

A full-page photograph of two women with long brown hair embracing each other warmly. They are both smiling broadly, showing their teeth. The woman in the foreground is wearing a light-colored, textured knit sweater. The woman behind her is wearing a red sweater. The background is a bright, hazy sun, creating a warm, golden glow over the entire scene.

**We bring people closer  
together, every day**



2016 Annual and Sustainability Report



## Contents

Significant events in 2016	1
SJ – a sustainable company	2
7 keys to the future of rail	4
CEO's statement	10

Operating environment and market	12
Stakeholders	16
Business mission and business model	18
Strategy	20
Customer offering	22
Chairman's statement	24

### Annual Report

Directors' Report	26
Responsible management	29
SJ's scorecard	30
Employees	31
Partnership and Resources	33
Society	34
Customer	36
Process	37
How we generate punctuality	38
Finance	39
Proposed remuneration policies for senior executives	40
Appropriation of profits	40
Multi-year summary	41
Corporate Governance Report	42
Board of Directors	47
Executive Management	48
The Board's internal control report	49
Financial statements	50
Accounting policies	61
Notes	65
Auditors' Report	88

Accounting policies – sustainability	91
Auditors' review	92

Definitions and glossary	93
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### About the Annual Report and Sustainability Report

The Board of Directors and Chief Executive Officer of SJ AB (corporate registration number 556196-1599) hereby present SJ's annual accounts and sustainability report for the 2016 financial year. The statutory annual accounts, including the Directors' Report, which have been subjected to an audit are found on pages 26–41 and 50–87.

The Responsible management chapter is audited by an external auditing firm; refer to the assurance report on page 92. The sustainability report in accordance with the G4 Guidelines of the Global Reporting Initiative (GRI) is only available in Swedish.

### Disclaimer

This is a summary of SJ's 2016 Annual and Sustainability Report, and comprises selected parts of the Report. While every care has been taken in the translation of this Report, readers are reminded that the original and complete Annual and Sustainability Report 2016, signed by the SJ Board, is in Swedish.

# Significant events in 2016

## X2000 undergoes modernisation

As a part of modernising Sweden's fastest train, the X 2000, SJ has tendered a contract for the creation of an entirely new interior for the X 2000. All X 2000 trains will be modernised and delivered by 2020. Read more on page 23.



## SJ turned 160



At the end of the year, SJ celebrated the anniversary of the first passenger train chugging along in Sweden 160 years ago. The first journey was from Gothenburg to Jönköping and passengers were transported at speeds of up to 30 km/h engendering a feeling of hurtling along according to passengers' later descriptions. Much has happened since. Despite competition from other modes of transport, such as air and road travel, trains continue to be the most comfortable and climate-smart alternative.

## Sustainability and Ethics Committee established

SJ's Board of Directors has formed a Sustainability and Ethics Committee. The Committee is a formalisation of the Board's working group that has been managing sustainability and ethics issues for several years.

## SJ acclaimed for sustainability

At the Schibstedt Gala of Sweden's best companies in 2016, SJ won the first prize under the category of "Benefit to Society". SJ also finished in eighth of 265 in the customer survey, Sustainable Brand Index™ 2016. SJ won the "Train, bus and taxi" category. During the year, SJ was also nominated as Sweden's greenest brand, jointly with Coop, according to a survey conducted by Differ.

## Upward travel trend for SJ

Train travel (measured in passenger kilometres) continued to increase in 2016. SJ AB and SJ Norrlandståg reported an increase of two percent, in comparison with preceding year. In 2016, 82 percent of SJ's tickets were sold through digital channels (sj.se, the SJ app and ticket machines). A new sj.se website and app were launched in 2016, after thousands of customers contributed their opinions during the development process. During the year, all ticket machines were also replaced and seasonal releases were introduced to help customers find cheap tickets.



## Tendered services comprise a cornerstone of SJ's business

In June, SJ began operating the Västtågen at Kinnekullebanan (Kinnekulle Line), after having secured the contract in 2015. In December SJ also commenced operating Tåg i Bergslagen and several lines in Mälardalen under contract with MÅLAB. In early 2017, the agreement with the Swedish Transport Administration on night-train services for upper Norrland was extended, which means that SJ will continue to operate trains from 2018 to 2020.

In August, SJ's partly owned Botnietåg discontinued passenger traffic operations on behalf of Norrtåg when the agreement expired. In December, SJ's wholly owned subsidiary, Stockholmståg, also discontinued the operation of commuter trains in Stockholm County when the agreement expired.

Read more about financial events during the year in the Directors' Report on page 26. A selection of 2016 news items for our customers and passengers is presented on pages 22–23.



# SJ – a sustainable company

SJ is a Swedish travel partner that offers sustainable train travel, both independently and in collaboration with others. At year-end, the Group had 4,500 employees and is expected to have sales of approximately SEK 7.5 billion in 2017<sup>1</sup>. As the market-leading train operating company, SJ links Sweden together, and opens the doors to Scandinavia's capitals. Every day, 130,000 people choose to travel on one of the 1,100 departures from 275 stations. SJ is owned by the Swedish state and is tasked with operating profitable passenger rail services.

## We bring people closer together, every day

From Narvik in the North to Copenhagen in the South, from Stockholm in the East to Oslo in the West – SJ can be found in many locations. This creates opportunities for people to live and work or study in different places and to travel in a simple and sustainable manner. Train travel is by far the most climate-smart transport alternative. These are some of the reasons that so many people choose to travel with us.

The presentation below is a selection of the lines that we operate independently and under contract with regional and national government agencies.

### Stockholm–Umeå–Luleå–Narvik

SJ operates high-speed trains to Sundsvall and Umeå and night-train services to Umeå/Luleå/Narvik.

### Tåg i Bergslagen

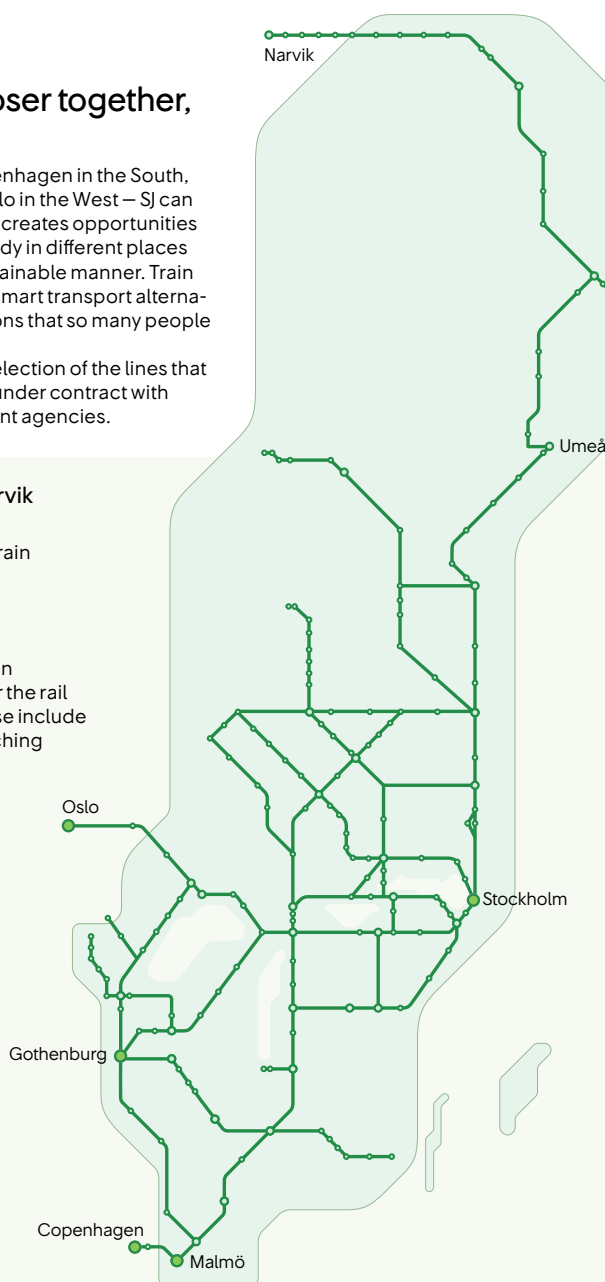
Several improvements have been implemented since we took over the rail services in December 2016. These include shorter waiting times when switching between TiB trains and SJ trains, and lower average prices on tickets.

### Gothenburg–Malmö–Copenhagen

The introduction of high-speed train connections with the X 2000 and SJ 3000 on the Gothenburg–Malmö line has brought west coast residents closer to the Öresund region.

### Västtågen

In 2015, confidence in SJ to continue operating Västtågen was renewed. In 2016, there was an improvement in both punctuality and the share of satisfied passengers.



### Vision:

SJ – to rely on and look forward to.

### Mission:

SJ shall offer the market's most customer-oriented and sustainable travel, both independently and in collaboration with others. This means that we are to be the leaders when it comes to fulfilling the customer needs – while ensuring that social, environmental and economic responsibility are all reflected in our entire organisation.

### Core values:

Reliable,  
Simple, Caring  
and Joyful

### Stockholm–Oslo

Increasing numbers of people wish to travel on the high-speed train between the two capital cities. Consequently, in December 2016, we increased services to five daily departures.

### Stockholm–Gothenburg

With Sweden's fastest train, the X 2000, travelling between Stockholm and Gothenburg becomes a climate-smart and viable alternative for studies, work and leisure.

### Stockholm–Uppsala

The trip with SJ between Stockholm and Uppsala is fast, comfortable and reliable.

### Regional trains i Mälardalen

SJ is operating certain lines under contract with MÅLAB. Together with the train services that we provide independently, passengers have many departures to choose from using the same monthly pass.

<sup>1</sup> See expected future developments on page 26.



## Our employees

Absence due to illness

**6.6%**  
(6.5)

Leadership index SJ AB

**68**  
(68)

Performance index SJ AB

**75**  
(75)

## Our customers and passengers

Traffic-safety index  
SJ AB, SJ Norrlandståg  
and SJ Götalandståg

**96.3**  
(96.4)

Punctuality for  
SJ AB's long-  
distance trains

**83%**  
(82)

Punctuality for  
SJ AB's regional trains

**90%**  
(89)

Customer satisfaction  
index SJ AB

**70**  
(66)

Customer satisfaction  
index Stockholmståg

**68**  
(66)

Passenger satisfaction  
index SJ Götalandståg

**94**  
(92)

## Our environmental efforts

Environmental index

**76**  
(73)

A journey for a single person by the X 2000 between Stockholm and Gothenburg generates carbon emissions corresponding to discharges from half a millilitre of petrol

**1/2 millilitre**

Comparative figures in parenthesis pertain to the full year 2015.

**SEK 390 million**

invested by SJ in 2016, primarily in trains and IT systems

**SEK 188 million**

distributed by SJ to the owner in 2016

**4,427**

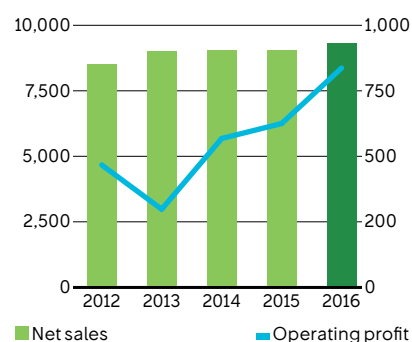
employees in the SJ Group at 31 December 2016

## Key figures

	2012	2013	2014	2015	2016
Net sales, SEK million	8,504	9,023	9,065	9,052	9,336
Operating profit, SEK million	467	298	568	625	837
Operating margin, %	5.4	3.3	6.2	6.9	8.9
Profit/loss for the year, SEK million	471	220	460	471	650
Return on operating capital, %	8.6	5.7	11.5	13.2	20.0
Net debt/equity ratio	0.14	0.04	-0.07	0.19	0.0
Investments in tangible and intangible assets, SEK million	1,116	448	828	525	390

For definitions, refer to pages 99–100.

Net sales and operating profit, SEK million





# 7 keys to the

## **1 If we are to reach climate goals more people must choose train travel**

For Sweden to achieve its climate goals, we must connect all of Sweden — through a balance between national, regional and local rail traffic.

## **2 Customer value as a starting point**

A broad spectrum of customer requirements must be met with an attractive and priceworthy offer, based on accessibility, simplicity and reliability.

## **3 Sufficient and adequately robust railway infrastructure**

To secure appropriate rail facilities and meet transportation requirements, the capacity, standard and quality must be raised — for both existing and new railways.

## **4 Competition based on sound and distinct terms**

Trains must not be penalised as a traffic category and the framework for rail competition should be well thought-out and unambiguous.





# future of rail

## **5** As with all future industries, railways require competent employees

For rail services to function, people are needed. This is true today and even more so tomorrow.

## **6** Operational excellence and collaboration to improve punctuality

Punctuality is the industry's greatest operational challenge and it requires combined efforts.

## **7** In pace with digitalisation

The rail industry needs to continue to adopt relevant technological developments and drive digitalisation within its own fields.



# Our perspective on the future of rail and how to manage it

## 1 If we are to reach climate goals, more people must choose train travel

In December 2015, the world's nations reached a new global climate agreement. The agreement established that the global temperature increase should be kept well under two degrees Celsius. Sweden's government has expressed the intention for Sweden to be one of the world's first fossil-free welfare nations with zero emissions of greenhouse gases by 2050. According to the Swedish Environmental Protection Agency, domestic transportation in 2015 accounted for 34 percent of greenhouse-gas emissions in Sweden, of which road traffic accounted for 94 percent. After several years of decline, the downward emissions trend has plateaued for domestic transportation, with no further reductions.

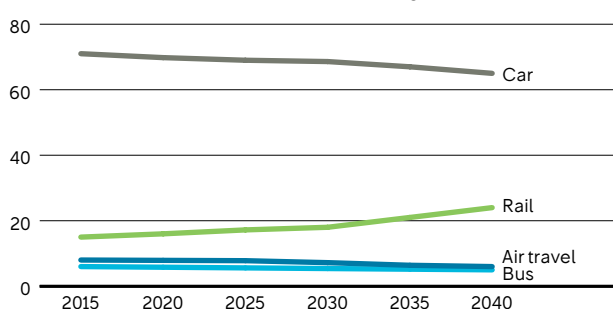
Rail is unique in its combination of being energy efficient and climate smart, while having the capacity to transport many people and large volumes of freight. Trains also enable direct travel between city centres, which reduces the need for supplementary transportation. Although other modes of traffic are gradually reducing their environmental footprint, the transition takes time. The Transport Analysis Agency estimates that only 7 percent of Swedish cars are powered by alternative fuels and that nine out of ten new cars sold are powered by fossil fuels. Consequently, a crucial factor in achieving climate goals is to increase the percentage of transportation and journeys by train at the cost of other modes of transportation with a higher environmental impact.

Trains also benefit society in more ways than just the climate. Reduced congestion and noise, as well as improved air quality are only a few examples. Above all, increased public transportation in big cities provides greater opportunities to use precious land for housing and services, instead of for new roads and parking places.

### How SJ is meeting the challenge:

- To make more people choose train travel, timetables must be reliable. Consequently, a punctual journey is a sustainability issue of utmost importance for us. *Read more on pages 37–38.*
- To make it easier to use public transport, we are collaborating with regional public transportation to enable our passengers to get from door-to-door. *Read more on page 33.*

Forecast on the transport mode's share of long-distance<sup>1</sup> travel, %



Source: Swedish Transport Administration, Royal Swedish Institute of Technology and SJ analysis, where very high-speed services were added

<sup>1</sup> Journeys of a minimum of 100 km that pass at least two municipal borders or a county border.

- To encourage as many people as possible to choose train travel, we are linking Sweden and Scandinavia's capitals with some 20 lines. *Read more on page 2.*
- To meet increased demand in parallel with making train travel faster and more punctual, we are promoting the installation of very high-speed tracks in Sweden – on which we will be ready to operate. *Read more on pages 14–15.*

## 2 Customer value as a starting point

Rail transportation continues to exist solely because customers choose to use trains, for both travel and freight. The needs of passengers, companies and regions are met with attractively priced services with added value. It should be easy to travel and dispatch freight by rail, and promises must be kept. Much of this pertains to hygiene factors and although developments are headed in the right direction, work remains to be done within the industry. In particular, this applies to punctuality, which, apart from safety, is of the highest priority. Time-keeping can and should be one of the advantages of trains; a train journey is a journey of chronological precision. A prerequisite for improved punctuality is the continued development of essential technology and new systems, as well as the establishment of efficient processes and collaboration on planning and communication to passengers and transportation procurers.

With these hygiene factors in place, the train industry needs to further improve in meeting the other needs and wishes of passengers. Factors such as accessibility, ease of booking, an on-board environment conducive to work, comfort and travel experience are becoming ever-more decisive among the competition – between the different train operators and between rail and other modes of transport.

### How SJ is meeting the challenge:

- Travelling with SJ should be reliable and simple, as well as caring and joyful, thanks to committed and knowledgeable employees. *Read more on page 31.*
- A journey with us should be attractively priced. Our passengers gain some usable time – to work, study and socialise, and arrive at their destination rested. Free Wi-Fi is available on our high-speed trains and double-deckers.
- A journey with us should be easy to book thanks to personalised offerings. We know what our customers and passengers need and provide them with suitable offerings. *Read more on pages 22–23 and 36.*
- A journey with us is a climate-smart alternative and we help our corporate customers meet their environmental goals. We endeavour to offer sustainable solutions on every front – KRAV-labelled bistros, sustainable suppliers, recyclable trains and efficient replacement services. *Read more on page 34.*
- When we do not fully live up to our promises to customers, we do everything to assist our passengers and to provide the quickest and most correct information we can via digital channels.
- A journey with us is feasible even when scheduled track maintenance causes the complete or partial closure of





routes. We make any necessary adjustments to the timetables and provide complementary replacement services.

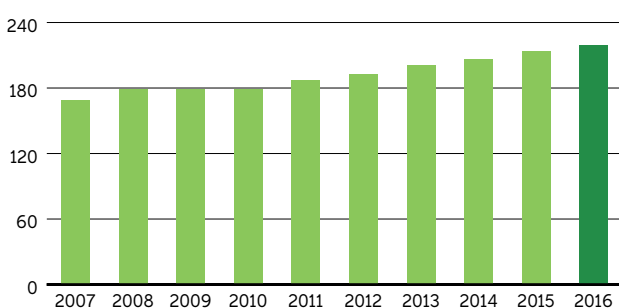
- We hold continuous dialogues with municipalities and regions throughout the country, and customise our offering based on the demand. *Read more on pages 16–17.*

### 3 Sufficient and adequately robust railway infrastructure

Some of the rail routes in Sweden have reached their maximum capacity due to a lack of track capacity, such as double-tracks or passing places. On other routes, maintenance is required to avoid the need for trains to reduce their speed. The railway in general and SJ's traffic comprise one network. Delays and problems occurring on one specific route tend to have negative consequences on other routes. Inadequate infrastructure that requires increased maintenance has an adverse impact on rail services in general and on people's confidence in their reliability. Inadequate rail infrastructure also impacts industries that are dependent on rail transportation, and has a negative impact on the Swedish economy as a result. Consequently, it is necessary to secure sufficient and adequately robust railway infrastructure for the long-term.

The current investments in capacity improvements, such as the proposed extension of the very high-speed track, are not a matter solely for the cities concerned. They would also relieve the existing rail network and improve long-term conditions for the railway system as a whole, throughout the country.

Number of train journeys in Sweden, millions



Source: The Transport Analysis Agency

#### How SJ is meeting the challenge:

- We maintain a close dialogue with the Swedish Transport Administration about specific routes that should be prioritised with regard to capacity improvements and maintenance. We also endeavour to contribute by proposing measures with a high benefit-to-cost ratio and by proposing when rail maintenance should be performed in order to reduce the potential impact on our passengers. *Read more on page 37.*
- We are striving for increased very high-speed rail and welcome the government's infrastructure proposals from autumn 2016. We are also seeing benefits to interregional traffic and will be ready to operate services on the new tracks when they are completed. *Read more on pages 14–15.*
- We ensure that our rolling stock is in good condition and compatible with existing infrastructure. For example, we implemented corrective measures on our pantographs to protect overhead lines better.
- Our train drivers report any faults that they notice to the Swedish Transport Administration, to facilitate the scheduling of maintenance measures.

### 4 Competition based on sound and distinct terms

Swedish rail is deregulated and thus completely open to competition. This is good for society, customers and the industry, since wider offerings and free competition drive market growth for train travel, and force us, as operators, to be more competitive. Sweden is one of a few countries with fully deregulated rail, which means that operators from other countries are permitted to operate here, while in many cases, Swedish operators do not have the opportunity to compete with other train operating companies in their home markets. The regulations in the EU's Fourth Railway Package entail that all member states will be forced to open their markets to competition. *Read more on page 12.*

For passenger services, the Swedish Public Transport Act is aimed at ensuring that regional and local services are provided even when the conditions are absent for commercial services. Such regional and local services could then be procured and, to a certain extent, financed by tax revenue. However, the law is not sufficiently clear on a range of key issues, primarily pertaining to competition occurring



on certain routes between commercial and tendered services. The purpose of the law was not for tendered services to drive out commercial services on commercially viable routes. Commercial services could positively help to fulfil regional targets for public transportation.

#### How SJ is meeting the challenge:

- We actively push for the regulatory framework on competition and the tax financing of public transport to be well thought-out and unambiguous.
- We welcome competition, as it makes us improve as a train operating company and strengthens the train over other forms of travel. When the day comes that the European rail market is deregulated in accordance with the Fourth Railway Package, we will have a head start on many other operators in terms of establishing ourselves in other markets. *Read more on pages 12–13.*
- We are actively taking stock of opportunities to expand beyond Sweden in pace with the deregulation of other markets and are commencing by gauging the services in Norway and Denmark. This pertains to both commercial and publicly tendered public transport. *Read more on pages 12–13.*

## 5 As with all future industries, railways require competent employees

For rail services to function, people are needed. This is true today and even more so tomorrow. This is true aboard trains, in the stations, in depots and alongside the tracks. We need committed and skilled employees that not only deliver with precision, but who also actively contribute to industry development. For trains to grow as a mode of transportation, for both passengers and freight, employees are needed with the right expertise, attitude and ability to cooperate with colleagues, customers and passengers. When it comes to passenger services, on-board employees are the train operators' face toward passengers.

The train industry must actively engage in its own skills development to secure its position as a future industry and attractive sector employer. Increased demand and new technologies entail expanded and partly changed recruit-

ment requirements. For the past decade, the industry has been characterised by an ever-higher degree of digitalisation and the trend is continuing. Current digital tools allow for train drivers to, for example, get a real-time view of their journey plan and see the trains ahead and behind, or train hosts to use a mobile phone app to see where all the passengers are going, or traffic management to know the exact locations of all the trains at any given time, or service technicians to know what needs to be rectified on a train before it rolls into the depot. An investment in very high-speed tracks would entail a radical technological shift that further raises the level of technology for the train industry as a whole.

The industry is facing a major challenge, as the need for train drivers and other employees on and around trains and tracks is expected to increase considerably in the next decade. The number of drive units (locomotives and, to an ever-greater extent, railcar sets – coach wagons with engine capacity) on Swedish rail increased by 23 percent from 2010 to 2015. Recruitment requirements are further increased by large-scale retirements and a broad political consensus to invest in rail. Consequently, a concerted mobilisation of resources is needed to attract more people to the industry and the type of training that advances the industry.

#### How SJ is meeting the challenge:

- We are strengthening the image of the train industry and clarifying what we need and offer, through exhibitions, universities and sj.se. We are taking on trainees, such as through the initiatives Tekniksprånget for young students and the Swedish Migration Board's Team Praktik.
- We are working proactively on the boards of training coordinators for train driver courses. We want to encourage more people to choose to be train drivers and for the courses to be as good as possible.
- We strive to offer a safe and stimulating workplace for our employees. We offer excellent opportunities for development within the Group and have a recruitment process that prioritises internal applicants. *Read more on page 31.*
- We are working proactively to develop and/or evaluate new digital solutions that can simplify and improve life for our employees and our passengers aboard the trains.
- We are pursuing the creation of cutting-edge European rail competence in a goal-oriented manner, in order to establish a broad recruitment base.



## 6 Operational excellence and collaboration to improve punctuality

Due to its locked infrastructure, railways are dependent on the operational skills and collaboration abilities of those who operate on them. This dependency is even greater if the infrastructure itself is burdened with deficiencies that create disruptions. Punctuality is the industry's greatest operational challenge and it requires combined efforts. Operators cannot optimise their own systems ahead of the overall structure within which they operate. Everyone must understand and assume responsibility for the whole.

This entails that train operating companies must pursue improved quality work. Although such efforts are ongoing, the issue is whether they are sufficiently prioritised, as they must be pursued at both industry-wide and individual company levels. Through the industry initiative, Together for Trains on Time (TTT), the Swedish Transport Administration, SJ and other train operating companies, contractors and Swedish trade associations are collaborating to achieve 95 percent punctuality by 2020. In 2016, a collaboration forum for the railway industry, Järnvägsbranschens Samverkansforum (JBS), was established with the aim of jointly driving improvements to increase the robustness, competitiveness and profitability of Swedish rail.

When we as an industry are better at what we do – the appeal of the rail industry as a whole increases. This is crucial to our ability to retain and recruit committed employees.

### How SJ is meeting the challenge:

- We have assumed a very proactive role in industry-wide initiatives to improve punctuality and the consequential problems caused by delays. At the same time, we are continuing to reduce the proportion of self-generated disruptions by improving the quality of our rolling stock and processes. *Read more on pages 37–38.*
- We are striving for punctual travel throughout Sweden – not only between the big cities. SJ's traffic network is built on connections between lines, which means that all trains must come and go on time for the network as a whole to function.
- We cooperate with our suppliers to ensure that our trains maintain a high quality in every respect. *Read more on page 33.*
- SJ has been using an integrated and certified management system that encompasses quality assurance (ISO 9001), the environment (ISO 14001) and occupational health and safety (OHSAS 18001). We evaluate and develop our management system with the support of the European quality model, EFQM. *Read more on page 46.*

## 7 In pace with digitalisation

Present-day digital technology offers great opportunities for industry participants as well as users. Communication between traffic management and operators is vastly improving and traffic is subjected to fewer disruptions. For passengers, high-speed Wi-Fi on trains is providing even greater opportunities to use their travel time efficiently. For freight transportation, the digital tracking of freight and packages is a matter of course nowadays and the technology continues to be developed.

The trend toward increased digitalisation is particularly driven by our passengers, who want to obtain information and purchase tickets at any time of the day using a computer or mobile phone. Increased digitalisation is also the result of the EU directives for TAF TSI (freight)/TAP TSI (passengers),

where TAP TSI is aimed at enabling passengers to obtain information and purchase tickets for journeys between EU countries. The directive also imposes requirements on planning to be implemented using systems that communicate with each other, meaning that train operating companies are to communicate electronically and in an integrated manner with the Swedish Transport Administration on the planning of timetables, in order to create traceability.

To be one of tomorrow's industries, as operators in the train industry, we must also continue to leverage relevant technological developments and act as the driving force within our own sector. Generally speaking, this pertains, for example, to new traffic management systems, where digital tools can analyse the present traffic situation and service needs on the tracks. At the customer interface level, the new technology is not only an enabler for simplicity, but also for features that make the journey joyful.

### How SJ is meeting the challenge:

- We have launched a new mobile app, new responsive web pages and new ticket machines, in order to be present where the customers are present – online. SJ was ranked in the top ten of the list, "Digital leaders in Sweden 2017" and as an industry leader in digital marketing and digital product experience, by the IT consultancy, BearingPoint. *Read more on page 36.*
- We test exciting digital functions together with passengers, using the app, SJ Labs. *Read more on page 22.*
- All passengers have free 4G Wi-Fi on our high-speed trains and double-deckers. In late 2016, new technology was installed on board the X 2000 to provide improved and faster internet. Free Wi-Fi is also available in several sleeper and couchette wagons on the Gothenburg–Stockholm–Östersund–Duvud and Stockholm–Malmö lines.
- Our on-board employees are aware of any passengers with international connections, provided that the entire journey was purchased from the same source. This enables the dissemination of disruption information to them when needed, in accordance with TAP TSI. We have also made excellent progress in our efforts to digitise the planning of timetables, staffing and rolling stock, as well as rolling stock maintenance.
- We have an active role together with players such as the Swedish Transport Administration in the "Digital Rail" collaboration, which is aimed at evaluating and analysing how rail can be improved through increased usage of technology. One focal point is dynamic traffic management, which minimises consequential delays when problems occur on one of the routes.
- Our train drivers are equipped with ever-better digital aids when operating the trains – a work method that would manifest as significantly improved punctuality if used by all operators.
- In 2017, SJ will continue to develop toward a higher degree of status-based maintenance by introducing new support for collecting data feeds from rolling stock and infrastructure. The data will improve the operational decision support, provide improved conditions for planning maintenance and increased possibilities for analysis in order to identify improvement activities.

To be one of tomorrow's industries, as operators in the train industry, we must also continue to leverage relevant technological developments and act as the driving force within our own sector.

# A 160 year-old with a strong future

**The SJ Group posted historically strong earnings in 2016.** The continuing high demand for rail travel and successful efforts to lower the Group's cost base resulted in a rise in operating profit for the year to SEK 837 million (625) and an improvement in the operating margin to 8.9 percent (6.9). Sales for the year increased to SEK 9,336 million (9,052).

**Aggressive strategy showing results.** SJ currently has a stable business based on two pillars – the company's own commercial services and tendered services – with a long-term, profitable position in the travel market. We have improved our business basis compared with three years ago, when we commenced work on our strategy for the future. By developing more efficient work methods, digitalisation of our services and placing considerable emphasis on factors that create value for our customers, we have reduced the Group's cost base by nearly one billion kronor and created competitive long-term operations. During the year, we also restructured the organisation to further leverage all our businesses synergies. Competition has also driven internal development and contributed to increased customer-centric operations. Our focus is to continue providing a competitive offering together with attractive prices.

Sweden has undergone rapid digitalisation, making it a natural process for SJ. We are developing digital solutions, both to support internal processes and to provide a personalised interface with customers and passengers. In the spring of 2016, SJ launched a new, modern website and a new app, both of which have become greatly appreciated by our customers. At year end, we were able to announce that more than 100,000 passengers use the app daily and that it had been awarded the Swedish Design Prize for its user-friendliness. Of tickets sold by SJ in 2016, 95 percent were bought through our digital channels: sj.se, SJ's app and ticket machines – channels through which we can also meet passengers' high demand for quick and customised traffic information. This has resulted in SJ being ranked in the top ten list of Sweden's most digitised companies and as an industry leader in digital marketing and digital product experience by the IT consultancy, BearingPoint. This confirms that we are on the right track.

Our success with tendered services means we started 2017 with several new agreements. In June 2016, SJ started services on the Kinnekullebanan (Kinnekulle Line) and in December, we began to operate regional services in Mälardalen and Tåg i Bergslagen. In early 2017, it was clear that SJ's agreement would be extended for the operation of night-train services in Upper Norrland up to and including 2020.

Our only setback was the tender for commuter rail services in Stockholm County. During the autumn, we undertook substantial work to transfer the operations with the goal that the handover should not impact passenger experiences, while providing the new operator with favourable preconditions.

**Demand for train travel with SJ continues to rise.** In the past five years, train travel rose more than 10 percent and the increase is expected to continue at a rate of slightly more than 10 percent for each forthcoming five-year period, until 2040.

We have worked hard to increase SJ's attractiveness among our passengers and in the entire Swedish population. These efforts have delivered results. SJ's 2016 Customer Satisfaction Index rose to 70 (66) and more people are choosing to travel with SJ's trains.

In 2016, the number of journeys under SJ's independent operations rose by two percent to 28 million. Travel with SJ AB (measured in passenger kilometres) increased three percent year-on-year. This does not include all the other journeys we provide under assignment by national and regional authorities.

The greatest increase in journeys was within regional services, which enable people to live in one location and to work in another. Journeys on inter-city lines also continued to increase – they are crucial to the expansion of metropolitan areas and contribute to growth throughout the country. In this regard, SJ has a vital role in our regional and national rail services, by both linking Sweden together and being the link to our neighbouring countries to the West and South.

One of the greatest success factors in the travel trend on all of our lines is the work method we established two years ago, to customise the selection and offering in our various submarkets. We are seeing distinctly positive results this year: each line is a unique business that comprises special conditions and opportunities, in terms of both profitability and demand.

**Safe and punctual travel with SJ.** With our vision, "SJ – to rely on and look forward to" in mind, safety and punctuality are SJ's most pressing issues of importance and, together with good service, constitute our three promises to customers. SJ collaborates with other rail industry participants to ensure 95 percent punctuality for all types of services: long-distance trains, regional trains and commuter trains. The greatest challenge is to generate punctuality for journeys with long-distance trains. Consequently, we at SJ are focusing on what we can influence to improve punctuality. In the past year, punctuality has seen a positive trend, primarily in regional services, where nine out of ten trains generally arrive at the stated time. Long-distance and high-speed trains continue to be more challenging in a rail system that supports different trains and speeds on the same tracks.

**The dialogue with our various passenger groups is a natural component of our operations.** In the continuous development of our customer offering, we request the help of frequent travellers and other passenger groups. Among other things, this has resulted in SJ now releasing tickets four times a year, which makes it simple for our passengers to find inexpensive journeys further ahead of time, which has clearly impacted sales. In conjunction with the development of the new X 2000, our passengers also helped to test the new seats, which are a crucial component of strengthening the customer experience.

SJ is considerably involved in the development of Sweden and has a vital role in the dialogue between the business community and municipalities with respect to traffic service offerings and changes that impact local public transport. During the year, we participated in dialogues with various stakeholder organisations and cooperated on the development of regional commuting and tourism. This has resulted in our increasing services to and from Umeå, Oslo and Copenhagen in 2017, and in Mälardalen, where there are frequent travellers and high demand. Night-train services to and from Jämtland were adapted to demand and as of spring 2016, we have been operating only during periods of sufficient demand. Stockholm–Östersund day trains continue to run as before.



”  
For the past five years, train travel rose more than 10 percent and the increase is expected to continue at a rate of slightly more than 10 percent for each forthcoming five-year period, until 2040.

**A sustainable SJ.** We control and manage operations based on three perspectives: societal, environmental and economic, which jointly contribute to a focus on sustainability in everything we do. As a market-leading train operating company in Sweden, punctuality is our most important sustainability target, from a societal perspective. Sustainability also requires committed managers and employees who actively contribute to the development of SJ, so that our customers will choose us as a mode of transport. SJ is to be an attractive workplace. Consequently, a low rate of absence due to illness is a strategic sustainability factor and we are investing in raising the rate of healthy attendance by expanding the offering to our employees, which includes health, exercise and wellbeing. We cooperate closely with occupational healthcare services and the Social Insurance Office, with a particular emphasis on the return to work of long-term sickness absentees.

As of 2017, we are applying an increased focus on diversity on the basis of all aspects of discrimination. For the next few years, we will focus on ethnic diversity in particular. SJ should reflect Swedish society both internally and when interfacing with our passengers aboard trains, in travel centres and at customer services. Our Code of Conduct for employees and suppliers specifies how we are to act with respect to each other and to other parties.

SJ is a part of the solution for attaining the target of reducing carbon emissions in society, through its distinct environmental profile and low emissions in operations. When more people choose to leave their cars or to swap air travel for rail travel, it contributes to the meeting Sweden's climate targets. For long distances, train travel is always the most sustainable mode of travel. This is something we are proud of.

**The next few years** will continue to be characterised by increased competition, the need for punctuality-improvement measures by SJ and the industry in general, as well as a continued emphasis on sustainability issues, cost efficiency and profitability improvements.

As the Swedish population grows, the need for travel increases, primarily in localised public transport and long-distance commuting to work. To create new opportunities for the future, we are renewing our rolling stock over the next five years by modernising the X 2000 trains, preparing for the procurement of new high-speed trains for long-distance routes and refurbishing our night trains. This will allow us to offer additional modern trains with superior comfort and to increase our capacity.



To fully match the increased demand, we need continued investments in the maintenance and upgrade of rail infrastructure. We are also seeing major opportunities with the planned very high-speed tracks that will match the increased demand and shorten travel time, and thus contribute to the development of Sweden.

The future is exciting and the deregulation of rail services is a topic being discussed in our neighbouring countries and within the EU. With the opening of a deregulated Europe, many train operators will prepare for the impending competition, in the same manner as SJ has done for the past few years. In 160 years, SJ has acquired considerable knowledge that we utilise to offer attractive solutions with a cost-efficient work method for the tenders we participate in. This will be highly advantageous for us, despite SJ being a small player compared with other European train operating companies. Our challenge, and our opportunity, is to develop our core operations and expand our market in the Nordic region.

Stockholm, March 2017



Crister Fritzson  
Chief Executive Officer

# Trains are a prerequisite for a sustainable Sweden

Rail connects cities and regions. As the market-leading train operating company, SJ links Sweden together, as well as the capitals of Scandinavia: Stockholm, Copenhagen and Oslo. SJ is a part of the solution for achieving Sweden's climate targets. We enable many people to choose train travel – the most sustainable mode of transport for longer distances.

Numerous factors are increasing train travel, including a growing population, economic growth, more ambitious climate targets and increased awareness of the environmental benefits of trains. Continued growth is to be expected. Increased supply from more train operating companies, increases the pressure on the tracks and their need for maintenance and expansion. This is true not only for Sweden, but also our neighbouring countries and the rest of Europe.

## The European rail market

The European rail network is not harmonised. The countries employ different standards and technical systems, which complicates cross-border rail services. The work to reduce these obstacles has continued in 2016 within the framework of the EU's Fourth Railway Package. The package focuses on distinguishing infrastructure from traffic with the aim of

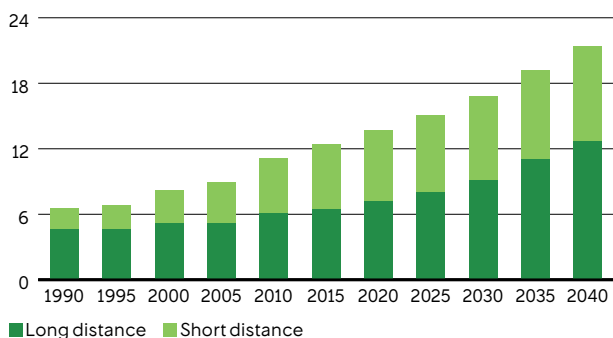
encouraging competition and the implementation of necessary structural measures and technical reforms.

The Fourth Railway Package entails the opening of the markets for national passenger services throughout the EU to competition as of 2019 and the joint establishment of EU-approved rolling stock. In addition to increased competition within the railway industry, the package aims to create improved connections with the EU, as well as its neighbouring countries. The changes are also aimed at contributing to the attainment of emissions targets and promoting increased rail transportation. According to the schedule, by as early as 2020, it should be possible to apply for train paths and capacity for commercial services throughout the EU.

## The Scandinavian rail market

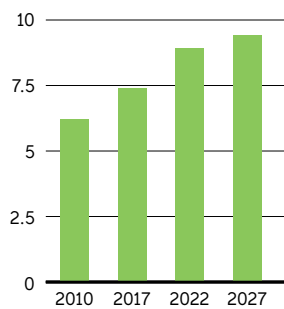
Passenger services on trains have increased throughout Scandinavia for the past few years. In terms of the number

Outcome and forecast for the train market-services in Sweden, billions of passenger kilometres



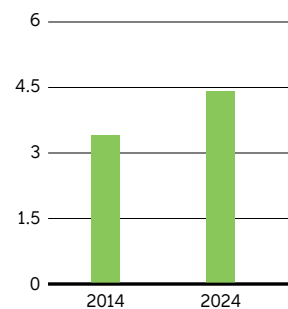
Source: The Transport Analysis Agency, Swedish Transport Administration and SJ analysis

Outcome and forecast for the rail-services market in Denmark, billions of passenger kilometres



Source: The Danish Transport and Construction Agency

Outcome and forecast for the train-services market in Norway, billions of passenger kilometres



Source: Statistics Norway for 2014, SJ analysis for forecast

## SJ's journey from steam-engine to app



**1856** Affärsverket Statens Järnvägar, SJ, is founded. SJ's first train runs from Gothenburg to Jönköping.

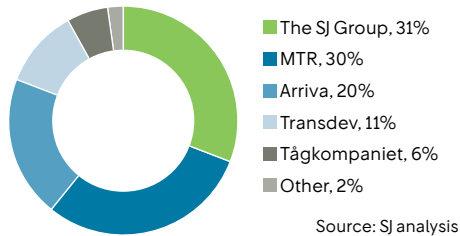
**1860** Stockholm rail-road is built on completion of line to Södertälje. In the next few years, both the Western and Southern main lines are opened.

**1872** Trains are fitted with toilets, but only in the first and second class compartments.

**1879** Sweden adopts national standard time based on Gothenburg local time. Prior to the arrival of rail, every city had its own local time.



Estimated market share within tendered rail services in Sweden, 2017



of rail journeys per inhabitant, Denmark scored the highest by far, with 37 trips per inhabitant in 2014. Both Norway and Denmark have set up infrastructure funds for financing continued infrastructure development.

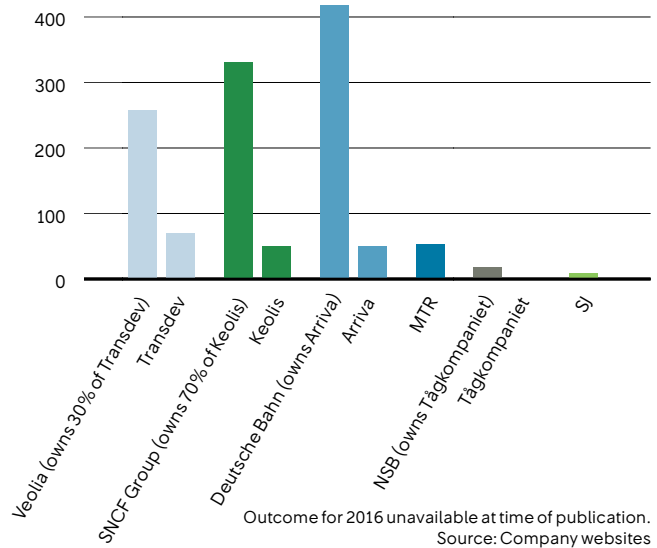
In Norway, Stortinget has resolved to break up the monopoly of the Norwegian state-owned train operator, NSB. Developments in Norway are expected to proceed quickly and the first route will be open to tendering in 2017. A decision is yet to be made in Denmark as to whether the train monopoly should be broken up, but the political climate points to deregulation.

### The Swedish rail market

The deregulation of the European rail network has an impact on Sweden. European train operating companies will need to go through the same processes that Swedish operators have already gone through to become more competitive. This will probably result in increased competition, even in Sweden, as more operators establish themselves beyond their home markets, using improved products and more aggressive pricing. In this regard, SJ has a head start on both commercial lines and tendered services, since Sweden was one of the first countries in Europe to deregulate its rail market.

The competition in rail services that SJ faces can be divided into two categories. The first comprises operators that compete with SJ for passengers on commercial lines. This form of competition occurs side-by-side on the tracks. The second category comprises operators who compete with SJ to secure agreements for tendered services and where the winner is usually granted exclusive rights to service specific routes or regions.

Global sales in 2015 for operators on Swedish rail, SEK billion



All of the train operating companies that have established themselves in Sweden are backed by a major foreign company and are, in most cases, owned by foreign state-owned parent companies. MTR Nordic, which operates both commercial and tendered services in Sweden, is 75-percent state-owned by China via the Hong Kong government agencies. Arriva is a subsidiary of Deutsche Bahn, which is German state-owned and Tågkompaniet is a subsidiary of Norwegian state-owned train operator, NSB.

On many routes, SJ's commercial services face competition from tendered services. This applies to, for example, the Uppsala–Stockholm route, where SJ operates commercial services independently, and where Storstockholms Lokaltrafik (SL) and Upplands Lokaltrafik (UL) also service the route with tax-subsidised local traffic services. On several routes around the country, the situation is similar. This distorts the competition and hinders SJ from operating profitable services, not only on the routes exposed to competition, but on all of the commercial train lines that coincide with the route. In the long term, this could risk knocking out national train services.

**1897** SJ procures its first three dining carriages.



**1910** SJ is the first in the world to provide third-class sleeping cars, which had already been available in the first and second classes as early as the 1870s.

**1920** Rail brakeman jobs disappear when SJ installs compressed air brakes on its trains.

**1939** The Swedish Parliament resolves that all private rail is to be nationalised. Voluntary agreements are signed with various companies that own more than half of the Swedish rail network.

## Swedish rail infrastructure

The Swedish railway was first established in the 1850s and has since expanded and now comprises more than 16,500 km of tracks. However, no extensive expansion of the rail system has occurred since 1964, when the final section of the double-track between Stockholm and Malmö was opened. The role of rail for passenger services has been changing for the past few decades and the number of passenger journeys on our rail system has nearly doubled in the past 20 years. All categories of travel have increased, with regional train travel accounting for the greatest increase. Fast and efficient train commuting has made it possible for people to live ever-further from the location of their work or school. This allows for a more flexible labour market and stronger national economy.

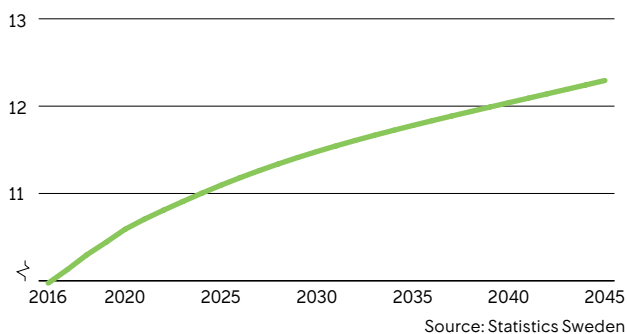
Increases in rail travel have resulted in maximum capacity utilisation on the Swedish rail network. The situation is particularly critical around big cities. When capacity utilisation for an individual route section exceeds 75 percent, which happens in and around our large cities, delays cannot be recovered and punctuality is at risk of being low.

With the major maintenance obligations and frequent disruptions in mind, the government set aside additional resources for rail maintenance through its infrastructure bill in autumn 2016.

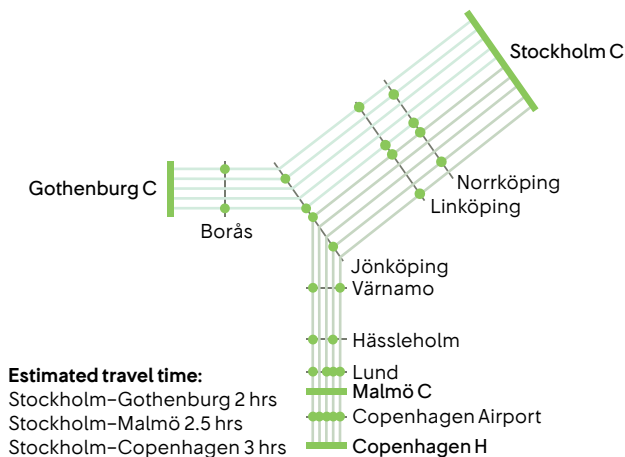
## High-speed rail – an enabler

Sweden's population has grown sharply in recent years and growth is expected to continue. In early 2017, we reached 10 million inhabitants and in 2035, when the new very high-speed tracks might be completed, Statistics Sweden expects

Projected population growth in Sweden, millions



Potential service with very high-speed trains



that we will have 11.8 million inhabitants. Additional inhabitants will entail more journeys to work, school, vacation and in the course of work. A greater population will also lead to a greater need for transporting goods and freight. For the transport system to cope with the increased capacity requirements, while living up to established climate objectives, a larger portion of people must choose trains. Faster and more punctual rail services are requisite to the continued attractiveness of trains, and require major investments in both existing and new rail infrastructure.

Building very high-speed rail connections would meet the increased demand while helping to link Sweden together through shorter travel times. For example, very high-speed tracks would mean that a journey between Stockholm and Gothenburg will take two hours, while travelling between Stockholm and Copenhagen would take approximately three hours. The shorter travel times will also open up many new commuter routes. For example, in one hour, passengers would be able to travel comfortably between Linköping–Stockholm, Jönköping–Gothenburg and Värnamo–Malmö. The proposed track network will entail approximately 75 percent of Sweden's population living within 60 minutes of one of the planned high-speed train stations. Labour market regions will be created as a consequence, which will be significantly larger than current regions and create conditions conducive to continued economic growth and increased international competitiveness for Sweden.

**1963** The Swedish Parliament resolves that "every category of transport must be economically self-sustaining." Many train stations are closed and replaced by bus services. SJ becomes the country's largest bus service operator.

**1988** National rail is divided into the Swedish Railway Administration and Statens Järnvägar, SJ.



**1990** High-speed train X2000 has its premier run.

**1995** The Swedish Parliament's resolution from the preceding year opens up Swedish rail to free enterprise.





International experience indicates that shorter rail travel times result in more people choosing trains over other forms of travel. SJ's assessment is that during rush hour, a train needs to depart every six minutes from Stockholm to Gothenburg or Malmö, and every 15 minutes from Norrköping, Linköping and Jönköping. New high-speed tracks would also result in relieving and increasing the capacity of existing tracks when they are served by trains with less differences in speed. This generates positive after-effects for both regional and freight trains, which could be tripled.

Through the infrastructure proposal of autumn 2016, the government has set a goal for new main lines for very high-speed trains to be built at a pace appropriate to the Swedish economy. The purchase of very high-speed trains is a major investment that will probably not be justifiable unless we know when we can operate on a full route, either Stockholm–Malmö or Stockholm–Gothenburg. Therefore, it is urgent that construction is planned and implemented in a manner that shortens the time from the completion of the first partial route to the opening of a terminal route in its entirety. Otherwise, there is significant risk that other considerably slower forms of traffic may be established, leaving no space for very high-speed trains.

### In pace with technological development

The rail industry's internal and peripheral technological developments are taking giant leaps forward at a time when "smart society" is developing and everything is increasingly online and connected. The further development of

measurement methods and usage of data sent from rolling stock and detectors in infrastructure are helping to improve punctuality and comfort. For example, the data from status monitors is used to plan preventative maintenance before deficiencies impact traffic and to identify opportunities for improvement.

Technological development means that ever-more processes are being digitised, for customers and passengers, and internally. Passengers are imposing ever-greater demands on real-time digital information, particularly when it comes to disruptions. Increased digitalisation is also leading to increased automation, where products and services are no longer delivered by people. In France, tests are already underway with a robot that answers passengers' questions at the train station, and in the autumn 2016, SJ tested a digital travel buddy on board the train who answers simpler questions.

Technological development also means that other modes of traffic are becoming smarter and more environmentally sound. One example of this trend is self-driving electric cars that will be an increasingly common feature on our roads in the future. Electric cars are a vital complement to public transport for shorter routes and in areas that cannot be reached by trains and busses. For longer routes, trains will be unsurpassed from now on, since they are more energy efficient and have the capacity to transport considerably more people. In addition, rail takes less space than multi-lane roads and trains can go faster than cars.

**1997** SJ tickets are bookable online.

**2000** Statens Järnvägar is divided into six companies. SJ AB is responsible for passenger services.

**2010** The Swedish Railway Administration becomes a part of the Swedish Transport Administration.

**2012** High-speed train SJ 3000 has its premier run.

**2016** SJ introduces new [www.sj.se](http://www.sj.se) website, new app and new ticket machines.



# Cooperation generates value

Customers and passengers are SJ's most important stakeholders. SJ's employees interact with them daily before, during and after their journeys. Our dialogues on how to design our offerings are critical to our continued competitiveness. We endeavour and are expected to live up to high expectations.

## SJ's stakeholder dialogue

### Customers/passengers

Relationships with customers and passengers are crucial in determining SJ's success and growth. Read more about SJ's customer offering on pages 22–23.

*Dialogues:* Continuous dialogues via SJ's sales organisation, customer service, on-board personnel and social media. Other dialogues comprise customer and test panels whereby customers and passengers give their opinions and participate in the development of new products and services.

*Follow-up:* The Customer Satisfaction Index including, among other items, the service index (on a quarterly basis).

*Issues in focus, 2016:* Delivery of customer promises, SJ's actions when customer promises cannot be kept, personalisation of customer offering.

### Owner

SJ is wholly owned by the Swedish state. The overriding objective for the owner is that SJ's operations should be conducted efficiently with a long-term approach to ensure sustainable value creation.

*Dialogues:* Ongoing dialogues with the Division for State-Owned Enterprises at the Ministry of Enterprise and Innovation, Board meetings and annual general meetings.

*Follow-up:* Interim reports, annual and sustainability reports, corporate governance reports, presentations and other reports (ongoing).

*Issues in focus, 2016:* Monitoring of corporate sustainability, very high-speed tracks.

### Employees

SJ is defined by its employees. The commitment and performance of employees is decisive in terms of reliable operations and satisfied customers. SJ is to offer a safe and stimulating workplace.

*Dialogues:* Cross-functional dialogues, focused dialogues for on-board staff with contributions from upper management, employee survey, career-development dialogues, workplace meetings and other internal channels. Dialogues with the employees' union representatives.

*Follow-up:* Leadership index (yearly), performance index (yearly), performance contracts, absence due to illness (monthly), service index (monthly).

*Issues in focus, 2016:* Employee contribution to increased punctuality, SJ's long-term strategy and objectives, and the common thread from there to the individual employee's personal performance contract.

### The Swedish Transport Administration

The Swedish Transport Administration is the foremost supplier and collaboration partner for delivering efficient rail traffic to passengers. Collaboration with the Swedish Transport Administration includes strategic work on timetables and maintenance on the railway, as well as operational work regarding traffic conditions.

*Dialogues:* Strategic, tactical and operational meetings. SJ maintains contact with the Swedish Transport Administration at all levels, from a daily to quarterly basis.

*Follow-up:* Punctuality statistics (weekly).

*Issues in focus, 2016:* Industry target of 95 percent punctuality and joint projects for achieving this.



SJ has a vital role in society. Individuals, organisations and companies rightfully impose stringent requirements on SJ as a company and expect much more than a smooth journey. SJ is expected to assume responsibility for rail operations' collective impact on people and the environment, and to generate societal value.

To live up to the expectations, it is crucial that we are aware of and understand the motivations of our stakeholders. Our close dialogues with customers, passengers and other stakeholders provide valuable insight that forms the basis for fur-

ther developing SJ's offering. Cooperation with stakeholders is to build on mutual trust, respect and openness, and should be an integrated feature of SJ's work method.

We cooperate on a strategic, tactical and operational level with our key stakeholders. Cooperation on a tactical and operational level is a matter of close day-to-day cooperation, such as the day-to-day contact with the Swedish Transport Administration concerning traffic-related issues or the day-to-day dialogue with customers and passengers aboard trains and through social media.

### Legislators

Decisions on new legislation, infrastructure, taxes and fees impact the railway and SJ's competitiveness. SJ often participates as a referral body for investigations and when new legislation is being prepared.

*Dialogues:* Regular meetings with regional and local representatives as well as other decision makers.

*Follow-up:* Ongoing analysis of the operating environment.

*Issues in focus, 2016:* ID checks on journeys from Denmark, new European legislation on accessibility, new EU statute on personal data protection and application of Swedish Public Transport Act.

### Suppliers/partners

SJ works proactively applying a long-term approach together with its suppliers and partners to be able to deliver and develop a travel experience that customers and passengers appreciate.

*Dialogues:* Continuous dialogues, renegotiation and tenders, as well as follow-up and development of existing and new services.

*Follow-up:* Supplier and partnership assessments (quarterly), ongoing follow-up of agreements and sustainability audits.

*Issues in focus, 2016:* Punctuality, sustainability and establishment, as well as development of in-depth partnerships.

### Media

SJ wishes to be perceived in the way in which it acts, namely as a transparent, open and proactive force in public debate. Our relationship with the media plays a pivotal role here.

*Dialogues:* Round-the-clock press telephone, interviews, press conferences and social media.

*Follow-up:* Media monitoring and analysis (ongoing).

*Issues in focus, 2016:* New X 2000 train, increased regional presence and dialogue, increased presence in social media.

### Associations/organisations

SJ collaborates with associations and organisations to develop the railway and, together, to create tomorrow's sustainable travel.

*Dialogues:* Exchange of information, training and collaboration – for example, for the countryside, commuters and people with disabilities.

*Follow-up:* Customer Satisfaction Index (quarterly).

*Issues in focus, 2016:* Accessibility, number of departures and departure times.

### Regional PTAs

SJ operates rail services under contract to regional public transport authorities (PTAs) and SJ's rail services form part of the regional public transportation programme.

*Dialogues:* Personal contacts and industry forum.

*Follow-up:* Follow-up of agreements, meetings and dialogues (ongoing).

*Issues in focus, 2016:* Quality including punctuality, passenger satisfaction.

# How we generate value

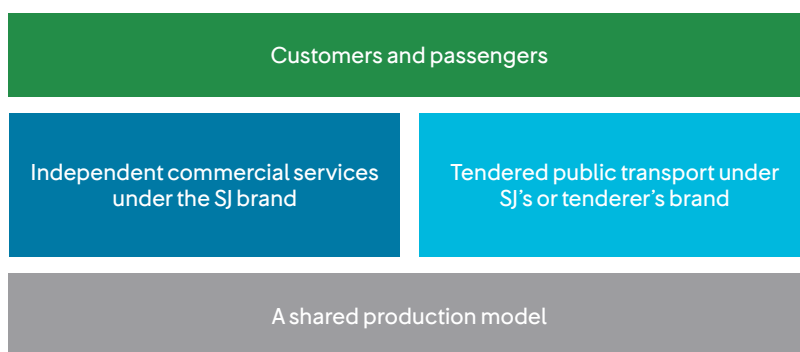
Our vision is to be an SJ to rely on and look forward to. We will achieve this by realising our mission in accordance with our values and strategy. SJ shall offer the market's most customer-oriented and sustainable travel, both independently and in collaboration with others. We are to be the best at meeting customers' needs and generating value socially, environmentally and economically. SJ's business model is based on treating each line as a unique business.

As the market-leading train operating company in Sweden, with the people of Sweden as our owners, it is natural for us to assume an active responsibility for developing sustainable travel for tomorrow. SJ has a profitability requirement from its owner, the Swedish state, and the owner's directive makes it clear that state-owned companies are to be exemplary with respect to corporate sustainability. Consequently, sustainability work is fully integrated into SJ's business practice. We conduct operations under commercial terms, and apply a

balanced target scenario with six control areas to ensure sustainable value generation with social, environmental and economic responsibility. Read more on pages 29–30.

SJ is a values-driven organisation. Our core values – Reliable, Simple, Caring and Joyful – govern how we act, both externally and internally. These core values are directly linked to value creation to the extent that they impact our product development, delivery and day-to-day interaction with our customers, partners and other stakeholders.

## SJ's strategic business focus



## Our customers and passengers

Every day, 130,000 people choose to travel with SJ. We have three categories of customers – private individuals, corporate customers and tenderers (regional and national government agencies). The customers – those who pay for journeys – are not always those who travel. Therefore, we differentiate between customers and passengers. Both have needs that must be met and both have demands on SJ's deliveries. The shared fundamental needs of all passengers are safety, punctuality, simplicity and comfort. The perception of value-for-money is also of significance when choosing the means of transport and operator, as is the perception of environmental impact.

Private customers pay for their own journeys and mainly travel as part of their daily commute or as a form of leisure. In addition to private customers, SJ has corporate customers from both the commercial and public sector. More than 8,000 corporate agreements are signed through SJ Biz, and more than three million journeys were undertaken within this concept in 2016. The third category of customers comprises regional and national authorities that procure services.





## Two revenue models – the same production model

SJ operates commercial services independently and tendered services procured by regional public transport authorities or national service tendering agencies. The model for traffic production is basically identical, which gives SJ significant competitive and large-scale advantages.

### Independent commercial services

We operate our commercial services under four train concepts: SJ High-Speed Train, SJ InterCity, SJ Regional and SJ Night Train. The high-speed train is SJ's premium product with short journey times, high levels of comfort and access to Wi-Fi, a bistro and 1st Class. SJ InterCity partly services the same routes, but has longer travel times, somewhat less comfort and lower prices with our locomotive trains. SJ Regional is for travel on simple and short routes. The concept is designed to meet the needs of commuters. SJ Night Trains allow passengers to sleep in couchettes, sleeping cars or private 1st Class compartments.

Commercial services are always operated under the SJ brand and we are fully responsible for the development, sale, production and delivery of our customer offerings.

Dynamic pricing is a central feature of SJ's revenue model for the services that we provide independently. Dynamic pricing is aimed at providing several options to travel inexpensively and to allow us to optimise revenues by matching offers with the demand, price and load factor. Popular departures have higher prices while departures with less demand have lower prices. This results in more balanced load factors throughout the day and season.

SJ's business model and value generation is based on treating each line as a unique business. All lines and contracted services must contribute to reaching SJ's goals. This means that all lines and agreements have a business manager with the authority to implement customisation in order to satisfy the needs of passengers as far as possible and to generate profitability and contribute to the attainment of SJ's other goals.

### Tendered services

Tendered services pertain to line systems and routes on which public-service obligations are imposed. In accordance with the Swedish Public Transport Act, one of the main assignments of the Regional Public Transportation Authority (PTA) is to make decisions about general public-service obligations for public transport based on the regional public transportation programme, which the community is expected to assume responsibility for and sign agreements on. All decisions on general public-service obligations are to be derived from the regional public transportation programme. Decisions on general public-service obligations may only be made by the PTA and may pertain solely to regional commuter or interregional public transport.

Tendered services are carried out on assignment by the tenderers (procurers), after the operators have competed for the tender assignment. Examples of tendered services are regional and commuter trains in Western Sweden, which SJ operates via its wholly owned subsidiary, SJ Götalandsståg. The ordering authority sets the requirements, and the operators are suppliers of traffic and other contracted services.

The government agency, the Swedish Transport Administration, procures long-distance services that are considered crucial to society. The Swedish Transport Administration procures air, sea, bus and train services, such as night-train services to and from Upper Norrland. The Norwegian Railway Directorate procures regional and interregional rail services with geographically limited concession agreements. This means that operators primarily compete for tenders and only to a limited extent for tracks.

Three contract formats dominate tendered services: 1) pure production agreements, where the operator has little influence on rolling stock, route services and ticket prices 2) service concessions, where the operator has more freedom to influence the design and 3) procurements of SJ's services, where authorities purchase the validity of their tickets for SJ's commercial services. Various incentives to increase earnings may be included as part of production agreements, as well as penalties. Concession agreements comprise opportunities to impact products and prices, and benefit from successful add-on sales.

# Strategic development with three horizons

SJ has a long-term strategic plan based on major changes facing the train industry. The strategy is aggressive and aims to meet increased competition in both commercial and tendered services. In addition, SJ is to utilise the business opportunities generated by improvements to rail infrastructure and continued deregulation in Europe.

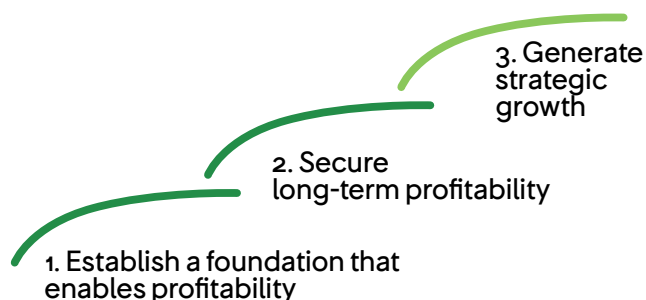
SJ's strategy requires extensive change work and this change work has been pursued with three horizons since 2013. Although we are pursuing parallel activities for all three horizons, in the next few years our distinct focus will be on the first two. The first horizon pertains to establishing a sustainable and competitive cost base, the second is aimed at securing long-term profitability and the third on generating strategic growth. The common thread is a focus on customers and core operations. For example, this means that all three horizons are imbued with a focus on areas such as punctuality and an enhanced passenger experience.

In 2013, the target was set to reduce SJ's cost base by about SEK 1 billion measured over the full year by 2017 – a target we will deliver. The reduction of the cost base is achieved firstly through direct measures to lower costs and, secondly, through investments aimed at lowering running costs and raising productivity, over time.

## Continuous work on profitability

A competitive unit cost is a prerequisite for long-term profitability. This involves consistent and continuous work, since competitors are also working to reduce their costs. Efficient and robust production with standardised processes are a prerequisite for competitiveness, while profitability generates scope for aggressive investments.

While SJ continues to work on horizon one, we are doing what we can to secure long-term profitability under horizon two, in order to generate strategic growth under horizon three.

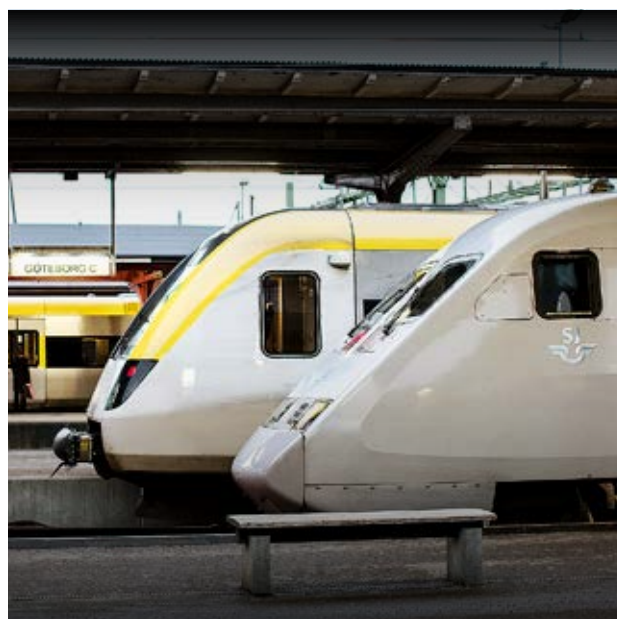


## For both commercial and tendered services

By operating in both commercial and tendered services, we will have the preconditions to capitalise on synergies that lower our costs and strengthen our competitive advantages through better access to rolling stock, increased rolling-stock know-how and opportunities to offer superior comprehensive solutions to customers and passengers.

With commercial services, SJ is to be a competitive train operating company on all the lines we service. Short travel times, frequent departures and attractive arrival times support competitiveness against other train operating companies and modes of transport. Punctuality and increased offerings are strengthening profitability on several lines. SJ is working proactively to increase service offerings in order to secure the goal of being a competitive train operating company on all commercial lines. We are also cooperating closely with the country's regional services to be able to jointly offer passengers cohesive public transportation.

SJ is also to be a leading operator in tendered rail services. In the next few years many services will be procured in Sweden, Norway and, probably, in Denmark. This will create opportunities for SJ to increase its share in the Scandinavian train-services market.





## Focus areas under horizons 1 & 2

### Achieve 95 percent punctuality

We will reach 95 percent punctuality for both long-distance and regional services by 2020, by working autonomously and through industry collaborations. Punctuality is requisite to the continued competitiveness of rail over other modes of transport, if passengers are to choose trains and SJ.

### To be an even more attractive employer

SJ is to be an attractive company to work for. Committed employees are crucial and by means of dialogue, involvement and developed leadership, we are creating conditions conducive to positive performance and the development of the company. We are building a strong employer brand with the capacity to attract the best skills in the market.

### Renew rolling stock

We will renew and develop our rolling stock to ensure an attractive customer experience, competitive operating costs and a high degree of accessibility and reliability.

### Build a stronger brand

We will improve our understanding of specific customer expectations and translate these insights into efficient deliveries before, during and after their journeys. It is crucial that customers have confidence in us and feel that we keep our promises. In this manner, we are creating a strong brand over time. We also need to clearly explain to our customers how we are distinguished from other travel alternatives.



### Ensure the quality of infrastructure

We are dependent on infrastructure to achieve 95 percent punctuality, and we are collaborating with the industry to improve infrastructure at the appropriate locations and to earmark additional funds for maintenance and equipping rail facilities.

### Continue to emphasise safety first

Traffic safety permeates everything that we do. Therefore, we need to ensure that we will retain the skills and capacity to pursue traffic safety based on expected technological shifts moving forward.

### Develop our simple and attractive offerings

We will have simple and attractive customer offerings that meet the

needs of our customer groups. To be cost efficient, our customer offering must be standardised and at the same time, personalised, based on the requests and requirements of each customer.

### Leverage the potential of digitalisation

We are to stay at the cutting edge when it comes to digitising our operations. There remains considerable potential to create efficiency enhancements, new customer offerings and entirely new business segments through continued investments in digitalisation.

### Have an efficient and robust delivery process in place

We will have an efficient and robust delivery process with a clear business focus. We are meeting market needs and demands in an efficient manner, by staying ahead of planning and delivery.

## Focus areas under horizon 3

### Evaluate rail services in Norway and Denmark

Deregulation has begun in Norway and the first tenders were under way in 2017. SJ is considering and evaluating services in our neighbouring Scandinavian countries.

### Leverage opportunities when the EU deregulates

We will be well-positioned to establish services beyond Scandinavia when Europe opens up pursuant to the EU's Fourth Railway Package.

### Broaden our offering in tenders

When the markets and demand change, we may need to broaden our offering, either autonomously or through partnership arrangements,

with the aim of strengthening our core business. This applies mainly to tendered services.

### Very high-speed trains

SJ is actively working to install a high-speed rail system that is designed according to customer needs and which fulfils the prerequisites for profitability. With a very high-speed rail system properly installed, we will be the leading operator with new trains adapted to the purpose. Read more on pages 14–15.

# Focus on customer value

SJ exists solely because we have passengers who choose to travel with us. Consequently, passengers are SJ's single most important stakeholder.

With the aim of strengthening trains as a travel alternative, continuous and systematic dialogues are being conducted with all customer groups on how to best develop our offering based on their needs, and how to make interaction with SJ simpler and more enjoyable for passengers. Although making things simpler for customers does not necessarily mean making it simpler for SJ, we constantly challenge ourselves to provide our customers and passengers with better experiences.

## We aim to keep our promises

Arriving safely at the destination at the right time is the highest priority for our passengers. Consequently, safety, followed by punctuality, are SJ's most pressing issues of importance and, together with good service, constitute our three promises to customers. To improve punctuality, we are working on many fronts, both autonomously and through the industry initiative, Together for Trains on Time (TTT). Read more on pages

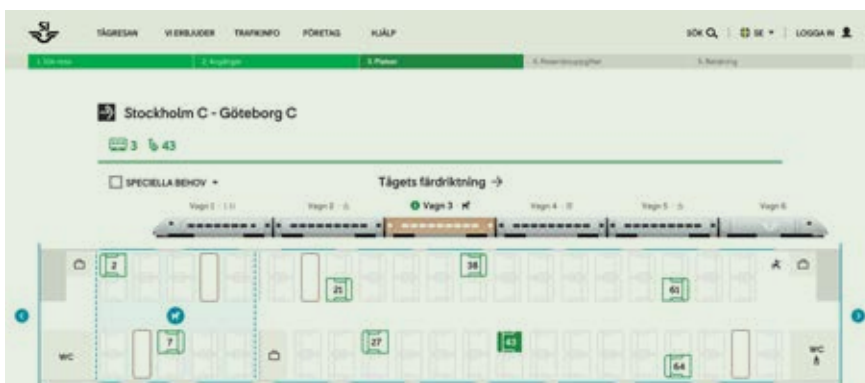
37–38. Travelling with SJ is safe and secure. This applies to the perceived safety on board the trains, where on-board personnel have a great responsibility, and the knowledge that SJ will not evacuate a train on the tracks unless the safety of passengers can be guaranteed. We are working systematically and proactively with all security issues that are important to our customers, passengers and employees, and we monitor changes in our operating environment and adapt to any changes in needs that may arise. Safety work is conducted in collaboration with other players in rail services. Read more on page 34.

Good service makes travelling with SJ joyful. Whenever one of our promises cannot be kept, we always strive to provide the simplest possible resolution to our passengers. This is accomplished through, for example, correct and relevant traffic information, forecasts for when services may resume and by providing replacement services.

## New app simplifies before, during and after the journey



At the beginning of the year, SJ launched its new mobile app, which was developed in close collaboration with our passengers. The app allows users to search for and book journeys, process tickets, see current traffic information and contact customer services. More than 100,000 passengers use the app daily, and it was awarded the Swedish Design Prize for the category, Device – Smartphone. The award highlighted aspects such as user-friendliness. In February 2017, an English version of the app was launched, with the same functions as the Swedish.



## Seat map simplifies bookings for passengers

Being able to choose a seat while booking a train ticket was one of the requests from our passengers. In 2016, seat maps were thus introduced to SJ's booking system and seats can now be reserved on our high-speed trains.



## Seasonal ticket release

To simplify our passengers' planning and search for inexpensive journeys, SJ implemented its first season ticket release in March, through which all the tickets for day trains during the summer season were released. As a rule, we now have collected ticket releases four times a year, about three to four months in advance of a season.

## SJ's digital laboratory

SJ Labs is our innovation laboratory where we obtain the assistance of our customers to test and develop new ideas and functions. In early 2016, the SJ Labs mobile app was launched for testing functions that use new digital technologies. One of the functions that have so far been tested is SJ's digital travel buddy. It is what is known as an intelligent chat bot, which fetches answers to frequently asked questions from a database and adapts them to the specific train the passenger is travelling on. The digital travel buddy provides quick answers to simpler questions that may arise on board the train, such as what is being served in the bistro or what the rules are for luggage.







### New traffic offering

Our passengers requested more departures and therefore, SJ increased its service offerings in 2016 on several of the lines under SJ's independent operation. The number of fast-speed train departures on the Stockholm–Oslo and Stockholm–Umeå lines were increased. We also returned to regular frequencies on the Stockholm–Copenhagen line and increased services in Mälardalen. Night-train services to and from Jämtland were adapted to demand during the year and, in 2017, we plan to provide 115 night-train departures in each direction.

### Train length adapted to travel patterns

We want as many people as possible to travel on our trains and work continuously to optimise the number of wagons. Reservable seats can be added to our high-speed trains by our connecting together several train sets, which in rail terminology is known as "multing." For popular regional train departures, we add wagons if necessary, so that everyone can be seated.



### Loyalty to SJ on the rise

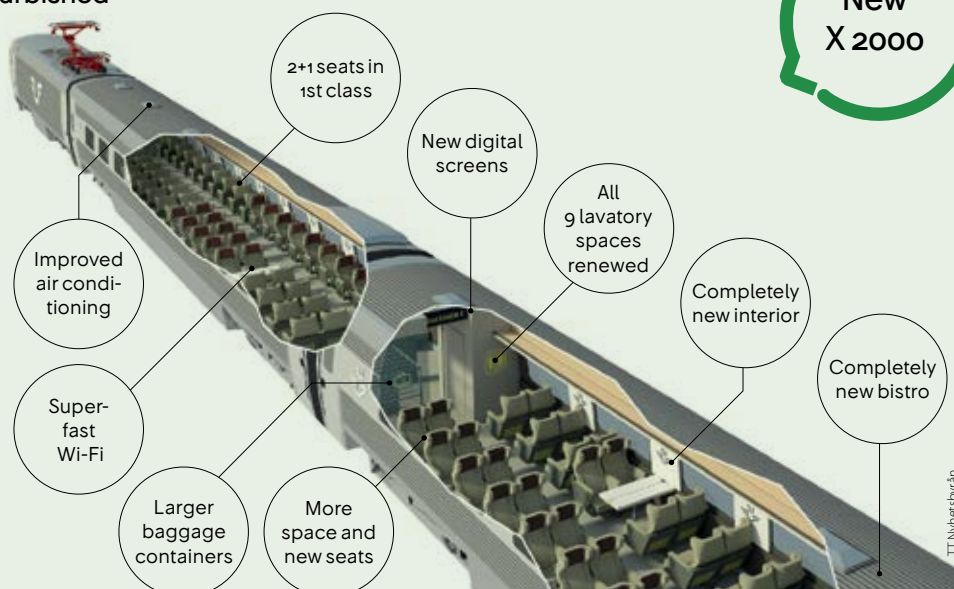
In 2016, more than 200,000 passengers chose to join SJ's loyalty programme, SJ Prio, which now has more than one million members. In the interest of improving conditions for our most loyal passengers, a third SJ Lounge was opened in September, this time in Malmö. There, annual card holders, 1st Class passengers and black-level SJ Prio customers are offered a pleasant and enjoyable environment before their journeys. Our employees are available in the lounges to provide assistance with rebooking tickets and answers to questions.

### Discounts at SJ for all students and pensioners

In March, we introduced discounts for all students. On the SJ High-Speed Train and SJ Night Train, students receive up to 15 percent discounts and on the SJ InterCity and SJ Regional, the discount is up to 30 percent. SJ has also simplified the rules so that anyone 65 years of age or older now receives a 10-percent discount on train journeys with SJ. The new pensioner discount is also valid for early pensioners.

### Sweden's most popular train refurbished

In the next few years, SJ will invest about SEK 3.5 billion in the X 2000 fleet. The trains will receive entirely new interiors and new on-board technology that will result in improved air-conditioning, faster Wi-Fi and new seats with improved space and comfort. The bistro on the new X 2000 trains will be rebuilt to create an enjoyable on-board meeting place for people to have a bit of food, a glass of wine or cup of coffee. Passengers will also be able to experience SJ's food concept with a focus on KRAV-labelled and seasonal, eco-friendly commodities. The overall goal of the new X 2000 train is to provide a more joyful train experience for our passengers. All of the X 2000 trains will be modernised and delivered by 2020.



# Climate, customer value and profitability go together

"Maybe it wouldn't have hurt to have had some balloons," said one of SJ's passengers in Alvesta, when Radio Sweden asked if he had noticed SJ's 160th anniversary celebrations. It is amazing how SJ engages people and that so many people wanted to join in the celebrations. On 1 December 2016, we celebrated SJ's anniversary with coffee, cake and balloons at many of the stations we serve. Functioning rail links are crucial out in the countryside. Efficiently linking Sweden together is a prerequisite for growth in smaller communities and the opportunity to live and work anywhere in the country.


SJ has a self-imposed responsibility to society that far exceeds its owner's financial objectives. We govern our entire operations based on the societal, environmental and economic benefits we deliver. The owner has tasked SJ with operating profitable passenger rail services. The wording of the assignment clearly specifies that SJ is to pursue commercial operations, meaning that its core operations must be profitable. This requires reasonable conditions.

Although we welcome competition, the regulatory framework must be well-defined, well-designed and well-matched to the overall service benefits provided by various participants. Public transport legislation must be in place to ensure that unprofitable routes are also serviced. However, its current form is open to fine-tuning, since tax-funded services provided on behalf of regional public transport authorities are allowed to compete with commercial ser-

vices. Naturally, this erodes the commercial dynamic, not only in those sections that are exposed to such competition. The Swedish Parliament needs to review the consequences of the legislation.

**Sweden is ahead in terms of deregulation** and it is now becoming clear that competition on the tracks does work. Although a former monopoly can only lose market share, an expanded offering drives demand and a growth in volume also enables SJ to grow. SJ can lead the way and demonstrate the advantages of deregulated rail with market growth, higher customer value and reduced environmental impact resulting from more people choosing the train. Ever more markets in our proximity are currently being deregulated and this entails opportunities to expand our operations beyond Sweden. Norway is first in line.

It is vital that we install a European rail system that is more cohesive. We must be active in various EU contexts and pursue a Swedish perspective – we are for competition within well-defined and harmonised regulatory frameworks, and we believe that rail can grow through the creation of genuine customer value. It should be possible to travel medium-length routes to the European continent and within it; for example, Stockholm–Hamburg should be a natural option. In continental Europe, long-distance rail travel is more commonplace, while in Sweden, we can travel between Stock-



“  
SJ is owned by the people of Sweden and this imposes special requirements on how we act. We do not act solely in our own interest, but in a manner that allows the train industry as a whole to develop and thrive.”



holm and Malmö, but not any further, by train. Long-distance travel would be facilitated by very high-speed rail services.

We are in favour of very high-speed rail and its great dynamic effects – for the rail industry, the cities served and their extensive catchment areas, as well as for Sweden as a whole. Any investment in rail logistics requires thorough analysis of its effects. We must set requirements and measure the results of implemented investments, and thereby facilitate larger investments for tomorrow.

We are now positioning ourselves to enter the high-speed rail segment. Thanks to our positive performance, the financial prerequisites are already in place.

**SJ is owned by the people of Sweden** and this imposes special requirements on how we act. We do not act solely in our own interest, but in a manner that allows the rail industry as a whole to develop and thrive. This has proven to have favourable repercussions on our profitability. This year, SJ posted some of its best results to date. I would like to thank everyone who chose to travel with SJ, as well as our employees and management for the excellent job they have done.

It is particularly satisfying to know that more people are choosing to travel with SJ. To achieve our climate goals, more people must choose to travel by train and, in this regard, we have a shared responsibility with each and every inhabitant of Sweden. The state must ensure the availability of a rail infrastructure that measures up – today and tomorrow. As operators, we need to make more people choose trains by offering good and reliable rail solutions. Climate goals and customer value go hand-in-hand.

At the very core, our business is centred on providing customer value. We have invested considerable effort into developing good train journeys while working unceasingly with problems common to the rail industry. Although punctuality has improved for both SJ and the industry in general, we are a long way from our goals. The road to achieving them is built on working collaboratively and understanding the fundamental nature of our operations. The rail industry has complex processes and multiple participants simultaneously, and to keep it cohesive, operational excellence must be a key characteristic common to for everyone involved. We produce journeys every second. The Swedish Association of Railway Industries (SwedTrain) is an initiative to create conditions conducive to collaboration within the rail industry, with an emphasis on customers and passengers. Rail has so many inherent qualities. We have at our disposal a form of transport that already solves many of today's problems: noise, congestion and emissions. As a market-leading train operating company, SJ has a particularly major responsibility to ensure the full utilisation of rail's potential through positive collaboration.

**Our efforts are beginning to pay off**, not only in terms of financial results, but also in the form of an improvement in the Customer Satisfaction Index. Our passengers appreciate that we are delivering good journeys of high value. On the other hand, our brand index (BI), which also encompasses those who do not travel with us, is considerably lower. This paradox points to a reputational deficit with the Swedish people in terms of delays, dysfunctional trains and winter problems that will take a long time to repay. This is an image that lives on in the collective consciousness, as well as in



media coverage. However, the more satisfied customers we have, the better our reputation will be.

We should also strengthen our brand by demonstrating the usefulness of our efforts in other areas, such as sustainability and personnel policy, where we strive to be exemplary and engage in proactive public debate. These aspects of our operation can also be appreciated by those who don't choose to travel with us.

SJ aims to be the world's best workplace! This is based on a pleasant work environment, sound terms and conditions, on our employees being delegated responsibility, to be able to grow and to be appreciated – which contributes to a higher rate of healthy attendance. However, this also pertains to values and confidence in the future. SJ is a values-based company and values determine the preferred workplaces of people with a sense of commitment. The availability of skills is crucial to our future. Many people want to work in an industry that is part of a dynamic and sustainable future, and for a company that actively assumes corporate responsibility and drives development.

Stockholm, March 2017

Jan Sundling  
Chairman of the Board

# Directors' Report

The Board of Directors and Chief Executive Officer of SJ AB (corporate registration number 556196-1599) hereby present SJ's annual accounts and consolidated financial statements for the 2016 financial year. All amounts are in SEK million, unless otherwise indicated. Rounding differences may occur.

## Key figures

	2016	2015	2014	2013	2012
Net sales, SEK million	9,336	9,052	9,065	9,023	8,504
Operating profit, SEK million	837	625	568	298	467
Operating margin, %	8.9	6.9	6.2	3.3	5.4
Profit/loss for the year, SEK million	650	471	460	220	471
Return on operating capital, %	20.0	13.2	11.5	5.7	8.6
Net debt/equity ratio	0.0	0.19	-0.07	0.04	0.14
Investments in tangible and intangible assets, SEK million	390	525	828	448	1,116
Cash flow for the period, SEK million	-23	-248	265	-240	272

For definitions, refer to pages 99–100.

## Significant events in 2016

- On December 11, the train timetable for 2017 came into effect, which entailed SJ's inauguration of regional services for the agreement signed with Tåg i Bergslagen and the agreement signed with MÅLAB in Mälardalen. The agreements are for 10 and four years, respectively. In conjunction with the change of timetable, SJ increased the number of high-speed train departures on the Stockholm–Oslo line from three to four daily departures, added one early-morning Karlstad–Oslo departure, and increased the Stockholm–Umeå line from three to four daily departures. SJ also returned to regular frequencies on the Stockholm–Copenhagen line and increased services in Mälardalen. SJ launched a new Gothenburg–Varberg train line in partnership with Västtrafik and took over as the provider of services on the Gothenburg–Halden line.
- On December 11, SJ's wholly owned subsidiary, Stockholms-tåg, discontinued the operation of commuter trains in Stockholm County when the agreement expired. This resulted in about 800 employees leaving the SJ Group in mid-December, when they were transferred to a new operator.
- In August, SJ's partly owned Botniatåg discontinued passenger traffic operations on behalf of Norrtåg when the agreement expired. Botniatåg is jointly owned by SJ AB (40 percent) and Arriva Sverige AB (60 percent), a subsidiary of the German company, Deutsche Bahn. The expiration of the agreement has not had any impact on SJ's earnings.
- On June 19, SJ commenced operation of the Västtågen at the Kinnekullebanan (Kinnekulle Line), Gothenburg–Lidköping–Mariestad–Örebro, on behalf of Västtrafik. Several efforts were made to improve traffic safety, quality and environmental conservation. The agreement runs up to and including December 2024, with the option of extension for another three years.
- On July 1, the Supreme Administrative Court of Sweden denied SJ permission to appeal the ruling given on its case against the Stockholm County Council's decision on general public-service obligations in Mälardalen. Consequently, the decision will gain legal force, which means that services on the Mälärbanan can be opened to tender. SJ claims that decisions leading to the displacement of publicly funded, subsidised public transport by commercial services are in breach of the Public Transport Act.

- As a part of efforts to modernise Sweden's fastest train, the X 2000, SJ has signed an agreement with Swedtrac Rail Services AB, to manage the creation of an entirely new interior for SJ's new X 2000 trains.
- In 2016, all of SJ's ticket machines were replaced.

## Expected future development

On December 11, SJ's wholly owned subsidiary, Stockholms-tåg, discontinued commuter-train operations in Stockholm County upon expiration of the agreement. This resulted in about 800 employees leaving the SJ Group in mid-December, when they were transferred to a new operator. The SJ Group's sales for the full-year will decline from SEK 9.3 billion in 2016 to about SEK 7.5 billion as a consequence.

Promoting increased travel by train is a key component of SJ's strategy to expand the business and generate strategic growth. SJ continuously evaluates methods for growing the business by analysing new and existing lines, both domestic and international.

On February 14, 2017, SJ's Board of Directors made a strategic decision to invest approximately SEK 150 million in the conversion, upgrade and comfort enhancement of all of SJ's night-train wagons. The Board also made a strategic decision to prepare for the tendering of some 30 new high-speed trains for long-distance routes.

In the next few years, many tenders will be procured in Sweden, Norway and, probably, in Denmark. This will create opportunities for SJ to increase its share in the Scandinavian train-services market.

## SJ's operations and market

SJ AB is a train operator that is wholly owned by the Swedish state, and based in Stockholm. SJ's core business is rail services and the company mainly operates in the markets for regional and long-distance travel within Sweden, as well as to Oslo, Halden, Narvik and Copenhagen. The operations are divided into two categories: own commercial services and tendered public transport. In 2016, the Group's rail services were conducted by the Parent Company and by the subsidiaries SJ Götalandståg, Stockholmsståg and SJ Norrlandståg. Other subsidiaries have limited activities that are closely related to rail services.

Domestic travel is showing a positive trend in Sweden, driven by a growing population and economic growth. SJ estimates that total rail travel (measured in passenger kilometres) in 2016 increased by two percent year-on-year. Lower retail prices and more choice contributed to the increase. The increase in air and road travel in 2016 is estimated at 3 percent, due to lower fuel prices. In 2016, travel with SJ AB and SJ Norrlandståg (measured in passenger kilometres) increased two percent year-on-year.

Numerous factors are increasing rail travel, including more ambitious climate targets and increased awareness of the environmental benefits of trains, and continued growth can be expected. The offering from more train operating companies is on the rise, even though the pressure on the tracks and their need for maintenance and expansion is increasing. This is true not only for Sweden, but also in neighbouring countries and the rest of Europe.

The European rail network is not harmonised. The countries employ different standards and technical systems, which complicates cross-border rail services. The work to reduce these obstacles has continued in 2016 within the framework of the EU's Fourth Railway Package. The package focuses on distinguishing infrastructure from traffic with the



aim of encouraging competition and the implementation of necessary structural measures and technical reforms.

The Fourth Railway Package entails the opening of the markets for national passenger services throughout the EU to competition as of 2019, and the joint establishment of EU-approved rolling stock. In addition to increased competition within the railway industry, the package aims to create improved connections with the EU, as well as its neighbouring countries. The changes are also aimed at contributing to the attainment of set targets on emissions and promoting increased rail transportation. According to the schedule, by as early as 2020, it should be possible to apply for train paths and capacity for commercial services throughout the EU.

In Norway, Stortinget has resolved to break up the NSB's monopoly. Developments in Norway are expected to proceed quickly and the first route will be open to tendering in 2017. A decision is yet to be made in Denmark as to whether the train monopoly should be broken up, but the political climate points to deregulation.

Increases in rail travel have resulted in maximum capacity utilisation on the Swedish rail network. The situation is particularly critical around big cities. When capacity utilisation for an individual route section exceeds 75 percent, which happens in and around large cities, delays cannot be recovered and punctuality is at risk of being low. With the major maintenance obligations and frequent disruptions in mind, the government set aside additional resources for rail maintenance through its infrastructure bill in autumn 2016.

For the transport system to cope with the increased capacity requirements while living up to established climate objectives, more passengers must choose trains. Faster and more punctual rail services are a prerequisite to the continued attractiveness of trains, and require major investments in both existing and new rail infrastructure. Building very high-speed rail connections would meet the increased demand while helping to link Sweden together through shorter travel times.

The government's infrastructure proposal in autumn 2016 has set a goal to build new main lines for very high-speed trains, which will proceed at a pace appropriate for the Swedish economy.

## Significant risks

Risk is inherent in all business activities, but also entails opportunities. Good knowledge of the risks faced by SJ

allows for the planning of activities in place to minimise them, so that their negative impact can be limited and their related opportunities can be leveraged effectively. SJ defines risk as an event that could affect SJ's ability to achieve its goals. SJ works with risk assessments systematically. The Risk and Safety Forum is responsible for coordinating the organisation's support for risk management. The forum works preventively, by identifying and minimising risks, and through monitoring, by ensuring impact reduction and preventing the recurrence of past events. The Risk and Safety Forum also leverages opportunities that may arise. Tasks are implemented within established processes to identify operational, business and market risks, including those of a financial and non-financial nature, based on SJ's scorecard. The process involves all divisions, subsidiaries and staff units, which enables grassroots support and greater awareness throughout the organisation, and more effective risk identification. Every identified risk has a distinct owner within the organisation.



The risk-management process entails that the Executive Management monitors changes in the risk assessments on a quarterly basis to decide whether there is any need to take additional action, or whether new risk areas should be assessed. The risks are prioritised on the basis of likelihood and impact, and linked to activities designed to manage the risks. The risks are then measured based on SJ's six scorecard areas. The Risk and Safety Forum is responsible for, and presents, risk reports to the Executive Management, which in turn carries out risk reporting to the Board.

In 2016, work continued to restructure and systemise risk-management, and tools such as a new risk matrix were created. The matrix is used to evaluate risks based on SJ's scorecard areas. A selection of identified risks is presented under the summary of risks on page 28.

## Uncertainties

In January 2013, the Swedish Competition Authority lodged a claim that SJ be ordered to pay a procurement claim charge for losses resulting from the company's breach of the Procurement within the Water, Energy, Transport and Postal Services Sectors Act (LUF). SJ contested the claim. On 10 January 2014, the Administrative Court in Stockholm rejected the Swedish Competition Authority's claim. In the grounds for its ruling, the Administrative Court stated that

## Risk management roles

Responsible 					Reports 				
Board	Executive Management	Risk and Safety Forum	Risk Council	Divisions, staff units and subsidiaries					
Establishes roles and responsibilities through the Risk Policy. Receives a six-monthly summary of the most significant risks in the Group, and the status of activities related to these risks.	Determines six-monthly risk reporting to the Board. Receives a regular summary of the most significant risks in the Group, and the status of activities related to these risks. Ensures that adequate resources are in place for SJ's compliance with the requirements of its Risk Policy.	Determines quarterly risk reporting to the Executive Management. Responsible for coordinating the organisation's support for risk management. Works preventatively and with monitoring.	The Risk Council, comprising representatives from all divisions, staff units and subsidiaries, is mainly responsible for the following: <ul style="list-style-type: none"> <li>• leads and handles risk reporting to the Risk and Safety Forum</li> <li>• coordinates support for divisions, subsidiaries and staff units in the application of risk management methods</li> <li>• monitors the risk position in each division, subsidiary and staff unit, ensures that the completed risk analyses are adequate and remain updated</li> </ul>	All employees are responsible for identifying and reporting risks. Managers at all levels are responsible for identifying and reporting risks, and are also responsible for taking risk-management measures in their sphere of responsibility.					

SJ's operations do not fall within the scope of LUF and as such, the Act is not applicable to SJ's procurements. The Swedish Competition Authority appealed the Court's decision through the Administrative Court of Appeal. In June 2015, the Administrative Court of Appeal ruled in SJ's favour, effectively denying the Swedish Competition Authority's appeal, since the court found that LUF is not applica-

ble to SJ's operations. The Swedish Competition Authority requested permission to appeal the judgement through the Supreme Administrative Court of Sweden on 24 June 2015. The Supreme Administrative Court of Sweden granted permission to appeal on 8 March 2016, which means that the case will be tried by the highest legal authority.

### A selection of identified risks<sup>1</sup>

Control area	Risk	Potential effect	Activity
Employees	The risk that SJ does not achieve its targets for absence due to illness	Loss of expertise, lower quality and increased expenses	Early work-capacity assessments in partnership with occupational healthcare services to identify employees with repeated absence due to illness and ensure quick return to work for long-term sickness absence.  Continued work with occupational healthcare services and the Social Insurance Office with the aim of improving and streamlining processes and collaboration.
Partnership and Resources	The risk that SJ's suppliers fail to live up to the requirements of SJ's code of conduct for suppliers	Adverse impact on the SJ brand	In 2016, SJ initiated closer monitoring of compliance with SJ's code of conduct for suppliers, based on initial assessments. Suppliers such as those involved in the modernisation of the X 2000 were audited. In 2017, more thorough sustainability audits will be conducted to ensure compliance with SJ's code of conduct for suppliers.  In 2017, current work on supplier assessments, supplier grading and supplier auditing will also be improved.
Society	Risk of disruptions in critical IT systems	Adverse impact on the SJ's deliveries to customers	SJ's subcontractor has moved the operation of SJ's booking system to a new data centre. This, combined with new communication lines, is aimed at increasing the stability of the customer-oriented sales systems.
Customer	Risk of diminished capacity and availability of rail infrastructure due to critical and/or delayed maintenance work, or reduced speeds due to the substandard condition of infrastructure	Adverse impact on the SJ's deliveries to customers	Seven work groups are to partner with the Swedish Transport Administration to implement an 11-point programme to remediate infrastructure deficiencies.
Process	The risk that SJ does not achieve 95 percent punctuality for long-distance trains by 2020	SJ's long-distance trains become less attractive as a means of travel	To achieve the joint industry target of 95 percent punctuality by 2020, the train industry must work more efficiently together. Since 2013, the industry has been collaborating within Together for Trains on Time (TTT), where SJ is highly active. SJ also works to reduce the share of self-inflicted disruptions by strengthening the punctuality culture, focusing on the reduction of disruption hours caused by faults with SJ's rolling stock, and to improve and streamline the departure process by clarifying spheres of responsibility and developing digital tools.
Finance	The risk that public transport legislation fails to result in decisions pursuant to the intentions of legislators. The risk that regional enlargement and/or interregional collaboration results in a larger share of tendered services	The combination of these entails that tendered services will drive out commercial services	SJ actively pushes for the regulatory framework on competition and the tax financing of public transport to be well thought-out and unambiguous.
Finance	The risk that requisite expertise (primarily train drivers) is lacking in the train industry	Cancelled departures and higher expenses for contracted staff	SJ works actively on the boards of training coordinators for train-driver courses to encourage more people to choose to be train drivers and for the courses to be as useful as possible. SJ also strives to provide a safe and stimulating workplace for its employees, by offering excellent opportunities for development within the Group and using a recruitment process that prioritises internal applicants.

<sup>1</sup> Financial risks are excluded, since these are managed within the framework of the financial policy established by the Board. Financial risks are reported to the Board on a quarterly basis.



# Responsible management

## Integrated control generates value

SJ's mission is to offer the market's most customer-oriented and sustainable travel, both independently and in partnership with others. This means that we are to be the leaders when it comes to fulfilling customer needs – while ensuring that social, environmental and economic responsibility are all reflected in our entire organisation. Consequently, sustainability is a natural and integral part of SJ's business model and management.

SJ manages operations based on a value-generating holistic approach. Results are followed up on a monthly basis using a balanced scorecard that includes six control areas: Employees, Partnership and Resources, Society, Customer, Process and Finance. Read more in the Corporate Governance Report on pages 42–49.

## Materiality analysis

In 2015 SJ conducted a materiality analysis to identify and rank specific areas of greatest significance to SJ's long-term value creation. The outcome of the materiality analysis was discussed and verified in 2015 by a Board panel, customer panel, employee panel and supplier panel.

The Board and customer panels particularly emphasised the importance of security, punctuality and traffic information. The employee panel highlighted the importance of SJ's corporate social responsibility.

## Verification of the 2016 materiality analysis

SJ maintains an active dialogue with key stakeholders. In 2016, security, punctuality and traffic information were the issues of prime importance.

Some 170 suppliers were classified as medium or high-risk suppliers through an assessment based on sustainability. In 2016, SJ initiated more in-depth monitoring of compliance with SJ's code of conduct for suppliers, based on initial assessments. The monitoring has provided SJ with a relatively good understanding of the suppliers engaged and their potential risks. The overall risk is deemed to be low. Consequently, the Board of Directors has resolved that supplier assessments will no longer constitute one of SJ's long-term sustainability targets as of 2017. However, the new key figures from the completed sustainability audit (of about 170 medium and high-risk suppliers) will be followed up by SJ.

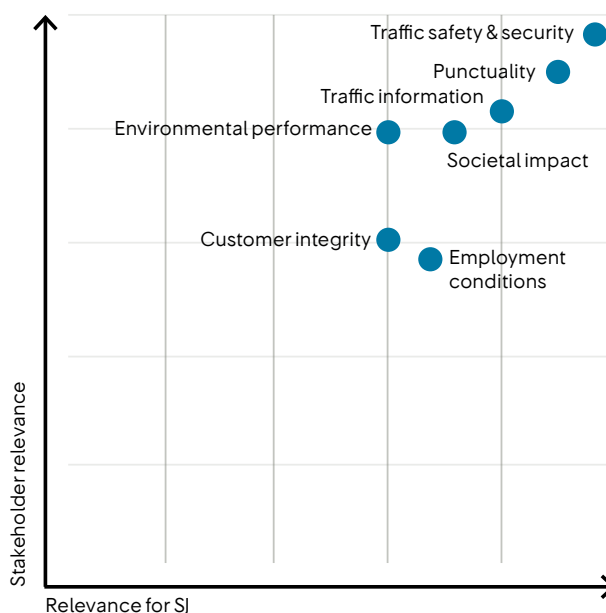
Purchases and suppliers will no longer be assessed as a material aspect for SJ in its GRI reporting. On the other hand, the completed supplier assessment and sustainability audits will continue to be monitored internally on a monthly basis via the scorecard.

## Balanced scorecard for long-term value creation

SJ uses a balanced scorecard to follow up on cases within six control areas. It is based on the expectations among SJ's stakeholders and our own ambitions to manage operations from multiple perspectives. Each control area comprises several key figures with clear ownership.

Each key metric has a target and is followed up on a monthly, quarterly and annual basis, which makes the scorecard a valuable tool for continuous improvements in a number of business-critical areas. Continuous monitoring also allows for deviations to be detected at an early stage, so that appropriate measures can be taken quickly.

## Significant issues for SJ



## Long-term sustainability targets

SJ's owner, the Swedish government, requires all state-owned companies to define corporate sustainability objectives. The objectives should be relevant to the operations pursued, as well as measurable and sufficiently ambitious. In 2016, SJ had three long-term sustainability targets adopted by the Board of Directors, pertaining to punctuality, commitment to society (SJ Volunteer), and supplier and partnership assessments.

In 2016, SJ's Sustainability and Ethics Committee reviewed the sustainability targets, which resulted in the Board's adoption of four long-term sustainability targets that are applicable as of 2017. Two of these, punctuality and SJ Volunteer, were inherited from the previous period. The new long-term sustainability targets pertain to absence due to illness, which was complemented by a metric for healthy attendance (percentage of employees who have not been absent due to illness during the previous six months) and diversity.

## Outcome for 2016 targets

The results in 2016 improved in several of the control areas, with a few key exceptions. Although punctuality improved in comparison with the preceding year, the target for the year was not achieved. It may prove to be challenging for SJ AB's long-distance trains to achieve the long-term target of 95 percent punctuality by 2020. In 2016, the punctuality of regional trains was quite satisfactory at times, but did not meet its target on an annual basis. Industry collaboration was deepened during the year to jointly generate long-term punctuality. Read more on page 37.

The traffic-safety index failed to meet its target due to an incorrect (too high) calculation of the production figure. Traffic safety has the absolute highest priority at SJ, where every incident or accident is one too many. Read more on page 34.

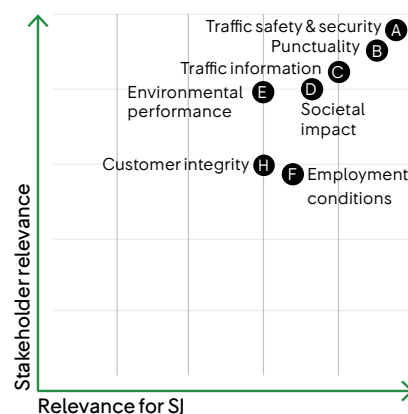
The outcome for SJ Volunteer improved in comparison with 2015, but fell far short of the set target. Activities are under way to encourage more employees to engage in non-profit work during work hours. Read more on page 34.

Read more about the outcome of all the key figures on pages 30–39.

## SJ's scorecard

	Out- come 2015	Target 2016	Out- come 2016	Target 2017	
<b>👤 Employees</b>					
Absence due to illness, %	6.5	5.6	6.6	5.6	F
Healthy attendance <sup>1</sup> , %				n/a	F
Leadership index SJ AB, full year	68	71	68	73	
Performance index SJ AB, full year	75	79	75	80	F
Diversity <sup>1</sup> , % foreign-born, as defined by Statistics Sweden				15	F
<b>🔗 Partnership and Resources</b>					
Supplier and partnership assessments completed <sup>2</sup> , %	40	60	>60	n/a	
Completed sustainability audits (of about 170 medium and high-risk suppliers) <sup>1</sup>				10	
<b>🏠 Society</b>					
Traffic-safety index SJ AB, SJ Norrlandståg, SJ Götalandståg	96.4	97.1	96.3	96.4	A
Brand index <sup>3</sup> SJ AB, BI	49	55	52	60	D
Environmental index SJ AB	73	74	76	75	E
SJ Volunteer <sup>4</sup> SJ AB, No. of hours	256	1,500	424	1,750	D
EFQM points, full year	560	550	560	650	
<b>👤 Customer</b>					
Customer Satisfaction Index, CSI, SJ AB	66	69	70	71	C
Customer Satisfaction Index <sup>2, 5</sup> Stockholmståg, CSI	66	70	68	n/a	C
Passenger satisfaction index <sup>5</sup> SJ Götalandståg's commuter trains, CSI	92	92	94	92	C
Passenger satisfaction index <sup>5</sup> SJ Götalandståg's regional trains, CSI	92	92	94	92	C
<b>🔄 Process</b>					
Punctuality of SJ AB's long-distance trains, 5 min, %	82	86	83	89	B
Punctuality of SJ AB's regional trains, 5 min, %	89	91	90	92	B
Punctuality Stockholmståg's commuter trains <sup>2</sup> , 2 min, %	91	93	91	n/a	B
Punctuality SJ Götalandståg's commuter trains, 3 min, %	92	94	92	94	B
Punctuality of SJ Götalandståg's regional trains, 5 min, %	90	93	89	93	B
Load factor <sup>2</sup> , SJ AB, %	50	49	51	n/a	
Regularity, SJ AB, %	98	98	98	98	B
<b>📊 Finance</b>					
Net debt/equity ratio	0.19	0.5–1.0 <sup>6</sup>	0.0	0.5–1.0 <sup>5</sup>	
Return on operating capital, %	13.2	7.0 <sup>7</sup>	20.0	7.0 <sup>7</sup>	
Dividend, share of net profit for the year, %	40 <sup>8</sup>	30–50	40 <sup>9</sup>	30–50	

SJ's materiality analysis related to the scorecard



**H** The scorecard currently has no key figure linked to customer integrity. Instead, customer integrity is reported using the GRI indicator G4-PR8 on page 95.

The economic effects of SJ's operations are found in the Societal impact area in the above materiality analysis and are reported under the Finance control area.

<sup>1</sup> New key figure from 2017.

<sup>2</sup> Key figure deleted in 2017.

<sup>3</sup> Measurement method refined in July 2015.

<sup>4</sup> Launched in the second quarter of 2015.

<sup>5</sup> Own measurement method, not comparable with the outcome for SJ AB.

<sup>6</sup> Target to be attained in the long term.

<sup>7</sup> Target to be attained on average.

<sup>8</sup> In addition, an extraordinary dividend of SEK 1,700 million.

<sup>9</sup> According to the Board's proposal.



### From vision to tangible work

Sustainable business is a natural and integral part of SJ's business model. With the company's vision, mission and values as the starting point, the societal, environmental and economic sustainability of SJ's operations is secured by measuring and monitoring the following control areas: Employees, Partnership and Resources, Society, Customer, Process and Finance. Each year, SJ applies the European measurement model, EFQM, to evaluate and develop SJ's management system. The model helps us to apply a structured and systematic approach to the measurement of SJ's position relative to the vision and the adopted targets.



## Responsible management: Employees

## Committed employees with the right preconditions

Each day, tens of thousands of customers and passengers interact with SJ. For every encounter with SJ to match expectations, SJ needs committed employees with the right preconditions. All internal and external interactions are based on SJ's internal code of conduct. Violations of the code can be reported to SJ's whistle-blower service. Read more on page 46.

### Dialogue with a focus on commitment

Having the right skills and authorities is a prerequisite for our employees to match customers' expectations. Dialogues between SJ as an employer and SJ's employees are thus a central part of our development as a company. Annually recurring elements of the employee dialogues include career-development meetings and accompanied journeys whereby employees receive coaching. The dialogues aim to set individual targets and a career-development plan for each employee.

SJ complements these meetings, accompanied journeys, weekly newsletters and intranet with cross-functional dialogues, through which employees and sections of Executive Management discuss relevant SJ-related issues.

SJ's annual employee survey investigates employees' work conditions and job satisfaction, and the outlook on providing the prerequisites for positive performance as well as how leadership contributes. The results are followed up closely, on both a company level and by breakdown per manager, and form the basis for the Performance and Leadership indices. Activities are initiated based on the needs identified.

### Change management creates opportunities

The change journey within SJ continues. Ever more processes are being digitised to give SJ a presence wherever customers are present, meaning online, and to provide more flexible solutions. A prerequisite for SJ's switchover is that managers must have change management competence and the ability to create conditions conducive to commitment and positive performance. During the year, we created a platform to provide a distinct focus for the activities we are designing within the leadership-development framework, such as leadership training, mentoring and coaching. The platform's backbone is more employee dialogues and less one-way communication.

### Diversity increases competitiveness

SJ works with diversity based on the Swedish Discrimination Act's seven aspects of anti-discrimination, to reflect society and to create an inclusive workplace climate characterised by respect, security and accessibility. To begin with, ethnic background is particularly in focus. In 2016, 15 percent of SJ's employees had a foreign background as defined by Statistics Sweden, compared with 18.5 percent for Sweden's working-age population.

An "SJ for everyone" enriches and creates pride and commitment, which is why SJ wants a culture that welcomes everyone. Diversity allows for new experiences and perspectives, and increases SJ's competitiveness by enabling us to better understand our customers' and passengers' needs, and thereby to capture new business opportunities.

### Focus on healthy attendance

SJ focuses on early identification of employees at risk of illness, to quickly provide support and implement any measures needed. One method is the thorough monitoring of employees with recurring short-term sickness absences. SJ proceeds with a focused and long-term approach to rehabilitation plans, in close collaboration with occupational healthcare services and the Social Insurance Office, to promote the return of employees absent from work owing to long-term sickness.

Absence due to illness in 2016 totalled 6.6 percent (6.5). Long-term absence due to illness (exceeding 14 days) declined at the end of the year.

A safe and healthy work environment is a prerequisite for healthy employees. SJ works preventatively by investing in ergonomics, access to wellness areas with relaxation rooms and fitness equipment, and health and wellness contributions.

SJ's safety focus is on ensuring that employees on trains, in depots and in travel centres, feel secure at work. Train employees receive personal safety and conflict management training, and carry personal alarms. SJ has procedures for taking care of employees who have been subjected to threats or violence, including a return-to-work plan.

Increased digitalisation and changes in work processes on trains have enabled the gradual reduction of train hosts. The changes made by SJ to work methods and staffing on trains in 2016 have imposed stringent requirements on leadership. In the autumn, SJ held extensive talks with the employees concerned, employee organisations and the safety organisation, to evaluate and, if necessary, to adapt the implemented changes. The dialogues also provided employees with the opportunity to discuss SJ's strategy and goals.

In the early autumn, the Swedish Work Environment Authority submitted an injunction calling for SJ to conduct a survey of the implemented changes to staffing and work methods, and for an action plan to be created to rectify any identified deficiencies. In February 2017, the Authority announced that the case was dismissed without any follow-up measures or conditions imposed on SJ. SJ continues to work systematically on improvements based on its action plan, together with the safety organisation.

### Attractive employer

SJ strives to be an attractive employer with a clear sustainability profile, recognised leadership, high commitment to health issues and excellent opportunities for development within the Group. The recruitment process prioritises internal applicants and internal career paths allow employees to continue developing within the Group.

Train drivers constitute crucial expertise, both today and in the future. We work proactively on the boards on training coordinators for train driver courses, to boost SJ's image as an attractive employer. SJ also provides a trainee programme for recent academic graduates. We visit exhibitions and universities, and accept trainees through initiatives such as Tekniskprången and the Swedish Migration Board's Team Praktik, which aim to offer recent arrivals their first contact with Swedish working life, while awaiting asylum notification.

### Gender distribution, %

	Dec 31, 2016	Dec 31, 2015
<b>All employees</b>		
Women	42	40
Men	58	60
<b>Managers<sup>1</sup></b>		
Women	46	42
Men	54	58
<b>Executive Management</b>		
Women	43	43
Men	57	57
<b>Board of Directors<sup>2</sup></b>		
Women	43	43
Men	57	57

<sup>1</sup> With subordinates but not a member of Executive Management.

<sup>2</sup> Refers to Board-elected representatives.

## Why use this key figure?

### Absence due to illness

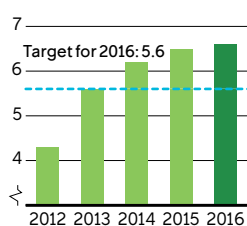
Employee health is a key indicator of the state of the company. By acting to reduce absence due to illness, we reduce our costs in both the short and long term. Employee health is crucial to the long-term sustainability of companies.

## Prioritised activities in 2016

- Recruited new rehabilitation coordinators within occupational healthcare services
- Project between SJ, occupational healthcare services and the Swedish Social Insurance Office launched to review collaboration and processes linked to absence due to illness
- Introduced new tools to monitor absence due to illness in real time and to quickly initiate measures

## Target and outcome

### Absence due to illness, %



Long-term absence due to illness (exceeding 14 days) declined at the end of the year.

## Planned activities in 2017

- Continued investment in processes for the rapid return to work of employees on sick leave. Early work-capacity assessments in partnership with occupational healthcare services to identify employees with repeated absence due to illness and ensure return to work after long-term sick leave
- Continued work with occupational healthcare services and the Social Insurance Office with the aim of improving and streamlining processes and collaboration

### Healthy attendance

Employee health is a key indicator of the state of the company. Employee health is crucial to the long-term sustainability of companies.

## New key figures from 2017

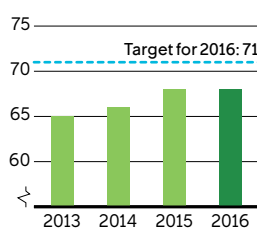
- Preventative work with healthcare continues with a wide range of activities, such as wellness contributions and local health inspirers, alongside focused investments in ergonomics and health screenings

### Leadership index

Leadership is crucial to the attainment of our targets. Managers are to ensure the utilisation of all employee expertise to develop SJ. This capacity is measured using the employee survey's Leadership Index.

- Completed an internal mentorship programme with some 50 managers, mentees and mentors, within a target group of first-line managers
- Completed a leadership development programme for managers linked to dialogues with 1,600 on-board employees

### Leadership index



The outcome for the major employee groups remained relatively stable, while the leadership in some departments improved.

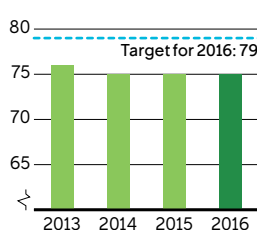
- Design basic training programme for managers within the framework of the leadership development platform
- Broad investment to create proactive meetings through courses, seminars and coaching

### Performance index

SJ's ability to create conditions conducive to employee performance is crucial to the attainment of our targets. It also drives health performance figures – employees who have the opportunity to do a good job feel healthier.

- Introduced new HR master, which means we now have a modern database with comprehensive information about our employees
- Conducted 80 dialogues about the future with train hosts and train drivers
- Shared-component work to design new model for time-tabling of travelling staff
- Tasked managers with securing performance contracts with all employees

### Performance index



During the year, major changes were made to work methods for on-board staff, which is reflected in the results. There are also challenges in other units comprising major employee groups.

- Ensure that all employees have performance contracts
- Trial timetabling with rolling three-month schedule for travelling staff

### Diversity

Diversity gives us new experience and perspectives, and increases our competitiveness. The key figures indicate how well SJ is reflecting the composition of society.

## New key figures from 2017

- Established the percentage of employees with foreign backgrounds
- Reviewed training courses, processes, job instructions and procedures for creating an inclusive workplace climate

- Set up diversity targets per division/staff unit
- Offer employees who interact with customers brooches on their uniforms to indicate the languages they speak
- Internship programme for new arrivals via Public Employment Services



## Responsible management: Partnership and resources

## Enhancing journeys together

SJ's collaboration with suppliers and partners is key to its ability to deliver, develop and improve the travel experience. Linkon ensures that SJ's customers are able to book and receive their tickets, Jernhusen and other property owners lease waiting rooms, while the Swedish Transport Administration is responsible for providing reliable infrastructure, allocation of train paths (track time) and departure information in waiting rooms and on platforms. Maintenance contractors ensure that trains are maintained according to needs and to the rolling stock's maintenance schedule.

SJ also collaborates with regional country traffic companies to enable passengers to get from door-to-door with public transport. Resplus travel combines means of transport and/or operators to provide passengers with a cohesive journey with an arrival-at-destination guarantee. As far as possible, SJ takes into consideration regional service departures when designing train timetables, to increase the attractiveness of public transport.

The Swedish Transport Administration is SJ's foremost supplier and collaboration partner for delivering efficient rail services to passengers. Collaboration with the Swedish Transport Administration includes strategic work with train scheduling and maintenance on the railway, as well as operational work regarding traffic conditions. Through the industry initiative, Together for Trains on Time (TTT), the Swedish Transport Administration, SJ and other train operators, contractors and Swedish trade associations are collaborating to improve the prerequisites for punctuality. Read more about TTT on page 37.

In 2016, the Swedish Association of Railway Industries (SwedTrain) was also established with the aim of jointly pursuing the improvement of work to increase the robustness, competitiveness and profitability of Swedish rail.

## Responsible purchasing

SJ procures goods and services worth approximately SEK 5 billion from more than 2,500 suppliers annually. The purchases include everything from on-board food and beverages, to uniforms, train maintenance, replacement services and new rolling stock. SJ's code of conduct for suppliers is based on internationally established initiatives and standards, and indicates the Group's fundamental policies in areas such as human rights, legal compliance and the environment. The code of conduct allows SJ and its suppliers to conduct in-depth dialogues about requirements and thereby mutually increase knowledge about responsible purchasing and advanced collaboration.



Purchases exceeding SEK 0.5 million or that involve geographic or industry-specific risks in accordance with SJ's classification are to be implemented pursuant to a special procedure. The procedure comprises monitoring compliance with SJ's code of conduct using a self-assessment form that is subject to evaluation by SJ. In some cases, the evaluation results in physical meetings.

## Monitoring of suppliers

To define the existing supplier base, suppliers from whom SJ purchases goods or services at costs exceeding SEK 3,000 per year are assessed on sustainability, based on elements such as country risk and industry risk. More than 60 percent of SJ's suppliers have been included in the documentation. An in-depth assessment was performed on some 170 suppliers that were classified as medium or high-risk suppliers.

In 2016, SJ initiated closer monitoring of compliance with SJ's code of conduct for suppliers, based on initial assessments. Suppliers such as those involved in the modernisation of the X2000 were audited. In 2017, more thorough sustainability audits will be conducted to ensure compliance with SJ's code of conduct for suppliers.

Why use this key figure?	Prioritised activities in 2016	Target and outcome	Planned activities in 2017
<b>Supplier and partnership assessments completed</b>			
To ensure that our suppliers fulfil the requirements of SJ's code of conduct for suppliers and partners.	<ul style="list-style-type: none"> <li>Completed basic supplier assessments</li> <li>Identified seven prioritised suppliers and projects, and completed in-depth assessments of the same</li> </ul>	More than 60 percent of SJ's suppliers were included in the documentation. The target for 2016 was 60 percent.	<ul style="list-style-type: none"> <li>Key figure replaced with Completed sustainability audits (of about 170 medium and high-risk suppliers)</li> </ul>
<b>Completed sustainability audits (of about 170 medium and high-risk suppliers)</b>			
To ensure that our suppliers fulfil the requirements of SJ's code of conduct for suppliers and partners.	New key figures from 2017		<ul style="list-style-type: none"> <li>Conduct 10 sustainability audits</li> </ul>

## Responsible management: Society

# A safe journey is our most important promise to customers

As a market-leading train operator, SJ offers independently operated journeys and journeys operated together with other parties. Safe and punctual trains are the most important promises to customers. SJ's role in society is an important one and societal expectations are high.

SJ's timetables allow for a freedom of choice by making it possible to live in one location while working or studying in another. SJ also collaborates with regional county traffic companies to enable passengers to reach their ultimate destinations by public transport. Read more about Resplus journeys on page 33. At the societal level, SJ's services contribute to growth by allowing companies to recruit skills from a wider geographical area. SJ's introduction of the high-speed train to the Gothenburg–Malmö (West Coast Line) and Stockholm–Oslo routes has sharply increased the number of rail journeys on these routes.

## SJ's environmental efforts

No other type of vehicle has emissions levels as low as that of trains on long-distance routes. The extremely low carbon emissions from trains are due to largely electrified rail networks and to all of the power supplied by the Swedish Transport Administration comprising renewable energy (hydropower), as well as to the low friction between rails and wheels, and the possibility for many passengers to travel simultaneously. In addition to being renewable, 50 per cent of the electricity that SJ purchases is certified under the Swedish Society for Nature Conservation's "Good Environmental Choice" label, for which the environmental requirements for electricity production are stricter than just being renewable. This option chosen by SJ allows for SJ's journeys to meet the requirements for the Good Environmental Choice label. SJ also purchases renewable electricity for its offices.

SJ imposes relevant and stringent environmental requirements when purchasing from suppliers with significant potential for environmental impact, such as suppliers of maintenance and cleaning services, as well as planned replacement services. An environmental study is performed annually, through which SJ's most important suppliers account for their environmental efforts, such as declaring the types and amounts of chemicals used.

SJ provides continuous training on eco-driving to its train drivers. Eco-driving entails a softer driving method and increased usage of electric brakes that simultaneously reabsorb energy into the rail's electrical system – electricity that can be used by another train on the same route. The reduced usage of mechanical brakes also reduces wear and tear to the rolling stock and creates a smoother journey with fewer violent applications of the brakes and less hard acceleration.

SJ's bistro is KRAV-labelled to level one and organic products are increasingly being included in the product range. Waste is sorted to the extent possible on board trains, as well as in SJ's offices and staging stations.

## SJ's public image

Since its privatisation in 2001, SJ has not received any societal missions from the state. Operations are pursued on purely commercial terms without any government subsidies or grants. SJ's public image, meaning the SJ brand, affects whether passengers choose to travel by train and if so, whether their journey will be with SJ or another train operator. Consequently, the SJ brand has significance in terms of our ability to conduct business, both today and tomorrow.

To strengthen our brand, SJ must deliver what it promises, and preferably more besides. In cases where SJ does not live

up to expectations, such as with service disruptions, it must be stated clearly that we are doing everything we can to manage and make things better for customers based on the situation at hand. Communication with customers, passengers and other key stakeholders also influences the general public's overall impression of SJ.

## Safety always comes first

Safety always has top priority in SJ's service delivery. Safety and security are a prerequisite for passengers to choose rail travel and for SJ's ability to recruit committed employees. Although traffic safety is fundamental to all work conducted at SJ, safety work also encompasses many other areas, such as safety and security on board SJ's trains, data integrity and preparedness to manage difficult events. The EU's security directive and national-level regulations in SJ's markets in Sweden, Denmark and Norway lay the foundation for the systematic security work that SJ conducts throughout the Group and with external partners.

SJ has maintained a traffic-safety index since 2014. The index is based on an evaluation (risk value and actual consequences) of all traffic-safety-related accidents occurring within SJ AB, SJ Norrlandståg and SJ Götalandståg. These companies operate services under the same safety certificate. The index is designed so that any accident involving serious personal injury results in a clear verdict.

## Partnerships for increased travel

SJ partners with selected organisations to deepen and improve its contact with customers and passengers. SJ also has opportunities to support organisations that work for a good cause and which also seek to make life easier for everyone who travels on SJ trains daily. All partnerships are selected, assessed and evaluated based on whether they strengthen the SJ brand, contribute to increased travel with SJ, provide opportunities to activation by SJ's customers or whether they create opportunities for SJ's employees to become proactive.

Since the second quarter of 2015, SJ Volunteer has been enabling SJ Group employees to perform non-profit work during working hours. The aim of the initiative is to support and develop community action primarily aimed at children and young persons, and to improve integration. In autumn 2016, activities were carried out to increase the interest in and awareness of SJ Volunteer. Collaboration with organisations such as SJ's partners, Friends and My Special Day, are aimed at facilitating employees' use of their volunteer hours.

## Incident reporting

An incident is an event that could have resulted in damage or injury, but which ended well. Incidents are warnings that something serious could happen and that preventative measures must be taken.

Incidents may be caused by physical factors: something is broken, inappropriately placed or missing. Incidents may also be due to psychosocial factors: stress, conflicts or bullying.

Incident reporting is essential to identifying risks. SJ emphasises that incident reporting is aimed at collecting information for risk prevention – not to criticise individuals. SJ has a system in place for incident reporting, which, to emphasise the importance of reporting, may be included in the employee's individual performance contract.



Why use this key figure?

Prioritised activities in 2016

Target and outcome

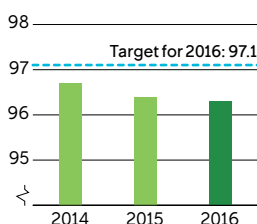
Planned activities in 2017

### Traffic-safety index

The index is an indicator of our overall traffic-safety target, that it should be safe and secure to travel by train with SJ. Reliable and safe rail journeys are the foundation of our customer deliveries.

- Continued long-term work on internal safety culture
- Analysis of operational regulatory framework and future regulation
- Continued focus on control and follow-up of maintenance suppliers
- Installed breathalysers at SJ Göta-landstäg's staging stations for the submission of breath tests when checking in to work
- Risk management prior to the launch of tendered services

### Traffic-safety index



The 2016 outcome was slightly below target, due to incorrect (too high) calculation of the production figure.

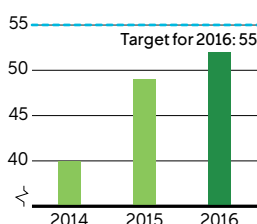
- Continue to develop safety culture at SJ and with maintenance suppliers
- Influence the Swedish Transport Administration and other parties to reduce the risk of accidents at level crossings
- Introduce systems to support risk management and templates for legally regulated change assessments
- Active forum participation for the management of shared risks between rail companies and infrastructure managers
- Install breathalysers at SJ AB's staging stations

### Brand index (BI)

To increase confidence in SJ and encourage more people to travel with us more frequently and be willing to pay for it, we are to be perceived by our core values: Reliable, Simple, Caring and Joyful. The perception of the general public (meaning both customers and non-customers) is measured using the brand index. The index helps us to understand our degree of success in matching the general public's perceptions with our core values.

- Market-positioning work, including purpose, customer promises and market position
- Created new communication strategy and new advertising concept to strengthen SJ's image
- Ensured the new X 2000's conceptual design matches the intended design
- Created a base for tonality and form in conjunction with tendering
- Conducted future dialogues within the Traffic and Service Division
- Introduced new internal communication system

### Brand index (BI)



BI increased among all ages and passenger groups but the target was not achieved, mainly due to public perception of SJ's punctuality being far below actual punctuality.

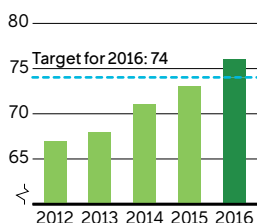
- Proactive PR based on market position
- Communicate the new X 2000
- Develop Kupé magazine
- Develop communication about being an attractive employer
- Communication to develop an internal sense of commitment and business focus
- Internal brand activation
- Continued introduction of the new communication system

### Environmental index

To many passengers and customers, SJ's environmental work is a hygiene factor. The environmental index is an indicator of passengers' perception of our environmental work and serves as a benchmark for our continued efforts.

- Continued energy optimisation through, for example, eco-driving and energy-consumption mapping
- Replaced diesel tank terminals in Lidköping and Mariestad with modern, more environmentally friendly ones; conducted extensive ground surveys on the Kinnekullebanan (Kinnekulle Line)
- Steady increase in share of organic products in the bistros
- Performed environmental assessments of chemicals, in accordance with the substitute principle

### Environmental index



Target exceeded, probably due to Good Environmental Choice label on journeys and KRAV-certified bistro.

- Conduct sustainability audits on medium and high-risk suppliers
- Map energy consumption in accordance with new legislation
- Gradually increase the number of organic products in the bistro

### SJ Volunteer

SJ Volunteer offers SJ's employees the opportunity to commit to non-profit work during working hours (one work day per employee and year) and to serve the community.

- Created inspirational films with SJ Volunteer
- Communicated about Volunteer at breakfast meetings, on the intranet, Instagram and Facebook

The outcome, 424 hours (256), was far below the 1,500 hour target. Activities are ongoing to raise employee participation in paid non-profit work.

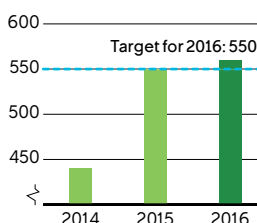
- Clarify available volunteer assignments on the intranet
- Continue collaboration with organisations that need volunteers

### EFQM points

The EFQM model is used to assess SJ's management system using a well-established method and compares it with other successful organisations. The model is based on value creation for our stakeholders and how we work smartly to achieve this.

- Continued focus on process work
- Intercompany focus on punctuality
- Improvement activities for business and operational plans

### EFQM points



- Identify improvement proposals from the EFQM assessment
- Develop SJ's management system
- Learn from each other internally
- Learn from the best externally
- Focus on developing partnerships

## Responsible management: Customer

## Opinions take us further

SJ offers sustainable rail journeys independently and on behalf of national and regional traffic authorities. Every day, 130,000 people choose to travel with SJ.

Independently operated services are pursued on commercial terms based on the principle that all lines must be profitable. In 2016, SJ increased the number of departures on the Stockholm–Oslo line, among others, to meet demand. Night-train services to and from Jämtland were adapted to demand.

Tendered services constitute an increasingly important component of the Group's business, whereby regional and national authorities procure services. In 2016, SJ began operating tendered services pursuant to three previously signed agreements. In June, SJ took over the Västtågen on the Kinnekullebanan (Kinnekulle Line) on behalf of Västtrafik and in December, services were launched on behalf of Tåg i Bergslagen and MÅLAB in Mälardalen. In early 2017, the agreement with the Swedish Transport Administration on night-train services for upper Norrland was extended, entailing SJ's continued operation of trains from 2018 to 2020.

In August, SJ's partly owned Botniatåg discontinued passenger traffic operations on the Bothnia Line when the agreement expired. In December, the SJ subsidiary Stockholmståg's agreement on commuter train services in Stockholm County expired.

## Passenger trend

The customer who is paying for the journey is not always the same as the passenger. SJ has three categories of customers: private individuals, companies and tenderers (regional and national authorities). SJ's operations are governed by what customers and passengers use and demand: SJ applies for train paths (track time) when passengers wish to travel and, to the extent possible, adapts its offering to the requests of customers and passengers. Read more on page 18.

Expectations shared by all passengers is that they expect SJ to keep its promises and to arrive safely at the right destination at the right time. Consequently, activities to increase punctuality are the key to increasing the Customer Satisfaction Index and the Passenger Satisfaction Index. In the event that SJ does not meet the expectations of passengers, such as due to disruptions, they must receive quick and relevant traffic information.

On-board surveys are conducted continuously and analysed carefully. SJ also utilises data from the passenger programme, SJ Prio, to customise its customer offering to a high degree. SJ has customer panels that are invited to discuss issues of importance, such as the design of the new X 2000 and



the formulation of information in disruptive circumstances. Read more about the customer dialogues on page 16.

## Digital sales channels

SJ's sales channels have been digitised for several years. The trend has been driven by customers who want to purchase tickets digitally to ever-greater extents. During the year, SJ's digitalisation continued with the launch of a new mobile app, a new responsive website and new ticket machines – to be present where the customers are present: online.

In 2016, 82 percent of SJ's tickets were sold through digital channels (sj.se, SJ's app and ticket machines). The remaining portion were mainly sold by travel agents and only 4 percent through SJ's physical travel centres and SJ's customer services by telephone. It is also possible to purchase SJ tickets through Pressbyrån and 7-Eleven. People are increasingly choosing to purchase their tickets through a mobile phone and SJ is thus continuing to develop services that are simple to use on smart phones.

## SJ Prio for passengers

In 2016, some 200,000 passengers chose to join SJ's loyalty programme, SJ Prio, which now has more than one million members. The aim of SJ Prio is to create long-term relationships with SJ's passengers, and to customise product and service offerings based on deeper insights into the priorities of travellers.

SJ Prio members receive points when travelling with SJ and also when purchasing products and experiences from SJ's partners. These points can then be utilised for new SJ journeys or for travel-related experiences. Members can also donate their points to one of SJ's non-profit partners.

## Why use this key figure?

## Prioritised activities in 2016

## Target and outcome

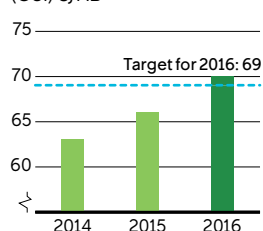
## Planned activities in 2017

## Customer Satisfaction Index (CSI)

The Customer Satisfaction Index (CSI) reflects the degree of customer satisfaction regarding their relationship with SJ in the most recent 12 months. Achieving a key figure that reflects customers' overall satisfaction over a somewhat longer period is an important policy instrument for long-term profitability.

- Launched new sj.se website and new mobile app
- Improved cleaning on-board services
- Activities to improve actual and perceived punctuality
- Introduced seat maps for SJ's high-speed trains

## Customer Satisfaction Index (CSI) SJ AB



Distinct goals and systematic work resulted in exceeding the 2016 target.

- Focus on customer promises with improved punctuality and increased stability in digital sales channels
- Improve actions in the event of broken promises to customers, such as smoother dissemination of information relating to disruptions
- Continue to improve the customer offering with improved clarity during the booking process, new ticket types and simplified timetables at sj.se

## Responsible management: Process

# Together, we make the trains run on time

To make more people choose rail travel, trains must depart and arrive on time. Consequently, SJ's sustainability target of highest priority is to jointly achieve 95 percent punctuality with other rail industry participants by 2020. In 2016, punctuality was 83 percent (82) for SJ AB's long-distance trains and 90 percent (89) for SJ AB's regional trains. The conditions for punctuality, and thereby the challenges, vary considerably depending on the line, route and time.

The Swedish Transport Administration is responsible for punctuality data and catalogues the cause of all disruptions amounting to three minutes or more.

## Measures for improved punctuality

SJ has been working for several years to proactively reduce its own share of contributions to disruptions. In 2016, efforts were further intensified with the addition of resources and new work methods. A cross-functional group was assembled and tasked with identifying the pivotal causes of deviations from timetables, and with proposing improvements. The group's initial focus has been on the departure process.

## Industry collaboration to achieve 95 percent punctuality

To achieve the joint industry target of 95 percent punctuality by 2020, the train industry must work together more

efficiently. Since 2013, the industry has been collaborating in Together for Trains on Time (TTT). SJ is convinced that this collaboration is crucial to the success of punctuality improvement and is thus investing both personnel and financial resources into TTT.

In 2016, the collaboration within TTT was further deepened through the appointment of route managers for the Western and Southern main lines, as well as the Eastern line, with the aim of improving punctuality in specific sections of the routes and working with a customer-centric approach. During the year, collaborative planning for maintenance work was strengthened and resulted in improved forward planning. One of the prioritised areas within TTT is to reduce the vulnerability of rail by creating robust timetables with reasonable arrival and departure times.

When a disruption occurs, it is important to alleviate the consequences as far as possible. Passengers are entitled to quick and accurate traffic information through on-board staff, SJ's app and the information boards at stations and platforms. SJ's traffic management makes decisions about measures to alleviate disruptions based on information from on-board employees, experiences from previous events and relevant data from simulation and monitoring systems. To facilitate the management of service disruptions and traffic information, SJ is developing digital tools for employees and customers.

Why use this key figure?	Prioritised activities in 2016	Target and outcome	Planned activities in 2017												
Punctuality															
Punctuality is one of SJ's most important elements for retaining and gaining market position. Punctuality is also one of the issues that our customers and passengers appreciate the most.	<ul style="list-style-type: none"><li>Punctuality has been the focus of all management and leadership meetings, and all workplace meetings</li><li>Introduced a core group tasked by the punctuality board with investigating the causes of disruptions and proposing improvements</li><li>Increased resources for punctuality efforts, both internal and through TTT</li></ul>	Although punctuality improved in comparison with the preceding year, the target for the year was not achieved. It is challenging for SJ AB's long-distance trains to achieve the long-term target of 95 percent punctuality by 2020. See diagram on page 38.	<ul style="list-style-type: none"><li>Reinforce punctuality culture – every minute is important! Spread good examples of improved punctuality</li><li>Continued focus on reducing the number of disruptions caused by faults with SJ's rolling stock</li><li>Improve and streamline the departure process by clarifying spheres of responsibility and developing digital tools</li><li>Include punctuality targets in all employee performance contracts</li><li>Increase collaboration with the TTT framework</li></ul>												
Load factor															
It is vital to monitor the load factor to adapt the offering of departures and seats to the demand.	<ul style="list-style-type: none"><li>Activities to increase travel on existing trains</li><li>Offerings customised to long-distance trains with many daily departures</li></ul>	The load factor was 51 percent (50), which means that the target of 49 percent was surpassed.	As of 2017, this key figure is only monitored for internal reporting.												
Regularity															
The most important factor for our passengers is to be able to rely on our trains departing and arriving at the designated times. If a train service is cancelled, it is critical that our customers are informed about it in good time, to allow them to reschedule their journeys.	<ul style="list-style-type: none"><li>Continuous improvements of technical subsystems in rolling stock</li><li>Clarified traffic management guidelines and processes at various operational levels</li></ul>	<p>Regularity, SJ AB</p> <table><thead><tr><th>Year</th><th>Regularity (%)</th></tr></thead><tbody><tr><td>2012</td><td>96</td></tr><tr><td>2013</td><td>97</td></tr><tr><td>2014</td><td>97</td></tr><tr><td>2015</td><td>98</td></tr><tr><td>2016</td><td>98</td></tr></tbody></table>	Year	Regularity (%)	2012	96	2013	97	2014	97	2015	98	2016	98	<ul style="list-style-type: none"><li>Follow up and adjust plans for reserves of both rolling stock and employees, and locations at which they need to be available</li><li>Systematic maintenance of stopping faults</li><li>Review of rolling stock, such as modernisation of the X 2000 train</li><li>Preparations for tendering of new high-speed train</li></ul>
Year	Regularity (%)														
2012	96														
2013	97														
2014	97														
2015	98														
2016	98														



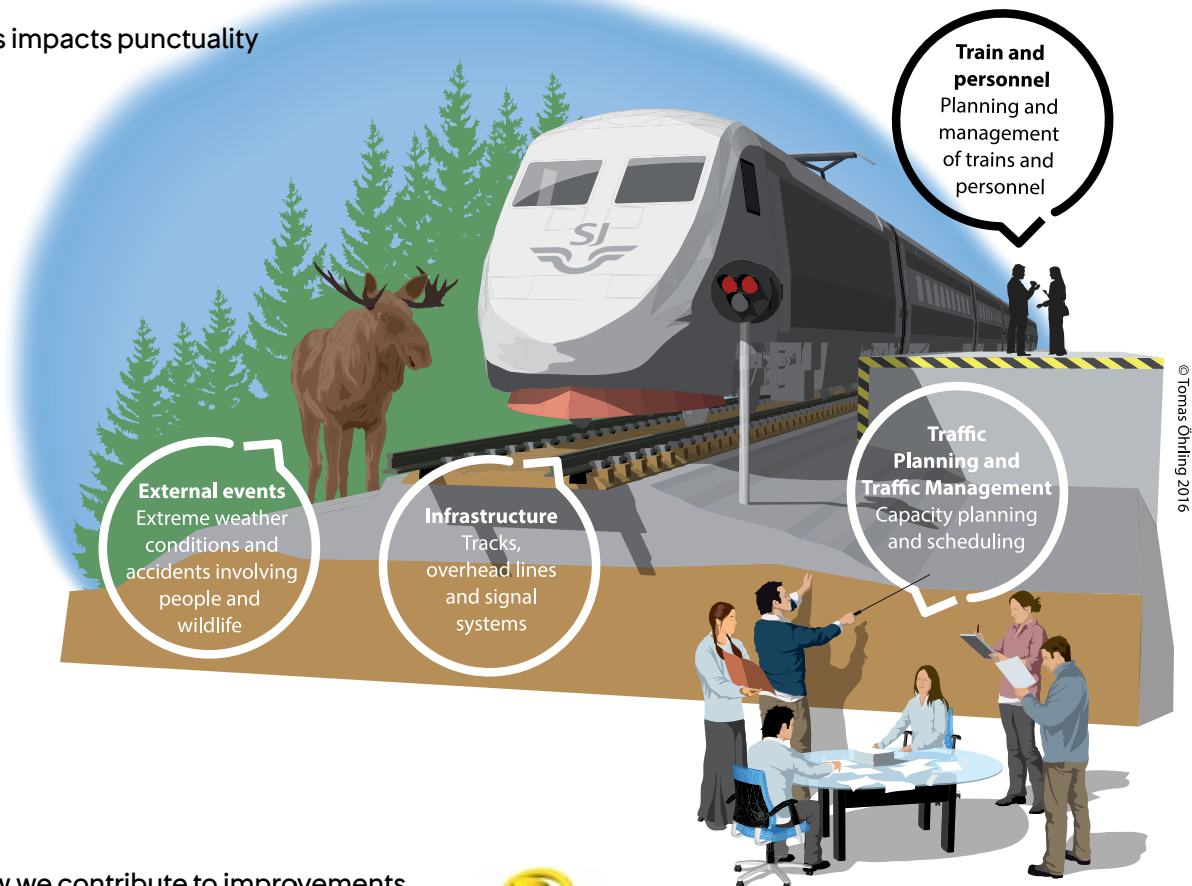
## Responsible management: Process

# How we generate punctuality

Punctuality is a complex puzzle and the pieces of numerous participants must be placed at the right location. SJ is working proactively to reduce its share of self-generated delays and is earmarking ever-more resources for industry collab-

orations, primarily Together for Trains on Time (TTT). When a disruption occurs, we work together to alleviate the consequences for passengers as far as possible.

## This impacts punctuality



## How we contribute to improvements

SJ AB accounts for about 15 percent of disruptions. This is driving us to contribute to improvements:

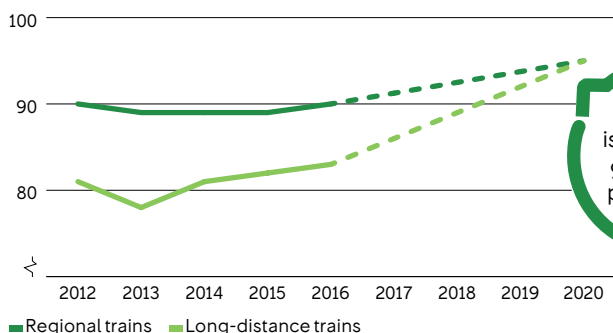
- Reserving time and resources to work with improved punctuality
- Improving the standard of rolling stock
- Improving the departure punctuality process
- Create a robust timetable



We collaborate with the industry to rectify the remaining 85 percent. Within the Together for Trains on Time (TTT) programme, we invest time and resources to improve punctuality by conducting work in the following areas:

- Governance, management and culture
- Area of impact, Rolling stock
- Area of impact, Operational services
- Area of impact, Service and resource planning
- Area of impact, Departure time depot
- Area of impact, Unauthorised persons on tracks
- Area of impact, Traffic information and management of disruptive circumstances
- Analysis group

Punctuality of SJ AB's trains, %



A train is counted as on time if it arrives within a five-minute margin of error of the scheduled time.

## Responsible management: Finance

# Healthy profitability enables investments

SJ's owner, the Swedish state, expects SJ to be operated sustainably, to attain both financial and non-financial targets. The Annual General Meeting has adopted the three financial targets that will ensure economically sustainable operations.

SJ pursues activities based on commercial terms, to ensure sustainable value creation from societal, environmental and financial perspectives. SJ does not receive any government subsidies or grants. Consequently, healthy

profitability is a prerequisite for living up to customer and passenger expectations by means of necessary investments. All of SJ's lines are operated as separate businesses, where the offering is customised to match passengers' demands and expectations to the extent possible, and to attain the set profitability targets. Long-term financial objectives are decided based on SJ's strategy and to enable SJ to face increased competition for both commercial and tendered services.

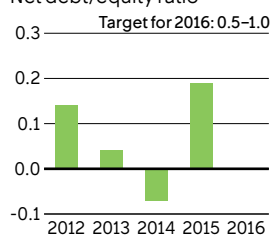
## Net debt/equity ratio

### Why use this key figure?

The net debt/equity ratio is vital to ensuring that SJ has an efficient capital structure and a well-balanced risk over time. The objective comprises a balancing of the accounts, whereby the operation's financing expenses are to be kept competitive, while SJ is to have opportunities to implement the strategic decisions made.

### Target and outcome

#### Net debt/equity ratio



SJ is to have a long-term net debt/equity ratio of 0.5–1.0. The objective was set based on what the owner and the Board of Directors consider to be an efficient capital structure for SJ over time.

At 31 December 2016, the net debt/equity ratio was 0.0 (0.19). SJ's capital structure is stronger than the long-term objectives set by its owner. The decline in the net debt/equity ratio is primarily attributable to the low rate of investment during the year.

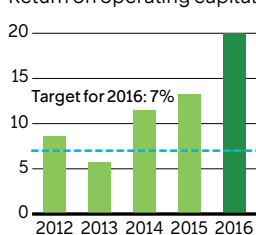
## Return on operating capital

### Why use this key figure?

Return on operating capital indicates the relationship between SJ's operating profit and the operation's degree of capital efficiency. Although issues pertaining to working capital are a crucial component of SJ's financing, we also need to ensure that capital is not unnecessarily committed and that our resources are utilised to a high degree. A market profit is a prerequisite for allowing for the implementation of necessary investments.

### Target and outcome

#### Return on operating capital, %



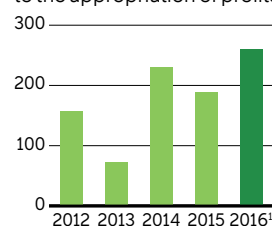
The return on operating capital is to total a minimum of 7 percent on average, which corresponds to the average return required for an investment or project to be considered value creating and, to thereby, contribute to reaching the goals for the operations as a whole.

At 31 December 2016, the return on operating capital was 20.0 percent (13.2). The return continues to trend above target, which primarily stems from positive earnings and reduced operating capital due to a lower-than-planned rate of investment during the year.

## Dividend

### Target and outcome

The Board's proposed dividend pursuant to the appropriation of profits, SEK million

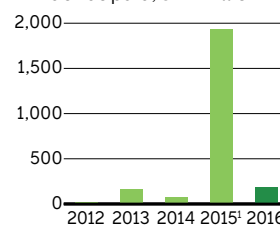


<sup>1)</sup> According to the Board's proposal.

In accordance with the owner's long-term target, the regular dividend must total 30–50 percent of the net profit for the year.

The Board of Directors proposes that the 2017 Annual General Meeting issue a dividend of SEK 260 million (188). The dividend corresponds to 40 percent (40) of net profit for the year for the SJ Group.

### Dividends paid, SEK million



<sup>1)</sup> EGM resolution to distribute SEK 1,700 million.

## Proposed remuneration policies for senior executives

The Board's proposal to the AGM regarding guidelines for remuneration to senior executives is described below.

### Remuneration policies

When recruiting to the Executive Management, the guidelines for terms of employment for senior executives in state-owned companies, which were adopted by the government on April 20, 2009, are applied. The guidelines entail that total remuneration to senior executives must be reasonable, characterised by moderation and well-balanced. It should also be competitive, capped, appropriate, ethically sound and promote a positive company culture. Remuneration should not be higher relative to similar companies, but characterised by moderation. Remuneration is to be cost-efficiently composed and based on the following components: fixed salary, pension and other benefits. The fixed salary is to reflect the demands of the position in terms of expertise, responsibility, complexity and the manner in which it contributes to achieving the business objectives. The fixed salary is to be individually differentiated.

Variable salary is not paid, and includes gratuities, bonuses and similar payments. Pension benefits should be defined-contribution plans. In the event that SJ agrees on a defined-benefit pension plan, it is to comply with the applicable collective pension plan. Retirement age should not be less than 62 and should be at least 65. The company's pension expense is to be borne during the employee's active period.

The period of notice for members of the Executive Management is up to six months when notice is given by the executive. Upon termination by the company, severance pay corresponding to a maximum of 18 months' salary may also be paid. Severance pay is to be paid monthly and comprise the fixed monthly salary without allowances for benefits. Severance pay is never paid after the age of 65. The executive may be entitled to a company car, sickness and health benefits, travel insurance and so forth, in line with standard market practice. The remuneration of senior executives is described in more detail in Note 5.

## Appropriation of profits

### Statement of the Board pursuant to the Swedish Companies Act, Chapter 18, Section 4

Due to the Board's proposed distribution of profits, the Board of Directors of SJ AB, corp. reg. no. 556196-1599, hereby presents the following statement pursuant to the Swedish Companies Act, Chapter 18, Section 4. The proposed dividend is based on the 2016 Annual Report. The proposed appropriation of profits, income statement and balance sheet for the Parent Company, and the income statement, statement of other comprehensive income and statement of changes in financial position for the Group, will be presented to the Annual General Meeting for adoption on April 25, 2017.

In its proposed appropriation of profits, the Board recommends that shareholders at the 2017 AGM resolve that SJ AB pay a dividend of SEK 65.00 per share for the 2016 financial year. The Board of Directors proposes a total dividend of SEK 260 million, corresponding to approximately 40 percent of the SJ Group's net profit for the year. The Board also proposes that shareholders at the AGM adopt the payment date of 9 May 2017.

Unappropriated funds at the AGM's disposal:	
Retained earnings	SEK 2,833,457,809
Net profit for the year	SEK 487,283,084
<b>Total</b>	<b>SEK 3,320,740,892</b>

The Board of Directors proposes that the profits be appropriated as follows:	
Dividend to shareholders (SEK 65.00 per share)	SEK 260,000,000
To be carried forward	SEK 3,060,740,892
<b>Total</b>	<b>SEK 3,320,740,892</b>

The owner's financial targets for SJ AB are a minimum return on operating capital of 7 percent, on average, and a long-term net debt/equity ratio of 0.5–1.0. In addition, long-term dividends should be within the range of 30–50 percent of net profit for the year for the SJ Group. SJ AB achieved its return on operating capital target, but the net debt/equity ratio was lower than the defined target interval.

The SJ Group's position at the end of 2016 with respect to the key figures described above is presented in the following table and after the proposed dividend – all else being equal.

### Key figures in relation to the proposed dividend

	Dec 31, 2016	Ex-dividend Dec 31, 2016
Net debt/equity ratio	0.00	0.07
Net debt, SEK million	10	270
Return on operating capital, %	20.0	20.0
Equity/assets ratio, %	48.9	47.2
Available unrestricted equity in SJ AB, SEK	3,320,740,892	3,060,740,892

The proposed dividend represents 6.5 percent of equity in the Parent Company, and 6.0 percent of equity in the Group. The proposed dividend entails no change to return on operating capital, but the net debt/equity ratio will be changed from a multiple of 0.00 to 0.07. Due to the dividend, the owner's net debt/equity ratio target was not achieved, since SJ still has lower short-term indebtedness.

The equity/assets ratio is considered satisfactory, given that the operations remain profitable. The liquidity of the Parent Company and the Group is expected to remain strong. The proposed appropriation of profits to the shareholders will reduce the Parent Company's equity/assets ratio from 48.9 percent to 47.2 percent after the proposed dividend.

### Reasons for the Board's decision

With reference to the above, the Board believes that the proposed appropriation of profits is justifiable pursuant to the requirements of the Swedish Companies Act, Chapter 17, Section 3, paragraphs 2 and 3.

The nature and scope of the business do not entail any greater risks than are normally present in the industry.

The Board's assessment of the financial position of the company and the Group is that the dividend is justifiable in relation to the demands that the nature, scope and risks of the business place on the size of the company's and the Group's equity, and the company's and the Group's consolidation requirements, liquidity and position in general.

The Board deems that the proposed dividend will not affect SJ AB's ability to meet its obligations in the short or long term, or to make any necessary investments.



# Multi-year summary

Group	2016	2015	2014	2013	2012
<b>Condensed statement of comprehensive income, SEK million</b>					
Operating income	9,372	9,070	9,208	9,160	8,664
– of which net sales	9,336	9,052	9,065	9,023	8,504
Operating expenses	-8,543	-8,464	-8,666	-8,732	-8,188
Result from participations in associated companies	8	19	26	-130	-9
Operating profit	837	625	568	298	467
Profit before tax	833	602	578	288	498
Tax on profit for the year	-183	-131	-118	-68	-27
Profit/loss for the year <sup>1</sup>	650	471	460	220	471
Earnings per share (basic and diluted) <sup>1</sup> , SEK	162	118	115	55	118
<b>Condensed consolidated statement of changes in financial position, SEK million</b>					
Non-current assets					
Tangible assets	5,505	5,916	6,250	6,356	6,830
Intangible assets	286	278	236	308	294
Financial assets	34	123	596	567	482
Current assets					
Inventories	4	7	8	7	6
Current receivables	804	661	615	719	853
Short-term investments	1,479	718	760	1,203	780
Cash and cash equivalents	74	97	345	80	320
Available-for-sale non-current assets	78	65	60	72	–
<b>Total assets</b>	<b>8,264</b>	<b>7,864</b>	<b>8,870</b>	<b>9,312</b>	<b>9,565</b>
<b>Equity, SEK million<sup>2</sup></b>	<b>4,337</b>	<b>3,876</b>	<b>5,335</b>	<b>4,961</b>	<b>4,886</b>
Interest-bearing liabilities	1,402	1,478	1,124	1,911	2,091
Non-interest-bearing liabilities	1,693	1,740	1,655	1,813	1,963
Provisions	345	315	380	360	429
Deferred tax liabilities	487	455	377	267	195
<b>Total equity and liabilities</b>	<b>8,264</b>	<b>7,864</b>	<b>8,870</b>	<b>9,312</b>	<b>9,565</b>
<b>Condensed statement of cash flow, SEK million</b>					
Cash flow from operating activities	1,304	1,335	1,267	1,039	1,229
Cash flow from investing activities	-1,062	-6	-143	-943	-671
Cash flow from financing activities	-264	-1,577	-860	-336	-286
Cash flow for the year	-23	-248	265	-240	272
Investments	390	526	828	448	1,116
– those of which affect cash flow	390	526	828	448	803
<b>Margins, %</b>					
Operating margin	8.9	6.9	6.2	3.3	5.4
Profit margin	8.9	6.6	6.3	3.1	5.7
<b>Financial targets</b>					
Return on operating capital, %	20.0	13.2	11.5	5.7	8.6
Net debt/equity ratio	0.00	0.19	-0.07	0.04	0.14
The Board's proposed dividend in line with the appropriation of profits, SEK million	260	188	230	73	157
Dividends paid, SEK million	188	1,930 <sup>3</sup>	73	157	12
<b>Capital structure at the end of the period</b>					
Return on equity, %	16.3	9.7	9.1	5.1	10.3
Operating capital, SEK million	4,181	4,721	4,953	5,225	5,399
Equity/assets ratio, %	52.5	49.3	60.1	53.3	51.1
Reconciliation of interest-bearing debt					
Interest-bearing liabilities, SEK million	1,402	1,478	1,125	1,911	2,091
Interest-bearing provisions, SEK million	161	168	152	144	172
Interest-bearing assets, SEK million	1,553	895	1,672	1,839	1,570
Net interest-bearing debt/net cash, SEK million	10	751	-396	216	693
<b>Non-financial key figures</b>					
Average number of employees	4,192	4,232	4,541	4,953	4,299

<sup>1</sup> Key figure defined in accordance with IFRS, refer to page 99. For definitions of key figures not defined in accordance with IFRS, refer to pages 99–100.

<sup>2</sup> There are no non-controlling interests.

<sup>3</sup> EGM resolution on 25 September 2015 to distribute SEK 1,700 million.

For definitions, refer to pages 99–100.

# Corporate Governance Report

SJ AB is wholly owned by the Swedish state, and managed by the Ministry of Enterprise and Innovation. The owner's overall objective for the SJ Group is to create value, which calls for long-term profitability, efficiency, development capacity and environmental and societal responsibility.

## Corporate Governance Principles

SJ's corporate governance is activated based on both internal guidelines and external regulatory frameworks.

External regulatory frameworks include:

- Accounting legislation and recommendations
- The Swedish state's ownership policy
- The Swedish Corporate Governance Code (the Code)

Internal guidelines include:

- The Articles of Association
- The Board's Rules of Procedure, CEO instructions and instructions for corporate sustainability reporting, including financial reporting.
- Internal guidelines to guide the Group's operations and employees, such as SJ's internal code of conduct and policies for risk, purchasing, occupational health and safety, traffic safety and finance.

The Articles of Association, previous corporate governance reports, material from SJ's most recent general meetings, and so forth, are available in Swedish on SJ's website, [www.sj.se](http://www.sj.se), under "Bolagsstyrning" ("Corporate Governance").

## Application of the Code

Companies that apply the Code may deviate from individual rules provided that the reasons for doing so are explained. SJ's deviations from the Code are mainly due to its ownership structure. SJ is wholly owned by the Swedish state, while the Code is primarily written for listed companies with a diverse ownership. SJ deviated from the following Code provisions:

### Rule 1.4

Publication of information on shareholders' right of initiative. The aim of this rule is to give shareholders ample time to prepare for the AGM, and to have items listed in the notice of the AGM. In state-owned companies, there is no reason to comply with this provision.

### Rule 2

The establishment of a nomination committee ahead of the election and remuneration of Board members and auditors. SJ's Board has set aside Rule 2 regarding a nomination

committee in favour of the owner's nomination process, as detailed in the state's ownership policy.

## Governance

The owner's long-term financial targets for SJ are a minimum average return on operating capital of 7 percent and a long-term net debt/equity ratio of 0.5–1.0. Long-term dividends should be 30–50 percent of net profit for the year. The owner defines the company's business objectives in the Articles of Association. In 2016, meetings were held between the owner, SJ's Chairman and the CEO, and addressed items including punctuality work, absence due to illness and the upgrade and modernisation of all X 2000 trains. Moreover, the company maintains an ongoing dialogue with the owner, which exercises its rights as a shareholder at the shareholders' meetings.

## General Meetings

Under the state's ownership policy, the Annual General Meeting (AGM) is to be held prior to 30 April each year. Under special circumstances, the AGM may be held later, but not later than on June 30. The AGM is held in Stockholm and SJ announces where and when the AGM will be held on its website. Extraordinary general meetings may be held in addition to the AGM.

### 2016 Annual General Meeting

The 2016 AGM for SJ AB was held on April 21, 2016 in Stockholm and the meeting was open to the public. Those in attendance were invited to present questions to SJ's management.

In accordance with the owner's proposal for the period until the next AGM, the AGM resolved on: The re-election of Jan Sundling as Chairman of the Board; re-election of the Board members Siv Svensson, Mikael Staffas, Michael Thorén, Ulrika Dellby and Mikael Stöhr; the new election of Board member Kersti Strandqvist. The AGM determined Board fees and separate fees for work conducted in established committees.

The AGM resolved to adopt the income statement and balance sheet for the Group and company, and to approve the Board's proposed dividend of SEK 188 million. The dividend was paid on May 10, 2016. The AGM discharged the Board and the CEO from liability. The minutes of the AGM are available in Swedish on SJ's website.

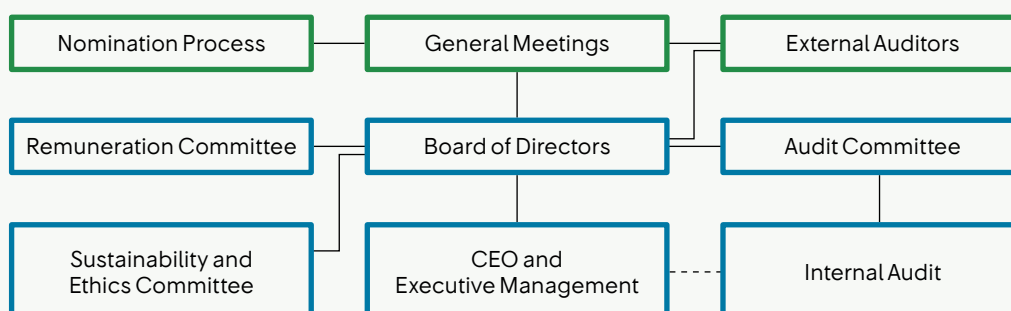
### 2017 Annual General Meeting

The 2017 AGM will be held on April 25, 2017 in Stockholm. Notice of the AGM will be sent out in March.

## Board of Directors

The Board has overall responsibility for the management and administration of the company. The state's ownership

### SJ AB, corporate governance



## Board of Directors, Board function and attendance

Name	Board function	Board Meetings	Audit Committee	Remuneration Committee	Sustainability and Ethics Committee
Jan Sundling	Chairman of the Board, the Remuneration Committee and the Sustainability and Ethics Committee	10/10	-	2/2	2/2
Siv Svensson	Board member, Chairman of Audit Committee	10/10	8/8	-	-
Mikael Staffas	Board member	10/10	8/8	-	-
Kersti Strandqvist <sup>1</sup>	Board member	7/10	-	-	2/2
Mikael Stöhr	Board member	9/10	-	0/2	-
Ulrika Dellby	Board member	10/10	-	-	2/2
Gunilla Wikman <sup>2</sup>	Board member	1/10	1/8	-	-
Michael Thorén <sup>3</sup>	Board member	10/10	4/8	2/2	-
Stefan Zetterlund	Employee representative	10/10	-	-	-
Per Hammarqvist	Employee representative	9/10	-	-	-
Hans Pilgaard	Employee representative	10/10	-	-	-

<sup>1</sup> Kersti Strandqvist was appointed member of the Board of SJ AB on April 21, 2016; two Board meetings were held prior to this.

<sup>2</sup> Gunilla Wikman stepped down from SJ AB's Board of Directors on April 21, 2016.

<sup>3</sup> Michael Thorén has been a member of the Audit Committee since April 21, 2016. Three Audit Committee meetings were held before this date.

policy states that the Board is responsible, in companies where the state has an ownership interest, for ensuring the companies are managed in an exemplary manner in compliance with applicable legislation, the Articles of Association, and the owner's instructions and ownership policy. Moreover, boards of state-owned companies must ensure exemplary corporate sustainability behaviour by the company, in such areas as the environment, ethics, working conditions, human rights, equal opportunity and diversity.

### Appointment of the Board

The nomination process for Board members of state-owned companies is led and coordinated by the Division for State-Owned Enterprises under the Ministry of Enterprise and Innovation. A working party analyses the qualification requirements, based on the composition of the boards and each company's operations and circumstances. The nomination and appointment of new Board members is preceded by regular dialogue between the Ministry and the Chairman. The work of creating a structured and consistent nomination process aims to ensure an effective succession process for the companies' boards.

The Ministry of Enterprise and Innovation's proposal on Board members is presented in the notice convening the AGM and on the company's website in advance of the AGM. Board members are appointed by the AGM for one year at a time. Further provisions regarding Board nominations are set out in the state's ownership policy.

### Composition of the Board

SJ's Board members are to comprise not less than three and not more than eight members, without deputies. In accordance with the state's ownership policy, the Board is to have a high level of expertise that is well-suited to the company's operations, circumstances and future challenges. To qualify for a seat on the Board, a high level of expertise is required in the current business operations, business development, industry knowledge, financial issues or other relevant areas. The composition of the Board should also ensure a balance of expertise, experience, age and gender, in accordance with the ownership policy.

The Board of SJ comprised seven elected members since the AGM in April 2016. Of the Board's members, three (43 per cent) are women and four (57 per cent) men. The employee organisations have appointed three employee representatives to the Board. None of the Board members are included in the Executive Management. All Board members are inde-

pendent in relation to the company and the Executive Management; refer also to information on page 47. The CEO and CFO participate in Board meetings. Other members of the Executive Management participate in some meetings as required. SJ's General Counsel is the secretary of the Board.

### Board fees and fees for work on Board committees

Board fees and separate fees for work on its committees are set by the AGM. Under the state's ownership policy, these fees are to be competitive, but not market-leading. Fees are not paid to Board members employed by the Swedish Government Offices, nor to employee representatives. The 2016 AGM resolved to adopt the Board's proposal that SJ apply the guidelines for the terms of employment for senior executives in state-owned companies.

### Adopted remuneration to SJ's Board of Directors, SEK

	2016	2015
Chairman of the Board	400,000	400,000
Board members	160,000	150,000
Chairman of the Audit Committee	55,000	55,000
Other members of the Audit Committee	43,000	43,000

For complete information about policies and remuneration to Board members, see Note 5.

### The Board's work

The Board has adopted Rules of Procedure stipulating the division of responsibilities between the Board, committees and the CEO. These Rules are determined annually and, in addition to mandatory items under the Companies Act, regulate the Chairman's duties, information to the Board, the form of Board meetings and evaluations of the work of the CEO and the Board. The Rules stipulate, inter alia, the following agenda items each year: approval of the budget, presentation of external financial reports, the strategic plan, SJ's risk management and the adoption of policies. The Board also decides on matters of principle or major financial significance.

### The Board's work in 2016

In 2016, 10 Board meetings were held, of which two were by telephone. The Board conducted ongoing and customary follow-ups of financial and non-financial outcomes, including monthly presentations of strategic key figures in SJ's scorecard. Based on this information, the Board was also able to



continuously evaluate SJ's corporate sustainability performance. In February 2016, the Board met the company's auditors without any members of the Executive Management, in accordance with the provisions of the Code.

The Chairman leads the Board's work and is responsible for other Board members receiving adequate information. SJ's Board of Directors has formed an Audit Committee, a Remuneration Committee and in 2016, a Sustainability and Ethics Committee. The Sustainability and Ethics Committee is a formalisation of the Board's working group that has been managing sustainability and ethics issues. The Board has also established written rules of procedure for the committees. Other members of SJ's Executive Management also participated at the Board meeting in June, where issues of strategic significance were discussed.

### The Board's work in committees

The committees prepare items for decision by the Board. For specific matters, the Board may delegate decision-making rights to the respective committee.

#### Audit Committee

The duties of the Audit Committee include:

- Strengthening dialogue with SJ's auditors to increase the clarity on observations that concern the company's governance, accounting and control
- Meeting external auditors to remain continuously informed about the planning, focus and scope of the audit
- Preparing the Board of Directors' work on the quality assurance of SJ's financial statements, so that the statements provide a true and fair view of SJ's financial position, and to submit recommendations and proposals to ensuring the reliability of reports
- Managing significant risk areas and changes in estimates and assessments, and ensuring that the risk assessments are reflected in the financial statements
- Participating in the tendering of auditors and preparing proposals for the choice of auditors
- Reviewing the reports of external and internal auditors and ensuring that reported observations are rectified and communicated to the CEO
- Managing issues of internal control

In 2016, Siv Svensson was Chairman of the Audit Committee and Mikael Staffas and Michael Thorén were members. SJ's CFO, Carina Wång, presents reports to the Audit Committee. The Head of Internal Audit and the external auditors also participate at parts of the Committee's meetings. Eight meetings were held during the year (one by telephone). SJ's auditors presented significant accounting and auditing issues, and items related to internal control and processes during the year. The Committee's Chairman submitted regular reports on the Committee's work to the Board.

#### Remuneration Committee

The duties of the Remuneration Committee include:

- Ensuring the implementation of, and compliance with, the AGM-adopted guidelines for terms of employment for senior executives
- Preparing the Board's proposed policies on remuneration and other terms of employment for the CEO and other senior executives for the AGM
- Preparing the Board's proposal on updated guidelines, should the need arise. Preparing items on an ongoing basis regarding remuneration and other terms of employment for the CEO for decision by the Board, and serving as a consultative body in terms of the CEO's proposal on remuneration and other terms of employment for other senior executives, including all annual salary reviews

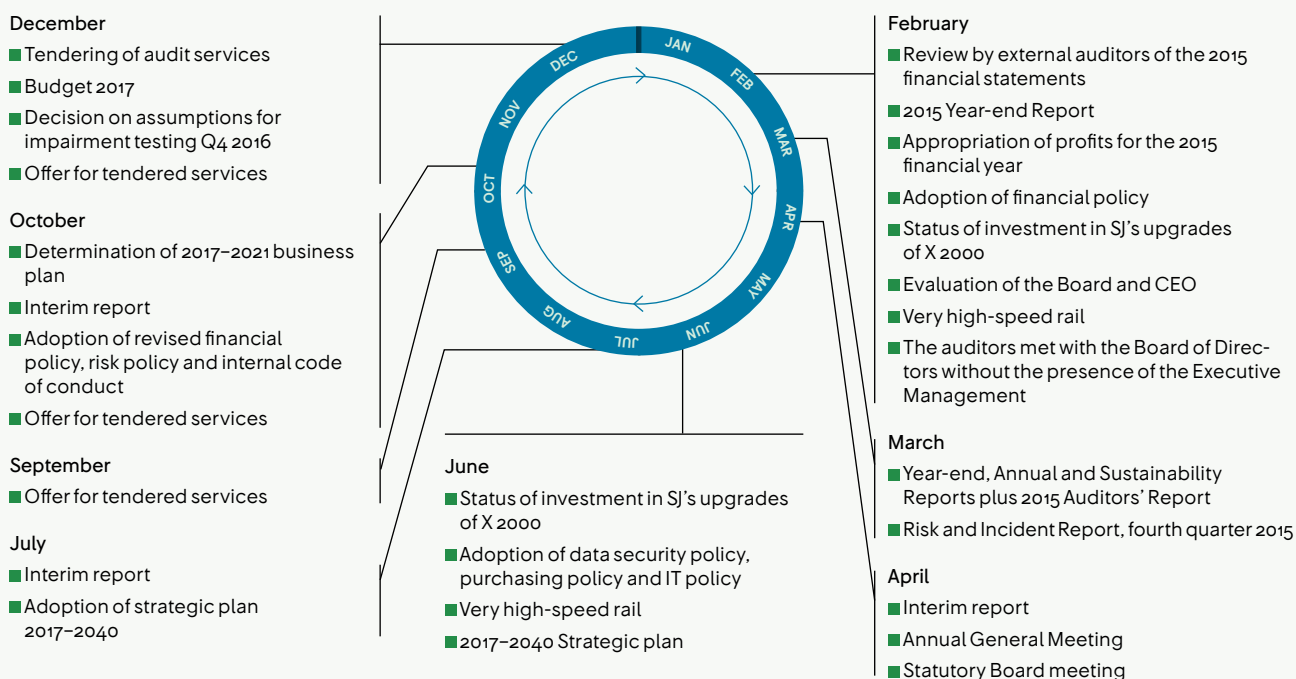
In 2016, Jan Sundling was Chairman of the Remuneration Committee. Michael Thorén and Mikael Stöhr were members of the Committee. SJ's President, Crister Fritzson, presents reports to the Remuneration Committee. During the year, two minuted meetings were held and the Committee's Chairman submitted regular reports on the Committee's work to the Board.

#### Sustainability and Ethics Committee

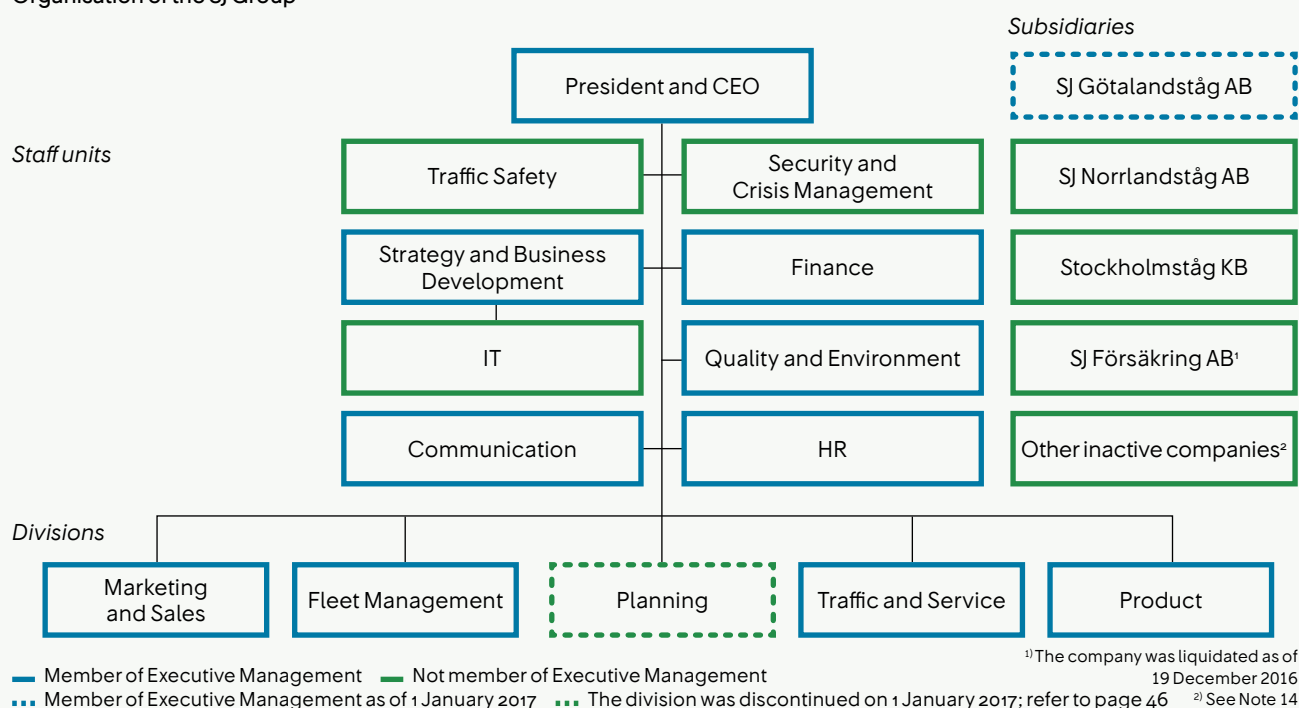
The Sustainability and Ethics Committee's duty is to monitor, prepare and take initiatives in overall and strategic sustainability issues.

In 2016, Jan Sundling was Chairman of the Sustainability and Ethics Committee. Kersti Strandqvist and Ulrika Dellby were members of the Committee. SJ's President, Crister Fritzson, participates in Committee meetings. SJ's Senior

### The Board's work in 2016



## Organisation of the SJ Group



Vice President of Quality and Environment, Erica Kronhoffer, presents reports to the Committee. Two minuted meetings were held during the year. The Committee's Chairman submitted regular reports on the Committee's work to the Board.

#### Evaluation of the work of the Board and the CEO

The Chairman is responsible for ensuring a systematic and structured process is used to evaluate the CEO's and the Board's performance once each year. The evaluation is conducted by a third party and assesses Board members collectively and individually. The Chairman, the Board members and the CEO answer questions in a web-based evaluation. In 2016, the evaluation also included interviews with the Board members and the CEO. The evaluation is summarised, analysed and compared with the preceding year's results, with special focus on defined development areas. The 2016 evaluation was presented at the Board meeting in February 2017. The evaluation results are submitted to the Ministry of Enterprise and Innovation, after which a follow-up meeting is held with the Chairman. The evaluation's aim is to continuously improve the efficiency of Board work, and to provide a basis for the appointment of new members.

#### Auditors

The owner is responsible for the choice of auditor and the choice of auditor is decided by the AGM. The tendering process is conducted by the Board's Audit Committee and the entire process is monitored by the Swedish Government Offices' administrator. Should a re-election of auditors be considered, the auditors' performance is always evaluated by the owner. The notice convening the AGM includes a proposal for the appointment of auditors, and information about any conditions of relevance when assessing the experience and independence of the proposed auditors. The proposed auditors are to attend the AGM.

#### Auditors in 2016

At the AGM held on 21 April 2016, accountancy firm Deloitte AB, represented by Authorised Public Accountant Hans Warén, was appointed Auditor-in-Charge until the 2017 AGM. The auditors presented their audit of the financial statements for 2016 to the entire Board at the Board meeting

on 14 February 2017. During the 2016 financial year, the Audit Committee and auditors discussed the company's financial statements, accounting, administration and risk management. The auditors met the Board, without the presence of the Executive Management, on one occasion. In addition, the auditors maintained regular contact and had meetings with the Board's Audit Committee. Fees to auditors and the reimbursement of their expenses are paid on an open account basis and presented in the Annual Report, Note 8.

#### Executive Management

SJ's Executive Management comprises SJ's CEO, and 10 directors of SJ's divisions and staff units. Malou Sjörin, is the newly appointed Senior Vice President Communication and joined SJ's Executive Management in January 2016. Members of Executive Management are appointed by the CEO following consultation with the Board.

SJ's CEO is responsible for SJ's ongoing management and, under the Companies Act and the Board of Directors' guidelines and instruction, is authorised to decide all issues pertaining to day-to-day management. The CEO leads operations and makes decisions for SJ AB and the SJ Group with the Executive Management, which is gathered on a regular basis. The duties of Executive Management include:

- Ensuring SJ prepares and adheres to the year's business plan, operational plans and budget during business reviews
- Managing and deciding on tactical operational activities within the framework of adopted business plans

All divisions, subsidiaries and staff units are managed by a senior vice president (SVP) together with a Management Team, who meet regularly. The SVPs are responsible for planning, managing, following up and improving the operations of each division, subsidiary or staff unit, so that:

- The division, subsidiary or staff unit fulfils its role and is managed in accordance with SJ's vision, mission and business plan
- Operations are pursued in accordance with applicable legislation and the instructions of authorities, and otherwise adhere to SJ's governing documents
- Establish operational plans, with distinct activities for the division, subsidiary and staff unit, based on the SJ Group's

overall business plan, and ensure that the operational plan is communicated internally, implemented and followed up

### Organisational changes after the end of the fiscal year

On 1 January 2017, the Group's structure was changed. Traffic planning was moved from the Planning Division to the Product Division. Traffic management was moved from the Planning Division to the Traffic and Service Division. The Planning Division was discontinued in conjunction with this organisational shift. The responsibility for night-train services was transferred from the subsidiary, SJ Norrlandståg, to the Product Division. As of 1 January 2017, responsibility for the employees of SJ Norrlandståg was moved to the Traffic and Service Division.

The President of SJ Götalandståg, Lena Källström, became a member of SJ's Executive Management as of 1 January 2017. Jens Wigen, Senior Vice President Planning, left SJ on 31 December 2016.

### Guidelines for terms of employment for senior executives

SJ applies the government's guidelines for terms of employment for senior executives in state-owned companies, issued on 20 April 2009. Decisions on the terms of employment for the CEO are prepared by the Remuneration Committee and adopted by the Board, and on the terms of employment for other senior executives by the CEO after customary consultation with SJ's Remuneration Committee. For full information about policies and remuneration, see Note 5.

### Management of operations

SJ has an integrated and certified management system for quality management (ISO 9001), the environment (ISO 14001) and occupational health and safety (OH SAS 18001). This system is externally audited, and SJ also uses the EFQM model (European Foundation of Quality Management) to evaluate and monitor the system's efficiency. The model helps us measure SJ's position relative to the vision and the adopted targets in a structured and systematic manner. SJ also has a balanced scorecard for regular reconciliations with the annual targets set when adopting the business plan. Read more about the scorecard on page 30.

The SJ Group has a long-term strategic plan through which long-term and overall targets are defined. The Executive Management is tasked with working together with the Board of Directors to ensure the advancement of the company in accordance with set objectives.

SJ's strategic plan is complemented by a five-year business plan during which strategic decisions are implemented. The business plan has six control areas, with their associated key figures that are reported in SJ's scorecard. A balanced scorecard ensures that SJ maintains focus on

all three sustainability factors: societal, environmental and economic sustainability. Each division, subsidiary and staff unit also creates annual budgets and forecasts, as well as an operations plan, through which business objectives are translated into concrete activities and each unit's key figures are broken down into specific targets.

The five-year plan for services and rolling stock is integrated into the business plan and describes how SJ aims to develop its offering on each line during the period covered by the business plan. The services and rolling stock plan forms the basis for evaluating ticket revenues and calculating the variable production expenses for each year and line.

### Decision-making forum and council

Executive Management decides which interdivisional decision forums to operate within the SJ Group. Executive Management also decides on each forum's objectives, standing agenda and participants. The CEO delegates his/her decision-making mandate to each forum, which is applicable within the framework of the relevant business plan and budget. SJ currently has five different forums in addition to Executive Management: the strategy forum, market forum, production forum, forum for tendered services, and the risk and safety forum. Each of the five decision-making forums has three principle tasks:

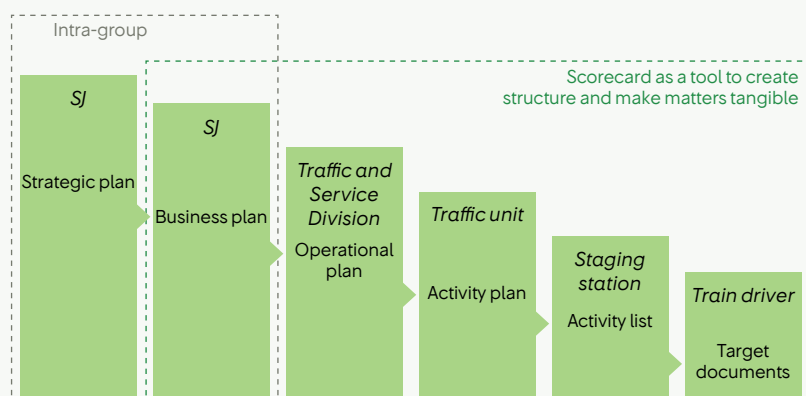
- Broaden and expedite decision-making in the SJ Group
- Make decisions on and regularly coordinate and prioritise issues that encompass more than two divisions
- Ensure the progress of their work within the organisation and ensure a fast pace of implementation

As a complement to the decision-making forums the Executive Management can make decisions about councils. The purpose of a council is to ensure cross-functional management of current and/or prioritised issues within, for example, purchasing, IT, training or branding. A council has no additional mandates to the regular mandates of its participants.

### Internal code of conduct

SJ's internal Code of Conduct guides employees in how to act and interact with each other, customers, passengers and other stakeholders. The Code of Conduct proceeds from SJ's core values: Reliable, Simple, Caring and Joyful and it encompasses all the SJ Group's employees, including board members and consultants. The Code has zero tolerance for corruption.

Since 2014, SJ has a whistle-blowing function for employees to report irregularities, including deviations from the internal Code of Conduct. The system ensures the anonymity of the whistle-blower, and reports are handled by a group consisting of the Heads of Legal Affairs, Security and Crisis Management, Internal Audit and Sustainability. In 2016, the Group dealt with four cases.



### Management in practice

The long-term performance indicators in SJ's business plan are translated into operational targets and activities for all parts of operations. These clarify for the individual employee how each individual can impact and contribute to the company's shared targets.

*This is one example from the Traffic and Service Division.*



## Board of Directors



Jan Sundling



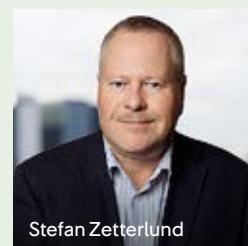
Mikael Staffas



Siv Svensson



Kersti Strandqvist



Stefan Zetterlund



Ulrika Dellby



Mikael Stöhr



Michael Thorén



Per Hammarqvist



Hans Pilgaard

**Jan Sundling**

*Chairman of the Board of SJ AB since 2011*

Chairman of the Remuneration Committee and the Sustainability and Ethics Committee

Independent in relation to the company and the Executive Management

*Born: 1947*

*Qualifications:* B.Sc. in Nautical Science, Higher Business Administration programme

*Positions and Board assignments:* Chairman of the Board of the Swedish Maritime Association, the Swedish Institute for Quality (SIQ). Board member of Corem Property Group AB and Aditro Logistics AB

*Previous positions and Board assignments:* CEO of Green Cargo AB

**Ulrika Dellby**

*Board member of SJ AB since 2014*

Member of Sustainability and Ethics Committee

Independent in relation to the company and the Executive Management

*Born: 1966*

*Qualifications:* M.Sc. in Economics

*Positions and Board assignments:* Board member of Lifco AB, Cybercom Group AB and BIG BAG Group AB. Partner Fagerberg & Dellby Fond I AB

*Previous positions and Board assignments:* Vice Chairman of Fastighetsaktiebolaget Norrporten, partner at the Boston Consulting Group

**Mikael Staffas**

*Board member of SJ AB since 2013*

Member of Audit Committee

Independent in relation to the company and the Executive Management

*Born: 1965*

*Qualifications:* M.Sc. in Engineering and MBA

*Positions and Board assignments:* President of Boliden Mines. Board member of the industry organisations SveMin and Gruvornas Arbetsgivareförbund, GAF

*Previous positions and Board assignments:* CFO of Boliden, CFO of Södra Skogsägarna

**Mikael Stöhr**

*Board member of SJ AB since 2014*

Member of Remuneration Committee Independent in relation to the company and the Executive Management

*Born: 1970*

*Qualifications:* Degrees in law and economics

*Positions and Board assignments:* CEO and President of Coor Service Management AB.

*Previous positions and Board assignments:* President and CEO of Green Cargo AB, President and CEO of AxIndustries AB

**Siv Svensson**

*Board member of SJ AB since 2012*

Chairman of Audit Committee

Independent in relation to the company and the Executive Management

*Born: 1957*

*Qualifications:* Degree in International Economics

*Positions and Board assignments:* Board member of Swedbank, Karolinska University Hospital, Allba AB, Inlandsinnovation AB and Forum Syd

*Previous positions and Board assignments:* CEO of Sefina Finance AB, Vice President and regional bank manager at Nordea

**Michael Thorén**

*Board member of SJ AB since 2012*

Member of Audit Committee and Remuneration Committee

Independent in relation to the company and the Executive Management

*Born: 1969*

*Qualifications:* M.Sc. in Economics

*Positions and Board assignments:* Deputy Director of the Ministry of Enterprise and Innovation. Board member of Orio AB, Metria AB and Svevia AB

*Previous positions and Board assignments:* Analyst at ABN/Amro Bank, Project Manager at Retriva Kredit

**Kersti Strandqvist**

*Board member of SJ AB since 2016*

Member of Sustainability and Ethics Committee

Independent in relation to the company and the Executive Management

*Born: 1963*

*Qualifications:* M.Sc. in Engineering, Degree of Licentiate of Science and Master of Marketing HEC

*Positions and Board assignments:* Senior Vice President Group Function Sustainability at Swedish Cellulosa AB

*Previous positions and Board assignments:* Board member at TeliaSonera AB and Swedish Match AB, Vice President Category Feminine Care and Category Director Baby Care of SCA Hygiene Products

**Per Hammarqvist**

*Employee representative at SJ AB since 2011*

*Born: 1958*

*Positions and Board assignments:* Traffic Planner, Chairman of SACO Association and of TJ Association at SJ, member of SACO Union, Trafik & Järnvägs Förbundsstyrelse

**Stefan Zetterlund**

*Employee representative at SJ AB since 2016*

*Born: 1963*

*Positions and Board assignments:* Train conductor, Vice Chairman and Contracts Manager for the Negotiation Council of Seko at SJ, Chairman of the Seko Club in Hallsberg and Chairman of Seko auditors' union

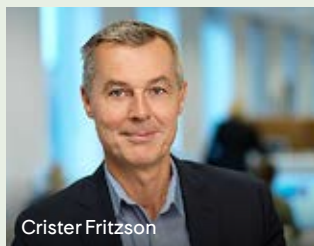
**Hans Pilgaard**

*Employee representative at SJ AB since 2012*

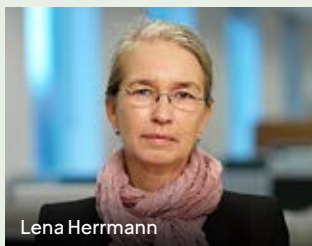
*Born: 1963*

*Positions and Board assignments:* Train driver, Chairman of ST Spårtrafik at SJ AB and member of the departmental board of ST Spårtrafik

## Executive Management



Crister Fritzson



Lena Herrmann



Madeleine Raukas



Jens Wigen



Peter Blomqvist



Erica Kronhoffer



Thomas Silbersky



Carina Wång



Claes Broström



Lena Källström



Malou Sjörin



Caroline Åstrand

### Crister Fritzson

*President/CEO since 2012*

*Born: 1961*

*Qualifications: MBA*

*Board assignments:* Board member of Systembolaget AB, Trafik i Mälardalen AB, Net Insight AB, Samtrafiken i Sverige AB, Almega Tjänsteförbunden, Svensk Turism AB, the Confederation of Swedish Enterprise and Swedish Association of Railway Industries, Chairman of the Association of Swedish Train Operating Companies  
*Previous positions:* President and CEO of Teracom, CEO of Boxer

### Peter Blomqvist

*Senior Vice President Human Resources since 2009*

*Born: 1954*

*Qualifications:* B.Sc. in Sociology

*Board assignments:* Board member of the Employers' Organisation for the Swedish Service Sector – Railbound Transport Board, Almega

*Previous positions:* HR Manager at Passenger Services Division and HR manager for the Sales business area at Statens Järnvägar

### Claes Broström

*Vice President Fleet Management since 2006*

*Born: 1954*

*Qualifications:* Mechanical Engineer and Market Economist

*Previous positions:* Senior Vice President SAS AB, Vice President Ericsson AB

### Lena Herrmann

*Senior Vice President Strategy and Business Development and Acting Senior Vice President IT since 2015*

*Born: 1962*

*Qualifications:* M.Sc. in Engineering

*Board assignments:* Board member of Eskilstuna Kuriren AB, Chairman of MTD KB and MTD AB

*Previous positions:* CEO of Dagens Nyheter, Vice President of Bonnier Newspapers

### Erica Kronhoffer

*Senior Vice President Quality, Environment and Sustainability since 2013*

*Born: 1971*

*Qualifications:* Master of Laws

*Board assignments:* Board member of CSR Sweden

*Previous positions:* President of Sustainability at PostNord AB, Director of Sustainable Affairs at Green Cargo AB

### Lena Källström

*President of SJ Götalandståg AB since 2012*

*Born: 1965*

*Qualifications:* M.Sc. in Business and Economics with a focus on Service Management

*Previous positions:* Head of Regional Services at SJ AB, District Manager at Sodexo Member of SJ's Executive Management since 1 January 2017

### Madeleine Raukas

*Senior Vice President Traffic and Service since 2012*

*Born: 1967*

*Qualifications:* BA

*Board assignments:* Board member of the Association of Swedish Train Operating Companies and Trafik i Mälardalen AB  
*Previous positions:* Vice President and Acting CEO of SL, President of SAS Ground Services in Sweden

### Thomas Silbersky

*Senior Vice President Marketing and Sales since 2013*

*Born: 1965*

*Qualifications:* MBA

*Previous positions:* Commercial Director of Rynkeby Foods AB (Arla), General Manager of Tivall Scandinavia (Nestlé), Marketing Director at Carlsberg

### Malou Sjörin

*Senior Vice President Communication since 2016*

*Born: 1972*

*Qualifications:* M.Sc. in Economics

*Previous positions:* Scandinavian Communication Director at Trygg-Hansa/Codan, Head of Information at Capgemini

### Jens Wigen

*Senior Vice President Planning, from 2012 to 2016*

*Born: 1955*

*Qualifications:* BA

*Previous positions:* President of TUIfly Nordic, Vice President of Planning at SAS Sweden Member of SJ's Executive Management up to and including 31 December 2016

### Carina Wång

*Senior Vice President and Chief Financial Officer since 2013*

*Born: 1966*

*Qualifications:* M.Sc. in Economics

*Previous positions:* CFO of Micronic Mydata AB (currently Myconic AB), Vice President and Head of Business Controlling at Investor AB

### Caroline Åstrand

*Senior Vice President Product since 2014*

*Born: 1970*

*Qualifications:* M.Sc. in Economics

*Board assignments:* Board member of Trafik i Mälardalen AB

*Previous positions:* Manager of Strategic Product and Service Development/Manager of the SJ Regional and SJ InterCity divisions at SJ AB, principal of the Boston Consulting Group

## The Board's internal control report

Under the Swedish Companies Act and the Swedish Corporate Governance Code, the Board is responsible for the company's internal control. SJ's external financial reporting comprises interim reports, the year-end report and most of the annual report and sustainability report. The Audit Committee's work represents some of this Board control. In 2016, external and/or internal auditors presented their findings at all Audit Committee meetings.

### Risks

A structured risk assessment enables identification of the material risks with significance for internal control over financial reporting, and identification of where these risks can be found. SJ works systematically with risk assessments. The Risk and Safety Forum is responsible for establishing a process to identify financial and non-financial risk areas based on the scorecard. The aim is to enable early remedial action for every risk in order to limit undesired impacts or to leverage any opportunities identified. The process of identifying risks involves all divisions, subsidiaries and staff units, which enables grassroots support and greater awareness throughout the organisation, and more effective risk identification. Every identified risk has a distinct owner.

SJ's Executive Management is informed on a quarterly basis about risk assessments, to decide whether there is a need for additional action, or whether new risk areas should be assessed. The Board of Directors is informed every six months about identified risks and implemented measures. Read more on pages 27–28.

### Internal audit

SJ has an internal audit function that reports directly to the Board's Audit Committee. Internal Audit performs independent and objective auditing assignments, which lead to action and improvement programmes. SJ's Internal Audit conducts an annual independent risk analysis that provides the basis for the function's annual audit plan, which is subject to adoption by the Board. In conjunction with planning the annual audit, the external and internal audit functions discuss SJ's risk profile. During the year, Internal Audit conducted 25 audits in such areas as: removal of system authorisations, conflicts of interest, entertainment and approval of supplier invoices.

### Control environment

The basis of internal control consists of the control environment including organisation, decision-making processes, authorities and responsibilities that are documented and communicated in governing documents, and the core values upon which the Board and Executive Management communicate and operate. Responsibilities and authorities are defined in the instructions of manuals, policies and procedures. Some examples include:

- Written rules of procedure for the Board of Directors, Audit Committee, Remuneration Committee and the Sustainability and Ethics Committee
- The Board's instructions to the CEO
- Authorisation rules aimed at ensuring effective control of financial transactions to prevent intentional or unintentional errors
- Adopted policies

### Control activities

SJ's control activities are designed for the systematic management of significant risks related to financial reporting, including key accounting issues identified during the risk assessment. The aim of control activities is to prevent or enable early detection of errors in financial and non-financial reporting, and thereby minimise the consequences.

The Finance Department is responsible for analysis of the financial results and compilation of the financial statements.

One example of control activities is the SJ Group's strategic business review meetings, which are managed by the controller function. At these meetings, members of the Executive Management and the presidents of train-operating subsidiaries present their operations and planning for the CEO and CFO. Another example of control activities is the monthly follow up of the SJ Group's scorecard, which encompasses both financial and non-financial areas.

### Information and communication

Effective information and communication channels enable reporting and feedback from the operations to the Board and the Executive Management. The right people are to receive the information that is requisite to understanding the meaning of stated internal policies and guidelines, and the consequences of deviations. SJ works continuously to improve its internal communication and to explain the decision-making process clearly, to increase the reliability and efficiency of the company's financial and non-financial reporting. SJ's decision-making processes, authorities and areas of responsibility are documented and available on SJ's intranet. Meetings that facilitate dialogues between managers and employees are conducted with a great emphasis placed on regular workplace meetings, where SJ's overall issues are naturally linked to the responsibilities of each individual employee. Four dialogue meetings, involving a shared meeting place for the entire company, were held during the year. In addition to the dialogue meetings extra efforts were made during the year and more than 80 "dialogues about the future" were held within the Traffic and Service Division. Employee surveys are also conducted, providing opportunities for feedback on answers received, for both the Executive Management and individual employees.

### Monitoring

Monitoring is conducted continuously to ensure that risks are taken into account. SJ has formalised processes aimed at ensuring that the company is moving in the right direction in relation to the targets and guidelines set by the Board and the Executive Management. The Board determines the reporting requirements that are needed to remain appropriately informed about the financial and non-financial results, the Group's operational risks, and how these risks and results are affected. The aim of internal reporting is to ensure monitoring and reporting of the operations is appropriate and accurate in relation to the defined business plan and budget. Monthly reports are submitted to the Board, CEO and the Executive Management.

SJ's internal and external reporting includes the results and analysis of financial and non-financial key figures and is aimed at providing regular reports on the company's development, including its corporate sustainability performance. This is followed up on a monthly basis through the SJ Group's scorecard. The reporting complies with applicable laws and regulations, and the owner's requirements.

The Board receives regular reports on how the operations are performing in relation to the business plan, budget and forecasts. The organisation continuously monitors compliance with internal policies, guidelines and manuals, as well as the appropriateness and functionality of established control activities, such as supplier assessments. Other examples include quarterly follow-up of the financial policy, the whistle-blowing system through which all employees can report irregularities, and continuous assessments of safety-related work.

Every year, the external auditors perform a review of the internal control over the IT environment and financial reporting. Internal Audit follows the audit plan adopted by the Board and reports the findings of its audit to SJ's Audit Committee.



# Income statement and statement of comprehensive income

SEK million	Note	2016	2015
Net sales	2	9,336	9,052
Other operating income	4	36	19
<b>Total operating income</b>	<b>1</b>	<b>9,372</b>	<b>9,070</b>
Personnel expenses	5	-2,834	-2,822
Depreciation/amortisation and impairment	1, 6	-792	-814
Other expenses	3, 7, 8	-4,917	-4,828
<b>Total expenses</b>		<b>-8,543</b>	<b>-8,464</b>
Results from participations in associated companies	1, 15	8	19
<b>Operating profit</b>	<b>1</b>	<b>837</b>	<b>625</b>
Interest income and similar profit/loss items	1, 10	14	2
Interest expense and similar profit/loss items	1, 10	-18	-25
<b>Profit before tax</b>		<b>833</b>	<b>602</b>
Tax on profit for the year	1, 11	-183	-131
<b>Profit/loss for the year</b>	<b>1</b>	<b>650</b>	<b>471</b>
<b>Other comprehensive income</b>			
<i>Components that will be reclassified to profit or loss</i>			
Cash-flow hedges	10	-3	5
Currency forwards	10	2	-
Financial assets available-for-sale	10	-	-5
Deferred tax	11	0	0
<b>Other comprehensive income for the year</b>	<b>21</b>	<b>-1</b>	<b>0</b>
<b>Comprehensive income for the year</b>		<b>649</b>	<b>471</b>
<b>Net profit for the year attributable to:</b>			
Parent Company shareholders <sup>1</sup>		650	471
<b>Comprehensive income for the year attributable to:</b>			
Parent Company shareholders <sup>1</sup>		649	471
Earnings per share (basic and diluted), SEK		162	118
Number of shares at year-end, thousands		4,000	4,000
Average number of shares during the year, thousands		4,000	4,000

<sup>1)</sup> There are no non-controlling interests in the Group.

## Comments on the income statement and statement of comprehensive income

### Income

SJ AB and SJ Norrlandståg reported a two percent increase in total travel (measured in passenger kilometres) compared with the preceding year. The increase was driven primarily by targeted customer offerings, changes in pricing and a successful summer campaign as well as being due to there being more working days over Christmas 2016 compared with 2015. Available seats were on a par with the preceding year. The load factor increased as a result of the positive travel trend.

SJ's active pricing strategy aimed at building travel volumes together with changes in our customers' purchasing behaviour have resulted in lower fares per passenger kilometre. Increases in first class travel and greater demand for flexible tickets have however, gradually increased prices and, in combination with the positive travel trend, traffic revenue from independent commercial rail services increased year-on-year.

Revenue from train-operating subsidiaries increased year-on-year. This was mainly a result of increased revenue due to two completely new agreements; Västtågen from December 2015 and Västtågen on the Kinnekullebanan (Kinnekulle Line) from June 2016, both on behalf of Västtrafik. The agreements mean an increase in revenue and in the cost base for the SJ Group.

In addition, supplementary agreements for train-operating subsidiaries have had a positive impact.

In total, SJ's income increased SEK 302 million year-on-year.

### Expenses

Personnel expenses were SEK 12 million higher year-on-year. This was due to annual salary reviews and the reported restructuring reserve. The increase was offset by the handover of commuter rail services in Stockholm County in December, when some 800 employees left the SJ Group.

Amortisation, depreciation and impairment costs were SEK 22 million lower for the year. The decrease was largely attributable to last year's impairments, partly due to impairment of then ongoing projects, and partly due to the impairment of refurbished family carriages.

Other expenses rose SEK 89 million during the year. A considerable part of the increase was due to the higher cost base resulting from the two new tendered services agreements that are operated on behalf of Västtrafik. The new agreements mainly impact the comparison of electricity, infrastructure, operating and maintenance expenses. The increase was also explained by higher electricity and infrastructure expenses for the other Group companies, and by the start of services under won agreements in conjunction with the change in timetables in mid-December. The increase was offset partly by the handover of commuter rail services in Stockholm County in December, and partly by lower indirect costs mainly pertaining to IT as a result of the implementation of the IT strategy.

In total, SJ's income increased SEK 79 million year-on-year.

### Operating profit

Higher demand together with active efforts to lower the Group's cost base and increased revenue from supplementary agreements resulted in the full-year operating profit amounting to SEK 837 million (625). The operating margin was 8.9 percent (6.9). Underlying operating profit amounted to SEK 853 million (655).

#### Clarification of underlying operating profit for 2016

Operating profit	SEK 837 million
Costs related to non-current assets held for sale	SEK 22 million
June agreement on station charges for 2015, expense	SEK 6 million
Previous years' insurance compensation claims, expense	SEK 11 million
Restructuring reserve	SEK 11 million
Underlying operating profit	SEK 853 million

#### Clarification of underlying operating profit for 2015

Operating profit	SEK 625 million
Expense for unwinding the reserve for maintenance expenses	SEK 11 million
Expense for the reconstruction of suppliers	SEK 9 million
Expense for the wheel audit remuneration	SEK 8 million
Expense for unwinding part of the restructuring reserve	SEK 7 million
Expense for unwinding part of the reserve for estimated future contractual service obligations in associated companies	SEK 4 million
Impairment loss on non-current assets, related to refurbished family carriages	SEK 11 million
Retroactive pension expense	SEK 12 million
Impairment loss on ongoing projects	SEK 35 million
Adjustment of a previously estimated fee	SEK 10 million
Underlying operating profit	SEK 655 million

### Financial items

SJ's net debt decreased year-on-year. Moreover, the low interest rates resulted in low borrowing costs. Net financial items amounted to an expense of SEK 4 million (expense: 23).

### Consolidated profit and tax

Consolidated profit before tax amounted to SEK 833 million (602). Tax on profit for the year amounted to an expense of SEK 183 million (expense: 131) and the effective tax rate was 22 percent (22). Net profit for the year totalled SEK 650 million (471).

# Statement of financial position

SEK million	Note	31 Dec 2016	31 Dec 2015
<b>ASSETS</b>			
<b>Non-current assets</b>			
Buildings	12	24	27
Rolling stock	12	4,669	5,117
Machinery and equipment	12	101	54
Construction in progress	12	710	718
Intangible assets	13	286	278
Participations in associated companies	15	34	43
Non-current receivables	16	-	80
<b>Total non-current assets</b>		<b>5,825</b>	<b>6,317</b>
<b>Current assets</b>			
Inventories		4	7
Accounts receivable	17	339	249
Receivables from associated companies		3	6
Other receivables	18	294	208
Prepaid expenses and accrued income	19	168	198
Short-term investments	20	1,479	718
Cash and cash equivalents	20	74	97
Non-current assets held for sale	12	78	65
<b>Total current assets</b>		<b>2,439</b>	<b>1,547</b>
<b>TOTAL ASSETS</b>	<b>1</b>	<b>8,264</b>	<b>7,864</b>

## Comments on the statement of financial position

### Assets

#### Tangible assets

At 31 December 2016, the Group's tangible assets amounted to SEK 5,505 million (5,916) and mainly consisted of rolling stock. SJ's train fleet comprises SJ 3000 trains, X 2000 trains, double-decker trains, locomotives and carriages. Investments for the year in tangible assets amounted to SEK 314 million (393).

In 2013, a decision was made to upgrade the technology and refurbish the interiors for all of SJ's X 2000 train sets. The technical investment is expected to amount to SEK 1.4 billion and the total investment in interiors is estimated at slightly more than SEK 1 billion. At 31 December 2016, SEK 427 million (363) had been completed.

The investment in new X 2000s will extend the life of all of the train sets until 2035. It will result in a change in the economic life and therefore a change in the depreciation rate from April 2015. SJ has extended the depreciation period for about 80 percent of each chassis until 2035, while the depreciation period for the remaining 20 percent of the chassis has been shortened to the end of 2017.

#### Intangible assets

The Group's intangible assets totalled SEK 286 million (278) and comprised capitalised development expenditure, primarily pertaining to development expenses for business-related IT systems. The largest IT systems are a new maintenance system, [www.sj.se](http://www.sj.se) and timetable systems.

Investments in intangible assets for the year amounted to SEK 76 million (133) and pertained to the development of various IT systems.

#### Financial assets

Financial assets amounted to SEK 34 million (123) and comprised participations in associated companies. During the year, all interest-bearing securities in the subsidiary SJ Försäkring were transferred to SJ AB. SJ Försäkring classified interest-bearing securities as financial assets. SJ AB classifies these as short-term investments.

#### Current assets

Short-term investments totalled SEK 1,479 million (718). Investments totalling SEK 798 million were made in short-term investments during the year, of which SEK 123 million pertained to SJ AB's take-over of interest-bearing securities from SJ Försäkring.

At 31 December 2016, non-current assets held for sale amounted to SEK 78 million (65).



## Statement of financial position, cont.

SEK million	Note	31 Dec 2016	31 Dec 2015
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital		400	400
Other contributed capital		2,819	2,819
Reserves		-9	-8
Retained earnings		1,126	666
<b>Total equity attributable to owner of Parent Company<sup>1</sup></b>		<b>4,337</b>	<b>3,876</b>
<b>Total equity</b>	21	<b>4,337</b>	<b>3,876</b>
<b>Non-current liabilities</b>			
Provisions	25	184	195
Interest-bearing liabilities	20, 24	1,059	1,367
Non-interest-bearing liabilities	20	0	1
Deferred tax liabilities	11	487	455
<b>Current liabilities</b>			
Provisions	25	161	120
Interest-bearing liabilities	24	343	111
Accounts payable		442	593
Accrued expenses and deferred income	26	938	836
Liabilities to associated companies		21	72
Tax liabilities		130	90
Other current liabilities		162	148
<b>Total liabilities</b>	1	<b>3,927</b>	<b>3,988</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>8,264</b>	<b>7,864</b>

<sup>1)</sup> There are no non-controlling interests in the Group.

## Comments on the statement of financial position

## Equity

At 31 December, the Group's equity amounted to SEK 4,337 million (3,876). The change of SEK 461 million was attributable to comprehensive income for the year of SEK 649 million and the SEK 188 million dividend payment in line with the 2015 appropriation of profits.

## Liabilities

*Interest-bearing liabilities*

At 31 December 2016, the Group's net debt was SEK 10 million (751). The Group's interest-bearing liabilities amounted to SEK 1,402 million (1,478), and mainly comprised payment commitments for loans of SEK 800 million raised in 2012 to finance the fleet of SJ 3000 trains, and loans of SEK 770 million raised in September 2015 for the modernisation of X 2000 trains. The loans have a tenor of eight to ten years.

Of the interest-bearing liabilities, SEK 1,059 million (1,367) was non-current and SEK 343 million (111) current, pertaining to those parts of the liabilities that mature within one year. The change between non-current and current interest-bearing liabilities was attributable to SJ experiencing stronger than expected cash flow and surplus liquidity as a consequence. The assessment is that the surplus liquidity will continue for the next year. Given the above, SJ will exercise the contractual possibility to voluntarily repay a SEK 243 million loan on 28 February 2017.

The average maturity for outstanding liabilities was 50 months (65). The average fixed-interest term was 10 months (13).

# Statement of changes in equity<sup>1</sup>

SEK million	Note	Share capital	Other contributed capital	Reserves, cash-flow hedges	Reserves, financial assets available-for-sale	Retained earnings	Total equity <sup>1</sup>
<b>1 Jan 2015</b>	21	400	4,519	-12	4	425	5,335
Net profit for the year						471	471
Other comprehensive income				4	-4		0
<b>Comprehensive income for the year</b>				<b>4</b>	<b>-4</b>	<b>471</b>	<b>471</b>
Dividends to shareholders			-1,700			-230	-1,930
<b>31 Dec 2015</b>	21	<b>400</b>	<b>2,819</b>	<b>-8</b>	<b>-</b>	<b>666</b>	<b>3,876</b>
Net profit for the year						650	650
Other comprehensive income				-1	-	-1	-1
<b>Comprehensive income for the year</b>				<b>-1</b>	<b>-</b>	<b>649</b>	<b>649</b>
Dividends to shareholders						-188	-188
<b>31 Dec 2016</b>		<b>400</b>	<b>2,819</b>	<b>-9</b>	<b>-</b>	<b>1,126</b>	<b>4,337</b>

<sup>1)</sup> Total equity is attributable to owner of the Parent Company. There are no non-controlling interests in the Group.

## Comments on the statement of changes in equity

At 31 December 2016, the Group's equity amounted to SEK 4,337 million (3,876). Equity was strengthened by a positive result in 2016. Retained earnings included net profit for the year and changes in unrealised cash-flow hedges less deferred tax of SEK 1 million (expense: 4), and an expense from financial assets available-for-sale less deferred tax of SEK 0 million (expense: 4). Retained earnings for the year were also impacted by dividends totalling SEK 188 million (230) to shareholders, in accordance with the AGM resolution on 21 April 2016. Other contributed capital was impacted in the preceding year by dividends totalling SEK 1,700 million, in accordance with the EGM resolution on 25 September 2015.

## Financial targets

The operations in relation to the owner's directive and financial requirements on SJ's operations.

	2016	Target	2015
Return on operating capital, %	20.0	7	13.2
Net debt/equity ratio	0.0	0.5–1.0	0.19
Dividend paid, SEK million	188	30–50%	1,930
The Board's proposed dividend in line with the appropriation of profits, SEK million	260	30–50%	188

The owner's long-term financial targets for SJ are a minimum average return on operating capital of 7 percent, and a long-term net debt/equity ratio of 0.5–1.0. In addition, long-term dividends should be within the range of 30–50 percent of profit for the year after tax.

At 31 December 2016, the return on operating capital was 20.0 percent (13.2). Operating profit totalled SEK 837 million (625), while operating capital over a rolling 12-month period amounted to SEK 4,181 million (4,721). The return on operating capital continues to outperform the target, which was mainly due to positive earnings and reduced operating capital from a lower than planned rate of investment during the year.

At 31 December 2016, the Group's interest-bearing provisions and liabilities amounted to SEK 1,563 million (1,646) and interest-bearing assets to SEK 1,553 million (895). This means that net debt amounted to SEK 10 million (751) and that the Group's net debt/equity ratio was 0.0 (0.19). Accordingly, SJ's capital structure is stronger than that set in the owner's long-term target. The declining net debt/equity ratio was mainly due to the low rate of investment in 2016.

The Board proposes that the AGM resolve to pay a dividend of SEK 260 million (188), corresponding to SEK 65.00 per share. The dividend corresponds to 40 percent of profit for 2016 after tax for the SJ Group.

# Cash-flow statement

SEK million	Note	2016	2015
<b>Operating activities</b>			
Profit before tax		833	602
<b>Adjustments for non-cash items</b>			
– Depreciation/amortisation and impairment	6	792	814
– Changes in provisions		30	-64
– Capital gain/loss		2	2
– Tax paid		-146	-
– Other changes		5	34
– Results from participations in associated companies		-8	-15
<b>Cash flow from operating activities before changes in working capital</b>		<b>1,507</b>	<b>1,373</b>
Cash flow from changes in working capital		-204	-39
<b>Cash flow from operating activities</b>		<b>1,304</b>	<b>1,335</b>
<b>Investing activities</b>	12, 13		
Acquisition of tangible assets		-314	-393
Acquisition of intangible assets		-76	-133
Sale of tangible assets		2	1
Dividends from associated companies		17	-
Sales other long-term interest-bearing receivables		0	476
Acquisition of short-term investments		-798	-689
Divestment of short-term investments		107	731
<b>Cash flow from investing activities</b>		<b>-1,062</b>	<b>-6</b>
<b>Cash flow before financing activities</b>		<b>242</b>	<b>1,329</b>
<b>Financing activities</b>			
Borrowings		-	770
Loan amortisations		-76	-417
Dividends		-188	-1,930
<b>Cash flow from financing activities</b>		<b>-264</b>	<b>-1,577</b>
<b>Cash flow for the year</b>		<b>-23</b>	<b>-248</b>
<b>Cash and cash equivalents at 1 January</b>		<b>97</b>	<b>345</b>
<b>Cash and cash equivalents at 31 December</b>	20	<b>74</b>	<b>97</b>

Interest income received in the Group totalled SEK 17 million (2) and interest paid was SEK 8 million (neg: 9).

## Comments on the cash-flow statement

### Cash flow from operating activities

Cash flow from operating activities was lower year-on-year and amounted to SEK 1,304 million (1,335). The change in cash flow from working capital was primarily an effect of the allocation of supplier payments and a supplementary tax payment to the Swedish Tax Agency. Cash flow from operating activities before changes in working capital was SEK 1,507 million (1,373) and the increase was primarily a consequence of the year-on-year improvement in earnings.

### Cash flow from investing activities

Investments in intangible and tangible assets amounted to an expense of SEK 390 million (expense: 526) of which SEK 277 million (336) pertained to investments in rolling stock, primarily to the upgrade and modernisation of X 2000 trains but also to investments in double-deckers and SJ 3000. Other investments in tangible assets amounted to an expense of SEK 37 million (expense: 57), and mainly related to investments in SJ's new ticket machines. Investments in intangible assets amounted to an expense of SEK 76 million (expense: 133) and pertained to the development of various IT systems.

Dividends from associated companies pertained to a dividend of SEK 17 million (0) from Linkon AB. The acquisition of short-term investments during the year amounted to an expense of SEK 798 million (expense: 689) and divestments of short-term investments totalled SEK 107 million (731). Last year's SEK 476 million divestment of long-term interest-bearing receivables mainly pertained to maturing deposits linked to the financial lease that matured on 30 June 2015. Cash flow from investing activities was a negative SEK 1,062 million (neg: 6).

### Cash flow from financing activities

During the year, capital repayments on existing loans totalled SEK 76 million (417). Last year's capital repayments pertained mainly to the final maturity of the financial lease on 30 June 2015. As resolved by the AGM, the dividend of SEK 188 million (230) was paid on 10 May 2016. Cash flow from financing activities was a negative SEK 264 million (neg: 1,577). Last year, cash flow from financing activities was impacted by an extraordinary dividend of SEK 1,700 million and by borrowings of SEK 770 million. At 31 December 2016, cash and cash equivalents amounted to SEK 74 million (97), and cash flow for the year was a negative SEK 23 million (neg: 248).



# Income statement and statement of comprehensive income

SEK million	Note	2016	2015
Net sales	2	6,145	6,088
Other operating income	4	55	81
<b>Total operating income</b>	<b>1</b>	<b>6,199</b>	<b>6,169</b>
Personnel expenses	5	-1,717	-1,693
Depreciation/amortisation and impairment	1, 6	-797	-813
Other expenses	3, 7, 8	-3,104	-3,148
<b>Total operating expenses</b>		<b>-5,618</b>	<b>-5,654</b>
<b>Operating profit</b>	<b>1</b>	<b>581</b>	<b>515</b>
Results from participations in Group companies	9	127	211
Results from participations in associated companies	1, 15	17	4
Financial income	1, 10	41	0
Interest expense and similar profit/loss items	1, 10	-18	-29
<b>Year-end appropriations</b>			
Group contributions paid		-85	-43
Group contributions received		0	27
<b>Profit before tax</b>		<b>664</b>	<b>686</b>
Tax on profit for the year	1, 11	-176	-135
<b>Net profit for the year</b>	<b>1</b>	<b>487</b>	<b>551</b>
<b>Other comprehensive income</b>	<b>1</b>	<b>487</b>	<b>551</b>
<i>Components that will be reclassified to profit or loss</i>			
Cash-flow hedges	10	-3	5
Currency forwards	10	2	0
Financial assets available-for-sale	10	-	-1
Deferred tax	11	0	-1
<b>Other comprehensive income for the year</b>	<b>21</b>	<b>-1</b>	<b>4</b>
<b>Comprehensive income for the year</b>		<b>486</b>	<b>554</b>

## Comments on the income statement

### Income

SJ AB reported a three percent year-on-year increase in total travel (measured in passenger kilometres), which was driven mainly by targeted customer offerings, pricing changes and a successful summer campaign as well as to Christmas 2016 having more working days than Christmas 2015. Available seats were on a par with the preceding year. The load factor increased as a result of the positive travel trend.

SJ AB's active pricing strategy aimed at building travel volumes together with changes in our customers' purchasing behaviour have resulted in lower fares per passenger kilometre. Increases in first class travel and greater demand for flexible tickets have however, gradually increased prices and, in combination with the positive travel trend, traffic revenue from independent commercial rail services increased year-on-year.

In total, SJ AB's income rose SEK 30 million.

### Expenses

Personnel expenses were about SEK 24 million higher year-on-year. This was due to annual salary reviews and the reported restructuring reserve of SEK 6 million.

Amortisation, depreciation and impairment costs were SEK 16 million lower, which was largely attributable to last year's impairments, partly due to impairment of then ongoing projects, and partly due to the impairment of refurbished family carriages.

In 2016, other expenses decreased SEK 44 million due to lower indirect costs, mainly IT costs, from the IT strategy implementation. The decrease was offset partly by higher electricity and infrastructure expenses, and partly by the start of services under won agreements in conjunction with the timetable changes in mid-December.

In total, SJ AB's expenses decreased SEK 36 million year-on-year.

### Operating profit

Higher demand together with active efforts to lower the cost base resulted in the full-year operating profit amounting to SEK 581 million (515). The operating margin was 9.4 percent (8.4). Underlying operating profit amounted to SEK 592 million (538).

### Clarification of underlying operating profit for 2016

Recognised operating profit	SEK 581 million
Costs related to non-current assets held for sale	SEK 22 million
June agreement on station charges for 2015, expense	SEK 6 million
Previous years' insurance compensation claims, expense	SEK 11 million
Restructuring reserve	SEK 6 million
Underlying operating profit	SEK 592 million

### Clarification of underlying operating profit for 2015

Recognised operating profit	SEK 515 million
Unwinding of the reserve for maintenance expenses	SEK 11 million
Expense for the reconstruction of suppliers	SEK 9 million
Expense for the wheel audit remuneration	SEK 8 million
Expense for unwinding part of the restructuring reserve	SEK 7 million
Impairment loss on non-current assets, related to refurbished family carriages	SEK 11 million
Impairment loss on ongoing projects	SEK 35 million
Adjustment of a previously estimated fee	SEK 10 million
Underlying operating profit	SEK 538 million

### Net financial items

SJ AB's net debt decreased year-on-year. Moreover, the low interest rates resulted in low borrowing costs. Net financial items amounted to income of SEK 23 million (expense: 29).

### Profit and tax

SJ AB's profit before tax was SEK 664 million (686). Tax on profit for the year amounted to SEK 176 million (expense: 135) and the effective tax rate was 26 percent (20). Net profit for the year was SEK 487 million (551). The difference between the actual tax rate of 22 percent and the effective tax rate is attributable, partly to the limited partnership's earnings being taxed but not recognised until the dividend date in the Parent Company, and partly to the results of the liquidation being taxed in the liquidated company.

# Balance sheet

SEK million	Note	31 Dec 2016	31 Dec 2015
<b>ASSETS</b>			
<b>Non-current assets</b>			
<b>Tangible assets</b>			
Buildings	12	24	27
Rolling stock	12	4,747	5,182
Machinery and equipment	12	99	54
Construction in progress	12	710	718
<b>Total tangible assets</b>		<b>5,581</b>	<b>5,981</b>
<b>Intangible assets</b>			
Capitalised development expenditure	13	286	277
Brand	13	0	0
<b>Total intangible assets</b>		<b>286</b>	<b>277</b>
<b>Financial assets</b>			
Participations in Group companies	14	93	123
Participations in associated companies	15	13	13
<b>Total financial assets</b>		<b>107</b>	<b>137</b>
<b>Total non-current assets</b>		<b>5,974</b>	<b>6,395</b>
<b>Current assets</b>			
Inventories		4	7
Accounts receivable	17	111	105
Receivables from Group companies		109	120
Receivables from associated companies		3	4
Other receivables	18	268	170
Prepaid expenses and accrued income	19	136	118
<b>Total receivables</b>		<b>631</b>	<b>523</b>
Short-term investments	20	1,479	718
<b>Total short-term investments</b>		<b>1,479</b>	<b>718</b>
Cash and cash equivalents	20	70	97
<b>Total current assets</b>		<b>2,179</b>	<b>1,338</b>
<b>TOTAL ASSETS</b>	<b>1</b>	<b>8,153</b>	<b>7,733</b>

## Comments on the balance sheet

### Tangible assets

At 31 December 2016, SJ AB's tangible assets amounted to SEK 5,581 million (5,981) and mainly consisted of rolling stock. SJ AB's train fleet comprises SJ 3000 trains, X 2000 trains, double-decker trains, locomotives and carriages. Investments for the year in tangible assets amounted to SEK 311 million (398).

In 2013, a decision was made to upgrade the technology and refurbish the interiors for all of SJ AB's X 2000 train sets. The technical investment is expected to amount to SEK 1.4 billion and the total investment in interiors is estimated at slightly more than SEK 1 billion. At 31 December 2016, SEK 427 million had been completed.

The investment in new X 2000s will extend the life of all of the train sets until 2035. It will result in a change in the economic life and therefore a change in the depreciation rate from April 2015. SJ AB has extended the depreciation period for about 80 percent of each chassis until 2035, while the depreciation period for the remaining 20 percent of the chassis has been shortened to the end of 2017.

### Intangible assets

SJ AB's intangible assets totalled SEK 286 million (277) and comprised capitalised development expenditure, primarily pertaining to development expenses for business-related IT systems. The largest IT systems are a new maintenance system, [www.sj.se](http://www.sj.se) and timetable systems. Investments in intangible assets for the year amounted to SEK 76 million (132) and pertained to the development of various IT systems.

### Financial assets

Financial assets amounted to SEK 107 million (137) and comprised participations in Group and associated companies. The liquidation of the subsidiary SJ Försäkring during the year and the impairment of subsidiaries in line with their equity value resulted in participations in Group companies decreasing SEK 30 million.

### Current assets

Short-term investments totalled SEK 1,479 million (718). Investments totalling SEK 878 million were made in short-term investments during the year, of which SEK 79 million pertained to SJ AB's takeover of interest-bearing securities from the subsidiary SJ Försäkring.

## Balance sheet, cont.

SEK million	Note	31 Dec 2016	31 Dec 2015
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
<b>Restricted equity</b>			
Share capital		400	400
Statutory reserve		200	200
Development reserve		68	-
<b>Unrestricted equity</b>			
Fair value reserve		-9	-9
Retained earnings		2,845	2,550
Net profit for the year		487	551
<b>Total equity</b>	22, 21	<b>3,989</b>	<b>3,690</b>
<b>Liabilities</b>			
<b>Provisions</b>			
Non-current provisions	25	184	195
Current provisions	25	160	105
Deferred tax liability	11	487	449
<b>Total provisions</b>	1	<b>831</b>	<b>750</b>
<b>Non-current liabilities</b>			
Interest-bearing liabilities	24, 20	1,059	1,367
Non-interest-bearing liabilities	20	0	1
<b>Total non-current liabilities</b>		<b>1,059</b>	<b>1,367</b>
<b>Current liabilities</b>			
Interest-bearing liabilities	24	343	111
Accounts payable		355	462
Liabilities to Group companies		581	411
Liabilities to associated companies		21	72
Other current liabilities		209	175
Accrued expenses and deferred income	26	765	695
<b>Total current liabilities</b>		<b>2,275</b>	<b>1,926</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>8,153</b>	<b>7,733</b>

## Comments on the balance sheet

*Equity*

At 31 December 2016, SJ AB's equity amounted to SEK 3,989 million (3,690). The change of SEK 299 million was attributable to comprehensive income for the year of SEK 486 million and the SEK 188 million dividend payment in line with the 2015 appropriation of profits.

*Interest-bearing liabilities*

At 31 December 2016, SJ AB's interest-bearing liabilities amounted to SEK 1,402 million (1,478), and mainly comprised payment commitments for loans of SEK 800 million raised in 2012 to finance the fleet of SJ 3000 trains, and loans of SEK 770 million raised in September 2015 for the modernisation of X 2000 trains. The loans have a tenor of eight to ten years.

Of the interest-bearing liabilities, SEK 1,059 million (1,367) was non-current and SEK 343 million (111) current, pertaining to those parts of the liabilities that mature within one year. The change between non-current and current interest-bearing liabilities was attributable to SJ AB experiencing stronger than expected cash flow and surplus liquidity as a consequence. The assessment is that the surplus liquidity will continue for the next year. Given the above, SJ AB will exercise the contractual possibility to voluntarily repay a SEK 243 million loan on 28 February 2017.

The average maturity for outstanding liabilities was 50 months (65). The average fixed-interest term was 10 months (13).



## Statement of changes in equity

SEK million	Restricted equity			Unrestricted equity				
	Share capital	Statutory reserve	Develop-ment reserve	Fair value reserve		Retained earnings	Net profit for the year	Total equity
				Cash-flow hedges	Financial assets avail-able-for-sale			
1 Jan 2015	400	200	-	-12	0	4,141	339	5,066
Net profit for the year							551	551
Other comprehensive income				4	0			4
Comprehensive income for the year				4	0		551	554
Appropriation of profits						339	-339	0
Dividends to shareholders						-1,930		-1,930
31 Dec 2015	400	200	-	-8	0	2,550	551	3,690
Net profit for the year							487	487
Other comprehensive income				-1	0			-1
Comprehensive income for the year				-1	0		487	486
Development reserve			68			-68		0
Appropriation of profits						551	-551	0
Dividends to shareholders						-188		-188
31 Dec 2016	400	200	68	-9	0	2,845	487	3,989

### Comments on the statement of changes in equity

SJ AB's equity amounted to SEK 3,989 million (3,690) and the year-on-year change was attributable to dividend payments of SEK 188 million (1,930) during the year and net profit for the year of SEK 487 million (551).

Retained earnings, including net profit for the year, included a negative change of SEK 1 million (pos: 4) pertaining to unrealised cash-flow hedges including deferred tax.

The changes in the Swedish Annual Accounts Act effective from January 2016 mean that capitalising own development expenditure after 1 January 2016 requires a corresponding amount to be set aside in a development reserve under equity to limit dividend payments. Accordingly, SEK 68 million was placed in the development reserve for 2016.

# Cash-flow statement

SEK million	Note	2016	2015
<b>Operating activities</b>			
Profit before tax		664	686
<b>Adjustments for non-cash items</b>			
– Depreciation/amortisation and impairment	6	797	813
– Changes in provisions		44	49
– Capital gain/loss		2	2
– Tax paid		-139	-
– Other changes		10	33
<b>Cash flow from operating activities before changes in working capital</b>		<b>1,378</b>	<b>1,583</b>
Cash flow from changes in working capital		-13	-126
<b>Cash flow from operating activities</b>		<b>1,364</b>	<b>1,457</b>
<b>Investing activities</b>	12, 13		
Acquisition of tangible assets		-311	-398
Sale of tangible assets		2	1
Acquisition of intangible assets		-76	-133
Change in shares and participations		29	24
Sales other long-term interest-bearing receivables		-	336
Acquisition of short-term investments		-878	-689
Divestment of short-term investments		107	731
<b>Cash flow from investing activities</b>		<b>-1,127</b>	<b>-127</b>
<b>Cash flow before financing activities</b>		<b>238</b>	<b>1,329</b>
<b>Financing activities</b>			
Amortisation of lease liability		-76	-417
Borrowings		-	770
Dividends paid		-188	-1,930
<b>Cash flow from financing activities</b>		<b>-264</b>	<b>-1,577</b>
<b>Cash flow for the year</b>		<b>-27</b>	<b>-248</b>
<b>Cash and cash equivalents at 1 January</b>		<b>97</b>	<b>345</b>
<b>Cash and cash equivalents at 31 December</b>	20	<b>70</b>	<b>97</b>

Interest income received in the Parent Company totalled SEK 17 million (expense: 4) and interest paid was SEK 8 million (neg: 9).

## Comments on the cash-flow statement

### Cash flow from operating activities

Cash flow from operating activities was lower year-on-year and amounted to SEK 1,364 million (1,457). Cash flow from operating activities before changes in working capital was SEK 1,378 million (1,583) and the decline was primarily a result of SJ AB becoming liable for tax from 2016.

### Cash flow from investing activities

Investments in intangible and tangible assets amounted to an expense of SEK 387 million (expense: 530) of which SEK 277 million (336) pertained to investments in rolling stock, primarily to the upgrade and modernisation of X 2000 trains but also to investments in double-deckers and the SJ 3000. Other investments in tangible assets amounted to an expense of SEK 34 million (expense: 62), and mainly related to investments in SJ AB's new ticket machines.

Investments in intangible assets amounted to an expense of SEK 76 million (expense: 133) and pertained to the development of various IT systems. The change in terms of shares and participations pertained to participations in Group companies, primarily as a consequence of the liquidation of the subsidiary SJ Försäkring. The acquisition of short-term investments during the year amounted to an expense of SEK 878 million (expense: 689) and divestments of short-term investments totalled SEK 107 million (731). Last year's SEK 336 million divestment of long-term interest-bearing receivables mainly pertained to maturing deposits linked to the financial lease that matured on 30 June 2015. Cash flow from investing activities was a negative SEK 1,127 million (neg: 127).

### Cash flow from financing activities

During the year, capital repayments on existing loans totalled SEK 76 million (417). Last year's capital repayments pertained mainly to the final maturity of the financial lease on 30 June 2015. As resolved by the AGM, the dividend of SEK 188 million (230) was paid on 10 May 2016. Cash flow from financing activities was a negative SEK 264 million (neg: 1,577). Last year, cash flow from financing activities was impacted by an extraordinary dividend of SEK 1,700 million and by borrowings of SEK 770 million. At 31 December 2016, cash and cash equivalents amounted to SEK 70 million (97), and cash flow for the year was a negative SEK 27 million (neg: 248).

# Accounting policies

## General information

The financial statements for the SJ Group for the financial year ending December 31, 2016 were approved for publication by the Board of Directors and the Chief Executive Officer on March 22, 2017, and will be submitted to the Annual General Meeting on April 25, 2017 for adoption. The Parent Company is a Swedish limited liability company with its registered office in Stockholm, Sweden. The address of the head office is Vasagatan 10, SE-105 50 Stockholm, Sweden.

## Accounting policies applied

The accounting policies applied in the preparation of the financial statements for the Group and Parent Company are set out below.

### Conformity with regulations and standards

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and interpretations issued by the IFRS Interpretations Committee (IFRIC) as adopted by the EU. The consolidated financial statements have also been prepared in accordance with Swedish law by applying the recommendations of the Swedish Financial Reporting Board RFR 1, Supplementary Accounting Rules for Groups. The Parent Company's financial statements have been prepared in accordance with Swedish law, applying the recommendations of the Swedish Financial Accounting Standards Council's RFR 2, Accounting for Legal Entities. This means that IFRS measurement and disclosure rules are applied, apart from those exemptions arising from legal provisions or the relationship between accounting and taxation. Deviations between the accounting policies applied by the Group and the Parent Company are described in the respective sections below.

The presentation of the income statements and balance sheets differs for the Group and the Parent Company, including terminology, since the Group applies presentation and terminology according to IAS 1, whereas the Parent Company applies presentation and terminology according to RFR 2 with the corresponding references to the Swedish Annual Accounts Act.

### Basis of recognition

Recognition is primarily based on historical cost, except for certain financial instruments. The accounting policies have been consistently applied to all specified years, unless otherwise stated. Amounts are specified in millions of Swedish kronor, SEK million. Rounding differences may occur.

### New and amended standards and interpretations for 2016

New and amended standards and interpretations from the IASB and IFRIC had no material impact on the consolidated financial statements.

### New and amended standards and interpretations not yet entered into force

IFRS 9 Financial Instruments will replace IAS 39 Financial Instruments: Recognition and Measurement. The standard contains new requirements for the classification and measurement of financial instruments, and for derecognition, impairment and general rules for hedge accounting. The standard is mandatory for reporting periods beginning on or after January 1, 2018, and has been adopted by the EU. A preliminary assessment of the effects of applying IFRS 9 has been started. The main effect on the SJ Group's results, financial position and key figures is assessed as being a new approach to the impairment of assets, which entails taking in to consideration expected events and not just those that have occurred.

IFRS 15 Revenue from Contracts with Customers will replace IAS 18 Revenue and IAS 11 Construction Contracts. IFRS 15 represents a model for revenue recognition for almost any revenue arising from contracts with customers, except leases, financial instruments and insurance contracts. The core principle for revenue recognition under IFRS 15 is that revenue is recognised in a manner that depicts the transfer of the promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Revenue is recognised when the customer obtains control of that good or service. IFRS 15 provides more comprehensive information about spe-

cific areas and the disclosure requirements are extensive. IFRS 15 is effective for financial years commencing on or after January 1, 2018 with early adoption permitted. The standard has been adopted by the EU. A preliminary assessment of the effects of applying IFRS 15 has been started. The main effect on the SJ Group's results, financial position and key figures is a new method of calculating the value of SJ's Prio points, whereby the allocation of the transaction price for the journey and the Prio points is slightly different to the current accounting policies.

IFRS 16 Leases will replace IAS 17 Leases. IFRS 16 introduces a right-of-use approach, requiring lessees to recognise essentially all leases in the balance sheet, and the classification of each lease as an operating or financial lease is not required. Exceptions are leases with a term of 12 months or less, and leases where the underlying asset has a low value. Depreciation of the asset and interest payable are recognised in profit or loss. The standard contains more extensive disclosure requirements than the current standard. IFRS 16 entails no real differences for lessors compared with IAS 17. IFRS 16 is effective for financial years commencing on or after January 1, 2019 with early adoption permitted, provided that IFRS 15 is simultaneously applied. The standard is pending EU endorsement. A preliminary assessment of the effects of applying IFRS 16 has been started and the standard is not expected to impact the SJ Group's financial position and key figures.

Other new and amended standards and interpretations are not expected to have any material impact on the consolidated financial statements upon initial application.

## Accounting policies for the Group

The consolidated financial statements comprise the Parent Company SJ AB and all subsidiaries. Companies acquired during the year are included in the Group's income statement and statement of other comprehensive income, balance sheet and cash-flow statement as of the date of acquisition. Divested companies are included until the date of divestment.

### The acquisition method

The consolidated financial statements are prepared using the acquisition method. This means that the assets, liabilities and contingent liabilities of acquired subsidiaries are recognised at fair value using the prepared acquisition analysis. If the cost is higher than the fair value of the Group's share of identifiable net assets acquired, it is recognised as goodwill. If the cost is less than the fair value of the acquired subsidiary's net assets, the difference is recognised directly in the consolidated income statement. Transaction costs are expensed immediately.

### Subsidiaries

Subsidiaries are the companies for which SJ AB, directly or indirectly, is the Parent Company. To qualify as the Parent Company, SJ AB must have a controlling influence over the subsidiary. A controlling influence exists if SJ AB exercises influence over the subsidiary, is exposed to or is entitled to variable returns from its involvement and can use its influence to affect these returns.

### Associated companies

Associated companies are companies over which SJ AB has significant influence. If SJ AB holds at least 20 percent of the voting rights in the associated company, directly or indirectly, the owner is considered to have a significant influence, unless otherwise demonstrated. Associated companies are consolidated using the equity method, which means that participations in associated companies are recognised at cost on the acquisition date and subsequently adjusted by SJ AB's share of the change in net assets. SJ's profits include the owner's share of the associated company's profits.

### Revenue recognition

Income is measured at fair value, meaning the sales value, taking into account any discounts and taxes, and excluding VAT.

Net sales consist of traffic revenue from own rail services, bistro income and commission income. Income from own rail services and tendered services as well as bistro income are recognised when the services are delivered. Sold, unused tickets are recognised as deferred income at the balance-sheet date.



## Accounting policies

Income related to SJ's customer loyalty programme SJ Prio is recognised in accordance with IFRIC 13. The initial sale is divided using the component method, entailing that a portion of the income is reserved as a payment obligation for the future bonus commitment. When the customer redeems the bonus and SJ has fulfilled its obligation, the income is recognised as revenue. The future bonus commitment is measured at fair value by estimating the future utilisation of the benefit. Income from contracts where SJ AB provides commissioned services are recognised in the month that the services are provided according to the timetable.

Season ticket income is recognised on a straight-line basis over the period of validity. Commission income, which is the reimbursement SJ receives for sales of journeys on behalf of other operators, is recognised when the journey is sold.

### Segment information

Segment information is based on an Executive Management perspective. An operating segment is a business unit that engages in business activities from which revenue may be earned and expenses may be incurred (including revenue and expenses relating to transactions with other parts of the same company) and whose earnings are regularly reviewed by the company's Executive Management and Board as a basis for decisions on resource allocation. This means that there must be separate financial information for the segments that are reported externally. The Group reports the following segments: SJ AB, Train-operating subsidiaries and Other subsidiaries. The Group operates, in all material respects, in Sweden, which means that the Group only reports one geographical location, see Note 1.

### Borrowing expenses

Borrowing expenses that are directly attributable to the acquisition, construction or production of assets, and that require a substantial period of time until completion, are included in the asset's cost. Expenses associated with the raising of new loans are allocated over the term of the loan using the effective-interest method. Borrowing costs are otherwise expensed.

### Income taxes

Recognised tax comprises current and deferred tax. Current tax is based on profit for the year and calculated using the effective rate at the balance-sheet date. Tax paid or received during the current year is classified as current tax and includes the adjustment of current tax attributable to prior periods. Taxes are recognised in profit or loss except when the underlying transaction is recognised in equity. Deferred tax is recognised at the difference between the carrying amount and tax base of assets and liabilities, known as temporary differences. Deferred tax is measured at the tax rates that have been enacted or substantively enacted by the balance-sheet date and that are expected to apply when the deferred tax asset is realised, or the deferred tax liability is settled. Deferred tax assets arising from temporary differences and tax loss-carry forwards are recognised to the extent that it is probable that they will be utilised in the future. On each balance-sheet date, the carrying amount of the deferred tax asset is reviewed and receivables are reduced to the extent that it is no longer probable that sufficient taxable profit will be available.

### Earnings per share

Earnings per share are calculated as the Parent Company's average number of shares during the year in relation to consolidated profit after deductions for participations with non-controlling influence held by the owner. SJ has no convertible debentures, preference shares or options programmes, which is why no dilution effects arise.

### Tangible assets

Tangible assets are recognised at cost less accumulated depreciation and any accumulated impairment losses. The amount is reviewed annually.

#### *Rolling stock, machinery and equipment*

The cost of rolling stock is the purchase price plus any expenses directly attributable to the asset in order to bring it to a location and in such a condition that it can be used in accordance with the purpose of the purchase. Such expenses primarily consist of expenses for project planning and interest expenses during the construction period. Additional expenses are only recognised as an asset when it is probable that the future economic benefits associated with the asset will flow to SJ and that the cost of the asset can be measured

reliably. The carrying amount of the replaced part is derecognised in the balance sheet. All other forms of repair and maintenance are recognised as costs in profit or loss in the period they arise.

#### *Construction in progress*

Non-current assets that are delivered but not yet in use are recognised as construction in progress. Rolling stock that are not yet in service, for example, due to pending inspection, testing or modification, are recognised as construction in progress.

#### *Intangible assets*

The principal rule is that intangible assets are recognised in the balance sheet when:

- the asset is identifiable,
- the Group has control over the asset,
- the Group can ensure that the asset's future economic will benefit the Group,
- the Group can measure the cost in a reliable way.

#### *Capitalised development expenditure*

Capitalised development expenditure is recognised in accordance with the cost method at cost, less accumulated depreciation and any accumulated impairment losses. Identifiable expenditures for development that are attributable to specific projects are capitalised to the extent they are expected to provide future economic benefits, provided that the Group has control over the asset. Development expenses for systems are recognised as construction in progress under intangible assets, until the date the systems are taken into use by the Group.

### Depreciation and amortisation

Depreciation and amortisation according to plan is based on residual values and estimated useful lives. Assets are depreciated and amortised on a straight-line basis according to systematic plans over their estimated useful lives, which is tested continuously and commences in the month after the asset has been taken into service. The amortisation period for intangible assets is normally three years (software) but there are also amortisation periods of five and seven years where this period best reflects the useful life. The depreciation of high-value components and additional investments is based on the remaining useful life of the main unit. Repairs are expensed as incurred. Larger and less frequently recurring repairs are classified as revisions, and depreciation is applied in line with a weighted depreciation period for each type of rolling stock. Trains constitute the major part of SJ's tangible assets and are divided into two main components – chassis and interior. The depreciation periods for these components differ.

#### *The following depreciation periods are applied:*

Capitalised development expenditure	3–7 years
Infotainment, handheld computers	3 years
Rolling stock – chassis	20–25 years
Rolling stock – interior	7–13 years
Machinery and equipment	5–10 years
Buildings – workshop	20 years
Building equipment	5–10 years
Leasehold improvements,	according to length of lease.

### Impairments

On each balance-sheet date, tests are carried out to assess whether there is any indication that tangible and intangible assets may be impaired, meaning whether they have declined in value. If so, the recoverable amount of the asset or cash-generating unit is calculated, and is the higher of net realisable value or value in use. Value in use is the present value of the future cash flows expected to be derived from an asset or cash-generating unit. If the recoverable amount is less than the carrying amount, the asset or cash-generating unit is impaired. The impairment loss is recognised in profit or loss. Completed impairment testing is based on the Board's adopted business and strategic plan. Significant estimates and assumptions are discounting factors, as well as growth and price factors.

### Financial instruments

#### *Recognition and measurement*

A financial instrument is any type of contract that gives rise to a financial asset in one company, and a financial liability or equity instrument in another company. Upon initial recognition, financial instruments are measured at fair value including directly attributable transaction expenses, except for financial assets measured

at fair value through profit or loss. Subsequent valuations are at fair value or amortised cost using the effective interest method, depending on the category to which the financial instrument belongs. The value change can occur in other comprehensive income or through profit or loss.

#### *Fair value*

There are three valuation levels. Level 1 is when there is an active market for the financial instruments. The fair value of such instruments corresponds to quoted prices in active markets for identical assets or liabilities. If there is no active market according to Level 1, inputs other than quoted prices included within Level 1 are used. These inputs form Level 2 and are observable for the asset or liability either directly (as prices) or indirectly (derived from prices). Fair value can then be measured on the basis of comparison with similar instruments, or by observing the interest rate or yield curve for the relevant issuer. In the absence of Level 2 prices, measurement of the asset or liability is not based on observable market data. The inputs are therefore included in Level 3.

#### *Financial assets recognised at amortised cost*

Recognition at amortised cost for accounts receivable and other receivables means that the financial instrument is measured at cost less impairment due to financial assets that cannot be recovered.

#### *Effective interest method*

The effective interest method is used to calculate the amortised cost of a financial asset or financial liability, and to allocate the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts throughout the financial instrument's expected term.

#### *Derecognition from the balance sheet*

A financial asset is partially or fully derecognised when the contractual rights to the cash flow expire, or when the Group transfers the asset's contractual rights to receive cash flows, or in some cases when the Group retains the rights, but is obligated to pay the cash flows to one or more recipients. A financial liability is partially or fully derecognised from the balance sheet when the contractual obligation is discharged, cancelled or expired.

#### *Classification*

The Group classifies financial assets in three categories:

- financial assets measured at fair value through profit or loss,
- held-to-maturity investments, and
- financial assets available-for-sale.

The Group classifies financial liabilities as:

- financial liabilities measured at amortised cost

The classification depends on the purpose for which the instruments were acquired. All of SJ's financial instruments are presented according to their classification category, valuation principle and valuation method (Level) in Note 20.

#### *Financial assets measured at fair value through profit or loss*

The proportion of the Group's derivative instruments that are not identified as hedges is recognised at fair value through profit or loss. Long-term securities holdings, shares and participations, and bonds are also included in this category. Settlement date accounting is applied to this class of assets, except for derivatives recognised on their transaction date, and the value change that is recognised in profit or loss.

#### *Held-to-maturity investments*

This group includes non-derivative financial assets with fixed payments and fixed maturity for which the company has the intention and ability to hold to maturity. Settlement-date accounting is used for this category of financial assets, which are measured at amortised cost using the effective interest method.

#### *Non-derivative financial assets*

This category of assets refers to non-derivative financial assets that are not quoted on a market, with fixed payments, including accounts receivable, loans receivable, other receivables and cash and cash equivalents. These are included in current assets, except for items with maturities greater than 12 months after the balance-sheet

date. Trade-date accounting is applied for this category of financial assets, which are measured at amortised cost. The value change is recognised in profit or loss.

#### *Financial assets available-for-sale*

Financial assets available-for-sale are assets that are not derivatives and that are identified as available for sale or which are not classified as loans receivable, accounts receivable, investments held to maturity or financial assets measured at fair value through profit or loss. Settlement-date accounting is used for financial assets available-for-sale. Changes in value are recognised in other comprehensive income.

#### *Financial liabilities measured at amortised cost*

This category includes borrowings and accounts payable. Assets are measured at amortised cost using the effective interest method. Trade-date accounting is applied for accounts payable.

#### *Cash-flow hedges*

SJ uses hedging instruments to secure future cash flows, such as investments made in foreign currencies. These are recognised in the balance sheet at fair value. According to the rules for cash flow hedging, the change in value of the foreign currency forward contract is recognised in other comprehensive income and accumulated in the hedging reserve in equity. When the hedged amount falls due for payment, the value of the hedging reserve is transferred to the asset through other comprehensive income. To hedge the variable interest-rate risk, SJ uses interest-rate derivatives, which are measured at fair value, and change in value is also recognised directly in other comprehensive income in the hedging reserve. If the hedging relationship is terminated upon early redemption of the underlying debt, the accumulated change in value in other comprehensive income is transferred to profit or loss. If hedging is terminated for any other reason, such as a decision to change the duration of the debt portfolio, the surplus or deficit in profit or loss is accrued until the date when the interest-rate derivative would have expired. The portion of gain or loss on a hedging instrument that is considered an effective cash flow hedge is initially recognised in other comprehensive income, while the ineffective portion of the gain or loss is recognised in profit or loss.

#### *Loan losses*

At the balance-sheet date, the Group tests whether there is any objective evidence indicating impairment of a financial asset or group of financial assets. The impairment of financial assets recognised at amortised cost is calculated as the difference between the asset's carrying amount, and the present value of estimated expected cash flows. The impairment loss is recognised in profit or loss.

### **Financial assets**

#### *Long-term securities holdings, shares and participations*

Long-term securities holdings are measured at fair value. Changes in value are recognised through profit or loss. SJ's holdings consist mainly of shares in unlisted companies, over which the Group does not have significant influence.

#### *Non-current receivables*

Non-current receivables are recognised at amortised cost on the balance-sheet date.

### **Inventories**

Inventories are measured at the lower of cost or net realisable value. The risk of obsolescence has therefore been taken into account. Cost is calculated using the first-in first-out (FIFO) method. Net realisable value is calculated as the selling price less selling expenses.

### **Leasing**

#### *Lessee*

A lease is an agreement whereby the lessor conveys to the lessee, in return for payments, the right to use an asset for an agreed period of time. Lease payments are classified as either a finance lease or an operating lease. A finance lease entails that the economic risks and benefits associated with ownership of an object are essentially transferred to the lessee. A lease not classified as a finance lease is classified as an operating lease. An operating lease entails that lease payments are expensed on a straight-line basis over the lease term.

## Accounting policies

### Finance leases

Significant assets acquired under finance leases are recognised in the consolidated financial statements, and in the financial statements of the Parent Company, as non-current assets from the date when the lease is entered into and the equipment is delivered. At the commencement of the lease term, the leased asset and leased liability are measured at the lower of either the leasing object's fair value or the present value of the minimum lease payments. These amounts are payable to the lessor during the lease term, plus any amounts guaranteed by the lessee or by a related company. The lease term is the period for which SJ AB has agreed to lease the asset. Under finance leases, assets are depreciated over their estimated useful life. The future commitment to the lessor is recognised as a liability in the balance sheet. Lease payments are divided into financial expenses and debt amortisations.

### Assets and liabilities in foreign currency

Transactions in foreign currency are measured at the rate of exchange on the transaction date. At the balance-sheet date, assets and liabilities in foreign currency are revalued at the closing day rate. Exchange-rate differences in financial assets and liabilities are recognised as financial income or expenses in the period in which they arise. Other exchange-rate differences are recognised in operating profit in the period in which they arise.

### Provisions and contingent liabilities

Provisions are liabilities that are uncertain in terms of amounts, or the date on which they will be settled. A provision is recognised in the consolidated balance sheet when the Group have a legal or informal obligation as a result of a past event is likely to require an outflow of resources that can be estimated reliably. Significant provisions are discounted to present value when the effect of the calculation is important. Any reversal of the present value calculation is recognised as a financial expense. Provisions are reviewed at each balance-sheet date and reversed if no longer current.

Contingent liabilities are existing obligations attributable to past events that have not been recognised as a liability or provision. The reason being that it is not likely that an outflow of resources will be required to settle the liability or that the amount of the liability cannot be determined with sufficient reliability.

### Annuities

Annuities are used to indemnify third-party injuries after an accident. Annuities are calculated on an individual basis in accordance with agreements, and taking into account assumptions, such as the discount rate and operating costs.

### Pensions

Commitments in respect of retirement and family pension plans for SJ's employees are mainly secured by payments to the National Government Employee Pensions Board (SPV) and Alecta, respectively. According to a Statement from the Swedish Financial Reporting Board, UFR 10 (Recognition of the ITP 2 pension plan, financed through insurance with Alecta), these commitments are classified as multi-employer defined-benefit plans. SJ does not have access to the information required to recognise these as defined-benefit plans. ITP pension plans secured through insurance with Alecta and pension plans secured through insurance with SPV, pertain primarily to the PA-91 and the PA-03 pension plans, which are both defined-contribution plans.

### Cash-flow statement

The cash-flow statement shows the Group's receipts and payments during the period, classified according to operating, investing and financing activities. The cash-flow statement thus indicates the Group's ability to generate cash. The cash-flow statement is prepared using the indirect method, which means that earnings are adjusted for:

- changes for the period in inventories, accounts receivable and accounts payable, as well as other operating assets and liabilities,
- non-cash items such as depreciation, provisions and deferred tax, and
- all other items, for which the cash-flow effect is attributable to investing or financing activities.

Changes in SJ's cash management are recognised in investing activities.

## Parent Company accounting policies

### Amended accounting policies for the Parent Company

The changes in the Swedish Annual Accounts Act effective from January 2016 mean that capitalising own development expenditure after 1 January 2016 requires a corresponding amount to be set aside in a development reserve under equity to limit dividend payments. Accordingly, SEK 68 million was placed in the development reserve for 2016.

### Recognition of participations in subsidiaries and associated companies

SJ AB recognises participations in subsidiaries and associated companies at cost. Dividends received are recognised in profit or loss. Values are tested at least once a year for impairment.

### Year-end appropriations

SJ AB recognises Group contributions in accordance with the alternative rule, which means that all Group contributions, both paid and received, are recognised as appropriations.

## Critical accounting estimates and assumptions

When preparing the accounts of the Group and the Parent Company, the Board and Executive Management make estimates and assumptions that affect the carrying amounts of assets, liabilities, income and expenses, as well as other disclosures. The actual outcome may differ from these estimates. Estimates and assumptions are based on historical experience and reasonable assumptions about future market trends, but also on prevailing circumstances, such as political decisions. Estimates are particularly significant for the financial position when calculating the useful life of investments in rolling stock. In annual impairment tests, the entire SJ Group is considered a cash-generating unit. In addition to estimates, assessments have also been made in regard to accounting matters with major significance for carrying amounts. The areas in which SJ has made significant assessments and/or that hold uncertainty in the estimates and assumptions that have impacted SJ's earnings are described below.

### Useful lives

Useful lives are assessed according to systematic plans over the assets' estimated useful lives, which are tested continuously from one month after the asset has been taken into service. Intangible assets are assessed as having an economic life of three years, however, this can be extended to better reflect the useful life of the asset. High-value components and additional investments have estimated useful lives based on the remaining economic life of the main unit. Rolling stock constitutes the major part of SJ's tangible assets and is divided into two main components – chassis and interiors. The useful lives of these components differ and are assessed based entirely on the rolling stock's plan for the estimated economic life of the assets.

### Additional expenses

Expenditure related to measures that are likely to bring future economic benefits is capitalised if the asset's cost can be measured reliably. Future economic benefits arise when a measure leads to potentially higher revenue or other benefits for SJ than would otherwise be obtained had the measure not been implemented. According to SJ's assessment, additional expenses can be capitalised when it relates to:

- measures that substantially improve the asset's level of performance in relation to the level that applied when the asset was originally acquired, and
- revisions, since they pertain to major, periodical technical and refurbishment-related work on rolling stock.

Other maintenance expenditure is recognised as a cost in the income statement in the period in which it arises.

### Valuation of Prio points

SJ's valuation of Prio points is based on their value to customers. For SJ, this means that a journey paid for with points is valued based on its value to the member, in other words, the average price for such a journey. Thereafter, the value is reduced. The reduction is based on limitations to the availability of goods and services purchasable with points, the limited validity of the points and the fact that booking journeys with points is less easily accessible.



# Notes

## 1. Segment information

### Segment information 2016

SEK million	SJ AB	Train-operating subsidiaries	Other subsidiaries	Elimination	Total
Income from external customers	6,086	3,285	1	-	9,372
Income from internal transactions	113	1	1	-114	0
<b>Total operating income</b>	<b>6,199</b>	<b>3,286</b>	<b>1</b>	<b>-114</b>	<b>9,372</b>
Depreciation/amortisation and impairment	-797	0	0	6	-792
<b>Operating profit</b>	<b>581</b>	<b>248</b>	<b>0</b>	<b>8</b>	<b>837</b>
Results from participations in associated companies	17	-	-	-9	8
Interest income and similar profit/loss items	41	0	0	-27	14
Interest expense and similar profit/loss items	-18	0	0	0	-18
Tax on profit for the year	-176	-7	0	0	-183
<b>Net profit for the year</b>	<b>487</b>	<b>325</b>	<b>0</b>	<b>-163</b>	<b>650</b>
Investments	387	2	0	-	390
Significant non-cash items – provisions	44	-2	-12	-	30
Participations in associated companies recognised according to the equity method	13	-	-	21	34
<b>Total assets</b>	<b>8,153</b>	<b>780</b>	<b>94</b>	<b>-763</b>	<b>8,264</b>
Provisions, incl. deferred tax	831	1	0	0	833
Non-interest-bearing liabilities	1,408	383	0	-97	1,693
Interest-bearing liabilities	1,926	69	0	-593	1,402
<b>Total liabilities</b>	<b>4,164</b>	<b>453</b>	<b>0</b>	<b>-690</b>	<b>3,928</b>

### Segment information 2015

SEK million	SJ AB	Train-operating subsidiaries	Other subsidiaries	Elimination	Total
Income from external customers	6,009	3,060	2	-	9,070
Income from internal transactions	160	2	49	-211	0
<b>Total operating income</b>	<b>6,169</b>	<b>3,062</b>	<b>51</b>	<b>-211</b>	<b>9,070</b>
Depreciation/amortisation and impairment	-813	-1	0	-	-814
<b>Operating profit</b>	<b>515</b>	<b>104</b>	<b>-13</b>	<b>19</b>	<b>625</b>
Results from participations in associated companies	4	-	-	15	19
Interest income and similar profit/loss items	-4	0	6	0	2
Interest expense and similar profit/loss items	-25	0	0	0	-25
Tax on profit for the year	-135	0	0	4	-131
<b>Net profit for the year</b>	<b>551</b>	<b>130</b>	<b>0</b>	<b>-210</b>	<b>471</b>
Investments	525	0	0	-	525
Significant non-cash items – provisions	49	-2	-111	-4	-64
Participations in associated companies recognised according to the equity method	13	-	-	29	43
<b>Total assets</b>	<b>7,733</b>	<b>566</b>	<b>188</b>	<b>-624</b>	<b>7,864</b>
Provisions, incl. deferred tax	749	3	13	5	770
Non-interest-bearing liabilities	1,472	388	1	-121	1,740
Interest-bearing liabilities	1,822	43	22	-410	1,478
<b>Total liabilities</b>	<b>4,043</b>	<b>434</b>	<b>36</b>	<b>-526</b>	<b>3,988</b>

Operating segments are identified in accordance with the formulation of the financial information reported to the Board and Executive Management. The same accounting policies have been used to prepare the segment information as the consolidated financial statements. The Group's operating segments comprise SJ AB,

the train-operating subsidiaries SJ Norrlandståg, SJ Götalandståg, Stockholmståg and other subsidiaries. In all material respects, the operations are conducted in Sweden. Outside the train-operating subsidiaries' operations, there are no major customers that account for more than 10 percent of total sales.

## 2. Net sales

SEK million	Group		Parent Company	
	2016	2015	2016	2015
Traffic revenue	8,580	8,373	5,705	5,625
Bistro income	203	213	188	199
Commission	73	63	73	63
Other revenues <sup>1</sup>	479	403	178	201
<b>Total net sales</b>	<b>9,336</b>	<b>9,052</b>	<b>6,145</b>	<b>6,088</b>

<sup>1</sup> The item Other revenues includes subsidiaries in the SJ Group's contractual re-invoicing under agreements to the regional Public Transport Authorities.

## 3. Related-party transactions

The Swedish State owns 100 percent of the shares in SJ AB. SJ offers products and services to the Swedish government, government agencies and state-owned companies in competition with other suppliers on commercial terms.

For services and products supplied within the Group, and between the Group and other related companies, commercial terms and market pricing is applied. Other related companies are defined as associated companies, state-owned companies that undertake commercial activities and over which the state has a controlling influence, and government agencies. The purchase of products and services amounting to SEK 708 million (678) from the Swedish Transport Administration, SEK 203 million (193) from Jernhusen AB and SEK 182 million (184) from Linköping AB dominate purchases. For information about the remuneration of senior executives and Board members, see Note 5.

## 4. Other operating income

SEK million	Group		Parent Company	
	2016	2015	2016	2015
Insurance compensation	35	6	51	68
Capital gains/losses on non-current assets	1	-2	1	-2
Other revenues	0	15	3	15
<b>Total other operating income</b>	<b>36</b>	<b>19</b>	<b>55</b>	<b>81</b>

In 2016, insurance compensation included final settlement for the fault with the overhead line at Myrbacken that occurred in 2014.

Insurance compensation for the Parent Company in 2015, included property damages and liabilities of SEK 20 million from SJ Försäkring.

Other revenues in 2015 mainly included an amount of SEK 9 million related to the reconstruction of Motala Train AB.

## 5. Personnel expenses

SEK million	Group		Parent Company	
	2016	2015	2016	2015
<b>Salaries and other remuneration</b>				
Board of Directors	-1	-1	-1	-1
CEO and senior executives	-30	-29	-25	-23
Other employees	-1,931	-1,906	-1,152	-1,137
<b>Total salaries and other remuneration</b>	<b>-1,963</b>	<b>-1,936</b>	<b>-1,178</b>	<b>-1,161</b>
Social security expenses	-825	-826	-504	-497
of which pension expenses, including special payroll tax to the CEO and senior executives	-11	-11	-9	-8
of which pension expenses, including special payroll tax to other employees	-205	-211	-129	-131
Other personnel-related expenses	-46	-60	-35	-35
<b>Total personnel expenses</b>	<b>-2,834</b>	<b>-2,822</b>	<b>-1,717</b>	<b>-1,693</b>

Personnel expenses include salaries, other remuneration and social security expenses.

The ITP 2 Plan's defined-benefit retirement and family pension (or family pension) commitments on behalf of salaried employees in Sweden is secured through insurance with Alecta. According to a Statement by the Swedish Financial Reporting Board, UFR 10 "Classification of ITP plans financed through insurance with Alecta," this is a multi-employer defined-benefit plan. However, Alecta is unable to make an exact allocation of assets and provisions to each employer, which is why the conditions for recognising ITP 2 insurance with Alecta as a defined-benefit plan are not met. SJ has not therefore been able to access the information required to recognise its proportionate share of the plan's obligations, plan assets and costs, which means that the plan has not been possible to recognise as a defined-benefit plan. The ITP 2 pension plan is secured through insurance with Alecta and therefore recognised as a defined-contribution plan. The premiums for defined-benefit retirement and family pensions are individually calculated and depend on factors including salary, previously earned pension and expected remaining period of service. The Group's expected fees for the next reporting period for ITP 2 insurance with Alecta are SEK 60 million. The number of active members is 1,892 (1,864).

The collective consolidation level is the market value of Alecta's assets as a percentage of its insurance obligations calculated according to Alecta's actuarial methods and assumptions, which are not consistent with IAS 19. The collective consolidation level is normally allowed to vary between the range of 125–155 percent. If Alecta's collective consolidation level falls below 125 percent or exceeds 155 percent, measures must be taken in order to create the conditions for the consolidation level to return to the normal range. In the event of low consolidation, one measure could be to raise the agreed price for contracting new, or extending existing, benefits. In the event of high consolidation, one measure could be to introduce premium reductions. At the end of 2016, Alecta's preliminary consolidation level was 142 percent (153). In 2016, the Group's pension premiums (excluding special payroll tax) amounted to SEK 175 million (185), of which SEK 91 million (100) comprised defined-benefit premiums and SEK 84 million (85) defined-contribution premiums. The National Government Employee Pensions Board's plans (SPV), mainly in the form of the PA-91 and PA-03 plans, which are both defined-benefit and defined-contribution plans, are recognised as defined-contribution plans.

## Note 5, cont.

## Average no. of employees

	Group						Parent Company					
	2016			2015			2016			2015		
	Total	Men, %	Women, %	Total	Men, %	Women, %	Total	Men, %	Women, %	Total	Men, %	Women, %
Sweden	4,192	63	37	4,232	62	38	2,653	61	39	2,698	60	40
<b>Total</b>	<b>4,192</b>	<b>63</b>	<b>37</b>	<b>4,232</b>	<b>62</b>	<b>38</b>	<b>2,653</b>	<b>61</b>	<b>39</b>	<b>2,698</b>	<b>60</b>	<b>40</b>
<b>Distribution of senior executives at the balance-sheet date</b>												
Board members	7	57	43	7	57	43	7	57	43	7	57	43
Others in the company's Executive Management including the CEO	14	50	50	13	54	46	11	45	55	10	50	50
<b>Total</b>	<b>22</b>	<b>50</b>	<b>50</b>	<b>20</b>	<b>55</b>	<b>45</b>	<b>19</b>	<b>47</b>	<b>53</b>	<b>17</b>	<b>53</b>	<b>47</b>

## Remuneration to the Board of the Parent Company 2016

SEK thousand		Board fees	Committee fees	Total
Chairman	Jan Sundling	400	-	400
Board member <sup>1</sup>	Kersti Strandqvist	111	-	111
Board member	Mikael Staffas	157	43	200
Board member <sup>2</sup>	Gunilla Wikman	46	13	60
Board member	Siv Svensson	158	55	212
Board member	Michael Thorén	-	-	-
Board member	Mikael Stöhr	157	-	157
Board member	Ulrika Dellby	158	-	158
Employee representatives		-	-	-
<b>Total</b>		<b>1,187</b>	<b>111</b>	<b>1,298</b>

<sup>1</sup> Member of SJ's Board from 21 April 2016.<sup>2</sup> Resigned from SJ's Board on 21 April 2016.

## Remuneration, excluding social security contributions and payroll tax, to senior executives in the Group, 2016

SEK thousand		Base salary	Benefits	Total	Pension expense	Total	Notice from the employer + no. of months' severance pay	Severance pay and termination cost <sup>1</sup>
President/Chief Executive Officer SJ AB	Crister Fritzson	4,552	34	4,586	1,327	5,913	6+18	-
Senior Vice President Human Resources	Peter Blomqvist	1,662	70	1,732	773	2,505	6+18	-
Senior Vice President Traffic & Service	Madeleine Raukas	2,460	64	2,524	486	3,010	6+12	-
Senior Vice President Communication <sup>2</sup>	Malou Sjörin	1,424	57	1,481	405	1,885	6+12	-
Senior Vice President Marketing and Sales	Thomas Silbersky	2,595	42	2,637	781	3,418	6+12	-
Senior Vice President Quality, Environment & Sustainability	Erica Kronhöffer	1,527	29	1,556	369	1,925	6+12	-
Senior Vice President and Chief Financial Officer	Carina Wång	1,981	0	1,981	445	2,426	6+12	-
Senior Vice President Planning <sup>3</sup>	Jens Wigen	2,173	49	2,221	770	2,991	6+12	3,410
Senior Vice President Fleet Management	Claes Broström	2,148	65	2,214	769	2,983	6+12	-
Senior Vice President Product Division	Caroline Åstrand	1,854	64	1,917	406	2,323	6+12	-
Senior Vice President Strategy and Business Development, Acting Senior Vice President IT	Lena Herrmann	2,183	7	2,190	611	2,802	6+12	-
President SJ Norrlandståg <sup>4</sup>	Björn Nilsson	1,678	5	1,682	576	2,259	6+12	-
President Stockholmståg <sup>5</sup>	Kjell Färnström	1,856	68	1,924	904	2,828	6+12	3,780
President SJ Götalandståg	Lena Källström	1,468	50	1,518	511	2,028	6+12	-
<b>Total</b>		<b>29,562</b>	<b>603</b>	<b>30,164</b>	<b>9,131</b>	<b>39,295</b>		<b>7,190</b>

<sup>1</sup> Including social security contributions and pension.<sup>2</sup> Joined SJ on 25 January 2016. Base salary, benefits and pension expense recognised from February.<sup>3</sup> Left his position as Senior Vice President Planning and Traffic Management on 31 December 2016.<sup>4</sup> Left his position as President of SJ Norrlandståg and joined SJ AB on 31 December 2016.<sup>5</sup> Severance pay and termination costs were recognised as of 31 December 2016 in accordance with the applicable regulations in conjunction with the discontinuation of the operations in Stockholmståg KB.



## Notes

### Note 5, cont.

#### Remuneration to the Board of the Parent Company 2015

SEK thousand		Board fees	Committee fees	Total
Chairman	Jan Sundling	400	-	400
Board member <sup>1</sup>	Lena Olving	50	-	50
Board member	Mikael Staffas	150	43	193
Board member	Gunilla Wikman	150	43	193
Board member	Siv Svensson	150	55	205
Board member	Michael Thorén	-	-	-
Board member	Mikael Stöhr	150	-	150
Board member	Ulrika Dellby	150	-	150
Employee representatives		-	-	-
<b>Total</b>		<b>1,200</b>	<b>141</b>	<b>1,341</b>

<sup>1</sup> Resigned from SJ's Board on 29 April 2015.

#### Remuneration, excluding social security contributions and payroll tax, to senior executives in the Group, 2015

SEK thousand		Base salary	Benefits	Total	Pension expense	Total	Notice from the employer + no. of months' severance pay	Severance pay and termination cost <sup>1</sup>
President/Chief Executive Officer SJ AB	Crister Fritzson	4,435	32	4,466	1,315	5,781	6+18	-
Senior Vice President Human Resources	Peter Blomqvist	1,599	71	1,670	708	2,378	6+18	-
Senior Vice President Traffic & Service	Madeleine Raukas	2,166	65	2,231	464	2,695	6+12	-
Senior Vice President Communication <sup>2</sup>	Helga Baagøe	311	14	325	91	416	6+12	2,993
Senior Vice President Marketing and Sales	Thomas Silbersky	2,550	42	2,591	787	3,378	6+12	-
Senior Vice President Quality, Environment & Sustainability	Erica Kronhöffer	1,526	29	1,555	444	1,999	6+12	-
Senior Vice President and Chief Financial Officer	Carina Wång	1,974	0	1,974	435	2,408	6+12	-
Senior Vice President Planning	Jens Wigen	2,110	49	2,159	703	2,862	6+12	-
Senior Vice President Fleet Management	Claes Broström	2,087	66	2,152	668	2,820	6+12	-
Senior Vice President IT <sup>3</sup>	Björn Rosell	1,758	48	1,806	394	2,199	6+12	2,928
Senior Vice President Product Division	Caroline Åstrand	1,810	56	1,866	390	2,256	6+12	-
Vice President Strategy and Business Development, Acting Senior Vice President IT <sup>4</sup>	Lena Herrmann	658	0	658	152	810	6+12	-
President SJ Norrlandståg	Björn Nilsson	1,653	5	1,658	532	2,190	6+12	-
President Stockholmståg	Kjell Färnström	1,847	69	1,916	825	2,741	6+12	-
President SJ Götalandståg	Lena Källström	1,450	50	1,500	488	1,988	6+12	-
<b>Total</b>		<b>27,934</b>	<b>595</b>	<b>28,528</b>	<b>8,395</b>	<b>36,923</b>		<b>5,921</b>

<sup>1</sup> Including social security contributions and pension.

<sup>2</sup> Left SJ on 1 March 2015. Base salary, benefits and pension expense recognised up to and including February.

<sup>3</sup> Left SJ on 23 November 2015. Base salary, benefits and pension expense recognised up to and including November.

<sup>4</sup> Member of Executive Management from 27 August. Base salary, benefits and pension expense recognised as of September.

#### Changes in Executive Management and other senior executives

Malou Sjörin, Senior Vice President Communication, joined the Executive Management from 25 January 2016.

The Group's structure changed as of 1 January 2017. Traffic Planning was moved from the Planning Division to the Product Division. Traffic Management was moved from the Planning Division to the Traffic and Service Division. As a consequence of these organisational changes the Planning Division ceased to exist. Responsibility for night-train services was transferred from the subsidiary SJ Norrlandståg to the Product Division. From 1 January 2017, responsibility for the employees of SJ Norrlandståg was transferred to the Traffic and Service Division.

The President of SJ Götalandståg, Lena Källström, joined SJ's Executive Management from 1 January 2017. Jens Wigen, Senior Vice President Planning, left SJ at the end of the year.

#### Remuneration to senior executives

Senior executives refers to the President and Chief Executive Officer, heads of operations in the company who are members of the Executive Management, and the Presidents of subsidiaries who report to the CEO.

#### Guidelines and decision-making procedures

During the year, the company observed the policies for remuneration and other terms of employment for senior executives adopted by the 2016 AGM. These policies are based on the guidelines issued by the government on 20 April 2009 concerning terms of employment for senior executives in state-owned companies. Decisions on the terms of employment for the Chief Executive Officer are prepared by the Remuneration Committee and adopted by the Board. Decisions on the terms of employment for other senior executives are made by the Chief Executive Officer after customary consultation with the company's Remuneration Committee. The results of the agreements reached are reported to the Board. Prior to making decisions on individual remuneration, written documentation showing the company's total costs is produced as a basis for decisions. The Board ensures that all remuneration complies with these guidelines by comparing remuneration for peers in other state-owned and comparable private companies in Sweden in terms of size, complexity and sales. The Board is tasked with presenting proposed policies for remuneration and other terms of employment for the CEO and other senior executives for approval by the AGM. The Remuneration Committee's role is, inter alia, to prepare the Board's proposed policies for salary and other remuneration. The members of the Remuneration Committee are Jan Sundling, Mikael Stöhr and Michael Thorén. Read more on page 47.

## Note 5, cont.

## Remuneration

## Board of Directors

Pursuant to the resolution of SJ AB's 2016 Annual General Meeting, annual fees payable to Board members are SEK 400,000 to the Chairman, and SEK 160,000 to each of the other AGM-elected members. Moreover, annual fees payable to members of the Board's Audit Committee are SEK 55,000 to the Chairman, and SEK 43,000 to each of the other members. No separate fee is payable for other Board committee work. Fees are not paid to members employed by the Swedish Government Offices. There are no pension benefit arrangements for external Board members. Pursuant to an AGM resolution on 21 April 2016, Board fees may be paid as salary, or under certain conditions, be invoiced within the framework of business operations. The invoicing of Board or Committee fees must be cost-neutral for SJ.

## Executive Management

The overall principle of "Guidelines for remuneration to senior executives" is that remuneration and other terms of employment for senior executives is to be market-adapted but not market-leading to ensure that SJ can attract and retain qualified senior executives. Remuneration to the CEO and other senior executives consists of base salary, certain taxable benefits, medical insurance and pension. The base salary is set individually, and should be in line with salary levels in the market in which the relevant executive is employed.

The CEO and other senior executives are not entitled to any variable remuneration or payment in the form of financial instruments. Benefits, as shown in the table, consist primarily of company cars, including fuel.

## Pensions

Pensions are paid to senior executives under the ITP plan.

## Terminations and severance pay

Upon termination by the company, the notice periods and severance pay set out in the table on pages 67–68 apply. If the employee takes up new employment or receives income from other business activities, the termination salary and severance pay are to be reduced by an amount corresponding to the new income or other benefits received during the relevant period.

## 6. Depreciation/amortisation and impairment

SEK million	Group		Parent Company	
	2016	2015	2016	2015
Depreciation of tangible assets	-691	-713	-691	-713
Amortisation of intangible assets	-89	-55	-88	-54
Impairments	-12	-46	-18	-46
<b>Total</b>	<b>-792</b>	<b>-814</b>	<b>-797</b>	<b>-813</b>

The year-on-year decrease in depreciation and amortisation of tangible and intangible assets was primarily the result of fully depreciated and amortised components regarding the X 2000 and SJ 3000.

A SEK 9 million impairment of one engine transmission unit was carried out during the year. In 2015, a SEK 11 million impairment loss was recognised for tangible assets to accurately reflect the earnings capacity of SJ's new family coach, and a SEK 35 million impairment loss was recognised for intangible assets due to changes in the estimated value in use of ongoing projects.

In 2016, SJ AB's impairments also included impairment of non-current assets held for sale, which are classified as non-current tangible assets in the Parent Company and current assets in the Group.

## 7. Other expenses

SEK million	Group		Parent Company	
	2016	2015	2016	2015
Maintenance and inspection of trains	-1,440	-1,327	-769	-750
Electricity costs for train operations	-448	-405	-255	-238
Infrastructure charges	-594	-581	-422	-405
Other production-related expenses	-1,139	-1,093	-539	-533
Indirect costs	-1,296	-1,422	-1,120	-1,222
<b>Total</b>	<b>-4,917</b>	<b>-4,828</b>	<b>-3,104</b>	<b>-3,148</b>

Indirect costs primarily pertain to IT, premises and marketing expenses.

## 8. Remuneration to auditors

SEK million	Group		Parent Company	
	2016	2015	2016	2015
<b>Deloitte AB</b>				
Statutory audit	-2	-2	-2	-2
Audit-related assurance services	0	0	0	0
All-other non-audit services	0	-1	0	-1
<b>Total</b>	<b>-2</b>	<b>-3</b>	<b>-2</b>	<b>-3</b>

Statutory audit refers to the audit of the annual financial statements and accounts, and the administration of the Board and the Chief Executive Officer. During an ongoing audit, a more in-depth review may be required, and the costs are recognised in Audit-related assurance services. Tax consultancy is recognised under All-other non-audit services. All-other non-audit services include interpretation of IFRS and other accounting rules.

## 9. Results from participations in Group companies

SEK million	Parent Company	
	2016	2015
Impairment of participations in Group companies	-3	-24
Dividends	130	235
<b>Total</b>	<b>127</b>	<b>211</b>

In 2016, impairment of participations in Group companies pertained to participations in SJ Norrlandståg and SJ Invest. In 2015, impairment pertained to participations in SJ Försäkring. Impairment has been recognised down to its carrying amount.

The dividend of SEK 130 million (235) pertained to the distribution of the share in profits from the Group company Stockholmståg KB.

## 10. Interest income, interest expense and similar profit/loss items

### Interest income and similar profit/loss items

SEK million	Group		Parent Company	
	2016	2015	2016	2015
Gain/loss on liquidation <sup>1</sup>	-3	-	24	-
Interest income, current receivables <sup>2</sup>	17	-1	17	0
Interest income, non-current receivables	-	3	-	0
Interest income from Group companies	-	-	0	0
<b>Total</b>	<b>14</b>	<b>2</b>	<b>41</b>	<b>0</b>

<sup>1)</sup> The subsidiary, SJ Försäkring, was liquidated on 19 December 2016.

<sup>2)</sup> Pertains primarily to income from bonds.

### Interest expense and similar profit/loss items

SEK million	Group		Parent Company	
	2016	2015	2016	2015
Interest expenses on loans	-8	-9	-8	-13
Interest-rate hedging instruments, net	-8	-9	-8	-9
Exchange-rate differences	0	-2	0	-2
Other financial expenses <sup>1</sup>	-2	-6	-2	-6
Interest expenses to Group companies	-	-	0	0
<b>Total</b>	<b>-18</b>	<b>-25</b>	<b>-18</b>	<b>-29</b>

<sup>1)</sup> Refers to annuities, fees to banks and other financial expenses.

### Classification of net financial items

SEK million	Group, 2016				
	Financial income	Financial expenses	Profit/Loss Results	Net financial items	Profit/Loss Other comprehensive income
Financial assets measured at fair value through profit or loss					
Bonds	7		9	16	
Loans and accounts receivable					
Cash and cash equivalents	0				
Receivables	1		-3	-2	
<b>Financial income</b>	<b>8</b>	<b>-</b>	<b>6</b>	<b>14</b>	<b>0</b>
Derivatives identified as hedging instruments					
Derivative instruments <sup>1</sup>		-8		-8	
Financial liabilities measured at amortised cost					
Lease liabilities		-2		-2	
Other liabilities		-8		-8	
<b>Financial expenses</b>	<b>0</b>	<b>-18</b>	<b>-</b>	<b>-18</b>	<b>0</b>

### Classification of net financial items

SEK million	Group, 2015				
	Financial income	Financial expenses	Profit/Loss Results	Net financial items	Profit/Loss Other comprehensive income
Financial assets measured at fair value through profit or loss					
Bonds	6		-10	-5	
Loans and accounts receivable					
Cash and cash equivalents	1			1	
Receivables	2			2	
Financial assets available-for-sale					
Investments	4			4	-5
<b>Financial income</b>	<b>13</b>	<b>-</b>	<b>-10</b>	<b>2</b>	<b>-5</b>
Derivatives identified as hedging instruments					
Derivative instruments <sup>1</sup>	1	-9		-8	5
Financial liabilities measured at amortised cost					
Lease liabilities		-9		-9	
Other liabilities		-8		-8	
<b>Financial expenses</b>	<b>1</b>	<b>-26</b>	<b>-</b>	<b>-25</b>	<b>5</b>

<sup>1)</sup> The total effect of derivative instruments recognised in other comprehensive income amounted to SEK 0 million (5) before tax. SEK 8 million (9) was transferred to net interest income from cash-flow hedges.



## Note 10, cont.

## Classification of net financial items

Parent Company, 2016					
SEK million	Financial income	Financial expenses	Profit/Loss Results	Net financial items	Profit/Loss Other comprehensive income
Financial assets measured at fair value through profit or loss					
Bonds	7		9	16	
Loans and accounts receivable					
Receivables	1		24	25	
<b>Financial income</b>	<b>8</b>	<b>-</b>	<b>33</b>	<b>41</b>	<b>0</b>
Derivatives identified as hedging instruments					
Derivative instruments <sup>1</sup>		-8		-8	
Financial liabilities measured at amortised cost					
Lease liabilities		-2		-2	
Other liabilities		-8		-8	
<b>Financial expenses</b>		<b>-18</b>		<b>-18</b>	<b>0</b>

## Classification of net financial items

Parent Company, 2015					
SEK million	Financial income	Financial expenses	Profit/Loss Results	Net financial items	Profit/Loss Other comprehensive income
Financial assets measured at fair value through profit or loss					
Bonds	6		-6	-1	
Loans and accounts receivable					
Cash and cash equivalents	1			1	
<b>Financial income</b>	<b>13</b>	<b>-</b>	<b>-10</b>	<b>0</b>	<b>-5</b>
Derivatives identified as hedging instruments					
Derivative instruments <sup>1</sup>	1	-9		-8	5
Financial liabilities measured at amortised cost					
Lease liabilities		-9		-9	
Other liabilities		-12		-12	
<b>Financial expenses</b>	<b>1</b>	<b>-30</b>	<b>-</b>	<b>-29</b>	<b>5</b>

<sup>1)</sup> The total effect of derivative instruments recognised in other comprehensive income amounted to SEK 0 million (5) before tax. SEK 8 million (9) was transferred to net interest income from cash-flow hedges.

## 11. Tax

SEK million	Group		Parent Company	
	2016	2015	2016	2015
Deferred tax expense	-37	-78	-37	-82
<b>Total</b>	<b>-37</b>	<b>-78</b>	<b>-37</b>	<b>-82</b>

The deferred tax expense includes tax effects related to changes in other temporary differences for the year. In addition to tax recognised in net profit for the year, the following tax is recognised in other comprehensive income:

SEK million	Group		Parent Company	
	2016	2015	2016	2015
Deferred tax on financial assets available-for-sale	0	1	0	0
Deferred tax on currency forwards	-1	-	-1	-
Deferred tax on cash-flow hedges	1	-1	1	-1
<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-1</b>

### Deferred tax assets

SEK million	Group/Parent Company							
	Endowment insurance		Financial instruments		Other		Total	
	2016	2015	2016	2015	2016	2015	2016	2015
<b>Opening balance at 1 January</b>	<b>7</b>	<b>7</b>	<b>3</b>	<b>4</b>	<b>3</b>	<b>8</b>	<b>14</b>	<b>19</b>
Change attributable to previous years	-	-	-	-	0	-	0	-
Recognised in other comprehensive income	-	-	0	-1	-	-	0	-1
Recognised in net profit for the year	0	0	-	0	-3	-1	-3	0
Utilisation of loss carryforwards	-	-	-	0	-	-4	-	-4
<b>Closing balance at 31 December</b>	<b>8</b>	<b>7</b>	<b>3</b>	<b>3</b>	<b>0</b>	<b>3</b>	<b>11</b>	<b>14</b>

### Deferred tax liabilities

SEK million	Group							
	Residual value depreciation <sup>1</sup>		Leasehold improvements		Other		Total	
	2016	2015	2016	2015	2016	2015	2016	2015
<b>Opening balance at 1 January</b>	<b>-461</b>	<b>-383</b>	<b>-2</b>	<b>-2</b>	<b>-6</b>	<b>-10</b>	<b>-468</b>	<b>-395</b>
Change attributable to previous years	-	-	-	-	-	0	-	0
Recognised in other comprehensive income	-	-	-	-	-	1	-	1
Change attributable to SJ Försäkring's liquidation	-	-	-	-	5	-	5	-
Recognised in net profit for the year	-31	-78	-2	-1	-2	4	-35	-75
<b>Closing balance at 31 December</b>	<b>-492</b>	<b>-461</b>	<b>-4</b>	<b>-2</b>	<b>-3</b>	<b>-6</b>	<b>-498</b>	<b>-468</b>
<b>Recognised deferred tax asset/liability, net</b>							<b>-487</b>	<b>-455</b>

SEK million	Parent Company							
	Residual value depreciation <sup>1</sup>		Leasehold improvements		Other		Total	
	2016	2015	2016	2015	2016	2015	2016	2015
<b>Opening balance at 1 January</b>	<b>-461</b>	<b>-383</b>	<b>-2</b>	<b>-2</b>	<b>0</b>	<b>0</b>	<b>-463</b>	<b>-385</b>
Change attributable to previous years	-	-	-	-	-	0	-	0
Recognised in net profit for the year	-31	-78	-2	-1	-2	-	-35	-79
<b>Closing balance at 31 December</b>	<b>-492</b>	<b>-461</b>	<b>-4</b>	<b>-2</b>	<b>-2</b>	<b>-</b>	<b>-497</b>	<b>-463</b>
<b>Recognised deferred tax asset/liability, net</b>							<b>-487</b>	<b>-449</b>

<sup>1)</sup> Residual value depreciation for fiscal depreciation of tangible assets.

## Note 11, cont.

The reconciliation of recognised tax and the effective tax rate is explained as follows:

SEK million	Group			
	2016 Tax	Tax rate, %	2015 Tax	Tax rate, %
Tax according to applicable Swedish tax rate	-183	-22	-132	-22
Non-deductible expenses	-1	0	-1	0
Tax effect attributable to previous years' tax returns	-	-	-2	-
Results from shares and participations	1	0	3	-
Impairment and reversal of impairment of participations	-	-	1	0
<b>Recognised tax affecting net profit for the year</b>	<b>-183</b>	<b>-22</b>	<b>-131</b>	<b>-22</b>

SEK million	Parent Company			
	2016 Tax	Tax rate, %	2015 Tax	Tax rate, %
Tax according to applicable Swedish tax rate	-146	-22	-151	-22
Dividends from limited partnerships	29	4	52	8
Non-deductible expenses	-1	0	-1	0
Tax attributable to profit/loss in limited partnerships	-67	-10	-29	-4
Effect of change in previous years' tax returns	-	-	-2	0
Results from shares and participations	5	1	-	-
Impairment and reversal of impairment of participations	-1	0	-4	-1
Other differences	4	1	-	-
<b>Tax recognised in the income statement</b>	<b>-176</b>	<b>-26</b>	<b>-135</b>	<b>-20</b>

## 12. Tangible assets

SEK million	Group, 2016							
	Leased build-ings	Own rolling stock	Own invest-ments in leased rolling stock	Leased rolling stock	Total rolling stock	Total machin-ery and equipment	Construc-tion in progress	Total tangible assets
Accumulated cost at 1 January	59	13,716	0	2	13,718	176	718	14,671
Investments	-	62	-	-	62	33	221	316
Sales/disposals	-	-21	-	-	-21	0	-	-21
Reclassifications	-	174	-	-2	172	35	-229	-22
<b>Accumulated cost at 31 December</b>	<b>59</b>	<b>13,931</b>	<b>0</b>	<b>0</b>	<b>13,931</b>	<b>244</b>	<b>710</b>	<b>14,944</b>
Accumulated depreciation at 1 January	-32	-6,947	0	-1	-6,948	-116	0	-7,096
Deprecation for the year	-3	-667	-	-	-667	-21	-	-691
Sales/disposals	-	18	-	-	18	-	-	18
Reclassifications	-	-1	-	1	0	-5	-	-5
<b>Accumulated depreciation at 31 December</b>	<b>-35</b>	<b>-7,597</b>	<b>0</b>	<b>0</b>	<b>-7,597</b>	<b>-142</b>	<b>0</b>	<b>-7,774</b>
Accumulated impairment at 1 January	-	-1,653	0	0	-1,653	-6	-	-1,659
Reclassifications	-	-	-	-	0	6	-	6
Impairment losses for the year	-	-12	-	-	-12	-	-	-12
<b>Accumulated impairment at 31 December</b>	<b>-</b>	<b>-1,665</b>	<b>0</b>	<b>0</b>	<b>-1,665</b>	<b>0</b>	<b>-</b>	<b>-1,665</b>
<b>Carrying amount at 31 December</b>	<b>24</b>	<b>4,669</b>	<b>0</b>	<b>0</b>	<b>4,669</b>	<b>101</b>	<b>710</b>	<b>5,505</b>

Investments for the year of SEK 316 million (393) are mainly attributable to the upgrade and modernisation of all of SJ's X 2000 train sets. The total investment in both interiors and technology is an estimated SEK 3.5 billion, of which the technical upgrade accounts for an estimated SEK 1.4 billion. The upgrade is expected to continue until 2020 and each train set will be deployed upon completion.

Future investment commitments of SEK 2,102 million (1,143) in the Group and the Parent Company pertain to the upgrade of all of SJ's X 2000 train sets. The increase was a result of SJ signing contracts with Swedtrack in April 2016 for entirely new interiors for SJ's new X 2000.

Impairment for the year pertained primarily to impairment of one engine transmission unit.

Construction in progress pertained to delivered tangible assets not yet taken in service, and consisted of investments related primarily to the upgrade of all of SJ's X 2000 train sets, and a number of major rolling stock overhauls, primarily railcars.

Reclassification during the year mainly comprised own rolling stock that had entered service during the year, but also included one reclassification of SEK 22 million from tangible to intangible non-current assets.

At 31 December 2016, non-current assets held for sale amounted to SEK 78 million (65) and pertained to two X31 model trains.

## Notes

### Note 12, cont.

SEK million	Parent Company, 2016							
	Leased build-ings	Own rolling stock	Own invest-ments in leased rolling stock	Leased rolling stock	Total rolling stock	Total machin-ery and equipment	Construc-tion in progress	Total tangible assets
Accumulated cost at 1 January	59	13,802	0	2	13,804	169	718	14,750
Investments	-	82	-	-	82	31	221	334
Sales/disposals	-	-44	-	-	-44	-	-	-44
Reclassifications	-	174	-	-2	172	35	-229	-22
<b>Accumulated cost at 31 December</b>	<b>59</b>	<b>14,014</b>	<b>0</b>	<b>0</b>	<b>14,014</b>	<b>235</b>	<b>710</b>	<b>15,018</b>
Accumulated depreciation at 1 January	-32	-6,968	0	-1	-6,969	-115	0	-7,116
Depreciation for the year	-3	-667	-	-	-667	-21	-	-691
Sales/disposals	-	40	-	-	40	-	-	40
Reclassifications	-	-1	-	1	0	1	-	1
<b>Accumulated depreciation at 31 December</b>	<b>-35</b>	<b>-7,596</b>	<b>0</b>	<b>0</b>	<b>-7,596</b>	<b>-135</b>	<b>0</b>	<b>-7,766</b>
Accumulated impairment at 1 January	-	-1,653	0	0	-1,653	-	-	-1,653
Reclassifications	-	-	-	-	0	-	-	0
Impairment losses for the year	-	-18	-	-	-18	-	-	-18
<b>Accumulated impairment at 31 December</b>	<b>-</b>	<b>-1,671</b>	<b>0</b>	<b>0</b>	<b>-1,671</b>	<b>-</b>	<b>-</b>	<b>-1,671</b>
<b>Carrying amount at 31 December</b>	<b>24</b>	<b>4,747</b>	<b>0</b>	<b>0</b>	<b>4,747</b>	<b>99</b>	<b>710</b>	<b>5,581</b>

SEK million	Group, 2015							
	Leased build-ings	Own rolling stock	Own invest-ments in leased rolling stock	Leased rolling stock	Total rolling stock	Total machin-ery and equipment	Construc-tion in progress	Total tangible assets
Accumulated cost at 1 January	59	11,537	86	1,933	13,556	196	589	14,400
Investments	-	139	-	2	141	6	246	393
Sales/disposals	-	-91	-	-	-91	-31	-	-122
Reclassifications	-	2,131	-86	1,933	112	5	-117	0
<b>Accumulated cost at 31 December</b>	<b>59</b>	<b>13,716</b>	<b>0</b>	<b>2</b>	<b>13,718</b>	<b>176</b>	<b>718</b>	<b>14,671</b>
Accumulated depreciation at 1 January	-29	-6,347	-33	33	-6,347	-126	0	-6,502
Depreciation for the year	-3	-668	-4	-18	-690	-20	-	-713
Sales/disposals	-	88	-	-	88	31	-	119
Reclassifications	-	-20	37	-16	1	-1	-	0
<b>Accumulated depreciation at 31 December</b>	<b>-32</b>	<b>-6,947</b>	<b>0</b>	<b>-1</b>	<b>-6,948</b>	<b>-116</b>	<b>0</b>	<b>-7,096</b>
Accumulated impairment at 1 January	-	-61	-6	-1,575	-1,642	-6	-	-1,648
Reclassifications	-	-1,581	6	1,575	-	-	-	0
Impairment losses for the year	-	-11	-	-	-11	-	-	-11
<b>Accumulated impairment at 31 December</b>	<b>-</b>	<b>-1,653</b>	<b>0</b>	<b>0</b>	<b>-1,653</b>	<b>-6</b>	<b>-</b>	<b>-1,659</b>
<b>Carrying amount at 31 December</b>	<b>27</b>	<b>5,116</b>	<b>0</b>	<b>1</b>	<b>5,117</b>	<b>54</b>	<b>718</b>	<b>5,916</b>

Investments for 2015 were mainly attributable to the upgrade and modernisation of all of SJ's X 2000 train sets. The total investment in both interiors and technology is an estimated SEK 3.5 billion, of which the technical upgrade accounts for an estimated SEK 1.4 billion. The upgrade is expected to continue until 2020 and each train set will be deployed upon completion. Future investment commitments of SEK 1,143 million (1,143) in the Group and the Parent Company pertained to the upgrade of all of SJ's X 2000 train sets.

Reclassification in 2015 mainly pertained to a redemption of the remaining lease value related to double-deckers on 30 June 2015.

Impairment losses for 2015 pertained to family coaches, to accurately reflect their earnings capacity.

Construction in progress pertained to delivered tangible assets not yet in use, and consisted of investments related primarily to the upgrade of all of SJ's X 2000 train sets, and a number of major rolling stock overhauls.

At 31 December 2015, non-current assets held for sale amounted to SEK 65 million (60) and pertained to two X31 model trains.



## Note 12, cont.

SEK million	Parent Company, 2015							
	Leased build-ings	Own rolling stock	Own invest-ments in leased rolling stock	Leased rolling stock	Total rolling stock	Total machin-ery and equipment	Construc-tion in progress	Total tangible assets
Accumulated cost at 1 January	59	11,618	86	1,933	13,637	167	589	14,452
Investments	-	144	-	2	146	6	246	398
Sales/disposals	-	-91	-	-	-91	-9	-	-100
Reclassifications	-	2,131	-86	-1,933	112	5	-117	0
<b>Accumulated cost at 31 December</b>	<b>59</b>	<b>13,802</b>	<b>0</b>	<b>2</b>	<b>13,804</b>	<b>169</b>	<b>718</b>	<b>14,750</b>
Accumulated depreciation at 1 January	-29	-6,368	-33	33	-6,368	-103	-	-6,500
Depreciation for the year	-3	-668	-4	-18	-690	-20	-	-713
Sales/disposals	-	88	-	-	88	9	-	97
Reclassifications	-	-20	37	-16	1	-1	-	0
<b>Accumulated depreciation at 31 December</b>	<b>-32</b>	<b>-6,968</b>	<b>0</b>	<b>-1</b>	<b>-6,969</b>	<b>-115</b>	<b>-</b>	<b>-7,116</b>
Accumulated impairment at 1 January	-	-61	-6	-1,575	-1,642	-	-	-1,642
Reclassifications	-	-1,581	6	1,575	-	-	-	0
Impairment losses for the year	-	-11	-	-	-11	-	-	-11
<b>Accumulated impairment at 31 December</b>	<b>-</b>	<b>-1,653</b>	<b>0</b>	<b>0</b>	<b>-1,653</b>	<b>-</b>	<b>-</b>	<b>-1,653</b>
<b>Carrying amount at 31 December</b>	<b>27</b>	<b>5,181</b>	<b>0</b>	<b>1</b>	<b>5,182</b>	<b>54</b>	<b>718</b>	<b>5,981</b>

## 13. Intangible assets

SEK million	Group					
	2016 Capitalised development expenditure			2015 Capitalised development expenditure		
	Brand		Total	Brand		Total
Accumulated cost at 1 January	240	843	1,083	240	713	953
Investments	-	76	76	-	132	133
Reclassifications	-	21	21	-	-	-
Sale/disposal	-	-	-	-	-3	-3
<b>Accumulated cost at 31 December</b>	<b>240</b>	<b>940</b>	<b>1,180</b>	<b>240</b>	<b>843</b>	<b>1,083</b>
Accumulated amortisation at 1 January	-240	-565	-805	-240	-477	-717
Amortisation for the year	-	-89	-89	-	-44	-44
Impairment losses for the year	-	-	-	-	-46	-46
Sale/disposal	-	-	-	-	2	2
<b>Accumulated amortisation at 31 December</b>	<b>-240</b>	<b>-654</b>	<b>-894</b>	<b>-240</b>	<b>-565</b>	<b>-805</b>
<b>Carrying amount at 31 December</b>	<b>0</b>	<b>286</b>	<b>286</b>	<b>0</b>	<b>278</b>	<b>278</b>

## Notes

### Note 13, cont.

SEK million	Parent Company					
	Brand	2016 Capitalised development expenditure	Total	Brand	2015 Capitalised development expenditure	Total
Accumulated cost at 1 January	240	826	1,066	240	695	935
Investments	-	76	76	-	133	133
Sales/disposals	-	-	-	-	-1	-1
<b>Accumulated cost at 31 December</b>	<b>240</b>	<b>923</b>	<b>1,163</b>	<b>240</b>	<b>826</b>	<b>1,066</b>
Accumulated amortisation at 1 January	-240	-549	-789	-240	-460	-700
Amortisation for the year	-	-88	-88	-	-43	-43
Impairment losses for the year	-	-	-	-	-46	-46
<b>Accumulated amortisation at 31 December</b>	<b>-240</b>	<b>-637</b>	<b>-877</b>	<b>-240</b>	<b>-549</b>	<b>-789</b>
<b>Carrying amount at 31 December</b>	<b>0</b>	<b>286</b>	<b>286</b>	<b>0</b>	<b>277</b>	<b>277</b>

SJ's intangible assets are divided into brand and capitalised development expenditure.

The brand item arose when SJ took over passenger services from Statens Järnvägar (the Swedish State Railways) in conjunction with its incorporation in 2001. The amortisation period was 10 years, which is why the item was fully amortised as of 31 December 2016.

Capitalised development expenditure pertains primarily to development expenses for business-related IT systems.

In the preceding year, an impairment loss of SEK 46 million was mainly due to changes in the estimated value in use of ongoing projects.

## 14. Participations in Group companies

SEK million	Parent Company	
	2016	2015
Carrying amount at 1 January	123	147
Acquisitions and capital contributions	3	-
Liquidation	-30	-
Impairment	-3	-24
<b>Carrying amount at 31 December</b>	<b>93</b>	<b>123</b>

### Specification of the Parent Company's shares and participations in Group companies and year-end carrying amounts

Company	Corp. Reg. No.	Reg. office	No. of shares	Participations, %	Carrying amount at 31 Dec 2016	Carrying amount at 31 Dec 2015
SJ Event AB	556577-3008	Stockholm	1,000	100	0	0
SJ Försäkring AB <sup>1</sup>	516401-8458	Stockholm	-	-	-	30
SJ Invest AB	556022-1755	Stockholm	700,000	100	85	87
SJ Götalandståg AB	556083-2098	Stockholm	5,000	100	1	1
SJ Adventure AB	556064-8692	Stockholm	5,000	100	1	1
Entertrainment AB	556034-4235	Malmö	1,605	100	0	0
SJ Norrlandståg AB	556196-5418	Stockholm	1,000	100	0	1
SJ Service Academy AB	556596-9630	Stockholm	1,000	100	0	0
Stockholmståg KB <sup>2</sup>	969704-4239	Stockholm	1,000	100	0	0
FlyRail AB	556773-5252	Stockholm	100,000	100	0	-
SJ Danmark A/S	33,372,477	Copenhagen	500	100	3	3
SJ Norge AS	917,587,728	Oslo	1,030,000	100	3	-
<b>Total</b>					<b>93</b>	<b>123</b>

The share of equity corresponds with the share of voting rights.

The participations in the subsidiaries SJ Norrlandståg and SJ Invest have been impaired down to their equity value. SJ AB acquired all of the shares in FlyRail and i SJ Norge AS in 2016.

<sup>1</sup> The subsidiary, SJ Försäkring, was liquidated on 19 December 2016.

<sup>2</sup> SJ AB is a general partner and SJ Invest is a limited partner in Stockholmståg KB. Participations are distributed within the Group between SJ AB (68 percent) and SJ Invest (32 percent).

## 15. Participations in associated companies

SEK million	Group		Parent Company	
	2016	2015	2016	2015
Cost at 1 January	45	45	27	27
<b>Accumulated cost at 31 December</b>	<b>45</b>	<b>45</b>	<b>27</b>	<b>27</b>
Accumulated share of results at 1 January	8	-6	0	0
Dividends	-17	-	-	-
Share of earnings from associated companies for the year	8	14	-	-
<b>Accumulated share of results at 31 December</b>	<b>-1</b>	<b>8</b>	<b>0</b>	<b>0</b>
Accumulated impairment at 1 January	-11	-11	-14	-14
<b>Accumulated impairment at 31 December</b>	<b>-11</b>	<b>-11</b>	<b>-14</b>	<b>-14</b>
<b>Carrying amount at 31 December</b>	<b>34</b>	<b>43</b>	<b>13</b>	<b>13</b>

Specification of the Group's and the Parent Company's holdings in associated companies and carrying amounts

	Corp. Reg. No.	Reg. office	No. of shares	Share of equity, %	Group		Parent Company	
					31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
Sveriges Kommunikationer AB	556005-5955	Stockholm	1,400	50	2	2	1	1
Kust till Kust AB	556481-7822	Karlskrona	60	25	0	0	0	0
Trafik i Mälardalen AB	556083-1959	Stockholm	400	50	1	1	0	0
Fly Rail AB	556773-5252	Stockholm	-	-	-	0	-	0
Botnietåg AB	556801-1828	Stockholm	40,000	40	0	0	0	0
Vänertåg AB	556848-9016	Stockholm	250	50	0	0	0	0
Linkon AB	556577-2984	Stockholm	125,250	25	30	39	12	12
<b>Total participations in associated companies, SEK million</b>					<b>34</b>	<b>43</b>	<b>13</b>	<b>13</b>

Specification of associated companies' assets, liabilities, income and earnings

SEK million	Corp. Reg. No.	Reg. office	2016				2015			
			Assets	Liabilities	Income	Earnings	Assets	Liabilities	Income	Earnings
Sveriges Kommunikationer AB	556005-5955	Stockholm	8	3	6	1	7	3	2	0
Kust till Kust AB	556481-7822	Karlskrona	0	0	0	0	0	0	0	0
Trafik i Mälardalen AB	556083-1959	Stockholm	3	1	3	1	3	2	5	0
Fly Rail AB	556773-5252	Stockholm	-	-	-	-	0	0	-	0
Botnietåg AB	556801-1828	Stockholm	104	73	143	15	131	113	145	17
Vänertåg AB	556848-9016	Stockholm	0	0	-	-	0	0	-	-
Linkon AB	556577-2984	Stockholm	205	226	234	21	275	145	253	59
<b>Total associated companies</b>			<b>320</b>	<b>303</b>	<b>386</b>	<b>38</b>	<b>416</b>	<b>262</b>	<b>405</b>	<b>76</b>

Share of earnings from associated companies

SEK million	Group		Parent Company	
	2016	2015	2016	2015
Share of earnings from associated companies for the year	8	14	-	-
Dividends	-	-	17	-
Reserve for future losses in associated companies	-	5	-	4
<b>Total</b>	<b>8</b>	<b>19</b>	<b>17</b>	<b>4</b>

The share of equity corresponds with the share of voting rights. The share of earnings from associated companies for the year pertains to the share in the earnings of the associated company Linkon AB. FlyRail AB has been a wholly owned subsidiary since 2016.

## 16. Non-current receivables

SEK million	Group					
	Deposits		Long-term investments		Other non-current receivables	
	2016	2015	2016	2015	2016	2015
Opening balance at 1 January	1	173	79	223	-	171
Sales/acquisitions	-1	-	-79	-144	-	-171
Settlement of deposits	-	-172	-	-	-	-
<b>Closing balance at 31 December</b>	<b>-</b>	<b>1</b>	<b>-</b>	<b>79</b>	<b>-</b>	<b>-</b>

The change in long-term investments in 2016 pertained to SJ AB's take-over of interest-bearing securities from SJ Försäkring. SJ Försäkring classified interest-bearing securities as financial assets. SJ AB classifies these as short-term investments.

In 2015, non-current receivables pertained to long-term investments in the subsidiary SJ Försäkring to guarantee actuarial commitments. The market value of the investments amounted to SEK 80 million at the balance-sheet date. The change in non-current receivables and deposits pertained to the settlement of the remaining leases on double-deckers on 30 June 2015.

## 17. Accounts receivable

SJ's accounts receivable comprises a large number of small, outstanding amounts from private individuals, and receivables from companies in various industries. To reduce the risk of bad debt losses, the required credit reports are obtained from external sources, in accordance with SJ's credit policy. Loan losses in the SJ Group amounted to SEK 3 million (losses: 3). Realized losses in relation to SJ's net sales amounted to 0.03 percent (0.03).

### Age distribution of accounts receivable

SEK million	Group		Parent Company	
	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
< 30 days	327	231	100	87
30–60 days	2	5	2	5
60–90 days	1	3	1	3
> 90 days	2	11	1	11
Settlement accounts	7	-1	7	-1
<b>Total</b>	<b>339</b>	<b>249</b>	<b>111</b>	<b>105</b>

Of which:

### Bad debts

SEK million	Group		Parent Company	
	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
Bad debts at 1 January	7	8	7	8
Provision for possible losses	8	1	8	1
Realised losses	-3	-3	-3	-3
<b>Bad debts at 31 December</b>	<b>12</b>	<b>7</b>	<b>12</b>	<b>7</b>

## 18. Other receivables

SEK million	Group		Parent Company	
	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
VAT and tax assets	79	166	60	142
Compensation for damage to rolling stock	31	21	31	21
Tax account	180	4	175	4
Other receivables	4	17	2	3
<b>Total</b>	<b>294</b>	<b>208</b>	<b>268</b>	<b>170</b>

The increase in the tax account was a consequence of SJ AB making a supplementary tax payment to the Swedish Tax Agency.

## 19. Prepaid expenses and accrued income

SEK million	Group		Parent Company	
	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
Prepaid rolling stock expenses	26	24	26	24
Prepaid lease expenses	42	74	41	37
Prepaid maintenance expenses	0	26	-	-
Licences and other IT costs	28	28	28	28
Other prepaid expenses	25	20	21	18
Accrued interest income	1	2	1	2
Other accrued income	46	24	19	9
<b>Total</b>	<b>168</b>	<b>198</b>	<b>136</b>	<b>118</b>

Other prepaid expenses largely consisted of IT licenses.

Other accrued income pertains primarily to income in conjunction with the discontinuation of operations in the subsidiary Stockholmståg KB.



## 20. Financial instruments and financial risk management

### Management of financial risks

SJ's operations give rise to a substantial financing requirement together with other activities that entail financial risk. SJ also has considerable financial operations in terms of payment transactions, cash receipts, credits, investments and currency transactions. To minimise financial risks, the Board has established a financial policy that provides directives for day-to-day financial management. The financial policy aims to set out:

- the goals of financial operations within the SJ Group,
- frameworks for organising financial management,
- identified financial risks and their associated established mandates, and
- frameworks for reporting and following up financial operations.

#### Market risk

Market risk refers to a company's exposure to changes in financial markets, which includes currency risk, interest-rate risk and other price risks as well as financing and liquidity risk. The following risks are ranked based on SJ's assessment of which risk is most significant for SJ. SJ's operations are capital-intensive and some of the company's tangible assets are debt-financed with bank loans.

#### Other price risks

Other price risks is the risk that the fair value of a financial instrument is affected by factors other than currency and interest-rate fluctuations.

SJ is exposed to other price risks in the valuation of its bond portfolio, by changes in the issuer's credit risk premium or by general changes in the market's credit spreads. SJ only holds bonds with a high rating, meaning a lower credit risk premium and less fluctuation in absolute value.

At 31 December 2016, the market value of SJ's bonds with a maturity exceeding 1 year amounted to SEK 1,450 million (777).

#### Credit and counterparty risk

Credit and counterparty risk is the risk that the counterparty to a transaction is unable to fulfil its obligations, thereby imposing a loss on SJ. SJ is primarily exposed to this risk when surplus liquidity is invested in financial assets, but also in financial derivatives, in guarantees and in the granting of commercial loans. SJ's financial policy prescribes how liquid funds may be invested. Counterparty credit is to correspond to a K-1 rating or better for short-term investments. No rating is required for central government, municipalities, county councils or state-owned companies.

Long-term investments, with maturities of up to 5 years, are permitted in banks with a minimum A rating. In order to limit concentration risk, amounts per counterparty are limited.

At the balance-sheet date of 31 December 2016, total counterparty exposure in investments amounted to SEK 1,479 million (797). Of the total counterparty exposure, financial assets measured at fair value amounted to SEK 1,479 million (797).

All of SJ's balances can be measured on the basis of prices in active markets, and are therefore included in either hierarchy level 1 or hierarchy level 2.

#### Financing and liquidity risk

Financing and liquidity risk is the risk entailed by loan rescheduling, the fulfilment of payment obligations, limited funding opportunities or a substantially changed price situation. SJ's financing sources primarily consist of cash flow from operating activities, and borrowings.

Interest-bearing borrowings comprises long-term covered bank loans with Nordea Finans and Nordiska Investeringsbanken with floating interest rates. In addition, SJ has a lease with Jernhusen AB for a maintenance workshop which, due to the long contract period, is recognised as a finance lease with a fixed rate of interest. Financing and liquidity risks are managed within the framework of the financial policy.

To ensure that liquidity is available to the Group at the desired time, the financial policy prescribes that SJ must always be able to secure a liquidity reserve of at least SEK 500 million. It must be possible to access this reserve within three business days. The reserve includes cash, listed financial investments that can be converted within three business days, and unused confirmed credit. At the balance-sheet date, funds available to the operations within three days totalled SEK 1,553 million (815). These funds can be converted to cash funds in the case of planned and unplanned needs. In addition, unutilised credit facilities amounted to SEK 100 million (100) at the balance-sheet date.

SJ limits financing risk by controlling the terms of its loans to achieve a suitable maturity structure over time.

#### Interest-rate risk

The Group's financing costs and return on cash and cash equivalents is affected by changes in the general level of interest rates. SJ's borrowings consist of bank loans with floating interest rates. However, the company's financial policy stipulates that the average fixed-interest term in its loan portfolio should be within the range of 1–3 years.

Interest-rate swaps are used to manage interest-rate exposure and achieve the desired fixed-interest term, which changes the floating rate to a fixed rate for parts of the loan portfolio. At the balance-sheet date, the average fixed-interest term for the Group's interest-bearing borrowings was 0.8 years (1.1).

The value of the interest-rate swaps that SJ holds to extend the average fixed-interest term is simultaneously affected when market rates change. At the balance-sheet date, the market value of SJ's outstanding interest-rate derivatives was a negative SEK 15 million (neg: 13).

#### Currency risk

SJ's currency exposure mainly comprises transaction exposure, meaning payments in foreign currency due to investments, and the purchase or sale of goods and/or services. SJ's transaction exposure in operating activities is limited.

According to the financial policy, SJ's maximum net exposure in foreign currencies for purposes other than hedging must not exceed the equivalent of SEK 100 million. Major investments are continuously hedged through the foreign exchange market.

The value of SJ's currency forward contracts changes constantly in pace with exchange-rate movements. Since currency transactions are carried out, the aim is to secure payment transactions.

Since cash flow hedging is used and hedge accounting is applicable, changes in value are recognised in other comprehensive income.

At the balance-sheet date, SJ had outstanding currency derivatives pertaining to major investments with a nominal value of SEK 96 million (0). The fair value of these positions was SEK 0 million (0). There were also currency derivatives with a nominal value of SEK 0 million (18), pertaining to hedges of financial investments in foreign currency. The fair value of these positions was SEK 0 million (0).

## Notes

Note 20, cont.

### Maturity analysis for financial liabilities outstanding

SEK million	Group/Parent Company			
	31 Dec 2016		31 Dec 2015	
	Interest and repayments	Cash flow	Interest and repayments	Cash flow
<b>Financial liabilities measured at amortised cost</b>				
Within 1 year	357	357	128	128
1–2 years	110	110	129	129
2–3 years	110	110	129	129
3–4 years	109	109	130	130
4–5 years	110	110	323	323
5 years or more	697	697	775	777
<b>Total</b>	<b>1,493</b>	<b>1,493</b>	<b>1,615</b>	<b>1,617</b>
Less current portion	-357	-357	-128	-128
<b>Total non-current portion</b>	<b>1,136</b>	<b>1,136</b>	<b>1,487</b>	<b>1,489</b>

Financial liabilities pertain to bank loans and workshop rents, which are treated as lease liabilities.

SJ has exercised the contractual possibility to voluntarily repay a SEK 243 million loan on 28 February 2017.

### Financial derivative instruments

SEK million	Group/Parent Company			
	31 Dec 2016		31 Dec 2015	
	Nominal value	Fair value	Nominal value	Fair value
Interest-rate swaps	400	-15	400	-13
Currency forward contracts, positive	96	0	-	-
Currency forward contracts, negative	-	-	18	0
<b>Total</b>	<b>496</b>	<b>-15</b>	<b>418</b>	<b>-13</b>

At the end of 2016, the total market value of derivatives held for hedging purposes, including financial hedging, was a negative SEK 15 million (neg: 13). Of this amount, the market value of derivatives that qualified for hedge accounting was a negative SEK 15 million (neg: 13).

### Maturity structure of derivatives

SEK million	Group/Parent Company			
	31 Dec 2016 Interest-rate swaps	31 Dec 2015 Interest-rate swaps	31 Dec 2016 Currency forward contracts	31 Dec 2015 Currency forward contracts
Within 1 year	100	-	96	18
1–2 years	100	100	-	-
2–3 years	100	100	-	-
3–4 years	-	100	-	-
4–5 years	-	-	-	-
5 years or more	100	100	-	-
<b>Total</b>	<b>400</b>	<b>400</b>	<b>96</b>	<b>18</b>

### Sensitivity analysis

SJ's borrowings mainly comprise bank loans with floating interest rates, based on one, three or six-month STIBOR.

Interest-rate swaps are used to manage interest-rate exposure and achieve the desired fixed-interest term, which changes the floating rate to a fixed rate. SJ's interest-bearing borrowings amounted to SEK 1,404 million (1,478). Since four interest-rate swaps with a total nominal value of SEK 400 million (400) have been entered into, SJ's variable liability was SEK 1,004 million (1,078). Accordingly, SJ's direct transaction exposure, at a interest-rate change of +1 percent, would amount to an approximate loss of SEK 10 million annually. SJ's interest rate swaps of SEK 400 million have an average maturity of 2.8 years, which would result in a simultaneous increase in value of approximately SEK 11 million at a +1 percent shift in the

yield curve. Since hedge accounting is applied, the change in value is recognised in other comprehensive income.

Of SJ's available liquidity of SEK 1,553 million, SEK 1,298 million has been invested with maturities of less than 1 year, or in FRN bonds. These investments cover SJ's direct transaction exposure pertaining to the debt portfolio. A +1 percent shift in the interest-rate curve would have a positive earnings impact of SEK 3 million on an annual basis for SJ.

### Sensitivity analysis

SEK million	Volume	Change in value	Effect on earnings on a one-year horizon
<b>Interest-rate change, +1%, all interest rates</b>			
Interest-bearing borrowings	1,404		-14
Interest-rate hedging instruments	400	11	4
<b>Transaction exposure in the debt portfolio</b>	<b>1,004</b>		<b>-10</b>
Short-term investments and FRN bonds	1,298		13
<b>Total transaction exposure</b>	<b>-294</b>		<b>3</b>
Fixed-rate bond portfolio		-8	

In the longer term, in accordance with net debt of SEK 10 million at 31 December 2016, a 1 percent change in the market interest rate would result in an annual exposure of SEK 0 million (neg: 8).

At the balance-sheet date, SJ had funds of SEK 5 million (11) in foreign currencies for purposes other than hedging, resulting in a negative earnings impact of SEK 0 million, at a 10 percent change in the value of SEK against other currencies.

## Note 20, cont.

## Classification of financial instruments

				Group			
				31 Dec 2016		31 Dec 2015	
SEK million	Category	Measurement	Note	Carrying amount	Fair value	Carrying amount	Fair value
Non-current assets							
Deposits	Held to maturity	Amortised cost	16	0	0	1	1
Other non-current receivables	Financial assets available-for-sale	Fair value	16	0	0	79	79
Total financial assets				0	0	80	80
Current assets							
Accounts receivable and other receivables	Loans and accounts receivable	Amortised cost	17	633	633	457	457
Short-term investments							
Commercial paper	Financial assets available-for-sale	Fair value		0	0	0	0
Bonds	Financial assets measured at fair value through profit or loss	Fair value		1,479	1,479	718	718
Total current assets				2,112	2,112	1,175	1,175
Cash and cash equivalents							
Cash and cash equivalents	Loans and accounts receivable	Amortised cost		74	74	97	97
Total cash and cash equivalents				74	74	97	97
Derivatives							
Interest-rate swaps	Derivatives identified as hedging instruments	Fair value		-16	-16	-13	-13
Currency forwards	Available-for-sale financial hedges	Fair value		0	0	0	0
Total derivatives				-16	-16	-13	-13
Financial liabilities							
Bank loans	Financial liabilities measured at amortised cost	Amortised cost	24	1,379	1,379	1,452	1,452
Accounts payable and other liabilities	Financial liabilities measured at amortised cost	Amortised cost		604	604	741	741
Total financial liabilities				1,983	1,983	2,193	2,193

				Parent Company			
				31 Dec 2016		31 Dec 2015	
SEK million	Category	Measurement	Note	Carrying amount	Fair value	Carrying amount	Fair value
Current assets							
Accounts receivable and other receivables	Loans and accounts receivable	Amortised cost	17	467	467	372	372
Short-term investments							
Commercial paper	Financial assets available-for-sale	Fair value		0	0	0	0
Bonds	Financial assets measured at fair value through profit or loss	Fair value		1,479	1,479	718	718
Total current assets				1,946	1,946	1,090	1,090
Cash and cash equivalents							
Cash and cash equivalents	Loans and accounts receivable	Amortised cost		70	70	97	97
Total cash and cash equivalents				70	70	97	97

## Notes

### Note 20, cont.

				Parent Company			
				31 Dec 2016		31 Dec 2015	
SEK million	Category	Measurement	Note	Carrying amount	Fair value	Carrying amount	Fair value
<b>Derivatives</b>							
Interest-rate swaps	Derivatives identified as hedging instruments	Fair value		-16	-16	-13	-13
Currency forwards	Available-for-sale financial hedges	Fair value		0	0	0	0
<b>Total derivatives</b>				<b>-16</b>	<b>-16</b>	<b>-13</b>	<b>-13</b>
<b>Financial liabilities</b>							
Bank loans	Financial liabilities measured at amortised cost	Amortised cost	24	1,379	1,379	1,452	1,452
Accounts payable and other liabilities	Financial liabilities measured at amortised cost	Amortised cost		475	475	582	582
<b>Total financial liabilities</b>				<b>1,855</b>	<b>1,855</b>	<b>2,034</b>	<b>2,034</b>

Hierarchy Level 2 for financial instruments measured at fair value.

SEK million	Group		Parent Company	
	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
Hierarchy 2	1,463	784	1,463	705
<b>Total financial instruments measured at fair value</b>	<b>1,463</b>	<b>784</b>	<b>1,463</b>	<b>705</b>

Level 2 – Financial instruments whose fair value is determined using valuation techniques based on observable data for the asset or liability other than quoted prices included within Level 1, either directly (i.e. as prices) or indirectly (i.e. derived from prices). In SJ's case, these pertain to quotations in information systems or valuation data from banks, which are in their turn based on information systems.

### Non-current assets

Long-term securities pertain to shares in other companies (see Note 16). Fair value refers to the ownership share of the company's equity.

### Current assets

Accounts receivable are recognised at the amounts expected to be received. The amount is adjusted for probable losses in the loan portfolio.

Short-term investments in the current assets category comprise investments with a maturity exceeding three months. Bonds are held to increase the return on SJ's financial assets. The bond holding is categorised as available for sale and continuously measured at fair value through profit or loss.

### Short-term investments

The Group's short-term investments comprise financial instruments with a maturity of 91 days to one year, and longer-term bond assets that are available for sale.

The Parent Company's short-term investments have a maturity of up to 90 days from the date of acquisition.

### Cash and cash equivalents

The Group's cash and cash equivalents consist of cash and cash equivalents, and short-term, highly liquid investments such as commercial paper with a maximum maturity of 90 days from the date of acquisition that are readily convertible to a known amount of cash and only subject to an insignificant risk of changes in value.

The Parent Company's cash and cash equivalents comprise cash on hand and demand deposits at banks and similar institutions.

Commercial paper is classified as cash and cash equivalents if its maturity is less than three months.

### Derivatives

Derivatives refer to derivatives outstanding at the balance-sheet date, which were valued at a negative amount of SEK 16 million (neg: 13). No set-off amount existed on the closing date.

### Financial liabilities

Financial liabilities measured at amortised cost include bank loans, accounts payable and other liabilities.

SJ's credit terms for bank loans are approximative considered to be in line with market terms, according to an approximate estimate, and since the liabilities carry variable STIBOR-based interest rates, the size of the liabilities according to SJ's overall assessment is considered to be an accurate estimate of their fair value.

Accounts payable and other liabilities are recognised at the amounts expected to be settled.

### Interest-rate fixing and borrowings

At 31 December 2016, the average interest rate of total long-term, interest-bearing liabilities outstanding was 0.5 percent (0.6) excluding, and 1.0 percent (1.0) including, fixed-income derivatives.

In addition, SJ has an unutilised credit facility of SEK 100 million (100) with Handelsbanken AB (last year this facility was with Nordea Bank AB).

At the balance-sheet date, the Group's total loan commitments granted had an average maturity of 4.2 years (5.3).



## 21. Equity

### Group

#### Share capital

According to SJ AB's Articles of Association, the share capital is to amount to not less than SEK 400 million (400) and not more than SEK 1,600 million (1,600). All shares are fully paid-up. No shares are held by the company itself, or by its subsidiaries. SJ AB has no Class A shares, Class B shares or preference shares. The number of shares is 4,000,000 and the quotient value is SEK 100 per share.

#### Reserves

Hedge accounting is applied for some derivatives, interest-rate swaps and currency forwards, which means that the change in value has been recognised in equity in the balance sheet through other comprehensive income. At the balance-sheet date, derivatives amounted to a negative SEK 8 million 8 (neg: 8).

#### Cash-flow hedges and financial assets available-for-sale

Changes in the value of derivatives, meaning gains and losses attributable to unsettled cash-flow hedges, are recognised in reserves under equity and later transferred to the income statement as a hedged transaction. Changes in the value of financial assets available-for-sale are recognised in other comprehensive income.

#### Deferred tax on cash-flow hedges and financial assets available-for-sale

Deferred tax is recognised in other comprehensive income.

### Specification of reserves, other comprehensive income

SEK million	Group			
	Cash-flow hedges		Financial assets available-for-sale	
	2016	2015	2016	2015
Opening balance at 1 January	-8	-12	0	4
Change in value of assets available-for-sale	-	-	-	-5
Change in value of cash-flow hedges	-10	-3	-	-
Change in value of currency forwards	2	-	-	-
To the income statement	8	8	-	-
Tax effect	0	-1	-	1
<b>Closing balance at 31 December</b>	<b>-8</b>	<b>-8</b>	<b>0</b>	<b>0</b>

#### Retained earnings, including net profit for the year

Retained earnings consist of net profit for the year, undistributed earnings from associated companies and the portion of untaxed reserves representing equity.

#### Financial targets

The owner's financial targets for SJ are a minimum average return of 7 percent on operating capital, and a long-term net debt/equity ratio of 0.5–1.0. The long-term dividend should amount to between 30 and 50 percent of net profit for the year.

### Clarification of net debt and net debt/equity ratio

SEK million	31 Dec 2016	31 Dec 2015
Financial liabilities (interest-bearing)	1,563	1,646
Financial assets (interest-bearing)	-1,553	-895
<b>Net debt</b>	<b>10</b>	<b>751</b>
Total equity	4,337	3,876
Cash-flow hedges, currency forwards and financial assets available-for-sale	0	4
<b>Adjusted equity</b>	<b>4,337</b>	<b>3,880</b>
Net debt/equity ratio	0.00	0.19

### Parent Company

#### Restricted and unrestricted reserves

Equity is divided into restricted equity and unrestricted equity.

The distributable amount is subject to both a dividend block and the prudence concept. The dividend block means that no dividends may be paid unless there is full coverage for the restricted equity immediately after the distribution. In addition, the prudence concept means that dividends may only be paid when they are justified with regard to the risks imposed by the nature and scale of the operations on the equity of the Parent Company and Group.

Restricted equity comprises share capital of SEK 400 million (400), a statutory reserve of SEK 200 million (200) and a development reserve of SEK 68 million (0).

### Specification of reserves, other comprehensive income

SEK million	Parent Company			
	Cash-flow hedges		Financial assets available-for-sale	
	2016	2015	2016	2015
Opening balance at 1 January	-8	-12	0	0
Change in value of assets available-for-sale	-	-	-	-1
Change in value of cash-flow hedges	-10	-3	-	-
Change in value of currency forwards	2	-	-	-
To the income statement	8	8	-	-
Tax effect	0	-1	-	0
<b>Closing balance at 31 December</b>	<b>-8</b>	<b>-8</b>	<b>0</b>	<b>0</b>

## 22. Appropriation of profits

The proposed dividend is based on the 2016 Annual Report. The proposed appropriation of profits, income statement and balance sheet for the Parent Company, and the statements of income and other comprehensive income, and statement of financial position for the Group, will be presented to the Annual General Meeting for approval on 25 April 2017.

SJ AB will pay a dividend of SEK 65.00 per share for the 2016 financial year. The Board proposes payment of a total dividend of SEK 260 million, corresponding to around 40 percent of net profit for the year for the SJ Group. The Board also proposes that shareholders at the AGM adopt the payment date of 9 May 2017.

### Unappropriated funds at the AGM's disposal:

Retained earnings	SEK 2,833,457,809
Net profit for the year	SEK 487,283,084
<b>Total</b>	<b>SEK 3,320,740,892</b>

### The Board of Directors proposes that the profits be appropriated as follows:

Dividend to shareholders (SEK 65.00 per share)	SEK 260,000,000
To be carried forward	SEK 3,060,740,892
<b>Total</b>	<b>SEK 3,320,740,892</b>

## 23. Leasing

SJ has a lease that matures on 31 December 2024, which is classified as a finance lease. The lease pertains to a workshop for the maintenance of double-deckers and an amount of SEK 3 million (3) is recognised as annual amortisation of the lease liability for this workshop.

SJ leases workshop premises in Olskroken, Hagalund and Västerås, which are sub-leased to SJ's maintenance providers. The total annual rent for the leases is SEK 47 million (43).

Present value of future minimum lease payments	Group		Parent Company	
	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
SEK million				
Future minimum lease payments	29	34	29	34
Interest	-5	-7	-5	-7
<b>Present value of future minimum lease payments</b>	<b>24</b>	<b>27</b>	<b>24</b>	<b>27</b>

### Maturity structure of leases

SEK million	Group/Parent Company			
	31 Dec 2016		31 Dec 2015	
	Future minimum lease payments	Present value of future minimum lease payments	Future minimum lease payments	Present value of future minimum lease payments
Within 1 year	4	4	5	4
<b>Total current lease liabilities</b>	<b>4</b>	<b>4</b>	<b>5</b>	<b>4</b>
In more than 1 year, but less than 5 years	16	13	16	14
More than 5 years	10	7	13	9
<b>Total long-term lease liabilities</b>	<b>25</b>	<b>20</b>	<b>29</b>	<b>22</b>
<b>Total lease liabilities</b>	<b>29</b>	<b>24</b>	<b>34</b>	<b>27</b>

Minimum lease payments include interest, contractual amortisation and the residual value of existing lease liabilities.

### Operating leases

SEK million	Group					
	Rolling stock	31 Dec 2016 Premises	Total	Rolling stock	31 Dec 2015 Premises	Total
<b>Nominal value of future payment commitments</b>						
Within 1 year	115	214	329	483	358	841
1–2 years	114	196	310	141	114	255
2–3 years	-	191	191	141	101	242
3–4 years	-	169	169	-	91	91
4–5 years	-	159	159	-	71	71
5 years or more	-	375	375	-	307	307
<b>Total</b>	<b>229</b>	<b>1,304</b>	<b>1,533</b>	<b>765</b>	<b>1,042</b>	<b>1,806</b>

The Group's operating leases primarily pertain to rolling stock and premises. The contract period varies between 0 and 5 years.

The leases are contracted at standard market terms and conditions. In 2016, rent paid by the Parent Company amounted to SEK 200 million (198) and the rent paid by the Group amounted to SEK 818 million (783).

### Operating leases

SEK million	Parent Company					
	Rolling stock	31 Dec 2016 Premises	Total	Vehicles	31 Dec 2015 Premises	Total
<b>Nominal value of future payment commitments</b>						
Within 1 year	115	212	327	47	197	244
1–2 years	114	195	309	47	108	155
2–3 years	-	190	190	47	95	142
3–4 years	-	169	169	-	89	89
4–5 years	-	159	159	-	69	69
5 years or more	-	374	374	-	308	308
<b>Total</b>	<b>229</b>	<b>1,299</b>	<b>1,528</b>	<b>140</b>	<b>867</b>	<b>1,007</b>

## 24. Interest-bearing liabilities

### Maturity structure of bank loans, capital repayments

SEK million	Group		Parent Company	
	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
Within 1 year	340	108	340	108
<b>Total current bank loans</b>	<b>340</b>	<b>108</b>	<b>340</b>	<b>108</b>
In more than 1 year, but less than 5 years	379	625	379	625
More than 5 years	660	720	660	720
<b>Total long-term bank loans</b>	<b>1,039</b>	<b>1,345</b>	<b>1,039</b>	<b>1,345</b>

SJ's borrowings consist of bank loans with rolling stock pledged as collateral. The agreements are not subject to financial credit terms. In autumn 2012, new bank loans of SEK 800 million were raised that mature between 2020 and 2022. The loans do not include any covenants, but nine SJ 3000 train sets are pledged as collateral for the loans.

In autumn 2015, a new ten-year bank loan of SEK 770 million was raised, using the 11 remaining SJ 3000 train sets as collateral.

The increase in terms of current bank loans was a result of SJ experiencing stronger than expected cash flow in 2016 and surplus liquidity as a consequence. SJ's assessment is that the surplus liquidity will continue for the next year. Given the above, SJ exercised the contractual possibility to voluntarily repay the SEK 243 million loan on 28 February 2017.

## 25. Provisions

SEK million	Group											
	Annuities		Restructuring		Claims		Loyalty programme		Other		Total	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Provisions at 1 January	168	152	1	26	36	87	106	99	5	16	316	380
Provisions	-	23	4	0	36	40	108	90	42	45	190	197
Estimated interest	1	4	-	-	-	-	-	-	-	-	1	4
Settlement/revaluation	-2	-	-1	-7	-19	-84	-25	-23	-	-	-46	-114
Utilised	-7	-11	-	-18	-12	-7	-70	-60	-27	-56	-116	-151
<b>Provisions at 31 December</b>	<b>161</b>	<b>168</b>	<b>4</b>	<b>1</b>	<b>41</b>	<b>36</b>	<b>119</b>	<b>106</b>	<b>20</b>	<b>5</b>	<b>345</b>	<b>316</b>
<b>Distribution in the balance sheet 31 December</b>												
Non-current provisions	154	161	1	0	13	14	16	20	0	0	184	195
Current provisions	7	7	3	1	28	22	103	86	20	5	161	120
<b>Total</b>	<b>161</b>	<b>168</b>	<b>4</b>	<b>1</b>	<b>41</b>	<b>36</b>	<b>119</b>	<b>106</b>	<b>20</b>	<b>5</b>	<b>345</b>	<b>316</b>

SEK million	Parent Company											
	Annuities		Restructuring		Claims		Loyalty programme		Other		Total	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Provisions at 1 January	168	102	1	23	20	13	106	99	5	16	300	252
Provisions	-	86	4	0	35	20	108	90	42	45	189	248
Estimated interest	1	3	-	0	-	-	-	-	-	-	1	3
Settlement/revaluation	-2	-	-1	-7	-3	-6	-25	-23	-	-	-30	-30
Utilised	-7	-23	-	-15	-12	-7	-70	-60	-27	-56	-116	-173
<b>Provisions at 31 December</b>	<b>161</b>	<b>168</b>	<b>4</b>	<b>1</b>	<b>40</b>	<b>20</b>	<b>119</b>	<b>106</b>	<b>20</b>	<b>5</b>	<b>344</b>	<b>300</b>
<b>Distribution in the balance sheet 31 December</b>												
Non-current provisions	154	161	1	0	13	14	16	20	0	0	184	195
Current provisions	7	7	3	1	27	6	103	86	20	5	160	105
<b>Total</b>	<b>161</b>	<b>168</b>	<b>4</b>	<b>1</b>	<b>40</b>	<b>20</b>	<b>119</b>	<b>106</b>	<b>20</b>	<b>5</b>	<b>344</b>	<b>300</b>

### Annuities

Annuities pertain to the compensation payable to slightly more than 50 people who have been injured as a result of SJ's railway operations. Annuities are usually life-long, but are reduced when the recipient reaches the age of 65. Annuities are adjusted annually using an index linked to changes in the price basic amount. Each year, Finansinspektionen (the Swedish Financial Supervisory Authority) sets the percentage by which annuities should be adjusted. Each year, the provision is revalued based on assumptions regarding life expectancy, the discount rate and the index by which the index-linked annuities are adjusted. In conjunction with this, a review is conducted of all applied assumptions.

### Claims

Provisions for claims pertain to the reserve for injuries incurred on SJ's rolling stock and deductibles in insurance claims.

### Loyalty programme

SJ Prio is SJ's loyalty programme for passengers, and was launched in 2007. SJ Prio currently has more than 1 million members, of whom around 200,000 joined in 2016. Income derived from SJ Prio is recognised in accordance with IFRIC 13, Customer Loyalty Programmes. The initial sale is divided using the component method, entailing that a portion of the income is reserved as a payment obligation for the future bonus commitment. The loyalty programme provision matures within two years.

### Other

Other provisions for 2016 consist mainly of the delay compensation provision and the provision for maintenance of rolling stock. In the preceding year, other provisions mainly comprised the delay compensation provision and insurance deductibles.

## 26. Accrued expenses and deferred income

SEK million	Group		Parent Company	
	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
Personnel-related expenses	245	243	184	179
Electricity and infrastructure charges	131	109	96	77
Rolling stock-related expenses	145	100	119	85
Licences and other IT costs	26	27	26	27
Other accrued expenses	98	89	47	59
Prepaid annual season tickets and travel tickets	261	235	261	235
Other deferred income	32	33	32	33
<b>Total</b>	<b>938</b>	<b>836</b>	<b>765</b>	<b>695</b>

## 27. Pledged assets

SEK million	Group		Parent Company	
	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
Collateral for raised loans	1,655	1,772	1,655	1,772
<b>Total</b>	<b>1,655</b>	<b>1,772</b>	<b>1,655</b>	<b>1,772</b>

In conjunction with raising loans from Nordea and Nordiska Investeringssbanken in October 2012, nine SJ 3000 train sets were pledged as collateral. In September 2015, SJ AB raised a new loan with Nordiska Investeringssbanken and an additional 11 SJ 3000 train sets were pledged as collateral. At 31 December 2016, the carrying amount for all 20 train sets was SEK 1,655 million (1,772). At 31 December 2016, the carrying amount for these raised loans was SEK 1,379 million (1,454).

## 28. Contingent liabilities

SEK million	Group		Parent Company	
	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
Guarantee commitments as general partner	-	-	150	204
Capital adequacy guarantee, Group companies	-	-	50	130
Guarantees	330	330	330	330
Other	5	7	5	7
<b>Total</b>	<b>335</b>	<b>337</b>	<b>535</b>	<b>672</b>

In the Group, guarantees primarily consist of pledged guarantees in accordance with agreements for tendered services. The guarantees totalled SEK 330 million (330), of which the new contracts being operated by SJ Götalandståg for Västtrafik accounted for SEK 300 million (300).

As a general partner, the Parent Company has a commitment amounting to SEK 150 million (204) for Stockholmståg KB's external liabilities.

SJ AB has issued a capital adequacy guarantee for the benefit of all subsidiaries valid until 31 December 2017. All subsidiaries except for SJ Norrlandståg are profitable and, accordingly, it is not considered likely that an outflow of resources will be required to settle the obligation. At 31 December 2016, equity in SJ Norrlandståg was restored through Group contributions received from the Parent Company.

SJ AB received invoices from Jernhusen AB pertaining to capital expenses from AB Storstockholms Lokaltrafik. In 2012, an agreement was reached between SJ AB and Jernhusen AB regarding the cessation of invoicing, and the crediting of invoices issued for the period as of 1 January 2011. The agreement also entails that a contract has been signed with the effect that should Jernhusen AB, in the event of a future legal challenge, be regarded as entitled to capital reimbursement, any subsequent right to penalty interest held by Jernhusen AB under the Swedish Interest Act is to be calculated on the basis of continuous invoicing as of 1 January 2011.

## 29. Events after the balance-sheet date

On 12 January 2017, SJ signed an agreement with MÅLAB, the joint venture partnership for the Mälardalen region, regarding rail services between Stockholm–Västerås–Örebro–Hallsberg, on the line known as the Mälarbanan. The agreement applies from 12 January 2017 until December 2020, with a possibility to extend for a further five years. The agreement means an increase in services and in the validity of the new Mälardalen-ticket. From April 2016, SJ and MÅLAB have a four-year agreement covering regional services on four lines.

Since ID checks were introduced for journeys from Denmark to Sweden on 4 January 2016, SJ's northbound trains have not stopped at Kastrup. The space on the platform is limited and is insufficient for both SJ's and DSB's ID checks. SJ and DSB have now agreed on SJ using DSB's ID checks at Kastrup, and SJ was able to restore ordinary services as of 13 February 2017. As before, there will be six southbound and five northbound departures each day.

On 14 February 2017, SJ's Board decided to accept the extension of the agreement for night-train services to Upper Norrland as proposed by the Swedish Transport Administration. The agreement is being extended by exercising the time option included in the existing agreement and means that SJ will continue to operate night-train services for a further two years, that is until the end of 2020. The agreement comprises two night train departures in each direction every 24 hours.

On 14 February 2017, SJ's Board made an alignment decision to invest around SEK 150 million in the modification, refurbishment and upgrade of all of SJ's night-train carriages. The Board also made an alignment decision to prepare for the procurement of around 30 new high-speed trains for long-distance services.

SJ experienced stronger than expected cash flow in 2016 and surplus liquidity as a consequence. SJ's assessment is that the surplus liquidity will continue for the next year. Given the above, SJ exercised the contractual possibility to voluntarily repay a SEK 243 million loan on 28 February 2017.



# Assurance

We, the undersigned, assure that the consolidated financial statements and annual accounts have been prepared in accordance with the International Financial Reporting Standards (IFRS), as adopted by the EU, and generally accepted accounting principles, and that they provide a true and fair view of the financial position and perfor-

mance of the Group and the Parent Company, and that the Directors' Report provides a fair review of the operations, financial position and performance of the Group and the company, and describes the material risks and uncertainties faced by the companies included in the Group.

Stockholm, 22 March 2017

Jan Sundling  
Chairman of the Board

Ulrika Dellby  
Board member

Mikael Staffas  
Board member

Siv Svensson  
Board member

Michael Thorén  
Board member

Mikael Stöhr  
Board member

Kersti Strandqvist  
Board member

Hans Pilgaard  
Employee representative

Per Hammarqvist  
Employee representative

Stefan Zetterlund  
Employee representative

Crister Fritzson  
Chief Executive Officer

Our Auditors' Report was submitted on 22 March 2017.

Deloitte AB

Hans Warén  
Authorised Public Accountant

# Auditor's report

To the general meeting of the shareholders of SJ AB (publ)  
corporate identity number 556196-1599

## Report on the annual accounts and consolidated accounts

### Opinions

We have audited the annual accounts and consolidated accounts of SJ AB (publ) for the financial year January 1- December 31, 2016 except for the corporate governance statement on pages 42-49. The annual accounts and consolidated accounts of the company are included on pages 26-87 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of parent company as of 31 December 2016 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2016 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. Our opinions do not cover the corporate governance statement on pages 42-49. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet for the parent company and the group.

### Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

### Key Audit Matters

Key audit matters of the audit are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts and consolidated accounts of the current period. These matters were addressed in the context of our audit of, and in forming our opinion thereon, the annual accounts and consolidated accounts as a whole, but we do not provide a separate opinion on these matters.

#### *Key Audit Matter: Revenue from own rail services*

SJ reports revenues amounting to MSEK 8 580 for 2016, of which the vast majority is attributable to own rail services. Revenue from own rail services are recognized when the services are delivered. Revenue from own rail services is assessed to be a key audit matter due to the vast transaction volume, which implies that completeness and cut off are critical for a significant misstatement not to occur in the financial reporting. A complete and effective transfer between the booking system and accounting system is of particular importance.

For further information, refer to comments on the Income statement and Statement of comprehensive Income on page 51, the Group's accounting principles on page 61, Note 1 on Segment reporting and Note 2 on Net sales.

Our audit included the following procedures but were not limited to these.

- review of revenue process and testing of identified key controls
- review of accrual of revenue from own rail services
- review of completeness by testing the transfer between critical IT systems for revenue recognition with the involvement of IT auditors
- review of General IT Controls in ticket booking system and accounting system supported by IT auditors
- review of the application of appropriate accounting principles and whether required disclosures is presented.

#### *Accounting for rolling stock*

SJ reports as of 31 December 2016 rolling stock and ongoing construction of a total of MSEK 5 379. Rolling stock is recorded at cost less accumulated depreciation and any accumulated write-downs. The value is reassessed annually. Rolling stock is deemed to be a key audit matter due to insufficient assessments and assumptions in the following three areas can have a significant impact on the Group's income and financial position:

- impairment test and related assessments and assumptions such as estimated future cash flows, discount rate and growth
- assessment of the useful life of investments
- classification of maintenance costs as activated or expensed

For further information, please refer to the Group's accounting principles on page 61, and Note 12 on tangible assets.

Our audit included the following audit measures but were not limited to these.

- review of the process of accounting for non-current assets and assessment of the reasonableness of the assumptions made in above mentioned areas and in the model for impairment test of rolling stock
- review of integrity and arithmetic correctness in the impairment test model of rolling stock with support from our valuation expert
- review of the company's assessment of the useful life for a sample of rolling stock items
- review of the application of appropriate accounting principles and whether the required disclosures is presented.

## Other information than the annual accounts and consolidated accounts

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 1-25 and 91-1001-25 and 91-100. The Board of Directors and the Managing Director and the Managing Director are responsible for this other information.

Our opinion on the annual accounts and consolidated accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts and consolidated accounts, our responsibility is to read the information identified above and consider whether the information is materially

inconsistent with the annual accounts and consolidated accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If we, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### Responsibilities of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of the annual accounts and consolidated accounts and that they give a fair presentation in accordance with the Annual Accounts Act and, concerning the consolidated accounts, in accordance with IFRS as adopted by the EU. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts and consolidated accounts, The Board of Directors and the Managing Director are responsible for the assessment of the company's and the group's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the Managing Director intends to liquidate the company, to cease operations, or has no realistic alternative but to do so.

The Audit Committee shall, without prejudice to the Board of Director's responsibilities and tasks in general, among other things oversee the company's financial reporting process.

### Auditor's responsibility

Our objectives are to obtain reasonable assurance about whether the annual accounts and consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts and consolidated accounts.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of the company's internal control relevant to our audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the Managing Director.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting in preparing the annual accounts and consolidated accounts. We also draw a conclusion, based on the audit evidence

obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the company's and the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts and consolidated accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts and consolidated accounts. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company and a group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the annual accounts and consolidated accounts, including the disclosures, and whether the annual accounts and consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

We must inform the Board of Directors of, among other matters, the planned scope and timing of the audit. We must also inform of significant audit findings during our audit, including any significant deficiencies in internal control that we identified.

We must also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the annual accounts and consolidated accounts, including the most important assessed risks for material misstatement, and are therefore the key audit matters. We describe these matters in the auditor's report unless law or regulation precludes disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

### Report on other legal and regulatory requirements

#### Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of SJ AB (publ) for the financial year 2016-01-01–2016-12-31 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit to be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

#### Basis for Opinions

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

### Responsibilities of the Board of Directors and the Managing Director

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's and the group's type of operations, size and risks place on the size of the parent company's and the group's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's and the group's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner. The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

### Auditor's responsibility

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the

proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

As part of an audit in accordance with generally accepted auditing standards in Sweden, we exercise professional judgment and maintain professional scepticism throughout the audit. The examination of the administration and the proposed appropriations of the company's profit or loss is based primarily on the audit of the accounts. Additional audit procedures performed are based on our professional judgment with starting point in risk and materiality. This means that we focus the examination on such actions, areas and relationships that are material for the operations and where deviations and violations would have particular importance for the company's situation. We examine and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to our opinion concerning discharge from liability. As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss we examined the Board of Directors' reasoned statement and a selection of supporting evidence in order to be able to assess whether the proposal is in accordance with the Companies Act.

### The auditor's examination of the corporate governance statement

The Board of Directors is responsible for that the corporate governance statement on pages 42–49 has been prepared in accordance with the Annual Accounts Act.

Our examination of the corporate governance statement is conducted in accordance with FAR's auditing standard RevU 16 The auditor's examination of the corporate governance statement. This means that our examination of the corporate governance statement is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinions.

A corporate governance statement has been prepared. Disclosures in accordance with chapter 6 section 6 the second paragraph points 2–6 of the Annual Accounts Act and chapter 7 section 31 the second paragraph the same law are consistent with the other parts of the annual accounts and consolidated accounts and are in accordance with the Annual Accounts Act.

Stockholm March 22 2017  
Deloitte AB

*Signature on Swedish original*

Hans Warén  
Authorized accountant



## Accounting policies – sustainability

The Sustainability Report for the SJ Group has been prepared in accordance with SJ's sustainability reporting principles. The policies are based on the Global Reporting Guidelines (GRI) G4 Sustainability Reporting Guidelines. Essential elements of the UN Global Compact and OECD Guidelines for Multinational Enterprises have also been included.

SJ's reporting principles are based on the ten reporting principles of the GRI G4 Guidelines. The principles are divided into two groups: four principles for determining the content, and six principles related to quality.

Contents:	Quality:
• Materiality	• Balance
• Stakeholders	• Comparability
• Context	• Accuracy
• Completeness	• Timeliness
	• Clarity
	• Reliability

### Content

The content of SJ's sustainability efforts and this report are based on the results of the materiality analysis and related stakeholder dialogues. SJ has a diverse stakeholder portfolio, in which the various groups have a different focus. For customers and passengers, punctuality and the travel experience are important for example, while overall corporate sustainability is significant for the owner.

### Materiality

Our materiality analysis provides a framework for identifying and prioritising the areas that reflect SJ's most significant impact on sustainability. The analysis also helps to identify the areas that may materially affect stakeholders' assessments and decisions. Read more on pages 16–17

### Stakeholders

In the Sustainability Report, SJ is required to report who the company's stakeholders are and how SJ has accounted for their expectations and interests.

SJ has a diverse stakeholder portfolio. Maintaining strong relationships and a dialogue with all stakeholders is significant for the company's development and helps us to identify prioritised sustainability issues. To meet stakeholders' information needs and to assess what they consider important, SJ strives to maintain open and constructive dialogues. This also leads to the content of the Sustainability Report being relevant to stakeholders. How SJ's operates in relation to the environment and its stakeholders should be based on sound business ethics, as well as consideration and respect for the individual and the environment. SJ's core values – Reliable, Simple, Caring and Joyful – represent the basis for what the company's stakeholders can expect of SJ.

### Context

SJ's Sustainability Report describes how the sustainability factors are linked to the company's long-term strategies, risks and opportunities. Information about SJ's performance is to be reported in a broader sustainability context. SJ is also required to demonstrate a good understanding of sustainable development and present factual information and objective measurements of the company's development.

### Completeness

The Sustainability Report should provide stakeholders with an overall view

of the operation's impact on various sustainability aspects. Completeness means that the Report covers all material topics and indicators in accordance with the GRI framework. This means that activities in SJ AB, Stockholmståg KB, SJ Götalandståg AB and SJ Norrlandståg AB are included where applicable.

### Quality

Qualitative and transparent sustainability reporting enables SJ's stakeholders to make accurate assessments of SJ's operations.

### Balance

Balance is achieved when the reporting reflects both positive and negative aspects of the operations. By also highlighting negative issues, credibility increases and areas with improvement potential are made visible, allowing for more effective sustainability efforts. Ultimately, this means that the interests of SJ's stakeholders are accounted for. SJ is also required to make a clear distinction between facts and SJ's interpretations. The Report should emphasise the aspects that SJ judges most significant.

### Comparability

SJ should present information in a manner that enables stakeholders to analyse changes in the organisation's performance over time, and support comparisons with other companies. SJ should maintain consistency in the methods used to calculate and compile data, and when explaining the methods and assumptions used to prepare the information in the Sustainability Report. Significant changes between reporting periods in terms of boundaries, scope, reporting period or other significant information should be easy to identify and understand for SJ's stakeholders. By applying the GRI G4 Guidelines – a generally accepted reporting framework – SJ is enabling comparability with other companies.

### Accuracy

SJ's ambition is that the information in the Sustainability Report is sufficiently accurate and detailed for stakeholders to assess the company's performance.

### Timeliness

Timeliness means that SJ maintains a regular and well-timed reporting schedule. Sustainability information, including the GRI Index that indicates where information is available, is disclosed annually when SJ's Annual Report is published. For information in the Sustainability Report and on the website, there are clear references to the relevant period, when the information was last updated and when it will be updated again.

### Clarity

SJ's ambition is that the information in the Sustainability Report is understandable, accessible and usable by SJ's range of stakeholders. To achieve this, SJ uses tables and charts to clarify and illustrate the reported information.

### Reliability

Anyone who reads SJ's Sustainability Report should have confidence in the information that is presented. SJ has procedures for gathering, documenting, analysing and explaining the content and processes used in the preparation of the Report. SJ's ambition is that the content is reliable and that the Report meets all the control requirements. SJ does not present information that cannot be reliably substantiated. The Sustainability Report is reviewed by an external auditor to increase its reliability.

The sustainability information in the Directors Report, section Responsible management, is part of the combined assurance engagement as described in the translated Assurance Report below. SJ's Sustainability Report according to GRI is only available in Swedish.

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# Auditor's report on the combined review of SJ's Sustainability Report

## To SJ AB

### Introduction

We have been instructed by the Board of SJ AB to review SJ AB's Sustainability Report for 2016. The company has defined the scope of the Sustainability Report in connection with the table of contents of SJ's 2016 Annual and Sustainability Report.

### Responsibility of the Board of Directors and Executive Management for the Sustainability Report

The Board of Directors and Executive Management are responsible for preparing the Sustainability Report in accordance with appropriate criteria, which are described in connection with the table of contents of SJ's 2016 Annual and Sustainability Report, and comprise those parts of the Sustainability Reporting Guidelines (issued by The Global Reporting Initiative (GRI)) applicable to the Sustainability Report, as well as the company's own reporting and calculation principles. This responsibility also includes the internal control deemed necessary for preparing a Sustainability Report that is free from material misstatement, whether due to fraud or error.

### Auditor's responsibility

Our responsibility is to express an opinion on the Sustainability Report based on our review.

We conducted our review in accordance with RevR 6 *Assurance of Sustainability Reports*, issued by FAR. The task involves a review of the Sustainability Report in its entirety and an audit of certain information specified below. The purpose of an audit is to attain a reasonable level of assurance in order to guarantee that the information is free of material misstatements. An audit involves reviewing a selection of supporting documents on quantitative and qualitative information in the Sustainability Report. A review consists of making enquiries, primarily of persons responsible for preparing the Sus-

tainability Report, and applying analytical and other review procedures. A review has a different focus and is substantially less in scope compared with the focus and scope of an audit pursuant to IAASB's standards on auditing and generally accepted auditing standards. The auditing company applies ISQC 1 (International Standard on Quality Control) and thereby has a comprehensive system of quality control which involves documented guidelines and processes regarding compliance with ethical requirements, standards for exercising a profession and fulfilment of legal and regulatory requirements. The conclusion based on our review does not therefore provide the same level of assurance as our stated conclusion based on an audit. As this is a combined exercise, we will submit our conclusions regarding the audit and review in separate sections.

Our audit included information on sustainability presented in SJ AB's 2016 Annual and Sustainability Report in the section "Responsible management" on pages 29–39.

Our review is based on the criteria selected by the Board and Executive Management, which are defined above. We consider these criteria suitable for the preparation of the Sustainability Report.

We believe that the evidence obtained during our review is sufficient and appropriate to provide a basis for our opinions below.

### Opinion

Based on our review, nothing has come to our attention that causes us to believe that the information in the Sustainability Report has not, in all material respects, been prepared in accordance with the above criteria, which have been issued by the Board and Executive Management.

Based on our audit, we believe that the information in the Sustainability Report has, in all material respects, been prepared in accordance with the above criteria, which have been issued by the Board and Executive Management.

Stockholm, 22 March 2017

Deloitte AB

*Signatures on Swedish original*

Hans Warén  
Authorised Public Accountant

Andreas Drugge  
Expert Member, FAR

# Definitions and glossary

## Definitions of financial metrics

SJ presents various financial metrics that are not defined in accordance with IFRS with the belief that these metrics provide valuable supplementary information to the owner, Board of Directors and Executive Management in that they enable evaluation of results and performance. As not all companies calculate financial metrics in the same way, these are not always comparable with metrics used by other companies. These financial metrics should therefore not be considered a replacement for the metrics defined by IFRS.

## Metrics defined in accordance with IFRS

Metrics defined in accordance with IFRS: profit/loss for the period and earnings per share.

## Key figures not defined in accordance with IFRS

### Cash and cash equivalents

Cash and cash equivalents is the sum of cash and cash balances plus interest-bearing investments with a maturity of not more than 90 days on the date of acquisition.

### Equity/assets ratio

Equity in relation to total assets.

### Net debt

Net interest-bearing provisions and liabilities less interest-bearing assets.

### Net debt/equity ratio

Net interest-bearing provisions and liabilities less interest-bearing assets in relation to equity.

### Operating capital

Average equity and net debt.

### Operating margin

Operating profit/loss as a percentage of net income.

### Operating profit/loss

The difference between operating income and operating expenses.

### Profit margin

Profit/loss after financial items as a percentage of operating income.

### Return on equity

Profit/loss for the period as a percentage of average equity for the 12-month period.

### Return on operating capital

Operating profit/loss as a percentage of average operating capital for a 12-month period.

### Traffic revenue

Revenue from independent commercial rail services and tendered services.

### Underlying operating profit/loss

Operating profit/loss after adjustment for items affecting comparability.

### Yield

Traffic revenue from independent commercial services (SJ tickets), including booking fees and less delay compensation, divided by the total number of passenger kilometres.

## Definitions of non-financial metrics

### Absence due to illness

Key figure indicating the number of employees on sick leave divided by the number of full-time equivalents. Employees receiving sickness benefits until further notice are not included in the statistics for absence due to illness.

### Average number of employees

The number of full-time equivalents as an average of the annual hours worked.

### Brand index (BI)

Key figure indicating how SJ is perceived by the public based on SJ's core values – Reliable, Simple, Caring and Joyful.

### Customer/Passenger satisfaction index

Key figure measuring customer/passenger satisfaction, based on the customer's overall travel experience with SJ over the past 12 months. Both SL and Västtrafik conduct monthly on-board surveys to measure passenger satisfaction levels for trips with Stockholmståg and SJ Götalandståg. SJ Götalandståg's index measures satisfaction based on the most recent trip.

### Employees

See full-time equivalents (FTEs).

### Environmental index

Key figure measuring how customers rate SJ's level of environmental awareness. This is measured continuously in on-board surveys.

### Full-time equivalents

The number of employees measured in contracted periods and full-time positions. Employees on leave of absence without pay are not included. Full-time equivalent (FTE) is a time metric for the "contracted" period.

An employee working full time is a full-time equivalent, while an employee working 80 percent is a 0.8 full-time equivalent. The time for employees working on an hourly basis is calculated in terms of a full-time equivalent.

### Greenhouse gas emissions

Train operations, electric (Sweden, Norway, Denmark): Electricity consumption in the respective country (kWh) x hydropower emissions, EPD 2015 Vattenfall (0.047 g CO<sub>2</sub>e/kWh including losses). Replacement services: Kilometres driven (measured) x CO<sub>2</sub>e factor (estimated). Data for the number of kilometres driven is obtained from replacement services providers. For buses, the assumed consumption of diesel was 2.5 litres per 10 km and the share of HVO (renewable) was 46%. Source of CO<sub>2</sub>e/litre fuel from the Facts on Fuel 2015 by Gröna Bilister (Green Drivers). For taxis, the assumed share of environmentally friendly cars was 65% and assumed emissions were 100 grams CO<sub>2</sub>e/km on average. Refrigerants: Measured leakage kg refrigerants x GWP per type of refrigerant. GWP = Global Warming Potential. The GWP values have been updated in accordance with the EU Directive 517/2014. Measured leakage is obtained from SJ's maintenance providers.

### Healthy attendance

Key figure indicating the share of employees who have not been absent due to illness during the previous six months.

### Leadership index

Key figure measuring SJ employees' perceptions of how managers create positive conditions for performance. This is measured in the annual employee survey.

### Load factor

Key figure indicating the relationship between passenger kilometres and seat kilometres as a percent.

### Number of journeys/passengers per year

Total number of journeys sold per year.

### Number of passengers

Total number of journeys sold per line.

### Number of trips

Number of part-journeys sold per line.

### Passenger distance

Measured in passenger kilometres.

### Passenger kilometres

Number of passengers times the number of kilometres they travel. This comprises all SJ tickets, including annual and monthly tickets. For PTA season tickets, passenger kilometres are calculated based on estimates per line.

### Performance index

Key figure indicating which prerequisites SJ's employees have in the daily operations to discharge their assignments. This is measured in the annual employee survey.

## Definitions and glossary

### Punctuality

TTT and SJ Götalandståg measure punctuality at the terminating station while SJ AB and Stockholmståg measure at every station where passengers disembark. Key figure indicating the percentage of trains arriving at stations according to the timetable. As of 2013, the industry standard is defined as arrival within five minutes for long-distance and regional trains, and within three minutes for commuter trains.

Stockholmståg's yearly result is calculated as an average of each month's punctuality result.

### Regularity

Key figure indicating the percentage of trains departing from their originating station and arriving at their terminating station according to the planned timetable two days prior to the day of service.

### Seat kilometres

The seat kilometres offered for sale, meaning the number of available seats multiplied by the length of the trip.

### Service index

Key figure measured internally and indicating the passenger's perception of SJ's service, information, accessibility and on-board customer interaction.

### SJ Volunteer

Sustainability target that offers employees the chance to engage in voluntary work during working hours.

### Supplier and partnership assessments

Sustainability targets to ensure that the SJ Group's identified high and medium-risk suppliers comply with the requirements specified in SJ's Code of Conduct for suppliers.

### Traffic-safety index

Key figure defined as an evaluation of all traffic-safety-related accidents in relation to the production volume.

## Glossary

### Accessibility

How well the environment in, and facilities in direct connection with, SJ's trains has been adapted for people with disabilities.

### Delay compensation

SJ's commitment to compensate passengers for delays. For current information and conditions, visit [www.sj.se](http://www.sj.se).

### EFQM

A European quality model for business development that SJ uses to measure its progress in relation to its vision and adopted targets.

### Foreign-born persons

Having a foreign background means that the person is either born abroad or is born in Sweden of two parents who are born abroad, according to the definition from the SCB (Statistics Sweden).

### Global Compact

The UN's principles in the areas of human rights, labour standards, the environment and anti-corruption. The principles are based on the Universal Declaration of Human Rights, the International Labour Organization's Declaration on Fundamental Principles and Rights at Work, the Rio Declaration on Environment and Development and the United Nations Convention against Corruption.

### Global Reporting Initiative (GRI)

The GRI is an independent international organisation that issues guidelines on sustainability reporting ([www.globalreporting.org](http://www.globalreporting.org)).

### Good Environmental Choice

All journeys with SJ AB carry the Good Environmental Choice (Bra Miljöval) label, issued by the Swedish Society for Nature Conservation. A Good Environmental Choice-trip has a low climate impact, is energy-efficient and generates low emissions. One requirement is to purchase 50% Good Environmental Choice-labelled electricity. An annual third-party review ensures that SJ meets these requirements.

### ISO 9001

An international standard for quality management systems.

### ISO 14001

An international standard for environmental management systems.

### Manager

A person with subordinates but not in Executive Management.

### OHSAS 18001

International standard for occupational health and safety management systems.

### On-board survey

Regular customer surveys conducted on board trains.

### Own rail services

Services that SJ operates on a commercial basis, or tendered services that are wholly or partially financed by ticket sales. Commercial services include operation of the X2000 between Stockholm and Gothenburg, and tendered services include rail services to and from far-north Sweden.

### Passenger Transport Executives (PTEs)

Responsible for the local and regional scheduled passenger services in a county.

### Refrigerants

Refrigerants are used in air-conditioning installations and in refrigerators on board the trains. The refrigerants used today are strong greenhouse gases and contribute to climate change due to leakage.

### Replacement services (bus and taxi)

Buses and taxis are used as replacement services during planned track maintenance and unplanned disruptions to rail services. Replacement services are requested by Traffic Control.

### Senior executives

Members of the Executive Management and the presidents of subsidiaries who report to the CEO.

### Short-term investments

Short-term investments in the Parent Company balance sheet pertain to investments with a maturity of less than one year.

For the Group, short-term investments refer to interest-bearing investments with a maturity of between three months and one year. Long-term bonds held for sale are also included in short-term investments, regardless of their maturity.

### Staging station

A physical premises adjacent to a train station, where train hosts and train drivers are stationed.

### TAF TSI

Telematics applications for freight services.

### TAP TSI

Telematics applications for passenger services.

### Tendered services

The services operated on behalf of regional and national public transport authorities.

### Train kilometres

The total distance travelled by all trains.

### Train paths

Time window/channel where the train operator would like to run services on a route during a specific period and with a specific departure and arrival time.

### Train timetable

Timetable for all trains during one year. The Swedish Transport Administration is responsible for the creation of a timetable every year.



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