

Year-end report 2001

- **Net income for 2001, excluding non-recurring revenue, amounted to SEK 182.2 (154.8) M corresponding to earnings per share of SEK 7.31 (6.90).**
- **Cash flow from current operations rose to SEK 267.2 (228.2) M corresponding to SEK 10.73 (10.18) per share.**
- **During the year two hotel properties were acquired and two non-strategic hotel properties were sold.**
- **The Board of Directors proposes a dividend payment of SEK 4.00 (3.50) per share.**

Operations and strategy

Pandox is a pure hotel property company creating increased cash flow and therefore added value for its shareholders through active ownership and specialist expertise. Pandox' strategy is to own one kind of asset – hotel properties. Its focus is strengthened by a prioritised market segment. Pandox is to own large hotel properties in Stockholm, Gothenburg, Malmö, in Swedish regional and university cities, as well as in capitals and other major cities in northern Europe. The hotel properties should be centrally located in natural and strong locations such as city centres, airports and convention centres. The hotels should be in the upper medium to high price range and focus on the business and leisure segment. The company is cooperating by means of strategic alliances with the most powerful players in the hotel market with well-known brands and developed business methods. Revenues are created by variable lease agreements related to the operators' turnover and income whose growth are stimulated by Pandox' active ownership.

As of 31 December 2001, Pandox owned 46 hotel properties with approximately 8,500 rooms and a total area of 511,000 m². The company has been listed on the OM Stockholm Stock Exchange's O list since 1997.

The hotel market in 2001

The hotel business cycle in 2001 shifted from a high growth and peak pattern to pass the peak and is now in various stages of decline and levelling out with certain signs of recovery. After 11 September 2001 all of Pandox' markets in Northern Europe have recorded negative growth. Among other things, this is attributable to the fact that the current economic downturn is affecting large regional cities and capitals. In Sweden most markets recorded a weak but positive growth in RevPAR (average revenue per available room) in 2001. In spite of the weakening hotel market, the number of rooms sold rose by 1.2 per cent to 15.4 million, corresponding to a reduction in occupancy to 47.4 per cent (48.3) due to new capacity. Occupancy in Pandox' prioritised Swedish market segments amounted to 60.7 per cent (62.6) or a reduction of 1.9 per cent. However, the underlying demand has increased by 0.9 percent and the decrease in occupancy is an effect of new capacity.

In the international markets where Pandox is represented, both Dortmund and Lübeck saw positive RevPAR growth. Generally, demand in the German market is down due to the economic decline. In the autumn, activity increased in Dortmund's trade fair and conference market which, along with several major sports events, contributed to increased demand for hotel services.

The hotel markets in Brussels and London recorded a drop in demand, partly due to the terror attacks in America. Worst hit were the international deluxe hotels, airport hotels and conference hotels on the outskirts of London while business and leisure hotels in good locations were slightly less affected. In the last quarter, RevPAR fell by 30 per cent equally attributable to reduced demand and a drop in average prices.

Copenhagen and Antwerp too saw a drop in demand. In Copenhagen it was predominantly the deluxe segment which suffered, while the decline in Antwerp can partly be attributed to an extraordinary 2000 when the city hosted the European Football Championships.

To sum up, the changes in the hotel market had a relatively limited effect on Pandox' hotel property portfolio in 2001 thanks to its strategy with a selected market segment which limits the risk in the hotel property portfolio.

A major event in Pandox business sphere in 2001 was the acquisition of Scandic by the Hilton Group. Pandox' hotel property portfolio comprised 28 hotels with the Scandic brand name and five hotels marketed under Holiday Inn. Following negotiations with Hilton it was agreed that five of the hotels are to be upgraded and rebranded as Hilton while, for the time being, the other hotels will continue to be operated under the Scandic brand.

Revenue and operating net – property operations

In 2001, total property revenue amounted to SEK 575.1 (497.7) M. For comparable units, the value growth of the portfolio was 2 per cent. Property costs excluding depreciation amounted to SEK 96.7 (88.9)M.

Operating net rose by SEK 69.6 M to SEK 478.4 (408.8) M. This increase is attributable to contributions from the Hotellus acquisition, hotel properties acquired in 2000 and 2001, revenue-boosting investments plus active development of the existing portfolio. Adjusted direct yield before administrative costs amounted to 9.6 (9.6) per cent in the period. Adjusted direct yield including property related administrative costs was 9.3 (9.3) per cent.

Revenues and income – hotel operations

Revenues from hotel operations are entirely attributable to the former Hotel Albert Premier with 285 rooms in the centre of Brussels. The hotel is operated under a management agreement, which means that the operating company is owned by Pandox, but the hotel is managed by an outside management company. From mid-September 2001 the hotel has been operated by Hilton under the name Hilton Brussels City. Revenues for the period January to December 2001 amounted to SEK 39.7 (28.2) M with an income of SEK 0.4 (2.7) M. This positive result was achieved despite the fact that the hotel underwent extensive renovation and development work in this period.

Income

Group net income rose by SEK 34.1 M on the previous year and income amounted to SEK 190.8 (156.7) M. The improvement was mainly achieved by a growth in income in property operations. Income was given a further boost by nonrecurring revenue of SEK 8.6 M relating to a capital gain from the divestments of two hotel properties. Due to a loss deduction there is in principle no tax payable. Deferred tax calculated for the period amounts to SEK -28.2 (-27.0) M.

Income tax is calculated in accordance with the Swedish Financial Accounting Standards Council's recommendation RR:9. Affected comparative figures in the income statement and balance sheet have been adjusted accordingly.

Financing and cash flow

In 2001 financial net amounted to SEK -178.1 (-150.7) M. The Group's interest-bearing liabilities amounted to SEK 3,178.5 (2,934.7) M as of 31 December 2001. The loan portfolio has a distributed due date structure with an average fixed-interest rate period of 2.3 years. The average interest rate on loans was 5.4 per cent at the end of the year. Financing of the Swedish properties was made in Swedish kronor while foreign properties were essentially financed in local currencies. The properties' mortgaging ratio was 64 per cent.

Available liquid funds, including unutilised overdraft facilities of SEK 100 M, amounted to SEK 186.7 (116.4) M. Cash flow before changes in working capital and investments amounted to SEK 267.2 (228.2) M.

Investments and divestments

The Group's investments, excluding acquisitions of hotel properties, amounted to SEK 149.1 M in 2001. The main part of investments concerned product development in a number of hotel properties with the most extensive investments in Hilton Brussels City and Radisson SAS Arlandia. In 2001 Pandox divested the hotel properties Sten Stensson Sten in Eslöv and Scandic in Karlshamn with a capital gain of SEK 8.6 M. These divestments are part of Pandox' strategy to concentrate on ownership in prioritised towns and cities. Two hotel properties were acquired, namely Mr Chip in Stockholm-Kista and Högvakten in Helsingborg. Combined acquisition costs were SEK 142 M with a direct yield of 9 per cent. The hotel properties' book value, including hotel equipment, reached SEK 5,036.8 (4,784.5) M.

Annual General Meeting and dividend

The Annual General Meeting will be held on March 21, 2002 at 17.00 in the Auditorium at the Hilton Stockholm Slussen.

The Board of Directors proposes a dividend of SEK 4.00 (3.50) per share, corresponding to 55(51) per cent of net income, excluding non recurring revenue, 2001 per share. The complete Annual Report for 2001 will be available at the offices of Pandox AB on Grev Turegatan 44 in Stockholm as of the first week of March, at which time it will also be distributed to the shareholders.

Outlook

Economic developments in Pandox' market area remain difficult to predict due to prevailing global uncertainties. Following the steep decline in the hotel market in the autumn, the market has now entered a more normal recessionary pattern where there are as yet no stable trends.

However, Pandox' focused strategy, selected market segment and high quality hotel property portfolio create continued excellent conditions for further development of the company.

Income statement

SEK 000	October – December		Whole year	Whole year
	2001	2000	2001	2000
Property operations				
Rental revenue	139.5	139.8	551.1	476.3
Other property revenue	5.3	8.6	24.0	21.4
Total property revenue	144.8	148.4	575.1	497.7
Operating and maintenance costs	-25.1	-29.0	-96.7	-88.9
Operating net	119.7	119.4	478.4	408.8
Depreciation according to plan	-16.0	-14.7	-56.2	-45.8
Income, property operations	103.7	104.7	422.2	363.0
Hotel operations				
Operating revenue	11.6	8.9	39.7	28.2
Operating costs	-11.6	-7.6	-39.3	-25.5
Operating income, hotel operations	0.0	1.3	0.4	2.7
Gross income	103.7	106.0	422.6	365.7
Administrative costs	-7.8	-9.6	-33.9	-31.8
Nonrecurring income/expenses	-	1.9	8.6	1.9
Operating income	95.9	98.3	397.3	335.8
Financial net	-41.7	-46.3	-178.1	-150.7
Income before tax	54.2	52.0	219.2	185.1
Tax	-0.0	-1.1	-0.2	-1.4
Deferred tax	-4.4	-6.7	-28.2	-27.0
INCOME/LOSS FOR THE YEAR	49.8	44.2	190.8	156.7

Data per share

SEK 000	Whole year 2001	Whole year 2000
Average no. of shares in thousands	24,900	22,425
No. of shares at year-end	24,900	24,900
Earnings per share ¹⁾ , excl. nonrecurring revenue, SEK	7.31	6.90
Cash flow per share ¹⁾ , SEK	10.73	10.18
Shareholders' equity per share, SEK	71.17	67,10
After dilution		
Earnings per share ¹⁾ excl. nonrecurring revenue, SEK	7.17	–
Cash flow per share ¹⁾ , SEK	10.52	–
Shareholders' equity per share, SEK	69.77	–

1) Based on the average number of shares.

Condensed balance sheet

SEK 000	31 December, 2001	31 December, 2000
Assets		
Properties, incl. hotel equipment	5,036.8	4,784.5
Other fixed assets	5.4	13.0
Current assets	37.1	61.9
Liquid funds	86.7	16.4
Total assets	5,166.0	4,875.8
Shareholders' equity and liabilities		
Shareholders' equity ¹⁾	1,772.1	1,670.8
Deferred tax claim, net ¹⁾	37.0	8.8
Interest-bearing liabilities	3,178.5	2,934.7
Non-interest-bearing liabilities	178.4	261.5
Total shareholders' equity and liabilities	5,166.0	4,875.8

1) Income tax is calculated in accordance with the Swedish Financial Accounting Standards Council's recommendation RR:9. Affected comparative figures have been adjusted accordingly. Shareholders' equity 31 December 2000 was adjusted by SEK 3.6 M.

2) The Company applies the Swedish Financial Accounting Standards Council's recommendation RR:20 regarding interim reports. In other respects the Company applies the same accounting principles as in 2000.

Change in shareholders' equity SEK 000	2001	2000
The Group		
Opening balance	1,670.8	883.6
Dividend	-87.1	-41.2
Adjustment deferred tax		23.4
Translation differences	-2.4	10.3
New issue	-	638.0
Net income for the period	190.8	156.7
Closing balance	1,772.1	1,670.8

Condensed cash flow statement

SEK 000	Whole year 2001	Whole year 2000
Pre-tax profits	219.2	185.1
Depreciation	56.8	46.4
Paid tax	-0.2	-1.4
Nonrecurring revenue/cost	-8.6	-1.9
Cash flow from current operations	267.2	228.2
Changes in working capital, total	-43.9	168.4
Cash flow from current operations after change in working capital	223.3	396.6
Items not affecting cash flow, currency translations	-10.1	-
Investments	-149.1	-101.3
Acquisitions of property and hotel equipment	-141.9	-2 340.3
Divestment of fixed assets	24.2	4.0
Cash flow after investments	-53.6	-2 041.0
Nonrecurring revenue/cost	8.6	1.9
Change in financial fixed assets	6.7	10.8
Change in interest-bearing liabilities	223.9	1 471.1
Change in deferred tax	-28.2	-27.0
New share issue	-	638.0
Dividend	-87.1	-41.2
Total cash flow from financing operations	115.3	2 051.7
Change in liquid funds	70.3	12.6

Key ratios*

SEK 000	Whole year 2001	Whole year 2000
Property-related key ratios		
Book value of properties incl. equipment SEK M	5,036.8	4,784.5
Total property revenue, SEK M	575.1	497.7
Operating net, SEK M	478.4	408.8
Adjusted operating net, SEK M	484.3	459.4
Direct yield 1, %	9.6	9.6
Direct yield 2, %	9.3	9.3
Financial key ratios		
Interest coverage ratio, times	2.24	2.19
Return on total capital, %	8.0	8.1
Return on equity, %	11.0	11.6
Equity/assets ratio, %	34.3	34.6
Cash flow before changes in working capital and investments, SEK M	267.2	228.2
Investments, excl. acquisitions, SEK M	149.1	101.3
Property acquisitions, SEK M	141.9	2,340.3

* For definitions please refer to Pandox Annual Report 2000.

Interest-rate structure¹

SEK M	SEK	DKK	EUR	GBP	Total	share	% ²
Until year							
2002	949.8	157.4	198.6	18.7	1,324.5	42	4.6
2003	213.6	–	82.5	154.8	450.9	14	5.9
2004	235.0	126.7	–	–	361.7	11	5.1
2005	180.9	–	55.3	–	236.2	8	5.7
2006	380.0	–	–	–	380.0	12	6.1
2007 and later	325.0	–	100.2	–	425.2	13	6.3
Total	2,284.3	284.1	436.6	173.5	3,178.5	100	5.4
Share, %	72	9	14	6	100		
Average interest rate, %	5.4	5.1	5.2	7.0	5.4		
Average interest rate period, years	2.3	1.3	3.3	1.0	2.3		

1) Converted to SEK. 2) Average interest rate in %.

The Pandox share

Pandox' market capitalisation has increased from SEK 520 M to SEK 1,867 M since Pandox was listed on the Stockholm Stock Exchange. In 2001, the share price dropped by 22 per cent while the Affärsvärlden General index saw a fall of 17 per cent.

Share price trend

Since its flotation in June 1997 the value of Pandox' shares has risen by 57 per cent, from SEK 47.70 (adjusted for new issue of shares) to SEK 75 on 28 December 2001. During the same period, the Affärsvärlden General Index rose by 33 per cent and the Carnegie Real Estate Index saw a rise of 53 per cent. The share price fell by 22 per cent in 2001, while the Affärsvärlden General Index fell by 17 per cent and a 6 per cent drop was recorded by the Carnegie Real Estate Index. The highest price paid for a Pandox share in 2001 was SEK 91 and the lowest price paid was SEK 58. At the end of the year the company's market capitalisation stood at SEK 1,867 M.

Trading volume

During the year 6,232,654 Pandox shares were traded on the Stockholm Stock Exchange at a value of SEK 506.3 M, corresponding to 25 per cent of all Pandox shares.

Share capital

Pandox' share capital stood at SEK 373.5 M as of 31 December 2001 spread over 24.9 million shares. All shares carry equal rights to participate in the Company's assets and earnings. Each share has a nominal value of SEK 15.

Shareholders

The number of shareholders in Pandox stood at 1,921 (1,863) at the end of the year. Around 92 (90) per cent of the shares are held by institutional investors and foreign shareholders represent 12 (8.5) per cent of all shareholders. 1.2 per cent of shareholders hold fewer than 500 shares each.

Dividend policy

The Board of Directors' intention is that the dividend distributed to the shareholders should amount to between 30 and 50 per cent of income after paid tax from current operations. In connection with dividend proposals, the Board takes Pandox' growth opportunities, investment requirements and financial situation into account.



Largest shareholders in Pandox on 31 december 2001

	No. of shares	Percentage of shares
Zenit, Brummer & Partners	2,179,900	8.8
SEB unit trust	2,088,900	8.4
Skanska AB	1,500,000	6.0
Skandia Life insurance company	1,435,750	5.8
Länsförsäkringar Life insurance company	1,078,000	4.3
Banco Hedge	1,004,600	4.0
Robur unit trust	736,300	3.0
Hagströmer & Qviberg unit trust	721,100	2.9
Odin Norden	674,200	2.7
Sixth Swedish Pension Fund	537,450	2.2
Fortis Bank NV	477,300	1.9
Handelsbanken Life insurance company	456,000	1.8
Nordea Sweden Fund	452,800	1.8
Chase Manhattan Bank	335,383	1.3
Other foreign shareholders	1,579,529	6.3
Others	4,462,888	18.0
Total	24,900,000	100.0

Pandox hotel property portfolio as of 31 december 2001

Facility	No. of rooms	Location
Radisson SAS Arlandia Hotel, Arlanda	334	International airport
Hilton Stockholm Slussen	292	Downtown
Scandic Star Hotel, Sollentuna	269	Exhibition center
Scandic Hotel Järva Krog, Stockholm	215	Northern Stockholm
Scandic Hotel Park, Stockholm	198	Downtown
Scandic Hotel, Upplands -Väsby	150	Northern Stockholm
Mr Chip Hotel, Kista	150	Northern Stockholm
Quality Hotel Nacka, Stockholm	146	Sickla-Nacka
Scandic Hotel Bromma, Stockholm	144	Western Stockholm
First Hotel Royal Star, Älvsjö	103	Exhibition center
Total Stockholm	2,001	
Scandic Hotel Crown, Gothenburg	333	Downtown
Radisson SAS Park Avenue, Gothenburg	318	Downtown
Scandic Hotel Mölndal	208	Downtown
Total Gothenburg	859	
Scandic Hotel Copenhagen	484	Downtown
Scandic Hotel S:t Jörgen, Malmö	265	Downtown
Scandic Star Hotel, Lund	196	Centralt
Radisson SAS Grand Hotel, Helsingborg	117	Downtown
Scandic Hotel Kramer, Malmö	113	Downtown
First Hotel Jörgen Kock, Malmö	101	Downtown
Hotel Högvakten, Helsingborg	42	Downtown
Total Öresund	1,318	
Scandic Hotel Grand, Örebro	219	Downtown
Quality Hotel, Luleå	209	Downtown
Scandic Hotel Winn, Karlstad	199	Downtown
Radisson SAS Hotel, Östersund	177	Downtown
Scandic Hotel Ferrum, Kiruna	170	Downtown
First Hotel Grand, Borås	158	Downtown
Quality Grand Hotel, Kristianstad	149	Downtown
Scandic Hotel, Kalmar	148	Ring road
Scandic Hotel, Karlstad	143	Ring road
Scandic Hallandia, Halmstad	133	Downtown
First Hotel, Linköping	133	Downtown
First Hotel Plaza, Karlstad	121	Downtown
Elite Stora Hotellet, Jönköping	116	Downtown
First Hotel Linné, Uppsala	116	Downtown
Scandic Hotel Billingen, Skövde	106	Downtown
Total regional centers	2,297	
First Resort Mora, Mora	135	Centralt
First Hotel Park Astoria, Enköping	134	Centralt
Scandic Hotel Säffle	101	Centralt
Stadshotellet Princess, Sandviken	84	Centralt
Total other locations	454	
Hilton London Docklands	368	Docklands
Hilton Brussels City	285	Downtown
Scandic Hotel Grand Place, Bryssel	100	Downtown
Scandic Hotel Antwerpen	204	Ring road
Hilton Bremen	235	Downtown
Hilton Dortmund	190	Exhibition center
Scandic Hotel Lübeck	158	Ring road
Total International	1,540	
Total Pandox	8,469	

- **Financial calendar**

Annual General Meeting	21 March 2002
Interim report 3 months	25 April 2002
Interim report 6 months	26 August 2002
Interim report 9 months	24 October 2002