

NSB GROUP 2016

Report of the Board of Directors
Corporate social responsibility report
Corporate Governance

Report of the Board of Directors 2016

Summary of results and trends for the NSB Group for 2016

The NSB Group is able to present good results for 2016. There has been considerable activity related to changes to the role and business composition of the Group as a result of the Norwegian railway reform. The key figures in the points below apply to the total operations of the NSB Group in 2016.

(Last year's figures in brackets)

- // Operating profit for 2016 amounted to NOK 1,740 million (NOK 2,814 million)
- // Profit before tax amounted to NOK 1,503 million (NOK 2,664 million)
- // Return on equity was 12.1% (23.5%)
- // Increased traffic volume and operating revenue from passenger rail services
- // Improved results from bus services
- // Negative effects from the strike in October
- // Considerable gains from the development and sale of property
- // Punctuality for passenger rail services was at 88.3% which is in line with last year
- // Extensive efforts and costs related to the Norwegian railway reform and restructuring

The railway reform and consequences for the NSB Group

The government has initiated the implementation of the approved railway reform. As a consequence of this, NSB's roles and business activities will alter significantly. One of the most important purposes of the railway reform is to create competition in respect of passenger services on the railways in Norway. This will be achieved by dividing rail traffic into 6-8 service packages, where responsibility for operation will be awarded following a tendering procedure. To facilitate competition on equal terms, NSB must not own any critical production factors that could give the company an advantage during tendering.

As a consequence of this, the NSB Group established and put into operation Materiellselskapet AS and Entur AS in October 2016. NSB's rolling stock was transferred to Materiellselskapet AS, while NSB's sales and distribution systems were transferred to Entur AS. These two companies, along with property operations at ROM Eiendom AS and maintenance activities at Mantena AS, will be demerged from the NSB Group with financial effect from 1st of January 2017.

In accordance with IFRS 5, operations or assets that are demerged must be classified as "held for sale" or as "discontinued operations". This means that the income statement and balance sheet show which entries in the income statement and balance sheet are related to continuing operations and which are related to activities that are discontinued. The same applies to the cash flow statement. Under the heading "Economic development" below, the results are shown as they have been reported and monitored throughout 2016. Results and balance sheet which follow the report of the Board of Directors are presented in accordance with IFRS 5.

Financial development for the total operations of the NSB Group and the parent company NSB AS

2016 INCOME STATEMENT	Total operations	Dis- continued operations	Continuing operations
Operating revenue	15,559	989	14,571
Payroll and related expenses	7,630	1,288	6,341
Depreciation and impairment	1,496	716	780
Other operating expenses	5,416	-1,405	6,821
Total operating expenses	14,542	600	13,942
Share of loss(-)/profit of joint ventures	131	102	29
Share of loss(-)/profit in associates	41	1	40
Unrealised value change investment property	551	551	-
Operating profit	1,740	1,042	698
Financial posts			
Financial income	252	111	141
Financial expenses	-654	-593	-60
Net financial expenses - pensions	-44	-7	-36
Unrealised fair value changes	209	206	4
Net financial items	-236	-284	48
Profit before income tax	1,503	758	746
Income tax expense	-236	-106	-130
Profit for the year	1,267	652	616

The NSB Group had a profit after tax for the total operations of NOK 1,267 million (NOK 2,158 million) for 2016, a reduction of NOK 891 million. The operating profit amounted to NOK 1,740 million (NOK 2,814 million), a reduction of NOK 1,074 million. This reduction to the annual profit was mainly due to reduced gains from the development and sale of properties, restructuring costs, and one-time effects linked with pension costs.

Profit for the year for the activities that will be continued in 2017 amounts to NOK 616 million (NOK 1,231 million), a reduction of NOK 615 million. Operating profit for the activities that will be continued amounts to NOK 698 million (NOK 1,298 million), a reduction of NOK 600 million. The main reasons for this are restructuring costs, and one-time effects linked with pension costs.

The parent company, NSB AS, showed a profit after tax for the total operations for the year amounting to NOK 507 million (NOK 1,723 million). Group contributions and dividends from subsidiaries amounting to NOK 561 million (NOK 901 million) are included in the annual profit for the parent company. The operating profit for the parent company amounted to NOK 613 million (NOK 1,084 million). The change in operating profit is mainly due to restructuring costs related to the railway reform and one-time effects linked with pension costs.

Net cash flow from operating activities amounted to NOK 2,698 million (NOK 2,233 million). Net cash flow invested was NOK 1,016 million (NOK 1,429 million). This includes NOK 1,471 million (NOK 2,148 million) in purchases of fixed assets and investment property as well as the sale of subsidiaries, fixed assets and investment property amounting to NOK 278 million (NOK 319 million). These investments focused primarily on increasing capacity and profitability within the Group's business segments. A dividend of NOK 595 million was paid to the company's owner in 2016.

After this year's profit, total equity for the parent company amounted to NOK 6,464 million (NOK 6,849 million), with an equity ratio of 42.7% (29.2%). The parent company's retained earnings amounted to NOK 1,320 million. For the NSB Group, total equity amounted to NOK 9,934 million (NOK 9,838 million), giving an equity ratio of 34.3% (34.1%). The equity of discontinued operations is NOK 5.6 billion. Equity in operations that will be continued is NOK 4.3 billion giving an equity ratio of 28.6%.

Group return on equity is 12.1% (23.5%).

The NSB Group's working capital amounted to NOK 817 million (NOK 4,259 million), a change of NOK 3,442 million.

The owner, represented by the Ministry of Transport and Communications, normally expects a dividend equal to 50% of the NSB Group's profit after tax, but for 2016 no dividend is expected. The Board proposes the following allocation from the total profit of the parent company, NSB AS:

Dividend	0 MNOK
Transfers to other equity	507 MNOK
Total profit for the year	507 MNOK

The accounts have been submitted on the assumption of the continuing operation of the company, and the Board confirms that this is the case.

Summary of results and trends for the business areas

Passenger train operations

Passenger train operations are run by NSB AS and its subsidiaries NSB Gjøvikbanen AS, Svenska Tågkompaniet AB, Materiellselskapet AS and Entur AS. Materiellselskapet AS and Entur AS were established in October as a result of the Norwegian railway reform in order to safeguard the ownership of passenger rolling stock and ownership and operations of sales and ticketing systems. Materiellselskapet AS and Entur AS will with accounting effect be demerged from 1st of January 2017, and will thereafter be owned directly by the Norwegian state.

As a part of the railway reform, the Norwegian government has announced two tenders relating to passenger rail services – service package South and service package North – with operations commencing in December 2018 and 2019. NSB AS has implemented a change programme to prepare for such tenders. Organisation and staffing will both have to be adapted to the new situation in the Norwegian market.

Operating revenue from passenger train operations was NOK 7,815 million (NOK 7,534 million) in 2016, an increase of 3.7% compared with the previous year. Total journeys in Norway and Sweden was 72.3 mill., which is at the same level as last year. For NSB AS the growth was 0.8%. Adjusted for the strike in the autumn, the annual growth was at 3%.

Operating profit amounted to NOK 636 million (NOK 1,208 million), a reduction of NOK 572 million. The change is mainly due to restructuring costs related to the railway reform and one-time effects linked with pension costs. Operations in Sweden had an operating profit of NOK 4 million (NOK 9 million).

The timetable was changed extensively in 2012, resulting in a greater selection of services for customers in Eastern Norway, and from December 2014 in Trøndelag and on the Sørlandet Line as well in terms of more departures, new trains and greater capacity. These changes have led to a 29% accumulated increase in passenger numbers over the last five years.

The procurement of new regional and local trains is going according to plan, and 36 regional trains (type 74) and 45 local trains (type 75) were in service in Eastern Norway by the end of the year. Plans are to purchase 125 new trains in total, with delivery of approximately 10 trains each year.

Passenger train operations in Norway achieved a punctuality level of 88.3%, at the same level as in 2015 but below the target of 90%.

Bus operations

Following the organisational change taking place on 1st of January 2016, the Nettbuss Group now consists of the parent company Nettbuss AS, which has 28 subsidiaries. Nettbuss also owns part of 7 associated companies.

The Nettbuss Group operates in almost all counties in Southern and Central Norway. Most of the operations of the Swedish subgroup are mainly located in the south west of Sweden. Both in Norway and in Sweden, bus services are mainly under contract to regional authorities, but the Group also offers express bus services, tourist services and workshop maintenance.

The operating profit amounted to NOK 306 million (NOK 172 million). Total operating revenue for 2016 amounted to NOK 5,850 million (NOK 5,583 million), an increase of 4.8% from the previous year. The change in operating revenue is mainly due to changes in tender traffic in 2016.

After several years of extensive restructuring, Nettbuss has now achieved a satisfactory level of profitability in the Norwegian express bus market. However, competition is still fierce and further restructuring is required in order to maintain the market position. In Sweden, express bus operations have increased their market share. The company shows good profitability and is now the market leader on the west coast between Oslo – Gothenburg – Malmö. The route between Västerås and Arlanda commencing in 2015 is also showing good progress.

Nettbuss has participated in relatively few tenders over the past year. In 2016, Nettbuss was awarded contracts commencing in 2017 for 50 buses, with a total value of NOK 350 million over the contract period. At the same time, the Group lost the tender for operations in Sogn, and these operations will be discontinued in the summer of 2017.

In July 2016, Nettbuss Sweden embarked upon two tenders for VästTrafik, Röd and Lila Express and Fyrbodal, and also Lerum. It was also awarded tenders in Herrljunga, commencing in August 2017. The company also lost tenders for Skövde and Vårgårda school bus services in 2016, and these contracts will be terminated in June 2017.

The company's bus services transported a total of 119 (110) million passengers in 2016 as part of scheduled and express services, and drove 172 (174) million kilometres.

Freight operations

Freight operations are run by CargoNet. The largest part of the business uses shuttle trains for transportation of containers and other intermodal platforms. CargoNet also operates dedicated services for specific customers for transporting aviation fuel, ore and timber, for instance.

Intermodal terminal operations are run by the wholly owned subsidiary RailCombi AS.

Operating revenue amounted to NOK 980 million (NOK 1,096 million), giving an operating result of NOK - 2 million (NOK 89 million). The change in operating profit is mainly due to changes in the market affecting volume and margins, but also negative effects as a consequence of a reduced offering to customers due to the train drivers' strike in the autumn.

The extent of unplanned stops due to infrastructure in 2016 (50) was on a level significantly below the level for 2015 (155). Punctuality was 94% (92%) measured on delivery within 15 minutes, better than the 90% target.

Train maintenance

In connection with the Norwegian railway reform, a decision has been made to demerge the NSB Group's train maintenance operation, Mantena AS and its subsidiaries, from the NSB Group and transfer it to direct state ownership, with accounting effect from 1st of January 2017.

Train maintenance is operated by Mantena AS, which is the largest supplier of maintenance services to train operators in Norway. Its main activity involves downtime-related maintenance of locomotives, wagons and power cars. In addition, Mantena has its own workshop for the maintenance of parts and components. The company also maintains and repairs equipment used on railway infrastructure in Norway. Mantena AS runs workshops in Oslo, Trondheim, Drammen, Skien, Bergen, Stavanger, Kongsvinger, Narvik and Bodø.

Mantena has been assigned significant maintenance operations in Sweden. The company sold its share in the company maintaining rolling stock for the Stockholm underground in 2016.

Mantena intends to face up to future competition by providing accessible trains thanks to efficient and reliable maintenance operations, and is planning a major restructuring programme.

Operating revenue amounts to NOK 1,468 million (NOK 1,367 million), resulting in an operating profit of NOK - 156 million (NOK 51 million). The change is mainly due to restructuring costs related to the railway reform.

Property

In connection with the Norwegian railway reform, a decision has been made to demerge the NSB Group's property operations and transfer them to Bane NOR, with accounting effect from 1st of January 2017.

The Group's strategy for property operations for 2016 has been to optimise development of property asset values with a view to selling of non-operational property, taking into account market opportuniti-

es and the Group's finance requirements. Another strategic target for property operations has been to develop and manage the property portfolio in order to strengthen the NSB Group's transport business. ROM Eiendom has developed effective, environmentally friendly transport hubs over a number of years. This was also a priority in 2016, and ROM Eiendom will continue to do so as a part of Bane NOR in years to come. The company is also aiming to ensure that new buildings are at least compliant with the environmental standards Class A Construction and BREEAM-NOR Excellent.

ROM Eiendom sold several properties in 2016, both under its own auspices and through joint ventures. The new office building in Zander Kaaes gate in Bergen was sold to KLP Property operations generated total gains of NOK million 152 on the sale of property in 2016.

In addition to completed property sales, ROM Eiendom is involved in housing projects through its holdings in Oslo S Utvikling, Grefsen Utvikling and Jessheim Byutvikling. Sales of apartments in 2016 have been very good. In addition, ROM Eiendom put up for sale a wholly owned residential project, Hollenderkvartalet, in Oslo in 2016. 604 homes were sold via these projects in 2016. Housing development in the various projects will extend over several years. The market for new homes is expected to remain buoyant in 2017 as well, and ROM Eiendom is well positioned in the market thanks to its wholly and partly owned housing projects.

ROM Eiendom's operations include a lettable area of approx. 730,000 square metres and a development area of about 2 million square metres, and achieved an operating profit of NOK 1,011 million (NOK 1,307 million) in 2016. The positive result in 2016 is mainly due to gains on property sales and unrealised changes in the value of investment property.

Corporate governance

The Board of Directors has discussed and approved the statement regarding Corporate Governance that is included in the annual report.

Ownership

NSB is one of Norway's largest transport groups. The parent company, NSB AS, is owned by the State of Norway, represented by the Ministry of Transport and Communications. The Group's headquarters is in Oslo, while operations are spread throughout most of Norway and parts of Sweden.

Organisation

The Group consists of the following businesses:

// Passenger trains: passenger train operations, including collective group services

// Bus: bus operations

// Freight: freight train operations

// Train maintenance: maintenance and repair of passenger and cargo trains

// Property operations: letting and development of property

From 2017, the adopted railway reform will have a major impact on the NSB Group's size and composition. Train maintenance represented by Mantena AS and property operations represented by ROM AS, as well as two newly established companies for ownership of rolling stock and ownership of sales and ticketing solutions will be demerged from the NSB Group, with accounting effect from 1st of January 2017.

From 2017, the NSB Group's business activities will involve the following main areas:

- // Passenger trains: passenger train operations
- // Bus: bus operations
- // Freight: freight train operations
- // Travel: tourism operations in Norway

Targets and strategies

The Group's targets and strategies will have to be adjusted in accordance with changes to business activities as a result of the railway reform. A new strategy is being developed for the NSB Group, with the aim of adopting this strategy before the summer of 2017. In 2016, the NSB Group has worked on the basis of previously adopted targets and strategies, but adjusted for changes brought about by the railway reform. As a consequence, the Tourism business area was established.

In 2016, the NSB Group has worked according to the following targets and strategies:

The NSB Group's core business involves passenger traffic by train and bus in the Nordic countries, freight transport by rail within and to/from the Nordic countries, development of transport hubs and ownership of strategic property close to stations and freight terminals. The NSB Group also runs operations closely linked with its core business.

NSB aims to add value by developing, producing, marketing and selling safe, competitive passenger and freight transport services in the Nordic countries as its domestic market and by supporting urban development facilitating public transport solutions on the basis of the property owned by the Group.

The NSB Group should:

- // be the leading land-based transport company in the Nordic region

- // avoid injuries to people and damage to the environment

- // generate profit

- // satisfy customers

- // employ highly qualified and motivated employees

- // maintain financial flexibility

Internal control

The NSB Group has adopted its own framework for internal control and has established internal control systems that include values, ethical guidelines and corporate social responsibility, organisation, authorisation structure and governing documents. The Board of Directors reviews the Group's business concept, values, strategies and plans on an annual basis. Risk analyses are performed annually for the Group as a whole, as well as for each business area. Risk pertaining to financial reporting is evaluated through separate risk analyses of specific areas and periodic follow-up meetings with the business areas.

Given this fact, the internal control system is revised as required, resulting in revision of management documents, recommendations, procedures and key controls.

Risk

Financial risk

The Group's activities expose the Group to a variety of financial risks: market risk (currency exchange risk, interest rate risk and other price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of the financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group utilises derivative financial instruments to reduce some risk exposures. The Group's financial risk management is described further in note 15 to the accounts.

NSB borrows money in the markets and currencies that offer the most favourable terms overall. Borrowings in foreign currencies are converted to Norwegian kroner through currency swap agreements. NSB aims to minimise currency exchange risk in its financial management. NSB has some exposure to currency exchange risk in its daily operations related to cash and cash equivalents in connection with operations abroad, but otherwise the Group has little exposure to currency exchange risk as most of its income and expenses are in NOK. In the case of agreements entailing a considerable outlay in foreign currency, the currency exchange risk is covered almost entirely for the term of the agreement. As a consequence of the railway reform, NSB's interest-bearing debt will be reduced considerably, but the principles above will be applied in the case of future funding.

NSB is exposed to changes in interest rates. The parent company uses interest rate swaps to reduce interest rate risk and achieve the desired interest rate structure. Guidelines have been established to regulate what portion of borrowings is to be subjected to interest rate adjustments during any twelve-month period, and for interest rate fixing for the portfolio.

Surplus liquidity is invested in short-term Norwegian bonds and certificates. Changes in interest rates may affect the value of the investments in interest-bearing securities, but these are normally held until maturity. Limits to credit exposure within certain sectors and institutions are established on the basis of credit assessments.

Current guidelines state that funding needs during the next twelve months must be covered by means of excess liquidity and committed credit facilities. The Group aims to have free liquidity of at least NOK 500 million.

NSB has satisfactorily covered its borrowing needs for 2016 by means of several short-term loans in the Norwegian certificates market throughout the year. Unrest in financial markets has lessened somewhat, but there is still uncertainty relating to the development of interest rates, with an increase in long interest rates throughout the year. Towards the end of the year there was a general increase in loan margins. NSB will continue to focus on counterparty risk in financial transactions.

Operational risk

Operational risks are analysed systematically; for example for traffic safety and the achievement of financial targets. An overall risk analysis is prepared for the Group in connection with the annual planning and budgeting process. The analysis comprises both assessments of the competitive and market situation, the consequences of environmental requirements, climate change and changes in the regulatory framework. Based on the risk analyses, measures and control activities have been established which reduce identified risks, including automatic controls, audits and follow-up, and extended analyses of specific risk areas.

The NSB Group and corporate social responsibility

The Board of Directors is committed to ensuring that the company maintains corporate social responsibility and has adopted separate recommendations for the exercise of this. The NSB Group's most significant contribution to society is to ensure that society's transport needs are covered in

an efficient, accessible, safe and environmentally friendly manner. The group has in 2016 contributed significantly to the green shift by implementing measures for increasing the capacity of public transport to and from home and work, developing public transport hubs and developing residential and commercial buildings in close proximity to these hubs, as well as offering sustainable freight transport by rail. In addition, we are constantly working to improve our own energy efficiency.

The NSB Group reports on corporate social responsibility in accordance with the Norwegian Accounting Act, Section 3-3, paragraphs (a) and (c). The requirements are incorporated in the NSB Group's corporate social responsibility report for 2016, which is part of the annual report. This corporate social responsibility report covers information on matters such as the working environment, absence due to illness, safety, equality and discrimination, impact on the environment and anti-corruption activities.

NSB's Articles of Association state that the Board must ensure that the company accepts corporate social responsibility. The company reports each year on status in this regard to the owner by means of the annual report as indicated in the Articles of Association, Section 10.

Future prospects

From 2017, the NSB Group will involve business operations in respect of passenger train operations, bus operations, freight train operations and tourism.

The NSB Group has worked on the basis of the railway reform to implement a change programme to help build a new, strong, viable, competitive and competent NSB Group. The aim of the improvement programme *Kompass* is to enable NSB to win future tenders. The results of the change initiatives from the *Kompass* programme will be implemented by the NSB Group in 2017. The organisation will be adapted to approved changes, and operating costs will be reduced in order to compete on the tenders for the South and North service packages. Meanwhile, the NSB Group has started work on a process that will culminate in an updated strategy adapted to the new NSB Group.

It is important for the Board to ensure that NSB can compete on equal terms for the service packages put out to tender. Experience from similar tenders in Sweden suggests that major international transport companies with great financial strength will compete for the Norwegian tenders. NSB must therefore have the financial and commercial freedom to evolve and become a competitor on equal terms.

NSB's expanded rail offering, especially in Eastern Norway, which was initiated by the route change in December 2012, has continued to provide good growth in terms of both passenger numbers and revenues. 81 new trains in total were delivered by the end of 2016. At the time of the route change in December 2016, two new direct services were in place between Tønsberg and Oslo, with significantly reduced travelling times. Investment in and delivery of new passenger trains will continue under the auspices of the newly formed *Materiellselskapet*. This will give NSB the opportunity to further improve its offering.

Nettbuss' financial and strategic position places the company in a good position for the future. There will be many tenders in 2017, including tenders relating to current Nettbuss production in Trøndelag, Kristiansand and Oppland. The company is constantly striving to streamline its operations, and through continuous improvement to enhance its competitiveness, thereby ensuring that the company can be a long-term player in the market. The restructuring of the companies in Norway has reduced administrative costs significantly. Three factors in particular will be important going forward; public transport initiatives to ensure good accessibility for buses, development of a tendering regime that ensures sufficient margins to maintain and develop customer-oriented offerings, and continuing efforts to ensure proper and efficient operation in all areas of business.

A moderate increase in industry activity in general will generally mean moderate volume growth within existing production for CargoNet. A newly awarded contract relating to the operation of daily rail services to and from Oslo and Narvik will mean a significant increase in overall volume. Furthermore, continued strong competition both from road transport and other rail companies is expected, and CargoNet will continue its efforts to improve efficiency in order to adjust to current market conditions.

In 2016, NSB was presented with the Ipsos reputation award for continuous success in all reputation surveys since 2010. This, together with strong growth in passenger numbers, shows that the sum of investment in new trains, more frequent train service and better maintenance and renewal of infrastructure, is paying off. Further progress will require continued commitment to this work. The coordination of these elements will be the responsibility of the Norwegian Railway Directorate in the future, according to the railway reform.

2016 was a challenging year for the NSB Group. Adapting to the railway reform has taken up a lot of time and resources. Meanwhile, the Group's business segments have managed to maintain effective, profitable daily operations. The Board wishes to thank all employees for their efforts throughout the past year and is looking forward to seeing collective efforts towards the further development of the new NSB Group.

Oslo, 9th of February 2017



Dag Mejdell / *Chairman*



Bjarne Borgersen



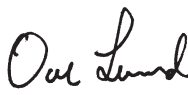
Wenche Teigland



Åsne Havelid




Kerstin Fyllingen



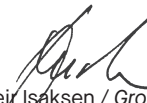
Ove Sindre Lund



Rolf Juul Ringdal



Jan Audun Strand



Geir Isaksen / *Group Chief Executive*

Executive

Corporate social responsibility report 2016

- 1. Introduction and summary**
 - 2. Customer relations**
 - 3. Environment**
 - 4. Safety and security**
 - 5. Employee relations**
 - 6. Human rights, labour rights and anti-corruption activities**
 - 7. Equality**
 - 8. Stakeholder inclusiveness and materiality**
 - 9. Key figures**
-

1. Introduction and summary

The NSB Group's desire to safeguard corporate social responsibility is reflected in the group's strategic objectives:

The main objective for the NSB Group is to add value for owner and society through efficient, accessible, safe and environmentally friendly passenger and freight transport.

In 2016, the NSB Group has contributed significantly to the green shift by planning and implementing increased capacity on public transport between home and work, developing public transport hubs and adjacent residential and commercial buildings and delivering sustainable rail freight solutions. Central elements here are an extended timetable implemented between December 2012 and December 2016 in Eastern Norway, with direct services on the Vestfold Line – bringing 81 new trains into service to date – and intensive property development in and around public transport hubs. We are also working continually to improve our own energy efficiency.

Our efforts to improve public transport have resulted in a considerable increase in traffic volume in 2016, but the effect of the autumn train strike meant that the total passenger train journeys was on a par with last year at 72.3 million trips. Adjusted for the strike the growth in passenger train journeys was 3% and from 2011 there has been an increase of no less than 29%. The number of trips with our buses in Norway and Sweden increased by 8.2% in 2016 to a total 118.8 million.

Key milestones in 2016

- // **The travelling time** for the majority of trains on the Skien-Oslo-Skien route was reduced as of the route change on 11 December. Two new direct, non-stop routes between Tønsberg and the National Theatre in Oslo every morning and afternoon were established

- // **Customer satisfaction reached** a new record level, and NSB was awarded the IPSOS reputation award

- // **There was a 0.8% growth** in passenger journeys by rail using the NSB Group's services, and adjusted for the autumn strike the growth was 3%

- // **Energy consumption per** train seat kilometre was reduced by 5% during the last two years

- // **The percentage of** vehicle-kilometers driven by buses that are hybrid, using biodiesel or runs on gas, increased from 35% to 47%, an increase by 34% in 2016

- // **Development of residential** and commercial buildings around transport hubs is helping to increase use of public transport

- // **Energy consumption by** our properties has been reduced by 5%, measured in kWh/m²

- // **The NSB Group** continued its support of SOS Children's Villages in 2016, donating to the children's village of Siteki in Swaziland in lieu of Christmas gifts to employees

The NSB Group's corporate social responsibility

As part of our group policy, NSB has established corporate recommendations for corporate social responsibility as well as ethical guidelines. These are incorporated in the NSB Group's management system. We must follow these basic principles regarding corporate social responsibility:

- // **Every business manager** is responsible for ensuring that their entity safeguards corporate social responsibility as an integral part of running their operations

- // **Corporate social responsibility** must be incorporated in our strategic foundation and values

- // **We support the** principles stated in the UN's Declaration of Human Rights and the ILO's Core Conventions

- // **We are active** in preventing all forms of corruption

- // **We must actively** contribute to the reduction of the transport sector's environmental impact

- // **We publish the** status and development of corporate social responsibility in our corporate social responsibility report each year

We apply the precautionary principle in our management of corporate social responsibility. This is achieved through application of risk analyses as a basis for business management and implementation of measures to reduce risk.

The NSB Group has been reporting on environmental and corporate social responsibility since the early 2000s. The report and its emphasis have evolved on the basis of materiality assessments related to the challenges facing the company and the expectations of stakeholders. Like other major enterprises, the NSB Group reports on corporate social responsibility in accordance with the Norwegian Accounting Act, Section 3-3, paragraphs (a) and (c). The report is also based on the requirements of GRI4 Core (Global Reporting Initiative G4, a voluntary standard for reporting corporate social responsibility) and UIC SIR (Sustainability Indicators, Rail).

The NSB Group's auditor has commented in the auditor's report on the information in the corporate social responsibility report and is of the opinion that the corporate social responsibility report is consistent with the financial statements and compliant with the law and regulations.

2. Customer relations

Traffic volume development

The first major schedule change in Eastern Norway in recent history took place in 2012. In December 2016, the last step in facilitating more rail operations for customers was implemented in that direct services were implemented on the Vestfold Line, significantly reducing travelling time. Our commitment to improve public transport has resulted in a significant volume growth in 2016, but the effect of the autumn strike meant that the total no. of journeys by passenger train was on a par with last year at 72.3 million trips, of which 67.5 million in Norway. Adjusted for the strike the growth was 3%. 81 new trains are now in service, and the number of train journeys has increased by 29% compared with 2011.

	2016	2015	2014
Number of train journeys (millions)	72,3	72,4	68,5
Number of bus journeys (millions)	118,8	109,6	131,4
Number of transported TEU – containers (1,000)	368	373	376

Bus operations saw the number of journeys increased to 118.8 million. Journeys in Norway and Sweden totalled 84.2 (75.3) and 34.6 (34.2) million in 2016, representing changes of 11.8% and

1% respectively. This was mainly due to changes in the number of services operated.

Freight volume was reduced by 1.3% in 2016. Adjusted for the strike the volume is at about the same level as in 2015. Improved delivery quality has encouraged customers to choose to send their cargo by rail. Punctuality has improved, and the number of cancellations due to infrastructure has been reduced. The main rail freight competitor discontinued its services just before Easter 2016, and our own production was increased slightly. New competition on Norwegian domestic routes was established, and total market offerings were maintained.

Reputation and customer satisfaction

NSB Group businesses conduct annual customer satisfaction surveys. These provide a good picture of how NSB's services and quality are perceived and give us feedback on which areas we need to improve.

	2016	2015	2014
Customer satisfaction – passenger train (index 0-100)	73	73	70
Customer satisfaction – express bus (index 0-100)	79	80	81

Survey results for autumn 2016 showed good results for the customer satisfaction survey for passenger trains at 73 points, the same level as in the autumn of 2015 but a slight reduction from the record of 74 in spring 2016. Customers report that they are more satisfied with rail replacement services, although they are less satisfied with punctuality and route choice. Customers state that they are satisfied with train types, information, staff on board, comfort on board and ticket purchasing, but they would like to see improvements to punctuality, route choice, catering on board and the handling of disruptions. A customer satisfaction index of less than 60 is considered weak, more than 70 is good, and 75 and over is very good.

Customer satisfaction measured on the NSB's Gjøvik Line is relatively stable, and customers are generally very pleased with the service. The index reached 74 points, up one percentage point from 2015.

The customer satisfaction survey for buses includes the express service TIMEkspresen, the airport bus in Trondheim, Bus4You and Nettbuss express in Norway and Sweden. Customer satisfaction remains high.

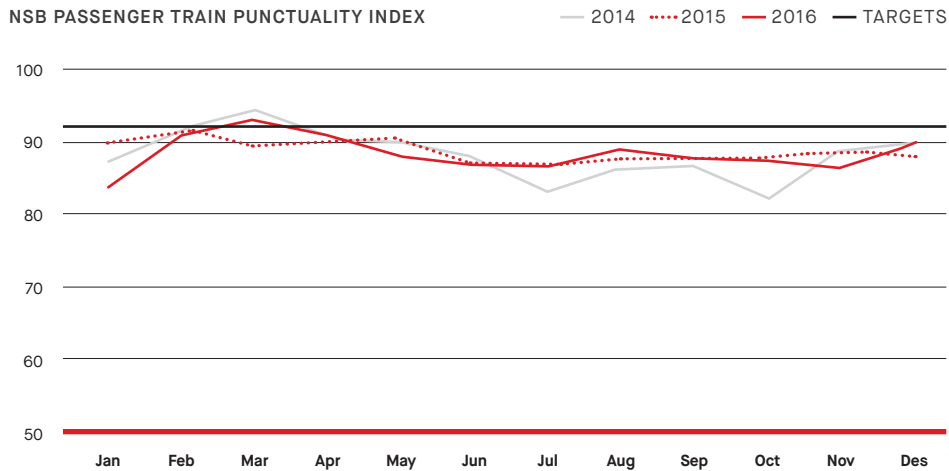
Punctuality

Overall punctuality for NSB passenger services stood at 88.3% in 2016. This is a reduction of 0.3 percentage points compared with 2015 (88.6%) and below the target of 90%. Regularity stood at 88.7% in 2016 for NSB passenger services. This is down 1.8 percentage point from 2015 (90.5%). The train drivers strike this autumn affected the regularity considerably. A train is considered to be on time if it arrives at its destination within three minutes and 59 seconds of schedule. For long-distance trains, this margin is five minutes and 59 seconds.

Jernbaneverket registered 27,411 hours of delay in 2016, an increase of 7%. Total hours delayed which affected NSB passenger trains amounted to 11,989, an increase of 3% compared with 2015.

For NSB passenger services infrastructure delays are still most prevalent, accounting for 5,184 hours (43% of the total) compared with 4,978 (43%) in 2015, an increase of 3%. In 2016, NSB-related delays to passenger services amounted to 17% (20%) of the total, a reduction of 12% from 2015.

NSB-related delays to passenger services were mainly due to long stops at stations (35%) and rolling stock failures (35%). Delays due to long stops at stations were reduced by 29% from 2015, and delays caused by rolling stock failures were increased by 4% from 2015.



NSB is working constantly on technical improvements and development of maintenance programmes in order to reduce rolling stock faults. Line L2 Stabekk - Ski run with the oldest commuter trains, type 69. A solution with fixed double sets to provide sufficient seats and systematized maintenance has been implemented to reach the highest possible operational stability.

Svenska Tågkompaniet AB, our subsidiary in Sweden, attained a punctuality level of 86.3% in 2016, compared with 87.5% in 2015. NSB Gjøvikbanen AS, the Oslo-Gjøvik subsidiary, had an average punctuality of 90% in 2016, compared with 84% in 2015.

Infrastructure problems were less prevalent in 2016. However, several lines were closed for shorter or longer periods in 2016 due to flooding, landslides and bad weather. This resulted in the cancellation of 50 freight trains, compared with 155 in 2015. Freight train punctuality was higher than the target of 90%, ending at 94% (92%) within the 15-minute delay margin.

3. Environment

Strategy

The NSB Group has incorporated environmental issues into its strategies, targets and plans. One of the company's key strategic objectives is to prevent harm to both people and the environment. As part of this, the company developed its own strategic environmental plan for the period 2011–2016. The main objectives of this plan are:

- // To certify group businesses in accordance with ISO-14001 (environmental management)

- // To develop environmental competence and awareness among employees

- // To further develop eco-friendly rolling stock

- // To use environmentally friendly, innovative products in our operations

- // To implement energy optimisation and resource conservation

- // To decontaminate previously polluted sites

- // To increase the waste recycling fraction

This plan contains policies and recommendations for how this work should be accomplished, along with standards for measurement indicators related to the environment.

A new environment strategy is being developed and will be finalised in 2017.

The green shift

The Paris Agreement on climate change provides a clear direction for future global climate action; companies and society in general will have to adapt to new climate targets. The Norwegian government proposed in its White Paper no. 13 (2014–2015) that Norway should cut greenhouse gas emissions by at least 40% by 2030, compared with 1990. Amongst efforts to reduce Norwegian emissions, the government points to five specific priority areas, of which one is reduced emissions from the transport sector. The Norwegian national transport plan states that a climate strategy supporting this target must be devised.

Greenhouse gas emissions from the transport sector can be reduced by switching to modes of transport with lower emissions, reducing the need for transport or lowering emissions from each individual mode of transport. The government says in its White Paper that they will make it easier for more people to choose public transport, walking and cycling.

The NSB Group plays an important part in meeting new climate targets

The NSB Group's rail, bus and property services continued to play an important part in facilitating a shift towards public transport in 2016. Our passenger rail and bus services have provided and improved a substantial route network to and from transport hubs. Our property services have continued to develop hubs that make it possible to live and work near to good public transport services. Our freight services have helped to deliver freight transport by rail, which is both energy-efficient and sustainable, and avoids drawbacks associated with freight transport by road.

The NSB Group also aims to reduce its own energy consumption and greenhouse gas emissions by means of more energy-efficient trains, buses and property, and focusing on energy-efficient driving. This has yielded good results.

NSB AS's passenger rail operations, train maintenance operations and bus operations hold environmental accreditation to ISO-14001.

Energy consumption

	2016	2015	2014
Energy consumption pass. trains – electricity (MWh)	425,096	407,079	419,589
Energy consumption pass. trains – diesel (mill. liter)	8,9	8,7	8,3
Energy consumption bus – diesel (mill. liter)	30,0	49,0	54,0
Energy consumption bus – biodiesel (mill. liters)	21,1	16,0	14,9
Alternative energy bus – gas (mill. m ³)	12,7	8,3	8,2
Energy consumption freight trains – electricity (MWh)	101,631	105,613	107,286
Energy consumption freight trains – diesel (mill. liter)	6,6	7,2	6,4
Energy consumption buildings (MWh)	104,823	130,000	114,502
Energy consumption pass. trains – electricity (kWh/seatkm.)	0,0384	0,0385	0,0403
Energy consumption pass. trains – electricity (kWh/gtkm.)	0,0452	0,0446	0,0477
Energy consumption bus (liter/buskm.)	0,34	0,41	0,41
Energy consumption freight trains (kWh/tonnekm.)	0,047	0,045	0,047
Energy consumption buildings (kWh/m ²)	236	298,1	313,8

Energy-efficient passenger trains

From 2013 to 2016, NSB has set itself the target of reducing power consumption by 15%. With

an energy expenditure of 38.4 Wh/seatkm in 2016, relative energy consumption was reduced by 5% over the last 24 months. New rolling stock and emphasis on energy-efficient driving are central measures. The latter will form the basis for new basic training for train drivers, together with Min energi [My Energy]. Min energi is an application for train drivers that monitors energy consumption during train journeys so that they are in a better position from which to understand how driving style affects power consumption. The objective of this is to help them save energy.

Energy consumption for freight trains

In 2016, the energy consumption per tonne-kilometre was increased by 4.4%. The consumption is to a large extent influenced by what routes are in operation and mix between diesel and electric propulsion. An energy conservation project was established in 2016, with the aim of reducing energy costs by NOK 5 million in 2017. The main efforts in 2017 are training on eco-driving, technical measures on locomotives, and data collection and presentation of achievement for reduced energy consumption.

Freight transport by rail has less environmental impact than the same transport by road. It removes a substantial number of long trailer journeys from the roads, thereby contributing towards lower emissions and fewer road accidents and traffic jams. In 2016, NSB freight operations removed around 184,000 long trailer journeys from the roads, equivalent to around 700 trailers per working day.

Energy consumption for bus operations

The introduction of a new fleet management system, which among other things records fuel consumption, idling and driving patterns, has led to reduced fuel consumption and local emissions. Use of alternative fuels such as natural gas, biogas and biodiesel has been extended considerably, and the same applies to hybrid buses. The percentage of vehicle-kilometers driven by buses that are hybrid, using biodiesel or runs on gas, increased from 35% to 47%, an increase by 34% in 2016.

Ground contamination

No major ground contamination was recorded in 2016. When developing our properties, surveys are carried out and decontamination takes place if necessary. In connection with a housing project at Grefsen station, 25,600 tonnes of polluted soil was removed in 2016, and for the project at Schweigaards gate 33 a total of 7,431 tonnes, at a cost of NOK 4 million. The programme of recording and surveying our property sites is now terminated.

Emissions to air

	2016	2015	2014
Emissions passenger trains (Norway) – tonnes CO ₂	64,771	74,626	86,812
Emissions bus – tonnes CO ₂	166,111	209,438	212,475
Emissions freight trains – tonnes CO ₂	31,808	37,816	39,342
Emissions buildings – tonnes CO ₂	11,051	18,026	15,455

For trains, NSB purchases power with certificates of origin. By purchasing these certificates of origin, NSB is helping to support producers of renewable energy. In its annual environmental audits, NSB worked on the basis of zero emissions from electric trains due to the purchase of these certificates of origin. In 2014, a change was made to a new, recommended standard for calculation and comparison of energy consumption and gas emissions for transport services. The basis for calculating our emissions from power consumption is now the Nordic electricity mix, and "well to wheel" calculations for emissions from diesel consumption.

Emissions of CO₂ from NSB's operations are significantly reduced in recent years. The main reason is a significant transition to renewable energy in the bus and real estate operations, and that the Nordic electricity mix is "cleaner" in recent years, with a larger proportion of electricity produced with renewable energy. From 2014 to 2016, the emissions were reduced by 80,343 tons of CO₂, or 23%.

Waste disposal

	2016	2015	2014
Waste (tonnes)	5,153	5,096	5,933
Recycling rate	53%	45%	59%

Both waste in tonnes and the recycling rate have improved in 2016 compared with previous years. This is mainly due to disposal of old passenger trains with a high recycling rate. The property and train maintenance operations produce the most waste, and these are aiming to reduce waste and increase the recycling rate. The recycling rate from property operations increased from 35.7 to 38%, while train maintenance operations achieved a recycling rate of 78%, about the same level as last year.

Collisions with animals

Collisions with animals are a problem in terms of animal welfare, industry stakeholders and rail services. The total number of collisions with animals on Norwegian railways in 2016 amounted to 2,014, compared with 1,915 in 2015. The majority of collisions with animals involve elk, deer, sheep and reindeer. The National Rail Administration, which is responsible for infrastructure, has good statistics on where these collisions take place and is working on both long-term and immediate measures to reduce the number of collisions. These measures include putting up fences and clearing vegetation along the track.

4. Safety and security

The safety and security policy of the NSB Group states that:

- // The NSB Group's operations must not cause serious harm to people, the environment or assets

- // The NSB Group's operational entities must proactively prevent adverse incidents and have the necessary expertise to deal with critical situations. The core business must remain operational as far as possible, even in the event of threats or crises

- // Learning from experience and continual improvement must be facilitated. Information regarding safety and security must be accessible within the organisation and easy to understand. No one is to be penalised for reporting faults or problems

- // Safety and security activities must be customised to suit the nature of each individual operation and developed so that new requirements and criteria can be met

The aim is to ensure that nobody dies or is seriously injured as a result of the group's business. Line management is responsible for ensuring that employees at all levels develop an attitude that prioritises safety in all circumstances. If safety targets are not met or established safety rules not adhered to, the line manager must take corrective action.

Traffic safety involved reporting adverse incidents, investigations, risk assessments, emergency response exercises, system audits and monitoring results. Together, these provide a basis for identifying conditions critical to safety and implementing measures for correction and improvement.

Safety and security policy for railway operations is described in separate governing documents.

The table shows injuries and fatalities related to NSB's transport activities by road and rail.

Injuries and fatalities	2016	2015	2014
Number of fatalities - employees	0	1	0
Number of fatalities - external	3	6	3
Number of serious injuries - employees	4	2	17
Number of serious injuries - external	6	21	3
Number of railway accidents	15	15	24

No passengers died as a result of the NSB Group's transport activities in 2016. One third party died in a bus collision, and 2 third parties died in level crossing accidents/collisions on the track. In the bus operations 3 passengers and 3 third parties were injured with a need for hospital treatment, mainly due to collisions.

Traffic safety, railway operations

For the NSB Group there have been 15 incidents in 2016 which are defined as railway accidents in accordance with regulations. The number of railway accidents has declined, mainly due to fewer collisions having taken place.

The causes of many of the incidents are beyond the Group's direct influence. Incidents are systematically recorded and reported to the infrastructure manager. Traffic safety measured through performance management and risk management remains a high priority, both internally and in collaboration with others.

Our traffic safety record overall is rated as satisfactory and target achievement is considered acceptable. NSB's operations are conducted in compliance with external and internal requirements as assessed by management follow-up.

Traffic safety, bus operations

The NSB Group's bus operations transport large numbers of passengers daily and hold great responsibility for ensuring that everyone arrives safely while no other road users are harmed in any way. As part of its road safety activities, the bus operations in their entirety hold accreditation to ISO 39001 (traffic safety). Efforts to reduce injuries and accidents have continued in 2016. Nettbuss has implemented a tool for monitoring driving behaviour, which in 2016 has had a further positive effect on the number of safety-related incidents.

5. Employee relations

Our strategic target is for the NSB Group to have highly qualified and motivated employees. As a service organisation that relies greatly on its personnel, NSB aim to be an attractive workplace, ensuring a good, professional working environment with open, honest and consistent communication both internally and externally in order to create trust and credibility.

The NSB Group has established a personnel policy. Policy manuals have been prepared for each operational entity that include recommendations, policies and standards for dealing with personnel issues.

	2016	2015	2014
Number of employees	12,578	12,668	12,989
Number of man years	10,488	10,439	10,996
Employee satisfaction NSB Group	69	71	71
Sickness absence rate	7,7 %	7,9 %	7,8 %

The NSB Group had 12,578 employees at year-end, of whom 2,128 were temporary staff. 2,461 of our employees work part-time. The number of man-years was 10,488. 1,351 of the NSB Group's employees work in Sweden.

Employee satisfaction stands at 69 (71) on a scale of 0 –100. This is one percentage point lower than the average for Norwegian companies, and 4 percentage points above the national average in the transport sector. Employee satisfaction has fallen slightly in passenger train operations, property operations and maintenance operations. One of the reasons for this is believed to be dissatisfaction and insecurity linked with the railway reform and the changes made necessary by this. Employee satisfaction with regard to bus and freight operations is improving as restructuring is starting to pay off.

The number of employees covered by collective agreements varies between 32% and 95%, depending on operations. The rest are employees in management and specialist positions who are covered by individual agreements.

Absence due to sickness last year stood at 7.7% (7.9%), an improvement from last year. High levels of sick leave were mainly due to repetitive strain injuries and inconvenient working hours, and the main measures to reduce absence involve adjustments to reduce long-term sick leave.

For passenger rail employees, LTI (Lost Time Injuries) amounted to 2.9 per million working hours, while TRI (Total Recordable Injuries) stood at 6.8. The corresponding figures for the previous year stood at 4 and 6.3 respectively.

No incidents were recorded for ROM Eiendom and NSB Gjøvikbanen, and LTI equalled 0. The injury frequency in the property construction projects, however, is higher than desired.

The LTI and TRI ratios for train maintenance operations for the year stood at 9.2 (15.2) and 19.2 (18) respectively. The target is to reduce the number of injuries, and annual safety seminars are being held for all employees.

For freight operations, LTI was 10.2 (12.7) and TRI 23.9 (25.4). For bus operations, LTI was 3.4 (4.5) and TRI 5.8 (6.2).

The NSB Group is a member of the employers' association Spekter, and the Group Chief Executive is member of the board. Most employees are members of the Norwegian Confederation of Trade Unions (LO).

6. Human rights, labour rights and anti-corruption activities

The NSB Group has established ethical guidelines and corporate social responsibility recommendations covering factors such as human rights, labour rights and anti-corruption measures.

The Group operates in Norway and Sweden. Management of human rights and labour rights is handled well due to formal procedures established by employees and corporate management teams in order to deal with such issues. Our employees have rights that are well defined within collective agreements and covenants. Employees are represented on the board, and working environment committees have been established and hold regular meetings.

Our analyses show that there may be risks in connection with the procurement of goods and services, and so we impose ethical requirements that our suppliers must meet. In 2016, the NSB

Group became a member of Ethical Trading Initiative Norway and uses risk analyses to identify risks and as a basis for implementation of measures to reduce risk.

In 2016, the NSB Group has continued its work on internal control, including risk analysis with regard to fraud and corruption. No significant violations of our policies and procedures were found as a result of this work.

7 out of 11 businesses underwent risk analysis with regard to the risk of corruption or fraud. The greatest risk factors identified involved bribes or leaking information related to procurements or tenders. Measures to reduce risk have been implemented, including information and training and good procurement procedures. The management teams and boards were informed about or received training on recommendations and procedures in order to reduce the risk of corruption, and have signed a self declaration regarding ethics and corporate social responsibility. All our employees are informed about our ethical guidelines, and over 600 have during the year received training in ethics / anti-corruption work. As a part of our procurement procedures all suppliers are informed of our policies against corruption, and must commit to obey our ethical requirements.

No violation of our ethical guidelines with regard to corruption was discovered. We are not aware of any judicial processes against our companies or employees due to corruption.

Ethical guidelines are a part of the employment contract for new employees in the case of passenger train, freight, train maintenance and property operations. For bus operations, ethical guidelines form part of the manager's manual (intranet) and the personnel manual and are also referred to/linked in the manual for drivers. Key personnel in all our operations are receiving training on anti-corruption work as part of the internal control project for the year, and the freight business has also introduced online training linked with our ethical guidelines.

Supply chain

The NSB Group buys goods, services and fixed assets worth about NOK 7.5 billion a year from about 10,000 suppliers. Of these suppliers, about 10% are registered outside Norway. The NSB Group has approved governing documents and recommendations related to Group purchasing. The procurement function is set up to ensure that the NSB Group is using its purchasing power collectively to achieve optimum purchase terms, and that the agreements and contracts concluded by NSB with third parties safeguard NSB's interests in a satisfactory manner. This function is also responsible for corporate support systems, consulting and decision support information as well as following up the cost-related and legal aspects of major and strategically important contracts for NSB.

Based on procurement plans for 2016 for the Group and operational entities, a risk analysis for social and corporate social responsibility was carried out for significant supply agreements. About 300 agreements were analysed. Risk assessment of the procurement plans for 2016 showed six contract areas that may be at risk of violating ethical or social requirements. These are:

// Uniform production

// Safety clothes

// Gift and profile articles

// Cleaning services

// Building and construction

// IT (programming resources abroad)

No significant violations of either ethical or social requirements were found throughout the year. However, these risk analyses have provided a basis for reducing this risk. In 2016, the NSB Group became a member of Ethical Trading Initiative Norway in order to receive support for continual improvement linked with the supply chain and to help reduce identified risk.

7. Equality

Based on statutory requirements and NSB's ethical guidelines, promoting equality is elaborated upon in the Group's personnel policy. This states, among other things, that:

- // All NSB Group employees are equal, regardless of sex, age, disability, sexual orientation, or religious, ethnic or cultural background

- // We seek a broad and varied range of managers and employees whose individual skills and abilities must be valued and respected

- // A more equal proportion of male and female employees is desirable at all levels within the Group, and this must be emphasised in recruitment and skills development

	2016	2015	2014
Proportion of female employees	17%	17 %	17 %
Proportion of female managers	24%	19 %	16 %

The proportion of women working for the NSB Group is 17%, ranging from 7% to 43% within the various Group entities. The proportion of women representing shareholders is 60% on the Board of Directors for the NSB Group, the proportion of women in Group management is 43%, while the proportion in senior management for the various operations varies from 12% to 43%. There are female senior managers in our operational entity Reiseliv (Travel) and in the subsidiaries NSB Trafikkservice AS and Finse Forsikring AS.

The average proportion of female managers has increased to 24%, which is higher than the proportion of female employees in general. The average wage for women varies from entity to entity, amounting from 81% to 114% of the average male wage, and is mainly dependent on position and seniority. The average working hours for women are slightly lower than for men.

The NSB Group aim to increase the proportion of women in middle and senior management in the long term. Important measures are:

- // Identifying and publishing jobs on our careers site, using women as role models

- // Encouraging women in particular to apply when recruiting for male-dominated jobs
- // Applying moderate gender quotas in recruitment for a number of job categories in which male dominance is especially great, as long as they meet qualification requirements

- // Managerial focus on curbing sexist attitudes and behaviour

- // Introducing systematic processes for management evaluation and succession planning, focusing on female representation

- // Mobilisation of talented female employees and managers in the Group's ongoing change programme

// Prioritisation of women in Group management development

	2016	2015	2014
Proportion of immigrants	13,4 %	13,9 %	12,2 %
Number of notifications of discriminatory behaviour	1	0	1

The proportion of immigrants in the NSB Group stands at 13.4%, a reduction from 13.9% last year. The largest proportion of immigrants is found in cleaning services at 34.1%, while the lowest, 3.8%, is in freight. The proportion of immigrants is stable in all Group operations.

NSB's target is to improve diversity within the Group, but this is difficult to achieve. The biggest challenge with regard to diversity and equality within the NSB Group is the failure to meet linguistic requirements. When the intake of new recruits is limited, it also becomes more difficult to promote diversity in positions higher up in the group as we largely recruit and promote staff internally.

Key action areas include:

- // Thorough and serious treatment of suspected or reported discriminatory behaviour

- // Emphasis on NSB's diversity and equality policy when publicising the majority of vacancies

- // Highlighting role models with immigrant backgrounds on the Group's careers site

- // Making it a regular practice to call for interview at least one candidate with an immigrant background for the majority of vacancies

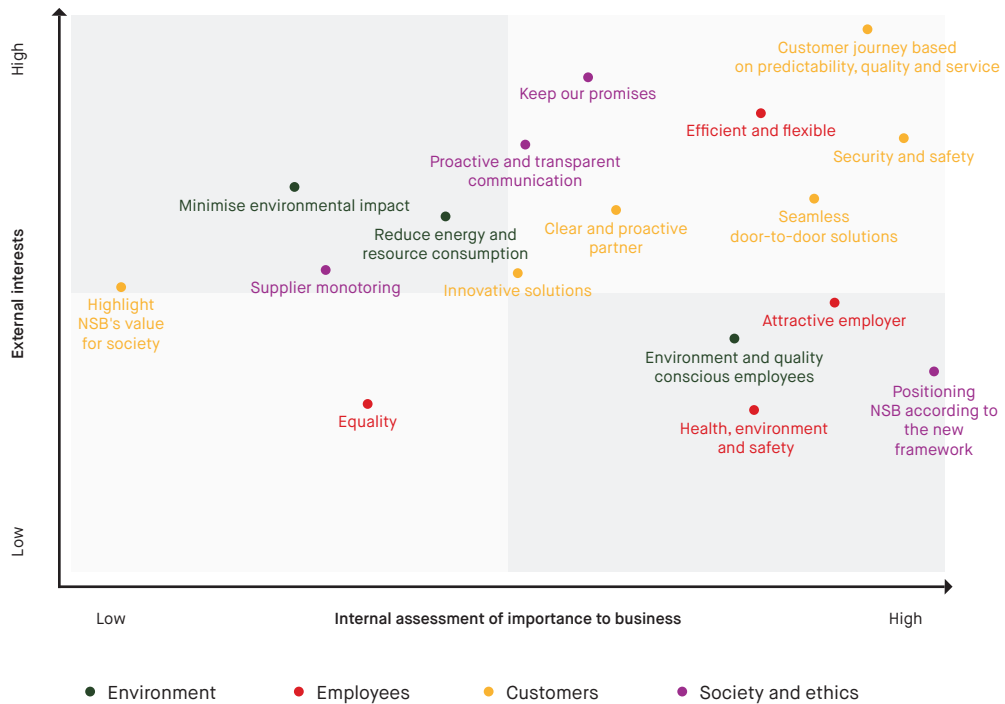
- // Managerial focus on ethnic diversity is an added value

We have established a notification channel in accordance with the requirements of the Working Environment Act. We received one formal notification of discriminatory behaviour in 2016, which was handled according to our standard procedures.

8. Stakeholder inclusiveness and materiality

Through our annual update of Group strategy, systematic identification and assessment of stakeholders' interests and the social mission in the statutes, the NSB Group and its operations prioritise important aspects and targets with regard to corporate social responsibility.

The most important aspects identified for the passenger rail services are identified below.



Similar analyses have been prepared for the other operations. The Annual Report and the corporate social responsibility report for 2016 describe which targets the NSB Group believes are central to our corporate social responsibility:

// To contribute to good public transport solutions for the Norway of the future

// To provide a comprehensive route network

// To build on and near to transport hubs – closer and smarter

// Financially sustainable business

// Not to serious harm to people, property or the environment

// Increased energy efficiency

These targets have not been changed in 2016, but changes in operations due to the railway reform mean that Group targets and strategies also have to be adjusted. The NSB Group has initiated a process with the aim of adopting a strategy for the new NSB Group before summer 2017, where the above assessments regarding corporate social responsibility will be taken into consideration.

9. Key figures

	2016	2015	2014
Number of train journeys (mill.)	72.3	72.4	68.5
Number of bus journeys (mill.)	118.8	109.6	131.4
Number of transported TEU (1 000)	368	373	376
Punctuality - passenger trains (Norway)	88.3%	88.6%	88.3%
Punctuality - freight trains	93.6%	91.9%	90.0%
Customer satisfaction - passenger train (index 0-100)	73	73	70
Customer satisfaction - express bus (index 0-100)	79	80	81
Energy consumption pass. trains - electricity (MWh)	425,096	407,079	419,589
Energy consumption pass. trains - diesel (mill. liter)	8.9	8.7	8.3
Energy consumption bus - diesel (mill. liter)	30.0	49.0	54.0
Energy consumption - biodiesel (mill. liters)	21.1	16.0	14.9
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Energy consumption freight trains (kWh/tonnekm.)	0.047	0.045	0.047
Energy consumption buildings (kWh/m ²)	236	298.1	313.8
Emissions passenger trains (Norway) - tonnes CO ₂	64 771	74 626	86 812
Emissions bus - tonnes CO ₂	166 111	209 438	212 475
Emissions freight trains - tonnes CO ₂	31,808	37 181	39 342
Emissions buildings - tonnes CO ₂	11,051	18,026	15,455
Waste (tonnes)	5,131	5,096	5,933
Recycling rate	53%	45%	59%
Number of fatalities - employees	0	1	0
Number of fatalities - external	3	6	3
Number of serious injuries - employees	4	2	17
Number of serious injuries - external	6	21	3
Number of railway accidents	15	15	24
Number of employees	12,578	12,668	12,989
Number of man years	10,488	10,439	10,996
Employee satisfaction NSB Group	69	71	71
Sickness absence rate	7.7%	7.9%	7.8%
Proportion of female employees	17%	17%	17%
Proportion of female managers	24%	19%	16%
Proportion of immigrants	13.4%	13.9%	12.2%
Number of notifications of discriminatory behaviour	1	0	1

Corporate governance

1. Reporting on corporate governance

This statement follows the chapters in the *Norwegian Code of Practice for Corporate Governance*. NSB AS and the NSB Group adheres to the Code but with notable exceptions as the Group is not listed on a stock exchange, is owned 100 % by the Norwegian State and has certain restrictions in its articles of association.

The Code is designed to ensure that companies listed on the stock exchange have ownership control and a corporate governance that clarifies the roles between shareholders, the board of directors and management in addition to basic legal requirements. The Code is intended to strengthen confidence in listed companies among shareholders, the capital market and other interested parties.

The board of directors has adopted a set of Group values including both ethical- and social responsibility guidelines and which are published on our homepage nsbkonsernet.no.

2. Nature of business

NSB is a transport group with activities in both Norway and other Nordic countries. The parent company, NSB AS, is owned by the Norwegian Government through the Ministry of Transport and Communications. The Group's headquarters are in Oslo.

The group's business is as stated in the articles of association:

- // The company's social mission is to provide efficient, accessible, secure and environment-friendly passenger and freight transport.
 - // The company's business is the carriage of passengers by rail in Norway, transport of passengers and goods in Norway and other Nordic countries as well as other related business.
 - // The business may be run by the company itself, by wholly owned subsidiaries, through other part-owned companies or by collaboration with other companies. The company may do business in other Nordic countries as far as this helps to strengthen company effectiveness in the Norwegian market and/or helps the company to cover its social duties mandated by state ownership.
-

3. Equity and dividends

NSB AS is a State Limited Liability company, ie a limited liability company where the state owns 100 % of the shares. The Minister of Transport or he/she to whom he delegates authority safeguards the rights of shareholders at the annual general meeting.

Important rules made specifically for such companies are as follows:

- // The annual general meeting is not bound by the dividend recommendation agreed by the board of directors.
- // The Office of the Auditor General of Norway who audits the management of all state ownership has a right to demand information from the CEO, the board and the external auditor.

The government expects an annual dividend equal to 50 % of Group profit after tax, but the actual level is decided annually. The board does not have a mandate to apportion dividends or to increase the number of shares.

4. Equal treatment of shareholders and transactions with close associates

The company has only one class of shares. They are not listed on a stock exchange and there are no share transactions. NSB AS has a contract with the Ministry of Transport and Communications concerning the public purchase of passenger traffic services on non-profitable railway lines. A similar contract applies to NSB's subsidiary NSB Gjøvikbanen AS regarding operation of the Gjøvik line.

Guidelines appertaining to material transactions between the company and members of the board of directors or management are given in the Group's ethical guidelines and specified in instructions to the board and the CEO.

5. Freely negotiable shares

The company's articles of association are without any form of restrictions on the negotiability of its shares.

6. General meeting

The general meeting consists of the government represented by the Ministry of Transport and Communications. The Ministry calls the meeting. An annual general meeting is to be held before the end of June.

The members of the board, the CEO and the auditor have the right to attend the general meetings.

7. Nominating committee

The general meeting consists of the government represented by the Ministry of Transport and Communications. The general assembly does not appoint a nominating committee.

8. Corporate assembly and board of directors: composition and independence

The company does not have a corporate assembly. The board is elected by the general meeting. Two or three board members with deputies are elected by and among the employees. By agreement and in lieu of a corporate assembly, the employees elect a board member and deputy in addition to the above representatives.

The members of the board of directors are chosen based on experience, competence, diversity and ability to contribute to the development of the company. A company manager cannot be a member of the board of directors or own shares in the company. Information on board members is published

on the NSB AS homepage. n shares in the company. Information on board members is published on the NSB AS homepage.

9. The work of the board of directors

The board's work is governed by the Norwegian Companies Act, ie to manage company value on behalf of the owners. This is specified in separate instructions. The board follows a formal work plan on an annual basis. The plan regulates the board's main tasks which are to oversee the goal, strategy, organization and control of operations. The board of directors' work is evaluated annually by the board itself. The board has established a separate set of instructions for the CEO. The board of directors must ensure that the company has effective systems for internal control and risk management that are commensurate with the extent and nature of the company's activities. The board, according to the principles of association, shall ensure that the company acts in a socially responsible manner. The board has established audit and remunerations committees.

10. Risk management and internal control

To ensure the quality of internal control, a separate governing system has been implemented. This includes leadership instructions, preparedness plans, safety procedures and processes to govern and control operations. Guidelines, routines, handbooks and authorization matrices are in place to ensure the quality of the company's economics, financial reporting and financing.

Risk analysis of all the various activities of the Group are evaluated on an annual basis, and measures are taken to control risks. The board reviews company risk management and internal control annually.

11. Remuneration of the board of directors

Information about the compensation of the board and key management is included in notes to the financial statement. The remuneration of the board is not linked to the company's performance. The shareholder-elected members of the board of directors do not normally take on specific assignments for the company.

12. Remuneration of executive personnel

The board of directors hires the CEO and decides his/her remuneration. The board evaluates the CEO's performance and salary parameters on an annual basis, and reviews the compensation of key management. The board has established guidelines for remuneration of members of key management. The CEO has been given authority to determine remuneration for key management within the above mentioned guidelines and adhering to the principles of remuneration for management in state owned companies. Remuneration guidelines for management are discussed at the annual general meeting. Information on the compensation of the board and key management is included in notes to the financial statement.

13. Information and communications

Public information is communicated by the senior management of the Group. Financial information and the publication dates are to be found on the company's homepage.

Paragraph 10 in the articles of association state that NSB has a specific duty to inform the shareholder about the Group's operations. Matters of principle or social significance should be communicated to the Minister of Transport and Communications by the board of directors before they make any final decision.

Every year the board of directors is obliged to present to the Minister of Transport and Communications a plan for the operations of the NSB Group that includes the following aspects:

1. An assessment of the market in which the NSB Group operates, including developments since the previous plan.
2. The Group's main activities for the next few years, including plans for major restructuring, further development, the winding up of existing operations and the establishment of new ones.
3. The level of investment, new major investments and their financing.
4. The Group's economic development.
5. A report on measures and results regarding the company's social mission and corporate responsibility.

The board of directors has also to submit information regarding any material change to plans previously communicated to the Minister of Transport and Communications.

14. Take-overs

State ownership precludes take-overs and is not relevant here.

15. Auditor

The auditor is elected by the annual general meeting. The auditor submits annually a Management Letter to the board of directors, reporting the main findings from the audit of the company and status regarding management and internal control. The board of directors hosts an annual meeting with the auditor where the CEO is not present. The auditor attends the annual general meeting and some board meetings where relevant.

The auditor's remuneration is reported in notes to the financial statement.

