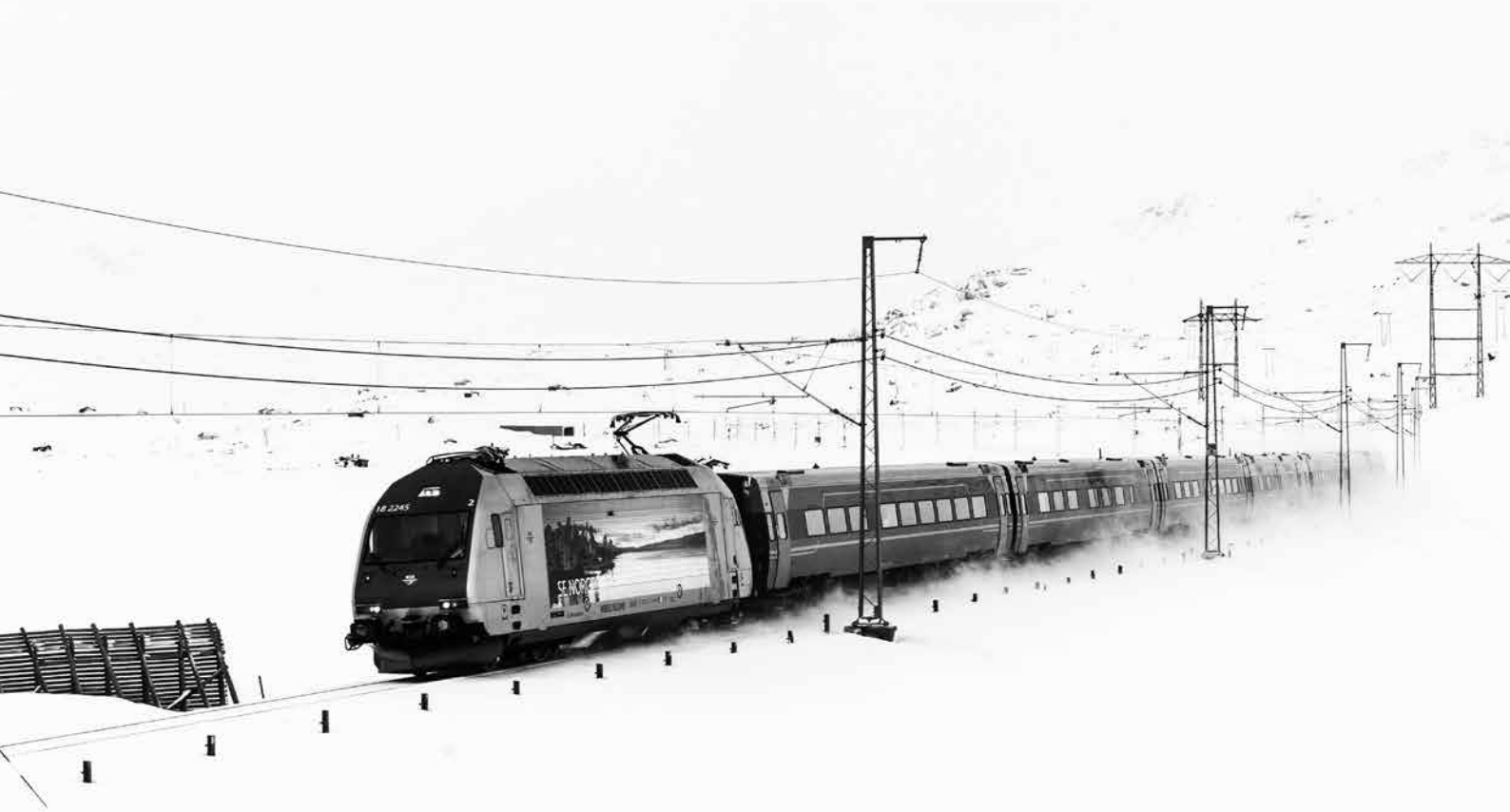
Norske tog

Quarterly report Q1 2019



About Norske tog

Norske tog is a leading specialist environment within the purchasing, adaptation and management of railway vehicles. Norske tog follows technological developments, is familiar with the international railway industry and has expert knowledge of Norwegian conditions.

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.

Norske tog has issued bonds that are listed on the Oslo Stock Exchange. The company follows the Norwegian Code of Practice for Corporate Governance where relevant.

Financial key figures

Financial key figures (MNOK)	Q1 2019	Q1 2018	2018
Operating profit	105	118	426
Pre-tax profit	74	112	324
Profit for the period	58	86	279
Net cash flow	2,272	3,576	2,012
Working capital	-201*	691	1,955
Equity	2,892	2,652	2,835
Equity ratio	23%	22%	21%
Return on equity	9.5%	8.5%	10.9%

* The negative figure for working capital is due to a large loan maturing within the next 12 months

Strong passenger growth generates a need for new trains

Traffic growth in recent years has exceeded expectations and looks set to continue at the same high level. With growth on this scale – and a large part of the vehicle fleet ripe for replacement – it is not inconceivable that we will need two new trainsets every single month for the next 30 years.

Without a new agreement in place, within a few years we will have no extra trains to deploy to meet the increased demand as the major infrastructure projects around Oslo are completed. Access to new trains will also be important when transport in the Oslo area is opened up to competition, as flagged by the government.

And time is beginning to run out. It takes around four years from ordering a train until it is delivered. If we are to have new local trains in 2024, the decision must be made this year.

Øystein Risan
Chief Executive Officer, Norske tog AS

Report of the Board of Directors

Key events

Norway's rail network will gain a new train operating company at the end of this year, when Go-Ahead takes over services on the Sørland Railway, the Jæren Line and the Arendal Railway from December. Norske tog is contributing expertise and resources to Go-Ahead's preparations for start-up of the traffic package, which include close dialogue on the interior and exterior design of the trainsets.

In December 2018. Stadler and Norske tog signed the final option in a contract that has run since 2008. Option 5 comprises 25 trainsets, and the last two trainsets from option 3 were delivered in the first quarter.

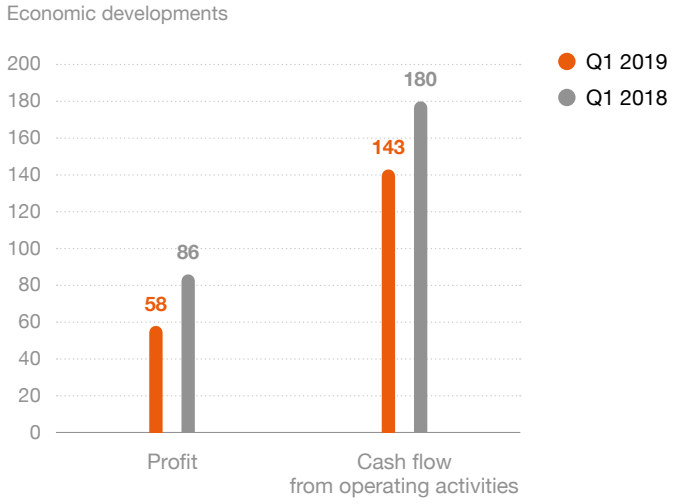
In order to accommodate the traffic growth and the need to replace trains that have reached their technical lifespan, Norske tog has focused in the first quarter on procuring bimodal trains for Traffic Package North, new diesel locomotives for the Nordland Railway and new local trains. Several local train lines and the Nordland Railway are serviced by the oldest train types in the country. The Class 69 trains that service the local lines in Eastern Norway, as well as the Arendal and Bratsberg Railways, use technology dating from the early 1970s.

Mid-life upgrades of existing rolling stock are important to ensure reliable trains over time. This will maintain standards and quality over the entire service life of the trains, providing passengers with an improved and more up-to-date service. Norske tog is preparing for the possible start-up of a mid-life upgrade for Class 72 local trains in 2020.

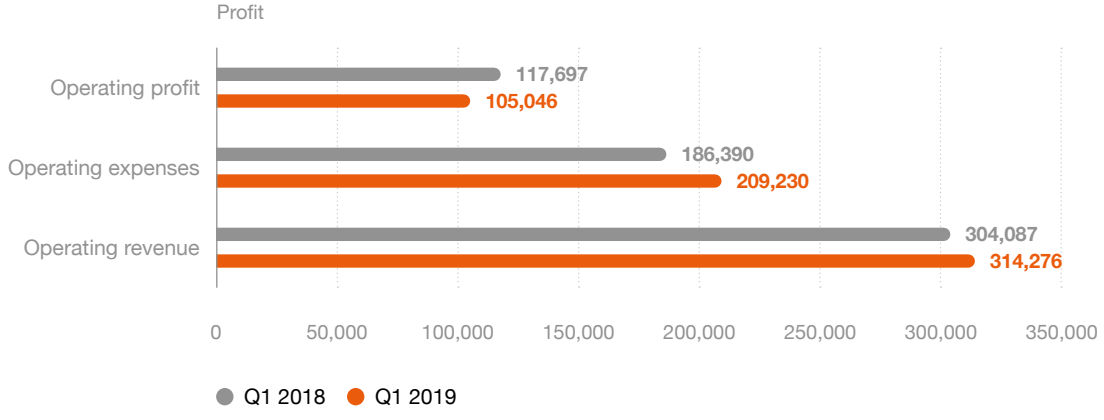
Economic developments in Norske tog

Norske tog is posting net profit of 58 MNOK (86 MNOK) for the first quarter of 2019, down 28 MNOK on the same period last year.

Economic developments 01.01–31.03.2019



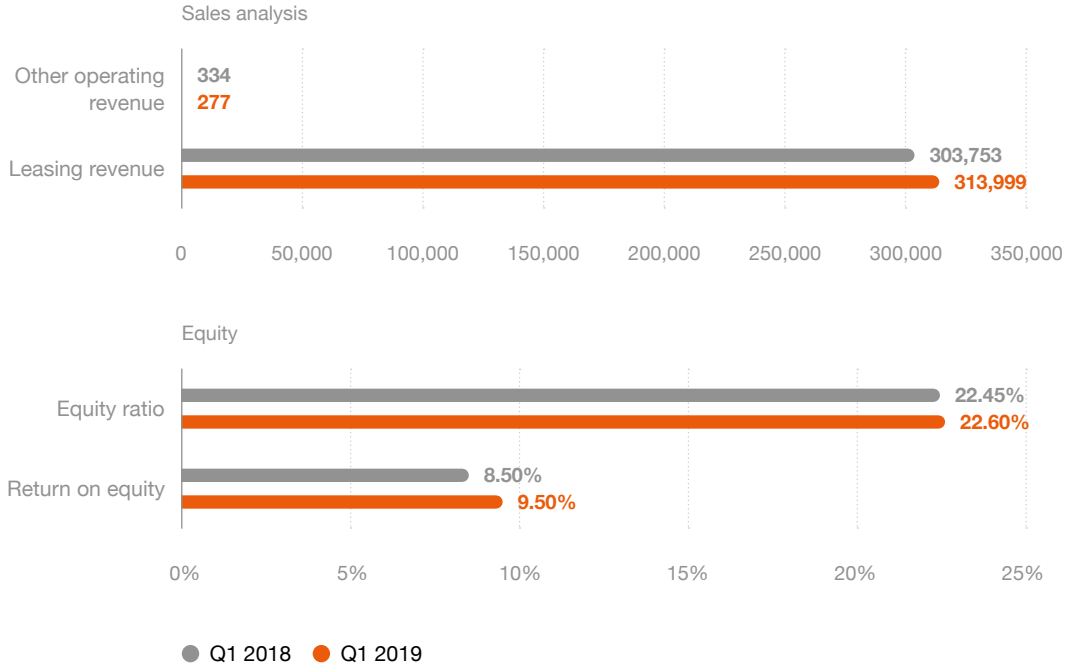
Profit 01.01–31.03.2019



This represents a rolling 12-month return on equity of 9.5%. 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 vehicles and provide scope for planned growth.

Development in financial key figures Q1 2018 – Q1 2019



Financing

Norske tog has a high level of creditworthiness, with a long-term rating from Standard & Poor's of A+ (stable). This high credit rating gives the company good access to external finance.

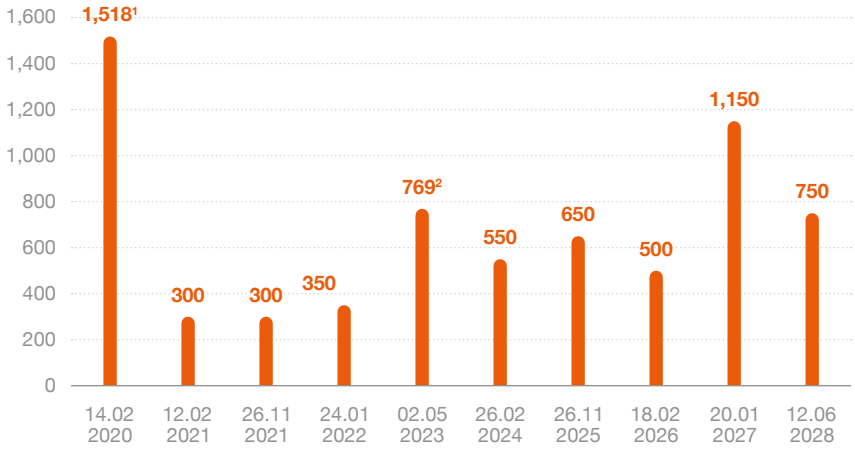
The company borrows through the Euro Medium Term Note (EMTN) programme. This programme does not contain any financial covenants but has an optional ownership clause linked to the state's required 100% ownership of Norske tog.

At 31.03.2019, the company has bonds of 2,218 MNOK maturing in the next 12 months. The company will have to refinance a significant proportion of this amount this year.

The possibility of using 'green bonds' will be considered for new projects that require financing. The aim is to have a strategy for green bonds in place by the autumn this year.

Long-term liabilities

Outstanding amount



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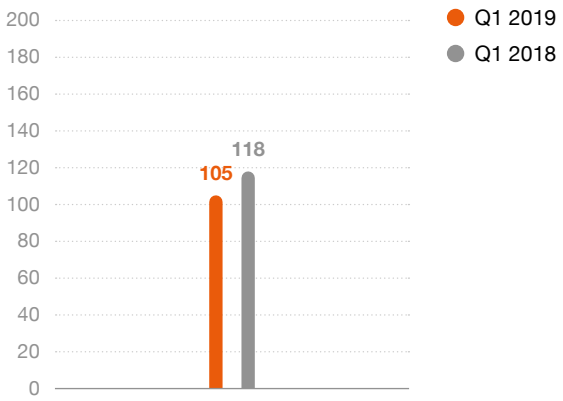
Operating profit

Operating profit 01.01–31.03.2019

Operating profit

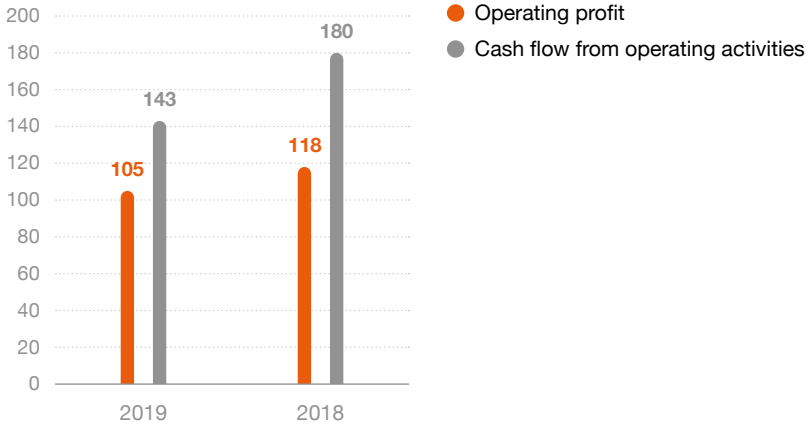


Norske tog is posting operating profit of 105 MNOK for the first quarter of 2019, down slightly from 118 MNOK for the first quarter of 2018. This change can be attributed to higher depreciation, and a higher level of activity relating to train modifications.

Cash flow

Cash flow 01.01–31.03.2019

Cash flow



Net cash flow from operating activities is 143 MNOK (180 MNOK). Net cash flow from investment activities is 786 MNOK (236 MNOK). The funds have mainly been used to buy new rolling stock.

A bond of 1,500 MNOK was taken out at the end of 2018 in light of a loan repayment of 600 MNOK in February 2019 and a further 700 MNOK maturing in April 2019. In addition, an advance payment of 571 MNOK was made on option 5 of the Stadler contract.

Outlook

A further two contracts will be awarded in 2019, Traffic Package 2: North and Traffic Package 3: West, which could theoretically mean two new customers. Traffic Package South is scheduled for start-up in December 2019.

The Class 72 trainsets are ready for mid-life upgrade, which will include upgrades to doors, electrics, layout, paintwork and the passenger information system on a total of 36 trainsets. The costs of an upgrade of this nature have to be covered through residual asset insurance from Norske tog's owner, the Ministry of Transport and Communications.

One of the most substantial projects in 2019 will be drawing up specifications of requirements and tender documents relating to the purchase of new local trains. These will replace the current Class 69 trains, which have exceeded their technical lifespan. If Norske tog is to have new local trains available for the opening of the Follo Line 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 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.

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 a minimum of 300 MNOK.

Operational risk

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

There is risk associated with some trainsets that are leased out having reached their technical lifespan, making maintenance more challenging. Cracks have been discovered on Class 7 trainsets, entailing extraordinary maintenance. The original schedule for the Class 72 mid-life upgrade programme has been delayed due to lack of clarity on financing. There is also a risk that the lack of clarity on financing and long lead times for ordering new trains may result in new local trains being delivered too late to meet the increased demand for trains in light of traffic growth and the opening of the Follo Line.

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 Q1 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 Q1 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, 15 May 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	Per 1st quarter 2019	Per 1st quarter 2018	Year 2018	Last 12 months
Operating revenue	2				
Payroll and related expenses		10,042	8,131	43,028	44,939
Depreciation and impairment		176,276	168,633	692,055	699,698
Other operating expenses		22,912	9,626	56,045	69,331
Total operating expenses		**209,230**	**186,390**	**791,128**	**813,968**
Operating profit		**105,046**	**117,697**	**425,933**	**413,282**
Financial posts					
Financial income		36,228	23,635	169,200	181,793
Financial expenses		-69,997	-50,681	-291,645	-310,961
Net financial expenses – pensions		-	-	-311	-311
Unrealised fair value changes	1	2,560	21,113	20,371	1,818
Net financial items		**-31,209**	**-5,933**	**-102,385**	**-127,661**
Profit before income tax		73,837	111,764	323,548	285,621
Income tax expense		16,244	25,706	44,243	34,781
Profit for the year		57,593	86,058	279,305	250,840
Attributable to					
Equity holders		57,593	86,058	279,305	250,840
OTHER COMPREHENSIVE INCOME					
Profit for the year		57,593	86,058	279,305	250,840
Items that will not be reclassified to profit or loss					
Deviation retirement benefit obligations				-13,423	-13,423
Tax related to items that will not be reclassified				2,883	2,883
Total comprehensive income for the period		**57,593**	**86,058**	**268,765**	**240,300**
Attributable to					
Equity holders		**57,593**	**86,058**	**268,765**	**240,300**

Overview financial position

All numbers in TNOK	Notes	31.03.2019	31.12.2018	31.03.2018
Assets				
Property, plant and equipment	3	10,504,044	9,883,793	9,801,360
Total non-current assets		**10,504,044**	**9,883,793**	**9,801,360**
Trade and other receivables		2,160	698	148,083
Derivative financial assets		1,139,870	1,203,006	957,465
Cash and bank deposits		1,129,741	2,372,091	904,233
Total current assets		**2,271,771**	**3,575,795**	**2,009,781**
Total assets		**12,775,815**	**13,459,588**	**11,811,141**
Equity and liabilities				
Ordinary shares and share premium		2,400,000	2,400,000	2,400,000
Retained earnings		492,192	434,598	251,892
Total equity		**2,892,192**	**2,834,598**	**2,651,892**
Borrowings		6,693,478	8,311,286	7,179,290
Deferred tax obligation		676,382	660,137	644,482
Retirement benefit obligations		31,905	32,296	16,823
Other accruals	4	9,429	-	-
Total long term liabilities		**7,411,194**	**9,003,719**	**7,840,595**
Trade and other payables		122,211	138,676	159,593
Borrowings		2,287,661	1,463,863	1,148,699
Derivative financial instruments		62,557	18,732	10,362
Total short term liabilities		**2,472,429**	**1,621,271**	**1,318,654**
Total equity and liabilities		**12,775,815**	**13,459,588**	**11,811,141**

Oslo, 15. May 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	Per 1. quarter 2019	Per 1. quarter 2018	Year 2018
Profit for the period before income tax expense	73,837	111,763	323,548
Depreciation and impairment in the income statement	176,276	168,633	692,055
Net changes to obligations and retirement benefit oblig.	-391	-1,448	602
Interest items	-87,053	-112,243	-52,161
Changes to working capital	-19,322	13,241	139,717
Net cash flow from operating activities	**143,347**	**179,946**	**1,103,761**
Purchase of PPE	-785,701	-236,209	-842,064
Net cash flow from investment activities	**-785,701**	**-236,209**	**-842,064**
Proceeds from borrowings	-	600,000	2,850,000
Repayment of borrowings	-600,000	-	-1,099,995
Net cash flow from financial activities	**-600,000**	**600,000**	**1,750,005**
Net change in cash and bank deposits for the period	**-1,242,354**	**543,737**	**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	4	-3	-110
Cash and bank deposits as at the end of the period	**1,129,741**	**904,233**	**2,372,091**

Equity

As at 31st of March 2019 (All numbers in TNOK)	Ordinary shares	Share premium	Retained earnings	Total
Equity 1st of January 2019				
Profit for the year	-	-	57,593	57,593
From other comprehensive income	-	-	-	-
Equity 31st of March 2019	**100,000**	**2,300,000**	**492,192**	**2,892,192**

As at 31st of March 2018 (All numbers in TNOK)	Ordinary shares	Share premium	Retained earnings	Total
Equity 1st of January 2018				2,565,834
Profit for the year	-	-	86,058	86,058
From other comprehensive income	-	-	-	-
Equity 31st of March 2018	**100,000**	**2,300,000**	**251,892**	**2,651,892**

2018 (All numbers in TNOK)	Ordinary shares	Share premium	Retained earnings	Total
Equity 1st of January 2018				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 principles

Norske tog AS' financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations from the IFRS interpretations committee (IFRIC) as determined by EU.

The financial statements have been prepared on historical cost basis except for derivative financial instruments, certain financial assets and liabilities and investment properties which are carried at fair value.

The interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting. The interim financial statements should be viewed in conjunction with the last published annual report containing a full description of the Group's accounting principles.

Income tax expense for the interim period is calculated using the nominal tax rate for Norway.

Accounting principles applied in 2019 are consistent with the accounting principles that were used for the financial statements in 2018 – with the exception that the company has implemented the standard IFRS 16 Leases effective 1st of January 2019.

Implementation of new accounting standards

IFRS 16 Leases

IFRS 16 is effective from 1st of January 2019.

Rentals

Norske tog AS' revenue from rentals will be comprised by IFRS 16. For rentals IFRS 16 will only result in minor changes to disclosure requirements. Norske tog AS owns the trains that are rented to external companies and will according to IFRS 16.C14 not recalculate any adjustments to comparative figures at the date of implementation.

Lease

According to IFRS 16, the lessee must recognize all lease agreements in the statement of financial position through the liability on payments over the course of the agreements as well as the right-of-use of the assets. For all lease agreements, that transfer the right-of-use and the financial benefits of the identifiable asset to the lessee of the identifiable asset must be recognized. There will no longer be a distinction between financial and operating leases for the lessee.

The company used a modified retrospective method without recalculation of comparative figures when calculation of the effects from the implementation. The implementation effect is taken against the opening balance on 1st of January 2019 through equal value to the right-of-use assets and lease liability.

The lease liability is measured as present value of future fixed lease payments. The payments that are related to an index or similar will be based on the relevant factor at the time of recognition.

When calculating the implementation effect for leases that existed on 1st of January 2019, the discount rate is determined using a market borrowing rate for the company.

The company has chosen to apply the exemption rule for short-term leases and leases for which the underlying asset is of low value, as these contracts are expensed directly in the income statement.

For contracts that also include other product or service deliveries, the company has chosen to expense these non-lease components as operating expenses separately from the lease component.

When determining the lease period, the regular lease period is adjusted for extension options and termination rights, which with reasonable certainty is assessed that the company will exercise.

An assessment of impairment according to IAS 36 is made on the right-of-use assets, but with a particular assessment on how the related lease liability is affected.

Implementation of the standard has resulted in increased value of both total assets and liabilities of 10 824 TNOK as at 1st of January 2019. See further details specified in note 4.

1. Unrealised fair value changes

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

	31.03.2019	31.03.2018	31.12.2018
Unrealised value changes derivatives used for hedging	-86,156	-75,598	16,524
Unrealised value changes bonds	88,716	96,711	3,847
Total unrealised value changes financial items	**2,560**	**21,113**	**20,371**

2. Sales analysis per category

Norske tog AS has only one 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	313,999	303,753	1,215,011	1,225,257
Other revenue	277	334	2,050	1,993
Total	**314,276**	**304,087**	**1,217,061**	**1,227,250**

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 equipm.	Transportation	Partially delivered 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**
1st 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	-	-	617,962	167,739	-	785,701
Transfers within PPE	59	147,820	-70,271	-77,607	-	-
Depreciations	-1,932	-174,018	-	-	-326	-176,276
Total	**8,435**	**9,351,947**	**1,027,744**	**105,418**	**10,498**	**10,504,044**
At 31st of March 2019						
Accumulated acquisition cost	46,752	10,950,960	1,027,744	105,418	10,824	12,141,699
Accumulated depreciation	-38,317	-1,599,013	-	-	-326	-1,637,656
Total	**8,435**	**9,351,947**	**1,027,744**	**105,418**	**10,498**	**10,504,044**

	Machinery and equipm.	Transportation	Partially delivered 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**
1st quarter 2018						
Opening net book value	25,444	8,931,916	501,288	275,136	-	9,733,784
Additions	-	-	97,516	138,693	-	236,209
Transfers within PPE	-	315,764	-4,855	-310,909	-	-
Depreciations	-4,139	-164,494	-	-	-	-168,633
Total	**21,305**	**9,083,186**	**593,949**	**102,920**	**-**	**9 801,360**
At 31st of March 2018						
Accumulated acquisition cost	44,723	9,997,726	593,949	102,920	-	10,739,318
Accumulated depreciation	-23,418	-914,540	-	-	-	-937,958
Total	**21,305**	**9,083,186**	**593,949**	**102,920**	**-**	**9,801,360**

	Machinery and equipm.	Transportation	Partially delivered 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**
Year ended 31st of December 2018						
Opening net book value	25,444	8,931,916	501,288	275,136	-	9,733,784
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 classifies as operational lease	10,824	10,824
Total opening balance right-to-use assets / lease obligations	**10,824**	**10,824**
Lease payments	-280	
Depreciations		-326
Additions and changes in agreements	-	-
Other	-	-
Total closing balance	**10,544**	**10,498**

Interest expence for lease obligations amounted to 58 TNOK for 1st quarter 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	1st quarter 2019	1st quarter 2018
Short-term liability	1,116	-
Long-term liability	9,429	-
Total	**10,544**	

Reconciliation of the opening balance lease obligation	1st 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	2018
Leases not recognised	
Short-term agreements (between one month and one year)	457
Costs related to low value items	33
Total	**490**

Cash flows	
Total cash flows on leases	326

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.

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