

BEST RESULTS EVER

Following a turnover of NOK 944 million and a pre-tax profit of NOK 253 million in 2014, Flytoget has delivered its best result ever. Since its launch in 1998, the company has paid out an accumulated dividend, including provision for 2014, of NOK 1,056 million to its owners.

Business activities, objectives and strategy

Flytoget operates public transport services on the route from Drammen to Oslo Airport, and has its head office in Oslo city centre. The company transports approximately seven million passengers each year. This represents about ten per cent of all train passengers in Norway, and about 20 per cent of all those in the Oslo region.

Ownership structure

Flytoget was previously owned, since 2004, by the former Norwegian Ministry of Trade and Industry, and subsequently, since 2013, by the

current Ministry of Trade, Industry and Fisheries. The objective of the state ownership of Flytoget is to achieve profitable train operations that contribute towards maximising public transport's share of journeys made to and from Oslo Airport. This is economically beneficial for society, and also provides climate change-related and other environmental benefits. The company is administered on a commercial basis, without public sector procurement.

Status of the market and competition

In 2014 Flytoget recorded passenger growth of 4.2 per cent. The total number of airline passengers passing through Oslo Airport, not including transit and transfer, increased by 1.8 per cent. Flytoget's market share of transport service provision to Oslo Airport thus increased to 33.2 per cent in 2014, which represents an increase of 0.8 per cent compared to 2013.

Customer satisfaction ratings achieved a record high of 97 per cent on average in 2014. The most important reasons for excellent levels of customer satisfaction are that Flytoget continues to deliver high levels of departure frequency, punctuality and regularity, as well as excellent customer service.

The regulatory framework

The Norwegian National Rail Administration (Jernbaneverket) has provided Flytoget with the opportunity to expand its train operations from Oslo Airport to Lysaker by one train departure per hour. Our plan is to phase in this expansion when the train turning facility at Høvik is completed, some time in 2015. This expansion will enable us to provide our customers with more departures from high-pressure areas in and around the stations at Lysaker, Sandvika, Skøyen and Nationaltheatret.

The Norwegian government's ownership arrangements report published in 2014 contained provisions linked to the future ownership of the company. The government believes that there are no special reasons why the Norwegian state should remain the long-term owner of the company, and has signalled that it is willing to consider arrangements that entail a reduction in the state's current ownership share. This has generated a public debate concerning the ownership of the company. Many employees at Flytoget have experienced this news as stressful, and the situation has contributed to a high

turnover among train drivers than would otherwise be expected.

In 2014, the Norwegian Ministry of Transport and Communications invited a variety of interested parties to present proposals for the future organisation of the rail network in Norway. As part of this process, Flytoget has prepared a proposal for a model which will provide a modern, innovative and effective organisation of the railway sector. Elements of the model address ownership, input factors, the size of tender packages, and measures to stimulate competition which will result in a Norwegian rail network providing better quality services in return for public transport sector funding.

In 2000, when the Norwegian Parliament reviewed Flytoget's opening balance sheet, the company was granted a 30-year entitlement in the form of a track priority arrangement along the route between Etterstad and Gardermoen. On the initiative of the Ministry of Transport and Communications, Flytoget has negotiated a new traffic agreement replacing the outdated track priority arrangement with a preferential entitlement to operate transport services on the route between Asker and Gardermoen. The agreement is in force for 15 years from 1 February 2013 until 31 January 2028.

Strategy and objectives

The company's safety-related objectives provide clear guidelines in terms of prioritisation. In 2014, three strategic areas of focus were identified above and beyond the prioritisation of safety, punctuality and service:

- to optimise Flytoget's business operations concept
- to increase customer experience
- to increase the public transport market share to and from Oslo Airport

Specific targets and action plans were defined for each of these customer and market-oriented areas. For the most part, optimisation of the business operations concept has consisted of a review of current service delivery with the aim of identifying potential for improvements which can lead to a further consolidation of customer experience and the Flytoget brand. A key component of this process has been a major investment in digitization of the company's interface with the general public. This process >>

will continue during 2015. Key subsidiary targets in 2014 were a punctuality rating of 97 per cent and a regularity rating of 99.5 per cent. The figures achieved were 97.3 and 99.4 per cent, respectively.

Passenger numbers continue to increase such that in the long-term these may generate challenges in relation to capacity. In 2014, with this and passenger growth projections made for Oslo Airport in mind, the Board decided to initiate the procurement of eight new trains.

Flytoget's contribution towards increasing the proportion of journeys made to Oslo Airport by public transport can be seen in the overall increase in this factor by 0.8 per cent. There is no reason to believe that this increase has been achieved at the expense of other rail operators.

Financial results

Operating revenues in 2014 amounted to NOK 944 million (NOK 897 million), an increase of 5.2 per cent on 2013. This growth can be attributed to a 4.2 per cent increase in passenger numbers.

Ordinary pre-tax profit was NOK 253 million (NOK 230 million), which is an increase of NOK 23 million on 2013. The principal reasons for the increase are traffic growth, lower pension expenditures as a result of pension reform legislation, and lower depreciation costs resulting from revisions to the lifetimes of the trains.

Equity capital situation and balance sheet

Flytoget's total balance sheet at the end of 2014 recorded NOK 1338 million (NOK 1560 million).

As of 31.12.2014, Flytoget's equity ratio was 56.4 per cent (62.1 per cent). The main reasons for the change are dividend payments and actuarial losses resulting from new calculation assumptions adopted for 2014.

At the close of 2014, Flytoget had equity holdings of NOK 754 million (NOK 986 million), which provides a solid foundation for the planned procurement of new rolling stock.

Liquidity and financing

The company's operating cash flow for 2014 amounted to NOK 284 million (NOK 304

million). The difference when compared with the operating profit is due principally to write-downs amounting to NOK 105 million, tax expenditures of NOK 67 million, and changes in working capital. Cash flow from investment activities was negative at NOK 42 million, as indeed were cash flow figures from financing activities (NOK 399.6 million). This was due to the dividend payments made in 2014. Flytoget's liquidity has been sound throughout the year.

At the end of 2014, the company had an unused overdraft facility of NOK 25 million.

Allocation of annual profit

The after-tax profit for 2014 was NOK 184 million. In 2014, a supplementary dividend amounting to NOK 230 million was paid out in addition to the dividend stipulated in the 2013 Annual Report. The Board proposes that the annual profit be allocated as follows; NOK 128.7 million in dividend payments and NOK 175 million transferred from other equity to cover the supplementary dividend payment. As of 31 December 2014, the company's equity holding, after provision for dividend payments, was NOK 754 million, of which NOK 400 million is share capital. In the opinion of the Board, the company possesses sound levels of equity and liquidity following the dividend payments, providing an essential basis for financing the investment plans set out in the company's strategy.

Sustainability and social responsibility

At Flytoget, sustainability has strategic significance and is regarded as a key prerequisite for the company's long-term financial profitability and wealth creation. The company's strategic and commercial priorities shall contribute towards sustainable development, and make Flytoget attractive to its stakeholders including its owner, the authorities, customers, business partners, employees and special interest organisations.

At the heart of Flytoget's business activities is a social responsibility to offer the most efficient and environmentally-sound transport option to and from Oslo Airport. On the basis of a thorough study carried out to identify priorities linked to Flytoget's opportunities and challenges related to sustainability and social responsibility, combined with an assessment of its stakeholders' expectations, five areas of

sustainability have been identified:

Commercial opportunities are linked to the following areas

- The driving forces behind public transport
- Motivated personnel
- An environmentally sound rail network

Commercial risk is linked to the areas

- Safe travel
- Conduct in business and responsible procurement

In 2014, with the aim of achieving long-term value creation, Flytoget has been working to integrate the principles of sustainability and social responsibility into the company's business management activities, and into its strategy and action plans for the period 2015 to 2018.

We refer the reader to the sustainability report – a part of the Annual Report – which provides a more detailed description of Flytoget's work in the fields of sustainability and social responsibility. The report includes a comprehensive account of Flytoget's approach, contributions, results and ambitions linked to prioritized sustainability issues, as well as a description of the company's approach to working and human rights, social and anti-corruption issues, and the external environment.

Both the significance analysis and sustainability report have been carried out and prepared in accordance with the document "GRI G4 Application Level - Core" issued by Global Reporting Initiatives.

Risk management

Risk assessment and risk management are key elements of Flytoget's business management activities. The company conducts ongoing assessments of risk as part of its strategic, financial and operational activities, and considers measures and recommendations which are subsequently presented to the Board. Operational risk is addressed as part of the company's traffic safety plan and security policy. Procedures and contingency and security plans represent vital supportive documents during risk assessment and management. These are revised and updated on a continuous basis, and a comprehensive system has been established for the recording and reporting of hazardous situations, unwanted incidents, damage, personal

injury and near misses.

Audits are conducted on a regular basis of various aspects of the company's internal business activities, and of key external business partners. These activities form part of an annual audit programme, and the results of the audits are reported to the Board. In 2014, Flytoget carried out audits of two companies – Securitas, which supplies security services, and CL Glas, which supplies train windshields. An internal audit was also carried out.

The Norwegian Railway Authority (Statens jernbanetilsyn) carried out an audit of Flytoget's safety management system, focusing on aspects such as emergency preparedness and internal auditing. The audit yielded two incidences of non-conformance and one observation. Flytoget is very satisfied with the result.

Four contingency exercises were carried out in 2014. The exercises and related activities were scheduled as part of an annual exercise plan. The aim is to achieve the most effective management of major accidents.

The objective of Flytoget's Business Continuity Plan is to ensure that the company is able to respond immediately and correctly to incidents which cause the shutdown of vital operational components. The plan will help Flytoget to return to normal operations as soon as possible following such incidents.

Guidelines including a clear framework for the management of financial risk are set out in the company's financial strategy document. Flytoget has no interest-bearing liabilities and is thus not exposed to interest rate fluctuations. However, in connection with the procurement of new rolling stock, the company will expose itself to both interest and foreign currency exchange rate fluctuations. The company's credit risk is very limited because its customer base consists primarily of large numbers of individual passengers and very few corporate clients. The company's liquidity is sound and it possesses ample financial resources. Market risk will also increase because NSB has boosted its service provision to the airport with the aid of subsidized prices. Flytoget does not have the benefit of these subsidies.

Safety

Flytoget operates with a safety policy that aims to achieve zero accidents involving serious injury to passengers, damage to rolling stock >>

or harm to the environment. In 2014 Flytoget recorded only minor incidents involving its passengers, employees or rolling stock.

Safety, emergency preparedness and the development of a healthy safety culture have always been assigned the highest priority at Flytoget. The CEO has overall responsibility for safety and a duty to ensure that the company operates with well-functioning internal management and safety systems. Safety is on the agenda of all Board and management meetings held at Flytoget. Moreover, the management team carries out an annual review of the safety management system and safety-related work. Safety is included as a part of basic training for all Flytoget personnel. Operation personnel also attend an annual safety course.

Flytoget's annual safety conference was held during the first quarter of 2014, and was the eight consecutive conference of its type. The target group comprised Flytoget personnel and invited representatives from our business partners.

ORGANISATION AND CORPORATE STRUCTURE

Corporate governance and corporate management

Flytoget operates with established procedures and practices for sound corporate governance and corporate management. The company is able to meet the requirements of its owner and the Board by complying with those set out by the regulatory authorities and in-house procedures.

In order to ensure a healthy interaction between the owner and the company's management team, the company adheres to the guidelines set out in the document "Norsk anbefaling for eierstyring og selskapsledelse" (Norwegian recommendations for corporate governance and corporate management). Furthermore, Flytoget operates with a set of core values and possesses a fundamentally healthy culture of transparency and non-discrimination which characterises the internal workings of the company. The company's management team administers and supports this culture in connection with all activities conducted both

among its personnel and with our customers and other stakeholders. This work is ongoing and is assigned high priority. For a more detailed account, we refer to the section in the Annual Report describing corporate governance and corporate management.

The company's objective is to ensure robust profitability for its owner, and to become a key player in the process of increasing the proportion of journeys made to and from Oslo Airport by public transport.

Business management

Throughout 2014 work has been continuing to simplify and improve the company's business management approach. This has included the preparation of a business management model and business policy. The aim is to safeguard continuity in terms of selected direction and working approaches as guided by Flytogets vision, values and objectives, policies, procedures and ethical guidelines, and to promote the flexibility required to achieve continuous improvement by means of structured planning, implementation and results monitoring.

As part of this process, work has also been initiated to further develop policy, goals and goal indicators for key business functions. This work shall be completed during 2015.

The company is working to promote the ongoing development of the organisation in order to safeguard effective, profitable and customer-focused operations.

Organisation

Flytoget has subdivided its operations into three main processes, allocated to the following departments:

- "Commercial and IT" has responsibility for sales, marketing, product development and IT, as well as sustainability and social responsibility with an emphasis on the environment, ethics and participation in the public arena.
- "Operations" has responsibility for train traffic, train personnel and operations management.
- "Safety and Engineering" is responsible for rolling stock, train maintenance and safety.

And the following auxiliary functions:

- "HR and Cultural Development" is responsible for organisational development and integrated processes in fields such as recruitment, skills development, HSE and in-house information.
- "Economics and finance" is responsible for the monitoring of the company's financial results and budgets, liquidity management, financial issues and accounting.
- "Administration" is responsible for project management, purchasing procedures, business management and insurance issues.

The management team consists of three men and three women.

The activities and composition of the Board of Directors

The company has entered into an agreement with the trades unions Norsk Lokomotivmannsforbund and Norsk Jernbaneforbund not to operate with a corporate assembly. In return, the employees have been granted three seats on the Board. Employee representatives are elected for two-year terms. The Board also includes five external members who are elected by the General Meeting. Members elected by >>



the shareholders serve a two-year term and all act independently of the company's day-to-day management team.

The Board shall at all times possess the required skills and expertise, capacity and diversity to carry out its tasks. Flytoget supports the ongoing development of the Board's skills and expertise by means of a focus on relevant topics. In 2014 the Board enhanced its expertise in the fields of anti-corruption, social responsibility and sustainability.

The Board of Directors at Flytoget comprises eight members. Three of these are elected by the employees. There are three female members on the Board, making the proportion of women 38 per cent.

Flytoget adheres to Norwegian recommendations in matters concerning corporate governance and corporate management within those fields that are relevant to the company. Instructions issued to the Board and CEO are in compliance with these recommendations, and all employees are notified of the company's ethical guidelines.

A total of seven Board meetings were held during 2014 as well as a strategy seminar for the Board and the company's management team. The annual Board assessment was held at the end of 2014.

Management remuneration statement

The Board has prepared a management remuneration statement concerning the determination of salaries and other remuneration paid to employees in management positions. The statement is in compliance with Section 6-16 (a) of the Norwegian Act relating to Public Limited Liability Companies (allmennaksjeloven). The management remuneration statement is presented as Note 2 to the Annual Accounts, and is based on guidelines stipulated on 31 March 2011.

The company has a compensation committee whose task it is to ensure that the Board fulfils the expectations of the owner as regards salaries and other remuneration paid to employees in management positions, and to consider proposals regarding a bonus scheme for all company employees of the company for subsequent years. The Board is considering the recommendation put forward by the compensation committee.

Future prospects

The company entered 2015 amid an atmosphere of anticipation regarding the future ownership structure of the company and changes to key aspects of the regulatory framework that reform to the rail network may entail. It is expected that a Government White Paper addressing the development of the Norwegian rail network will be published during the spring of 2015.

The Norwegian transport sector is facing major changes in the years ahead. The key opportunities and challenges involve expected population growth, traffic growth to and from Oslo Airport, and potential changes to the regulatory framework and competitive market conditions in the railways sector. Flytoget is waiting for a clarification as to the role the company may be able to play within a railway sector exposed to competition, so that it can safeguard efficient and high-quality transport services for business and society as a whole.

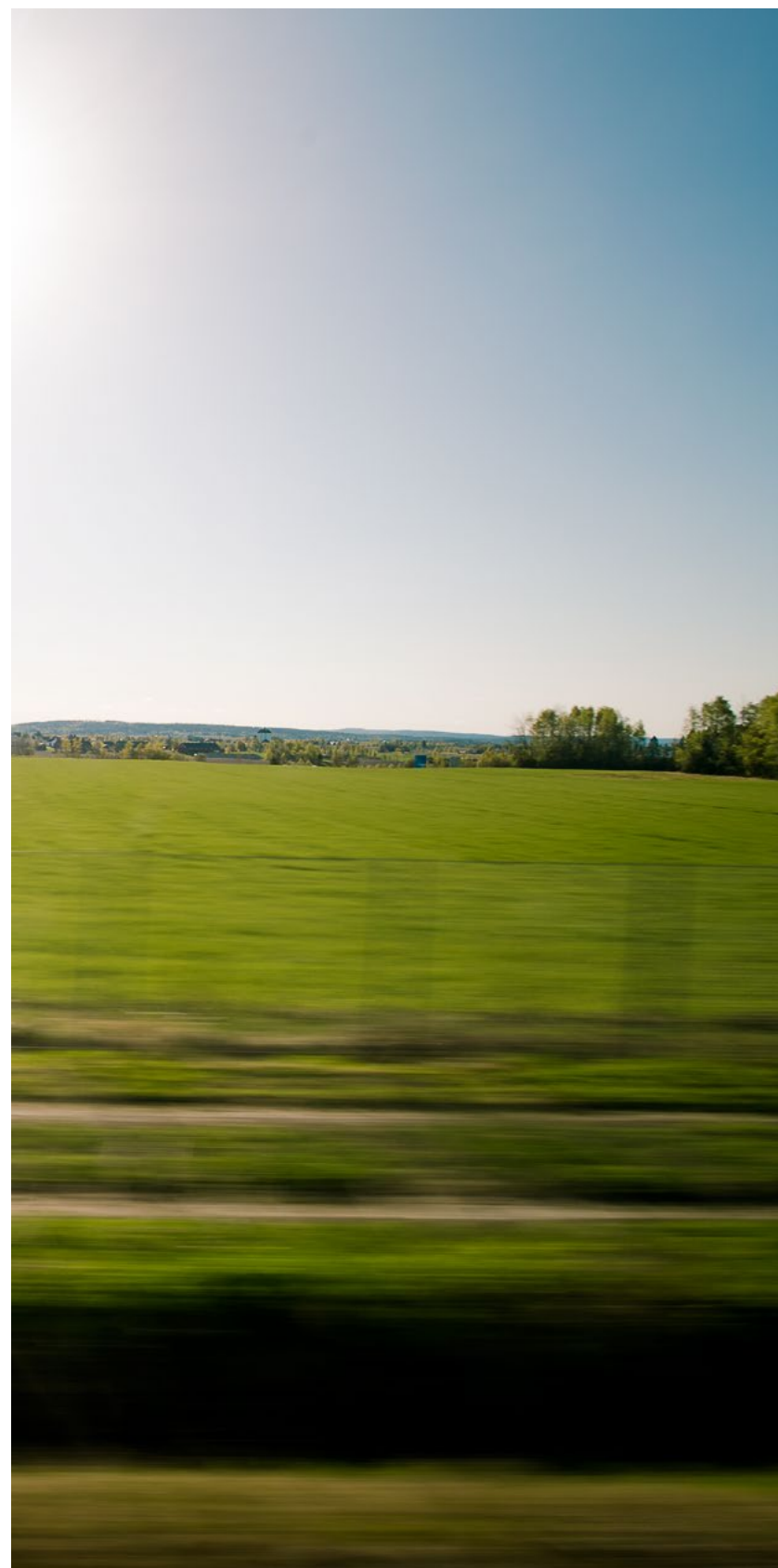
Following a robust route planning process, Flytoget has been granted a license to expand its services to four trains per hour to and from Lysaker. Flytoget is also planning a further increase in departure frequency to five and six trains per hour to and from Lysaker.

As we enter 2015 it is Flytoget's view that it is likely that Oslo Airport will continue to grow in the long term, but that the current economic situation in Norway, and in the rest of the world for that matter, indicates more subdued growth in the more immediate term. Flytoget intends to focus on customer systems that promote growth within the transport sector serving Oslo Airport.

The company will be monitoring the increasing levels of competition affecting the route along which Flytoget provides its services. This is competition on an uneven playing field, and may have important consequences for the company's profitability in the years ahead.

Avinor is well underway with the expansion of Oslo Airport. Work is proceeding according to plan, and the new Terminal 2 will open in April 2017. Flytoget is involved in the planning phase and feels secure that its customers will continue to experience Oslo Airport as a welcoming and well-run airport during the construction period.

It is important for Flytoget to secure the



financial resources the company needs to invest in future profitable growth. In order to ensure that the company's services continue to be the first choice among customers travelling to and from Oslo Airport in the future, our services must be expanded and their quality maintained. For this reason, Flytoget is in the process of purchasing eight new trains. This represents a major and long-term investment financed by the company's own profits.

Flytoget's potential as a company in the years ahead will be greatly influenced by the political climate and regulations issued by the authorities. Limited capacity in the Oslo Tunnel and inadequate compensatory measures afforded from the Norwegian National Rail Administration (Jernbaneverket), are factors that will contribute towards restricting growth and development. It will be a challenge to maintain current results if subsidised competition is introduced along Flytoget's current route. The

company is in favour of competition, but such competition must operate on a level playing field. Flytoget has continued to maintain an offensive strategy in relation to product and service improvements, digitisation and increases in departure frequencies. The company will continue its efforts to consolidate its brand and competitiveness in order to maintain its high levels of customer satisfaction and profitability.

Going concern assumption

In the opinion of the Board, the profit and loss account, balance sheet and appurtenant notes provide a true picture of the company's financial status and development. The Annual Accounts for 2014 have been prepared under the going concern assumption. The Board confirms that this assumption is made in accordance with the criteria set out in Section 3-3 of the Norwegian Accounting Act (regnskapsloven).

THE BOARD EXTENDS ITS THANKS TO THE EMPLOYEES

The Board of Directors at Flytoget takes this opportunity to thank the company's employees and management for the excellent results achieved in 2014.

Gardermoen, 5 March 2015

Wenche Kjolås
Board Chair

Per Sanderud
Deputy Chair

Trygve Gjertsen

Tone Merethe
Lindberg Hofstad

Rolf Gunnar Roverud

Jan Garder Gundersen

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