

Experience and determination

Pandox – Excellence in hotel ownership and operation



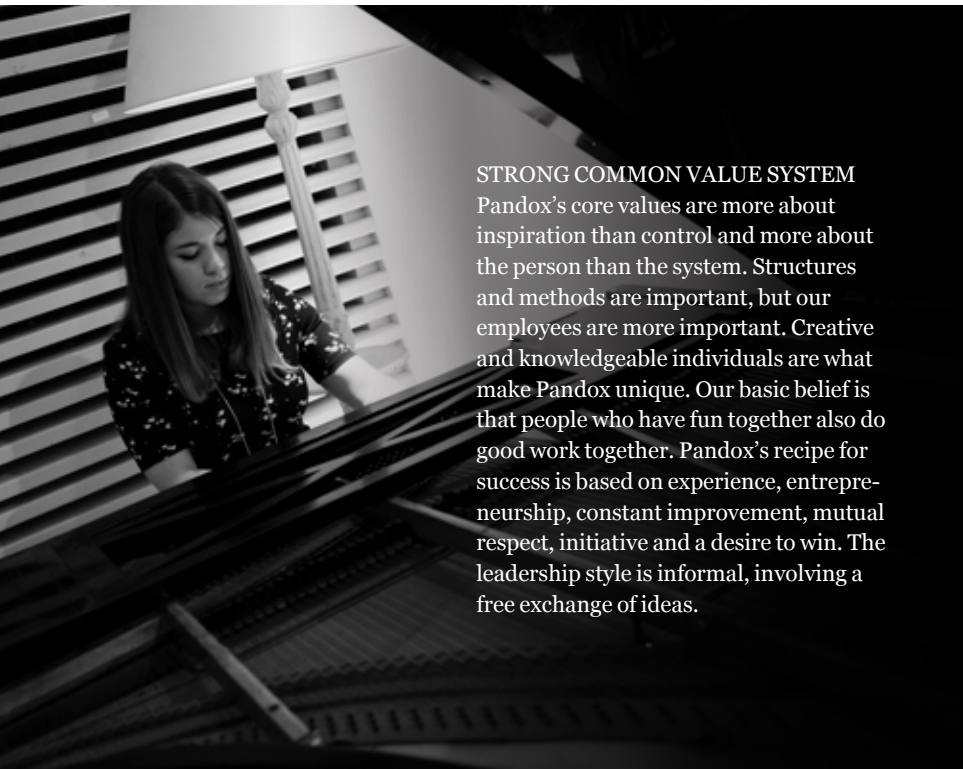


Welcome behind the scenes at Pandox





The Pandox Spirit – a culture of winning provides the right focus



STRONG COMMON VALUE SYSTEM

Pandox's core values are more about inspiration than control and more about the person than the system. Structures and methods are important, but our 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, involving a free exchange of ideas.



A year at Pandox's pace

Pandox is reporting good growth and high profitability with an increase in total cash earnings and net asset value of 29¹⁾ and 18²⁾ percent respectively in 2017. The drivers behind the strong earnings trend are high-performing acquisitions, increased profitability in both Property Management and Operator Activities, and a stable hotel market.

Pandox acquires a total of 23 hotel properties, of which 21 are in the UK and Ireland and have long leases, thereby securing a significant market presence in one of the world's largest and most well-developed hotel markets.

Pandox signs new revenue-based leases for a total of nine hotel properties, two of which are with NH Hotels Group in Brussels.

Pandox completes a directed share issue raising MSEK 1,480 for the Company before transaction costs which, combined with the divestment of a retail property in Brussels, ensures good continued financial flexibility.

Pandox owns 143 hotel properties with a total of 31,613 rooms in 15 countries at year-end. 126 of the hotel properties are assigned to Property Management and 17 to Operator Activities.

¹⁾ Including positive non-recurring items totalling MSEK 60, of which MSEK 47 is repaid tax and MSEK 13 million is financial income.

²⁾ Measured as growth in EPRA NAV at an annual rate, with dividend added back and proceeds from the new share issue deducted.

Cash earnings, MSEK →

Number of hotels →

22
A high
momentum
year



CONTENTS

From the CEO	4	The market	20	The Pandox share	32
This is Pandox	8	Trends and drivers	22	The business	36
A strategy that adds value	10	Market overview	26	Property Management	40
Pandox's contribution to its stakeholders	14	Focus on the UK and Ireland	28	Operator Activities	42
Pandox in practice	16	Hotel Market Day 2017	30	Sustainability Report	44

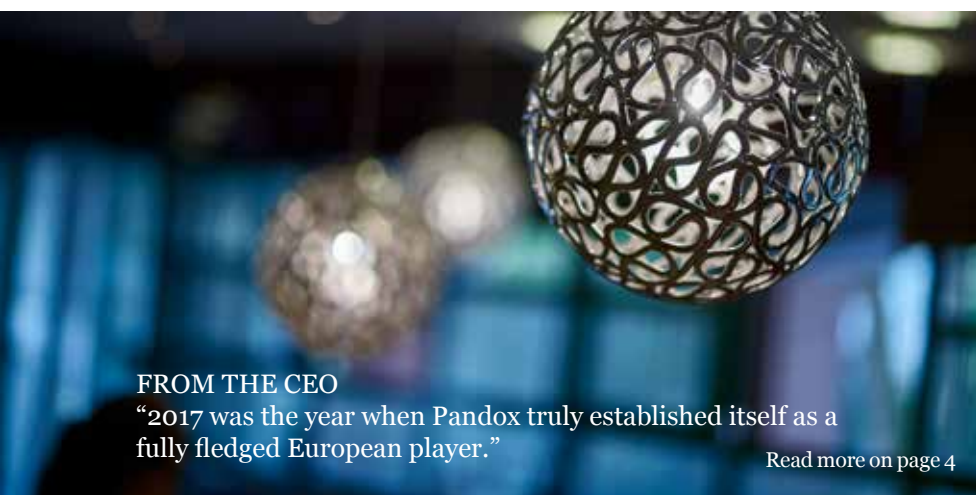
Summary (MSEK)	2017	2016	Change, %
Revenue Property Management	2,202	1,787	23
Net operating income Property Management	1,882	1,495	26
Net operating income Operator Activities	494	439	13
EBITDA	2,252	1,817	24
Net profit for the year	3,148	2,214	42
Earnings per share, SEK	19.89	14.65	36
Cash earnings	1,660	1,289	29 ¹⁾
Cash earnings per share, SEK	10.46	8.49	23
Net interest-bearing debt	25,474	18,314	39
Equity/assets ratio, %	36.7	39.7	n.m.
Loan-to-value, properties, %	50.8	47.9	n.m.
Interest coverage ratio	4.2	4.0	n.m.
Property market value	50,121	38,233	31
EPRA NAV per share, SEK	144.54	126.24	18 ²⁾

¹⁾ Including positive non-recurring items totalling MSEK 60, of which MSEK 47 is repaid tax and MSEK 13 million is financial income.

²⁾ Measured as growth in EPRA NAV at an annual rate, with dividend added back and proceeds from the new share issue deducted.

For definitions see page 154.

“Pandox’s strategy and business model are well proven and have created good returns for the shareholders over time.”

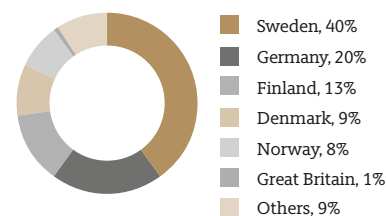


FROM THE CEO

“2017 was the year when Pandox truly established itself as a fully fledged European player.”

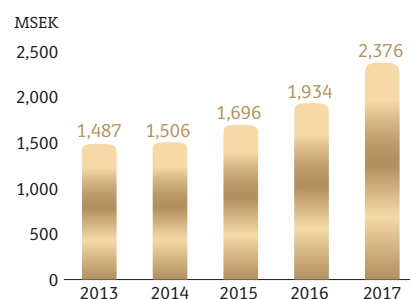
[Read more on page 4](#)

RENTAL INCOME BY COUNTRY 2017, %



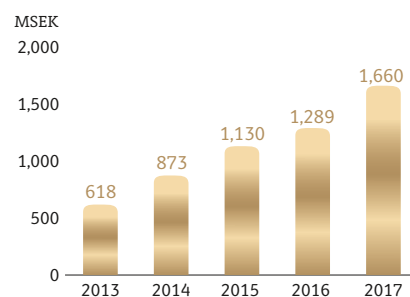
The percentage of rental income outside the Nordic region increased in 2017.

TOTAL NET OPERATING INCOME, MSEK



Net operating income increased 2017 supported by acquisitions, organic growth and increased profitability.

CASH EARNINGS, MSEK



Good growth in cash earnings in 2017.

Property portfolio	56	Financial statements and notes	92	Senior executives	146
Property list	72	Audit Report	132	Pandox GRI reporting	149
Risks and risk management	80	From the Chairman	137	Multi-year summary and quarterly data	152
From the CFO	86	Corporate Governance Report	138	Definitions	154
Administration Report	87	Board of Directors and auditors	144	Shareholder information	155



Active and long-term oriented

Pandox is an active owner with a business model focused on long-term revenue-based lease agreements with the market's best hotel operators.

From the CEO

An expanded and stronger business position

Pandox maintained a fast business pace in 2017. In addition to working on acquisitions, extensive investments and new lease agreements, Pandox made significant progress in the existing portfolio. Total net operating income and total cash earnings increased by 23 and 29 percent respectively. The growth in net asset value was 18 percent.

The past year ►

2017 was the year when Pandox moved up a division and truly established itself as a fully fledged European player through a combination of substantial acquisitions and a strong earnings trend. We have raised our business position to a new level, with access to more, larger and more dynamic hotel markets, based on the Company's original business model involving revenue-based leases and active ownership. This strategy has also had a clear impact on our financial position. At the end of the year the market value of the hotel property portfolio amounted to just over SEK 50 billion, divided between 143 hotels with a total of 31,613 rooms in 15 countries and 20 different brands. Our net operating income has increased by 58 percent since our stock

market listing in June 2015. EPRA NAV increased during the same period by 60 percent including dividends and proceeds from new share issues deducted. With a well-diversified hotel property portfolio – in terms of demand and brands – and good underlying earnings, Pandox has laid a strong foundation for sustained profitable growth.

ANOTHER HIGH MOMENTUM YEAR

When I look back at 2017, I see many aspects to highlight. I am particularly pleased that we have succeeded in advancing both acquisitions processes and our existing operations with strength, quality and good results during the year.



Important milestones:

1. Sustained good earnings trend.
2. Expansion in the UK and Ireland through the acquisition of 22 hotel properties.
3. Agreement to lease out nine properties in the Operator Activities segment.
4. Investments of MSEK 714 in the existing property portfolio with good return potential.
5. Organisation reinforced by new specialist expertise in finance, taxation and law.

Perhaps the most important strategic success during the year is that we introduced the Pandox business model of revenue-based leases into new geographical markets in cooperation with strong business partners such as Fattal Hotel Group (Leonardo) and NH Hotels Group. This confirms the attractiveness of the business model and Pandox's ability to be act with profitability in new international markets.

LONG-TERM LEASES AND OWN OPERATIONS

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

Current status

"At the end of the year the market value of the hotel property portfolio amounted to just over SEK 50 billion".

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 as a consequence of consolidation and changed business models in the hotel market, which have in turn 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 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-term lease agreements with stable income and the ability to take over and operate hotels creates growth while also minimising risk.

LEASES KEY TO VALUE CREATION

Over the past few years Pandox has expanded its lease portfolio in Europe and is now seeing increased interest in the business model. For Pandox as a hotel property owner, leases are a key factor in value creation in hotel operations. The lease creates joint incentives for property owners and tenants through shared investments and shared business risk. It also makes the underlying asset more liquid.

AN EXPANDED AND STRONGER BUSINESS PLATFORM

Pandox's strong earnings trend reflects both a strong hotel market and the Company's efforts to create an larger, stronger and more efficient business platform. Since its stock exchange listing in June 2015 and up to the end of 2017, Pandox has acquired a total of 49 hotel properties in Germany, the UK, Ireland, Austria, Belgium and the Netherlands for more than SEK 17 billion. The hotels are in attractive locations and most are managed under long-term revenue-based leases with strong hotel operators. During the same period, Pandox took over the operation of six hotels and signed agreements to lease out 10 hotels, including Hotel BLOOM! and Hotel Berlaymont in Brussels, a market which has historically been dominated by franchise and management agreements. Pandox has also invested close to SEK 1.5 billion in the existing portfolio and the Company still has a significant pipeline of committed investments with good return potential in both the Property Management and Operator Activities segments.

Overall the quality of Pandox's hotel property portfolio has increased and the Company has become more geographically diversified, while the business model has remained the same. In addition to increased geographical diversification, dependence on individual hotel markets has been reduced and thereby also risk exposure. All of Pandox's acquisitions in the period 2015–2017 have taken place in large and dynamic hotel markets outside the Nordic region, such as Germany and the UK, which has reduced Sweden's share of the market value of the hotel portfolio from around 47 percent to around 29 percent.

Results

Pandox has maintained a fast business pace since its stock-exchange listing in 2015. Important growth factors during the period 2015–2017 are summarised on the right.

GROWTH FACTORS

ACQUISITIONS

SEK 17 billion in expansive acquisitions outside the Nordic region

Larger portfolio
with big hotels
in big cities

Larger markets
such as Germany and the UK

Long-term lease agreements
with higher profitability

INVESTMENTS

SEK 1.5 billion in investments to refine the existing portfolio

Infill
with more beds
in existing rooms

Conversion
of unproductive
spaces into new rooms

Expansion
new floor level or new building

NEW LEASES

More than 60 new leases, most of which are with new business partners outside the Nordic region

Export
of the lease model to
new markets with new
business partners

Scalable business model

Structural growth in the tourism and travel market

REINFORCED TEAM

Over the past few years Pandox has worked systematically on strengthening its team as the Company has become larger and more international. Pandox has always had strong commercial and technical expertise relating to hotels and properties. This has made it possible to take over complicated projects and create substantial value through change and improvement. With a total property value of around SEK 50 billion, legal and financial issues require more attention and we have therefore reinforced our team with specialists in finance, taxation and law. This will enable us to run more complex processes at a fast pace and with good quality. Without these recruitments, we would not have been able to implement our most recent acquisitions in the UK and Ireland, which were highly complex and time-sensitive. The acquisition shows both to us and to those around us that Pandox has a unique ability to succeed with what on paper seems completely impossible to execute. It is people who make the difference over the years, and they are Pandox's strongest competitive advantage.

IMPORTANT STRATEGIC CHALLENGES

Pandox has a strong business model and the hotel properties are in general developing well in their respective submarkets. Even though we have plenty to be proud of, Pandox still faces a number of strategic challenges:

1. Increased complexity due to operating in multiple markets with new business partners and new types of hotel products. This requires a greater

focus on developing our team and strengthening our internal processes.

2. Increased competition for acquisitions due to hotel properties becoming more attractive as investments, which means higher prices, a greater risk that acquisition processes will not achieve their objective, and the fact that Pandox can consider acquiring hotels with higher operational risk and greater improvement potential.
3. Increased competition in the hotel market resulting from new capacity in individual markets, which means short-term pressure on RevPAR.

A LONG-TERM RESPONSIBILITY

Most actors consider sustainability and social responsibility to be clear priorities. Pandox's sustainability work is integrated into its business operations and is based on the combined power of many small changes, as well as efficient methods to follow up results. The hotel industry was relatively early in integrating sustainability into its business strategy and now many others are following suit. In 2017 Pandox focused in particular on energy, environmental management and defining sustainability risk. Initiatives we have implemented include: CDP reporting (Scope 1–2) with a score of C. We have significantly reduced the carbon emissions from Operator Activities and achieved ISO 14001 certification of our head office as well as Property Management operations in Sweden and Denmark. In the year ahead we will intensify discussions with our tenants on sustainability issues and explore ways to jointly further reduce the energy consumption of our Investment Properties through targeted and profitable investments.

◀ Future

OUTCOME

Increased diversification

58%
growth in net
operating income

60%
growth
in EPRA NAV

Higher profitability



THE ECONOMY AND EXTERNAL MARKET TRENDS DRIVE TRAVEL

Positive development in the hotel market is driven by a number of strong external trends. The market outlook for hotels normally follows global economic development. The hotel market is also affected by a number of specific trends, such as increased prosperity with a growing middle class, cheap air travel and efficient packaging and distribution of travel services in digital channels. An increased focus on experiences and a greater willingness to spend more disposable income on travel are also contributing factors. We have also seen positive development in the hotel market in many regional cities, which has promoted a more robust hotel market. Safety and terrorist attacks have so far proved to have a relatively limited impact on global travel, although the short-term impact on individual countries and destinations can be significant.

STABLE OUTLOOK

The long-term outlook for the tourism and travel market is positive. The World Travel and Tourism Council (WTTC) is expecting annual growth in value in the period 2017–2027 of 4 percent globally. The United Nations World Tourism Organization (UNWTO) is predicting an increase in international arrivals of 3.5–4.5 percent in Europe in 2018.

Demand for hotel rooms in Europe was stronger than expected in 2017. We are thus entering 2018 on a higher level with overall good market conditions.

The underlying trend is stable but Pandox is expecting a more uneven market growth due to capacity increases in some of the Company's key markets.



*We don't lean back.
We're ready for the
next step. Come along
for the ride!"*



Completed acquisitions and some organic growth driven by market and profitable investments in the existing portfolio create conditions to increase cash earnings in 2018.

THANK YOU FOR YOUR SUPPORT – NOW LET'S TAKE THE NEXT STEP

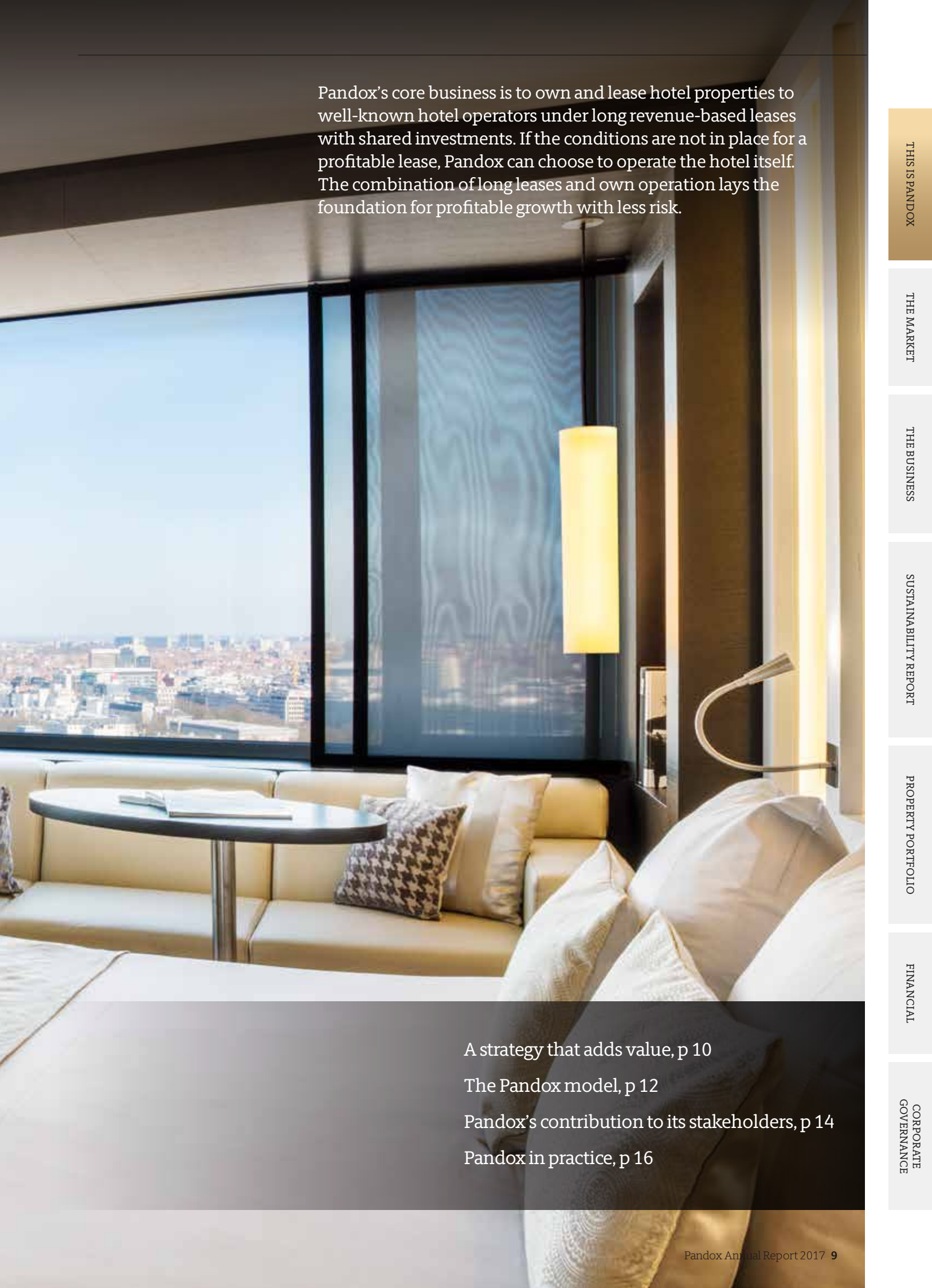
As I summarise 2017 I do it with a big smile on my face. 2017 was a good year in many ways. Strong earnings, big acquisitions with the expansion of our lease model into new markets, a new corporate dog, new strong team players and a sustained team effort have raised Pandox to the next level. I would like to thank all of our employees, business partners, shareholders and other important stakeholders for your support in 2017. And finally: We don't lean back. We're ready for the next step. Come along for the ride!

Stockholm, March 2018
Anders Nissen

This is Pandox

Vision and the road to success





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

THIS IS PANDOX

THE MARKET

THE BUSINESS

SUSTAINABILITY REPORT

PROPERTY PORTFOLIO

FINANCIAL

CORPORATE
GOVERNANCE

A strategy that adds value, p 10

The Pandox model, p 12

Pandox's contribution to its stakeholders, p 14

Pandox in practice, p 16

A strategy that adds value

Pandox's vision

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

Goal

To increase the value for Pandox shareholders through higher cash flow and net asset value.

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

To contribute to positive growth for Pandox employees.

Strategy

Sole focus on hotel properties

Large hotel properties in good locations in major markets

Long-term revenue-based leases with the best operators

High-quality property portfolio with a sustainable footprint

Geographical diversification to reduce fluctuation

Ability to be active throughout the hotel value chain reduces risks and creates opportunities

Profitable and responsible growth making a positive contribution for our stakeholders

Read more about Pandox's contribution to its stakeholders on page 14.

Pandox's business concept

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

This is how we work

High-performing and high-yielding

With Pandox you can always expect high quality, deep knowledge and attention to details. We are a high-performing company that delivers on its promises – year in, year out – with a balanced risk profile.

Demanding but rewarding

Working with Pandox means that you need to step up your game and be prepared to navigate on the frontlines of the hotel market. It might require some extra effort, but it is always worth it in the end.

From opportunity to results

From the beginning Pandox has reinvented and pushed the envelope for the hotel property market. Individuals as a team continuously find new solutions and shape new partnerships to keep on winning.

Always improving business

A mischievous challenger

From the very start Pandox has been a challenger and a pioneer. To succeed, Pandox needs to be better than its competitors. We always take the outside-in perspective while also pushing the boundaries of what is possible. Day in and day out we work hard to reach our targets, learn from our mistakes and have fun on the road to success.

A unique position for value creation

Pandox's clients and partners know that we always deliver. When we win new deals or enter into new partnerships it is always with individuals who can create something unique that others cannot.

Achieving goals builds trust

Pandox's business is all about trust. At Pandox trust is built on our ability to live up to the expectations of those around us. Over time we turn that trust into loyalty by always going the extra mile to create something that is beyond what others can imagine.

Organisation and execution

Read more about Pandox's business segments on pages 38–43.

Property Management

We own and lease out hotel properties.

Operator Activities

We own and operate hotels.

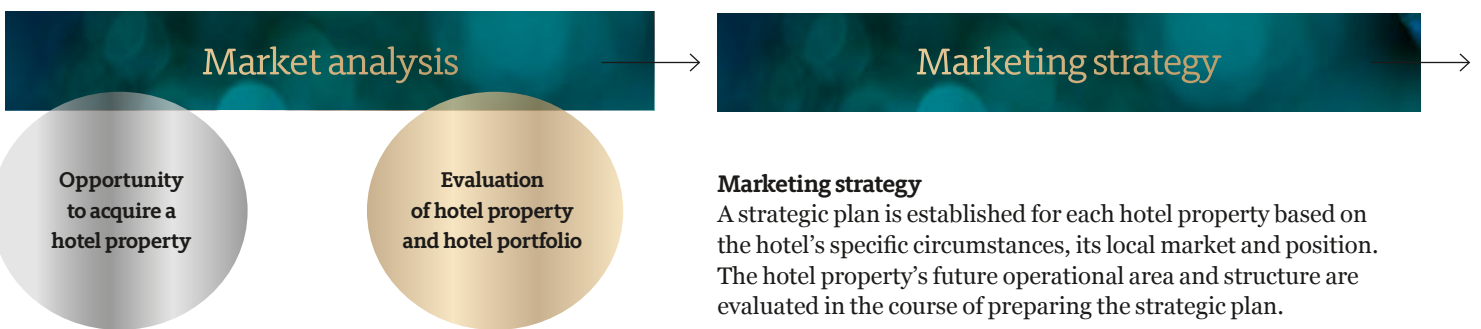
Asset Management

We manage hotel properties owned by others.

Specialist expertise and good management systems

Read more about the Pandox model on page 12.

The Pandox model Expertise and systems



Market analysis

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

PANDOX PROFILE



Jonas Törner, SVP Business Intelligence

What is your role at Pandox? I'm the head of the business intelligence team, which is responsible for business and market analysis, portfolio evaluation and for supporting the organisation in the acquisition process.

A CULTURE OF WINNING PROVIDES THE RIGHT FOCUS

At Pandox we work to create a winning culture in which we minimise the risk of technical errors. The logic behind this 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 – 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, the hotel operator is Pandox's most important partner. Pandox analyses and assesses the hotel operator's performance on an ongoing basis in order to ensure the business is developing well, so that the hotel property value will also increase.

Agreement optimisation

Agreement optimisation

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

Specific action and activity plan

What does your work at Pandox involve? A normal work day is relatively varied, with many commercial and financial issues to address. A lot of my work is based on the Pandox model – a method for analysing each hotel property's commercial potential and performance. Linked to this is always a long list of issues

relating to everything from investments and leases to property valuation.

What is your key responsibility? It is mainly about providing strategic decision support to Pandox's commercial organisation.

Income according to the strategy

Pandox's contribution to its stakeholders

Value-creating
business model

Sustainable and profitable growth

VALUE CREATION

INCREASED CASH FLOW

HIGHER PROPERTY VALUES

FINANCIAL STABILITY

BUILDING BLOCKS

Financial capital

Capital from shareholders of MSEK 24,211 and interest-bearing liabilities from lenders of MSEK 25,474.

Human capital

Talented and motivated employees with specialist expertise in hotel properties, hotel operation and active ownership.

Manufactured capital

Hotel properties for a value of MSEK 50,121 with the right size and location.

Structural capital

Efficient systems and methods for hotel operation and property development.
The Pandox model

Natural capital

Inputs in the form of raw materials and natural resources.

Social capital

Strong relationships with business partners, guests, the capital market and communities.

VALUES

LEAD

LEARN

LOVE

FAIR PLAY

FOUNDATION

Profitable operation is the foundation for Pandox's value creation

Our stakeholders PERFORMANCE

SHAREHOLDERS

29 and 18 percent in growth in cash earnings and net asset value respectively (EPRA NAV)

EMPLOYEES

1,130 employees in different parts of the world with 79 percent job satisfaction within Pandox's Operating Activities segment

BUSINESS PARTNERS

143 hotel properties of high quality, of which 126 are leased to external partners and 17 are operated by Pandox

HOTEL GUESTS

Around 7.8 million guest nights in hotels in the Property Management segment and around 1.8 million guest nights in the Operator Activities segment, as well as 81 percent guest satisfaction in the latter segment

CLIMATE AND THE ENVIRONMENT

Environmental impact in the form of 7,281 metric tons of greenhouse gas emissions and 246,343 m³ of water consumed.

In 2017 energy and water consumption per guest night decreased by 6 and 1 percent respectively in the comparable portfolio in Operator Activities

Our contribution to stakeholders VALUE (MSEK)

CONTRIBUTION TO STAKEHOLDERS

Stakeholders	Value (MSEK)	2017	2016
Shareholders	Dividend	646	570
Shareholders	Return on equity ¹⁾	18%	20%
Lenders	Interest and fees	534	457
Employees	Wages and benefits	845	896
Hotel guests	Revenue	4,269	3,945
Tenants	Rental income	2,202	1,717
Tenants	Investments	425	173
Suppliers	Payments	2,676	2,484
Society	Taxes and levies	359	348

¹⁾ Measured as growth in EPRA NAV, with dividend returned and issue proceeds deducted.

CONTRIBUTION TO SOCIETY AND COMMUNITIES

- Direct and indirect job.
- 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 the Code of Conduct.

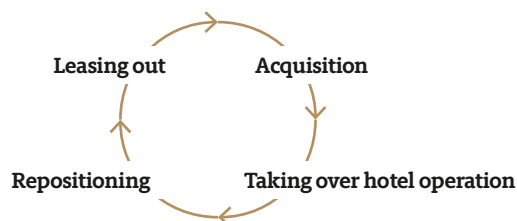
ENVIRONMENTAL CONTRIBUTION

- Environmentally smart investments in the hotels' infrastructure and efficient operation can reduce the use of resources per m² and guest night in terms of energy/carbon dioxide and water.
- Recycling consumables and changes to operating processes can reduce the hotels' environmental impact and in certain cases even generate a financial surplus.
- Read more about Pandox's sustainability work on pages 44–55.

Pandox in practice Creating value in five different ways

1. Portfolio acquisitions
2. Leasing to strong operators
3. Single acquisitions
4. Taking over hotel operation
5. Lease extension and investment

VARIOUS STAGES OF ACTIVE OWNERSHIP



1

New substantial portfolio acquisition establishes Pandox in the UK and Ireland

- Total purchase consideration MGBP 800
- 21 hotel properties in 20 cities
- 4,694 rooms

In December 2017 Pandox acquired a portfolio of 37 hotel businesses in the UK and Ireland in partnership with Leonardo. The portfolio contains 36 hotels operated under the Jurys Inn brand, 20 investment properties and one operating property in which the hotel is operated under the Hilton Garden Inn brand. The total purchase consideration was MGBP 800 on a debt-free basis. After taking over the portfolio a process of reorganisation was started in order to separate the hotel properties from the hotel operations. Once completed, Pandox will retain the 20 investment properties and the operating property including its hotel operations, and Leonardo acquired the 36 hotels operated under the brand Jurys Inn. The investment properties will be operated by Leonardo under long revenue-based leases.

In 2018 the hotel property portfolio is expected to contribute the equivalent of around MSEK 450 in net operating income and MSEK 200 in cash earnings. The hotel property portfolio, including the operating property, has a valuation yield of around 5.8 percent. The acquisition demonstrates Pandox's ability to execute its business strategy in a climate of international competition and to grow with good profitability, including in new markets.

ACQUISITION DRIVERS

- The hotel properties fit well into Pandox's acquisition strategy.
- The entire hotel property portfolio is of high quality and is in the upper-mid price segment.

- Pandox establishes a presence in 20 new cities, four of which are new capital cities, and achieves a significant market presence in the UK and Ireland.
- All of the hotel locations and market positions are strong.
- Domestic demand, supplemented in many markets by significant international demand.
- Leonardo will operate the 20 investment properties under 25-year revenue-based leases with guaranteed minimum levels and shared investments, which is the core aspect of Pandox's business model.
- Good potential as a result of recent renovations which that have not yet had their full effect.

PORTFOLIO OVERVIEW

The hotel property portfolio covers a total of 21 hotels in 20 cities in the UK and Ireland with a total of 4,694 rooms. All of the investment properties are operated under the Jurys Inn brand and the operating property under the Hilton Garden Inn brand. The hotels are full-service establishments in the upper-mid price segment and have a mix of local and international demand. The hotels are in strong central locations for the business, conference and leisure segments. The portfolio acquisition gives Pandox extensive market coverage in the fifth largest hotel market in Europe – measured in number of guest nights – and in a geographical area with a total population of around 70 million.

See pages 28–29 for more information on the markets and hotels.



Jurys Inn Belfast



Jurys Inn Oxford



Jurys Inn Hinckley Island



Jurys Inn Brighton Waterfront

PANDOX PROFILE



Jacob Rasin, Director of Business Development

What is your background?

I have a broad hotel background and a degree in business administration from Cornell University, as well as a Swiss Hotel Management Diploma from the Hotel Institute Montreux.

What does your work at Pandox involve?

I work partly on acquisitions and partly on concept development – for example, when we take over the operation of a hotel and need to develop and reposition it.

What are your key tasks?

Making sure we maintain a fast pace and high quality in Pandox's acquisition processes. When it comes to developing new concepts it's important to always keep abreast of both short-term and long-term trends in the travel and hotel industry so that we can create competitive hotel products.

2 Leasing out to strong operators

In 2017 Pandox entered into agreements to lease out seven hotels in the Nordic region to Scandia Hotels Group as well as Hotel BLOOM! and Hotel Berlaymont in Brussels to NH Hotel Group, all from the Operator Activities segment. The agreements are the result of Pandox's strategy to be active throughout the value chain and to take over underperforming hotel properties, reposition them and then lease them out again to strong hotel operators on competitive lease terms. In all cases Pandox has successfully improved the hotels through a combination of investments in hotel production and more efficient operation.



3 Single acquisitions with or without repositioning



SINGLE ACQUISITIONS AND REPOSITIONING

In May 2017 Pandox acquired Hotel Berlaymont in Brussels. The hotel has 212 rooms and a competitive conference product. The hotel is located directly adjacent to the European Parliament. The hotel product is underperforming and offers good potential for improvement thanks to its strong microposition and good public transport links to both the city centre and the airport. The work of improving the

hotel product is in full swing, involving room renovations and productivity improvement. The hotel property adds further value to Pandox's already strong hotel portfolio in Brussels.

SUPPLEMENTARY SINGLE ACQUISITIONS

In July 2017 Pandox acquired the premium hotel Hilton London Heathrow Airport. The hotel has 398 rooms in the premium

segment and a strong location next to Terminal 4 at London Heathrow Airport. There is quick access to London by tube from the terminal, which makes the hotel attractive for all types of guests. The hotel is operated by Hilton under a long-term revenue-based lease in a submarket with high occupancy and good average room rates. In 2017 Hilton London Heathrow Airport was named the World's Leading Airport Hotel by the World Travel Awards.

4 Operations taken over

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

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 overhaul 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 travellers and employees of international companies staying for both longer and shorter periods who appreciate a more fun and personal hotel environment.

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 adjacent to attractive ski runs and lifts, and have excellent facilities 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. The hotels have undergone extensive renovation since they were taken over by Pandox.



All of the hotels above are operated today by Scandic under long-term revenue-based leases.

Scandic Lillehammer

5 Lease extensions in the Nordic region



Scandic Grand Hotel Örebro

Pandox works on an ongoing basis on lease extension, often involving joint investment programmes. In June 2016 Pandox entered into an agreement with Scandic Hotels Group which extends the leases of 19 hotel properties in the Nordic region and includes a joint MSEK 470 investment programme, of which Pandox's portion is around half. The programme involves renovating nearly 1,600 hotel rooms and bathrooms, upgrading food & beverage offerings, conference rooms and public spaces and installing 73 new hotel rooms. The investment programme, which will be implemented over the period 2017–2020, follows the collaboration model that Pandox and Scandic used in the earlier Shark project, where the companies 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 joint investments. The agreement will help improve revenue potential for both Pandox and Scandic through more competitive hotel products.



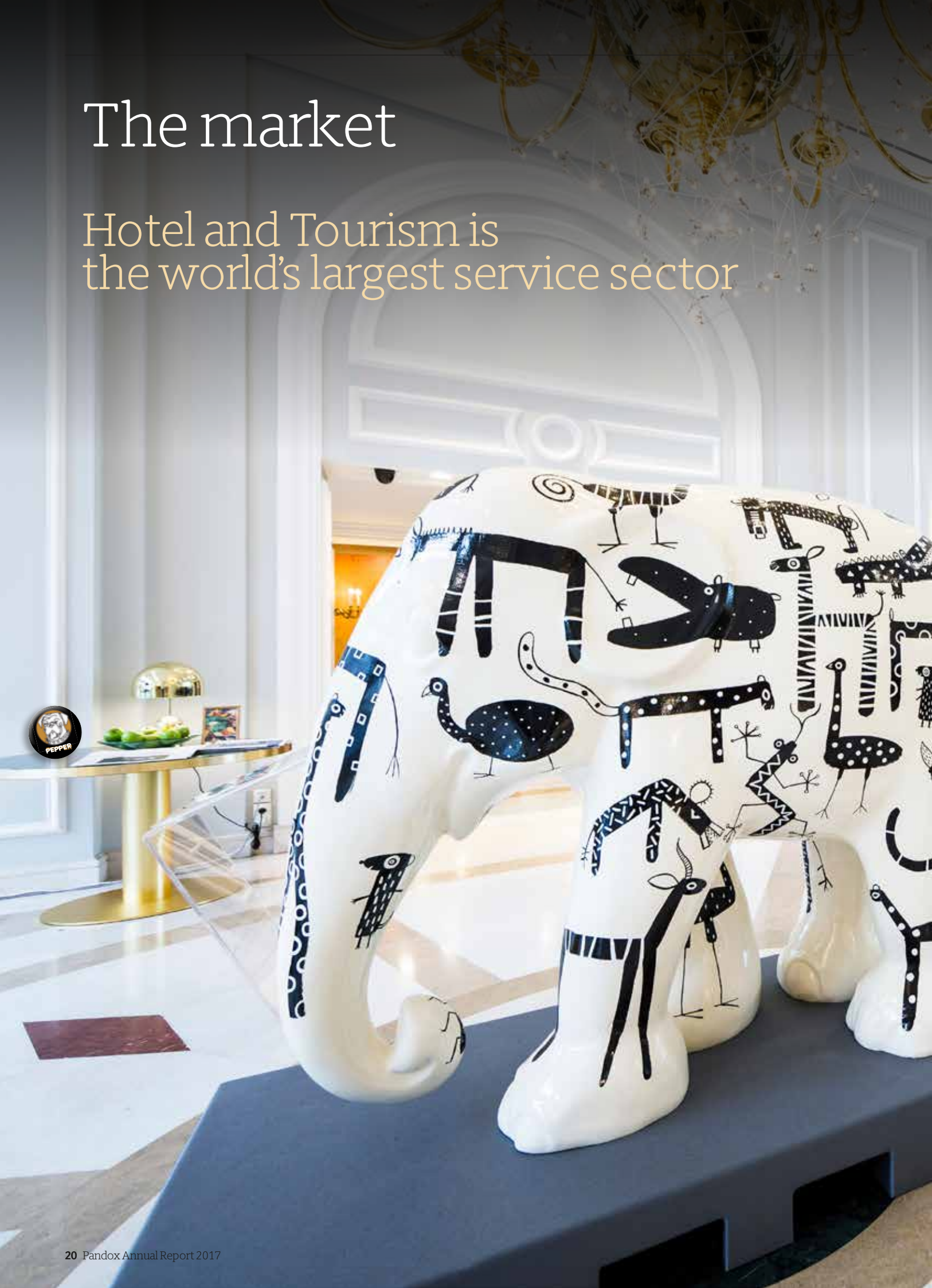
Scandic Plaza Borås

"Joint investments with shared risk lay the foundation for future growth".

- MSEK 714 invested in 2017.
- MSEK 870 in the pipeline at the end of 2017 in the existing portfolio.

The market

Hotel and Tourism is
the world's largest service sector



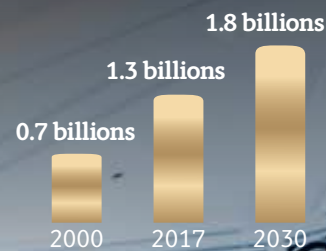
Pandox is active within Hotel and Tourism, which is the world's largest service sector and one of the fastest growing industries globally. Hotel and Tourism has shown positive growth for the last six decades.

Hotel and Tourism is a major engine
"10 percent of global GDP (2017)"



Stable growth in international travel

"International Tourist Arrivals"



Source: UNWTO
for all facts

Trends and drivers, p 22

Structure and development, p 24

Market overview, p 26

Focus on the UK and Ireland, p 28

Trends and drivers in the hotel industry



DEMOGRAPHICS AND ECONOMY

Population growth

The global population is growing. By 2025, global population is predicted to reach 8 billion people (source: 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

An increasing number of people are better off. New large groups of customers are able 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 the needs of new customer groups.

An ageing population

People are living longer and are healthier than before. The fastest growing demographic group is people over 65 years of age (source: UN). This age group often has strong purchasing power and is seeking out new travel experiences.



TECHNICAL DEVELOPMENT

Cheap flights

Today we travel further, more comfortably and more cheaply than ever before. Low cost flights to both long-haul and short-haul destinations are a strong underlying positive driver in the hotel industry.

Digitalisation

In many ways, digitalisation has made the world smaller and blurred the lines between work and leisure. It has also increased the pace of change in many areas and has changed how consumers buy products and services. For the hotel industry, digitalisation is changing a number of areas – not least marketing and distribution. See pages 30–31 to find out more about Pandox's Hotel Market Day 2017.

Changing patterns for booking and distribution

Online travel agencies (OTAs) continue to grow and challenge traditional business models and booking channels. These new channels are creating completely new opportunities for independent brands to drive room revenue through effective marketing. They are also reducing the influence of the large traditional hotel brands in the hotel market. Bookings across all travel segments are being made at shorter notice than before. As a result, specialist knowledge of booking patterns, distribution and trends in the travel and hotel industry is becoming ever more important.

What is Pandox doing?

- A diversified hotel portfolio to meet new customer demand.
- New personalised and inspiring hotel concepts designed for lifestyle factors.
- Specific adaptation within the hotel environment to meet new customer requirements.
- Proactive destination development in locations that are of strategic importance to the Company.

Pandox's response

- A Group-level Revenue Management Centre (RMC).
- Individual distribution strategies for each hotel.
- Simpler booking using the internet and mobiles.
- Automated check-in and check-out.
- Mobile high-capacity communications solutions.
- Systematic learning from expert individuals and companies.

Mega-trends are large 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 demand faster and more accurately.



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. Today's hotel guests expect more individual and unique products than before. When they find them, they like to share them on social media.

Sustainability growing in importance

The increasing interest in sustainability has been ongoing and is deepening in line with increased consumer knowledge and greater demands from society. More and more, consumers want the services they buy to live up to their personal values.

The sharing economy is creating new demand

Home-sharing services such as Airbnb are a good complement to hotels and have created a new type of demand, which the hotel industry is increasingly accommodating by offering new hotel concepts.

The ageless society

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

Pandox's response

- In-depth analysis of customer demand and drivers.
- Personal and inspiring hotel concepts with innovative accommodation solutions.
- Destination and concept hotels.
- Focus on sustainable use of resources and on innovation.



EXTERNAL ENVIRONMENT

The safety and security of both guests and employees is a very 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 affecting innocent people can be shared by many. Behind every innocent victim there is a human, a family, a friend.

At a global level, the travel and tourism industry has not been greatly affected by the terrorist incidents in recent years (source: WTTC). However, for an individual destination a terror incident can have a considerable impact – particularly in the short term. The recovery period varies between different customer groups. Business travellers normally return first to an affected destination, while it takes longer for leisure and conference guests to return. Few travellers choose to stay at home, however. Instead they re-book their journey to a destination considered safer.

Pandox's response

- 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.
- Good geographic diversification in the hotel property portfolio.

A changed hotel market is opening up new opportunities for Pandox

In simple terms, the hotel value chain consists of property ownership, hotel operation and marketing/distribution. The companies in the hotel market are hotel property owners, hotel operators and big hotel chains with their own brand portfolios. In addition, there are independent operating companies and internet-based booking services (OTAs). A company may be positioned within one or more segments. Pandox is both a hotel property owner and a hotel operator, and moves freely across the entire hotel value chain.

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, Inter-Continental and Marriott have changed

their business models by gradually divesting their hotel properties and leaving their traditional role as hotel operators. Instead they have developed various types of asset-light strategies. In somewhat simplified terms, this involves the company reducing its capital requirements by moving its business towards distribution (bookings) and brand development (franchising). Marriott, for example, owns only a small number of the hotels that are run under the group's various brands. Instead the hotels are mainly operated through franchise and management agreements, often by independent hotel operators.

NEW STRATEGIES ARE DRIVING CONSOLIDATION

Within an asset-light strategy, revenues are mainly derived from franchise fees and commissions on bookings. The business model requires large volumes to be profitable. The main aim is to increase the number of franchisees and room bookings – preferably in their own distribution channels, where a larger part of the commission can be collected. The business model not only requires massive marketing investments, but also a continuous increase in the number of rooms in the portfolio. This has resulted in consolidation among the large international hotel chains.

FEWER OPERATORS, MORE BRANDS

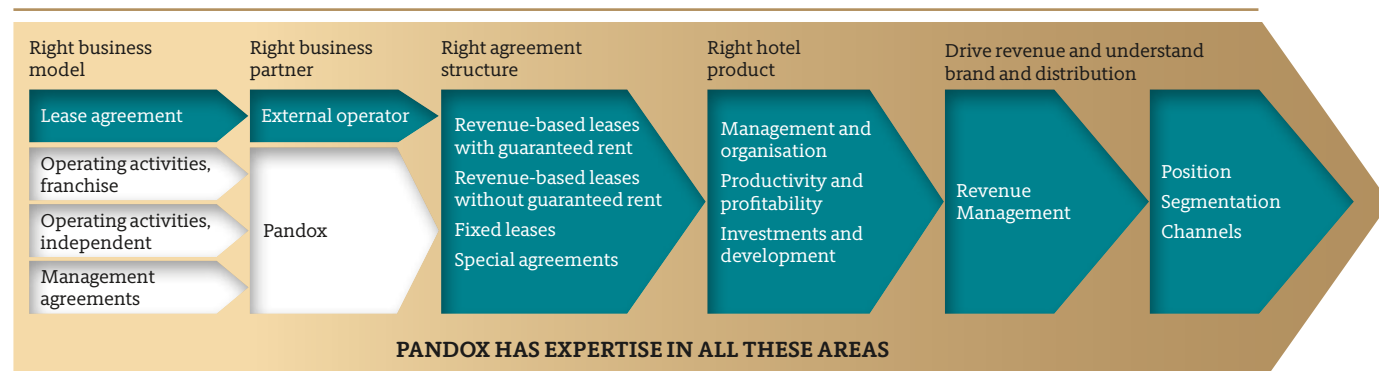
Alongside increased consolidation among brand owners, the number of brands has also grown. The hotel chains have spent large resources on brand development in order to define new types of market segments and cater to new customer demand. Today, for example, Marriott and Hilton have 30 and 14 different brands respectively in their portfolios.

OPERATIONAL EXPERTISE EVER MORE VALUABLE

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

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

KEY ISSUES FOR HOTEL PROPERTY OWNERS



Revenue-based leases are a central part of the hotels' value creation

A CLEAR RENAISSANCE FOR LEASES

In recent years Pandox has expanded its lease portfolio in Europe and is seeing greater interest in this agreement model. This is due to increased segmentation of the hotel market and the emergence of strong regional hotel operators which share our view of the advantages of this type of agreement. For Pandox as a hotel property owner, the lease is a central part of the value creation in the hotel business since it contributes to shared investments and shared risk, as well as making the underlying asset more liquid.

LEASES HAVE MANY ADVANTAGES

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

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

Many strong regional hotel operators in Europe have identified good business opportunities in revenue-based leases. In 2017 Pandox expanded its lease portfolio in the Nordic region with the Scandic Hotels Group and MEININGER, in Belgium with NH Hotel Group, and in the UK and Ireland with Leonardo.

HOW A REVENUE-BASED LEASE WORKS

A revenue-based lease is tied to the revenue of the hotel and means that Pandox shares in the hotel's growth, as the rent increases in line with the increased revenue of the hotel. Hotel property owners and hotel operators share both the upsides and the downsides, with a reasonable split of capital, potential

and risk between the parties. The agreement structure encourages the operator to increase revenue, reduce costs and make long-term investments in the hotel products.

Other types of agreements include profit-based leases where the hotel property owner receives a share of the operator's profit, and fixed leases where a fixed, normally inflation-adjusted rent is paid. These types of agreements are less common, however.

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 hotel operations, but appoints a hotel operator to run and manage the hotel on behalf of the hotel property owner. The property owner pays a management fee, often revenue-based, to the operator for the service. Sometimes an incentive payment based on the hotel's gross profit is added, but that would typically make up a smaller percentage of the total fee.

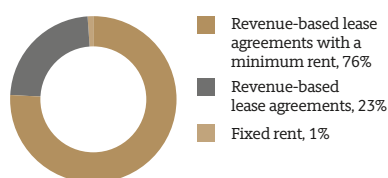
Management agreements are often very long-term, with the operator bound to run the hotel in accordance with established brand strategies. Under this type of agreement structure, the hotel property owner shoulders all the investments and is thus financially exposed to the operations as well as the property.

FRANCHISE AGREEMENTS ARE COMMON WITHIN PANDOX'S OPERATOR ACTIVITIES

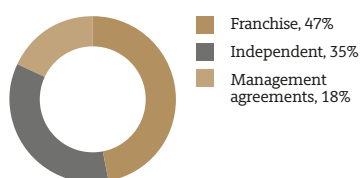
When a hotel property owner owns both the hotel property and operations, a franchise agreement can be signed with an appropriate brand owner in order for the hotel property owner to take advantage of the franchiser's brand and distribution resources. Normally the franchisee would pay revenue-based royalty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

AGREEMENT TYPE, BY SEGMENT

PROPERTY MANAGEMENT (share of agreements)



OPERATOR ACTIVITIES (share of agreements)



POTENTIAL FOR LEASES IN SELECTED MARKETS

Market	Nordics	North America	UK
Agreement tradition	Lease	Management agreement	Mixed
Potential for leases	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	Whitbread, Interstate Europe, Pandox
Major hotel operators	Scandic Hotels Group, Nordic Choice, Elite Hotels	Marriott, IHG, Hilton, Hyatt, Carlson Group	Whitbread, IHG, Travelodge, Accor, Hilton, Marriott, Rezidor, Britannia

Market overview

Another year of good growth

The hotel market cycle normally follows global economic development. In addition, the hotel market is affected by a number of specific growth factors. Broadly based economic growth and increased international travel contributed to good global hotel demand in 2017.

HIGH DEMAND GLOBALLY

Synchronised global economic growth contributed to continued good hotel demand globally during the year. For 2017 as a whole, growth was evenly spread between countries and segments – contributing to surprisingly strong growth in Europe. According to UNWTO, the number of international arrivals in Europe increased by around 50 million during the year. This represents growth of 8 percent, which is high in a historical perspective.

STRONG GROWTH IN THE US AND CANADA

The hotel market in the US demonstrated robust growth and RevPAR increased by 3 percent in 2017. Occupancy reached a record level, despite a reduction in international arrivals due to entry restrictions for certain countries.

SOLID GROWTH IN KEY MARKETS

RevPAR development – quarterly change
(in local currencies)

	Year 2014	Year 2015	Year 2016	Year 2017
US	8%	6%	3%	3%
New York ¹⁾	3%	-2%	-2%	0%
Montreal	10%	7%	9%	12%
Europe	6%	7%	2%	6%
London	3%	2%	-1%	4%
Brussels	3%	2%	-18%	19%
Berlin	5%	8%	4%	2%
Frankfurt	-2%	9%	-2%	4%
Copenhagen	4%	11%	13%	2%
Stockholm	2%	9%	8%	-1%
Oslo	1%	8%	3%	12%
Helsinki	2%	2%	7%	9%

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

¹⁾ Pandox is not directly exposed to this market, but it is important when assessing the global hotel market.

The Canadian market developed even more strongly, with an 8-percent increase in RevPAR driven by a high level of economic activity, a relatively weak currency resulting in increased international demand, and the fact that new capacity in the market remained limited. Montreal continued its good trend, with RevPAR increasing by 12 percent with the help of strong international demand and a packed events calendar.

STRONG DEVELOPMENT IN EUROPE

RevPAR increased by 6 percent in Europe, bolstered by both increased demand and better average room rates, particularly in countries and cities that had previously been adversely affected by terrorist incidents and the security situation. Brussels is one example, with a strong recovery in demand in 2017 and a 19 percent increase in RevPAR.

In Germany RevPAR increased by 3 percent, mainly driven by a strong corporate sector with congresses and trade fairs. In Frankfurt and Berlin RevPAR increased by 4 percent and 2 percent respectively. Development in many regional centres, for example Düsseldorf and Cologne, was stronger. In the UK RevPAR increased by 4 percent, driven mainly by good development outside London in regional cities such as Sheffield, Leeds and Brighton.

GENERALLY GOOD DEVELOPMENT IN THE NORDIC REGION

The Nordic countries continued to benefit from good economic development. Finland and Norway had the highest growth in the hotel market in 2017 in the Nordic region. In Helsinki RevPAR increased by 9 percent. Improvements in the Finnish economy, with

increased employment and consumption, also contributed to good development in the majority of regional markets. In Oslo RevPAR increased by 12 percent, supported by improved average room rates and higher occupancy, partly as a result of capacity being taken out of the market when hotels were temporarily closed for renovation. In Stockholm RevPAR decreased by 1 percent. Underlying demand increased during the year, but was unable to fully compensate for the increase in hotel capacity of around 6 percent that took place mainly in the city centre during the year. In Copenhagen RevPAR increased by 2 percent. The outlook for the Danish economy is good, and Copenhagen remains highly attractive. A challenge for the hotel market in Copenhagen is the major hotel openings that are planned for the coming years, starting in the second quarter of 2018.

Short-term market trends

Hotel business cycle

Stable demand from the leisure segment, as well as for conferences and events.

New capacity

The addition of new hotel rooms is adversely affecting certain individual markets such as Stockholm and Copenhagen. However, planned new capacity on a global level is somewhat below the historical trend.

RevPAR development

RevPAR is being driven mainly by higher average room rates.

Long-term market trends

Market

Consolidation among operators.

Brands

Consolidation among brand owners in parallel with 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.

Pandox and the market

Pandox's hotel portfolio is well diversified as regards countries, destinations, segments and submarkets. Since Pandox does not own an exact copy of the portfolio that external market data is based on in any given market, Pandox's growth may differ from the reported market growth. For this reason Pandox's growth should be compared to a relevant competing group of hotels in each submarket for a fair assessment.

What constitutes good performance?

The development of each submarket depends on a range of factors such as conferences, trade 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 – known as a “compset” – to evaluate how well each hotel is performing in relation to its selected competitors. 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.

Focus on Amsterdam

Amsterdam is a big leisure and business destination and Schiphol airport is one of the world's transit airports. In 2016 Pandox acquired Park Hotel Amsterdam, with 189 rooms, as part of a larger portfolio acquisition. The hotel has a premium position with a very good central location and is operated under a long-term revenue-based lease with Grand City Hotels as an independent brand.

Population:

1.3 million

Amsterdam Schiphol Airport:

69 million passengers

Demand in 2017:

11 million rooms

Source: STR Global, Amsterdam Airport Schiphol



Park Hotel Amsterdam

Focus on Vienna

Vienna is Austria's capital and an established international destination with a number of large global institutions, including the Organization of the Petroleum Exporting Countries (OPEC) and the International Atomic Energy Agency (IAEA). Vienna is an attractive destination for conferences and has a rich history with an attractive offering for leisure travellers. In 2017 Pandox acquired the NH Vienna Airport hotel, with 499 rooms. The hotel is right next to Vienna International Airport and belongs to the upper full service segment, with demand from the business, conference and leisure segments.

Population:

1.8 million

Vienna International Airport:

24 million passengers

Demand in 2017:

9 million rooms

Source: STR Global, Flughafen Wien AG

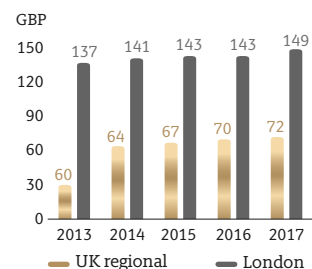


NH Vienna Airport

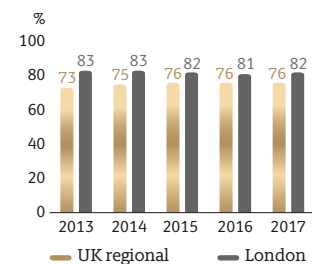
Focus on the UK and Ireland

One of the world's most well-developed hotel markets




AVERAGE ROOM RATE



OCCUPANCY



Source: Christie & Co Research and Analysis

-  International top destination with mainly international demand
-  Regional centre with both domestic and international demand
-  Local centre with mainly domestic demand

A balanced market

The hotel market in the UK is made up of two parts. There is London, a top international destination with a high proportion of international demand, and there are regional cities with a high proportion of domestic demand.

Pandox's market coverage: measured as population (approx.)

70 million

Source: Centre For Cities, NRS Scotland, Central Statistics Office Ireland

8.5%

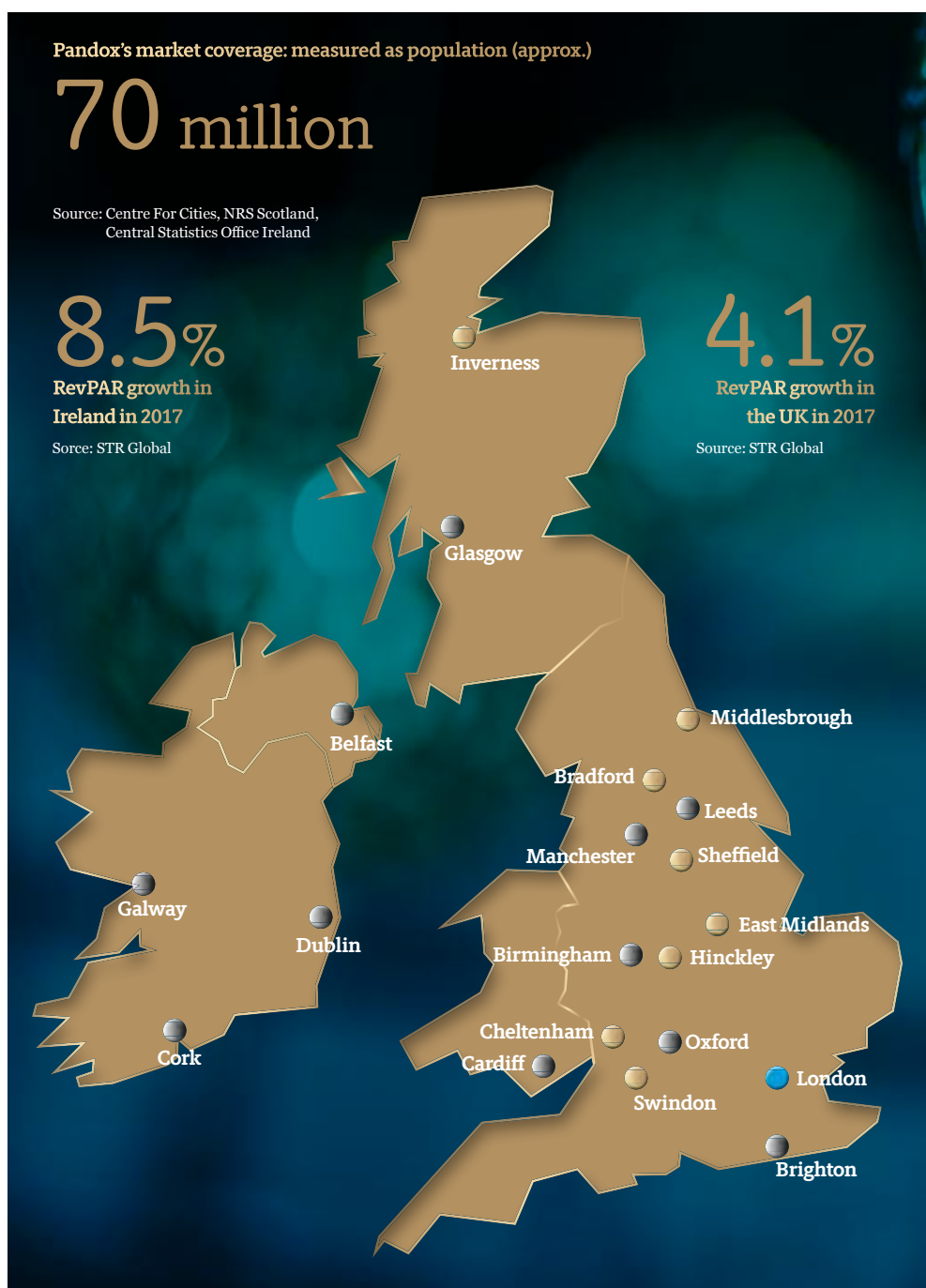
RevPAR growth in Ireland in 2017

Source: STR Global

4.1%

RevPAR growth in the UK in 2017

Source: STR Global



THE UK IS ONE OF THE WORLD'S MOST ATTRACTIVE DESTINATIONS

The UK is the world's seventh largest economy and has a population of more than 65 million. The UK is the fifth largest hotel market in Europe in terms of the number of guest nights (Eurostat) and the fifth most well-developed hotel market in the world according to the World Economic Forum (WEF), with a good mix of business, conference and leisure travellers.

The bulk of international hotel guests come from other European countries, but the fastest growing share of guests is from Asia. The hotel market in the UK is made up of two parts. One part is London, which makes up just over half of the market. Then there are regional hotel markets, which make up the rest. London is one of the world's most attractive and dynamic destinations, with demand that is mainly international. The regional hotel market in the UK is more balanced, with a combination of domestic and international demand in large regional centres and stable domestic demand in other large towns and cities.

Manchester, Birmingham, Leeds, Glasgow, Belfast and Cardiff are examples of the former, while Sheffield, Bradford and Swindon are examples of the latter. RevPAR is roughly twice as high in London compared with the regional hotel market.

IRELAND HAS MUCH IN COMMON WITH THE UK

Ireland has a population of around 6.5 million and is a smaller market than the UK, but with a similar mix of local, regional and international demand. Dublin is its economic and cultural centre.

TOGETHER THEY MAKE UP PANDOX'S SECOND LARGEST MARKET

Following the acquisition of a total of 22 hotel properties in 2017, the UK and Ireland make up Pandox's second largest market after Sweden measured in terms of their share of the hotel portfolio's market value.

PANDOX'S HOTELS IN THE UK AND IRELAND

City	Rooms
London	1,002
Birmingham	445
Hinckley	362
Glasgow	321
Manchester	265
Sheffield	259
Leeds	248
Oxford	240
Swindon	229
Brighton	210
Bradford	198
Belfast	190
Dublin	182
Derby	164
Cardiff	142
Cork	133
Middlesbrough	132
Galway	130
Cheltenham	122
Inverness	118
Total	5,092

For more information regarding the investment climate and transactions in the UK and other countries, please see page 71. For a complete list of Pandox's hotel properties in the UK and Ireland see page 76–79.

1 LONDON

London is one of the world's biggest individual destinations with a high proportion of international demand from the business, leisure and conference segments. Pandox has three hotels in London: two airport hotels at London Heathrow and one city hotel in London Croydon.

Demand in 2017:

41 million rooms

London Heathrow Airport:

76 million passengers

Key figures 2017:

Occupancy: 82% ARR £149

RevPAR £122

2 MANCHESTER

Manchester is a city in north-west England with a population of around 2.5 million. Manchester is the third most visited city in the UK and an important centre both industrially and culturally.

Demand in 2017:

5 million rooms

Manchester Airport:

26 million passengers

Key figures 2017:

Occupancy 79% ARR £79

RevPAR £63

3 GLASGOW

Glasgow is Scotland's biggest city and the fourth most visited city in the UK. Glasgow is a regional economic and cultural hub with a diverse range of trade and industry and an attractive offering for leisure travellers.

Demand in 2017:

3 million rooms

Glasgow Airport:

9 million passengers

Key figures 2017:

Occupancy: 82% ARR £72

RevPAR £59

4 BIRMINGHAM

Birmingham is the UK's second largest city and is home to around 2.5 million people and six universities. Birmingham has a well-developed service sector and is a regional hub for transport, retail, events and conferences.

Demand in 2017:

3 million rooms

Birmingham Airport:

12 million passengers

Key figures 2017:

Occupancy: 75% ARR £69

RevPAR £51

5 DUBLIN

Dublin is Ireland's capital and economic centre and is home to nearly 2 million people. Many large international companies have their European headquarters in Dublin. The city also has an attractive entertainment offering and many international visitors.

Demand in 2017:

7 million rooms

Dublin Airport:

28 million passengers

Key figures 2017:

Occupancy: 83% ARR €137

RevPAR €113

6 BELFAST

Belfast is the capital of Northern Ireland and the second largest city on the island of Ireland. Belfast is Northern Ireland's economic centre and in recent years has benefited from a growing business sector and increased attractiveness as a leisure destination.

Demand in 2017:

1 million rooms

Belfast International Airport:

5 million passengers

Key figures 2017:

Occupancy 76% ARR £72

RevPAR £55

Hotel Market Day 2017

Theme: A dynamic and uncertain world – Implications for the hotel sector

More than 300 delegates from 15 countries attended Pandox's Hotel Market Day 2017. Pandox introduced the Hotel Market Day back in 1996 with the aim of reflecting on and analysing important macro trends and contributing added know-how to the hotel industry. Since then, the day has developed into a dynamic meetingplace for decision-makers within the international hotel industry.

WHAT DOES A DYNAMIC SOCIETY MEAN FOR THE HOTEL SECTOR?

The world today is more dynamic and uncertain than perhaps ever before. Developments in a number of scientific areas are turning established truths on their head.

The time from discovery to commercial use is shortened and many people find their lives changing. In some cases these changes result in alarm and conflict. The theme of Pandox's Hotel Market Day 2017 was "A dynamic and uncertain world – Implications for the hotel sector".

With the help of qualified experts in social development, a number of important issues for the hotel industry were analysed:

- Risks and opportunities in our world
- The macro economy in the long term
- The job market of the future
- Disruptive change
- New hotel concepts



Anders Nissen introduces Pandox's Hotel Market Day 2017

LIST OF EXTERNAL SPEAKERS AT HOTEL MARKET DAY 2017:

Managing the Opportunities and Risks of our Dynamic and Complex World

Ian Goldin, Professor, Oxford University

The Macro Economy from a Long-Term Structural Perspective

Annika Winsth, Chief Economist, Nordea

The Future of Work: Is This Time Different?

Carl Benedikt Frey, Oxford Martin Citi Fellow & Co-Director of the Oxford Martin Programme on Technology & Employment, Oxford University

The Dislocated World: Disruptive Change in a Time of Volatility

Chris Sanderson, Co-founder, The Future Laboratory

Hotel Concepts for the New Era

Hans Meyer, Co-Founder and Managing Director, Zoku

For more information on Pandox's Hotel Market Day visit www.pandox.se where you will also find the complete programme as well as the speakers' presentations.



The Pandox share

Good 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 167,499,999 divided into 75,000,000 A shares and 92,499,999 B shares. The shares are denominated in SEK and each share has a quota value of SEK 2.50. Only the B shares are listed on the stock exchange. The Articles of Association contain reservations concerning conversion of and pre-emptive

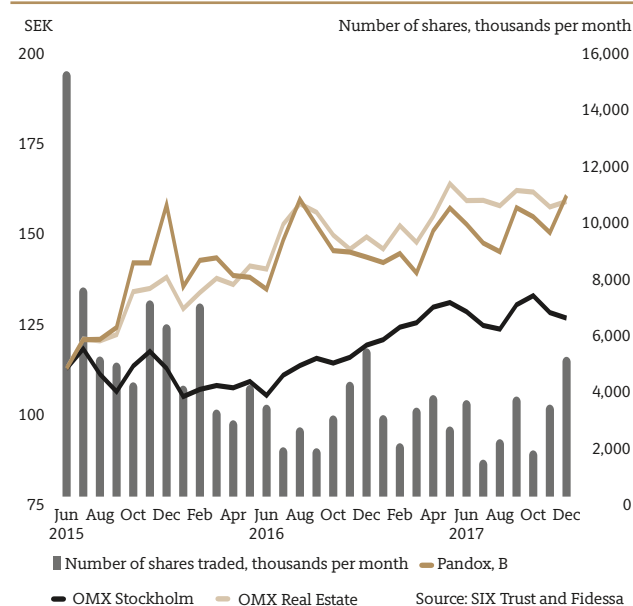
rights for the Company's A shares. All B shares are transferable without restriction. Each A share in Pandox entitles the holder to three votes at shareholders' meetings, while each B share entitles the holder to one vote at shareholders' meetings.

SHARE PRICE DEVELOPMENT AND MARKET CAPITALISATION

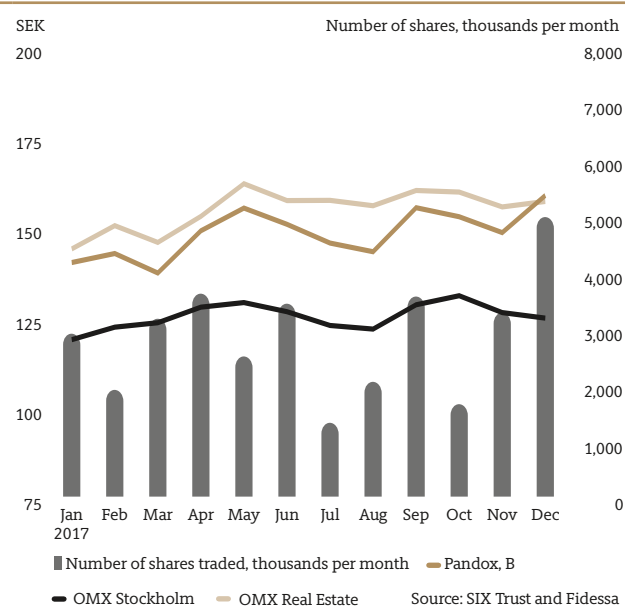
On 31 December 2017 the last price paid for the B shares was SEK 158.50 (141.40) and the visible market cap was MSEK 14,661

(11,665). With the unlisted A shares included at the same price as the B shares, the market cap was MSEK 26,549 (22,240). Calculated from the date of the listing on 18 June 2015, the value of Pandox shares at the beginning of 2017 had increased by 50 percent compared to 40 percent for the OMX Stockholm Real Estate PI Index and 7 percent for the OMX Stockholm Benchmark PI Index. In 2017 the value of the Pandox share increased by 12 (–9) percent, compared with the OMX

SHARE PRICE AND TRADING
18 JUNE 2015 – 31 DECEMBER 2017



1 JANUARY 2017 – 31 DECEMBER 2017



SHARE CAPITAL HISTORY

Year	Event	Change in number of shares		Number of shares after the transaction			Share capital, SEK	
		B	A	B	A	Total	Change	Total
1994	Formation	2,500	—	2,500	—	2,500	150,000	150,000
1995	New share issue	1,250,000	—	1,252,500	—	1,252,500	75,000,000	75,150,000
1995	Bonus issue	1,247,500	—	2,500,000	—	2,500,000	74,850,000	150,000,000
1997	4:1 split	7,500,000	—	10,000,000	—	10,000,000	—	150,000,000
1998	New share issue	5,000,000	—	15,000,000	—	15,000,000	75,000,000	225,000,000
2000	New share issue	9,900,000	—	24,900,000	—	24,900,000	148,500,000	373,500,000
2013	New share issue	100,000	—	25,000,000	—	25,000,000	1,500,000	375,000,000
2015	New share series and 6:1 share split	50,000,000	75,000,000	75,000,000	75,000,000	150,000,000	—	375,000,000
2016	New share issue	7,499,999	—	82,499,999	75,000,000	157,499,999	18,749,998	393,749,998
2017	New share issue	10,000,000	—	92,499,999	75,000,000	167,499,999	25,000,000	418,749,998

Stockholm Benchmark PI Index which rose by 7 (5) percent and OMX Stockholm Real Estate PI Index which rose by 7 (8) percent. With the dividend of SEK 4.10 added back, the Pandox share increased in value by 15 percent in 2017. The highest price paid for the shares during the year was SEK 161.70 (158.30) and the lowest was SEK 134.30 (121.50).

Trading on Nasdaq Stockholm accounted for 61 (64) percent of all trading in Pandox shares in 2017. Ongoing trading transacted directly on the stock exchange amounted to around 38 (44) percent and OTC trades reported on the stock exchange to around 45 (39) percent. Trading during

the stock exchange's opening and closing procedures and in dark pools amounted to around 9 (10) percent and 9 (7) percent respectively of the volumes traded.

During the year around 34 (42) million B shares were traded, corresponding to 37 (51) percent of outstanding B shares, for a value of just over MSEK 5.1 (5.9). Average daily trading in the same period amounted to 135,226 (167,589) shares, corresponding to around MSEK 20 (23) in value.

DIRECTED SHARE ISSUE

On 14 December 2017 Pandox completed a directed cash share issue of 10,000,000 series B shares, raising MSEK 1,480 before

transaction costs. The subscription price was set at SEK 148 in an accelerated book-building process. The new issue was implemented based on the authorisation the Board of Directors received at the Company's Annual General Meeting on 29 March 2017. The reason for the deviation from shareholders' preferential rights was to enable capital to be raised in a timely and cost-effective manner in order to finance acquisitions and increase the Company's financial flexibility and ability to continue creating value. A number of Swedish and international investors, including Eiendomsspar Sverige AB, Christian Sundt AB, Alecta, AMF, Handelsbanken Fonder and Swedbank Robur Fonder subscribed for shares in the new share issue.

PANDOX'S OWNERS

As of 31 December 2017, Pandox had 3,785 (3,627) shareholders. Pandox's largest shareholders were Eiendomsspar Sverige AB, Christian Sundt AB and Helene Sundt AB. Other major shareholders were, in descending order, AMF Försäkring och Fonder, Swedbank Robur Fonder and Länsförsäkringar Fondförvaltning AB.

SIZE OF SHAREHOLDING AS OF 31 DECEMBER 2017

Holding	Number of shareholders	Number of shares	% of capital	% of votes
1–500	2,995	374,948	0.2	0.1
501–1,000	238	206,388	0.1	0.1
1,001–5,000	246	603,486	0.4	0.2
5,001–10,000	63	466,152	0.3	0.2
10,001–15,000	24	297,546	0.2	0.1
15,001–20,000	27	483,967	0.3	0.2
20,001–	192	165,067,512	98.6	99.2
Total	3,785	167,499,999	100	100

Source: Euroclear

LARGEST SHAREHOLDERS AS OF 31 DECEMBER 2017

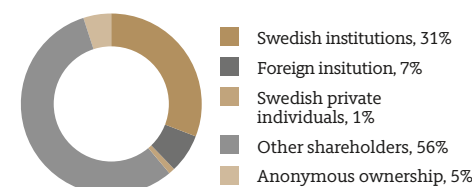
The 15 largest registered shareholders according to percentage of voting rights:

Shareholder	Number of A shares	Number of B shares	% of capital	% of votes
Eiendomsspar Sverige AB	37,314,375	8,964,375	27.6%	38.1%
Christian Sundt AB	18,657,187	4,427,188	13.8%	19.0%
Helene Sundt AB	18,657,188	3,657,187	13.3%	18.8%
AMF Försäkring & Fonder		16,069,172	9.6%	5.1%
Swedbank Robur Fonder		9,394,295	5.6%	3.0%
Länsförsäkringar Fonder		6,624,030	4.0%	2.1%
Alecta Pensionsförsäkring		6,096,647	3.6%	1.9%
Handelsbanken Fonder		3,618,124	2.2%	1.1%
Norges Bank		2,114,622	1.3%	0.7%
Fjärde AP-Fonden		1,825,256	1.1%	0.6%
BlackRock		1,682,463	1.0%	0.5%
Vanguard		1,527,649	0.9%	0.4%
AFA Försäkring		1,265,080	0.8%	0.4%
Cohen & Steers		1,035,105	0.6%	0.3%
Catella Fonder		991,999	0.6%	0.3%
Total 15 shareholders	74,628,750	69,293,192	85.9%	92.3%
Other shareholders	371,250	23,206,807	14.1%	7.7%
Total	75,000,000	92,499,999	100%	100%

Source: Monitor

SHAREHOLDERS BY CATEGORY

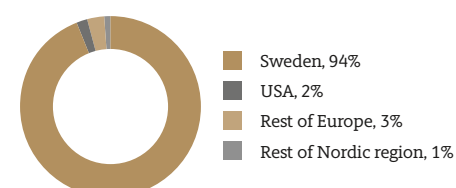
As percentage of capital, 31 December 2017



Source: Monitor

SHAREHOLDERS BY COUNTRY

As percentage of capital, 31 December 2017



Source: Monitor

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 earnings¹⁾, with an average dividend pay-out ratio over time of around 50 percent. Future dividend pay-out and the

size of such dividends depend mainly on Pandox's future performance, financial position, cash flows, working capital requirement and investment plans. As far as the capital structure is concerned, Pandox is aiming for a loan-to-value ratio²⁾ of 45–60 percent, depending on market development and current opportunities.

PROPOSED DIVIDEND

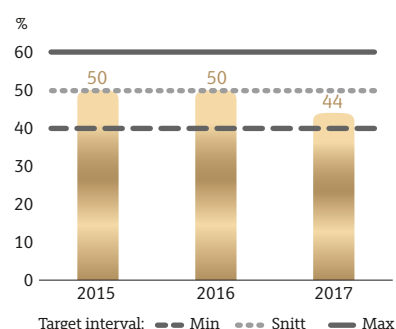
At the 2018 Annual General Meeting the Board of Directors will propose a dividend totalling MSEK 737 (646) for the 2017 financial year, which corresponds to SEK 4.40 (4.10) per share. The dividend is equivalent to 44 (50) percent of total cash earnings, which is at the lower end of Pandox's financial target range. The lower dividend pay-out ratio compared with the previous year must be seen in the context of further attractive acquisition opportunities.

FINANCIAL PERFORMANCE IN RELATION TO TARGETS

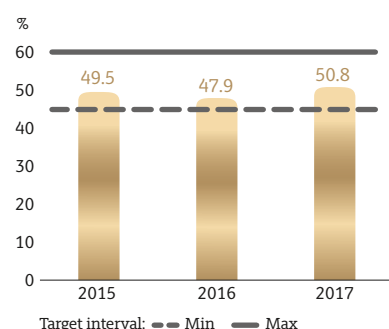
For 2017 the dividend pay-out ratio was 44 (50) percent of total cash earnings. At the end of the 2017 the loan-to-value ratio was 50.8 (47.9) percent. Both the dividend and capital structure targets were therefore well within the target range in the period 2015–2017.

Performance in relation to Pandox's financial goals

DIVIDEND PAY-OUT RATIO OF CASH EARNINGS, %



LOAN-TO-VALUE RATIO, %



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

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

Key ratios	2017	2016	2015	2014	2013
Key ratios per share, after dilution effects ^{1) 2)}					
Total net operating income, SEK	15.05	12.87	11.31	10.04	9.95
Profit for the year, SEK	19.89	14.65	14.21	8.35	6.31
Cash earnings, SEK ⁵⁾	10.46	8.49	7.53	5.82	4.10
Equity, SEK ⁵⁾	119.38	95.75	80.61	69.35	69.52
Net asset value (EPRA NAV), SEK	144.54	126.24	107.71	92.11	82.60
Dividend, SEK ³⁾	4.40	4.10	3.80	1.00	1.40
Market cap and return					
Market cap, MSEK	26,549	22,240	23,385	—	—
Return, Pandox shares, % ⁴⁾	12.1	–9.3	47.1	—	—
Return, OMX Stockholm Benchmark Index, % ⁴⁾	6.6	5.0	–4.3	—	—
Return, OMX Stockholm Real Estate Index, % ⁴⁾	6.7	8.2	21.4	—	—
Dividend pay-out ratio of cash earnings, %	42.1	50.1	50.5	—	—
Dividend pay-out ratio of EPRA NAV, %	3.0	3.2	3.5	—	—
Yield, %	2.8	2.9	2.4	—	—
Share data					
Closing price, B shares, SEK	158.50	141.40	155.90	—	—
Highest price during the year, SEK	161.70	158.30	158.70	—	—
Lowest price during the year, SEK	134.30	121.50	106.20	—	—
Average price during the year, SEK	147.87	139.02	121.06	—	—
Average daily trading volume, number of B shares ⁴⁾	135,226	167,589	362,044	—	—
Weighted average number of A shares, before dilution effects, thousands ¹⁾	75,000	75,000	75,000	—	—
Weighted average number of A shares, after dilution effects, thousands ¹⁾	75,000	75,000	75,000	—	—
Number of A shares at end of period, thousands ¹⁾	75,000	75,000	75,000	—	—
Weighted average number of B shares, before dilution effects, thousands ¹⁾	82,856	75,266	75,000	150,000	149,412
Weighted average number of B shares, after dilution effects, thousands ¹⁾	82,856	75,266	75,000	150,000	149,412
Number of B shares at end of period, thousands ¹⁾	92,499	82,499	75,000	150,000	149,412
Weighted average number of shares, total, after dilution effects, thousands ¹⁾	157,856	150,266	150,000	150,000	149,412
Total number of shares at end of period, thousands ¹⁾	167,499	157,499	150,000	150,000	149,412

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

²⁾ For definitions of key ratios, see page 154.

³⁾ For 2017 the Board's proposed dividend is stated.

⁴⁾ For 2015 measured from first day of listing, 18 June 2015.

⁵⁾ Attributable to the shareholders of the Parent Company.

Why invest in Pandox?

Good growth opportunities

Strong growth in the tourism and travel market

+4.0%

Expected annual growth 2017–2027 (WTTC)

Low market share in the hotel property market

<1%

Measured as available rooms in all Pandox markets

Strong market position

High profitability and good financial flexibility

50.8%

Loan-to-value ratio 2017

Expertise and capital make us an attractive partner to work with

Specialist expertise within the hotel industry, in hotel operation and in hotel investments

Balanced risk

Ability to act throughout the value chain

Capacity for operator activities reduces risk and creates opportunities

Diversified portfolio provides resilience

70/30

Distribution between domestic and international demand

PANDOX PROFILE



Anders Berg, Head of Communications and IR

What is Pandox's approach to external communication?

Pandox's three primary target groups are shareholders, business partners and employees. Communication with investors makes up the largest part of our external communication. Today Pandox has analysis coverage from seven banks and a well-diversified and strong institutional ownership structure. Coverage in the financial media is also good, both in Sweden and internationally. Overall, this bodes well for a fair assessment of the Company and its shares. Pandox's IR work is governed mainly by the Company's financial calendar and major business transactions, such as large acquisitions and partnership agreements. Important occasions for communication during the year include (1) interim reports, (2) Capital Market Day, (3) Hotel Market Day, (4) Annual Report and Annual General Meeting, as well as business transactions as they occur. In this respect 2017 has been an active year for Pandox.

How do you meet with investors?

Pandox's strategy is to be open and accessible. In 2017 we held a Capital Market Day and a Hotel Market Day in Stockholm that were attended by large numbers of people. We have also held lunch-time conferences and had many individual meetings in connection with the presentation of Pandox's quarterly reports. In addition, we have organised various international roadshows and taken part in a range of seminars organised by both Nordic and international investment banks. In between these we have had lots of meetings and hotel tours in Stockholm, and have also presented Pandox at various meetings of members of Aktiespararna, the Swedish Shareholders' Association.

What do you think are the challenges ahead?


As Pandox has grown and become increasingly international, interest in the Company and thus requirements of communication and accessibility have increased. In addition, there is MiFID 2, which risks leading to listed companies being less researched and thus creating more work for Pandox.

For more information on the development of the Pandox share, FAQs and analysts who follow Pandox see www.pandox.se

The business

Business opportunities throughout
the value chain





Pandox is an active hotel property owner with a business model based on long revenue-based leases 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. Pandox's ability to act throughout the hotel value chain creates new business opportunities while also minimising risk.

Overview, p 38

Property Management, p 40

Operator Activities, p 42

THIS IS PANDOX

THE MARKET

THE BUSINESS

SUSTAINABILITY REPORT

PROPERTY PORTFOLIO

FINANCIAL

CORPORATE
GOVERNANCE

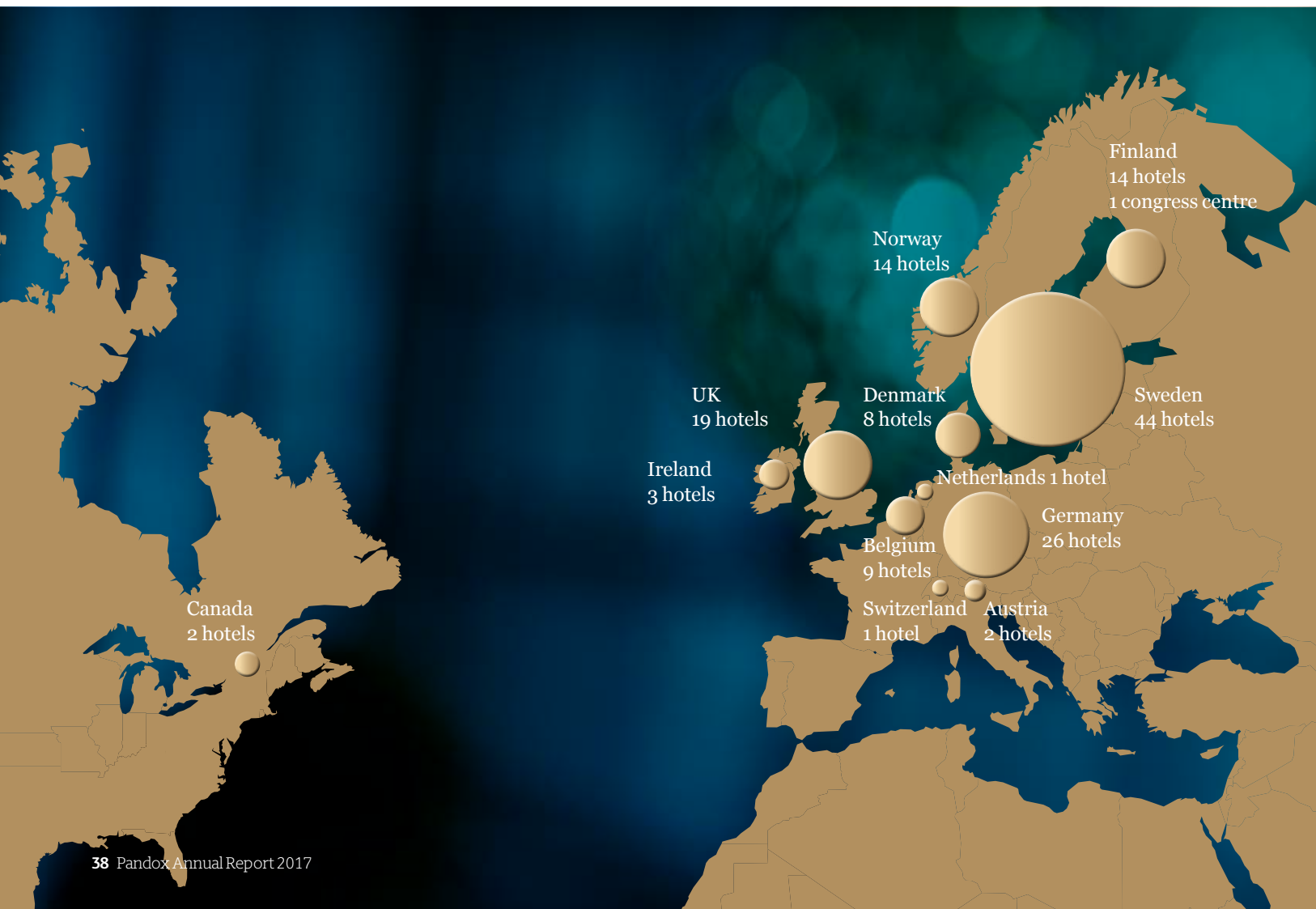
A property company specialising in hotels

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 revenue-based leases 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 tenants

At the end of 2017 Pandox's hotel property portfolio consisted of 143 hotels with a total of 31,613 rooms in 15 countries and a market value of MSEK 50,121. Of the hotel properties, 126 are 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 17 hotels are owned and operated by Pandox. In addition, Pandox has management contracts for 10 hotels.



Property Management

Read more on page 40

126

Owned and leased

Pandox's core business involves owning and leasing hotel properties to the best operators in the market. On 31 December 2017 the properties had a weighted average unexpired lease term (WAULT) of 15.6 years.

85%

MSEK 42,548 portfolio value

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

5.6%

Valuation yield

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

Operator Activities

Read more on page 42

17

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.

15%

MSEK 7,573 portfolio value

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

7.3%

Valuation yield

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

Pandox total

143

Hotel properties

Pandox's hotel property portfolio consists of a total of 143 properties in Europe with an average size of 221 rooms.

MSEK 50,121

Total market value

In 2017 the market value of the total hotel property portfolio increased by 31 percent.

Property Management

Good growth and improved profitability

For 2017 Property Management reported net operating income growth of 26 percent, driven by well-performing acquisitions, improved profitability and a strong hotel market. Adjusted for currency effects and comparable units, the increase was 4 percent.



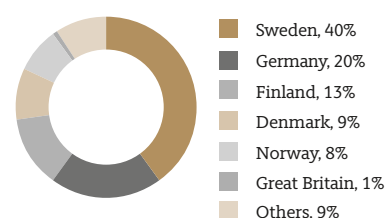
At the end of 2017 Pandox's Property Management segment consisted of 126 (98) Investment Properties with 26,386 (20,024) hotel rooms in 14 (9) countries and constituted around 85 (79) percent of the hotel properties' total market value. In 2017 total property revenue for Property Management amounted to MSEK 2,202 (1,787) and net operating income to MSEK 1,882 (1,495).

During the year 21 hotels were acquired in the UK and Ireland. Eight hotels (Urban House by MEININGER, Scandic Sørlandet, Scandic Valdres, Scandic Kista Stockholm, Scandic Sluseholmen, Scandic Lillehammer, Scandic Hafjell and Scandic Prince Philip) were reclassified to Property Management in the first and second quarter as a result of new revenue-based leases with MEININGER and Scandic Hotels Group. Scandic Grand Place was reclassified to Operator Activities when Pandox took over its operation in

the fourth quarter. On 1 February 2018 Hotel BLOOM! and Hotel Berlaymont were reclassified to Property Management as a result of a revenue-based lease entered into earlier with the tenant NH Hotels Group.

Property Management is a key component in Pandox's business model and is based on long revenue-based leases with good 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 70 (80) percent and Sweden for 40 (49) percent of the segment's revenue. The decrease 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 pages 24–29 and the section on Pandox's markets.

RENTAL INCOME BY COUNTRY 2017, %



Percentage breakdown of rental income by country in 2017 for Property Management.

TENANTS BY BRAND 31 DECEMBER 2017

Tenant	No. of hotels	No. of rooms
Scandic	50	10,851
Jurys Inn*	20	4,330
Leonardo	16	2,922
Nordic Choice Hotels**	12	1,955
Radisson Blu	5	1,358
NH	5	1,162
Hilton	4	1,115
Holiday Inn	2	494
Elite Hotels	2	480
First Hotels	2	403
MEININGER	1	218
Cumulus	1	135
Best Western	1	103
Independent	5	860
Total	126	26,386

* Leonardo is the tenant, but operates the hotels under the Jurys Inn brand.

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

WELL-KNOWN, STRONG TENANTS

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

LEASES WITH THE RIGHT INCENTIVES

Pandox's leases are mainly linked to the hotel's revenue and generally contain a minimum guaranteed rent clause. This makes it possible to achieve increased income in an improved market while also having downside protection in a weaker market. Pandox prefers revenue-based leases which normally include two rent levels:

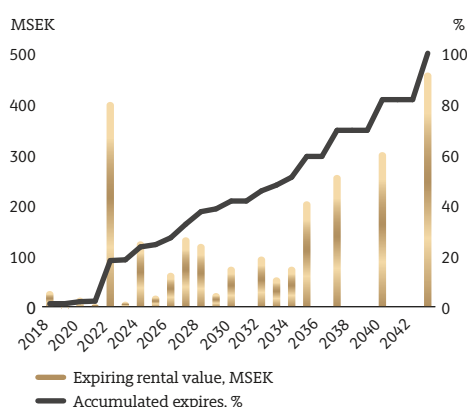
- (1) A higher percentage rent based on the operator's room revenue and the operator's conference room hire revenue.
- (2) A lower percentage rent based on other operator revenue, mainly revenue from food and beverages but also operator revenue that may be specific to the hotel's offering – such as parking 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 development project completed jointly by Pandox and Scandic Hotels Group, in which 40 hotels were refurbished and upgraded for a total of around MSEK 1,600. Pandox's share amounted to around MSEK 1,000.

Pandox works continually with its tenants to identify potential cash flow-driving investments in the existing property portfolio. 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 2017 Pandox's lease portfolio had a weighted average unexpired lease term (WAULT) of 15.6 (13.9) years. The lease maturity profile was further diversified in 2017 through the acquisition of 21 Investment Properties in the UK and Ireland.

LEASE MATURITY PROFILE 31 DECEMBER 2017



Pandox's leases 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 and other public areas, including fixtures and fittings. The property owner is typically responsible for technical investments and installations, 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 rent for Pandox. The long lease terms combined with the tenant's responsibility for maintenance and cash flow-driving investments mean that Pandox, as the hotel property owner, has a lower monetary responsibility for investments compared to an owner of a typical office building. Pandox estimates that hotel tenants contribute more than 50 percent of total investments over time.

ASSET MANAGEMENT PROVIDES VALUABLE KNOWLEDGE

Pandox Asset Management is a minor part of the Property Management business segment and manages hotel properties on behalf of external owners. Pandox Asset Management was established in 2015 as a tool to create new relationships in the hotel market and to improve Pandox's ability to monitor developments in the industry and the market. The current portfolio consists of nine hotels with a total of 1,795 hotel rooms in Oslo plus the hotel property Pelican Bay Lucaya Resort on Grand Bahama Island, which has 186 rooms. The property portfolio in Oslo and the Pelican Bay Lucaya Resort property are owned by Eiendomsspar AS and companies related to Helene Sundt AS and CGS Holding AS respectively, which are parties related to Pandox AB. Revenue from asset management assignments is reported under Property Management with the exception of the Pelican Bay Lucaya Resort property, which is reported under Operator Activities.

EXTERNAL ASSET MANAGEMENT ASSIGNMENTS 31 DECEMBER 2017

Hotel	No. of rooms
Oslo, Norway	
Clarion Collection Hotel Folketeatret	160
Clarion Collection Hotel Gabelshus	114
Grand Hotel Oslo by Scandic	283
Scandic Gardermoen	135
Scandic Helsfyr	253
Scandic Holberg	133
Scandic Holmenkollen Park	343
Scandic Oslo City	175
Scandic Victoria	199
Lucaya, Bahamas	
Pelican Bay, Lucaya, Grand Bahama Island	186
Total	1,981

Operator Activities

Recovery in Brussels boosted earnings

For 2017 Operator Activities reported net operating income growth of 13 percent, supported by a strong recovery in Brussels. Adjusted for currency effects and comparable units, net operating income increased by 28 percent.



At the end of 2017 Pandex's Operator Activities segment consisted of 17 (22) Operating Properties with a total of 5,227 (6,216) hotel rooms in 5 (7) countries and constituted around 15 (21) percent of the hotel properties' total market value. In 2017 revenue from Operator Activities amounted to MSEK 2,067 (2,158) and net operating income to MSEK 494 (439).

ACTIVE OWNERSHIP REDUCES RISK

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

to take over the operation of a hotel reduces the operational risk when leases expire, if the tenant cannot fulfil its obligations or in situations where hotels need to be completely renovated and it is not financially attractive at the time to lease to third parties. The goal is to sign new leases at commercially attractive levels. Pandex's deep knowledge of hotel operation also makes it possible to efficiently monitor tenant performance throughout the portfolio. Knowledge of operation also creates opportunities to carry out acquisitions of mixed portfolios that include both hotel properties and hotel operations.

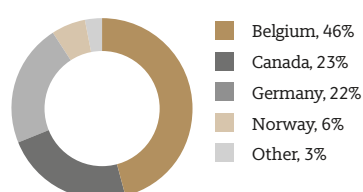
FULL OPERATING EXPOSURE

In the Operator Activities segment all of the hotels' revenue and net operating income flow to Pandex. 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 costs of reception, housekeeping and restaurant staff. Other cost items include the cost of goods sold, indirect costs and other hotel-related costs. Pandex works actively to develop revenue and distribution strategies to optimise the hotels' overall performance. The most important factor on the cost side for good profitability growth is productivity, which includes forecasting, as well as planning and monitoring of human resources at any given time for each individual hotel.

EXTERNAL AND OWN BRANDS

Pandex 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 2017,

OPERATOR ACTIVITIES' REVENUE BY COUNTRY 2017, %



Percentage breakdown of revenue by country in 2017 for Operator Activities.



eight hotel properties within Operator Activities were operated through franchise agreements (two with Crowne Plaza, two with Hilton, two with Radisson Blu and two with Holiday Inn), and three through management contracts (Hilton, Hyatt and InterContinental). The remaining properties are operated under independent brands owned by Pandox.

NEW LEASING AND TAKEOVERS IN 2017

Urban House by MEININGER was reclassified to Property Management in the first quarter. Scandic Sørlandet, Scandic Valdres, Scandic Kista Stockholm, Scandic Sluseholmen, Scandic Lillehammer, Scandic Haffell and Scandic Prince Philip were reclassified to Property Management in the second quarter as a result of new revenue-based

leases with Scandic Hotels Group. In conjunction with this Pandox also withdraw from its lease agreement with the related property owner Eiendomsspar AS for the operation of Grand Hotel Oslo. In addition, Scandic Grand Place was reclassified to Operator Activities when Pandox took over its operation in the fourth quarter. During the year Pandox also acquired Hotel Berlaymont and Hilton Garden Inn London Heathrow, and two 20-year revenue-based leases were also signed with the tenant NH Hotel Group for Hotel Berlaymont and Hotel BLOOM! in Brussels. The lease term started on 1 February 2018 and as of that date the hotel properties were reclassified to Property Management. With the leases in Brussels Pandox broke new ground in a market that has historically been dominated by franchise and management contracts.

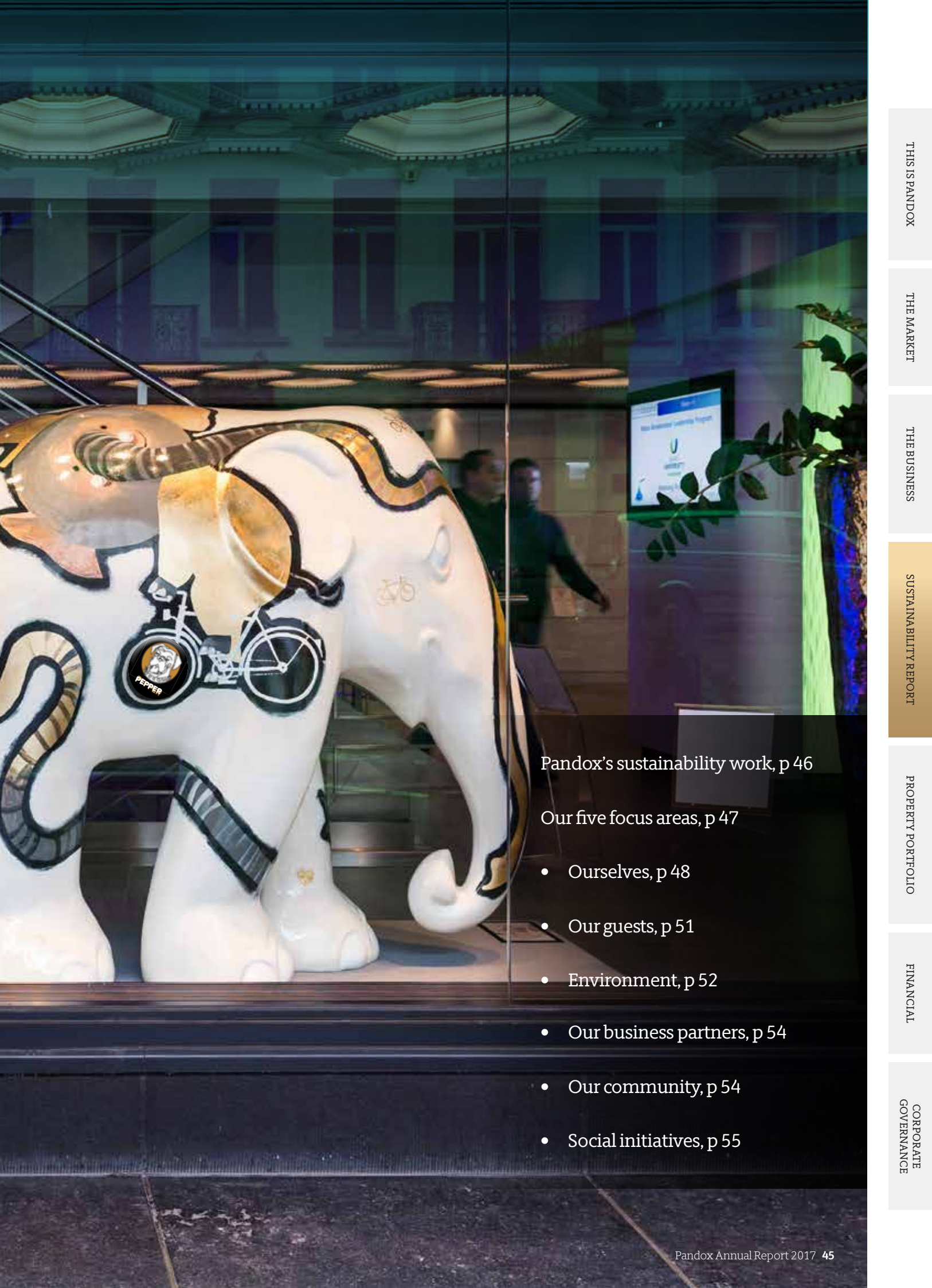


Sustainability Report

Business-driven sustainability work

hotelbloom

www.hotelbloom.com



Pandox's sustainability work, p 46

Our five focus areas, p 47

- Ourselves, p 48
- Our guests, p 51
- Environment, p 52
- Our business partners, p 54
- Our community, p 54
- Social initiatives, p 55

PANDOX'S CONTRIBUTION TO THE COMMUNITY

Pandox's vision is to be a world-leading hotel property company offering specialist expertise in the active ownership, management and development of hotel properties as well as hotel operations. Being a leader means constantly creating sustainable value for our stakeholders and earning their trust.

About this report

Pandox's Sustainability Report encompasses pages 44–55 and is based on the Company's five focus areas. The report is based on the GRI's global guidelines. This means that Pandox has conducted a dialogue with stakeholders and carried out a materiality analysis in order to obtain a complete picture of the aspects that are material to the business. The GRI index can be found on pages 149–151.

Pandox's Codes of Conduct

Pandox's Codes of Conduct for employees and business partners are based on Pandox Fair Play and are key governing documents. They reflect the Company's five focus areas and material sustainability aspects. Among other things, knowledge of the content of the Codes of Conduct is maintained by Group-wide online training in several languages.

Boundaries

Unless stated otherwise, information presented under the respective focus areas relates to activities at Pandox's head office in Stockholm and hotels in the Operator Activities segment. Hotels reclassified during the year are not included. Hotels operated under leases and hotels run by operators through management contracts with Pandox are excluded because opportunities to influence how the hotels are run are limited.

Pandox's sustainability work is kept relevant to the business. The Company works on sustainability and environmental issues at several levels – at executive management level and in steering groups with participants working in the areas of business operations, real estate and sustainability.

CONTACT

Director of Sustainable Business
Caroline Tivéus

Sustainability Report

Pandox Fair Play

Pandox's hotels are an important part of the infrastructure of the hospitality industry, which in turn fulfils an important function in society. Pandox has a great responsibility, but also great opportunities, to act in a way that is sustainable in the long term through proactive and preventive measures in areas where the hotels' footprint is greatest. At the same time, it is important that this work remains relevant to the business if it is to have maximum impact.

In 2017 Pandox worked on issues linked to the Company's focus areas, particularly energy, environmental management systems, Codes of Conduct and analysis of material sustainability risks. During the year Pandox has:

- Significantly reduced its emissions of greenhouse gases in Operator Activities by switching to renewable electricity.
- Completed the certification of seven hotels and begun the process of Green Key certification for nine hotels in Operator Activities.
- Achieved ISO 14001 certification for its head office as well as for Property Management in Sweden and Denmark.
- Implemented CDP reporting (Scope 1–2) for 2016 with a score of C.

- Mapped and measured strategic and operational sustainability risks.

In 2018 Pandox will focus on:

- Developing its organisation through a Director of Sustainable Business.
- Formulating a strategic sustainability plan with clear targets for the long and short term.
- Developing sustainability reporting.
- Identifying between one and three key issues where Pandox can be influential.
- Continuing to work in line with goals defined previously.

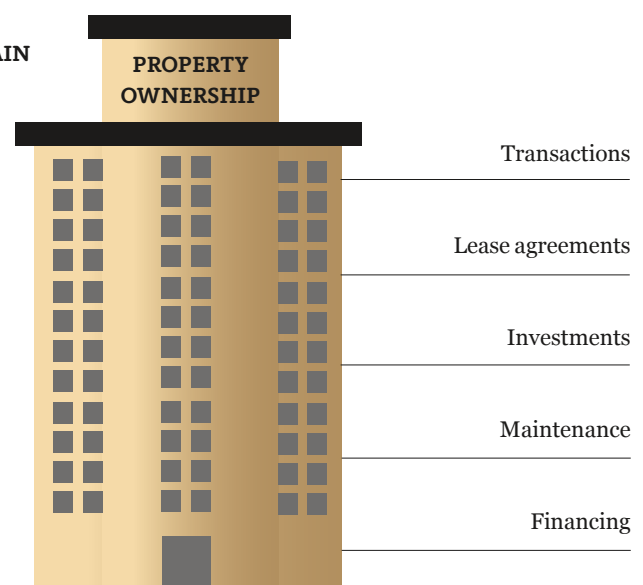
Put simply, Fair Play!

Anders Nissen,
CEO Pandox



PANDOX'S SUSTAINABILITY CHAIN

Pandox's core business involves owning and leasing hotel properties to the best operators in the market. In these cases the sustainability issues are mainly linked to the physical property, with no possibility of influencing the ongoing operations at the hotel. Where Pandox also runs the hotel operations within the property, this also creates opportunities to work actively on sustainability issues in the hotel's day-to-day operations.



STAKEHOLDER DIALOGUE IDENTIFIES KEY ISSUES

Pandox's sustainability work is based on the idea of profitable and sustainable growth as well as an understanding of external requirements and expectations. The basis for sustainability work is provided by a process in which, along with our key stakeholders, we identify relevant sustainability issues throughout the value chain. Based on stakeholder dialogue,

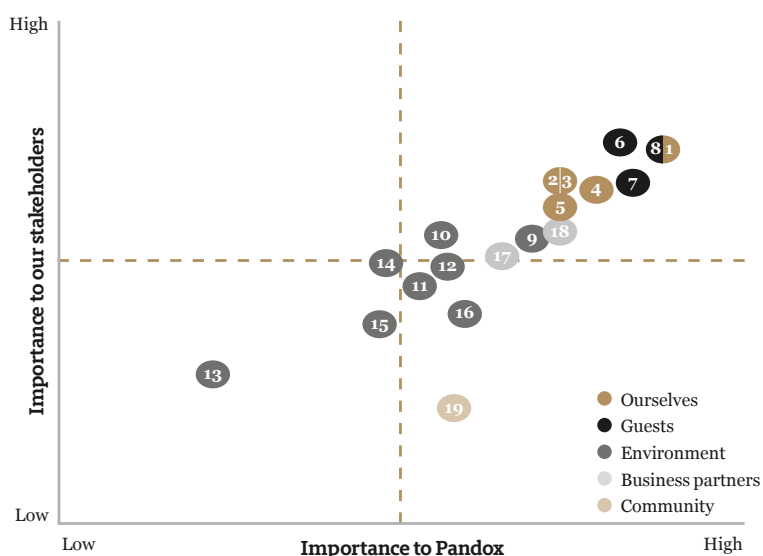
we define and establish material sustainability aspects and focus areas in a materiality analysis, taking into consideration the assessment by stakeholders and by executive management of the economic, environmental and social impact of these issues. The results are discussed and validated by a broad group of senior executives within Pandox.

Pandox's main stakeholders

- Shareholders
- Hotel operators and business partners
- Employees
- Hotel guests
- Business analysts and the media
- Interest groups
- Communities

THE MATERIALITY ANALYSIS CREATES FOCUS

Relevant to economic, environmental and social impact



MATERIAL ISSUES

Ourselves

- 1 Health, safety and security of employees
- 2 Fair labour practices (including diversity and equality)
- 3 Employee satisfaction
- 4 Hospitality skills and availability of skilled staff
- 5 Anti-corruption

Our guests

- 6 Guest satisfaction
- 7 Privacy and data security
- 8 Health, safety and security of our guests

Environment

- 9 Energy (& emissions)
- 10 Waste
- 11 Water
- 12 Choice of materials
- 13 Environmental impact from transport
- 14 Chemicals
- 15 Use of certified products
- 16 Building certification for our hotels
- 17 Sustainability procedures for procurement and purchasing
- 18 Fair labour practices for our subcontractors

Our community

- 19 Social responsibility in the community

PANDOX'S FIVE FOCUS AREAS

Based on stakeholder dialogue and the materiality analysis, five focus areas have been identified for Pandox's sustainability work:



Ourselves

Employer of choice

Aspects

- Health, safety and security
- Fair labour practices
- Skills and availability
- Anti-corruption



Our guests

Customers' choice

Aspects

- Guest satisfaction
- Privacy and data security
- Health, safety and security



Environment

Green footprint

Aspects

- Energy and emissions
- Water
- Waste



Our business partners

Quality of value chain

Aspects

- Sourcing and procurement practices
- Fair labour practices



Our community

Interest groups

Aspects

- Social responsibility



Ourselves



Pandox's employees are the Company's most important asset and thus one of the most important stakeholder groups. Without motivated, skilled employees Pandox would not be able to create sustainable growth. Based on the materiality analysis, the Company has identified (1) health, (2) safety and security, (3) fair labour practices, (4) skills and availability, and (5) anti-corruption as key matters. Pandox's task is to deliver in these areas in order to provide the right conditions for employees to succeed in their roles and achieve job satisfaction.

VALUES FROM HANDBALL

Pandox aims to have an agile, creative and business-driven corporate culture supported by specialist expertise and efficient

management systems. It is the individuals that make Pandox unique, and we therefore work continually on skills development and career planning. Pandox's corporate culture shares the same basic values as in the game of handball. Handball is one of the world's toughest sports with high levels of intensity and excitement, while also being a very equal sport in that there are equal numbers of male and female participants. Add to this individual freedom, mutual respect, trust, cooperation, creativity, passion and integrity, and you have Pandox Fair Play. An environment where co-workers create sustainable growth together.

EMPLOYEE SATISFACTION

Employee satisfaction is measured on an ongoing basis in Operator Activities, with the aim of continually improving the outcome. In 2017 average employee satisfaction in Operator Activities (based on weighing together different measurements from each hotel) was 79 (75) percent.

The goal is to increase the average level of employee satisfaction to over 85 percent over a three-year period for hotels that have been included in Operator Activities for one year or more. Employee satisfaction is a function of many different factors, but is often lower in underperforming hotels and in hotels that have recently been taken over, and higher in developed hotels that are performing well.

HEALTH AND SAFETY

Pandox wants to offer all employees a safe and secure work environment. Pandox ensures that employees have the skills and training required to follow the safety routines that are applicable to their respective roles and areas of responsibility, as well as being aware of possible risk factors in their daily tasks. During the financial year Pandox received no complaints concerning working conditions.

Health and safety committee and officers

In 2017 all the hotels within Operator Activities held regular meetings at which management representatives met with safety representatives and employees representing all those employed at the hotel in question. The aim is to systematically develop and nurture a sound work environment and good staff health, as well as to identify and prevent any risks associated with the workplace. At these meetings topics of discussion include physical and social working conditions, safety routines, skills development and relevant staff training.

In 2017 training in CPR was provided at the head office and defibrillators were installed.

Healthy employees are happy employees

At Pandox, we like sports and we offer our employees competitive fitness benefits.



As part of Pandox Movement, we encourage our employees to challenge themselves and each other – for example, by participating in leisure or competitive events such as marathons, cycling or skiing. Pandox Movement often participates in various charity races.

FAIR LABOUR PRACTICES

Our aim is for everyone who works for us to have to a fair and good work environment. We comply with international and national regulations and guidelines concerning human rights and equality. All employees must have written employment contracts and are entitled to reasonable compensation corresponding to the highest statutory minimum wage or applicable industry standards, as well as being entitled to statutory leave and benefits.

Diversity and equality

The equal value of all human beings is a basic pillar of Pandox's values. We strive for diversity and equality. We treat all employees equally and with respect, regardless of ethnicity, national origin, skin colour, education, age, disability, sexual orientation, gender or religion. All Pandox employees are to be offered and have the right to a work environment free from discrimination, harassment, degrading treatment, punishment or threats. No incidents of discrimination were reported in 2017.

ETHICS, LAWS AND TRANSPARENCY

Pandox has Codes of Conduct that reflect the Company's five focus areas and material sustainability aspects. We train our employees in material aspects, including through mandatory Group-wide online training. Anti-corruption forms an important part of the online training, along with security and business ethics.

The goal is for all employees to complete the training every year. In 2017 a total of 30 (40) percent, corresponding to 679 (560) individuals, completed the training. This means that the majority of employees have now completed the training since it was introduced in 2015. In addition, a number of locally adapted training programmes are implemented every year within Operator

Activities. These cover such aspects as sustainable leadership, energy efficiency, health and safety, the environment, customer service and other specific skills.

Whistleblower service

Pandox has an independent whistleblower function that is open to all employees and external stakeholders. Any suspected serious irregularities, incidents or deviations from Pandox's ethical guidelines can be reported there anonymously. The reporting function is provided by an external party in order to ensure independence. No incidents were reported in 2017.

Pandox's Codes of Conduct for employees and for business partners can be found at www.pandox.se/sustainability.

PANDOX PROFILE



Erik Hvesser, SVP, Director of Property Management Nordics

What is your background? I've worked in the hotel industry for a long time and know the business environment well. I joined Pandox in 2006 and since then I've worked in the borderland between hotel properties and hotel operation.

What are the most important aspects of sustainability? Hotel properties have many different sustainability aspects. Mainly it's about energy, water and waste. In my business area it is the tenants that are responsible for day-to-day running of the hotel, and we work with them to find joint projects in the area of sustainability. That could be anything from simple measures such as LED lighting and water-saving toilets to more complex energy projects such as solar cells.

Can we talk of commercial goals in the area of sustainability? Yes, we try to keep a business perspective on sustainability matters – in other words, projects with a positive return for both Pandox and the tenant. Sustainability is an important part of the task of creating competitive hotel products and one of our goals is to get even closer to our tenants on these matters.

Disclosures for 2017¹⁾

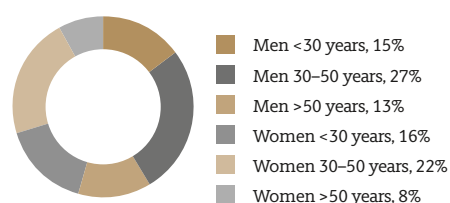
- Number of reported complaints about working conditions: 0
- Number of reported incidents about discrimination: 0
- Number of incidents in the whistleblower service: 0
- Percentage of employees trained in anti-corruption (as part of the Group-wide online training): 30 percent (corresponding to 679 individuals).
- Percentage of employees covered by health and safety committees: 100 percent.
- Percentage of employees covered by collective bargaining agreements: 85 percent.
- Occupational disease rate (ODR): <0.09‰.
- Employee satisfaction within Operator Activities: 79 percent.

Targets

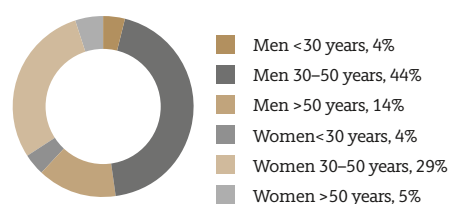
- 100 percent of Pandox employees to complete the Group-wide Codes of Conduct and anti-corruption training on an annual basis.
- Constant improvement within Operator Activities, with employee satisfaction exceeding 85 percent within three years for hotels that have been included in this business segment for one year or more.

¹⁾ For boundaries see page 46.

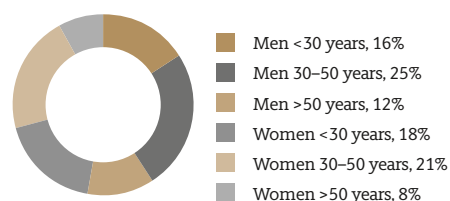
GENDER AND AGE DISTRIBUTION, OPERATOR ACTIVITIES



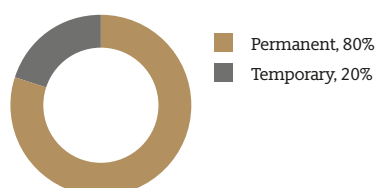
GENDER AND AGE DISTRIBUTION, SENIOR EXECUTIVES OPERATOR ACTIVITIES



GENDER AND AGE DISTRIBUTION, OTHER EMPLOYEES, OPERATOR ACTIVITIES



EMPLOYMENT TYPE OPERATOR ACTIVITIES



The average number of employees in 2017 was 1,214 (1,422)
Broken down by country and gender as shown below.

Average number of employees	Group		Parent Company	
	2017	2016	2017	2016
Women	590	695	13	12
Men	624	727	14	13
Total	1,214	1,422	27	25
Board of Directors				
Women	3	2	3	2
Men	5	5	5	5
Total	8	7	8	7
Senior executives				
Women	2	3	2	3
Men	8	5	6	4
Total	10	8	8	7
Hotel managers¹⁾				
Women	1	4	—	—
Men	16	15	—	—
Total	17	19	—	—
Average number of employees by country				
Sweden	37	58	27	25
Belgium	493	418	—	—
Germany	258	262	—	—
Canada	318	350	—	—
Denmark	10	58	—	—
Finland	24	25	—	—
Norway	74	251	—	—
Total	1,214	1,422	27	25

¹⁾ Refers to Operator Activities (excluding hotels run by operators under management contracts with Pandox).

AVERAGE TIME SPENT ON TRAINING, OPERATOR ACTIVITIES, HOURS

	2017	2016 ¹⁾
Women	2.9	—
Men	3.0	—
Total	3.0	—

¹⁾ No data.

BREAKDOWN OF HOURS PER AREA OF TRAINING, OPERATOR ACTIVITIES

	2017	2016 ¹⁾
Other training	2.6	—
Fair Play	0.4	—

¹⁾ No data.

EMPLOYEE SATISFACTION, OPERATOR ACTIVITIES

	2017	2016
Employee satisfaction, aggregate, in %	79	75

Our guests

Pandox's main task is to deliver excellent guest experiences. This requires the Company's employees to have the right skills and to be continually offered individual and work-related training, and also requires the hotel products to be attractive and competitive. All this is essential for sustainable growth.

GUEST SATISFACTION

In 2017 Pandox invested around MSEK 300 in Operator Activities in the form of renovations and upgrades, in order to improve the guest experience through, for example, more modern rooms and more attractive public areas. Major renovations were carried out at Hyatt Regency Montreal, Hotel Berlin, Berlin, Hotel Berlaymont in Brussels and Hilton Grand Place in Brussels.

Through a combination of improving the physical hotel products, the hotels' management and leadership and the employees' efforts, the average level of guest satisfaction in Operator Activities increased to 81 (78) percent in 2017. Pandox's long-term objective is for guest satisfaction to exceed 80 percent for hotels that have been included in Operator Activities for one year or more.

PRIVACY AND DATA SECURITY

Data security and customer privacy are key issues. Training takes place locally at each hotel as well as via the mandatory Group-wide online training programme

that also covers data security and customer privacy. Guidelines and instructions on data security and customer privacy can be found at all hotels within Operator Activities. No substantiated complaints concerning breach of customer confidentiality or loss of customer data were reported in 2017.

SECURITY AND BUSINESS ETHICS

All Pandox hotels within Operator Activities have contingency plans and security policies. Employees are trained continually in security and business ethics, which are also included in the Group-wide online training programme. No incidents of non-compliance concerning the health and safety impacts of products and services were reported in 2017.

In addition, a number of locally adapted training programmes relating to safety are implemented at hotels within Operator Activities.



Wall of fame

Selected awards



URBAN HOUSE COPENHAGEN

Runner up for Best Hostel on Rough Guides.

Guest Review Award Winner on Booking.com.

Certificate of Excellence on TripAdvisor.

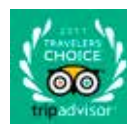


CROWNE PLAZA BRUSSELS – LE PALACE

Luxury Travel Awards Winner.

Guest Review Award Winner on Booking.com.

Cvent Top 50 Meeting Hotels in Europe.



LILLEHAMMER HOTEL

Trip Advisor's Travellers Choice 2017.

Top 100 SkiHotels, #lovedbyguest on Hotels.com.



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

Best business hotel in Finland. World Travel Awards.

HILTON HELSINKI STRAND

Best hotel in Finland. World Travel Awards.

THIS IS PANDOX

THE MARKET

THE BUSINESS

SUSTAINABILITY REPORT

PROPERTY PORTFOLIO

FINANCIAL

CORPORATE GOVERNANCE



Environment

Pandox strives to minimise the environmental footprint of its operations by using natural resources such as energy, water and materials in a responsible and sustainable manner.

We do this by identifying and documenting the environmental impact of our property investments and by continuously implementing efficiency and improvement projects throughout our operations.

Pandox has an Environmental Policy which describes what expectations we have of ourselves and our business partners. The Environmental Policy is included in the Group-wide online training programme. The Environmental Policy also forms a part of every new employee's workplace orientation and, as of autumn 2016, is included in all employment contracts. Pandox also expects its business partners to respect this Environmental Policy. Pandox applies the Precautionary Principle.

A REDUCED ENVIRONMENTAL FOOTPRINT IN COOPERATION WITH STRONG OPERATORS

Pandox works actively with a number of tenants that have been implementing effective

environmental measures for many years, such as Scandic Hotels Group. Shark, the joint investment project conducted by Pandox and the Scandic Hotel Group, is an example of a close partnership that has contributed to a reduced environmental footprint. During the years 2011–2017 Pandox and Scandic together refurbished and upgraded 40 hotel properties for a total of around MSEK 1,600, of which Pandox's share was approximately MSEK 1,000.

Within this project, materials and technical solutions with low environmental impact were chosen – for example, water-saving toilets and taps, self-adjusting ventilation systems with heat recovery, key card activated lightning, underfloor heating with timers and other modern heating systems. In addition, the project included new windows and switching to LED lighting in most hotel properties. The project has reduced the use of both energy and water.

Scandic Backadal in Gothenburg and Scandic Sundsvall Nord are two hotels included in the investment programme where clear savings have been achieved.

Between 2010 and 2017 Scandic Backadal's total annual energy consumption decreased by 27 percent. For Scandic Sundsvall Nord the reduction was 25 percent. Expressed as energy consumption per guest night, the reductions were 38 percent and 32 percent respectively.

ENVIRONMENTAL CERTIFICATION

The majority of Pandox's hotel properties have some kind of environmental certification (see pages 72–79). The Company's long-term goal is for all the hotels to have environmental certification in order to increase the quality, and thus the efficiency, of Pandox's overall environmental work. In Operator Activities Pandox is able to fully influence the process, and here Green Key certification is being implemented throughout the portfolio. In Property Management there are various kinds of environmental certification, of which the Nordic Swan ecolabel is the most common since Scandic has chosen this system.

REPORTING TO CDP

In 2017 Pandox reported its emissions of greenhouse gases to the Carbon Disclosure

KEY RATIOS, ENVIRONMENT – OPERATOR ACTIVITIES¹⁾

	2015	2016	2017
Environment			
Energy (MWh) ²⁾	9,058	9,967	5,067
Electricity (MWh)	25,467	24,460	19,229
Gas (MWh) ³⁾	25,463	26,675	25,610
Total (MWh)	59,988	61,101	49,905
kWh per guest night	38	37	44
kWh per square metre	221	230	226
Water (L) per guest night	214	191	216
Emissions (metric tons CO₂e)⁴⁾			
From energy	929	906	374
From electricity	7,762	6,779	2,207
From gas	4,683	4,906	4,700
Total emissions (metric tons CO₂e)	13,374	12,591	7,281
Kg CO ₂ e per guest night	8.5	7.7	6.4
Kg CO ₂ e per square metre	49.4	46.5	33.0

¹⁾ Refers to Operator Activities excl. hotels run by operators under management contracts with Pandox and hotels that were reclassified to Operator Activities in 2017. Square metres per hotel refers to the heated area of the hotel.

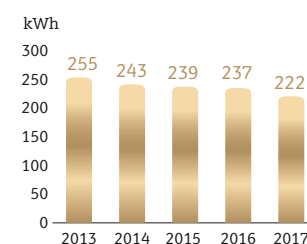
²⁾ Refers to energy from district heating and cooling that is used to run the hotel – through e.g. ventilation, lighting and operations – and from pellets (negligible amount). Pandox gives priority to district heating for heating and district cooling rather than local cooling systems.

³⁾ Refers to natural gas, town gas, LPG, diesel and other fuels.

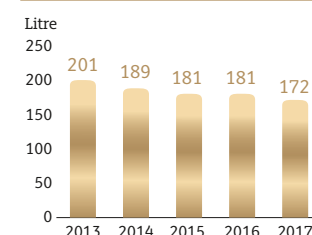
⁴⁾ Conversion factors based on values obtained from suppliers (market-based).

Use of resources in hotel properties where Scandic is the operator

ENERGY USE PER M² AND YEAR



WATER CONSUMPTION PER GUEST NIGHT



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

Project (CDP) for the first time. The result (Scope 1–2) was a score of C for the reporting year 2016.

ISO 14001

In 2017 Pandox's head office was certified to the environmental management system ISO 14001, along with Property Management in Sweden and Denmark. The environmental management system helps systematise and structure how Pandox works on maintenance and investment projects. Potential energy savings can then be identified and sustainable choices made. The goal is for the operations in other countries also to be certified to this standard.

Green Key

At the end of 2017 seven hotels within Operator Activities were Green Key certified, and the certification of a further nine hotels was in progress. The majority of Pandox's hotels within Operator Activities are in countries outside the Nordic region where Green Key is a well-known environmental certification system. Green Key-certified hotels adhere to strict guidelines which are set by the Foundation for Environmental Education (FEE) and customised to national conditions. The certification requires annual follow-up and control, with requirements of thorough documentation of environmental and social factors, and involves the management at each hotel as well as at the business area level. Green Key also has a strong emphasis on providing information to and involving guests in the hotel's environmental and sustainability efforts, and requires staff to be well informed and trained within the area of sustainability. A Green Key certified hotel must continuously adapt its operations to new sustainable methods of operation as well as to new technology, to ensure that the total environmental impact is reduced through lower usage of energy and water as well as through less waste.

Nordic Swan

At the end of 2017 a total of 45 out of 50 hotel properties operated by Scandic had been awarded the Nordic Swan ecolabel. The remaining hotels are expected to gain

the Nordic Swan ecolabel in 2018. The Nordic Swan is the leading ecolabel in the Nordic region and is thus appropriate in view of the hotels' geographical locations and main guest base. Like Green Key, the Nordic Swan has tough criteria concerning energy, water, chemicals, waste management and recycling. The Nordic Swan is also an important sustainability tool for public and private procurement and purchasing.

INCREASED SHARE OF RENEWABLE ENERGY

The share of renewable energy used in Operator Activities increased in 2017. In March 2017 Pandox changed its electricity supplier for six hotels in Belgium, thereby switching to 100 percent renewable energy from wind. In Germany three hotels switched to green electricity when existing energy contracts expired. The remaining hotel in Germany switched to green electricity on 1 January 2018. The switch contributed to a reduction in total emissions of greenhouse gases – for a comparable portfolio in Operator Activities – of around 42 percent compared with January 2016. Measured in relation to the number of guest nights, emissions of greenhouse gases reduced by 18 percent.

CHARGING POINTS FOR ELECTRIC CARS

A number of the hotels within Operator Activities have installed charging points to facilitate and promote the use of eco-friendly cars. In 2017 work on creating space for more charging points continued.

WE MEASURE AND FOLLOW UP

Pandox has implemented information systems for the Belgian hotels within Operator Activities to measure water and energy consumption, with the aim of improving efficiency. The systems immediately register any discrepancies in daily resource consumption, making it possible to catch any water leaks early on to ensure quick damage limitation and thus minimise the costs of any clean-up and repairs caused by the water leak. The systems thus contribute to limiting the risk in everyday operations, while also forming a basis for more efficient use of resources in line with Pandox's goals.

Disclosures for 2017¹⁾

- Total greenhouse gas emissions: 7,281 metric tons CO₂e, which is equivalent to 6.4 kg CO₂ per guest night and 33.0 kg CO₂ per square metre.
- Water consumption: total consumption 246,343 litres (216 litres per guest night).
- Number of Green Key certified hotels: seven hotels within Operator Activities, with a further nine in the certification process.
- Head office and Property Management in Sweden and Denmark certified to ISO 14001.

Targets

- Halving of greenhouse gas emissions by 2020 for comparable portfolio in Operator Activities.
- Certify other Nordic countries to ISO 14001.
- Initiate and deepen partnerships with our largest tenants.
- Continue to work to include and engage hotel guests in our efforts to reduce our environmental footprint.

¹⁾ For boundaries see page 46.





Our business partners

Pandex owns and operates sizeable full-service hotels with strategic locations in significant markets and has a large number of partners, such as tenants, suppliers and investors. Pandex has a long-term perspective on business, and endeavours to achieve long-term partnerships. At the end of 2017 the average remaining lease term in Property Management was 15.6 years.

By showing respect for good business ethics and sound business practices, Pandex wants to contribute to a sustainable society in which businesses take economic, social and environmental responsibility.

Pandex expects its business partners to respect its values and ambitions regarding sustainable business.

In 2016 a Code of Conduct for business partners was formulated. The Code is based on Pandex's five focus areas for sustainability and the ten principles of the UN Global Compact (www.unglobalcompact.org), and describes the expectations Pandex has of its business partners (suppliers, contractors, consultants and service partners). At the end of 2017 around 75 percent of Pandex's business partners had approved the Code of Conduct. Since autumn 2016 the Code has been included in the documentation when Pandex enters into or renews agreements. In Pandex's largest business segment, Property Management, we intensified our collaboration on sustainability matters with some of our largest tenants in 2017.

Disclosures for 2017¹⁾

- At the end of 2017 around 75 percent of Pandex's business partners had approved Pandex's Code of Conduct for business partners.

Targets

- More than 75 percent of existing business partners to approve Pandex's Code of Conduct.
- Code of Conduct to be part of all new significant supply and franchise contracts signed.
- Continuous development of all collaborations with our tenants in Property Management.
- Develop and implement a reporting system for self-assessment.

¹⁾ For boundaries see page 46.



Our community

As well as taking economic and environmental responsibility, Pandex wants to help promote community development in areas where the Company has particular knowledge, expertise and interest. This can also be done in partnership with others. Pandex has therefore started and supports a number of community initiatives to achieve this ambition.

PANDEX YOUTH HANDBALL MOVEMENT, KENYA

In 2012 Pandex and MSG – a local Kenyan handball club in the city of Nyeri, north-west of Nairobi – together started a project to create better future opportunities for vulnerable children and young people by giving them a meaningful leisure activity. The aim was to lay the foundation for a venture that would be self-supporting in five years' time. Pandex's support mainly consists of funding training for leaders and handball coaches, and ensuring that the project has a clear plan for expansion, leagues and scholarship programmes – something that is reviewed and evaluated jointly with the local organisation. Since its inception, the number of active club members has increased from 400 to over 2,100.

In addition, Pandex has contributed to annual training camps for children and young people. The camps provide handball training combined with information and counselling in areas such as relationships, HIV and sustainability. In February 2017 the Pandex Training Course was held for sixth consecutive year. Around 350 children participated in the 2017 training camp which, as in previous years, was held in conjunction with the largest handball tournament in the country. In 2017 the project and the enterprise were handed over to be run by MSG.

Development of Mount Kenya Sports Group (MSG) Facts for 2017 compared with starting year of 2012

Members:	2,400 (400)
MSG Centres:	25 (8)
Coaches:	48 (11)
Scholarships (14–17 year olds):	80 since 2012
Leagues:	4 (2)
Participating handball teams, Pandex Kenya Trophy	120 (69)
Games played:	840 (224)
Important milestones:	
2012	Opening of MSG's office
2013	League play starts



A selection of social initiatives by our hotels

LIFE CYCLE THINKING ...

At Pandox we want to contribute to sustainable development and to work locally. When it was time for First Hotel Copenhagen to replace the quilts and pillows used in all its 215 rooms, the management decided to give the items to the homeless and other people in need in the local area. The hotel paid for transport and the items were handed over 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. The donation of the quilts and pillows was greatly appreciated, and the hotel encourages others to do the same.

Many other hotels in Operator Activities have similar local initiatives and, among other things, have donated bedding, toiletries and clothes to the homeless. There are many people in need and it is important to think locally when it comes to smart recycling.

... AND COMPASSION

In Brussels a number of our hotels have initiatives to help the homeless. As an example, Crowne Plaza – Le Palace works with the Red Cross to offer shelter for homeless families during the coldest weeks of winter. Hotel Bloom! donates buffet food to Semu Social, an organisation which then redistributes the food to the city's homeless.

Disclosures for 2017¹⁾

- Worked with the city administration in Brussels to provide temporary accommodation for families seeking asylum.
- Supported Elephant Parade as a platform for increased interaction in local areas of Brussels.
- All hotels within Operator Activities worked actively on various local social initiatives. The projects are described and evaluated twice a year in the reporting system for Pandox hotels within Operator Activities.

Targets

- To live where we operate.
- To follow guidelines on social sustainability within the Green Key framework.
- To identify and follow up on social initiatives on the basis of Pandox Fair Play.

¹⁾ For boundaries see page 46.

Around Christmas time all our Belgian hotels collect gifts that are forwarded via the "shoebox project" run by Belgian not-for-profit organisation Les Samaritains. Each box contains more than 10 items of food and drink and is wrapped as a Christmas gift for distribution to people in need through various organisations. Similar initiatives take place around Christmas time at Radisson Blu Bremen, Radisson Blu Dortmund, Lillehammer Hotel and Urban House Copenhagen. Employees at Pandox's head office together wrap gifts that are given to the women and children at a local shelter.

... WITH A LOCAL FOCUS

Pandox took over the operation of Scandic Grand Place in Brussels on 1 December 2017 when its lease expired. While awaiting renovation Pandox made the hotel available

to the city administration in Brussels as accommodation for families seeking asylum. Although this was a temporary initiative, it helped alleviate the effects of a major social challenge.

In autumn 2017 Pandox's Belgian hotels purchased eight decorated elephants from the social enterprise Elephant Parade, which works to improve conditions for elephants in Asia. As well as supporting the work done by Elephant Parade, Pandox wanted to raise interest in the hotels and engage people in the hotels' immediate environments. Pictures of the elephants, in their natural hotel habitats, can be found on various pages in the Annual Report. The initiative attracted a great deal of interest and reached many people – not least on social media.

Pandox AB (publ)

The Board of Directors, 5 March 2018

Auditor's review of the sustainability report

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

ASSIGNMENT AND DIVISION OF RESPONSIBILITY

The Board of Directors is responsible for the sustainability report for the year 2017 on pages 46–55 and for ensuring that it has been prepared in accordance with the Annual Accounts Act.

ORIENTATION AND SCOPE OF REVIEW

Our review was conducted in accordance with FAR's recommendation RevR 12 The

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

CONCLUSION

A sustainability report has been prepared.

Stockholm, 5 March 2018
Pricewaterhouse Coopers AB

Patrik Adolfson	Helena Ehrenborg
<i>Authorised Public</i>	<i>Authorised Public</i>
<i>Accountant</i>	<i>Accountant</i>
<i>Auditor-in-charge</i>	

Property portfolio

Right model for the right hotel

PANDOX PROFILE



**Lars Häggström, Executive SVP
Asset Management and Development**

What is your background? I've been working with hotel properties in various ways for as long as I can remember – more than 17 years at Pandox and before that at Scandic Hotels Group.

What does your work at Pandox involve? I'm responsible for the hotel property portfolio from a technical perspective – in other words, ensuring that the properties are in good condition and that investments decided on are implemented on time and with good quality. I also do a lot of work on technical due diligence for acquisitions,



where it's important to be able to quickly appraise the quality of both individual properties and larger property portfolios.

What are your key tasks? Turning investment plans and development projects into reality, together with those responsible for the business, and generating new cash flows for Pandox.

Property portfolio by country, p 58

Property portfolio and value, p 70

Property list, p 72

THIS IS PANDOX

THE MARKET

THE BUSINESS

SUSTAINABILITY REPORT

PROPERTY PORTFOLIO

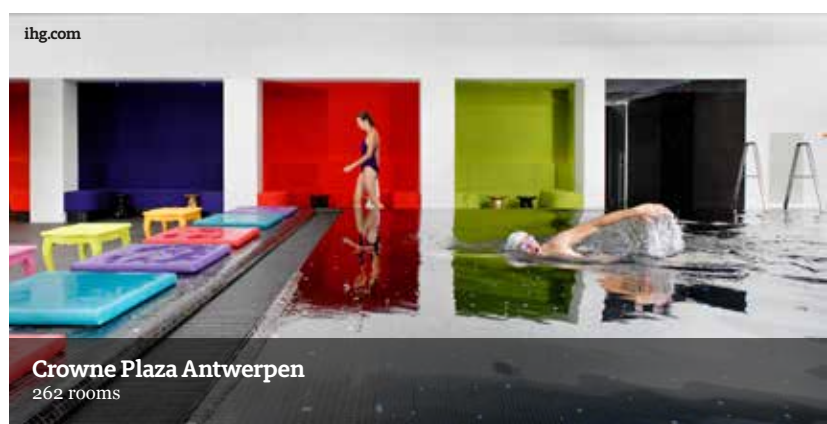
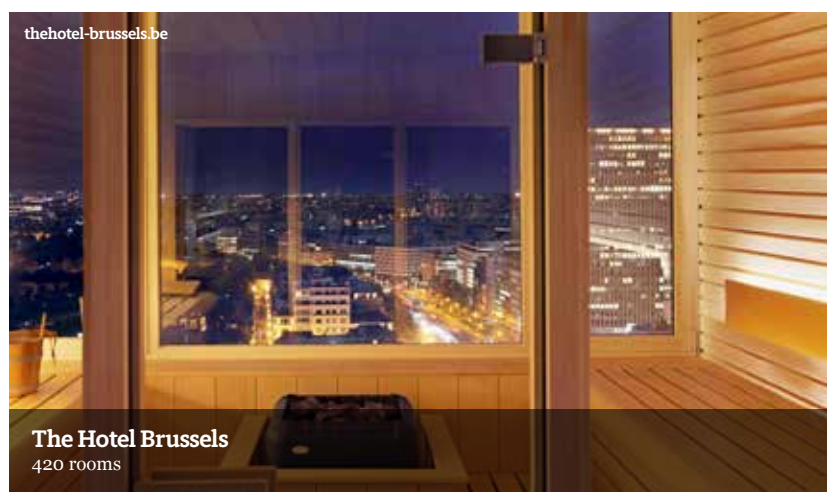
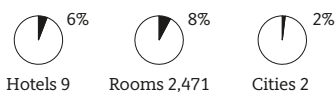
FINANCIAL

CORPORATE
GOVERNANCE

Property portfolio by country

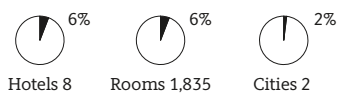
Belgium

SHARE OF PANDOX TOTAL



Denmark

SHARE OF PANDOX TOTAL



THIS IS PANDOX

THE MARKET

THE BUSINESS

SUSTAINABILITY REPORT

PROPERTY PORTFOLIO

FINANCIAL

CORPORATE GOVERNANCE

Finland

SHARE OF PANDOX TOTAL



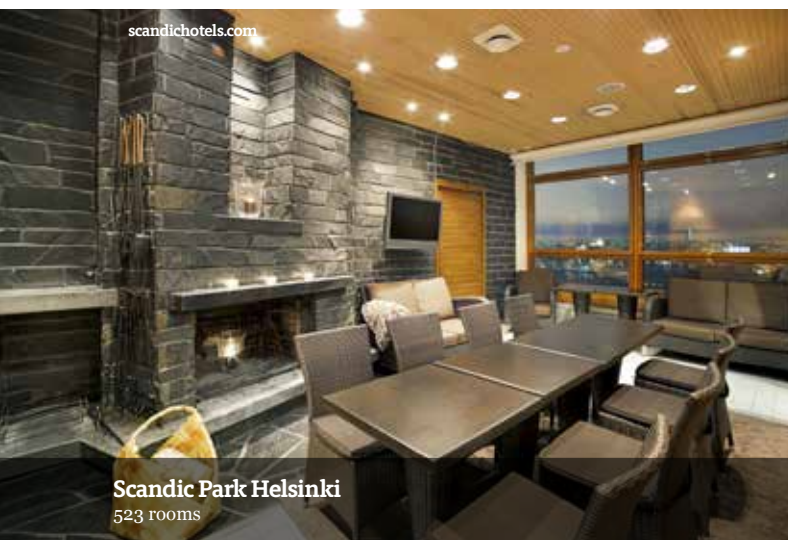
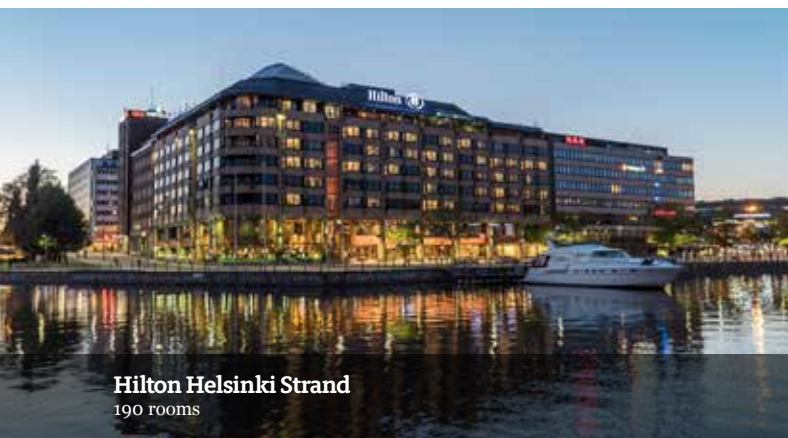
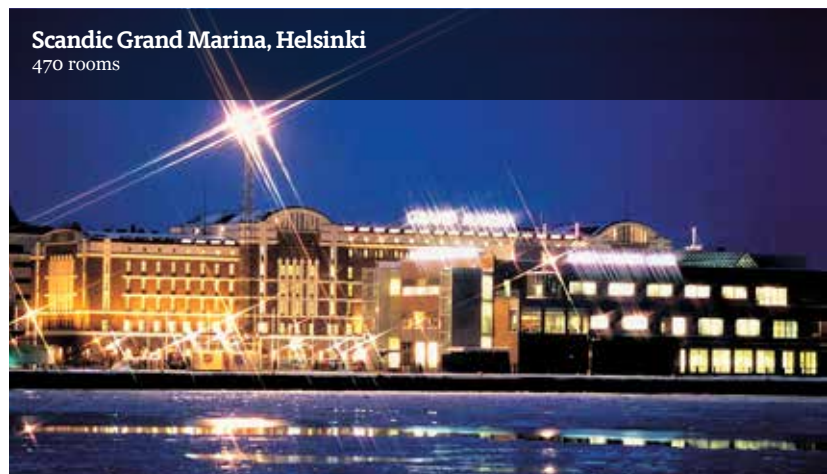
Hotels 14



Rooms 3,074

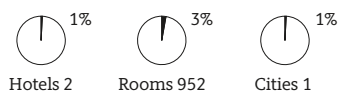


Cities 8



Canada

SHARE OF PANDOX TOTAL



InterContinental, Montreal
357 rooms



Hyatt Regency Montreal
607 rooms



THIS IS PANDOX

THE MARKET

THE BUSINESS

SUSTAINABILITY REPORT

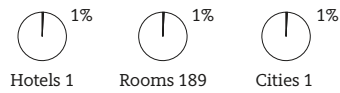
PROPERTY PORTFOLIO

FINANCIAL

CORPORATE GOVERNANCE

SHARE OF PANDOX TOTAL

The Netherlands



parkhotel.nl

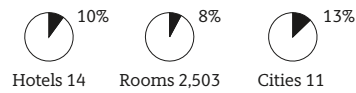


Park Hotel Amsterdam
189 rooms



SHARE OF PANDOX TOTAL

Norway



scandichotels.com



Scandic Lillehammer
303 rooms



scandichotels.com



Scandic Hafjell
210 rooms

scandichotels.com



Scandic Valdres
138 rooms

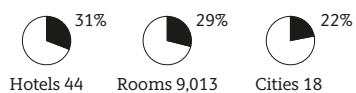
scandichotels.com

Scandic Ringsaker, Hamar
176 rooms



Sweden

SHARE OF PANDOX TOTAL



scandichotels.com

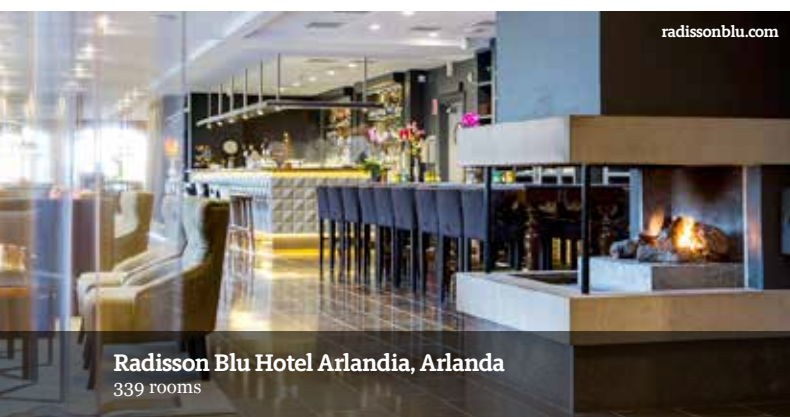


Scandic Malmen, Stockholm
332 rooms



Scandic Järva Krog
215 rooms

radissonblu.com



Radisson Blu Hotel Arlandia, Arlanda
339 rooms

Hilton Stockholm Slussen
289 rooms



hilton.com

scandichotels.com



Scandic Kista Stockholm
149 rooms

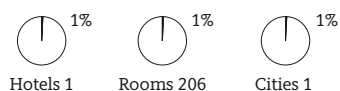
scandichotels.com



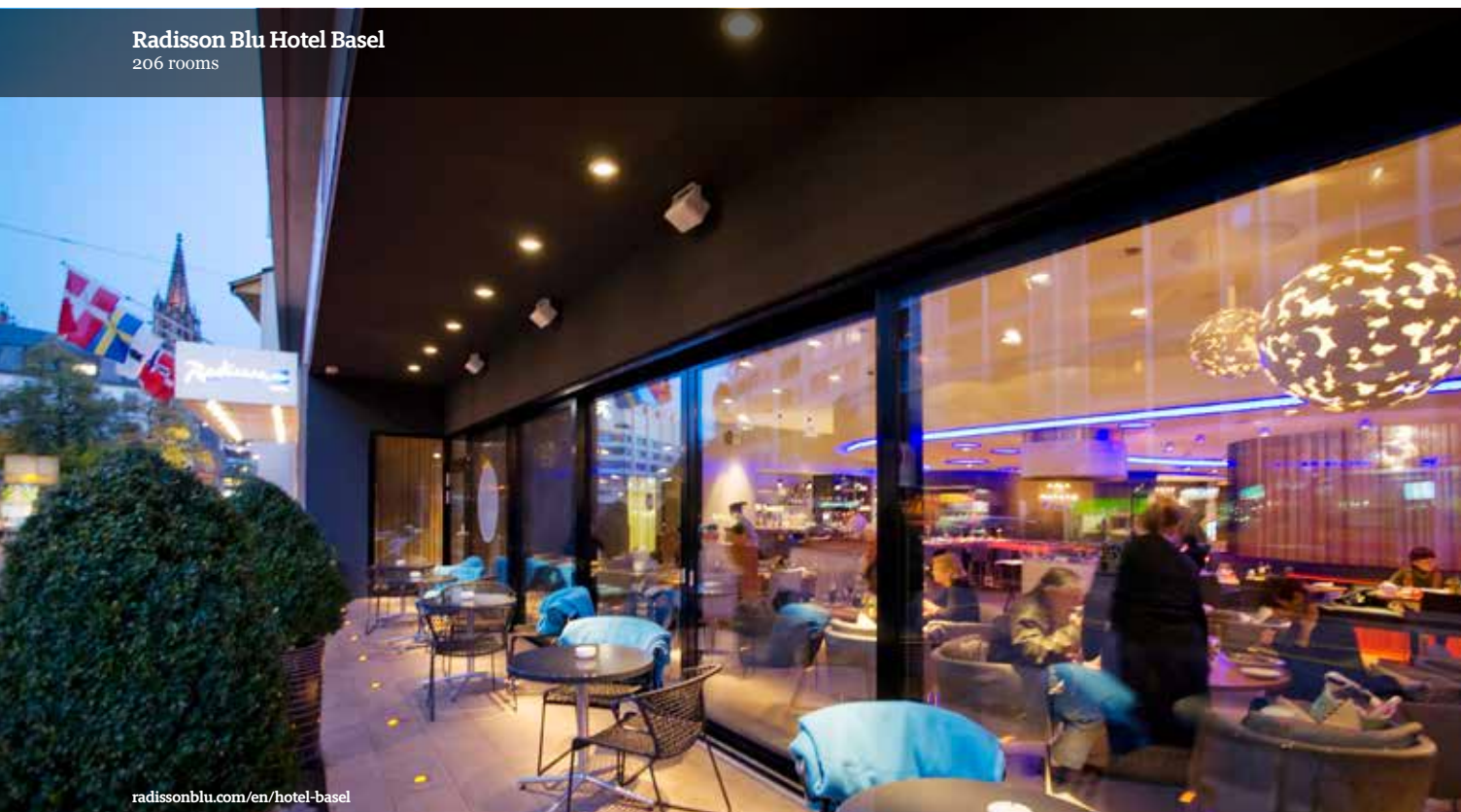
Scandic Kalmar Väst
148 rooms

Switzerland

SHARE OF PANDOX TOTAL



Radisson Blu Hotel Basel
206 rooms



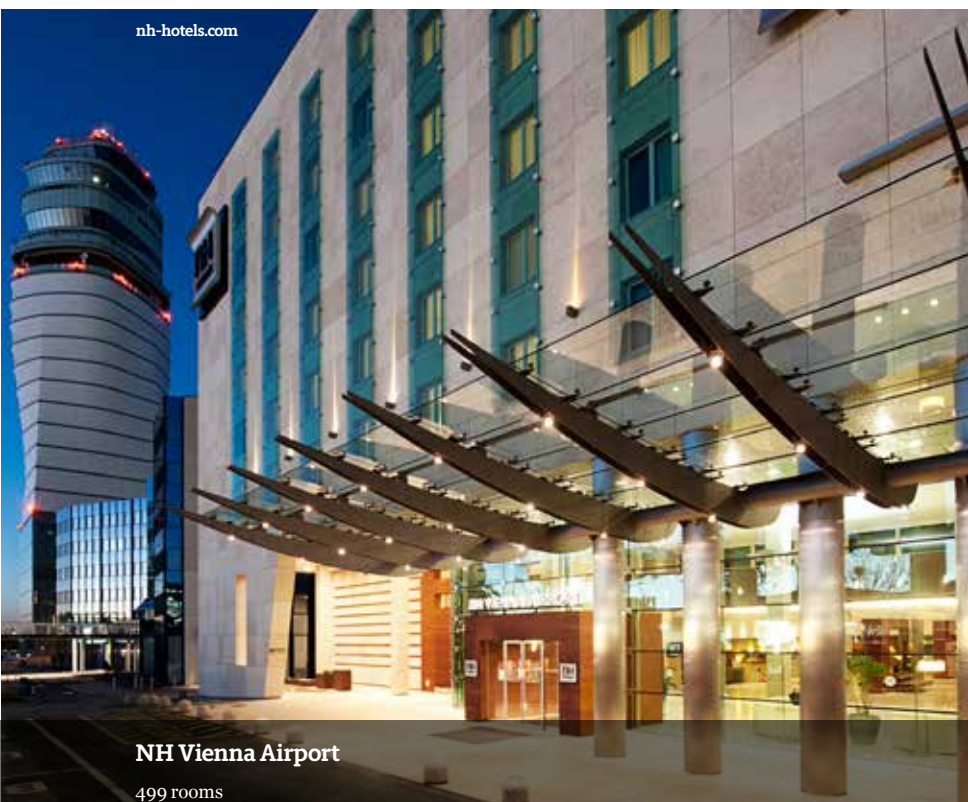
radissonblu.com/en/hotel-basel

SHARE OF PANDOX TOTAL



Austria

nh-hotels.com



NH Vienna Airport
499 rooms

nh-hotels.com



NH Salzburg City
140 rooms

THIS IS PANDOX

THE MARKET

THE BUSINESS

SUSTAINABILITY REPORT

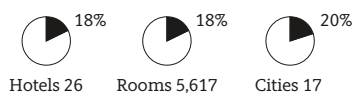
PROPERTY PORTFOLIO

FINANCIAL

CORPORATE GOVERNANCE

Germany

SHARE OF PANDOX TOTAL



Leonardo Hotel Mönchengladbach

128 rooms



Leonardo Royal Hotel Frankfurt

449 rooms



NH Collection Hamburg

129 rooms



Leonardo Hotel Hannover Airport

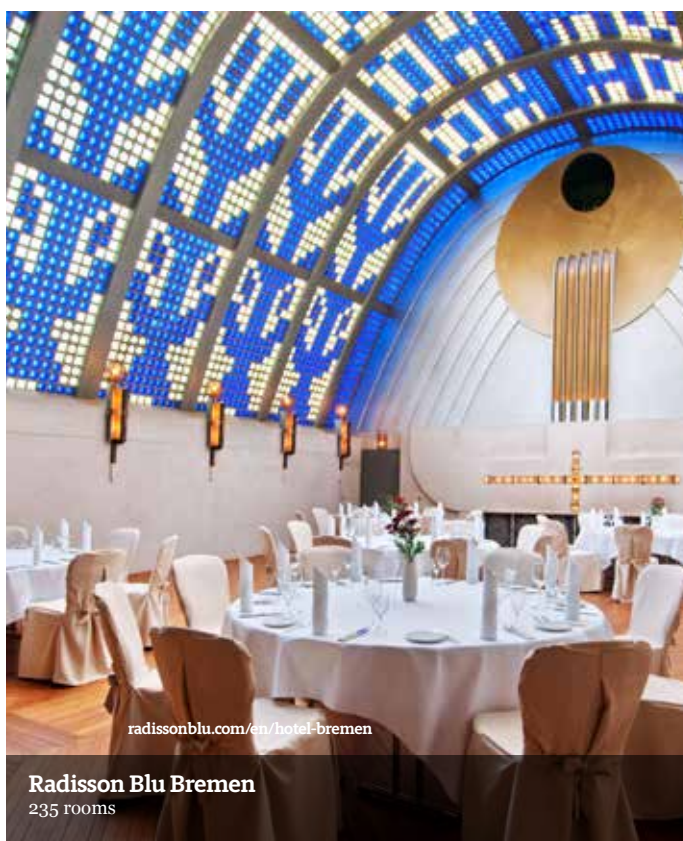
213 rooms



Leonardo Royal Hotel Baden-Baden

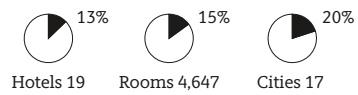
121 rooms



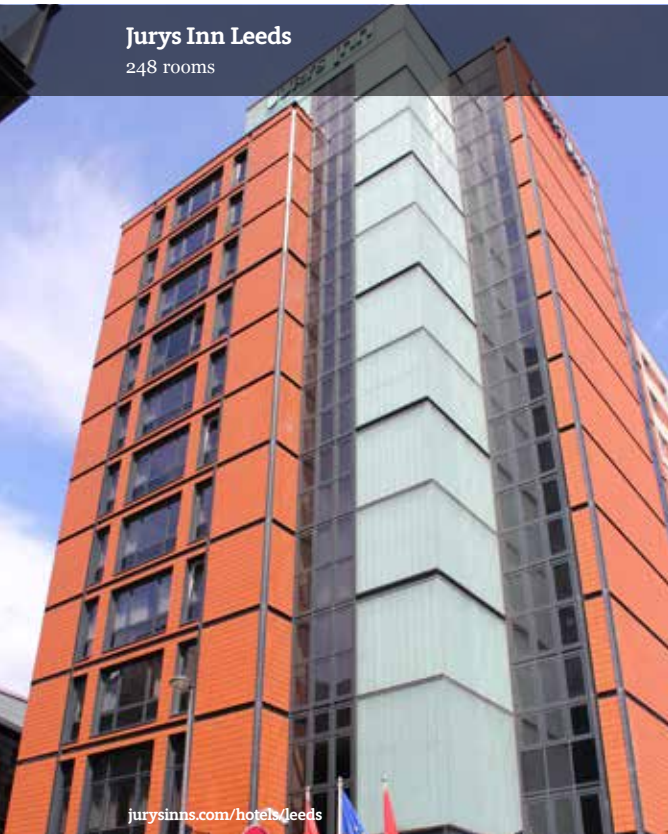


UK

SHARE OF PANDOX TOTAL



Jurys Inn Leeds
248 rooms



Jurys Inn Manchester
265 rooms



Jurys Inn Sheffield
259 rooms

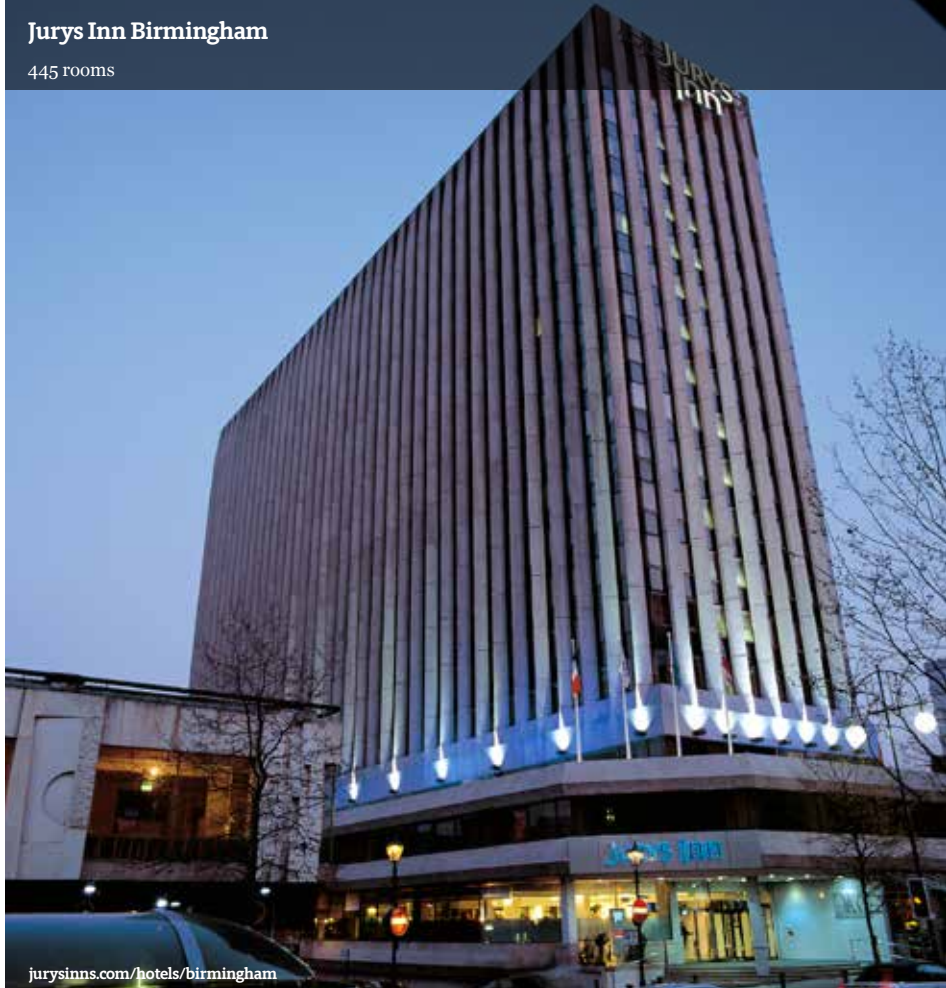


Hilton London Heathrow Airport
398 rooms

hiltonhotels.com/

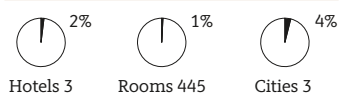


Jurys Inn Birmingham
445 rooms

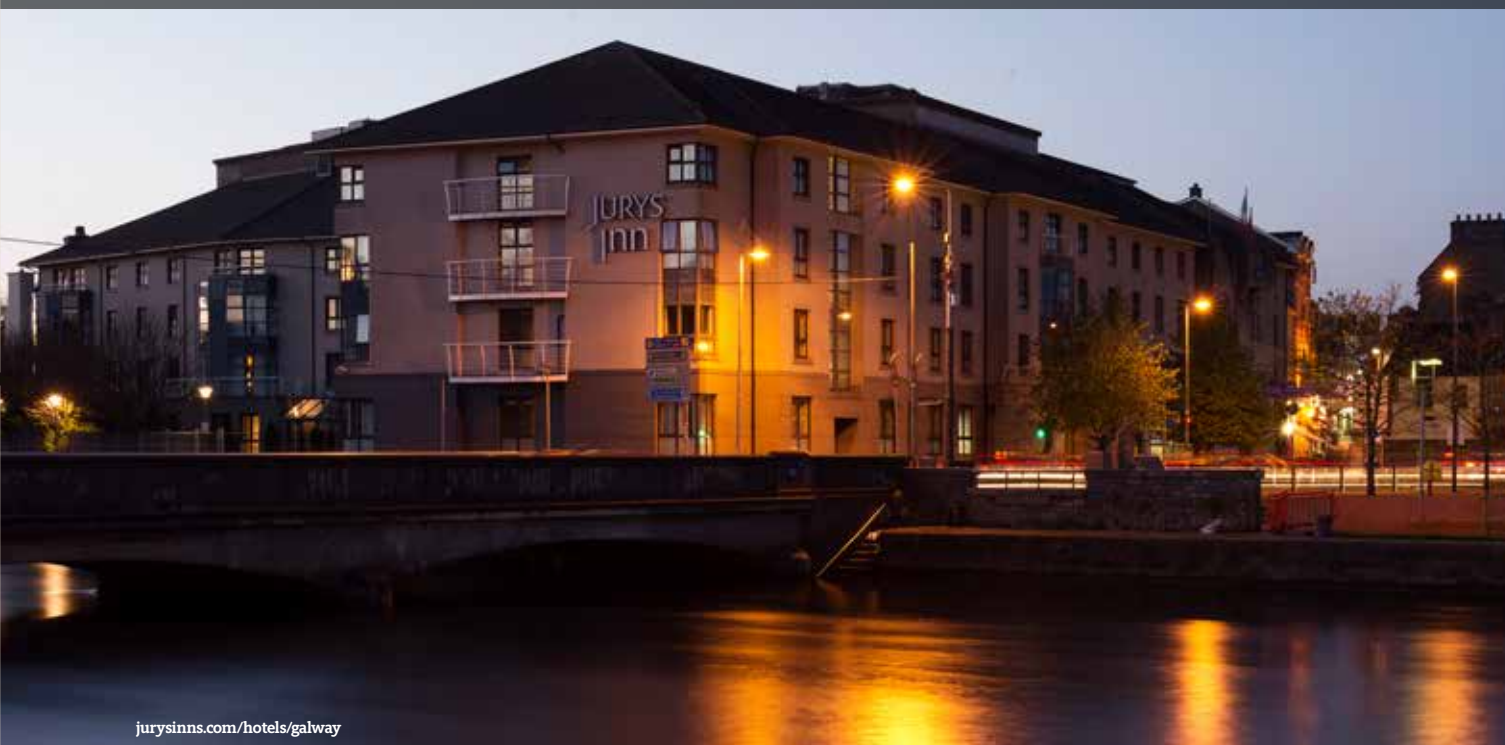


Ireland

SHARE OF PANDOX TOTAL



Jurys Inn Galway
130 rooms



jurysinns.com/hotels/galway

Jurys Inn Cork
133 rooms



jurysinns.com/hotels/cork

THIS IS PANDOX

THE MARKET

THE BUSINESS

SUSTAINABILITY REPORT

PROPERTY PORTFOLIO

FINANCIAL

CORPORATE
GOVERNANCE

Property portfolio 2017

At year-end 2017, Pandox's property portfolio consisted of 143 (120) hotel properties with 31,613 (26,240) hotel rooms in 15 (10) countries. The Nordic region made up around 52 (60) percent of the market value of the property portfolio. 126 of the hotel properties are leased to third parties, which means that around 85 percent

of the market value of the property portfolio is covered by long-term external leases. The remaining 17 hotel properties are owned and operated by Pandox.

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

PORTFOLIO OVERVIEW BY SEGMENT AND COUNTRY, 31 DECEMBER 2017

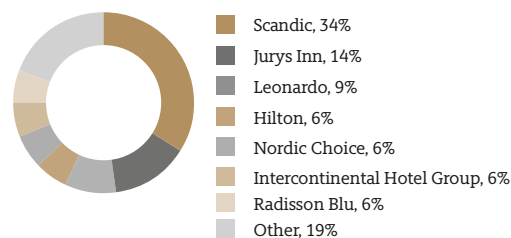
Property Management Investment Properties	Number of hotels	Number of rooms	Property value (MSEK)	Property value as % of total	Value per room (MSEK)
Sweden	44	9,013	14,539	29%	1.6
Germany	22	4,332	6,662	13%	1.5
UK	18	4,283	7,083	14%	1.7
Finland	13	2,919	3,533	7%	1.1
Norway	14	2,525	3,037	6%	1.4
Denmark	8	1,835	3,345	7%	1.7
Austria	2	639	1,326	3%	2.1
Ireland	3	445	1,377	3%	3.1
Switzerland	1	206	695	1%	3.4
The Netherlands	1	189	951	2%	5.0
Total Investment Properties	126	26,386	42,548	85%	1.6
Operator Activities Operating Properties					
Belgium	9	2,471	3,795	8%	1.5
Germany	4	1,285	2,163	4%	1.7
Canada	2	952	1,208	2%	1.3
UK	1	364	388	1%	1.1
Finland	1	155	20	0%	0.1
Total Operating Properties	17	5,227	7,573	15%	1.4
Total owned properties	143	31,613	50,121	100%	1.6

PORTFOLIO OVERVIEW BY BRAND, 31 DECEMBER 2017

Brand	Number of hotels	Number of rooms	Countries
Scandic	50	10,851	SE, NO, FI, DK
Jurys Inn	20	4,330	GB, IE
Leonardo	16	2,922	DE
Hilton	7	1,987	SE, FI, BE, GB
Nordic Choice Hotels*	12	1,955	SE, NO
Radisson Blu	7	1,783	SE, NO, CH, DE
NH	5	1,162	DE, AT
Holiday Inn	4	963	BE, DE
Crowne Plaza	2	616	BE
Hyatt	1	595	CA
Elite Hotels	2	480	SE
First Hotels	2	403	DK
InterContinental	1	357	CA
MEININGER	1	218	DK
Cumulus	1	135	FI
Best Western	1	103	SE
Independent brands	11	2,753	SE, FI, BE, DE, NL
Total	143	31,613	15

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

ROOMS BY BRAND, 31 DECEMBER 2017



PANDOX'S OWN BRANDS, 31 DECEMBER 2017



Change in property value 2017

At year-end 2017 Pandox's property portfolio had a total market value of MSEK 50,121 (38,233), of which MSEK 42,548 (30,163) was for Investment Properties and MSEK 7,573 (8,070) for Operating Properties. During the year a total of 21 investment properties were acquired in the UK and Ireland, as well as two operating properties in Belgium and the UK. In addition, a total of eight hotel properties were reclassified as Investment Properties. The market value of Operating Properties is reported for information purposes only and is included in EPRA NAV. Operating Properties are recognised at cost less depreciation and any impairment.

CHANGE IN VALUE – INVESTMENT PROPERTIES

	MSEK
Investment Properties, opening balance (1 January 2017)	30,163
+ Acquisitions ¹⁾	8,395
+ Investments in existing portfolio	425
– Divestments	—
+/- Reclassifications ²⁾	1,496
+ Remeasurement for the year of property, plant and equipment in comprehensive income ²⁾	112
+/- Change in value, unrealised	1,649
+/- Change in value, realised ³⁾	6
+/- Change in currency exchange rates	303
Investment Properties, closing balance (31 December 2017)	42,548

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

	MSEK
Operating Properties, opening balance (1 January 2017)	8,070
+ Acquisitions ⁴⁾	712
+ Investments in existing portfolio	289
– Divestments ⁵⁾	–207
+/- Reclassifications ²⁾	–1,608
+/- Change in value, unrealised	155
+/- Change in value, realised ⁵⁾	42
+/- Change in currency exchange rates	121
Operating Properties, closing balance (31 December 2017)	7,573

¹⁾ Refers to acquisition of 21 hotel properties in the UK and Ireland.

²⁾ Refers to reclassification of eight hotel properties to Property Management and one to Operator Activities.

³⁾ Refers to divestment of part of property in Hafjell, Norway.

⁴⁾ Refers to acquisition of one hotel property in Belgium and one hotel property in the UK.

⁵⁾ Refers to divestment of retail property in Brussels, Belgium and divestment of equipment at Grand Hotel Oslo, Norway.

At the end of the period the carrying amount of Operating Properties was MSEK 5,668 (6,415). The decrease is mainly a result of reclassifications.

At year-end 2017 the average valuation yield amounted to 5.6 (5.7) percent for Investment Properties and 7.3 (7.5) percent for Operating Properties.

SOMEWHAT HIGHER TRANSACTION MARKET IN 2017

Volumes on the global hotel transaction market increased by 5 percent to USD 63 billion in 2017. This compares with the peak of USD 85 billion in 2015. For Europe, the Middle East and Africa (EMEA) volumes increased by around 5 percent to approximately USD 22 billion in 2017.

Trends on the transaction market:

- Increased interest in hotel properties in general.
- Increased interest in acquisitions in countries that have recovered from terrorist incidents, such as France and Belgium.
- Increased share of institutional buyers.
- Asian capital active.

POSITIVE INVESTMENT CLIMATE IN EUROPE

Bolstered by a positive economic outlook and continued growth in international arrivals, many hotel markets in Europe are expected to see an increase in transaction volumes in 2018.

Source: JLL Hotel Investment Outlook 2018.

Property list

Property Management

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

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

Operator/brand	Number of rooms	Brand
Private/Best Western	103	Best Western
Nordic Choice Hotels/Clarion Hotel	158	Nordic Choice Hotels
Nordic Choice Hotels/Clarion Hotel	197	Nordic Choice Hotels
Elite/Elite Hotels	317	Elite Hotels
Elite/Elite Hotels	135	Elite Hotels
Hilton/Hilton	289	Hilton
Private/Independent	140	Independent
Nordic Choice Hotels/Quality Hotel	209	Nordic Choice Hotels
Nordic Choice Hotels/Quality Hotel	158	Nordic Choice Hotels
Nordic Choice Hotels/Quality Hotel	220	Nordic Choice Hotels
Nordic Choice Hotels/Quality Hotel	157	Nordic Choice Hotels
Nordic Choice Hotels/Quality Hotel	121	Nordic Choice Hotels
Rezidor/Radisson Blu	339	Radisson Blu
Rezidor/Radisson Blu	229	Radisson Blu
Scandic/Scandic	324	Scandic
Scandic/Scandic	236	Scandic
Scandic/Scandic	338	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	149	Scandic
Scandic/Scandic	113	Scandic
Scandic/Scandic	257	Scandic
Scandic/Scandic	150	Scandic
Scandic/Scandic	160	Scandic
Scandic/Scandic	332	Scandic
Scandic/Scandic	208	Scandic
Scandic/Scandic	151	Scandic
Scandic/Scandic	201	Scandic
Scandic/Scandic	169	Scandic
Scandic/Scandic	208	Scandic
Scandic/Scandic	288	Scandic
Scandic/Scandic	168	Scandic
Scandic/Scandic	270	Scandic
Scandic/Scandic	160	Scandic
Scandic/Scandic	131	Scandic
Scandic/Scandic	199	Scandic
Scandic/Scandic	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	210	Scandic
Scandic/Scandic	303	Scandic
Scandic/Scandic	176	Scandic
Scandic/Scandic	226	Scandic
Scandic/Scandic	210	Scandic
Scandic/Scandic	138	Scandic



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

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

Operator/brand	Number of rooms	Brand
Scandic/Scandic	215	Scandic
First/First Hotels	203	First Hotels
First/First Hotels	200	First Hotels
Scandic/Scandic	486	Scandic
Scandic/Scandic	120	Scandic
Scandic/Scandic	207	Scandic
Scandic/Scandic	186	Scandic
Meininger/Meininger	225	Meininger
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
Fattal/Holiday Inn	199	Holiday Inn
Fattal/Holiday Inn	295	Holiday Inn
Fattal/Leonardo	99	Leonardo
Fattal/Leonardo	134	Leonardo
Fattal/Leonardo	182	Leonardo
Fattal/Leonardo	213	Leonardo
Fattal/Leonardo	178	Leonardo
Fattal/Leonardo	169	Leonardo
Fattal/Leonardo	161	Leonardo
Fattal/Leonardo	147	Leonardo
Fattal/Leonardo	177	Leonardo
Fattal/Leonardo	148	Leonardo
Fattal/Leonardo	128	Leonardo
Fattal/Leonardo	121	Leonardo
Fattal/Leonardo	253	Leonardo
Fattal/Leonardo	449	Leonardo
Fattal/Leonardo	150	Leonardo
Fattal/Leonardo	212	Leonardo
NH/NH Collection	129	NH
NH/NH	158	NH
NH/NH	236	NH
Rezidor/Radisson Blu	393	Radisson Blu
Rezidor/Radisson Blu	206	Radisson Blu
Hilton/Hilton	398	Hilton

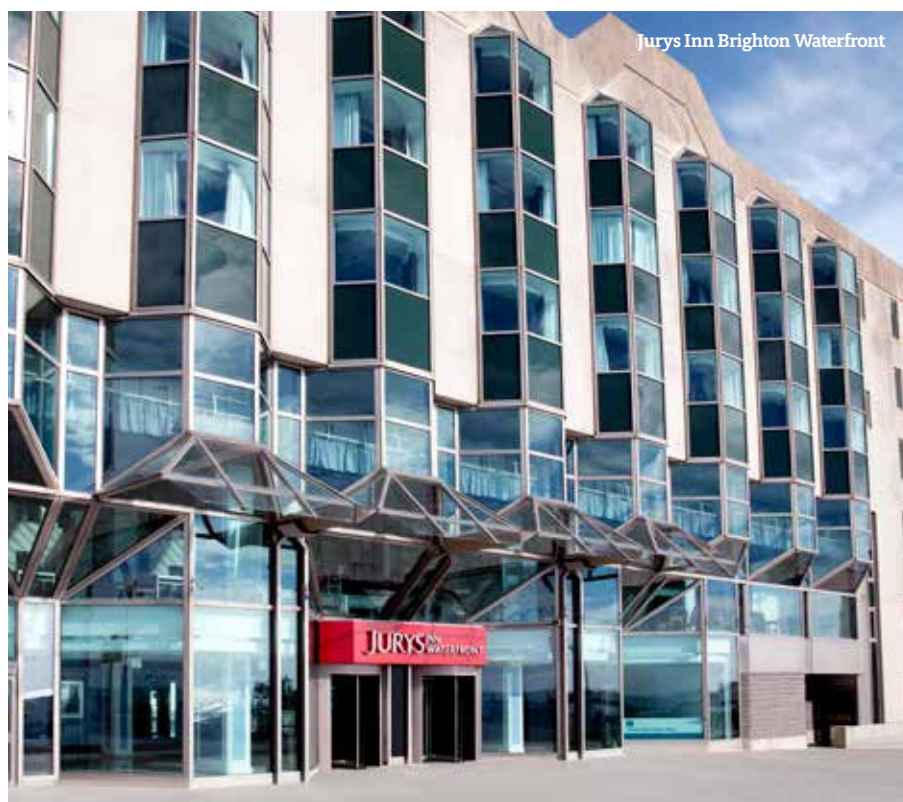


Hotel	City	Location	Environmental certification	Form of agreement ¹⁾
Jurys Inn Birmingham	Birmingham	City centre	Green Tourism Gold	OG
Jurys Inn Bradford	Bradford	City centre	Green Tourism Gold	OG
Jurys Inn Brighton Waterfront	Brighton	City centre	Green Tourism Silver	OG
Jurys Inn Cheltenham	Cheltenham	City centre	Certification in progress	OG
Jurys Inn East Midlands Airport	Derby	Airport	Certification in progress	OG
Jurys Inn Hinckley Island	Hinckley	City centre	Certification in progress	OG
Jurys Inn Leeds	Leeds	City centre	Green Tourism Gold	OG
Jurys Inn London Croydon	Croydon	City centre	Green Tourism Gold	OG
Jurys Inn Manchester	Manchester	City centre	Green Tourism Gold	OG
Jurys Inn Middlesbrough	Middlesbrough	City centre	Green Tourism Silver	OG
Jurys Inn Oxford	Oxford	City centre	Certification in progress	OG
Jurys Inn Sheffield	Sheffield	City centre	Green Tourism Gold	OG
Jurys Inn Swindon	Swindon	City centre	Green Tourism Gold	OG
Scotland				
Jurys Inn Glasgow	Glasgow	City centre	Green Tourism Gold	OG
Jurys Inn Inverness	Inverness	City centre	Green Tourism Silver	OG
Wales				
Jurys Inn Cardiff	Cardiff	City centre	Certification in progress	OG
Northern Ireland				
Jurys Inn Belfast	Belfast	City centre	Green Tourism Gold	OG
Ireland				
Jurys Inn Cork	Cork	City centre	Green Tourism Gold	OG
Jurys Inn Dublin Christchurch	Dublin	City centre	Green Tourism Gold	OG
Jurys Inn Galway	Galway	City centre	Green Tourism Gold	OG
Austria				
NH Salzburg City	Salzburg	City centre	Green Leaders	OG
NH Vienna Airport	Vienna	Airport	ISO 14001, Green Leaders	OG
The Netherlands				
Park Hotel Amsterdam	Amsterdam	City centre	Green Globe	OG

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



Operator/brand	Number of rooms	Brand
Leonardo/Jurys Inn	445	Jurys Inn
Leonardo/Jurys Inn	198	Jurys Inn
Leonardo/Jurys Inn	210	Jurys Inn
Leonardo/Jurys Inn	122	Jurys Inn
Leonardo/Jurys Inn	164	Jurys Inn
Leonardo/Jurys Inn	362	Jurys Inn
Leonardo/Jurys Inn	248	Jurys Inn
Leonardo/Jurys Inn	240	Jurys Inn
Leonardo/Jurys Inn	265	Jurys Inn
Leonardo/Jurys Inn	132	Jurys Inn
Leonardo/Jurys Inn	240	Jurys Inn
Leonardo/Jurys Inn	259	Jurys Inn
Leonardo/Jurys Inn	229	Jurys Inn
Leonardo/Jurys Inn	321	Jurys Inn
Leonardo/Jurys Inn	118	Jurys Inn
Leonardo/Jurys Inn	142	Jurys Inn
Leonardo/Jurys Inn	190	Jurys Inn
Leonardo/Jurys Inn	133	Jurys Inn
Leonardo/Jurys Inn	182	Jurys Inn
Leonardo/Jurys Inn	130	Jurys Inn
NH/NH	140	NH
NH/NH	499	NH
Grand City Hotels/Independent	189	Independent



Operator Activities

Hotel	City	Location	Environmental certification	Form of agreement ¹⁾
Finland				
Hotel Korpilampi, Espoo	Espoo	Resort	Certification in progress	IO
Belgium				
Crowne Plaza Antwerpen	Antwerp	Ring road	IHG Green Engage	FR
Crowne Plaza Brussels – Le Palace	Brussels	City centre	IHG Green Engage	FR
Hilton Brussels City	Brussels	City centre	ISO 14001, Green Key	FR
Hilton Grand Place	Brussels	City centre	ISO 14001, Green Key	M
Holiday Inn Brussels Airport	Brussels	Airport	IHG Green Engage	FR
Hotel Berlaymont	Brussels	City centre	Green Key	IO
Hotel BLOOM!, Brussels	Brussels	City centre	Green Key	IO
The Hotel, Brussels	Brussels	City centre	Certification in progress	IO
Former Scandic Grand Place	Brussels	City centre	Green Key	—
UK				
<i>England</i>				
Hilton Garden Inn London Heathrow	London	Airport	ISO 14001, LightStay	FR
Germany				
Holiday Inn Lübeck	Lübeck	Ring road	IHG Green Engage	FR
Hotel Berlin, Berlin	Berlin	City centre	Certification in progress	IO
Radisson Blu Bremen	Bremen	City centre	Green Key	FR
Radisson Blu Dortmund	Dortmund	Congress centre	Green Key	FR
Canada				
Hyatt Regency, Montreal	Montreal	City centre	Green Key	M
InterContinental Montreal	Montreal	City centre	Green Key	M

External management agreements

Hotel	City	Location	Form of agreement ¹⁾
Norway			
Clarion Collection Hotel Folketeatret*	Oslo	City centre	AM
Clarion Collection Hotel Gabelshus*	Oslo	City centre	AM
Grand Hotel Oslo by Scandic*	Oslo	City centre	AM
Scandic Hølsfyr*	Oslo	Ring road	AM
Scandic Holberg*	Oslo	City centre	AM
Scandic Holmenkollen Park*	Oslo	Resort	AM
Scandic Oslo City*	Oslo	City centre	AM
Scandic Victoria*	Oslo	City centre	AM
Scandic Gardermoen*	Oslo	Airport	AM
Bahamas			
Pelican Bay, Grand Bahama Island**	Lucaya	Resort	AM

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

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

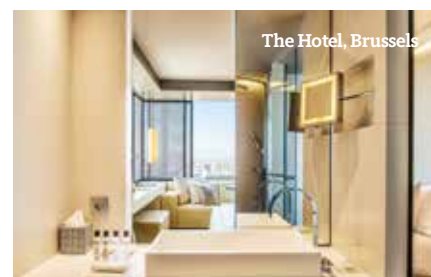
CHANGES IN THE PORTFOLIO AFTER 31 DECEMBER 2017

As a result of agreements communicated previously, on 1 February 2018 Hotel Berlaymont and Hotel BLOOM! were reclassified to Property Management as a result of new revenue-based leases with NH Hotel Group.

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

Operator/brand	Number of rooms	Brand
Pandox/Independent	151	Independent
Pandox/Crowne Plaza	262	Crowne Plaza
Pandox/Crowne Plaza	354	Crowne Plaza
Pandox/Hilton	284	Hilton
Hilton/Hilton	224	Hilton
Pandox/Holiday Inn	310	Holiday Inn
Pandox/Independent	210	Independent
Pandox/Independent	304	Independent
Pandox/Independent	420	Independent
—	100	—
Pandox/Hilton	364	Hilton Garden Inn
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
Nordic Choice Hotels/Clarion Collection	160	Nordic Choice Hotels
Nordic Choice Hotels/Clarion Collection	114	Nordic Choice Hotels
Scandic/Scandic	283	Scandic
Scandic/Scandic	253	Scandic
Scandic/Scandic	133	Scandic
Scandic/Scandic	336	Scandic
Scandic/Scandic	175	Scandic
Scandic/Scandic	199	Scandic
Scandic/Scandic	135	Scandic
Sundt AS/Independent	186	Independent



Risks and risk management

Systematic work with clear roles

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

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's strategy is to invest in hotel properties with revenue-based leases with the best hotel operators, and also to be able to run hotel operations itself when necessary. Given this strategy, Pandox has classified risks into five categories (regardless of priority and materiality):

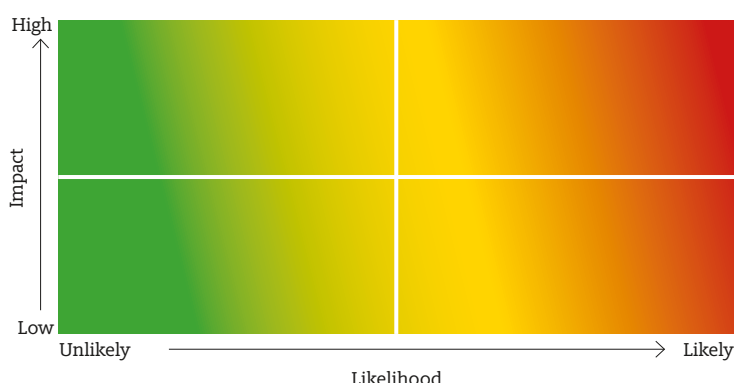
- **Strategic risk:** Access to specialist expertise for acquisitions, investments and operations, financial strength and the confidence of the world around us are factors that may affect Pandox's ability to implement its strategy and reach its goals. Pandox's management and Board of Directors monitor and evaluate the Company's strategic risk continuously, to ensure that the strategy allows the goals to be achieved.
- **Operational risk:** Factors that affect Pandox's ability to realise its strategy, such as the organisation's structure, effectiveness and capacity to create profitable growth and value for Pandox's stakeholders. This includes compliance risk, which relates to Pandox's ability to live up to external

SENSITIVITY ANALYSIS

The sensitivity analysis below describes the financial effects of changes in certain key parameters linked to risk. In terms of financial reporting, of both income and financial position, it is mainly fluctuating interest rates, changes in RevPAR and valuation yields that have the greatest impact. Financial effects of changes in certain key parameters, as of 31 December 2017:

Investment Properties, effect on fair value	Change	Effect on value, MSEK
Yield	+/- 0.5pp	-3,504/+4,194
Change in currency exchange rates	+/- 1%	+/- 280
Net operating income	+/- 1%	+/- 404
Investment Properties, effect on revenues	Change	Revenue effect, MSEK
RevPAR (assuming a 50/50 split between occupancy and rate)	+/- 1%	+/- 22
Operating Properties, effect on revenues	Change	Revenue effect, MSEK
RevPAR (assuming a 50/50 split between occupancy and rate)	+/- 1%	+/- 16
Financial sensitivity analysis, effect on earnings	Change	Profit before changes in value, MSEK
Interest expense with current fixed interest, change in interest rates	+/- 1%	-/+ 100
Interest expense with a change in the average interest rate level	+/- 1%	-/+ 265
Remeasurement of interest rate derivatives following shift in yield curves	+/- 1%	-/+ 640

RISK MATERIALITY ANALYSIS



Pandox's business activities are associated with certain risks. Pandox works in a structured and proactive way to map, analyse and manage risk. Identified risks are mapped in a risk matrix based on expected impact and likelihood.

requirements, rules and laws. Management of these risks is regulated in various policies adopted by the Company's Board of Directors and in other governing documents and instructions. Pandox's management and the Company's control functions continuously monitor and evaluate the Company's operational risk management and value creation.

- **Financial risk:** Factors such as fluctuating interest rates, inaccurate valuations of properties, fluctuating exchange rates, refinancing risk, liquidity risk and counterparty risk. These risks are mainly regulated in Pandox's Financial Policy, which has been adopted by the Company's Board of Directors, and other policy documents.
- **External risk:** External factors such as the economic cycle, hotel capacity, changed business models, geopolitical events and terrorist attacks are factors

that can have an effect on the travel market and thus hotel demand. Pandox's Board of Directors and management regularly monitor and evaluate external risk and the opportunities created by changes in the external environment.

- **Sustainability risk:** Strategic and operational risk attributable to the environment, human rights, social and HR-related factors, as well as corruption. The risks are regulated in codes of conduct for employees and suppliers adopted by the Board of Directors, Pandox's Environmental Policy, the Company's values and the Company's own active monitoring and control in Operator Activities and in partnership with tenants in Property Management.

Pandox assesses each risk based on the expected impact (from insignificant to very

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

A new risk assessment has been carried out

As part of its business planning during the year, Pandox carried out a risk assessment in which risks were identified and appraised based on the Group's goals. Among other things, a risk workshop was held with senior executives at which the identified risks were documented in a risk map and explained in a schedule of risks that was approved by the executive management team and the Audit Committee.

TOP RISKS




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

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

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

Risk	Description	Mitigating factors
1. STRATEGIC RISK		
<p>Growth through acquisitions</p> <p>!</p>	<p>Risks attributable to acquisitions are mainly the risk of paying too much for assets, the risk of incorrect assumptions as regards future earnings of the acquired asset/business, the risk of taking over leases or other agreements that are unfavourable, and the risk of management time and other resources being spent on acquisitions that are not completed.</p>	<ul style="list-style-type: none"> Pandox's long-term focus on hotel properties as a class of asset has generated extensive specialist expertise. An active Board of Directors and active principal shareholders, experienced management and a sound basis for decisions. Pandox has a well thought-out strategy in which the country, city, type of hotel, form of cooperation and yield are continually and consistently evaluated. Tried and tested due diligence processes supported by internal and external specialists reduce the risk of incorrect acquisitions. Pandox's way of working (the Pandox model) increases cash flow and limits risk for the hotel in question.
<p>Major investments in the existing portfolio</p>	<p>There is a risk that the costs of investments may be higher than expected and that the yield is therefore lower than expected because of inaccurate costings, unprofessional procurement or inefficient project implementation.</p>	<ul style="list-style-type: none"> Extensive specialist knowledge of the identification, evaluation and implementation of investments in the existing hotel property portfolio. Long-term investment management of measures implemented in the property stock. Capital expenditure in excess of MSEK 6 is referred to the Board of Directors for decision. Monthly review of all investment projects.
<p>Impact of digitalisation</p>	<p>Pandox's ability to develop its organisation and its way of working to take into account new digital possibilities is a decisive factor in the Company's long-term competitiveness.</p>	<ul style="list-style-type: none"> The Board of Directors has been supplemented with a member with special digital expertise. Pandox works proactively at an operational level to gather know-how on strategic digitalisation matters. Work on targeted initiatives is in progress within various parts of the Company.
2. OPERATIONAL RISK		
<p>Dependence on key individuals</p> <p>!</p>	<p>High dependence on individuals in key positions can pose a risk of daily duties not being able to be performed with adequate efficiency and quality.</p>	<ul style="list-style-type: none"> Plan for long-term talent supply. Good knowledge of external individuals in senior roles for recruitment. Strong external network with supporting specialist expertise. Remuneration Committee that ensures competitive levels of remuneration. Clear personal incentives and long contract terms. Procedures and process descriptions for key functions to reduce dependence on personnel.
<p>Access to the right competencies</p> <p>!</p>	<p>The risk that Pandox is unable to find the right competencies in new markets or to replace lost competencies in existing markets, or is unable to do so sufficiently quickly.</p>	<ul style="list-style-type: none"> As part of operational HR work, recruitment needs are reviewed regularly at both the central and local level. Strong external network with supporting specialist expertise. Attractive workplace with great personal freedom in professional roles and good opportunities to develop.
<p>Tenants' business and financial status</p>	<p>The risk that tenants underperform and/or are unable to pay their rent.</p>	<ul style="list-style-type: none"> Individual business plans for each hotel property. Each tenant's results are followed up monthly, as are ongoing investment projects.
<p>Integration of acquisitions</p>	<p>Commercial, technical and accounting risks that arise ahead of and after an acquisition or business takeover.</p>	<ul style="list-style-type: none"> Many years of experience of integrating acquisitions in numerous geographical markets. Clear project organisation and allocation of roles. Internal specialist expertise in property, finance, tax, valuation, law and communication. Clear work methods and processes. Extensive external network with specialist expertise.
<p>Own operating activities at hotels</p>	<p>Pandox is exposed to certain risks that commonly occur within hotel operations, such as increased operating costs that cannot be fully offset by increased room rates or increased prices for other hotel services, the costs of compliance with laws and regulations, the ability to forecast occupancy and average room rates and to plan staffing, the quality and reputation of hotel brands used, an inability to keep pace with technical developments, faults in or damage to IT systems, as well as risks and costs associated with protecting guests' personal data and providing for their physical safety.</p>	<ul style="list-style-type: none"> Strategic and operational work to ensure each hotel is optimally positioned in each market. Strong local management and an effective organisation. A Group-wide Revenue Management Centre for distribution. Modern systems for revenue forecasts, staffing and productivity. Ongoing benchmarking and analysis of each hotel's performance in relation to its immediate competitors.

! One of Pandox's top 10 risks.

Risk	Description	Mitigating factors
3. FINANCIAL RISK		
Fluctuations in interest rates 	Interest expense is, and has historically been, Pandox's largest item of expenditure. Interest expense is affected by market interest rates and by credit institutions' margins, as well as by Pandox's strategy as regards fixed interest. The majority of Pandox's 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.	<ul style="list-style-type: none"> • In order to manage interest rate risk and increase the predictability of Pandox's earnings, interest rate derivatives are used; these are mainly interest swaps. • Variable interest is partly replaced by interest swaps, giving Pandox fixed interest rates. • Pandox has a Financial Policy that regulates risk mandates and is approved annually by the Board of Directors. • Internal specialist expertise in treasury and risk. • Close cooperation with external financial expertise.
Refinancing and liquidity risk	Refinancing risk is the risk that financing cannot be obtained or renewed upon maturing, or only at significantly higher costs. Liquidity risk refers to the risk that Pandox will be unable to meet its payment commitments due to a lack of liquidity.	<ul style="list-style-type: none"> • Pandox has access to long-term financing. Pandox's Financial Policy specifies minimum levels of unutilised credit and loan-to-value ratio. • Pandox has a liquidity reserve to ensure that the Company is able to meet ongoing payment obligations at all times. • Pandox has good access to long-term credit facilities.
Certification and authorisation 	Authority to take decisions, approval matrix and payment processes.	<ul style="list-style-type: none"> • An approval matrix established by the Board of Directors. • Well-defined levels of authority in internal systems • Special checks on payments above a certain level.
Financial statements	Errors in or inconsistent quality of both internal and external reporting, such as errors in rent accounting and property valuation. Risks also include late reporting or reporting not being in compliance with the Group's accounting principles.	<ul style="list-style-type: none"> • Pandox aims to have uniform procedures and checks for financial reporting that are adapted to and support its operations across the Group. • Manuals, instructions, schedules and reviews with the subsidiaries in the Group to ensure consistent and timely reporting. • An Audit Committee appointed by the Board of Directors reviews the Group's financial reporting and risk management.
Property valuation 	Individual and systematic errors in the valuation process, such as incorrect assumptions regarding growth, profitability and yield.	<ul style="list-style-type: none"> • The valuation model consists of an accepted and proven cash flow model, where the future cash flows the hotel properties are expected to generate are discounted. • The valuation is based on the business plan for the hotel concerned, which is updated at least twice a year and takes into consideration, among other things, developments in underlying operator activities, market developments, the contract situation, operating and maintenance issues and investments aimed at maximising the hotel property's cash flow and yield in the long term. • External valuations of all properties are carried out annually by independent property appraisers. The external appraisers complete a more in-depth inspection at least every three years or in conjunction with major changes to the properties. These external valuations provide an important reference point for Pandox's internal valuations. • Pandox always uses the valuation yield provided by external property appraisers. • Quarterly review of valuations by management, Audit Committee and Board of Directors before publication of each financial report.



One of Pandox's top 10 risks.

THIS IS PANDOX

THE MARKET


THE BUSINESS

SUSTAINABILITY REPORT

PROPERTY PORTFOLIO

FINANCIAL

CORPORATE GOVERNANCE

Risk	Description	Mitigating factors
4. EXTERNAL RISK		
Economic downturn 	Economic activity is a primary driver of both business and leisure travel, and a weakened economy can therefore have a negative effect on demand.	<ul style="list-style-type: none"> The portfolio consists of a large number of sizeable hotel properties with a good geographical spread and a good balance between domestic and international demand. The hotel properties are predominantly full-service hotels in the upper-mid segment, which has historically been more stable in earnings than, for example, the high price segment.
Disruptive business models 	Pandox's business model may be challenged by the emergence of new business models, such as online travel agencies (OTAs) and so-called home-sharing services. If Pandox is not able to keep up with the competition, this could have a negative impact on revenues and earnings.	<ul style="list-style-type: none"> Pandox works with nearly 20 different hotel operators and hotel brands. This gives Pandox a unique position as regards information and knowledge of market changes and also helps to spread commercial risk. Pandox's working methods are based on optimising revenues taking into account the distribution landscape and its impact on revenue and costs, including through the support of a Group-wide Revenue Management Centre. Long leases, most agreements with external hotel operators have provisions specifying a guaranteed minimum rent level and general deductions for commission are not usually permitted.
Geopolitical events 	Security and geopolitical events can have significant effects on travel patterns and demand in the hotel market.	<ul style="list-style-type: none"> A well thought-out strategy and business plan exists for each individual hotel property and geographical area. The ability to continually monitor economic conditions for each individual hotel property creates a readiness to make quick business decisions when needed.
Overexpansion of hotel rooms 	The addition of new capacity in the form of new hotels and hotel rooms could have a significant adverse impact on RevPAR in individual markets.	<ul style="list-style-type: none"> Ongoing market analysis is carried out for each geographical area of operations and hotel property, which means that changes in the market are detected early on and measures can be initiated without delay.
5. SUSTAINABILITY RISK		
Environment	The risk of impact on the climate and environment through the use of energy, water, chemicals, materials, pollution and waste disposal.	<ul style="list-style-type: none"> As a minimum, Pandox runs its business in accordance with the laws, regulations and rules that apply in each country in which it operates. Pandox has a general environmental policy. For all hotels in Operator Activities (except Canada) active work is in progress on green certification, switching to renewable energy, waste disposal/recycling and ongoing review and implementation of investments for possible improvements in energy efficiency. Within Property Management Pandox works actively and closely with its tenants on measures to make environmental improvements.
Human rights	Shortcomings in the supply chain that result in infringement of human rights, deficits in policies, procedures and ongoing work for the health and safety of employees, guests and suppliers, and shortcomings in data security, information management and personal privacy.	<ul style="list-style-type: none"> Code of conduct for employees and suppliers. Contingency plans and security policies at all hotels. Regular fire inspections and fire drills at all hotels, as well as at head office. Training in CPR and installation of defibrillators. Clear guidelines on data security and customer privacy.
Social and HR-related factors	The risk that Pandox is seen as an unattractive employer and finds it difficult to retain existing staff and to recruit new personnel.	<ul style="list-style-type: none"> Code of conduct, clear basic values and respect for the individual, own health and fitness efforts are generously accommodated. Varied work at a fast pace with great opportunities to have an influence. Ongoing opportunities for specialisation and further training. Continual development reviews and annual pay revision.
Anti-corruption	The risk of corruption when purchasing goods and services, for example, or bribery and partiality when signing agreements associated with properties, or the risk of internal irregularities.	<ul style="list-style-type: none"> Code of conduct for employees and suppliers as part of new contracts of employment and supply contracts. Web-based internal training in the code of conduct for all employees. External and independent whistleblower service for reporting irregularities. Fair Play lays down strong basic values, as described in more detail in Pandox's Sustainability Report.

 One of Pandox's top 10 risks.



Hilton Grand Place, Brussels

THIS IS PANDOX

THE MARKET

THE BUSINESS

SUSTAINABILITY REPORT

PROPERTY PORTFOLIO

FINANCIAL

CORPORATE GOVERNANCE

From the CFO

The world's most enjoyable job at the world's most enjoyable company

2017 was a year with even greater momentum than 2016 and even better results. In addition to ongoing work on our financial reporting, we also implemented a number of activities during the year requiring great individual effort by the employees. If I may make this a little personal, I will say that I have the most enjoyable job in the world at the most enjoyable company to work for in the world.

STRONG EARNINGS TREND

In terms of earnings, 2017 was a good year, with improvement driven by both organic and acquired growth and good profitability in both of our business streams. During the year there were relatively big changes in the portfolio structure. We acquired 23 hotels, 22 of which are in the Property Management segment and one in Operator Activities. We reclassified nine hotels, eight of which to Property Management and one to Operator Activities. Growth adjusted for currency effects and comparable units was positive for both business streams, particularly within Operator Activities where Brussels benefited from a strong recovery after the terrorist incidents in March 2016.

ACQUISITION IN THE UK AND IRELAND A MILESTONE

The single biggest event in 2017 was Pandox's acquisition of a portfolio of 37 hotels in the UK and Ireland with Fattal Hotels Group (Leonardo) as the operator partner and with Pandox retaining 21 hotel properties. This transaction is one of the largest and most complex ones that Pandox has ever executed – and also one of the fastest. It required, for example, refinancing of the existing portfolio and negotiations with new banks. There were also numerous commercial, financial and fiscal aspects to consider. All this in a

very short time frame. Pandox completed a directed share issue as well as the divestment of a retail property in Brussels to restore Pandox's financial flexibility. At the end of 2017 Pandox's loan-to-value ratio reached around 51 percent, compared to around 56 percent at the time of the acquisition.

IMPORTANT ISSUES FOR 2018

The reorganisation of the acquisition in the UK and Ireland is a priority. The same applies to the ongoing efforts to develop a scalable and business-driven finance department to support both of the business streams in the best possible way, and to enable Pandox's continued growth and good profitability. One factor here is that Pandox today has a larger and more diversified loan portfolio than before, which requires a greater degree of ongoing follow-up and analysis work.

Stockholm, March 2018

Liia Nõu



Administration Report 2017

Important events:

- Good growth and high profitability.
- Acquisition of 23 hotel properties.
- Agreement to lease out nine Operating Properties.
- Directed share issue of MSEK 1,480.

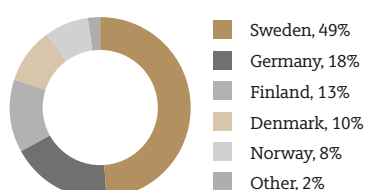
29%

Growth in cash earnings¹⁾

Proposed dividend

SEK 4.40 (4.10) per share.

Revenue by country Property Management

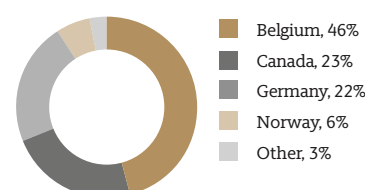


Percentage breakdown of rental income by country in 2017 for Property Management.

18%

Growth in net asset value²⁾

Revenue by country Operator Activities



Percentage breakdown of revenue by country in 2017 for Operator Activities.

Revenue and profit

Group

Total net operating income amounted to MSEK 2,376 (1,934), an increase of 24 percent.

Total cash earnings amounted to MSEK 1,660 (1,289), an increase of 29 percent.



Property Management

Revenue from Property Management amounted to MSEK 2,202 (1,787), an increase of 23 percent.

Net operating income amounted to MSEK 1,882 (1,495), an increase of 26 percent.



Operator Activities

Revenue from Operator Activities amounted to MSEK 2,067 (2,158), a decrease of 4 percent.

Net operating income amounted to MSEK 494 (439), an increase of 13 percent.



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

²⁾ Measured as growth in EPRA NAV (net asset value) at an annual rate, with dividends added back and proceeds from share issues deducted.

Administration Report

The Board of Directors and Chief Executive Officer hereby submit the Annual Report and consolidated accounts for the 2017 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 brackets refer to the corresponding period the previous year. The financial statements are presented in whole millions of Swedish kronor (MSEK), which means that there may be differences in certain tables due to rounding off. The Board of Directors proposes that the income statement and balance sheet in the Annual Report be adopted by the Annual General Meeting on 9 April 2018.

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 leases with the best operators in the market. In the absence of these conditions Pandox has many years of experience of operating hotels itself, which creates business opportunities throughout the hotel value chain.

At the end of 2017 Pandox's hotel property portfolio contained 143 (120) hotels with a total of 31,613 (26,240) hotel rooms in 15 (10) countries, with a market value of more than MSEK 50,121 (38,233). Of the 143 hotels, 126 (98) were leased on a long-term basis to well-known tenants with established brands, providing income stability and lower investment costs and risk for Pandox. Within Property Management 21 hotel properties were acquired in 2017: Hilton London Heathrow Airport on 31 August 2017, and 20 hotel properties in the UK and Ireland on 20 December 2017. Within Operator Activities two acquisitions were completed during the year: Hotel Berlaymont in Brussels on 29 May 2017 and

Hilton Garden Inn London Heathrow on 20 December 2017. Additionally, eight hotels were reclassified from Operator Activities to Property Management based on new leases, and one hotel was reclassified from Property Management to Operator Activities when Pandox took over its operation. The weighted average unexpired lease term (WAULT) for Investment Properties was 15.6 (13.9) years. The remaining 17 (22) hotel properties are owned and operated by Pandox under various brands. Pandox also has asset management agreements for 10 hotels.

In 2017 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 a good return on investments made within both Property Management and Operator Activities.

REVENUE AND PROFIT

Group

The Group's net sales totalled MSEK 4,269 (3,945), an increase of 8 percent. Adjusted for currency effects and comparable units, sales increased by 6 percent.

Profit for the year attributable to the Parent Company's shareholders amounted to MSEK 3,140 (2,201). The increase is explained by increased net operating income for both Property Management and Operator Activities, and by unrealised and realised positive changes in value.

Property Management

Revenue from Property Management amounted to MSEK 2,202 (1,787), an increase of 23 percent. Adjusted for currency effects and comparable units, revenue increased by 4 percent, supported by stable demand, increased occupancy and high average room rates.

Net operating income from Property Management amounted to MSEK 1,882

(1,495), an increase of 26 percent. Adjusted for currency effects and comparable units, net operating income increased by 4 percent.

Operator Activities

Revenue from Operator Activities amounted to MSEK 2,067 (2,158), a decrease of 4 percent. Adjusted for currency effects and comparable units, revenue increased by 9 percent and RevPAR by 11 percent. The revenue reduction in absolute numbers is explained by the reclassification of eight hotel properties in the Nordic region, for which acquisitions did not fully compensate.

Net operating income from Operator Activities amounted to MSEK 494 (439), an increase of 13 percent. The increased result is explained mainly by a strong recovery in Brussels after the terrorist attacks in March 2016.

Adjusted for currency effects and comparable units, net operating income increased by 28 percent, supported by a strong recovery in Belgium and other strong growth in Germany and Canada.

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

EBITDA amounted to MSEK 2,252 (1,817), an increase of 24 percent, which is explained by improved underlying net operating income for both Property Management and Operator Activities.

Financial expense amounted to MSEK -534 (-457). The increase is mainly explained by increased interest-bearing liabilities after acquisitions carried out in markets outside the Nordic region.

Profit before changes in value amounted to MSEK 1,563 (1,214), an increase of 29 percent. Unrealised changes in value for Investment Properties amounted to MSEK 1,625 (1,301). The change in value is explained by a combination of lower valuation yields and thereby lower discount rates in the valuation of Investment Properties, as well as higher underlying cash flows in

Pandox's property portfolio. Realised changes in value totalled MSEK 289 (159), of which MSEK 283 (0) for Operating Properties and MSEK 6 (159) for Investment Properties. The change in Operating Properties is attributable to the divestment of a retail property in Brussels, Belgium and the change in Investment Properties related to the sale of a parcel of land in Hafjell, Norway.

At the end of the period Pandox's property portfolio had a total market value of MSEK 50,121 (38,233), of which Investment Properties accounted for MSEK 42,548 (30,163) and Operating Properties for MSEK 7,573 (8,070). 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 71.

As of 31 December 2017 the average valuation yield for Pandox's Investment Properties was 5.6 percent (5.7) and for Operating properties 7.3 percent (7.5).

Unrealised changes in the value of derivatives amounted to MSEK 173 (–39). The increase is mainly explained by an increase in the market interest rate relative to the fixed interest rate in the interest swap contracts.

**For a multiyear summary
see page 152.**

CURRENT AND DEFERRED TAX

Current tax amounted to MSEK –73 (–72) and includes repaid tax totalling MSEK 47 relating to positive outcomes of appeals in Sweden and Germany. The underlying increase in current tax is mainly explained by profits from acquisitions in Germany, Austria and the Netherlands, as well as the fact that loss carryforwards in Denmark and Finland have been used up. Current tax was affected by, among other things, deductible depreciation and loss carryforwards from previous years. Taxes paid amounted to MSEK –429 (–349). The total tax expense represents a tax rate of 13.8 (16) percent.

CASH FLOW AND CASH EARNINGS

Cash earnings amounted to MSEK 1,660 (1,289). Cash flow from operating activities before changes in working capital amounted to MSEK 1,693 (1,324). Taxes paid amounted to MSEK –73 (–72). The change in working capital affected cash flow in the amount of MSEK 0 (–129). Cash flow from investing activities affected cash flow in the amount of MSEK –10,970 (–4,064) and is mainly explained by the acquisitions in the UK and Ireland, as well as an acquisition and a divestment in Belgium. Cash flow from financing activities amounted to MSEK 9,756 (3,200). Larger items include loans taken out in connection with acquisitions, new share issue proceeds, repayment of loans following divestments and dividends paid. Cash and cash equivalents at the end of the period amounted to MSEK 999 (517).

FINANCING

As of 31 December 2017, the loan-to-value ratio after deduction of cash and cash equivalents was 50.8 percent (47.9). Cash and cash equivalents, including long-term credit facilities, amounted to MSEK 3,319 (2,232), of which unutilised long-term credit facilities amounted to MSEK 2,320 (1,715).

At the end of the period the loan portfolio amounted to MSEK 26,473 (18,831). The average fixed interest period was 2.6 (2.8) years and the average interest rate, corresponding to the interest rate level at the end of the period, was 2.6 (2.6) percent, including effects of interest rate swaps. The average repayment period was 3.3 (3.0) years. The loans are secured by a combination of mortgage collateral and pledged shares.

In order to manage interest rate risk and increase the predictability of Pandox's earnings, interest rate derivatives are used, mainly in the form of interest rate swaps. At the end of the period Pandox had interest rate swaps amounting to MSEK 14,347. Around 52 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 2016. On 31 December 2017 the market value of Pandox's financial derivatives amounted to MSEK –563 (–735). The change is mainly explained by an upturn in the market interest rate.

EQUITY AND NET ASSET VALUE

Equity attributable to the Parent Company's shareholders amounted to MSEK 18,845 (15,081) and EPRA NAV (net asset value) was MSEK 24,211 (19,883). EPRA NAV per share was SEK 144.54 (126.24).

ACQUISITIONS, SALES AND RECLASSIFICATIONS

In 2017, 23 hotel properties were acquired, eight hotel properties were reclassified from Operator Activities to Property Management, one hotel was reclassified from Property Management to Operator Activities and one retail property within Operator Activities was divested. Scandic Sørlandet (4 April 2017), Scandic Valdres (4 April 2017), Scandic Kista Stockholm (11 April 2017), Scandic Sluseholmen (1 May 2017), Scandic Lillehammer (1 May 2017), Scandic Hafjell (1 June 2017) and Scandic Prince Philip (1 June 2017) have been reclassified from Operator Activities to Property Management as a result of new leases with Scandic Hotels Group, and Meininger Copenhagen (1 January 2017) was also reclassified. In addition, Scandic Grand Place was reclassified from Property Management to Operator Activities when Pandox took over its operation. The combined market value of the reclassified hotel properties amounted to MSEK 1,608 (295).

On 13 December 2017 Pandox entered into an agreement within the Operator Activities segment to lease Hotel BLOOM! and Hotel Berlaymont to NH Hotels Group as of 2 February 2018.

On 29 May 2017 Pandox concluded the acquisition of Hotel Berlaymont in Brussels, Belgium for the equivalent of around MSEK 324. This hotel is in the Operator Activities segment.

On 31 August 2017 Pandox concluded the acquisition of Hilton London Heathrow Airport, UK for the equivalent of MSEK 823. This hotel is in the Property Management segment.

On 20 December 2017 Pandox concluded the acquisition of 21 hotel properties in the UK and Ireland for the equivalent of around MSEK 7,960 including acquisition costs, which breaks down into 20 hotel properties for MSEK 7,572 in Property Management and one hotel property for MSEK 388 in Operator Activities.

On 29 December 2017 Pandox concluded the divestment of a retail property in Brussels, Belgium for the equivalent of around MSEK 335 in the Operator Activities segment.

INVESTMENTS IN EXISTING HOTEL PROPERTIES

In 2017 investments in existing hotel properties amounted to MSEK 714 (433), of which MSEK 425 (173) was for Investment Properties and MSEK 289 (260) was for Operating Properties. The increase is explained by a combination of projects in connection with new leases and expansion in Property Management, as well as investments in an improved hotel product within Operator Activities. At the end of the period investments had been approved for future projects in an amount equivalent to around MSEK 870 (1,035).

Larger investment projects include Hyatt Regency Montreal, Hotel Berlin, Berlin, Jury Inn Belfast, Hotel BLOOM!, NH Berlin Airport, Hotel Berlaymont, Leonardo Wolfsburg City, Hilton Grand Place Brussels, Scandic Park Stockholm, InterContinental Montreal and a joint investment programme with Scandic Hotels Group for 19 hotel properties in the Nordic region.

PARENT COMPANY

Administration for activities within Pandox's property-owning companies is provided by staff employed by the Parent Company, Pandox AB (publ). The costs of these services are invoiced to Pandox's subsidiaries. The invoiced amounts during the period January–December 2017 totalled MSEK 101 (65), and profit for the period before tax was MSEK –86 (438). At the end of the period the Parent Company's equity amounted to MSEK 4,556 (3,712) and interest-bearing debt to MSEK 6,638 (5,085), of which MSEK 5,803 (4,997) is in the form of long-term debt.

SHARES AND OWNERSHIP

The class B shares of Pandox AB (publ) were listed on Nasdaq Stockholm on 18 June 2015. Pandox's share capital at the end of the year amounted to MSEK 419 (394) distributed among a total of 167,499,999 shares, of which 75,000,000 are class A shares and 92,499,999 are class

B shares. The shares are denominated in SEK and each share has a quota value of SEK 2.50. According to the Articles of Association, holders of class A shares are entitled to convert all or part of their holding in class A shares to class B shares. The Articles of Association stipulate limitations on the transfer of shares and on voting rights for class A shares. 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 over the Company.

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

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 2017	% of votes
Eiendomsspar Sverige AB	38.1
Christian Sundt AB	19.0
Helene Sundt AB	18.8

New share issue

On 14 December 2017, supported by the authorisation received by the Board at the Annual General Meeting on 29 March 2017, Pandox implemented a directed cash-based share issue of 10,000,000 shares for a subscription price of SEK 148 per share. The subscription price was set in an accelerated book-building process. The new share issue, which was subscribed for by selected Swedish and international investors, raised around MSEK 1,462 for the Company after transaction costs.

ASSET MANAGEMENT

Capital structure

Pandox's target is a loan-to-value ratio of between 45 and 60 percent, depending on the market environment and opportunities that exist. This key ratio is defined as interest-bearing liabilities divided by the sum of the market value of Investment Properties and Operating Properties, and is presented in the multiyear summary on page 152.

Dividend

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

Debt management

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

RISKS AND UNCERTAINTIES

Risks and uncertainties that impact Pandox's earnings and cash flow from operating activities are mainly related to changes in rental income in the Property Management segment and changes in revenue and costs in the Operator Activities segment. The primary operating risks consist of a weakening of the hotel market and/or increased competition, a fall in occupancy rates and thereby lower revenue, unfavourable cost development and lower productivity. Pandox's risks and risk management are described in detail on page 80.

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 41.

Within the Operator Activities business segment Pandox has operational and investment responsibility, and is thereby fully

exposed with respect to operations and results. This is described in detail on page 42.

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 80 and in Note 18.

TAX SITUATION

At the end of the period the deferred tax assets amounted to MSEK 613 (748). These represent tax loss carryforwards which the Company expects to be able to use in upcoming fiscal years, and temporary measurement differences on interest rate derivatives. Deferred tax liabilities amounted to MSEK 3,026 (2,582) and relate to temporary differences between fair value and the taxable value of Investment Properties, as well as temporary differences between the carrying amount and the taxable value of Operating Properties.

WORK OF THE BOARD OF DIRECTORS

The work of the Board of Directors is described in the Corporate Governance Report on page 138.

EMPLOYEES

As of 31 December 2017 Pandox had 1,130 (1,477) full-time employees, of which 1,096 (1,443) are employed in the Operator Activities segment and 34 (34) in the Property Management segment and in central administration. The average number of employees in 2017 was 1,214 (1,422), of which 624 (727) are men and 590 (695) are women. When Pandox takes over operations or enters into new leases for hotel properties, the hotels' employees are also transferred to the respective party.

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) Our guests, (3) Environment, (4) Our business partners and (5) Our community. In 2017 Pandox worked on the Company's important sustainability issues with a particular focus on energy, environmental management and sustainability risks. Sustainability work was focused on activities at Pandox's head office in Stockholm and hotels in the Operator Activities segment, excluding the hotels which are run by operators under management agreements with Pandox. During the year Pandox significantly reduced greenhouse gas emissions in the Operator Activities segment by switching to renewable energy sources. At the end of the year seven hotels had Green Key certification, which is an international sustainability standard, and certification of nine additional hotels was under way. Pandox's head office is certified to ISO 14001 and reported under the Carbon Disclosure Project (CDP Scope 1–2) for 2016 with a score of C. Additionally, Pandox also identified and assessed strategic and operational sustainability risks relating to the environment, human rights, circumstances relating to individuals and social issues, and corruption. Pandox's sustainability work is described in detail on pages 44–55.

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

The total remuneration for senior executives is to be in line with market norms and competitive in order to attract, motivate and retain key individuals. The objective is to create incentives for senior executives to execute strategic plans and deliver good results, and also to align the interests of the senior executives with those of the shareholders. Remuneration for senior executives is to consist of a fixed salary, short-term variable remuneration and long-term, share-based incentive schemes (LTI-program), in addition to pension and other customary benefits. The guidelines for remuneration and terms for 2017 are in line with the proposed guidelines for remuneration for senior executives to apply as of the date of the Annual General Meeting, 9 April 2018. The proposal is presented in Note 9

with information on the average number of employees as well as salaries and other terms for senior executives.

EXPECTATIONS REGARDING FUTURE DEVELOPMENT

The most important drivers of cash earnings for Pandox are the growth of the hotel industry, acquisitions and the organic growth the Company generates itself through cash flow-driving investments in the existing portfolio.

ALLOCATION OF EARNINGS

At the disposal of the Annual General Meeting:	
Share premium reserve	1,435,507,773
Retained earnings	2,662,281,550
Profit for the year	30,387,975
SEK	4,128,177,298

The Board of Directors proposes that the earnings be allocated as follows:

Dividend to Shareholders, SEK 4.40 per share	736,999,996
Carried forward	3,391,177,302
SEK	4,128,177,298

See also Note 30, Allocation of earnings, and the statement by the Board of Directors on the proposed allocation of earnings. For a multiyear summary see page 152.

EVENTS AFTER THE CLOSING DAY

No events or transactions of significance have taken place since 31 December 2017 that in any way affect the financial statements provided for the Pandox Group for the 2017 financial year.

Consolidated statement of comprehensive income

MSEK	Note	2017	2016
Revenue, Property Management			
Rental income	2, 3, 13	2,121	1,717
Other property revenue	2, 13	81	70
Revenue, Operator Activities	2	2,067	2,158
Net sales		4,269	3,945
Costs Property Management	2, 5, 7, 8, 9	-321	-292
Costs Operator Activities	2, 6, 7, 8, 9	-1,743	-1,866
Gross profit		2,206	1,787
<i>– of which gross profit, Property Management</i>	2	1,882	1,495
<i>– of which gross profit, Operator Activities</i>	2	324	292
Central administration	2, 4, 7, 9	-124	-117
Financial income	2, 10	15	1
Financial expense	2, 10	-534	-457
Profit before changes in value		1,563	1,214
Changes in value			
Properties, unrealised	2, 13	1,625	1,301
Properties, realised	2, 13	289	159
Derivatives, unrealised	2, 18	173	-39
Profit before tax		3,650	2,635
Current tax	2, 12	-73	-72
Deferred tax	2, 12	-429	-349
Profit for the year		3,148	2,214
Other comprehensive income			
<i>Items that may not be reclassified to profit for the year</i>			
This year's revaluation of fixed assets ¹⁾		112	—
Tax attributable to items that may not be reclassified to profit for the year		-25	—
		87	—
<i>Items that may be reclassified to profit or loss</i>			
Translation differences, realisation of foreign operations		-272	359
Other comprehensive income for the year		-185	359
Comprehensive income for the year		2,963	2,573
Profit for the year attributable to the shareholders of the parent company		3,140	2,201
Profit for the year attributable to non-controlling interests		8	13
Total comprehensive income for the year attributable to the shareholders of the parent company		2,950	2,556
Total comprehensive income for the year attributable to non-controlling interests		13	17
Per share data	17		
Weighted average number of shares outstanding		157,856,163	150,266,393
Total earnings per share, before and after dilution, SEK		19.89	14.65

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

Comments

Consolidated comprehensive income

Net sales

Revenue from Property Management amounted to MSEK 2,202 (1,787), an increase of 23 percent. Adjusted for currency effects and comparable units, revenue increased by 4 percent.

Revenue from Operator Activities amounted to MSEK 2,067 (2,158), a decrease of 4 percent. Adjusted for currency effects and comparable units, revenue decreased by 9 percent and RevPAR by 11 percent.

The Group's net sales amounted to MSEK 4,269 (3,945), an increase of 8 percent. Adjusted for currency effects and comparable units, sales increased by 6 percent.

Net operating income

Net operating income from Property Management, which corresponds to gross profit, amounted to MSEK 1,882 (1,495), an increase of 26 percent. Adjusted for currency effects and comparable units, net operating income increased by 4 percent, which reflects good underlying development in the markets and the portfolio. Property costs amounted to MSEK -321 (-292) 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 494 (439), an increase of 13 percent. Details of Operator Activities' costs can be found in Note 6. Adjusted for currency effects and comparable units, net operating income increased by 28 percent. Total net operating income amounted to MSEK 2,376 (1,934), an increase of 23 percent.

Central administration

Central administration costs amounted to MSEK -124 (-117). These include costs for corporate governance, administrative personnel, IT and office rents. The increase is mainly explained by strengthening of group functions.

Financial income and expense

Financial expense amounted to MSEK -534 (-457). Financial income amounted to MSEK 15 (1).

Changes in value

Unrealised changes in value amounted to MSEK 1,625 (1,301) for Investment Properties and are mainly explained by a combination of improved underlying cash flows and decreased valuation yields in comparable portfolios. Realised changes in value amounted to MSEK 289 (159), of which MSEK 283 relates to the divestment of a retail property in Brussels and MSEK 6 to the divestment of a parcel of land in Hafjell, Norway.

Unrealised changes in the value of derivatives amounted to MSEK 173 (-39).

Current and deferred tax

Current tax amounted to MSEK -73 (-72) including reversal of extra tax expense of MSEK 47 in total, of which MSEK 29 is attributable to a positive result following appeal against an assessment of arrears in Sweden and MSEK 18 to the positive result of an appeal against a decision on withholding tax and tax arrears in Germany relating to the years 2005-2007.

The underlying increase in current tax is mainly explained by profits from the acquisitions in Germany, Austria and the Netherlands, as well as the fact that loss carryforwards in Denmark and Finland have been used up.

Deferred tax expense amounted to MSEK -429 (-349).

Profit for the year

Profit for the year amounted to MSEK 3,148 (2,214) and profit for the period attributable to the Parent Company's shareholders amounted to MSEK 3,140 (2,201), which represents SEK 19.89 (14.65) per share before and after full dilution.

Other comprehensive income for the year

Other comprehensive income for the year includes translation differences for foreign operations and remeasurement for the year of property, plant and equipment and related hedging in respect of net assets in foreign operations.

Consolidated statement of financial position

MSEK	Note	31 Dec 2017	31 Dec 2016
ASSETS			
Non-current assets			
Operating Properties	15	5,246	5,984
Equipment/Interiors	14	423	431
Investment Properties	13	42,548	30,163
Deferred tax assets	12	613	748
Derivatives ²⁾	18, 19	11	1
Other non-current receivables	11, 19	26	22
Total non-current assets		48,867	37,349
Current assets			
Inventories		10	16
Current tax assets		40	11
Trade accounts receivable	16, 19	167	249
Prepaid expenses and accrued income	20	395	262
Other receivables		67	25
Cash and cash equivalents		999	517
Assets held for sale	29	1,367	—
Total current assets		3,045	1,080
Total assets		51,912	38,429
EQUITY AND LIABILITIES			
Equity			
Share capital	17	419	394
Other paid-in capital		4,557	3,122
Reserves		–243	–53
Retained earnings, including profit for the year		14,112	11,618
Total equity attributable to the owners of the parent		18,845	15,081
Non-controlling interests		182	177
Total equity		19,027	15,258
Liabilities			
Non-current liabilities			
Non-current interest-bearing liabilities ¹⁾	18, 19	23,768	18,294
Other non-current liabilities		248	10
Derivatives ²⁾	18, 19	574	736
Provisions	21	134	100
Deferred tax liabilities	12	3,026	2,582
Total non-current liabilities		27,750	21,722
Current liabilities			
Provisions	21	2	3
Current interest-bearing liabilities ¹⁾	18, 19	2,705	537
Tax liabilities		83	44
Trade accounts payable	19	250	202
Other current liabilities		284	209
Accrued expenses and prepaid income	20	444	454
Liabilities relating to assets held for sale	29	1,367	—
Total current liabilities		5,135	1,449
Total liabilities		32,885	23,171
Total equity and liabilities		51,912	38,429

¹⁾ The carrying amounts of interest-bearing liabilities and other financial instruments constitute a reasonable approximation of their fair values.

²⁾ 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 17 (22) properties within the Operator Activities segment are classified as Operating Properties and are reported at cost less depreciation and impairment losses. The carrying amount including equipment/interiors amounted to MSEK 5,669 (6,415). During the year Operator Activities took over the operation of three Pandox-owned hotels from external operators, and eight former Operating Activities were reclassified as Property Management. Two acquisitions were made during the year, of hotels in Brussels and London.

Investment Properties

The number of Investment Properties at the end of the year was 126 (98). They are reported at fair value (market value) and amounted to MSEK 42,548 (30,163). In total, 21 hotel properties were acquired during the year. Unrealised changes in the value of Investment Properties for the year amounted to MSEK 1,625 (1,301). Realised changes in value amounted to MSEK 6 (159).

Investments in the existing portfolio during the year, excluding acquisitions, amounted to MSEK 714 (433), of which MSEK 425 (173) was in Investment Properties and MSEK 289 (260) was in Operating Properties and equipment.

Deferred tax assets

At the end of the period deferred tax assets amounted to MSEK 613 (748). These represent tax loss carryforwards which the Company expects to be able to utilise in future financial years, and temporary measurement differences for interest rate derivatives. See Note 12.

CURRENT ASSETS

Trade accounts receivable

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

Cash and cash equivalents

Pandox's cash and cash equivalents of MSEK 999 (517) are mainly managed by the Parent Company through a central accounts structure at a bank, with cash being deposited in a joint interest-bearing account. Any surplus may over time be deposited in a time deposit account at the bank. Pandox has unutilised credit facilities totalling MSEK 2,320 (1,715).

EQUITY AND LIABILITIES

Financial position and net asset value
At the end of the period the loan-to-value ratio was 50.8 percent (47.9). Equity amounted to MSEK 19,027 (15,258) and net asset value (NAV) as defined by EPRA was MSEK 24,211 (19,883). EPRA NAV per share was SEK 144.54 (126.24).

NON-CURRENT LIABILITIES

Interest-bearing liabilities

At the end of the period the loan portfolio amounted to MSEK 26,473 (18,831). The average fixed interest period was 2.6 (2.8) years and the average interest rate, corresponding to the interest rate level at the end of the period, was 2.6 (2.6) percent, including effects of interest rate swaps. The average repayment period was 3.3 years (3.0). The loans are secured by a combination of mortgage collateral and pledged shares.

Derivatives

In order to manage interest rate risk and increase the predictability of Pandox's earnings, interest rate derivatives, mainly interest rate swaps, are used. At the end of the period Pandox had interest rate swaps amounting to MSEK 14,347 and about 52 percent of Pandox's loan portfolio was hedged against interest rate movements for periods longer than one year. The market value of the derivatives is measured each quarter and the change in value is recognised in profit or loss. On 31 December 2017 the market value of Pandox's financial derivatives amounted to MSEK -563 (-735).

Provisions

Provisions of MSEK 136 (103) refer to incentive schemes for senior executives, pension provisions and rental warranties for sold hotel properties.

Deferred tax liabilities

Deferred tax liabilities relate to temporary differences between fair value and the adjusted taxable value of Investment Properties and temporary differences between the carrying amount and taxable value of Operating Properties. The amount was MSEK 3,026 (2,582). 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	Revaluation reserve ²⁾	Retained earnings, including profit for the year			
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 ¹⁾	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
Equity, opening balance, 1 January 2017	394	3,122	-53	—	11,618	15,081	177	15,258
Profit for the year	—	—	—	—	3,140	3,140	8	3,148
Other comprehensive income 2017	—	—	-277	87	—	-190	5	-185
New share issue 2017 ¹⁾	25	1,435	—	—	—	1,460	—	1,460
Dividend 2017	—	—	—	—	-646	-646	-8	-654
Equity, closing balance, 31 December 2017	419	4,557	-330	87	14,112	18,845	182	19,027

¹⁾ The new share issue amount is reported net after deduction of transaction cost MSEK 18 (9).

²⁾ Change of Fair value due to reclassification of eight hotel properties from Operator Activities to Property Management.

2016

Outstanding shares at year-end 157,499,999

2017

Outstanding shares at year-end 167,499,999

The share quota value is SEK 2.50.

Consolidated statement of cash flow

MSEK	Note	2017	2016
OPERATING ACTIVITIES			
Profit before tax		3,650	2,635
Reversal of depreciation		170	147
Realised changes in value, Investment Properties		-289	-159
Unrealised changes in value, Investment Properties		-1,625	-1,301
Unrealised changes in value, derivatives		-173	39
Other items not included in cash flow		33	35
Taxes paid		-73	-72
Cash flow from operating activities before changes in working capital		1,693	1,324
Increase/decrease in operating receivables		-102	-179
Increase/decrease in operating liabilities		102	50
Changes in working capital		0	-129
Cash flow from operating activities		1,693	1,195
INVESTING ACTIVITIES			
Investments in Investment Properties		-425	-173
Investments in Operating Properties		-161	-160
Investments in equipment/interiors		-128	-100
Divestment of hotel properties, net effect on liquidity	27	356	843
Acquisition of hotel properties, net effect on liquidity	27	-10,609	-4,477
Acquisition of financial assets		-24	-9
Divestment of financial assets		21	12
Cash flow from investing activities		-10,970	-4,064
FINANCING ACTIVITIES			
New share issue		1,480	1,012
Transaction cost		-20	-9
New loans		13,138	4,850
Amortisation of debt		-4,188	-2,128
Acquisition of non-controlling interests		—	45
Paid dividend		-654	-570
Cash flow from financing activities		9,756	3,200
Cash flow for the year		479	331
Cash and cash equivalents at beginning of year		517	170
Exchange rate differences in cash and cash equivalents		3	16
Cash and cash equivalents at year-end		999	517
Information on interest paid			
Interest received		2	1
Interest paid		-508	-440
Information on cash and cash equivalents at year-end			
Cash and cash equivalents consist of bank balances		999	517

Comments Cash flow

Cash flow from operating activities before changes in working capital amounted to MSEK 1,693 (1,324). The increase is due to a combination of acquired and organic growth in the business.

Investing activities affected cash flow in the amount of MSEK -10,970 (-4,064). During the year a total of 23 hotel properties were acquired: 19 in the UK, three in Ireland and one in Belgium. Acquisition of the properties affected cash flow in the amount of

MSEK -10,609 (-4,477). During the year the Group divested one retail property in Brussels as well as subsidiaries in Norway, with a positive effect on cash flow of MSEK 356 (843). Investments in properties and non-current assets amounted to MSEK -714 (-433). Financing activities affected cash flow in the amount of MSEK 9,756 (3,200). The significant change is explained by new loans of MSEK 13,138 (4,850) in connection with acquisitions of properties and debt repayment

associated with refinancing in order to finance the acquisition in the UK and Ireland of MSEK -4,188 (-2,128). A targeted share issue injected net proceeds of MSEK 1,460 (1,003). Dividends paid affected cash flow in the amount of MSEK -654 (570). Cash flow for the year amounted to MSEK 479 (331). Cash and cash equivalents at year-end amounted to MSEK 999 (517).

Parent Company income statement

MSEK	Note	2017	2016
Net sales	26	101	65
Administrative costs	4, 9	-166	-158
Operating profit		-65	-93
Profit from participations in Group companies	10, 26	200	300
Other interest income and similar profit/loss items	10, 26	140	112
Other interest expense and similar profit/loss items	10, 26	-609	-185
Profit after financial items		-334	134
Year-end appropriations		248	304
Profit before tax		-86	438
Tax on profit for the year	12	—	—
Deferred tax	12	116	—
Profit for the year		30	438

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

Comments Parent Company's financial statements

Administration for the activities of Pandox's property-owning companies is provided by staff employed by the Parent Company, Pandox AB (publ). The costs of these services are invoiced to Pandox's subsidiaries. The total amount invoiced in the period January – December 2017 was MSEK 101 (65). Profit from participations in Group companies of MSEK 200 (300) refers to dividends received from Group companies. Year-end appropriations are the net reported amounts of Group contributions paid and received. Profit for the year amounted to MSEK 30 (438).

Tax on profit for the year is MSEK 0 (0) due to non-taxable revenue and the utilisation of existing tax loss carryforwards.

During the year the Company recognised tax assets for its tax loss carryforwards as well as temporary differences in the value of interest rate derivatives amounting to MSEK 116 – see Note 12.

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

At the end of the period the Parent Company's equity amounted to MSEK 4,556 (3,712). During the year new shares were issued which brought additional capital of MSEK 1,460 into the Company. External interest-bearing liabilities amounted to MSEK 6,639 (5,085), of which MSEK 5,804 (4,997) was in the form of non-current

interest-bearing liabilities. The increase in non-current interest-bearing liabilities mainly relates to the financing of the acquisition in the UK and Ireland towards the end of the year. A dividend was paid to the shareholders in the Parent Company in the amount of MSEK 646 (570).

Parent Company balance sheet

MSEK	Note	31 Dec 2017	31 Dec 2016
ASSETS			
Non-current assets			
Property, plant and equipment			
Equipment	14	1	0
Total property, plant and equipment		1	0
Financial non-current assets			
Shares and participations in Group companies	25	7,835	7,835
Receivables from Group companies	26	9,631	4,872
Other non-current receivables	11	13	10
Deferred tax	12	116	—
Total financial non-current assets		17,595	12,717
Total non-current assets		17,596	12,717
Current assets			
Other receivables		12	1
Prepaid expenses and accrued income		54	45
Cash and bank balances		101	171
Total current assets		167	217
Total assets		17,763	12,934
EQUITY AND LIABILITIES			
Equity	17		
Share capital		419	394
Statutory reserve		10	10
Share premium reserve		1,435	984
Retained earnings		2,662	1,886
Profit for the year		30	438
Total equity		4,556	3,712
Provisions	21	82	57
Non-current liabilities			
Non-current interest-bearing liabilities	28	5,804	4,997
Derivatives		358	—
Total non-current liabilities		6,162	4,997
Current liabilities			
Current interest-bearing liabilities	26, 28	835	88
Trade accounts payable		58	43
Liabilities, Group companies	26	6,011	4,003
Other current liabilities		15	6
Accrued expenses and prepaid income	20	44	28
Total current liabilities		6,963	4,168
Total liabilities		13,206	9,222
Total equity and liabilities		17,763	12,934

THIS IS PANDOX

THE MARKET

THE BUSINESS

SUSTAINABILITY REPORT

PROPERTY PORTFOLIO

FINANCIAL

CORPORATE
GOVERNANCE

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 2016	375	10	—	1,885	571	2,841
Appropriation of profit	—	—	—	571	–571	—
Profit for the year ¹⁾	—	—	—	—	438	438
Dividend	—	—	—	–570	—	–570
New share issue ²⁾	19	—	984	—	—	1,003
Equity, closing balance, 31 December 2016	394	10	984	1,886	438	3,712
Equity, opening balance, 1 January 2017	394	10	984	1,886	438	3,712
Appropriation of profit	—	—	–984	1,422	–438	0
Profit for the year ¹⁾	—	—	—	—	30	30
Dividend	—	—	—	–646	—	–646
New share issue ²⁾	25	—	1,435	—	—	1,460
Equity, closing balance, 31 December 2017	419	10	1,435	2,662	30	4,556

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

²⁾ The new share issue amount is reported net after deduction of transaction cost MSEK 20 (9).

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

2017
Outstanding shares at year-end 167,499,999

The share quota value is SEK 2.50.

Statement of cash flow for the Parent Company

MSEK	2017	2016
OPERATING ACTIVITIES		
Profit before tax	-334	134
Reversal of depreciation	0	0
Impairment losses on shares in subsidiaries	—	61
Other items not included in cash flow	422	27
Cash flow from operating activities before changes in working capital	88	222
Increase/decrease in operating receivables	264	-24
Increase/decrease in operating liabilities	25	874
Changes in working capital	289	850
Cash flow from operating activities	377	1,072
INVESTING ACTIVITIES		
Changes in shares and participations	—	-1,321
Investment equipment	-1	—
Acquisition of financial assets	-4,846	-98
Divestment of financial assets	86	416
Cash flow from investing activities	-4,761	-1,003
FINANCING ACTIVITIES		
New share issue	1,480	1,012
Transaction cost	-20	-9
Group contributions received	249	329
Group contributions provided	—	-25
New loans	6,404	779
Amortisation of debt	-3,153	-1,504
Paid dividend	-646	-570
Cash flow from financing activities	4,314	12
Cash flow for the year	-70	81
Cash and cash equivalents at beginning of the year	171	90
Cash and cash equivalents at year-end	101	171
Information on interest paid		
Interest received	140	110
Interest paid	-211	-183
Information on cash and cash equivalents at year-end	101	171
Cash and cash equivalents consist of bank balances		

THIS IS PANDOX

THE MARKET

THE BUSINESS

SUSTAINABILITY REPORT

PROPERTY PORTFOLIO

FINANCIAL

CORPORATE
GOVERNANCE

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 154.

RECONCILIATION ALTERNATIVE PERFORMANCE MEASUREMENTS (MSEK)	2017	2016
Equity to assets ratio, %		
Sum equity	19,027	15,258
Total assets	51,912	38,429
Equity to assets ratio, %	36.7%	39.7%
Net interest bearing debt		
Non-current interest bearing liabilities	23,768	18,294
Current interest bearing liabilities	2,705	537
Cash and cash equivalent	-999	-517
Net interest bearing debt	25,474	18,314
Loan to value, net, %		
Net-interest bearing debt	25,474	18,314
Market value properties	50,121	38,233
Loan to value, net %	50.8%	47.9%
Interest cover ratio, times		
Profit before changes in value	1,563	1,214
Financial expenses	534	457
Depreciation	170	147
Interest cover ratio, times	4.2	4.0
Average interest on debt end of period, %		
Average interest expenses	688	489
Non-current interest bearing liabilities	23,768	18,304
Current interest bearing liabilities	2,705	537
Average interest on debt, end of period, %	2.6%	2.6%
Se Note 18 page 104–107 for a complete reconciliation		
Investments, excl. Acquisitions	714	433

RECONCILIATION ALTERNATIVE PERFORMANCE MEASUREMENTS (MSEK)	2017	2016
Net operating income, Property Management		
Rental income	2,121	1,717
Other property income	81	70
Costs, excl. property administration	-247	-212
Net operating income, before property administration	1,956	1,575
Property administration	-74	-80
Net operating profit, Property Management	1,882	1,495
Net operating profit, Operator Activities		
Revenues Operator Activities	2,067	2,158
Costs Operator Activities	-1,743	-1,866
Gross profit	324	292
Add: Depreciation included in costs	170	147
Net operating profit, Operator Activities	494	439
EBITDA		
Gross profit from respective operating segment	2,206	1,787
Add: Depreciation included in costs Operator Activities	170	147
Less: Central administration, excluding depreciation	-124	-117
EBITDA	2,252	1,817
Cash earnings		
EBITDA	2,252	1,817
Add: Financial income	15	1
Less: Financial cost	-534	-457
Less: Current tax	-73	-72
Cash earnings	1,660	1,289
EPRA NAV		
Equity attributable to the shareholders of the parent company	18,845	15,081
Add: Revaluation of Operating Properties	1,906	1,655
Add: Fair value of financial derivatives	563	736
Less: Deferred tax assets related to derivatives	-129	-171
Add: Deferred tax liabilities related to properties	3,026	2,582
EPRA NAV	24,211	19,883
Growth in EPRA NAV, annual rate, %		
EPRA NAV attributable to the shareholders of the parent company, opening balance	19,883	16,156
EPRA NAV attributable to the shareholders of the parent company, closing balance	24,211	19,883
Dividend added back, current year	646	570
Excluding proceeds from new share issue	-1,460	-1,003
EPRA NAV, annual rate %	17.7%	20.4%

RECONCILIATION ALTERNATIVE PERFORMANCE
MEASUREMENTS, PER SHARE ¹⁾

	2017	2016
Total comprehensive income, per share, SEK		
Total comprehensive income for the period attributable to the shareholders of the parent company, MSEK	2,950	2,556
Weighted average number of share, before and after dilution	157,856,163	150,266,393
Total comprehensive income per share, SEK	18.69	17.01
Cash earnings per share, SEK		
Cash earnings attributable to the shareholders of the parent company, MSEK	1,652	1,276
Weighted average number of share, before and after dilution	157,856,163	150,266,393
Cash earnings per share, SEK	10.46	8.49
Net asset value (EPRA NAV) per share, SEK		
EPRA NAV, MSEK	24,211	19,883
Number of shares at the end of the period	167,499,999	157,499,999
Net asset value (EPRA NAV) per share, SEK	144.54	126.24
Dividend per share, SEK		
Dividend, MSEK	737	646
Number of shares at dividend	167,499,999	157,499,999
Dividend per share, SEK³⁾	4.40	4.10
Weighted average number of shares outstanding before and after dilution, thousands	157,856,163	150,266,393
Number of shares at the end of period	167,499,999	157,499,999
PROPERTY RELATED KEY FIGURES		
Number of hotels end of period ²⁾	143	120
Number of rooms, en of period ²⁾	31,613	26,240
WAULT, years	15.6	13.9
Total market value properties, MSEK	50,121	38,233
Market value Investment properties, MSEK	42,548	30,163
Market value Operating properties, MSEK	7,573	8,070
RevPAR (Operator Activities) for comparable units at comparable exchange rates, SEK	731	662

¹⁾ Total number of outstanding shares after full dilution amount to 167,499,999 of which 75,000,000 A shares and 92,499,999 B shares. For comparison total number of shares is used for the calculation of key ratios.

²⁾ Pandox's owned hotel properties.

³⁾ For 2017 proposed dividend and for 2016 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

CONTENTS	PAGE
Note 1 ACCOUNTING PRINCIPLES	105
Note 2 OPERATING SEGMENTS	111
Note 3 RENTAL INCOME	113
Note 4 CENTRAL ADMINISTRATION COSTS	113
Note 5 PROPERTY MANAGEMENT COSTS	113
Note 6 OPERATOR ACTIVITIES COSTS	113
Note 7 OPERATING COSTS BY TYPE	113
Note 8 SITE LEASEHOLD AGREEMENTS AND OTHER LEASES	114
Note 9 SALARIES, OTHER REMUNERATION AND PAYROLL OVERHEADS	114
Note 10 FINANCIAL INCOME AND EXPENSE	115
Note 11 OTHER NON-CURRENT RECEIVABLES	115
Note 12 TAX	116
Note 13 INVESTMENT PROPERTIES	117
Note 14 EQUIPMENT/INTERIORS	119
Note 15 OPERATING PROPERTIES	119
Note 16 TRADE ACCOUNTS RECEIVABLE	120
Note 17 EQUITY	120
Note 18 FINANCIAL RISK AND RISK MANAGEMENT	120
Note 19 FINANCIAL ASSETS AND LIABILITIES – CLASSIFICATION, FAIR VALUE AND OFFSETTING	124
Note 20 ACCRUED INCOME/EXPENSES AND PREPAID EXPENSES/INCOME	124
Note 21 PROVISIONS	124
Note 22 KEY ESTIMATES AND JUDGMENTS	125
Note 23 PLEDGED ASSETS AND CONTINGENT LIABILITIES	125
Note 24 EVENTS AFTER THE CLOSING DAY	125
Note 25 PARTICIPATIONS IN SUBSIDIARIES	126
Note 26 TRANSACTIONS WITH RELATED PARTIES	128
Note 27 SPECIFICATION OF CASH FLOWS FOR THE GROUP	129
Note 28 CURRENT AND NON-CURRENT LIABILITIES, PARENT COMPANY	129
Note 29 ASSETS AND LIABILITIES HELD FOR SALE	129
Note 30 ALLOCATION OF EARNINGS	130

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 2017 were approved by the Board of Directors and CEO on 15 February for adoption at the Annual General Meeting on 9 April 2018.

1. Accounting basis

1.1 Conformity with standards and laws

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

1.2 Basis for valuation

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

1.3 Functional currency and reporting currency

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

1.4 Classification

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

2. Judgments and estimates

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

3. Changed accounting principles

IFRSs applied from 1 January 2017.

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

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

In January 2016 the IASB published a new standard on leases, IFRS 16 *Leases*, which will replace IAS 17 *Leases* and the associated interpretations IFRIC 4, SIC-15 and SIC-27. The standard requires assets and liabilities attributable to all leases to be reported as a liability and an asset in the balance sheet, unless the lease term is 12 months or less or the underlying asset is of low value. This reporting is based on the approach that the lessee has a right to use an asset for a specific period of time and at the same time a liability to pay for this right. For the lessor, recognition will be essentially unchanged. The standard is applicable to annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted. Pandox is not planning to adopt IFRS 16 early. Analysis is in progress to quantify the effects of the introduction of IFRS 16 and this work will continue in 2018. IFRS 16 is assessed to impact Pandox's financial statements since the Group has operating leases for premises as well as site leaseholds. Interpretations are currently being prepared concerning how site leasehold rents are to be reported under the new standard. For an idea of the size of the Group's lease commitments see Note 8 *Operating leases*.

4. Operating segment reporting

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

5. Consolidation principles

5.1 Controlling interests and the acquisition method

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

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

5.2 Changes in ownership

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

6.2 Financial statements of foreign entities

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

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

7. Revenue

7.1 Rental income

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

7.2 Other property revenue

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

7.3 Revenue from Operator Activities

Revenue from Operator Activities relates to the hotel operations operated under management agreements and franchise agreements as well as hotels operated by Pandox. The revenue comes mainly from accommodation, food and beverages, as well as conference activities. Revenue from Operator Activities is recognised in the period in which the activities are performed.

7.4 Revenue from property sales

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

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

8. Leases

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

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

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

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

9. Financial income and expense

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

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

Exchange gains and losses are recognised as net amounts.

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

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

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

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

11. Taxes

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

Current tax is tax to be paid or received for the year in question applying the tax rates that have been enacted or substantively enacted as of the closing day. Current tax also includes adjustment of current tax that is attributable to earlier periods. Deferred tax is calculated according to the balance sheet method based on temporary differences arising between reported and fiscal values of assets and liabilities. Temporary differences are not taken into account in consolidated goodwill, nor are

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

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

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

12. Properties

12.1 Investment Properties

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

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

Fair value is based on the market value and represents the estimated amount that would be received in a transaction on the appraisal date between knowledgeable parties who are independent of each other and who have an interest in ensuring that the transaction is executed following customary marketing, where both parties are assumed to have acted knowledgeably, prudently and without compulsion.

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

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

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

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

12.2 Operating Properties and equipment/interiors

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

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

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

A further expenditure is added to cost if the expenditure is related to replacement of identified components or parts thereof. In cases where a new component is created, this expenditure is also added to cost. Any undepreciated carrying amounts for replaced components, or parts of components, are disposed of and expensed at the time of the replacement. Repairs are expensed on a continuous basis. Depreciation periods are between three and 200 years, depending on the component.

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

– Frame	150–200 years
– Roof	50 years
– Facade	50 years
– Interior surfaces	20 years
– Installations	25 years
– Bathrooms	25 years
– Special adaptations	50 years
– Fixtures and fittings	15–25 years
– Land improvements	28 years
– Equipment/interiors	3–25 years

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

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

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

Depreciation principles

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

– Machinery and equipment	3–15 years
---------------------------	------------

Further expenditures

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

14. Financial instruments

On the asset side, financial instruments recognised in the statement of financial position include financial investments, cash and cash equivalents, loans receivable, rent receivables, trade accounts receivable and derivatives. The liabilities include trade accounts payable, loan liabilities and derivatives.

14.1 Recognition in and derecognition from the statement of financial position

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

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

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

14.2 Classification and measurement

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

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

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

Other financial liabilities

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

Derivatives and interest rate risk

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

Hedging of net investment

Pandox uses loans to hedge net investments in foreign currency. Hedging of net investments in foreign operations. The effective portion of changes in the fair value of hedging instruments, usually a loan in foreign currency that fulfils the conditions for hedge accounting, is recognised in other comprehensive income. The ineffective portion is recognised immediately in the income statement and is included in the operating result. Accumulated translation gains and losses in equity are recognised in the income statement when the foreign operations are fully or partly divested.

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 fair value less costs to sell or value in use – whichever is higher. When calculating value in use, future cash flows are discounted using a discounting factor that takes into account risk-free interest and the risk associated with the specific asset.

16.2 Impairment of financial assets

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

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

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

16.3 Reversal of impairment losses

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

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

17. Employee benefits

17.1 Defined contribution pension plans

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

Endowment policies for employees

The Company has defined contribution endowment policies for employees who have a pension premium exceeding 10 price base amounts (SEK 448,000 for 2017). Under the Company's pension policy, the portion which exceeds 10 price base amounts is invested in an endowment policy. The premium is defined as a percentage of salary taking into account the employee's salary and age, and the endowment policy is pledged to the employee. Endowment policies are recognised as a liability at the calculated liability, with a corresponding asset owned by the Parent Company.

Incentive scheme for employees

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

17.2 Short-term benefits

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

17.3 Termination benefits

Benefits associated with the termination of employment are expensed at the earlier of the date that the Company can no longer withdraw the offer to the employee or the date that the Company recognises restructuring costs. Benefits that are expected to be paid after a period of 12 months are recognised at their present value. Benefits that are not expected to be paid in full within 12 months are recognised as long-term benefits.

18. Provisions

A provision differs from other liabilities in that there is uncertainty concerning the time of payment or the sum required for settlement. A provision is recognised in the statement of financial position when there is an existing legal or constructive obligation as a result of a past event, it is probable that an outflow of economic

resources will be required to settle the obligation and a reliable estimate of the amount can be made. Provisions are made in the amount that represents the best estimate of funds needed to settle the existing obligation on the closing day. A provision for a loss-making contract is recognised when the anticipated benefits the Group is expected to receive from a contract are lower than the unavoidable costs to meet the obligations under the contract.

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

19. Non-current assets held for sale

The significance of a non-current asset or a disposal group that has been classified as held for sale is that its carrying amount will be largely recovered through the sale of the asset and not through its use. An asset or disposal group is classified as held for sale if it is available for immediate sale in its existing condition and it is very likely that a sale will take place. These assets or disposal groups are reported on a separate line as current assets or current liabilities in the statement of financial position. For depreciable assets, depreciation stops after 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 accounts are prepared in accordance with the Swedish Annual Accounts Act (1995:1554), Swedish Financial Reporting Board recommendation RFR 2 (Accounting for Legal Entities) and the statements issued by the Swedish Financial Reporting Board (UFR). RFR 2 requires the Parent Company to apply all EU-adopted IFRS standards and statements as far as this is possible

within the framework of the Swedish Annual Accounts Act and the Swedish Pension Obligations Vesting Act, and taking into account the connection between reporting and taxation. The recommendation states the exceptions from and additions to IFRS that must be made. These are described below.

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

Classification and presentation

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

Subsidiaries

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

Financial instruments and hedge accounting

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

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

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

Anticipated dividends

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

Operating segment reporting

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

Property, plant and equipment

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

Non-current assets held for sale and discontinued operations

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

Leased assets

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

Group contributions

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

Provisions and financial guarantees

Provisions are recognised on a separate line in the balance sheet for the Parent Company. The Parent Company applies the easing rule in RFR2 in its recognition of financial guarantees, which means that 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 Operator Activities segment owns hotel properties and operates hotels in such owned properties. 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 2017 the rental income from Scandic Hotels Group amounted to MSEK 972 (852) and the management revenue from Leonardo Hotels amounted to MSEK 314 (280), which is equivalent to 45.8 (47.7) and 14.8 (15.7) percent respectively of total hotel rental income.

GROUP
2017

Operating segments, MSEK	Property Management	Operator Activities	Group-wide and non-allocated items	Total
Revenue, Property Management				
Rental income and other property revenue	2,202	—	—	2,202
Revenue, Operator Activities	—	2,067	—	2,067
Revenue	2,202	2,067	—	4,269
Costs Property Management	-321	—	—	-321
Costs Operator Activities ¹⁾	—	-1,743	—	-1,743
Gross profit	1,882	324	—	2,206
Central administration	—	—	-124	-124
Financial income	—	—	15	15
Financial expense	—	—	-534	-534
Profit before changes in value	1,882	324	-643	1,563
Changes in value				
Properties, unrealised	1,625	—	—	1,625
Properties, realised	6	283	—	289
Derivatives, unrealised	—	—	173	173
Profit before tax	3,513	607	-470	3,650
Current tax	—	—	-73	-73
Deferred tax	—	—	-429	-429
Profit for the year	3,513	607	-972	3,148

2017	Sweden	Denmark	Norway	Finland	Germany	Belgium	UK & IE	Other	Total
Geographical markets									
Revenue									
Property Management	888	201	184	277	441	6	27	179	2,202
Operator Activities	23	22	119	31	455	943	1	473	2,067
Properties, market value ²⁾	14,539	3,345	3,037	3,553	8,825	3,795	8,847	4,180	50,121
Investments in properties ³⁾	212	23	91	25	185	92	—	87	714
Acquisition of properties	—	—	—	—	—	324	8,399	109	8,832
Realised change in value, properties	—	—	6	—	—	283	—	—	289
Book value Operating Properties	—	—	—	26	1,411	2,495	388	898	5,218

¹⁾ Expenses for Operator Activities include depreciation of Operating Properties at MSEK 170.

²⁾ Also includes fair value of Operating Properties at MSEK 7,573.

³⁾ Includes investments in equipment/interiors of Operating Properties at MSEK 128.

GROUP
2016

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

2016								
Geographical markets	Sweden	Denmark	Norway	Finland	Germany	Belgium	Other	Total
Revenue								
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 ²⁾	13,620	3,129	3,050	3,289	7,788	3,351	4,006	38,233
Investments in properties ³⁾	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
Book value Operating Properties	364	557	689	49	1,327	2,524	905	6,415

¹⁾ Expenses for Operator Activities include depreciation of Operating Properties at MSEK 147.

²⁾ Also includes fair value of Operating Properties at MSEK 8,070.

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

NOTE 3 RENTAL INCOME

Operating leases

Pandox's lease agreements are largely linked to the hotels' sales of rooms, food & beverages, conference rooms 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 15.6 (13.9) 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 942 (770) of the total rental income of MSEK 2,121 (1,717) in 2017.

GROUP RENTAL INCOME, MATURITY STRUCTURE OF CONTRACTUAL RENT			
MSEK	2017	2016	
Rental income			
Maturing within one year	2,526	1,871	
Maturing in 1–5 years	12,005	9,103	
Maturing after more than 5 years	24,774	14,999	
Total	39,305	25,973	

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

NOTE 4 CENTRAL ADMINISTRATION COSTS

Central administration includes costs for central functions such as executive management, business development, finance, the Board of Directors, HR, legal affairs, IT, audit, administration, IR, costs of maintaining the Company's listing, and depreciation of the machinery and equipment belonging to central administration. Central administration also includes the costs of a share price-related incentive scheme for Group management at MSEK 22 (26).

REMUNERATION TO AUDITORS				
MSEK	Group		Parent Company	
	2017	2016	2017	2016
PwC				
Audit assignments	-6,5	-3,0	-1,9	—
Audit-related services ¹⁾	-0,9	—	-0,6	—
(of which to the auditor for the parent company Price waterhouseCoopers AB)	-0,6	—	—	—
Tax advisory services ¹⁾	0,0	-1,0	—	—
(of which to the auditor for the parent company Price waterhouseCoopers AB)	—	—	—	—
Other assignments ¹⁾	0,0	—	—	—
(of which to the auditor for the parent company Price waterhouseCoopers AB)	—	—	—	—
KPMG				
Audit assignments	-3,0	-5,2	-1,9	-1,6
Audit-related services	-0,7	-1,0	-0,6	-0,7
Tax advisory services	-3,6	-2,6	-0,1	—
Other assignments	-0,2	-0,8	—	-0,1
Other				
Other assignments	—	0	—	—
Total	-14,9	-13,6	-5,1	-2,4

¹⁾ In addition to auditing, audit related services include, in addition to other statutory assignments, tax advisory services in connection with mergers, other audit statements regarding special audits and accounts, advisory services relating to IFRS and enhanced review of routines and controls.

NOTE 5 PROPERTY MANAGEMENT COSTS

GROUP		
MSEK	2017	2016
Operating costs	-32	-31
Maintenance costs	-50	-55
Property tax	-96	-87
Site leasehold rent	-50	-38
Property administration	-74	-64
Other administration costs	-19	-17
Total	-321	-292

Operating costs include costs for electricity, heating, water and janitorial services. Maintenance costs consist of ongoing maintenance to maintain the standard of the properties and their technical systems. Site leasehold rent must be paid annually to the municipality by owners of buildings on municipal land.

A portion of the operating costs and the property tax is passed on to the tenants. This revenue is recognised under the heading "Other property revenue" in the income statement at MSEK 81 (70). Property administration of MSEK -74 (-64) comprises administration costs for Property Management.

NOTE 6 OPERATOR ACTIVITIES COSTS

GROUP		
MSEK	2017	2016
Employee costs	-744	-791
Marketing and sales	-150	-164
Repairs and maintenance	-28	-15
Property tax	-60	-63
Other operating costs	-591	-686
Depreciation	-170	-147
Total	-1,743	-1,866

Costs for Operator Activities include costs for employees, administration, marketing, maintenance and operating costs. Maintenance costs consist of ongoing maintenance to maintain the standard of the properties and their technical systems. Also included is depreciation of Operating Properties recognised at book value and charged with annual depreciation. Pandox has chosen not to report the company's Operating Properties at fair value. Operating Properties are reported at acquisition value, which is continuously reduced by depreciation.

NOTE 7 OPERATING COSTS BY TYPE

GROUP		
MSEK	2017	2016
Employee costs	-854	-889
Marketing and sales	-150	-164
Maintenance	-78	-70
Operation and administration	-731	-817
Site leasehold rents	-50	-38
Property tax	-156	-150
Depreciation	-170	-147
Total	-2,188	-2,275

Employee costs include salary costs of MSEK 841 (877). 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	2017	2016
Site leasehold agreements, maturity structure		
Maturing within one year	-69	-46
Maturing in 1-5 years	-258	-179
Maturing after more than 5 years	-2,516	-976
Total	-2,843	-1,201

Operating leases are leases where a company within the Group is the lessee. The operating leases are mainly site leaseholds. The cost in 2017 for site leasehold rents was MSEK 50 (38). The average remaining leasehold period is 28 (22) years. The payments are expensed on a straight line basis over the term of the lease. The large increase in future site leasehold rents is due to acquisitions in Great Britain. The site leasehold periods in Great Britain are very long.

Other leases refers to smaller amounts with short period of contract. The cost in 2017 for other leases was approximately MSEK 22 (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 9.0 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 2017 amounted to 1,214 (1,422) broken down by country and gender as shown below.

	Group		Parent Company	
Average number of employees	2017	2016	2017	2016
Women	590	695	13	12
Men	624	727	14	13
Total	1,214	1,422	27	25
Board of Directors				
Women	3	2	3	2
Men	5	5	5	5
Total	8	7	8	7
Senior executives				
Women	2	3	2	3
Men	8	5	6	4
Total	10	8	8	7
Average number of employees by country				
Sweden	37	58	27	25
Belgium	493	418	—	—
Germany	258	262	—	—
Canada	318	350	—	—
Denmark	10	58	—	—
Finland	24	25	—	—
Norway	74	251	—	—
Total	1,214	1,422	27	25

	Group		Parent Company	
Salaries, fees and benefits, MSEK	2017	2016	2017	2016
Chairman of the Board				
Christian Ringnes	-0.7	-0.7	-0.7	-0.7
Other board members				
Leiv Askvig	-0.4	-0.4	-0.4	-0.4
Ann-Sofi Danielsson	-0.5	-0.6	-0.5	-0.6
Olaf Gauslå	-0.5	-0.5	-0.5	-0.5
Jeanette Dyhre Kvisvik ¹⁾	-0.2	—	-0.2	—
Helene Sundt	-0.4	-0.4	-0.4	-0.4
Bengt Kjell	-0.5	-0.5	-0.5	-0.5
Mats Wäppling	-0.5	-0.5	-0.5	-0.5
Chief Executive Officer				
Basic salary	-5.0	-4.9	-5.0	-4.9
Variable remuneration	-1.7	-1.7	-1.7	-1.7
Incentive scheme	-5.3	-6.2	-5.3	-6.2
Other senior executives				
Basic salary	-16.4	-7.3	-14.0	-7.3
Variable remuneration	-3.4	-2.6	-2.7	-2.6
Other remuneration	-5.9	-8.4	-0.9	-3.5
Incentive scheme	-10.9	-8.7	-7.4	-8.7
Other employees	-637.2	-692.6	-23.8	-18.2
Incentive scheme	-0.9	-5.2	-0.0	-5.2
Total	-690.4	-741.2	-64.5	-61.9
Contractual pension costs				
Chief Executive Officer	-1.7	-1.7	-1.7	-1.7
Other senior executives	-6.4	-2.9	-6.3	-2.9
Other employees	-19.0	-24.8	-2.2	-4.4
Total	-27.1	-29.4	-10.2	-9.0
Payroll overheads including payroll tax				
Chairman of the Board	-0.1	-0.1	-0.1	-0.1
Other board members	-0.7	-0.6	-0.7	-0.6
Chief Executive Officer	-4.2	-4.4	-4.2	-4.4
Other senior executives, nine persons	-10.7	-6.6	-9.1	-6.6
Other employees	-114.2	-114.1	-7.6	-8.0
Total	-129.9	-125.8	-21.7	-19.7
Total	-847.4	-896.4	-96.4	-90.6

¹⁾ Elected board member at the AGM 29 March 2017.

Remuneration of senior executives

Principles

Fees are paid to the Board of Directors of the Parent Company as decided at the Annual General Meeting. Remuneration to the Chief Executive Officer and other senior executives consists of basic salary, variable remuneration, other benefits and pension benefits. Other senior executives are individuals who, in addition to the CEO, make up the executive management team. In 2017 this was nine individuals. The variable component is to constitute a significant percentage of the possible remuneration and is maximised at four monthly salaries. The variable component is based on performance in relation to management outcomes and individually set targets.

The Board's proposed guidelines for remuneration for senior executives to apply following the Annual General Meeting on 9 April 2018.

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

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

- Fixed salary is to be based on the individual's skills, responsibility and performance, and is to be competitive and in line with market norms. The fixed salary is to be reviewed annually.
- Short-term variable remuneration is to be based on company-wide and individual targets. Short-term variable remuneration for the CEO is maximised at the equivalent of six monthly salaries and for other Pandox senior executives at the equivalent of four monthly salaries.
- The vesting period for the share-based incentive scheme is to be at least five years. The incentive scheme is to be based on shares, Pandox's share price or share-related instruments, and paid in cash. The scheme is intended to provide a long-term incentive linked to Pandox's development.
- Pension solutions for senior executives are, wherever possible, to be based on fixed contributions and designed according to the levels, practices and collective agreements that apply in the countries where the senior executive is employed.
- Other benefits may consist of health insurance and other customary benefits. Other benefits are not to make up a substantial portion of the total remuneration package.
- In the event employment is terminated by the Company, the period of notice for senior executives is a maximum of 12 months.

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

Variable remuneration

Variable remuneration for the CEO for 2017 was based on management outcomes and individually set targets. The amount for the CEO in 2017 was MSEK -1.7 (-1.7). Variable remuneration for 2017 for other senior executives was determined on the same basis as for the CEO. The amount for these executives in 2017 was MSEK -3.4 (-2.6).

Incentive scheme

On 5 May 2015 the Board of Directors decided to introduce a long-term incentive scheme for the senior executives and other key individuals. The incentive scheme is a bonus scheme based on the price of the Pandox class B share for a period of 30 days between 15 November 2020 and 15 December 2020. The incentive scheme matures on 31 December 2020.

Upon maturing, the share price for Pandox B shares ("Maturity Price") will be compared with an adjusted assumed initial share price ("Initial Share Price"). The Initial Share Price will be adjusted for an annual return and for dividends paid. The difference between the Maturity Price and the Adjusted Initial Share Price, multiplied by a fictitious allocation of shares per participant, will be paid out in cash to the participants. The fictitious allocation of shares is based on the participants' position within the Company. The CEO was allocated 360,000 fictitious shares and the other participants a combined 804,000 fictitious shares.

In a calculation as of 31 December 2017 based on the Adjusted Initial Share Price and where the average Maturity Price is SEK 165.50 or higher, the full maximum compensation would be payable. The highest amount that can be paid out to each participant is limited to certain levels, ranging between MSEK 5 and MSEK 30. The maximum total amount that can be paid out to the participants is MSEK 97 excluding payroll overheads. The incentive scheme is expensed continually throughout the period. In 2017 MSEK 22.4 (26.3) was expensed and a total provision of MSEK 61.5 (39.1) has been made, including payroll overheads. The provision is based on the best assessment regarding the expected outcome of the incentive scheme. Payment of the amounts under the incentive scheme is dependent on the participant still being employed by the Company on the maturity date and upon neither the participant nor the Company having given notice to terminate employment.

Pensions

The CEO has a defined contribution pension plan amounting to 35 percent of fixed salary paid out during the year. The retirement age for the CEO is not fixed.

Notice of termination

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

Pension benefits for other employees

Other Pandox employees have an occupational pension plan whereby Pandox pays a

contribution to an insurance company selected by the employee under a defined pension policy. The contributions are defined as a percentage of salary taking into consideration salary levels and age. The pension cost may not exceed 35 percent of salary based on the main principle in the municipal tax code for up to 30 price base amounts, with a contribution limit of no more than 10 price base amounts (SEK 448,000 for 2017). For individuals who have a premium of more than 10 price base amounts, a direct pension plan has been set up to guarantee the pension promised to the employee. Employees are entitled to determine the structure of their individual occupational pension plans within the framework of the pension policy currently in place.

Preparation and decision-making processes

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

Board of Directors in 2017:

Christian Ringnes, Chairman	Olaf Gauslå Bengt Kjell	Jeanette Dyhre Kvisvik Helene Sundt
Leiv Askvig	Ann-Sofi Danielsson	Mats Wåppling

Senior executives in 2017:

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

Board of Directors and senior executives in 2017:

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

Number in the Group: 18, of which 5 women

NOTE 10 FINANCIAL INCOME AND EXPENSE

MSEK	Group		Parent Company	
	2017	2016	2017	2016
Financial income				
Interest income	2	1	0	0
Interest income, subsidiaries	—	—	140	109
Dividend ¹⁾	—	—	200	361
Capital gains on divestment of subsidiaries ¹⁾	—	—	—	—
Other financial income	13	—	13	3
Total financial income	15	1	353	473
Financial expense				
Interest expense, loans measured at amortised cost	-254	-177	-186	-46
Interest expense, interest-rate derivatives measured at fair value	-254	-263	-358	-124
Interest expense, subsidiaries	—	—	-20	-13
Impairment losses on shares in subsidiaries ¹⁾	—	—	—	-61
Other financial expense	-26	-17	-45	-2
Total financial expense	-534	-457	-609	-246

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

NOTE 11 OTHER NON-CURRENT RECEIVABLES

MSEK	Group		Parent Company	
	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016
Pension insurance	13	10	13	10
Prepaid compensation for land use	6	6	—	—
Other non-current receivables	7	6	—	—
Total	26	22	13	10

NOTE 12 TAX

Tax in the income statement, MSEK	Group		Parent Company	
	2017	2016	2017	2016
Current tax ¹⁾	-73	-72	—	—
Deferred tax	-429	-349	116	—
Total	-502	-421	116	—

¹⁾ Current tax MSEK 47 (3) is attributable to the adjustment of previous years tax.

Reconciliation of effective tax rate, MSEK	Group		Parent Company	
	2017	2016	2017	2016
Tax				
Profit reported before taxes	3,650	2,635	-86	438
Income tax assessed based on the tax rate in effect	-803	-580	19	-96
Tax attributable to previous years	47	5	—	—
Non-taxable revenue	212	95	45	80
Non-deductible costs	-22	-2	-2	-16
Transaction cost through Equity	4	—	4	—
Utilized deficiency not accounted for	62	59	—	32
New tax losses, unrecognised	—	—	-50	—
Changed tax rate	—	—	—	—
Effective tax rate for foreign companies	-2	2	—	—
Tax for the year according to the income statement	-502	-421	116	0

GROUP DEFERRED TAX LIABILITIES MSEK

	Investment Properties	Operating Properties	Total
Opening balance, 1 Jan 2016	1,956	325	2,281
Change in items recognised in the statement of income	278	19	297
Sales	-59	—	-59
Reclassifications	17	-17	0
Change recognised in comprehensive income	46	17	63
Closing balance, 31 Dec 2016	2,238	344	2,582
Opening balance, 1 Jan 2017	2,238	344	2,582
Change in items recognised in the statement of income	430	12	442
Sales	—	-34	-34
Reclassifications	77	-77	0
Purchases	28	—	28
Change recognised in comprehensive income	2	6	8
Closing balance, 31 Dec 2017	2,775	251	3,026

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

GROUP DEFERRED TAX ASSETS

MSEK	Group		Parent Company	
	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016
Opening balance, loss carryforwards	578	631	0	0
Additional loss carryforwards	125	34	50	—
Utilised loss carryforwards	-216	-95	-13	—
Changed tax rate	—	—	0	—
Translation difference on loss carry- forwards outside Sweden	-3	8	—	—
Closing balance, loss carry forwards	484	578	37	0
Opening balance, interest rate derivatives	170	169	0	0
Change for the year	-41	1	79	—
Closing balance, interest rate derivatives	129	170	79	—
Closing balance, tax assets	613	748	116	0

The Group's accumulated tax loss carryforwards were estimated at MSEK 2,956 (2,716) as of 31 December 2017. Deferred tax assets were estimated at SEK 2,195 (2,588) of the loss carryforwards. Deferred tax assets have not been recognised on tax loss carryforwards where deduction from future taxable gains is considered uncertain. The change in deferred tax assets for the year is recognised in profit or loss, except for the translation difference in foreign loss carryforwards.

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.

Tax recognised in other comprehensive income

In 2017 tax of MSEK -25 (-) was recognised in other comprehensive income relating to revaluation of Operating Properties at fair value in connection with reclassification to Investment Properties, as well as deferred tax on hedging of net investments.

NOTE 13 INVESTMENT PROPERTIES

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

MSEK	31 Dec 2017	31 Dec 2016
Opening balance	30,163	25,062
Acquisitions (at cost)	8,395	3,970
Investments in existing portfolio	425	173
Amount received, properties divested	—	-887
Reclassified to/from Operating Properties	1,496	-295
This year's revaluation of fixed assets in Other comprehensive income	112	—
Change in value, unrealised	1,649	1,301
Change in value, realised	6	159
Exchange gains/losses	303	680
Closing balance	42,548	30,163

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 2017, MSEK	Sweden	Denmark	Norway	Finland	Germany	Belgium	UK & IE	Other	Total
Opening balance	13,310	2,394	2,380	3,246	5,751	101	—	2,981	30,163
Acquisitions	—	—	—	—	—	—	8,395	—	8,395
Investments in existing portfolio	204	23	73	23	102	—	—	—	425
Amount received, properties divested	—	—	—	—	—	—	—	—	—
Reclassified to/from Operating Properties	369	558	673	—	—	-104	—	—	1,496
This year's revaluation of fixed assets in Other comprehensive income	-53	175	-11	—	—	—	—	—	112
Change in value, unrealised	709	106	62	167	638	—	—	-34	1,649
Change in value, realised	—	—	6	—	—	—	—	—	6
Exchange gains/losses	—	88	-144	96	170	3	65	24	303
Closing balance including assets held for sale	14,539	3,345	3,038	3,533	6,661	0	8,460	2,971	42,548

By geographical market 31 Dec 2016, MSEK	Sweden	Denmark	Norway	Finland	Germany	Belgium	UK & IE	Other	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
Change in value, unrealised	747	225	62	119	136	-10	—	22	1,301
Change in value, realised	159	—	—	—	—	—	—	—	159
Exchange gains/losses	—	105	215	141	173	5	—	41	680
Closing balance	13,310	2,394	2,380	3,246	5,751	101	—	2,981	30,163

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. In the valuation of hotel properties, an expected site leasehold rent is included in the calculation.

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

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

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

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

Calculation assumptions by geographical area in 2017	Fair value, MSEK	Valuation yield		Discount rate	
		Range, %	Average, %	Range, %	Average, %
Sweden	14,539	4.4–7.0	5.4	6.4–9.0	7.4
–of which Stockholm	6,056	4.4–6.0	5.0	6.4–8.0	7.0
–of which Gothenburg	2,567	4.7–6.4	5.1	6.7–8.4	7.1
–of which Malmö	1,319	5.1–6.2	5.4	7.1–8.2	7.4
–of which Other Sweden	4,597	5.6–7.0	6.1	7.6–9.0	8.1
Denmark	3,345	4.8–6.7	5.4	6.8–8.7	7.4
Norway	3,037	4.4–8.0	5.7	6.9–10.5	8.2
Finland	3,533	4.9–8.0	5.7	6.4–9.5	7.2
Germany	6,662	5.3–6.8	6.0	7.3–8.8	8.0
Belgium	—	—	—	—	—
UK and Ireland	8,460	5.0–6.5	5.5	7.0–8.5	7.5
International	2,972	5.2–6.3	5.7	6.4–8.3	7.5
Total	42,548	4.4–8.0	5.6	6.4–10.5	7.6

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
–of which Stockholm	5,438	4.5–6.1	5.1	6.5–8.1	7.1
–of which Gothenburg	2,322	4.8–6.5	5.2	6.8–8.5	7.2
–of which Malmö	1,273	5.2–6.2	5.4	7.2–8.2	7.4
–of which Other Sweden	4,277	5.7–7.8	6.3	7.7–9.8	8.3
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
UK and Ireland	—	—	—	—	—
International	2,981	5.2–6.3	5.6	7.2–8.3	7.6
Total	30,163	4.4–8.0	5.7	6.5–10.0	7.7

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

Sensitivity analysis – fair value	Change	Effect on value in 2017, MSEK	Effect on value in 2016, MSEK
Valuation yield	+/- 0.5pp	-3,504/+4,194	-2,439/+2,910
Currency gain/loss	+/- 1%	+/-280	+/-169
Rental income	+/- 1%	+/-463	+/-311
Discount rate	+/- 0.5pp	-2,642/+3,016	-1,846/+2,104
Net operating income	+/- 1%	+/-404	+/-271

Significant commitments

Pandox has commitments relating to the completion of investment projects in a number of Investment Properties to a value of around MSEK 870 in addition to the amounts capitalised and reported in the balance sheet. Major ongoing investment projects include Hyatt Regency Montreal, Hotel Berlin, Berlin, Hotel BLOOM!, NH Vienna Airport, Hotel Berlaymont, Leonardo Wolfsburg City, Hilton Grand Place Brussels, InterContinental Montreal and the investment program together with Scandic Hotels Group for 19 Hotel Properties in the Nordic countries.

Other factors influencing the result for the period

Other factors influencing the result for the period	2017	2016
Rental income/other property revenue	2,202	1,787
– of which guaranteed rents	1,179	947
Direct costs for Investment Properties that generated rental income during the period (operating and maintenance costs, property tax and site leasehold rent) ¹⁾	–229	–211
Direct costs for Investment Properties that did not generate rental income during the period (operating and maintenance costs, property tax and site leasehold rent) ¹⁾	—	—

¹⁾ Excluding property administration and insurance costs.

NOTE 14 EQUIPMENT/INTERIORS

MSEK	Group		Parent Company	
	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016
Cost, opening balance	1,032	874	3	3
Reclassifications ¹⁾	–150	–7	—	—
Acquisitions	1	13	—	—
Investments	128	100	1	—
Reclassification from work in progress	21	4	—	—
Sales/disposals	–35	–2	—	—
Translation differences	15	50	—	—
Accumulated cost, closing balance	1,012	1,032	4	3
Depreciation, opening balance	–601	–493	–3	–3
Reclassifications ¹⁾	75	–13	—	—
Depreciation for the year	–72	–66	0	0
Sales/disposals	20	1	—	—
Translation differences	–11	–30	—	—
Accumulated depreciation, closing balance	–589	–601	–3	–3
Residual value according to plan	423	431	1	0

¹⁾ Reclassified from equipment to buildings, MSEK 6 (–22). Other reclassifications of MSEK –82 (2) refers to transfers from Investment Properties to Operating Properties.

NOTE 15 OPERATING PROPERTIES

GROUP MSEK	31 Dec 2017	31 Dec 2016
Buildings		
Cost, opening balance	5,797	4,584
Reclassification ¹⁾	–1,289	284
Acquisitions	727	513
Investments	97	36
Sales/scrapping	–141	—
Reclassification from construction/reconstruction work in progress	31	59
Translation difference	80	321
Accumulated cost, closing balance	5,302	5,797
Depreciation, opening balance	–1,049	–850
Reclassification ¹⁾	176	–69
Sales/scrapping	98	—
Depreciation for the year	–98	–81
Translation difference	–18	–49
Accumulated depreciation, closing balance	–890	–1,049
Residual value according to plan, buildings	4,412	4,748
Land		
Cost, opening balance	1,073	919
Reclassification ¹⁾	–305	100
Acquisitions	5	—
Translation difference	14	54
Accumulated cost, land, closing balance	787	1,073
Total residual value according to plan	5,199	5,821
Work in progress, Operating Properties		
Cost, opening balance	163	94
Reclassification ¹⁾	–125	—
Investments	64	124
Reclassification from construction/reconstruction work in progress	–52	–63
Translation difference	–3	8
Cost, work in progress, closing balance	47	163
Total, Operating Properties	5,246	5,984

¹⁾ Mainly refers to eight hotel properties in the Nordic countries.

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 2017	31 Dec 2016
Market value, Operating Properties (incl. equipment/interiors)	7,573	8,070

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 2017	31 Dec 2016
Rent receivables and trade accounts receivable	167	249
Doubtful receivables and trade accounts receivable	—	—
Closing balance	167	249

NOTE 17 EQUITY

Equity items

Share capital

The share capital consists of 75 000 000 A shares and 92 499 999 B shares, total amount 167,499,999 shares (157,499,999) with a quota value of SEK 2.50 per share, for a total value of MSEK 419. See also the information on page 32 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 and minority's share of net profit for the year and other comprehensive income reduced by minority dividend.

Dividend

The proposed dividend to shareholders for the year amounts to MSEK 737, corresponding to a dividend of SEK 4.40 per share. During 2017 the dividend proposed for the 2016 financial year of MSEK 646 was settled.

Per share data

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 2017 and amounts to 157,856,163.

Total earnings per share amounts to 3,140,173,000/157,856,163, 19.89 SEK.

NOTE 18 FINANCIAL RISK AND RISK MANAGEMENT

Through its business, Pandox is exposed to financial risks such as interest risk, liquidity risk, refinancing risk, currency risk and credit risk.

Financial Policy

The Financial Policy is evaluated and established by the Board of Directors on an annual basis and revised as needed. Pandox's Financial Policy serves as a general framework for managing financial risk within the Group for the purpose of:

- Providing guidelines and rules on how financial activity is to be conducted within the Pandox Group
- Defining financial risks, how to limit these risks and determining which risks Pandox is permitted to take
- Establishing a division of responsibility and administrative rules
- Serving as guidance in the CFO's day-to-day work

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

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows will be affected by changes in market interest rates. The interest risk strategy consists of a combination of short and long fixed interest periods where primarily interest rate swaps are used to achieve the desired fixed interest period. The strategy takes into account the Company's aggregate assets and liabilities including derivatives. The interest rate strategy is expressed as a standard portfolio that defines risk limits and maximum deviation mandates for each maturity group.

Pandox's fixed interest period and repayment period remain at the total levels shown below.

FIXED INTEREST/REPAYMENT PERIOD

	Average fixed interest period, years	Average interest rate, %	Repayment period, years
2017	2.6	2.6	3.3
2016	2.8	2.6	3.0

INTEREST MATURITY PROFILE 31 DECEMBER 2017

Maturity profile	Fixed rate period by instrument				Fixed rate period, derivatives ¹⁾		
	Loans, MSEK	Derivatives, MSEK	Amount, MSEK	Share, %	Volume, MSEK	Average interest, derivatives ²⁾ %	Share, %
<1	26,473	-13,651	12,822	48	697	3.4	5
1-2	—	1,440	1,440	5	1,440	1.2	10
2-3	—	2,784	2,784	11	2,784	1.9	19
3-4	—	2,678	2,678	10	2,678	1.4	19
4-5	—	2,424	2,424	9	2,424	1.0	17
>5	—	4,324	4,324	16	4,324	1.4	30
Total	26,473	0	26,473	100	14,347	1.6	100

INTEREST MATURITY PROFILE 31 DECEMBER 2016

Maturity profile	Fixed rate period by instrument				Fixed rate period, derivatives ¹⁾		
	Loans, MSEK	Derivatives, MSEK	Amount, MSEK	Share, %	Volume, MSEK	Average interest, derivatives ²⁾ %	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
Total	18,831	0	18,831	100	11,342	2.0	100

¹⁾ Total derivative volume subject to interest conversion in year 1. The difference between 14,347 and -13,651 represents derivative contracts maturing during the year.

²⁾ Fixed interest under swap agreement, excluding margin in loan contract.

SENSITIVITY ANALYSIS AS OF 31 DECEMBER 2017

	2017		2016	
	Change	Effect on earnings, MSEK	Change	Effect on earnings, MSEK
Interest expense with current fixed interest, change in interest rates	+/- 1%	-/+ 100	+/- 1%	-/+ 72
Interest expense with a change in the average interest rate level	+/- 1%	-/+ 265	+/- 1%	-/+ 188
Remeasurement of interest-rate derivatives following shift in yield curves	+/- 1%	-/+ 640	+/- 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.

Currency risk

Currency risk is the risk that carrying amounts, fair value or future cash flows will be affected by changes in foreign currency exchange rates. Pandox 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 to avoid changes in the value of equity, and through hedging net assets of foreign operations by taking out internal or external loans. In general, foreign operations report both income and costs in their local currencies, which means that currency exposure resulting from current flows is limited. In view of the limited risk, Pandox does not currencyhedge these flows unless there is a particular reason to do so.

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

Loans by currency

INTEREST MATURITY PROFILE 31 DECEMBER 2017, MSEK

Maturity ¹⁾	SEK	DKK	EUR	CHF	CAD	NOK	GBP	Total	Share, %	Interest rate, % ²⁾
2018	3,099	689	3,637	436	503	691	3,768	12,822	48	4.0
2019	125	—	714	—	—	601	—	1,440	5	1.0
2020	1,400	503	882	—	—	—	—	2,784	11	2.0
2021	1,250	—	1,428	—	—	—	—	2,678	10	1.2
2022	250	529	1,645	—	—	—	—	2,424	9	1.0
2023 or later	1,200	—	2,236	—	—	—	888	4,324	16	1.4
Total	7,324	1,721	10,541	436	503	1,291	4,656	26,473	100	2.6
Maturing in foreign currency, %	27.7	6.5	39.8	1.6	1.9	4.9	17.6	100	—	—
Average interest rate, %	3.1	2.1	2.3	0.8	3.0	2.9	2.9	2.6	—	—
Average fixed interest period, years	2.2	2.3	3.4	0.2	0.1	0.9	2.2	2.6	—	—
Property market value	14,539	3,345	19,826	695	1,208	3,037	7,470	50,121	—	—

INTEREST MATURITY PROFILE 31 DECEMBER 2016, MSEK

Maturity ¹⁾	SEK	DKK	EUR	CHF	CAD	NOK	Total	Share, %	Interest rate, % ²⁾
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
Total	4,956	1,211	10,625	217	434	1,388	18,831	100	2.6
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	—	—

¹⁾ Translated to MSEK.

²⁾ Average interest rate including bank margin.

FINANCIAL ASSETS AND LIABILITIES PER CURRENCY AT 31 DECEMBER 2017, MILLIONS IN LOCAL CURRENCY

	SEK	DKK	EUR	CHF	CAD	NOK	GBP	Group SEK
Assets	15,967	2,652	2,001	78	181	1,631	968	51,912
—of which Financial assets	15	268	68	0	6	2	11	1,203
Liabilities	10,596	1,422	1,063	54	85	1,629	656	32,885
—of which Financial liabilities	7,979	1,308	1,004	52	78	1,305	490	27,297
Effect on result +/-10% exchange rate	—	+/- 1	+/- 105	+/- 2	+/- 5	+/- 2	+/- 2	+/- 117
Effect on equity +/-10% exchange rate	—	+/- 89	+/- 829	+/- 43	+/- 42	+/- 130	+/- 517	+/- 1,650

Liquidity risk

Liquidity risk is the risk of not having sufficient funds to fulfil payment obligations when they fall due. The consolidated liquidity forecast forms the basis of the Company's borrowing or investment requirements, as well as its control of the total liquidity reserves. A long-term target for the level of liquidity in the form of liquidity reserves (bank balances, liquid interest-bearing investments and forecast net

cash flows over 12 months) and credit facilities is an amount corresponding to at least 12 months' known outgoing payments including interest payments and current repayments or repayments that have been decided on. At year-end, bank balances amounted to MSEK 999 (517) and unutilised credit facilities to MSEK 2,321 (1,715).

Maturity profile, interest and capital

Interest calculated as per terms effective at the time in question

31 DECEMBER 2017

Year due, MSEK	Other liabilities	Repayment period ²⁾	Interest rate, loans ¹⁾	Net interest, interest rate swaps, negative value ¹⁾	Net interest, interest rate swaps, positive value ¹⁾	Total, interest
2018	—	2,345	26	26	0	52
Due 0–1 mån	250	—	—	—	—	250
Due 1–3 mån	—	—	—	—	—	—
Due 3–12 mån	—	2,345	26	26	0	52
2019	—	5,756	76	11	0	87
2020	—	5,425	82	61	3	146
2021	—	4,768	75	34	4	113
2022	—	7,630	173	31	2	205
2023	—	549	13	53	18	84
Total	250	26,473	445	216	27	687

31 DECEMBER 2016

Year due, MSEK	Repayment period ²⁾	Interest rate, loans ¹⁾	Net interest, interest rate swaps, negative value ¹⁾	Net interest, interest rate swaps, positive value ¹⁾	Total, interest
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
Total	18,831	243	247	–1	489

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

²⁾ Excluding contractual amortisation.

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

Refinancing risk

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

- At least three main providers of financing
- No individual lender to account long-term for more than 50 percent of the total loan volume
- Maximum of 40 percent of loan portfolio agreements to be due for renegotiation over a rolling future 12-month period

Pandox currently has four main financing providers, none of which accounts for more than 50 percent of the volume. Renegotiation of the approximately 9 percent of the portfolio that matures within 12 months has begun.

Credit risk

Credit risk is the risk that Pandox's counterparty will be unable to fulfil its financial obligations to Pandox. Credit risk in Pandox's financial activity arises, for example, when investing surplus liquidity, when signing derivative contracts and when credit agreements are issued. The risk is to be spread by using multiple counterparties. Only approved counterparties are to be used. Permitted counterparties for credit facilities, revolving facilities and derivative instruments are Nordic counterparties with a minimum rating of either A– (S&P) or minimum of A3 (Moody's), or another counterparty with a minimum rating of either A (S&P) or A2 (Moody's).

Pandox has a welldiversified property portfolio characterised by well-established, stable and sound tenants. 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 2017. 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 financial strength of these companies compensates for this. A further factor that reduces the potential credit risk is Pandox's operational readiness, which means it is able to take over the operation of a property quickly if necessary and thereby secure the cash flow. Alongside the hotel contracts, commercial tenants amounted to around 2 percent of Pandox's total rental income.

The occupancy rate of Pandox's wholly owned property portfolio was close to 100 percent and vacant space consisted of stores and office premises.

Provisions are made for doubtful trade accounts receivable on an individual basis, i.e. each individual customer balance is analysed in the ledger.

Capital management

Pandox's financial position is monitored primarily on the basis of loan-to-value ratio, with a target of 45–60 percent. Internal monitoring of financial position does not focus on equity. At year-end 2017 the loan-to-value ratio was 50.8 (47.9) percent. At year-end 2017 Pandox had not infringed upon any covenants in the loan agreements.

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

Fair value of financial assets and liabilities

GROUP MSEK	Financial assets/liabilities measured at fair value through profit or loss for the year		Loans and receivables		Other liabilities	
	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016
Other non-current receivables	—	—	26	22	—	—
Rent receivables and trade accounts receivable	—	—	167	249	—	—
Derivates	11	1	—	—	—	—
Cash and cash equivalents	—	—	999	517	—	—
Total financial assets	11	1	1,192	788	—	—
Non-current interest-bearing liabilities	—	—	—	—	23,768	18,304
Derivatives	574	736	—	—	—	—
Current interest-bearing liabilities	—	—	—	—	2,705	537
Liabilities to Group companies	—	—	—	—	—	—
Trade accounts payable	—	—	—	—	250	202
Total financial liabilities	574	736	—	—	26,723	19,043

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.

NOTE 20 ACCRUED INCOME/EXPENSES AND PREPAID EXPENSES/INCOME

Prepaid cost and accrued income

MSEK	Group		Parent Company	
	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016
Prepaid cost	205	136	54	45
Accrued rental income-external	189	126	—	—
Total	394	262	54	45

Prepaid income and accrued expenses

MSEK	Group		Parent Company	
	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016
Prepaid rent	88	84	—	—
Accrued interest expense	66	72	20	13
Accrued property tax	6	7	—	—
Accrued cost employees	76	58	19	10
Other	208	233	5	5
Total	444	454	44	28

NOTE 21 PROVISIONS

MSEK	Group		Parent Company	
	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016
Carrying amount at beginning of period	103	68	57	30
Provisions made during the period	33	44	25	29
Amounts used during the period	—	–9	—	–2
Reported value at close of period	136	103	82	57
– of which the long-term portion of the provisions	134	100	82	57
– of which the short-term portion of the provisions	2	3	0	0

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 75. Rent guarantees have been provided up to and including December 2019, as of 31 December 2017 the provision amounts to MSEK 61. Provisions for pensions at the beginning of the year amounted to MSEK 10 (7). The incentive scheme runs until 2020, opening balance of provision amounted to MSEK 39 (13).

The year's provisions comprise MSEK 22 for incentive schemes for senior executives, MSEK 3 in provisions for pensions and MSEK 8 in provisions of rent guarantees. The incentive schemes run until 2020 and the rent guarantees runs until 31st March 2019. During the year, MSEK 0 (9) of the guaranteed rent has been paid.

Closing balance consist of MSEK 61 in provisions for guaranteed rents, MSEK 13 endowment insurance for pensions and MSEK 62 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.

Accounting for interest-rate derivatives

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

Presentation of the consolidated statement of comprehensive income

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

NOTE 23 PLEDGED ASSETS AND CONTINGENT LIABILITIES

MSEK	Group		Parent Company	
	2017	2016	2017	2016
Assets pledged to credit institutions				
For own liabilities pledged assets, properties	22,558	16,476	—	—
Bank deposits	7	7	—	—
Total pledged assets	22,565	16,483	—	—
Contingent liabilities				
Security commitment for group companies	—	—	19,742	13,786
Guarantees for employees	15	10	15	10
Total contingent liabilities	15	10	19,757	13,796

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 2017 no events or transactions of significance have taken place that in any way affect the financial statements provided for Pandox for the 2017 financial year.

NOTE 25 PARTICIPATIONS IN SUBSIDIARIES

Parent Company MSEK	31 Dec 2017	31 Dec 2016
Cost, opening balance	9,322	8,071
Acquisitions	0	—
Capital contributions	—	1,323
Divestment of subsidiaries	—	-72
Total accumulated cost	9,322	9,322
Impairment losses, opening balance	-1,487	-1,493
Impairment losses	—	-61
Reverse write-down	—	67
Accumulated impairment losses, closing balance	-1 487	-1,487
Closing balance	7,835	7,835

Directly owned subsidiaries	Company reg. no.	Registered office	Number of shares	Share of capital/ votes
HOTAB Förvaltning AB	556475-5592	Stockholm, Sweden	1,000	100
Pandox Förvaltning AB	556097-0815	Stockholm, Sweden	5,500	100
Hotab 6 AB	556473-6352	Stockholm, Sweden	1,000	100
Fastighets AB Grand Hotell i Helsingborg	556473-6329	Stockholm, Sweden	1,000	100
Pandox Fastighets AB	556473-6261	Stockholm, Sweden	1,000	100
Fastighets AB Stora Hotellet i Jönköping	556469-4064	Stockholm, Sweden	1,000	100
Pandox Belgien AB	556495-0078	Stockholm, Sweden	1,000	100
Hotellus Holding AB	556475-9446	Stockholm, Sweden	1,000	100
Pandox Luxemburg AB	556515-9216	Stockholm, Sweden	10,000	100
Pandox i Halmstad AB	556549-8978	Stockholm, Sweden	1,000	100
Pandox i Borås AB	556528-0160	Stockholm, Sweden	1,000	100
Hotellus Mellansverige AB	556745-4656	Stockholm, Sweden	100,000	100
Grand i Borås Fastighets AB	556030-7083	Stockholm, Sweden	6,506	100
Hotellus International AB	556030-2506	Stockholm, Sweden	7,480,000	100
Hotellus Östersund AB	556367-3697	Stockholm, Sweden	1,000	100
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 ¹⁾
Ypsilon Hotell AB	556481-4134	Stockholm, Sweden	1,000	100
Pandox Kolmården AB	556706-8316	Stockholm, Sweden	100,000	100
Hotellus Sverige Ett AB	556778-8699	Stockholm, Sweden	1,000	100
Hotellus Sverige Två AB	556778-8707	Stockholm, Sweden	1,000	100
Sech Holding AB	556819-2214	Stockholm, Sweden	357,000	100
Pandox Portfölj 2 AB	556982-7040	Stockholm, Sweden	500	100
Pandox Sollentuna Centrum 12 AB	556660-3949	Stockholm, Sweden	1,000	100
Pandox Sweden AB	556942-1687	Stockholm, Sweden	500	100
Pandox Operations AB	556980-3207	Stockholm, Sweden	50,000	100
Pandox i Malmö AB	556704-3723	Malmö, Sweden	1,000	100
Hotellus Denmark A/S	28970927	Denmark	5,000	100
Le Nouveau Palace SA	0423.048.375	Belgium	3,000	99.97 ²⁾
Hotel Bloom! SA	0476.704.322	Belgium	68,808	99.99 ³⁾
Pandox Belgium NV	0890.427.732	Belgium	100,000	99.99 ⁴⁾
Pandox RMC BVBA	0552.929.692	Belgium	1,000	99.00 ⁵⁾
Tenzing Holding BV	858161606	Netherlands	1	100
Convention Hotel International AG	CHE-101.458.856	Switzerland	14,000	100

¹⁾ 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 Pandox AB (publ).

²⁾ Le Nouveau Palace SA is owned to 0.03 per cent by Hotellus International AB, which is fully owned by Pandox AB (publ).

³⁾ Hotel Bloom! SA is owned to 0.01 per cent by Hotellus International AB, which is fully owned by Pandox AB (publ).

⁴⁾ Pandox Belgium NV is owned to 0.01 per cent by Hotellus International AB, which is fully owned by Pandox AB (publ).

⁵⁾ Pandox RMC BVBA is owned to 1 per cent by Hotellus International, which is fully owned by Pandox AB (publ).

Indirectly owned subsidiaries	Registration No	Domiciled	Indirectly owned subsidiaries	Registration No	Domiciled
Arlanda Flyghotell KB	916500-8021	Stockholm, Sweden	Hotellinvest DK 1 ApS	10998476	Denmark
Fastighetsbolaget Utkiken KB	916611-7755	Stockholm, Sweden	Hotellinvest DK 2 ApS	28886217	Denmark
Fastighets AB Hotell Kramer	556473-6402	Stockholm, Sweden	Hotellinvest DK 3 ApS	25241266	Denmark
Hotellus Nordic AB	556554-6594	Stockholm, Sweden	Norgani Hotel Cosmopole ApS	25060407	Denmark
Hotellus Järva Krog AB	556351-7365	Stockholm, Sweden	K/S Norgani Hotel	24250830	Denmark
Hotellus Mölndal AB	556554-6636	Stockholm, Sweden	Komplementarselskabet Norgani Hotel ApS	14446478	Denmark
Vestervold KB	916631-9534	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 Gräberget 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	991393048	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 AS	919286865	Norway
Norgani Suomi 7 AB	556704-8136	Stockholm, Sweden	Norgani Hamneset Hotell AS	919286881	Norway
Norgani Suomi 9 AB	556705-0520	Stockholm, Sweden	Norgani Hotell Lillehammer AS	952479806	Norway
Norgani Suomi 10 AB	556704-4218	Stockholm, Sweden	Lillehammer Turisthotell AS	913915739	Norway
Norgani Suomi 11 AB	556704-8227	Stockholm, Sweden	Norgani Hotell Bodø AS	987141433	Norway
Norgani Suomi 12 AB	556704-8219	Stockholm, Sweden	Pandox OP Lillehammer AS	815129822	Norway
Norgani Suomi 13 AB	556704-8201	Stockholm, Sweden	Pandox OP Fagernes AS	915433049	Norway
Norgani Suomi 14 AB	556704-8193	Stockholm, Sweden	Pandox Grand Norge AS	913535251	Norway
Norgani Suomi 15 AB	556704-8185	Stockholm, Sweden	Pandox Grand Norge 1 AS	914015669	Norway
Norgani Suomi 17 AB	556704-8169	Stockholm, Sweden	Pandox Grand Norge 2 AS	814019802	Norway
Norgani Stockholm Herrgården 2 AB	556660-4285	Gothenburg, Sweden	Pandox Grand Norge 3 AS	914124131	Norway
Norgani Hotelleiendom i Sverige AB	556674-0170	Gothenburg, Sweden	Pandox Grand Norge 4 AS	914124700	Norway
Prince Philip Hotel Skärholmen AB	556980-3215	Stockholm, Sweden	Pandox OP Kristiansand AS	914 840 465	Norway
Pandox OP2 AB	556980-9600	Stockholm, Sweden	Pandox OP Hafjell AS	816 643 252	Norway
Pandox OP3 AB	556980-9618	Stockholm, Sweden	Grand Hotel of Brussels NV	0443.822.213	Belgium
Pandox OP4 AB	556980-9626	Stockholm, Sweden	Town Hotel NV	0437.378.839	Belgium
Pandox OP5 AB	556980-9584	Stockholm, Sweden	Elba Belgium Holding BVBA	0889.537.114	Belgium
Kista Hotel AB	556313-1720	Stockholm, Sweden	Elba Leasehold BVBA	0889.633.520	Belgium
Hotellinvest Holding DK 1 ApS	29828644	Denmark	Elba Freehold BVBA	0889.630.649	Belgium
Hotellinvest Holding DK 2 ApS	29830053	Denmark	Holcro NV	0421.732.937	Belgium

Indirectly owned subsidiaries	Registration No	Domiciled
HDI Brussels Management SA	0550.918.428	Belgium
Swiss Hotels Leasing Company SA	0443.435.597	Belgium
Hotel Berlaymont EU SPRL	1674.930.156	Belgium
Flight Holdco SPV Ltd	115845	GB
Vesway Group ⁸⁾		GB and Ireland
Pandox Invest Holdings DAC	615809	Ireland
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
Pandox Topco BV	858162088	Netherlands
Pandox Intermediate Holdco BV	858164899	Netherlands
Pandox Midco BV	858166227	Netherlands
Pandox Holdco BV	858161564	Netherlands
Hotellus Luxembourg Sàrl	B131027	Luxembourg
Charlius Germany Hotels Holding Sàrl	B158137	Luxembourg
Charlius Germany Hotel Properties Sàrl	B158154	Luxembourg
Charlius Cologne Hotel Property Sàrl	B131225	Luxembourg
Charlius Dutch Hotel Holding Sàrl	B179720	Luxembourg
Hotellus Canada Holdings Inc.	0793511 ¹⁾	Canada
Hotellus Montreal Holdings Inc.	0823951 ¹⁾	Canada
Hotellus Montreal Inc.	0827355 ¹⁾	Canada
Pandox Berlin GmbH	HRB 96069 B ²⁾	Germany
Hotellus Deutschland GmbH	HRB 41151 ³⁾	Germany
Charlius Germany Hotel Properties GmbH	HRB 79031 ³⁾	Germany
Hypnos Hotel Properties GmbH	HRB 76338 ³⁾	Germany
Hypnos Hotel Properties Holding GmbH	HRB 157303 B ⁴⁾	Germany
Hypnos Hotel Properties West GmbH	HRB 157278 B ⁴⁾	Germany
Hypnos Hotel Properties Ratingen GmbH	HRB 157320 B ⁴⁾	Germany
Hypnos Hotel Properties Mannheim GmbH	HRB 157271 B ⁴⁾	Germany
Hypnos Hotel Properties South GmbH	HRB 157308 B ⁴⁾	Germany
Hypnos Hotel Properties North GmbH	HRB 157291 B ⁴⁾	Germany
Charlius Verwaltungs GmbH	HRB 92447 ⁷⁾	Germany
Charlius Berlin Verwaltungs GmbH	HRB 90225 ⁷⁾	Germany
Grundstücksgesellschaft ATLANTIS mbH	HRB 41381 ³⁾	Germany
Pandox Germany GmbH	HRB 68809 ³⁾	Germany
Pandox Lübeck GmbH	HRB 68868 ³⁾	Germany
Pandox Dortmund GmbH	HRB 68856 ³⁾	Germany
Pandox Bremen GmbH	HRB 68847 ³⁾	Germany
Pandox Deutschland GmbH & Co. KG ⁵⁾	HRA 21826 ³⁾	Germany
Charlius Austria Hotel Holding GmbH	FN 355800	Austria
Charlius Vienna Hotel Property GmbH	FN 39164	Austria
Charlius Salzburg Hotel Property GmbH	FN 72575	Austria

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

¹⁾ BC-reg.or.

²⁾ Commercial register that is kept by the local court in Charlottenbourg, Germany.

³⁾ Commercial register that is kept by the local court in Düsseldorf, Germany.

⁴⁾ Commercial register that is kept by the local court in Berlin-Charlottenbourg, Germany.

⁵⁾ Pandox AB (publ) owns 94 per cent of the shares and a third party owns the remaining 6 per cent of the shares.

⁶⁾ Pandox AB (publ) owns 49 per cent of the shares and a third owns the remaining 51 per cent of the shares.

⁷⁾ Commercial register that is kept by the local court in Frankfurt am Main, Germany.

⁸⁾ 37 companies acquired Dec 20, 2017 all will be restructured during 2018. After the restructuring Pandox will owe 21 companies. A complete list is available at Pandox AB.

NOTE 26 TRANSACTIONS WITH RELATED PARTIES

Related companies are defined as the subsidiaries in the Pandox Group and companies over which related physical persons have a controlling, joint controlling or significant influence. Related persons include board members, senior executives and close family members of the above. Pandox has three main owners, Eiendomsspar Sverige AB, Christian Sundt AB och Helen Sundt AB. The Parent Company is a related party to its subsidiaries. Certain dividend restrictions apply in a few of the subsidiaries' credit agreements. Disclosures concerning remuneration to key individuals in senior positions can be found in Note 9. 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 ten asset management agreements relating to nine 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 2017 revenue from the asset management agreements amounted to MSEK 4(4). Pandox operates Grand Hotel Oslo under a long-term lease with the property owner Eiendomsspar AS. In 2017 rental costs for Grand Hotel Oslo amounted to MSEK 12 (44).

Eiendomsspar AS is a minority owner with 5.1 percent with exception of Radisson Blu Cologne were the minority amounts to 9.9 percent, which were acquired 2015 and 2016. A temporary minority of 5.1 percent for two hotel properties in Austria will be closed during first six month 2018.

Parent Company

The Parent Company's fees for central administrative services from Group companies during the year amounted to MSEK 101 (65). 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 2017	31 Dec 2016
Central administration costs	89	65
Interest income from subsidiaries	140	109
Dividends from subsidiaries	200	361
Interest paid to subsidiaries	-21	-13
Receivables from related parties	9,631	4,872
Liabilities to related parties	6,011	4,003
Group contributions received	268	329
Group contributions provided	-20	-25

NOTE 27 SPECIFICATION OF CASH FLOWS FOR THE GROUP

GROUP MSEK	2017	2016
Acquisition of hotel properties and other business entities		
Acquired assets and liabilities		
Investment Properties	8,395	4,477
Operating Properties	712	—
Deferred tax assets	10	—
Current receivables	18	92
Cash and cash equivalents	261	153
Assets held for sale	1,367	—
Total assets	10,763	4,722
Non-controlling interest	—	45
Non-current liabilities	—	2,528
Deferred tax	28	4
Non-current liabilities	38	62
Total liabilities	66	2,594
Purchase consideration:		
Purchase consideration paid	10,869	4,630
Less: Non-controlling interests	—	—45
Less: Cash and cash equivalents in the acquired operations	—261	—153
Effect on cash and cash equivalents	10,608	4,432
Divestment of hotel properties and other business entities		
Divested assets and liabilities		
Investment Properties	—	320
Operating Properties	191	—
Current receivables	—	7
Total assets	191	327
Non-current liabilities	—	38
Deferred tax	—	35
Current liabilities	—	15
Total liabilities	0	88
Selling price:		
Purchase consideration received	356	843
Less: Cash and cash equivalents in the divested operation	—	—
Effect on cash and cash equivalents	356	843

Reconciliation of debts arising from financing activities

	CB 2016	Cashflow	Via acquisitions	Exchange- differences	CB 2017
Loans to credit institutions	18,831	8,950	—1,618	310	26,473

NOTE 28 CURRENT AND NON-CURRENT INTEREST-BEARING LIABILITIES, PARENT COMPANY

PARENT COMPANY MSEK	2017	2016
Liabilities to credit institutions due within 12 months	835	88
Liabilities to credit institutions due in 1–4 years	5,804	4,997
Liabilities to credit institutions due in 5 years or later	—	—
Total current and non-current liabilities	6,639	5,085

NOTE 29 ASSETS AND LIABILITIES HELD FOR SALE

GROUP MSEK	31 Dec 2017	31 Dec 2016
Assets		
Investment properties	1,326	—
Other receivables	41	—
Assets classified as held for sale	1,367	—
Liabilities		
Other current liabilities ¹⁾	1,367	—
Total liabilities classified as held for sale	1,367	—

¹⁾ Refers to 120 MGBP purchase price already paid by acquirers in connection with the transaction's implementation.

In december 2017 Pandox made an agreement with Lone Star for the acquisition of a portfolio with 37 hotel businesses. The transaction is made with Fattal Hotels Group as operating partner, whereby Pandox, following a reorganisation of the portfolio, will retain 20 investment properties and one operating property in the UK and Ireland, and Fattal will acquire the operational platform with 36 hotel operations. The total acquisition price amounts to MGBP 800 on a debt free basis, corresponding to approximately MSEK 9,030. The acquisition includes a loan from Leonardo of MGBP 120 to be set-off after the reorganisation, after which Pandox's share of the total acquisition price will amount to MGBP 680, corresponding to approximately MSEK 7,680. The transaction will be completed in 2018. Assets held for sale are not allocated to any segment.

NOTE 30 ALLOCATION OF EARNINGS

At the disposal of the Annual General Meeting:

Share premium reserve	1,435,507,773
Retained earnings	2,662,281,550
Profit for the year	30,387,975
SEK	4,128,177,298

The Board propose that the earnings be allocated as follows:

Dividend to shareholders, SEK 4.10 per share	736,999,996
Carried forward	3,391,177,302
SEK	4,128,177,298

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 3.0 percent of the Group's EPRA NAV, 3.9 percent of equity attributable to the Parent Company shareholders, 16.2 percent of the Parent Company's equity and 44.4 percent of the Group's cash earnings for 2017. 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 hereby provide an assurance that the consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and provide a fair representation of the Group's position and results. The Annual Report has been prepared in accordance with generally accepted accounting principles and provides a fair representation of the Parent Company's position and results. The Administration Report for the

Group and the Parent Company provides a fair representation of operations in the Group and the Parent Company, their position and results, and describes the material risks and uncertainties facing the Parent Company and the companies included in the Group. The undersigned hereby also present Pandox's Sustainability Report for 2017.

Stockholm, 5 March 2018

Christian Ringnes
Chairman

Leiv Askvig
Board member

Ann-Sofi Danielsson
Board member

Olaf Gauslå
Board member

Bengt Kjell
Board member

Helene Sundt
Board member

Mats Wäppling
Board member

Jeanette Dyhre Kvisvik
Board member

Anders Nissen
Chief Executive Officer

Our Audit Report in respect of this annual report and
the consolidated accounts was submitted on March 5, 2018.

PricewaterhouseCoopers AB

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

Helena Ehrenborg
Authorised Public Accountant

Auditors' report

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

REPORT ON THE ANNUAL ACCOUNTS AND CONSOLIDATED ACCOUNTS

We have audited the annual accounts and consolidated accounts of Pandox AB (publ) for the year 2017. The annual accounts and consolidated accounts of the company are included on pages 87–131 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of parent company as of 31 December 2017 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2017 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

Our opinions in this report on the the annual accounts and consolidated accounts are consistent with the content of the additional report that has been submitted to the parent company's audit committee in accordance with the Audit Regulation (537/2014) Article 11.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet for the parent company and the group.

Basis for opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements. This includes that, based on the best of my (our) knowledge and belief, no prohibited services referred to in the Audit Regulation (537/2014) Article 5.1 have been provided to the audited company or, where applicable, its parent company or its controlled companies within the EU.

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

Other information

The audit of the annual accounts and consolidated accounts for the 2016 financial year was performed by different auditors who submitted an auditors' report dated 24 February 2017 with unmodified opinions in the "Report on the annual accounts and consolidated accounts."

Our auditing approach

Focus and scope of the audit

We designed our audit by establishing materiality levels and assessing the risk of material errors in the financial reports. We paid particular attention to the areas where the chief executive officer and board of directors have made subjective judgements, such as significant accounting estimates that were made based on assumptions concerning and predictions of future events, which by nature are uncertain. As in all audits, we also took into consideration the risk of the board and chief executive officer neglecting internal control procedures. Among other

things, we considered whether there is evidence of systematic deviations resulting in a risk of material errors due to irregularities.

We adapted the focus and scope of our audit, considering Pandox's group structure and internal control environment, in order to be able to produce an auditors' report on the annual accounts and consolidated accounts in their entirety.

Pandox is a property company specialising in hotels with operations throughout the world and with a hotel portfolio that has a market value of MSEK 50,121. Pandox's core business is to own and lease hotel properties to well-known hotel operators under long revenue-based leases with shared investments. If the conditions are not in place for a profitable lease, Pandox can choose to operate a hotel itself.

Our audit involves conducting a review of all significant companies in the group. The audit covers operations in 12 countries and is either performed by the group audit team or local audit teams. Since 82 percent of the group's assets are hotel properties that are recognised at fair value and acquisition cost respectively taking into account depreciation, the main focus of the audit is to evaluate to what extent the annual accounts, in all material respects, reflect the value of the hotel properties according to the company's valuation principles, and whether those principles are consistent with IFRS. Our activities to determine this include the following:

- Review of the valuation of the hotel properties combined with a process to establish their carrying amounts.
- Review of internal control of financial reporting, routines and processes based on assessed risks.
- Review of the closing accounts as of 30 September 2017 for the purpose of presenting a review report.
- Final audit work to present this auditors' report on the annual accounts of the parent company and group and, where applicable, other legal entities. In conjunction with these activities we also performed review procedures to produce our statement on compliance with senior executive guidelines.

The reviews were performed by audit teams that are part of the PwC network. The work is performed in accordance with local audit requirements in the respective countries and specific instructions relating to the group audit. With respect to the acquisitions executed during the year in the United Kingdom and Ireland, a group-related review was performed by the group audit team. In addition to this, the auditor-in-charge and member of the group audit team visited the operations in Brussels, Montreal and Berlin during the year to become familiar with the operations of the entities visited and to understand the routines and control procedures in place, to evaluate compliance with Pandox's internal control framework and to review the financial reporting based on the group's accounting principles.

Materiality

The scope and focus of the audit was determined by our materiality assessment. An audit is designed to achieve a reasonable degree of assurance on whether the financial statements contain any material errors. Errors can occur due to irregularities or mistakes. They are considered material if they individually or in combination may reasonably be expected to impact the financial decisions of the users based on the financial statements.

Based on our professional judgement, we established certain quantitative materiality indicators for the financial reports as a whole. Using these as well as qualitative considerations, we established the focus and

scope of our audit and the nature, timing and scope of our review procedures, and we assessed the effect of individual and combined errors on the financial reports as a whole.

Key audit matters

Key audit matters are the matters which, in our professional judgment, were of most significance in our audit of the annual accounts and consoli-

dated accounts for 2017. These matters were addressed in the context of our audit of the annual accounts and consolidated accounts as a whole, and in forming our opinion on these. We are not, however, providing a separate opinion on these matters.

Key audit matters

Valuation of hotel properties

We refer to the administration report and the description of the Pandox Group's summary of important accounting and valuation principles in Note 2 and Note 13 Investment Properties

The value of the hotel properties as of 31 December 2017 was MSEK 50,121 (of which investment properties MSEK 42,548). The hotel properties constitute a significant portion of the balance sheet and valuation of the hotel properties is by nature subjective and based on management's judgements of, for example, the specific property's location, condition, occupancy, future rental income and valuation yield.

The valuation process is determined by an established valuation policy. Valuation of all hotel properties is performed quarterly during the financial year through internal valuations performed by the company's personnel. The valuation model consists of an accepted and proven cash flow model where future cash flows that the hotel properties are expected to generate are discounted. The valuation is based on the business plan for the hotel concerned, which is updated at least twice a year. Valuation of all properties is also performed by external appraisers on a regular basis throughout the year. Pandox has an internal process to quality assure the external valuations when they are performed. This internal quality assurance process includes analysis and control of input data from the company for the valuation models pertaining to such aspects as rent levels, space and general analysis of value growth per property. The valuations are examined both at the central level and in cooperation with the heads of business areas.

When determining the fair value of the properties, current information on the specific property is taken into account as well as current leases, rental income and operating costs. To arrive at the final value amount, assumptions and judgments are made concerning future yield, net operating income and estimated market rents. These are affected by the valuation yield applied and comparable market transactions.

The significance of the estimates and judgements used in establishing the fair value, combined with the fact that when combined, small percentage differences in the individual properties' parameters can lead to material errors, means that the valuation of investment properties is a key audit matter.

Revenue-based rental income

See Note 3 on rental income and Note 1 on accounting principles for disclosures and descriptions of this audit matter.

Pandox's rental income consists to a large extent of revenue-based rent. The rent charged is based on the sales reported by the tenants. Pandox has routines and control procedures to ensure that the sales reported are correct. The leases are in place for a number of years and the business models for hotel operation may over time be affected by the creation of new sales channels or the addition of various services at the hotels or in the offering etc.

This audit matter includes judgements on contract interpretation in certain cases, as well as judgements on the control the group exercises with respect to the tenants' reporting. As the revenue-based rents make up a considerable portion of the total rental income and there is the element of dependence on external information received and used to determine this revenue, this is a key audit matter in our audit.

How our audit addressed the key audit matters

Our audit focused, among other things, on the company's internal control and quality assurance that exists for both the internally and the externally performed valuations as of the date of the 2017 year-end accounts. Our review procedures included the following:

- The group audit team, including our valuation specialists, obtained and reviewed a sample of the valuation reports and examined whether the valuation procedures follow Pandox's guidelines for valuation and correct valuation methods.
- We evaluated the internal and external appraisers' competence and experience and studied the group's contracts with the external appraisers to determine whether there were any circumstances that would have impacted their objectivity or imposed any restrictions on their work.
- We also carried out random sampling to test management's input data from the company's system for the valuation models. We did this to determine whether the information used for property valuations is correct and accurate.
- We held meetings with those responsible for valuation processes where important assumptions and judgements were discussed. Our work focused on the largest investment properties in the portfolio, the most significant assumptions and the properties where there were the greatest variations in value compared with previous quarters. We assessed the yields used by comparing these with estimated ranges for expected yields and benchmarks with available market data for the markets in question. We also assessed the reasonableness of other assumptions where there is no directly comparable published data available. In cases where the assumptions and parameters were beyond our initial expectations, these deviations were discussed with representatives of the company and additional audit evidence was obtained to support the assumptions made, e.g. copies of leases to support new rental income and increased value during the period.
- We compared disclosures included in the annual report against the requirements in IFRS 13 and found the requirements to have been met in all material respects.

The valuations are based on judgments and are by nature associated with inherent uncertainty. Based on our review we have determined that the assumptions used by Pandox are within a reasonable range. Based on our review we have no significant observations to report to the audit committee.

Our audit is based on an evaluation of internal control as well as substantive testing and other analysis procedures, including data-based transaction analysis, of some balance sheet and income statement items of significant subsidiaries, on a random sample basis. Other review procedures we performed include the following:

- We evaluated Pandox's routines for managing significant revenue flows.
- We studied leases and examined how Pandox as a lessor interprets various parts of the agreements as a basis for invoicing and reporting.
- We developed an understanding of and studied the control procedures employed by Pandox with respect to the tenants' reporting. We also read and familiarised ourselves with the control procedures through external scrutiny which Pandox, according to the leases, performs annually by examining leases at random to ensure that invoicing and revenue recognition are correct.
- On a random sample basis, we examined the invoicing routines and invoices against supporting documents and we determined, through counter-checking, that the correct revenue-based rents were being invoiced.
- We also performed an analytical review to assess revenue recognition, and obtained Pandox's analysis and explanations of rental income outcomes in order for us to develop an understanding of revenue recognition control procedures, and through analysis create an understanding of revenue recognition itself.
- We examined information and disclosures provided in the annual report.

Based on our review we have no significant observations to report to the audit committee.

Recognition of the acquisition of 21 hotel properties (Vesway DAC) and their subsequent consolidation into Pandox

We refer to Note 13 Investment Properties and Note 15 Operating Properties and to the administration report where the acquisition is described in more detail.

The most significant event that has impacted the carrying amounts of both investment and operating properties is the acquisition of a portfolio of 37 hotels concluded on 20 December 2017. Pandox implemented the acquisition with Fattal Hotels Group (Leonardo) as the operating partner, whereby Pandox, after reorganisation of the portfolio, retains 20 investment properties and one operating property in the UK and Ireland, and Leonardo acquires the operating platform of 36 hotel operation businesses under the Jurys Inn brand.

The total purchase consideration was MGBP 800 (around MSEK 9,030) on a debt-free basis. There is a risk that the assets and liabilities absorbed in this acquisition were not correctly measured at fair value as of the acquisition date and, given the size of the amount, this is a key audit matter.

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 1–43, 56–86 and pages 148–155. The Board of Directors and the CEO are responsible for this other information.

Our opinion on the annual accounts and consolidated accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts and consolidated accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts and consolidated accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If we, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the CEO

The Board of Directors and the 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 intends to liquidate the company, to cease operations, or has no realistic alternative but to do so.

The Audit Committee shall, without prejudice to the Board of Directors' 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

In addition to the review measures described above relating to hotel property valuations and revenue-based rents, we performed the following review procedures:

- Review and examination by the group audit team which, in cooperation with Pandox AB, has examined the financial reporting, including opening balances as of the acquisition date against supporting documents and other sources, in order to test the accuracy of the consolidated financial statements.
- Based on our examination of the company's consolidated 2017 year-end accounts, and of the operating balances, we assessed whether the financial statements have been correctly incorporated into Pandox's consolidated accounts in accordance with IFRS.
- We examined and assessed the classification of the operations relating to investment and operating properties and we classified assets and liabilities held for sale.

We note that reported balances are preliminary as a final reconciliation is to be carried out with the buyer and acquisition partner in accordance with the acquisition agreement.

Based on our review we have no significant observations to report to the audit committee.

auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts and consolidated accounts.

A further description of our responsibility for the audit of the annual accounts and consolidated accounts is available on Revisorsinspektionen's website www.revisorsinspektionen.se/revisornsansvar. This description is part of the auditor's report.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the CEO of Pandox AB (publ) for the year 2017 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the CEO be discharged from liability for the financial year.

Basis for Opinions

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

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

Responsibilities of the Board of Directors and the CEO

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's and the group's type of operations, size and risks place on the size of the parent company's and the group's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's 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 CEO shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfil the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

Auditor's responsibility

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the CEO in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing

standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

A further description of our responsibility for the audit of the administration is available on Revisorsnämnden's website: www.revisorsinspektionen.se/rn/showdocument/documents/rev_dok/revisors_ansvar.pdf. This description is part of the auditor's report.

PricewaterhouseCoopers AB, with Patrik Adolfson as the auditor in charge, was appointed auditor of Pandox AB (publ) by the general meeting of the shareholders on the 29th March 2017 and has been the company's auditor since this day.

Stockholm 5 March 2018
PricewaterhouseCoopers AB

Patrik Adolfson
Authorised public accountant
Auditor-in-charge

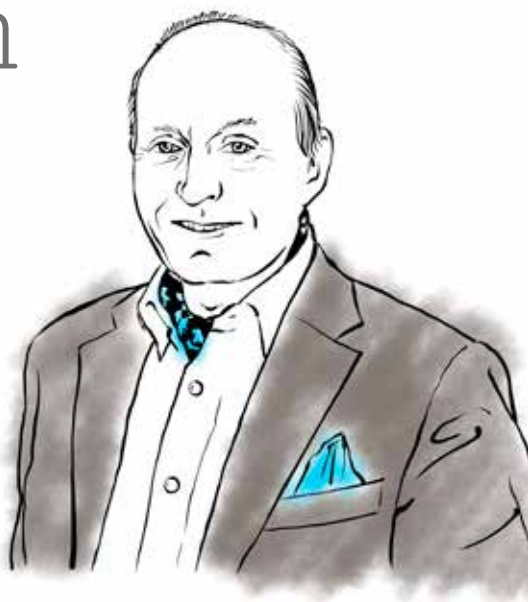
Helena Ehrenborg
Authorised public accountant



From the Chairman

A very active year

The most important task of Pandox's Board of Directors is to create a corporate culture in which the Company acts in a way that helps create long-term value for all of the stakeholders. This means both ensuring that the Company has the right strategy and sets the right priorities and that the management lives up to what is expected of it by the Board, the shareholders and the wider community. The fundamental expectation is one of long-term profitable growth and increased shareholder value over time.



AN ACTIVE OWNER WITH AN IMPORTANT ROLE IN THE COMMUNITY

Pandox is an active owner with deep knowledge of its industry, an extensive network and good financial strength. The Company has had the same CEO, strategy and business model since it was founded in 1995. The fundamental concepts have been tested and refined over many years with good results. The Board of Directors and management share a common view of active ownership and a clear vision for Pandox's future value creation. This is a cultural heritage worth safeguarding.

Through its hotels, Pandox is an important part of the travel industry infrastructure. The travel industry fills an important function in society – for businesses, tourists, individual experiences and the economy in general. Pandox is therefore a company that benefits society. 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 the Company's continued value creation.

A GOOD TEST OF THE BOARD'S ABILITIES

The Board's work in 2017 was intense and confirms the fact that the Board and executive management together have the capacity to complete complicated tasks swiftly and with good quality. During the year the Board was involved in a varied range of transactions, including:

- Large acquisitions in both new and existing markets
- New leases in new and existing markets, and reclassifications between business segments
- Considerable investments in the existing portfolio
- Divestment of a retail property in Brussels, and
- A directed new share issue

Pandox's Board consists of members with various personalities and skill profiles. All are very familiar with Pandox's operations, business model and market position. The work performed in 2017 shows that the Board has the expertise and tools needed to meet the challenges the Company faces. An independent and comprehensive evaluation of the Board's work completed in 2017 also supports this.

PANDOX'S FUTURE ASSURED

Pandox has completed several large portfolio acquisitions in recent years and the Company today has operations in 15 countries. Although the business model and much of the way the Company is managed are the same, the expansion means increased legal and commercial complexity. In 2017 Pandox strengthened the organisation by adding specialist expertise in finance and taxation.

Pandox has many strengths. The most important ones include the Company's ability to systematically analyse the performance of each hotel in relation to its competitors, to identify early on any deviations

and to work with the tenant to find solutions to improve the hotel's business position. With more hotel properties and more business partners it is important for Pandox's organisation to be developed in a way that enables the Company to continue to focus on this and other business critical processes swiftly and with good quality.

RETURN TO SEVEN BOARD MEMBERS

In 2017 the Board was increased from seven to eight members. Prior to the 2018 Annual General Meeting two members (Olaf Gauslå and Mats Wäppling) declined re-election and the Nominating Committee has proposed replacing them with one new member (Jon Rasmus Aurdal) with a similar skill profile. The Board will thus return to its original size. In connection with this change the Board will appoint Bengt Kjell as Vice Chairman. This will ensure continuity in the Board's ongoing work as well as good communication in decision processes, which are often fast-paced.

In conclusion I would like to thank the Board, Nominating Committee and management for an open and constructive dialogue during the year. I would also like to thank Olaf Gauslå and Mats Wäppling in particular for their valuable efforts for Pandox over the years.

Stockholm, March 2018

Christian Ringnes

Corporate Governance Report

Good corporate governance is about ensuring that a company is managed as responsibly and efficiently as possible on behalf of the shareholders. Corporate governance determines how rights and responsibilities are distributed among a company's various bodies in accordance with internal processes and the laws and regulations in effect. Pandox is a Swedish public limited company with its registered office in Stockholm. Corporate governance within Pandox is based on Swedish laws, the Articles of Association, the Nasdaq Stockholm Rule Book for Issuers and the Swedish Corporate Governance Code ("the Code"). The Code is available at www.corporategovernanceboard.se and describes good practices in the stock market.

Pandox complies with the Code with no deviations.

SHAREHOLDERS AND THE SHARE

The Pandox AB (publ) class B share was listed on Nasdaq Stockholm on 18 June 2015. The Company's share capital amounted to SEK 418,749,998 as of 31 December 2017; 75,000,000 were class A shares and 92,499,999 class B shares. Each class A share entitles the holder to three votes at shareholders' meetings, while each class B share entitles the holder to one vote at shareholders' meetings.

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

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

Holding on 31 December 2017	% of votes
Eiendomsspar Sverige AB	38.1
Christian Sundt AB	19.0
Helene Sundt AB	18.8

At year-end the Company's market capitalisation amounted to MSEK 26,549 (22,240). Based on the authorisation the Board of Directors received from the Annual General Meeting on 29 March 2017, Pandox implemented a directed share issue of 10,000,000 class B shares on 14 December 2017, raising MSEK 1,480 before transaction costs.

More information about the Pandox share and the ownership structure is available on pages 32–35 and on Pandox's website www.pandox.se.

See page 90 in the Administration Report for a description of the standard change of control clause.

SHAREHOLDERS' MEETING

The shareholders' meeting is Pandox's highest decision-making body. The Annual General Meeting (AGM) is held within six months of the end of the financial year and takes place in Stockholm. At the AGM the shareholders exercise their right to vote on key issues, such as adoption of the income statements and balance sheets, appropriation of the Company's profits, discharging the board members and the Chief Executive Officer from liability, election of board members and auditors, and on fees for board members and auditors. The active participation of the shareholders at shareholders' meetings promotes a good balance of power between the owners, the Board and executive management.

Pandox's Board of Directors is to convene extraordinary shareholders' meetings if a group of minority shareholders holding at least one tenth of all shares in the Company requests such a meeting. The Board of Directors may also convene an extraordinary shareholders' meeting on its own initiative. Resolutions at shareholders' meetings are normally passed by a simple majority. According to the Articles of Association, notice to attend shareholders' meetings is to be issued through an announcement in Post och Inrikes Tidningar (Sweden's official gazette) and published on Pandox's website www.pandox.se. An announcement is also to be placed in the Swedish national daily newspaper, Svenska Dagbladet, to inform the public that a notice has been issued.

Once the date and location of the shareholders' meeting has been established, the details are to be published on Pandox's website without delay in advance of the AGM and no later than in connection with the third quarter interim report.

Shareholders wishing to participate in a meeting must be listed in the register of shareholders maintained by Euroclear Sweden five days before the meeting, and must register with Pandox to participate in the shareholders' meeting by the deadline indicated in the notice of the meeting. Shareholders may attend the meetings in person or by proxy and may also be assisted by no more than two people (the number of assistants is to be indicated when registering to attend). Shareholders may normally register in a number of ways to attend shareholders' meetings. This is described in more detail in the notice of the meeting. Shareholders are entitled to vote for all of the shares they hold.

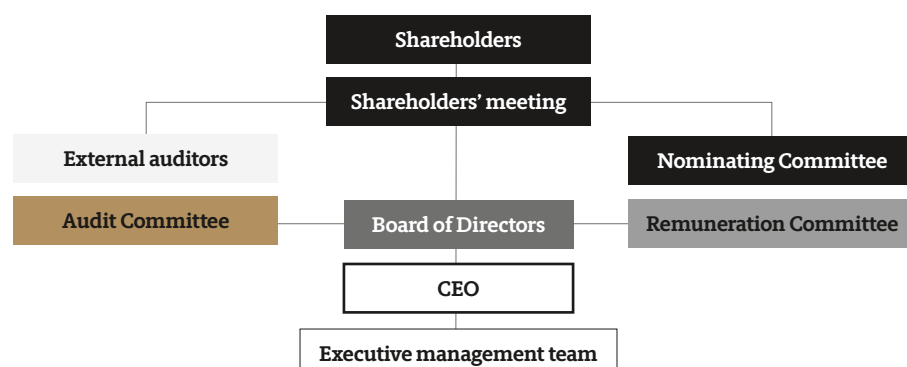
Shareholders wishing to have a matter placed on the agenda of the shareholders' meeting are required to submit a written request to Pandox's Board of Directors. Requests are normally to be received by the Board of Directors no later than seven weeks before the shareholders' meeting.

Annual General Meeting 2017

The last Annual General Meeting (AGM) took place on 29 March 2017 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

Overall corporate governance structure



sheet and a decision on a dividend to the shareholders of SEK 4.10 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 are payable according to approved invoices.
- Election of a new auditor, accounting firm PwC with Patrik Adolfson as auditor-in-charge.
- Election of a new board member, Jeanette Dyhre Kvisvik.
- Re-election of other board members
- 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 2018 Annual General Meeting. The full minutes of shareholders' meetings are available on Pandox's website.

BOARD OF DIRECTORS

Pandox's Board of Directors is responsible for the Company's administration and organisational structure. This includes establishing the Company's targets and strategies as well as the following:

- Appointing, evaluating and, if necessary, dismissing the CEO.
- Ensuring that routines and systems are in place to evaluate performance in relation to established targets.
- Ongoing evaluation of performance and financial position.
- Ensuring that the annual reports and interim reports are correct, reliable and relevant.

A board may delegate tasks to individuals within or outside the its ranks, 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.

Board members are normally elected at the AGM for the period until the conclusion of the following AGM. According to Pandox's Articles of Association, the Board of Directors, to the extent it is elected by the shareholders' meeting, is to consist of at least four and not more than eight members with no deputies.

The Chairman of the Board of Pandox is elected by the AGM. The Chairman is responsible for ensuring that the Board's work is well-organised and efficient.

The Board works according to written work procedures which are revised annually and adopted at the statutory board meeting every year. The work procedures regulate, among other things, types of meetings, functions and distribution of duties between the board members and the CEO. In conjunction with the statutory meeting the Board also adopts instructions for the CEO regarding financial reporting.

The Board holds meetings based on a schedule established annually, normally aligned with Pandox's strategy and budget process as well as the Board's financial calendar. Additional board meetings may be convened to manage time-critical issues that require board decisions, such as on acquisitions, divestment and raising capital.

In addition to the board meetings, the Chairman and the CEO meet continually to discuss Pandox's governance and management. The Board evaluates the work of the CEO on an ongoing basis.

Work of the Board of Directors

2017 was an active year for Pandox with large acquisitions, investments and leases.

This required a significant commitment from the Board of Directors.

The Board held 16 meetings, one of which was the statutory meeting. Four board meetings were held in connection with the targeted new share issue. Members with connections to shareholders who participated in the new share issue were not present during meetings when the Board was making preparations for the issue.

The Board conducts an annual evaluation of its work methods and routines to ensure that the Board has the requisite expertise and efficient processes for good decisions. The result of the evaluation is reported to the Nominating Committee and provides substantive information on which the Committee can base its work.

In 2017 a comprehensive and independent evaluation was made of the Board. The main conclusions were that the Board is working efficiently and that the members complement each other's strengths. One area identified for improvement was internal communication within the Board regarding time-critical decision processes, such as in connection with acquisitions.

The Board has continued its discussions on gender equality and diversity based on the understanding that these are essential considerations with respect to the composition of the Board. The objective is for the Board to be composed of members of varying ages, genders and geographical origins, and to represent a range of educational and professional backgrounds.

In 2017 a new member with specific digital expertise joined the Board of Directors. This increased the number of members from seven to eight. Prior to the 2018 AGM Olaf Gauslå and Mats Wäppling declined re-election. The Nominating Committee is proposing that these members be replaced by one

PANDOX'S BOARD OF DIRECTORS AND COMMITTEES IN 2017

Name	Fees, SEK 000s	Attendance at meetings				
		Board of Directors	Audit Committee	Remuneration Committee	Independent of the Company ¹⁾	Independent of owners ²⁾
Christian Ringnes, Chairman ³⁾	650	12 of 16		2 of 2	Yes	No
Leiv Askvig ³⁾	400	10 of 16			Yes	No
Ann-Sofi Danielsson	530	16 of 16	4 of 4		Yes	Yes
Jeanette Dyhre Kvisvik	400	12 of 16			Yes	Yes
Olaf Gauslå ³⁾	470	12 of 16	4 of 4		Yes	No
Bengt Kjell	470	16 of 16	4 of 4		Yes	Yes
Helene Sundt	400	15 of 16			Yes	No
Mats Wäppling	450	12 of 16		2 of 2	Yes	Yes

¹⁾ Independent in relation to the Company and the executive management team.

²⁾ Independent in relation to the Company's major shareholders.

³⁾ The member did not participate in the (four) board meetings where preparations were being made for the new share issue due to the member's links to shareholders who participated in the new share issue.

new member (Jon Rasmus Aurdal) who has a similar skill profile, and that the Board thus returns to having seven members.

The Board has determined that the members – both before and after this change – have appropriate and complementary expertise taking into account Pandox's operations.

Audit Committee

On 29 March 2017 Pandox appointed an Audit Committee consisting of Ann-Sofie Danielsson (chairman), Bengt Kjell and Olaf Gauslå. The Audit Committee's duties, without affecting the Board's general responsibilities and duties, include overseeing Pandox's financial reporting and the efficiency of Pandox's internal control and risk management, staying informed about the audit of the annual accounts and consolidated accounts, reviewing and monitoring the auditor's impartiality and independence, and paying particular attention when the auditor provides Pandox with services other than audit services, as well as assisting in drafting proposals for the election of auditors at the AGM. The Audit Committee also examines the Annual Report and interim reports and oversees the audit. The Audit Committee does not perform any auditing tasks.

In 2017, 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 was examined in terms of development, tools, structure and self-assessment. The Audit Committee also worked on securing new auditors for the Group ahead of the 2017 Annual General Meeting.

In 2017 the Audit Committee held four meetings for which minutes were kept and reported to the Board of Directors.

Remuneration Committee

Pandox has a Remuneration Committee consisting of two members: Christian Ringnes and 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 obliged to vote, and the applicable remuneration structures and compensation levels within the Company.
- Reviewing and preparing proposals on all share-related incentive schemes to put before the executive management team.

During the year the Remuneration Committee paid special attention to matters relating to salaries and other remuneration for the CEO and executive management team. In 2017 the Remuneration Committee held two meetings for which minutes were kept and reported to the Board of Directors.

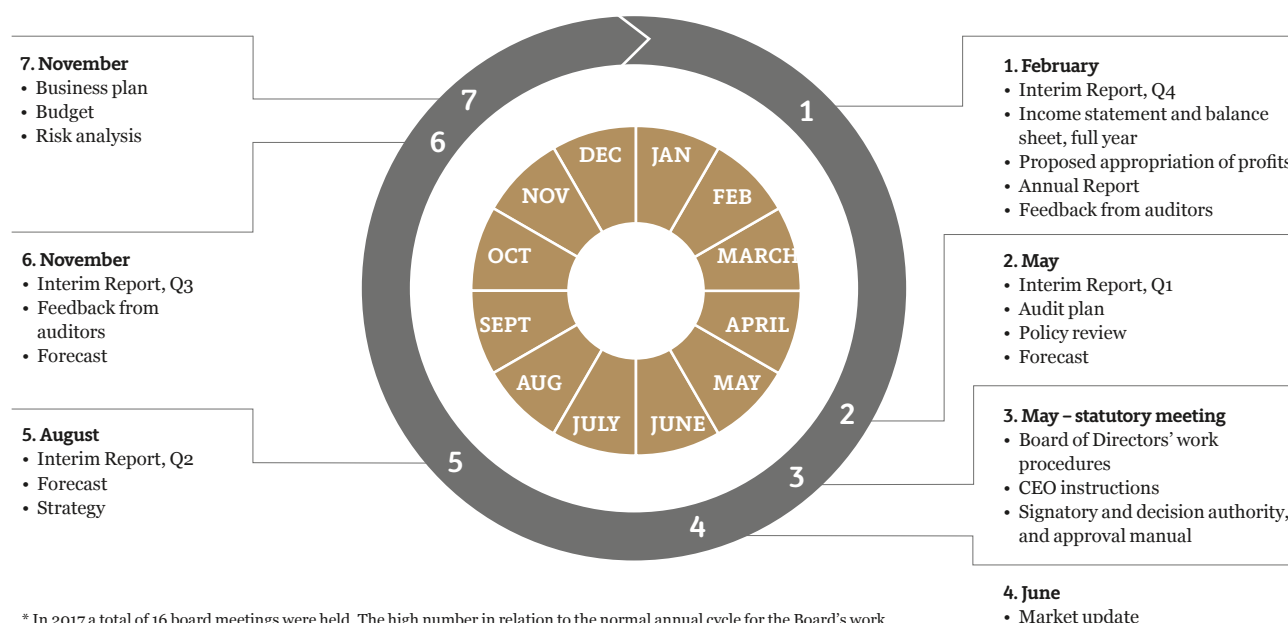
Chief Executive Officer and other senior executives

The Chief Executive Officer (CEO) reports to the Board of Directors and is responsible for Pandox's day-to-day administration and operations. Actions and measures which, taking into account the scope and nature of the Company's business, are of an unusual nature or of great significance, do not fall under the category of day-to-day administration. The CEO is required to prepare information and report to the Board on matters that are outside the day-to-day administration of the Company.

The allocation of duties between the board members and the CEO is described in the work procedures for the Board and instructions for the CEO. The CEO is also responsible for preparing reports and compiling information in advance of board meetings and for reporting on these materials at the board meetings.

According to the financial reporting instructions, the CEO is responsible for Pandox's financial reporting procedures

Board duties, normal annual cycle*



* In 2017 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, investments and the new share issue.

and must therefore ensure that the Board receives sufficient information on which to continuously evaluate Pandox's financial position.

The CEO is to keep the Board continuously informed about Pandox's performance, sales development, earnings and financial position, liquidity and credit status, important business events and on about every other event, circumstance or situation that may be assumed to be of material importance for Pandox's shareholders.

Audit

Pandox's auditors are appointed by the shareholders' meeting and are to examine the Company's Annual Report and accounting records as well as the administration of the Company by the Board and the CEO. After each financial year, the auditor must submit an audit report for the Parent Company and the Group to the Annual General Meeting. The auditors are commissioned by and report to the shareholders' meeting and are not to allow themselves to be influenced in their work by the Board or the executive management team.

The auditors are also responsible for reporting on any instance where a board member or the CEO is guilty of neglect or has acted in a way that may result in compensation liability.

According to Pandox's Articles of Association, Pandox is to have two auditors and two deputy auditors. In 2017 Pandox concluded the task as requested by the Audit Committee of procuring auditors. The Nominating Committee proposed re-electing the accounting firm of PwC at the 2017 AGM. The 2017 AGM voted in favour of appointing the accounting firm of PwC, with authorised public accountant Patrik Adolfson as auditor-in-charge. Pandox's auditors are presented in the section under the heading "Board of Directors, senior executives and auditors" on pages 144–147.

The Board of Directors meets with Pandox's external auditors, without executive management being present, at least once a year to receive and address the auditors' opinions.

The Audit Committee also meets the auditors on a regular basis to be informed about and address their opinions on the interim reports and the Annual Report, the results of the auditor's scrutiny of internal

control of 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 with preparing for the meeting's decisions on election and fee-related issues, and where applicable, on the Committee's composition and how it is convened.

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 of the board members. The Nominating Committee is also to provide proposals for the election and compensation of auditors in consultation with the Audit Committee.

In accordance with a decision at Pandox's 2017 AGM, the Nominating Committee, in preparation for the 2018 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 2017, according to the register of shareholders kept by Euroclear Sweden. The Chairman of the Board of Pandox AB is also responsible for convening the first meeting of the Nominating Committee. If a shareholder with the right to appoint a member of the Nominating Committee relinquishes that right, the right to appoint a member is transferred to the largest shareholder who has not previously had the right to appoint a member of the Nominating Committee. Helene Sundt AB and Christian Sundt AB are represented by the same member of the Nominating Committee. The member 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 1 September 2017 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 may do so by e-mail to valberedningen@pandox.se or by letter to Pandox AB, Valberedning, PO Box 15, SE-101 20 Stockholm no later than 19 March 2018.

The Nominating Committee's proposals to the 2018 AGM are:

- Proposal for election of members of the Board of Directors.
- Principles for appointing the Nominating Committee in advance of the 2019 Annual General Meeting.

The Nominating Committee's proposals have been published in the notice to attend the 2018 AGM and on Pandox's website. The AGM will be held on 9 April 2018 in Stockholm.

INTERNAL CONTROL AND FINANCIAL REPORTING

According to the Swedish Companies Act and the Code, Pandox's Board of Directors is responsible for the Company's internal control. This report has been prepared in accordance with the Annual Accounts Act and the Code and is mainly intended to describe internal control and risk management with respect to financial reporting.

The framework used as a basis for Pandox's work on and description of internal governance and control is COSO, the Committee of Sponsoring Organisations of the Treadway Commission. COSO provides a structure for internal control based on five components: control environment, risk assessment, control activities, monitoring activities, and information and communication.

Control environment

The Board of Directors has overall responsibility for ensuring good internal control and effective risk management. Every year the Board of Directors adopts work procedures that define the Board's responsibilities and the distribution of duties among

the board members. The Board exercises its control by annually adopting policy documents, CEO instructions, delegation rules, instructions for financial reporting, business targets and strategies, as well as business plans and a budget.

Good internal control of financial reporting is based on the control environment. In 2017 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.

In 2017 Pandox strengthened the Company's competencies by recruiting specialist expertise in finance and taxation.

Risk assessment

The Group's operations are exposed to a variety of risks. In 2017 Pandox implemented several large acquisitions which have expanded the Group's area of operations geographically and resulted in new business relationships. Taking into account these changes, the Group conducted a new risk assessment during the year. See the section under the heading "Risk" on pages 80–84.

Risk assessment with respect to financial reporting involves identifying the procedures and income statement and balance sheet items in which there is a risk that errors, incomplete information or irregularities may arise if there is insufficient control built into the routines. Risk assessment includes analysing whether any errors could occur and if so, how they may occur and in which part of the process. Pandox's risk assessment has identified items where the risk of significant errors is the highest.

These are items involving substantial transactions or where the processes are highly complex and require strong internal control.

An assessment of the risk of errors in financial reporting is performed annually for each line in the income statement, statement of financial position and cash flow statement. For items that are significant and/or associated with an elevated risk of errors, special procedures are employed to minimise the risks. The three main areas of risk are:

- Property valuation
- Investment and renovation programmes
- Financing activities

Pandox has a well-established operational risk model called the Pandox Model. 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

There is an individual business plan for each hotel property. Twice a year a review of all of the hotels and properties is performed and 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, geographic exposure and operator/brand exposure, hotel demand, supply of new capacity, competitors etc.

Pandox performs internal valuations of its property portfolio every quarter. In addition, a valuation is made of all properties every year by external professional property appraisers who are independent of Pandox. Their assumptions and valuations form an important element in the internal valuation process. The valuation model consists of an accepted and proven cash flow model, where the future cash flows the hotel properties are expected to generate are discounted. The valuation is based on the business plan for the hotel concerned, which is updated at least twice a year and takes into consideration factors such as developments in the underlying operator activities, market developments, the contract situation, operating and maintenance issues and investments aimed at maximising the hotel property's cash flow and return over the long term.

In its role as an active hotel property owner, Pandox, in cooperation with its lease partners, makes every effort to identify joint investment and renovation programmes to ensure that the hotels are competitive and play a part in increasing cash flow. Pandox takes a long-term perspective and has a structured process for managing, implementing and following up on investments. Pandox normally works according to three to five-year maintenance plans and implements specific projects for cash flow-driving investments. For investments exceeding MSEK 6, a memorandum is submitted to the Board for approval. An investment budget is established every year in connection with the preparation of the budget and business plan, which is adopted by the Board of Directors and adjusted on a quarterly basis. The outcome of the investments is monitored in relation to the budget and reported to the Board.

Interest expense is Pandox's largest expense item. Interest expense is affected by market interest rates and by credit institution margins, as well as by Pandox's strategy with respect to fixed interest rates. The majority of Pandox's credit facilities have a variable rate of interest. In order to manage interest rate risk and increase the predictability of Pandox's earnings, interest rate derivatives, mainly interest rate swaps, are used. Variable interest rates are partially swapped through interest rate swaps, giving Pandox fixed interest rates. Pandox's Board establishes the risk mandate. The risk man-

Pandox's model for internal control



date is reflected in Pandox's Financial Policy and ensures that the Company has access to long-term financing. The Financial Policy is updated annually by the Board of Directors. Pandox works closely with its lenders and external experts to ensure that the Company plans well in advance with respect to its financing requirements.

In connection with Pandox's annual strategy and budgetary work the executive management team presents a chart of the Group's top risks to the Board of Directors.

Control activities

To avoid errors, a number of control activities have been introduced to ensure that control objectives are achieved. In 2017 Pandox renewed its assessment of the Group's risks. This included holding a risk workshop aimed at further developing frameworks and policies for risk management, internal control and 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. The process of producing the Financial Handbook also involved identifying and documenting control activities linked to financial processes. The control measures involve guaranteeing the quality of financial reporting. Measures have been implemented at a general level in the analysis of results and key ratios, as well as at a detailed level by incorporating a number of items to check in the day-to-day processes and routine descriptions. Each month at financial meetings the Company's performance is examined in relation to the budget, forecast and the outcome the previous year. The executive management team also holds monthly meetings. The Board and Audit Committee review financial reporting procedures quarterly.

The CFO and the business intelligence and control departments are all responsible for creating the environment required to achieve transparent and accurate financial reporting. Pandox's executive management and the Board also fill an important control function with respect to the external financial reporting process.

Monitoring activities

Pandox monitors performance in relation to both operational and financial goals on a monthly basis. The performance follow-up meeting is attended by the CEO, CFO, SVP 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 internal information documents on the intranet is regulated by rules of authorisation. The documents are updated on a regular basis as needed. Changes are communicated separately via e-mail and at meetings attended by controllers and financial managers. Access to financial data for the Group is also controlled at the central level based on authorisation rules.

The Investor Relations & Sustainability Manager is responsible for all external information and communication, including the external website.

Need for an internal audit department

Pandox has a very dedicated and committed executive management team whose members are directly involved in many issues at various levels within the Group. Pandox also has a strong central control department consisting of controllers with previous experience as auditors who work with the business intelligence department to analyse and monitor financial and operational development within all of the Group's business segments. The employees in the financial department have many years of experience in this area and significant experience of Pandox's business. Taking all of this into consideration, Pandox's Board has determined that at this time there is no need for a separate internal audit department.

Auditors' opinion on the corporate governance statement

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

The Board of Directors is responsible for the corporate governance statement for the year 2017 (on pages 138–147) and for ensuring that it has been prepared in accordance with the Annual Accounts Act.

Our review was performed in compliance with statement RevU 16 *The auditor's examination of the corporate governance statement issued by FAR (the professional institute for Swedish authorised public accountants)*. This means that our statu-

tory examination of the corporate governance statement has a different focus and is substantially smaller in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden.

A corporate governance statement has been prepared. Information in accordance with chapter 6 section 6 second paragraph items 2–6 and chapter 7 section 31 second paragraph of the Annual Accounts Act is con-

sistent with the annual accounts, the consolidated accounts and the Annual Accounts Act.

Stockholm, 5 March 2018
Pricewaterhouse Coopers AB

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

Board of Directors



Leiv Askvig

Born 1957.

Board member since 2004.

Advanced Management Program Harvard Business School. Bachelor's degree in Business Administration from the Norwegian School of Management in Oslo. CEO Sundt AS.

Chairman of the Board Basen Kapital AS.

Board member Alfarveg AS, Skibs AS Tudor, Toluma AS, Civita AS, Eiendomsspar AS and Victoria Eiendom AS.

Shareholding: 0

Independent in relation to the Company and the executive management team: Yes

Independent in relation to principal shareholders: No



Jeanette Dyhre Kvisvik

Born 1972.

Board member since 2017.

Law degree (honours) from the University of Bergen (Norway).

Board member Villoid AS and Hiddn Solutions AS.

Shareholding: 0

Independent in relation to the Company and the executive management team: Yes

Independent in relation to principal shareholders: Yes



Christian Ringnes

Born 1954.

Chairman of the Board since 2004 and chairman of the Remuneration Committee.

Master of Business Administration from Harvard Business School, Bachelor's degree in Business and Economics from École des Hautes Études Commerciales, degree in philosophy from the University of Oslo.

Chief Executive Officer Eiendomsspar AS and Victoria Eiendom AS (and board appointments for companies in the group).

Chairman of the Board Eiendomsspar Sverige AB, NSV-Invest AS (and board appointments for several companies in the group), Sundt AS (and board appointments for several companies in the group) and Dermanor AS.

Board member Schibsted ASA and Fastighetsstyrelsen Norges Bank.

Christian Ringnes owns 40 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 class A shares and 8,964,375 class B shares in Pandox.

Independent in relation to the Company and the executive management team: Yes

Independent in relation to principal shareholders: No



Ann-Sofi Danielsson

Born 1959.

Board member since 2015 and chairman of the Audit Committee.

MSc Business Administration and Economics, Uppsala University.

Chief Financial Officer Bonava AB.

Board member Vasakronan AB and Bulten AB.

Shareholding: 0

Independent in relation to the Company and the executive management team: Yes

Independent in relation to principal shareholders: Yes



Olaf Gauslå

Born 1961.

Board member since 2004 and member of the Audit Committee.

Authorised Public Accountant from the Norwegian School of Economics. Degree in Business Administration from the Norwegian School of Economics.

CFO Eiendomsspar AS and Victoria Eiendom AS (and board and management positions in several subsidiaries of Eiendomsspar AS and Victoria Eiendom AS).

Board member Eiendomsspar Sverige AB.

Shareholding: 150,000 class B shares

Independent in relation to the Company and the executive management team: Yes

Independent in relation to principal shareholders: No



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, ICA Gruppen AB and others.
Shareholding: 2,000 class B shares
Independent in relation to the Company and the executive management team: Yes
Independent in relation to principal shareholders: Yes



Helene Sundt

Born 1979.
Board member since 2008.
Law studies.
Chairman of the Board and owner of Helene Sundt AS.
Owner of Helene Sundt AB.
Board member Sundt AS, CGS Holding AS and Sundt Air Holding AS.
Board member Sigval Bergesen d.y. & Hustru Nankis Almennyttige Stiftelse.
Helene Sundt owns 100 percent of the shares in Helene Sundt AS, which owns 100 percent of the shares in Helene Sundt AB, which owns 18,657,188 class A shares and 4,042,187 class B shares in Pandox.
Independent in relation to the Company and the executive management team: Yes
Independent in relation to principal shareholders: No



Mats Wäppling

Born 1956.
Board member since 2003 and member of the Remuneration Committee.
MSc Engineering from the Royal Institute of Technology (KTH) Stockholm.
Chairman of the Board of Vasakronan AB, Nordic Modular Group AB, PKM Invest AB, 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
Independent in relation to the Company and the executive management team: Yes
Independent in relation to principal shareholders: Yes

Auditors

Patrik Adolfson

Born 1973, auditor-in-charge, authorised public accountant, PricewaterhouseCoopers AB.
Patrik Adolfson has been auditor-in-charge for Pandox AB since 2017.
Other audit assignments: AcadeMedia AB (publ), Attendo AB (publ), Catella AB (publ), Loomis AB (publ) and Securitas AB (publ).
Member of FAR (the professional institute for Swedish authorised public accountants).

Senior executives



Anders Nissen

Born 1957. CEO since 1995. Business Administration programme, Lund University. Board member Björnberg Fastighetsförvaltning AB and Svenska Handbollslandslaget AB. Shareholding: 100 percent of the shares in Blålockevägen AS, which owns 371,250 class A shares and class 371,250 B shares in Pandox.

Liia Nõu

Born 1965. Senior Executive Vice President and CFO since 2007. MSc Business and Economics from Stockholm School of Economics. Shareholding: 13,700 class B shares

Anders Berg

Born 1967. Director of Communications and IR since 2016. MSc Business and Economics from Linköping University. Shareholding: 0

Karmen Bergholcs

Born 1970. General Counsel since 2016. Law degree from Stockholm University. Shareholding: 0

Martin Creydt

Born: 1965. Senior Vice President, Director of Property Management International since 2017. Advanced Management Program, Cornell University, Executive Program, INSEAD, Business Degree Service Management, University of Gothenburg. Shareholding: 3,000 class B shares



Erik Hvesser

Born 1969. Senior Vice President, Director of Property Management Nordics since 2006. Degree in Business Administration from the Norwegian School of Economics. Shareholding: 0

Lars Häggström

Born 1954. Senior Executive Vice President, Asset and Technical Development since 2000. Naval engineer, graduate of the Sjöbefälsskolan (naval officer college) in Stockholm, and one year of studies at the Royal Institute of Technology (KTH). Shareholding: 10,000 class B shares

Helge Krogsbøl

Born: 1968. Senior Vice President, Director of Operations Nordics and Germany since 2013. Degree in Market Economics from 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) in Stockholm. Shareholding: 4,500 class B shares



About Pandox's GRI reporting

GRI INDEX

This is Pandox's first Sustainability Report. The Sustainability Report has been prepared in accordance with GRI Standards at the Core level. The GRI index contains a list of the obligatory standard disclosures as well as the issue-specific information Pandox has chosen to disclose based on the Company's five focus areas: Our-selves, Our guests, Environment, Our business partners, Our community. Supplementary sustainability information is available on Pandox's website www.pandox.se/sustainability.

BOUNDARIES

Information presented under the respective focus areas, unless stated otherwise, relates to activities at Pandox's head office in Stockholm and hotels in the Operator Activities segment. Hotels operated under leases or by operators through management agreements with Pandox, as well as hotels reclassified during the financial year are not included.

STAKEHOLDER DIALOGUE AND MATERIALITY ANALYSIS

Pandox defines the most significant sustainability issues using external and internal analysis of society's and the hotel market's development as well as results from dialogue with stakeholders. In 2016 Pandox was engaged in dialogue with stakeholders to identify relevant sustainability aspects across the value chain. In an online survey, key stakeholders were invited to evaluate sustainability issues from a Group perspective and from a hotel operations perspective. The stakeholders were prioritised based on their level of direct or indirect impact on Pandox's operations. A total of approximately 600 individual stakeholders (employees, hotel guests, investors, business partners, interest groups and the community) participated. The responses formed an important part of the materiality analysis in which the key sustainability aspects for Pandox were identified and categorised into focus areas.

The result of the materiality analysis has been discussed and validated during supervised seminars involving a broad group of senior executives within Pandox which included representatives from all parts of the business. The most critical sustainability issues were defined after combining the assessments of the stakeholders and management team concerning Pandox's impact on the financial, environmental and social aspects.

Pandox is an active owner and is constantly integrating stakeholder viewpoints. Among other things, Pandox has been holding a Hotel Market Day every year since 1996. This is a knowledge-sharing event for decision-makers in the international hotel industry. In addition to daily business operations, Pandox is continually participating in trade fairs, seminars and industry days with various interest groups.

GOVERNANCE AND FOLLOW-UP

Pandox's sustainability work is integrated into its business operations. The Company works on sustainability and environmental issues on several levels: at the Group level and in steering groups with participants working in the areas of business operations, real estate and sustainability. The executive management team guides and evaluates improvement initiatives through ISO 14001. There are also work groups linked to specific projects.

GRI index

GRI 102: General disclosures 2016 (Core level)			
Disclosures	Description	Comments	Page
ORGANISATIONAL PROFILE			
102-1	Name of the organisation		Front page of Annual Report
102-2	Activities, brands, products and services		Page 38
102-3	Location of the headquarters		Page 88
102-4	Location of operations		Page 38
102-5	Ownership and legal form		Pages 32, 88
102-6	Markets served		Page 38
102-7	Scale of the organisation		Page 88
102-8	Information on employees and other workers		Pages 50, 114, 144–147
102-9	Supply chain	Pandox's Environmental Policy www.pandox.se/sustainability .	Pages 14–15, 24, 46
102-10	Significant changes to the organisation and its supply chain		Pages 40–43
102-11	Precautionary principle or approach	Pandox's Environmental Policy www.pandox.se/sustainability .	Page 84
102-12	External initiatives for sustainability that the organisation supports/is covered by		Pages 46, 52–53, 72–79
102-13	Membership of associations	European Public Real Estate Association (EPRA).	
STRATEGY			
102-14	Statement from senior decision-maker (CEO, CFO, Chairman)		Pages 4–13, 46, 86, 137
ETHICS AND INTEGRITY			
102-16	Values, principles, standards, and norms of behaviour		Pages 46, 48–49, 51.
GOVERNANCE			
102-18	Governance structure		Pages 46, 137, 149
STAKEHOLDER ENGAGEMENT			
102-40	List of stakeholder groups		Page 47
102-41	Collective bargaining agreements		Page 49
102-42	Identifying and selecting stakeholders	Pandox Sustainability Report 2016, www.pandox.se/sustainability	Pages 46–47, 149
102-43	Approach to stakeholder engagement	Pandox Sustainability Report 2016, www.pandox.se/sustainability	Pages 46–48, 51, 149
102-44	Key issues	Pandox Sustainability Report 2016, www.pandox.se/sustainability	Pages 46–54, 81, 84, 149
REPORTING PRACTICE			
102-45	Entities included in the consolidated financial statements	Sustainability reporting covers activities at Pandox's head office in Stockholm and hotels within the Operator Activities segment.	Pages 126–128
102-46	Defining report content and topic boundaries		Pages 46–47, 149
102-47	List of material topics	Pandox Sustainability Report 2016, www.pandox.se/sustainability	Pages 47, 81, 84, 149
102-48	Restatements of information	Hotel properties reclassified during the year have been excluded from key ratio calculations.	Pages 40–43
102-49	Changes in reporting		Pages 2–7, 15, 40–43, 86–131
102-50	Reporting period	Calendar year	1 January 2017 to 31 December 2017
102-51	Date of most recent report		6 March 2017
102-52	Reporting cycle	Annual	
102-53	Contact point for questions regarding the report		Pages 46, 155
102-54	Claims of reporting in accordance with the GRI Standards	Core level	Pages 46, 149
102-55	GRI content index		Pages 149–151
102-56	External assurance	The Sustainability Report is reviewed by the auditors.	Page 55

Key issues			
Disclosures	Description	Comments	Page
Economic standards			
GRI 205: ANTI-CORRUPTION			
103-1–103-3	Reporting the management approach		Pages 46, 48–49, 149
205-3	Confirmed incidents of corruption and actions taken	No reported incidents	Page 49
Environmental standards			
GRI 302: ENERGY			
103-1–103-3	Reporting the management approach	Pandox responds annually to the CDP's Climate Change Program, where additional information on the Company's energy use is reported.	Pages 46, 52–53, 149
302-1	Energy consumption within the organisation		Pages 52–53
302-3	Energy intensity	Energy intensity in Operator Activities is expressed per m ² and year as well as per guest night. In addition, energy intensity is indicated per m ² and year for the hotel properties within Property Management where Scandic is the hotel operator.	Pages 52–53
GRI 305: EMISSIONS			
103-1–103-3	Reporting the management approach		Pages 46, 52–53, 149
305-2	Energy indirect (Scope 2) GHG emissions	Pandox responds annually to the CDP's Climate Change Program, where additional information on the Company's energy use is reported.	Page 52
305-4	GHG emissions intensity		Page 52
Social standards			
GRI 403: OCCUPATIONAL HEALTH AND SAFETY			
103-1–103-3	Reporting the management approach		Pages 46–51, 149
403-1	Workers' representation in formal joint management-worker health and safety committees		Page 48
GRI 404: TRAINING AND EDUCATION			
103-1–103-3	Reporting the management approach		Pages 48–49, 149
404-1	Average hours of training per year per employee		Page 50
GRI 405: DIVERSITY AND EQUAL OPPORTUNITY			
103-1–103-3	Reporting the management approach		Pages 48–49
405-1	Diversity of governance bodies and employees		Pages 48–50, 139
GRI 406: NON-DISCRIMINATION:			
103-1–103-3	Reporting the management approach		Pages 48–49, 149
406-1	Incidents of discrimination and corrective actions taken	No reported incidents.	Page 49
GRI 416: CUSTOMER HEALTH AND SAFETY			
103-1–103-3	Reporting the management approach		Page 51
416-2	Incidents of non-compliance concerning the health and safety impacts of products and services	No reported incidents.	Page 51
GRI 418: CUSTOMER PRIVACY			
103-1–103-3	Reporting the management approach		Page 51
418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	No reported incidents.	Page 51

Multiyear summary

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

MSEK	2017	2016	2015	2014	2013	2012
Revenue Property Management						
Rental income	2,121	1,717	1,431	1,418	1,523	1,540
Other property revenue	81	70	112	60	67	55
Revenue Operator Activities	2,067	2,158	2,046	1,598	1,308	1,179
Net sales	4,269	3,945	3,589	3,076	2,898	2,774
Costs Property Management	-321	-292	-263	-292	-313	-293
Costs Operator Activities	1,743	1,866	1,767	1,387	1,200	1,078
Gross profit	2,206	1,787	1,559	1,397	1,385	1,403
Central administration	-124	-117	-94	-82	-64	-57
Net financial items	-519	-456	-438	-536	-608	-586
Profit before changes in value	1,563	1,214	1,027	779	713	760
<i>Changes in value</i>						
Properties	1,914	1,460	1,399	1,197	375	263
Derivatives, unrealised	173	-39	203	-622	321	-212
Profit before tax	3,650	2,635	2,629	1,354	1,409	811
Current tax	-73	-72	-35	-16	-197	-9
Deferred tax	-429	-349	-463	-85	-264	-305
Profit for the year	3,148	2,214	2,131	1,253	948	497
Other comprehensive income for the year	-185	359	-291	-3	-32	-82
Comprehensive income for the year	2,963	2,573	1,840	1,250	916	415

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

MSEK	2017	2016	2015	2014	2013	2012
Assets						
Properties including equipment	48,217	36,578	29,463	25,701	26,161	25,359
Other non-current assets	37	23	25	26	45	10
Deferred tax assets	613	748	800	924	733	801
Current assets	2,046	563	1,162	315	303	262
Cash and cash equivalents	999	517	170	321	589	939
Total assets	51,912	38,429	31,620	27,287	27,871	27,371
Equity and liabilities						
Equity	19,027	15,258	12,215	10,402	10,429	9,395
Deferred tax liabilities	3,026	2,582	2,281	1,993	1,708	1,457
Interest-bearing liabilities	26,473	18,841	15,546	12,907	14,575	15,020
Non-interest-bearing liabilities	3,386	1,748	1,578	1,985	1,159	1,499
Total equity and liabilities	51,912	38,429	31,620	27,287	27,871	27,371

KEY RATIOS

	2017	2016	2015	2014	2013	2012
Net operating income Property Management, MSEK	1,882	1,495	1,280	1,186	1,277	1,302
Net operating income Operator Activities, MSEK	494	439	416	320	210	189
EBITDA, MSEK	2,252	1,817	1,603	1,425	1,424	1,435
Earnings per share, SEK	19.89	14.65	14.21	8.35	6.31	3.32
Cash earnings, MSEK	1,660	1,289	1,130	873	620	840
Cash earnings per share, SEK	10.46	8.49	7.53	5.82	4.10	5.60
RevPAR (Operator Activities) for comparable units and comparable exchange rates	731	657	684	644	—	—
	31 Dec 2017	31 Dec 2016	31 Dec 2015	31 Dec 2014	31 Dec 2013	31 Dec 2012
Net interest-bearing debt, MSEK	25,474	18,324	15,376	12,587	13,986	14,081
Equity/assets ratio, %	36.7	39.7	38.6	38.1	37.4	34.3
Loan-to-value ratio, %	50.8	47.9	49.5	48.7	55.5	59.4
Interest coverage ratio, times	4.2	4.0	3.6	2.6	2.3	2.4
Market value properties, MSEK	50,121	38,233	31,437	26,504	26,282	25,291
EPRA NAV per share, SEK	144.54	126.24	107.71	92.11	82.60	74.80
WAULT (Investment Properties), years	15.6	13.9	11.2	9.0	—	—

Quarterly data

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

MSEK	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016
Revenue Property Management								
Rental income	549	569	547	456	433	459	451	374
Other property revenue	22	20	21	18	25	20	13	12
Revenue Operator Activities	528	463	555	521	619	561	536	442
Net sales	1,099	1,052	1,123	995	1,077	1,040	1,000	828
Costs Property Management	-82	-78	-83	-78	-90	-70	-66	-66
Costs Operator Activities	-429	-373	-462	-479	-528	-466	-448	-424
Gross profit	589	601	578	438	459	504	486	338
Central administration	-37	-30	-30	-28	-34	-27	-32	-24
Net financial items	-126	-132	-131	-130	-116	-114	-112	-114
Profit before changes in value	426	439	417	280	309	363	342	200
<i>Changes in value</i>								
Properties, unrealised	490	194	634	308	413	369	319	200
Properties, realised	289	—	—	—	—	—	—	159
Derivatives, unrealised	7	18	71	77	116	24	-55	-124
Profit before tax	1,212	651	1,122	665	838	756	606	435
Current tax	11	-16	-38	-30	-34	-12	-25	-1
Deferred tax	-40	-84	-197	-108	-32	-152	-107	-58
Profit for the period	1,183	551	887	527	772	592	474	376
Other comprehensive income	-196	-1	-82	94	18	108	103	131
Comprehensive income for the period	986	550	805	621	790	700	577	507

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

MSEK	31 Dec 2017	30 Sep 2017	30 Jun 2017	31 Mar 2017	31 Dec 2016	30 Sep 2016	30 Jun 2016	31 Mar 2016
ASSETS								
Properties including equipment	48,217	39,202	38,216	37,098	36,578	31,623	30,710	29,998
Other non-current assets	37	51	54	41	23	21	20	20
Deferred tax assets	613	665	685	722	748	772	802	829
Current assets	2,046	772	703	582	563	531	428	345
Cash and cash equivalents	999	484	344	625	517	500	365	820
Total assets	51,912	41,174	40,002	39,068	38,429	33,447	32,325	32,012
EQUITY AND LIABILITIES								
Equity	19,027	16,586	16,036	15,231	15,258	13,428	12,728	12,722
Deferred tax liabilities	3,026	2,911	2,924	2,705	2,582	2,660	2,421	2,274
Interest-bearing liabilities	26,473	20,034	19,359	18,709	18,841	15,547	15,387	15,219
Non-interest-bearing liabilities	3,386	1,643	1,683	2,423	1,748	1,812	1,789	1,797
Total equity and liabilities	51,912	41,174	40,002	39,068	38,429	33,447	32,325	32,012

KEY RATIOS

	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016
Net operating income Property Management, MSEK	490	511	485	396	368	409	398	320
Net operating income Operator Activities, MSEK	144	129	139	82	130	130	125	54
EBITDA, MSEK	597	610	594	450	464	512	491	350
Earnings per share, SEK	7.47	3.47	5.61	3.31	5.08	3.93	3.14	2.49
Cash earnings, MSEK	482	462	425	290	314	386	354	235
Cash earnings per share, SEK	3.06	2.91	2.67	1.81	2.05	2.55	2.34	1.57
RevPAR (Operator Activities) for comparable units and comparable exchange rates, %	11	12	17	4	-4	-2	-12	1

	31 Dec 2017	30 Sep 2017	30 Jun 2017	31 Mar 2017	31 Dec 2016	30 Sep 2016	30 Jun 2016	31 Mar 2016
Net interest-bearing debt, MSEK	24,474	19,550	19,015	18,084	18,314	15,047	15,023	14,399
Equity/assets ratio, %	36.7	40.3	40.1	39.0	39.7	40.1	39.4	39.7
Loan-to-value ratio, %	50.8	47.7	47.7	46.8	47.9	45.5	46.8	46.0
Interest coverage ratio, times	4.4	4.6	4.5	3.4	4.0	4.0	3.7	3.1
Market value properties, MSEK	50,121	40,951	39,868	38,630	38,233	33,098	32,124	31,322
EPRA NAV per share, SEK	144.54	136.47	132.55	125.67	126.24	120.53	114.03	112.16
WAULT (Investment Properties), years	15.6	13.8	13.9	13.6	13.9	13.4	13.3	11.3

Definitions

FINANCIAL INFORMATION

Return on equity, %

Profit or loss attributable to the Parent Company's shareholders, rolling 12 months as a percentage of average equity attributable to the Parent Company's shareholders for the same period of time. The average equity is calculated as the sum of opening and closing balances divided by two.

Rounding off

Since amounts have been rounded off to MSEK, the tables do not always add up.

Loan-to-value ratio, %

Interest-bearing liabilities after deducting cash and cash equivalents as a percentage of the properties' market value at the end of the period.

Gross profit, Property Management, MSEK

Revenue less directly related costs for Property Management.

Gross profit, Operator Activities, MSEK

Revenue less directly related costs for Operator Activities including depreciation of Operator Activities.

Cash earnings, MSEK

EBITDA plus financial income less financial expense less current tax.

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.

EBITDA, MSEK

Total net operating income less central administration (excluding depreciation).

Average interest on debt, %

Average interest expense based on interest rate maturity in respective currencies as a percentage of interest-bearing liabilities.

Investments, excl. acquisitions, MSEK

Investments in non-current assets excluding acquisitions.

Net interest-bearing debt, MSEK

Interest-bearing liabilities less cash and cash equivalents and short-term investments that are equivalent to cash and cash equivalents.

Interest coverage ratio

Profit before changes in value plus financial expense and depreciation, divided by financial expense.

Equity/assets ratio, %

Recognised equity as a percentage of total assets.

Growth in EPRA NAV (net asset value growth), annual rate, %

Accumulated percentage change in EPRA NAV, with dividends added back and issue proceeds deducted, for the immediately preceding 12-month period.

Growth adjusted for currency effects and comparable units

Growth measure that excludes effects of acquisitions, sales and reclassifications, as well as exchange rate changes.

PER SHARE

Cash earnings per share, SEK

EBITDA plus financial income less financial expense less current tax, after non-controlling interest, 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.

Earnings per share, SEK

Profit for the period attributable to the Parent Company's shareholders divided by the weighted average number of shares outstanding.

Net asset value (EPRA NAV) per share, SEK

Recognised equity, attributable to the Parent Company's shareholders, including reversal of derivatives, deferred tax asset for 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.

Comprehensive income per share, SEK

Comprehensive income attributable to the Parent Company's shareholders divided by the weighted average number of outstanding shares after dilution at the end of the period.

Dividend per share, SEK

Proposed/approved dividend for the year divided by the weighted average number of outstanding shares after dilution at the end of the period.

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

Number of hotels

Number of owned hotel properties at the end of the period.

Number of rooms

Number of rooms in owned hotel properties at the end of the period.

Market value of properties, MSEK

Market value of Investment Properties plus market value of Operating Properties.

RevPAR for Operating Properties (comparable units at constant exchange rates), SEK

Revenue per available room, i.e. total revenue from sold rooms divided by the number of available rooms. Comparable units are defined as hotel properties that have been owned and operated during the entire current period and comparative period.

Constant exchange rate is defined as the exchange rate for the current period, and the comparative period is recalculated based on that rate.

WAULT (Investment Properties)

Weighted average lease term remaining to expiry, across the property portfolio, weighted by contracted rental income.

Other information

OTA – ONLINE TRAVEL AGENCY

Online companies whose websites permit consumers to book various travel-related services directly over the internet.

WTTC – WORLD TRAVEL & TOURISM COUNCIL

A global association that gathers large actors in travel and tourism so that they can speak with one voice to governments and international bodies. The WTTC works to increase awareness about travel and tourism as one of the world's largest sectors of the global economy, supporting 292 million jobs and generating 10 percent of global GDP.

UNWTO – UNITED NATIONS WORLD TOURISM ORGANIZATION

Intermediary body promoting tourism with its headquarters in Madrid. The organisation was formed at the initiative of the United Nations.

EXCHANGE RATES

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

Currency code	Ultimo 31 Dec 2016	Average Jan–Dec 2017	Ultimo 31 Dec 2017
CAD	6.5688	6.578800	6.564200
CHF	8.911141	8.669250	8.428133
DKK	1.286894	1.294942	1.322850
EUR	9.5669	9.632600	9.849700
GBP	11.1787	10.989600	11.104500
NOK	1.054000	1.032966	1.001050
SEK	1.000000	1.000000	1.000000

Shareholder information

ANNUAL GENERAL MEETING

The Annual General Meeting of Pandox AB will take place at 10.00 CEST on Wednesday, 9 April 2018 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

ANNUAL GENERAL MEETING CALENDAR AND DIVIDEND

Record date for the Annual General Meeting	3 April 2018
Annual General Meeting	9 April 2018
Share traded without dividend entitlement	10 April 2018
Record date for dividend	11 April 2018
Payment of dividend	16 April 2018

FINANCIAL REPORTING

Interim Report January–March 2018	24 April 2018
Interim Report April–June 2018	13 July 2018
Interim Report July–September 2018	25 October 2018
Year-End Report 2018	14 February 2019

CONTACT INFORMATION

Further information can be obtained from the Company's Head of Communications and IR, Anders Berg +46 (0) 760 95 19 40, Director of Sustainable Business, Caroline Tivéus +46 (0) 735 32 74 41.



Image on front page of cover: The Hotel Brussels with a statue from the Elephant Parade, which works for elephant conservation in their natural environments.

Production: Pandox in cooperation with Hallvarsson & Halvarsson.
Photo: Ulf Blomberg, Peter Hoelstad, Mats Lundqvist, Olivier Pirard, Felicia Andreasson, Håkan Cedlöf and others.

Printing: Printfabriken, 2018.



Find Pepper!



Pando'x new corporate dog Pepper is hidden in five places in the Annual Report. The first five correct answers submitted will be rewarded with a signed and framed photo of Pepper. Send your answer to pepper@pandox.se. Good luck!



Pandox AB (publ) | Reg. No. 556030-7885
Postal address | Pandox AB | Box 15 | 101 20 Stockholm | Sweden
Street address | Vasagatan 11 | 9th floor | Stockholm | Sweden
Tel. +46 8 506 205 50 | www.pandox.se