



Norske
tog

First half-year report 2020



About Norske tog

The purpose of the company is to **procure, own** and **manage** rolling stock, to be used mainly for the provision of rail passenger transport as a public service obligation. The company's rolling stock is to be offered on non-competitive terms. The company also has an advisory function to the Norwegian state.

Norske Tog AS is 100 per cent owned by the Norwegian state, via the Ministry of Transport and Communications, and is a category 3 company. This means that the state ownership is based on sectoral policy, and that the company has targets for efficient operations in relation to this.

This half-year report has not been audited.

Highlights, 2nd quarter 2020

- Successful start to the Tender package 2 North, with SJ Norge as operator.
- The Corona measures have led to a significant decline in traffic. The compensation package from the state have contributed to Norske tog maintaining their revenue.

Financial indicators

Financial indicators (MNOK)	1st half-year 2020	1st half-year 2019	2019
Profit/loss from operations	145	199	392
Pre-tax profit	28	137	285
Profit/loss for the period	22	107	222
Net cash flow	-1 592	-1 769	-638
Working capital	352	53	1 232
Equity	3 086	2 941	3 065
Equity ratio	26.9%	24.0%	22.5%
Return on equity*	4.9%	8.5%	7.8%

* Return on book equity is for the last 12 months

Economic development in Norske tog

For the first half year of 2020, Norske tog has a profit after tax of 22 MNOK (107 MNOK). Compared to the same period last year, there is a decrease of 85 MNOK which is mainly due to the change in fair value from Bonds (44 MNOK) (no cash effect), lower income (approx. 14 MNOK) and higher cost.

The result gives a return on book equity of 4.9 per cent over the last 12 months. In the long term, the company aims to deliver a return of 5 per cent. The annual return will fluctuate in line with the scale of planned investment projects.

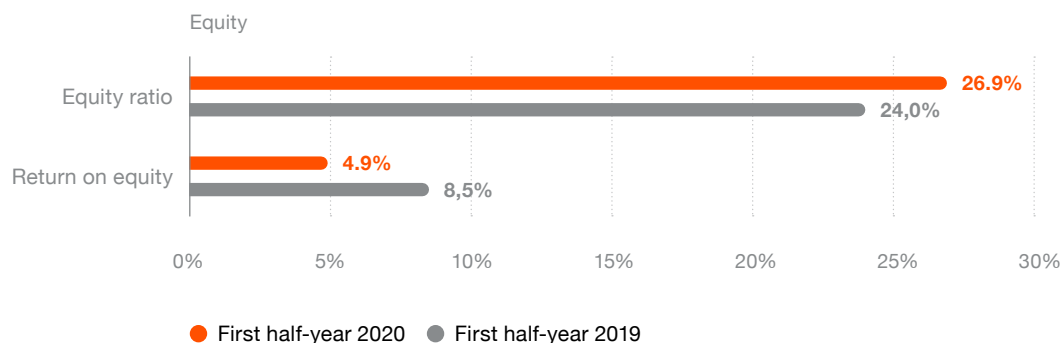
Revenue growth is expected in the coming years from deliveries of new Flirt trains. These are to replace old stock and cater for the growth in passenger numbers

Change in financial indicators Q2 2019 to Q2 2020

Sales analysis

	Q2 2020	Q2 2019
Leasing income	307	314
Other operating income	0	0

Leasing income decreased by 7 MNOK compared to the second quarter of 2019. The income is calculated from the book value of the trains. The main reason for this reduction was that there were no delivery of Flirt trains for a few months (in accordance with the contract), in the spring and summer of 2019, and that the trains are depreciated on a monthly basis.



The equity ratio for Norske tog increased from 24.0 per cent in the 1. half-year in 2019 to 26.9 per cent in the 1. half-year in 2020. This is mainly due to the repayment of loans in CHF in February 2020, which were recognised at fair value and so reduced outstanding debt.

Financing

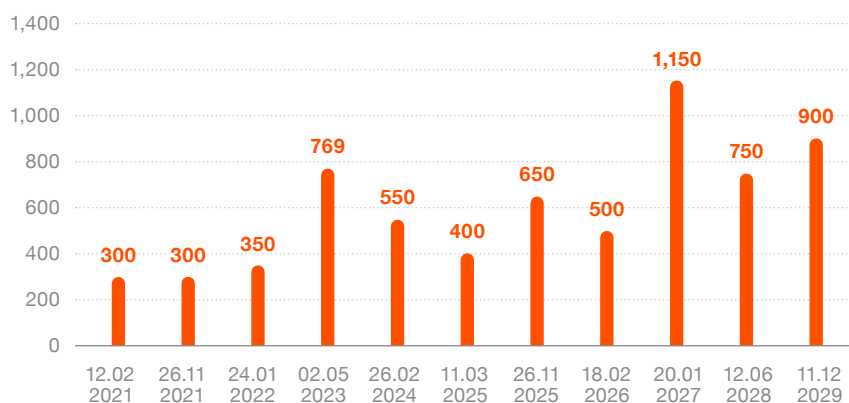
Norske Tog has good creditworthiness. Standard & Poor's has given the company a credit rating for long-term borrowing of A+ (stable).

The company borrows through the Euro Medium Term Note (EMTN) programme. The EMTN-programme does not include any financial requirements, but there is an ownership clause stipulating that the state must own 100 per cent of Norske Tog.

As at 30.06.2020, the company has bond loans of 300 MNOK maturing over the next 12 months.

Non-current liabilities

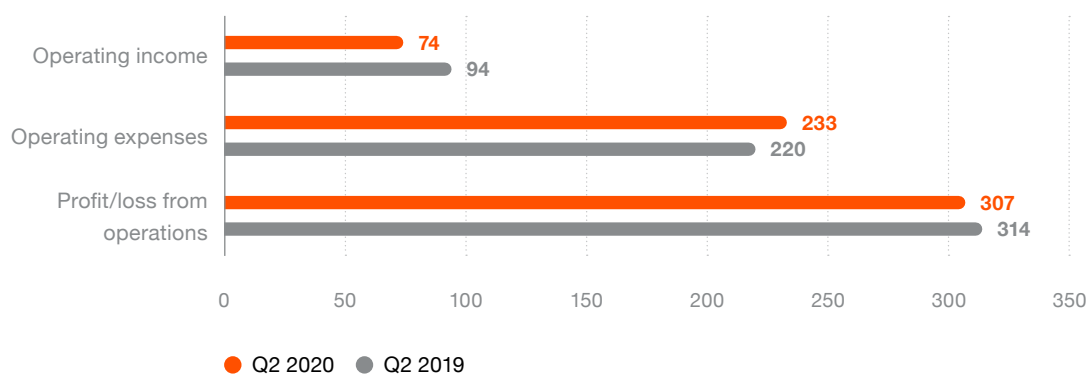
Outstanding amount MNOK



Profit/loss

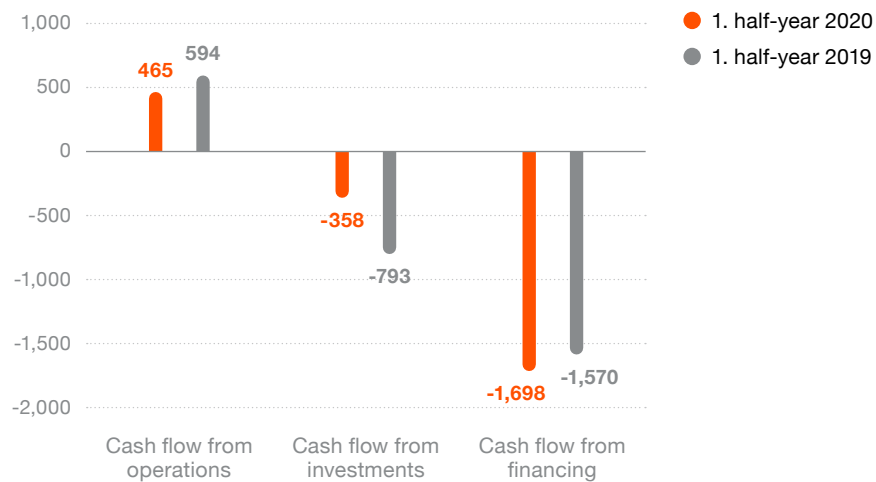
Profit/loss Q2

All figures in MNOK



Cash flow

Cash flow, second quarter



Net cash flow from operations is 465 MNOK (594 MNOK). Net cash flows used for investments total 358 MNOK (793 MNOK), with the funds mainly used to purchase new trains. In February 2019, a payment of 572 MNOK was made to exercise option 5 on the Stadler contract. A further bond loan of 1,517 MNOK was paid down in February with funds from the issuance of bond loans in November 2019 (1,300 MNOK).

Risk

Financial risk

The company's overall risk management plan focuses on the unpredictability of the capital markets and seeks to minimise the potential negative impact on the company's financial performance. The company uses financial derivatives to hedge against changes in interest and exchange rates.

Norske Tog takes out loans in the markets and currencies that provide the most favourable conditions overall. Loans in foreign currency are converted to NOK through combined interest rate and currency swaps to minimise currency risk in financial management. If agreements for major purchases are entered into in foreign currencies, the currency risk is hedged over the term of the agreement.

Norske Tog is exposed to interest rate changes. The company uses interest rate swaps to reduce interest rate risk and to achieve the desired interest structure for the debt.

According to its objectives, borrowing requirements in the next 12-month period should be covered through free cash flow and established credit facilities.

Norske Tog has developed a framework for issuing green bonds. In 2020, the company will produce a detailed report on the green investment projects to be financed and the actual environmental and climate impact of these.

Infection control measures from the authorities with a recommendation not to travel by public transport have led to reduced revenue for the operators. Compensation packages from the government have contributed to Norske tog still receiving income. If the travel business remains low and the operators struggle with low revenues, it can lead to loss of revenue for Norske tog.

Operational risk

Systematic analyses of operational risk and any economic consequences are carried out. Based on the risk analyses, control activities have been established to reduce identified risks, including automated controls and audits and extended follow-up analyses related to specific risk areas.



Significant events

Commencement of the Traffic packages is demanding and draws on many resources in Norske tog. Traffic package North started up with SJ Norge as the operator on the 8th of June. The process in prior to the start-up went very well, with smooth inspections and takeovers according to plan despite strict Covid-19 measures. Norske tog praise SJ Norge, which has been a professional partner through the process. With the start of Traffic package 2, Norske tog now has three customers: VY, Go-Ahead and SJ.

On the same day that Traffic package 2 started its operations, Norske tog signed the contract for Traffic package 3 West, Oslo–Bergen, with VY Tog. Start-up for Traffic package 3 is in December.

Norske togs daily operations have only been affected to a small extent by the infection control measures that were introduced after the outbreak of Covid-19. Norske togs customers, on the other hand – Vy, Go-Ahead and SJ Norge – have a significant revenue shortfall as a result of a reduction in public transport. They have been partially compensated through rescue packages from the state, so that the operators have been able to pay rental costs for the vehicles.

Some of Norske togs procurements are two–three months delayed as a result of the infection control measures put in place. This applies to the tendering process relating to the acquisition of new local trains, as well as the tender deadline for the midlife upgrade of type 72 local trains. The delays are considered to be not substantial.

Norske tog will acquire 30 new local trains, with an option for a further 170 trains. The trains are scheduled to be delivered from 2023 and will replace the current local train Type 69 on line L2 Stabekk–Oslo–Ski. Six suppliers were pre-qualified to proceed with the tender process in April. These six were originally to present their offer for Norske tog in August, but this has been postponed due to Covid-19. The contract will be awarded during 2021.

The offer deadline for mid-life upgrades of type 72 local trains that operate Lillestrøm, Spikkestad and Jærbanen has been postponed from June to September. The upgrade of the trains will lead to better comfort for the passengers and reduce the risk of defects in the vehicles by improving the technical life of components and systems.

At the end of May, Norske tog moved into new premises at Drammensveien 35 in Oslo.

Outlook

There is broad political agreement in Norway to continue to develop the railway sector and the importance of being able to offer travellers a good service in passenger traffic. Work on the next National Transport Plan (2022–2033) is well underway.

The Norwegian Railway Directorate has announced that the competition for Traffic Package 4, which includes local and regional train traffic around Oslo, has been postponed by one year. Traffic package 4 was scheduled to be awarded in the autumn of 2021, with traffic starting in December 2021. The contract will instead be awarded in early 2022, starting in December 2023. The reasons for the postponement are the major challenges that the Covid-19 pandemic has created for train operators. In the spring of 2020, the operators experienced a drop in traffic of 80–90 percent.

During the second quarter Norske tog has provided input to the Norwegian Railway Directorate's work to develop a long-term plan for phasing out and acquiring vehicles. The starting point for Norske togs' recommendations is that a large part of the fleet is very old and will have to be replaced within the next ten years. Norske tog have estimated investment needs for vehicles in the period 2020 to 2031 to NOK 30–50 billion. Of this, NOK 28–43 billion is related to procurement and NOK 3–6 billion to upgrades.

Norske tog continue to work on procuring new local trains with the intention of signing a contract in early 2021. Norske tog are currently well financed and will not need financing until 2021.

Events after the closing date

There have been no significant events after the closing date beyond those discussed in this report.

Conclusion

This first half-year report has been prepared in accordance with the requirements in IAS 34 Interim Financial Reporting.

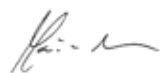
In the best judgement of the Board of Directors and the CEO, the report reflects significant transactions conducted with related parties in the current period and the most important risk factors facing the business in the coming period.

In the best judgement of the Board of Directors and the CEO, the financial statements for the 1. half-year of 2020 have been prepared in accordance with applicable accounting standards, and the information in the financial statements gives an accurate picture of the company's assets, liabilities and financial position and overall results at the end of the period, as well as a fair overview of important events during the reporting period and their influence on the financial statements. The financial statements for the first half-year have not been audited by the company's auditor.

Oslo, 2. September 2020



Annette Malm Justad
Chair of the Board



Marianne Abeler
Board Member



Espen Opedal
Board Member



Vidar Larsen
Board Member



Øystein Risan
CEO

Income Statement

All numbers in TNOK	Notes	2nd quarter 2020	2nd quarter 2019	Year to date 2020	Year to date 2019	Year 2019	Last 12 months
Operating revenue	2	307 067	313 999	613 976	628 275	1 256 002	1 241 703
Payroll and related expenses		12 251	10 705	23 983	20 747	51 034	54 270
Depreciation and impairment		179 098	176 660	355 214	352 936	702 417	704 695
Other operating expenses		41 650	32 192	90 179	55 104	110 775	145 850
Total operating expenses		232 999	219 557	469 376	428 787	864 226	904 815
Operating profit		74 068	94 442	144 600	199 488	391 776	336 888
Financial posts							
Financial income		19 679	42 142	60 840	78 370	138 144	120 614
Financial expenses		-55 792	-77 837	-134 003	-147 834	-278 667	-264 836
Net financial expenses - pensions		-	-	-	-	-900	-900
Unrealised fair value changes	1	-3 104	4 180	-43 625	6 740	34 163	-16 202
Net financial items		-39 217	-31 515	-116 788	-62 724	-107 260	-161 324
Profit before income tax		34 851	62 927	27 812	136 764	284 518	175 566
Income tax expense		7 667	14 473	6 118	30 088	62 636	38 666
Profit for the period		27 184	48 454	21 694	106 676	221 882	136 900
Attributable to							
Equity holders		27 184	48 454	21 694	106 676	221 882	136 900
Other comprehensive income							
Profit for the year		27 184	48 454	21 694	106 676	221 882	136 900
Items that will not be reclassified to profit or loss							
Deviation retirement benefit obligations		-	-	-	-	10 646	10 646
Tax related to items that will not be reclassified		-	-	-	-	-2 342	-2 342
Total comprehensive income for the period		27 184	48 454	21 694	106 676	230 186	145 204
Attributable to							
Equity holders		27 184	48 454	21 694	106 676	230 186	145 204

Overview financial position

All numbers in TNOK	Notes	30.06.2020	31.03.2020	31.12.2019	30.06.2019
Assets					
Property, plant and equipment	3	10 610 923	10 535 986	10 608 420	10 334 487
Total non-current assets		10 610 923	10 535 986	10 608 420	10 334 487
Trade and other receivables		147 427	79 652	32 096	1 442
Derivative financial assets		576 545	669 909	1 235 475	1 156 946
Cash and bank deposits		141 980	244 137	1 733 834	602 939
Total current assets		865 952	993 698	3 001 405	1 761 327
Total assets		11 476 875	11 529 684	13 609 825	12 095 814
Equity and liabilities					
Ordinary shares and share premium		2 400 000	2 400 000	2 400 000	2 400 000
Retained earnings		686 477	659 294	664 784	541 275
Total equity		3 086 477	3 059 294	3 064 784	2 941 275
Borrowings	4	7 075 543	7 173 707	7 196 235	6 715 394
Deferred tax obligation		731 234	723 567	725 115	690 225
Retirement benefit obligations		28 229	28 754	29 130	31 455
Other accruals		41 107	8 123	8 420	8 869
Total long term liabilities		7 876 113	7 934 151	7 958 900	7 445 943
Trade and other payables		66 232	95 903	47 609	72 811
Borrowings	4	408 827	402 946	2 530 792	1 591 197
Derivative financial instruments		39 225	37 391	7 739	44 589
Total short term liabilities		514 285	536 239	2 586 140	1 708 596
Total equity and liabilities		11 476 875	11 529 684	13 609 825	12 095 814


Oslo, 2. September 2020


 Annette Malm Justad
 Chair of the Board


 Marianne Abeler
 Board Member


 Espen Opedal
 Board Member


 Vidar Larsen
 Board Member


 Øystein Risan
 CEO

Cash flow statement

All numbers in TNOK	1. half-year 2020	1. half-year 2019	Year 2019
Profit for the period before income tax expense	27 812	136 764	284 518
Net financial items	146 399	163 896	107 260
Depreciation and impairment in the income statement	355 214	352 936	702 417
Net changes to obligations and retirement benefit oblig.	-901	-841	6 580
Changes to working capital	-64 020	-59 135	-124 868
Net cash flow from operating activities	464 504	593 620	975 907
Purchase of PPE	-357 718	-792 805	-1 416 220
Net cash flow from investment activities	-357 718	-792 805	-1 416 220
Interest paid on borrowings	-240 247	-252 144	-303 324
Interest income	93 847	88 248	117 869
Other financial items	-34 443	-106 083	-12 389
Proceeds from borrowings	-	-	1 300 000
Repayment of borrowings	-1 517 500	-1 300 000	-1 300 000
Net cash flow from financial activities	-1 698 343	-1 569 979	-197 844
Net change in cash and bank deposits for the period	-1 591 557	-1 769 163	-638 157
Cash and bank deposits as at the beginning of the period	1 733 834	2 372 091	2 372 091
Foreign exchange gain/loss on cash and bank deposits	-297	11	-100
Cash and bank deposits as at the end of the period	141 980	602 939	1 733 834

* This line shows the change in trade and other receivables as well as changes in accounts payable and other current liabilities (adjusted for changes in current and long term liabilities arising from IFRS 16 Leases).

Financial items have been deducted from operating activities in 2020. The same has been done for the 1st half-year in 2019 for comparison purposes

Development in equity

30.06.2020 (All numbers in TNOK)	Ordinary shares	Share premium	Retained earnings	Total
Equity 1st of January 2020	100 000	2 300 000	664 784	3 064 784
Profit for the year	-	-	21 694	21 694
From other comprehensive income	-	-	-	-
Equity 30th of June 2020	100 000	2 300 000	686 477	3 086 477

30.06.2019 (All numbers in TNOK)	Ordinary shares	Share premium	Retained earnings	Total
Equity 1st of January 2019	100 000	2 300 000	434 599	2 834 599
Profit for the year	-	-	106 676	106 676
From other comprehensive income	-	-	-	-
Equity 30th of June 2019	100 000	2 300 000	541 275	2 941 275

2019 (All numbers in TNOK)	Ordinary shares	Share premium	Retained earnings	Total
Equity 1st of January 2019	100 000	2 300 000	434 599	2 834 599
Profit for the year	-	-	221 882	221 882
From other comprehensive income	-	-	8 303	8 303
Equity 31st of December 2019	100 000	2 300 000	664 784	3 064 784

Notes – reporting information

Policies and accounting principles

The financial statements for Norske Tog AS have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations from the IFRS Interpretation Committee (IFRIC) as adopted by the EU.

The financial statements have been prepared on the historical cost principle, except for financial derivatives and some financial assets and liabilities which are measured at fair value.

The company has noncurrent liabilities, financial derivatives and some financial assets recognised at fair value. The calculation of fair value uses estimates based mainly on observable prices which can change over time. Changed assumptions will result in changes in

recognised values with the differences reported through profit/loss.

The interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting. The interim financial statements must be viewed in conjunction with the company's most recent annual report, which contains a full description of the company's accounting principles.

The tax expenses for the period are based on the nominal tax rate in Norway. Accounting principles applied for the 1. half-year of 2020 are consistent with the accounting principles used for the financial statements in 2019.

Measurement of fair value

The company measures several financial

assets and liabilities at fair value. For the classification of fair value, the company uses a system which reflects the significance of the input used to make the measurements, broken down as follows:

Level 1

Fair value is measured using quoted prices from active markets for identical assets or liabilities.

Level 2

Fair value is determined from input based on other observable factors, either direct (price) or indirect (derived from prices), than the quoted price (used in level 1) for the asset or liability.

Level 3

Fair value is measured using input which is not based on observable market data.

1. Unrealised changes in value

The breakdown of unrealized changes in the value of assets, liabilities and derivatives measured at fair value is shown below.

Unrealised fair value changes	30.06.2020	30.06.2019	31.12.2018
Unrealised value changes derivatives used for hedging	-661 015	-59 197	35 341
Unrealised value changes bonds	617 390	65 937	-1 177
Total unrealised value changes financial items	-43 625	6 740	34 164

2. Sales analysis by category

Norske tog AS has only one operating segment – leasing of trains.

Analysis of operating income by category	30.06.2020	30.06.2019	Year 2019	Last 12 months
Leasing revenue	613 193	627 998	1 255 228	1 240 423
Other revenue	783	277	774	1 280
Total	613 976	628 275	1 256 002	1 241 703

Information on key customers

The company has three customers for leasing of passenger rolling stock; Vy AS, Go-Ahead AS and SJ AS, which accounts for 100 per cent of the leasing income.

3. Property, plant and equipment

	Machin- ery and equipm.	Trans- portation	Partially delivered trains	Under construc- tion	Right-to- use other assets	Total
At 1st of January 2020						
Accumulated acquisition cost	47 880	11 730 461	978 076	15 373	10 824	12 782 614
Accumulated depreciation	-41 867	-2 131 031	-	-	-1 296	-2 174 194
Total	6 013	9 599 430	978 076	15 373	9 528	10 608 420

1st half-year 2020						
Opening net book value	6 013	9 599 430	978 076	15 373	9 528	10 608 420
Additions	-	-	99 297	222 480	35 940	357 718
Transfers within PPE	182	459 844	-212 723	-247 302	-	-
Depreciations	-901	-352 767	-	-	-1 546	-355 214
Total	5 294	9 706 507	864 650	-9 449	43 922	10 610 923

At 30th of June 2020						
Accumulated acquisition cost	48 062	12 190 305	864 650	-9 449	46 764	13 140 331
Accumulated depreciation	-42 768	-2 483 798	-	-	-2 842	-2 529 408
Total	5 294	9 706 507	864 650	-9 449	43 922	10 610 923

	Machin- ery and equipm.	Trans- portation	Partially delivered trains	Under construc- tion	Right-to- use other assets	Total
At 1st of January 2019						
Accumulated acquisition cost	46 693	10 803 140	480 053	15 287	0	11 345 173
Accumulated depreciation	-36 385	-1 424 995	-	-	-	-1 461 380
Total	10 308	9 378 145	480 053	15 287	0	9 883 793

1st half-year 2019						
Opening net book value	10 308	9 378 145	480 053	15 287	0	9 883 793
Implementation effect IFRS 16	-	-	-	-	10 824	10 824
Additions	-	-	674 323	118 483	-	792 806
Transfers within PPE	713	215 855	-127 213	-89 355	-	-
Depreciations	-3 889	-348 395	-	-	-651	-352 936
Total	7 132	9 245 605	1 027 163	44 414	10 173	10 334 487

At 30th of June 2019						
Accumulated acquisition cost	47 406	11 018 995	1 027 163	44 414	10 824	12 148 803
Accumulated depreciation	-40 274	-1 773 390	-	-	-651	-1 814 315
Total	7 132	9 245 605	1 027 163	44 414	10 173	10 334 487

	Machin- ery and equipm.	Trans- portation	Partially delivered trains	Under construc- tion	Right-to- use other assets	Total
At 1st of January 2019						
Accumulated acquisition cost	46 693	10 803 140	480 053	15 287	-	11 345 173
Accumulated depreciation	-36 385	-1 424 995	-	-	-	-1 461 380
Total	10 308	9 378 145	480 053	15 287	-	9 883 793
Annual accounts 2019						
Opening net book value	10 308	9 378 145	480 053	15 287	-	9 883 793
Implementation effect IFRS 16	-	-	-	-	10 824	10 824
Additions	-	-	960 198	456 022	-	1 416 220
Transfers within PPE	1 187	916 924	-462 175	-455 936	-	-
Depreciations	-5 482	-695 639	-	-	-1 296	-702 417
Total	6 013	9 599 430	978 076	15 373	9 528	10 608 420
At 31st of December 2019						
Accumulated acquisition cost	47 880	11 720 064	978 076	15 373	10 824	12 772 217
Accumulated depreciation	-41 867	-2 120 634	-	-	-1 296	-2 163 797
Total	6 013	9 599 430	978 076	15 373	9 528	10 608 420

4. Financial instruments

Measurement of fair value

A comparison of the recognized values and the fair value of the company's interest-bearing debt is given below:

Interest bearing debt – long term	30.06.2020	30.06.2019	31.12.2019
Bonds measured at fair value	1 532 167	2 212 589	1 352 859
Bonds measured at amortized cost	5 543 376	4 493 376	5 843 376
Total interest bearing debt – long term	7 075 543	6 705 965	7 196 235
Interest bearing debt – short term	30.06.2020	30.06.2019	31.12.2019
Bonds measured at fair value	408 827	1 591 197	2 530 792
Bonds measured at amortized cost	-	-	-
Total interest bearing debt – short term	408 827	1 591 197	2 530 792
Total interest bearing debt	7 576 652	8 981 138	9 727 027
Nominal values	30.06.2020	30.06.2019	31.12.2019
Bonds measured at fair value	768 750	2 336 250	2 286 250
Bonds measured at amortized cost	5 843 376	4 493 376	5 843 376
Total interest bearing debt – nominal values	6 612 126	6 829 626	8 129 626

Financial assets and liabilities at fair value through profit or loss as at 30th of June 2020:	Level 1	Level 2	Level 3	Total
Derivatives	-	576 545	-	576 545
Total assets	-	576 545	-	576 545
Borrowings and accrued interest	-	1 574 481	-	1 574 481
Derivatives	-	39 225	-	39 225
Total liabilities	-	1 613 706	-	1 613 706

Financial assets and liabilities at fair value through profit or loss as at 30th of June 2019:	Level 1	Level 2	Level 3	Total
Derivatives	-	1 156 946	-	1 156 946
Total assets	-	1 156 946	-	1 156 946
Borrowings and accrued interest	-	3 739 591	-	3 739 591
Derivatives	-	44 589	-	44 589
Total liabilities	-	3 784 180	-	3 784 180

Financial assets and liabilities at fair value through profit or loss as at 31st of December 2019:	Level 1	Level 2	Level 3	Total
Derivatives	-	1 235 475	-	1 235 475
Total assets	-	1 235 475	-	1 235 475
Borrowings and accrued interest	-	3 803 926	-	3 803 926
Derivatives	-	7 739	-	7 739
Total liabilities	-	3 811 665	-	3 811 665

At 30th of June, the fair value of bonds issued at amortised cost is 5 843 MNOK (30. June 2019: 4 493 MNOK).

All existing bond loan issues have been taken out under the Euro Medium Term Note (EMTN) programme. The EMTN programme does not include any financial covenants, but has an optional ownership clause stipulating that the State should own 100 per cent of Norske Tog AS. All bond loans are classified at level 2.

The fair value of the credit margin on bond loans is based on market observations from banks and the pricing/valuation of the bonds in the secondary market.

Norske tog AS

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