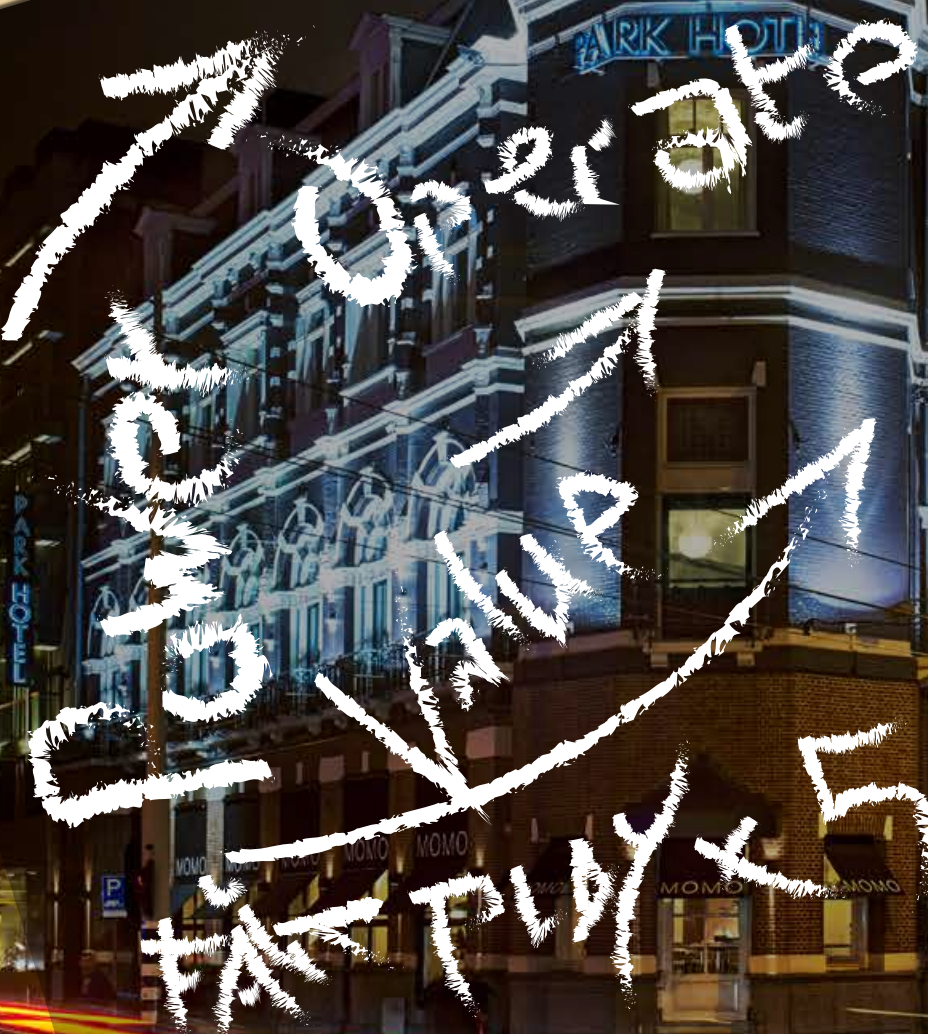


# Game plan for the future

Pandox – Excellence in hotel ownership and operations

Pandox game plan



# A high momentum year

**Pandox reports record results with growth** in cash earnings<sup>1)</sup> and net asset value<sup>2)</sup> of 19 and 20 percent respectively. The drivers behind the strong earnings trend are a robust underlying hotel market, successful acquisitions, a good return on investments, and high efficiency and profitability.

**Pandox acquires eight hotel properties in Europe**, of which four are in Germany, two in Austria, one in the Netherlands and one in Belgium. The acquisitions enhance Pandox's market position in Germany and Belgium, and establish Pandox in Austria and the Netherlands. The portfolio is refined through the sale of eight small hotel properties in Sweden.

**Pandox confirms its strategy and business model** by extending the leases for 19 hotel properties in the Nordic region and signing a new 20-year lease for Urban House Copenhagen. In January 2017 agreements were signed with Scandic Hotels Group for the lease of seven hotel properties within Operator Activities in the Nordic region.

**Pandox completes a directed share issue** that raises MSEK 1,012 for the Company before transaction costs and increases the Company's financial flexibility.

**Pandox owns 120 hotel properties** with a total of 26,240 rooms in ten countries at the end of the year. 98 of the hotel properties belong to Property Management and 22 belong to Operator Activities.

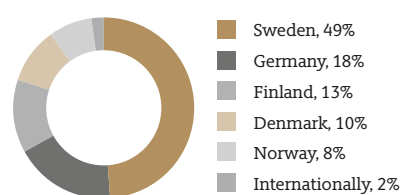
Summary (MSEK)	2016	2015	Change, %
Revenue Property Management	1,787	1,543	16
Net operating income Property Management	1,495	1,280	17
Net operating income Operator Activities	439	416	6
EBITDA	1,817	1,603	13
Net profit for the year	2,214	2,131	4
Earnings per share, SEK	14.65	14.21	3
Cash earnings	1,289	1,130	14
Cash earnings per share, SEK	8.49	7.53	13
Net interest-bearing debt	18,324	15,376	19
Equity-to-asset ratio, %	39.7	38.6	n.m.
Loan-to-value, properties, %	49.3	49.5	n.m.
Interest cover ratio	4.0	3.6	n.m.
Property market value	38,233	31,437	22
EPRA NAV per share, SEK	126.24	107.71	17

<sup>1)</sup> Growth adjusted for one-time items of MSEK 50 net in 2015.

<sup>2)</sup> Measured as growth in EPRA NAV, with dividends added back and proceeds from new share issue deducted.

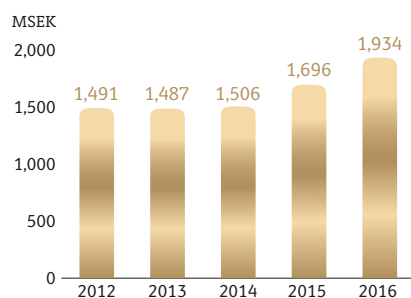
For definitions see page 132.

RENTAL INCOME BY COUNTRY 2016, %



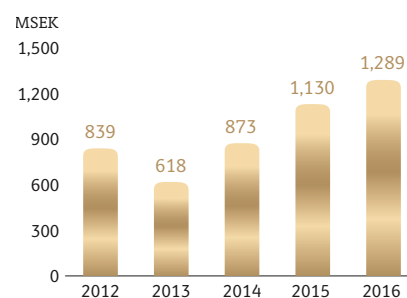
Germany is Pandox's second largest rental market in 2016.

TOTAL NET OPERATING INCOME, MSEK



Further strong growth in net operating income in 2016.

CASH EARNINGS, MSEK



Stable growth in cash earnings in 2016.



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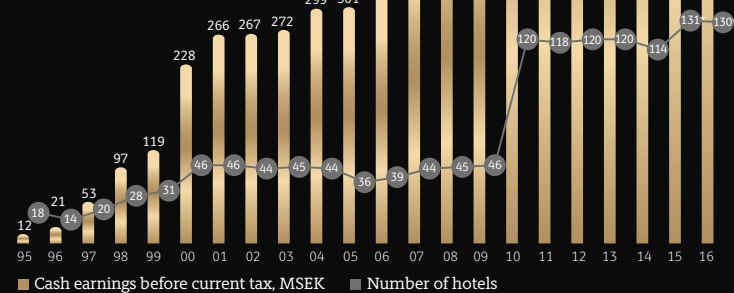


21 yrs  
of high momentum

#### FROM THE CEO

"2016 was a high momentum business year in line with our strategy"

Read more on page 2



■ Cash earnings before current tax, MSEK ■ Number of hotels

\* Including 10 extra asset management agreements, of which Grand Hotel Oslo under lease.

Pandox's strategy and business model are well proven and have created good returns for its shareholders over time.



#### ADDING VALUE

Pandox is an active owner across the hotel value chain. With a clear strategy and specialist expertise, the Company adds value for its stakeholders.



#### MARKET TRENDS

Pandox is part of one of the world's biggest service industries. By identifying and analysing important trends and drivers in the hotel market, Pandox develops hotel products that meet customers' needs.



#### PANDOX FAIR PLAY

Sustainability is a natural part of Pandox's operations and is based on our fundamental values. That's why we call our sustainability work Pandox Fair Play.

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# From the CEO

## Achieving goals builds confidence

2016 was a high momentum business year, with good growth in earnings. The primary driving forces were a strong hotel market, a well-functioning strategy and an efficient organisation. Our performance is well in line with the promises we made ahead of our stock market listing in 2015.

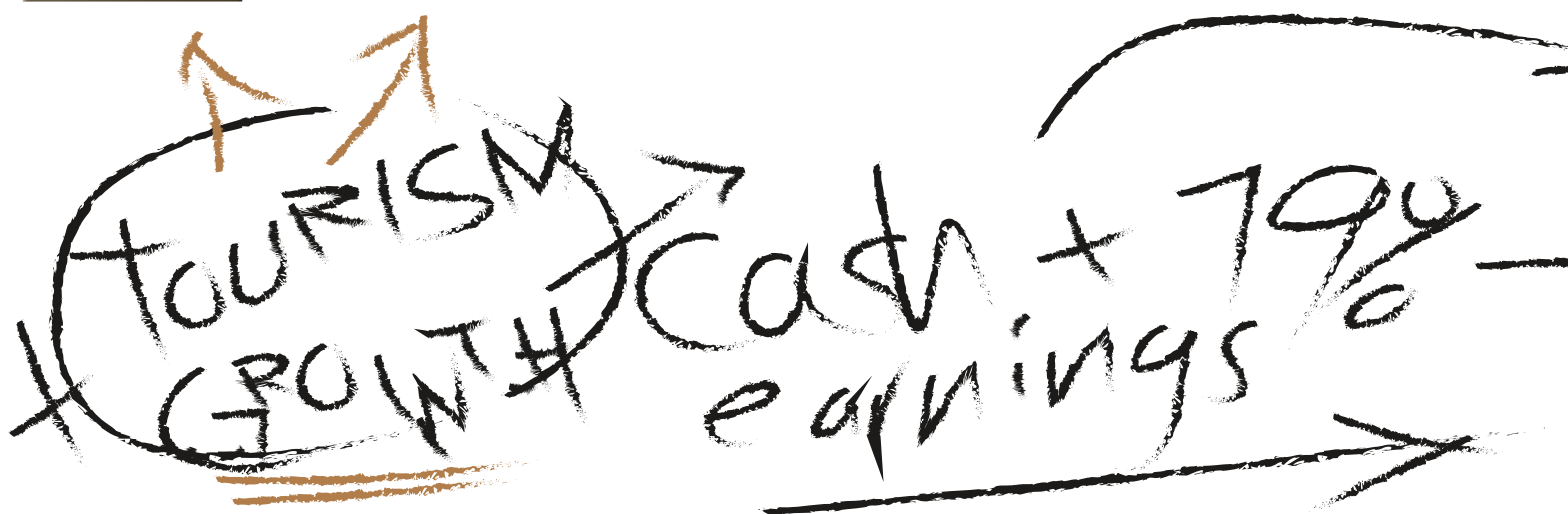
### WE ARE STRONGER THAN EVER

For 2016 Pandox is reporting its strongest earnings ever. Cash earnings, adjusted for one-time items in 2015, increased by 19 percent and the return on equity, adjusted for dividends and the new share issue, was 20 percent. This strong performance reflects a positive hotel market, successful acquisitions, good returns on joint investments with partners and a well-functioning model for lease agreements.

### CREATING GROWTH THROUGH LONG LEASES AND BY OPERATING HOTELS

Pandox is a property company specialising in hotels which combines long revenue-based leases with operating activities. The business model builds on active ownership based on specialist knowledge of both properties and hotel operations. Hotel properties differ from other properties in that they are production units that require continual interaction between property owner and tenant. A hotel property is measured by the cash flow generated by the operations, which in turn is a function of the tenant's

#### Pandox game plan





performance. This means that Pandox needs to be close to both the tenant and the hotel market, in order to pick up at an early stage on changes that affect rental income and profitability in both the short and the long term.

The value of in-depth knowledge of the hotel market and hotel operations has increased. Ongoing consolidation and changed business models in the hotel market have led to changes in the risk profile between hotel owners and hotel operators. Pandox's response is a proactive strategy in which the Company takes the position in the value chain that benefits the Company the most in each individual case. This provides room to manoeuvre when the conditions are not in place for a profitable lease relationship, because Pandox can then choose to operate the hotel business itself.

The combination of long leases with stable income and the ability to take over and run hotels creates growth while also minimising risk.

#### ACHIEVING GOALS BUILDS CONFIDENCE

In simple terms, Pandox's goal is to increase cash earnings over time. This is based on a clear strategy that focuses on:

1. Only hotel properties.
2. Large hotel properties in naturally good locations in major markets.
3. Long-term revenue-based leases with the best operators.
4. A portfolio of high quality hotel properties, made up of well-known hotels with strong positions.
5. Geographical diversification to reduce fluctuations.

6. Operator activities that reduce risk and create opportunities.

Ahead of our stock market listing in 2015 we had a major focus on describing Pandox's strategy and goals. Since the listing we have worked on putting this into action, delivering these goals and showing that our strategy is effective – thereby winning the confidence of important stakeholders in our new public environment.

#### HIGH BUSINESS MOMENTUM IN LINE WITH STRATEGY

During the 18 months that have passed since our listing Pandox has maintained a high business momentum in line with our strategy:

*Profitable acquisitions* – 26 hotel properties with a total value of approximately MSEK 8,300 have been acquired in Germany, Austria the Netherlands and Belgium, increasing the international share of the portfolio to around 40 percent compared with around 20 percent at the time of our listing.

*Long leases* – Pandox has acquired, extended and signed nearly 40 revenue-based lease agreements, the majority of which are outside the Nordic region with higher profitability. Across the property portfolio the weighted average unexpired lease term has increased to 13.9 years and four new operator relationships have been started (with Leonardo, NH Hotels, MEININGER and Grand City Hotels).

*Substantial investments* – MSEK 750 has been invested in the existing portfolio and a further MSEK 1,035 is in the pipeline for approved future investments in the portfolio, together providing a good foundation for future growth.

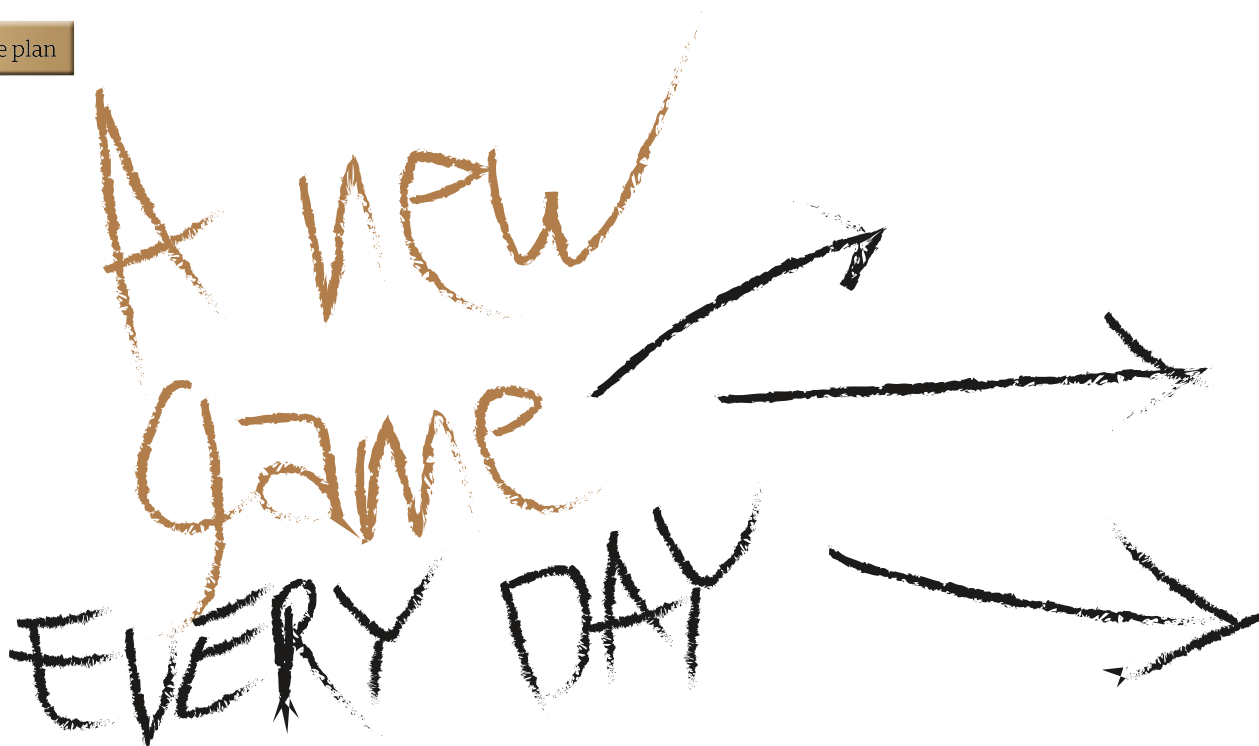
*Active ownership* – A total of six hotels in Norway and Sweden have been taken over and reclassified in Operator Activities. The hotels have been renovated and repositioned with the aim of leasing them out again.

*Leasing confirms the business model* – In November Pandox signed a long-term revenue-based lease with the German MEININGER group for Urban House Copenhagen, which has therefore been reclassified from Operator Activities to Property Management. In January 2017 Pandox also signed agreements with Scandic Hotels Group for the lease of seven hotel properties within Operator Activities. All the agreements have a term of 20 years and show that Pandox's active ownership across the value chain adds value and reduces risk, for both Pandox and its shareholders.

*New share issue gives us space to act* – In December Pandox completed a directed share issue as authorised by the Annual General Meeting on 3 May 2016. The share issue raised MSEK 1,012 before transaction costs, increasing the Company's financial flexibility and scope for adding further value.

A MORE  
ROBUST  
RETURN ON  
20%  
HOTEL MARKET!

Pandox game plan



*Refining the portfolio* – A total of nine smaller hotel properties in Sweden and Belgium have been sold with a good return.

**CONTINUOUS IMPROVEMENTS  
IN SUSTAINABILITY**

There are always things to improve. During the year we put considerable resources into developing Pandox's organisation and capacity in respect of internal control and sustainability. For example, we carried out a materiality analysis and have developed codes of conduct for employees and suppliers further, based on our basic values that we call Pandox Fair Play. We also developed and launched a group-wide training programme in sustainability for the hotels that we operate ourselves. I can state that the outcome for 2016 is positive for many of our key sustainability indicators.

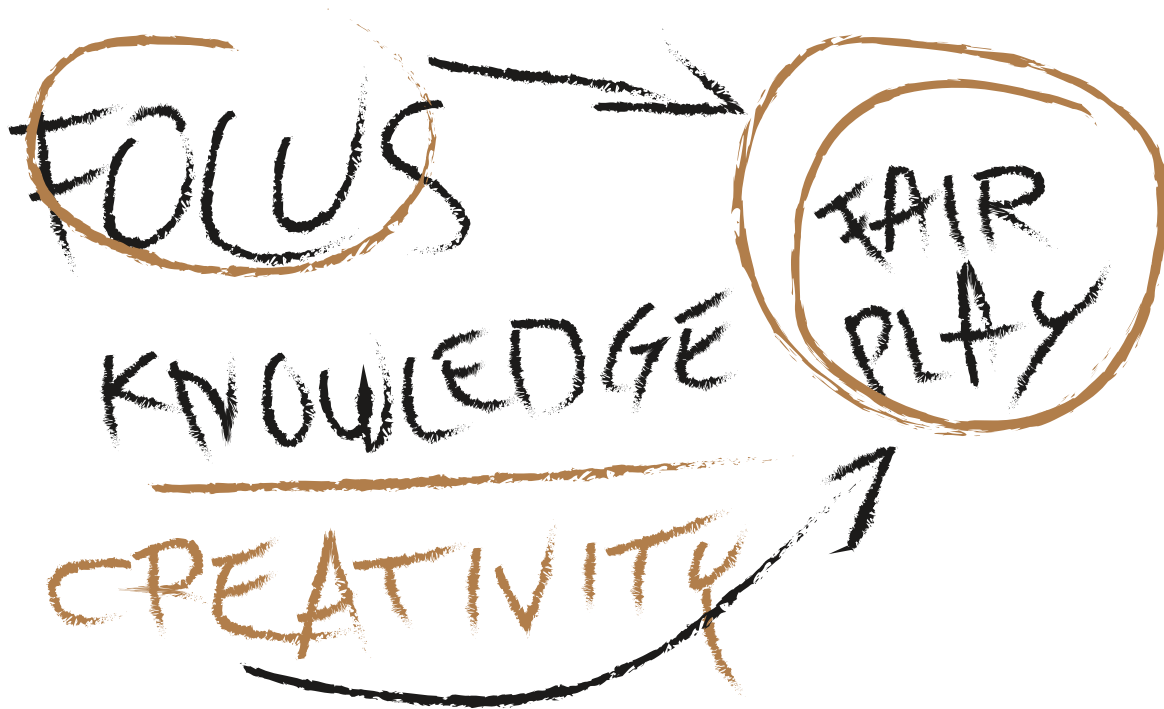
**A HOTEL MARKET WITH POSITIVE DYNAMICS**

The hotel market has demonstrated good growth over a long period and this development is supported by a number of strong trends in the world around us. The market outlook for hotels normally follows global economic development. In addition, the hotel market is affected by a number of specific trends such as increased wealth and a growing global middle class, greater focus on experiences and increased willingness to spend a larger proportion of disposable income on travel, as well as the positive development of many regional centres. This is a positive dynamic that has helped make the hotel market more robust.

Despite terrorist incidents in some substantial hotel markets, RevPAR for Europe as a whole increased by 2 percent in 2016 – although there was significant variation within the region. Economic development in Pandox's key markets was stable and positive in 2016, and RevPAR growth was good overall. In general, Pandox's markets were favoured by many conventions and exhibitions, as well as good demand from both business and leisure segments. Development was particularly strong in Germany, Sweden, Denmark and Finland, while Belgium was negatively affected by the terrorist attacks at the end of March. Individual cities with strong development were Copenhagen, Helsinki, Düsseldorf, Stockholm and Montreal. Growth in RevPAR during the year was generally driven by higher average prices.

**GOOD PROSPECTS TO INCREASE  
CASH EARNINGS**

The outlook for international tourism and regional travel is on a long-term positive trajectory. For 2017 the World Tourism Organization (UNWTO) is expecting growth – measured in terms of arrivals – of 3–4 percent globally and 2–3 percent for Europe. Pandox's key markets are expected to see stable positive demand in 2017. Since these markets are facing more challenging comparable quarters, however, it is reasonable to assume that growth will be lower than in 2016. Having said that, we do see good prospects for increasing our cash earnings again in 2017. This is based on (1) an expectation of an economy with conditions for higher business activity, (2) the hotel market remaining robust with good profitability,



(3) development of recently acquired hotels and a significant pipeline of investments in the existing portfolio and (4) a sustained high business momentum driven by a larger and more profitable hotel property portfolio than ever before.

**THINGS ARE LOOKING BRIGHT ON THE PANDOX BENCH**

Looking back at 2016, there are many positive things to highlight. Our results were strong and all the players on the team developed well and advanced their positions. The acquisitions, the new lease agreements and the recently implemented new share issue are examples of our employees' skill and decisiveness, as well as the confidence of the world around us. Pandox has a strong team with expert skills in various areas and a clear game plan. With a well-proven game philosophy and plenty of top goal scorers, a good hotel portfolio and a strong financial position, I am looking to the future with great confidence. When I compare Pandox anno 2016 with Pandox anno 1995 it brings to mind not only the journey we have been on, but also the opportunities to continue developing our business profitably.

And with that I would like to thank all the employees, investors and other important stakeholders for a successful 2016.

Mr Harry never doubted.

Stockholm, February 2017

Anders Nissen

“

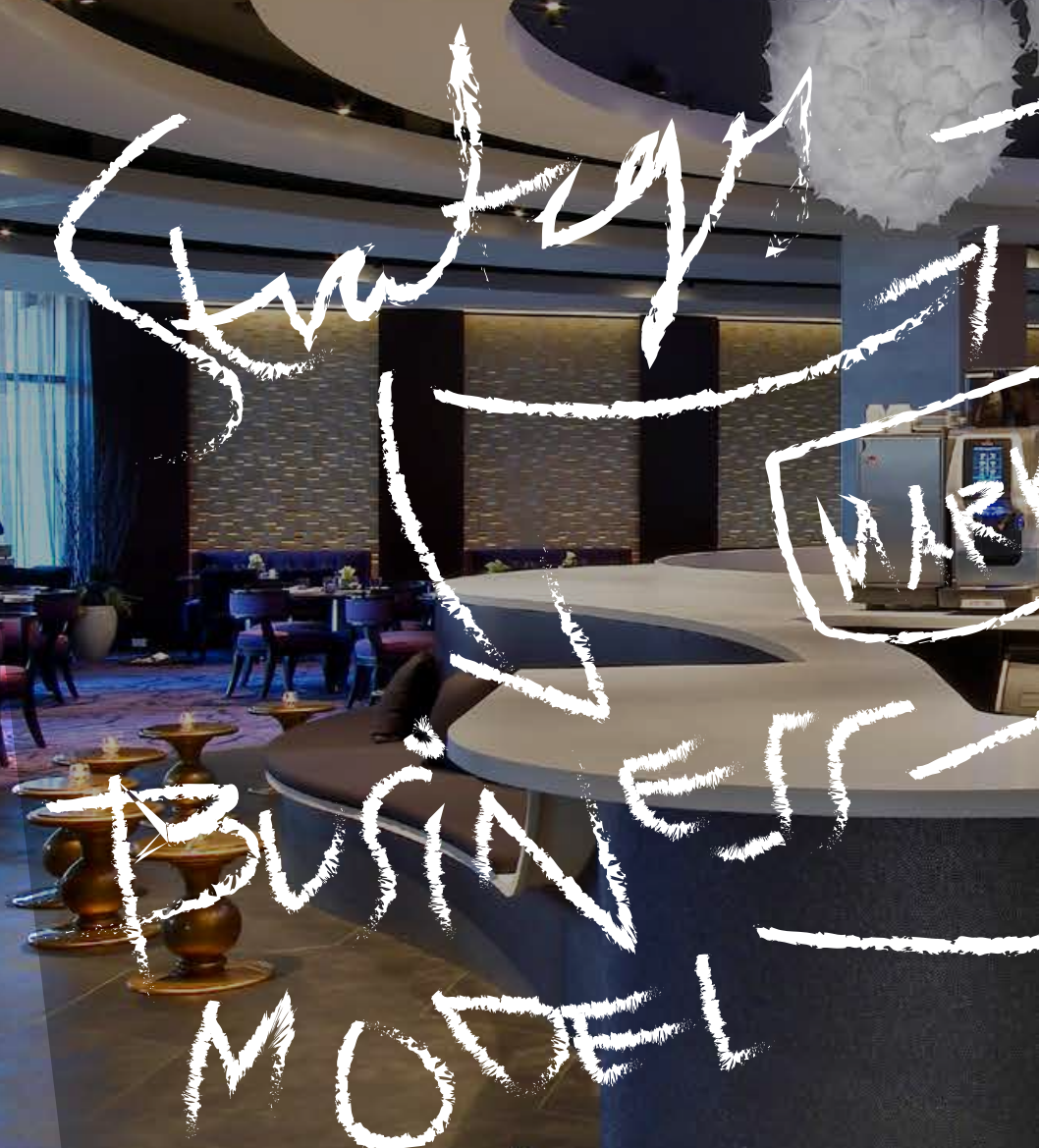
*With a well-proven game philosophy, a good hotel portfolio and a strong financial position, I am looking to the future with great confidence”*






# This is Pandox Vision and the road to success

Pandox game plan







Pandox's core business is to own and lease hotel properties to well-known hotel operators under long revenue-based lease agreements with shared investments. If the conditions are not in place for a profitable lease, Pandox can choose to operate the hotel business itself. The combination of long leases and operating activities lays the foundation for profitable growth with less risk.

A strategy that adds value, p. 8

The Pandox model, p. 10

What Pandox contributes to stakeholders, p. 12

Pandox in practice, p. 14

# A strategy that adds value

## Pandox vision

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

## Overall goals

“Supported by specialist expertise and effective management systems, to increase cash flow and property value – hotel property by hotel property – and thereby make room for investments that support Pandox’s continued expansion.”

## Strategy and business model

### Focus on hotel properties

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

### Large hotel properties in good locations

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

### Long leases with the best hotel operators

Pandox’s core business involves signing long revenue-based leases, with shared investments, with the best operators in the industry.

### A high quality property portfolio

Pandox’s lease agreements are revenue-based and rental income is a function of the hotel’s revenue. This provides a clear incentive for Pandox and its tenants to continually develop the hotels together, creating the conditions for a high quality hotel property portfolio.

### Geographical diversification reduces fluctuations

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

### Operator activities reduce risk and create opportunities

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

## Organisation and execution

Read more about Pandox’s business segments on pages 36–39.

### Property Management

We own and lease hotel properties

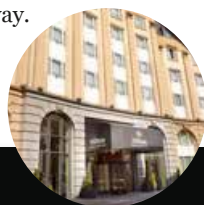
Pandox mainly owns full-service hotels with strategic locations in strong and stable markets such as Sweden, Germany, Finland, Denmark and Norway.



### Operator Activities

We own and operate hotels

Pandox has many years of experience in hotel operations and owns and operates a number of hotels in Belgium, Canada, Germany, Finland, Denmark, Sweden and Norway.



### Asset management

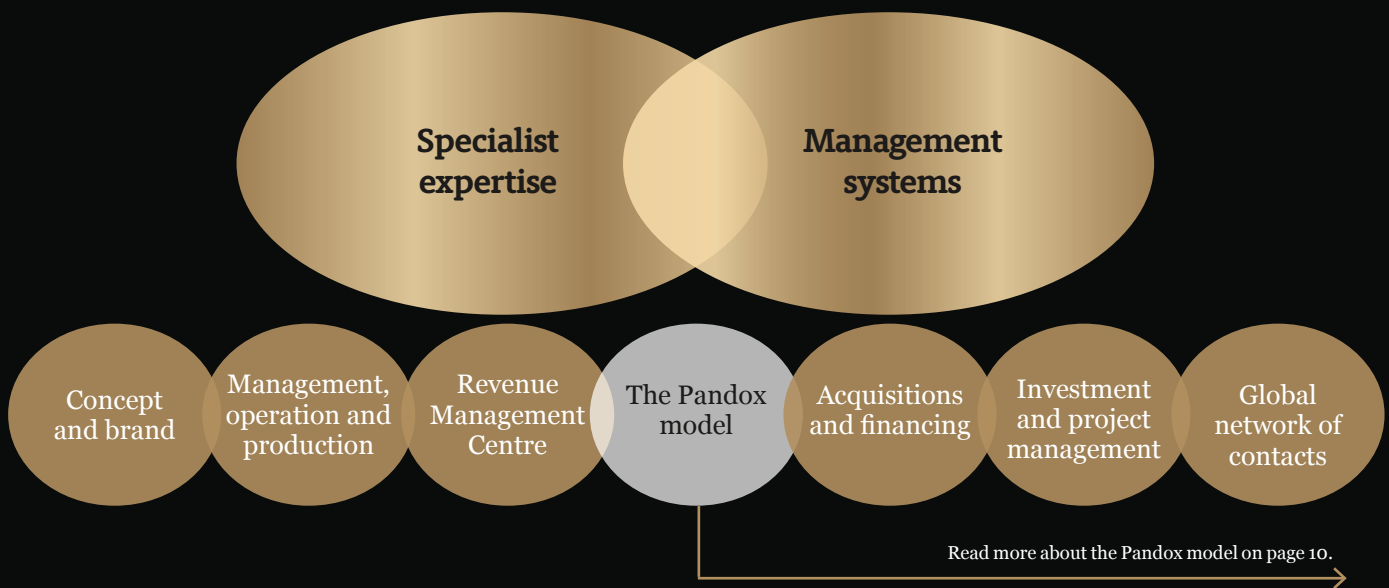
We manage hotel properties owned by others

Pandox’s in-depth knowledge of hotel properties and hotel operations make us an attractive partner for external management of hotel properties.





## Specialist expertise and good management systems

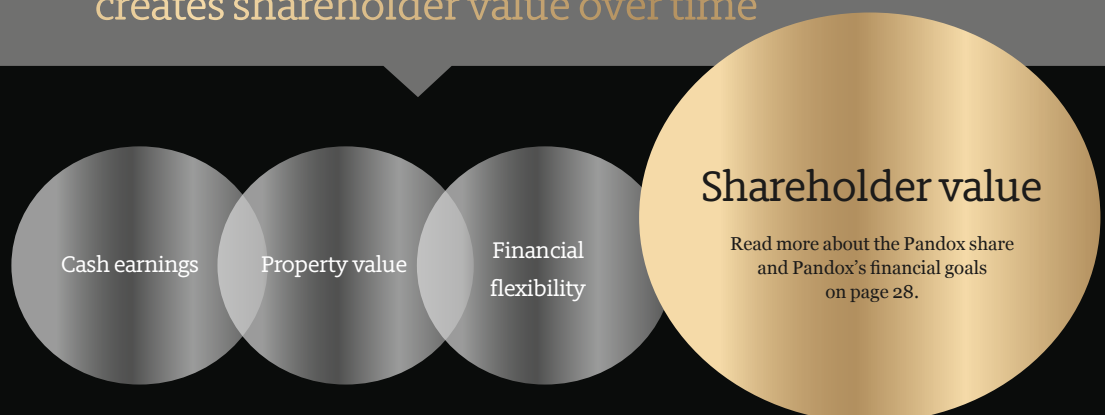


### PANDOX UNDERSTANDS THE WHOLE VALUE CHAIN

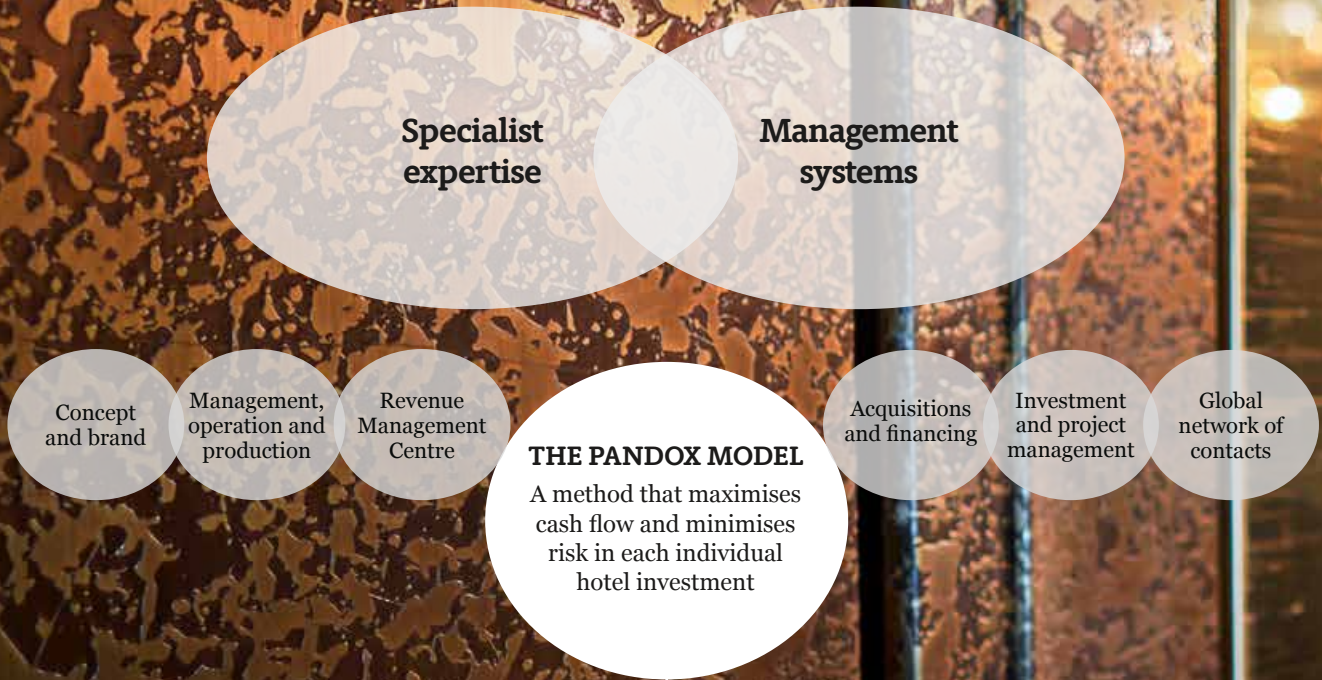
Pandex is an active owner with a business model based on long-term revenue-based lease agreements with the best operators in the market. In the absence of these conditions, Pandox has many years of experience of running hotel operations itself. Pandox's expertise and systems provide opportunities to do business throughout the hotel value chain:

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

## Through increased cash flow and higher property values, Pandox creates shareholder value over time



# The Pandox model Expertise and systems



**Market analysis**

**Marketing strategy**

Opportunity to acquire a hotel property

Evaluation of hotel property and hotel portfolio

**Marketing strategy**

A strategic plan is established for each hotel property based on the hotel's specific conditions, its local market and position. The hotel property's future operational area and structure are evaluated as part of work on the strategic plan.

**Market analysis**

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





**WINNING CULTURE PRODUCES THE RIGHT FOCUS**

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

**Profitability optimisation**

**Profitability optimisation**

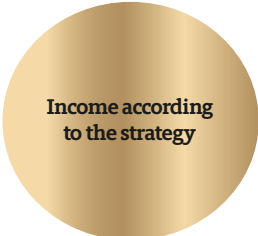
Since the value of a hotel property is affected by the profitability of the hotel operations, the hotel operator is Pandox's most important partner. Pandox analyses and assesses the hotel operator's performance continually in order to ensure good development of the operations and thus of the hotel property's value.

**Agreement optimisation**

**Agreement optimisation**

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

**Specific action and activity plan**





# What Pandox contributes to its stakeholders

## Necessary resources INPUT

### FINANCIAL CAPITAL<sup>1)</sup>

- Net asset value EPRA NAV (MSEK 19,883)
- Interest-bearing liabilities (MSEK 18,831)

### MANUFACTURED CAPITAL

- 120 hotel properties
- 26,240 hotel rooms
- Conference areas, restaurants, etc.

### INTELLECTUAL CAPITAL

- Business processes and systems
- External brands
- Own brands
- The Pandox model
- Certified hotel properties

### HUMAN CAPITAL

- 1,477 motivated and competent employees from various parts of the world as well as an extensive network of specialist expertise in the hotel market
- The “Pandox Spirit”

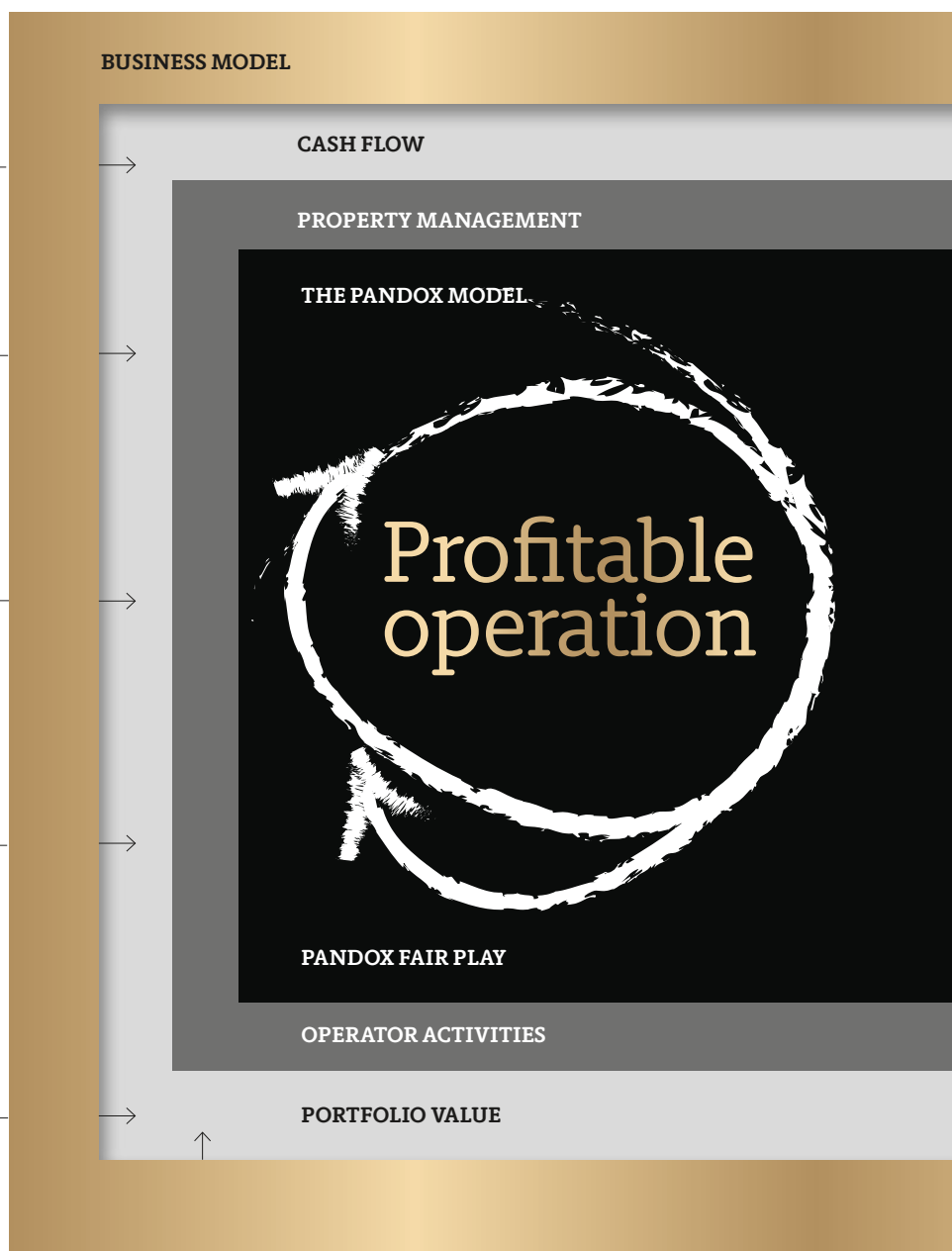
### SOCIAL CAPITAL

- Direct and indirect relations with hotel guests from all over the world
- Present in 62 cities in 10 countries
- 3,627 shareholders
- Relationships with tenants, partners, capital markets and communities

### NATURAL CAPITAL

- Natural resources in the form of energy, water, building materials and consumables

## Value-adding business model USE OF RESOURCES



## Our performance

### RESULT

#### RETURN<sup>1)</sup>

- Cash flow (cash earnings)
- Return on equity (growth in EPRA NAV)

#### BUSINESS PORTFOLIO

- A high quality property portfolio with long leases
- A portfolio of effective and profitable hotels under own operation

#### SERVICES AND GUEST SATISFACTION

- Around 6.1 million guest nights in hotels in Property Management<sup>2)</sup>
- Around 2.0 million guest nights in hotels in Operator Activities
- 78 percent guest satisfaction<sup>3)</sup>

#### ENVIRONMENTAL IMPACT<sup>4)</sup>

- 12,591 metric tons of greenhouse gas emissions
- 310,850 m<sup>3</sup> of water consumed

<sup>1)</sup> Estimated as 30 percent more than the number of room nights sold.

<sup>2)</sup> Source: Revinate and Hotels.com.

<sup>3)</sup> Relates to Operator Activities, excl. hotels run through a management contract and hotels reclassified to Operator Activities in 2016.

<sup>4)</sup> For definitions see page 86.

## What we contribute to stakeholders

### EFFECTS

#### FINANCIAL CONTRIBUTION

Stakeholders	Value (MSEK)	2016	2015
Hotel guests	Revenue	3,945	3,589
Employees	Wages and benefits	896	822
Tenants	Rental income	1,717	1,431
Tenants	Investments	173	220
Suppliers	Payments	2,484	2,315
Creditors	Interest and fees	457	441
Society	Taxes and levies	348	311
Shareholders	Dividend	570	150
Shareholders	Return on equity <sup>1)</sup>	20%	18%

<sup>1)</sup> Measured as growth in EPRA NAV, with dividends added back and proceeds from new share issue deducted.

#### SOCIAL CONTRIBUTION

- Direct and indirect jobs.
- Social cohesion and personal development for employees.
- Productive environments for meetings and recreation.
- Positive development of the local environment.
- Business partners required to comply with Code of Conduct.

#### ENVIRONMENTAL CONTRIBUTION

- Through environmentally smart investments in the hotels' infrastructure and operation, the use of resources per m<sup>2</sup> and guest night can be reduced. This applies to energy/carbon dioxide and water.
- Through recycling of consumables and changes to operating processes, the hotels can lessen their environmental impact and in certain cases even generate an economic surplus.
- In 2016 energy and water consumption per guest night decreased by 9 and 11 percent respectively in Operator Activities.
- Read more about Pandox's sustainability work on page 40.

# Pandox in practice

## Creating value in five different ways

# 1

## Portfolio acquisitions in Europe strengthen Pandox's international presence

- Purchase consideration of MSEK 4,100
- Quality hotels
- Gateway cities
- 1,744 rooms

In December 2016 Pandox acquired seven hotel properties in Europe from Invesco Real Estate, of which four are in Germany, two in Austria and one in the Netherlands. The purchase consideration was the equivalent of around MSEK 4,100 on a debt-free basis with a valuation yield of 5.7 percent. The hotels are of very high quality, are in the upper full-service segment and are run by well-known hotel operators under long-term revenue-based lease agreements with good guaranteed minimum rent levels. In 2017 the portfolio is expected to contribute the equivalent of around MSEK 250 in rental income and MSEK 140 in cash earnings.

The acquisition meets all of Pandox's strategic criteria in terms of size, location, market position and profitability, and helps to further diversify the revenue base. The acquisition also shows that there is great potential for Pandox to grow its core business very profitably in the major hotel markets of Europe.

### DRIVERS FOR THE ACQUISITION

- The hotel property portfolio is of very high quality and consists of full-service hotels in the upper segment with an average size of around 250 rooms.
- The purchase consideration per room is an attractive MSEK 2.35.
- Strengthens Pandox's position in Germany, which is Europe's largest hotel market.
- Establishes Pandox in Austria and the Netherlands.
- The hotels are situated in strategic locations in major cities and have a good balance between the business and leisure segments and between international and domestic demand.

- The hotels are run by well-established hotel operators under well-known brands and have long-term revenue-based leases with guaranteed rent levels and shared investments, which is the core of Pandox's business model.
- The hotels make an immediate positive contribution to Pandox's earnings and cash flow.

### PORTFOLIO OVERVIEW

The acquired hotel property portfolio consists of seven hotels with 1,744 rooms. The hotels are marketed under the brands NH, Radisson Blu and Park Hotel Amsterdam, and are in the stable and profitable upper full-service segment. The cities of Vienna, Munich, Amsterdam, Frankfurt and Hamburg are characterised by a high percentage of international demand, while Cologne and Salzburg have a high percentage of regional demand. Overall, the portfolio has a good balance of demand. All of the hotels have a very strong position in both the business and the leisure segments. They are favoured by a dynamic event market and the fact that the cities are also attractive leisure destinations.



Park Hotel, Amsterdam

See page 60 for a full hotel list.



1. Portfolio acquisitions and investment
2. Lease extension and investment
3. Single acquisitions and repositioning
4. Operations taken over
5. Lease agreements with strong operators

**VARIOUS STAGES OF ACTIVE OWNERSHIP**

1. Acquisition of underperforming hotels with development potential and/or taking over of operations in existing hotel properties.
2. Repositioning, investment, concept development.
3. Leasing out to strong hotel operators on good lease terms.

## Portfolio acquisition establishes Padox in earnest in Germany

In December 2015 Padox acquired 18 hotel properties with a combined 3,415 rooms in 12 German cities, enhancing Padox's position in the important German hotel market. The purchase consideration was the equivalent of around MSEK 3,700 with an initial yield of 6.3 percent. As part of the agreement with the seller Fattal Hotels, new 25-year revenue-based leases were signed with good guaranteed rent levels.

The hotels are marketed mainly under the Leonardo brand and are in the stable and profitable mid-price segment. The hotels are located in major cities such as Frankfurt, Hamburg and Düsseldorf, which have a high percentage of international guests, as well as in Cologne, Hanover and Mönchengladbach, which have a high percentage of regional demand – together delivering a good balance of demand. Most of the hotels have a very strong position in the business segment and many are in cities with a dynamic event market in both the corporate and leisure segments. The portfolio demonstrated good growth and profitability in 2016, with overall development better than the German hotel market as a whole.



Leonardo Hotel Wolfsburg City Center, which is expected to complete its expansion by a further 130 rooms during 2017.

## 2 Lease extensions in the Nordic region

At the end of June 2016 Pandox entered into an agreement with Scandic Hotels Group on lease extensions for 19 hotel properties in the Nordic region, including a joint investment programme totalling MSEK 470 with Pandox covering around half.

The programme involves renovation of nearly 1,600 hotel rooms and bathrooms, upgrading of food & beverage offerings, conference rooms and public spaces, and installation of 73 new hotel rooms. The investment programme will be implemented in 2017–2020 and follows the collaboration model that Pandox and Scandic used in the earlier Shark project, when Pandox and Scandic jointly renovated, upgraded and developed 40 hotels in the Nordic region.



The lease extensions confirm the success of Pandox's strategy and business model, which involves long revenue-based leases with strong operators as well as shared investments. The agreement will help improve revenue potential for both Pandox and Scandic through more competitive hotel products.

**“Joint investments with shared risk lay the foundation for future growth”**

- MSEK 433 invested in 2016
- MSEK 1,035 in the pipeline at the end of 2016

Attributable to the existing portfolio.

## 3 Single acquisitions and repositioning in Brussels

### **SUPPLEMENTARY SINGLE ACQUISITION:**

In October 2016 Pandox acquired the prestigious Hilton Grand Place in Brussels. The hotel has 224 rooms in the premium segment and a strong location close to the Grand Place and the central station in Brussels. The acquisition is industrially sound and a good example of Pandox's ability to utilise its collective knowledge of hotel properties, the hotel market and hotel operations.

Hilton Grand Place strengthens Pandox's position in one of Europe's most important conference markets and gives the Company's more options for its strategy in Brussels.



### **SINGLE ACQUISITION AND REPOSITIONING:**

In 2010 Pandox acquired the flagship Hilton Brussels Tower hotel for MEUR 29. The hotel had a poor market position and low profitability. During the period 2011–2013 Pandox invested around MEUR 35 in a complete renovation and restructuring of the business. The aim was to create a new

independent hotel concept along with a modern organisation with high productivity. The hotel was given a new identity inspired by fashion and haute couture under the name The Hotel Brussels. Today the hotel has 420 rooms and is the leading conference and business hotel in Brussels.



# 4 Operations taken over



Operating hotels is a natural part of Pandox's active ownership. This can be appropriate if, for example, a hotel is in need of a major upgrade and there is no possibility of signing a competitive lease agreement with a long-term partner. Pandox's strategy is then to take on the role of both owner and operator in order to secure the hotel property's long-term growth in value. The aim is to enter into new leases at commercially attractive levels.

On 18 January 2017 Pandox signed agreements with Scandic for the lease of seven hotels from Operator Activities, including the hotels below. Read more on page 39.

## THE HUB HOTEL & LIVINGROOM

Pandox took over the operation of Mr Chip Hotel in Kista just outside Stockholm in 2015. In 2016 the hotel, which has 149 rooms, underwent a comprehensive concept redevelopment and upgrade and was relaunched under the name The Hub Hotel & Livingroom. The hotel is situated at the heart of Kista Science City and offers new exciting guest solutions and room types. The target group is primarily business travel and employees of international companies staying for both longer and shorter periods who appreciate a more fun and more personal hotel environment. For the leisure traveller, The Hub Hotel & Livingroom is a new meeting place that invites them to enjoy a relaxed visit in an inspiring atmosphere.

## LILLEHAMMER HOTEL AND MEETINGPOINT HAFJELL

Pandox took over the operation of the Norwegian hotels Radisson Blu Lillehammer and Quality Hotel Hafjell in 2015 and 2016 respectively. In conjunction with the takeovers the hotels changed their names to Lillehammer Hotel and Meetingpoint Hafjell Hotel & Resort. The hotels are situated close to each other and directly next to attractive skiing facilities with excellent conditions for meetings, events and experiences in every season of the year. Together the hotels make up around half of the total room capacity in the Lillehammer region. Since the takeovers, the objective has been to create two of Norway's very best destination hotels with a clear sports profile for both business and leisure guests. Lillehammer Hotel has undergone extensive renovation since being taken over. For Meetingpoint Hafjell, a complete renovation is planned in 2017 in order to further enhance the hotel's position.

# 5 Leasing



In December 2016 Pandox signed a 20-year revenue-based lease with guaranteed minimum rent levels for Urban House Copenhagen with the German hotel operator MEININGER. The lease accords with Pandox's strategy of taking over underperforming hotel properties, repositioning them and then leasing them out again to strong hotel operators on competitive terms.

The hotel property was acquired in autumn 2010, when it was a business hotel of a low standard. Pandox took over operation of the hotel in 2014 and subsequently created a new type of hotel/hostel hybrid under the name Urban House Copenhagen with 1,018 beds across 225 rooms. The new concept includes generous and exciting shared spaces. Since its repositioning, Urban House Copenhagen has performed very well and is a good example of Pandox's ability to add value by being active throughout the hotel value chain.



# The Market Hotel & Tourism is the world's largest service sector

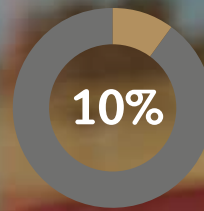
Pandox game plan



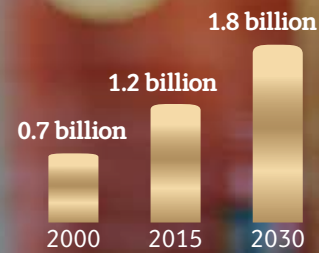


Pandox is active within Hotel & Tourism which is the world's largest service sector and one of the fastest growing industries in the world. Hotel & Tourism has shown positive growth for the last six decades.

Hotel & Tourism is a major engine  
"10 percent of global GDP (2016)"



Stable growth in international travel  
"International Tourist Arrivals"



Source: UNWTO for all facts

Trends and drivers in the hotel market, p 20

The hotel market's structure and development, p 22

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# Trends and drivers within the ho

Mega-trends are larger global changes in society which affect the hotel industry in different ways. By understanding these trends and their underlying forces, Pandox can develop hotel products which meet customer demands faster and more accurately.

## DEMOGRAPHICS AND ECONOMY

### Population growth

The global population is growing. By 2025, global population is predicted to reach 8 billion people (Source: The UN), which supports the travel and hotel industry's long-term growth prospects.

### Urbanisation

Both emerging countries and established industrialised countries are experiencing rapid urbanisation. Cities are increasing in numbers, size and economic importance. As a consequence, demand for business and leisure travel for meetings, conferences and events, as well as for experiences, is growing.

### A growing middle class

A growing number of people are better off. New large groups of customers have the ability to travel internationally which has already made an impression on the hotel industry, both in terms of growth and in terms of demand for new products to meet new needs. Read more on page 26 to learn about the Pandox Hotel Market Day 2016.

### An aging population

People live longer and are healthier than before. The fastest growing demographic group is people over 65 years (Source: The UN). This age group often has strong purchasing power and are hunting for new travel experiences.

## TECHNICAL DEVELOPMENT

### Digitalisation

In many ways, digitalisation has made the world smaller and blurred the line between work and leisure. It has also increased the pace of change in a number of areas. Digitalisation has changed how consumers buy products and services. For the hotel industry, digitalisation is changing many areas, not the least marketing and distribution.

### Changing patterns for booking and distribution

Online travel agencies (OTA:s) continue to grow and challenge traditional business models and booking channels. These new channels are often successful in driving room revenue by efficient marketing, but come with commission costs for the hotel industry. A booking made through an OTA can also make it harder for hotels to analyse demand from different segments due to the difficulty in identifying the type of guest who has booked.

As a result of the increasing pace of change, the companies' booking patterns have also changed. Bookings across all segments, and the meetings and event segment in particular, are made at significantly shorter notice than before, making it harder to plan staffing and predict occupancy levels. As a result, specialist competence within booking patterns, distribution and prevailing trends in the travel and hotel industry is becoming ever more important.

### What does Pandox do?

- A diversified portfolio to meet new customer demands.
- New personalised and inspiring hotel concepts designed for life-style rather than age factors.
- Specific adaptations within the physical hotel environment to meet new customer requirements.
- Active work with destination development in strategically important destinations for the Company.

### What does Pandox do?

- A group level Revenue Management Center (RMC).
- Individual distribution strategies for each hotel.
- Simplification of booking procedures using internet and mobiles.
- Automated check-in and check-out.
- Mobile, high capacity, communications solutions.
- Regular workshops with leading individuals and companies at the forefront of development.

# tel industry

## **SOCIAL CHANGES**

### **The quest for uniqueness**

The new generation of consumers are more interested in gathering experiences than material possessions. They search for the best destination, the best accommodation and the best menu. The hotel is no longer just a place to sleep, but part of a lifestyle. Hotel guests today expect more individual and unique products than before. Consumers are more knowledgeable and actively search for hotels that match their preferences and values. People look for new experiences and are willing to share them on social media.

### **Sustainability growing in importance**

The increasing interest in sustainability has been ongoing and ever deepening in line with increased consumer knowledge and greater demands from society. More and more, consumers expect that the services they buy also match their personal values.

### **Health and well-being**

The interest for health and well-being is strong and growing in most parts of the world. It is a matter of caring for both body and soul. There is a high willingness to pay for products, services and experiences in this area.

### **The ageless society**

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

### *What does Pandox do?*

- Extended analysis of customer demands and drivers.
- Personal and inspiring hotel concepts.
- Destination and concept hotels.
- Focus on sustainability, resourcefulness and innovation.

## **EXTERNAL ENVIRONMENT**

Guest safety and security has always been an important issue. During the past few years, terrorism and its impact on the hotel industry has been highlighted in various ways. Terror incidents often get great media attention and the experience of violence that affects innocent can be shared by many. Behind every innocent victim, there is a human, a family, a friend. On a global level, the travel and tourism industry has not been greatly affected by recent years' terrorist incidents (Source: WTTC). However, for an individual destination, a terror incident can have considerable impact, particularly in the short term. The recovery period varies between different customer groups. Business travelers normally return first to an affected destination, while it takes longer for leisure and conference guests. However, few travellers choose to stay at home. Instead they re-book their journey to a destination considered safer.

### *What does Pandox do?*

- Active measures within Operator Activities focusing on guest security.
- Continuous development of crisis management plans and security policies.
- Close cooperation with our tenants in Property Management.
- Hotel property portfolio with good geographic diversification.

## **Short term market trends**

### **Demand situation**

Stable, with solid demand in the leisure segments and the meetings and events segments.

### **New capacity**

New hotel room capacity growth somewhat below the global historical trend.

### **RevPAR-development**

Solid occupancy levels has driven up room prices.

## **Long term market trends**

### **The market**

Continued consolidation among operators.

### **Brands**

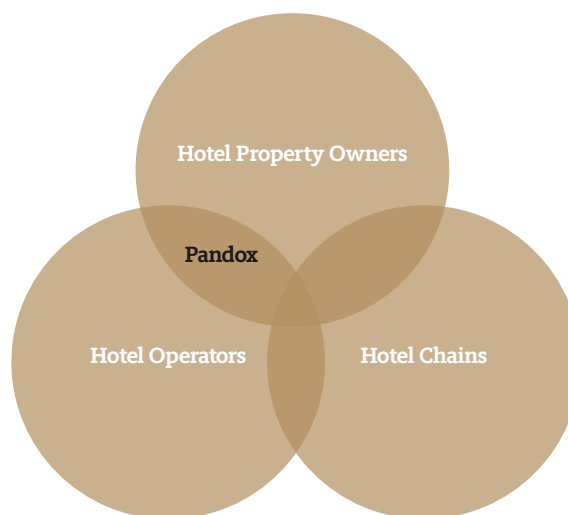
Consolidation among brand owners in parallel to an increased spread and fragmentation of hotel brands.

### **Rating system**

The star rating system is losing its importance to guests as it is harder to measure experiences and soft values.

# The hotel industry's structure and development

In the hotel industry, there are, simply put, three types of players: hotel property owners, hotel operators and hotel chains using several brands. In addition, there are companies which operate on behalf of property owners. A company can be positioned within one or several segments. Pandox is both a hotel property owner and a hotel operator.



## **FOCUS ON DISTRIBUTION AND BRAND**

During the last decades, the international hotel industry has gone through fundamental structural change. Large international hotel chains, such as Hilton, InterContinental and Marriott, have changed their business models and gradually divested their hotel properties and left the traditional role as hotel operators. Instead, they have developed different types of “asset light” strategies. Somewhat simplified, this means that the company reduces its fixed capital need by moving its business model towards distribution (bookings) and brand development (franchising). Marriott, for example, owns only a small part of the hotels that are run under the group’s various brands. The hotels are mainly operated through franchise and management agreements, often by independent hotel operators.

## **NEW STRATEGIES DRIVES CONSOLIDATION**

Within an “asset light” strategy, revenues are mainly derived from franchise fees and commissions on bookings. The business model requires large volumes to be profitable. The main target is to increase the number of franchisees and room bookings, preferably in their own distribution channels where a larger part of the commission can be collected. The business model not only requires massive marketing investments, but also increased room capacity. Both these driving forces have led to a consolidation among the larger international hotel chains.

## **FEWER OPERATORS, MORE BRANDS**

At the same time as the brand owners have become more consolidated, the number of brands have

increased. The hotel chains have spent large resources on brand development in order to define new market segments and cater to new consumer categories. As a result, the hotel industry is more fragmented than many other consumer-related industries with regards to market shares controlled by leading brands.

Larger mergers and acquisitions in the hotel industry 2016:

- Marriott acquires Starwood Hotels & Resort.
- HNA Tourism Group acquires Carlson Hotels.
- Jin Jiang and Plateno Hotels Group merge.
- AccorHotels acquires FRHI Hotels & Resorts.

## **OPERATIONAL EXPERTISE EVER MORE VALUABLE**

The faster the larger hotel chains have moved towards a brand focused model, the more valuable it has become to possess operational expertise. For a simple reason. The brand promise conveyed at digital market places has to be turned into to a real life, positive guest experience at the hotel. That requires in-depth knowledge in how to design an attractive hotel product through a combination of efficient operations and value creating investments. A number of clever hotel operators and brand owners, together with independent operators, have advanced their positions in this area. This development has made it natural for hotel property owners, such as Pandox, to take over operations when the preconditions for a profitable lease agreement are missing.



# Revenue-based lease agreements create common incentives

Pandox works with revenue-based rent agreements, often including a minimum guaranteed rent, as it offers a clear incentive for both parties to increase the hotel's profitability. The revenue-based lease agreement model is well established in many European hotel markets and has many advantages:

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

During 2015 and 2016, Pandox has expanded its lease portfolio in Germany, establishing itself in Austria and the Netherlands, and extended a number of larger lease agreements in the Nordics.

Many strong regional operators in Europe have identified good business opportunities in revenue-based lease agreements.

## THIS IS HOW A REVENUE-BASED LEASE AGREEMENT WORKS

A revenue-based lease agreement is tied to the revenue of the hotel business and means that Pandox shares in the hotel's growth, as the lease increases in line with the increased revenue of the hotel business. Hotel property owners and hotel operators share upsides and downsides where capital input, potential and risk are reasonably split between the parties. The agreement structure encourages the operator to increase revenue, reduce costs and make long term investments in the hotel product.

A different type of agreement, is the profit-based lease agreement which means that the hotel property owner has a share in the operator's profit. There are also fixed lease agreements with a fixed, normally inflation adjusted, fee, but these are less common.

## MANAGEMENT AGREEMENTS COMMON IN NORTH AMERICA

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

Management agreements are often very long term, with the operator bound to run the hotel in accordance to strict brand guidelines.

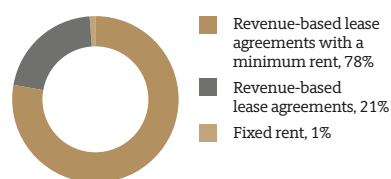
Under this type of agreement structure, the hotel property owner shoulders all the investments and is thus financially exposed to the operations, as well as the property.

## FRANCHISE AGREEMENTS ARE COMMON WITHIN PANDOX'S OPERATOR ACTIVITIES

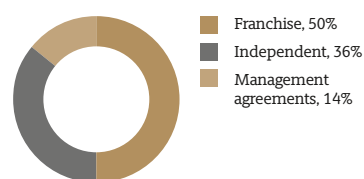
When a hotel property owner owns both the hotel property and operations, a franchise agreement can be signed with an appropriate brand owner in order for the hotel property owner to take advantage of the franchiser's brand and distribution resources. Normally the franchisee would pay revenue-based royalty fees plus additional fees for access to specific services.

## AGREEMENTS BY SEGMENT

### PROPERTY MANAGEMENT (share of agreements)



### OPERATOR ACTIVITIES (share of agreements)



## POTENTIAL FOR LEASE AGREEMENTS IN SELECTED MARKETS

Market	The Nordics	North America	Germany
Agreement tradition	Lease agreement	Management agreement	Mixed (lease, franchise and management)
Potential for lease agreements	Good potential	Limited potential	Good potential
Major hotel property owners	Pandox, Olav Thon Gruppen, Weenasgruppen, CapMan Hotels, Home Properties, Balder, KLP Eiendom	Host Hotel & Resorts, Westmont, Wyndham Hotel Group, Blackstone, IHG	Pandox, Commerzbank, Deutsche Bank, HSH Nordbank, Union Invest, Deka Immobilien, Allianz Insurance, DKB, Munich Re.
Major hotel operators	Scandic Hotels Group, Nordic Choice Hotels, Elite Hotels	Marriott, IHG, Hilton, Hyatt, Carlson Group	Leonardo, Accor, IHG, Steigenberger, NH Hotels, Ramada

# Market overview

## Solid market growth

The hotel market cycle normally follows the global economic development. Furthermore, the hotel market is affected by a number of specific growth factors. In 2016, demand in the international tourism sector grew by almost 4 percent according to UNWTO. That was the seventh year in a row with growth, illustrating the underlying strength in the tourism market.

### STABLE, POSITIVE MACRO OUTLOOK

The economic development in most of Pandox's key markets was stable with a GDP growth of between 1–3 percent.

### SOLID GROWTH IN THE HOTEL MARKET

In general, the North American and the European hotel markets developed well during the year. The demand improved in both markets and growth was mainly driven by increases in average price. Overall, RevPAR (revenue per available room) increased by 3 percent in the US and 2 percent in Europe. However, the development in Europe varied considerably as a result of a changed security situation. Spain and Portugal showed record numbers at the same time as Turkey lost a third of its RevPAR compared to 2015.

### SOLID GROWTH IN KEY MARKETS

RevPAR development. Quarterly changes (in local currencies)

	Year 2013	Year 2014	Year 2015	Year 2016
<b>US</b>	<b>5%</b>	<b>8%</b>	<b>6%</b>	<b>3%</b>
New York <sup>1)</sup>	4%	3%	-2%	-2%
Montreal	6%	10%	7%	9%
<b>Europe</b>	<b>2%</b>	<b>6%</b>	<b>7%</b>	<b>2%</b>
London <sup>1)</sup>	1%	3%	2%	-1%
Brussels	2%	3%	2%	-18%
Berlin	0%	5%	8%	4%
Frankfurt	5%	-2%	9%	-2%
Copenhagen	6%	4%	11%	13%
Stockholm	0%	2%	9%	8%
Oslo	4%	1%	8%	3%
Helsinki	-5%	2%	2%	7%

Sources: STR (US, Canada, Europe, Finland), Benchmarking Alliance (Sweden, Norway, Denmark).

<sup>1)</sup> Pandox is not directly exposed to these markets but they are important when assessing the global hotel market.

### NORTH AMERICA REMAINS STRONG

In the US and Canada, RevPAR increased by 3 and 5 percent respectively in 2016, mainly driven by increased average price. In the US, the hotel market has found a balance with supply and demand growing at a similar pace after a number of years of demand surplus. In Canada, Montreal had a really strong year with a 9 percent growth, driven by mainly American and Asian visitors but also a positive growth in average price. The fact that one of the larger hotels was closed for refurbishment had a positive effect on RevPAR, particularly during the second half of 2016.

### STABLE DEVELOPMENT IN EUROPE

For the Brussels and Paris hotel markets, 2016 was a weak year. The negative RevPAR development eased considerably in Q4 however, and we should see positive growth during 2017. In London, RevPAR decreased by 1 percent in 2016. However, growth was positive for the second half of the year due to an increased number of leisure travellers attracted by the weaker pound following the Brexit referendum, which limited the decline. Germany grew strongly with a 5 percent RevPAR increase where Düsseldorf, for example, had a very strong events year.

### A STRONG YEAR IN THE NORDICS

RevPAR growth was strong in the Nordics during the year. Copenhagen, Stockholm and Helsinki all grew at a high pace and Oslo showed stable positive growth as well, despite a major hotel strike during the spring and relatively weak economic development.

The positive trend in Copenhagen can be explained by a number of factors, among them a record breaking conference and events year, solid demand from the leisure sector and limited addition of new capacity.

In Stockholm, RevPAR grew for the seventh year in a row, supported by a stable economic growth and a strong events calendar. In Helsinki, the hotel market improved due to higher demand from Asian travellers and solid growth in average prices. The openings of two new hotels, which added 700 rooms, dampened growth in Q4 though. Regional cities in the Nordics saw stable positive growth during the year.

### Pandox and the market

Pandox hotel portfolio is well diversified with regards to countries, destinations, segments and submarkets. As Pandox do not own an exact copy of the portfolio that external data is based upon in any given market, Pandox's growth may differ from the reported market growth. For that reason, Pandox's growth should be compared to a relevant competitive set of hotels in each submarket for a fair comparison.

### What constitutes a good performance?

The development of each submarket depends on many factors such as conferences, fairs, events, new hotel openings, refurbishment of current hotels and seasonal patterns. Pandox compares a set of key ratios for each hotel property/hotel to a group of competing hotels – a so called "compset" – to evaluate how well each hotel performs. This data later forms the foundation for a discussion with the hotel operator on any possible joint measures that could be taken to improve the hotel's competitive position.

For more information, please see page 10.

# Focus on Germany – Europe’s largest hotel market

With more than 80 million people, Germany is Europe’s most populated country. Germany is also Europe’s largest hotel market with thriving businesses, a dynamic events and conference market and robust regional demand. On the whole, demand is well balanced between the business and leisure segments. Due to a strong export sector and a stable labor market, Germany has been the economic engine of Europe during the last few years.

Also the hotel market has developed well, and the number of international and domestic guests have increased by about 45 and 15 percent, respectively, since 2009. Today, Germany is China’s fourth choice destination outside Asia, with 2.5 million visitors, a number that could double in the next 10 years according to analyst company, Revinate.

## EXPANSION WITH SOLID PROFITABILITY

Pandox has a long history of active ownership in Germany. At the end of 2016, Pandox owned 26 hotels in Germany of which 22 were run under Property Management and 4 under Operator Activities. The hotels belong to the upper full-service segment and are located in international cities or regional cities, creating an overall well-balanced demand mix. The hotels are run under vari-

ous brands such as: Leonardo Hotels, Radisson Blu, NH, Holiday Inn and the independent brand Hotel Berlin, Berlin.

## IMPORTANT MILESTONES FOR PANDOX

- **2000** – Established a foothold in the market through the acquisition of Hotel-lus, which at the time was the property company of Scandic, including 16 hotel properties of which three located in Germany: Bremen, Dortmund and Lübeck.
- **2006** – Acquired Hotel Berlin, Berlin which after a successful repositioning has established itself as an attractive Berlin meeting place. The hotel belongs to Operator Activities.
- **2013** – Taking over of operations at three hotels in Bremen, Dortmund and Lübeck. The hotels have been repositioned and new franchise agreements have been signed with Rezidor and IHG respectively. The hotels belong to Operator Activities.
- **2015** – The acquisition of a portfolio of 18 hotels with long-term revenue-based leases in 12 cities. Solid growth and profitability after acquisition. The hotels belong to Property Management.
- **2016** – The acquisition of four hotels in Frankfurt, Hamburg, Cologne and Munich. The hotels belong to Property Management.

Today, Pandox is one of the largest hotel property owners in Germany.

## PANDOX HOTELS IN GERMANY

City	Hotels	Rooms
Frankfurt	3	902
Cologne	3	720
Düsseldorf	3	586
Hannover	2	391
Heidelberg	2	330
Hamburg	2	311
Berlin	1	701
Munich	1	236
Bremen	1	235
Wolfsburg	1	212
Dortmund	1	190
Lübeck	1	159
Mannheim	1	148
Karlsruhe	1	147
Mönchengladbach	1	128
Baden-Baden	1	121
Aachen	1	99
<b>Total</b>	<b>26</b>	<b>5,616</b>

For further information regarding the investment climate and transactions in Germany and other countries, please see page 59.

For a complete list of Pandox’s properties in Germany, please see page 60.

## 1 HAMBURG

Germany’s second largest city with the country’s largest, and Europe’s third largest, commercial harbor industry. The city’s GDP per capita is among the highest in the EU. With a strong business life and a strategic position as a gateway to Scandinavia, the city is a financial and cultural center in northern Germany.

### Number of guest nights:

13 million

### Hamburg-Fuhlsbüttel Airport:

16 million passengers

### Key figures 2016:

Occupancy: 80%, ARR: €115, RevPAR: €92

## 2 MUNICH

Germany’s third largest city, and the capital of Bavaria, with 2.5 million people. Gateway for European and intercontinental travels via Germany’s second largest airport. European metropolis which attracts a large number of leisure and business travellers each year.

### Number of guest nights:

14 million

### Franz Josef Strauss Intl. Airport:

42 million passengers

### Key figures 2016:

Occupancy: 76%, ARR: €134, RevPAR: €102

## 3 DÜSSELDORF

Düsseldorf is situated in the Eastern part of the Rhine-Ruhr which is home to more than 12 million people. A large number of globally competitive industries are found in the region. Düsseldorf has a high GDP per capita, the hotel market is mainly business focused and to a large extent driven by events and conferences.

### Number of guest nights:

4 million

### Düsseldorf Intl. Airport:

24 million passengers

### Key figures 2016:

Occupancy: 70%, ARR: €126, RevPAR: €88

## 4 COLOGNE

Cologne is centrally located in the Rhine-Ruhr area which is home to more than 12 million people. The city is a strong trading center with a large film- and media sector. In Cologne, is also located Europe’s largest indoor arena which seats 18,000 spectators.

### Number of guest nights:

6 million

### Cologne Bonn Airport:

10 million passengers

### Key figures 2016:

Occupancy: 71%, ARR: €113, RevPAR: €80

## 5 FRANKFURT

One of Europe’s leading financial centers and home to the European Central Bank, as well as Europe’s third largest airport. In addition, the Frankfurt Trade Fair is one of the world’s largest trade fair hosts.

### Number of guest nights:

9 million

### Frankfurt am Main Airport:

61 million passengers

### Key figures 2016:

Occupancy: 70%, ARR: €124, RevPAR: €87

## 6 BERLIN

Berlin is the capital of Germany and its largest city with 4.4 million inhabitants including suburbs. Berlin is Germany’s political center and one of Europe’s most famous and most visited leisure destinations.

### Number of guest nights:

30 million

### Berlin Tegel och Berlin Schönefeld:

33 million passengers

### Key figures 2016:

Occupancy: 77%, ARR: €96, RevPAR: €74

Note: ARR is Average Room Rate.

Sources: STR Global, ECM 2015–2016 report.



# Hotel Market Day 2016

## Theme: Growth of Chinese Tourism and Hotel Investments

Pandox Hotel Market Day 2016 gathered more than 330 delegates from nearly 20 countries – a new record! Pandox introduced the Hotel Market Day back in 1996 with the aim to reflect upon and analyse important macro trends and to contribute added know-how to the hotel industry. Since then, the day has developed into a dynamic meeting place for decision makers within the international hotel industry.

### HUGE POTENTIAL IN CHINESE TOURISM

A significant trend is the growing global middle class which is mainly a function of the rapid economic development in Asia, and China in particular. In 2015, nearly 140 million Chinese travelled internationally, compared to 10 million in 2000. (Sources: COTRI, CNTA, CTA). Chinese tourism, as a whole, constitutes a major potential for the European hotel market. The theme for Pandox Hotel Market Day 2016 was “The Growth of Chinese Tourism and Hotel Investments – Opportunities and Challenges for the Western Hotel Sector.”

Anders Nissen welcomes all to the Hotel Market Day 2016.

With the aid of leading experts on the Chinese economy and hotel industry, a number of important questions were analysed:

- What do we know about Chinese tourists and Chinese investors?
- What defines the Chinese tourism segments and what are the needs of Chinese tourists?
- Will Chinese brand owners, brands and operators use different strategies and ways of organising the value chain than we are used to?

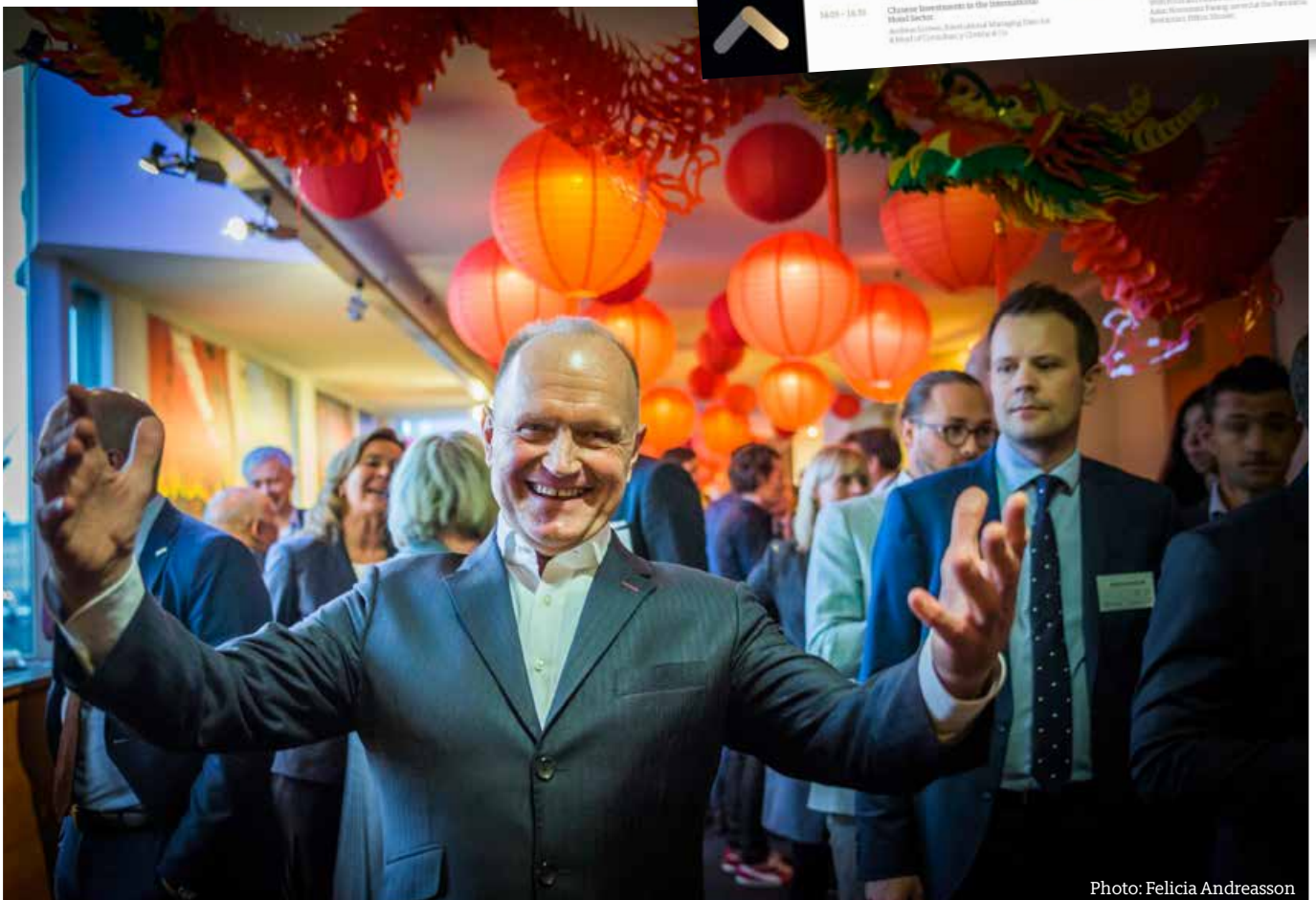


Photo: Felicia Andreasson



**PROMINENT LIST OF SPEAKERS WITH A FOCUS ON CHINA:**

*Main Trends in Chinese Macroeconomic and Political Development*

Frédéric Cho, Founder of Frédéric Cho Advisory AB

*The China Factor: Opportunities and Issues*

Kaye Chon, Dean and Professor, School of Hotel & Tourism Management, The Hong Kong Polytechnic University

*The Chinese Tourist: Segments, Needs and Behavior*

Jonathan Smith, Managing Director, Hot Pot Digital

*Chinese Investments in the International Hotel Sector*

Andreas Scriven, International Managing Director & Head of Consultancy, Christie & Co

*How Well Are Hotels in Stockholm Prepared for the Chinese Traveller?*

Andreas Scriven, Jonathan Smith

*A Chinese Innovator: The China Lodging Group*

A filmed interview with Elton Sun, Executive Vice President, CEO Upscale Brand Unit, China Lodging Group (Huazhu)

*Summary and Conclusions*

Jileen Loo, Head of Asia Desk International Capital Markets CBRE Hotels EMEA

For more information on Pandox Market Day, please go to [www.pandox.se](http://www.pandox.se) where you find the complete program as well as filmed presentations by the speakers.



# The Pandox share

## Solid long-term return

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

### NUMBER OF SHARES AND RIGHTS

Pandox AB's B shares have been listed on Nasdaq Stockholm's Large Cap list under the name PNDX B since 18 June 2015. The total number of shares is 157,499,999 divided into 75,000,000 A shares and 82,499,999 B shares. Only the B shares are listed on the stock exchange. The shares are denominated in SEK and each share has a quota value of SEK 2.50. The Articles of Association contain reservations concerning conversion of and pre-emptive

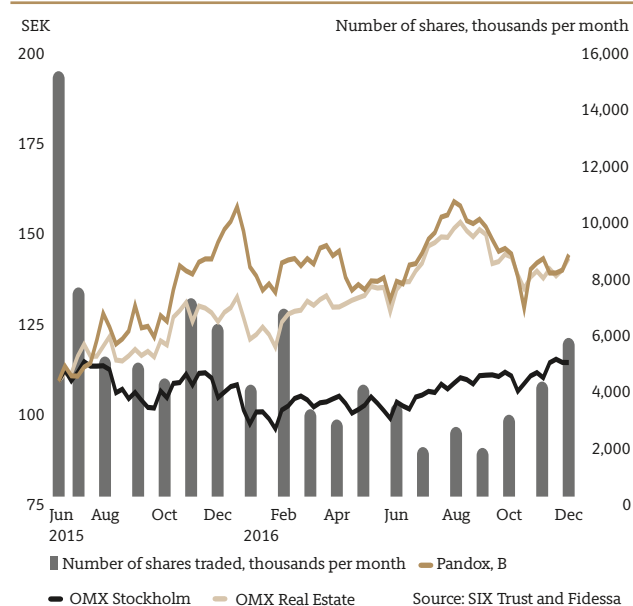
rights for the Company's A shares. All B shares are transferable without restriction. Each A share in Pandox entitles the holder to three votes at shareholder's meetings, while each B share entitles the holder to one vote at shareholders' meetings.

### SHARE PRICE DEVELOPMENT AND MARKET CAPITALISATION

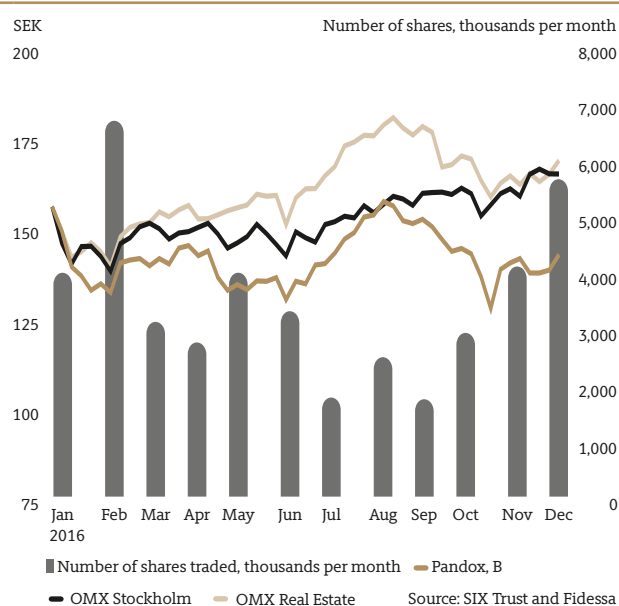
On 31 December 2016 the last price paid for the B shares was SEK 141.40 (155.90) and the visible market cap was MSEK

11,665 (11,692). With the A shares included at the same price as the B shares, the market cap was MSEK 22,240 (23,385). Calculated from the date of the listing on 18 June 2015, the value of Pandox shares at the beginning of 2016 had increased by 33 percent compared to 31 percent for the OMX Stockholm Real Estate PI Index and zero percent for the OMX Stockholm Benchmark PI Index. However, in 2016 the value of the Pandox share fell by -9 (47) percent, compared with the OMX Stockholm

SHARE PRICE AND TRADING  
18 JUNE 2015 –31 DECEMBER 2016



1 JANUARY 2016 –31 DECEMBER 2016



### 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 shares 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

Benchmark PI Index which rose by 5 (4) percent and OMX Stockholm Real Estate PI Index which rose by 8 (21) percent. With the dividend of SEK 3.80 added back, the Pandox share fell in value by -7 percent in 2016. The highest price paid for the shares during the year was SEK 158.30 (158.70) and the lowest was SEK 121.50 (106.20).

Trading on Nasdaq Stockholm accounted for more than 64 (75) percent of all trading in Pandox shares in 2016. Ongoing trading transacted directly on the stock exchange amounted to around 44 (45) percent and OTC trades reported on the stock exchange to around 39 (34) percent. Trading during the stock exchange's opening

and closing procedures and in dark pools amounted to around 10 (14) percent and 7 (6) percent respectively of the volumes traded.

During the year around 42 (50) million B shares were traded, corresponding to 51 (66) percent of outstanding B shares, for a value of just over MSEK 5.9 (6.1). Average daily trading in the same period amounted to 167,589 (362,044) shares, corresponding to around MSEK 23 (45) in value.

#### DIRECTED SHARE ISSUE

On 8 December 2016, Pandox completed a directed share issue of 7,499,999 series B shares, raising MSEK 1,012 before trans-

action costs. The subscription price was set at SEK 135 in an accelerated book-building process. The new issue was implemented based on the authorisation of the Board of Directors received at the Company's Annual General Meeting on 3 May 2016. The reason for the deviation from shareholders' preferential rights was to enable capital to be raised in a timely and cost-effective manner to increase the Company's financial flexibility and ability to continue creating value. Selected Swedish and individual investors, including Eiendomsspar Sverige AB, Christian Sundt AB, AMF and Swedbank Robur Fonder subscribed for shares in the new share issue.

#### SIZE OF SHAREHOLDINGS AS OF 31 DECEMBER 2016

Holding	Number of shareholders	Number of shares	% of capital	% of votes
1-500	2,878	378,563	0.2	0.1
501-1,000	255	218,650	0.1	0.1
1,001-5,000	245	607,339	0.4	0.2
5,001-10,000	52	389,764	0.3	0.1
10,001-15,000	34	432,773	0.3	0.1
15,001-20,000	18	332,460	0.2	0.1
20,001-	145	157,140,450	98.5	99.2
<b>Total</b>	<b>3,627</b>	<b>157,499,999</b>	<b>100</b>	<b>100</b>

Source: Euroclear

#### LARGEST SHAREHOLDERS AS OF 31 DECEMBER 2016

As of 31 December 2016 the fifteen largest registered shareholders according to percentage of voting rights were as follows:

Shareholder	Number of A shares	Number of B shares	% of capital	% of votes
Eiendomsspar Sverige AB	37,314,375	8,014,375	28.8%	39.0%
Christian Sundt AB	18,657,187	4,007,188	14.4%	19.5%
Helene Sundt AB	18,657,188	3,657,187	14.2%	19.4%
AMF Försäkring & Fonder		14,823,826	9.4%	4.8%
Swedbank Robur Fonder		10,029,576	6.4%	3.3%
Länsförsäkringar Fonder		9,413,908	6.0%	3.1%
Alecta Pensionsförsäkring		4,778,647	3.0%	1.6%
Handelsbanken Fonder		2,640,831	1.7%	0.9%
Fjärde AP-Fonden		1,830,458	1.2%	0.6%
Alfred Berg		1,373,748	0.9%	0.4%
Norges Bank		1,304,618	0.8%	0.4%
BlackRock		1,177,819	0.7%	0.4%
Vanguard		1,132,484	0.7%	0.4%
AFA Försäkring		1,062,480	0.7%	0.3%
Fidelity		1,011,800	0.6%	0.3%
<i>Total 15 shareholders</i>	<i>74,628,750</i>	<i>66,258,945</i>	<i>89.5%</i>	<i>94.4%</i>
<i>Other shareholders</i>	<i>371,250</i>	<i>16,241,054</i>	<i>10.5</i>	<i>5.6</i>
<b>Total</b>	<b>75,000,000</b>	<b>82,499,999</b>	<b>100</b>	<b>100</b>

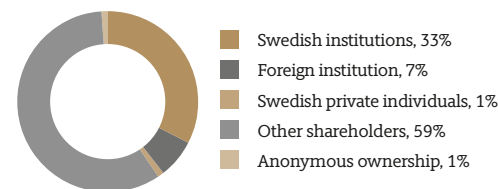
Source: Monitor

#### PANDOX'S OWNERS

As of 31 December 2016, Pandox had 3,627 (3,846) shareholders. Pandox's largest shareholders were Eiendomsspar Sverige AB, Christian Sundt AB and Helene Sundt AB. Other major shareholders were, in descending order, AMF Försäkring & Fonder, Swedbank Robur Fonder and Länsförsäkringar Fondförvaltning AB. Including Pandox's principal Norwegian shareholders, who own their shares in Pandox via Swedish companies, foreign

#### SHAREHOLDERS BY CATEGORY

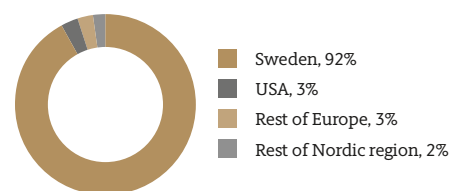
As percentage of capital, 31 December 2016



Source: Monitor

#### SHAREHOLDERS BY COUNTRY

As percentage of capital, 31 December 2016



Source: Monitor



ownership in the Company amounted to 82 (86) percent of the votes and 65 (73) percent of the capital.

### DIVIDEND AND CAPITAL STRUCTURE TARGETS

Pandox has a dividend target and a capital structure target. Pandox is aiming for a

dividend pay-out ratio of 40–60 percent of cash earnings<sup>1)</sup>, with an average dividend pay-out ratio over time of around 50 percent. Future dividend pay-out and the size of dividends depend mainly on Pandox's future performance, financial position, cash flows, working capital requirement and investment plans. As far as the capital

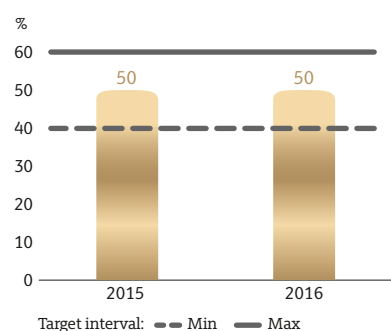
structure is concerned, Pandox is aiming for a loan-to-value ratio<sup>2)</sup> of 45–60 percent, depending on market development and current opportunities.

### PROPOSED DIVIDEND

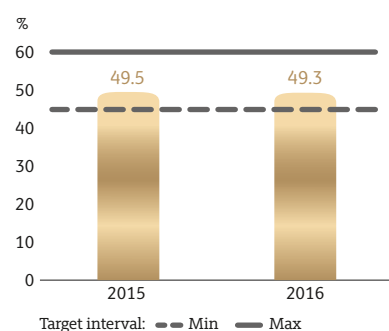
At the 2017 Annual General Meeting the Board of Directors will propose a dividend of SEK 646 (570) per share for the 2016 fiscal year, which corresponds to SEK 4.10 (3.80) per share.

### Performance in relation to Pandox's financial goals

DIVIDEND PAYOUT OF CASH EARNINGS, %



LOAN-TO-VALUE RATIO, %



### FINANCIAL PERFORMANCE IN RELATION TO TARGETS

For 2016 the dividend was equivalent to 50 (50) percent of cash earnings. At the end of the 2016 the loan-to-value ratio was 49.3 (49.5) percent. Both the dividend and capital structure targets were therefore met with a good margin in the period 2015–2016.

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

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

Key ratios	2016	2015	2014	2013	2012
<b>Key ratios per share, after dilution effects <sup>1) 2)</sup></b>					
Total net operating income, SEK	12.87	11.31	10.04	9.95	9.97
Profit for the year, SEK	14.65	14.21	8.35	6.31	3.32
Cash earnings, SEK <sup>5)</sup>	8.49	7.53	5.82	4.10	5.60
Equity, SEK <sup>5)</sup>	95.75	80.61	69.35	69.52	62.89
Net asset value (EPRA NAV), SEK	126.24	107.71	92.11	82.60	74.80
Dividend, SEK <sup>3)</sup>	4.10	3.80	1.00	1.40	1.30
<b>Market cap and return</b>					
Market cap, MSEK	22,240	23,385	—	—	—
Return, Pandox shares, % <sup>4)</sup>	-9.3	47.1	—	—	—
Return, OMX Stockholm Benchmark Index, % <sup>4)</sup>	5.0	-4.3	—	—	—
Return, OMX Stockholm Real Estate Index, % <sup>4)</sup>	8.2	21.4	—	—	—
Dividend pay-out ratio of cash earnings, %	50.1	50.5	—	—	—
Dividend pay-out ratio of EPRA NAV, %	3.2	3.5	—	—	—
Yield, %	2.9	2.4	—	—	—
<b>Share data</b>					
Closing price, B shares, SEK	141.40	155.90	—	—	—
Highest price during the year, SEK	158.30	158.70	—	—	—
Lowest price during the year, SEK	121.50	106.20	—	—	—
Average price during the year, SEK	142.50	131.05	—	—	—
Average daily trading volume, number of B shares <sup>4)</sup>	167,589	362,044	—	—	—
Weighted average number of A shares, before dilution effects, thousands <sup>1)</sup>	75,000	75,000	—	—	—
Weighted average number of A shares, after dilution effects, thousands <sup>1)</sup>	75,000	75,000	—	—	—
Number of A shares end of period, thousands <sup>1)</sup>	75,000	75,000	—	—	—
Weighted average number of B shares, before dilution effects, thousands <sup>1)</sup>	75,266	75,000	150,000	149,412	149,400
Weighted average number of B shares, after dilution effects, thousands <sup>1)</sup>	75,266	75,000	150,000	149,412	149,400
Number of B shares end of period, thousands <sup>1)</sup>	82,499	75,000	150,000	149,412	149,400
Weighted average number of shares, total, after dilution effects, thousands <sup>1)</sup>	150,266	150,000	150,000	149,412	149,400
Total number of shares end of period, thousands <sup>1)</sup>	157,500	150,000	150,000	149,412	149,400

<sup>1)</sup> For the period 2012–2015 retrospectively adjusted for share split in May 2015 for comparability when calculating key ratios.

<sup>2)</sup> For definitions of key ratios, see page 132.

<sup>3)</sup> For 2016 the Board's proposed dividend is stated.

<sup>4)</sup> For 2015 measured from first day of listing, 18 June 2015.

<sup>5)</sup> Attributable to the shareholders of the Parent Company.

# FAQs about and to Pandox

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

The ongoing consolidation and changed business models in the hotel market have led to a change in the risk profile between hotel owners and hotel operators. Pandox's response is a proactive strategy in which the Company takes the position in the value chain that benefits Pandox and its shareholders the most in each individual case. Based on its many years of experience of hotel development and hotel operation, if the conditions are not in place for a profitable lease relationship in properties that the Company owns, Pandox can choose to operate the hotel business itself. This may be done either through a franchise agreement with a well-known brand or through a separate brand in independent distribution channels. This allows Pandox to ensure the value and development potential of the hotel property, which minimises risk. The goal is to create the right conditions in order to enter into new long-term leases providing good profitability. A good example of a successful takeover, repositioning and subsequent letting is Urban House Copenhagen, for which Pandox entered into a lease with MEININGER in November 2016.

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

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

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

Pandox's hotel lease agreements are linked to the hotel's sales and generally involve a minimum guaranteed rent level. This makes it possible to achieve increased revenue in an improved market and have downside protection in a weaker market. The lease agreements have long terms and Pandox's weighted average unexpired lease term (WAULT) at year-end was 13.9 years.

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

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

## 5 How are online travel agencies affecting Pandox?

The hotel market has always paid for distribution through intermediaries. In the past, for example, a significant percentage of business and group travel was booked through traditional travel agents who received various types of volume discounts. The emergence of online travel agencies is thus not in itself a paradigm shift. What is new, however, is the force with which these players are driving demand and the opportunities that are created for independent hotel brands. To take advantage of these opportunities Pandox has built up in-house expertise in digital distribution in the form of the Revenue Management Centre (RMC), which serves all hotels that Pandox operates.

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## IR ACTIVITIES IN 2016

February  
Roadshow Stockholm

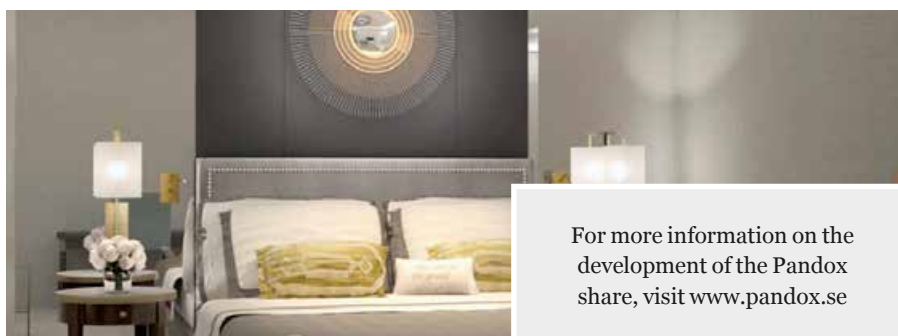
May  
Capital Market Day Brussels  
Nordic Property Tour  
Roadshow Paris and Frankfurt

June  
Small/mid-cap seminar Stockholm

August  
Roadshow Stockholm

September  
Real Estate Seminar Stockholm

November  
Roadshow Amsterdam  
Hotel Market Day Stockholm  
Roadshow Stockholm



For more information on the development of the Pandox share, visit [www.pandox.se](http://www.pandox.se)



# The business Business opportunities throughout the value chain

Pandox game plan







CASES  
TO  
FOLLOW

Property Management, p 36

Operator Activities, p 38

Pandox sustainability work, p 40

The employees, p 44

# A property company specialising in hotels



## An active hotel property owner

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

## Long revenue-based leases with well-known tenant

Pandox's hotel property portfolio consisted of 120 hotels with a total of 26,240 rooms in ten countries and a market value of MSEK 38,233 at the end of 2016. 98 of the hotel properties were leased on a long-term basis to well-known tenants with established brands providing income stability, lower investment costs and less risk for the Company. The remaining 22 hotels are owned and operated by Pandox. In addition, Pandox had asset management agreements for nine hotels, and operates one additional hotel under a long-term lease agreement.



## Property Management

Read more on page 36

**98**  
Owned  
and leased

Pandox's core business involves owning and leasing hotel properties to the best operators in the market. On 31 December 2016 the properties had a weighted average unexpired lease term (WAULT) of 13.9 years.

**79%**  
MSEK 30,163  
Portfolio value

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

**5.7%**  
Valuation  
yield

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

## Operator Activities

Read more on page 38

**22**  
Owned and  
operated

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

**21%**  
MSEK 8,070  
Portfolio value

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

**7.5%**  
Valuation  
yield

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

## Pandox total

**120**  
Hotel properties

Pandox's hotel property portfolio consists of a total of 120 properties with an average size of 219 rooms mainly located in countries in Northern Europe.

**MSEK 38,233**  
Total market value

In 2016 the market value of the total hotel property portfolio increased by 22 percent.

### CHANGES IN THE PORTFOLIO AFTER 31 DECEMBER 2016

Based on previously announced agreements, Property Management will have increased its portion of the property portfolio by around 84 percent by the end of the second quarter 2017, through reclassification of Urban House Copenhagen (1 January 2017) and seven hotel properties in the Nordic region (second quarter of 2017).



# Property Management Record earnings

For 2016 Property Management reported net operating income growth of 17 percent, driven by a strong underlying hotel market, successful acquisitions and a good return on investments executed with partners. Adjusted for currency effects and comparable units, the increase was 7 percent.



At the end of 2016, Pandox's Property Management segment consisted of 98 (103) Investment Properties with 20,024 (19,755) hotel rooms in 9 (6) countries and constituted around 79 percent (80) of the hotel properties' total market value. In 2016 the total property revenue for Property Management amounted to MSEK 1,787 (1,543) and net operating income to MSEK 1,495 (1,280). During the year, three hotels (Thon Hotel Fagernes, Thon Hotel Sørlandet and Meetingpoint Hafjell) were reclassified to Operator Activities when Pandox took over their operation. On 1 January 2017 Urban House Copenhagen was reclassified to Property Management as a result of a revenue-based lease entered into earlier with the tenant MEININGER Hotel Group.

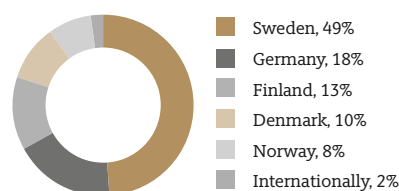
Property Management is a key component in Pandox's business model and is based on long-term, revenue-based leases with good

minimum guaranteed rent levels and stable earnings. The hotel properties are leased to highly reputable tenants who operate the hotels under well-known hotel brands. The Nordic countries account for 80 (96) percent and Sweden for 49 (59) percent of the segment's revenue. The decline compared with the previous year is explained by acquisitions outside the Nordic region and Sweden. For more information on types of agreements and market conditions, see page 18 and the section on Pandox's markets.

## WELL-KNOWN AND STRONG TENANTS

The majority of Pandox's tenant base consists of highly reputable hotel operators with strong hotel brands. The tenants are both Nordic-oriented hotel operators, such as Scandic Hotels Group (the largest hotel operator in the Nordics with more than 200 hotels)

RENTAL INCOME BY COUNTRY 2016, %



Percentage breakdown of rental income by country in 2016 for Property Management.

TENANTS BY BRAND 31 DECEMBER 2016

Tenant	No. of hotels	No. of rooms
Scandic	44	9,458
Leonardo	16	2,921
Nordic Choice Hotels*	12	1,956
Radisson Blu	5	1,358
NH	5	1,162
Hilton	3	717
Holiday Inn	2	494
Elite Hotels	2	452
First Hotels	2	403
Rantasipi	1	135
Best Western	1	103
Independent	5	865
<b>Total</b>	<b>98</b>	<b>20,024</b>

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

and Nordic Choice Hotels, and operators focused on other regions as well as global markets such as Fattal (Leonardo), Rezidor (Radisson Blu), Hilton and NH.

### LEASES WITH THE RIGHT INCENTIVES

Pandox's lease agreements are mainly linked to the hotel's revenue and generally contain a minimum guaranteed rent clause. This makes it possible to achieve both increased rental income in an improved market and have downside protection in a weaker market. Pandox prefers revenue-based leases which normally include 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 revenue from food and beverages, but also operator revenue that may be specific to the hotel's offering, such as parking and spa services.

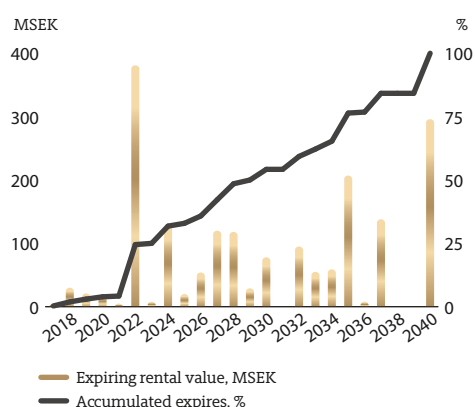
With revenue-based leases the property owner and operator have a joint incentive to develop the hotel property's profitability and yield. A good example is the joint development project of Pandox and Scandic Hotels Group where 40 hotels have been refurbished and upgraded for a total of around MSEK 1,600, of which Pandox's share amounts to around MSEK 1,000. In 2016 Pandox signed agreements with Scandic on extending the leases for a further 19 hotel properties in the Nordics, including a joint investment programme of a total of MSEK 470 of which Pandox will cover around half. These lease extensions confirm the success of Pandox' strategy and business model, involving long revenue-based leases with strong operators where investments are split between the parties over time.

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

On 31 December 2016 Pandox's lease portfolio had a weighted average unexpired lease term (WAULT) of 13.9 (11.2) years. The lease maturity profile was further diversified in 2016 through portfolio acquisitions involving seven hotel properties with a total of 1,744 rooms in Germany, Austria and the Netherlands.

The rent levels are deemed sustainable over a long period with tenants paying revenue-based rents.

LEASE MATURITY PROFILE 31 DECEMBER 2016



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

### 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. Hotel tenants are normally responsible for maintenance of all hotel rooms, restaurants, lobbies, other public areas and furniture, fixtures and equipment. The property owner is typically responsible for technical investments and installations and technical maintenance, and normally also for bathrooms. Investments raise the standard of the hotels and make them more competitive and profitable, which means greater profitability for the operator and thereby higher revenue-based rental for Pandox. Due to the long lease terms combined with the tenant's responsibility for maintenance and cash-flow driving investments, Pandox as the hotel property owner has a lower monetary responsibility for investments compared to an owner of a typical office building. Pandox has made the assessment that hotel tenants contribute more than 50 percent of the total investment over time.

### ASSET MANAGEMENT PROVIDES VALUABLE KNOWLEDGE

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

EXTERNAL ASSET MANAGEMENT ASSIGNMENTS 31 DECEMBER 2016

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

# Operator Activities

## Stable underlying earnings trend

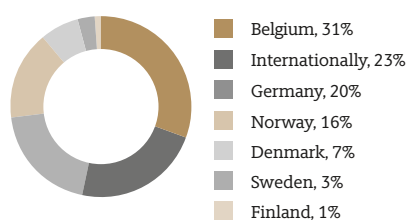
For 2016 Operator Activities reported net operating income growth of 6 percent, supported by good underlying growth and profitability in Germany, Canada and Denmark and by reclassifications. Net operating income was negatively impacted in the amount of MSEK 40 from the effects of the terrorist attacks in Brussels in the first quarter. Adjusted for currency effects and comparable units, net operating income decreased by 1 percent.

At the end of 2016, Pandox's Operator Activities segment consisted of 22 (18) Operating Properties with a total of 6,216 (5,435) hotel rooms in 7 (7) countries and constituted around 21 (20) percent of the hotel properties' total market value. In 2016 revenue from Operator Activities amounted to MSEK 2,158 (2,046) and net operating income to MSEK 439 (416).

### ACTIVE OWNERSHIP REDUCES RISK

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

OPERATOR ACTIVITIES' REVENUE BY COUNTRY 2016, %



Percentage breakdown of revenue by country in 2016 for Operator Activities.



operation of a hotel reduces the operational risk when leases expire, if the tenant cannot fulfil its obligations or in situations where hotels need to be completely renovated and it is not financially attractive at the time to lease to third parties. The goal is to sign new leases at commercially attractive levels. Pandox's deep knowledge of hotel operation also makes it possible to efficiently monitor tenant performance throughout the portfolio.

### 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, revenue from food and beverages, conference room revenue and the hotels' other revenue streams. The costs include personnel, which is the single largest cost item, including the cost of reception, housekeeping and restaurant staff. Other cost items include the cost of goods sold, indirect costs and other hotel-related costs. Pandox works actively to develop revenue and distribution strategies to optimise the hotels' overall performance. An important factor on the cost side for good profitability growth is productivity, which includes forecasting, planning, and monitoring of human resources at any given time for each individual hotel.

### EXTERNAL AND OWN BRANDS

Pandox markets the hotels in the Operator Activities segment either under internationally known hotel brands, such as Radisson Blu or Hyatt Regency, or under its own independent hotel brands adapted for specific market conditions. As of 31 December 2016, 11 hotel properties were operated within Operator Activities through franchise agreements (two with Radisson Blu, two with Crowne Plaza, two with Holiday Inn, two with Thon, one with Hilton, one





First Hotel Copenhagen

with First Hotels and one with Best Western) and three through management contracts (one with Hyatt, one with InterContinental and one with Hilton). The remaining eight properties are operated under independent brands owned by Pandox (Hotel BLOOM! in Brussels, Hotel Berlin in Berlin, Hotel Korpilampi in Esbo, The Hotel Brussels in Brussels, Urban House Copenhagen in Copenhagen, The Hub Hotel & Livingroom in Kista – formerly Mr Chip Hotel, Lillehammer Hotel and Meetingpoint Hafjell Hotel & Resort).

#### TAKE-OVER AND LEASING 2016

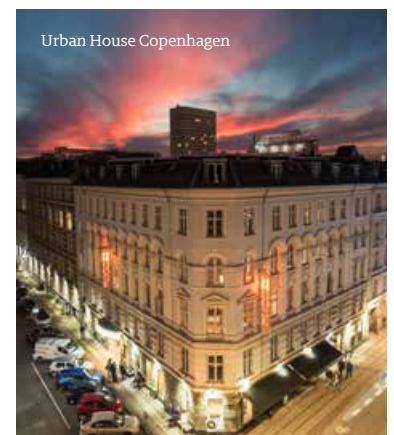
In 2016 Thon Hotel Fagernes, Thon Hotel Sørlandet and Meetingpoint Hafjell Hotel & Resort in Norway were reclassified to Operator Activities when Pandox took over their operation, and Hilton Grand Place Brussels was acquired in Belgium. During the financial

year a 20-year revenue-based lease was signed with the tenant MEININGER Hotel Group for Urban House Copenhagen. The lease term started on 1 January 2017 and as of that date the hotel property was reclassified to Property Management. Additional 20-year revenue-based leases were signed in January 2017 with Scandic Hotels Group for First Hotel Copenhagen, Lillehammer Hotel, Best Western Prince Philip, The Hub Hotel & Livingroom, Thon Hotel Fagernes, Thon Hotel Sørlandet and Meetingpoint Hafjell, effective during the second quarter of 2017.

Pandox ended a lease with related-party property owner Eien-domsspar AS for the operation of Grand Hotel Oslo in the second quarter of 2017. Total revenue and net operating income from Grand Hotel Oslo amounted to MSEK 166 (194) and MSEK –15 (–3) respectively.



Lillehammer Hotel



Urban House Copenhagen

Pandox's  
sustainability work  
Focus areas

# Pandox Fair Play

Pandox's vision is to be a world-leading hotel property company offering specialist expertise in active ownership, management and development of hotel properties, and hotel operations. Being a leader means constantly creating sustainable value for a broad set of stakeholders, and earning their respect and trust. Sustainability is a natural and integrated part of Pandox's operations and is based on Pandox Fair Play.

## PANDOX FAIR PLAY

During 2016, we have striven to understand our hotel guests, employees, tenants and other business partners expectations of our sustainability work. Based on this process we have:

- Identified material aspects of our continuous sustainability work and integrated these into Pandox's business strategy.
- Developed Codes of Conduct and policies which reflect the most important aspects of sustainability.
- Launched a group-wide online training programme regarding the codes.
- Designed activities connected to relevant targets and key ratios.
- Implemented a sustainability programme for Operator Activities.
- Implemented the "Fair Play Tracker", a reporting system that tracks sustainability targets.

Pandox's sustainability work is enacted at a fast pace, through an effective organization, innovation and adequate review methods. Sustainability is a natural part of our business and rests on our fundamental values. That's why we call our sustainability work, Pandox Fair Play.

Because we care.  
*Anders Nissen*



Together with our employees, hotel guests, tenants, business partners and other stakeholders Pandox strives to work for a sustainable development. Our efforts are forward-looking and based on the engagement of internal and external stakeholders.

### Stakeholder dialogue

At the beginning of 2016, Pandox invited its stakeholders to a dialogue in order to identify relevant sustainability aspects across the value chain. Using an online survey answered by 565 stakeholders, important sustainability issues were evaluated both from a group perspective and from a hotel operations perspective which also formed the basis for a materiality analysis.

### Pandox's stakeholders:

- Employees
- Hotel guests
- Suppliers

- Hotel operators and business partners
- Investors and shareholders
- Business analysts and media
- Interest groups
- Community

### Materiality analysis

The materiality analysis identifies key sustainability aspects and focus areas for our business. The results were discussed and validated during supervised seminars including a broad group of senior executives in Pandox. The most critical sustainability aspects have been defined through external and internal dialogues. All aspects were grouped into five focus areas which are presented below.

For further information, go to:  
[www.pandox.se/sustainability](http://www.pandox.se/sustainability)

## PANDOX FIVE FOCUS AREAS

Based on the stakeholder dialogue and the materiality analysis, five focus areas have been identified for our continuous sustainability work.



**Ourselves**  
Employer of choice

- Aspects
- Health, safety and security of employees
  - Fair labour practises
  - Hospitality skills and availability of skilled staff
  - Anti-corruption



**Our guests**  
Customers choice

- Aspects
- Guest satisfaction
  - Guest privacy and information safety
  - Health, safety and security of guests



**Environment**  
Green footprint

- Aspects
- Energy and emissions
  - Water



**Business partners**  
Quality of value chain

- Aspects
- Sourcing and procurement practises
  - Fair labour practises for our subcontractors



**Community**  
Inclusive company

- Aspects
- Social responsibility

# Our five focus areas

## Sustainability programme

Based on Pandox's five focus areas and important aspects of sustainability, a sustainability programme has been created including activities, targets and key ratios. The implementation has started and the main sustainability aspects have been incorporated into Pandox's business strategy. In addition, Codes of Conduct and other policies have been developed.

## Codes of Conduct

Pandox has two Codes of Conduct. Pandox Fair Play for employees and business partners respectively.

The Codes of Conduct reflect the five focus areas and important sustainability aspects and are based on our fundamental values. The codes are published on Pandox's website and are the result of a wide ranging internal cooperation. A number of workshops have been completed with Pandox extended management team as well as operative staff from different business areas. An important part of the efforts has been to ensure that the online Code of Conduct training is built in high quality content. The training was introduced in December 2016 and the goal is for all Pandox's employees to complete the training every year. The Codes of Conduct also form a part of every new employee's workplace introduction and have been included in all employment contracts since autumn 2016.

A whistleblower function has also been implemented during the year. It's open to all employees as well as external stakeholders. The function enables anonymous reporting of any serious irregularities or discrepancies from Pandox's ethical guidelines. The system is run by a third party to ensure independence. No complaints were filed in 2016.

After implementation in December 2016, 560 employees have completed our Code of Conduct training online. The goal for 2017 is for all employees to have completed the training.



## Ourselves

Pandox is a positive and open workplace where the happiness and development potential of our co-workers is key. Our aim is to have satisfied colleagues and to be the most attractive employer within the industry, something which demands mutual respect, cooperation and trust. We aim to have a creative and business driven corporate culture where inspiration is more important than control and the individual more important than the system. As a result, we continuously work with competence development, career planning, and the health and well-being of our employees.

### A healthier workplace

Our employees are our greatest asset and we are devoted all our staff's work satisfaction.

Pandox wants to offer all employees a healthy, safe and secure work environment. We ensure that all employees possess the knowledge and training necessary to be able to carry out the safety routines which are applicable in their respective roles and areas of responsibility as well as being aware of possible risk factors in their daily tasks.

At Pandox, we like sports. Healthy employees are happy employees! Therefore, we have started our own sports club named Pandox Movement. As part of Pandox

Movement, we encourage employees to challenge themselves and each other by, for example, participating in shorter or longer leisure or competitive events, such as marathon, cycling or skiing races.

### Focus on diversity and equality

The equal value of all human beings is a basic pillar of Pandox's values. Among other things, we strive for diversity and equality across all areas.

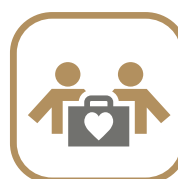
### Competence development

Our main focus is to deliver exceptional guest experiences. Something we achieve by ensuring that each staff member has the relevant competence and by offering continuous training, in areas such as sustainable leadership, energy efficiency, health and safety, customer service and other relevant topics.

	Share of women	Share of men
General Managers <sup>1)</sup>	21%	79%
Extended Management Team	35%	65%
Executive Management	38%	62%
Board of directors <sup>2)</sup>	29%	71%
Other staff	52%	48%
All company staff	49%	51%

<sup>1)</sup> Pertains to Operator Activities.

<sup>2)</sup> Pertains to the parent company.



## Our guests

We are dedicated to delivering guest experiences of the highest quality, something that requires competent staff members who are offered continuous, work related and individual training. During the year, among other things, an overview of all crises management plans and safety policies has been carried out at all Pandox operated hotels.



Using the Code of Conduct online training, employees have been trained in safety and business ethics. In addition, the hotels belonging to Operational Activities have conducted a number of locally adapted training sessions.

During the year, an external review of the surveys used to measure customer satisfaction has been completed. The review included all the Pandox operated hotels and generated a 78 percent average satisfaction mark.





# Environment

Pandox strives to minimise our environmental footprint by using natural resources such as energy, water and materials in a responsible and sustainable manner. We do this by mapping the environmental impact of our property investments and by continuously implementing efficiency and improvement projects throughout our operations and in each individual property.

During 2016, we have formulated an environmental policy which describes what expectations we have on our employees and partners. The work to formulate a common vision is ongoing including, among other items, the online Code of Conduct training that was launched in December 2016.

## Energy audit and certifications

During the financial year, an energy audit covering our Swedish and Danish properties in Operator Activities has been conducted. The goal is to identify tangible improvement and energy savings through review of existing installations and the routines for recycling, laundry and transports. In addition, we have investigated the possibility to include and engage our hotel guests in our aim to reduce the environmental impact.

Another part of the energy audit will be to, during 2017, certify all our German hotel properties in Operator Activities as well as our head office in accordance to the ISO 14001 environmental management system.

Using this system will improve the quality and effectiveness of Pandox's environmental work.

## A reduced footprint in cooperation with strong operators

Pandox is inspired by the excellent sustainability work that many of our tenants have run for many years and of which we have been part. Pandox's and the Scandic Hotel Group's joint investment project is a good example of a close cooperation which has contributed to a reduced footprint. During 2011–2015, we collaborated in the refurbished and upgrade of 40 Scandic-operated hotels spending a total of 1,600 MSEK, of which Pandox's share amounted to approximately 1,000 MSEK.

As part of the project, materials and technical solutions with low environmental impact were chosen, for example, water saving WCs and taps, self-adjusting ventilation systems with heat recovery, key card activated lightning, floor heating with timers and other modern heating systems. In addition, the project included new windows and a switch to LED-lights in most hotel properties.

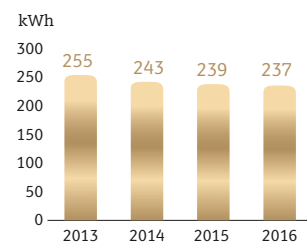
During 2016, Pandox and Scandic signed an agreement to extend the leases for an additional 19 properties in the Nordics which will follow the same established cooperation model. The new investment programme will run 2017–2020 with a total budget of 470 MSEK of which Pandox

shoulders roughly half. The project is expected to reduce the environmental impact.

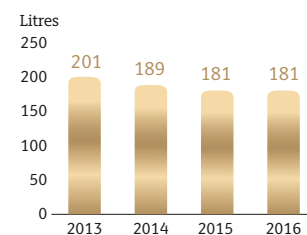
At the end of 2016, all Pandox owned, Scandic operated hotels in the Nordics carried the Nordic Swan Eco-label.

## Use of resources where Scandic is the operator

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



WATER CONSUMPTION PER GUEST NIGHT



Based on the hotels' reported data (excluding Hilton Helsinki Strand and Hilton Kalastajatorppa which are operated by Scandic through agreements with Hilton).

## KEY FIGURES, ENVIRONMENT – OPERATOR ACTIVITIES<sup>1)</sup>

	2015	2016
<b>Environment</b>		
Energy <sup>2)</sup> (MWh)	9,058	9,967
Electricity (MWh)	25,467	24,460
Gas <sup>3)</sup> (MWh)	25,463	26,675
<b>Total (MWh)</b>	<b>59,988</b>	<b>61,101</b>
kWh per guest night	38	37
kWh per square meter	222	226
Water (L) per guest night	214	191
<b>Emissions (Ton CO<sub>2</sub>e)<sup>4)</sup></b>		
From energy	929	906
From electricity	7,762	6,779
From gas	4,683	4,906
<b>Total emissions (Ton CO<sub>2</sub>e)</b>	<b>13,374</b>	<b>12,591</b>
Kg CO <sub>2</sub> e per guest night	8.5	7.7
Kg CO <sub>2</sub> e per square meter	49.4	46.5

<sup>1)</sup> Pertains to Operator Activities excl. hotels run by operators under management agreement with Pandox and hotels which have been reclassified to Operator Activities in 2016. Square meter per hotel refers to heated hotel areas.

<sup>2)</sup> Pertains to energy from district heating and cooling used to run ventilation, lightning and operations for example.

<sup>3)</sup> Pertains to natural gas, town gas, LPG, diesel and other fuels.

<sup>4)</sup> Emission factors based on values obtained from suppliers (market based).

## Pandox hotels with environmental certification

Operator Activities	2016
Green Key	4
Green Engage	6
Number of certified hotels	10
Total number of hotels	22
Share	45%

Processes have been started at a number of Pandox operated hotels with the aim to reach Green Key or the equivalent certification during 2017.

Property Management	2016
Nordic Swan Eco-label	43
Green Key	10
Green Engage	8
Green Global	1
Number of certified hotels	55
Total number of hotels	98
Share	56%



## Our Business partners

Pandox has a long term perspective on business and strive for long term cooperation with our business partners. Thus, it is important that our partners share our values and ambitions regarding sustainable business. During 2016, a special Code of Conduct for business partners were formulated.

The code is based on the ten principles of the UN Global Compact ([www.unglobalcompact.org](http://www.unglobalcompact.org)) and describes the expectations we have on our business partners.

Through the Code, and by showing respect for good business ethics and sound business practices, we want to contribute to a sustainable society in which businesses

take financial, social and environmental responsibility. Since autumn 2016, the Code of Conduct has been included in the documentation when Pandox signs new or renews existing agreements.



## Our Community

Pandox wants to help promote social development in areas where we have particular expertise. By partnering with others, we want to contribute to creating necessary conditions for long-term sustainable development not only for the environment but also in social areas. Therefore, Pandox has started and supports a number of social initiatives.

### **Pandox Youth Handball Movement, Kenya**

In 2012, Pandox started a project in cooperation with a local Kenyan handball club in the city of Nyeri, Northwest of Nairobi, to create better future opportunities for vulnerable children and youth by giving them a meaningful spare-time activity.

Pandox's support mainly consists of the financing of training for leaders and handball coaches and by ensuring that the project has a clear plan with regards to expansion, scholarships, leagues etc – areas

which are reviewed and evaluated in cooperation with the local organisation.

Since its inception, active club members have increased from 400 to over 2,100. In addition, Pandox has contributed to annual training camps where children and youth combine handball training with information and counselling in areas such as relationships, HIV and sustainability.

### **Mount Kenya Sports Group's development (MSG) Facts 2016 compared to the first year (2012)**

Members:	2,100 (400)
MSG Centers:	22 (8)
Coaches:	38 (11)
Grants (14–17 year olds)	70 since 2012
Leagues:	4 (2)
Participating teams, Pandox Kenya Trophy	120 (69)
Games played:	776 (224)
Important milestones:	
2012	<i>Inauguration of MSG's office</i>
2013	<i>League play starts</i>



## Best Practise – a selection of social initiatives at our hotels

### **LIFE CYCLE THINKING...**

When it was time for First Hotel Copenhagen to replace the bedding for all its 215 rooms, the management decided to give the old linen to homeless and needy in the local area. All the bedding was in very good condition as well as allergy tested. The hotel paid for transportation and the bed linens were handed to a shelter for homeless men in Vesterbro, a shelter for men and women in Frederiksberg and SOS Children's Villages in the Amager area.

### **...AND COMPASSION**

In Brussels, many of our hotels help the homeless. Some of the examples are Crowne Plaza – Le Palace which offer shelter for homeless families during the coldest months. Hotel Bloom! donates buffet food to Semu Social, the organization then redistributes the food to the city's homeless.

Around Christmas time, all our Belgian hotels collect gifts that are forwarded via Les Samaritans "Shoe Box project". Each box contains more than 10 food items and



drinks which is wrapped as a Christmas gift for distribution to people in need through a number of organisations.

Employees at Pandox's head office make a similar contribution when they jointly wrap Christmas gifts that are given to the women and children at a local protected shelter.

# Employees

## – working as a team!



### STRONG COMMON VALUE SYSTEM

Pandox's core values are more about inspiration than control and more about people than the system. Structures and methods are important, but the employees are more important. Creative and knowledgeable individuals are what make Pandox unique. Our basic belief is that people who have fun together also do good work together. Pandox's recipe for success is based on experience, entrepreneurship, constant

improvement, mutual respect, initiative and a desire to win. The leadership style is informal, with open doors and a free exchange of ideas.

The level of activity within Pandox is high, with a constant stream of fast-paced business events taking place. Investment projects are analysed and followed up, leases are negotiated and optimised, new acquisition prospects are screened and analysed, and new hotel concepts are

developed and implemented. With 120 hotel properties in ten countries and two large business segments, employees with in-depth knowledge and expertise in many areas are required. For example in management and organisational structures, marketing and acquisition analysis, management and development of properties and hotel concepts, and hotel operation and productivity, as well as accounting and finance.

## Some of our top goal-scorers!



### VICTOR NORDLIND

*Analyst – Business Intelligence*

“I've worked at Pandox since 2015. I started right after finishing my studies in Hotel Management in Switzerland. It feels great to continue working in an international environment that involves travel and having colleagues from several different countries. My job as an analyst involves a variety of duties. I work on a broad front with valuation, market analysis and investment assessment. I was given considerable responsibility early on and I've had the chance to participate in large projects, which makes my work enjoyable and challenging. We have a team-player culture and I look forward to continuing to grow with the company!”



### MARIKA HILLDOFF

*Investor Relations  
& Sustainability Manager*

“I appreciate working at a fast pace in a dynamic and team-player environment with talented and creative colleagues. At Pandox we have a high ceiling and it's always full speed ahead to meet new challenges, while maintaining a strong sense of community and at the same time enjoying ourselves. Pandox has an attractive corporate culture that gives me great opportunities to develop in my professional role.”



### HANNA DAHLÉN

*General Manager,  
The Hub Hotel & Livingroom*

“I experience Pandox as a dynamic company where the employees work in a positive and energetic environment. A good flow of information and short decision paths provide the best conditions for efficient and competitive hotel operation. Pandox has a strong understanding of the different hotel markets, which allows me as a General Manager to be creative and work in the way that works best for my hotel. Pandox is a company with considerable knowledge and confidence in its abilities, which gives us the courage to be out front, embracing new trends instead of going with the flow.”





### THE PANDOX SPIRIT

Pandox's values form the basis of what we call the Pandox Spirit. Over the years the Pandox Spirit has developed into a value driver that defines who we are, what we do and how we do it. The aim is to develop Pandox and ourselves every day.

### HANDBALL AND FAIR PLAY

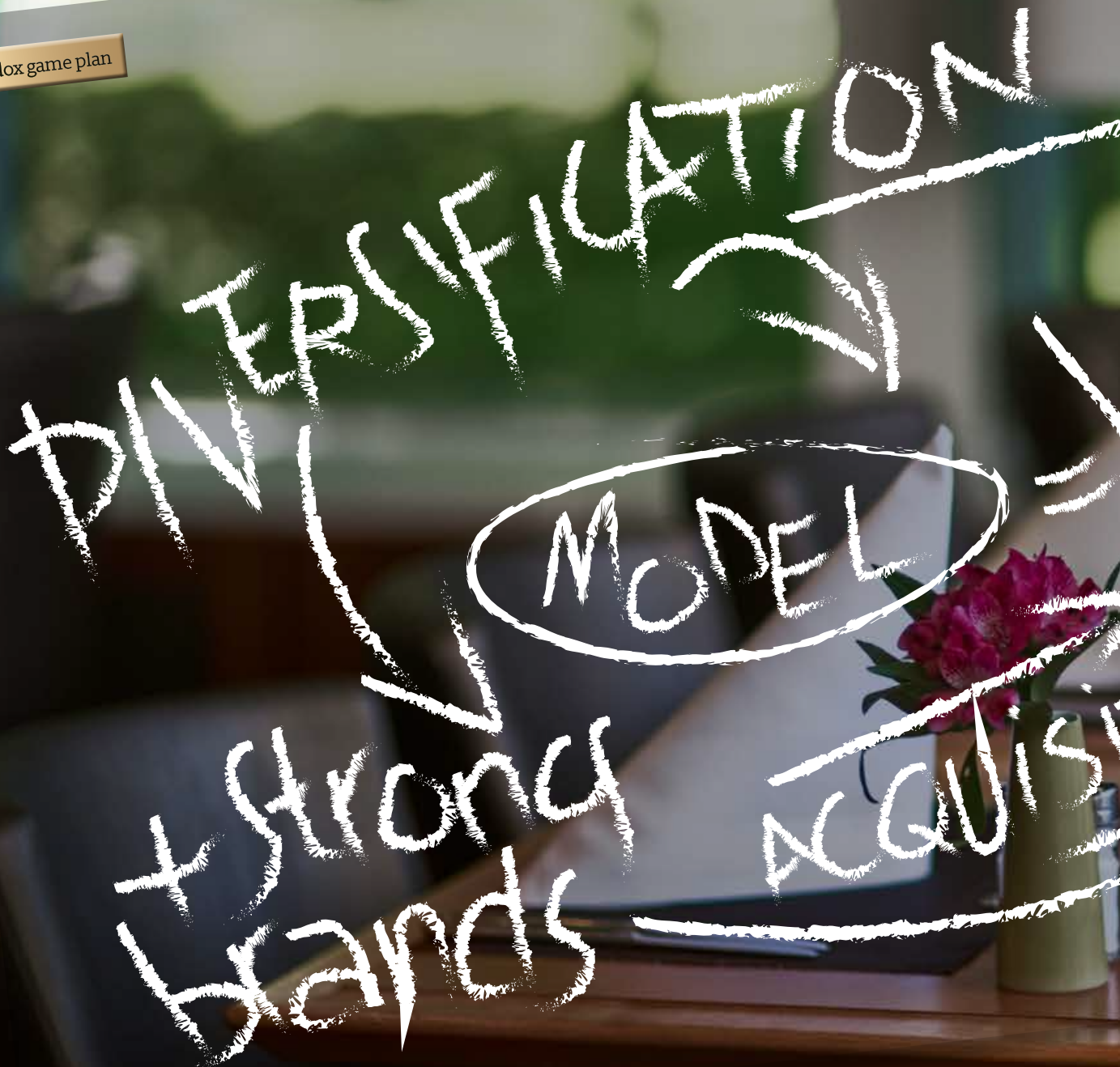
At Pandox we are passionate about the sport of handball and its values, and we are proud of our close ties with the Swedish Handball Federation. We particularly like the fact that handball stands for fair play and that there are just as many women as men that play it. At the same time, it is without doubt one of the world's toughest sports, filled with high intensity and excitement. We see many similarities between handball and our own corporate culture, where individual freedom, cooperation, creativity, passion and integrity are highly valued assets. All employees are equally important and success requires a strong team spirit and mutual respect. That is Pandox Fair Play.





# Property portfolio Right model to right hotel

Pandox game plan





Property portfolio by country, p 48

Property list, p 60



# Property portfolio by country

## Belgium Total number — Hotels 8 — Rooms 2,258 — Cities 2

ihg.com



**Holiday Inn Brussels Airport**  
310 rooms

thehotel-brussels.be



**The Hotel Brussels**  
420 rooms



hilton.com

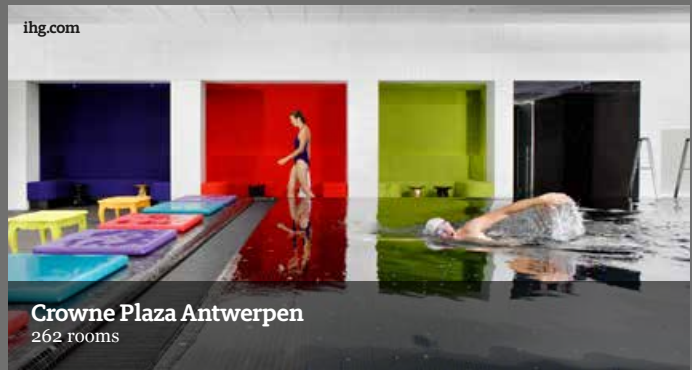
**Hilton Brussels City**  
284 rooms

hotelbloom.com



**Hotel BLOOM! Brussels**  
304 rooms

ihg.com



**Crowne Plaza Antwerpen**  
262 rooms

ihg.com



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



# Denmark

Total number — Hotels 8 — Rooms 1,842 — Cities 2





# Finland

Total number — Hotels 14 — Rooms 3,070 — one congress centre — Cities 8

hilton.com



**Hilton Helsinki Kalastajatorppa**  
238 rooms

**Scandic Grand Marina, Helsinki**  
470 rooms



scandichotels.com



**Hilton Helsinki Strand**  
190 rooms

hilton.com



scandichotels.com



**Scandic Park Helsinki**  
523 rooms



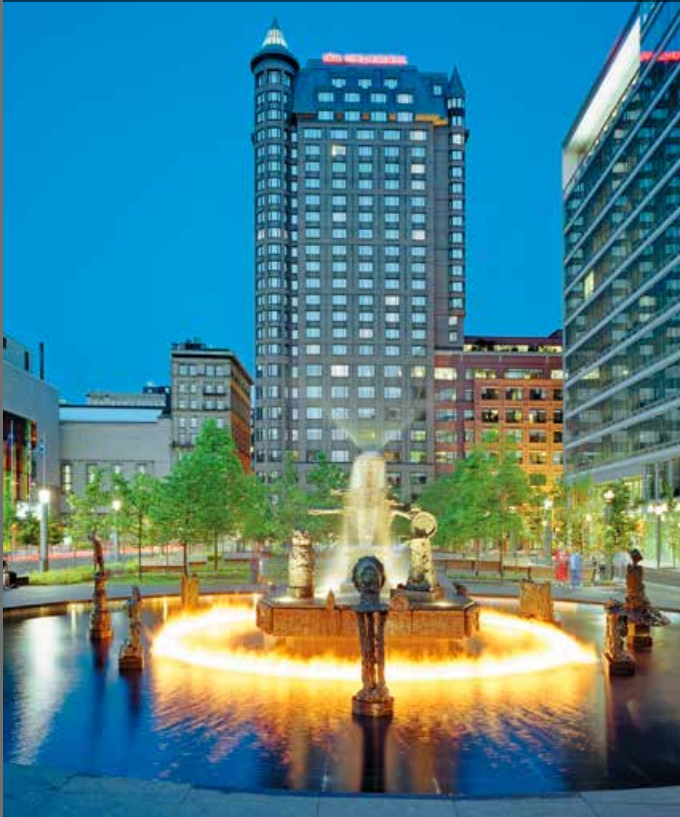
**Scandic Tampere City**  
263 rooms



# Canada

Total number — Hotels 2 — Rooms 964 — Cities 1

**InterContinental, Montreal**  
357 rooms

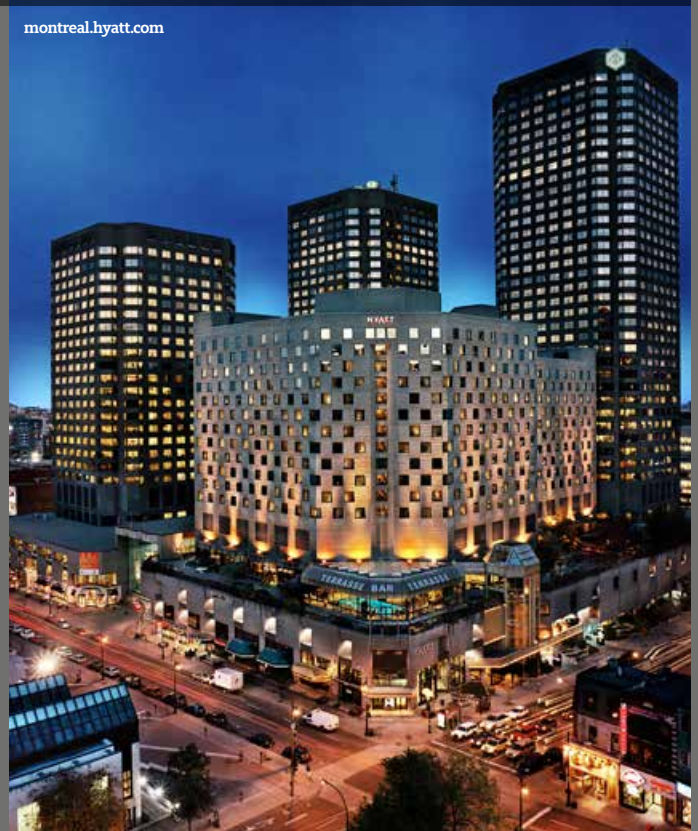


[montreal.intercontinental.com](http://montreal.intercontinental.com)

**Hyatt Regency Montreal**  
607 rooms



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





# The Netherlands

Total number — Hotels 1 — Rooms 189 — Cities 1



# Norway

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





scandichotels.com



**Scandic Ringsaker, Hamar**  
176 rooms

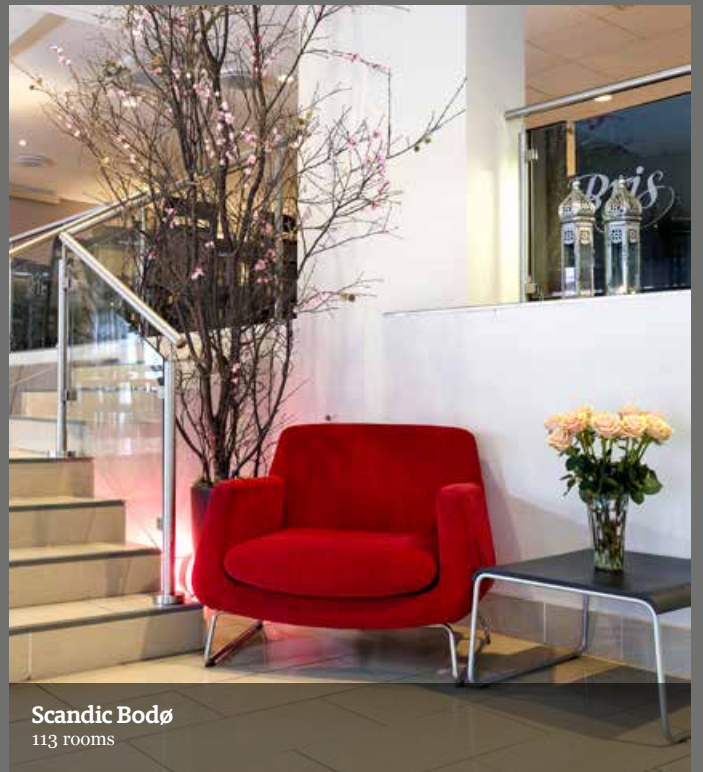


**Scandic Solli, Oslo**  
226 rooms

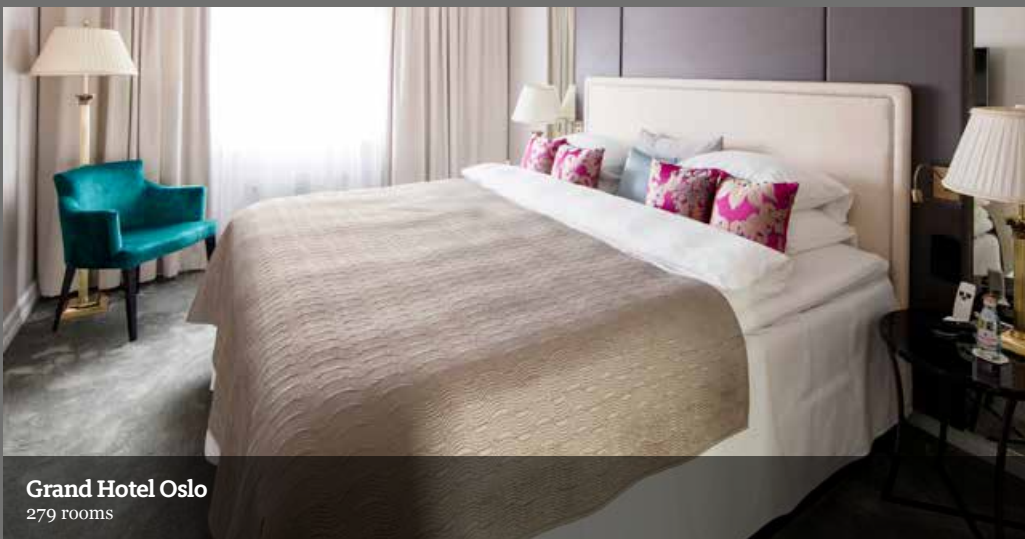


**Comfort Børsparken**  
248 rooms

nordicchoicehotels.se



**Scandic Bodø**  
113 rooms



**Grand Hotel Oslo**  
279 rooms

grand.no





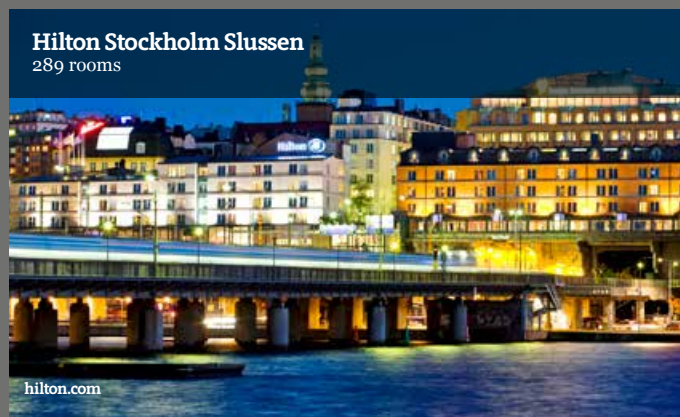
# Sweden

Totalt number — Hotels 44 — Rooms 8,954 — Cities 18



**Scandic Malmen, Stockholm**  
332 rooms

**Scandic Järva Krog**  
215 rooms



**Radisson Blu Hotel Arlandia, Arlanda**  
339 rooms

**Hilton Stockholm Slussen**  
289 rooms



**The Hub Hotel & Livingroom, Kista**  
149 rooms

**Scandic Kalmar Väst**  
148 rooms



# Germany

Total number — Hotels 26 — Rooms 5,616 — Cities 17

**Leonardo Hotel Mönchengladbach**  
128 rooms



**Leonardo Royal Hotel Frankfurt**  
449 rooms



**NH Collection Hamburg**  
129 rooms



**Leonardo Hotel Hannover Airport**  
213 rooms



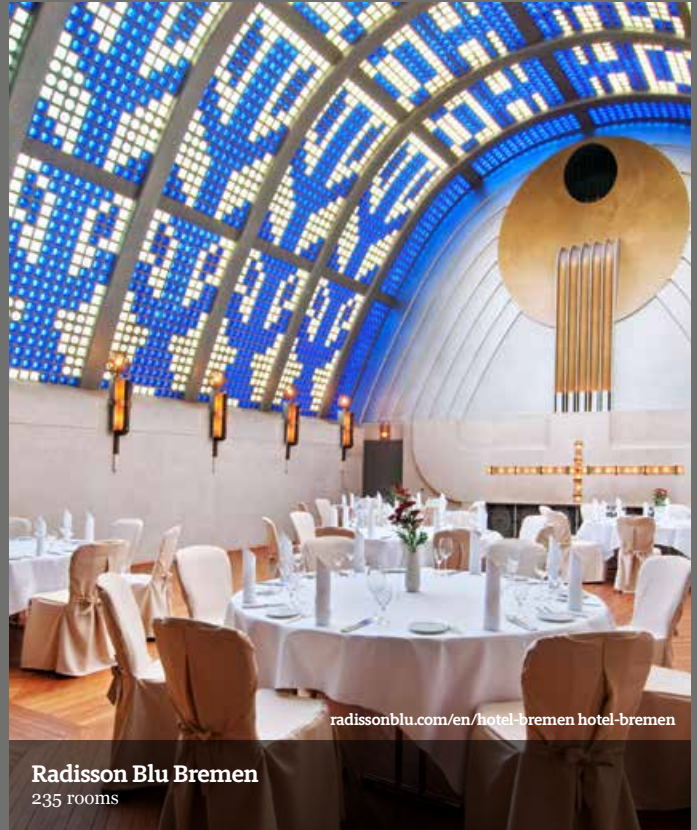
**Leonardo Royal Hotel Baden-Baden**  
121 rooms







[radissonblu.com/en/hotel-dortmund](http://radissonblu.com/en/hotel-dortmund)  
**Radisson Blu Dortmund**  
 190 rooms



[radissonblu.com/en/hotel-bremen](http://radissonblu.com/en/hotel-bremen)  
**Radisson Blu Bremen**  
 235 rooms



**Hotel Berlin, Berlin**  
 701 rooms

[hotel-berlin.de](http://hotel-berlin.de)



[radissonblu.com/en/hotel-cologne](http://radissonblu.com/en/hotel-cologne)

**Radisson Blu Cologne**  
 393 rooms



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

**Holiday Inn Lübeck**  
 159 rooms



# Switzerland

Total number — Hotels 1 — Rooms 206 — Cities 1

**Radisson Blu Hotel Basel**  
206 rooms



[radissonblu.com/en/hotel-basel](http://radissonblu.com/en/hotel-basel)

# Austria

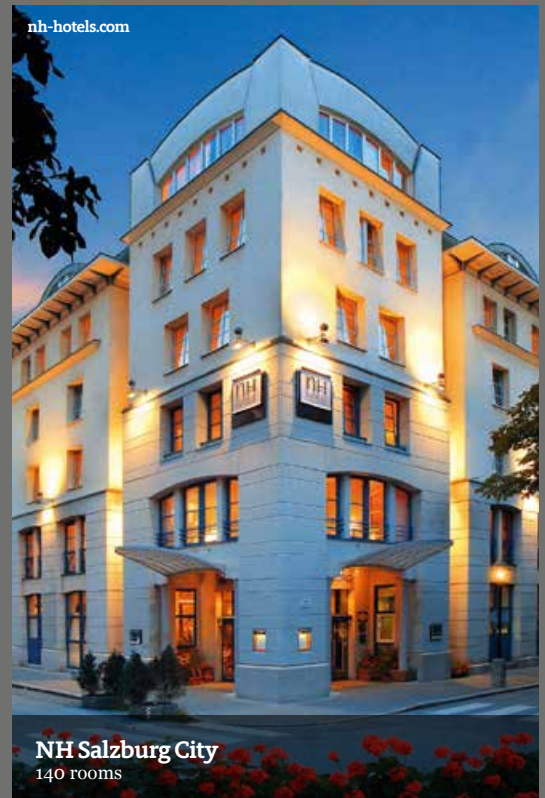
Total number — Hotels 2 — Rooms 639 — Cities 2

[nh-hotels.com](http://nh-hotels.com)



**NH Vienna Airport**  
499 rooms

[nh-hotels.com](http://nh-hotels.com)



**NH Salzburg City**  
140 rooms

## Property portfolio 2016

At year-end 2016, Pandox's property portfolio comprised 120 (121) hotel properties with 26,240 (25,190) hotel rooms in 10 (8) countries. The Nordic region makes up around 60 (69) percent of the market value of the property portfolio. 98 of the hotel properties are leased to third parties, which mean that approximately 79 percent of the market value of the property portfolio is covered by long-term external leases. The remaining 22 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. NH, MEININGER and Grand City Hotels are new hotel operator additions to the lease portfolio in 2016. In addition, the relationship with Scandic Hotels Group has been strengthened further by lease extensions and new lease agreements.

### PORTFOLIO OVERVIEW BY SEGMENT AND COUNTRY, 31 DECEMBER 2016

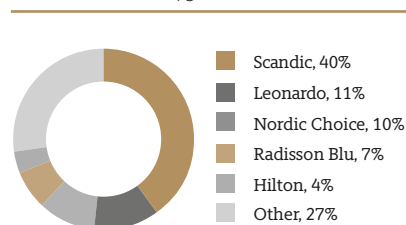
Property Management Investment Properties	Number of hotels	Number of rooms	Property value (MSEK)	Property value as % of total	Value per room (MSEK)
Sweden	42	8,597	13,311	35%	1.5
Norway	10	1,641	2,379	6%	1.4
Finland	13	2,919	3,246	8%	1.1
Denmark	6	1,402	2,395	6%	1.7
Belgium	1	100	100	0%	1.0
The Netherlands	1	189	945	2%	5.0
Germany	22	4,331	5,751	15%	1.3
Austria	2	639	1,273	3%	2.0
Switzerland	1	206	763	2%	3.7
<b>Total Investment Properties</b>	<b>98</b>	<b>20,024</b>	<b>30,163</b>	<b>79%</b>	<b>1.5</b>
<b>Operator Activities Operating Properties</b>					
Sweden	2	357	309	1%	0.9
Norway	4	861	671	2%	0.8
Finland	1	151	43	0%	0.3
Denmark	2	440	734	2%	1.7
Belgium	7	2,158	3,251	9%	1.5
Germany	4	1,285	2,037	5%	1.6
Canada	2	964	1,025	3%	1.1
<b>Total Operating Properties</b>	<b>22</b>	<b>6,216</b>	<b>8,070</b>	<b>21%</b>	<b>1.3</b>
<b>Total owned properties</b>	<b>120</b>	<b>26,240</b>	<b>38,233</b>	<b>100%</b>	<b>1.5</b>

### PORTFOLIO OVERVIEW BY BRAND, 31 DECEMBER 2016

Brand	Number of hotels	Number of rooms	Countries
Scandic	44	9,458	SE, NO, FI, DK, BE
Leonardo	16	2,921	GER
Nordic Choice Hotels*	12	1,956	SE, NO
Radisson Blu	7	1,783	SE, NO, CH, GER
Hilton	5	1,225	SE, FI, BE
NH	5	1,162	GER, AU
Holiday Inn	4	963	BE, GER
First Hotels	3	618	DK
Crowne Plaza	2	616	BE
Hyatt	1	607	CAN
Elite	2	452	SE
InterContinental	1	357	CAN
Thon Hotels	2	348	NO
Best Western	2	311	SE
Rantasipi	1	135	FI
Independent brands	13	3,328	SE, NO, FI, DK, BE, GER
<b>Total</b>	<b>120</b>	<b>26,240</b>	<b>10</b>

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

### ROOMS BY BRAND, 31 DECEMBER 2016



### PANDOX'S OWN BRANDS, 31 DECEMBER 2016



HOTELLI KORPILAMPI



## Change in property values 2016

At year-end 2016 Pandox's property portfolio had a total market value of MSEK 38,233 (31,437), of which MSEK 30,163 (25,062) for Investment Properties and MSEK 8,070 (6,375) for Operating Properties. The market value of Operating Properties is reported for information purposes only and is included in EPRA NAV. Operating Properties are recognised at cost less depreciation and any impairment. The takeover of operations and reclassification of Thon Hotel Fagernes was implemented 1 January 2016, Thon Hotel Sørlandet 28 May 2016 and Meetingpoint Hafjell 1 September 2016.

### CHANGE IN VALUE INVESTMENT PROPERTIES

	MSEK
Investment Properties, opening balance (1 January, 2016)	25,062
+ Acquisitions <sup>1)</sup>	3,970
+ Investments in existing portfolio	173
- Divestments <sup>2)</sup>	-887
+/- Reclassifications	-295
+/- Change in value, unrealised	1,301
+/- Change in value, realised <sup>2)</sup>	159
+/- Change in currency exchange rates	680
<b>Investment Properties, closing balance (31 December, 2016)</b>	<b>30,163</b>

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

	MSEK
Operating Properties, opening balance (1 January, 2016)	6,375
+ Acquisitions <sup>3)</sup>	526
+ Investments in existing portfolio	260
- Divestments	—
+/- Reclassifications	295
+/- Changes in value, unrealised	225
+/- Changes in value, realised	—
+/- Change in currency exchange rates	389
<b>Operating Properties, closing balance (31 December, 2016)</b>	<b>8,070</b>

<sup>1)</sup> Refers to acquisition of seven Investment Properties in Europe 19 December 2016.

<sup>2)</sup> Refers to divestment of eight Investment Properties in Sweden 31 March 2016.

<sup>3)</sup> Refers to acquisition of Hilton Grand Place Brussels 10 October 2016.

At the end of the period the carrying amount of Operating Properties was MSEK 6,415 (5,128). The increase is mainly a result of the acquisition of Hilton Grand Place Brussels, reclassifications and change in currency exchange rates.

At year-end 2016 the average valuation yield amounted to 5.7 (5.9) percent for Investment Properties and 7.5 (7.5) percent for Operating Properties.

### SOMEWHAT LOWER TRANSACTION MARKET 2016

Volumes on the global hotel transaction market decreased to USD 60 billion compared with USD 85 billion in 2015, which was a historical peak year. For Europe, the Middle East and Africa (EMEA) volumes amounted to USD 21 billion for 2016, which was a decrease of 20 percent compared with 2015.

#### Trends on the transaction market:

- Increased interest for regional city centres.
- Increased interest for Germany, France and Benelux.
- China and Asia dominating buyers.

### POSITIVE INVESTMENT CLIMATE IN GERMANY

In recent years, Germany has become an increasingly attractive and liquid market for investors. The positive climate in the investment market continued in 2016 and the number of hotel transactions reached a new record. German hotel investments have thereby increased seven years in a row. After the UK, Germany was the country with the most transactions. Total transaction volumes amounted to EUR 5.1 billion, an increase of 15 percent compared with the previous year.

Source: JLL Hotel Investment Outlook 2017, Hospitality Inside/CBRE.

# Property list

## Property Management

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

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



Operator/Brand	Number of rooms	Brand
Private/Independent	140	Independent
Nordic Choice Hotels/Clarion Hotel	158	Nordic Choice Hotels
Nordic Choice Hotels/Clarion Hotel	197	Nordic Choice Hotels
Elite/Elite Hotels	317	Elite Hotels
Elite/Elite Hotels	135	Elite Hotels
Nordic Choice Hotels/Quality Hotel	158	Nordic Choice Hotels
Privat/Best Western	103	Best Western
Hilton/Hilton	289	Hilton
Nordic Choice Hotels/Quality Hotel	209	Nordic Choice Hotels
Nordic Choice Hotels/Quality Hotel	220	Nordic Choice Hotels
Nordic Choice Hotels/Quality Hotel	157	Nordic Choice Hotels
Nordic Choice Hotels/Quality Hotel	121	Nordic Choice Hotels
Rezidor/Radisson Blu	339	Radisson Blu
Rezidor/Radisson Blu	229	Radisson Blu
Scandic/Scandic	324	Scandic
Scandic/Scandic	236	Scandic
Scandic/Scandic	358	Scandic
Scandic/Scandic	287	Scandic
Scandic/Scandic	171	Scandic
Scandic/Scandic	221	Scandic
Scandic/Scandic	156	Scandic
Scandic/Scandic	113	Scandic
Scandic/Scandic	238	Scandic
Scandic/Scandic	215	Scandic
Scandic/Scandic	148	Scandic
Scandic/Scandic	113	Scandic
Scandic/Scandic	257	Scandic
Scandic/Scandic	150	Scandic
Scandic/Scandic	160	Scandic
Scandic/Scandic	352	Scandic
Scandic/Scandic	208	Scandic
Scandic/Scandic	151	Scandic
Scandic/Scandic	201	Scandic
Scandic/Scandic	169	Scandic
Scandic/Scandic	288	Scandic
Scandic/Scandic	168	Scandic
Scandic/Scandic	270	Scandic
Scandic/Scandic	160	Scandic
Scandic/Scandic	131	Scandic
Scandic/Scandic	199	Scandic
Scandic/Scandic	208	Scandic
Private/Independent	213	Independent
Nordic Choice Hotels/Clarion Collection Hotel	75	Nordic Choice Hotels
Nordic Choice Hotels/Clarion Collection Hotel	99	Nordic Choice Hotels
Nordic Choice Hotels/Comfort Hotel	248	Nordic Choice Hotels
Nordic Choice Hotels/Comfort Hotel	149	Nordic Choice Hotels
Nordic Choice Hotels/Quality Hotel	165	Nordic Choice Hotels
Rezidor/Radisson Blu	191	Radisson Blu
Scandic/Scandic	199	Scandic
Scandic/Scandic	113	Scandic
Scandic/Scandic	176	Scandic
Scandic/Scandic	226	Scandic

## Wall of fame

Selected awards 2016



**CROWNE PLAZA BRUSSELS – LE PALACE**  
 Luxury Travel Awards Winner  
 Guest Review Award Winner  
 on Booking.com  
 Cvent Top 50 Meeting Hotels in Europe



**INTERCONTINENTAL MONTREAL**  
 Hotelia Prize,  
 Executive Chef, Matthieu Saunier.

**HILTON BRUSSELS CITY**  
 The leading business hotel in Belgium  
 for the second year in a row.  
 World Travel Awards.

**HILTON HELSINKI KALASTAJATORPPA**  
 The best business hotel in Finland.  
 World Travel Awards.

**HILTON HELSINKI STRAND**  
 The best hotel in Finland.  
 World Travel Awards.

**HILTON STOCKHOLM SLUSSEN**  
 The best business hotel in Sweden.  
 World Travel Awards.

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

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



Operator/Brand	Number of rooms	Brand
First/First Hotels	203	First Hotels
Scandic/Scandic	120	Scandic
Scandic/Scandic	207	Scandic
Scandic/Scandic	186	Scandic
First/First Hotels	200	First Hotels
Scandic/Scandic	486	Scandic
Private/Independent	211	Independent
Private/Independent	112	Independent
Scandic/Hilton	238	Hilton
Scandic/Hilton	190	Hilton
Restel/Rantasipi	135	Rantasipi
Scandic/Scandic	96	Scandic
Scandic/Scandic	470	Scandic
Scandic/Scandic	150	Scandic
Scandic/Scandic	181	Scandic
Scandic/Scandic	137	Scandic
Scandic/Scandic	523	Scandic
Scandic/Scandic	213	Scandic
Scandic/Scandic	263	Scandic
Scandic/Scandic	100	Scandic
Fattal/Leonardo	253	Leonardo
Fattal/Leonardo	150	Leonardo
Fattal/Leonardo	177	Leonardo
Fattal/Leonardo	134	Leonardo
Fattal/Holiday Inn	199	Holiday Inn
NH/NH Collection	129	NH
NH/NH	158	NH
NH/NH	236	NH
Rezidor/Radisson Blu	393	Radisson Blu
Fattal/Leonardo	99	Leonardo
Fattal/Leonardo	128	Leonardo
Fattal/Leonardo	121	Leonardo
Fattal/Leonardo	148	Leonardo
Fattal/Leonardo	161	Leonardo
Fattal/Leonardo	147	Leonardo
Fattal/Leonardo	169	Leonardo
Fattal/Leonardo	212	Leonardo
Fattal/Leonardo	213	Leonardo
Fattal/Leonardo	178	Leonardo
Fattal/Leonardo	449	Leonardo
Fattal/Holiday Inn	295	Holiday Inn
Fattal/Leonardo	182	Leonardo
Rezidor/Radisson Blu	206	Radisson Blu
NH/NH	140	NH
NH/NH	499	NH
Grand City Hotels/Independent	189	Independent



## Operator Activities

Hotel	City	Location	Form of agreement <sup>1)</sup>
<b>Denmark</b>			
First Hotel Copenhagen	Copenhagen	Ring road	FR
Urban House Copenhagen	Copenhagen	City centre	IO
<b>Sweden</b>			
The Hub Hotel & Livingroom Kista	Stockholm	City centre	IO
Best Western Prince Philip, Skärholmen	Stockholm	Ring road	FR
<b>Norway</b>			
Lillehammer Hotel	Lillehammer	City centre	IO
Thon Fagernes	Fagernes	Resort	FR
Meetingpoint Hafjell Hotel & Resort	Øyer	Resort	IO
Thon Sörlandet	Kristiansand	Resort	FR
<b>Finland</b>			
Hotel Korpilampi, Espoo	Espoo	Resort	IO
<b>International</b>			
<b>Belgium</b>			
Crowne Plaza Antwerp	Antwerp	Ring road	FR
Crowne Plaza Brussels - Le Palace	Brussels	City centre	FR
Hilton Brussels City	Brussels	City centre	FR
Holiday Inn Brussels Airport	Brussels	Airport	FR
Hotel BLOOM!, Bryssel	Brussels	City centre	IO
Hilton Grand Place	Brussels	City centre	M
The Hotel, Bryssel	Brussels	City centre	IO
<b>Germany</b>			
Holiday Inn Lübeck	Lübeck	Ring road	FR
Hotel Berlin, Berlin	Berlin	City centre	IO
Radisson Blu Bremen	Bremen	City centre	FR
Radisson Blu Dortmund	Dortmund	Congress centre	FR
<b>Canada</b>			
Hyatt Regency, Montreal	Montreal	City centre	M
InterContinental Montreal	Montreal	City centre	M

## External agreements

Hotel	City	Location	Form of agreement <sup>1)</sup>
<b>Norway</b>			
Grand Hotel Oslo**	Oslo	City centre	O
Clarion Collection Hotel Folketeatret*	Oslo	City centre	AM
Clarion Collection Hotel Gabelshus*	Oslo	City centre	AM
Scandic Helsfyr*	Oslo	Ring road	AM
Scandic Holberg*	Oslo	City centre	AM
Scandic Holmenkollen Park*	Oslo	Resort	AM
Scandic Oslo City*	Oslo	City centre	AM
Scandic Victoria*	Oslo	City centre	AM
Scandic Gardermoen*	Oslo	Airport	AM
<b>Bahamas</b>			
Pelican Bay, Grand Bahama Island***	Lucaya	Resort	AM

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

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

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

### CHANGES IN THE PORTFOLIO AFTER 31 DECEMBER 2016

As a result of earlier communicated agreements Property Management will increase its share of the property portfolio to approximately 84 percent at the end of the second quarter 2017, through reclassification of Urban House Copenhagen (1 January 2017) and seven hotel properties in the Nordic region (second quarter 2017).

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



Operator/Brand	Number of rooms	Brand
Pandox/First Hotels	215	First Hotels
Pandox/Independent	225	Independent
Pandox/Independent	149	Independent
Pandox/Best Western	208	Best Western
Pandox/Independent	303	Independent
Pandox/Thon	138	Thon
Pandox/Independent	210	Independent
Pandox/Thon	210	Thon
Pandox/Independent	151	Independent
Pandox/Crowne Plaza	262	Crowne Plaza
Pandox/Crowne Plaza	354	Crowne Plaza
Pandox/Hilton	284	Hilton
Pandox/Holiday Inn	310	Holiday Inn
Pandox/Independent	304	Independent
Hilton/Hilton	224	Hilton
Pandox/Independent	420	Independent
Pandox/Holiday Inn	159	Holiday Inn
Pandox/Independent	701	Independent
Pandox/Radisson Blu	235	Radisson Blu
Pandox/Radisson Blu	190	Radisson Blu
Pandox/Hyatt Hotels	607	Hyatt
Pandox/InterContinental	357	InterContinental

Operator/Brand	Number of rooms	Brand
Pandox/Independent	279	Independent
Nordic Choice Hotels/Clarion Collection	160	Nordic Choice Hotels
Nordic Choice Hotels/Clarion Collection	114	Nordic Choice Hotels
Scandic/Scandic	253	Scandic
Scandic/Scandic	133	Scandic
Scandic/Scandic	336	Scandic
Scandic/Scandic	175	Scandic
Scandic/Scandic	199	Scandic
Scandic/Scandic	135	Scandic
Sundt AS/Independent	186	Independent

## Wall of fame

Selected awards 2016



### URBAN HOUSE COPENHAGEN

Runner up for best Hostel  
on Rough Guides.

Guest Review Award Winner  
on Booking.com.

Certificate of Excellence on TripAdvisor.



2017 HOSCAR

Best Hostel in Denmark

#10 in Best Large Hostels in the world.



# Risks and risk management

## Operational risks dominate

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

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

Pandox evaluates each risk based on its estimated impact and probability. The assessment forms the basis of an evaluation of how the risk should be prioritised, if it requires specific action or if it can be handled within Pandox's normal management.

Pandox has classified risks into three categories:

1. Operational risks
2. Financial risks
3. Tax risks and legal risks

Operational and financial risks are considered to be of the greatest importance for Pandox, followed by tax risks and legal risks.

Pandox's five single most important risks, in order of importance, have been considered:

1. Fluctuating interest rate levels (financial risk)
2. Risks within the hotel industry (operational risk)
3. Value of hotel properties (operational risk)
4. External hotel operators (operational risk)
5. Acquisitions and investments (operational risk)

Pandox's risks and the Company's management of such risks are described in more detailed below. In the sensitivity analysis are also described the financial effects of changes in certain key parameters linked to risks, such as fluctuating interest rate levels, changes in RevPAR and average valuation yields.

### SENSITIVITY ANALYSIS (MSEK)

Financial effects of changes in certain key parameters as of 31 december 2016:

Investment Properties, effect on fair value	Change	Effect on value
Yield	+/-0,5pp	-2,439 / +2,910
Change in currency exchange rates	+/- 1%	+/- 169
Net operating income	+/- 1%	+/- 271
Investment Properties, effect on revenues	Change	Revenue effect
RevPAR (assuming 50/50 split between occupancy and rate)	+/- 1%	+/- 15
Operating Properties, effect on revenues	Change	Revenue effect
RevPAR (assuming 50/50 split between occupancy and rate)	+/- 1%	+/- 18
Financial sensitivity analysis, effect on earnings	Change	Profit before changes in value
Interest expense with current fixed interest hedging of our portfolio, change in interest rates	+/- 1%	-/+ 72
Interest expense with a change in the average interest rate level	+/- 1%	-/+ 188
Remeasurement of interest-rate derivatives following shift in yield curves	+/- 1%	-/+ 509



## OPERATIONAL RISKS (IN ORDER OF IMPORTANCE)

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

## OPERATIONAL RISKS, CONT.

Risks	Management
<p><b>External hotel operators</b></p> <p>Pandox is dependent on external hotel operators' reputation, brand and ability to successfully run their operations, as well as their financial position. As of 31 December 2016 Pandox owned 120 hotels, of which 118 in Europe and two in Canada. 98 of these hotels are leased to external hotel operators. The majority of Pandox's leases with external hotel operators are revenue-based, which means that the rent is linked to the hotel operations' sales. Most of the revenue-based leases contain provisions stipulating a certain minimum guaranteed rent. Pandox could be significantly negatively impacted if the guaranteed rents cannot be maintained over time or in the event that the hotel operators fail to fulfil their payment obligations.</p>	<ul style="list-style-type: none"> <li>Active ownership together with the hotel operator adds value for both parties.</li> <li>Long revenue-based leases with the best hotel operators create good conditions for profitability and a good return for Pandox.</li> </ul>
<p>For the 2016 financial year Pandox's three largest tenants accounted for a total 73 percent of rental income, of which Scandic Hotels Group MSEK 852 (48 percent), Leonardo MSEK 280 (16 percent) and Nordic Choice Hotels MSEK 158 (9 percent). If Pandox's tenants do not renew or extend their leases upon expiry, there is a risk that Pandox will be unable to find new external lessees for properties that are left vacant, or will not succeed in running operations successfully itself.</p>	<ul style="list-style-type: none"> <li>Pandox has many years of experience of running hotel operations itself in the event that leases cannot be signed with an external hotel operator, leaving it well placed to run operations itself with a good level of profitability and providing good opportunities to ensure long-term increases in the value of the hotel property.</li> </ul>
<p><b>Skills</b></p> <p>Pandox's future success depends on the Company being able to attract and retain skilled personnel. Should Pandox be unable to retain key individuals or to recruit new talent, this could have a significantly negative impact on Pandox's operations, financial position and earnings</p>	<ul style="list-style-type: none"> <li>Competitive employment terms in line with the market.</li> <li>Incentive programmes for senior executives and other key individuals.</li> <li>Pandox Spirit, a strong foundation of values which combines a high level of expertise, entrepreneurship and individual freedom with a low level of bureaucracy and with effective follow-up methods. Inspiration, simplicity, speed, integrity and visible leadership are key words.</li> </ul>
<p><b>Risks as hotel operator</b></p> <p>Within Operator Activities, Pandox acts as a hotel operator and is therefore exposed to certain risks that commonly occur within hotel operations, including but not limited to:</p> <ul style="list-style-type: none"> <li>increased operating costs, including the costs of energy, food, wages, benefits, insurance and unforeseen costs as a result of force majeure events, which cannot be fully compensated for by increased prices for hotel rooms or other services at the hotel;</li> <li>costs and administrative obligations associated with compliance with applicable laws and regulations;</li> <li>risks associated with forecasting of occupancy rates and average prices in the short and medium term, including retaining a flexible workforce and managing trade union actions that could affect the business, increase labour costs or limit management's ability to focus on running the hotel;</li> <li>deterioration in the quality or reputation of one of Pandox's independent brands;</li> <li>inability to keep pace with the necessary technical developments in hotel operations such as faults in, significant damage to or disruption of IT systems, software or websites; and</li> <li>costs and risks associated with ensuring data protection and the security of guests.</li> </ul>	<ul style="list-style-type: none"> <li>Pandox's group-wide Revenue Management Centre (RMC) follows up revenue per hotel on a continuous basis and supports ongoing work to optimise revenues for each hotel.</li> <li>Planning, implementation and follow-up of hours are worked through Pandox's systematic support for productivity, in order to optimise inputs and thus costs.</li> <li>Working methods and system support allow Pandox to forecast and head off any fluctuations in the hotel industry as regards future revenues and costs, and allows a flexible approach that remains close to the business.</li> </ul>

## FINANCIAL RISKS (IN ORDER OF IMPORTANCE)

Risks	Management
<p><b>Fluctuating interest rate levels</b></p> <p>Interest expense is, and has historically been, Pandox's largest item of expenditure. Interest expense is affected by market interest rates and by credit institutions' margins, as well as by Pandox's strategy as regards fixed interest. The majority of Pandox's loan facilities incur variable interest. There is a risk that Pandox's interest expense will increase if market interest rates rise, or that Pandox will fix its interest rates at a level that is higher than the market interest rate.</p>	<ul style="list-style-type: none"> <li>In order to manage interest rate risk and increase the predictability of Pandox's earnings, interest rate derivatives, mainly interest swaps, are used. Variable interest is partly replaced by interest swaps, giving Pandox fixed interest rates.</li> <li>Pandox has a Financial Policy that specifies its risk mandate. This is updated annually by the Board.</li> <li>Close cooperation with external financial expertise.</li> </ul>

## FINANCIAL RISKS, CONT.

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

## TAX RISKS AND LEGAL RISKS (IN ORDER OF IMPORTANCE)

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



Padox game plan

1. **1**

# From the CFO

## An active year and a strong result

Pandox is reporting good earnings performance for 2016, driven by a combination of organic growth and acquisitions. For the finance function, 2016 was a very active year. Alongside the regular financial calendar, it included acquisitions, sales, large investments and a directed share issue. Below Pandox's CFO Liia Nõu talks about Pandox's financial performance and what drives the Company's profitability.



### **PANDOX'S NET OPERATING INCOME INCREASED AGAIN IN 2016. WHAT ARE THE REASONS FOR THIS?**

The increase is explained partly by good growth in a majority of our markets, and partly by good returns on renovation carried out previously – in the form of hotels that are returning to full capacity. Our acquisition of 18 hotel properties in Germany in 2015 also made a positive contribution. Overall, the increase is driven equally by organic and acquired growth.

### **WHAT ARE THE MOST IMPORTANT FACTORS DRIVING PANDOX'S PROFITABILITY?**

It starts with economic growth, which drives the hotel cycle and creates demand in the hotel markets where we are active. This demand is turned into income for

Pandox via our portfolio of hotel properties. The income is mainly revenue-based and is a function of the performance of our tenants (the operators) and our ability to work with them to create an attractive and competitive hotel product. Key to this are joint investments with a good return, which over time we have been skilled at identifying and implementing. At the end of 2016 investments of MSEK 1,035 had been approved for future projects. Then, of course, acquisitions and repositioning of hotel properties are also sources of both growth and profitability.

### **WHAT ARE PANDOX'S MOST IMPORTANT INTERNAL FINANCIAL INDICATORS?**

Those are cash earnings<sup>1)</sup> and, in the longer term, the return on equity via net asset

value<sup>2)</sup>. Our goal is to increase cash earnings long-term, hotel property by hotel property. Growth in cash earnings creates additional financial scope to act, partly through profits and partly through increased property values.

Stockholm, February 2017

Liia Nõu

<sup>1)</sup> EBITDA plus financial income less financial expenses less current tax.

<sup>2)</sup> EPRA NAV: recognised equity attributable to the Parent Company's shareholders, including reversal of derivatives, deferred tax assets related to derivatives, deferred tax liabilities related to the properties and revaluation of Operating Properties.

# Administration Report

The Board of Directors and Chief Executive Officer hereby submit the Annual Report and consolidated accounts for the 2016 financial year for Pandox AB (publ), corporate registration number 556030-7885, Box 15, 101 20 Stockholm, Sweden, street address Vasagatan 11.

Pandox is listed on Nasdaq Stockholm's Nordic Large Cap list. Figures in parentheses refer to the corresponding period the previous year. The financial statements are presented in whole millions of Swedish kronor (SEK), which means that there may be differences in certain tables due to rounding off. The Board proposes that the income statement and balance sheet in the Annual Report be adopted by the Annual General Meeting on 29 March 2017.

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

## OPERATIONS

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

At the end of 2016, Pandox's hotel property portfolio contained 120 (121) hotels with a total of 26,240 (25,190) hotel rooms in 10 (8) countries, with a market value of MSEK 38,233 (31,437). Of the 120 hotels, 98 (103) were leased on a long-term basis to well-known tenants with established brands, providing income stability, and lower investment costs and risk for Pandox. The weighted average unexpired lease term (WAULT) for Investment Properties was 13.9 (11.2) years. The remaining 22 (18) hotel properties are owned and operated by Pandox under various brands. Pandox also had asset management agreements for nine

hotels, and operates Grand Hotel Oslo under a lease agreement without owning the property.

In 2016 Pandox conducted its business in line with the Company's established strategy and business model. Development in Pandox's prioritised hotel markets has been favourable and the Company has benefited from stable demand, the positive effects of acquisitions, and good returns on investments made within both Property Management and Operator Activities.

## REVENUE AND PROFIT

### Group

Earnings for the year attributable to the Parent Company's shareholders amounted to MSEK 2,214 (2,131). The increase is explained by increased net operating income for both Property Management and Operator Activities, and by realised and unrealised positive changes in value in Property Management. The Group's net sales amounted to MSEK 3,945 (3,589), an increase of 10 percent. Adjusted for currency effects and comparable units, net sales increased by 1 percent. In Property Management, the acquisition of seven hotel properties in Europe was completed on 19 December 2016 and the divestment of nine hotel properties in the Nordic region was completed on 31 March 2016. 18 hotel properties in Germany have been included in the income statement with effect from 1 January 2016. In Operator Activities, the acquisition of one hotel property in Brussels was completed on 10 October 2016. In addition, three hotel properties were reclassified from Property Management to Operator Activities when their operation was taken over.

### Property Management

Revenue from Property Management amounted to MSEK 1,787 (1,543), an increase of 16 percent. Adjusted for currency effects and comparable units, revenue

increased by 6 percent, supported by stable demand, increased occupancy and higher average prices.

Net operating income from Property Management amounted to MSEK 1,495 (1,280), an increase of 17 percent. Adjusted for currency effects and comparable units, net operating income increased by 7 percent.

### Operator Activities

Revenue from Operator Activities amounted to MSEK 2,158 (2,046), an increase of 5 percent. Adjusted for currency effects and comparable units, revenue decreased by 3 percent and RevPAR by 4 percent. Growth was negatively impacted by the terrorist attacks in Brussels at the end of March 2016.

Net operating income from Operator Activities amounted to MSEK 439 (416), an increase of 6 percent. The terrorist attacks in Brussels had a negative effect on net operating income of around MSEK 40 compared with 2015.

Adjusted for currency effects and comparable units, net operating income decreased by a marginal 1 percent – supported by strong performance in Germany, Denmark and Canada, which largely compensated for the weaker performance in Belgium.

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

EBITDA amounted to MSEK 1,817 (1,603), an increase of 13 percent, which is explained by improved underlying net operating income for both Property Management and Operator Activities.

Financial expenses amounted to MSEK –457 (–441). The increase is explained by increased interest-bearing liabilities following acquisitions made, which increased total interest expense despite a lower average interest rate than in 2015.

Profit before changes in value amounted to MSEK 1,214 (1,027), an increase of 18 percent.



Unrealised changes in value for Investment Properties amounted to MSEK 1,301 (1,387). The increase in value is explained by a combination of decreased valuation yields and thereby lower discount rates in the valuation of Investment Properties, and stronger underlying cash flows in Pandox's property portfolio. Realised changes in value for Investment Properties amounted to MSEK 159 (12) and are attributable to the divestment of eight Investment Properties in the Nordic region.

At the end of the period Pandox's property portfolio had a total market value of MSEK 38,233 (31,437), of which Investment Properties accounted for MSEK 30,163 (25,062) and Operating Properties for MSEK 8,070 (6,375). 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 59.

As of 31 December 2016 the average valuation yield for Pandox's Investment Properties was 5.7 percent (5.9) and for Operating Properties 7.5 percent (7.5).

Unrealised changes in the value of derivatives amounted to MSEK -39 (203). The decrease is mainly explained by a fall in the market interest rate relative to the fixed interest rate in the interest swap contracts.

**For multiyear summary  
see page 130.**

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

Current tax amounted to MSEK -72 (-35). The increase is mainly explained by increased profit in Germany after completed acquisitions. Current tax was affected by, among other things, deductible depreciation and investments through the expanded refurbishment tax deduction allowance and by loss carryforwards from previous years. Deferred tax expense amounted to MSEK -349 (-463). The total tax expense represents a tax rate of 16 (19) percent.

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

Cash earnings amounted to MSEK 1,289 (1,130). Cash flow from operating activities before changes in working capital amounted to MSEK 1,324 (1,170). Taxes paid amounted to MSEK -72 (-6). The change

in working capital affected cash flow in the amount of MSEK -129 (-306). The cash flow from investing activities affected cash flow in the amount of MSEK -4,064 (-3,986) and is mainly explained by the acquisition of seven hotel properties in Europe and of Hilton Grand Place Brussels. The cash flow from financing activities amounted to MSEK 3,200 (2,985). Major items include loans taken out in conjunction with acquisitions, the proceeds of the new share issue, the proceeds of divestments, the repayment of loans following divestments, the dividend paid and investments. Cash and cash equivalents at the end of the period amounted to MSEK 517 (170).

#### **FINANCING**

As of 31 December 2016, the loan-to-value ratio excluding deduction of cash and cash equivalents was 49.3 (49.5) percent. Cash and cash equivalents, including long-term credit facilities, amounted to MSEK 2,232 (1,561), of which unutilised credit facilities amounted to MSEK 1,715 (1,391).

At the end of the period the loan portfolio amounted to MSEK 18,831 (15,546). The average fixed rate period was 2.8 (2.6) years and the average interest rate, corresponding to the interest rate level at the end of the period, was 2.6 (2.8) percent including effects of interest rate swaps. The average repayment period was 3.0 (3.4) 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 streams, interest rate derivatives, mainly interest rate swaps, are used. At the end of the period Pandox had interest rate swaps amounting to MSEK 11,342 and around 56 percent of Pandox's loan portfolio was thereby hedged against interest rate movements for periods longer than one year. This is an increase compared with 2015. On 31 December 2016 the market value of Pandox's financial derivatives amounted to MSEK -735 (-703). The change is mainly explained by a decrease in the market interest rate relative to the fixed interest rate in the interest swap contracts.

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

Equity attributable to the Parent Company's shareholders amounted to MSEK 15,081 (12,092) and EPRA NAV (net asset value) was MSEK 19,883 (16,156). EPRA NAV per share was SEK 126.24 (107.71).

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

In 2016 three hotel properties were reclassified from Property Management to Operator Activities, eight hotel properties were acquired and eight were divested. During the year Thon Hotel Fagernes (1 January 2016), Thon Hotel Sørlandet (28 May 2016) and Meetingpoint Hafjell Hotel & Resort (1 September 2016), all in Norway, were reclassified from Property Management to Operator Activities as a result of agreements to take over their operations. The combined market value of the reclassified hotel properties was MSEK 295.

On 23 November 2016 an agreement was signed in the Operator Activities business segment for the lease of Urban House Copenhagen to MEININGER as of 1 January 2017.

On 31 March 2016 Pandox completed the divestment of eight hotel properties in Sweden in the Property Management business segment for MSEK 850 after deducting deferred tax.

On 10 October 2016 the acquisition of Hilton Grand Place Brussels for the equivalent of around MSEK 525 was completed in the Operator Activities business segment.

On 19 December 2016 Pandox completed the acquisition of seven hotel properties in Europe for the equivalent of around MSEK 4,100 in the Property Management business segment.

#### **INVESTMENTS IN EXISTING HOTEL PROPERTIES**

In 2016 investments in the existing hotel properties amounted to MSEK 433 (392), of which MSEK 173 (220) was for Investment Properties and MSEK 260 (172) was for Operating Properties. The increase in investments is mainly due to taking over operations and investments made in an improved hotel product in Operator Activities. At the end of the period investments had been approved for future projects in an amount equivalent to around MSEK 1,035 (780).

Major investment projects include Hyatt Regency Montreal, Hotel Berlin, Berlin, Leonardo Wolfsburg City, Hilton Grand Place Brussels, Elite Park Avenue Gothenburg, Elite Stora Hotellet Jönköping, InterContinental Montreal, Meetingpoint Hafjell as well as the joint investment programme with Scandic Hotels Group for 19 hotel properties in the Nordic region.

## PARENT COMPANY

Activities in Pandox's property owning companies are administered by staff employed by the Parent Company, Pandox AB (publ). The costs of these services are invoiced to Pandox's subsidiaries. Invoicing during the period January–December 2016 amounted to MSEK 65 (56) and the profit for the period amounted to MSEK 438 (571). At the end of the period the Parent Company's equity amounted to MSEK 3,712 (2,841) and interest-bearing debt to MSEK 5,085 (5,810), of which MSEK 4,997 (4,087) is in the form of long-term debt.

## SHARES AND OWNERSHIP

The 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 394 (375) distributed among a total of 157,499,999 shares, of which 75,000,000 are A shares and 82,499,999 are B shares. The shares are denominated in SEK and each share has a quota value of SEK 2.50. According to the Articles of Association, holders of class A shares are entitled to convert all or part of their holding in class A shares to class B shares. The Articles of Association stipulate limitations on the transfer of shares and on voting rights for class A shares. No pledges have been made to 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 at the Company.

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

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

Holding on 31 December 2016	% of votes
Eiendomsspar Sverige AB	39.0
Christian Sundt AB	19.5
Helene Sundt AB	19.4

## New share issue

On 8 December 2016 Pandox completed a directed cash issue of 7,499,999 shares at a subscription price of SEK 135 per share, based on the authorisation the Board of Directors received at the Company's Annual General Meeting on 3 May 2016. The subscription price was set in an accelerated book-building process. The share issue, which was subscribed for by selected Swedish and international investors, raised around MSEK 1,003 for the Company after transaction costs.

## ASSET MANAGEMENT

### Capital structure

Pandox is targeting a debt ratio (loan-to-value) of between 45 and 60 percent, depending on the market environment and prevailing opportunities. This key ratio is defined as interest-bearing liabilities divided by the sum of the market value of investment properties and operating properties, and is presented in the multiyear overview on page 130.

### Dividend

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

### Debt management

Pandox seeks to achieve the lowest possible financing costs while simultaneously limiting risks related to interest rates, foreign currencies and borrowings. 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 66.

Rental income in Property Management is largely linked to the hotels' sales and normally involves a guaranteed minimum rent, making it possible to have increased revenue in an improved market as well as downside protection in a weaker market. In some cases, however, the minimum rent is at a significantly lower level than the current revenue-based rent. Also, it is the hotel operator that has operational responsibility and thereby has the greatest ability to impact the hotel's results. The division of maintenance costs and investments between the tenant and the hotel property owner distinguishes hotel properties from other real estate because the tenant bears a greater responsibility. This is described in detail on page 36.

Within the Operator Activities business segment, Pandox has operational and investment responsibility, and is thereby fully exposed in respect of operations and results. This is described in detail on page 38.

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 66 and in Note 18.

## TAX SITUATION

At the end of the period deferred tax assets amounted to MSEK 748 (800). These represent tax loss carryforwards which the Company expects to be able to use in upcoming fiscal years, and temporary measurement differences for interest rate derivatives. Deferred tax liabilities amounted to MSEK 2,582 (2,281) and relate to temporary differences between fair value and the

taxable value of Investment Properties, as well as temporary differences between the book value and the taxable value of Operating Properties.

#### WORK OF THE BOARD OF DIRECTORS

The work of the Board of Directors is described in the Corporate Governance Report on page 120.

#### EMPLOYEES

As of 31 December 2016, Pandox had 1,477 (1,359) full-time employees, of which 1,443 (1,329) are employed in the Operator Activities segment and 34 (30) in the Property Management segment and in central administration. The average number of employees in 2016 was 1,422 (1,366), of which 727 (701) are men and 695 (665) are women. When Pandox took over the operation of Thon Hotel Fagernes, Thon Hotel Sørlandet, Meetingpoint Hafjell Hotel & Resort and acquired Hilton Grand Place Brussels, the hotels' staff became employees of the Group.

#### EMPLOYEES AND SUSTAINABILITY

During the financial year Pandox conducted a dialogue with its stakeholders to identify and analyse sustainability aspects across the entire value chain. This work resulted in a sustainability strategy under the name Pandox Fair Play, with five focus areas: (1) Ourselves, (2) Guests, (3) Environment, (4) Business Partners and (5) Community. The strategy has been validated and established in guided seminars with a broad group of leading decision-makers at Pandox. Goals, key indicators and activities have been formulated for each focus area. Work on Pandox's Code of Conduct was intensified during the year and online training has been implemented. A total of 560 employees have completed the training since it was launched in December 2016. During the financial year a whistleblower function was also implemented.

Pandox's sustainability work is described in detail on page 40.

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

The proposed guidelines for remuneration of senior executives to be put before the Annual General Meeting on 29 March 2017 are in principle the same as those decided on by the Board for the period until the next Annual General Meeting. Information on the average number of employees, as well as salaries, other remuneration and terms for senior executives is provided in Note 9.

#### EXPECTATIONS REGARDING FUTURE DEVELOPMENT

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

#### ALLOCATION OF EARNINGS

At the disposal of the Annual General Meeting:	
Share premium reserve	983,624,869
Retained earnings	1,885,870,711
Profit for the year	438,535,966
	<u>3,308,031,546</u>

The Board proposes that the earnings be allocated as follows:

Dividend to shareholders, SEK 4.10 per share	645,749,996
Carried forward	2,662,281,550
	<u>3,308,031,546</u>

See also Note 30, Allocation of earnings and statement by the Board of Directors on the proposed allocation of earnings. For multi-year summary see page 130.



# Consolidated statement of comprehensive income

MSEK	Note	2016	2015
<b>Revenue, Property Management</b>			
Rental income	2, 3, 13	1,717	1,431
Other property revenue	2, 13	70	112
<b>Revenue, Operator Activities</b>			
	2	2,158	2,046
<b>Net sales</b>		<b>3,945</b>	<b>3,589</b>
<b>Costs Property Management</b>			
	2, 5, 7, 8, 9	-292	-263
<b>Costs Operator Activities</b>			
	2, 6, 7, 8, 9	-1,866	-1,767
<b>Gross profit</b>		<b>1,787</b>	<b>1,559</b>
<i>- of which gross profit, Property Management</i>	2	1,495	1,280
<i>- of which gross profit, Operator Activities</i>	2	292	279
Central administration	2, 4, 7, 9	-117	-94
Financial income	2, 10	1	3
Financial expense	2, 10	-457	-441
<b>Profit before changes in value</b>		<b>1,214</b>	<b>1,027</b>
<b>Changes in value</b>			
Properties, unrealised	2, 13	1,301	1,387
Properties, realised	2, 13	159	12
Derivatives, unrealised	2, 18	-39	203
<b>Profit before tax</b>		<b>2,635</b>	<b>2,629</b>
Current tax	2, 12	-72	-35
Deferred tax	2, 12	-349	-463
<b>Profit for the year</b>		<b>2,214</b>	<b>2,131</b>
<b>Other comprehensive income</b>			
<i>Items that have been or may be reclassified to profit for the year</i>			
Translation differences, foreign operations		359	-287
Translation differences on realised gains/losses from foreign operations		-	-4
<b>Other comprehensive income for the year</b>		<b>359</b>	<b>-291</b>
<b>Comprehensive income for the year</b>		<b>2,573</b>	<b>1,840</b>
<b>Profit for the year attributable to the shareholders of the parent company</b>			
		2,201	2,131
<b>Profit for the year attributable to non-controlling interests</b>			
		13	-
<b>Total comprehensive income for the year attributable to the shareholders of the parent company</b>			
		2,556	1,840
<b>Total comprehensive income for the year attributable to non-controlling interests</b>			
		17	-
<b>Per share data</b>			
Weighted average number of shares outstanding <sup>1)</sup>		150,266,393	150,000,000
Total earnings per share, before and after dilution, SEK <sup>1)</sup>		14.65	14.21

<sup>1)</sup> Retrospectively adjusted for share split in May 2015 and new share issue in December 2016. Average number of shares to calculate Total earnings per share and Total comprehensive income per share have been adjusted for new share issue in December 2016 and amounts to 150,266,393. Total number of shares outstanding after full dilution are 157,499,999, of which 75,000,000 are A shares and 82,499,999 are B shares.

## Comments

### Consolidated comprehensive income

#### Net sales

Revenue from Property Management amounted to MSEK 1,787 (1,543), an increase of 16 percent. Adjusted for one-time revenue of MSEK 60 in 2015, revenue increased by 20 percent. Adjusted for currency effects and comparable units, revenue increased by 6 percent.

Revenue from Operator Activities amounted to MSEK 2,158 (2,046), an increase of 5 percent. Adjusted for currency effects and comparable units, revenue decreased by 3 percent and RevPAR by 4 percent.

The Group's net sales amounted to MSEK 3,945 (3,589), an increase of 10 percent. Adjusted for one-time revenue, currency effects and comparable units, sales increased by 1 percent.

#### Net operating income

Net operating income from Property Management, which corresponds to gross profit, amounted to MSEK 1,495 (1,280), an increase of 17 percent. Adjusted for one-time revenue of MSEK 60 in 2015, net operating income increased by 23 percent. Adjusted for one-time revenue, currency effects and comparable units, net operating income increased by 7 percent, which reflects good underlying development in the markets and the portfolio. Property costs amounted to MSEK -292 (-263) and include operating and maintenance costs. See Note 5 for details.

Net operating income from Operator Activities, which corresponds to gross profit plus depreciation included in Operator Activities' costs, amounted to MSEK 439 (416), an increase of 6 percent. Details of Operator Activities' costs can be found in Note 6. Adjusted for currency effects and comparable units, net operating income decreased by 1 percent. The negative effect of the terrorist attacks in Brussels on net operating income amounted to around MSEK 40 compared with the same period previous year. Total net

operating income amounted to MSEK 1,934 (1,696), and increase of 14 percent. Adjusted for one-time revenue of MSEK 60 in the comparable period 2015, the increase was 18 percent.

#### Central administration

Central administration costs amounted to MSEK -117 (-94). These include costs for corporate governance, administrative personnel, IT and office rents. The increase is mainly explained by strengthening of group functions, costs for the the long-term incentive schemes and some non-recurring costs for external projects that were incurred in the second and fourth quarters.

#### Financial income and expense

Financial expense amounted to MSEK -457 (-441), and financial income amounted to MSEK 1 (3).

#### Changes in value

Unrealised changes in value for Investment Properties amounted to MSEK 1,301 (1,387), still explained by lower yield compression and thereby lower discount rates in the valuation of Investment Properties, and by improved underlying cash flows in Pandox's property portfolio. Realised changes in value for Investment Properties amounted to MSEK 159 (12), explained by the divestment of eight hotel properties in Sweden completed on 31 March 2016.

Unrealised changes in value of derivatives amounted to MSEK -39 (203).

#### Current and deferred tax

Current tax amounted to MSEK -72 (-35). The increase is mainly explained by increased profit in Germany after acquisitions made. Tax compensation received of MSEK 19 and an extra tax expense of MSEK -29 are included in the comparable period 2015. The tax expense refers to an asses for arrears from the Tax Agency regarding historical negative

adjusted acquisition costs for shares in partnership and limited partnership. Pandox has appealed the decision from the Tax Agency and the asses for arrears is not yet determined. Current tax is affected by tax depreciation, investments through the fiscal wider repair concept and tax losses carried forward. Deferred tax expense amounted to MSEK -349 (-463).

#### Profit for the year

Profit for the period amounted to MSEK 2,214 (2,131) and profit for the period attributable to the Parent Company's shareholders amounted to MSEK 2,201 (2,131), which represents SEK 14.65 (14.21) per share before and after full dilution.

#### Other comprehensive income for the year

Other comprehensive income for the year includes translation differences for foreign operations.

# Consolidated statement of financial position

MSEK	Note	31 Dec 2016	31 Dec 2015
<b>ASSETS</b>			
<b>Non-current assets</b>			
Operating Properties <sup>1)</sup>	15	5,984	4,747
Equipment/Interiors	14	431	381
Investment Properties	13	30,163	24,335
Deferred tax assets	12	748	800
Derivates <sup>4)</sup>	18, 19	1	—
Other non-current receivables	11, 19	22	25
<b>Total non-current assets</b>		<b>37,349</b>	<b>30,288</b>
<b>Current assets</b>			
Inventories		16	14
Current tax assets		11	64
Trade accounts receivable	16, 19	249	173
Prepaid expenses and accrued income		262	109
Other receivables		25	70
Cash and cash equivalents		517	170
Assets held for sale <sup>2)</sup>	29	—	732
<b>Total current assets</b>		<b>1,080</b>	<b>1,332</b>
<b>Total assets</b>		<b>38,429</b>	<b>31,620</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	17	394	375
Other paid-in capital		3,122	2,138
Reserves		-53	-408
Retained earnings, including profit for the year		11,618	9,987
<b>Total equity attributable to the owners of the parent</b>		<b>15,081</b>	<b>12,092</b>
Non-controlling interests		177	123
<b>Total equity</b>		<b>15,258</b>	<b>12,215</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Non-current interest-bearing liabilities <sup>3)</sup>	18, 19	18,304	13,720
Derivates <sup>4)</sup>	18, 19	736	703
Provisions	21	100	56
Deferred tax liabilities	12	2,582	2,281
<b>Total non-current liabilities</b>		<b>21,722</b>	<b>16,760</b>
<b>Current liabilities</b>			
Provisions	21	3	12
Current interest-bearing liabilities <sup>3)</sup>	18, 19	537	1,826
Tax liabilities		44	2
Trade accounts payable	19	202	212
Other current liabilities		209	99
Accrued expenses and prepaid income	20	454	482
Liabilities relating to assets held for sale <sup>2)</sup>	29	—	12
<b>Total current liabilities</b>		<b>1,449</b>	<b>2,645</b>
<b>Total liabilities</b>		<b>23,171</b>	<b>19,405</b>
<b>Total equity and liabilities</b>		<b>38,429</b>	<b>31,620</b>

<sup>1)</sup> The change is mainly the result of the reclassification of Thon Hotel Fagernes, Thon Hotel Sorlandet and Meetingpoint Hafjell.

<sup>2)</sup> Relates to the divestment of eight Investment Properties in Sweden, of which MSEK 728 constitutes the carrying amount of properties and MSEK 4 other assets

<sup>3)</sup> The carrying amounts of interest-bearing liabilities and other financial instruments constitute a reasonable approximation of their fair values.

<sup>4)</sup> 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.



## Comments

### Consolidated statement of financial position

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

##### **Operating Properties**

The 22 (18) properties used in Operator Activities are classified as Operating Properties and are reported at cost less depreciation and impairment losses. The book value including equipment/interiors amounted to MSEK 6,415 (5,128). During the year the Operator Activities segment took over the operation of three Pandox-owned hotels from external operators and one hotel in Belgium was acquired amounting to MEUR 55.

##### **Investment Properties**

The number of Investment Properties at the end of the year was 98 (103). They are reported at fair value (market value) and amounted to MSEK 30,163 (24,335). In March 2016 eight Swedish hotel properties were divested at a fair value of MSEK 728. In December 2016, seven hotel properties were acquired in Germany, Austria and The Netherlands at fair value of MEUR 415. Unrealised changes in the value of Investment Properties for the year amounted to MSEK 1,301 (1,387). Realised changes in value amounted to MSEK 159 (12).

Investments in the existing portfolio during the year, excluding acquisitions, amounted to MSEK 433 (392), of which MSEK 173 (220) was in Investment Properties and MSEK 260 (172) was in Operating Properties and equipment.

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

At the end of the period, the deferred tax assets amounted to MSEK 748 (800). These represent tax loss carry-forwards which Pandox expects to utilize in upcoming fiscal years, and temporary measurement differences on interest-rate derivatives. Details can be found in Note 12.

#### **CURRENT ASSETS**

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

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

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

Pandox's cash and cash equivalents amounted to MSEK 517 (170) are mainly managed by the Parent Company through a central accounts structure where cash is deposited in a joint interest-bearing bank account. Any surplus may over time be deposited in a time deposit bank account at the bank. Pandox has unutilised credit facilities for a total of MSEK 1,715 (1,391).

#### **EQUITY AND LIABILITIES**

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

At the end of the period the loan-to-value ratio was 49.3 (49.5) percent. Equity amounted to MSEK 15,258 (12,215) and net asset value (NAV) as defined by EPRA was MSEK 19,883 (16,156). EPRA NAV per share was SEK 126.24 (107.71).

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

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

At the end of the period the loan portfolio amounted to MSEK 18,831 (15,546). The average fixed rate period was 2.8 (2.6) years and the average interest rate, corresponding to the interest rate level at the end of the period, was 2.6 (2.8) percent, including effects of interest-rate swaps. The average repayment period was 3.0 (3.4) years. The loans are secured by a combination of mortgage collateral and pledged shares.

#### **Derivates**

In order to manage interest rate risk and increase the predictability of Pandox's earnings, interest rate derivatives, mainly interest swaps, are used. At the end of the period Pandox had interest rate swaps amounting to MSEK 11,342 and about 56 percent of Pandox's loan portfolio was hedged against interest rate movements for periods longer than one year. The derivatives are reported at fair value (market value) every quarter and the change is reported through profit and loss account. The fair value of Pandox financial derivatives amounted at 31st December 2016 to MSEK 735 (703).

#### **Provisions**

Provisions of MSEK 103 (68) refers to incentive schemes for senior executives, pension provision and rental warranties for sold hotel properties.

#### **Deferred tax liabilities**

Deferred tax liabilities relate to temporary differences between fair value and the adjusted taxable value of Investment Properties and temporary differences between cost and taxable value of Operating Properties. The amount was MSEK 2,582 (2,281). See Note 12.

#### **CURRENT LIABILITIES**

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

The portion of the debt that matures within one year.

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

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

# Consolidated statement of changes in equity

MSEK	Attributable to owners of the parent				Total	Non-controlling interests	Total equity
	Share capital	Other paid-in capital	Translation reserves	Retained earnings, including profit for the year			
Equity, opening balance, 1 January 2015	375	2,138	-117	8,006	10,402	—	10,402
Profit for the year	—	—	—	2,131	2,131	—	2,131
Other comprehensive income	—	—	-291	—	-291	—	-291
Dividend	—	—	—	-150	-150	—	-150
Change in non-controlling interests in connection with acquisitions	—	—	—	—	—	123	123
Equity, closing balance, 31 December 2015	375	2,138	-408	9,987	12,092	123	12,215
Equity, opening balance, 1 January 2016	375	2,138	-408	9,987	12,092	123	12,215
Profit for the year	—	—	—	2,201	2,201	13	2,214
Other comprehensive income	—	—	355	—	355	4	359
Dividend	—	—	—	-570	-570	-8	-578
New share issue 2016 <sup>1)</sup>	19	984	—	—	1,003	—	1,003
Change in non-controlling interests in connection with acquisitions	—	—	—	—	—	45	45
Equity, closing balance, 31 December 2016	394	3,122	-53	11,618	15,081	177	15,258
2015							
Outstanding shares at year-end	150,000,000						
2016							
Outstanding shares at year-end	157,499,999						

The share quota value is SEK 2.50.

<sup>1)</sup> The new share issue amount is reported net after deduction of transaction cost MSEK 9.

# Consolidated statement of cash flow

MSEK	Note	2016	2015
<b>OPERATING ACTIVITIES</b>			
Profit before tax		2,635	2,629
Reversal of depreciation		147	137
Realised changes in value, Investment Properties		-159	-12
Unrealised changes in value, Investment Properties		-1,301	-1,387
Unrealised changes in value, derivatives		39	-203
Other items not included in cash flow		35	12
Taxes paid		-72	-6
<b>Cash flow from operating activities before changes in working capital</b>		<b>1,324</b>	<b>1,170</b>
Increase/decrease in operating receivables		-179	-119
Increase/decrease in operating liabilities		50	-187
<b>Changes in working capital</b>		<b>-129</b>	<b>-306</b>
<b>Cash flow from operating activities</b>		<b>1,195</b>	<b>864</b>
<b>INVESTING ACTIVITIES</b>			
Investments in Investment Properties		-173	-220
Investments in Operating Properties		-160	-130
Investments in equipment/interiors		-100	-42
Divestment of subsidiaries, net effect on liquidity	27	843	124
Acquisition of subsidiaries, net effect on liquidity	27	-4,477	-3,720
Acquisition of financial assets		-9	-1
Divestment of financial assets		12	3
<b>Cash flow from investing activities</b>		<b>-4,064</b>	<b>-3,986</b>
<b>FINANCING ACTIVITIES</b>			
New share issue		1,012	—
Transaction cost		-9	—
New loans		4,850	3,899
Amortisation of debt		-2,128	-887
Acquisition of non-controlling interests		45	123
Paid dividend		-570	-150
<b>Cash flow from financing activities</b>		<b>3,200</b>	<b>2,985</b>
<b>Cash flow for the year</b>		<b>331</b>	<b>-137</b>
Cash and cash equivalents at beginning of year		170	321
Exchange rate differences in cash and cash equivalents		16	-14
<b>Cash and cash equivalents at year-end</b>		<b>517</b>	<b>170</b>
<b>Information on interest paid</b>			
Interest received		1	3
Interest paid		-440	-430
<b>Information on cash and cash equivalents at year-end</b>			
Cash and cash equivalents consist of bank balances.		517	170

## Comments Cash flow

Cash flow from operating activities before changes in working capital amounted to MSEK 1,324 (1,170). The increase is due to strong growth in operations.

Change in working capital amounted to MSEK -129 (-306), due to payment of current liabilities and some increase in current receivables relating to the increased growth in operations.

Investing activities affected cash flow in the amount of MSEK -4,064 (-3,986). The

acquisition of 8 hotel properties in Germany, Austria, The Netherlands and Belgium affected cash flow by MSEK -4,477 (-3,720). In 2016, 8 Investment Properties were divested causing a positive effect on cash flow of MSEK 843 (124). Investments in properties and non-current assets amounted to MSEK -433 (-392). Financing activities affected cash flow in the amount of MSEK 3,200 (2,985). The significant change is explained by new loans of MSEK 4,850 (3,899) in con-

nection with the acquisition of the properties in Germany, Austria and The Netherlands (acquisition of 18 hotel in Germany in 2015), and amortisation of debt of MSEK -2,128 (-887) due to divestments of properties.

Cash flow for the year amounted to MSEK 331 (-137). Cash and cash equivalents at year-end amounted to MSEK 517 (170).



# Parent Company income statement

MSEK	Note	2016	2015
Net sales	26	65	56
Administrative costs	4,9	-158	-123
Other revenue		—	9
<b>Operating profit</b>		<b>-93</b>	<b>-58</b>
Profit from participations in Group companies	10, 26	300	669
Other interest income and similar profit/loss items	10, 26	112	65
Other interest expense and similar profit/loss items	10, 26	-185	-211
<b>Profit after financial items</b>		<b>134</b>	<b>465</b>
Year-end appropriations		304	106
<b>Profit before tax</b>		<b>438</b>	<b>571</b>
Tax on profit for the year	12	—	—
<b>Profit for the year</b>		<b>438</b>	<b>571</b>

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

## Comments Parent Company's financial statements

Administration for Pandox's property-owning companies is provided by staff employed by the Parent Company, Pandox AB (publ). Invoices for the cost of these services are issued to Pandox's subsidiaries. The total amount invoiced in the period January–December 2016 was MSEK 65 (56). Profit from participations in Group companies of MSEK 300 (669) refers to dividends received from Group companies of MSEK 361 (666), gains from the divestment of subsidiaries of MSEK 0 (3) and write-down of shares in subsidiaries of MSEK -61 (0).

Year-end appropriations are the net reported amounts of Group contributions provided and received. Profit amounted to MSEK 438 (571).

Tax on profit for the year is 0 (0) due to non-taxable revenue and utilized existing tax loss carry-forwards. The parent company has tax loss carry-forwards of MSEK 226 (347). Deferred tax asset has not been recognised for these deficits.

The Parent Companies assets consists mainly of shares and participations in subsidiaries and receivables on group companies.

At the end of the period the Parent Company's equity amounted to MSEK 3,712 (2,841).

In December 2016 new shares were issued which brought additional capital of totally MSEK 1,003 to the Company. Interest bearing debt was 5,085 (5,810), of which MSEK 4,997 (4,087) was in the form of long-term liabilities. The increase in interest-bearing liabilities mainly relates to financing for the acquisition of 7 properties in Germany, Austria and The Netherlands. A dividend was paid to the shareholders in the Parent Company in the amount of MSEK 570 (150).

# Parent Company balance sheet

MSEK	Note	31 Dec 2016	31 Dec 2015
<b>ASSETS</b>			
<b>Non-current assets</b>			
<b>Property, plant and equipment</b>			
Equipment	14	0	0
<b>Total property, plant and equipment</b>		<b>0</b>	<b>0</b>
<b>Financial non-current assets</b>			
Shares and participations in Group companies	25	7,835	6,578
Receivables from Group companies	26	4,872	5,190
Other non-current receivables	11	10	7
<b>Total financial non-current assets</b>		<b>12,717</b>	<b>11,775</b>
<b>Total non-current assets</b>		<b>12,717</b>	<b>11,775</b>
<b>Current assets</b>			
Other receivables		1	9
Prepaid expenses and accrued income		45	13
Cash and bank balances		171	90
<b>Total current assets</b>		<b>217</b>	<b>112</b>
<b>Total assets</b>		<b>12,934</b>	<b>11,887</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	17	394	375
Statutory reserve		10	10
Share premium reserve		984	—
Retained earnings		1,886	1,885
Profit for the year		438	571
<b>Total equity</b>		<b>3,712</b>	<b>2,841</b>
<b>Provisions</b>			
	21	57	30
<b>Non-current liabilities</b>			
Non-current interest-bearing liabilities	28	4,997	4,087
<b>Total non-current liabilities</b>		<b>4,997</b>	<b>4,087</b>
<b>Current liabilities</b>			
Current interest-bearing liabilities	26, 28	88	1,723
Trade accounts payable		43	28
Liabilities, Group companies	26	4,003	3,151
Other current liabilities		6	18
Accrued expenses and prepaid income	20	28	9
<b>Total current liabilities</b>		<b>4,168</b>	<b>4,929</b>
<b>Total liabilities</b>		<b>9,222</b>	<b>9,046</b>
<b>Total equity and liabilities</b>		<b>12,934</b>	<b>11,887</b>

# 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 2015	375	10	—	1,300	735	2,420
Appropriation of profit	—	—	—	735	-735	—
Profit for the year <sup>1)</sup>	—	—	—	—	571	571
Dividend	—	—	—	-150	—	-150
Equity, closing balance, 31 December 2015	375	10	—	1,885	571	2,841
Equity, opening balance, 1 January 2016	375	10	—	1,885	571	2,841
Appropriation of profit	—	—	—	571	-571	—
Profit for the year <sup>1)</sup>	—	—	—	—	438	438
Dividend	—	—	—	-570	—	-570
New share issue <sup>2)</sup>	19	—	984	—	—	1,003
Equity, closing balance, 31 December 2016	394	10	984	1,886	438	3,712

2015  
Outstanding shares at year-end 150,000,000

2016  
Outstanding shares at year-end 157,499,999

The share quota value is SEK 2.50.

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

<sup>2)</sup> The new share issue amount is reported net after deduction of transaction cost MSEK 9.



# Statement of cash flow for the Parent Company

MSEK	2016	2015
<b>OPERATING ACTIVITIES</b>		
Profit before tax	438	571
Reversal of depreciation	—	1
Impairment losses on shares in subsidiaries	61	—
Other items not included in cash flow	-277	-93
<b>Cash flow from operating activities before changes in working capital</b>	<b>222</b>	<b>479</b>
Increase/decrease in operating receivables	-24	0
Increase/decrease in operating liabilities	874	-692
<b>Changes in working capital</b>	<b>850</b>	<b>-692</b>
<b>Cash flow from operating activities</b>	<b>1,072</b>	<b>-213</b>
<b>INVESTING ACTIVITIES</b>		
Changes in shares and participations	-1,321	-5
Acquisition of financial assets	-98	-1,000
Divestment of financial assets	416	—
<b>Cash flow from investing activities</b>	<b>-1,003</b>	<b>-1,005</b>
<b>FINANCING ACTIVITIES</b>		
New share issue	1,012	—
Transaction cost	-9	—
Group contributions received	329	338
Group contributions provided	-25	-231
New loans	779	1,451
Amortisation of debt	-1,504	-233
Paid dividend	-570	-150
<b>Cash flow from financing activities</b>	<b>12</b>	<b>1,175</b>
<b>Cash flow for the year</b>	<b>81</b>	<b>-43</b>
Cash and cash equivalents at beginning of the year	90	133
<b>Cash and cash equivalents at year-end</b>	<b>171</b>	<b>90</b>
<b>Information on interest paid</b>		
Interest received	110	59
Interest paid	-183	-189
<b>Information on cash and cash equivalents at year-end</b>	<b>171</b>	<b>90</b>
Cash and cash equivalents consist of bank balances.		

# Key ratios

## Key figures not defined according to IFRS

A number of the financial descriptions and measures in this year-end report provide information about development and status of financial and per share measurements that are not defined in accordance with the IFRS (International Financial Reporting Standards). The alternative financial measurements below provides useful supplementary information to investors and management, as they facilitate evaluation of company performance. Since not all companies calculate financial

measurements in the same manner, these are not always comparable to measurements used by other companies. Hence, these financial measures should not be seen as a substitute for measures defined according to the IFRS. Unless otherwise stated, the table below presents measures, along with their reconciliation, which are not defined according to the IFRS. The definitions of these measures appear on page 132.

### RECONCILIATION ALTERNATIVE PERFORMANCE MEASUREMENTS (MSEK)

	2016	2015
<b>Return on shareholders' equity, %</b>		
Shareholder's equity attributable to the shareholders of the parent company, opening balance	12,092	10,402
Shareholder's equity attributable to the shareholders of the parent company, closing balance	15,081	12,092
Average shareholders' equity attributable to the shareholders of the parent company	13,586	11,247
Profit for the period attributable to the shareholders of the parent company	2,201	2,131
<b>Return on shareholders' equity, %</b>	<b>16.2%</b>	<b>18.9%</b>
<b>Equity to assets ratio, %</b>		
Sum equity	15,258	12,215
Total assets	38,429	31,620
<b>Equity to assets ratio, %</b>	<b>39.7%</b>	<b>38.6%</b>
<b>Loan to value ratio, %</b>		
Non-current interest bearing liabilities	18,304	13,720
Current interest bearing liabilities	537	1,826
Market value properties	38,233	31,437
<b>Loan to value, %</b>	<b>49.3%</b>	<b>49.5%</b>
<b>Interest cover ratio, times</b>		
Profit before changes in value	1,214	1,027
Financial expenses	457	441
Depreciation	147	137
<b>Interest cover ratio, times</b>	<b>4.0</b>	<b>3.6</b>
<b>Average interest on debt end of period, %</b>		
Average interest expenses	489	428
Non-current interest bearing liabilities	18,304	13,720
Current interest bearing liabilities	537	1,826
<b>Average interest on debt, end of period, %</b>	<b>2.6%</b>	<b>2.8%</b>
See Note 18 page 104–107 for a complete reconciliation		
<b>Net interest-bearing debt</b>		
Non-current interest bearing liabilities	18,304	13,720
Current interest bearing liabilities	537	1,826
Cash and cash equivalents	-517	-170
<b>Net interest-bearing debt</b>	<b>18,324</b>	<b>15,376</b>
Investments, excl. Acquisitions	433	392

### RECONCILIATION ALTERNATIVE PERFORMANCE MEASUREMENTS (MSEK)

	2016	2015
<b>Net operating income, Property Management</b>		
Rental income	1,717	1,431
Other property income	70	112
Costs, excl. property administration	-212	-197
<b>Net operating income, before property administration</b>	<b>1,575</b>	<b>1,346</b>
Property administration	-80	-66
<b>Net operating profit, Property Management</b>	<b>1,495</b>	<b>1,280</b>
<b>Net operating profit, Operator Activities</b>		
Revenues Operator Activities	2,158	2,046
Costs Operator Activities	-1,866	-1,767
<b>Gross profit</b>	<b>292</b>	<b>279</b>
Add: Depreciation included in costs	147	137
<b>Net operating profit, Operator Activities</b>	<b>439</b>	<b>416</b>
<b>EBITDA</b>		
<b>Gross profit from respective operating segment</b>	<b>1,787</b>	<b>1,559</b>
Add: Depreciation included in costs Operator Activities	147	137
Less: Central administration, excluding depreciation	-117	-93
<b>EBITDA</b>	<b>1,817</b>	<b>1,603</b>
<b>Cash earnings</b>		
<b>EBITDA</b>	<b>1,817</b>	<b>1,603</b>
Add: Financial income	1	3
Less: Financial cost	-457	-441
Less: Current tax	-72	-35
<b>Cash earnings</b>	<b>1,289</b>	<b>1,130</b>
<b>EPRA NAV</b>		
Equity attributable to the shareholders of the parent company	15,081	12,092
Add: Revaluation of Operating Properties	1,655	1,248
Add: Fair value of financial derivatives	736	703
Less: Deferred tax assets related to derivatives	-171	-168
Add: Deferred tax liabilities related to properties	2,582	2,281
<b>EPRA NAV</b>	<b>19,883</b>	<b>16,156</b>
<b>Growth in EPRA NAV, annual rate, %</b>		
EPRA NAV attributable to the shareholders of the parent company, opening balance	16,156	13,816
EPRA NAV attributable to the shareholders of the parent company, closing balance	19,883	16,156
Dividend added back, current year	570	150
Excluding proceeds from new share issue	-1,003	—
<b>EPRA NAV, annual rate %</b>	<b>20.4%</b>	<b>18.0%</b>

RECONCILIATION ALTERNATIVE PERFORMANCE MEASUREMENTS, PER SHARE <sup>1)</sup>	2016	2015
<b>Total comprehensive income, per share, SEK</b>		
Total comprehensive income for the period attributable to the shareholders of the parent company, MSEK	2,556	1,840
Weighted average number of share, before and after dilution	150,266,393	150,000,000
<b>Total comprehensive income per share, SEK</b>	<b>17.01</b>	<b>12.26</b>
<b>Cash earnings per share, SEK</b>		
Cash earnings attributable to the shareholders of the parent company, MSEK	1,276	1,130
Weighted average number of share, before and after dilution	150,266,393	150,000,000
<b>Cash earnings per share, SEK</b>	<b>8.49</b>	<b>7.53</b>
<b>Shareholders' equity per share, SEK</b>		
Shareholders' equity attributable to the shareholders of the parent company, MSEK	15,081	12,092
Number of shares at the end of the period	157,499,999	150,000,000
<b>Shareholders' equity per share, SEK</b>	<b>95.75</b>	<b>80.61</b>
<b>Net asset value (EPRA NAV) per share, SEK</b>		
EPRA NAV, MSEK	19,883	16,156
Number of shares at the end of the period	157,499,999	150,000,000
<b>Net asset value (EPRA NAV) per share, SEK</b>	<b>126.24</b>	<b>107.71</b>
<b>Dividend per share, SEK</b>		
Dividend, MSEK	646	570
Number of shares at dividend	157,499,999	150,000,000
<b>Dividend per share, SEK<sup>3)</sup></b>	<b>4.10</b>	<b>3.80</b>
Weighted average number of shares outstanding before and after dilution, thousands	150,266,393	150,000,000
Number of shares at the end of period	157,499,999	150,000,000
<b>PROPERTY RELATED KEY FIGURES</b>		
Number of hotels end of period <sup>2)</sup>	120	121
Number of rooms, en of period <sup>2)</sup>	26,240	25,190
WAULT, years	13.9	11.2
Total market value properties, MSEK	38,233	31,437
Market value Investment properties, MSEK	30,163	25,062
Market value Operating properties, MSEK	8,070	6,375
RevPAR (Operator Activities) for comparable units at comparable exchange rates, SEK	657	684

<sup>1)</sup> Retrospectively adjusted for share split in May 2015. Total number of outstanding shares after split amount to 157,499,499 of which 75,000,000 A shares. For comparison total number of shares is used for the calculation of key ratios.

<sup>2)</sup> Pandox's owned hotel properties.

<sup>3)</sup> For 2016 proposed dividend and for 2015 actual dividend is indicated.

1

### Financial risk

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

2

### Growth and profitability

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

3

### Net asset value (EPRA NAV) and equity

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



# Notes

Amounts in MSEK unless otherwise indicated

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## NOTE 1 ACCOUNTING PRINCIPLES

### Introduction

The consolidated accounts cover Pandox AB (the Parent Company) and its subsidiaries (the Group). The Parent Company, Pandox AB (publ), is a Swedish company (company reg. no. 556030-7885) and has its registered office in Sweden at Vasagatan 11, 111 20 Stockholm. Pandox was formed in 1995 and the Company's B shares have been listed on Nasdaq Stockholm since 18 June 2015. For disclosures concerning the ownership structure see the section on Pandox shares on page 12. The financial reports as per 31 December 2016 have been approved by the Board of Directors and CEO at the 24th of February for adoption at the Annual General Meeting on 29 March 2017.

### 1. Accounting basis

#### 1.1 Conformity with standards and laws

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

#### 1.2 Basis for valuation

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

#### 1.3 Functional currency and reporting currency

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

#### 1.4 Classification

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

### 2. Judgments and estimates

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

### 3. Changed accounting principles

#### IFRS applied from 1 January 2016

New and reworked standards and interpretation conclusion with application from 1 January 2016 have not had any material impact on the consolidated accounts.

#### New IFRS standards that have not yet begun to be applied

IFRS 15 *Revenue from Contracts with Customers* will, from the beginning of 2018, replace existing IFRS statements relating to revenue recognition, such as IAS 18 *Revenue* and IFRIC 13 *Customer Loyalty Programmes*. IFRS 15 is based on recognizing revenue once control over goods or services is transferred to the customer, which differs from the current situation where the basis is the transfer of risks and benefits. IFRS 15 introduces new ways of establishing how and when revenue is to be recognized involving new approaches compared to how revenue is recognized today.

An evaluation of the effects on Pandox's financial reporting according to IFRS 15 is under way. The analysis is being done on the basis of the revenue streams that exist in each business area. As the majority of revenue in the Property Management business

area consists of rental revenue recognized according to the existing lease standard, it is Pandox's current assessment that IFRS 15 will not have any significant effect on the timing of recognition in this business area. Preliminary analysis of the Operator Activities business area indicates that there may be a limited effect on revenue accruals. Essentially, based on assessments made thus far, revenue accruals are not expected to be affected to any material extent for the Group. Pandox is not planning to adopt IFRS 15 early. The choice of transition methods will be made when the analysis of IFRS 15 is concluded. In conclusion: it is noted that IFRS 15 contains expanded revenue disclosure requirements, which will expand the content of the notes disclosures.

IFRS 16 *Leases* will, from the beginning of 2019, replace existing IFRS standards relating to leases, such as IAS 17 *Leases* and IFRIC 4 *Determining Whether an Arrangement Contains a Lease*. Pandox has not yet decided on early adoption of IFRS 16 from the beginning of 2018 or if it will be applied from 2019.

IFRS 16 mainly affects lessees and the principal effect is that all leases that are currently recognized as operating leases will be recognized in a manner that resembles the way finance leases are currently recognized. This means that assets and liabilities will also need to be recognized for operating leases with the relevant reporting of depreciation and interest costs. This differs from the current situation where there is no reporting of rented assets and related liabilities and when lease fees are accrued on a straight line basis as lease expenses.

Pandox as a lessee in operating leases will be affected by the introduction of IFRS 16. An inventory has been made of all of the Group's leases. The operating leases are mainly site leaseholds. Other leases where Pandox is lessee are for minor amounts with short lease terms. The cost in 2016 of other leases amounted to around MSEK 22. The longest and in monetary terms most substantial leases are for office space in Stockholm and rental for premises in Brussels. The leases will expire in 2021 and 2022 respectively and amount to around MSEK 3.7 and MSEK 8.7 respectively per year. Leasehold agreements expire on different dates, the agreement with the longest term expiring in 2091. The nominal amount outstanding is around MSEK 1,161. Calculations of the effect of IFRS 16 and choice of transition methods have not yet been made. The disclosures provided in Note 8, Site leasehold agreements and other leases, provide a further indication of the type and scope of the agreements that currently exist.

IFRS 9 *Financial Instruments* will replace IAS 39 *Financial Instruments: Recognition and Measurement*, from the beginning of 2018. Pandox is not planning on adopting IFRS 9 early. IFRS 9 involves changes in how financial assets are classified and valued for an impairment model based on expected credit losses instead of actual losses and changes in principles for hedge accounting for the purpose, among other things, of simplifying and increasing concordance with a company's internal risk management strategies.

An evaluation of the effects on Pandox's financial reporting when IFRS 9 goes into effect is under way. The monetary effects have not yet been estimated, but will become clear as the implementation project proceeds in 2017. The assessments of the effects described below are based on the information that is currently known or has been estimated. The choice of transition methods will be made once the analysis of IFRS 9 has reached a phase where it can provide a more complete basis for a decision than is available at this time.

The new impairment rules based on expected credit losses are not expected to result in an increase in the reserve for trade accounts receivable. Losses on trade accounts receivable have historically been very low (see credit risk section in Note 18 *Financial risk and risk management*).

In order to manage interest rate risk and increase the predictability of Pandox's earnings, interest rate derivatives, mainly interest swaps, are used. The assessment is that the introduction of IFRS 9 will not have any material impact on the statement of comprehensive income, other comprehensive income and statement of financial position with respect to Pandox's hedge accounting.

IFRS 9 has resulted in amendments being made to the disclosure requirements in IFRS 7 *Financial Instruments: Disclosures*, and these amendments will impact the disclosures to be provided. The extent of the impact of these amendments on Pandox is not yet known or has not yet been estimated.

Other new and amended IFRS statements to be applied in the future are not expected to have any material effect on the Company's financial statements.

#### 4. Operating segment reporting

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

#### 5. Consolidation principles

##### 5.1 Controlling interests and the acquisition method

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

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

##### 5.2 Changes in ownership

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

##### 5.3 Asset purchases

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

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

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

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

#### 6. Foreign currency

##### 6.1 Foreign currency transactions

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

##### 6.2 Financial statements of foreign entities

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

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

#### 7. Revenue

##### 7.1 Rental income

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

##### 7.2 Other property revenue

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

##### 7.3 Revenue from Operator Activities

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

##### 7.4 Revenue from property sales

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

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

#### 8. Leases

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

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

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

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



## 9. Financial income and expense

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

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

Exchange gains and losses are recognised as net amounts.

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

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

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

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

## 11. Taxes

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

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

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

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

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

## 12. Properties

### 12.1 Investment Properties

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

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

Fair value is based on the market value and represents the estimated amount that would be received in a transaction on the appraisal date between knowledgeable

parties who are independent of each other and who have an interest in ensuring the transaction is executed following customary marketing, where both parties are assumed to have acted in a way that is well-informed, wise and free of pressure.

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

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

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

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

### 12.2 Operating Properties and equipment/interiors

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

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

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

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

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

#### *Depreciation principles*

Depreciation occurs on a straight line basis over the estimated useful life of the asset:  
– Machinery and equipment 3–15 years

#### *Additional expenses*

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

### 14. Financial instruments

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

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

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

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

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

#### *14.2 Classification and measurement*

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

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

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

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

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

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

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

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

#### *Other financial liabilities*

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

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

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

### 15. Inventories

Inventories are stocks of consumables in the hotel operations.

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

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

### 16. Impairment

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

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

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

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

### 16.2 Impairment of financial assets

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

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

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

### 16.3 Reversal of impairment losses

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

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

## 17. Employee benefits

### 17.1 Defined contribution pension plans

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

### Endowment policies for employees

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

### Incentive scheme for employees

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

### 17.2 Short-term benefits

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

### 17.3 Termination benefits

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

## 18. Provisions

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

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

## 19. Non-current assets held for sale

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

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

## 20. Contingent liabilities

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

## 21. Non-controlling interests

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



## 22. Distribution of capital to shareowners

### 22.1 Dividend

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

## 23. Earnings per share

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

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

## 24. Parent Company accounting principles

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

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

#### *Classification and presentation*

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

#### *Subsidiaries*

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

#### *Financial instruments and hedge accounting*

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

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

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

#### *Anticipated dividends*

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

#### *Operating segment reporting*

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

#### *Property, plant and equipment*

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

#### *Assets held for sale and discontinued operations*

Assets held for sale and discontinued operations are not disclosed in the Parent Company's income statement and balance sheet since the Parent Company comply with the format in Annual Accounts Act (ÅRL) regarding income statement and balance sheet. Information regarding assets held for sale and discontinued operations are disclosed in the notes instead. The depreciations are performed according to the Annual Accounts Act (ÅRL).

#### *Leased assets*

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

#### *Group contributions*

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

#### *Provisions and financial guarantees*

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

## NOTE 2 OPERATING SEGMENTS

Pandox's operating segments consist of the Property Management and Operator Activities business streams. The Property Management segment owns, improves and manages hotel properties and provides external customers with premises for hotel operations, as well as other types of premises adjacent to hotel properties. The Property Management segment also includes eight asset management contracts for externally owned hotel properties. The Operator Activities segment owns hotel properties and operates hotels in such owned properties. The Operator Activities segment also includes one hotel operated under a long-term lease agreement and one hotel property under an asset management agreement. Non-allocated items are any items that are not attributable to a specific segment or are common

to both segments. The segments have been established based on the reporting that takes place internally to executive management on financial outcomes and position. Segment reporting applies the same accounting principles as those used in the annual report in general, and the amounts reported for the segments are the same as those for the Group. No internal sales transactions take place between the segments. Scandic Hotels Group and Leonardo Hotels are tenants who account for more than 10 per cent of revenues. In 2016 the management revenue from Scandic Hotels Group amounted to MSEK 852 (833) and from Leonardo Hotels MSEK 280 (0), which is equivalent to 47.7 (54.0) and 15.7 (0) percent respectively of total hotel rental income.

GROUP  
2016

Operating segments, MSEK	Property Management	Operator Activities	Group-wide and non-allocated items	Total
<b>Revenue, Property Management</b>				
Rental income and other property revenue	1,787	—	—	1,787
Revenue, Operator Activities	—	2,158	—	2,158
<b>Revenue</b>	<b>1,787</b>	<b>2,158</b>	<b>—</b>	<b>3,945</b>
<b>Costs Property Management</b>	<b>-292</b>	<b>—</b>	<b>—</b>	<b>-292</b>
Costs Operator Activities <sup>1)</sup>	—	-1,866	—	-1,866
<b>Gross profit</b>	<b>1,495</b>	<b>292</b>	<b>—</b>	<b>1,787</b>
Central administration	—	—	-117	-117
Financial income	—	—	1	1
Financial expense	—	—	-457	-457
<b>Profit before changes in value</b>	<b>1,495</b>	<b>292</b>	<b>-573</b>	<b>1,214</b>
<b>Changes in value</b>				
Properties, unrealised	1,301	—	—	1,301
Properties, realised	159	—	—	159
Derivatives, unrealised	—	—	-39	-39
<b>Profit before tax</b>	<b>2,955</b>	<b>292</b>	<b>-612</b>	<b>2,635</b>
Current tax	—	—	-72	-72
Deferred tax	—	—	-349	-349
<b>Profit for the year</b>	<b>2,955</b>	<b>292</b>	<b>-1,033</b>	<b>2,214</b>

2016	Sweden	Denmark	Norway	Finland	Germany	Belgium	International	Total
<b>Geographical markets</b>								
<b>Revenue</b>								
Property Management	869	177	138	240	314	5	44	1,787
Operator Activities	55	159	336	29	432	658	489	2,158
Properties, market value <sup>2)</sup>	13,620	3,129	3,050	3,289	7,788	3,351	4,006	38,233
Investments in properties <sup>3)</sup>	148	31	80	9	47	50	68	433
Acquisition of properties	—	—	—	—	1,752	526	2,218	4,496
Realised change in value, properties	159	—	—	—	—	—	—	159

<sup>1)</sup> Expenses for Operator Activities include depreciation of Operating Properties at MSEK 147.

<sup>2)</sup> Also includes fair value of Operating Properties at MSEK 8,070.

<sup>3)</sup> Includes investments in equipment/interiors of Operating Properties at MSEK 100.

GROUP  
2015

Operating segments, MSEK	Property Management	Operator Activities	Group-wide and non-allocated items	Total
<b>Revenue, Property Management</b>				
Rental income and other property revenue	1,543	—	—	1,543
Revenue, Operator Activities	—	2,046	—	2,046
<b>Revenue</b>	<b>1,543</b>	<b>2,046</b>	<b>—</b>	<b>3,589</b>
<b>Costs Property Management</b>	<b>-263</b>	<b>—</b>	<b>—</b>	<b>-263</b>
Costs Operator Activities <sup>1)</sup>	—	-1,767	—	-1,767
<b>Gross profit</b>	<b>1,280</b>	<b>279</b>	<b>—</b>	<b>1,559</b>
Central administration	—	—	-94	-94
Financial income	—	—	3	3
Financial expense	—	—	-441	-441
<b>Profit before changes in value</b>	<b>1,280</b>	<b>279</b>	<b>-532</b>	<b>1,027</b>
<b>Changes in value</b>				
Properties, unrealised	1,387	—	—	1,387
Properties, realised	12	—	—	12
Derivatives, unrealised	—	—	203	203
<b>Profit before tax</b>	<b>2,679</b>	<b>279</b>	<b>-329</b>	<b>2,629</b>
Current tax	—	—	-35	-35
Deferred tax	—	—	-463	-463
<b>Profit for the year</b>	<b>2,679</b>	<b>279</b>	<b>-827</b>	<b>2,131</b>

2015	Sweden	Denmark	Norway	Finland	Germany	Belgium	International	Total
<b>Geographical markets</b>								
<b>Revenue</b>								
Property Management	882	142	242	221	—	17	39	1,543
Operator Activities	22	134	248	23	404	770	445	2,046
Properties, market value <sup>2)</sup>	13,463	2,608	2,611	3,020	5,491	2,772	1,472	31,437
Investments in properties <sup>3)</sup>	117	58	52	53	16	63	33	392
Acquisition of properties	—	—	—	—	3,665	—	—	3,665
Realised change in value, properties	—	—	—	—	—	12	—	12

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

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

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



## NOTE 3 RENTAL INCOME

### Operating leases

Pandox's lease agreements are largely linked to the hotels' sales and usually involve a guaranteed minimum rent, making it possible to have increased revenue as well as protection against a downturn. The average remaining length of leases at the end of the financial year amounted to 13.9 (11.2) years for the current portfolio. The operating leases are non-cancellable. The maturity structure for the future rental income as of the closing day is presented in the table below. Contractual rental income has been translated at the exchange rate on the closing day. Total variable revenue is included at MSEK 770 (675) of the total rental income of MSEK 1,717 (1,431) in 2016.

GROUP RENTAL INCOME, MATURITY STRUCTURE OF CONTRACTUAL RENT			
MSEK	2016	2015	
<b>Rental income</b>			
Maturing within one year	1,871	1,490	
Maturing in 1-5 years	9,103	6,467	
Maturing after more than 5 years	14,999	8,528	
<b>Total</b>	<b>25,973</b>	<b>16,485</b>	

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

## NOTE 4 CENTRAL ADMINISTRATION COSTS

Central administration includes costs for central functions such as executive management, business development, finance, the Board of Directors, HR, legal affairs, IT, audit, administration, IR, costs of maintaining the Company's listing, and depreciation of the machinery and equipment belonging to central administration. Central administration also includes the costs of a share price-related incentive scheme for Group management at MSEK 26 (13).

REMUNERATION TO AUDITORS				
MSEK	Group		Parent Company	
	2016	2015	2016	2015
<b>KPMG</b>				
Audit assignments	-5	-5	-1	-1
Tax advisory services	-3	-3	—	—
Other assignments	-2	-5	-1	-5
<b>PwC</b>				
Audit assignments	-3	-3	—	—
Tax advisory services	0	0	—	—
Other assignments	0	0	—	—
<b>Other</b>				
Other assignments	0	0	—	—
<b>Total</b>	<b>-13</b>	<b>-16</b>	<b>-2</b>	<b>-6</b>

## NOTE 5 PROPERTY MANAGEMENT COSTS

GROUP		
MSEK	2016	2015
Operating costs	-31	-29
Maintenance costs	-55	-59
Property tax	-87	-77
Site leasehold rent	-38	-32
Property administration	-64	-56
Other administration costs	-17	-10
<b>Total</b>	<b>-292</b>	<b>-263</b>

Operating costs include costs for electricity, heating, water and janitorial services. Maintenance costs consist of ongoing maintenance to maintain the standard of the properties and their technical systems. Site leasehold rent must be paid annually to the municipality by owners of buildings on municipal land. Property tax is a Swedish government tax based on the property's rateable value. The tax rate for 2016 was 1.0 percent of the rateable value for multi-unit properties, which is the category to which hotel properties belong.

A portion of the operating costs and the property tax is passed on to the tenants. This revenue is recognised under the heading "Other property revenue" in the income statement at MSEK 70 (112), of which MSEK 60 is a one-time payment relating to mediation in 2015. Property administration of MSEK 64 (56) comprises administration costs for Property Management.

## NOTE 6 OPERATOR ACTIVITIES COSTS

GROUP		
MSEK	2016	2015
Employee costs	-791	-738
Marketing and sales	-164	-155
Repairs and maintenance	-15	-10
Property tax	-63	-81
Other operating costs	-686	-646
Depreciation	-147	-137
<b>Total</b>	<b>-1,866</b>	<b>-1,767</b>

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

## NOTE 7 OPERATING COSTS BY TYPE

GROUP		
MSEK	2016	2015
Employee costs	-889	-822
Marketing and sales	-164	-155
Maintenance	-70	-69
Operation and administration	-817	-752
Site leasehold rents	-38	-32
Property tax	-150	-158
Depreciation	-147	-137
<b>Total</b>	<b>-2,275</b>	<b>-2,125</b>

Employee costs include salary costs of MSEK 877 (816). Maintenance costs consist of ongoing maintenance to maintain the standard of the properties and their technical systems. Also included is depreciation of Operating Properties recognised at book value and charged with annual depreciation, as well as depreciation of office equipment.

## NOTE 8 SITE LEASEHOLD AGREEMENTS AND OTHER LEASES

GROUP		
MSEK	2016	2015
Site leasehold agreements, maturity structure		
Maturing within one year	-46	-32
Maturing in 2-5 years	-179	-105
Maturing after more than 5 years	-976	-405
<b>Total</b>	<b>-1,201</b>	<b>-542</b>

Operating leases are leases where a company within the Group is the lessee. The operating leases are mainly site leaseholds. The cost in 2016 for site leasehold rents was MSEK 38 (32). The average remaining leasehold period is 22 (18) years. The payments are expensed on a straight line basis over the term of the lease.

Other leases refers to smaller amounts with short period of contract. The cost in 2016 for other leases was approximately MSEK 22. The main contracts concerning period of time and cost refers to office rental in Stockholm and rent for premises in Brussels. The lease contracts runs until 2021 and 2022 respectively and amounts to MSEK 3.7 and MSEK 8.7 respectively.

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

## NOTE 9 SALARIES, OTHER REMUNERATION AND PAYROLL OVERHEADS

The average number of employees in 2016 amounted to 1,422 (1,366) broken down by country and gender as shown below.

Average number of employees	Group		Parent Company	
	2016	2015	2016	2015
Women	695	665	12	12
Men	727	701	13	11
<b>Total</b>	<b>1,422</b>	<b>1,366</b>	<b>25</b>	<b>23</b>
<b>Board of Directors</b>				
Women	3	3	2	2
Men	9	9	5	5
<b>Total</b>	<b>12</b>	<b>12</b>	<b>7</b>	<b>7</b>
<b>Senior executives</b>				
Women	3	2	3	2
Men	5	4	4	3
<b>Total</b>	<b>8</b>	<b>6</b>	<b>7</b>	<b>5</b>
<b>Average number of employees by country</b>				
Sweden	58	42	25	23
Belgium	418	452	—	—
Germany	262	283	—	—
Canada	350	341	—	—
Denmark	58	75	—	—
Finland	25	22	—	—
Norway	251	151	—	—
<b>Total</b>	<b>1,422</b>	<b>1,366</b>	<b>25</b>	<b>23</b>

Salaries, fees and benefits, MSEK	Group		Parent Company	
	2016	2015	2016	2015
<b>Chairman of the Board</b>				
Christian Ringnes	-0.7	-0.4	-0.7	-0.4
<b>Other board members</b>				
Leiv Askvig	-0.4	-0.3	-0.4	-0.3
Ann-Sofi Danielsson	-0.6	-0.0	-0.6	-0.0
Olaf Gauslå	-0.5	-0.3	-0.5	-0.3
Christian Sundt	-	-0.2	-	-0.2
Helene Sundt	-0.4	-0.3	-0.4	-0.3
Bengt Kjell	-0.5	-0.4	-0.5	-0.4
Mats Wäppling	-0.5	-0.4	-0.5	-0.4
<b>Chief Executive Officer</b>				
Basic salary	-4.9	-4.5	-4.9	-4.5
Variable remuneration	-1.7	-1.5	-1.7	-1.5
Incentive scheme	-6.2	-3.0	-6.2	-3.0
<b>Other senior executives</b>				
Basic salary	-7.3	-6.1	-7.3	-6.1
Variable remuneration	-2.6	-2.2	-2.6	-2.2
Fees	-8.4	-6.6	-3.5	-1.9
Incentive scheme	-8.7	-4.2	-8.7	-4.2
<b>Other employees</b>	<b>-692.6</b>	<b>-648.1</b>	<b>-18.2</b>	<b>-16.4</b>
Incentive scheme	-5.2	-2.5	-5.2	-2.5
<b>Total</b>	<b>-741.2</b>	<b>-681.0</b>	<b>-61.9</b>	<b>-44.6</b>
<b>Contractual pension costs</b>				
Chief Executive Officer	-1.7	-1.5	-1.7	-1.5
Other senior executives	-2.9	-2.6	-2.9	-2.6
Other employees	-24.8	-19.5	-4.4	-2.8
<b>Total</b>	<b>-29.4</b>	<b>-23.6</b>	<b>-9.0</b>	<b>-6.9</b>
<b>Payroll overheads including payroll tax</b>				
Chairman of the Board	-0.1	-0.2	-0.1	-0.2
Other board members	-0.6	-0.6	-0.6	-0.6
Chief Executive Officer	-4.4	-3.2	-4.4	-3.2
Other senior executives	-6.6	-4.7	-6.6	-4.7
Other employees	-114.1	-109.0	-8.0	-6.0
<b>Total</b>	<b>-125.8</b>	<b>-117.7</b>	<b>-19.7</b>	<b>-14.7</b>
<b>Total</b>	<b>-896.4</b>	<b>-822.3</b>	<b>-90.6</b>	<b>-66.2</b>

### Remuneration of senior executives

#### Principles

Fees are paid to the Board of Directors as decided at the Annual General Meeting. Remuneration to the Chief Executive Officer and other senior executives consists of basic salary, variable remuneration, other benefits and pension benefits. Other senior executives are individuals who, in addition to the CEO, make up the executive management team. In 2016 this was eight individuals. The variable component is to consist of a significant percentage of the possible remuneration and is maximised at four months salary. The variable component is based on performance in relation to property management outcomes and individually set targets.

#### Variable remuneration

Variable remuneration for the CEO for 2016 was based on property management outcomes and individually set targets. The amount for the CEO in 2016 was MSEK -1.7 (-1.5). For other senior executives variable remuneration for 2016 has the same basis as for the CEO. The amount for these executives in 2016 was MSEK -2.6 (-2.2).

#### Incentive scheme

On 5 May 2015 the Board of Directors decided to introduce a long-term incentive scheme for the senior executives and other key individuals. The incentive scheme is a bonus scheme based on the Pandox share price in December 2020. The incentive scheme matures on 31 December 2020. Upon maturing, the share price for Pandox B shares ("Maturity Price") will be compared with an adjusted assumed initial share price ("Initial Share Price"). The difference between the Maturity Price and the Initial Share Price multiplied by a theoretical number of shares per participant that has been used as a basis for calculation will be paid out in cash to the participants. The highest amount that can be paid out to each participant is limited to certain levels, which vary between MSEK 5 and MSEK 30. The maximum total amount that can be paid out to the participants is MSEK 97 excluding payroll overheads. The incentive scheme will be expensed continually throughout the period. For 2016 the sum of MSEK 26.0 (12.7) including payroll overheads has been expensed and recognised as a provision. Payment of the amounts under the incentive scheme is dependent on the participant remaining employed by the Company on the maturity date and upon neither the participant nor the Company having given notice to terminate employment.

#### Pensions

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

#### Notice of termination

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

#### Pensions for other employees

Other Pandox employees receive an occupational pension plan whereby Pandox pays a contribution to an insurance company selected by the employee in accordance with a defined pension policy. The contributions are defined as a percentage of salary taking into consideration salary levels and age. The pension costs may not exceed 35 percent of salary based on the main principle in the municipal tax code for up to 30 price base amounts, with a contribution limit of no more than 10 price base amounts (SEK 443,000 for 2016). For individuals who have a premium of more than 10 price base amounts, a direct pension plan has been set up to guarantee the pension promised to the employee. Employees are entitled to determine the structure of their individual occupational pension plans within the framework of the pension policy currently in place.

#### Preparation and decision-making processes

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

#### Board of Directors in 2016:

Christian Ringnes,	Olaf Gauslå	Helene Sundt
Chairman of the Board	Bengt Kjell	Mats Wäppling
Leiv Askvig	Ann-Sofi Danielsson	

#### Senior executives in 2016:

Anders Nissen, CEO	Jonas Törner	Aldert Schaaphok
Liia Nõu, CFO	Anders Berg	Camilla Weiner
Lars Haggström	Karmen Bergholcs	

#### Board of Directors and senior executives in 2016:

Number in the Parent Company: 14, of which 5 women  
Number in the Group: 16, of which 5 women

## NOTE 10 FINANCIAL INCOME AND EXPENSE

MSEK	Group		Parent Company	
	2016	2015	2016	2015
<b>Financial income</b>				
Interest income	1	3	0	0
Interest income, subsidiaries	—	—	109	59
Dividend <sup>1)</sup>	—	—	361	666
Capital gains on divestment of subsidiaries <sup>1)</sup>	—	—	—	3
Other financial income	—	—	3	6
<b>Total financial income</b>	<b>1</b>	<b>3</b>	<b>473</b>	<b>734</b>
<b>Financial expense</b>				
Interest expense, loans measured at amortised cost	-177	-138	-46	-40
Interest expense, interest-rate derivatives measured at fair value	-263	-292	-124	-140
Interest expense, subsidiaries	—	—	-13	-9
Impairment losses on shares in subsidiaries <sup>1)</sup>	—	—	-61	—
Other financial expense	-17	-11	-2	-22
<b>Total financial expense</b>	<b>-457</b>	<b>-441</b>	<b>-246</b>	<b>-211</b>

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

## NOTE 11 OTHER NON-CURRENT RECEIVABLES

MSEK	Group		Parent Company	
	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
Pension insurance	10	7	10	7
Prepaid compensation for land use	6	6	—	—
Other non-current receivables	6	12	—	—
<b>Total</b>	<b>22</b>	<b>25</b>	<b>10</b>	<b>7</b>



## NOTE 12 TAX

Tax in the income statement, MSEK	Group		Parent Company	
	2016	2015	2016	2015
Current tax	-72	-35	—	—
Deferred tax	-349	-463	—	—
<b>Total</b>	<b>-421</b>	<b>-498</b>	<b>—</b>	<b>—</b>

Reconciliation of effective tax rate, MSEK	Group		Parent Company	
	2016	2015	2016	2015
<b>Tax</b>				
Profit reported before taxes	2,635	2,629	438	571
Income tax assessed based on the tax rate in effect	-580	-578	-96	-126
Tax attributable to previous years	5	54	—	—
Non-taxable revenue	95	3	80	148
Non-deductible costs	-2	-1	-16	-1
Previously unrecognised tax loss	59	33	—	—
New tax losses, unrecognised	—	—	—	-21
Utilized deficiency not accounted for	—	—	32	—
Changed tax rate	—	27	—	—
Effective tax rate for foreign companies	2	-36	—	—
<b>Tax for the year according to the income statement</b>	<b>-421</b>	<b>-498</b>	<b>0</b>	<b>0</b>

### GROUP DEFERRED TAX LIABILITIES

MSEK	Investment Properties	Operating Properties	Equipment	Total
Opening balance, 1 Jan 2015	1,589	341	63	1,993
Change in items recognised in the statement of income	445	-44	-63	338
Purchases/Sales/Reclassifications	-35	35	—	—
Change recognised in comprehensive income	-43	-7	—	-50
<b>Closing balance, 31 Dec 2015</b>	<b>1,956</b>	<b>325</b>	<b>—</b>	<b>2,281</b>
Opening balance, 1 Jan 2016	1,956	325	—	2,281
Change in items recognised in the statement of income	278	19	—	297
Purchases/Sales/Reclassifications	-42	-17	—	-59
Change recognised in comprehensive income	46	17	—	63
<b>Closing balance, 31 Dec 2016</b>	<b>2,238</b>	<b>344</b>	<b>—</b>	<b>2,582</b>

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

### GROUP DEFERRED TAX ASSETS

MSEK	31 Dec 2016	31 Dec 2015
Opening balance, loss carryforwards	631	704
Additional loss carryforwards	34	33
Utilised loss carryforwards	-95	-94
Changed tax rate	—	-4
Translation difference on loss carryforwards outside Sweden	8	-8
<b>Closing balance, loss carry forwards</b>	<b>578</b>	<b>631</b>
Opening balance, interest rate derivatives	169	220
Change for the year	1	-51
<b>Closing balance, interest rate derivatives</b>	<b>170</b>	<b>169</b>
<b>Closing balance, tax assets</b>	<b>748</b>	<b>800</b>

The Group's accumulated tax losses are estimated at MSEK 2,716 (2,920) as of 31 December 2016. The deferred tax assets have been estimated at MSEK 2,588 (2,842) of the tax loss.

#### Limitations on the use of loss carryforwards

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

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

## NOTE 13 INVESTMENT PROPERTIES

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

GROUP MSEK	31 Dec 2016	31 Dec 2015
Opening balance	25,062	20,843
Acquisitions (at cost)	3,970	3,665
Investments in existing portfolio	173	220
Amount received, properties divested	-887	-158
Reclassified to/from Operating Properties	-295	-516
Exchange gains/losses	680	-391
Change in value, realised	159	12
Change in value, unrealised	1,301	1,387
Closing balance	30,163	25,062
<i>Less carrying amount of assets held for sale (see Note 29)</i>	—	-728
Investment Properties, adjusted closing balance	30,163	24,335

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

The tables below show the change for each geographical market:

By geographical market 31 Dec 2016, MSEK	Sweden	Denmark	Norway	Finland	Germany	Belgium	International	Total
Opening balance	13,195	2,042	2,377	2,977	3,665	106	700	25,062
Acquisitions	—	—	—	—	1,752	—	2,218	3,970
Investments in existing portfolio	96	22	21	9	25	—	—	173
Amount received, properties divested	-887	—	—	—	—	—	—	-887
Reclassified to/from Operating Properties	—	—	-295	—	—	—	—	-295
Exchange gains/losses	—	105	215	141	173	5	41	680
Change in value, realised	159	—	—	—	—	—	—	159
Change in value, unrealised	747	225	62	119	136	-10	22	1,301
Closing balance including assets held for sale	13,310	2,394	2,380	3,246	5,751	101	2,981	30,163

By geographical market 31 Dec 2015, MSEK	Sweden	Denmark	Norway	Finland	Germany	Belgium	International	Total
Opening balance	12,349	1,991	2,636	3,058	—	170	639	20,843
Acquisitions	—	—	—	—	3,665	—	—	3,665
Investments in existing portfolio	117	28	20	53	—	—	2	220
Amount received, properties divested	—	—	—	—	—	-151	-7	-158
Reclassified to/from Operating Properties	-295	—	-221	—	—	—	—	-516
Exchange gains/losses	—	-84	-221	-122	—	-4	40	-391
Change in value, realised	—	—	—	—	—	4	8	12
Change in value, unrealised	1,024	107	163	-12	—	86	19	1,387
Closing balance including assets held for sale	13,195	2,042	2,377	2,977	3,665	106	700	25,062

### Valuation model

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

The valuation model consists of an accepted and proven cash flow model where future cash flows that the hotel properties are expected to generate are discounted. The valuation is based on the business plan for the hotel concerned, which is updated at least twice a year and takes into consideration, among other things,

developments in the underlying operator activities, market developments, the contract situation, operating and maintenance matters and investments aimed at maximising the hotel property's cash flow and return in the long term.

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

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

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

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

Calculation assumptions by geographical area in 2016	Fair value, MSEK	Valuation yield		Discount rate	
		Range, %	Average, %	Range, %	Average, %
Sweden	13,310	4.5–7.8	5.5	6.5–9.8	7.5
Denmark	2,394	5.0–7.1	5.6	7.0–9.1	7.6
Norway	2,380	4.4–7.5	5.3	6.9–10.0	7.8
Finland	3,246	5.0–8.0	5.8	6.5–9.5	7.3
Germany	5,751	5.7–7.0	6.2	7.7–9.0	8.2
Belgium	101	7.0–7.0	7.0	9.0–9.0	9.0
International	2,981	5.2–6.3	5.6	7.2–8.3	7.6
<b>Total</b>	<b>30,163</b>	<b>4.4–8.0</b>	<b>5.7</b>	<b>6.5–10.0</b>	<b>7.7</b>

Calculation assumptions by geographical area in 2015	Fair value, MSEK	Valuation yield		Discount rate	
		Range, %	Average, %	Range, %	Average, %
Sweden	13,195	4.7–8.3	5.8	6.7–10.3	7.8
Denmark	2,042	5.0–7.2	5.6	7.0–9.2	7.6
Norway	2,377	4.5–9.0	5.9	7.0–11.5	8.4
Finland	2,977	5.1–8.0	5.9	6.6–9.5	7.4
Germany	3,665	5.8–7.1	6.2	7.8–9.1	8.2
Belgium	106	7.0–7.0	7.0	9.0–9.0	9.0
International	700	5.4–5.4	5.4	7.4–7.4	7.4
<b>Total</b>	<b>25,062</b>	<b>4.5–9.0</b>	<b>5.9</b>	<b>6.6–11.5</b>	<b>7.9</b>

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

Sensitivity analysis – fair value	Change	Effect on value in 2016, MSEK	Effect on value in 2015, MSEK
Valuation yield	+/- 0.5pp	-2,439/+2,910	-1,967/+2,333
Currency gain/loss	+/- 1%	+/-169	+/-119
Net operating income	+/- 1%	+/-271	+/-235

### Significant commitments

Pandox has commitments relating to the completion of investment projects in a number of Investment Properties to a value of around MSEK 1,035 in addition to the amounts capitalised and reported in the balance sheet. Major ongoing investment projects include Hyatt Regency Montreal, Hotel Berlin, Berlin, Leonardo Wolfsburg City, Hilton Grand Place Brussels, Elite Park Avenue Göteborg, Elite

Stora Hotellet i Jönköping, InterContinental Montreal, Meetingpoint Hafjell and the investment program together with Scandic Hotels Group for 19 Hotel Properties in the Nordic countries. Pandox has no significant commitments relating to the acquisition or divestment of any Investment Property.

### Other factors influencing the result for the period

Other factors influencing the result for the period	2016	2015
Rental income/other property revenue	1,787	1,543
– of which guaranteed rents	947	756
Direct costs for Investment Properties that generated rental income during the period (operating and maintenance costs, property tax and ground rent) <sup>1)</sup>	-211	-197
Direct costs for Investment Properties that did not generate rental income during the period (operating and maintenance costs, property tax and ground rent) <sup>1)</sup>	—	—

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



## NOTE 14 EQUIPMENT/INTERIORS

MSEK	Group		Parent Company	
	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
Cost, opening balance	874	1,286	3	3
Reclassifications <sup>1)</sup>	-7	-450	—	—
Acquisitions	13	—	—	—
Investments	100	42	—	—
Reclassification from work in progress	4	50	—	—
Sales/disposals	-2	—	—	—
Translation differences	50	-54	—	—
<b>Accumulated cost, closing balance</b>	<b>1,032</b>	<b>874</b>	<b>3</b>	<b>3</b>
Depreciation, opening balance	-493	-563	-3	-2
Reclassifications <sup>1)</sup>	-13	123	—	—
Depreciation for the year	-66	-79	0	-1
Sales/disposals	1	—	—	—
Translation differences	-30	26	—	—
<b>Accumulated depreciation, closing balance</b>	<b>-601</b>	<b>-493</b>	<b>-3</b>	<b>-3</b>
<b>Residual value according to plan</b>	<b>431</b>	<b>381</b>	<b>0</b>	<b>0</b>

<sup>1)</sup> Reclassified from equipment to buildings, MSEK -22 (-310). Other reclassifications of MSEK 2 (-17) refers to transfers from Investment Properties to Operating Properties.

## NOTE 15 OPERATING PROPERTIES

GROUP MSEK	31 Dec 2016	31 Dec 2015
<b>Buildings</b>		
Cost, opening balance	4,584	3,730
Reclassification	284	993
Acquisitions	513	—
Investments	36	21
Reclassification from construction/reconstruction work in progress	59	57
Translation difference	321	-217
<b>Accumulated cost, closing balance</b>	<b>5,797</b>	<b>4,584</b>
Depreciation, opening balance	-850	-571
Reclassification	-69	-253
Depreciation for the year	-81	-59
Translation difference	-49	33
<b>Accumulated depreciation, closing balance</b>	<b>-1,049</b>	<b>-850</b>
<b>Residual value according to plan, buildings</b>	<b>4,748</b>	<b>3,734</b>
<b>Land</b>		
Cost, opening balance	919	880
Reclassification	100	87
Translation difference	54	-48
<b>Accumulated cost, land, closing balance</b>	<b>1,073</b>	<b>919</b>
<b>Total residual value according to plan</b>	<b>5,821</b>	<b>4,653</b>
<b>Work in progress, Operating Properties</b>		
Cost, opening balance	94	96
Investments	124	109
Reclassification from construction/reconstruction work in progress	-63	-107
Translation difference	8	-4
<b>Cost, work in progress, closing balance</b>	<b>163</b>	<b>94</b>
<b>Total, Operating Properties</b>	<b>5,984</b>	<b>4,747</b>

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

MSEK	31 Dec 2016	31 Dec 2015
Market value, Operating Properties (incl. equipment/interiors)	8,070	6,375

## 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 2016	31 Dec 2015
Rent receivables and trade accounts receivable	249	176
Doubtful receivables and trade accounts receivable	—	-3
Closing balance	249	173

## NOTE 17 EQUITY

### Equity items

#### Share capital

The share capital consists of 157,499,999 shares (150,000,000) with a quota value of SEK 2.50 per share, for a total value of MSEK 394. See also the information on page 28 in the section: Pandox shares.

#### 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).

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

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

#### Non-controlling interests

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

#### Dividend

The proposed dividend to shareholders for the year amounts to MSEK 646, corresponding to a dividend of SEK 4.10 per share. During 2016 the dividend proposed for the 2015 financial year of MSEK 570 was settled.

## NOTE 18 FINANCIAL RISK AND RISK MANAGEMENT

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

### Financial policy

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

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

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

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

### Market risk – interest-rate risk

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

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

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

### FIXED INTEREST/REPAYMENT PERIOD

	Average fixed interest period, years	Average interest rate, %	Repayment period, years
2016	2.8	2.6	3.0
2015	2.6	2.8	3.4

INTEREST MATURITY PROFILE 31 DECEMBER 2016

Maturity profile	Fixed rate period				Derivatives		
	Loans, MSEK	Derivatives, MSEK	Amount, MSEK	Share	Volume, MSEK	Average interest, derivatives <sup>1)</sup>	Share
<1	18,831	-10,500	8,330	44%	841	3.8%	7%
1-2	—	700	700	4%	700	3.1%	6%
2-3	—	1,451	1,451	8%	1,451	1.1%	13%
3-4	—	1,911	1,911	10%	1,911	2.7%	17%
4-5	—	2,637	2,637	14%	2,637	1.4%	23%
>5	—	3,802	3,802	20%	3,802	1.7%	34%
<b>Total</b>	<b>18,831</b>	<b>0</b>	<b>18,831</b>	<b>100%</b>	<b>11,342</b>	<b>2.0%</b>	<b>100%</b>

INTEREST MATURITY PROFILE 31 DECEMBER 2015

Maturity profile	Fixed rate period				Derivatives		
	Loans, MSEK	Derivatives, MSEK	Amount, MSEK	Share	Volume, MSEK	Average interest, derivatives <sup>1)</sup>	Share
<1	15,546	-7,651	7,895	51%	1,064	3.3%	12%
1-2	—	802	802	5%	802	3.4%	9%
2-3	—	670	670	4%	670	3.1%	8%
3-4	—	239	239	2%	239	2.5%	3%
4-5	—	1,864	1,864	12%	1,864	2.8%	21%
>5	—	4,076	4,076	26%	4,076	2.3%	47%
<b>Total</b>	<b>15,546</b>	<b>0</b>	<b>15,546</b>	<b>100%</b>	<b>8,715</b>	<b>2.7%</b>	<b>100%</b>

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

SENSITIVITY ANALYSIS AS OF 31 DECEMBER 2016

	Change	Effect on earnings, MSEK
Interest expense with current fixed interest, change in interest rates	+/-1%	-/+ 72
Interest expense with a change in the average interest rate level	+/-1%	-/+ 188
Remeasurement of interest-rate derivatives following shift in yield curves	+/-1%	-/+ 509

The effect on equity is the same as on earnings.

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

Market risk – currency risk

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



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

### Loans by currency

#### INTEREST MATURITY PROFILE 31 DECEMBER 2016, MSEK

Maturity <sup>1)</sup>	SEK	DKK	EUR	CHF	CAD	NOK	Total	Share	Interest rate, % <sup>2)</sup>
2017	981	542	5,612	217	434	545	8,330	44	3.6
2018	250	0	239	0	0	211	700	4	3.1
2019	125	0	694	0	0	632	1,451	8	0.9
2020	900	154	856	0	0	0	1,911	10	2.7
2021	1,250	0	1,387	0	0	0	2,637	14	1.4
2022 or later	1,450	515	1,837	0	0	0	3,802	20	1.7
<b>Total</b>	<b>4,956</b>	<b>1,211</b>	<b>10,625</b>	<b>217</b>	<b>434</b>	<b>1,388</b>	<b>18,831</b>	<b>100</b>	<b>2.6</b>
Maturing in foreign currency, %	26.3	6.4	56.4	1.2	2.3	7.4	100.0	—	—
Average interest rate, %	3.5	2.2	2.1	0.8	3.5	3.3	2.6	—	—
Average fixed interest period, years	3.8	2.9	2.6	0.1	0.3	1.6	2.8	—	—
Property market value	13,620	3,129	16,647	763	1,025	3,050	38,233	—	—

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

Maturity <sup>1)</sup>	SEK	DKK	EUR	CHF	CAD	NOK	Total	Share	Interest rate, % <sup>2)</sup>
2016	1,847	526	4,178	220	211	913	7,895	51	2.9
2017	200	—	247	—	188	167	802	5	3.4
2018	250	—	228	—	—	191	669	4	3.1
2019	125	—	114	—	—	—	239	2	2.5
2020	900	147	818	—	—	—	1,865	12	2.8
2021 or later	2,700	490	886	—	—	—	4,076	26	2.3
<b>Total</b>	<b>6,022</b>	<b>1,163</b>	<b>6,471</b>	<b>220</b>	<b>399</b>	<b>1,271</b>	<b>15,546</b>	<b>100</b>	<b>2.8</b>
Maturing in foreign currency, %	38.7	7.5	41.6	1.4	2.6	8.2	100.0	—	—
Average interest rate, %	3.1	2.1	2.4	0.8	3.4	3.6	2.8	—	—
Average fixed interest period, years	3.8	3.4	1.8	0.1	0.8	0.7	2.6	—	—
Property market value	13,463	2,607	11,284	702	770	2,611	31,437	—	—

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

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

### Liquidity risk

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

(bank balances, liquid interest-bearing investments and forecast positive cash flows over 12 months) and credit facilities is an amount corresponding to at least 12 months' known outgoing payments including interest payments and current repayments or repayments that have been decided on. At year-end, bank balances amounted to MSEK 517 (170) and unutilised credit facilities to MSEK 1,715 (1,391).

## Maturity profile, interest and capital

Interest calculated as per terms effective at the time in question

31 DECEMBER 2016

Year due, MSEK	Repayment period <sup>2</sup>	Interest rate, loans <sup>1)</sup>	Net interest, interest rate swaps, negative value <sup>1)</sup>	Net interest, interest rate swaps, positive value <sup>1)</sup>	Total
2017	248	3	30	—	33
2018	5,239	43	21	—	64
2019	6,054	86	8	—	94
2020	3,137	46	61	—	106
2021	4,154	66	47	-1	112
2022	0	0	80	—	80
<b>Total</b>	<b>18,831</b>	<b>243</b>	<b>247</b>	<b>-1</b>	<b>489</b>

31 DECEMBER 2015

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

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

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

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

### Refinancing risk

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

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

Pandex currently has four main financing providers, none of which accounts for more than 50 percent of the volume. Renegotiation of the approximately 1 percent of the portfolio that matures within 12 months has begun.

### Credit risk

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

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

Pandex has a well-diversified property portfolio characterised by well-established, stable and sound tenants. The largest tenants in terms of revenue are Scandic Hotels Group, Leonardo Hotels, Nordic Choice Hotels, Radisson Blu, Hilton, Elite Hotels and First Hotel, which together accounted for more than 90 percent of total rental income in 2016. The three largest tenants – Scandic Hotels Group, Leonardo Hotels and Nordic Choice Hotels – accounted for around 72 percent of total rental income.

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

Alongside the hotel contracts, commercial tenants amounted to around 3 percent of Pandex's total rental income. The occupancy rate of Pandex's wholly owned property portfolio was 99.9 percent and vacant space consisted of stores and office premises.

Provisions are made for doubtful trade accounts receivable on an individual basis, i.e. each individual customer balance is analysed in the ledger.

### Capital management

Pandex's financial position is monitored primarily on the basis of loan-to-value ratio, with a target of 45–60 percent. Internal monitoring of financial position does not focus on equity. At the end of 2016 the loan-to-value ratio was 49 (50) percent. At year-end 2016 and 2015 Pandex had not infringed upon any covenants in the loan agreements.

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

### Fair value of financial assets and liabilities

GROUP MSEK	Financial assets/liabilities measured at fair value through profit or loss for the year					
			Loans and receivables		Other liabilities	
	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
Other non-current receivables	—	—	22	25	—	—
Rent receivables and trade accounts receivable	—	—	249	173	—	—
Derivates	1	—	—	—	—	—
Cash and cash equivalents	—	—	517	170	—	—
<b>Total financial assets</b>	<b>1</b>	<b>—</b>	<b>788</b>	<b>368</b>	<b>—</b>	<b>—</b>
Non-current interest-bearing liabilities	—	—	—	—	18,304	13,720
Derivatives	736	703	—	—	—	—
Current interest-bearing liabilities	—	—	—	—	537	1,826
Liabilities to Group companies	—	—	—	—	—	—
Trade accounts payable	—	—	—	—	202	212
<b>Total financial liabilities</b>	<b>736</b>	<b>703</b>	<b>—</b>	<b>—</b>	<b>19,043</b>	<b>15,758</b>

### Fair value of financial assets and liabilities

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

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

### Offsetting

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

## NOTE 20 ACCRUED EXPENSES AND PREPAID INCOME

MSEK	Group		Parent Company	
	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
Prepaid rent	84	89	—	—
Accrued interest expense	72	42	28	9
Accrued property tax	7	17	—	—
Other	291	334	—	—
<b>Total</b>	<b>454</b>	<b>482</b>	<b>28</b>	<b>9</b>

## NOTE 21 PROVISIONS

MSEK	Group		Parent Company	
	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
Carrying amount at beginning of period	68	66	30	18
Provisions made during the period	44	14	29	14
Amounts used during the period	-9	-12	-2	-2
<b>Reported value at close of period</b>	<b>103</b>	<b>68</b>	<b>57</b>	<b>30</b>
- of which the long-term portion of the provisions	100	56	57	28
- of which the short-term portion of the provisions	3	12	0	2

The opening balance of provisions consists of rent guarantees provided for hotels sold in 2014, pension provisions and provisions for incentive schemes for senior executives of MSEK 68. Rent guarantees have been provided up to and including December 2019. As of 31 December 2015 the provision amounts to MSEK 48. Provisions for pensions at the beginning of the year amounted to MSEK 7 (6). The incentive scheme runs until 2020, opening balance of provision amounted to MSEK 13 (0).

The year's provisions comprise MSEK 26 for incentive schemes for senior executives, MSEK 3 in provisions for pensions and provisions of rent guarantees provided for hotels sold in 2016. The incentive schemes run until 2020 and the rent guarantees runs until 31st March 2019. During the year, MSEK 9 of the guaranteed rent has been paid.

Closing balance consist of MSEK 54 in provisions for guaranteed rents, MSEK 10 in provisions for pensions and MSEK 39 in incentive scheme.



## NOTE 22 KEY ESTIMATES AND JUDGMENTS

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

### Valuation of Investment Properties

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

### Valuation of Operating Properties

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

### Tax

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

### Classification of acquisitions

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

## NOTE 23 PLEDGED ASSETS AND CONTINGENT LIABILITIES

MSEK	Group		Parent Company	
	2016	2015	2016	2015
<b>Assets pledged to credit institutions</b>				
For own liabilities pledged assets, properties	16,476	13,604	—	—
Bank deposits	7	7	—	—
<b>Total pledged assets</b>	<b>16,483</b>	<b>13,611</b>	<b>—</b>	<b>—</b>
<b>Contingent liabilities</b>				
Guarantees for group companies	—	—	13,786	6,067
Guarantees for employees	10	7	10	7
<b>Total contingent liabilities</b>	<b>10</b>	<b>7</b>	<b>13,796</b>	<b>6,074</b>

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

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

## NOTE 24 EVENTS AFTER THE CLOSING DAY

After 31 December 2016 no events or transactions of significance have taken place that in any way affect the financial statements provided for Pandox for the 2016 financial year.

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

On January 18 2017, Pandox announced a 20-year revenue-based lease agreements with Scandic Hotels Group for seven hotels in the Nordics currently part of Operator Activities. The takeovers are expected to be completed gradually during the second quarter 2017 and the hotel properties will be reclassified to Property Management at each respective takeover. The lease agreements imply shared investments, lower risk and thereby lower average valuation yield for the hotel properties, and lay the foundations for good growth in rental income and net operating income. Furthermore, Scandic Hotels Group will take over operations of Grand Hotel Oslo.

## NOTE 25 PARTICIPATIONS IN SUBSIDIARIES

Parent Company MSEK	31 Dec 2016	31 Dec 2015
Cost, opening balance	8,071	8,066
Acquisitions	—	1
Capital contributions	1,323	4
Divestment of subsidiaries	-72	—
<b>Total accumulated cost</b>	<b>9,322</b>	<b>8,071</b>
Impairment losses, opening balance	-1,493	-1,493
Impairment losses	-61	—
Reverse write-down	67	—
<b>Accumulated impairment losses, closing balance</b>	<b>-1,487</b>	<b>-1,493</b>
<b>Closing balance</b>	<b>7,835</b>	<b>6,578</b>

Directly owned subsidiaries	Company reg. no.	Registered office	Number of shares	Share of capital/ votes
HOTAB Förvaltning AB	556475-5592	Stockholm, Sweden	1,000	100
Padox 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
Padox Fastighets AB	556473-6261	Stockholm, Sweden	1,000	100
Fastighets AB Stora Hotellet i Jönköping	556469-4064	Stockholm, Sweden	1,000	100
Padox Belgien AB	556495-0078	Stockholm, Sweden	1,000	100
Hotellus Holding AB	556475-9446	Stockholm, Sweden	1,000	100
Padox Luxemburg AB	556515-9216	Stockholm, Sweden	10,000	100
Padox i Halmstad AB	556549-8978	Stockholm, Sweden	1,000	100
Padox i Borås AB	556528-0160	Stockholm, Sweden	1,000	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
Ademrac Holding 1 AB	556683-3371	Stockholm, Sweden	10,093	100
Ademrac Holding 2 AB	556683-3363	Stockholm, Sweden	10,010	100
Ademrac AB	556426-2748	Stockholm, Sweden	1,790,042	6.6 <sup>1)</sup>
Ypsilon Hotell AB	556481-4134	Stockholm, Sweden	1,000	100
Padox Kolmården AB	556706-8316	Stockholm, Sweden	100,000	100
Hotellus Sverige Ett AB	556778-8699	Stockholm, Sweden	1,000	100
Hotellus Sverige Två AB	556778-8707	Stockholm, Sweden	1,000	100
Sech Holding AB	556819-2214	Stockholm, Sweden	357,000	100
Padox Portfölj 2 AB	556982-7040	Stockholm, Sweden	500	100
Padox Sollentuna Centrum 12 AB	556660-3949	Stockholm, Sweden	1,000	100
Padox Sweden AB	556942-1687	Stockholm, Sweden	500	100
Padox Operations AB	556980-3207	Stockholm, Sweden	50,000	100
Padox i Malmö AB	556704-3723	Malmö, Sweden	1,000	100
Hotellus Denmark A/S	28970927	Denmark	5,000	100
Le Nouveau Palace NV	0423.048.375	Belgium	3,000	99.97 <sup>2)</sup>
Hotel Bloom! SA	0476.704.322	Belgium	68,808	99.99 <sup>3)</sup>
Padox Belgium NV	0890.427.732	Belgium	100,000	99.99 <sup>4)</sup>
Padox RMC BVBA	0552.929.692	Belgium	1,000	99.00 <sup>5)</sup>
Convention Hotel International AG	CHE-101.458.856	Switzerland	14,000	100

<sup>1)</sup> Ademrac AB is owned to 93.4 per cent by Ademrac Holding 1 AB and Ademrac Holding 2 AB, both of which are fully owned by Padox AB (publ).

<sup>2)</sup> Le Nouveau Palace NV is owned to 0.03 per cent by Hotellus International AB, which is fully owned by Padox AB (publ).

<sup>3)</sup> Hotel Bloom NV is owned to 0.01 per cent by Hotellus International AB, which is fully owned by Padox AB (publ).

<sup>4)</sup> Padox Belgium NV is owned to 0.01 per cent by Hotellus International AB, which is fully owned by Padox AB (publ).

<sup>5)</sup> Padox RMC BVBA is owned to 1 per cent by Hotellus International, which is fully owned by Padox AB (publ).

Indirectly owned subsidiaries	Registration No	Domiciled	Indirectly owned subsidiaries	Registration No	Domiciled
Arlanda Flyghotell KB	916500-8021	Stockholm, Sweden	Hotellinvest Holding DK 2 ApS	29830053	Denmark
Fastighetsbolaget Utkiken KB	916611-7755	Stockholm, Sweden	Hotellinvest DK 1 ApS	10998476	Denmark
Fastighets AB Hotell Kramer	556473-6402	Stockholm, Sweden	Hotellinvest DK 2 ApS	28886217	Denmark
Hotellus Nordic AB	556554-6594	Stockholm, Sweden	Hotellinvest DK 3 ApS	25241266	Denmark
Hotellus Järva Krog AB	556351-7365	Stockholm, Sweden	Norgani Hotel Cosmopole ApS	25060407	Denmark
Hotellus Malmö AB	556554-6636	Stockholm, Sweden	K/S Norgani Hotel	24250830	Denmark
Vestervold KB	916631-9534	Stockholm, Sweden	Komplementarselskabet Norgani Hotel ApS	14446478	Denmark
Hotellus Mellansverige AB	556745-4656	Stockholm, Sweden	Norgani Hotel København A/S	20029633	Denmark
Skogshöjd Handels & Fastighets AB	556066-0432	Stockholm, Sweden	Urban House Hotel ApS	35632654	Denmark
Norgani Sweden Holding AB	556660-3238	Stockholm, Sweden	Oy Norgani 1 Ab	2050600-9	Finland
Norgani Alvik Hasselbacken AB	556735-4872	Stockholm, Sweden	Oy Norgani 2 Ab	2050598-9	Finland
Norgani Hasselbacken AB	556698-4612	Stockholm, Sweden	Oy Norgani 3 Ab	2050596-2	Finland
Fastighets AB Prince Philip	556488-0028	Stockholm, Sweden	Oy Norgani 4 Ab	2050594-6	Finland
Norgani Holding AB	556942-1703	Stockholm, Sweden	Oy Norgani 5 Ab	2050593-8	Finland
Norgani Kiruna Hovmästaren 1 AB	556660-3451	Stockholm, Sweden	Oy Norgani 8 Ab	2050586-6	Finland
Norgani Mora Stranden 37:3 AB	556660-3493	Stockholm, Sweden	Oy Norgani 9 Ab	2050625-2	Finland
Norgani Luleå Tjädern 19 AB	556660-4426	Stockholm, Sweden	Oy Norgani 10 Ab	2050619-9	Finland
Norgani Kalmar Hammaren 4 AB	556660-6538	Stockholm, Sweden	Oy Norgani 11 Ab	2050616-4	Finland
Norgani Linköping Ekoxen 9 och 11 AB	556658-7407	Stockholm, Sweden	Oy Norgani 12 Ab	2050612-1	Finland
Norgani Göteborg Backa 149:1 och 866:397 AB	556658-7480	Stockholm, Sweden	Oy Norgani 13 Ab	2050610-5	Finland
Norgani Stockholm Gråberget 29 AB	556688-7450	Stockholm, Sweden	Oy Norgani 14 Ab	2050609-2	Finland
Norgani Portfölj 2 AB	556982-7032	Stockholm, Sweden	Oy Norgani 16 Ab	2050603-3	Finland
Norgani Hotelleiendom i Göteborg AB	556674-0709	Stockholm, Sweden	NorGani Finland Holding Oy	1530970-5	Finland
Norgani Hotelleiendom i Helsingborg AB	556674-0063	Stockholm, Sweden	Kiinteistö Oy Hotelli Pilotti	0426438-8	Finland
Norgani Hotelleiendom i Jönköping AB	556674-0212	Stockholm, Sweden	Kiinteistö Oy Pakkalan Kartanonkoski 5	0747929-6	Finland
Norgani Hotelleiendom i Luleå AB	556674-0485	Stockholm, Sweden	Oy Korpilampi Ab	1495021-8	Finland
Norgani Hotelleiendom i Malmö AB	556674-0436	Stockholm, Sweden	Hotellus Suomi Oy	1495017-0	Finland
Norgani Hotelleiendom i Sundsvall AB	556674-0071	Stockholm, Sweden	Norgani Hotels AS	988016683	Norway
Norgani Hotelleiendom i Södertälje AB	556673-9768	Stockholm, Sweden	Norgani Hotelleiendom AS	988201227	Norway
Norgani Hotelleiendom i Uppsala AB	556673-9776	Stockholm, Sweden	Hotellinvest Holding AS	990122806	Norway
Norgani Hotellfastighetsaktiebolaget Blyet	556673-9685	Stockholm, Sweden	Norgani Eiendom Bodø AS	991 393 48	Norway
Norgani Hotellfastighetsaktiebolaget Osten	556674-0469	Stockholm, Sweden	Norgani Hotell Bastionen AS	940157633	Norway
Norgani Hotellfastighetsaktiebolaget Radien	556674-0196	Stockholm, Sweden	Norgani Norge Holding AS	989197355	Norway
Norgani Hotellfastighetsaktiebolaget Sågen	556674-0493	Stockholm, Sweden	Alexandra Hotell AS	910114174	Norway
Norgani Hotellfastighetsaktiebolaget ValboBacka	556674-0204	Stockholm, Sweden	Norgani Hotell Kristiansand AS	938214964	Norway
Norgani Hotellfastighetsaktiebolaget Vindmotorn	556673-9818	Stockholm, Sweden	Norgani Hotell Oslo AS	951361542	Norway
Norgani Suomi Holding AB	556705-2781	Stockholm, Sweden	Norgani Hotell Bergen AS	967989371	Norway
Norgani Suomi 2 AB	556705-0694	Stockholm, Sweden	Norgani Hotell Hafjell AS	938214875	Norway
Norgani Suomi 3 AB	556704-9688	Stockholm, Sweden	Norgani Hotell KNA AS	890618812	Norway
Norgani Suomi 4 AB	556705-0983	Stockholm, Sweden	Norgani Hotell Bergen Airport AS	919626852	Norway
Norgani Suomi 5 AB	556704-8151	Stockholm, Sweden	Norgani Fagermaes Turisthotell AS	919844604	Norway
Norgani Suomi 6 AB	556704-8144	Stockholm, Sweden	Norgani Olrud Hotell KS	940459311	Norway
Norgani Suomi 7 AB	556704-8136	Stockholm, Sweden	Norgani Olrud Hotell AS	940459133	Norway
Norgani Suomi 9 AB	556705-0520	Stockholm, Sweden	Norgani Hamneset Hotell ANS	961324807	Norway
Norgani Suomi 10 AB	556704-4218	Stockholm, Sweden	Norgani Hotell Hamneset AS	981118995	Norway
Norgani Suomi 11 AB	556704-8227	Stockholm, Sweden	Norgani Hotell Lillehammer AS	952479806	Norway
Norgani Suomi 12 AB	556704-8219	Stockholm, Sweden	Lillehammer Turisthotell AS	913915739	Norway
Norgani Suomi 13 AB	556704-8201	Stockholm, Sweden	Norgani Hotell Bodø AS	987141433	Norway
Norgani Suomi 14 AB	556704-8193	Stockholm, Sweden	Pandox OP Lillehammer AS	815129822	Norway
Norgani Suomi 15 AB	556704-8185	Stockholm, Sweden	Pandox OP Fagernes AS	915433049	Norway
Norgani Suomi 17 AB	556704-8169	Stockholm, Sweden	Pandox OP Grand Norge AS	913535251	Norway
Norgani Stockholm Herrgården 2 AB	556660-4285	Gothenburg, Sweden	Pandox OP Grand Norge 1 AS	914015669	Norway
Norgani Hotelleiendom i Sverige AB	556674-0170	Gothenburg, Sweden	Pandox OP Grand Norge 2 AS	814019802	Norway
Prince Philip Hotel Skärholmen AB	556980-3215	Stockholm, Sweden	Pandox OP Grand Norge 3 AS	914124131	Norway
Pandox OP2 AB	556980-9600	Stockholm, Sweden	Pandox OP Grand Norge 4 AS	914124700	Norway
Pandox OP3 AB	556980-9618	Stockholm, Sweden	Pandox OP Kristiansand AS	914 840 465	Norway
Pandox OP4 AB	556980-9626	Stockholm, Sweden	Pandox OP Hafjell AS	816 643 252	Norway
Pandox OP5 AB	556980-9584	Stockholm, Sweden	Grand Hotel of Brussels NV	0443.822.213	Belgium
Kista Hotel AB	556313-1720	Stockholm, Sweden	Town Hotel NV	0437.378.839	Belgium
Hotellinvest Holding DK 1 ApS	29828644	Denmark	Elba Belgium Holding BVBA	0889.537.114	Belgium



Indirectly owned subsidiaries	Registration No	Domiciled
Elba Leasehold BVBA	0889.633.520	Belgium
Elba Freehold BVBA	0889.630.649	Belgium
Holcro NV	0421.732.937	Belgium
HDI Brussels Management SA	0550.918.428	Belgium
Swiss Hotels Leasing Company SA	0443.435.597	Belgium
Euro Lifim Holding BV	33227692	Netherlands
Pandox Holland BV	34277494	Netherlands
Pandox Holland 2 BV	34304039	Netherlands
Charlius Dutch Investment BV	58524134	Netherlands
Charlius Amsterdam Hotel Property BV	34234529	Netherlands
Hotellus Luxembourg SARL	B131027	Luxembourg
Charlius Germany Hotels Holding Sarl	B158137	Luxembourg
Charlius Germany Hotel Properties Sarl	B158154	Luxembourg
Charlius Cologne Hotel Property Sarl	B131225	Luxembourg
Charlius Dutch Hotel Holding Sarl	B179720	Luxembourg
Hotellus Canada Holdings Inc.	0793511 <sup>1)</sup>	Canada
Hotellus Montreal Holdings Inc.	0823951 <sup>1)</sup>	Canada
Hotellus Montreal Inc.	0827355 <sup>1)</sup>	Canada
Pandox Berlin GmbH	HRB 96069 B <sup>2)</sup>	Germany
Hotellus Deutschland GmbH	HRB 41151 <sup>3)</sup>	Germany
Charlius Germany Hotel Properties GmbH	HRB 79031 <sup>3)</sup>	Germany
Hypnos Germany Hotel Properties GmbH	HRB 76338 <sup>3)</sup>	Germany
Queens Moat Houses (Germany) Holding GmbH	HRB 157303 B <sup>4)</sup>	Germany
Queens Moat Houses Properties GmbH	HRB 157278 B <sup>4)</sup>	Germany
Queens Moat Houses Properties (Ratingen) GmbH	HRB 157320 B <sup>4)</sup>	Germany
Queens Moat Houses GmbH	HRB 157271 B <sup>4)</sup>	Germany
Queens Moat Houses (Deutschland) GmbH	HRB 157308 B <sup>4)</sup>	Germany
Queens Moat Houses Frankfurt GmbH	HRB 157291 B <sup>4)</sup>	Germany
Charlius Verwaltungen GmbH	HRB 92447 <sup>7)</sup>	Germany
Charlius Berlin Verwaltungen GmbH	HRB 90225 <sup>7)</sup>	Germany
Charlius Berlin Verwaltungen GmbH & Co. KG	HRB 46809 <sup>7)</sup>	Germany
Radisson Blu Cologne	B131225	Germany
Grundstücksgesellschaft ATLANTIS mbH	HRB 41381 <sup>3)</sup>	Germany
Pandox Germany GmbH	HRB 68809 <sup>3)</sup>	Germany
Pandox Lübeck GmbH	HRB 68868 <sup>3)</sup>	Germany
Pandox Dortmund GmbH	HRB 68856 <sup>3)</sup>	Germany
Pandox Bremen GmbH	HRB 68847 <sup>3)</sup>	Germany
Pandox Deutschland GmbH & Co. KG <sup>5)</sup>	HRA 21826 <sup>3)</sup>	Germany
Charlius Austria Hotel Holding GmbH	FN 355800	Austria
Charlius Austria Investment GmbH	FN 123063	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 Verwaltungen GmbH <sup>6)</sup>	HRB 66726 <sup>3)</sup>	Germany

- <sup>1)</sup> BC-reg.or.  
<sup>2)</sup> Commercial register that is kept by the local court in Charlottenbourg, Germany  
<sup>3)</sup> Commercial register that is kept by the local court in Düsseldorf, Germany  
<sup>4)</sup> Commercial register that is kept by the local court in Berlin-Charlottenbourg, Germany.  
<sup>5)</sup> Pandox AB (publ) owns 94 per cent of the shares and a third party owns the remaining 6 per cent of the shares.  
<sup>6)</sup> Pandox AB (publ) owns 49 per cent of the shares and a third owns the remaining 51 per cent of the shares.  
<sup>7)</sup> Commercial register that is kept by the local court in Frankfurt am Main, Germany.

## NOTE 26 TRANSACTIONS WITH RELATED PARTIES

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

Pandox has nine asset management agreements relating to eight hotels in Oslo and Pelican Bay Lucaya Resort in the Bahamas, which are owned by Eiendomsspar AS and companies that are related to Helene Sundt AS and CGS Holding AS. In 2016 revenue from the asset management agreements amounted to MSEK 4 (3). Pandox operates Grand Hotel Oslo under a long-term lease with the property owner Eiendomsspar AS. In 2016 rental costs for Grand Hotel Oslo amounted to MSEK 44 (47).

The acquisition of seven hotel properties in Europe in December 2016 was carried out jointly with Eiendomsspar AS as a minority owner with 5.1 percent with exception of Radisson Blu Cologne were the minority amounts to 9.9 percent. The minority of 5.1 percent for the two hotel properties in Austria will be closed during first quarter 2017.

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

### Parent Company

The Parent Company's fees for central administrative services from Group companies during the year amounted to MSEK 65 (56). No other purchases were made between the Parent Company and its Group companies.

### TRANSACTIONS BETWEEN THE PARENT COMPANY AND RELATED PARTIES

Parent Company MSEK	31 Dec 2016	31 Dec 2015
Central administration costs	65	56
Interest income from subsidiaries	109	59
Dividends from subsidiaries	361	666
Interest paid to subsidiaries	-13	-9
Receivables from related parties	4,872	5,190
Liabilities to related parties	4,003	3,151
Group contributions received	329	338
Group contributions provided	-25	-231

## NOTE 27 SPECIFICATION OF CASH FLOWS FOR THE GROUP

GROUP MSEK	2016	2015
<b>Acquisition of subsidiaries and other business entities</b>		
<b>Acquired assets and liabilities</b>		
Investment Properties	4,477	3,665
Current receivables	92	8
Cash and cash equivalents	153	68
<b>Total assets</b>	<b>4,722</b>	<b>3,741</b>
<b>Non-controlling interests</b>	<b>45</b>	<b>123</b>
Non-current liabilities	2,528	2,252
Deferred tax	4	—
Kortfristiga skulder	62	—
<b>Total liabilities</b>	<b>2,594</b>	<b>2,252</b>
<b>Purchase consideration:</b>		
Purchase consideration paid	4,630	3,720
Less: Non-controlling interests	-45	-123
Less: Cash and cash equivalents in the acquired operations	-153	—
<b>Effect on cash and cash equivalents</b>	<b>4,432</b>	<b>3,597</b>
<b>Divestment of subsidiaries and other business entities</b>		
<b>Acquired assets and liabilities</b>		
Investment Properties	320	86
Current receivables	7	1
<b>Total assets</b>	<b>327</b>	<b>87</b>
Non-current liabilities	38	—
Deferred tax	35	22
Current liabilities	15	15
<b>Total liabilities</b>	<b>88</b>	<b>37</b>
<b>Selling price:</b>		
Purchase consideration received	843	124
Less: Cash and cash equivalents in the divested operations	—	-2
<b>Effect on cash and cash equivalents</b>	<b>843</b>	<b>122</b>

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

PARENT COMPANY MSEK	2016	2015
Liabilities to credit institutions due within 12 months	88	1,723
Liabilities to credit institutions due in 2-4 years	4,997	4,087
Liabilities to credit institutions due in 5 years or later	—	—
<b>Total current and non-current liabilities</b>	<b>5,085</b>	<b>5,810</b>

## NOTE 29 ASSETS AND LIABILITIES HELD FOR SALE

GROUP MSEK	31 Dec 2016	31 Dec 2015
<b>Assets</b>		
Investment properties	—	728
Other receivables	—	4
<b>Assets classified as held for sale</b>	<b>—</b>	<b>732</b>
<b>Liabilities</b>		
Other current liabilities	—	12
<b>Total liabilities classified as held for sale</b>	<b>—</b>	<b>12</b>

2015 Pandox entered into an agreement with Midstar AB regarding the divestment of eight hotel properties with 965 rooms in Sweden. The purchase consideration amounted to MSEK 850 after deferred tax, with the purchaser acquiring the shares in each property-owning company. The transaction was completed on 31 March 2016. The hotel properties fall within the Investment Properties reporting segment.

## NOTE 30 ALLOCATION OF EARNINGS

At the disposal of the Annual General Meeting:

Share premium reserve	983,624,869
Retained earnings	1,885,870,711
Profit for the year	438,535,966
	<b>3,308,031,546</b>
The Board propose that the earnings be allocated as follows:	
Dividend to shareholders, SEK 4.10 per share	645,749,996
Carried forward	2,662,281,550
	<b>3,308,031,546</b>

## STATEMENT BY THE BOARD OF DIRECTORS ON THE PROPOSED ALLOCATION OF EARNINGS

### Reasoned statement

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

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

The Board considers that following the proposed dividend, Pandox's equity will be sufficient – with a good margin – for the nature and extent of the business and its risks, taking into consideration among other things the Company's financial position, historical and budgeted development, investment plans and economic situation.

### Consolidation requirements, liquidity and position in general

#### Consolidation requirements

The Board has made a comprehensive assessment of Pandox's and the Group's financial position and their ability to discharge their financial obligations. The proposed dividend represents 3.2 percent of the Group's EPRA NAV, 4.3 percent of equity attributable to the Parent Company shareholders, 17.4 percent of the Parent Company's equity and 50.1 percent of the Group's cash earnings for 2016. The dividend is of no material significance for the Company's and the Group's ability to make further investments for which there is a business case in accordance with plans adopted.

#### Liquidity

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

#### Position in general

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

# Signing of the Annual Report

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

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

Stockholm, 24 February 2017

Christian Ringnes  
*Chairman*

Leiv Askvig

Ann-Sofi Danielsson

Olaf Gauslå

Bengt Kjell

Helene Sundt

Mats Wäppling

Anders Nissen  
*Chief Executive Officer*

Our Audit Report in respect of this annual report and the consolidated accounts was submitted on February 24, 2017.

Per Gustafsson  
*Authorised Public Accountant*

Willard Möller  
*Authorised Public Accountant*



# Auditors' report

To the general meeting of the shareholders of Pandox Aktiebolag (publ), corp. id 556030-7885

## REPORT ON THE ANNUAL ACCOUNTS AND CONSOLIDATED ACCOUNTS

### Opinions

We have audited the annual accounts and consolidated accounts of Pandox Aktiebolag (publ) for the year 2016. The annual accounts and consolidated accounts of the company are included on pages 72–114 in the printed annual accounts 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 2016 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 with International Financial Reporting Standards (IFRS), as adopted by the EU. The consolidated accounts present fairly, in all material respects, the financial position of the group as of 31 December 2016 and the financial performance and cash flow for the year then ended. 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 statement of comprehensive income and statement of financial position for the group.

### Rental income based on tenants' turnover

See disclosure 3 and disclosure 1 about accounting principles, part 7 on page 90 in the annual account and consolidated accounts for detailed information and description of the matter.

#### Description of key audit matter

The group's rental income is to a large extent dependant on the turnover reported by tenants. The contracts with tenants typically cover several years. The business models of the tenants may vary over time for example due to development in sales distribution channels, new services run by the tenants or other similar aspects that may require interpretation of the underlying contracts. In addition there is a need for quality-control of the tenants' reporting. Hence the issue of turnover-based rent regards both legal interpretation of contracts and evaluation of the landlord's controls regarding the tenants' reporting. As the turnover-based rental income is a considerable part of the Pandox group's income and due to the fact that there is a dependency on information delivered by the counterparties, the turnover-based rental income is considered to be a key audit matter.

#### Response in the audit

Our general approach for the audit of turnover-based rental income has been to obtain an understanding of and to evaluate the internal controls implemented by Pandox. We have had access to rental contracts and we have documented how Pandox group legally interprets the contracts. We have evaluated the controls that Pandox group has implemented regarding the tenants' reporting. Furthermore, we have examined the results of the outsourced control procedures that Pandox group annually implements, according to clauses in the contracts with tenants. The Pandox group has presented to us their internally-prepared controller reports for our analysis. These contained explanations behind the reported rental income; our aim being to achieve a thorough understanding of the Pandox approach and control environment.

### Valuation of investment property

See disclosure 13 on pages 101–102 and disclosure 1 about accounting principles, part 12.1 in the annual account and consolidated accounts for detailed information and description of the matter.

#### Description of key audit matter

Investment property is a major part of the Pandox group's total assets and the changes in market value have a significant impact on the result for each period, asset value and equity. Because of this, the valuation of investment property is considered a key audit matter.

The accounting of the market value of investment property on 31 December 2016 is based primarily on valuations carried out by Pandox group. Pandox group uses, to as great an extent as possible, external data regarding local prices on investment property, valid yields and other significant input in the valuation process. Forecasts of future cashflow are based on internal judgement and expectations. There is an inherent risk of inaccurate assumptions and of erroneous judgements. If so, a necessary adjustment could potentially have an impact on future results.

Each year Pandox appoints independent appraisal experts to appraise investment property units. The external appraisals are not carried out for all investment property at the same point of time. The input data used by the independent appraisers for Pandox is where possible comparable to data for similar properties at similar locations and with similar other characteristics. Hence these external appraisals are used as benchmarking templates to assure the quality of the internally performed appraisals.

#### Response in the audit

We have observed that the external, independent investment appraisal providers are established professionals and well-known in the marketplace. We have noted that the providers have been formally appointed by Pandox and we have considered if there are any restrictions or other conditions of the appointments that could possibly have had an impact on the independence or on the results of the appraisals rendered. We have also compared the methods used by Pandox group with the methods used by the external and independent appraisers.

We have evaluated the controls Pandox has established in order to ensure that data provided to external appraisers is accurate and complete. We have compared appraisals and evaluated the methods used as well as yields and other input factors. We have followed up the results of externally divested investment properties as a comparison and benchmark of accuracy of the market valuation.

The correctness of the information, including disclosures, regarding investment property in the annual accounts has been evaluated, in particular concerning judgments made and key assumptions used by Pandox.

### Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

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

### Key Audit Matters

Key audit matters of the audit are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts and consolidated accounts of the current period. These matters were addressed in the context of our audit of, and in forming our opinion thereon, the annual accounts and consolidated accounts as a whole, but we do not provide a separate opinion on these matters.

Rental income based on tenants' turnover

#### Other Information than the annual accounts and consolidated accounts

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 1–71 and 126–133. The board of directors and the managing director 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 managing director  
The Board of Directors and the Managing Director 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 Managing Director 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 Managing Director 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 Managing Director intend to liquidate the company, to cease operations, or has no realistic alternative but to do so.

The Audit Committee shall, without prejudice to the Board of Director's responsibilities and tasks in general, among other things oversee the company's financial reporting process.

#### Auditor's responsibility

Our objectives are to obtain reasonable assurance about whether the annual accounts and consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts and consolidated accounts.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of the company's internal control relevant to our audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the Managing Director.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's, use of the going concern basis of accounting in preparing the annual accounts and consolidated accounts. We also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the company's and the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts and consolidated accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts and consolidated accounts. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company and a group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual accounts and consolidated accounts, including the disclosures, and whether the annual accounts and consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

We must inform the Board of Directors of, among other matters, the planned scope and timing of the audit. We must also inform of significant audit findings during our audit, including any significant deficiencies in internal control that we identified.

We must also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the annual accounts and consolidated accounts, including the most important assessed risks for material misstatement, and are therefore the key audit matters. We describe these matters in the auditor's report unless law or regulation precludes disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

### Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of Pandox Aktiebolag (publ) for the year 2016 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 Managing Director be discharged from liability for the financial year.

### Basis for Opinions

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

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

### Responsibilities of the Board of Directors and the Managing Director

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 organization 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 organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner.

The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

### Auditor's responsibility

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

As part of an audit in accordance with generally accepted auditing standards in Sweden, we exercise professional judgment and maintain professional skepticism throughout the audit. The examination of the administration and the proposed appropriations of the company's profit or loss is based primarily on the audit of the accounts. Additional audit procedures performed are based on our professional judgment with starting point in risk and materiality. This means that we focus the examination on such actions, areas and relationships that are material for the operations and where deviations and violations would have particular importance for the company's situation. We examine and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to our opinion concerning discharge from liability. As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss we examined the Board of Directors' reasoned statement and a selection of supporting evidence in order to be able to assess whether the proposal is in accordance with the Companies Act.

Stockholm 24 February 2017

Per Gustafsson  
*Authorized*  
*Public Accountant*

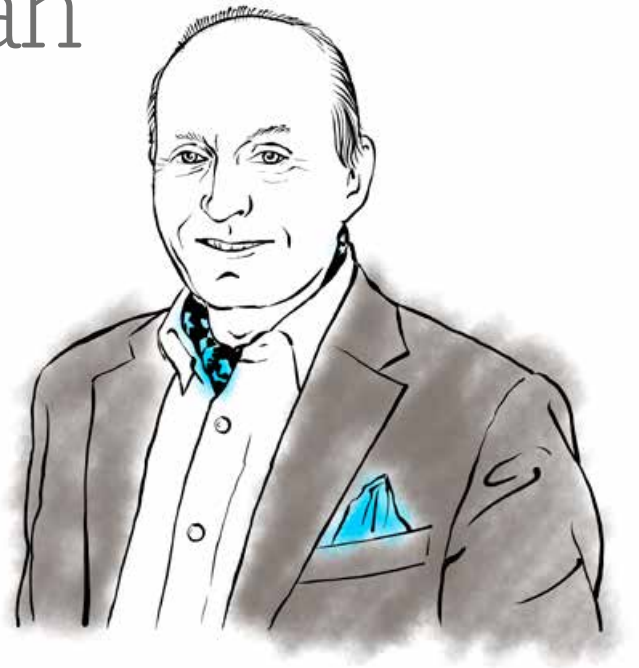
Willard Möller  
*Authorized*  
*Public Accountant*



Padox game plan



# From the Chairman It's about creating value in a respon- sible way.



The overall responsibility of Pandox's Board of Directors is to create value for the shareholders and society in a responsible way. Pandox's corporate governance is aimed at supporting a corporate culture based on trusting relationships with the Company's various stakeholders.

## **PANDOX'S SOCIAL RESPONSIBILITY**

Through its hotels, Pandox provides an important part of the travel industry infrastructure. The travel industry fills an important function in society – for businesses, tourists, personal experiences and the economy in general. Pandox is therefore a socially beneficial company. But Pandox can only justify its existence if the Company's tenants and end customers are willing to pay enough for the services Pandox offers and the Company can make a profit. Profits are the ultimate proof of Pandox's success in creating value and are the foundation for Pandox's continued value creation.

But it is not enough just to make a profit. It needs to be done in a responsible way. In the words of Norwegian playwright Henrik Ibsen: "...if you gained the world outright, but lost yourself, your profit's null: a garland round a cloven skull."

We are part of both the business community and society, and it is essential that we can look in the mirror and say: We don't just do it; we make every effort to do it in the right way.

Pandox's corporate governance is aimed at supporting a corporate culture based on trusting relationships with the shareholders, employees, tenants, hotel guests, business partners and other key stakeholders. Here, the Board has two important roles. One is to check that the Company complies with laws, regulations and good business practices, and the other

is to be a motivational coach and sparring partner in practical and strategic business issues.

## **PANDOX'S CORPORATE GOVERNANCE IN 2016**

The regulatory burden increased significantly for Pandox after the Company's was listed on the stock market in 2015 and this has put new pressure on the Company. Internal control and sustainability are two areas where both the Board and management invested considerable resources in development and talent in 2016. For example the codes of conduct for the employees and suppliers have been further developed and a Group-wide sustainability training programme has been launched.

The Board is currently engaged in a long-term effort to increase diversity and ensure that the Board has the right expertise to handle the commercial challenges faced by Pandox. The Nominating Committee is a valuable partner in these efforts. In 2015 and 2016 the Nominating Committee did successful work to secure a long-term supply of talent and expertise for the Board and proposed two women with highly relevant skills as candidates for the Board. One of them is Ann-Sofi Danielsson, who was elected as a new member at an extraordinary shareholders' meeting in 2015, and the other is Jeanette Dyhre Kvisvik, who is a candidate for election as a new member at the 2017 Annual General Meeting.

Pandox is unique in several ways. The Company has had the same CEO, strategy and business model since it was founded in 1995. The fundamental concepts have been tested and refined over many years with good results. Pandox is an active owner with deep industrial knowledge, an extensive network and good financial strength. This is a cultural heritage worth safeguarding. One of my important duties as Chairman is therefore to find a good balance between control and freedom, so that Pandox's creative force in business can be sustained in the new control environment.

My opinion is that Pandox's corporate governance is sound and more than meets the control and compliance criteria while also giving management sufficient freedom. The composition of the Board is good and Pandox's operations have solid business foundations. The Board of Directors and management share a common view of active ownership and a clear vision for Pandox's future value creation. There is every reason to be very optimistic about Pandox's future.

Oslo in February 2017.

Christian Ringnes

# Corporate Governance Report

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

The Code has been revised and the revised version went into effect on 1 December 2016.

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

All companies are, however, obliged to comply with the Code's Chapter 10 Information on Corporate Governance. In the Corporate Governance Report published on the Company's website, the Board is to provide information to shareholders and

the capital market on an annual basis about the Company's corporate governance and how the Company is applying the Code.

Pandox complies with the Code with no deviations.

## SHAREHOLDERS AND THE SHARE

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

The Company's share capital amounted to SEK 393,749,998 as of 31 December 2016; 75,000,000 are A shares and 82,499,999 are B shares. Each A share entitles the holder to three votes at shareholders' meetings, while each B share entitles the holder to one vote at shareholders' meetings.

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

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 2016	% of votes
Eiendomsspar Sverige AB	39.0
Christian Sundt AB	19.5
Helene Sundt AB	19.4

At year-end the Company's market capitalization amounted to MSEK 22,240 (23,385). Based on the authorisation the Board of Directors received from the Annual General Meeting on 3 May 2016, Pandox implemented a directed share issue

on 8 December 2016 of 7,499,999 B shares, raising MSEK 1,012 before transaction costs.

See page 74 in the Administration Report for a description of the standard change of control clause.

## Shareholders' meeting

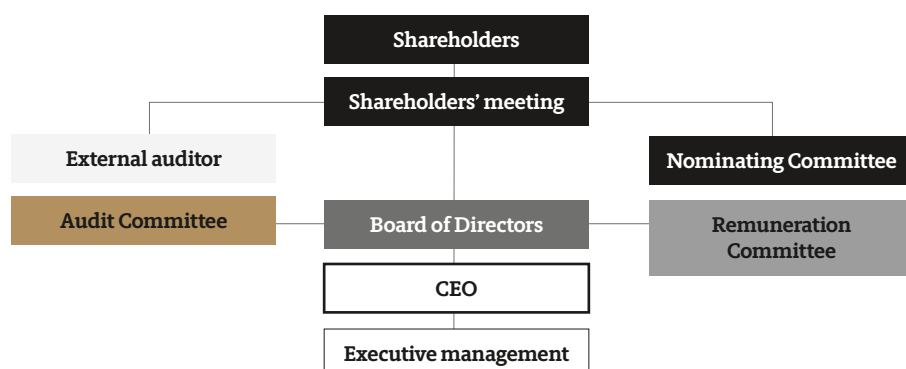
At the shareholders' meeting the shareholders exercise their right to vote on key issues, such as adoption of the income statement and balance sheet, appropriation of the Company's profits, discharging the board members and the Chief Executive Officer from liability, election of board members and auditors, and fees for board members and auditors.

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

When the date and location of the shareholders' meeting has been established, the details are to be published on Pandox's website in advance of the AGM no later than in connection with the third quarter interim report.

Shareholders wishing to participate in 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 to attend the meet-

## Overall corporate governance structure





ing. Shareholders may attend the meetings in person or by proxy and may also be assisted by no more than two people (the number of assistants is to be indicated when registering to attend). Shareholders may normally register in a number of ways to attend shareholders' meetings. This is described in more detail in the notice of the meeting. Shareholders are entitled to vote for all of the shares they hold.

Shareholders wishing to have a matter placed on the agenda of the shareholders' meeting are required to submit a written request to the Board of Directors. Requests are normally to be received by the Board of Directors no later than seven weeks before the shareholders' meeting

### Annual General Meeting 2016

The last Annual General Meeting (AGM) took place on 3 May 2016 in Stockholm when the following resolutions were passed:

- Adoption of the income statement and balance sheet, and of the consolidated income statement and consolidated balance sheet.
- Appropriation of the Company's earnings according to the adopted balance sheet and a decision on a dividend to the shareholders of SEK 3.80 per share.
- Discharging the members of the Board and the CEO from liability.
- Fees for the Board and the Company's auditors. SEK 600,000 to the Chairman of the Board and SEK 400,000 to each of the other elected members of the Board.
- Fees for the Audit Committee. SEK 130,000 for the Chairman of the Audit Committee and SEK 70,000 to each of the other members.
- Fees for the Remuneration Committee. SEK 50,000 is to be paid to each of the two members of the Remuneration Committee.
- Fees for auditors payable according to approved invoices.
- Re-election of board members and auditors as well as deputy auditors.
- Re-election of Christian Ringnes as Chairman of the Board.
- Authorisation for the Board of Directors to issue new shares amounting to a maximum of 10 percent of the total number of outstanding shares.
- Adoption of guidelines for remuneration for senior executives.
- Adoption of principles for appointing the Nominating Committee in advance of the 2017 Annual General Meeting.

The full minutes of shareholders' meetings are available on Pandox's website.

### Board of Directors

The Board of Directors is Pandox's second highest decision-making body, after the shareholders' meeting. According to the Swedish Companies Act the Board of Directors is responsible for the administration and organisational structure of Pandox. This includes establishing targets and strategies, ensuring that routines and systems are in place to evaluate performance in relation to established targets, and ongoing evaluation of Pandox's financial performance and position as well as operational management. The Board is responsible for ensuring that the Annual Report and interim reports are prepared at the right time. The Board also appoints the Chief Executive Officer. The Board may delegate tasks to individuals within or outside the Board, but may not relieve itself of ultimate responsibility for the Company's organisational structure and administration, nor of its responsibility to ensure satisfactory control of the Company's financial situation.

The members of the Board are normally elected at the Annual General Meeting for the period until the conclusion of the following AGM. According to Pandox's Articles of Association, the Board of Directors, to the extent it is elected by the shareholders' meeting, is to consist of at least four and not more than seven members with no deputies.

According to the Code, the Chairman of the Board is to be elected by the AGM and has special responsibility for guiding the work of the Board and for ensuring that the Board's work is well-organised and performed efficiently.

The Board works according to the written work procedures, which are revised annually and adopted at the statutory board meeting every year. The work procedures regulate, among other things, board practices, functions and distribution of duties between the board members and the CEO. In conjunction with the statutory meeting the Board also adopts instructions

for the CEO including financial reporting instructions.

The Board conducts an annual evaluation of its work methods and routines. The objective of this evaluation is to ensure that efficient processes are in place for gathering information, reporting, performing analysis, planning and decision-making. 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's work methods and routines were evaluated in 2016. The Board has continued its discussions on gender equality and diversity based on the understanding that these are essential considerations when deciding on the composition of the Board. The objective is for the Board to be composed of members of varying ages, genders and geographical origin, and to represent various educational and professional backgrounds.

A special analysis was performed of the Board's composition in preparation for the appointment of a new board member at the 2017 Annual General Meeting. Particular attention was paid to digital expertise, independence in relation to the principal owners and gender distribution on the Board.

The Board is to evaluate the work of the CEO on an ongoing basis.

The Board holds meetings based on a schedule established annually. In addition to these board meetings, other meetings may be convened by the Board to address matters that cannot wait until the next ordinary board meeting. In addition to the board meetings, the Chairman and the CEO meet on a regular basis to discuss Pandox's governance and management.

2016 was an active year for Pandox; one in which major acquisitions and divestments were implemented, hotel operations were taken over and leases were provided. All this required significant commitment and involvement by the Board of Directors.

### PANDOX'S BOARD OF DIRECTORS AND COMMITTEES IN 2016

Name	Fees, SEK 000s	Attendance at meetings				
		Board of Directors	Audit Committee	Remuneration Committee	Independent of the Company <sup>1)</sup>	Independent of owners <sup>2)</sup>
Christian Ringnes, chairman <sup>3)</sup>	650	13 of 16	—	2 of 2	Yes	No
Leiv Askvig <sup>3)</sup>	400	13 of 16	—	—	Yes	No
Olaf Gauslä <sup>3)</sup>	470	13 of 16	5 of 5	—	Yes	No
Bengt Kjell	470	16 of 16	4 of 5	—	Yes	Yes
Helene Sundt	400	13 of 16	—	—	Yes	No
Mats Wäppling	450	16 of 16	—	2 of 2	Yes	Yes
Ann-Sofi Danielsson	530	15 of 16	5 of 5	—	Yes	Yes

<sup>1)</sup> Independent in relation to the Company and the executive management team.

<sup>2)</sup> Independent in relation to the Company's major shareholders.

<sup>3)</sup> The member did not participate in the (three) board meetings where preparations were being made for the new share issue due to their connection with shareholders who participated in the new share issue.

In 2016 the Board held 16 meetings, one of which was the statutory meeting. Three board meetings were held in connection with the directed share issue. Members with connections to the shareholders who participated in the new share issue were not present during meetings when the Board was making preparations for the issue.

The members of the Board have complementary and appropriate expertise for Pandox's operations.

*Audit Committee*

On 3 May 2016, Pandox appointed an Audit Committee consisting of Ann-Sofi Danielsson (chairman), Bengt Kjell and Olaf Gauslå. The Audit Committee's duties, which are not to affect the Board's general responsibilities and duties, include overseeing Pandox's financial reporting and the efficiency of Pandox's internal control and risk management. This involves 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 is providing 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 2016, in addition to examining Pandox's external financial reporting,

the Audit Committee analysed and assessed Pandox's economic, financial and reporting risks, with a particular focus on revenue, investments and property valuation. Internal control, in terms of development, tools, structure and self-assessment, has also been examined.

In 2016 the Audit Committee held five meetings at 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 Mats Wäppling. Remuneration Committee duties:

- Preparing for board decisions on remuneration principles and on remuneration and other employment terms for the executive management team.
- Monitoring and evaluating ongoing programmes and programmes concluded during the year for variable remuneration for the executive management team.
- Monitoring and evaluating the application of remuneration guidelines for senior executives, on which the AGM is legally obligated 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 2016 the Remuneration Committee held two meetings at which minutes were kept. The minutes were then presented to the Board of Directors.

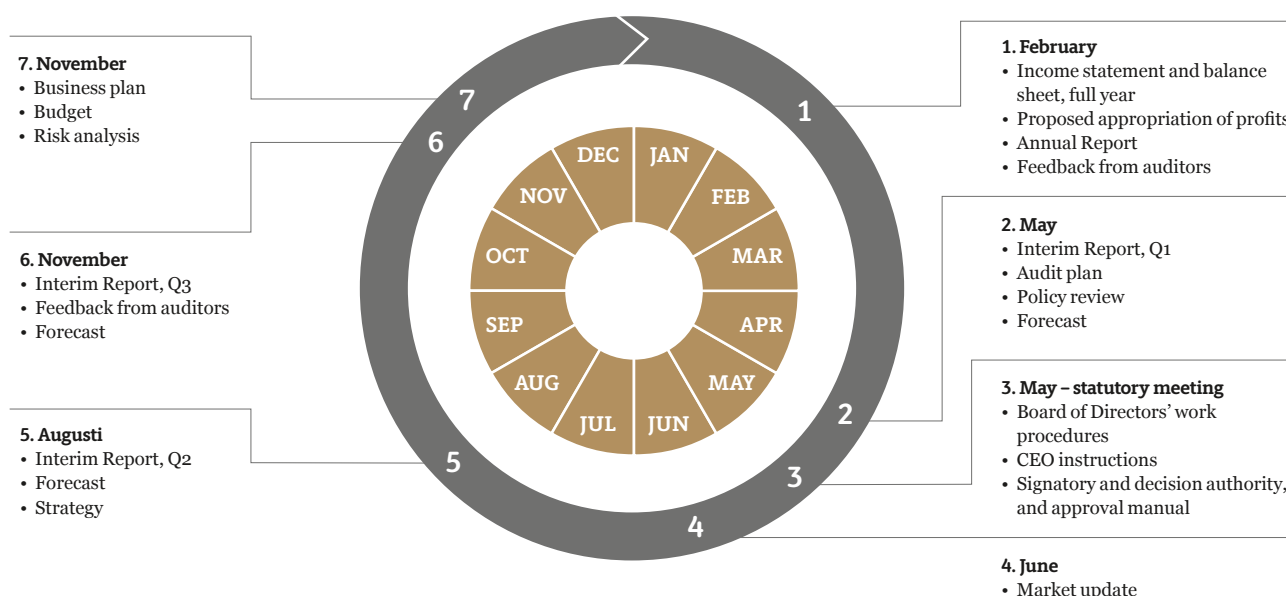
**Chief Executive Officer and other senior executives**

The Chief Executive Officer (CEO) reports to the Board of Directors and is responsible for Pandox's day-to-day administration and operations. Actions and measures which, taking into account the scope and nature of the Company's business, are of an unusual nature or of great significance, or do not fall under the category of day-to-day administration. The CEO is required to prepare information and report to the Board on matters that are outside the day-to-day administration of the Company.

The distribution of duties between the board members and the CEO is described in the work procedures for the Board and instructions for the CEO. The CEO is also responsible for preparing reports and compiling information in advance of Board meetings and reporting on these materials at the board meetings.

According to the instructions on financial reporting, the CEO is responsible for Pandox's financial reporting procedures and must therefore ensure that the Board receives sufficient information on which to

**Board duties, annual cycle\***



\* In 2016 a total of 16 board meetings were held. The high number in relation to the normal annual cycle for the Board's work is mainly due to acquisitions and divestments, as well as the new share issue.

continuously evaluate Pandox's financial position.

The CEO is to keep the Board informed continuously on Pandox's performance, sales development, results and financial position, liquidity and credit status, important business events and on other events, circumstances or situations that may be assumed to be of material importance for Pandox's shareholders.

#### **Audit**

Pandox's auditors are appointed by the shareholders' meeting and are to examine the Company's Annual Report and accounting records as well as the administration of the Company by the Board and the CEO. After each financial year, the auditor must submit an audit report for the Company and the Group to the Annual General Meeting. The auditors are commissioned by and report to the shareholders' meeting and are not to allow themselves to be influenced in their work by the Board or the executive management team.

The auditors are also responsible for reporting on any instance where a board member or the CEO is guilty of neglect or has acted in a way that may result in a liability to pay compensation.

According to Pandox's Articles of Association, Pandox is to have two auditors and two deputy auditors or an authorised accounting firm. Pandox's auditors are Per Gustafsson and Willard Möller and the deputy auditors are Pär Olle Lövgren and Ulf Sundborg. Pandox's auditors and deputy auditors are presented in the section under the heading: Board, senior executives and auditors on pages 126–129.

At the request of the Audit Committee, Pandox has conducted an audit procurement process and the Nominating Committee will propose the election of new auditors at the 2017 Annual General Meeting.

The Board of Directors meets with Pandox's external auditors without executive management being present at least once a year to receive and discuss the auditors' opinions.

The Audit Committee also meets the auditors on a regular basis to be informed about and discuss 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 tasked by the shareholders' meeting to prepare for the meeting's decisions on election and fee-related issues, and where applicable, procedural issues for the next Nominating Committee to address.

The Nominating Committee 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 and every member of the Board. The Nominating Committee is also to provide proposals for the election and compensation of auditors in consultation with the Audit Committee.

In accordance with a decision at Pandox's 2016 AGM, the Nominating Committee, in advance of the 2017 AGM, is to consist of the Chairman of the Board of Pandox AB and representatives of the four largest shareholders in terms of voting rights as of 31 July 2016 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 the right to appoint a member, 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 both represented by the same member of the Nominating Committee. The member representing the largest shareholder in terms of voting rights is to appoint the 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 2016 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.

Shareholders wishing to submit proposals to the Nominating Committee can do so by e-mail to [valberedningen@pandox.se](mailto:valberedningen@pandox.se) or by letter to Pandox AB, Valberedning, P O Box 15, SE-101 20 Stockholm no later than 8 February 2017. Nominating Committee proposals:

- Proposal for election of members of the Board of Directors.
- Principles for appointing the Nominating Committee in advance of the 2018 Annual General Meeting
- Proposal for the election of auditors

The Nominating Committee's proposals have been published in the notice to attend the 2017 AGM and on Pandox's website. The AGM will be held on 29 March 2017 in Stockholm.

#### **INTERNAL CONTROL AND FINANCIAL REPORTING**

According to the Swedish Companies Act and the Code, Pandox's Board of Directors is responsible for the Company's internal control. This report has been prepared in accordance with the Annual Accounts Act and the Code and is mainly intended to describe internal control with respect to financial reporting.

The framework used as a basis for Pandox's work on and description of internal governance and control is provided by COSO, the Committee of Sponsoring Organisations of the Treadway Commission. COSO provides a structure for internal control based on five components: control environment, risk assessment, control activities, monitoring activities, and information and communication.

#### **Control environment**

The Board of Directors has overall responsibility for ensuring good internal control and effective risk management. Every year the Board of Directors adopts work procedures that define the Board's responsibilities and the distribution of duties among the board members. The Board exercises its control by annually adopting policy documents, CEO instructions, delegation rules, instructions for financial reporting, business targets and strategies, as well as business plans and a budget.

The basis for good internal control over financial reporting is based on the control environment. In 2016 Pandox focused on defining, documenting and implementing an organisational structure, decision paths, responsibility and powers. These efforts have strengthened Pandox's corporate



culture and control environment. This has resulted in a number of updated Group-wide governing documents:

- Work procedures for the Board and its committees
- CEO instructions, including instructions for financial reporting
- Decision and authorisation manual
- Financial Handbook
- Financial Policy
- Insider Policy
- Communication policy
- IT Policy
- Environmental Policy
- Code of Conduct

These governing documents form the basis for ensuring correct financial reporting.

The Board's and executive management's actions, demonstrating solid expertise and an ethical approach, have great significance for establishing a sound control environment and are an important aspect of Pandox's corporate culture.

In 2016 Pandox strengthened the Company's expertise by recruiting a Group Counsel.

#### Risk assessment

The Group's business segments are exposed to a number of risks. See the risk section on page 64.

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 control built into the routines is insufficient. Risk assessment includes analysing if any errors could occur and if so, how they may occur and in which

part of the process. Pandox's risk assessment has identified items where the risk of significant errors is the highest. These are items involving substantial transactions or where the processes are highly complex and require strong internal control.

An assessment of the risk of errors in financial reporting is performed annually for each line in the income statement, statement of financial position and cash flow statement. For items that are significant and/or associated with an elevated risk of errors, special procedures are employed to minimise the risks. The three main areas of risk are:

- Property valuation
- Investment and renovation programmes
- Financing activities

Pandox has a well-established operational risk model called the Pandox Model. It is used to evaluate and document identified risks associated with the hotel properties. The Model's methods increase cash flow and limit the risk associated with each of the hotels.

The Pandox Model has four phases:

- Market analysis
- Market strategy
- Profitability optimisation
- Contract optimisation

Twice a year a review of all of the hotels and properties is performed and updates are made based on the Pandox Model. Recurring business risk areas are: hotel occupancy, property management, contract issues and asset management. The most significant risks are documented in a "Hot Pile" and are followed up at monthly

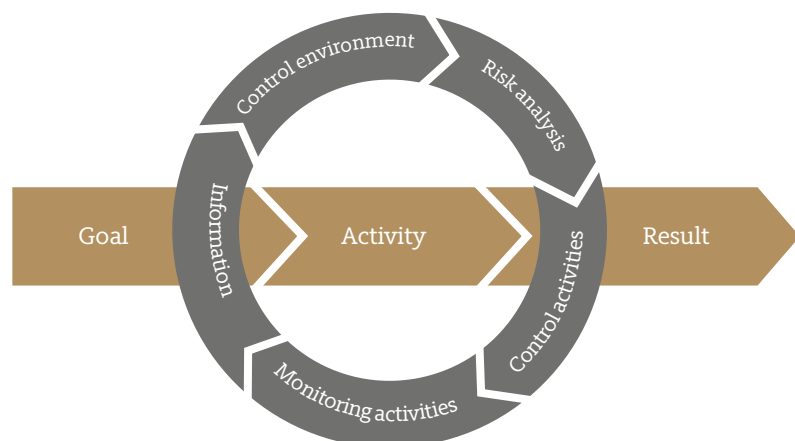
executive management meetings. Topics discussed at the meetings include any impact from macroeconomic forces, the hotel market cycle, geography, diversification, demand, supply, competitors etc.

Pandox performs an internal valuation 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 process of establishing the internal valuation. 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 the underlying operator activities, market development, the contract situation, operating and maintenance, and investments aimed at maximizing the hotel property's cash flow and return over the long term.

In its role as an active hotel property owner, Pandox makes every effort to develop and position its hotels through a programme of investment and renovation. Pandox has made substantial investments in recent years. Pandox has a long-term investment management perspective for the property portfolio and works according to three to five year maintenance plans. For investments exceeding MSEK 6, a memorandum is submitted to the Board for approval. An investment budget is established every year in connection with the preparation of the budgets and business plan for adoption by the Board of Directors. The outcome of the investments is monitored in relation to the budget and reported at board meetings.

Interest expense is, and has in the past been, Pandox's 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. The majority of Pandox's credit facilities have a variable rate of interest. In order to manage interest rate risk and increase the predictability of Pandox's earnings, interest rate derivatives, mainly interest swaps, are used. Variable interest rates are partially swapped through interest-rate swaps, which gives Pandox fixed interest rates. Pandox's Board establishes the risk mandate. The risk mandate is reflected in Pandox's Financial Policy and

### Pandox's model for internal control



ensures that the Company has access to long-term financing. The Financial Policy is updated annually by the Board of Directors. Pandox works closely with its lenders and external experts to ensure the Company plans well in advance with respect to its financing requirements.

In connection with Pandox's annual strategy and budgetary work, the executive management team presents a chart of the Group's top risks to the Board of Directors.

#### **Control activities**

To avoid errors, a number of control activities have been introduced to ensure that control objectives are achieved. In 2016 Pandox reviewed its processes and routines to guarantee a high standard in financial reporting. Pandox's most important financial processes, such as closing the accounts, consolidation, monitoring results and reporting, have been documented in a Financial Handbook. This has also involved identifying and documenting control activities linked to financial processes. The control measures involve guaranteeing the quality of financial reporting. Measures have been implemented at the general level in analysis of results and key ratios, as well as at the detailed level by incorporating a number of verification items in day-to-day processes and routine descriptions. Each month at financial meetings, the Company's performance is examined in relation to the budget, forecast and the outcome the previous year. The executive management team also holds monthly meetings. The Board and Audit Committee review financial reporting procedures.

The CFO and the business intelligence and control departments are all responsible for creating the environment required to achieve transparent and accurate finan-

cial 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, VP Business Intelligence, Group Controllers and Business Area Managers. Material differences are investigated immediately by the CFO and significant cases are reported to the Board. At least every quarter the Board follows up on any high risks identified. The Audit Committee always examines the external reports before they are published for the stock market.

These follow-up processes are the basis for guaranteeing the quality of Pandox's financial reporting.

The CFO reports annually to the Board on an evaluation of internal control over financial reporting.

In addition to this, Pandox's external auditors examine the Company's internal control over financial reporting and annual reporting, and perform a review of the third quarter interim report. Any shortcomings and/or errors identified by the auditors are reported to Pandox's executive management or, in the case of serious issues, directly to the Board.

#### **Information and communication**

One prerequisite for good internal control is that its various components and intentions are known throughout the organisation. In other words, clear and well-structured communication on internal control is very important.

To ensure that there is an efficient exchange of knowledge and experience among the financial departments, financial meetings are convened on a regular basis at which relevant issues are addressed. Governing guidelines, policies and instructions are available on the Group's intranet. Access to the documents for internal information on the intranet is regulated by rules of authorisation. The documents are updated on an ongoing basis as needed. Changes are communicated separately via e-mail and at meetings attended by controllers and financial managers. Access to financial data for the Group is also controlled at the central level based on rules of authorisation.

The Head of Investor Relations is responsible for all external information and communication, including the external website.

#### **Need for an internal Audit**

Pandox has a very dedicated and committed executive management team whose members are directly involved in many different issues at various levels within the Group. Pandox also has a strong central control department consisting of controllers with previous experience as auditors who work with the Business Intelligence department to analyse and monitor financial and operational development within all of the Group's business segments. The employees in the financial department have many years of experience in this area and significant experience of Pandox's business. Taking all of this into consideration, Pandox's Board has determined that at this time there is no need for a separate internal audit department.

## Auditors' report of the corporate governance statement

**To the annual meeting of the shareholders in Pandox Aktiebolag (publ), Corporate identity number 556030-7885**

The board of directors is responsible for the corporate governance statement for the year 2016, presented on pages 120–125 and for ensuring that it has been prepared in accordance with the annual accounts act.

Our review has been performed in accordance with FARs announcement *RevU 16 the auditor's review of the corporate governance statement*. This means that our statutory examination of the

corporate governance statement is different from and substantially smaller in scope than an audit, which is conducted in accordance with International Standards on Auditing and generally accepted audit 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, 24 February 2017

Per Gustafsson  
Authorised  
Public Accountant

Willard Möller  
Authorised  
Public Accountant

# Board of Directors



**Leiv Askvig**

Born 1957.

Board member since 2004.

Advanced Management Program, Harvard Business School. Bachelor's degree in Business Administration, Norwegian School of Management, Oslo.

CEO Sundt AS. Chairman of the Board Basen Capital AS, Helene Sundt AB and Christian Sundt AB.

Board member Verdane Capital IV AS, Alfarveg AS, Skibs AS Tudor, Civita AS, Skagen Fondene, Eiendomsspar AS and Victoria Eiendom AS. Shareholding: 0.



**Christian Ringnes**

Born 1954.

Chairman of the Board since 2004 and Chairman of the Audit Committee.

Master of Business Administration, Harvard Business School, Bachelor's degree in business and economics from École des Hautes Études Commerciales, degree in philosophy from the University of Oslo.

Chief Executive Officer Eiendomsspar AS and Victoria Eiendom AS (and board appointments for companies in the group).

Chairman of the Board Eiendomsspar Sverige AB, NSV-Invest AS (and board appointments for several companies in the group), Sundt AS (and board appointment for several companies in the group) and Dermanor AS.

Board member Schibsted ASA and Fastighetsstyrelsen Norges Bank.

Christian Ringnes owns 39.6 percent of the shares in Victoria Eiendom AS which owns 47.2 percent of the shares in Eiendomsspar AS which owns 100 percent of Eiendomsspar Sverige AB which in turn owns 37,314,375 A shares and 8,014,375 B shares in Pandox.



**Ann-Sofi Danielsson**

Born 1959.

Board member since 2015 and Chairman of the Audit Committee.

MSc Business Administration and Economics, Uppsala University.

Chief Financial Officer Bonava AB.

Board member and Chairman of the audit committee of Bulten AB.

Shareholding: 0.



**Olaf Gauslå**

Born 1961.

Board member since 2004 and member of the Audit Committee.

Authorised Public Accountant, Norwegian School of Economics. Degree in business administration, Norwegian School of Economics.

CFO Eiendomsspar AS and Victoria Eiendom AS (and board and management positions in several subsidiaries of Eiendomsspar AS and Victoria Eiendom AS).

Board member Eiendomsspar Sverige AB. Shareholding: 0.





**Bengt Kjell**

Born 1954.

Board member since 1996 and member of the Audit Committee.

Graduate of Stockholm School of Economics, DHS.

Chairman of the Board SSAB and Hemfosa Fastigheter AB and others.

Vice Chairman Indutrade AB.

Board member AB Industrivärden and ICA Gruppen AB and others.

Shareholding: 2,000 B shares.



**Helene Sundt**

Born 1979.

Board member since 2008.

Law studies.

Chairman of the Board and owner of Helene Sundt AS. Owner of Helene Sundt AB.

Board member Sundt AS, CGS Holding AS and Sundt Air Holding AS.

Board member Sigval Bergesen d.y. & Hustru Nankis Almennyttige Stiftelse.

Helene Sundt owns 100 percent of the shares in Helene Sundt AS which owns 100 percent of the shares in Helene Sundt AB which owns 18,657,188 A shares and 3,657,187 B shares in Pandox.



**Mats Wäppling**

Born 1956.

Board member since 2003 and member of the Remuneration Committee.

MSc Engineering, Royal Institute of Technology (KTH), Stockholm.

Chairman of the Board of Vasakronan AB, Nordic Modular Group AB, PKM Invest AB, Nordic Modular Group Holding AB and a number of companies in the Assemblin Group.

Board member Mats Wäppling AB, Tottentolvan AB, Vesper Holding AB, Campus X AB and a number of companies in the Assemblin Group.

Shareholding: 0.

## Auditors

**Per Gustafsson**

Born 1959. Pandox's auditor since 2003.

Authorised Public Accountant and member of FAR (professional institute for Swedish authorised public accountants).

**Willard Möller**

Born 1943. Pandox's auditor since 2003.

Authorised Public Accountant and member of FAR (professional institute for Swedish authorised public accountants).

**Bengt Ekenberg**

Deputy auditor

**Ulf Sundborg**

Deputy auditor

# Extended management team

At Pandox we are convinced that people grow by doing more activities together, rather than just working together. We frequently engage in joint activities because it's fun!



*Extended management team,  
top row from the left:*  
Vassilis Syropoulos, Camilla Weiner,  
Ulf Blomberg, Marika Hilloff,  
Victor Nordlind, Anna Källgren,  
Leif Kristen Olsen, Anders Berg,  
Jonas Törner, Victor Lind,  
Karmen Bergholcs, Anders Nissen,  
Martin Creydt, Liia Nöu,  
Erik Hvesser, Lars Häggström  
*Bottom row from the left:*  
Fredy Atzert, Cornelia Kausch,  
Aldert Schaaphok, Ulrika Grewe-Stähl,  
Helge Krogsbøl, Josefin Bergqvist,  
Yannick Simonart, Jacob Rasin



## Executive management team



**Anders Nissen**  
Born 1957. CEO since 1995. Administration programme, Lund University. Board member Björnberg Fastighetsförvaltning AB and Svenska Handbollslandslaget AB.  
Shareholding: 100 percent of the shares in Blålockevägen AS which owns 371,250 A shares and 371,250 B shares in Pandox.

**Liia Nöu**  
Born 1965. Senior Executive Vice President and CFO since 2007. MSc Business and Economics, Stockholm School of Economics.  
Shareholding: 13,700 B shares.

**Anders Berg**  
Born 1967. Director of Communications and IR since 2016. MSc Business and Economics, Linköping University.  
Shareholding: 0.

**Karmen Bergholcs**  
Born 1970. General Counsel since 2016. Law degree, Stockholm University.  
Shareholding: 0.

**Martin Creydt**  
Born: 1965. Senior Vice President, Director of Property Management International since 2017. Advanced Management Program, Cornell University, Executive Program, INSEAD Business Degree Service Management, University of Gothenburg.  
Shareholding: 0.





**Erik Hvesser**  
 Born 1969. Senior Vice President, Director of Property Management Nordics since 2006.  
 Degree in business administration, Norwegian School of Economics.  
 Shareholding: 0.

**Lars Häggström**  
 Born 1954. Senior Executive Vice President, Asset and Technical Development since 2000. Naval engineer, graduate of the Sjöbefälsskolan (naval officer college) in Stockholm, and one year of studies at the Royal Institute of Technology (KTH).  
 Shareholding: 10,000 B shares.

**Helge Krogsbøl**  
 Born: 1968. Senior Vice President, Director of Operations Nordics and Germany since 2013.  
 Market economics degree, Norges Markedshøyskole, Norway.  
 Shareholding: 0.

**Aldert Schaaphok**  
 Born 1959. Senior Vice President, Director International Operations since 2004. Bachelor's degree in Business Administration (hospitality focus), Hotelschool the Hague.  
 Shareholding: 0.

**Jonas Törner**  
 Born 1971. Senior Vice President, Business Intelligence since 2005. Studies towards MSc in Business Administration and Economics, Stockholm University. Studies towards a BSc in Engineering, Royal Institute of Technology (KTH), Stockholm.  
 Shareholding: 3,000 B shares.



# Multiyear summary

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INOCME

MSEK	2016	2015	2014	2013	2012
Revenue Property Management					
Rental income	1,717	1,431	1,418	1,523	1,540
Other property revenue	70	112	60	67	55
Revenue Operator Activities	2,158	2,046	1,598	1,308	1,179
<b>Net sales</b>	<b>3,945</b>	<b>3,589</b>	<b>3,076</b>	<b>2,898</b>	<b>2,774</b>
Costs Property Management	-292	-263	-292	-313	-293
Costs Operator Activities	-1,866	-1,767	-1,387	-1,200	-1,078
<b>Gross profit</b>	<b>1,787</b>	<b>1,559</b>	<b>1,397</b>	<b>1,385</b>	<b>1,403</b>
Central administration	-117	-94	-82	-64	-57
Net financial items	-456	-438	-536	-608	-586
<b>Profit before changes in value</b>	<b>1,214</b>	<b>1,027</b>	<b>779</b>	<b>713</b>	<b>760</b>
<i>Changes in value</i>					
Properties	1,460	1,399	1,197	375	263
Derivatives, unrealised	-39	203	-622	321	-212
<b>Profit before tax</b>	<b>2,635</b>	<b>2,629</b>	<b>1,354</b>	<b>1,409</b>	<b>811</b>
Current tax	-72	-35	-16	-197	-9
Deferred tax	-349	-463	-85	-264	-305
<b>Profit for the year</b>	<b>2,214</b>	<b>2,131</b>	<b>1,253</b>	<b>948</b>	<b>497</b>
Other comprehensive income for the year	359	-291	-3	-32	-82
<b>Comprehensive income for the year</b>	<b>2,573</b>	<b>1,840</b>	<b>1,250</b>	<b>916</b>	<b>415</b>

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

MSEK	2016	2015	2014	2013	2012
<b>ASSETS</b>					
Properties including equipment	36,578	29,463	25,701	26,161	25,359
Other non-current assets	23	25	26	45	10
Deferred tax assets	748	800	924	733	801
Current assets	563	1,162	315	303	262
Cash and cash equivalents	517	170	321	589	939
<b>Total assets</b>	<b>38,429</b>	<b>31,620</b>	<b>27,287</b>	<b>27,871</b>	<b>27,371</b>
<b>EQUITY AND LIABILITIES</b>					
Equity	15,258	12,215	10,402	10,429	9,395
Deferred tax liabilities	2,582	2,281	1,993	1,708	1,457
Interest-bearing liabilities	18,841	15,546	12,907	14,575	15,020
Non interest-bearing liabilities	1,748	1,578	1,985	1,159	1,499
<b>Total equity and liabilities</b>	<b>38,429</b>	<b>31,620</b>	<b>27,287</b>	<b>27,871</b>	<b>27,371</b>

## KEY RATIOS

	2016	2015	2014	2013	2012
Net operating income, Property Management, MSEK	1,495	1,280	1,186	1,277	1,302
Net operating income, Operator Activities, MSEK	439	416	320	210	189
EBITDA, MSEK	1,817	1,603	1,425	1,424	1,435
Earnings per share, SEK	14.65	14.21	8.35	6.31	3.32
Cash earnings, MSEK	1,289	1,130	873	620	840
Cash earnings per share, SEK	8.49	7.53	5.82	4.10	5.60
RevPAR (Operator Activities) for comparable units at constant exchange rates, SEK	657	684	644	—	—
	<b>31 Dec 2016</b>	<b>31 Dec 2015</b>	<b>31 Dec 2014</b>	<b>31 Dec 2013</b>	<b>31 Dec 2012</b>
Net interest-bearing debt, MSEK	18,324	15,376	12,587	13,986	14,081
Equity to asset ratio, %	39.7	38.6	38.1	37.4	34.3
Loan to value ratio, %	49.3	49.5	48.7	55.5	59.4
Interest coverage ratio, times	4.0	3.6	2.6	2.3	2.4
Market value properties, MSEK	38,233	31,437	26,504	26,282	25,291
EPRA NAV per share, SEK	126.24	107.71	92.11	82.60	74.80
WAULT (Investment Properties), years	13.9	11.2	9.0	—	—

# Quarterly data

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

MSEK	Q4 2016	Q3 2016	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015
Revenue Property Management								
Rental income	433	459	451	374	351	389	372	319
Other property revenue	25	20	13	12	14	69	16	13
Revenue Operator Activities	619	561	536	442	536	534	609	367
<b>Net sales</b>	<b>1,077</b>	<b>1,040</b>	<b>1,000</b>	<b>828</b>	<b>901</b>	<b>992</b>	<b>997</b>	<b>699</b>
Costs Property Management	-90	-70	-66	-66	-59	-55	-76	-72
Costs Operator Activities	-528	-466	-448	-424	-471	-454	-494	-348
<b>Gross profit</b>	<b>459</b>	<b>504</b>	<b>486</b>	<b>338</b>	<b>371</b>	<b>483</b>	<b>427</b>	<b>279</b>
Central administration	-34	-27	-32	-24	-30	-23	-19	-21
Net financial items	-116	-114	-112	-114	-105	-105	-115	-114
<b>Profit before changes in value</b>	<b>309</b>	<b>363</b>	<b>342</b>	<b>200</b>	<b>236</b>	<b>355</b>	<b>293</b>	<b>144</b>
<i>Changes in value</i>								
Properties, unrealised	413	369	319	200	484	232	307	363
Properties, realised	—	—	—	159	4	—	8	—
Derivatives, unrealised	116	24	-55	-124	93	-73	216	-33
<b>Profit before tax</b>	<b>838</b>	<b>756</b>	<b>606</b>	<b>435</b>	<b>817</b>	<b>514</b>	<b>824</b>	<b>474</b>
Current tax	-34	-12	-25	-1	-42	17	-5	-5
Deferred tax	-32	-152	-107	-58	-94	-106	-168	-95
<b>Profit for the period</b>	<b>772</b>	<b>592</b>	<b>474</b>	<b>376</b>	<b>681</b>	<b>425</b>	<b>651</b>	<b>374</b>
Other comprehensive income	18	108	103	131	-135	37	-62	-130
<b>Comprehensive income</b>	<b>790</b>	<b>700</b>	<b>577</b>	<b>507</b>	<b>546</b>	<b>462</b>	<b>589</b>	<b>244</b>

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

MSEK	31 Dec 2016	30 Sep 2016	30 Jun 2016	31 Mar 2016	31 Dec 2015	30 Sep 2015	30 Jun 2015	31 Mar 2015
<b>ASSETS</b>								
Properties including equipment	36,578	31,623	30,710	29,998	29,463	26,287	26,170	25,941
Other non-current assets	23	21	20	20	25	25	27	28
Deferred tax assets	748	772	802	829	800	865	805	898
Current assets	563	531	428	345	1,162	587	415	254
Cash and cash equivalents	517	500	365	820	170	636	263	378
<b>Total assets</b>	<b>38,429</b>	<b>33,447</b>	<b>32,325</b>	<b>32,012</b>	<b>31,620</b>	<b>28,400</b>	<b>27,680</b>	<b>27,499</b>
<b>EQUITY AND LIABILITIES</b>								
Equity	15,258	13,428	12,728	12,722	12,215	11,546	11,084	10,646
Deferred tax liabilities	2,582	2,660	2,421	2,274	2,281	2,310	2,147	2,074
Interest-bearing liabilities	18,841	15,547	15,388	15,219	15,546	12,861	12,822	12,821
Non interest-bearing liabilities	1,748	1,812	1,788	1,797	1,578	1,683	1,627	1,958
<b>Total equity and liabilities</b>	<b>38,429</b>	<b>33,447</b>	<b>32,325</b>	<b>32,012</b>	<b>31,620</b>	<b>28,400</b>	<b>27,680</b>	<b>27,499</b>

## KEY RATIOS

	Q4 2016	Q3 2016	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015
Net operating income, Property Management, MSEK	368	409	398	320	306	403	312	260
Net operating income, Operator Activities, MSEK	130	130	125	54	104	115	146	51
EBITDA, MSEK	464	512	491	350	381	495	439	290
Earnings per share, SEK	5.08	3.93	3.14	2.49	4.54	2.83	4.34	2.49
Cash earnings, MSEK	314	386	354	235	234	407	319	171
Cash earnings per share, SEK	2.05	2.55	2.34	1.57	1.56	2.71	2.13	1.14
RevPAR growth (Operator Activities) for comparable units at constant exchange rates, %	-4	-2	-12	1	0	7	10	11
	31 Dec 2016	30 Sep 2016	30 Jun 2016	31 Mar 2016	31 Dec 2015	30 Sep 2015	30 Jun 2015	31 Mar 2015
Net interest-bearing debt, MSEK	18,324	15,047	15,023	14,399	15,376	12,225	12,559	12,444
Equity to asset ratio, %	39.7	40.1	39.4	39.7	38.6	40.7	40.0	38.7
Loan to value ratio, %	49.3	47.0	47.9	48.6	49.5	46.4	46.9	47.5
Interest coverage ratio, times	4.0	4.0	3.7	3.1	3.6	3.7	3.2	2.5
Market value properties, MSEK	38,233	33,098	32,124	31,322	31,437	27,712	27,327	26,996
EPRA NAV per share, SEK	126	121	114	112	108	104	99	96
WAULT (Investment Properties), years	13.9	13.4	13.3	11.3	11.2	8.7	8.9	8.7

# Definitions

## FINANCIAL INFORMATION

### Average interest on debt, %

Average interest expenses based on interest rate maturity in respective currency as a percentage of interest-bearing debt.

### Cash earnings, MSEK

EBITDA plus financial income less financial cost less current tax.

### EBITDA, MSEK

Total net operating income less central administration (excluding depreciation).

### Equity/assets ratio, %

Recognised equity as a percentage of total assets.

### Gross profit, Operator Activities, MSEK

Revenue less directly related costs for Operator Activities including depreciation of Operator Activities.

### Gross profit, Property Management, MSEK

Revenue less directly related costs for Property Management.

### Growth adjusted for currency effects and comparable units

Growth measure that excludes effects of acquisitions, sales and reclassifications as well as exchange rate changes.

### Growth in EPRA NAV (net asset value growth), annual rate, %

Accumulated percentage change in EPRA NAV, with dividends added back, for the immediately preceding 12-month period.

### Interest coverage ratio, times

Profit before changes in value plus financial expense and depreciation, divided by financial expense.

### Investments, excl. acquisitions, MSEK

Investments in non-current assets excluding acquisitions.

### Loan-to-value ratio, %

Interest-bearing liabilities as a percentage of the properties' market value at the end of the period.

### Net interest-bearing debt, MSEK

Interest-bearing liabilities less cash and cash equivalents and short-term investments that are equivalent to cash and cash equivalents.

### Net operating income, Property Management, MSEK

Net operating income corresponds to gross profit for Property Management.

### Net operating income, Operator Activities, MSEK

Gross profit for Operator Activities plus depreciation included in costs for Operator Activities.

### Net operating margin, Operator Activities, %

Net operating income for Operator Activities in relation to total revenue from Operator Activities.

### Return on shareholders' equity, %

Profit or loss attributable to the shareholders of the Parent Company rolling twelve months as a percentage of average equity attributable to the shareholders of the Parent Company for the same period of time. At interim reports, the return is also calculated on a rolling twelve month basis. Average shareholders' equity is calculated as the sum of opening and closing balance divided by two.

### Rounding off

Since amounts have been rounded off in MSEK, the tables do not always add up.

## PER SHARE

### Cash earnings per share, SEK

EBITDA plus financial income less financial expense less current tax, after non-controlling interest, divided by the weighted average number of shares outstanding.

### Dividend per share, SEK

Proposed/approved dividend for the year divided by the weighted average number of outstanding shares after dilution at the end of the period.

### Earnings per share, SEK

Profit for the period attributable to the Parent Company's shareholders divided by the weighted average number of shares outstanding.

### Equity per share, SEK

Equity attributable to the Parent Company's shareholders, divided by the number of shares outstanding at the end of the period.

### Net asset value (EPRA NAV) per share, SEK

Recognised equity, attributable to the Parent Company's shareholders, including reversal of derivatives, deferred tax asset derivatives, deferred tax liabilities related to the properties and revaluation of Operating Properties, divided by the total number of shares outstanding after dilution at the end of the period.

### Total comprehensive income per share, SEK

Total comprehensive income attributable to the Parent Company's shareholders divided by the weighted average number of share outstanding after dilution at the end of the period.

### Weighted average number of shares before dilution, thousands

The weighted average number of outstanding shares taking into account changes in the number of shares outstanding, before dilution, during the period.

### Weighted average number of shares after dilution, thousands

The weighted average number of outstanding shares taking into account changes in the number of shares outstanding, after dilution, during the period.

## PROPERTY INFORMATION

### Market value properties, MSEK

Market value of Investment Properties plus market value of Operating Properties.

### Number of hotels

Number of owned hotel properties at the end of the period.

### Number of rooms

Number of rooms in owned hotel properties at the end of the period.

### RevPAR for Operating Properties (comparable units at constant exchange rates), SEK

Revenue per available room, i.e. total revenue from sold rooms divided by the number of available rooms. Comparable units are defined as hotel properties that have been owned and operated during the entire current period and the comparative period. Constant exchange rate is defined as the exchange rate for the current period, and the comparative period is recalculated based on that rate.

### WAULT (Investment Properties)

Average lease term remaining to expiry, across the property portfolio, weighted by contracted rental income.



# Shareholder information

## ANNUAL GENERAL MEETING

The Annual General Meeting for Pandox AB will take place at 10.00 CEST on Wednesday, 29 March 2017 at Hilton Stockholm Slussen, Guldgränd 8, 104 65 Stockholm, Sweden. For more information and to register to attend, please visit Pandox's website [www.pandox.se](http://www.pandox.se)

## ANNUAL GENERAL MEETING CALENDAR AND DIVIDEND

Record date for the Annual General Meeting	23 March 2017
Annual General Meeting	29 March 2017
Share traded without dividend entitlement	30 March 2017
Record date for dividend	31 March 2017
Payment of dividend	5 April 2017

## FINANCIAL REPORTING

Interim Report January–March 2017	4 May 2017
Interim Report April–June 2017	13 July 2017
Interim Report July–September 2017	10 November 2017
Year-End Report 2017	16 February 2018

## CONTACT INFORMATION

Further information can be obtained from  
Director of Communications and IR, Anders Berg +46 (0) 760 95 19 40  
or IR and Sustainability Manager, Marika Hildoff +46 (0) 708 91 50 79

Image on front page: Park Hotel Amsterdam

Production: Pandox in cooperation with Hallvarsson & Halvarsson.  
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# We are hiring Corporate Dog



## Pandox Corporate Dog 2011–2016

Since 2011 Mr Harry has held the important position as Pandox Corporate Dog. Mr Harry is held in extremely high esteem and has contributed in multiple ways to our unique corporate culture, the Pandox Spirit.

Mr Harry has now been appointed Executive Honorary Chairman, Society of Corporate Dogs. Pandox is therefore looking for a new Corporate Dog in line with our policy of Fair Play at work. You will be the face of the Company to the world as well as a key culture bearer. If you enjoy social contexts where the pace is fast and the team spirit strong, you are the one we are looking for.

### Important qualities for succeeding in the role:

- Ability to create a pleasant atmosphere
- Team player that promotes dedication
- Interested in sports and with a high capacity for work
- Genuine ray of sunshine
- Natural aptitude for play
- Faithful and willing to serve

To the right animal Pandox is offering a challenging and enjoyable assignment with short decision paths, free food and a place to sleep at the head office in Stockholm. As part of a global company, you should have a positive attitude to travel. Pandox welcomes diversity and encourages all kinds of animals to apply.

Submit your application to [rip.mrharry@pandox.se](mailto:rip.mrharry@pandox.se)



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