Check in ...
... & check it out!

Pandox – Excellence in hotel ownership and operations

Pandox™

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Direct from the dog's mouth. See what Pepper has to say about Pandox's unique corporate culture.

Pandox is not only growing in value but also around the globe. Over the past five years the percentage of hotel properties outside the Nordics has increased from 30 to 54 percent, measured in market value. In this Annual Report we are taking you with us on a journey through Pandox's development, strategy, operations and markets. We will be checking in with the CEO to hear what he has to say about the past year, how Pandox's successful strategy works in practice and how the business model is creating value for the Company's stakeholders. Along the way we will also be pausing to take a look at the various types of cities and market segments where Pandox has a presence – domestic, regional and international cities, as well as top destinations with large airports. Join Pandox – and Pepper!

Check in ...
... & check it out!

20 **NEXT STOP: REGIONAL CITIES**
Regional centres with both domestic and international demand.

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International top destinations with a high percentage of international demand.

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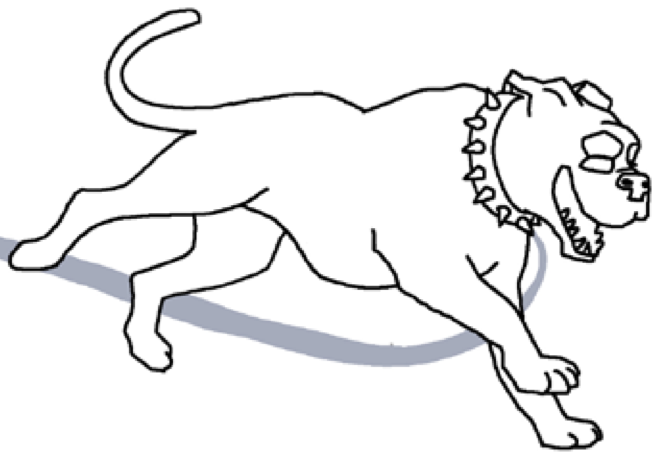
Pandox's property portfolio has 144 hotel properties with 32,268 rooms in 15 countries.



100 **CHECK IN... FINANCIAL REVIEW**
CFO Liia Nõu reviews the results.

The property company that knows all about hotels

Only hotel properties

Pandox is an international hotel property company that owns and leases out hotel properties to well-known hotel operators. The property portfolio consists of 144 hotels with around 32,268 rooms in 15 countries. Pandox owns hotel properties in 82 cities in Sweden, Norway, Denmark, Finland, Germany, Belgium, the Netherlands, Austria, Switzerland, England, Scotland, Wales, Northern Ireland, Ireland and Canada.

Number of hotels
144

Number of rooms
32,268

Countries
15


Hilton Grand Place Brussels

Big hotels in the right locations with the best operators

The hotels are all large and strategically located business hotels. Pandox works with a number of strong business partners that are hotel operators (e.g. Scandic, NH Hotels and Leonardo), brands (e.g. Hilton, Radisson Blue and Crowne Plaza) and independent brands and distribution channels (e.g. The Hotel Brussels and Hotel Berlin, Berlin).

Hilton Helsinki Kalastajatorppa

Business model that creates opportunities and reduces risks

Leases are key for Pandox as a property owner. Pandox uses revenue-based leases where a certain percentage of the hotel's revenue becomes rental income for Pandox. Consequently, Pandox's rental income increases as the hotel's revenue increases. In addition to this, in most cases the leases provide protection against reduced rents. Through the way the agreements are structured, Pandox can share investments and risk with the business partner, while at the same time the partner is motivated to increase revenue, reduce costs and make long-term investments.

Active throughout the value chain

Pandox has many years of experience of hotel operation and sometimes chooses to operate hotels itself. This normally happens when the conditions are not in place for a profitable lease at the property owned by the Company. Having the capacity to operate hotels gives Pandox more freedom and flexibility, and reduces the financial risk associated with the business. Over time the goal is always to sign long-term leases.

A mix of markets provides balanced demand

Pandox has a presence in several different types of markets and thus has a balanced demand mix. The hotel portfolio has a good mix of international markets with primarily international demand (e.g. London, Vienna, Brussels and Dublin), regional markets with mainly regional and domestic demand (e.g. Hamburg, Copenhagen, Stockholm and Manchester) and local markets with mainly domestic demand (e.g. Leeds, Dortmund, Linköping and Bremen).

The year in brief
A strong team and a strong performance

Growth in total net operating income and net asset value of 29 and 17 percent respectively

The drivers behind this strong trend are high-performing acquisitions, profitable growth in both Property Management and Operator Activities, and a stable hotel market.

Add-on acquisitions in UK

Pandox acquires The Midland Manchester with 312 rooms in the Property Management segment and Radisson Blu Glasgow with 247 rooms in the Operator Activities segment. Scandic Ferrum in Kiruna is divested.

Consolidation of previously completed portfolio acquisition

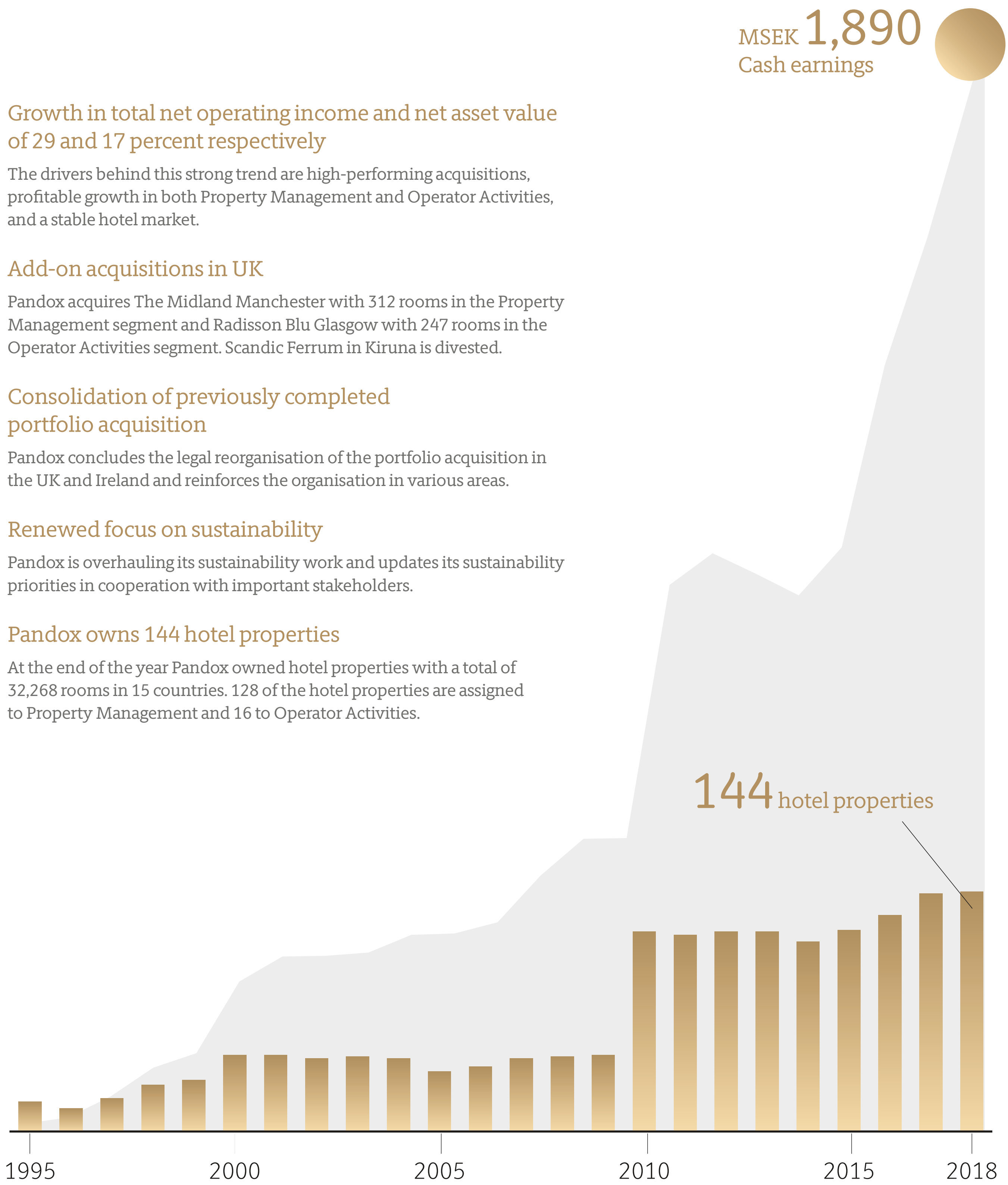
Pandox concludes the legal reorganisation of the portfolio acquisition in the UK and Ireland and reinforces the organisation in various areas.

Renewed focus on sustainability

Pandox is overhauling its sustainability work and updates its sustainability priorities in cooperation with important stakeholders.

Pandox owns 144 hotel properties

At the end of the year Pandox owned hotel properties with a total of 32,268 rooms in 15 countries. 128 of the hotel properties are assigned to Property Management and 16 to Operator Activities.



The Hotel Brussels

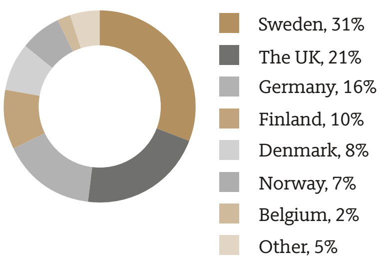
2018 was a good year for Pandox, with considerable growth and good profitability. Pandox is now a hotel property company with a strong pan-European position.

Summary (MSEK)	2018	2017	Change, %
Revenue, Property Management	2,971	2,202	35
Net operating income Property Management	2,517	1,882	34
Net operating income Operator Activities	540	494	9
EBITDA	2,909	2,252	29
Profit for the year[1]	2,823	3,148	–10
Earnings per share, SEK[1,2]	16.83	19.89	–15
Cash earnings[1]	1,890	1,660	14
Cash earnings per share, SEK[1,2]	11.26	10.46	8
Net interest-bearing debt	27,421	25,474	8
Equity/assets ratio, %	39.1	36.8	n.a.
Loan-to-value ratio, properties, %	49.7	50.8	n.a.
Interest coverage ratio, times	3.8	4.4	n.a.
Market value properties	55,197	50,121	10
EPRA NAV per share, SEK[2,3]	164.04	144.54	17

1) In the comparable period in 2017 positive non-recurring items totalling MSEK 60 were included.
2) For information on the number of shares see page 37.
3) Measured as growth in EPRA NAV at an annual rate, with dividend added back and proceeds from the new share issue deducted. See key ratios on page 118.

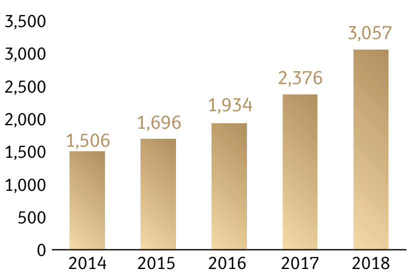
For definitions see page 166.

Rental income by country 2018, %



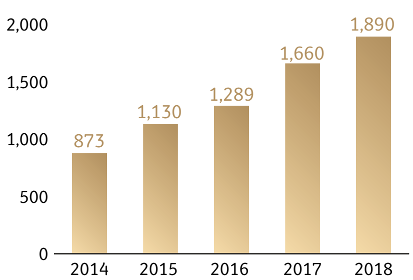
The percentage of rental income outside the Nordics increased further in 2018.

Total net operating income, MSEK



Continued good growth in net operating income in 2018.

Cash earnings, MSEK



Good growth in cash earnings in 2018.

From the CEO
Properly pan-European

In 2018 Pandox consolidated its position as a pan-European hotel property company. The organisational structure was further strengthened and add-on acquisitions were made in the UK. Total net operating income and total cash earnings increased by 29 and 14 percent respectively. The growth in net asset value was 17 percent with the dividend added back.

Important milestones in 2018

1. Strong growth and a good earnings trend, with 17 percent growth in net asset value
2. Profitable add-on acquisitions in important regional hotel markets in the UK
3. Organisation reinforced by specialist expertise in real estate, sustainability and finance
4. Pan-European platform established and consolidated

The past year

2018 was a strong year for Pandox in many ways. Once again we managed to balance an external and internal perspective, i.e. a business focus and internal processes. At the same time as we were working on an extensive legal reorganisation of our acquisitions in the UK and Ireland, we maintained our focus on the business and implemented two add-on acquisitions. We also managed to complete a long series of profitable investment projects in the existing portfolio. This reflects an organisation with many talented two-way players with a high capacity for work, specialist expertise and a strong team-building capacity. All are deserving of praise for their performance.

Current status

Pandox has delivered on the strategic objectives the Company formulated ahead of its stock market listing in 2015 with a good margin.

Now, as Pandox summarises the results of the work that has been done, it does so from a pan-European position with higher profitability and operations in more, and significantly larger and more dynamic markets, than in 2015. The impact of Pandox's performance was particularly evident in 2018 with well-diversified revenue flows and broad-based value growth in the property portfolio.

STRATEGIC OBJECTIVES AHEAD OF THE STOCK EXCHANGE LISTING IN 2015

Objectives at listing 2015	Outcome until 2018
1. Profitable growth	Doubling of net operating income and cash earnings
2. Increased diversification	Almost 50 percent of rental income outside the Nordics
3. More business partners	Fattal, NH, Meininger and GCH are new business partners

The new positions provide growth opportunities in several ways. Firstly, the hotel properties that Pandox has acquired in recent years provide a strong foundation for new growth-driving investments. Secondly, the Company's presence in more markets has increased opportunities for profitable add-on acquisitions. Thirdly, the expanded business platform that Pandox has built has helped to both broaden and deepen the Company's understanding of how to create value.

Growth-driving investment in the existing portfolio is an important driver for Pandox's growth. The Company is therefore taking active steps to identify investment projects with attractive return potential in both the Property Management and Operator Activities segments. Examples of such projects are:

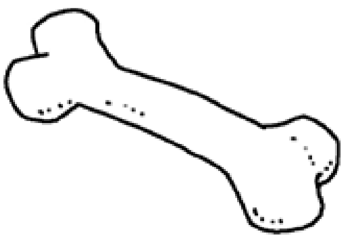
1. Infill – more beds in existing rooms
2. Conversion of unproductive spaces into new rooms
3. Expansion of properties

These investment projects provide a high return and are particularly attractive in a situation where the valuation yield in the hotel property market is under pressure. Pandox is holding active discussions with several tenants in all investment areas, not least regarding property expansions.

Future

Pandox's growth strategy is based on a combination of acquisitions, growth-driving investments and efficient operation of Pandox's own hotels, in a hotel market where new demand is being added through a combination of economic activity, increased prosperity and more people travelling. Pandox operates from a well-capitalised business platform with great strategic flexibility. With a hotel property portfolio with a market value of MSEK 55,197 divided between 144 properties in 15 countries, Pandox has laid the foundations of continued profitable growth.

With that said, Pandox faces a number of strategic challenges:



1. Increased complexity due to operating in multiple markets with new business partners and new types of hotel products. This requires a greater focus on developing our team and strengthening our internal processes.
   Assessment: Unchanged compared to 2017

2. Increased competition for acquisitions due to hotel properties becoming more attractive as investments, which means higher prices, a greater risk that acquisition processes will not achieve their objective, and the fact that Pandox can consider acquiring hotels with higher operational risk and greater improvement potential.
   Assessment: Unchanged compared to 2017

3. Increased competition in the hotel market resulting from new capacity in individual markets.
   Assessment: Unchanged compared to 2017

The United Nations World Tourism Organization (UNWTO) is predicting an increase in international arrivals of 3–4 percent in Europe in 2019, which is slightly lower than for 2018 but still a good level.

Pandox's view is that, although the hotel market still has growth potential, it is in a mature phase and growth is slowing. In some submarkets new hotel capacity will put pressure on RevPAR in the short and medium term.

In a climate of positive economic growth, Pandox's well-diversified portfolio with balanced demand and positive contributions from the acquisitions that Pandox made in 2018, there is potential for some growth in 2019.

In closing, I would like to express my great gratitude to everyone who made 2018 the best year in Pandox's history. When I checked into Pandox at the beginning of the 1990s, "the hotel property market" or even "hospitality" were not established concepts. Today hospitality accounts for more than 10 percent of global GDP and hotel properties are an established asset class. When I compare today's Pandox with the Company of yesteryear, I see many differences but also many similarities. We are bigger, stronger and more profitable, but our soul, values and business are the same as they were back then. We have a lot left to give.
Check in for life!

Stockholm, March 2019
Anders Nissen

Next stop Domestic cities

Domestic cities are the backbone of Pandox's hotel property portfolio. Over time these cities have proved to be more stable and less volatile in response to the ups and downs of the economy than international cities, which have greater exposure to the international business cycle.

Pandox facts

Number of hotels	Number of rooms	Share of rooms (total)
72	13,258	41%

Characteristics

Domestic cities are often local hubs, i.e. the main city in a province or region. RevPAR is generally lower in domestic cities, which means there is limited scope for more development of different types of hotel concepts.

Demand

Hotel demand in domestic cities is stable and dominated by domestic guests whose trip has a clear purpose, such as a concert, a hospital visit, minor conferences etc. Domestic cities are normally less dependent on the global economy and have:

- Fewer commercial drivers
- Greater dependence on the public sector
- More purpose-driven travel

Examples of cities

Examples of domestic cities in Pandox's hotel property portfolio include Leeds, Sheffield, Gothenburg, Jönköping, Örebro, Jyväskylä, Kuopio, Dortmund, Bergen, Bodö, Wolfsburg and Mannheim.

Elite Park Avenue Hotel Gothenburg

Read more about Pandox's strategy

A strategy that adds value
page 10

The Pandox Method
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Value-creating business model
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Pandox in practice
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A strategy that adds value

Pandox's vision

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

Goals

To deliver value growth for Pandox shareholders through higher cash flow and net asset value.

To create attractive hotel products in cooperation with Pandox's business partners.

To contribute to positive growth for Pandox employees.

Strategy

Focus on hotel properties

Pandox's strategy concentrates on hotel properties as its only class of asset where specialisation is crucial for the result.

Large hotel properties in strategic locations

Pandox focuses on large hotel properties in the full-service segment that are strategically located in commercially and culturally important cities.

Long leases with the leading hotel operators

Pandox's core business is to sign long revenue-based leases in which investments are shared with industry-leading hotel operators.

High-quality property portfolio

Pandox's tenants are hotel operators and the leases are revenue-based; in other words, Pandox's rental income is a predetermined share of the hotel's revenue. This provides an incentive for Pandox and its tenants to constantly develop the hotel together, creating the basis for a high-quality hotel property portfolio.

Geographical diversification to reduce fluctuation

Pandox's hotel property portfolio is geographically diversified with a combination of international, regional and domestic demand, which helps to balance and even out the effects of fluctuation in the hotel business cycle.

Operating hotels ourselves reduces risk

Pandox has substantial capacity and the specialist expertise to run hotels itself, allowing the Company to be active throughout the value chain.

Pandox's business concept

Pandox's business concept is to own hotel properties and lease them to strong hotel operators under long-term revenue-based leases. With its specialist expertise in active ownership, Pandox has the ability to be involved throughout the hotel value chain, which reduces risk and creates business opportunities.

Pandox's distinguishing features:

Pandox's successes are built on a high degree of specialisation, a consistent strategy and many years' collective experience of developing and creating profitable hotel properties in the Nordics and internationally. A hotel property company differs from a traditional property company in a number of respects. Pandox has six important distinguishing features:

1. Only hotel properties

Pandox has a functional focus, which means that the Company only owns properties operating as hotels.

2. One tenant per property

Pandox has only one tenant per property. The tenant's performance has a direct impact on the value of the property.

3. No vacant properties

Pandox has no vacant properties. Either Pandox leases out the hotel property, which is the usual way, or Pandox operates the hotel itself.

4. Pan-European position

Pandox owns hotel properties in fourteen European countries (as well as in Canada), giving the Company a pan-European position in the property market.

5. Flexible business model

Pandox has a flexible business model, which means that the Company can, if necessary, take over the tenant's operations and run the hotel itself.

6. In-depth knowledge of hotel properties

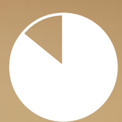
Over the years Pandox has acquired in-depth international, commercial and financial knowledge specific to hotel properties.

Business segment

Property Management

Pandox owns and leases out hotel properties

Pandox owns full-service hotels with strategic locations in strong and stable markets in Europe and Canada.



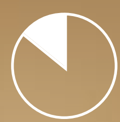
85%

of the market value

Operator Activities

Pandox owns and runs hotels

Pandox has many years' experience of hotel operations, and owns and runs hotels itself in a number of markets.



15%

of the market value

The Pandox Method

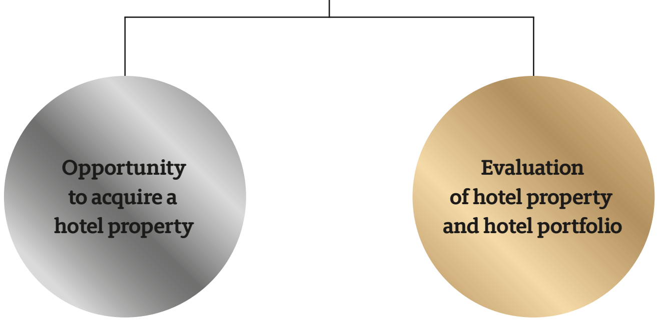
A method that maximises cash flow and minimises risk in each individual hotel investment

Market analysis

Marketing strategy

Market analysis
Market analysis is performed aimed at assessing the hotel's potential profitability and ability to pay the agreed rent. The local market is defined and analysed with respect to demand, competition and the current and future product offering.

Marketing strategy
A strategic plan is established for each hotel property based on the hotel's specific circumstances, its local market and position. The hotel property's future operational area and structure are evaluated in the course of preparing the strategic plan.



NH Brussels EU Berlaymont

Profitability optimisation

Agreement optimisation

Profitability optimisation
Since the value of a hotel property is affected by the profitability of the hotel, the hotel operator is Pandox's most important partner. Pandox analyses and assesses the hotel operator's performance on an ongoing basis in order to ensure the business is developing well, so that the hotel property value will also increase.

Agreement optimisation
The optimal cash flow from each hotel property is split between the hotel operator, Pandox and other stakeholders through a lease or a franchise or management agreement. The agreement is drawn up so as to give the parties an incentive to constantly improve the hotel property's profitability and thus its value.

Specific action and activity plan

Revenue according to the strategy

Value-creating business model 2018

Fair Play

Resources

Hotel properties
- 144 properties with 32,268 rooms in 15 countries

Co-workers
- 1,161 employees

Business relationships and networks
- Tenants and brands
- Hotel guests in own operations
- Suppliers and partners

Financing
- Capital from shareholders MSEK 24,476
- Loans from banks and others MSEK 28,095

Structural capital
- Systems and methods

Natural resources
- Energy
- Water
- Materials

Business model

Long leases and in-depth hotel knowledge

Pandox owns and leases out hotel properties to strong hotel operators under long-term revenue-based leases

Pandox can also operate hotels itself if the conditions are not in place for a profitable lease

By improving the hotel product Pandox can then enter into a new lease

Pandox's ability to move throughout the hotel value chain reduces risk and creates new business opportunities

Through environmentally smart investments and efficient operations Pandox works to reduce the hotel properties' use of resources

Efficient operations

- Increased cash flow
- Increased property value
- Financial flexibility

Profitable growth

- 29% growth in net operating income
- 14% growth in cash earnings
- 17%[1] growth in EPRA NAV

Added value

Tenants
- Rental income MSEK 2,971
- Investments MSEK 434

Employees
- Employee benefits MSEK 814

Capital owners
- Dividend MSEK 787
- Growth in net asset value 17%[1]
- Interest and fees MSEK 804

Suppliers
- Payments MSEK 2,882

Community
- Taxes and levies MSEK 583

Contribution to society
- Direct and indirect jobs
- Social cohesion and personal development for employees
- Productive environments for meetings and recreation
- Positive development of the local environment

[1] Growth in EPRA NAV, with dividend returned and issue proceeds deducted.

Pandox in practice
Creating value in different ways

1. Profitable acquisitions	2. Growth-driving investments	3. Efficient and profitable operation of hotels
4. Brands and concepts	5. Hotel market and business cycle	6. Financing

IMPORTANT KEY AREAS OF EXPERTISE FOR A HOTEL PROPERTY OWNER

Hotel properties have certain characteristics that distinguish them from other types of property. In addition to technical and financial knowledge of properties, a hotel property owner needs to have specialist expertise in a number of areas closely linked to the hotel market, particularly hotel operation, the dynamics and drivers of the hotel market, the various business models for hotel operations, and brands and concepts.

Hilton Grand Place Brussels

Three major business processes

1. Profitable acquisitions
2. Growth-driving investments
3. Efficient and profitable hotel operation

Within the context of these business processes a wealth of supporting activities are carried out within the organisation based on expertise, methods and systems. Each business process has a different priority depending on where Pandox is in the hotel business cycle and other business circumstances.

1. Profitable acquisitions

Pandox has an active acquisition strategy based on industry know-how, a long-term perspective and the ability to act freely throughout the hotel value chain. Within the framework of its strategy Pandox makes various kinds of acquisitions. The opportunities for Pandox to add value are generally greatest when the transaction is complicated in some way, such as:

1. Portfolios with hotel properties in several different geographical markets with different types of operations and agreements
2. Hotel properties that are underperforming in some way
3. Hotel properties requiring substantial investment
4. Hotel properties with leases that are nearing expiry
5. Hotel properties with own hotel operations

Such transactions usually provide good opportunities to create a return for Pandox by virtue of its broad market presence, operational capacity and financial strength. In somewhat simple terms, the more “industry” issues there are to deal with in an acquisition, the fewer the potential buyers.

Some examples of acquisitions made by Pandox in recent years are found below.

Portfolio acquisition in the UK

In December 2017 a portfolio of 37 hotel businesses in the UK and Ireland was acquired, with Fattal Hotels as operating partner. The portfolio included 36 hotels operated under the Jurys Inn brand, 20 investment properties and one operating property in which the hotel was operated under the Hilton Garden Inn brand. The total purchase consideration was MGBP 800 on a debt-free basis. A legal reorganisation of the portfolio was carried out after it was taken over in order to separate property assets from operating assets. Following its completion in August 2018 Pandox retained the 20 investment properties and the operating property, while Fattal Hotels acquired the 36 hotel businesses and all their employees as well as the Jurys Inn brand platform. New revenue-based leases with a term of 25 years were signed with Fattal Hotels for the 20 investment properties.

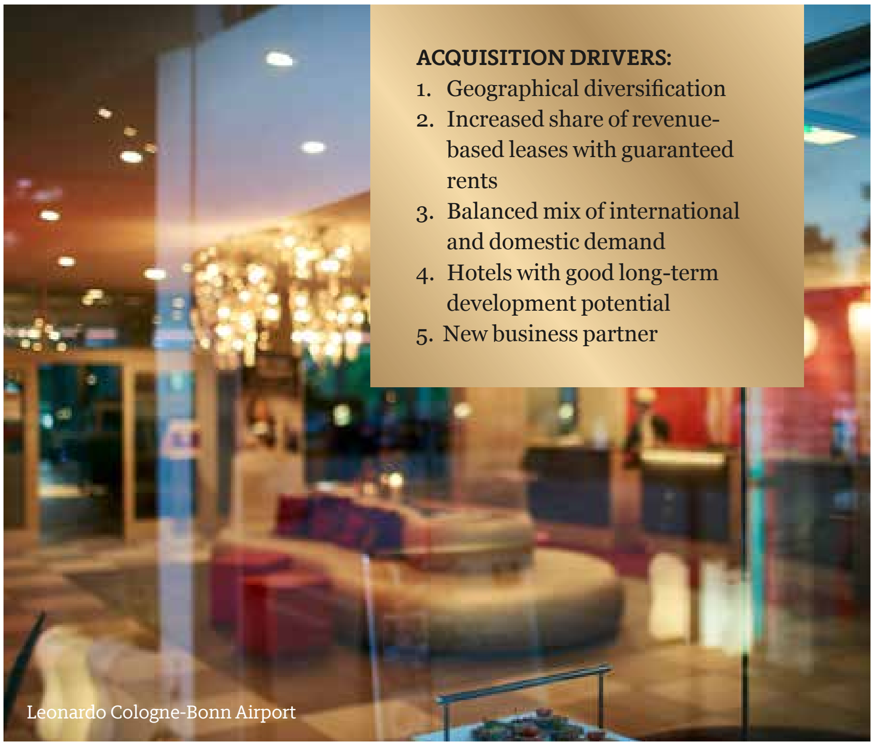
ACQUISITION DRIVERS:

1. Establishes Pandox in 20 new cities in the UK and Ireland
2. A good sized high-quality portfolio in strong locations
3. Balanced mix of international and domestic demand
4. Represents a good balance between different guest segments
5. Pandox expands revenue-based leases in the UK and Ireland
6. Good growth potential from completed renovations that have not yet had their full effect, as well as new investments

Jurys Inn Hinckley Island

Portfolio acquisition in Germany

In December 2015 a total of 18 hotel properties were acquired in Germany. The purchase consideration was MEUR 400 on a debt-free basis. The acquisition strengthened Pandox's position in the important German hotel market. As part of the settlement new 25-year revenue-based leases were signed for all the hotels with good guaranteed rent levels.



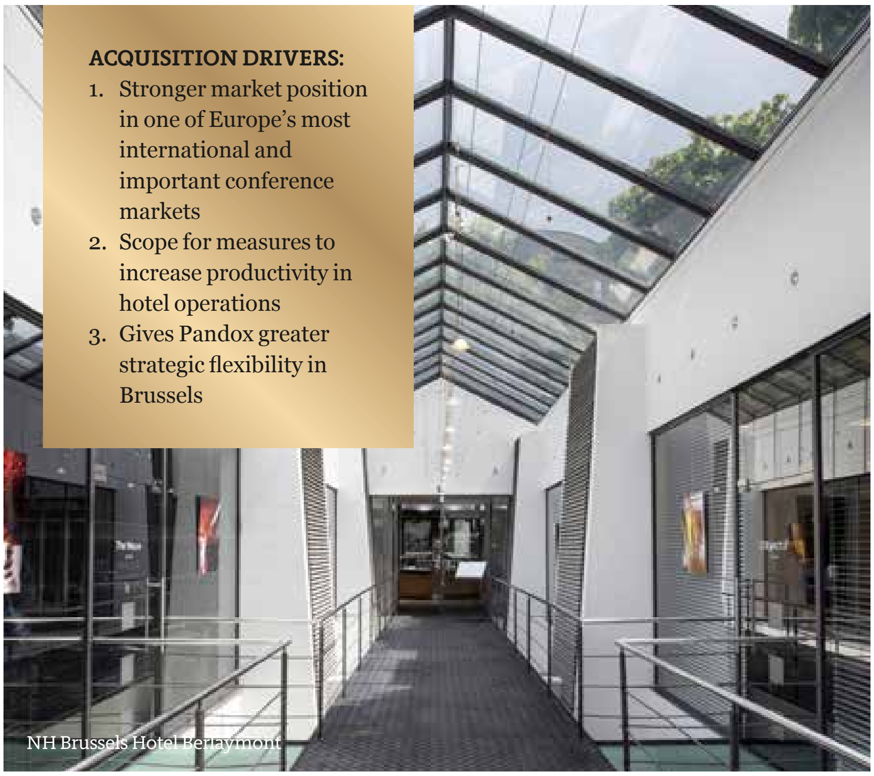
ACQUISITION DRIVERS:

1. Geographical diversification
2. Increased share of revenue-based leases with guaranteed rents
3. Balanced mix of international and domestic demand
4. Hotels with good long-term development potential
5. New business partner

Leonardo Cologne-Bonn Airport

Single acquisitions in Brussels

Acquired hotel properties contribute to Pandox's growth in multiple ways: through an immediate contribution to revenue and profits, and through the opportunities for value-adding investments once the properties have been integrated into the existing portfolio.



ACQUISITION DRIVERS:

1. Stronger market position in one of Europe's most international and important conference markets
2. Scope for measures to increase productivity in hotel operations
3. Gives Pandox greater strategic flexibility in Brussels

NH Brussels Hotel Berlaymont

Hotel Berlaymont

In May 2017 Hotel Berlaymont in Brussels was acquired from an official receiver following bankruptcy. The purchase consideration was approximately MEUR 32. The hotel, which was acquired within the Operator Activities segment, was underperforming at the time of acquisition and offered good improvement potential on the basis of its strong microlocation immediately next to the EU headquarters with good communications to both the airport and the city centre. After investment and repositioning towards the high-paying business segment, a 20-year revenue-based lease was able to be signed with NH Hotel Group and the hotel was reclassified to Property Management in February 2018.

Hilton Grand Place

In October 2016 the Hilton Grand Place in Brussels was acquired. The purchase consideration was MEUR 55. The hotel is in one of the very strongest locations in Brussels, close to the Grand Place and the central station. The acquisition was made at a time when the hotel market in Brussels was weak following the tragic terrorist attacks that had taken place in March that year.

Hilton Grand Place Brussels

2. Growth-driving investments

A large, well-diversified portfolio offers good opportunities for value-adding investments. Pandox has a continual dialogue with its tenants with the aim of further developing the hotels through smart investments, such as adding more beds, more rooms or creating new productive conference and restaurant areas.

In a situation where the hotel market is in a boom phase of the hotel business cycle, there is good profitability among hotel operators and the valuation yield in the property market is being squeezed, value-adding investments are of particular interest since the expected return on these is 8–10 percent.

Examples of such investments include:

1. More beds in existing rooms
2. More rooms in existing buildings
3. Extensions in the form of new floor levels or new buildings

Examples of recently extended hotels:

Jurys Inn Belfast
The extension provides the hotel with 80 new rooms, improving the hotel's efficiency and elevating it to a leading position in the central Belfast market with a total of 270 rooms.

Leonardo Wolfsburg City Center
A total of 133 new rooms are being added by extending the hotel. This gives the hotel 345 rooms in total and a leading position in the regional market.


Leonardo Wolfsburg City Center

3. Efficient and profitable hotel operation

Operating hotels is a natural aspect of Pandox's active ownership. Operating a hotel may be appropriate if, for example, it is in need of a major upgrade and there is no possibility of signing a competitive lease with a long-term partner. Pandox's strategy in such a case is to take on the role of both owner and operator in order to secure the hotel property's long-term value growth. The goal is to sign new leases at commercially attractive levels.

Creating an attractive and profitable hotel product operated by Pandox involves work at various levels:

1. Concept and market – analysis of the hotel property's commercial potential and appropriate market position
2. Product and investments – investment in the physical product to reach the desired position
3. Organisation and productivity – business-oriented leadership and the right organisation with a focus on profitable operation
4. Revenue management – generate revenue with great precision to allow efficient use of resources at the hotel


Meininger Urban House Copenhagen


InterContinental Montreal

Hotels taken over, repositioned and subsequently leased out

- The Hub Hotel & Livingroom
  2017 – lease with Scandic
- Lillehammer Hotel
  2017 – lease with Scandic
- Hotel Berlaymont
  2018 – lease with NH Hotel Group
- Urban House Copenhagen
  2017 – lease with Meininger

Flagship hotels operated by Pandox that have been repositioned

- The Hotel Brussels
- DoubleTree by Hilton Montreal
- Hotel Berlin, Berlin
- Hilton Grand Place Brussels
- InterContinental Montreal

Next stop Regional cities

Regional cities are large and dynamic business, cultural and educational hubs. These cities often have a broad base of demand from many subsegments. The majority of the demand is domestic and regional, but there are clear international elements – particularly in cities that are "on the way up" from an international perspective.

Pandox facts

Number of hotels	Number of rooms	Share of rooms (total)
55	13,273	41%

Characteristics

Like international cities, regional cities often have a well-developed business sector, an attractive cultural offering and tourist attractions, but without the same breadth and depth. People in regional cities often have international habits and relatively high purchasing power, which provides substantial scope to create various types of hotel concepts.

Demand

Large regional markets are often dynamic destinations that are "on the way up" both economically and as a destination. Regional markets are often stable, with a mix of domestic and international demand, and offer good business development opportunities. Demand in regional markets is often:

- Broadly based with many segments
- Mainly domestic and regional...
- ...but with international elements

Examples of cities

Examples of large regional cities in Pandox's hotel property portfolio include Hamburg, Munich, Cologne, Frankfurt, Copenhagen, Stockholm, Oslo, Helsinki, Manchester, Birmingham and Basel.

Radisson Blu Hotel Cologne

Read more about

Pandox's markets

Trends and drivers
page 22

Structure and types of agreements
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Market overview and RevPAR
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Cities in Europe
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Partnerships drive value
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Pandox and the capital markets
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Trends and drivers
18 key trends in travel

The hotel industry is affected by both large global changes in society and a wealth of specific trends. By continually monitoring and understanding at an early stage the various market drivers, Pandox is able to shape hotel products quickly and with great precision to meet the needs of tenants and hotel guests.

The hotel industry is in a good position, with steadily increasing travel leading to more and more hotel stays. Continued high levels of economic activity are paving the way for a thriving hotel sector. 2018 was the seventh year in a row in which the travel and tourism industry reported a higher level of growth than the global economy according to the World Trade Organization (WTO), and the outlook for international travel and the hotel market is positive. The long-term forecast from the WTO indicates continued annual growth of around 4 percent up until 2028.

Aside from economic activity, many other factors also affect developments in the hotel market. These include major demographic and economic changes in the world, technological development and in particular digitalisation, changes in society and in behaviours, environmental and sustainability considerations, and security aspects.

Here we present 18 key trends and drivers that are affecting the hotel industry in various ways.

1 MORE PEOPLE ON OUR PLANET

There are more and more people on our planet. By 2050 the world's population is expected to have increased to nearly 10 billion people compared with around 8 billion today (UN). An increased population helps provide the conditions for the long-term growth of the travel and hotel industry.

2 THE LURE OF THE BIG CITY

More and more people are choosing to live in big cities. Urbanisation is taking place at a rapid rate in both emerging countries and developed countries. Cities are increasing in numbers, size and economic importance. By 2050 nearly 70 percent of the world's population will live in cities (UN). This means that a further 2.5 billion people will move to cities over the next 30 years. The main increase will be in Asia and Africa. As a consequence, demand for business and leisure travel for meetings, conferences, events and experiences is growing. ▶ *See also pages 32–33 regarding Pandox's Hotel Market Day 2018 on the topic of Urbanisation and the Hotel Sector.*

3 A GROWING GLOBAL MIDDLE CLASS

More and more people are becoming better off financially as global growth lifts new groups into the middle class. Over the next 20 years two billion people are expected to join the global middle class. People become more inclined to travel as disposable income increases, which means that more people will be travelling both regionally and internationally in the near future. This trend has already had an impact on the hotel industry – both in terms of growth and of demand for new products to meet the needs of new guests.

4 AN AGEING POPULATION

People are living longer and are staying fit and healthy long into their senior years. The fastest growing demographic group in the world today is people over 65 years of age (UN). Many older people have high purchasing power and are choosing to spend more time travelling and looking for new travel experiences once they are retired or have reduced their working hours.

5 CHEAP FLIGHTS

Aviation can be seen as an engine for the entire travel and tourism industry. We are travelling further and more cheaply than before, and generally also more conveniently by taking more direct flights without stopovers or changing planes. One strong underlying positive driver of the hotel industry is low-cost airlines, which are offering both short-haul and long-haul flights. The main increase in flights is within the leisure segment.

6 DIGITALISATION IS CHANGING ALMOST EVERYTHING

In many ways, digitalisation has made the world smaller and blurred the lines between work and leisure. Digitalisation has also increased the pace of change in many areas and is affecting how consumers buy products and services. Half of all hotel bookings globally are now made digitally (Kalibri). For the hotel industry, digitalisation is changing a number of areas – particularly within marketing and distribution.

7 NEW DISTRIBUTION PATTERNS

Online travel agents (OTAs) such as Hotels.com and Booking.com are continuing to grow and to successfully challenge the traditional hotel brands. Online travel agents are reducing the influence of the big traditional hotel brands in the hotel market by aggregating a large range of products and providing efficient tools for consumers to select, book and pay for accommodation.

8 NEW BOOKING PATTERNS

Digitalisation in the travel and hotel industry has brought new behaviours when people book travel and hotels. Bookings across all travel segments are now being made at shorter notice than before. This has made it more important for travel and hotel companies to have expertise in booking patterns and distribution.

9 MOBILE PHONES ARE PART OF TRAVEL

Mobile phones (smartphones) have become an almost indispensable tool for today's travellers. They use them to find their way around their destination and to look up all kinds of information about hotels, good restaurants and what is happening in the city. They also book flights and hotels on their phones. Mobile phones also provide a practical option to easily book a hotel room only once you have arrived at your destination. Alternatively, people may book a hotel just for their first night, keeping their options open for the rest of their stay to see if a better alternative pops up on one of the hotel booking sites.

10 CHINESE PEOPLE THINK AND ACT DIGITALLY

New large categories of customers, such as the large and growing middle class in Asia or those for whom the lines between business travel and leisure travel are erased, make new demands of the hotel companies' knowledge of these travellers' preferences and consumption patterns. We are talking here about a large group of customers who have adopted digital technology across the board. Chinese tourists find the multifunctional mobile app Wechat completely indispensable.

11 THE SHARING ECONOMY IS CREATING NEW DEMAND

Home-sharing services such as Airbnb have grown vigorously and become established as a new accommodation segment. Airbnb's advance has resulted in authorities in several large destinations introducing various kinds of restrictions, slowing down the company's growth. Airbnb should be seen as a complement to hotels. The home-sharing service has created a new type of demand that the hotel industry is increasingly accommodating by offering new hotel concepts.

12 NEW TYPES OF ACCOMMODATION IN THE GIG ECONOMY

Closely related to the sharing economy is the gig economy, in which people freelance and take on temporary assignments rather than being a permanent employee. This is due to changes in the way that working life is organised, with less of a separation between work and leisure time. This phenomenon has given rise to new blended types of hotel accommodation and offices.

13 CUSTOMER LOYALTY? NOT SO MUCH

There are many reasons for travelling and for staying in a hotel – for work or for personal reasons, to visit a trade fair or attend a conference, to visit friends and relatives or to shop and see the sights. The choice of destination determines how people travel and where they stay. Travel and hotel companies try to attract customers in various ways, but loyalty is low. Airline bonus programmes have some influence on business travellers' choices, but loyalty to a specific airline has declined as the range of flights on offer has grown and as price competition has increased. Loyalty to specific hotel brands is even lower, however, and in response the big hotel groups are establishing even more brands.

14 THE QUEST FOR UNIQUENESS

One trend in the social sphere is that many of the new generation of consumers are more interested in accumulating experiences than material possessions. Typically, they are on the hunt for the best destination, the best accommodation and the best menu. The hotel is no longer just a place to sleep, but part of a lifestyle. Today's hotel guests expect more individual and unique products than before. When they find them, they like to share their experiences on social media.

15 WANTED: LIKE-MINDED INDIVIDUALS

Linked to looking for personal expression in their choice of travel, destination and accommodation is people's desire to be among individuals with similar interests. This tribalism can be found among such diverse groups as football supporters and gamers, jazz nerds and design enthusiasts. An urban dweller will want to experience the throng and pulse of another big city, while a nature lover will seek out the calm of a group walking tour in the Alps.

16 SUSTAINABILITY IS EVER MORE IMPORTANT

The increasing interest in sustainability has been ongoing and is deepening in line with increased consumer knowledge and greater demands from society. Consumers also increasingly want the services they buy to accord with their values.

17 THE AGELESS SOCIETY

Today's elderly are in better health and financially more secure than previous generations. They retire later and do not see themselves as being old. They want an active life filled with experiences, travel (often staying for longer periods at the destinations) and other types of self-fulfilment. That today's youth spend time travelling before studying or going out to work has been a long-established trend – and one which keeps growing. This trend is particularly obvious in open societies. Both of these trends are strengthened further by continuous downward pressure on travel prices and by efficient destination packaging by OTAs.

18 SECURITY

The world has probably never been more open and accessible to tourists than now. Naturally, isolated security events can adversely affect a destination in the short term – but experience suggests that it always recovers. Turkey and Egypt, for example, are once again among the fastest growing destinations. Brussels is at a higher level than before the terrorist attacks in 2016, as is Paris. At the same time, new countries are entering the global travel market – such as Colombia, with its well-known turbulent history.

At a global level, the travel and tourism industry has not been greatly affected by the terrorist incidents in recent years (WTTC). The speed of recovery for a destination that has been affected by a terrorist incident varies among different customer groups. Business travellers normally return first, while it takes longer – up to two years – for leisure and conference guests to return. Few travellers choose to stay at home, however. Instead they re-book for a different destination that they see as being safer; Spain and Portugal experienced an uptick in demand following the unrest in Turkey, for example.

The safety and security of both hotel guests and employees is a key issue for Pandox. ▶ *See also pages 49–68 regarding Pandox's sustainability work.*

HOW PANDOX MONITORS AND DEVELOPS THE MARKET

Pandox has a special position in the hotel market since the Company works with many different hotel brands and is active in many different markets and destinations that differ in nature and demand. Pandox constantly monitors and analyses important trends and drivers in the hotel market, which provides input for discussions with tenants.

Pandox has individual business plans for each hotel property, which includes defining a peer group – a number of relevant competing hotels – against which the hotel property's performance is constantly assessed. Through a combination of knowledge, experience and curiosity Pandox challenges and inspires its tenants to see new business opportunities.

Is the hotel correctly positioned? What investments are appropriate? What is the return if we invest? How can risk and return be shared? In its toolbox Pandox also has knowledge of how to establish independent hotel brands.

Growth opportunities in a fragmented market

Significant structural changes in the international hotel scene, combined with a fragmented market, have provided scope for structural measures that Pandox has utilised to establish itself as a leading specialised hotel property owner in Europe.

From a property owner perspective, the hotel market in Europe remains fragmented. To give an example: Pandox, which is one of the biggest players, has a total market share of less than 1 percent measured in terms of the number of rooms in the markets where the Company is established. Competing hotel property companies are rarely international specialists, but rather tend to be from the financial sector or are national property companies with various property types in their portfolio. Overall, there are barely a handful of competitors in each market, of which a few are active in multiple markets.

HIGH ENTRY BARRIERS

There are various reasons why the hotel property market is as it is. Firstly, a relatively large number of investors still see hotel properties as a subsegment of the traditional property market – spicing up a property portfolio. Secondly, entry barriers are high. Hotel properties have unique characteristics which demand specific expertise and substantial capital in order to create portfolios with an attractive risk and return profile. A well-established hotel property in a strategic location has natural competitive advantages that are difficult to replicate. A well-diversified hotel property portfolio is even harder to recreate. Thirdly, and as a result of the above, an international perspective and an international presence are often required.

GOOD GROWTH POTENTIAL

For Pandox the hotel property market offers significant growth potential through continued professionalisation and consolidation. Pandox's pan-European position and ability to work with all the business models that exist gives the Company clear competitive advantages. ▶ *Read more about the various agreement models on the next page.*

In simple terms, the hotel value chain consists of property ownership, hotel operation and marketing/distribution. The companies in the hotel market are hotel property owners, hotel operators and large hotel chains with their own brand portfolios. In addition, there are independent operating companies and online booking services (OTAs). A company may be positioned within one or more segments. Pandox's core business is to own hotel properties and lease these out to strong hotel operators. Pandox moves freely throughout the hotel value chain and in certain cases may also operate hotels in properties that the Company owns.

CHANGED BUSINESS MODELS

In recent decades the international hotel industry has gone through fundamental structural change. Large international hotel chains such as Hilton, InterContinental and Marriott have changed their business models by divesting hotel properties and leaving their traditional role as hotel operators.

Instead these companies have developed various types of asset-light strategies. In somewhat simplified terms, this involves the company reducing its capital requirements by moving its business towards distribution (bookings) and brand development (franchising). In such a strategy the hotels are operated mainly via franchise and management agreements with independent hotel operators.

ASSET-LIGHT DRIVES CONSOLIDATION

Within an asset-light strategy, revenues are mainly derived from franchise fees and commissions on bookings. The business model requires large volumes to be profitable. The main aim is to increase the number of franchisees and room bookings – preferably in their own distribution channels, where a larger part of the commission can be collected. The business model not only requires massive marketing investments, but also a continuous increase in the number of rooms in the portfolio. This has resulted in a search for new franchisees and in consolidation among the large international hotel chains. One factor contributing to this development is the emergence of online travel agents (OTAs) which aggregate offerings and match demand using customer-friendly booking solutions and effective marketing.

FEWER OPERATORS BUT MORE BRANDS

While increased consolidation has resulted in fewer brand owners, the number of brands has grown. The hotel chains have spent large resources on brand development in order to define new types of market segments and cater to new customer demand. Marriott and Hilton, for example, have 30 and 16 different brands respectively in their portfolios.

OPERATIONAL EXPERTISE EVER MORE VALUABLE AND NEEDED

The faster the larger hotel chains move towards a more brand-focused model, the more necessary and valuable it becomes to possess in-depth operational expertise. And for a simple reason: the brand promise presented in digital marketplaces has to be turned into a real-life positive guest experience at the hotel. This calls for knowledge of how to design an attractive hotel product through a combination of efficient operation and value-adding investments.

A number of skilful hotel operators and brand owners, together with a growing number of independent operators, have advanced their positions in this area. This development has also made it natural for hotel property owners such as Pandox to take over operations when the conditions do not allow a profitable lease to be achieved.

The lease agreement is key for Pandox

Leases are the dominant agreement model for Pandox. The lease has clear advantages both for the property owner and the tenant since the return, risk and investments can be shared between the parties.

There are four business models in the hotel property market

1. Lease agreement
2. Management agreement
3. Own operations with franchised brand
4. Own operations with independent brand

1. LEASE AGREEMENT

Agreements with many advantages

Pandox works with revenue-based leases, often including a minimum guaranteed rent, since they offer clear incentives for both parties to increase the hotel's profitability and thus the value of the hotel property. The revenue-based lease model is well established in many large European hotel markets and has many advantages:

- Shared incentives to create a competitive hotel product
- Balanced investments with shared risk
- Productivity and profitability improve competitiveness
- Long-term perspective creates stability

Many strong regional hotel operators in Europe have identified good business opportunities in revenue-based leases, and this has also had an impact on Pandox's portfolio. In the past four years Pandox has acquired, renewed and signed more than 60 leases in existing and new markets with operators such as Scandic, Fattal/Leonardo/Jurys Inn, Meininger and NH.

How a revenue-based lease works

A revenue-based lease is tied to the revenue of the hotel operations, with Pandox's rental income being a certain percentage of the hotel's revenue. This means that Pandox shares in the hotel's growth, as the rent increases in line with the increased revenue of the hotel. Hotel property owners and hotel operators share both the upsides and the downsides, with a reasonable split of capital, potential and risk between the parties. In many cases there are also guaranteed levels below which the rental income cannot drop. The agreement structure encourages the operator to increase revenue, reduce costs and make long-term investments in the hotel product.

Examples of brands under leases include Scandic, Leonardo, Jurys Inn, First Hotels, Radisson Blu, Hilton, Meininger, Nordic Choice and NH Hotels.

A renaissance for leases in Europe

In recent years Pandox has expanded its lease portfolio in Europe and is seeing greater interest in this agreement model. One reason for this is increased specialisation within the hotel market and the emergence of strong regional hotel operators that share Pandox's view of the advantages of leases. For Pandox as a hotel property owner, the lease is a central part of the value creation in the hotel business since it contributes to shared investments and shared risk, as well as making the underlying asset more liquid.

2. MANAGEMENT AGREEMENT

A management agreement can be described as a type of agency contract where the hotel property owner also owns the hotel operations, but appoints a hotel operator to run and manage the hotel on behalf of the hotel property owner. The property owner pays a management fee, often revenue-based, to the operator for the service. Sometimes an incentive payment based on the hotel's gross profit is added, but that would typically make up a smaller percentage of the total fee.

Management agreements are often very long-term, with the operator undertaking to run the hotel in accordance with established brand strategies. Under this type of agreement structure, the hotel property owner shoulders all the investments and thus bears financial responsibility for the operations as well as the property. Examples are Radisson Blu Glasgow and InterContinental Montreal.

3. OWN OPERATIONS WITH FRANCHISED BRAND

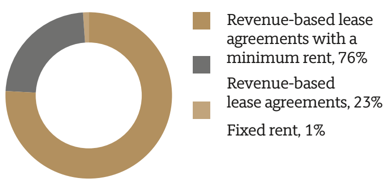
When a hotel property owner owns both the hotel property and operations, a franchise agreement can be signed with an appropriate brand owner in order for the hotel property owner to take advantage of the franchiser's brand and distribution resources. Normally the franchisee would pay revenue-based royalty fees plus additional fees for access to specific services. Franchise agreements are common within Pandox's Operator Activities. Examples are Hilton Grand Place Brussels, DoubleTree by Hilton Montreal and Radisson Blu Dortmund.

4. OWN OPERATIONS WITH INDEPENDENT BRAND

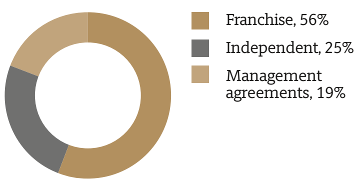
In some cases it may be better to give the hotel a profile that is all its own, using an independent brand; for example, in a local setting where an international brand has a low recognition factor and the costs of rights and distribution cannot be justified. Examples of this are The Hotel Brussels in Brussels and Hotel Berlin, Berlin in Berlin.

Pandox's agreement structure 31 December 2018

PROPERTY MANAGEMENT (share of agreements)



OPERATOR ACTIVITIES (share of agreements)



Market overview for 2018

STRONG GROWTH IN THE GLOBAL AND EUROPEAN TRAVEL MARKET

Statistics from UNWTO[1] confirmed that 2018 was another strong year for the travel industry. International arrivals increased by 6 percent, both globally and in Europe. Growth during the second half of the year was somewhat lower than during the strong first half. In Europe RevPAR increased by just over 5 percent. This was the ninth consecutive year of growth. Eastern Europe saw the strongest growth with an increase in RevPAR of 12 percent.

For 2019 UNWTO expects international arrivals to increase by 3–4 percent both locally and in Europe, which is more in line with the historical trend. This lays the foundations for continued positive demand in the travel and tourism market in 2019, even though growth is expected to be lower than in 2018. Known factors of uncertainty with a possible impact on the travel market are geopolitical tensions, trade barriers and Brexit.

STABLE POSITIVE GROWTH IN THE NORDICS

Development in the Nordic countries was stable and positive with good underlying demand for hotel nights.

Overall RevPAR for the Nordic countries increased in the region of 2–3 percent. In Stockholm RevPAR was initially squeezed by a large number of hotel openings, which were gradually absorbed through good demand. Overall RevPAR increased by nearly 2 percent. In Gothenburg and Malmö RevPAR increased by a strong 6 and 9 percent respectively. Growth in these cities was due equally to increased occupancy and improved average prices. They were also favoured by only marginal increases in new hotel capacity.

[1] United Nations World Tourism Organization

In Oslo the hotel offering gradually increased during the year, amounting as a whole to just over 6 percent. Good underlying demand absorbed around two thirds of the increase, but occupancy decreased by around 2 percent. The average price developed positively and RevPAR increased by just over 1 percent.

In Copenhagen RevPAR increased by just over 2 percent, the second half of the year being the strongest supported by an increase in demand of around 3 percent. A significant increase in hotel capacity is expected in 2019 as there have been few hotel openings over a relatively long period of time.

In Finland and Helsinki RevPAR increased by around 2 and 3 percent respectively. The main driver of the upturn in Helsinki was increased occupancy, partly because a couple of large hotels were closed for renovation.

MIXED DEVELOPMENT IN GERMANY

In Germany RevPAR increased by just over 2 percent. Of Germany's largest hotel markets, Berlin had the strongest growth with a nearly 7 percent increase in RevPAR – partly because the negative effects of the bankruptcy of airline Air Berlin in 2017 diminished. Munich also enjoyed good growth during the year, up 4 percent through improved average prices, despite a relatively large inflow of new hotel capacity. In Hamburg, however, increased supply squeezed the hotel market and RevPAR fell by just over 2 percent. A negative trend in RevPAR was seen in Cologne, Bonn, Dusseldorf and Frankfurt – the common denominator being that there were fewer trade fairs, congresses and events in 2018 compared with 2017.

STABLE DEVELOPMENT IN THE UK

The hotel market in the UK consists firstly of London, with a high proportion of international demand, and secondly of the regional market (UK Regional), where the emphasis is on domestic demand. Of these two markets it is the regional market that is the most important for Pandox.

RevPAR in UK Regional increased by 1.4 percent, mainly through improved average prices. RevPAR in Pandox's regional hotel portfolio increased by around 8 percent as a result of successful price and positioning work for Jurys Inn as well as a positive effect of previously completed renovations in the portfolio. In London RevPAR increased by 3 percent, with a strong final quarter driven by a number of large events that contributed to good demand and average price development. Overall the trend in the UK confirmed the country's attraction for both the leisure and business segments, despite Brexit.

The Irish hotel market was characterised by a sustained strong demand surplus and RevPAR increased by nearly 9 percent. In Dublin RevPAR increased by 7 percent as a result of an improved average price in a hot market with occupancy of a full 84 percent.

SUSTAINED STRONG DEMAND IN BRUSSELS

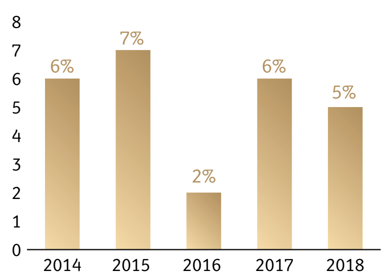
In Brussels the good trend in 2017 was sustained and RevPAR increased by more than 12 percent. The growth was mainly driven by a strong business and conference segment. RevPAR is now at higher levels than before the terrorist attacks in 2015/2016 and the outlook is also considered good for 2019.

STRONG COMPARATIVE FIGURES FOR MONTREAL

The hotel market in Montreal faced strong figures from the city's anniversary year in 2017 and overall RevPAR decreased by just over 1 percent. However, the year ended with an increase of 2 percent in the last quarter supported by a more normal comparative quarter.

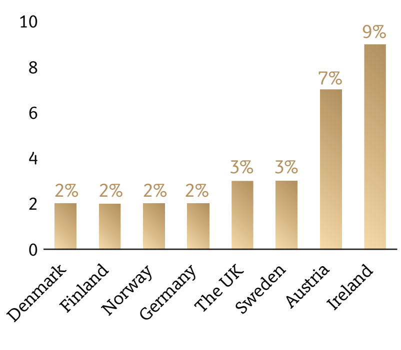
RevPAR growth in key geographical markets

EUROPE (GROWTH 2014–2018)

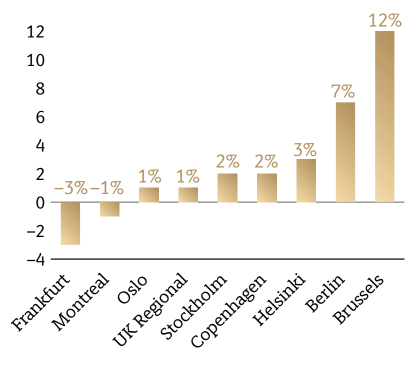


Source: STR Global, Benchmarking Alliance, Statistics Finland

COUNTRIES (GROWTH IN 2018)



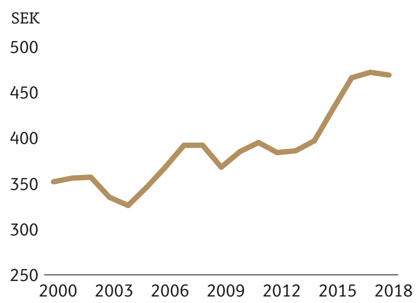
KEY MARKETS (GROWTH IN 2018)



RevPAR – a key ratio

RevPAR (revenue per available room) is a key indicator in the hotel industry and an important measure for Pandox. RevPAR is a measure of a hotel's – or in aggregate form, a market's – earnings capacity and describes how well it has succeeded in occupying its rooms (demand) and at what price (willingness to pay). RevPAR varies with economic activity and demand from various subsegments of the travel market as well as structural factors such as country, city, location, communications, product type and supply in the hotel market. In addition there are various strong market trends that support the hotel market, such as people spending more money on experiences and wanting to travel more often. ▶ *See the section on trends on pages 22–23.*

Real RevPAR, Sweden



Source: Statistics Sweden, Pandox

RevPAR can be used in various ways:

1. To take the temperature of the hotel sector
2. To measure how well a hotel market is performing
3. As a measure of how a hotel is performing in its market

DAILY MONITORING AND ANALYSIS

RevPAR is part of Pandox's business follow-up. In the Property Management business segment RevPAR is followed up constantly, while in the Operator Activities segment this takes place daily as part of the work carried out by the hotels and the Pandox Revenue Management Centre in Brussels. The capacity and performance of the individual operator makes a big difference. Based on systematic business analysis, Pandox discusses various possibilities for supporting the operator in its efforts to develop and refine the hotel products in order thereby to increase profitability for the operator and rental income for Pandox.

MARKETS VARY IN NATURE

Pandox is active in hotel markets that vary in nature and circumstances. This is reflected in RevPAR and thus determines what kind of hotel investments can be profitably made. The higher the RevPAR, the more scope there is for Pandox to apply investments that add value.

International destinations such as London and Amsterdam have a high proportion of international demand and good demand in all subsegments. Regional cities such as Stockholm, Copenhagen, Manchester, Cologne and Hamburg have a smaller international element, but generally good demand from all subsegments. Domestic cities such as Leeds, Linköping and Kuopio are more dependent on domestic demand and individual subsegments. However, these generally experience stable development over time and are less dependent on major global events.

Overall, Pandox has a clear demand balance in its portfolio with a good spread of risk between different types of markets, countries and destinations. ▶ *See the section on dynamic cities on pages 28–29.*

CATEGORIES OF CITIES WITH EXAMPLES OF CITIES SORTED BY REVPAR

	RevPAR 2018 in SEK
International cities	
London	1,446
Amsterdam	1,257
Dublin	1,248
Regional cities	
Copenhagen	1,084
Hamburg	947
Cologne	841
Stockholm	805
Manchester	726
Domestic cities	
Leeds	619
Dortmund	586
Kuopio	559
Linköping	528
Sheffield	515

Source: STR Global, Benchmarking Alliance

HOW REVPAR WORKS

If the average room price is SEK 1,000 and the occupancy rate is 70 percent, then RevPAR is SEK 700 (1,000 x 0.70 = 700). A hotel with 200 rooms thus has annual room revenue of SEK 51,100,000 (700 x 200 x 365). In addition there is generally other revenue such as from food, beverages and conferences – which by definition is not included in the term RevPAR.

FROM REVPAR TO RENTAL INCOME

Pandox's leases are revenue-based, with a certain percentage of the hotel's revenue being paid in rent to Pandox. The percentage is normally higher for rooms and conference rooms, and lower for food and beverages and other income. The difference is due to the fact that profitability, and thus the ability to pay rent, is higher for accommodation than for restaurant operations.

If the rent in the above case is paid at 35 percent of room revenue, then the rental income for Pandox is SEK 17,885,000 (51,100,000 x 0.35). In addition, there will normally be other income that in certain cases may be substantial. This means that Pandox's actual rent growth may be either higher or lower than RevPAR growth in the market.

Comments: *Net RevPAR takes into account the costs of procuring customers – e.g. distribution and marketing – and is a more relevant measure for a hotel operator.*

The dynamic nature of Europe's cities yields a stable market

Nearly 200 million people live in a densely populated area from Stockholm in the north to Vienna in the south. A further branch of the north European corridor spreads west, to the British Isles. Together they form one of the economically strongest and most dynamic regions of the world. It is here that Pandox has the majority of its business.

In recent years Pandox has made great strides out into mainland Europe and the British Isles. The aim of this expansion beyond the Nordics was to achieve greater diversification and thereby spread market risk. Through its presence in many different countries, cities and market segments and by having different brands Pandox generates balanced demand and reduces risk.

Today the Company has a well-composed portfolio of hotel properties which can be sorted into three geographical categories: international, regional and domestic cities. Each category has its distinguishing features in terms of types of demand and demand patterns.

INTERNATIONAL CITIES

Large and dynamic destinations with a higher percentage of international demand than domestic demand in all segments.

- Internationally established destinations
- Hubs for international travel
- Markets with high purchasing power
- Complete set of demand drivers
- Demand from most segments

Examples of international cities in Pandox's hotel property portfolio include London (which is also a megacity), Amsterdam, Montreal, Brussels, Berlin and Vienna. They are all established international cities with a diverse business sector, a rich cultural offering and an attractive leisure profile.

People in international cities are often heavily influenced by what happens in the big megacities. In international cities there is a great craving for trends created in the megacities, and this together with high purchasing power creates great opportunities for developing new hotel concepts.

REGIONAL CITIES

Large and dynamic regional markets with demand from multiple segments and a high proportion of regional demand.

- Destinations "on the way up"
- Demand is mainly regional
- A certain dependence on international demand
- Various drivers of demand
- Demand from many segments

Examples of regional cities in Pandox's hotel property portfolio include Hamburg, Munich, Cologne, Frankfurt, Copenhagen, Stockholm, Manchester, Birmingham and Basel. Like international cities, regional cities often have a well-developed business sector, an attractive cultural offering and tourist attractions, but without the same breadth and depth. Some of these cities – such as Stockholm, Copenhagen and Frankfurt – are on their way to achieving an international position, but are not quite there yet.

People in regional cities often have international habits and relatively strong purchasing power, which provides substantial scope to create various types of hotel concepts.

DOMESTIC CITIES

Stable markets with a high percentage of domestic demand.

- Domestic demand is a key driver
- Limited international exposure
- Fewer commercial drivers
- Greater dependence on the public sector
- More purpose-driven travel

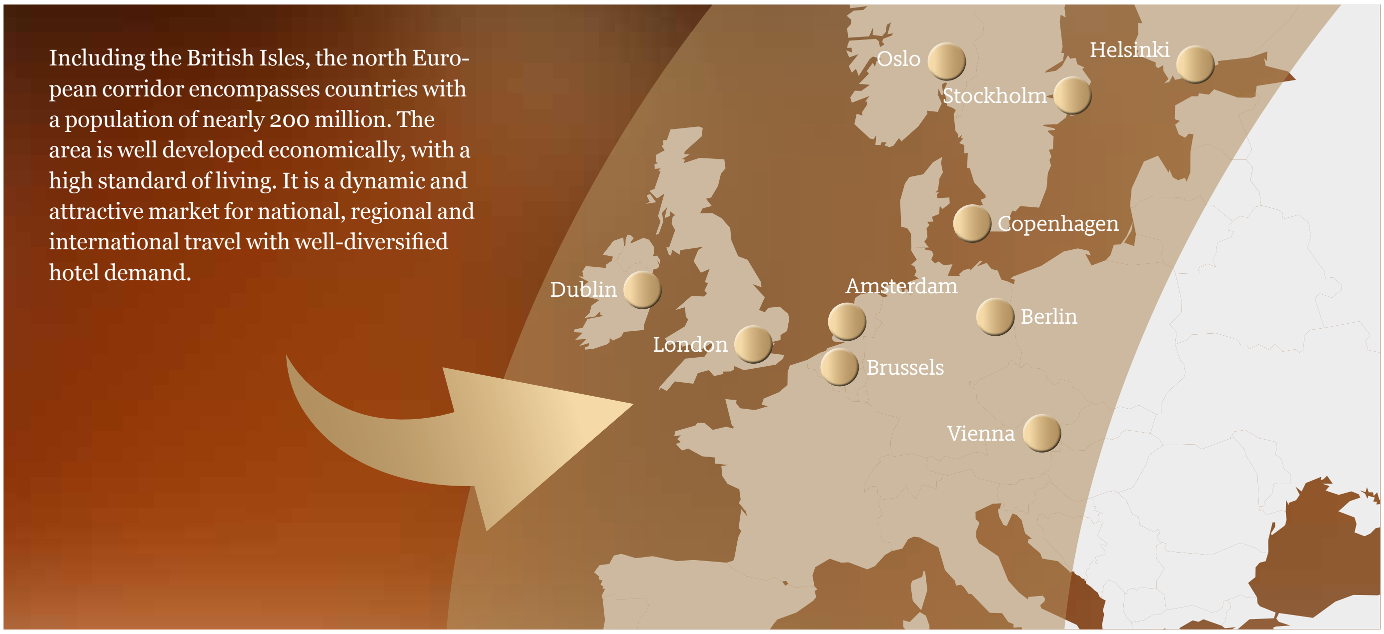
Examples of domestic cities in Pandox's hotel property portfolio include Leeds, Sheffield, Jönköping, Örebro, Jyväskylä, Kuopio, Dortmund, Wolfsburg and Mannheim. They are often local hubs, i.e. the main city in a province or region. In these markets hotel demand is dominated by domestic guests with a clear purpose to their travel: a concert, hospital visits, meetings etc.

In domestic cities there is more limited scope for different types of hotel concepts and often a stricter focus is required for development and investments.

MEGACITIES PROVIDE IMPORTANT IMPETUS

Megacities such as New York, London and Singapore are vibrant meetingplaces with a strong urban identity. The drivers are a high level of economic activity driven by cultural and talent diversity, good access to financial capital and fertile ground for innovations – not least through the many start-ups. The hotel industry in megacities is dominated by international travel and has demand in all price and product segments, from ultra luxury to hostels.

Megacities are ahead of the crowd and create purchasing patterns, lifestyles and trends that are then copied in smaller cities, even if far from everything is transferable. The megacity is an important indicator for the travel and hotel market and thus for Pandox, which through its presence can capture changes and see the latest trends.



Including the British Isles, the north European corridor encompasses countries with a population of nearly 200 million. The area is well developed economically, with a high standard of living. It is a dynamic and attractive market for national, regional and international travel with well-diversified hotel demand.

AIRPORT HOTELS – A NICHE OF THEIR OWN

Pandox has 16 hotel properties situated at international airports. These airports share a role as gateways to other national, regional and international markets.

There are various strong drivers that make airport hotels of interest, including increased international travel and increased demand for efficient meeting-places in large cities where communications can be slow, such as London. Pandox has two hotels at London Heathrow Airport: Hilton London Heathrow Airport T4 and Hilton London Heathrow Garden Inn. The latter is in an exciting location by one of the runways and, as well as being an attractive hotel with demand from many different guest segments, is a hotspot for plane spotters all over the world.

Hilton London Heathrow Garden Inn.

NO TWO AIRPORTS ARE THE SAME

Airports vary in nature and serve different geographical segments. Munich Airport is dominated by flights within the EU, for example, while London Heathrow Airport is one of the world's most international airports with a high percentage of intercontinental traffic. Heathrow is also an efficient transit hub for travel to other parts of Europe or to other domestic markets such as Glasgow, Birmingham and Manchester. In the same way, Helsinki Vantaa Airport is one of the biggest hubs in Europe for travel to and from Asia.

The airport hotels themselves may be in different segments depending on location, demand and product. Pandox's two mid-class hotels at Helsinki Vantaa Airport belong, for example, to the lower segment, while Hilton London Heathrow Airport T4 is a premium product and NH Vienna Airport is a mid-class hotel in the upper segment.

WHERE THE AIR PASSENGERS COME FROM

Region	Munich Airport	Amsterdam Schiphol	Paris-CDG	London Heathrow	Global
Europe	78%	71%	60%	48%	51%
North and South America	10%	14%	16%	24%	16%
Asia-Pacific	7%	7%	6%	14%	24%
Middle East	3%	4%	5%	10%	4%
Africa	3%	4%	13%	4%	5%
	100%	100%	100%	100%	100%

Source: Munich Airport, Schiphol Airport, Paris CDG Airport, London Heathrow Airport, International Air Travel Association (IATA). Europe also includes national traffic in the country where the airport is situated.

THE ADVANTAGES OF DIVERSIFICATION

Among the advantages of diversification are that the various markets and segments are normally in different phases of the international business cycle. A well-composed portfolio is less sensitive to downturns in individual markets because these are normally balanced out by upturns in other markets.

Over time, domestic cities have proved to be more stable and less volatile in response to the ups and downs of the economy than international cities, which have greater exposure to the international business cycle because of their higher percentage of international demand. Regional cities are somewhere in between domestic and international cities. Naturally, domestic cities are also affected by downturns, but when these happen the international cities in the portfolio may already have started moving up.

With a property portfolio of 144 hotels in 15 countries that are in 82 locations which differ in size and nature, it is important to understand what type of hotel product works where, as well as how to develop and adapt products to different markets. There is a big difference between creating the right hotel product for a progressive international destination such as Amsterdam, with diverse international demand, and a local hub such as Jyväskylä which mainly has domestic demand. Pandox does not value one city more than the other; both make important contributions to a diversified portfolio.

Partnerships drive value in various ways

The backbone of Pandox's hotel property portfolio is made up of large full-service hotels in the upper mid-class segment in good locations. The average hotel in the portfolio has 224 rooms.

In addition to mid-class hotels in the upper segment, Pandox has a number of hotel properties in other segments – such as Park Hotel Amsterdam, The Hotel Brussels and The Midland Manchester in the premium segment and Urban House Copenhagen by Meininger in a hybrid segment at the intersection of hotels and hostels.

Crucial to Pandox's business is the partnership that the Company has with its tenants, which comprise around 20 hotel brands – of varying nature and geographical reach – in 15 countries. They include global brands such as Hilton, regional brands such as Scandic and local independent brands such as Hotel Berlin, Berlin in Berlin.

Pandox's efforts to create a diversified property portfolio are not only evident in the spread of hotels between domestic, regional and international cities. Further diversification is also achieved by means of hotel types and business mix. Through its focus on large full-service hotels in prime locations, Pandox's hotel properties satisfy all kinds of demand in the hotel market. Pandox's largest demand segment is business travellers and conferences, but the percentage of leisure travellers has increased significantly in recent years. This is partly the result of a general increase in leisure travel globally, but also of joint development with tenants of new hotel products with a more attractive leisure profile.

BRANDS WITH DIFFERENT PROMISES

In parallel with a decrease in the number of brand owners in the hotel market, the number of hotel brands has increased – particularly in recent years. One reason is the strong growth in online travel agents (OTAs) which has driven increased diversity of supply. Nearly half of all hotel bookings are now made digitally, and the percentage continues to rise. For Pandox as a hotel property owner, digitalisation is creating great opportunities. An increased supply of existing brands and low barriers for creating and distributing independent hotel products digitally itself gives Pandox unique opportunities to give newly acquired and/or recently taken over hotel properties the right identity and position.

The strength of different brands depends on which markets we are talking about. Scandic and Nordic Choice, which have brand names including Clarion and Quality, are leading actors in the regional hotel market in the Nordics. In the UK Jurys Inn is a strong operator in the regional market where Scandic, for example, is not represented. In the same way, Hilton is a stronger brand for international business travellers. For a hotel property owner it is important to understand which brands work where, which demand they attract in

MAJOR HOTEL BRANDS WITH WHICH PANDOX PARTNERS:

Scandic Hotels
Scandic Hotels is the largest hotel operator in the Nordics with around 280 hotels and 55,000 rooms in six countries. Scandic is an attractive partner for Pandox with a clear focus on operations and a strong position in the regional hotel market in the Nordics. Pandox has Scandic as a tenant in 51 hotel properties in the Nordics.

Fattal Hotels/Leonardo/Jurys Inn
Fattal Hotels Group, with the brands Leonardo and Jurys Inn, is one of Europe's fastest-growing hotel chains with more than 190 hotels in Europe and Israel as well as an active pipeline. Pandox has Fattal as a tenant in 39 hotel properties in Germany, the UK and Ireland under the Leonardo and Jurys Inn brands.

their respective submarkets and where the hotel should be positioned in order to be as profitable as possible.

INDEPENDENCE IS SOMETIMES BETTER

Sometimes Pandox finds a situation in which it is better to create a separate independent hotel brand. The reasons for this may be that the present brand does not send out the right signals in the market, that it is too expensive relative to the demand that the brand generates or that it is otherwise not suitable for the market or hotel in question. A strategy of independence is particularly relevant when a substantial change in the hotel product is required – for example, on acquiring an underperforming hotel or taking over a discontinued lease. In such situations it is generally simpler and more effective to change both the product and organisation to have an independent profile. There is a greater degree of freedom and the return is often higher.

Some examples of hotels that have undergone such a change are:

- The Hotel Brussels (from Hilton)
- Urban House Copenhagen (from Omena)
- Hotel Lillehammer (from Radisson Blu)
- The Hub Hotel & Livingroom (from Mr Chip)
- Hotel BLOOM! (from Mercure)
- Hotel Berlin, Berlin (from Clarion)

For four of these hotels leases have been signed with new tenants following their repositioning and other active measures in respect of the hotel's business. ▶ *Read more under Pandox in practice on pages 16–19.*

PANDOX ALWAYS MAINTAINS A FOCUS ON OPERATIONS

It is important to Pandox that the tenant is a hotel operator with a good commercial understanding and a strong focus on profitability. Productivity creates profitability, which in turn creates the conditions for new investments in the hotel product.

Nordic Choice Hotels

Nordic Choice Hotels is the second largest hotel operator in the Nordics after Scandic, with nearly 190 hotels and around 33,000 rooms. Nordic Choice has a strong regional position in the Nordics and has advanced its position in large national hubs in recent years. Nordic Choice both operates hotels and has franchise business. Pandox has Nordic Choice as a tenant in 11 hotel properties in Sweden and Norway.

Radisson Hospitality

Radisson Hospitality is one of the world's largest hotel companies with 486 hotels and more than 107,000 rooms in 78 countries. Radisson has a strong position in the international hotel market, with attractive brands. Pandox has Radisson as a tenant in four hotel properties in Sweden, Norway, Germany and Switzerland. In addition, Pandox uses the Radisson Blu brand for two hotel properties that it operates in Germany (franchise agreements) and one hotel property in Scotland (management agreement).

Hilton Hotels

Hilton Hotels is one of the largest brand owners and distribution companies in the global hotel market, with more than 14 brands spread across 5,400 hotels in 106 countries. Hilton has a strong global position and is a multifaceted partner. Pandox collaborates with Hilton in various ways. Hilton is a tenant in two hotel properties in Finland, with Scandic as operator, and in one hotel property in the UK and one hotel property in Sweden. In addition, Pandox collaborates with Hilton through franchise agreements in three hotel properties in Belgium, the UK and Canada.

Elite Hotels

Elite Hotels is a privately owned Swedish operator with 38 hotels in 24 locations in Sweden. Elite Hotels runs hotels under its own brands and also in some cases invests in its own hotel properties. Pandox has Elite as a tenant in two hotel properties in Sweden.

NH Hotel Group

NH Hotel Group it is one of Europe's larger regional hotel operators with 379 hotels and around 60,000 rooms in 31 countries. NH Hotels is a relatively new partner of Pandox. Like Scandic, the company has a clear focus on hotel operations and constructive business development. Pandox has NH Hotels as a tenant in seven hotel properties in Belgium, Austria and Germany.

In November 2018 Pandox organised its 23rd Hotel Market Day in Stockholm. More than 300 participants from the hotel industry, the capital markets and the media gathered at Hilton Stockholm Slussen to take part in a high-quality programme on the theme of "Urbanisation and the Hotel Sector".

At the 2018 Hotel Market Day internationally recognised experts guided the participants through various knowledge areas. The day focused on developments in big cities and how the hotel industry should relate to this.

It is important for the hotel sector to understand the urban dynamics because this provides the basis for the sector's growth – partly at a general level, and partly through specific trends that can have a major impact on profitability and value development for the various hotel assets.

FROM LOGISTICS TO MEETINGPLACE

A number of the speakers described a new type of urbanisation around the world. There are more and more big cities, and they are getting ever larger. From having primarily been logistics hubs – often through ports and manufacturing industry – they have developed into dynamic meetingplaces where a great deal of the innovation in new technologies and business models takes place.

A large part of the dynamics of the global economy is based on interaction between companies and individuals in networks that include big cities. The big cities are powerful hubs – detached from national borders – in a world of increased travel and new experiences.

Hotel Market Day
How today's urbanisation affects the hotel market

List of speakers at Hotel Market Day 2018

Pandox Developments
Anders Nissen, CEO Pandox
"Anders Nissen summarised Pandox's development in recent years and described the positive underlying growth drivers in the travel and tourism industry."

European Cities: Winning in an Age of Disruption
Leo Johnson Partner, Disruption Lead, PwC UK
"Leo Johnson presented PwC's ranking of the attractiveness of various cities. He also described four future scenarios for cities in a disruptive time. His conclusion was that the attractiveness of cities is explained not just by technical infrastructure, but just as much by diversity, freedom and independence."

Exploring City Pathways: The European Hospitality Landscape
Jeremy Kelly, Director Global Research Programmes, JLL
"Jeremy Kelly presented a number of cities in Europe from a hotel perspective by categorising a number of international cities into various types, particularly New World Cities and Emerging World Cities. Jeremy Kelly also presented statistics of new hotel capacity in a number of hotel markets in Europe and talked about how various cities have managed overtourism."

City Categories in Pandox Business Development
Jacob Rasin, Director of Business Development, Pandox
"Jacob Rasin described how Pandox views different cities and how the Company works on its portfolio composition. Jacob also described what hotel developers need to think about in different types of cities."

A Multi-Stakeholder Approach to Destination Development: The Amsterdam Case
Nico Mulder, Marketing Strategist, Amsterdam Marketing
"Nico Mulder presented Amsterdam's efforts to develop the city as a destination and how to work strategically to balance out the negative effects of overtourism."

Hotel Brands: City Strategies
Andreas Scriven, Lead Partner Hospitality & Leisure, Deloitte LLP
"Andreas Scriven presented a number of aspects that can help the hotel sector adapt to a world of increased urbanisation, such as investigating conversion opportunities, easing existing brand requirements, investing in new technology, shifting the focus of new investments from city centres to peripheral urban areas, placing personnel in expansion zones that are of interest and investigating opportunities for hybrid concepts."

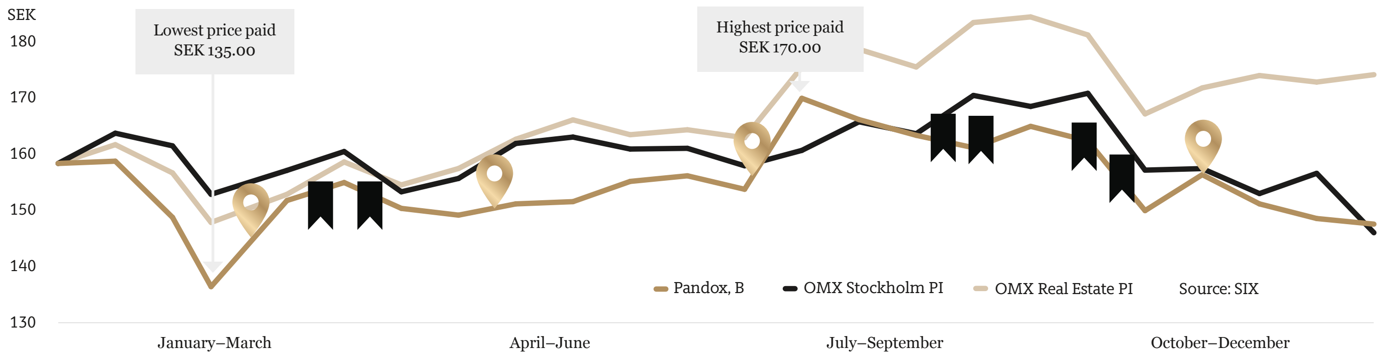
Market Trends and Outlook
Anders Nissen
"Anders Nissen concluded the day by presenting a number of strong drivers and trends in the travel and tourism industry and how these affect Pandox."

▶ *For more information on Pandox's Hotel Market Day visit pandox.se/events where you can view the complete programme as well as the speakers' presentations. You can also watch particularly high quality presentations from previous years. Recommended!*

PANDOX'S HOTEL MARKET DAY
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 day has developed into a dynamic meetingplace for decision-makers within the international hotel industry.

Pandox
and the capital markets

DEVELOPMENT OF THE PANDOX SHARE OVER THE YEAR



Interim reports

Q4 2017	Q1 2018	Q2 2018	Q3 2018
5 February	24 April	13 July	24 October
Fast pace and good earnings growth Total NOI +27% Total cash earnings +54%	**A stable earnings development** Total NOI +24% Total cash earnings +16%	**Profitable growth and good returns** Total NOI +33% Total cash earnings +26%	**A stable quarter** Total NOI +31% Total cash earnings +16%

Press releases

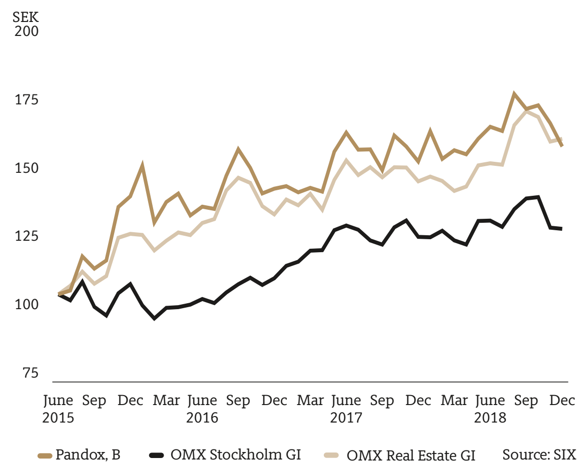
28 March Pandox divests hotel property in Kiruna.	9 April Annual shareholders' meeting approves a dividend of SEK 4.40 per share.	31 August Pandox completes legal reorganisation in the UK and Ireland. 7 September Pandox establishes a commercial paper programme.	2 October Pandox acquires Radisson Blu Glasgow for MGBP 39. 12 October Pandox acquires The Midland Manchester for MGBP 102.

Share facts

Market: Nasdaq Stockholm
Segment: Large Cap
Sector: Real Estate
Ticker symbol: PNDX B
Number of class B shares (listed): 92,499,999
Number of class A shares (unlisted): 75,000,000
Market cap: MSEK 24,555 (class A and class B shares)
Share volatility: 22% (on an annual basis from 18 June 2015)
Share beta value: 0.69 (from 18 June 2015, OMXSBPI)
Average daily trading volume: 120,161 shares (2018)

Source: Nasdaq, InFront, Euroclear, Pandox
As of 31 December 2018

TOTAL RETURN ON PANDOX SHARES
18 June 2015 – 31 December 2018

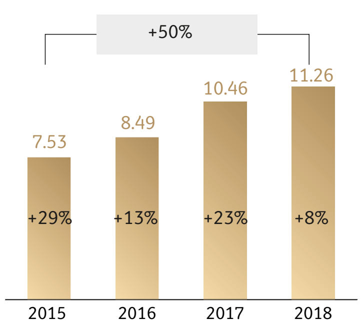


Several reasons to own shares in Pandox

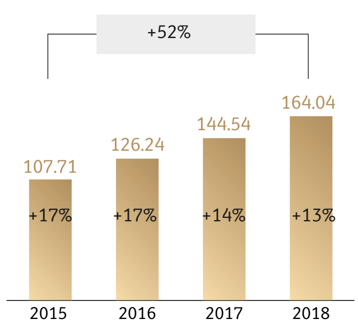
Reason	
1. Strong drivers	Pandox is benefiting from positive underlying growth in the tourism and travel sector as a result of economic activity and increased travel.
	Pandox has a low market share in the European hotel property market and still has good potential for expansion.
	Good opportunities for growth-driving investments in the existing portfolio.
2. Attractive partner	Pandox's knowledge, capital and broad market presence make the Company an attractive partner for hotel operators and hotel brands to work with.
3. Unique portfolio	Pandox's hotel property portfolio has been built up over a long period supported by significant financial and knowledge capital, and is difficult to replicate; in many cases the hotel properties are in unique locations that would not be available other than through acquisitions.
4. Balanced risk	Pandox has a well-diversified portfolio in terms of geography, demand segments and hotel brands; the hotel properties are large and are in good locations with broad demand, which provides good diversification and stability over the hotel business cycle.
	Pandox's capacity to operate hotels itself reduces business risk and creates business opportunities.
5. Good value growth	Cash earnings per share up by around 50 percent since 2015.
	EPRA NAV per share up by around 52 percent since 2015. Growth in EPRA NAV has also been around 18 percent per year in average since 1996[1].
	The dividend per share has increased by around 24 percent since 2015 with a dividend yield of 2.7 to 3.2 percent over the same period.

[1] Growth in EPRA NAV, with dividend returned and issue proceeds deducted.

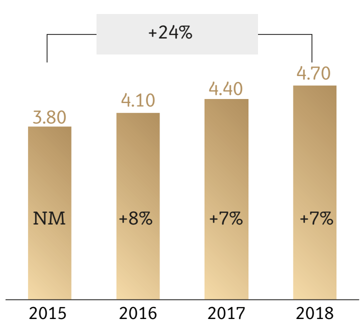
GROWTH IN CASH EARNINGS
SEK per share



GROWTH IN EPRA NAV
SEK per share



DIVIDEND
SEK per share



The shares and ownership structure

Pandox's class B shares have been listed on Nasdaq Stockholm's large cap list since 2015 under the ticker PNDX B. The class B shares are also traded on several alternative marketplaces. This is the second time that the Company has been listed. The first time was from 1997 to 2004.

SHARE PRICE DEVELOPMENT AND MARKET CAPITALISATION

On 31 December 2018 the last price paid for the class B shares was SEK 146.60 (158.50) and the visible market cap was MSEK 13,560 (14,661). With the unlisted class A shares included at the same price as the class B shares, the market cap was MSEK 24,555 (26,549).

In 2018 the value of the Pandox share decreased by –8 (12) percent, compared with the OMX Stockholm Benchmark PI Index which fell by –8 (7) percent and OMX Stockholm Real Estate PI Index which rose by 10 (7) percent. With the dividend of SEK 4.40 returned, the Pandox share fell in value by –5 percent in 2018.

Calculated from the date of the listing on 18 June 2015, the value of Pandox shares at the beginning of 2018 had increased by 38 percent compared to 54 percent for the OMX Stockholm Real Estate PI Index and –2 percent for the OMX Stockholm Benchmark PI Index. The total return on Pandox shares over the same period was 49 percent.

TRADING AND LIQUIDITY

Trading on Nasdaq Stockholm accounted for 59 (61) percent of all trading in Pandox shares in 2018. Ongoing trading transacted directly on the stock exchange amounted to around 42 (38) percent and off-exchange trades reported on the stock exchange to around 27 (45) percent. Trading in other marketplaces amounted to around 31 (18) percent of the trading volume.

During the year around 30 (34) million class B shares were traded, corresponding to 33 (37) percent of outstanding class B shares, for a value of just over MSEK 4.6 (5.1). Average daily trading during the year amounted to 120,161 (135,226) shares, corresponding to around MSEK 18 (20) in value.

OWNERSHIP STRUCTURE AND NUMBER OF SHARES

As of 31 December 2018 Pandox had 3,898 (3,785) shareholders. Pandox's largest shareholders were Eiendomsspar Sverige AB, Christian Sundt AB and Helene Sundt AB. Other major shareholders were, in descending order, AMF Försäkring och Fonder, Swedbank Robur Fonder and Alecta Pensionsförsäkring.

The total number of shares is 167,499,499 of which 75,000,000 are class A shares and 92,499,999 class B shares. Class A shares entitle the holder to three votes and class B shares entitle the holder to one vote.

SIZE OF SHAREHOLDINGS AS OF 31 DECEMBER 2018

Holding	Number of shareholders	% of capital	% of votes
1–500	3,275	0.2	0.1
501–1,000	179	0.1	0.0
1,001–5,000	200	0.3	0.2
5,001–10,000	54	0.2	0.1
10,001–15,000	26	0.2	0.1
15,001–20,000	17	0.2	0.1
20,001–	147	98.8	99.4
Total	3,898	100	100

Source: Euroclear Sweden as of 31 December 2018.

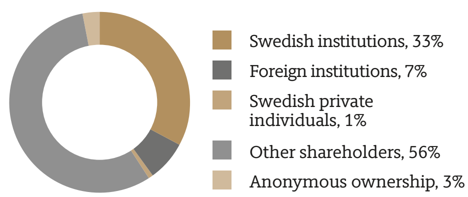
LARGEST SHAREHOLDERS AS OF 31 DECEMBER 2018

The 15 largest registered shareholders according to percentage of voting rights:

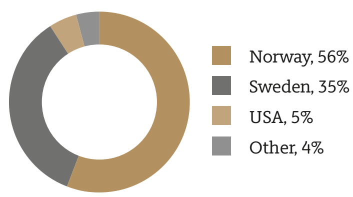
Shareholder	Number of class A shares	Number of class B shares	% of capital	% of votes
Eiendomsspar Sverige	37,314,375	8,964,375	27.6	38.1
Christian Sundt AB	18,657,187	4,042,188	13.6	18.9
Helene Sundt AB	18,657,188	4,042,187	13.6	18.9
AMF Försäkring & Fonder		19,262,280	11.5	6.1
Swedbank Robur Fonder		9,758,164	5.8	3.1
Alecta Pensionsförsäkring		6,347,577	3.8	2.0
Länsförsäkringar Fonder		4,364,534	2.6	1.4
Handelsbanken Fonder		2,778,637	1.7	0.9
Fjärde AP-fonden		2,734,970	1.6	0.9
Lannebo Fonder		2,494,651	1.5	0.8
Vanguard		2,102,870	1.3	0.7
Norges Bank		2,092,176	1.2	0.7
BlackRock		1,978,551	1.2	0.6
AFA Försäkring		930,340	0.6	0.3
Catella Fonder		927,826	0.6	0.3
Total 15 shareholders	*74,628,750*	*72,821,326*	*88.0*	*93.5*
Other shareholders	*371,250*	*19,678,673*	*12.0*	*6.5*
Total	75,000,000	92,499,999	100	100

Information compiled by Monitor as of 31 December 2018.
Sources: Euroclear Sweden, Morningstar, Swedish Financial Supervisory Authority, Nasdaq and Millistream.

Shareholders by category
as percentage of capital, 31 December 2018



Shareholders by country
as percentage of capital, 31 December 2018



Source: Information compiled by Monitor as of 31 December 2018. Sources: Euroclear Sweden, Morningstar, Swedish Financial Supervisory Authority, Nasdaq and Millistream.

SHARE CAPITAL HISTORY

Year	Event	Change in number of shares B	Change in number of shares A	Number of shares after the transaction B	Number of shares after the transaction A	Number of shares after the transaction Total	Share capital, SEK Change	Share capital, SEK Total
1994	Formation	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	4:1 split	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
2016	New share issue	7,499,999	—	82,499,999	75,000,000	157,499,999	18,749,998	393,749,998
2017	New share issue	10,000,000	—	92,499,999	75,000,000	167,499,999	25,000,000	418,749,998

Source: Euroclear, Pandox

Key ratios	2018	2017	2016	2015	2014
Key ratios per share, after dilution effects [1) 2)]					
Total net operating income, SEK	18.25	15.05	12.87	11.31	10.04
Profit for the year, SEK	16.83	19.89	14.65	14.21	8.35
Cash earnings, SEK [5)]	11.26	10.46	8.49	7.53	5.82
Equity, SEK [5)]	127.63	119.38	95.75	80.61	69.35
Net asset value (EPRA NAV), SEK	164.04	144.54	126.24	107.71	92.11
Dividend, SEK [3)]	4.70	4.40	4.10	3.80	1.00
Market cap and return					
Market cap, MSEK	24,555	26,549	22,240	23,385	—
Return, Pandox shares, % [4)]	–7.5	12.1	–9.3	47.1	—
Return, OMX Stockholm Benchmark Index, % [4)]	–8.3	6.6	5.0	–4.3	—
Return, OMX Stockholm Real Estate Index, % [4)]	9.7	6.7	8.2	21.4	—
Dividend pay-out ratio of cash earnings, %	41.6	44.4	50.1	50.5	—
Dividend pay-out ratio of EPRA NAV, %	2.9	3.0	3.2	3.5	—
Dividend yield, %	3.2	2.8	2.9	2.4	—
Share data					
Closing price, class B shares, SEK	146.60	158.50	141.40	155.90	—
Highest price during the year, SEK	170.00	161.70	158.30	158.70	—
Lowest price during the year, SEK	135.00	134.30	121.50	106.20	—
Average price during the year, SEK	151.73	147.87	139.02	121.06	—
Average daily trading volume, number of class B shares [4)]	120,121	135,226	167,589	362,044	—
Weighted average number of class A shares, before dilution effects, thousands [1)]	75,000	75,000	75,000	75,000	—
Weighted average number of class A shares, after dilution effects, thousands [1)]	75,000	75,000	75,000	75,000	—
Number of class A shares at end of period, thousands [1)]	75,000	75,000	75,000	75,000	—
Weighted average number of class B shares, before dilution effects, thousands [1)]	92,499	82,856	75,266	75,000	150,000
Weighted average number of class B shares, after dilution effects, thousands [1)]	92,499	82,856	75,266	75,000	150,000
Number of class B shares at end of period, thousands [1)]	92,499	92,499	82,499	75,000	150,000
Weighted average number of shares, total, after dilution effects, thousands [1)]	167,499	157,856	150,266	150,000	150,000
Total number of shares at end of period, thousands [1)]	167,499	167,499	157,499	150,000	150,000

1) For the period 2014–2015 retrospectively adjusted for share split in May 2015 for comparability when calculating key ratios.
2) For definitions of key ratios, see page 166.
3) For 2018 the Board's proposed dividend is stated.
4) For 2015 measured from first day of listing, 18 June 2015.
5) Attributable to the shareholders of the Parent Company.

Financial targets and performance

DIVIDEND AND CAPITAL STRUCTURE TARGETS

Pandox has a dividend target and a capital structure target. Pandox is aiming for a dividend pay-out ratio of 40–60 percent of cash earnings[1], with an average dividend pay-out ratio over time of around 50 percent. Future dividend pay-out and the size of such dividends depend mainly on Pandox's future performance, financial position, cash flows, working capital requirement and investment plans. As far as the capital structure is concerned, Pandox is aiming for a loan-to-value ratio[2] of 45–60 percent, depending on market development and current opportunities.

PROPOSED DIVIDEND

At the 2019 Annual General Meeting the Board of Directors will propose a dividend totalling MSEK 787 (737) for the 2018 financial year, which corresponds to SEK 4.70 (4.40) per share. The dividend is equivalent to 42 (44) percent of total cash earnings, which is at the lower end of Pandox's financial target range. The lower dividend pay-out ratio compared with the previous year should be seen in the context of attractive acquisition and investment opportunities.

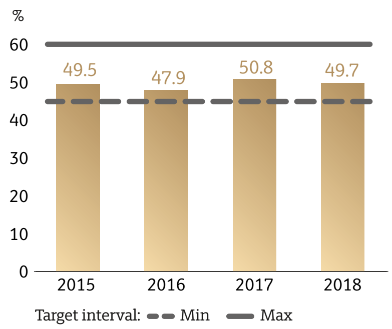
FINANCIAL PERFORMANCE IN RELATION TO TARGETS

For 2018 the dividend pay-out ratio was 42 (44) percent of total cash earnings. At year-end 2018 the loan-to-value ratio was 49.7 (50.8) percent. Both the dividend and capital structure targets have been well within the target range in the period 2015–2018.

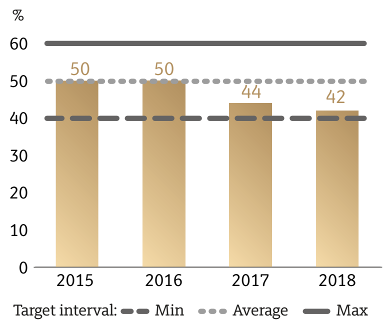
1) Defined as EBITDA plus financial income minus financial expense minus current tax.
2) Defined as interest-bearing liabilities less cash and cash equivalents in relation to the market value of the properties at the end of the period.

Performance in relation to Pandox's financial goals

LOAN-TO-VALUE RATIO net, %



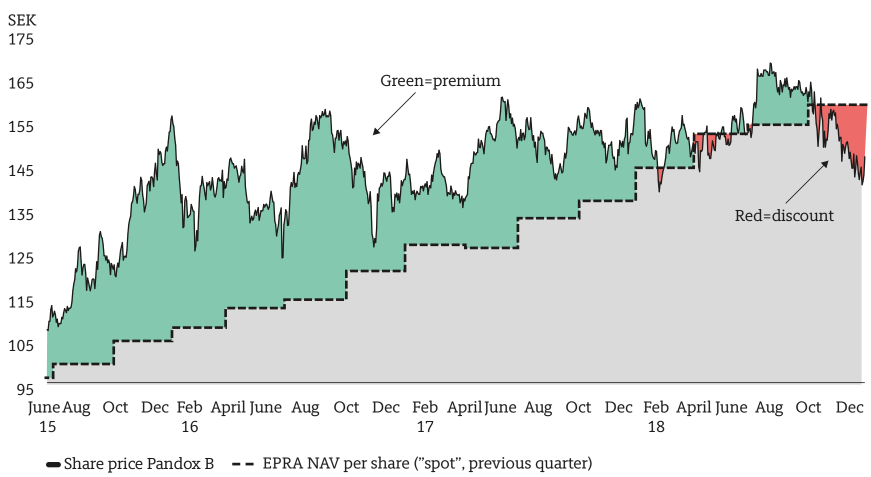
DIVIDEND PAY-OUT RATIO of cash earnings, %



COMMERCIAL PAPER PROGRAMME

Pandox has established a Swedish commercial paper programme with a framework amount of MSEK 3,000. The tenor of issued commercial papers will be between three months and one year. The purpose of the programme is to reduce the financing costs and also to diversify the Company's financing structure. The issued commercial papers will be backed up in full by long-term, unutilised credit facilities. The programme is arranged by SEB with DNB, Handelsbanken, Nordea and SEB as issuing institutions. At year-end 2018 the outstanding issued amount was MSEK 1,250.

SHARE PRICE AND EPRA NAV PER SHARE



Focus on net asset value

The valuation of a property company is normally based on its net asset value, which in simple terms is the difference between the value of the property portfolio and net debt. In most property companies there are also derivatives, tax assets and tax liabilities that affect the net asset value. ▶ *See page 166 for a definition of Pandox's net asset value according to EPRA NAV.* A premium is when market cap is higher than the net asset value and a discount is when market cap is lower than the net asset value.

Common questions to Pandox during the year

1 What is driving growth in the hotel market?

In simple terms, growth in the hotel market is a function of economic growth which increases demand from both the business and the leisure segments. In addition, there is a long-term positive trend in the global travel market whereby new travellers from countries with a rapidly growing middle class, such as China, are being added. However, the majority of the travel in Pandox's markets is regional and domestic in 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.

2 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 an active strategy in which the Company moves throughout the value chain and takes the position that is best for the Company and its shareholders in each individual case. When the conditions are not in place for a profitable lease relationship in properties that Pandox owns, the Company can choose to operate the hotel itself. This secures the hotel property's value and development potential, which minimises risk. The goal is then to create the right conditions for entering into a new long-term lease at good profitability.

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

Pandox's leases are mainly linked to the hotel's revenue and generally contain a minimum guaranteed rent clause. This makes it possible to achieve increased income in an improved market while also having downside protection in a weaker market. The lease agreements have long terms and Pandox's weighted average unexpired lease term (WAULT) at year-end was 15.7 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 geographically, in terms of brands and by customer segment, and a high quality hotel property portfolio Pandox is laying the foundations for a good risk-adjusted return over time.

5 How does an increased supply of new hotel rooms affect Pandox?

All other things being equal, an increased supply of hotel rooms normally results in a fall in occupancy since the demand is spread across more rooms. At a global level the planned expansion of supply in the hotel market is relatively low. The main markets with significant expansion of supply where Pandox is active are Copenhagen, where new capacity equivalent to around 12 percent is expected to be added in 2019–2020, and to a certain extent Oslo, where capacity is expected to increase by around 8 percent over the same period.

6 How does Brexit affect Pandox?

As a consequence of the market turbulence that has been caused by Brexit, Pandox has been able to acquire 24 hotel properties in the UK and Ireland in the past two years. The regional hotel market in these countries, which accounts for most of Pandox's exposure, has developed well over this period. What the final effects of Brexit will be depends, of course, on which solution the UK chooses – which is not yet known.

ANALYSTS WHO FOLLOW PANDOX

ABG Sundal Collier
Tobias Kaj
Philip Hallberg

Carnegie
Fredrik Cyon
Erik Granström

Nordea
Niclas Höglund

SEB
Stefan E Andersson
Svante Krokfors

Morgan Stanley
Christopher Fremantle

Kepler Chevreux
Albin Sandberg

Handelsbanken
Johan Edberg
David Eriksson Flemmich

DNB
Simen Mortensen
Mattias Montgomery

ANNUAL GENERAL MEETING

The Annual General Meeting of Pandox AB will take place at 10.00 CEST on Wednesday, 10 April 2019 at Hilton Stockholm Slussen, Guldgränd 8, 104 65 Stockholm. For more information and to register to attend, please visit Pandox's website www.pandox.se

Annual General Meeting calendar and dividend

Record date for the Annual General Meeting	4 April 2019
Annual General Meeting	10 April 2019
Share traded without dividend entitlement	11 April 2019
Record date for dividend	12 April 2019
Payment of dividend	17 April 2019

FINANCIAL CALENDAR

Interim Report January–March 2019	26 April 2019
Interim Report April–June 2019	12 July 2019
Interim Report July–September 2019	24 October 2019
Year-End Report 2019	12 February 2020

CONTACT INFORMATION

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Next stop International cities

International cities are large and dynamic destinations with a higher percentage of international demand than domestic demand in all segments. The cities benefit from a diverse business sector, a rich cultural offering and many tourist attractions and events.

Pandox facts

Number of hotels	Number of rooms	Share of rooms (total)
17	5,737	18%

Characteristics

Established international destinations with a diverse business sector, a rich cultural offering and an attractive leisure profile. People in international cities are often heavily influenced by what happens in the big megacities and this creates opportunities for developing new hotel concepts.

Demand

International cities are large and dynamic destinations with a higher percentage of international demand than domestic demand in all segments. International cities are:

- Hubs for international travel
- Markets with high purchasing power
- Attractive destinations for all segments

Examples of cities

Examples of international cities in Pandox's hotel property portfolio are London (which is also a megacity, Amsterdam, Montreal, Brussels, Berlin, Vienna and Dublin.

InterContinental, Montreal

Read more about

The business

Overview
page 42

Property Management
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Operator Activities
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Pepper talks about working at Pandox
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The business
A property company specialising in hotels

An active hotel property owner

Pandox is an active hotel property owner with a flexible business model based on long revenue-based leases with the best operators in the market. If the conditions are not in place for a profitable lease, Pandox may also run the hotel operations itself. Pandox's ability to move throughout the hotel value chain creates new business opportunities while also minimising risk.

Property Management

128

Leased properties

Pandox's core business involves owning and leasing hotel properties to the best operators in the market.

MSEK 47,139

85% of total market value

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

5.51%

Valuation yield

The market value of investment properties is assessed on an ongoing basis according to IFRS.

Operator Activities

16

Properties with own operations

If the conditions for profitable leases are not in place, Pandox may choose to operate hotels itself and thereby secure the hotel property's value and development.

MSEK 8,058

15% of total market value

A portion of the hotel property portfolio consists of properties in which Pandox runs the hotel operations itself.

6.74%

Valuation yield

The market value of operating properties is assessed on an ongoing basis, reported for information purposes only and is included in EPRA NAV.

Pandox total

144

Hotel properties

Pandox's hotel property portfolio consists of 144 properties with an average size of 224 rooms.

MSEK 55,197

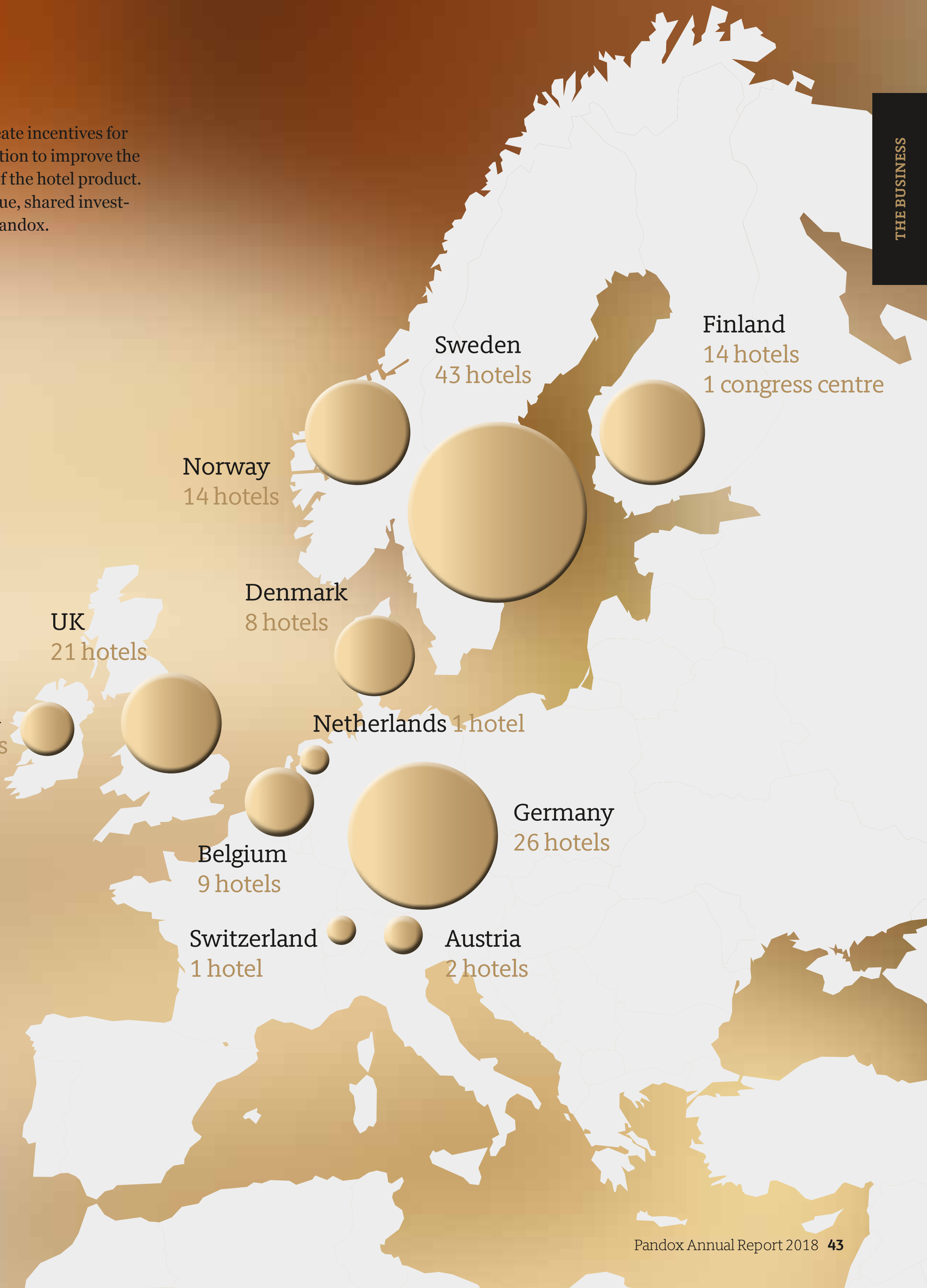
Total market value

In 2018 the market value of the total hotel property portfolio increased by 10 percent.

At the end of 2018 Pandox's hotel property portfolio consisted of 144 hotels with a total of 32,268 rooms in 15 countries

Joint incentives

Revenue-based leases create incentives for hotel operators to take action to improve the quality and profitability of the hotel product. This leads to stable revenue, shared investment and lower risk for Pandox.



Property Management
Strong growth and profitability

For 2018 Property Management reported net operating income growth of 34 percent, driven by acqusitions in a stable hotel market. For comparable units the increase was 1 percent, adjusted for currency effects.

Net operating income

+34%

At the end of 2018 Pandox's Property Management segment consisted of 128 (126) investment properties with 27,309 (26,386) hotel rooms in 14 (14) countries with submarkets within then, and constituted around 85 (85) percent of the hotel properties' total market value. In 2018 total property revenue for Property Management amounted to MSEK 2,971 (2,202) and net operating income to MSEK 2,517 (1,882). During the year one hotel (The Midland Manchester) was acquired in the UK and one hotel (Scandic Ferrum) was divested in Sweden. Two hotels (NH Hotel Brussels Bloom, NH Hotel Brussels Berlaymont) were reclassified to Property Management in the first quarter after the signing of new revenue-based leases with NH Hotel Group.

Property Management is a key component of Pandox's operations and is based on long revenue-based leases with good guaranteed rent levels and stable earnings. The hotel properties are leased to tenants who run the hotels under various brands. The Nordic countries account for 55 (70) percent and Sweden for 31 (40) percent of the segment's revenue. ▶ *For more information on types of agreements and market conditions, see pages 24–25 and the section on Pandox's markets.*

WELL-KNOWN, STRONG TENANTS

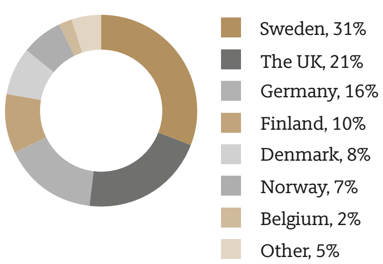
Pandox's tenant base consists of highly reputable hotel operators with strong hotel brands. Tenants include regional operators such as Scandic Hotels Group (the largest hotel operator in the Nordics), Fattal (Leonardo, Jurys Inn), Nordic Choice Hotels and Meininger, as well as global operators such as Hilton, Rezidor (Radisson Blu) and NH Hotels Group.

LEASES WITH THE RIGHT INCENTIVES

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

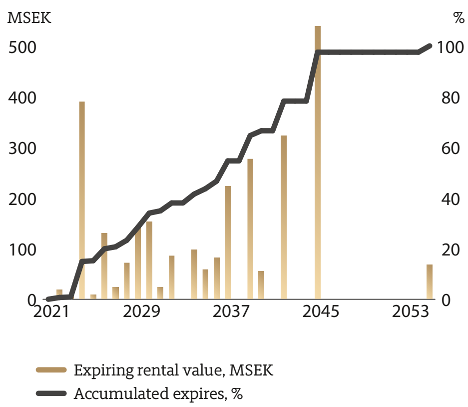
With revenue-based leases the property owner and operator have a joint incentive to develop the hotel product and thereby improve the potential for profitable growth.

Rental income by country 2018, %



Percentage breakdown of rental income by country in 2018 for Property Management.

Lease maturity profile 31 December 2018



A certain portion of Pandox's rental income consists of the hotel's revenue. The rents are often variable, but the agreements also often have a minimum rent level. This provides an upside in good times and protection in not-so-good times.

Tenants by brand 31 December 2018

Tenant	No. of hotels	No. of rooms
Scandic	51	11,002
Jurys Inn[1)]	20	4,410
Leonardo[1)]	18	3,547
Nordic Choice Hotels[2)]	11	1,800
Radisson Blu	5	1,361
NH	7	1,681
Hilton	4	1,115
Elite Hotels	2	484
First Hotels	2	403
MEININGER	1	228
Best Western	1	103
Independent	6	1,175
Total	128	27,309

1) Fattal Hotels Group is the tenant but runs hotels under the Jurys Inn and Leonardo brands.
2) Nordic Choice Hotels' brands include: Comfort Hotel, Quality Hotel, Quality Hotel & Resort, Clarion Hotel and Clarion Collection.

Brands in Property Management 31 December 2018

A revenue-based lease provides incentives for property owners and tenants to jointly create a profitable hotel product.

Pandox works with its tenants to identify suitable cash flow-driving investments in the property portfolio. Joint investment projects normally involve an extension of the lease term and an adjustment of the percentage rent. New or renegotiated hotel leases usually have a term of 10–25 years. On 31 December 2018 Pandox's lease portfolio had a weighted average unexpired lease term (WAULT) of 15.7 (15.6) years.

SHARED INVESTMENTS REDUCE RISK
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. The division of responsibility between the parties is regulated in a so-called checklist.

Hotel tenants are normally responsible for maintenance of hotel rooms, restaurants, lobbies, other public areas and furniture, fixtures and equipment. The property owner is typically responsible for technical investments and installations in the property, technical maintenance and usually for bathrooms as well.

Investments raise the standard of the hotel and make it more competitive, which means greater profitability for the operator and thereby higher revenue-based rent for Pandox. The long lease terms combined with the tenant's responsibility for maintenance and cash flow-driving investments mean that Pandox, as the hotel property owner, has a lower economic responsibility for investments compared to an owner of a typical office building. Pandox estimates that hotel tenants contribute more than 50 percent of total investments over time.

RECLASSIFICATIONS AND ACQUISITIONS IN 2018
NH Hotel Brussels Bloom and NH Hotel Brussels Berlaymont were reclassified to Property Management in the first quarter after the signing of new revenue-based leases with NH Hotel Group. In addition, The Midland Manchester in the UK (England) with 312 rooms was acquired in the fourth quarter.

ASSET MANAGEMENT PROVIDES VALUABLE KNOWLEDGE
Pandox Asset Management is a minor part of the Property Management business segment and manages hotel properties 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 improve Pandox's ability to monitor developments in the industry and the market. The current portfolio consists of nine hotels with a total of 1,795 hotel rooms in Oslo plus the hotel property Pelican Bay Lucaya Resort on Grand Bahama Island, 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.

Operator Activities
Sustained strong progress in Brussels

For 2018 Operator Activities reported net operating income growth of 9 percent, supported by sustained strong growth in Brussels. For comparable units the increase was 11 percent, adjusted for currency effects.

Net operating income

+9%

At the end of 2018 Pandox's Operator Activities segment consisted of 16 (17) operating properties with a combined 4,959 (5,227) hotel rooms in 6 (5) countries, and accounted for around 15 (15) percent of the hotel properties' total market value. In 2018 revenue for Operator Activities amounted to MSEK 2,153 (2,067) and net operating income to MSEK 540 (494).

ACTIVE OWNERSHIP REDUCES RISK

Operator Activities business is an important part 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 flexibility. Pandox may choose to operate the hotels it owns itself if it is not possible to enter into a lease on attractive terms, thereby balancing 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 at the time to lease to third parties. The goal is to sign new leases at commercially attractive levels. Pandox's deep knowledge of hotel operation also makes it possible to efficiently monitor tenant performance throughout the portfolio. Operational know-how also creates opportunities to carry out acquisitions of mixed portfolios that include both hotel properties and hotel operations. ▶ *For more information on Pandox's strategy and business model, see pages 10–15.*

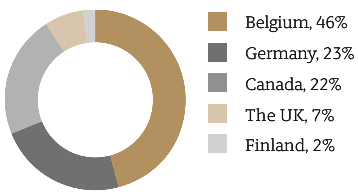

Hotell Hubert Grand Place Brussels

FULL OPERATING EXPOSURE

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, food and beverage revenue, conference room revenue and the hotels' other revenue streams. The single largest cost item is employee costs, such as for reception, housekeeping and restaurant staff. Other cost items include consumables and other hotel-related costs. Pandox works actively to develop revenue and distribution strategies for every hotel. The combination of good revenue forecasts and sound resource planning creates potential for high productivity and good profitability.

When the lease for Scandic Grand Place was not extended, the hotel property was reclassified to Operator Activities. The hotel underwent an extensive renovation and opened again in September 2018 under the independent brand Hotel Hubert Grand Place.

Operator Activities' revenue by country 2018



Percentage breakdown of revenue by country in 2018 for Operator Activities.

EXTERNAL AND OWN BRANDS
Pandox markets the hotels in the Operator Activities segment either under internationally known hotel brands, such as Radisson Blu, Hilton or Holiday Inn, or under its own independent hotel brands adapted for specific market conditions. On 31 December 2018 nine hotel properties were being operated within Operator Activities through franchise agreements – four through independent brands that are owned by Pandox and the remaining three through management agreements.

LEASING AND ACQUISITIONS IN 2018
NH Hotel Brussels Bloom and NH Hotel Brussels Berlaymont were reclassified to Property Management in the first quarter after the signing of new revenue-based leases with NH Hotel Group. With the leases in Brussels Pandox broke new ground in a market that has historically been dominated by franchise and management contracts. In addition, Radisson Blu Glasgow in the UK (Scotland) with 247 rooms was acquired in the fourth quarter.

Brands in the Operator Activities segment
31 December 2018

Radisson BLU
Hotel Berlin, Berlin
Hotel Hubert Grand Place
Crowne Plaza Hotels & Resorts
Hilton Garden Inn
InterContinental
Holiday Inn
DoubleTree by Hilton
The Hotel. Brussels
Hilton

Pandox operates hotels in some of the hotel properties the Company owns. Operating a hotel may be appropriate if the conditions are not in place for a profitable lease, for example when a hotel needs a major renovation and is given a new market position.


The Hotel Brussels

Working at Pandox:

“Everyone is sniffing after next business opportunity”

Pandox’s corporate dog Pepper is one of the Company’s most valuable advisors. No one is better at getting a sense of what it’s like to work at Pandox than Pepper.

You talk a lot about the Pandox spirit and a winning culture. What do you mean?
“It’s the will to win. You could say that we’re aiming for a positive winning culture to give us the right focus. We want to minimise the risk of making mistakes, but when mistakes happen – which of course they do sometimes – it’s important to support the employees and allow them to learn from them and move forward. Everyone at Pandox needs to feel that they can develop, so that they have the power and pace to take on new responsibilities to create the greatest possible value for Pandox and the Company’s stakeholders.”

Many people say there’s something special about working at Pandox. What is it that’s so special?
“Everyone I run into here is constantly sniffing after the next business opportunity and they’re always trying to do things a little better. We work hard, but we celebrate success and have a really good time together. People are therefore motivated to do a good job. My master usually says that for Pandox people the worst day of the week is Saturday, because they have the whole weekend ahead of them before it’s Monday.”

There seems to be a lot of interest in handball. Is that a requirement for working at Pandox?
“Not exactly. I suppose you’re thinking about my master. I would put it like this: It’s not a requirement, but it doesn’t hurt.”

But why handball in particular?
“We have a strong history of an attachment to handball. We share the same values as in handball and we like to compare ourselves to a handball team. It’s one of the world’s toughest sports – high on intensity and excitement, while also being an equal opportunity sport with just as many women playing it as men. Add to this individual freedom, mutual respect, trust, cooperation, creativity, passion and integrity, and you have what we call Pandox Fair Play.”

How good are you yourself at this noble sport?
“Decent. I never let Nissen cross the line at least.”

Pandox has grown substantially over the past few years. Now almost 50 percent of your operations are further south in Europe. How is your particular corporate culture received in countries outside the Nordic region?
“I think the informal style that we ourselves appreciate goes down well in countries like Germany and the UK. People simply feel more relaxed when the atmosphere isn’t authoritarian or hierarchical, as it perhaps often is further south on this continent. But I also think everyone can see that we know our stuff and we’re professionals, and that we’re always trying to create value. People respect that.”

One final question: Aren’t you a little overconfident?
“No, I don’t think so. Yes, we know we’re good, and we’re proud of it, but we also like to constantly encourage each other to do even better.”

Read more about

Sustainability

A few words from the CEO
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Materiality analysis
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Sustainability risk
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Pandox Fair Play
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Pandox's seven sustainability focus areas
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Fair Play 2.0

In 2018 Pandox intensified its focus on sustainability. Several new strategic initiatives were taken and sustainability became well established as a focus area for the Company's executive management team and Board. In 2019 Pandox is entering the next phase of its journey towards the goal of commercially integrating sustainability as a natural element in the business model.

We are in a very exciting phase in terms of sustainability. The climate is of particular significance, requiring concerted action in society, and Pandox also wants to take a greater responsibility here. For Pandox this above all means placing greater emphasis on more sustainable resource consumption within the Company's properties.

In 2018 we appointed a Director of Sustainable Business to advance our position in sustainability and to make it a natural element of the Company's agenda. During the year we conducted a thorough review of our sustainability work, resulting in an updated sustainability strategy. Pandox is focusing on the long-term integration of sustainability into the business model without compromising the guest experience. The strategy has the full support of the Board and the executive management team, and resources have been allocated in order to implement it. During the year we also updated our materiality analysis to ensure that we are putting our energy into the areas that Pandox's stakeholders consider to be the most important and where we have the best potential to make a difference. In order to be able to monitor, analyse and validate complex sustainability data in Pandox's operations, the Company has implemented a new sustainability system. Over time, the system will enable us to evaluate and set priorities among various environmental investments, and to spread knowledge and best practice throughout Pandox's portfolio.

In 2018 we reached several of our goals, such as a 50 percent increase in the share of renewable energy used at the hotels in the business segment Operator Activities. We have also established new quantitative and qualitative goals for our prioritised focus areas during the year. Moreover, identified ways to link our own goals to the UN Sustainable Development Goals, allowing us to work on sustainable development in a broader context.

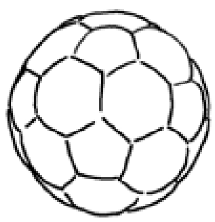
In the past the focus was mainly on the business segment Operator Activities; now we are changing our strategy to also include the business segment Property Management in our sustainability work in a more proactive and structured way. Pandox has therefore initiated dilogue with one of our largest business partners to discuss potential new green leases in which we share the return on environmentally profitable investments. We have also taken the strategic decision to certify selected properties according to the BREEAM standard to complement existing certification for hotel operations. This process will be initiated and evaluated in 2019.

Our social responsibility goes hand in hand with Pandox's values. Most of our employees are fostered by the hotel industry, where engagement in the local community is a given. In 2018 we started a project in cooperation with Enbackaskolan in Tensta through Hand the Ball. The purpose of the project is to encourage upper secondary school students to take part in physical exercise and team sports. The project is also inspiring and informing the students about job opportunities in the hotel industry, and providing internships. Our business partner Scandic Hotels Group is working closely with Pandox on this project.

In summary, 2019 was a year of learning and evaluation of our various sustainability initiatives. We are particularly curious to see the outcome of the pilot project to certify the hotel properties. Another important step will be to complete the implementation and monitoring of Pandox's Code of Conduct for our business partners. Follow us on our journey when we now are gearing up to commercially integrate sustainability into Pandox's business model!

Anders Nissen,
CEO Pandox AB

"During the year we conducted a thorough review of our sustainability work, resulting in an updated sustainability strategy."



ABOUT THE REPORT

Pandox's annual Sustainability Report includes pages 49–68 and describes the Company's seven focus areas. The report was prepared in accordance with GRI Standards: Core level, and the sustainability requirements in the Swedish Annual Accounts Act, Chapter 6. This means that Pandox has conducted a stakeholder dialogue and carried out a materiality analysis in order to obtain a complete picture of the sustainability topics of significance to the business. The Sustainability Report is for the period 1 January –31 December 2018.

The report encompasses all of Pandox's operations. The data includes Pandox's business segment Operator Activities and the head office in Stockholm, as well as tenants in Scope 3. The hotels reclassified from business segment Operator Activities to business segment Property Management are included in the environmental data up to the date of reclassification. Hotel BLOOM! and Hotel Berlaymont were reclassified on 1 February 2018 and are not included. Scope 3 as described in the chapter "Green growth" includes 48 percent of the total of 128 hotels within business segment Property Management. The base year for environmental data is 2016.

Employee data is reported in full-time equivalents (FTE) as of 31 December 2018. As a number of key indicators have been added in the HR area as a result of Pandox's updated materiality analysis, the new base year is 2018. The hotels and Pandox's head office have registered environmental data and social data in a sustainability system based on information from measurement systems, invoices and the Company's own HR systems. The information in this report has not been externally audited.

CONTACT INFORMATION

If you have any questions about the content of the Sustainability report, feel free to contact our Director of Sustainable Business, Caroline Tivéus: caroline.tiveus@pandox.se

Materiality analysis

Pandox's sustainability strategy is based on commercially integrating sustainability into the business model, laying the foundation for sustainable growth. The strategy takes into consideration the requirements and expectations of the Company's stakeholders.

In 2018 Pandox updated its materiality analysis to ensure that the sustainability topics that are the most important for the Company and its stakeholders are prioritised. Pandox's most important stakeholder groups were identified by determining the stakeholders' influence on and interest in Pandox's operations.

Through external benchmarks, status analysis and interviews with internal parties, Pandox identified a list of relevant sustainability topics from a value-chain perspective. These sustainability topics were then analysed based on the positive and negative impact they have on Pandox's business from an environmental, social and economic perspective.

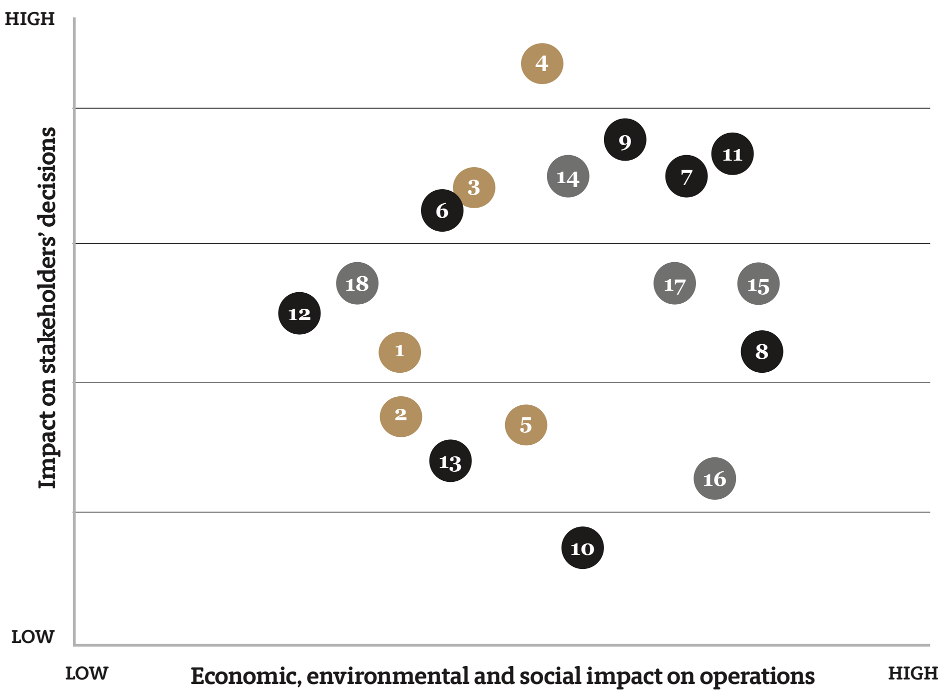
In order to subsequently define, select and prioritise the most significant sustainability topics, Pandox carried out online surveys and interviews with the Company's most important stakeholder groups.

The results from the stakeholders dialogues were discussed and validated at a workshop with senior executives. The sustainability topics that were finally established as most important are summarised in the following seven focus areas:

- Green properties
- Green operations
- Sustainable supply chains
- Responsible business
- Attractive workplace
- Guest experience
- Contribution to local communities

▶ *Read more about our work in each focus area in the relevant section.*

Materiality analysis



SUSTAINABILITY TOPICS

Environment

1. Environmentally certified properties
2. Increase the use of sustainable materials
3. Reuse and recycle materials, and minimise waste
4. Reduce energy consumption and CO_2e emissions
5. Reduce water consumption

Social

6. Training and career development for employees
7. Diversity, equal opportunities and non-discrimination
8. Employee health and safety
9. Fair working conditions for employees
10. Freedom of association and the right to collective bargaining
11. Hotel safety
12. Local community engagement
13. Proactive efforts to prevent trafficking and prostitution at hotels

Governance

14. Board of Directors and executive management team are committed to sustainability
15. Ensure customer privacy and protect customer data
16. Proactive work against corruption
17. Sustainable supply chain management
18. Transparent sustainability reporting

RESULT OF STAKEHOLDER DIALOGUE

Stakeholder group	Dialogue format	Three most important sustainability topics
Guests	Survey	• Fair working conditions for employees • Reuse and recycle materials, and minimise waste • Reduce energy consumption and CO_2e emissions
Business partners	Survey/interview	• Reduce water consumption • Proactive efforts to prevent trafficking and prostitution at the hotels • Fair employment terms for employees
The community	Survey	• Environmentally certified properties • Diversity, equal opportunities and non-discrimination • Board of Directors and executive management team are committed to sustainability
Suppliers	Survey	• Reduce energy consumption and CO_2e emissions • Diversity, equal opportunities and non-discrimination • Hotel safety
Analysts	Interview	• Training and career development for employees • Fair working conditions for employees • Sustainable supply chain management
Investors	Survey	• Reduce energy consumption and CO_2e emissions • Ensure customer privacy and protect customer data • Transparent sustainability reporting
Shareholders	Survey	• Reuse and recycle materials, and minimise waste • Hotel safety • Fair working conditions for employees
Board of Directors	Survey	• Reduce energy consumption and CO_2e emissions • Diversity, equal opportunities and non-discrimination • Hotel safety
Hotel employees	Survey	• Reuse and recycle materials, and minimise waste • Fair working conditions for employees • Training and career development for employees
Hotel directors	Survey	• Training and career development for employees • Reuse and recycle materials, and minimise waste • Local community engagement
Office employees	Survey	• Reuse and recycle materials, and minimise waste • Hotel safety • Sustainable supply chain management
Executive management team	Survey	• Reduce energy consumption and CO_2e emissions • Board of Directors and executive management team are committed to sustainability • Hotel safety

Sustainability risk

Tomorrow's competitive advantages could come from well-managed sustainability risks. Pandox works continually and in a structured way to identify, evaluate and manage the Company's sustainability risks as part of the overall risk management process, see pages 94–98.

ENVIRONMENT

Through preventative measures and increased resource efficiency, Pandox is working to minimise its environmental risks. Within three years of being acquired or reclassified, all of the hotels within business segment Operator Activities are to have Green Key certification – unless they already have another environmental certification. Pandox has initiated a pilot project for BREEAM certification of selected properties within business segment Property Management. The Company has also initiated a dialogue with one of its largest business partners to achieve environmental improvements through green leases.

Although Pandox does not have operations in areas where there is a high risk of flooding or extreme weather, the Company is affected by climate change. Warmer weather and reduced precipitation could, for example, lead to low groundwater levels in the future, which could in turn result in a water shortage and higher water costs. There is also a risk of increased material and energy costs due to supply shortages resulting in higher prices. Climate change could also lead to changed travel patterns, both in terms of frequency and duration. Although less travel could pose a risk for Pandox, increased local travel could be an opportunity.

EMPLOYEES

One of Pandox's main risks is dissatisfied employees. In the hotel industry, the experience of every individual guest is very important and Pandox is therefore dependent on having satisfied and motivated employees. The ability to attract, develop and retain talent is critical for success, and the Company is always working actively to improve working conditions. Improvements include minimising the risk of workplace accidents and promoting employee health. Pandox regularly schedules performance and career development reviews to promote employee growth as well as Pandox's development as an employer.

CORRUPTION

The risk of corruption exists in areas such as sourcing of goods and services. To prevent this risk Pandox has produced guidelines that are set out in the Code of Conduct for Employees and in internal control routines. Anti-corruption is also covered in Pandox's Group-wide online training. The Company also has an external and independent whistleblower system for reporting on-compliance. It is open to both external parties and the Company's employees.

OCCUPATIONAL HEALTH AND SAFETY

There are also risks relating to hotel safety, such as fire and other accidents involving employees and guests. To ensure hotel safety Pandox complies with relevant laws and applies fire safety measures at all hotels. Emergency preparedness plans and safety policies are in place to prevent and limit accidents and incidents. Fire inspections and fire drills are conducted regularly at all hotel properties. Pandox's employees regularly undergo training in workplace safety, including aspects such as first aid.

HUMAN RIGHTS

Shortcomings in the supply chain may result in infringement of human rights or violation of other parts of Pandox's Code of Conduct for Business Partners. In 2019 Pandox will introduce a screening process to ensure that the Company's suppliers comply with the Code of Conduct for Business Partners. Relevant employees will undergo sustainable supply chain training.

Hotels are places where prostitution and various forms of human trafficking can occur. Relevant employees will receive training in how to prevent and detect any human trafficking and prostitution.

DATA SECURITY

Pandox understands the importance of protecting the guests' and employees' personal data and privacy. To protect the guests' personal data Pandox uses technical and organisational protective measures, such as firewalls and password-protected systems. To minimise the risk of a data breach, local training is provided at each hotel and through the mandatory Group-wide online training.

Pandox Fair Play

Just as in handball, Pandox's sustainability work is distinguished by high intensity, dedication and integrity. Success also requires teamwork and mutual respect. Pandox has therefore named its sustainability strategy Fair Play.

PANDOX'S VALUE CHAIN

Fair Play means that Pandox endeavours to take responsibility for the Company's impact throughout the value chain. Pandox's operations are divided into two business segments: Property Management and Operator Activities. Within Operator Activities Pandox is both a property owner and a hotel operator, and is therefore part of two different value chains. Within Property Management the sustainability topics are mainly related to the physical properties where Pandox has full responsibility. However, Pandox is less able to impact the way the tenants operate their hotels.

When Pandox both owns the property and operates the hotel the Company can work more actively with sustainability aspects in the hotel's day-to-day operations, but here too the Company's influence depends on the type of contract in place. In the operations run by Pandox under its own brands the Company has total responsibility and control over both the operations and the property. In franchise agreements Pandox shares both the responsibility and the risk with the franchisor. In management agreements the operator has to run the hotel according to its own hotel chain's stipulations, and accordingly Pandox has limited influence. Sustainability efforts within the business segment Operator Activities are therefore focused mainly on hotels operated under Pandox's own brands and hotels under franchise agreements. ▶ *For more information about our business partners and guests, see the sections "Sustainable supply chains" and "Guest experience".*

Pandox's value chain from a sustainability perspective

SUSTAINABILITY
The Board of Directors has overall responsibility for the strategic focus of sustainability efforts. The Board is involved in important investment decisions, and from 2019 relevant information will be reported back to the Board on a quarterly basis.

A Sustainability Committee consisting of representatives from the executive management team will address ongoing issues and decisions relating to sustainability work. The composition of the Committee will be adjusted as needed and based on what the situation requires. In 2018, for example, the Committee discussed the investment in a new data processing system, green leases and certification of properties.

The Director of Sustainable Business is responsible for sustainability work within the organisation and for supporting and ensuring that sustainability is integrated into day-to-day operations. The Director of Sustainable Business also makes preparations for Sustainability Committee decisions and reports the outcomes of sustainability efforts to the executive management team on an ongoing basis.

Responsibility for integrating sustainability into the Company's day-to-day operations rests with the person who has ultimate responsibility for the area that the work concerns. This person is also responsible for monitoring and reporting on progress to the Director of Sustainable Business.

GOVERNING DOCUMENTS
Pandox has a number of governing documents including the Code of Conduct for Employees, the Code of Conduct for Business Partners and the Environmental Policy. The Code of Conduct for Employees is based on the 10 principles in the UN Global Compact and provides the ethical guidelines for Pandox's operations.

Through Group-wide online training offered in several languages, Pandox ensures that all employees are familiar with the content of the Code of Conduct for Employees and the Environmental Policy. The online training programme is part of the workplace orientation for every new employee. If extensive updates are made, all employees are required to repeat the training.

Pandox's Environmental Policy describes the expectations Pandox has of the Company and its business partners with respect to environmental work. One important aspect is the Precautionary Principle, which involves proactively avoiding environmental risks within the organisation.

▶ *For more information on how Pandox handles various environmental issues, please see the sections "Green operations" and "Green properties" on pages 57–59.*

The Code of Conduct for Business Partners is also based on the 10 principles of the UN Global Compact.

▶ *For more information on how we work with our business partners, please see the section "Sustainable supply chains" on page 60.*

MONITORING
In 2018 a data processing system was installed to make it possible to gather, validate and analyse sustainability data as the Company grows and becomes more complex. Significant progress was made during the year on including the entire value chain in Pandox's sustainability focus. Over time, the system will also make it possible to evaluate and set priorities among various environmental investments, and to spread knowledge and good examples throughout the portfolio.

WHISTLEBLOWER SYSTEM
Pandox has an independent whistleblower system which is available to employees and external stakeholders. Any suspected non-compliance or deviations from Pandox's policies can be reported anonymously. The reporting function is provided by an external party in order to ensure objectivity. Reported incidents are handled by Pandox's General Counsel.

WORKSHOP IN VIENNA
In September Pandox assembled all of its hotel directors and chief engineers with some members of the executive management team for a one-day workshop in Vienna. The goal of the workshop was to involve the participants in the new sustainability strategy. During the workshop the participants discussed and identified possible actions to take at the hotels to achieve Pandox's sustainability goals. The proposed actions were then incorporated into the Group-wide action plan.

Green properties

Construction and infrastructure account for 39 percent of global carbon emissions and consume resources in the form of materials, energy and water[1]. Pandox aims to work proactively to reduce the Company's environmental impact and, in the long term, to be able to offer tenants green properties. Property investments with an emphasis on sustainability not only improve energy and resource efficiency, but also secure the long-term value of the property.

Green properties

The UN Sustainable Development Goals

Short-term goal
Reduce water consumption in the properties
Reduce energy consumption in the properties
Reduce CO_2e emissions in the properties
Implement a green lease pilot project together with a business partner
Provide safe properties

Examples of actions	
Make an inventory of energy and water consumption at each hotel	● Completed
Start a green lease pilot project	● Not started
BREEAM certification for selected properties	● Not started

● = Completed ● = Started not completed ● = Not started ● = Ongoing

GREEN PROPERTIES

Since properties account for most of Pandox's environmental impact, a pilot study was carried out at one of the hotels in northern Sweden in 2018. The purpose was to analyse and determine which sustainability certification is the most appropriate for Pandox's property portfolio. The analysis resulted in a decision to obtain BREEAM certification for five selected hotels, as this is the most established standard in Europe. The five hotels are at the centre of a pilot study that will proceed in 2019. The goal is to be able to evaluate and take a decision on wheter certification of the whole property portfolio according to the same standard is relevant or not. Pandox thesis is that certification will not only lead to more efficient resource use and reduced operating costs, but will also make the properties more attractive to tenants.

COOPERATION WITH STRONG BUSINESS PARTNERS

Since 2017 Pandox has worked with Scandic on a joint investment project called Shark 2. The purpose of the project is to upgrade 19 Scandic hotels in Sweden, Norway, Finland and Denmark and to reduce the hotels' environmental impact as part of the investment. One example from Sweden is bathroom renovation at Scandic Grand Örebro, Scandic St Jörgen in Malmö and Scandic Park in Stockholm. The renovation includes replacement of mixer taps and shower heads. This resulted in an average reduction in water consumption of 25 percent in 2018.

GREEN ROOFS

Elite Stora Hotellet in Jönköping has had a green roof for 10 years and Elite Park Avenue in Gothenburg for about a year. The purpose was to increase awareness on the importance of a circular mentality and sustainability. The roofs contribute to ecological diversity, energy savings and a more attractive view for the hotel's guests and neighbours. Park Avenue Amsterdam has also received co-funding from Booking.com to create a green roof.

GREEN LEASES

During the year Pandox invited one of its largest business partners to discuss the possibility of introducing green leases. The idea of the green leases is to jointly identify proactive solutions to reduce the environmental impact of the properties.

This is based on the insight that property owners and tenants are dependent on each other to achieve optimal outcomes in areas such as technical installations and maintenance. Under the green leases investment costs and cost savings are shared between Pandox and the business partner. This dialogue will continue in 2019 with the aim of launching a pilot project.

Water consumption per guest night*

! **179** l/guest night

*Pandox's tenants' water consumption/guest night.

Pandox's tenants' CO_2e emissions*

! **40,999** tCO_2e

*Pandox Scope 3 downstream leased assets. Pandox's tenants' emissions from energy consumption in their own operations.

[1] According to the Global Status report 2017, World Green Building Council

Green operations

Pandox is aiming to reduce its ecological footprint in the business segment Operator Activities while also growing the Company. Through automation and improvements to resource efficiency, as well as changes in behaviour, the necessary conditions are being created for green operation and green growth.

Green operation

The UN Sustainable Development Goals

6 CLEAN WATER AND SANITATION

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

7 AFFORDABLE AND CLEAN ENERGY

13 CLIMATE ACTION

Short-term goal in business segment Operator Activities
Reduce energy consumption
Reduce CO_2e emissions
Reduce waste
Reduce water consumption
Reduce chemicals use

Examples of actions	
Introduce waste sorting at head office	● (green)
Identify and list harmful chemicals and substances used in operations	● (green)
Make an inventory of energy and water consumption at each hotel	● (yellow)
Install measurement systems at the hotels	● (yellow)
Pilot project for efficient use of control systems, installations and maintenance	● (orange)
Initiate a pilot project for waste management in kitchens and restaurants	● (orange)

● = Completed ● = Started not completed
● = Not started ● = Ongoing

MANAGING GREEN OPERATIONS

Pandox's Environmental Policy establishes the values and guidelines for Pandox's environmental work. It covers aspects such as energy consumption, emissions, waste and water consumption. The goal is to reduce the Company's environmental impact in four stages: reduce demand through behavioural changes; increase resource efficiency in production and distribution; increase reuse and recycling of energy, water and materials; and transition to renewable energy sources wherever possible.

Pandox reports annually on its climate performance to CDP (formerly the Carbon Disclosure Project). During the year Pandox improved its score from C to B.

ENVIRONMENTALLY CERTIFIED OPERATIONS

Pandox ambition for all of the hotels within the business segment Operator Activities is to have Green Key certification – unless they already have another environmental certification within three years of being acquired or reclassified. The number of environmentally certified hotels in 2018 was 15.

▶*For information on all environmental certifications and environmental management systems, see the section "Property list" on pages 86–93.*

▶*For information on BREEAM certification for properties, see the section "Green properties" on page 57.*

ENERGY AND EMISSIONS

Most of Pandox's energy consumption consists of electricity, heating and cooling for the hotels.

In 2019 the Company intends to establish Group targets for water, energy consumption and waste. To support this endeavour, energy and water consumption within the business segment Operator Activities is being analysed. This analysis is aimed at determining the current status and ranking possible measures and investments for reducing consumption of energy and water. Where relevant, this process will also include installation of control and measurement systems for more efficient monitoring. As the outcome of technical installations and innovative solutions is mainly dependent on how the employees maintain these, a pilot project will be implemented at four hotels. The purpose is to train staff, increase employee engagement and awareness and change behaviour in day-to-day routines.

Next year Pandox will also implement a travel policy and take steps to reduce emissions from business travel. In the first quar-

PANDOX'S ENERGY CONSUMPTION (MWH)

	Renewable energy		Non-renewable energy	
Energy source	2018	2017	2018	2017
Fuel	2,260	2,411	24,791	28,965
Electricity	36,001	30,832	5,685	11,117
Heating	0	0	8,247	8,102
Cooling	0	0	6,671	7,218
Total energy consumption	38,261	33,243	50,394	55,402

* The total energy consumption for 2018 was 88,655 MWh, of which 86 percent was from renewable sources, an increase of 13 percent from 2017. Fuel includes gas (HHV), pellets and fuel oil (HHV). Renewable energy sources consist mainly of wind and hydropower. Three hotels produce their own electricity and heat. In 2018 this amounted to 4,235 MWh. This is included non-renewable electricity and heat, as no source information is available.

GHG EMISSIONS (TCO_2E)

	2018	2017
Scope 1	5,374	5,538
Scope 2 location-based	4,874	2,320
Scope 2 market-based	6,619	3,241
Scope 3	1,781	1,213

* **Scope 1** includes emissions from the use of gas, fuel oil and pellets. **Scope 2** is location-based and market-based and includes emissions from electricity, heating and cooling. **Scope 3** includes the category fuel and energy purchased by Pandox for operations in the business segment Operator Activities in the form of electricity, fuel, district heating and district cooling that is not included in Scope 1 and 2, as well as business travel from Pandox's head office. Emission factors are taken from Defra, IEA, GaBi and RE-DISS. In certain cases emission factors were provided directly by suppliers. The significant increase between location-based and market-based data from 2017 to 2018 is due to improved systems and accuracy in delivered data.

Green initiatives

LIFE-CYCLE ANALYSIS IN BELGIUM

In 2018 Pandox carried out a life-cycle analysis of a hotel night at nine of the Company's hotels in Belgium. The analysis looked at carbon emissions, water and energy consumption broken down by room activity; welcome products, energy use, water consumption, cleaning agents and general waste and breakfast (food and beverages). The results of the analysis led to initiatives to reduce energy and water consumption from showers etc., and the introduction of a breakfast menu based on locally produced products.

INSTALLATION OF SOLAR PANELS AT HOTEL BERLIN, BERLIN

In the beginning of the year around 1,100 m² of solar panels were installed on the roof of Hotel Berlin, Berlin. The solar anels are expected to generate an average of 161,500 kWh a year. In 2019 solar cells will also be installed at Radisson Blu Dortmund, Radisson Blu Basel and Holiday Inn Brussels Airport.

ter the Company will begin a carbon offset programme for business travel by head office employees.

WATER CONSUMPTION

Climate change may lead to water shortages, including in areas where Pandox operates. Today none of Pandox's operations consume water from water-stressed areas, i.e. areas where there is a water shortage. The Company is aiming to reduce its water consumption by installing water-saving equipment and changing employee behaviour around water consumption. In the medium term Pandox is also aiming to influence guest consumption behaviour.

In 2018 Pandox continued its implementation of water consumption measurement systems at hotels in the business segment Operator Activities. The systems make it possible to monitor water consumption in realtime. Any leaks or deviations from the daily water usage are registered immediately, enabling problems to be quickly identified and remedied. In 2018 three large leaks were discovered and quickly fixed. This is estimated to have saved 10,000 m³ of water and minimised potential damage to the buildings. The goal is for all hotels operated by Pandox to implement relevant measurement systems in 2019.

WASTE

Pandox's goal is to reduce the quantity of waste in operations by increasing waste sorting by both employees and guests. A significant portion of Pandox's waste arises in the business segment Property Management in connection with hotel reonstructionand renovation. Within the business segment Operator Activities waste is mainly generated at restaurants and in hotel rooms. During the year Pandox's business segment Operator Activities generated 1 metric ton of hazardous waste and 3,119 metric tons of non-hazardous waste. In 2019 an inventory will be performed of the local possibilities, challenges and national laws governing waste management. Pandox will also initiate a pilot project in waste management in kitchens and restaurants within the business segment Operator Activities.

CHEMICALS

Chemicals are mainly used in hotel cleaning. Pandox is aiming to reduce the amount of harmful chemicals as they not only have a negative impact on the environment, but also on employee health. In 2018 Pandox identified and listed all harmful substances used within the business segment Operator Activities. At Hotel Berlin, Berlin a pilot project was implemented to reduce the use of chemicals in cleaning processes. Within the project, floors were instead cleaned using microfibre mops that only require water. The project resulted in a reduction in chemicals use of around 67.20 litres and a reduction in water use of 57,624 litres during the period September–December.

WATER CONSUMPTION* (MEGALITRES)

	2018	2017
Water consumption	330	309
Consumption of water from water-stressed areas	0	0
Water intensity (litres/m²)	1,108	1,184

* Pandox's head office and the InterContinental Montreal are not included in the data. Water is included in the rent for Pandox's head office and there is therefore no data on the number of litres of water consumed. The InterContinental Montreal pays an annual property tax for water treatment and distribution. This means that water consumption in Montreal is free for the hotel, and there is therefore no available data on the number of litres consumed.

Energy intensity*

0.0528 MWh/guest night

0.2685 MWh/m²

*Energy included in the calculation is the use of electricity, heat, cooling and fuel.

Emission intensity*

0.0054 tCO_2e/SEK

0.0275 tCO_2e/m^2

*Intensity data is based on Scope 1 and 2 and hotels in the business segment Operator Activities because hotel nights are not applicable to Pandox's head office.

SUSTAINABILITY REPORT

Sustainable supply chains

As a large company Pandox has a responsibility to promote sustainability throughout its supply chain. Pandox takes steps to ensure that goods and services are produced in safe and fair working conditions and that environmental protection is respected.

Sustainable supply chains

The UN Sustainable Development Goals

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

Short-term goal

Set standards and monitor compliance with regards to human rights, labour rights, the environment and anti-corruption

Long-term goal

Proactive steps to increase resource efficiency in the supply chain

Examples of actions

Examples of actions	
Implement a system to gather supplier data	● Completed
Include the Code of Conduct for Business Partners in new contracts with selected suppliers	● Ongoing
Implement a supplier screening process	● Started not completed
Employee training in sustainable supply chains	● Ongoing
Identify and initiate dialogue with select suppliers about improving resource efficiency	● Not started

● = Completed ● = Started not completed
● = Not started ● = Ongoing

PANDOX'S SUPPLY CHAIN

Pandox's operations are divided into two business segments with two distinct value chains. The Company therefore has a large number of suppliers. In the business segment Property Management Pandox has direct control over property-related sourcing, such as in connection with renovation. In the business segment Operator Activities the degree of control depends on the type of contract governing the operations. Pandox has full influence over the sourcing process for hotels under its own brands and a certain amount of influence over hotels under franchise agreements. In management agreements, on the other hand, Pandox has less influence over the sourcing process. This is mainly the responsibility of the hotel operator. Within the business segment Operator Activities Pandox's focus is therefore on hotels under its own brands or under franchise agreements, because they offer the greatest possibility of influencing the process.

RESPONSIBLE SOURCING AT PANDOX

Pandox's Code of Conduct for Business Partners is based on the 10 principles of the UN Global Compact and describes the expectations that Pandox has of its suppliers regarding human rights, labour rights, the environment and anti-corruption. Over the past year, Pandox has continued the implementation of the Code of Conduct for Business Partners.

In 2019 Pandox will introduce a screening process to ensure that the Company's suppliers are meeting the requirements in the Code of Conduct for Business Partners. The process will include an internal risk analysis to identify high-risk suppliers in terms of corruption and human rights violations. Pandox will also implement a self-assessment process to evaluate the sustainability work of individual suppliers. To increase internal knowledge and expertise, relevant employees will undergo sustainable supply chain training in 2019.

INCREASED RANGE OF CERTIFIED PRODUCTS

Pandox would like to give its hotel guests more opportunities to make sustainable choices when they stay at the hotels. The goal is increased sourcing of eco-labelled and Fair Trade alternatives in food and beverages, and also welcome products.

Responsible business

To Pandox, doing business responsibly means always applying good business ethics and supporting international human rights in all parts of the Company's operations.

Responsible business

The UN Sustainable Development Goals

8 DECENT WORK AND ECONOMIC GROWTH

16 PEACE AND JUSTICE STRONG INSTITUTIONS

Short-term goal
No cases of corruption in any operations
Respect and protect human rights throughout our organisation

Examples of actions	
Anti-corruption training	● (Not started)
Human rights training	● (Not started)

● = Completed ● = Started not completed
● = Not started ● = Ongoing

RUNNING A RESPONSIBLE BUSINESS
Pandox's way of doing business responsibly is described in the Code of Conduct for Employees and the Code of Conduct for Business Partners. To ensure compliance with the Codes Pandox has internal control routines in place, such as the four eyes and grandfather principles. Pandox also has an independent whistleblower system where employees and external stakeholders can report any irregularities. In 2018 no incidents of corruption were reported.

ANTI-CORRUPTION
Free competition and good business ethics are natural aspects of Pandox's business. No forms of corruption, such as giving or taking bribes, money laundering or improper actions to restrict competition, are permitted.

HUMAN RIGHTS
Pandox supports and respects the UN's Core International Human Rights Instruments. Pandox has zero tolerance for criminality, prostitution or sexual exploitation. ▶ *Read more about Pandox's internal work on human rights as well as equality and diversity under the heading "An attractive workplace" on page 62.*

TRAINING
To prevent any violations of Pandox's Codes of Conduct, human rights and anti-corruption are important elements included in Pandox's Group-wide online training. More in-depth content on anti-corruption and on the prevention of human trafficking and prostitution will be included in the training. Relevant personnel will also receive further training in anti-corruption.

Attractive workplace

Pandox's employees are the Company's most valuable asset. Motivated and talented employees are the key to success. Pandox therefore makes every effort to be one of the most attractive employers in the industry.

Attractive workplace

The UN Sustainable Development Goals

5 GENDER EQUALITY | 8 DECENT WORK AND ECONOMIC GROWTH | 10 REDUCED INEQUALITIES

Short-term goal

- Increase professional development for the employees
- No cases of discrimination or workplace harassment/bullying
- Develop a diversity and equality policy
- Ensure fair employment conditions
- Ensure health and safety at the workplace
- Reduce staff turnover

Examples of actions

Update the basic sustainability training	Started not completed
Annual performance and career development reviews for all employees	Ongoing
Further training in discrimination and workplace harassment/bullying	Not started
Health and safety training	Ongoing
Develop a recruitment strategy	Not started

● = Completed ● = Started not completed
● = Not started ● = Ongoing

SATISFIED EMPLOYEES

To attract and retain employees, Pandox endeavours to create a positive and open atmosphere with a corporate culture based on trust, cooperation, pride and mutual respect. The hotels in the business segment Operator Activities are continuously measuring employee satisfaction.

A DIVERSE AND INCLUSIVE WORKPLACE

The Code of Conduct for Employees establishes guidelines for how to behave in the workplace. As an employer, Pandox wants to offer a workplace that is free from discrimination and harassment where all employees are treated equally and with respect. Pandox provides training to prevent discrimination and harassment. One incident of discrimination was reported in 2018 and was handled according to the hotel's routines.

All employees are able to join a trade union and participate in collective bargaining. In 2018, 77 percent of the employees were covered by a collective agreement.

The hotel industry is diverse industry in which a large number of nationalities and age groups are represented. The industry is, however, facing a challenge in terms of the low number of women in senior positions – a challenge which Pandox is taking extremely seriously.

CAREER DEVELOPMENT

Offering personal development is critical in order for Pandox to be an attractive employer. The Company's ambition is to offer all employees training, career opportunities and career planning. In 2018, 693 employees had performance and career development reviews. All new recruits go through an orientation including topics such as Pandox's policies and an introduction to sustainability. In 2019 Pandox will develop and intensify the Group-wide online training in sustainability.

HEATH AND SAFETY AT THE WORKPLACE

All employees are to have a healthy, safe and secure work environment. Risk assessments are conducted on a regular basis. The risks identified are primarily linked to construction sites during renovation, and physical risk associated with hotel operations – such as fire. All employees receive annual training, information and instructions in occupational health and safety.

Pandox considers it important to maintain a work-life balance and believes that physical activity promotes well-being and improved performance. One initiative that combines work and exercise is Pandox Movement, where employees from different

PANDOX'S BOARD OF DIRECTORS AND EMPLOYEES BY GENDER AND AGE (%)

Employment category	Total number	Women	Men	Age <30	Age 30–50	Age >50
Board of Directors	7	42.9%	57.1%	0%	42.9%	57.1%
Executive management team	8	25.0%	75.0%	0%	37.5%	62.5%
General managers	10	10.2%	89.8%	0%	79.7%	20.3%
Hotel managers	4	25.0%	75.0%	0%	75.0%	25.0%
Other managers at hotels	113	43.3%	56.7%	16.9%	60.1%	23.0%
Hotel employees	1,026	47.0%	53.0%	28.8%	47.6%	23.6%
Managers at head office	2	50.0%	50.0%	0%	50.0%	50.0%
Employees at head office	21	61.9%	38.1%	9.5%	76.2%	14.3%

parts of the organisation gather to take part in various sports and other physical activity. Employees are encouraged to challenge themselves and set ambitious goals through, for example, registering for a marathon or some other challenging pursuit to promote positive development.

INNOVATIVE LEADERSHIP PROGRAMME AT HOTEL HUBERT
Every six months Pandox chooses a new hotel manager for Hotel Hubert based on employee candidates nominated by the general managers within the business segment Operator Activities. The purpose of this leadership programme is to provide employees with career development opportunities within the Company. The initiative was launched in September 2018.

PANDOX'S EMPLOYEES BY TYPE OF EMPLOYMENT CONTRACT

	Women	Men	Total
Permanent employment contract	453	538	991
Full-time	390	507	897
Part-time	63	31	94
Temporary employment contract	104	108	212
Total	557	646	1,203

PANDOX'S EMPLOYEES BY REGION AND EMPLOYMENT CONTRACT

	Permanent contract	Temporary contract	Total
Nordics	55	2	57
Europe	798	210	1,008
Canada	138	0	138
Total	991	212	1,203

NEW EMPLOYEES AND EMPLOYEE TURNOVER BY GENDER, AGE AND REGION

	Total number of new employees (%)	Employee turnover (%)
Total number	300 (25%)	262 (22%)
Women	158 (28%)	128 (23%)
Men	142 (22%)	133 (21%)
Age <30	158 (49%)	134 (42%)
Age 30–50	124 (21%)	102 (17%)
Age >50	18 (6%)	25 (9%)
Nordics	11 (19%)	4 (7%)
Europe	276 (27%)	247 (25%)
Canada	13 (9%)	11 (8%)

The number of new employees and employee turnover are high in the age category <30. One reason is the "instegsjobb" (entry jobs – Government-subsidised job placements) which are common in the hotel industry for young people. Another is that employees in this age category are more mobile in the job market.

EMPLOYEES WHO HAVE HAD A PERFORMANCE AND CAREER DEVELOPMENT REVIEW (%)

Employment category	Women	Men
Executive management team	100%	100%
General managers	0%	63.8%
Hotel managers	0%	66.7%
Other managers at hotels	76.1%	88.7%
Hotel employees	64.5%	65.6%
Managers at head office	100%	100%
Employees at head office	100%	100%

AVERAGE NUMBER OF HOURS OF TRAINING

Employment category	Women	Men	Total
Executive management team	12	1.3	4.0
General managers	0	26.1	26.1
Hotel managers	0	0.3	0.3
Other managers at hotels	23.1	25.0	43.7
Hotel employees	13.5	13.7	13.6
Managers at head office	10.0	28.0	19.0
Employees at head office	1.5	9.1	6.2

The average number of training hours for men was 14.9 hours and for women 14.1 hours. Training hours includes all types of work-related training.

WORK-RELATED INJURIES

Employees	Total number (per hours worked*)
Fatalities caused by work-related injuries	0 (0)
Injuries with significant consequences	3 (0.000015)
Measurable work-related injuries	143 (0.000715)

* Per hours worked is based on 200,000 hours worked, which is equivalent to 100 employees working a full-time 40-hour week. Cuts and minor burns are examples of common injuries. Injuries with significant consequences are when an employee falls at work and sustains an injury that is so serious that the recovery time exceeds six months.

WORK-RELATED ILL HEALTH

Employees	Total number (per hours worked*)
Fatalities caused by work-related ill health	0 (0)
Measurable work-related ill health	4 (0.00002)

* Per hours worked is based on 200,000 hours worked, which is equivalent to 100 employees working a full-time 40-hour week. Cases of ill health relates to hotels in Germany where the law does not permit documenting the cause of ill health.

Guest experience

Within Pandox's business segment Operator Activities the guests expect the hotels to deliver a safe and memorable experience. The hotels are to be safe and the employees must have the right skills to operate them in a safe and secure way. Taking good care of the guests also involves Pandox offering sustainable product options and encouraging the guests to be more sustainable in their behaviour.

Guest experience

The UN Sustainable Development Goals

8 DECENT WORK AND ECONOMIC GROWTH

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

Short-term goal

- No cases of breaches of customer privacy or loss of customer data
- Ensure secure hotels

Long-term goal

- Make it easy for guests to make sustainable choices

Examples of actions

Create a communication and action plan to increase awareness about sustainability among hotel guests	● (orange)
Increase the range of sustainable food and beverage options	● (orange)
First aid training for hotel employees	● (blue)
Training in data security and guest privacy for hotel employees	● (blue)

● = Completed ● = Started not completed
● = Not started ● = Ongoing

HOTEL SAFETY

Hotel safety is an area covered in Pandox's Code of Conduct for Employees. In addition, all hotels in Pandox's business segment Operator Activities have emergency preparedness plans and safety policies in place. Safety is also a topic covered in the Group-wide online training. In addition to this training, the employees receive training in first aid and all hotels regularly perform fire and evacuation drills. No deviations in health and safety were reported for any of Pandox's products and services in 2018.

DATA SECURITY

Data security and protecting the guests' personal data are critical for Pandox. Pandox's guidelines for privacy and information security are contained in the Code of Conduct for Employees. All hotels in the business segment Operator Activities have guidelines and instructions for data security and protecting guest privacy. To minimise the risk of a data breach, training in data security and guest privacy takes place locally at each hotel as well as through the mandatory Group-wide online training. To protect the guests' personal data Pandox uses technical and organisational protective measures, such as firewalls and password-protected systems. The employees must respect the guests' privacy and ensure that their personal data is treated confidentially. No complaints of a breach of guest privacy or loss of personal data were reported in 2018.

ENCOURAGE SUSTAINABLE BEHAVIOUR

Pandox wants to inspire and encourage its guests to adopt new sustainable behaviour. Pandox's long-term goal is therefore to create a communication and action plan for hotels within the business segment Operator Activities to increase sustainability awareness among the guests and to encourage changes in behaviour.

The environmental impact of hotel operations is also linked to the guests' consumption and choice of products. Pandox will therefore initiate and support projects in 2019 to expand the range of sustainable food and beverages. The objective is to increase the amount of eco-labelled and Fair Trade products offered to the guests at hotels in the business segment Operator Activities.

GUEST SATISFACTION

Pandox's long-term goal is for guest satisfaction to exceed 80 percent for hotels that have been included in the business segment Operator Activities for one year or more. In 2018 guest satisfaction within Pandox's business segment Operator Activities was 83 percent. Hotel Hubert was not included as the hotel was only re-opened in September 2018.

Contribution to local communities

Contributing knowledge, expertise and resources to local communities where Pandox has operations is a natural aspect of the Company's responsibility to the community.

Contribution to local communities

The UN Sustainable Development Goals

4 GOD UTBILDNING FÖR ALLA

10 MINSKAD OJÄMLIKHET

Short-term goal	
To contribute to the communities in which we operate	
Examples of actions	
Implement a Group-wide strategy for community engagement	● Not started
Develop the Enbackaskolan project	● Ongoing

● = Completed ● = Started not completed ● = Not started ● = Ongoing

LOCAL TIES
Pandox wants to contribute to the communities where the Company operates and in the areas where Pandox has expertise, skills and interests. Pandox also encourages and supports hotels within the business segment Operator Activities that are pursuing their own local initiatives. One example is the Hilton Brussels Grand Place which, among other things, is offering work experience for school students and young people with special needs.

The Code of Conduct for Employees contains stipulations regarding Pandox's community engagement. In 2019 the Company will further develop the overall community engagement strategy.

HAND THE BALL
Pandox has had strong ties to handball for a very long time and the Company's values are aligned with those of the sport. Handball stands for fair play and gender equality, as there are just as many female players as male players. Every member of the team is essential to achieve success and individual development strengthens the team as a whole. Thanks to its close ties to the sport, Pandox has been invited to participate in a sustainability project called "Hand the Ball", which is a joint project between the European Handball Championship 2020 AB, Stockholm City, Svenska Handbollförbundet (the Swedish Handball Federation) and Stockholms Handbollsförbund (the Handball Federation of Stockholm).
The project is working with six schools in Stockholm. The purpose of the project is to encourage children and young people from socioeconomic difficult areas to participate in physical activity and team sports to prevent poor health due to physical inactivity.

ENBACKASKOLAN PROJECT
Through Hand the Ball Pandox has expanded its project with Enbackaskolan in Tensta.

Pandox is providing transportation to outdoor activities and offering young people the chance go skiing and try other sports. In addition to physical activity, the project is also giving the students an insight into working life. In the autumn of 2018 Pandox and Scandic Star in Sollentuna jointly organised a study visit at the hotel, where 23 students from 8th grade met employees and management. The students were given an introduction to the opportunities that exist within the hotel industry and had a chance to try different jobs at the hotel. In the spring of 2019 these students will also be offered work experience opportunities at various Scandic hotels.

PARTICIPATE IN INDUSTRY INITIATIVES
Pandox is a member of the European Public Real Estate Association (EPRA) which, among other things, provides an important property index for the capital market. The Director of Sustainable Business is a member of Visita's sustainability reference group, with the goal to to advance the sustainability agenda throughout the tourism industry in Sweden.


Field trip for Enbackaskolan to Scandic Star Sollentuna.

GRI Index

GRI Standard	Reporting	Page reference	Degree met	Comments
GRI 102: General disclosures				
	ORGANISATIONAL PROFILE			
	102-1 Name of the organisation	page 36	●	
	102-2 Activities, brands, products and services	pages 42–43	●	
	102-3 Location of headquarters	page 51	●	
	102-4 Location of operations	pages 42–44	●	
	102-5 Ownership and legal form	page 36	●	
	102-6 Markets served	page 42–46	●	
	102-7 Scale of the organisation	page 62	●	
	102-8 Information on employees and other workers	page 62	●	
	102-9 Supply chain	pages 55, 60	●	There have been no significant changes to Pandox's supply chain.
	102-10 Significant changes to the organisation and its supply chain	page 66	●	
	102-11 Precautionary Principle or approach	page 56	●	
	102-12 External initiatives	page 65	●	
	102-13 Membership of associations	page 65	●	
	STRATEGY			
	102-14 Statement from senior decision-maker	page 50	●	
	ETHICS AND INTEGRITY			
	102-16 Values, principles, standards, and norms of behaviour	page 56	●	
	GOVERNANCE			
	102-18 Governance structure	page 56	●	
	STAKEHOLDER ENGAGEMENT			
	102-40 List of stakeholder groups	page 53	●	
	102-41 Collective bargaining agreements	page 63	●	
	102-42 Identifying and selecting stakeholders	page 52	●	
	102-43 Approach to stakeholder engagement	pages 52–53	●	
	102-44 Key topics and concerns raised	page 53	●	
	MATERIALITY ANALYSIS – REPORTING PRACTICE			
	102-45 Entities included in the consolidated financial statements	page 51	●	
	102-46 Defining report content and topic Boundaries	page 52	●	
	102-47 List of material topics	page 52	●	
	102-48 Restatements of information	page 51	●	
	102-49 Changes in reporting	page 52	●	
	102-50 Reporting period	page 51	●	
	102-51 Date of most recent report	page 66	●	16 March 2018
	102-52 Reporting cycle	page 51	●	
	102-53 Contact point for questions regarding the report	page 51	●	
	102-54 Claims of reporting in accordance with the GRI Standards	page 51	●	
	102-55 GRI content index	pages 66–68	●	
	102-56 External assurance	pages 51, 58	●	

● Met ● Partly met

Glossary

BREEAM
Building Research Establishment Environmental Assessment Method (BREEAM) is the most widely used environmental certification system for buildings in Europe. The system evaluates and grades the total environmental impact of buildings.

Global Reporting Initiative (GRI)
Standard for disclosing sustainability information. The Standard is based on the principles and indicators that organisations use to measure and monitor their sustainability work.

Materiality analysis
Analysis to establish areas that are important for an organisation to prioritise in its sustainability work. The analysis is based on stakeholder dialogue with a economic, environmental and social impact.

UN Global Goals
Part of Agenda 2030 and consists of 17 goals for sustainable development adopted by the UN General Assembly. The purpose is to end extreme poverty, reduce inequality and injustice in the world, promote peace and justice and solve the climate crisis by 2030.

Visita
Industry and employer organisation for the Swedish tourism industry. Its members includes restaurants, hotels and travel agencies.

GRI Standard	Reporting	Page reference	Degree met	Comments
Material Topics				
GRI 200 Standards in the economic series				
Pandox's topic: Proactive anti-corruption efforts				
GRI 205: Anti-corruption 2016				
GRI 103: Management approach	103-1 to 103-3 Management Approach	page 61	●	
GRI 205: Anti-corruption	205-3 Confirmed incidents of corruption and actions taken	page 61	●	
Pandox's topic: Reduced energy consumption and carbon emissions				
GRI 302: Energy 2016				
GRI 103: Management approach	103-1 to 103-3 Management Approach	page 58	●	
GRI 302: Energy	302-1 Energy consumption within the organisation	page 58	●	
GRI 302: Energy	302-3 Energy intensity	page 59	●	
Sector Disclosures	CRE1 Building energy intensity	page 59	●	
GRI 305: Emissions 2016				
GRI 103: Management approach	103-1 to 103-3 Management Approach	pages 57–59	●	
GRI 305: Emissions	305-1 Direct (Scope 1) GHG emissions	pages 51, 58	●	
GRI 305: Emissions	305-2 Indirect (Scope 2) GHG emissions	pages 51, 58	●	
GRI 305: Emissions	305-3 Other indirect (Scope 3) GHG emissions	pages 51, 57–58	●	
GRI 305: Emissions	305-4 GHG emissions intensity	page 59	●	
Sector Disclosures	CRE3 GHG emissions intensity	page 59	●	
Pandox's topic: Reduce water consumption				
GRI 303: Water and Effluents 2018				
GRI 103: Management approach	103-1 to 103-3 Management Approach	page 59	●	
GRI 303-5: Water and Effluents	303-5 Water consumption	page 59	●	
Pandox's topic: Reuse and recycle materials, and minimise waste				
GRI 306: Effluents and waste 2016			●	
GRI 103: Management approach	103-1 to 103-3 Management Approach	page 59	●	
GRI 306: Effluents and waste	306-2 Waste by type and disposal method	page 59	● (partly met)	Separation of waste based on the disposal method cannot be reported as there is no uniform system for gathering such information.
Pandox's topic: Sustainable supply chain				
GRI 308: Supplier Environmental Assessment 2016				
GRI 103: Management approach	103-1 to 103-3 Management Approach	page 60	●	

● Met ● Partly met

GRI Standard	Reporting	Page reference	Degree met	Comments
GRI 400 Social Disclosures				
Pandox's topic: Fair employment terms for employees				
GRI 401: Employment 2016				
GRI 103: Management approach	103-1 to 103-3 Management Approach	pages 62–63	●	
GRI 401: Employment	401-1 New employee hires and employee turnover	page 62	●	
Pandox's topic: Employee health and safety				
GRI 403: Occupational Health and Safety 2018				
GRI 103: Management approach	103-1 to 103-3 Management Approach	page 63	●	As Pandox has switched to the new GRI Standards for Occupational Health and Safety, the Company is focusing on developing a system for gathering new indicators. Routines for gathering information relating to management requirements will implemented next year.
GRI 403: Occupational Health and Safety	403-9 Work-related injuries	page 63	●	
GRI 403: Occupational Health and Safety	403-10 Work-related ill health	page 63	●	
Pandox's topic: Training and professional development for employees				
GRI 404: Training and Education 2016				
GRI 103: Management approach	103-1 to 103-3 Management Approach	page 63	●	
GRI 404: Training and Education	404-1 Average hours of training per year per employee	page 63	●	
GRI 404: Training and Education	404-3 Percentage of employees receiving regular performance and career development reviews	page 63	●	
Pandox's topic: Diversity, equality and non-discrimination				
GRI 405: Diversity and Equal Opportunity 2016				
GRI 103: Management approach	103-1 to 103-3 Management Approach	pages 62–63	●	
GRI 405: Diversity and Equal Opportunity	405-1 Diversity of governance bodies and employees	page 62	●	
GRI 406: Non-Discrimination 2016				
GRI 103: Management approach	103-1 to 103-3 Management Approach	pages 62–63	●	
GRI 406: Non-Discrimination	406-1 Incidents of discrimination and corrective actions taken	pages 62–63	●	
Pandox's topic: Sustainable supply chain				
GRI 414: Supplier Social Assessment 2016				
GRI 103: Management approach	103-1 to 103-3 Management Approach	page 60	●	
Pandox's topic: Hotel safety				
GRI 416: Customer Health and Safety 2016				
GRI 103: Management approach	103-1 to 103-3 Management Approach	page 64	●	
GRI 416: Customer Health and Safety	416-2 Incidents of non-compliance concerning the health and safety impacts of products and services	page 64	●	
Pandox's topic: Ensure customer privacy and protect customer data				
GRI 418: Customer Privacy 2016				
GRI 103: Management approach	103-1 to 103-3 Management Approach	page 64	●	
GRI 418: Customer Privacy	418-1 Substantiated complaints concerning breaches of customer privacy and losses of customer data	page 64	●	

● Met ● Partly met

Auditor's review of the sustainability report

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

ASSIGNMENT AND DIVISION OF RESPONSIBILITY

The Board of Directors is responsible for the sustainability report for the year 2018 on pages 49–68 and for ensuring that it has been prepared in accordance with the Annual Accounts Act.

ORIENTATION AND SCOPE OR REVIEW

Our review was conducted in accordance with FAR's recommendation RevR 12 The auditor's opinion regarding the statutory sustainability report. This means that our examination of the sustainability report has a different focus and is substantially smaller in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that our examination provides a reasonable basis for our opinions below.

CONCLUSION

A sustainability report has been prepared.

Stockholm, 7 March 2019
PricewaterhouseCoopers AB

Patrik Adolfson *Authorised Public Accountant* *Auditor-in charge*	Helena Ehrenborg *Authorised Public Accountant*

Hilton Stockholm Slussen

Next stop Airports

Increased international travel and increased demand for efficient meetings in big cities is making airport hotels of interest. Pandox currently has 16 hotel properties situated at international airports that act as gateways to other national, regional and international markets.

Pandox facts

Number of hotels	Number of rooms	Share of total rooms
16	4,031	13%

Characteristics

Airports are strong hubs of the global travel and tourism industry. They share a role as gateways to other national, regional and international markets. This creates a variety of hotel demand, for everything from brief overnight stays while in transit to meetings and conferences.

Drivers

There are several strong drivers that make airport hotels of interest, including increased travel and increased demand for efficient meetingplaces in big cities with challenging transport systems, such as London.

Examples of hotels

Pandox's airport hotels belong to different segments depending on location, demand and product. Hilton London Heathrow Airport T4 has 398 rooms and is a premium hotel, while NH Hotel Vienna Airport with its 499 rooms is a mid-range hotel in the upper segment. Pandox's two mid-range hotels at Helsinki Vantaa Airport belong to the lower segment.

Hilton London Heathrow Airport T4

Read more about

Pandox's property portfolio

Property portfolio by country
page 72

Property portfolio and change in value
page 84

Property list
page 86

Property portfolio by country

Belgium

Share of Pandox total	6%	8%	8% of
	9 hotels	2,474 rooms	market value

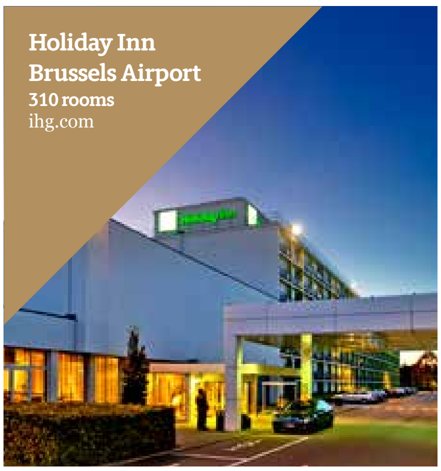
The Hotel Brussels
421 rooms
thehotel-brussels.be

NH Brussels Bloom
305 rooms
nh-hotels.com

Hilton Brussels City
284 rooms
hilton.com

Crowne Plaza Antwerp
262 rooms
ihg.com

Crowne Plaza Brussels – Le Palace
354 rooms
ihg.com



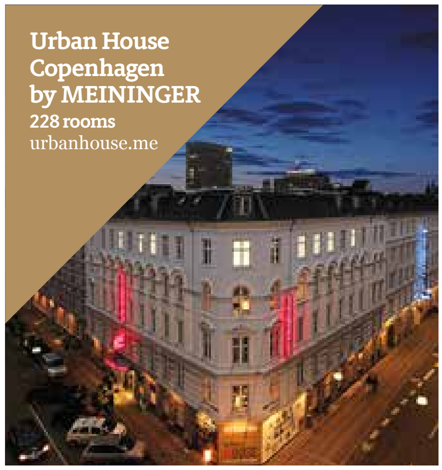
Holiday Inn Brussels Airport
310 rooms
ihg.com

Denmark

Share of Pandox total | 6% 8 hotels | 6% 1,845 rooms | 6% of market value

Scandic Hvidovre, Copenhagen
207 rooms
scandichotels.com

First Mayfair, Copenhagen
203 rooms
firsthotels.com



Urban House Copenhagen by MEININGER
228 rooms
urbanhouse.me

Scandic Copenhagen
486 rooms
scandichotels.com

Scandic Sluseholmen
215 rooms
scandichotels.com

Finland

Share of Pandox total

10% 14 hotels

10% 3,080 rooms

7% of market value

Hilton Helsinki Kalastajatorppa
238 rooms
hilton.com

Scandic Grand Marina Helsinki
470 rooms
scandichotels.com

Hilton Helsinki Strand
190 rooms
hilton.com

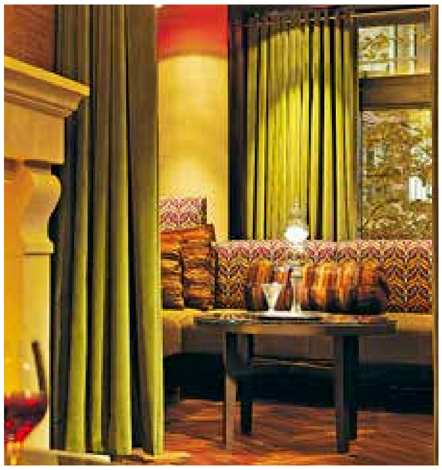
Scandic Park Helsinki
523 rooms
scandichotels.com

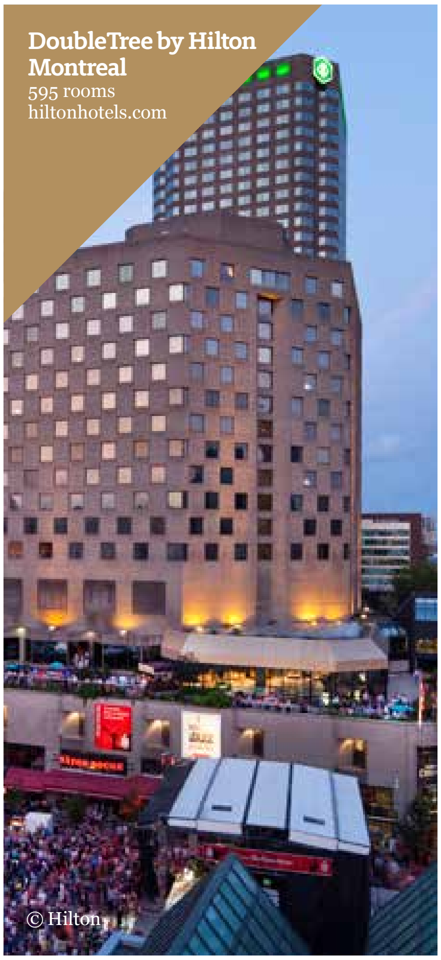
Scandic Tampere City
263 rooms
scandichotels.com

Canada

Share of Pandox total: 1% — 2 hotels; 3% — 952 rooms; 2% of market value

InterContinental Montreal
357 rooms
montreal.inter-continental.com





DoubleTree by Hilton Montreal
595 rooms
hiltonhotels.com

© Hilton

© Hilton

© Hilton

Netherlands

Share of Pandox total	1%	1%	2% of
	1 hotel	189 rooms	market value

Park Hotel Amsterdam
189 rooms
parkhotel.nl

Norway

Share of Pandox total	10%	8%	6% of
	14 hotels	2,535 rooms	market value

Scandic Lillehammer
303 rooms
scandichotels.com

Scandic Hafjell
210 rooms
scandichotels.com

Scandic Valdres
139 rooms
scandichotels.com

Scandic Ringsaker Hamar
176 rooms
scandichotels.com

Comfort Børsparken
248 rooms
nordicchoicehotels.se

Scandic Solli Oslo
226 rooms
scandichotels.com

Scandic Bodø
135 rooms
scandichotels.com

Sweden

Share of Pandox total	30% 43 hotels	28% 8,869 rooms	27% of market value

Scandic Malmen Stockholm
332 rooms
scandichotels.com

Scandic Järva Krog
215 rooms
scandichotels.com

Scandic Kista Stockholm
149 rooms
scandichotels.com

Hilton Stockholm Slussen
289 rooms
hilton.com

Radisson Blu Hotel Arlandia Arlanda
342 rooms
radissonblu.com

Scandic Kalmar Väst
150 rooms
scandichotels.com

Switzerland

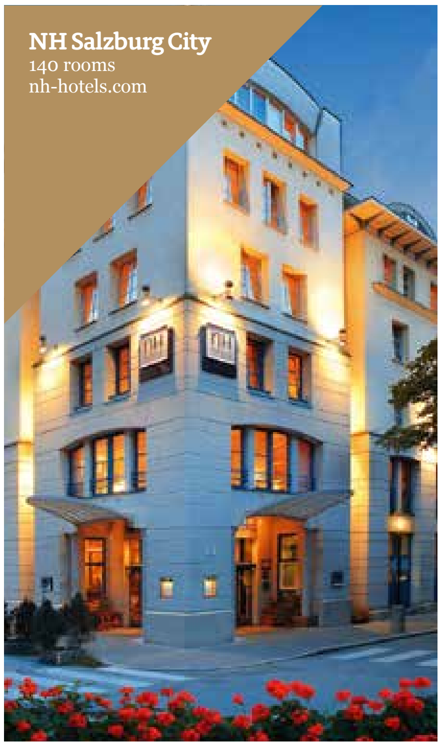
Share of Pandox total	1% 1 hotel	1% 206 rooms	1% of market value

Radisson Blu Hotel Basel
206 rooms
radissonblu.com/en/hotel-basel

Austria

Share of Pandox total	1% 2 hotels	2% 639 rooms	3% of market value

NH Vienna Airport
499 rooms
nh-hotels.com



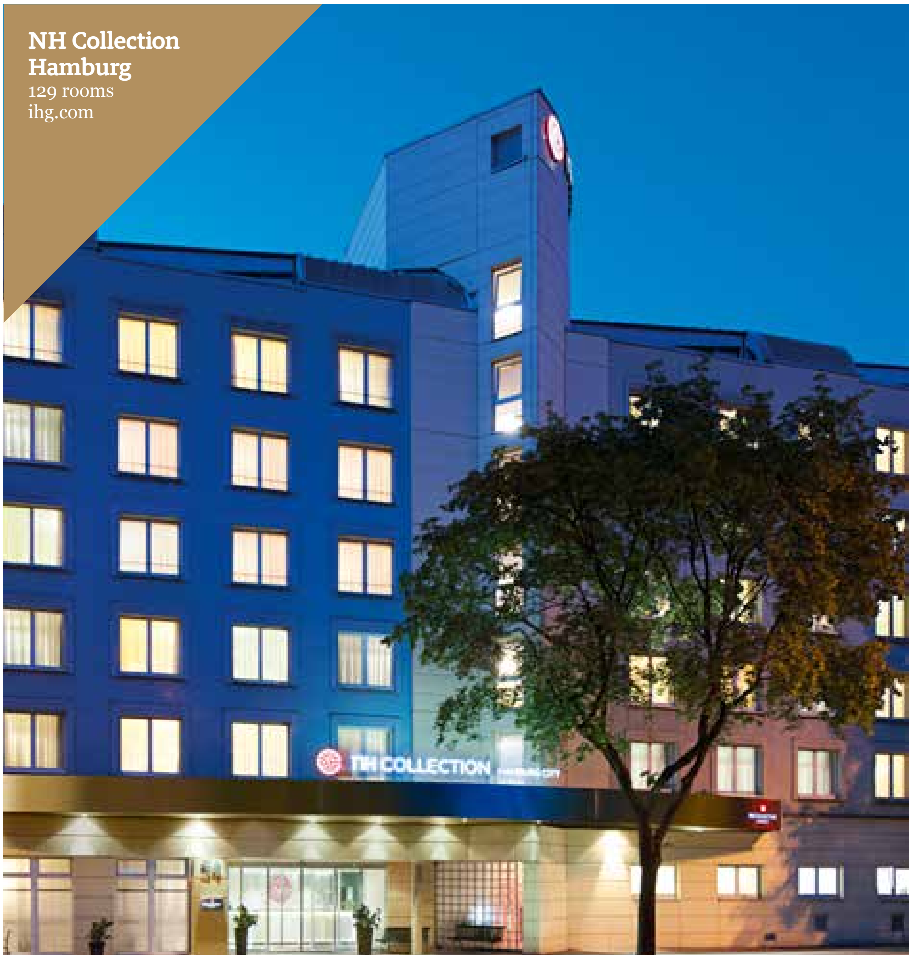
NH Salzburg City
140 rooms
nh-hotels.com

Germany

Share of Pandox total	18% 26 hotels	18% 5,748 rooms	17% of market value

Leonardo Hotel Mönchengladbach
128 rooms
leonardo-hotels.com

Leonardo Royal Hotel Frankfurt
449 rooms
leonardo-hotels.com



NH Collection Hamburg
129 rooms
ihg.com

Leonardo Hotel Hannover Airport
214 rooms
leonardo-hotels.com

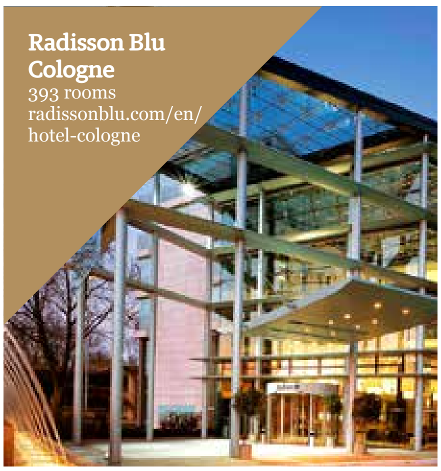
Leonardo Royal Hotel Baden-Baden
121 rooms
leonardo-hotels.com

Radisson Blu Dortmund
190 rooms
radissonblu.com/en/hotel-dortmund

Radisson Blu Bremen
235 rooms
radissonblu.com/en/hotel-bremen

Hotel Berlin, Berlin
701 rooms
hotel-berlin.de

Radisson Blu Cologne
393 rooms
radissonblu.com/en/hotel-cologne



Holiday Inn Lübeck
159 rooms
ihg.com

The UK

Share of Pandox total	15% 21 hotels	16% 5,286 rooms	18% of market value

Jurys Inn Manchester
265 rooms
jurysinns.com/hotels/manchester

Jurys Inn Leeds
248 rooms
jurysinns.com/hotels/leeds

Jurys Inn Sheffield
259 rooms
jurysinns.com/hotels/sheffield

Hilton London Heathrow Airport
398 rooms
hiltonhotels.com/

Jurys Inn Birmingham
445 rooms
jurysinns.com/hotels/birmingham

Ireland

Share of Pandox total

2%
3 hotels

1%
445 rooms

3% of
market value

Jurys Inn Galway
130 rooms
jurysinns.com/hotels/galway

Jurys Inn Cork
133 rooms
jurysinns.com/hotels/cork

Property portfolio 2018

At year-end 2018, Pandox's property portfolio consisted of 144 (143) hotel properties with 32,268 (31,613) hotel rooms in 15 (15) countries. The Nordic region made up around 46 (52) percent of the market value of the property portfolio. A total of 128 of the hotel properties are leased to third parties, which means that around 85 percent of the market value of the property portfolio is covered by long-term external leases. The remaining 16 hotel properties are owned and operated by Pandox.

Pandox's tenant base consists of reputable hotel operators with strong hotel brands in their respective markets.

PORTFOLIO OVERVIEW BY SEGMENT AND COUNTRY, 31 DECEMBER 2018

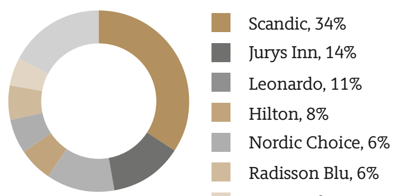
	Number		Market value (MSEK)		
Property Management	Hotels	Rooms	Per country	As % of total	Per room
Sweden (SE)	43	8,869	14,940	27	1.7
Germany (GE)	22	4,463	7,393	13	1.7
United Kingdom (UK)	19	4,675	8,650	16	1.9
Finland (FI)	13	2,924	3,922	7	1.3
Norway (NO)	14	2,535	3,223	6	1.3
Denmark (DK)	8	1,845	3,495	6	1.9
Austria (AT)	2	639	1,402	3	2.2
Belgium (BE)	2	519	846	2	1.6
Ireland (IE)	3	445	1,489	3	3.3
Switzerland (CH)	1	206	701	1	3.4
Netherlands (NL)	1	189	1,079	2	5.7
Total investment properties	128	27,309	47,139	85	1.7
Operator Activities					
Belgium (BE)	7	1,955	3,380	6	1.7
Germany (GE)	4	1,285	2,479	4	1.9
Canada (CA)	2	952	1,289	2	1.4
United Kingdom (UK)	2	611	890	2	1.5
Finland (FI)	1	156	21	0	0.1
Total Operator Activities	16	4,959	8,058	15	1.6
Total	144	32,268	55,197	100	1.7

PORTFOLIO OVERVIEW BY BRAND, 31 DECEMBER 2018

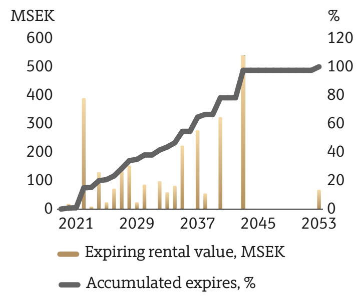
	Number			
Brand	Hotels	Rooms	As % of total	Countries
Scandic	51	11,002	34	SE, NO, FI, DK
Jurys Inn	20	4,410	14	UK, IE
Leonardo	18	3,547	11	GE
Hilton	8	2,582	8	SE, FI, UK, BE, CA
Nordic Choice Hotels	11	1,800	6	SE, NO
Radisson Blu	8	2,033	6	CH, GE, UK, NO, SE
NH	7	1,681	5	AT, BE, GE
Crowne Plaza	2	616	2	BE
Elite Hotels	2	484	2	SE
Holiday Inn	2	469	1	BE, GE
First Hotels	2	403	1	DK
InterContinental	1	357	1	CA
Meininger	1	228	1	DK
Best Western	1	103	0	SE
Independent brands	10	2,553	8	SE, FI, BE, GE, NL, UK
Total	144	32,268	100	15[1]

[1] Includes the submarkets England, Scotland, Wales and Northern Ireland.

Rooms by operator/brand, 31 December 2018



Lease maturity profile, 31 December 2018



Change in property value 2018

At year-end 2018 Pandox's property portfolio had a total market value of MSEK 55,197 (50,121), of which MSEK 47,139 (42,548) was for investment properties and MSEK 8,058 (7,573) for operating properties. During the year one investment property and one operating property were acquired in the UK. One investment property was divested in Sweden. Two hotel properties were reclassified as investment properties. The market value of operating properties is reported for information purposes only and is included in EPRA NAV. Operating properties are recognised at cost less depreciation and any impairment.

At the end of the period the carrying amount of operating properties was MSEK 5,809 (5,668).

At year-end 2018 the average valuation yield amounted to 5.51 (5.57) percent for investment properties and 6.74 (7.27) percent for operating properties.

CHANGE IN VALUE INVESTMENT PROPERTIES

	MSEK
Investment properties, opening balance (1 January 2018)	42,548
+ Acquisitions [2]	1,215
+ Investments in existing portfolio	434
– Divestments [3]	–286
+/– Reclassifications [1]	621
+ Remeasurement for the year of property, plant and equipment in comprehensive income [1]	117
+/– Change in value, unrealised	1,429
+/– Change in value, realised [3]	14
+/– Change in exchange rates	1,048
Investment properties, closing balance (31 December 2018)	47,139

CHANGE IN VALUE – OPERATING PROPERTIES, REPORTED FOR INFORMATION PURPOSES ONLY

	MSEK
Operating properties, opening balance (1 January 2018)	7,573
+ Acquisitions [4]	510
+ Investments in existing portfolio	286
– Divestments	—
+/– Reclassifications [1]	–773
+/– Change in value, unrealised	224
+/– Change in value, realised	—
+/– Change in exchange rates	238
Operating properties, closing balance (31 December 2018)	8,058

1) Mainly refers to reclassification of two hotel properties to Property Management in Q1 2018.
2) Refers to acquisition of The Midland Manchester in Q4 2018.
3) Refers to divestment of Scandic Ferrum in Q4 2018.
4) Refers to acquisition of Radisson Blu Glasgow in Q4 2018 and acquisition adjustment.

STABLE TRANSACTION MARKET IN 2018

The volume of the global hotel transaction market in 2018 amounted to USD 68 billion, which is largely the same as in 2017. It is 20 percent lower than the peak volume of USD 85 billion in 2015. For Europe, the Middle East and Africa (EMEA) transaction volumes fell by around 8 percent to USD 23 billion in 2018.

Trends on the transaction market:

- Substantial capital available for investment
- More diversified property companies focusing on hotels
- Asian investors remain active

POSITIVE INVESTMENT CLIMATE IN EUROPE

The transaction market in Europe is expected to fall by 5–10 percent in 2019. The percentage of single-asset acquisitions is expected to rise and the percentage of large portfolio acquisitions is expected to fall. The UK, France and Italy are particularly attractive markets.

Source: JLL Hotel Investment Outlook 2019.

Pandox's own brands, 31 December 2018

The Hotel. BRUSSELS

Hotel Berlin, Berlin

Hotel Hubert Grand Place

HOTELLI KORPILAMPI

Property list

Property Management

Hotel	City	Location	Environmental certification/Environmental management system	Type of agreement[1)]
Sweden				
Best Western Royal Star, Älvsjö	Stockholm	Congress centre	Green Key	OG
Clarion Grand, Helsingborg	Helsingborg	City centre	ISO 14001	OG
Clarion Grand, Östersund	Östersund	City centre	ISO 14001	OG
Elite Park Avenue Hotel, Gothenburg	Gothenburg	City centre	Green Key	OG
Elite Stora Hotellet, Jönköping	Jönköping	City centre	Green Key	OG
Hilton Stockholm Slussen	Stockholm	City centre	ISO 14001, LightStay, Green Key	O
Mora Hotell & Spa	Mora	City centre		OG
Quality Ekoxen, Linköping	Linköping	City centre	ISO 14001	OG
Quality Grand, Borås	Borås	City centre	ISO 14001	OG
Quality Luleå	Luleå	City centre	ISO 14001	OG
Quality Park, Södertälje	Södertälje	City centre	ISO 14001	O
Quality Winn, Gothenburg	Gothenburg	Ring road	ISO 14001	OG
Radisson Blu Arlandia Hotel	Stockholm	Airport	Green Key	OG
Radisson Blu Hotel, Malmö	Malmö	City centre	Green Key	OG
Scandic Alvik, Stockholm	Stockholm	Ring road	Nordic Swan	OG
Scandic Backadal, Gothenburg	Gothenburg	Ring road	Nordic Swan	OG
Scandic Crown, Gothenburg	Gothenburg	City centre	Nordic Swan	O
Scandic Elmia, Jönköping	Jönköping	Congress centre	Nordic Swan	OG
Scandic Grand, Örebro	Örebro	City centre	Nordic Swan	O
Scandic Hallandia, Halmstad	Halmstad	City centre	Nordic Swan	O
Scandic Hasselbacken, Stockholm	Stockholm	City centre	Nordic Swan	OG
Scandic Helsingborg Nord	Helsingborg	Ring road	Nordic Swan	OG
Scandic Järva Krog, Stockholm	Stockholm	Ring road	Nordic Swan	O
Scandic Kalmar Väst	Kalmar	Airport	Nordic Swan	OG
Scandic Kista	Stockholm	City centre	Nordic Swan	O
Scandic Kramer, Malmö	Malmö	City centre	Nordic Swan	O
Scandic Kungens Kurva, Stockholm	Stockholm	Ring road	Nordic Swan	OG
Scandic Linköping Väst	Linköping	Ring road	Nordic Swan	OG
Scandic Luleå	Luleå	Ring road	Nordic Swan	OG
Scandic Malmen, Stockholm	Stockholm	City centre	Nordic Swan	OG
Scandic Mölndal, Gothenburg	Gothenburg	City centre	Nordic Swan	O
Scandic Norrköping Nord	Norrköping	Ring road	Nordic Swan	OG
Scandic Park, Stockholm	Stockholm	City centre	Nordic Swan	O
Scandic Plaza, Borås	Borås	City centre	Nordic Swan	O
Scandic Skärholmen	Stockholm	Ring road	Nordic Swan	O
Scandic S:t Jörgen, Malmö	Malmö	City centre	Nordic Swan	OG
Scandic Segevång, Malmö	Malmö	Ring road	Nordic Swan	OG
Scandic Star Sollentuna	Stockholm	City centre	Nordic Swan	OG
Scandic Sundsvall Nord	Sundsvall	Ring road	Nordic Swan	OG
Scandic Södertälje	Södertälje	Ring road	Nordic Swan	OG
Scandic Winn, Karlstad	Karlstad	City centre	Nordic Swan	O
Scandic Örebro Väst	Örebro	Ring road	Nordic Swan	OG
Vildmarkshotellet, Kolmården	Norrköping	Resort	Nordic Swan	OG
Norway				
Clarion Collection Arcticus, Harstad	Harstad	City centre	ISO 14001	OG
Clarion Collection Bastion, Oslo	Oslo	City centre	ISO 14001	O
Comfort Børsparken, Oslo	Oslo	City centre	ISO 14001	OG
Comfort Holberg, Bergen	Bergen	City centre	ISO 14001	OG
Scandic Alexandra, Molde	Molde	City centre	ISO 14001	OG
Radisson Blu Hotel, Bodø	Bodø	City centre	Green Key	OG
Scandic Kokstad	Bergen	Airport	Nordic Swan	O
Scandic Bodø	Bodø	City centre	Nordic Swan	O
Scandic Hafjell	Øyer	Resort	Certification in progress	O
Scandic Lillehammer	Lillehammer	City centre	Certification in progress	O
Scandic Ringsaker	Hamar	Ring road	Nordic Swan	OG
Scandic Solli, Oslo	Oslo	City centre	Nordic Swan	OG
Scandic Sørlandet	Kristiansand	Resort	Certification in progress	O
Scandic Valdres	Fagernes	Resort	Certification in progress	O

1) 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	103	Best Western
Nordic Choice Hotels/Clarion Hotel	158	Nordic Choice Hotels
Nordic Choice Hotels/Clarion Hotel	197	Nordic Choice Hotels
Elite/Elite Hotels	317	Elite Hotels
Elite/Elite Hotels	167	Elite Hotels
Hilton/Hilton	289	Hilton
Private/Independent	135	Independent
Nordic Choice Hotels/Quality Hotel	208	Nordic Choice Hotels
Nordic Choice Hotels/Quality Hotel	158	Nordic Choice Hotels
Nordic Choice Hotels/Quality Hotel	220	Nordic Choice Hotels
Nordic Choice Hotels/Quality Hotel	157	Nordic Choice Hotels
Nordic Choice Hotels/Quality Hotel	121	Nordic Choice Hotels
Radisson Hospitality/Radisson Blu	342	Radisson Blu
Radisson Hospitality/Radisson Blu	229	Radisson Blu
Scandic/Scandic	324	Scandic
Scandic/Scandic	236	Scandic
Scandic/Scandic	338	Scandic
Scandic/Scandic	287	Scandic
Scandic/Scandic	224	Scandic
Scandic/Scandic	170	Scandic
Scandic/Scandic	113	Scandic
Scandic/Scandic	240	Scandic
Scandic/Scandic	215	Scandic
Scandic/Scandic	150	Scandic
Scandic/Scandic	149	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	151	Scandic
Scandic/Scandic	201	Scandic
Scandic/Scandic	201	Scandic
Scandic/Scandic	208	Scandic
Scandic/Scandic	288	Scandic
Scandic/Scandic	168	Scandic
Scandic/Scandic	270	Scandic
Scandic/Scandic	160	Scandic
Scandic/Scandic	131	Scandic
Scandic/Scandic	199	Scandic
Scandic/Scandic	212	Scandic
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	159	Nordic Choice Hotels
Scandic/Scandic	165	Scandic
Radisson Hospitality/Radisson Blu	191	Radisson Blu
Scandic/Scandic	199	Scandic
Scandic/Scandic	135	Scandic
Scandic/Scandic	210	Scandic
Scandic/Scandic	303	Scandic
Scandic/Scandic	176	Scandic
Scandic/Scandic	226	Scandic
Scandic/Scandic	210	Scandic
Scandic/Scandic	139	Scandic

Wall of fame

Selected awards

THE HOTEL BRUSSELS
Top 100 Hotels 2019

RADISSON BLU HOTEL GLASGOW
Top 100 Hotels 2019

HILTON LONDON HEATHROW AIRPORT T4

URBAN HOUSE COPENHAGEN BY MEININGER

HILTON LONDON HEATHROW AIRPORT T4
Europe's Leading Airport Hotel 2018

CROWNE PLAZA BRUSSELS – LE PALACE
Belgium's Leading Business Hotel

HILTON HELSINKI STRAND
Finland's Leading Hotel

Hotel	City	Location	Environmental certification/Environmental management system	Type of agreement[1]
Denmark				
Scandic Sluseholmen	Copenhagen	Ring road		O
First Mayfair, Copenhagen	Copenhagen	City centre	Green Key	OG
First Twentyseven, Copenhagen	Copenhagen	City centre	Green Key	OG
Scandic Copenhagen	Copenhagen	City centre	Nordic Swan	O
Scandic Glostrup	Copenhagen	Ring road	Nordic Swan	O
Scandic Hvidovre	Copenhagen	Ring road	Nordic Swan	O
Scandic Kolding	Kolding	Ring road	Nordic Swan	OG
Urban House Copenhagen by Meininger	Copenhagen	City centre		OG
Finland				
Airport Hotel Bonus Inn, Vantaa	Vantaa	Airport EcoCompass		OG
Airport Hotel Pilotti, Vantaa	Vantaa	Airport		O
Hilton Helsinki Kalastajatorppa	Helsinki	Ring road	ISO 14001, LightStay	OG
Hilton Helsinki Strand	Helsinki	City centre	ISO 14001, LightStay	OG
Scandic Imatran Valtionhotelli	Imatra	City centre		OG
Scandic Espoo	Espoo	Ring road	Nordic Swan	O
Scandic Grand Marina, Helsinki	Helsinki	City centre	Nordic Swan	OG
Scandic Jyväskylä	Jyväskylä	City centre	Nordic Swan	OG
Scandic Kajanus, Kajaani	Kajaani	Congress centre	Nordic Swan	O
Scandic Kuopio	Kuopio	City centre	Nordic Swan	OG
Scandic Park, Helsinki	Helsinki	City centre	Nordic Swan	OG
Scandic Rosendahl	Tampere	Resort	Nordic Swan	O
Scandic Tampere City	Tampere	City centre	Nordic Swan	OG
Germany				
Holiday Inn Düsseldorf Airport Ratingen	Düsseldorf	Airport		OG
Leonardo Frankfurt City South	Frankfurt	Airport		OG
Leonardo Aachen	Aachen	City centre		OG
Leonardo Düsseldorf City Center	Düsseldorf	City centre		OG
Leonardo Hamburg City Nord	Hamburg	City centre		OG
Leonardo Hannover Airport	Hannover	Airport		OG
Leonardo Hannover	Hannover	City centre		OG
Leonardo Heidelberg	Heidelberg	City centre		OG
Leonardo Heidelberg-Walldorf	Heidelberg	City centre		OG
Leonardo Karlsruhe	Karlsruhe	City centre		OG
Leonardo Köln-Bonn Airport	Cologne	Airport		OG
Leonardo Mannheim City Center	Mannheim	City centre		OG
Leonardo Mönchengladbach	Mönchengladbach	City centre		OG
Leonardo Royal Baden-Baden	Baden-Baden	City centre		OG
Leonardo Royal Düsseldorf Königsallee	Düsseldorf	City centre		OG
Leonardo Royal Frankfurt	Frankfurt	City centre		OG
Leonardo Royal Köln am Stadtwald	Cologne	City centre		OG
Leonardo Wolfsburg City Center	Wolfsburg	City centre		OG
NH Collection Hamburg	Hamburg	City centre		F
NH Frankfurt Airport	Frankfurt	Airport		OG
NH Munich Airport	Munich	Airport	ISO 14001, Green Leaders	OG
Radisson Blu Hotel, Cologne	Cologne	Congress centre	Green Key	OG

[1] 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	215	Scandic
First/First Hotels	203	First Hotels
First/First Hotels	200	First Hotels
Scandic/Scandic	486	Scandic
Scandic/Scandic	120	Scandic
Scandic/Scandic	207	Scandic
Scandic/Scandic	186	Scandic
Meininger/Meininger	228	Meininger
Private/Independent	214	Independent
Private/Independent	112	Independent
Scandic/Hilton	238	Hilton
Scandic/Hilton	190	Hilton
Scandic/Scandic	137	Scandic
Scandic/Scandic	96	Scandic
Scandic/Scandic	470	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
Fattal/Leonardo	199	Leonardo
Fattal/Leonardo	295	Leonardo
Fattal/Leonardo	99	Leonardo
Fattal/Leonardo	134	Leonardo
Fattal/Leonardo	182	Leonardo
Fattal/Leonardo	214	Leonardo
Fattal/Leonardo	178	Leonardo
Fattal/Leonardo	169	Leonardo
Fattal/Leonardo	161	Leonardo
Fattal/Leonardo	147	Leonardo
Fattal/Leonardo	177	Leonardo
Fattal/Leonardo	148	Leonardo
Fattal/Leonardo	128	Leonardo
Fattal/Leonardo	121	Leonardo
Fattal/Leonardo Royal	253	Leonardo
Fattal/Leonardo Royal	449	Leonardo
Fattal/Leonardo Royal	150	Leonardo
Fattal/Leonardo Royal	343	Leonardo
NH/NH Collection	129	NH
NH/NH	158	NH
NH/NH	236	NH
Radisson Hospitality/Radisson Blu	393	Radisson Blu

Scandic Glostrup, Copenhagen

Leonardo Hannover

Hotel	City	Location	Environmental certification/Environmental management system	Type of agreement[1]
UK				
England				
Hilton London Heathrow Airport T4	London	Airport	ISO 14001, LightStay	O
Jurys Inn Birmingham	Birmingham	City centre	Green Tourism Gold	OG
Jurys Inn Bradford	Bradford	City centre	Green Tourism Gold	OG
Jurys Inn Brighton Waterfront	Brighton	City centre	Green Tourism Gold	OG
Jurys Inn Cheltenham	Cheltenham	City centre	Certification in progress	OG
Jurys Inn East Midlands Airport	Derby	Airport	Green Tourism Gold	OG
Jurys Inn Hinckley Island	Hinckley	Ring road	Certification in progress	OG
Jurys Inn Leeds	Leeds	City centre	Green Tourism Gold	OG
Jurys Inn London Croydon	Croydon	City centre	Green Tourism Gold	OG
Jurys Inn Manchester	Manchester	City centre	Green Tourism Gold	OG
Jurys Inn Middlesbrough	Middlesbrough	City centre	Certification in progress	OG
Jurys Inn Oxford	Oxford	Ring road	Certification in progress	OG
Jurys Inn Sheffield	Sheffield	City centre	Green Tourism Gold	OG
Jurys Inn Swindon	Swindon	City centre	Green Tourism Gold	OG
The Midland Manchester	Manchester	City centre	Green Tourism Gold	OG
Scotland				
Jurys Inn Glasgow	Glasgow	City centre	Green Tourism Gold	OG
Jurys Inn Inverness	Inverness	City centre	Certification in progress	OG
Wales				
Jurys Inn Cardiff	Cardiff	City centre	Certification in progress	OG
Northern Ireland				
Jurys Inn Belfast	Belfast	City centre	Green Tourism Gold	OG
Ireland				
Jurys Inn Cork	Cork	City centre	Green Tourism Gold	OG
Jurys Inn Dublin Christchurch	Dublin	City centre	Green Tourism Gold	OG
Jurys Inn Galway	Galway	City centre	Green Tourism Gold	OG
Other				
Belgium				
NH Brussels EU Berlaymont	Brussels	City centre	Green Key	OG
NH Brussels Bloom	Brussels	City centre	Green Key	OG
Netherlands				
Park Hotel Amsterdam	Amsterdam	City centre	Green Globe	OG
Switzerland				
Radisson Blu Hotel, Basel	Basel	City centre	Green Key	OG
Austria				
NH Salzburg City	Salzburg	City centre		OG
NH Vienna Airport	Vienna	Airport	ISO 14001, Green Leaders	OG

[1] 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
Hilton/Hilton	398	Hilton
Fattal/Jurys Inn	445	Jurys Inn
Fattal/Jurys Inn	198	Jurys Inn
Fattal/Jurys Inn	210	Jurys Inn
Fattal/Jurys Inn	122	Jurys Inn
Fattal/Jurys Inn	164	Jurys Inn
Fattal/Jurys Inn	362	Jurys Inn
Fattal/Jurys Inn	248	Jurys Inn
Fattal/Jurys Inn	240	Jurys Inn
Fattal/Jurys Inn	265	Jurys Inn
Fattal/Jurys Inn	132	Jurys Inn
Fattal/Jurys Inn	240	Jurys Inn
Fattal/Jurys Inn	259	Jurys Inn
Fattal/Jurys Inn	229	Jurys Inn
Fattal/Independent	312	Independent
Fattal/Jurys Inn	321	Jurys Inn
Fattal/Jurys Inn	118	Jurys Inn
Fattal/Jurys Inn	142	Jurys Inn
Fattal/Jurys Inn	270	Jurys Inn
Fattal/Jurys Inn	133	Jurys Inn
Fattal/Jurys Inn	182	Jurys Inn
Fattal/Jurys Inn	130	Jurys Inn
NH/NH	214	NH
NH/NH	305	NH
Grand City Hotels/Independent	189	Independent
Radisson Hospitality/Radisson Blu	206	Radisson Blu
NH/NH	140	NH
NH/NH	499	NH


Park Hotel Amsterdam


NH Brussels EU Berlaymont

Operator Activities

Hotel	City	Location	Environmental certification/Environmental management system	Type of agreement[1)]
Finland				
Hotel Korpilampi, Espoo	Espoo	Resort	Green Key	IO
Belgium				
Crowne Plaza Antwerpen	Antwerp	Ring road	IHG Green Engage	FR
Crowne Plaza Brussels – Le Palace	Brussels	City centre	IHG Green Engage	FR
Hilton Brussels City	Brussels	City centre	ISO 14001, LightStay, Green Key	FR
Hilton Grand Place	Brussels	City centre	ISO 14001, LightStay, Green Key	M
Holiday Inn Brussels Airport	Brussels	Airport	IHG Green Engage, Green Key	FR
The Hotel, Brussels	Brussels	City centre	Certification in progress	IO
Hotel Hubert	Brussels	City centre	Green Key	IO
UK				
England				
Hilton Garden Inn London Heathrow	London	Airport	ISO 14001, LightStay	FR
Scotland				
Radisson Blu Hotel, Glasgow	Glasgow	City centre	Green Tourism Silver	M
Germany				
Holiday Inn Lübeck	Lübeck	Ring road	IHG Green Engage	FR
Hotel Berlin, Berlin	Berlin	City centre	Green Key	IO
Radisson Blu Hotel, Bremen	Bremen	City centre	Green Key	FR
Radisson Blu Hotel, Dortmund	Dortmund	Congress centre	Green Key	FR
Canada				
DoubleTree by Hilton Montreal	Montreal	City centre	Green Key	FR
InterContinental Montreal	Montreal	City centre	Green Key	M

External management agreements

Hotel	City	Location	Type of agreement[1)]
Norway			
Clarion Collection Hotel Folketeatret*	Oslo	City centre	AM
Clarion Collection Hotel Gabelshus*	Oslo	City centre	AM
Grand Hotel Oslo by Scandic*	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
Bahamas			
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 Sundt AS, a related party of Helene Sundt AS and CGS Holding AS, a principal shareholder in Pandox. Pandox is paid based on a percentage of the hotel's revenues.

[1)] 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
Pandox/Independent	156	Independent
Pandox/Crowne Plaza	262	Crowne Plaza
Pandox/Crowne Plaza	354	Crowne Plaza
Pandox/Hilton	284	Hilton
Hilton/Hilton	224	Hilton
Pandox/Holiday Inn	310	Holiday Inn
Pandox/Independent	421	Independent
Pandox/Independent	100	Independent
Pandox/Hilton	364	Hilton Garden Inn
Radisson Hospitality/Radisson Blu	247	Radisson Blu
Pandox/Holiday Inn	159	Holiday Inn
Pandox/Independent	701	Independent
Pandox/Radisson Blu	235	Radisson Blu
Pandox/Radisson Blu	190	Radisson Blu
Pandox/Hilton	595	DoubleTree by Hilton
IHG/InterContinental	357	InterContinental


Hotel Hubert Grand Place

Operator/Brand	Number of rooms	Brand
Nordic Choice Hotels/Clarion Collection	160	Nordic Choice Hotels
Nordic Choice Hotels/Clarion Collection	114	Nordic Choice Hotels
Scandic/Scandic	283	Scandic
Scandic/Scandic	253	Scandic
Scandic/Scandic	133	Scandic
Scandic/Scandic	343	Scandic
Scandic/Scandic	175	Scandic
Scandic/Scandic	199	Scandic
Scandic/Scandic	135	Scandic
Sundt AS/Independent	186	Independent


Grand Hotel Oslo

Risks and risk management
A systematic process with clear roles

A number 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.

During the year and within the framework of the Company's strategy and business planning processes, Pandox updated its risk assessment based on the Group's current operations and goals.

Pandox defines risk as a factor of uncertainty that may affect the Company's ability to reach its goals. 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, CFO and those responsible for the various business areas within Pandox. Pandox's strategy is to invest in hotel properties with revenue-based leases with the best hotel operators, and also to be able to run hotel operations itself when necessary. Given this strategy, Pandox has classified risks into five categories (regardless of priority and materiality):

- **Strategy risk:** Access to specialist expertise for acquisitions, investments and operations, financial strength and the confidence of the world around us are factors that may affect Pandox's ability to implement its strategy and reach its goals. Pandox's management and Board of Directors monitor and evaluate the Company's strategy risk continuously, to ensure that the strategy allows the goals to be reached.

- **Operational risk:** Factors that affect Pandox's ability to realise its strategy, such as the organisation's structure, effectiveness and capacity to create profitable growth and value for Pandox's stakeholders. This includes compliance risks, which relates to Pandox's ability to live up to external requirements, rules and laws. Management of these risks is regulated in various policies adopted by

SENSITIVITY ANALYSIS

The sensitivity analysis to the right describes the financial effects of changes in certain key parameters linked to risk. In terms of financial reporting of both income and financial position, it is mainly fluctuating interest rates, changes in RevPAR and valuation yields that have the greatest impact.

FINANCIAL EFFECTS OF CHANGES IN CERTAIN KEY PARAMETERS, AS OF 31 DECEMBER 2018:

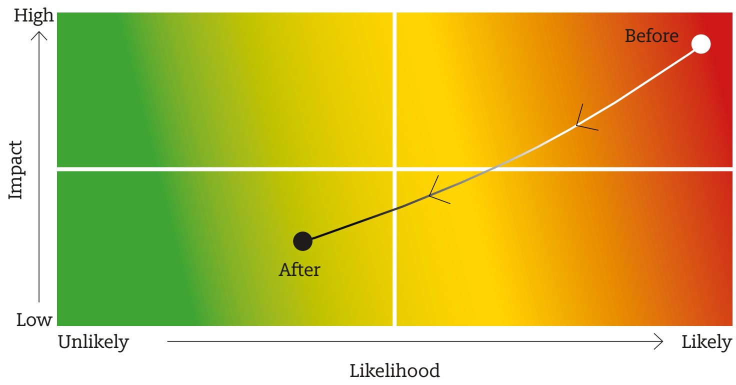
Investment properties, effect on fair value	Change	Effect on value, MSEK
Valuation yield	+/– 0.5pp	–3,918/+4,700
Change in exchange rates	+/– 1%	+/– 322
Net operating income	+/– 1%	+/– 454

Investment properties, effect on revenues	Change	Revenue effect, MSEK
RevPAR (assuming a 50/50 split between occupancy and rate)	+/– 1%	+/– 24

Operating properties, effect on revenues	Change	Revenue effect, MSEK
RevPAR (assuming a 50/50 split between occupancy and rate)	+/– 1%	+/– 19

Financial sensitivity analysis, effect on earnings	Change	Profit before changes in value, MSEK
Interest expense with current fixed interest, change in interest rates	+/– 1%	–/+ 102
Interest expense with a change in the average interest rate	+/– 1%	–/+ 281
Remeasurement of interest rate derivatives following shift in yield curves	+/– 1%	–/+ 801

RISK MATERIALITY ANALYSIS



Examples: Fluctuation in interest rate levels before and after risk management

Pandox's business activities are associated with certain risks. Pandox works in a structured and proactive way to map, analyse and manage risk. Identified risks are mapped in a risk matrix based on expected impact and likelihood. By taking active steps the potential effects of risks on the business can be reduced. One example of such a risk is interest rate fluctuation. This risk is managed primarily through Pandox's Financial Policy and internal expertise in treasury and risk.

the Company's Board of Directors and in other governing documents and instructions. Pandox's management and the Company's control functions continuously monitor and evaluate the Company's operational risk management and value creation.

- **Financial risk:** Factors such as fluctuating interest rates and exchange rates, inaccurate property valuations, refinancing risk, liquidity risk and counterparty risk. These risks are mainly regulated in Pandox's Financial Policy, which has been adopted by the Company's Board of Directors, and other policy documents.
- **External risk:** External factors such as the economic cycle, hotel supply, changed business models, geopolitical events and terrorist attacks can have an effect on the travel market and thus hotel demand. Pandox's Board of Directors and management regularly monitor and evaluate external risk and the opportunities created by changes in the external environment.
- **Sustainability risk:** Strategic and operational risk attributable to the environment, human rights, social and HR-related factors, as well as corruption. The risks are regulated in codes of conduct for employees and suppliers adopted by the Board of Directors, Pandox's Environmental Policy, the Company's values and the Company's own active monitoring and control in Operator Activities and in partnership with tenants in Property Management.

Pandox assesses each risk based on the expected impact (from insignificant to very significant) if the event that triggers the risk should occur, and the likelihood (from very low to very high) of the risk then being realised. This assessment then forms the basis of an evaluation of how the risk should be prioritised, whether it requires specific action or if it can be managed as part of Pandox's normal administration. The effectiveness of existing measures to mitigate risk is assessed on a scale ranging from low to high control.

PANDOX'S BIGGEST RISKS

A summary of Pandox's 10 biggest individual risks before (gross) and after (net) mitigating factors is presented below. As the table shows, Pandox's biggest net risks are external risks – which the Company mainly mitigates through its strategy and business model.

Pandox's 10 biggest risks, gross	Type of risk
Fluctuations in interest rates	Financial
Dependence on key individuals	Operational
Growth through acquisitions	Strategic
Refinancing risk	Financial
Access to the right competencies	Operational
Economic downturn	External
Certification and authorisation	Financial
Disruptive business models	External
Geopolitical events	External
Overexpansion of hotel rooms	External

Pandox's 10 biggest risks, net	Type of risk
Economic downturn	External
Disruptive business models	External
Geopolitical events	External
Overexpansion of hotel rooms	External
Access to the right competencies	Operational
Dependence on key individuals	Operational
Growth through acquisitions	Operational
Fluctuations in interest rates	Financial
Certification and authorisation	Financial
Financial reporting	Financial

PANDOX'S RISKS AND THE COMPANY'S MANAGEMENT OF SUCH RISKS ARE DESCRIBED IN MORE DETAILED BELOW.

Risk	Description	Mitigating factors
1. STRATEGIC RISK		
Growth through acquisitions !	Risks attributable to acquisitions are mainly the risk of paying too much for assets, the risk of incorrect assumptions as regards future earnings of the acquired asset/business, the risk of taking over leases or other agreements that are unfavourable, and the risk of management time and other resources being spent on acquisitions that are not completed.	• Pandox's long-term focus on hotel properties as a class of asset has generated extensive specialist expertise. • An active Board of Directors and active principal shareholders, experienced management and a sound basis for decisions. • 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. • Tried and tested due diligence processes supported by internal and external specialists reduce the risk of incorrect acquisitions. • Pandox's way of working (the Pandox Method) increases cash flow and limits risk for the hotel in question.
Major investments in the existing portfolio	There is a risk that the costs of investments may be higher than expected and that the return is therefore lower than expected because of inaccurate costings, unprofessional procurement or inefficient project implementation.	• Extensive specialist knowledge of the identification, evaluation and implementation of investments in the existing hotel property portfolio. • Long-term investment management of measures implemented in the property portfolio. • Capital expenditure in excess of MSEK 10 is referred to the Board of Directors for a decision. • Monthly review of all investment projects. • Follow-up and calculation of actual costs and outcomes for completed investment projects.
Impact of digitalisation	Pandox's ability to develop its organisation and its processes to take into account new digital opportunities is a decisive factor in the Company's long-term competitiveness.	• The Board of Directors has been supplemented with a member with digital expertise. • Pandox works proactively at an operational level to gather know-how on strategic digitalisation matters. • Work on targeted initiatives is in progress within various parts of the Company.
2. OPERATIONAL RISK		
Dependence on key individuals !	High dependence on individuals in key positions can pose a risk of daily duties not being able to be performed with adequate efficiency and quality.	• Plan for long-term talent supply. • Good knowledge of external individuals in senior roles for recruitment. • Strong external network with supporting specialist expertise. • Remuneration Committee that ensures competitive levels of remuneration. • Clear personal incentives and long contract terms. • Procedures and process descriptions for key functions to reduce dependence on individual personnel.
Access to the right competencies !	The risk that Pandox is unable to find the right competencies in new markets or to replace lost competencies in existing markets, or is unable to do so sufficiently quickly.	• As part of operational HR work, recruitment needs are reviewed regularly at both the central and local level. • Strong external network with supporting specialist expertise. • Attractive workplace with great personal freedom in professional roles and good opportunities to develop.
Tenants' business and financial status	The risk that tenants underperform and/or are unable to pay their rent.	• Individual business plans for each hotel property. • Each tenant's results are followed up monthly, as are ongoing investment projects.
Integration of acquisitions	Commercial, technical and accounting risks that arise ahead of and after an acquisition or business takeover.	• Many years of experience of integrating acquisitions in numerous geographical markets. • Clear project organisation and allocation of roles. • Internal specialist expertise in property, finance, tax, valuation, law and communication. • Clear work methods and processes. • Extensive external network with specialist expertise.
Own operating activities at hotels	Pandox is exposed to certain risks that commonly occur within hotel operations, such as increased operating costs that cannot be fully offset by increased room rates or increased prices for other hotel services, the costs of compliance with laws and regulations, the ability to forecast occupancy and average room rates and to plan staffing, the quality and reputation of hotel brands used, an inability to keep pace with technical developments, faults in or damage to IT systems, as well as risks and costs associated with protecting the privacy of guests' personal data and providing for their physical safety.	• Strategic and operational work to ensure each hotel is optimally positioned in each market. • Strong local management and an effective organisation. • A Group-wide Revenue Management Centre for distribution. • Modern systems for revenue forecasts, staffing and productivity. • Ongoing benchmarking and analysis of each hotel's performance in relation to its immediate competitors.

! One of Pandox's top 10 risks.

Risk	Description	Mitigating factors
3. FINANCIAL RISK		
Fluctuations in interest rates (!)	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 credit facilities have a variable rate of 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.	• Interest rate derivatives are used – mainly interest rate swaps – in order to manage interest rate risk and increase the predictability of Pandox's earnings. • Variable interest rates are partially swapped through interest rate swaps, giving Pandox fixed interest rates. • Pandox has a Financial Policy that regulates risk mandates and is approved annually by the Board of Directors. • Internal specialist expertise in treasury and risk. • Close cooperation with external financial expertise.
Refinancing and liquidity risk	Refinancing risk is the risk that financing cannot be obtained or renewed upon maturing, or only at significantly higher costs. Liquidity risk refers to the risk that Pandox will be unable to meet its payment commitments due to a lack of liquidity.	• Pandox has access to long-term financing. Pandox's Financial Policy specifies minimum levels of unutilised credit and loan-to-value ratio. • Pandox has a liquidity reserve to ensure that the Company is able to meet ongoing payment obligations at all times. • Pandox has good access to long-term credit facilities.
Currency risk	Currency risk is defined as the risk of the consolidated income statement and consolidated statement of financial position being negatively impacted by exchange rate fluctuations. This risk can be divided up into transaction exposure, i.e. the net amount of operating and financial (interest/principal repayment) flows, and translation exposure associated with net investments in foreign Group companies.	• Foreign operations generally report both income and expenses in their local currency, which means that currency exposure resulting from current flows, i.e. transaction exposure, is limited. In view of the limited risk, Pandox does not currency-hedge these flows unless there is a particular reason to do so. • Equity is currency-hedged as needed ahead of acquisitions, investments and divestments to avoid changes in the value of equity. • Pandox reduces its currency exposure associated with net investments in foreign Group companies by taking out loans in local currencies.
Certification and authorisation (!)	Authority to take decisions, approval matrix and payment processes.	• An approval matrix established by the Board of Directors. • Well-defined levels of authority in internal systems. • Special verification for payments and orders above a certain level in the approval matrix.
Financial reporting (!)	Errors in or inconsistent quality of both internal and external reporting, such as errors in rent accounting and property valuation. Risks also include late reporting or reporting not being in compliance with the Group's accounting principles.	• Pandox aims to have uniform procedures and checks for financial reporting that are adapted to and support its operations across the Group. • Manuals, instructions, schedules and reviews with the subsidiaries in the Group to ensure consistent and timely reporting. • An Audit Committee appointed by the Board of Directors reviews the Group's financial reporting and risk management.
Property valuation	Individual and systematic errors in the valuation process, such as incorrect assumptions regarding growth, profitability and valuation yield.	• 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 consideration, among other things, developments in underlying operator activities, market developments, the contract situation, operating and maintenance issues and investments aimed at maximising the hotel property's cash flow and yield in the long term. • External valuations of all properties are carried out annually 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 properties. These external valuations provide an important reference point for Pandox's internal valuations. • Pandox always uses the valuation yield provided by external property appraisers. • Quarterly review of valuations by management, Audit Committee and Board of Directors before publication of each financial report.

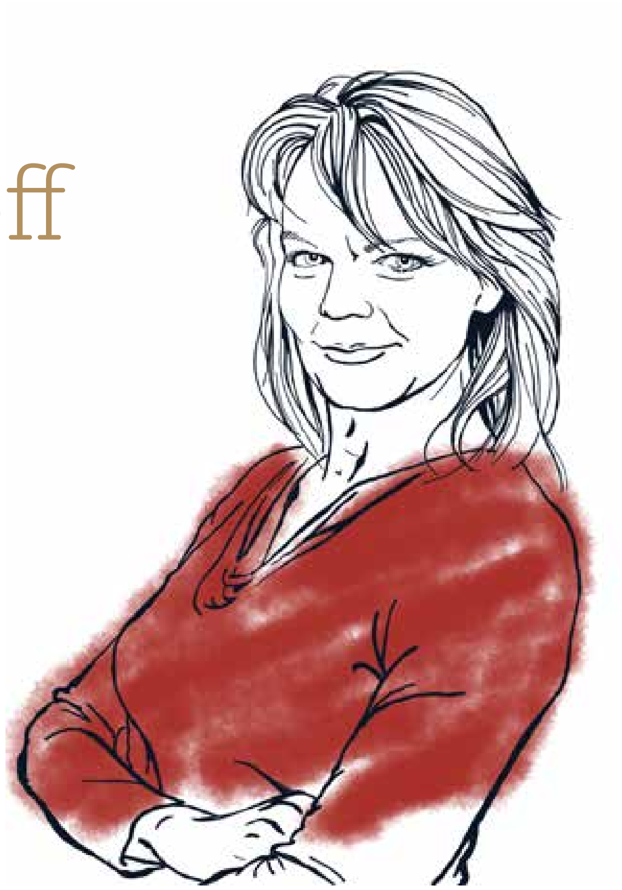
(!) One of Pandox's top 10 risks.

Risk	Description	Mitigating factors
4. EXTERNAL RISK		
Economic downturn	Economic activity is a primary driver of both business and leisure travel, and a weakened economy can therefore have a negative effect on demand.	• The portfolio consists of a large number of sizeable hotel properties with a good geographical spread and a good balance between domestic and international demand. • The hotel properties are predominantly full-service hotels in the upper-mid segment, which has historically been more stable in earnings than, for example, the high price segment.
Disruptive business models	Pandox's business model may be challenged by the emergence of new business models, such as online travel agencies (OTAs) and so-called home-sharing services. If Pandox is unable to keep up with the competition, this could have a negative impact on revenues and earnings.	• Pandox works with nearly 20 different hotel operators and hotel brands. This gives Pandox a unique position as regards information and knowledge of market changes and also helps to spread commercial risk. • 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. • Long leases, most agreements with external hotel operators have provisions specifying a guaranteed minimum rent level and general deductions for commission are not usually permitted.
Geopolitical events	Security and geopolitical events can have significant effects on travel patterns and demand in the hotel market.	• 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.
Overexpansion of hotel rooms	New capacity in the form of new hotels and hotel rooms could have a significant adverse impact on RevPAR in individual markets.	• 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.
5. SUSTAINABILITY RISK		
Environment	The risk of impact on the climate and environment through the use of energy, water, chemicals and materials, and through pollution and waste disposal. Climate change, which could over time result in increased costs for materials and energy.	• As a minimum, Pandox runs its business in accordance with the laws, regulations and rules that apply in each country in which it operates. • Pandox has an overall Environmental Policy. • Within the Property Management segment Pandox works with its tenants on measures to make environmental improvements. • Within Operator Activities Pandox is working on various climate-improving projects and certifications relating to both properties and hotel operations.
Human rights	Shortcomings in the supply chain that result in infringement of human rights, and risk of prostitution in the hotels.	• Code of conduct for employees and suppliers. • Contingency plans and security policies at all hotels.
Employees	The risk of Pandox being perceived as an unattractive employer and having difficulty retaining existing employees and recruiting new ones.	• Code of conduct, clear basic values and respect for the individual. The employees' own health and fitness efforts are generously accommodated. • Varied work at a fast pace with great opportunities to have an influence. • Ongoing opportunities for specialisation and further training. • Continual development reviews and annual pay revision.
Health and safety	Shortcomings in policies, routines and ongoing procedures relating to the health and safety of employees, guests and suppliers.	• Regular fire inspections and fire drills at all hotels, as well as at head office. • Training in CPR and installation of defibrillators.
Anti-corruption	The risk of corruption in connection with sourcing of goods and services etc., bribery and partiality when signing agreements associated with properties, or the risk of internal irregularities.	• Code of conduct for employees and suppliers as part of new contracts of employment and supply contracts. • Web-based internal training in the code of conduct for all employees. • External and independent whistleblower service for reporting irregularities. • Fair Play lays down strong basic values, as described in more detail in Pandox's Sustainability Report.
Data security	Shortcomings in data security, information management and personal privacy.	• Clear guidelines on data security and customer privacy. • Mandatory, Group-wide online training.

One of Pandox's top 10 risks.

Hilton Grand Place, Brussels

From the CFO
Hard work pays off



Pandox reported strong and profitable growth for 2018. The focus during the year was on integration of previous acquisitions, refinancing of portions of the hotel property portfolio, as well as internal efficiency and the organisational structure. We also completed two add-on acquisitions in the UK.

GOOD GROWTH AND PROFITABILITY

2018 was a strong year for Pandox, with considerable growth and good profitability. Both of the Company's business segments developed well.

INTEGRATION, REFINANCING AND EFFICIENCY

The main emphasis during the year was on the substantial portfolio of hotel properties in the UK and Ireland which Pandox took over in December 2017. Pandox subsequently implemented a relatively time-consuming legal reorganisation of the portfolio to separate the property assets from the operator's assets. This process was concluded in August 2018.

Pandox has a larger and more diversified loan portfolio than before, which requires a greater degree of ongoing follow-up and analysis. We therefore reinforced our treasury department further during the year. Major events were the creation of a commercial paper programme with a framework amount of MSEK 3,000 in September and the refinancing of 14 hotel properties in Germany, Austria, the Netherlands and Belgium with Aareal Bank in November.

The acquisition of The Midland Manchester in the Property Management segment and Radisson Blu Glasgow in the Operator Activities segment are also worth mentioning.

Jurys Inn Hinckley Island

THE FUTURE

Pandox is now an international enterprise. It is therefore important to develop the organisational structure as well as the Company's capacity to support its new position. Process development, elimination of bottlenecks and digitalisation of the work processes are important areas here. Sustainability is also a prioritised area, where Pandox – in cooperation with its business partners – must find new ways of sharing risk and returns on environmentally sound investments.

Stockholm, March 2019
Liia Nõu

How to read the financial statements

From a financial perspective Pandox operates two businesses, which are reported as distinct business segments. The largest is Property Management which, taking into account the nature of hotel properties, is fully comparable to most other property companies. The second is Operator Activities where Pandox, in addition to owning the hotel property, also runs the hotel operations in the property. This combination means that Pandox's earnings at the aggregate level are not fully comparable with those of other property companies and that Pandox's two business segments are not fully comparable with each other either.

For a better understanding of Pandox's financial statements and to facilitate financial analysis, we have explained a few important items below.

INCOME STATEMENT

● **Net sales:** Consists of both rental income from Property Management and revenue from Operator Activities and is therefore less useful as an aggregate measurement. Revenue from the respective business segments should be assessed separately.

● **Net operating income:** For a comparison between the business segments, depreciation is added to gross profits for Operator Activities.

● **Changes in value**: Three different types of changes in value are recognised under this heading:

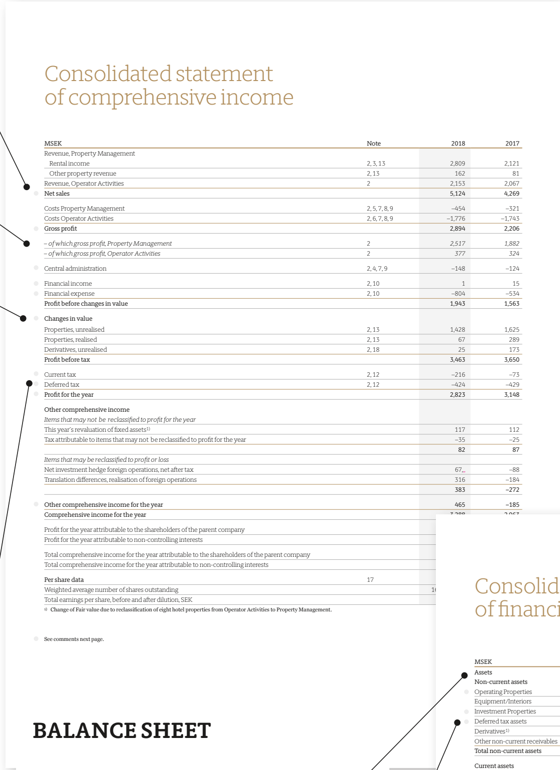
1. Unrealised changes in value of properties refers to the change (increase/decrease) in the market value of investment properties. Remember that operating properties are not measured at market value according to IFRS. They are instead recognised at cost. Pandox does, however, assess the market value of operating properties on an ongoing basis and reports the value for information purposes. This value is also included in EPRA NAV.

2. Realised changes in value of properties is the difference between the properties' book value and the value realised upon divestment.

3. Unrealised changes in value of derivatives refers to the change (increase/decrease) in the market value of interest-rate derivatives used to reach a desired interest maturity profile.

● **Tax:** Consists of current tax which is the tax on operating activities paid by Pandox, and deferred tax which, simply put, is equivalent to the change in the difference between the fair value and the adjusted taxable value of the properties.

● **Cash earnings:** A key measurement of Pandox's financial value creation and the basis for valuation of the hotel properties. The item cash earnings consists of EBITDA minus financial expense (normally significant) plus financial income (normally marginal) and current tax. Cash earnings are more volatile than net operating income because they include more cost items, which may also vary from quarter to quarter.



Consolidated statement of comprehensive income

MSEK	Note	2018	2017
Revenue, Property Management			
Rental income	2, 3, 13	2,809	2,121
Other property revenue	2, 13	162	81
Revenue, Operator Activities	2	2,153	2,067
Net sales		**5,124**	**4,269**
Costs Property Management	2, 5, 7, 8, 9	–454	–321
Costs Operator Activities	2, 6, 7, 8, 9	–1,776	–1,743
Gross profit		**2,894**	**2,206**
– of which gross profit, Property Management	2	*2,517*	*1,882*
– of which gross profit, Operator Activities	2	*377*	*324*
Central administration	2, 4, 7, 9	–148	–124
Financial income	2, 10	1	15
Financial expense	2, 10	–804	–534
Profit before changes in value		**1,943**	**1,563**
Changes in value			
Properties, unrealised	2, 13	1,428	1,625
Properties, realised	2, 13	67	289
Derivatives, unrealised	2, 18	25	173
Profit before tax		**3,463**	**3,650**
Current tax	2, 12	–216	–73
Deferred tax	2, 12	–424	–429
Profit for the year		**2,823**	**3,148**
Other comprehensive income			
Items that may not be reclassified to profit for the year			
This year's revaluation of fixed assets[1]		117	112
Tax attributable to items that may not be reclassified to profit for the year		–35	–25
		82	**87**
Items that may be reclassified to profit or loss			
Net investment hedge foreign operations, net after tax		67	–88
Translation differences, realisation of foreign operations		316	–184
		383	**–272**
Other comprehensive income for the year		**465**	**–185**
Comprehensive income for the year			
Profit for the year attributable to the shareholders of the parent company			
Profit for the year attributable to non-controlling interests			
Total comprehensive income for the year attributable to the shareholders of the parent company			
Total comprehensive income for the year attributable to non-controlling interests			
Per share data	17		
Weighted average number of shares outstanding			
Total earnings per share, before and after dilution, SEK			

[1] Change of Fair value due to reclassification of eight hotel properties from Operator Activities to Property Management.

See comments next page.

▶ *See page 109 for more comments on Pandox's performance.*

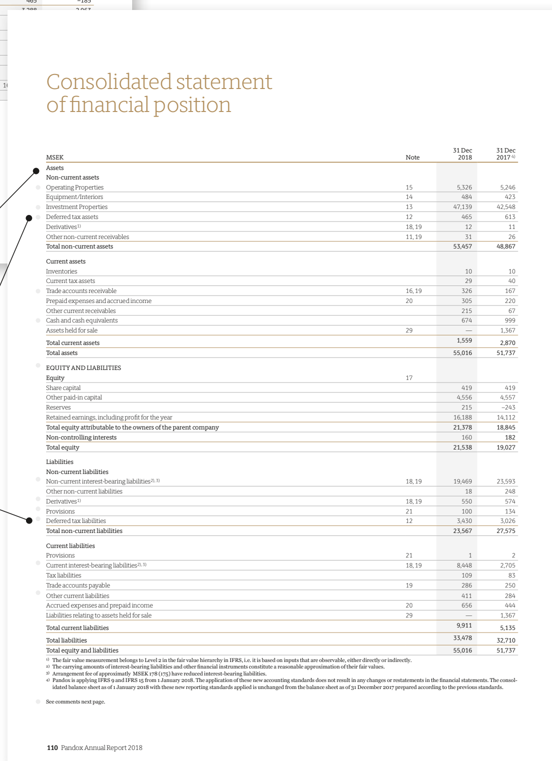
BALANCE SHEET

● **Non-current assets:** Here operating properties (the sum of operating properties and equipment/interiors) are recognised at cost and investment properties at fair value (market value).

● **Deferred tax assets:** This consists of the carrying amount of tax loss carryforwards which Pandox expects to be able to utilise in future financial years, and temporary measurement differences for interest rate derivatives. The loss carryforwards are mainly in the Nordic markets.

● **Deferred tax liabilities:** These largely consist of temporary differences between the fair value and adjusted taxable value of investment properties, and temporary differences between the carrying amount and taxable value of operating properties.

● **Equity/assets ratio:** The equity/assets ratio is a common method of measuring a company's financing situation and its ability to withstand financial difficulties and losses. A company's actual equity/assets ratio may, however, deviate significantly from the reported equity/assets ratio because it does not take into account so-called hidden reserves, i.e. assets that are not included or may be undervalued in the balance sheet. In Pandox's case EPRA NAV is a more accurate measure of equity because it includes the market value of all properties, derivatives, as well as deferred tax assets and tax liabilities. Growth in EPRA NAV is also how Pandox measures return on the shareholders' combined equity in the Company.



Consolidated statement of financial position

MSEK	Note	31 Dec 2018	31 Dec 2017[4]
Assets			
Non-current assets			
Operating Properties	15	5,326	5,246
Equipment/Interiors	14	484	423
Investment Properties	13	47,139	42,548
Deferred tax assets	12	465	613
Derivatives[1]	18, 19	12	11
Other non-current receivables	11, 19	31	26
Total non-current assets		**53,457**	**48,867**
Current assets			
Inventories		10	10
Current tax assets		29	40
Trade accounts receivable	16, 19	326	167
Prepaid expenses and accrued income	20	305	220
Other current receivables		215	67
Cash and cash equivalents		674	999
Assets held for sale	29	—	1,367
Total current assets		**1,559**	**2,870**
Total assets		**55,016**	**51,737**
EQUITY AND LIABILITIES			
Equity	17		
Share capital		419	419
Other paid-in capital		4,556	4,557
Reserves		215	–243
Retained earnings, including profit for the year		16,188	14,112
Total equity attributable to the owners of the parent company		**21,378**	**18,845**
Non-controlling interests		160	**182**
Total equity		**21,538**	**19,027**
Liabilities			
Non-current liabilities			
Non-current interest-bearing liabilities[2, 3]	18, 19	19,469	23,593
Other non-current liabilities		18	248
Derivatives[1]	18, 19	550	574
Provisions	21	100	134
Deferred tax liabilities	12	3,430	3,026
Total non-current liabilities		**23,567**	**27,575**
Current liabilities			
Provisions	21	1	2
Current interest-bearing liabilities[2, 3]	18, 19	8,448	2,705
Tax liabilities		109	83
Trade accounts payable	19	286	250
Other current liabilities		411	284
Accrued expenses and prepaid income	20	656	444
Liabilities relating to assets held for sale	29	—	1,367
Total current liabilities		**9,911**	**5,135**
Total liabilities		**33,478**	**32,710**
Total equity and liabilities		**55,016**	**51,737**

[1] The fair value measurement belongs to Level 2 in the fair value hierarchy in IFRS, i.e. it is based on inputs that are observable, either directly or indirectly.
[2] The carrying amounts of interest-bearing liabilities and other financial instruments constitute a reasonable approximation of their fair values.
[3] Arrangement fee of approximatly MSEK 178 (175) have reduced interest-bearing liabilities.
[4] Pandox is applying IFRS 9 and IFRS 15 from 1 January 2018. The application of these new accounting standards does not result in any changes or restatements in the financial statements. The consolidated balance sheet as of 1 January 2018 with these new reporting standards applied is unchanged from the balance sheet as of 31 December 2017 prepared according to the previous standards.

See comments next page.

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▶ *See page 111 for more comments on Pandox's financial position.*

FINANCIAL

Administration Report

The Board of Directors and Chief Executive Officer hereby submit the Annual Report and consolidated accounts for the 2018 financial year for Pandox AB (publ), corporate registration number 556030-7885, Box 15, 101 20 Stockholm, Sweden, street address Vasagatan 11.

Figures in brackets refer to the corresponding period the previous year. The financial statements are presented in whole millions of Swedish kronor (MSEK), which means that there may be differences in certain tables due to rounding off. The Board of Directors proposes that the income statement and balance sheet in the Annual Report be adopted by the Annual General Meeting on 10 April 2019.

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 listed on Nasdaq Stockholm's Nordic Large Cap list. 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 leases 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 2018 Pandox's hotel property portfolio contained 144 (143) hotels with a total of 32,268 (31,613) hotel rooms in 15 countries, with a market value of MSEK 55,197 (50,121). Of the 144 hotels, 128 (126) 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. Within the Property Management business segment, one hotel, The Midland Manchester, was acquired during the year and one hotel property, Scandic Ferrum, was divested. Within the Operator Activities business segment, one acquisition, Radisson Blu Glasgow, was completed during the year. In addition, two hotels were reclassified from Property Management to Operator Activities as a result of new leases. The weighted average unexpired lease term (WAULT) for investment properties was 15.7 (15.6) years. The remaining 16 (17) hotel properties are owned and operated by Pandox under various brands. Pandox also has management agreements for 10 hotels.

In 2018 Pandox conducted its business in line with the Company's established strategy and business model. Development in Pandox's prioritised hotel markets has in general been favourable and the Company has benefited from stable demand, the positive effects of acquisitions, and a good return on investments made within both Property Management and Operator Activities.

REVENUE AND PROFIT

Group

Profit for the year attributable to the Parent Company's shareholders amounted to MSEK 2,820 (3,140). The reduction is mainly explained by the fact that unrealised and realised positive changes in the value of properties and derivatives were lower in 2018 than in 2017, which is due to a combination of higher cash flows and a lower valuation yield within the comparable portfolio. The Group's net sales totalled MSEK 5,124 (4,269), an increase of 20 percent. Adjusted for currency effects and comparable units, sales increased by 4 percent.

Property Management

Revenue from Property Management amounted to MSEK 2,971 (2,202), an increase of 35 percent, mainly explained by acquired growth in the lease portfolio and positive market growth, and helped by reclassifications. For comparable units, revenue increased by 2 percent adjusted for currency effects.

Net operating income from Property Management amounted to MSEK 2,517 (1,882), an increase of 34 percent. For comparable units, net operating income increased by 1 percent, adjusted for currency effects.

Contribution of business segments to profit

MSEK	2018	2017	2016	2015	2014
Property Management					
Profit before changes in value	2,517	1,882	1,495	1,280	1,186
Unrealised changes in value	1,428	1,625	1,301	1,387	906
Realised changes in value	67	6	159	12	291
Property Management contribution	**4,012**	**3,513**	**2,955**	**2,679**	**2,383**
Operator Activities					
Profit before changes in value	377	324	292	279	211
Unrealised changes in value	—	—	—	—	—
Realised changes in value	—	283	—	—	—
Operator Activities contribution	**377**	**607**	**292**	**279**	**211**

Operator Activities

Revenue from Operator Activities amounted to MSEK 2,153 (2,067), an increase of 4 percent. The increase is explained by the acquisition of Hilton Heathrow Garden Inn in December 2017 and Radisson Blu Glasgow in October 2018 and good development in Brussels, which more than compensated for the loss from the reclassification in February 2018 of the hotels now called NH Brussels EU Berlaymont and NH Brussels Bloom. For comparable units, revenue and RevPAR increased by 6 and 7 percent respectively, adjusted for currency effects.

Net operating income from Operator Activities amounted to MSEK 540 (494), an increase of 9 percent. The improved results are mainly explained by contributions from acquisitions, the reopening of Hotel Hubert Grand Place, Brussels and positive market growth.

For comparable units, net operating income increased by 10 percent, adjusted for currency effects.

The Group's EBITDA, financial expense and changes in value

EBITDA amounted to MSEK 2,909 (2,252), an increase of 29 percent, which is explained by improved underlying net operating income for both Property Management and Operator Activities.

Financial expense amounted to MSEK –804 (–534). The raise is explained by increased interest-bearing liabilities following acquisitions that increased debt in foreign currencies. Pandox has also decided to hedge a larger share of its loan portfolio than previously, resulting in higher costs for interest rate derivatives.

Profit before changes in value amounted to MSEK 1,943 (1,563), an increase of 24 percent. Unrealised changes in value for investment properties amounted to MSEK 1,428 (1,625). The changes in value are explained by a combination of higher cash flows and a lower valuation yield in the comparable portfolio. Realised changes in value totalled MSEK 67 (289) and relate to the divestment of Scandic Ferrum in the fourth quarter and the reversal of guarantees for past divestments. At the end of the period Pandox's property portfolio had a total market value of MSEK 55,197 (50,121), of which investment properties accounted for MSEK 47,139 (42 548) and operating properties for MSEK 8,058 (7,573). The market value of operating properties is reported for information purposes only and is included in EPRA NAV. ▶ *Complete information on changes in the value of properties can be found on page 85.*

As of 31 December 2018 the average valuation yield for Pandox's investment properties was 5.51 percent (5.57) and for operating properties 6.74 percent (7.27).

Unrealised changes in the value of derivatives amounted to MSEK 25 (173). The change is mainly explained by a decrease in the market interest rate.

CURRENT AND DEFERRED TAX

Current tax amounted to MSEK –216(–73). Most of the increase relates to the acquisition of Jurys Inn at the end of 2017. In the comparable period in 2017 a reversal of an extra tax expense in Germany and Sweden is included in the total amount of MSEK 47. Deferred tax expense amounted to MSEK–424 (–429). The total tax expense represents a tax rate of 18.5 (13.8) percent.

CASH FLOW AND CASH EARNINGS

Cash earnings amounted to MSEK 1,890 (1,660). In the comparable period in 2017 positive non-recurring items totalling MSEK 60 were included. Cash flow from operating activities before changes in working capital amounted to MSEK 1,975 (1,693). Taxes paid amounted to MSEK –178 (–73). The change in working capital affected cash flow in the amount of MSEK –265 (0). Cash flow from investing activities affected cash flow in the amount of MSEK –2,190 (–10,970) and is mainly explained by the acquisitions in the UK of The Midland Manchester and Radisson Blu Glasgow. The divestment of Scandic Ferrum in Sweden is a positive item. The cash flow from financing activities amounted to MSEK 158 (9,756). Larger items include loans taken out in connection with acquisitions, repayment of loans following divestment and dividends paid. Cash and cash equivalents at the end of the period amounted to MSEK 674 (999).

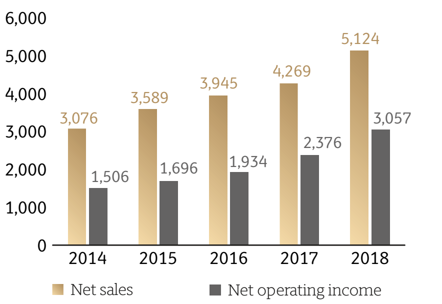
FINANCING

As of 31 December 2018, the loan-to-value ratio after deduction of cash and cash equivalents was 49.7 percent (50.8). Cash and cash equivalents, including long-term credit facilities, amounted to MSEK 2,500 (3,319), of which unutilised long-term credit facilities amounted to MSEK 1,826 (2,321).

At the end of the period the loan portfolio amounted to MSEK 28,095 (26,473). The average fixed interest period was 3.0 (2.6) years and the average interest rate, corresponding to the interest rate level at the end of the period, was 2.6 (2.6) percent, including effects of interest rate swaps. The average repayment period was 3.1 years (3.3). The loans are secured by a combination of mortgage collateral and pledged shares.

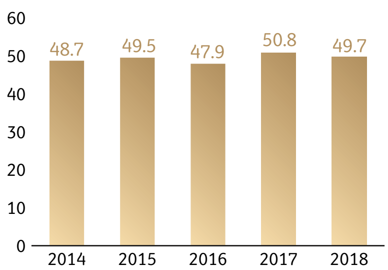
In order to manage interest rate risk and increase the predictability of Pandox's earnings, interest rate derivatives are used,

Net sales and net operating income, MSEK



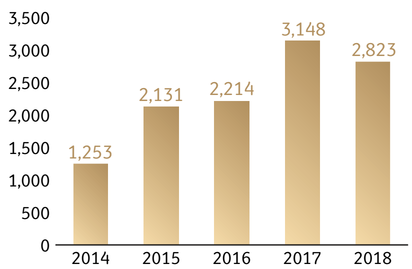
Stable increase in net sales and net operating income.

Loan-to-value, %



At the end of 2018 the net loan-to-value ratio was 49.7 percent.

Profit for the year, MSEK



Profit for the year in 2018 was lower than in 2017, which is due to lower changes in value and higher tax.

mainly in the form of interest rate swaps. At the end of the period Pandox had net interest rate derivatives amounting to MSEK 17,129. Around 56 percent of Pandox's loan portfolio was thereby hedged against interest rate movements for periods longer than one year. This is an increase compared with 2017. On 31 December 2018 the net market value of Pandox's financial derivatives amounted to MSEK –538 (–563).

EQUITY AND NET ASSET VALUE

Equity attributable to the Parent Company's shareholders amounted to MSEK 21,378 (18,845) and EPRA NAV (net asset value) was MSEK 24,476 (24,211). EPRA NAV per share was SEK 164.04 (144.54).

ACQUISITIONS, SALES AND RECLASSIFICATIONS

On 13 December 2017 Pandox entered into an agreement within the Operator Activities segment to lease Hotel BLOOM! (NH Brussels Bloom) and Hotel Berlaymont (NH Brussels EU Berlaymont) to NH Hotels Group as of 1 February 2018.

On 31 October 2018 Pandox concluded the acquisition of Radisson Blu Glasgow, UK for the equivalent of MSEK 468. This hotel is in the Operator Activities segment. On 1 November 2018 Pandox concluded the acquisition of The Midland Manchester, UK for the equivalent of MSEK 1,201. This hotel is in the Property Management segment. On 3 December 2018 Pandox concluded divestment of a hotel property in Kiruna, Sweden for the equivalent of around MSEK 286. This hotel was in the Property Management segment.

INVESTMENTS IN EXISTING HOTEL PROPERTIES

In 2018 investments in existing hotel properties amounted to MSEK 720 (714), of which MSEK 434 (425) was for investment properties and MSEK 286 (289) was for operating properties. At the end of the period investments had been approved for future projects in an amount equivalent to around MSEK 1,250 (870).

Major investment projects include Crown Plaza Brussels, Hilton Brussels City, Hotel Berlin, Berlin, The Midland Manchester, Vildmarkshotellet, NH Brussels Bloom, Clarion Collection Arcticus Harstad, DoubleTree by Hilton Montreal, Radisson Blu Basel, NH Vienna Airport, Park Amsterdam, as well as the joint investment programme with Scandic Hotels Group for 19 hotel properties in the Nordic region.

PARENT COMPANY

Administration for activities within Pandox's property-owning companies is provided by staff employed by the Parent Company, Pandox AB (publ). The costs of these services are invoiced to Pandox's subsidiaries. The invoiced amounts during the period January–December 2018 totalled MSEK 106 (101), and profit for the period before tax was MSEK 728 (–86). The increase is explained by large dividends from subsidiaries as well as capital gains from the divestment of subsidiaries. Internal lending increased in 2018, resulting in the internal interest income being higher than in 2017. At the end of the period the Parent Company's equity amounted to MSEK 4,553 (4,556) and interest-bearing debt to MSEK 7,098 (6,638), of which MSEK 4,305 (5,803) is in the form of long-term debt.

SHARES AND OWNERSHIP

The class B shares of Pandox AB (publ) were listed on Nasdaq Stockholm on 18 June 2015. Pandox's share capital at the end of the year amounted to MSEK 419 (419) distributed among a total of 167,499,999 shares, of which 75,000,000 are class A shares and 92,499,999 are class 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 and on voting rights for class A shares. All class B shares are transferable without restriction. Each class A share in Pandox entitles the holder to three votes at shareholders' meetings, while each class B share entitles the holder to one vote at shareholders' meetings. No pledges been made to the employees regarding shareholdings.

Certain of the Group's major financing agreements contain a conventional Change of Control clause. This means that in certain circumstances, the lenders have the right to demand renegotiation of the terms or to call for early repayment in the event of a change of control over the Company.
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 2018	% of votes
Eiendomsspar Sverige AB	38.1
Christian Sundt AB	18.9
Helene Sundt AB	18.9

ASSET MANAGEMENT

Capital structure

Pandox's target is a loan-to-value ratio of between 45 and 60 percent, depending on the market environment and opportunities that exist. This key ratio is defined as interest-bearing liabilities divided by the sum of the market value of investment properties and operating properties. ▶ *See the multiyear summary on page 164.*

Dividend

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

Debt management

Pandox seeks to achieve the lowest possible financing costs while simultaneously limiting interest rate, currency and borrowing risks. Pandox's Financial Policy describes in more detail how financial risks are to be managed. ▶ *For more information see Note 18.*

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. ▶ *Pandox's risks and risk management are described in detail on page 94.*

Rental income in Property Management is largely linked to the hotels' revenue and normally involves a guaranteed minimum rent, making it possible to have increased rental income 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 44.*

Within the Operator Activities business segment Pandox has operational and investment responsibility, and is thereby fully exposed with respect to operations and profits. ▶ *This is described in detail on page 46.*

Pandox has a substantial loan portfolio and interest expense is 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 97 and in Note 18.*

TAX SITUATION

At the end of the period deferred tax assets amounted to MSEK 465 (613). 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 3,430 (3,026) and relate to temporary differences between fair value and the taxable value of investment properties, as well as temporary differences between the carrying amount and the taxable value of operating properties.

WORK OF THE BOARD OF DIRECTORS

The work of the Board of Directors is described in the Corporate Governance Report. ▶ *See page 154.*

EMPLOYEES

As of 31 December 2018 Pandox had 1,161 (1,130) full-time employees, of which 1,120 (1,096) are employed in the Operator Activities business segment and 41 (34) in the Property Management business segment and in central administration. The average number of employees in 2018 was 1,111 (1,214), of which 582 (624) are men and 529 (590) are women. When Pandox takes over operations or enters into new leases for hotel properties, the hotels' employees are also transferred to the party taking over.

EMPLOYEES AND SUSTAINABILITY

Pandox's sustainability work is governed by a strategy called Pandox Fair Play. In 2018 Pandox overhauled its sustainability work, resulting in an updated materiality analysis and sustainability strategy which have the full support of the Board of Directors and executive management team. Pandox's updated focus areas are: (1) Green properties, (2) Green operations, (3) Sustainable supply chains, (4) Responsible business, (5) Attractive workplace, (6) Guest experience and (7) Contribution to local communities. In 2018 the goal of increasing the share of renewable energy by 50 percent within Operator Activities was reached. Pandox reports annually on its climate work to CDP (formerly the Carbon Disclosure Project). In 2018 Pandox improved its score from C to B. Previously Pandox's sustainability focus was on the Operator Activities segment. Going forward the Property Management segment will be included in a more proactive and structured way in the Company's sustainability efforts. A new sustainability system was implemented during the year to support this. The system makes it possible to monitor, analyse and validate complex sustainability data from Pandox's operations. Pandox is currently reviewing its sustainability goals. This process will be concluded in 2019. In 2018 a decision was made to obtain BREEAM certification for a number of select properties. The certification process will begin and be evaluated in 2019. ▶ *Pandox's sustainability work is described in detail on pages 49–68.*

GUIDELINES FOR REMUNERATION AND OTHER EMPLOYMENT TERMS FOR THE EXECUTIVE MANAGEMENT TEAM

The total remuneration for senior executives is to be in line with market norms and competitive in order to attract, motivate and retain key individuals. The objective is to create incentives for senior executives to execute strategic plans and deliver strong results, as well as to align the interests of the senior executives with those of the shareholders. Remuneration for senior executives is to consist of a fixed salary, short-term variable remuneration and long-term share- and performance-based incentive schemes (LTI programmes), in addition to pension and other customary benefits. The guidelines for remuneration and terms for 2018 are largely in line with the proposed guidelines for remuneration for senior executives which will apply as of the date of the Annual General Meeting, 10 April 2019.

▶ *The proposal is presented in Note 9 along with information on the average number of employees as well as salaries and other terms for senior executives.*

EXPECTATIONS REGARDING FUTURE DEVELOPMENT

The most important drivers of cash earnings for Pandox are the growth of the hotel market, acquisitions and the organic growth the Company generates itself through cash flow-driving investments in the existing portfolio. In a climate of positive economic growth, Pandox's well-diversified portfolio, with balanced demand and positive contributions from the acquisitions Pandox that made in 2018, there is potential for some growth in 2019.

APPROPRIATION OF PROFIT

At the disposal of the Annual General Meeting:	
Retained earnings	3,390,427,303
Profit for the year	733,664,141
SEK	4,124,091,444

The Board of Directors proposes that the earnings be allocated as follows:	
Dividend to shareholders, SEK 4.70 per share	787,249,995
Carried forward	3,336,841,449
SEK	4,124,091,444

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 application of Swedish Financial Accounting Standards Council recom-

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mendation RFR 1 (Supplementary Accounting Rules 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, Section 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 regard to this 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.

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 2.9 percent of the Group's EPRA NAV, 3.7 percent of equity attributable to the Parent Company shareholders, 17.3 percent of the Parent Company's equity and 41.6 percent of the Group's cash earnings for 2018. Planned investments were taken into account when 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. No circumstances have emerged that might make the proposed dividend unwarranted.

▶ *See also Note 31 Allocation of earnings.*

EVENTS AFTER THE CLOSING DAY

No events or transactions of significance have taken place since 31 December 2018 that in any way affect the financial statements provided for the Pandox Group for the 2018 financial year.


Hotel Hubert Grand Place Brussels

Consolidated statement of comprehensive income

MSEK	Note	2018	2017
Revenue, Property Management			
Rental income	2, 3, 13	2,809	2,121
Other property revenue	2, 13	162	81
Revenue, Operator Activities	2	2,153	2,067
Net sales		**5,124**	**4,269**
Costs Property Management	2, 5, 7, 8, 9	–454	–321
Costs Operator Activities	2, 6, 7, 8, 9	–1,776	–1,743
Gross profit		**2,894**	**2,206**
– of which gross profit, Property Management	2	*2,517*	*1,882*
– of which gross profit, Operator Activities	2	*377*	*324*
Central administration	2, 4, 7, 9	–148	–124
Financial income	2, 10	1	15
Financial expense	2, 10	–804	–534
Profit before changes in value		**1,943**	**1,563**
Changes in value			
Properties, unrealised	2, 13	1,428	1,625
Properties, realised	2, 13	67	289
Derivatives, unrealised	2, 18	25	173
Profit before tax		**3,463**	**3,650**
Current tax	2, 12	–216	–73
Deferred tax	2, 12	–424	–429
Profit for the year		**2,823**	**3,148**
Other comprehensive income			
Items that may not be reclassified to profit for the year			
This year´s revaluation of fixed assets[1)]		117	112
Tax attributable to items that may not be reclassified to profit for the year		–35	–25
		82	**87**
Items that have been or may be reclassified to profit or loss			
Net investment hedge foreign operations, net after tax		67	–88
Translation differences, realisation of foreign operations		316	–184
		383	**–272**
Other comprehensive income for the year		465	–185
Comprehensive income for the year		3,288	2,963
Profit for the year attributable to the shareholders of the parent company		2,820	3,140
Profit for the year attributable to non-controlling interests		3	8
Total comprehensive income for the year attributable to the shareholders of the parent company		3,278	2,950
Total comprehensive income for the year attributable to non-controlling interests		10	13
Per share data	17		
Weighted average number of shares outstanding		167,499,999	157,856,163
Total earnings per share, before and after dilution, SEK		16.83	19.89

1) Change of Fair value due to reclassification of hotel properties from Operator Activities to Property Management.

See comments next page.

Comments
Consolidated comprehensive income

Net sales
Revenue from Property Management amounted to MSEK 2,971 (2,202), an increase of 35 percent, mainly explained by acquired growth in the lease portfolio and positive market growth and helped by reclassifications. For comparable units, revenue increased by 2 percent, adjusted for currency effects.

Revenue from Operator Activities amounted to MSEK 2,153 (2,067), an increase of 4 percent. Adjusted for currency effects and comparable units, revenue increased by 6 percent and RevPAR by 7 percent.

The Group's net sales amounted to MSEK 5,124 (4,269). Adjusted for currency effects and comparable units, sales increased by 4 percent.

Net operating income
Net operating income from Property Management, which corresponds to gross profit, amounted to MSEK 2,517 (1,882), an increase of 34 percent. Adjusted for currency effects and comparable units, net operating income increased by 1 percent. Property costs amounted to MSEK –454 (–321) and 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 540 (494), an increase of 9 percent. Adjusted for currency effects and comparable units, net operating income increased by 10 percent. Total net operating income amounted to MSEK 3,057 (2,376), an increase of 29 percent.

▶*Details of Operator Activities' costs can be found in Note 6.*

Central administration
Central administration costs amounted to MSEK –148 (–124). These include costs for corporate governance, administrative personnel, IT and office rents. The increase is mainly explained by strengthening of group functions and geographical expansion.

Financial income and expense
Financial expense amounted to MSEK –804 (–534). The change is mainly explained by increased interest-bearing liabilities following acquisitions that increased debt in foreign currencies.

Pandox has decided to hedge a larger share of its loan portfolio than previously, resulting in higher costs for interest rate derivatives.

Financial income amounted to MSEK 1 (15). In the comparable period 2017, income from the sale of shares in Norway of MSEK 13 is included.

Changes in value
Unrealised changes in value amounted to MSEK 1,428 (1,625) for investment properties and are mainly explained by a combination of higher cash flows and a lower valuation yield in the comparable portfolio.

Realised changes in value amounted to MSEK 67 (289) and relate to the divestment of Scandic Ferrum and the reversal of guarantees for past divestments. Unrealised changes in the value of derivatives amounted to MSEK 25 (173).

Current and deferred tax
Current tax amounted to MSEK – 216 (–73). Most of the increase relates to the acquisition of Jurys Inn at the end of 2017. In the comparable period 2017, a tax reversal of MSEK 47 in Germany and Sweden is included. Deferred tax expense amounted to MSEK –424 (–429).

Profit for the year
Profit for the year amounted to MSEK 2,823 (3,148) and profit for the period attributable to the Parent Company's shareholders amounted to MSEK 2,820 (3,140), which represents SEK 16.83 (19.89) 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 remeasurement for the year of property, plant and equipment and related hedging in respect of net assets in foreign operations.

Consolidated statement of financial position

MSEK	Note	31 Dec 2018	31 Dec 2017 [4]
Assets			
Non-current assets			
Operating properties	15	5,326	5,246
Equipment/Interiors	14	484	423
Investment properties	13	47,139	42,548
Deferred tax assets	12	465	613
Derivatives[1]	18, 19	12	11
Other non-current receivables	11, 19	31	26
Total non-current assets		**53,457**	**48,867**
Current assets			
Inventories		10	10
Current tax assets		29	40
Trade accounts receivable	16, 19	326	167
Prepaid expenses and accrued income	20	305	220
Other current receivables		215	67
Cash and cash equivalents		674	999
Assets held for sale	29	—	1,367
Total current assets		**1,559**	**2,870**
Total assets		**55,016**	**51,737**
EQUITY AND LIABILITIES			
Equity	17		
Share capital		419	419
Other paid-in capital		4,556	4,557
Reserves		215	–243
Retained earnings, including profit for the year		16,188	14,112
Total equity attributable to the owners of the parent company		**21,378**	**18,845**
Non-controlling interests		**160**	**182**
Total equity		**21,538**	**19,027**
Liabilities			
Non-current liabilities			
Non-current interest-bearing liabilities[2] [3]	18, 19	19,469	23,593
Other non-current liabilities		18	248
Derivatives[1]	18, 19	550	574
Provisions	21	100	134
Deferred tax liabilities	12	3,430	3,026
Total non-current liabilities		**23,567**	**27,575**
Current liabilities			
Provisions	21	1	2
Current interest-bearing liabilities[2] [3]	18, 19	8,448	2,705
Tax liabilities		109	83
Trade accounts payable	19	286	250
Other current liabilities		411	284
Accrued expenses and prepaid income	20	656	444
Liabilities relating to assets held for sale	29	—	1,367
Total current liabilities		**9,911**	**5,135**
Total liabilities		**33,478**	**32,710**
Total equity and liabilities		**55,016**	**51,737**

1) The fair value measurement belongs to Level 2 in the fair value hierarchy in IFRS, i.e. it is based on inputs that are observable, either directly or indirectly.
2) The carrying amounts of interest-bearing liabilities and other financial instruments constitute a reasonable approximation of their fair values.
3) Arrangement fee of approximatly MSEK 178 (175) have reduced interest-bearing liabilities.
4) Pandox is applying IFRS 9 and IFRS 15 from 1 January 2018. The application of these new accounting standards does not result in any changes or restatements in the financial statements. The consolidated balance sheet as of 1 January 2018 with these new reporting standards applied is unchanged from the balance sheet as of 31 December 2017 prepared according to the previous standards.

See comments next page.

Comments
Consolidated statement of financial position

NON-CURRENT ASSETS

Operating properties

The 16 (17) properties within the Operator Activities segment are classified as operating properties and are reported at cost less depreciation and impairment losses. The carrying amount including equipment/interiors amounted to MSEK 5,810 (5,669). During the year, two hotels were reclassified as Property Management and one hotel in UK was acquired.

Investment properties

The number of investment properties at the end of the year was 128 (126). They are reported at fair value (market value) and amounted to MSEK 47,139 (42,548). During the year, one acquisition was made in UK and one property in Sweden was handed over. In addition, two hotel properties were reclassified to Property Management. Unrealised changes in the value of investment properties for the year amounted to MSEK 1,428 (1,625). Realised changes in value amounted to MSEK 14 (6).

Investments in the existing portfolio during the year, excluding acquisitions, amounted to MSEK 720 (714), of which MSEK 434 (425) was in investment properties and MSEK 286 (289) was in operating properties and and MSEK 1 (0) refers to Parent Company.

Deferred tax assets

At the end of the period deferred tax assets amounted to MSEK 465 (613). These represent tax loss carryforwards which the Company expects to be able to utilise in future financial years, and temporary measurement differences for interest rate derivatives. ▶*See Note 12.*

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 of MSEK 674 (999) are mainly managed by the Parent Company through a central accounts structure at a bank, with cash being deposited in a joint interest-bearing account. Any surplus may over time be deposited in a time deposit account at the bank. Pandox has unutilised credit facilities totalling MSEK 1,826 (2,321).

EQUITY AND LIABILITIES

Financial position and net asset value

At the end of the period the loan-to-value ratio was 49.7 percent (50.8). Equity amounted to MSEK 21,538 (19,027) and net asset value (NAV) as defined by EPRA was MSEK 27,476 (24,211). EPRA NAV per share was SEK 164.04 (144.54).

NON-CURRENT LIABILITIES

Interest-bearing liabilities

At the end of the period the loan portfolio amounted to MSEK 28,095 (26,473). The average fixed interest period was 3.0 years (2.6) and the average interest rate, corresponding to the interest rate level at the end of the period, was 2.6 (2.6) percent, including effects of interest rate swaps. The average repayment period was 3.1 years (3.3). The loans are secured by a combination of mortgage collateral and pledged shares.

Derivatives

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 a gross amount of MSEK 22,153 and a net amount of MSEK 17,129. Around 56 percent of Pandox's loan portfolio was thereby hedged against interest rate movements for periods longer than one year. The market value of the derivatives is measured each quarter and the change in value is recognised in profit or loss. On 31 December 2018 the market value of Pandox's financial derivatives amounted to MSEK –538 (–563).

Provisions

Provisions of MSEK 101 (136) refer to incentive schemes for senior executives, pension provisions and rental warranties for sold hotel properties.

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 the carrying amount and taxable value of operating properties. The amount was MSEK 3,430 (3,026). ▶*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

	Attributable to owners of the parent							
MSEK	Share capital	Other paid-in capital	Translation reserves	Revaluation reserve [4]	Retained earnings, including profit for the year	Total	Non-controlling interests	Total equity
Equity, opening balance, 1 January 2017	394	3,122	–53	—	11,618	15,081	177	15,258
Profit for the year 2017	—	—	—	—	3,140	3,140	8	3,148
Other comprehensive income 2017	—	—	–277	87	—	–190	5	–185
New share issue 2017[1]	25	1,435	—	—	—	1,460	—	1,460
Transaction regarding non-controlling interest[3]	—	—	—	—	—	—	–8	–8
Dividend 2017	—	—	—	—	–646	–646	—	–646
Equity, closing balance, 31 December 2017	419	4,557	–330	87	14,112	18,845	182	19,027
Equity, opening balance, 1 January 2018	419	4,557	–330	87	14,112	18,845	182	19,027
Profit for the year 2018	—	—	—	—	2,820	2,820	3	2,823
Other comprehensive income 2018	—	—	376	82	—	458	7	465
New share issue 2018[2]	—	–1	—	—	—	–1	—	–1
Transactions regarding non-controlling interest[3]	—	—	—	—	–7	–7	–32	–39
Dividend 2018	—	—	—	—	–737	–737	—	–737
Equity, closing balance, 31 December 2018	419	4,556	46	169	16,188	21,378	160	21,538

1) The new share issue amount is reported net after deduction of transaction cost MSEK 18, 2017.
2) Proceeds from directed share issue refers to transaction costs of MSEK 1, 2018
3) Acquisition and dissolution of non-controlling interest regarding Austria and Germany and guarantee dividend minority.
4) Change of Fair value due to reclassification of hotel properties from Operator Activities to Property Management.

2017

Outstanding shares at year-end 167,499,999

2018

Outstanding shares at year-end 167,499,999

The share quota value is SEK 2.50.

Consolidated statement of cash flow

MSEK	Note	2018	2017
OPERATING ACTIVITIES			
Profit before tax		3,463	3,650
Reversal of depreciation		163	170
Realised changes in value, investment properties		–66	–289
Unrealised changes in value,investment properties		–1,429	–1,625
Unrealised changes in value, derivatives		–24	–173
Other items not included in cash flow	27	46	33
Taxes paid		–178	–73
Cash flow from operating activities before changes in working capital		1,975	1,693
Increase/decrease in operating receivables		–243	–102
Increase/decrease in operating liabilities		–22	102
Changes in working capital		–265	0
Cash flow from operating activities		1,710	1,693
INVESTING ACTIVITIES			
Acquisitions of non-controlling interests		–29	—
Investments in investment properties		–434	–425
Investments in operating properties		–221	–161
Investments in equipment/interiors		–65	–128
Divestment of hotel properties, net effect on liquidity	27	286	356
Acquisition of hotel properties, net effect on liquidity	27	–1,725	–10,609
Acquisition of financial assets		–11	–24
Divestment of financial assets		9	21
Cash flow from investing activities		–2,190	–10,970
FINANCING ACTIVITIES			
New share issue		—	1,480
Transaction cost		–1	–20
New loans		7,164	13,138
Amortisation of debt		–6,258	–4,188
Guarantee dividend minority		–10	–8
Paid dividend		–737	–646
Cash flow from financing activities		158	9,756
Cash flow for the year		–322	479
Cash and cash equivalents at beginning of year		999	517
Exchange rate differences in cash and cash equivalents		–3	3
Cash and cash equivalents at year-end		674	999
Information on interest paid			
Interest received amounted to		1	2
Interest paid amounted to		–723	–508
Information on cash and cash equivalents at year-end		674	999
Cash and cash equivalents consist of bank balances			

Comments
Cash flow

Cash flow from operating activities before changes in working capital amounted to MSEK 1,975 (1,693). The increase is due to a combination of acquired and organic growth in the business.

Changes in working capital amounted to MSEK –265 (0).

Investing activities affected cash flow in the amount of MSEK –2,190 (–10,970). During the year two hotel properties were acquired in the UK. Acquisition of the properties affected cash flow in the amount of MSEK –1,725 (–10,609). During the year the Group divested one property in Sweden, with a positive effect on cash flow of MSEK 286 (356). Investments in properties and non-current assets amounted to MSEK –720 (–714). Financing activities affected cash flow in the amount of MSEK 158 (9,756). The significant change is explained by new loans of MSEK 7,164 (13,138) and debt repayment of MSEK –6,258 (–4,188). A targeted share issue injected net proceeds of MSEK 0 (1,460). Dividends paid affected cash flow in the amount of MSEK –747 (–654).

Cash flow for the year amounted to MSEK –322 (479). Cash and cash equivalents at year-end amounted to MSEK 674 (999).

Parent Company income statement

MSEK	Note	2018	2017
Net sales	26	106	101
Administrative costs	4, 9	–190	–166
Operating profit		**–84**	**–65**
Profit from participations in Group companies	10, 26	760	200
Other interest income and similar profit/loss items	10, 26	462	140
Other interest expense and similar profit/loss items[1)]	10, 26	–555	–609
Profit after financial items		**583**	**–334**
Year-end appropriations		145	248
Profit before tax		**728**	**–86**
Tax on profit for the year	12	0	—
Deferred tax	12	6	116
Profit for the year		**734**	**30**

1) Of which –93 (–357) MSEK unrealised change in value of interest rate derivates.

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 the activities of Pandox's property-owning companies is provided by staff employed by the Parent Company, Pandox AB (publ). The costs of these services are invoiced to Pandox's subsidiaries. The total amount invoiced in the period January – December 2018 was MSEK 106 (101). Profit from participations in Group companies of MSEK 760 (200) refers to dividends received from Group companies and capital gain due to divestment of subsidiaries. Year-end appropriations are the net reported amounts of Group contributions paid and received. Profit for the year amounted to MSEK 734 (30).

Tax on profit for the year is MSEK 0 (0) due to non-taxable revenue and the utilisation of existing tax loss carryforwards. During the year the Company recognised tax assets for its tax loss carryforwards as well as temporary differences in the value of interest rate derivatives amounting to MSEK 121 (116). ▶ *See Note 12.*

The Parent Company's assets consist mainly of shares and participations in subsidiaries and receivables from Group companies.

At the end of the period the Parent Company's equity amounted to MSEK 4,553 (4,556). External interest-bearing liabilities amounted to MSEK 7,069 (6,602), of which MSEK 4,276 (5,767) was in the form of non-current interest-bearing liabilities. A dividend was paid to the shareholders in the Parent Company in the amount of MSEK 737 (646).

Parent Company balance sheet

MSEK	Note	31 Dec 2018	31 Dec 2017
ASSETS			
Non-current assets			
Property, plant and equipment			
Equipment	14	1	1
Total property, plant and equipment		**1**	**1**
Financial non-current assets			
Shares and participations in Group companies	25	7,393	7,835
Receivables from Group companies	26	9,734	9,631
Other non-current receivables	11	17	13
Deferred tax	12	121	116
Total financial non-current assets		**17,265**	**17,595**
Total non-current assets		**17,266**	**17,596**
Current assets			
Other receivables		12	12
Prepaid expenses and accrued income	20	34	17
Cash and bank balances		84	101
Total current assets		**130**	**130**
Total assets		**17,396**	**17,726**
EQUITY AND LIABILITIES			
Equity	17		
Share capital		419	419
Statutory reserve		10	10
Share premium reserve		0	1,435
Retained earnings		3,390	2,662
Profit for the year		734	30
Total equity		**4,553**	**4,556**
Provisions	21	**100**	**82**
Non-current liabilities			
Non-current interest-bearing liabilities[1)]	28	4,276	5,767
Derivatives		451	358
Total non-current liabilities		**4,727**	**6,125**
Current liabilities			
Current interest-bearing liabilities[1)]	26, 28	2,793	835
Trade accounts payable		6	58
Liabilities, Group companies	26	5,145	6,011
Other current liabilities		18	15
Accrued expenses and prepaid income	20	54	44
Total current liabilities		**8,016**	**6,963**
Total liabilities		**12,843**	**13,170**
Total equity and liabilities		**17,396**	**17,726**

1) Arrangement fee of approximatly MSEK 29 (37) have reduced interest-bearing liabilites.

Statement of changes in equity for the Parent Company

MSEK	Restricted equity: Share capital	Restricted equity: Statutory reserve	Non-restricted equity: Share premium reserve	Non-restricted equity: Retained earnings	Non-restricted equity: Profit for the year	Total equity
Equity, opening balance, 1 January 2017	394	10	984	1,886	438	3,712
Appropriation of profit	—	—	–984	1,422	–438	–
Profit for the year[1)]	—	—	—	—	30	30
Dividend	—	—	—	–646	—	–646
New share issue[2)]	25	—	1,435	—	—	1,460
Equity, closing balance, 31 December 2017	419	10	1,435	2,662	30	4,556
Equity, opening balance, 1 January 2018	419	10	1,435	2,662	30	4,556
Appropriation of profit	—	—	–1,435	1,465	–30	—
Profit for the year[1)]	—	—	—	—	734	734
Dividend	—	—	—	–737	—	–737
New share issue[2)]	—	—	–1	—	—	0
Equity, closing balance, 31 December 2018	419	10	0	3,390	734	4,553

1) The Company has not presented Other comprehensive income since the Company has no items reported as Other comprehensive income.
2) The new share issue amount is reported net after deduction of transaction cost MSEK 1 (20).

2017

Outstanding shares at year-end 167,499,999

2018

Outstanding shares at year-end 167,499,999

The share quota value is SEK 2.50.

Statement of cash flow for the Parent Company

MSEK	2018	2017
OPERATING ACTIVITIES		
Profit before tax	583	–334
Reversal of depreciation	0	0
Other items not included in cash flow	5	422
Cash flow from operating activities before changes in working capital	**588**	**88**
Increase/decrease in operating receivables	–45	264
Increase/decrease in operating liabilities	–1,120	25
Changes in working capital	**–1,165**	**289**
Cash flow from operating activities	**–577**	**377**
INVESTING ACTIVITIES		
Investment equipment	0	–1
Acquisition of financial assets	–310	–4,846
Divestment of financial assets	203	86
Cash flow from investing activities	**–107**	**–4,761**
FINANCING ACTIVITIES		
New share issue	—	1,480
Transaction cost	–1	–20
Group contributions received	169	269
Group contributions provided	–24	–20
New loans	3,108	6,404
Amortisation of debt	–1,848	–3,153
Paid dividend	–737	–646
Cash flow from financing activities	**667**	**4,314**
Cash flow for the year	**–17**	**–70**
Cash and cash equivalents at beginning of the year	101	171
Cash and cash equivalents at year-end	**84**	**101**
Information on interest paid		
Interest received	324	140
Interest paid	–313	–211
Information on cash and cash equivalents at year-end	**84**	**101**
Cash and cash equivalents consist of bank balances		

Key ratios

Key figures not defined according to IFRS

A number of the financial descriptions and measures in this year-end report provide information about development and status of financial and per share measurements that are not defined in accordance with the IFRS (International Financial Reporting Standards). The alternative financial measurements below provides useful supplementary information to investors and management, as they facilitate evaluation of company performance. Since not all companies calculate financial measurements in the same manner, these are not always comparable to measurements used by other companies. Hence, these financial measures should not be seen as a substitute for measures defined according to the IFRS. Unless otherwise stated, the table below presents measures, along with their reconciliation, which are not defined according to the IFRS.

▶ *The definitions of these measures appear on page 166.*

1

RECONCILIATION ALTERNATIVE PERFORMANCE MEASUREMENTS (MSEK)	2018	2017
Equity to assets ratio, %		
Sum equity	21,538	19,027
Total assets	55,016	51,737
Equity to assets ratio, %	39.1%	36.8%
Net interest bearing debt		
Non-current interest bearing liabilities	19,469	23,593
Current interest bearing liabilitites	8,448	2,705
Arrangement fee for loans	178	175
Cash and cash equivalent	–674	–999
Net interest bearing debt	27,421	25,474
Loan to value, net, %		
Net-interest bearing debt	27,421	25,474
Market value properties	55,197	50,121
Loan to value, net %	49.7%	50.8%
Interest cover ratio, times		
Profit before changes in value	1,943	1,563
Interest expenses	746	508
Depreciation	163	170
Interest cover ratio, times	3.8	4.4
Average interest on debt end of period, %		
Average interest expenses	725	684
Non-current interest bearing liabilities	19,469	23,593
Arrangement fee for loans	178	175
Current interest bearing liabilities	8,448	2,705
Average interest on debt, end of period, %	2.6%	2.6%
See Note 18 page 136–140 for a complete reconciliation		
Investments, excl. Acquisitions	720	714

2

3

RECONCILIATION ALTERNATIVE PERFORMANCE MEASUREMENTS (MSEK)	2018	2017
Net operating income, Property Management		
Rental income	2,809	2,121
Other property income	162	81
Costs, excl. property administration	–328	–228
Net operating income, before property administration	2,643	1,974
Property administration	–126	–93
Net operating income, Property Management	2,517	1,882
Net operating income, Operator Activities		
Revenues Operator Activities	2,153	2,067
Costs Operator Activities	–1,776	–1,743
Gross profit	377	324
Add: Depreciation included in costs	163	170
Net operating income, Operator Activities	540	494
EBITDA		
Gross profit from respective operating segment	2,894	2,206
Add: Depreciation included in costs Operator Activities	163	170
Less: Central administration, excluding depreciation	–148	–124
EBITDA	2,909	2,252
Cash earnings		
EBITDA	2,909	2,252
Add: Financial income	1	15
Less: Financial cost	–804	–534
Less: Current tax	–216	–73
Cash earnings	1,890	1,660
EPRA NAV		
Equity attributable to the shareholders of the Parent Company	21,378	18,845
Add: Revaluation of operating properties	2,249	1,906
Add: Fair value of financial derivatives	538	563
Less: Deferred tax assets related to derivatives	–118	–129
Add: Deferred tax liabilities related to properties	3,430	3,026
EPRA NAV	27,476	24,211
Growth in EPRA NAV, annual rate, %		
EPRA NAV attributable to the shareholders of the Parent Company, opening balance	24,211	19,883
EPRA NAV attributable to the shareholders of the Parent Company, closing balance	27,476	24,211
Dividend added back, current year	737	646
Excluding proceeds from new share issue	0	–1,460
EPRA NAV, annual rate %	16.5%	17.7%

CONT.RECONCILIATION ALTERNATIVE PERFORMANCE MEASUREMENTS, PER SHARE [1]	2018	2017
Total comprehensive income, per share, SEK		
Total comprehensive income for the period attributable to the shareholders of the Parent Ccompany, MSEK	3,278	2,950
Weighted average number of share, before and after dilution	167,499,999	157,856,163
Total comprehensive income per share, SEK	**19.57**	**18.69**
Cash earnings per share, SEK		
Cash earnings attributable to the shareholders of the Parent Company, MSEK	1,887	1,652
Weighted average number of share, before and after dilution	167,499,999	157,856,163
Cash earnings per share, SEK	**11.26**	**10.46**
Net asset value (EPRA NAV) per share, SEK		
EPRA NAV, MSEK	27,476	24,211
Number of shares at the end of the period	167,499,999	167,499,999
Net asset value (EPRA NAV) per share, SEK	**164.04**	**144.54**
Dividend per share, SEK		
Dividend, MSEK	787	737
Number of shares at dividend	167,499,999	167,499,999
Dividend per share, SEK[3]	**4.70**	**4.40**
Weighted average number of shares outstanding before and after dilution	167,499,999	**157,856,163**
Number of shares at the end of period	167,499,999	**167,499,999**
PROPERTY RELATED KEY FIGURES		
Number of hotels end of period[2]	144	143
Number of rooms, end of period[2]	32,268	31,613
WAULT, years	15.7	15.6
Total market value properties, MSEK	55,197	50,121
Market value investment properties, MSEK	47,139	42,548
Market value operating properties, MSEK	8,058	7,573
RevPAR (Operator Activities) for comparable units at comparable exchange rates, SEK	859	806

1) Total number of outstanding shares after full dilution amount to 167,499,499 of which 75,000,000 A shares and 92,499,999 B shares. For comparison total number of shares is used for the calcualtion of key ratios.
2) Pandox's owned hotel properties.
3) For 2018 proposed dividend and for 2017 actual dividend is indicated.

EXPLANATIONS

1 **Financial risk**

Pandox owns, manages and develops hotel properties and operates hotels. The level of risk-taking is expressed in a loan-to-value ratio of between 45 and 60 percent, depending on market development and the opportunities that exist. In addition to the loan-to-value ratio, equity/assets ratio, interest cover ratio, average cost of debt and interest-bearing net debt are other relevant measurements of Pandox's financial risk.

2 **Growth and profitability**

Pandox's overall goal is to increase cash flow and property value and thereby enable Pandox to have the resources for investments to support the Group's continued expansion. Since Pandox both owns and operates hotel properties, multiple indicators are needed to measure the Company's performance in relation to goals in this regard. Growth in cash earnings is Pandox's primary focus and this is also the basis for the dividend paid annually to the shareholders, i.e. 40–60 percent of cash earnings with an average dividend share of 50 percent over time. Measuring net operating income creates transparency and comparability between the Company's two operating segments and with other property companies. EBITDA measures Pandox's total operational profitability in a uniform way.

3 **Net asset value (EPRA NAV) and equity**

Net asset value (EPRA NAV) is the collective capital Pandox manages on behalf of its shareholders. Pandox measures long-term net asset value based on the balance sheet adjusted for items that will not yield any payments in the near future, such as derivatives and tax liabilities. The market value of operating properties is included in the calculation. Return on equity is used to supplement growth in EPRA NAV.

Notes

Amounts in MSEK unless otherwise indicated

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NOTE 1 ACCOUNTING PRINCIPLES

Introduction

The consolidated accounts cover Pandox AB (the Parent Company) and its subsidiaries (the Group). The Parent Company, Pandox AB (publ), is a Swedish company (company reg. no. 556030-7885) and has its registered office in Sweden at Vasagatan 11, SE-111 20 Stockholm. Pandox 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 Pandox shares on page 36. The financial reports as per 31 December 2018 were approved by the Board of Directors and CEO on 14 February for adoption at the Annual General Meeting on 10 April 2019.

1. Accounting basis

1.1 Conformity with standards and laws

The consolidated financial statements have been prepared in accordance with the Swedish Annual Accounts Act and 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 Rules 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 statements 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 statements 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

Changes effective from 2018 have not had any material impact on the consolidated accounts.

IFRS 15 Revenue from Contracts with Customers is to be applied from 1 January 2018. IFRS 15 replaces IAS 18 Revenue and IAS 11 Construction Contracts. IFRS 15 is based on the principle that revenue is recognised when control over the goods or services is transferred to the customer – which replaces the previous principle of recognising revenue when the risks and benefits have been transferred to the purchaser. Companies can choose between full retrospective application or prospective application with additional disclosures. Pandox intends to apply the standard with full retrospective effect. To estimate the quantitative effect of the new rules on the financial statements, in 2017 the Group assessed the effect of the new standard. The standard is not assessed to have any material impact on the financial statements other than increased disclosure requirements, and therefore no adjustments of the opening balance or comparative figures were done.

IFRS 9 Financial Instruments is to be applied from 1 January 2018 and replaces IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 classifies financial assets into three different categories. The asset is classified upon initial recognition, based on the characteristics of the asset and the company's business model. The second part relates to hedge accounting. In large part, the new principles provide the conditions for reporting a truer picture of a company's management of financial risk involving financial instruments. Finally, new principles have been introduced regarding impairment of financial assets using a model based on expected losses. One of the aims of the new impairment model is that provision for credit losses will be made at an earlier stage. The standard is not expected to have any significant effect on the Group's or the Parent Company's financial statements. There will therefore be no adjustment of the opening balance of provisions for credit losses or measurement of derivatives.

New IFRS standards that have not yet begun to be applied

IFRS 16 Leases will be introduced on 1 January 2019. It replaces IAS 17 Leases and the associated interpretations IFRIC 4, SIC-15 and SIC-27. Early adoption is permitted. Pandox is not planning to adopt IFRS 16 early. The standard requires assets and liabilities attributable to all leases to be reported as a liability and an asset in the balance sheet, unless the lease term is 12 months or less or the underlying asset is of low value. This reporting is based on the approach that the lessee has a right to use an asset for a specific period of time and at the same time a liability to pay for this right. For the lessor, recognition will be essentially unchanged. The new standard on leases impacts Pandox's financial statements since the Group has operating leases for premises as well as site leaseholds. See also the impact on the Group in Note 30 Transitional effects of IFRS 16 Leases. For an idea of the size of the Group's lease commitments see Note 8 Operating leases.

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 the Company's chief operating decision-maker (CEO) to evaluate performance and to be able to allocate resources to the operating segment. Pandox 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 on the date of acquisition 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 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 of 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 to 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 and net investments or other financial instruments designated for hedging of such investments 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 and other minor rental income from offices and retail outlets.

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. The revenue comes mainly from accommodation, food and beverages, as well as conference activities. Revenue from Operator Activities is recognised in the period in which the activities are performed.

7.4 Revenue from property sales
Revenue from property sales is normally recognised on the occupancy date unless the risks and benefits have been transferred to the purchaser on an earlier occasion. Control of the asset may have been 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. The operating leases are mainly site leaseholds. 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, office equipment and for offices and other premises. 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 interest risk that 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. Deferred 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 that the transaction is executed following customary marketing, where both parties are assumed to have acted knowledgeably, prudently and without compulsion.

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 or in conjunction with major changes to the property. A description of the valuation methods applied, significant input data in value assessments and the level of the properties in the fair 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 relating to the replacement of identified components and the addition of new components is added to the carrying amount if it meets the above criteria. 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 200 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	150–200 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.

Operating properties that are reclassified as investment properties are recognised at fair value on the date of reclassification. The difference between fair value and carrying amount on the date of reclassification is posted to the revaluation reserve via other comprehensive income after deducting deferred tax.

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

Further expenditures

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

On the asset side, financial instruments recognised in the statement of financial position include financial investments, cash and cash equivalents, loans receivable, rent receivables, trade 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.

For the 2018 financial year IFRS 9 is being applied. This involves different classification than in previous years. The relevant categories for 2018 are as follows:

- Financial assets/liabilities measured at amortised cost
- Financial assets/liabilities measured at fair value through profit or loss
- Financial assets/liabilities measured at fair value through other comprehensive income

Financial assets (and liabilities) measured at amortised cost

This category refers to non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Examples of assets in this category include trade accounts receivable, cash and cash equivalents, trade accounts payable and interest-bearing liabilities. These assets (and liabilities) are measured at amortised cost applying the effective-interest method. Rent receivables and other receivables are recognised at the amounts that are expected to be received, i.e. after deductions for doubtful receivables.

Financial assets (and 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 though 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.

Financial assets (and liabilities) measured at fair value through other comprehensive income

Financial instruments in this category are measured on an ongoing basis at fair value with changes in value recognised through other comprehensive income. At present Pandox has only liablilities in this category.

Since it has been determined that the new standard will have no significant impact on the Group's or the Parent Company's financial statements, the Group has decided not to restate comparative figures. Thus the comparative figures for 2017 have been reported according to the earlier accounting principles in IAS 39, which had the following categories:

- Financial assets/liabilities measured at fair value through profit or loss for the year
- Loans and receivables
- Other liabilities

Financial assets/liabilities measured at fair value through profit or loss for the year

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

Loans receivable and trade accounts receivable

The category of loans receivable 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 applying the effective interest method. Rent receivables and other receivables are recognised at the amounts that are expected to be received, i.e. after deductions for doubtful receivables.

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 applying the effective interest method.

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 in profit for the year 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.

Hedging of net investment

Hedging of net investment in foreign operations under IFRS 9. The hedging relationship exists during a quarter, with the hedged item and the hedging instrument being identified and linked at the start of the quarter. The risk hedged is the risk that changes in exchange rate of the foreign operation's local currency against Swedish kronor will cause changes in the value of the Group's net investment when the investment is translated to SEK in the consolidated financial statements. Pandox uses loans in foreign currency, corresponding to the reporting unit, that are in the same currency as the net investment in the respective currency. Only loans external to the Group are used as hedging instruments. The effective portion of the currency remeasurement of the hedging instrument is recognised in other comprehensive income and accumulated in the translation reserve in equity. The ineffective portion is recognised under financial items in the income statement.

The amount recognised in other comprehensive income and accumulated in the translation reserve that is attributable to the hedging relationship is to be reclassified through other comprehensive income to profit or loss when Pandox fully or partly divests subsidiaries.

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 (financial year 2017)/ IFRS 9 (financial year 2018), 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 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 is it 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 fair value less costs to sell or value in use – whichever is higher. 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 rent 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 loans receivable 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 10 price base amounts (SEK 455,000 for 2018). 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. Endowment policies are recognised as a liability at the calculated liability, with a corresponding asset owned by the Parent Company.

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 provisions. 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 provision 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 liability 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 12 months are recognised at their present value. Benefits that are not expected to be paid in full within 12 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 is it 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.

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 accounts are 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. These are described below.

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

Classification and presentation

The Parent Company's annual accounts include an income statement and balance sheet in accordance with Chapter 9 of the Swedish Annual Accounts Act. They are presented according to the presentation schedule in this Act. 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 and equity, and the listing of 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 amount 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 (financial year 2017)/ IFRS 9 (financial year 2018) are not applied to the Parent Company as a legal entity.

The Parent Company's non-current financial assets are measured at cost less any impairment losses, and current financial 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

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

Non-current assets held for sale and discontinued operations

Non-current assets held for sale and discontinued operations are not disclosed in the Parent Company's income statement and balance sheet since the Parent Company complies with the income statement and balance sheet format set out in the Swedish Annual Accounts Act. Information regarding non-current assets held for sale and discontinued operations is disclosed in the notes instead. Depreciation and amortisation are applied in accordance with the Annual Accounts Act.

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, which means that IFRS 9 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.

EXCHANGE RATES

The exchange rates used were obtained from the Riksbank (Sweden's central bank), www.riksbank.se.

Currency code	Ultimo 31 Dec 2017	Average Jan–Dec 2018	Ultimo 31 Dec 2018
CAD	6.564200	6.710300	6.592200
CHF	8.428133	8.883060	9.099237
DKK	1.322850	1.376179	1.376011
EUR	9.849700	10.256700	10.275300
GBP	11.104500	11.592800	11.348200
NOK	1.001050	1.068710	1.024475
SEK	1.000000	1.000000	1.000000

NOTE 2 OPERATING SEGMENTS

Pandox's operating segments consist of Property Management and Operator Activities. The Property Management segment owns, improves and manages hotel properties and provides external customers with premises for hotel operations, as well as other types of premises adjacent to hotel properties. The Property Management segment also includes eight management agreements for externally owned hotel properties. The Operator Activities segment owns hotel properties and operates hotels in such owned properties. The Operator Activities segment also includes one hotel with a long-term lease that is operated by Pandox, as well as a management agreement for an additional externally owned hotel property. Non-allocated items are any items that are not attributable to a specific segment or are common to both segments. 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 amounts reported for the segments are the same as those for the Group. Scandic and Fattal are tenants who each account for more than 10 per cent of revenues. In 2018 the rental income from Scandic amounted to MSEK 1 036 (972) and the management revenue from Fattal amounted to MSEK 829 (314), which is equivalent to 36.9 (45.8) and 29.5 (14.8) percent respectively of total hotel rental income.

GROUP
2018

Operating segments, MSEK	Property Management[4]	Operator Activities[4]	Group-wide and non-allocated items	Total
Revenue, Property Management				
Rental income and other property revenue	2,971	—	—	**2,971**
Revenue, Operator Activities	—	2,153	—	**2,153**
Revenue	**2,971**	**2,153**	—	**5,124**
Costs Property Management	–454	—	—	**–454**
Costs Operator Activities[1]	—	–1,776	—	**–1,776**
Gross profit	**2,517**	**377**	—	**2,894**
Central administration	—	—	–148	**–148**
Financial income	—	—	1	**1**
Financial expense	—	—	–804	**–804**
Profit before changes in value	**2,517**	**377**	**–951**	**1,943**
Changes in value				
Properties, unrealised	1,428	—	—	**1,428**
Properties, realised	67	—	—	**67**
Derivatives, unrealised	—	—	25	**25**
Profit before tax	**4,012**	**377**	**–926**	**3,463**
Current tax	—	—	–216	**–216**
Deferred tax	—	—	–424	**–424**
Profit for the year	**4,012**	**377**	**–1,566**	**2,823**

2018

Geographical markets	Sweden	Denmark	Norway	Finland	Germany	Belgium	UK	Other	Total
Revenue									
Property Management	910	229	212	294	469	46	627	184	**2,971**
Operator Activities	—	—	—	37	501	985	160	470	**2,153**
Properties, market value[2]	14,940	3,495	3,223	3,943	9,872	4,225	11,028	4,471	**55,197**
Investments in properties[3]	199	29	53	31	69	141	66	132	**720**
Acquisition of properties	—	—	—	—	7	—	1,718	—	**1,725**
Realised change in value, properties	14	—	—	—	—	—	—	—	**14**
Book value operating properties	—	—	—	26	1,492	2,444	888	959	**5,809**
Total non-current assets excl deferred tax	20,407	2,090	2,100	3,039	7,443	3,132	10,840	3,941	**52,992**

1) Expenses for Operator Activities include depreciation of operating properties at MSEK 163.
2) Also includes fair value of operating properties at MSEK 8,058.
3) Includes investments in equipment/interiors of operating properties at MSEK 65.
4) Management revenue is recognised over time and fixed fees are received in advance. Variable fees within Property Management are settled on a six-monthly or annual basis, as agreed. In Operator Activities revenue is recognised and payments are received at the time of delivery of the service and/or product.

FINANCIAL

GROUP
2017

Operating segments, MSEK	Property Management [4]	Operator Activities [4]	Group-wide and non-allocated items	Total
Revenue, Property Management				
Rental income and other property revenue	2,202	—	—	**2,202**
Revenue, Operator Activities	—	2,067	—	**2,067**
Revenue	**2,202**	**2,067**	—	**4,269**
Costs Property Management	–321	—	—	–321
Costs Operator Activities [1]	—	–1,743	—	–1,743
Gross profit	**1,882**	**324**	—	**2,206**
Central administration	—	—	–124	–124
Financial income	—	—	15	**15**
Financial expense	—	—	–534	–534
Profit before changes in value	**1,882**	**324**	**–644**	**1,563**
Changes in value				
Properties, unrealised	1,625	—	—	**1,625**
Properties, realised	6	283	—	**289**
Derivatives, unrealised	—	—	173	173
Profit before tax	**3,513**	**607**	**–471**	**3,650**
Current tax	—	—	–73	–73
Deferred tax	—	—	–429	–429
Profit for the year	**3,513**	**607**	**–973**	**3,148**

2017

Geographical markets	Sweden	Denmark	Norway	Finland	Germany	Belgium	UK	Other	Total
Revenue									
Property Management	888	201	184	277	441	6	27	179	2,202
Operator Activities	23	22	119	31	455	943	1	473	2,067
Properties, market value [2]	14,539	3,345	3,037	3,553	8,825	3,795	8,847	4,180	50,121
Investments in properties [3]	212	23	91	25	185	92	—	87	714
Acquisition of properties	—	—	—	—	—	324	8,399	109	8,832
Realised change in value, properties	—	—	6	—	—	283	—	—	289
Book value operating properties	—	—	—	26	1,411	2,945	388	898	5,668
Total non-current assets excl deferred tax	18,546	2,032	2,030	2,916	7,168	2,945	8,853	3,764	48,254

1) Expenses for Operator Activities include depreciation of operating properties at MSEK 170.
2) Also includes fair value of operating properties at MSEK 7,573.
3) Includes investments in equipment/interiors of operating properties at MSEK 128.
4) Management revenue is recognised over time and fixed fees are received in advance. Variable fees within Property Management are settled on a six-monthly or annual basis, as agreed. In Operator Activities revenue is recognised and payments are received at the time of delivery of the service and/or product.

NOTE 3 REVENUE

Pandox's revenue is attributable to the segments Property Management and Operator Activities. Revenue from Property Management consists of rental income and a smaller element of other property revenue. Rental income relates to long leases with reputable hotel operators. The leases are generally linked to the hotels' sales of rooms, conference rooms and food and beverages, and usually involve a guaranteed minimum rent – making it possible to have increased income as well as downside protection. Contractual rental income has been translated at the exchange rate on the closing day. Total variable rental income accounts for MSEK 1,234 (942) of the total rental income of MSEK 2,809 (2,121) in 2018. Within the Property Management segment is a smaller business segment, Asset Management, in which Pandox manages hotel properties on behalf of external owners. This currently encompasses around 2,000 hotel rooms spread across 10 companies. The Operator Activities segment generates revenue from hotels that are operated by Pandox itself. In this segment the hotels' revenue from sales of rooms, conference rooms, food and beverages etc. accrues entirely to Pandox. Total revenue from Operator Activities amounts to MSEK 2,153 (2,067). All leases relating to the rental of premises are classified as operating leases. The operating leases are non-cancellable. The average remaining lease terms at the end of the financial year amounted to 15.7 (15.6) years for the current portfolio. The maturity structure of the future rental income as of the closing day is presented in the table below.

GROUP
RENTAL INCOME, MATURITY STRUCTURE OF CONTRACTUAL RENT

MSEK	2018	2017
Rental income		
Maturing within one year	2,689	2,526
Maturing in 1–5 years	12,555	12,005
Maturing after more than 5 years	26,145	24,774
Total	41,389	39,305

Around two 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 18 (22).

REMUNERATION TO AUDITORS

	Group		Parent Company	
MSEK	2018	2017	2018	2017
PwC				
Audit assignments	–8.8	–6.5	–2.2	–1.9
Audit-related services[1)]	–1.1	–0.9	–0.9	–0.6
(of which to the auditor for the parent company Pricewaterhouse-Coopers AB)	*–0.9*	–0.6	—	—
Tax advisory services[1)]	–0.6	–0.0	—	—
(of which to the auditor for the parent company Pricewaterhouse-Coopers AB)	—	—	—	—
Other assignments[1)]	–0.4	–0.0	–0.4	—
(of which to the auditor for the parent company Pricewaterhouse-Coopers AB)	*–0.4*	—	—	—
KPMG				
Audit assignments	—	–3.0	—	–1.9
Audit-related services	—	–0.7	—	–0.6
Tax advisory services	—	–3.6	—	–0.1
Other assignments	—	–0.2	—	—
Other				
Other assignments	—	—	—	—
Total	–10.9	–14.9	–3.5	–5.1

1) Audit-related services and other services include other audit statements relating to special audits and accounts, as well as audit-related advisory services relating to accounting (including IFRS), tax matters and advisory services relating to futures studies for European cities.

NOTE 5 PROPERTY MANAGEMENT COSTS

GROUP

MSEK	2018	2017
Operating costs	–33	–32
Maintenance costs	–62	–50
Property tax	–174	–96
Site leasehold rent	–60	–50
Property administration	–91	–74
Other administration costs	–34	–19
Total	–454	–321

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.

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 162 (81). Property administration of MSEK –91 (–74) comprises administration costs for Property Management.

NOTE 6 OPERATOR ACTIVITIES COSTS

GROUP

MSEK	2018	2017
Employee costs	–720	–744
Marketing and sales	–136	–150
Repairs and maintenance	–31	–28
Property tax	–75	–60
Other operating costs	–651	–591
Depreciation	–163	–170
Total	–1,776	–1,743

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. Pandox has chosen not to report the company's operating properties at fair value. Operating properties are reported at acquisition value, which is continuously reduced by depreciation.

NOTE 7 OPERATING COSTS BY TYPE

GROUP

MSEK	2018	2017
Employee costs	–835	–854
Marketing and sales	–136	–150
Maintenance	–93	–78
Operation and administration	–842	–731
Site leasehold rents	–60	–50
Property tax	–249	–156
Depreciation	–163	–170
Total	–2,378	–2,188

Employee costs include salary costs of MSEK 814 (847). 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	2018	2017
Site leasehold agreements, maturity structure		
Maturing within one year	–49	–69
Maturing in 1–5 years	–128	–258
Maturing after more than 5 years	–2,481	–2,516
Total	–2,658	–2,843

Operating leases are leases where a company within the Group is the lessee. The operating leases are mainly site leaseholds. The cost in 2018 for site leasehold rents was MSEK 60 (50). The average remaining leasehold period is 27 (28) years. The payments are expensed on a straight line basis over the term of the lease.

Other leases refers to smaller amounts with short period of contract. The cost in 2018 for other leases was MSEK 37 (22). The main contracts concerning period of time and cost refers to office rental in Stockholm and rent for premises in Germany. The lease contracts runs until 2021 and 2031 respectively and amounts to MSEK 3.8 and MSEK 10.3 respectively.

Other lease contracts have been signed for vehicles and office equipment which mature within four years. These amounts are insignificant.

Transitional effects due to new accounting principle IFRS 16 Leasing that comes into force on January 1, 2019 is shown in Note 30.

NOTE 9 SALARIES, OTHER REMUNERATION AND PAYROLL OVERHEADS

Salary costs for the Group and the Parent Company amount to MSEK –813.7 (–847.4) and are presented in the table below.

	Group		Parent Company	
Salaries, fees and benefits, MSEK	2018	2017	2018	2017
Chairman of the Board				
Christian Ringnes	–0.8	–0.7	–0.8	–0.7
Other board members				
Leiv Askvig	–0.5	–0.4	–0.5	–0.4
Ann-Sofi Danielsson	–0.5	–0.5	–0.5	–0.5
Olaf Gauslå[1)]	–0.1	–0.5	–0.1	–0.5
Jeanette Dyhre Kvisvik	–0.4	–0.2	–0.4	–0.2
Jon Rasmus Aurdal[2)]	–0.3	—	–0.3	—
Helene Sundt	–0.4	–0.4	–0.4	–0.4
Bengt Kjell	–0.6	–0.5	–0.6	–0.5
Mats Wäppling[1)]	–0.1	–0.5	–0.1	–0.5
Chief Executive Officer				
Basic salary	–7.3	–5.0	–7.3	–5.0
Variable remuneration	–4.8	–1.7	–4.8	–1.7
Incentive scheme	–5.2	–5.3	–5.2	–5.3
Other senior executives				
Basic salary	–17.3	–16.4	–15.8	–14.0
Variable remuneration	–4.6	–3.4	–4.2	–2.7
Other remuneration[3)]	–6.6	–5.9	–1.0	–0.9
Incentive scheme	–7.4	–10.9	–7.2	–7.4
Other employees	–610.4	–637.2	–23.4	–23.8
Incentive scheme	–0.9	–0.9	0.0	–0.0
Total	**–668.2**	**–690.4**	**–72.6**	**–64.5**
Contractual pension costs				
Chief Executive Officer	–2.5	–1.7	–2.5	–1.7
Other senior executives	–6.6	–6.4	–6.6	–6.3
Other employees	–18.5	–19.0	–2.9	–2.2
Total	**–27.6**	**–27.1**	**–12.0**	**–10.2**
Payroll overheads including payroll tax				
Chairman of the Board	–0.1	–0.1	–0.1	–0.1
Other board members	–0.6	–0.7	–0.6	–0.7
Chief Executive Officer	–6.0	–4.2	–6.0	–4.2
Other senior executives, eight persons	–10.2	–10.7	–10.1	–9.1
Other employees	–101.0	–114.2	–7.8	–7.6
Total	**–117.9**	**–129.9**	**–24.6**	**–21.7**
Total	**–813.7**	**–847.4**	**–109.2**	**–96.4**

1) Resigning board member at the AGM 9 April 2018.
2) Elected board member at the AGM 9 April 2018.
3) Remuneration is invoiced by one senior executive.

Remuneration of senior executives

Principles

Fees are paid to the Board of Directors of the Parent Company as decided at the Annual General Meeting. 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 2018 this was eight individuals in the Group. The variable component is to constitute of a significant percentage of the possible remuneration and is maximised at four monthly salaries. The variable component is based on performance in relation to management outcomes and individually set targets.

The Board's proposed guidelines for remuneration for senior executives to apply following the Annual General Meeting on 10 April 2019.

The total remuneration for individual senior executives within Pandox is to be in line with market norms and competitive in order to attract, motivate and retain key people. The objective is to create incentives for senior executives to execute strategic plans and deliver strong results, as well as to align the interests of the senior executives with those of the shareholders.

Remuneration for senior executives is to consist of a fixed salary, short-term variable remuneration and long-term share, share price or performance-based incentive schemes, in addition to pension and other customary benefits.

- Fixed salary is to be based on the individual's skills, responsibility and performance, and is to be competitive and in line with market norms. The fixed salary is to be reviewed annually.
- Short-term variable remuneration is to be based on company-wide and individual targets. Short-term variable remuneration for the CEO is maximised at the equivalent of six monthly salaries and for other Pandox senior executives at the equivalent of four monthly salaries.
- Vesting periods for LTI-programs shall be at least three years. LTI-programs shall be share, share price or performance -based. For performance based LTI-programs the principal conditions shall be objectively measurable, be based on relevant result measures and/or sustainability. LTI-programs may be cash settled. LTI-programs shall ensure long term incentives related to Pandox' development.
- Pension solutions for senior executives are, wherever possible, to be based on fixed contributions and designed according to the levels, practices and collective agreements that apply in the countries where the senior executive is employed.
- Other benefits may consist of health insurance and other customary benefits. Other benefits are not to make up a substantial portion of the total remuneration package.
- In the event employment is terminated by the Company, the period of notice for senior executives is a maximum of 12 months.

The Board of Directors has the right to deviate from these principles if particular reasons exist for doing so in an individual case.

Variable remuneration

Variable remuneration for the CEO for 2018 was based on management outcomes and individually set targets. The amount for the CEO in 2018 was MSEK –4.8 (–1.7), whereof MSEK 0.8 was related to variable remuneration for 2017. Variable remuneration for 2018 for other senior executives was determined on the same basis as for the CEO. The amount for these executives in 2018 was MSEK –4.6 (–3.4).

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 price of the Pandox class B share for a period of 30 days between 15 November 2020 and 15 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 Initial Share Price will be adjusted for an annual return and for dividends paid. The difference between the Maturity Price and the Adjusted Initial Share Price, multiplied by a fictitious allocation of shares per participant, will be paid out in cash to the participants. The fictitious allocation of shares is based on the participants' position within the Company. The CEO was allocated 360,000 fictitious shares and the other participants a combined 804,000 fictitious shares.

In a calculation as of 31 December 2018 based on the Adjusted Initial Share Price and where the average Maturity Price is SEK 165.50 or higher, the full maximum compensation would be payable. The highest amount that can be paid out to each participant is limited to certain levels, ranging between MSEK 5 and MSEK 30. The maximum total amount that can be paid out to the participants is MSEK 87 excluding payroll overheads. The incentive scheme is expensed continually throughout the period. In 2018 MSEK 17.6 (22.4) was expensed and a total provision of MSEK 79.1 (61.5) has been made, including payroll overheads. The provision is based on the best assessment regarding the expected outcome of the incentive scheme. Payment of the amounts under the incentive scheme is dependent on the participant still being 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 not fixed.

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 the CEO is receiving other income.

Pension benefits for other employees

Other Pandox employees have an occupational pension plan whereby Pandox pays a contribution to an insurance company selected by the employee under a defined pension policy. The contributions are defined as a percentage of salary taking into consideration salary levels and age. The pension cost 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 455,000 for 2018). 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

Senior executive remuneration is determined by the Board of Directors based on proposals from the Remuneration Committee. This process is based on guidelines decided upon by the Annual General Meeting

Board of Directors in 2018:

Christian Ringnes, Chairman
Leiv Askvig
Jon Rasmus Aurdal
Bengt Kjell
Ann-Sofi Danielsson
Jeanette Dyhre Kvisvik
Helene Sundt

Senior executives in 2018:

Anders Nissen, CEO
Liia Nõu, CFO
Lars Häggström
Jonas Törner
Aldert Schaaphok
Martin Creydt
Anders Berg
Karmen Bergholcs
Erik Hvesser

Board of Directors and senior executives in 2018:

Number in the Parent Company: 15, of which 5 women
Number in the Group: 16, of which 5 women

The average number of employees in 2018 amounted to 1,111 (1,214) broken down by country and gender as shown below.

	Group		Parent Company	
Average number of employees	2018	2017	2018	2017
Women	529	590	16	13
Men	582	624	15	14
Total	1,111	1,214	31	27
Board of Directors				
Women	3	3	3	3
Men	4	5	4	5
Total	7	8	7	8
Senior executives				
Women	2	2	2	2
Men	7	8	6	6
Total	9	10	8	8
Average number of employees by country				
Sweden	31	37	31	27
Belgium	449	493	—	—
Germany	249	258	—	—
Canada	301	318	—	—
Denmark	1	10	—	—
Finland	23	24	—	—
Norway	2	74	—	—
Great Britain	55	—	—	—
Total	1,111	1,214	31	27

NOTE 10 FINANCIAL INCOME AND EXPENSE

	Group		Parent Company	
MSEK	2018	2017	2018	2017
Financial income				
Interest income	1	2	0	0
Interest income, subsidiaries	—	—	462	140
Dividend[1]	—	—	500	200
Capital gains on divestment of subsidiaries[1]	—	—	260	—
Other financial income	—	13	—	—
Total financial income	**1**	**15**	**1,222**	**340**
Financial expense				
Interest expense, loans measured at amortised cost	–483	–251	–273	–186
Interest expense, interest-rate derivatives measured at fair value	–263	–257	–93	–358
Interest expense, subsidiaries	—	—	–36	–20
Other financial expense	–58	–26	–153	–45
Total financial expense	**–804**	**–534**	**–555**	**–609**

[1] Included in the income statement item Profit from participations in Group companies.

NOTE 11 OTHER NON-CURRENT RECEIVABLES

	Group		Parent Company	
MSEK	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
Endowment policy	17	13	17	13
Prepaid compensation for land use	5	6	—	—
Other non-current receivables	9	7	—	—
Total	31	26	17	13

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NOTE 12 TAX

Tax in the income statement, MSEK	Group 2018	Group 2017	Parent Company 2018	Parent Company 2017
Current tax	–216	–73	—	—
Deferred tax	–424	–429	6	116
Total	**–640**	**–502**	**6**	**116**

Reconciliation of effective tax rate, MSEK	Group 2018	Group 2017	Parent Company 2018	Parent Company 2017
Tax				
Profit before tax	3,464	3,650	728	–86
Tax using the Company's domestic tax rate	–762	–803	–160	19
Tax relating to previous year's	4	47	—	—
Tax-exempt income	139	212	167	45
Non-deductible expenses	–117	–22	–1	–2
Transaction cost through Equity	0	4	—	4
Utilization of tax losses for which no deferred tax asset is recognized	21	62	—	—
Current-year losses for which no deferred tax asset is recognized	–37	—	—	—
Recognition of previously unrecognised tax losses	65	—	4	50
Changes in temporary differences related to previous years	–2	—	3	—
Effect due to change in tax rate[1]	100	—	–7	—
Tax effect from using other tax rates for foreign subsidiaries	–51	–2	—	—
Reported tax expenses	**–640**	**–502**	**6**	**116**

[1] With effect from 1 January 2019 the tax rate in Sweden is 21.4 percent for companies with financial years beginning on or after 1 January 2019. The tax rate is being reduced to 20.6 percent for financial years beginning on or after 1 January 2021.

GROUP DEFERRED TAX ASSETS

MSEK	Group 31 Dec 2018	Group 31 Dec 2017	Parent Company 31 Dec 2018	Parent Company 31 Dec 2017
Opening balance, tax loss carryforwards	**484**	**578**	**37**	**0**
Additional tax loss carryforwards	11	125	0	50
Utilised tax loss carryforwards	–210	–216	–15	–13
Reclassification	64	—	4	—
Change in tax rate	–21	—	–1	0
Translation difference on loss carryforwards outside Sweden	–8	–3	—	—
Closing balance	**320**	**484**	**25**	**37**
Opening balance, interest rate derivatives	**129**	**170**	**79**	—
Change for the year	–11	–41	13	79
Closing balance	**118**	**129**	**92**	**79**
Opening balance other temporary differences	—	—	—	—
Change for the year	27	—	4	—
Closing Balance	**27**	—	**4**	—
Closing balance, tax assets	**465**	**613**	**121**	**116**

The Group's accumulated tax losses are estimated at MSEK 3,170 (2,956) as of 31 December 2018. The deferred tax assets have been estimated at MSEK 1,554 (2,195) of the tax loss. Deferred tax assets have not been reported on tax losses where settlement against future taxable profits is considered to be uncertain. The change in deferred tax assets for the year has been reported over the income statement, except for translation differences on foreign deficits.

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.

GROUP
DEFERRED TAX LIABILITIES

MSEK	Investment properties	Operating properties	Untaxed reserves	Total
Opening balance, 1 Jan 2017	**2,238**	**344**	—	**2,582**
Change in items recognised in the income statement	430	12	—	442
Sales	—	–34	—	–34
Reclassifications	77	–77	—	—
Purchases	28	—	—	28
Change recognised in comprehensive income	2	6	—	8
Closing balance, 31 Dec 2017	**2,775**	**251**	—	**3,026**
Opening balance, 1 Jan 2018	**2,775**	**251**	—	**3,026**
Change in items recognised in the income statement	365	1	38	404
Sales	–35	—	—	–35
Purchases	23	–23	—	—
Change recognised in comprehensive income	35	—	—	35
Closing balance, 31 Dec 2018	**3,163**	**229**	**38**	**3,430**

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. Deferred tax liabilities relating to operating properties are temporary differences between the book value and the taxable value of the properties.

Tax recognised in other comprehensive income

In 2018 tax of MSEK –35 (–25) was recognised in other comprehensive income relating to revaluation of operating properties at fair value in connection with reclassification to investment properties.

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:

MSEK	31 Dec 2018	31 Dec 2017
Opening balance	42,548	30,163
Acquisitions (at cost) [1)]	1,215	8,395
Investments in existing portfolio	434	425
Properties divested[2)]	–286	—
Reclassified to/from operating properties[3)]	621	1,496
This year's revaluation of fixed assets in Other comprehensive income	117	112
Change in value, unrealised	1,429	1,649
Change in value, realised	14	6
Exchange gains/losses	1,048	303
Closing balance	47,139	42,548

1) Refers to acquisition of The Midland Manchester in Q4 2018 and adjustment of acquisition.
2) Refers to divestment of Scandic Ferrum in Q4 2018.
3) Refers to reclassifications of two hotel properties to Property Management in Q1 2018.

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 2018, MSEK	Sweden	Denmark	Norway	Finland	Germany	Belgium	UK & IE	Other	Total
Opening balance	14,539	3,345	3,038	3,533	6,661	0	8,460	2,971	42,548
Acquisitions	—	—	—	—	8	—	1,207	—	1,215
Investments in existing portfolio	199	29	53	30	6	12	66	39	434
Properties divested	–286	—	—	—	—	—	—	—	–286
Reclassified to/from operating properties	—	—	—	—	–36	657	—	—	621
This year's revaluation of fixed assets in Other comprehensive income	—	—	—	—	—	117	—	—	117
Change in value, unrealised	475	–13	61	207	465	27	190	16	1,428
Change in value, realised	14	—	—	—	—	—	—	—	14
Exchange gains/losses	—	134	71	153	288	33	215	154	1,048
Closing balance	14,940	3,495	3,223	3,922	7,392	846	10,138	3,181	47,139

By geographical market 31 Dec 2017, MSEK	Sweden	Denmark	Norway	Finland	Germany	Belgium	UK & IE	Other	Total
Opening balance	13,310	2,394	2,380	3,246	5,751	101	—	2,981	30,163
Acquisitions	—	—	—	—	—	—	8,395	—	8,395
Investments in existing portfolio	204	23	73	23	102	—	—	—	425
Properties divested	—	—	—	—	—	—	—	—	—
Reclassified to/from operating properties	369	558	673	—	—	–104	—	—	1,496
This year's revaluation of fixed assets in Other comprehensive income	–53	175	–11	—	—	—	—	—	112
Change in value, unrealised	709	106	62	167	638	—	—	–34	1,649
Change in value, realised	—	—	6	—	—	—	—	—	6
Exchange gains/losses	—	88	–144	96	170	3	65	24	303
Closing balance excluding assets held for sale	14,539	3,345	3,038	3,533	6,661	0	8,460	2,971	42,548

Valuation model

Pandox performs 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 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. In the valuation of hotel properties, an expected site leasehold rent is included in the calculation. 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 site leasehold 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, site leasehold 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.

		Valuation yield		Discount rate	
Calculation assumptions by geographical area in 2018	Fair value, MSEK	Range, %	Average, %	Range, %	Average, %
Sweden	14,940	4.4–6.9	5.3	6.4–8.9	7.3
–of which Stockholm	*6,169*	*4.4–6.0*	*5.0*	*6.4–8.0*	*7.0*
–of which Gothenburg	*2,815*	*4.4–6.2*	*4.8*	*6.4–8.2*	*6.8*
–of which Malmö	*1,377*	*5.0–6.1*	*5.3*	*7.0–8.1*	*7.3*
–of which Other Sweden	*4,579*	*5.5–6.9*	*6.0*	*7.5–8.9*	*8.0*
Denmark	3,495	4.8–6.4	5.4	6.8–8.4	7.4
Norway	3,223	4.4–8.0	5.7	6.4–10.0	7.7
Finland	3,922	4.5–8.0	5.5	6.3–9.8	7.3
Germany	7,394	5.3–6.6	5.7	7.3–8.6	7.7
Belgium	846	6.2–6.4	6.3	8.2–8.4	8.3
UK and Ireland	10,138	4.9–6.7	5.6	6.9–8.7	7.6
International	3,181	5.3–6.0	5.6	7.1–7.8	7.4
Total	**47,139**	**4.4–8.0**	**5.5**	**6.3–10.0**	**7.5**

		Valuation yield		Discount rate	
Calculation assumptions by geographical area in 2017	Fair value, MSEK	Range, %	Average, %	Range, %	Average, %
Sweden	14,539	4.4–7.0	5.4	6.4–9.0	7.4
–of which Stockholm	6,056	4.4–6.0	5.0	6.4–8.0	7.0
–of which Gothenburg	2,567	4.7–6.4	5.1	6.7–8.4	7.1
–of which Malmö	1,319	5.1–6.2	5.4	7.1–8.2	7.4
–of which Other Sweden	4,597	5.6–7.0	6.1	7.6–9.0	8.1
Denmark	3,345	4.8–6.7	5.4	6.8–8.7	7.4
Norway	3,037	4.4–8.0	5.7	6.9–10.5	8.2
Finland	3,533	4.9–8.0	5.7	6.4–9.5	7.2
Germany	6,662	5.3–6.8	6.0	7.3–8.8	8.0
UK and Ireland	8,460	5.0–6.5	5.5	7.0–8.5	7.5
International	2,972	5.2–6.3	5.7	6.4–8.3	7.5
Total	**42,548**	**4.4–8.0**	**5.6**	**6.4–10.5**	**7.6**

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

Sensitivity analysis – fair value	Change	Effect on value in 2018, MSEK	Effect on value in 2017, MSEK
Valuation yield	+/– 0.5pp	–3,918/+4,700	–3,504/+4,194
Currency gain/loss	+/– 1%	+/–322	+/–280
Rental income	+/– 1%	+/–520	+/–463
Discount rate	+/– 0.5pp	–2,952/+3,375	–2,642/+3,016
Net operating income	**+/– 1%**	**+/–454**	**+/–404**

Significant commitments

Pandox has commitments relating to the completion of future investment projects in a number of investment properties to a value of around MSEK 1,250. Major ongoing investment projects include Crowne Plaza Brussels, Hilton Brussels City, Hotel Berlin Berlin, The Midland Manchester, Vildmarkshotellet, NH Brussels Bloom, Clarion Collection Arcticus Harstad, DoubleTree by Hilton Montreal, Radisson Blu Basel, NH Vienna Airport, Park Amsterdam and the investment program together with Scandic Hotels Group for 19 Hotel Properties in the Nordic countries.

Other factors influencing the result for the period

Other factors influencing the result for the period	2018	2017
Rental income/other property revenue	2,971	2,202
– of which guaranteed rents	1,575	1,179
Direct costs for investment properties that generated rental income during the period (operating and maintenance costs, property tax and site leasehold rent)[1]	–324	–229

[1] Excluding property administration and insurance costs.

NOTE 14 EQUIPMENT/INTERIORS

	Group		Parent Company	
MSEK	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
Cost, opening balance	1,012	1,032	4	3
Reclassifications[1]	–134	–150	—	—
Acquisitions	64	1	—	—
Investments	65	128	—	1
Reclassification from work in progress	69	21	—	—
Sales/disposals	–24	–35	—	—
Translation differences	35	15	—	—
Accumulated cost, closing balance	**1,088**	**1,012**	**4**	**4**
Depreciation, opening balance	–589	–601	–3	–3
Reclassifications[1]	59	75	—	—
Depreciation for the year	–77	–72	0	0
Sales/disposals	24	20	—	—
Translation differences	–21	–11	—	—
Accumulated depreciation, closing balance	**–604**	**–589**	**–3**	**–3**
Residual value according to plan	**484**	**423**	**1**	**1**

[1] Reclassified from equipment to buildings, MSEK –14 (6). Other reclassifications of MSEK –61 (–82) refers to transfers from operating properties to investment properties.

NOTE 15 OPERATING PROPERTIES

GROUP MSEK	31 Dec 2018	31 Dec 2017
Buildings		
Cost, opening balance	5,302	5,797
Reclassification	–733	–1,289
Acquisitions	446	727
Investments	63	97
Sales/disposals	—	–141
Reclassification from construction/reconstruction work in progress	118	31
Translation difference	173	80
Accumulated cost, closing balance	**5,369**	**5,302**
Depreciation, opening balance	–890	–1,049
Reclassification	165	176
Sales/disposals	—	98
Depreciation for the year	–86	–98
Translation difference	–33	–18
Accumulated depreciation, closing balance	**–844**	**–890**
Residual value according to plan, buildings	**4,525**	**4,412**
Land		
Cost, opening balance	787	1,073
Reclassification	–33	–305
Acquisitions	—	5
Translation difference	29	14
Accumulated cost, land, closing balance	**783**	**787**
Total residual value according to plan	**5,308**	**5,199**
Work in progress, operating properties		
Cost, opening balance	47	163
Reclassification	0	–125
Investments	157	64
Reclassification from construction/reconstruction work in progress	–188	–52
Translation difference	2	–3
Cost, work in progress, closing balance	**18**	**47**
Total, operating properties	**5,326**	**5,246**

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 2018	31 Dec 2017
Market value, operating properties (incl. equipment/interiors)	8,058	7,573

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 2018	31 Dec 2017
Rent receivables and trade accounts receivable	326	167
Doubtful receivables and trade accounts receivable	—	—
Closing balance	326	167

NOTE 17 EQUITY

Equity items

Share capital

The share capital consists of 75 000 000 A shares and 92 499 999 B shares, total amount 167,499,999 shares (167,499,999) with a quota value of SEK 2.50 per share, for a total value of MSEK 419. See also the information on page 36 in the section: The share and the ownership.

Other paid-in capital

Other paid-in capital consists of capital contributions from Pandox 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).

Revaluation reserve

The revaluation reserve include changes in fair value arising on the reclassification of hotel properties between Pandox's two segments, Operating Activities and Property Management.

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 and minority's share of net profit for the year and other comprehensive income reduced by minority dividend.

Dividend

The proposed dividend to shareholders for the year amounts to MSEK 787, corresponding to a dividend of SEK 4.70 per share. During 2018 the dividend proposed for the 2017 financial year of MSEK 737 was settled.

Per share data

Average number of shares to calculate Total earnings per share and Total comprehensive income per share amounts to 167,499,999.

Total earnings per share amounts to 16.83 SEK (2,820,573,000/167,499,999).

NOTE 18 FINANCIAL RISK AND RISK MANAGEMENT

Through its business Pandox is exposed to various types of financial risk. Financial risk relates to fluctuation in the Company's income statement, balance sheet and cash flow. Pandox is mainly exposed to financial risks such as interest rate risk, liquidity risk, refinancing risk, currency risk and credit risk.

Pandox's financial policy serves as a general framework for managing financial risk within the Group, for the purpose of providing guidelines and rules on how financial activity is to be conducted within the Group, defining financial risks, how to limit these risks and determining which risks Pandox is permitted to take, establishing a division of responsibility and administrative rules, and also serves as guidance in the CFO's day-to-day work. The financial policy is evaluated and established by the Board of Directors on an annual basis and revised as needed.

Loan agreements with credit institutions are often conditional upon the Group and the subsidiaries achieving certain predetermined key ratios and meeting certain conditions. In addition, there are certain specific reservations and restrictions in the loan agreements relating to further debt, guarantees and pledges, significant changes to the business, acquisitions and divestments etc. At year-end the key ratios were achieved and the conditions met with a good margin.

Interest-bearing liabilities and loans

As of 31 December 2018 the loan portfolio amounted to MSEK 28,095. Unutilised long-term credit facilities amounted to MSEK 1,826.

During the year Pandox established a Swedish commercial paper programme with a total framework amount of MSEK 3,000. The purpose of the programme is to reduce financing costs and also to diversify the financing structure. The issued commercial papers are backed up in full by existing long-term, unutilised credit facilities. At year-end 2018 the total issued volume of commercial papers was MSEK 1,250.

DEBT REVIEW AND UNUTILIZED CREDIT FACILITY 31 DECEMBER 2018

MSEK	Due date	Interest basis	Total credit limit	Utilized amount	Unutilized amount
Loans	0–6 years	Variable	24,247	23,981	266
Revolving credit facilities	0–5 years	Variable	5,674	2,863	2,811
Commercial paper	0–12 months	Fixed	—	1,250	–1,250
Total Credit facilities			29,921	28,095	1,826

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows will be affected by changes in market interest rates. Interest rate risk has an impact both through ongoing interest expense for loans and derivatives, and through changes in the market value of derivatives. The interest risk strategy consists of a combination of short and long fixed interest periods where primarily interest rate swaps are used to achieve the desired fixed interest period. The strategy takes into account the Company's aggregate assets and liabilities including derivatives. The interest rate strategy is expressed as a standard portfolio that defines risk limits and maximum deviation mandates for each maturity group.

Pandox's fixed interest period and repayment period remain at the total levels shown below.

FIXED INTEREST/REPAYMENT PERIOD

	Average fixed interest period, years	Average interest rate, %	Repayment period, years
2018	3.0	2.6	3.1
2017	2.6	2.6	3.3

INTEREST MATURITY PROFILE 31 DECEMBER 2018

	Fixed rate period by instrument				Fixed rate period, derivatives		
	Loans, MSEK	Derivatives, MSEK	Amount, MSEK[1)]	Share, %	Volume, MSEK	Average interest, derivatives %	Share, %
Total interest-bearing loans							
<1 year	28,095	–15,644	12,451	44	1,485	1.3	9
1–2 years	—	2,843	2,843	10	2,843	1.9	17
2–3 years	—	2,740	2,740	10	2,740	1.4	16
3–4 years	—	2,516	2,516	9	2,516	1.0	15
4–5 years	—	1,481	1,481	5	1,481	2.9	9
>5 year	—	6,064	6,064	22	6,064	1.2	35
Total	28,095	0	28,095	100	17,129	1.5	100

1) Share of loans with an interest rate reset during the period.

INTEREST MATURITY PROFILE 31 DECEMBER 2017

	Fixed rate period by instrument				Fixed rate period, derivatives		
	Loans, MSEK	Derivatives, MSEK	Amount, MSEK[1)]	Share, %	Volume, MSEK	Average interest, derivatives %	Share, %
Total interest-bearing loans							
<1 year	26,473	–13,651	12,822	48	697	3,4	5
1–2 years	—	1,440	1,440	5	1,440	1,2	10
2–3 years	—	2,784	2,784	11	2,784	1,9	19
3–4 years	—	2,678	2,678	10	2,678	1,4	19
4–5 years	—	2,424	2,424	9	2,424	1,0	17
>5 year	—	4,324	4,324	16	4,324	1,4	30
Total	26,473	0	26,473	100	14,347	1,6	100

1) Share of loans with an interest rate reset during the period.

SENSITIVITY ANALYSIS OF CHANGES IN INTEREST RATES FOR 2018 AND 2017 RESPECTIVELY

The table below shows the change in various scenarios.

	2018		2017	
	Change	Effect on earnings, MSEK	Change	Effect on earnings MSEK
Interest expense with current fixed interest, change in interest rates	+/– 1%	–/+ 102	+/– 1%	–/+ 100
Interest expense with a change in the average interest rate level	+/– 1%	–/+ 281	+/– 1%	–/+ 265
Remeasurement of interest-rate derivatives following shift in yield curves	+/– 1%	–/+ 801	+/– 1%	–/+ 640

Shown above is the effect on earnings of specific changes in interest rates which have a corresponding effect, adjusted for tax (around 22 percent), on equity.

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 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.

Currency risk

Currency risk is the risk that carrying amounts, fair value or future cash flows will be affected by changes in foreign currency exchange rates. Pandox primarily reduces currency exposure in foreign investments by taking out loans in local currency. Equity is currency-hedged ahead of acquisitions, investments and divestments to avoid changes in the value of equity, and through hedging net assets of foreign operations by taking out internal or external loans. In general, foreign operations report both income and costs in their local currencies, which means that currency exposure resulting from current flows is limited. In view of the limited risk, Pandox does not currencyhedge these flows unless there is a particular reason to do so.

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

LOAN-TO-VALUE RATIO AND LOANS BY CURRENCY 31 DECEMBER 2018

MSEK [1]	SEK	DKK	EUR	CHF	CAD	NOK	GBP	Total	Share, %	Interest rate % [2]
Total interest bearing liabilities	7,427	1,822	11,322	461	498	1,294	5,270	28,095	100	2.6
Maturing in foreign currency, %	26.4	6.5	40.3	1.6	1.8	4.6	18.8	**100**	—	—
Average interest rate, %	3.0	2.1	2.3	0.8	3.0	2.7	3.2	**2.7**	—	—
Average fixed interest period, years	3.0	1.7	2.8	0.2	0.1	2.4	4.6	**3.0**	—	—
Property market value	14,940	3,495	23,530	701	1,289	3,223	8,019	**55,197**	—	—

LOAN-TO-VALUE RATIO AND LOANS BY CURRENCY 31 DECEMBER 2017

MSEK [1]	SEK	DKK	EUR	CHF	CAD	NOK	GBP	Total	Share, %	Interest rate, % [2]
Total interest bearing liabilities	7,324	1,721	10,541	436	503	1,291	4,656	26,473	100	2.6
Maturing in foreign currency, %	27.7	6.5	39.8	1.6	1.9	4.9	17.6	**100**	—	—
Average interest rate, %	3.1	2.1	2.3	0.8	3.0	2.9	2.9	**2.6**	—	—
Average fixed interest period, years	2.2	2.3	3.4	0.2	0.1	0.9	2.2	**2.6**	—	—
Property market value	14,539	3,345	19,826	695	1,208	3,037	7,470	**50,121**	—	—

1) Converted to MSEK.
2) Average interest rate including bank margin.

FINANCIAL ASSETS AND LIABILITIES PER CURRENCY AT 31 DECEMBER 2018, MILLIONS IN LOCAL CURRENCY

	SEK	DKK	EUR	CHF	CAD	NOK	GBP	Group SEK
Assets	13,946	3,760	1,946	81	161	3,490	1,064	55,016
–of which Financial assets	*17*	*290*	*40*	*1*	*5*	*10*	*16*	*1,044*
Liabilities	11,472	1,462	1,167	52	87	2,559	519	33,478
–of which Financial liabilities	*8,031*	*1,329*	*1,111*	*51*	*82*	*1,217*	461	*28,752*
Effect on result +/–10% exchange rate	—	+/– 5	+/– 48	+/– 0	+/– 0	+/– 76	+/– 9	+/– 139
Effect on equity +/–10% exchange rate	—	+/– 86	+/– 1,040	+/– 45	+/– 45	+/– 122	+/– 478	+/– 1,816

FINANCIAL ASSETS AND LIABILITIES PER CURRENCY AT 31 DECEMBER 2017, MILLIONS IN LOCAL CURRENCY

	SEK	DKK	EUR	CHF	CAD	NOK	GBP	Group SEK
Assets	15,920	2,651	1,994	77	181	1,631	962	51,737
–of which Financial assets	*15*	*268*	*68*	*0*	*6*	*2*	*11*	*1,203*
Liabilities	10,596	1,422	1,063	54	85	1,629	656	32, 885
–of which Financial liabilities	*7,932*	*1,307*	*997*	*51*	*78*	*1,305*	484	*27,122*
Effect on result +/–10% exchange rate	—	+/–1	+/–105	+/–2	+/–5	+/–2	+/–2	+/–117
Effect on equity +/–10% exchange rate	—	+/–89	+/–829	+/–43	+/–42	+/–130	+/–517	+/–1,650

Liquidity- and refinancing risk

Liquidity risk is the risk of not having sufficient funds to fulfil payment obligations when they fall due. The consolidated liquidity forecast forms the basis of the Company's borrowing or investment requirements, as well as its control of the total liquidity reserves. A long-term target for the level of liquidity in the form of liquidity reserves (bank balances, liquid interest-bearing investments and forecast net 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. Pandox's liquidity reserve amounts to MSEK 2,500 (3,320) and is distributed as shown in the table to the right. Refinancing risk is the risk that financing cannot be obtained, or can only be obtained at considerably high-er costs. To reduce refinancing risk the maturity of loans is to be spread out evenly over time, to reduce the risk of a large percentage of loans maturing at the same time. Pandox works actively to reduce refinancing risk by ensuring that the maturity profile of its debt is balanced and by utilising a number of financing sources.

MSEK	31 Dec 2018	31 Dec 2017
Cash and cash equivalents	674	999
Unutilised credit facilities	1,826	2,321
Total liquidity reserve	2,500	3,320

The maturity profile of financial liabilities is shown in the table below.
Interest calculated as per terms effective at the time in question

MATURITY PROFILE FINANCIAL LIABILITIES 31 DECEMBER 2018

Year due, MSEK	Other liabilities	Repayment period[2]	Interest rate, loans[1]	Net interest, interest rate swaps, negative value[1]	Net interest, interest rate, swaps, positive value[1]	Total interest
2019	—	6,909	85	9	0	94
Due 0–1 month	*286*	—	—	—	—	—
Due 1–3 month	—	—	—	—	—	—
Due 3–12 month	—	*6,909*	*85*	*9*	*0*	*94*
2020	—	5,549	82	58	0	140
2021	—	2,535	42	40	0	82
2022	—	2,830	40	32	0	72
2023	—	9,720	228	46	–18	256
2024	—	552	15	64	4	83
Total	286	28,095	491	249	–13	727

MATURITY PROFILE FINANCIAL LIABILITIES 31 DECEMBER 2017

Year due, MSEK	Other liabilities	Repayment period[2]	Interest rate, loans[1]	Net interest, interest rate, swaps, negative value[1]	Net interest, interest rate, swaps,positive value[1]	Total interest
2018	—	2,345	26	26	0	52
Due 0–1 month	*250*	—	—	—	—	*250*
Due 1–3 month	—	—	—	—	—	—
Due 3–12 month	—	*2,345*	*26*	*26*	*0*	*52*
2019	—	5,756	76	11	0	87
2020	—	5,425	82	61	3	146
2021	—	4,768	75	34	4	113
2022	—	7,630	173	31	2	205
2023	—	549	13	53	18	84
Total	250	26,473	445	216	27	687

1) Calculation based on closing balance on 31 December of the respective year, and interest rates in effect as of the same date and an implied annual interest expense for the various maturity periods.
2) Excluding contractual amortisation.

Trade accounts payable and other financial liabilities normally fall due for payment within 30 days and have therefore been classified accordingly in the tables above.

Credit risk

Credit risk is the risk that Pandox's counterparty will be unable to fulfil its financial obligations to Pandox. Credit risk in Pandox's financial activity arises, for example, when investing surplus liquidity, when signing derivative contracts and when credit agreements are issued. The risk is to be spread by using multiple counterparties. Only approved counterparties are to 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 minimum of A3 (Moody's), or another counterparty with a minimum rating of either A (S&P) or A2 (Moody's).

Pandox has a welldiversified property portfolio characterised by well-established,stable and sound tenants, which reduces the credit risk in trade accounts receivable. 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. The occupancy rate of Pandox's wholly owned property portfolio was close to 100 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.

Capital management

Pandox's financial position is monitored primarily on the basis of loantovalue ratio, with a target of 45–60 percent. Internal monitoring of financial position does not focus on equity. At year-end 2018 the loan-to-value ratio was 49.7 (50.8) percent.

Hedging of net investment in foreign operations

Pandox conducts business in other countries and is therefore exposed to translation risk in the consolidated financial statements when net assets in a foreign currency are translated, if the foreign reporting entity has a different functional currency to that of the Pandox Group (SEK). Pandox's Financial Policy states that, prior to acquisitions and divestments, decisions are to be made on the hedging of translation risk. Pandox's main strategy is to take out loans locally, i.e. in the entity that the loan is financing and in the same currency. This reduces translation exposure by reducing the net asset in foreign currency. As an alternative strategy Pandox takes out loans in the same currency as the net investment, but within a different reporting entity. This reduces the Group's net exposure. Pandox aims to reduce currency exposure. Hedged risk is the risk that changes in the exchange rate between the foreign entity's local currency and SEK result in changes in the value of the Group's net investment when the investment is translated to SEK in the consolidated financial statements. See Note 1 Accounting principles, section 14.2. The effectiveness of the hedge will be assessed regularly and as a minimum on each reporting date or when there is a significant change in circumstances that affect the effectiveness of the hedge. Effectiveness is measured based on a qualitative assessment of various critical conditions. The effective portion of the currency remeasurement for the hedging instrument is recognised in other comprehensive income and accumulated in the translation reserve in equity. The ineffective portion is recognised in net financial items in the income statement. Pandox has identified the following source of ineffectiveness: decrease in net exposure to below the carrying amount of the hedging instrument, for example as a result of unexpected losses.

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

Fair value of financial assets and liabilities

31 DECEMBER 2018 MSEK	Category	Financial assets/liabilities value through amortised cost	Financial assets/liabilities value measured at fair value through income statement	Financial assets/liabilities value measured at fair value through other comprehensive income
Other non-current receivables		31	—	—
Rent receivables and trade accounts receivables		326	—	—
Derivatives	Level 2	—	12	—
Cash and cash equivalents		674	—	—
Total financial assets		**1,032**	**1 2**	**—**
Non-current interest-bearing liabilities		19,469[1)]	—	
Derivatives	Level 2	—	550	—
Current interest-bearing liabilities		8,448[1)]	—	—
Trade accounts payable		286	—	—
Total financial liablilities		**28,203**	**550**	**—**

MSEK	Financial assets/liabilities value measured at fair value through profit or loss for the year 31 dec 2017	Loans and receivables 31 dec 2017	Other liabilities 31 dec 2017
Other non-current receivables	—	26	—
Rent receivables and trade accounts receivables	—	167	—
Derivatives	11	—	—
Cash and cash equivalents	—	999	—
Total financial assets	**11**	**1,192**	**—**
Non-current interest-bearing liabilities	—	—	23,593[1)]
Derivatives	574	—	
Current interest-bearing liabilities	—	—	2,705[1)]
Trade accounts payable	—	—	—
Total financial liablilities	**574**	**—**	**26,548**

1) Arrangement fees of approximately MSEK 178 (175) have reduced interest-bearing liabilities.

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 reported. Other than this, there are no master netting agreements for any of Pandox's financial instruments.

NOTE 20 ACCRUED INCOME/EXPENSES AND PREPAID EXPENSES/INCOME

Prepaid cost and accrued income

	Group		Parent Company	
MSEK	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
Prepaid cost[1)]	104	31	34	17
Accrued rental income-external	201	189	—	—
Total	**305**	**220**	**34**	**17**

1) Arrangement fees for loans have been transferred to interest-bearing for 2017: MSEK 175 for the Group and MSEK 37 for the Parent Company.

Prepaid income and accrued costs

	Group		Parent Company	
MSEK	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
Prepaid rent	185	88	—	—
Accrued interest expense	107	66	27	20
Accrued property tax	12	6	—	—
Accrued cost employees	66	76	5	19
Other	286	208	22	5
Total	**656**	**444**	**54**	**44**

NOTE 21 PROVISIONS

	Group		Parent Company	
MSEK	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
Carrying amount at beginning of period	136	103	82	57
Provisions made during the period	23	33	23	25
Amounts used during the period	–58	—	–5	—
Reported value at close of period	**101**	**136**	**100**	**82**
– of which the long-term portion of the provisions	100	134	100	82
– of which the short-term portion of the provisions	1	2	0	0

The provisions consists of rent guarantees provided for hotels sold in 2014, pension provisions and provisions for incentive schemes for senior executives. Provisions for pensions at the beginning of the year amounted to MSEK 16 (10). The incentive schemes runs until 2020, opening balance of provision amounted to MSEK 61 (39).

The year's provisions comprise MSEK 18 for incentive schemes for senior executives, MSEK 5 in provisions for pensions and MSEK 0 in provisions of rent guarantees. The rent guarantees runs until 31st March 2019. During the year, MSEK 53 (0) of the guaranteed rent has been reversed.

Closing balance consist of MSEK 1 (54) in provisions for guaranteed rents, MSEK 21(16) endowment insurance for pensions and MSEK 79 (61) in incentive scheme.

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.

Accounting for 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.

Further, in conjunction with the acquisition the identifiable assets and liabilities are to be measured both for items in the acquired company's balance sheet which are to be recognised according to Pandox's accounting principles, and for items that were not subject to recognition in the acquired company's balance sheet, such as the fair value of acquired property. As there are not usually any listed prices for the assets and liabilities to be measured, various valuation models must be used. These valuation models are based on a number of different assumptions. It may also take time to establish the assets and liabilities taken over, based on the reconciliation to be carried out with counterparties and any legal restructuring carried out in order to separate operations taken over. Until a final settlement has been drawn up or legal restructuring has been completed, the accounts that consolidate acquired properties, assets and liabilities are prepared based on available information, review and assessment to ensure that Pandox's accounting principles are applied. On final settlement a difference may arise, requiring the acquired property value to be adjusted.

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

	Group		Parent Company	
MSEK	2018	2017	2018	2017
Assets pledged to credit institutions				
For own liabilities pledged assets, properties	24,912	22,558	—	—
Bank deposits	7	7	—	—
Total pledged assets	**24,919**	**22,565**	—	—
Contingent liabilities				
Security commitment for group companies	—	—	19,385	19,742
Guarantees for employees	17	15	17	15
Total contingent liabilities	**17**	**15**	**19,402**	**19,757**

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

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

NOTE 24 EVENTS AFTER THE CLOSING DAY

After 31 December 2018 no events or transactions of significance have taken place that in any way affect the financial statements provided for Pandox for the 2018 financial year.

NOTE 25 PARTICIPATIONS IN SUBSIDIARIES

Parent Company MSEK	31 Dec 2018	31 Dec 2017
Cost, opening balance	9,322	9,322
Acquisitions	0	0
Divestment of subsidiaries	–442	—
Total accumulated cost	**8,880**	**9,322**
Impairment losses, opening balance	–1,487	–1,487
Accumulated impairment losses, closing balance	**–1,487**	**–1 487**
Closing balance	**7,393**	**7,835**

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 Stora Hotellet i Jönköping	556469-4064	Stockholm, Sweden	1,000	100
Pandox Belgien AB	556495-0078	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
Hotellus Mellansverige AB	556745-4656	Stockholm, Sweden	100,000	100
Grand i Borås Fastighets AB	556030-7083	Stockholm, Sweden	6,506	100
Hotellus International AB	556030-2506	Stockholm, Sweden	7,480,000	100
Hotellus Östersund AB	556367-3697	Stockholm, Sweden	1,000	100
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
Pandox i Malmö AB	556704-3723	Malmö, Sweden	1,000	100
Hotellus Denmark A/S	28970927	Denmark	5,000	100
Le Nouveau Palace SA	0423.048.375	Belgium	3,000	99.97[1)]
Pandox Royale SA	0476.704.322	Belgium	68,808	99.99[2)]
Pandox Belgium NV	0890.427.732	Belgium	100,000	99.99[3)]
Pandox RMC BVBA	0552.929.692	Belgium	1,000	99.00[4)]
Tenzing Holding BV	70144427	Netherlands	1	100
Convention Hotel International AG	CHE-101.458.856	Switzerland	14,000	100

1) Le Nouveau Palace SA is 0.03 percent owned by Hotellus International AB, which is wholly owned by Pandox AB (publ).
2) Pandox Royale SA is 0.01 percent owned by Hotellus International AB, which is wholly owned by Pandox AB (publ).
3) Pandox Belgium NV is 0.01 percent owned by Hotellus International AB, which is wholly owned by Pandox AB (publ).
4) Pandox RMC BVBA is 1 percent owned by Hotellus International AB, which is wholly owned by Pandox AB (publ).

Note 25, cont.

Indirectly owned subsidaries	Registration No	Domiciled
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
Vestervold KB	916631-9534	Stockholm, Sweden
Skogshöjd Handels & Fastighets AB	556066-0432	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 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 Linköping Ekoxen 9 och 11 AB	556658-7407	Stockholm, Sweden
Norgani Göteborg Backa 149:1 och 866:397 AB	556658-7480	Stockholm, Sweden
Norgani Stockholm Gråberget 29 AB	556688-7450	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 Uppsala AB	556673-9776	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 ValboBacka	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 9 AB	556705-0520	Stockholm, Sweden
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
Norgani Stockholm Herrgården 2 AB	556660-4285	Gothenburg, Sweden
Norgani Hotelleiendom i Sverige AB	556674-0170	Gothenburg, 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
Hotellinvest Holding DK 1 ApS	29828644	Denmark
Hotellinvest Holding DK 2 ApS	29830053	Denmark
Hotellinvest DK 1 ApS	10998476	Denmark

Indirectly owned subsidaries	Registration No	Domiciled
Hotellinvest DK 2 ApS	28886217	Denmark
Hotellinvest DK 3 ApS	25241266	Denmark
Norgani Hotel Cosmopole ApS	25060407	Denmark
K/S Norgani Hotel	24250830	Denmark
Komplementarselskabet Norgani Hotel ApS	14446478	Denmark
Norgani Hotel København A/S	20029633	Denmark
Urban House Hotel ApS	35632654	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	1530970-5	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 48	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
Norgani Hotell Bergen Airport AS	919 626 852	Norway
Norgani Fagernaes Turisthotell AS	919 844 604	Norway
Norgani Olrud Hotell AS	919 286 865	Norway
Norgani Hamnneset Hotell AS	919 286 881	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 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
HDI Brussels Management SA	0550.918.428	Belgium
Swiss Hotels Leasing Company SA	0443.435.597	Belgium
Hotel Charlemagne EU SPRL	0674.930.156	Belgium
Flight Holdco SPV Ltd	115845	United Kingdom
Pandox Wonderwall Ltd (Holdco)	11555879[7)]	United Kingdom
Pandox Wonderwall Ltd PropCo	10920854[7)]	United Kingdom
Pandox Highlander Holco	11471474[7)]	United Kingdom
Pandox Highlander Opco	11471650	United Kingdom
Pandox Highlander Propco	1675224[7)]	United Kingdom

Indirectly owned subsidiaries	Registration No	Domiciled
Jurys Inns UK Ltd	06063534[7]	United Kingdom
Pandox Birmingham Propco Ltd	11153346[7]	United Kingdom
Pandox Glasgow Propco Ltd	11153391[7]	United Kingdom
Pandox Manchester Propco Ltd	11153367[7]	United Kingdom
Pandox Heathrow Propco Ltd	11153339[7]	United Kingdom
Pandox UK Opco Ltd	11153341	United Kingdom
Pandox Investment Management DAC	615809	Ireland
Vesway DAC	440248	Ireland
Jurys Inn Group DAC	418679	Ireland
Lhotse Holding DAC	575727	Ireland
Jurys Cork Holdings DAC	575997	Ireland
Jurys Cork CP DAC	575998	Ireland
Jesaway DAC	459311	Ireland
Jurys Inns (Europe) DAC	439060	Ireland
Jurys Inns Investments DAC	591063	Ireland
Pandox Topco B.V.	70144427	Netherlands
Pandox Intermediate Holdco B.V.	70153590	Netherlands
Pandox Midco B.V.	70156824	Netherlands
Pandox Holdco B.V.	70159203	Netherlands
Pandox Bradford Propco B.V.	70691681	Netherlands
Pandox Brighton Propco B.V.	70691584	Netherlands
Pandox Cardiff Propco B.V.	70691290	Netherlands
Pandox Cheltenham Propco B.V.	70691363	Netherlands
Pandox East Midlands Propco B.V.	70691150	Netherlands
Pandox Hinckley Propco B.V.	70690227	Netherlands
Pandox Inverness Propco B.V.	70690316	Netherlands
Pandox Leeds Propco B.V.	71857419	Netherlands
Pandox Croydon Propco B.V.	70691800	Netherlands
Pandox Middlesbrough Propco B.V.	70690464	Netherlands
Pandox Oxford Propco B.V.	70690545	Netherlands
Pandox Sheffield Propco B.V.	70691029	Netherlands
Pandox Swindon Propco B.V.	70691088	Netherlands
Jyrus B.V.	34270312	Netherlands
Jinns B.V.	34265843	Netherlands
Euro Lifim Holding B.V.	33227692	Netherlands
Pandox Holland B.V.	34277494	Netherlands
Pandox Holland 2 B.V	34304039	Netherlands
Charlius Dutch Investment B.V.	58524134	Netherlands
Charlius Amsterdam Hotel Property B.V.	34234529	Netherlands
Hotellus Luxembourg Sarl	B131027	Luxemburg
Charlius Germany Hotels Holding Sarl	B158137	Luxemburg
Charlius Germany Hotel Properties Sarl	B158154	Luxemburg
Charlius Cologne Hotel Property Sarl	B131225	Luxemburg
Charlius Dutch Hotels Holding Sarl	B179720	Luxemburg
Hotellus Canada Holdings Inc.	BC0793511	Canada
Hotellus Montreal Holdings Inc.	BC0823951	Canada
Hotellus Montreal Inc.	BC0827355	Canada
Hotellus Montreal Services Inc.	BC1177715	Canada
11028677 Canada Inc.	1102867-7	Canada
Pandox Berlin GmbH	HRB 96069 B[1]	Germany
Hotellus Deutschland GmbH	HRB 41151[2]	Germany
Charlius European Hotel properties GmbH	HRB 79031[2]	Germany
Hypnos Hotel Properties GmbH	HRB 76338[2]	Germany
Hypnos Hotel Properties Holding GmbH	HRB 157303 B[3]	Germany
Hypnos Hotel Properties West GmbH	HRB 157278 B[3]	Germany
Hypnos Hotel Properties Ratingen GmbH	HRB 157320 B[3]	Germany
Hypnos Hotel Properties Mannheim GmbH	HRB 157271 B[3]	Germany
Hypnos Hotel Properties South GmbH	HRB 157308 B[3]	Germany
Hypnos Hotel Properties North GmbH	HRB 157291 B[3]	Germany
Charlius Verwaltungs GmbH	HRB 92447[6]	Germany
Charlius Berlin Verwaltungs GmbH	HRB 90225[6]	Germany

Indirectly owned subsidiaries	Registration No	Domiciled
Grundstücksgesellschaft ATLANTIS GmbH	HRB 41381[2]	Germany
Pandox Germany GmbH	HRB 68809[2]	Germany
Pandox Lübeck GmbH	HRB 68868[2]	Germany
Pandox Dortmund GmbH	HRB 68856[2]	Germany
Pandox Bremen GmbH	HRB 68847[2]	Germany
Pandox Deutschland GmbH & Co. KG[4]	HRA 21826[2]	Germany
Charlius Austria Hotel Holding GmbH	FN 355800	Austria
Charlius Vienna Hotel Property GmbH	FN 39164	Austria
Charlius Salzburg Hotel Property GmbH	FN 72575	Austria

Associated companies	Company reg. no.	Registered office
Pandox Verwaltungs GmbH[5]	HRB 66726[2]	Germany

1) Commercial register that is kept by the local court in Charlottenburg, Germany.
2) Commercial register that is kept by the local court in Düsseldorf, Germany
3) Commercial register that is kept by the local court in Berlin-Charlottenburg, Germany.
4) Pandox AB (publ) owns 94 percent of the shares and a third part owns the remaining 6 percent of the shares.
5) Pandox AB (publ) owns 49 percent of the shares and a third part owns the remaining 51 percent of the shares.
6) Commercial register that is kept by the local court in Düsseldorf Frankfurt am Main, Germany.
7) The company is exempt from statutory local audit as a parent company guarantee has been issued in line with UK regulations. The company is included in the audit of the financial statements of the Pandox Group.

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. Pandox has three main owners , Eiendomsspar Sverige AB, Christian Sundt AB och Helen Sundt AB. 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 and disclosures concerning Participations in Subsidiaries and be found in Note 25.

All related party transactions are entered into on market terms. The transactions mainly entail allocation of centrally incurred administration cost and interest relating to receivables and liabilities.

Pandox has asset management agreements regarding nine hotels located in Oslo as well as for the Pelican Bay Lucaya Resort in the Grand Bahama Island, which are owned by Eiendomsspar AS or subsidiaries of Eiendomsspar AS and affiliates of Helene Sundt AS and CGS Holding AS respectively. In 2018 revenue from the asset management agreements amounted to MSEK 5 (4).

Eiendomsspar AS owns 5.1 percent of 21 hotel properties in Germany with exception of Radisson Blu Cologne were the minority amounts to 9.9 percent, which were acquired by Pandox in 2016 and 2015. A dissolution of the temporary minority holding of 5.1 percent for the two hotel properties in Austria was completed during the first six months 2018.

Parent Company

The Parent Company's fees for central administrative services from Group companies during the year amounted to MSEK 106 (101). 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 2018	31 Dec 2017
Central administration costs	105	89
Interest income from subsidiaries	324	140
Dividends from subsidiaries	500	200
Interest paid to subsidiaries	–37	–21
Receivables from related parties	9,734	9,631
Liabilities to related parties	5,145	6,011
Group contributions received	169	268
Group contributions provided	–24	–20

NOTE 27 SPECIFICATION OF CASH FLOWS FOR THE GROUP

GROUP MSEK	2018	2017
Acquisition of hotel properties and other business entities		
Acquired assets and liabilities		
Investment properties	1,215	8,395
Operating properties	510	712
Deferred tax assets	—	10
Current receivables	2	18
Cash and cash equivalents	6	261
Assets held for sale	—	1,367
Total assets	1,733	10,763
Non-controlling interest	20	—
Deferred tax	—	28
Non-current liabilities	14	38
Total liabilities	14	66
Purchase consideration:		
Purchase consideration paid	1,760	10,869
Less: Cash and cash equivalents in the acquired operations	–6	–260
Effect on cash and cash equivalents	1,754	10,609
Divestment of hotel properties and other business entities		
Divested assets and liabilities		
Investment properties	263	—
Operating properties	—	191
Total assets	263	191
Selling price:		
Purchase consideration received	286	356
Effect on cash and cash equivalents	286	356

Reconciliation of debts arising from financing activities

LOANS TO CREDIT INSTITUTIONS

MSEK	31 Dec 2018	31 Dec 2017
Opening balance	26,298	18,656
Cash flow	906	8,950
By acquisitions	—	–1,618
Exchange differences	713	310
Closing balance liabilities to credit institutions	27,917	26,298

NOTE 28 CURRENT AND NON-CURRENT INTEREST-BEARING LIABILITIES, PARENT COMPANY

PARENT COMPANY MSEK	2018	2017
Liabilities to credit institutions due within 12 months	2,793	835
Liabilities to credit institutions due in 1–4 years	4,305	5,804
Liabilities to credit institutions due in 5 years or later	—	—
Total current and non-current liabilities[1)]	7,098	6,639

[1)] Arrangement fees of approximately MSEK 29 (37) have reduced interest-bearing liabilities.

NOTE 29 ASSETS AND LIABILITIES HELD FOR SALE

GROUP MSEK	31 Dec 2018	31 Dec 2017
Assets		
Operating properties, Vesway[1)]	—	1,326
Other receivables[1)]	—	41
Assets classified as held for sale	—	1,367
Liabilities		
Other current liabilities[1)]	—	1,367
Total liabilities classified as held for sale	—	1,367

[1)] Refers to MGBP 120 purchase price paid by acquiring company in December 2017, in connection with completion of acquisition of Vesway attributable to Jurys Inn. Resolved during Q3 2018.

In December 2017 Pandox signed an agreement with Lone Star relating to the acquisition of a portfolio of 37 hotel businesses in the UK and Ireland. The transaction was completed with Fattal Hotels Group as operating partner. The legal reorganisation of the portfolio was completed in 2018, with Pandox retaining 20 investment properties and one operating property. Fattal acquired the operating platform consisting of 36 hotel operations.

NOTE 30 TRANSITION EFFECTS IFRS 16 LEASING

Transition to IFRS 16 Leases

In 2018 Pandox analysed the transition to IFRS 16 Leases and drew the following conclusions. Pandox is to apply IFRS 16 from 1 January 2019, in a prospective manner.

Pandox has lease commitments for site leaseholds and for other leased land, premises and vehicles. These undiscounted commitments amount to MSEK 2,658 in total, based on current leases. The majority of these commitments relate to leases for land (site leaseholds or other leased land).

In Sweden site leaseholds were introduced as a complement to title for a property, and remain so. Only central government and municipalities in Sweden may grant a site leasehold. The holder of a site leasehold has the right to use the land for a very long period; certain descriptions by municipalities state “in principle, perpetual”. As a result, according to IFRS 16 the discounted value of site leasehold rents in Sweden is to be recognised in the balance sheet as a perpetual right-of-use asset and a lease liability. The site leasehold rent paid is recognised in full as a financial expense, whereas previously it was reported as an operating expense. Pandox also has site leaseholds or other lease agreements for land in countries other than Sweden. These agreements are structured in different ways, but they are usually extended or there are other clauses to ensure that the land can be used after the lease term or that compensation is paid for the hotel building erected on the site concerned. Pandox’s experience is that these agreements are extended and based on this, Pandox considers that these agreements are extended and dealt with in the same way as Swedish site leaseholds.

As regards commercial premises – mainly Pandox AB’s premises and some storeys leased in respect of The Hotel Brussels – and vehicles (company cars), these are recognised at discounted value in the balance sheet as a right-of-use asset and a lease liability. In the income statement the right-of-use asset is depreciated over the lease term and payments made to the lessor/landlord are recognised partly as a reduction in lease liabilities and partly as interest expense.

In conjunction with the transition to IFRS 16, Pandox has decided to include three new balance sheet items: right-of-use assets, and current and non-current lease liabilities. In the income statement the financial component is recognised in net financial items on a new line “Financial expenses in respect of right-of-use assets etc”.

The effects of the transition on the balance sheet as of 1 January 2019 are shown in the table below. Compared with the operating leases presented in Note 8 the effect is MSEK –168 and is attributable mainly to discounting of the commitments.

To calculate the right-of-use asset and the lease liability, Pandox applies an estimated financing cost in local currency based on the term of the various leases. In segment reporting Pandox intends to continue applying the same accounting principles as previously, since this is how the operations are followed up. Adjustment to IFRS 16 will therefore be made in the column "Group-wide and non-allocated items" in segment reporting. In addition to the above effects of the transition to IFRS 16, its introduction will affect key ratios. A significant key ratio for Pandox's business is "Loan-to-value", which from 1 January 2019 will be calculated adjusted for the effect of IFRS 16 Leases in order to reflect a measurement comparable with previous periods' key ratios.

CONSOLIDATED STATEMENT OF FINANCIAL POSITIONS

MSEK	Before conversion 1 Jan 2019	Transition effects IFRS 16	After conversion 1 Jan 2019
ASSETS			
Non-current assets			
Operating properties	5,326	—	5,326
Equipment/Interiors	484	—	484
Investment properties	47,139	—	47,139
Right-of-use Assets	—	2,490	2,490
Deferred tax assets	465	—	465
Derivatives	12	—	12
Other non-current receivables	31	—	31
Total non-current assets	53,457	2,490	55,947
Current assets			
Inventories	10	—	10
Current tax assets	29	—	29
Trade account receivables	326	—	326
Prepaid expenses and accrued income	305	—	305
Other current receivables	215	—	215
Cash and cash equivalents	674	—	674
Assets held for sale	—	—	—
Total current assets	1,559	—	1,559
Total assets	55,016	2,490	57,506

MSEK	Before conversion 1 Jan 2019	Transition effects IFRS 16	After conversion 1 Jan 2019
EQUITY AND LIABILITIES			
Equity			
Share capital	419	—	419
Other paid-in capital	4,556	—	4,556
Reserves	215	—	215
Retained earnings, including profit for the period	16,188	—	16,188
Equity attributable to the owners of the Parent Company	21,378	—	21,378
Non-controlling interests	160	—	160
Total equity	21,538	—	21,538
LIABILITIES			
Non-current liabilities			
Interest-bearing liabilities	19,469	—	19,469
Other non-current liabilities	18	—	18
Non-current lease liabilities	—	2,471	2,471
Derivatives	550	—	550
Provisions	100	—	100
Deferred tax liability	3,430	—	3,430
Total non-current liabilities	23,567	2,471	26,038
Current liabilities			
Provisions	1	—	1
Interest-bearing liabilities	8,448	—	8,448
Current lease liabilities	—	19	19
Tax liabilities	109	—	109
Trade accounts payable	286	—	286
Other current liabilities	411	—	411
Accrued expenses and prepaid income	656	—	656
Debt related to assets held for sale	—	—	—
Total current liabilities	9,911	19	9,930
Total liabilities	33,478	2,490	35,968
Total equity and liabilities	55,016	2,490	57,506

NOTE 31 ALLOCATION OF EARNINGS

At the disposal of the Annual General Meeting:	
Retained earnings	3,390,427,303
Profit for the year	733,664,141
SEK	4,124,091,444

The Board propose that the earnings be allocated as follows:	
Dividend to shareholders, SEK 4.70 per share	787,249,995
Carried forward	3,336,841,449
SEK	4,124,091,444

Signing of the Annual Report

The Board and CEO hereby provide an assurance that the consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and provide a fair representation of the Group's position and results. The Annual Report has been prepared in accordance with generally accepted accounting principles and provides a fair representation of the Parent Company's position and results. The Administration Report for the Group and the Parent Company provides a fair representation of operations in the Group and the Parent Company, their position and results, and describes the material risks and uncertainties facing the Parent Company and the companies included in the Group. The undersigned hereby also present Pandox's Sustainability Report for 2018.

Stockholm, March 7, 2019

Christian Ringnes
Chairman

Leiv Askvig *Board member*	Ann-Sofi Danielsson *Board member*	Jon Rasmus Aurdal *Board member*
Bengt Kjell *Board member*	Helene Sundt *Board member*	Jeanette Dyhre Kvisvik *Board member*

Anders Nissen
Chief Executive Officer

Our Audit Report in respect of this annual report and the consolidated accounts was submitted on March 7, 2019.

PricewaterhouseCoopers AB

Patrik Adolfson *Authorised Public Accountant* *Auditor-in-charge*	Helena Ehrenborg *Authorised Public Accountant*

Auditors' report

To the general meeting of shareholders of Pandox Aktiebolag (publ), corporate registration number 556030-7885

REPORT ON THE ANNUAL ACCOUNTS AND CONSOLIDATED ACCOUNTS

We have audited the annual accounts and consolidated accounts of Pandox AB (publ) for the year 2018. The annual accounts and consolidated accounts of the Company are included on pages 102–148 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the Parent Company as of 31 December 2018 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2018 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet for the Parent Company and the group.

Our opinions in this report on the annual accounts and consolidated accounts are consistent with the content of the additional report that has been submitted to the Parent Company's audit committee in accordance with the Audit Regulation (537/2014) Article 11.

Basis for opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the Parent Company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements. This includes that, based on the best of my (our) knowledge and belief, no prohibited services referred to in the Audit Regulation (537/2014) Article 5.1 have been provided to the audited company or, where applicable, its Parent Company or its controlled companies within the EU.

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

Our auditing approach

Focus and scope of the audit

We designed our audit by establishing materiality levels and assessing the risk of material errors in the financial reports. We paid particular attention to the areas where the chief executive officer and board of directors have made subjective judgements, such as significant accounting estimates that were made based on assumptions concerning and predictions of future events, which by nature are uncertain. As in all audits, we also took into consideration the risk of the board and chief executive officer neglecting internal control procedures. Among other things, we considered whether there is evidence of systematic deviations resulting in a risk of material errors due to irregularities.

We adapted the focus and scope of our audit, considering Pandox's group structure and internal control environment, in order to be able to produce an auditors' report on the annual accounts and consolidated accounts in their entirety.

Pandox is a property company specialising in hotels with operations throughout the world and with a hotel portfolio that has a market value of MSEK 55,197. Pandox's core business is to own and lease hotel properties to well-known hotel operators under long revenue-based leases with shared investments. If the conditions are not in place for a profitable lease, Pandox can choose to operate a hotel itself.

Our audit involves conducting a review of all significant companies in the group. The audit covers operations in 12 countries and is either perfor med by the group audit team or local audit teams. Since 85 percent of the group's assets are hotel properties that are recognised at fair value and acquisition cost respectively taking into account depreciation, the main focus of the audit is to evaluate to what extent the annual accounts, in all material respects, reflect the value of the hotel properties according to the Company's valuation principles, and whether those principles are consistent with IFRS. Our activities to determine this include the following:

- Review of the valuation of the hotel properties combined with a process to establish their carrying amounts.
- Review of internal control of financial reporting, routines and processes based on assessed risks.
- Assessed and discussed the accounts as of 30 June 2018 with the executive management team and Audit Committee.
- Review of the closing accounts as of 30 September 2018 for the purpose of presenting a review report; and
- Review of year-end accounts and final audit work to present this auditors' report on the annual accounts of the Parent Company and group and, where applicable, other legal entities. In conjunction with these activities we also performed review procedures to produce our statement on compliance with senior executive guidelines.

The review was performed by an audit team that is part of the PwC network. The work is performed in accordance with local audit requirements in the respective countries and specific instructions relating to the group audit. With respect to the acquisitions executed during the year and in the previous year in the UK and Ireland, a group-related review was performed mainly by the group audit team. In addition to this, the auditor-in-charge and member of the group audit team visited the operations in Ireland and Germany during the year to become familiar with the operations of the entities visited and to understand the routines and control procedures in place, to evaluate compliance with Pandox's internal control framework and to review the financial reporting based on the group's accounting principles.

Materiality

The scope and focus of the audit was determined by our materiality assessment. An audit is designed to achieve a reasonable degree of assurance on whether the financial statements contain any material errors. Errors can occur due to irregularities or mistakes. They are considered material if they individually or in combination may reasonably be expected to impact the financial decisions of the users based on the financial statements.

Based on our professional judgement, we established certain quantitative materiality indicators for the financial reports as a whole. Using these as well as qualitative considerations, we established the focus and scope of our audit and the nature, timing and scope of our review procedures, and we assessed the effect of individual and combined errors on the financial reports as a whole.

Key audit matters

Key audit matters are the matters which, in our professional judgment, were of most significance in our audit of the annual accounts and consolidated accounts for 2018. These matters were addressed in the context of our audit of the annual accounts and consolidated accounts as a whole, and in forming our opinion on these. We are not, however, providing a separate opinion on these matters.

Key audit matters	How our audit addressed the key audit matters
Valuation of hotel properties *We refer to the administration report and the description of the Pandox Group's summary of important accounting and valuation principles in Note 1 and Note 13 Investment properties* The value of the hotel properties as of 31 December 2018 was MSEK 55,197 (of which investment properties MSEK 47,139). The hotel properties constitute a significant portion of the balance sheet and valuation of the hotel properties is by nature subjective and based on management's judgements of, for example, the specific property's location, condition, occupancy, future rental income and valuation yield. The valuation process is determined by an established valuation policy. Valuation of all hotel properties is performed quarterly during the financial year through internal valuations performed by the company's personnel. 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. Valuation of all properties is also performed by external appraisers on a regular basis throughout the year. Pandox has an internal process to quality assure the external valuations when they are performed. This internal quality assurance process includes analysis and control of input data from the company for the valuation models pertaining to such aspects as rent levels, space and general analysis of value growth per property. The valuations are examined both at the central level and in cooperation with the heads of business areas. When determining the fair value of the properties, current information on the specific property is taken into account as well as current leases, rental income and operating costs. To arrive at the final value amount, assumptions and judgments are made concerning future yield, net operating income and estimated market rents. These are affected by the valuation yield applied and comparable market transactions. The significance of the estimates and judgements used in establishing the fair value, combined with the fact that when combined, small percentage differences in the individual properties' parameters can lead to material errors, means that the valuation of investment properties is a key audit matter.	Our audit focused, among other things, on the company's internal control and qual- ity assurance that exists for both the internally and the externally performed valuations as of the date of the 2018 year-end accounts. Our review procedures included the following: • The group audit team, including our valuation specialists, obtained and reviewed a sample of the valuation reports and examined whether the valuation procedures follow Pandox's guidelines for valuation and correct valuation methods. • We evaluated the internal and external appraisers' competence and experience and studied the group's contracts with the external appraisers to determine whether there were any circumstances that would have impacted their objectivity or imposed any restrictions on their work. • We also carried out random sampling to test management's input data from the company's system for the valuation models. We did this to determine whether the information used for property valuations is correct and accurate. • We held meetings with those responsible for valuation processes where important assumptions and judgements were discussed. Our work focused on the largest investment properties in the portfolio, the most significant assumptions and the properties where there were the greatest variations in value compared with previous quarters. We assessed the yields used by comparing these with estimated ranges for expected yields and benchmarks with available market data for the markets in question. We also assessed the reasonableness of other assumptions where there is no directly comparable published data available. In cases where the assumptions and parameters were beyond our initial expectations, these deviations were discussed with representatives of the company and additional audit evidence was obtained to support the assumptions made, e.g. copies of leases to support new rental income and increased value during the period. • We compared disclosures included in the annual report against the requirements in IFRS 13 and found the requirements to have been met in all material respects. The valuations are based on judgments and are by nature associated with inherent uncertainty. Based on our review we have determined that the assumptions used by Pandox are within a reasonable range. Based on our review we have no significant observations to report to the audit committee.
Revenue-based rental income *See Note 3 on rental income and Note 1 on accounting principles for disclosures and descriptions of this audit matter.* Pandox's rental income consists to a large extent of revenue-based rent. The rent charged is based on the sales reported by the tenants. Pandox has routines and control procedures to ensure that the sales reported are correct. The leases are in place for a number of years and the business models for hotel operation may over time be affected by the creation of new sales channels or the addition of various services at the hotels or in the offering etc. This audit matter includes judgements on contract interpretation in certain cases, as well as judgements on the control the group exercises with respect to the tenants' reporting. As the revenue-based rents make up a considerable portion of the total rental income and there is the element of dependence on external information received and used to determine this revenue, this is a key audit matter in our audit.	Our audit is based on an evaluation of internal control as well as substantive testing and other analysis procedures, including data-based transaction analysis, of some balance sheet and income statement items of significant subsidiaries, on a random sample basis. Other review procedures we performed include the following: • We evaluated Pandox's routines for managing significant revenue flows. • We studied leases and examined how Pandox as a lessor interprets various parts of the agreements as a basis for invoicing and reporting. • We developed an understanding of and studied the control procedures employed by Pandox with respect to the tenants' reporting. We also read and familiarised ourselves with the control procedures through external scrutiny which Pandox, according to the leases, performs annually by examining leases at random to ensure that invoicing and revenue recognition are correct. • On a random sample basis, we examined the invoicing routines and invoices against supporting documents and we determined, through counter-checking, that the correct revenue-based rents were being invoiced. • We also performed an analytical review to assess revenue recognition, and obtained Pandox's analysis and explanations of rental income outcomes in order for us to develop an understanding of revenue recognition control procedures, and through analysis create an understanding of revenue recognition itself. • We examined information and disclosures provided in the annual report. Based on our review we have no significant observations to report to the audit committee.

Recognition of Vesway DAC, which was acquired in December 2017, and its subsequent consolidation into Pandox

We refer to Note 13 Investment properties, Note 15 Operating properties, Note 29 Assets and liabilities held for sale, and to the administration report where the transaction is described.

The most significant event that impacted the carrying amounts of both investment and operating properties in 2017 was the acquisition of a portfolio of 37 hotels completed on 20 December 2017. Pandox implemented the acquisition with Fattal Hotels Group (Leonardo) as operating partner, with Pandox – after reorganisation of the portfolio – retaining 20 investment properties and one operating property in the UK and Ireland, and Leonardo acquiring the operating platform of 36 hotel operation businesses under the Jurys Inn brand. The total purchase consideration was MGBP 800 (around MSEK 9,030) on a debt-free basis.

In 2018 Pandox focused on completing a legal reorganisation relating to the acquisition and on transferring the businesses acquired by Leonardo to them. As described in Note 22, this involved various judgements and assumptions in order to determine the financial reporting during the year and as of the closing date.

The transaction carried out and the subsequent reorganisation were complex, had a major impact on financial reporting and involved a number of judgments and assumptions that affected the financial statements. There is thus a risk that the financial reporting related to the transaction was not measured or recognised correctly and given the size of the amounts, this is a particularly significant area.

In addition to the review measures described above relating to hotel property valuations and revenue-based rents, and auditing of the year-end accounts of selected parts of the Vesway DAC group, we performed the following review procedures:

- Review and examination by the group audit team which, in cooperation with Pandox AB, examined the effects of the legal reorganisation on the financial reporting and related judgements and assumptions against supporting documents and other sources, in order to test the accuracy of the consolidated financial statements;
- Based on our examination of the company's consolidated 2018 year-end accounts, we assessed whether the financial statements have been correctly incorporated into Pandox's consolidated accounts in accordance with IFRS;
- We studied the preliminary final reconciliation and preliminary final settlement between the parties in the acquisition to assess its effects on the year-end accounts;
- We reviewed changes in acquired values in order to assess the reporting of these changes; and
- We examined and assessed the classification of the operations into investment and operating properties as well as the classification of operations held for sale.

Based on our review of the year-end accounts we have no significant observations to report to the audit committee or the Board of Directors.

Other information than the annual accounts and consolidated accounts

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 1–48, 70–101 and pages 164–167. The Board of Directors and the CEO are responsible for this other information.

Our opinion on the annual accounts and consolidated accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts and consolidated accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts and consolidated accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If we, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the CEO

The Board of Directors and the CEO are responsible for the preparation of the annual accounts and consolidated accounts and that they give a fair presentation in accordance with the Annual Accounts Act and, concerning the consolidated accounts, in accordance with IFRS as adopted by the EU. The Board of Directors and the CEO are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts and consolidated accounts, The Board of Directors and the CEO are responsible for the assessment of the company's and the group's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the CEO intends to liquidate the company, to cease operations, or has no realistic alternative but to do so.

The Audit Committee shall, without prejudice to the Board of Director's responsibilities and tasks in general, among other things oversee the company's financial reporting process.

Auditor's responsibility

Our objectives are to obtain reasonable assurance about whether the annual accounts and consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts and consolidated accounts.

A further description of our responsibility for the audit of the annual accounts and consolidated accounts is available on Revisorsinspektionen's website www.revisorsinspektionen.se/revisornsansvar. This description is part of the auditor's report.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the CEO of Pandox AB (publ) for the year 2018 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the CEO be discharged from liability for the financial year.

Basis for Opinions

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the Parent Company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

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

Responsibilities of the Board of Directors and the CEO

The Board of Directors is responsible for the proposal for appropriations of the Company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the Company's and the group's type of operations, size and risks place on the size of the Parent Company's and the group's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the Company's organisation and the administration of the Company's affairs. This includes among other things continuous assessment of the Company's and the group's financial situation and ensuring that the Company's organisation is designed so that the accounting, management of assets and the Company's financial affairs otherwise are controlled in a reassuring manner. The CEO shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfil the Company's accounting in accordance with law and handle the management of assets in a reassuring manner.

Auditor's responsibility

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the CEO in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the Company, or
- in any other way has acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the Company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the Company, or that the proposed appropriations of the Company's profit or loss are not in accordance with the Companies Act.

A further description of our responsibility for the audit of the administration is available on Revisorsnämnden's website: www.revisorsinspektionen.se/rn/showdocument/documents/rev_dok/revisors_ansvar.pdf. This description is part of the auditor's report.

PricewaterhouseCoopers AB, with Patrik Adolfson as the auditor in charge, was appointed auditor of Pandox AB (publ) by the general meeting of the shareholders on the 9 April 2018 and has been Pandox AB's auditor since 29 March 2017.

Stockholm 7 March 2019
PricewaterhouseCoopers AB

Patrik Adolfson *Authorised public accountant* *Auditor-in-charge*	Helena Ehrenborg *Authorised public accountant*

From the Chairman
A balanced year for the Board

The work of the Board of Directors was conducted at a calmer pace in 2018 than in 2017, but there were still many varied matters to deal with. The Board's main focus during the year was on supporting Pandox's management in its efforts to manage increased commercial and legal complexity following the expansion that has taken place in recent years. Other matters dealt with included acquisitions, divestments and investments.

A LARGER COMPANY, GREATER COMPLEXITY

Pandox today is considerably larger than when it was listed on Nasdaq Stockholm in 2015 and its business is more complex. Through a number of large acquisitions outside the Nordics Pandox has significantly broadened its geographical area of operations in recent years. Geographical diversification has many advantages from a portfolio perspective, but it also requires Pandox to constantly develop and improve the Company's business-critical processes. In 2018 the Board of Directors supported Pandox's management in its work on organisation, governance and control.

Other important matters dealt with by the Board and its committees during the year included:

- Add-on acquisitions in the UK
- Divestment of hotel property in Sweden
- Investments in existing portfolio
- Proposal for new incentive scheme
- Budget
- Annual strategy review
- New sustainability strategy

RENEWED STRATEGIC FOCUS ON SUSTAINABILITY

Profits are the ultimate proof of Pandox's success in creating value and also lay the foundation for the Company's continued value creation. But merely making a profit is not enough. The profits need to be sustainable. That requires Pandox to take responsibility and actively contribute to sustainable development. During the year Pandox renewed its focus on sustainability and made a strategic plan for commercially integrating sustainability into the business model. Various focus areas were identified and a new stakeholder and materiality analysis were produced.

For the Board of Directors, the three main sustainability priorities are:

1. Reducing energy consumption and CO_2e emissions
2. Diversity, equality and non-discrimination
3. Hotel safety

2019 will be an exciting year for Pandox with its own learning, active dialogue with business partners and the evaluation of commercial sustainability initiatives in various areas.

▶ *Read the Sustainability Report on pages 49–68 for more information on Pandox's sustainability work.*

A WELL-COMPOSED BOARD OF DIRECTORS

Pandox's Board consists of members with various personalities and skill profiles, but all are very familiar with Pandox's operations, business model and market position. My assessment, which is shared by the Nominating Committee, is that the Board has the expertise and tools needed to take advantage of the opportunities that exist in the hotel property market and at the same time resolve the challenges that Pandox faces. Ahead of the 2019 Annual General Meeting the Nominating Committee is proposing the re-election of all the Board members, except for Helene Sundt who has declined re-election. Assuming that the AGM approves the Nominating Committee's proposal, the Board of Directors will once again – based on good experience in 2018 – appoint Bengt Kjell as Vice Chairman of the Board.

In conclusion I would like to thank Pandox's shareholders, Board of Directors, Nominating Committee and management for a good collaboration – and, not least, Pandox's employees for their good work.

Oslo, March 2019
Christian Ringnes

The role of Pandox's Board of Directors

The most important task of Pandox's Board of Directors is to create a corporate culture in which the Company acts in a way that helps create long-term value for all of the Company's stakeholders. This means both ensuring that the Company has the right strategy and sets the right priorities and that the Company's management lives up to what is expected of it by the Board, the shareholders and the wider community. At the core of this is an expectation of long-term sustainable and profitable growth with increased shareholder value over time.

Pandox's role in society

Pandox is an active owner with deep knowledge of its industry, an extensive network and good profitability. The Company has had the same CEO, strategy and business model since it was founded in 1995. The fundamental concepts have been tested and refined over many years with good results. The Board of Directors and management share a common view of active ownership and a clear vision for Pandox's future value creation. This is a cultural heritage worth safeguarding.

Through its hotels, Pandox is an important part of the tourism and travel industry infrastructure. The tourism and travel industry in turn fills an important function in society – for business, tourism and the economy in general. Pandox is therefore in many ways a company that benefits society. But Pandox can only justify its existence if the Company's tenants and hotel guests are willing to pay enough for the services Pandox offers and the Company can make a profit.

Corporate Governance Report

Good corporate governance is about ensuring that a company is managed as responsibly and 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. 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 is available at www.corporategovernanceboard.se and describes good practices in the stock market.

Pandox complies with the Code with no deviations.

SHAREHOLDERS AND THE SHARE

The Pandox AB (publ) class B share was listed on Nasdaq Stockholm on 18 June 2015 in the Large Cap segment. The Company's share capital amounted to SEK 418,749,998 as of 31 December 2018, distributed across 75,000,000 class A shares and 92,499,999 class B shares. Each class A share entitles the holder to three votes at shareholders' meetings, while each class B share entitles the holder to one vote at shareholders' meetings.

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

At the end of 2018 the following shareholders had direct or indirect ownership representing 10 percent or more of the voting rights for all shares in the Company:

Holding on 31 December 2018	% of votes
Eiendomsspar Sverige AB	38.1
Christian Sundt AB	18.9
Helene Sundt AB	18.9

At year-end the Company's market capitalisation, calculated for both class A and class B shares, amounted to MSEK 24,555 (26,549).

▶ *More information about the Pandox share and the ownership structure is available on pages 34–39 and on Pandox's website pandox.se.*

The 2018 AGM authorised the Board of Directors to issue new shares amounting to a maximum of 10 percent of the total number of outstanding shares.

▶ *See page 104 in the Administration Report for a description of the standard change of control clause.*

SHAREHOLDERS' MEETING

The shareholders' meeting is Pandox's highest decision-making body. At the Pandox AGM the shareholders exercise their right to vote on key issues, such as adoption of the income statements and balance sheets, 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 active participation of the shareholders at shareholders' meetings provides the basis for a good balance of power between the owners, the Board and executive management.

Pandox's 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, or the Company's auditor, requests such a meeting. The Board of Directors may also convene an extraordinary shareholders' meeting on its own initiative. Resolutions at shareholders' meetings are normally passed by a simple majority. 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 pandox.se. An announcement is also to be placed in the Swedish national daily newspaper, Svenska Dagbladet, to inform the public that a notice has been issued.

Once the date and location of the shareholders' meeting has been established, the details are to be published on Pandox's website without delay in advance of the AGM and no later than in connection with the third quarter interim report. The 2019 AGM will be held in Stockholm on 10 April 2019.

Shareholders wishing to participate in a meeting must be listed in the register of shareholders maintained by Euroclear Sweden 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.

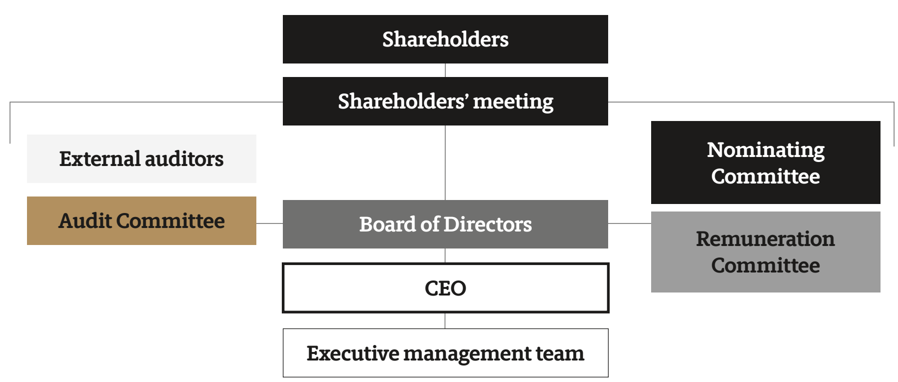
Shareholders wishing to have a matter placed on the agenda of the shareholders' meeting are required to submit a written request to Pandox's Board of Directors. Requests are to be received by the Board of Directors no later than seven weeks before the shareholders' meeting. For the 2019 AGM requests are to be received by the Board no later than 20 February 2019.

Annual General Meeting 2018

The last Annual General Meeting (AGM) took place on 9 March 2018 in Stockholm, when the following resolutions were passed:

- 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

Overall corporate governance structure



- and a decision on a dividend to the shareholders of SEK 4.40 per share.
- Discharging the members of the Board and the CEO from liability.
- Fees for the Board and the Company's auditors: SEK 750,000 to the Chairman of the Board, SEK 550,000 to the Vice Chairman of the Board if one has been appointed, and SEK 400,000 to each of the other elected members of the Board. Fees for the Audit Committee: SEK 130,000 for the chairman of the Audit Committee and SEK 70,000 to each of the other members.
- Fees for the Remuneration Committee: SEK 50,000 is to be paid to each of the two members of the Remuneration Committee.
- Fees for auditors are payable according to approved invoices.
- Re-election of auditors: accounting firm PwC with Patrik Adolfson as auditor-in-charge.
- Election of Jon Rasmus Aurdal as a new Board member.
- Re-election of Christian Ringnes, Leiv Askvig, Ann-Sofi Danielsson, Bengt Kjell, Helene Sundt and Jeanette Dyhre Kvisvik.
- Re-election of Christian Ringnes as Chairman of the Board.
- Authorisation for the Board of Directors to issue new shares amounting to a maximum of 10 percent of the total number of outstanding shares.
- Adoption of guidelines for remuneration for senior executives.
- Adoption of principles for appointing the Nominating Committee in advance of the 2019 Annual General Meeting.

The full minutes of shareholders' meetings are available on Pandox's website.

BOARD OF DIRECTORS

Pandox's Board of Directors is responsible for the Company's administration and organisational structure. This includes the following:

- Establishing the Company's objectives and strategies.
- Appointing, evaluating and, if necessary, dismissing the CEO.
- Ensuring that routines and systems are in place to evaluate performance in relation to established targets.
- Ongoing evaluation of performance and financial position.
- Ensuring that the annual reports and interim reports are correct, reliable and relevant.

Board members are elected at the AGM 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 eight members with no deputies.

The Chairman of the Board of Pandox is elected by the AGM. The Chairman is responsible for ensuring that the Board's work is well-organised and efficient.

The Board works according to written work procedures which are revised annually and adopted at the statutory board meeting every year. The work procedures regulate, among other things, types of meetings, functions and distribution of duties between the board members and the CEO. In conjunction with the statutory meeting the Board also adopts instructions for the CEO regarding financial reporting.

The Board holds meetings based on a schedule established annually, normally aligned with Pandox's strategy and budget process as well as the Company's financial calendar. Additional board meetings may be convened to manage time-critical issues that require board decisions, such as on acquisitions, divestment and raising capital.

In addition to the board meetings, the Chairman and the CEO meet continually to discuss Pandox's governance and management. The Board evaluates the work of the CEO on an ongoing basis.

The Board of Directors has an Audit Committee and a Remuneration Committee to assist it in its work.

▶ *Other assignments of Pandox's Board of Directors and CEO are described on pages 160–162.*

Work of the Board of Directors

2018 was another active year for Pandox with a focus on the integration of prior acquisitions, investments and leasing as well as new add-on acquisitions, which demanded considerable commitment from the Board. In addition to the above matters, during the year the Board worked on Pandox's strategy and business plan, budget, developments in the hotel market and risk analysis.

The Board held nine meetings during the year, one of which was the statutory meeting. At the statutory board meeting Bengt Kjell was elected as Vice Chairman of the Board.

The Board conducts an annual evaluation of its work methods and routines to ensure that the Board has the requisite expertise and efficient processes for good decisions. The result of the evaluation is reported to the Nominating Committee and provides substantive information on which the Committee can base its work.

The Board has determined that the members have appropriate and complementary expertise taking into account Pandox's oper-

IMPORTANT POLICIES AND CODES ADOPTED BY PANDOX'S BOARD OF DIRECTORS

	Content
Financial Policy	Principles and rules for financial activity
Insider Policy	Rules and guidelines for managing insider information
Internal and External Privacy Policy	Rules and information on Pandox's processing of personal data
IT and Data Security Policy	Principles and rules for how IT activities are to be conducted and data security ensured
Communication Policy	Principles and rules for internal and external communication
Environmental Policy	Rules and guidelines for Pandox's environmental responsibilities
Business Partner Code of Conduct	Principles and requirements relating to Pandox's business partners
Code of Conduct for Employees	Principles and requirements relating to Pandox's employees
Guidelines for Whistleblower Service	Describes how employees and external stakeholders can report suspected irregularities
Guidelines for Crisis Communication	Describes how Pandox communicates internally and externally in crisis situations

PANDOX'S BOARD OF DIRECTORS AND COMMITTEES IN 2018

		Attendance at meetings				
Name	Fees, SEK 000s[3]	Board of Directors	Audit Committee	Remuneration Committee	Independent of the Company[1]	Independent of owners[2]
Christian Ringnes, Chairman	750	9 of 9		2 of 2	Yes	No
Leiv Askvig	430	9 of 9		2 of 2	Yes	No
Jon Rasmus Aurdal [3]	310	7 of 7	3 of 3		Yes	No
Ann-Sofi Danielsson	530	7 of 9	4 of 4		Yes	Yes
Olaf Gauslå [3]	160	2 of 2	1 of 1		Yes	No
Bengt Kjell, Vice Chairman	570	8 of 9	3 of 4		Yes	Yes
Jeanette Dyhre Kvisvik	400	9 of 9			Yes	Yes
Helene Sundt	400	8 of 9			Yes	No
Mats Wäppling [3]	150	1 of 2			Yes	Yes

[1] Independent in relation to the Company and the executive management team.
[2] Independent in relation to the Company's major shareholders.
[3] Olaf Gauslå and Mats Wäppling left the Board at the 2018 AGM. Jon Rasmus Aurdal was elected to the Board at the 2018 AGM. The Board members received fees only for the part of the year during which they were on the Board.

ations, and this is also the opinion of the Nominating Committee.

In 2018 Pandox's Nominating Committee conducted interviews with all of the Board members and with the CEO. The conclusion was that the Board is working efficiently and that the members complement each other's strengths. It was determined that the election of Bengt Kjell as Vice Chairman of the Board has improved internal communication within the Board for time-critical decision-making processes, such as in connection with acquisitions.

The Nominating Committee applied rule 4.1 of the Code as a diversity policy when preparing its proposal for the Board of Directors, with the objective for the Board to be composed of members of varying ages, genders and geographical origins, and to represent a range of educational and professional backgrounds.

Three of the seven members of Pandox's Board are women.

The Nominating Committee has determined that the Board of Directors meets the requirements of the Code concerning independence.

Audit Committee

On 9 April 2018 Pandox appointed an Audit Committee consisting of Ann-Sofie Danielsson (chairman), Bengt Kjell and Jon Rasmus Aurdal. The Audit Committee's duties, without affecting the Board's general responsibilities and duties, include overseeing Pandox's financial reporting and the efficiency of Pandox's internal control and risk management, 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 when the auditor provides Pandox with services other than audit services, as well as assisting in drafting 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.

In 2018, in addition to examining Pandox's external financial reporting, the Audit Committee continued to analyse and assess Pandox's economic, financial and reporting risks with a particular focus on revenue, investments and property valuation. The Audit Committee also dealt with matters relating to internal control, in terms of development, tools, structure and self-assessment. The assessment is that Pandox's work on risk and control is developing effectively and that the Company improved its routines, controls and systems during the year. The effects of the upcoming transition to IFRS 16 were analysed and assessed jointly by Pandox and its auditors.

In 2018 the Audit Committee held four meetings for which minutes were kept and reported to the Board of Directors.

Remuneration Committee

Pandox has a Remuneration Committee consisting of two members: Christian Ringnes and Leiv Askvig.

Remuneration Committee duties:

- Preparing for board decisions on remuneration principles and on remuneration and other employment terms for the executive management team.
- Monitoring and evaluating ongoing programmes and programmes concluded during the year for variable remuneration for the executive management team.

Board duties, normal annual cycle*

REMUNERATION COMMITTEE

1. February
- Performance against targets, current scheme
- Proposals to AGM

2. October
- Guidelines for incentive scheme

AUDIT COMMITTEE

1. February
- Year-end report
- Audit report

2. April
- Interim report
- Audit plan

3. July
- Interim report

4. October
- Interim report
- Risk analysis

BOARD OF DIRECTORS

1. February
- Year-end report
- Income statement and balance sheet, full year
- Proposed appropriation of profits
- Annual Report
- Feedback from auditors

2. March
- Adoption of Annual Report
- Notice of Annual General Meeting

3. April
- Interim report Q1
- Audit plan
- Review of policies
- Forecast

4. April – statutory meeting
- Board of Directors' work procedures
- CEO instructions
- Signatory and decision authority, and approval matrix

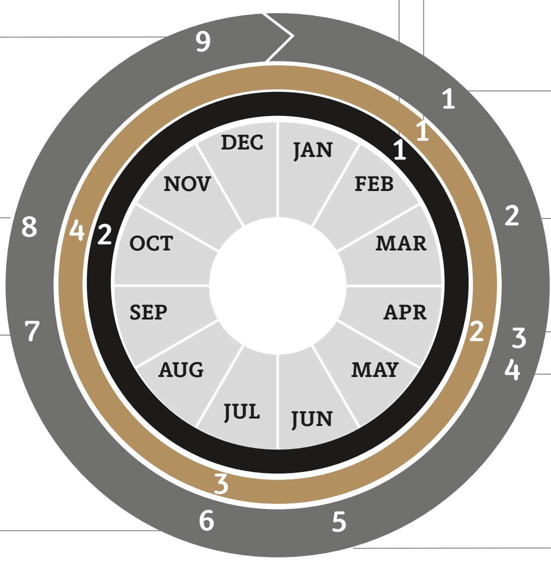
5. June
- Market update

6. July
- Interim report Q2

7. September
- Forecast
- Strategy

8. October
- Interim report Q3
- Feedback from auditors
- Forecast

9. December
- Investments
- Business plan
- Budget
- Risk analysis



*In 2018 a total of nine board meetings were held.

- 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.

During the year the Remuneration Committee paid special attention to matters relating to salaries and other remuneration for the CEO and executive management team. In addition, an incentive scheme was prepared for key individuals at Pandox.

In 2018 the Remuneration Committee held two meetings for which minutes were kept and reported to the Board of Directors.

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 allocation 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 for reporting on these materials at the board meetings.

According to the financial reporting instructions, 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 Pandox's performance, sales development, earnings and financial position, liquidity and credit status, important business events and about every other event, circumstance or situation that may be assumed to be of material importance for 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 Parent 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 has been guilty of neglect or has acted in a way that may result in compensation liability.

According to Pandox's Articles of Association, Pandox is to have two auditors and two deputy auditors or one authorised accounting firm as auditor. At the request of the Audit Committee, in 2017 Pandox carried out an auditor procurement process which resulted in the Nominating Committee's proposal to elect the accounting firm of PwC as the Company's new auditor, and this was approved at the 2017 AGM. The 2018 AGM re-elected PwC, with authorised public accountant Patrik Adolfson as auditor-in-charge. ▶ *Pandox's auditor is presented on page 161.*

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 Annual 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 of the shareholders' meeting and is responsible for submitting proposals for the election of the Chairman and other members of the Board, as well as on fees and other remuneration for board assignments for each of the board members. The Nominating Committee is also to provide proposals for the election and compensation of auditors in consultation with the Audit Committee, as well as for the Committee's composition and how it is convened.

In accordance with a decision at Pandox's 2018 AGM, the Nominating Committee, in preparation for the 2019 AGM, is to consist of the Chairman of the Board and members appointed by the four largest shareholders in terms of voting rights as of 31 July 2018, according to the register of shareholders kept by Euroclear Sweden. The Chairman of the Board of Pandox AB is also responsible for convening the first meeting of the Nominating Committee. If a shareholder with the right to appoint a member of the Nominating Committee relinquishes that right, the right to appoint a member is transferred to the largest shareholder who has not previously had the right to appoint a member of the Nominating Committee. Helene Sundt AB and Christian Sundt AB are represented by the same member of the Nominating Committee. The member appointed by the largest shareholder in terms of voting rights is to be appointed as chairman of the Nominating Committee. The composition of the Nominating Committee is to be announced no later than six months before the AGM. No fees are payable.

On 5 September 2018 Pandox 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 AB
- Jakob Iqbal, Helene Sundt AB and Christian Sundt AB jointly
- Lars-Åke Bokenberger, AMF
- Marianne Flink, Swedbank Robur Fonder

When preparing its proposal for the election of the Board of Directors the Nominating Committee applies what is stated in section 4.1 of the Swedish Corporate Governance Code as a diversity policy and as its objectives.

Shareholders wishing to submit proposals to the Nominating Committee may do so by e-mail to valberedningen@pandox.se or by letter to Pandox AB, Valberedning, PO Box 15, SE-101 20 Stockholm no later than 20 February 2019.

The Nominating Committee's proposals to the 2019 AGM are:

- Proposal for election of members of the Board of Directors
- Proposal for election of auditor
- Principles for appointing the Nominating Committee in advance of the 2020 Annual General Meeting

The Nominating Committee's proposals have been published in the notice to attend the 2019 AGM and on Pandox's website. The AGM will be held on 10 April 2019 in Stockholm.

INTERNAL CONTROL AND FINANCIAL REPORTING

According to the Swedish Companies Act and the Code, Pandox's Board of Directors is 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 and risk management with respect to financial reporting.

The framework used as a basis for Pandox's work on and description of internal governance and control is 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.

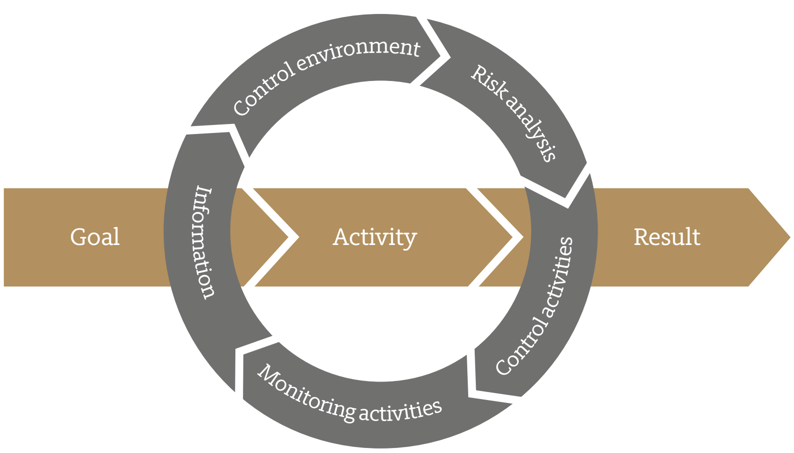
Control environment

The Board of Directors has 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 2018 Pandox continued its work on defining, documenting and implementing an organisational structure, decision paths, responsibility and powers. These efforts have strengthened Pandox's corporate culture and control environment.

During the year Pandox bolstered the Company's expertise by recruiting a specialist in finance and taxation.

Pandox's model for internal control



Risk assessment

The Group's operations are exposed to a variety of risks. In 2018 Pandox implemented several large acquisitions which have expanded the Group's area of operations geographically and resulted in new business relationships. In view of these changes, during the year the Group supplemented the risk assessment carried out in 2017.

▶ *See the section on Risk on pages 94–99 and the Sustainability Report, on page 54.*

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 Method. It is used to evaluate and document identified risks associated with the hotel properties. The method allows Pandox to increase cash flow and limit the risk associated with each of the hotels.

The four phases of the Pandox Method:

- Market analysis
- Marketing strategy
- Profitability optimisation
- Agreement optimisation

There is an individual business plan for each hotel property. Twice a year a review of all of the hotels and properties is performed and the business plan is updated based on the Pandox Method. Recurring business risk areas are: hotel occupancy, property management, contract issues and asset management. The most significant 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 cycle, geographic exposure and operator/brand exposure, hotel demand, supply of new capacity, competitors etc.

Pandox performs internal valuations of its property portfolio every quarter. In addition, a valuation is made of all properties every year by external professional property appraisers who are independent of Pandox. Their assumptions and valuations form an important element in 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 consideration factors such as developments in the underlying operator activities, market developments, the contract situation, operating and maintenance issues and investments aimed at maximising the hotel property's cash flow and return over the long term.

In its role as an active hotel property owner, Pandox, in cooperation with its lease partners, makes every effort to identify joint investment and renovation programmes to ensure that the hotels are competitive and play a part in increasing cash flow. Pandox takes a long-term perspective and has a structured process for managing, implementing and following up on investments. Pandox normally works according to three- to five-year maintenance plans and implements specific projects for cash flow-driving investments. For investments exceeding MSEK 10, a memorandum is submitted to the Board for approval. An investment budget is established every year in connection with the preparation of the budget and business plan, which is adopted by the Board of Directors and adjusted on a quarterly basis. The outcome of the investments is monitored in relation to the budget and reported to the Board.

Interest expense is Pandox's largest 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. With a greater proportion of loans in foreign currency, interest expense is also affected by fluctuation in exchange 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 are used; these are mainly interest swaps. Variable interest rates are partially swapped through interest rate swaps, giving Pandox fixed interest rates. Pandox's Board establishes the risk mandate. The risk mandate is reflected in Pandox's Financial Policy 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 that the Company plans well in advance with respect to its financing requirements.

In connection with Pandox's annual strategy and budgetary work the executive management team presents a chart 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. During the year Pandox updated its assessment of risk in the Group. Pandox's most important financial processes, such as closing the accounts, consolidation, monitoring results and reporting, have been documented in a Financial Handbook. The process of producing the Financial Handbook 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 a general level in the analysis of results and key ratios, as well as at a detailed level by incorporating a number of items to check in the 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 Group 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 with respect to 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 cases are reported to the Board. At least every quarter the Board follows up on any high risks identified. The Audit Committee always examines the external reports before they are published for the stock market.

These follow-up 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 more 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 internal information documents on the intranet is regulated by rules of authorisation. The documents are updated on a regular 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.

The person responsible for Investor Relations is responsible for all external information and communication, including the external website.

Need for an internal audit department

Pandox has a very dedicated and committed executive management team whose members are directly involved in many issues at various levels within the Group. Pandox also has a strong central control department consisting of controllers 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' opinion on the corporate governance statement

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

The Board of Directors is responsible for the corporate governance statement for the year 2018 on pages 154–159 and for ensuring that it has been prepared in accordance with the Annual Accounts Act.

Our review was performed in compliance with statement RevU 16 The auditor's examination of the corporate governance statement issued by FAR (the professional institute for Swedish authorised public accountants). This means that our statutory examination of the corporate governance statement has a different focus and is substantially narrower in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden.

A corporate governance statement has been prepared. Information in accordance with chapter 6 section 6 second paragraph items 2–6 and chapter 7 section 31 second paragraph of the Annual Accounts Act is consistent with the annual accounts, the consolidated accounts and the Annual Accounts Act.

Stockholm, 7 March 2019
PricewaterhouseCoopers AB

Patrik Adolfson
Authorised Public Accountant
Auditor-in-charge

Helena Ehrenborg
Authorised Public Accountant

Board of Directors

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, Sundt AS (and board appointments for several companies in the group) and Dermanor AS.
Board member Schibsted ASA and Fastighetsstyrelsen Norges Bank.
Christian Ringnes owns 41.7 percent of the shares in Victoria Eiendom AS, which owns 52.4 percent of the shares in Eiendomsspar AS, which owns 100 percent of Eiendomsspar Sverige AB, which in turn owns 37,314,375 class A shares and 8,964,375 class B shares in Pandox.
Independent in relation to the Company and the executive management team: Yes
Independent in relation to principal shareholders: No

Leiv Askvig

Born 1957.
Board member since 2004 and member of the Remuneration Committee.
Advanced Management Program, Harvard Business School.
Bachelor's degree in Business Administration from the Norwegian School of Management in Oslo.
Chief Executive Officer Sundt AS (and chairman of several companies in the group).
Chairman of the Board Basen Kapital AS, Christian Sundt AS, Helene Sundt AB and Civita AS.
Board member Alfarveg AS, Skibs AS Tudor, Toluma AS, Eiendomsspar AS and Victoria Eiendom AS.
Shareholding: 0
Independent in relation to the Company and the executive management team: Yes
Independent in relation to principal shareholders: No

Jon Rasmus Aurdal

Born 1982.
Board member since 2018 and member of the Audit Committee.
Master of Science, Professional Accountancy from Norwegian Business School and Master of Business and Administration from the Norwegian School of Economics (NHH).
Chief Financial Officer Eiendomsspar AS and Victoria Eiendom AS.
Board and management positions in several subsidiaries of Eiendomsspar AS and Victoria Eiendom AS. Board member Lillunn AS.
Shareholding: 1,000 class B shares.
Independent in relation to the Company and the executive management team: Yes
Independent in relation to principal shareholders: No

Jeanette Dyhre Kvisvik

Born 1972.
Board member since 2017.
Law degree (honours) from the University of Bergen (Norway).
Board member Villoid AS and Hiddn Solutions AS.
Shareholding: 0
Independent in relation to the Company and the executive management team: Yes
Independent in relation to principal shareholders: Yes

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 Bonava AB.
Board member Vasakronan AB.
Shareholding: 1,000 class B shares
Independent in relation to the Company and the executive management team: Yes
Independent in relation to principal shareholders: Yes

Bengt Kjell

Born 1954.
Board member since 1996. Vice Chairman of the Board and member of the Audit Committee.
Graduate of Stockholm School of Economics, DHS.
Chairman of the Board Hemfosa Fastigheter AB, Nyfosa AB, SSAB and others.
Vice Chairman Indutrade AB.
Board member AB Industrivärden, ICA Gruppen AB and others.
Shareholding: 2,000 class B shares
Independent in relation to the Company and the executive management team: Yes
Independent in relation to principal shareholders: Yes

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.
Board member Sigval Bergesen d.y. & Hustru Nankis Almennyttige Stiftelse.
Helene Sundt owns 100 percent of the shares in Helene Sundt AS, which owns 100 percent of the shares in Helene Sundt AB, which owns 18,657,188 class A shares and 4,042,187 class B shares in Pandox.
Independent in relation to the Company and the executive management team: Yes
Independent in relation to principal shareholders: No

Auditor

Patrik Adolfson

Born 1973.
Auditor-in-charge, authorised public accountant, PricewaterhouseCoopers AB.
Patrik Adolfson has been auditor-in-charge for Pandox AB since 2017.
Other audit assignments: AcadeMedia AB (publ), Attendo AB (publ), Bonava AB (publ), Securitas AB (publ) and SHH Bostad (publ).
Member of FAR (the professional institute for Swedish authorised public accountants).

Senior executives

Anders Nissen

Born 1957.
CEO since 1995.
Business Administration programme, Lund University.
Board member Björnberg Fastighetsförvaltning AB and Svenska Handbollslandslaget AB.
Shareholding: 100 percent of the shares in Blåklockevägen AS, which owns 371,250 class A shares and class 371,250 B shares in Pandox.

Liia Nõu

Born 1965.
Senior Executive Vice President and CFO since 2007.
MSc Business and Economics from Stockholm School of Economics.
Shareholding: 13,700 class B shares

Anders Berg

Born 1967.
Senior Vice President, Director of Communications and IR since 2016.
MSc Business and Economics from Linköping University.
Shareholding: 0

Karmen Bergholcs

Born 1970.
Senior Vice President, General Counsel since 2016.
Law degree from Stockholm University.
Shareholding: 0

Martin Creydt

Born 1965.
Senior Vice President, Director of Property Management International since 2017.
Advanced Management Program, Cornell University, Executive Program, INSEAD, Business Degree Service Management, University of Gothenburg.
Shareholding: 3,000 class B shares

Erik Hvesser

Born 1969.
Senior Vice President, Director of Property Management Nordics since 2006.
Degree in Business Administration from the Norwegian School of Economics.
Shareholding: 0

Lars Häggström

Born 1954.
Senior Executive 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 (KTH).
Shareholding: 10,000 class 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.
Senior Vice President, Business Intelligence since 2005.
Studies towards MSc in Business Administration and Economics, Stockholm University.
Studies towards BSc in Engineering, Royal Institute of Technology (KTH) in Stockholm.
Shareholding: 0

Multiyear summary

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

MSEK	2018	2017	2016	2015	2014	2013	2012
Revenue Property Management							
Rental income	2,809	2,121	1,717	1,431	1,418	1,523	1,540
Other property revenue	162	81	70	112	60	67	55
Revenue Operator Activities	2,153	2,067	2,158	2,046	1,598	1,308	1,179
Net sales	**5,124**	**4,269**	**3,945**	**3,589**	**3,076**	**2,898**	**2,774**
Costs Property Management	–454	–321	–292	–263	–292	–313	–293
Costs Operator Activities	–1,776	–1,743	–1,866	–1,767	–1,387	–1,200	–1,078
Gross profit	**2,894**	**2,206**	**1,787**	**1,559**	**1,397**	**1,385**	**1,403**
Central administration	–148	–124	–117	–94	–82	–64	–57
Net financial items	–803	–519	–456	–438	–536	–608	–586
Profit before changes in value	**1,943**	**1,563**	**1,214**	**1,027**	**779**	**713**	**760**
Changes in value							
Properties	1,495	1,914	1,460	1,399	1,197	375	263
Derivatives, unrealised	25	173	–39	203	–622	321	–212
Profit before tax	**3,463**	**3,650**	**2,635**	**2,629**	**1,354**	**1,409**	**811**
Current tax	–216	–73	–72	–35	–16	–197	–9
Deferred tax	–424	–429	–349	–463	–85	–264	–305
Profit for the year	**2,823**	**3,148**	**2,214**	**2,131**	**1,253**	**948**	**497**
Other comprehensive income for the year	465	–185	359	–291	–3	–32	–82
Comprehensive income for the year	**3,288**	**2,963**	**2,573**	**1,840**	**1,250**	**916**	**415**

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

MSEK	2018	2017	2016	2015	2014	2013	2012
Assets							
Properties including equipment	52,949	48,217	36,578	29,463	25,701	26,161	25,359
Other non-current assets	43	37	23	25	26	45	10
Deferred tax assets	465	613	748	800	924	733	801
Current assets	885	1,871	563	1,162	315	303	262
Cash and cash equivalents	674	999	517	170	321	589	939
Total assets	**55,016**	**51,737**	**38,429**	**31,620**	**27,287**	**27,871**	**27,371**
Equity and liabilities							
Equity	21,538	19,027	15,258	12,215	10,402	10,429	9,395
Deferred tax liabilities	3,430	3,026	2,582	2,281	1,993	1,708	1,457
Interest-bearing liabilities	27,917	26,298	18,841	15,546	12,907	14,575	15,020
Non-interest-bearing liabilities	2,131	3,386	1,748	1,578	1,985	1,159	1,499
Total equity and liabilities	**55,016**	**51,737**	**38,429**	**31,620**	**27,287**	**27,871**	**27,371**

KEY RATIOS

	2018	2017	2016	2015	2014	2013	2012
Net operating income Property Management, MSEK	2,517	1,882	1,495	1,280	1,186	1,277	1,302
Net operating income Operator Activities, MSEK	540	494	439	416	320	210	189
EBITDA, MSEK	2,909	2,252	1,817	1,603	1,425	1,424	1,435
Earnings per share, SEK	16.83	19.89	14.65	14.21	8.35	6.31	3.32
Cash earnings, MSEK	1,890	1,660	1,289	1,130	873	620	840
Cash earnings per share, SEK	11.26	10.46	8.49	7.53	5.82	4.10	5.60
RevPAR (operating properties) for comparable units and comparable exchange rates	859	806	657	684	644	—	—

	31 Dec 2018	31 Dec 2017	31 Dec 2016	31 Dec 2015	31 Dec 2014	31 Dec 2013	31 Dec 2012
Net interest-bearing debt, MSEK	27,421	25,474	18,324	15,376	12,587	13,986	14,081
Equity/assets ratio, %	39.1	36.8	39.7	38.6	38.1	37.4	34.3
Loan-to-value ratio, properties, %	49.7	50.8	47.9	49.5	48.7	55.5	59.4
Interest coverage ratio, times	3.8	4.4	4.0	3.6	2.6	2.3	2.4
Market value properties, MSEK	55,197	50,121	38,233	31,437	26,504	26,282	25,291
EPRA NAV per share, SEK	164.04	144.54	126.24	107.71	92.11	82.60	74.80
WAULT (investment properties), years	15.7	15.6	13.9	11.2	9.0	—	—

Quarterly data

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

MSEK	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017
Revenue Property Management								
Rental income	704	766	739	600	549	569	547	456
Other property revenue	45	44	52	21	22	20	21	18
Revenue Operator Activities	626	531	565	431	528	463	555	521
Net sales	**1,375**	**1,341**	**1,356**	**1,052**	**1,099**	**1,052**	**1,123**	**995**
Costs Property Management	–122	–112	–127	–93	–82	–78	–83	–78
Costs Operator Activities	–507	–429	–436	–404	–429	–373	–462	–479
Gross profit	**746**	**800**	**793**	**555**	**589**	**601**	**578**	**438**
Central administration	–43	–34	–37	–34	–37	–30	–30	–28
Net financial items	–214	–205	–198	–186	–126	–132	–131	–130
Profit before changes in value	**489**	**561**	**558**	**335**	**426**	**439**	**417**	**280**
Changes in value								
Properties, unrealised	607	376	297	148	490	194	634	308
Properties, realised	27	13	13	14	289	—	—	—
Derivatives, unrealised	–147	113	–24	83	7	18	71	77
Profit before tax	**976**	**1,063**	**844**	**580**	**1,212**	**651**	**1,122**	**665**
Current tax	–55	–64	–60	–37	11	–16	–38	–30
Deferred tax	–146	–166	–21	–91	–40	–84	–197	–108
Profit for the period	**775**	**833**	**763**	**452**	**1,183**	**551**	**887**	**527**
Other comprehensive income	–177	–220	134	728	–196	–1	–82	94
Comprehensive income for the period	**598**	**613**	**897**	**1,180**	**986**	**550**	**805**	**621**

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

MSEK	31 Dec 2018	30 Sep 2018	30 Jun 2018	31 Mar 2018	31 Dec 2017	30 Sep 2017	30 Jun 2017	31 Mar 2017
ASSETS								
Properties including equipment	52,949	50,855	50,789	49,944	48,217	39,202	38,216	37,098
Other non-current assets	43	91	36	59	37	51	54	41
Deferred tax assets	465	520	561	469	613	665	685	722
Current assets	885	1,105	2,542	2,262	1,871	772	703	582
Cash and cash equivalents	674	923	678	708	999	484	344	625
Total assets	**55,016**	**53,494**	**54,606**	**53,442**	**51,737**	**41,174**	**40,002**	**39,068**
EQUITY AND LIABILITIES								
Equity	21,538	20,950	20,347	20,206	19,027	16,586	16,036	15,231
Deferred tax liabilities	3,430	3,316	3,237	3,153	3,026	2,911	2,924	2,705
Interest-bearing liabilities	27,917	27,461	27,451	26,792	26,298	20,034	19,359	18,709
Non-interest-bearing liabilities	2,131	1,767	3,571	3,291	3,386	1,643	1,683	2,423
Total equity and liabilities	**55,016**	**53,494**	**54,606**	**53,442**	**51,737**	**41,174**	**40,002**	**39,068**

KEY RATIOS

	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017
Net operating income Property Management, MSEK	627	698	664	528	490	511	485	396
Net operating income Operator Activities, MSEK	165	142	167	66	144	129	139	82
EBITDA, MSEK	749	806	794	560	597	610	594	450
Earnings per share, SEK	4.63	4.98	4.53	2.69	7.47	3.47	5.61	3.31
Cash earnings, MSEK	480	537	536	336	482	462	425	290
Cash earnings per share, SEK	2.88	3.20	3.18	2.00	3.06	2.91	2.67	1.81
RevPAR growth (Operator Activities) for comparable units and comparable exchange rates, %	12	6	4	4	11	12	17	4

	31 Dec 2018	30 Sep 2018	30 Jun 2018	31 Mar 2018	31 Dec 2017	30 Sep 2017	30 Jun 2017	31 Mar 2017
Net interest-bearing debt, MSEK	27,421	26,590	26,844	26,151	24,474	19,550	19,015	18,084
Equity/assets ratio, %	39.1	39.2	37.3	37.8	36.8	40.3	40.1	39.0
Loan-to-value ratio, properties, %	49.7	49.9	50.6	50.2	50.8	47.7	47.7	46.8
Interest coverage ratio, times	3.8	4.1	4.2	3.1	4.5	4.9	4.6	3.6
Market value properties, MSEK	55,197	53,281	53,064	52,120	50,121	40,951	39,868	38,630
EPRA NAV per share, SEK	164.04	158.44	153.97	151.81	144.54	136.47	132.55	125.67
WAULT (investment properties), years	15.7	15.3	15.3	15.6	15.6	13.8	13.9	13.6

Financial definitions

Average interest on debt, %
Average interest expense based on interest rate maturity in respective currencies as a percentage of interest-bearing liabilities.

Cash earnings, MSEK
EBITDA plus financial income less financial expense less current tax.

EBITDA, MSEK
Total gross profit less central administration (excluding depreciation).

Equity/assets ratio, %
Recognised equity as a percentage of total assets.

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 including depreciation of Operator Activities.

Growth adjusted for currency effects and comparable units
Growth measure that excludes effects of acquisitions, sales and reclassifications, as well as exchange rate changes.

Growth in EPRA NAV (net asset value growth), annual rate, %
Accumulated percentage change in EPRA NAV, with dividends added back and issue proceeds deducted, for the immediately preceding 12-month period.

Interest coverage ratio
Profit before changes in value plus interest expense and depreciation, divided by interest expense.

Investments, excl. acquisitions, MSEK
Investments in non-current assets excluding acquisitions.

Net interest-bearing debt, MSEK
Interest-bearing liabilities, including arrangement costs for loans, less cash and cash equivalents and short-term investments that are equivalent to cash and cash equivalents.

Net loan-to-value ratio, %
Interest-bearing liabilities, including arrangement costs for loans, less cash and cash equivalents as a percentage of the properties' market value at the end of the period.

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.

Net operating margin, Operator Activities, %
Net operating income for Operator Activities in relation to total revenue from Operator Activities.

Return on equity, %
Profit or loss for the period attributable to the Parent Company's shareholders, after tax, rolling 12 months, as a percentage of average equity attributable to the Parent Company's shareholders for the same period of time. The average equity is calculated as the sum of opening and closing balances divided by two.

Rounding off
Since amounts have been rounded off to MSEK, the tables do not always add up.

PER SHARE

Cash earnings per share, SEK
EBITDA plus financial income less financial expense less current tax, after non-controlling interest, divided by the weighted average number of shares outstanding.

Comprehensive income per share, SEK
Comprehensive income for the period attributable to the Parent Company's shareholders divided by the weighted average number of outstanding shares after dilution at the end of the period.

Dividend per share, SEK
Proposed/approved dividend for the year divided by the weighted average number of outstanding shares after dilution at the end of the period.

Earnings per share, SEK
Profit for the period attributable to the Parent Company's shareholders 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 assets for derivatives, deferred tax liabilities related to properties and revaluation of operating properties, divided by the total number of shares outstanding 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.

Other definitions and terms

PROPERTY INFORMATION

Market value properties, MSEK

Market value of investment properties plus market value of operating properties.

Number of hotels

Number of owned hotel properties at the end of the period.

Number of rooms

Number of rooms in owned hotel properties at the end of the period.

RevPAR for operating properties (comparable units at constant exchange rates), SEK

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 and operated during the entire current period and comparative period.

Constant exchange rate is defined as the exchange rate for the current period, and the comparison period is recalculated based on that rate.

WAULT (investment properties)

Weighted average lease term remaining to expiry, across the property portfolio, weighted by contracted rental income.

BREEAM (BRE Environmental Assessment Method)

A voluntary environmental certification system developed in the UK by BRE in the early 1990s. It is the most widespread system of environmental certification in Europe and has been used in more than 500,000 buildings around the world.

COMPRESSION NIGHT

The term compression night is used to describe particularly profitable guest nights in the hotel market, which occur when the occupancy rate in a certain hotel market is 90 percent or higher.

GRI (Global Reporting Initiative)

GRI is a not-for-profit organisation working for sustainability from the environmental, economic and social perspectives. It focuses on providing a framework for companies' sustainability reporting and the aim of its work is a globally sustainable economy.

IATA (International Air Transport Association)

IATA manages rules and the like within commercial passenger aviation, mainly within standardisation of tickets and allocation of airport codes and airline codes.

OTA – ONLINE TRAVEL AGENCY

Online companies whose websites permit consumers to book various travel-related services directly over the internet.

UNWTO – UNITED NATIONS WORLD TOURISM ORGANIZATION

Multilateral institution promoting tourism with headquarters in Madrid. The organisation was formed at the initiative of the United Nations.

WTTC – WORLD TRAVEL & TOURISM COUNCIL

A global association that gathers large actors in travel and tourism. The WTTC works to increase awareness about travel and tourism which together account for more than 10 percent of global GDP and employs close to 300 million people.


PEPPER

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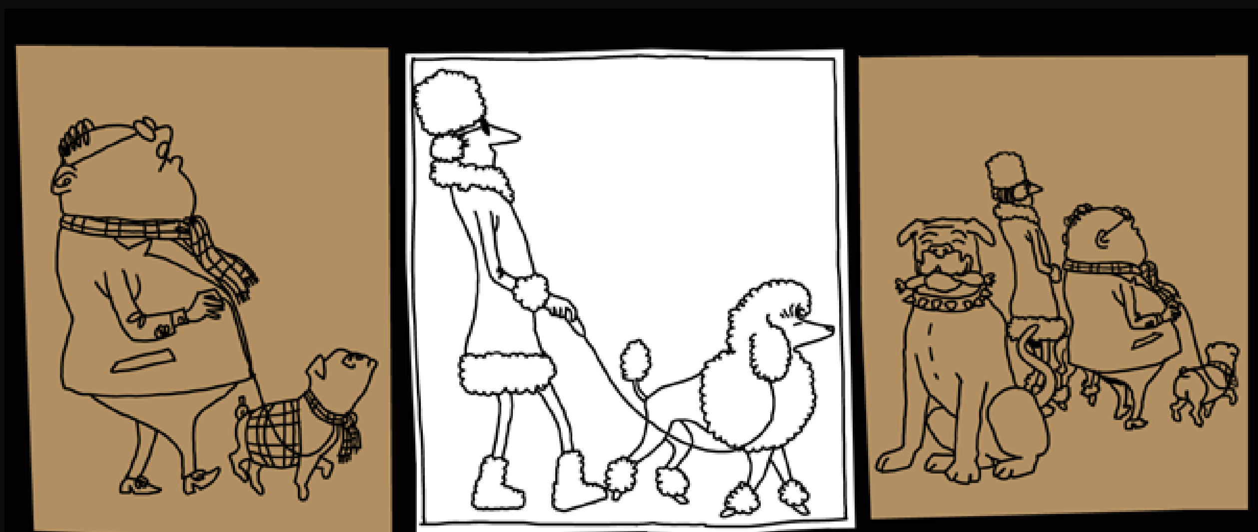
CHECK OUT...
Pandox Corporate Dog



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