



March 9, 2022

Mr. Gabriel Novella
Partner
EY Sweden

Dear Mr. Novella

Samhällsbyggnadsbolaget i Norden – Audit Risks

We refer to Viceroy Research's Samhällsbyggnadsbolaget i Norden AB (**SBB**) report dated February 21, 2022, and subsequent communications.

We are contacting you due to concerns about audit risks at SBB. They involve:

- **Auditor Risk:** SBB shares its immediate audit partner with its largest shareholder, and CEO's personal investment company for at least the past 3 years.
 - We do not believe it is acceptable that the tender for one of Sweden's largest Real Estate Investment Companies is optically tied to lucrative audit contracts of the CEO and majority shareholder's private investment vehicles. These contracts have passed between audit partners simultaneously: Ingemar Rindstig and yourself.
- **Valuation Risk:** SBB's appointed valuer, Newsec, through appointed partner, Ulrika Lindmark, appear to hide longstanding personal connections and concurrent contracts for the Batljan family.
 - Both SBB's and Ilija Baltjan's investment vehicle's registered business addresses are the Newsec Property Asset Management Office.
 - Public facebook pages show Ms. Lindmark appears to be a personal friend of the Batljan family. Ms. Lindmark also signs off SBB's valuation, and Newsec is responsible for the valuations of Ilija Batljan's investment vehicles and companies where Mr Baltjan's wife serves as CEO.
- **Governance and internal control risk:** SBB have provided strawman responses and relied on laughable technicalities to defer questions on nature of independence of its directors.
 - We address SBB's responses and highlight further independence and control risks to SBB's audit.
 - SBB & IB Invest appear to individually wholly own the property Vågskålen 24. This is concerning given Ingemar Rindstig was the auditor of both companies.
- Systemic **M&A round-tripping and revenue round-tripping are coordinated** to effectively float SBB's profits, balance sheet, and capital raises.

Audit weakness have allowed the issues above to occur without investors being informed and without comment or objection by yourselves. We hope that this letter will more clearly lay out the audit issues at SBB such that you can fulfil your responsibilities to stakeholders.

We remain at your disposal should you have any further questions.

Yours faithfully,

Viceroy Research Group



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PLEASE READ IMPORTANT DISCLAIMER ON PAGE 3.

1. Background

Viceroy Research is a specialist investigative research agency. Our team specializes in deep due-diligence and reporting of corporate/accounting fraud.

Our investigations have spanned across the globe, and our previous works include:

- | | | |
|---------------------------|---------------|------------------|
| ▪ Wirecard AG | ▪ Grenke AG | ▪ Adler Group AG |
| ▪ Steinhoff International | ▪ Athenex Inc | ▪ Pareteum Inc |
| ▪ MiMedx Group | ▪ ProSieben | ▪ Quintis |

We hold ourselves accountable to stakeholders and have provided whistleblower reports and have assisted in various regulatory investigations.

On February 21, 2022, we published a report on SBB, and outlined several financial risks to the business, undisclosed related party transactions, and round tripping of revenues and transaction funds. You can find this report on our website:

<https://viceroyresearch.org/2022/02/21/samhallsbyggnadsbolaget-hard-to-pronounce-harder-to-justify-value/>



2. Audit & Valuation Risk

Auditor Perceived Conflict

There is significant audit risk in the form of conflicts of interest with EY personnel and management, in addition to governance and internal control risks which we will highlight below.

SBB's former head auditor Ingemar Rindstig was simultaneously the head auditor for Ilija Batljan Invest AB (IB Invest AB) since 2016. Rindstig has since stepped down in the wake of an investigation by the Swedish Audit Inspectorate (SAI) into his work at Oscar Properties, another company which SBB engaged in undisclosed related party transactions with. The investigation by the SAI found Mr. Rindstig negligent¹.

We understand you now are currently deputy auditor of SBB and have been the head auditor for every current existing IB Invest subsidiary as of their first financial statements.

- Rustebud 1:161 Fastighets AB from 2020.
- IB Logistik Nybro AB from 2020.
- IB Invest Fast 1 AB
- IB Invest Kristianstad AB since 2018.
- IB Invest Fast 1 AB since 2020.
- IB Invest Eskilstuna AB since 2018.

We consider it a major red flag that SBB shares its immediate audit partner with its largest shareholder, and CEO's personal investment company for at least the past 3 years.

A **clear** perception of conflict exists. We do not believe it is acceptable that the tender for one of Sweden's largest Real Estate Investment Companies is immediately tied to lucrative audit contracts of the CEO and majority shareholder's private investment vehicles. These contracts have passed between audit partners simultaneously: Ingemar Rindstig and yourself.

Valuer Conflict

We believe there is a significant relationship between SBB valuer Newsec and Ilija Batljan's inner circle and investment vehicle, in particular Ulrika Lindmark, head of valuation and strategic analysis at Newsec².

Newsec has been SBB's valuer together with Savills since 2017, the same year Lindmark signed off on SBB's valuation reports attached to various listing documents³. The company's property management arm Newsec Property Asset Management AB entered a strategic partnership with SBB in 2018⁴ and recently extended the agreement for five years. Newsec has further links with SBB through their hiring and advisory capacity⁵. As recently as July 2020 Lindmark signed off on SBB documents as head of valuation:



Figure 1 Admission to trading of ordinary shares of series D in Samhällsbyggnadsbolaget i Norden AB

¹ <https://www.fastighetsvarlden.se/notiser/oscar-properties-revisor-varnas-efter-husaffaren/>

² <https://www.linkedin.com/in/ulrika-lindmark-48960a18/>

³ Upptagande till handel av stamaktier av serie D i Samhällsbyggnadsbolaget i Norden AB (publ)

⁴ <https://www.newsec.com/about-us/press-room/samhallsbyggnadsbolaget-in-the-nordics-and-newsec-extend-strategic-partnership-3304970>

⁵ <https://www.newsec.se/insikter/referenscase/samhallsbyggnadsbolaget/>



SBB obscurely lists its registered address to the care of Newsec Property Asset Management PO Box.

Postal address :
 Samhällsbyggnadsbolaget i Norden AB
 c / o NEWSEC PAM AB
 Box 11405
 404 29 Gothenburg

Companies Act (Sw. *aktiebolagslagen (2005:551)*). The Company's Legal Entity Identifier (LEI) code is: 549300VV0JYKQIKUF591 and the Company's registered address is c/o Newsec Property Asset Management AB, Box 11405, 404 29 Göteborg, Sweden and its registered seat is in the county of Stockholm, municipality of Stockholm.

Figures 2 & 3 SBB Homepage & IB Invest AB Prospectus dated December 7, 2021⁶

Further, Newsec were listed as valuers for IB Invest AB in 2020.

Not 12 Förvaltningsfastigheter
 Fastighetsbeståndets värde har bedömts genom externvärderingar gjorda av Newsec Advisory. Verkligt värde för förvaltningsfastigheterna har beräknats genom en analys av framtida kassaflöden (kassaflödesmetoden) för respektive fastighet där hänsyn tagits till gällande hyreskontraktsvillkor, marknads-läge, hyresnivåer, drifts-, underhålls- och administrationskostnader samt behov av investeringar. Det

Figures 4 IB Invest AB Annual Report 2020

Newsec also values properties owned by Nynäshamnsbostäder and Logsitea where Sanja Batljan serves as their CEO and board member respectively⁷.

Lindmark appears to be personal friends with Ilija Batljan's spouse and daughter and donated to Mia Batljan's birthday fundraisers in 2020 and 2021 according to her public Facebook profile.



Figure 5 Ulrika Lindmark Public Facebook Profile

We understand that some overlap between entities operating in the same market is normal however the audit issues highlighted above, previously raised concerns about SBB's valuations, and the Batljan family's significant influence over SBB create the potential for serious governance breaches.

It is abundantly clear that material perceived conflicts exist between SBB and Newsec. We do not think it is appropriate that Newsec's tender to value SBB's properties is optically tied to lucrative contacts with Batljan's other interests and conducted by an apparent personal friend.

⁶ <https://www.ilijabatljaninvest.com/en/wp-content/uploads/sites/2/2021/12/ilija-batljan-invest-ab-prospectus-green-notes-isin-se0016101810.pdf>

⁷ <https://logistea.se/sv/wp-content/uploads/sites/3/2021/11/logistea-ab-publ-prospekt-handel-av-stam-b-aktier-nasdaq-stockholm-211115.pdf>



3. Governance & Internal Control Risk

There appears to be substantial conflict between members of the board in both undisclosed related party dealings and their concurrent positions at competitors. Investors should seriously consider whether the board, particularly its “independent” board members, can truly represent the best interest of SBB and all its shareholders.

We address below several issues raised in our original report and address ridiculous strawman arguments SBB put forward.

We reiterate that it is abundantly clear in SBB’s own code of conduct that these perceived interests should be avoided, and that management are responsible for keeping themselves informed of this code

Addressing SBB Independence Rebuttal

SBB issued a response to Viceroy’s stance on management’s lack of independence which did little other than appeal to technicalities. This failed to justify, explain, or rectify:

- The significant overlap between SBB management and corporate teams and Ilija Batljan’s personal investment vehicles.
- Numerous undisclosed related-party transactions between SBB management and corporate teams and SBB.

Ilija Batljan

Mr Batljan’s personal investment vehicles such as IB Invest AB act directly in conflict with SBB. The following is an excerpt from IB Invest AB’s annual report, which describes its principal business activities:

Information om verksamheten

Ilija Batljan Invest koncernen har till föremål att äga och förvalta samt köpa och sälja fast egendom och/eller aktier samt bedriva därmed förenlig verksamhet.

“The IB Invest Group has the object of owning and managing as well as buying and selling real estate and / or shares and conducting operations compatible therewith.”

Figure 6 Extract from IB Invest Annual Report 2020

Indeed, IB Invest AB has invested in several investment properties, right of use assets, and joint ventures. This is like-for-like the same reason Mr Batljan was fired from Rikshem, yet Mr Batljan still refuses to abstain from these perceived conflicts.

Mr Batljan claims that KPMG’s independent review of his activities absolved him of any wrongdoing. In reality: KPMG determined that Mr Batljan’s should have sought board approval on various occasions in conflict transactions with Rikshem, but “cleared” him because of Rikshem’s ambiguous code of conduct did not require written approval.

Let’s not be ambiguous.



Lennart Schuss

Lennart Schuss was Chairman of both Gimmel and SBB when the latter purchased a large stake in the former. In their response to Viceroy's first publication SBB claimed that Schuss was not a SBB board member in December 2016.

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.

Figure 7 Extract from SBB response to Viceroy Research

This is contradicted by media articles from March 2016⁸ and SBB's own website which states Mr. Schuss was "Chairman of the Board of the Group since 2016":



Figure 8 Extract from SBB website⁹

In fact, "Samhallsbyggnadsbolaget i Norden AB" was not part of "the Group" until 2017. Mr Batljan was also not a board member of "the Company" until 2017 but has been a board member of "the Group" since 2016.

SBB relies on shareholders' ignorance and a technicality to avoid answering obvious undisclosed related party transactions, which were not conducted at arm's length.

Hans Runesten & Sven-Olof Johansson

Hans Runesten holds a chair role with Effnetplattformen¹⁰, a company that was recently reverse merged into Tessin Nordic, a company which Ilija Batljan is a major shareholder in¹¹.

Sven-Olof Johansson is the CFO of FastPartner, a real estate developer and manager in Sweden. More recently Fastpartner and SBB have sold properties and/or taken shares in Randviken Forarv AB, now reverse merged into Raybased¹².

Messrs. Schuss, Johansson, and Runesten are all audit committee members. Fredrik Svensson, who does disclose his management of 42m A shares and 23m B shares in SBB, is also on the committee. **In total this makes 4 of 6 members who are conflicted or otherwise dependent on SBB. This evidences the lack of necessary independence where one should raise concerns.**

⁸ <https://www.fastighetsvarlden.se/notiser/erik-paulsson-ny-storagare-sbb-och-affar-med-storre-bestand/>

⁹ <https://corporate.sbbnorden.se/en/board-of-directors-corporate-governance/>

¹⁰ <http://www.effnetplattformen.se/pages/uk/board.php>

¹¹ <https://via.tt.se/pressmeddelande/ilija-batljan-and-founders-of-sinch-invest-in-tessin-ahead-of-the-imminent-listing-on-nasdaq-first-north?publisherId=3235869&releaseId=3296556>

¹² <https://worldinproperty.se/article/raybased-blir-randviken--kar-kapitlet-med-13-miljarder-26317>



Johan Fredrik Rasberg

SBB's legal representation and deal advisory is handled by Wistrand¹³ and Wistrand partner Johan Fredrik Rasberg serves as Chairman of the board of IB Invest first appearing as a representative of Kvalitena and IB Invest AB in SBB's 2018 accounts.

SBB:s valberedning inför årsstämman 2018 består av Fredrik Råsberg (Ilija Batljan Invest AB och Kvalitena AB), Sven-Olof Johansson (Compactor Fastigheter AB), Mia Batljan (Ilija Batljan) samt Lennart Schuss (styrelseordförande). Fredrik Råsberg är ordförande i valberedningen. Valberedningen har inför årsstämman 2018 haft två protokollförda möten.

His position is unstated but in IB Invest AB's 2019 annual accounts he appears as a signatory alongside Mia and Ilija Batljan.

Resultat- och balansräkningen kommer att föreläggas årsstämman 2020-04-30 för fastställelse.

Stockholm 2020-04-29

Ilija Batljan
Styrelseledamot

Fredrik Råsberg

Mia Batljan

Figure 9 IB Invest AB Annual Report 2019

Mr. Rasberg is also the contact address for SBB's whistleblower policy and represents another clear conflict of interest from an individual involved in Ilija Batljan's personal investment vehicle.

Audit committee weakness

SBB confirm in their response to our report that it has no qualified auditors in its audit committee. SBB instead relies on textbook anchoring biases to somehow infer that a multiple-decades old economics degree and experience as a corporate greenmailer is adequate.

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.

Figure 10 Extract from SBB response to Viceroy Research

We reiterate that these members are both undisclosed related parties and should not be dignified as "independent".

Key Takeaways

There are significant audit weaknesses present at SBB in the assignment of auditors, the composition of its audit committee and conflict of its legal counsel. We do not believe it is an accident that so many individuals related to Ilija Batljan occupy positions of power and influence in SBB.

SBB's head auditor from EY has been conflicted since the inception of the business. The entire senior audit team has been conflicted since at least 2018. Several of SBB's independent directors and audit committee members are not independent at all, a fact that is undisclosed to this day by themselves and the company.

¹³ <https://www.wistrand.se/en/>



4. Vågskålen 24

Vågskålen 24 is a property that appears to belong to both IB Invest AB and SBB according to separate disclosures by the two companies. Vågskålen 24 was first acquired by IB Invest AB through an April 2016 merger with Eskilstunafastigheter III AB, likely bought from previous owners Pare AB.

In a prospectus dated December 7, 2021, IB Invest claims Vågskålen 24 is a directly owned property.

Risks relating to the Group's Real Estate and Logistics Investments

Apart from the Group's directly owned properties Vågskålen 24 Eskilstuna, Skiffern 2 Nybro and Busterud 1:161, it owns shares in several real estate and logistics companies, out of which its investment in SBB constitute its largest investment. On 30 June 2021, the market value of the

Figure 11 IB Invest AB Prospectus dated December 7, 2021¹⁴

Conversely the property first appears on SBB's website around August 2021 based on Google's first indexing of the site with the name. As of the time of writing Vågskålen 24 is still listed on SBB's website. We note that while IB Invest AB has a subsidiary named IB Invest Eskilstuna AB it appears to have been effectively dormant since inception.

Vågskålen 24

Facts

Property category	Municipality
Education	Eskilstuna
Address	City
Kribsengatan 5	Eskilstuna
632 18 Eskilstuna	
Service notification	
L&T	
Switchboard number: 08-550 50 200, serv	
Print	

Contact persons

YWONNE NILSEN
Förvaltare
ywonne.nilsen@sbbnorden.se
+4673-747 27 72

https://sbbnorden.se › properties

Housing and community service properties logo - SBB

Aug 21, 2021 — Properties ; Vapensmeden 15 · Drottninggatan 14; 9316KVM ; Verktyget 4 · Gamla Tullgatan 1; 21132KVM ; Vipan 14 · Nygatan 4; 8541KVM ; **Vågskålen 24** · ...

Figures 12 & 13 Vågskålen 24 SBB profile page and google search result¹⁵

We question the circumstances behind the above, as well as the undisclosed related party nature of SBB seemingly managing a property owned by its CEO's investment company. Does IB Invest or SBB own Vågskålen 24? This should be a simple question to answer: they were being audited by the same person at the time.

¹⁴ <https://www.ilijabatljaninvest.com/en/wp-content/uploads/sites/2/2021/12/ilija-batljan-invest-ab-prospectus-green-notes-isin-se0016101810.pdf>

¹⁵ <https://sbbnorden.se/sv/properties/vagskalen-24/>



5. Financial Risk

Our analysis of SBB, in short, is that the company lacks meaningful cash flows from operations and instead relies on tapping investors and borrowers for more cash to sustain its existence. We stress that SBB conducts undisclosed related party transactions, revenue round tripping, and M&A round tripping to artificially inflate asset prices, borrow against said assets, and then issue dividends. **This is unsustainable.**

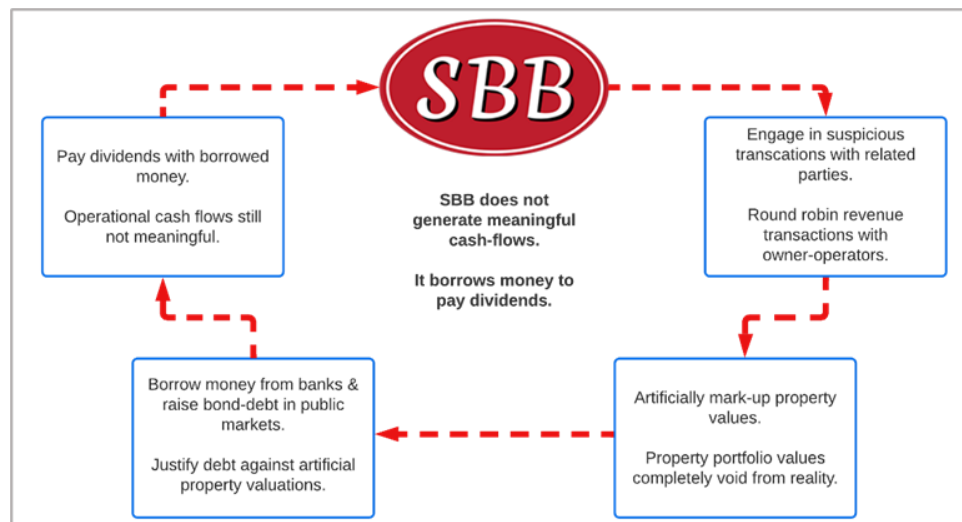


Figure 14 Viceroy Analysis

Addressing SBB Cash-Flow Rebuttal

SBB issued a response to Viceroy's cash flow analysis, stating that it "ignored basic accounting principles". **We do not accept SBB's response in this respect. It is a strawman.**

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.

Figure 15 Extract from SBB Response to Viceroy Research Report

Obviously, Viceroy Research conducts financial analysis and makes adjustments where we see fit. There is no value add in regurgitating SBB's opaque financials to readers. Every sell-side analyst conducts analysis like this. Even SBB is guilty of the same in its own response to our analysis:

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

Figure 16 Extract from SBB Response to Viceroy Research

The company's assertion that its unrealized value gains are convertible through disposals is disproved by the buyer-supported and related party nature of those disposals. The only willing buyer of SBB assets at their fair value is SBB itself.

The company's assertion that its unrealized value gains are convertible through disposals is disproved by the buyer-supported and related party nature of those disposals. The only willing buyer of SBB assets at their fair value is SBB itself or entities supported by it.



6. M&A Round Tripping

As we detailed in our original report much of SBB's disposals from the end of 2019 appear to be round-tripped transactions done solely to justify inflated fair values and obtain a more favorable credit rating. Below is a summary table of the transactions we have identified as round-tripping.

SBB Disposal Analysis - Viceroy Research (SEK m)				
Date	Buyer	Transaction Valuation	Asset	Issues
23-Dec-2019	Mälardalens Omsorgsfastigheter	842	43 mainly office properties	SBB offered shareholder loans and potential subscription to equity raise for acquisition
01-Apr-2020	Kuststaden (KlaraBo Projektutveckling AB)	470	545 rental apartments	Shareholder of buyer, financed purchase
28-Apr-2020	Amasten	1,500	1259 apartments	Shareholder of buyer, financed purchase through equity raise participation, CFO married to SBB finance director
09-Jun-2020	Offentliga Hus	1,160	Osterkrans 2, Sankt Nikolaus 19, Svartmunkens 1, 648 Jarret, Slottet 4, Koljan 9, Rudan 5, Vulkanus 15, Uranus 2	Would later purchase Offentliga Hus
10-Jun-2020	Nyfosa	4,892	Large office building portfolio	Round tripped properties, SBB also purchased asset at 57% markup from Nyfosa accounting for annual rental income of sold portfolio
09-Oct-2020	Kuststaden (KlaraBo Projektutveckling AB)	500	426 properties in Ronneby	Related party transaction
13-Oct-2020	Oscar Properties	1,400	2 office properties and 50% of Valerum	SBB financed default put option on bonds financing purchase
06-Nov-2020	Offentliga Hus	151	Sodertalkje Fjarilen 22	Purchased Offentliga Hus 2 weeks after closing
		Total	10,915	

Figure 17 SBB Disposal Analysis

These sales to companies feature one or many of the following:

- Substantial buyer support in the form of SBB guarantees, participation in capital raises for the acquisition or shareholder loans.
- Purchasing the buyer shortly after the close of the transaction, effectively negating it.
- Reciprocal purchases of overvalued properties.
- Undisclosed SBB shareholdings in the buyer.

The purpose of this disposal spree was to "prove" its valuations which are extremely aggressive. None of the issues we highlighted in the transactions above was ever disclosed to investors by SBB at the time of the transaction despite many of these transactions not being possible without SBB involvement.

Property valuations

Beyond reporting requirements, we believe the number and total value of these transactions throw into doubt SBB's property valuations. It is our belief that SBB's valuation method is aggressive especially when considering its portfolio consists largely of long-dated leases with little room for rent increases. This belief is only reinforced by the relationships between Newsec and the Batljan family's investment vehicle.

Our review of SBB SPV company accounts bears this out showing fair value increases even as revenues are flat, profits shrink, expenses mount and no material investment is made on the property. A list of subsidiaries and links to their accounts are publicly available at the link below.

<https://www.proff.se/foretag/samh%C3%A4llsbyggnadsbolaget-i-norden-ab/-/kontorstj%C3%A4nster/2K44IT8I63II9/>

We have previously sent you an aggregated table of each SBB subsidiaries financial performance and encourage you scrutinize the increase in fair values over time despite declining financial performance. Any interested parties should contact Viceroy Research for a copy of this table.



Lack of disclosure

The above issues were not disclosed by SBB to its investors in contravention of disclosure requirements. SBB's responses have not addressed any of these concerns beyond vague statements about IFRS reporting requirements.

IAS 24 clearly defines related parties as:

"it is a parent, subsidiary, fellow subsidiary, associate, or joint venture of the reporting entity, or it is controlled, jointly controlled, or significantly influenced or managed by a person who is a related party."

Being a shareholder, financier, or guarantor to the buyer of the asset makes SBB a clear related party.

IFRS is similarly clear on disclosure requirements:

"If an entity has had related party transactions during the periods covered by the financial statements, IAS 24 requires it to disclose the nature of the related party relationship as well as information about those transactions"

These are not obscure or arcane definitions.



7. Revenue Round Tripping

D-share dividend subsidized rent

We have recently included you in a correspondence regarding SBB's purchase and leaseback transaction with Laeringsverkstedet. Instead of repeating ourselves we will instead focus on the accounting issues at play.

SBB-D class shareholders receive preferential dividends over other shareholders, capped at SEK 2 per share per year. Laeringsverkstedet received NOK 1,400m worth of D-shares as part of their consideration. At a current value of ~ NOK 28/share, which represents an attractive yield (6-7%) at face value.

Given this face-value yield, we can eliminate the possibility of LV selling SBB-D shares for another "safer" financial investment. At this return, they simply do not exist.

Far from being a sound investment these dividends flow directly back to SBB due to the extremely high rents charged on LV-occupied properties. These rents are disproportionate to the national baseline and serve only to inflate SBB's property valuations.

The scheme in short is detailed below.



Figure 18 Viceroy Analysis

The purpose of this round tripping is twofold:

1. It allows SBB to revise the value of its properties upward due to the artificially higher rent.
2. It shows up as cash income which the company desperately needs.

By charging high rents and (poorly) hiding rent support via SBB-D dividends, SBB is able to "prove" to its investors and its valuers that its properties are worth more than they really are. In the event of LV, we believe SBB recorded revaluation gains of ~50% in the same year it bought the properties. SBB then borrows more money from banks and from the market against these artificially high valuations.

This SBB-D dividend is not sustainable.

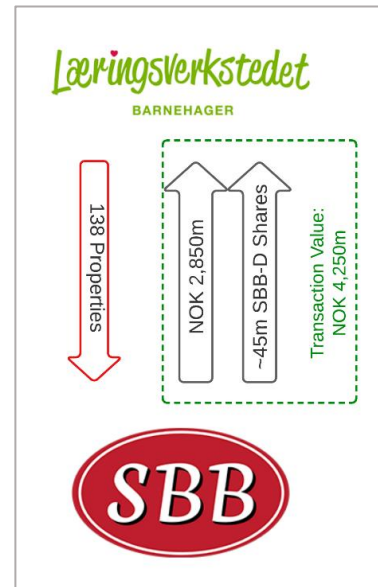
Viceroy believes SBB DOES NOT have the ability to maintain this dividend without artificially hiking its portfolio value and borrowing money from other investors.



3 July 2020 | Regulatory press release

SBB acquires preschool portfolio in Norway with newly signed 35-year triple-net leases for NOK 4,250m

Samhallsbyggnadsbolaget i Norden AB (publ) ("SBB") acquires a larger portfolio of preschools from the Norwegian company Laeringsverkstedet, where Laeringsverkstedet is also the tenant, for an agreed property value of NOK 4,250m. The annual rental income for the 138 properties included in the transaction (approx. 114,000 sq m of building space and 601,000 sq m of plot) amounts to approximately NOK 251.4m and SBB's average adjusted contract length increases to nine years with the transaction. In connection with the transaction, Laeringsverkstedet will become a shareholder in SBB and the parties will commence an in-depth long-term collaboration where SBB will support Laeringsverkstedet's expansion in the Nordic region.



Figures 19 & 20 SBB LV Property Acquisition Analysis & Viceroy Transaction Analysis

With this in mind, LV has agreed to alarmingly high rental costs to SBB, which we will evidence below. These costs are so high that we do not believe that LV could meet rent obligations on its long-dated rental agreements without the support of SBB-D dividends.

This is an unacceptable and real risk, and we do not believe the circumstances surrounding this deal constitute an arm's length transaction.

Unaffordability of rental agreement

Under a new sale and leaseback agreement: Laeringsverkstedet is currently paying an annual rental of NOK 251.4m or NOK 2,205/m² on its childcare.

Laeringsverkstedet - Rent Analysis		
SBB reported rent	NOKm	251.4
Area	m ²	114,000
Rent per m ²	NOK/m ²	2,205

Figure 21 Viceroy Analysis

As further evidence of the unaffordability of the lease:

1. Rent paid to SBB will take up substantially all of LV's operating income. Note that in the 2020 financial year, only NOK ~105m of the total rent increase of NOK ~251m was applied.
2. LV is paying 304% the average rent and depreciation cost per child of an ordinary kindergarten.
3. LV is paying 243% the average rent-to-expense ratio of an ordinary kindergarten.
4. LV is paying 389% of its non-SBB rental per property for its SBB-owned properties.
5. Only 9% of LV's locations and 8.2% of its childcare places are in Oslo. The vast majority of the 138 properties purchased by SBB must exist outside major cities. We do not accept argument of prime real estate.
6. The leases are triple net which we anticipate will add further additional costs to LV.

SBB later entered a similar transaction with another Norwegian childcare provider Trygge Barnehager who operate childcare facilities through their FUS brand. While the full terms of the deal were not made available to the public based on the annual rental income, facility count, facility locations and area of the facilities we believe a similar tenant support scheme may be in place.



Netting Clause

The only immediate justification that comes to mind for these high rent increases is that a netting clause exists in the contract between SBB and LV.

A netting clause would effectively allow LV to “net off” payable rent if SBB was not able to pay its SBB-D dividend.

We encourage EY to evaluate these contracts for a netting clause. The existence of such a clause would immediately evidence these transactions are revenue roundtrips.

8. Conclusion

The issues highlighted above represent an unacceptable audit risk. Using publicly available documents we have found round tripping of assets, round tripping of revenues and governance and internal control risks. The longstanding conflict by auditors Ingemar Rindstig and Gabriel Novella is just the cherry on the top.

The audit structure inside SBB seems intentionally weak to facilitate a lack of oversight which has led to stakeholders being kept in the dark about the closeness between governance structures at SBB and Ilija Batljan’s personal investment vehicle.

We understand that some overlap between entities operating in the same market is normal however the audit issues highlighted above, previously raised concerns about SBB’s valuations, and the Batljan family’s significant influence over SBB create the potential for serious governance breaches.

Audit weakness have allowed the issues above to occur without investors being informed and without comment or objection by yourselves. We hope that this letter will more clearly lay out the audit issues at SBB such that you can fulfil your responsibilities to stakeholders.



Attention: Whistleblowers

Viceroy encourage any parties with information pertaining to misconduct within Samhällsbyggnadsbolaget, its affiliates, or any other entity to file a report with the appropriate regulatory body.

We also understand first-hand the retaliation whistleblowers sometimes face for championing these issues. Where possible, Viceroy is happy act as intermediaries in providing information to regulators and reporting information in the public interest in order to protect the identities of whistleblowers.

You can contact the Viceroy team via email on viceroy@viceroyresearch.com.

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