

HOTEL
INDIGO

Hotellism
by Pandox



Pandox in practice **20**



Megatrends **24**



Pandox Fair Play 2.0 **35**

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The 2019 Annual Report contains Pandox's Sustainability Report, which is presented on pages 35–60. The Sustainability Report has been prepared in accordance with the GRI Standards and meets the Core level. It also constitutes Pandox's Communication on Progress towards the UN Global Compact and Pandox's statutory Sustainability Report.

HOTEL
INDIGO

Hotelism by Pandox
The philosophy
of how to create
value in hotels

Hotelism is the philosophy of how to create value in hotel properties through profitable and sustainable hotel operation. Hotelism is based on pure focus on hotel properties, knowledge advantage through analysis and insights, active ownership together with strong hotel operators, free movement over the value chain, risk management through diversification, an industrial and long-term perspective on value creation, as well as a business culture characterised by curiosity and fun.

Pandox owns and leases out hotel properties to leading hotel operators. Pandox owns a total of 155 hotels with a combined 34,685 rooms in 15 countries. Pandox has an integrated business model and is active throughout the value chain with the goal of offering the most attractive platform for hotel operations.

A leading hotel property company

Pan-European position

Pandox owns properties that hotel operators lease to operate hotels in. Pandox is fully specialised in hotel properties and has a strong pan-European position with 155 hotel properties in 90 cities in 15 countries, including some in the world's largest hotel markets such as Germany and the UK.

High-quality portfolio

Pandox's portfolio mainly contains large hotel properties with full-service hotels of high quality with strong locations in their submarkets. The majority of the hotels are in the mid-range, upper-mid range and premium segments with demand from many different types of guests.

World class network

Pandox's property portfolio has a good mix of geographical markets, hotel operators, hotel brands and types of demand, which creates stability over the hotel business cycle. Pandox also has a world-class network and strong relationships with leading hotel operators and brands, which opens up many new business opportunities.

Expertise and active ownership

Pandox is an active owner with in-depth hotel knowledge and experience of all operating models that exist in the hotel market. The core model is revenue-based leases where a certain percentage of a hotel's revenue becomes rental income for Pandox. Pandox may also operate hotels itself in properties owned by the Company. This provides more freedom and reduces risk.

MSEK 63,469
market value of
portfolio

MSEK 3,389
net operating
income

155 hotels

34,685 rooms

15 countries

In the past five years Pandox has acquired hotel properties for around MSEK 25,000 in large hotel markets in Europe. The international share of the portfolio's market value has more than doubled over the same period and now amounts to around 60 percent. Germany, which is the biggest hotel market in Europe, accounts for around 24 percent of the portfolio's market value.



Strong business platform ...

A strong year with growth in total net operating income and net asset value of 11 and 17 percent respectively

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

Acquisition of 13 hotels in Germany and the Netherlands

Pandox signs agreements to acquire a total of 13 hotels, 12 of which are in Germany and one in the Netherlands, for a total of MEUR 537. The hotels are full-service hotels in the upper-mid price segment with an average size of 218 rooms and good locations in growing cities. Pandox divests Hotell Hasselbacken in Stockholm during the year.

A cash-based directed share issue raises around MSEK 3,000

Pandox completed a cash-based directed share issue raising around MSEK 3,000. There was significant interest in the issue and around 130 selected Swedish and international institutional investors subscribed for shares.

Pandox owns 155 hotel properties

Pandox owns 155 hotel properties with a total of 34,685 rooms in 15 countries, with a total market value of MSEK 63,469. 137 of the hotel properties are assigned to Property Management and 18 to Operator Activities.

Summary (MSEK)	2019	2018	Change, %
Revenue, Property Management	3,129	2,971	5
Net operating income, Property Management	2,764	2,517	10
Net operating income, Operator Activities	625	540	16
EBITDA	3,215	2,909	11
Profit for the year	2,700	2,823	-4
Earnings per share, SEK ¹⁾	15.91	16.83	-5
Cash earnings	2,161	1,893	14
Cash earnings per share, SEK ¹⁾	12.74	11.28	13
Net interest-bearing debt	29,191	27,421	6
Loan-to-value ratio, properties, %	46.0	49.7	n.a.
Interest coverage ratio, times	4.0	3.8	n.a.
Market value, properties	63,469	55,197	15
EPRA NAV per share, SEK ²⁾	186.40	164.04	17

¹⁾ For information on the number of shares see page 33.

²⁾ Measured as growth in EPRA NAV at an annual rate, with dividend added back and issue proceeds deducted. See key ratios on page 108.

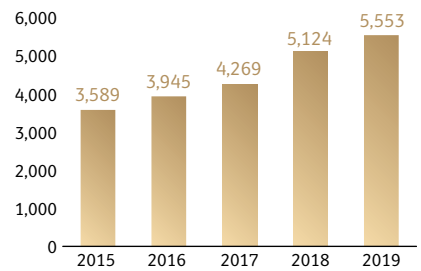
MSEK
2,161
Cash
earnings



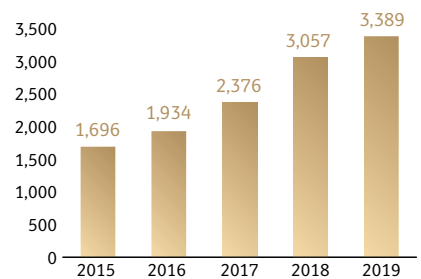
... creates
results

In 2019 Pandox strengthened its pan-European position. Our business platform is strong and lays the foundation for future growth.

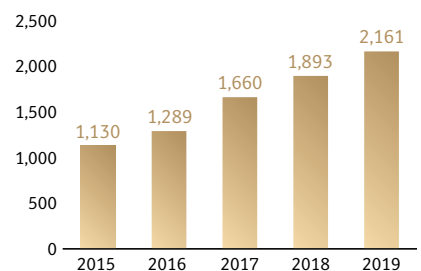
Total revenue, MSEK



Total net operating income, MSEK



Total cash earnings, MSEK



2019 was a year with strong business momentum in all areas, involving several profitable acquisitions, a cash-based directed share issue, extensive value-creating investments in the existing portfolio and a strong earnings trend. Total net operating income and total cash earnings increased by 11 and 14 percent respectively. The growth in net asset value was 17 percent with the dividend added back and adjustment for the directed share issue.

Strengthened pan-European position

SOLID BUSINESS PLATFORM

Pandox is one Europe's leading hotel property companies, both financial and commercially, with 156 hotel properties and 35,001 rooms in 90 cities in 15 countries, including the acquisition of Maritim Hotel Nürnberg completed in January 2020. Ever since it was founded in 1995, Pandox has been building a strong pan-European business platform through targeted efforts based on industry knowledge. The market value of the property portfolio now amounts to around MSEK 64,000, which is more than a hundred times higher than when the Company was established. The portfolio consists of large full-service hotels with an average size of 224 rooms in good locations. The portfolio is diversified in multiple dimensions such as geographies, locations, demand, brands and hotel products, and is now a powerful foundation for continued expansion.

In 2019 Pandox strengthened its pan-European position further and we are now seeing clear economies of scale which, in combination with strong internal expertise and an extensive network, is driving business activity at a higher level than ever before. This is evident in the number of inquiries regarding new acquisitions, more and larger investment projects in the existing portfolio and a general increase in interest from business partners, the capital market and, not least, potential new employees.

ACQUISITIONS IN MAJOR MARKETS

Pandox's growth is driven by a combination of new hotel property acquisitions, investment in the existing portfolio and market growth.

2019 was another active year for acquisitions at Pandox. Including Maritim Hotel Nürnberg, Pandox acquired 13 hotel prop-

erties in growing regional hubs in Germany and the Netherlands with a total acquisition value equivalent to around MSEK 5,500. Through these acquisitions Pandox has added an additional seven new cities, five new brands and three new business partners to its business portfolio. Since Pandox only invests in hotel properties, diversification through exposure to different types of cities, brands and business partners is an important tool to balance the risks in the hotel market. Pandox aims to maintain a good balance between international, regional and domestic demand.

After the 2019 acquisitions, 16 percent of the portfolio's market value is now in international cities like London, Amsterdam and Berlin, 42 percent in regional cities like Stockholm, Manchester and Munich and 42 percent in domestic cities like Cologne, Leeds and Tampere. This means that the naturally higher volatility in international demand is more than balanced out by stable domestic demand. Added to this is regional demand which is mainly driven by domestic travel with international elements.

INVESTMENTS THAT CREATE VALUE

As regards investments in the existing portfolio, Pandox works actively with its business partners to find and implement investments that drive growth, profitability and property value. It is always important to increase the commercial potential of the hotel properties through, for example, more beds in existing rooms, more rooms in existing properties or extension of existing properties. At the end of the year more than MSEK 1,400 was approved for investments. The majority are projects with a good return, paving the way for future organic growth in value for Pandox.

THE HOTEL MARKET IS GROWING

Global economic development and the level of activity in Pandox's markets are particularly important drivers of growth.

The conditions in the hotel market are fundamentally good. Forward-looking financial indicators for the global economy have gradually improved and the positive long-term drivers in the hotel market still exist. The underlying hotel demand remains positive, but an increased supply of hotel rooms is limiting RevPAR growth. Based on a well-diversified portfolio with balanced demand from many different guest segments and a positive contribution from recent acquisitions, Pandox sees potential for growth in 2020. However, taking into account the external environment and planned investments, mainly in Operator Activities, the earnings trend can be slightly uneven from quarter to quarter. The outbreak of coronavirus is in the short term expected to have a somewhat slowing effect on demand, mainly in international destinations.

SUPPORT FROM STRONG SHAREHOLDERS

Pandox has strong cash flows and good potential to create new revenue through its own investments in the existing portfolio. In order for Pandox to grow even faster, acquisitions and continual access to new capital are needed. Therefore, in the fourth quarter and based on authorisation from the 2019 AGM, Pandox implemented a cash-based directed share issue which raised proceeds of around MSEK 3,000. There was significant interest in the issue, which was the biggest ever of its kind in Sweden, with around 130 selected Swedish and international institutional investors subscribing for shares. We are exceedingly

WE SUPPORT



grateful for the support that our shareholders have shown us and that makes it possible for Pandox to maintain high business momentum.

INCREASED RESPONSIBILITY FOR SUSTAINABILITY

As Pandox grows, the sustainability requirements increase as well. Pandox follows a strategy called Fair Play 2.0. The goal is to integrate sustainability as a natural aspect of Pandox’s operations based on three focus areas – sustainable business, sustainable operations and sustainability responsibility. During the year Pandox carried out sustainability projects in many different areas. Among other things, we decided to make green investments within Operator Activities to reduce Pandox’s carbon footprint and water consumption, and to increase recycling of other resources such as raw materials used in hotel restaurants. We have also started the task of producing clear sustainability targets. During the year Pandox joined the UN Global Compact and committed to adhere to its Ten Principles in the areas of human rights, labour law, the environment and anticorruption.

SOCIAL DEVELOPMENT THROUGH INCREASED INTEGRATION

The thing we are the most proud of is our partnership with Enbacksskolan in Tensta. We are working with the school’s teachers, pupils, parents and other companies, above all Scandic, to improve integration. The project reflects Pandox’s unique corporate culture. I’m naturally partial here, but for me there is no other company in our industry that compares to Pandox when it comes to attitude, business intelligence, work enjoyment and willingness to change.

Without the fantastic efforts of all of our “Pandoxers” over the years we would only be a footnote in hotel property history. Instead we are still here and shaping that history. The best thing of all is that we have many chapters left to write. Thank you for all you have done and thanks in advance for all you will do!

I also want to thank the shareholders, business partners and other stakeholders who have helped make 2019 another fantastic year for Pandox.

Stockholm, March 2020
Anders Nissen

Important milestones in 2019

- 1. Continued good growth in earnings and EPRA NAV
- 2. Acquisition of 13 hotel properties in growing regional hotel markets in Germany and the Netherlands
- 3. Cash-based directed share issue of around MSEK 3,000
- 4. Increased emphasis on sustainability

A strategy that adds value

PANDOX'S VISION

To be one of the leading hotel property companies in the world

Business concept

To own and lease hotel properties to strong hotel operators under long-term, revenue-based leases and apply specialist expertise to be an active owner, creating value throughout the hotel value chain.

Business targets

To generate more value for Pandox's shareholders through a higher cash flow and net asset value

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

To contribute to positive growth for Pandox employees

Strategy

Only hotel properties

Pandox's strategy is focused on hotel properties as the only class of asset, where specialisation and knowledge are crucial to achieving results.

Sustainable, high-quality property portfolio

Through revenue-based leases, Pandox and the hotel operators have a joint interest in constantly developing and improving each hotel. This creates the right conditions for a sustainable, high quality hotel portfolio.

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.

Diversification to reduce fluctuation

Pandox's hotel property portfolio is diversified through geographies, demand, brands and hotel products, which balances and evens out the effects of fluctuations in the hotel business cycle.

Long-term leases with shared investment

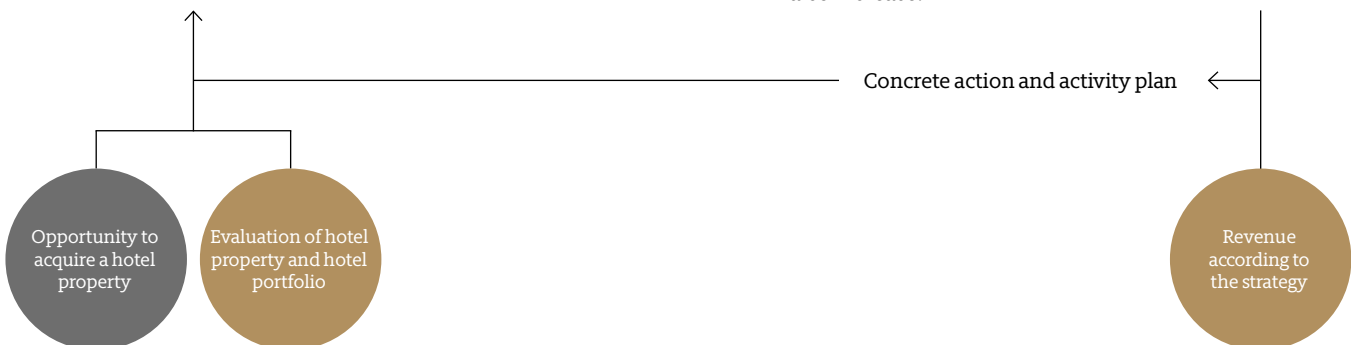
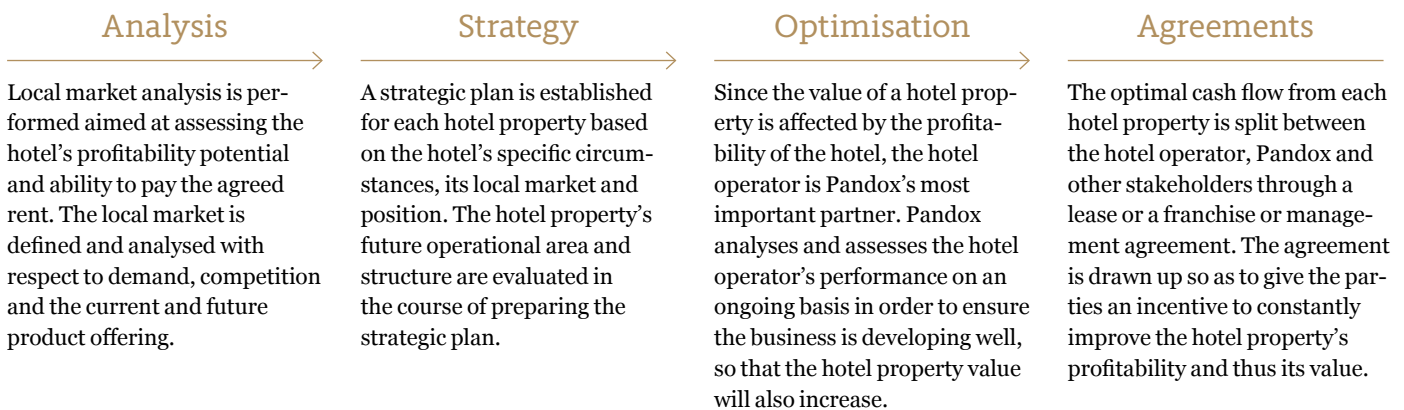
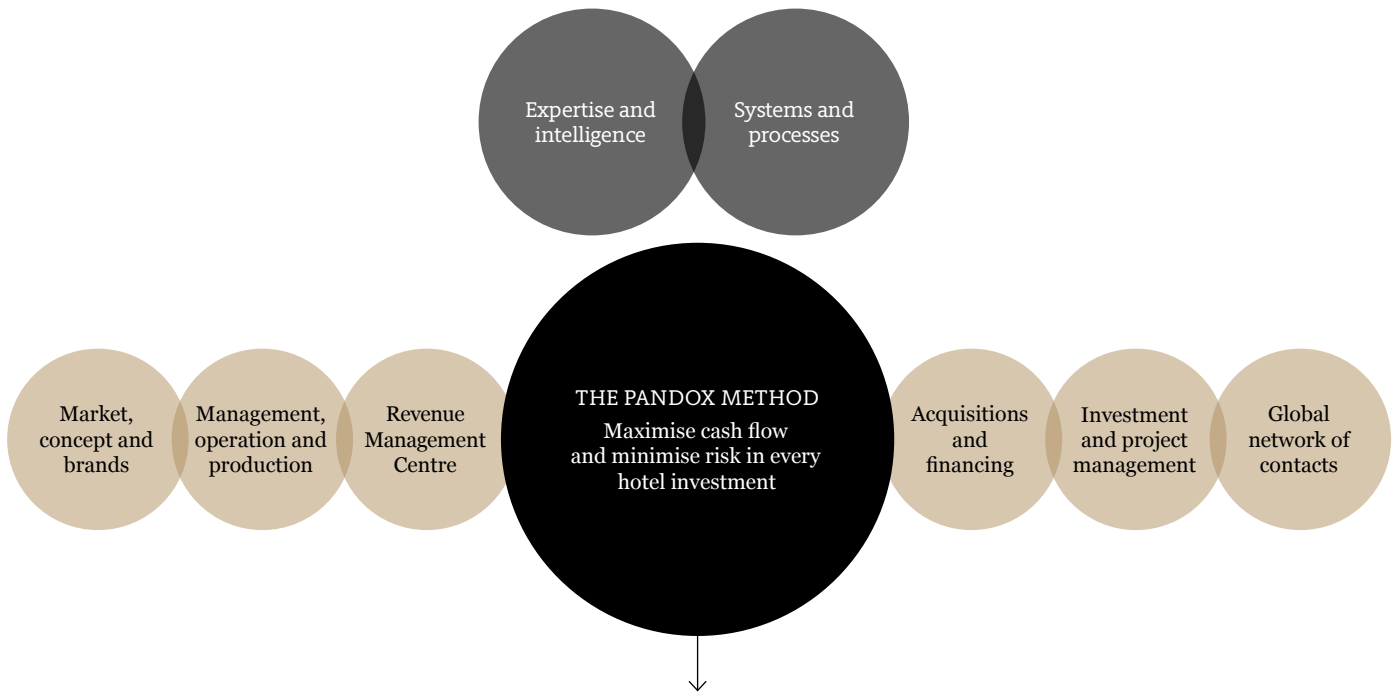
Pandox's core business is to sign long-term, revenue-based leases with the best hotel operators and to share investments.

Flexibility and operating hotels itself reduces Pandox's risk

Pandox is able to move freely throughout the hotel value chain and also operate its own hotels. This reduces risk and at the same time creates new business opportunities.

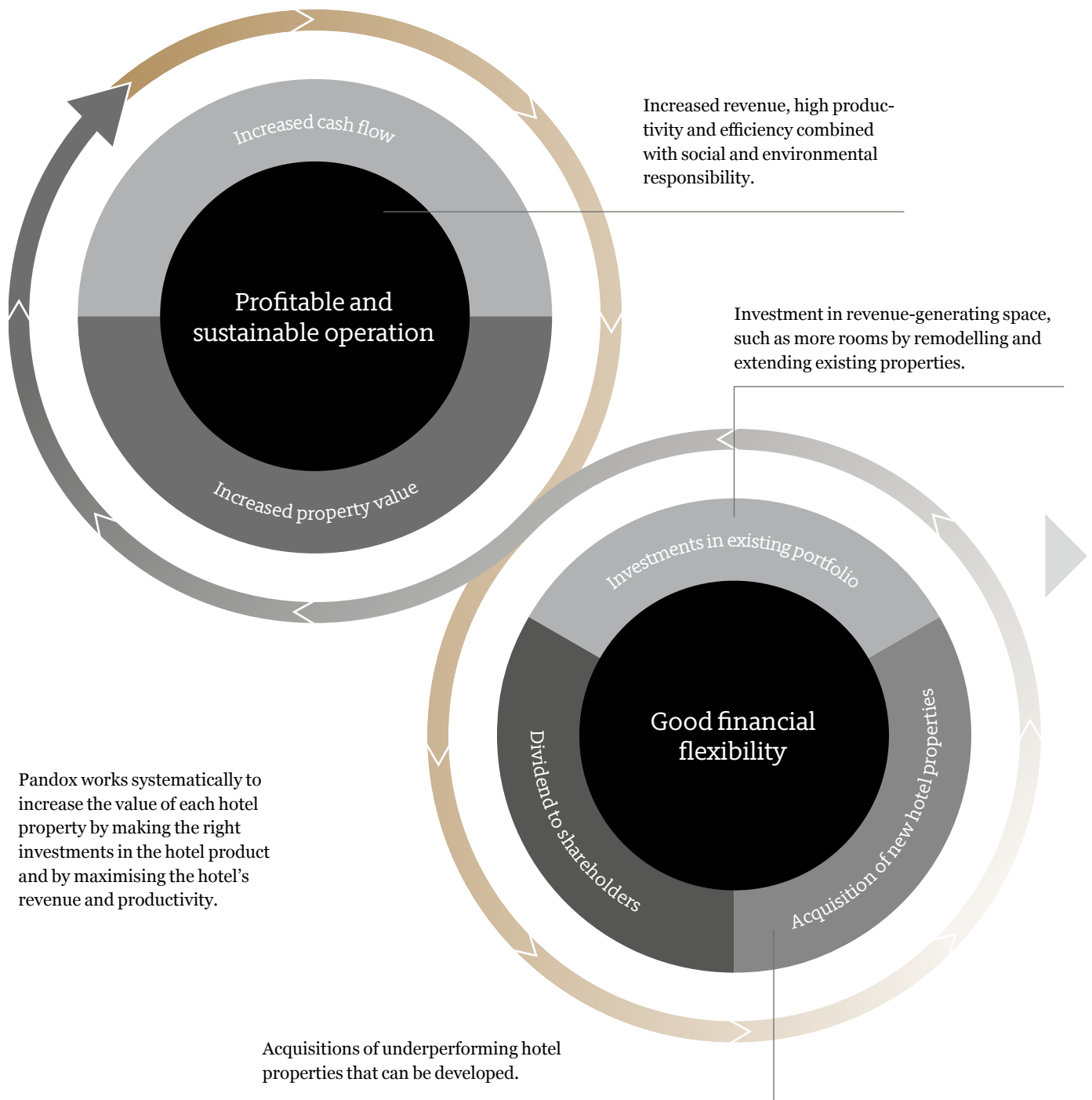
The Pandox Method

A method which, through expertise and intelligence, creates insight and information advantages that help to maximise cash flow and minimise risk in every hotel investment.



Value creation through profitable and sustainable operation

Business processes



Pandox works systematically to increase the value of each hotel property by making the right investments in the hotel product and by maximising the hotel's revenue and productivity.

Increased revenue, high productivity and efficiency combined with social and environmental responsibility.

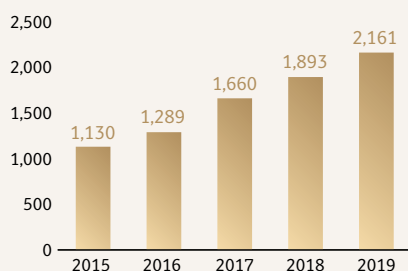
Investment in revenue-generating space, such as more rooms by remodelling and extending existing properties.

Acquisitions of underperforming hotel properties that can be developed.

Results

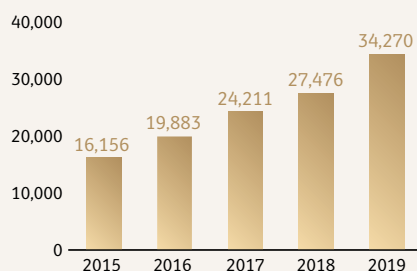
Total cash earnings, MSEK

Total cash earnings amounted to MSEK 2,161, an increase of 14 percent.



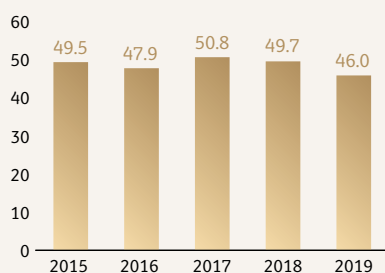
EPRA NAV, MSEK

EPRA NAV was MSEK 34,270, an increase of 17 percent adjusted for dividend and share issue.



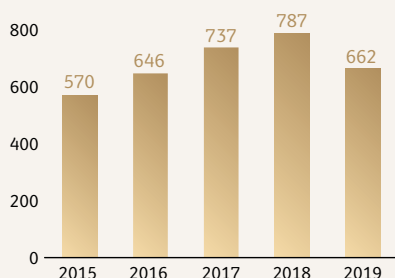
Loan-to-value ratio, net %

The loan-to-value ratio was 46.0 percent.



Dividend, MSEK

The Board of Directors is proposing a dividend of MSEK 662, equivalent to SEK 3.60 per share.



Contribution to communities

MSEK	2019	2018
Tenants		
Rental income	3,129	2,971
Investments	412	434
Employees		
Remuneration	939	814
Capital owners		
Dividend	662	787
Growth in net asset value, % ¹⁾	17	17
Interest and fees	866	804
Suppliers		
Payments	2,926	2,882
Community		
Taxes and levies	479	583

¹⁾ Growth in EPRA NAV at an annual rate with dividend returned and issue proceeds deducted.

Contribution to communities

- Direct and indirect jobs
- Social cohesion and personal development for employees
- Productive environments for meetings and recreation
- Positive contribution to development of local environments and communities

Pandox's role in society

Through its hotels Pandox is an important part of the infrastructure of the hospitality industry, which in turn fulfils an important function in society. 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 makes a profit.

Pandox has one of the hotel industry’s strongest networks of business partners and brands. This is the result of long-term efforts based on deep hotel knowledge. The choice of business partner and brand is important for value creation.

Pandox is growing through strong partnerships



Radisson Blu Hotel, Cologne

Property Management



The Hotel Brussels

Operator Activities



In total Pandox works with more than 30 business partners and brands

DEEP, BROAD AND LONG-TERM PARTNERSHIPS

Crucial to Pandox's success are the partnerships the Company has with its tenants, which consist of around 30 hotel operators and hotel brands that vary in 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 Park Centraal Amsterdam.

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 through different types of hotels and the business mix. Through its focus on large full-service hotels in good locations, Pandox's hotel properties attract all types of demand. Pandox's largest demand segment is business travellers and conferences, but the percentage of leisure travellers has increased significantly in recent years. This is 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.

PRODUCTIVITY AND PROFITABILITY ALWAYS IN FOCUS

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

DIFFERENT BRANDS, DIFFERENT PROMISES

While the number of brand owners in the hotel market has decreased, the number of hotel brands has increased. One reason is the strong growth in online travel agents (OTAs), which has driven increased diversity of on the supply side. More than half of all hotel bookings in the world are now made digitally, and the percentage continues to rise. For Pandox as a hotel property owner, digitalisation is creating significant opportunities. An increased range of brands and low barriers for Pandox to create and distribute independent hotel products digitally itself provides Pandox with unique opportunities to give newly acquired and/or recently taken over hotel properties the right identity and position.

The relevance and power of the different brands depends on the submarket. Scandic and Nordic Choice, which have brand names including Clarion and Quality, are leading actors in the regional hotel market in the Nordics. Jurys Inn is a similar example in the UK. However, none of these brands hold the same attraction for international business travellers and conferences as Hilton or Crowne Plaza. For a hotel property owner like Pandox it is important to understand which brands work where, which type of demand they attract in their respective submarkets and where the hotel should be positioned in order to be as profitable as possible.

INDEPENDENT BRAND SOMETIMES BETTER

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

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

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

For the first four of these hotels leases have been signed with new tenants following their repositioning and other active measures within the hotel's operations.

BRIEF FACTS ABOUT SOME OF PANDOX'S BUSINESS PARTNERS

Scandic Hotels Group

Scandic is the largest hotel operator in the Nordic region with around 280 hotels and 57,000 rooms in six countries, and with a clear operational focus and strong position in the regional hotel market in the Nordic region.

Fattal Hotels Group

Fattal, with the brands Leonardo, Jurys Inn and NYX, is one of Europe's fastest-growing hotel chains with more than 200 hotels and an active pipeline in Europe and Israel.

Nordic Choice Hotels

Nordic Choice Hotels is the second largest hotel operator in the Nordics after Scandic, with 211 hotels and around 38,000 rooms. Nordic Choice holds a strong position in the regional hotel market in the Nordic region.

HR Group

HR Group is one of the fastest growing hotel owners in Central Europe and one of the leading hotel operators in Germany. Its portfolio today consists of 55 hotels with more than 9,500 rooms in Germany, the Netherlands, Switzerland and Spain.

Hilton Worldwide


Hilton Worldwide is one of the largest brand owners and distribution companies in the global hotel market, with more than 18 brands spread across nearly 6,000 hotels in 117 countries.

Radisson Hospitality

Radisson is one of the world's largest hotel companies with 494 hotels with more than 107,000 rooms in 79 countries. Radisson has attractive brands and holds a strong position in the international hotel market.

NH Hotel Group

NH it is one of Europe's larger regional hotel operators with 371 hotels and around 58,000 rooms in 29 countries. Like Scandic, NH has a clear focus on hotel operations and constructive business development.



Pandox's core business involves acquiring, improving and leasing out hotel properties to the best operators in the market

Pandox may also operate hotels itself

Pandox has an integrated business model and is active throughout the hotel value chain. Apart from owning and leasing out hotel properties, Pandox may also operate hotels itself. This reduces risk, creates new business opportunities and promotes a higher return.

Pandox stands on two strong legs

PROPERTY MANAGEMENT

137

properties

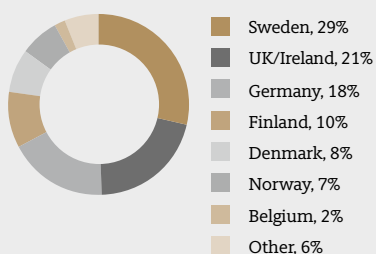
MSEK 53,697

market value, properties

5.41%

valuation yield

Rental income by country 2019



The percentage of rental income outside the Nordics has gradually increased since Pandox was listed in 2015.

OPERATOR ACTIVITIES

18

properties

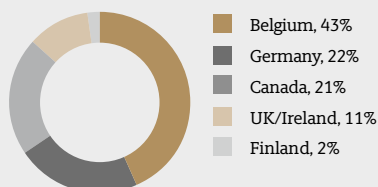
MSEK 9,772

market value, properties

6.41%

valuation yield

Revenue by country 2019



The breakdown of revenue in Operator Activities has been stable since Pandox's listing in 2015.

Pandox total

155

Hotel properties

Pandox's hotel property portfolio consists of 155 properties with an average size of 224 rooms. Including Maritim Hotel Nürnberg, an acquisition that was completed in January 2020, Pandox's hotel property portfolio consists of 156 properties.

MSEK 63,469

Total market value of portfolio

In 2019 the market value of the total hotel property portfolio increased by around 15 percent.

Property Management

Stable development

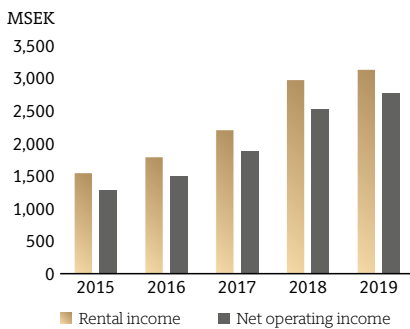
Property Management is a key component of Pandox's operations and involves long revenue-based leases with good guaranteed rent levels and stable earnings. The hotel properties are leased to tenants who run the hotels under various brands. For 2019 Property Management reported net operating income growth of 10 percent, driven by acquisitions and a stable hotel market. For comparable units the increase was 1.9 percent, adjusted for currency effects.

Net operating income
+10%

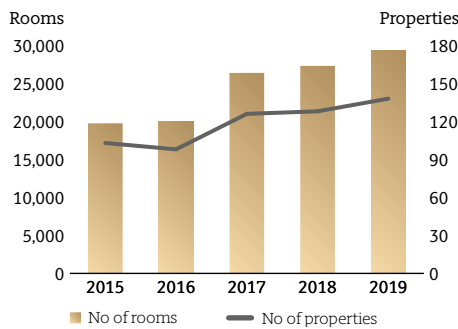
Brands in Property Management 31 December 2019



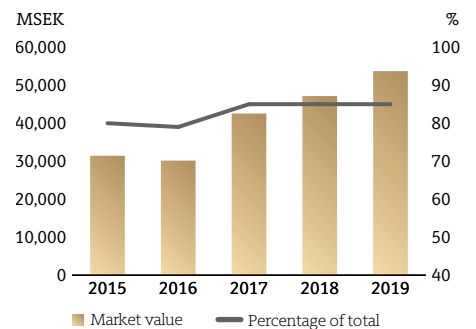
Rental income and net operating income



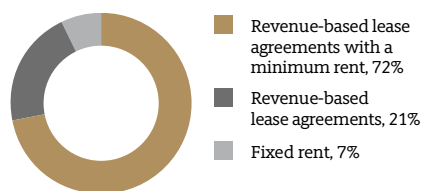
Number of rooms and properties



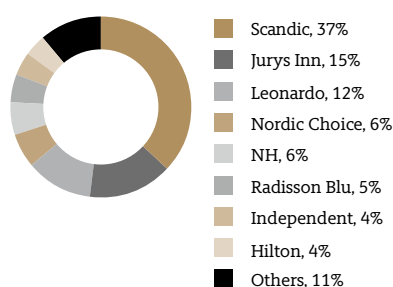
Market value and percentage of total



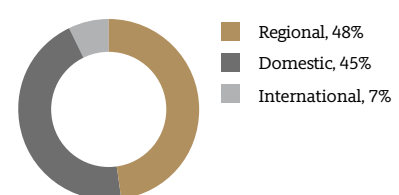
By agreement type, no of rooms



By partner, no of rooms



By destination, no of rooms





Park Centraal Amsterdam

WELL-KNOWN AND 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 Hotels Group (Leonardo, Jurys Inn), HR Group and Nordic Choice Hotels, as well as global operators such as Hilton, Radisson and NH Hotel 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 create good productivity and profitable growth.

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 2019 Pandox's lease portfolio had a weighted average unexpired lease term (WAULT) of 15.6 (15.7) 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 checklist. Hotel tenants in the Nordic countries 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. In general the tenants' responsibility is greater outside the Nordic region.

Investments raise the standard of the hotel and make it more competitive, which means increased revenues and 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 less financial responsibility for investments compared to the owner of a typical office building. Pandox estimates that tenants contribute a significant portion of total investments over time.

AN ACTIVE YEAR FOR ACQUISITIONS

In 2019 Pandox entered into acquisition agreements for 11 hotel properties with a total of 2,413 rooms in Germany. All of these, except Maritim Hotel Nürnberg, were completed during the year. Through the acquisitions, new partnerships were entered into with HR Group and Maritim, and a total of four new brands were added to the portfolio. The portfolio was further increased with five new German regional cities.

ASSET MANAGEMENT DISCONTINUED

Pandox Asset Management, which was a minor part of the business segment, was discontinued in 2019 with the exception of the Pelican Bay Lucaya Resort. Revenue from this asset management assignment is reported under Operator Activities. Pelican Bay Lucaya Resort is owned by companies related to Helene Sundt AS and CGS Holding AS, which are parties related to Pandox AB.

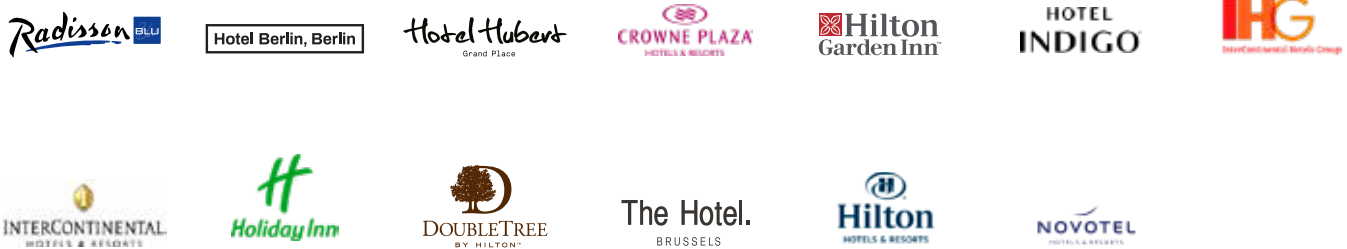
Operator Activities

Focus on profitable operation

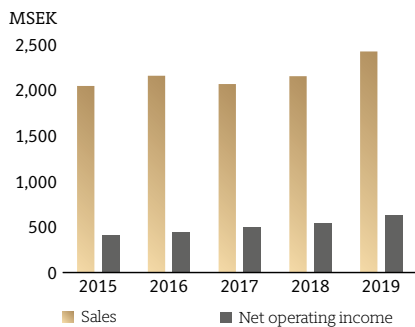
Operator Activities business is an important part in Pandox's strategy of being active throughout the value chain and reflects the Company's active ownership model. Pandox's expertise and the capacity to operate hotels itself give the Company strategic flexibility. For 2019 Operator Activities reported net operating income growth of 16 percent, supported by sustained strong growth in Brussels. For comparable units the increase was 1.5 percent, adjusted for currency effects.

Net operating income
+16%

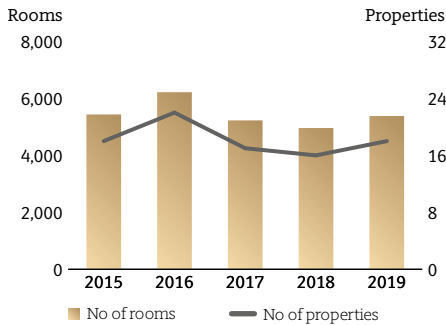
Brands in the Operator Activities segment 31 December 2019



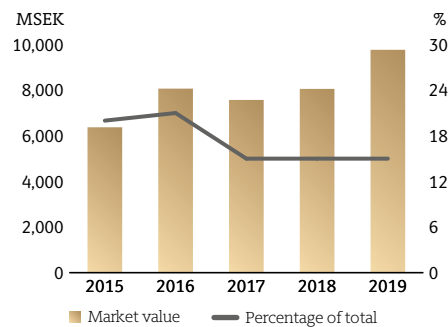
Sales and net operating income



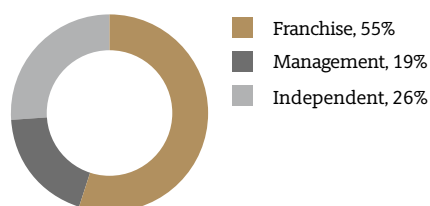
Number of rooms and properties



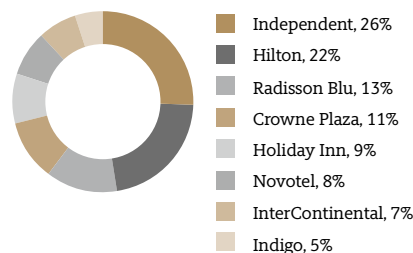
Market value and percentage of total



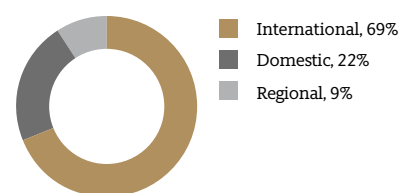
By agreement type, no of rooms



By partner, no of rooms



By destination, no of rooms



ACTIVE OWNERSHIP REDUCES RISK

Pandox may choose to operate the hotels it owns itself if it is not possible to enter into a lease on attractive terms. This allows Pandox to balance out the effect of changed business models and increased consolidation in the hotel market. The ability to take over the operation of a hotel reduces the operational risk when leases expire or if the tenant cannot fulfil its obligations. It is also useful in situations where hotels need to be completely renovated and it is not currently financially attractive to lease to third parties. The goal is, however, 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.

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.

EXTERNAL AND OWN BRANDS

Pandox markets the hotels in the Operator Activities segment either under interna-

tionally known hotel brands, such as Radisson Blu, Hilton or Novotel, or under its own independent hotel brands adapted for specific market conditions.

On 31 December 2019 a total of 10 hotel properties were being operated within Operator Activities through franchise agreements, four through independent brands that are owned by Pandox and four through management agreements.

LEASING AND ACQUISITIONS IN 2019

During the year two hotels and their operating structure with a total of 421 rooms in the Netherlands and Germany were acquired. The acquisitions involved Pandox entering into a new partnership with Grape Hospitality and a new brand, Novotel, was added to the portfolio. Also added to the portfolio was The Hague, a regional hub in the Netherlands.



Hotel Hubert – a successful example in the heart of Brussels

The lobby at Hotel Hubert

The ability to be active throughout the hotel value chain is one of Pandox’s absolute strengths. A broad palette of tools and business models reduces risk and increases opportunities to improve profitability, cash flow and the property’s market value. One example is Hotel Hubert in central Brussels, which in 2017 was changed to operation by Pandox when the lease was not extended. Since then Hotel Hubert has grown into a RevPAR leader in its submarket and doubled its earnings.

When it became clear that the lease for what was then called Scandic Grand Place would not be extended in 2017, Pandox started exploring options. One option was to find a new tenant and another was the possibility of Pandox operating the hotel itself. The basic issue was that the hotel, despite its good geographical location, had long been underperforming and was in need of comprehensive revitalisation. After assessing the options, Pandox took the decision to take over and operate the hotel itself under a new independent brand.

Pandox’s analysis showed that there was clear potential to elevate the hotel’s profile by attracting a new lifestyle and leisure guest segment. To

realise this potential, a major renovation and repositioning of the hotel took place. For a period of time before the renovation began Pandox offered the city administration in Brussels the opportunity to rent the hotel to house refugees who had recently arrived in the country. This helped to solve a problem in the community while also generating rental income.

The hotel was reopened in November 2018 with a strong profile concept under the name Hotel Hubert. Pandox’s analysis proved to be correct – Hotel Hubert immediately attracted a new guest segment with strong purchasing power. Today the hotel is performing better than expected, with an occupancy of around 85 percent and a higher RevPAR than many premium hotels in Brussels. As a result, the market value of the property has increased by around 40 percent. Hotel Hubert is a good example of the knowledge and strength that Pandox has in terms of insights, analysis, concepts and hotel operation. Experience gained from Hotel Hubert is being used for other projects in Pandox’s hotel portfolio. Universities in Brussels also use Hotel Hubert, which is a perfect example of a successful repositioning of a hotel.

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 areas closely linked to the hotel market, particularly operation, the dynamics and drivers in the market, the various business models for hotel operation, and brands and concepts.

Keys to Pandox's value creation



Profitable acquisitions



Growth-driving investments



Profitable and sustainable operation

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. Pandox's opportunities for value creation through acquisitions increase when the object to be acquired is underperforming or where the transaction is highly complex, for example in acquisitions of portfolios that include both hotel properties and hotel operations.

A large, well-diversified portfolio offers good opportunities for value-creating and growth-driving investments. Pandox has an ongoing dialogue with each tenant on joint investment projects to boost the hotel's revenue and profitability further, such as adding new beds in existing rooms, new rooms in existing hotel properties or new rooms by extending existing hotel properties.

Profitable and sustainable operation is the core of Pandox's business, whichever business model is used. Sometimes Pandox chooses to take on the role of both owner and operator in order to secure the hotel property's long-term value. Operating a hotel may be appropriate if it is in need of a major upgrade and there is no possibility of signing a profitable lease with a long-term partner. The ultimate goal is always to sign a new lease at a commercially attractive level.

Expertise and intelligence provide knowledge advantages

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 and this provides input for discussions with tenants.

Pandox has individual business plans for each hotel property. This 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? Which 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.

Key issues for a hotel property owner

Choice of operating model	Choice of business partner	Agreement structure	Hotel product	Revenue management	Brand & distribution
<ul style="list-style-type: none"> Lease Operated by Pandox, franchise Operated by Pandox, independent Management agreement 	<ul style="list-style-type: none"> Hotel operator 	<ul style="list-style-type: none"> Revenue-based leases with guarantee Revenue-based leases without guarantee Fixed leases Special agreements 	<ul style="list-style-type: none"> Management and organisation Productivity and profitability Investments and development 	<ul style="list-style-type: none"> Drive revenue 	<ul style="list-style-type: none"> Positioning Segmentation Channels Brand

Value creation in practice

Pandox has many tools to create value in the portfolio and the Company works in a structured and methodical way – also sometimes taking advantage of opportunities when they arise – to maximise profitability and cash flow in the hotel properties. Jonas Törner, SVP Business Intelligence, Erik Hvesser, SVP and Director of Property Management Nordics, and Martin Creydt, SVP and Director of Property Management International, talk more – from their own perspectives – about what they are doing to constantly improve Pandox’s value creation.



Erik, Martin and Jonas.

What does value creation mean to you?

Jonas: Pandox’s speciality is to acquire underperforming hotels and thereafter initiate value-creating measures to improve profitability – whether this is in operational productivity, investment and renovation, rebranding or using a different type of agreement. We have a very large toolbox.

Another recipe for value creation is for Pandox to be an active owner throughout the value chain; in other words, we can operate the hotel ourselves or in partnership with a strong operator – preferably with a revenue-based lease. Our ability to move throughout the value chain also reduces Pandox’s total risk profile.

Martin: Our work involves constant analysis, thinking in new ways, rethinking – and in this process it’s important to have an outside-in perspective. Some hotel properties need more than minor measures on the surface; they also require a comprehensive approach involving extensive renovation and repositioning. In order to perform a thorough analysis we need to continually evaluate the hotel’s position, product offering, guest segments, opportunities and risks, and combine this with the broad and deep hotel knowledge that Pandox possesses.

Is Pandox different from other actors in the industry in this respect?

Jonas: We’re a very active owner and we focus first and foremost on revenue-based leases. This model gives both Pandox and the operator a joint incentive to constantly improve the hotel product, increase market share and improve revenue and profitability, which in the end gives Pandox more rental income.

Erik: Pandox has deep industry knowledge and strong financial muscles. This enables us to acquire individual hotel properties or whole portfolios, which many other actors are not able to do due to complexity, operating model, geography or size. Pandox’s best business transactions often take place in these situations.

Martin: We are always out “in the field” looking at our own hotels and competing ones to see what works well and not so well, and to gather inspiration. We eat, breath and sleep hotels. We take pride in having excellent insight into the market dynamics in the locations where we operate, because what works in one market doesn’t necessarily work as well in other markets. Pandox is well-diversified geographically, on a micro level, in terms of demand type and brands in markets with different dynamics.

Jonas: We work closely with the operators while also retaining independence through a broad palette of brands and agreement models. This increases our flexibility and at the same time reduces risk.

Erik: We are constantly relying on our structured analysis process – the Pandox Method – which involves continual evaluation, where each hotel is compared with a number of competing ones and subjected to internal benchmarking. This is a robust process thanks to Pandox’s strong portfolio of 156 hotel properties in around 90 cities on two continents.

What have been the most important hotel trends in recent years?

Erik: The lobby is the heart of a hotel and a central point for meetings, co-working, meals and sharing ideas. The lobby has always been vital in providing a good first impression of a hotel, but now it has also become a much more important meeting place, in the local community for example.

Jonas: Segmentation and positioning of a hotel have become increasingly important – having, as both hotel property owner and operator, a deep understanding of the dynamics and conditions in each location.

Martin: As Pandox’s international portfolio grows, so too do our insights about different types of demand between markets. For example, Stockholm and Oslo have more in common than Stockholm and Sundsvall. Sundsvall, in turn, has more in common with markets such as Karlsruhe in Germany or Leeds in the UK.

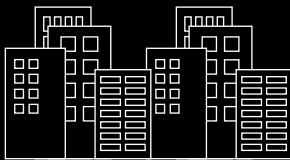
What do you do to ensure that Pandox can keep up with trends and development going forward – how do you assess the business climate?

Jonas: Having a close partnership with operators in combination with a broad portfolio provides insight and knowledge from different value-creating projects.

Erik: As mentioned before, we are constantly out looking at our hotels in a broader context and trying to better understand market dynamics and customer segments. Important key factors for Pandox’s success and value creation are having an outside-in perspective, competent and driven employees in all parts of the organisation and a business culture characterised by curiosity.

Pandox’s home market is a densely populated area that is home to nearly 200 million people. It extends from Harstad in the north to Vienna in the south and is one of the world’s economically strongest and most dynamic regions.

Strong position in dynamic markets



International cities

CHARACTERISTICS

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

EXAMPLES IN PANDOX’S PORTFOLIO

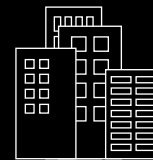
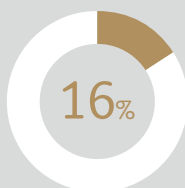
London (which is also a megacity), Amsterdam, Montreal, Brussels, Berlin, Vienna and Dublin.

Pandox facts

17 hotels

5,737 rooms

Percentage of total number of rooms



Regional cities

CHARACTERISTICS

- Growing destinations that are “on the way up”
- Demand is mainly regional
- Elements of international demand
- Various drivers of demand
- Demand from many different guest segments

EXAMPLES IN PANDOX’S PORTFOLIO

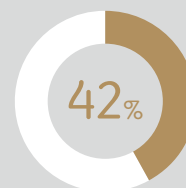
Hamburg, Munich, Cologne, Frankfurt, The Hague, Copenhagen, Stockholm, Oslo, Helsinki, Manchester, Birmingham and Basel.

Pandox facts

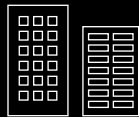
60 hotels

14,545 rooms

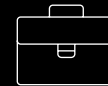
Percentage of total number of rooms



Hotelism by Pandox
Diversification through multiple destinations, brands and types of demand



Domestic cities



Total portfolio

CHARACTERISTICS

- Domestic demand is a key driver
- No or limited international demand
- Fewer commercial drivers
- Greater dependence on the public sector
- Mostly purpose-driven travel

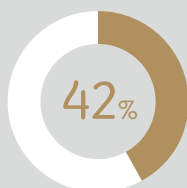
EXAMPLES IN PANDOX'S PORTFOLIO

Leeds, Sheffield, Gothenburg, Jönköping, Örebro, Jyväskylä, Kuopio, Bergen, Bodø, Dortmund, Mönchengladbach and Wolfsburg.

Pandox facts

78 hotels
14,403 rooms

Percentage of total number of rooms



DIVERSIFICATION IN VARIOUS WAYS

- Demand
- Destinations
- Locations
- Brands
- Hotel products

PORTFOLIO APPROACH REDUCES RISK

By combining different markets, types of demand and brands, Pandox can balance out fluctuations in individual markets. This increases resilience and reduces risk.

Pandox facts

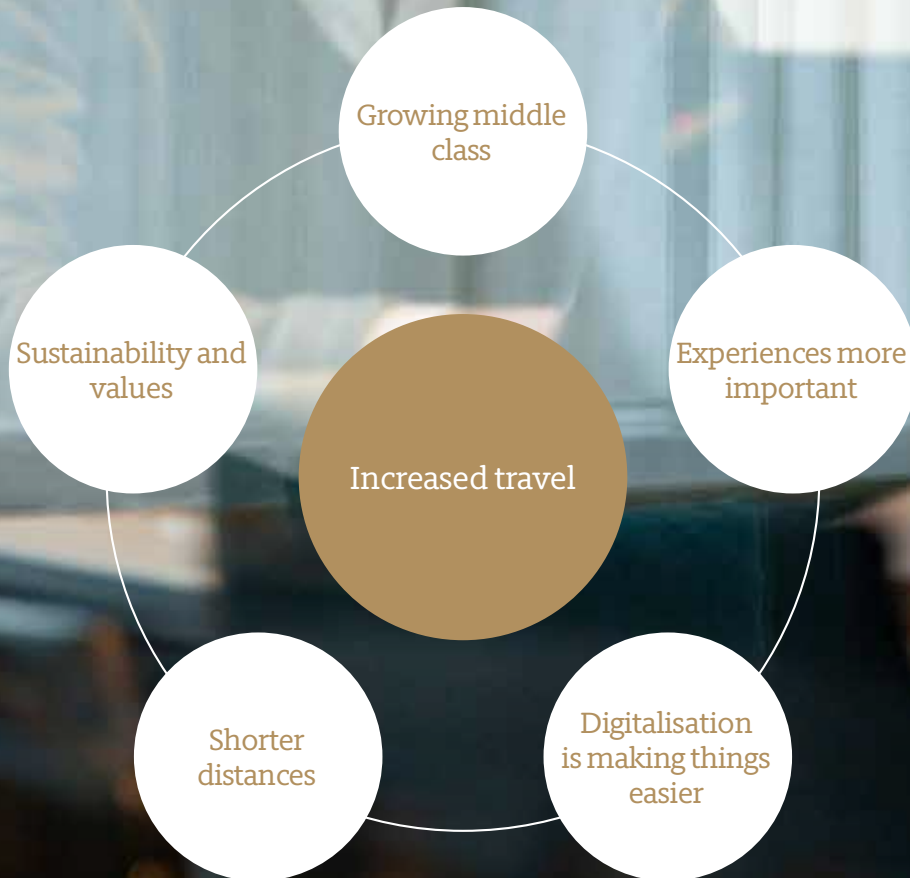
155 hotels
34,685 rooms

Percentage of total number of rooms



Pandox is active in a dynamic industry with several strong trends and drivers. Increased prosperity, a growing middle class and a blurred work-life boundary combined with the possibilities offered by digitalisation are paving the way for Pandox's continued growth. All the while, conscious and sustainable consumers have new expectations.

Megatrends pointing in Pandox's direction



1 Growing middle class

The global population is growing and so is the middle class – a factor that normally leads to increased travel. People are living longer, which means they are looking for new experiences later in life as well.

2 Experiences more important

The new generation of consumers are often more interested in gathering experiences than material possessions. Typically, they are on the hunt for the best destination, the best accommodation and the best food 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.

3 Digitalisation is making things easier

In many ways, digitalisation has made the world smaller and blurred the lines between work and leisure. Digitalisation has also accelerated the pace of change and made it easier to book both travel and accommodation. More than half of all hotel bookings globally are now made digitally.

4 Shorter distances

Aviation is an important engine for the entire travel and tourism industry. We are travelling further, more often and more cheaply than before. Low cost flights to both long-haul and short-haul destinations are a strong underlying driver in the hotel industry. The majority of guests, however, arrive at their hotel by other modes of transport – primarily car, bus or train.

5 Sustainability and values

Interest in sustainability 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 own values.

A leading hotel property owner in a changing market

Pandox has established itself as a leading hotel property owner in Europe with the help of an integrated business model that covers the entire hotel value chain. The hotel property market is fragmented and has good growth opportunities.

Good opportunities for Pandox ...

<p>Large and fragmented market</p>	<p>The hotel property market in Europe is fragmented. Pandox, which is one of the largest actors, 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 a handful of competitors in each market, of which only a few are active in multiple markets.</p>
<p>High entry barriers</p>	<p>The entry barriers to the hotel property market are high. Hotel properties have unique characteristics and this requires comprehensive specialist expertise and substantial capital in order to create a portfolio 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 as this requires a long-term perspective and an international presence.</p>
<p>The need for operational expertise is increasing</p>	<p>As large hotel chains become more brand-oriented, the need for specialised hotel property owners and strong operators also increases. This is because the brand promise conveyed in digital channels has to be turned into a positive guest experience in the physical environment at the hotel. This calls for knowledge of how to create an attractive hotel product through a combination of efficient operation and value-adding investments. Here, skilful operator companies have gradually advanced their positions. This trend has also created opportunities for Pandox to take over operation when the conditions for a profitable lease are not in place.</p>
<p>Flexibility and agility create opportunities</p>	<p>Pandox's pan-European position and ability to work with all the business models creates clear competitive advantages and growth opportunities. Pandox's core business is to own hotel properties and lease them to strong hotel operators under revenue-based leases. This means that Pandox's rental income grows as the operator's sales increase. Pandox moves freely throughout the hotel value chain and may also operate hotels in properties that the Company owns. This reduces risk and creates new business opportunities.</p>

... in a constantly changing hotel market

<p>Changed business models in the hotel market</p>	<p>The international hotel market has gone through an extensive structural transformation. Large international hotel chains have changed their business models, having sold their hotel properties and outsourced hotel operation to other parties. They have then developed different types of asset-light strategies that require less capital, above all in distribution (bookings) and brand development (franchising). The large hotel companies today have relatively little to do with the day-to-day operation of their hotels. This is instead usually handled by specialised, independent operating companies through franchise or management agreements.</p>
<p>Asset-light requires large volumes in order to be profitable</p>	<p>Within an asset-light strategy, revenue is mainly derived from franchise fees and commissions on bookings. This business model requires large volumes in order to be profitable. The main aim is to increase the number of franchisees and room bookings – preferably in their own distribution channels. The business model not only requires substantial 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 some cases, in consolidation. One factor contributing to this trend is online travel agents (OTAs) who aggregate offerings and match demand using efficient technology and extensive marketing.</p>
<p>Fewer operators but more brands</p>	<p>Consolidation has decreased the number of brand owners, while the number of brands has increased. The reason is that many hotel chains invest substantial resources in diversifying their brand portfolios and attracting customer demand in new segments.</p>

The lease 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 and Pandox uses all of them.

PROPERTY MANAGEMENT

1 Leases

Agreement with many advantages

Pandox uses revenue-based leases, often with a guaranteed minimum rent. This agreement model has several advantages:

- Long-term perspective
- Joint incentives
- Shared investments and shared risk
- Focus on productivity and profitability

How it works

A revenue-based lease is tied to the development of the hotel business, with a percentage of the hotel's sales paid to Pandox in the form of rent. When the hotel's sales increase, so does Pandox's rental income – and vice versa. In many leases there are also guaranteed levels below which the rental income cannot fall. Hotel property owners and hotel operators thus share both the upsides and downsides, and have clear common incentives to increase the hotel's profitability and therefore also the hotel property's value. Pandox also has fixed leases in a few individual cases.

Interest in leases increasing

Over the past five years Pandox has acquired, renewed and signed more than 70 leases in existing and new markets and has seen increased interest in the lease 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 key aspect of value creation in the hotel business since it contributes to shared investments and shared risk, and also makes the underlying asset more liquid.

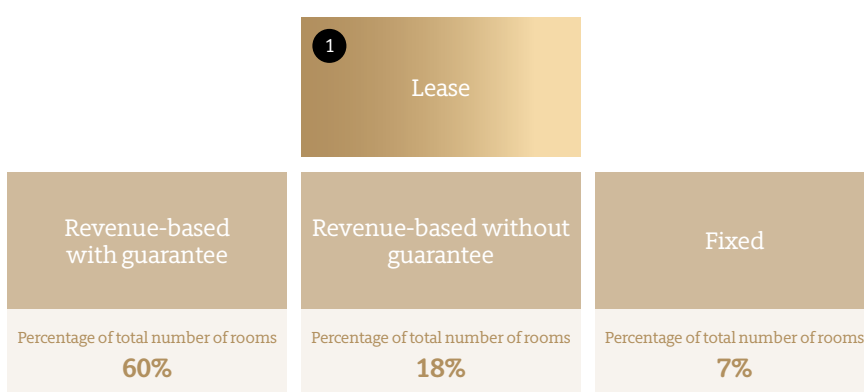
OPERATOR ACTIVITIES

2 Operated by Pandox under a franchise brand

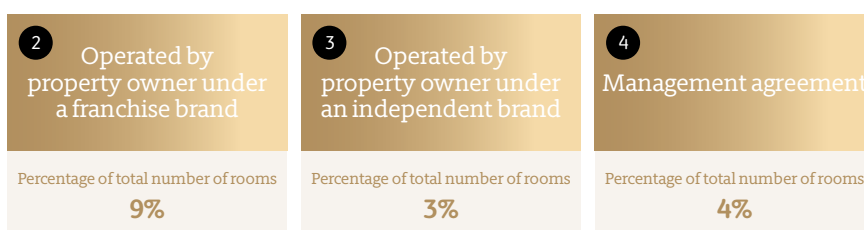
When a hotel property owner owns both hotel property and the hotel business, a franchise agreement with a brand owner

Four business models in the hotel property market¹⁾

PROPERTY MANAGEMENT



OPERATOR ACTIVITIES



¹⁾ Including Maritim Hotel Nürnberg.

may be appropriate. In order for the hotel property owner to take advantage of the franchiser's brand and distribution resources. Normally the franchisee pays revenue-based royalty fees plus additional fees for access to other services. Franchise agreements are common within Operator Activities.

5 Operated by Pandox with an independent brand

In some cases it may be better to give the hotel a profile of 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.

4 Management agreement

A management agreement is an agency contract where the hotel property owner also owns the hotel business, but assigns 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.

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 both the hotel's operation and the property.

Market overview 2019

INCREASED INTERNATIONAL TRAVEL

Statistics from UNWTO¹⁾ confirmed that 2019 was another strong year for the travel industry. International arrivals increased by 4 percent, both globally and in Europe, despite a slowing of the global economy in the wake of increased trade policy tensions and a drawn-out Brexit process.

In Europe RevPAR increased by just over 2 percent, marking the 10th consecutive year of growth. Growth was, however, unevenly divided between countries, cities and segments due above all to new hotel capacity and an irregular trade fair and conference calendar.

UNWTO expects international arrivals in 2020 to increase by 3–4 percent globally. This is still in line with the historical trend and lays the foundation for continued positive demand in the hospitality market in 2020. The outbreak of coronavirus is mainly expected to affect the hotel markets in Asia, but also other hotel markets to varying degrees.

MIXED DEVELOPMENT IN THE NORDICS

Development in the Nordics has overall been stable, supported by good underlying demand for hotel nights, although an increased supply of hotel rooms has limited RevPAR growth. The effects of an increased supply were most clearly evident in Denmark, where RevPAR decreased by almost 3 percent, and Norway, where RevPAR increased by around 3 percent. In Finland RevPAR increased by around 5 percent, supported by the country's EU Presidency in the second half of the year. In Sweden RevPAR increased by just over 1 percent.

In Stockholm RevPAR similarly increased by around 1 percent. Demand was good but, here too, growth in RevPAR was limited by new capacity.

¹⁾ United Nations World Tourism Organization

In Oslo the supply of hotel rooms increased gradually during the year to a total of 10 percent. Good underlying demand absorbed a large portion of the increase, but occupancy decreased by around 1 percent. The average price development was slightly negative and RevPAR decreased by just over 2 percent.

RevPAR in Copenhagen decreased by around 3 percent. Hotel capacity increased by close to 5 percent and demand increased by around 3 percent.

In Helsinki RevPAR increased by a full 6 percent, mainly driven by strong demand and higher average prices in the second half of the year when Finland had the EU Presidency.

STRONG CONFERENCE MARKET IN GERMANY

In Germany RevPAR increased by just over 1 percent. Trade fair and congress demand was strong in important hotel markets such as Cologne and Düsseldorf, and this had a positive effect on nearby cities such as Aachen, Bonn and Mönchengladbach.

Underlying demand in the hotel market remained positive, but an increase in the supply of hotel rooms put pressure on RevPAR in some cities, including Hamburg, Mannheim and Munich.

INCREASED SUPPLY 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, the regional market is the most important one for Pandox.

RevPAR in the UK as a whole remained unchanged. In UK Regional, however, RevPAR decreased by around 2 percent, mainly explained by strong comparative figures, uncertainty surrounding Brexit and an increased supply of hotel rooms.

Particularly large increases in supply were noted for London Heathrow Airport and in Glasgow and Belfast. Pandox's regional hotel portfolio developed better than the market and RevPAR decreased by around 1 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. Excluding London Heathrow Airport, RevPAR in Pandox's regional hotel portfolio increased by around 1 percent.

In London RevPAR increased by around 4 percent, driven by good demand and positive average price development.

Overall the trend in the UK confirmed the country's continued attraction for both the leisure and business segments, despite Brexit.

The Irish hotel market was characterised during the year by an increase in VAT on hotel rooms implemented in January 2019 which, combined with increased capacity in Dublin and elsewhere, resulted in a decrease in RevPAR by around 1 percent.

STRONG DEVELOPMENT IN BRUSSELS

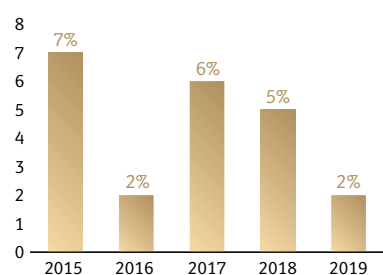
The good growth trend in Brussels continued in 2019 – albeit at a slower pace – and RevPAR increased by around 7 percent. Demand from the leisure segment improved gradually during the year and is now making a substantial contribution alongside the traditionally strong business and conference segment. The hotel market in Brussels is also benefitting from a limited inflow of new hotel rooms, which is supporting both occupancy and average prices.

GOOD GROWTH IN MONTREAL

The hotel market in Montreal developed well during the year and RevPAR increased by around 4 percent, exclusively driven by improved average prices. Demand was good and the supply situation balanced.

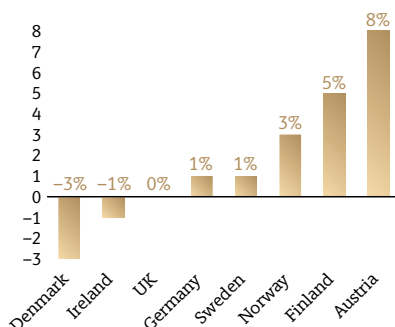
RevPAR growth in key geographical markets

EUROPE (2015–2019)

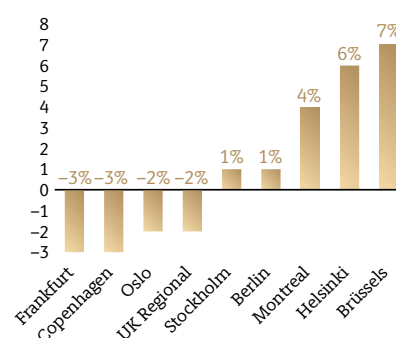


Source: STR Global, Benchmarking Alliance, Statistics Finland

COUNTRIES (2019)



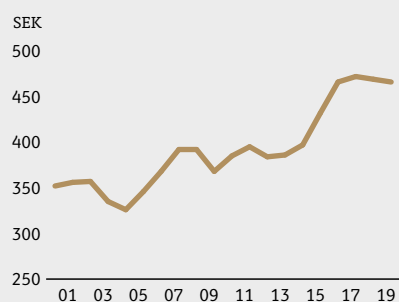
KEY MARKETS (2019)



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 filling 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, transportation, 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 24–25.

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 monitoring process. In the Property Management business segment RevPAR is monitored on an ongoing basis, while in the Operator Activities segment it is monitored 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 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 make 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 22–23.

CATEGORIES OF CITIES WITH EXAMPLES SORTED BY REVPAR, SEK

	2019	2018	Change, %
International cities			
London	1,558	1,502	4
Amsterdam	1,284	1,300	-1
Dublin	1,236	1,282	-4
Regional cities			
Copenhagen	1,074	1,106	-3
Hamburg	946	980	-3
Cologne	938	865	8
Stockholm	804	794	1
Manchester	717	704	2
Domestic cities			
Leeds	669	644	4
Kuopio	659	578	14
Dortmund	652	598	9
Sheffield	533	536	0
Linköping	513	528	-3

Source: Statistikcentralen Finland, 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 becoming Pandox's rent. The percentage is normally higher for hotel 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.

Pandox and the capital market

FINANCIAL CALENDAR

Annual General Meeting 2020	3 April 2020
Interim Report January–March 2020	29 April 2020
Capital Market Day	6 May 2020
Interim Report April–June 2020	15 July 2020
Interim Report July–September 2020	23 October 2020
Year-End Report 2020	11 February 2021

Contact information



Anders Berg
SVP, Head of Communications & IR
+46 760 95 19 40
anders.berg@pandox.se



Erik Ax
Communications & IR Manager
+46 707 13 77 06
erik.ax@pandox.se

ANNUAL GENERAL MEETING

The Annual General Meeting of Pandox AB will take place at 10.00 CEST on Wednesday, 3 April 2020 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.

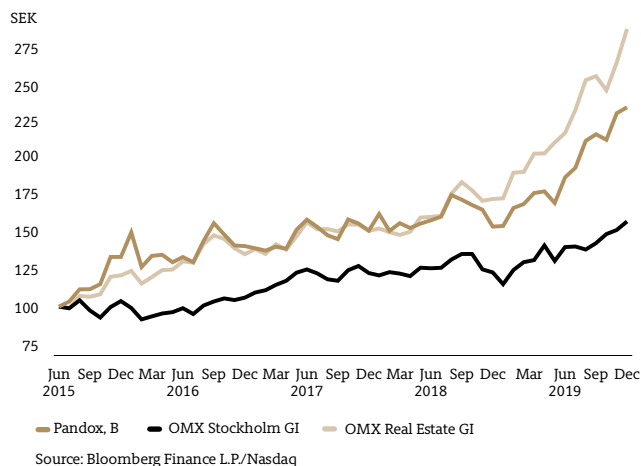
Annual General Meeting calendar and dividend

Record date for the Annual General Meeting	28 March 2020
Annual General Meeting	3 April 2020
Share traded without dividend entitlement	6 April 2020
Record date for dividend	7 April 2020
Payment of dividend	14 April 2020

PROPOSED DIVIDEND

At the 2020 Annual General Meeting the Board of Directors will propose a dividend totalling MSEK 662 (787) for the 2019 financial year, which corresponds to SEK 3.60 (4.70) per share. The dividend is equivalent to 31 (42) percent of total cash earnings and is an adjustment to Pandox's current dividend policy. It also improves Pandox's ability to make future acquisitions and investments.

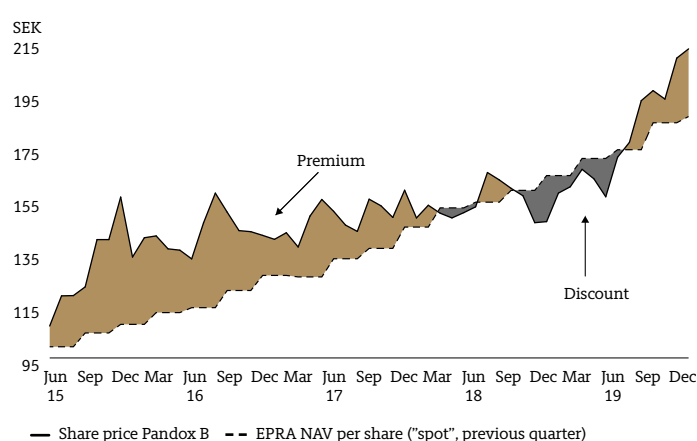
TOTAL RETURN ON PANDOX SHARES 18 June 2015 – 31 December 2019



Good total return over time

The Pandox share's total return in 2019 was 48 percent. Calculated from the share's first trading day on 18 June 2015, the total return at year-end was 116 percent.

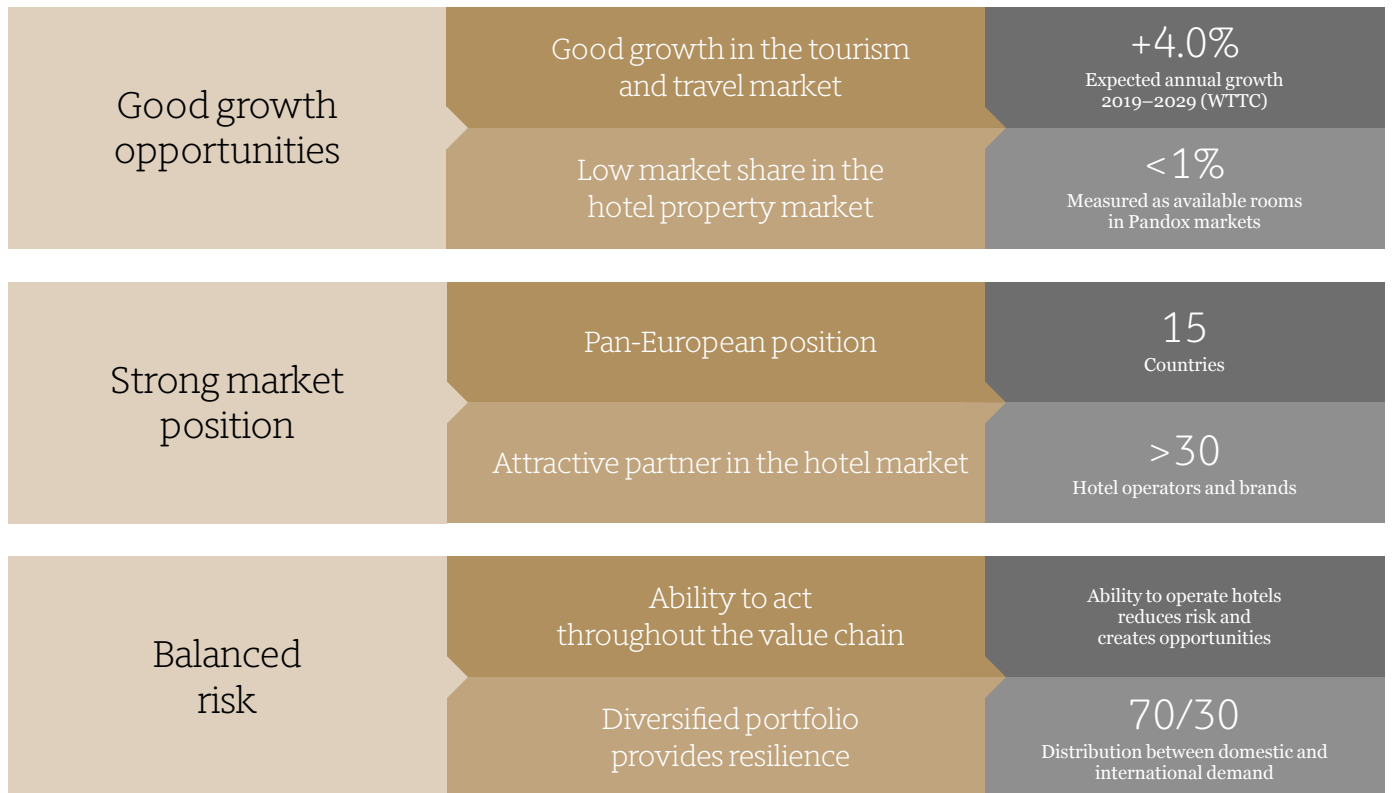
THE PANDOX SHARE AND EPRA NAV PER SHARE 18 June 2015 – 31 December 2019



Net asset value important in valuation of property companies

The valuation of a property company is normally based on its net asset value, which in simple terms is the difference between the market 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 108 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.

Why invest in Pandox?



HOTEL PROPERTIES A SMALL PORTION OF THE PROPERTY MARKET

Properties are a large and growing asset class with residential, retail, office and industry as the dominant segments. At the end of 2019 listed property companies accounted for around 9 percent of the value on Nasdaq Stockholm. Within the EU the corresponding figure was around 4 percent. Although hotel properties are growing as an asset class, this is still a small portion of the total property market. The same applies on the stock exchange. Listed specialised hotel property companies only make up around 1 percent of EPRA Developed Europe, which is a leading property index.

FEW LISTED SPECIALISTS

Listed specialists in hotel properties in Europe other than Pandox (Nasdaq Stockholm, PNDX) are PPHE Hotel Group (London Stock Exchange, PPH) and Covivio Hotels (Euronext Paris, COVH). Other property companies with significant hotel property exposure include Aroundtown (Frankfurt Stock Exchange, AT1) and Balder (Nasdaq Stockholm, BALD).

HOTEL PROPERTIES ARE A DEMANDING CLASS OF ASSET

Hotel properties are an asset class that requires specialisation, active ownership and an industrial perspective for successful value creation. Time is also a factor that should not be underestimated. Quite simply, it takes a long time to find and acquire suitable properties – and even longer to build essential relationships with the hotel operators and business partners needed to develop and realise the hotels’ full potential.

REPLICATING LARGE HOTEL PORTFOLIOS IS NOT EASY

It is hard to replicate large hotel portfolios. Even if there is capital available for acquisitions, systematic and long-term efforts are needed in a tough international environment to create a portfolio with an attractive risk and return profile.

Analysts who follow Pandox

ABG Sundal Collier

Tobias Kaj
Staffan Bülow

Carnegie

Fredric Cyon
Erik Granström

Nordea

Niclas Höglund
Carl Wahlberg

SEB

Stefan E Andersson

Morgan Stanley

Christopher Fremantle

Kepler Cheuvreux

Albin Sandberg

Handelsbanken

Johan Edberg
David Eriksson Flemmich

DNB

Simen Mortensen
Niklas Wetterling

The shares and ownership structure

LISTED ON NASDAQ STOCKHOLM

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

SHARE PRICE DEVELOPMENT AND MARKET CAPITALISATION

On 31 December 2019 the last price paid for the class B shares was SEK 212.00 (146.60) and the visible market cap was MSEK 23,076 (13,560). With the unlisted class A shares included at the same price as the class B shares, the market cap was MSEK 38,976 (24,555).

In 2019 the value of the Pandox share increased by 45 (-8) percent, compared with the OMX Stockholm Benchmark PI Index which increased by 26 (-8) percent and the OMX Stockholm Real Estate PI Index which rose by 59 (10) percent. With a dividend of SEK 4.70 per share included in the calculation, the total return on Pandox shares in 2019 was 48 percent.

Calculated from the date of listing on 18 June 2015, the value of Pandox shares at the end of 2019/2020 had increased by 100 percent compared to 145 percent for the OMX Stockholm Real Estate PI Index and 24 percent for the OMX Stockholm Benchmark PI Index. The total return on Pandox shares over the same period was 116 percent.

LARGEST SHAREHOLDERS AS OF 31 DECEMBER 2019

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

Shareholder	No of class A shares	No of class B shares	% of capital	% of votes
Eiendomsspar AS	37,314,375	10,144,375	25.8	36.6
Christian Sundt AB	18,657,187	4,312,188	12.5	18.1
Helene Sundt AB	18,657,188	4,312,187	12.5	18.1
AMF Försäkring & Fonder		22,133,458	12.0	6.6
Swedbank Robur Fonder		10,539,122	5.7	3.2
Lannebo Fonder		5,937,876	3.2	1.8
Alecta Pensionsförsäkring		5,787,577	3.1	1.7
SEB Fonder		5,531,252	3.0	1.7
Länsförsäkringar Fonder		4,250,419	2.3	1.3
Norges Bank		2,829,278	1.5	0.8
BlackRock		2,606,884	1.4	0.8
Vanguard		2,569,124	1.4	0.8
Fjärde AP-fonden		1,946,605	1.1	0.6
Handelsbanken Fonder		1,938,637	1.1	0.6
Catella Fonder		1,367,901	0.7	0.4
Total 15 shareholders	74,628,750	86,206,883	87.5	92.9
Other shareholders	371,250	22,643,116	12.5	7.1
Total	75,000,000	108,849,999	100	100

Information compiled by Monitor as of 31 December 2019.

Sources: Euroclear Sweden, Morningstar, Swedish Financial Supervisory Authority, Nasdaq and Millstream.

TRADING AND LIQUIDITY

Trading on Nasdaq Stockholm accounted for 52 (59) percent of all trading in Pandox shares in 2019. Ongoing trading transacted directly on the stock exchange amounted to around 33 (42) percent and off-exchange trades reported on the stock exchange to around 19 (27) percent. Trading in other marketplaces amounted to around 48 (31) percent of the trading volume.

During the year around 30 (30) million class B shares were traded, corresponding to 28 (33) percent of outstanding class B shares at year-end, for a value of around MSEK 5,500 (4,600). Average daily trading during the year amounted to 120,273 (120,161) shares, corresponding to around MSEK 22 (18) in value.

OWNERSHIP STRUCTURE AND NUMBER OF SHARES

As of 31 December 2019 Pandox had 4,097 (3,898) shareholders. Pandox's largest shareholders were Eiendomsspar AS, Christian Sundt AB and Helene Sundt AB. Other major shareholders were, in descending order, AMF Försäkring & Fonder, Swedbank Robur Fonder and Lannebo Fonder.

The total number of shares is 183,849,999 of which 75,000,000 are class A shares and 108,849,999 class B shares. Class A shares entitle the holder to three votes and class B shares entitle the holder to one vote.

Share facts

Market:

Nasdaq Stockholm

Segment:

Large Cap

Sector:

Real Estate

Ticker symbol:

PNDX B

Number of class B shares (listed):

108,849,999

Number of class A shares (unlisted):

75,000,000

Market cap:

MSEK 38,976 (class A and B shares)

Share volatility:

22% (on an annual basis from 18 June 2015)

Share beta value:

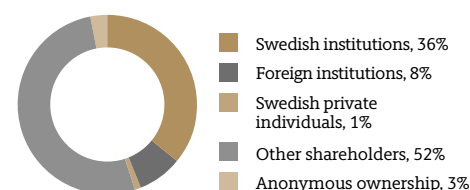
0.69 (from 18 June 2015, OMXSBPI)

Average daily trading volume:

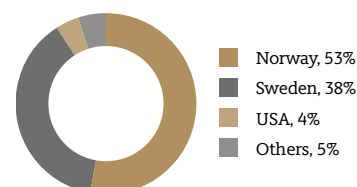
120,273 shares (2019)

Source: Nasdaq, InFront, Euroclear, Pandox. As of 31 December 2019

Shareholders by category as percentage of capital, 31 December 2019



Shareholders by country as percentage of capital, 31 December 2019



Source: Information compiled by Monitor as of 31 December 2019. Sources: Euroclear Sweden, Morningstar, Swedish Financial Supervisory Authority, Nasdaq and Millstream.

Key ratios	2019	2018	2017	2016	2015
Key ratios per share, after dilution effects ^{1) 2)}					
Total net operating income, SEK	18.43	18.25	15.05	12.87	11.31
Profit for the year, SEK	15.91	16.83	19.89	14.65	14.21
Cash earnings, SEK ⁵⁾	12.74	11.28	10.46	8.49	7.53
Equity, SEK ⁵⁾	143.32	127.63	119.38	95.75	80.61
Net asset value (EPRA NAV), SEK	186.40	164.04	144.54	126.24	107.71
Dividend, SEK ³⁾	3.60	4.70	4.40	4.10	3.80
Market cap and return					
Market cap, MSEK	38,976	24,555	26,549	22,240	23,385
Return, Pandox shares, % ⁴⁾	45.2	-7.5	12.1	-9.3	47.1
Return, OMX Stockholm Benchmark Index, % ⁴⁾	26.3	-8.3	6.6	5.0	-4.3
Return, OMX Stockholm Real Estate Index, % ⁴⁾	59.2	9.7	6.7	8.2	21.4
Dividend pay-out ratio of cash earnings, %	30.6	41.6	44.4	50.1	50.5
Dividend pay-out ratio of EPRA NAV, %	1.9	2.9	3.0	3.2	3.5
Dividend yield, %	1.7	3.2	2.8	2.9	2.4
Share data					
Closing price, class B shares, SEK	212.00	146.60	158.50	141.40	155.90
Highest price during the year, SEK	219.50	170.00	161.70	158.30	158.70
Lowest price during the year, SEK	143.00	135.00	134.30	121.50	106.20
Average price during the year, SEK	182.55	151.73	147.87	139.02	121.06
Average daily trading volume, number of class B shares ⁴⁾	120,273	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	75,000
Weighted average number of class A shares, after dilution effects, thousands ¹⁾	75,000	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	75,000
Weighted average number of class B shares, before dilution effects, thousands ¹⁾	95,053	92,499	82,856	75,266	75,000
Weighted average number of class B shares, after dilution effects, thousands ¹⁾	95,053	92,499	82,856	75,266	75,000
Number of class B shares at end of period, thousands ¹⁾	108,850	92,499	92,499	82,499	75,000
Weighted average number of shares, total, after dilution effects, thousands ¹⁾	170,053	167,499	157,856	150,266	150,000
Total number of shares at end of period, thousands ¹⁾	183,850	167,499	167,499	157,499	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 160.

³⁾ For 2019 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.

SHARE CAPITAL HISTORY

Year	Event	Change in number of shares		Number of shares after the transaction			Share capital, SEK	
		B	A	B	A	Total	Change	Total
1994	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
2019	New share issue	16,350,000	—	108,849,999	75,000,000	183,849,999	40,875,000	459,624,998

Source: Euroclear, Pandox

SIZE OF SHAREHOLDINGS AS OF 31 DECEMBER 2019

Holding	Number of shareholders	% of capital	% of votes
1–500	3,469	0.2	0.1
501–1,000	177	0.1	0.0
1,001–5,000	205	0.3	0.2
5,001–10,000	43	0.2	0.1
10,001–15,000	14	0.1	0.1
15,001–20,000	21	0.2	0.1
20,001–	168	99.0	99.5
Total	4,097	100	100

Source: Euroclear Sweden as of 31 December 2019.

Pandox Sustainability Report 2019

Fair Play 2.0

Pandox’s most important contribution to more sustainable development is developing profitable, green properties and signing green leases with hotel operators. The most significant sustainability topics have been defined based on Pandox’s materiality analysis (see pages 52–53). To succeed in this area Pandox needs to be an attractive employer that recruits and develops responsible employees and ensure that the business is operated in a responsible, ethical and efficient way.

Reconstruction and operation of properties accounts for 36 percent of global energy use and close to 40 percent of carbon emissions¹⁾. It is therefore important for Pandox,

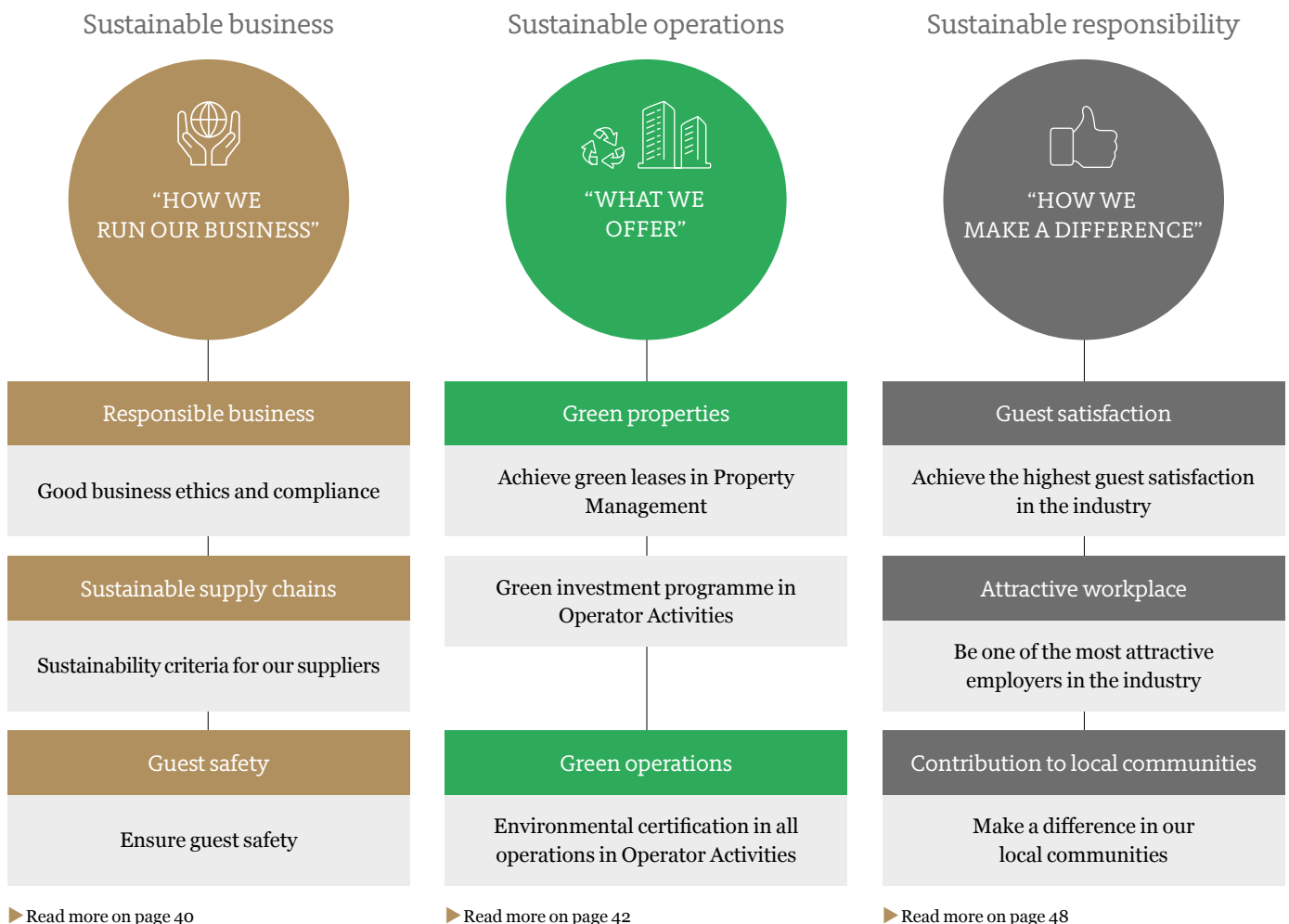
also from a global perspective, to reduce the organisation’s climate impact and manage risk relating to climate change. The Company’s position is that it is possible to address these climate challenges while also contributing to the Company’s business through profitable green investments with a good return.

SUSTAINABILITY STRATEGY WITH A BUSINESS FOCUS

In 2018 Pandox performed a comprehensive review of the Company’s sustainability work. This resulted in the sustainability strategy called Fair Play 2.0. The strategy has three focus areas – sustainable busi-

ness, sustainable operations and sustainability responsibility – as well as eight underlying target areas that integrate sustainability into the organisation. The aim is to run an environmentally, financially and socially responsible business. This is to reduce the consumption of energy and water, reduce waste and generate cash flow-driving green investments that create long-term sustainable and climate-smart properties and hotel operations. The goal is to add long-term value for Pandox, the Company’s employees and the local communities in which the Company operates.

Pandox’s focus areas



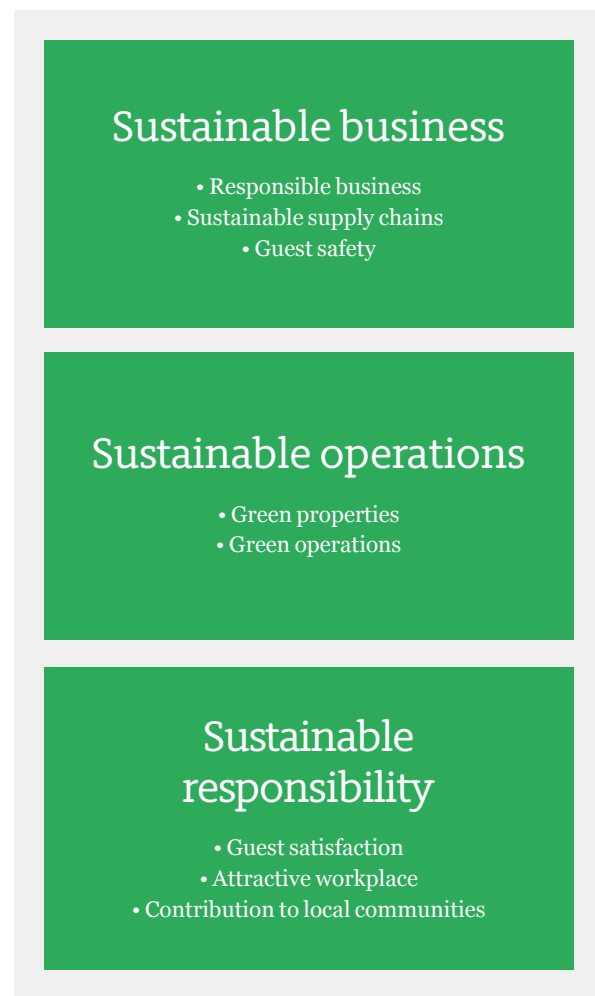
¹⁾ Global Status Report 2018, Global Alliance for Building and Construction
https://wedocs.unep.org/bitstream/handle/20.500.11822/27140/Global_Status_2018.pdf?sequence=1&isAllowed=y

An integrated and sustainable business model

Operations

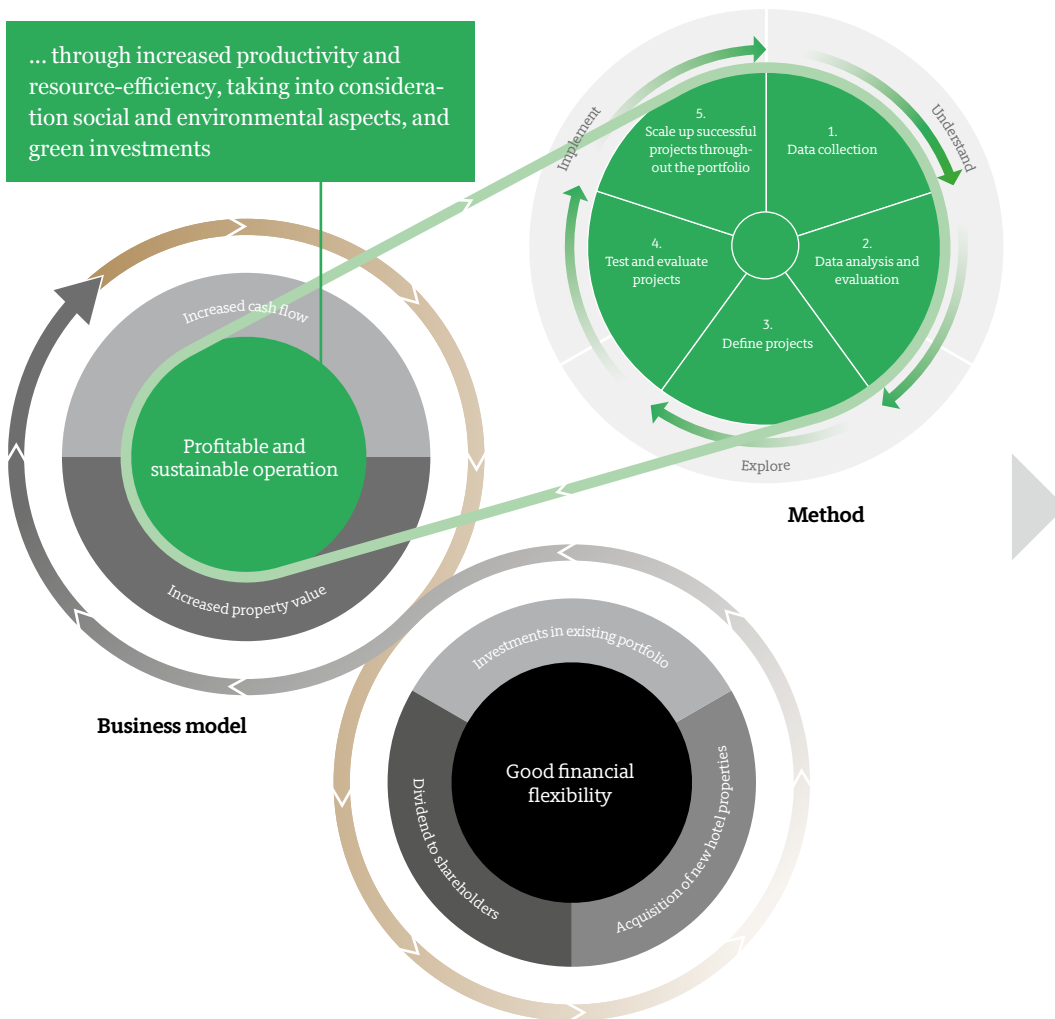


Focus areas and goals



Pandox’s business concept is to own and lease out hotel properties to strong hotel operators under long-term revenue-based leases. Based on specialist expertise in active ownership of hotel properties, Pandox moves throughout the hotel value chain. The business is organised into two business segments: Property Management and Operator Activities. The ways in which can pursue sustainability differ between the business segments. In Property Management, which accounts for 85 percent of the market value of the property portfolio, Pandox’s responsibility is limited to property-related issues, while the tenant has full responsibility for running the hotel. In the Operator Activities segment, which accounts for 15 percent of the market value, Pandox has full responsibility both for the property and for running the hotel. Pandox’s sustainability work has three focus areas that take in account the differences between the business segments, contribute to value creation and produce clear results.

Business processes





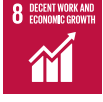





Results 2019

- BREEAM certification of five properties initiated
- 94% environmentally certified hotels in Operator Activities
- 85% guest satisfaction in Operator Activities
- 80% employee satisfaction
- 4.5% reduction of GHG emissions

Pandox and Agenda 2030

Pandox supports Agenda 2030 and the 17 global Sustainable Development Goals that are to be reached by 2030. Based on its business model and value chains, Pandox has identified which global Sustainable Development Goals the Company is actively contributing to:

Global Sustainable Development Goals	Pandox's contribution
 4 Quality education	Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all. Specific focus on target 4.4 to increase the number of youth and adults who have relevant skills and knowledge for employment. This links to Pandox's focus on ensuring its workplaces are attractive and contributing to the local community.
 5 Gender equality	Achieve gender equality and empower all women and girls. Specific focus on target 5.5 to ensure that women have equal opportunities for leadership. Links to Pandox's focus on ensuring its workplaces are attractive.
 6 Clean water and sanitation	Ensure availability and sustainable management of water and sanitation for all. Specific focus on target 6.4 to increase water-use efficiency. Links to Pandox's focus on green properties and green operations.
 7 Affordable and clean energy	Ensure access to affordable, reliable, sustainable and modern energy for all. Specific focus on target 7.2 to increase the share of renewable energy in the global energy mix. Links to Pandox's focus on green properties and green operations.
 8 Decent work and economic growth	Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all. Specific focus on target 8.6 to reduce the proportion of youth not in employment. Links to Pandox's focus on ensuring its workplaces are attractive.
 12 Responsible consumption and production	Ensure sustainable consumption and production patterns. Specific focus on target 12.3 to halve food waste. Links to Pandox's focus on offering green operations and the food waste project being run in cooperation with food tech company Winnow.
 13 Climate action	Take urgent action to combat climate change and its impacts. Specific focus on target 13.3 to improve education, awareness-raising and human and institutional capacity on climate change mitigation. Links to Pandox's focus on green properties and green operations.
 16 Peace, justice and strong institutions	Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels. Specific focus on target 16.2 to end abuse, exploitation, trafficking, violence against and torture of children, and target 16.5 to substantially reduce corruption and bribery. Links to Pandox's focus on responsible business.






Hotelism by Pandox

**Sustainability
strategy with a
business focus**

Sustainable business

The sustainable business focus area describes how Pandox does business responsibly and ensures that the Company's employees and suppliers comply with the Code of Conduct, laws, rules and practices. The purpose is to maintain trust in the Company and ensure long-term, enduring and sustainable growth.

Sustainable business

Responsible business			
Global Sustainable Development Goals	Commitment	Goal	Results 2019
	Educate and guide employees in Pandox business ethics and regulatory compliance	All employees are to complete Code of Conduct training	83% completed the training
Sustainable supply chains			
Global Sustainable Development Goals	Commitment	Goal	Results 2019
 	Zero tolerance for prostitution or sexual abuse	No form of prostitution or sexual abuse should occur in the business	A central monitoring process was implemented during the year; zero incidents were reported for 2019
	Zero tolerance for corruption	Corruption should not occur in the business	A central monitoring process was implemented during the year; zero incidents were reported for 2019
Guest safety			
Global Sustainable Development Goals	Commitment	Goal	Results 2019
 	Pandox is taking preventative action to develop the hotels' safety procedures	Guests should always perceive Pandox's operations and hotels as safe	One incident was reported in 2019

SUSTAINABLE BUSINESS

To guarantee good business ethics and ensure compliance with rules and practices in a growth company like Pandox – where new employees and external stakeholders are continually being added – the Company needs policies and ongoing training programmes. In autumn 2019 the Company's digital training based on the Code of Conduct for the employees was updated to include the issues of prostitution and human rights. The goal is for all employees to complete the training. In 2019, 83 percent of the employees completed the training.

As Pandox has operations the UK market, the Company must meet the requirements in the UK's Bribery Act. This requires Pandox to have well-established internal processes to be able to identify and deal with instances of corruption. During the year the executive management team, general managers and employees in other key positions completed intensified training in anti-corruption. Equivalent digital training will be rolled out for other employees during 2020.

During the year Pandox also produced a separate Anti-Corruption Policy which was approved by the Board of Directors in

November. It clearly stipulates the Company's zero tolerance for corruption. If there is the slightest sign or suspicion of corruption, employees are to consult with their manager or manager's manager. No cases of corruption – such as giving or taking bribes, money laundering or improper actions to restrict competition – were reported during the year. To promote an open culture where employees and external stakeholders are unafraid to report irregularities and problems, a whistleblower system is available. During the year three reports were received, only one of which qualified as an actual

whistleblower case. It related to a conflict of interest and was handled and resolved according to Pandox's established routines.

In the third quarter Pandox joined the UN Global Compact and has therefore pledged to work according to its Ten Principles in areas such as human rights, labour, environment and anti-corruption. Pandox's 2019 Sustainability Report is the Company's first Communication on Progress Report. In 2020 Pandox will launch an intensified course in human rights for all employees with the aim of providing a deeper understanding of how the entire Company can increase its efforts in this area. Pandox has zero tolerance for criminality, prostitution or sexual exploitation. No cases of prostitution or sexual abuse were reported at Pandox's hotels or among the Company's employees during the year. Pandox has also produced and published a Modern Slavery Act statement in which the Company strongly opposes all forms of exploitation, servitude and child labour.

SUSTAINABLE SUPPLY CHAINS

Pandox's operations are divided into two business segments with activities throughout the hotel value chain and the Company therefore has a large number of suppliers.

In Property Management Pandox has direct control over the suppliers. In Operator Activities the degree of control depends on which type of agreement the hotel is managed under. 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 limited influence over the sourcing process because under such agreements the responsibility rests mainly with the hotel operator. In terms

of ensuring a sustainable supply chain Pandox's focal point lies partly in Property Management with focus on suppliers in the construction industry and partly on suppliers in hotels within Operator Activities that are operated under independent brands or franchise agreements, because they offer the greatest opportunity for impact.

The Business Partner Code of Conduct is based on the Ten Principles of the UN Global Compact and the ILO Declaration on Fundamental Principles and Rights at Work. The Business Partner Code of Conduct describes the expectations that Pandox has of its suppliers regarding human rights, labour, environment and anti-corruption. During the year an internal risk analysis was started to identify high-risk suppliers with respect to corruption, human rights violations etc. A follow-up process was also started to ensure that the Company's suppliers comply with the Business Partner Code of Conduct. This process is continuing in 2020 and includes sending out a self-assessment form to high-risk suppliers, so that they can evaluate their own sustainability work. The results will then be followed up by Pandox on a random sample basis. To increase internal knowledge and expertise, relevant employees will undergo sustainable supply chain training. In the case of food and beverage suppliers, hotels in Operator Activities have the opportunity to use Hilton's supplier platform. This guarantees that the suppliers have been scrutinised and that any discounts will benefit the users. It also minimises situations where bribes may occur.

GUEST SAFETY

Within Pandox's Operator Activities business segment the guests expect the hotels to deliver a safe and memorable experience.

The hotel premises are to be safe and the employees must have the right skills to operate them in a safe and secure way.

Hotel safety

Hotel safety is an area covered in Pandox's Code of Conduct for employees. In addition, all hotels in Pandox's Operator Activities business segment have emergency preparedness plans and safety policies in place. Safety is also a topic covered in the Group-wide digital 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 in 2019.

Data security

Data security and protecting the guests' personal data are critical for Pandox.

Guidelines for privacy and data security can be found in the Code of Conduct which applies to all employees at hotels in Pandox's Operator Activities. To minimise the risk of a data breach, training in data security takes place locally at each hotel as well as through the mandatory Group-wide digital training. To protect the guests' personal data, Pandox uses technical and organisational protective measures, such as firewalls and password-protected systems. The employees must also respect the guests' privacy and ensure that their personal data is treated confidentially. In 2019 an incident occurred in which a small number of guests at a Pandox hotel were subject to attempted phishing. Pandox took the necessary actions and launched an internal investigation. Actions taken included changing passwords, fast communication and following up with employees and the guests affected. The internal investigation showed that no guests suffered harm.




Pandox's strategy meeting at Scandic Star Sollentuna in September 2019.

Sustainable operations

Pandox's long-term ambition is to offer green properties in both business segments and to offer green operation within Operator Activities. The goal is to create resource-efficient properties and resource-efficient operation that reduces Pandox's climate footprint while also growing the business.

Sustainable operations

Green properties			
Global Sustainable Development Goals	Commitment	Goal	Results 2019
 	Green leases with all business partners in Property Management	1–3 signed contracts in 2020	Ongoing dialogue
	Property portfolio with majority of hotels BREEAM certified	67% of all properties in Operator Activities to be BREEAM certified by 2023	BREEAM certification started for 30% of properties in Operator Activities

Green operations			
Global Sustainable Development Goals	Commitment	Goal	Results 2019
 	Moving hotels towards environmental certification of their operations	80% in Property Management 100% in Operator Activities	69% in Property Management 83% in Operator Activities
 	Active efforts to continue Pandox's gas consumption reduction measures	Reduce gas consumption by 25% by the end of 2023 according to Pandox's green investment programme	In 2019 Pandox decided to launch a green investment programme for the years 2020–2023
	Active efforts to continue Pandox's water consumption reduction measures	Reduce water consumption by 20% by 2023 according to Pandox's green investment programme	In 2019 Pandox decided to launch a green investment programme for the years 2020–2023 In 2019 water consumption was reduced by 7%
	Active efforts to continue Pandox's electricity consumption reduction measures	Reduce electricity consumption by 35% by the end of 2023 according to Pandox's green investment programme	In 2019 Pandox decided to launch a green investment programme for the years 2020–2023 In 2019 electricity consumption was reduced by 7%
	Active efforts to continue Pandox's CO ₂ emissions reduction measures	Reduce CO ₂ emissions by around 20% by the end of 2023 according to Pandox's green investment programme	In 2019 Pandox decided to launch a green investment programme for the years 2020–2023 In 2019 CO ₂ emissions were reduced by 4.5%
	Active efforts to continue Pandox's food waste reduction measures	Reduce food waste by an average of 30% per hotel in Operator Activities by end of 2021	Successful pilot project concluded, implementation throughout Operator Activities in 2020
	Increase the use of renewable energy sources	90% of properties in Operator Activities by 2023	80% in Operator Activities
	Install solar panels where appropriate	35% of all hotels in Operator Activities by 2023	19% of all hotels in Operator Activities

DEVELOPMENT AND MANAGEMENT

Pandox works actively on sustainable development and management of its properties. Since 2016 Pandox has performed internal inspections of products and agreements to ensure the properties are in good condition and that the tenants are meeting their obligations. A total of 80 such inspections were performed in 2019. The inspections lead to direct actions and also form a basis for contract negotiations. Structural engineering evaluations are also performed on a regular basis to check on the condition and functioning of the buildings. This is particularly important in connection with planned alterations, additions or extensions. A structural engineering examination of the state of properties is also performed in connection with acquisitions, based on functions and regulatory requirements. In addition, Pandox’s insurance brokers perform annual risk assessments of a number of properties focusing on the risk of fire or property damage.

GOAL AND METHODS

Pandox’s goal is to reduce the Company’s environmental impact by reducing energy and water consumption, increasing resource efficiency in operations, production and distribution, increasing reuse and recycling of energy, water and materials, and transitioning to renewable energy sources wherever possible. An important part of this process is to increase knowledge of and commitment to environmental efforts among employees and guests.



JOINT INVESTMENTS

In 2019 Scandic and Pandox completed Shark 2, their joint investment project to upgrade 19 Scandic hotels. By replacing toilets, shower heads and taps with water-saving alternatives the project has saved more than 15 million litres of water annually. The project has also included replacing ventilation units and lighting with more resource-efficient alternatives.

Another project completed in 2019 was the renovation of Vildmarkshotellet at the Kolmården Wildlife Park. In addition to the renovation of 218 rooms, restaurants, conference rooms and lobby were upgraded with new lighting and ventilation. The improvements are expected to lead to annual energy savings of around 300,000 kWh and close to 3 million litres in reduced water consumption. The amount of energy used to heat the pool has also been reduced by around 50 percent.



EXTERNAL OBSERVATION

Pandox reports its climate efforts to the Carbon Disclosure Project (CDP) every year and has a score of B. The Company also reports its sustainability work to GRESB and Sustainalytics. During the year the Company’s sustainability work was evaluated in the “Walking the Talk” report produced by the Mistra Center for Sustainable Markets at the Stockholm School of Economics. The report confirmed that Pandox has made clear progress in sustainability.



GREEN LEASES

The goal to achieve green leases is about Pandox and the tenants jointly investing in projects that reduce the properties’ environmental impact and also share investments and/or the savings the projects provide. The idea behind this is that property owners and tenants need to work together to achieve optimal outcomes in areas such as technical installations and maintenance.

GREEN PROPERTIES

In 2019 Pandox continued its dialogue with its largest tenants in Property Management about green leases. This is a long-term process that requires changing or adding to current lease structures and practices that have been established for a long time between Pandox as property owner and its business partners. This dialogue will continue in 2020 with the aim of launching at least one pilot project. The long-term goal is to enter into green leases with all business partners.

Since the properties are the main source of Pandox's environmental impact, a pilot study was launched at five properties within Operator Activities in 2019 aimed at obtaining BREEAM certification, which is the established standard for green properties in Europe. The objective is for all five properties to achieve the Very Good level and for four of these to do so in 2020. In the fourth quarter a decision was taken for 12 hotels in Operator Activities to have BREEAM certification no later than 2023. Within Property Management consensus needs to be reached

and cooperation initiated with Pandox's business partners before the same decision can be made for this business segment.

Pandox also decided to earmark sustainable financing initiatives in the form of a green investment programme that will run from 2020 to 2023. The programme includes 12 of Pandox's 18 properties in Operator Activities and focuses on energy and water reducing projects as well as technical installations. The investment amounts to MEUR 8 and the average return is expected to be around 20 percent. The reason for selecting 12 hotels in Operator Activities is that Pandox also controls the operation of these hotels, which facilitates implementation and also ensures that direct savings will benefit Pandox. In Property Management Pandox first needs to sign green leases with its business partners – a process that takes more time.

Through the green investment programme Pandox can work proactively with the technology in the properties and increase resource efficiency. This will also make it possible to significantly reduce

Pandox's consumption of both energy and water, providing significant cost savings and also making it possible to formulate concrete Group targets for water and energy consumption. The objective is to reduce natural gas consumption by around 25 percent and electricity consumption by around 35 percent by 2023. This would provide a combined reduction in carbon emissions of around 20 percent. The lower emissions reduction compared to the consumption reduction is due to the fact that the majority of the properties transitioned to green electricity in 2017 and 2018. Water consumption is to be reduced by around 20 percent during the same period. The investments are also helping to increase guest comfort through better control over heating, ventilation and air conditioning.

Green electricity

Using renewable energy sources is part Pandox's ambition to offer green properties. Today 80 percent of the Company's hotels in Operator Activities use renewable energy sources such as green electricity. Pandox is constantly working towards its long-term goal of increasing this percentage whenever possible. Pandox is also installing solar panels on the roofs of hotels in Operator Activities where it is relevant. This is often done in combination with a planned renovation of the property. Some of these properties are not suitable for solar panels, however, due to the angle of the roof and access to solar radiation. By no later than 2022 more than 30 percent of all hotels in Operator Activities will have solar panels on their roofs.

GREEN OPERATIONS

Pandox's aim is for all of the hotels within Operator Activities to have Green Key certification – unless they already have another form of environmental certification – within three years of being acquired or reclassified. At the end of 2019, 83 percent of the hotels were environmentally certified. In Property Management 69 percent of the hotels had some form of environmental certification. This is equivalent to 71 percent of the entire property portfolio.

In 2019 a six-month pilot project was carried out at four hotels aimed at training staff, generating commitment and increasing awareness around energy and water-related



SOLAR PANELS AT HOTEL BERLIN, BERLIN

Around 1,100 m² solar panels adorn the roof of Hotel Berlin, Berlin. The solar panels generated 163,279 kWh in 2019, which is equivalent to the energy used by 36 households. This covers around six percent of the hotel's electricity consumption. In the next three years solar panels will also be installed at the Hilton Grand Place Brussels, Holiday Inn Lübeck and Hilton Garden Inn Heathrow.

issues, and changing behaviour in day-to-day work. The initiative helped to reduce electricity consumption by around 10 percent on average per hotel. Lessons learnt from this project will be shared in future projects.

During the first quarter of 2019 Pandox introduced travel instructions in the handbook for head office employees, urging people to take fewer business trips by air. During the year, the number of flight kilometres was cut by 50 percent and train travel doubled. The Company also began to carbon-offset business travel within the organisation. In total, the Company carbon-offset 97 tonnes of CO₂e emissions through a solar energy project in India. The project has Golden Standard certification. A digital conference service has also been launched at the head office to enable more digital meetings to take place.

Water consumption

Pandox does not use water from water-stressed areas. The Company is aiming to reduce its water consumption by installing water-saving equipment and changing employee and guest behaviour around water consumption. Today the majority of the hotels are trying to involve the guests by providing information in the hotel rooms on the hotel’s water consumption reduction goal. The hotels are for example asking the guests to hang up their towel if they are fine using it again, or if they can refrain from

having their sheets changed every day, and also encouraging guests to limit the length of showers and water running in washbasins. In 2019 Pandox continued the implementation of a measurement system for water consumption at hotels within Operator Activities. Any leaks or deviations from the daily water usage are registered in real time, enabling problems to be quickly identified and remedied. Six of the hotels operated by Pandox have relevant leakage systems. Once the rollout of the green investment programme is complete in 2023, all hotels will have systems in place to identify leaks – including meters to manage water consumption more precisely. In addition to this, shower heads for lower water consumption will be installed without compromising guest comfort.

Waste

Pandox’s target is to reduce the amount of waste generated in the organisation. To this end, a system of waste data reporting was initiated during the year. In 2019 Pandox generated five tonnes of hazardous waste in the form of IT equipment and batteries, and 3,500 tonnes of non-hazardous waste in the form of, for example, domestic waste, paper and plastic. In the fourth quarter the Company also started to measure how much waste and which types of waste are recycled to create an overall picture as a basis for appropriate action.

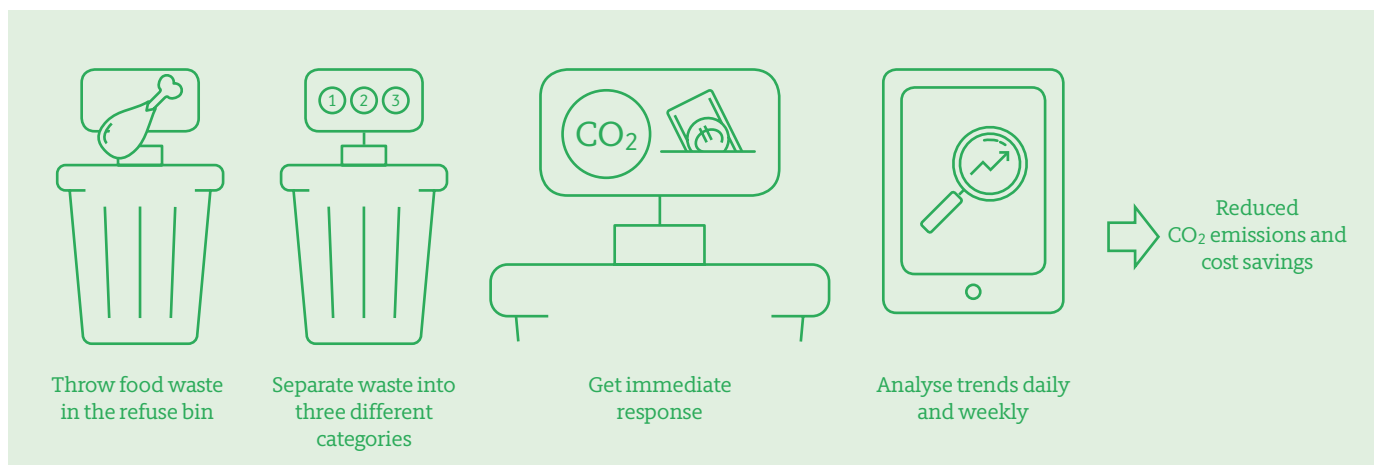
On average food waste represents 4–12 percent of hotel’s food costs ¹⁾. To reduce food waste, Pandox initiated a pilot project during the year with Radisson Blu Hotel, Dortmund, Crowne Plaza Brussels – Le Palace and The Hotel, Brussels in cooperation with food tech company Winnow. Categorising and registering all food that is thrown away provides better knowledge about overproduction and enables purchase planning to be improved. Measured as a percentage of sales revenue, costs were reduced by just over 40 percent on average due to less waste from costly ingredients and reduced production of low-demand buffet items. Pandox has decided to roll out the project at the remaining hotels within Operator Activities in 2020. Winnow’s new artificial intelligence solution will be used in the rollout. This involves a computer and camera automatically scanning all food that is thrown away.

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. A reporting system for chemicals was therefore launched during the last quarter of 2019.

¹⁾ According to Winnow’s internal calculation

PANDOX TACKLE FOOD WASTE IN COOPERATION WITH FOOD TECH COMPANY WINNOW



The greatest potential for savings is reducing overproduction of food. Through a simple system the employees are made aware of how behavioural changes can reduce the climate footprint and at the same time reduce costs.

Pathways into a sustainable hotel world

Pandox's 24th annual Hotel Market Day had an important theme: Pathways into a sustainable hotel world. In November close to 400 participants from 15 countries gathered at the Hilton Stockholm Slussen to listen to leading sustainability experts. Issues discussed included sustainable travel, properties and food.



Pandox's CEO Anders Nissen kicks off the day.

Businesses are increasingly required and expected to transform themselves so as to contribute to more sustainable development. This is especially true of companies in the hospitality industry. Pandox has been working proactively and commercially for a number of years on integrating sustainability into the organisation. There is great potential for Pandox and actors in the industry in general to learn from each other on issues that are not only important today, but are also critical for long-term, sustainable value creation. Hotel Market Day 2019 aimed to bring actors in the industry together to learn, discuss and be inspired to jointly create sustainable travel, building and hotel solutions for the future.

Pandox's CEO Anders Nissen opened the day by describing how Pandox

is placing sustainability at the centre of its value creation. He was referring to the importance of the industry finding commercially viable ways to work sustainably. Without growth and profitability, finding long-term sustainable solutions that make a difference will be a challenge.

To increase understanding of Pandox's broad sustainability focus, **Pandox's Director of Sustainable Business Caroline Tivéus** showed the participants a film. It illustrated the Company's firm conviction that it is important to be data driven in order to have an impact at all levels of the Company. The film also showed that sustainability is good for business as well, and that it is possible to calculate in terms of profitability, which is one of the reasons a green investment programme

will be rolled out in Operator Activities. Pandox is also running pilot projects to accelerate its knowledge and minimise unsuccessful initiatives.

Anders Wijkman, author and opinion former, described research on climate emissions and what actions businesses need to take to achieve the Paris Agreement goal of keeping global temperature rise below 1.5 degrees. Emissions of greenhouse gases need to be halved every decade to reach this goal.

Lars Andersen Resare, Head of Environment & CSR at SAS, spoke about the initiatives SAS is working on to be at the forefront from both a sustainability and a commercial perspective. Lars said that SAS is not only being proactive in reducing carbon emissions, but also

Hotelism by Pandox
**Analysis and insight
 provide knowledge and
 information advantages**



Paul Svensson on sustainable food.

focusing on plastic use, food waste and reuse to reduce its total climate footprint.

Lena Hök, Senior Vice President Sustainability at Skanska Group, presented what Skanska is doing to build sustainable hotels of the future. Lena said that Skanska will be using more wood as a building material because it has a lower climate impact than concrete. According to Lena, the hotels in future will be developed into hubs and meetingplaces for their local communities, which is important to bear in mind when new hotels are built.

Paul Svensson, chef and opinion former, offered the participants snacks made from recycled ingredients such as coffee ground crispbread, faux goose liver and beets poached in port wine. Paul said

that he thinks we often discard the tastiest ingredients for purely aesthetic reasons.

Nadia El Hadery, founder and CEO of YFood, talked about food tech, the most important trends and which start-ups are interesting to follow. Nadia said that the food and beverage industry has lagged behind in innovation but that new solutions are now coming fast.

Kaj Török, Chief Reputation Officer and Chief Sustainability Officer at MAX Burgers, talked about the company's sustainable visions for the future – including their goal for every second meal they serve to be made without meat by 2022.






In conclusion, **Chris Sanderson, co-founder of The Future Laboratory,** discussed how the future guest experience

can be made more sustainable and how sustainability has gone from being a choice to a requirement. He said that in order to be climate neutral, the hospitality industry needs to rethink and reuse resources to a far greater extent than today.

Sustainable responsibility

With size comes responsibility and Pandox has both an internal responsibility for its employees and guests, and an external responsibility for the local communities where the hotels are located.

Sustainable responsibility

Guest satisfaction			
Global Sustainable Development Goals	Commitment	Goal	Results 2019
 	Achieve the highest guest satisfaction in the industry	80% of Pandox's guests will recommend hotels that have been part of Operator Activities for one year or more	85% ¹⁾
Attractive workplace			
Global Sustainable Development Goals	Commitment	Goal	Results 2019
 	Be one of the most attractive employers in the industry	80% satisfied employees	80% ²⁾
	Increase the percentage of female general managers	Always include a woman in the recruitment process for general managers	Two new general managers recruited, one a woman and one a man
Contribution to local communities			
Global Sustainable Development Goals	Commitment	Goal	Results 2019
	The head office ³⁾ and each hotel in Operator Activities must be involved in a project to contribute to the local community	At least one project per hotel and at the head office ³⁾ in 2020	88% of the hotels in Operator Activities and the head office ³⁾ have one or more projects

¹⁾ Source: Revinate <https://www.revinate.com/>. Hotel Korpilampi and Radisson Blu Glasgow are excluded but will be included in 2020.

²⁾ Source: Employee Self Service (ESS) tool produced especially for each Pandox hotel in Operator Activities. Hilton Brussels Grand Place is excluded as it is under a management agreement, but will be included from the beginning of 2020 when the agreement is changed to a franchise agreement. Radisson Blu Glasgow and Hilton Garden Inn Heathrow are also excluded, but the goal is for these to also be included in 2020.

³⁾ The head office comprises the management group, managers and employees at the head office and employees in property management in the Nordic region. This corresponds to the personnel belonging to the business segment Property Management.

GUEST SATISFACTION

Guest satisfaction is the result of Pandox's guests evaluating the hotel's offering and service. It is an important measure of how well the hotel lives up to the guests' expectations. Pandox's long-term objective is for guest satisfaction to exceed 80 percent for

hotels that have been included in Operator Activities for one year or more. In 2019 guest satisfaction was at 85 percent (83).

ATTRACTIVE WORKPLACE

Motivated and talented employees are the key to success. Pandox makes every effort

to be one of the most attractive employers in the industry.

Zero tolerance for discrimination and harassment

In the Code of Conduct for employees there are established guidelines for how Pandox's employees are to behave at the workplace. Motivated and talented employees are critical to the Company's success. In order to be one of the most attractive employers in the industry, Pandox offers a dynamic but also secure working environment that encourages development and does not tolerate

HIGHEST NUMBER OF EMPLOYEES IN OPERATOR ACTIVITIES

1,392 of Pandox's employees are in Operator Activities, which is equivalent to around 97 percent of total employees. 41 people work in Property Management, which is around 3 percent of all Pandox employees.

discrimination or harassment. No incidents of discrimination were reported in 2019. It is important to the Company that all employees have a strong moral compass, take initiatives and are independent. This is because Pandox is a lean organisation filled with a spirit of entrepreneurship where everyone helps out.

Satisfied employees

In 2019 a single survey was introduced for all hotel employees with the aim of measuring employee satisfaction within Operator Activities. The short-term goal is employee satisfaction of 80 percent. The 2019 result was 80 percent.

In Operator Activities the turnover of hotel employees was 22 percent. Employee turnover in Property Management was 2 percent, which is lower than the average for property companies.

Right to collective bargaining

All employees in Operator Activities are free to join a trade union and participate in collective bargaining. In 2019 a total

of 70 percent (77) of employees within Operator Activities were covered by collective bargaining agreements.

Diverse and inclusive workplace

The hotel industry is characterised by diversity – both in terms of nationality and age groups. There is a general lack of women in senior positions. In 2019 Pandox decided that both men and women should be represented in the recruitment process for senior positions. Of the two new general managers recruited in 2019, one was a woman and one was a man. The total percentage of female general managers at the end of 2019 was 14 percent (7).

Career development

Offering personal development is crucial in order for Pandox to be an attractive employer. The Company’s ambition is to offer all employees training, career opportunities and career planning. A total of 66 percent of employees attended a career development review in 2019.

Occupational Health and Safety

All employees are to have a healthy, safe and secure work environment. Risk assessments are carried out on a regular basis. Risks identified are usually associated with building sites and physical risks at hotels, such as the risk of fire. All employees receive annual training, information and instructions in occupational health and safety. Pandox aims to ensure that employees have a good work-life balance and believes that physical activity promotes well-being and improved performance.

One important initiative that combines work and pleasure is Pandox Movement, where employees get together to take part in various sports and other physical activities. Employees are encouraged to challenge themselves and set ambitious goals such as taking part in various races such as “Spring för Livet” (Run for your Life). In the spring a voluntary 72-hour lifestyle analysis was conducted at the head office focusing on stress management, exercise and recuperation for better mental health. The employees attached a monitoring device to their bodies which analysed their sleep and heart rate for 72 hours. Based on the resulting lifestyle analysis, participants were then given opportunity to set personal goals that were followed up with a coach in the period up to summer.

CONTRIBUTION TO LOCAL COMMUNITIES

In 2019 Pandox further developed its strategy for community engagement. Pandox wants to contribute to local communities where the Company operates and in the areas where Pandox’s employees have particular expertise, skills and interests. All hotels in Operator Activities, as well as the head office, must therefore support at least one local project. The choice of organisation or project is, however, determined by the employees as real engagement comes from the grass roots.

In 2019 all hotels except for two in Operator Activities were engaged in a local project and progress is being monitored in 2020. Examples of projects include providing food to homeless individuals, offering internships to young people with disabilities etc.



INNOVATIVE LEADERSHIP PROGRAMME AT HOTEL HUBERT GRAND PLACE

Every six months Pandox chooses a new hotel manager for Hotel Hubert Grand Place in Brussels based on employee candidates nominated by the hotel managers within the Operator Activities business segment. The purpose of the leadership programme is to provide employees with career development opportunities within the Company. The emphasis is on women and employees in positions that do not normally apply for this type of job. This programme has been under way since the hotel opened in September 2018. As of 31 December 2019 the hotel had had three different hotel managers.

Enbacksskolan

In 2018 Pandox entered into a partnership with Enbacksskolan in Tensta. The purpose is to broaden the students' network of contacts in the job market and to lower entry barriers in society by offering workplace visits and practical workplace experience. Pandox involved Scandic Star Sollentuna in the project and the hotel arranged for 12 students in eighth grade to try different occupations within the hotel industry at eight different Scandic hotels. The project will be developed further in 2020. Care services company Attendo and staffing company Jurek will also take part in the partnership.

Enbacksskolan holds theme days twice a year, which Pandox attends. One theme day was held in the spring with a focus on mental and physical health. The nonprofit organization Maskrosbarn lectured on mental illness and the former handball player and coach Staffan Olsson spoke about physical health and the importance of exercise, and introduced students in years 7 to 9 to handball. To make it easier for the school to keep the students active, Pandox is providing transportation so they can participate in kayaking, swimming and skiing.

In 2019 Pandox also contributed funds for the school's podcast equipment. Organisations in society that students and parents do not normally have close contact with were interviewed in podcasts with the aim of increased interaction. The podcast format works as a communication channel for the school and students to reach out to the community and parents.

Pandox also launched the Pepper Foundation during the year. This is a platform to realise the dreams of students at Enbacksskolan. The first activity was a customised

acting course for up to 10 students with actress Sara Sommerfeld teaching them acting techniques and how to write a script. The project will conclude with the students performing an excerpt from a play in front of an audience in the spring term of 2020.

The second theme day was held at the end of the year with a focus on food traditions that unite people. Elisabeth Johansson, one of the judges on Swedish TV show

“Årets Kock” (Chef of the Year), talked about how different food traditions unite and enrich us, and how they can contribute to integration. A cooking competition was also held where the competitors were parents, teachers and employees from Pandox and Scandic Star, Sollentuna. The winning entry will be a permanent lunch menu item in the school cafeteria.



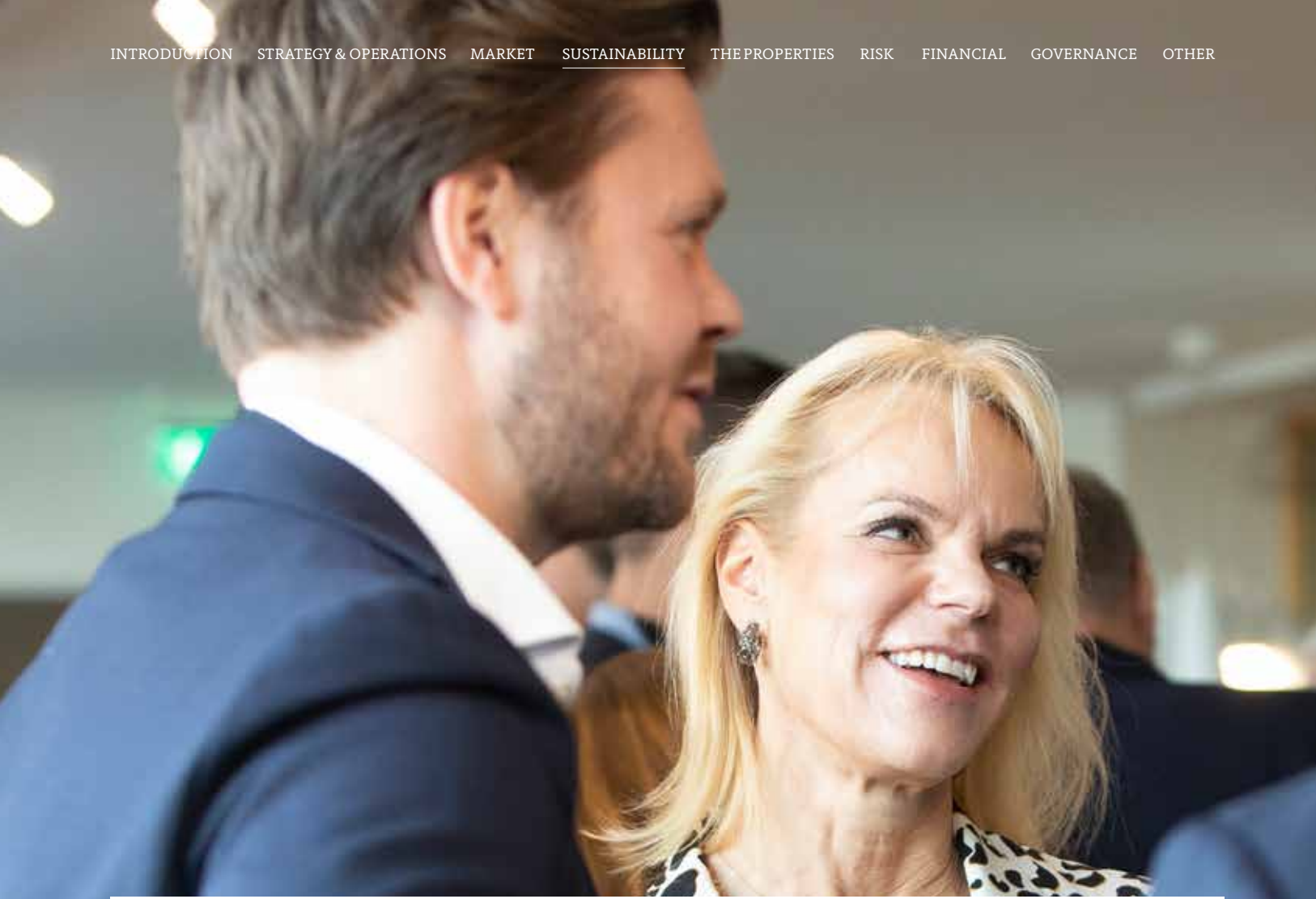
Teacher Iman with his students in the podcast studio.



Elisabeth Johansson, centre, with the winning cooking team.



Pepper Foundation



About the Sustainability Report

Pandox’s annual Sustainability Report has been prepared in accordance with the GRI Standards and meets the Core level. The report also constitutes Pandox’s statutory Sustainability Report and meets the disclosure requirements in the Swedish Annual Accounts Act regarding sustainability reporting. The Sustainability Report also constitutes Pandox’s Communication on Progress Report relating to the Ten Principles of the UN Global Compact. The Sustainability Report covers the full year 2019 and all of Pandox’s operations. No material changes have taken place in the Company and supply chain since the previous year. The last report was published on 15 March 2019.

The Sustainability Report is based on the Company’s three focus areas and eight target areas summarised in the sustainability strategy, Pandox Fair Play 2.0. The sustainability strategy was produced based on dialogue with stakeholders and a materiality analysis to form a complete picture of the sustainability topics of significance for the Company and its stakeholders. The focus of the report is the same as in previous years.

Pandox’s business is divided into two segments: Operator Activities and Property Management. The sustainability data includes Pandox’s Operator Activities and the head office in Stockholm, as well as tenants in Scope 3. The hotels reclassi-

fied from Operator Activities to Property Management are included in the environmental data up to the date of reclassification. Scope 3 as described in the chapter “Sustainable operations” includes 50 percent of the total of 155 hotels in Property Management. The base year for environmental data is 2018.

Employee data is reported in full-time equivalents (FTE) as of 31 December 2019. Operator Activities and Pandox’s head office have registered environmental data and social data in a reporting 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



Caroline Tivéus
 Director of Sustainable Business
 +46 735 32 74 41
caroline.tiveus@pandox.se

Materiality analysis & stakeholder dialogue

Pandox Fair Play 2.0 is about commercially integrating sustainability into the Company and laying the foundation for sustainable growth. The strategy is designed to take into consideration the requirements and expectations of the Company’s stakeholders.

IMPORTANT SUSTAINABILITY TOPICS

In 2018 Pandox carried out a materiality analysis to ensure that the sustainability topics in areas where the Company has the greatest impact and that are the most important to the stakeholders are prioritised in future sustainability work.

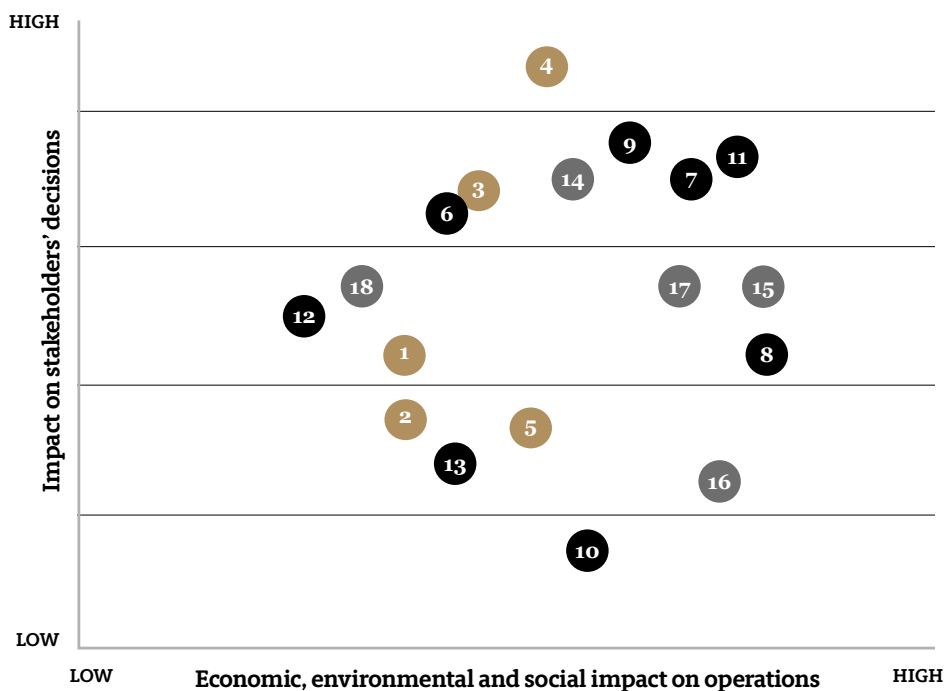
Through external benchmarks, status analysis and interviews with employees, Pandox identified a list of relevant sustainability topics from a value-chain perspective. These sustainability topics were then analysed and prioritised based on the

positive and negative impact they have on Pandox’s communities from an environmental, social and economic perspective.

The most important stakeholder groups were identified by determining the stakeholders’ influence on and interest in Pandox’s operations. In order to subsequently define and prioritise the most material sustainability topics, Pandox carried out interviews and online surveys with the Company’s most important stakeholder groups. The results were discussed and validated at a workshop with senior executives.

The sustainability topics established as the most important ones for Pandox were summarised in three focus areas: sustainable business, sustainable operations and sustainability responsibility. Eight target areas were selected: responsible business, sustainable supply chains, guest safety, green properties, green operations, guest satisfaction, attractive workplace, contribution to local communities.

Materiality analysis



SUSTAINABILITY TOPICS

Environment

- 1 Environmentally certified buildings
- 2 Increase the use of sustainable materials
- 3 Reuse and recycle materials, and minimise waste
- 4 Reduce energy consumption and CO₂e emissions
- 5 Reduce water consumption

Social

- 6 Training and professional development for employees
- 7 Diversity, equal opportunities and non-discrimination
- 8 Employee health and safety
- 9 Fair employment terms for employees
- 10 Freedom of association and 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 anti-corruption efforts
- 17 Sustainable supply chain
- 18 Transparent sustainability reporting



RESULT OF STAKEHOLDER DIALOGUE

Stakeholder group	Dialogue format	Three most important sustainability topics
Guests	Survey	<ul style="list-style-type: none"> • Fair working conditions for employees • Reuse and recycle materials, and minimise waste • Reduce energy consumption and CO₂e emissions
Business partners	Survey/interview	<ul style="list-style-type: none"> • Reduce water consumption • Proactive efforts to prevent trafficking and prostitution at the hotels • Fair working conditions for employees
The community	Survey	<ul style="list-style-type: none"> • Environmentally certified properties • Diversity, equal opportunities and non-discrimination • Board of Directors and executive management team are committed to sustainability
Suppliers	Survey	<ul style="list-style-type: none"> • Reduce energy consumption and CO₂e emissions • Diversity, equal opportunities and non-discrimination • Hotel safety
Analysts	Interview	<ul style="list-style-type: none"> • Training and career development for employees • Fair working conditions for employees • Sustainable supply chain
Investors	Survey	<ul style="list-style-type: none"> • Reduce energy consumption and CO₂e emissions • Ensure customer privacy and protect customer data • Transparent sustainability reporting
Shareholders	Survey	<ul style="list-style-type: none"> • Reuse and recycle materials, and minimise waste • Hotel safety • Fair working conditions for employees
Board of Directors	Survey	<ul style="list-style-type: none"> • Reduce energy consumption and CO₂e emissions • Diversity, equal opportunities and non-discrimination • Hotel safety
Hotel employees	Survey	<ul style="list-style-type: none"> • Reuse and recycle materials, and minimise waste • Fair working conditions for employees • Training and career development for employees
General managers	Survey	<ul style="list-style-type: none"> • Training and career development for employees • Reuse and recycle materials, and minimise waste • Local community engagement
Office employees	Survey	<ul style="list-style-type: none"> • Reuse and recycle materials, and minimise waste • Hotel safety • Sustainable supply chain
Executive management team	Survey	<ul style="list-style-type: none"> • Reduce energy consumption and CO₂e emissions • Board of Directors and executive management team are committed to sustainability • Hotel safety

Sustainability management

Pandox Fair Play 2.0 forms the basis for how Pandox integrates sustainability into its operations and how the Company strategically manages and drives operational sustainability work.

MANAGEMENT OF SUSTAINABILITY WORK

The Board of Directors has overall responsibility for the strategic focus of sustainability efforts and is always involved in important investment decisions. Information on sustainability work is reported back to the Board on a six-month basis through a board report and annually in an oral presentation.

A Sustainability Committee consisting of representatives from the executive management team, experts and the Director of Sustainable Business addresses ongoing issues and decisions relating to sustainability work. In 2019, for example, the Committee discussed the green leases that make it possible for Pandox to work in a structured way on sustainability in Property Management as well. The Sustainability Committee has also been a driver in the development of a separate green investment programme and has initiated a BREEAM certification process for all properties in Operator Activities.

The Director of Sustainable Business is responsible for ensuring that sustainability is integrated into Pandox's day-to-day operations in consultation with individuals responsible for the relevant areas, who are often the heads of the business areas. The Director of Sustainable Business reports the outcome of sustainability work to the executive management team on a continual basis, including in the Green Update report every quarter.

GOVERNING DOCUMENTS

The Code of Conduct for employees provides the ethical guidelines for Pandox's business and is based on the ILO Declaration on Fundamental Principles and Rights

at Work. Every new employee learns about the Code in Group-wide digital training that is part of workplace orientation, and in many cases in an additional personal introduction to the Company. The Policy includes Pandox's position on taking a political standpoint in the Company's name. In 2019 Pandox joined the UN Global Compact and the Company will report externally on its efforts to comply with the Ten Principles on an annual basis. The Code of Conduct for employees and the Business Partner Code of Conduct are therefore based on the Ten Principles of the UN Global Compact.

Pandox's Environmental Policy establishes the values and guidelines for Pandox's environmental work. Areas covered are energy and water consumption, emissions and waste. The precautionary principle is part of the Environmental Policy and it involves the Company proactively avoiding environmental risk.

Pandox endeavours to always act in compliance with the tax rules that apply and the Company's tax policy reflects and supports the business. All taxes and levies are paid according to local laws and regulations in the countries where Pandox operates. Tax management is to be ethical and commercially sound. In the event of uncertainty, the precautionary principle and transparency apply. Aggressive or advanced tax planning is not allowed. As a good corporate citizen, Pandox regards paying tax as part of its social responsibility.

MONITORING RESULTS

In order to perform an accurate status analysis and prioritise the right activities

and investments, Pandox continued to implement its new data processing system in 2019 with a focus on sustainability data and water and energy consumption. At the end of the year all of the Company's hotels in Operator Activities, as well as Scandic and Nordic Choice in Property Management, were included in the system. This represents around 50 percent of the property portfolio. For 2020 the goal is for all hotels to report into the system.

In 2019 significant progress was made in efforts to integrate sustainability throughout the value chain. The new system support has automated the monitoring process and enabled analysis to be performed to assess and prioritise between different environmental investments. This has also facilitated knowledge transfer and identification of good examples. This data system is also the basis for the analysis that resulted in the green investment programme, which will be rolled out in Operator Activities in 2020–2023.

To ensure compliance with the Codes, Pandox has internal control routines, such as the "four eyes" principle, which requires two signatures on contracts to minimise the risk of errors or corruption, and the grandfather principle where the CEO is always involved in recruitment for key management positions.

WHISTLEBLOWER SYSTEM

Pandox values an open culture and works to ensure that employees are unafraid to report irregularities and problems in the workplace so that they can be addressed. Pandox therefore has an independent, external whistleblower system available to employees and other stakeholders. Any suspected irregularities or deviations from Pandox's policies can be reported anonymously. Matters reported are handled by Pandox's General Counsel and Director of Sustainable Business; see under the heading "Sustainable business".

IMPORTANT GOVERNING DOCUMENTS

UN Global Compact, Code of Conduct for employees, Business Partner Code of Conduct, Environmental Policy, Modern Slavery Act statement, Anti-Corruption Policy, Privacy Policy, Data Security Policy, Tax Policy and Insider Policy.



Caroline Tivés, Director of Sustainable Business, is responsible for anti-corruption training.

PARTICIPATION 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, the objective of which is to advance the sustainability agenda throughout the tourism industry in Sweden.

SUSTAINABILITY RISK

Pandox is of the opinion that well-managed sustainability risks can become tomorrow’s competitive advantages. Pandox works continually to identify, evaluate and manage sustainability risk as part of the Company’s overall risk management process.

Environmental risks

Pandox aims to reduce environmental risks through increased resource efficiency. Within three years of being acquired or reclassified, all of the hotels within Operator Activities are to have Green Key certification – unless they already have another environmental certification. Pandox has initiated a project for BREEAM certification of five selected properties in Operator Activities. The Company has also started a dialogue with its largest tenants on green leases; see under the heading “Sustainable operations”.

Although Pandox does not operate in areas where there is a high risk of extreme weather, the Company is affected by climate change. Warmer weather and reduced precipitation could lead to low groundwater levels in the future, which could in turn result in a water shortage and higher water costs. Climate change could also lead to

changed travel patterns. Less international travel could present a risk for Pandox, while increased regional travel can present new commercial opportunities.

Employees

One of Pandox’s main risk factors is dissatisfied employees having a negative impact on the Company and the hotel guests. In the hotel industry, the experience of every individual guest is very important and the Company is therefore dependent on having satisfied and motivated employees. Pandox therefore takes active steps to improve working conditions and ensure that the employees are happy and motivated in their work. The ability to attract, develop and retain talent is a critical success factor. Pandox’s improvement measures are focused on promoting employee health and minimising the risk of workplace accidents. Pandox regularly schedules performance and career development reviews to promote employee growth as well as Pandox’s development as an employer.

Anti-corruption

Pandox has zero tolerance for corruption. The Company invests and develops its hotel properties on an ongoing basis and purchases both services and materials from the construction industry, which is a high-risk industry from a corruption prospective. There are also general risks associated with purchasing goods and services, and for this reason Pandox has provided anti-corruption training for the executive management team and key individuals. Anti-corruption is also part of Pandox’s Group-wide digital training and an intensified course will be rolled out in the first quarter of 2020. Pandox has also produced guidelines that are set out in the

Code of Conduct for employees and in internal control procedures, such as two signatures when signing contracts. The Company also has an external and independent whistleblower system for reporting irregularities. It is open to both external parties and the Company’s employees.

Occupational Health and Safety

Within the hotel industry there are risks relating to hotel safety, such as the risk of fire and other accidents involving employees and guests. Pandox complies with relevant laws and applies fire safety measures at all hotels. Emergency preparedness plans, regular training and safety policies are in place to prevent and limit accidents and incidents.

Human rights

Shortcomings in the supply chain can result in infringement of human rights. During the year an internal risk analysis and monitoring process was launched to ensure compliance with the Business Partner Code of Conduct. This will continue in 2020. Relevant employees will also complete sustainable supply chain training. The hotel industry is a sector where prostitution and various forms of human trafficking can occur. For this reason, relevant employees will receive intensified training in 2020 in how to prevent and detect potential cases of trafficking.

Data security

It is important to protect the guests’ and employees’ personal data and privacy. 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 all hotels and there is also mandatory Group-wide digital training.

Sustainability disclosures

Environment

For 2019, three hotels in Operator Activities were excluded from the total 18 hotels; Novotel Den Haag World Forum and Novotel Hannover were acquired in December 2019 and have been excluded as no sustainability data has been received yet. Radisson Blu Glasgow was part of Pandox throughout

2019, but is excluded due to organisational changes. Environmental data in absolute numbers has consequently been calculated based on data for the 15 hotels in Operator Activities and Pandox's head office. All relevant ratios, such as energy as a percentage of revenue, have been calculated for the

15 hotels in Operator Activities. Hotel Hubert Brussels was reclassified in September 2018 and data is therefore only available from September 2018 onwards. 62 properties in Property Management are included in Scope 3, corresponding to 45 percent of the total.

Energy intensity in Operator Activities*

38.2
kWh/SEK 1,000 revenue

280
kWh/m²

51.3
kWh/guest night

Trend



* Head office is excluded. Area is defined as the actual hotel area with elements such as third party rental and parking excluded.

Emission intensity in Operator Activities*

3.82
kgCO₂e/SEK 1,000 revenue

28.0
kgCO₂e/m²

5.13
kgCO₂e/guest night

Trend



* The data represents Scope 1 and 2. Head office is excluded. Area is defined as the actual hotel area with elements such as third party rental and parking excluded.

Operator Activities

PANDOX'S ENERGY CONSUMPTION (MWh)*

Energy source	Renewable energy		Non-renewable energy		Total	
	2019	2018	2019	2018	2019	2018
Fuel	2,359	2,260	29,296	29,451	31,655	31,711
Electricity	22,776	23,079	15,484	17,999	38,260	41,078
Heating	0	0	9,010	8,434	9,010	8,434
Cooling	0	0	8,089	6,671	8,089	6,671
Total energy consumption	25,136	25,339	61,878	62,555	87,014	87,894
Total weather-normalised energy					87,839	88,360

* The data represents an average of Pandox's 15 hotels in Operator Activities as well as Pandox's head office. Fuel includes gas (HHV), pellets and fuel oil (HHV). Renewable energy sources consist mainly of wind and hydropower. Four hotels produce their own electricity and heat. In 2019 this amounted to 4,644 MWh. This is included non-renewable electricity and heat, as no source information is available. The weather-normalised energy consumption is calculated using heating degree days (HDD). HDD is defined as the number of degrees and is calculated based on the difference between the average outdoor temperature and a base temperature; the latter is 18 degrees Celsius for all locations studied. The energy consumption is then normalised according to the average HDD over the past 10 years.

WATER CONSUMPTION (MEGALITRES)*

	2019	2018
Water consumption	447	481
Consumption of water from water-stressed areas	0	0
Water intensity (litres/m ²)	1,438	1,550
Water intensity (litres/guest night)	264	288

* The water consumption data in megalitres is an average for Pandox's 15 hotels in Operator Activities as well as Pandox's head office. The intensity measure is calculated as an average of Pandox's 15 hotels in Operator Activities.

WASTE GENERATED AND DISPOSAL METHOD (TONNES)*

Disposal	2019	
	Non-hazardous waste	Hazardous waste
Recycling	1,699	4
Composting	44	0
Reuse, including energy recycling	895	0
Incineration	0	1
Landfill	890	0
Total	3,528	5

* The data for waste generated applies to Pandox's 15 hotels in Operator Activities. There is no data available for Pandox's head office. In 2019 Pandox focused on improving the availability of data in order to include it in the Annual and Sustainability Report, which is why no data was reported in 2018.

Property Management and Operator Activities

GHG EMISSIONS (tCO₂e)*

	2019	2018
Scope 1	5,761	5,628
Scope 2 location-based	9,229	9,728
Scope 2 market-based	2,946	3,115
Scope 3		
Scope 3 fuel and energy	1,741	1,832
Scope 3 travel by air and rail	206	470
Scope 3 downstream leased assets	17,666	18,611
Total Scope 1 & 2 market, Scope 3	28,319	29,656
Decrease %	4.5	-
Decrease tCO ₂ e	1,337	

* **Scope 1** includes emissions from the use of gas, fuel oil, pellets and refrigerants. **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 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. In 2019 Pandox reduced emissions from business travel by 50 percent compared to the previous year, mainly due to an increase in train travel. **Scope 3** includes direct emissions from Pandox's downstream leased assets (51 Scandic and 11 Nordic Choice hotels). Emission factors come from Defram IEA, GaBi and RE-DISS. In certain cases emission factors have been obtained directly from suppliers.

Social

For 2019, three hotels in Operator Activities were excluded from the total 18 hotels; Novotel Den Haag World Forum and Novotel Hannover were acquired in December 2019 and have been excluded as no sustainability data has been received yet. Radisson Blue

Glasgow was part of Pandox throughout 2019, but is excluded due to organisational changes. All data for social sustainability issues is consequently based on figures from Pandox's 15 hotels in Operator Activities and Pandox's head office. All employee

data is reported in full-time equivalents (FTE) and calculated based on the statutory working hours in each country. Please note that the results differ from the employee data reported in Note 8, which is based only on statutory working hours in Sweden.

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	6	33.3	66.7	0	33.3	66.7
Executive management team	9	22.2	77.8	0	33.3	66.7
General managers	14	14.4	85.6	7.2	63.9	28.9
Other managers at hotels	175	45.6	54.4	13.2	72.6	14.2
Hotel employees	1,203	49.0	51.0	25.5	41.5	33.0
Managers at head office	5	20.0	80.0	0	80.0	20.0
Employees at head office	27	55.6	44.4	7.4	66.7	25.9

* Hotel Hubert does not have one general manager but instead has a system where a new general manager is appointed every six months as part of a leadership programme. If Radisson Blu Hotel, Glasgow is included the total number of employees is 1,460.

PANDOX'S EMPLOYEES BY TYPE OF EMPLOYMENT CONTRACT

	Women	Men	Total
Indefinite-term employment contract	600	671	1,271
Full-time	517	625	1,142
Part-time	83	46	129
Fixed-term employment contract	91	71	162
Total	691	742	1,433

PANDOX'S EMPLOYEES BY REGION AND EMPLOYMENT CONTRACT

	Indefinite-term contract	Fixed-term contract	Total
Nordics	66	1	67
Europe	881	159	1,040
Canada	324	2	326
Total	1,271	162	1,433

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

Employment category	Women	Men
Executive management team	100	100
General managers	50	92
Other managers at hotels	93	89
Hotel employees	64	59
Managers at head office	100	100
Employees at head office	100	100
Total	68	64

WORK-RELATED INJURIES*

	Total	Per hours worked*
Employees		
Fatalities caused by work-related injuries	0	0
Number of serious work-related injuries	5	2.5571
Reported work-related injuries	131	0.0007
Subcontractors		
Fatalities caused by work-related injuries	0	0
Number of serious work-related injuries	0	0
Reported work-related injuries	2	1.5200

* 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.

NEW EMPLOYEES AND EMPLOYEE TURNOVER BY GENDER, AGE AND REGION

	New employees (%)	Employee turnover (%)
Total number	299 (21%)	313 (22%)
Women	23.1	21.0
Men	18.7	22.7
Age < 30*	55.0	39.6
Age 30–50	15.5	24.1
Age > 50	2.9	5.0
Nordics	7.5	4.5
Europe	24.5	24.4
Canada	11.8	17.4

* The number of new employees and employee turnover are high in the age category <30. One reason is the "insteggsjobb" (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.

NEW EMPLOYEES AND EMPLOYEE TURNOVER – PANDOX PROPERTY MANAGEMENT

	New employees (%)	Employee turnover (%)
Total number	3 (7%)	2 (5%)
Women	10.5	10.5
Men	4.5	0
Age < 30	50.0	50
Age 30–50	7.4	3.7
Age > 50	0	0

AVERAGE NUMBER OF HOURS OF TRAINING

Employment category	Women	Men	Total
Executive management team	23.0	37.0	33.9
General managers	4.5	34.5	30.2
Other managers at hotels	35.4	29.2	31.8
Hotel employees	16.6	17.7	17.2
Managers at head office	108.0	6.5	26.8
Employees at head office	31.7	24.2	28.3
Total	19.2	19.7	19.4

WORK-RELATED ILL HEALTH*

	Total	Per hours worked*
Employees		
Fatalities caused by work-related ill health	0	0
Reported work-related ill health	166	0.0008
Subcontractors		
Fatalities caused by work-related ill health	0	0
Reported work-related ill health	0	0

* Per hours worked is based on 200,000 hours worked, which is equivalent to 100 employees working a full-time 40-hour week.

GRI Index

GRI Standard	Disclosure	Page	UN Global Compact Principles
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	102-13 Membership of associations	54	
STRATEGY AND ANALYSIS			
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	102-16 Values, principles, standards, and norms of behavior	54	10
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	102-40 List of stakeholder groups	53	
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	102-45 Entities included in the consolidated financial statement	51	
	102-46 Defining report content and topic Boundaries	52	
	102-47 List of material topics	52	
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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.

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.

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.

Visita

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

►► GRI-index forts.

GRI Standard	Disclosure	Page	UN Global Compact Principles
SPECIFIC DISCLOSURES - GRI 200: Economic			
GRI 205: Anti-corruption 2016			
GRI 103: Management approach	103-1/2/3 Management approach	40-41, 54-55	
	205-3 Confirmed incidents of corruption and actions taken	40	
SPECIFIC DISCLOSURES - 300: Environmental			
GRI 302: Energy 2016			
GRI 103: Management approach	103-1/2/3 Management approach	40-45	7, 8
	302-1 Energy consumption within the organization	56	
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GRI 303: Water and effluents 2018			
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	303-5 Water consumption	56	
GRI 305: Emissions 2016			
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	305-1 Direct (Scope 1) GHG emissions	56	
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	305-3 Other indirect (Scope 3) GHG emissions	56	
	305-4 GHG emissions intensity	56	
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GRI Standard	Disclosure	Page	UN Global Compact Principles
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	403-9 Work-related injuries	57	
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GRI 404: Training and education 2016			
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	404-1 Average hours of training per year per employee	57	
	404-3 Percentage of employees receiving regular performance and career development reviews	57	
GRI 405: Diversity and equal opportunity 2016			
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GRI 406: Incidents and discrimination and corrective actions taken 2016			
GRI 103: Management approach	103-1/2/3 Management approach	48–49, 54	6
	406-1 Incidents of discrimination and corrective actions taken	48	
GRI 414: Supplier Social Assessment 2016			
GRI 103: Management approach	103-1/2/3 Management approach	40–41, 55	1, 2
	414-2 Negative social impact in the supply chain and actions taken	40	
GRI 416: Customer Health and Safety 2016			
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	416-2 Incidents of non-compliance concerning the health and safety impacts of products and services	40	
GRI 418: Customer Privacy 2016			
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	418-1 Substantiated complaints concerning breaches of customer privacy and losses of customer data	40	

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 2019 on pages 35–60 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, 4 March 2020
PricewaterhouseCoopers AB

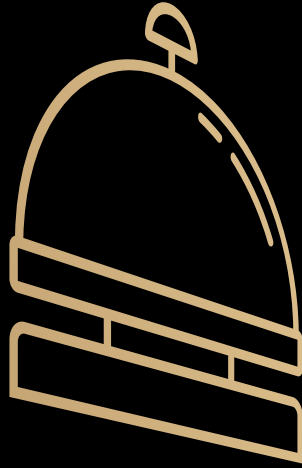
Patrik Adolfson
Authorised
Public Accountant
Auditor-in charge

Helena Ehrenborg
Authorised
Public Accountant

156
hotels

35,001
rooms

15
countries



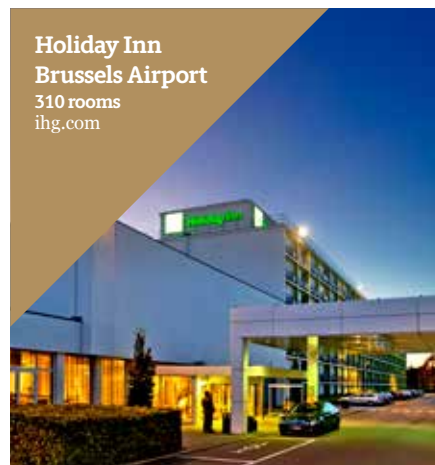
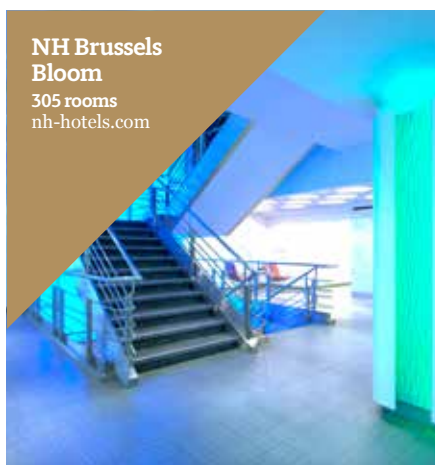
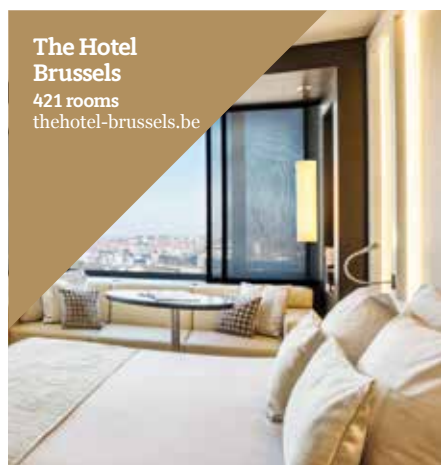
Hotelism by Pandox

Specialisation
with sole
focus on hotel
properties

Geographical overview

Belgium

Share of Pandox total 6% 9 hotels 7% 2,474 rooms 7% of market value



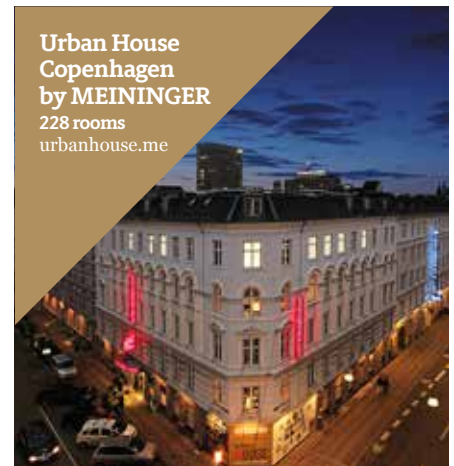
Denmark

Share of Pandox total

5%
8 hotels

5%
1,845 rooms

6% of market value



Finland

Share of
Pandox total

9%
14 hotels

9%
3,077 rooms

6% of
market value



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

Nether-lands

Share of Pandex total

1%
2 hotels

1%
405 rooms

3% of market value



Park Central Amsterdam
189 rooms
parkcentraal.com



Norway

Share of Pandex total

9%
14 hotels

7%
2,535 rooms

5% of market value



Scandic Lillehammer
303 rooms
scandichotels.com



Scandic Hafjell
210 rooms
scandichotels.com



Scandic Valdres
139 rooms
scandichotels.com

►► Norway, cont.



Sweden

Share of
Pandox total

27%
42 hotels

25%
8,771 rooms

24% 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

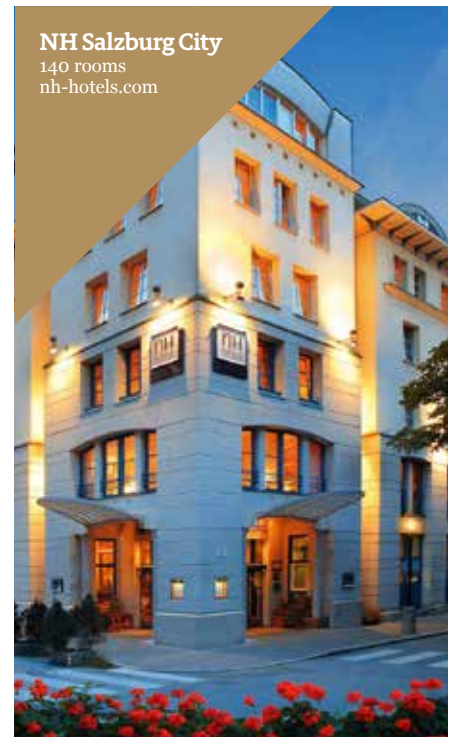


**Scandic Kalmar
Väst**
150 rooms
scandichotels.com

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



Austria Share of Pandox total 1% 2% 639 rooms 2% of market value



Germany¹⁾

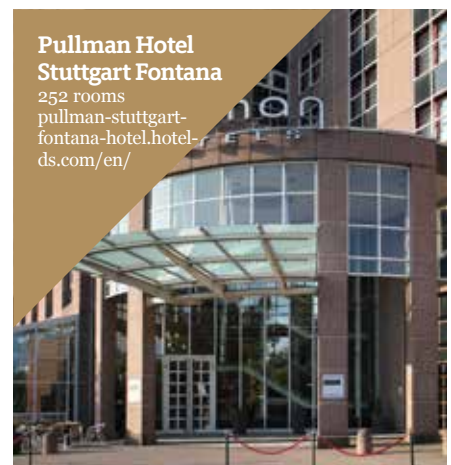
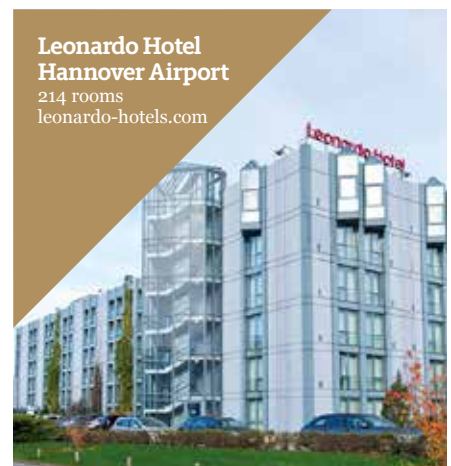
Share of
Pandox total

24%
38 hotels

24%
8,366 rooms

24% of
market value

¹⁾ Including Maritim Hotel Nürnberg.



►► Germany, cont.



United Kingdom Share of Pandox total 13% 21 hotels 15% 5,286 rooms 17% of market value



The Midland, Manchester
312 rooms
themidlandhotel.co.uk/



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

►► United Kingdom, cont.



Radisson Blu Glasgow
247 rooms
radissonhotels.com

Ireland

Share of Pandox total	2%	1%	2% of market value
	3 hotels	445 rooms	



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

Property portfolio

At year-end 2019, Pandox's property portfolio consisted of 155 (144) hotel properties with 34,685 (32,268) hotel rooms in 15 (15) countries. The Nordic region made up around 41 (46) percent of the market value of the property portfolio. A total of 137 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 18 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 2019

Property Management	Number		Market value (MSEK)		
	Hotels	Rooms	Per country	As % of total	Per room
Sweden (SE)	42	8,771	14,940	24	1.7
Germany (GE)	32	6,560	12,104	19	1.8
United Kingdom (UK)	19	4,675	9,666	15	2.1
Finland (FI)	13	2,921	4,034	6	1.4
Norway (NO)	14	2,535	3,455	5	1.4
Denmark (DK)	8	1,845	3,591	6	1.9
Austria (AT)	2	639	1,491	2	2.3
Belgium (BE)	2	519	920	1	1.8
Ireland (IE)	3	445	1,461	2	3.3
Switzerland (CH)	1	206	799	1	3.9
Netherlands (NL)	1	189	1,236	2	6.5
Total Property Management	137	29,305	53,697	85	1.8
Operator Activities					
Belgium (BE)	7	1,955	3,705	6	1.9
Germany (GE)	5	1,490	3,336	5	2.2
Canada (CA)	2	952	1,404	2	1.5
Netherlands	1	216	377	1	1.7
United Kingdom (UK)	2	611	927	1	1.5
Finland (FI)	1	156	23	0	0.1
Total Operator Activities	18	5,380	9,772	15	1.8
Total ¹⁾	155	34,685	63,469	100	1.8

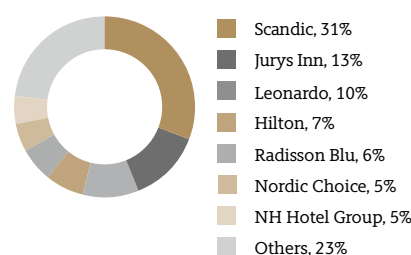
¹⁾ Including Maritim Hotel Nürnberg, the property portfolio comprises 156 hotels with a total of 35,001 hotel rooms.

PORTFOLIO OVERVIEW BY BRAND, 31 DECEMBER 2019

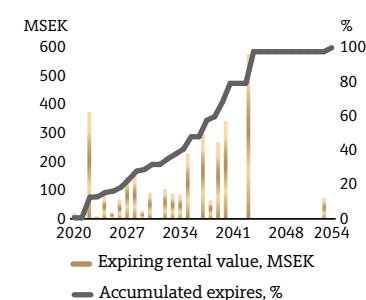
Brand	Number			Countries
	Hotels	Rooms	As % of total	
Scandic	50	10,890	31	SE, NO, FI, DK
Jurys Inn	20	4,410	13	UK, IE
Leonardo	18	3,547	10	GE
Hilton	7	2,298	7	SE, FI, UK, BE, CA
Radisson Blu	8	2,033	6	CH, GE, UK, NO, SE
Nordic Choice Hotels	11	1,800	5	SE, NO
NH	7	1,681	5	AT, BE, GE
Dorint	5	1,085	3	GE
Crowne Plaza	2	616	2	BE
Mercure	4	760	2	GE
Elite Hotels	2	493	1	SE
Novotel	2	421	1	GE, NL
Holiday Inn	2	469	1	BE, GE
First Hotels	2	403	1	DK
InterContinental	1	357	1	CA
Indigo	1	284	1	BE
Pullman	1	252	1	GE
Meininger	1	228	1	DK
Best Western	1	103	0	SE
Independent brands	10	2,555	7	SE, FI, BE, GE, NL, UK
Total ¹⁾	155	34,685	100	15 ¹⁾

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

Rooms by operator/brand, 31 December 2019



Lease maturity profile, 31 December 2019



Change in property value

At year-end 2019 Pandox's property portfolio had a total market value of MSEK 63,469 (55,197), of which MSEK 53,697 (47,139) was for investment properties and MSEK 9,772 (8,058) for operating properties. During the year the acquisition of ten investment properties in Germany was completed, along with the acquisition of two operating properties each in the Netherlands and Germany. One investment property was divested in Sweden. The acquisition of Maritim Hotel Nürnberg was completed in January 2020. 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 6,861 (5,810).

At year-end 2019 the average valuation yield amounted to 5.41 (5.51) percent for investment properties and 6.41 (6.74) percent for operating properties.

CHANGE IN VALUE – INVESTMENT PROPERTIES

	MSEK
Investment properties, opening balance (1 January 2019)	47,139
+ Acquisitions ¹⁾	4,020
+ Investments in existing portfolio	412
- Divestments ²⁾	-480
+/- Reclassifications	—
+ Remeasurement for the year of property, plant and equipment in comprehensive income	—
+/- Change in value, unrealised	1,389
+/- Change in value, realised ²⁾	96
+/- Change in exchange rates	1,121
Investment properties, closing balance (31 December 2019)	53,697

CHANGE IN VALUE – OPERATING PROPERTIES (REPORTED FOR INFORMATION PURPOSES ONLY)

	MSEK
Operating properties, opening balance (1 January 2019)	8,058
+ Acquisitions ³⁾	881
+ Investments in existing portfolio	257
- Divestments	—
+/- Reclassifications	—
+/- Change in value, unrealised	313
+/- Change in value, realised	—
+/- Change in exchange rates	263
Operating properties, closing balance (31 December 2019)	9,772

¹⁾ Refers to acquisition of 10 hotel properties in Germany (MSEK 4,088), adjustment to earlier acquisition of The Midland Manchester (MSEK 10) and the Jurys Inn portfolio (SEK -78)

²⁾ Refers to divestment of Hotel Hasselbacken

³⁾ Refers to acquisition of Novotel Hannover (MSEK 530) and Novotel Haag Forum (MSEK 376) plus adjustment for Radisson Blu Glasgow (MSEK 4), Hilton Grand Place (MSEK 7) and Hilton Garden Inn (MSEK -36)

STABLE TRANSACTION MARKET IN 2019

The volume of the global hotel transaction market decreased somewhat in 2019, amounting to USD 66 billion. This is around 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 4 percent to USD 25 billion in 2019.

Trends on the transaction market:

- More value-for-money lifestyle brands
- More first-time buyers of hotels
- More properties based on hospitality

QUIETER INVESTMENT CLIMATE IS EXPECTED IN 2020

The transaction market in Europe is expected to decrease by around 17 percent in 2020 as a result of tax challenges and slower economic growth, particularly in Germany, Italy and Ireland. The percentage of single-asset acquisitions is expected to increase and the percentage of large portfolio acquisitions is expected to decrease. The UK is expected to be a particularly attractive market in 2020.

Source: JLL Hotel Investment Outlook 2020.

Pandox's own brands, 31 December 2019

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, Light Stay, 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	Stockholm	Airport	Green Key	OG
Radisson Blu 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 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 S:t Jörgen, Malmö	Malmö	City centre	Nordic Swan	OG
Scandic Segevång, Malmö	Malmö	Ring road	Nordic Swan	OG
Scandic Skärholmen	Stockholm	City centre	Nordic Swan	O
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	Nordic Swan	O
Radisson Blu Bodø	Bodø	City centre	Green Key	OG
Scandic Kokstad, Bergen	Bergen	Airport	Nordic Swan	O
Scandic Bodø	Bodø	City centre	Nordic Swan	O
Scandic Hajfell	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 Sörlandet, Kristiansand	Kristiansand	Resort	Nordic Swan	O
Scandic Valdres, Fagernes	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	Sq m	Number of rooms	Brand	Demand ¹⁾
Private/Best Western	4,900	103	Best Western	R
Nordic Choice Hotels/Clarion Hotel	8,555	158	Nordic Choice Hotels	D
Nordic Choice Hotels/Clarion Hotel	8,766	197	Nordic Choice Hotels	D
Elite/Elite Hotels	21,998	326	Elite Hotels	R
Elite/Elite Hotels	11,378	167	Elite Hotels	D
Hilton/Hilton	18,416	289	Hilton	R
Private/Independent	9,161	140	Independent	D
Nordic Choice Hotels/Quality Hotel	14,671	208	Nordic Choice Hotels	D
Nordic Choice Hotels/Quality Hotel	9,593	158	Nordic Choice Hotels	D
Nordic Choice Hotels/Quality Hotel	12,166	220	Nordic Choice Hotels	D
Nordic Choice Hotels/Quality Hotel	10,292	157	Nordic Choice Hotels	D
Nordic Choice Hotels/Quality Hotel	5,800	121	Nordic Choice Hotels	R
Radisson Hospitality/Radisson Blu	15,260	342	Radisson Blu	R
Radisson Hospitality/Radisson Blu	18,969	229	Radisson Blu	D
Scandic/Scandic	12,075	324	Scandic	R
Scandic/Scandic	9,397	236	Scandic	R
Scandic/Scandic	24,380	338	Scandic	R
Scandic/Scandic	11,230	287	Scandic	D
Scandic/Scandic	12,900	224	Scandic	D
Scandic/Scandic	7,617	170	Scandic	D
Scandic/Scandic	9,399	240	Scandic	D
Scandic/Scandic	11,300	215	Scandic	R
Scandic/Scandic	5,485	150	Scandic	D
Scandic/Scandic	5,517	149	Scandic	R
Scandic/Scandic	7,441	113	Scandic	D
Scandic/Scandic	11,581	257	Scandic	R
Scandic/Scandic	6,105	150	Scandic	D
Scandic/Scandic	5,565	160	Scandic	D
Scandic/Scandic	15,130	332	Scandic	R
Scandic/Scandic	11,000	208	Scandic	R
Scandic/Scandic	6,768	151	Scandic	D
Scandic/Scandic	12,290	203	Scandic	R
Scandic/Scandic	10,592	204	Scandic	D
Scandic/Scandic	24,401	288	Scandic	D
Scandic/Scandic	6,284	168	Scandic	D
Scandic/Scandic	7,400	208	Scandic	R
Scandic/Scandic	18,573	270	Scandic	R
Scandic/Scandic	4,948	160	Scandic	D
Scandic/Scandic	5,630	131	Scandic	D
Scandic/Scandic	10,580	199	Scandic	D
Scandic/Scandic	7,621	208	Scandic	D
Private/Independent	10,300	213	Independent	D
Nordic Choice Hotels/Clarion Collection Hotel	3,540	75	Nordic Choice Hotels	D
Nordic Choice Hotels/Clarion Collection Hotel	4,688	99	Nordic Choice Hotels	R
Nordic Choice Hotels/Comfort Hotel	9,736	248	Nordic Choice Hotels	R
Nordic Choice Hotels/Comfort Hotel	5,920	159	Nordic Choice Hotels	D
Scandic/Scandic	18,356	165	Scandic	D
Radisson Hospitality/Radisson Blu	15,546	191	Radisson Blu	D
Scandic/Scandic	9,654	199	Scandic	D
Scandic/Scandic	8,750	135	Scandic	D
Scandic/Scandic	9,540	210	Scandic	D
Scandic/Scandic	18,000	303	Scandic	D
Scandic/Scandic	9,250	176	Scandic	D
Scandic/Scandic	12,962	226	Scandic	R
Scandic/Scandic	9,940	210	Scandic	D
Scandic/Scandic	10,310	139	Scandic	D

¹⁾ D = Domestic, R = Regional, I = International

Wall of fame

Selected awards



RADISSON BLU HOTEL, DORTMUND
Hotel of the Year 2019



PARK CENTRAAL AMSTERDAM
Nominated for Best Hotel Design 2019



HILTON LONDON
HEATHROW AIRPORT T4
World's Leading Airport Hotel 2019
(third year in a row)

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

Hotel	City	Location	Environmental certification/ environmental management system	Type of agreement ¹⁾
Denmark				
First Mayfair, Copenhagen	Copenhagen	City centre	Green Key	OG
First Twentyseven, Copenhagen	Copenhagen	City centre	Green Key	OG
Urban House by Meininger Copenhagen	Copenhagen	City centre		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
Scandic Sluseholmen	Copenhagen	Ring road	Nordic Swan	O
Finland				
Airport Hotel Bonus Inn, Vantaa	Vantaa	Airport	EcoCompass	OG
Airport Hotel Pilotti, Vantaa	Vantaa	Airport	Certification in progress	O
Hilton Helsinki Kalastajatorppa	Helsinki	Ring road	ISO 14001, Light Stay	OG
Hilton Helsinki Strand	Helsinki	City centre	ISO 14001, Light Stay	OG
Scandic Imatran Valtionhotelli	Imatra	City centre	Certification in progress	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	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	Tampere	Resort	Nordic Swan	O
Scandic Tampere City	Tampere	City centre	Nordic Swan	OG
Germany				
Dorint am Main Taunus Zentrum Frankfurt	Frankfurt	Ring road		F
Dorint Augsburg	Augsburg	City centre		OG
Dorint Dortmund	Dortmund	Congress centre		OG
Dorint Erfurt	Erfurt	City centre		OG
Dorint Parkhotel Bad Neuenahr	Bad Neuenahr	Resort		F
Mercure Hotel Frankfurt Airport	Frankfurt	Airport		F
Mercure Hotel Frankfurt Eschborn Ost	Frankfurt	City centre		F
Mercure Hotel München Neuperlach	Munich	City centre		F
Pullman Hotel Stuttgart Fontana	Stuttgart	City centre		F
Mercure Hotel Schweinfurt Maininsel	Schweinfurt	City centre		F
Leonardo Aachen	Aachen	City centre		OG
Leonardo Düsseldorf Airport – Ratingen	Düsseldorf	Airport		OG
Leonardo Düsseldorf City Center	Düsseldorf	City centre		OG
Leonardo Frankfurt City South	Frankfurt	Airport		OG
Leonardo Hamburg City Nord	Hamburg	City centre		OG
Leonardo Hannover	Hannover	City centre		OG
Leonardo Hannover Airport	Hannover	Airport		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
Maritim Hotel Nürnberg ²⁾	Nuremberg	City centre	rightandfair, ISO 14040	F
NH Collection Hamburg	Hamburg	City centre	Eco Friendly	F
NH Frankfurt Airport	Frankfurt	Airport	Eco Friendly	OG
NH Munich Airport	Munich	Airport	ISO 14001	OG
Radisson Blu 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

²⁾ Acquisition completed 31 January 2020

Operator/brand	Sqm	Number of rooms	Brand	Demand ¹⁾
First/First Hotels	7,465	203	First Hotels	R
First/First Hotels	7,963	200	First Hotels	R
Meininger/Meininger	8,158	228	Meininger	R
Scandic/Scandic	31,500	486	Scandic	R
Scandic/Scandic	5,767	120	Scandic	R
Scandic/Scandic	9,005	207	Scandic	R
Scandic/Scandic	10,472	186	Scandic	D
Scandic/Scandic	14,177	215	Scandic	R
Private/Independent	9,717	214	Independent	R
Private/Independent	3,570	109	Independent	R
Scandic/Hilton	26,171	238	Hilton	R
Scandic/Hilton	18,450	190	Hilton	R
Scandic/Scandic	12,234	137	Scandic	D
Scandic/Scandic	6,407	96	Scandic	D
Scandic/Scandic	29,607	470	Scandic	R
Scandic/Scandic	8,952	150	Scandic	D
Scandic/Scandic	13,405	181	Scandic	D
Scandic/Scandic	9,538	137	Scandic	D
Scandic/Scandic	32,271	523	Scandic	R
Scandic/Scandic	18,348	213	Scandic	D
Scandic/Scandic	19,012	263	Scandic	D
HR Group/Dorint	13,518	282	Dorint	R
HR Group/Dorint	9,300	184	Dorint	D
HR Group/Dorint	14,000	221	Dorint	D
HR Group/Dorint	15,050	160	Dorint	D
HR Group/Dorint	22,496	238	Dorint	D
HR Group/Mercure	5,325	150	Mercure	R
HR Group/Mercure	10,000	224	Mercure	R
HR Group/Mercure	9,557	253	Mercure	R
HR Group/Pullman	10,306	252	Pullman	R
HR Group/Mercure	9,929	133	Mercure	D
Fattal/Leonardo	5,320	99	Leonardo	D
Fattal/Leonardo	9,900	199	Leonardo	R
Fattal/Leonardo	10,544	134	Leonardo	R
Fattal/Leonardo	15,800	295	Leonardo	R
Fattal/Leonardo	9,237	182	Leonardo	R
Fattal/Leonardo	10,350	178	Leonardo	D
Fattal/Leonardo	11,777	214	Leonardo	D
Fattal/Leonardo	9,484	169	Leonardo	D
Fattal/Leonardo	7,966	161	Leonardo	D
Fattal/Leonardo	8,857	147	Leonardo	D
Fattal/Leonardo	7,900	177	Leonardo	R
Fattal/Leonardo	10,300	148	Leonardo	D
Fattal/Leonardo	6,018	128	Leonardo	D
Fattal/Leonardo	8,300	121	Leonardo	D
Fattal/Leonardo	20,771	253	Leonardo	R
Fattal/Leonardo	24,000	449	Leonardo	R
Fattal/Leonardo	9,500	150	Leonardo	R
Fattal/Leonardo	19,275	343	Leonardo	D
Maritim/Maritim	14,795	316	Maritim	D
NH/NH Collection	11,611	129	NH	R
NH/NH	14,564	158	NH	R
NH/NH	7,148	236	NH	R
Radisson Hospitality/Radisson Blu	29,746	393	Radisson Blu	R

¹⁾ D = Domestic, R = Regional, I = International



Park Centraal, Amsterdam



Radisson Blu Hotel, Basel

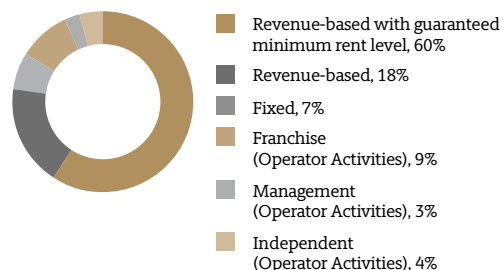
Hotel	City	Location	Environmental certification/ environmental management system	Type of agreement ¹⁾
United Kingdom				
England				
Hilton London Heathrow Airport	London	Airport	ISO 14001, LightStay	O
Jurys Inn Birmingham	Birmingham	City centre	Green Tourism Gold	OG
Jurys Inn Bradford	Bradford	City centre	Green Tourism Gold	OG
Jurys Inn Brighton Waterfront	Brighton	City centre	Green Tourism Silver	OG
Jurys Inn Cheltenham	Cheltenham	City centre	Certification in progress	OG
Jurys Inn East Midlands Airport	East Midlands	Airport	Green Tourism Bronze	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	London	City centre	Green Tourism Gold	OG
Jurys Inn Manchester	Manchester	City centre	Green Tourism Gold	OG
Jurys Inn Middlesbrough	Middlesbrough	City centre	Green Tourism Silver	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
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
Northern Ireland				
Jurys Inn Belfast	Belfast	City centre	Green Tourism Gold	OG
Scotland				
Jurys Inn Glasgow	Glasgow	City centre	Green Tourism Gold	OG
Jurys Inn Inverness	Inverness	City centre	Green Tourism Silver	OG
Wales				
Jurys Inn Cardiff	Cardiff	City centre	Certification in progress	OG
Other				
Belgium				
NH Brussels BLOOM!	Brussels	City centre	Green Key	OG
NH Brussels EU Berlaymont	Brussels	City centre	Green Key	OG
Netherlands				
Park Centraal Amsterdam	Amsterdam	City centre	Green Globe	OG
Switzerland				
Radisson Blu Basel	Basel	City centre	Green Key	OG
Austria				
NH Salzburg	Salzburg	City centre	Eco Friendly	OG
NH Vienna Airport	Vienna	Airport	ISO 14001	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

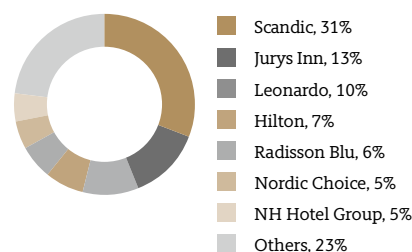
Operator/brand	Sq m	Number of rooms	Brand	Demand ¹⁾
Hilton/Hilton	25,090	398	Hilton	I
Fattal/Jurys Inn	27,455	445	Jurys Inn	R
Fattal/Jurys Inn	6,092	198	Jurys Inn	D
Fattal/Jurys Inn	11,866	210	Jurys Inn	R
Fattal/Jurys Inn	6,416	122	Jurys Inn	D
Fattal/Jurys Inn	7,869	164	Jurys Inn	D
Fattal/Jurys Inn	28,290	362	Jurys Inn	D
Fattal/Jurys Inn	13,615	248	Jurys Inn	D
Fattal/Jurys Inn	12,749	240	Jurys Inn	I
Fattal/Jurys Inn	10,160	265	Jurys Inn	R
Fattal/Jurys Inn	8,625	132	Jurys Inn	D
Fattal/Jurys Inn	16,755	240	Jurys Inn	R
Fattal/Jurys Inn	11,600	259	Jurys Inn	D
Fattal/Jurys Inn	9,589	229	Jurys Inn	D
Fattal/Independent	34,500	312	Independent	R
Fattal/Jurys Inn	4,708	133	Jurys Inn	D
Fattal/Jurys Inn	6,475	182	Jurys Inn	I
Fattal/Jurys Inn	5,107	130	Jurys Inn	R
Fattal/Jurys Inn	13,023	270	Jurys Inn	D
Fattal/Jurys Inn	14,465	321	Jurys Inn	R
Fattal/Jurys Inn	4,993	118	Jurys Inn	D
Fattal/Jurys Inn	10,400	142	Jurys Inn	D
NH/NH	26,963	305	NH	I
NH/NH	10,827	214	NH	I
Grand City Hotels/Independent	10,811	189	Independent	I
Radisson Hospitality/Radisson Blu	19,493	206	Radisson Blu	R
NH/NH	7,301	140	NH	R
NH/NH	22,208	499	NH	I

FACTS PANDOX TOTAL PORTFOLIO²⁾

Rooms by agreement type, 31 December 2019



Rooms by brand, 31 December 2019



²⁾ Including Maritim Hotel Nürnberg.

¹⁾ D = Domestic, R = Regional, I = International

Operator Activities

Hotel	City	Location	Environmental certification/ environmental management system	Type of agreement ¹⁾
Belgium				
Crowne Plaza Antwerp	Antwerp	Ring road	IHG Green Engage	FR
Crowne Plaza Brussels – Le Palace	Brussels	City centre	IHG Green Engage, Green Key	FR
Hilton Grand Place Brussels	Brussels	City centre	ISO 14001, LightStay, Green Key	FR
Holiday Inn Brussels Airport	Brussels	Airport	ISO 14001, LightStay, Green Key	FR
Hotel Hubert Brussels	Brussels	City centre	Certification in progress	IO
Hotel Indigo Brussels City	Brussels	City centre	Certification in progress	FR
The Hotel Brussels	Brussels	City centre	Green Key	IO
Finland				
Hotel Korpilampi, Espoo	Espoo	Resort	Green Key	IO
Canada				
DoubleTree by Hilton Montreal	Montreal	City centre	Green Key	FR
InterContinental Montreal	Montreal	City centre	Green Key	M
Netherlands				
Novotel Haag	The Hague	Congress centre	Planet 21	M
United Kingdom				
<i>England</i>				
Hilton Garden Inn Heathrow	London	Airport	ISO 14001, LightStay	FR
Radisson Blu Glasgow	Glasgow	City centre	Green Tourism Silver	M
<i>Scotland</i>				
Radisson Blu 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
Novotel Hannover	Hannover	City centre	Planet 21	M
Radisson Blu Bremen	Bremen	City centre	Green Key	FR
Radisson Blu Dortmund	Dortmund	Congress centre	Green Key	FR

External management agreements

Hotel	City	Location	Type of agreement ¹⁾
Bahamas			
Pelican Bay, Grand Bahama Island*	Lucaya	Resort	AM

* 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.

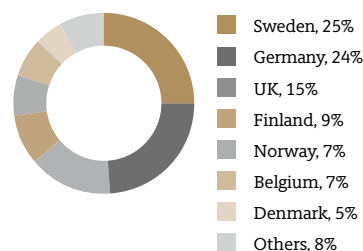
¹⁾ O = Revenue-based, OG = Revenue-based with guaranteed minimum rent level, OR = Revenue-based and profit-based, R = Profit-based, F = Fixed, IO = International profit-based, M = Management agreement, FR = Franchise agreement, AM = Asset management agreement

Operator/brand	Sq m	Number of rooms	Brand	Demand ¹⁾
Pandox/Crowne Plaza	18,340	262	Crowne Plaza	D
Pandox/Crowne Plaza	28,095	354	Crowne Plaza	I
Pandox/Hilton	22,186	224	Hilton	I
Pandox/Holiday Inn	21,072	310	Holiday Inn	I
Pandox/Independent	4,650	100	Independent	I
Pandox/Indigo	13,850	284	Indigo	I
Pandox/Independent	35,612	421	Independent	I
Pandox/Independent	12,918	156	Independent	D
Pandox/Hilton	44,148	595	Hilton	I
IHG/InterContinental	24,200	357	InterContinental	I
Grape/Novotel	10,500	216	Novotel	R
Pandox/Hilton	14,733	364	Hilton	I
Radisson Hospitality/Radisson Blu	21,258	247	Radisson Blu	R
Radisson Hospitality/Radisson Blu	20,261	247	Radisson Blu	
Pandox/Holiday Inn	7,022	159	Holiday Inn	D
Pandox/Independent	42,610	701	Independent	I
Grape/Novotel	13,048	205	Novotel	D
Pandox/Radisson Blu	26,900	235	Radisson Blu	D
Pandox/Radisson Blu	9,100	190	Radisson Blu	D

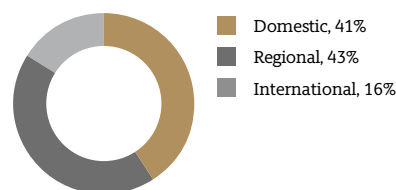
Operator/brand	Sq m	Number of rooms	Brand	Demand ¹⁾
Sundt AS/Independent	NM	186	Independent	

FACTS PANDOX TOTAL PORTFOLIO²⁾

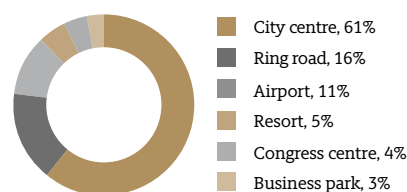
Rooms by country, 31 December 2019



Rooms by demand type, 31 December 2019



Rooms by location, 31 December 2019

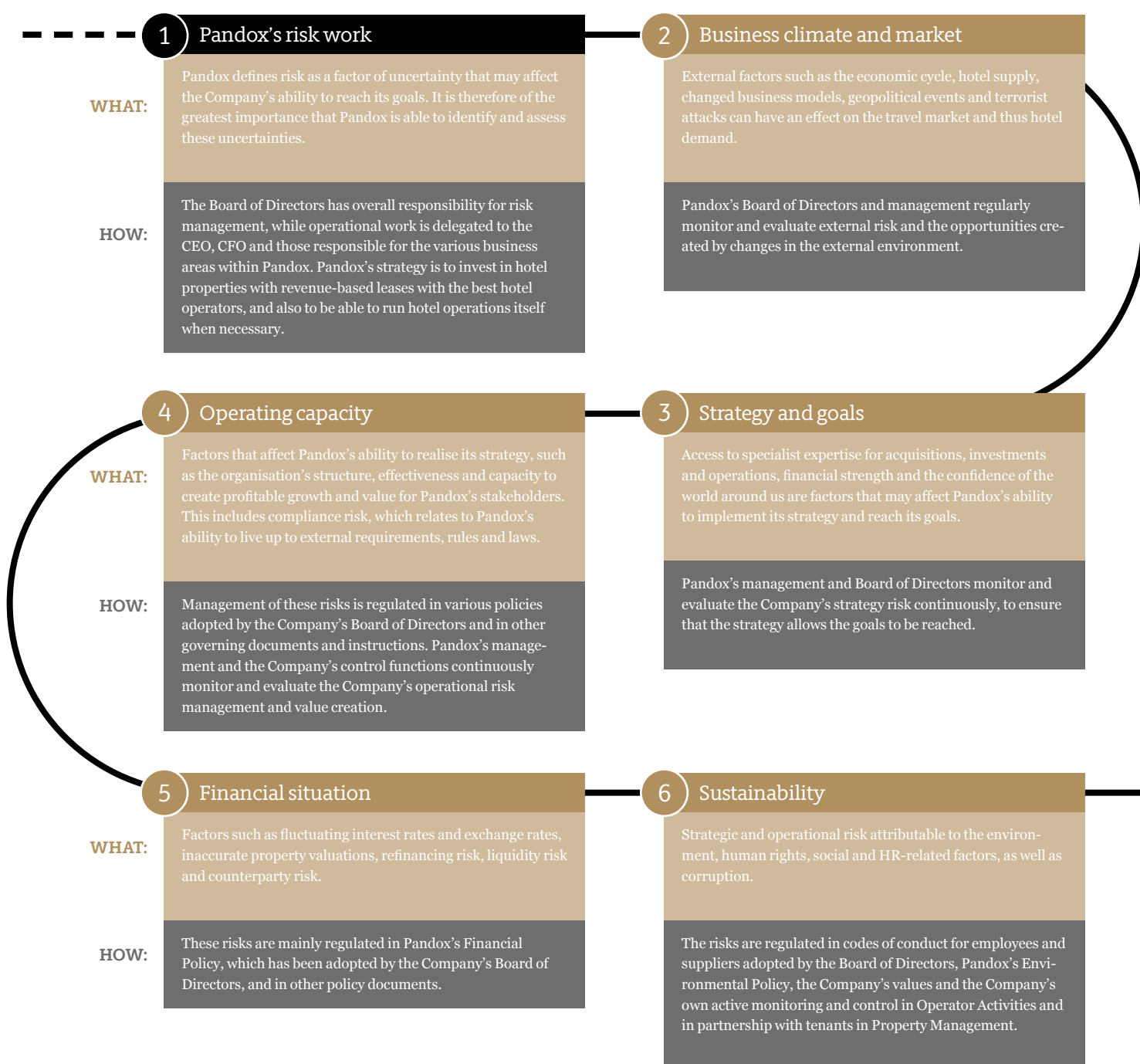


²⁾ Including Maritim Hotel Nürnberg.

¹⁾ D = Domestic, R = Regional, I = International

Thorough risk management creates opportunities

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. Good risk management creates security and opens up new business opportunities.



1

PANDOX'S RISK WORK

Pandox's business activities are associated with certain risks. Pandox works in a structured and proactive way to map, analyse and manage risk. 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 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.

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.

FINANCIAL EFFECTS OF CHANGES IN CERTAIN KEY PARAMETERS, AS OF 31 DECEMBER 2019:

Investment properties, effect on fair value		Change	Effect on value, MSEK
Valuation yield	2 5	+/-0.5 pp	-4,544/+5,470
Change in exchange rates	2 5	+/-1%	+/-388
Net operating income	2 4 5 6	+/-1%	+/-535
Investment properties, effect on revenues		Change	Revenue effect, MSEK
RevPAR (assuming a 50/50 split between occupancy and rate)	2 4 5	+/-1%	+/-26
Operating properties, effect on revenues		Change	Revenue effect, MSEK
RevPAR (assuming a 50/50 split between occupancy and rate)	2 4 5	+/-1%	+/-22
Financial sensitivity analysis, effect on earnings		Change	Profit before changes in value, MSEK
Interest expense with current fixed interest, change in interest rates	2 5	+/-1%	-/+83
Interest expense with a change in the average interest rate	2 5	+/-1%	-/+298
Remeasurement of interest rate derivatives following shift in yield curves	2 5	+/-1%	-/+1,092

FINANCIAL SENSITIVITY ANALYSIS

The sensitivity analysis to the left describes the financial effects of changes in certain key parameters linked to risk. The figures indicate which risk area is most relevant to each parameter. 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.

PANDOX'S BIGGEST RISKS

Pandox's 10 biggest individual risks before (gross) and after (net) mitigating factors are listed below. Pandox's biggest net risks are principally external risks which the Company mainly manages through its strategy and business model.

Pandox's 10 biggest risks, gross	Type of risk	Change compared to 2018	Pandox's 10 biggest risks, net	Type of risk	Change compared to 2018
Fluctuations in interest rates	Financial	Unchanged	Economic downturn	External	Unchanged
Refinancing risk	Financial	Up	Overexpansion of hotel rooms	External	Up
Economic downturn	External	Up	Disruptive business models	External	Down
Growth through acquisitions	Strategic	Down	Geopolitical events	External	Down
Dependence on key individuals	Operational	Down	Growth through acquisitions	Strategic	Up
Overexpansion of hotel rooms	External	Up	Fluctuations in interest rates	Financial	Up
Geopolitical events	External	Up	Dependence on key individuals	Operational	Down
Disruptive business models	External	Unchanged	Data security	Operational	Up
Certification and authorisation	Financial	Down	Certification and authorisation	Financial	Unchanged
Access to the right competencies	Operational	Down	Refinancing risk	Financial	Up






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.	<ul style="list-style-type: none"> 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, brand, type of agreement, form of operation 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.	<ul style="list-style-type: none"> 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 way of working to take into account new digital possibilities is a decisive factor in the Company's long-term competitiveness.	<ul style="list-style-type: none"> Digital expertise on the Board of Directors 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.	<ul style="list-style-type: none"> 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.	<ul style="list-style-type: none"> 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.	<ul style="list-style-type: none"> 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, during and after an acquisition or business takeover.	<ul style="list-style-type: none"> 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.	<ul style="list-style-type: none"> 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.	<ul style="list-style-type: none"> • 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.	<ul style="list-style-type: none"> • 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.	<ul style="list-style-type: none"> • Foreign operations generally report both income and expenses in 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 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.	<ul style="list-style-type: none"> • 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 statements	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.	<ul style="list-style-type: none"> • 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.	<ul style="list-style-type: none"> • 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.	<ul style="list-style-type: none"> The portfolio consists of a large number of sizeable hotel properties with a good spread as regards geography, location, brand, operating model and type of demand (international, domestic and regional) 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 not able to keep up with the competition, this could have a negative impact on revenues and earnings.	<ul style="list-style-type: none"> Pandox works with more than 30 different hotel operators and hotel brands. This gives the Company 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 with external hotel operators containing a minimum guaranteed rent clause 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.	<ul style="list-style-type: none"> 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.	<ul style="list-style-type: none"> 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.	<ul style="list-style-type: none"> 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 investment in environmental improvements Within the Operator Activities segment Pandox is working on various projects and certifications aimed at environmental improvements, 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.	<ul style="list-style-type: none"> Code of Conduct for employees and business partners In-depth web-based training about human rights in Q1 2020 Internal process for following up reported incidents Modern Slavery Act statement
Employees	The risk that Pandox is seen as an unattractive employer and finds it difficult to retain existing staff and to recruit new personnel.	<ul style="list-style-type: none"> Code of Conduct, clear basic values and respect for the individual; 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
Occupational health and safety	Shortcomings in policies, routines and ongoing procedures relating to the health and safety of employees, guests and suppliers.	<ul style="list-style-type: none"> Regular fire inspections and fire drills at all hotels, as well as at head office Contingency plans and security policies at all hotels 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.	<ul style="list-style-type: none"> Anti-corruption policy Code of Conduct for employees and business partners as part of new contracts of employment and supply contracts Workshops for management teams and key individuals Web-based internal training for relevant 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.	<ul style="list-style-type: none"> Clear guidelines on data security and customer privacy Mandatory, Group-wide web-based training

 One of Pandox's top 10 risks.

Hotelism by Pandox

**Active ownership
in partnership
with strong
hotel operators**



From the CFO

Welcome to the new normal

2019 was a very active year with acquisitions, divestments, a new share issue, refinancing and continual improvement focusing on internal processes. With the breadth and depth that Pandox now has in its business, this high level of activity is the new normal.

STRONG EARNINGS TREND

2019 was another strong year for Pandox, with good growth in earnings driven by profitable acquisitions, positive market growth and good development of the operations.

SUBSTANTIAL INITIATIVES IN ALL AREAS

During the year we worked on many fronts simultaneously. In 2019 Pandox made acquisitions equivalent to a total of around MSEK 5,500 in Germany and the Netherlands, and one divestment in Sweden of around MSEK 500. We identified and made decisions on growth-driving investments in the existing portfolio totalling around MSEK 1,500. We also completed a cash-based directed issue which raised around MSEK 3,000 before transition costs. In

addition, during 2019 Pandox refinanced and obtained new financing totalling the equivalent of around MSEK 15,000. At the same time, we worked to develop and improve Pandox's organisation, procedures and processes with a particular focus on digitalisation of critical elements of the business process, such as reporting and monitoring rents.

FRAMEWORK FOR SUSTAINABLE INVESTMENTS

In the area of sustainability we developed a framework for evaluating sustainability investments in the same way as other property investments. This means we can now objectively compare the return and business benefit of sustainability investments with those of other property investments,



improving Pandox's ability to allocate the capital to the right sustainability project. This is essential since sustainability investments will grow in the future, while capital is a scarce resource. During the year Pandox created its first green investment programme for MEUR 8 in Operator Activities. The investment programme is the result of cross-functional measures throughout the hotel value chain, which involved hotels operated by Pandox, heads of business areas, property managers, business intelligence and the Board of Directors.

THE FUTURE

Having 156 hotel properties, including Maritim Hotel Nürnberg, in nearly 90 cities in 15 countries demands a strong balance sheet and an efficient organisation. Maintaining good financial flexibility is an overall goal. Pandox's organisation is strong, with many talented, committed and solution-oriented employees. There are always things that can be improved, however – particularly internal processes, eliminating bottlenecks and digitalisation of various elements of the business, such as the budget process and financial reporting.

Stockholm, March 2020
Liia Nõu



Vildmarkshotellet, Kolmården

How to read the financial information

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.

FINANCIAL INFORMATION 2019 / FINANCIAL STATEMENTS FOR THE GROUP

Consolidated statement of comprehensive income

MSEK	Note	2019	2018
Revenue, Property Management			
Rental income	2, 3, 12	3,017	2,809
Other property revenue	2, 12	114	161
Revenue, Operator Activities	2	2,626	2,153
Net sales		5,553	5,124
Costs, Property Management	2, 5, 7 & 15	-365	-454
Costs, Operator Activities	2, 6, 7 & 15	-3,993	-3,725
Gross profit		1,195	894
- of which: gross profit, Property Management	2	2,764	2,517
- of which: gross profit, Operator Activities	2	431	377
Central administration	2, 2, 7 & 8	-275	-248
Financial income	2, 9	81	81
Financial expense	2, 9	-866	-804
Financial expense for right-of-use assets	9, 15	-281	-
Profit before changes in value		2,076	1,943
Changes in value			
Properties, unrealised	2, 12	1,389	1,428
Properties, realised	2, 12	70	67
Derivatives, unrealised	2, 18	-39	25
Profit before tax		3,494	3,463
Current tax	2, 11	-122	-216
Deferred tax	2, 11	-922	-624
Profit for the year		2,350	2,623
Other comprehensive income			
Items that may not be reclassified to profit or loss			
Reassessment for the year of property plant and equipment**		-	117
Tax attributable to items that may not be reclassified to profit or loss		-	-35
		-	82
Items that have been or may be reclassified to profit or loss			
Hedging of net investment in foreign operations		508	67
Translation differences, foreign operations		-974	316
		46	383
Other comprehensive income for the year		46	383
Comprehensive income for the year		2,396	3,006
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		2,396	3,006
Total comprehensive income for the year attributable to non-controlling interests		-	-
Per share data			
Weighted average number of shares	17		
Total earnings per share before and after dilution, SEK			
* Change in fair value due to reclassification of hotel properties from Operator Activities to Property Management.			

▶ See page 99 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.

FINANCIAL INFORMATION 2019 / FINANCIAL STATEMENTS FOR THE GROUP

Consolidated statement of financial position

MSEK	Note	31 Dec 2019	31 Dec 2018
ASSETS			
Non-current assets			
Operating properties	14	6,307	5,326
Equipment, interiors	15	654	486
Investment properties	12	53,697	471,319
Right-of-use assets	15	2,894	-
Deferred tax assets	11	383	465
Derivatives [†]	18, 19	117	12
Other non-current assets	16, 19	14	11
Total non-current assets		63,986	534,977
Current assets			
Investments		14	10
Current tax assets	11	156	29
Trade accounts receivable		16, 19	367
Prepaid expenses and accrued income	20	268	305
Other receivables		250	215
Cash and cash equivalents		632	676
Total current assets		1,407	1,593
Total assets		65,443	556,570
EQUITY AND LIABILITIES			
Equity	17		
Share capital		460	419
Other paid-in capital		7,525	4,556
Reserves		258	215
Retained earnings including net profit for the year		18,197	16,188
Total equity attributable to the owners of the parent		26,360	21,378
Non-controlling interests		1,166	160
Total equity		26,506	21,538
Liabilities			
Non-current liabilities			
Non-current interest-bearing liabilities ^{††}	18, 19	21,987	207,119
Other non-current liabilities		18	18
Non-current lease liabilities	15	2,864	-
Derivatives [†]	18, 19	694	650
Provisions	21	313	100
Deferred tax liabilities	11	4,562	4,930
Total non-current liabilities		31,756	214,817
Current liabilities			
Provisions	21	97	1
Current interest-bearing liabilities ^{†††}	18, 19	6,034	7,198
Current lease liabilities	15	30	-
Tax liabilities	11	109	109
Trade accounts payable	19	304	286
Other current liabilities		236	411
Accrued expenses and prepaid income	20	651	656
Total current liabilities		7,381	8,643
Total liabilities		39,137	33,078
Total equity and liabilities		65,443	556,570
[†] The fair value measurement is based on Level 2 in the fair value hierarchy in IFRS, i.e. it is based on inputs that are observable, either directly or indirectly.			
^{††} The carrying amount of interest-bearing liabilities and other financial instruments is reported at a reasonable approximation of their fair value.			
^{†††} Arrangement line of approximately MSEK and 177,000 have reduced interest-bearing liabilities.			

▶ See page 101 for more comments on Pandox's financial position.

Administration Report

The Board of Directors and Chief Executive Officer hereby submit the Annual Report and consolidated accounts for the 2019 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 3 April 2020.

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 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 2019 Pandox's hotel property portfolio contained 155 (144) hotels with a total of 34,685 (32,268) hotel rooms in 15 countries, with a market value of MSEK 63,469 (55,197). Of the 155 hotels,

137 (128) were leased on a long-term basis to well-known tenants with established brands, providing income stability and lower investment costs and risk for Pandox. The remaining 18 (16) hotel properties are owned and operated by Pandox under various brands. Within the Property Management business segment, ten hotels were acquired during the year and one hotel property, Hotell Hasselbacken, was divested. In the Operator Activities business segment, the acquisitions of one operating property in Germany and one operating property in the Netherlands were completed during the year. The weighted average unexpired lease term (WAULT) for investment properties was 15.6 (15.7) years.

The management agreements that Pandox has had with Eiendomsspar AS regarding nine hotels in the Oslo region that are owned by Eiendomsspar AS or subsidiaries of Eiendomsspar AS ended on 31 December 2019. The management agreement regarding Pelican Bay Lucaya Resort in the Bahamas, owned by affiliates of Helene Sundt AS and CGS Holding AS, is still in place.

In 2019 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 2,706 (2,820). The decrease is mainly explained by the fact that unrealised changes in the value of properties and derivatives were lower in 2019 than in 2018. The Group's net sales totalled MSEK 5,553 (5,124), an increase of 8 percent. For comparable units the, sales increased by 3 percent, adjusted for currency effects.

Property Management

Revenue from Property Management amounted to MSEK 3,129 (2,971), an increase of 13 percent, supported by a positive hotel market, acquisitions, good effects of completed renovations and positive currency effects. For comparable units revenue increased by 2 percent, adjusted for currency effects.

Net operating income from Property Management amounted to MSEK 2,764 (2,517), an increase of 10 percent. For comparable units net operating income increased by 2 percent, adjusted for currency effects.

Operator Activities

Revenue from Operator Activities amounted to MSEK 2,424 (2,153), an increase of 13 percent mainly driven by positive currency effects, acquisitions and good overall development in Brussels and Germany. For comparable units revenue and RevPAR increased by 3 and 5 percent respectively, adjusted for currency effects.

Net operating income from Operator Activities amounted to MSEK 625 (540), an increase of 16 percent. For comparable units net operating income increased by 2 percent, adjusted for currency effects. Net operating income was negatively affected by renovation disruptions at Hotel Indigo Brussels City (formerly Hilton Brussels City) and Hilton Garden Inn Heathrow Airport in the fourth quarter, as well as the repositioning of DoubleTree by Hilton Montreal throughout the year. There were also structural costs of around MSEK 10 to improve efficiency of the operating platform

Contribution of business segments to profit

MSEK	2019	2018	2017	2016	2015
Property Management					
Profit before changes in value	2,764	2,517	1,882	1,495	1,280
Unrealised changes in value	1,389	1,428	1,625	1,301	1,387
Realised changes in value	70	67	6	159	12
Property Management contribution	4,223	4,012	3,513	2,955	2,679
Operator Activities					
Profit before changes in value	431	377	324	292	279
Unrealised changes in value	—	—	—	—	—
Realised changes in value	—	—	283	—	—
Operator Activities contribution	431	377	607	292	279

in Brussels in the fourth quarter. Adjusted for all these costs, net operating income increased by around 9 percent.

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

EBITDA amounted to MSEK 3,215 (2,909), an increase of 10 percent, which is explained by an increase in underlying net operating income for both Property Management and Operator Activities.

Financial expense amounted to MSEK -866 (-804). The increase is explained by increased interest-bearing liabilities following acquisitions that increased debt in foreign currencies, and by a weaker Swedish krona.

Profit before changes in value amounted to MSEK 2,074 (1,943), an increase of 7 percent. Unrealised changes in value for Investment properties amounted to MSEK 1,389 (1,428). 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 amounted to MSEK 70 (67) in total and relate to the divestment of Scandic Hasselbacken in the third quarter as well as impairment losses on equipment in conjunction with the renovation of Hotel Indigo Brussels City. At the end of the period Pandox's property portfolio had a total market value of MSEK 63,469 (55,197), of which investment properties accounted for MSEK 53,697 (47,139) and operating properties for MSEK 9,772 (8,058). 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 75.**

As of 31 December 2019 the average valuation yield for Pandox's investment properties was 5.41 (5.51) percent and for operating properties 6.41 (6.74) percent.

Unrealised changes in value of derivatives amounted to MSEK -39 (25).

CURRENT AND DEFERRED TAX

Current tax amounted to MSEK -122 (-216).

Deferred tax expense amounted to MSEK -672 (-424). A large part of the increase is explained by the use of tax loss carryforwards from previous years in Sweden. In addition, several countries in which Pandox has operations have made changes to their corporate tax systems in recent years, which prompted a review of reported deferred tax in the respective jurisdictions. The total tax expense represents a tax rate of 22.7 (18.5) percent. **► See also Note 11.**

CASH FLOW AND CASH EARNINGS

Cash earnings amounted to MSEK 2,161 (1,893). Cash flow from operating activities before changes in working capital amounted to MSEK 2,119 (1,975). Taxes paid amounted to MSEK -208 (-178). The change in working capital affected cash flow in the amount of MSEK -185 (-265). Cash flow from investing activities affected cash flow in the amount of MSEK -5,188 (-2,190) and is mainly explained by the acquisitions of ten investment properties in Germany and two operating properties in Germany and the Netherlands. The divestment of Scandic Hasselbacken in Sweden is a positive item. Cash flow from financing activities amounted to MSEK 3,193 (158). Larger items include loans taken out in connection with acquisitions, a new share issue, repayment of loans as part of refinancing and dividends paid. Cash and cash equivalents at the end of the period amounted to MSEK 632 (674).

FINANCING

As of 31 December 2019, the loan-to-value ratio after deduction of cash and cash

equivalents was 46.0 (49.7) percent. Cash and cash equivalents, including long-term credit facilities, amounted to MSEK 4,215 (2,500), of which unutilised long-term credit facilities amounted to MSEK 3,583 (1,826).

At the end of the period the loan portfolio amounted to MSEK 29,824 (28,095). The average fixed interest period was 3.8 (3.0) 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 derivatives but excluding arrangement fees. The average repayment period was 3.3 (3.1) years. 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, mainly interest rate swaps, are used. At the end of the period Pandox had net interest rate derivatives amounting to MSEK 21,091 and around 61 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 2018. On 31 December 2019 the net market value of Pandox's financial derivatives amounted to MSEK -577 (-538).

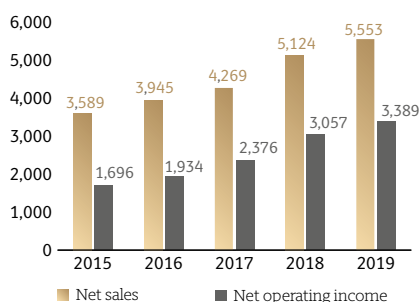
EQUITY AND NET ASSET VALUE

Equity attributable to the Parent Company's shareholders amounted to MSEK 26,350 (21,378) and EPRA NAV (net asset value) was MSEK 34,270 (27,476). EPRA NAV per share was SEK 186.40 (164.04).

ACQUISITIONS, SALES AND RECLASSIFICATIONS

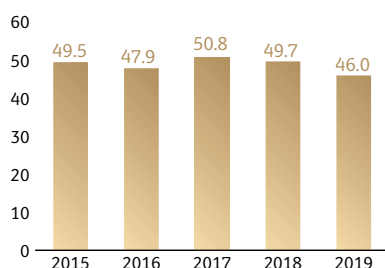
On 1 July 2019 the acquisition of three hotel properties in Germany was completed in the Property Management business segment for

Net sales and net operating income, MSEK



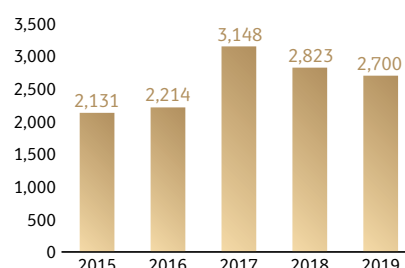
Stable increase in net sales and net operating income.

Loan-to-value ratio, net %



At the end of 2019 the net loan-to-value ratio was 46.0 percent.

Profit for the year, MSEK



Profit for the year in 2019 amounted to MSEK 2,700 (2,823)

►► Administration Report, cont.

MEUR 103. On 3 December 2019 the acquisition of one hotel in Germany and one in the Netherlands was completed in the Operator Activities business segment for MEUR 83. On 11 December 2019 the acquisition of seven hotel properties in Germany was completed in the Property Management business segment for MEUR 290.

On 12 November 2019 an agreement was entered into in the Property Management business segment to acquire a hotel property in Nuremberg for MEUR 61.

On 2 September 2019 Pandox completed the divestment of a hotel property in Stockholm, Sweden for the equivalent of around MSEK 480. This hotel was in the Property Management segment.

INVESTMENTS IN EXISTING HOTEL PROPERTIES

In 2019 investments in existing hotel properties amounted to MSEK 674 (720), of which MSEK 412 (434) was for investment properties, MSEK 257 (286) was for operating properties and MSEK 5 (1) related to the head office. At the end of the period investments had been approved for future projects in an amount equivalent to around MSEK 1,410 (1,250).

Major investment projects include Crowne Plaza Brussels Le Palace, Scandic Luleå, Hotel Berlin Berlin, Airport Bonus Inn Vantaa, Hotel Pullman Stuttgart Fontana, Dorint Parkhotel Bad Neuenahr, Jurys Inn Oxford, Jurys Inn Inverness, The Midland Manchester, Quality Park Södertälje, Hilton Garden Inn Heathrow Airport, NH

Brussels Bloom, as well as the programme for green investments.

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 2019 totalled MSEK 122 (106), and profit for the period before tax was MSEK 2,299 (728). The increase is explained by large dividends from subsidiaries. Internal lending increased in 2019, resulting in the internal interest income being higher than in 2018. Positive currency effects also contributed to higher profit before tax. The proceeds of a directed share issue increased equity by MSEK 3,010 (0). At the end of the period the Parent Company's equity amounted to MSEK 9,089 (4,553) and interest-bearing debt to MSEK 6,325 (7,098), of which MSEK 3,447 (5,555) 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 460 (419) distributed among a total of 183,849,999 shares, of which 75,000,000 are class A shares and 108,849,999 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 2019	% of votes
Eiendomsspar AS	36.6
Christian Sundt AB	18.1
Helene Sundt AB	18.1

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.

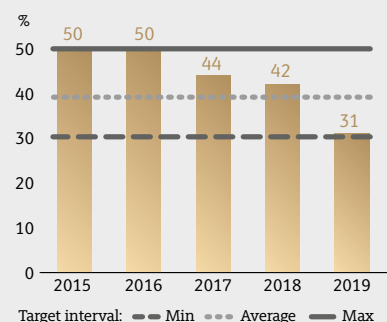
This key ratio is defined as interest-bearing liabilities divided by the sum of the

Financial targets

Pandox has a dividend target and a capital structure target. Both have been within target range in the period 2015–2019.

Dividend: Pandox's target is a dividend pay-out ratio of between 30 and 50 percent of cash earnings ¹⁾, with an average pay-out ratio over time of around 40 percent.

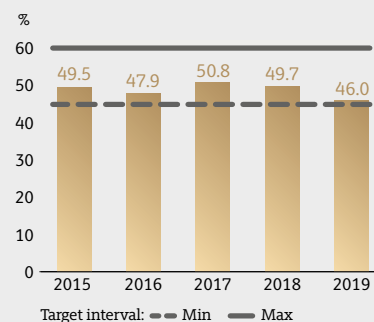
DIVIDEND PAY-OUT RATIO of cash earnings, %



Outcome: For 2019 the proposed dividend pay-out ratio is 31 (42) percent of total cash earnings. Future dividend pay-out and the size of such dividends depend on Pandox's future performance, financial position, cash flows, working capital requirement, investment plans and other factors.

Capital structure: A loan-to-value ratio ²⁾ of between 45 and 60 percent, depending on the market environment and opportunities that exist.

LOAN-TO-VALUE RATIO net, %



Outcome: At year-end 2019 the loan-to-value ratio was 46.0 (49.7) percent.

¹⁾ Defined as EBITDA plus financial income less financial expense less current tax.

²⁾ Defined as interest-bearing liabilities less cash and cash equivalents as a percentage of the market value of the properties at the end of the period.

market value of investment properties and operating properties. ► *See the multiyear summary on page 158.*

Dividend

Pandox's target is a dividend pay-out ratio of between 30 and 50 percent of cash earnings, with an average pay-out ratio over time of around 40 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 on Pandox's future performance, financial position, cash flows, working capital requirement, investment plans and other factors.

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 84.*

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 17.*

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 19.*

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 84 and in Note 18.*

TAX SITUATION

At the end of the period deferred tax assets amounted to MSEK 383 (465). This consists mainly of the carrying amount of tax loss carryforwards which the Company expects to be able to utilise in future financial years, and temporary measurement differences for interest rate derivatives. Deferred tax liabilities amounted to MSEK 4,552 (3,430) and relate mainly 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.

Several countries in which Pandox has operations have made changes to their corporate tax systems in recent years. In view of this, Pandox has carried out a major review of reported deferred tax in the respective jurisdictions. This review had an impact on both deferred tax liabilities and tax assets.

SWEDISH TAX AGENCY DECISION

Pandox has received a decision from the Swedish Tax Agency regarding the Group's transfer pricing, which results in around MSEK 1,900 of profits being re-allocated to the Parent Company in Sweden. This would increase current tax by around MSEK 366 in Sweden and result in a tax surcharge of MSEK 53 plus interest.

Pandox's transfer pricing does not differ from industry practice. However, the Swedish Tax Agency is of the opinion that profits are to be allocated not to the country where the properties are located and the operations are conducted, but to the country of the parent company – i.e. Sweden. Pandox maintains that the Group's companies are following and have followed applicable laws

on transfer pricing and taxation in the countries where the Group's companies operate and will appeal the decision. Pandox would like to stress that the Group's companies are paying and have paid taxes in each jurisdiction at a tax rate which is comparable with that in Sweden.

Pandox has been granted an extension of payment by the Swedish Tax Agency due to the uncertainty regarding the outcome of the case. Pandox believes that there is a good possibility that a higher court will rule in favour of the Company.

Should the Swedish Tax Agency be successful in asserting its position in court, Pandox estimates that the effect on the Company is limited since Sweden has double taxation agreements in place with all countries to which the increase refers, which should eliminate the double taxation for Pandox. Assuming that double taxation will be eliminated, the maximum exposure is estimated to be tax surcharges of some MSEK 53 plus interest.

WORK OF THE BOARD OF DIRECTORS

Pandox has a separate Corporate Governance Report in which the work of the Board of Directors is described.

► *See pages 148–153.*

EMPLOYEES

As of 31 December 2019 Pandox had 1,460 (1,161) full-time employees, of which 1,419 (1,120) are employed in the Operator Activities business segment and 41 (41) in the Property Management business segment and in central administration. The average number of employees in 2019 was 1,381 (1,111), of which 718 (582) are men and 663 (529) 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 most important contribution to more sustainable development is developing profitable, green properties and signing green leases with hotel operators. In 2018 Pandox took performed a comprehensive review of the Company's sustainability work. This resulted in the sustainability strategy called Fair Play 2.0. The strategy has three focus areas – sustainable business, sustainable operations and sustainability responsibility – as well as eight underlying target areas that integrate sustainability into the organisation. The aim is to run an environmentally, financially and socially responsible business. The goal is to

►► Administration Report, cont.

reduce the consumption of energy and water, reduce waste and generate cash flow-driving green investments that create long-term sustainable and climate-smart properties and hotel operations. The goal is to add long-term value for Pandox, the company's employees and the local communities in which the Company operates.

► *Pandox's sustainability work in accordance with the rules is described in detail on pages 35–60.*

IFRS 16

Pandox is applying IFRS 16 from 1 January 2019. ► *The effects of the transition, including the impact on key ratios, are presented in Note 15 on page 128.*

THE BOARD OF DIRECTORS' PROPOSAL FOR GUIDELINES FOR REMUNERATION TO EXECUTIVE MANAGERS AND BOARD MEMBERS

The executive managers and board members, including the CEO and other executive managers, fall within the provisions of these guidelines. The guidelines are forward-looking and applicable to remuneration already agreed, and amendments to remuneration already agreed, after adoption of the guidelines by the annual general meeting 2020. These guidelines do not apply to any remuneration decided or approved by the general meeting.

Promotion of the company's business strategy, long-term interests and sustainability

Pandox's vision is to be one of the leading hotel property companies in the world with expertise in active ownership, hotel property management and development, as well as hotel operation. Pandox's strategy is to own large hotel properties in the upper-medium to high-end segment in strategic locations and to lease them to strong hotel operators under long-term revenue-based leases. In situations where conditions are not in place for a profitable lease relationship, Pandox can choose to operate the hotel itself. Pandox is an active owner with the ability to be involved throughout the hotel value chain, which both reduces risk and creates new business opportunities. Through specialization, business flexibility and well thought-out diversification over numerous dimensions, Pandox is laying the foundation for the company's value creation.

A prerequisite for a long-term successful and sustainable implementation of the company's business strategy is that the company is able to recruit and retain qualified personnel. To this end, it is necessary that the

company offers competitive remuneration. These guidelines enable the company to offer the executive management a competitive total remuneration.

Variable cash remuneration covered by these guidelines shall aim at promoting the company's business strategy and long-term interests, including its sustainability.

Remuneration to executive management

Types of remuneration etc.

The remuneration shall be on market terms and may consist of the following components: fixed cash salary, short-term variable cash remuneration, cash-based incentive programs, pension benefits and other benefits. Additionally, the general meeting may – irrespective of these guidelines – resolve on, among other things, share-, share price-related and performance-based remunerations.

For the CEO, variable remuneration shall amount to not more than six months' salary and not more than four months' salary for other executive managers. In addition thereto, the CEO and other executive managers shall be offered the opportunity to participate in long-term cash-based incentive programs which, if such incentive programs are implemented by the board of directors and remuneration committee, shall be structured similarly to Pandox's existing cash-based incentive program. If such a program is implemented, it shall continue to be possible to receive several annual salaries within the scope of the program, provided that the return for the company's shareholders has been very good during the same period.

For the CEO and other executive managers, pension benefits shall be premium defined. The pension premiums for premium defined pensions, shall amount to not more than 35 per cent of the fixed annual cash salary. Variable cash remuneration shall not qualify for pension benefits.

Other benefits may include, for example, life insurance, medical insurance (Sw: sjukvårdsförsäkring) and company cars. Such benefits shall not constitute a substantial part of the total remuneration.

Additional cash remuneration may be awarded in extraordinary circumstances, provided that such extraordinary arrangements are limited in time and only made on an individual basis, either for the purpose of recruiting or retaining executives, or as remuneration for extraordinary work performance beyond the individual's ordinary tasks. Such remuneration shall be commercially justified, in proportion to the individual's fixed salary and not be paid more than

once a year and per person. Any resolution on such remuneration shall be made by the board of directors based on a proposal from the remuneration committee.

For employments governed by rules other than Swedish these may be duly adjusted for compliance with such mandatory rules or established local practice, taking into account, to the extent possible, the overall purpose of these guidelines.

Criteria for awarding variable cash remuneration, etc.

The variable cash remuneration and remuneration awarded under potential cash-based incentive programs shall be linked to predetermined and measurable criteria which can be financial or non-financial. Fulfillment of the criteria for awarding short-term variable cash-based remuneration may be measured for a period of one year. They may also be individualized, quantitative or qualitative objectives. The criteria for short-term as well as long-term variable cash remuneration shall be designed so as to contribute to the company's business strategy and long-term interests, including its sustainability, by for example being clearly linked to the business strategy or promote the executive's long-term development.

To which extent the criteria for awarding variable cash remuneration has been satisfied shall be determined when the measurement period has ended. The remuneration committee is responsible for the evaluation. For financial objectives, the evaluation shall be based on the latest financial information made public by the company.

The board of directors shall have the possibility, under applicable law or contractual provisions, subject to the restrictions that may apply under law or contract, to in whole or in part reclaim variable remuneration paid on incorrect grounds.

Remuneration to board members

Remuneration to board members for their work in the board of directors of Pandox shall be resolved upon by the general meeting. The board of directors are only entitled to remuneration resolved by the general meeting. However, board members may receive additional remuneration for services board members provide to Pandox within their respective areas of expertise in addition to their duties as board members. Such remuneration shall be on market terms and based in a consultancy agreement approved by the board of directors.

Employment conditions*Salary and employment conditions for employees*

In the preparation of the board of directors' proposal for these remuneration guidelines, salary and employment conditions for employees of the company have been taken into account by including information on the employees' total income, the components of the remuneration and increase and growth rate over time, in the remuneration committee's and the board of directors' basis of decision when evaluating whether the guidelines and the limitations set out herein are reasonable.

Termination of employment

The notice period for the CEO and other executive managers may not exceed six to twelve months if notice of termination of employment is made by the company. When termination is made by the executive, the notice period may not exceed six months. When termination of the CEO's employment is made by the company, the CEO shall receive a severance pay of an amount equivalent to the CEO's monthly salary for eighteen months, which can be reduced if the CEO receives other income. Severance pay shall not be paid to other executive managers.

Decision-making process, amendments and deviations, etc.*The decision-making process to determine, review and implement the policy*

The board of directors has established a remuneration committee. The committee's tasks include preparing the board of directors' decision to propose guidelines for executive remuneration. The board of directors shall prepare a proposal for new guidelines at least every fourth year and submit it to the general meeting. The guidelines shall be in force until new guidelines are adopted by the general meeting. The remuneration committee shall also monitor and evaluate programs for variable remuneration for the executive management, the application of the guidelines for executive remuneration as well as the current remuneration structures and compensation levels in the company. The members of the remuneration committee are independent of the company and its executive management. The CEO and other members of the executive management do not participate in the board of directors' processing of and resolutions regarding remuneration

Derogation from the guidelines

The board of directors may temporarily resolve to derogate from the guidelines,

in whole or in part, if in a specific case there is special cause for the derogation and a derogation is necessary to serve the company's long-term interests, including its sustainability, or to ensure the company's financial viability. As set out above, the remuneration committee's tasks include preparing the board of directors' resolutions in remuneration-related matters. This includes any resolutions to derogate from the guidelines.

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 made in 2019, there is potential for some growth in 2020.

APPROPRIATION OF PROFIT

At the disposal of the Annual General Meeting:

Retained earnings	6,306,438,152
Profit for the year	2,312,881,098
SEK	8,619,319,250

The Board proposes that the earnings be allocated as follows:

Dividend to shareholders, SEK 3.60 per share	661,859,996
Carried forward	7,957,459,254
SEK	8,619,319,250

STATEMENT BY THE BOARD OF DIRECTORS ON THE PROPOSED APPROPRIATION OF PROFIT 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 recommendation 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 appropriation of profit 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 1.9 percent of the Group's EPRA NAV, 2.5 percent of equity attributable to the Parent Company shareholders, 7.3 percent of the Parent Company's equity and 30.6 percent of the Group's cash earnings for 2019. 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 28 Appropriation of profit.

EVENTS AFTER THE CLOSING DAY

Pandox completed the acquisition of a hotel property in Nuremberg, Germany, for MEUR 61 on 31 January 2020.

Consolidated statement of comprehensive income

MSEK	Note	2019	2018
Revenue, Property Management			
Rental income	2, 3, 12	3,017	2,809
Other property revenue	2, 12	112	162
Revenue, Operator Activities	2	2,424	2,153
● Net sales		5,553	5,124
Costs, Property Management	2, 5, 7, 8, 15	-365	-454
Costs, Operator Activities	2, 6, 7, 8, 15	-1,993	-1,776
● Gross profit		3,195	2,894
– of which gross profit, Property Management	2	2,764	2,517
– of which gross profit, Operator Activities	2	431	377
● Central administration	2, 4, 7, 8	-175	-148
● Financial income	2, 9	1	1
● Financial expense	2, 9	-866	-804
Financial expense for right-of-use assets	9, 15	-81	—
Profit before changes in value		2,074	1,943
● Changes in value			
Properties, unrealised	2, 12	1,389	1,428
Properties, realised	2, 12	70	67
Derivatives, unrealised	2, 18	-39	25
Profit before tax		3,494	3,463
● Current tax	2, 11	-122	-216
● Deferred tax	2, 11	-672	-424
● Profit for the year		2,700	2,823
Other comprehensive income			
<i>Items that may not be reclassified to profit or loss</i>			
Remeasurement for the year of property, plant and equipment ¹⁾		—	117
Tax attributable to items that may not be reclassified to profit or loss		—	-35
		—	82
<i>Items that have been or may be reclassified to profit or loss</i>			
Hedging of net investment in foreign operations		520	67
Translation differences, foreign operations		-474	316
		46	383
● Other comprehensive income for the year		46	465
Comprehensive income for the year		2,746	3,288
Profit for the year attributable to the shareholders of the parent company		2,706	2,820
Profit for the year attributable to non-controlling interests		-6	3
Total comprehensive income for the year attributable to the shareholders of the parent company		2,749	3,278
Total comprehensive income for the year attributable to non-controlling interests		-3	10
Per share data	17		
Weighted average number of shares		170,053,287	167,499,999
Total earnings per share before and after dilution, SEK		15.91	16.83

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

● See comments on next page.

Comments

Consolidated comprehensive income

Net sales

Revenue from Property Management amounted to MSEK 3,129 (2,971), an increase of 5 percent, supported by a positive hotel market, acquisitions, good effects of completed renovations and positive currency effects.

The previously communicated change in property tax accounting in the UK and Ireland reduced other property revenue by around MSEK 64 compared with 2018.

For comparable units revenue increased by 2.3 percent, adjusted for currency effects.

Revenue from Operator Activities amounted to MSEK 2,424 (2,153), an increase of 13 percent mainly driven by positive currency effects, acquisitions and good overall development in Brussels and Germany. For comparable units, revenue and RevPAR increased by 2.9 and 4.9 percent respectively, adjusted for currency effects.

The Group's net sales amounted to MSEK 5,553 (5,124). For comparable units, net sales increased by 2.5 percent adjusted for currency effects.

Net operating income

Net operating income from Property Management amounted to MSEK 2,764 (2,517), an increase of 10 percent. Excluding effects from the introduction of IFRS 16, net operating income was MSEK 2,706. For comparable units net operating income increased by 1.9 percent, adjusted for currency effects.

► See Note 5 for details.

Net operating income from Operator Activities amounted to MSEK 625 (540), an increase of 16 percent. For comparable units net operating income increased by 1.5 percent, adjusted for currency effects.

Total net operating income amounted to MSEK 3,389 (3,057), an increase of 11 percent.

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

Central administration

Central administration costs amounted to MSEK -175 (-148). These include costs for corporate governance, administrative personnel, IT and office rents. The increase is explained by the Company's growth, geographical expansion and increased complexity.

Financial income and expense

Financial expense amounted to MSEK -866 (-804), of which MSEK -56 (-40) consists of amortisation of capitalised loan arrangement fees. The change is mainly explained by increased interest-bearing liabilities following acquisitions.

Financial income amounted to MSEK 1 (1).

Financial expense for right-of-use assets amounted to MSEK -81 (-).

Changes in value

Unrealised changes in value amounted to MSEK 1,389 (1,428) 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 70 (67) and refers to divestment of Hotel Hasselbacken and disposals in connection with the rebranding to Hotel Indigo Brussels City within Operator Activities.

Unrealised changes in value of derivatives amounted to MSEK -39 (25).

Current and deferred tax

Current tax amounted to MSEK -122 (-216).

Deferred tax amounted to MSEK -672 (-424). A large part of the increase is explained by the use of tax loss carryforwards from previous years in Sweden. In addition, several countries in which Pandox has operations have made changes to their corporate tax systems in recent years, which prompted a review of reported deferred tax in the respective jurisdictions.

Profit for the year

Profit for the period amounted to MSEK 2,700 (2,823) and profit for the period attributable to Parent Company shareholders amounted to MSEK 2,706 (2,820) which is equivalent to SEK 15.91 (16.83) per share.

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 2019	31 Dec 2018
ASSETS			
Non-current assets			
● Operating properties	14	6,307	5,326
Equipment/interiors	13	554	484
● Investment properties	12	53,697	47,139
Right-of-use assets	15	2,894	—
● Deferred tax assets	11	383	465
Derivatives ¹⁾	18, 19	117	12
Other non-current receivables	10, 19	34	31
Total non-current assets		63,986	53,457
Current assets			
Inventories		14	10
Current tax assets	11	106	29
● Trade accounts receivable	16, 19	367	326
Prepaid expenses and accrued income	20	288	305
Other receivables		250	215
● Cash and cash equivalents		632	674
Total current assets		1,657	1,559
Total assets		65,643	55,016
EQUITY AND LIABILITIES			
Equity			
	17		
Share capital		460	419
Other paid-in capital		7,525	4,556
Reserves		258	215
Retained earnings including net profit for the year		18,107	16,188
Total equity attributable to the owners of the parent		26,350	21,378
Non-controlling interests		156	160
Total equity		26,506	21,538
Liabilities			
Non-current liabilities			
● Non-current interest-bearing liabilities ²⁾³⁾	18, 19	23,587	20,719
Other non-current liabilities		18	18
Non-current lease liabilities	15	2,864	—
● Derivatives ¹⁾	18, 19	694	550
● Provisions	21	41	100
● Deferred tax liabilities	11	4,552	3,430
Total non-current liabilities		31,756	24,817
Current liabilities			
Provisions	21	97	1
● Current interest-bearing liabilities ²⁾³⁾	18, 19	6,034	7,198
Current lease liabilities	15	30	—
Tax liabilities	11	109	109
Trade accounts payable	19	304	286
● Other current liabilities		226	411
Accrued expenses and prepaid income	20	581	656
Total current liabilities		7,381	8,661
Total liabilities		39,137	33,478
Total equity and liabilities		65,643	55,016

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 fees of approximately MSEK 202 (178) have reduced interest-bearing liabilities.

● See comments on next page.

Comments

Consolidated statement of financial position

NON-CURRENT ASSETS

Operating properties

The 18 (16) 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 6,861 (5,810). During the year one hotel in the Netherlands and one in Germany were acquired.

Investment properties

The number of investment properties at the end of the year was 137 (128). They are reported at fair value (market value) and amounted to MSEK 53,697 (47,139). 10 hotel properties were acquired in Germany during the year. Unrealised changes in the value of investment properties for the year amounted to MSEK 1,389 (1,428). Realised changes in value amounted to MSEK 96 (14).

Investments in the existing portfolio during the year, excluding acquisitions, amounted to MSEK 674 (720), of which MSEK 412 (434) was in investment properties and MSEK 257 (286) in operating properties while MSEK 5 (1) related to the Parent Company.

Right-of-use assets

Pandox is applying IFRS 16 from 1 January 2019. Right-of-use assets amounted to MSEK 2,894 (—). ► *Transition effects including the impact on key ratios are presented in Note 15.*

Deferred tax assets

At the end of the period deferred tax assets amounted to MSEK 383 (465). These mainly 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 11.*

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 632 (674) 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 3,583 (1,826).

EQUITY AND LIABILITIES

Financial position and net asset value

At the end of the period the loan-to-value ratio was 46.0 (49.7) percent. Equity attributable to the Parent Company's shareholders amounted to MSEK 26,350 (21,378) and net asset value (NAV) as defined by EPRA was MSEK 34,270 (27,476). EPRA NAV per share was SEK 186.40 (164.04).

NON-CURRENT LIABILITIES

Interest-bearing liabilities

At the end of the period the loan portfolio, excluding loan arrangement fees, amounted to MSEK 29,824 (28,095). The average fixed interest period was 3.8 (3.0) 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 3.3 (3.1) years. The loans are secured by a combination of mortgage collateral and pledged shares.

Lease liabilities

Lease liabilities totalled MSEK 2,894 (—), of which MSEK 30 (—) relates to current liabilities.

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 derivatives totalling a gross amount of MSEK 26,148 and a net amount of MSEK 21,091. Around 61 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 2019 the market value of Pandox's financial derivatives amounted to MSEK -577 (-538).

Provisions

Provisions of MSEK 138 (101) refer to incentive schemes for senior executives, pension provisions and rental warranties for sold hotel properties.

Deferred tax liabilities

Deferred tax liabilities relate largely 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 4,552 (3,430). ► *See Note 11.*

CURRENT LIABILITIES

Interest-bearing liabilities

The portion of the debt that matures within one year.

Other current liabilities

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

Consolidated statement of changes in equity

MSEK	Attributable to owners of the parent					Total	Non-controlling interests	Total equity
	Share capital	Other paid-in capital	Translation reserve	Revaluation reserve ³⁾	Retained earnings, including profit for the year			
Equity, opening balance, 1 January 2018	419	4,557	-330	87	14,112	18,845	182	19,027
Profit for the year	—	—	—	—	2,820	2,820	3	2,823
Other comprehensive income	—	—	376	82	—	458	7	465
New share issue ¹⁾	—	-1	—	—	—	-1	—	-1
Transactions with non-controlling interests ²⁾	—	—	—	—	-7	-7	-32	-39
Dividend	—	—	—	—	-737	-737	—	-737
Equity, closing balance, 31 December 2018	419	4,556	46	169	16,188	21,378	160	21,538
Equity, opening balance, 1 January 2019	419	4,556	46	169	16,188	21,378	160	21,538
Profit for the year	—	—	—	—	2,706	2,706	-6	2,700
Other comprehensive income	—	—	43	—	—	43	3	46
New share issue ¹⁾	41	2,969	—	—	—	3,010	—	3,010
Transactions with non-controlling interests	—	—	—	—	—	—	-1	-1
Dividend	—	—	—	—	-787	-787	—	-787
Equity, closing balance, 31 December 2019	460	7,525	89	169	18,107	26,350	156	26,506

¹⁾ The proceeds of the new share issue are reported net after deducting transaction costs of MSEK -39 (-1).

²⁾ Acquisitions of non-controlling interests in Austria and Germany and guaranteed dividend for minority interests.

³⁾ Change in fair value due to reclassification of hotel properties from Operator Activities to Property Management.

2018

Shares outstanding at year-end 167,499,999

2019

Shares outstanding at year-end 183,849,999

The share quota value is SEK 2.50.

Comments Consolidated statement of cash flow

Cash flow from operating activities before changes in working capital amounted to MSEK 2,119 (1,975). The increase is due to a combination of acquired and organic growth in the business.

Changes in working capital amounted to MSEK -185 (-265).

Investing activities affected cash flow in the amount of MSEK -5,188 (-2,190). During the year ten investment properties and one operating property in Germany were

acquired, as well as one operating property in the Netherlands. Acquisition of the properties affected cash flow in the amount of MSEK -4,901 (-1,725). During the year the Group divested one hotel property in Sweden, with a positive effect on cash flow of MSEK 390 (286). Investments in properties and non-current assets amounted to MSEK -674 (-720). Financing activities affected cash flow in the amount of MSEK 3,193 (158). The change is explained by new loans

of MSEK 12,565 (7,164) and debt repayment of MSEK -11,584 (-6,258). A directed share issue injected net proceeds of MSEK 3,010 (0). Dividends paid affected cash flow in the amount of MSEK -798 (-747).

Cash flow for the year amounted to MSEK -61 (-322). Cash and cash equivalents at year-end amounted to MSEK 632 (674).

Consolidated statement of cash flow

MSEK	Note	2019	2018
OPERATING ACTIVITIES			
Profit before tax		3,494	3,463
Reversal of depreciation		195	163
Realised changes in value, investment properties		-96	-66
Unrealised changes in value, investment properties		-1,389	-1,429
Unrealised changes in value, derivatives		39	-24
Other items not included in cash flow		84	46
Taxes paid		-208	-178
Cash flow from operating activities before changes in working capital		2,119	1,975
Increase/decrease in operating receivables		-23	-243
Increase/decrease in operating liabilities		-162	-22
Changes in working capital		-185	-265
Cash flow from operating activities		1,934	1,710
INVESTING ACTIVITIES			
Acquisitions of non-controlling interests		—	-29
Investments in investment properties		-412	-434
Investments in operating properties		-152	-221
Investments in equipment/interiors		-110	-65
Divestment of hotel properties, net effect on liquidity	26	390	286
Acquisition of hotel properties, net effect on liquidity	26	-4,901	-1,725
Acquisition of financial assets		-3	-11
Divestment of financial assets		—	9
Cash flow from investing activities		-5,188	-2,190
FINANCING ACTIVITIES			
New share issue		3,049	—
Transaction costs		-39	-1
New loans		12,565	7,164
Amortisation of debt		-11,584	-6,258
Guaranteed dividend, minority interests		-11	-10
Paid dividend		-787	-737
Cash flow from financing activities		3,193	158
Cash flow for the year		-61	-322
Cash and cash equivalents at beginning of year		674	999
Exchange rate differences in cash and cash equivalents		19	-3
Cash and cash equivalents at year-end		632	674
Information on interest paid			
Interest received		1	1
Interest paid		-782	-723
Financial expense for right-of-use assets		-81	—
Information on cash and cash equivalents at year-end		632	674
Cash and cash equivalents consist of bank balances			

See page 102 for comments.



Parent Company income statement

MSEK	Note	2019	2018
Net sales	25	122	106
Administrative costs	4, 8	-226	-190
Operating profit		-104	-84
Profit from participations in Group companies	9, 25	2,337	760
Other interest expense and similar profit/loss items ¹⁾	9, 25	376	0
Derivatives, unrealised		-58	-93
Profit after financial items		2,551	583
Year-end appropriations		-252	145
Profit before tax		2,299	728
Tax on profit for the year	11	0	0
Deferred tax	11	14	6
Profit for the year		2,313	734

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 2019 was MSEK 122 (106). Profit from participations in Group companies of MSEK 2,337 (760) 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 2,313 (734).

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 136 (121). ► See Note 11.

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

The proceeds of a directed share issue increased equity by MSEK 3,010 (0). At the end of the period the Parent Company's

equity amounted to MSEK 9,089 (4,553). External interest-bearing liabilities amounted to MSEK 6,305 (7,069), of which MSEK 3,427 (5,526) 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 787 (737).

Parent Company balance sheet

MSEK	Note	31 Dec 2019	31 Dec 2018
ASSETS			
Non-current assets			
Property, plant and equipment			
Equipment	13	4	1
Total property, plant and equipment		4	1
Financial non-current assets			
Shares and participations in Group companies	24	7,393	7,393
Receivables from Group companies	25	14,148	9,734
Other non-current receivables	10	21	17
Deferred tax assets	11	136	121
Total financial non-current assets		21,698	17,265
Total non-current assets		21,702	17,266
Current assets			
Other receivables		14	12
Prepaid expenses and accrued income	20	21	34
Cash and bank balances		84	84
Total current assets		119	130
Total assets		21,821	17,396
EQUITY AND LIABILITIES			
Equity			
Share capital	17	460	419
Statutory reserve		10	10
Share premium reserve		2,969	0
Retained earnings		3,337	3,390
Profit for the year		2,313	734
Total equity		9,089	4,553
Provisions	21	137	100
Non-current liabilities			
Non-current interest-bearing liabilities ¹⁾	27	3,427	5,526
Derivatives		518	451
Total non-current liabilities		3,945	5,977
Current liabilities			
Current interest-bearing liabilities ¹⁾	27	2,878	1,543
Trade accounts payable		7	6
Liabilities, Group companies	25	5,694	5,145
Other current liabilities		11	18
Accrued expenses and prepaid income	20	60	54
Total current liabilities		8,650	6,766
Total liabilities		12,732	12,843
Total equity and liabilities		21,821	17,396

¹⁾ Arrangement fees of approximately MSEK 20 (29) have reduced interest-bearing liabilities.

Statement of changes in equity for the Parent Company

MSEK	Restricted equity		Non-restricted equity			Total equity
	Share capital	Statutory reserve	Share premium reserve	Retained earnings	Profit for the year	
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
Equity, opening balance, 1 January 2019	419	10	0	3,390	734	4,553
Appropriation of profit	—	—	—	734	-734	—
Profit for the year ¹⁾	—	—	—	—	2,313	2,313
Dividend	—	—	—	-787	—	-787
New share issue ²⁾	41	—	2,969	—	—	3,010
Equity, closing balance, 31 December 2019	460	10	2,969	3,337	2,313	9,089

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

²⁾ The proceeds of the new share issue are reported net after deducting transaction costs of MSEK -39 (-1).

2018

Shares outstanding at year-end 167,499,999

2019

Shares outstanding at year-end 183,849,999

The share quota value is SEK 2.50.

Statement of cash flow for the Parent Company

MSEK	2019	2018
OPERATING ACTIVITIES		
Profit after financial items	2,551	583
Reversal of depreciation	1	0
Other items not included in cash flow	95	5
Taxes paid	0	—
Cash flow from operating activities before changes in working capital	2,647	588
Increase/decrease in operating receivables	9	-45
Increase/decrease in operating liabilities	86	-1,120
Changes in working capital	95	-1,165
Cash flow from operating activities	2,742	-577
INVESTING ACTIVITIES		
Investment in equipment	-5	0
Acquisition of financial assets	-5,090	-310
Divestment of financial assets	674	203
Cash flow from investing activities	-4,421	-107
FINANCING ACTIVITIES		
New share issue	3,049	—
Transaction costs	-39	-1
Group contributions received	692	169
Group contributions provided	-943	-24
New loans	6,931	3,108
Amortisation of debt	-7,224	-1,848
Paid dividend	-787	-737
Cash flow from financing activities	1,679	667
Cash flow for the year	0	-17
Cash and cash equivalents at beginning of year	84	101
Cash and cash equivalents at year-end	84	84
Information on interest paid		
Interest received	370	324
Interest paid	-321	-313
Information on cash and cash equivalents at year-end	84	84
Cash and cash equivalents consist of bank balances		

Alternative performance measures

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 performance measures below provides useful supplementary information to investors and management, as they facilitate evaluation of company performance. Since not all companies

calculate performance measures in the same manner, these are not always comparable to measures used by other companies. Hence, these financial measures should not be seen as a substitute for measures defined according to IFRS. Unless otherwise stated, the table below presents measures, along with their reconciliation, which are not defined according to IFRS. ► *The definitions of these measures also appear on page 160.*

RECONCILIATION ALTERNATIVE PERFORMANCE MEASURES (MSEK)	2019	2018
Net interest-bearing debt		
Non-current interest-bearing liabilities	23,587	20,719
Current interest-bearing liabilities	6,034	7,198
Arrangement fees for loans	202	178
Cash and cash equivalents	-632	-674
Net interest-bearing debt	29,191	27,421
Loan-to-value ratio, net %		
Net interest-bearing debt	29,191	27,421
Market value, properties	63,469	55,197
Loan-to-value ratio, %	46.0%	49.7%
Interest coverage ratio, times		
Profit before changes in value	2,074	1,943
Interest expense	765	746
Depreciation	194	163
Interest coverage ratio, times	4.0	3.8
Average interest on debt, %		
Average interest expense	782	725
Non-current interest-bearing liabilities	23,587	20,719
Arrangement fees for loans	202	178
Current interest-bearing liabilities	6,034	7,198
Average interest on debt, %	2.6	2.6
See Note 18 on pages 130–133 for a complete reconciliation		
Investments, incl. Parent Company excl. acquisitions	674	720

RECONCILIATION ALTERNATIVE PERFORMANCE MEASURES (MSEK)	2019	2018
Net operating income, Property Management		
Rental income	3,017	2,809
Other property revenue	112	162
Costs, excl. property administration	-247	-338
Net operating income, Property Management before property administration	2,882	2,633
Property administration	-118	-116
Net operating income, Property Management	2,764	2,517
Net operating income, Operator Activities		
Revenue, Operator Activities	2,424	2,153
Costs, Operator Activities	-1,993	-1,776
Gross profit	431	377
Add: Depreciation included in costs	194	163
Net operating income, Operator Activities	625	540
EBITDA		
Gross profit from respective business segment	3,195	2,894
Add: Depreciation included in costs, Operator Activities	194	163
Less: Central administration, excluding depreciation	-174	-148
EBITDA	3,215	2,909
Cash earnings		
EBITDA	3,215	2,909
Add: Financial income	1	1
Less: Financial expense	-866	-804
Less: Financial expense for right-of-use assets	-81	—
Less: Unrealised translation gains on bank balances	14	3
Less: Current tax	-122	-216
Cash earnings	2,161	1,893
EPRA NAV		
Group equity attributable to the shareholders of the parent company	26,350	21,378
Add: Revaluation of operating properties	2,915	2,249
Add: Fair value of financial derivatives	577	538
Less: Deferred tax assets related to derivatives	-123	-118
Add: Deferred tax liabilities related to properties	4,552	3,430
EPRA NAV	34,270	27,476
Growth in EPRA NAV, annual rate, %		
EPRA NAV attributable to the shareholders of the parent company, opening balance	27,476	24,211
EPRA NAV attributable to the shareholders of the parent company, closing balance	34,270	27,476
Dividend added back, current year	787	737
Excluding proceeds from new share issue	-3,010	0
Growth in EPRA NAV, annual rate, %	16.6	16.5

CONT. RECONCILIATION ALTERNATIVE PERFORMANCE MEASURES PER SHARE ¹⁾

	2019	2018
Comprehensive income per share, SEK		
Total comprehensive income for the period attributable to the shareholders of the parent company, MSEK	2,749	3,278
Weighted average number of shares before and after dilution	170,053,287	167,499,999
Comprehensive income per share, SEK	16.17	19.57
Cash earnings per share, SEK		
Cash earnings attributable to the shareholders of the parent company, MSEK	2,167	1,890
Weighted average number of shares before and after dilution	170,053,287	167,499,999
Cash earnings per share, SEK	12.74	11.28
Net asset value (EPRA NAV) per share, SEK		
EPRA NAV, MSEK	34,270	27,476
Number of shares at year-end	183,849,999	167,499,999
Net asset value (EPRA NAV) per share, SEK	186.40	164.04
Dividend per share, SEK		
Dividend, MSEK	662	787
Number of shares at dividend	183,849,999	167,499,999
Dividend per share, SEK ³⁾	3.60	4.70
Weighted average number of shares before and after dilution	170,053,287	167,499,999
Number of shares at year-end	183,849,999	167,499,999
PROPERTY-RELATED KEY RATIOS		
Number of hotels, end of period ²⁾	155	144
Number of rooms, end of period ²⁾	34,685	32,268
WAULT, years	15.6	15.7
Market value properties, MSEK	63,469	55,197
Market value investment properties, MSEK	53,697	47,139
Market value operating properties, MSEK	9,772	8,058
RevPAR (Operator Activities) for comparable units at comparable exchange rates, SEK	916	873

¹⁾ The total number of shares outstanding after full dilution amounts to 183,849,999, of which 75,000,000 are class A shares and 108,849,999 are class B shares. Calculated on the total number of shares for balance sheet items and the weighted number of shares for income statement items.

²⁾ Pandox's owned hotel properties.

³⁾ For 2019 the proposed dividend and for 2018 the actual dividend is indicated.

1 — **EXPLANATIONS**
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, the interest coverage ratio, average cost of debt and interest-bearing net debt are other relevant measures 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 Company'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. 30–50 percent of cash earnings with an average dividend share of 40 percent over time. Measuring net operating income creates transparency and comparability between the Company's two business 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 also included in the calculation.

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 shares and ownership structure" on page 32. The financial reports as per 31 December 2019 were approved by the Board of Directors and CEO on 4 March for adoption at the Annual General Meeting on 3 April 2020.

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

As of the 2019 Annual Report, the accounting principles have been moved to the respective note where appropriate. They are divided up in the following way in the notes:

§ ACCOUNTING PRINCIPLES

Refers to the principles, bases, rules and practices that the Company applies in the preparation and presentation of the Annual Report.

! KEY ESTIMATES AND JUDGMENTS

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.

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.

1.5 Reporting of acquisitions

The IFRS 3 financial reporting standard states that acquisitions are to be classified as business combinations or asset purchases. In an asset purchase, the transaction is not covered by IFRS 3. An individual assessment of the nature of the acquisition is required for each individual transaction. Whether or not 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 business combinations, Pandox uses its own personnel for management and

operation of the acquired property. 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.

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. 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.

2. New accounting standards

IFRS 16 *Leases* is being applied from 1 January 2019. It replaces IAS 17 *Leases* and the associated interpretations IFRIC 4, SIC-15 and SIC-27. Pandox has not early adopted IFRS 16 and comparative figures have therefore not been restated. The new standard on leases impacts Pandox's financial statements since the Group has operating leases for premises and vehicles as well as site leaseholds. See also the accounting principles and the impact on the Group in Note 15, Right-of-use assets, lease liabilities and the transition to IFRS 16.

IFRIC 23 *Uncertainty over Income Tax Treatments* has had no effect on the Group's financial statements.

Other changes effective from 2019 have not had any material impact on the consolidated financial statements. There are currently no known future changes in IFRS that will have a material impact on Pandox's financial statements.

3. Foreign currency

3.1 Foreign currency transactions

Foreign currency transactions are translated into the functional currency at the exchange rate in effect 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 in effect 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.

3.2 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 in effect 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 in effect 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

►► Note 1, cont.

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.

EXCHANGE RATES

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

Currency code	Ultimo 31 Dec 2018	Average Jan–Dec 2019	Ultimo 31 Dec 2019
CAD	6.592200	7.130800	7.128300
CHF	9.099237	9.518521	9.572917
DKK	1.376011	1.418319	1.396783
EUR	10.275300	10.589200	10.433600
GBP	11.348200	12.065800	12.214500
NOK	1.024475	1.074687	1.057883
SEK	1.000000	1.000000	1.000000

4. Consolidation principles

4.1 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.

4.2 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 or loss combined with any gain or loss on remaining holdings measured at fair value, with changes in value recognised through profit or loss.

4.3 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. See also on reporting of acquisitions under section 1.5.

5. 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 necessary to make the sale.

6. Impairment

The assets carried in the Group are tested on each closing date for indications of impairment. IAS 36 is applied for impairment of assets other than financial assets, which are recognised according to IFRS 9. Inventories, deferred tax assets, assets arising in connection with employee benefits (IAS 19) and investment properties carried at fair value (IAS 40). For the assets excluded above, the carrying amounts are determined according to the respective standard.

6.1 Impairment of property, plant and equipment

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

An impairment loss is recognised when an asset's or a cash-generating unit's carrying amount exceeds its recoverable amount. Impairment losses are expensed through profit or loss. The recoverable amount is 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.

6.2 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 10th 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.

6.3 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.

7. Assets and liabilities 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

►► Note 1, cont.

for sale if it is available for immediate sale in its existing condition and it is very likely that a sale will take place. These assets or disposal groups are reported on a separate line as current assets or current liabilities in the statement of financial position. For depreciable assets, depreciation stops after it is classified as an asset held for sale.

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

8. 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.

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

9.1 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.

9.2 Assets and liabilities held for sale

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.

9.3 Participations in 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.

9.4 Group contributions

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

9.5 Recognition of leases

Lease payments are recognized as an expense on a straight line basis over the term of the lease. Right-of-use assets and lease liabilities are therefore not recognised in the balance sheet.

NOTE 2 BUSINESS SEGMENTS

§ ACCOUNTING PRINCIPLES

A business 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. A business 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 business segment. Pandox has two segments: Property Management and Operator Activities. 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.

Pandox's business segments are Property Management and Operator Activities. The Property Management segment improves and manages hotel properties and provides to external customers premises for hotel operations, as well as other types of premises adjacent to hotel properties. The Property Management segment also includes nine management agreements for externally owned hotel properties. These management agreements ended on 31 December 2019. The Operator Activities segment owns hotel properties and operates hotels. The Operator Activities

segment also includes one management agreement for an additional externally owned hotel property. Unallocated items are any items that are not attributable to a specific segment or are common to both segments, as well as financial expense attributable to right-of-use assets according to IFRS 16. The segments have been established based on the reporting that takes place internally to executive management on financial outcomes and position. Scandic Hotels Group and Fattal Hotels Group are tenants which, individually, account for more than 10 percent of revenue.

GROUP 2019

Business segments, MSEK	Property Management ²⁾	Operator Activities ²⁾	Group-wide and unallocated items	Total
Revenue, Property Management				
Rental income and other property revenue	3,129	—	—	3,129
Revenue, Operator Activities	—	2,424	—	2,424
Net sales	3,129	2,424	—	5,553
Costs, Property Management	-365	—	—	-365
Costs, Operator Activities ¹⁾	—	-1,993	—	-1,993
Gross profit	2,764	431	—	3,195
Central administration	—	—	-175	-175
Financial income	—	—	1	1
Financial expense	—	—	-866	-866
Financial expense for right-of-use assets	—	—	-81	-81
Profit before changes in value	2,764	431	-1,121	2,074
Changes in value				
Properties, unrealised	1,389	—	—	1,389
Properties, realised	70	—	—	70
Derivatives, unrealised	—	—	-39	-39
Profit before tax	4,223	431	-1,160	3,494
Current tax	—	—	-122	-122
Deferred tax	—	—	-672	-672
Profit for the year	4,223	431	-1,954	2,700

¹⁾ Expenses for Operator Activities include depreciation of operating properties at MSEK 194.

²⁾ Management revenue is recognised over time and fixed fees are received in advance. Variable compensation within Property Management is paid 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.

2019

Geographical markets	Sweden	Denmark	Norway	Finland	Germany	Belgium	UK Ireland	Other	Total
Net sales									
Property Management	915	235	219	312	550	56	652	190	3,129
Operator Activities	—	—	—	43	544	1,050	274	513	2,424
Properties, market value ¹⁾	14,940	3,591	3,455	4,057	15,440	4,625	12,054	5,307	63,469
Investments in properties ²⁾	155	25	59	79	49	161	50	91	669
Acquisition of properties	—	—	—	—	4,618	7	-101	377	4,901
Realised change in value, properties	96	—	—	—	—	—	—	—	96
Book value, operating properties	—	—	—	26	1,973	2,521	934	1,403	6,857
Total non-current assets at carrying amount excl. deferred tax	15,604	3,604	3,459	4,763	14,708	3,463	12,871	5,131	63,603

¹⁾ Also includes fair value of operating properties at MSEK 9,772.

²⁾ Includes investments in equipment/interiors of operating properties at MSEK 105.

►► Note 2, cont.

GROUP 2018

Business segments, MSEK	Property Management ²⁾	Operator Activities ²⁾	Group-wide and unallocated items	Total
Revenue, Property Management				
Rental income and other property revenue	2,971	—	—	2,971
Revenue, Operator Activities	—	2,153	—	2,153
Net sales	2,971	2,153	—	5,124
Costs, Property Management				
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
Financial expense for right-of-use assets	—	—	—	—
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 Ireland	Other	Total
Net sales									
Property Management	910	229	212	294	469	46	627	184	2,971
Operator Activities	—	—	—	37	501	985	160	470	2,153
Properties, market value ³⁾	14,940	3,495	3,223	3,943	9,872	4,225	11,028	4,471	55,197
Investments in properties ⁴⁾	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 at carrying amount 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⁾ Management revenue is recognised over time and fixed fees are received in advance. Variable compensation within Property Management is paid 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.

³⁾ Also includes fair value of operating properties at MSEK 8,058.

⁴⁾ Includes investments in equipment/interiors of operating properties at MSEK 65.

NOTE 3 REVENUE

§ ACCOUNTING PRINCIPLES

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.

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).

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.

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.

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, as well as conferences, 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 revenue accounts for MSEK 1,257 (1,234) of the total rental income of MSEK 3,017 (2,809) in 2019.

Within the Property Management segment there is a smaller business segment, Asset Management, in which Pandox manages hotel properties on behalf of external owners. The management agreements that Pandox had with Eiendomsspar AS regarding nine hotels in the Oslo region ended on 31 December 2019. One management agreement remains in place.

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 2,424 (2,153). The average remaining lease terms at the end of the financial year amounted to 15.6 (15.7) years for the current portfolio. The maturity structure of the future rental income as of the closing day is presented in the table below. Revenue due more than 12 months after the closing date has been projected based on the outcome of variable compensation in 2019 and is therefore an estimate.

GROUP RENTAL INCOME, MATURITY STRUCTURE OF CONTRACTUAL RENT		
MSEK	2019	2018
Rental income		
Maturing within one year	3,124	2,689
Maturing in 1–5 years	14,760	12,555
Maturing after more than 5 years	31,136	26,145
Total	49,020	41,389

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.

REMUNERATION TO AUDITORS

MSEK	Group		Parent Company	
	2019	2018	2019	2018
PwC				
Audit assignments	-11.0	-8.8	-2.9	-2.2
Audit-related services ¹⁾	-0.6	-1.1	-0.1	-0.9
<i>(of which to the auditor for the parent company PricewaterhouseCoopers AB)</i>	-0.1	-0.9	—	—
Tax advisory services ¹⁾	-0.2	-0.6	—	—
<i>(of which to the auditor for the parent company PricewaterhouseCoopers AB)</i>	—	—	—	—
Other assignments ¹⁾	—	-0.4	—	-0.4
<i>(of which to the auditor for the parent company PricewaterhouseCoopers AB)</i>	—	-0.4	—	—
Other auditors				
Audit assignments	-0.2	—	—	—
Audit-related services	—	—	—	—
Tax advisory services	—	—	—	—
Other assignments	—	—	—	—
Other				
Other assignments	—	—	—	—
Total	-12.0	-10.9	-3.0	-3.5

¹⁾ Audit-related services include audit-related advisory services and other statutory reports.

NOTE 5 PROPERTY MANAGEMENT COSTS

GROUP	2019	2018
MSEK		
Operating costs	-41	-32
Maintenance costs	-71	-62
Property tax	-122	-174
Site leasehold rent	-4	-60
Property administration	-118	-116
Other administration costs	-9	-10
Total	-365	-454

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. As a consequence of IFRS 16, from 2019 most of the site leasehold rent paid is recognised as a financial expense rather than as previously being recognised as an operating cost, see also Note 15.

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 113 (162). Property administration of MSEK -118 (-116) comprises administration costs for Property Management.

NOTE 6 COSTS, OPERATOR ACTIVITIES

GROUP	2019	2018
MSEK		
Employee costs	-798	-720
Marketing and sales	-148	-136
Repairs and maintenance	-42	-31
Property tax	-95	-75
Other operating costs	-716	-651
Depreciation	-194	-163
Total	-1,993	-1,776

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 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.

NOTE 7 OPERATING COSTS BY TYPE

GROUP	2019	2018
MSEK		
Employee costs	-939	-835
Cost of goods sold	-148	-136
Maintenance	-113	-93
Operation and administration	-906	-842
Site leasehold rents	—	-60
Property tax	-217	-249
Depreciation	-210	-163
Total	-2,533	-2,378

Employee costs include salary costs, excluding board fees, of MSEK 936 (814). 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 SALARIES, OTHER REMUNERATION AND PAYROLL OVERHEADS

§ ACCOUNTING PRINCIPLES

Short-term benefits

Short-term benefits to employees are undiscounted and are 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 constructive obligation to make such payments because services have been performed by employees and the obligations can be reliably calculated.

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. 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 calculated liability, with a corresponding asset owned by the Parent Company.

Incentive scheme for employees

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 including payroll overheads is distributed and the liability accumulated over the scheme's vesting period.

See also page 119 for terms and, where applicable, other accounting principles relating to the Board's proposed guidelines for remuneration for senior executives, remuneration for senior executives and employment terms.

Incentive schemes for employees

Pandox has two incentive schemes for senior executives and key individuals:

- Incentive scheme 1 is a bonus scheme based on the price of the Pandox class B share over a period of 30 days between 15 November 2020 and 15 December 2020. The incentive scheme matures on 31 December 2020. Upon maturing, an average share price ("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 2019 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.

- Incentive scheme 2 is a continuous, ongoing performance- and cash-based incentive scheme based on predetermined and measurable financial and non-financial criteria.

Salary costs and board fees for the Group and the Parent Company amount to MSEK -939.3 (-818.1) and are presented in the table below.

SALARIES, FEES AND BENEFITS

MSEK	Group		Parent Company	
	2019	2018	2019	2018
Chairman of the Board				
Christian Ringnes	-0.8	-0.8	-0.8	-0.8
Other board members				
Leiv Askvig	-0.5	-0.5	-0.5	-0.5
Ann-Sofi Danielsson	-0.5	-0.5	-0.5	-0.5
Olaf Gauslå	—	-0.1	—	-0.1
Jeanette Dyhre Kvisvik	-0.4	-0.4	-0.4	-0.4
Helene Sundt ¹⁾	-0.1	-0.4	-0.1	-0.4
Bengt Kjell	-0.7	-0.6	-0.7	-0.6
Jon Rasmus Aurdal	-0.5	-0.3	-0.5	-0.3
Mats Wåppling ²⁾	—	-0.1	—	-0.1
Chief Executive Officer				
Basic salary	-8.0	-7.3	-8.0	-7.3
Variable remuneration	-4.0	-4.8	-4.0	-4.8
Incentive schemes	-7.2	-5.2	-7.2	-5.2
Other senior executives				
Basic salary	-15.7	-17.3	-15.7	-15.8
Variable remuneration	-5.0	-4.6	-5.0	-4.2
Other remuneration ³⁾	-6.9	-6.6	-1.0	-1.0
Incentive schemes	-14.0	-7.4	-13.0	-7.2
Other employees	-701.1	-614.1	-27.8	-23.4
Incentive schemes	-3.5	-0.9	-2.6	0.0
Total	-768.9	-671.8	-87.8	-72.5
Contractual pension costs				
Chief Executive Officer	-2.8	-2.5	-2.8	-2.5
Other senior executives	-7.2	-6.6	-7.2	-6.6
Other employees	-20.2	-18.5	-3.6	-2.9
Total	-30.2	-27.6	-13.6	-12.0
Payroll overheads including payroll tax				
Chairman of the Board	-0.1	-0.1	-0.1	-0.1
Other board members	-0.6	-0.6	-0.6	-0.6
Chief Executive Officer	-6.7	-6.0	-6.7	-6.0
Other senior executives, eight individuals	-12.8	-10.2	-12.6	-10.1
Other employees	-120.0	-101.7	-11.0	-7.8
Total	-140.2	-118.6	-31.0	-24.6
Total	-939.3	-818.1	-132.4	-109.1

¹⁾ Left the Board at the Annual General Meeting on 10 April 2019.

²⁾ Left the Board at the Annual General Meeting on 9 April 2018.

³⁾ Remuneration is invoiced by one senior executive.

►► Note 8, cont.

The board of directors' proposal for guidelines for remuneration to executive managers and board members

Scope

The executive managers and board members, including the CEO and other executive managers, fall within the provisions of these guidelines. The guidelines are forward-looking and applicable to remuneration already agreed, and amendments to remuneration already agreed, after adoption of the guidelines by the annual general meeting 2020. These guidelines do not apply to any remuneration decided or approved by the general meeting.

Promotion of the company's business strategy, long-term interests and sustainability

Pandox's vision is to be one of the leading hotel property companies in the world. Pandox's strategy is to own large hotel properties in the upper-medium to high-end segment in strategic locations and to lease them to strong hotel operators under long-term revenue-based leases. In situations where conditions are not in place for a profitable lease relationship, Pandox can choose to operate the hotel itself. Pandox is an active owner with the ability to be involved throughout the hotel value chain, which both reduces risk and creates new business opportunities. Through specialization, business flexibility and well thought-out diversification over numerous dimensions, Pandox is laying the foundation for the company's value creation.

A prerequisite for a long-term successful and sustainable implementation of the company's business strategy is that the company is able to recruit and retain qualified personnel. To this end, it is necessary that the company offers competitive remuneration. These guidelines enable the company to offer the executive management a competitive total remuneration.

Variable cash remuneration covered by these guidelines shall aim at promoting the company's business strategy and long-term interests, including its sustainability.

Remuneration to executive management

Types of remuneration etc.

The remuneration shall be on market terms and may consist of the following components: fixed cash salary, short-term variable cash remuneration, cash-based incentive programs, pension benefits and other benefits. Additionally, the general meeting may – irrespective of these guidelines – resolve on, among other things, share-, share price-related and performance-based remunerations.

For the CEO, variable remuneration shall amount to not more than six months' salary and not more than four months' salary for other executive managers. In addition thereto, the CEO and other executive managers shall be offered the opportunity to participate in long-term cash-based incentive programs which, if such incentive programs are implemented by the board of directors and remuneration committee, shall be structured similarly to Pandox's existing cash-based incentive program. If such a program is implemented, it shall continue to be possible to receive several annual salaries within the scope of the program, provided that the return for the company's shareholders has been very good during the same period.

For the CEO and other executive managers, pension benefits shall be premium defined. The pension premiums for premium defined pensions, shall amount to not more than 35 per cent of the fixed annual cash salary. Variable cash remuneration shall not qualify for pension benefits.

Other benefits may include, for example, life insurance, medical insurance (Sw: sjukvårdsförsäkring) and company cars. Such benefits shall not constitute a substantial part of the total remuneration.

Additional cash remuneration may be awarded in extraordinary circumstances, provided that such extraordinary arrangements are limited in time and only made on an individual basis, either for the purpose of recruiting or retaining executives, or as remuneration for extraordinary work performance beyond the individual's ordinary tasks. Such remuneration shall be commercially justified, in proportion to the individuals fixed salary and not be paid more than once a year and per person. Any resolution on such remuneration shall be made by the board of directors based on a proposal from the remuneration committee.

For employments governed by rules other than Swedish these may be duly adjusted for compliance with such mandatory rules or established local practice, taking into account, to the extent possible, the overall purpose of these guidelines.

Criteria for awarding variable cash remuneration, etc.

The variable cash remuneration and remuneration awarded under potential cash-based incentive programs shall be linked to predetermined and measurable criteria

which can be financial or non-financial. Fulfillment of the criteria for awarding short-term variable cash-based remuneration may be measured for a period of one year. They may also be individualized, quantitative or qualitative objectives. The criteria for short-term as well as long-term variable cash remuneration shall be designed so as to contribute to the company's business strategy and long-term interests, including its sustainability, by for example being clearly linked to the business strategy or promote the executive's long-term development.

To which extent the criteria for awarding variable cash remuneration has been satisfied shall be determined when the measurement period has ended. The remuneration committee is responsible for the evaluation. For financial objectives, the evaluation shall be based on the latest financial information made public by the company.

The board of directors shall have the possibility, under applicable law or contractual provisions, subject to the restrictions that may apply under law or contract, to in whole or in part reclaim variable remuneration paid on incorrect grounds.

Remuneration to board members

Remuneration to board members for their work in the board of directors of Pandox shall be resolved upon by the general meeting. The board of directors are only entitled to remuneration resolved by the general meeting. However, board members may receive additional remuneration for services board members provide to Pandox within their respective areas of expertise in addition to their duties as board members. Such remuneration shall be on market terms and based in a consultancy agreement approved by the board of directors.

Employment conditions

Salary and employment conditions for employees

In the preparation of the board of directors' proposal for these remuneration guidelines, salary and employment conditions for employees of the company have been taken into account by including information on the employees' total income, the components of the remuneration and increase and growth rate over time, in the remuneration committee's and the board of directors' basis of decision when evaluating whether the guidelines and the limitations set out herein are reasonable.

Termination of employment

The notice period for the CEO and other executive managers may not exceed six to twelve months if notice of termination of employment is made by the company. When termination is made by the executive, the notice period may not exceed six months. When termination of the CEO's employment is made by the company, the CEO shall receive a severance pay of an amount equivalent to the CEO's monthly salary for eighteen months, which can be reduced if the CEO receives other income. Severance pay shall not be paid to other executive managers.

Decision-making process, amendments and deviations, etc.

The decision-making process to determine, review and implement the policy

The board of directors has established a remuneration committee. The committee's tasks include preparing the board of directors' decision to propose guidelines for executive remuneration. The board of directors shall prepare a proposal for new guidelines at least every fourth year and submit it to the general meeting. The guidelines shall be in force until new guidelines are adopted by the general meeting. The remuneration committee shall also monitor and evaluate programs for variable remuneration for the executive management, the application of the guidelines for executive remuneration as well as the current remuneration structures and compensation levels in the company. The members of the remuneration committee are independent of the company and its executive management. The CEO and other members of the executive management do not participate in the board of directors' processing of and resolutions regarding remuneration-related matters in so far as they are affected by such matters.

Derogation from the guidelines

The board of directors may temporarily resolve to derogate from the guidelines, in whole or in part, if in a specific case there is special cause for the derogation and a derogation is necessary to serve the company's long-term interests, including its sustainability, or to ensure the company's financial viability. As set out above, the remuneration committee's tasks include preparing the board of directors' resolutions in remuneration-related matters. This includes any resolutions to derogate from the guidelines.

▶▶ Note 8, cont.

Parent Company Board of Directors 2019:

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

Senior executives 2019:

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

Board of Directors and senior executives in 2019:

Number in the Parent Company: 14, of which 4 women

Number in the Group: 15, of which 4 women

The average number of employees in 2019 amounted to 1,381 (1,111) broken down by country and gender as shown below.

Average number of employees	Group		Parent Company	
	2019	2018	2019	2018
Women	663	529	18	16
Men	718	582	16	15
Total	1,381	1,111	34	31
Board of Directors				
Women	2	3	2	3
Men	4	4	4	4
Total	6	7	6	7
Senior executives				
Women	2	2	2	2
Men	7	7	6	6
Total	9	9	8	8
Average number of employees by country				
Sweden	34	31	34	31
Belgium	509	449	—	—
Germany	306	249	—	—
Canada	278	301	—	—
Denmark	1	1	—	—
Finland	26	23	—	—
Norway	2	2	—	—
Netherlands	1	—	—	—
United Kingdom	224	55	—	—
Total	1,381	1,111	34	31

NOTE 9 FINANCIAL INCOME AND EXPENSE

§ ACCOUNTING PRINCIPLES

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

Financial expense consists of 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.

Parent Company

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.

MSEK	Group		Parent Company	
	2019	2018	2019	2018
Financial income				
Interest income	1	1	0	0
Interest income, subsidiaries	—	—	369	324
Dividend ¹⁾	—	—	2,337	500
Capital gains on divestment of subsidiaries ¹⁾	—	—	—	260
Other financial income	—	—	338	138
Total financial income	1	1	3,044	1,222
Financial expense				
Interest expense, loans measured at amortised cost	-527	-483	-89	-95
Interest expense, interest rate derivatives measured at fair value	-238	-263	-176	-178
Interest expense, subsidiaries	—	—	-47	-36
Other financial expense	-101	-58	-19	-153
Financial expense for right-of-use assets	-81	—	—	—
Total financial expense	-947	-804	-331	-462

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

NOTE 10 OTHER NON-CURRENT RECEIVABLES

MSEK	Group		Parent Company	
	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018
Endowment policy	21	17	21	17
Prepaid compensation for land use	5	5	—	—
Other non-current receivables	8	9	—	—
Total	34	31	21	17

NOTE 11 TAX

§ ACCOUNTING PRINCIPLES

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 carryforwards 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.

! KEY ESTIMATES AND JUDGMENTS

Pandox has tax loss carry-forwards. 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.

TAX IN THE INCOME STATEMENT

MSEK	Group		Parent Company	
	2019	2018	2019	2018
Current tax ¹⁾	-122	-216	0	0
Deferred tax	-672	-424	14	6
Total	-794	-640	14	6

¹⁾ The majority of the decrease in current tax is due to a positive advance ruling in Finland on the possibility of using tax loss carryforwards from previous years through Group contributions, as well as the reversal of a previous tax reserve due to the restructuring of the Jurys Inn portfolio.

RECONCILIATION OF EFFECTIVE TAX RATE

MSEK	Group		Parent Company	
	2019	2018	2019	2018
Tax				
Reported profit before tax	3,494	3,464	2,299	728
Income tax assessed based on the tax rate in effect	-748	-762	-492	-160
Tax relating to previous years	20	4	—	—
Tax-exempt income	563	139	501	167
Distribution of net interest income	—	—	9	—
Non-deductible expenses	-341	-117	-3	-1
Utilisation of previously unrecognised tax losses	61	21	—	—
Tax loss carryforwards for which no deferred tax asset is recognised	-53	-37	—	—
Recognition of previous unrecognised tax losses	13	65	—	4
Adjustment of temporary differences ¹⁾	-333	-2	—	3
Change in tax rate ²⁾	109	100	-1	-7
Effective tax rate for foreign companies	-85	-51	—	—
Tax for the year according to the income statement	-794	-640	14	6

¹⁾ A review of the Group's temporary differences relating to investment properties and operating properties has resulted in an adjusted opening balance and a higher deferred tax liability in the consolidated financial statements.

²⁾ 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. In Belgium the tax rate is being reduced to 25 percent from 1 January 2020 and in the UK the tax rate will be reduced to 17 percent from 1 April 2020.

GROUP DEFERRED TAX ASSETS

MSEK	Group		Parent Company	
	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018
Opening balance, tax loss carryforwards	320	484	25	37
Adjusted opening balance	51	—	—	—
Additional tax loss carryforwards	11	11	1	0
Utilised tax loss carryforwards	-208	-210	—	-15
Reclassification	—	64	—	4
Change in tax rate	2	-21	—	-1
Translation difference on loss carryforwards outside Sweden	3	-8	—	—
Closing balance	179	320	26	25
Opening balance, interest rate derivatives	118	129	92	79
Change for the year	7	-11	13	13
Change in tax rate	-1	—	—	—
Translation difference	0	—	—	—
Closing balance	124	118	105	92
Opening balance, other temporary differences	27	—	4	—
Adjusted opening balance	2	—	—	—
Change for the year	50	27	1	4
Translation difference	1	—	—	—
Closing balance	80	27	5	4
Closing balance, tax assets	383	465	136	121

The Group's accumulated tax losses are estimated at MSEK 2,053 (3,170) as of 31 December 2019. The change compared to the previous year is mainly due to utilisation of tax loss carryforwards in Sweden. Deferred tax assets have been estimated at MSEK 769 (1,554) 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.

►► Note 11, cont.

GROUP
DEFERRED TAX LIABILITIES

MSEK	Investment properties	Operating properties	Untaxed reserves	Other temporary differences	Total
Opening balance, 1 Jan 2018	2,775	251	—	—	3,026
Change recognised in the income statement	365	1	38	—	404
Sales	-35	—	—	—	-35
Reclassification	23	-23	—	—	—
Change recognised in comprehensive income	35	—	—	—	35
Closing balance, 31 Dec 2018	3,163	229	38	—	3,430
Opening balance, 1 Jan 2019	3,163	229	38	—	3,430
Adjusted opening balance	162	177	—	48	387
Change recognised in the income statement	703	16	6	13	738
Sales	-5	—	—	—	-5
Acquisitions	—	-2	—	—	-2
Currency translation	9	-5	0	0	4
Closing balance, 31 Dec 2019	4,032	415	44	61	4,552

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 cost and the taxable value of the properties. A review of the Group's temporary differences for investment properties and operating properties has

resulted in an adjusted opening balance and a higher deferred tax liability in the consolidated financial statements.

Tax recognised in other comprehensive income

In 2019 tax of MSEK 0 (-25) was recognised in other comprehensive income relating to revaluation of operating properties at fair value in connection with reclassification as investment properties.

NOTE 12 INVESTMENT PROPERTIES

§ ACCOUNTING PRINCIPLES

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.

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 measurement methods applied, significant input data in value assessments and the level of the properties in the fair value hierarchy can be found in Note 12.

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. Operating properties that are reclassified as investment properties are recognised at fair value on the date of reclassification.

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

Further expenditures are only added to the carrying amount 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. Expenditures relating to the replacement of identified components and the addition of new components are added to the carrying amount if they meet the above criteria. Repairs and maintenance costs are expensed as they arise.

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.

! KEY ESTIMATES AND JUDGMENTS

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 all 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 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 investment property.

Regarding operating properties, i.e. properties where Pandox also acts as hotel operator, see Note 14. The table below shows the change in the fair value of investment properties:

GROUP MSEK	31 Dec 2019	31 Dec 2018
Opening balance	47,139	42,548
Acquisitions (at cost) ¹⁾	4,020	1,215
Investments in existing portfolio	412	434
Divestments ²⁾	-480	-286
Reclassified to/from operating properties ³⁾	—	621
Revaluation for the year of property, plant and equipment, in comprehensive income	—	117
Change in value, unrealised	1,389	1,429
Change in value, realised	96	14
Change in exchange rates	1,121	1,048
Closing balance	53,697	47,139

¹⁾ Refers to the acquisition of 10 hotel properties in Germany and adjustment of previous acquisition of Midland Manchester and the Jurys Inn portfolio

²⁾ Refers to divestment of Hotel Hasselbacken

³⁾ Refers mainly to reclassification of two hotel properties to Property Management

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

►► Note 12, cont.

The tables below show the change for each geographical market:

BY GEOGRAPHICAL MARKET 31 DECEMBER 2019

MSEK	Sweden	Denmark	Norway	Finland	Germany	Belgium	UK & IE	Other	Total
Opening balance	14,940	3,495	3,223	3,922	7,392	846	10,138	3,181	47,139
Acquisitions	—	—	—	—	4,088	—	-68	—	4,020
Investments in existing portfolio	155	25	59	79	14	4	20	56	412
Divestments	-480	—	—	—	—	—	—	—	-480
Reclassified to/from operating properties	—	—	—	—	—	—	—	—	—
Revaluation for the year of property, plant and equipment, in comprehensive income	—	—	—	—	—	—	—	—	—
Change in value, unrealised	229	18	68	-27	478	57	354	212	1,389
Change in value, realised	96	—	—	—	—	—	—	—	96
Change in exchange rates	—	53	105	60	132	13	683	75	1,121
Closing balance	14,940	3,591	3,455	4,034	12,104	920	11,127	3,524	53,697

BY GEOGRAPHICAL MARKET 31 DECEMBER 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
Divestments	-286	—	—	—	—	—	—	—	-286
Reclassified to/from operating properties	—	—	—	—	-36	657	—	—	621
Revaluation for the year of property, plant and equipment, in comprehensive income	—	—	—	—	—	117	—	—	117
Change in value, unrealised	475	-13	61	207	465	27	190	16	1,428
Change in value, realised	14	—	—	—	—	—	—	—	14
Change in exchange rates	—	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

Valuation model

Pandox establishes the market value of all investment properties quarterly 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 applicable, over 10 years, less outstanding approved investments over the same period. The residual value at the end of year 10 is arrived at 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 segment 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 applicable, 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.

►► Note 12, cont.

CALCULATION ASSUMPTIONS BY GEOGRAPHICAL AREA IN 2019

	Fair value, MSEK	Valuation yield		Discount rate	
		Range, %	Average, %	Range, %	Average, %
Sweden	14,940	4.2–6.6	5.2	6.2–8.6	7.2
– of which Stockholm	5,825	4.2–5.8	4.9	6.2–7.8	6.9
– of which Gothenburg	2,920	4.3–6.1	4.7	6.3–8.1	6.7
– of which Malmö	1,360	4.9–6.0	5.2	6.9–8.0	7.2
– of which Other Sweden	4,835	5.4–6.6	5.8	7.4–8.6	7.8
Denmark	3,591	4.8–6.2	5.3	6.8–8.2	7.3
Norway	3,455	4.3–8.3	5.7	6.3–10.3	7.7
Finland	4,034	4.4–8.0	5.5	6.2–9.8	7.3
Germany	12,104	4.6–6.6	5.4	6.6–8.6	7.4
Belgium	920	6.0–6.1	6.0	8.0–8.1	8.0
UK, Ireland	11,127	4.9–6.7	5.6	6.9–8.7	7.6
Other	3,526	5.0–6.1	5.5	6.8–7.9	7.3
Total	53,697	4.2–8.3	5.4	6.2–10.3	7.4

CALCULATION ASSUMPTIONS BY GEOGRAPHICAL AREA IN 2018

	Fair value, MSEK	Valuation yield		Discount rate	
		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, Ireland	10,138	4.9–6.7	5.6	6.9–8.7	7.6
Other	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

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

SENSITIVITY ANALYSIS – FAIR VALUE

	Change	Effect on value in 2019, MSEK	Effect on value in 2018, MSEK
Valuation yield	+/-0.5 pp	-4,544/+5,470	-3,918/+4,700
Change in exchange rates	+/-1%	+/-388	+/-322
Rental income	+/-1%	+/-602	+/-520
Discount rate	+/-0.5 pp	-3,408/+3,903	-2,952/+3,375
Net operating income	+/-1%	+/-535	+/-454

Significant commitments

At the end of 2019 approved investments in future projects amounted to the equivalent of around MSEK 1,410, of which larger projects consist of Crowne Plaza Brussels Le Palace, Scandic Luleå, Hotel Berlin, Berlin, Airport Bonus Inn Vantaa, Hotel Pullman Stuttgart Fontana, Dorint Parkhotel Bad Neuenahr, Jurys Inn Oxford, Jurys Inn Inverness, The Midland Manchester, Quality Park Södertälje, Hilton Garden Inn Heathrow Airport, NH Brussels Bloom, as well as the programme for green investments.

Specification of property revenue and related costs

	2019	2018
Rental income/other property revenue	3,129	2,971
– of which guaranteed rents	1,760	1,575
Direct costs for investment properties that generated rental income during the period (operating and maintenance costs, property tax and site leasehold rent) ¹⁾	-238	-324

¹⁾ Excluding property administration and insurance costs.

NOTE 13 EQUIPMENT/INTERIORS

§ ACCOUNTING PRINCIPLES

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.

Parent Company

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.

MSEK	Group		Parent Company	
	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018
Cost, opening balance	1,090	1,015	4	4
Reclassifications ¹⁾	-65	-134	—	—
Acquisitions	75	64	—	—
Investments	109	65	4	—
Reclassification from work in progress	12	69	—	—
Sales/disposals	-89	-24	—	—
Translation differences	36	35	—	—
Accumulated cost, closing balance	1,168	1,090	8	4
Depreciation, opening balance	-606	-592	-3	-3
Reclassifications ¹⁾	65	59	—	—
Depreciation for the year	-88	-77	-1	0
Sales/disposals	32	24	—	—
Translation differences	-17	-20	—	—
Accumulated depreciation, closing balance	-614	-606	-4	-3
Residual value according to plan	554	484	4	1

¹⁾ Reclassified from equipment to buildings, MSEK — (-14). Other reclassifications of MSEK — (-61) refers to transfers from operating properties to investment properties.

NOTE 14 OPERATING PROPERTIES

§ ACCOUNTING PRINCIPLES

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 years 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.

GROUP MSEK	31 Dec 2019	31 Dec 2018
Buildings		
Cost, opening balance	5,369	5,302
Reclassification	–97	–733
Acquisitions	780	446
Investments	70	63
Sales/disposals	–33	—
Reclassification from construction/reconstruction work in progress	17	118
Translation difference	181	173
Accumulated cost, closing balance	6,287	5,369
Depreciation, opening balance	–844	–890
Reclassification	37	165
Sales/disposals	16	—
Depreciation for the year	–101	–86
Translation difference	–22	–33
Accumulated depreciation, closing balance	–914	–844
Residual value according to plan, buildings	5,373	4,525
Land		
Cost, opening balance	783	787
Reclassification	—	–33
Acquisitions	62	—
Translation difference	18	29
Accumulated cost, land, closing balance	863	783
Total residual value according to plan, closing balance	6,236	5,308
Work in progress, operating properties		
Cost, opening balance	18	47
Reclassification	—	0
Investments	82	157
Reclassification from construction/reconstruction work in progress	–29	–188
Translation difference	0	2
Cost, work in progress, closing balance	71	18
Total, operating properties	6,307	5,326

The fair value (market value) of the operating properties exceeds their cost and is shown below. See Note 12 for the fair value measurement model.

MSEK	31 Dec 2019	31 Dec 2018
Market value, operating properties (incl. equipment/interiors)	9,772	8,058

NOT 15 RIGHT-OF-USE ASSETS, LEASE LIABILITIES AND TRANSITION TO IFRS 16

§ ACCOUNTING PRINCIPLES

On the entry into force of this standard Pandox chose to apply the simplified approach, which means that comparative information for earlier periods has not been restated. Pandox has chosen to apply the relief for leases where the underlying asset is of low value or the lease term is 12 months or less. Lease payments are divided between reduction of the lease liability and interest expense, while the lease payments reported previously as external costs are replaced by depreciation expense on the right-of-use assets. 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. 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.

In conjunction with the transition to IFRS 16 Pandox has chosen 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 expense for right-of-use assets".

For site leasehold rents, the implicit interest rate based on agreements has been used and for other right-of-use assets the incremental borrowing rate has been used. The rates applied range from 1.29 to 4.45 percent.

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 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 are usually extended. 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 on this basis Pandox deals with these agreements in the same way as Swedish site leaseholds.

Pandox has lease commitments for site leaseholds and for other leased land, premises and vehicles. These undiscounted commitments amount to MSEK 2,894 in total, based on current leases. Of these commitments, MSEK 2,747 relates to leases for land (site leaseholds or other leased land).

Commercial premises (mainly Pandox AB's premises and some storeys leased in The Hotel Brussels) and vehicles (company cars) 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. For premises the option of extension is applicable, but since these are not deemed to be of material significance they have not been included in the term of the lease.

Accounting principles in 2018

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. Pandox also has leases 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. The Group therefore has no finance leases.

Transition effects

Pandox is applying IFRS 16 from 1 January 2019, in a prospective manner. The effects of the transition on the balance sheet as of 1 January 2019 are shown in Note 30 on page 147 of the Annual Report 2018. Right-of-use assets amount to MSEK 2,490 and lease liabilities total MSEK 2,490 as of 1 January 2019. The difference compared with the operating leases presented in Note 8 on page 129 of the Annual Report 2018 is MSEK -168 and is attributable mainly to discounting of the commitments. Total operating leases falling due for payment after the closing date amounted to MSEK 2,658 for 2018.

In addition to the above effects of the transition to IFRS 16, its introduction affects key ratios; see definitions of key ratios on page 160. The definitions of net interest-bearing debt and cash earnings were clarified from 1 January 2019 for comparability with earlier periods.

The effects of the new standard IFRS 16 are presented on the next page.

►► Note 15, cont.

RIGHT-OF-USE ASSETS

MSEK	Site lease-holds	Premises	Vehicles	Other	Total
Opening balance	2,352	127	5	6	2,490
New leases/investments	397	26	3	1	427
Divestments and disposals	-62	0	0	-1	-63
Depreciation	—	-17	-3	-2	-22
Exchange rate differences	60	2	0	0	62
Closing book value	2,747	138	5	4	2,894

LEASE LIABILITIES

MSEK	31 Dec 2019	31 Dec 2018
Current	30	—
Non-current	2,864	—
Total lease liabilities	2,894	—

RECOGNISED IN THE INCOME STATEMENT

	2019	2018
Financial expense for right-of-use assets ¹⁾	-81	—
Depreciation of right-of-use assets – within costs of Operator Activities and central administration	-22	—

¹⁾ Of which, site leasehold rents paid amount to MSEK 78

MATURITY ANALYSIS FOR NON-DISCOUNTED LEASE LIABILITIES

	Expected to be settled within					Total contractual cash flows	Carrying amount of lease liability
	Less than 6 months	Between 6 and 12 months	Between 1 and 2 years	Between 2 and 5 years	More than 5 years		
Lease liabilities	13	17	27	32	2,806	2,895	2,894

The effects of the new standard are reported in the tables below and presented as if IAS 17 had been applied for 2019.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

MSEK	2019	Excl. IFRS 16 Restated 2019	Effect IFRS 16
Net sales	5,553	5,553	—
Costs	-2,358	-2,436	78
Gross profit	3,195	3,117	78
Central administration	-175	-178	3
Financial income / expense	-946	-865	-81
Profit before changes in value	2,074	2,074	0
Changes in value	1,420	1,420	—
Profit before tax	3,494	3,494	0
Current tax	-794	-794	—
Profit for the period	2,700	2,700	0
Other comprehensive income for the period	46	46	—
Comprehensive income for the period	2,746	2,746	0

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

MSEK	31 Dec 2019	Excl. IFRS 16 Restated 31 Dec 2019	Effect IFRS 16
ASSETS			
Non-current assets	63,986	61,092	2,894
Current assets	1,657	1,657	—
Total assets	65,643	62,749	2,894
EQUITY			
Equity	26,506	26,506	0
LIABILITIES			
Non-current liabilities	31,756	28,892	2,864
Current liabilities	7,381	7,351	30
Total equity and liabilities	65,643	62,749	2,894

RECONCILIATION ALTERNATIVE PERFORMANCE MEASURES

MSEK	2019	Excl. IFRS 16 Restated 2019	Effect IFRS 16
Net operating income			
Property Management	2,764	2,706	58
Operator Activities	625	599	26
EBITDA ¹⁾	3,215	3,128	87

¹⁾ Including central administration.

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 2019	31 Dec 2018
Rent receivables and trade accounts receivable	367	326
Doubtful rent receivables and trade accounts receivable	—	—
Closing balance	367	326

NOTE 17 EQUITY

§ ACCOUNTING PRINCIPLES

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.

Distribution of capital to shareholders*Dividend*

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

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.

Equity items*Share capital*

The share capital consists of 75,000,000 class A shares and 108,849,999 class B shares, totalling 183,849,999 (167,499,999) shares with a quota value of SEK 2.5 per share, making a total value of MSEK 460. See also the information on page 30 in the section "Pandex and the capital market".

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, Operator Activities and Property Management.

Retained earnings including net profit for the year

Retained earnings consist of profits earned in previous years, including net profit for the year.

Non-controlling interests

Non-controlling interests that have arisen from acquisition of investment properties and minority's share of net profit for the year and other comprehensive income reduced by the dividend paid to the minority.

Dividend

The proposed dividend to shareholders for the year amounts to MSEK 662, corresponding to a dividend of SEK 3.60 per share. During 2019 the dividend proposed for the 2018 financial year of MSEK 787 was settled.

Per share data

The average number of shares used to calculate earnings per share and comprehensive income per share has been adjusted for the new share issue in November 2019 and amounts to 170,053,287. Earnings per share amount to SEK 15.91 (2,705,897,000/170,053,287).

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.

Pandex'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 Pandox Group, defining financial risks and how to limit these risks, establishing a division of responsibility and administrative rules, and also serves as guidance in the day-to-day work of the CFO and Treasury. 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.

§ ACCOUNTING PRINCIPLES

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. 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. Only loans external to the Group are used as hedging instruments. 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.

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.

Hedging of net investment in foreign operations

Pandex 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 should preferably take out external loans in the same local currency. This reduces translation exposure by reducing the net asset in foreign currency. Pandox aims to reduce currency exposure. 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 affects 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.

Derivatives and interest rate risk

In accounting for interest rate risk, interest expense and changes in value are reported on separate lines. 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 the fair value of interest rate swaps are recognised through profit after financial items, on the line for changes in the value of derivatives.

►► Note 18, cont.

Interest-bearing liabilities and loans

As of 31 December 2019 loans amounted to MSEK 33,407. Unutilised long-term credit facilities amounted to MSEK 3,583.

In 2019 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 2019 the total issued volume of commercial papers was MSEK 645 and MEUR 100.

DEBT OVERVIEW AND UNUTILISED CREDIT FACILITIES 31 DECEMBER 2019

MSEK	Maturing	Interest basis	Total credit limit	Utilised amount	Unutilised amount
Bank loans	0–7 years	Variable	26,825	26,452	373
	0–5 years	Variable	6,582	1,684	4,898
Revolving credit facilities					
Commercial paper	0–1 years	Fixed	—	1,688	–1,688
Total credit facilities			33,407	29,824	3,583

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
2019	3.8	2.6	3.3
2018	3.0	2.6	3.1

INTEREST MATURITY PROFILE 31 DECEMBER 2019

Maturity (MSEK)	Total fixed rate period		Fixed rate period, derivatives		
	Amount ¹⁾	Share, %	Volume	Share, %	Average interest, derivatives %
0–2 years	14,361	48	5,627	26.7	1.7
2–4 years	4,137	14	4,137	19.6	1.2
4–6 years	430	1	430	2.0	0.0
6–8 years	4,642	16	4,329	20.5	0.5
8–10 years	5,732	19	6,305	29.9	0.8
> 10 years	522	2	261	1.2	0.0
Total	29,824	100%	21,091	100	1.0

¹⁾ Share of loans with an interest rate reset during the period.

INTEREST MATURITY PROFILE 31 DECEMBER 2018

Maturity (MSEK)	Total fixed rate period		Fixed rate period, derivatives		
	Amount ¹⁾	Share, %	Volume	Share, %	Average interest, derivatives %
0–2 years	15,293	54	4,019	24	6.4
2–4 years	5,256	19	5,256	31	2.2
4–6 years	1,481	5	1,481	9	1.6
6–8 years	1,233	4	1,233	7	0.3
8–10 years	4,831	17	4,831	29	4.4
Total	28,095	100%	16,820	100	1.5

¹⁾ Share of loans with an interest rate reset during the period.

SENSITIVITY ANALYSIS OF CHANGES IN INTEREST RATES FOR 2019 AND 2018 RESPECTIVELY

The table below shows the change in various scenarios.

	2019		2018	
	Change	Effect on earnings, MSEK	Change	Effect on earnings, MSEK
Interest expense with current fixed interest, change in interest rates	+/-1%	-/+83	+/-1%	-/+102
Interest expense with a change in the average interest rate level	+/-1%	-/+298	+/-1%	-/+281
Remeasurement of interest rate derivatives following shift in yield curves	+/-1%	-/+1,092	+/-1%	-/+801

Shown above is the effect on earnings of specific changes in interest rates which have a corresponding effect, adjusted for tax (around 21 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.

►► Note 18, cont.

Currency risk

Currency risk is the risk that 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. 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 currency-hedge 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 2019

MSEK ¹⁾	SEK	DKK	EUR	CHF	CAD	NOK	GBP	Total	Share, %	Interest rate, % ²⁾
Total interest-bearing liabilities	4,788	1,983	15,091	475	527	1,308	5,651	29,824	100	2.6
Maturing in foreign currency, %	16.1	6.6	50.6	1.6	1.8	4.4	18.9	100.0	—	—
Average interest rate, %	3.7	2.1	2.1	0.8	4.2	3.5	3.2	2.6	—	—
Average fixed interest period, years	5.3	1.0	3.9	0.2	0.1	2.2	3.9	3.8	—	—
Property market value	14,940	3,591	28,687	799	1,404	3,455	10,593	63,469	—	—

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	—	—

¹⁾ Converted to MSEK.

²⁾ Average interest rate including bank margin; the interest is calculated on the total credit utilised.

FINANCIAL ASSETS AND LIABILITIES PER CURRENCY AT 31 DECEMBER 2019, MILLIONS IN LOCAL CURRENCY

	SEK	DKK	EUR	CHF	CAD	NOK	GBP	Total SEK
Assets	15,942	2,958	2,582	85	152	3,333	1,081	65,643
<i>of which Financial assets</i>	143	373	26	1	3	1	15	1,150
Liabilities	14,535	521	1,191	56	90	2,537	621	39,137
<i>of which Financial liabilities</i>	11,700	580	902	50	79	1,139	528	30,619
Effect on result +/-10% exchange rate	—	+/-4	+/-86	+/-4	+/-2	+/-114	+/-67	+/-278
Effect on equity +/-10% exchange rate	—	+/-28	+/-884	+/-47	+/-52	+/-120	+/-606	+/-1,737

FINANCIAL ASSETS AND LIABILITIES PER CURRENCY AT 31 DECEMBER 2018, MILLIONS IN LOCAL CURRENCY

	SEK	DKK	EUR	CHF	CAD	NOK	GBP	Total SEK
Assets	13,946	3,760	1,946	81	161	3,490	1,064	55,016
<i>of which Financial assets</i>	17	290	40	1	5	10	16	1,044
Liabilities	11,472	1,462	1,167	52	87	2,559	519	33,478
<i>of which Financial liabilities</i>	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

►► Note 18, cont.

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 at year-end amounts to MSEK 4,215 (2,500) and is distributed as shown in the table below.

Refinancing risk is the risk that financing cannot be obtained, or can only be obtained at considerably higher 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.

	31 Dec 2019	31 Dec 2018
MSEK		
Cash and cash equivalents	632	674
Unutilised credit facilities	3,583	1,826
Total liquidity reserve	4,215	2,500

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 2019, MSEK

Year due	Other liabilities	Loan amount ²⁾	Interest, loans ¹⁾
2020	—	5,679	75
<i>Due 0–1 month</i>	304	—	—
<i>Due 1–3 months</i>	—	—	—
<i>Due 3–12 months</i>	—	5,679	—
2021	—	1,048	16
2022	—	2,843	33
2023	—	19,748	339
2024	—	1,888	41
2025	—	2,201	28
Total	304	33,407	532

MATURITY PROFILE FINANCIAL LIABILITIES 31 DECEMBER 2018, MSEK

Year due	Other liabilities	Loan amount ²⁾	Interest, loans ¹⁾
2019	—	5,859	85
<i>Due 0–1 month</i>	286	—	—
<i>Due 1–3 months</i>	—	—	—
<i>Due 3–12 months</i>	—	5,859	85
2020	—	5,569	82
2021	—	4,207	42
2022	—	2,830	40
2023	—	10,905	228
2024	—	552	15
Total	286	29,922	491

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. Including unutilised amount.

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 A3 (Moody's), or another counterparty with a minimum rating of either A (S&P) or A2 (Moody's).

Pandox has a well-diversified property portfolio characterised by well-established, stable and sound tenants, 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 retail 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 loan-to-value ratio, with a target of 45–60 percent. Internal monitoring of financial position does not focus on equity. At year-end 2019 the loan-to-value ratio was 46.0 (49.7) percent.

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

§ ACCOUNTING PRINCIPLES

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.

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.

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.

The relevant categories are as follows:

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

Financial assets (and liabilities) 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) at fair value through profit or loss

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

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

Hedging of net investment in foreign operations under IFRS 9.

Financial instruments in this category are measured on an ongoing basis at fair value with changes in value recognised through other comprehensive income. See also Note 18 regarding accounting principles for hedge accounting.

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.

Parent Company

Due to the connection between reporting and taxation, the rules for financial instruments and hedge accounting in IFRS 9 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.

►► Note 19, cont.

FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

31 DECEMBER 2019, MSEK	Category	Financial assets/liabilities at amortised cost	Financial assets/liabilities at fair value through profit or loss	Financial assets/liabilities at fair value through other comprehensive income
Other non-current receivables		34	—	—
Rent receivables and trade accounts receivable		367	—	—
Derivatives	Level 2	—	117	—
Cash and cash equivalents		632	—	—
Total financial assets		1,033	117	0
Non-current interest-bearing liabilities		23,587 ¹⁾	—	—
Derivatives	Level 2	—	694	—
Current interest-bearing liabilities		6,034 ¹⁾	—	—
Trade accounts payable		304	—	—
Total financial liabilities		29,925	694	0

31 DECEMBER 2018, MSEK	Category	Financial assets/liabilities at amortised cost	Financial assets/liabilities at fair value through profit or loss	Financial assets/liabilities at fair value through other comprehensive income
Other non-current receivables		31	—	—
Rent receivables and trade accounts receivable		326	—	—
Derivatives	Level 2	—	12	—
Cash and cash equivalents		674	—	—
Total financial assets		1,032	12	—
Non-current interest-bearing liabilities		20,719 ¹⁾	—	—
Derivatives	Level 2	—	550	—
Current interest-bearing liabilities		7,198 ¹⁾	—	—
Trade accounts payable		286	—	—
Total financial liabilities		28,203	550	—

¹⁾ Arrangement fees of approximately MSEK 202 (178) have reduced interest-bearing liabilities in the balance sheet.

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 derivatives are subject to the International Swaps and Derivatives Association's (ISDA) Master Agreements on netting. 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. 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 EXPENSES AND ACCRUED INCOME

MSEK	Group		Parent Company	
	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018
Prepaid expenses	91	104	21	34
Accrued rental income	197	201	—	—
Total	288	305	21	34

PREPAID INCOME AND ACCRUED EXPENSES

MSEK	Group		Parent Company	
	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018
Prepaid rent	191	185	—	—
Accrued interest expense	93	107	19	27
Accrued property tax	5	12	—	—
Accrued employee costs	54	66	9	5
Other	238	286	32	22
Total	581	656	60	54

NOTE 21 PROVISIONS

§ ACCOUNTING PRINCIPLES

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. Disputes may arise in the course of operating activities, but there has been no material impact on the Group's financial position.

Parent Company

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.

MSEK	Group		Parent Company	
	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018
Carrying amount at beginning of period	101	136	100	82
Provisions made during the period	38	23	37	23
Amounts used during the period	-1	-58	—	-5
Carrying amount at end of period	138	101	137	100
- of which the long-term portion of the provisions	41	100	40	100
- of which the short-term portion of the provisions	97	1	97	0

The provisions consists of pension provisions, provisions for incentive schemes and provisions for equipment in buildings.

The opening balance of provisions was MSEK 21 (13) for pension provisions, MSEK 79 (61) for incentive schemes and MSEK 1 (62) for rent guarantees for hotels sold in 2014.

Provisions for the year consisted of MSEK 32 for incentive schemes, MSEK 5 for pensions and MSEK 1 for equipment in buildings.

The closing balance consists of MSEK 0 (1) for rent guarantees, MSEK 26 (21) in pension provisions, MSEK 111 (79) for incentive schemes and MSEK 1 (0) for equipment in buildings.

NOTE 22 PLEDGED ASSETS AND CONTINGENT LIABILITIES

§ ACCOUNTING PRINCIPLES

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.

MSEK	Group		Parent Company	
	2019	2018	2019	2018
Assets pledged to credit institutions				
Assets pledged for own liabilities, properties	30,099	24,912	—	—
Bank deposits	7	7	—	—
Total pledged assets	30,106	24,919	—	—
Contingent liabilities				
Security commitments for group companies	—	—	26,766	19,385
Guarantees for employees	21	17	21	17
Total contingent liabilities	21	17	26,787	19,402

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 23 EVENTS AFTER THE CLOSING DAY

Pandox completed the acquisition of a hotel property in Nuremberg, Germany, for MEUR 61 on 31 January 2020.

NOTE 24 PARTICIPATIONS IN SUBSIDIARIES

PARENT COMPANY MSEK	31 Dec 2019	31 Dec 2018
Cost, opening balance	8,880	9,322
Acquisitions	—	0
Divestment of subsidiaries	0	-442
Total accumulated cost	8,880	8,880
Impairment losses, opening balance	-1,487	-1,487
Accumulated impairment losses, closing balance	-1,487	-1,487
Closing balance	7,393	7,393

►► Note 24, cont.

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
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).

Indirectly owned subsidiaries	Company reg. no.	Registered office	Indirectly owned subsidiaries	Company reg. no.	Registered office
Arlanda Flyghotell KB	916500-8021	Stockholm, Sweden	Norgani Hotelleiendom i Jönköping AB	556674-0212	Stockholm, Sweden
Fastighetsbolaget Utikiken KB	916611-7755	Stockholm, Sweden	Norgani Hotelleiendom i Luleå AB	556674-0485	Stockholm, Sweden
Fastighets AB Hotell Kramer	556473-6402	Stockholm, Sweden	Norgani Hotelleiendom i Malmö AB	556674-0436	Stockholm, Sweden
Hotellus Nordic AB	556554-6594	Stockholm, Sweden	Norgani Hotelleiendom i Sundsvall AB	556674-0071	Stockholm, Sweden
Hotellus Järva Krog AB	556351-7365	Stockholm, Sweden	Norgani Hotelleiendom i Södertälje AB	556673-9768	Stockholm, Sweden
Hotellus Mölndal AB	556554-6636	Stockholm, Sweden	Norgani Hotellfastighetsaktiebolaget Blyet	556673-9685	Stockholm, Sweden
Vestervold KB	916631-9534	Stockholm, Sweden	Norgani Hotellfastighetsaktiebolaget Osten	556674-0469	Stockholm, Sweden
Skogshöjd Handels & Fastighets AB	556066-0432	Stockholm, Sweden	Norgani Hotellfastighetsaktiebolaget Radien	556674-0196	Stockholm, Sweden
Norgani Sweden Holding AB	556660-3238	Stockholm, Sweden	Norgani Hotellfastighetsaktiebolaget Vindmotorn	556673-9818	Stockholm, Sweden
Norgani Alvik Hasselbacken AB	556735-4872	Stockholm, Sweden	Norgani Suomi Holding AB	556705-2781	Stockholm, Sweden
Fastighets AB Prince Philip	556488-0028	Stockholm, Sweden	Norgani Suomi 2 AB	556705-0694	Stockholm, Sweden
Norgani Mora Stranden 37:3 AB	556660-3493	Stockholm, Sweden	Norgani Suomi 3 AB	556704-9688	Stockholm, Sweden
Norgani Luleå Tjädern 19 AB	556660-4426	Stockholm, Sweden	Norgani Suomi 4 AB	556705-0983	Stockholm, Sweden
Norgani Kalmar Hammaren 4 AB	556660-6538	Stockholm, Sweden	Norgani Suomi 5 AB	556704-8151	Stockholm, Sweden
Norgani Linköping Ekoxen 9 and 11 AB	556658-7407	Stockholm, Sweden	Norgani Suomi 6 AB	556704-8144	Stockholm, Sweden
Norgani Göteborg Backa 149:1 and 866:397 AB	556658-7480	Stockholm, Sweden	Norgani Suomi 9 AB	556705-0520	Stockholm, Sweden
Norgani Stockholm Gräberget 29 AB	556688-7450	Stockholm, Sweden	Norgani Suomi 10 AB	556704-4218	Stockholm, Sweden
Norgani Hotelleiendom i Göteborg AB	556674-0709	Stockholm, Sweden	Norgani Suomi 11 AB	556704-8227	Stockholm, Sweden
Norgani Hotelleiendom i Helsingborg AB	556674-0063	Stockholm, Sweden			

►► Note 24, cont.

Indirectly owned subsidiaries	Company reg. no.	Registered office	Indirectly owned subsidiaries	Company reg. no.	Registered office
Norgani Suomi 12 AB	556704-8219	Stockholm, Sweden	Elba Leasehold BVBA	0889.633.520	Belgium
Norgani Suomi 13 AB	556704-8201	Stockholm, Sweden	Elba Freehold BVBA	0889.630.649	Belgium
Norgani Suomi 14 AB	556704-8193	Stockholm, Sweden	Holcro NV	0421.732.937	Belgium
Norgani Suomi 15 AB	556704-8185	Stockholm, Sweden	HDI Brussels Management SA	0550.918.428	Belgium
Norgani Suomi 17 AB	556704-8169	Stockholm, Sweden	Swiss Hotels Leasing Company SA	0443.435.597	Belgium
Norgani Stockholm Herrgården 2 AB	556660-4285	Gothenburg, Sweden	Hotel Charlemagne EU SPRL	0674.930.156	Belgium
Norgani Hotelleiendom i Sverige AB	556674-0170	Stockholm, Sweden	Flight Holdco SPV Ltd	115845	United Kingdom
Hotellinvest Holding DK 1 ApS	29828644	Denmark	Pandox Wonderwall Ltd	11555879 ⁷⁾	United Kingdom
Hotellinvest Holding DK 2 ApS	29830053	Denmark	Pandox Wonderwall PropCo Ltd	10920854 ⁷⁾	United Kingdom
Hotellinvest DK 1 ApS	10998476	Denmark	Pandox Highlander Holdco Ltd	11471474 ⁷⁾	United Kingdom
Hotellinvest DK 2 ApS	28886217	Denmark	Pandox Highlander Opco Ltd	11471650	United Kingdom
Hotellinvest DK 3 ApS	25241266	Denmark	Pandox Highlander Propco Ltd	1675224 ⁷⁾	United Kingdom
Norgani Hotel Cosmopole ApS	25060407	Denmark	Jurys Inns (UK) Ltd	06063534 ⁷⁾	United Kingdom
K/S Norgani Hotel	24250830	Denmark	Pandox Birmingham Propco Ltd	11153346 ⁷⁾	United Kingdom
Komplementarselskabet Norgani Hotel ApS	14446478	Denmark	Pandox Glasgow Propco Ltd	11153391 ⁷⁾	United Kingdom
Norgani Hotel København A/S	20029633	Denmark	Pandox Manchester Propco Ltd	11153367 ⁷⁾	United Kingdom
Urban House Hotel ApS	35632654	Denmark	Pandox Heathrow Propco Ltd	11153339 ⁷⁾	United Kingdom
Oy Norgani 1 Ab	2050600-9	Finland	Pandox UK Opco Ltd	11153341	United Kingdom
Oy Norgani 2 Ab	2050598-9	Finland	Pandox Investment Management DAC	615809	Ireland
Oy Norgani 3 Ab	2050596-2	Finland	Vesway DAC	440248	Ireland
Oy Norgani 4 Ab	2050594-6	Finland	Pandox Group DAC	418679	Ireland
Oy Norgani 5 Ab	2050593-8	Finland	Lhotse Holding DAC	575727	Ireland
Oy Norgani 8 Ab	2050586-6	Finland	Jurys Cork Holdings DAC	575997	Ireland
Oy Norgani 9 Ab	2050625-2	Finland	Jurys Cork CP DAC	575998	Ireland
Oy Norgani 10 Ab	2050619-9	Finland	Jesaway DAC	459311	Ireland
Oy Norgani 11 Ab	2050616-4	Finland	Jurys Inns (Europe) DAC	439060	Ireland
Oy Norgani 12 Ab	2050612-1	Finland	Jurys Inns Investments DAC	591063	Ireland
Oy Norgani 13 Ab	2050610-5	Finland	Dormben Hotel The Hague OpCo B.V.	65626141	Netherlands
Oy Norgani 14 Ab	2050609-2	Finland	Pandox Topco B.V.	70145458	Netherlands
Oy Norgani 16 Ab	2050603-3	Finland	Pandox Intermediate Holdco B.V.	70153590	Netherlands
Norgani Finland Holding Oy	1530970-5	Finland	Pandox Midco B.V.	70156824	Netherlands
Kiinteistö Oy Hotelli Pilotti	0426438-8	Finland	Pandox Holdco B.V.	70159203	Netherlands
Kiinteistö Oy Pakkalan Kartanonkoski 5	0747929-6	Finland	Pandox Bradford Propco B.V.	70691681	Netherlands
Oy Korpilampi Ab	1495021-8	Finland	Pandox Brighton Propco B.V.	70691584	Netherlands
Hotellus Suomi Oy	1495017-0	Finland	Pandox Cardiff Propco B.V.	70691290	Netherlands
Norgani Hotels AS	988 016 683	Norway	Pandox Cheltenham Propco B.V.	70691363	Netherlands
Norgani Hotelleiendom AS	988 201 227	Norway	Pandox East Midlands Propco B.V.	70691150	Netherlands
Hotellinvest Holding AS	990 122 806	Norway	Pandox Hinckley Propco B.V.	70690227	Netherlands
Norgani Eiendom Bodø AS	991 393 48	Norway	Pandox Inverness Propco B.V.	70690316	Netherlands
Norgani Hotell Bastionen AS	940 157 633	Norway	Pandox Leeds Propco B.V.	71857419	Netherlands
Norgani Norge Holding AS	989 197 355	Norway	Pandox Croydon Propco B.V.	70691800	Netherlands
Alexandra Hotell AS	910 114 174	Norway	Pandox Middlesbrough Propco B.V.	70690464	Netherlands
Norgani Hotell Kristiansand AS	938 214 964	Norway	Pandox Oxford Propco B.V.	70690545	Netherlands
Norgani Hotell Oslo AS	951 361 542	Norway	Pandox Sheffield Propco B.V.	70691029	Netherlands
Norgani Hotell Bergen AS	967 989 371	Norway	Pandox Swindon Propco B.V.	70691088	Netherlands
Norgani Hotell Hafjell AS	938 214 875	Norway	Jyrus B.V.	34270312	Netherlands
Norgani Hotell KNA AS	890 618 812	Norway	Jinns B.V.	34265843	Netherlands
Norgani Hotell Bergen Airport AS	919 626 852	Norway	Euro Lifirm Holding B.V.	33227692	Netherlands
Norgani Fagernaes Turisthotell AS	919 844 604	Norway	Pandox Holland B.V.	34277494	Netherlands
Norgani Olrud Hotell AS	919 286 865	Norway	Pandox Holland 2 B.V.	34304039	Netherlands
Norgani Hamnneset Hotell AS	919 286 881	Norway	Charius Dutch Investment B.V.	58524134	Netherlands
Norgani Hotell Lillehammer AS	952 479 806	Norway	Charius Amsterdam Hotel Property B.V.	34234529	Netherlands
Lillehammer Turisthotell AS	913 915 739	Norway	Hotellus Luxembourg SARL	B131027	Luxembourg
Norgani Hotell Bodø AS	987 141 433	Norway	Dormben Hotel Hanover PropCo S.à.r.l.	B157335	Luxembourg
Pandox Grand Norge 4 AS	914 124 700	Norway	Dormben Hotel The Hague PropCo S.à.r.l.	B143783	Luxembourg
W.E. I Holidaystraat NV	0806.015.461	Belgium	Hotellus Canada Holdings Inc.	BC0793511	Canada
Grand Hotel of Brussels NV	0443.822.213	Belgium	Hotellus Montreal Holdings Inc.	BC0823951	Canada
Town Hotel NV	0437.378.839	Belgium	Hotellus Montreal Inc.	BC0827355	Canada
Elba Belgium Holding BVBA	0889.537.114	Belgium	Hotellus Montreal Services Inc.	BC1177715	Canada
			11028677 Canada Inc.	1102867-7	Canada

▶▶ Note 24, cont.

Indirectly owned subsidiaries	Company reg. no.	Registered office
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
Charlius Germany Hotels Holding GmbH	B158137	Germany
Charlius Germany Hotel Properties GmbH	B158154	Germany
Charlius Cologne Hotel Property GmbH	B131225	Germany
Charlius Dutch Hotels Holding GmbH	B179720	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
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
Lauralex Germany Hotel Properties III GmbH	HRB 87178 B	Germany
Lauralex Hotel Property Stuttgart GmbH	HRB 151637	Germany
Lauralex Hotel Property Sulzbach GmbH	HRB 190617	Germany
Lauralex Hotel Property Kelsterbach GmbH	HRB 151406	Germany
Lauralex Hotel Property Eschborn Land GmbH	HRB 157419	Germany
Lauralex Germany Hotel Properties IV GmbH	HRB 87194 B	Germany
Lauralex Hotel Property Neuperlach GmbH	HRB 151411	Germany
Lauralex Hotel Property Schweinfurt GmbH	HRB 177435	Germany
HR Hotel Estate Bad Neuenahr GmbH	HRB 190577	Germany
Lauralex Hotel Property Eschborn GmbH	HRB 151668	Germany
Philotes Germany Hotel Properties GmbH	HRB 86838	Germany
Philotes Hotel Property Dortmund GmbH	HRB 176724 B	Germany
Philotes Hotel Property Augsburg GmbH	HRB 177448 B	Germany
Philotes Hotel Property Erfurt GmbH	HRB 176730 B	Germany
Finolette Hotel Property Nürnberg	HRB 88039	Germany
Dormben Hannover Hotel Property GmbH	HRB 87426	Germany
Dormben Hann-Haag Hotels GmbH	HRB 87427	Germany
Dormben Hotel Hanover OpCo GmbH	HRB 227807	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 party owns the remaining 6 percent of the shares.

⁵⁾ Pandox AB (publ) owns 49 percent of the shares and a third party owns the remaining 51 percent of the shares.

⁶⁾ Commercial register that is kept by the local court in Frankfurt am Main, Germany.

⁷⁾ The UK subsidiaries are exempt from the requirements relating to the audit of accounts under section 479A of the UK Companies Act 2006. All liabilities of the respective subsidiary companies relating to the financial year ending 31 December 2019 are guaranteed by the parent company under section 479C, audit exemption for a subsidiary company, of the Companies Act 2006. The respective subsidiary companies are included in the audit of the consolidated financial statements of the Pandox Group.

NOTE 25 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 AS, Christian Sundt AB and Helene Sundt AB. The Parent Company is a related party of 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 8. Disclosures concerning subsidiaries can be found in Note 24.

All related party transactions are entered into on market terms. The transactions mainly entail allocation of centrally incurred administration costs and interest relating to receivables and liabilities.

The management agreements that Pandox had with Eiendomsspar AS regarding nine hotels in Oslo that are owned by Eiendomsspar AS or subsidiaries of Eiendomsspar AS ended on 31 December 2019. In 2019 revenue from the asset management agreements amounted to MSEK 4 (5). The management agreement regarding Pelican Bay Lucaya Resort in the Bahamas owned by affiliates of Helene Sundt AS and CGS Holding AS is still in place, and revenue from this amounted to MSEK 1 (1) in 2019.

Eiendomsspar AS owns 5.1 percent of 22 properties in Germany and 9.9 percent of another hotel property in Germany. The acquisitions were made by Pandox in 2015, 2016 and 2019.

Parent Company

The Parent Company's fees for central administrative services from Group companies during the year amounted to MSEK 122 (106). No other purchases were made between the Parent Company and its Group companies.

TRANSACTIONS BETWEEN THE PARENT COMPANY AND RELATED PARTIES

	31 Dec 2019	31 Dec 2018
Parent Company MSEK		
Central administration costs	122	106
Interest income from subsidiaries	369	324
Dividends from subsidiaries	2,337	500
Interest paid to subsidiaries	-47	-37
Receivables from related parties	14,148	9,734
Liabilities to related parties	5,694	5,145
Group contributions received	692	169
Group contributions provided	-943	-24

NOTE 26 SPECIFICATION OF CASH FLOWS FOR THE GROUP

§ ACCOUNTING PRINCIPLES

Cash and cash equivalents consist of bank balances. Pandox presents its cash flow statement using the indirect method. The indirect method starts with profit or loss for the year before tax and makes adjustments for non-cash income and expense items and for changes in working capital. On the acquisition or sale of companies only the cash effect is reported. Cash transactions resulting from the company's financing are reported in cash flow from financing activities.

GROUP MSEK	2019	2018
Acquisition of hotel properties and other business entities		
Acquired assets and liabilities		
Investment properties	3,984	1,215
Operating properties	917	510
Deferred tax assets	2	—
Current receivables	18	2
Cash and cash equivalents	177	6
Total assets	5,098	1,733
Non-controlling interests	—	20
Current liabilities	181	14
Total liabilities	181	14
Purchase consideration:		
Purchase consideration paid	5,078	1,760
Less: Cash and cash equivalents in the acquired operations	-177	-6
Effect on cash and cash equivalents	4,901	1,754
Divestment of hotel properties and other business entities		
Divested assets and liabilities		
Investment properties	480	263
Current receivables	2	—
Total assets	482	263
Deferred tax	5	—
Current liabilities	2	—
Total liabilities	7	—
Selling price:		
Purchase consideration received	390	286
Effect on cash and cash equivalents	390	286

Reconciliation of debts arising from financing activities:

LOANS TO CREDIT INSTITUTIONS

MSEK	31 Dec 2019	31 Dec 2018
Opening balance	27,917	26,298
Cash flow	981	906
Exchange rate differences	723	713
Closing balance liabilities to credit institutions	29,621	27,917

NOTE 27 CURRENT AND NON-CURRENT LIABILITIES, PARENT COMPANY

PARENT COMPANY MSEK	2019	2018
Liabilities to credit institutions due within 12 months	2,878	1,543
Liabilities to credit institutions due in 1–4 years	2,850	5,555
Liabilities to credit institutions due in 5 years or later	597	—
Total current and non-current liabilities¹⁾	6,325	7,098

¹⁾ Arrangement fees of approximately MSEK 20 (29) have reduced interest-bearing liabilities in the balance sheet.

NOTE 28 APPROPRIATION OF PROFIT

At the disposal of the Annual General Meeting:

Retained earnings	6,306,438,152
Profit for the year	2,312,881,098
SEK	8,619,319,250

The Board proposes that the earnings be allocated as follows:

Dividend to shareholders, SEK 3.60 per share	661,859,996
Carried forward	7,957,459,254
SEK	8,619,319,250

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 2019.

Stockholm, 4 March 2020

Christian Ringnes
Chairman

Leiv Askvig
Board member

Ann-Sofi Danielsson
Board member

Jon Rasmus Aurdal
Board member

Bengt Kjell
Board member

Jeanette Dyhre Kvisvik
Board member

Anders Nissen
Chief Executive Officer

Our auditor's report in respect of this annual report and the consolidated accounts was submitted on 4 March 2020.

PricewaterhouseCoopers AB

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

Helena Ehrenborg
Authorised Public Accountant

Auditor's report

To the general meeting of shareholders of Pandox Aktiebolag (publ), corporate registration number 556030-7885

REPORT ON THE ANNUAL ACCOUNTS AND CONSOLIDATED ACCOUNTS

Opinion

We have audited the annual accounts and consolidated accounts of Pandox AB (publ) for the year 2019. The annual accounts and consolidated accounts of the company are included on pages 92–142 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 2019 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 2019 and its 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 opinion

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 section Auditor's responsibilities. 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 means that, to the best of 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 opinion.

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 auditor's report on the annual accounts and consolidated accounts in their entirety.

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 auditor's 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 63,469. 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 the operations in 15 countries. Since around 90 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 accurately reflect the value of the hotel properties according to the company's valuation principles, and whether those principles are consistent with IFRS. Since Pandox also acquired a number of hotel properties during the year, this year's audit focused in particular on how these acquisitions have been reported. 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 over financial reporting, routines and processes based on assessed risks.
- Assessed and discussed the accounts as of 30 June 2019 with the executive management team and audit committee.
- Review of the closing accounts as of 30 September 2019 for the purpose of presenting a review report.
- Review of year-end accounts and final audit work to present this auditor's 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 either by the group audit team or by an audit team that is part of the PwC network. Where another audit team takes part in the review, specific instructions are issued for the group audit and the work is performed in accordance with local audit requirements in the respective countries relating to the statutory audit. In addition, during the year the auditor-in-charge and member of the group audit team visited operations in Belgium and the UK, among other places, 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

►► Auditor's report, cont.

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

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 12 Investment properties.

The book value of the hotel properties as of 31 December 2019 was MSEK 60,004 (of which investment properties MSEK 53,697). 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, 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, such 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.

Key audit matters

Revenue-based rental income

See Note 3 on rental income and 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 model 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.

Key audit matters

Key audit matters are the matters which, in our professional judgement, were of most significance in our audit of the annual accounts and consolidated accounts for 2019. 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.

How our audit addressed the key audit matters

Our audit focused, among other things, on the company's internal control and quality assurance that exists for both the internally and the externally performed valuations as of the date of the 2019 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 15 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.

How our audit addressed the key audit matters

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.

Other information than the annual accounts and consolidated accounts

This document also contains information other than the annual accounts and consolidated accounts, which is found on pages 1–34, 61–91, 147 and 158–161. 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 intend to liquidate the company, to cease operations, or have no realistic alternative but to do so.

The audit committee shall, without prejudice to the board of directors' responsibilities and tasks in general, among other things oversee the company's financial reporting process.

Auditor's responsibilities

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 the web-

site of the Swedish Inspectorate of Auditors (Revisorsinspektionen) at www.revisorsinspektionen.se/revisornsansvar. This description is part of the auditor's report.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinion

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 2019 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 opinion

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the section Auditor's responsibilities. 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 opinion.

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 responsibilities

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.

▶▶ Auditor's report, cont.

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 the website of the Swedish Inspectorate of Auditors (Revisorsinspektionen) at www.revisorsinspektionen.se/revisornsansvar. This description is part of the auditor's report.

PricewaterhouseCoopers AB, with Patrik Adolfson as the auditor-in-charge, was appointed auditor of Padox AB (publ) by the general meeting of the shareholders on 10 April 2019 and has been Padox AB's auditor since 29 March 2017.

Stockholm, 4 March 2020
PricewaterhouseCoopers AB

Patrik Adolfson
Authorised Public Accountant
Auditor-in-charge

Helena Ehrenborg
Authorised Public Accountant

From the Chairman

A high momentum year

2019 was a high momentum year. There were two main tracks to the Board's work. Firstly, the Board supported management in further improving the organisation, governance and control; secondly, the Board engaged in on-going preparation for acquisitions, investments and financing. Sustainability was also a priority during the year.

PAN-EUROPEAN POSITION DRIVES ACTIVITY

The high level of activity results from Pandox having now established pan-European hotel property companies with more properties, business partners and operating countries than before. A larger business platform means more interfaces in the existing operations and also creates more new business opportunities. The Board provides continual support to Pandox's management in its work to develop the organisation so as to meet the demands of this larger business platform.

Some important matters dealt with by the Board and its committees during the year included:

- Acquisition of a total of 13 hotel properties in Germany and the Netherlands for around MSEK 5,500 and divestment of a hotel property in Sweden for around MSEK 500
- Investments of around MSEK 1,500 in the existing portfolio, including earmarked projects in sustainability
- Cash-based directed share issue of around MSEK 3,000
- Annual strategy review

MULTIPLE MILESTONES FOR SUSTAINABILITY

The primary aim of Pandox's sustainability work is to limit the environmental footprint of the properties and the operations through targeted projects to reduce resource use. For example, we have made investments and implemented initiatives to reduce energy and water consumption and

contribute to more efficient operation by recycling waste.

Important milestones within sustainability in 2019 included:

- Implementation of systems for data collection and analysis of critical sustainability data
- Start of BREEAM certification of properties
- Decisions on green investments in Operator Activities
- Implementation of online training in the Code of Conduct in eight languages

NEW CAPITAL ADDS VALUE

At the beginning of November, based on authorisation from the 2019 AGM, Pandox completed a cash-based directed share issue which raised proceeds of around MSEK 3,000 before transaction costs. This took place without preferential rights for existing shareholders since, despite its growth in recent years, Pandox remains a relatively small company operating in a large international market with capital-rich players. Moreover, as the supply of hotel properties is limited, immediate access to capital is a crucial competitive advantage. When the right opportunities arise Pandox needs to be able to act quickly and resolutely, and to be seen by the seller as offering a high degree of deal certainty. Otherwise there is a great risk that Pandox will miss out on the deal to someone else. In a complex and global world with a fickle stock market, the added lead time and uncertainty involved in a preferential rights issue would limit Pandox's opportunities to grow and add value for shareholders. I am aware



that opinions may differ on this matter and therefore I would particularly like to thank Pandox's shareholders for the support they have shown. I hope that the value we have created together to date will motivate you to continue to support us in the future.

AN EFFECTIVE BOARD OF DIRECTORS

As regards the composition of the Board of Directors, in my opinion it comprises a good combination of members with different characters and skills profiles. 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 2020 Annual General Meeting the Nominating Committee is therefore proposing the re-election of all the Board members except Leiv Askvig who has declined re-election. In his place, Jacob Iqbal is proposed as new Board member. Assuming that the AGM approves the Nominating Committee's proposal, the Board of Directors will once again appoint Bengt Kjell as Vice Chairman of the Board.

In conclusion I would like to thank Pandox's employees, shareholders, Nominating Committee, Board of Directors and business partners for their good collaboration in 2019. Together we are strong.

Oslo, March 2020
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.

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.corporategovernance-board.se and describes good practices in the stock market. Pandox complies with the Code with no deviations.

A revised Corporate Governance Code enters into force on 1 January 2020. It includes new rules on reporting remuneration and related party transactions. Pandox has effective principles in place to ensure that market terms apply to related party transactions, and this is also monitored by the Board of Directors.

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 459,624,998 as of 31 December 2019, distributed across 75,000,000 class A shares and 108,849,999 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's 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 2019 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 2019	% of votes
Eiendomsspar AS	36.6
Christian Sundt AB	18.1
Helene Sundt AB	18.1

At year-end the Company's market capitalisation, calculated for both class A and class B shares, amounted to MSEK 38,976 (24,555).

► *More information about the Pandox share and the ownership structure is available on pages 30–33 and on Pandox's website pandox.se.*

Based on the authorisation given to the Board of Directors at the Annual General Meeting on 10 April 2019, Pandox implemented a cash-based directed share issue on 5 November 2019 which raised around MSEK 3,000 before transaction costs.

► *See page 94 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

profit, 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 Pandox's shareholders' meetings provides the basis for a good balance of power between the owners, the Board and executive management.

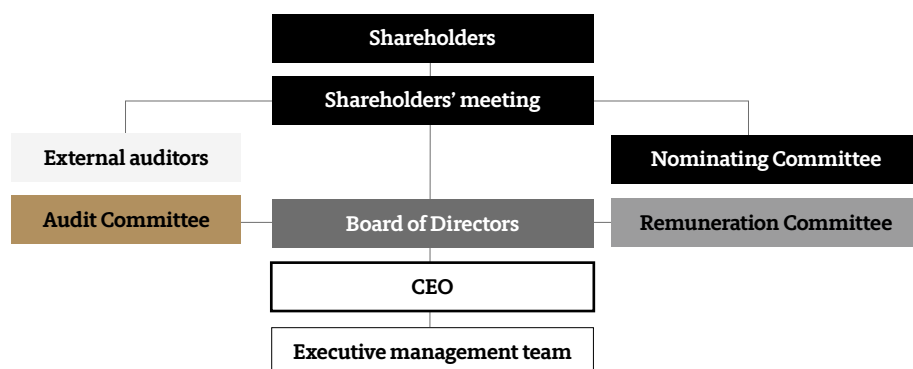
Pandox's Board of Directors is to convene extraordinary shareholders' meetings if a group of minority shareholders holding at least one tenth of all shares in the Company, or the Company's auditor, requests such a meeting. The Board of Directors may also convene an extraordinary shareholders' meeting on its own initiative. Resolutions at shareholders' meetings are normally passed by a simple majority. According to the Articles of Association, notice of 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 2020 AGM will be held in Stockholm on 3 April 2020.

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

Overall corporate governance structure



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 2020 AGM requests are to be received by the Board no later than 14 February 2020.

Annual General Meeting 2019

The last Annual General Meeting (AGM) took place on 10 April 2019 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 profit according to the adopted balance sheet and a decision on a dividend to the shareholders of SEK 4.70 per share.
- Discharging the members of the Board and the CEO from liability.
- Fees for the Board and the Company’s auditors: SEK 800,000 to the Chairman of the Board, SEK 600,000 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 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.
- Re-election of Christian Ringnes, Leiv Askvig, Jon Rasmus Aurdal, Ann-Sofi Danielsson, Bengt Kjell 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 shares outstanding.
- Adoption of guidelines for remuneration of senior executives.
- Adoption of principles for appointing the Nominating Committee in advance of the 2020 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 Pandox’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 annu-

ally and adopted at the statutory board meeting every year. The work procedures regulate, among other things, types of meetings, functions and the 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 154–157.*

IMPORTANT POLICIES AND CODES ADOPTED BY PANDOX’S BOARD OF DIRECTORS

	Contents
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
Anti-corruption Policy	Principles and requirements relating to Pandox’s employees and anti-corruption measures
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 2019

Name	Fees, SEK 000s ³⁾	Attendance at meetings			Independent of the Company ¹⁾	Independent of owners ²⁾
		Board of Directors	Audit Committee	Remuneration Committee		
Christian Ringnes, Chairman ³⁾	850	12 of 12		2 of 2	Yes	No
Leiv Askvig ³⁾	450	11 of 12		2 of 2	Yes	No
Jon Rasmus Aurdal ³⁾	470	11 of 12	4 of 4		Yes	No
Ann-Sofi Danielsson	530	12 of 12	4 of 4		Yes	Yes
Bengt Kjell, Vice Chairman	670	10 of 12	3 of 4		Yes	Yes
Jeanette Dyhre Kvisvik	400	12 of 12			Yes	Yes
Helene Sundt ⁴⁾	400	1 of 2			Yes	No

¹⁾ Independent in relation to the Company and the executive management team.

²⁾ Independent in relation to the Company’s major shareholders.

³⁾ The member did not participate in the board’s preparations or decisions relating to the directed share issue, due to not being independent of shareholders that participated in the issue.

⁴⁾ Stepped down from the Board at the 2019 AGM.

Work of the Board of Directors

2019 was a very active year for Pandox with a number of acquisitions, considerable investments in the existing portfolio and substantial refinancing, all requiring significant commitment from the Board of Directors. 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 12 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. Three board meetings were held in connection with the directed share issue. Members with connections to shareholders who participated in the new share issue were not present during meetings when the Board was making preparations for the issue.

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 operations.

In 2019 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 further 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, the objective being 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.

Two of the six members of Pandox’s Board are women.

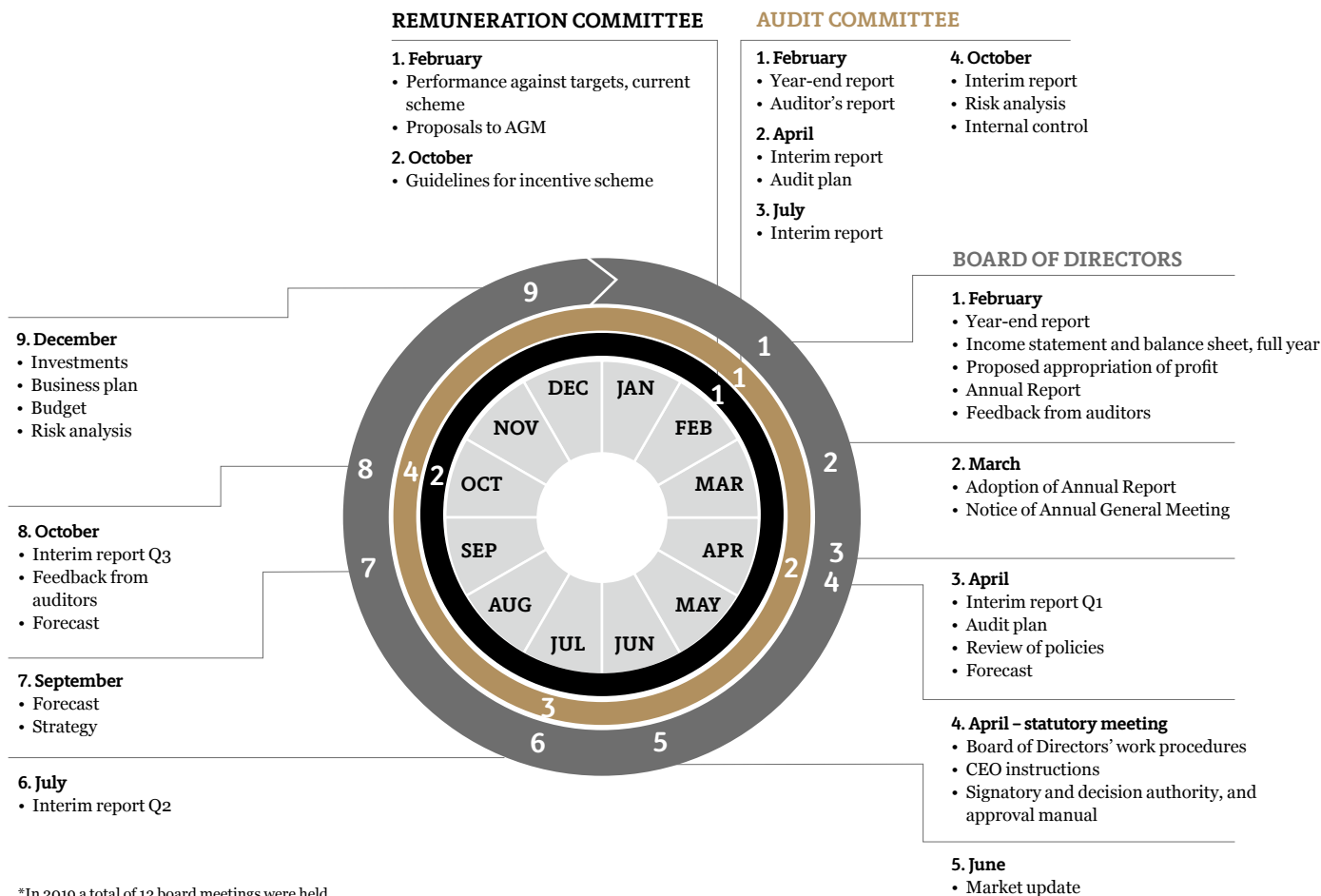
The Nominating Committee has determined that the Board of Directors meets the requirements of the Code concerning independence.

Audit Committee

On 10 April 2019 Pandox appointed an Audit Committee consisting of Ann-Sofi 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 2019, in addition to examining Pandox’s external financial reporting, the Audit Committee analysed and assessed Pandox’s economic, financial and reporting risks on an ongoing basis with a particular focus on revenue, acquisitions, investments,

Board duties, normal annual cycle*



property valuation and the transition to and introduction of IFRS 16.

The Audit Committee continued to deal with matters relating to internal control, in terms of structure, tools, organisation and self-assessment. The assessment is that Pandox's work on risk and control was strengthened further during the year through improved procedures, controls and systems.

In 2019 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 to the executive management team.
- 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, a new incentive scheme was prepared and implemented for key individuals at Pandox.

In 2019 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. The allocation of duties between the board members and the CEO is described in Pandox's work procedures for the Board and instructions for the CEO.

Actions that are of an extraordinary nature or that are particularly significant are not considered part of the day-to-day administration and the CEO must prepare information on them and present this to the Board of Direc-

tors. The CEO is also responsible for preparing reports and compiling information in advance of board meetings and reports 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 ensure that the Board receives sufficient information on which to evaluate Pandox's financial position at all times.

The CEO is to keep the Board continuously informed about Pandox's performance in terms of revenue and earnings, 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 Pandox's Parent Company and the Pandox 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 Pandox's Board or 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 2019 AGM re-elected PwC, with authorised public accountant Patrik Adolfson as auditor-in-charge.

► *Pandox's auditor is presented on page 155.*

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 2019 AGM, the Nominating Committee, in preparation for the 2020 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 2019, 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 6 September 2019 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 3 January 2020.

The Nominating Committee's proposals to the 2020 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 2021 Annual General Meeting

The Nominating Committee's proposals have been published in the notice of the 2020 AGM and on Pandox's website. The AGM will be held on 3 April 2020 in Stockholm.

INTERNAL CONTROL AND FINANCIAL REPORTING

According to the Swedish Companies Act and the Swedish Corporate Governance Code (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 primarily 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. Pandox works continually to define, document and adapt an organisational structure, decision paths, responsibilities and powers that strengthen Pandox's corporate culture and control environment.

Risk assessment

► See the section on Risk on pages 84–88 and the Sustainability Report, page 34.

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 (the Pandox Method). It is used to evaluate and document identified risks associated with the hotel properties and is an important part of Pandox's overall work on risk. Based on an individual business plan for each hotel property, it creates the conditions for increased cash flow and lower risk. The risk model also provides knowledge that can be beneficial when pursuing business opportunities. The four parts of the Pandox Method are:

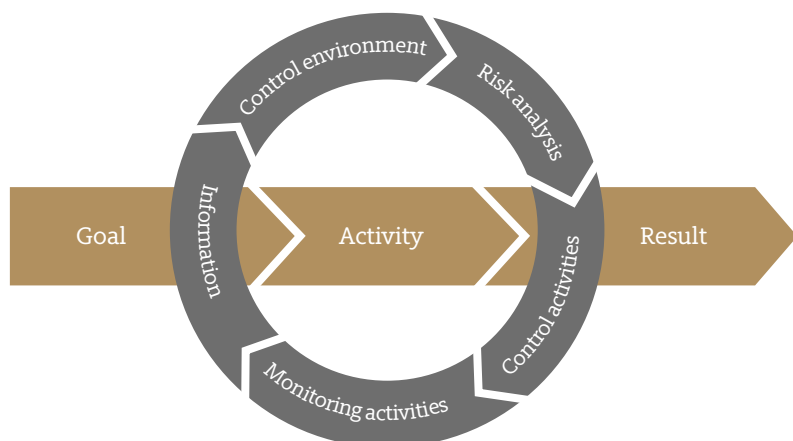
- Market analysis
- Marketing strategy
- Profitability optimisation
- Agreement optimisation

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 macro-economic 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 iden-

Pandox's model for internal control



tify 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 implemented to ensure that control objectives are achieved. Pandox's most important financial processes, such as closing the accounts, consolidation, monitoring results and reporting, have been documented in a Financial Handbook. The control measures involve guaranteeing the quality of financial reporting.

All of the key controls implemented by the Group companies in respect of financial reporting are documented in a self-assessment template used to report to the corporate level. The self-assessment template is monitored, adapted and evaluated at the corporate level, thereby strengthening the control environment in the Group.

The CFO and the Business Intelligence and Group Accounting & 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 Accounting & Control and the 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. 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. Access to financial data for the Group is also controlled at the central level based on authorisation rules.

The corporate department work closely with the reporting subsidiaries, and arranges conferences and training each year for controllers and financial managers.

The Head of Investor Relations works with colleagues to manage all external information and communication, including the external website.

Stockholm, 4 March 2020

The Board of Directors of Pandox AB

Auditor's 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 2019 on pages 148–153 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 statu-

tory 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, 4 March 2020
PricewaterhouseCoopers AB

Patrik Adolfson <i>Authorised Public Accountant</i> <i>Auditor-in-charge</i>	Helena Ehrenborg <i>Authorised Public Accountant</i>
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Pandox's 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 Sundt AS (and board appointments for several companies in the group) and Dermanor AS. Board member Schibsted ASA and member of Fastighetsstyrelsen Norges Bank. Christian Ringnes owns 42.0 percent of the shares in Victoria Eiendom AS, which owns 52.4 percent of the shares in Eiendomsspar AS, which in turn owns 37,314,375 class A shares and 10,144,375 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. Investment Advisor Sundt AS (and chairman of several companies in the group). Chairman of the Board Basen Kapital AS, Christian Sundt AS 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).
 Chief Executive Officer VILLOID AS.
 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, SSAB and others.
 Vice Chairman Indutrade AB.
 Board member AB Industrivärden, Amasten Fastighets 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

Auditor

Patrik Adolfson

Born 1973.
 Auditor-in-charge, authorised public accountant, PricewaterhouseCoopers AB.
 Patrik Adolfson has been auditor-in-charge for Pandox 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).

Pandox's executive management



<p>Anders Nissen 1.</p> <p>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 Blå-klockevägen AS, which owns 371,250 class A shares and 371,250 class B shares in Pandox. Options held: 590,877 synthetic options acquired from Eiendomsspar AS, CGS Holding AS and Helene Sundt AS. If the exercise price is reached, the issuers may decide that the options are to be settled in cash or provide entitlement to class B shares in Pandox. The options do not result in dilution.</p>	<p>Liia Nõu 2.</p> <p>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</p>	<p>Anders Berg 3.</p> <p>Born 1967. Senior Vice President, Head of Communications and IR since 2016. MSc Business and Economics from Linköping University, Certified European Financial Analyst (CEFA), Certified Investor Relations Officer (CIRO). Shareholding: 0</p>
<p>Karmen Bergholcs 4.</p> <p>Born 1970. Senior Vice President, General Counsel since 2016. Law degree from Stockholm University. Shareholding: 0</p>	<p>Martin Creydt 5.</p> <p>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: 1,000 class B shares.</p>	<p>Erik Hvesser 6.</p> <p>Born 1969. Senior Vice President, Director of Property Management Nordics since 2006. Degree in Business Administration from the Norwegian School of Economics. Shareholding: 0</p>
<p>Lars Häggström 7.</p> <p>Born 1954. Senior Executive Vice President, Asset and Technical Development since 2000. Naval engineer, graduate of the Sjöbefäls-skolan (naval officer college) in Stockholm, and one year of studies at the Royal Institute of Technology (KTH). Shareholding: 10,000 class B shares</p>	<p>Aldert Schaaphok 8.</p> <p>Born 1959. Senior Vice President, Director International Operations since 2004. Bachelor's degree in Business Administration (hospitality focus), Hotelschool The Hague. Shareholding: 0</p>	<p>Jonas Törner 9.</p> <p>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</p>

Multiyear summary

Pandox is applying IFRS 16 Leases from 2019 onwards. Comparative figures have not been restated.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Figures in MSEK	2019	2018	2017	2016	2015	2014	2013	2012
Revenue, Property Management								
Rental income	3,017	2,809	2,121	1,717	1,431	1,418	1,523	1,540
Other property revenue	112	162	81	70	112	60	67	55
Revenue, Operator Activities	2,424	2,153	2,067	2,158	2,046	1,598	1,308	1,179
Net sales	5,553	5,124	4,269	3,945	3,589	3,076	2,898	2,774
Costs, Property Management	-365	-454	-321	-292	-263	-292	-313	-293
Costs, Operator Activities	-1,993	-1,776	-1,743	-1,866	-1,767	-1,387	-1,200	-1,078
Gross profit	3,195	2,894	2,206	1,787	1,559	1,397	1,385	1,403
Central administration	-175	-148	-124	-117	-94	-82	-64	-57
Net financial items	-865	-803	-519	-456	-438	-536	-608	-586
Financial expense for right-of-use assets	-81	—	—	—	—	—	—	—
Profit before changes in value	2,074	1,943	1,563	1,214	1,027	779	713	760
<i>Changes in value</i>								
Properties	1,459	1,495	1,914	1,460	1,399	1,197	375	263
Derivatives, unrealised	-39	25	173	-39	203	-622	321	-212
Profit before tax	3,494	3,463	3,650	2,635	2,629	1,354	1,409	811
Current tax	-122	-216	-73	-72	-35	-16	-197	-9
Deferred tax	-672	-424	-429	-349	-463	-85	-264	-305
Profit for the year	2,700	2,823	3,148	2,214	2,131	1,253	948	497
Other comprehensive income for the year	46	465	-185	359	-291	-3	-32	-82
Comprehensive income for the year	2,746	3,288	2,963	2,573	1,840	1,250	916	415

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Figures in MSEK	2019	2018	2017	2016	2015	2014	2013	2012
Assets								
Properties including equipment	60,558	52,949	48,217	36,578	29,463	25,701	26,161	25,359
Right-of-use assets	2,894	—	—	—	—	—	—	—
Other non-current assets	151	43	37	23	25	26	45	10
Deferred tax assets	383	465	613	748	800	924	733	801
Current assets	1,025	885	1,871	563	1,162	315	303	262
Cash and cash equivalents	632	674	999	517	170	321	589	939
Total assets	65,643	55,016	51,737	38,429	31,620	27,287	27,871	27,371
Equity and liabilities								
Equity	26,506	21,538	19,027	15,258	12,215	10,402	10,429	9,395
Deferred tax liabilities	4,552	3,430	3,026	2,582	2,281	1,993	1,708	1,457
Interest-bearing liabilities	29,621	27,917	26,298	18,841	15,546	12,907	14,575	15,020
Lease liabilities	2,894	—	—	—	—	—	—	—
Non-interest-bearing liabilities	2,070	2,131	3,386	1,748	1,578	1,985	1,159	1,499
Total equity and liabilities	65,643	55,016	51,737	38,429	31,620	27,287	27,871	27,371

KEY RATIOS

Figures in MSEK	2019	2018	2017	2016	2015	2014	2013	2012
Net operating income, Property Management	2,764	2,517	1,882	1,495	1,280	1,186	1,277	1,302
Net operating income, Operator Activities	625	540	494	439	416	320	210	189
EBITDA	3,215	2,909	2,252	1,817	1,603	1,425	1,424	1,435
Earnings per share, SEK	15.91	16.83	19.89	14.65	14.21	8.35	6.31	3.32
Cash earnings	2,161	1,893	1,660	1,289	1,130	873	620	840
Earnings per share before and after dilution, SEK	12.74	11.28	10.46	8.49	7.53	5.82	4.10	5.60
RevPAR (operating properties) for comparable units and comparable exchange rates	916	873	806	657	684	644	—	—
	31 Dec 2019	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	29,191	27,421	25,474	18,324	15,376	12,587	13,986	14,081
Loan-to-value ratio, properties, %	46.0	49.7	50.8	47.9	49.5	48.7	55.5	59.4
Interest coverage ratio, times	4.0	3.8	4.4	4.0	3.6	2.6	2.3	2.4
Market value properties, MSEK	63,469	55,197	50,121	38,233	31,437	26,504	26,282	25,291
EPRA NAV per share, SEK	186.40	164.04	144.54	126.24	107.71	92.11	82.60	74.80
WAULT (investment properties), years	15.6	15.7	15.6	13.9	11.2	9.0	—	—

Quarterly data

Pandox is applying IFRS 16 Leases from 2019 onwards. Comparative figures have not been restated.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Figures in MSEK	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018
Revenue, Property Management								
Rental income	784	820	772	641	704	766	739	600
Other property revenue	26	31	11	44	45	44	52	21
Revenue, Operator Activities	645	600	673	506	626	531	565	431
Net sales	1,455	1,451	1,456	1,191	1,375	1,341	1,356	1,052
Costs, Property Management	-94	-90	-79	-102	-122	-112	-127	-93
Costs, Operator Activities	-536	-491	-508	-458	-507	-429	-436	-404
Gross profit	825	870	869	631	746	800	793	555
Central administration	-44	-40	-48	-43	-43	-34	-37	-34
Net financial items	-234	-224	-202	-205	-214	-205	-198	-186
Financial expense for right-of-use assets	-21	-20	-21	-19				
Profit before changes in value	526	586	598	364	489	561	558	335
<i>Changes in value</i>								
Properties, unrealised	396	353	509	131	607	376	297	148
Properties, realised	-41	110	1	—	27	13	13	14
Derivatives, unrealised	444	-211	-133	-139	-147	113	-24	83
Profit before tax	1,325	838	975	356	976	1,063	844	580
Current tax	59	-60	-75	-46	-55	-64	-60	-37
Deferred tax	-93	-536	-140	97	-146	-166	-21	-91
Profit for the period	1,291	242	760	407	775	833	763	452
Other comprehensive income	-199	-250	135	360	-177	-220	134	728
Comprehensive income for the period	1,092	-8	895	767	598	613	897	1,180

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Figures in MSEK	31 Dec 2019	30 Sep 2019	30 Jun 2019	31 Mar 2019	31 Dec 2018	30 Sep 2018	30 Jun 2018	31 Mar 2018
ASSETS								
Properties including equipment	60,558	56,759	54,543	54,371	52,949	50,855	50,789	49,944
Right-of-use assets	2,894	2,765	2,784	2,738	—	—	—	—
Other non-current assets	151	78	75	50	43	91	36	59
Deferred tax assets	383	765	540	539	465	520	561	469
Current assets	1,025	832	1,192	657	885	1,105	2,542	2,262
Cash and cash equivalents	632	530	450	923	674	923	678	708
Total assets	65,643	61,729	59,584	59,278	55,016	53,494	54,606	53,442
EQUITY AND LIABILITIES								
Equity	26,506	22,405	22,413	22,305	21,538	20,950	20,347	20,206
Deferred tax liabilities	4,552	4,879	3,633	3,544	3,430	3,316	3,237	3,153
Interest-bearing liabilities	29,621	29,158	28,541	28,266	27,917	27,461	27,451	26,792
Lease liabilities	2,894	2,766	2,784	2,738	—	—	—	—
Non-interest-bearing liabilities	2,070	2,521	2,213	2,425	2,131	1,767	3,571	3,291
Total equity and liabilities	65,643	61,729	59,584	59,278	55,016	53,494	54,606	53,442

KEY RATIOS

Figures in MSEK	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018
Net operating income, Property Management	716	761	704	583	627	698	664	528
Net operating income, Operator Activities	159	160	212	95	165	142	167	66
EBITDA	831	881	868	634	749	806	794	560
Earnings per share, SEK	7.30	1.45	4.53	2.43	4.63	4.98	4.53	2.69
Cash earnings	651	581	565	362	485	537	536	336
Earnings per share before and after dilution, SEK	3.70	3.47	3.37	2.16	2.90	3.20	3.18	2.00
RevPAR growth (Operator Activities) for comparable units and comparable exchange rates, %	-4	4	12	9	12	6	4	4
	31 Dec 2019	30 Sep 2019	30 Jun 2019	31 Mar 2019	31 Dec 2018	30 Sep 2018	30 Jun 2018	31 Mar 2018
Net interest-bearing debt, MSEK	29,191	28,806	28,248	27,513	27,421	26,590	26,844	26,151
Loan-to-value ratio, properties, %	46.0	48.3	49.0	48.5	49.7	49.9	50.6	50.2
Interest coverage ratio, times	3.9	4.2	4.4	3.3	3.8	4.1	4.2	3.1
Market value properties, MSEK	63,469	59,661	57,618	56,713	55,197	53,281	53,064	52,120
EPRA NAV per share, SEK	186.40	184.03	173.83	170.52	164.04	158.44	153.97	151.81
WAULT (investment properties), years	15.6	15.5	15.5	15.8	15.7	15.3	15.3	15.6

Financial definitions

FINANCIAL INFORMATION

Rounding off

Since figures have been rounded off to MSEK, the tables do not always add up.

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.

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.

Cash earnings, MSEK

EBITDA plus financial income less financial expense, less financial expense for right-of-use assets according to IFRS 16, less current tax, adjusted for any unrealised translation effect on bank balances.

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 as a percentage of total revenue from Operator Activities.

EBITDA, MSEK

Total gross profit less central administration (excluding depreciation).

Average interest on debt, %

Average interest expense based on interest rate maturity in respective currencies as a percentage of interest-bearing liabilities.

Investments, excl. acquisitions, MSEK

Investments in non-current assets excluding acquisitions.

Net interest-bearing debt, MSEK

Current and non-current interest-bearing liabilities plus arrangement costs for loans less cash and cash equivalents and short-term investments that are equivalent to cash and cash equivalents. Non-current and current lease liabilities according to IFRS 16 are not included.

Interest coverage ratio, times

Profit before changes in value plus interest expense and depreciation, divided by interest expense. Financial expense for right-of-use assets in accordance with IFRS 16 is not included.

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.

Growth for comparable units, adjusted for currency effects

Growth measure that excludes effects of acquisitions, divestments and reclassifications, as well as exchange rate changes.

PER SHARE

Cash earnings per share, SEK

EBITDA plus financial income less financial expense less current tax, after minority interests, less financial expense for right-of-use assets according to IFRS 16, adjusted for any unrealised translation effect on bank balances, divided by the weighted average number of shares outstanding.

Earnings per share, SEK

Profit for the period attributable to the Parent Company's shareholders divided by the weighted average number of shares outstanding.

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.

Comprehensive income per share, SEK

Comprehensive income for the period attributable to the Parent Company's shareholders divided by the weighted average number of shares outstanding 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 shares outstanding after dilution at the end of the period.

Weighted average number of shares before dilution, thousands

The weighted average number of shares outstanding 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 shares outstanding taking into account changes in the number of shares outstanding, after dilution, during the period.

Other definitions and terms

PROPERTY INFORMATION

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.

Market value properties, MSEK

Market value of investment properties plus market value of operating properties.

RevPAR for operating properties (comparable units at constant exchange rates), 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 rates is defined as the exchange rate for the current period, and the comparison period is recalculated based on that rate.

WAULT (investment properties)

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 for properties 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 international rules for 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.

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, tourism and hospitality which together account for more than 10 percent of global GDP and employ close to 300 million people.



Image on front page of cover: Hotel Indigo Brussels City.
 Production: Pandox in cooperation with Hallvarsson & Halvarsson.
 Photos: Ulf Blomberg, Peter Hoelstad, Mats Lundqvist, Olivier Pirard, Håkan Cedlöf, Daniel Gual and others.
 Printing: Göteborgstryckeriet, 2020.



Play fetch with Pepper!

Pandox's corporate dog Pepper is chasing after five balls that have ended up in various places in the Annual Report. Can you find them? The first five correct answers submitted will be rewarded with a signed and framed photo of Pepper.
Bark your answer to pepper@pandox.se.

Good luck!



Pandox AB (publ) | Reg. No. 556030-7885
Postal address | Pandox AB | Box 15 | 101 20 Stockholm | Sweden
Street address | Vasagatan 11 | 9th floor | Stockholm | Sweden
Tel. +46 8 506 205 50 | www.pandox.se