

# MAGNOLIA

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## **The board of directors' statement and proposal for a resolution regarding approval of a change of the current minority ownership structure**

The board of Magnolia Bostad AB ("**Magnolia Bostad**" or the "**Company**") hereby proposes to the shareholders' meeting to approve the change of the minority shareholding structure as described below.

### **A. Minority ownership structure**

#### **A.1 Background**

In 2013, Magnolia Bostad, on the initiative of and together with Fredrik Lidjan, established a business model to develop rental apartments. Fredrik Lidjan, who then was an independent consultant, got, through the fully owned company Fredrik Lidjan AB ("**FLAB**"), the assignment to start up the business of developing rental apartments within Magnolia Bostad. FLAB was paid through profit sharing.

In connections with the listing of Magnolia Bostad's shares on First North, the collaboration with FLAB was incorporated and changes from the previous structure with profit sharing into an ownership structure with a minority ownership in two of the Company's real property developing subsidiaries. FLAB and the group company Magnolia Utveckling AB established a new company, Magnolia Holding 3 AB ("**H3AB**"). 10 per cent of the shares in H3AB were acquired by FLAB and the remaining 90 per cent of the shares were acquired by the group company Magnolia Utveckling AB. The ownership of H3AB is governed by a shareholders' agreement according to which all real property development projects within the group, that to a majority comprise rental apartments (however subject to certain criteria), will be allocated to H3AB up until February 2019.

The same year, the Company resolved to develop hotels in collaboration with the initiators Fredrik Lidjan and Clas Hjort. The parties established Magnolia Hotellutveckling AB ("**Hotel 1**") of which Magnolia Bostad acquired 60 per cent, FLAB 24 per cent and Clas Hjort AB 16 per cent of the shares in the newly established company. The ownership of Hotel 1 is governed by a shareholders' agreement according to which Hotel 1 will manage the group's hotel development projects until 31 December 2020.

The two abovementioned shareholders' agreements contain provisions about, inter alia, financing, election of board members, valuation of shares and breaches. In summary, both of the companies are controlled by Magnolia Bostad, but taking into account the minority rules of the Swedish Companies Act. Financing of H3AB and Hotel 1 is made on market terms or by the parties pro rata and on the same terms. Any granting of collateral is made on corresponding terms.

The abovementioned description of co-investment within H3AB and Hotel 1 is referred to below as the "**Current Minority Ownership Structure**".

In the beginning of 2015, the founder Andreas Rutili resigned as CEO of Magnolia Bostad. The board appointed Fredrik Lidjan to temporarily replace Andreas Rutili. Hence, the Current Minority Ownership Structure is a result of the collaboration prior to Fredrik Lidjan's appointment as CEO, and Fredrik Lidjan obtains a market salary for his position as CEO.

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## A.2 The new minority ownership structure

In August 2017, in connection with the contemplated listing on Nasdaq Stockholm and since Fredrik Lidjan is still the CEO, the Company's board of directors initiated a change of the agreement with FLAB into a more clear structure. Within the scope of the new structure, FLAB and Magnolia Utveckling AB acquired the shares in a newly established company, Magnolia Holding 4 AB ("**H4AB**"). 8 per cent of the shares in H4AB were acquired by FLAB and the remaining shares were acquired by Magnolia Utveckling AB. Thereto, FLAB, Clas Hjort AB and Magnolia Bostad have acquired the shares in Magnolia Hotellutveckling 2 AB ("**Hotel 2**"). 8 per cent of the shares in Hotel 2 are owned by FLAB, 16 per cent by Clas Hjort AB and the remaining part of the shares by Magnolia Bostad.

The ownership of each of the two companies is governed by a shareholders' agreement. According to these shareholders' agreements, all hotel development projects managed by Magnolia Bostad, directly or indirectly, shall be allocated to Hotel 2 up until 31 December 2020 and all other investments of the group (i.e. not only projects that to a majority comprise rental apartments, as was the case in the Current Minority Ownership Structure) shall be allocated to H4AB up until 31 December 2022. Hence, all new projects will be allocated to H4AB or Hotel 2, meaning that no new projects will be allocated to H3AB or Hotel 1. Once the projects held by H3AB or Hotel 1 have been completed, sold and settled, both H3AB and Hotel 1 will be liquidated. Both of the abovementioned shareholders' agreements contain provisions about, inter alia, financing, election of board members, valuation of shares and breaches. In summary, both of the companies are strongly controlled by the Company, but taking into account the minority rules of the Swedish Companies Act. Financing of H4AB and Hotel 2 is made on market terms or by the parties pro rata and on the same terms. Any granting of collateral is made on corresponding terms.

The abovementioned description of co-investment within H4AB and Hotel 2 is referred to below as the "**New Minority Ownership Structure**".

The New Minority Ownership Structure is conditional by the approval of the shareholders' meeting in accordance with item B.1.

## A.3 The board of directors' statement and proposal for resolution

Since 2013, the development of rental apartments has progressed from 0 to about 85 per cent of the business of Magnolia Bostad and the Company is today one of the major developers of rental apartments in the country. During this time, the value of Magnolia Bostad has increased from approximately 125 MSEK in 2012 to approximately 2 800 MSEK today. The board of directors holds the firm view that the co-investment with FLAB has been a central contributing factor to the growth of the company group and the success of the business.

However, the board of directors considers it suitable to ensure that there is no risk of conflict of interest between Fredrik Lidjan as CEO and the shareholders due to the minority ownership structure. Magnolia Bostad considers themselves to have established effective processes, among other things an investment committee, to ensure that conflicts of interest does not occur by FLAB's shareholding in the business of Magnolia Bostad. Despite not having seen any conflicts of interest in practice, there are reasons to clearly strive after a corresponding interest between the CEO and the shareholders of the Company. The intention with the New Minority Ownership Structure, and the replacement of the Current Minority Ownership Structure, is to give FLAB, by reducing its share from 10 and 24 per cent, respectively, to 8 per cent, the same share in new investments of the group, regardless of type, which means that the potential risk of conflict of interest is eliminated.

The board of directors has, after consultation with external expertise, made the following assessment:

- The terms for financing of projects in the New Minority Ownership Structure, when financing is made by one of the parties, are in themselves made on market terms;
- The assessed value of the ownership and rights that FLAB is entitled to through the New Minority Ownership Structure is well-calibrated and balanced in relation to the value of the

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ownership and rights that FLAB will lose by prematurely close the Current Minority Ownership Structure, and that the transaction is deemed not to be disadvantageous in terms of value for the shareholders in Magnolia Bostad. The board of directors assessment is supported by an external market evaluation confirming that the terms of the transaction are fair for the shareholders in Magnolia Bostad from a financial point of view; and

- That the risk for tax consequences for the Company, as a result of the closing of the Current Minority Ownership Structure and the establishment of the New Minority Ownership Structure, is deemed as low.

Furthermore, the closing of the Current Minority Ownership Structure and the establishment of the New Minority Ownership Structure are not deemed to have any effects on Magnolia Bostad's financial position, results or key ratios.

In sum, the board of directors believes that the establishment of the New Minority Ownership Structure will benefit the shareholders and have a positive effect on the group's continuously development. Hence, the board of directors proposes that the shareholders shall approve the New Minority Ownership Structure.

## **B. Other**

### **B.1 Majority requirements**

In order to resolve on item A.3 above, and for the resolution to be consistent with good stock market practice in accordance with the Swedish Securities Council's (Sw. *Aktiemarknadsnämnden*) statement 2017:29, the resolution must be supported by shareholders holding at least 9/10 of both the votes cast and the shares represented at the shareholders' meeting.

The principal shareholder F. Holmström Fastigheter AB, holding more than 56 per cent of the shares and the votes in the Company, supports the proposal.

### **B.2 Preparation of the proposal**

The terms for the New Minority Ownership Structure have been produced by the board of directors. The proposal has been prepared with the help of external advisors and after consulting the principal shareholder. The board of directors has then resolved to present this proposal to the shareholders' meeting. The board of directors has also obtained a statement from the Swedish Securities Council regarding how the matter shall be resolved, AMN 2017:29.

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This statement, including the proposal and the Fairness Opinion issued by the independent expert (BDO), stating that the transaction is fair for the shareholders of Magnolia Bostad from a financial point of view, will be available at the Company (Magnolia Bostad AB, Sturegatan 6, 102 40 Stockholm). Copies of the documents will be sent, free of charge, on request to such shareholders who provide their address. The documents will also be available at [www.magnoliabostad.se](http://www.magnoliabostad.se) and be presented at the shareholders' meeting.

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Stockholm in September 2017  
Magnolia Bostad AB (publ)  
The board of directors