

# SBB's detailed responses to main allegations raised in the Report

## 1. SOLID GOVERNANCE STRUCTURE

### 1.1 Background and ownership

**Allegation:** "Ilija Batljan was detained and investigated by Sweden's Economic Crimes agency, concerning his purchase of 1.5% of competitor, Nyfosa. The timing of these transactions coincides with deals between Nyfosa and SBB. This investigation nevertheless appears to have been dropped in late May 2022."

**Response:** False. The investigation related to trading in conjunction with the public offer of Hemfosa. Ilija Batljan was not involved in any insider trading and all allegations were dropped one month after the investigation was made public. The fact that Viceroy is referring to the wrong company and the wrong year of these events and that this was a high-profile investigation in Sweden which was dropped after one month demonstrates Viceroy's poor understanding of the Company, flawed research and inability to draw adequate conclusions. Furthermore, it is important noting that all allegations being dropped within a couple of weeks shows the suspicion was clearly unjustified.

**Allegation:** Investigation by KPMG about CEO: "KPMG investigators also found that Batljan used Rikshem's expense account as his own piggy bank."

**Response:** KPMG's report is public and shows no wrongdoing by Ilija Batljan, at the time being the deputy CEO of Rikshem.

**Allegation:** "Investors will find rampant insider dealing by the CEO, his advisors, and 'independent' members of the board."

**Response:** False. All trading in the share by insiders is reported in accordance with Swedish legislation.

On a general note in this context, SBB notes that Viceroy in its report has ignored important characteristics of the Nordic real estate sector and in particular the different focuses for different real estate companies, hence making faulty conclusions about competitors and misleading assumptions about the independence of SBB's well-known and highly reputable board members. The misguided allegations on this subject are numerous. For example, it is suggested that the board member Hans Runesten has "significant corporate connections with Ilija Batljan". It is unclear to SBB what this connection consists of, other than that they both are shareholders in number of other companies which are, from a legal and interest perspective, completely irrelevant. Another example is that Viceroy falsely states that Lennart Schuss was chairman of both SBB and Gimmel when SBB purchased a stake in Gimmel. This is false. Lennart Schuss was not a board member of SBB when the agreement was signed in 6 December 2016 but was elected member of the board in SBB on 16 January 2017 in a customary and procedure which is compliant with applicable standards of good governance.

Furthermore, SBB notes that the real estate sector is differentiated to a considerable degree, meaning that being involved in multiple real estate with different focuses

companies is neither uncommon or undesirable. This is a fact which seems to be completely overlooked or consciously disregarded by Viceroy. Furthermore, and in line with a sanctioned market practice in Sweden, SBB follows the Swedish Code of Corporate Governance and its definition of board members' independence towards the Company and major shareholders. As publicly reported in SBB's annual report, all board members except for Ilija Batljan are independent in relation to the Company, and all board members except for Ilija Batljan and Fredrik Svensson are independent in relation to major shareholders.

## 1.2 Independency

**Allegation:** "There appears to be substantial conflict between members of the board in both undisclosed related party dealings and their concurrent positions at competitors."

**Response:** False. There are no undisclosed related party transactions and it is only Fredrik Svensson that has a board position at a competitor (Balder) with whom the SBB have not entered into any material transactions. Please also note the general remark made in Section 1.1, explaining that the real estate sector is differentiated to a considerable degree, meaning that being involved in multiple real estate with different focuses companies is neither uncommon or undesirable.

## 1.3 The audit committee

**Allegation:** "No member of the audit committee appears to have accounting qualifications or backgrounds."

**Response:** The board has evaluated the qualifications of the audit committee and found that Sven-Olof Johansson holds the relevant accounting experience and the necessary qualifications, with over 40 years of experience in various executive roles in multiple listed real estate companies. In addition, SBB notes that its chairman of the board has a master's degree from Stockholm School of Economics and he is the founding partner of the investment bank Catella, specialised in real estate and transactions in the Nordic region.

## 1.4 Legal counsel

**Allegation:** "SBB's legal representation and deal advisory is handled by Wistrand. We note that Wistrand partner Fredrik Rasberg is concurrently the chairman of the board of IB Invest: SBB's largest shareholder and CEO Ilija Batljan's personal investment vehicle. He appears to be Mr Batljan's personal lawyer."

**Response:** Fredrik Rasberg is one of many counsels used by SBB and he has no holdings in IB Invest and is not a deal advisor nor otherwise a related party. Furthermore, Fredrik Rasberg is not and has never been Ilija Batljans personal lawyer and it is easily available information that the lawyer Filip Rydin was the most recent personal lawyer employed by Ilija Batljan. It is unclear to SBB what substance of the insinuating remarks made by Viceroy in this regard may be.

## 1.5 Whistleblower policy

**Allegation:** “SBB’s whistleblower policy is handled by Wistrand and Fredrik Rasberg, which leaves the firm in a precarious conflict if whistleblowers report top-level misconduct.”

**Response:** As stated above, the allegation that Fredrik Rasberg is Ilija Batljan’s personal lawyer is simply not true. Fredrik Rasberg is a member of the Swedish Bar Association and adheres to its ethical guidelines in all of his work and to suggest otherwise without proof is insinuation without substance.

## 1.6 Share structure

**Allegation:** “SBB’s management have retained control of the group’s votes through Class A shares. Despite being entitled to only ~15% of SBB’s shareholder capital SBB directors Batljan, Johansson, and Svensson control over 50% of SBB’s voting power.”

**Response:** Having golden founders shares is nothing uncommon in the industry or in the Swedish listed environment as a whole. On the contrary, it is often encouraged. Reference may be made to Investor AB where the ownership to the Wallenberg family corresponds to approximately 20% of the shareholder capital and 50% of the votes in the company. A similar ownership structure is also seen in Ratos and Industrivärden.

## 1.7 Auditor

**Allegation:** “SBB’s former head auditor & EY partner, Ingemar Rindstig, appears to have retired following an investigation by the Swedish Audit Inspectorate.”

**Response:** Wrong. The auditor Ingemar Rindstig retired due to age and was the most hired and experienced auditors in the Swedish listed environment.<sup>1</sup> Notably Ingemar Rindstig had been the responsible auditor for many reputable companies, including Castellum, Corem Property Group, Akelius and Hembla and many more. Suggesting that Ingemar Rindstig should not have produced a first-rate audit in this context is highly unjust and a dubious line of argumentation.

## 2. JUSTIFIED VALUATION OF PROPERTIES

### 2.1 Subsidiary Analysis

**Allegation:** “Viceroy collated financial accounts of ~800 of SBB’s current and former subsidiaries (a list of which SBB refuses to share). Analysis shows stagnant revenues, booming operating costs and immense fair value adjustments on SBB’s rent-controlled property portfolio. Rental income yields at the ground level do not appear to correlate with SBB.”

**Response:** First, SBB has not received any requests to share lists of subsidiaries. Second, this is public information to collect so it is neither in SBB’s interest nor in its ability to withhold this information. There is no relevance for a listed real estate company to look at only a part of the subsidiaries. SBB is holding approx. 1200 companies in 4 different

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<sup>1</sup> See <https://www.fastighetssverige.se/artikel/rindstig-lamnar-ey-jag-ska-inte-sla-av-pa-takten-41094>.

countries. The only relevant company is the ultimate parent Samhällsbyggnadsbolaget i Norden AB (publ). The accounting principles in the subsidiaries do not materially differ from the group accounting principles for revenues and operating costs, which means there are no significant adjustments made to revenues or operating cost in the group accounting. This means that Viceroy's claim is not only false, but also nonsensical with regards to the consolidated numbers.

**Allegation:** "The first red flag when looking at SBB's corporate structure was that subsidiary data was not immediately available to shareholders: it is not located anywhere in annual reports and analysts have advised that it was not provided on request."

**Response:** Publicly listed real estate companies are not publishing this type of materials because it is already in the public domain available through public records. No specific request has been made to SBB on this matter.

**Allegation:** "The accounting on the SPV level is incredibly simple. Expenses are largely utility and maintenance, and real estate is recorded on a cost basis in line with RFR2. SPVs record fixed asset prices on a cost basis."

**Response:** This general description is correct. However and importantly, the discussed accounting is in accordance with the RFR 2 accounting standards. This practice is fully compliant with the IFRS standards which are applied on the group level and leaves no room for such irregularities that Viceroy is suggesting. As with several other issues raised regarding the subsidiaries, this misguided analysis shows a weak understanding of the applicable accounting practice as well as the real estate industry by Viceroy.

**Allegation:** "Rent growth at the subsidiary levels fall short of operating cost increases (%), and operating income has fallen or flatlined every year since ~2016."

**Response:** Misleading. Since 2016, the NOI margin and rental income have been increasing at group level (which is the only relevant level).

**Allegation:** "These results [relating to weak rent development] are to be expected: SBB's tenant base is largely composed of long-dated rent-controlled contracts with little room for non-CPI increases regardless of Capex spend."

**Response:** False. As reported by SBB in its quarterly reports, investments in the current portfolio is yielding around 5.4% which is significantly higher than SBB's current valuation yield which shows that there are significant opportunities in the current portfolio. Historically, the rent increases of SBB's portfolio has exceeded the rate of inflation.

## 2.2 Undisclosed Related Party Transactions and Buyer Support

**Allegation:** "These transactions [undisclosed related party transactions] often feature extensive buyer support by SBB."

**Response:** False. There have been no undisclosed related party transactions and the use of shares or seller credit as part of payment is market practice and nothing unusual.

**Allegation:** “Disclosure of transactions is extremely poor. SBB fails to disclose related party and buyer support aspects, including purchase prices, buyers and sellers, and which assets are being sold. Investors are kept uninformed regarding assets disposals and acquisitions.”

**Response:** False. SBB is probably the most transparent listed real estate company with the most press releases in the Nordic market. Notably, SBB published 101 press releases during 2021.

**Allegation:** “Cancelled transactions and “fake” realized gains.”

**Response:** Viceroy has made multiple claims based on incorrect translations of Swedish material, and this ungrounded allegation is one of many examples its consequences. SBB notes that this allegation highlights a recurring essential problem of the entire Viceroy report. Factual errors and doubtful research is used repeatedly to build a false case against the SBB investment case. In this context Viceroy claims that transactions have been cancelled in a scheme to create fake realized gains. The correct interpretation of the press releases by SBB in these transactions is on the contrary that the transactions have been closed. This fact has also been confirmed by Alecta and Kuststaden.<sup>2</sup>

**Allegation:** “By December 2020 SBB held 16% of Amasten and sometime prior to May 2021 Amasten appointed SBB CEO Ilija Batljan’s daughter, Mia Batljan, as a board member.”

**Response:** False. Mia Batljan has never been part of the board of Amasten and was only elected at the general meeting to approve the minutes, representing SBB as a major shareholder. This is an additional example of Viceroy drawing far reaching conclusions on misunderstandings of the operations of SBB and a general disorientation in the Swedish market context.

**Allegation:** “After Nyfosa were unable to secure financing [when acquiring properties from SBB] the purchase was downsized and SBB ‘fronted’ a year’s worth of rental income and extra funds through the overpriced Gamlestaden purchase.”

**Response:** The “overpriced” Gamlestaden property was acquired for SEK 400 million and later on sold for SEK 450 million. This clearly shows that the Gamlestaden transaction was not overpriced to generate a high disposal price for the properties that SBB sold. The fact that SBB sold Gamlestaden at a premium seems to be purposely neglected by Viceroy.

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<sup>2</sup>See <https://www.alecta.se/om-alecta/var-syn-pa-saken/alecta-kommenterar/felaktiga-uppgifter-om-att-alecta-och-sbb-skulle-ha-reverserat-ett-kop-av-fastigheten-mimer-7/> and <https://www.di.se/nyheter/flera-felaktigheter-i-frana-blankrapporten/>.

## 2.3 Cancelled Transactions & “fake” realized gains

**Allegation:** “Many deals are cut with related parties to ‘prove’ unrealized gain values. In some cases, these properties make their way back to SBB, or SBB will acquire the buyer.”

**Response:** This is not correct. In the cases where SBB has acquired the acquirer, the properties sold have only been a small share of the total asset values in the relevant companies (e.g. Amasten and Offentliga Hus).

**Allegation:** “Hidden in SBB’s financial reports, investors will find that SBB have not realized any gains on sale of financial properties since 2018. In fact SBB has realized only LOSSES in its disposal of investment properties.”

**Response:** The small losses reported in 2020 are due to accounting principles and tax. The losses correspond to a decrease in deferred tax, i.e. the net is zero. Thus, the conclusion by Viceroy is incorrect and shows that Viceroy has difficulties in understanding basic accounting principles.

Total disposal during FY2021 of SEK 19,381 million with profit of SEK 3,141 million, of which SEK 851 million has been reported as realized value changes. The rest has been reported as unrealized value changes in the periods before closing.

**Allegation:** “There appear to be divestment transactions where SBB have yet to receive funds from the buyer. As of Q2 2021, these funds amount to ~SEK 2.318m, and appear to be outstanding for over 12 months.”

**Response:** False. The current receivables related to divestments are normally converted into cash in the following quarter. The amount referred to in the report relates to different transactions and not the same transaction. This misguided allegation is one of many examples demonstrating Viceroy’s inadequate financial analysis.

## 2.4 Round Tripping of Revenues

**Allegation:** “SBB appears to engage in round tripping of revenues through its payment in-kind policy of SBB-D shares, which have a capped dividend. Owner-operators will offload fixed assets to SBB for consideration including SBB-D shares as sweeteners in order to subsidize rent.”

**Response:** Incorrect. In cases where SBB has issued shares as part of the consideration, the shares have been issued at market terms. The issuances have not been a way to subsidize tenants but rather a way for SBB to aim towards a higher credit rating.

## 2.5 Fair Value: Earnings Potential, CAPEX & the Long-Dated Elephan

**Allegation:** “Viceroy believes SBB’s aggressive revaluations are unjustified. This is masked by SBB’s fast-paced acquisition roll-up strategy.”

**Response:** All properties are externally valued every quarter by five well-established and internationally recognised valuers: Savills, Newsec, Cushman & Wakefield, JLL and Collier. SBB has over the last three years sold properties for SEK 39.8 billion at book value or at a premium to book values. Not a single property has been valued by SBB. Furthermore, Viceroy fails to take into account developments in the sector. It would have

been one thing if SBB reported > 10% valuations and competitors reported 0% which is not the case, please see chart below.

Swedish RE-peer	Book value, Q4/20	Unrealized value ch, 2021	Implicit re-valuation*
Atrium Ljungberg	47334	3040	6,4%
Balder	151982	12990	8,5%
Castellum	103042	7185	7,0%
Catena	18612,4	2318,1	12,5%
Diös	24512	1806	7,4%
Emilshus	2714,7	453,2	16,7%
Entra	56834	5057	8,9%
Fabege	76648	4585	6,0%
Fastpartner	31168,3	3027,9	9,7%
Heba	12046,2	1490,6	12,4%
Hufvudstaden	45636,5	2579,3	5,7%
Klarabo	3452,1	737,3	21,4%
Kojamo	6860,7	1105,7	16,1%
K2A	5800,6	741,9	12,8%
K-Fast	6884,4	1139,1	16,5%
NP3	12582	1642	13,1%
Nyfosa	29411	1652	5,6%
Sagax	37551	3870	10,3%
Trianon	9462,3	1311,2	13,9%
Platzer	22575	1240	5,5%
Wallenstam	57933	3674	6,3%
Wihlborgs	46073	2153	4,7%
<b>Sector average</b>			<b>10,3%</b>

**Allegation:** “SBB reports investment properties at fair value, which is derived from the current value of future cash flows and lease terms. The actual breakdown of these valuations is incredibly opaque.”

**Response:** False. SBB is transparent in describing the property portfolio per country, per segment, per largest tenants and maturity profile and actual NOI. SBB notes that no other company in the industry shows value per property.

**Allegation:** “90 percent of SBB’s residential holdings are comprised of rent controlled and government subsidized housing and community service properties. Other commercial properties include the revenue round tripping childcare facilities which we discussed above.”

**Response:** This is not a correct description of SBB’s portfolio and the allegation again raises doubts about Viceroy’s understanding of SBB’s portfolio. In the Q3 report 2021 at pages 18-20 there is a description showing that 98% is social infrastructure in which pre-schools are included.

**Allegation:** “It is unrealistic, given the long-term fixed nature of these contracts, that SBB still aggressively records >10% annual increases in unrealized fair value gains.”

**Response:** SBB’s fair value gains are generated by a very attractive market for social infrastructure, with a sector average revaluation growth of 10.3% in 2021 with reference to the chart above, combined with delivering on value-add strategies (building rights development where SBB during Q4 2021 alone created building rights for over 5 000 apartments, investments in the current portfolio and transactions), which together with

divestments at or above valuation justifies the valuations made by independent international valuers. Total disposal during FY2021 of SEK 19,381 million with profit of SEK 3,141 million, of which SEK 851 million has been reported as realized value changes. The rest has been reported as unrealized value changes in the periods before closing.

There are also several transactions in the market that justifies recent value gains in SBB. For example;

- Institutional owned Heimstaden that in February 2021 acquired a portfolio in Jönköping at a yield slightly above 2% for the residential parts of the portfolio;
- The Stenvalvet transaction in late December 2021 where a major Swedish community service company was acquired by some of the current owners at yields around 3.2-3.3%

**Allegation:** “SBB’s investments were not fire-sales or hostile takeovers. Viceroy does not accept that SBB immediately revalues on-market purchases by ~50%.”

**Response:** False. Unrealized value gains are a result of value add-strategies and an improved market for social infrastructure properties over time and not profits at time of the transaction.

### **3. TRUE AND FAIR VIEW IN SBB’s FINANCIAL REPORTS**

#### **3.1 Debt-loading**

**Allegation:** “SBB has ‘hacked’ their LTV since ~2019 by issuing hybrid bonds in order to finance repayment of secured debt and bond loans. SBB classifies hybrid bonds as equity, and therefore does not include them in the LTV calculation’s numerator.”

**Response:** Hybrids are a valid part of the capital structure. Hybrids are not unusual in the property space. The rating agencies do take hybrid debt into account in their assessment of debt ratios. In addition, SBB refers to a credit comment by BNP Paribas of 21 February 2022 below.

*Viceroy clearly dislike the hybrid product, suggesting that SBB has “hacked” its LTV by issuing hybrids in place of senior debt. Naturally, treating the hybrids as 100% equity flatters SBB’s reported LTV. But that’s neither, we think, surprising nor controversial. Hybrids are not unusual in the property space, and have become a pretty mainstream part of a CFO’s “toolbox”. Granted SBB has used up all its hybrid capacity under S&P’s rules, but so have many of its peers. And lastly, to be clear, the ratings agencies do take hybrid debt into account in their assessment of debt ratios.*



### 3.2 Cash Conversion & Funds from Operations, Viceroy is making false or incorrect statements about SBB's cash from operations for 2021, it was SEK 6.2 billion higher than Viceroy implied

**Allegation:** "Against competitors, SBB has close to, if not the worst cash conversion rate on the market. We don't believe that this will improve outside of a broad restructure."

**Response:** SBB has seen a significant growth in profit from property management since 2016. All unrealized value gains could be converted into cash (as shown by the disposals made) but the Company has generally been focusing on building Europe's leading actor within social infrastructure. In Q4 2021 alone the SBB has sold building rights and development properties for SEK 2.6 billion which shows the Company's unprecedented ability to generate cash.

Viceroy's analysis of publicly available information ignores basic accounting principles and in addition makes false statements with regard to the, for example, SBB's cash flow and cash conversion. Viceroy states that SBB's operating cash flow for first half of 2021 was negative SEK 2.178 billion; on the contrary, the actual number was a positive cash flow of SEK 3.418 billion. Please see the correct numbers below.

**Table showing cash from operations first half of 2021: SEK 3.418 billion**

SEKm	2021-01-01 2021-06-30	2020-01-01 2020-12-31
<b>Operating activities</b>		
Profit from property management	1 442	2 474
<i>Adjustment for non-cash flow items</i>		
Depreciation	2	2
Results from associated companies/joint ventures	-398	-144
Net interest income	603	873
Interest paid	-562	-958
Interest received	149	150
Paid tax	-105	-165
<b>Cash flow from operating activities before changes in working capital</b>	<b>1 132</b>	<b>2 232</b>
<b>Cash flow from changes in working capital</b>		
Increase (-)/Decrease (+) of operating receivables	-156	-1 720
Increase (+)/Decrease (-) of operating liabilities	2 441	-7 513
<b>Cash flow from operating activitie</b>	<b>3 418</b>	<b>,-7001*</b>

Strong cash flow in first half of 2021. \*Even 2020 cash flow positive given that SEK 7,970 million was deferred payment for Hemfosa's shares

### 3.3 Comment on annual reports

**Allegation:** “SBB posts the most obscure content in its annual reports which we have ever seen. On page 9 of its 2020 annual report, SBB feels the need to address why people are shorting their stock, then explains what a delta hedge is to its substantially sophisticated investor base.”

**Response:** SBB has almost 200,000 shareholders, both retail and professional investors. It is evident that Viceroy lacks insight in Swedish market practice for annual reporting, which aims to clearly explain the business model for everyone to understand. In this particular section, SBB addresses questions that during 2020 had been frequently asked by numerous shareholders. In general, transparency can only be good, and disclosure of short positions is something that should be encouraged.