



Norske
tog

Quarterly report Q3 2019



About Norske tog

The company shall **procure, own** and **manage** rolling stock, which shall preferentially be used for the execution of passenger transport by train as a public service obligation. The company's rolling stock shall be offered on competition-neutral terms. The company also has an advisory function with respect to the Norwegian state.

Norske tog AS is 100 % owned by the Norwegian Ministry of Transport and Communications and is a Category 3 company¹, meaning that the state has sector policy objectives for its ownership.

The interim report has not been audited.

Financial key figures

Financial key figures (MNOK)	YTD Q3 2019	YTD Q3 2018	Year 2018
Operating profit	303	342	426
Pre-tax profit	210	283	324
Profit for the period	164	218	279
Net cash flow	-1,571*	330	2,012
Working capital	233	230	1,955
Equity	2,998	2,784	2,835
Equity ratio	24.0 %	24.0 %	21.1 %
Return on equity**	7.7 %	10.4 %	10.9 %

¹ Report to the Storting 8 (2019–2020) of 22 November 2019 recategorises state-owned companies. Norske tog is now a Category 3 company. Category 3 covers the companies where the state seeks to achieve sector policy objectives as efficiently as possible.

* The negative net cash flow can be attributed to prepayments for trains and repayment of loans in Q2. The new loans raised in Q4 2018 were used to repay debt falling due in the first half of 2019

** Rolling 12-month return on equity

Key events

Better internet coverage

As part of the efforts to ensure good network coverage on board trains, a contract has now been awarded for delivery of repeaters. Work to install repeaters on the trains is scheduled to start on 11 November 2019.

New local trains

On 26 September, Norske tog organised an information and input meeting on new local trains. The event was open to all who wished to participate, and included contributions from several key players within the transport sector and representing consumer organisations.

Components for maintenance

Norske tog has entered into an agreement to purchase components for train maintenance. Splitting up trains into multiple traffic packages with multiple operators requires a larger number of components of each type. Norske tog has identified a risk of an inadequate supply of components, and is dependent on cooperation with Vy during a transitional phase until all the components have been procured.

New local trains are vital for a better rail service

The request for tenders for Traffic Package Oslo will be issued in September 2020. If everything goes according to schedule, the contract will be awarded before autumn 2021, with operations starting in December 2022, at the same time as the opening of the Follo Line between Oslo and Ski. Traffic Package Oslo includes the local trains serving line L2 Stabekk – Oslo S – Ski, where 30 Class 69 trains are to be replaced.

This is why getting started on the competition for new local trains is urgent for Norske tog. This is an important project, which Norske tog has assigned high priority. The recommendation for the government budget for 2020 is based on a residual value guarantee.

We hope that everyone who has views on the ordering of new local trains will come forward with their input. On 26th September, Norske tog held an information and input meeting on new local trains. The meeting was open to anyone who wanted to participate, and we received useful input on new local trains from a number of stakeholders. One recurring theme was the need for flexible areas on the trains to allow space for a large number of standing passengers during rush hours, as well as passengers with pushchairs or wheelchairs. After a successful input meeting, the processes is continuing, and we are well on the way to signing a contract to purchase new local trains in 2020.



Øystein Risan
Chief Executive Officer, Norske tog AS



Economic developments in Norske tog

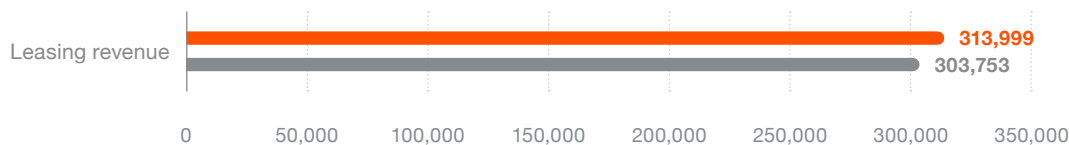
Norske tog has a net profit of MNOK 57 (MNOK 72) for the third quarter of 2019. Net profit is down MNOK 15 on the same period of 2018, which can mainly be attributed to increased costs relating to train modifications.

This represents a rolling 12-month return on equity of 7.7 %. The company's long-term target is to achieve a return on equity of 5 %. The annual return will fluctuate in line with the scope of planned investment projects. Returns are expected to drop towards the owner's 5 % target in the coming years in the wake of major project launches. Returns will vary over time.

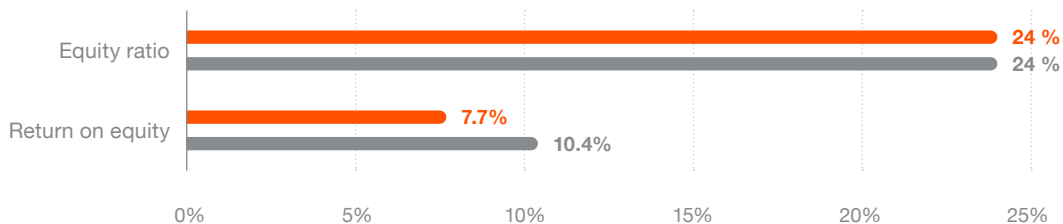
The company expects to grow revenue in the next few years thanks to deliveries of new FLIRT trains. These will replace old trains and accommodate passenger growth.

Development in financial key figures Q3 2018 and Q3 2019

Sales analysis



Equity



● Q3 2019 ● Q3 2018

Financing

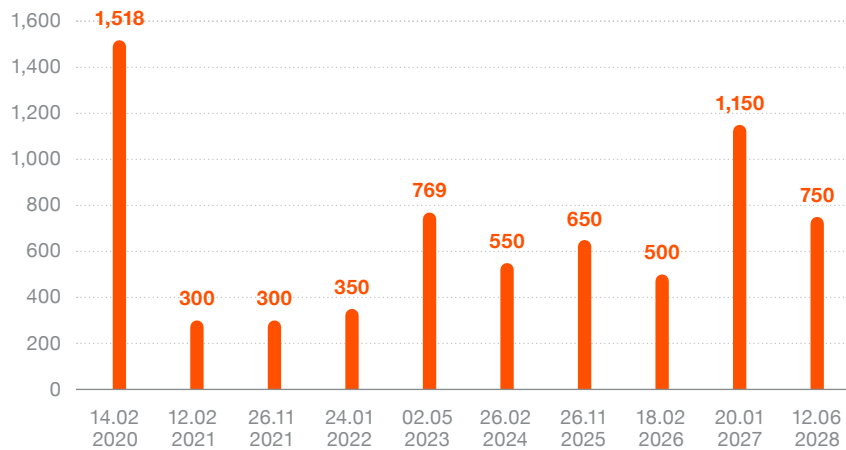
Standard & Poor's has given the company a long-term rating of A+ (stable), which is considered good.

The company issue bonds under the the Euro Medium Term Note (EMTN) programme. This programme does not contain any financial criteria but has an ownership clause linked to the state's required 100 % ownership of Norske tog.

At 30.09.2019, the company has bonds of MNOK 1,518 falling due in the next 12 months. The company plans to refinance a significant proportion of this amount in the course of the year by issuing a green bond.

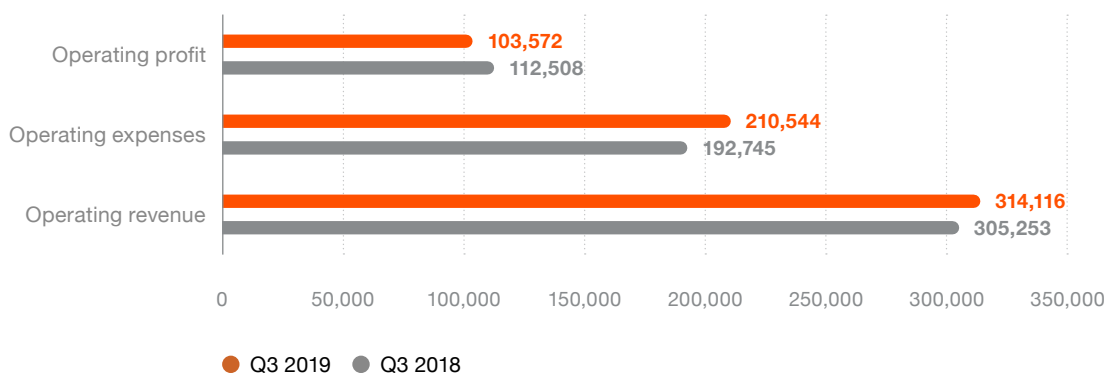
Long-term liabilities

Outstanding amount (MNOK)



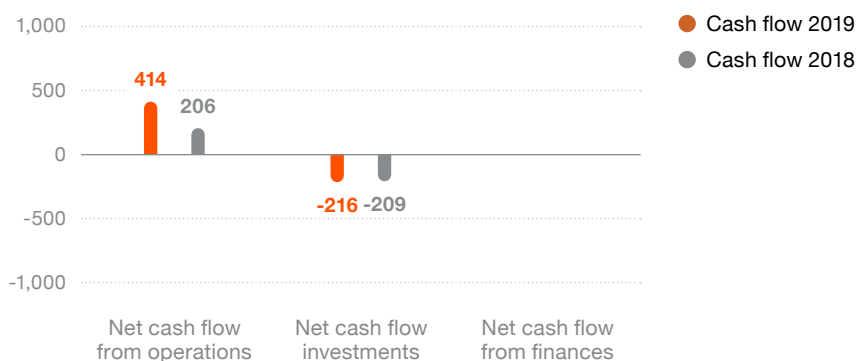
Results

Results 3rd quarter



Cash flow

Cash flow 3rd quarter



Net cash flow from operating activities is NOK 414 million (NOK 206 million). Net cash flow from investment activities is NOK 216 million (NOK 209 million), with funds mainly used to purchase new rolling stock. No repayments were made on bonds in Q3, so the net cash flow from financing activities is therefore MNOK 0 (MNOK 0).

Outlook

The Norwegian Railway Directorate has announced the competition for Traffic Package Oslo in line with the regulations. The request for tenders will be issued in September 2020, and the contract will be awarded in the autumn of 2021 with start-up in December 2022. The start-up will coincide with the opening of the Follo Line.

Work to upgrade Class 72 trains has resumed. Go-Ahead will operate these on the Jæren Line and on local services around Oslo.

The process of installing the new repeater solution on the rolling stock owned by Norske tog will begin in November 2019 and continue through to autumn 2022. In addition, all new rolling stock delivered under the FLIRT contract with Stadler will be fitted with repeaters.

There is still some work to do on requirement specifications and tender documents for the purchase of new local trains. The information and input meeting provided Norske tog with relevant feedback that will be used in the work going forward. The company has set a target of issuing the tender documents over the coming winter.

The draft government budget for 2020 includes funding to expand sleeping accommodation on trains. Norske tog has initiated a feasibility study to examine the possibilities for recliner seats in existing trains. Interest has been expressed by potential suppliers of such seats, and the process will continue in the form of constructive dialogue with the Norwegian Railway Directorate and the train operating companies for the various traffic packages.

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 effects on the company's financial results. The company uses financial derivatives to hedge changes in interest rates and exchange rates.

Norske tog takes issue bonds in the markets and currencies that offer the most favourable terms overall. Loans in foreign currencies are swapped to Norwegian kroner using combined interest rate and currency swaps. Norske tog's objective is to minimise the foreign exchange risk in its treasury function. In other respects, the company has little exposure to foreign exchange risk, as most of its revenues and costs are in NOK. If major purchase contracts are entered into in a foreign currency, the foreign exchange risk is hedged at close to 100 % for the duration of the contract.

Norske tog is exposed to interest rate changes. The company uses interest rate swaps to reduce the interest rate risk and to achieve the desired interest rate structure for its debt. Targets have been set regulating the proportion of loans that shall be interest-adjusted for a twelve-month period, and for the fixed interest rate on the portfolio. The aim is to achieve a mix of approximately 70 % at fixed and 30 % at floating rates.

In accordance with the targets set, borrowing requirements for the next twelve-month period shall be covered using free cash flow and established credit facilities. The company has a target for free cash flow of approximately NOK 300 million.

Operational risk

Systematic analyses are conducted of operational risk and achievement of economic targets. Based on these risk analyses, control activities are established to reduce identified risks, including automatic controls, audits and follow-up extended analyses relating to particular risk areas.

Norske tog is responsible for maintaining the technical service life of all its vehicles. Lack of financing to maintain the expected service life of the trains represents a risk for Norske tog. There is also a risk that the company will not have access to the rolling stock at the right time in order to carry out major upgrades or modifications.

The request for tenders for Traffic Package West gives the bidder the option to use their own rolling stock on the routes in the traffic package if demand exceeds what Norske tog can procure. In principle, this could lead to Norske tog losing potential rental income. Loss of rental income will, in turn, affect Norske tog's scope to purchase additional new trains and to invest in meeting customers' needs.

Delivering critical components for the traffic packages is a challenging task. Efforts to guarantee a sufficient number of components are ongoing. This is currently one of the biggest challenges facing Norske tog's deliveries for the traffic packages. Norske tog is working to find mitigating measures to safeguard the train operating companies' operations.

Events after the balance sheet date

No significant events have occurred after the balance sheet date beyond what has been discussed in this report.

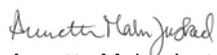
Conclusion

The quarterly report for Q3 2019 has been prepared in accordance with the requirements of IAS 34 Interim Financial Reporting.

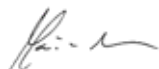
The Board of Directors and CEO confirm that, to the best of their knowledge, the report provides a description of significant transactions conducted with related parties during the current period and the main risk factors facing the business in the coming period.

The Board of Directors and the CEO confirm that, to the best of their knowledge, the financial statements for Q3 2019 have been prepared in accordance with prevailing accounting standards, and the disclosures in the financial statements provide a true and fair view of the company's assets, liabilities and financial position and profit or loss as a whole at the end of the period, as well as a true and fair view of key events during the reporting period and their impact on the financial statements. The financial statements for Q3 2019 have not been audited.

Oslo, 27th November 2019



Annette Malm Justad
Chair of the Board of Directors



Marianne Abeler
Board member



Espen Opedal
Board member



Vidar Larsen
Board member



Øystein Risan
CEO

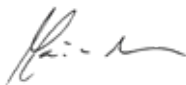
Income statement

All numbers in TNOK	Notes	3 rd quarter 2019	3 rd quarter 2018	Year to date 2019	Year to date 2018	Year 2018
Operating revenue	2	314,116	305,253	942,391	913,025	1,217,061
Payroll and related expenses		9,110	7,441	29,857	25,465	43,028
Depreciation and impairment		174,570	174,002	527,506	514,105	692,055
Other operating expenses		26,864	11,302	81,968	31,572	56,045
Total operating expenses		210,544	192,745	639,331	571,142	791,128
Operating profit		103,572	112,508	303,060	341,883	425,933
Financial posts						
Financial income		40,163	19,833	118,533	99,402	169,200
Financial expenses		-73,567	-48,866	-221,401	-185,384	-291,645
Net financial expenses – pensions		-	-	-	-	-311
Unrealised fair value changes	1	3,032	10,200	9,772	27,143	20,371
Net financial items		-30,372	-18,833	-93,096	-58,839	-102,385
Profit before income tax		73,200	93,675	209,964	283,044	323,548
Income tax expense		16,104	21,535	46,192	65,100	44,243
Profit for the year		57,096	72,140	163,772	217,944	279,305
Attributable to						
Equity holders		57,096	72,140	163,772	217,944	279,305
OTHER COMPREHENSIVE INCOME						
Profit for the year		57,096	72,140	163,772	217,944	279,305
Items that will not be reclassified to profit or loss						
Deviation retirement benefit obligations		-	-	-	-	-13,423
Tax related to items that will not be reclassified		-	-	-	-	2,883
Total comprehensive income for the period		57,096	72,140	163,772	217,944	268,765
Attributable to						
Equity holders		57,096	72,140	163,772	217,944	268,765

Overview financial position

All numbers in TNOK	Notes	30.09.2019	30.09.2018	31.12.2018
ASSETS				
Property, plant and equipment	3	10,375,540	9,898,800	9,883,793
Total non-current assets		10,375,540	9,898,800	9,883,793
Trade and other receivables		2,675	2,907	698
Derivative financial assets		1,294,998	1,024,290	1,203,006
Cash and bank deposits		800,980	690,053	2,372,091
Total current assets		2,098,653	1,717,250	3,575,795
TOTAL ASSETS		12,474,193	11,616,050	13,459,588
EQUITY AND LIABILITIES				
Ordinary shares and share premium		2,400,000	2,400,000	2,400,000
Retained earnings		598,369	383,778	434,598
Total equity		2,998,369	2,783,778	2,834,598
Borrowings		6,864,119	6,648,633	8,311,286
Deferred tax obligation		706,329	683,877	660,137
Retirement benefit obligations		31,079	12,887	32,296
Other accruals	4	8,729	-	-
Total long term liabilities		7,610,256	7,345,397	9,003,719
Trade and other payables		227,515	62,413	138,676
Borrowings		1,632,731	1,411,470	1,463,863
Derivative financial instruments		5,323	12,992	18,732
Total short term liabilities		1,865,568	1,486,875	1,621,271
TOTAL EQUITY AND LIABILITIES		12,474,193	11,616,050	13,459,588

Oslo, 27th November 2019

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	3 rd quarter 2019	3 rd quarter 2018	Year to date 2019	Year to date 2018	Year 2018
Profit for the period before income tax expense	73,200	93,675	209,964	283,044	323,548
Depreciation and impairment in the income statement	174,570	174,002	527,506	514,105	692,055
Net changes to obligations and retirement benefit oblig.	-376	-3,279	-1,217	-5,383	602
Interest items	22,307	15,087	-83,775	-94,266	-52,161
Changes to working capital	143,903	-72,999	84,768	61,244	139,717
Net cash flow from operating activities	413,604	206,486	737,246	758,744	1,103,761
Purchase of PPE	-215,624	-208,561	-1,008,429	-679,121	-842,064
Net cash flow from investment activities	-215,624	-208,561	-1,008,429	-679,121	-842,064
Proceeds from borrowings	-	-	-	1,350,000	2,850,000
Repayment of borrowings	-	-	-1,300,000	-1,099,995	-1,099,995
Net cash flow from financial activities	-	-	-1,300,000	250,005	1,750,005
Net change in cash and bank deposits for the period	197,980	-2,075	-1,571,183	329,628	2,011,702
Cash and bank deposits as at the beginning of the period	602,939	692,190	2,372,091	360,499	360,499
Foreign exchange gain/loss on cash and bank deposits	61	-62	72	-74	-110
Cash and bank deposits as at the end of the period	800,980	690,053	800,980	690,053	2,372,091

Equity

3rd quarter 2019 (All numbers in TNOK)	Ordinary shares	Share premium	Retained earnings	TOTAL
Equity 1 st of January 2019	100,000	2,300,000	434,598	2,834,598
Profit for the year	-	-	163,772	163,772
From other comprehensive income	-	-	-	-
Equity 30th of September 2019	100,000	2,300,000	598,370	2,998,369

3rd quarter 2018 (All numbers in TNOK)	Ordinary shares	Share premium	Retained earnings	TOTAL
Equity 1 st of January 2018	100,000	2,300,000	165,834	2,565,834
Profit for the year	-	-	217,944	217,944
From other comprehensive income	-	-	-	-
Equity 30th of September 2018	100,000	2,300,000	383,778	2,783,778

2018 (All numbers in TNOK)	Ordinary shares	Share premium	Retained earnings	TOTAL
Equity 1 st of January 2018	100,000	2,300,000	165,834	2,565,834
Profit for the year	-	-	279,305	279,305
From other comprehensive income	-	-	-10,540	-10,540
Equity 31st of December 2018	100,000	2,300,000	434,598	2,834,598

Notes – reporting information

Framework and accounting policies

The corporate financial statements of Norske tog AS have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations by the IFRS Interpretations Committee (IFRIC) as determined by the EU.

The corporate financial statements have been prepared under the historical cost convention, with the exception of financial derivatives and certain financial assets and liabilities that are measured at fair value.

The interim financial statements are presented in accordance with ISA 34 Interim Financial Reporting. The interim financial statements must be seen in the context of the company's most recent year-end financial statements, which contain a full description of the company's accounting policies.

Tax for the period is calculated based on the nominal tax rate in Norway.

The accounting policies applied in 2019 are consistent with those applied to the financial statements for 2018, with the exception that the company has implemented IFRS 16 with effect from 1 January 2019.

Implementation of new accounting standards

IFRS 16 Leases

IFRS 16 came into force for accounting periods beginning on or after 1 January 2019.

Leasing out

Norske tog AS's revenue from leasing out trains is covered by IFRS 16. IFRS 16 entails only minor changes in disclosure requirements for lease contracts. Norske tog AS owns the trains that are leased out and, pursuant to IFRS 16.C14, will not make any modifications to its accounting on transition.

Hiring in

Pursuant to IFRS 16, lessees shall recognise all leases in the balance sheet in the form of a liability to pay charges over the lease term and the associated right-of-use asset. All leases that transfer to the lessee the right to control use of an identified asset and receive the economic benefits shall be recognised.

There will no longer be a distinction in the treatment of finance and operating leases.

The company has chosen to use the modified retrospective method to calculate the implementation effect for leases already in place at the time of transition to the new standard, without restating comparative figures. The implementation effect has been recognised in the opening balance on 1 January 2019 by making the value of the assets equal to the lease liabilities.

The lease liability is measured at the present value of fixed lease payments over the lease term. Payments that are index-linked or similar are based on the relevant factor at the time of recognition.

When calculating the implementation effect for leases that existed on 1 January 2019, the discount rate is set based on the marginal borrowing rate on the date the standard was implemented.

The company has chosen to use the exception clause by expensing short-term leases of up to 12 months and low-value leases directly in the income statement.

For contracts that also include provision of other products or services, the company has chosen to recognise these costs as operating expenses separately from the lease component.

The lease term has been determined based on irrevocable lease terms adjusted for extension options and termination rights the company is reasonably certain to use.

Impairment testing pursuant to IAS 36 is carried out for capitalised right-of-use assets, with special consideration given to how the associated lease liability is to be incorporated in the impairment test.

Implementation of the new standard has increased the balance sheet total to just over TNOK 10,824 at 1 January 2019. See note 4 for more detailed information.

1. Unrealised fair value changes

The table below shows unrealised value changes in assets, liabilities and derivatives measured at fair values.

Unrealised fair value changes	3 rd quarter 2019	3 rd quarter 2018	Year to date 2019	Year to date 2018	31.12.2018
Unrealised value changes derivatives used for hedging	162,530	-159,298	103,333	-49,334	16,524
Unrealised value changes bonds	-159,498	169,498	-93,561	76,477	3,847
Total unrealised value changes financial items	3,032	10,200	9,772	27,143	20,371

2. Sales analysis per category

Norske tog AS has only one operating segment – leasing of passenger rolling stock.

Analysis of operating income by category	3 rd quarter 2019	3 rd quarter 2018	Year to date 2019	Year to date 2018	Year 2018
Leasing revenue	313,999	303,753	941,997	911,258	1,215,011
Other revenue	117	1,500	394	1,767	2,050
Total	314,116	305,253	942,391	913,025	1,217,061

Information on key customers

The company has one customer for leasing of passenger train rolling stock, Vy AS, which represents 100 % of the leasing revenues.

3. Property, plant and equipment

	Machinery and equip- ment	Transpor- tation	Partially deliv. trains	Under con- struction	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

3rd quarter 2019						
Opening net book value	10,308	9,378,145	480,053	15,287	-	9,883,793
Implementation effect of IFRS 16	-	-	-	-	10,824	10,824
Additions	-	-	771,641	236,788	-	1 008,429
Transfers within PPE	713	462,943	-249,434	-214,221	-	-
Depreciations	-4,913	-521,622	-	-	-972	-527,506
Total	6,108	9,319,466	1,002,260	37,854	9,852	10,375,540

At 30th of September 2019						
Accumulated acquisition cost	47,406	11,266,083	1,002,260	37,854	10,824	12,364,426
Accumulated depreciation	-41,298	-1,946,617	-	-	-972	-1,988,887
Total	6,108	9,319,466	1,002,260	37,854	9,852	10,375,540

	Machinery and equip- ment	Transpor- tation	Partially deliv. trains	Under con- struction	Right-to- use other assets	Total
At 1st of January 2018						
Accumulated acquisition cost	44,723	9,681,962	501,288	275,136	-	10,503,109
Accumulated depreciation	-19,279	-750,046	-	-	-	-769,325
Total	25,444	8,931,916	501,288	275,136	-	9,733,783

3rd quarter 2018						
Opening net book value	25,444	8,931,916	501,288	275,136	-	9,733,783
Additions	1,506	2,977	400,687	273,951	-	679,121
Transfers within PPE	-	800,856	-354,824	-446,032	-	-
Depreciations	-11,940	-502,165	-	-	-	-514,105
Total	15,010	9,233,584	547,151	103,055	-	9,898,800

At 30th of September 2019						
Accumulated acquisition cost	46,229	10,485,795	547,151	103,055	-	11,182,230
Accumulated depreciation	-31,219	-1,252,211	-	-	-	-1,283,430
Total	15,010	9,233,584	547,151	103,055	-	9,898,800

	Machinery and equip- ment	Transpor- tation	Partially deliv. trains	Under con- struction	Right-to- use other assets	Total
At 1st of January 2018						
Accumulated acquisition cost	44,723	9,681,962	501,288	275,136	-	10,503,109
Accumulated depreciation	-19,279	-750,046	-	-	-	-769,325
Total	25,444	8,931,916	501,288	275,136	-	9,733,783
Annual accounts 2018						
Opening net book value	25,444	8,931,916	501,288	275,136	-	9,733,783
Additions	-	-	265,317	576,747	-	842,064
Transfers within PPE	1,970	1,121,178	-286,552	-836,596	-	-
Impairment	-2,607	-	-	-	-	-2,607
Depreciations	-14,499	-674,949	-	-	-	-689,448
Total	10,308	9,378,145	480,053	15,287	-	9,883,793
At 31st of December 2018						
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

4. Lease agreements

Specification of changes in the period	Liability	Assets
Opening balance implementation effects leasing earlier classified as operational lease	10,824	10,824
Total opening balance right-to-use assets / lease obligations	10,824	10,824
Lease payments	-876	
Depreciations		-972
Additions and changes in agreements	-	-
Other	-	-
Total closing balance	9,948	9,852

Interest expense for lease obligations amounted to 165 TNOK for 3rd quarter of 2019

For further specification on the effects from right-of-use assets on the balance sheet and the income statement, see note 3 Property, plant and equipment

	3 rd quarter 2019	3 rd quarter 2018
Liabilities		
Short-term liability	1,219	-
Long-term liability	8,729	-
Total	9,948	

	3 rd quarter 2019
Reconciliation of the opening balance lease obligation	
Gross lease liability 1 st of January 2019	8,854
Discounting effects	-1,037
Lease liability 1st of January 2019	7,817
Short term leases / leases with low value	-1,959
Options that are reasonably certain to be exercised	4,966
Increased lease liability due to IFRS 16 implementation 1 st of January 2019	10,824
Financial leases recognised 1 st of January 2019	-
Lease liability due to IFRS 16 implementation 1st of January 2019	10,824

Weighted average of the discount rate as at 1st of January 2019 was 2.18%

Additional information	2019
Leases not recognised	
Short-term agreements (between one month and one year)	5,149
Costs related to low value items	99
Total	5,248

Cash flows	
Total cash flows on leases	6,289

The leases included in the table above are leases of buildings.

See the note on accounting policies for a more detailed description of the company's leases and valuations carried out.

Norske tog AS

Visiting address

Munkedamsveien 62A, 0270 Oslo

P.O. Box

Postboks 1547 Vika, 0117 Oslo

E-mail

post@norsketog.no

Web

norsketog.no