

Recently acquired – The Hotel Brussels



Year-End Report 2010

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- Pandox' cash flow increased by 13 percent to SEK 502.5 million (446.4), leading to the Company passing half a billion kronor in available cash flows for the first time. When including the cash flow from Norgani for the two months that Pandox has owned the company, total cash flow was SEK 518.9 million.
- Property management revenues amounted to SEK 923.3 million (895.2), representing an increase of 5.1 percent for comparable units, including an adjustment for currency effects.
- Revenues from Pandox' own operations were SEK 1,208.6 million (1,095.0), representing an increase of 12 percent for comparable units and adjusted for currency effects.
- Profit before tax, excluding capital gains and portion of earnings from Norgani, amounted to SEK 307.8 million (252.5). Including the capital gain from the sale of shares in the hotel property company Host Hotels & Resorts Inc and the portion of earnings from Norgani, the profit amounted to SEK 744.7 million before tax.
- The driving force behind the rise in profits and cash flow is a combination of an improved hotel market, high quality in the hotel property portfolio, lower financing costs, improved productivity, and the Company's active ownership.
- On 24 August, Pandox announced the acquisition of Norgani Hotels AS in close cooperation with Pandox' owners. The acquisition price was SEK 9.7 billion. Norgani's portfolio is composed of 73 hotel properties in Sweden, Finland, Norway and Denmark with a total of 12,900 rooms. Possession took place on 4 November 2010. Pandox' proportion of ownership amounts to 50 percent, and is being reported in accordance with the equity method.
- On 6 September, Pandox acquired the Brussels Hilton with 433 rooms, located in central Brussels. The acquisition price was EUR 29 million, and covers the hotel property and its operating activities. Further to possession, the hotel changed name to The Hotel, Brussels.
- In September, Pandox announced the acquisition of Park Inn in Solna Centrum in northern Stockholm. The acquisition price was SEK 205 million before an adjustment for deferred tax. Possession took place on 28 January 2011.

The global recovery further to the finance crisis continues and surprised positively in the second half-year 2010 both in the United States and in Europe. However, the American economy still has problems with high unemployment, falling house prices and a budget deficit. Like in the US, several European countries are wrestling with large deficits in their public finances, which could restrain growth in the region. However, Europe is showing considerable variations in growth preconditions whereby Germany and Sweden are breathing optimism while certain countries, particularly in southern Europe, see a tougher future ahead of them. The current trend is that the general pace of improvement is continuing, although the overall picture is still split and developments are uneven.

Within this global environment, Pandox' hotel property portfolio performed well. Property management revenues grew by 3.1 percent during the period, and even 5.1 percent for comparable units and exchange rates. Growth within operational activities was 12 percent, which is partly due to hotels that have undergone major investment programs are now once again being operated with full capacity. The rate of improvement was better than the market on average, which implies that the hotels in Pandox' portfolio in general took market shares. Profits and cash flows continued to rise.

The driving force is a combination of an improved hotel market, the Company's strategy, high quality in the portfolio, lower financing costs, and the Company's active ownership.

Occupancy and average rates increase in the United States

The recovery in the American hotel market has been primarily driven by an increase in demand, even if rates have also started to rise. The current trend is that all segments and areas are increasing in demand. Occupancy rose during the period by almost 5 percent, while average rates basically stood still. New York, which is always early in the economic cycle, showed good developments in both average rates and occupancy. Overall, RevPAR increased by about 13 percent in the city.

Demand has returned in Europe

In Europe, demand returned in the major international cities. The autumn was relatively strong and the short trend is showing improved average rates, which will strengthen profitability in the sector. London had an unexpectedly low and short downturn after the outbreak of the finance crisis, but has now reached a phase where rates are rising more than occupancy. RevPAR increased by 12 percent compared with 2009.

The picture in the Nordic Region is divided. The market in Copenhagen continues to be tough with a price war that has further contributed to the downturn. RevPAR fell by 14 percent and the trend continues to be negative. Oslo also trailed behind the recovery in Europe, but had a good end of the year. Stockholm showed good growth with an increase in RevPAR of 8 percent compared with last year. Developments in Gothenburg were also positive, while trends in Malmö were negative during the year as expected.

Pandox' portfolio

Pandox' hotel property portfolio continued to perform well. All Stockholm hotels improved better than the market in general. In Gothenburg, the Elite Park Avenue managed better than its competitors while the Scandic Crown and Scandic Mölndal developed just under the market's average. In Malmö, the Scandic Kramer and Scandic S:t Jörgen performed in line with the market, while the ongoing refurbishment of the Radisson Blu reduced revenue capacity and thereby the possibility to follow the market. Regional towns and cities were relatively stable.

Of the international hotels, the InterContinental and Hyatt in Montreal performed extremely well with increased market shares in both rates and occupancy. InterContinental, which has recently undergone a major development program, is now among the RevPAR-leaders in the city while simultaneously showing good productivity trends during the year. Further to several years' successful work, the Hotel Berlin, Berlin has achieved a high level of revenues, productivity and profit. Of the Belgian hotels, Holiday Inn Brussels Airport, which has also undergone a large development program, showed the best growth. Hotel Bloom had strong productivity trends, and the Hilton Brussels City took market shares. In Copenhagen, the Scandic Copenhagen suffered from over-establishment but nonetheless defended its market share reasonably well, while the Clarion Collection Hotel 27 with its lower sensitivity to economic fluctuations developed better than the market on average.

Accounting principles

Pandox does not apply IFRS. As an unlisted company, Pandox is not subjected to IFRS reporting requirements. Pandox applies the Swedish Annual Reports Act and generally accepted accounting principles, as well as the recommendations of the Swedish Accounting Standards Board unless otherwise stated. The Group's properties are reported in the balance sheet at their acquisition cost less accumulated depreciation.

Revenues and operating net – property operations

Property management revenues for the year amounted to SEK 923.3 million (895.2). For comparable units and currencies, the portfolio improved by just over 5 percent. This increase is mainly attributable to a generally better underlying hotel economic climate and that last year's refurbishment projects at the InterContinental Montreal, Hyatt Montreal and Holiday Inn Brussels Airport have now been completed and were operated with full capacity this year. However, at the hotel property level in each respective submarket, there are relatively large differences in results depending on the location, market segment, type of agreement and operator. Property costs excluding depreciation amounted to SEK 140.6 million (117.0). The rise is mainly due to increased maintenance work in the newly acquired Brussels Hilton (The Hotel, Brussels) and in a number of other hotel properties.

The operating net increased overall by SEK 4.5 million to SEK 782.7 million (778.2).

Revenues and profit – hotel operations

Total revenues from hotel operations amounted to SEK 1,208.6 million (1,095.0) where all units increased their sales compared with 2009. For comparable units and adjusted for currency effects, revenues rose by 12.0 percent with the InterContinental Montreal and Holiday Inn Brussels Airport contributing most. The overall profit from hotel operations amounted to SEK 5.8 million (loss: -34.0), which includes a market-level rent that is reported under property revenues.

Portion of profits from Norgani

Pandox' portion of the profits in Norgani for the almost two months the company has been owned amounted to SEK 5.7 million before tax, and are reported under net financial items.

Profit

The Group's profit for 2010 before tax and excluding capital gains amounted to SEK 313.5 million (252.5), and the Group's profit after tax amounted to SEK 567.8 million (301.5).

Financing and cash flow

Net financial items relating to current operations for the period January-December 2010 amounted to SEK -214.0 million (-229.8). The Group's interest-bearing liabilities amounted as of 31 December 2010 to SEK 7,025.8 million (6,850.5). The loan portfolio has a spread due-date structure with an average fixed-interest period of 4.5 years. The average interest rate on loans at 31 December 2010 was 3.3 percent. Financing of Swedish properties has been made in Swedish kronor (SEK), while properties outside Sweden have essentially been financed in each respective local currency. Available liquid funds, including unutilised bank overdraft and credit facilities totalling SEK 989 million amounted to SEK 1,349 million (1,808). Cash flow before changes in working capital and investments, and excluding capital gains, profits from associated companies and tax, amounted to SEK 502.5 million (446.4). Pandox' cash flow, including 50 percent of Norgani's cash flow for the two months Pandox has owned the company, amounted to SEK 518.9 million.

Investments

The Pandox Group's investments, excluding acquisitions, amounted for the period to SEK 197.7 million (312.5). Investments included, among other things, the refurbishment programs at the Crowne Plaza Antwerp, Scandic Plaza Borås and Radisson Blu in Basle and Malmö, as well as product improvements at a large number of properties.

The net book value of hotel properties amounted to SEK 9,200.5 million (9,348.0). The market value of the hotel properties significantly exceeds their book value.

Fourth quarter 2010

Property management revenues for the fourth quarter amounted to SEK 246.5 million (243.3), representing an increase of SEK 3.2 million. The profit before tax, excluding capital gains, was SEK 93.2 million (110.9) and cash flow excluding capital gains and profits from associated companies amounted to SEK 140.6 million (162.9).

Outlook for 2011

The level of economic activity is expected to improve in most markets where Pandox is represented. Scandinavia, Germany and Canada are forecasted to have strong growth, which will have a positive effect on demand in the hotel industry in 2011. Through the acquisition of Norgani, Pandox will report considerably better results in the forthcoming year. Also for comparable units, the Company will strengthen its profits and cash flow.

Stockholm, 14 February 2011
Pandox AB

Anders Nissen
CEO

Condensed Income Statement

SEK million	October- December 2010	October- December 2009	Full year 2010	Full year 2009
Property Operations				
Rental revenue	235.1	231.8	884.2	850.6
Other property revenue	11.4	11.5	39.1	44.6
Total property revenue¹⁾	246.5	243.3	923.3	895.2
Property costs	-41.7	-26.9	-140.6	-117.0
Operating net	204.8	216.4	782.7	778.2
Depreciation	-47.4	-52.0	-194.3	-193.6
Income from property operations	157.4	164.4	588.4	584.6
Hotel operations				
Operating revenue ¹⁾	363.8	292.5	1,208.6	1,095.0
Operating costs ²⁾	-352.3	-295.1	-1,202.8	-1,129.0
Operating income, hotel operations	11.5	-2.6	5.8	-34.0
Gross income	168.9	161.8	594.2	550.6
Administrative costs	-19.7	-18.9	-72.4	-68.3
Operating income	149.2	142.9	521.8	482.3
Net financial items current operations	-56.0	-32.0	-214.0	-229.8
Portion of profits from Norgani	5.7	-	5.7	-
Capital gain on sale of shares ³⁾	-5.7	6.8	431.2	79.5
Income before tax	93.2	117.7	744.7	332.0
Tax	-14.8	-7.9	-111.2	-20.4
Deferred tax	7.8	21.7	-65.7	-10.1
NET INCOME	86.2	131.5	567.8	301.5

¹⁾ Specification of external revenue:				
Revenue from property operations	246.5	243.3	923.3	895.2
Of which internal rents	-57.4	-55.6	-214.0	-211.7
Revenue from hotel operations	363.8	292.5	1,208.6	1,095.0
Total external revenue	552.9	480.2	1,917.9	1,778.5

²⁾ Internal rentals from operating own-managed companies are included in revenue under rental revenues and as a cost under operating costs of hotel operating companies.

³⁾ Capital gain on sale of shares in HOST Hotels & Resorts Inc.

Interest Rate Structure¹⁾

SEK million	SEK	DKK	EUR	GBP	CHF	CAD	Total Share, %	Int, % ²⁾
Year due								
2011	687.8	232.3	754.2	270.0	58.6	258.5	2,261.4	32.2
2012	225.0	-	-	-	65.1	-	290.1	4.1
2013	75.0	-	180.0	-	-	-	255.0	3.6
2014	350.0	-	360.1	-	-	-	710.1	10.1
2015	100.0	120.8	351.1	-	130.2	-	702.1	10.0
2016 and later	1,250.0	289.8	1,017.2	-	-	250.1	2,807.1	40.0
Total	2,687.8	642.9	2,662.6	270.0	253.9	508.6	7,025.8	100.0
Share %	38	9	38	4	4	7	100	
Average interest rate, %	3.6	2.8	3.0	2.0	3.1	3.7	3.3	
Average fixed period, years	4.9	5.4	4.7	0.2	2.4	3.4	4.5	

¹⁾ Converted to SEK ²⁾ Average interest rate in percent

Condensed Balance Sheet

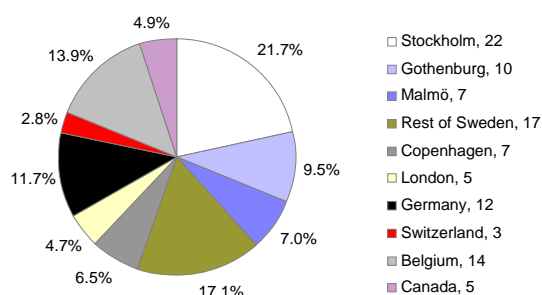
SEK million	31 December 2010	31 December 2009
Assets		
Hotel properties including equipment	9,200.5	9,348.0
Other fixed assets	984.6	627.1
Deferred tax receivable	185.7	216.2
Current assets	276.0	158.4
Cash and bank	385.1	326.4
Total assets	11,031.9	10,676.1
Equity and liabilities		
Shareholders' equity	2,977.5	2,996.7
Deferred tax liability	389.1	363.0
Interest-bearing liabilities	7,025.8	6,850.5
Non interest-bearing liabilities	639.5	465.9
Total equity and liabilities	11,031.9	10,676.1

The Company applies the same accounting principles as in the latest Annual Report & Accounts.

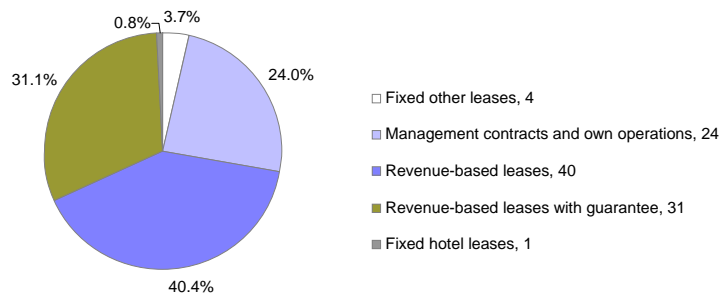
Key Ratios

SEK million	Full year 2010	Full year 2009
Property-related key data		
Book value of properties including hotel equipment	9,200.5	9,348.0
Total property revenue	923.3	895.2
Operating net	782.7	778.2
Direct yield, %	8.6	8.4
Financial key data		
Interest coverage ratio, times (excluding one-off items)	3.5	2.9
Return on total capital, %	8.9	5.5
Return on equity, %	22.9	11.2
Equity/asset ratio, %	27.0	28.1
Cash flow excluding non-recurring items and tax	518.9	446.4
Investments excluding acquisitions	197.7	312.5
Property acquisitions	332.0	163.3

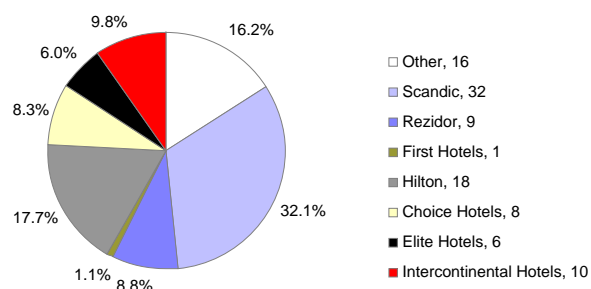
Rental revenue per geographical area January-December 2010



Rental revenue per type of lease January-December 2010



Rental revenue per cooperation partner January-December 2010



Pandox Hotel Properties

As at 31 December 2010

Name and location	No. of rooms	Location
Radisson Blu Hotel Arlandia, Arlanda	335	International airport
Hilton Stockholm Slussen	289	City centre
Scandic Järva Krog, Stockholm	215	Stockholm north
Scandic Park, Stockholm	201	City centre
Scandic Upplands-Väsby	150	Stockholm north
Mr Chip Hotel, Kista	150	Stockholm north
Quality Hotel Nacka, Stockholm	164	Sickla, Nacka
Scandic Skogshöjd, Södertälje	225	Södertälje, city centre
Quality Hotel Park, Södertälje	157	Södertälje, city centre
Total Stockholm	1,886	
Scandic Crown, Gothenburg	338	City centre
Elite Park Avenue Hotel, Gothenburg	317	City centre
Scandic Mölndal	208	City centre
Total Gothenburg	863	
Scandic Copenhagen	484	City centre
Copenhagen Hotel Twentyseven	200	City centre
Scandic S:t Jörgen, Malmö	288	City centre
Radisson Blu Hotel, Malmö	229	City centre
Scandic Star, Lund	196	City centre
Clarion Hotel Grand, Helsingborg	164	City centre
Scandic Kramer, Malmö	113	City centre
Total Öresund region	1,674	
Scandic Grand Hotel, Örebro	221	City centre
Scandic Winn, Karlstad	199	City centre
Scandic Swania, Trollhättan	198	City centre
Clarion Hotel Grand, Östersund	176	City centre
First Hotel Grand, Borås	158	City centre
Scandic Plaza, Borås	135	City centre
Elite Stora Hotellet, Jönköping	135	City centre
Scandic Hallandia, Halmstad	154	City centre
Clarion Hotel Plaza, Karlstad	131	City centre
Scandic Billingen, Skövde	107	City centre
Vildmarkshotellet Kolmården	213	Resort
Total regional cities Sweden	1,827	
Hilton London Docklands	365	Docklands
Crowne Plaza Brussels	354	City centre
Hilton Brussels City centre	283	City centre
Nussels Hilton / The Hotel Brussels	433	City centre
Hotel Bloom! Brussels	305	City centre
Scandic Hotel Grand Place, Brussels	100	City centre
Holiday Inn Brussels Airport	310	International airport
Crowne Plaza Antwerp	264	Ring road
Scandic Antwerp	204	Ring road
Hotel Berlin, Berlin	701	City centre
Hilton Bremen	235	City centre
Hilton Dortmund	190	Exhibition centre
Scandic Lübeck	158	Ring road
Radisson Blu Hotel, Basel	205	City centre
InterContinental Montréal	357	City centre
Hyatt Regency Montréal	605	City centre
Asset management:		
Pelican Bay at Lucaya, Bahamas	184	Resort
Total international	5,253	
TOTAL PANDOX	11,503	

