

Interim Report January – June 2000

Pandox owns six hotel properties with a total of 1,262 rooms in the expansive Öresund region. This region, which is Pandox second largest market, accounts for 19 per cent of revenue. Demand for hotel services is expected to further increase as a positive effect of the Öresund Bridge.



Provobis Hotel Kramer, 113 rooms
Central Malmö



First Express Malmö, 101 rooms
Central Malmö



Provobis Star Hotel, 196 rooms
Lund



Radisson SAS Grand Hotel, 117 rooms
Stortorget, Helsingborg



Scandic Hotel S:t Jörgen, 265 rooms
Central Malmö



Scandic Hotel Copenhagen, 470 rooms
Central Copenhagen

Internationalisation and focus

- *Income after tax for the period January – June 2000, excluding nonrecurring revenue, totalled SEK 80.4 (35.6) M, corresponding to earnings per share of SEK 4.03 (2.37).*
- *The cash flow from operating activities per share amounted to SEK 5.01 (3.68).*
- *Hotellus International AB was acquired and consolidated as of the second quarter of 2000.*

Acquisition of Hotellus

Pandox's strategy was evaluated during the last year. Based on this work, the Board decided to reformulate the company's strategy by including an extension of the geographic market area to encompass northern Europe. The motive was that a larger geographic area would provide greater scope for continuous market growth, a wider spread of risks and better potential to exploit the hotel market for profitable acquisitions.

In February 2000 an agreement was signed with all of the shareholders in Hotellus International AB for the acquisition of the company including 16 hotel properties, of which 8 are located outside Sweden.

Through the acquisition of Hotellus, Pandox has obtained a portfolio of prominent and centrally located hotel properties in key hotel markets. The acquisition has created a sizeable hotel property company with well known brands and operations in northern Europe. Pandox property portfolio as per 30 June, including Hotellus, consisted of 47 hotel properties with a total of 8,494 hotel rooms and a combined floor space of 516,292 sq.m. The portfolio is of high quality. The average hotel has 180 rooms, which is more than 3 times the size of the average hotel in Sweden. A full 98 per cent of the hotels are managed under well known brands and around 95 per cent are situated in natural, strong hotel locations.

The acquisition has created a solid platform for the reformulated strategy. The revenue structure is strong, with

around 71 per cent generated in international hotel markets such as Stockholm, Gothenburg, the Öresund Region, London and Brussels.

Pandox market capitalisation has significantly increased, creating the conditions for better share liquidity and stronger interest from foreign investors. The acquisition was carried out on 1 April and is consolidated as of the second quarter of 2000.

Revenue and operating net – hotel property operations

Property management revenue in the first half of 2000 amounted to SEK 216.3 M (129.8), an improvement of SEK 86.5 M. Property expenses excluding depreciation totalled SEK 41.6 M (26.9).

The operating net rose by SEK 71.8 M to SEK 174.7 M (102.9). The increase is due to added profit from the Hotellus acquisition and hotel properties acquired in 1999, higher revenue from turnover- and income-based lease agreements and renegotiation of leases.

The adjusted direct yield for the period was 9.4 (9.4) per cent and the adjusted direct yield including property-related administrative costs was 9.0 (9.0) per cent.

Revenue and income from hotel management operations

Through the takeover of Hotellus, Pandox acquired the 288-room Hotel Albert Premier in central Brussels. The hotel is operated under an agreement with Scandic Hotels, who in turn operates the hotel on behalf of Pandox. Pandox revenue is based

on profit from the operations, creating a direct link to the underlying hotel business. Hotel management operations are consolidated as of the second quarter of 2000.

An investment programme corresponding to approx. SEK 100 M is underway in the hotel. The objective is to transform the Hotel Albert Premier from a tourist-class hotel to a four-star hotel of international standard over a period of two years.

Revenue from hotel management operations for the period April-June amounted to SEK 11.9 M, and expenses including internally reported rents of SEK 6.5 M totalled SEK 11.4 M. Revenue and income are in line with the established plans.

Income

The Group's income after tax, excluding nonrecurring revenue, increased by SEK 44.8 M compared with the preceding year and income for the period was SEK 80.4 M (35.6). This growth in earnings is mainly attributable to profitable acquisitions, an improved operating net, a healthy hotel market and revenue enhancing investments in the portfolio. The change in the rate of depreciation has increased the income for the period by SEK 8.2 M.

Financing and cash flow

Net financial items for the period totalled SEK -62.6 M (-37.9). The Group's interest-bearing liabilities at mid-year amounted to SEK 2,959.6 M (1,347.7). The loan portfolio has a staggered maturity

structure with an average fixed interest period of 2.1 years. The average interest rate was 5.70 per cent. The loan to value rate in the hotel properties was 64 per cent.

Disposable liquid assets including unutilised overdraft facilities of SEK 50 M amounted to SEK 109.2 M.

The period's cash flow from operating activities before change in working capital and investments was SEK 99.9 M (55.2), corresponding to SEK 5.01 (3.68) per share.

Investments

The Pandox Group's investments during the period, excluding property acquisitions, amounted to SEK 49.1 M and pertained mainly to product improvements in a number of hotel properties. Hotels were acquired for SEK 2,169.3 during the period.

Depreciation of buildings

Pandox and Hotellus have applied different rates for depreciation of buildings. In order to establish an appropriate annual rate of depreciation, the physical standard and quality of the hotel property portfolio and the need for ongoing investments have been analysed. In addition, Pandox has reviewed historical maintenance and investment programmes as well as methods and follow-up routines for maintaining the high physical standard of the hotel properties together with its business partners.

A collective assessment indicates that an annual rate of 1 per cent would provide an accurate expression of the hotel properties' value depreciation, for which reason Pandox will apply this depreciation rate starting in 2000.

High growth in Pandox

Pandox has maintained a healthy growth rate. Revenue for the first six months was SEK 216 M, an increase of nearly 66 per cent. Cash flow strengthened by around 80 per cent and earnings per share, calculated on the average number of shares, rose to SEK 4.03.

This growth in earnings has been accomplished through profitable acquisitions and a growing hotel market, which benefits Pandox via turnover and income-based lease agreements, and an upgrade in the hotel property portfolio. For comparable units, the improvement

rate for the combined portfolio, including Hotellus, was 7.8 per cent.

Pandox is a specialised hotel property company whose strategy is to own large and centrally located hotel properties in metropolitan areas of Sweden and northern Europe. The hotel product should be positioned in the upper mid-scale and upscale segments. Pandox has a strong revenue structure, with 71 per cent derived from international hotel markets that offer substantial growth potential, such as Stockholm, the Öresund Region, London, Gothenburg and Brussels. The quality of the portfolio is high. The average hotel has 180 rooms and 95 per cent of the hotel properties are situated in naturally strong locations. A full 98 per cent of hotel operations, which are often managed in partnership with the operator, are marketed under well known brands with solid market positions.

Since market listing in June 1997, Pandox has grown strongly in terms of size, quality, income and market capitalisation. The company's portfolio of hotel properties has increased from SEK 1.3 billion to over SEK 4.5 billion. Market capitalisation has quadrupled and restructuring of the portfolio has resulted in higher quality with regard to revenue structure, size and location.

Pandox's decision to extend the strategy to northern Europe has increased the company's earnings potential. Most European hotel markets are growing in pace with a brighter economic climate. Furthermore, the majority of these markets are behind Sweden in the hotel business cycle, which means that they are expected to continue to grow over a long period of time. The new strategy will also minimise risks in the company, since Pandox will no longer be dependent on individual markets but can instead exploit the hotel market for profitable acquisitions and market growth.

The acquisition of Hotellus, which is consolidated as of 1 April 2000, has given Pandox a solid platform for the new geographic strategy. The integration of Hotellus is proceeding according to plan. One of the hotels to be taken over was a construction project, Scandic Hotel in Mölndal, which has now opened. A condition for the construction project was that the former Scandic Hotel in Mölndal be go converted to some other type of

commercial activity. Mölndal has one of Sweden's most densely populated business communities, with a strong demand for hotel services. Another interesting project for Pandox is the enlargement of Scandic Hotel Copenhagen to 485 rooms. The extension and product development are expected to create scope for a higher average price, and therefore also higher revenue for Pandox.

In general, Pandox's existing markets have shown increased growth and profitability in hotel management operations. In Stockholm, revenue per available room rose by around 3.5 per cent during the first half of the year and similar growth was noted in the Öresund Region. In the Belgian market, both Brussels and Antwerp recorded excellent growth during the first six months in connection with the European Championships in football. The London hotel market remains expansive, despite the fact that most analysts have predicted a declining trend. The 368-room Holiday Inn Nelson Dock, located in the Docklands area, has enjoyed its share of growth and has thus contributed to higher earnings for Pandox. The hotel market in Copenhagen has shown an increase of around 3 per cent in demand. Adjusted for new capacity acquired during the past year, the market has contracted somewhat. Of the German cities where Pandox is represented – Bremen, Dortmund and Lubeck – Bremen has enjoyed the most significant increase, corresponding to approx. 5 per cent. With its excellent location, Holiday Inn Bremen has captured a considerable share of market growth. However, Dortmund's revenue per available room has declined over the past year, resulting in a slight drop in income from this submarket. The Holiday Inn Lubeck has developed on par with the market and improved its revenue by 1 per cent.

Forecast 2000

Income after tax for the year 2000, including Hotellus for nine months, is expected to reach SEK 175 million. This corresponds to earnings per share of SEK 7.80 (5.21) and a cash flow per share of SEK 10.23 (7.94), calculated on the average number of shares for the year.

Stockholm 28 August 2000

Anders Nissen

Managing Director

Condensed income statement

SEK M	Jan-June 2000	Jan-June 1999	Full year 1999
Property operations			
Rental revenue	206.4	121.2	254.0
Other property revenue	9.9	8.6	18.0
Total property revenue	216.3	129.8	272.0
Operating and maintenance costs	-41.6	-26.9	-54.2
Operating net	174.7	102.9	217.8
Depreciation	-19.3 ¹	-19.2 ²	-40.3 ³
Income, property operations	155.4	83.7	177.5
Hotel operations			
Operating revenue	11.9	0.0	0.0
Operating expenses	-11.4	0.0	0.0
Income, hotel operations	0.5	0.0	0.0
Gross income	155.9	83.7	177.5
Administrative costs	-12.7	-10.2	-21.6
Nonrecurring revenue/expenses	0.0	4.1	5.3
Operating income	143.2	77.6	161.2
Net financial items	-62.6	-37.9	-77.5
Income after financial items	80.6	39.7	83.7
Tax	-0.2	0.0	-0.3
Income after tax	80.4	39.7	83.4

Condensed balance sheet

SEK M	30-06-2000	30-06-2000	31-12-1999
Assets			
Properties incl. hotel equipment	4,589.0	2,217.9	2,393.7
Other fixed assets	14.1	15.6	14.5
Current assets	92.0	15.5	17.9
Liquid assets	59.2	24.3	3.9
Total assets	4,754.3	2,273.3	2,430.0
Equity and liabilities			
Equity	1,560.7	839.8	883.6
Interest-bearing liabilities	2,959.6	1,347.7	1,463.6
Noninterest-bearing liabilities	234.0	85.8	82.8
Total equity and liabilities	4,754.3	2,273.3	2,430.0

Condensed cash flow statement

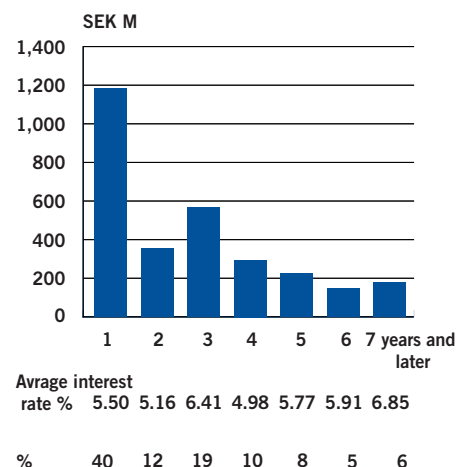
SEK M	Jan-june 2000	Jan-june 1999	Full year 1999
Income after tax	80.4	39.7	83.4
Nonrecurring revenue/expenses	0.0	-4.1	-5.3
Depreciation	19.5	19.6	41.0
Cash flow from operating activities	99.9	55.2	119.1
Total change in working capital	77.1	-2.4	-7.8
Cash flow from operating activities after change in working capital	177.0	52.8	111.3
Total investments, net	-2,218.4	-152.3	-348.8
Cash flow after investments	-2,041.4	-99.5	-237.5
Total nonrecurring revenue/expenses	0.0	4.1	5.3
New share issue	638.0	0.0	0.0
Change in financial fixed assets	3.9	0.9	1.4
Change in interest-bearing loans	1,496.0	65.8	181.7
Dividend	-41.2	-30.0	-30.0
Total cash flow from financing activities	2,096.7	36.7	153.1
The period's change in liquid assets	55.3	-58.7	-79.1

1) With a depreciation rate of 1.5 per cent, depreciation would amount to SEK 27.5 M.

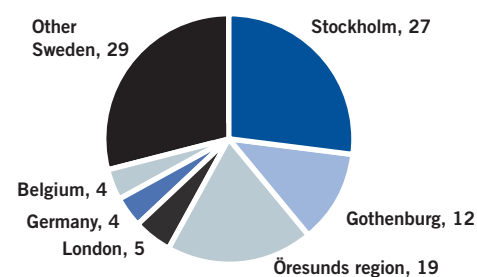
2) With a depreciation rate of 1 per cent, depreciation would amount to SEK 13.7 M.

3) With a depreciation rate of 1 per cent, depreciation would amount to SEK 29.4 M.

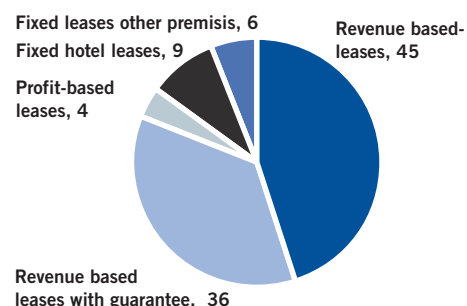
Fixed interest rate structure



Revenue structure %



Lease structure %



Key ratios

	Jan-June 2000	Jan-June 1999	Full year 1999
Property related key ratios			
Book value of properties incl. equipment, SEK M	4589.0	2 217.9	2 393.7
Total property revenue, SEK M	216.3	129.8	272.0
Operating net, SEK M	174.7	102.9	217.8
Adjusted operating net, SEK M	216.1	103.8	229.6
Direct yield 1, %	9.4	9.4	9.6
Direct yield 2, %	9.0	9.0	9.2

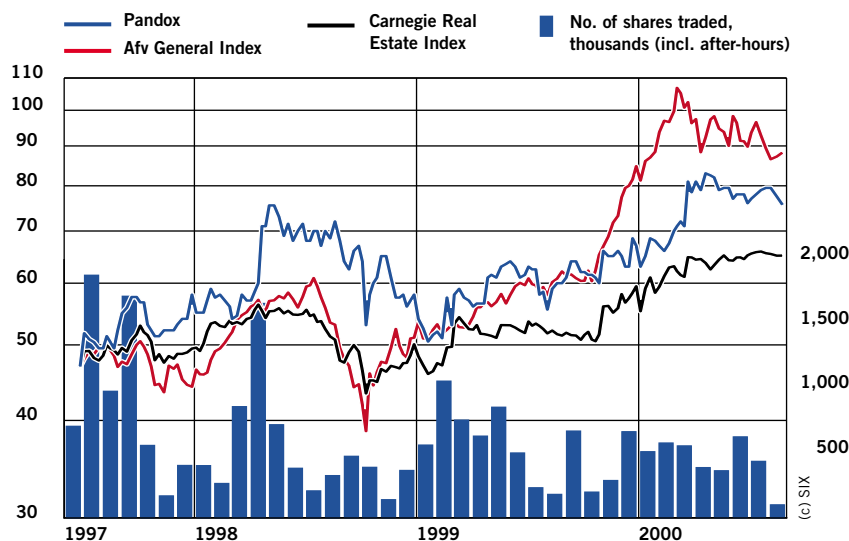
Financial key ratios

Interest coverage ratio, times	2.22	2.02	2.05
Return on total capital, %	8.1	7.0	7.0
Return on equity, %	13.2	9.5	9.7
Equity/assets ratio, %	32.8	36.9	36.4
Cash flow from operating activities, SEK M	99.9	55.2	119.1
Investments, SEK M	49.1	13.1	28.6
Property acquisitions, SEK M	2,169.3	150	331

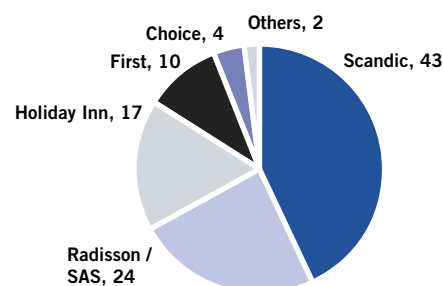
Data per share (SEK)

Net income for the period, excl. nonrecurring revenue	4.03	2.37	5.21
Cash flow from operating activities	5.01	3.68	7.94
Equity	61.26	55.99	58.90
Average number of shares	19,950	15,000	15,000

Pandox share price trend



Rental revenue distributed by partners, %
January – June, 2000



Largest shareholders in Pandox

	%
Scandic Hotels	20.8
Zenit Fond	10.6
Nordisk Renting	8.5
Skanska	6.0
Ratos	6.0
Länsförsäkringar Wasa Liv	4.3
Robur Mutual Funds	3.5
Hagströmer & Qviberg Mutual Funds	2.7
SPP	2.3
Sixth AP-Fund	2.2
Svenska Industritjänstemannaförb.	2.1
Foreign owners	6.7
Others	24.3
Total	100.0

Source: Statistics Sweden, Pandox

Definitions

Property-related

Total property revenue: The sum of rental revenue and other property revenue.

Operating net: Property revenue minus operating and maintenance costs, property tax, ground rent and other property expenses.

Adjusted operating net: Operating net adjusted for properties sold and acquired during the year.

Direct yield 1: Adjusted operating net in relation to the book value of properties and hotel equipment at the end of the period. The book value of hotel equipment is included in the denominator, since equipment rent is included in the numerator.

Direct yield 2: Adjusted operating net including property-related administration in relation to the book value of the properties.

Property-related administration: The portion of total administrative costs that is directly related to management and development of the properties. Other administrative costs pertain to central administration and costs for maintaining the company's stock exchange listing.

Financial

Interest coverage ratio: Income after net financial items plus financial expenses, in relation to financial expenses.

Return on equity: Income after net financial items and paid tax in relation to average equity. Average equity has been adjusted for the new share issue.

Return on total capital: Income after net financial items plus financial expenses, in relation to average total assets.

Equity/assets ratio: Equity at the end of the period in relation to total assets.

PANDOX HOTEL PROPERTY PORTFOLIO AS PER 1 JUNE

Facility	No. of rooms	Location
Radisson SAS Arlanda Hotel, Arlanda	334	International airport
Scandic Hotel Slussen, Stockholm	292	Downtown
Provobis Star Hotel, Sollentuna	269	Exhibition center
Scandic Hotel Järva Krog, Stockholm	215	Northern Stockholm
Scandic Hotel Park, Stockholm	198	Downtown
Scandic Hotel, Upplands-Väsby	150	Northern Stockholm
Quality Hotel Nacka, Stockholm	146	Southern Stockholm
Scandic Hotel Bromma, Stockholm	144	Western Stockholm
First Hotel Royal Star, Älvsjö	103	Exhibition center
Total Stockholm	1,851	
Scandic Hotel Copenhagen	470	Downtown
Scandic Hotel S:t Jörgen, Malmö	265	Downtown
Provobis Star Hotel, Lund	196	Central
Radisson SAS Grand Hotel, Helsingborg	117	Downtown
Provobis Hotel Kramer, Malmö	113	Downtown
First Express, Malmö	101	Downtown
Total Öresund Region	1,262	
Scandic Hotel Crown, Göteborg	322	Downtown
Radisson SAS Park Avenue, Göteborg	318	Downtown
Scandic Hotel Mölndal	208	Downtown
Total Göteborg	848	
Scandic Hotel Grand, Örebro	219	Downtown
Radisson SAS Hotel, Luleå	209	Downtown
Scandic Hotel Winn, Karlstad	199	Downtown
Radisson SAS Hotel, Östersund	177	Downtown
Scandic Hotel Ferrum, Kiruna	170	Downtown
First Hotel Grand, Borås	158	Downtown
Quality Grand Hotel, Kristianstad	149	Downtown
Scandic Hotel, Kalmar	148	Ring road
Scandic Hotel, Karlstad	143	Ring road
Scandic Hallandia, Halmstad	133	Downtown
First Hotel, Linköping	133	Downtown
First Hotel Plaza, Karlstad	121	Downtown
Provobis Stora Hotellet, Jönköping	116	Downtown
First Hotel Linné, Uppsala	116	Downtown
Provobis Billingen Plaza, Skövde	106	Downtown
Total regional centers	2,307	
First Resort Mora, Mora	135	Central
First Hotel Park Astoria, Enköping	134	Central
Scandic Hotel Säffle	101	Central
Scandic Hotel, Karlshamn	99	Ring road
Stadshotellet Princess, Sandviken	84	Central
Hotell Sten Stensson Sten, Eslöv	80	Central
Good Morning Hotell, Boden	51	Central
Total other locations	684	
Holiday Inn Nelson Dock, London	368	Docklands
Hotel Albert Premier, Brussels	287	Downtown
Scandic Hotel Grand Place, Brussels	100	Downtown
Holiday Inn Antwerpen	204	Ring road
Holiday Inn Crowne Plaza, Bremen	235	Downtown
Holiday Inn Crowne Plaza, Dortmund	190	Exhibition center
Holiday Inn Lübeck	158	Ring road
Total International	1,542	
Total Pandex	8,494	

Financial calendar

Interim report January – September

Year-end report 2000

27 October 2000

22 February 2001



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