



Norske
tog

First half-year report 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. The company shall operate efficiently.

Norske tog AS is 100% owned by the Norwegian Ministry of Transport and Communications and is a Category 4 company, meaning that the state has sector policy objectives for its ownership.

Financial key figures

Financial key figures (MNOK)	1. half-year 2019	1. half-year 2018	Year 2018
Operating profit	199	229	426
Pre-tax profit	137	189	324
Profit for the period	107	146	279
Net cash flow	-1 769*	332	2 012
Working capital	53	-153	1 955
Equity	2 941	2 712	2 835
Equity ratio	24 %	24 %	21 %
Return on equity**	8,5 %	5,6 %	10,9 %

* The negative net cash flow is due to payment in advance made on purchase of trains as well as loan payments. A loan was also completed during the 4th quarter in 2018, which proceeds were used to pay loans that matured during the 1st and 2nd quarters in 2019.

** Return on equity is based on the last 12 months

Key events

New train operating company

In June, SJ Norge was awarded the tender for Traffic Package 2 North and will operate the train service for passengers on the Dovre Line, Nordland Railway, Trøndelag Commuter Rail, Røros Line, Rauma Line and Meråker Line. SJ will lease trains from Norske tog.

New local trains project

Norske tog is working on finalising the request for tender for procurement of new local trains. The plan is to enter into a contract for procurement of new local trains during 2020. It takes four years from order to delivery of new local trains.

Better internet coverage

To ensure good internet coverage for passengers, the Norwegian Railway Directorate has tasked Norske tog with procuring mobile signal boosters for trains. Norske tog has put this out to tender and will enter into a contract during the autumn of this year, with installation starting up early in 2020.

Traffic growth will strengthen the offer

In June, SJ was awarded the tender for Traffic Package 2 North. The company will further develop the train service for passengers on the Dovre Line, Nordland Railway, Trøndelag Commuter Rail, Røros Line, Rauma Line and Meråker Line.

One of the factors underlying the offer is SJ's confidence in increased traffic growth. We are also sensing similar optimism from the train operating company GoAhead. The continuing strong growth reported by Vy (formerly NSB) in the first four months of 2019 is good news for both GoAhead and SJ.

There is every reason to believe that tenderers for both Traffic Package 3 West – who were due to submit their tenders in August – and Traffic Package 4 will use traffic growth as a measure in order to strengthen their offer.

Norske tog will be happy to supply enough trains to all our lessors to enable them to accommodate the growth and deliver a better service for the benefit of their customers and society at large. It takes around four years from ordering a train until it is delivered. Norske tog plans to enter into a contract to purchase new local trains during 2020.



Øystein Risan
Chief Executive Officer, Norske tog AS



Economic developments in Norske tog

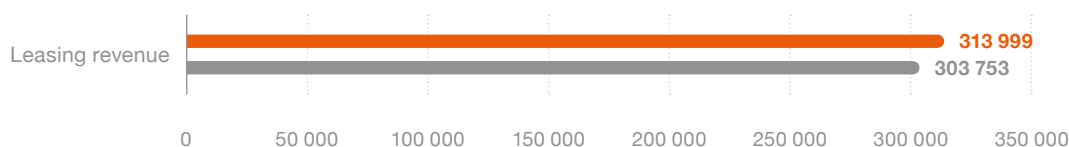
Norske tog is posting net profit of MNOK 48 (MNOK 60) for the second quarter of 2019, down MNOK 12 on the same period last year.

This represents a rolling 12-month return on equity of 8.5%. The company's long-term target is to achieve a return on equity of 5%. The annual return on equity will fluctuate in line with the scope of planned investment projects. The Board of Directors expects a lower return in the coming years in the wake of major project launches.

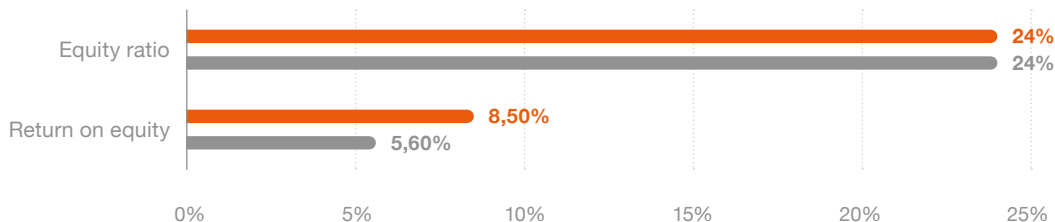
The company expects to grow revenue in the next few years thanks to continuing deliveries of the FLIRT trains. These will replace old trains and provide scope for planned growth.

Development in financial key figures Q2 2018 and Q2 2019

Sales analysis



Equity



● Q2 2019 ● Q2 2018

Financing

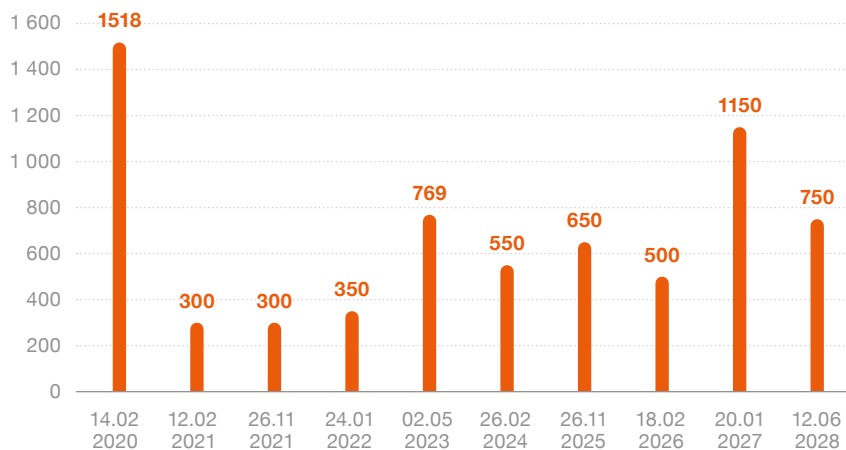
Norske tog has a high level of creditworthiness, with Standard & Poor's awarding the company a Long-Term Issuer Credit Rating of A+ (stable).

The company borrows through 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 30.06.2019, the company has bonds of MNOK 1,518 maturing in the next 12 months. The company plans to refinance a significant proportion of this amount in the course of the year.

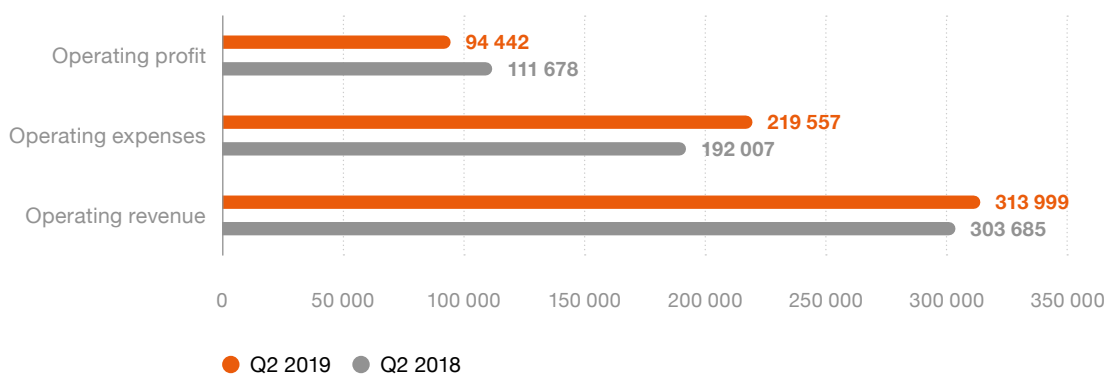
Long-term liabilities

Outstanding amount



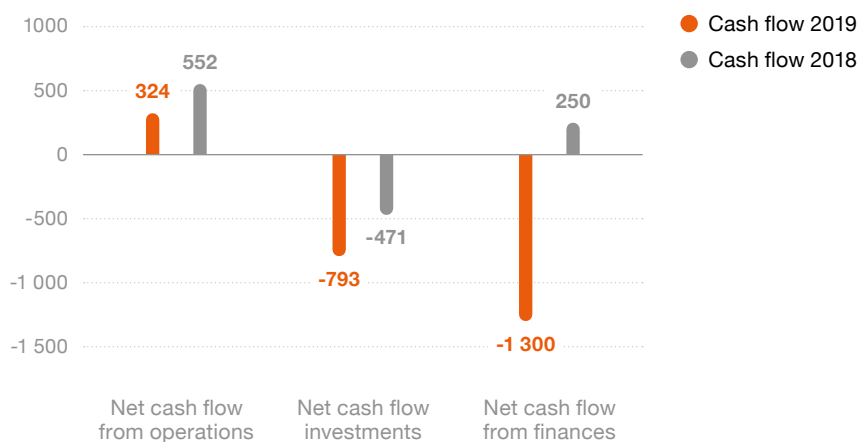
Results

Results 2nd quarter



Cash flow

Cash flow 1. half-year



Net cash flow from operating activities is NOK 324 million (NOK 552 million). Net cash flow from investment activities is NOK 793 million (NOK 471 million), with funds mainly used to purchase new rolling stock. Net cash flow from financing activities is NOK 1,300 million (NOK 250 million), used solely to repay bonds.

A bond of MNOK 1500 was taken out at the end of 2018 due to a loan of MNOK 600 that matured in February 2019 and a further MNOK 700 that matured in April 2019. In addition, an advance payment of MNOK 571 was made on option 5 of the Stadler contract.

Outlook

The contract for Traffic Package 2: North was awarded in June, with SJ chosen as the train operating company. The train operating company for Traffic Package 3: West will be announced in mid-December 2019, with start-up in December 2020. Traffic Package South is scheduled for start-up in December 2019.

Norske tog has applied to the Norwegian state – represented by the Ministry of Transport and Communications – for residual asset insurance for mid-life upgrades of 36 trainsets in order to maintain their technical standard and service life.

One of the most substantial projects for Norske tog in 2019 is drawing up specifications of requirements and tender documents relating to the purchase of new local trains. If Norske tog is to have new local trains available in 2024, the decision to procure new trains must be taken this year so that contracts can be signed during 2020.

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 out loans in the markets and currencies that offer the most favourable terms overall. Loans in foreign currencies are swapped to Norwegian kroner using 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 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.

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 Q2 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 Q2 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.

Oslo, 29 August 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

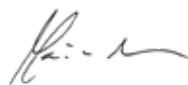
Income statement

All numbers in TNOK	Notes	2nd quarter 2019	2nd quarter 2018	1. half- year 2019	1. half- year 2018	Year 2018
Operating revenue	2	313 999	303 685	628 275	607 772	1 217 061
Payroll and related expenses		10 705	9 893	20 747	18 024	43 028
Depreciation and impairment		176 660	171 470	352 936	340 103	692 055
Other operating expenses		32 192	10 644	55 104	20 270	56 045
Total operating expenses		219 557	192 007	428 787	378 397	791 128
Operating profit		94 442	111 678	199 488	229 375	425 933
Financial posts						
Financial income		42 142	55 934	78 370	79 569	169 200
Financial expenses		-77 837	-85 837	-147 834	-136 518	-291 645
Net financial expenses – pensions		-	-	-	-	-311
Unrealised fair value changes	1	4 180	-4 170	6 740	16 943	20 371
Net financial items		-31 515	-34 073	-62 724	-40 006	-102 385
Profit before income tax		62 927	77 605	136 764	189 369	323 548
Income tax expense		14 473	17 849	30 088	43 565	44 243
Profit for the year		48 454	59 756	106 676	145 804	279 305
Attributable to						
Equity holders		48 454	59 756	106 676	145 804	279 305
OTHER COMPREHENSIVE INCOME						
Profit for the year		48 454	59 756	106 676	145 804	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		48 454	59 756	106 676	145 804	268 765
Attributable to						
Equity holders		48 454	59 756	106 676	145 804	268 765

Overview financial position

All numbers in TNOK	Notes	30.06.2019	31.03.2019	31.12.2018	30.06.2018
ASSETS					
Property, plant and equipment	3	10 334 487	10 504 044	9 883 793	9 864 241
Total non-current assets		10 334 487	10 504 044	9 883 793	9 864 241
Trade and other receivables		1 442	2 160	698	1 160
Derivative financial assets		1 156 946	1 139 870	1 203 006	961 707
Cash and bank deposits		602 939	1 129 741	2 372 091	692 190
Total current assets		1 761 327	2 271 771	3 575 795	1 655 057
TOTAL ASSETS		12 095 814	12 775 815	13 459 588	11 519 298
EQUITY AND LIABILITIES					
Ordinary shares and share premium		2 400 000	2 400 000	2 400 000	2 400 000
Retained earnings		541 275	492 192	434 598	311 637
Total equity		2 941 275	2 892 192	2 834 598	2 711 637
Borrowings		6 715 394	6 693 478	8 311 286	7 927 307
Deferred tax obligation		690 225	676 382	660 137	662 342
Retirement benefit obligations		31 455	31 905	32 296	16 167
Other accruals	4	8 869	9 429	-	-
Total long term liabilities		7 445 943	7 411 194	9 003 719	8 605 816
Trade and other payables		72 811	122 211	138 676	133 665
Borrowings		1 591 197	2 287 661	1 463 863	64 245
Derivative financial instruments		44 589	62 557	18 732	3 935
Total short term liabilities		1 708 596	2 472 429	1 621 271	201 845
TOTAL EQUITY AND LIABILITIES		12 095 814	12 775 815	13 459 588	11 519 298

Oslo, 29 August 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	1. half-year 2019	1. half-year 2018	Year 2018
Profit for the period before income tax expense	136 764	189 369	323 548
Depreciation and impairment in the income statement	352 936	340 103	692 055
Net changes to obligations and retirement benefit oblig.	-841	-2 104	602
Interest items	-106 082	-109 353	-52 161
Changes to working capital	-59 135	134 243	139 717
Net cash flow from operating activities	323 642	552 258	1 103 761
Purchase of PPE	-792 805	-470 560	-842 064
Net cash flow from investment activities	-792 805	-470 560	-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	-1 769 163	331 703	2 011 702
Cash and bank deposits as at the beginning of the period	2 372 091	360 499	360 499
Foreign exchange gain/loss on cash and bank deposits	11	-12	-110
Cash and bank deposits as at the end of the period	602 939	692 190	2 372 091

Equity

1. half-year 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	-	-	48 454	48 454
From other comprehensive income	-	-	-	-
Equity 30th of June 2019	100 000	2 300 000	483 053	2 883 053

1. half-year 2018 (All numbers in TNOK)	Ordinary shares	Share premium	Retained earnings	TOTAL
Equity 1st of January 2018	100 000	2 300 000	165 834	2 565 834
Profit for the year	-	-	59 756	59 756
From other comprehensive income	-	-	-	-
Equity 30th of June 2018	100 000	2 300 000	225 590	2 625 590

2018 (All numbers in TNOK)	Ordinary shares	Share premium	Retained earnings	TOTAL
Equity 1st 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	434 599	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 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	30.06.2019	30.06.2018	31.12.2018
Unrealised value changes derivatives used for hedging	-59 197	109 964	16 524
Unrealised value changes bonds	65 937	-93 021	3 847
Total unrealised value changes financial items	6 740	16 943	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	31.03.2019	31.03.2018	Year 2018	Last 12 months
Leasing revenue	627 998	607 505	1 215 011	1 235 504
Other revenue	277	267	2 050	2 060
Total	628 275	607 772	1 217 061	1 237 564

Information on important customers

The company has only one customer for leasing of passenger rolling stock, Vy Gruppen AS, which accounts for 100 % of the leasing revenue.

3. Property, plant and equipment

	Machinery and equipment	Transportation	Partially deliv. trains	Under construction	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

2nd 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	-	-	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	7 131	9 245 605	1 027 163	44 415	10 173	10 334 487

At 30th of June 2019						
Accumulated acquisition cost	47 406	11 018 995	1 027 163	44 415	10 824	12 148 803
Accumulated depreciation	-40 274	-1 773 390	-	-	-651	-1 814 316
Total	7 131	9 245 605	1 027 163	44 415	10 173	10 334 487

	Machinery and equipment	Transportation	Partially deliv. trains	Under construction	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	-	9 733 784

2nd quarter 2018						
Opening net book value	25 444	8 931 916	501 288	275 136	-	9 733 784
Additions	1 506	316 964	152 091	-	-	470 561
Transfers within PPE	-	241 409	-	-241 409	-	-
Depreciations	-8 196	-331 907	-	-	-	-340 103
Total	18 754	9 158 382	653 379	33 727	-	9 864 241

At 30th of June 2019						
Accumulated acquisition cost	46 229	10 240 335	653 379	33 727	-	10 973 670
Accumulated depreciation	-27 475	-1 081 953	-	-	-	-1 109 428
Total	18 754	9 158 382	653 379	33 727	-	9 864 241

	Machinery and equip- ment	Transportation	Partially deliv. trains	Under construction	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	-559	
Depreciations		-651
Additions and changes in agreements	-	-
Other	-	-
Total closing balance	10 265	10 173

Interest expense for lease obligations amounted to 116 TNOK for 1st half-year 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

Liabilities	1. half-year 2019	1. half-year 2018
Short-term liability	1 395	-
Long-term liability	8 869	-
Total	10 265	

Reconciliation of the opening balance lease obligation	2nd quarter 2019
Gross lease liability 1st 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 1st of January 2019	10 824
Financial leases recognised 1st 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)	913
Costs related to low value items	66
Total	979

Cash flows	
Total cash flows on leases	686

The leases that are included in the table above are leasing of property.
For further description of the company's lease agreements – see the principles note.

Norske tog AS

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