

# The Future of Travel



Annual and Sustainability Report 2019



In constant  
motion







**T**he Nordic landscape from the train window. Fields, forests, suburbs, station buildings and from time to time the sudden darkness of tunnels. The sound of the rails is like a heartbeat, calm and rhythmical. On the way out or going home. Music through headphones, a book, that last finishing touch to some work, a satisfying lunch, or perhaps a time for rest, makes the journey part of the goal for the millions of passengers who travel with us every year. Our goal is their journey.

The world around us is changing. We are travelling in different ways, to new places. More and more people are realising how simple, convenient and time-efficient rail travel is – just climb aboard, then work, socialise or rest. Other factors helping to boost interest in the train and SJ include more departures to choose from, more customer-led offers, simpler booking routines and greater climate awareness.

In the past 20 years, train travel has increased and all the signs are that this trend will continue. We at SJ have high ambitions to live up to the expectations placed on us. We are continuing to develop our offering, and over the next few years we will be investing around SEK 12 billion in expanding our fleet with more, latest-technology trains. In 2020, we are looking forward to welcoming our passengers aboard our new X 2000s, and in a few years' time our new regional and high-speed trains will enter service.

We are developing and expanding our collaboration with municipalities, regions and government agencies, as well as our dialogue with employees, customers and passengers.

## SJ – The Future of Travel



Every day, 150,000 people opt to travel on one of SJ's 1,220 departures from 291 stations.

SJ operates from Narvik in the north to Copenhagen in the south, from Stockholm in the east to Oslo in the west. That is one of the reasons why so many people choose to travel with us.

In 2019, SJ had around 4,600 employees and sales of approximately SEK 8.6 billion.



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## About the Annual Report and Sustainability Report

The Board of Directors and the Chief Executive Officer of SJ AB (corporate registration number 556196-1599) hereby present SJ's Annual Report and Sustainability Report for the 2019 financial year. The statutory Annual Report, including the Directors' Report and the financial statements for the Group and the Parent Company, consists of pages 16–92. The Sustainability Report consists of pages 17–40.

The Sustainability Report consists of the section "Responsible Governance" on pages 17–40 of the Directors' Report, and the report in accordance with Global Reporting Initiatives (GRI) Standards: "Core", which follows the structure of the GRI Index on pages 100–102. The structure of the sustainability report in accordance with the Swedish Annual Accounts Act is described on page 103.



## The future of travel

Passenger satisfaction was higher than ever, and 34.3 million climate-friendly journeys were made via SJ in 2019.

# 32



## Punctuality

Punctuality for SJ services was the highest since the industry-wide target was adopted and the Together for Trains on Time initiative was introduced in 2013.

# 34

## We are investing the travel of the future

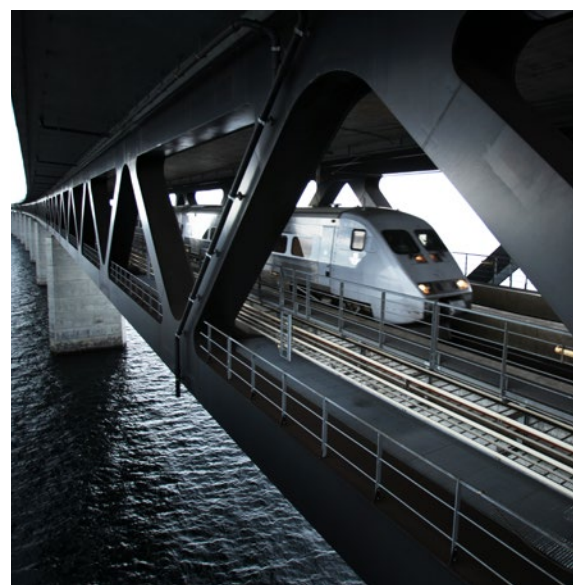
We are investing approximately SEK 12 billion in adding more, latest-technology trains so that more people can travel with us. New X 2000s will enter service in 2020 and we have decided to invest in a new high-speed train fleet and a new regional train fleet.

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## Full speed ahead to new destinations

We are working all-out on getting everything in place for the start of services in June and December 2020, respectively, for SJ's two new contracts: the Trafikpaket Nord service in Norway and the Sweden-Denmark Öresundstågen service.

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# Successful year based on focused efforts

**4.9%** (5.2)

Absence due to illness

**96.7** (96.7)

Traffic Safety Index

**73** (69)

Customer Satisfaction Index (CSI), SJ AB

**79** (77)

Environmental Index

**76** (76)

Leadership Index

**83%** (77)

Punctuality, long-distance services

**96** (95)

Passenger Satisfaction Index (PSI)  
SJ Götalandståg, commuter services

**X 40000**

In terms of carbon dioxide emissions, a flight between Gothenburg and Stockholm equates to 40,000 train journeys on the same route. To highlight this, we temporarily renamed two of our high-speed X 2000s as X 40000s.

**80** (79)

Performance Index

**92%** (88)

Punctuality, medium-distance services

**96** (94)

Passenger Satisfaction Index (PSI)  
SJ Götalandståg, regional services



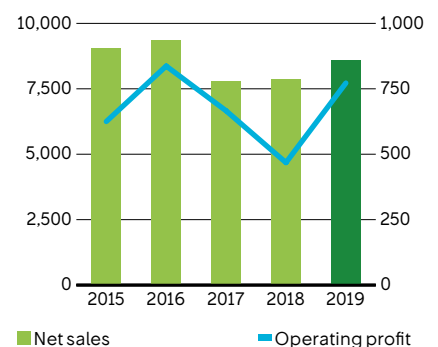
## Financial overview

SJ Group	2019	2018	2017	2016	2015
Net sales, SEK m	8,602	7,874	7,780	9,336	9,052
Operating profit <sup>1</sup> , SEK m	772	468	666	837	625
Operating margin <sup>1</sup> , %	9.0	5.9	8.5	8.9	6.9
Profit/loss for the year, SEK m	619	389	523	650	471
Return on operating capital <sup>1</sup> , %	16.2	11.4	16.4	20.0	13.2
Net debt/equity ratio <sup>1</sup> , multiple	-0.14	-0.14	-0.10	0.0	0.20
Investments, SEK m	649	566	596	390	526

<sup>1</sup> SJ's alternative key metrics; for definitions, see page 105.

Read more about financial events during the year in the Directors' Report, page 16.

Net sales and operating profit, SEK million



# We are already the future of travel

Reliable, Simple, Caring and Wonderful. Guided by these words, we have in recent years introduced many improvements to our offering before, during and after train journeys. So, when awareness of the climate challenge began to gather real momentum, we were well equipped to welcome more passengers and meet or exceed their expectations. In 2019, 34.3 million journeys were made via SJ.



One of the most important reasons why so many people chose to go by train, and SJ, was the environmental benefits of rail, as that is the most energy-efficient mode of transport. Our passengers also say that they can use the time on board our trains for work, rest or socialising, and that it is a relief not to have to drive themselves and have to hunt for somewhere to park. Many people also appreciate our wonderful train hosts and find it handy to be able to get on and off a train right in the city centre.

**Even so, there are many who are surprised by how much better train travel is:** A flight between Stockholm and Gothenburg emits as much carbon dioxide as 40,000 rail journeys on the same route. Rail travel is also around 20,000 times as climate-friendly as an average car journey with two people in the car. So, you could travel by train once a day for 54 years to produce the same emissions as from a single car journey. On that basis, I can proudly state as a fact that SJ has an important role to play if Sweden is to achieve its ambitious climate goal. Today, we already offer the future of travel, since the train is the best way to travel if we want to go into the future without doing it harm.

The 34.3 million journeys by SJ in 2019 represented an increase of 2.5 million from 2018. To enable even more people to travel with us, we are coupling up more carriages for popular departures, or adding more services whenever possible. We are also at the start of our most extensive investment in trains in modern times. We will be investing approximately SEK 12 billion in more, latest-technology trains over the next few years.

**Our X 2000 trains are undergoing extensive upgrading**, in which we are only retaining the steel chassis and the unique tilting system that make our high-speed trains so comfortable. Everything

else – technology, ventilation and interior – is being replaced. The first train will enter service in 2020 and the remaining 35 as and when they are ready.

We have also decided to invest in a new high-speed train fleet and a new regional train fleet in order to meet the high demand. When the new trains are in service in a few years, we will have expanded our capacity in commercial services by nearly 50 percent.

In parallel with purchases of new trains, we are continuously investing in improvements to our existing trains, systems, IT platforms and digitisation. For example, procurement of an upgrade of SJ's night-train carriages is under way, and an invitation to tender has been published.

**The major scale of our investments has been made possible by our strong financial position**, which was boosted in the past year by substantially higher rail travel and high capacity utilisation. Partly via improved punctuality, rail travel (measured as passenger kilometres) by SJ increased by all of 11 percent in 2019 compared to a year previously. Operating profit for 2019 improved to SEK 772 million (468).

However, our investments and adjustments will not be enough to ensure that this desirable growth in rail travel is maintained. At peak times on popular routes, it is quite simply not possible to run more trains today, and more train operators will no longer mean more departures for passengers to choose from. The forecasts used for decisions on infrastructure investments have consistently underestimated growth in rail travel, whereas growth in air and car travel has been overestimated.

We share the view of the Swedish government and the Swedish Transport Administration (STA) that Sweden needs not only new main lines but also improvements in the state of the existing network. STA stepped up the pace of its maintenance operations last year. This is both desirable and necessary, but unfortunately far from sufficient. Increased and more punctual services need an even more robust action on the rail network. And it is needed now.

**SJ's ambition is to become one of Sweden's most highly digitised companies** and in 2019 we were named as the most highly digitised travel company in Europe.

SJ's digitisation journey is based on our twin aims of offering competitive services to our customers and improving efficiency in our operations. Another ambition going forward is to develop our operations by adding new businesses. Since 2014, we have been investing heavily in our customer-led solutions sj.se and the SJ app with a view to making it simple for our customers and passengers to book a journey and to obtain relevant information and adapted offerings. Thanks to our investments, we have received several awards in recent years by succeeding in making our services user-friendly and by continually updating them with new and improved functions.



Our employees also have an important role to play in SJ's digitisation and we make sure we provide them with the digital tools they need so that their time is spent on the right things. Today, we have a range of in-house apps that are used for stamping passengers' tickets, for driving smoothly, energy-efficiently and punctually and for notifying deviations and incidents requiring action. We have digital employees – robots (RPA, robotic process automation) – to perform monotonous and rules-based tasks and we use VR (virtual reality) to make training for our new train models more effective, more flexible and more fun.

By digitising train operations, we also gain new ways of improving punctuality. We have begun our journey towards more efficient maintenance by fitting sensors to selected components on trains. This enables us to replace parts before they break, but not at an unnecessarily and uneconomically early stage. More efficient maintenance reduces the chances of unplanned halts and improves comfort for our passengers.

**Never before were so many trains run** as in 2019, and never before did so many trains arrive on time. In the first six months of the year, more trains arrived on time than were operated in total over the same period in 2015. These are wonderful results and reinforce our conviction that all the actions we are taking are having a positive impact on punctuality.

Punctuality for SJ services in 2019 was the highest since the industry-wide target of 95 percent punctuality was adopted in 2013 and the Together for Trains on Time initiative was introduced. In addition, our trains were more punctual than flights on all the routes where our departures compete with domestic air services. Rail punctuality is therefore considerably better than its undeserved reputation and we are working both on our own and with industry partners on achieving further improvements.

**Ever since 1989, Sweden has operated county-based transport service tendering** and tendered services today account for a major, and growing, share of Sweden's railway market. Foreign- and State-owned enterprises, above all, were able to establish themselves in Sweden long before the commercial railway market was deregulated in 2010. To us, that meant having to streamline our operations and focus on what our passengers appreciate. At the same time, our competitors have benefited from protection in their domestic markets.

The ongoing deregulation of railway markets in the rest of Europe will change this, with the effect that the European market in tendered rail services will more or less explode. Against that background, SJ has in a focused way developed its business in tendered services very much aided by all the experience we have accumulated thanks to early deregulation in Sweden.

**In recent years, we have engaged in analysing, evaluating and developing our processes.** As a result, we have increased productivity, improved customer satisfaction and reduced vulnerability, since we are now less reliant on the knowledge of particular individuals. We use the European EFQM model for sustainable development, to measure where we are relative to our vision and targets set, as well as to compare SJ with successful organisations. This helps us to constantly develop our business.

The external valuation of SJ in 2019 placed us at the 6 star level, the one at which the finalists for European-level quality awards are assessed. This is recognition that our unrelenting work on creating stable, yet flexible processes, combined with stakeholder-driven management, has been successful.

**High quality at reasonable cost** enabled us to secure two of the biggest contracts in the Nordic region in tendered rail services in 2019, namely the Öresundstågen service from December 2020 and the Trafikpaket Nord service in Norway from June 2020. We were also reappointed to operate the service between Gothenburg and Karl-

stad (Vänertåg) and the tendered Stockholm–Östersund–Duvud night-train service. On the other hand as of December 2020, SJ will not be operating the Stockholm–Luleå–Narvik night-train service.

The contracts are major ones and carry great responsibilities. We are well aware of the requirements set by the procuring agencies, and of the hopes of passengers. We have been working intensively since early summer on preparations for a robust handover from the existing train operators. We are used to taking over tendered services and that should be clear from the change being reflected in improvements for passengers and for our new employees.

**The fact that we are now developing our existing operations** in neighbouring countries is important to our ability to further strengthen SJ's long-term competitiveness in Sweden. A bigger market will enable more people to share in SJ's accumulated structural and knowledge capital – more passengers travel for the same cost incurred by SJ. A lower unit cost for us will benefit passengers, in that it will enable us to develop our services and make lower ticket prices possible.

Many employees in the SJ Group contributed knowledge for our winning tenders and even more are now engaged in preparations for getting everything into place in good time and with high quality. All this at the same time as we delivered the most punctual train services since the industry-wide target of 95 percent punctuality was established in 2013 and with the highest customer satisfaction since measurements began.

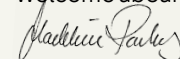
When you read this, I will have resigned as Chief Executive Officer of SJ. I would once again like to thank all our wonderful employees for their commitment, expertise and strong drive for constant improvement. It is our efforts that have made SJ "the most beautiful swan of the travel industry", as we were described when we recently won the award for best domestic travel service at the Grand Travel Awards. The fact that more and more people are discovering the benefits of traveling with us gives me great pleasure, and I look forward to following SJ's continued journey of development.



Crister Fritzson  
Chief Executive Officer, until 29 February 2020

**I am pleased and honored to have been entrusted by the Board of Directors**

to lead the company with Sweden's greenest brand, SJ, and the Group's phenomenal employees. We were recently the first rail company to win the award for best domestic travel service at the prestigious Grand Travel Awards and are working uncompromisingly on meeting the great demand for climate-friendly travel. Better punctuality is one of the reasons why passenger satisfaction with SJ is higher than ever, and we are continuing to develop what is good, and to do more in the areas where we are not fully living up to expectations. We must think about our customers at all times and act from the customer's perspective. Welcome aboard!

Madeleine Raukas  
Chief Executive Officer, 1 March–16 August 2020

# We are meeting the demand for climate-friendly travel

We have worked in a structured way for many years to meet – and if possible exceed – the expectations of our customers and passengers. As a result, we were well prepared when growing climate awareness led to increased interest in rail travel and SJ. We have always kept our “ear to the rail” to get an idea about which driving forces affect our business.

## More people are wanting and needing to travel

More and more people are choosing the train for travelling to work, meetings, visiting friends and going on holiday. In the past 20 years, demand for rail travel has steadily risen. Factors helping to boost interest in rail travel include more departures to choose from, more customer-adapted offers, even simpler booking routines and greater climate awareness.

Shorter travelling times by train mean greater freedom of choice now that people can opt to live further and further from where they work or study. At the same time, the labour market becomes more flexible when businesses can recruit from a wider area. This, in turn, creates scope for economic growth.

In Sweden, increases are evident both in the proportion of people preferring to go by train rather than other modes of transport and in the number of people potentially wanting or needing to travel. Since 2000, Sweden's population has risen by around 1.4 million and, according to a forecast by SCB (Statistics Sweden), it will continue to grow rapidly.

**How SJ is responding:** We are improving and adapting our offerings to suit the needs of business travellers, commuters, students and everyone else who wants or needs to travel. Our customer promise is a safe and punctual journey with good service.

Existing tracks cannot accommodate more services on attractive routes and departures. The tracks are full to capacity. To enable more people to choose SJ and the train, we are therefore operating longer trains when we can. New X 2000s, which will enter service starting in 2020, will have room for more passengers. Our price structure is also designed to fill trains through lower ticket prices on less popular departures.

Over the next few years, we will be investing around SEK 12 billion in more, latest-technology trains. In our role as Sweden's biggest passenger train operator, we argue that investments also need to be made in maintaining Sweden's railways and that new tracks need to be laid quickly to enable more passengers to be carried and to improve punctuality.

## A more market-driven rail network

The Swedish railway industry is deregulated and so is completely open to competition. This makes great demands of operators to be innovative and competitive, in turn strengthening the position of rail relative to other modes of transport. The fact that we have been able over time to offer more departures to choose from at lower ticket prices is to the benefit of the rail industry, society, the environment and, not least, our passengers.

There are several barriers to cross-border rail services in Europe. The EU's Fourth Railway Package is intended to reduce the technical barriers and create a common deregulated railway market. To a certain extent, Sweden has been seen as a model as to how this should work. From 2020, it is to be possible to apply for train paths and capacity for commercial passenger services throughout the EU.

However, for a transitional period there are possibilities for national exemptions from the Fourth Railway Package, and so opening up of the market may take time in several countries. Tendered services that run the risk of negative impact from new commercial services may, for example, be protected by special regulations. In addition, national operators may have major areas of operations protected from competition via direct tendering.

**How SJ is responding:** Competition makes us focus on what passengers most attach value to, such as travelling times, connections, simple booking and payment procedures and information on the service situation.

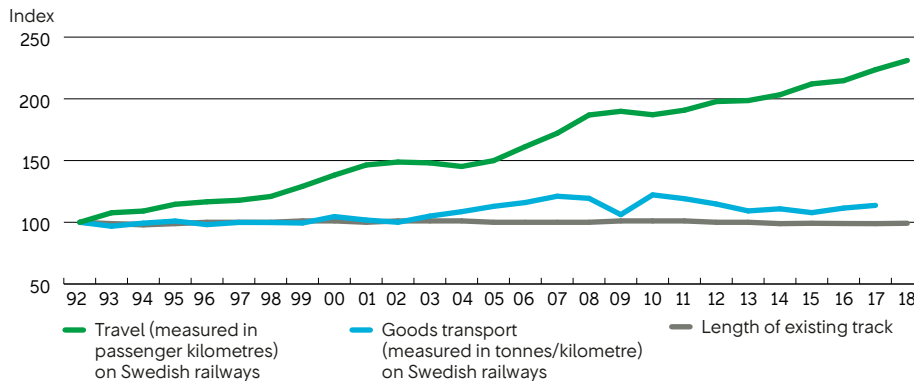
In order to be competitive, we are working smarter. Improved processes and digitisation are enabling us to cut our costs, making lower ticket prices possible. By developing our operations in our neighbouring countries, we are making it possible for more passengers to benefit from SJ's accumulated structural and knowledge capital. This will enable us to retain and increase SJ's long-term competitiveness in Sweden. By demonstrating favourable experiences from deregulation in Sweden, we can influence more countries in opening up their markets.

SJ takes an active role in Tågforetagen (the Swedish rail industry and employer association) and in the Community of European Railway and Infrastructure Companies (CER), in creating solutions and regulatory systems that benefit both rail operators and passengers. CER is the most important organisation for collaboration among rail companies in Europe.



## Trends

### More and more passengers and goods are being squeezed onto Sweden's rail network



Rail travel has more than doubled since the start of the 1990s. At the same time, the total length of lines has been reduced.

Index: 100 = 1992  
Source: Transport Analysis government agency

## Trains are needed if we are to achieve our climate goals

Rail is the most energy-efficient mode of transport, and its impact on environment is low, as 78 percent of the public rail network in Sweden is electrified and most trains are driven by electricity. Rail and SJ therefore have a vital role to play in enabling Sweden to achieve its climate goal.

Trains can carry many people directly from one town centre to another. In addition, railways occupy little space. A double rail track has the same capacity as a 15-lane motorway.

**How SJ is responding:** All SJ journeys are certified under the Swedish Society for Nature Conservation's "Good Environmental Choice" label on the basis that we use renewable electricity and otherwise satisfy the other requirements for that certification. Our biggest contribution to a sustainable society is therefore to seek to increase rail travel, for example via a broader offering and better punctuality.

We are further honing our energy efficiency – and punctuality – via our own, in-house developed tools for eco-driving.

**1** flight leaves a carbon footprint equivalent of **40,000** train journeys.\*

\*Benchmark journey: Stockholm-Gothenburg. Read more about how we calculate this at [sj.se/en/about-sj/climate-friendly.html](https://sj.se/en/about-sj/climate-friendly.html)

## Digitisation is making rail travel simpler and more reliable

Customers expect that any digital contact with a company should be at least as good as physical dealings, and permanently available at all times everywhere. Digitisation is also creating the scope for new ways of working.

Linking up various components on trains and on tracks makes maintenance easier and more efficient by enabling data transmitted to provide information in good time about whether something needs to be repaired or replaced. The current digitisation of Sweden's rail network is further improving safety and helping services to become more punctual.

**How SJ is responding:** We aim to be Sweden's most highly digitised enterprise. Digitisation at SJ is being driven on a cross-functional basis so that we can learn from each other and coordinate activities. In the long term, we see major potential for generating new business.

Digitisation of SJ's customer channels has been a demand from our customers and passengers, who expect SJ to be available at all times. Our employees use digital tools to maximise efficiency in their day-to-day work and virtual reality (VR) adds to the flexibility and authenticity of our train operating courses.

We use 3D printing to make and, in some cases, improve spare parts that are no longer available, at lower unit cost and faster than if a supplier were to set up the manufacturing process just for us.

SJ's new trains will be among the most intelligent vehicles in Sweden. Certain components are already linked up today, enabling us to get maintenance done more efficiently. This is equipping us better for delivering punctuality and good comfort on journeys with SJ.

**Our most important stakeholders of all are our customers, passengers and employees.**

## We develop via dialogue with our stakeholders

We improve, modify and clarify our offering. This is based on the constructive dialogue that we maintain with our stakeholders. Individuals, organisations and companies rightfully make high demands of us, and expect more than just a smooth journey.

Many stakeholders are affected by SJ's rail services. As a result, we have chosen to frame our stakeholder dialogue as broadly as possible to gain a wide variety of perspectives. Our most important stakeholders of all are our customers, passengers and employees.

We are expected both to take responsibility for our overall impact on people and the environment, and to generate value for society. To be able to live up to the requirements and expectations placed on us, we need to understand which issues are important to our stakeholders. Our close dialogue with stakeholders is based on mutual trust, respect and openness and gives us valuable insight into how to further develop our offering.

### Major issues in 2019

Safety, punctuality and service information were the three issues that in 2019 were most important to SJ's stakeholders.

The improvements we introduced to our offering, in conjunction with a growing debate within society on climate changes were factors underlying a continuing rise in travel with SJ. Against that background, the approximately SEK 12 billion investments in more, latest-technology trains that we intend to make over the next few years attracted considerable attention. There was considerable curiosity and many wishes were expressed as to how the trains should be designed and which lines they should operate on.

Read more about SJ's materiality analysis on page 99.





Stakeholder	Issues in focus 2019
<b>Customers/passengers:</b> Our customers and passengers are our most important stakeholders, and our relationships with them are crucial to SJ's continued success and growth.	Further improved service communication, development and improvement of our digital channels and enhanced personalisation of offerings and communication and contact with passengers. Administrative processing for our contract customers reduced and simplified. The train as the climate-friendly way to travel.
<b>Employees:</b> SJ is its employees. Our employees' commitment and performance is decisive, in terms of solid service delivery and customer satisfaction. SJ must offer a safe and stimulating workplace.	Continued focus on a healthy workplace and healthy employees. Sharper focus on reducing threats and violence from passengers in the work environment.
<b>Swedish Transport Administration (STA):</b> STA is SJ's most important supplier and partner in Sweden, in providing efficient train journeys to passengers. This collaboration includes strategic work on train scheduling and maintenance on the rail network, as well as operational work on service conditions.	Improved punctuality and regularity in the railway system. More accurate forecasts during service disruptions. Actions to prevent trespassing. More effective planning and performance of maintenance tasks. Take speed restrictions arising from infrastructure inadequacies into account in the forthcoming train timetable, or even more preferably rectify inadequacies and then remove the temporary speed restrictions.
<b>Owner:</b> SJ is 100 percent owned by the Swedish State. The overriding objective for the owner is that SJ's operations should be conducted efficiently, with a long-term and sustainable approach, to ensure the best possible value creation.	Follow-up on sustainable enterprise and financial targets.
<b>Public Transport Authorities (PTAs):</b> SJ operates commercial services and services on behalf of PTAs, mainly regional. SJ's services therefore contribute to regional transport provision programmes in the form of both commercial and publicly-funded rail services.	Quality, robustness and punctuality. Passenger satisfaction and service offerings that are optimised for passengers and are also cost-efficient. SJ's fleet planning, based partly on reinvestments in X 2000s, and partly on the Board's policy decision on investment in new regional trains.
<b>Suppliers/partners:</b> To be able to deliver and develop travel experiences that our customers and passengers appreciate, we work actively and on a long-term basis with our suppliers and partners.	Punctuality, sustainability, efficiency. Surveying of our perceived capacity for cooperation and establishment and development of in-depth partnerships. IT security. Swedish Procurement within the Water, Energy, Transport and Postal Services Sectors Act (LUF). Protection of personal data.
<b>Legislators:</b> Decisions on new legislation, infrastructure, taxes and charges that impact the railway system and SJ's competitiveness. SJ regularly takes part as a consultation body in commissions of inquiry and during the drafting of new legislation.	Social, economic and environmental sustainability. National infrastructure plan for 2018-2029. A new generation of main lines. Regional development plans. The EU's new General Data Protection Regulation (GDPR). Digitisation. Shared ticketing arrangements. The EU's Fourth Railway Package.
<b>The media:</b> SJ aims to operate and be perceived in public dialogue as a transparent, open and proactive force. Our relationship with the media plays a pivotal role here. SJ also has an active presence in social channels.	"The Swedish Alternative", travel inspiration for rail holidays in Sweden. Sharply higher train travel, adaptation of train timetable for connections with trains to the continent. Policy decision on investment in new regional trains.
<b>Associations/organisations:</b> SJ works with associations and organisations to develop rail journeys and together create the sustainable travel of the future.	Service offering – number of departures, departure times and accessibility. SJ's investments in trains.

# We are developing our services

SJ operates from Narvik in the north to Copenhagen in the south, from Stockholm in the east to Oslo in the west. We operate both commercial and tendered passenger train services, which makes us more competitive in both markets. During 2020, we are expanding our operations, as we take on responsibility for the Öresundstågen service and the Trafikpaket Nord service in Norway.

Tendered services accounts for just over half of the Swedish rail market. As a result, SJ has for many years competed with major international train operators in our domestic market. This has made us customer-focused, more efficient and well equipped to meet competition not only on our commercial routes but also for tendered services in Sweden and the other Nordic countries.

## Commercial services

Commercial services are operated on routes that are sufficiently profitable for one or more train operators to choose to service.

Our commercial services are operated under the SJ brand, where we are responsible for development, sales, production and delivery. All SJ AB journeys are certified under the Swedish Society for Nature Conservation's eco-label "Good Environmental Choice". We serve large parts of Sweden, as well as Copenhagen and Oslo.

We strive constantly to further improve our competitiveness so that more passengers opt to travel by rail and with SJ. A simple booking routine in SJ's prize-winning app or on sj.se, frequent departures, short journey times, arrival right in the city centre and our on-board service are valued by more and more passengers, making SJ Sweden's leading train operator.

## Tendered services

Tendered services are an important element of SJ's strategy and we are the biggest player in tendered rail services in Sweden. From June 2020, we will operate the Trafikpaket

Nord service in Norway, our first tendered service operated wholly outside Sweden. Also, from December 2020, we will take on total responsibility for operating and developing the Öresundstågen service, and we will continue to be responsible for the tendered Stockholm–Östersund–Duvud night-train service. On the other hand, as of December 2020, SJ will not be operating the Stockholm–Luleå–Narvik night-train service. In some cases, we operate a tendered service under the SJ brand (for example, the night-train service to and from Jämtland), while in others we operate under the brand of the commissioning agency (for example, Västtågen). In some tendered services in Sweden, we use our own trains but in most we staff and maintain trains owned by the commissioning agency.

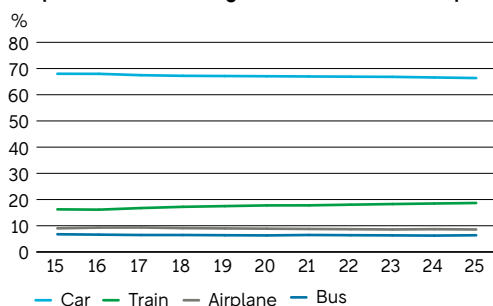
## Robust growth in tendered rail services

The Swedish Public Transport Act enables regional and local transport to be provided in areas where the number of passengers is not sufficient for an operator to operate services profitably. Instead, services may be procured by tender on behalf of regional public transport authorities (PTAs) or the Swedish Transport Administration (STA) and part-funded via taxes. Today, tendered services are the fastest-expanding part of the Swedish rail market in Sweden.

The tendered rail service market in Europe will grow strongly as we go forward. With Sweden as a pioneer, the railway systems in the EU and in Norway are now being deregulated following the introduction of the EU's Fourth Railway Package. Read more on page 6.

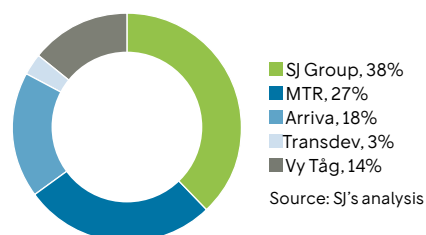
**Increased competition has delivered more departures and lower ticket prices for passengers.**

Respective shares of long-distance travel for transport modes



Source: Swedish Transport Administration (STA), KTH Royal Institute of Technology, SJ's analysis

Estimated market shares in tendered rail services in Sweden, December 2020



Source: SJ's analysis



### Competition leading to an improved offering and lower prices

Our main competitors are the car, domestic flights and other train operators. In Sweden's railway market, there has long been competition in tendered services. Several operators, Swedish and foreign, operate commercial rail services. Our commercial services are also subject to competition from tendered services, which often operate on the same route sections.

In Sweden's deregulated railway market, passengers can choose from several train operators on popular routes. Deregulation has resulted in passengers being offered more departures and lower ticket prices. A broader offering has helped boost rail travel in Sweden, and rail is capturing market shares from other transport modes for domestic journeys.

### Competition above all from foreign and State-owned enterprises

The train operators who have established operations in Sweden have mainly been international, financially powerful, enterprises with State-owned parent companies behind them.

Germany's State-owned Deutsche Bahn company owns Arriva, which operates the Pågatågen and Östgötapendeln services, among others. The French State is the majority shareholder in Transdev, which is operating the Öresundstågen service until December 2020, when SJ will take over. Transdev also operates commercial services in Sweden under the Snälltåget brand. MTR Express and MTR Pendeltågen are part of the MTR Corporation, which is listed on the Hong Kong Stock Exchange. Its majority shareholder is the government of the Hong Kong region. These companies operate commercial services on the Stockholm–Gothenburg line and are responsible for the tendered commuter services in the County of Stockholm. The Norwegian State's Vygruppen owns Vy tåg

(formerly Tågkompaniet), which operates tendered services including Krösatågen and X-tåget.

Before the start of 2020, privately-owned FlixBus announced that the company would on a commercial basis start servicing certain routes in Sweden.

In contrast, Swedish train operators have been prevented from operating trains in other countries under the legislation in force in those countries. The fact that all railway markets in the EU are now being deregulated within the scope of the Fourth Railway Package is an important step in establishing competition on equal terms.

### Many players collaborating in the Swedish rail network

Around 30 public transport authorities and train operators offer rail travel in Sweden. A large number of other players are also active, operating goods trains, providing maintenance services or owning infrastructure and properties. If a disruption occurs, many are affected and need to work together to rectify the problem as quickly as possible and prevent the disruption from spreading. Collaboration is therefore important both in day-to-day operations and on a more strategic level.

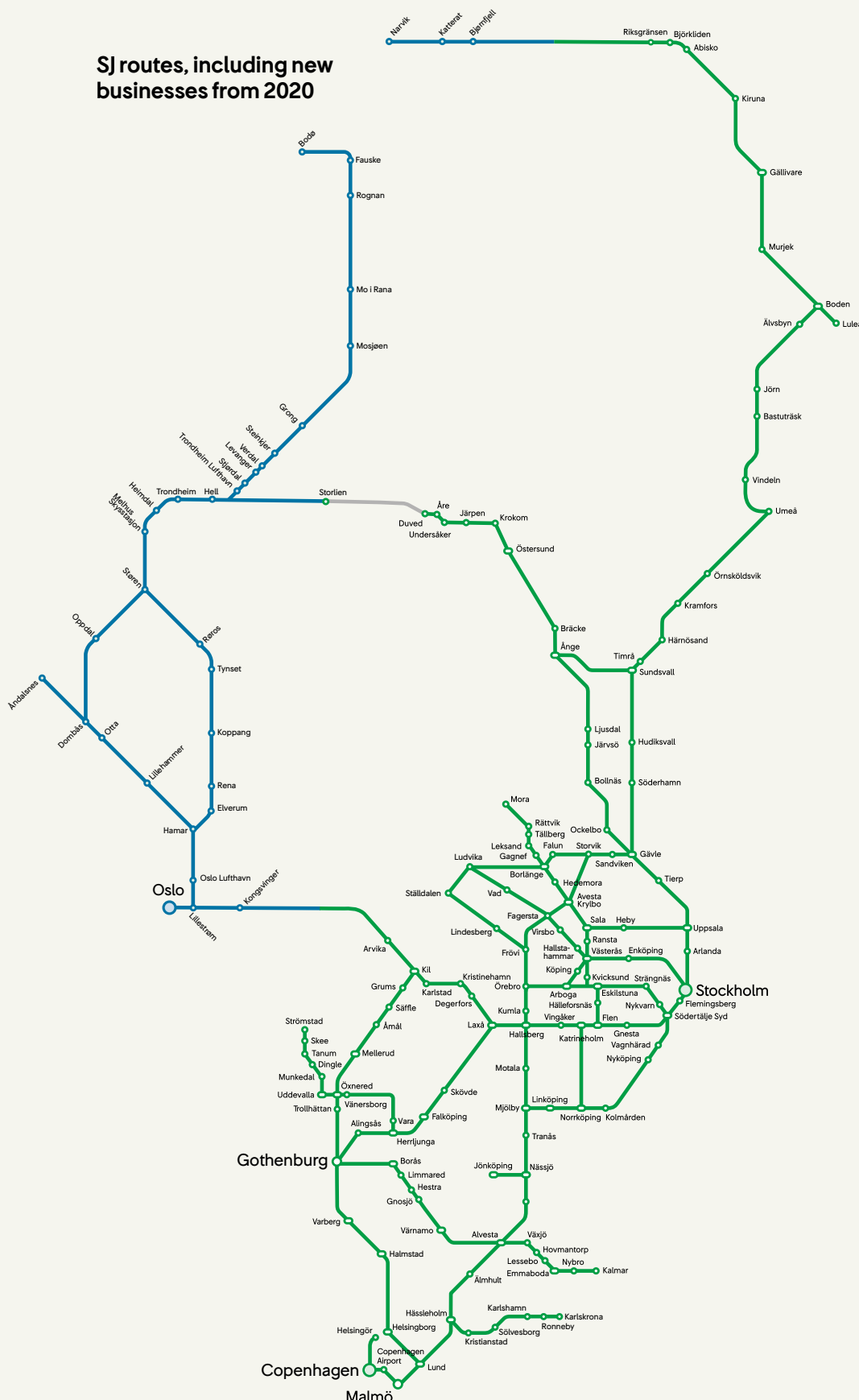
The Swedish Transport Agency is the supervisory authority for Sweden's rail system. It focuses on safety and is responsible for approval and regular follow-up of infrastructure managers, train operators, rolling stock and train drivers. On 16 June 2020, the European Union Agency for Railways (ERA) will assume responsibility for rolling stock approval in the EU.

Swedish Transport Administration (STA) is infrastructure manager for most of Sweden's railway network. STA also produces Sweden's train timetable. Infrastructure managers are responsible for ensuring that the rail infrastructure – including tracks, overhead contact lines and points – is in good condition.



Tåg i Bergslagen is one of SJ's tendered businesses.

## SJ routes, including new businesses from 2020



In 2020, we are operating tendered services under these brands



västtågen



## Railway markets in the Nordic region

**SWEDEN** Deregulation of the Swedish railway market began with competitive tendering in tendered services and was completed in all aspects in 2010. Regional public transport authorities and the Swedish Transport Administration (STA) procure rail services by tender and those who fulfil the requirements may apply for permission to operate commercial services.

Over the past 20 years, rail travel has shown a rising trend in Sweden.

SJ services large parts of the country with an extensive offering in both commercial and tendered rail services.

**NORWAY** For the past year or two, the Norwegian railway market has been undergoing major change. All trains are owned by the State-owned fleet management company Norske Tog. The Norwegian Railway Directorate is tasked with procuring management of the country's rail services in a number of geographical rail service packages. In 2018, the first tendering process was completed. The second and third were completed in 2019, with SJ and Vy, respectively, the winners.

More and more people are opting to travel by rail in Norway.

Today, SJ operates services to Oslo and Narvik, and also ran a service to Halden until the end of 2019. As of June 2020, SJ will take over the Trafikpaket Nord service in Norway.

**DENMARK** Deregulation of Denmark's railway market began 15 years ago, but was put on hold. In 2018, tendering processes were partly resumed. The biggest rail service package in the Nordic region, S-tog (commuter services in Copenhagen), is expected to go out for tender in the 2020s. The Danish State procures all rail services.

Over the past five years, rail travel has declined in Denmark.

SJ operates high-speed services to Copenhagen from Stockholm and Gothenburg. From December 2020, SJ will also operate the Øresundstågen service up to the Danish border and from 2022 to Østerport in Copenhagen.

**FINLAND** Finland has begun the process of deregulating its market with separation of rolling stock, maintenance workshops and stations from the State-owned VR Group. First to be put up for tender will be the commuter service in the Helsinki region, which is to be procured by the Helsinki Regional Transport Authority (HSL/HRT) in 2020. Since the election and change of government in 2019, other tendering processes have been halted and deregulation deferred until the next mandate period.

In Finland, too, rail travel has been on the increase.





# We offer the future of travel

SJ offers the market's most customer-oriented and sustainable travel, both independently and in partnership with others. Through our long presence in both commercial and tendered service markets, we have gained solid experience and can offer end-to-end solutions to procurers and passengers.

The production model for operating punctual trains with good service is basically the same: Trains must be in place and maintained on schedule and as needed, must be manned by correctly trained drivers and train hosts and bistros must be stocked with food and drink. All this means that we have to plan carefully and have expert traffic managers in place who are able if needed to make quick changes so that everything works despite service disruptions.

The same production model forms the basis of both our commercial and tendered rail services. We then make the necessary adjustments in response to the specific conditions of the route or the business.

## Experience is in our DNA

164 years after our first departure, we are still offering the future of travel. SJ has been present throughout the history of the railways in Sweden, and we continue to evolve in close collaboration with customers, passengers and other important stakeholders. According to BearingPoint, we are today the most highly digitised travel company in Sweden and in Europe.

We have a large and growing fleet of trains. We own all the trains we use for commercial services, and over the years have gained wide-ranging experience in how to manage the lifecycle and maintenance of the trains for maximum efficiency.

With a large number of trains and experienced employees in large parts of Sweden – and soon in Norway – we can start up services at short notice if required. We know about running rail services, about what you need and what you do.

## The situation for new main lines in Sweden

According to the January agreement, which is the basis of the government's strategy, new main lines for very high-speed services are to be completed so that Stockholm, Malmö, Gothenburg and the towns and regions between them are linked together. The national plan for 2018-2029 has funds set aside for a start to be made on the first three route sections. SJ's view is that very high-speed trains should operate at no less than 320 kph.

# We are creating sustainable travel for more users

SJ aims to be Sweden's leading rail operator, and to be recognised as one of the best and most in-demand operators in Europe. We will achieve this in close cooperation with our partners and suppliers. Our strategic focus is designed to develop our existing offerings, while at the same time we are creating new areas of business by maximising opportunities that present themselves.

Rail is the most energy-efficient mode of transport and has low impact on the environment. SJ therefore has an important part to play in enabling Sweden to achieve its climate goal. Greater investments in maintenance, strong demand for rail travel and further deregulation in Europe give us reason to see a bright future ahead.

## Vision

SJ – to rely on and look forward to

## Core values

Reliable, Simple, Caring and Wonderful

## Purpose

We bring people closer together, every day

## Mission

SJ's mission is to offer the market's most customer-led and sustainable travel, both independently and in collaboration with others. This means that we have to be best at meeting customer needs – while ensuring that social, environmental and economic responsibilities go hand in hand throughout our organisation.

## Sustainable governance

We control and monitor SJ's operations via six control areas with clearly defined goals. We regularly check that we are moving in the right direction and if necessary take action to ensure that we achieve our goals. SJ is to operate sustainably both now and in the long term.



Employee



Partnership & Resources



Society



Customer



Process



Finance

Read more about the particular control area on pages 18-40.



**Rail is the most energy-efficient mode of transport and has low impact on the environment.**

## SJ is contributing to the global goals for sustainability

The world's leaders have pledged, by 2030, to abolish extreme poverty, reduce inequality and injustice world-wide, and to resolve the climate crisis. To this end, 17 global sustainability goals have been agreed. UNEP, the United Nations Environment Programme, has coordinating responsibility in helping countries to integrate these goals into their national policies and budgets. Businesses are also expected to analyse the goals and identify how their organisation can help in achieving them. For its business plan period 2019-2023, SJ has identified three of the goals where we can contribute and be part of the solution:

### Goal 7: Affordable and clean energy for all

Target 7.3 requires the global rate of improvement in energy efficiency to double by 2030.

**SJ's contribution:** Rail is the most energy-efficient mode of transport today, and will remain so in the future, irrespective of whether other, less eco-friendly modes of transport succeed in reducing their climate impact. The Swedish rail network is crowded and on that basis SJ argues that we need both new rail lines and a better standard for those that already exist. Expansion of capacity will create the scope for more trains and more punctual services.

### Goal 10: Reduced inequalities

Target 10.2 requires all people, irrespective of age, gender, functional variation, race, ethnicity, origin, religion or economic status, shall be included in social, economic and political life.

**SJ's contribution:** We must be an SJ for everyone – not only for our passengers but also in our role as employer with employees across major parts of Sweden.

### Goal 11: Sustainable cities and communities

Target 11.2 requires that by no later than 2030 everyone shall have access to safe, affordable, accessible and sustainable transport systems. This will require improved traffic safety, above all via improved public transport. Target 11.a requires that positive economic, social and environmental links between different areas shall be promoted by strengthening national and regional development planning.

**SJ's contribution:** SJ offers the most energy-efficient and safe mode of transport. We take part in conversations and collaborations at national, regional and local levels to bring about a sustainable transport system. Our timetables make it possible for people to live in one place and work or study in another.



# Directors' Report

The Board of Directors and the Chief Executive Officer of SJ AB (corporate registration number 556196-1599) hereby present SJ's annual accounts and consolidated financial statements for the financial year ending on 31 December 2019.

The Parent Company is a Swedish limited liability company with its registered office in Stockholm, Sweden. The head office is located at Vasagatan 10, SE-105 50 Stockholm, Sweden. SJ AB is 100-percent owned by the Swedish State.

## Significant events in 2019

- Thanks to SJ's structured approach, SJ trains recorded the best punctuality in long distance, middle distance and local services since 2013. As a result of more reliable rail services, the volume of travel<sup>1</sup> was 11 percent higher than in the preceding year.
- Satisfaction among SJ AB's customers has never been higher, and the full-year result for the SJ's Customer Satisfaction Index (CSI) was the highest since the surveys began. The explanation lies above all in better punctuality and other improvements implemented.
- SJ secured two new agreements in tendered services. For eight years starting in June 2020, SJ Norge AS will be responsible for train services on Norway's Dovrebanen and Nordlandsbanen, as well as the five associated branch lines. SJ Öresund AB will be responsible for Öresundstågen services for eight years, starting in December 2020.
- On 25 September, SJ Öresund and Mantena signed a partnership agreement on rolling stock maintenance in the new Hässleholm depot.
- SJ AB's Board of Directors adopted a policy decision to procure around 30 new regional trains, representing an investment of approximately SEK 3 billion. Along with earlier decisions, this will mean SJ investing around SEK 12 billion in more, latest-technology trains over the next few years.
- Under a ruling issued by the European Court of Justice (ECJ) on 28 February, SJ is required to observe the procurement rules laid down in Sweden's Procurement within the Water, Energy, Transport and Postal Services Sectors Act (LUF). SJ has adapted its purchasing process and on 13 December submitted to the EU Commission an application for exemption from LUF with regard to the Swedish railway market.
- SJ AB divested its share of SilverRail Technologies AB to SilverRail Technologies Inc., resulting in a capital gain of SEK 58 million for the Group.
- A restructuring reserve of SEK 76 million was set aside in connection with the efficiency programme SJ is engaged in to secure SJ's competitiveness and financial position.
- In a ruling by the Swedish Competition Authority, the case brought by MTR Express and Saga Rail regarding online sales of tickets via SJ's channels was dismissed. At the same time, the authority recommended that the government should set up an inquiry into ticket sales in commercial rail services. In August, the government appointed an inquiry regarding the establishment of a national ticketing system for all public transport in all parts of Sweden.
- Crister Fritzson, SJ's President and CEO, announced that he would be leaving SJ in spring 2020.
- SJ was re-appointed to operate rail services between Gothenburg and Karlstad (Vänertåg) for eight years beginning in December 2020.

## SJ's operations and market

SJ is a travel partner whose core business consists of passenger services on the rail network. SJ mainly operates in the markets for regional and long-distance travel within Sweden, as well as to Oslo,

Narvik and Copenhagen. SJ operates both commercial and tendered rail services. Rail travel in Sweden is on the up, with demand being driven by population growth and urbanisation, deregulation and internationalisation and increased climate awareness.

Rail is the most energy-efficient and most eco-friendly mode of transport and so is important in enabling Sweden to meet its ambitious climate targets. Major investments are necessary to make Sweden's railway infrastructure more robust and to create the capacity needed to meet demand. Under the January agreement, which forms the basis of the government's strategy, new main lines for very high-speed services are to be completed so that Stockholm, Malmö, Gothenburg and the towns and regions in between are linked together. The national plan for 2018-2029 has funds set aside for a start to be made on the first three route sections.

Sweden's railway sector is open to competition. This makes expansion of services possible and requires all operators to be competitive, which will strengthen the position of rail relative to other modes of transport.

There are several barriers to cross-border rail services in Europe. The EU's Fourth Railway Package is intended to reduce the technical barriers and create a common deregulated railway market. To a certain extent, Sweden has been regarded as a model as to how this should work. From 2020, it is to be possible to apply for train paths and capacity for commercial passenger services throughout the EU. In Norway, Denmark and Finland, deregulation has begun with tendering processes completed, ongoing and planned.

## Uncertainties

SJ's tendering process for new train protection systems for X 2000s and others has been referred for review to the Administrative Court in Stockholm. The new train protection system is required to enable services to be operated via the EU's new standardised European Railway Traffic Management System (ERTMS). According to the Swedish Transport Administration's plan, ERTMS is to be installed on the Southern Main Line by January 2023.

At the time the ECJ announced its ruling to the effect that SJ's operations fell within the scope of the obligation to invite tenders under LUF, SJ had been engaged in the tendering process for a new train protection system for just over two years. If SJ were to have restarted the tendering process with an advertised procedure in line with LUF, the X 2000 fleet could not be equipped with a new train protection system by January 2023. Against that background, SJ took the view that particular urgency existed and therefore conducted the procurement as a negotiated procedure without prior advertising.

After the procurement was concluded and a contract was signed with the supplier who had submitted the financially most beneficial bid, another supplier lodged an application for review, seeking annulment of the contract. In its ruling, announced on 10 March 2020, the Administrative Court dismissed the supplier's application for review. In the Court's view, SJ was entitled to perform the procurement without prior advertising since the procurement was absolutely necessary and particular urgency applied.

## Anticipated future developments

SJ aims to be Sweden's leading rail operator, and to be recognised as one of the best and most in-demand operators in Europe. Striving to increase rail travel is a key element of SJ's strategy to expand its business and generate strategic growth, in both commercial services and tendered services. In 2019, travel with SJ was 11 percent higher than in the preceding year. Over the next few years, SJ will be investing around SEK 12 billion in more, latest-technology trains in order to meet demand.

<sup>1</sup> Volume of travel includes travel with SJ tickets on SJ's independent commercial services and tendered services, excluding season ticket travel on tendered services. However, all travel on season tickets within the scope of the Movingo agreement is included.



SJ is continuously evaluating how the business can grow, by analysing existing and new lines, nationally and internationally. In 2019, SJ secured two of the Nordic region's biggest contracts for tendered services. Under the contracts it will from 2020 assume total responsibility for the Trafikpaket Nord service in Norway and for the Öresundstågen service. The contracts will over time considerably increase SJ's sales.

Several important tendering processes will be held in Sweden, Norway, Denmark and Finland. SJ is carefully evaluating these business opportunities.

## Events after the balance sheet date

SJ's Crisis Management team is monitoring the spread of the coronavirus closely and is following the recommendations of government agencies, including the Public Health Agency of Sweden.

## Sustainability Report: Responsible governance

Corporate sustainability is an integral part of SJ's business model. Starting from our vision, mission, core values and balanced scorecard, SJ's business can be conducted in such a way that our customers and passengers are offered travel that is socially, environmentally and financially sustainable. We use a balanced scorecard comprising six control areas to regularly measure and follow-up where we are in relation to our established goals.

### Overall analysis of outcomes in 2019

Over the year, all SJ's key metrics showed a positive trend, even if not all goals were achieved. Punctuality for SJ services was the highest since the industry-wide target of 95 percent punctuality was adopted in 2013 and the Together for Trains on Time initiative was introduced. Higher punctuality was an important rea-

SJ's Board of Directors and Group Management are following developments very closely and are planning for various scenarios. These plans will be decided on and executed on a step-by-step basis, according to developments and with a long-term focus. The reduced numbers of people travelling will impact negatively on results for both the first quarter and the full year 2020. The impact on financial position and ability to pay is being monitored and assessed on an ongoing basis. It is not possible today to make an assessment as to the extent SJ's operations will be affected.

Given the great uncertainty as to the effects that the coronavirus and measures to curb spread of the infection may have on SJ's operations, the Board has decided to withdraw its former proposal for dividend corresponding to around 30% of the SJ Group's net income for the year. The Board now proposes that instead no dividend be paid for the 2019 financial year.

son why SJ AB's Customer Satisfaction Index (CSI) reached an all-time high. SJ Götalandståg's Passenger Satisfaction Index also improved largely thanks to higher punctuality.

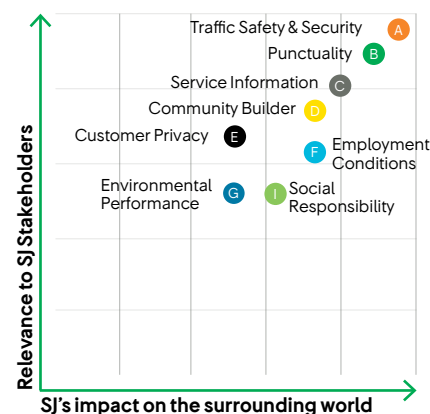
Absence due to illness in the SJ Group continued to fall. The Performance Index strengthened while the Leadership Index remained at the same level as in 2018.

The net debt/equity ratio demonstrates that SJ's capital structure is stronger than stated in the owner's long-term target. SJ is on the threshold of major investments that will increase the level of debt. The Board proposes that no dividend be paid for the 2019 financial year, given the great uncertainty as to the effects that the coronavirus and measures to curb spread of the infection may have on SJ's operations. Return on operating capital exceeded the target.

### SJ's scorecard

	Outcome 2019	Target 2019	Outcome 2018	Target 2020	
<b>Employee</b>					
Absence due to illness, %	4.9	4.8	5.2	4.6	F
Leadership Index	76	77	76	78	F
Performance Index	80	81	79	82	F
Diversity, % from non-Swedish background according to SCB (Statistics Sweden)	17	17	17	18	F
<b>Partnership &amp; Resources</b>					
Number of completed sustainability audits <sup>1</sup>	7	8	5	6	I
Supplier and Partnership Index	8.1	7.6	–	7.8	I
<b>Society</b>					
Traffic Safety Index	96.7	96.5	96.7	96.5	A
Brand Index (BI), SJ AB	53	55	51	58	D
Environmental Index, SJ AB	79	79	77	80	D
SJ Volunteer, SJ AB, no. of hours	1,235	1,000	752	1,500	I G
<b>Customer</b>					
Customer Satisfaction Index (CSI), SJ AB	73	75	69	76	C
Passenger Satisfaction Index <sup>2</sup> (PSI), SJ Götalandståg – commuter services	96	93	95	94	C
Passenger Satisfaction Index <sup>2</sup> (PSI), SJ Götalandståg – regional services	96	94	94	95	C
<b>Process</b>					
Punctuality, long-distance services (long-distance and overnight), 5 min., %	83	93	77	95	B
Punctuality, medium-distance services (regional services), 5 min., %	92	94	88	95	B
Punctuality, local services (commuter services), 3 min., %	94	93	92	95	B
Regularity <sup>3</sup> , long-distance services (long-distance and overnight), %	97	98	96	98	B
Regularity <sup>3</sup> , medium-distance services (regional services), %	97	98	96	98	B
Regularity <sup>3</sup> , local services (commuter services), %	98	98	98	98	B
<b>Finance</b>					
Return on operating capital, %	16.2	>7.0 <sup>4</sup>	11.4	>7.0 <sup>4</sup>	I
Net debt/equity ratio, multiple	-0.14	0.5–1.0 <sup>5</sup>	-0.14	0.5–1.0 <sup>5</sup>	I
The Board's proposed dividend as per appropriation of profit for the year, %	– <sup>6</sup>	30–50	50	30–50	I

### SJ's materiality analysis, relative to the scorecard



**E** The scorecard currently does not include a key metric linked to customer privacy. How SJ treats customer data is described on page 33 and followed up via GRI disclosure 418-1.

<sup>1</sup>In-depth sustainability-based supplier reviews. Desktop audit, extended desktop audit, on-site audit or external inspection.  
<sup>2</sup>Own measurement method, not comparable with figure for SJ AB.  
<sup>3</sup>Indicates the percentage of trains departing from originating station and arriving at terminating station according to the planned timetable valid two days before the day of service.  
<sup>4</sup>Goal to be achieved as an average.  
<sup>5</sup>Goal to be achieved in the long term.  
<sup>6</sup>Given the great uncertainty as to the effects that the coronavirus and measures to curb spread of the infection may have on SJ's operations, the Board has decided to withdraw its former proposal for dividend corresponding to around 30 percent of the SJ Group's profit for the year. The Board now proposes that instead no dividend be paid for the 2019 financial year.

## Responsible governance: Employee

# SJ is its employees



If our employees are well, SJ is well. Our commitment is SJ's strongest competitive advantage. To be able to meet the expectations of our customers and passengers, to perform our tasks and manage any situations that may arise, we need the right conditions, skills, tools and authorisations.



To be able to recruit and retain the best talent, SJ must be an attractive employer. Our aim is to be associated with a clear sustainability profile, recognised good leadership and strong commitment in work environment and health issues.

## Development via dialogue

Dialogue with and involvement of all employees are essential to mutual development. Before we take over contracts for tendered services, meetings with future employees and their organisations are highly prioritised to enable us to be early in meeting together and making the transition as smooth and secure as possible.

Annual performance reviews are part of the employee dialogue, as are accompanied journeys where train hosts and drivers receive coaching. The dialogues aim to set individual targets, clearly linked to SJ's overarching goals, and establish a personal-development plan for all SJ employees.

## SJ's Internal Code of Conduct

SJ's Internal Code of Conduct is based on SJ's core values and lays down guidelines as to how all employees of the Group, including Board members and independent contractors, should act and treat each other and our stakeholders. For example, the Code outlines how we should act to guarantee human rights and maintain good working conditions, and care for the external environment.

The Code of Conduct encompasses all of the Group's relevant policies and guidelines. The Code is based on internationally agreed rules, including first and foremost the ten principles of the UN's Global Compact, and must be known, respected and applied equally for all employees, irrespective of type of employment. Every employee must know where to turn to if victimised. SJ has clearly-defined processes for investigation, rectification and support to the person affected.

The Code of Conduct stipulates zero tolerance of all forms of bribery and incorporates the requirements of the Swedish Anti-Corruption Institute's (IMM) Code on Gifts, Rewards and other Benefits in Business. Violations of the code can be reported to SJ's whistle-blower function. Read more on page 51.

## Significant events in 2019

- Absence due to illness fell to 4.9% (5.2)
- Virtual Reality (VR) was introduced in training courses
- A business-driven development programme for selected employees was started up

In addition, cross-functional dialogues are organised several times a year, in which employees and Group Management discuss current issues. Information is provided at meetings, including workplace meetings, via the intranet, in weekly newsletters and from the employee's immediate superior. On these occasions, current issues are raised, as well as our way forward and rules and routines to ensure that operations are safe and well coordinated.

All employees are covered by collective bargaining agreements.

## Continuous evolution

SJ's ongoing digitisation is affecting both ways of working and tools of work. It brings new requirements but also opens up opportunities, with more repetitive tasks being automated, and working time instead being focused on other value-creating activities.

Our managers' competence in change management and their ability to create conditions conducive to participation, commitment and positive performance are crucial to SJ's ability to adapt. Management training, tailored leadership development initiatives, mentoring and coaching are the building blocks for SJ's leadership development platform, built on the foundations of involvement and dialogue.

The growing SJ Group offers excellent opportunities to develop either within the employee's existing area, or by trying something new. Every year, a comprehensive succession plan is drawn up within the Group, identifying potential successors, critical key roles, talents and future managers. In autumn 2019, Grow, a business-driven development programme for selected employees started in the Group. The programme focuses on personal development and raising understanding of SJ and our world via real work on selected challenges in SJ's business plan.

Courses are arranged at regular intervals for example on handling of our trains, safety, interaction with customers, laws and regulations. Our train drivers are trained by instructors on board trains and in simulators, where a variety of processes and situations can be rehearsed.

In 2019, we introduced Virtual Reality (VR) in our courses for train drivers, train hosts and fleet operators. We have VR stations in 14 locations across the whole of Sweden, making it



**At 14 locations across the whole of Sweden, we have facilities where we can practise operating trains in virtual reality (VR).**

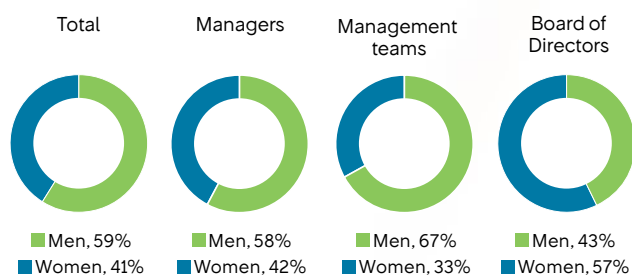
possible to give training in difficult situations, when it is convenient and for as many times as necessary for the operation to be performed safely. With VR, it is possible to train safely for an operation that in real conditions could be dangerous. In addition, we can alter the conditions during practice, for example, add fog or worried passengers.

### Employee survey

Every year, we conduct an employee survey to analyse the work situation and job satisfaction of employees, as well as the conditions for good performance and how leadership contributes. The employee survey is translated into four languages and can be completed via PC, tablet or mobile phone. The outcome per unit is discussed within the group concerned in order to develop suitable activities.

The overall outcome for the employee survey is used in calculating the Performance Index and the Leadership Index. The Performance Index rose in 2019 by one index unit to 80 (79) but was below the target for the year. The Leadership Index remained at the same level as the year before, 76 (76), indicating that the target for the year was not achieved. The variation in outcomes from one department to another is considerable, and SJ continues to develop processes and digital tools to facilitate dialogue for departments with challenges.

### SJ's employees 2019



Figures refer to physical persons on 31 December 2019.



**“An SJ for everyone” means a culture in which everyone – employees, customers and passengers – feels welcome.**

## Diversity

SJ's work in diversity is based on the seven grounds of discrimination in Sweden's Discrimination Act. Our intent is to offer an inclusive workplace climate characterised by respect, security and accessibility. We call this “An SJ for everyone” and are striving to establish a culture where employees, customers and passengers feel welcome. An “SJ for everyone” enriches, creates pride and commitment. With greater diversity, we gain more perspectives and a better understanding of the changing needs of our customers and passengers, helping to boost our competitiveness.

Of SJ's employees in 2019, 17 percent (17) had a non-Swedish background, according to Statistics Sweden's definition. This is the same level as for the preceding year and met the target for the year. For Sweden as a whole, the corresponding figure was 20 percent (19) on 31 December 2019.

## Work environment and health

A balance between work and leisure is the starting-point for our health-promotion programme. Health inspirers out in the organization are local engines of the practical work of health promotion to improve health, well-being and togetherness. We offer a personal health and a wellness allowance for distribution at the workplace.

### A secure and safe work environment

A secure and safe work environment is a prerequisite for healthy employees. In that light, the past year's increase in the number of reported cases of threat and physical violence against our employees is very worrying. Within our industry organisation, in which all major train operators of goods and passenger services participate, we have long worked on reducing the risk of accidents. Since 2014, a group has also focused on safety and preparedness. We also take an active role in other collaboration forums that include the police authority, the Swedish Transport Administration (STA), the regional public transport authorities (PTAs) and other important players.

### Diversity of decision makers and employees

Breakdown of age and gender of employees, by employee categories relevant to SJ on 31 December.

	2019						2018						2017					
	Women			Men			Women			Men			Women			Men		
%	<30	30-50	>50	<30	30-50	>50	<30	30-50	>50	<30	30-50	>50	<30	30-50	>50	<30	30-50	>50
Individual-based pay	5	24	14	5	29	23	5	23	13	5	29	25	5	24	13	5	28	26
Position-based pay	11	18	12	10	27	22	11	18	11	11	25	23	11	19	11	11	24	24
– Train drivers	3	10	3	9	42	33	3	10	3	9	40	36	2	10	3	9	38	39
– Train hosts	14	26	20	9	14	17	15	26	18	9	14	18	15	27	18	9	13	18
Managers <sup>1</sup>	2	27	14	1	33	23	2	28	14	1	33	22	3	28	14	1	29	26
Management team at companies	–	5	28	–	17	50	–	6	44	–	6	44	–	21	32	–	11	37
Board of Directors <sup>2</sup>	–	14	43	–	–	43	–	14	43	–	14	29	–	14	29	–	29	29

<sup>1</sup> In charge of personnel, but not in a management team of a company or a member of Group Management.

<sup>2</sup> Board members elected by the AGM.

Employees on board trains are a category for which work on counteracting threat and violence is of particular urgency. Newly recruited train hosts undergo training in conflict management. One important part of this training is to learn to “back off” from any situation that may escalate into threat or violence. Other preventive actions include on-platform ticket inspection and an internal control team that operates on board on certain routes. Employees can also raise the alarm so that security or the police can be called in. Employees who have experienced a threatening situation or violence have access to internal colleague support personnel for contact and support. External telephone support is available 24 hours a day.

A secure work environment is free of discrimination, bullying and harassment. We have been conducting activities for several years to spread information and raise awareness of what may be discrimination, bullying or harassment and to develop the dialogue between and within various groups. In the 2017–2019 period, no cases of discrimination at SJ were taken to court.

An important aspect of the preventive health programme is early identification of employees at risk of illness, in order to be able to quickly engage support and any actions. All SJ employees have access to the Personnel Support service, with free-of-charge, anonymous specialist advice on both work-related and personal issues.

### Preventive activities for lower absence due to illness

In 2019, absence due to illness in the Group continued to decline thanks to a structured programme, to 4.9 percent (5.2). The target for the year was not achieved. Long-term cases of absence due to illness gradually fell during the year, with an intensive focus on rehab activities aimed at a quick return to work, and short-term absence due to illness also declined.

A steering group and a reference group to reduce sickness absence review routines and processes, and propose new forms of preventive activities. Employees showing repeated short-term absence due to illness are carefully followed up in order, wherever possible, to prevent longer periods of absence.

### Information on employees and other workers

Number	2019		2018		2017	
	Women	Men	Women	Men	Women	Men
Permanent employees	1,536	2,195	1,481	2,155	1,521	2,118
Fixed-term employees	41	60	48	73	48	49
Hourly-paid employees	338	448	338	494	318	481
<b>Total</b>	<b>1,915</b>	<b>2,703</b>	<b>1,867</b>	<b>2,722</b>	<b>1,887</b>	<b>2,648</b>

The figures are taken from the companies' payroll systems and refer to physical persons on 31 December.





## A secure and safe workplace

SJ's systematic focus is applied to the work environment within the scope of the Swedish Work Environment Act, working with the safety organisation, safety representatives and safety committees. SJ's Work Environment Policy is the starting-point for how we should act.

Safety committees operate centrally at SJ, as well as at divisional level and locally in the organisation. To acquire basic knowledge and to keep updated, safety representatives and managers receive instruction in laws and regulations on work environment and safety. Managers and leaders at SJ carry out an annual review of legal compliance in which they confirm their knowledge of work environment legislation.

Reporting of work environment observations, near-accidents and occupational injuries are important in ensuring that work on improvements to the work environment and safety is carried out in a structured way. Employees in production report work environment events via an app, while administrative personnel can report using a computer. Observations and incidents reported pass to the manager responsible to be actioned. Any events occurring over a period, along with measures taken, are reported to safety committees at various levels. Serious deviations may also be reported to SJ's whistle-blower function, with guaranteed anonymity.

Safety inspections are conducted at least once a year, or as necessary, to ensure that our employees have a secure and safe workplace. On completion of each safety inspection, a safety report incorporating observations is drawn up. Risk analyses are carried out in consultation with safety representatives ahead of any operational changes or the introduction of new technology. Findings from safety inspections and risk analyses are followed up via safety committees. Every year, SJ conducts all-inclusive risk assessments in all parts of the organisation. The aim is to identify the most serious risks from an organisational/social or physical perspective.

In the presence of major acute work environment risks that may lead to serious danger to life or health, safety representatives may, under work environment legislation, halt work pending a decision by the Work Environment Authority. Individual employees may also, under the same legislation, stop work if there is a material risk to life or health, pending a decision from the manager responsible.

### New employee hires and employee turnover

	2019		2018		2017	
	Women	Men	Women	Men	Women	Men
<b>Number of new recruits</b>	<b>199</b>	<b>238</b>	<b>163</b>	<b>278</b>	<b>135</b>	<b>213</b>
<30 years	85	83	80	99	66	69
30–50 years	75	120	62	144	52	104
>50 years	39	35	21	35	17	40
<b>Number of employees leaving</b>	<b>123</b>	<b>140</b>	<b>157</b>	<b>170</b>	<b>152</b>	<b>210</b>
<30 years	21	21	33	30	47	26
30–50 years	64	59	79	75	68	65
>50 years	38	60	45	65	37	119

	2019		2018		2017	
	Women	Men	Women	Men	Women	Men
<b>New recruits, %</b>	<b>4.3</b>	<b>5.2</b>	<b>3.6</b>	<b>6.1</b>	<b>3.0</b>	<b>4.7</b>
<30 years	1.9	1.8	1.7	2.2	1.5	1.5
30–50 years	1.6	2.6	1.4	3.1	1.1	2.3
>50 years	0.8	0.8	0.5	0.8	0.4	0.9
<b>Employees leaving, %</b>	<b>2.7</b>	<b>3.1</b>	<b>3.4</b>	<b>3.7</b>	<b>3.4</b>	<b>4.6</b>
<30 years	0.5	0.5	0.7	0.7	1.0	0.6
30–50 years	1.4	1.3	1.7	1.6	1.5	1.4
>50 years	0.8	1.3	1.0	1.4	0.8	2.6

New recruits and employees leaving are calculated solely on the basis of permanent employees. Internal Group relocations and employee transfers at commencement or termination of contracts for tendered services are excluded.

### Security and safety of employees

	2019	2018	2017
Number of reported accidents (excl. illness, travel accidents)	632	383	339 <sup>1</sup>
Reported accidents per total number of hours worked, %	0.011	0.006	0.006 <sup>1</sup>
Number of near-accidents reported	1,026	769	539 <sup>1</sup>
Reported near-accidents per total number of hours worked, %	0.017	0.013	0.009 <sup>1</sup>
Number of fatal accidents	0	0	0
Number of days of absence due to illness	33,581	33,740	31,913
Reported occupational diseases	48	44	— <sup>1</sup>
Absence due to illness, %	4.9	5.2	5.4

<sup>1</sup> The outcome was affected by lack of clarity in definitions.

The probable reason for the increase in the number of accidents and near-accidents reported is that we emphasise the importance of the employee reporting for SJ to be able to take remedial action.

Occupational injuries and near-accidents are those that occurred during the year indicated (that is, not necessarily reported in the year when they occurred).



due to illness. We take a focused and long-term approach to rehab plans, working closely with the company health service to enable employees on long-term absence due to illness to return to their duties as quickly as possible. Of rehab cases completed in the period March 2017–December 2019, 85 per cent are back at work.

### We need more people

Retirements and natural attrition among train drivers and train hosts, combined with increased rail travel and new businesses in tendered services, are creating a major need for new recruitment. Changes in ways of working are creating a need for new expertise, not least in digitisation.

In late 2019, we made preparations for recruitment of around 100 train engineers in collaboration with the maintenance contractor, along with around 100 new train hosts as SJ prepares to take over the Öresundstågen service in December 2020. SJ Norway will need to recruit more train hosts and train drivers to fill a residual requirement following a transfer of business from a former operator.

As a way of reinforcing SJ's image as an employer, we also operate a trainee programme for recent university graduates. We present at exhibitions and universities and offer internships, for example via the Tekniskprången initiative.

Contract personnel are engaged to a very minor extent. Such personnel include customer hosts during service disruptions. SJ does not employ seasonal workers either, although holiday replacement personnel are taken on during the summer. When contracting personnel or engaging consultants, the process is open and carried out in consultation with the employee organisations, in line with Swedish legislation (MBL, the Co-determination in the Workplace Act).

Why this key metric?	What we did in 2019	Target and outcome	What we are planning for 2020												
<h3>Absence due to Illness</h3> <p>In any long-term sustainable business, employee health is a crucial factor. Employee health is an important indicator of both well-being among SJ's employees and the overall state of the Company, as well as of the state of the work environment and the climate of cooperation. This measure is important from both the employee and the economic perspective.</p>	<ul style="list-style-type: none"><li>Continued collaboration with company health service, with closer focus on short-term absence due to illness via, for example, targeted health and work environment profiling.</li><li>Evaluated initiatives performed, for example health and work environment profiling</li><li>Reviewed the need for health-promotion initiatives and activities as part of an initiative to prevent absence due to illness</li><li>Continue to train managers in the rehab process and tools associated with the initiative to reduce absence due to illness</li></ul>	<table><caption>Absence due to illness (%)</caption><tr><th>Year</th><th>Value (%)</th></tr><tr><td>2015</td><td>~6.5</td></tr><tr><td>2016</td><td>~6.5</td></tr><tr><td>2017</td><td>~5.5</td></tr><tr><td>2018</td><td>~5.2</td></tr><tr><td>2019</td><td>~4.8</td></tr></table> <p>Target 2019: 4.8</p>	Year	Value (%)	2015	~6.5	2016	~6.5	2017	~5.5	2018	~5.2	2019	~4.8	<ul style="list-style-type: none"><li>Focus on short-term absence due to illness in collaboration with company health service in order to analyse causes of short-term absence due to illness</li><li>Analyse absence due to illness linked to situations of threat and violence</li><li>Conduct and follow up activities emerging from work on health and work environment profiling</li><li>Continue to train managers in the rehab process and tools associated with absence due to illness to ensure that work on prevention and rehab is performed in a uniform way throughout the Group</li></ul>
Year	Value (%)														
2015	~6.5														
2016	~6.5														
2017	~5.5														
2018	~5.2														
2019	~4.8														
<h3>Leadership Index</h3> <p>Leadership is crucial to our being able to achieve our targets. Managers must ensure that all employee expertise is applied to best effect in developing SJ. This capacity is measured using the employee survey's Leadership Index.</p>	<ul style="list-style-type: none"><li>Conducted training to improve communication abilities of leaders</li><li>Continued to develop leadership support to strengthen internal dialogue</li><li>Continued activities such as basic and further training for managers, coaching and mentorship</li><li>Started up a business-driven development programme for employees identified and future managers</li></ul>	<table><caption>Leadership Index</caption><tr><th>Year</th><th>Value</th></tr><tr><td>2015</td><td>~68</td></tr><tr><td>2016</td><td>~68</td></tr><tr><td>2017</td><td>~75</td></tr><tr><td>2018</td><td>~75</td></tr><tr><td>2019</td><td>~77</td></tr></table> <p>Target 2019: 77</p>	Year	Value	2015	~68	2016	~68	2017	~75	2018	~75	2019	~77	<ul style="list-style-type: none"><li>Targeted and tailored initiatives to support leaders within the organisation</li><li>Continue to develop apps within the framework of the employee survey to enable systematic follow-up and dialogue linked to activities at group level</li></ul>
Year	Value														
2015	~68														
2016	~68														
2017	~75														
2018	~75														
2019	~77														





Why this key metric?	What we did in 2019	Target and outcome	What we are planning for 2020														
Performance Index																	
Sj's ability to create conditions conducive to employee performance is crucial to the attainment of our targets. It also benefits health performance figures – employees who are able to do a good job feel healthier.	<ul style="list-style-type: none"><li>Introduced new scheduling arrangements for on-board personnel to enable employees to choose which suits them best</li><li>Introduced the digital workplace with increased facilities for collaboration and training in new tools</li><li>Start made on development of a new uniform based on wishes expressed by employees dealing with customers</li><li>Implemented robotic process automation (RPA) to perform monotonous tasks</li><li>Introduced Virtual Reality (VR) in train operating courses</li></ul>	<table><thead><tr><th>Year</th><th>Value</th></tr></thead><tbody><tr><td>2015</td><td>74</td></tr><tr><td>2016</td><td>74</td></tr><tr><td>2017</td><td>78</td></tr><tr><td>2018</td><td>78</td></tr><tr><td>2019</td><td>80</td></tr><tr><td>Target 2019</td><td>81</td></tr></tbody></table>	Year	Value	2015	74	2016	74	2017	78	2018	78	2019	80	Target 2019	81	<ul style="list-style-type: none"><li>Continue to introduce new scheduling arrangements for on-board personnel to enable employees to choose which suits them best</li><li>Develop a new uniform</li><li>Provide managers and safety representatives with access to clickable statistics on work environment incidents to facilitate follow-up and remedial action</li><li>Issue personal alarms to customer hosts</li><li>Continue to develop apps within the framework of the employee survey to enable systematic follow-up and dialogue linked to activities at group level</li><li>Embed Sj's core values and leadership model in our new subsidiaries</li></ul>
Year	Value																
2015	74																
2016	74																
2017	78																
2018	78																
2019	80																
Target 2019	81																
Diversity																	
Diversity provides new experience and perspectives, which feed through into greater competitiveness. This key metric illustrates how well Sj reflects the composition of society.	<ul style="list-style-type: none"><li>Worked systematically to reach out to target group of jobseekers with a non-Swedish background</li></ul>	<table><thead><tr><th>Year</th><th>Value (%)</th></tr></thead><tbody><tr><td>2017</td><td>15</td></tr><tr><td>2018</td><td>17</td></tr><tr><td>2019</td><td>17</td></tr><tr><td>Target 2019</td><td>17</td></tr></tbody></table>	Year	Value (%)	2017	15	2018	17	2019	17	Target 2019	17	<ul style="list-style-type: none"><li>Continue to work systematically to reach out to target group of jobseekers with a non-Swedish background</li><li>Work actively to combat victimisation and discrimination</li></ul>				
Year	Value (%)																
2017	15																
2018	17																
2019	17																
Target 2019	17																

## Responsible governance: Partnership &amp; Resources

# Together, we deliver climate-friendly travel

Many players operate in Sweden's railway market, each with their unique role and responsibility. SJ co-operates closely with suppliers and partners to be able to develop, deliver and constantly improve the SJ travel experience, based on the wishes of customers and passengers. Our most important supplier and partner in collaboration is the Swedish Transport Administration (STA).



STA owns and operates the major share of Sweden's railway infrastructure and is responsible, for example, for allocation of train paths (track time) and for departure and arrival information in waiting rooms and on platforms. SJ collaborates strategically with STA on train scheduling and maintenance on the rail network, as well as operationally on current service conditions.

As part of SJ's preparations for taking over responsibility for operating and maintaining the Öresundstågen service in December 2020, SJ Öresund and a maintenance contractor have entered into a partnership agreement. The rolling stock will be maintained in the new depot now being built at Hässleholm by Region Skåne.

## National and international industry collaboration

SJ focuses actively on developing collaboration between players in the Swedish and European railway industry. A collaboration forum for the railway industry, Järnvägsbranschens Samverkansforum (JBS), has for several years conducted a programme to jointly drive improvements to develop the robustness, competitiveness and profitability of Sweden's railway industry. Part of the collaboration takes place within the Together for Trains on Time (TTT) initiative, where the long-term focus is to improve punctuality and minimise the impact of disruptions.

In collaboration with country transport corporations, SJ offers "Resplus" tickets. These combine different modes of transport

## Significant events in 2019

- SJ adjusted its purchasing process to LUF, following a ruling by the European Court of Justice and has submitted an application for exemption for the Swedish railway market
- SJ divested its minority stake in SilverRail Technologies
- SJ Öresund signed a partnership agreement on maintenance of trains on the Öresundstågen service

and/or operators to enable passengers to enjoy a coordinated public transport journey with an arrival-at-destination guarantee.

SJ takes an active role in the Swedish rail industry and employers association Tågforetagen and in the Community of European Railway and Infrastructure Companies (CER) in creating solutions and regulatory systems that benefit both rail operators and passengers. CER is the most important organisation for collaboration among rail companies in Europe. SJ CEO Crister Fritzson served from 2017 to February 2020 as Chairman of Tågforetagen (the Swedish rail industry and employers association, formerly the Association of Swedish Train Operating Companies) and Chairman of CER.

## Important suppliers

Procurement falls into the categories of day-to-day purchases and investments. Day-to-day purchases consist, above all, of train maintenance, on-board catering for passengers, hotel accommodation for train drivers and train hosts, replacement buses, marketing, IT services, rolling stock care (including cleaning), leasing of premises, consultancy and other services. We invest heavily in trains, IT platforms and systems. Read more on pages 38-39.

## SJ is a member of the following organisations:

- Industry association ALMEGA Spårtrafik, [www.almega.se](http://www.almega.se)
- Tågoperatörerna (the Association of Swedish Train Operating Companies), [www.tagoperatorerna.se](http://www.tagoperatorerna.se)
- Swedish rail industry and employer association Tågforetagen, [www.almega.se](http://www.almega.se)
- The Community of European Railway and Infrastructure Companies (CER), [www.cer.be](http://www.cer.be)
- CSR Sweden, [www.csrsweden.se](http://www.csrsweden.se)
- The International Union of Railways (UIC), [www.uic.org](http://www.uic.org)
- Jernbanevirksomhetenes Sikkerhetsforening (JVSF) (Norway's Railway Operators' Safety Association)
- Järnvägsbranschens Samverkansforum (JBS) (Collaboration Forum for the Railway Industry), [www.trafikverket.se/for-dig-i-branschen/samarbete-med-branschen/jarnvagsbranschens-samverkansforum/](http://www.trafikverket.se/for-dig-i-branschen/samarbete-med-branschen/jarnvagsbranschens-samverkansforum/)
- Nätverket för Transporter och Miljön (NTM) (Network for Transport and Environment), [www.transportmeasures.org/sv/](http://www.transportmeasures.org/sv/)
- Nätverket för Hållbart Näringsliv (NMC) (the Swedish Association for Sustainable Business), [www.nmc.a.se](http://www.nmc.a.se)
- Nätverket för hållbart företagande, för statligt ägda bolag (Network for Sustainable Enterprise at State-Owned Companies)
- Svensk Kollektivtrafik (SLTF) (the Swedish Public Transport Association), [www.slutf.se](http://www.slutf.se), associated member
- TransportForskAB (TFK), [www.tfk.se](http://www.tfk.se)



SilverRail Technologies manages ticket booking and distribution of SJ tickets. In 2019, SJ sold its 25 percent stake in SilverRail on the basis that a sales system that is used in major parts of the industry should not over time be owned by any individual train operator.

Operation and development of SJ's IT systems are managed by an external party. Other important suppliers are property owners that lease out depots and waiting rooms. Maintenance contractors ensure that our trains are serviced and repaired as needed and in accordance with the rolling stock's maintenance schedule.

Under a ruling issued by the European Court of Justice (ECJ) in early 2019, SJ is required to observe the procurement rules laid down in Sweden's Procurement within the Water, Energy, Transport and Postal Services Sectors Act (LUF). As a result, SJ has adjusted its purchasing process. At the same time, it is our view that the Swedish railway market is fully deregulated and open to competition. The rules on procurement are not intended to be applied in markets where competitive pressure in itself causes public funds to be used in a responsible and efficient way. On that basis, SJ submitted an application on 13 December 2019 to the EU Commission for exemption from LUF in the Swedish railway market.

## Responsible purchasing

SJ procures goods and services annually to a value of around SEK 6 billion from around 2,300 suppliers. The SJ Group's Supplier Code of Conduct is based on internationally accepted initiatives and standards, and lays down the Group's fundamental

policies on human rights and working conditions, the environment and business ethics.

Our Code of Conduct enables more in-depth dialogue between SJ and our suppliers, in order to mutually develop knowledge in areas such as working conditions and human rights. The Code of Conduct extends to all parts of the supply chain.

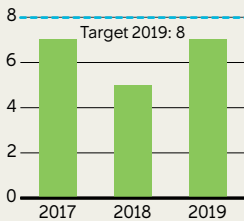
In the case of purchase or procurement for more than SEK 0.5 million, or where there are geographical or industry-specific factors at play according to SJ's classification of risk, an exhaustive, sustainability-based assessment of the supplier is performed. If any of our suppliers should fail to comply with the Code of Conduct, this could not only cause personal injury or damage to the environment, but also tarnish SJ's brand.

SJ is signed up to the Code of Conduct on Payment Times, an initiative from the Ministry of Enterprise and Innovation in dialogue with the business sector. The main rule in the Code of Conduct is that invoices from small and medium-sized enterprises should be paid within 30 days.

## Sustainability audits in 2019

During 2019, work on sustainability-based supplier audits focused on suppliers of materials and components for SJ's trains, as well as on suppliers of food and drink to our passengers.

During the year, seven (2018: five) sustainability audits of suppliers were performed, three by an external auditor. A minor number of deviations and observations were noted and have since been remedied. A further audit was ongoing at year-end.

Why this key metric?	What we did in 2019	Target and outcome	What we are planning for 2020								
Number of sustainability audits (in-depth sustainability-based supplier reviews)											
To ensure that our suppliers meet the requirements of SJ's Supplier Code of Conduct.	<ul style="list-style-type: none"><li>Performed sustainability audits, focus areas food and drink, suppliers of materials for SJ trains</li></ul>	 <table><caption>Sustainability audits (in-depth sustainability-based supplier reviews)</caption><thead><tr><th>Year</th><th>Number of audits</th></tr></thead><tbody><tr><td>2017</td><td>7</td></tr><tr><td>2018</td><td>5</td></tr><tr><td>2019</td><td>7</td></tr></tbody></table>	Year	Number of audits	2017	7	2018	5	2019	7	<ul style="list-style-type: none"><li>Perform sustainability audits, focus area hotels, as SJs on-board personnel use overnight hotel accommodation many times every year</li><li>Review and refine routines and processes</li></ul>
Year	Number of audits										
2017	7										
2018	5										
2019	7										
Supplier and Partnership Index											
We measure how our major suppliers and strategic partners perceive us and our capacity to work together in order to improve.	<ul style="list-style-type: none"><li>Interviewed around ten of our major suppliers to gain better understanding of how SJ is perceived as a partner and customer</li></ul>	<div>8.1 (-)</div> <div>Target 2019: 7.6</div>	<ul style="list-style-type: none"><li>Improve perceived response time among our suppliers and partners.</li></ul>								



## Responsible governance: Society

# We connect Sweden and Scandinavia



SJ's most important contribution to a sustainable society consists of persuading more people to travel by train, via an offering that makes climate-friendly travel an easy choice. The train is the mode of transport that has by far the lowest climate impact.



Society rightly has high expectations of SJ as the market-leading passenger train operator. At the 2018 AGM, SJ's mandate was clarified such that we, within the framework of commercial principles, shall contribute towards Sweden's transport policy objectives and thereby achieve long-term sustainable transport provision throughout the country.

## SJ's role in society

Every day, SJ operates 1,220 departures from 291 stations. The rail services we operate independently and on behalf of regional or national public transport authorities connect the towns and regions of Sweden and the capitals of Scandinavia. We make it possible to work or study in one place and live in another, and in that way help to promote growth by enabling businesses to recruit skills from a wider catchment area.

We maintain an ongoing dialogue with municipalities, regions and passengers so that we can adapt services and departures to expressed and local needs. Through our attractive offering, growth in travel<sup>1)</sup> (measured in passenger kilometres) in 2019 was 11 percent, compared with the preceding year. Our dynamic pricing model ensures that tickets are available at a favourable price for passengers who can either make their booking in good time or be flexible with travelling times. The pricing model also ensures that our occupancy rate is high and that we do not operate with empty seats. We work with country transport corporations in being able to offer "Resplus" tickets with an arrival-at-destination guarantee.

SJ has around 4,600 employees. Most are based at staging stations and depots across the whole of Sweden and in 2020 our numbers will swell further when SJ starts running the Öresundstågen service and develops operations in Norway. Our operations and investments in new and existing trains also create jobs

<sup>1)</sup> Volume of travel includes travel with SJ tickets on SJ's independent commercial services and tendered services, excluding season ticket travel on tendered services. However, all travel on season tickets within the scope of the Movingo agreement is included.

## Significant events in 2019

- Travel with SJ increased by 11 percent
- SJ won two major tendering competitions: The Öresundstågen service and the Trafikpaket Nord service in Norway
- SJ's new communication concept "The Future of Travel" was launched
- SJ was once again named as Sweden's greenest brand in the Transport category and Sweden's second greenest brand overall

## SJ's attitude towards tax

As a responsible player in the community, SJ does its utmost to pay the right tax in the right country and at the right time, based on the operations conducted by the Group. To SJ, the Group's tax affairs, and meeting our tax obligations, are important aspects of our control and wider risk management system. We apply a business approach to the tax cost to the companies in the SJ Group at all levels of our decisions, and regard tax as a cost incurred in the business. In cases where legislation and/or regulations are unclear, SJ will take a responsible, long-term and transparent approach with the aim of minimising the risk of error in the payment of tax. Read more about SJ and tax in Note 8.

### Direct economic value generated and distributed

SEK million	2019	2018	2017
Net sales	8,602	7,874	7,780
Income from financial investments	27	4	17
Capital gains	0	0	1
<b>Economic value generated</b>	<b>8,629</b>	<b>7,878</b>	<b>7,798</b>
Operating expenses	-4,213	-4,175	-3,964
Salaries and other remuneration to employees	-2,576	-2,546	-2,423
Dividend to shareholder	-194	-269	-260
Interest expenses	-22	-15	-20
Payments of taxes and other charges	-163	-85	-152
Social investments	-1	-1	-1
<b>Economic value distributed</b>	<b>-7,168</b>	<b>-7,091</b>	<b>-6,820</b>
<b>Total economic value</b>	<b>1,461</b>	<b>787</b>	<b>978</b>



outside SJ's own organisation, for example in depot services, catering and with rolling stock suppliers.

### A safe journey

A safe and punctual journey and good service are SJ's customer promises, and we always give top priority to safety. Traffic safety is fundamental at SJ and in addition our safety activities take in areas such as security and safety for passengers and on-board personnel, information security and effective preparedness for handling difficult and unpredictable events.

The EU's safety directive and national-level regulations in SJ's markets in Sweden, Denmark and Norway form the framework for the systematic safety work that we perform in the Group and in cooperation with external partners and government agencies.

SJ's employees report deviations, near-accidents and other incidents via a mobile app. Reporting of deviations, near-accidents and other incidents forms the basis of SJ's Traffic Safety Index, which in 2019 came out at 96.7 (96.7). This indicates that the target for the year was achieved. Accidents included in the index were predominantly those involving collisions with animals.

Every quarter we conduct surveys of perceived security and safety among SJ passengers. These surveys help us to identify areas for improvement and put in place the right actions to ensure that everyone feels secure and safe on our trains.

According to the Act implementing the Directive on Security of Network and Information Systems, SJ is an operator of an essential service. Our system of internal controls on information security is to a major extent compatible with the provisions of the law and is updated as practice is established.

### SJ's environmental work

SJ's most important environmental contribution is to get as many people as possible to take the train rather than the car or plane. Rail travel produces minimal emissions of carbon dioxide, as nearly all trains in Sweden are electric-powered and all electricity procured by SJ is from renewable sources, that is, wind power and hydropower. In addition, the aerodynamic design of trains and their ability to carry large numbers of passengers make them very energy-efficient. The railways are also space-efficient in that a double rail track corresponds to a 15-lane motorway in terms of capacity.

SJ AB's journeys are Good Environmental Choice-labelled. This means, for example, that 50 percent of the electricity we procure from the Swedish Transport Administration also carries that label. It is an assurance that the generation of electricity is subject to very high environmental demands, in addition to it being renewably sourced. Also, since 2018 we have been buying 100 percent Good Environmental Choice-labelled electricity for premises where we have separate electricity agreements.

Our main sources of greenhouse gas emissions are replacement services and leakage of refrigerants. Where planned replacement services are used, we set higher environmental requirements than for unplanned disruptions, when our priority is to enable our passengers to continue their journey.

Emissions of carbon dioxide from SJ's operations are minimal and so SJ does not climate-compensate. SJ's view is that climate compensation is complicated and it is hard to identify projects that may be said with sufficient certainty to "compensate" for other emissions, for example by paying for emission reductions that otherwise would not have come about. SJ also sees a risk that climate compensation could detract from the internal

**All SJ AB's journeys  
carry the Good  
Environmental  
Choice label.**

### Energy consumption in 2019

SJ consumes electricity in driving our trains and in marshalling parked trains. Energy consumption by trains is largely determined by speed, weather conditions and the number of halts. SJ has performed a detailed energy analysis and drawn up a short- and long-term action plan.

During 2019, we focused intensively on establishing requirements for energy-efficient functions in new X 2000s and for the procurement of new trains. In addition, in 2019 we modified our routines in order to reduce the energy needed for parked trains.

SJ practises eco-driving and regenerative braking is an important part of our drive for energy efficiency. In 2019, we continued to develop support for drivers in eco-driving, with calculations for arrival times and energy-efficient driving. The new tool will be placed in service in spring 2020.

In-house experts monitor electricity consumption every month. In 2019, consumption rose as a result of increased services.

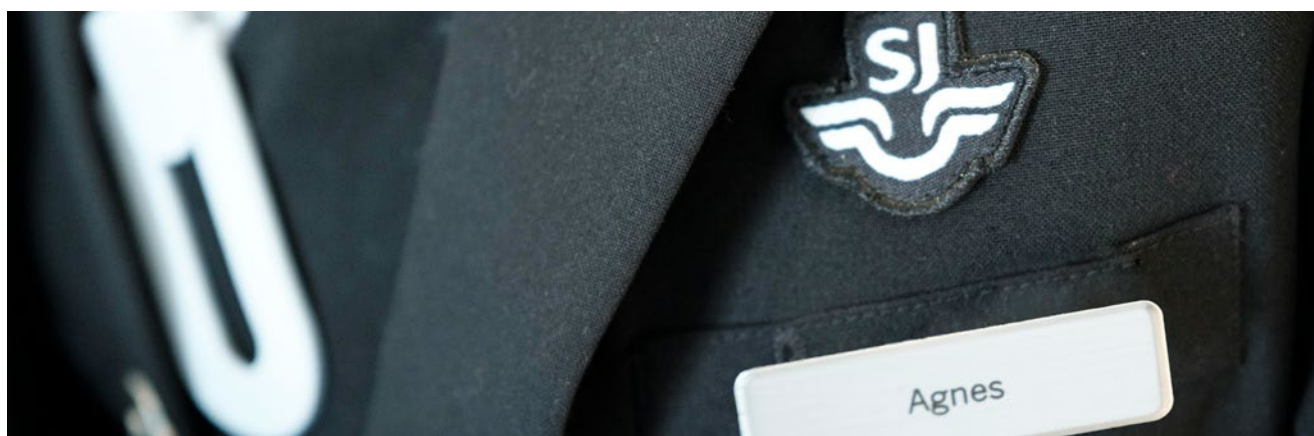
SJ Götalandståg has been operating the Västtågen (West Trains) service on the Kinnekulle Line since 2016. The line is not electrified and trains are diesel-powered. Diesel refuelling facilities have since the turn of the year 2019/2020 been operated by an external party specialising in fuel management for railway operators.

#### Energy consumption, train operations

GWh	2019	2018	2017
<b>Electricity consumption</b>			
SJ AB	584	561	562
SJ Götalandståg	98	92	91
<b>Total electricity consumption</b>	<b>682</b>	<b>653</b>	<b>653</b>
<b>Diesel consumption (GWh, for conversion factors, see page 105)</b>			
SJ Götalandståg, diesel MK1 (not renewable)	10.6	7.4	8.1
SJ Götalandståg, biofuel (renewable)	— <sup>1)</sup>	2.7	2.9
<b>Total diesel consumption (GWh)</b>	<b>10.6</b>	<b>10.2</b>	<b>11.0</b>
<b>TOTAL ENERGY CONSUMPTION (train operations)</b>	<b>693</b>	<b>663</b>	<b>664</b>

SJ does not buy heating, refrigeration or steam.

<sup>1)</sup> No biofuel was used in 2019. The trains had problems with blocked fuel filters and the suspicion is that the problem lies with non-fossil fuel. The issue is under investigation.



work on real emission reductions. We re-assess that decision annually.

An important aspect of our environmental focus on board trains is the food and drink we serve, and SJ's bistro cars have been Level 1 KRAV certified since 2015. We focus day-to-day on reducing food waste, for example by making regular temperature checks.

According to a survey by the consultancy firm Differ, SJ was Sweden's greenest brand in 2019 in the Transport category, a distinction that SJ has been awarded every year since the survey was established in 2008. In the same survey, SJ was also named the second greenest brand in all categories in 2019. We regularly survey our passengers for their view of SJ as an eco-aware company and monitor findings via the Environmental Index key metric. The Environmental Index for 2019 was 79 (77), indicating that the target for the year was achieved. Our climate campaign, the new communication concept "The Future of Travel" (for more, see below) and a focus on the climate issue in society have most likely been factors in this outcome. Environmental considerations remain the single most important reason why our passengers choose to go by rail.

## Perception of the SJ brand

A strong brand improves SJ's chances of attracting customers and passengers today and in the future. We aim always to live up to our customer promises and wherever possible to exceed them. The whole of the customer's journey, from booking to the experience during the journey and all communication, influences the impression given by SJ. Those who travel with us have

a considerably better perception of rail travel with SJ than those who do not.

To change the image of SJ and strengthen our brand, we launched our new communication concept "The Future of Travel" in autumn 2019. The concept highlights the climate advantages of rail and SJ as an innovative, pleasurable, important and reliable organisation.

The Brand Index (BI) is an indicator of how the public and our customers perceive SJ as an organisation on the basis of the core values of Reliable, Simple, Caring and Wonderful. The BI showed improvement through the whole year and for the full year was calculated at 53 (51). The target for the year was not achieved, although the BI for the fourth quarter was on a level with the target.

## High-value collaborations

SJ partners with selected organisations, such as Friends and My Big Day, to deepen and enhance contacts with customers and passengers. Another aim is to support organisations working for a good cause and aiming to make life simpler for our passengers. All partnerships are selected, assessed and evaluated on the basis of whether they strengthen the SJ brand, help to increase travel with SJ and create opportunities for SJ's passengers and employees to engage.

SJ Volunteer enables SJ Group employees to contribute via non-profit work during working hours. The aim is primarily to support and develop community action aimed at children and young persons, and to improve integration. The outcome for SJ Volunteer in 2019 was 1,235 hours (752), indicating that the target for the year was surpassed.

## Greenhouse gas emissions in 2019

The minimal emissions of greenhouse gases from SJ's electric trains are an important competitive advantage over other modes of transport. SJ uses electricity to power its trains but electricity consumption represents a negligible share of the Group's greenhouse gas emissions.

The carbon dioxide emissions that are produced from SJ's operations arise above all through replacement services and leakage of climate-impacting refrigerants from air conditioning systems on trains. Improved punctuality and regularity are the most important actions in terms of reducing SJ's need for replacement services, while improved rolling stock maintenance reduces the risk of refrigerant leakage.

In 2019, SJ AB's carbon dioxide emissions were somewhat lower per passenger kilometre than in 2018. The reduction arose mainly through increased rail travel and lower emissions from replacement services. Leakage of refrigerants from trains was higher, mainly from X 2000 trains. This will be remedied during the ongoing upgrading of the

X 2000 fleet. SJ is not affected by any GHG-based (Greenhouse Gas Protocol) legislation.

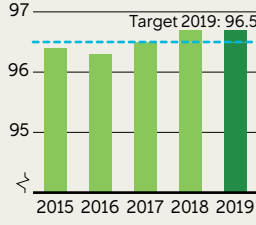
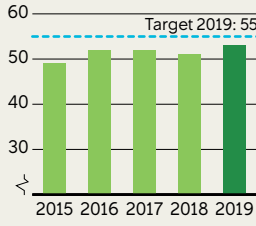
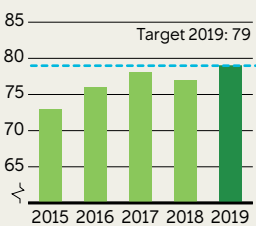
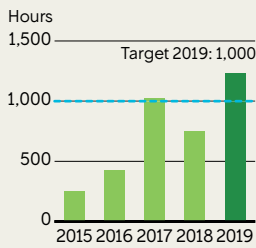
SJ's calculations include greenhouse gas emissions from train operations, rail replacement services and refrigerant leakage (Scope 1, Scope 2 and Scope 3). For a description of the assumptions and sources on which the calculations are based, see page 105. Emissions from SJ Götalandståg are not included, as Västtrafik is responsible for replacement services, a comparatively major source of greenhouse gas emissions.

SJ's Responsible for Sustainability is responsible for following up on greenhouse gas emissions.

### Greenhouse gas emissions, rail services

Grams of carbon dioxide equivalents/ passenger kilometre	2019	2018	2017
SJ AB	0.20	0.22	0.17



Why this key metric?	What we did in 2019	Target and outcome	What we are planning for 2020
<b>Traffic Safety Index</b>			
SJ's work on traffic safety is in constant focus as a secure and safe train journey is at the heart of our offering and delivery to the customer. The Traffic Safety Index measures our success in achieving that aim.	<ul style="list-style-type: none"> <li>Developed safety management as part of HR planning</li> <li>Preparations for new legislation in 2020, when the Fourth Railway Package is due to be implemented in full</li> <li>Highlighted in the media the risks of trespassing in the track area</li> <li>Prepared introduction of new trains for the Mälardalstrafik service</li> </ul>	 <p>Target 2019: 96.5</p>	<ul style="list-style-type: none"> <li>Contribute to ensuring a satisfactory level of safety in the operations established for the Trafikpaket Nord service in Norway and the Öresundstågen service</li> <li>Continue to develop work on service safety and the safety culture based on new legislation</li> </ul>
<b>Brand Index (BI)</b>			
SJ seeks to be perceived according to our core values of Reliable, Simple, Caring and Wonderful. A strong Brand Index result also indicates strong trust in SJ as an organisation, which is vital in getting more people to want to travel with us and pay for the experience.	<ul style="list-style-type: none"> <li>Improved employees' conditions and capability for acting as ambassadors for SJ</li> <li>Produced dialogue support for internal action on how values can to a greater extent be translated into practice</li> <li>Continued activities to improve the perception of punctuality</li> <li>Launched new communication concept "The Future of Travel"</li> </ul>	 <p>Target 2019: 55</p>	<ul style="list-style-type: none"> <li>Highlight SJ as the climate-friendly option and "The Future of Travel"</li> <li>Continue to develop employees' capability for acting as ambassadors for SJ</li> <li>Continue activities to improve the perception of punctuality</li> </ul>
<b>Environmental Index</b>			
Many customers and passengers regard SJ's environmental work as a hygiene factor. The Environmental Index is an indicator of passengers' perception of our environmental work and serves as a benchmark in our continued efforts.	<ul style="list-style-type: none"> <li>Provided environmental training to just over 60 percent of SJ employees via new web-based environmental course</li> <li>Maintained particular focus on informing passengers and the public about the climate benefits of travelling on SJ trains</li> <li>Action initiated to reduce energy consumption, including improved handling and management during parking</li> </ul>	 <p>Target 2019: 79</p>	<ul style="list-style-type: none"> <li>Replace refrigerants in certain carriages by substituting refrigerants with lower climate impact</li> <li>Improve pre-sorting of waste on trains</li> <li>Reduce the volume of plastic in the bistros on our high-speed trains</li> </ul>
<b>SJ Volunteer</b>			
SJ Volunteer offers SJ employees the opportunity to engage in non-profit work during working hours (one working day per employee per year) and in that way serve the community.	<ul style="list-style-type: none"> <li>Continued to make it easier for employees to engage as volunteers, for example via partnership with not-for-profit organisations needing volunteer input</li> </ul>	 <p>Target 2019: 1,000</p>	<ul style="list-style-type: none"> <li>Continue to offer volunteer assignments at non-profit organisations that SJ works with</li> </ul>

## Responsible governance: Customer

# We are developing along with our customers and passengers



More and more people are choosing to travel with SJ because we offer reliable, simple, caring and wonderful travel. Together with public transport authorities, we develop public transport services and connect tendered and commercial services to provide passengers with seamless journeys.



Our passengers appreciate short journey times, frequent departures and arrival times aligned with working hours and connecting public transport services. Their wishes are our starting-point, and we pay close attention to regional service departures when applying for departures (train paths) in order to deliver time-efficient public transport journeys to passengers.

## Whoever you are, wherever you're going

Everyone should feel welcome and well cared-for before, during and after their journey with us. Within the framework of SJ's Accessibility Council, we regularly engage in discussions with representatives of major advocacy organisations as to how our trains and offerings can be made even more accessible.

## Our three customer promises

SJ is an important part of many people's lives and we do everything we can to live up to our three customer promises: A safe and punctual journey with good service. Read more about our **work on safety** on page 27 and how we, independently and in partnership with other industry players, are working to improve **punctuality** on pages 34-36.

### How the train timetable takes shape

Work on a train timetable starts a year before it is due to apply. Any operator who wishes to operate trains applies for train paths (permission to operate on a specific section at a specific time) to the Swedish Transport Administration (STA), which is responsible for the timetable. Today, the demand to run trains exceeds the capacity available. In addition, there is a great need for maintenance on the rail network, which also limits availability. When several train operators have applied for the same train path, STA tries to adjust the timetable. Otherwise, the train operators have to try to come to an agreement and ultimately a decision is taken by STA based on predetermined criteria as to priority. A train timetable applies for one year from midnight on the second Saturday in December.

## Significant events in 2019

- Satisfaction among SJ AB's customers has never been higher, with the full-year result for SJ's Customer Satisfaction Index (CSI) the highest since the surveys began
- SJ was named as Europe's most highly digitised travel company by BearingPoint
- The SJ app was for the third time nominated for the Swedish Design Prize, in the Digital-Smartphone category.

The third element of our customer promise is about **good service**. Everyone should feel welcome at SJ. Our customer hosts at stations and on platforms, and our train hosts on board, should be welcoming and help to make the journey as simple as possible. Host duties also include providing useful information in a pleasant manner. Good service also means that our trains should be available, clean and fit-for-purpose, for both work and rest.

If we cannot live up to our customer promise, for example during disruptions, our passengers must be given relevant and useful service information. SJ provides information about the service situation via our own channels, sj.se and the SJ app, via our on-board employees and via loudspeaker announcements on trains. The Swedish Transport Administration (STA) is responsible for loudspeaker announcements and information screens at stations and on platforms. In the event of major disruptions, SJ passengers receive information via text messages or notifications in the SJ app. Our commuters can subscribe to receive disruption information on their mobile for their usual route and journey time. In collaboration with STA, we are constantly improving our information. At the same time, new and improved technical solutions are contributing to higher quality.

## Digital sales channels in demand from our customers

In early 2019, SJ was named as the most highly digitised travel company in Europe by BearingPoint, which measured companies' digital maturity from a customer perspective.

SJ is driving digitisation on several fronts simultaneously, including development of our sales channels based on our customers' need for simple, individual services to aid them before, during and after their journey. SJ's customers are also becoming more and more mobile.

During 2019, 86 percent (85) of SJ tickets were sold via digital channels (sj.se, the SJ app and ticket machines) while the rest were sold mainly through travel agencies. SJ's customers are keen users of Swish and 70 percent of our private individual customers choose to pay by Swish via the SJ app. SJ tickets





86%

of SJ tickets were sold via  
digital channels



can also be bought at our travel centres, over the phone from SJ's Customer Service, from Pressbyrå kiosk and 7-Eleven convenience stores.

We regularly introduce new and improved functions on sj.se and the SJ app, and continuously monitor satisfaction among our customers. During 2019, our surveys revealed that more than 9 out of 10 customers are satisfied with our digital channels.

In 2019, the SJ app was for the third time nominated for the Swedish Design Prize, in the Digital - Smartphone category. The app was launched in 2016 and has previously won both gold and silver in the competition.

## Development in partnership with customers and passengers

Every quarter, we conduct a survey on selected services in SJ AB's network to find out more about what our customers think of us and their journey. The findings from the on board survey are used, for example, in the Customer Satisfaction Index (CSI). The CSI rating in 2019 was 73 (69), the highest since surveys began. Higher punctuality and other improvements we have made are the reasons for the higher customer satisfaction. The CSI target for the year was not achieved.

SJ Götalandståg surveys the Passenger Satisfaction Index (PSI). The PSI in 2019 was measured at 96 (95) for commuter services and at 96 (94) for regional services, indicating that the targets for the year were surpassed. The improvement arose mainly through stable delivery of train services.

Our offerings and services are intended to make it simpler to travel with SJ, so that more people go with us. Against that background, we involve our customers and passengers in the development process. Proposed new concepts and major changes are presented to customer panels, which engage in in-depth discussions of the proposals. Many observations are also received from passengers via our train hosts and SJ's Customer Service.

**174,000 tonnes CO<sub>2</sub>-e**  
was saved by our SJ Biz customers by taking the train instead of going by air in 2019

## New and improved services and offerings for SJ customers and passengers in 2019:

- The "Where's my train" function in the SJ Labs app shows in real time the location and current speed of the train.
- Facility for passengers using Momingo, the popular period ticket in the Mälardalen region, to lend their ticket via a new function in the app.
- Responsible for trial operations of Mälardalstrafik's new trains and training of personnel.
- Improved service information for SJ commuter passengers.
- Improved points shop at sj.se for SJ Prio members.
- Mobile-adapted e-ticket.
- Relevant FAQs covering many pages at sj.se.
- Seamless travel from train station to final destination on Voi electric scooters thanks to a new partnership.
- A new digital tool (the customer host app) assists our customer hosts to rebook passengers on the platform itself in the event their train is delayed or cancelled.
- SJ's Tågluffarkort Sverige (Backpacker Card Sweden) for youth and student travel was trialled during the summer.

## SJ's on-board survey

The aim is to reach out to a range of SJ AB passengers that is as representative as possible. At least 4,000 replies are collected every quarter from more than 300 different train journeys and the survey is conducted during every month of the year. The responses are analysed carefully so that we can adapt and develop our customer offering and our service, both generally and per route.

## Information during major disruption

Passengers completing the on-board survey on a delayed train are asked questions about how they perceive the information they receive about the disruption. The findings are presented in an index for information during a major disruption on SJ AB's long-distance services (SJ High-Speed and InterCity services) and on SJ AB's regional services. We also measure passenger satisfaction with service information via the Information Satisfaction Index.

### Information during major disruption

Index	2019	2018	2017
Information during major disruption (+21 min.), SJ AB long-distance services	68	64	69 <sup>1</sup>
Information during major disruption (+6 min.), SJ AB regional services	69	61	68 <sup>1</sup>

<sup>1</sup> The measurement method was amended in the second quarter of 2017. The outcome for 2017 is based on responses received in the April-December period.

## SJ Prio

In 2019, 260,000 more passengers chose to join SJ's loyalty programme, SJ Prio, which today has nearly 1.5 million members. SJ Prio is intended partly to create long-term relationships with SJ's passengers, and partly to adapt product and service offerings based on in-depth insights into the priorities of our active SJ users. SJ Prio members earn points when travelling with SJ and when purchasing products and experiences from SJ's partners. These points can then be utilised for further SJ journeys or for travel-related experiences. Members can also donate their points to any of SJ's non-profit partners.

## SJ Biz

SJ Biz is our agreement for business customers. Our business customers regularly receive a travel and environment report detailing the volume of emissions they have saved the environment from by choosing to travel with SJ rather than by road or air. The report shows the volume of travel by the company and the routes they have most often used, valuable data that can help the company to achieve its sustainability targets. At year-end 2019, 12,863 companies and other organisations had an SJ Biz agreement. Altogether, travel with SJ by these companies and organisations was 13 percent higher than in 2018.

Every year, we award SJ diplomas for climate-friendly travel. The Public Health Agency of Sweden, Combitech and Naturkompaniet were awarded diplomas in 2019 for their successful work on redirecting a large proportion of their business travel to rail.

The train journeys that SJ Biz customers made in 2019 caused emissions of 3,841 kg of carbon dioxide equivalents, compared with just over 143 million kg if they had travelled the same distance by car. By air, the emissions would have totalled around 174 million kg of carbon dioxide equivalents.





The Student Advisory Board aims to develop SJ from the perspective of what students want from SJ. At the same time, meetings serve as a forum where students gain insight into how SJ operates and where we can share our ambition to function as an innovative and inclusive enterprise.

Within the SJ Labs concept, we are researching new digital solutions with our customers. Those who download the SJ Labs app get to try out functions under development and contribute to evaluating and developing the functions. Usable and fully developed functions are then migrated to the SJ app. The "Where's my train" function was launched in 2019 on a trial basis in the SJ Labs app. The function shows the geographical position and current speed in real time for all SJ trains that are in service.

### Good practice in handling customer data

Our customer privacy is important to us. Personal data collected are used for the purposes for which they are collected and are treated with great respect. We comply with the General Data Protection Regulation (GDPR) and so continuously delete personal data when the information is no longer needed for the purposes for which it was collected, or at the request of the customer. SJ AB is certified under the Payment Card Industry Data Security Standard (PCI DSS), meaning that a high level of security is maintained in how we handle credit and debit card data.

SJ collects the personal data that we need to be able to provide our services and to conduct and develop our business.

We also collect personal data to improve the customer's experience and to develop our customer offering. The customer is informed of the purpose of collection of personal data, and we seek and obtain consent where necessary. Via SJ's loyalty programme for passengers, SJ Prio, we also have good information on the booking and travel habits of our frequent travellers. This in-depth insight is used in adapting SJ's product and service offering.

SJ has a risk and safety forum with particular responsibility for safety risks in operations, including risks relating to information security. The forum regularly compiles information security reports and preventive action is taken on the basis of those reports. Read more about risk management at SJ on page 41. SJ also has a data protection representative with particular responsibility for ensuring that personal data is handled safely.

In 2019, SJ reported to the Swedish Data Protection Authority five (2018: three) suspected or confirmed breaches of customer privacy or losses of customer data. During 2017, no major complaints regarding customer privacy were made, and no loss of customer data occurred. A limited number of customers lost SJ Prio points in 2019. The incidents were reported to the Police and the Swedish Data Protection Authority. The customers who had lost SJ Prio points were contacted by SJ and had their points restored. To prevent anything similar from happening again, we made it a requirement that Mobilt BankID should be used for purchases via the SJ app and under corporate agreements, as well as for journey purchases made using points.

Why this key metric?	What we did in 2019	Target and outcome	What we are planning for 2020														
Customer Satisfaction Index																	
<p>The Customer Satisfaction Index (CSI) reflects the degree of satisfaction of customers regarding their relationship with SJ in the past 12 months. Using a key metric that reflects customers' overall satisfaction over a somewhat longer period is an important policy instrument for long-term profitability.</p>	<ul style="list-style-type: none"><li>• Simplified ticket purchasing for people with functional disabilities (meeting the requirements of WCAG AA 2.1)</li><li>• Introduced more flexible payment options in on-board bistros (Swish)</li><li>• Changes made to way of working on SJ high-speed trains</li><li>• Start made on raising the standard of toilets on board high-speed trains</li><li>• Customer host app launched</li><li>• Improved service information for commuters via the SJ app</li></ul>	<table><caption>Customer Satisfaction Index (CSI) Data</caption><thead><tr><th>Year</th><th>CSI Value</th></tr></thead><tbody><tr><td>2015</td><td>66</td></tr><tr><td>2016</td><td>70</td></tr><tr><td>2017</td><td>72</td></tr><tr><td>2018</td><td>69</td></tr><tr><td>2019</td><td>73</td></tr><tr><td>Target 2019</td><td>75</td></tr></tbody></table>	Year	CSI Value	2015	66	2016	70	2017	72	2018	69	2019	73	Target 2019	75	<ul style="list-style-type: none"><li>• Enter the first upgraded X 2000 into service</li><li>• Continue development of service communication for better customer experience</li><li>• Launch SJ Family, an offer for people travelling with children</li><li>• Launch 2nd Class Quiet on our high-speed trains</li></ul>
Year	CSI Value																
2015	66																
2016	70																
2017	72																
2018	69																
2019	73																
Target 2019	75																

## Responsible governance: Process

# We focus every day on improving our punctuality



To get more people to choose rail travel, they must be able to rely on trains arriving on time. This means that punctuality is our most important sustainability goal. In 2019, nine out of every ten SJ trains arrived on time.



Sweden's railway industry agreed in 2013 on a long-term target that 95 out of every 100 trains should arrive within five minutes of the designated time. Flights are only considered to be delayed if 15 minutes late. The Swedish Transport Administration (STA) is responsible for recording delay times for trains and their cause. In the first half of 2019, more Swedish services were on time than were operated overall (both punctual and delayed services) in the same period in 2015.

## Punctuality during 2019

Punctuality for SJ services in 2019 was the highest since the industry-wide target was adopted and the Together for Trains on Time initiative was introduced. The conditions for punctuality vary according to train type, line, route and time.

### Better planning creates conditions for better punctuality

Punctual train services are based fundamentally on a robust timetable in which arrival and departure times take account of how long boarding and alighting usually take, as well as actual conditions on the tracks. In collaboration with the rest of the industry, STA developed a more robust 2019 timetable for the Southern Main Line, taking into account planned maintenance works and other conditions. The new timetable had a positive impact and in preparation for the 2020 timetable the same review was applied to the timetable for the Western Main Line.

### Short-cut taking the cause of many delays

The number of hours of disruption caused by trespassing has risen sharply in recent years. If unauthorised persons are present in the track area, train speed has to be reduced sharply, or services halted altogether, resulting in poorer punctuality and service cancellations. The industry is therefore cooperating to prevent trespassing, for example by setting up physical barriers. Trespassing on or around rail tracks is prohibited and punishable by fines of SEK 3,000.

## Significant events in 2019

- Punctuality for SJ services was the highest since the industry-wide target of 95 percent punctuality was adopted in 2013
- More services than ever were operated in the Swedish railway network

Over the full year 2019, SJ's local services recorded punctuality of 94 percent (92). Our medium-distance services achieved 92 percent (88) and long-distance services 83 percent (77). The year's target for local services was surpassed, while the two other targets were not achieved.

Our improved punctuality owes to the long-term measures that SJ has implemented itself and in partnership with industry players. Important improvements during 2019 included systematic work by STA on points in the Stockholm region and better planning of maintenance works by the industry. Another important factor in higher punctuality was an improvement in industry collaboration when services needed to be reduced during disruptions and weather-related situations.

Higher punctuality in long-distance services was partly the result of STA developing improved rules with the rest of the industry on how the timetable for the Southern Main Line should be structured and on how delayed services should be prioritised on this line.

Common causes of disruptions during the year were infrastructure-related faults, rolling stock faults and trespassing in the track area. An unusually high number of accidents involving animals not only caused disruptions but also resulted in trains being taken out of service. Passengers were affected by services being cancelled at short notice and the use of replacement services.

### SJ's view of future punctuality

Our view is that both SJ's medium-distance and local services will achieve the target of 95 out of 100 services arriving on time by 2020.

SJ's long-distance services operate over longer routes and share the same tracks as slower regional, commuter and goods services. That makes these services more sensitive to disruptions, and SJ's view is that it will be challenging to achieve 95 percent punctuality for long-distance services. We are continuing with activities that both improve punctuality for long-distance services and for the railway system as a whole.

Increased crowding on the tracks is making the railway system more and more vulnerable. As a result, further improvements in punctuality is dependent on expansion of capacity in Sweden's railway network.





## Ongoing maintenance works for long-term improvement

In 2018, STA stepped up its maintenance operations to ensure that Sweden obtains a more reliable railway network in the long term and therefore better conditions for punctual services. With ongoing maintenance works, there is no capacity to enable delays to be made up in Sweden's already heavily-burdened rail network, and alternative routes may be closed.

For eight weeks in summer 2019, the section of track between Stockholm Central and Stockholm South known as Getingmidjan was closed for maintenance. Several other strategic track sections were either totally closed for service in parts of 2019, had single-track operation or reduced speeds to enable maintenance to take place.

## Major in-house focus on punctuality

Just under 10 percent of the disruptions in Sweden's railway network in 2019 were attributable to SJ. Our share remains fairly constant over time.

### Maintenance of SJ trains

With intelligent trains equipped with sensors, we can perform more efficient maintenance. In the long term, this will enable us to replace parts on trains at the right time, not uneconomically early and not too late. Efficient maintenance improves the conditions for punctuality and comfort for our passengers.

We will be measuring wear on selected components over time and establish rules as to when an alert should be sent in time if anything needs to be replaced or maintained. For example, this will enable us to detect faults before they create problems in service, to communicate earlier with maintenance workshops and reduce the manual work of inspection.

Intelligent trains simplify our work on maintenance - read more in the fact box below. More efficient maintenance makes for higher punctuality and a better experience for our passengers and employees. Another important element of our in-house focus on punctuality is departure punctuality. We are constantly improving our departure procedure to enable trains to depart on schedule. The "Where should I stand on the platform?" function in the SJ app informs passengers where their carriage will stop, improving the conditions for a punctual departure. All SJ departures are announced to the passenger a minute earlier than the train's actual departure to ensure the train is ready and can depart on time.

## Better punctuality through cooperation

Because the rail network is a closed system - trains cannot overtake or choose a different route - with many dependencies, all players must be at the top of their game and work well together. Everyone must take responsibility for the bigger picture.

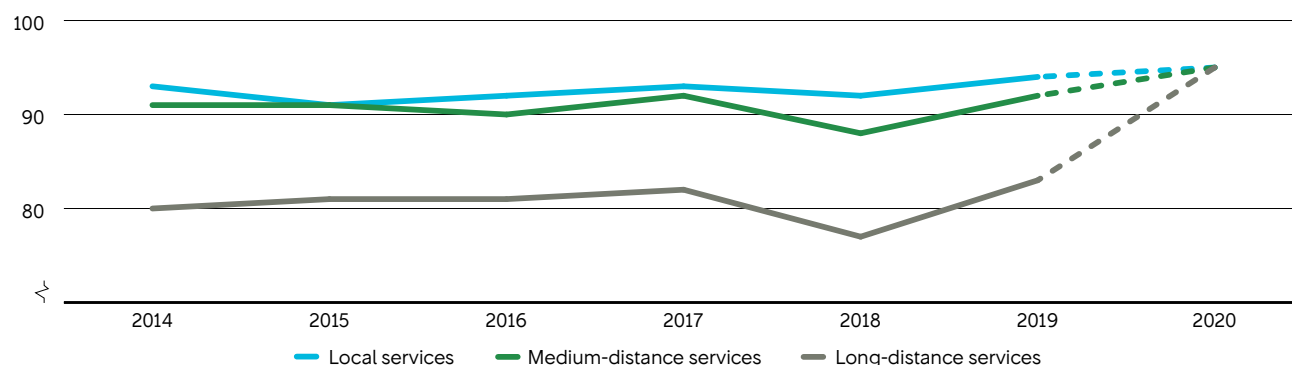
The industry cooperates in the Together for Trains on Time (TTT) initiative, in order to achieve the joint target for punctuality. In 2019, SJ allocated further time, expertise and funds to TTT. Through 2019, TTT initiated a series of activities to improve punctuality, including new design rules and testing of digital tools for rescheduling services during disruptions.

## Simpler for passengers during disruptions

Our passengers plan their time on the basis of the published timetable. In the event of a disruption, it is important that they are provided with useful service information promptly.

Many of our passengers need to change trains to reach their destination. If a disruption arises, we can via a digital function re-book all passengers on a train with the same options, for example a quiet section. The passengers are then sent an SMS message with details of their new schedule.

# Punctuality for SJ trains, %



The improvements that we are implementing independently and in collaboration with the rest of the industry have been a factor in improving punctuality. In 2019, our local services recorded punctuality of 94

percent, our medium-distance services 92 percent and long-distance services 83 percent. The industry-wide target is to achieve 95 percent punctuality by 2020.

Why this key metric?	What we did in 2019	Target and outcome	What we are planning for 2020
<b>Punctuality</b>			
Punctuality is one of the issues that our customers and passengers attach highest importance to. This means that punctuality is one of SJ's most important factors in terms of corporate sustainability and our ability to maintain and strengthen our market position.	<ul style="list-style-type: none"> <li>Continued to drive implementation of measures to prevent trespassing on and around tracks</li> <li>Continued to contribute expertise to TTT, including impact area responsibility in three areas and route responsibility for the Southern Main Line</li> <li>Reviewed SJ's rules on which faults require trains to be withdrawn from service. Faults that may affect safety always require trains to be withdrawn from service</li> <li>Continued to reduce rolling stock faults that affect punctuality, e.g. at doors</li> <li>Continued with introduction of remote diagnostics for more efficient maintenance</li> </ul>	<p>Long-distance services</p> <p><b>83%</b> (77) Target 2019: 93%</p> <p>Medium-distance services</p> <p><b>92%</b> (88) Target 2019: 94%</p> <p>Local services</p> <p><b>94%</b> (92) Target 2019: 93%</p>	<ul style="list-style-type: none"> <li>Introduce modern planning tools</li> <li>Introduce digital driver's orders for our train drivers</li> <li>Place our intelligent rolling stock in service</li> </ul>
<b>Regularity</b>			
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 for our customers to be informed in good time, to allow them to reschedule their journey.	<ul style="list-style-type: none"> <li>Continued with systematic preventive maintenance for service-halting faults</li> <li>Increased capacity in our workshops</li> <li>Continued work on improving efficiency of managing disruption situations</li> <li>Review of future replacement service needs</li> <li>Started operations with new trains for the Mälardalstrafik service</li> </ul>	<p>Long-distance services</p> <p><b>97%</b> (96) Target 2019: 98%</p> <p>Medium-distance services</p> <p><b>97%</b> (96) Target 2019: 98%</p> <p>Local services</p> <p><b>98%</b> (98) Target 2019: 98%</p>	<ul style="list-style-type: none"> <li>Introduce modern planning tools</li> <li>Place our intelligent rolling stock in service</li> <li>Start operations with new X 2000s</li> </ul>



Spår 11-18 Hiss  
Elevator



11:33 SJ Snabbtåg 431  
Göteborg C

Spår  
10

Katrineholm C, Skövde C  
Lagnsordning 1, 2, 4, 5, 6, 7 Bistro

Vasagatan

100

90 out of 100

SJ trains arrived on time in  
2019



## Responsible governance: Finance

# We invest in order to meet the demand for climate-friendly travel



SJ's strong financial position gives us the scope for investments of around SEK 12 billion so we can offer more, new and latest-technology trains. We do not receive any government grants or subsidies and therefore have to operate as a long-term, profitable player in Sweden's rail market in order to be capable of necessary investments. Read more about SJ's results and financial position in 2019 starting on page 57.



SJ is owned by the Swedish State, which requires the Company to be governed in a socially, environmentally and financially sustainable way. We set both financial and non-financial targets that must be met. SJ's Annual General Meeting has adopted three long-term financial targets that will contribute to an economically sustainable business. The financial targets are based on SJ's long-term strategy and are intended to make us more competitive in both commercial and tendered services. Our long-term ambition is to operate an efficient business with a reasonable trend of costs, in which SJ maintains high quality while achieving the return on capital required. Our non-financial targets represent a central element of the business plan adopted by the Board of Directors. For more information, see the Corporate Governance Report on pages 44-54.

### A financially sustainable SJ

All SJ's train lines and businesses, commercial and tendered, are to play a part in ensuring that we achieve our financial and non-financial targets. Every route and business operates under a business manager with a mandate to adjust the offering to correspond to passenger and customer needs and expectations.

We seek at all times to do things more smartly because this is essential if SJ is to remain competitive in Sweden's deregulated rail market. Cost-efficient solutions are a necessity to ensure that we achieve the level of costs required for SJ to be a profitable train operator in the long term.

We have an extensive project portfolio with clearly defined objectives aimed at honing efficiency in our business on several levels, through changes in processes, use of digital tools or by doing something quite differently. In 2019, an investment committee was established to quality assure the economic costings for the projects and to ensure that the planned effects are sustainable and achievable.

### Significant events in 2019

- SJ secured two new contracts in tendered services, which over time will considerably increase SJ's sales
- SJ's Board of Directors approved a policy decision to procure around 30 regional trains. In all, SJ will be investing approximately SEK 12 billion in trains over the next few years

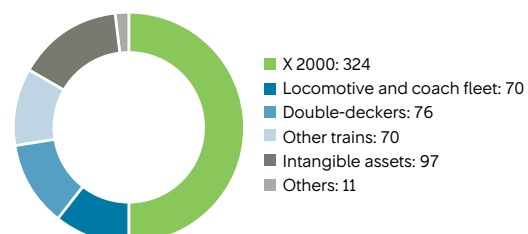
Every quarter, the Board is informed of how we are managing our financial assets so as to achieve as good a return as possible within the framework of the financial policy in place. SJ also performs a quarterly market analysis as a basis for investment decisions.

### Investing in the travel of the future

We are seeing that the strong demand for fast, comfortable and climate-friendly travel is continuing, thanks to our constantly improved customer offering. To be able to offer the travel of the future, we are therefore making extensive investments in our trains, systems and IT platforms. In all, we will be investing about SEK 12 billion in new and existing trains over the next few years. We are also investing in a new financial management platform, which will be implemented in full in 2020, with new facilities for monitoring both financial and non-financial data. In addition, we are continuing to invest on an ongoing basis in improved safety, performance and customer experience, including our digital sales channels.

Upgrading of our X 2000s is ongoing. Our decision to retain the trains' chassis enables us not only to save large volumes of steel but also make the most of the trains' unique design, with features such as the tilting system for the most comfortable journey possible. The old chassis will be upgraded with new technology, a new interior and a new exterior. More pas-

Total investments during 2019, SEK million





sengers will be accommodated in new X 2000s, without any increase in crowding in the carriages.

An earlier procurement process for around 30 new high-speed trains was halted following a ruling from the European Court of Justice (ECJ), to the effect that SJ is bound by Sweden's LUF procurement directive. SJ is awaiting a decision from the EU Commission on whether the Swedish railway market should be exempted from the scope of LUF, before a decision is taken as to the way forward in the procurement process. Read more on page 25.

In 2019, SJ's Board of Directors took a policy decision under which SJ would acquire around 30 new regional trains. The procurement process for the regional trains has begun and a feasibility study is in progress. Procurement of an upgrade of our night-train carriages is also under way, and an invitation to tender has been published. With the new trains, we will gradually increase capacity by nearly 50 percent in commercial services.

Our investment cycle for rolling stock fleet is a long one. Our most recent major rolling stock investment was for the high-speed SJ 3000 trains in 2012, and before that X 2000s, which entered service in 1990. As the infrastructure expands, SJ will have the financial resources required to invest in more trains.

## Developments in SJ's business

In 2019, SJ secured two new agreements in tendered services. From June 2020, we will take on total responsibility for operating and developing the Trafikpaket Nord service in Norway, and, from December 2020, for the Öresundstågen service. SJ already operates across the border to Oslo and Narvik in Norway and to Copenhagen in Denmark, and with more routes we will be able to link up services better. By expanding our services we will also be able to spread fixed and overhead costs over more passengers and in so doing maintain and strengthen SJ's long-term competitiveness.

The contracts are two of the largest in tendered rail services in the Nordic region and will over time considerably increase SJ's sales.

## Two new agreements in tendered services, starting in June and December 2020

### The Trafikpaket Nord service in Norway (Dovrebanen, Nordlandsbanen and Rørosbanen with branch lines)

Contract period: Eight years from June 2020, with an option for a further two years

Operating subsidiary: SJ Norge AS

Size: The second biggest contract to date in tendered services in the Nordic region. Service contracts in the Oslo region are expected to become bigger.

Scope: Total responsibility for passenger operations in the Trafikpaket Nord service in Norway, including responsibility for ticket sales

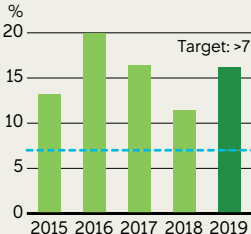
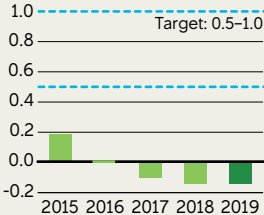
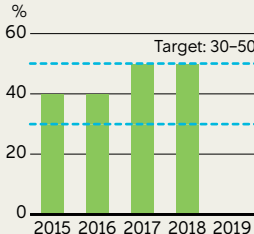
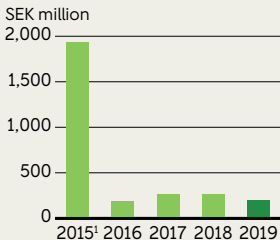
### The Öresundstågen service

Contract period: Eight years from December 2020, with an option for a further two years

Operating subsidiary: SJ Öresund AB

Size: The fourth biggest contract in tendered services in the Nordic region

Scope: Until 2022, SJ will have total responsibility for rail services to and from the border between Sweden and Denmark. On the Swedish side, Öresundstågen services around 50 stations in the Öresund region, as well as Gothenburg, Kalmar and Karlskrona. From 2022 onwards, also total responsibility for operations to and from Østerport in Denmark.

Return on operating capital	Net debt/equity ratio	Dividend																																																
<p><b>Why this key metric?</b></p> <p>Return on operating capital indicates the relationship between SJ's operating profit and the degree of capital efficiency in the business. Working capital issues are an important aspect of SJ's financing and we need to ensure that capital is not unnecessarily committed, and that our resources are highly utilised. A market-level profit is an essential condition in enabling the necessary investments to be implemented.</p>  <table border="1"><caption>Return on operating capital (%)</caption><thead><tr><th>Year</th><th>Return on operating capital (%)</th></tr></thead><tbody><tr><td>2015</td><td>13</td></tr><tr><td>2016</td><td>19</td></tr><tr><td>2017</td><td>16</td></tr><tr><td>2018</td><td>11</td></tr><tr><td>2019</td><td>16</td></tr></tbody></table> <p><b>Target and outcome (analysis)</b></p> <p>The return on operating capital is to average no less than 7 percent.</p> <p>In 2019, the return on operating capital was 16.2 percent (11.4), again exceeding the target for the year, mainly as a result of an improved profit.</p>	Year	Return on operating capital (%)	2015	13	2016	19	2017	16	2018	11	2019	16	<p><b>Why this key metric?</b></p> <p>The net debt/equity ratio is vital to ensuring that SJ has an efficient capital structure and a well-balanced risk over time. The aim is for a balance to be struck, whereby the financing costs of the business are kept competitive and at the same time SJ is able to implement the strategic decisions taken.</p>  <table border="1"><caption>Net debt/equity ratio</caption><thead><tr><th>Year</th><th>Net debt/equity ratio</th></tr></thead><tbody><tr><td>2015</td><td>0.15</td></tr><tr><td>2016</td><td>-0.05</td></tr><tr><td>2017</td><td>-0.05</td></tr><tr><td>2018</td><td>-0.05</td></tr><tr><td>2019</td><td>-0.14</td></tr></tbody></table> <p><b>Target and outcome (analysis)</b></p> <p>SJ has a target for net debt/equity ratio of 0.5-1.0 long term. The target was based on what the owner and the Board of Directors consider to be an efficient capital structure for SJ over time.</p> <p>On 31 December, the net debt/ equity ratio was -0.14 (-0.14). On that basis, SJ's capital structure is stronger than defined in the owner's long-term target. SJ is on the threshold of major investments which will increase the level of debt.</p>	Year	Net debt/equity ratio	2015	0.15	2016	-0.05	2017	-0.05	2018	-0.05	2019	-0.14	<p><b>Target and outcome (analysis)</b></p> <p>The Board's proposed dividend in accordance with the appropriation of profits, %</p>  <table border="1"><caption>Dividend (%)</caption><thead><tr><th>Year</th><th>Dividend (%)</th></tr></thead><tbody><tr><td>2015</td><td>40</td></tr><tr><td>2016</td><td>40</td></tr><tr><td>2017</td><td>50</td></tr><tr><td>2018</td><td>50</td></tr><tr><td>2019</td><td>50</td></tr></tbody></table> <p>The owner's target for regular dividend in the long term is an average of 30-50 percent of the SJ Group's profit for the year after tax. The Board proposes that no dividend be paid for the 2019 financial year (2018: 50 percent), given the great uncertainty as to the effects that the coronavirus and measures to curb spread of the infection may have on SJ's operations.</p> <p><b>Dividends paid, SEK million</b></p>  <table border="1"><caption>Dividends paid, SEK million</caption><thead><tr><th>Year</th><th>Dividends paid, SEK million</th></tr></thead><tbody><tr><td>2015<sup>1)</sup></td><td>1,900</td></tr><tr><td>2016</td><td>100</td></tr><tr><td>2017</td><td>200</td></tr><tr><td>2018</td><td>200</td></tr><tr><td>2019</td><td>100</td></tr></tbody></table> <p><sup>1)</sup> EGM resolution to distribute SEK 1,700 million.</p>	Year	Dividend (%)	2015	40	2016	40	2017	50	2018	50	2019	50	Year	Dividends paid, SEK million	2015 <sup>1)</sup>	1,900	2016	100	2017	200	2018	200	2019	100
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# Risk and Risk Management

Risk is inherent in all business activities. Good awareness of risks enables us to plan activities to minimise negative impact and to leverage related opportunities to best effect.

SJ defines risk as an event or uncertainty that could affect our ability to achieve the goals that are set out in strategic and business plans.

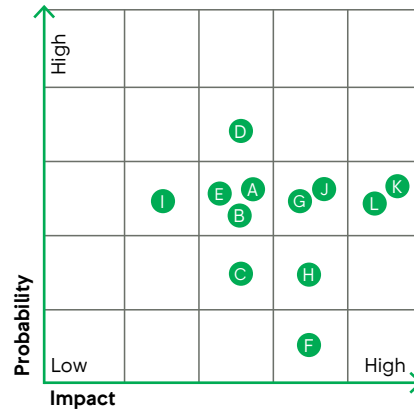
## Identification and management of risks

SJ applies a systematic focus to risk assessment at various levels and with various time horizons. Risks on the strategic level are identified and described in the form of scenarios in conjunction with the strategic and business planning process, and are summarised in a strategic and business plan.

Work on Group-wide risks on the tactical level is conducted via an established process to identify operational, business and market risks, both financial and non-financial, based on SJ's scorecard. The process involves all divisions, subsidiaries and staff units, creating bottom-up support and greater awareness throughout the organisation. It also enables risks to be identified more effectively. Every risk identified has a designated owner in the organisation. Risk assessments for organisational changes may also be performed from specific perspectives, such as transport safety or work environment.

Tactical risks are identified and managed continuously at SJ and reported to the Board three times a year. The process begins with information about existing and new risks being obtained from the Risk Council, as well as from the Strategy

Assessed probability and impact to SJ of risks identified



Risks A-L are described on the next page.

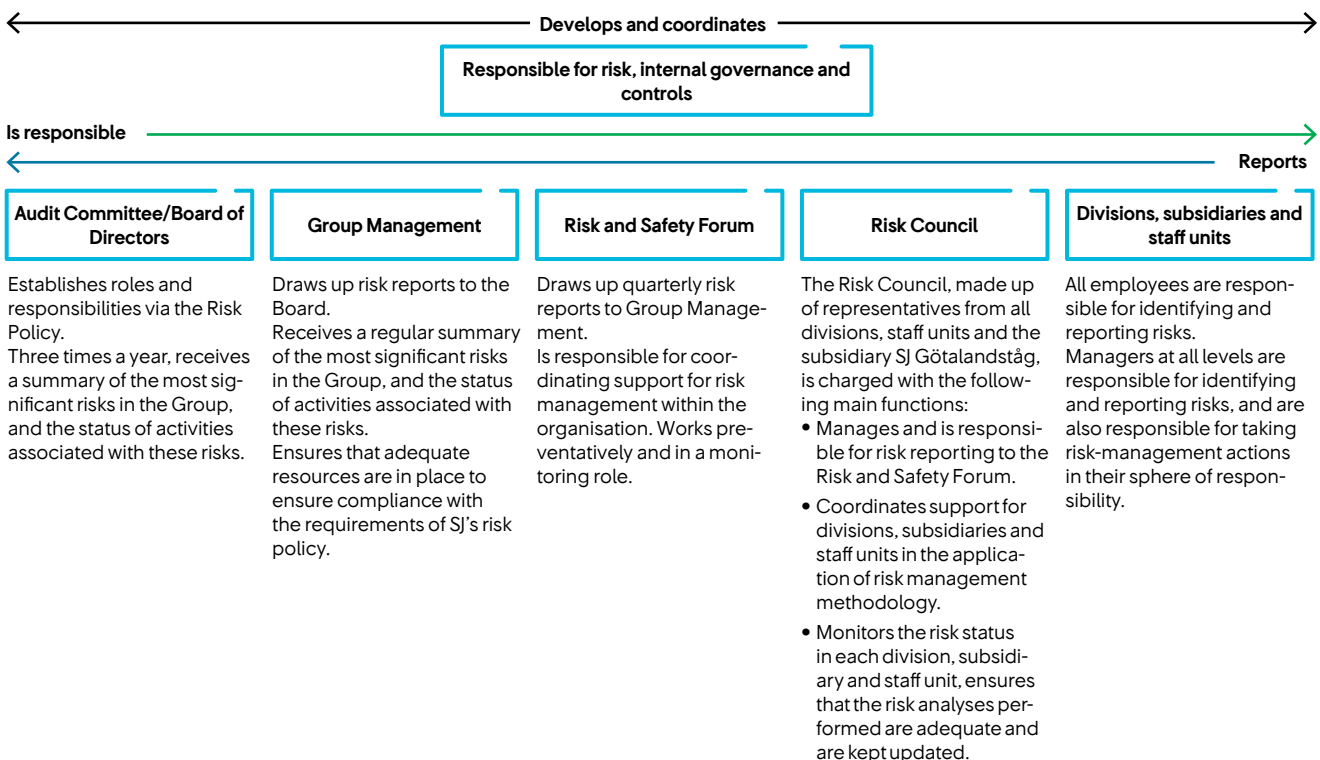
Forum, Production Forum and Business Review, depending on the time of year. The risks are assessed on the basis of probability and impact, and are linked to activities to manage the risks.

## Risk reporting

The Risk and Safety Forum is responsible for examining and approving the Risk Report before it is presented to Group Management, which in turn is responsible for risk reporting to the Board. Group Management monitors changes in the risks that are attributed a high value, to determine whether there is any need to take further action or whether new risk areas should be assessed.

A selection of risks identified is presented in the summary of risks on the next page.

## Roles in risk reporting



# Selection of risks identified

Risk	Potential impact	Activities
<b>Control area - Employee</b>		
<b>A</b> Risk that SJ cannot retain or recruit employees with key skills	<ul style="list-style-type: none"> <li>Lower quality, higher costs, service cancellations</li> </ul>	<ul style="list-style-type: none"> <li>Introduce new scheduling arrangements for on-board employees</li> <li>More effective training courses with simulators</li> <li>Strategic skills provision process</li> </ul>
<b>B</b> Risk that SJ employees involved in customer contacts face insecure work situation where threats and violence may occur	<ul style="list-style-type: none"> <li>Feeling of insecurity and lesser well-being, absences due to illness, difficulty in retaining and recruiting employees</li> </ul>	<ul style="list-style-type: none"> <li>Training for all on-board employees in personal security and conflict management</li> <li>Personal alarm for all on-board employees</li> <li>Body-worn camera for train hosts on certain departures</li> </ul>
<b>C</b> Risk that SJ employees will be in breach of the business ethics guidelines in the SJ Group's Internal Code of Conduct, in contacts with suppliers	<ul style="list-style-type: none"> <li>Lower quality, adverse impact on the SJ brand</li> </ul>	<ul style="list-style-type: none"> <li>Seminar for managers on current benefits and gifts, in order to reduce the risk of corruption</li> <li>Communication with employees on the SJ Group's Internal Code of Conduct</li> </ul>
<b>Control area - Partnership &amp; Resources</b>		
<b>D</b> Risk that SJ cannot purchase services and products from suppliers at the right quality and price	<ul style="list-style-type: none"> <li>Lower quality, lower Customer Satisfaction Index rating, higher costs</li> </ul>	<ul style="list-style-type: none"> <li>Improved collaboration with suppliers</li> </ul>
<b>E</b> Risk that partners are in breach of the SJ Group's Supplier Code of Conduct	<ul style="list-style-type: none"> <li>Human rights violations, negative impact on SJ brand</li> </ul>	<ul style="list-style-type: none"> <li>The SJ Group's Supplier Code of Conduct is a mandatory part of agreements with SJ</li> <li>Sustainability audits of suppliers</li> </ul>
<b>Control area - Society</b>		
<b>F</b> Risk of serious leakage from diesel refuelling tanks used for services on the Kinnekulle Line	<ul style="list-style-type: none"> <li>Damage to environment and harm to people, negative impact on SJ brand</li> </ul>	<ul style="list-style-type: none"> <li>Diesel refuelling facilities have since the turn of the year 2019/2020 been operated by an external party specialising in fuel management for railway operators</li> <li>Regular individual checks of refuelling stations</li> <li>Environmental audit</li> </ul>
<b>Control area - Customer</b>		
<b>G</b> Risk that passengers' trust in rail travel declines because the target for punctuality is not achieved	<ul style="list-style-type: none"> <li>Lower Customer Satisfaction Index rating, loss of market share to other modes of transport, lower income</li> </ul>	<ul style="list-style-type: none"> <li>Major collaboration with other industry players in the Together for Trains on Time (TTT) initiative</li> <li>In-house focus on lowering the share of SJ-attributable disruptions via measures such as improved departure process, digital work tools and remote diagnostics for rolling stock</li> <li>New and modernised trains</li> </ul>
<b>H</b> Risk of major service disruptions as a result of extreme weather conditions and climate changes	<ul style="list-style-type: none"> <li>Lower Customer Satisfaction Index rating, lower punctuality, higher costs for replacement services</li> </ul>	<ul style="list-style-type: none"> <li>Continuous work on disruption and contingency plans</li> <li>New and modernised trains</li> <li>Focus on further improvements on service communication</li> </ul>
<b>I</b> Risk of limited capacity and availability of railway infrastructure, partly because of urgent and/or delayed maintenance works, and partly because of reduced speed due to inadequate condition of the infrastructure	<ul style="list-style-type: none"> <li>Lower Customer Satisfaction Index rating, lower punctuality, higher costs for replacement services</li> </ul>	<ul style="list-style-type: none"> <li>Collaboration with the Swedish Transport Administration (STA) regarding strategic work on train scheduling and maintenance on the rail network</li> </ul>
<b>J</b> Risk that SJ is forced to sell competitors' tickets via its own sales channels or that SJ is forced to sell its tickets via others' sales channels.	<ul style="list-style-type: none"> <li>Weaker customer offering that is more difficult to differentiate from those of competitors, lesser opportunity for direct communication with customers</li> </ul>	<ul style="list-style-type: none"> <li>Active participation in government-appointed commission of inquiry into national ticketing system for all public transport</li> </ul>
<b>Control area - Finance</b>		
<b>K</b> Risk that deregulation in the rest of Europe becomes protracted, with the result that a disproportionately high number of train operators compete in the Swedish rail market.	<ul style="list-style-type: none"> <li>Distorted, increased competition, long-term loss of market share and lower profitability</li> </ul>	<ul style="list-style-type: none"> <li>Collaboration in the Community of European Railway and Infrastructure Companies, in which SJ's CEO Crister Fritzson served as Chair until February 2020.</li> <li>Long-term sustainable unit cost</li> <li>Continuous development of every business in order to consolidate SJ's market shares</li> </ul>
<b>L</b> Risk of disruptions in critical business systems	<ul style="list-style-type: none"> <li>Disruptions in production, lower CSI rating, negative impact on the SJ brand, lower income, higher costs. Disruptions in financial systems may affect SJ's reporting</li> </ul>	<ul style="list-style-type: none"> <li>Develop SJ's systematic information security work and improve compliance with internal controls</li> </ul>



# A growing and profitable group



More trains than ever ran on Sweden's railways in 2019 and travel with SJ continued to rise. Despite increased services and more passengers boarding and alighting, in 2019 SJ trains recorded the highest punctuality since the industry-wide target of 95 percent punctuality was adopted in 2013. These are highly pleasing results, even if the delays that still occur have consequences to our passengers, who assume that our trains will arrive on time. Of course, we must deliver punctual journeys and we are striving constantly for improvements, ourselves and working with the rest of the industry. One important aspect is work on joint planning that we engage in with STA.

## Expansion of rail travel with high punctuality needs investment

At SJ we do what we can to meet the higher demand for rail travel. During the year, the Board of Directors approved a policy decision that SJ should purchase around 30 regional trains. Under an earlier decision, we are to acquire the same number of high-speed trains. Once our new X 2000s and our new regional and high-speed fleets are in service, we will have expanded capacity in our commercial services by 50 percent from today's level. With intelligent trains that are connected at all times, we also create good conditions for more reliable and more punctual services.

But SJ's initiatives alone will not be enough. We have reached the ceiling for capacity on parts of Sweden's rail network, which means that there is no room for more trains and that trains can no longer make up time on delays on overloaded tracks. If nothing is done for the rail infrastructure now, rail passengers face a more turbulent existence going forward. We are approaching the uncomfortable point where if punctuality targets are to be achieved, the number of trains will have to be reduced. This runs contrary to rail as the future of travel and will have negative impact on Sweden's ability to achieve its climate targets. The situation is serious, and something has to be done right away.

## Deregulation has led to more, better and cheaper rail journeys.

One reason why so many people opt to go by rail is that, thanks to deregulation, there are plenty of departures to choose from. The wide choice means that we train operators must be competitive by offering the best customer experience at the best price. To ensure value-for-money, we at SJ constantly keep our customer offering and costs under review. Digitisation is one powerful tool for lowering costs. Another is to reach out to a bigger market.

SJ's scope in Sweden is shrinking now that private and, above all, State-owned and many times bigger train operators are getting established in both tendered and commercial rail services. At the same time, the ongoing deregulation of Europe's railway

market is finally opening up new opportunities for us. To maintain our competitiveness in Sweden, we need more passengers to spread our costs over, and to us it is logical to start by developing the services we already operate in neighbouring Norway and Denmark.

## Big-picture thinking on the customer experience

It is pleasing that so many people are choosing to go by train and with SJ! And to us on the Board of Directors, it is important that the customer experience is positive all the way, from simple ticket reservation and payment, to relevant service information and a punctual arrival. Many people know that rail is the most climate-friendly way to travel, but for it to be an attractive option, we must meet - and if possible exceed - passengers' other expectations.

Practical things just have to work - such as having clean and fully-working toilets on board. Unfortunately, it is difficult to achieve the standard we want, since all it takes is for one user to leave a toilet dirty. We are now taking robust action and leaving no stone unturned in tackling the toilet problem on our high-speed trains.

## Unacceptable conflicts on our trains

SJ's employees do everything they can, with enthusiasm and great ingenuity, to make our passengers' journey as pleasant as possible. So it is all the more regrettable that those who work on the trains are subject to threats and violence. The social climate is hardening and a small number of our passengers are spoiling journeys for so many others. According to SJ's employee survey, more than 20 percent of employees experienced threats or violence during working hours in 2019, and this is unacceptable.

The single most important thing for us at SJ is to be able to offer passengers and employees a secure and safe journey and workplace. We focus constantly on improving safety, both as regards the risk of accidents and situations where someone intentionally wishes to cause harm. If we are to achieve maximum safety, we need to work with other players - and we do. We work in different ways to prevent and handle situations of threat that may arise, and to look after anyone who, despite all efforts, has been affected.

## A growing and profitable group

The past year was a successful one for SJ. The Group expanded with new subsidiaries, more departures on commercial services and new contracts in tendered services. SJ's profitability was sharply higher, even though we must remember that 2018 was dominated by challenges throughout Sweden's railway industry.

For eight years, CEO Crister Fritzson and Group Management have taken SJ's employees with them on an exciting journey, and we on the Board of Directors are highly impressed with the changes they together have brought to SJ. We wish Crister Good Luck and extend our heartfelt gratitude to all those who, every day, make their contribution to SJ's continued growth. With the customer in focus and on a sustainable basis.

Stockholm, March 2020

Siv Svensson, Board Chair

# Corporate Governance Report 2019

SJ AB is 100-percent owned by the Swedish State and ownership is operated under the supervision of the Ministry of Enterprise and Innovation. The Company's Articles of Association require SJ, on a commercial basis, to provide passenger transport services and to contribute towards Sweden's transport policy objectives and thereby deliver long-term sustainable transport provision throughout the country.

The owner's overriding objective is that SJ's value creation should be the highest possible, which requires long-term profitability, efficiency, capacity for development and social, environmental and financial accountability. SJ has no public-service role and its operations are conducted on purely commercial terms without any government subsidies or grants.

## Application of the Code

SJ applies the Swedish Code of Corporate Governance (the Code). The deviations that occur in the Company arise mainly from the fact that SJ is wholly owned by the Swedish State. 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 agenda items listed in the notice of the AGM. In State-owned enterprises, this provision has no relevance.

### Rule 2

The establishment of a nomination committee to prepare for 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.

### Rule 4.4-4.5

Board member's independence in relation to the Company, Group Management and major shareholders. The aim of the rule is to protect minority owners. Because SJ is wholly owned by the Swedish State there is no such need.

### Rule 8

The Board shall assess its own work and that of the CEO on a yearly basis. In 2019, no such assessment was made as it was not considered necessary in view of the fact that in recent years conclusions from these assessments have been highly satisfactory and no major areas for development have been identified.

## Significant events in 2019

- Subsidiary SJ Öresund AB was established for the Öresundstågen service, a new contract for SJ to run from December 2020
- A new position, Deputy CEO at SJ AB, was established; in the absence of the CEO, the Deputy CEO is to take decisions on matters concerning SJ AB's commercial operations in Sweden and to take responsibility for operational activities in Sweden by SJ AB
- CEO Crister Fritzson announced that he will leave SJ in spring 2020 to take up a new appointment

## Principles of Corporate Governance

SJ is subject to both external and internal regulations.

### Major external regulations:

- Legislation and international accounting regulations
- Swedish State's ownership policy and Guidelines for State-Owned Enterprises in 2017
- Swedish Code of Corporate Governance (the Code)

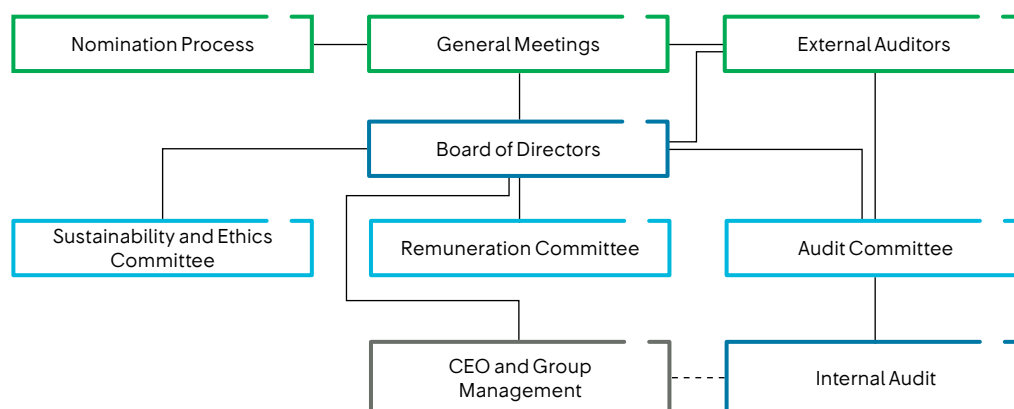
### Major internal regulations:

- SJ AB's Articles of Association
- The Board's Rules of Procedure, CEO instructions and instructions for corporate sustainability reporting, including financial reporting
- Internal guidelines regarding the Group's operations and employees, including the SJ Group's Internal Code of Conduct, as well as policies on work environment, finance, information security, purchasing, IT, risk management, tax, traffic safety, communication, personal data and internal governance and controls
- SJ's scorecard, showing targets set and clearly defined follow-up procedures

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



## SJ AB, Corporate Governance



### Owner's governance

The owner exercises its rights as shareholder at the AGM and has adopted SJ's Articles of Association and economic targets. The owner's long-term economic 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. Long-term dividends shall amount to 30–50 percent of the Group's profit for the year. In addition to the economic targets, the owner also follows up strategic targets for corporate sustainability, as established by the Board.

In 2019, the meetings between the owner, SJ's Chair and the CEO discussed targets and operational follow-ups, and addressed current issues such as rolling stock investments and invitations for offers for tendered rail services.

### Strategic targets for corporate sustainability

The Swedish government requires all State-owned companies to set strategic targets for corporate sustainability. These targets are to be relevant to the business conducted. They must also be measurable and sufficiently ambitious. In 2019, the SJ Board reviewed these targets and established four strategic targets, some of them new: Diversity, Threats & violence, Market share compared to air travel on certain routes and Punctuality on long-distance services. Of these, Diversity and Punctuality on long-distance services were reported externally for 2019.

### General Meetings

The Annual General Meeting (AGM) is held in Stockholm. SJ publishes details of venue and time for its next AGM, as well as a notice convening the meeting, minutes and other AGM-related material on [sj.se](http://sj.se).

#### Annual General Meeting 2019

The 2019 AGM for SJ AB was held on 25 April 2019. The meeting was open to the public and those attending had the opportunity to put questions to management.

The AGM resolved to adopt the income statements and balance sheets for the Group and the Parent Company, and to approve the Board's proposed dividend of SEK 194 million. The dividend was paid on 9 May 2019. The AGM discharged the Board and the CEO from liability.

The AGM further resolved that the Company is to apply the Guidelines on conditions of employment for senior executives, as proposed by the Board.

In accordance with the owner's proposals, the AGM approved the re-election of Siv Svensson, Ulrika Dellby, Lennart Käll, Per Matses, Ulrika Nordström and Kersti Strandqvist until the next AGM. Klas Wählberg was elected to the Board as a new member until the next AGM. Siv Svensson was re-elected as Chair of the Board. The AGM approved Board fees and separate fees for work within the committees established.

#### Annual General Meeting 2020

SJ AB's 2020 AGM will be held in Stockholm on 29 April 2020.

### Board of Directors

The Board has overall responsibility for the management and administration of the Company. Under the State's ownership policy, the Board is also responsible for ensuring that the Company is managed in an exemplary manner in compliance with applicable legislation, the State's ownership policy, the Articles of Association and the owner's instructions.

Moreover, the Board is required to strive to ensure that SJ acts in an exemplary way in corporate sustainability, in such areas as the environment, ethics, working conditions, human rights, equal opportunity and diversity. The Board of Directors establishes the strategic targets for corporate sustainability that the owner requires, see section on left of this page.

#### Appointment of the Board

The nomination process for Board members at State-owned enterprises is overseen and coordinated by the Ministry of Enterprise and Innovation. A working party at the Division for State-Owned Enterprises at the Ministry of Enterprise and Innovation analyses the qualification requirements on the basis of the composition of SJ's Board and the Company's operations and circumstances. The proposal for Board members is presented in the notice convening the AGM and on [sj.se](http://sj.se) in ample time prior to the AGM. Board members are appointed by the AGM for one year at a time.

According to the State's ownership policy, the composition of the Board shall be fit-for-purpose with regard to SJ's operations, stage of development and other conditions. The expertise, experience and background of members elected at the AGM shall be characterised by being multi-faceted and broadly-based. The ownership policy, which defines the diversity policy that SJ applies, also lays down that diversity aspects such as ethnic and cultural background shall be

taken into account. The government strives for an even gender distribution both in the individual company boards and at portfolio level.

The Board shall at all times reflect the industry knowledge or other expertise that is directly relevant to the Company, including when the Company is developing and external factors are changing. The members of the Board shall also have the capability of working strategically on corporate sustainability.

## Composition of the Board

Under the Articles of Association, SJ's Board of Directors is to comprise no less than three and no more than eight members, with no deputies. Since the AGM held in April 2019, SJ's Board of Directors has consisted of seven elected members, none of whom are members of Group Management. Of the Board members, four (57 percent) are women and three (43 percent) men.

The Swedish Government Offices agency considers that SJ's Board of Directors, with regard to the Company's operations, stage of development and other conditions, to be appropriately composed in terms of being multi-faceted and broadly based with regard to the expertise, experience and background of its members. The composition of the Board also meets the government's objective of an equal gender distribution in accordance with the State's ownership policy.

The employee organizations have appointed three employee representatives, plus deputies, to the Board.

## Board fees and fees for work on Board committees

Under the State's ownership policy, Board fees and other fees are for approval by the AGM and must be competitive, but not market-leading. A fee is payable to the members of the Board's Audit Committee, but no fee is paid for any other Board committee work. Furthermore, fees are not paid to any member employed by the Swedish Government Offices, nor to any employee representative, as stated in the Swedish State's ownership policy and Guidelines for State-Owned Enterprises in 2017.

## Remuneration approved for SJ's Board of Directors

SEK	2019	2018	2017
Board Chair	420,000	410,000	400,000
Board members	180,000	170,000	160,000
Chair of the Audit Committee	55,000	55,000	55,000
Other members of the Audit Committee	43,000	43,000	43,000

## Work of the Board

The Board adopts Rules of Procedure annually, defining the division of responsibilities between Board, Board committees and the CEO. The Rules of Procedure include mandatory aspects, as stated in the Swedish Annual Accounts Act, the Swedish State's ownership policy and the Government's Guidelines for State-Owned Enterprise ("the Ownership Policy") and the economic targets as adopted by the AGM. In addition, the Rules of Procedure govern the Chair's duties, information to the Board, the format of Board meetings and assessments of the work of the CEO and the Board. The Rules stipulate, *inter alia*, that the following agenda items shall be addressed each year:

- Adoption of business plan and budget for the financial year ahead.
- Adoption of financial reports for external consumption, including annual and sustainability report and quarterly reports.
- Strategic issues, including assessment and, where appropriate, adoption of strategic targets for corporate sustainability.
- Assessment of rule compliance and risk management, in particular the results from annual risk analyses.
- Adoption of policy documents.

The Board also decides on matters of principle or major financial significance. The Board Chair oversees the work of the Board and is responsible for ensuring that other mem-

## Board of Directors, Board functions and attendance during 2019

		Board of Directors	Audit Committee	Sustainability and Ethics Committee	Remuneration Committee
Total number of meetings (of which, before AGM)		13 (4)	8 (3)	2 (1)	3 (1)
Siv Svensson	Board Chair, Chair of Remuneration Committee	13	8	2	3
Ulrika Dellby	Board member	13	7		
Lennart Käll	Board member	12		2	3
Per Matses	Board member, Chair of Audit Committee	13	8		
Ulrika Nordström	Board member	13	8		3
Kersti Strandqvist	Member, Chair of Sustainability and Ethics Committee.	12		2	
Mikael Stöhr	Board member	2			Resigned at 2019 AGM
Klas Wåhlberg	Board member	9			1 Elected as new member at 2019 AGM
Stefan Zetterlund	Employee representative	13			
Per Hammarqvist	Employee representative	11			
Hans Pilgaard	Employee representative	10			

bers receive the information required, that the Board's work is conducted efficiently and that the Board fulfils its duties.

The CEO and CFO participate in Board meetings; other members of Group Management participate as necessary. SJ's General Counsel serves as secretary to the Board.

### Work of the Board in 2019

In 2019, 13 Board meetings were held, of which 3 were conference calls. The Board carried out ongoing follow-ups in due order of financial and non-financial outcomes, including monthly presentations of strategic key metrics on SJ's scorecard. Based on that information, the Board was also able to continuously evaluate SJ's performance in terms of corporate sustainability.

In February 2019, the Board met the Company's auditors without any members of Group Management being present, in accordance with the requirements of the Code. Other members of SJ's Group Management also attended the Board meeting held in June 2019 to discuss issues of strategic significance. See also Board agenda, below.

### Work of the Board in committees

SJ's Board of Directors has established an Audit Committee, a Remuneration Committee and a Sustainability and Ethics Committee. The Board has also agreed rules of procedure for all 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 Audit Committee is the preparatory body for the Board on issues relating to financial accounting and reporting, as well as with the Company's internal controls. The Committee is charged with overseeing both internal and external auditing processes.

The duties of the Audit Committee include:

- Preparing the work of the Board by quality assuring SJ's financial statements, so that the statements provide a true and fair view of SJ's financial and non-financial position, and by providing recommendations and proposals to ensure 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
- Managing matters relating to internal controls
- Meeting external auditors to keep updated on the planning, focus and scope of the audit
- Ensuring that the reports and reported observations from SJ's external and internal auditors are communicated to the CEO and observations are actioned.
- Developing dialogue with SJ's auditors for greater clarity in observations regarding the Company's governance, accounting and control

## Board's agenda in 2019

### February

- Review by external auditors of the 2018 financial statements
- Report on fourth quarter and full year 2018
- Appropriation of profit for financial year 2018
- The auditors met with the Board of Directors without the presence of Group Management
- Rolling stock investments
- Report on operations in 2018 and assessment by the Board and CEO

### March

- Annual and Sustainability Report plus Auditors' Report 2018
- Invitation to offer for tendered services
- Rolling stock investments
- Review of Risk Report
- Strategic targets for corporate sustainability
- Swedish Procurement within the Water, Energy, Transport and Postal Services Sectors Act (LUF).

### April

- Report on first quarter
- Annual General Meeting
- Statutory Board meeting
- Invitation to offer for tendered services
- Rolling stock investments
- Swedish Procurement within the Water, Energy, Transport and Postal Services Sectors Act (LUF).

### June

- Invitation to offer for tendered services
- Review of Risk Report
- Rolling stock investments
- Cyber security
- Talent inventory
- Disaster preparedness
- Traffic safety report 2018
- Clean toilets on board
- Adoption of strategic plan 2020-2040

### July

- Report on second quarter
- Invitation to offer for tendered services
- Rolling stock investments

### September

- Invitation to offer for tendered services
- Rolling stock investments
- Swedish Procurement within the Water, Energy, Transport and Postal Services Sectors Act (LUF).

### October

- Report on third quarter
- Adoption of business plan 2020-2024
- Invitation to offer for tendered services
- Review of Risk Report
- Rolling stock investments
- Work on safety
- CEO's resignation
- Swedish Procurement within the Water, Energy, Transport and Postal Services Sectors Act (LUF).

### November

- Invitation to offer for tendered services

### December

- Invitation to offer for tendered services
- Adoption of budget for 2020
- Financial policy
- Image journey
- Swedish Procurement within the Water, Energy, Transport and Postal Services Sectors Act (LUF).



- Keeping updated on the auditing of the annual accounts and the consolidated accounts, and on the conclusions from the Swedish Inspectorate of Auditors' quality control.
- Participating in the procurement of auditors and preparing proposals for election of auditors

At the Statutory Board meeting in 2019, Per Matses was elected Chair of the Audit Committee. Ulrika Dellby, Siv Svensson and Ulrika Nordström were appointed members of the Committee. SJ's CFO serves in a reporting capacity to the Audit Committee. SJ's auditors take part in the meetings of the Committee. Eight minuted meetings were held during the year, one by telephone. During the year, SJ's auditors reported on significant accounting and auditing issues, as well as on items related to internal controls and processes. The Committee's Chair continuously informed the Board about the work of the committee.

## Remuneration Committee

The Remuneration Committee is the preparatory body for the Board on issues relating to remuneration and other terms of employment for the CEO and other senior executives of the Company.

The duties of the Remuneration Committee include:

- Ensuring implementation of, and compliance with, the AGM-adopted guidelines on terms of employment for senior executives
- Preparing the Board's proposals for policies on remuneration and other terms of employment for the CEO and other senior executives, for decision by the AGM
- Preparing the Board's proposals for updated guidelines, should the need arise. Preparing ongoing issues regarding remuneration and other terms of employment for the CEO for decision by the Board, and serving in a consultative function regarding the CEO's proposals on remuneration and other terms of employment for other senior executives.

At the Statutory Board meeting in 2019, Siv Svensson was elected Chair of the Remuneration Committee. Lennart Käll, Ulrika Nordström and Klas Wählberg were appointed as members of the Committee. SJ's CEO serves in a reporting capacity to the Remuneration Committee. During the year, three minuted meetings were held and the Committee's Chair submitted regular reports on the Committee's work to the Board.

## Sustainability and Ethics Committee

The Sustainability and Ethics Committee's role is to examine and proactively contribute to the SJ Group's internal and external work on sustainability. The work of the Sustainability and Ethics Committee shall be guided by the State's ownership policy and the principles that follow from the UN Global Compact initiative and its ten international principles, together with the OECD Guidelines for Multinational Enterprises.

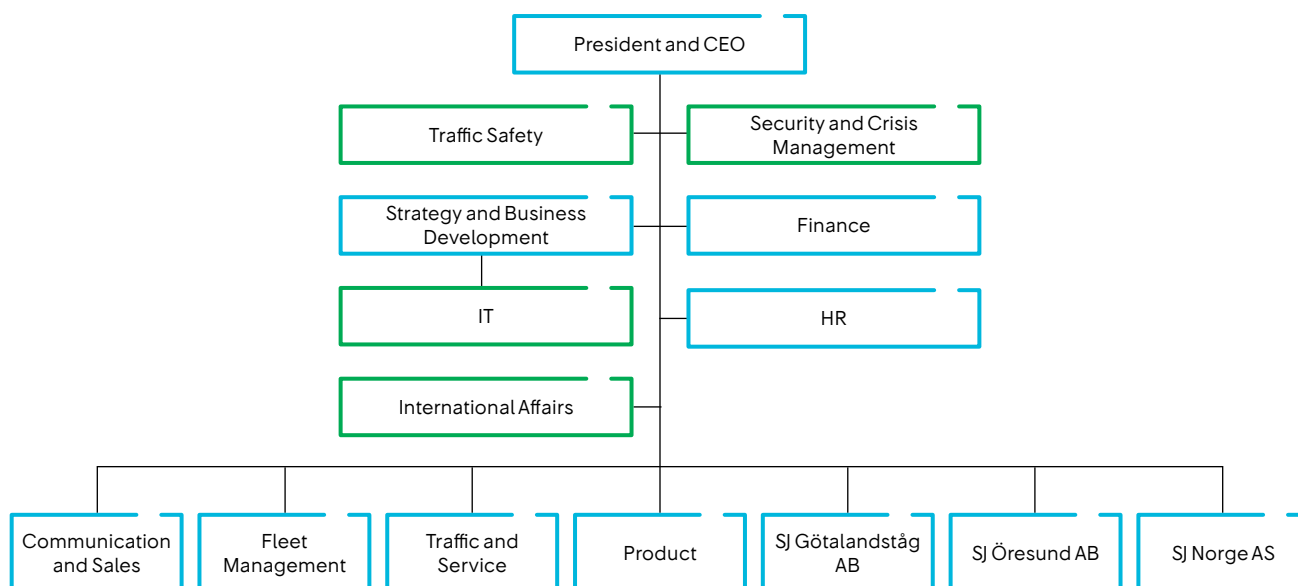
At the Statutory Board meeting in 2019, Kersti Strandqvist was elected Chair of the Sustainability and Ethics Committee. Siv Svensson and Lennart Käll were appointed members of the Committee. SJ's CEO takes part in the work of the Committee and the Senior Vice President Strategy and Business Development and the Responsible for Sustainability serve in a reporting capacity. Two minuted meetings were held during the year. The Committee's Chair continuously informed the Board about the work of the committee.

## Auditors

SJ's owner is responsible for appointment of auditors, and appointments are submitted to the AGM for approval. Under the EU's Audit Regulation, proposals for appointment of auditors and for auditor's fees in State-owned enterprises are to be presented by the Board and produced by the Company subject to the rules on procurement and election of auditors for companies with shares quoted for trading in a regulated market. The notice convening the AGM includes a proposal

## SJ Group – organisation

- Member of Group Management
- Not member of Group Management



Other operational subsidiaries in SJ Group not represented in Group Management: SJ Norrlandståg AB and SJ Danmark A/S

for the appointment of auditors, as well as information about any conditions that may be relevant in evaluating the experience and independence of the auditors proposed. The auditors proposed are required to attend the AGM.

### Auditors in 2019

The AGM held on 25 April 2019 appointed accountants Deloitte AB, represented by Authorised Public Accountant Hans Warén as Auditor-in-Charge, as the external auditor for the Company until the 2020 AGM. The auditors presented their audit of the financial statements for 2019, to the entire Board at a Board meeting held on 12 February 2020. During the 2019 financial year, the Audit Committee and auditors discussed the Company's financial statements, accounting, administration and risk management. In February, the auditors met the Board, without the presence of any members of Group Management. The auditors also maintained regular contact and had meetings with the Board's Audit Committee. Every year, the auditors also perform, within the scope of their audit, a review of internal controls regarding the IT environment and financial reporting.

Fees to auditors and the reimbursement of their expenses are paid on an open account basis and are detailed in Note 6 to the Financial Statements.

### Group Management

SJ's Group Management comprises the Company's President and CEO, ten Directors of SJ's divisions, staff units and operating subsidiaries and one further person. The members of Group Management are appointed by the CEO following consultation with the Board.

SJ's CEO is responsible for SJ's day-to-day management and, under the Swedish Companies Act and the Board of Directors' guidelines and instructions, is authorised to decide all issues affecting day-to-day management. The CEO oversees operations and takes decisions on behalf of the SJ Group in consultation with Group Management, which meets on a regular basis. The duties of Group Management include:

- Developing and executing SJ's strategic plan, in consultation with the Board
- Ensuring that SJ draws up and follows a business plan, operational plans and budget, via regular business reviews
- Deciding on and overseeing operational activities within the framework of business plans adopted

All divisions, subsidiaries and staff units are headed by a senior vice president (SVP) in consultation with a management team, which meets on a regular basis. The SVPs are responsible for planning, managing, following up and improving the activities of each division, subsidiary or staff unit, so that:

- The division, subsidiary or staff unit fulfils its role and is operated in accordance with SJ's vision, mission and business plan
- Operations are conducted in accordance with applicable legislation and the instructions of government agencies, and otherwise adhere to SJ's governing documents
- Operational plans, including budgets, are established on the basis of the SJ Group's overriding business plan, with clearly defined activities for the division, subsidiary and staff unit, and the operational plan is communicated internally, implemented and followed up.

### Changes in Group Management in 2019

Until 31 January, Thomas Silbersky, Senior Vice President International Affairs and formerly Senior Vice President Sales, headed the new division Communication and Sales. From 1 February to 31 March, the division was headed by Monica Berglund as Acting Senior Vice President Communication and Sales. On 1 April, Mats Almgren took over as new Senior Vice President Communication and Sales.

On 31 May, Erica Kronhöffer, Senior Vice President Quality, Environment/Sustainability, left SJ to take up a new appointment. At that point, the Quality and Environment staff unit was closed down and the employees were reassigned elsewhere in the organisation.

Former Senior Vice President Human Resources Peter Blomqvist retired on 12 July and was succeeded by Mats Pettersson, who took up his new position on 19 August.

On 1 August, Anders Gustafsson was appointed President of the newly-established SJ Öresund AB.

On 29 August, Senior Vice President Traffic and Service Madeleine Raukas took up the role of Deputy CEO of SJ AB, a newly established position. Madeleine Raukas retains her position of Senior Vice President Traffic and Service.

In October, SJ President and CEO Crister Fritzson announced that he would be leaving SJ in spring 2020 to take up a new appointment.

SJ's Senior Vice President International Affairs Thomas Silbersky served as Acting President of SJ Norge AS and member of SJ's Group Management from 13 September 2019 to 14 January 2020.

On 1 December, Arvid Fredman took up the position of Senior Vice President Fleet Management. At the same time, former Senior Vice President Fleet Management Claes Broström transferred to a role of Director of SJ's major rolling stock projects and remained a member of SJ's Group Management.

On 31 December, Caroline Åstrand resigned as Senior Vice President Product and left SJ's Group Management. In 2020, she will leave SJ to take up a new appointment.

### Decision-making forums and councils

Group Management decides which decision-making forums are 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 authorised to take unanimous decisions within the framework of the current business plan and budget. If consensus cannot be reached within a forum, the matter is referred to Group Management for decision.

SJ currently has four forums alongside Group Management: The Strategy Forum, Marketing Forum, Production Forum and Risk and Safety Forum. Each decision-making forum has three principle tasks:

- To widen the scope of and expedite decision-making in the SJ Group
- To regularly coordinate, prioritise and decide on issues concerning more than one division, subsidiary or staff unit
- To ensure that work progresses within the organisation and to assure a high tempo in implementation

Complementing the decision-making forums, Group Management can take decisions to establish councils. The purpose of a council is to ensure cross-functional treatment of current and/or prioritised issues in, for example, punctuality, purchasing, IT, training or branding. A council has no additional mandates outside the regular mandates of its participants.

### Guidelines for terms of employment for senior executives

Decisions on terms of employment for the CEO are prepared by the Remuneration Committee and submitted to the Board for decision. Decisions on terms of employment for other senior executives are taken by the CEO after due consultation with the Remuneration Committee. SJ follows the guidelines on remuneration adopted at the AGM. SJ's guidelines comply with the government's guidelines on terms of employment for senior executives in State-owned companies, issued on 22 December 2016.

The total remuneration paid shall be reasonable and well-balanced. It shall be competitive, capped and appropriate. Remuneration shall not be market-leading relative to similar companies, but shall be characterised by moderation. "Appropriate" shall be understood to mean that the remuneration corresponds to the requirements set, in terms of qualifications and experience. Remuneration shall be competitive such that it makes SJ better able to recruit skilled employees with qualifications that fit with SJ's requirements for return on capital and professionalism.

Variable salary and variable salary components shall not be paid to the senior executives. Senior executives may be offered a company car and personal health insurance. Furthermore, senior executives will be covered by benefits that originate in collective pay agreements, or that are unilaterally approved by SJ and are also enjoyed by other employees.

Pension benefits shall be of the defined-contribution type and the contribution shall not exceed 30% of the fixed salary, unless complying with an appropriate collective agreement pension plan. On that basis, where SJ agrees a defined-benefit pension plan, it shall be aligned with the appropriate collective agreement pension plan. Any increases in the collective agreement pension plan for salary components above the income levels covered by the plan shall be of the defined-contribution type and borne during the employee's period of active service. No pension premiums relating to additional pension costs shall be paid by SJ after the employee has retired. The pensionable age shall not be less than 65 years.

On termination of employment by SJ, the notice period may not exceed six months and any severance compensation may not be paid for longer than the equivalent of twelve months. Severance compensation shall be paid monthly and shall comprise the fixed monthly salary alone, without allowances or benefits. Any other income from employment, paid assignments or business activity shall be deducted from the severance compensation. On termination of employment by the employee, severance compensation is not paid. Severance compensation shall be paid until no later than the agreed pensionable age, and never longer than to the age of 65 years.

Remuneration to senior executives is described in more detail in Note 4 to the Financial Statements.

### Sustainable control of operations

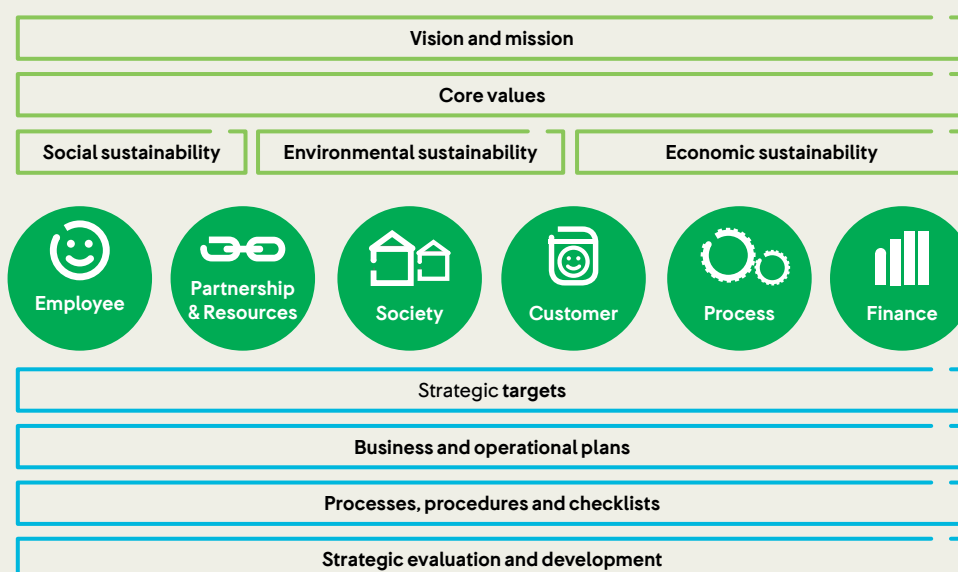
SJ's business model and control system starts from a value-creation, holistic approach that incorporates social, environmental and financial sustainability, see illustration below. The organisation is controlled and followed up via a balanced scorecard with six control areas: Employee, Partnership & Resources, Society, Customer, Process and Finance. The scorecard is based on the expectations of SJ's stakeholders and on SJ's own ambitions to control operations in a sustainable way. One condition for living up to the requirements and expectations placed on SJ is an understanding of which issues are material to stakeholders. Dialogue with our stakeholders is a source of valuable knowledge, which helps SJ to continuously develop its offering and business. Read more about SJ's stakeholder dialogue and materiality analysis on pages 98–99.

Of the UN's 17 global sustainability goals, SJ has identified three where the Group is most able over the next few years to contribute and be part of the solution:

- Goal 7: Affordable and clean energy for all
- Goal 10: Reduced inequalities
- Goal 11: Sustainable cities and communities

Read more about how SJ is contributing to these goals on page 15.

## From vision to concrete action – SJ's management system





### *Sustainable strategic, business and operational plans*

SJ's strategic plan, which is subject to approval by the Board, sets out the long-term and overarching targets for the business. Group Management and Board together conduct an annual review of progress relative to SJ's strategic targets. Strategies and strategic targets are also reviewed every three years.

SJ's strategic plan is complemented by a five-year business plan under which strategic decisions are implemented. SJ's six control areas, with associated key metrics and targets, form a central element of the business plan. The plan is produced by Group Management and submitted to the Board for formal approval. A 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 rail line. The services and rolling stock plan forms the basis for evaluating ticket income and calculating the variable production expenses per year and per line.

Every year, each division, subsidiary and staff unit produces, from the business plan, an operational plan including budget for the year ahead, through which business objectives are translated into concrete activities.

### *Continuous follow-up via key metrics*

Every key metric on SJ's scorecard has annually set targets with clear ownership in Group Management and clear responsibility for reporting within the organisation. Every key metric at overall business plan level (level one) is broken down into relevant key metrics in subordinate operational plans (levels two and three). Every level one key metric has a manual detailing definitions, methods and quality assurance. These manuals are updated at least annually and play an important role in establishing reliable decision support information.

Key metrics are 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 actions can be taken quickly.

The outcomes for most level one key metrics are reported for external consumption every quarter. The Board of Directors is informed every month as to the outcomes for all level one key metrics and for a selection at levels two and three. Read more about targets and outcomes for the scorecard's level one on page 17.

Based on the areas identified in the materiality analysis, SJ also monitors the annual outcome for a number of disclosures in accordance with GRI Standards. Several of these disclosures are also included on level one or two on the scorecard. The disclosures monitored annually are those where SJ has little influence but where watching developments is nevertheless worthwhile. One example is energy consumption, which to a very high degree is determined by the number of kilometres covered, train speed and outdoor temperature (energy is needed to heat or cool trains). Read more on the disclosures that are monitored in SJ's GRI Index on pages 100-102.

### *Management system*

The management system is management's means of controlling, following up and developing SJ's work on quality, environmental and work environment issues, as well as for its systematic focus on constant improvements. The management system is based on the requirements and expectations of SJ's stakeholders. To lay down clearly how SJ is to meet these requirements, it has produced a vision, mission, core values, strategies, policies and other control documents.

SJ has an integrated and certified management system for quality management (ISO 9001) and environment (ISO 14001). SJ uses the EFQM (European Foundation of Quality Management) model to evaluate the system's efficiency. The model is a tool to measure SJ's position relative to its vision and adopted targets in a systematic manner.

### *Policies and Codes of Conduct*

SJ's policies and Codes of Conduct are based on its vision, mission and strategies. The policies are adopted by the Board annually. Every policy has an owner who is responsible for implementation and annual follow-up.

The SJ Group's Internal Code of Conduct provides guidance to employees, Board members and independent contractors on how they are expected to act and interact with each other, customers, passengers and other stakeholders, on the basis of SJ's core values: Reliable, Simple, Caring and Wonderful. The Code is based on the internationally agreed regulations, above all the ten principles of the UN Global Compact. It also incorporates several of SJ's policies and guidelines, including Quality and Environmental Policies. Read more on page 18.

All SJ suppliers are required to comply with the SJ Group's Supplier Code of Conduct, read more on page 25. A selection of SJ's policies is listed on page 44.

### *Focus on quality*

Quality is about satisfying and if possible exceeding customers' requirements and expectations. At SJ, this means operating safe, reliable and comfortable passenger train services, based on customer needs and in accordance with legal requirements.

SJ's internal Code of Conduct incorporates a quality policy. It describes how the right quality is assured by applying four basic principles:

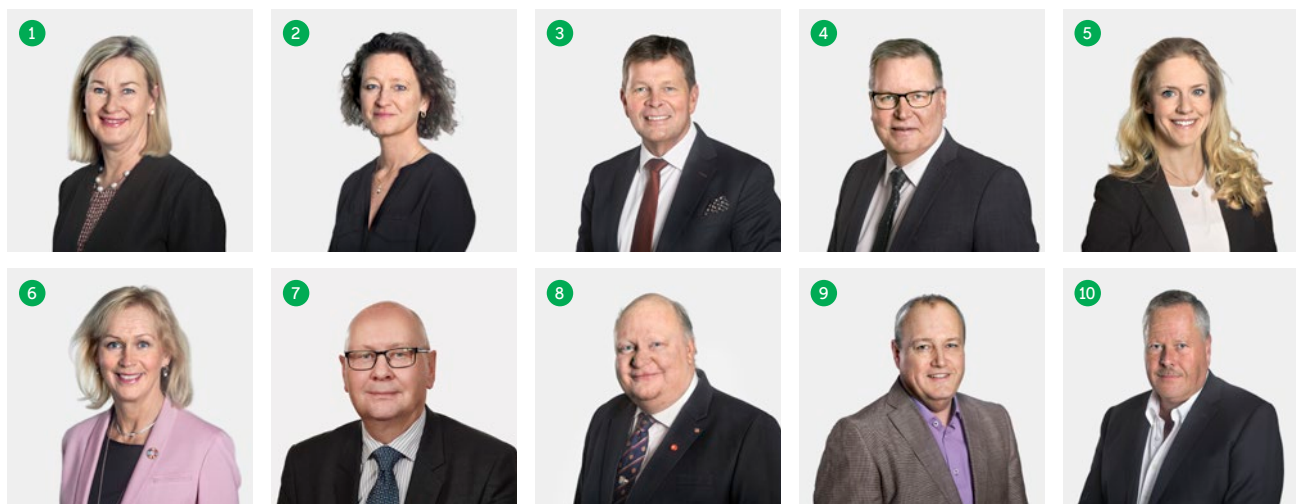
- Take responsibility for delivering the right quality at every stage
- Apply the best working practices known, every time
- Identify and react to deviations
- Develop and constantly improve the organisation and employees by working towards clear goals

A major aspect of SJ's constant focus on improvement is to collate quality deviations and suggestions for improvement, identify root causes of problems and engage appropriate actions for long-term solutions to problems. On-board personnel can report deviations and suggestions for improvements via a mobile app, while other employees can report online. A process is in place for handling of reported deviations.

### *Whistle-blower function*

Since 2014, SJ has had a whistle-blower function in place for employees to report serious irregularities, including deviations from the internal Code of Conduct. The system guarantees the whistle-blower's anonymity, and reports are handled by a group consisting of the Heads of Legal Affairs, Security and Crisis Management and HR. In 2019, the Group dealt with four cases.

## Board of Directors



### 1. Siv Svensson

Chair of Board of Directors, SJ AB, since 2018, Board member since 2012.

Chair of Remuneration Committee, member of Audit Committee and Sustainability and Ethics Committee.

*Born:* 1957

*Education:* Degree in International Economics  
*Positions and Board assignments:* Board member of Allba AB.

*Previous positions and Board assignments:* President of Sefina Finance AB, Executive Vice President and regional bank manager at Nordea, Board member, Karolinska University Hospital, Inlandsinnovation AB, Forum Syd and Swedbank.

### 2. Ulrika Dellby

Board member, SJ AB, since 2014  
Member of the Audit Committee

*Born:* 1966

*Education:* M.Sc. in Economics

*Positions and Board assignments:* Board member of Lifco AB, Kavli Holding AS, Fasadgruppen Norden AB and Cybercom Holding AB. Chair of Hello World! Not-for-profit association. Partner Fagerberg & Dellby Fond I AB.

*Previous positions and Board assignments:* Deputy Chair, Fastighetsaktiebolaget Norrporten; Partner, Boston Consulting Group. Board member, Big Bag AB, Yrkesakademin AB, Via Travel Group AS, OSM Group AB. President, Brand Union AB.

### 3. Lennart Käll

Board member, SJ AB, since 2018

Member of Remuneration Committee and Sustainability and Ethics Committee

*Born:* 1958

*Education:* M.Sc. in Economics, Diploma in Programming

*Positions and Board assignments:* Chair, Sveriges Radio. Chair, Länsförsäkringar Stockholm. Board member, Grönklittsgruppen AB and Swedish Ski Association. Co-opted Board member, Grant Thornton.

*Previous positions and Board assignments:* President and CEO, Svenska Spel, President of Wasa Kredit, President and CEO of Ticket Travel Group, President of Ica-banken, President of SEB Finans. Board member, LF Bank, Euromaint, UC, Möller bilfinans (Norway) and Unibanka (Latvia).

### 4. Per Matses

Board member, SJ AB, since 2018

Chair of Audit Committee

*Born:* 1958

*Education:* M.Sc. in Economics

*Positions and Board assignments:* Deputy CEO and CFO of Sveaskog. Board member, Setra Group AB and Praktikertjänst AB.

*Previous positions and Board assignments:* CFO, Senior Vice President Administration at Apoteket AB, CFO at Postgirot Bank AB, CFO at Posten AB.

### 5. Ulrika Nordström

Board member, SJ AB, since 2018

Member of Audit Committee and Remuneration Committee

*Born:* 1982

*Education:* M.Sc. in Economics

*Positions and Board assignments:* Deputy Director at the Ministry of Enterprise and Innovation. Board member, Saminvest AB.

*Previous positions and Board assignments:* Consult at Boston Consulting Group, Investment Manager in the Swedish Government Offices. Board member, Infranord AB, Specialfastigheter Sverige AB and Lernia AB.

### 6. Kersti Strandqvist

Board member, SJ AB, since 2016

Chair of Sustainability and Ethics Committee

*Born:* 1963

*Education:* M.Sc. in Engineering (licentiate degree), Master of Marketing HEC

*Positions and Board assignments:* Vice President Digital Transformation, Essity.

*Previous positions and Board assignments:* Board member, TeliaSonera AB and Swedish Match AB, SCA - Head of Business Area Feminine Care, SCA - Head of Business Area Baby Care, Senior Vice President Sustainability at Svenska Cellulosa AB and Senior Vice President Sustainability at Essity.

### 7. Klas Wählberg

Board member, SJ AB, since 2019

Member of Remuneration Committee

*Born:* 1958

*Education:* M. Sc. (Engineering), MBA

*Positions and Board assignments:* President, Association of Swedish Engineering Industries (Teknikföretagen), Senior Vice President, Society and Defence (Folk och Försvar).

*Previous positions and Board assignments:* President Bombardier Transportation Sweden AB and President Upplands Lokaltrafik.

### 8. Per Hammarqvist

Employee representative at SJ AB since 2011

*Born:* 1958

*Positions and Board assignments:* Traffic planner. Chairman of SACO branch at SJ and of TJ branch at SJ. Board member of T&J branch in SRAT (Association of Professional Employees).

### 9. Hans Pilgaard

Employee representative at SJ AB since 2012

*Born:* 1963

*Positions and Board assignments:* Train driver. Chairman of ST Spårtrafik (Rail Transport) at SJ AB and member of the Departmental Board of ST Spårtrafik

### 10. Stefan Zetterlund

Employee representative at SJ AB since 2016

*Born:* 1963

*Positions and Board assignments:* Train conductor. Chairman and Head of Contracts for the Negotiation Council of Seko at SJ. Chairman of the Seko Branch at Hallsberg and Chairman of Seko Auditors' Union.

# Group Management



## 1. Crister Fritzon

President/CEO 2012-29 February 2020

*Born:* 1961

*Education:* Degree in Marketing

*Board assignments:* Board member of Net Insight AB, the Confederation of Swedish Enterprise and Almega Service Associations. Chair of CER (Community of European Railway and Infrastructure Companies), BTO (the Association of Swedish Train Operating Companies) and Samtrafiken i Sverige AB.

*Previous positions:* President and CEO of Teracom, President of Boxer

## 2. Madeleine Raukas

Executive Vice President and Deputy CEO since August 2019. Senior Vice President Traffic and Service since 2012, President of SJ Norrlandståg AB since 2017. President/CEO since 1 March 2020

*Born:* 1967

*Education:* B.A.

*Board assignments:* Board member, Association of Swedish Train Operating Companies and Sveriges kommunikationer AB.

*Previous positions:* Vice President and Acting CEO of SL, President of SAS Ground Services Sverige.

## 3. Henrik Rättzén

CFO since 2018. Executive Vice President and Deputy CEO since 1 March 2020

*Born:* 1965

*Education:* M.Sc. in Economics

*Board assignments:* Board member, Fjärde AP-Fonden (Fourth AP Fund).

*Previous positions:* CFO, Carnegie Investment Bank, CFO PostNord, CFO Codan/Trygg-Hansa, Partner KPMG.

## 4. Mats Almgren

Senior Vice President Communication and Sales since April 2019.

*Born:* 1964

*Education:* Executive MBA

*Previous positions:* Head of Business Area Telenor, President Canal Digital, President NEC Scandinavia.

## 5. Claes Broström

Director of SJ's major rolling stock projects since December 2019. Member of SJ's Executive Management since 2006.

*Born:* 1954

*Education:* Mechanical Engineer and Market Economist

*Previous positions:* Senior Vice President Fleet Management SJ AB from 2006 to November 2019. Senior Vice President SAS AB, Vice President Ericsson AB.

## 6. Arvid Fredman

Senior Vice President Fleet Management since December 2019

*Born:* 1977

*Education:* M.Sc. in Engineering, Executive MBA

*Previous positions:* Head of Service Procurement in Fleet Management Division at SJ AB. Head of X2000 fleet team at SJ AB. Senior Consultant, Maintenance & Quality at Interfleet Technology. Resource optimisation and planning at Green Cargo AB.

## 7. Anders Gustafsson

President of Öresund AB since August 2019

*Born:* 1980

*Education:* M.Sc. in Engineering

*Previous positions:* Head of Locomotive Technology Green Cargo AB, Head of Rolling Stock and Depot Stockholmståg KB, Head of Major Projects, Fleet Management Division SJ AB, Bid Director SJ AB.

## 8. Lena Herrmann

Senior Vice President Strategy and Business Development since 2015

*Born:* 1962

*Education:* M.Sc. in Engineering

*Board assignments:* Board member, Samtrafiken i Sverige Aktiebolag and Skandia Mutual Life Insurance Company.

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

## 9. Sverre Høyen

President of SJ Norge AS since 15 January 2020

*Born:* 1964

*Education:* Bachelor's degree in Economics and Administration M.Sc. in Marketing

*Previous positions:* Director, the Spekter employers' organisation, President of Peppes Pizza and Star Tour Norge, several management positions at Flytorg.

## 10. Lena Källström

President of SJ Götalandståg AB since 2012. Member of Group Management since 2017

*Born:* 1965

*Education:* M.Sc. in Economics

*Previous positions:* Head of Regional Services at SJ AB, District Manager at Sodexo.

## 11. Mats Pettersson

Senior Vice President Human Resources since August 2019

*Born:* 1961

*Education:* B.A.

*Previous positions:* Senior Vice President HR at NCC, Senior Vice President HR at Quant AB, Senior Vice President HR at Manpower, Senior Vice President HR at Scandinavian Service Partner, Senior Partner at Ekman & Partners.

## 12. Bjarni Skipper

Acting Senior Vice President Product since 16 January 2020

*Born:* 1974

*Education:* M.Sc. in Economics

*Previous positions:* Various management positions at SJ, including Director of Traffic Programmes and Planning and Director of Traffic and Fleet Programmes.

## 13. Thomas Silbersky

Acting President SJ Norge AS September 2019-14 January 2020, Senior Vice President International Affairs since 2018. Member of Group Management 2013-14 January 2020.

*Born:* 1965

*Education:* M.Sc. in Economics

*Previous positions:* Senior Vice President Marketing and Sales at SJ, Commercial Director of Rynkeby Foods AB (Arla), General Manager of Tivall Scandinavia (Nestlé), Marketing Director at Carlsberg.

On 31 December 2019, Caroline Åstrand left her role as Senior Vice President Product and Group Management.

Other changes in Group Management in 2019 are described on page 49.



## Internal controls of financial reporting

Under the Swedish Companies Act and the Swedish Code of Corporate Governance, the Board is responsible for the Company's internal controls. SJ's external financial and non-financing reporting consists of quarterly reports, the year-end report and most of the annual and sustainability report. The work of the Audit Committee is one aspect of control by the Board. In 2019, any observations made by external and/or internal auditors were presented at all Audit Committee meetings.

### Risks

SJ works systematically on assessments of risk. Structured risk assessment makes it possible to identify material risks of significance in terms of internal controls. The Risk Council and the Risk and Safety Forum are responsible for an established process to identify financial and non-financial risk areas with reference to the scorecard. The aim is, for every risk, to be able to take action to limit undesired effects or to maximise opportunities identified. The process of identifying risks involves all divisions, subsidiaries and staff units, enabling support to be embedded and awareness heightened throughout the organisation, and risk to be identified effectively. Every risk identified has an owner.

Group Management is informed on a four-monthly basis as to risk assessments performed, in order to determine whether there is a need for further action, or whether new risk areas are to be assessed. The Board receives information three times a year about risks identified and actions taken. Read more on page 41.

### 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 feed through into actions and improvement programmes. SJ's Internal Audit function conducts an annual independent risk analysis that provides the basis for the function's annual audit plan, which is submitted to the Board for approval. During planning for the annual audit, the external and internal audit functions discuss SJ's risk profile with the Responsible of Risk, Internal Governance and Internal Controls.

An external provider has been responsible for internal auditing at SJ since 2018. The aim is to gain access to specialist knowledge within specific areas. An audit programme was approved in late 2018.

### Control environment

The internal controls framework consists of the control environment including organisation, processes, instructions, authorisations and responsibilities that are documented and communicated in governing documents, together with the core values upon which the Board and Group Management communicate and operate. Responsibilities and authorisations are defined in policies, processes, instructions and procedures. Examples include:

- Written rules of procedure for Board, Audit Committee, Remuneration Committee and Sustainability and Ethics Committees
- Board's instructions to the CEO
- Policies adopted, SJ's Internal Code of Conduct and Governance in the SJ Group

- SJ's organisational chart and processes
- Instructions, such as authorisation rules, aimed at ensuring effective control of financial transactions to prevent intentional or unintentional errors
- Manuals describing definition, method and quality assurance for financial and non-financial key metrics

Read more about sustainable control of the organisation on pages 50–51.

### Control activities

SJ's control activities are designed for systematic management of significant risks related to financial and non-financial reporting, including key accounting issues identified during the risk assessment. The objective of the control activities is to prevent, or enable early detection of, errors in reporting, and thereby minimise any adverse impact. The Finance staff unit is responsible for analysing the financial results and preparing the financial statements.

To ensure that SJ has control activities in place for high-risk areas, SJ has established process charts for every process identified in the SJ Group. Examples of control activities:

- Strategic business review meetings organised by the Controller function, at which members of Group Management and CEOs of service-operating subsidiaries report on their activities and planning to SJ's CEO and CFO.
- Follow-up on financial and non-financial key metrics on SJ's scorecard monthly, quarterly and annually.
- Monthly review meetings, together with account reconciliation for all balance sheet accounts to ensure accurate financial result, cash flow and assets total.

### Information and communication

Effective information and communication channels enable reporting and feedback from the organisation to the Board and Group Management. The right people must have the information needed to understand the implications of internal policies and guidelines, and the consequences of deviations. SJ focuses constantly on improving its internal communications and explaining the decision-making processes clearly, to increase the reliability and effectiveness of the Company's financial and non-financial reporting.

SJ's decision-making processes, authorisations and areas of responsibility are documented and available on the SJ intranet. Meetings between managers and employees are held regularly, with great emphasis being placed on regular workplace meetings where SJ's overriding issues are linked in a natural way to the responsibilities of each individual employee.

Three dialogue meetings, representing a forum for employees from all parts of SJ, were held during 2019. In addition, an employee survey is conducted annually. Outcomes are followed up both by Group Management and analysed within specific groups.

### Monitoring

Monitoring is conducted continuously to ensure that risks have been taken into account. SJ has formalised processes aimed at ensuring that the Company is moving in the right direction in line with the targets and guidelines set by the Board and Group Management. The Board determines the reporting requirements necessary to obtain appropriate information on the financial and non-financial results, on the Group's opera-

tional risks, and on how these risks and outcomes are affected by changes in external factors, such as competition and legislation.

SJ's internal and external reporting includes the outcomes and analysis of financial and non-financial key metrics on the scorecard, and aims to regularly report on the Company's performance, such as in relation to its corporate sustainability targets. Relevant and accurate monitoring and reporting of operations in relation to the business plan adopted, budget and forecast are provided monthly to Board, CEO and Group Management.

Reporting complies with applicable laws and regulations, as well as the requirements of SJ's owner.

Compliance with internal policies, guidelines and manuals, as well as the appropriateness and functionality of established control activities, such as supplier assessments, are monitored. Other examples include quarterly follow-up of the financial policy, the whistle-blowing system through which employees can report serious irregularities, and ongoing assessments of safety-related work.

Internal Audit follows the audit plan adopted by the Board and reports the findings of its audit to SJ's Audit Committee.

## Appropriation of Profit

Given the great uncertainty as to the effects that the coronavirus and measures to curb spread of the infection may have on SJ's operations, the Board has decided to withdraw its former proposal to the 2020 Annual General Meeting for dividend of SEK 46.40 per share, representing total dividend of SEK 185,600,000 and corresponding to around 30 percent of the SJ Group's profit for the year.

The Board now proposes instead that at the 2020 Annual General Meeting the shareholder resolve that SJ AB should not pay any dividend in respect of the 2019 financial year. It is proposed that the profit be appropriated as follows.

### Unappropriated profit available for appropriation by the Annual General Meeting:

Retained earnings	SEK 3,520,156,798
Profit for the year	SEK 450,128,131
<b>Total</b>	<b>SEK 3,970,284,929</b>

### The Board of Directors proposes that the profit be appropriated as follows:

To be carried forward:	SEK 3,970,284,929
<b>Total</b>	<b>SEK 3,970,284,929</b>

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# Consolidated income statement and statement of other comprehensive income

SEK million	Note	2019	2018
Net sales	3	8,602	7,874
Other operating income		7	49
<b>Gross income</b>		<b>8,609</b>	<b>7,923</b>
Personnel expenses	4	-2,576	-2,546
Depreciation/amortisation and impairment	9, 10, 11	-1,110	-754
Other expenses	5, 6	-4,213	-4,175
<b>Total operating expenses</b>		<b>-7,898</b>	<b>-7,475</b>
Profit from participations in associated companies	12	61	21
<b>Operating income</b>		<b>772</b>	<b>468</b>
Financial income	7	27	4
Financial expenses	7	-22	-15
<b>Income before tax</b>		<b>776</b>	<b>457</b>
Income tax expense	8	-157	-68
<b>Net income</b>		<b>619</b>	<b>389</b>
<i>Attributable to:</i>			
Parent Company shareholder <sup>1</sup>		619	389
Earnings per share (basic and diluted), SEK		154.7	97.1
Number of shares at year-end, thousands		4,000	4,000
Average number of shares during the year, thousands		4,000	4,000
<b>Other comprehensive income</b>			
<i>Items to be reclassified to the income statement</i>			
<b>Cash-flow hedges</b>			
- change in fair value	17	5	2
- reclassification to the income statement	17	2	6
Deferred tax	17	-2	-2
<b>Other comprehensive income</b>		<b>5</b>	<b>6</b>
<b>Total comprehensive income</b>		<b>624</b>	<b>394</b>
<i>Attributable to:</i>			
Parent Company shareholder <sup>1</sup>		624	394

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

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

### Income

SJ's net sales totalled SEK 8,602 million (7,874), an increase of SEK 728 million compared with last year and a sales growth of around 9%. Sales increased partly as a result of strong travel development<sup>1</sup> of 11%, and high load factor. First Class travel increased and more passengers chose rebookable tickets. Bistro sales increased too as a result of the strong travel development. The amount of available seats was higher than last year.

The yield (ticket price per passenger kilometre) was on a par with last year.

### Expenses

SJ's operating expenses totalled SEK 7,898 million (7,475), an increase of SEK 423 million from last year, corresponding to an increase of nearly 6%. The higher expenses were partly the effect of more available seats and increased travel. Sales-related expenses rose as a result of the increase in travel. SJ also maintained its programme of digitisation and enhanced its work on business development toward year-end, in order to assure SJ's future competitiveness. This led to higher expenses than last year.

Personnel expenses increased somewhat as a result of the annual pay review and a higher average number of employees.

The Group has been applying IFRS 16 Leases since 1 January 2019. This has affected other expenses with SEK 360 million in lower lease expenses for premises and rolling stock, but increased depreciation with SEK 338 million. In addition, an interest rate effect arose. All-in-all the adoption of IFRS 16 increased SJ's income by SEK 14 million.

### Operating profit

Operating profit for the full year 2019 increased to SEK 772 million (468), mainly as a result of strong travel development<sup>1</sup> of 11%, and high load factor. The operating margin increased to 9.0% (5.9).

The divestment of SilverRail Technologies AB resulted in a capital gain of SEK 58 million. During the year, SEK 76 million was allocated to a restructuring provision in connection with the efficiency programme that SJ is engaged in to secure SJ's competitiveness and financial position. The value for accounting purposes per point in SJ's customer loyalty programme SJ Prio has been updated, driven by changes in consumption patterns, which resulted in a SEK 31 million reduction in income.

### Net income and tax

Net income was strong, at SEK 619 million (389).

Consolidated income before tax amounted to SEK 776 million (457). Tax on net income was SEK -157 million (-68). The effective tax rate was -20.2% (-14.9). The difference between the actual tax rate, 21.4%, and the effective tax rate for 2019 was mainly attributable to a non-taxable capital gain in the Parent Company from the divestment of SilverRail Technologies AB.

<sup>1</sup> Travel development includes travel with SJ tickets on SJ's independent commercial services and tendered services, excluding season ticket travel on tendered services. However, all travel on season tickets within the scope of the Movingo agreement is included.

# Consolidated balance sheet

SEK million	Note	31/12/19	31/12/18
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	9	5,020	5,185
Right-of-use assets <sup>1</sup>	10, 16	1,016	-
Intangible assets	11	239	218
Other non-current assets	12	106	141
<b>Total non-current assets</b>		<b>6,381</b>	<b>5,544</b>
<b>Current assets</b>			
Inventories		9	9
Accounts receivable	15	282	263
Other receivables	13	139	288
Prepaid expenses and accrued income	14	232	222
Short-term investments	15	2,483	1,518
Cash and cash equivalents	15	204	191
<b>Total current assets</b>		<b>3,348</b>	<b>2,491</b>
<b>TOTAL ASSETS</b>		<b>9,729</b>	<b>8,035</b>

<sup>1</sup> For information on adoption of IFRS 16 Leases, see Note 24.

SEK million	Note	31/12/19	31/12/18
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Equity attributable to shareholder in Parent Company <sup>1</sup>	17	5,170	4,740
<b>Total equity</b>		<b>5,170</b>	<b>4,740</b>
<b>Non-current liabilities</b>			
Lease liability <sup>2</sup>	15, 16	694	-
Other interest-bearing liabilities	15	769	864
Provisions	18	225	191
Deferred tax liabilities	8	462	465
<b>Total non-current liabilities</b>		<b>2,150</b>	<b>1,521</b>
<b>Current liabilities</b>			
Lease liability <sup>2</sup>	15, 16	293	-
Other interest-bearing liabilities	15	98	98
Provisions	18	311	174
Accounts payable	15	584	459
Accrued expenses and deferred income	19	976	867
Tax liabilities		3	2
Other current liabilities	15	143	174
<b>Total current liabilities</b>		<b>2,409</b>	<b>1,774</b>
<b>Total liabilities</b>		<b>4,559</b>	<b>3,295</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>9,729</b>	<b>8,035</b>

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

<sup>2</sup> For information on adoption of IFRS 16 Leases, see Note 24.

## Comments on the Consolidated statement of financial position

### Assets

#### Property, plant and equipment

The Group's property, plant and equipment amounted to SEK 5,020 million (5,185). The item consisted mainly of rolling stock. SJ's train fleet principally is made up of SJ 3000s, X 2000s, double-deckers, locomotives and carriages. Investments for the year in property, plant and equipment totalled SEK 552 million (508). The investments consisted mostly of expenditure on X 2000s.

#### Right-of-use assets

The Group's right-of-use assets consist mostly of leases for premises and, to a lesser extent, rolling stock, totalling SEK 1,016 million (-). For more information on adoption of IFRS 16 Leases, see Note 24.

#### Intangible assets

The Group's intangible assets totalled SEK 239 million (218), comprising capitalised development expenditure relating primarily to development costs for business-related IT systems. Investments in intangible assets during the year, totalling SEK 97 million (58), were expended on a new financial management platform and the development of a new planning system.

#### Other non-current assets

Other non-current assets totalled SEK 106 million (141), consisting for the most part of financial investments and stakes in associated companies. The investments are in funds for management of cash and cash equivalents intended to cover future payments of annuities.

During 2019, SJ AB divested its 25% stake in SilverRail Technologies to SilverRail Technologies Inc.

### Current assets

Short-term investments totalled SEK 2,483 million (1,518), the increase consisting of excess liquidity invested in bonds and fixed-income funds.

### Liabilities

#### Interest-bearing liabilities

The Group's interest-bearing liabilities (including lease liabilities) totalled 1,854 million (962). The increase consist mainly of lease liabilities of SEK 987 million (-) being recognised as a result of application of IFRS 16 Leases. For more information, see Note 24. Interest-bearing liabilities otherwise consisted of loans raised in 2012 to finance SJ 3000s and loans raised in 2015 for upgrading of X 2000s. The loans have a term to maturity of 3 to 6 years.

#### Provisions

Provisions amounted to a total of SEK 536 million (365). The increase was mostly attributable to a restructuring reserve of SEK 76 million set aside in connection with the efficiency programme that SJ is engaged in to secure SJ's competitiveness and financial position. Another factor underlying the increase was that the value for accounting purposes per point for SJ's customer loyalty programme was updated, driven by changes in patterns of consumption, which led to an increased provision of SEK 31 million.

## Consolidated statement of changes in equity

SEK million	Note 17	Share capital	Other contrib- uted capital	Hedging reserve	Retained earnings	Total equity <sup>1</sup>
<b>1 January 2018</b>		400	2,819	6	1,389	4,615
Net income		-	-	-	389	389
Other comprehensive income		-	-	6	-	6
<b>Total comprehensive income for the year</b>		-	-	<b>6</b>	<b>389</b>	<b>394</b>
Dividend to shareholder		-	-	-	-269	-269
<b>31 December 2018</b>		<b>400</b>	<b>2,819</b>	<b>12</b>	<b>1,509</b>	<b>4,740</b>
<b>Change during year</b>						
Net income		-	-	-	619	619
Other comprehensive income		-	-	5	-	5
<b>Total comprehensive income for the year</b>		-	-	<b>5</b>	<b>619</b>	<b>624</b>
Dividend to shareholder		-	-	-	-194	-194
<b>31 December 2019</b>		<b>400</b>	<b>2,819</b>	<b>17</b>	<b>1,934</b>	<b>5,170</b>

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

### Comments on the Statement of changes in equity

The Group's equity totalled SEK 5,170 million (4,740). The increase reflects net income for the year totalling SEK 624 million (394) and a shareholder dividend of SEK -194 million (-269).

### Financial targets

The owner's financial targets and directives for SJ's operating activities are based on return on operating capital, net debt/equity ratio and dividend. These measures are not defined in accordance with IFRS. For more information on SJ's alternative key metrics, see definitions on page 105.

	Target	2019	2018
Return on operating capital, %	> 7	16.2	11.4
Net debt/equity ratio, multiple	0.5-1.0	-0.14	-0.14
The Board's proposed dividend as per appropriation of profit, %	30-50	-	50

Dividend of SEK 194 million, as per the 2018 appropriation of profit, was paid out on 9 May 2019 and represented 50% of the 2018 profit after tax for the SJ Group. The Board proposes that no dividend be paid for the 2019 financial year, given the great uncertainty as to the effects that the coronavirus and measures to curb spread of the infection may have on SJ's operations – see Note M26 for more details of the appropriation of profit.

### Reconciliation of operating capital and return on operating capital

SEK million	31/12/19	31/12/18
Average equity	4,949	4,612
Average interest-bearing provisions	157	157
Average non-interest-bearing liabilities	1,916 <sup>1</sup>	1,014
Average cash and cash equivalents and other interest-bearing assets	2,257	1,669
<b>Average operating capital</b>	<b>4,765</b>	<b>4,114</b>
Operating profit for the year	772	468
<b>Return on operating capital, %</b>	<b>16.2</b>	<b>11.4</b>

<sup>1</sup> The lease liability increased by SEK 1,145 million on 1 January 2019 because of the adoption of IFRS 16 Leases. For more information, see Note 24.

The return on operating capital in 2019 was 16.2% (11.4) and again exceeded the target of 7% for the year, mainly as a result of an improved profit.

### Reconciliation of net debt and net debt/equity ratio

SEK million	31/12/19	31/12/18
Interest-bearing provisions	160	159
Other interest-bearing liabilities	1,854	962
Cash and cash equivalents and other interest-bearing assets	2,761	1,780
<b>Net debt(+)/net cash(-)</b>	<b>-747</b>	<b>-659</b>
Total equity	5,170	4,740
<b>Net debt/equity ratio, multiple</b>	<b>-0.14</b>	<b>-0.14</b>

Net cash for the Group was SEK 747 million (659). The Group's net debt/equity ratio was -0.14 (-0.14).

SJ's capital structure is therefore stronger than stated in the owner's long-term target. SJ is on the threshold of major investments which will increase the level of debt.



# Consolidated statement of cash flows

SEK million	Note	2019	2018
<b>Cash flow from operating activities</b>			
Profit before tax		776	457
<b>Non-cash items</b>			
Depreciation/amortisation and impairment	9, 10, 11	1,110	754
Changes in provisions	18	171	-31
Capital gain/loss		3	1
Profit from participations in associated companies	12	-61	-21
Tax paid		-163	-85
Other non-cash items		-6	9
<b>Cash flow from operating activities before change in working capital</b>		<b>1,830</b>	<b>1,085</b>
<b>Change in working capital</b>			
Change in accounts receivable		-19	-33
Change in accounts payable		125	11
Change in other working capital		231	-39
<b>Cash flow from working capital</b>		<b>337</b>	<b>-61</b>
<b>Cash flow from operating activities</b>		<b>2,167</b>	<b>1,023</b>
<b>Investing activities</b>			
Investments in property, plant and equipment	9	-552	-508
Investments in intangible assets	11	-97	-58
Sale of property, plant and equipment	9	0	4
Acquisition of other non-current interest-bearing assets		0	-70
Dividends received from associates		6	11
Consideration received on divestment of associated company		106	-
Acquisition of short-term investments		-1,330	-383
Divestment of short-term investments		369	469
Other investing activities		-13	-
<b>Cash flow from investing activities</b>		<b>-1,512</b>	<b>-536</b>
<b>Financing activities</b>			
Amortisation of borrowings	23	-98	-98
Amortisation of lease liability	23	-350	-
Dividend to shareholder		-194	-269
<b>Cash flow from financing activities</b>		<b>-642</b>	<b>-367</b>
<b>Cash flow for the year</b>		<b>13</b>	<b>121</b>
Cash and cash equivalents at start of year		191	70
<b>Cash and cash equivalents at year-end</b>	15	<b>204</b>	<b>191</b>

## Comments on the Consolidated statement of cash flows

### Cash flow from operating activities

Cash flow from operating activities was higher than last year, at SEK 2,167 million (1,023), partly as a result of improved profit. Another factor in the increase was the adoption of IFRS 16 Leases, under which lease fees paid (attributable to the recognised lease liability) are now divided into amortisation of lease liability (financing activities) and interest (operating activities). Under the former policies, lease fees were classified in their entirety to operating activities, and therefore as a result of the change in accounting policy, the cash flow from operating activities increased by SEK 348 million.

Positive changes in working capital also contributed, on the basis of when in time invoicing and payment, respectively, took place.

### Cash flow from investing activities

Cash flow from investing activities totalled SEK -1,512 million (-536).

Investments in property, plant and equipment totalled SEK -552 million (-508), including SEK -541 million (-503) for rolling stock. Investments in intangible assets, totalling SEK -97 million (-58), were expended on a new financial management platform and the development of a new planning system.

The acquisition of short-term investments during the year amounted to SEK -1,330 million (-383). Divestments and maturities of short-term investments totalled SEK 369 million (469). The proceeds from the sale of shares in associated companies totalled SEK 106 million (-).

### Cash flow from financing activities

Cash flow from financing activities totalled SEK -642 million (-367).

Dividend of SEK -194 million (-269) was paid to the shareholders. SJ has amortised SEK -98 million (-98) of borrowings, according to plan. Amortisation of the lease liability totalled SEK -350 million (-). The item is recognised as a result of the Group adopting IFRS 16 Leases since 1 January 2019, see Note 24.

# Notes to the Consolidated financial statements

## 1. Accounting policies

### Basis of preparation

The consolidated financial statements comprise the Parent Company SJ AB and all subsidiaries. The consolidated accounts have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretations Committee (IFRIC), as endorsed by the European Union. The consolidated financial statements have been prepared in accordance with Swedish law, by application of Recommendation RFR 1 "Supplementary Accounting Rules for Groups".

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

The accounting policies applied in the preparation of the financial statements for the Group are described below and in the respective notes.

### Changes in accounting policies

The following new standards were adopted by the SJ Group as of 1 January 2019:

IFRS 16 Leases has been applied since 1 January 2019. IFRS 16 replaces IAS 17 Leases. SJ has applied IFRS 16 Leases retrospectively from 1 January 2019 with the cumulative effect of initially applying the new standard recognised on 1 January 2019. Comparatives for the 2018 financial year have not been restated as according to the transition requirements. At adoption of IFRS 16, the lease liability increased by SEK 1,145 million and rights-of-use asset of SEK 1,145 million were recognised. For more information on the adoption of IFRS 16 Leases, see Note 24.

Other new or amended accounting standards are not deemed to have any material impact on the consolidated financial statements.

There are no new or amended standards and interpretations as yet not in force that are expected to have any material impact on the consolidated financial statements.

### Consolidated financial statements

The consolidated financial statements comprise the Parent Company SJ AB and all subsidiaries. Companies acquired during the year are included in the consolidated income statement and statement of other comprehensive income, the balance sheet and statement of cash flows as of the date of acquisition. Companies divested are included up to the point in time when the Group no longer has control or a controlling interest over them.

The consolidated financial statements are prepared using the acquisition method. In this method, the assets, liabilities and contingent liabilities of subsidiaries acquired are recognised at fair value based on the 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.

### Segment reporting

In all essential respects, operations are conducted in Sweden. The SJ Group has no external customers that contribute more than 10% of the Group's total net sales.

The Swedish State's ownership policy and Guidelines for State-Owned Enterprises in 2017, Chapter 4, section 1, paragraph 2 require State-owned companies to present annual reports and interim reports based on relevant international financial reporting standards (IFRS) in a similar way to companies with shares traded on a reg-

ulated market in Sweden. For State-owned companies that do not have shares or other transferrable securities traded on a regulated market, there is no requirement to disclose segment reporting in accordance with IFRS. On that basis, SJ does not present any segment reporting.

### Assets and liabilities in foreign currency

Transactions in foreign currency are measured at the exchange rate on the transaction date. On the balance sheet date, assets and liabilities in foreign currency are revalued at the rate on the balance sheet date. 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.

### Statement of cash flows

The Statement of cash flows shows the Group's receipts and payments during the period, classified according to operating, investing and financing activities. The Statement of cash flows thus indicates the Group's ability to generate cash.

The Statement of cash flows is prepared using the indirect method, which means that earnings are adjusted for:

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

## 2. Critical estimates and assessments

In preparation of the consolidated financial statements, the Board and Group Management make estimates and assessments that affect the carrying amounts of assets and liabilities, income and expenses, as well as other disclosures. The actual outcome may differ from these estimates. Estimates and assessments are based on past experience and reasonable assumptions about future market trends, but also on prevailing circumstances, such as political decisions. In terms of SJ's financial position, estimates used in calculating the useful life of investments in rolling stock are especially important. In addition to estimates, assessments have also been made with regard to accounting matters of great importance to carrying amounts. The areas where SJ has made significant assessments and/or that are associated with uncertainty in estimates and assessments, and impact on profit and loss, are described below.

Critical estimates and assessments	Note
Useful lives	9, Property, plant and equipment
Additional expenses	9, Property, plant and equipment
Testing for impairment	9, Property, plant and equipment
Testing for impairment	11, Intangible assets
Leases according to IFRS 16, Leases	16, Leases
Lease term	16, Leases
Customer loyalty programme (SJ Prio)	18, Provisions
Onerous contracts	18, Provisions
Disputes	18, Provisions

### 3. Income

#### ■ Accounting policies

Net sales consist of revenue from passenger transport. SJ classifies revenue on the basis of its business model, which has two major revenue streams: income from commercial services and income from tendered services. In addition to revenue from commercial and tendered services, SJ receives revenue from on-board sales, such as bistro sales. Discounts are offered only in the form of cash discounts and are charged to recognised income.

In the case of sales of journeys to customers who are members of SJ's customer loyalty programme (SJ Prio), income is reduced with the anticipated future obligation for SJ Prio, which is recognised as a provision. Provision for delay compensation is recognised at the point of sale and is charged against the income. See Note 18 Provisions for more information.

Contractual liabilities are recognised for prepaid annual season tickets and other prepaid tickets, that is invoiced but not yet performed services.

#### Income from commercial services

SJ runs commercial services independently. Booking fees are recognised at purchase of the journey and ticket income is recognised when the journey takes place. For season tickets, the income is recognised over time and for single journeys when the journey takes place. Standard credit terms are 30 days.

#### Income from tendered services

SJ conducts operations on behalf of regional public transport authority and a national transport service procurement authority. Every contract is unique and the performance obligation consists of delivering services on a specific number of routes with a specific number of departures. Contracts may include some or all of the following elements:

- Fixed remuneration from the transport service procurement authority. The income is recognised over the term of the contract when the assignment is performed on a gradual basis, as SJ delivers a specific number of departures and number of services, as well as ongoing maintenance on rolling stock when included in the contract. Standard credit terms are 30 days. The contracts are assessed continuously, provision is recognised for any expected loss over the remaining contract term.
- Booking fees are recognised at purchase of the journey and ticket income is recognised when the journey takes place.
- Variable remuneration from the transport service procurement authority is paid under certain contracts in the form of bonuses, for example, for well-performed work/customer satisfaction or the like. Income is recognised when the conditions are fulfilled and it is probable that SJ will receive the income.
- Income for maintenance called off separately during the contract term is recognised when the maintenance has been performed.

#### Other income

Other income consists mainly of sales on board (bistro sales). Income from bistro sales is recognised at the point in time when the sale is made. ■

#### Categories of income

SEK million	2019				2018			
	Commercial services	Tendered services	Other	Total	Commercial services	Tendered services	Other	Total
<i>Time of fulfilment of performance obligation</i>								
At a point in time	5,377	941	212	6,530	4,829	838	199	5,867
Over time	573	1,498	–	2,072	529	1,478	–	2,007
<b>Total net sales</b>	<b>5,951</b>	<b>2,439</b>	<b>212</b>	<b>8,602</b>	<b>5,358</b>	<b>2,316</b>	<b>199</b>	<b>7,874</b>

#### Contract balances

SEK million	31/12/19	31/12/18
Prepaid annual season tickets and other prepaid tickets		
- Commercial services	-269	-234
- Tendered services	-62	-46
Customer loyalty programme (SJ Prio)	-164	-124
Delay compensation	-7	-7
<b>Total contract liabilities</b>	<b>-502</b>	<b>-411</b>

Income from prepaid annual season tickets and other tickets is recognised in the following year. For information regarding the change in provision for the SJ Prio customer loyalty programme and delay compensation, see Note 18 Provisions

#### As yet unfulfilled performance obligations

The table below shows contracts where the performance obligation is as yet unfulfilled and where the contract term is longer than 12 months. Such contracts at SJ consist mostly of contracts in tendered services, where SJ conducts operations on behalf of a regional public transport authority.

#### Performance obligation fulfilled within:

SEK million	2019	2018
1 year	1,330	1,326
2 years	1,290	1,218
3 years	1,227	993
4 years	1,206	976
5 years	1,492	2,084
<b>Total unfulfilled performance obligations, tendered services</b>	<b>6,545</b>	<b>6,597</b>



## 4. Personnel expenses

### ■ Accounting policies

#### Pensions

The ITP 2 Plan's defined-benefit retirement commitments on behalf of salaried employees in Sweden is secured through insurance with Alecta. This is a defined-benefit plan. However, Alecta cannot make an exact allocation of assets and provisions to each employer. As a result, the conditions for recognising ITP 2 insurance with Alecta as a defined-benefit plan are not fulfilled and it is therefore recognised as a defined-contribution plan. The premiums are individually calculated and determined by factors such as salary, previously earned pension and anticipated remaining period of service. The Group's estimated fees for the next reporting period for ITP 2 insurance with Alecta are SEK 64 million.

The collective consolidation level is the market value of Alecta's assets as a percentage of its insurance obligations calculated according to Alecta's methods and assumptions, which are not consistent with IAS 19. The collective consolidation level is normally allowed to fluctuate within the range of 125-155%. If the level falls outside this range, measures must be taken to create the conditions enabling the consolidation level to be restored to within the normal range. At the end of 2019, Alecta's provisional consolidation level was preliminary calculated at 148% (142).

The Group's pension premiums (excluding special employer's contribution) for 2019 amounted to SEK 162 million (155), of which SEK 74 million (74) were defined-benefit premiums and SEK 87 million (81) defined-contribution premiums. ■

### Personnel expenses

SEK million	2019	2018
<b>Salaries and other remuneration</b>		
Board of Directors	-1	-1
CEO and senior executives	-31	-27
Other employees	-1,778	-1,764
<b>Total salaries and other remuneration</b>	<b>-1,810</b>	<b>-1,792</b>
Social security contributions	-509	-518
Pension expenses, including special employer's contribution for CEO and senior executives	-10	-10
Pension expenses, including special employer's contribution for other employees	-190	-179
Other personnel-related expenses	-58	-47
<b>Total personnel expenses</b>	<b>-2,576</b>	<b>-2,546</b>

### Average number of employees

	Average	2019 Men, %	Women, %	Average	2018 Men, %	Women, %
Sweden	3,791	61	39	3,753	61	39
Rest of Nordic region	3	67	33	3	67	33
<b>Total</b>	<b>3,794</b>	<b>61</b>	<b>39</b>	<b>3,756</b>	<b>61</b>	<b>39</b>

### Board members and senior executives

	Number	31/12/19 Men, %	Women, %	Number	31/12/18 Men, %	Women, %
Board members	9	43	57	9	56	44
Senior executives	13	62	38	13	46	54
<b>Total</b>	<b>22</b>	<b>55</b>	<b>45</b>	<b>22</b>	<b>50</b>	<b>50</b>

### Fees to Board of Directors

SEK thousand	Board fee	2019 Committee fee	Total	Board fee	2018 Committee fee	Total
Chair Siv Svensson <sup>1</sup>	417	43	460	331	47	378
Board member Kersti Strandqvist	177	-	177	167	-	167
Board member Ulrika Dellby	177	43	220	167	29	196
Board member Per Matses <sup>2</sup>	177	55	232	116	38	154
Board member Lennart Käll <sup>2</sup>	177	-	177	116	-	116
Board member Ulrika Nordström <sup>2,3</sup>	-	-	-	-	-	-
Board member Klas Wählberg <sup>4</sup>	123	-	123	-	-	-
Board member Mikael Stöhr <sup>5</sup>	54	-	54	167	-	167
Chair Jan Sundling <sup>6</sup>	-	-	-	127	-	127
Board member Mikael Staffas <sup>7</sup>	-	-	-	51	14	64
Employee representatives	-	-	-	-	-	-
<b>Total</b>	<b>1,301</b>	<b>141</b>	<b>1,442</b>	<b>1,241</b>	<b>127</b>	<b>1,368</b>

<sup>1</sup> Chair of SJ's Board from 24 April 2018.

<sup>2</sup> Member of SJ's Board from 24 April 2018.

<sup>3</sup> Fees are not paid to members employed by the Swedish Government Offices.

<sup>4</sup> Member of SJ's Board from 25 April 2019.

<sup>5</sup> Resigned from SJ's Board on 25 April 2019.

<sup>6</sup> Resigned as Chair of the SJ Board on 24 April 2018.

<sup>7</sup> Resigned from SJ's Board on 24 April 2018.

## Notes to the Financial Statements – Group

### Note 4 (cont.)

#### Remuneration to Senior Executives in 2019

SEK thousand		Basic salary <sup>1</sup>	Benefits <sup>1</sup>	Pension expense <sup>1</sup>	Total	Notice from employer + no. of months' severance pay	Severance compensation and severance expense <sup>2</sup>
President/CEO, SJ AB	Crister Fritzson <sup>3</sup>	5,452	30	1,607	7,089	6+18	–
Senior Vice President Human Resources	Peter Blomqvist <sup>3,4</sup>	1,385	50	434	1,869	6+18	–
Senior Vice President Human Resources	Mats Petterson <sup>5</sup>	803	11	270	1,084	6+12	–
Senior Vice President Traffic & Service/ Deputy CEO	Madeleine Raukas	2,897	75	560	3,531	6+12	–
Senior Vice President Communication & Sales	Mats Almgren <sup>6</sup>	2,110	1	608	2,719	6+12	–
Senior Vice President Quality, Environment & Sustainability	Erica Kronhöffer <sup>7</sup>	898	13	162	1,073	6+12	–
CFO	Henrik Rättzen	3,312	6	955	4,272	6+12	–
Director of SJ's major rolling stock projects	Claes Broström <sup>8</sup>	2,574	70	0	2,643	6+12	–
Senior Vice President Fleet Management	Arvid Fredman <sup>9</sup>	166	0	50	216	6+12	–
Senior Vice President Product Division	Caroline Åstrand	2,344	76	464	2,885	6+12	–
Senior Vice President Strategy & Business Development	Lena Herrmann	2,579	1	741	3,321	6+12	–
Acting President SJ Norge AS	Thomas Silbersky <sup>10</sup>	2,874	72	853	3,799	6+12	–
President SJ Öresund AB	Anders Gustafsson <sup>11</sup>	898	9	228	1,136	6+12	–
President SJ Götalandståg	Lena Källström	2,138	33	698	2,869	6+12	–
<b>Total</b>		<b>30,430</b>	<b>448</b>	<b>7,630</b>	<b>38,508</b>		<b>–</b>

<sup>1</sup> Excluding social security contributions and employer's contribution.

<sup>2</sup> Including social security contributions and pension.

<sup>3</sup> Has agreed severance compensation that deviates from government guidelines. The agreement was signed before the current guidelines came into force.

<sup>4</sup> Left SJ on 27 September. Basic salary, benefits and pensions are shown from January to September.

<sup>5</sup> Started as Senior Vice President HR on 19 August. Basic salary, benefits and pensions are shown from August to December.

<sup>6</sup> Started as Senior Vice President Communication & Sales on 1 April. Basic salary, benefits and pensions are shown from April to December.

<sup>7</sup> Left SJ on 31 May. Basic salary, benefits and pensions are shown from January to May.

<sup>8</sup> Senior Vice President Fleet Management during the period January 2019–November 2019, then director of SJ's major rolling stock projects.

<sup>9</sup> Started as Senior Vice President Fleet Management in December 2019. Basic salary, benefits and pensions are shown from August to December.

<sup>10</sup> Acting President SJ Norge AS since September 2019. Previously Senior Vice President International Affairs January–August 2019.

<sup>11</sup> Member of Group Management as of 1 August. Basic salary, benefits and pensions are shown from August to December.

#### Remuneration to Senior Executives 2018

SEK thousand		Basic salary <sup>1</sup>	Benefits <sup>1</sup>	Pension expense <sup>1</sup>	Total	Notice from employer + no. of months' severance compensation	Severance compensation and severance expense <sup>2</sup>
President/CEO, SJ AB	Crister Fritzson <sup>3</sup>	5,257	43	1,545	6,845	6+18	–
Senior Vice President Human Resources	Peter Blomqvist <sup>3</sup>	1,851	73	865	2,789	6+18	–
Senior Vice President Traffic & Service	Madeleine Raukas	2,781	74	537	3,392	6+12	–
Senior Vice President Communication	Malou Sjörin <sup>4</sup>	1,230	53	322	1,605	6+12	2,539
Acting Senior Vice President Communication and Sales	Thomas Silbersky <sup>5</sup>	2,862	69	861	3,791	6+12	–
Senior Vice President Quality, Environment & Sustainability	Erica Kronhöffer	1,622	37	392	2,050	6+12	–
CFO	Henrik Rättzen <sup>6</sup>	1,201	0	390	1,591	6+12	–
CFO, Acting	Ulf Bertilsson <sup>7</sup>	1,013	0	262	1,275	6+0	–
Senior Vice President Fleet Management	Claes Broström	2,552	91	941	3,583	6+12	–
Senior Vice President Product Division	Caroline Åstrand	2,279	75	447	2,801	6+12	–
Senior Vice President Strategy and Business Development	Lena Herrmann	2,520	0	731	3,251	6+12	–
President SJ Götalandståg	Lena Källström	1,664	51	609	2,324	6+12	–
<b>Total</b>		<b>26,831</b>	<b>566</b>	<b>7,902</b>	<b>35,298</b>		<b>2,539</b>

<sup>1</sup> Excluding social security contributions and employer's contribution.

<sup>2</sup> Including social security contributions and pension.

<sup>3</sup> Has agreed severance compensation that deviates from government guidelines. The agreement was signed before the current guidelines came into force.

<sup>4</sup> Left SJ on 1 October. Basic salary, benefits and pensions are shown for the 1 January – 1 October period.

<sup>5</sup> Senior Vice President Marketing and Sales to 30 September. On 1 October, the Communication staff unit and the Marketing & Sales Division merged to form the Communication and Sales Division. Thomas Silbersky served as Acting Senior Vice President Communication and Sales from 1 October 2018 until 31 January 2019.

<sup>6</sup> Started as Chief Financial Officer on 16 August. Basic salary, benefits and pensions are shown for the 16 August – 31 December period.

<sup>7</sup> Resigned as Chief Financial Officer on 16 August. Basic salary, benefits and pensions are shown for the 1 January – 16 August period.

## Note 4 (cont.)

## Remuneration to senior executives

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

## Guidelines and decision-making procedures

During the year, the Company adhered to the policies for remuneration and other terms of employment for senior executives adopted at the 2019 AGM. The policies are based on guidelines issued by the government 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 subject to approval by the Board. Decisions regarding terms and conditions of employment for other senior executives are taken by the CEO, following a standard review with the Company's remuneration committee. The results of agreements reached are reported to the Board. Before any decision is taken regarding individual remuneration, documentation in writing showing the total cost to the Company is produced as a basis for decision. 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 presents proposed policies for remuneration and other terms of employment for the CEO and other senior executives for approval by the AGM. The Remuneration Committee prepares *inter alia* the Board's proposed policies for salary and other remuneration. The members of the Remuneration Committee are Siv Svensson, Ulrika Nordström, Klas Wählberg and Lennart Käll.

## Remuneration

## Board of Directors

Under a resolution passed at SJ AB's 2019 Annual General Meeting, annual fees payable to Board members are SEK 420,000 to the Chair, and SEK 180,000 to each of the other AGM-elected members, effective from April 2019. Moreover, annual fees payable to members of the Board's Audit Committee are SEK 55,000 to the Chair and SEK 43,000 to each of the other members. No other fee is payable for other Board committee work. Fees are not paid to members employed by the Swedish Government Offices. No pension benefit commitments exist for external Board members.

## Group Management

The overall principle is that remuneration and other terms of employment for senior executives shall be at market-level, 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 basic salary, taxable benefits, health insurance and pension. The basic salary is set individually, and shall be in line with salary levels in the market in which the particular executive is employed. The CEO and senior executives are not entitled to any variable remuneration or payment in the form of financial instruments. Benefits, as presented in the table, consist primarily of company cars.

## Pensions

Pensions are paid to senior executives under the ITP plan.

## Terminations and severance pay

In the event that the Company terminates the employment contract, the notice periods and severance pay amounts are as presented in the table on the preceding page. If the employee takes up new employment or receives income from other business activity, the termination salary and severance compensation are to be reduced by an amount corresponding to the new income or other benefits received during the relevant period.

## 5. Other expenses

SEK million	2019	2018
Maintenance and inspection of trains	-1,268	-1,236
Electricity costs for train operations	-359	-366
Infrastructure charges	-537	-485
Other production-related expenses	-724	-830
Indirect costs	-1,325	-1,258
<b>Total</b>	<b>-4,213</b>	<b>-4,175</b>

In all, the Group's other expenses increased by SEK 38 million. Infrastructure charges rose as a result of expansion in services. Other production expenses decreased compared with those of the preceding year. The higher level in the preceding year arose through service disruptions and maintenance on the railway system performed by the Swedish transport administration. These factors brought higher production and maintenance costs, as well as higher costs for unscheduled replacement services and personnel costs during last year.

Indirect costs rose in 2019 as a result of internal investments, for example, in SJ's digitisation projects, as well as establishment of contracts secured.

## 6. Auditors' fees

SEK million	2019	2018
<b>Deloitte</b>		
Statutory audit	-2	-2
Audit-related assurance services	-2	-2
Tax advice	0	0
Other services	0	0
<b>Total</b>	<b>-4</b>	<b>-4</b>

Statutory audit refers to the audit of the annual accounts and accounting records, and of the administration by the Board and the Chief Executive Officer. During an ongoing audit, it may emerge that a more in-depth review is required, with any associated costs being recognised in Audit-related assurance services. In 2019, Audit-related assurance services consisted mainly of advice on accounting and tax issues regarding projects in other countries. Other services refer for example to interpretation of IFRSs and other accounting rules.

## 7. Financial income and expenses

SEK million	2019	2018
<b>Financial income</b>		
Interest income		
- Current receivables	4	4
- bonds	14	9
Change in value, bonds	9	-9
<b>Total</b>	<b>27</b>	<b>4</b>
<b>Financial expenses</b>		
Interest expenses		
- borrowings	-6	-4
- lease liability	-12	-2
- derivative instruments	-2	-6
Exchange rate differences	-0	-1
Other financial expenses	-2	-2
<b>Total</b>	<b>-22</b>	<b>-15</b>



## 8. Tax

### ■ Accounting policies

Recognised tax expense comprises current and deferred tax. Current tax is based on profit for the period and is calculated using the tax rate on the balance sheet date. Tax paid or received during the current year is classified as current tax and includes adjustment of current tax attributable to prior periods. Tax is recognised in the income statement except when the underlying transaction is recognised in other comprehensive income, in which case the tax is also recognised in other comprehensive income. Deferred tax is recognised for differences 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 the receivable reduced to the extent that it is no longer probable that sufficient taxable surpluses will be available. ■

### Income tax expense

SEK million	2019	2018
Deferred tax income	5	16
Current tax	-163	-84
<b>Total</b>	<b>-157</b>	<b>-68</b>

### Reconciliation of recognised tax and the effective tax rate

	2019		2018	
	Income taxes, SEK million	Tax rate, %	Income taxes, SEK million	Tax rate, %
Tax according to applicable tax rate	-166	-21	-101	-22
Non-deductible expenses	-3	0	-2	0
Tax effect arising from tax returns for previous years	-	-	3	1
Result from shares and participations	1	0	3	1
Non-taxable income on divestment of stake in associated company	12	2	-	-
Deferred tax attributable to previous years	-	-	-3	-1
Tax effect from change in tax rate	-	-	29	6
Other differences	-1	0	2	0
<b>Recognised tax affecting net income</b>	<b>-157</b>	<b>-20</b>	<b>-68</b>	<b>-15</b>

Tax for the year was SEK -157 million (-68) in the Group. The effective rate was 20% (15). The difference between the actual tax rate, 21.4%, and the effective tax rate for the year was in the main attributable to a

### Deferred tax assets

	Endowment insurance		Other		Total	
SEK million	2019	2018	2019	2018	2019	2018
Opening balance, 1 January	9	9	10	10	19	19
Recognised in other comprehensive income	0	-	-	-	0	-
Recognised in net income	-	-	24	0	24	0
<b>Closing balance, 31 December</b>	<b>9</b>	<b>9</b>	<b>34</b>	<b>10</b>	<b>43</b>	<b>19</b>

### Deferred tax liabilities

	Residual value - depreciation <sup>1)</sup>		Other		Total	
SEK million	2019	2018	2019	2018	2019	2018
Opening balance, 1 January	-450	-493	-34	-6	-484	-499
Change attributable to previous years	-	-3	-	0	0	-3
Recognised in other comprehensive income	-	-	-2	-2	-2	-2
Recognised in net income	39	46	-58	-26	-19	20
<b>Closing balance, 31 December</b>	<b>-411</b>	<b>-450</b>	<b>-94</b>	<b>-34</b>	<b>-505</b>	<b>-484</b>
<b>Recognised deferred tax, net</b>					<b>-462</b>	<b>-465</b>

<sup>1)</sup> Depreciation on residual value of property, plant and equipment.

non-taxable capital gain from the divestment of a stake in an associated company.

## 9. Property, plant and equipment

### ■ Accounting policies

Property, plant and equipment are recognised at cost less accumulated depreciation and any accumulated impairment losses.

#### Rolling stock, machinery and equipment

The cost is made up of the purchase price plus any expenses directly attributable to the asset in order to bring it to a location so that it can be used in accordance with the purpose of the purchase. These expenses relate mostly to project planning and interest payments during the construction period. Additional expenses are recognised as an asset only when it is probable that the future economic benefits will flow to SJ and that the cost of the asset can be measured reliably. Other forms of repairs and maintenance are expensed.

#### Depreciation and impairment

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful life. High-value components and additional investments are depreciated on the basis of the remaining useful life of the main unit. Rolling stock repairs are expensed on an ongoing basis, while major, less frequently recurring repairs (overhauls) are depreciated in line with a weighted depreciation period per type of rolling stock. Rolling stock (trains) represents the major share of SJ's property, plant and equipment and is classified as two main components – chassis and interiors.

## Note 9 (cont.)

Depreciation period	
<b>Rolling stock</b>	
– Chassis	15–20 years
– Interiors	7–13 years
<b>Machinery and equipment</b>	
– Machinery and equipment	5–10 years
– Handheld computers	3 years
– Leasehold improvements	as per lease term or shorter period, depending on improvement

The Group assess the useful life of the individual property, plant and equipment items, and makes an assessment of whether there are any indications of impairment, on an annual or on as needed basis as appropriate.

*Work in progress*

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

## ■ Critical estimates and assessments

*Useful life*

The useful lives of chassis and interior differ and are assessed entirely on the basis of the rolling stock plan for the estimated economic life of the assets. The length of the useful life is determined on the basis of estimates and assessments established.

*Additional expenses*

Assessments have been made concerning which additional expenses will be capitalised and which will be recognised as an expense. Additional expenses are recognised as an asset only when it is probable that the future economic benefits will flow to SJ and that the cost of the asset can be measured reliably. Future economic

benefits arise when an action 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 expenditure can be capitalised if:

- the measure substantially increases the asset's level of performance compared with the original level when the asset was acquired
  - they pertain to overhauls consisting of major, regularly recurring technical and refurbishment maintenance work on the rolling stock.
  - the measure is required to satisfy traffic safety requirements
- Other maintenance expenses are recognised as incurred.

*Testing for impairment*

On each balance sheet date, tests are carried out to assess whether there is any indication of impairment loss on property, plant and equipment. If such an indication is found, the recoverable amount of the asset/cash-generating unit is calculated as the net realisable value or value in use, whichever is the higher. Value in use is the present value of the future cash flows expected to be derived from an asset/cash-generating unit at the end of the period of use. If the recoverable amount is less than the carrying amount, the asset or cash-generating unit is impaired.

The impairment testing performed is based on the budget, business and strategic plan adopted by the Board and on the year-end accounts for the SJ Group as per 31 December 2019. The estimated future cash flows for the Company is discounted to present value by application of a market-level WACC. In addition to profitability and the level of investment during the period, the WACC discount rate and perpetuity growth rate after the end of the forecast period have a considerable influence on the valuation. A sensitivity analysis is performed for important assumptions and in addition impairment testing is conducted for various alternative scenarios for the future operations of the SJ Group.

In 2019, the value in use exceeded the carrying amount for the cash-generating unit (the SJ Group is treated as a cash-generating unit) and therefore no impairment exists. ■

## Property, plant and equipment

SEK million	2019				Total
	Rolling stock	Machinery and equipment	Construction in progress	Leased premises <sup>1</sup>	
Accumulated cost, 1 January	13,136	244	1,247	59	14,686
Investments	106	4	442	–	552
Sales/disposals	-22	–	–	–	-22
Reclassifications	171	1	-171	-59	-58
Accumulated cost, 31 December	13,390	248	1,518	–	15,157
Accumulated depreciation, 1 January	-8,825	-184	–	-42	-9,051
Depreciation for the year	-675	-20	–	–	-695
Sales/disposals	19	–	–	–	19
Reclassifications	–	–	–	42	42
Accumulated depreciation, 31 December	9,481	-204	–	–	9,685
Accumulated impairment, 1 January	-449	–	–	–	-449
Impairment losses for the year	–	–	–	–	–
Sales/disposals	–	–	–	–	–
Accumulated impairment, 31 December	-449	–	–	–	-449
<b>Carrying amount, 31 December</b>	<b>3,459</b>	<b>43</b>	<b>1,518</b>	<b>–</b>	<b>5,020</b>

<sup>1</sup> Leased premises have been reclassified as right-of-use assets as required by IFRS 16, see Note 10.

Investments during the year related mainly to the upgrade and modernisation of all of SJ's X 2000s.

Work in progress relates to property, plant and equipment not yet in service, consisting of investments primarily for upgrading all of SJ's X 2000s, but also a number of major rolling stock overhauls.

## Note g (cont.)

SEK million	Rolling stock	Machinery and equipment	2018		Total
			Construction in progress	Leased premises	
Accumulated cost, 1 January	14,109	247	1,020	59	15,435
Investments	144	4	360	–	508
Sales/disposals	-1,249	-8	–	–	-1,257
Reclassifications	132	1	-133	–	0
<b>Accumulated cost, 31 December</b>	<b>13,136</b>	<b>244</b>	<b>1,247</b>	<b>59</b>	<b>14,686</b>
Accumulated depreciation, 1 January	-8,226	-165	–	-38	-8,429
Depreciation for the year	-628	-24	–	-3	-656
Sales/disposals	29	5	–	–	34
<b>Accumulated depreciation, 31 December</b>	<b>-8,825</b>	<b>-184</b>	<b>–</b>	<b>-42</b>	<b>-9,051</b>
Accumulated impairment, 1 January	-1,665	–	–	–	-1,665
Impairment losses for the year	-4	–	–	–	-4
Sales/disposals	1,219	–	–	–	1,219
<b>Accumulated impairment, 31 December</b>	<b>-449</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>-449</b>
<b>Carrying amount, 31 December</b>	<b>3,862</b>	<b>59</b>	<b>1,247</b>	<b>18</b>	<b>5,185</b>

## 10. Right-of-use assets

### ■ Accounting policies

SJ leases premises (office premises, staging stations and depots) as well as rolling stock (primarily trains). Leases are recognised as a right-of-use asset with a corresponding lease liability on the day when the leased asset is available for use by SJ.

For more information on leases and the lease liability, see Note 16. For information on the adoption of IFRS 16 Leases, see Note 24.

Right-of-use assets are measured at cost and include the following elements:

- The amount of the initial measurement of the lease liability (see Note 16).
- Lease payments made at or before the commencement date, less any lease incentives received
- Initial direct cost
- Estimate of cost to be incurred for restoring the asset to the condition required by the terms and conditions of the lease.

Depreciation of the right-of-use assets is recognised in the income statement on a straight-line basis over either the useful life of the asset or the lease term, whichever is the shorter. ■

### Right-of-use assets

SEK million	2019			2018		
	Premises	Rolling stock	Total	Premises	Rolling stock	Total
Opening balance, 1 January	884	261	1,145	–	–	–
Additions to right-of-use assets	215	–	215	–	–	–
Modifications/remeasurements	20	-44	-24	–	–	–
Depreciation	-206	-132	-338	–	–	–
Reclassifications	18 <sup>1</sup>	–	18	–	–	–
<b>Carrying amount, 31 December</b>	<b>931</b>	<b>85</b>	<b>1,016</b>	<b>–</b>	<b>–</b>	<b>–</b>

<sup>1</sup> Reclassification of leased premises that were recognised as a finance lease in accordance with IAS 17 last year in the Note on property, plant and equipment.



## 11. Intangible assets

### ■ Accounting policies

SJ's intangible assets consist mainly of capitalised development expenditure. These are recognised at cost less accumulated depreciation and any accumulated impairment losses. Identifiable development expenditures 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 expenditures for systems are recognised under intangible assets as ongoing until the day the systems are placed in service by the Group.

### Amortisation

Assets are amortised over their estimated useful lives, which are tested on an ongoing basis after the asset has been taken into service. Computer software is generally amortised over three years, but

amortisation periods of up to 10 years are used if they better reflect the useful life of the asset. ■

### ■ Critical estimates and assessments

#### Testing for impairment

On each balance sheet date, tests are carried out to assess whether there is any indication of impairment on intangible assets. The recoverable amount of the asset/cash-generating unit is calculated as the net realisable value or value in use, whichever is the higher. Value in use is the present value of the future cash flows expected to be derived from a cash-generating unit at the end of the period of use. If the recoverable amount is less than the carrying amount, the asset or cash-generating unit is impaired. For more information on testing for impairment, see Note 9 Property, plant and equipment. ■

SEK million	2019			2018		
	Capitalised development expenditure	Trademark	Total	Capitalised development expenditure	Trademark	Total
Accumulated cost, 1 January	1,048	240	1,288	990	240	1,230
Investments	97	–	97	58	–	58
Sale/disposal	–	–	–	–	–	–
Accumulated cost, 31 December	1,146	240	1,386	1,048	240	1,288
Accumulated depreciation, 1 January	-830	-240	-1,071	-736	-240	-976
Depreciation for the year	-72	–	-72	-93	–	-93
Impairment losses for the year	-4	–	-4	-1	–	-1
Sale/disposal	–	–	–	–	–	–
Accumulated depreciation, 31 December	-906	-240	-1,146	-830	-240	-1,070
Carrying amount, 31 December	239	–	239	218	–	218

SJ's intangible assets are classified into trademark and capitalised development expenditure. The item trademark arose when SJ took over passenger services from Statens Järnvägar (the Swedish State Railways) at conversion to limited liability company status in 2001. The amortisation period was 10 years, and thus the item is fully amor-

tised. Capitalised development expenditure refers primarily to development expenses for business-related IT systems.

Investments in intangible assets for the year, totalling SEK -97 million (-58), included expenditure on a new financial management platform and development of a new planning system.

## 12. Participations in associated companies

### ■ Accounting policies

Associated companies are companies over which SJ AB has significant influence. If SJ AB holds at least 20% of the voting rights in the associated company, directly or indirectly, the owner is considered to have a significant influence, unless it can be clearly demonstrated otherwise.

Associated companies are consolidated using the equity method, whereby participations in associated companies are recognised at cost on the acquisition date and subsequently adjusted according to SJ AB's share of the change in net assets. SJ AB's profit includes the owner company's share of the associated company's profits. ■

### Profit from participations in associated companies

SEK million	2019	2018
Share in earnings from associated companies	15	21
Gain on divestment of associated company	58	–
Impairment loss, associated company	-12	–
<b>Total</b>	<b>61</b>	<b>21</b>

The equity share corresponds to the share of voting rights. The share of earnings from associated companies for the year pertains for the most part to the stake in SilverRail Technologies AB, which was divested during the year.

### Participations in associated companies

SEK million	2019	2018
Carrying amount, 1 January	69	60
Dividends received	-6	-10
Share in earnings from associated companies for the year	15	21
Divestment of associated company	-48	-1
Impairment losses for the year	-12	–
<b>Carrying amount, 31 December</b>	<b>19</b>	<b>69</b>

## Note 12 (cont.)

## Group's holdings of shares in associated companies and carrying amount

	Corp. Reg. No.	Reg. office	No. of shares	Equity share, %	31/12/19 SEK million	31/12/18 SEK million
Sveriges Kommunikationer AB	556005-5955	Stockholm	1,400	50	2	2
Kust till Kust AB	556481-7822	Karlskrona	60	25	0	0
Botnietåg AB	556801-1828	Stockholm	40,000	40	17	29
Vänertåg AB	556848-9016	Stockholm	250	50	0	0
SilverRail Technologies AB <sup>1)</sup>	556577-2984	Stockholm	125,250	25	–	38
<b>Total participations in associated companies</b>					<b>19</b>	<b>69</b>

<sup>1)</sup> The company was divested in 2019.

## Specification of associated companies' assets, liabilities, income and earnings

SEK million	Corp. Reg. No.	Reg. office	2019				2018			
			Assets	Liabilities	Income	Earnings	Assets	Liabilities	Income	Earnings
Sveriges Kommunikationer AB	556005-5955	Stockholm	5	2	–	0	5	2	–	0
Kust till Kust AB	556481-7822	Karlskrona	0	0	0	0	0	0	0	0
Botnietåg AB	556801-1828	Stockholm	43	0	–	-30	74	1	3	4
Vänertåg AB	556848-9016	Stockholm	0	0	–	–	0	0	–	–
SilverRail Technologies AB <sup>1)</sup>	556577-2984	Stockholm	–	–	201	61	227	113	259	45
<b>Total, associated companies</b>			<b>48</b>	<b>2</b>	<b>201</b>	<b>31</b>	<b>306</b>	<b>116</b>	<b>262</b>	<b>49</b>

<sup>1)</sup> The company was divested in 2019.

## 13. Other receivables

SEK million	31/12/19	31/12/18
VAT and tax assets	88	129
Tax account	20	133
Insurance claim	16	9
Other receivables	15	16
<b>Total</b>	<b>139</b>	<b>288</b>

## 14. Prepaid expenses and accrued income

SEK million	31/12/19	31/12/18
Prepaid rolling stock costs	31	47
Prepaid leasing costs	48	54
Licences and other IT costs	42	28
Other prepaid expenses	31	16
Accrued interest income	4	3
Other accrued income	75	73
<b>Total</b>	<b>232</b>	<b>222</b>

On 1 July 2018, new railway legislation entered into force. The law gives carriers the right to compensation from infrastructure managers for costs arising from the carrier's binding obligations towards passengers, known as the right of recourse. Under the law, the carrier may demand compensation for costs in connection with, for example, replacement services and delay compensation paid out in cases where the delay is attributable to the Swedish transport administration or other infrastructure manager. Other accrued income consists, for example, of right of recourse claims on the Swedish transport administration.

Other prepaid expenses refer for the most part to future insurance premiums.

## 15. Financial instruments and financial risk management

## ■ Accounting policies

## Recognition and measurement

SJ's financial instruments are agreements that give rise to a financial asset or a financial liability. At initial recognition, financial instruments are measured at fair value including directly attributable transaction expenses, except for financial assets and liabilities measured at fair value in the income statement. Subsequent measurement is made at fair value or amortised cost using the effective interest method, depending on which business model/category the financial instrument is classified in. The change in value is recognised in other comprehensive income or in the income statement.

A financial asset is recognised either on the day of the transaction, that is when the Group becomes party to the conditions, or on the settlement date, at cost. A financial asset is wholly or partly derecognised from the balance sheet when essentially all risks and benefits associated with the assets have been transferred to an external party. A financial liability is partially or fully derecognised from the balance sheet when the contractual obligation is discharged, cancelled or has expired.

## Classification of financial assets

The SJ Group has financial assets in the following business categories:

- Amortised cost
- Fair value via Income statement

## Amortised cost

Assets held in order to obtain contractual cash flows, where such cash flows consist solely of capital and interest. These assets are recognised at amortised cost, by application of the effective interest method, less expected credit losses. Accounts receivable and other receivables are measured at cost less impairment, since discounting does not have any material effect. Assets recognised in this category include accounts receivable, loan receivables, other receivables and cash and cash equivalents. These assets are included in current assets, except for items with maturities greater than 12 months after the balance sheet date.

## Note 15 (cont.)

*Fair value via Income statement*

Financial assets held to generate value via sale or value growth. The proportion of the Group's derivative instruments that are not identified as hedges is recognised at fair value in the income statement. Holdings of non-current and current securities (shares and participations, bonds and fixed-income funds) fall within this category. SJ's holdings consist mostly of bonds that are held for the purpose of enhancing the return from SJ's financial assets. The bond portfolio is categorised as available for sale and is continuously measured at fair value in the income statement.

**Impairments and expected losses**

SJ measures the future expected credit losses in relation to financial assets that are recognised at amortised cost. On every accounting occasion, SJ recognises a provision for the credit losses expected.

SJ uses the simplified approach described in IFRS 9 and categorises accounts receivable in three separate groups based on SJ's activities, that is, commercial services (private invoicing and corporate sales) and tendered services. Tendered services represent a very low risk, as these services are procured by regional public transport authorities consisting of various county transport corporations. Private invoicing is aimed at Swedish private individuals, where the risk is considered to be medium-to-high. Other invoicing consists of corporate sales, where the risk is also considered to be medium-to-high.

The model is a matrix based on historical information on credit losses within the different categories. In each category, accounts receivable are apportioned in a matrix based on how many days that the receivables are overdue. The expected credit loss for invoices not yet overdue is based on a historical average and increases on that basis according to the number of days that the receivable is overdue.

SJ applies two macro variables in assessment of the anticipated credit loss, GDP growth and the trend of unemployment, which are considered to have major influence on the ability to pay, both for private customers and businesses. Assumptions are obtained from several different banking institutions and are weighed up.

**Classification of financial liabilities**

Financial liabilities are classified as financial liabilities measured at amortised cost. Derivative instruments are also held. If a derivative has a negative value, it constitutes a financial liability. All SJ's derivatives are recognised at fair value via other comprehensive income on the basis that hedge accounting is used.

The category Financial liabilities measured at amortised cost includes borrowings, accounts payable, other liabilities and lease liabilities. Liabilities in this category are measured at amortised cost by application of the effective interest rate method. Accounts payable and other liabilities are recognised at the amounts expected to be settled. For more information on leasing, see Note 16 Leases.

**Derivative instruments**

SJ uses hedging instruments to hedge future cash flows, such as investments made in foreign currencies. These are recognised in the balance sheet at fair value. According to the rules on cash flow hedging, any change in value of a 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 floating interest-rate risk, SJ uses interest-rate derivatives, which are measured at fair value, and any change in value is also recognised in other comprehensive income in the hedging reserve. If the hedging relationship is terminated on early redemption of the underlying debt, the accumulated change in value in other comprehensive income is transferred to the income statement. If hedging ceases for any other reason, such as a decision to change duration in the debt portfolio, the surplus or deficit is recognised as accrued in the income statement up to the date when the interest rate derivative would have matured. 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 is recognised in the income statement.

When the hedging position is taken, the Group's target for risk management and risk management strategy for the hedge is documented. The effectiveness of the hedge is assessed through an analysis of the economic relationship between the hedged item and the hedging instrument. ■

**Management of financial risks**

SJ's operations give rise to a substantial financing requirement that entails financial risk. SJ also conducts financial operations on a major scale, in the form of payment transactions, cash receipts, credits, investments and currency transactions. To minimise financial risks, the Board has adopted a financial policy that provides directives for day-to-day financial management. The financial policy includes limits regarding, for example, loan maturity, interest-rate maturity and permitted currency exposure, as well as investment guidelines with rating requirements and thresholds. The financial policy delegates responsibility to the CFO. The purpose of the financial policy is to determine:

- the goals for financial operations in the SJ Group,
- frameworks for how financial management is to be organised,
- identified financial risks and appropriate mandates for such risks, and
- frameworks for reporting and following up financial operations.

*Market risk*

Refers to a company's exposure to changes in the financial markets. SJ's operations are capital-intensive and some of the Company's property, plant and equipment are debt-financed through bank loans. The following risks are ranked on the basis of SJ's assessment of which risk is most material to SJ.

*Credit and counterparty risk*

The risk that the counterparty to a transaction is unable to fulfil its obligations, as a result of which SJ incurs a loss. SJ is exposed to this risk when granting commercial loans, when liquidity is invested in financial assets, in financial derivative contracts and guarantees.

SJ's financial policy prescribes how liquid funds may be invested. Counterparties to short-term investments shall have a credit rating of K-1 or higher. 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 rating of no less than A and in Nordic companies with a rating of BBB. In order to limit concentration risk, limits apply to amounts per counterparty. On the balance sheet date, 31 December 2019, the amount of counterparty exposure in investments totalled SEK 2,557 million (1,589), consisting of financial assets measured at fair value. The market value of SJ's investments with a maturity exceeding 1 year amounted to SEK 2,114 million (1,127).

*Credit risk in accounts receivable*

SJ seeks to prevent credit risk in accounts receivable by obtaining credit information on customers in private invoicing and corporate sales. SJ make rules on providing credit that enable a balanced level of risk. Around 8% (7) of SJ's ticket revenue is made up of payment by invoicing or instalments. In private invoicing, receivables are written off in consultation with SJ's provider of debt collection services. Cases may be sent to the Enforcement Authority based on an assessment of the possibilities for resolution. Receivables that are long overdue may be sold, whereby SJ has a certain amount of its loss covered. Regarding receivables from companies, credit reports are obtained including a detailed assessment of the ability to pay. In general, a receivable is regarded as being in default if past due for 90 days.

In SJ's view, a bad debt loss is confirmed when SJ's debt collection agency or the Enforcement Authority has not succeeded in resolving the matter, or if the claim is time-barred, the company has been declared bankrupt, or otherwise pursuing the matter to an order for payment is not considered to be commercially justified.



## Note 15 (cont.)

## Ageing analysis of accounts receivable past due

SEK million	31/12/19	31/12/18
<30 days	147	161
30–60 days	9	–
60–90 days	2	0
> 90 days	25	29
<b>Total</b>	<b>183</b>	<b>190</b>
<i>Of which, provision for accounts receivable:</i>		
Opening balance, 1 January	5	13
Provision for anticipated losses	8	-2
Confirmed losses	-4	-5
<b>Closing balance, 31 December</b>	<b>9</b>	<b>5</b>

## Financing and liquidity risk

The risk represented by loan rescheduling, fulfilment of payment obligations, limited funding opportunities or a substantial change in the price situation. SJ's financing sources primarily consist of cash flow from operating activities, and borrowings.

Borrowings consist of long-term covered bank loans with Nordiska Investeringssbanken with floating interest rates. Financing and liquidity risks are managed within the framework of the financial policy.

To ensure available liquidity, the financial policy prescribes that SJ must at all times be able to assure a liquidity reserve of at least SEK 500 million. It must be possible to draw on this reserve within three business days. The reserve includes cash, financial investments that can be liquidated within three business days (highly liquid investments), and unused confirmed credit lines. Cash and highly liquid investments totalled SEK 2,638 million (1,658) on the balance sheet date. Unutilised credit facilities amounted to SEK 140 million (100) on the balance sheet date.

SJ limits financing risk by controlling the terms of its loans to achieve an even maturity structure over time. On the balance sheet date, the Group's total loan commitments granted had an average maturity of 3.2 years (3.8).

## Future undiscounted cash flows for financial liabilities

SEK million	2019				2018			
	Within 1 year	1-5 years	5 years or more	Total	Within 1 year	1-5 years	5 years or more	Total
Borrowings	103	599	181	883	104	645	260	1009
Lease liability <sup>1</sup>	301	546	171	1,018	3	12	3	18
Accounts payable and other liabilities	727	–	–	727	599	–	–	599
Derivative instruments	1	2	–	3	3	2	–	5
<b>Total</b>	<b>1,132</b>	<b>1,147</b>	<b>352</b>	<b>2,631</b>	<b>709</b>	<b>659</b>	<b>263</b>	<b>1,631</b>

<sup>1</sup> Lease liability is recognised because of the adoption of IFRS 16 Leases, see Note 24 for information regarding the transition to IFRS 16.

## Interest-rate risk

Refers to the risk that the Group's financing costs and return on interest-bearing assets are affected by changes in the general level of interest rates.

SJ's interest-bearing assets consist mostly of bonds, but also fixed-income funds and cash and cash equivalents. The interest-rate duration for SJ's investments in bonds was 1.2 years while the average term was 2.1 years. The average interest rate on the balance sheet date was 0.9%.

SJ's borrowings consist of bank loans with floating interest rates. The Company's financial policy stipulates that the average fixed-interest term in its loan portfolio shall be within the range of 1–3 years. Settlement is permitted for cash and cash equivalents and floating-rate investments. On the balance sheet date, the average fixed-interest term for the Group's interest-bearing borrowings, including derivative instruments, was 0.5 years (0.7). The value of the interest-rate swaps held by SJ to extend the average fixed-interest term is instantly affected when market rates change. On the balance sheet date, the fair value of SJ's outstanding interest-rate derivatives was SEK -2 million (-4). On 31 December 2019, the average interest rate for total outstanding long-term, interest-bearing liabilities was 0.7% (0.5) excluding interest-rate derivatives, and 0.8% (0.8) including interest-rate derivatives.

See also, Sensitivity analysis, below.

## Currency risk

SJ's currency exposure consists mostly of transaction exposure, that is, payments in foreign currency in connection with investments, and purchase or sale of goods and/or services. SJ's maximum net exposure in foreign currencies for purposes other than hedging must, according to the Company's financial policy, not exceed the equivalent of SEK 200 million. Major investments are continuously hedged through the foreign exchange market.

The value of SJ's currency forward contracts changes constantly, as exchange rates change. When foreign currency transactions are entered into, their purpose is to secure payment flows. When cash

flow hedging is used and hedge accounting is applied, changes in value are recognised in other comprehensive income.

On the balance sheet date, SJ had outstanding currency derivatives in zloty regarding major investments with a nominal value of SEK 147 million (142). The fair value of these positions was SEK 0 million (-1). These currency derivatives and the result of extensions are subject to hedge accounting. On the balance sheet date, unhedged foreign currency exposure totalled SEK 8 million (5). See also, Sensitivity analysis, below.

The Group is exposed to currency fluctuations via its purchases of diesel, which is traded on the international commodities market in USD. This currency risk is hedged by contracting diesel derivatives in local currency, see also Commodity price risk below.

## Commodity price risk

SJ has been contracted to operate services in northern Norway. As sections of the line are not electrified, parts of the service will be operated with diesel. The Group is therefore exposed to changes in commodity prices with regard to future purchases of diesel. Diesel is traded on the international commodities market in USD. Diesel derivatives have therefore been contracted to hedge the Group's forecast of future purchases of diesel, from USD to NOK.

## Derivative instruments

	31/12/19		31/12/18	
	Nominal value	Fair value	Nominal value	Fair value
Interest-rate swaps	100	-2	200	-4
Currency forward contracts	147	0	142	-1
Commodity derivatives	140	-1	–	–
<b>Total</b>	<b>387</b>	<b>-3</b>	<b>342</b>	<b>-5</b>

## Note 15 (cont.)

At the end of 2019, the total fair value of derivatives held for hedging purposes, including financial hedging, was SEK -3 million (-5). Of these, the fair value of derivatives that qualified for hedge accounting was SEK -3 million (-5).

## Maturity structure of derivatives

SEK million	Group (and Parent Company)				Group	
	31/12/19	31/12/18	31/12/19	31/12/18	31/12/19	31/12/18
	Interest rate swaps	Interest rate swaps	Currency forward contracts	Currency forward contracts	Commodity derivatives	Commodity derivatives
Within 1 year	-	100	147	142	16	-
1-2 years	-	-	-	-	31	-
2-3 years	100	-	-	-	31	-
3-4 years	-	100	-	-	31	-
4-5 years	-	-	-	-	31	-
5 years or more	-	-	-	-	-	-
<b>Total</b>	<b>100</b>	<b>200</b>	<b>147</b>	<b>142</b>	<b>140</b>	<b>-</b>

## Sensitivity analysis

SJ's borrowings consist mainly of bank loans at floating interest rates based on three or six-month STIBOR. To manage interest-rate exposure and achieve the desired fixed-interest term, interest-rate swaps are used, which changes the floating rate to a fixed rate. SJ's interest-bearing borrowings on 31 December 2019 totalled SEK 864 million (945).

As interest-rate swaps with a total nominal value of SEK 100 million (200) have been contracted, SJ's variable liability was SEK 764 million (745). Accordingly, SJ's direct exposure at change of +1 percentage point in interest rates would amount to around SEK -8 million (8) annually. SJ's interest rate swaps of SEK 100 million (200) have an average term to maturity of 2.8 years (2.4), which at a +1% shift in the yield curve results in an increase of around SEK 3 million (5) in value, which is recognised in other comprehensive income.

Of SJ's available liquidity of SEK 2,638 million (1,658), SEK 1,997 million (1,110) has been invested with maturities of less than one year, or in FRN bonds. These investments cover SJ's direct transaction exposure arising from its debt portfolio. A +1% shift in the interest-rate curve would have a positive earnings impact of SEK 12 million (4) for SJ annually.

The nominal value of commodity derivatives in NOK was SEK 140 million (-). A +/-10% shift in the forward contract curve as a whole for the underlying commodity would therefore result in a change in value of +/- SEK 14 million.

## Carrying amount and fair value of financial instruments

SEK million	31/12/19		31/12/18	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>Financial assets</b>				
Financial assets measured at fair value via the income statement				
Other non-current assets	74	74	71	71
Bonds	2,183	2,183	1,518	1,518
Fixed-income funds	300	300		
Financial assets measured at amortised cost				
Accounts receivable and other receivables	421	421	551	551
Cash and cash equivalents	204	204	191	191
<b>Total financial assets</b>	<b>3,182</b>	<b>3,182</b>	<b>2,331</b>	<b>2,331</b>
<b>Financial liabilities</b>				
Financial liabilities measured at fair value via the income statement				
Derivative instruments for which hedge accounting is used	3	3	4	4
Financial liabilities measured at amortised cost				
Borrowings <sup>1</sup>	864	864	945	945
Lease liability	987	n/a	17	18
Accounts payable and other liabilities	727	727	599	599
<b>Total financial liabilities</b>	<b>2,581</b>	<b>1,594</b>	<b>1,565</b>	<b>1,566</b>

<sup>1</sup> SJ's credit terms for bank loans are assumed according to an approximate estimate to be in line with the market, and since the liabilities carry variable STIBOR-based interest rates, including credit margin, the carrying amount for the liabilities according to SJ's overall assessment is considered to be an accurate estimate of their fair value.

## Calculation of fair value

The financial instruments that are measured at fair value are derivative instruments, bonds, fixed-income and other long-term assets (funds for management of cash and cash equivalents). These financial instruments are classified on the basis of the extent to which market data has been used in the calculation of fair value. Fixed-income funds are classified as Level 1, while other financial instruments measured at fair value are classified as Level 2. Measurement at Level 1 is based on quoted prices on an active market for identical assets or liabilities. Measurement at Level 2 is based on market principles using observable market prices that are available or may be derived indirectly from prices. Fair value can then be measured by comparison with similar instruments, or by observing the interest rate projection or yield curve for the relevant issuer.

## Financial instruments measured at fair value

SEK million	31/12/19	31/12/18
Level 1	300	-
Level 2	2,254	1,584
<b>Total</b>	<b>2,554</b>	<b>1,584</b>

## 16. Leases

### ■ Accounting policies

The accounting policies for leases that were applied until 31 December 2018 are described in SJ's Annual and Sustainability Report for 2018.

The accounting policies applied since 1 January 2019 for leases are presented below.

SJ leases premises (office premises, staging stations and depots) as well as rolling stock (primarily trains). The lease contracts contain varying terms and conditions but no covenants. Extension options are included in a number of contracts, whether they are reasonably certain to be exercised is assessed on a contract-by-contract basis.

Leases are recognised as a right-of-use asset with a corresponding lease liability at the date at which the leased asset is available for use by SJ. Depreciation of the asset and interest expenses for the liability are recognised in the income statement. The interest component is charged to the income statement over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the lease liability for each period. The right-of-use asset is depreciated on a straight-line basis over either the useful life of the asset or the lease term, whichever is the shorter. Assets and liabilities arising from leases are recognised initially at their present value. The lease liability includes the present value of the following:

- Fixed lease payments
- Variable lease payments, primarily depending on an index
- Amounts expected to be payable by SJ under residual value guarantees
- Payment of penalties for terminating the lease, if the lease term reflects the Group exercising that termination option.

The lease payments are discounted by the incremental borrowing rate, since the implicit interest rate in the lease contracts cannot be readily determined. The incremental borrowing rate is estimated at 1%. The security to which the loan relates has no significant impact because of SJ's high credit-worthiness. The incremental borrowing rate is therefore considered to be equivalent for the Group's leases of rolling stock and premises. SJ's view is that the rate of interest that the Group would have to pay to borrow over a similar term, and with similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment is 1% for all underlying assets, the incremental borrowing rate is therefore set at 1%.

Lease payments for short-term leases and leases of low value assets are expensed on an ongoing basis. Short-term leases are contracts with a lease term of 12 months or less. Leases of low value assets are assets with a value of SEK 50 thousand or less, when in new condition. Service payments are excluded from the lease liability for premises and rolling stock.

For information on the adoption of IFRS 16 Leases, see Note 24. ■

### ■ Critical estimates and assessments

#### *Leases as according to IFRS 16*

In assessing which contracts should be recognised as a lease as according to IFRS 16, a few of the Group's leases are harder to assess (mainly rolling stock leases in tendered services and depots). The main difference in determining whether a lease should be recognised in accordance with IFRS 16 lies in the assessment regarding who has the right to control the asset. In the cases where SJ has the right to control the use of the asset during the lease term, the contract is recognised as a lease as according to IFRS 16.

#### *Lease term*

SJ's assessment as to whether it is reasonably certain that an extension option will be used or not affects the lease term. ■

#### *Leases that are expensed*

Short-term leases and leases of low value assets are expensed on an ongoing basis and constitute an insignificant amount. Expensed variable lease payments also represent an insignificant amount. For information on right-of-use assets, see Note 10. For further information regarding the lease liability, see Note 15 Financial instruments and financial risk management.

## 17. Equity

### ■ Accounting policies

#### *Hedging reserves*

Derivative instruments (interest rate swaps, currency forward contracts and commodity derivatives) for which hedge accounting is applied, the change in value and the result of extending currency forward contracts are recorded in equity via other comprehensive income.

#### *Retained earnings, including net income*

Retained earnings, including net income, consist of net income for the year and undistributed income from associated companies. ■

### Specification of hedging reserve

SEK million	2019	2018
Opening balance, 1 January	12	6
<i>Cash-flow hedges</i>		
– change in fair value	5	2
– reclassification to income statement	2	6
Deferred tax	-2	-2
<b>Closing balance, 31 December</b>	<b>17</b>	<b>12</b>

## 18. Provisions

### ■ Accounting policies

#### *Provisions*

Provisions are liabilities of uncertain timing or amount. A provision is recognised in the consolidated balance sheet when, as a result of a past event, the Group has a legal or constructive obligation that is likely to require an outflow of resources that can be estimated reliably. Provisions are discounted to present value where the time value of money is material. Dissolution of the present value calculation is recognised as a financial expense. Provisions are reviewed at each balance sheet date.

#### *Accident annuities*

Accident annuities are adjusted annually using an index linked to changes in the price base amount. Every year, Finansinspektionen (the Swedish Financial Inspectorate) determines the percentage by which accident annuities are to be adjusted. The provision is also revalued annually on the basis of assumptions for life expectancy, the discount rate and the index by which the index-linked annuities are updated. In conjunction with this process, all assumptions used are subjected to review. ■

### ■ Critical estimates and assessments

#### *Customer loyalty programme (SJ Prio)*

SJ's valuation of Prio points is based on their value to customers. To SJ, this means that the value of a journey paid with points is based on its value to the member, in other words, the average price for such a journey. A reduction is then applied to the value, wherein the valuation takes into account the facts that:

- the validity of the points is limited
- the points are not as usable as money
- the availability of journeys that can be booked with points is restricted.

The value of the initial sale is reduced and a provision made that reflects the future bonus obligation.

#### *Onerous contracts*

SJ regularly reviews all its contractual obligations in tendered services and assesses whether there is any need to recognise a provision for any onerous contract for the remaining contract term. A contract is onerous if the costs required to meet the contractual obligations exceed the expected economic benefits from it.



## Note 18 (cont.)

### Disputes

SJ is involved in a number of disputes and legal proceedings within the scope of operating activities. Management is consulting legal experts on issues relating to legal disputes, and with other experts within and outside the Company on issues relating to ongoing business activities. According to SJ's best assessment, no company in the Group is currently involved in any legal proceedings or arbitration proceedings that may have a materially adverse impact on the Company, its financial position or its results. ■

### Provisions

SEK million	Accident annuities		Customer loyalty programme		Claims		Restructuring		Other		Total	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Opening balance, 1 January	159	159	124	123	16	39	6	13	60	62	365	396
Additional provisions	0	0	165	116	17	2	84	9	80	59	259	186
Estimated interest	0	1	0	-	0	-	0	-	0	-	0	1
Dissolution/reevaluation	8	6	-32	-33	0	0	0	-	32	-	27	-27
Utilised	-7	-7	-93	-82	-4	-25	-6	-16	-72	-60	-115	-190
<b>Closing balance, 31 December</b>	<b>160</b>	<b>159</b>	<b>164</b>	<b>124</b>	<b>29</b>	<b>16</b>	<b>84</b>	<b>6</b>	<b>100</b>	<b>60</b>	<b>536</b>	<b>365</b>
<i>Of which:</i>												
Non-current provisions	153	152	7	9	9	9	1	1	56	21	225	191
Current provisions <sup>1</sup>	7	7	157	115	21	7	83	5	44	39	311	174
<b>Total</b>	<b>160</b>	<b>159</b>	<b>164</b>	<b>124</b>	<b>29</b>	<b>16</b>	<b>84</b>	<b>6</b>	<b>100</b>	<b>60</b>	<b>536</b>	<b>365</b>

<sup>1</sup> It is estimated that the provisions classified as current provisions will lead to an outflow of resources within twelve months of the balance sheet date.

### Accident annuities

Accident annuities consist of indemnities for third-party injuries arising from an accident. Just over 50 people who sustained injuries arising from SJ's railway operations are receiving such indemnities. Accident annuities are mostly lifelong; they are reduced or cease at the age of 65 years. Accident annuities are hedged annually.

### Customer loyalty programme (SJ Prio)

SJ Prio, launched in 2007, is SJ's customer loyalty programme for passengers. Today, SJ Prio has around 1.5 million members. The provision reflects SJ's payment commitment for its future bonus obligation; the provision for the loyalty programme expires within two years from 31 December 2019.

### Claims

Provisions for claims consist of the provision for injuries sustained on SJ's rolling stock and policyholder's excess in insurance claims.

### Restructuring

A provision for restructuring is recognised when the Group has established a restructuring plan and the plan has been adopted or officially announced.

### Other

Other provisions for 2019 consist of a provision for onerous contracts, delay compensation and a provision for maintenance of rolling stock.

## 19. Accrued expenses and deferred income

SEK million	31/12/19	31/12/18
Personnel-related expenses	217	240
Electricity and infrastructure charges	106	109
Rolling stock related expenses	153	123
Licences and other IT costs	47	42
Other accrued expenses	93	55
Prepaid annual season tickets and other tickets	331	280
Other deferred income	27	18
<b>Total</b>	<b>976</b>	<b>867</b>

## 20. Pledged assets

SEK million	31/12/19	31/12/18
Collateral for raised loans	1,116	1,201
<b>Total</b>	<b>1,116</b>	<b>1,201</b>

SJ has 17 SJ 3000 train sets pledged as collateral for two loans from the Nordic Investment Bank. On 31 December 2019, the carrying amount for all 17 train sets (17) was SEK 1,116 million (1,201).

## 21. Contingent liabilities

### ■ Accounting policies

Contingent liabilities are existing obligations attributable to past events that have not been recognised as a liability or provision. The reason is that it is unlikely 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. ■

SEK million	31/12/19	31/12/18
Guarantees	761	330
<b>Total</b>	<b>761</b>	<b>330</b>

In the Group, guarantees for counter-guarantees for the Group's commitments on behalf of customers and suppliers consist above all of guarantees issued in accordance with agreements relating to tendered services. These guarantees amounted to in all SEK 761 million (330), of which SEK 300 million (300) pertained to the agreements that SJ Götalandsståg operates on behalf of Västtrafik and SEK 461 million (-) to new agreements in tendered services (the Trafikpaket Nord in Norway service and the Öresundstågen service).

## 23. Change in financial liability

SEK million	Opening balance 1 January 2019	Cash flows		- Non-cash items		Closing balance, 31 December 2019
		Repayment of borrowings	Change in lease liability <sup>2</sup>	Reclassification		
Long-term borrowings	864	-	-	-98		766
Short-term borrowings	98	-98	-	98		98
Long-term lease liability	808 <sup>1</sup>	-	194	-308		694
Short-term lease liability	337 <sup>1</sup>	-350	-2	308		293
<b>Total liabilities from financing activities</b>	<b>2,107</b>	<b>-448</b>	<b>192</b>	<b>-</b>		<b>1,851</b>

<sup>1</sup> For information on adoption of IFRS 16 Leases, see Note 24.

<sup>2</sup> New leases, interest on lease liability and changes/revaluation of leases.

SEK million	Opening balance 1 January 2018	Cash flows		- Non-cash items		Closing balance, 31 December 2018
		Amortisation		Reclassification		
Long-term borrowings	962	-		-98		864
Short-term borrowings	98	-98		98		98
<b>Total liabilities from financing activities</b>	<b>1,060</b>	<b>-98</b>		<b>-</b>		<b>962</b>

## 24. Adoption of IFRS 16 Leases

SJ applies IFRS 16 Leases as of 1 January 2019. IFRS 16 replaces IAS 17 Leases. Under the new standard most leases are recognised on the balance sheet, as the distinction between operating leases and finance leases is removed. Under the new standard, an asset (representing the right to use the leased asset) and a financial liability (representing the obligation to make lease payments) are to be recognised, with the exception of short-term leases and leases of low value assets. Depreciation of the right-of-use asset and interest expenses arising from the lease liability are recognised in the income statement.

SJ has applied IFRS 16 retrospectively with the cumulative effect of initially applying the standard recognised on 1 January 2019. The comparative amounts for 2018 have not been restated as according to the transition requirements. The right-of-use assets are measured at an amount equal to the lease liability at transition.

Each lease contract have been assessed. SJ assess that most leases on premises are lease contracts as according to IFRS 16. Certain contracts for rolling stock in tendered services have also been assessed as lease contracts as according to IFRS 16. The main difference in determining whether a lease should be recognised in accordance with IFRS 16 lies in the assessment as to who has the right to control the asset. In cases where SJ has the right to control

## 22. Related-party transactions

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

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 engaged in commercial activities and over which the State has a controlling interest, and government agencies. In 2019, the three largest enterprises for purchases of products and services were: the Swedish transport administration (STA), SEK 874 million (827), Jernhusen AB, SEK 206 million (199) and SilverRail Technologies AB, SEK 128 million (168).

SilverRail Technologies AB was divested in September 2019. The amount stated refers to purchases during the period that the company was an associated company.

For information on the remuneration of senior executives and Board members, see Note 4 Personnel expenses.

SEK million	Total	Of which, rolling stock	Of which, premises
Operating lease commitments, 31 December 2018	1,219	268	951
Discount by using the Group's incremental borrowing rate	-32	-7	-25
Less, short-term leases	-41	-	-41
Less, leases of low value assets	-1	-	-1
<b>Lease liability, 1 January 2019</b>	<b>1,145</b>	<b>261</b>	<b>884</b>
Of which, short-term lease liability	337	133	205
Of which, long-term lease liability	808	128	680

The Group applied the following practical expedients as permitted by the standard at adoption: to exclude initial direct cost for the measurement of right-of-use assets at the date of initial application, and the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease. Right-of-use assets are measured at the same value as the lease liability at adoption. Finance leases as according to IAS 17 have not been restated at the adoption of IFRS 16.

## Consolidated balance sheet

SEK million	31 December 2018 Recognised balance sheet items	Restatement, IFRS 16	1 January 2019 Restated balance sheet items
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	5,185	-	5,185
Right-of-use assets	-	1,145	1,145
Intangible assets	218	-	218
Financial assets	141	-	141
<b>Total non-current assets</b>	<b>5,544</b>	<b>1,145</b>	<b>6,689</b>
<b>Total current assets</b>	<b>2,491</b>	<b>-</b>	<b>2,491</b>
<b>TOTAL ASSETS</b>	<b>8,035</b>	<b>1,145</b>	<b>9,180</b>
<b>EQUITY AND LIABILITIES</b>			
Total equity	4,740	-	4,740
<b>Non-current liabilities</b>			
Lease liability	-	808	808
Other non-current provisions and liabilities	1,521	-	1,521
<b>Total non-current liabilities</b>	<b>1,521</b>	<b>808</b>	<b>2,329</b>
<b>Current liabilities</b>			
Lease liability	-	337	337
Other current provisions and liabilities	1,774	-	1,774
<b>Total current liabilities</b>	<b>1,774</b>	<b>337</b>	<b>2,111</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>8,035</b>	<b>1,145</b>	<b>9,180</b>

## 25. Events after the balance sheet date

SJ has been appointed to continue to operate the night-train service on the Stockholm-Östersund-Duvud line for four more years from December 2020, with an extension option of maximum two years. The night-train service on the Stockholm-Luleå-Narvik route, which SJ operates today, was awarded to another train operator with the same length of agreement. The decision was announced by the Swedish transport authorisation (STA) on 10 February 2020. SJ's agreement is relatively similar to the present agreement on the route concerned, a service concession in which the operator's income consists of ticket revenue and fixed remuneration from STA, which creates a natural incentive, as profitability rises the more people travel by train. In the same way as today, the contract means an end-to-end responsibility encompassing service planning, operations and personnel, day-to-day and technical maintenance, together with replacement services.

Monica Lingegård has been appointed as SJ AB's new President and Chief Executive Officer, to take up her appointment on 17 August 2020. Monica Lingegård is today President of Samhall AB and previously served as President of the G4S security company in Sweden.

SJ's Crisis Management team is monitoring the spread of the coronavirus closely and is following the recommendations of government agencies, including the Public Health Agency of Sweden. SJ's Board of

Directors and Group Management are following developments very closely and are planning for various scenarios. These plans will be decided on and executed on a step-by-step basis, according to developments and with a long-term focus. The reduced numbers of people travelling will impact negatively on results for both the first quarter and the full year 2020. The impact on financial position and ability to pay is being monitored and assessed on an ongoing basis. It is not possible today to make an assessment as to the extent SJ's operations will be affected.

Given the great uncertainty as to the effects that the coronavirus and measures to curb spread of the infection may have on SJ's operations, the Board has decided to withdraw its former proposal for dividend corresponding to around 30% of the SJ Group's net income for the year. The Board now proposes that instead no dividend be paid for the 2019 financial year.

No other events have occurred after 31 December 2019 that are assessed to have a material impact on the consolidated financial statements.



## Parent Company

# Income statement and statement of comprehensive income

SEK million	Note	2019	2018
Net sales	M3	7,715	6,969
Other operating income		7	50
<b>Gross income</b>		<b>7,722</b>	<b>7,019</b>
Personnel expenses	M4	-2,172	-2,152
Depreciation/amortisation and impairment	M10, M11	-774	-754
Other expenses	M5, M6	-4,168	-3,785
<b>Total operating expenses</b>		<b>-7,113</b>	<b>-6,691</b>
<b>Operating income</b>		<b>609</b>	<b>328</b>
Result from participations in subsidiaries	M7	2	23
Profit from participations in associated companies	M13	99	11
Financial income	M8	26	3
Financial expenses	M8	-11	-15
<b>Income after financial items</b>		<b>725</b>	<b>350</b>
Group contributions paid		-6	-
Group contributions		81	118
Provision for tax allocation		-251	-133
<b>Total appropriations</b>		<b>-176</b>	<b>-16</b>
<b>Income before tax</b>		<b>549</b>	<b>334</b>
Income tax expense	M9	-99	-39
<b>Net income</b>		<b>450</b>	<b>295</b>
<b>Other comprehensive income</b>			
<i>Items that may be reclassified to the income statement</i>			
<b>Cash-flow hedges</b>			
- change in fair value	M18	7	2
- reclassification to the income statement	M18	2	6
Deferred tax	M18	-2	-2
<b>Other comprehensive income</b>		<b>7</b>	<b>6</b>
<b>Total comprehensive income</b>		<b>457</b>	<b>301</b>

## Comments on the Parent Company income statement

### Gross income

SJ AB's net sales totalled SEK 7,715 million (6,969). Sales increased partly as a result of strong travel development<sup>1)</sup> of 11%, and high load factor. First Class travel increased and more passengers chose rebookable tickets. Bistro sales, too, increased as a result of the strong travel development. The amount of available seats was higher than last year.

The yield (ticket price per passenger kilometre) was on a par with last year.

### Operating expenses

In all, SJ AB's expenses were SEK 422 million higher than last year, representing an increase of 6.3%.

The higher expenses was partly the effect of more available seats and increased travel. SJ also maintained its programme of digitisation and enhanced its work on business development toward year-end in order to assure SJ's future competitiveness. This led to higher expenses than last year.

Personnel costs also increased slightly as a result of the annual pay review and due to a higher average number of employees.

### Operating income

Operating income for the full year 2019 was strong at SEK 609 million (328), mainly as a result of a strong travel development and high load factor.

The operating margin grew to 7.9% (4.7).

### Net income and tax

Net income was strong at SEK 450 million (295).

Income before tax totalled SEK 549 million (334). The effective tax rate for the full year was 18.0% (11.7). The difference between the actual tax rate, 21.4%, and the effective tax rate for 2019 was mainly attributable to a non-taxable capital gain from the divestment of a stake in an associated company.

<sup>1)</sup> Travel development includes travel with SJ tickets on SJ's independent commercial services and tendered services, excluding season ticket travel on tendered services. However, all travel on season tickets within the scope of the Movingo agreement is included.

## Parent Company

## Balance sheet

SEK million	Note	31/12/19	31/12/18
<b>ASSETS</b>			
<b>Non-current assets</b>			
<b>Property, plant and equipment</b>			
Rolling stock	M10	3,459	3,862
Machinery and equipment	M10	41	57
Work in progress	M10	1,518	1,247
Leased premises	M10	15	18
<b>Total property, plant and equipment</b>		<b>5,033</b>	<b>5,183</b>
<b>Intangible assets</b>			
Capitalised development expenditure	M11	239	218
<b>Total intangible assets</b>		<b>239</b>	<b>218</b>
<b>Financial assets</b>			
Shares in subsidiaries	M12	93	93
Participations in associated companies	M13	1	13
Non-current receivables		75	72
<b>Total non-current financial assets</b>		<b>168</b>	<b>178</b>
<b>Total non-current assets</b>		<b>5,440</b>	<b>5,579</b>
<b>Current assets</b>			
Inventories		9	9
Accounts receivable	M16	192	174
Receivables from Group companies		156	153
Other receivables	M14	116	271
Prepaid expenses and accrued income	M15	198	184
<b>Total current receivables</b>		<b>662</b>	<b>782</b>
Short-term investments	M16	2,483	1,518
Cash and cash equivalents	M16	203	190
<b>Total current assets</b>		<b>3,356</b>	<b>2,499</b>
<b>TOTAL ASSETS</b>		<b>8,796</b>	<b>8,077</b>

SEK million	Note	31/12/19	31/12/18
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
<b>Restricted equity</b>			
Share capital		400	400
Statutory reserve		200	200
Capitalised development reserve		205	137
<b>Unrestricted equity</b>			
Fair value reserve		19	12
Retained earnings		3,501	3,469
Profit for the year		450	295
<b>Total equity</b>	M17, M26	<b>4,775</b>	<b>4,513</b>
<b>Untaxed reserves</b>			
Tax allocation reserve		384	133
<b>Total untaxed reserves</b>		<b>384</b>	<b>133</b>
<b>Liabilities</b>			
<b>Provisions</b>			
Non-current provisions	M20	225	191
Current provisions	M20	310	174
Deferred tax liability	M9	376	436
<b>Total provisions</b>		<b>910</b>	<b>801</b>
<b>Non-current liabilities</b>			
Interest-bearing liabilities	M16	768	864
<b>Total non-current liabilities</b>		<b>768</b>	<b>864</b>
<b>Current liabilities</b>			
Interest-bearing liabilities	M16	98	98
Accounts payable	M16	549	433
Liabilities to Group companies		316	326
Liabilities to associates		0	34
Other current liabilities		117	103
Accrued expenses and deferred income	M20	879	774
<b>Total current liabilities</b>		<b>1,959</b>	<b>1,767</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>8,796</b>	<b>8,077</b>

## Comments on the Parent Company balance sheet

## Assets

*Property, plant and equipment*

SJ AB's property, plant and equipment amounted to SEK 5,033 million (5,183) and mainly consisted of rolling stock. SJ's rolling stock comprises SJ 3000 trains, X 2000 trains, double-decker trains, locomotives and carriages. Investments for the year in property, plant and equipment totalled SEK 552 million (508). The investments consisted mostly of X 2000s and double-decker trains.

*Intangible assets*

Intangible assets totalled SEK 239 million (218), comprising capitalised development expenditure relating primarily to development costs for business-related IT systems. Investments in intangible assets during the year, totalling SEK 97 million (58), were expended on a new financial management platform and the development of a new planning system.

*Financial assets*

Financial assets amounted to SEK 168 million (178), consisting of shares in subsidiaries and participations in associate companies. The investment concerns investment of cash and cash equivalents in order to cover future payments of annuities.

*Current assets*

SJ AB's current assets totalled SEK 3,356 (2,499). Short-term investments totalled SEK 2,483 million (1,518), the increase consisting of excess liquidity invested in bonds and fixed-income funds.

## Equity and liabilities

*Equity*

SJ AB's equity totalled SEK 4,775 million (4,513). The change reflects comprehensive income for the year and the dividend of SEK 194 million (269) as per the 2018 appropriation of profits.

*Interest-bearing liabilities*

Interest-bearing liabilities amounted to SEK 866 million (962), mainly comprising outstanding payment commitments for loans raised in 2012 to finance SJ 3000s, and loans raised in 2015 to upgrade X 2000s. The loans have a term to maturity of 3 to 6 years.

## Parent Company

# Statement of changes in equity

SEK million	Restricted equity			Unrestricted equity			Total equity
	Share capital	Statutory reserve	Capitalised development reserve	Hedging reserve	Retained earnings	Net income	
<b>1 January 2018</b>	<b>400</b>	<b>200</b>	<b>113</b>	<b>6</b>	<b>3,025</b>	<b>737</b>	<b>4,480</b>
Net income	-	-	-	-	-	295	295
Other comprehensive income	-	-	-	6	-	-	6
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>6</b>	<b>-</b>	<b>295</b>	<b>301</b>
Capitalised development reserve	-	-	24	-	-24	-	-
Appropriation of Profit	-	-	-	-	737	-737	-
Dividend to shareholder	-	-	-	-	-269	-	-269
<b>31 December 2018</b>	<b>400</b>	<b>200</b>	<b>137</b>	<b>12</b>	<b>3,469</b>	<b>295</b>	<b>4,513</b>
<b>Change during year</b>							
Net income	-	-	-	-	-	450	450
Other comprehensive income	-	-	-	7	-	-	7
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>7</b>	<b>-</b>	<b>450</b>	<b>457</b>
Capitalised development reserve	-	-	68	-	-68	-	-
Appropriation of Profit	-	-	-	-	295	-295	-
Dividend to shareholder	-	-	-	-	-194	-	-194
<b>31 December 2019</b>	<b>400</b>	<b>200</b>	<b>205</b>	<b>19</b>	<b>3,501</b>	<b>450</b>	<b>4,775</b>

## Comments on the Statement of changes in equity

On 31 December 2019, SJ AB's equity amounted to SEK 4,775 million (4,513). The change is mostly due to total comprehensive income of SEK 457 million (301) and dividend, as per the 2018 appropriation of profits, of SEK 194 million (269).

In restricted equity, SEK 68 million (24) was transferred to the capitalised development reserve. In addition to net income and retained earnings, unrestricted equity includes a change of SEK 7 million (6) in cash flow hedges including deferred tax.



## Parent Company

# Statement of cash flows

SEK million	Note	2019	2018
<b>Cash flow from operating activities</b>			
Income before tax		549	334
<b>Non-cash items</b>			
Depreciation/amortisation and impairment	M10, M11	774	754
Changes in provisions		170	-30
Capital gain/loss		-90	1
Untaxed reserves		251	133
Tax paid		-161	-85
Other non-cash items		-12	-1
<b>Cash flow from operating activities before changes in working capital</b>		<b>1,481</b>	<b>1,106</b>
<b>Changes in working capital</b>			
Changes in accounts receivable		-1	-154
Changes in accounts payable		55	73
Changes in other working capital		269	-1
<b>Cash flow from working capital</b>		<b>323</b>	<b>-82</b>
<b>Cash flow from operating activities</b>		<b>1,804</b>	<b>1,024</b>
<b>Investing activities</b>			
Acquisition of property, plant and equipment	M10	-552	-508
Sale of property, plant and equipment		0	4
Acquisition of intangible assets	M11	-97	-58
Change in shares and participations		0	0
Profit from participations in associated companies		6	10
Investment in non-current receivable		0	-70
Consideration received at divestment of associated company		106	-
Acquisition of short-term investments		-1,330	-383
Divestment of short-term investments		369	469
<b>Cash flow from investing activities</b>		<b>-1,499</b>	<b>-536</b>
<b>Financing activities</b>			
Amortisation	M24	-98	-98
Dividend to shareholder		-194	-269
<b>Cash flow from financing activities</b>		<b>-292</b>	<b>-367</b>
<b>Cash flow for the year</b>		<b>13</b>	<b>122</b>
Cash and cash equivalents at start of year	M16	190	69
<b>Cash and cash equivalents at year-end</b>		<b>203</b>	<b>190</b>

## Comments on the Parent Company statement of cash flows

### Cash flow from operating activities

Cash flow from operating activities was higher than last year, at SEK 1,804 million (1,024), partly as a result of improved profit. Positive changes in working capital also contributed, on the basis of when in time invoicing and payment, respectively, took place.

### Cash flow from investing activities

Cash flow from investing activities totalled SEK -1,499 million (-536). Investments in property, plant and equipment for the year totalled SEK -552 million (-508), including SEK -541 million (-503) for roll-in stock. Investments in intangible assets, totalling SEK -97 million (-58), were expended on a new financial management platform and the development of a new planning system.

The acquisition of short-term investments during the year amounted to SEK -1,330 million (-383). Divestments and maturities of short-term investments totalled SEK 369 million (469). The proceeds from the sale of shares in associated companies totalled SEK 106 million (-).

### Cash flow from financing activities

Cash flow from financing activities totalled SEK -292 million (-367). A dividend of SEK -194 million (-269) was paid to the shareholders. SJ has amortised SEK -98 million (-98) of borrowings, according to plan.

# Notes to the Parent Company financial statements

## M1. Accounting policies

SJ AB, corporate identity number 556196-1599, is the Parent Company of the SJ Group. Its head office is in Stockholm.

SJ AB's Annual Report has been prepared in accordance with the Swedish Annual Accounts Act and the recommendations of the Swedish Financial Accounting Standards Council's RFR 2, Accounting for Legal Entities. In accordance with RFR 2, parent companies of groups whose financial statements comply with International Financial Reporting Standards (IFRS), as endorsed by the EU, apply IFRS to the extent possible within the scope of the Swedish Annual Accounts Act, and taking into account the relationship between accounting and taxation. The Parent Company thus applies the same accounting policies as the Group (see the Notes to the consolidated financial statements for a description of these policies), other than in the case of the deviations presented below along with the notes concerned. Amounts are stated in millions of Swedish kronor, SEK million, unless otherwise indicated. Rounding differences may occur.

### Recognition of participations in associated companies

SJ AB recognises participations in associated companies at cost. Dividends received are recognised in the income statement. Values are tested at least once a year for impairment.

### 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.

### Untaxed reserves

An allocation to a tax allocation reserve is permitted in amount corresponding to 25% of the taxable profit. A tax allocation reserve must be reversed for taxation no later than in the sixth year after the year of allocation.

## M2. Critical estimates and assessments

For more information on critical estimates and assessments, see Note 2 in the Consolidated financial statements.

## M3. Income

SEK million	2019				2018			
	Commercial services	Tendered services	Other	Total	Commercial services	Tendered services	Other	Total
<i>Time of fulfilment of performance obligation</i>								
At a point in time	5,370	941	212	6,523	4,829	838	199	5,867
Over time	573	618	–	1,192	529	573	–	1,102
<b>Total net sales</b>	<b>5,944</b>	<b>1,559</b>	<b>212</b>	<b>7,715</b>	<b>5,358</b>	<b>1,411</b>	<b>199</b>	<b>6,969</b>

### Contract balances

SEK million	31/12/19	31/12/18
Prepaid annual season tickets and other pre-paid tickets		
– Commercial services	-269	-234
– Tendered services	-62	-46
Customer loyalty programme (SJ Prio)	-164	-124
Delay compensation	-7	-7
<b>Total contract liabilities</b>	<b>-502</b>	<b>-411</b>

Income from prepaid annual season tickets and other tickets is recognised in the following year. For information regarding the change in provision for the customer loyalty programme (SJ Prio) and delay compensation, see Note M19 Provisions.

### Performance obligation fulfilled within:

SEK million	2019	2018
1 year	337	477
2 years	84	337
3 years	29	84
4 years	30	29
5 years	60	90
<b>Total unfulfilled performance obligations, tendered services</b>	<b>540</b>	<b>1,017</b>

## M4. Personnel expenses

For information on remuneration to Board of Directors and Senior Executives in the Parent Company (and Group), see Note 4 to the consolidated financial statements.

### Personnel expenses

SEK million	2019	2018
<b>Salaries and other remuneration</b>		
Board of Directors	-1	-1
CEO and senior executives	-28	-26
Other employees	-1,357	-1,355
<b>Total salaries and other remuneration</b>	<b>-1,386</b>	<b>-1,382</b>
Social security expenses	-416	-428
Pension expenses, including special employer's contribution for CEO and senior executives	-8	-9
Pension expenses, including special employer's contribution for other employees	-157	-146
Other personnel-related expenses	-205	-187
<b>Total personnel expenses</b>	<b>-2,172</b>	<b>-2,152</b>

### Average number of employees

	2019		2018	
	Average number	Of which: Women, %	Average number	Of which: Women, %
Sweden	2,970	39	2,954	39
<b>Total</b>	<b>2,970</b>	<b>39</b>	<b>2,954</b>	<b>39</b>

### Board members and Senior Executives

	31/12/19		31/12/18	
	Number	Of which: Women, %	Number	Of which: Women, %
Board members	8	50	8	38
Senior Executives	11	36	12	50
<b>Total</b>	<b>19</b>	<b>42</b>	<b>20</b>	<b>45</b>

## M5. Other expenses

SEK million	2019	2018
Maintenance and inspection of trains	-1,048	-1,021
Electricity costs for train operations	-290	-302
Infrastructure charges	-545	-493
Other production-related expenses	-776	-715
Indirect costs	-1,509	-1,254
<b>Total</b>	<b>-4,168</b>	<b>-3,785</b>

## M6. Auditors' fees

SEK million	2019	2018
<b>Deloitte</b>		
Statutory audit	-2	-1
Audit-related assurance services	-2	-2
Tax advice	0	0
Other services	0	0
<b>Total</b>	<b>-4</b>	<b>-3</b>

## M7. Result from participations in subsidiaries

SEK million	2019	2018
Dividend	2	23
<b>Total</b>	<b>2</b>	<b>23</b>

Dividend of SEK 2 million (23) refers to a dividend from subsidiary Stockholmståg KB. The company is in the process of being disposed.

## M8. Financial income and expenses

SEK million	2019	2018
<b>Financial income</b>		
Interest income		
- Current receivables	4	3
- bonds	14	9
Change in value, bonds	9	-9
<b>Total</b>	<b>26</b>	<b>3</b>
<b>Financial expenses</b>		
Interest expenses		
- loans	-6	-4
- lease liability	-2	-2
- derivative instruments	-2	-6
Exchange rate differences	-0	-1
Other financial expenses	-2	-2
<b>Total</b>	<b>-11</b>	<b>-15</b>



## M9. Tax

### Income tax expense

SEK million	2019	2018
Deferred tax income	62	45
Current tax	-161	-84
<b>Total</b>	<b>-99</b>	<b>-39</b>

### Reconciliation of recognised tax and the effective tax rate

	2019		2018	
	Income taxes, SEK million	Tax rate, %	Income taxes, SEK million	Tax rate, %
Tax according to applicable tax rate	-118	-21	-74	-22
Dividend from limited partnerships	0	0	5	1
Non-deductible expenses	-1	0	-1	0
Tax effect arising from tax returns for previous years	-	-	3	1
Result from shares and participations	1	0	2	1
Non-taxable income on divestment of stake in associated company	20	3	-	-
Deferred tax attributable to previous years	-	-	-3	-1
Tax effect from change in tax rate	-	-	29	9
<b>Tax expense recognised in the income statement</b>	<b>-99</b>	<b>-18</b>	<b>-39</b>	<b>-12</b>

The effective tax rate at SJ AB was -18% (-12). The difference between the actual tax rate, 21.4%, and the effective tax rate for the year was mainly attributable to a non-taxable capital gain from the divestment of a stake in an associated company.

### Deferred tax assets

	Endowment insurance		Other		Total	
SEK million	2019	2018	2019	2018	2019	2018
<b>Opening balance, 1 January</b>	<b>9</b>	<b>9</b>	<b>10</b>	<b>10</b>	<b>19</b>	<b>19</b>
Recognised in other comprehensive income	0	-	-	-	0	-
Recognised in net income	-	-	24	0	24	0
<b>Closing balance, 31 December</b>	<b>9</b>	<b>9</b>	<b>34</b>	<b>10</b>	<b>43</b>	<b>19</b>

### Deferred tax liabilities

	Depreciation on residual value <sup>1</sup>		Other		Total	
SEK million	2019	2018	2019	2018	2019	2018
<b>Opening balance, 1 January</b>	<b>-450</b>	<b>-493</b>	<b>-5</b>	<b>-6</b>	<b>-455</b>	<b>-499</b>
Change attributable to previous years	-	-3	-	0	-	-3
Recognised in other comprehensive income	-	-	-	-2	-	-2
Recognised in net income	39	46	-3	3	36	49
<b>Closing balance, 31 December</b>	<b>-411</b>	<b>-450</b>	<b>-8</b>	<b>-5</b>	<b>-419</b>	<b>-455</b>
<b>Recognised deferred tax, net</b>					<b>-376</b>	<b>-436</b>

<sup>1)</sup> Depreciation on residual value for fiscal depreciation of property, plant and equipment.

## M10. Property, plant and equipment

SEK million	2019				Total
	Rolling stock	Machinery and equipment	Construction in progress	Leased premises	
Accumulated cost, 1 January	13,136	241	1,247	59	14,683
Investments	106	4	442	-	552
Sales/disposals	-22	-	-	-	-22
Reclassifications	171	1	-171	-	-
Accumulated cost, 31 December	13,390	246	1,518	59	15,213
Accumulated depreciation, 1 January	-8,825	-184	-	-42	-9,051
Depreciation for the year	-675	-20	-	-3	-698
Sales/disposals	19	-	-	-	19
Accumulated depreciation, 31 December	9,481	-204	-	-45	-9,730
Accumulated impairment, 1 January	-449	-	-	-	-449
Impairment losses for the year	-	-	-	-	-
Sales/disposals	-	-	-	-	-
Accumulated impairment, 31 December	-449	-	-	-	-449
<b>Carrying amount, 31 December</b>	<b>3,459</b>	<b>41</b>	<b>1,518</b>	<b>15</b>	<b>5,033</b>

SEK million	2018				Total
	Rolling stock	Machinery and equipment	Construction in progress	Leased premises	
Accumulated cost, 1 January	14,108	243	1,020	59	15,430
Investments	144	4	360	-	508
Sales/disposals	-1,248	-7	-	-	-1,255
Reclassifications	132	1	-133	-	-
Accumulated cost, 31 December	13,136	241	1,247	59	14,683
Accumulated depreciation, 1 January	-8,225	-162	-	-38	-8,425
Depreciation for the year	-628	-25	-	-3	-656
Sales/disposals	28	3	-	-	31
Accumulated depreciation, 31 December	-8,825	-184	-	-42	-9,051
Accumulated impairment, 1 January	-1,665	-	-	-	-1,665
Impairment losses for the year	-4	-	-	-	-4
Sales/disposals	1,219	-	-	-	1,219
Accumulated impairment, 31 December	-449	-	-	-	-449
<b>Carrying amount, 31 December</b>	<b>3,862</b>	<b>57</b>	<b>1,247</b>	<b>18</b>	<b>5,183</b>

## M11. Intangible assets

SEK million	2019			2018		
	Capitalised develop- ment expenditure	Trademark	Total	Capitalised develop- ment expenditure	Trademark	Total
Accumulated cost, 1 January	1,048	240	1,288	990	240	1,230
Investments	97	-	97	58	-	58
Sales/disposals	-	-	-	-	-	-
Accumulated cost, 31 December	1,145	240	1,385	1,048	240	1,288
Accumulated depreciation, 1 January	-830	-240	-1,070	-736	-240	-976
Depreciation for the year	-72	-	-72	-93	-	-93
Impairment losses for the year	-4	-	-4	-1	-	-1
Accumulated depreciation, 31 December	-906	-240	-1,146	-830	-240	-1,070
Carrying amount, 31 December	239	-	239	218	-	218

## M12. Shares in subsidiaries

### ■ Accounting policies

Subsidiaries are companies in which SJ AB, directly or indirectly, has a controlling interest. A controlling interest exists if SJ AB has influence over the subsidiary, is exposed to or has a right to variable returns from its involvement and is able to use its influence to affect these returns.

SJ AB recognises participations in subsidiaries at cost. Expenses related to an acquisition are included in the acquisition value of the investments in accordance with RFR 2. Dividends received are recognised in the income statement. Investments are tested at least annually for impairment.■

### Specification of Parent Company holdings of shares and participations in subsidiaries, with carrying amounts at year-end

Company	Corp. Reg. No.	Reg. office	No. of partici- pations	Share, %	Carrying amount, 31/12/19, SEK million	Carrying amount, 31/12/18, SEK million
SJ Event AB	556577-3008	Stockholm	1,000	100	0	0
SJ Invest AB	556022-1755	Stockholm	700,000	100	85	85
SJ Götalandståg AB	556083-2098	Stockholm	5,000	100	1	1
SJ Roslagen 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	0
SJ Öresund AB	556596-9630	Stockholm	1,000	100	0	0
Stockholmståg KB <sup>1</sup>	969704-4239	Stockholm	1,000	100	0	0
FlyRail AB	556773-5252	Stockholm	100,000	100	0	0
SJ Danmark A/S	33 372 477	Copenhagen	500	100	4	4
SJ Norge AS	917 587 728	Oslo	1,030,000	100	3	3
<b>Total</b>					<b>93</b>	<b>93</b>

<sup>1</sup> SJ is a full partner and SJ Invest a general partner in Stockholmståg KB. Participations are divided in the Group between SJ AB (68%) and SJ Invest (32%).

The equity share corresponds to the share of voting rights.



## M13. Participations in associated companies

### Income from participations in associated companies

SEK million	2019	2018
Dividend	6	10
Gain on divestment of associated company	93	1
<b>Total</b>	<b>99</b>	<b>11</b>

### Participations in associated companies

SEK million	2019	2018
Cost, 1 January	22	22
Disposal of associated company during the year	-13	-
<b>Accumulated cost, 31 December</b>	<b>9</b>	<b>22</b>
Accumulated impairment, 1 January	-8	-8
<b>Accumulated impairment, 31 December</b>	<b>-8</b>	<b>-8</b>
<b>Carrying amount, 31 December</b>	<b>1</b>	<b>13</b>

### Shares in associated companies and carrying amount

	Corp. Reg. No.	Reg. office	No. of shares	Equity share, %	31/12/19	31/12/18
Sveriges Kommunikationer AB	556005-5955	Stockholm	1,400	50	1	1
Kust till Kust AB	556481-7822	Karlskrona	60	25	0	0
Botnietåg AB	556801-1828	Stockholm	40,000	40	0	0
Vänertåg AB	556848-9016	Stockholm	250	50	0	0
SilverRail Technologies AB <sup>1)</sup>	556577-2984	Stockholm	125,250	25	-	13
<b>Total participations in associated companies</b>					<b>1</b>	<b>13</b>

<sup>1)</sup> The company was divested in 2019.

### Specification of associated companies' assets, liabilities, income and earnings

SEK million	Corp. Reg. No.	Reg. office	2019				2018			
			Assets	Liabilities	Income	Earnings	Assets	Liabilities	Income	Earnings
Sveriges Kommunikationer AB	556005-5955	Stockholm	5	2	-	0	5	2	-	0
Kust till Kust AB	556481-7822	Karlskrona	0	0	0	0	0	0	0	0
Botnietåg AB	556801-1828	Stockholm	43	0	-	-30	74	1	3	4
Vänertåg AB	556848-9016	Stockholm	0	-	-	-	0	0	-	-
SilverRail Technologies AB <sup>1)</sup>	556577-2984	Stockholm	-	-	-	-	227	113	259	45
<b>Total, associated companies</b>			<b>48</b>	<b>2</b>	<b>0</b>	<b>-30</b>	<b>306</b>	<b>116</b>	<b>262</b>	<b>49</b>

<sup>1)</sup> The company was divested in 2019.

## M14. Other receivables

SEK million	31/12/19	31/12/18
VAT and tax assets	67	129
Insurance claim	14	8
Tax account	20	120
Other receivables	15	14
<b>Total</b>	<b>116</b>	<b>271</b>

## M15. Prepaid expenses and accrued income

SEK million	31/12/19	31/12/18
Prepaid rolling stock costs	31	42
Prepaid lease payments	48	53
Licences and other IT costs	42	28
Other prepaid expenses	29	16
Accrued interest income	4	3
Other accrued income	44	40
<b>Total</b>	<b>198</b>	<b>184</b>

## M16. Financial instruments and financial risk management

See Note 15 in the Consolidated financial statements for the accounting policies and financial risk management, which also applies to the Parent Company. The tables "Financial derivative instruments", "Maturities of derivative instruments" and "Sensitivity analysis" in Note 15 in the Consolidated financial statements are also applicable to the Parent Company regarding interest rate swaps and currency forward contracts.

### Age analysis of accounts receivable due for payment

SEK million	31/12/19	31/12/18
<30 days	58	72
30–60 days	9	–
60–90 days	1	–1
> 90 days	24	30
<b>Total</b>	<b>92</b>	<b>101</b>
<i>Of which, provision for accounts receivable:</i>		
Opening balance, 1 January	5	13
Provision for anticipated losses	8	–2
Confirmed losses	–4	–5
<b>Closing balance, 31 December</b>	<b>9</b>	<b>5</b>

### Future undiscounted cash flows for financial liabilities

SEK million	2019				2018			
	Within 1 year	1–5 years	5 years or more	Total	Within 1 year	1–5 years	5 years or more	Total
Borrowings	103	599	181	883	104	645	260	1009
Lease liability	3	12	–	15	3	12	3	18
Accounts payable and other liabilities	982	–	–	982	896	–	–	896
Derivative instruments	1	2	–	3	3	2	–	5
<b>Total</b>	<b>1,089</b>	<b>613</b>	<b>181</b>	<b>1,883</b>	<b>1,006</b>	<b>659</b>	<b>263</b>	<b>1,928</b>

### Carrying amount and fair value of financial instruments

SEK million	2019		2018	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>Financial assets</b>				
Financial assets measured at fair value via income statement				
Non-current receivables	74	74	71	71
Bonds	2,183	2,183	1,518	1,518
Fixed-income funds	300	300	–	–
Financial assets measured at amortised cost				
Accounts receivable and other receivables	464	464	598	598
Cash and cash equivalents	203	203	190	190
<b>Total financial assets</b>	<b>3,224</b>	<b>3,224</b>	<b>2,377</b>	<b>2,377</b>
<b>Financial liabilities</b>				
Financial liabilities measured at fair value via the income statement				
Derivative instruments for which hedge accounting is applied	2	2	4	4
Financial liabilities measured at amortised cost				
Borrowings	852	852	945	945
Lease liability	14	15	17	18
Accounts payable and other liabilities	982	982	896	896
<b>Total financial liabilities</b>	<b>1,850</b>	<b>1,851</b>	<b>1,862</b>	<b>1,863</b>

### Financial instruments measured at fair value

SEK million	31/12/19	31/12/18
Level 1	300	–
Level 2	2,255	1,584
<b>Total</b>	<b>2,555</b>	<b>1,584</b>

## M17. Leases

### ■ Accounting policies

Due to the relationship between accounting and taxation, the Parent Company does not apply IFRS 16 as the Group, but the accounting policies in accordance with RFR 2 as described below.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Lease payments are expensed on a straight-line basis over the lease term.

Leases where the Parent Company has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the leases commencement date at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Assets acquired under finance leases are depreciated over the asset's useful life or the lease term, whichever is the shorter. The future lease payment obligation to the lessor is recognised as a lease liability in the balance sheet. Each lease payment is divided between amortisation of the lease liability and interest. ■

### Finance leases, maturity structure

SEK million	31/12/19		31/12/18	
	Future minimum lease fees	Present value of future lease fees	Future minimum lease fees	Present value of future lease fees
Within 1 year	3	3	3	3
<b>Total current lease liabilities</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>3</b>
Within more than 1 year, but less than 5 years	12	11	12	12
More than 5 years	-	-	3	2
<b>Total non-current lease liabilities</b>	<b>12</b>	<b>11</b>	<b>15</b>	<b>14</b>
<b>Total lease liabilities</b>	<b>15</b>	<b>14</b>	<b>18</b>	<b>17</b>

Minimum lease payments include interest, contractual amortisation and the residual value of existing lease liabilities.

SJ has a lease that matures on 31 December 2024 and is classified as

a finance lease. The lease refers to a workshop for the maintenance of double-decker trains and an amount of SEK 3 million (3) is recognised as annual amortisation of the lease liability for this workshop.

### Operating leases

SEK million	31/12/19			31/12/18		
	Premises	Rolling stock	Total	Premises	Rolling stock	Total
<b>Nominal value of future payment commitments</b>						
Within 1 year	146	90	236	203	134	337
1-2 years	128	-	128	146	134	280
2-3 years	109	-	109	130	-	130
3-4 years	15	-	15	112	-	112
4-5 years	15	-	15	20	-	20
5 years or more	5	-	5	20	-	20
<b>Total</b>	<b>418</b>	<b>90</b>	<b>508</b>	<b>631</b>	<b>268</b>	<b>899</b>

The Parent Company's operating leases consist mainly of leases on premises, but also on rolling stock. The lease terms varies between 0 and 5 years.

The leases are contracted on standard market terms and conditions. Lease payments in 2019 totalled SEK 297 million (318).

## M18. Equity

### Capitalised development reserve

For capitalisation of own development expenditure, an amount of equal size must be set aside in a capitalised development reserve under equity to limit the ability to pay dividend. Accordingly, SEK 68 million (24) was transferred to the capitalised development reserve for 2019.

### Share capital

According to the Articles of Association for SJ AB, the share capital is to amount to no less than SEK 400 million (400) and no more than SEK 1,600 million (1,600). All shares are fully paid up. No shares are held by the Company itself or 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.

### Restricted and unrestricted reserves

Equity is divided into restricted equity and unrestricted equity.

The distributable amount is subject to both amount limitation and the prudence concept. The amount limitation means that no dividends may be paid unless there is full coverage for the restricted

equity immediately after the distribution. According to the prudence concept dividends may only be paid when justified with regard to the risks posed by the nature and extent of the operations in terms of 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 capitalised development reserve of SEK 205 million (137).

### Specification of hedging reserve

SEK million	2019	2018
Opening balance, 1 January	12	6
<b>Cash-flow hedges</b>		
- change in fair value	7	2
- reclassification to the income statement	2	6
Tax effect	-2	-2
<b>Closing balance, 31 December</b>	<b>19</b>	<b>12</b>

## M19. Provisions

SEK million	Accident annuities		Customer loyalty programme		Claims		Restructuring		Other		Total	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Opening balance, 1 January	159	159	124	123	16	39	6	13	60	61	365	395
Provisions	0	0	165	116	17	2	84	9	80	59	259	186
Estimated interest	0	1	0	-	0	-	0	-	0	-	0	1
Dissolution/revaluation	8	6	-32	-33	0	0	0	-	32	-	27	-27
Utilised	-7	-7	-93	-82	-4	-25	-6	-16	-72	-60	-115	-190
<b>Closing balance, 31 December</b>	<b>160</b>	<b>159</b>	<b>164</b>	<b>124</b>	<b>29</b>	<b>16</b>	<b>84</b>	<b>6</b>	<b>100</b>	<b>60</b>	<b>535</b>	<b>365</b>
<i>Of which:</i>												
Non-current provisions	153	152	7	9	9	9	1	1	56	21	225	191
Current provisions	7	7	157	115	20	7	83	5	44	39	310	174
<b>Total</b>	<b>160</b>	<b>159</b>	<b>164</b>	<b>124</b>	<b>29</b>	<b>16</b>	<b>84</b>	<b>6</b>	<b>100</b>	<b>60</b>	<b>535</b>	<b>365</b>

## M20. Accrued expenses and deferred income

SEK million	31/12/19	31/12/18
Personnel-related expenses	186	202
Electricity and infrastructure charges	92	96
Rolling stock related expenses	115	94
Licences and other IT costs	47	41
Other accrued expenses	69	42
Prepaid annual season tickets and other prepaid tickets	348	280
Other deferred income	22	18
<b>Total</b>	<b>879</b>	<b>774</b>

## M21. Pledged assets

SEK million	31/12/19	31/12/18
Collateral for loans raised	1,116	1,201
<b>Total</b>	<b>1,116</b>	<b>1,201</b>

SJ has 17 SJ 3000 train sets pledged as collateral for two loans from the Nordic Investment Bank. On 31 December 2019, the carrying amount for all 17 train sets (17) was SEK 1,116 million (1,201).

## M22. Contingent liabilities

SEK million	31/12/19	31/12/18
Capital adequacy guarantees, Group companies	102	102
Guarantees	761	330
<b>Total</b>	<b>863</b>	<b>432</b>

SJ AB has issued capital adequacy guarantees in favour of subsidiaries, valid until 31 December 2019.

## M23. Related-party transactions

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

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 engaged in commercial activities and over which the State has a controlling interest, and government agencies. In 2019, the three largest enterprises for purchases of products and services were: The Swedish Transport Administration (STA), SEK 874 million (827), Jernhusen AB, SEK 206 million (199) and SilverRail Technologies AB, SEK 128 million (168).

SilverRail Technologies AB was divested in September 2019. The amount stated refers to purchases during the period that the company was an associated company.

For information on the remuneration of senior executives and Board members, see Note 4 to the Consolidated financial statements, Personnel expenses.



## M24. Change in financial liability

SEK million	Opening balance 1 January 2019	Cash flows		Non-cash items	Closing balance, 31 December 2019
		Amortisation		Reclassification	
Long-term borrowings	850	-		-95	755
Short-term borrowings	95	-95		95	95
Long-term lease liability	14	-		-3	11
Short-term lease liability	3	-3		3	3
<b>Total liabilities from financing activities</b>	<b>962</b>	<b>-98</b>		<b>-</b>	<b>864</b>

SEK million	Opening balance 1 January 2018	Cash flows		Non-cash items	Closing balance, 31 December 2018
		Amortisation		Reclassification	
Long-term borrowing	945	-		-95	850
Short-term borrowing	95	-95		95	95
Long-term lease liability	17	-		-3	14
Short-term lease liability	3	-3		3	3
<b>Total liabilities from financing activities</b>	<b>1,060</b>	<b>-98</b>		<b>-</b>	<b>962</b>

## M25. Events after the balance sheet date

SJ has been appointed to continue to operate the night-train service on the Stockholm-Östersund-Duvud line for four more years from December 2020, with an extension option of maximum two years. The night-train service on the Stockholm-Luleå-Narvik route, which SJ operates today, was awarded to another train operator with the same length of agreement. The decision was announced by STA on 10 February 2020. SJ's agreement is relatively similar to the present agreement on the route concerned, a service concession in which the operator's income consists of ticket revenue and fixed remuneration from STA, which creates a natural incentive, as profitability rises the more people travel by train. In the same way as today, the contract means an end-to-end responsibility encompassing service planning, operations and personnel, day-to-day and technical maintenance, together with replacement services.

Monica Lingegård has been appointed as SJ AB's new President and Chief Executive Officer, to take up her appointment on 17 August 2020. Monica Lingegård is today President of Samhall AB and previously served as President of the G4S security company in Sweden.

SJ's Crisis Management team is monitoring the spread of the coronavirus closely and is following the recommendations of government agencies, including the Public Health Agency of Sweden. SJ's Board of Directors and Executive Management are following developments very closely and are planning for various scenarios. These plans will be decided on and executed on a step-by-step basis, according to developments and with a long-term focus. The reduced numbers of people travelling will impact negatively on results for both the first quarter and the full year 2020. The impact on financial position and ability to pay is being monitored and assessed on an ongoing basis. It is not possible today to make an assessment as to the extent SJ's operations will be affected.

Given the great uncertainty as to the effects that the coronavirus and measures to curb spread of the infection may have on SJ's operations, the Board has decided to withdraw its former proposal for dividend corresponding to around 30% of the SJ Group's profit for the year. The Board now proposes that instead no dividend be paid for the 2019 financial year.

No other events have occurred since 31 December 2019 that are assessed to have material impact on the Parent Company's financial statements.

## M26. Appropriation of Profit

The Board proposes that SJ AB should not pay any dividend for the 2019 financial year, given the great uncertainty as to the effects that the coronavirus and measures to curb spread of the infection may have on SJ's operations. It is proposed that the profit be appropriated as follows.

### Unappropriated profit available for appropriation by the Annual General Meeting:

Retained earnings	SEK 3,520,156,798
Profit for the year	SEK 450,128,131
<b>Total</b>	<b>SEK 3,970,284,929</b>

### The Board of Directors proposes that the profit be appropriated as follows:

To be carried forward:	SEK 3,970,284,929
<b>Total</b>	<b>SEK 3,970,284,929</b>

## Assurance

The undersigned declare that the consolidated accounts and the financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union, and in accordance with generally accepted accounting practice, and give a true and fair view of the financial

position and performance of the Group and the Parent Company, and that the Directors' Report provides a true and fair view of the Group's and Parent Company's operations, financial position and performance and describes the material risks and uncertainties faced by the companies included in the Group.

Stockholm, 26 March 2020  
*[Signatures on Swedish original]*

Siv Svensson  
Board Chair

Ulrika Dellby  
Board member

Lennart Käll  
Board member

Per Matses  
Board member

Ulrika Nordström  
Board member

Kersti Strandqvist  
Board member

Klas Wählberg  
Board member

Hans Pilgaard  
Employee representative

Per Hammarqvist  
Employee representative

Stefan Zetterlund  
Employee representative

Madeleine Raukas  
Chief Executive Officer

Our Auditors' Report was submitted on 26 March 2020.

Deloitte AB

Hans Warén  
Authorised Public Accountant

# Auditor's Report

To the general meeting of the shareholders of SJ AB 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 01/01/2019-31/12/2019, with the exception of the sustainability report on pages 17-40 and the corporate governance report on pages 44-54. The company's annual accounts and consolidated accounts are included on pages 16-92 of 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 the Parent Company as of 31 December 2019 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 2019 and its 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 refer to the sustainability report on pages 17-40 and the corporate governance report on pages 44-54. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

### 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 for 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.

#### Recognition of revenue from commercial services

For 2019, the SJ Group recognises revenue of SEK 8,602 million from external customers, of which SEK 5,951 million relates to commercial services. Revenue from commercial services is assessed to be a key audit matter due to the substantial transaction volume, which indicates that completeness and accruals accounting are critical to accurate financial reporting. A complete and effective transfer between the booking system and accounting system is of particular importance.

For further information, see Note 3 Property, plant and equipment.

Our audit included the following procedures but were not limited to these.

- review of revenue recognition process and key controls
- review of accruals accounting for revenue from commercial services
- review of completeness by testing the transfer between critical IT systems for revenue recognition

- review of the application of appropriate accounting principles and whether required disclosures are presented in the financial statements.

#### Carrying amount for rolling stock

As per 31 December 2019, the SJ Group recognises a carrying amount of SEK 4,977 million for rolling stock and work in progress. Rolling stock is recorded at cost less accumulated depreciation and any accumulated impairments. The amount is reviewed annually and calculations are based on management's assessments and assumptions regarding various parameters such as capital cost (WACC), perpetual growth rate, expected trend of yield, capacity, sales and profitability. The carrying amount for rolling stock is deemed to be a key audit matter because inaccurate assessments and assumptions may significantly impact the Group's performance and financial position:

For further information, see Note 9 Property, plant and equipment.

Our audit included the following procedures but were not limited to these.

- review of process for impairment testing of carrying amount for rolling stock
- with the involvement of our valuation specialists, evaluation of key assumptions in management's impairment testing, such as assumptions for WACC applied, perpetual growth rate, expected trend of yield, capacity, sales and profitability
- review of integrity and arithmetical accuracy in the impairment testing model with the support of our valuation expert
- performance of sensitivity analyses for testing safety margins in changes of assumptions made
- review of the application of appropriate accounting principles and whether required disclosures are presented in the financial statements.

### Other information than the annual accounts and consolidated accounts

This document also contains information other than the annual accounts and consolidated accounts. Such information is found on pages 1-15, 95-96 and 98-106. The Board of Directors and the Chief Executive Officer 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 the course of 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 the knowledge we otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If, based on the work performed concerning this information, we conclude that there is a material misstatement in 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 Chief Executive Officer

The Board of Directors and the Chief Executive Officer are responsible for the preparation of the annual accounts and consolidated accounts and for ensuring 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 Chief Executive Officer are also responsible for such internal controls 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 Chief Executive Officer are responsible for the assessment of the Company's and the Group's ability to continue as a going concern. They disclose, as appropriate, 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 Chief Executive Officer intend to liquidate the company, to cease operations, or have no realistic alternative but to do so.

The Audit Committee shall, without prejudice to the Board of Directors' responsibilities and tasks in general, among other things, oversee the Company's financial reporting process.

### Responsibilities of the Auditor

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.

A further description of our responsibilities for the audit of the annual accounts and consolidated accounts is available on the Swedish Inspectorate of Auditors website: [www.revisorsinspektionen.se/revisornsansvar](http://www.revisorsinspektionen.se/revisornsansvar). This description forms part of the auditor's report.

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 by the Board of Directors and the Chief Executive Officer of SJ AB (publ) for the financial year 01/01/2019-31/12/2019 and the proposed appropriations of the Company's profit or loss.

We recommend to the general meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Chief Executive Officer 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 Chief Executive Officer

The Board of Directors is responsible for the proposal for appropriations of the Company's profit or loss. In considering proposal of a dividend, an assessment is required as to whether the dividend is justifiable with regard to the demands that the nature, scope and risks of the Company's and the Group's operations 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 organisation 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 organisation is designed so that the accounting, management of assets and the Company's financial affairs are otherwise controlled in a satisfactory manner. The Chief Executive Officer shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and, among other things, take measures that are necessary to ensure that the Company's accounting is performed in accordance with law and that the management of assets is conducted in a satisfactory manner.

### Responsibilities of the Auditor

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 that may 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.

A further description of our responsibilities for the audit of the annual accounts and consolidated accounts is available on the Swedish Inspectorate of Auditors website: [www.revisorsinspektionen.se/revisornsansvar](http://www.revisorsinspektionen.se/revisornsansvar). This description forms part of the auditor's report.

### Auditor's examination of the corporate governance statement

The Board of Directors is responsible for ensuring that the corporate governance statement on pages 44-54 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 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, paragraph 2, points 2-6 of the Annual Accounts Act and Chapter 7 section 31, paragraph 2 of the same Act are consistent with the other parts of the annual accounts and consolidated accounts and are in accordance with the Annual Accounts Act.

### Auditor's opinion regarding the statutory sustainability report

The Board of Directors is responsible for the statutory sustainability report on pages 17-40, and for ensuring that it is prepared in accordance with the Annual Accounts Act.

Our examination has been conducted in accordance with FAR's auditing standard RevR 12 Auditor's opinion regarding the statutory sustainability report. This means that our examination of the statutory sustainability report 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 opinion.

A statutory sustainability report has been prepared.

Stockholm, 26 March 2020

Deloitte AB

*[Signature on Swedish original]*

Hans Warén

Authorised Public Accountant



# Accounting policies – sustainability

The sustainability report has been prepared in accordance with the Global Reporting Initiative's (GRI) GRI Reporting Standards, application level Core. This means that the content is determined by the issues that are most material to SJ and its stakeholders and by the areas where SJ's activities have greatest impact.

The content should also provide a complete picture of SJ's activities. Important elements of the UN Global Compact and OECD Guidelines for Multinational Enterprises have been taken into account.

## Contents

The content of SJ's sustainability work and sustainability report are based on the results of the materiality analysis and related stakeholder dialogues. SJ has many stakeholders, with different focus areas and priorities. To customers and passengers, for example, punctuality and the journey experience are important, whereas the owner attaches importance to sustainability as a whole.

## Materiality

The content of the sustainability report is based on the materiality analysis that SJ has carried out in accordance with GRI Standards. The purpose of the materiality analysis is to identify the areas of sustainable development (environmental, social and economic impact) where SJ's stakeholders and SJ consider the Group to have the greatest impact. The materiality analysis also helps to identify what may affect stakeholders' judgements of SJ and their decisions. Read more about the 2019 materiality analysis on page 99.

## Stakeholder inclusiveness

For SJ to be able to live up to the requirements and expectations of stakeholders it must understand which issues are material to different groups. Maintaining strong relationships and continuous dialogue with all stakeholders is therefore critical to SJ's development and aids us in identifying prioritised sustainability issues. This dialogue also helps us understand stakeholders' information needs, so that the content of the sustainability report is relevant.

How SJ operates relative to its surroundings and its stakeholders is 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 Wonderful – form the basis for what SJ's stakeholders can expect. Read more about SJ's most important stakeholders and how dialogue with them is maintained on pages 98-99.

Principles in GRI Standards governing choices in and reporting of SJ's work on sustainability.

### Content

- Materiality
- Stakeholder inclusiveness
- Sustainability context
- Completeness

### Quality

- Balance
- Comparability
- Accuracy
- Timeliness
- Clarity
- Reliability

## Sustainability context

The sustainability report describes how sustainability aspects are integrated into SJ's long-term strategies, risks and opportunities. SJ's performance is described in a broader sustainability context in order to help explain the challenges and opportunities that exist.

## Completeness

The sustainability report provides a complete picture of SJ's impact in social, environmental and financial sustainability. The report covers all material units in the Group and areas in accordance with GRI Standards. The relevant activities within the Group's operating companies SJ AB and SJ Götalandståg AB are included. The SJ Norrlandståg AB subsidiary is included in employee-related disclosures, since the company has employees but does not perform any separate activities. Operations in subsidiaries SJ Danmark A/S, SJ Norge AS and SJ Öresund AB in 2019 were extremely limited and these companies are therefore only included in disclosures regarding numbers of employees.

## Quality

A qualitative and transparent sustainability report enables SJ's stakeholders to make accurate judgements regarding SJ's operations. High quality of data and analysis also aids SJ, on the basis of previous outcomes, to take better decisions.

### Balance

GRI Standards emphasise that a qualitative report requires a balance between positive and negative aspects of the operations performed. SJ points out both positive effects and challenges of its operations, in order to strengthen credibility and highlight areas for improvement, which leads to more effective work on sustainability. SJ clearly indicates what are facts and what are its own interpretations or analyses. The emphasis in the report is placed on areas that are judged to be material in the materiality analysis for the year.

### Comparability

In order to be able to monitor developments, GRI Standards emphasise the importance of data being presented such as to facilitate analysis of changes over time and comparison with other organisations. SJ uses a consistent method in calculating and compiling data and in describing the methods and assumptions used in preparing information in the sustainability report. To guarantee comparability with outcomes for earlier years, all data is produced in accordance with the manuals that describe all of SJ's non-financial key metrics and that are part of SJ's management system.

Material changes between the report periods, regarding boundaries, scope, reporting period and other material information are reported. SJ's application of GRI Standards facilitates comparison with other enterprises.

### Accuracy

The information in the Sustainability Report must be accurate and sufficiently detailed to enable an accurate assessment to be made of SJ's performance, development and areas for improvement. Internal controls and subsequent external auditing of all reported data underpin SJ's work on sustainability data and ensure accuracy.

### Timeliness

Timeliness, according to GRI Standards, is defined as consistent and up-to-date reporting. SJ's Annual and Sustainability Report is published in March every year. The sustainability report is arranged in six control areas based on SJ's scorecard and a GRI Index with Sustainability Report Index that clearly shows where the respective disclosures are found. Information in the sustainability report has clear references to the period concerned, when the information was last updated and when it will be updated again.

### Clarity

The information in the sustainability report must be easy to understand, easily accessible and fit-for-purpose. SJ uses tables and charts to clarify and illustrate the information reported and adds descriptive analyses.

### Reliability

In GRI Standards, it is emphasised how important it is for those who read a sustainability report to be able to trust the information presented. SJ's ambition is that the content should be reliable and that the report should meet all the control requirements. For that reason, SJ has produced manuals for all non-financial key metrics, including definitions, procedures and quality assurance. These manuals are reviewed at least annually and are updated as needed. SJ only presents information that can be substantiated via reliable documentation. To assure reliability of the sustainability report, SJ has an external auditor to audit the content.

# Auditor's Combined Assurance Report on SJ AB's Sustainability Report

## Introduction

We have been engaged by the Board of Directors of SJ AB to undertake an assurance engagement of SJ AB's Sustainability Report for the year 2019. The Company has defined the scope of the Sustainability Report on the contents page in the SJ AB's Annual and Sustainability Report 2019.

## Responsibilities of the Board of Directors and Group Management for the Sustainability Report

The Board of Directors and Group Management are responsible for the preparation of the Sustainability Report in accordance with the applicable criteria, as described on the contents page in SJ AB's Annual and Sustainability Report 2019, and comprising the parts of the Sustainability Reporting Guidelines (published by The Global Reporting Initiative, GRI) that are applicable to the Sustainability Report, as well as the accounting and calculation principles that the Company has developed. This responsibility also includes the internal controls relevant to the preparation of a Sustainability Report that is free from material misstatements, whether due to fraud or error.

## Auditor's responsibility

Our responsibility is to express a conclusion on the Sustainability Report based on the procedures we have performed. Our engagement is restricted to the historical information reports and thus does not include forward-looking information.

We conducted our engagement in accordance with ISAE 3000 Assurance Engagements Other than Audits or Reviews of Historical Financial Information. The engagement includes a limited assurance engagement on the complete Sustainability Report and an audit of the information that is specified below. The objective of an audit is to obtain reasonable assurance that the information is free of material misstatements. A reasonable assurance engagement includes examining, on a sample basis, evidence supporting the quantitative and qualitative information in the Sustainability Report. A limited assurance engagement consists of making inquiries, primarily of persons responsible for the preparation of the Sustainability Report, and applying analytical and other limited assurance procedures. The procedures

performed in a limited assurance engagement vary in nature from, and are considerably less in extent than for, a reasonable assurance engagement conducted in accordance with IAASB's Standards on Auditing and other generally accepted auditing standards in Sweden. Hence, the conclusion based on our limited assurance procedures does not comprise the same level of assurance as the conclusion of our reasonable assurance procedures. Since this engagement is combined, our conclusions regarding reasonable assurance and limited assurance are presented separately below.

The firm applies ISQC 1 (International Standard on Quality Control) and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements. We are independent of SJ AB, in accordance with professional ethics for accountants in Sweden, and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

Our audit has comprised the sustainability related information presented in SJ AB's Annual and Sustainability Report 2019, section "Sustainability Report" on pages 17-40.

Our procedures are based on the criteria defined by the Board of Directors and the Group Management as described above. We consider these criteria suitable for the preparation of the Sustainability Report.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion below.

## Opinion

Based on the limited assurance procedures we have performed, nothing has come to our attention that causes us to believe that the Sustainability Report is not prepared, in all material respects, in accordance with the criteria defined by the Board of Directors and Group Management.

In our opinion the information in the Sustainability Report that has been subject to our reasonable assurance procedures has, in all material respects, been prepared in accordance with the criteria defined by the Board of Directors and Group Management.

Stockholm, 26 March 2020

Deloitte AB  
*[Signature on Swedish original]*

Hans Warén  
Authorised Public Accountant

# Stakeholder Dialogue and Materiality Analysis

Safety, punctuality and service information were the three issues that in 2019 were most important to SJ's stakeholders. The improvements we introduced to our offering, in conjunction with a growing debate within society on climate change were factors underlying a continuing rise in travel with SJ. Against that background, the approximately SEK 12 billion

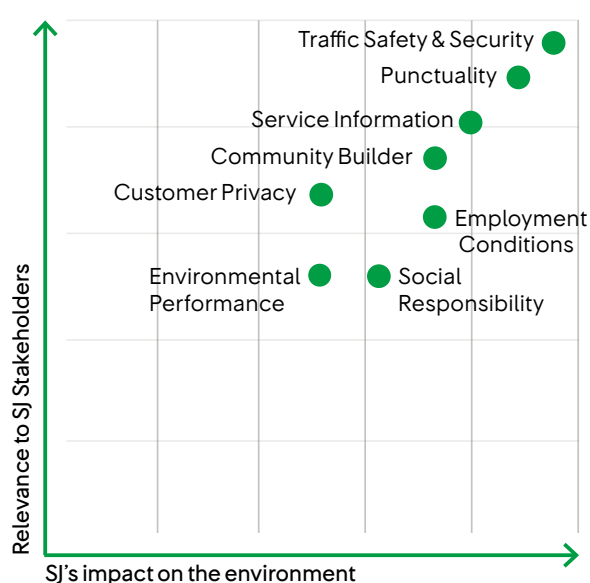
investments in more, latest-technology trains that we intend to make over the next few years attracted considerable attention. There was considerable curiosity and many wishes were expressed as to how the trains should be designed and which lines they should operate on.

Stakeholder	Dialogues	Monitoring	Issues in focus 2019
<b>Customers/passengers:</b> Our customers and passengers are our most important stakeholders, and our relationships with them are crucial to SJ's continued success and growth.	Dialogue with customers and passengers is maintained on an ongoing basis via SJ's sales organisation, customer service, on-board personnel and social media. Customer surveys are further occasions for dialogue. Customers also take part in developing new products and services, for example via the SJ Labs app.	Customer Satisfaction Index (CSI), including Service Index, Visit Satisfaction Index (sj.se) and other key metrics (quarterly), together with Brand Index (BI, monthly).	Further improved service communication, development and improvement of our digital channels and enhanced personalisation of offerings and communication and contact with passengers. Administrative processing for our contract customers reduced and simplified. The train as the climate-friendly way to travel.
<b>Employees:</b> SJ is its employees. Our employees' commitment and performance is decisive, in terms of solid service delivery and customer satisfaction. SJ must offer a safe and stimulating workplace.	Cross-functional dialogues, employee survey, performance reviews, accompanied journeys, workplace meetings and other internal channels. Dialogue with employees' union representatives.	Goal contract, absence due to illness (monthly), annual employee survey with Leadership Index and Performance Index, plus issues relating to bullying and harassment, metrics for health and issues relating to victimisation.	Continued focus on a healthy workplace and healthy employees. Sharper focus on reducing threats and violence from passengers in the work environment.
<b>Swedish Transport Administration (STA):</b> STA is SJ's most important supplier and partner in Sweden, in delivering efficient train journeys to passengers. This collaboration includes strategic work on train scheduling and maintenance on the rail network, as well as operational work on service conditions.	Strategic, tactical and operational meetings. SJ maintains wide-ranging contacts with STA on all levels, bilaterally and with the rest of the industry in many different areas.	Continuous weekly and monthly follow-up of punctuality statistics, as well as of the causes of delays and cancellations of journeys.	Improved punctuality and regularity in the railway system. More accurate forecasts during service disruptions. Actions to prevent trespassing. More effective planning and performance of maintenance tasks. Take speed restrictions arising from infrastructure inadequacies into account in the forthcoming train timetable, or even more preferably rectify inadequacies and then remove the temporary speed restrictions.
<b>Owner:</b> SJ is 100 percent 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.	Ongoing dialogue with the Division for State-Owned Enterprises at the Ministry of Enterprise and Innovation, owner dialogue meetings and AGMs.	Interim reports, annual and sustainability report, corporate governance report, presentations and ongoing other reports.	Follow-up on sustainable enterprise and financial targets.
<b>Public Transport Authorities (PTAs):</b> SJ operates commercial services and services on behalf of PTAs, mainly regional. SJ's services therefore contribute to regional transport provision programmes in the form of both commercial and publicly-funded rail services.	"Route meetings" involving infrastructure and service planners. Personal contacts with key officials in the public transport authority concerned and in industry forum.	Follow-up of agreements, meetings, ongoing dialogues.	Quality, robustness and punctuality. Passenger satisfaction and service offerings that are optimised for passengers and are also cost-efficient. SJ's rolling stock planning, comprising both reinvestments in X 2000s, and Board's decision on investments in new regional trains.



## Stakeholder Dialogue and Materiality Analysis

Stakeholder	Dialogues	Monitoring	Issues in focus 2019
<b>Suppliers/partners:</b> For SJ to be able to deliver and develop a travel experience that our customers and passengers appreciate, we work actively long-term with our suppliers and partners.	Continuous dialogue, targeted surveys, renegotiation and procurement processes, as well as follow-up and development of existing and new services.	In-depth supplier and partnership assessments on sustainability (quarterly), together with ongoing contract follow-up.	Punctuality, sustainability, efficiency. Surveying of our perceived capacity for cooperation and establishment, and development of in-depth partnerships. IT security. Swedish Procurement within the Water, Energy, Transport and Postal Services Sectors Act (LUF). Protection of personal data.
<b>Legislators:</b> Decisions on new legislation, infrastructure, taxes and charges that impact the railway system and SJ's competitiveness. SJ regularly participates as a consultation body in commissions of inquiry and when new legislation is being drafted.	Regular meetings with national, regional and local representatives, as well as other decision makers.	Ongoing business intelligence.	Social, economic and environmental sustainability. National infrastructure plan for 2018–2029. A new generation of main lines. Regional development plans. The EU's new General Data Protection Regulation (GDPR). Digitisation. Shared ticketing arrangements. The EU's Fourth Railway Package.
<b>The media:</b> SJ wishes to operate and be perceived in public debate as a transparent, open and proactive force. Our relationship with the media plays a pivotal role here. SJ also has an active presence in social channels.	Round-the-clock telephone availability to the press, interviews, press conferences and social media.	Ongoing media monitoring and analysis.	"The Swedish Alternative", travel inspiration for rail holidays in Sweden. Sharply higher train travel, adaptation of train timetable for connections with trains to the continent. Policy decision on investment in new regional trains.
<b>Associations/organisations:</b> SJ collaborates with associations and organisations in developing rail journeys and, together, creating the sustainable travel of the future.	Information sharing, training and collaboration – for example, for rural areas, commuters and people with functional impairments.	Customer Satisfaction Index (quarterly).	Service offering – number of departures, departure times and accessibility. SJ's investments in trains.



### SJ's materiality analysis 2019

SJ performs a materiality analysis every year. The purpose of the analysis is to identify the areas of sustainable development (environmental, social and economic impact) where SJ's stakeholders and SJ consider the Group to have the greatest impact, as well as the areas that are most important if we are to be able to create value in the long term. Our 2019 review was based on the 2018 materiality analysis, taking into account observations received from SJ's stakeholders and our own prioritised issues.

The Board's Ethics and Sustainability Committee discussed and adopted the materiality analysis. No changes were made from the previous year. Safety, punctuality and service information remained the issues of prime importance.

# GRI Index

	Disclosure	Page reference	Comment/Reservation
<b>GRI 101: Foundation 2016</b>			
<b>GRI 102: General disclosures 2016</b>			
	<b>Organisational profile</b>		
102-1	Name of the organisation	Page 16	
102-2	Activities, brands, products and services	Pages 16, 30	
102-3	Location of headquarters	Page 16	
102-4	Location of operations	Page 16	
102-5	Ownership and legal form	Page 16	
102-6	Markets served	Page 16	
102-7	Scale of the organisation	Pages 16, 26, 57, 58	
102-8	Information on employees and other workers	Page 20	SJ does not report per region, since no such categorisation exists within the Group.
102-9	Supply chain	Pages 24, 25	
102-10	Significant changes to the organisation and its supply chain	Page 48	During 2019, the subsidiary SJ Öresund AB was established to operate the Öresundståg services. SJ Norge AS expanded its operations in preparation for start-up of services in northern Norway. The Presidents of the two subsidiaries have been members of Group Management since 2019.
102-11	Precautionary Principle or approach		The precautionary principle is described in the Swedish Environmental Code, and SJ complies with the provisions of this legislation in selecting materials for new trains and selecting chemical products in its maintenance workshops etc.
102-12	External initiatives	Pages 15, 18, 24, 25, 27, 33, 35, 44	
102-13	Membership of associations	Page 24	
	<b>Strategy</b>		
102-14	Statement from senior decision-maker	Pages 4–5	
	<b>Ethics and integrity</b>		
102-16	Values, principles, standards and norms of behaviour	Summaries on pages 14, 44. Details on 18, 24, 26, 30, 34, 38	
	<b>Governance</b>		
102-18	Governance structure	Pages 44–54	
	<b>Stakeholder engagement</b>		
102-40	List of stakeholder groups	Pages 98–99	
102-41	Collective bargaining agreements	Page 18	
102-42	Identifying and selecting stakeholders	Page 8	
102-43	Approach to stakeholder engagement	Pages 98–99	
102-44	Key topics and concerns raised	Pages 98–99	

## GRI Index

	Disclosure	Page reference	Comment/Reservation
<b>Reporting practice</b>			
102-45	Entities included in the consolidated financial statements		Unless otherwise indicated, all key metrics include SJ AB and SJ Götalandståg. SJ Norrlandståg AB, SJ Danmark A/S, SJ Norge AS and SJ Öresund AB are included in employee-related key metrics. Read more on page 95.
102-46	Defining report content and topic boundaries	Page 95–96, 99	
102-47	List of material aspects	Page 99	
102-48	Restatements of information		No
102-49	Changes in reporting		Minor changes have been made as a result of the change from GRI 4 to GRI Standards, which took place in the 2018 financial year.
102-50	Reporting period		The reporting period is 1 January – 31 December 2019. In certain cases, reporting may be affected by information on incidents occurring during the reporting period being reported after publication of this report.
102-51	Date of most recent report		Our report on the 2018 financial year was published on 21 March 2019.
102-52	Reporting cycle		Annual
102-53	Contact point for questions regarding the report		Ann-Marie Boberg, Tel. +46-(0)70-003 21 02
102-54	Claims of reporting in accordance with the GRI Standards	Pages 2, 95	
102-55	GRI content index	Pages 100–102	
102-56	External assurance	Page 97	

## Specific standard disclosures

	Disclosure Description	Page reference	Report/comment
<b>Traffic safety and security</b>			
<b>Traffic safety and security (SJ-specific)</b>			
103-1	Management approach and its components, 2016: Explanation of the material topic and its Boundary	Page 27	
103-2	Management approach and its components	Pages 27, 50–51	
103-3	Evaluation of the management approach	Pages 50–51	
SJ1	Traffic Safety Index	Page 29	
<b>GRI 403: Occupational health and safety 2018</b>			
103-1	Management approach and its components, 2016: Explanation of the material topic and its Boundary	Pages 20–21	
103-2	Management approach and its components	Pages 20–21, 50–51	
103-3	Evaluation of the management approach	Pages 50–51	
403-2	Hazard identification, risk assessment and incident investigation	Page 21	
<b>Punctuality</b>			
<b>Punctuality (SJ-specific)</b>			
103-1	Management approach and its components, 2016: Explanation of the material topic and its Boundary	Pages 34–35	
103-2	Management approach and its components	Pages 34, 50–51	
103-3	Evaluation of the management approach	Pages 50–51	
SJ2	Punctuality outcomes	Page 36	
<b>Service Information</b>			
<b>Service information (SJ-specific)</b>			
103-1	Management approach and its components, 2016: Explanation of the material topic and its Boundary	Pages 30, 32	
103-2	Management approach and its components	Pages 30, 50–51	
103-3	Evaluation of the management approach	Pages 50–51	
SJ3	Information during major disruption	Page 32	

## GRI Index

Disclosure	Description	Page reference	Report/comment
<b>Community Builder</b>			
<b>GRI 203: Significant indirect economic impacts 2016</b>			
103-1	Management approach and its components, 2016: Explanation of the material topic and its Boundary	Page 26	
103-2	Management approach and its components	Pages 50–51	
103-3	Evaluation of the management approach	Pages 50–51	
203-2	Significant indirect economic impacts	Pages 26, 28	
<b>Employment Conditions</b>			
<b>GRI 401: Employment 2016</b>			
103-1	Management approach and its components, 2016: Explanation of the material topic and its Boundary	Pages 18–20	
103-2	Management approach and its components	Pages 18–20, 50–51	
103-3	Evaluation of the management approach	Pages 50–51	
401-1	New employee hires and employee turnover	Page 22	SJ does not report per region, since no such categorisation exists within the Group.
<b>GRI 405: Diversity and equal opportunity 2016</b>			
103-1	Management approach and its components, 2016: Explanation of the material topic and its Boundary	Page 20	
103-2	Management approach and its components	Pages 20, 50–51	
103-3	Evaluation of the management approach	Pages 50–51	
405-1	Diversity of governance bodies and employees	Page 20	SJ reports per personnel category, with break-downs by age and gender.
SJ 4	Diversity	23	SJ reports the percentage of all employees with a non-Swedish background, as defined by SCB (Statistics, Sweden).
<b>GRI 406: Non-discrimination 2016</b>			
103-1	Management approach and its components, 2016: Explanation of the material topic and its Boundary	Page 20	
103-2	Management approach and its components	Pages 20, 50–51	
103-3	Evaluation of the management approach	Pages 50–51	
406-1	Incidents of discrimination and corrective actions taken	Page 20	SJ's definition of aspects of discrimination is based on Sweden's Discrimination Act.
<b>Customer Privacy</b>			
<b>GRI 418: Customer privacy 2016</b>			
103-1	Management approach and its components, 2016: Explanation of the material topic and its Boundary	Page 33	
103-2	Management approach and its components	Pages 33, 50–51	
103-3	Evaluation of the management approach	Pages 50–51	
418-1	Substantiated complaints regarding breaches of customer privacy and losses of customer data	Page 33	SJ's definition of breach of customer privacy and loss of customer data is based on the EU General Data Protection Regulation (GDPR).
<b>Social Responsibility</b>			
<b>GRI 201: Economic performance 2016</b>			
103-1	Management approach and its components, 2016: Explanation of the material topic and its Boundary	Pages 50–51, 54	
103-2	Management approach and its components	Pages 50–51, 54	
103-3	Evaluation of the management approach	Pages 50–51, 54	
201-1	Direct economic value generated and distributed	Page 26	
<b>Environmental Performance</b>			
<b>GRI 302: Energy 2016</b>			
103-1	Management approach and its components, 2016: Explanation of the material topic and its Boundary	Page 27	
103-2	Management approach and its components	Page 27	
103-3	Evaluation of the management approach	Page 27	
302-1	Energy consumption within the organisation	Page 27	
<b>GRI 305: Emissions 2016</b>			
103-1	Management approach and its components, 2016: Explanation of the material topic and its Boundary	Page 28	
103-2	Management approach and its components	Page 28	
103-3	Evaluation of the management approach	Page 28	
305-4	GHG emissions intensity	Page 28	



## Sustainability Report Index

SJ's Sustainability Report for 2019 in accordance with the Swedish Annual Accounts Act is provided on pages 17-40.

Area	Description	Policy	Result of policy	Risks identified	Management of risks	Performance indicators
SJ's business model	Page 12					
Environment	Pages 25, 27	<ul style="list-style-type: none"> <li>• SJ's Internal Code of Conduct</li> <li>• SJ's Supplier Code of Conduct</li> </ul>	<ul style="list-style-type: none"> <li>• Structured environmental activities</li> <li>• Sustainability audits</li> <li>• Internal audit</li> </ul>	Page 42	Page 42	<ul style="list-style-type: none"> <li>• Environmental Index, page 29</li> <li>• Completed sustainability audits, page 25</li> <li>• Energy consumption, page 27</li> <li>• Emissions of greenhouse gases, page 28</li> </ul>
Social conditions and personnel	Pages 18-22	<ul style="list-style-type: none"> <li>• SJ's Internal Code of Conduct</li> <li>• Ownership policy</li> <li>• Swedish work environment legislation</li> </ul>	<ul style="list-style-type: none"> <li>• Performance reviews</li> <li>• Accompanied journeys</li> <li>• Employee survey</li> </ul>	Page 42	Page 42	<ul style="list-style-type: none"> <li>• Absence due to illness, page 22</li> <li>• Employee turnover, page 21</li> <li>• Gender distribution (men/women), page 20</li> <li>• Leadership Index, page 22</li> <li>• Performance Index, page 23</li> </ul>
Human rights	Pages 18, 20, 25, 26, 44	<ul style="list-style-type: none"> <li>• SJ's Internal Code of Conduct</li> <li>• SJ's Supplier Code of Conduct</li> <li>• Ownership policy</li> <li>• SJ's tax policy</li> </ul>	<ul style="list-style-type: none"> <li>• Employee survey</li> <li>• Sustainability audits</li> </ul>	Page 42	Page 42	<ul style="list-style-type: none"> <li>• Number of employees covered by collective bargaining agreements, page 18</li> <li>• Proportion of employees with non-Swedish background, page 23</li> <li>• Completed sustainability audits, page 25</li> </ul>
Anti-corruption	Pages 18, 25, 51	<ul style="list-style-type: none"> <li>• SJ's Internal Code of Conduct</li> <li>• SJ's Supplier Code of Conduct</li> <li>• Ownership policy</li> </ul>	<ul style="list-style-type: none"> <li>• Purchasing process with sustainability assessment and documented decision</li> <li>• Sustainability audits</li> <li>• Whistle-blower function</li> </ul>	Page 42	Page 42	<ul style="list-style-type: none"> <li>• Completed sustainability audits, page 25</li> <li>• Number of whistle-blower cases, page 51</li> </ul>

# Five-Year Summary

Group	2019	2018	2017	2016	2015
<b>Statement of comprehensive income, summary, SEK m</b>					
Operating income	8,609	7,923	7,806	9,372	9,070
– Of which, net sales	8,602	7,874	7,780	9,336	9,052
Operating expenses	-7,898	-7,475	-7,178	-8,543	-8,464
Profit from participations in associated companies	61	21	38	8	19
Operating profit	772	468	666	837	625
Operating margin <sup>1</sup> , %	9.0	5.9	8.5	8.9	6.9
Profit before tax	776	457	664	833	602
Income tax expense	-157	-68	-140	-183	-131
Profit for the year	619	389	523	650	471
Earnings per share (basic and diluted), SEK	154.7	97.1	130.8	162.5	117.8
<b>Statement of financial position, summary, SEK m</b>					
<b>Non-current assets</b>					
Property, plant and equipment	5,020	5,185	5,341	5,505	5,916
Right-of-use assets	1,016	–	–	–	–
Intangible assets	239	218	254	286	278
Other non-current assets	106	141	60	34	123
<b>Current assets</b>					
Inventories	9	9	5	4	7
Current receivables	653	773	734	804	661
Short-term investments	2,483	1,518	1,614	1,479	718
Cash and cash equivalents	204	191	70	74	97
Assets classified as held for sale	–	–	–	78	65
<b>Total assets</b>	<b>9,729</b>	<b>8,035</b>	<b>8,078</b>	<b>8,264</b>	<b>7,864</b>
Equity	5,170	4,740	4,615	4,337	3,876
Lease liabilities	987	–	–	–	–
Non-interest-bearing liabilities	867	962	1,060	1,402	1,478
Non-interest-bearing liabilities	1,707	1,502	1,527	1,693	1,740
Provisions	536	365	396	345	315
Deferred tax liabilities	462	465	480	487	455
<b>Total equity and liabilities</b>	<b>9,729</b>	<b>8,035</b>	<b>8,078</b>	<b>8,264</b>	<b>7,864</b>
<b>Statement of cash flows, summary, SEK m</b>					
Cash flow from operating activities	2,167	1,023	1,238	1,304	1,335
Cash flow from investing activities	-1,512	-536	-639	-1,062	-6
Cash flow from financing activities	-642	-367	-603	-264	-1,577
Cash flow for the year	13	121	-4	-23	-248
Investments	649	566	596	390	526
<b>Financial targets, outcomes</b>					
Return on operating capital <sup>1</sup> , % (target >7%)	16.2	11.4	16.4	20.0	13.2
Net debt/equity ratio <sup>1</sup> , multiple (target 0.5–1.0)	-0.14	-0.14	-0.10	0.0	0.20
The Board's proposed dividend as per appropriation of profit for the year, % (target 30–50%)	– <sup>2</sup>	50	50	40	40
<b>Capital structure at year-end</b>					
Average operating capital <sup>1</sup> , SEK million	4,765	4,114	4,073	4,181	4,721
Net debt(+)/net cash <sup>1</sup> (-), SEK million	-747	-659	-465	10	751
<b>Adjustment of equity/assets ratio</b>					
Equity, SEK m	5,170	4,740	4,615	4,337	3,876
Total assets, SEK m	9,729	8,035	8,078	8,264	7,864
Equity/assets ratio <sup>1</sup> , %	53.1	59.0	57.1	52.5	49.3
<b>Non-financial key metrics</b>					
Average number of employees	3,794	3,756	3,677	4,192	4,232

<sup>1)</sup> SJ's alternative key metrics, see definitions and references to adjustments on next page.

<sup>2)</sup> Given the great uncertainty as to the effects that the coronavirus and measures to curb spread of the infection may have on SJ's operations, the Board has decided to withdraw its former proposal for dividend corresponding to around 30 percent of the SJ Group's profit for the year. The Board now proposes that instead no dividend be paid for the 2019 financial year.

# Definitions and Glossary

## Definitions of SJ's alternative key financial metrics

SJ presents various alternative key financial metrics that are not defined in IFRS in accordance with guidelines issued by ESMA. Alternative key financial metrics are presented for financial performance and financial position. SJ believes that these metrics provide valuable supplementary information to the owner, Board of Directors and Group Management to aid evaluation of results and performance. As not all companies calculate financial metrics in the same way, these metrics are not always comparable with metrics used by other companies. SJ's financial metrics should therefore not be considered as a substitute for the metrics defined by IFRS.

### Key metric defined in accordance with IFRS.

Key metrics defined in accordance with IFRS: profit/loss for the year/period and earnings per share.

### Alternative financial key metrics

#### Average operating capital

Average equity and average net debt/net cash. For adjustment, see page 59.

#### Equity/assets ratio

Equity in relation to total assets. For adjustment, see previous page.

#### Interest-bearing assets

Total of long-term and short-term investments, cash and cash equivalents, and fair value of derivative instruments.

#### Interest-bearing liabilities

Total of borrowing, lease liability and fair value of derivative instruments.

#### Net debt/equity ratio

Interest-bearing provisions (provisions for annuities) and interest-bearing liabilities net, less interest-bearing assets (net debt/net cash) in relation to equity. For adjustment, see page 59.

#### Net debt(+)/net cash(-)

Interest-bearing provisions (provisions for accident annuities) and interest-bearing liabilities net, less interest-bearing assets. For adjustment, see page 59.

#### Operating margin

Operating profit/loss for the year as a percentage of net income.

#### Operating profit

The difference between operating income and operating expenses.

### Return on operating capital

Average working capital in relating to average operating capital. For adjustment, see page 59.

### Definitions of SJ's non-financial key metrics

#### Absence due to illness

Key metric 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 equivalent employees as an average of the annual hours worked.

#### Brand Index (BI)

Key metric indicating how SJ is perceived by the public based on SJ's core values – Reliable, Simple, Caring and Wonderful.

#### Customer Satisfaction Index (CSI)

Key metric indicating customer/passenger satisfaction with SJ AB, based on the customer/passenger's overall travel experience with SJ over the past 12 months.

#### Employee

See full-time equivalents (FTEs).

#### Energy consumption

Electricity consumption: Volume of electricity consumed.

Diesel consumption: Measured number of litres of diesel consumed (Environmental class 1 x 9.80 kWh/l) + (biofuel HVO x 9.44 kWh/l). Source: Swedish Energy Agency.

#### Environmental Index

Key metric indicating how customers rate SJ's level of environmental awareness. Measured via regular on-board surveys.

#### Full-time equivalents

The number of employees, measured by contracted hours and full-time positions. The figure does not include employees on unpaid leave of absence. Full-time equivalent employees is a measure of time over the "contractual" period.

Someone who is employed on an 80 percent basis is a 0.8 fulltime equivalent. The time worked by hourly-paid employees is recalculated to enable it to be stated on the full-time equivalent basis.

#### GHG emissions intensity

*Train operations, electricity (Sweden, Norway, Denmark):* Electricity consumption in each country (kWh) x hydropower emissions, EPD 2018 Vattenfall (0.059 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 estimated consumption of diesel was 2.5 litres per 10 km and the share of biofuel (renewable) was 55%. Source for percentage of fuels in buses: Sveriges Bussföretag (Swedish Bus Transport Association) (Statistics on Bus Transport Sector in 2018). Source for CO<sub>2</sub>e/litre: Swedish Energy Agency. For taxis, emissions were estimated at an average of 138 grams CO<sub>2</sub>e/km. Source: Statistics, Sweden – Motor Vehicle Register.

*Refrigerants:* Measured leakage kg of refrigerants x GWP per type of refrigerant. GWP = Global Warming Potential. Measured leakage from cooling equipment (air conditioning) greater than 14 tonnes CO<sub>2</sub>e, in accordance with relevant legislation on reporting to government agency, obtained from SJ's providers of maintenance services.

*Passenger kilometres:* According to the definition below, but also including PTA journeys.

#### Leadership Index

Key metric illustrating how SJ employees perceive that their manager contributes to a working environment that supports good performance. This is measured via the annual employee survey.

#### Number of journeys

Number of part-journeys sold per route.

#### Number of journeys/passengers per year

Total number of journeys sold per year.

#### Number of passengers

Total number of journeys sold per route.

#### Passenger distance

Measured in passenger kilometres.

#### Passenger kilometres

Number of passengers x number of kilometres travelled. This comprises all SJ tickets, including annual and monthly season tickets.

#### Passenger Satisfaction Index (PSI)

Västtrafik conducts monthly on-board surveys to measure customer satisfaction levels for journeys with SJ Götalandståg. SJ Götalandståg's index measures satisfaction based on the most recent journey.

#### Performance Index

Key metric illustrating the conditions for SJ employees, in their day-to-day working situation, for performing their tasks. This is measured via the annual employee survey.

### Punctuality

Key metric indicating the percentage of trains arriving at stations according to the current timetable. As of 2013, the industry standard for punctuality is defined as on time + 5 minutes for long- and medium distance services, and on time + 3 minutes for local trains.

### Regularity

Key metric indicating the percentage of trains departing from their originating station and arriving at their terminating station according to the planned timetable two days before the day of service.

### Seat kilometres

Seat kilometres offered for sale, meaning the number of available seats multiplied by the length of the trip.

### Service Index

Key metric monitored 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.

### Sustainability audits

In-depth sustainability-based supplier audits.

### Traffic Safety Index

Key metric defined as an evaluation of all traffic safety-related accidents in relation to the production volume.

### Train kilometres

The total distance of the routes travelled by all trains.

## Glossary

### Accessibility

How well the environment in, and in the immediate vicinity of, SJ's trains has been adapted for people with disabilities.

### Biofuel

Liquid fuel produced from renewable sources.

### CO<sub>2</sub>e

Carbon dioxide equivalents.

### Combined mobility

Arrangement whereby different modes of transport are combined for passengers to travel from one location to another.

### Delay compensation

SJ's undertaking to compensate passengers for delays. For current information and conditions, visit [www.sj.se](http://www.sj.se).

### EFQM (European Foundation for Quality Management)

A quality assurance model for business development that SJ uses to measure its progress in relation to its vision and adopted targets.

### Global Compact

The UN's principles in human rights, labour standards, the environment and anti-corruption. The principles are based on the Universal Declaration of Human Rights, the International Labour Organisation'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 by SJ AB carry the Swedish Society for Nature Conservation (SSNC)'s eco-label Good Environmental Choice. A Good Environmental Choice journey has limited climate impact, is energy-efficient and generates low hazardous emissions. One of the requirements is that 50% of electricity purchased must be Good Environmental Choice-labelled. An annual third party-review ensures that SJ fulfills the requirements.

### Independent commercial services

Service that SJ operates on a commercial basis or tendered services that are wholly or partly financed via ticket revenue. Examples of commercial services include the X2000 service between Stockholm and Gothenburg.

### ISO 14001

An international standard for environmental management systems.

### ISO 9001

An international standard for quality management systems.

### Local train services

Passenger trains serving to transport passengers locally – advertised normally as commuter or airport services.

### Long-distance services

Passenger trains serving to transport passengers inter-regionally - advertised normally as long-distance (InterCity), night-train or high-speed services.

### Manager

A person in charge of personnel but not in a management team.

### Medium-distance services

Passenger trains serving to transport passengers regionally - advertised normally as regional services.

### Non-Swedish background

Any person who was either born abroad or born in Sweden of two parents born abroad, according to the definition from SCB (Statistics Sweden).

### On-board survey

Regular customer surveys conducted on board trains

### 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 refrigerators on board trains. The refrigerants used today are powerful greenhouse gases and contribute to climate change if leaked.

### Regional PTAs

County authorities with overall responsibility for publicly funded local and regional public transport for commuting. In practice, the PTAs produce service provision plans with county-based requirements for public transport. From these county-based, regional plans, formal decisions are taken regarding public transport obligations for individual routes or service systems, meaning that the authority undertakes to provide the public with a particular service for a particular period. Service provision may then be performed via a tendering system or under the authority's own management.

### 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 ordered by Traffic Control.

### Senior executives

Members of Group Management and the presidents of subsidiaries who report to the CEO.

### Short-term investments

In the Parent Company balance sheet, short-term investments are investments with a term to maturity of less than 1 year. In the Group, the term to maturity ranges from 3 months to 1 year. Long-term bonds held for sale are also included in short-term investments, irrespective of their maturity.

### Staging station

Physical premises adjacent to a train station, where SJ's train hosts and train drivers are based.

### Tendered services

Services operated on behalf of regional and national public transport authorities. An example of tendered services are those that we operate on behalf of Västtrafik.

### Train paths

Time window/channel in which 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 (STA) is responsible for the production of a train timetable each year.



**Production:** SJ in collaboration with Narva.

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SJ's Annual and Sustainability Report is first and foremost a digital product. Please consider the environment before printing the report.

While every care has been taken in the translation of this Report, readers are reminded that the original Annual and Sustainability Report 2019, signed by the SJ Board, is in Swedish.

SJ is a Swedish travel partner that offers sustainable train travel, independently and in collaboration with others. Every day, 150,000 people opt to travel on one of our 1,220 departures from 291 stations.

