"> <li>• Competitive employment terms in line with the market.</li> <li>• Incentive programmes for senior executives and other key individuals.</li> <li>• Pandox Spirit, a strong foundation of values which combines a high level of expertise, entrepreneurship and individual freedom with a low level of bureaucracy and with effective follow-up methods. Inspiration, simplicity, speed, integrity and visible leadership are key words.</li> </ul>
Financial risk	
Risks	Management
<b>Fluctuating interest rate levels</b>	
<p>Interest expense is, and has historically been, Pandox's largest item of expenditure. Interest expense is affected by market interest rates and by credit institutions' margins, as well as by Pandox's strategy as regards fixed interest. The majority of Pandox's loan facilities incur variable interest. There is a risk that Pandox's interest expense will increase if market interest rates rise, or that Pandox will fix its interest rates at a level that is higher than the market interest rate.</p>	<ul style="list-style-type: none"> <li>• In order to manage interest rate risk and increase the predictability of Pandox's earnings, interest rate derivatives, mainly interest swaps, are used. Variable interest is partly replaced by interest swaps, giving Pandox fixed interest rates.</li> <li>• Pandox has a Financial Policy that specifies its risk mandate. This is updated annually by the Board.</li> <li>• Close cooperation with external financial expertise.</li> </ul>

Financial risks, cont.	
Risks	Management
Refinancing risk	
Pandox mainly finances its operations through borrowing and from its own cash flows. Refinancing risk is the risk that financing cannot be obtained or renewed upon maturing, or only at significantly higher costs.	<ul style="list-style-type: none"> <li>Pandox has access to long-term financing. Pandox's Financial Policy specifies minimum levels of unutilised credit and loan-to-value ratio.</li> </ul>
Liquidity risk	
Pandox is dependent on available liquidity if it is to meet its payment obligations. Should Pandox not have sufficient liquidity to meet its obligations, this could have a significantly negative impact on Pandox's operations, financial position and earnings.	<ul style="list-style-type: none"> <li>Pandox has a central bank account in which liquid assets are placed in an interest-bearing transaction account, with the aim of meeting ongoing payment obligations.</li> <li>Pandox has access to long-term credit facilities.</li> </ul>
Fluctuations in exchange rates	
Pandox conducts operations in a number of countries using different currencies and is therefore exposed to the risk that fluctuations in exchange rates could have a negative impact on Pandox's operations, financial position and earnings. Pandox's reporting currency is SEK. Its main currencies (other than SEK) are EUR, NOK and DKK.	<ul style="list-style-type: none"> <li>In order to reduce currency exposure in foreign investments, Pandox's objective is to finance the applicable portion of the investment in local currency. Equity is not normally hedged as Pandox's strategy is to have a long investment perspective. Currency exposure is mainly in the form of currency translation effects.</li> </ul>

Tax risks and legal risks	
Risks	Management
Disputes, investigations and other legal proceedings	
Disputes, claims, investigations and legal proceedings could result in Pandox being liable to pay damages or required to cease certain practices. Companies that are part of the Pandox Group could become involved in disputes in the course of their regular business activities. Moreover, Pandox's Board members, senior executives, employees or related companies could be investigated in connection with offences or criminal proceedings. This could have a significantly negative impact on Pandox's operations, financial position and earnings.	<ul style="list-style-type: none"> <li>Pandox works with well-reputed legal firms in each country in which it operates to prevent problems from occurring as well as when any disputes, investigations or legal proceedings arise.</li> <li>Pandox's operational business culture and working methods allow matters to be dealt with quickly.</li> </ul>
Taxes	
Pandox could be affected by changes in tax legislation, such as the level of corporation tax, property tax or other changes to tax legislation. Pandox's tax situation could worsen in the event that Pandox's previous or current management of tax affairs should be successfully challenged.	<ul style="list-style-type: none"> <li>Pandox's finance and accounts department works with major tax advisers on an ongoing basis to evaluate changes in tax legislation and their interpretation.</li> <li>Measures to deal with proposed changes in tax legislation are planned at an early stage.</li> <li>In the event of enquiries from a local tax authority, external tax advisers are consulted.</li> </ul>
Protected tenancies	
Pandox's Swedish and Danish hotel operators are covered by Swedish and Danish rules on protected tenancies, which generally means that the hotel operator is entitled to compensation should the property owner terminate the lease or refuse to accept the lease being extended on market terms. Protected tenancies could make it expensive for Pandox to give notice to terminate a lease, which could have a significantly negative impact on Pandox's operations, financial position and earnings.	<ul style="list-style-type: none"> <li>External advisers are always engaged for these types of issues in order to ensure the best possible solution in the case in question.</li> </ul>
Environmental risk	
Investments in properties involve a risk that properties may be contaminated. This means that, in certain circumstances, Pandox could be required to clean up land or take remedial measures where it is suspected that land, catchment areas or groundwater are contaminated.	<ul style="list-style-type: none"> <li>Established environmental policy.</li> <li>An inventory of environmental risks is drawn up when a property is acquired.</li> <li>Increased focus on sustainability issues, including the environment.</li> <li>Investments in properties often have a positive environmental effect.</li> <li>More than half of the hotels in Pandox's Scandinavian hotel portfolio carry the Nordic ecolabel.</li> </ul>

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# Financial information



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# 2015



# Administration Report

The Board of Directors and Chief Executive Officer hereby submit the Annual Report and consolidated accounts for the 2015 financial year for Pandox AB (publ), corporate registration number 556030-7885, Box 15, 101 20 Stockholm, Sweden, street address Vasagatan 11.

Pandox is listed on Nasdaq Stockholm's Nordic Large Cap list. Figures in parentheses refer to the corresponding period the previous year. The financial statements are presented in whole millions of Swedish kronor (SEK), which means that there may be differences in certain tables due to rounding off. The Board proposes that the income statement and balance sheet in the Annual Report be adopted by the Annual General Meeting on 3 May 2016.

With respect to the Company's financial results and position in general, please refer to the financial statements and comments that follow.

## OPERATIONS

Pandox is one of Europe's leading hotel property companies, with a geographical focus on Northern Europe. Pandox's strategy is to own sizeable hotel properties in the upper-mid to high-end segment with strategic locations in key leisure and corporate destinations. Pandox is an active owner with a business model based on long-term lease agreements with the best operators in the market. In the absence of these conditions, Pandox has many years of experience of operating hotels itself, which creates business opportunities throughout the hotel value chain.

At the end of 2015, Pandox's hotel property portfolio contained 121 hotels with a total of 25,190 hotel rooms in eight countries, with a market value of MSEK 31,437. Of the 121 hotels, 103 were leased on a long-term basis to well-known tenants with established brands, providing income stability, and lower investment costs and risk for Pandox. The weighted average unexpired lease term (WAULT) for Investment Properties was 11.2 years. The remaining 18 hotel properties are owned and operated by Pandox under various brands. Pandox also had asset management agreements for nine hotels, and operates one additional hotel under a long-term lease.

In 2015, Pandox conducted its business in line with the Company's established strategy and business model. Development in Pandox's prioritised hotel markets has been favourable and the Company has benefited from increased demand and from renovated hotels coming back onto the market with full capacity and increasing their market share.

## REVENUE AND PROFIT

### Group

The Group's profit for the year amounted to MSEK 2,131 (1,253). The increase is explained by unrealised positive changes in value in the property portfolio and interest-rate derivatives, and by increased net operating income for both Property Management and Operator Activities. The Group's net sales amounted to MSEK 3,589 (3,076), an increase of 17 percent. Adjusted for one-time revenue, currency effects and comparable units, sales increased by 6 percent. In 2015 Mr Chip Hotel (1 June), Radisson Blu Lillehammer Hotel (1 June) and Quality Hotel Prince Philip (1 October) were reclassified from Property Management to Operator Activities following takeover of operations.

### Property Management

Revenue from Property Management amounted to MSEK 1,543 (1,478), an increase of 4 percent. Adjusted for one-time revenue of MSEK 60 relating to mediation in the third quarter of 2015, the revenue was unchanged, despite the divestment of 15 hotel properties in April 2014 and Scandic Antwerp on 1 December 2015, as well as reclassification of hotels. Adjusted for one-time revenue, currency effects and comparable units, the revenue increase was 7 percent.

Net operating income from Property Management amounted to MSEK 1,280 (1,186), an increase of 8 percent. Adjusted for one-time revenue, currency effects and

comparable units, net operating income increased by 8 percent, which reflects good underlying development in the markets and the portfolio, as well as lower property costs.

### Operator Activities

Revenue from Operator Activities amounted to MSEK 2,046 (1,598), an increase of 28 percent. Adjusted for currency effects and comparable units, revenue increased by 5 percent and RevPAR by 7 percent. Growth was negatively impacted by the heightened security status in Brussels in November and December, which resulted temporarily in lower occupancy and some loss of revenue.

Net operating income from Operator Activities amounted to MSEK 416 (320), an increase of 30 percent, despite a temporary drop in net operating income in Brussels in the fourth quarter of around MSEK 18. Adjusted for currency effects and comparable units, net operating income increased by 19 percent. The increase is mainly explained by rising demand in the market and gradual improvement in average rates, renovated and repositioned hotels increasing their market share, good productivity development, lower maintenance and property costs due to past investments and a certain boost to gross profit from reclassified operations.

### The Group's EBITDA, financial expenses and changes in value

EBITDA amounted to MSEK 1,603 (1,425), an increase of 12 percent, which is explained by improved underlying net operating income for both Property Management and Operator Activities.

Financial expense amounted to MSEK -441 (-541), a reduction of MSEK 100, which is mainly explained by the repayment of interest-bearing liabilities following the divestment of Investment Properties in 2014 as well as lower interest rates.

Profit before changes in value including one-time items amounted to MSEK 1,027 (779), an increase of 32 percent.

Unrealised changes in value amounted to MSEK 1,387 (906) for Investment Properties. The increase is explained by a combination of yield compression in several markets resulting in decreased valuation yields and thereby lower discount rates in the valuation of Investment Properties, and strong underlying cash flows in Pandox's property portfolio.

At the end of the period, Pandox's property portfolio had a total market value of MSEK 31,437 (26,504), of which Investment Properties accounted for MSEK 25,062 (20,843) and Operating Properties for MSEK 6,375 (5,661). The market value of Operating Properties is reported for information purposes only. Complete information on changes in the value of properties can be found on page 45.

As of 31 December 2015 the average valuation yield for Pandox's Investment Properties was 5.9 percent (6.1) and for Operating Properties 7.5 percent (7.9).

Changes in the value of derivatives amounted to MSEK 203 (-622). The improvement is mainly explained by shorter average maturities for, and expiration of, derivatives.

#### **CURRENT AND DEFERRED TAX**

Current tax amounted to MSEK -35 (-16), including compensation for a previous tax expense of MSEK 19 relating to transactions in Germany in the third quarter of 2015 and an extra tax expense of MSEK -29 due to an assessment for arrears by the Swedish Tax Agency relating to past downward adjustment of acquisition expenses for shares in partnership and limited partnership companies, as described on page 23 in the prospectus under: Invitation to acquire B shares in Pandox Aktiebolag (publ). Pandox has appealed the ruling and been granted a grace period for payment, but has made a provision for the full amount. Current tax was affected by, among other things, deductible depreciation and investments through the expanded refurbishment tax deduction allowance and by loss carryforwards from previous years. The deferred tax expense amounted to MSEK -463 (-85), an increase that is mainly explained by an improved outcome from changes in value for Investment Properties and derivatives,

as well as higher operating profit. The total tax expense represents a tax rate of 19 percent.

#### **CASH FLOW AND CASH EARNINGS**

Cash flow from operating activities before changes in working capital amounted to MSEK 1,170 (881) and cash earnings amounted to MSEK 1,130 (873). Taxes paid amounted to MSEK -6 (-8). The change in working capital affected cash flow in the amount of MSEK -306 (0). The cash flow from investing activities affected cash flow in the amount of MSEK -3,986 (2,101), and is mainly explained by the acquisition of 18 hotel properties in Germany. The cash flow from financing activities amounted to MSEK 2,985 (-3,243), which is mainly explained by loans taken out in connection with the acquisition in Germany and the divestment of 15 Investment Properties in 2014. Cash and cash equivalents at the end of the period amounted to MSEK 170 (321).

#### **FINANCING**

As of 31 December 2015, the loan-to-value ratio excluding deduction of cash and cash equivalents was 49.5 percent (48.7). Cash and cash equivalents, including long-term credit facilities, amounted to MSEK 1,561 (1,901). Unutilised credit facilities amounted to MSEK 1,391 (1,581).

At the end of the period the loan portfolio amounted to MSEK 15,546 (12,908). The average fixed rate period was 2.6 (3.8) years and the average interest rate, corresponding to the interest rate level at the end of the period, was 2.8 (3.6) percent including effects of interest-rate swaps. The average repayment period was 3.4 (4.6) years. The loans are secured by a combination of mortgage collateral and pledged shares.

At the end of December 2015, as part of the financing of the acquisition of the 18 hotel properties in Germany, Pandox took out a syndicated loan of MEUR 247. The loan will mature in five years. After the end of the reporting period, in January 2016, Pandox signed an agreement for a revolving 5-year credit facility of MSEK 1,500 with two Nordic banks. Including this facility and refinancing of a short-term loan, cash and cash equivalents including long-term credit facilities amounted to MSEK 2,333 as of 15 January 2016.

In order to manage interest rate risk and increase the predictability of Pandox's

earnings, interest rate derivatives – mainly interest rate swaps – are used. At the end of the period Pandox had interest rate swaps amounting to MSEK 8,715 and 49 percent of Pandox's loan portfolio was hedged against interest rate movements for periods longer than one year. On 31 December 2015 the market value of Pandox's financial derivatives amounted to MSEK -703 (-900). The reduction is mainly explained by shorter average maturities for and the expiration of derivatives.

#### **EQUITY AND NET ASSET VALUE**

Equity attributable to the owners of the Parent Company amounted to MSEK 12,092 (10,402) and net asset value (NAV) as defined by EPRA was MSEK 16,156 (13,816). EPRA NAV per share was SEK 107.71 (92.11).

#### **ACQUISITIONS, DIVESTMENTS AND RECLASSIFICATIONS**

In 2015 three hotel properties were reclassified from Property Management to Operator Activities, 18 hotel properties were acquired and one was divested. In 2015 Radisson Blu Lillehammar Hotel (1 June), Mr Chip Hotel (1 June) and Quality Hotel Prince Philip (1 October) were reclassified from Property Management to Operator Activities following takeover of operations. The combined market value of the reclassified hotel properties amounted to MSEK 517. An agreement was signed during the year to take over operation of Quality Hotel & Resort Fagernes as of 1 January 2016.

On 1 December 2015 Pandox completed the divestment of the hotel property Scandic Antwerp, with an underlying property value equivalent to MSEK 151, in the Property Management business segment.

In December 2015 Pandox signed an agreement to acquire 18 hotel properties under the Leonardo brand in Germany. The acquisition was concluded on 31 December 2015 and the total consideration was MSEK 3,654. In connection with the transaction, Pandox entered into new 25-year leases with the seller Fattal Hotels. The hotel properties were consolidated in the balance sheet as of 31 December 2015, with no effect on profit, and are part of the Property Management business segment. With this acquisition, Pandox owns 22 hotel properties in Germany, 18 of which are in Property Management and four in Operator Activities.

## INVESTMENTS IN EXISTING HOTEL PROPERTIES

In 2015 investments in the existing hotel properties amounted to MSEK 392 (528), of which MSEK 220 (353) was for Investment Properties and MSEK 172 (175) was for Operating Properties. The decrease in investments is mainly explained by the upcoming conclusion of the Shark project with Scandic, as well as the conclusion of several other larger projects in 2014. At the end of the period investments had been approved for future projects in an amount equivalent to around MSEK 780.

Major investment projects include Leonardo Wolfsburg City, Elite Park Avenue Gothenburg, Elite Stora Hotellet Jönköping, Hotel Berlin, Berlin, Quality Ekoxen Linköping, InterContinental Montreal and Lillehammer Hotel.

## PARENT COMPANY

Administration for Pandox's property-owning companies is provided by staff employed by the Parent Company, Pandox AB (publ). Invoices for the cost of these services are issued to Pandox's subsidiaries. The invoiced amounts for the period January–December 2015 totalled MSEK 56 (56), and profit for the period before tax was MSEK 571 (735). At the end of the period the Parent Company's equity amounted to MSEK 2,841 (2,420) and the interest-bearing liability was MSEK 5,810 (4,592), of which MSEK 4,087 (3,655) was in the form of long-term liabilities.

## SHARES AND OWNERSHIP

The B shares of Pandox AB (publ) B were listed on Nasdaq Stockholm on 18 June 2015. Pandox's share capital at the end of the year amounted to MSEK 375 (375) distributed among a total of 150,000,000 shares, of which 75,000,000 are A shares and 75,000,000 are B shares. The shares are denominated in SEK and each share has a quota value of SEK 2.50. According to the Articles of Association, holders of class A shares are entitled to convert all or part of their holding in class A shares to class B

shares. The Articles of Association stipulate limitations on the transfer of shares or voting rights for class A shares. The Company is not party to any known agreement that could be affected by a public takeover offer. Nor have any pledges been made to the employees regarding shareholdings.

All B shares are transferable without restriction. Each A share in Pandox entitles the holder to three votes at shareholder's meetings, while each B share entitles the holder to one vote at shareholders' meetings.

The following shareholders have direct or indirect ownership representing 10 percent or more of the voting rights for all shares in the Company:

Holding on 31 December 2015	% of votes
Eiendomsspar Sverige AB	39.8
Christian Sundt AB	19.9
Helene Sundt AB	19.9

## ASSET MANAGEMENT

### Capital structure

Pandox's target is a loan-to-value ratio of between 45 and 60 percent, depending on market development and the opportunities that exist. This key ratio is defined as interest-bearing liabilities divided by the sum of total market value of Investment Properties and Operating Properties, and is presented in the multiyear overview on page 112.

### Dividend

Pandox's target is a dividend ratio of between 40 and 60 percent of cash earnings, with an average dividend ratio over time of around 50 percent. Cash earnings is defined as EBITDA plus financial income, less financial expense and current tax. Future dividends and the size of any such dividends are dependent on Pandox's future performance, financial position, cash flows, working capital requirements, investment plans and other factors.

### Debt management

Pandox seeks to achieve the lowest possible financing expenses while simultaneously

limiting risks related to interest rates, foreign currencies and borrowing. Pandox's Financial Policy describes in more detail how financial risks are to be managed.

## RISKS AND UNCERTAINTIES

Risks and uncertainties that impact Pandox's earnings and cash flow from operating activities are mainly related to changes in rental income in the Property Management segment and changes in revenue and costs in the Operator Activities segment. The primary operating risks consist of a weakening of the hotel market and/or increased competition, a fall in occupancy rates and thereby lower revenue, unfavourable cost development and lower productivity.

Rental income in Property Management is largely linked to the hotels' sales and normally involves a guaranteed minimum rent, making it possible to have increased revenue in an improved market as well as downside protection in a weaker market. In some cases, however, the minimum rent is at a significantly lower level than the current revenue-based rent. Also, it is the hotel operator that has operational responsibility and thereby has the greatest ability to impact the hotel's results. The division of maintenance costs and investments between the tenant and the hotel property owner distinguishes hotel properties from other real estate because the tenant bears a greater responsibility. This is described in detail on page 20.

Within the Operator Activities business segment, Pandox has operational and investment responsibility, and is thereby fully exposed in respect of operations and results. This is described in detail on page 22.

Pandox has a substantial loan portfolio and interest expense has historically been the Company's largest expense item. Pandox is exposed to changes in interest levels as a result of changed market interest rates and/or interest rate margins from Pandox's lenders. Refinancing risk is the risk of not being able to obtain or renew financing when a loan matures, or being forced to

borrow at a significantly higher cost. Liquidity risk is the risk that Pandox will not have sufficient funds to meet its payment obligations at any point in time. Financial risks are described in detail on page 52 and in Note 18.

#### **TAX SITUATION**

At the end of the period, the deferred tax assets amounted to MSEK 800 (924). These represent tax loss carryforwards which the Company expects to be able to use in upcoming fiscal years, and temporary measurement differences on interest-rate derivatives. Deferred tax liabilities amounted to MSEK 2,281 (1,993). The increase is primarily due to an increased market value for Investment Properties.

#### **WORK OF THE BOARD OF DIRECTORS**

The work of the Board of Directors is described in the Corporate Governance Report 102.

#### **EMPLOYEES**

As of 31 December 2015, Pandox had 2,009 (1,810) employees, of which 1,981 (1,782) are employed in the Operator Activities segment and 28 (28) in the Property Management segment and in central administration. The average number of employees in 2015 was 1,731 (1,457), of which 871 (709) are men and 860 (748) are women. When Pandox took over the operation of Mr Chip Hotel Kista, Radisson Blu Lillehammer Hotel, Quality Hotel Prince Philip and Grand Hotel Oslo, the hotels' staff became employees of the Group.

#### **EMPLOYEES AND SUSTAINABILITY**

In 2015 Pandox described the Company's expectations of its employees in a Code of Conduct. The task of informing and educating employees and suppliers on the Code of Conduct's content and significance began in 2015 and will continue in 2016. In 2015 various training programmes were implemented relating to the new standards Pandox is required to comply with as a listed company.

During the year Pandox began a review of its sustainability work and clarified its sustainability strategy, which is based on the Company's economic, environmental and social responsibility. This involved both internal and external dialogue with major stakeholders and included a materiality analysis and a comparison with industry peers. Pandox's sustainability work was documented and analysed, and good internal examples were identified, which is described in detail on page 28.

#### **GUIDELINES FOR REMUNERATION AND OTHER EMPLOYMENT TERMS FOR EXECUTIVE MANAGEMENT**

The first Annual General Meeting to be held after the listing on Nasdaq Stockholm will vote on guidelines for remuneration for the Chief Executive Officer and other senior executives. Decisions on the current remuneration levels and other employment terms for the CEO and other senior executives were made by the Board of Directors. The proposed guidelines for remuneration of senior executives to be put before the Annual General Meeting on 3 May 2016 are in principle the same as those decided on by the Board for the period until the next Annual General Meeting.

Information on the average number of employees as well as salaries, other remuneration and terms for senior executives is provided in Note 9.

#### **SIGNIFICANT EVENTS AFTER THE END OF THE PERIOD**

##### **Completion of acquisition of 18 hotel properties in Germany**

On 4 January 2016 Pandox announced that it had completed the acquisition of 18 hotel properties in Germany for a final consideration of MEUR 400, equivalent to around MSEK 3,654.

##### **Operation of Quality Hotel & Resort Kristiansand to be taken over**

On 4 February 2016 Pandox announced that it will take over the operation of Quality Hotel & Resort Kristiansand on 28 May

2016 and that the hotel will be operated under the brand Thon Hotels.

##### **Operation of Quality Hotel & Resort Hafjell to be taken over**

On 11 February 2016 Pandox announced that it will take over the operation of Quality Hotel & Resort Hafjell on 1 September 2016.

##### **Agreement on divestment of eight Investment Properties in Sweden**

On 16 February 2016 Pandox announced an agreement with Midstar AB regarding the divestment of eight Investment Properties with 965 rooms in Sweden. The purchase consideration was MSEK 850. The transaction is expected to be concluded on 31 March 2016.

#### **EXPECTATIONS REGARDING FUTURE DEVELOPMENT**

The most important drivers of cash earnings for Pandox are growth in the hotel market and the organic growth the Company generates itself through its strong hotel portfolio and cash flow-driving investments, as well as the opportunities that exist for add-on acquisitions.

# Consolidated statement of comprehensive income

MSEK	Note	2015	2014
<b>Revenue, Property Management</b>			
Rental income	2, 3, 13	1,431	1,418
Other property revenue	2, 13	112	60
<b>Revenue, Operator Activities</b>			
	2	2,046	1,598
<b>Net sales</b>		<b>3,589</b>	<b>3,076</b>
<b>Costs, Property Management</b>			
	2, 5, 7, 8, 9	-263	-292
<b>Costs, Operator Activities</b>			
	2, 6, 7, 8, 9	-1,767	-1,387
<b>Gross profit</b>		<b>1,559</b>	<b>1,397</b>
<i>- of which gross profit, Property Management</i>	2	1,280	1,186
<i>- of which gross profit, Operator Activities</i>	2	279	211
Central administration	2, 4, 7, 9	-94	-82
Financial income	2, 10	3	5
Financial expense	2, 10	-441	-541
<b>Profit before changes in value</b>		<b>1,027</b>	<b>779</b>
<b>Changes in value</b>			
Properties, unrealised	2, 13	1,387	906
Properties, realised	2, 13	12	291
Derivatives, unrealised	2, 18	203	-622
<b>Profit before tax</b>		<b>2,629</b>	<b>1,354</b>
Current tax	2, 12	-35	-16
Deferred tax	2, 12	-463	-85
<b>Profit for the year attributable to the Parent Company's shareholders</b>		<b>2,131</b>	<b>1,253</b>
<b>Other comprehensive income</b>			
<i>Items that have been or may be reclassified to profit for the year</i>			
Translation differences, foreign operations		-287	-3
Translation differences on realised gains/losses from foreign operations		-4	-
<b>Other comprehensive income for the year</b>		<b>-291</b>	<b>-3</b>
<b>Comprehensive income for the year attributable to owners of the parent</b>		<b>1,840</b>	<b>1,250</b>
<b>Per share data</b>			
Average number of shares, in thousands <sup>1)</sup>		150,000	150,000
Profit for the year after tax and before and after dilution, per share SEK <sup>1)</sup>		14.21	8.35

<sup>1)</sup> The average number of shares to calculate earnings per share and comprehensive income per share has been adjusted for the 6:1 split implemented in May 2015.

## Comments

### Consolidated comprehensive income

#### Net sales

Revenue from Property Management amounted to MSEK 1,543 (1,478), an increase of 4 percent. Adjusted for one-time revenue, currency effects and comparable units, revenue increased by 7 percent.

Revenue from Operator Activities amounted to MSEK 2,046 (1,598), an increase of 28 percent, including revenue from Grand Hotel Oslo for ten months and revenue from the reclassified hotels Mr Chip Hotel Kista and Radisson Blu Lillehammer Hotel for seven months and Quality Hotel Prince Philip for three months. Adjusted for currency effects and comparable units, revenue increased by 5 percent and RevPAR by 7 percent.

The Group's net sales amounted to MSEK 3,589 (3,076), an increase of 17 percent. Adjusted for one-time revenue, currency effects and comparable units, sales increased by 6 percent.

#### Net operating income

Net operating income from Property Management, which corresponds to gross profit, amounted to MSEK 1,280 (1,186), an increase of 8 percent. Adjusted for one-time revenue of MSEK 60, net operating income increased by 3 percent. Adjusted for one-time revenue, currency effects and comparable units, net operating income increased by 8 percent, which reflects lower property costs and good underlying development in the markets and the portfolio. Property costs include operating and maintenance costs. See Note 5 for details.

Net operating income from Operator Activities, which corresponds to gross profit plus depreciation included in Operator Activities' costs, amounted to MSEK 416 (320), an increase of 30 percent. Details of Operator Activities' costs can be found in Note 6. Adjusted for one-time revenue, currency effects and comparable units, net operating income increased by 19 percent. The increase

is mainly explained by rising demand in the market and gradual improvement in average prices, renovated and repositioned hotels increasing their market share, good productivity development and, to a certain extent, gross profits from reclassified operations.

#### Central administration

Central administration costs amounted to MSEK -94 (-82). These include costs for corporate governance, administrative personnel, IT and office rents. The increase mainly reflects reinforcement of corporate departments and the cost of the Company's long-term incentive scheme.

#### Financial income and expense

Financial expense amounted to MSEK -441 (-541), a reduction of MSEK 100, which is mainly explained by the repayment of interest-bearing liabilities following the divestment of 15 Investment Properties in April 2014 and lower interest rates.

#### Changes in value

Unrealised changes in value for Investment Properties amounted to MSEK 1,387 (906). The increase is explained by a combination of yield compression in many markets, which resulted in decreased valuation yields and thereby lower discount rates in the valuation of Investment Properties, as well as strong underlying cash flows in Pandox's property portfolio.

Realised changes in value for Investment Properties amounted to MSEK 12 (291) and are explained by final settlement in the second quarter of 2015 for the divestment of Hilton London Docklands implemented in April 2014 and the divestment in December 2015 of Scandic Antwerp.

The divested hotel property, Scandic Antwerp, had an underlying property value equivalent to MSEK 151. Unrealised changes in value of derivatives amounted to MSEK 203 (-622).

#### Current and deferred tax

Current tax amounted to MSEK -35 (-16), including compensation for a past tax expense in the third quarter equivalent to MSEK 19 relating to transactions in Germany, and an extra tax expense of MSEK -29 due to an assessment for arrears by the Swedish Tax Agency relating to past downward adjustment of acquisition expenses for shares in partnership and limited partnership companies, as described on page 23 of the prospectus under: Invitation to acquire B shares in Pandox Aktiebolag (publ). Pandox has appealed the ruling and been given a grace period for payment, but has made a provision for the full amount. Current tax was affected by, among other things, deductible depreciation and investments due to the expanded refurbishment tax deduction allowance, and by loss carryforwards from previous years. The deferred tax expense amounted to MSEK -463 (-85).

#### Profit for the year

Profit for the year amounted to MSEK 2,131 (1,253), which corresponds to SEK 14.21 (8.35) per share before and after full dilution.

#### Other comprehensive income for the year

Other comprehensive income for the year includes translation differences for foreign operations and translation differences upon the divestment of foreign subsidiaries. The accumulated translation difference in equity and in other comprehensive income reported previously was reclassified from equity to profit or loss in conjunction with recognition of the capital gain upon divestment.

# Consolidated statement of financial position

MSEK	Note	31 Dec 2015	31 Dec 2014
<b>ASSETS</b>			
<b>Non-current assets</b>			
Operating Properties <sup>1) 2)</sup>	15	4,747	4,135
Equipment/Interiors <sup>2)</sup>	14	381	723
Investment Properties <sup>1)</sup>	13	24,335	20,843
Deferred tax assets	12	800	924
Other non-current receivables	11	25	26
<b>Total non-current assets</b>		<b>30,288</b>	<b>26,651</b>
<b>Current assets</b>			
Inventories		14	11
Current tax assets		64	44
Trade accounts receivable	16	173	153
Prepaid expenses and accrued income		109	97
Other receivables		70	10
Cash and cash equivalents		170	321
Assets held for sale <sup>3)</sup>	29	732	—
<b>Total current assets</b>		<b>1,332</b>	<b>636</b>
<b>Total assets</b>		<b>31,620</b>	<b>27,287</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	17	375	375
Other paid-in capital		2,138	2,138
Reserves		-408	-117
Retained earnings, including profit for the year		9,987	8,006
<b>Total equity attributable to the owners of the parent</b>		<b>12,092</b>	<b>10,402</b>
Non-controlling interests		123	—
<b>Total equity</b>		<b>12,215</b>	<b>10,402</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Non-current interest-bearing liabilities	18, 19	13,720	11,785
Derivatives	18, 19	703	900
Provisions	21	56	54
Deferred tax liabilities	12	2,281	1,993
<b>Total non-current liabilities</b>		<b>16,760</b>	<b>14,732</b>
<b>Current liabilities</b>			
Provisions	21	12	12
Current interest-bearing liabilities	18, 19, 26	1,826	1,122
Tax liabilities		2	19
Trade accounts payable		212	189
Liabilities, Group companies	26	—	208
Other current liabilities		99	166
Accrued expenses and prepaid income	20	482	437
Liabilities relating to assets held for sale <sup>3)</sup>	29	12	—
<b>Total current liabilities</b>		<b>2,645</b>	<b>2,153</b>
<b>Total liabilities</b>		<b>19,405</b>	<b>16,885</b>
<b>Total equity and liabilities</b>		<b>31,620</b>	<b>27,287</b>
Assets pledged	23	13,611	11,635
Contingent liabilities	23	7	6

<sup>1)</sup> The change is mainly the result of the reclassification of Mr Chip Hotel Kista, Radisson Blu Lillehammer Hotel and Quality Hotel Prince Philip.

<sup>2)</sup> Of which MSEK 310 is for reclassification from equipment to Operating Properties.

<sup>3)</sup> Relates to the divestment of eight Investment Properties in Sweden, of which MSEK 728 constitutes the carrying amount of properties and MSEK 4 other assets.

## Comments

### Consolidated statement of financial position

#### **NON-CURRENT ASSETS**

##### **Operating Properties**

The 18 (15) properties used in Operator Activities are classified as Operating Properties and are reported at cost less depreciation and impairment losses. The book value including equipment/interiors amounted to MSEK 5,128 (4,858). During the year the Operator Activities segment took over the operation of three Pandox-owned hotels from external operators. Reclassification from equipment to Operating Properties was carried out in the amount of MSEK 310. See Note 14.

##### **Investment Properties**

The number of Investment Properties at the end of the year was 103 (89). They are reported at fair value (market value) and amounted to MSEK 25,062 (20,843). 18 new hotel properties were acquired in Germany in December and one hotel property was divested in Belgium. In February 2016 contracts were signed for the divestment of eight properties with a carrying amount of MSEK 728. Unrealised changes in the value of Investment Properties for the year amounted to MSEK 1,387 (906). Realised changes in value amounted to MSEK 12 (291).

##### **Investments**

Investments in the existing portfolio during the year, excluding acquisitions, amounted to MSEK -392 (-528), of which MSEK -220 (-353) was in Investment Properties and MSEK -172 (-175) was in Operating Properties and equipment. The decrease in investments is mainly explained by the upcoming conclusion of the Shark project with Scandic, as well as the conclusion of several other larger projects in 2014. At the end of the year investments had been approved for future projects in an amount equivalent to around MSEK 780. Ongoing major investment

projects include Leonardo Wolfsburg City, Elite Park Avenue Gothenburg, Elite Stora Hotellet in Jönköping, Hotel Berlin, Berlin, Quality Ekoxen Linköping, InterContinental Montreal and Lillehammer Hotel.

##### **Deferred tax assets**

At the end of the period, the deferred tax assets amounted to MSEK 800 (924). These represent tax loss carryforwards which the Company expects to be able to use in upcoming fiscal years, and temporary measurement differences on interest-rate derivatives.

#### **CURRENT ASSETS**

##### **Trade accounts receivable**

Pandox's trade accounts receivable consist of rent receivables and trade accounts receivable in the Operator Activities segment. Outstanding amounts at the end of the year are mainly revenue-based rent that has not been paid in advance.

##### **Cash and cash equivalents**

Pandox's cash and cash equivalents are mainly managed by the Parent Company through a central accounts structure where cash is deposited in a joint interest-bearing bank account. Any surplus may over time be deposited in a time deposit bank account at the bank. Pandox has unutilised credit facilities for a total of MSEK 2,163, taking into account a new revolving credit facility and refinancing of loans in January 2016.

#### **EQUITY AND LIABILITIES**

##### **Financial position and net asset value**

At the end of the period the loan-to-value ratio was 49.5 (48.7) percent. Equity amounted to MSEK 12,215 (10,402) and net asset value (NAV) as defined by EPRA was MSEK 16,156 (13,816). EPRA NAV per share was SEK 107.71 (92.11).

#### **NON-CURRENT LIABILITIES**

##### **Interest-bearing liabilities**

At the end of the period the loan portfolio amounted to MSEK 15,546 (12,908). The average fixed rate period was 2.6 (3.8) years and the average interest rate, corresponding to the interest rate level at the end of the period, was 2.8 (3.6) percent, including effects of interest-rate swaps. The average repayment period was 3.4 (4.6) years. The loans are secured by a combination of mortgage collateral and pledged shares.

Unutilised long-term credit facilities amounted to MSEK 1,391 (1,581).

In order to manage interest rate risk and increase the predictability of Pandox's earnings, interest rate derivatives, mainly interest swaps, are used. At the end of the period Pandox had interest rate swaps amounting to MSEK 8,715 and 49.2 percent of Pandox's loan portfolio was hedged against interest rate movements for periods longer than one year.

##### **Deferred tax liabilities**

Deferred tax liabilities relate to temporary differences between fair value and the adjusted taxable value of Investment Properties and temporary differences between cost and taxable value of Operating Properties. The amount was MSEK 2,281 (1,993). See Note 12.

#### **CURRENT LIABILITIES**

##### **Interest-bearing liabilities**

The portion of the debt that matures within one year.

##### **Other current liabilities**

Liabilities include prepaid rent, accrued interest expense and trade accounts payable.

# Consolidated statement of changes in equity

MSEK	Attributable to owners of the parent				Total	Non-controlling interests	Total equity
	Share capital	Other paid-in capital	Translation reserves	Retained earnings, including profit for the year			
Equity, opening balance, 1 January 2014	375	2,138	-114	8,031	10,430	—	10,430
Profit for the year	—	—	—	1,253	1,253	—	1,253
Other comprehensive income	—	—	-3	—	-3	—	-3
<b>Comprehensive income for the year</b>	—	—	-3	1,253	1,250	—	1,250
Dividend	—	—	—	-1,103	-1,103	—	-1,103
Group contributions	—	—	—	-175	-175	—	-175
Equity, closing balance, 31 December 2014	375	2,138	-117	8,006	10,402	—	10,402
Equity, opening balance, 1 January 2015	375	2,138	-117	8,006	10,402	—	10,402
Profit for the year	—	—	—	2,131	2,131	—	2,131
Other comprehensive income	—	—	-291	—	-291	—	-291
<b>Comprehensive income for the year</b>	—	—	-291	2,131	1,840	—	1,840
Dividend	—	—	—	-150	-150	—	-150
Change in non-controlling interests in connection with acquisitions	—	—	—	—	—	123	123
Equity, closing balance, 31 December 2015	375	2,138	-408	9,987	12,092	123	12,215

## 2015<sup>1)</sup>

Outstanding shares at year-end	150,000,000
Average number of shares before and after dilution	150,000,000

## 2014<sup>1)</sup>

Outstanding shares at year-end	150,000,000
Average number of shares before and after dilution	150,000,000

The share quota value is SEK 2.50.

<sup>1)</sup> The average number of shares to calculate earnings per share has been adjusted for the 6:1 split implemented in May 2015.

# Consolidated statement of cash flow

MSEK	Note	2015	2014
<b>OPERATING ACTIVITIES</b>			
Profit before tax		2,629	1,354
Reversal of depreciation		137	110
Realised changes in value, Investment Properties		-12	-291
Unrealised changes in value, Investment Properties		-1,387	-906
Unrealised changes in value, derivatives		-203	622
Other items not included in cash flow		12	—
Taxes paid		-6	-8
<b>Cash flow from operating activities before changes in working capital</b>		<b>1,170</b>	<b>881</b>
Increase/decrease in operating receivables		-119	-12
Increase/decrease in operating liabilities		-187	12
<b>Changes in working capital</b>		<b>-306</b>	<b>0</b>
<b>Cash flow from operating activities</b>		<b>864</b>	<b>881</b>
<b>INVESTING ACTIVITIES</b>			
Investments in Investment Properties		-220	-353
Investments in Operating Properties		-130	-87
Investments in equipment/interiors		-42	-88
Divestment of subsidiaries, net effect on liquidity	27	124	2,607
Acquisition of subsidiaries, net effect on liquidity	27	-3,720	—
Acquisition of financial assets		-1	-2
Divestment of financial assets		3	24
<b>Cash flow from investing activities</b>		<b>-3,986</b>	<b>2,101</b>
<b>FINANCING ACTIVITIES</b>			
Group contributions to the Parent Company's shareholders		—	-175
Loans taken out		3,899	422
Amortisation of debt		-887	-2,387
Acquisition of non-controlling interests		123	—
Paid dividend		-150	-1,103
<b>Cash flow from financing activities</b>		<b>2,985</b>	<b>-3,243</b>
<b>Cash flow for the year</b>		<b>-137</b>	<b>-261</b>
Cash and cash equivalents at beginning of year		321	589
Exchange rate differences in cash and cash equivalents		-14	-7
<b>Cash and cash equivalents at year-end</b>		<b>170</b>	<b>321</b>
<b>Information on interest paid</b>			
Interest received		3	5
Interest paid		-430	-522
<b>Information on cash and cash equivalents at year-end</b>			
Cash and cash equivalents consist of bank balances.		170	321

## Comments Cash flow

Cash flow from operating activities before changes in working capital amounted to MSEK 1,170 (881). The increase is due to strong growth in operations and lower interest expense.

Change in working capital amounted to MSEK -306 (0), due to payment of current liabilities and an increase in current receivables relating to the increased growth in operations.

Investing activities affected cash flow in the amount of MSEK -3,986 (2,101). The

acquisition of 18 hotel properties in Germany affected cash flow by MSEK -3,712. In 2014, 15 Investment Properties were divested causing a positive effect on cash flow of MSEK 2,607. Investments in properties and non-current assets amounted to MSEK -392 (-528). The decrease in investments is mainly explained by the upcoming conclusion of the Shark project with Scandic, as well as the conclusion of several other larger projects in 2014.

Financing activities affected cash flow in the amount of MSEK 2,985 (-3,243). The significant change is explained by loans taken out in the amount of MSEK 3,899 (422) in connection with the acquisition of the properties in Germany in 2015, and amortisation of debt of MSEK -887 (-2,387) when properties were sold in 2014.

Cash flow for the year amounted to MSEK -137 (-261). Cash and cash equivalents at year-end amounted to MSEK 170 (321).

# Parent Company income statement

MSEK	Note	2015	2014
Net sales	26	56	56
Administrative costs	4, 9	-123	-96
Other revenue		9	—
<b>Operating profit</b>		<b>-58</b>	<b>-40</b>
Profit from participations in Group companies	10, 26	669	935
Other interest income and similar profit/loss items	10, 26	65	106
Other interest expense and similar profit/loss items	10, 26	-211	-266
<b>Profit after financial items</b>		<b>465</b>	<b>735</b>
Year-end appropriations		106	—
<b>Profit before tax</b>		<b>571</b>	<b>735</b>
Tax on profit for the year	12	—	—
<b>Profit for the year</b>		<b>571</b>	<b>735</b>

The Company has not presented Other comprehensive income since the Company has no items reported as Other comprehensive income.

## Comments Parent Company's financial statements

Administration for Pandox's property-owning companies is provided by staff employed by the Parent Company, Pandox AB (publ). Invoices for the cost of these services are issued to Pandox's subsidiaries. The total amount invoiced in the period January–December 2015 was MSEK 56 (56). Profit from participations in Group companies of MSEK 669 (935) refers to dividends received from Group companies of MSEK 666 (1,265), gains from the divestment of

subsidiaries of MSEK 3 (136) and impairment losses on shares in subsidiaries of MSEK 0 (-466). Year-end appropriations are the net reported amounts of Group contributions provided and received. Profit amounted to MSEK 571 (735).

Tax on profit for the year is 0 (0) due to non-taxable revenue. The Company's tax loss carryforwards of MSEK 347 (277) have not been recognised as revenue or assets.

At the end of the period the Parent Company's equity amounted to MSEK 2,841 (2,420) and the interest-bearing debt was MSEK 5,810 (4,592), of which MSEK 4,087 (3,655) was in the form of long-term liabilities. The increase in interest-bearing liabilities mainly relates to financing for the acquisition of 18 properties in Germany. A dividend was paid to the shareholders in the Parent Company in the amount of MSEK 150 (1,103).

# Parent Company balance sheet

MSEK	Note	31 Dec 2015	31 Dec 2014
<b>ASSETS</b>			
<b>Non-current assets</b>			
<b>Property, plant and equipment</b>			
Equipment	14	0	1
<b>Total property, plant and equipment</b>		<b>0</b>	<b>1</b>
<b>Financial non-current assets</b>			
Shares and participations in Group companies	25	6,578	6,573
Receivables from Group companies	26	5,190	4,190
Other non-current receivables	11	7	7
<b>Total financial non-current assets</b>		<b>11,775</b>	<b>10,770</b>
<b>Total non-current assets</b>		<b>11,775</b>	<b>10,771</b>
<b>Current assets</b>			
Other receivables		9	2
Prepaid expenses and accrued income		13	20
Cash and bank balances		90	133
<b>Total current assets</b>		<b>112</b>	<b>155</b>
<b>Total assets</b>		<b>11,887</b>	<b>10,926</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	17	375	375
Statutory reserve		10	10
Retained earnings		1,885	1,300
Profit for the year		571	735
<b>Total equity</b>		<b>2,841</b>	<b>2,420</b>
<b>Provisions</b>			
	21	30	18
<b>Non-current liabilities</b>			
Non-current interest-bearing liabilities	28	4,087	3,655
<b>Total non-current liabilities</b>		<b>4,087</b>	<b>3,655</b>
<b>Current liabilities</b>			
Current interest-bearing liabilities	26, 28	1,723	937
Trade accounts payable		28	17
Liabilities, Group companies	26	3,151	3,833
Other current liabilities		18	4
Accrued expenses and prepaid income	20	9	42
<b>Total current liabilities</b>		<b>4,929</b>	<b>4,833</b>
<b>Total liabilities</b>		<b>9,046</b>	<b>8,506</b>
<b>Total equity and liabilities</b>		<b>11,887</b>	<b>10,926</b>
<b>Contingent liabilities</b>			
	23	6,074	3,920

# Statement of changes in equity for the Parent Company

MSEK	Restricted equity		Non-restricted equity		Total equity
	Share capital	Statutory reserve	Retained earnings	Profit for the year	
Equity, opening balance, 1 January 2014	375	10	2,550	-147	2,788
Appropriation of profit	—	—	-147	147	0
Profit for the year	—	—	—	735	735
Dividend	—	—	-1,103	—	-1,103
Equity, closing balance, 31 December 2014	375	10	1,300	735	2,420
Equity, opening balance, 1 January 2015	375	10	1,300	735	2,420
Appropriation of profit	—	—	735	-735	0
Profit for the year <sup>1)</sup>	—	—	—	571	571
Dividend	—	—	-150	—	-150
Equity, closing balance, 31 December 2015	375	10	1,885	571	2,841

## 2015<sup>2)</sup>

Outstanding shares at year-end	150,000,000
Average number of shares before and after dilution	150,000,000

The share quota value is SEK 2.50.

<sup>1)</sup> The Company has not presented Other comprehensive income since the Company has no items reported as Other comprehensive income.

<sup>2)</sup> The average number of shares to calculate earnings per share has been adjusted for the 6:1 split implemented in May 2015.

# Statement of cash flow for the Parent Company

MSEK	2015	2014
<b>OPERATING ACTIVITIES</b>		
Profit before tax	571	735
Reversal of depreciation	1	1
Impairment losses on shares in subsidiaries	—	466
Other items not included in cash flow	-93	-2
<b>Cash flow from operating activities before changes in working capital</b>	<b>479</b>	<b>1,200</b>
Increase/decrease in operating receivables	0	-5
Increase/decrease in operating liabilities	-692	654
<b>Changes in working capital</b>	<b>-692</b>	<b>649</b>
<b>Cash flow from operating activities</b>	<b>-213</b>	<b>1,849</b>
<b>INVESTING ACTIVITIES</b>		
Changes in shares and participations	-5	-182
Acquisition of financial assets	-1,000	—
Divestment of financial assets	—	453
<b>Cash flow from investing activities</b>	<b>-1,005</b>	<b>271</b>
<b>FINANCING ACTIVITIES</b>		
Group contributions received	338	—
Group contributions provided	-231	—
Loans taken out	1,451	—
Amortisation of debt	-233	-1,028
Paid dividend	-150	-1,103
<b>Cash flow from financing activities</b>	<b>1,175</b>	<b>-2,131</b>
<b>Cash flow for the year</b>	<b>-43</b>	<b>-11</b>
Cash and cash equivalents at beginning of the year	133	144
<b>Cash and cash equivalents at year-end</b>	<b>90</b>	<b>133</b>
<b>Information on interest paid</b>		
Interest received	59	105
Interest paid	-189	-267
<b>Information on cash and cash equivalents at year-end</b>	<b>90</b>	<b>133</b>
Cash and cash equivalents consist of bank balances.		

# Key ratios

	2015	2014
<b>Financial key ratios</b>		
Return on equity, %	18.9	12.0
Equity/assets ratio, %	38.6	38.1
Loan-to-value ratio, %	49.5	48.7
Interest coverage ratio, %	3.6	2.6
Average interest on debt, %	-2.8	-3.6
Net interest-bearing debt, MSEK	15,376	12,587
Investments, excluding acquisitions, MSEK	392	528
<b>Share-related key ratios<sup>1)</sup></b>		
Earnings per share, SEK	14.21	8.35
Cash earnings per share, SEK	7.53	5.82
Equity per share, SEK <sup>4)</sup>	80.61	69.35
Net asset value (EPRA NAV) per share, SEK	107.71	92.11
Dividend per share, SEK <sup>3)</sup>	3.80	1.00
Weighted average number of shares after dilution, in thousands <sup>1)</sup>	150,000	150,000
<b>Property-related key ratios</b>		
No. of hotels at end of period <sup>2)</sup>	121	104
No. of rooms at end of period <sup>2)</sup>	25,190	21,969
WAULT, in years	11.2	9.0
Total market value of properties, MSEK	31,437	26,504
Market value, Investment Properties, MSEK	25,062	20,843
Market value, Operating Properties, MSEK	6,375	5,661
RevPAR (Operating Properties) for comparable units and comparable exchange rates, SEK	688	644

<sup>1)</sup> Retrospectively adjusted for share split in May 2015. The total number of shares outstanding after full dilution is 150,000,000, of which 75,000,000 are A shares and 75,000,000 are B shares. For comparability, the total number of shares is used when calculating the key ratios.

<sup>2)</sup> Hotel properties owned by Pandox.

<sup>3)</sup> For 2015 the proposed dividend is stated. For 2014 the dividend paid is stated.

<sup>4)</sup> Attributable to the Parent Company's shareholders.

# Notes

Amounts in MSEK unless otherwise indicated

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## NOTE 1 ACCOUNTING PRINCIPLES

### Introduction

The consolidated accounts cover Padox AB (the Parent Company) and its subsidiaries (the Group). The Parent Company, Padox AB (publ), is a Swedish company (company reg. no. 556030-7885) and has its registered office in Sweden at Vasagatan 11, 111 20 Stockholm. Padox was formed in 1995 and the Company's B shares have been listed on Nasdaq Stockholm since 18 June 2015. For disclosures concerning the ownership structure see the section on Padox shares on page 12. The financial reports as per 31 December 2015 have been approved by the Board of Directors and CEO at the 29th of March for adoption at the Annual General Meeting on 3 May 2016.

### 1. Accounting basis

#### 1.1 Conformity with standards and laws

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as adopted by the EU. The Swedish Financial Reporting Board's recommendation RFR 1 Supplementary Accounting Regulations for Groups has also been applied.

#### 1.2 Basis for valuation

Investment Properties and derivative instruments are recognised at fair value on an ongoing basis. Other assets and liabilities are recognised at historic cost or, where applicable, at amortised cost in the case of non-derivative financial liabilities and financial assets.

#### 1.3 Functional currency and reporting currency

The functional currency of the Parent Company is Swedish kronor (SEK), which is also the reporting currency of the Parent Company and of the Group. The financial reports are therefore presented in Swedish kronor. All amounts are in millions of Swedish kronor (MSEK) unless indicated otherwise.

#### 1.4 Classification

Non-current assets and non-current liabilities consist of amounts expected to be recovered or paid after 12 months have passed since the balance sheet date. Current assets and current liabilities consist of amounts expected to be recovered or paid within 12 months of the balance sheet date.

### 2. Judgments and estimates

When preparing financial reports it is necessary to make judgments in the application of accounting principles and estimates with respect to the value of assets, liabilities, revenue and expenses. Estimates and assumptions are based on past experience and other factors deemed relevant and reasonable. Estimates and assumptions are reviewed regularly and compared with the actual outcome. Also see Note 22.

### 3. Changed accounting principles

The accounting principles and calculation methods have changed from the previous year's annual report following the transition from Swedish accounting principles (GAAP) to IFRS. The effects of the transition to IFRS are described in the prospectus that was published in connection with the public offering to acquire shares in the Company. The prospectus also outlines the accounting principles used in the preparation of the financial reports. Important accounting principles are summarised in the section below. The accounting principles applied include new and changed standards issued by the International Accounting Standards Board (IASB) as well as interpretations that took effect in previous years. The Parent Company's transition to RFR2 has not had any material impact.

#### IFRS applied from 1 January 2015

IFRIC 21 Levies contains rules on various types of fees imposed on companies by government authorities and at what point an obligating event occurs requiring a liability to be recognised. The statement is being applied from the beginning of 2015 and requires full recognition of property tax liabilities on 1 January every year. However, the principle of accrual of expenses over the year remains unchanged.

#### New IFRS standards that are not yet being applied

IFRS 9 *Financial Instruments* replaces IAS 39 *Financial Instruments: Recognition and Measurement* from the beginning of 2018. IFRS 9 addresses classification and measurement of financial assets and financial liabilities as well as hedge accounting. IFRS 9 has yet to be approved by the EU and early application is therefore not permitted. The Company has decided to postpone any analysis of the consequences of this standard, but assesses that it will not impact the Company.

IFRS 15 *Revenue from Contracts with Customers* is to be applied starting from 1 January 2018 provided that the standard is adopted by the EU. A preliminary analysis indicates that IFRS 15 will not affect the consolidated accounts to any significant extent.

IFRS 16 *Leases* New standard on recognition of leases. For lessees the classification into operating and finance leases as per IAS 17 will disappear, being replaced with a model in which assets and liabilities for all leases are to be recognised in the balance sheet. Leases with a term of 12 months or less or where the underlying asset has a low value are exempted from recognition in the balance sheet. In the income statement, depreciation is to be reported separately from interest expense attributable to the lease liabilities. This is not expected to result in any major changes for lessees, as the new model essentially retains the rules in IAS 17 with the exception of additional disclosure requirements. IFRS 16 is to be applied to annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted, provided that IFRS 15 is also applied from the same date. It has not yet been announced when the EU is expected to approve the standard. A preliminary analysis indicates that IFRS 16 will not affect the consolidated accounts to any significant extent.

Other new or amended IFRS standards and statements are not expected to have any effect on the consolidated accounts.

### 4. Operating segment reporting

An operating segment is a unit in the Group with operations from which revenue can be generated and costs incurred, and for which independent financial information is available. An operating segment's performance is monitored by a company's chief operating decision-maker (CEO) to evaluate performance and to be able to allocate resources to the operating segment. Padox has two segments: Property Management and Operator Activities. See Note 2 for a more detailed description of the division and presentation of operating segments.

### 5. Consolidation principles

#### 5.1 Controlling interests and the acquisition method

Subsidiaries are companies that are under the direct or indirect control of the Parent Company. A controlling interest exists if the Parent Company directly or indirectly has a controlling interest over the investment object, is exposed to or has the right to variable returns from its holding in the investment object and can use its influence over the investment object to affect the size of its returns.

The acquisition method of accounting is used for subsidiaries. With the acquisition method, a subsidiary is regarded as a transaction through which the Group indirectly acquires the subsidiary's assets and assumes its liabilities. The fair value of the identifiable assets acquired and liabilities assumed, as well as any non-controlling interests, are established in an acquisition analysis. Transaction fees, with the exception of transaction fees relating to any equity instruments or debt instruments issued, are recognised directly in profit or loss for the year. See section 5.3 for treatment of transaction expenses in connection with asset purchases.

#### 5.2 Changes in ownership

Acquisitions made on several occasions which increase in ownership of a company are reported as step acquisitions. Once a controlling interest has been achieved, changes in ownership are recognised as a transfer in equity between owners of the parent company and non-controlling interests. In the case of a reduction of ownership to the extent that the controlling interest is lost, the subsidiary's assets and liabilities – and, where applicable, non-controlling interests – are derecognised, at which point the capital gain or loss is recognised through profit or loss combined with any gain or loss on remaining holdings measured at fair value, with changes in value recognised through profit or loss.

### 5.3 Asset purchases

An acquisition of a company can be regarded either as an asset purchase or as a business combination. In an asset purchase, the transaction is not covered by IFRS 3.

If the main purpose of the acquisition is to acquire the purchased company's properties, and where no administrative organisation exists, the transaction is reported as an asset purchase. An acquisition of a company where there is an administrative organisation is reported as a business combination.

When the acquisition of subsidiaries involves the purchase of net assets that do not constitute a business, the acquisition costs of the individual identifiable assets and liabilities are divided up based on their fair value at the date of the acquisition.

In asset purchases, no separate deferred tax is recognised at the time of acquisition; instead the asset is recognised at cost, which corresponds to the fair value of the asset after deducting any discount for non-tax-deductible costs. Transaction expenses are capitalised and added to the acquisition cost.

## 6. Foreign currency

### 6.1 Foreign currency transactions

Foreign currency transactions are translated into the functional currency at the exchange rate prevailing on the transaction date. Functional currency is the currency of the primary economic environment where the companies conduct their business. Monetary assets and liabilities in foreign currencies are translated to the functional currency at the exchange rate prevailing on the closing day. Exchange rate differences that arise on translation are recognised in profit for the year. Non-monetary assets and liabilities recognised at historic cost are translated at the exchange rate on the transaction date. Non-monetary assets and liabilities recognised at fair value are translated into the functional currency at the rate in effect on the date of fair value measurement.

### 6.2 Financial statements of foreign entities

Assets and liabilities of foreign entities and consolidated surpluses and deficits are translated from the foreign entity's functional currency to the Group's reporting currency (Swedish kronor) at the exchange rate prevailing on the closing day. Revenue and expenses in a foreign entity are translated to Swedish kronor at an average exchange rate, which is an approximation of the exchange rates prevailing on each transaction date. Translation differences arising in currency translation of foreign entities are recognised in other comprehensive income and accumulated in a separate component of equity, called the translation reserve. When a controlling interest ceases to exist for a foreign entity, the cumulative translation differences relating to the entity are realised, at which point they are reclassified from the translation reserve in equity to profit or loss for the year. In the case of a disposal where the controlling interest still exists, a proportional percentage of the cumulative translation differences is transferred from the translation reserve to non-controlling interests.

The Company has decided to state the cumulative translation differences attributable to foreign entities at zero at the time of the transition to IFRS.

## 7. Revenue

### 7.1 Rental income

Rental income from Property Management is recognised on a straight line basis according to the terms and conditions in the leases (rental agreements). Rental income relates to the leased space in hotel operations.

### 7.2 Other property revenue

Other property revenue consists mainly of charges for heating, electricity and property tax and is recognised on a straight line basis based on the terms and conditions in the leases (rental agreements).

### 7.3 Revenue from Operator Activities

Revenue from Operator Activities relates to the hotel operations operated under management agreements and franchise agreements as well as hotels operated by Pandox.

### 7.4 Revenue from property sales

Revenue from property sales is normally recognised on the occupancy date unless the risks and benefits have transferred to the purchaser on an earlier occasion.

Control of the asset may have transferred on a date earlier than the occupancy date; in which case, the property sale is reported as income at this earlier date. When assessing the date at which income is recognised, consideration is given to what has been agreed between the parties concerning risks and benefits, as well as involvement in day-to-day management. In addition, consideration is given to circumstances beyond the seller's and/or purchaser's control that could affect the outcome of the transaction.

In the sale of properties where rent guarantees exist, the present value is calculated of the likely outflow of guarantee payments, and this is recognised as a provision.

## 8. Leases

Leases are classified either as finance or operating leases. Finance leases exist when the economic risks and benefits associated with ownership are in all material respects transferred to the lessee. When this is not the case, the lease is an operating lease.

Expenses relating to operating leases are recognised in profit or loss for the year on a straight line basis over the term of the lease. Benefits received in connection with signing a lease are recognised in profit or loss for the year as a reduction in the lease payments, on a straight line basis over the term of the lease. Benefits received in connection with signing a lease are recognised through profit or loss as a reduction in the total cost of the lease, on a straight line basis. Variable payments are recognised in expenses in the periods when they arise. Pandox's leases are for company cars and office equipment. Although these are by definition finance leases, as they are not deemed of material significance, they are recognised as operating leases.

All leases for premises are classified as operating leases. See "Rental income" section above.

The Group has no finance leases where the Group is the lessor.

## 9. Financial income and expense

Financial income consists of interest income on invested funds. Interest income is recognised using the effective-interest method, as the income is earned.

Financial expenses are interest, charges and other expenses arising when Pandox takes on interest-bearing liabilities. These expenses are included in the interest expense that is recognised according to the effective-interest method.

Exchange gains and losses are recognised as net amounts.

Derivatives are used to hedge the risks for the interest risk the Group is exposed to. Interest payments for interest rate derivatives (interest rate swaps) are recognised as interest expense in the period to which they relate. Other changes in the fair value of interest rate derivatives are recognised on a separate line in profit or loss for the year.

Dividend revenue is recognised when the right to receive dividends is established at the respective subsidiaries' annual general meetings.

## 10. Change in value of Investment Properties and unrealised changes in value of derivatives

Unrealised and realised changes in the fair value of Investment Properties and unrealised changes in the value of interest rate derivatives are recognised through profit or loss in separate items after the financial items under the heading: Changes in value.

## 11. Taxes

Income taxes consist of current tax and deferred tax. Income taxes are recognised in profit or loss for the year, except when the underlying transaction is recognised in other comprehensive income or in equity, in which case the accompanying tax effect is also recognised in other comprehensive income or equity.

Current tax is tax to be paid or received for the year in question applying the tax rates that have been enacted or substantively enacted as of the closing day. Current tax also includes adjustment of current tax that is attributable to earlier periods.

Deferred tax is calculated according to the balance sheet method based on temporary differences arising between reported and fiscal values of assets and liabilities. Temporary differences are not taken into account in consolidated goodwill, nor are differences arising on initial recognition of assets and liabilities that are

not business combinations and that on the transaction date affect neither recognised nor taxable profit – such as in the case of asset purchases. Also not taken into account are temporary differences attributable to shares in subsidiaries and associated companies that are not expected to be reversed in the foreseeable future. Deferred tax is measured based on how the underlying assets or liabilities are expected to be realised or paid. Current tax is calculated applying the tax rates and tax rules that have been enacted or substantively enacted as of the closing day.

Deferred tax assets related to deductible temporary differences and loss carry-forwards are only recognised to the extent that it is probable they will be utilised. The value of deferred tax assets is reduced when it is no longer deemed probable that they can be utilised.

When shares in subsidiaries are acquired, the acquisition is classified as either a business combination or an asset purchase. In business combinations, deferred tax is recognised as a nominally applicable undiscounted rate according to the principles above. In asset purchases, no deferred tax is recognised; instead the value of the property is reduced by the amount that, at the time of purchase, related to deductions attributable to deferred tax on the assets. However, deferred tax is recognised on changes in the value of Investment Properties during the year.

## 12. Properties

### 12.1 Investment Properties

Investment Properties are properties owned for the purpose of obtaining rental income, an appreciation in value or a combination of both. Investment Properties include buildings, land, land improvements and property equipment. Properties under construction and reconstruction that are intended for use as Investment Properties once work is completed are also classified as Investment Properties.

Investment properties are recognised at fair value in accordance with accounting standard IAS 40. Investment Properties are initially recognised at cost including expenses directly attributable to the acquisition.

Fair value is based on the market value and represents the estimated amount that would be received in a transaction on the appraisal date between knowledgeable parties who are independent of each other and who have an interest in ensuring the transaction is executed following customary marketing, where both parties are assumed to have acted in a way that is well-informed, wise and free of pressure.

Fair value is established through an internal valuation model which is described in Note 13. The valuation model used is a combination of the location price method and the yield-based method. The valuation model consists of a cash flow model in which future cash flows that the Investment Properties are expected to generate are discounted. In addition to the internal valuation, the Investment Properties go through an annual external valuation process. A detailed inspection is conducted at least every three years. A description of the valuation methods, significant input data in value assessments and the level of the properties in the value hierarchy can be found in Note 13.

Both unrealised and realised changes in value are recognised in profit or loss for the year. Realised changes in value are changes in value from the most recent quarterly report up to the divestment date for properties divested during the period, after taking into account capitalised investment expenses during the period. Unrealised changes in value are other changes in value not arising from acquisitions or capitalised investment expenses.

Property sales and property purchases are recognised when the risks and benefits associated with ownership are transferred to the buyer from the seller. See section 7.4 Revenue from property sales.

Further expenditures are only added to the recognised value for Investment Properties if it is probable that the future economic benefits associated with the expenditure will accrue to the Company and the cost can be reliably calculated. All other further expenditures are expensed in the period when they arise. Expenditure for replacement of identified components and addition of new components are added at their carrying amounts when they meet the criteria described above. Repairs and maintenance costs are expensed as they arise.

### 12.2 Operating Properties and equipment/interiors

The properties used in Operator Activities are classified as Operating Properties. Operating Properties are recognised at cost minus depreciation and any impairment losses.

The Operating Properties consist of a number of components with varying useful lives. The main division is into buildings and land. There is no depreciation of the land component as its useful life is deemed to be unlimited. The buildings consist of a number of components whose useful lives vary.

Further expenditures are added to cost only if it is likely that the future economic benefits associated with the asset will accrue to the Company and the cost can be reliably calculated. All other further expenditures are expensed in the period when they arise.

A further expenditure is added to cost if the expenditure is related to replacement of identified components or parts thereof. In cases where a new component is created, this expenditure is also added to cost. Any undepreciated carrying amounts for replaced components, or parts of components, are disposed of and expensed at the time of the replacement. Repairs are expensed on a continuous basis. Depreciation periods are between three and 150 years, depending on the component.

The following main groups of components have been identified and form the basis for the depreciation of buildings, the straight line method of depreciation being applied:

– Frame	150 years
– Roof	50 years
– Facade	50 years
– Interior surfaces	20 years
– Installations	25 years
– Bathrooms	25 years
– Special adaptations	50 years
– Fixtures and fittings	15–25 years
– Land improvements	28 years
– Equipment/interiors	3–25 years

The depreciation methods, residual values and useful lives used are reassessed at the end of each year.

**13. Property, plant and equipment which are not Operating Properties**  
Property, plant and equipment are recognised within the Group at cost minus accumulated depreciation and any impairment losses. Cost includes the purchase price plus expenses directly attributable to the asset in order to bring it to the location and condition to be used in the manner intended when it was purchased. Accounting principles for impairment losses are described below. The carrying amount of a property, plant and equipment item is removed from the statement of financial position when an item is disposed of or divested, or when no further economic benefits are expected from the use or disposal/divestment of the asset. Gains or losses arising from divestment or disposal of an asset consist of differences between the selling price and the asset's carrying amount minus direct costs to sell.

#### Depreciation principles

Depreciation occurs on a straight line basis over the estimated useful life of the asset:

- Machinery and equipment 3–15 years

#### Additional expenses

Further expenditures are added to cost only if it is likely that the future economic benefits associated with the asset will accrue to the Company and the cost can be reliably calculated. All other further expenditures are expensed in the period when they arise.

## 14. Financial instruments

Financial instruments recognised in the statement of financial position include the assets' financial investments, cash and cash equivalents, loan receivables, rental and accounts receivable and derivatives. The liabilities include trade accounts payable, loan liabilities and derivatives.

#### 14.1 Recognition in and derecognition from the statement of financial position

A financial asset or financial liability is recognised in the statement of financial position when the Company becomes a party to the contractual provisions of the instrument. A receivable is recognised when the Company has performed and there is a contractual obligation for the counterparty to pay, even if an invoice has not yet been sent. Trade accounts receivable are recognised in the statement of financial position when an invoice has been sent. A liability is recognised when the counterparty has performed and there is a contractual obligation to pay, even if an invoice has not yet been received. Trade payables are recognised when an invoice is received.

A financial asset is derecognised from the statement of financial position when the contractual rights are realised, expire or the Company loses control of them. The same applies to a portion of a financial asset. A financial liability is derecognised from the statement of financial position when the contractual obligation is fulfilled or otherwise extinguished. The same applies to a portion of a financial liability. Offsetting of financial assets and financial liabilities occurs and the net amount is recognised in the statement of financial position only when the Company has a legal right to offset items against each other and intends to settle these items in a net amount or simultaneously realise the asset and settle the liability.

Acquisitions and divestments of financial assets are recognised on the transaction date, which is the date the Company undertakes to acquire or divest the asset.

#### 14.2 Classification and measurement

Financial instruments are initially recognised at cost, equivalent to the instrument's fair value plus transaction costs for all financial instruments except instruments in the categories of assets or liabilities at fair value through profit or loss, which are recognised at fair value exclusive of transaction costs. A financial instrument is classified upon initial recognition based, among other things, on the purpose for which the instrument was acquired. The classification determines how the financial instrument is measured after initial recognition, as described below.

Cash and cash equivalents comprise cash and immediately available deposits at banks and equivalent institutions, plus short-term liquid investments with a maturity from the acquisition date of less than three months and which are subject to only an insignificant risk of fluctuations in value.

##### *Financial assets measured at fair value through profit or loss*

Financial instruments in this category are measured on an ongoing basis at fair value with changes in value recognised through profit or loss. This category includes derivative instruments with a positive fair value. Pandox does not use the option to measure other financial instruments at fair value.

##### *Loans receivable and trade accounts receivable*

The category of loans receivables and trade accounts receivable consists of financial assets that are not derivatives, that have established or determinable payment amounts and that are not listed on an active market. These assets are measured at amortised cost. Rental receivables and other receivables are recognised at the amounts that are expected to be received, i.e. after deductions for doubtful receivables.

##### *Financial liabilities measured at fair value through profit or loss*

Financial instruments in this category are measured on an ongoing basis at fair value with changes in value recognised through profit or loss. This category includes derivative instruments with negative fair values. Pandox does not use the option to measure other financial instruments at fair value.

##### *Other financial liabilities*

Loans and other financial liabilities, e.g. trade accounts payable, are included in this category. The liabilities are measured at amortised cost.

#### *Derivatives and interest-rate risk*

Interest-rate swaps are used for financial hedging of forecast interest flows from borrowing at variable interest rates; in these, the Company receives variable interest and pays fixed interest. Interest-rate swaps are measured at fair value in the statement of financial position. The interest coupon portion is recognised on an ongoing basis as a component of interest expense. Unrealised changes in fair value on interest-rate swaps are recognised through profit or loss after the financial items on the line for changes in the value of derivatives.

#### 15. Inventories

Inventories are stocks of consumables in the hotel operations.

Inventories are measured at cost or net realisable value, whichever is lower. The cost of inventories is calculated using the first-in, first-out (FIFO) method and includes expenditures that have arisen from the acquisition of inventory assets and from bringing them to their present location and condition.

Net realisable value is the estimated selling price in the course of operations less the estimated costs for completion and the estimated costs necessary to make the sale.

#### 16. Impairment

The assets carried in the Group are tested on each closing date for indications of impairment. IAS 36 is applied to the impairment of assets other than financial assets (which are recognised according to IAS 39), inventories, deferred tax assets, assets arising in connection with employee benefits (IAS 19) and Investment Properties carried at fair value (IAS 40). For the assets excluded above, the carrying amounts are determined according to the respective standard.

##### *16.1 Impairment of property, plant and equipment*

If there is an indication of impairment, the recoverable amount of the asset is calculated as described below. If it is not possible to determine the largely independent cash flows for an individual asset, and its fair value less costs to sell cannot be used, the assets are grouped for the purpose of impairment testing at the lowest level at which it is possible to identify largely independent cash flows – a so-called cash-generating unit.

An impairment loss is recognised when an asset's or a cash-generating unit's carrying amount exceeds its recoverable amount. Impairment losses are expensed through profit or loss. The recoverable amount is the higher of fair value and value in use, less costs to sell. When calculating value in use, future cash flows are discounted using a discounting factor that takes into account risk-free interest and the risk associated with the specific asset.

##### *16.2 Impairment of financial assets*

At each reporting date the Company assesses whether there is objective evidence of impairment of a financial asset or group of assets. Objective evidence consists of an observable circumstance that has arisen and that has a negative impact on the ability to recover the cost of the asset.

The Company reviews which rents are unpaid by the tenth day of the next month.

The Company classifies rental receivables and other receivables as doubtful based on individual assessments in connection with the monthly reviews. Impairment of the receivables is established based on past experience of bad debt losses with similar receivables. Receivables where there is indication of impairment are recognised at the present value of future cash flows. Receivables close to their due date are not discounted.

##### *16.3 Reversal of impairment losses*

Impairment losses on assets covered by IAS 36 are reversed if there is both an indication that the impairment loss no longer exists and there has been a change in the assumptions on which the calculation of the recoverable amount was based. An impairment loss is reversed only to the extent that the carrying amount of the asset after the reversal does not exceed the carrying amount that the asset would have

had, minus depreciation/amortisation where applicable, if no impairment loss had been recognised.

Impairment losses on loan receivables and trade accounts receivable that are recognised at amortised cost are reversed if the past reason for the impairment loss no longer exists and the corresponding payment is expected to be received from the customer.

## 17. Employee benefits

### 17.1 Defined contribution pension plans

Defined contribution plans are plans for post-employment benefits where a company pays fixed contributions to another company (normally an insurance company) and has no legal obligation or informal obligation to pay any additional amount, even if the other company does not meet its commitments. In such plans the size of the employee's pension depends on the contributions the Company pays into the plan or to an insurance company, and on the return on capital those contributions provide. Consequently, it is the employee who bears the actuarial risk that the benefits will be lower than expected and the investment risk, i.e. that the invested assets will be insufficient to provide the anticipated benefits. The Company's obligations with respect to contributions to defined contribution plans are expensed through profit or loss as they are earned when the employees perform services for the Company over a period of time.

### Endowment policies for employees

The Company has defined contribution endowment policies for employees who have a pension premium exceeding ten price base amounts (SEK 445,000 for 2015). Under the Company's pension policy, the portion which exceeds 10 price base amounts is invested in an endowment policy. The premium is defined as a percentage of salary taking into account the employee's salary and age, and the endowment policy is pledged to the employee.

### Incentive scheme for employees

A share-related incentive scheme exists for senior executives and key individuals. Pandox's incentive scheme is reported according to IFRS 2. The scheme gives rise to a commitment to the scheme participants that is measured at fair value and reported as an expense, with a corresponding increase in liabilities. Fair value is calculated as of the end of each reporting period. The expense is distributed and the liability accumulated over the scheme's vesting period. Payroll overheads attributable to the incentive scheme are expensed and recognised as a liability in the same way – i.e. over the vesting period and based on the fair value of the shares as of each reporting date. For more information see Note 9 Salaries, other remuneration and payroll overheads.

### 17.2 Short-term benefits

Short-term benefits to employees are calculated without discount and expensed when the related services are performed. A debt is recognised for the anticipated cost of bonus payments when the Group has a valid legal or informal obligation to make such payments because services have been performed by employees and the obligations can be reliably calculated.

### 17.3 Termination benefits

Benefits associated with the termination of employment are expensed at the earlier of the date that the company can no longer withdraw the offer to the employee or the date that the company recognises restructuring costs. Benefits that are expected to be paid after a period of twelve months are recognised at their present value. Benefits that are not expected to be paid in full within twelve months are recognised as long-term benefits.

## 18. Provisions

A provision differs from other liabilities in that there is uncertainty concerning the time of payment or the sum required for settlement. A provision is recognised in the statement of financial position when there is an existing legal or constructive obligation as a result of a past event, it is probable that an outflow of economic resources will be required to settle the obligation and a reliable estimate of the amount can be made. Provisions are made in the amount that represents the best estimate of funds needed to settle the existing obligation on the closing day. A provision for a loss-making contract is recognised when the anticipated benefits the Group is expected to receive from a contract are lower than the unavoidable costs to meet the obligations under the contract.

In the sale of properties where rent guarantees exist, the present value is calculated of the likely outflow of guarantee payments, and this is recognised as a provision.

## 19. Non-current assets held for sale

The significance of a non-current asset or a disposal group that has been classified as held for sale is that its carrying amount will be largely recovered through the sale of the asset and not through its use. An asset or disposal group is classified as held for sale if it is available for immediate sale in its existing condition and it is very likely that a sale will take place. These assets or disposal groups are reported on a separate line as current assets or current liabilities in the statement of financial position. For depreciable assets, depreciation stops after it is classified as an asset held for sale.

Immediately before classification as held for sale, the Group determines the carrying amount of the assets and all the assets and liabilities in a disposal group in accordance with the applicable standards. Upon initial classification as held for sale, non-current assets and disposal groups are recognised at their carrying amount or fair value, whichever is the lower, less costs to sell. Certain assets – individual assets or assets in a disposal group – are exempted from the measurement rules described above, such as financial assets and deferred tax assets.

## 20. Contingent liabilities

A contingent liability is recognised when there is a possible obligation arising from past events and the event is only confirmed by one or more uncertain future events that are outside the Group's control, or where there is an obligation that is not recognised as a liability or provision because it is not likely that an outflow of resources will be required or this cannot be estimated with sufficient reliability.

## 21. Non-controlling interests

Non-controlling interests, which consist of the share of Group companies' profit or loss and net assets not accruing to the Parent Company's shareholders, are reported as a special item within equity. In the consolidated statement of comprehensive income the share attributable to non-controlling interests is included in comprehensive income for the year. For 2015 comprehensive income for the year is not affected.

## 22. Distribution of capital to shareowners

### 22.1 Dividend

Dividends are recognised as liabilities after the dividend is approved by the Annual General Meeting.

## 23. Earnings per share

The earnings per share calculation is based on the Group's profit for the year attributable to the owners of the Parent Company and on the weighted average number of shares outstanding during the year. At this time there are no potential ordinary shares that could result in dilution.

With a view to making earnings per share comparable over time, the average number of shares outstanding and earnings per share have been adjusted for the 2015 split as if the split had been implemented before the start of the historical periods.

#### 24. Parent Company accounting principles

The Parent Company's annual report is prepared in accordance with the Swedish Annual Accounts Act (1995:1554), Swedish Financial Reporting Board recommendation RFR 2 (Accounting for Legal Entities) and the statements issued by the Swedish Financial Reporting Board (UFR). RFR 2 requires the Parent Company to apply all EU-adopted IFRS standards and statements as far as this is possible within the framework of the Swedish Annual Accounts Act and the Swedish Pension Obligations Vesting Act, and taking into account the connection between reporting and taxation. The recommendation states the exceptions from and additions to IFRS that must be made. The Parent Company's transition from K3 to RFR2 has not had any material impact.

#### Differences between the Group's and the Parent Company's accounting principles

##### *Classification and presentation*

The Parent Company's annual report includes an income statement and balance sheet in accordance with Chapter 9 of the Annual Accounts Act (ÅRL). They are presented according to the presentation schedule in ÅRL. The differences between the Parent Company's income statement and balance sheet and the Group's financial statements mainly relate to reporting of financial income and expense, non-current assets, equity, and provisions as a separate heading in the balance sheet.

##### *Subsidiaries*

The Parent Company recognises participations in subsidiaries according to the cost method, whereby transaction expenses are included in the carrying amounts of holdings in subsidiaries. Contingent consideration is measured based on the likelihood that the consideration will be paid. Any changes in provisions/receivables are added to/subtracted from cost. The value of shares in subsidiaries is reassessed if impairment is indicated.

##### *Financial instruments and hedge accounting*

Due to the connection between reporting and taxation, the rules for financial instruments and hedge accounting in IAS 39 are not applied to the Parent Company as a legal entity.

The Parent Company's financial non-current assets are measured at cost less any impairment losses, and financial current assets are measured according to the lowest cost principle. The cost of interest-bearing instruments is adjusted for the accrued difference between the amount originally paid after deducting transaction costs and the amount paid on the maturity date (premium or discount).

Interest-rate swaps that effectively hedge cash-flow risk in interest payments on liabilities are measured net of the accrued receivable for variable interest and accrued liability for fixed interest. The difference is recognised as interest expense or interest income. Hedging is effective if the financial substance of the hedge and the liability are the same as if the liability had instead been recognised at a fixed market interest rate when the hedging relationship was entered into. Any premium paid for the swap agreement is accrued as interest over the term of the agreement.

##### *Anticipated dividends*

Anticipated dividends from subsidiaries are reported in cases where the Parent Company has the sole right to determine the size of the dividend and the Parent Company has taken a decision on the size of the dividend before publishing its financial statements.

##### *Operating segment reporting*

The Parent Company does not report segments with the same breakdown and to the same extent as the Group, but instead discloses the breakdown of net sales by the Parent Company's business streams.

##### *Property, plant and equipment*

Property, plant and equipment for the Parent Company is recognised at cost after deduction for accumulated depreciation and any impairment losses in the same way as for the Group, but with the addition of any appreciation.

##### *Leased assets*

The Parent Company recognises all leases according to the rules for operating leases.

##### *Group contributions*

Group contributions are recognised as year-end appropriations in the income statement for the Parent Company.

##### *Provisions and financial guarantees*

Provisions are recognised on a separate line in the balance sheet for the Parent Company. The Parent Company applies the easing rule in RFR2 in its recognition of financial guarantees issued on behalf of subsidiaries, which means that IAS 39 Financial Instruments is not applied. The Parent Company's financial guarantees mainly consist of sureties in favour of subsidiaries and are reported as contingent liabilities. Where a commitment exists for the Parent Company, the financial guarantee is instead recognised as a provision.

## NOTE 2 OPERATING SEGMENTS

Pandox's segments consist of the Property Management and Operator Activities business segments. The Property Management segment is involved in improving and managing properties and providing external customers with premises for hotels and other types of premises adjacent to hotel properties. The Operator Activities segment owns hotel properties and operates hotels. Non-allocated items are any items that are not attributable to a specific segment or are common to all. The segments have been established based on the reporting that takes place internally to executive management on financial outcomes and position. Segment reporting

applies the same accounting principles as those used in the Annual Report in general, and the total amounts reported for the segments are the same as those for the Group. Significant transactions between the segments consist of internal loans that carry interest. No internal sales transactions take place between the segments. Scandic and Nordic Choice Hotels are customers who account for more than 10 percent of revenues. In 2015 the management revenue from Scandic amounted to MSEK 833 (791) and from Nordic Choice Hotels MSEK 185 (192), which is equivalent to 56.2 (53.5) and 12.5 (13.0) percent respectively of total hotel rental income.

GROUP  
2015

MSEK	Property Management	Operator Activities	Group-wide and non-allocated items	Total
<b>Revenue, Property Management</b>				
Rental income and other property revenue	1,543	—	—	1,543
Revenue, Operator Activities	—	2,046	—	2,046
<b>Revenue</b>	<b>1,543</b>	<b>2,046</b>	<b>—</b>	<b>3,589</b>
<b>Costs, Property Management</b>				
Costs, Operator Activities <sup>1)</sup>	—	-1,767	—	-1,767
<b>Gross profit</b>	<b>1,280</b>	<b>279</b>	<b>—</b>	<b>1,559</b>
<i>– of which gross profit, Property Management</i>	<i>1,280</i>	<i>—</i>	<i>—</i>	<i>1,280</i>
<i>– of which gross profit, Operator Activities</i>	<i>—</i>	<i>279</i>	<i>—</i>	<i>279</i>
Central administration	—	—	-94	-94
Financial income	—	—	3	3
Financial expense	—	—	-441	-441
<b>Profit before changes in value</b>	<b>1,280</b>	<b>279</b>	<b>-532</b>	<b>1,027</b>
<b>Changes in value</b>				
Properties, unrealised	1,387	—	—	1,387
Properties, realised	12	—	—	12
Derivatives, unrealised	—	—	203	203
<b>Profit before tax</b>	<b>2,679</b>	<b>279</b>	<b>-329</b>	<b>2,629</b>
Current tax	—	—	-35	-35
Deferred tax	—	—	-463	-463
<b>Profit for the year</b>	<b>2,679</b>	<b>279</b>	<b>-827</b>	<b>2,131</b>

2015	Sweden	Denmark	Norway	Finland	International	Total
<b>Geographical markets</b>						
<b>Revenue</b>						
Property Management	882	142	242	221	56	1,543
Operator Activities	22	134	248	23	1,619	2,046
Properties, market value <sup>2)</sup>	13,463	2,608	2,611	3,020	9,735	31,437
Investments in properties <sup>3)</sup>	117	58	52	53	112	392
Acquisition of properties	—	—	—	—	3,665	3,665
Realised change in value, properties	—	—	—	—	12	12

<sup>1)</sup> Expenses for Operator Activities include depreciation of Operating Properties at MSEK 137.

<sup>2)</sup> Also includes fair value of Operating Properties at MSEK 6,375 and properties classified as assets held for sale.

<sup>3)</sup> Includes investments in equipment/interiors of Operating Properties at MSEK 42.

GROUP 2014				
MSEK	Property Management	Operator Activities	Group-wide and non-allocated items	Total
<b>Revenue, Property Management</b>				
Rental income and other property revenue	1,478	—	—	1,478
Revenue, Operator Activities	—	1,598	—	1,598
<b>Revenue</b>	<b>1,478</b>	<b>1,598</b>	<b>—</b>	<b>3,076</b>
<b>Costs, Property Management</b>				
Costs, Operator Activities <sup>1)</sup>	—	-1,387	—	-1,387
<b>Gross profit</b>	<b>1,186</b>	<b>211</b>	<b>—</b>	<b>1,397</b>
<i>– of which gross profit, Property Management</i>	<i>1,186</i>	<i>—</i>	<i>—</i>	<i>1,186</i>
<i>– of which gross profit, Operator Activities</i>	<i>—</i>	<i>211</i>	<i>—</i>	<i>211</i>
Central administration	—	—	-82	-82
Financial income	—	—	5	5
Financial expense	—	—	-541	-541
<b>Profit before changes in value</b>	<b>1,186</b>	<b>211</b>	<b>-618</b>	<b>779</b>
<b>Changes in value</b>				
Properties, unrealised	906	—	—	906
Properties, realised	291	—	—	291
Derivatives, unrealised	—	—	-622	-622
<b>Profit before tax</b>	<b>2,383</b>	<b>211</b>	<b>-1,240</b>	<b>1,354</b>
Current tax	—	—	-16	-16
Deferred tax	—	—	-85	-85
<b>Profit for the year</b>	<b>2,383</b>	<b>211</b>	<b>-1,341</b>	<b>1,253</b>

2014						
Geographical markets	Sweden	Denmark	Norway	Finland	International	Total
<b>Revenue</b>						
Property Management	869	143	199	206	61	1,478
Operator Activities	—	90	—	25	1,483	1,598
Properties, market value <sup>2)</sup>	12,349	2,577	2,636	3,103	5,839	26,504
Investments in properties <sup>3)</sup>	202	33	22	130	141	528
Realised change in value, properties	249	—	—	—	42	291

<sup>1)</sup> Expenses for Operator Activities include depreciation of Operating Properties at MSEK 109.

<sup>2)</sup> Also includes fair value of Operating Properties at MSEK 5,661.

<sup>3)</sup> Includes investments in equipment/interiors of Operating Properties at MSEK 88.

## NOTE 3 RENTAL INCOME

### Operating leases

Pandox's lease agreements are largely linked to the hotels' sales and usually involve a guaranteed minimum rent, making it possible to have increased revenue as well as protection against a downturn. The average remaining length of leases at the end of the financial year amounted to 11.2 (9.0) years for the current portfolio. The operating leases are non-cancellable. The maturity structure for the future rental income as of the closing day is presented in the table below. Contractual rental income has been translated at the exchange rate on the closing day. Total variable revenue is included at MSEK 675 (626) of the total rental income of MSEK 1,431 (1,418) in 2015.

GROUP RENTAL INCOME, MATURITY STRUCTURE OF CONTRACTUAL RENT		
MSEK	2015	2014
<b>Rental income</b>		
Maturing within one year	1,490	1,322
Maturing in 1–5 years	6,467	5,508
Maturing after more than 5 years	8,528	5,029
<b>Total</b>	<b>16,485</b>	<b>11,859</b>

Around four percent of rental income comes from other rents from offices and retail outlets, and other minor rental income. These lease terms are significantly shorter and the rental income is not included in the table above.

## NOTE 4 CENTRAL ADMINISTRATION COSTS

Central administration includes costs for central functions such as executive management, business development, finance, the Board of Directors, HR, legal affairs, IT, audit, administration, IR, costs of maintaining the Company's listing, and depreciation of the machinery and equipment belonging to central administration. Central administration also includes the costs of a share price-related incentive scheme for Group management at MSEK 13 (0).

### REMUNERATION TO AUDITORS

MSEK	Group		Parent Company	
	2015	2014	2015	2014
<b>KPMG</b>				
Audit assignments	-5	-5	-1	-1
Tax advisory services	-3	—	—	—
Other assignments <sup>1)</sup>	-5	-2	-5	-1
<b>PwC</b>				
Audit assignments	-3	-3	—	—
Tax advisory services	0	0	—	—
Other assignments	0	0	—	—
<b>Other</b>				
Other assignments	0	0	—	—
<b>Total</b>	<b>-16</b>	<b>-10</b>	<b>-6</b>	<b>-2</b>

<sup>1)</sup> Other assignments refers to costs associated with the transition to IFRS.

## NOTE 5 PROPERTY MANAGEMENT COSTS

GROUP MSEK	2015	2014
Operating costs	-29	-37
Maintenance costs	-59	-77
Property tax	-77	-84
Site leasehold rent	-32	-31
Property administration	-56	-56
Other administration costs	-10	-7
<b>Total</b>	<b>-263</b>	<b>-292</b>

Operating costs include costs for electricity, heating, water and janitorial services. Maintenance costs consist of ongoing maintenance to maintain the standard of the properties and their technical systems. Site leasehold rent must be paid annually to the municipality by owners of buildings on municipal land. Property tax is a Swedish government tax based on the property's rateable value. The tax rate for 2015 was 1.0 percent of the rateable value for multi-unit properties, which is the category to which hotel properties belong.

A portion of the operating costs and the property tax is passed on to the tenants. This revenue is recognised under the heading "Other property revenue" in the income statement at MSEK 112 (60), of which MSEK 60 is a one-time payment relating to mediation. Property administration of MSEK 56 (56) comprises administration costs for Property Management.

## NOTE 6 OPERATOR ACTIVITIES COSTS

GROUP MSEK	2015	2014
Employee costs	-738	-641
Marketing and sales	-155	-151
Repairs and maintenance	-10	-28
Other operating costs	-727	-458
Depreciation	-137	-109
<b>Total</b>	<b>-1,767</b>	<b>-1,387</b>

Costs for Operator Activities include costs for employees, administration, marketing, maintenance and operating costs. Maintenance costs consist of ongoing maintenance to maintain the standard of the properties and their technical systems. Also included is depreciation of Operating Properties recognised at book value and charged with annual depreciation.

## NOTE 7 OPERATING COSTS BY TYPE

GROUP MSEK	2015	2014
Employee costs	-822	-656
Marketing and sales	-155	-151
Maintenance	-69	-105
Operation and administration	-752	-624
Site leasehold rents	-32	-31
Property tax	-158	-84
Depreciation	-137	-110
<b>Total</b>	<b>-2,125</b>	<b>-1,761</b>

Employee costs include salary costs of MSEK 816 (649). Maintenance costs consist of ongoing maintenance to maintain the standard of the properties and their technical systems. Also included is depreciation of Operating Properties recognised at book value and charged with annual depreciation, as well as depreciation of office equipment.

## NOTE 8 SITE LEASEHOLD AGREEMENTS AND OTHER LEASES

GROUP MSEK	2015	2014
Site leasehold agreements, maturity structure		
Maturing within one year	-32	-32
Maturing in 2-5 years	-105	-113
Maturing after more than 5 years	-405	-252
<b>Total</b>	<b>-542</b>	<b>-397</b>

Operating leases are leases where a company within the Group is the lessee. The operating leases are mainly site leaseholds. The cost in 2015 for site leasehold rents was MSEK 32 (31). The average remaining leasehold period is 18 years. The payments are expensed on a straight line basis over the term of the lease.

The Parent Company leases two offices. The main lease has a term until 30 September 2021. The second lease has a term until 14 March 2020. The rent is MSEK 4 (4) a year for both offices with the customary index adjustment.

The amount of future rent payments for small offices in Finland is considered insignificant in this context. A few leases have been signed for vehicles and office equipment which mature within three years. These amounts are also insignificant.

## NOTE 9 SALARIES, OTHER REMUNERATION AND PAYROLL OVERHEADS

The average number of employees in 2015 amounted to 1,731 (1,457) broken down by country and gender as shown below.

	Group		Parent Company	
	2015	2014	2015	2014
Average number of employees				
Women	860	748	11	12
Men	871	709	11	10
<b>Total</b>	<b>1,731</b>	<b>1,457</b>	<b>22</b>	<b>22</b>

### Board of Directors

Women	2	1	2	1
Men	5	6	5	6
<b>Total</b>	<b>7</b>	<b>7</b>	<b>7</b>	<b>7</b>

### Senior executives

Women	2	1	2	1
Men	4	4	3	4
<b>Total</b>	<b>6</b>	<b>5</b>	<b>5</b>	<b>5</b>

### Average number of employees by country

Sweden	56	22	22	22
Belgium	529	558	—	—
Germany	354	385	—	—
Canada	385	422	—	—
Denmark	62	41	—	—
Finland	22	26	—	—
Norway	323	3	—	—
<b>Total</b>	<b>1,731</b>	<b>1,457</b>	<b>22</b>	<b>22</b>

Salaries, fees and benefits, MSEK	Group		Parent Company	
	2015	2014	2015	2014
<b>Chairman of the Board</b>				
Christian Ringnes	-0.4	—	-0.4	—
<b>Other board members</b>				
Leiv Askvig	-0.3	—	-0.3	—
Ann-Sofi Danielsson	-0.0	—	-0.0	—
Olaf Gauslå	-0.3	—	-0.3	—
Christian Sundt	-0.2	—	-0.2	—
Helene Sundt	-0.3	—	-0.3	—
Bengt Kjell	-0.4	-0.4	-0.4	-0.4
Mats Wäppling	-0.4	-0.4	-0.4	-0.4
<b>Chief Executive Officer</b>				
Basic salary	-4.5	-4.5	-4.5	-4.5
Variable remuneration	-1.5	-1.5	-1.5	-1.5
Incentive scheme	-3.0	—	-3.0	—
<b>Other senior executives</b>				
Basic salary	-6.1	-6.2	-6.1	-6.2
Variable remuneration	-2.2	-2.1	-2.2	-2.1
Fees	-6.6	-5.9	-1.9	-0.9
Incentive scheme	-4.2	—	-4.2	—
<b>Other employees</b>	<b>-648.1</b>	<b>-488.1</b>	<b>-16.4</b>	<b>-15.9</b>
Incentive scheme	-2.5	—	-2.5	—
<b>Total</b>	<b>-681.0</b>	<b>-509.2</b>	<b>-44.6</b>	<b>-32.0</b>

### Contractual pension costs

Chief Executive Officer	-1.5	-1.5	-1.5	-1.5
Other senior executives	-2.6	-1.7	-2.6	-1.7
Other employees	-19.5	-13.7	-2.8	-3.3
<b>Total</b>	<b>-23.6</b>	<b>-16.9</b>	<b>-6.9</b>	<b>-6.5</b>

### Payroll overheads including payroll tax

Chairman of the Board	-0.2	—	-0.2	—
Other board members	-0.6	-0.3	-0.6	-0.3
Chief Executive Officer	-3.2	-2.3	-3.2	-2.3
Other senior executives	-4.7	-3.1	-4.7	-3.1
Other employees	-109.0	-117.6	-6.0	-5.9
<b>Total</b>	<b>-117.7</b>	<b>-123.3</b>	<b>-14.7</b>	<b>-11.5</b>
<b>Total</b>	<b>-822.3</b>	<b>-649.3</b>	<b>-66.2</b>	<b>-50.1</b>

### Remuneration of senior executives

#### Principles

Fees are paid to the Board of Directors as decided at the Annual General Meeting. At an extra board meeting on 23 November 2015 it was decided to establish an audit committee and compensation for this. Remuneration to the Chief Executive Officer and other senior executives consists of basic salary, variable remuneration, other benefits and pension benefits. Other senior executives are individuals who, in addition to the CEO, make up the executive management team. In 2015 this was five individuals. The variable component is to consist of a significant percentage of the possible remuneration and is maximised at around 34 percent of the fixed annual salary. The variable component is based on performance in relation to property management outcomes and individually set targets.

#### Variable remuneration

Variable remuneration for the CEO for 2015 was based on property management outcomes and individually set targets. The amount for the CEO in 2015 was MSEK -1.5 (-1.5), 33.3 (33.3) percent of basic salary. For other senior executives variable remuneration for 2015 has the same basis as for the CEO. The amount for these executives in 2015 was MSEK -2.2 (-2.1).

#### Incentive scheme

On 5 May 2015 the Board of Directors decided to introduce a long-term incentive scheme for the senior executives and other key individuals. The incentive scheme is a bonus scheme based on the Pandox share price in December 2020. The incentive scheme matures on 31 December 2020. Upon maturing, the share price for Pandox B shares ("Maturity Price") will be compared with an adjusted assumed initial share price ("Initial Share Price"). The difference between the Maturity Price and the Initial Share Price multiplied by a theoretical number of shares per participant that has been used as a basis for calculation will be paid out in cash to the participants. The highest amount that can be paid out to each participant is limited to certain levels, which vary between MSEK 5 and MSEK 30. The maximum total amount that can be paid out to the participants is MSEK 97 excluding payroll overheads. The incentive scheme will be expensed continually throughout the period. For 2015 the sum of MSEK 12.7 (0) including payroll overheads has been expensed and recognised as a provision. Payment of the amounts under the incentive scheme is dependent on the participant remaining employed by the Company on the maturity date and upon neither the participant nor the Company having given notice to terminate employment.

#### Pensions

The CEO has a defined contribution pension plan amounting to 35 percent of fixed salary paid out during the year. The retirement age for the CEO is 65.

#### Notice of termination

If notice is given by the Company, the period of notice is six months for the CEO and between six and 12 months for other senior executives. If notice is given by the CEO or other senior executives, the period of notice is six months. Full salary and other employment benefits will be paid during the notice period. If the Company serves the CEO with notice of termination, severance pay of 18 fixed monthly salaries is payable. This may be reduced if other income is received by the CEO.

#### Pensions for other employees

Other Pandox employees receive an occupational pension plan whereby Pandox pays a contribution to an insurance company selected by the employee in accordance with a defined pension policy. The contributions are defined as a percentage of salary taking into consideration salary levels and age. The pension costs may not exceed 35 percent of salary based on the main principle in the municipal tax code for up to 30 price base amounts, with a contribution limit of no more than 10 price base amounts (SEK 445,000 for 2015). For individuals who have a premium of more than 10 price base amounts, a direct pension plan has been set up to guarantee the pension promised to the employee. Employees are entitled to determine the structure of their individual occupational pension plans within the framework of the pension policy currently in place.

#### Preparation and decision-making processes

Remuneration to senior executives is determined by the Board of Directors based on proposals from the Remuneration Committee. This process is based on guidelines decided on by the Annual General Meeting.

#### Board of Directors in 2015:

Christian Ringnes,	Olaf Gauslå	Helene Sundt
Chairman of the Board	Bengt Kjell	Mats Wäppling
Leiv Askvig	Christian Sundt <sup>1)</sup>	Ann-Sofi Danielsson <sup>2)</sup>

<sup>1)</sup> Outgoing board member at the extraordinary shareholders' meeting held on 23 November 2015.

<sup>2)</sup> Incoming board member at the extraordinary shareholders' meeting held on 23 November 2015.

#### Senior executives in 2015:

Anders Nissen, CEO	Jonas Törner
Liia Nõu, CFO	Aldert Schaaphok
Lars Håggström	Camilla Weiner

#### Board of Directors and senior executives in 2015:

Number in the Parent Company: 13, of which 4 women

Number in the Group: 13, of which 4 women

## NOTE 10 FINANCIAL INCOME AND EXPENSE

MSEK	Group		Parent Company	
	2015	2014	2015	2014
<b>Financial income</b>				
Interest income	3	5	0	2
Interest income, subsidiaries	—	—	59	104
Dividend <sup>1)</sup>	—	—	666	1,265
Capital gains on divestment of subsidiaries <sup>1)</sup>	—	—	3	136
Other financial income	—	—	6	—
<b>Total financial income</b>	<b>3</b>	<b>5</b>	<b>734</b>	<b>1,507</b>
<b>Financial expense</b>				
Interest expense, loans measured at amortised cost	-138	-260	-40	-91
Interest expense, interest-rate derivatives measured at fair value	-292	-262	-140	-110
Interest expense, subsidiaries	—	—	-9	-25
Impairment losses on shares in subsidiaries <sup>1)</sup>	—	—	—	-466
Other financial expense	-11	-19	-22	-40
<b>Total financial expense</b>	<b>-441</b>	<b>-541</b>	<b>-211</b>	<b>-732</b>

<sup>1)</sup> Included in the income statement item Profit from participations in Group companies.

## NOTE 11 OTHER NON-CURRENT RECEIVABLES

MSEK	Group		Parent Company	
	31 Dec 2015	31 Dec 2014	31 Dec 2015	31 Dec 2014
Pension insurance	7	6	7	6
Prepaid compensation for land use	6	6	—	—
Other non-current receivables	12	14	—	1
<b>Total</b>	<b>25</b>	<b>26</b>	<b>7</b>	<b>7</b>

## NOTE 12 TAX

	Group		Parent Company	
	2015	2014	2015	2014
Tax in the income statement, MSEK				
Current tax	-35	-16	—	—
Deferred tax	-463	-85	—	—
<b>Total</b>	<b>-498</b>	<b>-101</b>	<b>—</b>	<b>—</b>

Reconciliation of effective tax rate, MSEK	Group		Parent Company	
	2015	2014	2015	2014
<b>Tax</b>				
Profit reported before taxes	2,629	1,354	571	735
Income tax assessed based on the tax rate in effect	-578	-298	-126	-162
Tax attributable to previous years	54	—	—	—
Non-taxable revenue	3	209	148	308
Non-deductible costs	-1	-2	-1	-103
Previously unrecognised tax loss	33	3	—	—
New tax losses, unrecognised	—	—	-21	-43
Changed tax rate	27	—	—	—
Effective tax rate for foreign companies	-36	-13	—	—
<b>Tax for the year according to the income statement</b>	<b>-498</b>	<b>-101</b>	<b>0</b>	<b>0</b>

### GROUP DEFERRED TAX LIABILITIES

MSEK	Investment Properties	Operating Properties	Equipment	Total
Opening balance, 1 Jan 2014	1,366	287	54	1,707
Change in items recognised in the statement of income	242	-4	9	247
Purchases/Sales/Reclassifications	-45	45	—	0
Change recognised in comprehensive income	26	13	—	39
<b>Closing balance, 31 Dec 2014</b>	<b>1,589</b>	<b>341</b>	<b>63</b>	<b>1,993</b>
Opening balance, 1 Jan 2015	1,589	341	63	1,993
Change in items recognised in the statement of income	445	-44	-63	338
Purchases/Sales/Reclassifications	-35	35	—	—
Change recognised in comprehensive income	-43	-7	—	-50
<b>Closing balance, 31 Dec 2015</b>	<b>1,956</b>	<b>325</b>	<b>0</b>	<b>2,281</b>

Deferred tax liabilities relating to Investment Properties are temporary differences between fair value and adjusted taxable value. The adjustment represents the difference between the property's recognised cost on the date of acquisition, after deducting any tax discount, and the property's estimated value on the date of acquisition.

### GROUP DEFERRED TAX ASSETS

MSEK	31 Dec 2015	31 Dec 2014
Opening balance, loss carryforwards	704	680
Additional loss carryforwards	33	73
Utilised loss carryforwards	-94	-49
Changed tax rate	-4	—
Translation difference on loss carryforwards outside Sweden	-8	—
<b>Closing balance</b>	<b>631</b>	<b>704</b>
Opening balance, interest rate derivatives	220	93
Change for the year	-51	127
<b>Closing balance</b>	<b>169</b>	<b>220</b>
<b>Closing balance, tax assets</b>	<b>800</b>	<b>924</b>

The Group's accumulated tax losses are estimated at MSEK 2,920 (3,224) as of 31 December 2015. The deferred tax assets have been estimated at MSEK 2,842 (3,140) of the tax loss.

#### Limitations on the use of loss carryforwards

The Group's loss carryforwards are limited to some extent due to acquisitions made. These limitations mean that loss carryforwards in one Group company cannot always be offset against profits in another Group company for a certain number of years, due to what is known as a block on group contributions that arises in connection with acquisitions. There is no time limit on the right to use a loss carryforward.

Deferred tax liabilities relating to Operating Properties are temporary differences between the cost and the taxable value of the properties.

Deferred tax liabilities on equipment relates to booked excess depreciation. The lowering of tax rates in Denmark and Norway has reduced deferred tax liabilities by MSEK 32.

## NOTE 13 INVESTMENT PROPERTIES

Investment Properties are recognised using the fair value method. Investment Properties are properties owned for the purpose of obtaining rental income, an appreciation in value or a combination of both. Regarding Operating Properties, i.e. properties where Pandox also acts as hotel operator, see Note 15. The table below shows the change in the fair value of Investment Properties:

GROUP MSEK	31 Dec 2015	31 Dec 2014
Opening balance	20,843	21,911
Acquisitions (at cost)	3,665	—
Investments in existing portfolio	220	353
Amount received, properties divested	-158	-2,729
Reclassified to/from Operating Properties	-517	-227
Exchange gains/losses	-390	338
Change in value, realised	12	291
Change in value, unrealised	1,387	906
Closing balance	25,062	20,843
<i>Less carrying amount of assets held for sale (see Note 29)</i>	-728	—
Investment Properties, adjusted closing balance	24,335	20,843

Realised and unrealised changes in value are recognised in the income statement in the respective line items.

The tables below show the change for each geographical market:

By geographical market 31 Dec 2015, MSEK	Sweden	Denmark	Norway	Finland	International	Total
Opening balance	12,349	1,991	2,636	3,058	809	20,843
Acquisitions	—	—	—	—	3,665	3,665
Investments in existing portfolio	117	28	20	53	2	220
Amount received, properties divested	—	—	—	—	-158	-158
Reclassified to/from Operating Properties	-295	—	-221	—	—	-517
Exchange gains/losses	—	-84	-221	-122	38	-390
Change in value, realised	—	—	—	—	12	12
Change in value, unrealised	1,024	107	163	-12	105	1,387
Closing balance including assets held for sale	13,195	2,042	2,377	2,977	4,473	25,062

By geographical market 31 Dec 2014, MSEK	Sweden	Denmark	Norway	Finland	International	Total
Opening balance	13,326	1,953	2,620	2,869	1,143	21,911
Investments in existing portfolio	202	8	22	124	-3	353
Amount received, properties divested	-2,236	—	—	—	-493	-2,729
Reclassified to/from Operating Properties	—	-227	—	—	—	-227
Exchange gains/losses	—	115	-15	184	54	338
Change in value, realised	249	—	—	—	42	291
Change in value, unrealised	808	142	9	-119	66	906
Closing balance	12,349	1,991	2,636	3,058	809	20,843

### Valuation model

Pandox performs internal valuations of Investment Properties and recognises property holdings at fair value. In order to ensure that the internal valuations are accurate, external valuations of all Investment Properties are carried out annually by independent property appraisers, and these assumptions and values form an important reference point for Pandox in the assessment of the Investment Properties' fair values. The external appraisers complete a more in-depth inspection of each property at least every three years or in conjunction with major changes to the Investment Property.

The valuation model used is a combination of the location price method and the yield-based method. The valuation model consists of an accepted and proven cash flow model where future cash flows that the hotel properties are expected to generate are discounted. The valuation is based on the business plan for the hotel

concerned, which is updated at least twice a year and takes into consideration, among other things, developments in the underlying operator activities, market developments, the contract situation, operating and maintenance matters and investments aimed at maximising the hotel property's cash flow and return in the long term.

The valuation model calculates the present value of the Investment Properties' net operating income, rent payments received minus payments made in respect of operation, maintenance, property tax, other property expenses and ground rent, where relevant, over 10 years, less outstanding approved investments over the same period. The residual value at the end of year 10 is found by dividing the net operating income by a yield discounted to present value. A market valuation yield was applied to calculate the residual value.

In the assessment of rental income and the hotel properties' future earnings capacity, the underlying revenues in the operator's (tenant's) business are calculated taking into consideration and analysing supply and demand, market share, segments and average prices, among other things. Based on this analysis, the operator's revenue per department is estimated and the contractually agreed revenue-based rent is applied in order to calculate the total hotel rent. Where the estimated revenue-based rent is less than the agreed guaranteed level, the guaranteed rent level is used as revenue. In certain cases a hotel property may contain other tenants (such as offices, parking garage, retail outlets, mobile phone antennas) which are calculated based on existing rental agreements. The majority of tenants pay supplements for items such as property tax and energy, which are calculated according to existing

rental agreements. Property payments refer to operation, maintenance, property tax, other property costs and, where relevant, ground rent.

The valuation yields applied in the calculations are based on the market's valuation yield; if this is not available, it is derived from sales of comparable hotel properties. In the absence of such information, a combination of Pandox's experience of hotel property transactions and the location price method is used. Other key factors include the condition of the property, its location and development opportunities. Pandox's undeveloped land and development rights are not substantial, totalling an insignificant amount. Valuation is based on level 3 in the fair value hierarchy for all Investment Properties.

Calculation assumptions by geographical area in 2015	Fair value, MSEK	Valuation yield		Discount rate	
		Range, %	Average, %	Range, %	Average, %
Sweden	13,193	4.7–8.3	5.8	6.7–10.3	7.8
Denmark	2,041	5.0–7.2	5.6	7.0–9.2	7.6
Norway	2,377	4.5–9.0	5.9	7.0–11.5	8.4
Finland	2,978	5.1–8.0	5.9	6.6–9.5	7.4
International	4,473	5.4–7.1	6.1	7.4–9.1	8.1
<b>Total</b>	<b>25,062</b>	<b>4.5–9.0</b>	<b>5.9</b>	<b>6.6–11.5</b>	<b>7.9</b>

Calculation assumptions by geographical area in 2014	Fair value, MSEK	Valuation yield		Discount rate	
		Range, %	Average, %	Range, %	Average, %
Sweden	12,349	5.1–8.3	6.1	7.1–10.3	8.1
Denmark	1,991	5.3–7.3	5.8	7.3–9.3	7.8
Norway	2,636	5.1–8.3	6.4	7.6–10.8	8.9
Finland	3,058	5.3–8.0	6.1	7.3–10.0	8.1
International	809	5.5–8.8	6.0	7.5–10.8	8.0
<b>Total</b>	<b>20,843</b>	<b>5.1–8.8</b>	<b>6.1</b>	<b>7.1–10.8</b>	<b>8.2</b>

The sensitivity analysis below shows how changes in a parameter affect the value in isolation.

Sensitivity analysis – fair value	Change	Effect on value in 2015, MSEK	Effect on value in 2014, MSEK
Valuation yield	+/- 0.5pp	-1,967/+2,333	-1,575/+1,856
Currency gain/loss	+/- 1%	+/-119	+/- 85
Net operating income	+/- 1%	+/-235	+/- 194

#### Significant commitments

Pandox has commitments relating to the completion of investment projects in a number of Investment Properties to a value of around MSEK 780 in addition to the amounts capitalised and reported in the balance sheet. Major ongoing investment projects include Leonardo Wolfsburg City, Elite Park Avenue Gothenburg, Elite

Stora Hotellet in Jönköping, Hotel Berlin, Berlin, Quality Ekoxen Linköping, Inter-Continental Montreal and Lillehammer Hotel. Pandox has no significant commitments relating to the acquisition or divestment of any Investment Property.

#### Other factors influencing the result for the period

Other factors influencing the result for the period	2015	2014
Rental income/other property revenue	1,543	1,478
– of which guaranteed rents	756	792
Direct costs for Investment Properties that generated rental income during the period (operating and maintenance costs, property tax and ground rent) <sup>1)</sup>	-197	-229
Direct costs for Investment Properties that did not generate rental income during the period (operating and maintenance costs, property tax and ground rent) <sup>1)</sup>	—	—

<sup>1)</sup> Excluding property administration and insurance costs.

## NOTE 14 EQUIPMENT/INTERIORS

MSEK	Group		Parent Company	
	31 Dec 2015	31 Dec 2014	31 Dec 2015	31 Dec 2014
Cost, opening balance	1,286	1,090	3	3
Reclassifications <sup>1)</sup>	-450	—	—	—
Investments	42	58	—	—
Reclassification from work in progress	50	30	—	—
Sales/disposals	—	—	—	—
Translation differences	-54	108	—	—
<b>Accumulated cost, closing balance</b>	<b>874</b>	<b>1,286</b>	<b>3</b>	<b>3</b>
Depreciation, opening balance	-563	-430	-2	-1
Reclassifications <sup>1)</sup>	123	—	—	—
Depreciation for the year	-79	-69	-1	-1
Sales/disposals	—	—	—	—
Translation differences	26	-64	—	—
<b>Accumulated depreciation, closing balance</b>	<b>-493</b>	<b>-563</b>	<b>-3</b>	<b>-2</b>
<b>Residual value according to plan</b>	<b>381</b>	<b>723</b>	<b>0</b>	<b>1</b>

<sup>1)</sup> Reclassified from equipment to buildings, MSEK -310. Other reclassifications of MSEK -17 are for transfers from Investment Properties to Operating Properties.

## NOTE 15 OPERATING PROPERTIES

GROUP MSEK	31 Dec 2015	31 Dec 2014
<b>Buildings</b>		
Cost, opening balance	3,730	3,243
Reclassification	993	205
Investments	21	23
Reclassification from construction/reconstruction work in progress	57	2
Translation difference	-217	257
<b>Accumulated cost, closing balance</b>	<b>4,584</b>	<b>3,730</b>
Depreciation, opening balance	-571	-459
Reclassification	-253	-2
Depreciation for the year	-59	-41
Translation difference	33	-69
<b>Accumulated depreciation, closing balance</b>	<b>-850</b>	<b>-571</b>
<b>Residual value according to plan, buildings</b>	<b>3,734</b>	<b>3,159</b>
<b>Land</b>		
Cost, opening balance	880	777
Reclassification	87	46
Translation difference	-48	57
<b>Accumulated cost, land, closing balance</b>	<b>919</b>	<b>880</b>
<b>Total residual value according to plan</b>	<b>4,653</b>	<b>4,039</b>
<b>Work in progress, Operating Properties</b>		
Cost, opening balance	96	30
Investments	109	94
Reclassification from construction/reconstruction work in progress	-107	-31
Translation difference	-4	3
<b>Cost, work in progress, closing balance</b>	<b>94</b>	<b>96</b>
<b>Total, Operating Properties</b>	<b>4,747</b>	<b>4,135</b>

The fair value (market value) of the Operating Properties exceeds their cost and is shown below. See Note 13 for the valuation model used to calculate fair value.

MSEK	31 Dec 2015	31 Dec 2014
Market value, Operating Properties (incl. equipment/interiors)	6,375	5,661

## NOTE 16 TRADE ACCOUNTS RECEIVABLE

Trade accounts receivable consist exclusively of rent receivables from hotel operations. The amounts of rental losses are insignificant. Provisions are made for doubtful trade accounts receivable on an individual basis, i.e. each individual customer balance is analysed in the ledger. The risk of an effect on the Group's financial results and position is deemed small.

GROUP MSEK	31 Dec 2015	31 Dec 2014
Rent receivables and trade accounts receivable	176	153
Doubtful receivables and trade accounts receivable	-3	—
Closing balance	173	153

## NOTE 17 EQUITY

### Equity items

#### Share capital

The share capital consists of 150,000,000 shares (150,000,000) with a quota value of SEK 2.50 per share, for a total value of MSEK 375. See also the information on page 12 in the section: Padox shares.

#### Other paid-in capital

Other paid-in capital consists of capital contributions from Padox AB's owners in the form of new share issues and shareholder contributions.

#### Translation reserve

The translation reserve includes all exchange-rate differences arising in the translation of the financial statements of foreign operations that have prepared their financial statements in a currency other than the presentation currency of the Group's financial statements. The Group presents its financial statements in millions of Swedish kronor (MSEK).

#### Profits brought forward including net profit for the year

Profits brought forward consist of profits earned in previous years, including net profit for the year.

#### Non-controlling interests

Non-controlling interests arised from acquisition of Investement properties in Germany.

#### Dividend

The proposed dividend to shareholders for the year amounts to MSEK 570, corresponding to a dividend of SEK 3.80 per share. During 2015 the dividend proposed for the 2014 financial year of MSEK 150 was adjusted.

## NOTE 18 FINANCIAL RISK AND RISK MANAGEMENT

Through its business, Padox is subject to various types of risk related to financial instruments. The main risks are interest-rate risk, liquidity risk, refinancing risk and currency risk. There are also certain credit risks.

### Financial policy

The financial policy is established annually by the Board of Directors and provides guidance for day-do-day financial work. Padox has the following overall aims for its financial activities:

- To conduct financial activities that are not speculative in nature and that support the business's operating activities
  - To secure the Company's short-term and long-term capital requirements
  - To achieve the best possible level of net financing within given risk frameworks
  - To create the conditions for a stable long-term capital structure
  - To make sure that Padox is seen as a professional business partner
  - To support management in achieving the goals set by the Board of Directors.
- The Company's CFO is responsible for ensuring that financial agreements and transactions are executed according to the financial policy, and for reporting the financial risk status to the Board of Directors and executive management on a regular basis.

### PADOX'S FINANCIAL POLICY AND COMMITMENTS IN CREDIT AGREEMENTS

	Policy
Loan-to-value ratio	Normally 45–60%
Interest-rate risk	
Average fixed interest period	1–4 years
Maturing within 12 months	Maximum 50%
Currency risk	
Investments	Usually financed in local currencies
Other currency risks	Not permitted
Borrowing risk	Max. 40% maturing within 12 months
Counterparty risk	Credit institutions with high rating, minimum investment grade
Liquidity risk	Liquidity reserve in order to meet payment obligations

### Market risk – interest-rate risk

Interest-rate risk is the risk that the fair value of or future cash flows from a financial instrument will vary due to changes in market interest rates. The Group's interest-rate risk arises mainly through long-term borrowing. The aim of interest-rate risk management is to achieve the desired stability in the Company's combined cash flows. The interest-rate risk strategy comprises a balanced combination of variable interest and fixed interest – with interest-rate swaps being used to achieve the desired fixed-interest periods. When choosing an interest-rate risk strategy, consideration is given to how sensitive the Company's combined cash flows are to developments in interest rates over a time horizon of several years. At the same time, it is ensured that there is no risk that possible changes in the market value of the derivatives required to achieve the proposed strategy will have unacceptable effects on equity.

The interest-rate strategy is expressed as a standard portfolio. The standard portfolio is described as a maturity structure for the fixed interest period in the loan agreements combined with derivative instruments. The standard portfolio has risk limits that are expressed as maximum deviation from the standard portfolio.

Padox's fixed interest period and repayment period remain at a total level as shown below.

### FIXED INTEREST/REPAYMENT PERIOD

	Average fixed interest period, years	Average interest rate, %	Repayment period, years
2015	2.6	2.8	3.4
2014	3.8	3.6	4.6

INTEREST MATURITY PROFILE 31 DECEMBER 2015

Maturity profile	Fixed rate period				Derivatives		
	Loans, MSEK	Derivatives, MSEK	Amount, MSEK	Share	Volume, MSEK	Average interest, derivatives <sup>1)</sup>	Share
<1	15,546	-7,651	7,895	50.8%	1,064	3.3%	12.2%
1-2	—	802	802	5.2%	802	3.4%	9.2%
2-3	—	670	670	4.3%	670	3.1%	7.7%
3-4	—	239	239	1.5%	239	2.5%	2.7%
4-5	—	1,864	1,864	12.0%	1,864	2.8%	21.4%
>5	—	4,076	4,076	26.2%	4,076	2.3%	46.8%
<b>Total</b>	<b>15,546</b>	<b>0</b>	<b>15,546</b>	<b>100.0%</b>	<b>8,715</b>	<b>2.7%</b>	<b>100.0%</b>

INTEREST MATURITY PROFILE 31 DECEMBER 2014

Maturity profile	Fixed rate period				Derivatives		
	Loans, MSEK	Derivatives, MSEK	Amount, MSEK	Share	Volume, MSEK	Average interest, derivatives <sup>1)</sup>	Share
<1	12,908	-8,956	3,952	30.6%	1,378	3.6%	13.3%
1-2	—	1,105	1,105	8.6%	1,105	3.8%	10.7%
2-3	—	888	888	6.9%	888	4.5%	8.6%
3-4	—	698	698	5.4%	698	3.7%	6.8%
4-5	—	369	369	2.8%	369	3.9%	3.6%
>5	—	5,896	5,896	45.7%	5,896	2.5%	57.0%
<b>Total</b>	<b>12,908</b>	<b>0</b>	<b>12,908</b>	<b>100.0%</b>	<b>10,334</b>	<b>3.1%</b>	<b>100.0%</b>

<sup>1)</sup> Fixed interest under swap contract, excluding margin in loan contract.

SENSITIVITY ANALYSIS AS OF 31 DECEMBER 2015

	Change	Effect on earnings, MSEK
Interest expense with current fixed interest, change in interest rates	+/- 1%	-/+ 66
Interest expense with a change in the average interest rate level	+/- 1%	-/+ 155
Remeasurement of interest-rate derivatives following shift in yield curves	+/- 1%	-/+ 406

The effect on equity is the same as on earnings.

If the variable market interest rate deviates from the fixed interest rate applicable to the derivative, a theoretical surplus or deficit arises for the financial instrument. Derivatives are recognised on an ongoing basis at fair value in the statement of financial position, and the change in value – which does not affect cash flow – is recognised in profit for the year. Pandox does not apply hedge accounting to financial instruments.

Market risk – currency risk

Currency risk is the risk that the fair value of or future cash flows from a financial instrument will vary due to changes in foreign exchange rates. Pandox prefers to reduce currency exposure in foreign investments by taking out loans in local currency. Equity is currency-hedged ahead of acquisitions/investments and divestments in order to avoid changes in the value of equity during the period between signing of the deal and the entry or exit. The same applies in the case of foreign investments where there is a clear exit strategy. In general, the foreign operations report both income and costs in the local currency, which means that currency exposure resulting from current operations is limited. In view of the limited risk, Pandox does not currency-hedge these flows unless there is particular reason to do so.

Loans and property investments at market value can be broken down into different currencies as shown below. Average interest rate including marginal loans.

### Loans by currency

#### INTEREST MATURITY PROFILE 31 DECEMBER 2015, MSEK

Maturity <sup>1)</sup>	SEK	DKK	EUR	CHF	CAD	NOK	Total	Share	Interest rate, % <sup>2)</sup>
2016	1,847	526	4,178	220	211	913	7,895	50.8	2.9
2017	200	—	247	—	188	167	802	5.2	3.4
2018	250	—	228	—	—	191	669	4.3	3.1
2019	125	—	114	—	—	—	239	1.5	2.5
2020	900	147	818	—	—	—	1,865	12.0	2.8
2021 or later	2,700	490	886	—	—	—	4,076	26.2	2.3
<b>Total</b>	<b>6,022</b>	<b>1,163</b>	<b>6,471</b>	<b>220</b>	<b>399</b>	<b>1,271</b>	<b>15,546</b>	<b>100.0</b>	<b>2.8</b>
Maturing in foreign currency, %	38.7	7.5	41.6	1.4	2.6	8.2	100.0	—	—
Average interest rate, %	3.1	2.1	2.4	0.8	3.4	3.6	2.8	—	—
Average fixed interest period, years	3.8	3.4	1.8	0.1	0.8	0.7	2.6	—	—
Property market value	13,463	2,607	11,284	702	770	2,611	31,437	—	—

#### INTEREST MATURITY PROFILE 31 DECEMBER 2014, MSEK

Maturity <sup>1)</sup>	SEK	DKK	EUR	CHF	CAD	NOK	Total	Share	Interest rate, % <sup>2)</sup>
2015	1,003	577	1,186	221	210	755	3,952	31%	3.1%
2016	380	—	476	—	—	250	1,106	8%	4.2%
2017	200	—	257	—	247	184	888	7%	4.5%
2018	250	—	238	—	—	210	698	5%	4.4%
2019	250	—	119	—	—	—	369	3%	4.4%
2020 or later	3,475	646	1,774	—	—	—	5,895	46%	3.6%
<b>Total</b>	<b>5,558</b>	<b>1,223</b>	<b>4,050</b>	<b>221</b>	<b>457</b>	<b>1,399</b>	<b>12,908</b>	<b>100%</b>	<b>3.6%</b>
Maturing in foreign currency, %	43%	9%	31%	2%	4%	11%	100%	—	—
Average interest rate, %	3.7%	2.8%	3.6%	3.0%	3.9%	4.1%	3.6%	—	—
Average fixed interest period, years	4.9	4.0	3.6	0.1	1.6	1.3	3.8	—	—
Property market value	12,349	2,578	7,524	639	778	2,636	26,504	—	—

<sup>1)</sup> Translated to MSEK.

<sup>2)</sup> Average interest rate including bank margin.

### Liquidity risk

Liquidity risk is the risk that a company will have difficulty fulfilling its obligations relating to financial liabilities. A liquidity forecast, including all incoming and outgoing payments, is prepared on an ongoing basis. The consolidated liquidity forecast forms the basis of the Company's borrowing or investment requirements, as well as control of the overall liquidity situation and the need for liquidity reserves. A long-term aim for the level of liquidity in the form of liquidity reserves (bank

balances, liquid interest-bearing investments and forecast positive cash flows over 12 months) and credit facilities is an amount corresponding to at least 12 months' known outgoing payments including interest payments and current repayments or repayments that have been decided on. At year-end, bank balances amounted to MSEK 170 (321) and unutilised credit facilities to MSEK 1,391 (1,581).

## Maturity profile, interest and capital

Interest calculated as per terms effective at the time in question

31 DECEMBER 2015

Year due, MSEK	Repayment period <sup>2</sup>	Interest rate, loans <sup>1)</sup>	Net interest, interest rate swaps, negative value <sup>1)</sup>	Total
2016	1,673	16	35	51
2017	238	3	25	28
2018	4,036	33	19	52
2019	6,081	77	7	84
2020	2,252	34	56	90
2021	1,266	19	104	123
<b>Total</b>	<b>15,546</b>	<b>182</b>	<b>246</b>	<b>428</b>

31 DECEMBER 2014

Year due, MSEK	Repayment period <sup>2</sup>	Interest rate, loans <sup>1)</sup>	Net interest, interest rate swaps, negative value <sup>1)</sup>	Total
2015	1,123	23	41	64
2016	940	14	37	51
2017	222	4	34	38
2018	3,171	39	22	61
2019	6,090	117	13	130
2020	1,362	24	134	158
<b>Total</b>	<b>12,908</b>	<b>221</b>	<b>281</b>	<b>502</b>

<sup>1)</sup> Calculation based on closing balance on 31 December of the year in question and interest rates in effect as of the same date and an implied annual interest expense for the various maturity periods.

<sup>2)</sup> Excluding ongoing amortisation.

Trade accounts payable and other financial liabilities are normally due for payment within 30 days.

### Refinancing risk

Financing risk is defined as the risk that at some point in time the Company will not have access to funds for refinancing, investments and other payments, or will only have access to such funds at increased cost. To limit financing risk the following overall guidelines are to be followed:

- 3 to 4 main suppliers of financing
- No individual lender to account long-term for more than 50 percent of the total loan volume
- Max. 40 percent of loan portfolio agreements to be due for renegotiation over a rolling future 12-month period
- Pandox must always implement good forward planning for refinancing negotiations, so that the refinancing risk is reduced and liquidity problems do not arise
- Loan agreements should always contain the possibility of early redemption using a means of calculation known in advance
- To simplify administration, if possible all Swedish borrowing is to take place within Pandox AB and foreign borrowing in the respective foreign company.

Pandox currently has four main financing providers, none of which accounts for more than 50 percent of the volume. Renegotiation of the approximately 11 percent of the portfolio that matures within 12 months has begun.

### Credit risk

Credit risk is the risk that Pandox's counterparty in a financial instrument is unable to fulfil an obligation, thereby causing Pandox a financial loss. In Pandox's financial activities, counterparty risk arises mainly when investing surplus liquidity, in derivative contracts and in agreements on credit facilities.

The risk is to be spread by using multiple counterparties, and only approved counterparties may be used. Permitted counterparties for credit facilities, revolving facilities and derivative instruments are Nordic counterparties with a minimum rating of either A- (S&P) or A3 (Moody's), or another counterparty with a minimum rating of either A (S&P) or A2 (Moody's).

Pandox has a well-diversified property portfolio characterised by well-established, stable and sound tenants. The largest tenants in terms of revenue are Scandic, Choice Hotels, Radisson Blu, Hilton, Elite Hotels and First Hotel, which together accounted for more than 95 percent of total rental income in 2015. The largest three tenants – Scandic, Choice Hotels and Radisson – accounted for around 80 percent of total rental income.

Although this means there is a certain concentration of credit risk, the companies' financial strength compensates for this. A further factor that reduces the potential credit risk is Pandox's operational readiness, which means it is able to take over the operation of a property quickly if necessary and thereby secure the cash flow.

Alongside the hotel contracts, commercial tenants amounted to around 4 percent of Pandox's total rental income. The occupancy rate of Pandox's wholly owned property portfolio was 99.9 percent and vacant space consisted of stores and office premises.

Provisions are made for doubtful trade accounts receivable on an individual basis, i.e. each individual customer balance is analysed in the ledger. On the closing day there was a reserve for doubtful trade accounts receivable relating to an independent operator amounting to MSEK 3.

### Capital management

Pandox's financial position is monitored primarily on the basis of loan-to-value ratio, with a target of 45–60 percent. Internal monitoring of financial position does not focus on equity. At the end of 2015 the loan-to-value ratio was 50 (49) percent. The increase in 2015 is due mainly to a major acquisition at the end of the year. At year-end 2015 and 2014 Pandox had not infringed upon any covenants in the loan agreements.

## NOTE 19 FINANCIAL ASSETS AND LIABILITIES – CLASSIFICATION, FAIR VALUE AND OFFSETTING

### Fair value of financial assets and liabilities

GROUP MSEK	Financial assets/liabilities measured at fair value through profit or loss for the year		Loans and receivables		Other liabilities	
	31 Dec 2015	31 Dec 2014	31 Dec 2015	31 Dec 2014	31 Dec 2015	31 Dec 2014
Other non-current receivables	—	—	25	26	—	—
Rent receivables and trade accounts receivable	—	—	173	153	—	—
Cash and cash equivalents	—	—	170	321	—	—
<b>Total financial assets</b>	<b>—</b>	<b>—</b>	<b>368</b>	<b>500</b>	<b>—</b>	<b>—</b>
Non-current interest-bearing liabilities	—	—	—	—	13,720	11,785
Derivatives	703	900	—	—	—	—
Current interest-bearing liabilities	—	—	—	—	1,826	1,122
Liabilities to Group companies	—	—	—	—	—	208
Trade accounts payable	—	—	—	—	212	189
<b>Total financial liabilities</b>	<b>703</b>	<b>900</b>	<b>—</b>	<b>—</b>	<b>15,758</b>	<b>13,304</b>

### Fair value of financial assets and liabilities

The financial instruments for which it is important to carefully measure fair value consist of interest-bearing liabilities and derivatives. Other financial instruments either have short maturities or consist of insignificant amounts. The loans have short-term interest rates corresponding to the market interest rates on the closing day. The Company's margins on the loans are deemed to represent the margins that would be received as of the closing day. This assessment assumes that the carrying amounts of the loans are a reasonable approximation of the fair value.

Derivatives, which consist of interest swaps, are placed at level 2 in the fair value hierarchy, i.e. based on directly or indirectly observable input data for the asset or liability, with no significant input data that is not observable market data. The fair value is based on discounted estimated future cash flows according to the terms of the contracts and maturities based on current market rates of interest. To establish fair value, market interest rates are used for each maturity noted on the closing day.

### Offsetting

The Group's interest-rate derivative agreements are in the category of the International Swaps and Derivatives Association's (ISDA) master netting agreements. Under these agreements, when a counterparty cannot settle its obligations in all transactions, the agreement is cancelled and all outstanding transactions are settled in a net amount in a process called close-out netting. The ISDA agreements do not fulfil the criteria for netting in the statement of financial position. As Pandox's interest-rate derivatives in all reported years have only had negative figures (see table above), no net amounts under master netting agreements have been recognised. Other than this, no master netting agreements exist for any of Pandox's other financial instruments.

## NOTE 20 ACCRUED EXPENSES AND PREPAID INCOME

MSEK	Group		Parent Company	
	31 Dec 2015	31 Dec 2014	31 Dec 2015	31 Dec 2014
Prepaid rent	89	65	—	—
Accrued interest expense	42	61	9	20
Accrued property tax	17	17	—	—
Other	334	294	—	22
<b>Total</b>	<b>482</b>	<b>437</b>	<b>9</b>	<b>42</b>

## NOTE 21 PROVISIONS

MSEK	Group		Parent Company	
	31 Dec 2015	31 Dec 2014	31 Dec 2015	31 Dec 2014
Carrying amount at beginning of period	66	5	18	5
Provisions made during the period	14	61	14	13
Amounts used during the period	-12	—	-2	—
<b>Reported value at close of period</b>	<b>68</b>	<b>66</b>	<b>30</b>	<b>18</b>
– of which the long-term portion of the provisions	56	54	28	16
– of which the short-term portion of the provisions	12	12	2	2

The year's provisions comprise MSEK 13 for incentive schemes for senior executives and MSEK 1 in provision for pensions. The incentive scheme runs until 2020, and following the provision for the year, the provisions for pensions amount to MSEK 7.

The opening balance of provisions consists of rent guarantees provided for hotels sold in 2014 and pension provisions of MSEK 6. Rent guarantees have been provided up to and including December 2019; as of 31 December 2015 the provision amounts to MSEK 48. Provisions for pensions at the beginning of the year amounted to MSEK 6 (5).

## NOTE 22 KEY ESTIMATES AND JUDGMENTS

The executive management team and the Board of Directors have discussed the development, choice of disclosures on the Group's most important accounting principles and estimates, as well as the application of these.

### Valuation of Investment Properties

For details on important assumptions and judgments in connection with the valuation of Pandox's Investment Properties, see Note 13 Investment Properties. Pandox recognises its Investment Properties according to the fair value method. Any decline in market value has a negative impact on the Company's balance sheet and statement of income. This can happen as a result of factors such as a weakened economy, rising interest rates, increased operating costs and other property-specific events. Pandox performs internal valuations of Investment Properties and recognises property holdings at fair value. In addition, all Investment Properties are valued by external professional property appraisers who are independent of Pandox, and these assumptions and values form an important element in the assessment of the internal valuations. To ensure that the internal valuations are accurate, external valuations of all Investment Properties are carried out yearly by independent property appraisers. The external appraisers complete a more in-depth inspection at least every three years or in conjunction with major changes to the Investment Property.

### Valuation of Operating Properties

Pandox has chosen not to recognise the Company's Operating Properties at fair value. The Operating Properties are reported at cost, which is reduced on an ongoing basis for depreciation. For more information on fair value, see Notes 13 and 15.

### Tax

Pandox has tax loss carryforwards which are mainly derived from the past operations of the Norgani group and a few individual companies. The subsidiaries that own properties also have loss carryforwards. Pandox has determined that all loss carry-forwards, according to the tax rules in effect, will be able to be utilised against future profits. Pandox cannot, however, provide any guarantee that current or new tax rules will not limit the possibility of utilising the loss carry-forwards.

### Classification of acquisitions

The IFRS 3 financial reporting standard states that acquisitions are to be classified as business combinations or asset purchases. An individual assessment of the nature of the acquisition is required for each individual transaction. Pandox's acquisitions are all asset purchases. Whether an acquisition is classified as an asset purchase depends on whether Pandox acquires the property but refrains from taking over management and operation of the business. In the case of asset purchases, Pandox uses its own personnel for management and operation of the acquired property.

### Accounting for interest-rate derivatives

In accounting for interest-rate derivatives, interest expense and changes in value are reported on separate lines, see also Note 1 Accounting principles.

### Presentation of the consolidated statement of comprehensive income

Costs for Operator Activities are regarded as a production cost, which includes administration costs that are directly attributable to Operating Properties.

## NOTE 23 PLEDGED ASSETS AND CONTINGENT LIABILITIES

MSEK	Group		Parent Company	
	2015	2014	2015	2014
<b>Assets pledged to credit institutions</b>				
For own liabilities pledged assets, properties	13,604	11,628	—	—
Bank deposits	7	7	—	—
<b>Total pledged assets</b>	<b>13,611</b>	<b>11,635</b>	<b>—</b>	<b>—</b>
<b>Contingent liabilities</b>				
Total, group	—	—	6,067	3,914
Guarantees for employees	7	6	7	6
<b>Total contingent liabilities</b>	<b>7</b>	<b>6</b>	<b>6,074</b>	<b>3,920</b>

Property mortgages are used as security for bank loans. Guarantees for employees refers to guarantees for endowment insurance taken out for three individuals.

Contingent liabilities consist mainly of bank guarantees issued on behalf of the subsidiaries.

## NOTE 24 EVENTS AFTER THE CLOSING DAY

After 31 December 2015 no events or transactions of significance have taken place that in any way affect the financial statements provided for Pandox for the 2015 financial year.

However, the following business transactions with related parties did take place after the closing day but did not affect the financial statements for the previous year.

On 4 February 2016 it was announced that Pandox Operations will take over the operation of Quality Hotel & Resort Kristiansand on 28 May 2016 and that the hotel will be operated under the brand Thon Hotels.

On 1 September 2016, Pandox Operations will take over the operation of the Quality Hotel & Resort Hafjell, as announced in February 2016.

On 15 February 2016 Pandox entered into an agreement with Midstar on the disposal of Investment Properties in Sweden. The purchase consideration amounted to MSEK 850, which exceeds the carrying amount as of 31 December 2015 by around MSEK 100 excluding deferred tax. The transaction is expected to be completed on 31 March 2016. The properties are reported as assets held for sale as of 31 December 2015.

## NOTE 25 PARTICIPATIONS IN SUBSIDIARIES

Parent Company MSEK	31 Dec 2015	31 Dec 2014
Cost, opening balance	8,066	7,882
Acquisitions	1	275
Capital contributions	4	22
Divestment of subsidiaries	—	-113
<b>Total accumulated cost</b>	<b>8,071</b>	<b>8,066</b>
Impairment losses, opening balance	-1,493	-1,027
Impairment losses	—	-466
<b>Accumulated impairment losses, closing balance</b>	<b>-1,493</b>	<b>-1,493</b>
<b>Closing balance</b>	<b>6,578</b>	<b>6,573</b>

Directly owned subsidiaries	Company reg. no.	Registered office	Number of shares	Share of capital/ votes
HOTAB Förvaltning AB	556475-5592	Stockholm, Sweden	1,000	100
Pandox Förvaltning AB	556097-0815	Stockholm, Sweden	5,500	100
Hotab 6 AB	556473-6352	Stockholm, Sweden	1,000	100
Fastighets AB Grand Hotell i Helsingborg	556473-6329	Stockholm, Sweden	1,000	100
Pandox Fastighets AB	556473-6261	Stockholm, Sweden	1,000	100
Fastighets AB Mora Hotell	556475-9370	Stockholm, Sweden	1,000	75 <sup>1)</sup>
Fastighets AB Stora Hotellet in Jönköping	556469-4064	Stockholm, Sweden	1,000	100
Pandox Belgien AB	556495-0078	Stockholm, Sweden	1,000	100
Pandox Hotel Management AB	556469-9782	Stockholm, Sweden	1,000	100
Hotellus Holding AB	556475-9446	Stockholm, Sweden	1,000	100
Pandox Luxemburg AB	556515-9216	Stockholm, Sweden	10,000	100
Pandox i Halmstad AB	556549-8978	Stockholm, Sweden	1,000	100
Pandox i Borås AB	556528-0160	Stockholm, Sweden	1,000	100
Grand i Borås Fastighets AB	556030-7083	Stockholm, Sweden	6,506	100
Hotell Värmdövägen 84 AB	556286-4826	Stockholm, Sweden	2,000	100
Hotellus International AB	556030-2506	Stockholm, Sweden	7,480,000	100
Hotellus Östersund AB	556367-3697	Stockholm, Sweden	1,000	100
Ademrac Holding 1 AB	556683-3371	Stockholm, Sweden	10,093	100
Ademrac Holding 2 AB	556683-3363	Stockholm, Sweden	10,010	100
Ademrac AB	556426-2748	Stockholm, Sweden	1,790,042	6.6 <sup>2)</sup>
Ypsilon Hotell AB	556481-4134	Stockholm, Sweden	1,000	100
Pandox Kolmården AB	556706-8316	Stockholm, Sweden	100,000	100
Hotellus Sverige Ett AB	556778-8699	Stockholm, Sweden	1,000	100
Hotellus Sverige Två AB	556778-8707	Stockholm, Sweden	1,000	100
Sech Holding AB	556819-2214	Stockholm, Sweden	357,000	100
Pandox Portfölj 2 AB	556982-7040	Stockholm, Sweden	500	100
Pandox Sollentuna Centrum 12 AB	556660-3949	Stockholm, Sweden	1,000	100
Pandox Sweden AB	556942-1687	Stockholm, Sweden	500	100
Pandox Operations AB	556980-3207	Stockholm, Sweden	50,000	100
KB Lorensberg 49:2	916833-3269	Gothenburg, Sweden	—	100 <sup>3)</sup>
Pandox i Malmö AB	556704-3723	Malmö, Sweden	1,000	100
Hotellus Denmark A/S	28970927	Denmark	5,000	100
Le Nouveau Palace NV	0423.048.375	Belgium	3,000	99.97 <sup>4)</sup>
Hotel Bloom! SA	0476.704.322	Belgium	68,808	99.99 <sup>5)</sup>
Pandox Belgium NV	0890.427.732	Belgium	100,000	99.99 <sup>6)</sup>
Pandox RMC BVBA	0552.929.692	Belgium	1,000	99.00 <sup>7)</sup>
Convention Hotel International AG	CHE-101.458.856	Switzerland	14,000	100

<sup>1)</sup> Fastighets AB Mora Hotell is 25 percent owned by Hotellus Holding AN, which is wholly owned by Pandox AB (publ).

<sup>2)</sup> Ademrac AB is 93.4 percent owned by Ademrac Holding 1 AB and Ademrac Holding 2 AB, which are both wholly owned by Pandox AB (publ).

<sup>3)</sup> General partner, limited partner is Pandox Förvaltning AB.

<sup>4)</sup> Le Nouveau Palace NV is 0.03 percent owned by Hotellus International AB, which is wholly owned by Pandox AB (publ).

<sup>5)</sup> Hotel Bloom! NV is 0.01 percent owned by Hotellus International AB, which is wholly owned by Pandox AB (publ).

<sup>6)</sup> Pandox Belgium NV is 0.01 percent owned by Hotellus International AB, which is wholly owned by Pandox AB (publ).

<sup>7)</sup> Pandox RMC BVBA is 1 percent owned by Hotellus International AB, which is wholly owned by Pandox AB (publ).

Indirectly owned subsidiaries	Company reg. no.	Registered office
Arlanda Flyghotell KB	916500-8021	Stockholm, Sweden
Fastighetsbolaget Utkiken KB	916611-7755	Stockholm, Sweden
Fastighets AB Hotell Kramer	556473-6402	Stockholm, Sweden
Hotellus Nordic AB	556554-6594	Stockholm, Sweden
Hotellus Järva Krog AB	556351-7365	Stockholm, Sweden
Hotellus Mölndal AB	556554-6636	Stockholm, Sweden
Bioeffect AB	556244-5030	Stockholm, Sweden
Vestervold KB	916631-9534	Stockholm, Sweden
Hotellus Mellansverige AB	556745-4656	Stockholm, Sweden
Skogshöjd Handels & Fastighets AB	556066-0432	Stockholm, Sweden
Fastighetsaktiebolaget Skövde 7	559030-0983	Stockholm, Sweden
Norgani Sweden Holding AB	556660-3238	Stockholm, Sweden
Norgani Alvik Hasselbacken AB	556735-4872	Stockholm, Sweden
Norgani Hasselbacken AB	556698-4612	Stockholm, Sweden
Fastighets AB Prince Philip	556488-0028	Stockholm, Sweden
Norgani Holding AB	556942-1703	Stockholm, Sweden
Norgani Stockholm Pundet 1 AB	556660-3394	Stockholm, Sweden
Norgani Kiruna Hovmästaren 1 AB	556660-3451	Stockholm, Sweden
Norgani Mora Stranden 37:3 AB	556660-3493	Stockholm, Sweden
Norgani Luleå Tjädern 19 AB	556660-4426	Stockholm, Sweden
Norgani Kalmar Hammaren 4 AB	556660-6538	Stockholm, Sweden
Norgani Karlstad Sandbäcken 1:3 AB	556658-7340	Stockholm, Sweden
Norgani Sandviken Grillen 8 AB	556658-7381	Stockholm, Sweden
Norgani Linköping Ekoxen 9 och 11 AB	556658-7407	Stockholm, Sweden
Norgani Skövde Liljekonvaljen 14 AB	556658-7449	Stockholm, Sweden
Norgani Halmstad Gillestugan 1 AB	556658-7456	Stockholm, Sweden
Norgani Göteborg Backa 149:1 och 866:397 AB	556658-7480	Stockholm, Sweden
Norgani Malmö Gunghästen 1 AB	556688-7278	Stockholm, Sweden
Norgani Stockholm Gråberget 29 AB	556688-7450	Stockholm, Sweden
Norgani Bollnäs Sundsbro 10 AB	556688-7344	Stockholm, Sweden
Norgani Portfölj 2 AB	556982-7032	Stockholm, Sweden
Norgani Hotelleiendom i Göteborg AB	556674-0709	Stockholm, Sweden
Norgani Hotelleiendom i Helsingborg AB	556674-0063	Stockholm, Sweden
Norgani Hotelleiendom i Jönköping AB	556674-0212	Stockholm, Sweden
Norgani Hotelleiendom i Luleå AB	556674-0485	Stockholm, Sweden
Norgani Hotelleiendom i Malmö AB	556674-0436	Stockholm, Sweden
Norgani Hotelleiendom i Sundsvall AB	556674-0071	Stockholm, Sweden
Norgani Hotelleiendom i Södertälje AB	556673-9768	Stockholm, Sweden
Norgani Hotelleiendom i Umeå AB	556673-9677	Stockholm, Sweden
Norgani Hotelleiendom i Uppsala AB	556673-9776	Stockholm, Sweden
Norgani Hotelleiendom i Östersund AB	556673-9750	Stockholm, Sweden
Norgani Hotellfastighetsaktiebolaget Blyet	556673-9685	Stockholm, Sweden
Norgani Hotellfastighetsaktiebolaget Osten	556674-0469	Stockholm, Sweden
Norgani Hotellfastighetsaktiebolaget Radien	556674-0196	Stockholm, Sweden
Norgani Hotellfastighetsaktiebolaget Sågen	556674-0493	Stockholm, Sweden
Norgani Hotellfastighetsaktiebolaget Valbo-Backa	556674-0204	Stockholm, Sweden
Norgani Hotellfastighetsaktiebolaget Vindmotorn	556673-9818	Stockholm, Sweden
Norgani Suomi Holding AB	556705-2781	Stockholm, Sweden
Norgani Suomi 2 AB	556705-0694	Stockholm, Sweden
Norgani Suomi 3 AB	556704-9688	Stockholm, Sweden
Norgani Suomi 4 AB	556705-0983	Stockholm, Sweden
Norgani Suomi 5 AB	556704-8151	Stockholm, Sweden
Norgani Suomi 6 AB	556704-8144	Stockholm, Sweden
Norgani Suomi 7 AB	556704-8136	Stockholm, Sweden
Norgani Suomi 9 AB	556705-0520	Stockholm, Sweden

Indirectly owned subsidiaries	Company reg. no.	Registered office
Norgani Suomi 10 AB	556704-4218	Stockholm, Sweden
Norgani Suomi 11 AB	556704-8227	Stockholm, Sweden
Norgani Suomi 12 AB	556704-8219	Stockholm, Sweden
Norgani Suomi 13 AB	556704-8201	Stockholm, Sweden
Norgani Suomi 14 AB	556704-8193	Stockholm, Sweden
Norgani Suomi 15 AB	556704-8185	Stockholm, Sweden
Norgani Suomi 17 AB	556704-8169	Stockholm, Sweden
Prince Philip Hotel Skärholmen AB	556980-3215	Stockholm, Sweden
Pandox OP2 AB	556980-9600	Stockholm, Sweden
Pandox OP3 AB	556980-9618	Stockholm, Sweden
Pandox OP4 AB	556980-9626	Stockholm, Sweden
Pandox OP5 AB	556980-9584	Stockholm, Sweden
Kista Hotel AB	556313-1720	Stockholm, Sweden
Norgani Stockholm Herrgården 2 AB	556660-4285	Gothenburg, Sweden
Norgani Hotelleiendom i Sverige AB	556674-0170	Gothenburg, Sweden
Hotellinvest Holding DK 1 ApS	29828644	Denmark
Hotellinvest Holding DK 2 ApS	29830053	Denmark
Hotellinvest DK 1 ApS	10998476	Denmark
Hotellinvest DK 2 ApS	29828644	Denmark
Hotellinvest DK 3 ApS	29830053	Denmark
Norgani Hotel Cosmopole ApS	10998476	Denmark
K/S Norgani Hotel	28886217	Denmark
Komplementarselskabet Norgani Hotel ApS	25241266	Denmark
Norgani Hotel København A/S	25060407	Denmark
Urban House Hotel ApS	24250830	Denmark
Oy Norgani 1 Ab	2050600-9	Finland
Oy Norgani 2 Ab	2050598-9	Finland
Oy Norgani 3 Ab	2050596-2	Finland
Oy Norgani 4 Ab	2050594-6	Finland
Oy Norgani 5 Ab	2050593-8	Finland
Oy Norgani 8 Ab	2050586-6	Finland
Oy Norgani 9 Ab	2050625-2	Finland
Oy Norgani 10 Ab	2050619-9	Finland
Oy Norgani 11 Ab	2050616-4	Finland
Oy Norgani 12 Ab	2050612-1	Finland
Oy Norgani 13 Ab	2050610-5	Finland
Oy Norgani 14 Ab	2050609-2	Finland
Oy Norgani 16 Ab	2050603-3	Finland
Norgani Finland Holding Oy	2050610-5	Finland
Kiinteistö Oy Hotelli Pilotti	0426438-8	Finland
Kiinteistö Oy Pakkalan Kartanonkoski 5)	0747929-6	Finland
Oy Korpilampi Ab	1495021-8	Finland
Hotellus Suomi Oy	1495017-0	Finland
Norgani Hotels AS	988 016 683	Norway
Norgani Hotelleiendom AS	988 201 227	Norway
Hotellinvest Holding AS	990 122 806	Norway
Norgani Eiendom Bodø AS	991 393 048	Norway
Norgani Hotell Bastionen AS	940 157 633	Norway
Norgani Norge Holding AS	989 197 355	Norway
Alexandra Hotell AS	910 114 174	Norway
Norgani Hotell Kristiansand AS	938 214 964	Norway
Norgani Hotell Oslo AS	951 361 542	Norway
Norgani Hotell Bergen AS	967 989 371	Norway
Norgani Hotell Hafjell AS	938 214 875	Norway
Norgani Hotell KNA AS	890 618 812	Norway

Indirectly owned subsidiaries	Company reg. no.	Registered office
Norgani Hotell Bergen Airport AS	919 626 852	Norway
Norgani Fagernes Turisthotell AS	919 844 604	Norway
Norgani Olrud Hotell KS	940 459 311	Norway
Norgani Olrud Hotell AS	940 459 133	Norway
Norgani Hamneset Hotell ANS	961 324 807	Norway
Norgani Hotell Hamneset AS	981 118 995	Norway
Norgani Hotell Lillehammer AS	952 479 806	Norway
Lillehammer Turisthotell AS	913 915 739	Norway
Norgani Hotell Bodø AS	987 141 433	Norway
Pandox OP Lillehammer AS	815 128 822	Norway
Pandox OP Fagernes AS	915 433 049	Norway
Pandox Grand Norge AS	913 535 251	Norway
Pandox Grand Norge 1 AS	914 015 669	Norway
Pandox Grand Norge 2 AS	814 019 802	Norway
Pandox Grand Norge 3 AS	914 124 131	Norway
Pandox Grand Norge 4 AS	914 124 700	Norway
Grand Hotel of Brussels NV	0443.822.213	Belgium
Town Hotel NV	0437.378.839	Belgium
Elba Belgium Holding BVBA	0889.537.114	Belgium
Elba Leasehold BVBA	0889.633.520	Belgium
Elba Freehold BVBA	0889.630.649	Belgium
Holcro NV	0421.732.937	Belgium
Euro Lifim Holding BV	33227692	Netherlands
Pandox Holland BV	34277494	Netherlands
Pandox Holland 2 BV	34304039	Netherlands
Hotellus Luxembourg SARL	B 131027	Luxembourg
Hotellus Canada Holdings Inc.	0793511 <sup>1)</sup>	Canada
Hotellus Montreal Holdings Inc.	0823951 <sup>1)</sup>	Canada
Hotellus Montreal Inc.	0827355 <sup>1)</sup>	Canada
Pandox Berlin GmbH	HRB 96069 B <sup>2)</sup>	Germany
Hotellus Deutschland GmbH	HRB 41151 <sup>3)</sup>	Germany
Hypnos Germany Hotel Properties GmbH	HRB 76338 <sup>3)</sup>	Germany
Queens Moat Houses (Germany) Holding GmbH	HRB 157303B <sup>4)</sup>	Germany
Queens Moat Houses Properties GmbH	HRB 157278B <sup>4)</sup>	Germany
Queens Moat Houses Properties (Ratingen) GmbH	HRB 157320B <sup>4)</sup>	Germany
Queens Moat Houses GmbH	HRB 157271B <sup>4)</sup>	Germany
Queens Moat Houses (Deutschland) GmbH	HRB 157308B <sup>4)</sup>	Germany
Queens Moat Houses Frankfurt GmbH	HRB 157291B <sup>4)</sup>	Germany
Grundstücksgesellschaft ATLANTIS GmbH	HRB 41381 <sup>5)</sup>	Germany
Pandox Germany GmbH	HRB 68809 <sup>5)</sup>	Germany
Pandox Lübeck GmbH	HRB 68868 <sup>5)</sup>	Germany
Pandox Dortmund GmbH	HRB 68856 <sup>5)</sup>	Germany
Pandox Bremen GmbH	HRB 68847 <sup>5)</sup>	Germany
Pandox Deutschland GmbH & Co. KG <sup>5)</sup>	HRA 21826 <sup>5)</sup>	Germany

Associated companies	Company reg. no.	Registered office
Pandox Verwaltungs GmbH <sup>6)</sup>	HRB 66726 <sup>3)</sup>	Germany

<sup>1)</sup> BC reg. no.

<sup>2)</sup> Commercial register held by the local court in Charlottenburg, Germany.

<sup>3)</sup> Commercial register held by the local court in Düsseldorf, Germany.

<sup>4)</sup> Commercial register held by the local court in Berlin-Charlottenburg, Germany.

<sup>5)</sup> Pandox AB (publ) owns 94 percent of the shares and a third party owns the remaining 6 percent of the shares.

<sup>6)</sup> Pandox AB (publ) owns 49 percent of the shares and a third party owns the remaining 51 percent of the shares.

## NOTE 26 TRANSACTIONS WITH RELATED PARTIES

Related companies are defined as the subsidiaries in the Pandox Group and companies over which related physical persons have a controlling, joint controlling or significant influence. Related persons include board members, senior executives and close family members of the above. The Parent Company is a related party to its subsidiaries. Certain dividend restrictions apply in a few of the subsidiaries' credit agreements. Disclosures concerning remuneration to key individuals in senior positions can be found in Note 9. Group-internal transactions take place on market terms. The transactions consist of the allocation of central administration costs, and interest on financial receivables and liabilities. All transactions take place on market terms.

Pandox has entered into nine asset management agreements relating to eight hotels in Oslo and Pelican Bay Lucaya Resort in the Bahamas, which are owned by Eiendomsspar AS and companies that are related to Helene Sundt AS and CGS Holding AS. In 2015 revenue from the asset management agreements amounted to MSEK 3 (0). Since 1 March 2015 Pandox has operated Grand Hotel Oslo under a long-term lease with the property owner Eiendomsspar AS. In 2015 rental costs for Grand Hotel Oslo amounted to MSEK 47 (0).

The acquisition of 18 hotel properties in Germany in December 2015 was carried out jointly with Eiendomsspar AS, which is a minority owner with 5.1 percent.

On 30 December 2015 Pandox signed a credit agreement for around EUR 80 million on market terms and, for Pandox AB, cost-neutral terms, with Eiendomsspar Sverige AB as the lender. Pandox AB's credit-related costs amounted to MEUR 0.034, equivalent to MSEK 0.31. The loan was repaid in full on 15 January 2016.

### Parent Company

The Parent Company's fees for central administrative services from Group companies during the year amounted to MSEK 56 (56). No other purchases were made between the Parent Company and its Group companies.

### TRANSACTIONS BETWEEN THE PARENT COMPANY AND RELATED PARTIES

Parent Company MSEK	31 Dec 2015	31 Dec 2014
Central administration costs	56	56
Interest income from subsidiaries	59	104
Dividends from subsidiaries	666	1,265
Dividend to shareholders <sup>1)</sup>	-150	-1,103
Interest paid to subsidiaries	-9	-25
Receivables from related parties	5,190	4,190
Liabilities to related parties	3,151	3,833
Group contributions received	338	175
Group contributions provided	-231	-175

<sup>1)</sup> Dividend before listing on 18 June.

## NOTE 27 SPECIFICATION OF CASH FLOWS FOR THE GROUP

GROUP MSEK	2015	2014
<b>Acquisition of subsidiaries and other business entities</b>		
<b>Acquired assets and liabilities</b>		
Investment Properties	3,665	—
Current receivables	8	—
Cash and cash equivalents	68	—
<b>Total assets</b>	<b>3,741</b>	<b>—</b>
<b>Non-controlling interests</b>		
Non-current liabilities	2,252	—
<b>Total liabilities</b>	<b>2,252</b>	<b>—</b>
<b>Purchase consideration:</b>		
Purchase consideration paid	3,720	—
Less: Non-controlling interests	-123	—
Less: Cash and cash equivalents in the acquired operations	—	—
<b>Effect on cash and cash equivalents</b>	<b>3,597</b>	<b>—</b>
<b>Divestment of subsidiaries and other business entities</b>		
<b>Acquired assets and liabilities</b>		
Investment Properties	86	2,438
Current receivables	1	14
<b>Total assets</b>	<b>87</b>	<b>2,452</b>
Non-current liabilities	—	939
Deferred tax	22	8
Current liabilities	15	28
<b>Total liabilities</b>	<b>37</b>	<b>975</b>
<b>Selling price:</b>		
Purchase consideration received	124	2,607
Less: Cash and cash equivalents in the divested operations	-2	—
<b>Effect on cash and cash equivalents</b>	<b>122</b>	<b>2,607</b>

## NOTE 28 CURRENT AND NON-CURRENT LIABILITIES, PARENT COMPANY

PARENT COMPANY MSEK	2015	2014
Liabilities to credit institutions due within 12 months	1,723	937
Liabilities to credit institutions due in 2–4 years	4,087	3,655
Liabilities to credit institutions due in 5 years or later	—	—
<b>Total current and non-current liabilities</b>	<b>5,810</b>	<b>4,592</b>

## NOTE 29 ASSETS AND LIABILITIES HELD FOR SALE

GROUP MSEK	31 Dec 2015
<b>Assets</b>	
Investment Properties	728
Other receivables	4
<b>Assets classified as held for sale</b>	<b>732</b>
<b>Liabilities</b>	
Other current liabilities	12
<b>Total liabilities classified as held for sale</b>	<b>12</b>

Pandox has entered into an agreement with Midstar AB regarding the divestment of eight hotel properties with 965 rooms in Sweden. The purchase consideration amounts to MSEK 850 after deferred tax, with the purchaser acquiring the shares in each property-owning company. The transaction is expected to be completed on 31 March 2016. The hotel properties fall within the Investment Properties reporting segment.

# Allocation of earnings

At the disposal of the Annual General Meeting:

Retained earnings	1,885,181,253
Profit for the year	570,689,458
	<hr/>
	2,455,870,711

The Board and CEO propose that the earnings be allocated as follows:

Dividend to shareholders, SEK 3.80 per share	570,000,000
Carried forward	1,885,870,711
	<hr/>
	2,455,870,711

## Statement by the Board of Directors on the proposed allocation of earnings

### Reasoned statement

Group equity has been calculated in accordance with the IFRS standards adopted by the EU and their interpretations (IFRIC IC), and in accordance with Swedish legislation through the implementation of Swedish Financial Accounting Standards Council recommendation RFR 1 (Supplementary Accounting Regulations for Groups). Parent Company equity has been calculated in accordance with Swedish legislation and applying Swedish Financial Accounting Standards Council recommendation RFR 2 (Accounting for Legal Entities). The Board finds that after distribution of the proposed dividend, there will be full coverage for the Company's restricted equity. The Board of Directors finds that the proposed allocation of earnings is justifiable taking into consideration the criteria mentioned in Chapter 17 § 3 second and third paragraphs of the Swedish Companies Act (the nature and extent of the business and its risks, consolidation requirements, liquidity and position in general). In this consideration the Board wishes to emphasise the following:

### The nature and extent of the business and its risks

The Board considers that following the proposed dividend, Pandox's equity will be sufficient – with a good margin – for the nature and extent of the business and its risks, taking into consideration among other things the Company's financial position, historical and budgeted development, investment plans and economic situation. This consideration also takes into account the agreement to dispose of eight Investment Properties, which is expected to bring in MSEK 850 when it is completed on 31 March 2016.

### Consolidation requirements, liquidity and position in general

#### *Consolidation requirements*

The Board has made a comprehensive assessment of Pandox's and the Group's financial position and their ability to discharge their financial obligations. The proposed dividend represents 3.5 percent of the Group's EPRA NAV, 4.7 percent of equity attributable to the Parent Company shareholders, 20.4 percent of the Parent Company's equity and 50.4 percent of the Group's cash earnings for 2015. The Board considers that Pandox's loan-to-value ratio following the dividend and including future funds received from disposal of the eight Investment Properties will be well within the target range of between 45 and 60 percent, thereby maintaining the Company's flexibility and ability to take advantage of future business opportunities and to deal with any losses. Planned investments have been taken into consideration in determining the proposed dividend. The dividend is of no material significance for the Company's and the Group's ability to make further investments for which there is a business case in accordance with plans adopted.

#### *Liquidity*

The proposed dividend will not affect the Company's and the Group's ability to meet payment obligations on time and to deal with any variations in liquidity and other unexpected events. Pandox has good access to liquidity reserves in the form of cash and cash equivalents as well as long-term credit facilities.

#### *Position in general*

The Board has considered all known circumstances that could be of significance for the Company's and the Group's financial position and that have not been taken into account above. In this consideration no circumstances have emerged that might make the proposed dividend unwarranted.

# Signing of the Annual Report

The Board and CEO provide an assurance that the Annual Report and consolidated accounts have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU. The Annual Report and consolidated accounts provide a fair representation of the Group's position and results, and

the Administration Report provides a fair representation of operations in the Group, its financial position and performance, and describes the material risks and uncertainties facing the Group.

Stockholm, 29 March 2016

Christian Ringnes  
*Chairman*

Leiv Askvig

Ann-Sofi Danielsson

Olaf Gauslå

Bengt Kjell

Helene Sundt

Mats Wäppling

Anders Nissen  
*Chief Executive Officer*

Our Audit Report in respect of this annual report and the consolidated accounts was submitted on 30 March 2016.

Per Gustafsson  
*Authorised Public Accountant*

Willard Möller  
*Authorised Public Accountant*

# Audit Report

To the Annual General Meeting of Pandox AB (publ), corporate registration number 556030-7885

## **Auditors' report on the annual report and consolidated accounts**

We have conducted an audit of the annual report and consolidated accounts of Pandox AB (publ) for the year 2015. The company's annual report and consolidated accounts can be found on pages 58 to 100 of the printed version of this document.

### *Responsibilities of the Board of Directors and the Chief Executive Officer*

The Board of Directors and the Chief Executive Officer are responsible for preparing an annual report that provides a fair presentation in accordance with the Swedish Annual Accounts Act and consolidated accounts that provide a fair presentation in accordance with the Swedish Annual Accounts Act and International Financial Reporting Standards (IFRS) as adopted by the EU, and for such internal control as the Board of Directors and the Chief Executive Officer determine is necessary to enable the preparation of an annual report and consolidated accounts that are free from material misstatement, whether due to fraud or error.

### *Auditors' responsibility*

Our responsibility is to express an opinion on the annual report and consolidated accounts based on our audit. We performed the audit in accordance with International Auditing Standards and generally accepted accounting practice in Sweden. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance that the annual report and consolidated accounts are free from material misstatement.

An audit entails various procedures for obtaining audit evidence about amounts and other information in the annual report and consolidated accounts. The auditors select the procedures to perform, including assessing the risks of material misstatement in the annual report and consolidated accounts, whether these are due to fraud or error. In making those risk assessments, the auditor considers all aspects of internal control that are relevant to the company's preparation and fair presentation of the annual report and consolidated accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the Board of Directors and the Chief Executive Officer, as well as evaluating the overall presentation of the annual report and consolidated accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### *Opinion*

In our opinion, the annual report has been prepared in accordance with the Annual Accounts Act and presents fairly, in all material respects, the financial position of the parent company as of 31 December 2015 and of its financial performance and its cash flows for the year. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and with International Financial Reporting Standards, as adopted by the EU. The consolidated accounts hereby present fairly, in all material respects, the Group's financial position as of 31 December 2015 and its financial performance and cash flows for the year. The

administration report is consistent with the other sections of the annual report and consolidated accounts.

We therefore recommend that the annual general meeting adopt the income statement and balance sheet for the parent company and the statement of comprehensive income and statement of financial position for the Group.

## **Other reporting under law**

In addition to our audit of the annual report and consolidated accounts, we also conducted an audit of the proposed appropriation of the company's profit and the administration of Pandox AB (publ) by the Board of Directors and the Chief Executive Officer in 2015.

### *Responsibilities of the Board of Directors and the Chief Executive Officer*

Under the Swedish Companies Act, the Board of Directors is responsible for the proposal for appropriation of the company's profit or the treatment of its loss, and the Board of Directors and the Chief Executive Officer are responsible for administration of the company.

### *Auditors' responsibility*

Our responsibility is to express an opinion with reasonable assurance, based on our audit, on the proposed appropriation or treatment of the company's profit or loss and on the administration. We conducted the audit in accordance with generally accepted accounting practice in Sweden.

As a basis for our opinion on the Board of Directors' proposed appropriation of the company's profit, we examined the Board of Directors' reasoned statement and a selection of supporting evidence in order to be able to assess whether the proposal is in accordance with the Companies Act.

As a basis for our opinion concerning discharge from liability, in addition to our audit of the annual report and consolidated accounts we examined material decisions, actions taken and circumstances of the company in order to determine whether any member of the Board of Directors or the Chief Executive Officer has any liability to the company. We have also examined whether any member of the Board or the Chief Executive Officer has in any other way acted in contravention of the Swedish Companies Act, the Annual Accounts Act or the company's articles of association.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### *Opinion*

We recommend to the Annual General Meeting of shareholders that the profit be appropriated in accordance with the proposal in the Administration Report and that the members of the Board of Directors and the Chief Executive Officer be discharged from liability for the financial year.

Stockholm, 30 March 2016

Per Gustafsson  
*Authorised Public Accountant*

Willard Möller  
*Authorised Public Accountant*

# Corporate Governance Report

Good corporate governance is about ensuring that a company is managed as efficiently as possible on behalf of the shareholders. Corporate governance determines how rights and responsibilities are distributed among a company's various bodies in accordance with internal processes and the laws and regulations in effect. Pandox is a Swedish public limited company with its registered office in Stockholm. The B shares were listed on Nasdaq Stockholm on 18 June 2015. Corporate governance within Pandox is based on Swedish laws, the Articles of Association, the Nasdaq Stockholm Rule Book for Issuers and the Swedish Corporate Governance Code ("the Code"). The Code describes good practice in the stock market for all Swedish companies whose shares are listed for trading on a regulated market in Sweden. The Code is to be applied from the date of the market listing.

The Code has been revised, and the revised version of the Swedish Corporate Governance Code applies from 1 November 2015.

A company does not need to follow all of the rules in the Code as the Code itself allows companies to deviate from the rules on condition that any deviations as well as the alternative solutions chosen are described and the reasons for them explained in the corporate governance report (according to the so-called "comply or explain principle").

All companies are, however, obliged to comply with the Code's Chapter 10 Information on Corporate Governance. In a

corporate governance report published on the Company's website, the Board is to provide information to shareholders and the capital market on an annual basis about the Company's corporate governance and how the Company is applying the Swedish Corporate Governance Code.

Pandox's Corporate Governance Report has been prepared for the first time for the 2015 financial year. Pandox complies with the Code with no deviations.

## SHAREHOLDERS AND THE SHARE

The active participation of the shareholders at shareholders' meetings promotes a good balance of power between the owners, the Board and Group management.

The Company's share capital amounted to SEK 375,000,000 as of 31 December 2015; 75,000,000 are A shares and 75,000,000 are B shares. Each A share entitles the holder to three votes at shareholders' meetings, while each B share entitles the holder to one vote at shareholders' meetings. At year-end the Company's market capitalisation amounted to MSEK 23,385.

Pandox' Articles of Association contain a conversion clause and a pre-emption clause for Pandox's A shares. All B shares are transferable without restriction.

## Shareholders' meeting

At the shareholders' meeting the shareholders exercise their right to vote on key issues, such as adoption of the income statement and balance sheet, appropriation

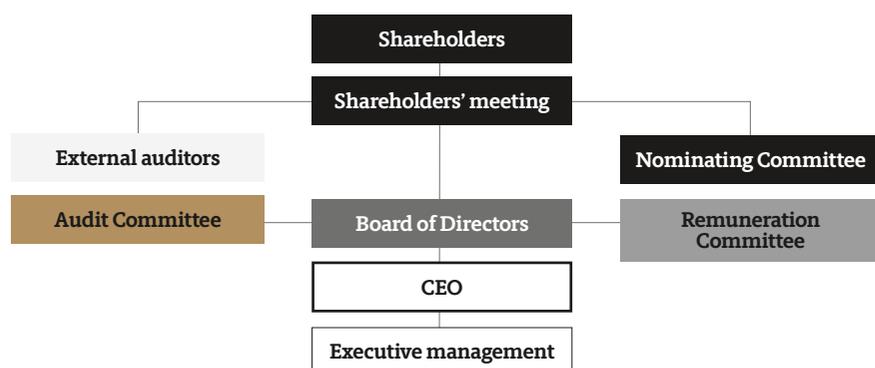
of the Company's profits, discharging the board members and the Chief Executive Officer from liability, election of board members and auditors, and on fees for board members and auditors.

The Annual General Meeting (AGM) must be held within six months of the end of the financial year. In addition to the AGM, extraordinary shareholders' meetings may be convened. The Board of Directors is to convene extraordinary shareholders' meetings if a group of minority shareholders holding at least one tenth of all shares in the Company requests such a meeting. The same applies if the Company's auditors request an extraordinary shareholders' meeting. The Board of Directors may also initiate an extraordinary shareholders' meeting. Resolutions at shareholders' meetings are normally passed with a simple majority. In certain matters, however, the Swedish Companies Act states that a qualified majority is required. According to the Articles of Association, notice to attend shareholders' meetings is to be issued through an announcement in Post- och Inrikes Tidningar (Sweden's official gazette) and published on Pandox's website. An advertisement is also to be placed in the Swedish national daily newspaper, Svenska Dagbladet, informing the public that a notice has been issued.

When the date and location of the shareholders' meeting has been established, the details are to be published on Pandox's website in advance of the AGM no later than in connection with the third quarter interim report.

Shareholders wishing to participate in the meetings must be listed in the register of shareholders maintained by Euroclear Sweden AB five days before the meeting, and must register with Pandox to participate in the shareholders' meeting by the deadline indicated in the notice of the meeting. Shareholders may attend the meetings in person or by proxy and may also be assisted by no more than two people (the number of assistants is to be indicated when registering to attend). Shareholders may normally register in a number of ways to attend shareholders' meetings. This is described in more detail in the notice of the meeting. Shareholders are entitled to vote for all of the shares they hold.

## Overall corporate governance structure



Shareholders wishing to have a matter placed on the agenda of the shareholders' meeting are required to submit a written request to the Board of Directors. Requests are normally to be received by the Board of Directors no later than seven weeks before the shareholders' meeting.

#### Annual General Meeting 2015

The last Annual General Meeting (AGM) took place on 5 May 2015 in Stockholm. The following resolutions were passed at the 2015 AGM:

- Adoption of the income statement and balance sheet, and of the consolidated income statement and consolidated balance sheet.
- Appropriation of the Company's earnings according to the adopted balance sheet.
- Discharge of the members of the Board and the CEO from liability.
- Fees for the Board and the Company's auditors. SEK 600,000 to the Chairman of the Board and SEK 400,000 to each of the other elected members of the Board. Additional fees of SEK 50,000 each for board members for work performed on the Audit Committee. Decision that compensation for committee work is to be paid in the amount of SEK 50,000 to each of the two members of the Remuneration Committee. Decision on fees for auditors according to approved invoices.
- Re-election of board members and auditors as well as deputy auditors.
- Re-election of Christian Ringnes as Chairman of the Board.
- Decision on appointing a Nominating Committee in advance of the 2016 AGM.
- Adoption of the new Articles of Association.
- Share split (6:1), and that the share capital following the split is to consist of 75,000,000 class A shares and 75,000,000 class B shares.

#### Extraordinary shareholders' meeting

The following resolutions were passed at an extraordinary shareholders' meeting on 23 November 2015.

- It was established that the number of board members will be seven.
- Ann-Sofi Danielsson was elected as a new board member for the period until

the conclusion of the next AGM, replacing Christian Sundt who resigned his position on the Board.

- The fee for board members elected by the shareholders' meeting will remain the same as resolved by the AGM; a fee for the Chairman of the Board of SEK 600,000 and SEK 400,000 each for the other elected board members.
- A fee of SEK 50,000 is to be distributed to each of the two members of the Remuneration Committee.
- An annual fee not exceeding SEK 350,000 to the Audit Committee, to be distributed among the Audit Committee members as determined by the Board of Directors.

The minutes of shareholders' meetings are available on Pandox's website.

#### Board of Directors

The Board of Directors is Pandox's next highest decision-making body, after the shareholders' meeting. According to the Swedish Companies Act, the Board of Directors is responsible for the administration and organisational structure of Pandox. This includes establishing targets and strategies, ensuring that routines and systems are in place to evaluate performance in relation to established targets, and ongoing evaluation of Pandox's financial performance and position and its operational management. The Board is also responsible for ensuring that the Annual Report and interim reports are prepared at the right time. The Board also appoints the Chief Executive Officer. The Board may

delegate tasks to individuals within or outside the Board, but may not relieve itself of ultimate responsibility for the Company's organisational structure and administration, nor of its responsibility to ensure satisfactory control of the Company's financial situation.

The members of the Board are normally elected at the Annual General Meeting for the period until the conclusion of the following AGM. According to Pandox's Articles of Association, the Board of Directors, to the extent it is elected by the shareholders' meeting, is to consist of at least four and not more than seven members with no deputies.

According to the Code, the Chairman of the Board is to be elected by the AGM and has special responsibility for guiding the work of the Board and for ensuring that the Board's work is well-organised and performed efficiently.

The Board is to establish written work procedures for its own duties. If there is an established distribution of duties among the members of the Board, this should also be stated in the work procedures. This is relevant when the Board has committees tasked with preparatory work in specific areas, for example the Audit Committee and the Remuneration Committee.

The Board works according to the written work procedures, which are revised annually and adopted at the statutory board meeting every year. The work procedures regulate, among other things, board practices, functions and distribution of duties between the board members and the CEO. In conjunction with the statutory

#### PANDOX'S BOARD OF DIRECTORS 2015

Name	Fees, SEK 000s	Attendance at meetings			Independent of the Company <sup>2)</sup>	Independent of owners <sup>3)</sup>
		Board of Directors	Audit Committee <sup>1)</sup>	Remuneration Committee		
Christian Ringnes, Chairman	650	15 of 15	3 of 3	2 of 2	Yes	No
Leiv Askvig	400	15 of 15	3 of 3	—	Yes	No
Olaf Gauslå	470	15 of 15	3 of 3	—	Yes	No
Bengt Kjell	470	15 of 15	3 of 3	—	Yes	Yes
Helene Sundt	400	14 of 15	3 of 3	—	Yes	No
Mats Wäppling	450	15 of 15	3 of 3	2 of 2	Yes	Yes
Christian Sundt	—	11 of 15	3 of 3	—	Yes	No
Ann-Sofi Danielsson	530	3 of 15	—	—	Yes	Yes

At an extraordinary shareholders' meeting on 23 November 2015 Ann-Sofi Danielsson was elected as a new board member, replacing Christian Sundt who resigned his position on the Board.

<sup>1)</sup> The Audit Committee was formed on 23 November 2015. Until this date the Board in its entirety performed the duties of an audit committee.

<sup>2)</sup> Independent in relation to the Company and the executive management team.

<sup>3)</sup> Independent in relation to major shareholders.

meeting the Board adopts instructions for the CEO, including financial reporting instructions.

The Board conducts an annual evaluation of its work methods and routines. The objective of this evaluation is to ensure that efficient processes are in place for gathering information, reporting, performing analysis, planning and decision-making. A further objective is to ensure that the Board possesses the necessary skills and expertise. The result of the evaluation is reported to the Nominating Committee and provides information on which the Committee can base its work. All board members as well as the CEO were interviewed by the Nominating Committee in November 2015 about the Board's work methods and routines. In addition, a special analysis was conducted of the Board's composition in preparation for the appointment of a new board member in November 2015. Particular attention was paid to specific skills needed, independence in relation to the principal owners and gender distribution on the Board.

The Board is to evaluate the work of the CEO on an ongoing basis.

The Board holds meetings based on a schedule established annually. In addition to these board meetings, additional meetings may be convened by the Board to address matters that cannot wait until the next ordinary board meeting. In addition to board meetings, the Chairman and the

CEO meet on a regular basis to discuss Pandox's governance and management.

In 2015 the Board held 15 meetings, one of which was the statutory meeting.

The members of the Board have the appropriate and collective expertise taking into account Pandox's operations. In 2015, in addition to focusing on the Company's operations, the Board was active and involved in the process of preparing to list the B shares on Nasdaq Stockholm.

#### Audit Committee

On 23 November 2015 Pandox's Board of Directors appointed an Audit Committee consisting of Ann-Sofi Danielsson (chairman), Bengt Kjell and Olaf Gauslå. The Audit Committee's duties, which are not to affect the Board's general responsibilities and duties, consist of overseeing Pandox's financial reporting and the efficiency of Pandox's internal control and risk management, and involve staying informed about the audit of the annual accounts and consolidated accounts, reviewing and monitoring the auditor's impartiality and independence, and paying particular attention if the auditor is providing Pandox with services other than audit services, as well as assisting in the preparation of proposals for the election of auditors at the AGM. The Audit Committee also examines the Annual Report and interim reports and oversees the audit. The Audit Committee does not perform any auditing tasks.

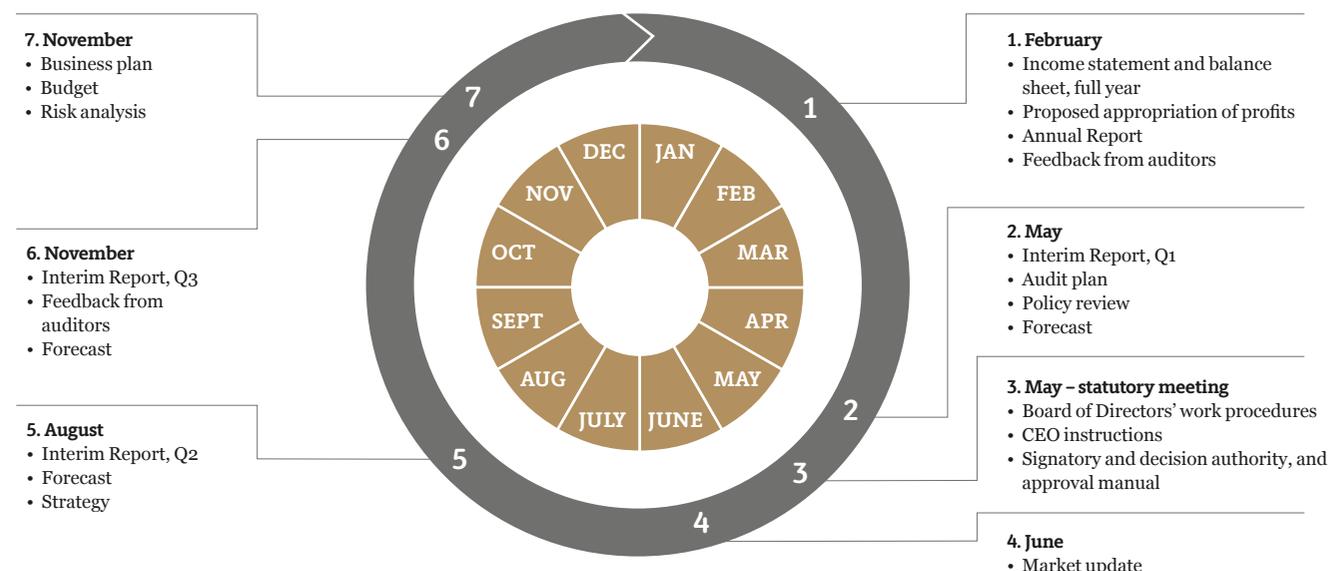
Before the Audit Committee was formed on 23 November 2015, the Board in its entirety performed the duties of an audit committee. The Board held three meetings in this capacity in 2015.

#### Remuneration Committee

Pandox has a Remuneration Committee consisting of two members: Christian Ringnes and Mats Wäppling. Remuneration Committee duties:

- Preparing for board decisions on remuneration principles and on remuneration and other employment terms with respect to the CEO and senior executives.
- Monitoring and evaluating ongoing programmes and programmes concluded during the year regarding variable remuneration for senior executives.
- Monitoring and evaluating the application of remuneration guidelines for senior executives on which the AGM is legally obliged to vote, and the applicable remuneration structures and compensation levels within the Company.
- Reviewing and preparing proposals on all share-related incentive schemes to put before the executive management team. These proposals are submitted for a decision by the Board of Directors, which then submits proposals for a resolution at the AGM. The AGM resolution is to include the significant terms and conditions of the scheme.

## Board duties, annual cycle\*



\* In 2015 a total of 15 board meetings were held. The high number in relation to the normal annual cycle for the Board's work is mainly due to the process of preparing for the market listing on 18 June 2015 and the acquisition in Germany.

The Remuneration Committee held two meetings in 2015.

#### **Chief Executive Officer and other senior executives**

The Chief Executive Officer (CEO) reports to the Board of Directors and is responsible for Pandox's day-to-day administration and operations. Actions and measures which, taking into account the scope and nature of the Company's business, are of an unusual nature or of great significance, do not fall under the category of day-to-day administration. The CEO is required to prepare information and report to the Board on matters that are outside the day-to-day administration of the Company.

The distribution of duties between the board members and the CEO is described in the work procedures for the Board and instructions for the CEO. The CEO is also responsible for preparing reports and compiling information in advance of Board meetings and reporting on these materials at the board meetings.

According to the instructions on financial reporting, the CEO is responsible for Pandox's financial reporting procedures and must therefore ensure that the Board receives sufficient information on which to continuously evaluate Pandox's financial position.

The CEO is to keep the Board continuously informed about the performance of Pandox's operations, sales development, results and financial position, liquidity and credit status, important business events and about all other events, circumstances or situations that may be assumed to be of significant importance to Pandox's shareholders.

#### **Audit**

Pandox's auditors are appointed by the shareholders' meeting and are to examine the Company's Annual Report and accounting records as well as the administration of the Company by the Board and the CEO. After each financial year, the auditor must submit an audit report for the Company and the Group to the Annual General Meeting. The auditors are commissioned by and report to the shareholders' meeting and are not to allow themselves to be influenced in their work by the Board or the executive management team.

The auditors are also responsible for reporting on any instance where a board member or the CEO is guilty of neglect or has acted in a way that may result in a liability to pay compensation.

According to Pandox's Articles of Association, Pandox is to have two auditors and two deputy auditors. Pandox's auditors are Per Gustafsson and Willard Möller and the deputy auditors are Pär Olle Lövgren and Ulf Sundborg. Pandox's auditors and deputy auditors are presented in the section under the heading: Board, senior executives and auditors, on page 108.

The Board of Directors meets with Pandox's external auditors without executive management being present at least once a year to receive and address the auditors' opinions.

The Audit Committee also meets the auditors on a regular basis to be informed about and address their opinions on the interim reports and the year end report, the results of the auditor's scrutiny of internal control over financial reporting and to address other issues.

Pandox has no specific internal audit department. The Board evaluates the need for such a department on an annual basis.

#### **Nominating Committee**

The Nominating Committee is a body tasked by the shareholders' meeting to prepare for decisions at shareholders' meetings on election and fee-related issues and, where applicable, procedural issues for the subsequent Nominating Committee to address.

The Nominating Committee is tasked with submitting proposals for the election of the Chairman and other members of the Board, and on fees and other remuneration for board assignments for each member of the Board. The Nominating Committee is also to provide proposals for the election and compensation of auditors in consultation with the Audit Committee.

The AGM in 2015 adopted principles for appointing members to the Nominating Committee in advance of the AGM for the financial year 2016. In preparation for the AGM for the financial year 2016, the Nominating Committee is to consist of representatives of the four largest shareholders in terms of voting rights as of 30 September 2015 as well as the Chairman of the Board. Changes in the composition of the Nominating Committee are to be published immediately. The composition of the Nominating Committee formed in advance of an AGM is to be published no later than six months before the AGM. On 8 October it was announced that the Nominating Committee had been appointed in accordance with principles adopted by the AGM and consisted of the following:

- Anders Ryssdal, Eiendomsspar Sverige AB (Nominating Committee chairman)
- Christian Ringnes, Chairman of the Board of Pandox
- Lars-Åke Bokenberger, AMF Insurance and Funds
- Marianne Flink, Swedbank Robur Funds
- Johannes Wingborg, Länsförsäkringar Fondförvaltning AB

Shareholders wishing to submit proposals to the Nominating Committee can do so by e-mail to [valberedningen@pandox.se](mailto:valberedningen@pandox.se) or by post to Pandox AB, Valberedning, PO Box 15, SE-101 20 Stockholm. The Nominating Committee's proposals will be published in the notice of the 2016 AGM and on Pandox's website. The AGM will be held on 3 May 2016 in Stockholm.

#### **INTERNAL CONTROL**

According to the Swedish Companies Act and the Swedish Corporate Governance Code, Pandox's Board of Directors is to be responsible for the Company's internal control. This report has been prepared in accordance with the Annual Accounts Act and the Code and is mainly intended to describe internal control over financial reporting.

The framework used as a basis for Pandox's work on and description of internal governance and control is provided by COSO, the Committee of Sponsoring Organisations of the Treadway Commission. COSO provides a structure for internal control based on five components: control environment, risk assessment, control activities, monitoring activities, and information and communication.

#### **Control environment**

The Board of Directors has the overall responsibility for ensuring good internal control and effective risk management. Every year the Board of Directors adopts work procedures that define the Board's responsibilities and the distribution of duties among the board members. The Board exercises its control by annually adopting policy documents, CEO instructions, delegation rules, instructions for financial reporting, business targets and strategies, as well as business plans and a budget.

Good internal control over financial reporting is based on the control environment. In 2015 Pandox focused on defining, documenting and implementing an organisational structure, decision paths, delegation, responsibilities and powers. These efforts have strengthened Pandox's

corporate culture and control environment, and have resulted in a number of updated group-wide governing documents:

- Work procedures for the Board and its committees
- CEO instructions, including instructions for financial reporting
- Decision and approval authority manual
- Financial Handbook
- Financial Policy
- Insider Policy
- Communication Policy
- IT Policy
- Environmental Policy
- Code of Conduct

These governing documents form the basis for ensuring the financial reporting.

The Board's and executive management's actions, demonstrating solid expertise and an ethical approach, have great significance for establishing a sound control environment and are an important aspect of Pandox's corporate culture.

In 2015 Pandox recruited a number of individuals to enhance the Company's IFRS expertise with respect to external reporting of financial information, as well as expertise in external communication for a listed company.

#### Risk assessment

The Group's business segments are exposed to a number of risks; see the risk section on page 52.

Risk assessment with respect to financial reporting involves identifying the procedures and income statement and balance sheet items in which there is a risk that errors, incomplete information or irregularities may arise if there is insufficient control built into the routines. Risk assessment includes analysing whether any

errors could occur and if so, how they may occur and in which part of the process.

Pandox's risk assessment has identified items where the risk of significant errors is the highest. These are items involving substantial transactions or where the processes are highly complex and require strong internal control.

An assessment of the risk of errors in financial reporting is performed annually for each line in the income statement, statement of financial position and cash flow statement.

For items that are significant and/or associated with an elevated risk of errors, special procedures are employed to minimise the risks. The three main areas of risk are:

- Property valuation
- Investment and renovation programmes
- Financing activities

Pandox has a well-established operational risk model called the Pandox Model. The Pandox Model is used to evaluate and document identified risks associated with the hotel properties. The Model's methods increase cash flow and limit the risk associated with each of the hotels.

The Pandox Model has four phases:

- Market analysis
- Market strategy
- Profitability optimisation
- Agreement optimisation

Twice a year a review of all of the hotels and properties is performed and updates are made based on the Pandox Model. Recurring business risk areas are: hotel occupancy, property management, contract issues and asset management. The biggest risks are documented in a "Hot Pile" and are followed up at monthly executive management meetings. Topics discussed at the meetings include any impact from macroeconomic forces, the hotel

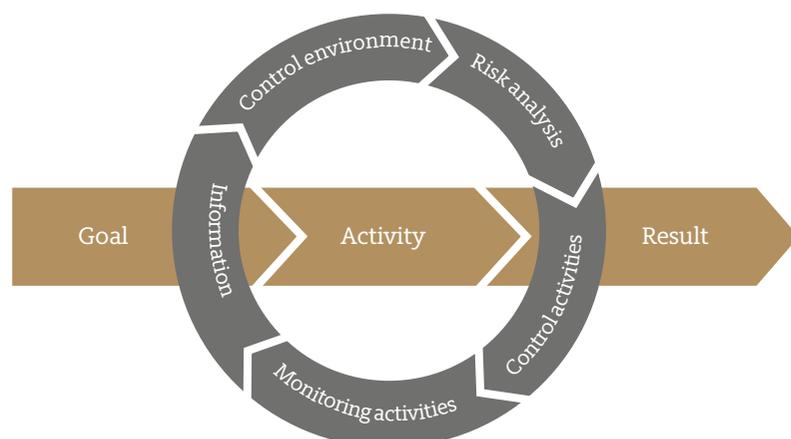
market, geography, diversification, demand, supply, competitors, etc.

Pandox performs internal valuations of its property portfolio every quarter. In addition, all properties are valued annually by external professional property appraisers who are independent of Pandox. Their assumptions and valuations form an important element in establishing the property value during the internal valuation process. The valuation model consists of an accepted and proven cash flow model, where the future cash flows the hotel properties are expected to generate are discounted. The valuation is based on the business plan for the hotel concerned, which is updated at least twice a year and takes into account aspects such as progress in underlying operator activities, market development, the contract situation, operating and maintenance issues and investments aimed at maximising the hotel property's cash flow and yield in the long term.

In its role as an active hotel property owner, Pandox makes every effort to develop and position its hotels through a programme of investment and renovation. Pandox has made substantial investments in recent years. Pandox has a long-term investment management perspective for the property portfolio and works according to maintenance plans covering three to five years. For investments exceeding MSEK 6, a memorandum is submitted to the Board for approval. An investment budget is established every year in connection with the preparation of the budgets and business plan for adoption by the Board of Directors. The outcome of the investments is monitored in relation to the budget and reported at board meetings.

Interest expense is, and has in the past been, Pandox's biggest expense item. Interest expense is affected by market interest rates and by credit institution margins, as well as by Pandox's strategy with respect to fixed interest rates. The majority of Pandox's credit facilities have a variable rate of interest. In order to manage interest rate risk and increase the predictability of Pandox's earnings, interest-rate derivatives, mainly interest-rate swaps, are used. Variable interest rates are partially swapped through interest-rate swaps, which gives Pandox fixed interest rates. Pandox has a Financial Policy that establishes risk mandates and ensures that the Company has access to long-term financing. The Financial Policy is updated annually by the Board of Directors. Pandox works closely with its lenders and external experts to ensure the Company plans well in advance with respect to its financing requirements.

### Pandox's model for internal control



In addition to a focus on operational risk, Pandox made an assessment in 2015 of the main risks relating to financial reporting. This assessment is reflected in how the financial processes are documented in the Financial Handbook.

In connection with Pandox's annual strategy and budgetary work, the executive management team presents a map of the Group's top risks to the Board of Directors.

#### **Control activities**

To avoid errors, a number of control activities have been introduced to ensure that control objectives are achieved. In 2015 Pandox reviewed its processes and routines to guarantee a high standard in financial reporting. Pandox's most important financial processes, such as closing the accounts, consolidation, monitoring results and reporting, have been documented in a Financial Handbook. This has also involved identifying and documenting control activities linked to financial processes. The control measures involve guaranteeing the quality of financial reporting. Measures have been implemented at the general level in the analysis of results and key ratios, as well as at the detailed level by incorporating a number of items to check in day-to-day processes and routine descriptions. Each month at financial meetings, the Company's performance is examined in relation to the budget, forecast and the outcome the previous year. The executive management team also holds monthly meetings. The Board and Audit Committee review financial reporting procedures quarterly.

The CFO and the business intelligence and control departments are all responsible for creating the environment required to achieve transparent and accurate financial

reporting. Pandox's executive management and the Board also fill an important control function in respect of the external financial reporting process.

#### **Monitoring activities**

Pandox monitors performance in relation to both operational and financial goals on a monthly basis. The performance follow-up meeting is attended by the CEO, CFO, Business Intelligence, Group Controllers and Business Area Managers. Material differences are investigated immediately by the CFO and significant issues are reported to the Board. Any high risk areas identified are monitored by the Board at least every quarter. The Audit Committee always examines the external reports before they are published for the stock market.

These monitoring processes are the basis for guaranteeing the quality of Pandox's financial reporting.

The CFO reports annually to the Board on an evaluation of internal control over financial reporting.

In addition to this, Pandox's external auditors examine the Company's internal control over financial reporting and annual reporting, and perform a review of the third quarter interim report. Any shortcomings and/or errors identified by the auditors are reported to Pandox's executive management or, in the case of serious issues, directly to the Board.

#### **Information and communication**

One prerequisite for good internal control is that its various components and intentions are known throughout the organisation. In other words, clear and well-structured communication on internal control is very important.

To ensure that there is an efficient exchange of knowledge and experience among the financial departments, financial meetings are convened on a regular basis at which relevant issues are addressed. Governing guidelines, policies and instructions are available on the Group's intranet. Access to the documents for internal information on the intranet is regulated by rules of authorisation. The documents are updated on an ongoing basis as needed. Changes are communicated separately via e-mail and at meetings attended by controllers and financial managers. Access to financial data for the Group is also controlled at the central level based on authorisation rules.

During the year a Head of Investor Relations was employed. This person is responsible for all external information and communication, including the external website.

#### **Need for an internal audit**

Pandox has a very dedicated and committed executive management team whose members are directly involved in many different issues at various levels within the Group. Pandox also has a strong central control department consisting of individuals with previous experience as auditors who work with the Business Intelligence department to analyse and monitor financial and operational development within all of the Group's business segments. The employees in the financial department have many years of experience in this area and significant experience of Pandox's business. Taking all of this into consideration, Pandox's Board has determined that at this time there is no need for a separate internal audit department.

## Auditors' report of the Corporate Governance Statement

To the annual meeting of the shareholders in Pandox AB, Corporate identity number 556030-7885

It is the Board of Directors who is responsible for the Corporate Governance Statement for the year 2015 and that it has been prepared in accordance with the Annual Accounts Act.

As a basis for our opinion that the Corporate Governance Statement has been prepared and is consistent with the annual accounts and the consolidated accounts, we have read the Corporate Governance

Statement and assessed its statutory content based on our knowledge of the company. This means that our statutory examination of the Corporate Governance Statement is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted audit standards in Sweden.

In our opinion, the Corporate Governance Statement has been prepared and its statutory content is consistent with the annual accounts and the consolidated accounts.

Stockholm, 30 March 2016

Per Gustafsson  
Authorised Public  
Accountant

Willard Möller  
Authorised Public  
Accountant

# Board of Directors



**Leiv Askvig**

Born 1957.

Board member since 2004.

Advanced Management Program, Harvard Business School. Bachelor's degree in Business Administration from the Norwegian School of Management in Oslo.

CEO Sundt AS. Chairman of the Board Aurora LPG Holding ASA (and board appointments for several companies in the Group), Basen Kapital AS, Helene Sundt AB and Christian Sundt AB. Board member Verdane Capital IV AS, Alfarveg AS, Skibs AS Tudor, Civita AS and Skagen Fondene. Board member Eiendomsspar AS and Victoria Eiendom AS. Shareholding: 0



**Christian Ringnes**

Born 1954.

Chairman of the Board since 2004 and Chairman of the Remuneration Committee.

Master of Business Administration from Harvard Business School, Bachelor's degree in business and economics from École des Hautes Études Commerciales, degree in philosophy from the University of Oslo.

Chief Executive Officer Eiendomsspar AS and Victoria Eiendom AS (and board appointments for companies in the group). Chairman of the Board Eiendomsspar Sverige AB, NSV-Invest AS (and board appointments for several companies in the group), Sundt AS (and board appointment for several companies in the group). Board member Schibsted ASA and Thor Corporation AS (and board appointments for subsidiaries in the group) and the real estate board of Norges Bank.

Christian Ringnes owns 39.6 percent of the shares in Victoria Eiendom AS, which owns 46.7 percent of the shares in Eiendomsspar AS which owns 100 percent of Eiendomsspar Sverige AB, which in turn owns 37,314,375 A shares and 7,314,375 B shares in Pandox.



**Ann-Sofi Danielsson**

Born 1959.

Board member since 2015 and Chairman of the Audit Committee.

MSc Business Administration and Economics, Uppsala University.

Chief Financial Officer NCC Housing AB.

Board member Bulten AB.

Shareholding: 0



**Olaf Gauslå**

Born 1961.

Board member since 2004 and member of the Audit Committee.

Authorised Public Accountant from the Norwegian School of Economics. Degree in business administration from the Norwegian School of Economics.

CFO Eiendomsspar AS and Victoria Eiendom AS (and board and management positions in several subsidiaries of Eiendomsspar AS and Victoria Eiendom AS). Board member Eiendomsspar Sverige AB. Shareholding: 0



**Bengt Kjell**

Born 1954.

Board member since 1996 and member of the Audit Committee.

Graduate of Stockholm School of Economics, DHS.

Chairman of the Board SSAB and Hemfosa Fastigheter AB and other companies. Vice Chairman Indutrade AB. Board member AB Industrivärden and ICA Gruppen AB and other companies. Shareholding: 2,000 B shares.



**Helene Sundt**

Born 1979.

Board member since 2008.

Law studies.

Chairman of the Board and owner of Helene Sundt AS. Owner of Helene Sundt AB. Board member Sundt AS, CGS Holding AS and Sundt Air Holding AS.

Helene Sundt owns 100 percent of the shares in Helene Sundt AB which owns 18,657,188 A shares and 3,657,187 B shares in Pandox.



**Mats Wäppling**

Born 1956.

Board member since 2003 and member of the Remuneration Committee

MSc Engineering from the Royal Institute of Technology (KTH), Stockholm.

Chairman of the Board of Vasakronan AB, Nordic Modular Group AB, PKM Invest AB, Instalco Holding AB and Nordic Modular Group Holding AB. Board member Mats Wäppling AB, Besqab AB (publ), Totentolvan AB, Vesper Holding AB and Campus X AB. Shareholding: 0

## Auditor

**Per Gustafsson**

Born 1959. Pandox's auditor since 2003.

Authorised Public Accountant and member of FAR (professional institute for Swedish authorised public accountants).

**Willard Möller**

Born 1943. Pandox's auditor since 2003.

Authorised Public Accountant and member of FAR (professional institute for Swedish authorised public accountants).

**Pär Olle Lövgren**

Deputy auditor

**Ulf Sundborg**

Deputy auditor

# Extended management team

At Pandox we are convinced that people grow by doing more activities together, rather than just working together. We frequently organise activities for our employees aimed at creating a good working environment – and because it's fun!



Extended management team, from the left: Anders Berg, Victor Nordlind, Mr Harry, Jonas Törner, Liia Nöu, Ulrika Grewe-Ståhl, Cornelia M. Kausch, Aldert Schaaphok, Leif Kristen Olsen, Helge Krogsbøl, Vassilis Syropoulos, Anna Källgren, Jacob Rasin, Erik Hvesser, Ulf Blomberg, Lars Häggström, Yannick Simonart, Anders Nissen.

## Executive Management Team



**Anders Nissen**  
Born 1957. CEO since 1995.  
Administration programme, Lund University.  
Board member Björnberg Fastighetsförvaltning AB and Svenska Handbollslandslaget AB.  
Anders Nissen owns 100 percent of the shares in Blålockevägen AS, which owns 371,250 A shares and 371,250 B shares in Pandox.



**Liia Nöu**  
Born 1965. Senior Vice President and CFO since 2007.  
MSc Business and Economics from Stockholm School of Economics.  
Shareholding: 13,700 B shares.



**Lars Häggström**  
Born 1954. Senior Vice President, Asset and Technical Development since 2000.  
Naval engineer, graduate of the Sjöbefälsskolan (naval officer college) in Stockholm, and one year of studies at the Royal Institute of Technology.  
Board member Häggström & Co Aktieföretag.  
Shareholding: 10,000 B shares.



**Aldert Schaaphok**  
 Born 1959. Senior Vice President,  
 Director International Operations since 2004.  
 Bachelor's degree in Business Administration  
 (hospitality focus), Hotelschool the Hague.  
 Shareholding: 0



**Jonas Törner**  
 Born 1971. Vice President,  
 Business Intelligence since 2005.  
 Studies towards MSc in Business Administration  
 and Economics (finance & accounting), Stockholm  
 University. Studies towards BSc in Engineering  
 (electronics) at the Royal Institute of Technology  
 (KTH) in Stockholm.  
 Shareholding: 3,000 B shares.



**Camilla Weiner**  
 Born 1968. Head of Investor Relations since 2015.  
 MSc Business Administration and Economics,  
 Uppsala University.  
 Shareholding: 0

# Multiyear overview

## SUMMARISED STATEMENT OF COMPREHENSIVE INCOME

MSEK	2015	2014	2013	2012
Revenue, Property Management				
Rental income	1,431	1,418	1,523	1,540
Other property revenue	112	60	67	55
Revenue, Operator Activities	2,046	1,598	1,308	1,179
<b>Net sales</b>	<b>3,589</b>	<b>3,076</b>	<b>2,898</b>	<b>2,774</b>
Costs, Property Management	-263	-292	-313	-293
Costs, Operator Activities	-1,767	-1,387	-1,200	-1,078
<b>Gross profit</b>	<b>1,559</b>	<b>1,397</b>	<b>1,385</b>	<b>1,403</b>
Central administration	-94	-82	-64	-57
Net financial items	-438	-536	-608	-586
<b>Profit before changes in value</b>	<b>1,027</b>	<b>779</b>	<b>713</b>	<b>760</b>
<i>Changes in value</i>				
Properties	1,399	1,197	375	263
Derivatives, unrealised	203	-622	321	-212
<b>Profit before tax</b>	<b>2,629</b>	<b>1,354</b>	<b>1,409</b>	<b>811</b>
Current tax	-35	-16	-197	-9
Deferred tax	-463	-85	-264	-305
<b>Profit for the year attributable to owners of the parent</b>	<b>2,131</b>	<b>1,253</b>	<b>948</b>	<b>497</b>
Other comprehensive income for the year	-291	-3	-32	-82
<b>Other comprehensive income for the year attributable to owners of the parent</b>	<b>1,840</b>	<b>1,250</b>	<b>916</b>	<b>415</b>

## SUMMARISED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

MSEK	2015	2014	2013	2012
Properties including equipment	29,463	25,701	26,161	25,359
Other non-current assets	25	26	45	10
Deferred tax assets	800	924	773	801
Current assets	1,162	315	303	262
Cash and cash equivalents	170	321	589	939
<b>Total assets</b>	<b>31,620</b>	<b>27,287</b>	<b>27,871</b>	<b>27,371</b>
Equity	12,215	10,402	10,429	9,395
Deferred tax liabilities	2,281	1,993	1,708	1,457
Interest-bearing liabilities	15,546	12,907	14,575	15,020
Non-interest-bearing liabilities	1,78	1,985	1,159	1,499
<b>Total equity and liabilities</b>	<b>31,620</b>	<b>27,287</b>	<b>27,871</b>	<b>27,371</b>

## KEY RATIOS

	2015	2014	2013	2012
Net operating income, Property Management, MSEK	1,280	1,186	1,277	1,302
Net operating income, Operator Activities, MSEK	416	320	210	189
EBITDA, MSEK	1,603	1,425	1,424	1,435
Earnings per share, SEK	14.21	8.35	6.31	3.32
Cash earnings, MSEK	1,130	873	620	840
Cash earnings per share, SEK	7.53	5.82	4.10	5.60
RevPAR (Operating Properties) for comparable units and comparable exchange rates	688	644	—	—
	<b>31 Dec 2015</b>	<b>31 Dec 2014</b>	<b>31 Dec 2013</b>	<b>31 Dec 2012</b>
Net interest-bearing debt, MSEK	15,376	12,587	13,986	14,081
Equity/assets ratio, %	38.6	38.1	37.4	34.3
Loan-to-value, properties, %	49.5	48.7	55.5	59.4
Interest coverage ratio, multiple	3.6	2.6	2.3	2.4
Market value properties, MSEK	31,437	26,504	26,282	25,291
EPRA NAV per share, SEK	107.71	92.11	82.60	74.80
WAULT (Investment Properties), year	11.2	9.0	—	—

# Quarterly data

## SUMMARISED STATEMENT OF COMPREHENSIVE INCOME

MSEK	Jan-Mar 2015	Apr-Jun 2015	Jul-Sep 2015	Oct-Dec 2015	Jan-Mar 2014	Apr-Jun 2014	Jul-Sep 2014	Oct-Dec 2014
Revenue, Property Management								
Rental income	319	372	389	351	345	366	364	343
Other property revenue	13	16	69	14	14	14	16	16
Revenue, Operator Activities	367	609	534	536	304	448	401	445
<b>Net sales</b>	<b>699</b>	<b>997</b>	<b>992</b>	<b>901</b>	<b>663</b>	<b>828</b>	<b>781</b>	<b>804</b>
Costs, Property Management	-72	-76	-55	-59	-81	-72	-70	-69
Costs, Operator Activities	-348	-494	-454	-471	-295	-357	-334	-401
<b>Gross profit</b>	<b>279</b>	<b>427</b>	<b>483</b>	<b>371</b>	<b>287</b>	<b>399</b>	<b>377</b>	<b>334</b>
Central administration	-21	-19	-23	-30	-15	-17	-21	-29
Net financial items	-115	-115	-105	-105	-144	-142	-119	-131
<b>Profit before changes in value</b>	<b>143</b>	<b>293</b>	<b>355</b>	<b>236</b>	<b>128</b>	<b>240</b>	<b>237</b>	<b>174</b>
<i>Changes in value</i>								
Properties	363	315	232	488	480	389	177	151
Derivatives, unrealised	-33	216	-73	93	-163	-180	-110	-169
<b>Profit before tax</b>	<b>473</b>	<b>824</b>	<b>514</b>	<b>817</b>	<b>445</b>	<b>449</b>	<b>304</b>	<b>156</b>
Current tax	-5	-5	17	-42	-4	3	0	-15
Deferred tax	-94	-168	-106	-94	-90	85	-64	-16
<b>Profit for the period attributable to owners of the parent</b>	<b>374</b>	<b>651</b>	<b>425</b>	<b>681</b>	<b>351</b>	<b>537</b>	<b>240</b>	<b>125</b>
Other comprehensive income for the period	-130	-62	37	-135	123	-95	-10	-21
<b>Other comprehensive income for the period attributable to owners of the parent</b>	<b>244</b>	<b>589</b>	<b>462</b>	<b>546</b>	<b>474</b>	<b>442</b>	<b>230</b>	<b>104</b>

## SUMMARISED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

MSEK	31 Mar 2015	30 Jun 2015	30 Sep 2015	31 Dec 2015	31 Mar 2014	30 Jun 2014	30 Sep 2014	31 Dec 2014
Properties including equipment	25,940	26,170	26,287	29,463	26,898	24,916	25,237	25,701
Other non-current assets	28	27	25	25	24	25	25	26
Deferred tax assets	898	805	865	800	788	905	921	924
Current assets	255	415	587	1,162	250	341	369	315
Cash and cash equivalents	378	263	636	170	647	341	402	321
<b>Total assets</b>	<b>27,499</b>	<b>27,680</b>	<b>28,400</b>	<b>31,620</b>	<b>28,607</b>	<b>26,528</b>	<b>26,954</b>	<b>27,287</b>
Equity	10,645	11,084	11,546	12,215	10,903	10,243	10,473	10,402
Deferred tax liabilities	2,074	2,147	2,310	2,281	1,786	1,769	1,854	1,993
Interest-bearing liabilities	12,821	12,821	12,861	15,546	14,592	12,965	12,994	12,907
Non-interest-bearing liabilities	1,959	1,628	1,683	1,578	1,326	1,551	1,633	1,985
<b>Total equity and liabilities</b>	<b>27,499</b>	<b>27,680</b>	<b>28,400</b>	<b>31,620</b>	<b>28,607</b>	<b>26,528</b>	<b>26,954</b>	<b>27,287</b>

## KEY RATIOS

	Jan-Mar 2015	Apr-Jun 2015	Jul-Sep 2015	Oct-Dec 2015	Jan-Mar 2014	Apr-Jun 2014	Jul-Sep 2014	Oct-Dec 2014
Net operating income, Property Management, MSEK	260	312	403	306	278	308	310	290
Net operating income, Operator Activities, MSEK	51	146	115	107	33	118	88	81
EBITDA, MSEK	289	438	495	381	296	409	377	342
Earnings per share, SEK	2.49	4.34	2.83	4.54	2.34	3.58	1.60	0.83
Cash earnings, MSEK	171	319	407	234	149	271	259	194
Cash earnings per share, SEK	1.14	2.12	2.71	1.56	0.99	1.81	1.73	1.29
RevPAR (Operating Properties) for comparable units and comparable exchange rates	572	838	718	660	517	737	670	658
	31 Mar 2015	30 Jun 2015	30 Sep 2015	31 Dec 2015	31 Mar 2014	30 Jun 2014	30 Sep 2014	31 Dec 2014
Net interest-bearing debt, MSEK	12,444	12,558	12,225	15,376	13,948	12,626	12,592	12,587
Equity/assets ratio, %	38.7	40	40.7	38.6	38.1	38.6	38.9	38.1
Loan-to-value, properties, %	47.5	46.9	46.4	49.5	53.9	51.1	50.2	48.7
Interest coverage ratio, multiple	2.5	3.2	3.7	3.6	2.1	2.5	2.7	2.6
Market value properties, MSEK	26,996	27,327	27,712	31,437	27,101	25,362	25,861	26,504
EPRA NAV per share, SEK	96.25	99.23	104.45	107.71	87.69	85.92	89.66	92.11
WAULT (Investment Properties), year	8.7	8.9	8.7	11.2	8.4	8.8	8.9	9.0

# Hotel Market Day 2015

Pandox was founded in 1995 and has since then grown considerably in terms of the size of its property portfolio and market coverage. During this time the hotel industry has changed fundamentally. From being local, underdeveloped and fragmented, the hotel industry has grown into a global, expanding and innovative industry that is attracting new categories of investors and market players.

The Hotel Market Day is held every year in mid-November at the Pandox-owned Hilton Stockholm Slussen. Pandox introduced the Hotel Market Day back in 1996 with the objective of reflecting and analysing important changes in the business environment and to help increase the level of knowledge in the hotel industry. Since

then, the Hotel Market Day has grown into an annual event and a dynamic meeting place for the hotel sector. The theme of Hotel Market Day 2015 was the macroeconomic and political factors affecting and driving the industry. We also took the opportunity to celebrate Pandox's 20th anniversary. As usual the event was very well-attended, attracting around 300 participants – which is proof that there is great interest in the hotel industry and its development.

For more information please see [www.pandox.se](http://www.pandox.se). Here you can also read the full programme as well as the speakers' presentations.

**20 years**  
Excellence in hotel ownership and operations

**Pandox Hotel Market Day 2015 Program**

MACRO ECONOMIC AND POLITICAL FACTORS DRIVING THE HOTEL SECTOR

→ **2015.11.24**  
**Hilton, Stockholm Slussen**

13.00 – 13.05	<b>Welcome</b> Christian Ringgren, Chairman Pandox Bengt Brodin, Moderator	15.55 – 16.35	<b>The Influence of Global Capital Flows on the Hotel Sector</b> Arthur de Haast, Chairman of IHS Hotels & Hospitality Group
13.05 – 13.15	<b>When it all started</b> Lars Thunell, Doctor and Pandox's first Chairman	16.35 – 16.45	<b>Break</b>
13.15 – 14.00	<b>Economic Growth during 25 years: from Crises to Booms – and new Challenges</b> Klas Eklund, Senior Economist, SFI	16.45 – 17.30	<b>The Chief Outlines of the Political development since the 1990's</b> Göran Persson, Prime Minister of Sweden 1996 – 2006
14.00 – 14.45	<b>Pandox Developments</b> Anders Nilsson, CEO, Pandox AB	17.30 – 17.50	<b>Conclusions: what has happened and what will happen in the Hotel Sector?</b> Lars Thunell, Bengt Brodin
14.45 – 15.15	<b>Networking</b>	17.50 – 18.10	<b>Hotel Industry Forecast 2016</b> Anders Nilsson
15.15 – 15.55	<b>Past, Present and Future: The ever-changing Hotel Company Configuration</b> Angela Ripstein, Professor, University of West London	18.10 – 18.30	<b>Networking and mingle</b>
		18.30 –	<b>Casual dinner</b> At the Panorama Restaurant, Hilton Slussen



# Definitions

## FINANCIAL INFORMATION

### Rounding off

Since amounts have been rounded off in MSEK, the tables do not always add up.

### Return on equity, %

Profit or loss for the period, attributable to the Parent Company's shareholders, as a percentage of average equity.

### Equity/assets ratio, %

Recognised equity as a percentage of total assets.

### Loan-to-value ratio, %

Interest-bearing liabilities as a percentage of the properties' market value at the end of the period.

### Interest coverage ratio, %

Profit before changes in value plus financial expense and depreciation, divided by financial expense.

### Average interest on debt, %

Average interest rate paid as a percentage of current interest-bearing debt.

### Net interest-bearing debt, MSEK

Interest-bearing liabilities less cash and cash equivalents and short-term investments that are equivalent to cash and cash equivalents.

### Investments, excl. acquisitions, MSEK

Investments in non-current assets excluding acquisitions.

### Gross profit, Property Management, MSEK

Revenue less directly related costs for Property Management.

### Gross profit, Operator Activities, MSEK

Revenue less directly related costs for Operator Activities and including depreciation of Operator Activities.

### Net operating income, Property Management, MSEK

Net operating income corresponds to gross profit for Property Management.

### Net operating income, Operator Activities, MSEK

Gross profit for Operator Activities plus depreciation included in costs for Operator Activities.

### EBITDA, MSEK

Total net operating income less central administration (excluding depreciation).

### Cash earnings, MSEK

EBITDA plus financial income less financial expense less current tax.

## PER SHARE

### Earnings per share, SEK

Profit for the period attributable to the Parent Company's shareholders divided by the weighted average number of shares outstanding.

### Cash earnings per share, SEK

EBITDA plus financial income less financial expense less current tax, divided by the weighted average number of shares outstanding.

### Equity per share, SEK

Equity attributable to the Parent Company's shareholders, divided by the number of shares outstanding at the end of the period.

### Net asset value (EPRA NAV) per share, SEK

Recognised equity, attributable to the Parent Company's shareholders, including reversal of derivatives, deferred tax and revaluation of Operating Properties, divided by the total number of shares outstanding after dilution at the end of the period.

### Earnings per share, SEK

Approved dividend for the year divided by the weighted average number of outstanding shares after dilution at the end of the period.

### Weighted average number of shares before dilution, thousands

The weighted average number of outstanding shares taking into account changes in the number of shares outstanding, before dilution, during the period.

### Weighted average number of shares after dilution, thousands

The weighted average number of outstanding shares taking into account changes in the number of shares outstanding, after dilution, during the period.

### Valuation yield, %

Proposed and/or approved dividend per share divided by the final share price.

## PROPERTY INFORMATION

### No. of hotels

No. of owned hotel properties at the end of the period.

### No. of rooms

Number of rooms in owned hotel properties at the end of the period.

### WAULT (Investment Properties)

Average lease term remaining to expiry, across the property portfolio, weighted by contracted rental income.

### Market value properties, MSEK

Market value of Investment Properties plus market value of Operating Properties.

### RevPAR for Operating Properties (comparable units at constant exchange rates)

Revenue per available room, i.e. total revenue from sold rooms divided by the number of available rooms. Comparable units are defined as hotel properties that have been owned during the entire current period and the comparative period. Constant exchange rate is defined as the exchange rate for the current period, and the comparative period is recalculated based on that rate.

# Shareholder information

## ANNUAL GENERAL MEETING

The Annual General Meeting for Padox AB will take place at 14.00 CET on Tuesday, 3 May 2016 at Hilton Stockholm Slussen, Guldgränd 8, 104 65 Stockholm, Sweden. For more information and to register to attend, please visit Padox's website [www.padox.se](http://www.padox.se)

## ANNUAL GENERAL MEETING CALENDAR AND DIVIDEND

Record date for the Annual General Meeting	27 April 2016
Annual General Meeting	3 May 2016
Share traded without dividend entitlement	4 May 2016
Record date for dividend	6 May 2016
Payment of dividend	11 May 2016

## FINANCIAL REPORTING

Interim Report January–March 2016	3 May 2016
Interim Report April–June 2016	18 August 2016
Interim Report July–September 2016	10 November 2016
Year-End Report 2016	16 February 2017

## CONTACT INFORMATION

Further information can be obtained from  
Head of Investor Relations Camilla Weiner +46 (0)707 52 08 57 or  
Manager Investor Relations Anders Berg +46 (0)760 95 19 40.

Image on front page: Urban House Copenhagen.  
Images on back page: The Hotel Brussels and Hyatt Regency Montreal.

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