

## Financial analysis - Municipality Group

The financial analysis shows the Municipality's development in relation to the concept of sound economic management. The concept of sound economic management aims at making sure that each generation bears its own costs. The Municipality must therefore ensure a result which is sustainable in the long term. The municipal council of Södertälje has set four financial goals:

- 1) A profit goal for Södertälje Municipality excluding items affecting comparability of 1.5-2 percent.
- 2) An improved post-tax result in the Telge Group.
- 3) That the Municipality's net group debt per inhabitant must not rise.
- 4) Municipal Group solvency must improve during the budget period.

Municipalities must maintain a balance between income and costs, which puts demands on the Municipality's ability to manage and control economic developments.

### Combined report Södertälje Municipal Group

Södertälje Municipal Group consists of about thirty companies. The Municipal Group consists of the Municipality and companies in which the Municipality has substantial influence or in which the Municipality's holding is at least 20 percent. The companies which the Municipality owns with others are included in the group to the extent of the share owned. The purpose of the combined report is to present a picture of the Municipality's total operations and undertakings.

### Positive result

The Municipal Group reported a positive result of SEK 1,071 million compared with a positive result of SEK 548 million for 2015. This year's result is in part due to fact that the Municipality itself reported a positive result of SEK 415.9 million. The Södertälje Kommuns Förvaltnings AB (SKFAB) company had a positive result after tax of SEK 627.8 million. However, Söderenergi had a negative result of SEK 10.2 million, which means a negative result of SEK 4.3 million for the Södertälje Municipal Group. There were also adjustments at group level which had a positive impact on results of about SEK 32 million. The biggest item is the sale of Brandalssund.

### Non-recurring items improved the results

The positive result was affected by non-recurring items, so-called items affecting comparison, of SEK 570 million in the Group of which the Municipality

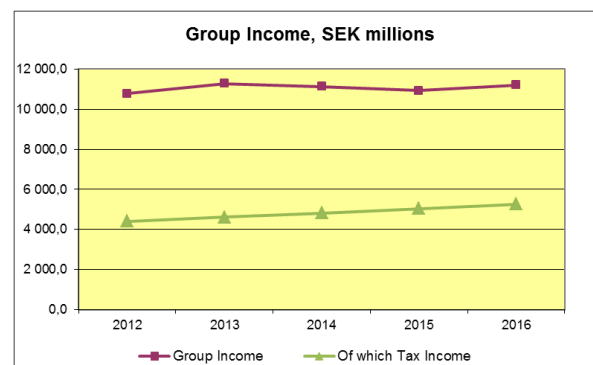
accounted for SEK 260 million while SKFAB had net capital gains of SEK 290 million. The group as a whole had a net capital gain of over SEK 20 million.

Result, SEK million	2012	2013	2014	2015	2016
Total	+222.0	+431.9	+453.6	+547.9	+1 071
excluding items distorting comparison.	-4.6	+100.0	+345.8	+395.1	+501

*\*The result was recalculated on the basis of new rules in Q3*

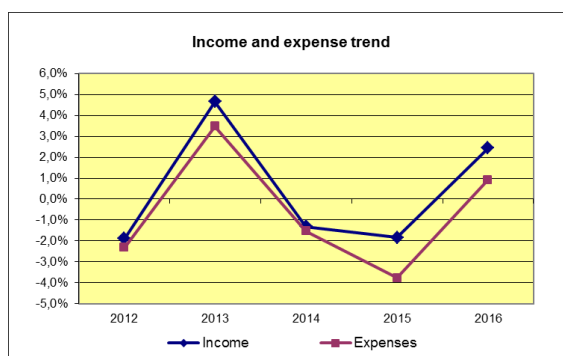
### Group income rose

Income for the year was SEK 11,198 million, which is an increase of 3 per cent over the previous year's SEK 10,874 million. This was solely due to the fact that the Municipality's tax income and operational revenues rose 6 per cent. Tax income and general state contributions, which amounted to SEK 5,275 million, increased by SEK 289 million and were 47 percent of the Municipal Group's income. However, SKFAB revenues fell 3 per cent, mainly due to the fact that the Telge Power Company was sold during autumn 2016 and so no corporate revenues from taxes and fees from items such as energy and recycling came in during the final quarter of the year.



### Costs rose at a slower pace

Costs for the year were SEK 10,098 compared to SEK 10,005 million for 2015, an increase of a slight 1 percent. The costs included write-offs of SEK 623 million (SEK 591 million). The Municipality accounted for more than half of the costs. The Municipality's costs rose 2 per cent while group corporate costs rose 1 per cent. The lower percentage for SKFAB was affected by the sale of the Telge Power Company.



### Net financial items improved

The Municipal Group's net financial result was SEK 47 million, which is an improvement of SEK 321 million compared with the previous year. That was mainly due to one-off items related to company sales. If financial items distorting comparison are excluded, the net effect is that the net financial result was SEK 234 million, an improvement of SEK 40 million on the previous year. That was mainly due to lower interest rate costs due to a lower level of debt.

#### Development of net financial items, SEK million

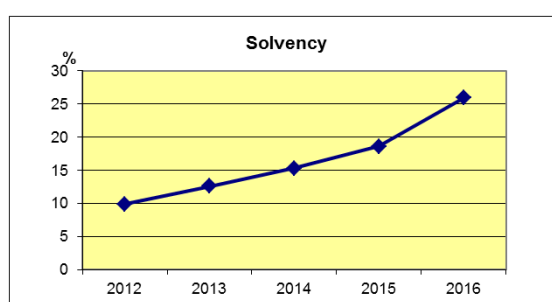
Result, SEK million	2012	2013	2014	2015	2016
Total	-425	-204	-194	-274	47
excluding items distorting comparison.	-425	-428	-323	-274	-234

*\*The result was recalculated on the basis of new rules in Q3*

The average interest rate on all borrowing was 2.55 per cent (2.59%). The Municipality limits its interest rate risk by spreading fixed interest rates over time. At year end, the average fixed interest rate period was 3 years while in the previous year it was over 2 years. The period of capital maturity was 3 years, unchanged on the previous year.

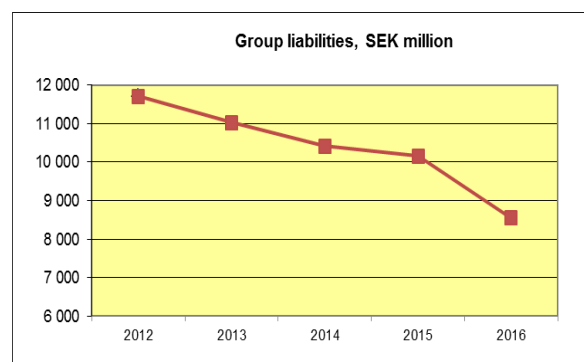
### Solvency ratio improved

The Municipal Group's balance sheet total fell from the end of the previous year by SEK 731 million to a total of SEK 16,355 million. A clearly better result has made it possible to reduce the debt burden. That affected the solvency ratio, which rose to 26 percent at the end of 2016, an increase of 7.7 percentage points.



### The Municipal Group's borrowing

The Södertälje Municipal Group is a large borrower and had a net debt portfolio (loans from credit institutions and bonds) of SEK 8,566 million by the end of December 31 2016 (SEK 10,099 million). External net debt decreased during the year by as much as 15.7 percent. The reason was a lower borrowing requirement in the Telge Group and improved liquidity in the Municipality.

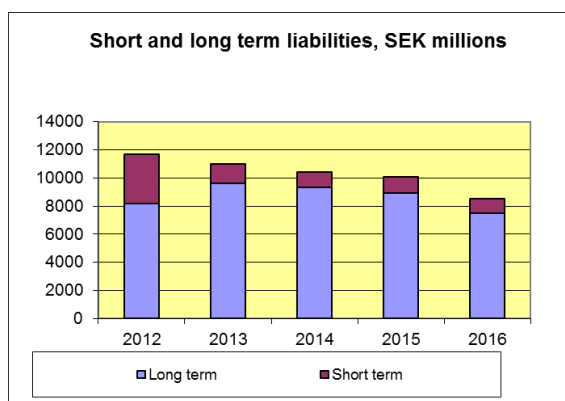


The debt level seems to have stabilised although it will likely rise during 2017 due to investment plans that have already been decided on. During the year loans of SEK 3.3 billion will come due, which will be refinanced.

By means of a higher level of self financing through investments, the net group indebtedness per inhabitant has continued to decrease. During 2016 it decreased by about SEK 23,300 per inhabitant to SEK 146,500 per inhabitant. By means of the vigorous prioritisation of investments and the effort to achieve a high level of self financing, the goal is that the group's net indebtedness will stabilise at a level which the Municipality can sustain over the long-term.

### Budget policy provides the framework

The finance policy establishes the framework for the financial activities, and sets forth goals and guidelines. All financial activities are associated with risks. How these risks are to be managed is set forth in the finance policy. Risks are monitored on a continuous basis and are reported to the Municipality's executive board. The Municipal Council establishes loan ceilings for the companies and the Municipality guarantees the companies' borrowings via its internal bank.



Södertälje Municipality has had a credit rating from Standard & Poor's since 2011. Since that time the rating has been at AA+, which is the second highest. The rating is checked every year and was confirmed on December 9 2016 at an unchanged level of AA+ with a stable outlook. An official credit rating makes it easier to borrow money and in addition reduces the cost.

The Municipality has several sources of financing, such as municipal certificates and a Swedish bond programme. The Municipality is also a member of Kommuninvest. During 2016 all refinancing was done directly on the capital markets or from Kommuninvest. The trend is for the share of traditional bank loans to continue to fall. The distribution at year-end was SEK 1,050 million in certificates, SEK 3,135 million in Swedish bonds issued under the MTN programme (MTN=Medium Term Note), SEK 2,308 million in directly issued bonds, SEK 1,100 million in loans from Kommuninvest and SEK 871 million in traditional bank loans. Borrowing is carried out for the Municipal Group and for the Municipality's share of Söderenergi.

The borrowing has been effected at both fixed and variable interest rates. In order to diminish interest rate risk, interest rate swap derivatives are used, by which the interest rate is changed from variable to fixed or vice versa. The internal bank's loans, based on interest and capital maturity, were distributed as follows as of 31 December 2016:

Maturity by year - share of external debt	Principal maturity	Interest maturity
2017	39 %	49 %
2018-2019	26 %	21 %
2020 - 2022	9 %	14 %
2023 - 2027	20 %	3 %
After 2027	6 %	13 %

### Investment expenditures

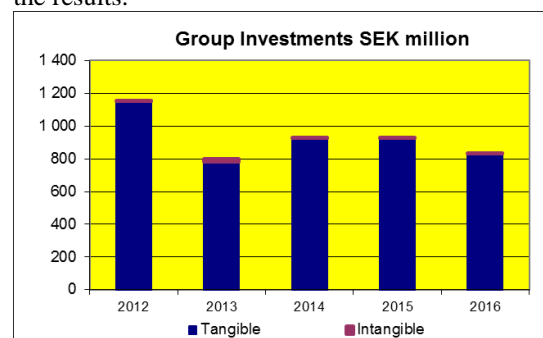
Since the Municipality's real estate operations were moved to the Telge Group, the greater part of the investments was made in the companies.

The Municipality mainly makes investments in infrastructure, inventory and means of transport. The Municipal Group's investments totalled SEK 839 million (SEK 927 million), of which SEK 142 million (SEK 130 million) were in the Municipality. The Telge Group accounted for SEK 664 million (SEK 757 million), which was about 79 percent of the Municipal Group's investments. Söderenergi invested SEK 75 million, of which the Municipality's ownership share is SEK 32 million.

The companies with the highest investments are Telge Nät at SEK 230 million (SEK 238 million), Telge Bostäder at SEK 164 million (SEK 177 million) and Telge Fastigheter at SEK 200 million (SEK 277 million). Last year's amount for Telge Fastigheter included the purchase of the Axa Sport Centre and Södertälje soccer stadium for SEK 111 million. Investments during the year were made entirely with own funds.

Telgebostäder's focus has been on the modernisation of the project at Fornbacken. Telge-Hovsjö's investments were SEK 31 million (SEK 37 million) and mainly concerned the maintenance of property and apartments. Telge Nät's investments are governed in part by the Municipality's decisions on development. In 2016 those amounted to SEK 230 million (SEK 239 million). The investments consisted of reinvestment under a plan to ensure operation of the network and also the completion of developments such as Glasberga, Dammkärr, Björkmossen and others. Telge Fastigheter has invested a total of SEK 199 million (SEK 277 million), of which SEK 168 million went into municipal properties and SEK 31 million into commercial real estate. The year's building starts include the Björkmossen old people's home, a stable in Järna, a new elementary school and sports hall in Viksberg and an extension of Soldala School.

Write-offs increased by 5 per cent between 2015 (SEK 591 million) and 2016 (SEK 623 million). In the past five years, write-offs have increased by 13 per cent as a result of larger investment volumes. Investments in ongoing new construction projects will not begin to be written off until completion, which means that they have not yet begun to impact the results.



## Financial analysis - the Municipality

The analysis in this section covers the Municipal financial administration and relations with the companies' group.

### Result and capacity

#### A positive result of SEK 416 million

The Municipality had a positive result of SEK 416 million for 2016, which is SEK 288 million better than budgeted and SEK 263 million better than the previous year. The improvement in the result resulted, among other things, from large differences in items distorting comparison, which this year boosted the result by SEK 260 million against SEK 168 million in 2015.

Excluding items distorting comparison, the result improved by SEK 171 million and amounted to SEK 155 million. The better result was helped by the low pace of net cost development while the development of tax was also good. In addition, the net financial result contributed SEK 11 million to the result due to increased payouts and a positive trend in net interest income. Net costs rose 0.8 per cent (SEK 39 million) during the year, while tax intake increased by 4.0 percent (SEK 199 million). Both net costs and taxes exclude items distorting comparison.

#### Non-recurring items improve the result

Items which distort comparison together contributed SEK 260 million to the year's result. These include SEK 56 million in extra state contributions to take in asylum-seekers and a building bonus from Boverket worth SEK 27 million which has been included in taxes in the income statement. Compared with the previous year, items which distort comparison improved the result by SEK 92 million. The item distorting comparison which most affected net costs was development income of SEK 127 million, compared with 2015's SEK 60 million. In the previous year we also received a repayment of premiums from AFA-insurance which amounted to SEK 28 million, but we did not get that this year. Capital gains amounted to SEK 46 million, which is SEK 27 million more than in 2015.

#### The Municipality satisfied the balanced budget requirement

This year's budget requirement result was SEK 370 million after adjusting for capital gains. In both 2013 and 2011 particular reasons were relied upon to exclude costs of SEK 34 million and SEK 22 million, respectively, which arose when the discount rate for pensions was reduced. From a result standpoint, this meant a non-recurring effect for these years. The interest rate reduction,

however, reflects a very long-term commitment (40-50 years), while the budget requirements regulatory structure has a 1-3 years' perspective.

The budget requirement's rules give municipalities an opportunity to " earmark " certain results for specific future purposes. The Municipality set aside SEK 24 million from the 2011 result as a social " fund " for increased security contributions. These funds were first used during 2016, with SEK 1 million being disbursed so far, and so SEK 23 million remains.

During 2013 the Municipality set aside SEK 19 million for vulnerable urban areas. SEK 6 million was disbursed during 2014 and SEK 7 million was disbursed during 2015. The remaining portion of SEK 6 million was used during 2016.

The Municipal executive decided in January 2017 to set aside SEK 15 million from 2016's result to put into a building fund for construction purposes. So the accumulated result of SEK 856 million can be used in the future to guarantee a long-term, consistent service level for the Municipality's inhabitants. The idea is that the Municipality will thus be able to conduct its operations on a longer-term basis, without needing to apply the brakes in panic in any particular year, especially since fluctuations in the economy are so significant. The Municipality has not reached any decision on utilisation of the result equalisation reserve (RUR).

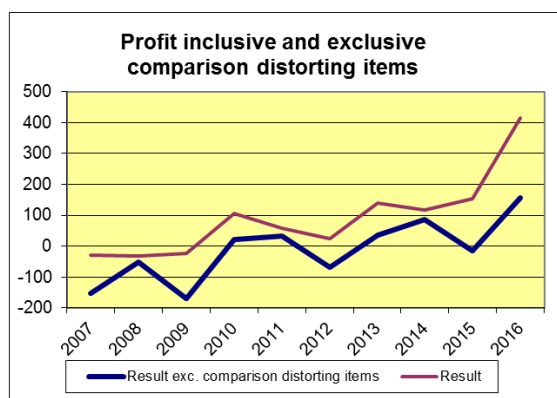
<b>Breakdown of results, SEK million</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
Result according to profit/loss	25	140	116	153	416
<i>Budget requirement adjustments</i>					
Capital gains, sale of assets	-18	-6	-10	-18	-46
Unrealised losses in securities/reversal			1		
<b>Result after budget requirement adjustments</b>	<b>7</b>	<b>134</b>	<b>107</b>	<b>135</b>	<b>370</b>
Addition to/use of result equalisation reserve			0	0	0
<b>Budget requirement result</b>	<b>7</b>	<b>134</b>	<b>107</b>	<b>135</b>	<b>370</b>
<i>Adjustments for particular circumstances</i>					
Reduction of discount rate pensions		34			
<b>Result after particular circumstances</b>	<b>7</b>	<b>168</b>	<b>107</b>	<b>135</b>	<b>370</b>
<i>Offsetting/use of result</i>					
Offsetting to building fund					-15
Offsetting to/use of social fund					+1
Offsetting/use of funds 2013 for vulnerable urban areas		-19	+6	+7	+6
<b>Accumulated balance sheet result</b>	<b>90</b>	<b>239</b>	<b>352</b>	<b>494</b>	<b>856</b>

#### Large swings in Södertälje's economic situation

The result for last year is the seventh year in a row of positive results for Södertälje Municipality. There have been large fluctuations in the financial

results over the years, but the Municipality has shown a positive figure in five of the last seven years, even if non-recurring items are excluded. The years which deviated from positive results were 2012 and 2015. The Municipality also faced a deficit in the years 2000 -2009. This meant that the Municipality was not able to build up reserves to create sustainable finances, despite having large amounts of extra revenue. When comparing the growth of equity over 10 years in relation to tax growth, it can be seen that equity increased by only 35 percent while tax revenue increased by 60 percent.

Large fluctuations between years are characteristic of Södertälje's economic situation, due in part to large variations in items affecting comparability, and partly to how well the Municipality has managed to handle the net cost trend in its operations. Since 2000, the Municipality for several years achieved its overall result by having a significant amount of revenue from non-recurring items. It has been problematic for the Municipality that net operating costs for its operating activities fluctuated so much over the years, which has meant there has been a lack of stable development, indeed it has been common for the financial result to fluctuate by +/- SEK 100 million over the years.



There was a brake in the rise in costs in 2010 due to the effects of an extensive savings plan, which together with temporary economic support from the state to municipalities led to a surplus and a significant improvement in results. Cost rises took off again in 2011, however, it was possible to finance them because Södertälje received an increased contribution in the cost equalisation system. The trend of increased costs continued in 2012, resulting in a worsening in the result, but slowed in 2013 with net costs only increasing by 2 per cent at the same time as the Municipality had large non-recurring items. Items affecting comparability fell in 2014, but the Municipality still managed to maintain a positive result as the development in net costs was lower than rises in tax intake. In 2015, net costs continued to grow at a faster pace than taxes, but the result was helped by

non-recurring income. Net costs were at a low level in 2016.

The Municipality's finances are sensitive to the state of the economy because tax income is fundamentally linked to employment. Södertälje Municipality is sensitive both on the revenue and cost side. This is due to the fact that the Municipality has a higher unemployment rate than both the county and the country, despite the fact that geographically the Municipality is in a region with a strong labour market, which leads to high costs for support allowances. An increase in the number of the Municipality's inhabitants who are in greater need of the Municipality's services and support also leads to extra demands on the Municipality's finances. The Municipality therefore needs to have a margin in its finances to deal with the large swings in its financial results and the increasing needs of people living there. The Municipality must ensure a financial result which is sustainable in the long-term in order to be able to guarantee a consistent level of service for coming generations without needing to increase taxes to a higher level.

In accordance with the budget for 2016, the goal was to achieve a financial result (excluding items distorting comparability) equal to 1.5 percent of tax intake and general state contributions, as compared to the actual result of 3.0 percent. In the previous year the result was 2.7 percent. The goal for 2017 is 2.0 percent and it is intended to increase it to 2.2 percent by the end of the planning period.

Result, SEK million	2012	2013	2014	2015	2016
Total	+25	+140	+116	+153	+ 416
excluding items distorting comparison.	-67	+36	+85	-16	+ 156
SEK/inh.	+ 285	+1,540	+1,261	+1,638	+4 395

The financial result per inhabitant amounted to SEK 4,395 (SEK 1,638 in 2015).

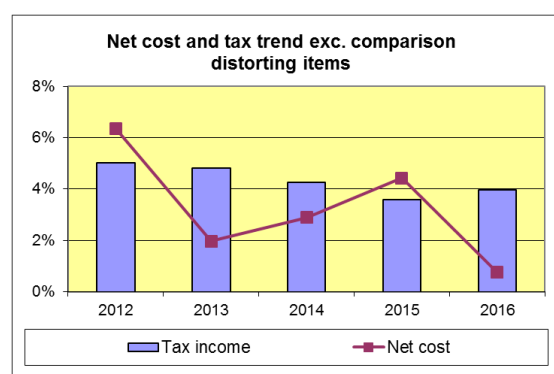
#### Tax income increased more than net costs

In order to achieve healthy and sustainable financial development, tax income must increase more than net costs every year. Tax revenues rose by 4.6 per cent in 2016 if one-off contributions for receiving asylum-seekers and in construction bonus, which was SEK 33 million more than the previous year, are included. If non-recurring tax revenue is excluded, tax intake increased by 4.0 percent while net costs increased by 0.8 percent, which means that the relationship between the growth of taxes and net costs is clearly positive. Seen in a longer perspective - the past five years - taxes have developed better than net costs, largely thanks to the low rise in costs in 2013 and 2016.

The growth in population affects both tax and net cost increases. During 2016, the population increased by 1,429 people, or 1.5 percent, while over two years it rose by 2,396 people. According to forecasts, the population of Södertälje Municipality should have increased by 1.2 percent. In Stockholm county, the population increased by 1.7 percent while it rose 1.5 percent in the country as a whole.

	Change 15-16	Change 12-16
Tax income	4.6%	19.6%
Tax income excluding extra contributions for asylum-seekers and building bonus	4.0%	17.7%
Net costs	-0.4%	8.7%
Net costs excluding items distorting comparison	0.8%	10.4%
Net financial items (positive)	20.4%	-53.4%
Net financial items excluding items distorting comparison	20.5%	-53.7%

Net financial items have been positive since 2001 and have helped to finance the Municipality's operations. Positive net financial income also increased year by year, but decreased during the previous five-year period. However, a slight improvement can be seen in 2016.



### Where does the money go?

Most tax revenue (83%) goes to core activities - health care, social support and schools. Education is the largest area of operation and accounts for 48 percent of the Municipality's activities. The table below shows the allocation of net costs for the Municipality's operations in 2016.

Net costs in 2016	SEK million	Share (%)	Change from previous year SEK million	%
<i>Educational activity</i>				
• Pre-school	579	12	+5	+1
• Elementary school	1 147	24	+23	+2
• Gymnasium (Secondary) school	386	8	+17	+5
• Adult education	81	2	+30	+60
• Special schools	86	2	+1	+2
<i>Individual and family care</i>				
• Work and support	235	5	-69	-23
• Child and youth care	249	5	+28	+13

• Adult care	71	1	+1	+2
<i>Health care and support</i>				
• Disabled LSS (law on support and service)	656	13	+18	+3
• Other disabled < 65 years old	153	3	-10	-6
• Care for the elderly	637	13	-4	-1
Culture and leisure	215	4	+2	+1
Social structure/environment/safety	5	0	-113	-96
Other, including net financial items	360	8	+7	+2

### Municipality revenues rose with the help of non-recurring items

The Municipality's total revenues amounted to SEK 6,728 million and increased by 6 percent compared with the previous year. Tax is the biggest source of revenue for the Municipality. For Södertälje, there then follows various form of state grant and financial income.

Income from taxes and government equalisation contributions increased overall by 4.6 per cent, bringing in SEK 232 million more to the Municipality than last year, of which SEK 6 million is related to additional funds for asylum-seeker reception and a construction bonus of SEK 27 million the Municipality received in 2016.

Financial income fell as the Municipality no longer takes any returns out its companies. Lending by the internal bank to the Municipality's companies also affects financial income through the low interest rate and significantly reduced lending.

The operation's various revenues increased by 14 percent. If items which distort comparability are excluded, such as exploitation gains and capital gains, as well as the repayment in 2015 of AFA premiums, revenue increased by 8 percent. Other items include capital gains for property sales and exploitation gains, which together are SEK 94 million higher than the previous year. Charges to Municipality residents for various services account for only 3 per cent of the Municipality's income. The table below shows the distribution of Södertälje Municipality's revenue in 2016.

External revenues 2016	SEK million	Share (%)	Change on previous year SEK million	%
Municipal tax	3 532	53	+145	+4
State equalisation contribution	1,743	26	+87	+5
Financial income	312	5	-16	-5
Operational contribution from state and other items	506	8	+28	+6
Fees	207	3	+21	+11
Revenues from sales	137	2	+0	+0
Other	291	3	+89	+45
<b>Total</b>	<b>6 728</b>	<b>100</b>	<b>354</b>	<b>+6</b>

### Tax revenues rose 4.6 percent

Total tax revenues, including equalisation systems and regulatory grants, totalled SEK 5,275.1 million and increased by 4.6 percent on 2015, or SEK 232 million. In 2016, the Municipality booked as revenue the remaining SEK 56 million of the SEK 106 million in temporary state subsidy for asylum-seeker reception it had received in 2015. In addition, the Municipality received SEK 27 million from Boverket regarding a building bonus for new homes started. If the "extra" supports are excluded, which were SEK 33 million than in 2015, then total tax revenue rose 4.0 percent. Towards the end of the year, Sweden's Local Authorities and County Council (SKL) association raised its tax forecast, which meant that the tax outcome (excluding items affecting comparability) was SEK 15 million better than the forecast in the interim financial statements.

Revenues from municipal tax increased by 4.3 percent in 2016, compared with a 5.5 percent rise in 2015. However, tax revenues, depend on wage and employment trends throughout the country. Central government equalises the differences between municipalities, which means that local tax capacity does not have as great significance for municipal tax revenues. The income equalisation system guarantees all municipalities 115 percent of the medium tax capacity in the country. Municipalities not reaching that level, including Södertälje, receive income equalisation grants. Södertälje received SEK 984 million in state income equalisation during the year, an increase of 9.8 percent compared with the previous year.

Equalisation also takes place due to municipalities' cost structure. In 2016, Södertälje received SEK 323 million in cost equalisation contribution - a decrease of 8.7 percent. The equalisation of LSS costs contributed SEK 217 million to the Municipality, an increase of 4.5 percent. In total, equalisation grants increased by 5.2 percent, although that includes the non-comparable items related to refugee reception and building bonus. If those are excluded, tax equalisation increased by 3.3 percent.

### Operating income rose

Revenues amounted to SEK 1,141 million and increased by 14 percent, or SEK 139 million. Excluding items affecting comparability, revenues increased by SEK 80 million, or 9 percent.

### Costs rose marginally

Total external costs totalled SEK 6,312 million and increased by SEK 91 million or 1 percent compared to the previous year. Inflation during the year was 1.7 percent (2015 0.1 % and 2014 -0.2 %). Costs rose by 8

percent over the last five years. However, if financial costs are excluded, the rise was 13 percent.

External costs 2016	SEK million	Share (%)	Change on previous year	
			SEK million	%
Personnel costs	3 073	49	+93	+3
Purchase of operations/works	1 376	22	+14	+1
Local operations and maintenance	700	11	-39	-5
Contributions/transfers	329	5	+4	+1
Materials, services etc	491	7	+45	+10
Write offs	98	2	+2	+2
Financial costs	245	4	-28	-10
<b>Total</b>	<b>6 312</b>	<b>100</b>	<b>91</b>	<b>1</b>

### Staff costs rise

The Municipality's operations are very labour intensive and therefore staff and wage developments usually have a major impact on net costs. Personnel expenses amounted to SEK 3,073 million and increased by 3 percent, or SEK 93 million.

Salary costs amounted to SEK 2,143 million and were 4 percent higher (SEK 74 million) than 2015. The wage review for permanent employees led to an increase in average salary of 3.1 per cent (2.9% in 2015). The increase in average salary was 3.9 percent if new employees are factored in. That indicates that the Municipality recruited staff at higher pay rates than earlier. Staff levels, measured at the end of the year, increased by 0.2 percent (1.3% in 2015).

Pension costs including payroll tax decreased by 11 percent (SEK 28 million) on 2015. According to KPA, the low level of retirement benefits was due to an increase in the income base amount in 2016. They have increased by 1 percent when viewed over a 2-year period.

### Cost reductions for premises and facilities

The cost of the operation and maintenance of premises and facilities fell by 5 percent (SEK 39 million) to SEK 700 million. Rental costs fell 5.6 percent (SEK 37 million) due to a recalculation of self-cost rents over a forward period of three years.

### Materials, services etc

Costs for the purchase of materials and service rose by SEK 45 million to SEK 491 million (10 percent) The largest rise was in consultancy and administration, which rose SEK 20 million (43.4 percent). The consultancy fee (SEK 11 million) includes analysis work on Municipality-wide IT,

analysis and advice on new trunk routes and consultancy costs for the new personnel system.

### The purchase of services stagnated

External purchases of services only rose by 1 percent during the year (SEK 14.1 million) External purchases of services have a major impact on costs, as more of the Municipality's activities are carried out by actors other than the Municipality itself. Various government and municipal decisions have allowed citizens to have greater freedom of choice to choose a provider other than the Municipality. The Municipality also buys in services from external providers to complement its own capacity. The buying in of services has grown gradually over the years and now accounts for 22 percent of the Municipality's total costs. They now amount to SEK 1,376 million, but only increased by 1 per cent during the year, corresponding to SEK 14 million.

## Financial flows and risk

### Margins are needed in finances

A Municipality is obviously often affected by events outside of its own control. There can be such things as fluctuations in the state of the economy and changes in the law and regulations The Municipality has a responsibility to be prepared to deal with such events, both unforeseen external events and changes in the Municipality itself. The Municipality must therefore have reserves and margins in its finances. One way to describe the need for and the size of such reserves is to perform a sensitivity analysis which describes how changes may affect the Municipality's financial situation. The table below reports how a number of factors will affect the Municipality's finances during a year.

### Sensitivity analysis

SEK 1 in increased tax imposition	SEK 176 million
1% interest rate change on loans which come due for payment in a 12-month period	SEK 19.7 million
If 100 asylum-seekers are unable to support themselves after introduction.	SEK 11.2 million
Payroll change 1% (including added personnel costs)	SEK 21.0 million
10 new positions in care services	SEK 4.7 million
1% increase in support services	SEK 2.1 million
1 child or youth placement, institution 6 months	SEK 639,800
1 place in an old people's home	SEK 648,800

1 LSS input for an adult residence	SEK 926,000
Personal assistant under SFB (social security law) - cost for one person for one year	SEK 301,000
1 student in elementary school, excluding premises	SEK 85,100
1 student in gymnasium (secondary) school, excluding premises	SEK 96,500

### Financial risks

The Municipality's internal bank provides for the Municipal Group's needs for both long-term and short-term capital, that is, both loans and cash. Södertälje Municipal Group is a large borrower and interest rate expenses thus constitute a large part of the Group's costs 2.8% (3.1%). This means that the Group is sensitive to changes in market rates but the risk is limited by means of various financial instruments.

Standard & Poor's confirmed Södertälje Municipality's AA+ rating, the second-highest rating, in December 2016. This means that we still have the possibility to borrow money at a low cost. A good credit rating makes it both easier and cheaper to borrow money.

The Standard & Poor's rating will change, however, unless Södertälje Municipality fulfils the expectations upon which it is based. The expectations are, among other things, that it will be possible to show stable financial results over the coming planning period of 2017-2020 and that the Municipality's debt level will stabilise, taking growth into account. Achieving stable financial results is also affected by various other factors. For example, it depends on whether people in Södertälje come into employment and how well adjustments are made in the volume and quality of the Municipality's activities.

### Guarantee commitments

In addition to lending to the company, the Municipality has also extended guarantees for the Telge Group worth a total SEK 159.8 million. In comparison with the previous year, the Municipality's guarantee commitments for the Telge Group decreased by SEK 759.5 million, mainly due to the termination of the guarantee to Telge Kraft due to the sale of the company.

Other guarantees concern Southwest Stockholm Region water and waste limited company (SYVAB) (SEK 147 million) och Söderenergi AB (SEK 591 million). Here, the guarantee amount for SYVAB remains unchanged but has decreased from the previous year for Söderergi by SEK 22 million. Söderergi has issued a guarantee for one of its associated companies, Efo AB, via a credit of SEK 6 million, which amounts to SEK 2.5 million for



the Municipality, which owns 42 percent of Söderenergi AB.

The Municipality has provided guarantees of almost SEK 8 million for local associations. The group's total amount of guarantees is SEK 906.5 million, a reduction of SEK 785.7 million from 2015.

<b>Income statement, SEK Millions - municipal group</b>						
	<b>Group</b>		<b>Municipality</b>			
	<b>Year end</b>	<b>Year end</b>	<b>Budget</b>	<b>Year end</b>	<b>Year end</b>	
	<b>Accounts</b>	<b>Accounts</b>		<b>Accounts</b>	<b>Accounts</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2016</b>	<b>2016</b>	<b>2015</b>
Business revenues	5 923,1	5 887,5	215,4	1 140,7		1 002,0
Business expenses	-9 475,0	-9 414,1	-5 288,5	-5 969,2		-5 852,5
Depreciation	-622,6	-591,3	-100,0	-98,0		-96,2
<b>Net cost of operations</b>	<b>-4 174,5</b>	<b>-4 117,9</b>	<b>-5 173,1</b>	<b>-4 926,5</b>		<b>-4 946,7</b>
<i>Of which comparison distorting items</i>	<i>206,5</i>	<i>102,5</i>	<i>50,0</i>	<i>177,1</i>		<i>118,3</i>
Taxrevenues	3 532,1	3 387,2	3 547,0	3 532,1		3 387,2
General state subsidies and equalisation	1 743,0	1 656,2	1 700,5	1 743,0		1 656,2
<i>Of which comparison distorting items</i>	<i>83,1</i>	<i>50,0</i>	<i>56,2</i>	<i>83,1</i>		<i>50,0</i>
Finacial revenues	327,2	26,2	53,3	311,9		328,2
Financial expenses	-279,8	-300,5		-244,6		-272,3
<i>Of which comparison distorting financial items</i>	<i>280,1</i>	<i>0,3</i>		<i>0,4</i>		<i>0,3</i>
<b>Profit after financial items</b>	<b>1 148,0</b>	<b>651,1</b>	<b>127,7</b>	<b>415,9</b>		<b>152,6</b>
Tax and minority interests	-76,5	-103,2				
<b>Profit for the year</b>	<b>1 071,5</b>	<b>547,9</b>	<b>127,7</b>	<b>415,9</b>		<b>152,6</b>
<b>Cash flow statement, SEK millions - municipal group</b>						
	<b>Group</b>		<b>Municipality</b>			
	<b>Year end</b>	<b>Year end</b>	<b>Budget</b>	<b>Year end</b>	<b>Year end</b>	
	<b>Accounts</b>	<b>Accounts</b>		<b>Accounts</b>	<b>Accounts</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2016</b>	<b>2016</b>	<b>2015</b>
<b>Operations for the year</b>						
Result for the year	1 071,5	547,91	104,0	415,9		152,6
Depreciation	622,6	591,3	95,0	98,0		96,2
Net capital gain/loss, intangible fixed assets	0	0,2				0,0
Net capital gain/loss, tangible fixed assets	-75,3	-1,7	-5,0	-45,9		-17,5
Net capital gain/loss, financial fixed assets	-280,5	-1		0,0		-1,0
Disposals	245,2	0,4		2,0		0,4
Reclassifications	2,3	-0,9		1,6		0,5
Change, tied-up capital	-81,3	105,5	21,2	-21,3		-72,4
Dissolution, state infrastructure	0,8	-1,0		0,8		-1,0
Change, pension provisions inc. payroll tax	98,8	137,7		8,4		39,1
Change Equity	8,2					
<b>Cash flow from operations</b>	<b>1 612,3</b>	<b>1 378,4</b>	<b>215,2</b>	<b>459,5</b>		<b>196,9</b>
<b>Investment activities</b>						
Investments in tangible fixed assets	-830,1	-925,3	-203,3	-141,4		-128,9
Investment contribution, tangible fixed assets	20,7			20,7		22,1
Investments in intangible fixed assets	-8,6	-1,9		-0,6		-0,7
Leasing	-9,1	-8,3		-9,1		-8,3
Sales	298,3	56,1	10,0	49,8		19,2
<b>Cashflow from investment activities</b>	<b>-528,8</b>	<b>-879,4</b>	<b>-193,3</b>	<b>-80,6</b>		<b>-96,6</b>
<b>Fund requirements to finance</b>	<b>1 083,5</b>	<b>499,0</b>	<b>21,9</b>	<b>378,9</b>		<b>100,3</b>
<b>Financing</b>						
Borrowing	-1 430,0	-315,4	99,9	-1 549,3		-299,0
Change, long-term receivables, etc.	64,2	-94,3	-121,8	892,0		279,7
<b>Change to cash and cash equivalents</b>	<b>-282,3</b>	<b>89,3</b>	<b>0,0</b>	<b>-278,4</b>		<b>81,0</b>

<b>Balance sheet, SEK million - municipal group</b>					
	<b>Group</b>		<b>Municipality</b>		
	<b>Year end</b>	<b>Year end</b>		<b>Year end</b>	<b>Year end</b>
	<b>Accounts</b>	<b>Accounts</b>		<b>Accounts</b>	<b>Accounts</b>
	<b>2016</b>	<b>2015</b>		<b>2016</b>	<b>2015</b>
<b>Assets</b>					
<b>Fixed assets</b>					
Intangible fixed assets	31,5	36,1		3,0	7,7
Tangible fixed assets					
Land and buildings	11 416,6	11 413,3		1 161,0	1 114,1
Plant and equipment	2 862,1	2 836,0		150,0	149,3
Leased assets	550,8	577,6		17,8	15,0
Contribution to state infrastructure	17,9	18,7		17,9	18,7
Financial fixed assets	234,2	298,2		11 591,1	12 483,2
<b>Total fixed assets</b>	<b>15 113,1</b>	<b>15 179,9</b>		<b>12 940,8</b>	<b>13 788,0</b>
<b>Current assets</b>					
Development	85,2	90,2		85,2	90,2
Storage	83,6	149,6		2,3	2,2
Invoice receivables	316,4	561,5		48,0	54,5
Other receivables	616,4	682,7		344,5	316,9
Cash and bank balance	141,1	423,4		91,8	370,2
<b>Total current assets</b>	<b>1 242,7</b>	<b>1 907,4</b>		<b>571,8</b>	<b>834,0</b>
<b>TOTAL ASSETS</b>	<b>16 355,8</b>	<b>17 087,3</b>		<b>13 512,6</b>	<b>14 622,0</b>
<b>EQUITY, PROVISIONS AND LIABILITIES</b>					
<b>Equity</b>					
Equity	3 141,6	2 624,6		3 212,3	3 052,0
Social fund	22,7			22,7	24,0
Funds, vulnerable districts	0,0			0,0	6,4
Profits for the year	1 071,5	547,9		415,9	152,6
<b>Total equity</b>	<b>4 235,8</b>	<b>3 172,5</b>		<b>3 650,9</b>	<b>3 235,0</b>
<b>Provisions</b>					
Pensions	352,1	425,8		306,9	303,1
Pensions, elected politicians	24,4	21,5		24,4	21,5
Deferred tax/payroll tax	635,0	489,2		80,4	78,7
Other provisions	117,5	93,7			
<b>Liabilities</b>					
Long-term loans	7 458,1	8 897,9		7 458,1	8 897,9
Long-term liabilities	218,4	51,4		2,1	2,6
Long-term leasing liabilities	530,0	567,3		10,6	10,6
Investment contributions	104,9	84,2		104,9	84,2
Short-term loans	1 107,6	1 248,2		1 090,0	1 200,9
Current liabilities	1 527,5	2 008,2		777,1	782,2
Current leasing liability	44,5	27,4		7,2	5,3
<b>Total liabilities</b>	<b>10 991,0</b>	<b>12 884,6</b>		<b>9 450,0</b>	<b>10 983,7</b>
<b>TOTAL EQUITY, PROVISIONS AND LIABILITIES</b>	<b>16 355,8</b>	<b>17 087,3</b>		<b>13 512,6</b>	<b>14 622,0</b>
<b>Pledged assets and contingent liabilities</b>					
Equity ratio (%)	25,9%	18,6%		27,0%	22,1%

<b>Operation report</b>						
<b>All amounts in SEK million</b>	<b>Operating income</b>	<b>Profit after financial items</b>	<b>Profit for the year</b>	<b>Assets</b>	<b>Return on equity %</b>	<b>Equity ratio %</b>
<b>SÖDERTÄLJE</b>						
<b>MUNICIPAL GROUP</b>	<b>11 198,2</b>	<b>1148</b>	<b>1071,5</b>	<b>16 355,8</b>	<b>27%</b>	<b>25,9%</b>
of which tax revenues and state subsidies	5 275,1					
<b>Municipality of Södertälje</b>	<b>6 415,8</b>	<b>415,9</b>	<b>415,9</b>	<b>13 512,6</b>	<b>11,4</b>	<b>27,0%</b>
of which tax revenues and state subsidies	5 275,1					
<b>Group Södertälje</b>						
<b>Kommuns Förvaltnings AB</b>	<b>5 342,0</b>	<b>699,6</b>	<b>627,8</b>	<b>13 623,1</b>	<b>35,2%</b>	<b>16,9%</b>
of which						
<b>Södertälje Kommuns Förv. AB</b>	<b>0,0</b>	<b>-27,8</b>	<b>0,0</b>	<b>2 312,9</b>	<b>neg</b>	<b>42,5%</b>
<b>Less group eliminations</b>		<b>0,0</b>	<b>0,0</b>	<b>-3 280,3</b>		
<b>Sub total Telge-gruppen</b>	<b>5 342,0</b>	<b>727,4</b>	<b>627,8</b>	<b>14 590,5</b>	<b>22,0%</b>	<b>24,8%</b>
of which						
Telge (i Södertälje) AB	89,8	34,4	80,0	2 089,0	3,6%	46,3%
Telge Energi-koncernen	1 037,9	54,7	0,0	468,2	164,1%	7,1%
Telge Nät AB	1 159,7	217,1	224,5	3 491,8	22,5%	30,8%
Telge Kraft-koncernen	1 417,6	10,4	8,2	0,0	0,0%	0,0%
Telge Återvinning	194,6	25,2	-3,3	223,9	69,3%	15,5%
Telge Bostäder AB	757,9	248,1	251,2	4 104,8	13,7%	47,2%
Telge Fastigheter-koncernen	818,9	101,5	30,4	5 425,4	24,5%	7,9%
Södertälje Hamn AB	93,3	10,5	0,0	184,2	84,6%	6,7%
Tom Tits Experiment AB	57,9	-14,4	0,0	34,6	neg	35,6%
Telge Hovsjö AB	141,6	-4,0	4,3	527,7	neg	6,3%
Telge Inköp AB	29,3	7,5	0,0	12,6	375,1%	15,9%
Telge Almnäs AB (vilande)	0,0	0,0	0,0	1,0	0,0%	0,0%
Telge Miljöteknik AB (vilande)	0,0	0,0	0,0	0,1	0,0%	0,0%
Telge Hamn AB	2,2	-2,1	0,0	152,4	neg	0,1%
Telge Tillväxt i Södertälje AB	21,7	-0,7	0,0	5,7	neg	35,3%
Telge Dotterbolag AB (vilande)	0,0	0,0	0,0	0,1	0,0%	0,0%
Less group eliminations	-480,4	39,2	32,5	-2 131,0	0,0%	0,0%
<b>Partly-owned Companies</b>						
Söderenergi AB 42%	479,7	0,4	-4,3	1 413,4	0,3	11,4%