

# CORPORATE GOVERNANCE REPORT

## CORPORATE GOVERNANCE REPORT 2017

Good corporate governance is an integral part of Samhällsbyggnadsbolaget i Norden AB (publ) (hereinafter referred to as "SBB" or "the company"). It ensures that rights and obligations are distributed between the company's bodies in accordance with applicable laws, rules and processes. Effective and transparent corporate governance gives owners the opportunity to align their interests with the company's management and strategy, while the division of responsibility between management and the Board of Directors, ("Board") is clear. An efficient and transparent corporate governance results in effective decision making, enabling SBB to act quickly when new business opportunities arises.

SBB is a Swedish public limited company whose B shares and preference shares are listed on Nasdaq Stockholm First North Premier. SBB has also issued bonds listed on Nasdaq Stockholm. SBB's corporate governance is based on the Articles of Association, Nasdaq Stockholm's First North Nordic Rule, Nasdaq Stockholm's Rules for Issuers of Interest-bearing Financial Instruments and the rules and recommendations issued by relevant organizations. The Swedish Code of Corporate Governance ("The Code") shall apply to all companies whose shares are admitted to trading on a regulated market. Nasdaq First North does not have the legal status of a regulated market. SBB is thus not required to adhere to the Code but instead strives to apply the Code in essence. The code is available at [www.bolagsstyrning.se](http://www.bolagsstyrning.se), which also describes the Swedish corporate governance model. This corporate governance report for the 2017 fiscal year is presented in accordance with the Annual Accounts Act and the Code. The report aims to avoid repeating information about the applicable regulations and focuses on reporting company-specific circumstances to SBB. From 2018 all companies on Nasdaq First North will comply to the Code.

## ANNUAL GENERAL MEETING

The SBB Annual General Meeting 2018 takes place on 27 April 2018 in Stockholm. Shareholders have the right to raise issues for discussion at the Annual General Meeting; subject to written requests been received by the Board by March 9, 2018. Contact information is available on the company's website, [www.sbbnorden.se](http://www.sbbnorden.se). SBB always requests the presence of the Board, the management team, the nomination committee and the auditor at the Annual General Meeting. The Annual General Meeting is, according to the Companies Act, the company's highest decision-making body and it is at the Annual General Meeting that shareholders have the right to make decisions regarding the company. Rules governing the AGM include the Companies Act, the Code and Articles 7 to 9 of the Articles of Association. In addition to what is regulated by law regarding a shareholders' right to attend the Annual General Meeting, SBB's articles of association state that participation notice to the Annual General Meeting shall be submitted no later than the date stated in the notice of calling the meeting. Notice of the Annual General Meeting is made available on the company's website and advertised in Post and Interior Newspapers. At the same time as this notice is given, an announcement will be made in Dagens Nyheter. The Annual General Meeting shall be held in the city where the Board holds its seat, i.e. Stockholm. The Annual General Meeting shall be held within six months from the end of the financial year. The company's fiscal year runs from 1 January until 31 December.

At the SBB Annual General Meeting in 2017, decisions were taken to authorize the Board, until the next Annual General Meeting; with or without deviation from the shareholders' preferential rights, to decide on new share issues of all share classes existing in the Articles of Association, including warrants and/or convertible bonds with the right to subscribe or convert to all stock classes existing in the Articles of Association. The number of stock and/or preference shares, warrants or convertibles that may be issued on the basis of the authorization shall not be limited in any way, other than the rules governing the company's share capital and number of shares at any given time. This authorization was utilized by the Board four times in 2017, for a total of 229,705 new Preference Shares and 2,667,812 new ordinary B shares, and issue of 35,000,000 warrants entitled to new subscriptions of the corresponding number of new ordinary Class B shares.

## THE SHARE AND SHAREHOLDERS

The number of shares in the company amounted to 738,282,237 by 31 of December 2017. The shares consisted of three share classes, 217,596,975 ordinary shares of Class A, 520,352,556 ordinary shares of Class B and 333,205 preference shares. Class A shares may, at the owner's request, be converted into Class B shares. Preferred shares are entitled to a dividend of SEK 35 per share per year with quarterly payments and are subject to redemption provisions. Class A shares qualify for one vote per share and both class B shares and preference shares qualify for 1/10 vote per share. At year-end 2017, the share capital was SEK 73,828.223.60 and the quota value per share amounted to SEK 0.1. On December 29, 2017, the number of shareholders amounted to 6,116. The largest shareholder is Ilija Batljan, who directly and indirectly holds 14.9 percent of the shares and 40.5 percent of the votes, and AB Arvid Svensson, who holds 6.3 percent of the shares and 10.4 of the votes.

## ARTICLES OF ASSOCIATION

The SBB's Articles of Association, which were adopted at the Annual General Meeting on April 27, 2017, can be found at [www.sbbnorden.se](http://www.sbbnorden.se). The Articles of Association stipulate that the company is to own and manage property and/or shares directly and indirectly, and to conduct related activities. The Board, based in Stockholm, shall consist of 3 - 10 directors with a maximum of 5 deputies. The Articles of Association do not contain any special provisions regarding the appointment and resignation of directors, or the amendment of the Articles of Association.

## NOMINATION COMMITTEE

The AGM was held on April 27, 2017, where instructions for the nomination committee's work were adopted. The Nomination Committee, consisting of the Chairman of the Board and up to three representatives appointed by the three largest shareholders in the company as of 30 September 2017, has to prepare and submit to the Annual General Meeting a proposal for the chairman of the AGM. The election of the Chairman of the board and the other members of the Board of Directors, Board fees divided between the chairman and other members, as well as the principles for possible remuneration for committee work, election and remuneration of auditor and deputy auditor (if applicable) and decisions on principles for the appointment of a new Nomination Committee.

## THE BOARD OF DIRECTORS

The SBB's Board of Directors shall consist of at least three and no more than ten members with a maximum of 5 deputies. At the Extraordinary General Meeting on January 16, 2017, Lennart Schuss (Chairman of the Board), Ilija Batljan, Sven-Olof Johansson, Hans Runesten and Seth Lieberman were elected directors. At the Annual General Meeting on April 27, 2017, the former Board and newly elected Eva Swartz Grimaldi were elected as directors. At the Extraordinary General Meeting of November 7, 2017, Anne-Grete Strøm-Erichsen was elected as a new director. For information about the Board and their assignments outside the Group and SBB shareholdings, see section "Information on Board of Directors" below.

The Board shall meet the shareholders' interest in the long term and bear ultimate responsibility for the company's organization and management of its affairs. The Board has established rules of procedure and instructions for the CEO. The Board also decides on a number of overall policies, guidelines and stipulations for the company's operations. This includes financial policy, information policy, insider policy, IT policy, related party transaction policies, financial reporting instructions, whistle-blower policy and ethical guidelines for the conduct of the company (code of conduct). All these internal control documents are processed at least once a year and are regularly updated to comply with laws when needed.

According to the Code, a majority of the elected directors shall be independent from the company and its management. At least two of these should also be independent from the company's major shareholders. The company's Board of Directors have been judged to meet the requirements for independence as six of the seven

elected members are independent from the company and group management. The company's CEO, Ilija Batljan, has not been considered independent in relation to the company and company management. Five out of seven members have been judged to meet the requirement of independence in relation to major shareholders.

#### **CHAIRMAN OF THE BOARD**

The Chairman of the Board is elected at the Annual General Meeting. The Chairman's responsibility is to ensure that the Board's work is carried out efficiently, that the Board fulfills its duties and that the Company and the management execute the Board's decisions. The chairman shall ensure that the Board receives the information and materials needed to make informed decisions. At the Annual General Meeting on April 27, 2017, Lennart Schuss was elected Chairman of the Board.

#### **BOARD OF DIRECTOR'S WORK IN 2017**

During 2017, the Board conducted 46 meetings, of which two were constitutive meetings. On the agenda for each ordinary board meeting, there are a number of issues for the directors to deal with: including the CEO's review of operations, acquisitions, divestments and investments, organization and organizational development and financial reporting. In 2017, the Board made decisions on several major acquisitions, divestments, investments, financing and refinancing. In addition, the Board has decided to issue B shares, preference shares and warrants in accordance with the authorization of the AGM.

<b>Board of directors</b>	<b>Elected in, year</b>	<b>Born in, year</b>	<b>Independent in relation to the Company, and the Executive Management</b>	<b>Independent in relation to major shareholders</b>	<b>Attended board meetings</b>
Lennart Schuss	2017	1952	Ja	Ja	46/46
Ilija Batljan	2017	1967	Nej	Nej	45/46
Sven-Olof Johansson	2017	1945	Ja	Nej	45/46
Hans Runesten	2014	1956	Ja	Ja	46/46
Seth Lieberman	2017	1961	Ja	Ja	43/46
Eva Swartz Grimaldi	2017	1956	Ja	Ja	26/28
Anne-Grete Strøm-Erichsen	2017	1949	Ja	Ja	5/5

#### **EVALUATION OF THE BOARD OF DIRECTORS AND THE EXECUTIVE DIRECTORS**

The Chairman of the Board initiates once a year, in accordance with the Board's rules of procedure, an evaluation of the Board's work. The 2017 evaluation has been conducted so that each board member answered a questionnaire. In addition, the Chairman has had some individual contacts with the members. The purpose of the evaluation is to get an opinion on the Board members' views on how the Board's work is conducted and how it can be improved.

The intention is also to understand the issues the Board believes should be prioritized. The result of the evaluation has been reported to the Board and also been presented by the Chairman of the Board to the Nomination committee.

## COMMITTEES

The Board currently has two committees; an Audit Committee and a Remuneration Committee. The members of the committee are appointed for one year at the constitutional board meeting. The work and the committee's decision-making rights are governed by the annual committee instructions.

The committees have a preparatory and handling role. The issues that have been discussed at committee meetings are recorded and reported at the next board meeting.

### AUDIT COMMITTEE

The Audit Committee works on an annual basis and is responsible for monitoring the company's financial reporting and the effectiveness of the company's internal control and risk management. The Audit Committee is also informed of the annual report and consolidated accounts. The committee shall also review and monitor the auditor's independence and integrity, and in particular follow-up if the auditor provides the company with any other services. The committee also supports proposals for the AGM's decision on auditor's election.

According to the Code, the Audit Committee shall consist of at least three members, of which the majority shall be independent in relation to the company and group management and at least one independent in relation to the company's major owners. The Audit Committee consists of the entire Board, committee meetings remain an integral part of the Board work.

### REMUNERATION COMMITTEE

The Remuneration Committee shall prepare questions regarding remuneration principles of the CEO and other senior executives, and in accordance with remuneration principles it shall prepare an individual remuneration proposal for the CEO for decision by the Board.

These principles include: inter alia, the ratio between fixed and possible variable remuneration, the relationship between performance and remuneration, the main conditions for any bonus and incentive programs, the main conditions for non-monetary benefits, retirement, termination and severance pay. The CEO also applies to the Board to determine remuneration and other terms of employment. However, decisions on share-related incentive programs for Group Management are addressed at the AGM. The committee shall further assist the Board in monitoring the company's compliance with the law, stock exchange rules and the Code of provisions regarding disclosure of any information that has been given to the CEO and other senior executives. The committee also has to follow and evaluate any ongoing and completed programs for variable remuneration and the application of guidelines for the CEO and other senior executives. The latter of which is decided at the AGM, in addition to applicable remuneration structures and levels. The Remuneration Committee consists of Board members Eva Swartz Grimaldi (Chairman), Seth Lieberman and Lennart Schuss, who are considered independent in relation to the Company and Group Management. In 2017, the Remuneration Committee had two meetings, which all members of the committee attended. At these meetings the company's guidelines for remuneration to senior executives and remuneration to the CEO were addressed.

## INFORMATION OM STYRELSELEDAMÖTERNA

### Lennart Schuss, born 1952

#### Chairman of the Board

Chairman of the Board since 2017 and member of the Remuneration Committee. Chairman of the Board of the Group since 2016.

**Education:** B.A. in Economics, Stockholm School of Economics.

**Other assignments:** Advisor to Genesta Real Estate Funds and Chairman of the Swedish Society of Friends of the Weizmann Institute of Science. Lennart is co-founder of Gimmel Fastigheter, Catella Corporate Finance, Partner Fund Commission and Stockholm Fund Commission.

#### Shareholding in the company (including any related holdings):

2,000,000 ordinary A shares and 14,924,059 ordinary B shares. Independent in relation to the company, group management and the company's major owners.

**Ilija Batljan, born 1967****Board member and CEO**

Board member and CEO of the Company since 2017. Founder of the company, CEO and Board assignments within the Group since 2016.

**Education:** Ph.D. in demography and planning for elderly care, Stockholm University. Bachelor of Economics, Stockholm University.

**Other assignments:** Chairman of Ilija Batljan Invest AB, Health Runner AB and Cryptzone Group AB (previously listed on First North).

**Shareholding in the company (including any related holdings):**

109,053.868 ordinary A shares and 1,137,606 ordinary B shares. Not independent in relation to the company and group management. The largest owner in the company.

**Sven-Olof Johansson, born 1945****Board Member**

Board member of the company since 2017.

**Education:** Master in political science from Stockholm University and Stockholm School of Economics.

**Other assignments:** Founder and Managing Director of FastPartner AB (publ), Chairman of the Board and Managing Director of Compactor Fastigheter AB and Board member of Autoropa Aktiebolag and STC Interfinans AB.

**Shareholding in the company (including any related holdings):**

21 997 977 ordinary B shares and 25 405 525 ordinary B shares. Independent in relation to the company and group management. Not independent in relation to the company's major owners

**Seth Lieberman, born 1961****Board Member**

Board member of the company since 2017. Member of the Remuneration Committee.

**Education:** B.A. in Economics from Tufts University, USA.

**Other assignments:** Chairman of Stendörren Fastigheter AB (publ). Board member of Kvalitena AB (publ). Member of the Investment Advisory Committee at Wainbridge Limited's Greater London fund and advisor to the Wainbridge Special Situations Fund. Strategic and Investment Manager for Milan-based Advanced Capital's Real Estate Fund of Funds.

**Shareholding in the company (including any related holdings):**

950 570 ordinary B shares. Independent in relation to the company, group management and the company's major owners.

**Hans Runesten, born 1956****Board Member**

Board member of the company since 2017.

**Education:** Master of business administration, Stockholm University.

**Other assignments:** Chairman of Effnetplattformen AB (publ) and Axxonen Properties AB, as well as board member of Stendörren Fastigheter AB (publ).

**Shareholding in the company (including any related holdings):**

4,376,946 ordinary B shares. Independent in relation to the company, group management and the company's major owners.

**Eva Swartz Grimaldi, born 1956****Board Member**

Board member of the company since 2017. Chairman of the Remuneration Committee.

**Education:** Bachelor's Degree in Languages (Italian, Spanish and French) as well as from Kulturretarlinjen.

**Other assignments:** Chairman of Doberman AB, Apotea AB and Norstedt publishing team and board member of Stockholm University, Stockholm Concert Hall, Forget Foundation and Royal Patriotic Society.

**Shareholding in the company (including any related holdings):**

51 724 ordinary B shares. Independent in relation to the company, group management and the company's major owners.

**Anne-Grete Strøm-Erichsen, born 1949****Board Member**

Board member of the company since 2017.

**Education:** B.A. in Computer Science from Bergen Technical School (University of Bergen), South Dakota School of Mines & Technology 1980-1981, further education in Statistics.

**Other assignments:** Partner at Rud Pedersen Public Affairs Norway AS. Board member Kongsberg Gruppen ASA and Dips AS

**Shareholding in the company (including any related holdings):**

None. Independent in relation to the company, group management and the company's major owners.

### **COMPENSATION TO THE BOARD OF DIRECTORS**

At the AGM on April 27, 2017, it was resolved to pay an annual fee of SEK 450,000 to the Chairman of the Board and SEK 300,000 to each of the other Board members who are not employed by the Company, until the next Annual General Meeting. Furthermore, it was decided that fees for committee work should be paid at SEK 30,000 per member of the respective committees.

### **CEO AND OTHER MANAGING EXECUTIVES**

The CEO is appointed by the Board and is responsible for the ongoing management of the company and the Group's operations in accordance with the Board's instructions and regulations. The division of responsibilities between the CEO and the Board is stated in the Board's rules of procedure and the Board prepared CEO's instructions. The CEO acts as the chairman of the management team and makes decisions in consultation with the executive management team. This consists of five people, apart from Ilija Batljan (CEO): Krister Karlsson (Deputy CEO, Real Estate Development Manager), Lars Thagesson (Deputy CEO and COO), Eva-Lotta Stridh (CFO), Rosel Ragnarsson (Finance Manager) and Oscar Lekander (Business Development Manager).

### **AUDITOR**

The auditors are responsible for the audit of the company's financial accounts and accounting, as well as the Board of Directors and executive managements conduct and management. At the AGM on April 27, 2017, the registered accounting firm Ernst & Young AB was elected auditor for the period until the Annual General Meeting in 2018. The Authorized Public Accountant, Ingemar Rindstig, has been appointed as the Chief Auditor. The auditor's task is to review the company's and the Group's annual accounts and bookkeeping, as well as the Board and CEO's management of the company and the group.

The auditor shall report to the Audit Committee on significant errors in the field of accounting and in the event of suspicions of irregularities. The auditor must report to the company's board of directors at least one to two times a year, usually in connection with board meetings related to financial reports of their observations in the audit of the company and its assessment of the company's internal control.

The auditor also participates at the AGM and describes the audit work and the observations made. In addition to the audit assignment, Ernst & Young has been hired for additional services in 2017, mainly tax and accounting issues, but also share issuance issues. Such services have always been provided only to the extent that is consistent with the rules of the Audit Act and FAR's professional ethical rules regarding auditor impartiality and independence.

### **INTERNAL CONTROL OF FINANCIAL REPORTING AND RISK MANAGEMENT**

SBB's internal control of financial reporting is designed to manage risks and ensure high reliability in the processes of preparing financial statements and to ensure compliance with applicable accounting requirements and other requirements for SBB as a listed company. The Board is responsible for the internal control of the company regarding financial reporting. SBB follows the Committee of Sponsoring Organizations of the Treadway Commissions (COSO) framework to evaluate an enterprise's internal control over the financial reporting, "Internal Control - Integrated Framework", which consists of the following five components: control environment, risk assessment, control activities, information and communication as well as follow-up.

### **CONTROL ENVIRONMENT**

Distribution and delegation of responsibility in internal control have been documented and communicated to the Board and the company as follows:

- The Board of Directors Rules of Procedure

- Instructions to the CEO
- Delegation scheme
- Attestation Rules
- Other internal control documents (for example, the Financial Manual under preparation and Business Policies)

All internal control documents are regularly updated when changing, for example, legislation, accounting standards or listing requirements, and when otherwise needed.

### **RISK ASSESSMENT**

In accordance with the rules of procedure, the Board, and the Audit Committee, review the company's internal controls once a year. Risks are identified and measures are taken to reduce these risks. The auditor is invited to detail their report on internal control at the Board meeting and to the Audit Committee. The significant risks SBB has identified are errors in accounting and valuation of the properties, credit risks, refinancing risks, interest rate risks, taxes and VAT, as well as the risk of fraud, loss or misappropriation of assets.

### **CONTROL ACTIVITIES**

The company's financial system is structured such that the conclusion of agreements and payment of invoices must follow the decision-making, corporate and attestation rights specified in the internal control documents. This control structure being in place counteracts and prevents the risks identified by the company. In addition to these control structures, a number of control activities are undertaken to further detect and correct errors and discrepancies. Such control activities consist of follow-up at various levels of the organization, such as: reconciliation of the Board of Directors resolutions, review and comparison of profit and loss accounts, account reconciliation, approval and accounting of business transactions at the finance department.

### **INFORMATION ABOUT COMMUNICATION**

SBB has built up an organization to ensure that financial reporting is correct and effective. The internal control documents clarify responsibilities and the daily interaction within the management secures that relevant information and communication reach all stakeholders. Management regularly receives financial information about the company and its subsidiaries. This information is the development of rental management and a review and follow-up of ongoing and future investments and liquidity planning. The Board is informed by the management team on risk management, internal control and financial reporting. The company's information policy ensures that all information, external and internal, is correct. All SBB employees have in various reviews participated and influenced the design of relevant internal policies and guidelines, thus have been directly involved in the development of these internal control documents.

### **INTERNAL CONTROL**

As explained above, a continuous controlling process at all levels of the organization is carried out. The Board regularly evaluates the information provided by the company management and the auditors. In addition, the company's auditor directly reports to the Board its observations and assessment of internal control. Of particular importance is the supervision of the Board, regarding the development of internal control and to ensuring that measures are taken regarding any shortcomings and proposals that arise.

**EVALUATION OF THE NEED OF A SEPARATE INTERNAL AUDIT FUNCTION**

No internal audit function is currently established within SBB. The Board has examined the issue and assessed the existing structures for follow-up and evaluation and deemed them to be satisfactory. All in all, this means that it is not considered justified to have a separate internal audit unit. The decision will be reviewed annually.

**DEVIATIONS RELATING TO THE CODE**

In 2017 SBB voluntarily decided to follow the Code although it was not bound by it. The Code is based on the "follow or explain" principle. This means that a company that applies the Code may deviate from individual rules but shall then provide an explanation for deviation. In 2017 SBB followed the Code without any deviations.

**INFORMATION ON INFRINGEMENTS OF STOCK EXCHANGE RULES DURING THE LATEST FINANCIAL YEAR**

The shares in SBB are listed and traded on Nasdaq Stockholm ("Exchange") MTF platform Nasdaq First North Premier. SBB has signed a commitment to comply with the Exchange's current regulations for Nasdaq First North ("the Rules").

The Disciplinary Board of Nasdaq Stockholm decided on January 29, 2018 that SBB would pay a penalty corresponding to two annual fees to Nasdaq Stockholm.

According to the Disciplinary Board's decision, SBB had acted in breach of good practice in the stock market in conjunction with the public bid on Högekullen's preference shares; partly due to a lack of information in connection with a planned rights issue and partly related to SBB's lack of capacity for providing information. The shortcomings concerned situations regarding January-May 2017.

In retrospect, it can be noted that the handling of the public bid was inadequate and that SBB did not act in accordance with the current regulations. In connection with the listing process and in 2017, the competence in capital market law within SBB has been strengthened, partly through training efforts, partly through strategic recruitment in management and board. The law firm that advised SBB in these matters has resigned from its tasks in capital market law and a new legal representative has been hired since the summer of 2017. From SBB's perspective, the previous deficiencies have been resolved and the questions have been answered. SBB's overall assessment is that regulatory compliance from the summer of 2017 remains high.