



Norske
tog

Annual Report 2018



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Norske tog's fleet

Norske tog owns and manage aprox 90% of Norwegian railway vehicles used for passenger traffic

Class 5

Subseries: A5-1

B5-3

B5-5

BC5-3

FR5-1



- 56 160 km/h A5 has 48 seats, B5 has 68 seats and BC5 has 40 seats **
- Day/Night train Dovre line, Bergens line and Nordlands line
 - A5 has comfort class, BC5 has family carriage and FR5 is a restaurant carriage

Class 69

Underserier: Class 69 B

Class 69 D



- 52 130 km/h 69C has 286 seats, 69D has 302/303 seats, 69G has 269 seats and 69H has 238/240 seats* Local tra

Class 70



- 16 160 km/h 233/238* Regional train Eastern Norway Only used as an entry train

Class 74



- 36 200 km/h 240* Regional train Eastern Norway

Class 92



- 14 140 km/h 143*
- Local train Trønder line, Meråker line and Røros line

Class 93



- 15 140 km/h 87*
- Regional train Rauma line, Røros line and Nordlands line

Class 7

Subseries: A7-1

B7-4

B7-5



59 160 km/h A7 has 48 seats, B7 has 68 seats and BC7 has 36 seats **

Day/Night train Bergen line and Sørlands line

A7 has comfort class, BC7 has family carriage and FR7 is a restaurant carriage

Class 69 H



Class 69 CII



in Eastern Norway and Voss line

Series B is two car sets with fewer seats

Class 72



36 160 km/h 310* Local train Eastern Norway and Jær line

Class 73

Subseries: Class 73A



20 210 km/h

Class 75



55 200 km/h 295* Local train Eastern Norway and Gjøvik line

Di 4



5 140 km/h
 Day/Night train Nordlands line

WLAB 2



20 150 km/h 30
 Night train on all main lines

EI 18








17 200 km/h
 Day/Night train Dovre line, Bergen line and Sørlands line

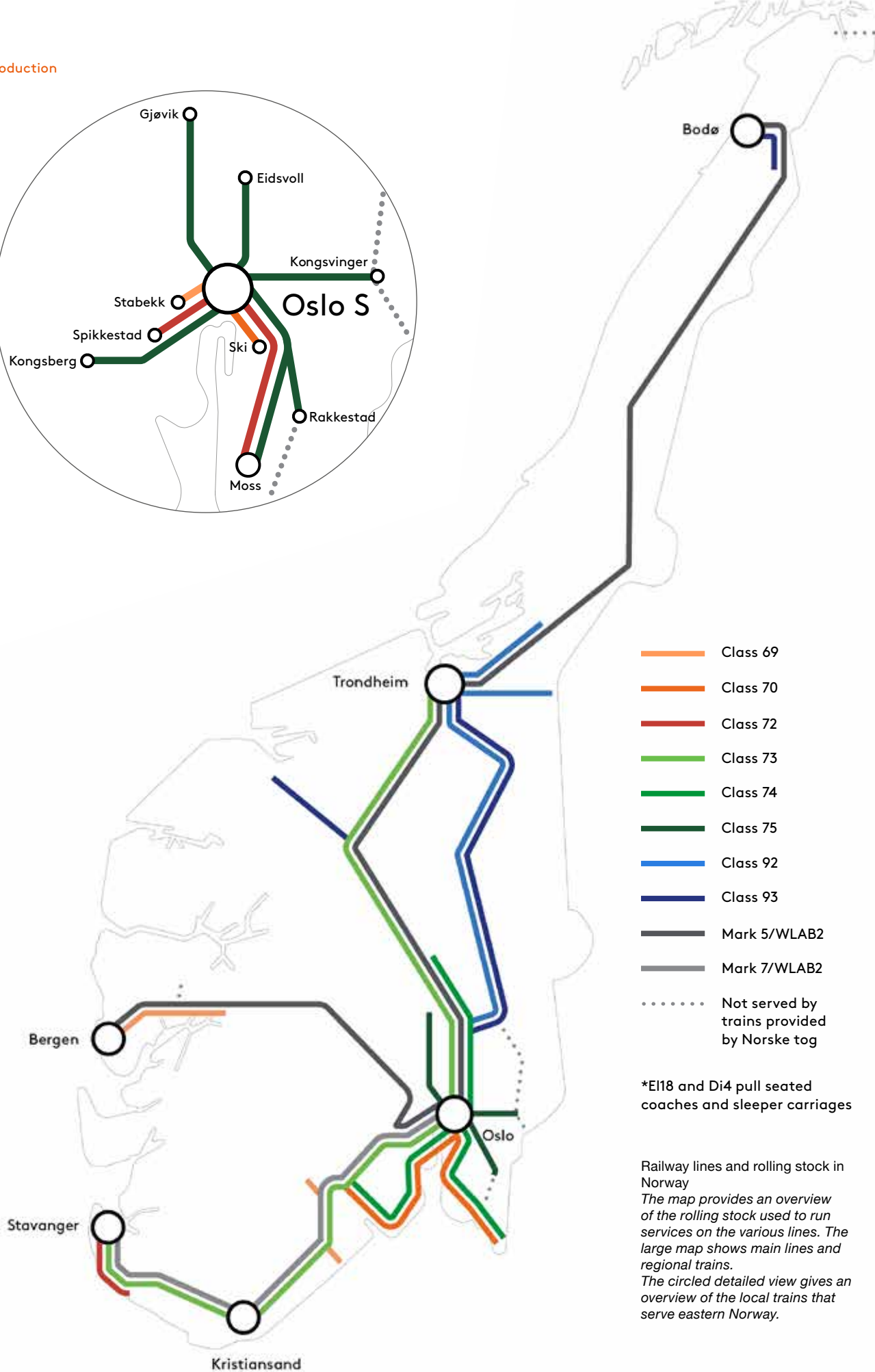


204 Regional train Eastern Norway, Dovre line and Sorlands line ① 73B has 249 seats and is only used on the Østfold line



-  Amount
-  Maximum speed
-  Number of types
- * Per train set
- ** Per cart
-  Beds per cart
-  Field of application
- ① Other

Introduction



- Class 69
- Class 70
- Class 72
- Class 73
- Class 74
- Class 75
- Class 92
- Class 93
- Mark 5/WLAB2
- Mark 7/WLAB2
- ⋯ Not served by trains provided by Norske tog

*E118 and Di4 pull seated coaches and sleeper carriages

Railway lines and rolling stock in Norway
 The map provides an overview of the rolling stock used to run services on the various lines. The large map shows main lines and regional trains.
 The circled detailed view gives an overview of the local trains that serve eastern Norway.



73108

NSB

Milestones

29. January 2018

Work begins to produce new local trains

9. March 2018

Announcement of tender for Traffic Packages North

24. April 2018

New Chair of the Board for Norske tog AS's Board of Directors

25. May 2018

Start-up of ERTMS project with Alstom as supplier of on-board equipment

12. July 2018

Repair of cracks on Class 7 carriages

24. August 2018

100th FLIRT train delivered by Stadler

17. October 2018

Traffic Packages South awarded to UK company Go-Ahead and in start-up phase

10. December 2018

Tender for critical components launched

11. December 2018

Option 5 on the FLIRT contract with Stadler triggered to order the final 25 of 150 vehicles

19. December 2018

Tender for mobile signal boosters (repeaters) launched. Call for tenders to replace diesel locomotives issued at the same time

21. December 2018

Announcement of tender for Traffic Packages West

This is 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's activities comprise of procuring, owning and managing 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, which means that the state has sector policy objectives for ownership.

Financial key figures (MNOK)	2018	2017
Operating profit	426	268
Pre-tax profit	324	152
Profit for the year	279	143
Net cash flow	2 012	357
Working capital	1 955	188
Equity	2 835	2 566
Equity ratio	21 %	23 %
Return on equity	10,9 %	6,30 %

*Norske tog uses the following terms for the rolling stock the company owns: rolling stock, railway vehicle, train, vehicle, passenger train, materiel, trainset and passenger train vehicle.

The Norwegian Railway Reform and the role of Norske tog

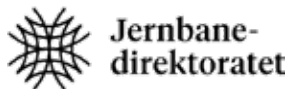


SAMFERDSELSDEPARTEMENTET

Ministry of Transport and Communications
Strategic management of the sector. Agency management of the Norwegian Railway Directorate and the Norwegian Railway Authority.
Corporate governance. Regulation.



The Accident Investigation Board Norway



The Norwegian Railway Directorate
Coordination, operational management and development of the sector.



The Norwegian Railway Authority



Bane NOR SF
Manages existing and builds new rail infrastructure. Traffic control. Manages and develops property. Commercial approach.



Norske tog AS
Owns, manages and provides access to rolling stock for train operators.



Entur AS
Journey planning and ticketing.



NSB AS
Passenger trains, freight and buses.



Mantena AS
Vehicle maintenance.

Train companies, maintenance companies, contractors and suppliers

Compete for contracts.

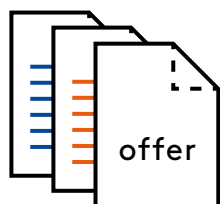
■ Administrative bodies

■ State-owned standalone units

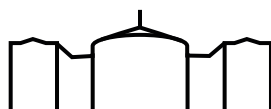
■ Private sector

*From the website of the Norwegian Railway Directorate – <https://www.jernbanedirektoratet.no/no/jernbanesektoren/>

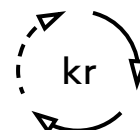
Business model



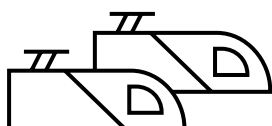
The Norwegian Railway Directorate specifies future train services in Norway and is the premise provider for Norske tog



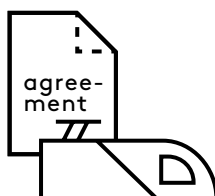
A guarantee scheme has been set up whereby the state guarantees 75% of the vehicles' book value



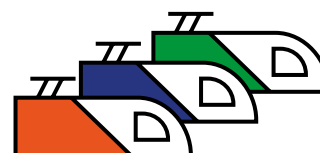
Norske tog finances its vehicle procurements through borrowings and capital inflows



Norske tog shall procure, own and manage vehicles for passenger train transport in Norway



The Norwegian Railway Directorate can order the train operating companies to use Norske tog's vehicles and has chosen to do so for the agreements that have been entered into to date or put out to tender (direct purchase agreements with NSB and traffic packages announced in 2017 and 2018)



Norske tog earns revenue from leasing out vehicles

Norske tog in figures

32

employees

Norske tog is a small organisation with long experience and expert knowledge

256

trainsets

Norske tog currently owns and manages all Norwegian passenger trains operating on the Norwegian rail network with the exception of the rolling stock used by the Flåm Railway and Oslo's Airport Express Train.

10,9 %

return on equity

Norske tog achieved a return on equity of 10.9% in 2018; the owner requires a return of 5%

16,6 yr

average age of current fleet

The target is to procure a minimum of one train per month, phasing out those that are oldest and in worst condition first. This will ensure Norske tog has a more modern fleet of trains. In 2018, a total of 14 trainsets were phased in and nine retired

79 %

satisfied passengers

The great majority of Norwegian rail passengers say they are satisfied with the trains

17

train types including subseries

Norske tog shall effectively facilitate access to a sufficient number of safe, reliable and up-to-date vehicles, in line with society's demand for passenger transport by train. The company aims to reduce the number of train types, so as to obtain better purchasing terms and reduce operational and maintenance costs

21 %

equity ratio

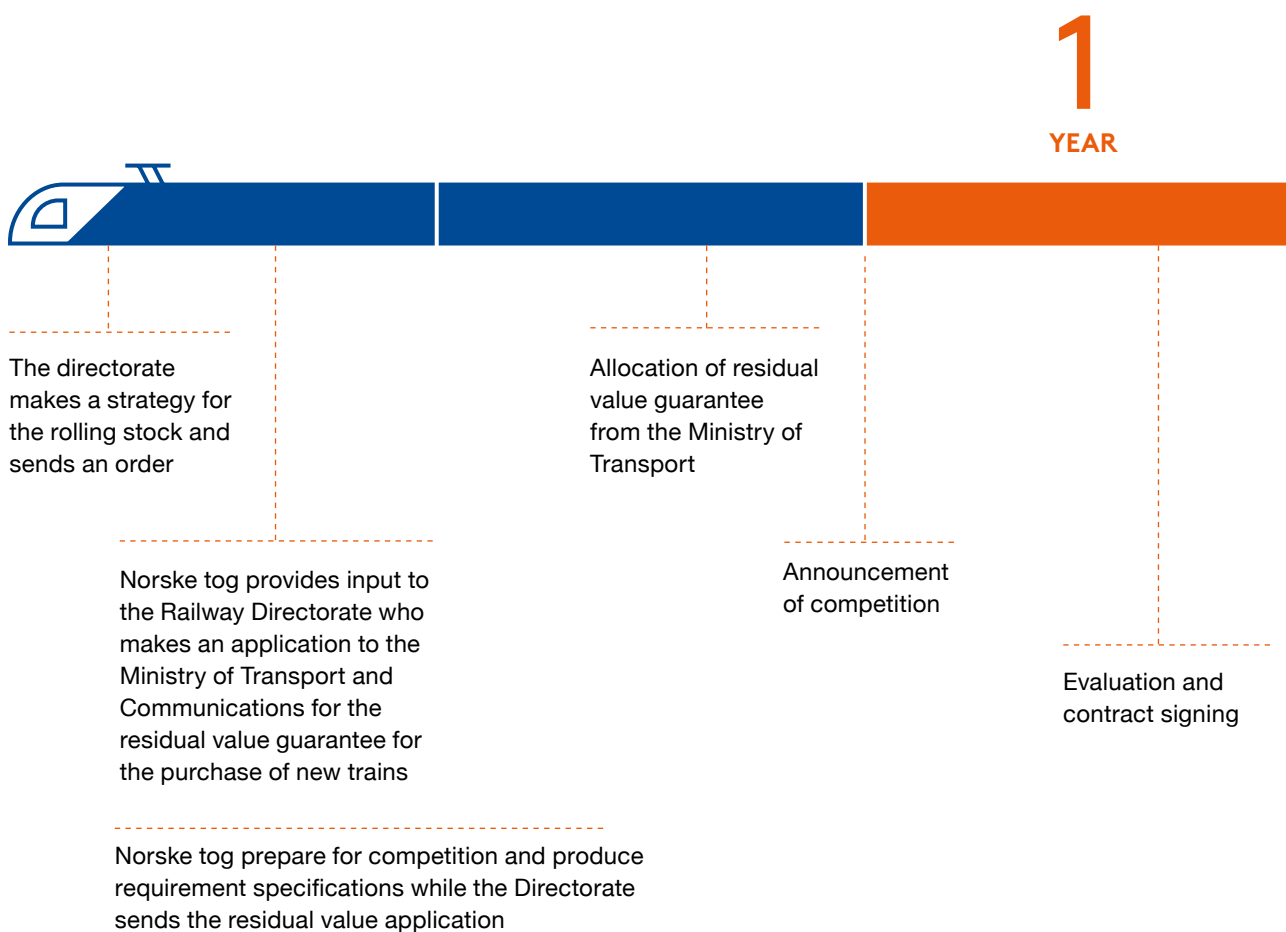
At 31 December 2018, the company had an equity ratio of 21.0%

A+

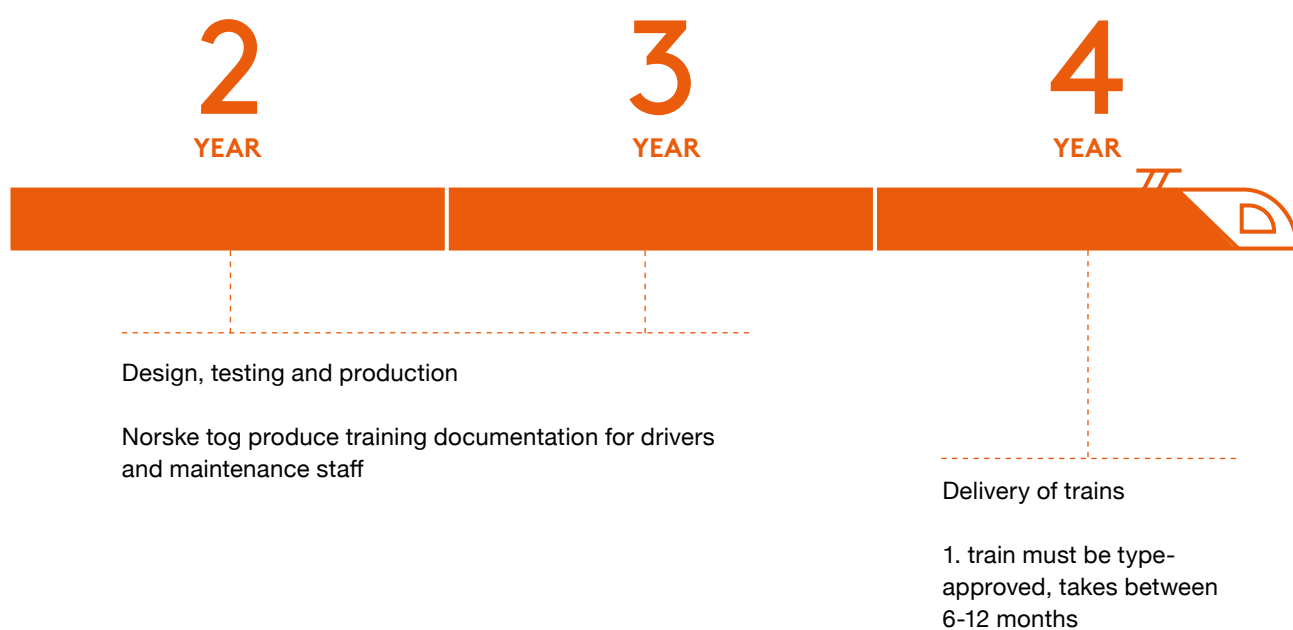
rating

The current rating from Standard & Poor's is A+; the target is A+

Purchase of rolling stock



- Forberedende
- Faktisk anskaffelse



Vision

Norske tog shall be a leading, future-oriented and financially sound company that provides a sufficient number of safe, reliable and up-to-date passenger train vehicles.



By so doing, the company shall help to make passenger train transport attractive in Norway and contribute to «The Green Shift.»





CEO's comment

«Getting a new trainset takes around four years, from when the decision is made to invite tenders for new trains until the first vehicle is delivered. If we are to have new local trains in 2024, the decision must be made in 2019.»

While 2017 was a start-up year for Norske tog, 2018 has been the year when we really got into our stride with many of the projects that will shape the years ahead.

One important project has been assisting in the tender process for the Sørland Railway, with the tender awarded to the UK train operating company Go-Ahead. Norske tog will assist Go-Ahead in the start-up period until the trains go into operation on the line. This is the first agreement entered into with a new train operating company since the Norwegian Railway Reform was enacted and marks an important milestone – both for the rail network and for Norske tog.

«Sold out» of new trains

2018 was also the year when we were “sold out” of new trains. By triggering the final option for new FLIRT trains from Swiss manufacturer Stadler, we will eventually have 150 FLIRTS in operation. The Minister for Transport attended the celebrations marking the handover of the 100th train in August last year. By the end of 2018, we had taken delivery of 105 FLIRTS, with the remaining 45 scheduled for delivery over the next four years. These trains have already been allocated to specific lines, so new demand will require new purchases.

Digitalisation of signalling systems

Another milestone achieved in the course of the year was the agreement we entered into for delivery of on-board equipment for the new, digital ERTMS signalling system. ERTMS is probably the most important initiative in reducing signalling errors and increasing punctuality on the rail network. As the system is rolled out, it will also contribute to increased capacity on the railway, paving the way for self-driving trains in the future.

The ERTMS technology has already been tested on the Eastern section of the Østfold Railway. The experience gained and feedback received bode well for what we can expect as the signalling system is rolled out towards 2030. In total, Norske tog will invest more than NOK 1 billion in on-board equipment to adapt the trains to a new, digital world.

Improving existing trains

In 2018, we implemented a number of projects of varying scope, all of which are important in meeting the expectations made of us by our customers and milieu.

We repaired cracks on old trains and issued a call for tenders for mobile signal boosters to improve mobile coverage on the trains. This is part of an important upgrade to meet passenger requirements for digitalisation and better access to communication solutions on trains.

Norske tog wants to contribute to making the railway even more climate friendly. One exciting climate-related initiative involves developing new, retrofittable engine technology for diesel trains, which could potentially help to reduce consumption and emissions by up to 20%. Our contribution consists in developing a prototype for our Class 93 trainsets. While we will deploy this technology on diesel trains in Northern Norway, the technology has global potential, which can also contribute to climate improvements in other places around the world.

Strong passenger growth generates a need for new trains

Traffic growth in recent years has outstripped the forecasts made in the Norwegian Railway Directorate's 2015 perspective report. This growth looks set to remain at the same high level, with continued population growth in the high-demand areas and more people choosing to travel by train.

But with growth on this scale – and a large part of the vehicle fleet ripe for replacement – comes a great need for new trains. At current growth rates, it is not inconceivable that we will need two new trainsets every single month for the next 30 years.

Without new purchase agreements, within a few years we will have no extra trains to deploy to meet the increased demand. Even if new infrastructure enables frequency and services to be increased, we could find ourselves in a situation where we do not have enough trains to deploy without this having consequences for the service on other lines – unless decisions to purchase new trains are made in 2019.

Long lead time

And time is beginning to run out. Getting a new trainset takes around four years, from when the decision is made to invite tenders for new trains until the first vehicle is delivered. If we are to have new local trains in 2024, the decision must be made in 2019.

No doubt there are people who think Norske tog should work more quickly, but in reality this is not possible. One important reason why the projects take a long time is clarifying and securing financing prior to issuing a call for tenders, and drawing up specifications that ensure the best possible standardisation of trains, taking into account the special conditions pertaining in Norway.

It takes roughly a year to specify a tender for new trains, then roughly just as long is spent on the bidding phase until a contract is signed with the manufacturer. After this, the manufacturer will spend about a year on engineering and preparing to start up production, one year on production of the first trains, and another year on testing and approval.

If trains have to be adapted, this entails higher initial costs for the supplier. In Norway's case, this means it makes sense to place relatively large orders in order to reduce the unit costs, and ideally with extensive options so as to contribute to standardisation and flexibility for growth.

The right trains at the right time

I'm choosing to focus on this challenge now because it goes to the heart of what will always be our big challenge: ensuring, at all times, that we have the fleet of trains needed to realise the full potential of the rail network. We have to do this as cheaply and efficiently as possible, which means focusing on the highest possible

degree of standardisation of both new and existing trains. Today, we have a total of 17 different types of train. It goes without saying that there is much to be gained from a greater degree of standardisation.

Overall, we are very satisfied with what we have achieved in 2018. We have completed and initiated a number of important projects. We have established good collaboration with other players in the railway industry. We have made a constructive contribution to the competition process for operation of the Sørland Railway. In addition, we have achieved solid financial results, a satisfactory return on equity and a particularly good credit rating. This is good for us – and good for our customers.

Norway's railways are in a rapid development phase. We have an important role to play in helping others to succeed, so that even more people choose to travel by train. This is what motivates us to go the extra mile every day. We look forward to continuing the good but challenging work we have started.



Øystein Risan
CEO

«Overall, we are very satisfied with what we have achieved in 2018. We have completed and initiated a number of important projects.»





Norske tog's goals



.....

Goal 1

Satisfied customers
and passengers



.....

Goal 2

A sufficient number
of standardised and
up-to-date trains



.....

Goal 3

Safe and reliable trains



.....

Goal 4

Efficient operations
and financial room
for maneuver



.....

Goal 5

Competent and
satisfied employees

Norske tog made some adjustments to the company's goals in 2018.

More new FLIRT trains were delivered by Stadler in 2018 and the final option on the contract triggered. This means that, by the end of 2022, Norske tog's fleet will comprise 150 modern trains of this type, such that the company will then be well on track with standardisation of its fleet. In addition, passengers remain very satisfied with all types of train and gave the overall fleet a 79% satisfaction rating in NSB's customer satisfaction survey conducted in the second half of 2018. There was also progress on safety and reliability in 2018, with cracks repaired on Class 7 and WLAB trains. Data security on trains was mapped to assess the risk and consequences of a possible data breach. The importance of good data security has been included in the purchasing criteria for new trains.

The company reviewed its financing model in 2018 to ensure financial room for maneuver. Maintaining the company's equity is important to ensure Norske tog continues to obtain favourable borrowing terms.

Moreover, the company achieved its employee satisfaction goal in 2018, recording a score well above the average for comparable companies. Sickness absence remained low at 0.7%, and Norske tog has increased the proportion of women in the company through new recruitment.







Organisation:
Employee centred

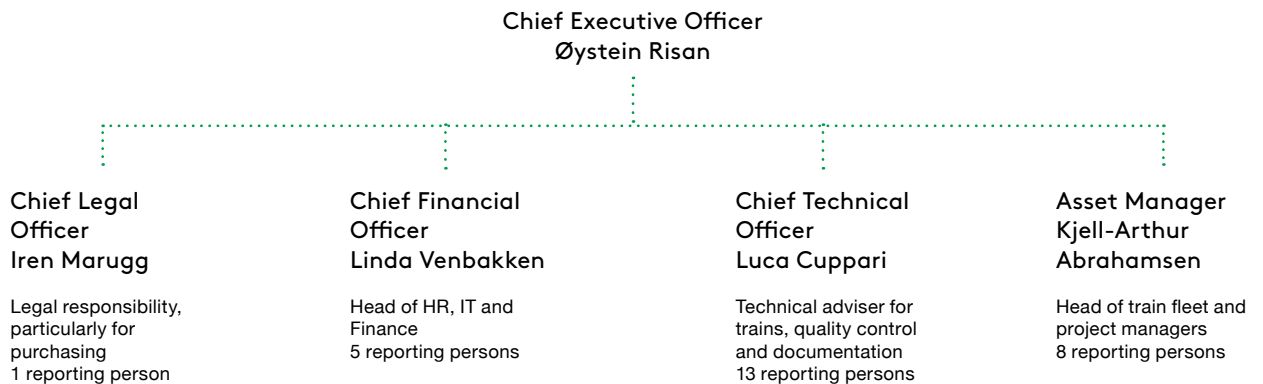
Norske tog is a
knowledge-based
company boasting
experienced employees
with top-level
technical expertise.



Norske tog AS' leader group from left, Linda Marie Venbakken, Kjell-Arthur Abrahamsen, Øystein Risan, Iren Marugg and Luca Cuppari.

More than two years have passed since Norske tog AS was set up, at which time 32 person-years were transferred from NSB to the newly established company. At the end of 2018, Norske tog had 32 employees – four women and 28 men – across four departments. Norske tog's employees include engineers with specialist

skills within all areas of vehicle technology systems. The organisation also has project managers and an administration that ensures that Norske tog is run safely and efficiently as a future-oriented and financially sound materiel company.



Employee strategy

Norske tog has a competence matrix that provides an overview of positions, roles, duties, skills requirements, and any requirements for certification and training. Some positions in Norske tog involve duties that require third-party certification. Certification of this nature is carried out on an ongoing basis and as required. Since Norske tog operates in an international industry subject to rapid technological development, further training and staying up to date with industry developments are important. The company maintains a record of the individual employee's experience and skills, which together with employee appraisals forms the basis for a skills development plan for each individual.

Norske tog seeks to collaborate with academia and other players on research and development. Future recruitment will take account of both gender and age composition in the organisation.

Ethical guidelines for employees in Norske tog

The reputation and trust enjoyed by Norske tog depend on our employees' professionalism and capability, and require high ethical standards. All employees are expected to behave with due care, integrity and objectivity, and to refrain from actions that may damage trust in the company. Norske tog's Board of Directors has adopted ethical guidelines applicable to all employees, as well as others representing Norske tog by assignment or office.

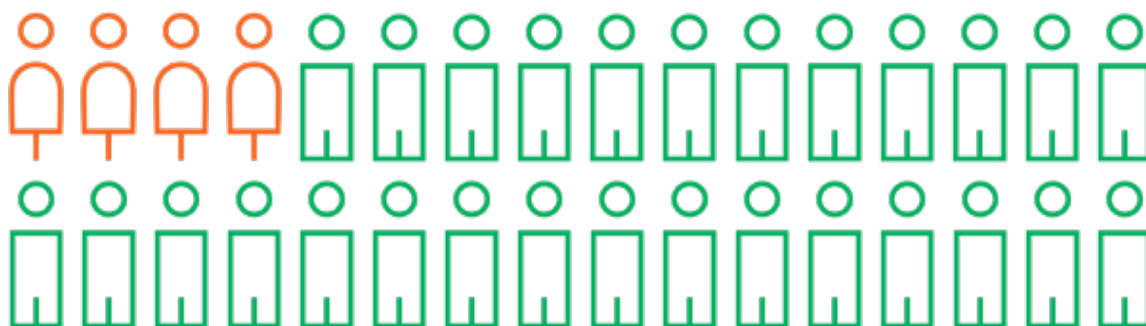
The ethical guidelines cover areas such as loyalty, impartiality and conflict of interests, and establish that Norske tog shall work actively to counter all forms of corruption. Gifts or payments of a personal nature that may compromise the recipient's integrity or may give such an impression must not be accepted. Suppliers and partners are expected to follow ethical standards in line with Norske tog's ethical framework.

Norske tog's ethical guidelines contain provisions on whistleblowing and information on consequences of infringements.

Engagement

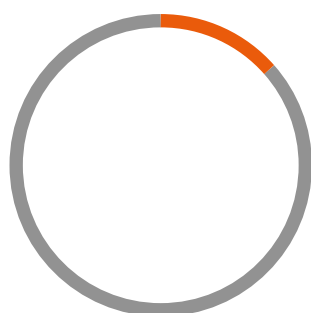
Internal updating and engagement of all employees is a goal for Norske tog. Town-hall and regular departmental meetings are held, and internal updates provided on all matters concerning the company's operations.

Employees



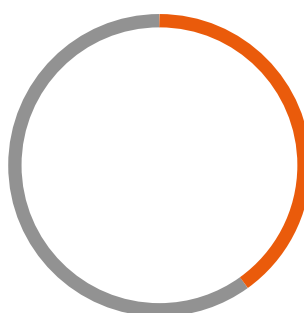
Number of employees: 32 (30 i 2017)
 Number of man-years: 32 (30 i 2017)

Figure 12: Employees and man-years



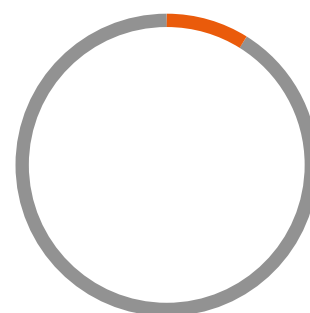
Share of women
 13 % (10 % i 2017)

Figure 13: Share of women



Share of females in the leader group
 40 % (40 % i 2017)

Figure 14: share of females in the leader group



Share of minorities
 9% (13% i 2017)

Figure 15: share of minorities

Achievement of objectives

Sick leave

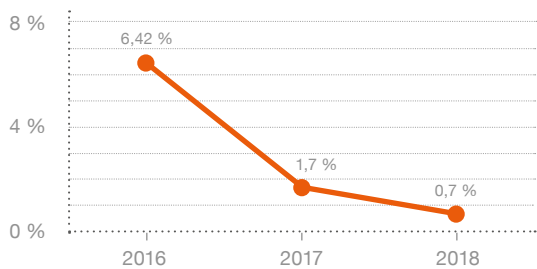


Figure 16: Sick leave

Employee satisfaction

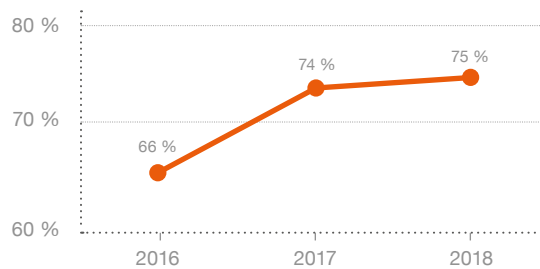


Figure 17: Employee satisfaction





Sustainability and
corporate social
responsibility

If the government wants to halve emissions from the transport sector by 2030 compared with the 2005 baseline, this will require innovation and technological development on the part of Norske tog.

Urbanisation is a global trend that is increasing the demand for efficient and environmentally friendly transport in urban areas. The railway is vital for conveying people into and out of most major Norwegian cities. The Oslo region, for example, is one of Europe's fastest-growing regions, and here the railway plays a crucial role in connectivity and climate. Norske tog's most important social function is laying the foundations for more people choosing to use public transport for their daily travel, by ensuring a sufficient supply of – good-quality – rolling stock. Norske tog must follow up the significant investments made in expanding and upgrading the rail network in Norway by making sure there is sufficient capacity in terms of rolling stock.

The latest report from the UN Intergovernmental Panel on Climate Change shows that climate change will be dramatic, with a big difference between the impact of a rise of 1.5 or 2 degrees in global temperatures. This is why there is a need for much greater and faster adjustment than has been the case previously. The Norwegian government's climate policy seeks to cut emissions as quickly as possible. The government has set a goal for Norway to be climate neutral in 2030 and to be a low-emission society in 2050, by reducing greenhouse gas emissions by 90-95%.

If the government wants to halve emissions from the transport sector by 2030 compared with the 2005 baseline, this will require innovation and technological development on the part of Norske tog. Norske tog must play its part with more energy-efficient solutions and by exploring the scope of opportunity for low- and zero-emission solutions on non-electrified sections of railway. Rolling stock has a useful life of 20-30 years, so purchases made in the next few years will have a major impact on greenhouse gas emissions from the railway for several decades to come.

The population is growing, and more and more people are travelling by train. The rolling stock must be used more efficiently, and new trainsets must be purchased. Passengers expect higher levels of travel comfort, as well as better mobile coverage to enable them to combine their journeys with work or entertainment. This requires an upgrade of the rolling stock.

Norske tog has a key role to play in achieving a more efficient and climate-friendly transport system. Things must run smoothly towards the Green Shift.

Norske tog's guidelines

Norske tog has established guidelines for its work on corporate social responsibility, and these are integrated in the company's management systems. An ethical framework has been developed for dialogue with internal and external stakeholders. Norske tog observes the following basic principles for exercising corporate social responsibility:

- Norske tog shall work in accordance with the principles of the UN Declaration of Human Rights and the ILO's core conventions
- Corporate social responsibility is integrated in the company's strategic basis and values
- Norske tog shall contribute actively to reducing the environmental impact of the transport sector
- The company shall work actively to counter all forms of corruption
- All managers are responsible for ensuring that their departments attend to corporate social responsibility as part of their business operations

Focus areas

Based on the guidelines and principles Norske tog follows, six focus areas for work on corporate social responsibility were defined and reported on in 2017. In 2018, Norske tog added a further two themes to expand the focus areas and hence our corporate social responsibility. The company seeks to contribute actively to a sustainable society and working life for the future, and in the sections below highlights how Norske tog contributes to the work to achieve the UN Sustainable Development Goals (SDGs). Norske tog considers that being aware of the SDGs and working actively to achieve them generates added value for the company.

By raising awareness both internally in the company and among suppliers and business partners, Norske tog can contribute to general value creation across the value chain. In the long term, this could contribute to better and more railways for the money.



Environment (reduce emissions, innovation)

The Paris Agreement sets a clear course for future, global climate initiatives, and businesses and society will have to adjust to new climate goals. The government has set a goal for Norway to be climate neutral in 2030 and to be a low-emission society in 2050, by reducing greenhouse gas emissions by 90–95%. The government further wants to halve emissions from the transport sector by 2030 compared with the 2005 baseline (*taken from the government's 'Granavolden Platform').

Greenhouse gas emissions in the transport sector can be reduced by switching to forms of transport with lower emissions, by facilitating lower demand for transport or by lowering emissions from individual means of transport.

Norske tog is working to reduce energy consumption and greenhouse gas emissions from its own operations. This involves using technical solutions that reduce energy consumption on existing trains and replacing old rolling stock with new, more energy-efficient and environmentally friendly trains.

In 2018, Norske tog joined forces with Feral on a pilot project to develop new technology that can be retrofitted on diesel engines. This technology will help to reduce greenhouse gas emissions and consumption of fossil fuels for Norske tog's diesel trains. The company is also participating in a newly established, interdisciplinary R&D group with the Norwegian Railway Directorate that will look at how the rail sector as a whole can contribute to more effective climate and environmental measures.

Other areas where Norske tog can see that the company's work is helping to reduce emissions include purchasing of new trainsets. When drawing up the specification of requirements for tenders, Norske tog includes criteria, among other things, for facilitating simple upgrades of on-board systems and smart interior solutions for increased capacity, but with

the same high level of comfort for passengers. This enables better resource utilisation for Norske tog's trainsets, and the possibility of straightforward adaptation to new technical solutions and capacity without increasing the environmental impact.



Labour and human rights

Norske tog shall promote social interaction in the company characterised by respect and consideration for others. Fundamental human and employee rights shall be respected both internally and in interactions with business partners, customers and others who are impacted directly or indirectly by the company's activities.

Norske tog conducts its operations in Norway. Issues relating to human rights and employee rights are handled effectively in arenas that bring employees and the company's management together for this purpose. Employees in Norske tog have rights that are clearly defined in collective agreements and conventions. The employees are represented on the company's Board of Directors.

Based on statutory requirements and Norske tog's ethical guidelines, the work on non-discrimination and equality is expanded on in the company's HR policy principles. Among other things, these state that:

- All employees in Norske tog are equal, irrespective of gender, age, disability, sexual orientation, or religious, ethnic or cultural background.
- We seek a wide and diverse range of managers and employees where individual characteristics are respected and valued.
- Increased gender balance is desirable at all levels of the company, and shall be emphasised in recruitment and skills development.

Women represent approx. 13% of the workforce at Norske tog. Women make up 66% of shareholder-elected members of Norske tog's Board of Directors and 40% of the company's management.

Norske tog's goal is to achieve a good gender balance in the company by means of clear guidelines from management and systematic work. Important measures include:

- A moderate gender quota when recruiting to a number of job categories where men are particularly dominant, provided the candidate meets the qualification requirements.
- Calling at least one female candidate to the final round of interviews for most positions where feasible.
- Management focus on avoiding gender-discriminatory attitudes and behaviours.
- Careful consideration of how applicants are evaluated and the criteria applied.

Norske tog's goal is increased diversity in the company. Important action areas include:

- Thorough and bona fide handling of reports of or suspicions of discriminatory behaviour.
- Emphasising Norske tog's policy on diversity and equality in job advertisements.
- Calling at least one candidate from an immigrant background to interview for most positions where feasible.
- Management focus on ethnic breadth and diversity adds value.

Norske tog has established a whistleblower channel pursuant to the requirements of the Norwegian Working Environment Act.

Safety

Norske tog's goal is zero injuries to people and zero harm to the environment and society, and the company works purposefully and systematically to achieve this.

No injuries/harm arising from the company's operations were reported in 2018.

- Norske tog's operations shall not cause serious injury to persons or serious harm to the environment or material assets.
- Norske tog's business activities shall proactively prevent undesired events and have the requisite ability to handle critical situations. The core activity shall, wherever possible, be maintained in threat and crisis situations.

- Learning and continual improvement shall be facilitated. Safety-related information shall be understandable and easily accessible in the organisation. No one shall be penalised for reporting errors and challenging situations.
- The safety work must be tailored to the nature of the operations and be developed so as to be able to satisfy changed requirements and conditions.

Management is responsible for employees at all levels developing good attitudes and prioritising safety in their work. If deviations in goal achievement or from specified safety requirements are revealed, the responsible manager shall implement corrective measures.



Anti-corruption

Norske tog works to promote a strong anti-corruption culture in the company. Norske tog shall actively prevent undesired behaviour and shall use routines, controls and training to equip its employees to handle difficult situations.

Norske tog has established ethical guidelines and guidelines for corporate social responsibility that, among other things, address the company's stance on human rights, employee rights and anti-corruption.

Norske tog makes major purchases of both trainsets and other goods and services linked to management of the trains. Since this type of purchase is often of high economic value, it is important that employees are aware of the company's work on anti-corruption in their dealings with suppliers and business partners.



Responsible purchasing and procurement of new trains

Norske tog sets ethical requirements for the company's suppliers and maps the risk of any breaches of these requirements as part of the procurement process. Each supplier must undertake to follow international conventions and facilitate inspections of working conditions throughout the supply chain by Norske tog

or relevant authorities. Norske tog seeks to work with suppliers on continual improvements to safeguard good, safe working conditions.

For Norske tog, responsible purchasing also involves consideration of external factors such as climate and the environment. Importance is attached in this context to the entire life cycle of the trains, from production to use and, finally, scrapping. Norske tog seeks to choose trains and train systems that can easily be updated or changed to be able to use new technology or energy sources.

In 2018, Norske tog began preparations to procure new local trains to replace the Class 69. An agreement was also entered into concerning bimodal trains, i.e. trains that can run on both electricity and diesel. These will replace the Class 92 multiple units that currently operate on Trønderbanen, the Trøndelag Commuter Rail.

Norske tog works systematically to accommodate capacity increases, and the demand for replacements, rationalisation and standardisation of the train fleet. The final option on FLIRT trains from Stadler was triggered in 2018, with the last trainset estimated to be delivered by the end of 2022.



Whistleblowing

The company has established routines for whistleblowing on criticisable conditions and has an external whistleblowing channel to ensure that whistleblower's interests are safeguarded. In this way, Norske tog seeks to facilitate a high level of transparency for the company's operations.

These routines shall be made known to all employees in the company and among consultants and suppliers working for Norske tog.

Customer satisfaction

Norske tog has set high standards for customer satisfaction. The company's customers are the train operating companies that take part in competitions for new traffic packages and win the tenders, as well as Norwegian State Railways (NSB) via its direct purchase agreement with the Norwegian Railway Directorate.

NSB's customer satisfaction survey for 2018 reports a very high level of satisfaction with the trains it operates. The train fleet as a whole scored 79 out of 100 for how satisfied passengers are overall with the train type they travel on. Although rail passengers are not direct customers of Norske tog, they are an important stakeholder group, which is why the company uses passenger satisfaction as a measure of its own goal achievement.

The train operating companies' satisfaction with Norske tog reflects the passengers' satisfaction with the train operating companies, and the strategic measures and decisions taken by Norske tog with respect to them.

Equity

For Norske tog, stable framework conditions and adequate equity and liquidity are vital prerequisites for securing low financing costs. The company seeks to achieve the highest credit rating. This is important, as Norske tog's investment requirements have to be covered by borrowings and external capital.

Norske tog's goal is to have an equity ratio of 25%, and the company's owner requires a return on equity of 5%. At 31 December 2018, Norske tog had a credit rating of A+ and an equity ratio of 21%.

Investing for the future and society

Norway is often seen as a pioneer when it comes to sustainability. Both the public and private sectors are exploring the scope of opportunity for areas such as renewable energy, carbon capture and storage, and exploitation of the marine environment. Neither is it any secret that Norwegians also have a fascination for new technology and innovation in the private sphere. At the end of 2018, the Norwegian Electric Vehicle Association reported that just over 200,000 electric vehicles had been registered in Norway, and the average person owns four mobile devices.

Through the UN Sustainable Development Goals, Norway has also committed to building solid infrastructure, facilitating innovation and infrastructure development, and building sustainable societies with good public transport services. These are topics that Norske tog works purposefully on every single day. This is why Norske tog also plays an important part in society achieving the UN Sustainable Development Goals while simultaneously discharging the social function assigned to it.



Sustainable public transport in Norway

Norway's public transport sector works together towards a common goal of getting more people to use public transport. Norske tog works purposefully towards being able to offer the best trains to the train operating companies and hence the best travel experience to the passengers. Several of Norway's railway stations are also important transport hubs, where development of current train services plays a part in facilitating further passenger growth.

Procuring new trains and expanding the railway infrastructure not only facilitate improved customer satisfaction for current passengers but also potential passengers deciding to travel by train. By thinking holistically, Norske tog and the rest of the railway industry contribute to sustainable towns and communities. The article on "Focus areas" on page 35 examines this topic.



Infrastructure for the future

Norske tog shall help to make it easy to travel by public transport and to make this choice. The company shall do this by supplying a sufficient number of safe, reliable and up-to-date trains to the train operating companies servicing the Norwegian rail network.

During 2019, Norske tog aims to issue tenders for new local trains. These shall cover Class 69 trainsets procured in the period 1975-1993, which are ripe for replacement.

The Norwegian rail network is an important element of both urban and hub development. And in order for Norske tog to deliver on its social function, the company must be at the forefront in areas such as standardisation of the train fleet and planning future train services.

The article "The local train – the everyday hero" on page 44 explores this theme.



Innovation for the future and now

Norske tog has been assigned the task of facilitating on-board internet coverage on Norway's railways. The current solution is unfortunately not up to the mark for large numbers of Norway's commuters. These represent a large part of the target group who, among other things, want to be able to work on the train, read a newspaper online or stream a film. Norske tog has therefore considered, from a passenger perspective, what provides the best offer for passengers. A tender competition for new mobile signal boosters was launched in 2018.

Testing of the new ERTMS signalling system, on the eastern section of the Østfold Railway, has started to provide promising indications for what can be expected in terms of improved punctuality. Norske tog is responsible for installing the on-board system, while Bane NOR is responsible for the infrastructure. The two companies are working together to make the Norwegian rail network even safer and more punctual.

Norske tog is also working on innovations in other areas, but these are not necessarily so obvious. Examples include the dimensions of train doors for faster and easier boarding and alighting, and smart maintenance of the trains. The latter will be able to provide more "railway for the money" thanks to more efficient resource management and shorter downtimes for trainsets needing repairs.

The articles "Internet coverage – an important element of good travel experiences" and "Innovation and digitalisation – arriving safely and on time" on pages 52 and 60 explore this theme.

Norske tog's stakeholders

Stakeholders in Norske tog are defined as all individuals, companies, organisations and institutions that can have a material influence on the company's ability to achieve its goals or that can be expected to be materially impacted by its operations.

Norske tog seeks to have a relatively stable list of stakeholders over time, but will nevertheless review and update the list at regular intervals. The overview reproduced below is a revised list for 2018. In the event of major procurement projects, Norske tog carries out separate analyses of and interviews with key stakeholders.

The key stakeholders are:

Owner, represented by the Norwegian Ministry of Transport and Communications

There is close and positive dialogue with the Ministry of Transport and Communications. Dialogue with politicians outside this relationship takes place in agreement with the Ministry.

Authorities

Norske tog shall follow and comply with all the acts and regulations relevant to its operations. Approval of modifications and procurements requires a good flow of information between Norske tog and the Norwegian Railway Authority. Norske tog is in dialogue with – and makes deliveries to – the Norwegian Railway Directorate on an ongoing basis.

Customers

Norske tog's customers are the train operating companies awarded traffic packages on the Norwegian rail network. At present, Norske tog has two customers: NSB and Go-Ahead. This number may increase in light of the tender procedures for Traffic Packages North and West. As well as supplying trains, Norske tog shall provide technical support to enable the customer to operate the trains in the best possible way.

In addition, Norske tog defines Norway's rail passengers as important stakeholders, even though they do not have a direct customer relationship with Norske tog. Norske tog receives customer satisfaction surveys from the train operating company(ies) each year. These provide a snapshot of how the company and the specific train is perceived, and provide feedback as to which areas Norske tog should focus on going forward.

Suppliers

Procurements and modifications often span many years and require good collaboration with the company's suppliers. Norske tog and its suppliers have a shared interest in delivering a good product to the customer. A supplier conference was organised in 2018.

Business partners

Norske tog is a small player in a European context and therefore seeks membership of organisations that represent common interests and address common needs for information and collaboration within relevant technical areas.

Special interest organisations

There are a number of special interest organisations within the rail sector that can provide valuable input, experiences and opinions beneficial to Norske tog in its strategic work.

Investors

Norske tog is dependent on debt financing in national and international bond and certificate markets. Norske tog will explore the possibility of green bonds from 2019.

Employees

Norske tog's employees possess unique expertise within the types of train used on the Norwegian rail network, and it is important to retain and further develop the knowledge within the organisation. For more detailed information, please refer to Norske tog's employee strategy.

The company shall be an attractive workplace and shall ensure a good, professional working environment with open communication both inwards and outwards to create trust and credibility.

Materiality analysis

Norske tog has carried out a materiality analysis based on the stakeholders and their needs, placing these in context with the company’s strategic goals.

Norske tog procures, owns and manages trains based on information, analyses, strategies, and the requirements and preferences of stakeholders. Major procurements and upgrades of trains are complex processes extending over several years. These processes are significant to the trains’ useful lives, energy consumption, maintenance costs and safety. Norske tog is committed to having a value chain that promotes a flow of information and collaboration between train operating companies, manufacturers and workshops.

The materiality analysis has been carried out by means of an internal review, with key persons in the company contributing insights and evaluations from their respective technical areas, using the previous analysis as a basis for discussion. This method provides a way of collating a broad range of inputs and views from the key stakeholders, gathered in dialogue over time.

Norske tog shall continue to facilitate good and effective implementation of the principles currently followed by the company. Circumstances linked to the company’s corporate social responsibility shall be mapped on an annual basis, and Norske tog will further develop stakeholder dialogue and carry out new materiality analyses.



Reporting for 2018

The materiality analysis shows that a handful of themes are of great significance to Norske tog's stakeholders, while also being of great significance to the company's own goal achievement.

For a further discussion of the selected themes, please refer to the chapter "Focus areas" earlier in the Annual Report. For more information on the company's strategy for trains, technology, employees, customers and finance, please refer to Norske tog's website



Norske tog's employees possess unique expertise within the types of train used on the Norwegian rail network, and it is important to retain and further develop the knowledge within the organisation.





The local train:
the everyday hero

Norwegian rail passengers have many and varied opinions when it comes to local trains – in terms of punctuality, standards and the comfort of the actual carriage. In Norway, Norske tog is responsible for procuring, owning and managing the trains.

On average, more than 193,000 Norwegians travel by train every day. Most of them are commuters, who rely on the train to get to and from their place of work or study. For these people, the local train is the link between home and work. A train running on time is often what makes it all come together.

Passengers expect both punctuality and a comfortable journey.

The nearer the train gets to Norway's major hubs – such as Oslo S, Stavanger, Oslo Airport, Bergen and Trondheim – the less space there is and the “lower” the level of comfort. This affects the customer experience.

As well as passenger expectations, there are several other factors that influence the nature of Norway's rail service. These include geography, climate and nature, infrastructure, and the construction of the platforms at which the trains stop. Norske tog are specialists in the special conditions pertaining in Norway. The company's engineers closely monitor technological developments in the market, particularly within areas that are important for Norwegian conditions. These are dedicated experts, who use their specialist knowledge to obtain rolling stock compatible with the special conditions in Norway.

The current local train service (and short-distance regional trains)

At present, local train lines are serviced by several different types of trainset with varying life spans, technology and levels of comfort. The oldest trainsets are found on the local train lines in Eastern Norway, as well as the Arendal and Bratsberg Railways. These are Class 69 C, D and H trainsets, all with technology dating from the early 1970s. They provide good passenger capacity, but are now outdated in terms of both technical lifespan and passenger comfort standard.

In 2018, there have been challenges linked to the railway's signalling system, resulting in periods of temporary stoppages. In combination with other unforeseen events and scheduled maintenance on the rail network, this has led to rail traffic coming to a halt for commuters.

However, it is not only the passengers who have expectations of the trains. The train operating companies, such as NSB and Go-Ahead, are totally dependent on reliable trains. They must be able to have confidence that the

trainsets at their disposal will work. Unfortunately, Class 69 has posed challenges as a result of wear and tear, old technology and lack of redundancy. Replacement parts have proved both expensive and difficult to obtain, which is why work is under way to replace these old trains.

The introduction of the new ERTMS digital signalling system and procurement of new local trains will enable Norske tog to improve its offers to the operating companies. It can also improve capacity, reliability and punctuality. This in turn will increase passenger satisfaction with the trains and the train operating companies.

The two most important prerequisites for passengers choosing to travel by train and public transport rather than car are punctuality and a sufficiently good train service. Norske tog works continuously to enable the train operating companies to offer their passengers the best possible travel experience.

Satisfied rail passengers

Based on the survey conducted by NSB in the second half of 2018, as many as 79% of rail passengers say they are very satisfied with all the train types. Given the condition of many of the local trains, this is good news for Norske tog. Despite positive feedback, Norske tog considers it important to procure an adequate number of new local trains. New figures from NSB show passenger growth of 6.7% in 2018, requiring additional new trains.

Norske tog's goal is to improve the quality of the on-board experience. For passengers, this includes factors such as sitting comfort, being able to move comfortably through the train and getting the information they need en route. Good, stable mobile and internet coverage are also important.

«Invisible» innovation

When we talk about innovation, most people think first and foremost of new technology and new gadgets. What they forget is that innovation is also about challenging what already exists by thinking in new ways.

In Norske tog's case, this is a question of increasing train capacity using smart design for the interior, creating solutions for faster boarding and alighting, and adapting the trainsets to Norwegian conditions.

All infrastructure has a capacity limitation, and the same applies to the Norwegian rail network. Moreover, the platforms are designed such that a standard railway vehicle from any international manufacturer will result in too large a gap between the train and the platform – this is not the case for trains that have been adapted to Norwegian specifications. These trains are “low and squat” in contrast to “high and slender” as found elsewhere in Europe.

This is one element of the Norwegian conditions with which Norske tog is very familiar, and about which the company challenges trainset manufacturers to think creatively. At present, 24 trains an hour travel through the Oslo Tunnel. Each train has around 60 seconds at its disposal at the station. The restricted capacity on the infrastructure makes it important to have the best possible passenger flow from the platform and on to the train. The width of the doors, the distance between the doors, and the distance between the train and platform are much more significant than people realise. Every extra 10 cm of distance between the train and the platform increases the time it takes to board/alight by 10%. This in turn will affect the time the train spends at the station, thus placing a further constraint on capacity.

Norway’s rail network represents only 0.6% of the total global market for trains. Despite this small market share, Norske tog has an ambition to challenge train manufacturers to come up with innovative solutions that contribute to reduced greenhouse gas emissions, more efficient energy use and smart interior solutions that could increase capacity.

Norway is also a good place to test trains and new technology. Railway vehicles operating on Norwegian tracks must cope with everything from snow and ice to steep gradients and long tunnels – hence the stringent specifications.

Improved service with new local trains

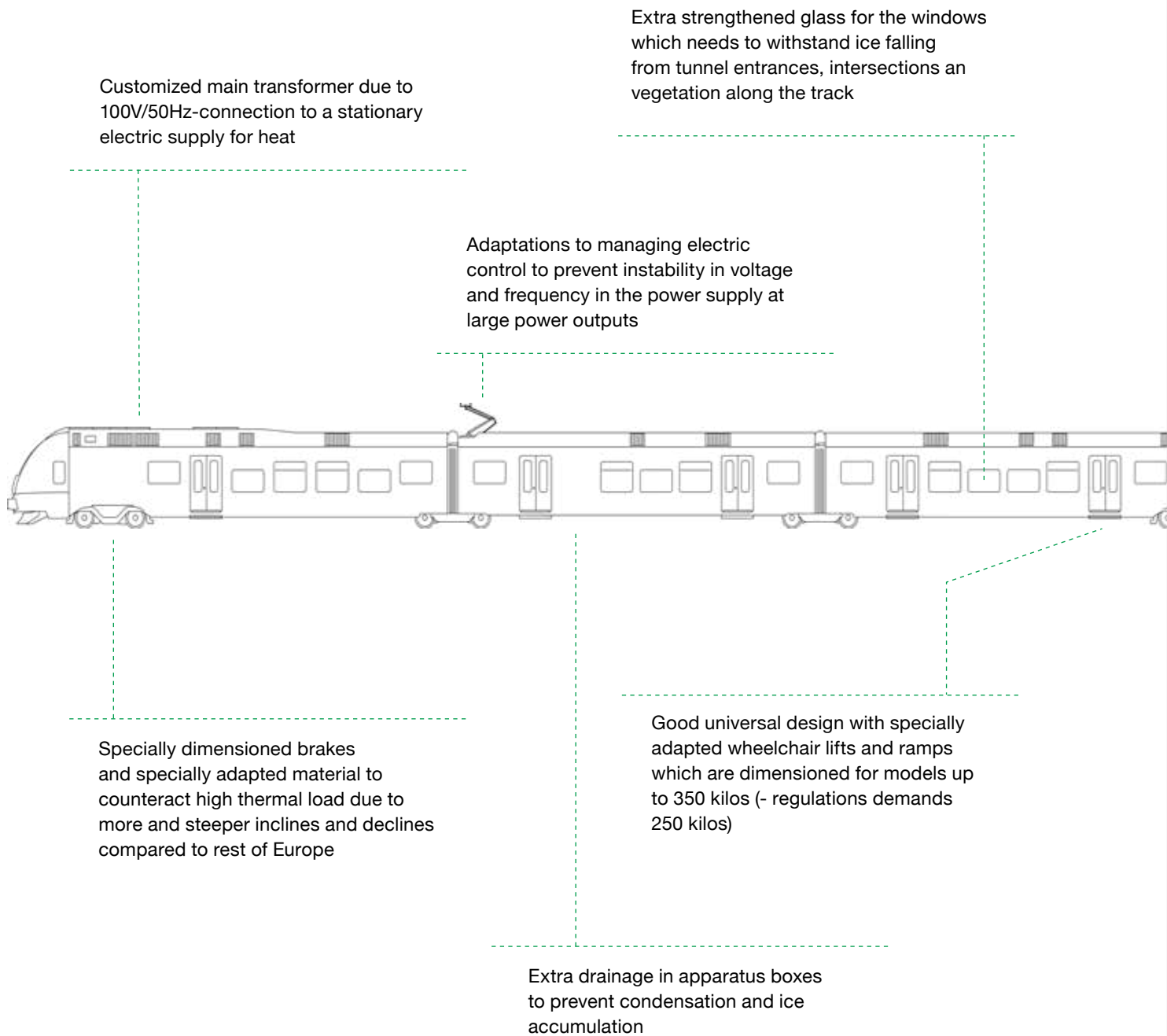
While Class 70 trains will be replaced by trainsets from Option 5 in the Stadler contract, in 2019 Norske tog plans to issue a call for tenders for new local trains to replace the Class 69 trains. This is no straightforward task.

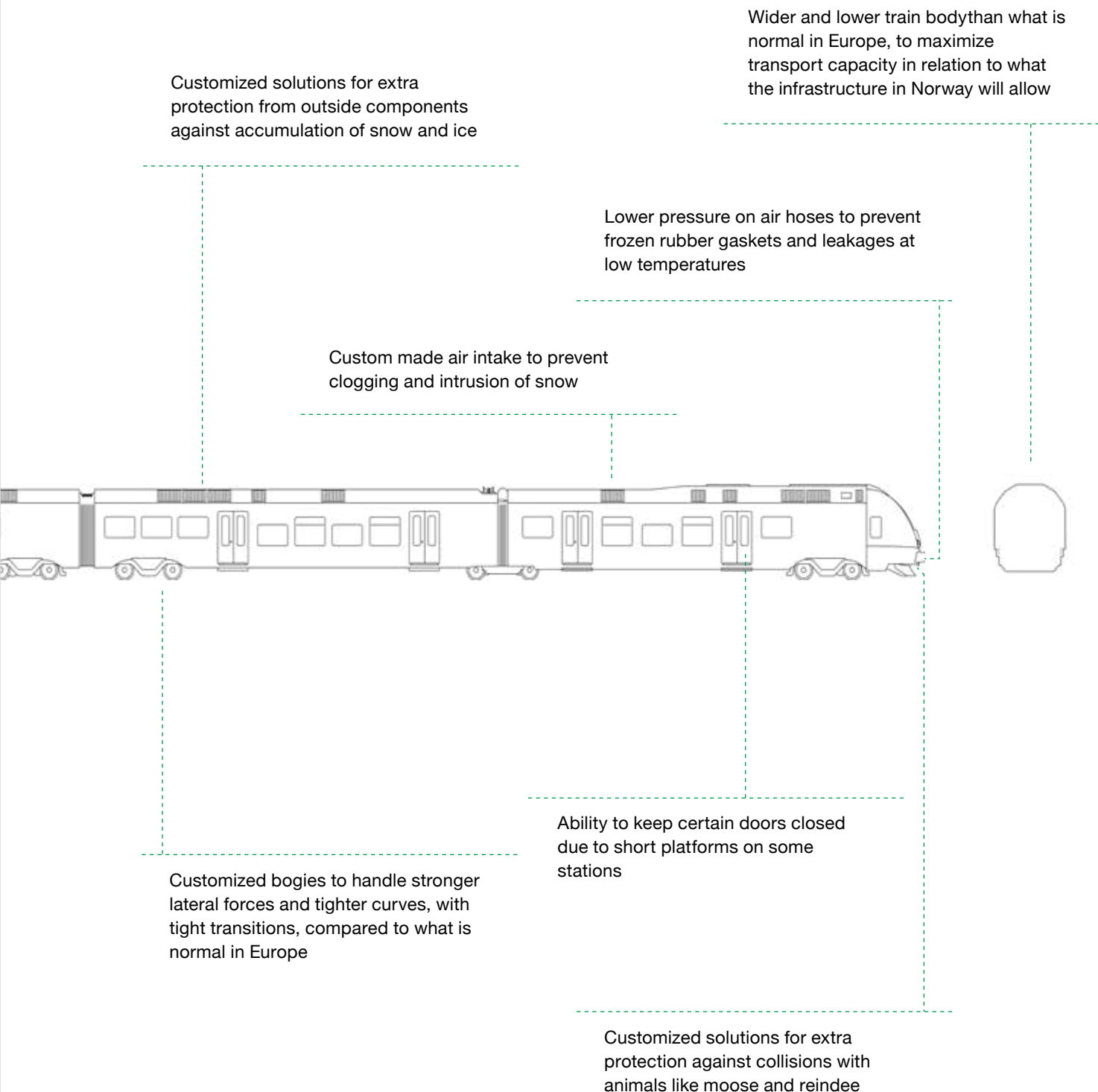
If Norske tog’s train fleet is to be included in various traffic packages, it is important to standardise the fleet with fewer types of train. This will provide greater flexibility and better utilisation of the fleet across lease contracts and traffic packages. A fleet of rolling stock comprising fewer train types also means more cost-effective operations.

New local trains will change the daily commute for thousands of passengers. New and modern interiors, effective solutions and better mobile coverage will improve the travel experience. But most important of all, the new local train will contribute to higher punctuality. Less stress, more calm – and more time for the important things in life.

Norway is also a good place to test trains and new technology. Railway vehicles operating on Norwegian tracks must cope with everything from snow and ice to steep gradients and long tunnels – hence the stringent specifications.

Some characteristics of Norske tog's trains









Internet coverage:
An important
element of good
travel experiences

Passengers expect internet access on the train to be as good as they have at home. In Norway, we have chosen to invest in a combination of mobile signal boosters and on-board Wi-Fi.

Bright screens, deep concentration and you could hear a pin drop. Welcome to morning travel on Norway's commuter trains!

Norwegians top the global rankings when it comes to use of smart phones and mobile data, and are used to having the internet in their pockets. People expect a stable internet connection and access to digital services not only at home and at work but everywhere they may be – including when travelling.

This is why commuters quickly become irritated when the coverage falls short. Unfortunately, this is something that happens more often than Norwegian rail passengers would like.

If travelling by train is to become even more attractive, it must be easy to clear some of the day's work tasks and actions on the way to work. The solution lies in adequate mobile networks along the railway lines – and a technology that ensures stable networks inside the train too.

For passengers, a good experience is the sum of good internet coverage, good data rates and a stable network (see Fig. 1). In this article, Norske tog describes what it is doing to improve the online experience of Norwegian rail passengers.

Bodywork that shields passengers from sun, noise – and mobile signals

Internet access on the rail network is no easy matter, and particularly not in a country such as Norway.

Norway is long and narrow, with scattered settlements, high mountains and deep valleys. The Norwegian rail network comprises 3,867 kilometres of track cutting through the landscape and 688 tunnels. Although 4G coverage in Norway is generally good, measurements carried out by Bane NOR show that coverage along the railway lines varies. Norske tog is working with Simula Research Laboratory to obtain objective figures for the coverage experienced. Simula has developed measurement nodes that simulate the passenger experience. The results show that the coverage shifts between 4G and older technologies. Inadequate coverage means a poorer customer experience. The fact that many Norwegian railway tunnels lack mobile coverage is also a challenge.

Improving coverage in tunnels will require the telecoms service providers to extend mobile networks in places where there is currently no coverage.

Even if there is good internet coverage along the railway line, good coverage inside the train is not a given.

Modern trains are built with passenger comfort in mind, with the bodywork intended to absorb vibrations and noise, shield passengers from the sun and reduce heat loss. The result is bodywork that not only stops noise and heat getting through but also attenuates mobile signals from the outside.

Current technology offers the following solutions, among others, for providing internet-based services on board trains (see Fig. 2):

- A mobile signal booster solution where boosters installed in the train capture the telecoms providers' coverage on the outside of the train, boost the signals and re-transmit them as traditional mobile coverage inside the train.
- Modern windows that avoid loss of signal
- A Wi-Fi solution where an indoor Wi-Fi system uses several modems to capture the telecoms providers' coverage on the outside of the train and converts these signals to indoor Wi-Fi coverage for the passengers.

Target data rate of minimum 5 Mbit/s

As Norwegians' mobile habits become more sophisticated, the websites they are surfing become more content heavy with a propensity to use more video. This requires increased data capacity and higher data rates, and the demands being made by passengers are growing. Not all passengers have strong views on whether they use Wi-Fi or get online using their own mobile subscription via a signal booster.

There are pros and cons to both solutions. Norske tog considers the best solution should be based on passengers getting adequate mobile signals inside the train, i.e. a mobile signal booster solution.

Wi-Fi can be an advantage for passengers with limited data allowances, using devices that do not have a SIM

card or with a subscription that does not include roaming in Norway. Wi-Fi networks of this nature often become their own worst enemy: The more passengers using them, the more sluggish and unstable they become, which does not make for good customer experiences.

Most Norwegian mobile subscriptions have a fixed monthly price that includes voice calls and text messages (SMS). Price differentiation is based on the data allowance. Competition between telecoms providers has boosted both data allowances and transfer rates, and made them cheaper.

Norske tog's goal is for Norwegian trains to be able to offer every single passenger a data rate of minimum 5 Mbit/s, which is enough to allow video streaming. This means it makes most sense to invest in mobile signal boosters that ensure sufficient capacity for good, fast and stable mobile coverage for passengers.

Mobile signal boosters also offer an advantage in terms of security. In a society where ever more items are connected to the internet, having control of who has access to data in the same network is crucial. An increasing number of employers now require work to be done on secure rather than open networks, which is what Wi-Fi on trains represents.

Train operating companies target customer interaction

Norske tog considers it makes the most sense to invest in mobile signal boosters to achieve good internet coverage, but realises at the same time that the train operating companies benefit from being able to offer Wi-Fi. With increasing competition in the sector, it is becoming ever more important for the train operating companies to establish channels for customer contact and to offer added value – with the aim of creating customer loyalty. Installing Wi-Fi networks allows the train operating companies to offer customers added value in the form of internet coverage, enabling them also to offer content services such as films, newspapers and games. Wi-Fi provision will also give the many tourists who visit Norway free internet access without having to buy expensive roaming packages. This is why Norske tog believes Wi-Fi solutions also have a future on Norwegian trains, but financed and run by the train operating companies.

Need to invest NOK 3.1 billion

There is no question that Norske tog must help to create good travel experiences, and that the key to this lies partly in good, stable internet coverage. Customer analyses conducted by NSB show that passengers are not satisfied with the current internet coverage. We have to up our game!

The need to ensure better internet access on trains has been raised time and again by Norway's transport ministers. The government's goal is for more people to use public transport, and providing good working conditions and good internet access while travelling is one means of achieving this.

The Ministry of Transport and Communications has worked with the mobile service providers to upgrade the mobile network along Norway's railway lines. The Ministry has also tasked Norske tog with renewing the mobile signal boosters on trains to provide better internet coverage for passengers. Norske tog's Stadler FLIRT trains are fitted with 4G signal boosters, which have significantly improved coverage on board. New trains delivered as from August 2019 will be fitted with upgraded communication equipment. This covers both mobile signal boosters and Wi-Fi solutions.

With a view to offering rail passengers improved internet coverage, the Norwegian Railway Directorate recently recommended a coverage strategy that entails both establishing modern mobile signal-boosting solutions in the trains, and improving coverage in the mobile service providers' terrestrial networks and in Bane NOR's railway tunnels. The strategy will be implemented in stages, with first priority given to black holes in areas with high passenger numbers. The estimated cost of the coverage strategy is NOK 3.1 billion.

The mobile network is key

Norway was one of the first countries to invest in internet access for passengers by offering Wi-Fi on trains, and the vast majority of trains now have Wi-Fi. Now, even more than before, the rail sector can benefit from the comprehensive upgrade of Norway's mobile network currently under way. The telecoms providers are already working on closing down Norway's 3G network and replacing it with 4G technology, which provides better, faster and more stable networks.

Good network coverage will make the train an even more attractive choice – unless you prefer to sit quietly enjoying the peace and the fine views outside the windows, while your fellow passengers are glued to their glowing screens.

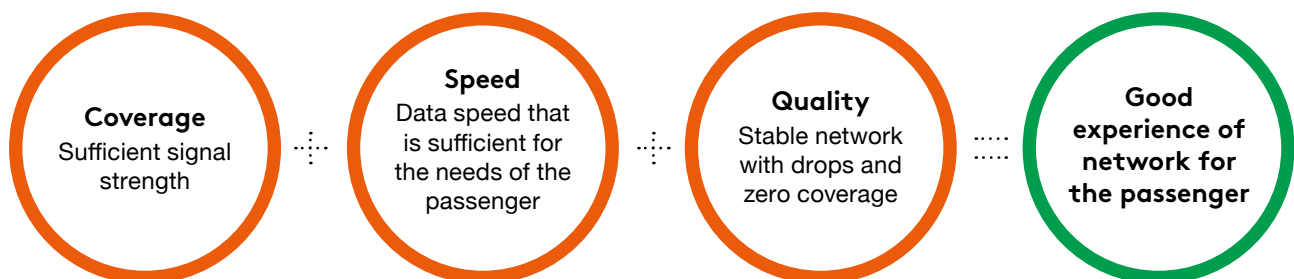
Flirt

- Two 4-band mobile signal boosters (2x2 MIMO)
- Four Cat6 modems in Wi-Fi solution (3 in the first trainsets)
- Better antennas and modems (4x4 MIMO)
- Upgraded access point to 802.11ac (Wi-Fi 5)

The Norwegian Railway Reform

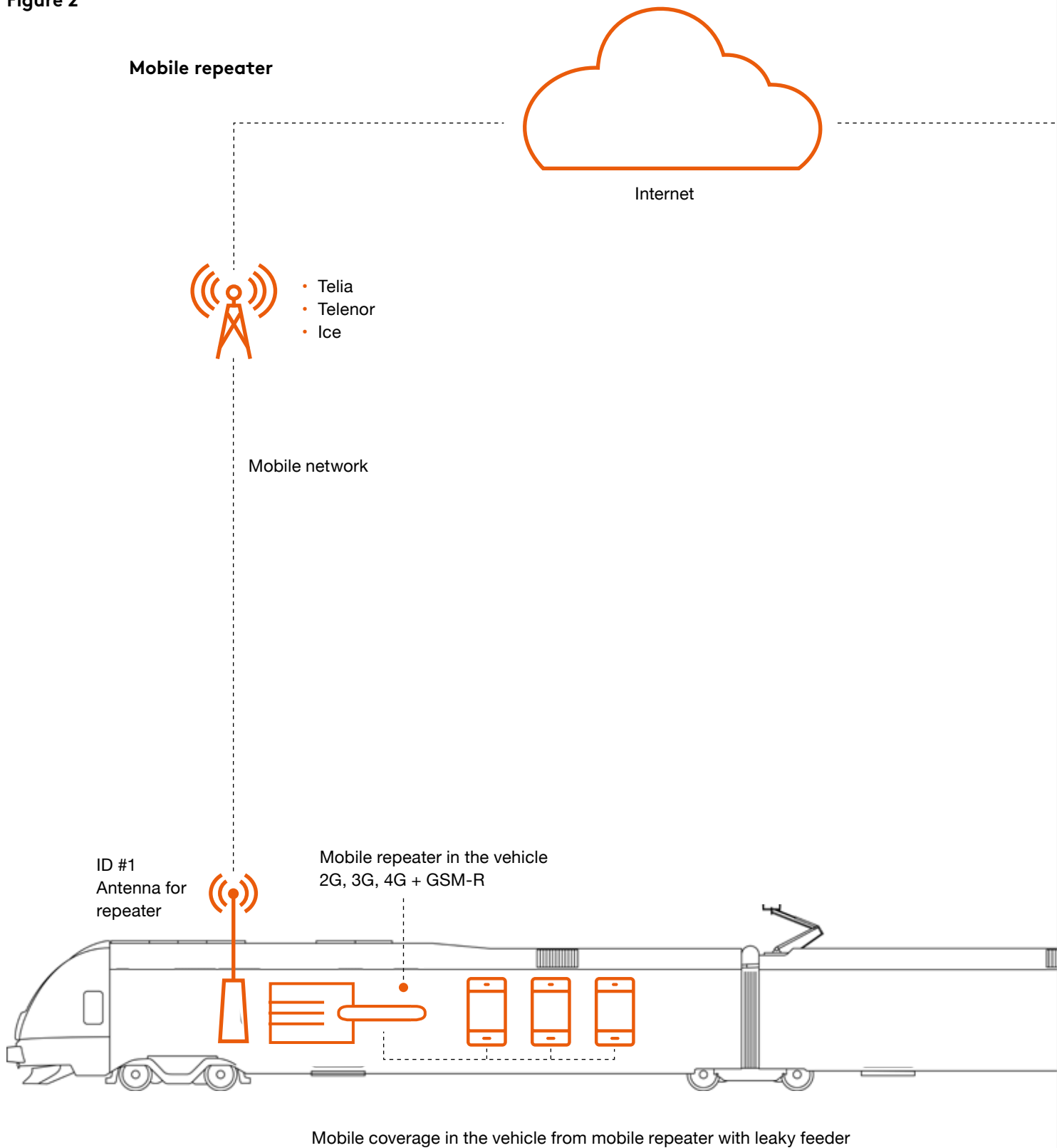
The Norwegian Railway Reform, initiated in 2016/2017, has seen the state-owned rail sector undergo extensive and radical reorganisation. Ownership of the passenger rolling stock was transferred to Norske tog as an independent company owned by the Ministry of Transport and Communications. The passenger trains are leased to train operating companies awarded geographical tenders, known as “Traffic Packages”. The UK company Go-Ahead recently won the tender for the Sørland Railway, and more packages will be awarded over the next few years. The train operating companies are responsible for operation and maintenance of the trains they lease.

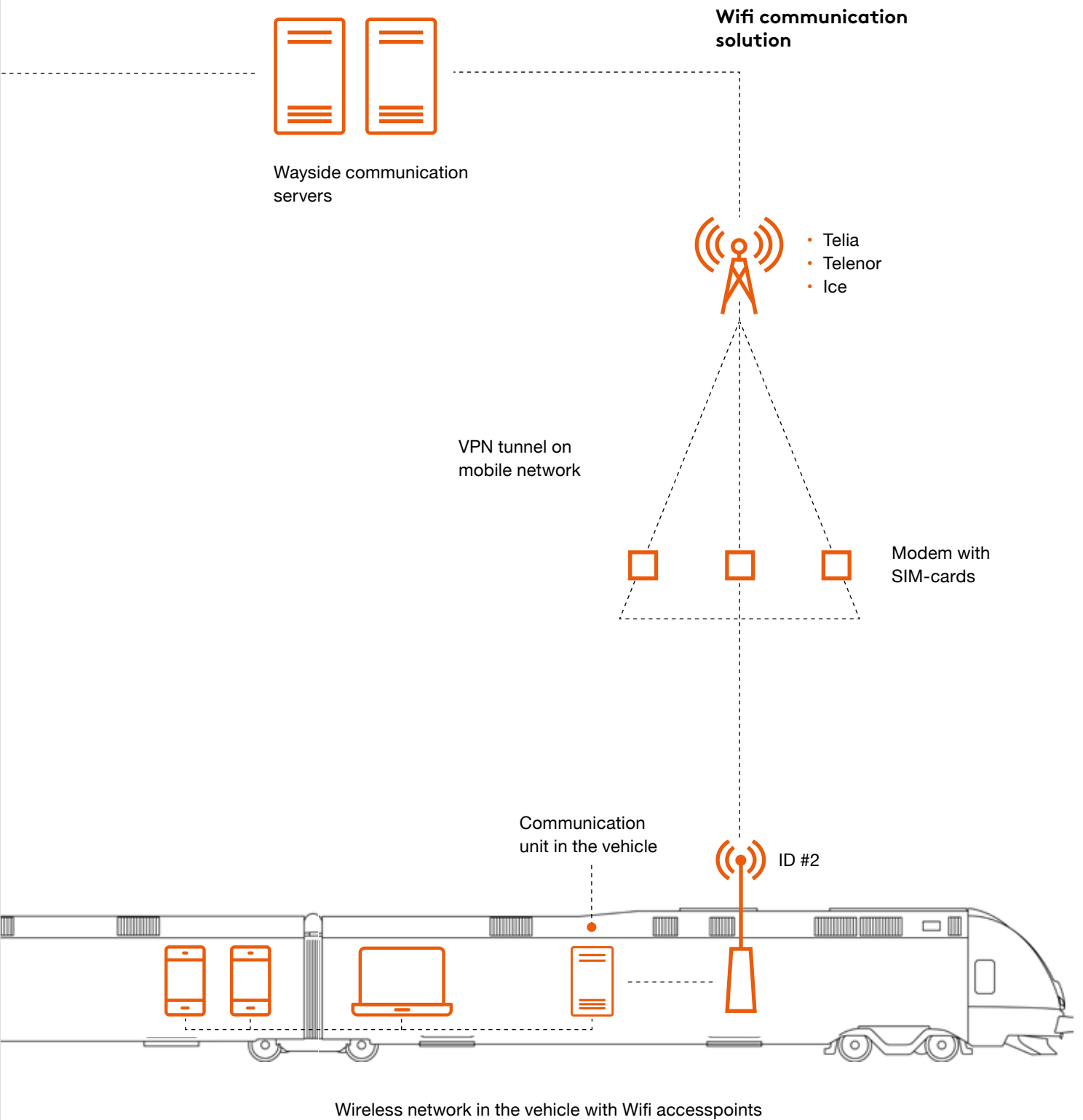
Figure 1



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Figure 2







NSB

N-NOR 94 76 0402 020-8

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Innovation and
digitalisation:
Arriving safely
and on time

Kun gyldig billett
Valid ticket only



8Mb 75520

11.10.2019
12:20:00

Station: NS-C-pm-B-A-B-Mg

11.10.2019
12:20:00

611



Følgende er beredte i gennemsnit
for at løse dine problemer
www.danmarksbaner.dk

Følgende er beredte i gennemsnit
for at løse dine problemer
www.danmarksbaner.dk

Read, sleep, chat.
Some passengers like to
browse on their phones,
while others rest their
eyes on the passing
landscape. Everyone
reaches their destination
safely.

Norske tog embraces new technological solutions in order to provide the best possible service. Combined with its unique expert knowledge of the Norwegian rail system, selecting the best technological solutions means Norske tog is well equipped to discharge its social function

Norske tog has increased its investments in advanced technology so as to contribute to an even safer and more punctual Norwegian rail network for the passengers' benefit. The key objectives of the company's technology strategy are to ensure reliable vehicles and a high level of safety, limit greenhouse gas and environmental emissions, standardise the fleet, and make sure maintenance can be carried out as efficiently as possible.

How does the company do this? Achieving these goals requires Norske tog to keep continually up to date with new innovations in the market: not just in the form of new trains but also by embracing new solutions for use in existing trains.

Norske tog shall perform a facilitator role in enabling the train operating companies to offer the best possible public transport service. In this way, the company plays a part in passengers choosing to use public transport. Achieving these goals also requires Norske tog to choose the right technology to meet new needs effectively.

As technology develops, Norske tog continually assesses the need for new systems. The company has started work to install new on-board equipment in connection with Bane NOR's introduction of the new ERTMS digital signalling system. Norske tog also intends to procure a train-monitoring system: Online Condition Monitoring (OCM).

The following sections provide more detail on the advantages the two systems offer.

New digital signalling system

In 2018, Norske tog entered into an agreement for delivery of on-board equipment for a new digital signalling system – European Rail Traffic Management System (ERTMS) – which will be able to increase capacity, reduce signalling errors and increase punctuality on the rail network.

ERTMS is a common European system initiated by the EU that will standardise signalling and traffic management on railways throughout Europe. In the long term, this will lead to a common system that makes it easier for trains to cross national borders.

The infrastructure company Bane NOR has negotiated the contract and is responsible for the new signalling system. However, much of the equipment has to be installed in the trains, something which falls within Norske tog's remit. This collaborative undertaking requires the development of a new, innovative interface so as to be able to coordinate the process and ensure that the system works, both on the trains and the infrastructure.

The new digital signalling system has several advantages compared with present-day signalling technology:

- Lower maintenance costs for signalling and interlocking systems.
- Better and faster information for train operating companies.
- Fewer signalling errors affecting rail traffic; the upgrade will lead to more predictable and punctual rail traffic.
- Increased automation, reducing the likelihood of human error and thus increasing safety.
- The automation inherent in the system also paves the way for self-driving trains in the future.

The new ERTMS signalling system has already been tested on the eastern section of the Østfold Railway. The experience gained and feedback received bode well for what we can expect as the signalling system is gradually rolled out.

In the next few years, Norske tog will invest approximately NOK 1.1 billion in on-board solutions to adapt the trains to the new digital signalling system. The aim is for the new signalling system to be in operation on all Norwegian trains in 2026. By 2030, it is intended to cover the entire Norwegian rail network.

Condition monitoring of the trains

The ever-growing potential offered by condition monitoring has prompted Norske tog to explore the opportunities available. Information on and analysis

of trains and passenger patterns will provide valuable insight to be able to ensure punctuality, better schedules and a better passenger experience.

Norske tog intends to procure a digital tool to monitor data on the condition of its trains: Online Condition Monitoring (OCM). OCM will be necessary to safeguard the value of assets and to identify which subsystems are performing well and which badly. Taken as a whole, the increased knowledge this provides will help to optimise operations, and with future procurements of new trains

and follow-up of warranty issues. The data will be able to be used to diagnose and warn where faults will occur – before they happen.

In the long term, an OCM system will enable Norske tog to offer the train operating companies unique insight on the future condition of the trains, including evidence of developing faults. For the train operating companies, this means fewer problems and increased punctuality, which will benefit their customers – the passengers. In total: more railway for the money.



In the long term,
an OCM system
will enable Norske
tog to offer the
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companies unique
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future condition of
the trains.





Corporate
governance

The Board of Directors of Norske tog AS is responsible for corporate governance and reports here on the company's compliance with the Norwegian Code of Practice for Corporate Governance issued by the Norwegian Corporate Governance Board (NUES).

Area	Comply	Explain
Reporting on corporate governance	The company is wholly owned by the Norwegian state, represented by the Ministry of Transport and Communications, and conducts its operations in line with the company's articles of association. The company's Board of Directors ensures good corporate governance by adopting frameworks for risk management and internal control and by considering the company's strategy.	
Business	<p>The company's purpose is to procure, own and manage rolling stock to lease to passenger train operating companies in Norway, as well as related activities.</p> <p>The Board of Directors evaluates the company's goals, strategies and risk profile on an annual basis.</p> <p>The company has adopted a set of values and guidelines for ethics and corporate social responsibility.</p>	
Equity and dividends	At 31 December 2018, Norske tog had equity of NOK 2,835 million. The company targets an equity ratio over 20%, which is considered to be adequately capitalised through the strategy period. The earnings model and plans for significant investments in new rolling stock mean that the Board will not propose dividend payments in the coming strategy period.	
Equal treatment of shareholders and transactions with related parties	<p>The company has only one share class. All the shares are owned by the Norwegian state and administered by the Ministry of Transport and Communications.</p> <p>Guidelines for handling transactions that are not immaterial between the company and board members/senior employees are incorporated in the ethical guidelines and instructions for the Board of Directors and CEO.</p>	
Free negotiability	All the shares are owned by the Ministry of Transport and Communications.	The NUES requirements in this area are not considered to be relevant.
General meetings	The Norwegian state represented by the Ministry of Transport and Communications constitutes the general meeting. The annual general meeting is held by the end of June. As a minimum, the chairperson of the Board of Directors, CEO and auditor shall participate in the meeting. The notice convening the annual general meeting is sent to the shareholder no later than 21 days in advance. The registration deadline is set close to the date of the meeting. The annual general meeting is opened by the chairperson of the Board of Directors, after which the meeting elects the meeting chairperson.	

Area	Comply	Explain
Nomination committee	The general meeting comprises the Ministry of Transport and Communications, and no nomination committee has been appointed. Election of board members follows the Ministry's processes for composition of boards of directors in wholly owned companies. The chairperson of the Board of Directors is elected by the annual general meeting. An employee-elected board member is elected by and from among the employees.	The NUES requirements in this area are not considered to be relevant.
Corporate assembly and the board of directors: composition and independence	Norske tog AS does not have a corporate assembly. In 2018, the Board of Directors comprised three shareholder-elected members: two women and one man. The employee-elected board member is not part of the management group. The Board of Directors represents broad experience from different parts of business and industry and has good knowledge of the company's operations.	The recommendation that board members should be encouraged to own shares in the company is not relevant.
The work of the board of directors	<p>The Board of Directors meets a minimum of six times a year, including one annual strategy meeting. Meetings are otherwise convened as required. The number of meetings in 2018 was 11. The Board of Directors draws up an annual plan for its meetings. The Board of Directors evaluates its work and competence on an annual basis.</p> <p>The Board of Directors has drawn up separate instructions for the CEO.</p> <p>In 2018, the Board of Directors established an audit committee for the company.</p>	
Risk management and internal control	<p>Each year, the Board of Directors issues guidance and sets requirements for assessing risk and capital requirements in accordance with the company's guidelines. Risk management is treated as an integral part of the company's business plan.</p> <p>To ensure integrated management of the company, a dedicated management system has been drawn up comprising processes and routines to manage and control the business.</p> <p>Principles and guidelines, routines and authorisation matrices have been prepared in order to manage and control the company's financial position, accounts and financing.</p>	
Remuneration of the Board of Directors	The Board of Directors' remuneration is set at the general meeting. Remuneration is not dependent on results. No board members or companies of which they are related parties have undertaken special tasks for the company.	

Area	Comply	Explain
Remuneration of the executive management	<p>A detailed overview of remuneration of senior employees in the company will be found in Note 22. Pursuant to the articles of association, the Board of Directors has drawn up a declaration on executive pay. The CEO is authorised to set the salary and other remuneration for the company's senior management within the framework of the government's "Guidelines for salaries and other remuneration of senior executives in companies with state ownership", and the principles for executive pay set by the Board of Directors.</p> <p>The Board of Directors' declaration on executive pay is considered as a separate agenda item at the annual general meeting.</p>	
Information and communications	<p>The company is wholly owned by the Norwegian state. Legislation on securities and other regulations relating to equal treatment of players in the securities market are not relevant. There is no financial calendar. However, the company publishes interim and full-year reports on its website.</p>	<p>The requirements are only partially relevant for the company, but are followed with regard to publication of reports.</p>
Take-overs	<p>The company is wholly owned by the Norwegian state and classified as a Category 4 company.</p>	<p>Based on the ownership situation and categorisation of the company, no separate principles governing take-overs have been drawn up.</p>
Auditor	<p>Norske tog AS has an independent auditor elected by the annual general meeting. The auditor participates at the board meeting at which the full-year financial statements are discussed.</p> <p>Non-audit services provided by the auditor are reported to the Board of Directors each year.</p> <p>Norske tog AS also has an internal auditor.</p>	





Board of Director's report

Summary of results and trends for Norske tog AS in 2018

In 2018, Norske tog AS delivered on the key elements of the company's social function. Among other things, the company initiated the work to procure more energy-efficient trains, preparations for the introduction of the ERTMS signalling system are under way and a basis for decision making has been drawn up for possible procurement of a maintenance system for continual monitoring of the trainsets.

Norske tog shall procure, own and manage trains on the Norwegian rail network. The company shall lease out railway vehicles on competition-neutral terms to train operating companies awarded contracts to operate passenger train services in Norway. The company shall assist the Norwegian Railway Directorate in reporting on materiel strategy and shall be responsible for the purchasing process for new railway vehicles.

In 2018, Norske tog focused on procuring bimodal trains for Traffic Package North, new locomotives and new local trains to replace Class 69 trainsets, which have an average age of 26 years. Norske tog has worked systematically and strategically to prepare for the introduction of the new ERTMS digital signalling system and to plan for the mid-life upgrade of 36 Class 72 trains, which are now over 14 years old. Ensuring progress and ongoing deliveries in the work on these milestones has been important for Norske tog over the last year.

Norske tog is posting net profit for the year of NOK 279 million (NOK 142 million), equivalent to a return on equity of 10.9% (6.3%). The company shall achieve a return on equity of 5% over time. The annual return on equity will fluctuate in line with the scope of planned investment projects. The Board of Directors expects a lower return on equity in the coming years due to the launch of major projects such as the introduction of the new ERTMS signalling system, purchase of critical components, mobile signal boosters to boost mobile signals inside trains, new train radios and hiring new diesel locomotives. Higher interest expenses are also expected in the next few years as a result of increased borrowing requirements to finance the above-mentioned projects as well as new local trains.

The company expects to increase 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. Option 5 was signed in December 2018, triggering regular deliveries of new trains up to and including 2022.

Economic developments in Norske tog AS

Norske tog is posting profit for the year of NOK 279 million (NOK 142 million). The operating profit is NOK 426 million (NOK 268 million).

Net cash flow from operating activities is NOK 1,156 million (NOK 269 million). Net cash flow from investing activities is NOK 842 million (NOK 1,134 million). The funds are mainly used to buy new trains. The company has working capital of NOK 1,955 million (NOK 188 million). The change in working capital can mainly be explained by lower accounts payable. A loan was taken up at the end of 2018 to redeem a loan of NOK 1,300 million at the start of 2019, and a prepayment of NOK 571 million was made on Option 5 of the Stadler contract. This resulted in a high figure for cash in hand at 31 December 2018 of NOK 2,300 million.

Including the profit for the year, equity was NOK 2,835 million (NOK 2,565 million). The equity ratio is 21%. Distributable reserves were NOK 435 million (NOK 166 million).

A decision was taken in 2018 to close the pension scheme with the Norwegian Public Service Pension Fund. Effective 1 January 2019, the company has a defined contribution pension plan for all employees; see also Note 13.

Going concern

Pursuant to Section 3-3a of the Norwegian Accounting Act, it is confirmed that the financial statements have been presented under the assumption of a going concern. The profit for the year will be transferred to Other equity.

Purpose of the company

Norske tog's purpose is in accordance with the social function assigned to it by its owner, the Ministry of Transport and Communications. The company shall operate efficiently.

Norske Tog AS is 100% owned by the Ministry of Transport and Communications. The company is headquartered in Oslo.

Reporting on corporate governance

The Corporate governance report is appended to the annual report and financial statements and discussed by the Board of Directors.

Goals and strategies

Norske tog shall effectively facilitate access to a sufficient number of standardised and up-to-date vehicles, in line with society's demand for passenger transport by train. In this way, the company shall contribute to an integrated fleet of trains on Norway's railways.

Norske tog shall draw up plans to cope with capacity requirements and traffic growth for existing and future contracts. The company has drawn up a lease agreement that will form the basis for leasing vehicles to all train operating companies. Norske tog's vehicle strategy shall help to ensure standardisation and optimisation of trains and systems.

The company shall also act in an advisory capacity concerning factors at the interface between vehicles and infrastructure/workshops, and shall have leading expertise in the procurement of trains and systems. Norske tog shall at all times follow technological developments and have oversight of new technological solutions in the sector.

Internal control

Norske tog has a separate framework for internal control and has established internal control systems that cover its values, guidelines for ethics and corporate social responsibility, organisation, authorisation structure and steering documents. Risks within financial reporting are assessed through separate risk analyses.

Based on this, the internal control system is revised as required, in connection with revision of management documents, guidelines, procedures and key control matters.

HR, non-discrimination and the external environment

Norske tog conducts an annual employee survey. Employee satisfaction achieved a score of 75 in 2018, up from 74 in 2017. In 2018, Norske tog's Board of Directors comprised three shareholder-elected members: two women and one man. Having a good gender balance in the organisation is one of the company's goals and shall be achieved by working systematically to recruit more women.

In line with its employee strategy, Norske tog works purposefully with the company's employees on skills development and engagement. The working environment is considered to be good, and a new employee survey is planned for 2019.

Sickness absence for the company averaged 0.7% in 2018.

There were no personal injuries as a result of defects or deficiencies in rolling stock.

Please refer also to the Corporate social responsibility report for Norske tog, which has been prepared in accordance with Section 3-3C of the Accounting Act.

Outlook

In conjunction with the Norwegian Railway Directorate, Norske tog has drawn up a strategy for trains and procurements. The aim of the strategy is to be able to make a sufficient number of standardised and up-to-date trains available to the tenderers awarded future traffic packages.

A contract to purchase 50 trains was entered into with Stadler in 2008, with an option to purchase a further 100 regional and local trains. Option 5 between Stadler and Norske tog was signed in December 2018. The contract with Stadler is running according to schedule, and the final 25 trainsets will be delivered by 2022. This was the final option and takes the total number of trains ordered to 150. When the final delivery is made, Norske tog will have taken an important step towards standardising its fleet of trains, in line with both its social function and the company's vehicle strategy.

At 31 December 2018, Norske tog had taken delivery of a total of 105 trains under this contract. These trains have been well received and the quality is good. Norske tog looks forward to taking delivery of more new trains in the coming year.

The first competition for operation of a passenger train service, Traffic Package 1: South, took place in 2018. In October, the UK company Go-Ahead was awarded the contract for passenger transport on the Sørland Railway, Jærenbanen and the Arendal Railway, bringing Norske tog its second customer. For Norske tog, a new customer means the start of a new and exciting collaboration. The work to enable Go-Ahead to make the changes and

adaptations they wish to the trains can thus begin. Norske tog shall serve as a useful sparring partner and ensure satisfactory deliveries within the available room for maneuver.

2019 offers many exciting and challenging tasks for Norske tog. There are a further two contracts to be awarded – Traffic Packages 2 (North) and 3 (West) – which could theoretically mean another two new customers. Traffic Package South is planned to start up in December 2019, something that will be a real test of the company's ability to deliver on its social function and the basic idea of the Railway Reform.

The Class 72 trainsets require a mid-life upgrade; this involves a total of 36 trains. Norske tog has applied for residual asset insurance for this investment, which must be approved this year for the company to be able to carry out the scheduled upgrade.

Norske tog's most substantial project in 2019 will be drawing up specifications of requirements and tender documents relating to the purchase of new local trains. These shall replace the current Class 69 trains, which have exceeded their technical lifespan. If Norske tog is to have new local trains available for 2024, the decision to procure new trains must be taken in 2019 so that contracts can be signed in 2020.

Norske tog is financed through borrowings in the international bond market. All existing bond loans have been taken up under the Euro Medium Term Note (EMTN) programme. "Green bonds" are an important trend in the bond market, and Norske tog will survey the possibilities of issuing this type of bond in 2019. Norske tog will continue to use the international bond market for future investments.

Risk

Financial risk

The company's activities entail different types of financial risk: market risk (exchange rate risk, interest rate risk and other price risk), credit risk and liquidity 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. Additional information on the company's financial risk management is provided in Note 5 to the financial statements.

Norske tog takes up 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 that regulate 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, the borrowing requirement 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 NOK 300 million.

Norske tog focuses on counterparty risk in financial transactions.

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.

Oslo, 14 February 2019

Anette Malm Justad

Anette Malm Justad
Chair of the Board of Directors

Espen Opedal
Board member

Øystein Risan
CEO

Marianne Abeler
Board member

Vidar Larsen
Board member



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Financial statements

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*The Financial statement was approved by the Board on the 14th February 2019

Income statement

Income statement (All numbers in TNOK)	Notes	2018	2017
Operating revenue	2	1,217,061	996,681
Payroll and related expenses	12	43,028	34,732
Depreciation and impairment	17	692,055	642,522
Other operating expenses	18	56,045	51,817
Total operating expenses		791,128	729,071
Operating profit		425,933	267,610
Financial posts			
Financial income	19	169,200	120,607
Financial expenses	19	-291,645	-233,863
Net financial expenses - pensions	13, 19	-311	-334
Unrealised fair value changes	20	20,371	-1,896
Net financial items		-102,385	-115,486
Profit before income tax		323,548	152,124
Income tax expense	11	44,243	9,613
Profit for the year		279,305	142,511
Attributable to			
Equity holders		279,305	142,511
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Deviation retirement benefit obligations	13	-13,423	-2,773
Tax related to items that will not be reclassified	11	2,883	595
Total comprehensive income for the period		268,765	140,333
Attributable to			
Equity holders		268,765	140,333

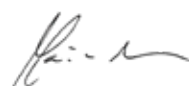
Overview financial position

Overview financial position (All numbers in TNOK)	Notes	31.12.2018	31.12.2017
Assets			
Property, plant and equipment	3	9,883,793	9,733,784
Total non-current assets		9,883,793	9,733,784
Trade and other receivables	4	698	21,247
Derivative financial assets	6	1,203,006	1,091,712
Cash and bank deposits	8	2,372,091	360,499
Total current assets		3,575,795	1,473,458
Total assets		13,459,588	11,207,242
Equity and liabilities			
Ordinary shares and share premium	9	2,400,000	2,400,000
Retained earnings		434,598	165,834
Total equity		2,834,598	2,565,834
Borrowings	10	8,311,286	7,309,273
Retirement benefit obligations	13	32,296	18,271
Total long term liabilities		8,343,528	7,327,544
Trade and other payables	14	138,676	19,509
Derivative financial liability	6, 10	18,732	27,943
Deferred tax liability	11	660,137	618,777
Borrowings	10	1,463,863	647,635
Total short term liabilities		2,281,408	1,313,864
Total equity and liabilities		13,459,588	11,207,242

Oslo, 14. February 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

Cash flow statement (All numbers in TNOK)	Notes	2018	2017
Profit for the period before income tax expense		323,548	152,124
Depreciation and impairment in the income statement	17	692,055	642,522
Net changes to obligations and retirement benefit oblig.	13	602	-1,164
Changes to working capital		139,717	-524,107
Net cash flow from operating activities		1,155,922	269,375
Purchase of PPE	3	-842,064	-1,133,603
Net cash flow from investment activities		-842,064	-1,133,603
Interest items		-52,161	76,739
Proceeds from borrowings	10	2,850,000	1,049,941
Repayment of borrowings	15	-1,099,995	-549,946
Net dividends received		-	644,428
Net cash flow from financial activities		1,697,844	1,221,162
Net change in cash and bank deposits for the period		2,011,702	356,934
Cash and bank deposits as at the beginning of the period	8	360,499	1,245
Foreign exchange gain/loss on cash and bank deposits		-110	2,320
Cash and bank deposits as at the end of the period	8	2,372,091	360,499

Equity

2018 (All numbers in TNOK)	Notes	Ordinary shares	Share premium	Retained earnings	Total
Equity 1st of January 2018	9	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

2017 (All numbers in TNOK)	Notes	Ordinary shares	Debt conversion	Retained earnings	Total
Equity 1st of January 2017	9	100,000	2,300,000	-6,972	2,393,028
Profit for the year		-	-	142,511	142,511
From other comprehensive income		-		-2,178	-2,178
Group contribution		-		32,473	32,473
Equity 31st of December 2017		100,000	2,300,000	165,834	2,565,834

1. General information and summary of key accounting policies

General information

Norske tog AS was founded on 16 June 2016.

The White Paper 27 (2014-2015) established that passenger train rolling stock previously owned by Norwegian State Railways (NSB AS) would be brought together under a state-controlled owner to ensure low barriers to entry and competition on equal terms.

Purpose and scope of the company

The company shall procure, manage and lease out passenger train rolling stock. The aim is to have sufficient high-quality, up-to-date rolling stock at appropriate cost. The company shall have a high level of expertise within the areas of procurement and management of passenger train rolling stock.

The headquarters for Norske tog AS are located in Oslo.

All the shares in Norske tog AS are owned by the Norwegian Ministry of Transport and Communications.

The annual report for 2018 was approved by the Board of Directors on 14 February 2018.

All figures in the report are stated in MNOK unless stated otherwise in the text.

Framework for presentation of financial statements

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) approved by the EU.

The key accounting policies used in preparing the corporate financial statements are described below.

The corporate financial statements have been prepared under the historical cost convention, with the exception of financial derivatives and certain financial assets and liabilities.

The corporate financial statements have been presented on the assumption of a going concern.

Key assumptions and accounting estimates

Application of the company's accounting policies entails use of estimates and assumptions. Estimates and assumptions are continually evaluated and are based on historical experience combined with expectations of future events that are considered likely at the time of evaluation.

Areas where use of estimates and assumptions is key to the corporate financial statements:

Financial assets and liabilities at fair value

The company has long-term liabilities, financial derivatives and certain financial assets recognised at fair value. Calculation of fair value uses estimates based mainly on observable prices that may change over time. Changes in the assumptions will entail changes in carrying amounts (fair value through profit or loss).

Fixed assets

The company considers the expected useful life and residual value of non-current assets on an ongoing basis. This is significant for depreciation and amortisation for the year. In addition, the company considers the value of the non-current assets and whether there are indications of a decrease in value. If there are indications that the recoverable amount is lower than the book value, the asset is tested for impairment. These tests involve a high degree of judgement.

Estimated provisions for losses on contracts

The company carries out annual tests to assess provisions for losses on contracts where there are negative operating results and hence indications of a need for provisions. In the case of operating assets used in the contracts, an impairment test is first carried out, cf. discussion above. Subsequently, the present value

of future cash flows is measured for the individual contract. These evaluations involve a high degree of judgement. Please refer to the note on provisions for a more detailed description.

Pension obligations

The company has obligations relating to the employees' accrued pension entitlements linked to defined benefit pension schemes. The calculations require the company to make economic and demographic assumptions. Changes in these assumptions may cause significant fluctuations in the calculated obligations, with consequences for future pension costs. Please refer to the note on pensions for a more detailed description of the underlying assumptions.

The note incorporates a sensitivity analyses showing how susceptible the calculations are to changes in the key assumptions. Estimate deviations arising in connection with changes in assumptions are recognised on an ongoing basis via other comprehensive income with a direct impact on equity after deduction of deferred tax.

Segment information

Norske tog has only one segment for leasing of trains.

Currency

Functional currency and presentation currency

The financial statements are presented in Norwegian kroner (NOK), which is both the functional and presentation currency for the company.

The company operates solely in Norway.

Revenue recognition

The company's revenue comes from leasing out rolling stock. The lease agreements are classified as operating leases in accordance with IAS 17, and the revenue is accrued on a linear basis over the lease period, as the lease agreements are wholly based on fixed prices. The lease agreements are invoiced in advance each month.

Fixed assets

Operating income and costs, purchases and financing costs are principally in NOK, CHF and EUR. Transactions in foreign currencies are translated to the functional currency on the transaction date. Foreign exchange gains and losses arising on translation of items in foreign currencies are recognised in the income statement.

Fixed assets are recognised on the balance sheet at acquisition cost less depreciation/amortisation. Acquisition cost includes costs directly linked to the procurement of the operating asset such that it is ready for use.

Subsequent expenses are capitalised when it is likely that future economic benefits linked to the expenses will flow to the company and the expenses can be measured reliably. Other repair and maintenance costs are recognised in the income statement in the period in which the expenses are incurred.

Where capitalisation of major projects is concerned, these are recognised at the following points:

1. Payment of advance on entering into contract is classified as a prepayment for contractually agreed partial delivery of train
2. On achievement of milestones, Norske tog AS (PTO) is invoiced and the cost is classified as a prepayment for contractually agreed partial delivery of train
3. On delivery of complete trains to Norske tog AS and on to the customer, the contractually agreed partial delivery and the estimated remaining cost as a means of transport are capitalised for depreciation purposes
4. On receipt of final invoice (FTO), the estimated capitalisation for depreciation is settled.

Borrowing costs that accrue on construction of operating assets are capitalised as part of assets under construction and included in the basis for depreciation.

Operating assets are depreciated using the straight-line method, such that the assets' acquisition cost is written down to the residual value over the expected useful life, which is within the following ranges:

Vehicles 10 – 30 years

The depreciation method and the operating assets' useful lives and residual values are assessed on each balance sheet date and adjusted if necessary.

Profit and loss on disposal of operating assets is recognised in the income statement and represents the difference between selling price and carrying amount.

Impairment

Operating assets that are depreciated are tested for a decrease in value only if there are indications that future earnings cannot support the carrying amount.

Impairment is carried out if the carrying amount is higher than the recoverable amount. The recoverable amount is the higher of sales value less costs to sell and value in use.

To assess decrease in value, the fixed assets are grouped at the lowest level where it is possible to distinguish independent cash flows (cash-generating units). The opportunities for reversing previous impairments are assessed at each reporting date.

Derivatives and hedging

The company enters into derivatives to hedge interest rate and currency risks on long-term liabilities so as to achieve both the lowest possible price and predictability in the prices.

The company does not practise hedge accounting. Derivatives are recognised on the balance sheet at fair value when the derivative contract is entered into and adjusted to fair value through profit or loss on an ongoing basis. Changes in fair value on derivative contracts entered into linked to financial liabilities are recognised as financial items.

Financial assets held for trading

A financial asset is classified as held for trading if it has primarily been procured with a view to generating returns linked to short-term changes in value.

Receivables

Receivables include trade receivables and are measured initially at acquisition cost, which is assessed to be fair value.

Trade receivables are subsequently measured at amortised cost established

using the effective interest method, less provision for expected bad debts. Provision for bad debts is recognised when there are objective indications that the company will not receive settlement in accordance with the original terms.

Cash in hand and at bank

Cash in hand and at bank includes restricted withholding tax and is specified in note 8.

If an overdraft facility is used, this is included in borrowings under current liabilities.

Borrowings

Borrowings are recognised initially at fair value adjusted for directly attributable transaction costs.

In subsequent periods, the loans are measured as a general rule at amortised cost using the effective interest method, such that the effective interest is equal over the term of the loan.

The company has several bonds for which associated interest rate and currency swaps have been entered into. Where measurement and reporting using the option of measuring at fair value provide more relevant information by eliminating or materially reducing inconsistent measurement of loans and associated interest rate swaps, reporting is based on this principle. The choice of accounting principle is made when each individual loan is taken up and is binding for the term of the loan.

In connection with the business transfer from NSB AS, Norske tog AS took over the loans on 8 December 2016. The company assumed the following liabilities with the values shown:

Bond at nominal value of
TNOK 5,886,250

Bond at fair value of
TNOK 7,561,273

Tax

Tax for the period comprises taxes payable for the period and change in deferred tax.

Deferred tax has been calculated on all temporary differences between tax base and carrying amount and tax effects

of loss carryforwards. Deferred tax is determined using the prevailing tax rates and tax rules on the balance sheet date. Deferred tax assets are capitalised to the extent they are likely to be able to be utilised.

Deferred tax assets and deferred tax are offset if there is a legal right to offset, and this relates to income tax levied by the same tax authority for (i) the same taxable company or (ii) for different taxable companies where the intention is to settle the tax positions on a net basis.

Pension obligations

The company has a pension scheme in the form of a defined benefit plan.

Defined benefit plans oblige the company to pay periodic pension benefits to the employee when he/she retires. The pension payment will largely be dependent on the number of years of contributions, salary level at retirement age and any national insurance benefits.

The obligation recognised in the balance sheet is the present value on the balance sheet date of the defined benefits minus fair value of the pension assets at the balance sheet date. The pension obligation is calculated annually by an independent actuary using a linear accrual method. The cost of pension accruals and net interest on the defined benefit pension obligation is recognised in the income statement.

Changes in the benefits provided by the pension plan (plan changes) are recognised in the income statement on an ongoing basis.

Estimate deviations as a result of new information and changes in the actuarial assumptions are recognised in other comprehensive income on an ongoing basis.

Other current liabilities

Other current liabilities include trade payables and are measured initially at face value, which is assessed to be fair value. Trade payables are subsequently measured at amortised cost, established using the effective interest method.

Assessment of fair value

The company measures several financial assets and liabilities at fair value. When classifying fair value, the company uses

a system that reflects the significance of the input used to prepare the measurements as follows:

Level 1

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

Level 2

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

Level 3

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

Financial assets and liabilities classified in level 1, 2 or 3.

Changes in accounting policies, new standards and interpretations

New and amended standards and interpretations that have been adopted

Several standards came into effect for the company from 1 January 2018, but none of these have a material impact on the financial statements for 2018. The most relevant new standards adopted by the company from 1 January 2018 are:

- IFRS 9 Financial Instruments
- IFRS 15 Revenue from Contracts with Customers

IFRS 9 Financial Instruments

Norske tog AS has implemented IFRS 9 with retroactive effect but has utilised the exemption allowing it not to restate comparative information relating to classification, measurement and impairment of financial instruments.

Classification and measurement of financial assets

Norske tog AS holds trade receivables and other receivables in a business model with the purpose of holding the assets to receive contractual cash flows. The cash flows are exclusively payment of principal and interest. The assets are subsequently classified at amortised cost in IFRS 9. This has not entailed any changes compared with IAS 39.

Classification and measurement of financial liabilities

Trade payables and other payables are

classified and measured at amortised cost. Parts of Norske tog's borrowings are earmarked as measured at fair value through profit or loss because this eliminates or materially reduces an accounting disparity. This has not entailed any changes compared with IAS 39.

Impairment of financial assets

The new loss model in IFRS 9 applies to Norske tog's financial assets that are measured at amortised cost and requires moving from an incurred loss model in IAS 39 to an expected loss model in IFRS 9. This means that losses on receivables are recognised at an earlier stage in IFRS 9. Norske tog AS has only one main customer (Norwegian State Railways), and it has not been found necessary to increase provisions for bad debts as at 1 January 2018.

Financial derivatives

Norske tog AS has financial derivatives (assets and/or liabilities) that are measured at fair value through profit or loss. This has not entailed any changes compared with IAS 39.

Hedge accounting

Norske tog AS does not use hedge accounting, and the changes in IFRS 9 thus have not entailed changes for the company.

Since the first-time adoption of IFRS 9 has not entailed material changes for Norske tog AS, the present financial statements do not contain any reconciliations pursuant to IFRS 7.42I–.42S.

IFRS 15 Revenue from Contracts with Customers

Norske tog's main activity is the procurement, management and leasing of vehicles. Revenue from leasing is not covered by the scope of IFRS 15, but is covered by IAS 17 Leases in 2018 and by IFRS 16 Leases from 1 January 2019. IFRS 15 has therefore not entailed changes for the company's main activity.

Norske tog AS also has other operating revenue, which largely comprises services. Norske tog AS recognises this operating revenue over time as the customer receives the services. Implementation of IFRS 15 has not entailed any changes compared with IAS 18.

IFRS 15 has thus not entailed material implementation effects or changes for

Norske tog AS as at 1 January 2018, and the present financial statements do not contain any reconciliations pursuant to IFRS 15.C8.

New standards and interpretations that have not entered into force and have not been adopted

The company has chosen not to early-adopt any of the standards or interpretations entering into force after the balance sheet date. The following information provides an overview of the key regulations adopted by the IASB.

IFRS 16 Leases

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

Leasing out

Norske tog's revenue from leasing out trains will be covered by IFRS 16. IFRS 16 entails only minor changes in disclosure requirements for Norske tog's lease contracts. Norske tog 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

At the balance sheet date, Norske tog AS has no material lease agreements with a duration of more than one year, and the financial statements are therefore not expected to be materially affected by the standard. The lease agreements that have historically been classified as operating leases will be recognised with ret-

roactive application without restatement of comparative figures, i.e. the effect on implementation will be recognised in equity on 1 January 2019.

Miscellaneous

IASB has also adopted a number of minor changes and clarifications in several different standards. It has been assessed that none of these changes will have material effects for the company.



2. Segment information

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

Analysis of operating income by category	2018	2017
Leasing revenue	1,215,011	995,219
Other revenue	2,050	1,462
Total	1,217,061	996,681

Information on important customers

The company has only one customer for leasing of passenger rolling stock, Norges Statsbaner AS, which accounts for 100% of the leasing revenue (see note 22).

Overview future leasing agreements

Leasing agreements next 12 months	1 248 000
Leasing agreements next 2-5 years	3 456 000
Leasing agreements more than 5 years	-
Total	4 704 000

The ongoing leasing agreement with NSB AS is valid through 2022. Due to changes in the railway sector in Norway new leases will be signed if new operators takes part of the sector.

3. Property, plant and equipment

	Machinery and equipm.	Trans- portation	Partially delivered trains	Under construction	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	-
Depreciations	-14,499	-674,949	-	-	-689,448
Impairments	-2,607	-	-	-	-2,607
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
Depreciation period	5 - 30 years	5 - 30 years			

	Machinery and equipm.	Transportation	Partially delivered trains	Under construction	Total
At 1st of January 2017					
Accumulated acquisition cost	31,683	8,735,477	532,886	69,459	9,369,505
Accumulated depreciation	-3,165	-123,638	-	-	-126,803
Total	28,518	8,611,839	532,886	69,459	9,242,702

Year ended 31st of December 2017					
Opening net book value	28,518	8 611,839	532,886	69,459	9,242,702
Additions	13,040	914,887	-	205,677	1,133,604
Transfers within PPE	-	31,598	-31,598	-	-
Depreciations	-16,114	-626,408	-	-	-642,522
Total	25,444	8,931,916	501,288	275,136	9,733,784

At 31st of December 2017					
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
Depreciation period	5 - 30 years	5 - 30 years			

Partially delivered trains consist only of Flirt trains from Stadler. Assets under construction also consists of Flirt trains as well as other minor modifications on other trains.

Interest included on the statement of financial position per 31.12.2018 is 17,061 TNOK (2017: 8,623 TNOK). Interest rate for 2018 is 2.53 %.

4. Trade and other receivable

	2018	2017
Trade receivables	-	-
Less: provision for impairment of receivables	-	-
Trade receivables – net	-	-
Prepayments	662	366
Other receivables	37	20,881
Total trade and other receivables	698	21,247

5. Financial risk management

Capital management

The company's goal for capital management is to safeguard the company's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost in capital.

The company invests its excess liquidity in interest bearing products as for example, certificates and bonds with short-term remaining life.

The company has not had any short term placements in 2017 or 2018.

Financial risk factors

The company's activities results in various types of financial risk: market risk (foreign exchange-, interest rate-, and price risk), credit risk and liquidity risk.

The company's risk management policy focuses on capital markets unpredictability and strives to minimize the potential negative effects on the company's financial result. The company uses financial derivatives to hedge certain risks.

The treasury department identifies, evaluates, and hedges financial risk in co-operation with the operating units.

Market risk

Currency risk

Foreign exchange risk due to fluctuations of the foreign currency rates will result in changes to the company's income statement, balance sheet or cash flows.

The company operates in Norway, makes purchases from foreign suppliers, and is therefore exposed to foreign currency exchange risk. The goal is to be predictable regarding future payments measured in NOK.

All debt in foreign currency is secured through foreign exchange swaps and changes in value are offset by fair value change to the derivatives. The company is therefore not exposed to foreign currency exchange risk on debt instruments.

Interest rate risk

Interest rate risk is risk for the fair value of the financial instrument or future cash

flows to fluctuate due to change in the market rate.

The company is exposed to changes in interest rates, and uses interest rate swaps to reduce interest rate risk and to achieve preferred duration on its debt portfolio. The goal is to reduce risk related to possible future interest rate increases, and create more predictability regarding future interest payments. Guidelines have been established to regulate the share of loans that should be interest rate regulated within a twelve-month period, and for the duration of the portfolio.

Swaps entered into create risk for change to booked fair value when measuring against long term interest level.

Sensitivity evaluation as at 31.12.2018.

Interest rate risk is calculated using the company's long term loans with corresponding interest rate swaps. By changing the rate by 50 basis points, interest rate risk results in a calculated risk of fair value change of 141 MNOK.

Since the company doesn't have any considerable interest bearing assets, the company's net income and cash flow from operations is not affected by changes to the market rate.

Liquidity risk

Liquidity risk is the potential lack of ability to timely pay ones daily economic obligations.

Norske tog's management monitors the company's liquidity reserve which consists of borrowing facilities and cash equivalent through rolling prognosis based on the company's expected cash flow.

Norske tog reduces liquidity risk related to maturity of financial obligations through spreading the maturity structure, access to several financing sources in Norway and internationally, as well as sufficient liquidity to cover planned operating-, investing-, and refinancing needs without borrowing new debt within a time frame of 12 months. Liquidity consists of bank deposits, certificates and committed lines of credit and Norske togs' revolving credit facility of 2 000 MNOK which expires in October 2022.

Norske tog has high credit rating. Standard & Poor's has given Norske tog an indicative credit rating on long term debt of A+ (stable). The high credit gives Norske tog ample supply of capital.

The table shows future maturity for the company's contractual obligations as at 31.12.2018:

Liquidity risk	< 1 year	1 - 2 years	2 - 5 years	> 5 years
Short term liabilities	12,152	-	-	-
Borrowings	1,300,000	1,517,500	1,718,750	3,600,000
New trains	1,152,000	710,000	1,855,000	-
Property, plant and equipment	41,600	-	-	-

Credit risk

Credit risk is the potential loss that an external part cannot meet its financial obligations to Norske tog. The company's exposure to credit risk is mainly related to each separate customer

The company has one large customer, NSB AS, and is therefore not materially exposed to credit risk. The credit risk is considered to be low because the company's only customer also is 100 % owned by the Ministry of Transport.

Norske tog has risk against its counterparties in the interest- and currency derivatives and focuses on counterparty risk in its financial transactions.

The credit risk is reduced by diversifying exposure on several counterparties. Counterparty exposure is closely monitored. The demand is that the counterparty should have at least an A- rating from S&P or equivalent rating from an international rating agency. The respondent risk is constantly monitored. Norske

tog has agreements that regulate judicial set-off calculations in a bankruptcy situation (ISDA agreements) with 4 banks.

Excess liquidity is placed in Norwegian bonds and certificates with short term maturity.

Norske tog assesses maximum credit risk to be the following:	2018	2017
Cash and bank deposits	2,372,091	360,499
Financial derivatives	1,203,006	1,091,712
Trade receivable and other short term receivables	698	21,247
Total	3,575,795	1,473,458

6. Derivatives

	2018		2017	
	Assets	Liabilities	Assets	Liabilities
Interest- and currency rate swaps	1,202,828		1,091,712	
Interest rate swaps	179	18,732		27,943
Total	1,203,006	18,732	1,091,712	27,943

The Company does not use hedge accounting, fair value changes of derivatives are charged on a continuous basis to the income statement. Derivatives are classified as current assets or contractual obligations.

Changes in fair value of derivatives:	2018	2017
This period's change in fair value	120,505	-122,258
Accumulated change in fair value	-1,835	-122,340

Interest- and currency rate swaps

The notional principal amounts of the outstanding interest rate swaps contracts at 31st of December 2018 was 3,986 MNOK (2017: 3,986 MNOK). At 31st of December 2018, the fixed interest rate varied from 1.46 % to 2.34 % (2017: 1,14-2,14 %) and the floating rates are mainly 6M NIBOR + margin.

For borrowings acquired from NSB AS in 2016 - see note 1.

7. Financial instruments by category

Assets at 31st of December	Loans and receivables		Assets at fair value through profit and loss		Total	
	2018	2017	2018	2017	2018	2017
Derivative financial instruments			1,203,006	1,091,712	1,203,006	1,091,712
Trade and other receivables (excl. prepayments)	698	21,247	-	-	698	21,247
Cash and bank deposits	2,372,091	360,499	-	-	2,372,091	360,499
Total	2,372,790	381,746	1,203,006	1,091,712	3,575,795	1,473,458

Liabilities at 31st of December	Liabilities at fair value through profit and loss		Other financial liabilities at amortised cost		Total	
	2018	2017	2018	2017	2018	2017
Borrowings (excl. financial lease liability)	5,292,631	4,377,378	4,482,518	3,579,531	9,775,149	7,956,909
Derivative financial instruments	18,732	27,943	-	-	18,732	27,943
Trade and other payables excl. statutory liabilities		-	137,411	18,258	137,411	18,258
Total	5,311,363	4,405,321	4,619,929	3,597,789	9,931,292	8,003,110

The following table presents the Group's assets and liabilities that are measured at fair value at 31st of December 2018.

Financial assets at fair value through profit or loss	Level 1	Level 2	Level 3	Total
Derivatives used for hedging	-	1,203,006	-	1,203,006
Total assets	-	1,203,006	-	1,203,006
Borrowings and accrued interest	-	5,292,631	-	5,292,631
Derivatives used for hedging	-	18,732	-	18,732
Total liabilities	-	5,311,363	-	5,311,363

The following table presents the Group's assets and liabilities that are measured at fair value at 31st of December 2017

Financial assets at fair value through profit or loss	Level 1	Level 2	Level 3	Total
Derivatives used for hedging	-	1,091,712	-	1,091,712
Total assets	-	1,091,712	-	1,091,712
Borrowings and accrued interest	-	4,377,378	-	4,377,378
Derivatives used for hedging	-	27,943	-	27,943
Total liabilities	-	4,405,321	-	4,405,321

For borrowings acquired from NSB AS in 2016 - see note 1.

8. Cash and bank deposits

	2018	2017
Cash and bank deposits	2,372,091	360,499

Includes restricted funds of 1,590 TNOK (2017: 1,282 TNOK).

9. Share capital and share premium

	Number of Shares	Ordinary Shares	Share premium (TNOK)	Total (TNOK)
Shares at the 1st January 2018	100	100	2,300,000	2,400,000
Shares at the 31st December 2018	100	100	2,300,000	2,400,000

There is only one class of shares, each share with a value of NOK 1,000,000,-.

10. Borrowings

Non-current	2018	2017
Bonds	4,136,642	4,093,840
Bonds measured at amortized cost	4,193,376	3,243,376
Total	8,330,018	7,337,216

Current		
Current share of non-current borrowings	1,463,863	146,111
Other current borrowings	-	501,524
Total	1,463,863	647,635
Total borrowings	9,793,881	7,984,851

Change in short- and long term borrowings 2018	Short-term	Long-term
Beginning balance	647,635	7,337,216
New loans for the year	600,000	2,250,000
Payment of borrowings	-1,099,995	-
Reclassification from long-term debt to short-term debt	1,300,000	-1,300,000
Change in accrued interest	16,533	-1,239
Change in fair value	-310	44,041
Total borrowings	1,463,863	8,330,018

Change in short- and long term borrowings 2017	Short-term	Long-term
Beginning balance	146,222	7,463,668
New loans for the year	1,049,941	-
Payment of borrowings	-549,946	-
Change in accrued interest	888	-
Change in fair value	310	-126,452
Total borrowings	647,415	7,337,216

Nominal value of long-term interest bearing debt	2018	2017
1st of January	5,879,626	5,879,626
Changes during the year	2,250,000	-
31st of December	8,129,626	5,879,626

Fair value on bonds measured at amortized cost is 4,482,518 TNOK (2017: 3,608,672 TNOK) as at 31st of December 2018.

All existing bond issues have been issued under the Euro Medium Term Note loan programme (EMTN-Programme). The EMTN-programme does not contain any financial covenants, except for an optional clause that requires that the State of Norway shall own 100 % of Norske tog.

Norske tog has a multicurrency revolving credit facility of 2,000 MNOK with a covenant that demands a minimum equity share of 18 % until 31.12.2018, and 20 % equity share in the years thereafter.

For value on borrowings acquired from NSB AS in 2016 - see note 1.

Fair value of the credit margin on bonds is based on market observations from banks and the price/exchange bonds in the second-hand market.

The exposure of the company's borrowings to interest changes and the contractual dates at the balance sheet dates are as follows:

Borrowings and hedgings	2018	2017
6 months or less	3,621,445	3,018,867
More than 6 months		-
Non-current borrowings expire in:	2018	2017
Between 1 and 2 years	1,517,500	1,300,000
Between 2 and 5 years	1,718,750	2,936,250
Over 5 years	3,600,000	1,650,000
Effective interest rate at the balance sheet date	2018	2017
Bonds	NOK 2.13	2.53

Calculated effective interest rate includes the effect of interest rate swaps. The company has swapped all exposure in CHF. The carrying amounts of the non-current borrowings approximate their fair value.

Changes in fair value on non-current borrowings	2018	2017
This periods change in fair value	99,025	-104,559
Accumulated change in fair value	39,411	-59,614

The carrying amounts of the Group's borrowings are denominated in the following currencies	2018	2017
NOK	6,342,532	4,606,603
CHF	3,451,349	3,378,248
Total	9,793,881	7,984,851

The Group has the following undrawn borrowing facilities	2018	2017
Floating interest rate		
- Expiring within one year		-
- Expiring beyond one year	2,000,000	2,000,000
Total	2,000,000	2,000,000

Norske tog's long term revolving credit facility expires in October 2022.

11. Deferred income tax/Income tax expense

Deferred income tax asset and liabilities are offset when there is a legally enforced right to offset current tax assets against current tax liabilities, and when the deferred income taxes relate to the same tax authority. The offset amounts are as follows:

Income tax expense	2018	2017
Current income tax payable	-	-
Changes in deferred tax	-41,361	-9,613
Total income tax expense	-41,361	-9,613

Reconciliation between nominal and actual tax expense rate:	2018	2017
Net income before tax	323,548	152,124
Expected income tax using the nominal tax rate (23%, 24%)	74,416	36,510
Tax effect of the following items:		
Other non-deductible expenses	38	76
Effect of change in income tax rate	-30,211	-26,973
Income tax expense	44,243	9,613
Effective tax rate	14 %	6 %

Specification of the tax effect of temporary differences and losses carried forward:

2018	Book value 01.01.	Income statement charge	Charge to other compre- hensive income	Book value 31.12.
Benefit (+) / Liability (-)				
Fixed assets	-3,443,953	-686,914	-	-4,130,867
Value changes to financial current assets	1,896	-22,267	-	-20,371
Retirement benefit obligations	10,832	3,635	13,423	27,890
Losses carried forward	740,892	381,831	-	1,122,723
Total gross temporary differences	-2,690,333	-323,715	13,423	-3,000,625
Net temporary differences	-2,690,333	-323,715	13,423	-3,000,625
Net deferred tax asset/liability 23%	-618,777	-74,454	3,087	-690,144
Effect from changes in tax rate		30,211	-204	30,007
Net deferred tax asset/liability on the balance sheet 22%	-618,777	-44,243	2,883	-660,137

Specification of the tax effect of temporary differences and losses carried forward:

2017	Book value 01.01.	Income statement charge	Charge to other compre- hensive income	Group contri- bution	Book value 31.12.
Benefit (+) / Liability (-)					
Fixed assets	-2,549,559	-894,394	-	-	-3,443,953
Receivables	-22	22	-	-	-
Value changes to financial current assets	198	1,698	-	-	1,896
Retirement benefit obligations	8,222	-164	2,774	-	10,832
Provisions for other liabilities and charges	500	-500	-	-	-
Losses carried forward	2,549,825	740,892	-	-2,549,825	740,892
Total gross temporary differences	9,164	-152,446	2,774	-2,549,825	-2,690,333
Net temporary differences	9,164	-152,446	2,774	-2,549,825	-2,690,333
Net deferred tax asset/liability 24%	2,199	-36,587	666	-611,958	-645,680
Effect from changes in tax rate		1,475	-70	25,498	26,903
Net deferred tax asset/liability on the balance sheet 23%	2,199	-35,112	596	-586,460	-618,777

Deferred income tax assets	2018	2017
Deferred income tax assets to be recovered after more than 12 months	252,695	172,841
Deferred income tax assets to be recovered within 12 months	440	491
Total	253,135	173,332

Deferred tax liabilities	2018	2017
Deferred income tax liabilities to be recovered after more than 12 months	-913,272	-792,109
Deferred income tax liabilities to be recovered within 12 months	0	0
Total	-913,272	-792,109
Total deferred income tax liability (net)	-660,137	-618,777

12. Payroll and related expenses

	2018	2017
Wages and salaries, including employment taxes	32,250	29,617
Pension costs – defined benefit plans (note 13)	7,394	3,606
Other employee benefit expenses	3,384	1,509
Total	43,028	34,732

Benefits for Chief Executive Officer and key management are referred to in the note for related-party transactions (note 22).

	2018	2017
Average man-labour year*	30	30
Average number of employees	30	30

*The calculation is based on a weighted average based on the true number of man-labour year throughout the year.

13. Retirement benefit obligations and similar obligations

General

The company has pension arrangements related to age-disability- and bereaved benefits for spouses and children. Below is a further description of type of arrangements and how these are organized.

Defined benefit pension plan

The company has several collective pension agreements that are handled by the Norwegian Public Service Pension Fund (SPK) or insurance companies that for the Norwegian companies satisfies the demands according to the law on public pension. The arrangement covers benefits from the pension basis up to 12G and results in a age- and disability pension up to 66% of the pension basis when fully vested. The obligations connected to these agreements covers 32 active members as well as one retired person. The retirement benefit plans entitle defined future services that mainly are dependent on the number of contribution years and wage level at the time of retirement. The pension benefits received are coordinated with the National Insurance scheme and will also be dependent on its benefits paid out.

The companies have, through tariff agreements, retirement benefit obligations in affiliation with Early Retirement Pension Regulated by Contract (AFP). Obligations through this agreement cover 32 active members.

The additional defined benefit pension plan agreement for top leadership is not funded and will be paid through operations.

During the year it was decided to close the current pension benefit plan for Norske tog AS at the end of 2018. All employees will be granted an earned right in the Norwegian Public Service Fund (SPK), as well as being included in the newly established defined contribution plan. The pension cost for 2018 and the obligations as at 31.12.18 are calculated according to IAS 19. The carrying value of the pension liability amounts to 32 296 TNOK, and is considered to give a fair, and as of the balance sheet date, best view of the company's liability taking into account the estimated effect from the pension plan settlement. Agreed compensation to employees for whom the defined benefit pension plan settlement will have a negative effect, will be paid and expensed on a monthly basis.

In the tables below, employment taxes (notional numbers) are included in both gross obligations and this year's expense.

Specification of net defined benefit pension plan obligations	2018	2017
Present value of earned pension rights for funded collective pension plans	81,726	68,232
Fair value of plan assets	-52,733	-49,961
Present value of unfunded obligations	28,993	18,271
Pension obligation AFP	3,303	-
Net pension obligation on the balance sheet	32,296	18,271
Changes in pension retirement obligations		
Book value net pension obligation 1st of January	18,271	16,739
This years' actuarial deviations	11,763	2,428
This years net return on assets/increase in obligation	4,783	3,225
Net financial items in the account	311	334
Payments to plan	-6,135	-4,455
Pension obligation AFP	3,303	-
Book value 31st of December	32,296	18,271
Pension expenses included in the accounts, defined benefit pension plan		
Present value of current pension earnings	4,091	3,606
Pension obligation AFP	3,303	-
Total return on pension plan, incl. in payroll and related expenses – see note 12	7,394	3,606
Total financial items in the accounts	311	334
Total pension expenses defined benefit pension plan	7,705	3,940

Sensitivity analysis with change in central assumptions

The table below shows estimates for potential effects with change in assumptions that significantly affects the defined benefit pension plans in Norway. Actual results may substantially differ from these estimates.

	Discount rate		Salary growth rate		Increase in G	
	1%	-1%	-1%	-1%	1%	-1%
Increase (+)/decrease (-) this period's net pension exp. in %	(-15%)	(3%)	(33%)	(-22%)	(30%)	(-19%)
Increase (+)/decrease (-) net pension oblig. at 31.12. in %	(-18%)	(24%)	(10%)	(-12%)	(9%)	(-10%)

The population is affected by a high pensioner population and high average age on participants that affects the sensitivity analysis.

The last few years' development in pension expenses and pension obligations shows the following:

Income statement	2018	2017
Present value of current pension earnings	4,091	3,606
Pension obligation AFP	3,303	-
Changes and deviations in estimates allocated to net income	13,423	2,774
Total cost in the income statement	20,817	6,380
Total financial items in the accounts	311	334
Total financial items in the accounts	21,128	6,714

Financial position

Total obligations	81,726	68,232
Pension assets	-52,733	-49,961
Total net pension obligations	28,993	18,271
Pension obligations AFP	3,303	-
Net pension oblig. at the balance sheet date	32,296	18,271

Financial assumptions (defined benefit plans)

	2018	2017
Discount rate	2.60%	2.40%
Expected return on plan assets	2.60%	2.40%
Average salary growth	2.75%	2.50%
G-regulation	2.50%	2.25%
Annual reg. of pension increases	1.75%	1.50%
Average social security tax	14.10%	14.10%

Explanation to selected assumptions 31st of December 2018

The discount rate has been set at 2.6% and is determined with basis in preferential bonds (OMF). The OMF-market has been assessed to represent a deep and liquid market with relevance to maturities that qualifies to be used as a reference for interest rate according to IAS 19.

Salary adjustment for Norwegian arrangements are mainly calculated as the sum of expected nominal salary growth of 1% (incl career salary increase) and inflation of 1.75% with some individual adjustments. Regulation of pensions during disbursements mainly follows average salary growth (equivalent to G-regulation) less a fixed factor of 0,75.

For the demographic factors, the tariffs K2013 and IR 73 has been used for determination of mortality rate and disability risk.

Average remaining life expectancy for a person retiring when he/she turns 65 years old will according to K2013 be:

Male 20.5 years
Female 23 years

In the fall of 2017, SPK announced that starting on 1.1.2018, changes to who is responsible for the earned rights for public vacated entities will be adopted. The actuarial deviation for 2017 is influenced by this change, and has increased the company's retirement benefit obligation as at 31.12.2017.

Risk evaluation of defined benefit contribution plans

The company is affected through its defined benefit contribution plans by several factors due to uncertainties in assumptions and future development. The most central factors are described as follows:

Expected longevity

The company has assumed an obligation to pay pension to the employees for as long as they live. An increase in life expectancy among members results in an increased obligation for the company.

Yield risk

The company is affected by a reduction in actual yield on the pension assets, which will cause an increase to obligations for the company.

Inflation- and salary growth risk

The company's pension obligation has risks related to both inflation and salary development, even though the salary development is close related to inflation. Higher inflation and salary development than what is used in the pension calculations, result in increased obligation for the company.

14. Trade and other payables

	2018	2017
Trade payables	21,161	351
Social security and other taxes	31,004	1,251
Other current liabilities	86,511	17,907
Total	138,676	19,509

The amount due to related parties in 2018 is 2,747 TNOK (2017: 2,521 TNOK).

Book value of trade and other payables corresponds to fair value. Other current liabilities include purchasing Flirt trains and other minor accrued expenses.

15. Provisions for other liabilities and charges

Work related injuries

No provisions have been accrued as at the end of fiscal year 2018.

Legal disputes

Norske tog could be involved in legal disputes, where some of them will be tried in court. Provisions are made for disputes where it appears to be a probable and qualified risk of losing.

16. Loss on Contracts

It has been considered that it is not necessary to accrue for future losses on contracts in business.

17. Depreciation, amortization and impairment

	2018	2017
Depreciation non-current assets (note 3)	689,448	642,522
Impairment non-current assets (note 3)	2,607	-
Total	692,055	642,522

Fixed assets and losses on contracts

In addition to evaluation of the carrying amount in accordance with IAS 36, assessed existing contracts for any additional provisions under IAS 37. These assessments measure the company's current value of future expected cash flows from operating activities in the individual contract, where estimated payments include any future unavoidable costs can be expected. The provision is limited to the minimum amount of continuing or exit contract. The provisions are reversed over the remaining term of the contract.

In the future cash flows that include evaluations according to IAS 36 and IAS 37, the following main assumptions are used:

Growth rate of	2.0%	
Discount rate	7.0%	evaluations according to IAS 36
Borrowing rate	3.0%	evaluations according to IAS 37

18. Other expenses

	2018	2017
Sales- and overhead expenses	929	1,157
Modifications used in operations	13,296	23,348
Repair and maintenance, machinery rental, property expenses	16,285	5,462
Other operating expenses	25,535	21,773
Total	56,045	51,740
Auditing fees (excluding VAT):		
Auditing	495	500
Tax advisory	3	-
Other services	179	101
Total	677	601

See comment in Note 21 on increase in lease of property.

19. Financial income and expenses

	2018	2017
Interest income	105,118	59,720
Other financial income/Group contribution	64,075	58,458
Net foreign exchange gains	7	2,429
Total financial income	169,200	120,607
Interest expense	-276,430	-226,618
Other financial expenses	-15,098	-7,137
Net foreign exchange losses	-117	-108
Total financial expenses	-291,645	-233,863
Net financial expenses - pensions	-311	-334
Unrealised value changes	20,371	-1,896
Total financial items	-102,385	-115,486

Other financial expenses consist of amortisation of the difference between nominal value and fair value on bonds acquired from NSB AS (47 MNOK) as well as interest charges on construction of trains (17 MNOK).

20. Unrealized fair value changes

The table below shows unrealised value changes in assets, liabilities and derivatives valued at fair value

Unrealized value changes derivatives used for hedging	2018	2017
Unrealized value changes derivatives used for hedging	16,524	14,864
Unrealized value changes bonds	3,847	-16,760
Total unrealized value changes financial items	20,371	-1,896

21. Leases

	2018	2017
Lease of machinery/equipment, not incl. on the balance sheet	163	131
Lease of property (external)	15,071	3,890
Total	15,233	4,021

The reason for increase in lease of property for 2018 is the inclusion of a lease used for receiving and preparation of new trains to be put in production. The expenses is for the period October 2016 to December 2018.

22. Related party transactions

Norske tog has the following related parties:

Owner

Norske tog AS is owned 100 % by the Ministry of Transport and Communication and it's a related party. In addition, other businesses owned by the Ministry of Transport and Communication will also be a related party to Norske tog, which is the case for the NSB-Group and Bane Nor.

Bonds and related basis swaps were in accordance with the agreement on the settlement of claims on the acquisition of loans and derivative financial transferred from NSB to Norske tog on the 9th December 2016. The consideration for the transfer of the bonds to Norske tog AS was determined on market terms. The consideration was determined on the basis of nominal residual debt and associated swaps valued at fair value on the transaction date for calculating the difference between

- Expected net present value between loans and associated swaps transmitted and
- Alternative financing for Norske tog AS at the date of acquisition

The board issued a statement under the Securities Act § 3-8, in conjunction with the company signed agreements with the company's shareholders to acquire the business and the acquisition of loans and derivative commitments.

Companies within the same Group

For accounting purposes, Norske tog was only a part of the NSB-Group in 2016. For the years after 2016, these companies will still remain related parties due to all being indirectly owned by the Ministry of Transport. For 2017 these companies will still remain related parties due to all being indirectly owned by the Ministry of Transport.

Board of Directors and key management

Persons that are key management or on the Board of Directors are also related party to Norske tog.

Below is an overview of transactions, balances and guarantees to related parties:

Sale of goods and services	2018	2017
Sales of other goods and services	1,215,402	996,313
Total	1,215,402	996,313

Purchases of goods and services	2018	2017
Purchases of goods and services	57,742	602,482

Intercompany balances with related parties as a result of buying and selling of goods and services:

Receivables:	2018	2017
Entities owned by the Ministry of Transportation	-	822
Total	-	822

Debts	2018	2017
Entities owned by the Ministry of Transportation	2,747	2,521
Total	2,747	2,521

Loans to related parties

There are no borrowings from related parties

Compensation for members of the Board and key management (All numbers in TNOK)

Board members	Title	2018	2017
Annette Malm Justad	Chair of the Board (from april 2018)	272	-
Rolf Bergstrand	Chair of the board (to april 2018)	113	-
Marianne Abeler	Board Member	164	-
Espen Opedal	Board Member	164	-
Vidar Larsen	Board member - employee rep.	82	80
Total		795	80

2018

Management	Title	Salary	Other benefits	Total benefits paid	Total benefits	Pension expenses
Øystein Risan	CEO	2,108	121	2,229		273
Kjell-Arthur Abrahamsen	Materiel Director	1,499	9	1,508		299
Linda Venbakken	CFO	1,385	9	1,394		322
Luca Cuppari	Technical Director	1,385	9	1,394		238
Iren Marugg	Judicial Director	1,173	9	1,182		409
Total					7,707	

2017

Management	Title	Salary	Other benefits	Total benefits paid	Total benefits	Pension expenses
Øystein Risan	CEO	1,882	125	2,007		249
Kjell-Arthur Abrahamsen	Materiel Director	1,495	7	1,502		201
Linda Venbakken	CFO	1,388	6	1,394		148
Luca Cuppari	Technical Director	1,388	6	1,394		128
Total					6,297	

The employees are members of group pension schemes. Pension premiums are not included for the board members. The General Assembly for Norske tog has decided the fee for the Chairman of the Board to be 340 TNOK and the fee for the other Board members to be 160 TNOK. There are no further pension agreement for CEO beyond the collective pension scheme. For 2017 the shareholder elected board members received board fees through Togmateriell AS, which was liquidated in December 2017.

The CEO increased the salary with 226 TNOK from 1 684 TNOK to 1 895 TNOK, from 2017 to 2018. Except for an annual adjustment of the salary, the reason for the increase is because the bonus for 2017, 213 TNOK, was paid out and included in the 2018 numbers. The CEO was also compensated in 2018 for no longer having a bonus as an incentive.

23. Contingencies

The company began operations 15.10.2016 and no contingent liabilities have occurred related to legal claims in the ordinary course of operations.

24. Events after the balance sheet date

There are no material events which have occurred after the balance sheet date that will affect the company's profit and position.

25. Declaration on setting of salaries and other remuneration for senior employees

This declaration is based on "Guidelines for salaries and other remuneration for senior employees in enterprises and companies that are partly state-owned" (issued by the Norwegian Ministry of Trade, Industries and Fisheries with effective date 13 February 2015) and has been drawn up by the Board of Directors pursuant to Article 5 of the Parent Company's articles of association, cf. Section 6-16 a of the Norwegian Public Limited Liability Companies Act.

The declaration is considered at Norske tog's annual general meeting, and is valid until the Board of Directors repeals it or adopts a new declaration.

The declaration has three main parts. Part I discusses the principles of Norske tog's executive pay policy. Part II describes how these principles have been applied in the previous financial year, cf. Section 6-16 a, first, third and fourth paragraphs, of the Public Limited Liability Companies Act, and Part III describes the setting of executive pay for the coming financial year, cf. Section 6-16 a, second paragraph, of the same act. The guidelines in Part I apply in full if new contracts are concluded in the coming financial year, and shall otherwise be followed as closely as possible within the frameworks of the contracts concluded previously.

PART I: Principles

1.1 Senior employees

The declaration applies to senior employ-

ees as this term is defined in the Public Limited Liability Companies Act and the Norwegian Accounting Act. This means that the declaration is applicable to the management of Norske tog AS.

1.2 Main principles for the executive pay policy of Norske tog AS

The principles governing salaries for senior employees of Norske tog AS are set by the Board of Directors. The Board of Directors conducts an annual evaluation of the CEO's salary and conditions and the company's executive pay principles.

The CEO sets the remuneration for the other members of the management group in accordance with the principles adopted for executive pay.

1.3 Executive pay at Norske tog is set on the basis of the following principles for executive pay:

- The executive pay shall be competitive, but Norske tog shall not be a wage leader relative to equivalent companies. To this end, the salaries for key management positions are benchmarked against other companies each year.
- Norske tog shall attract and retain capable managers. The total remuneration package for senior employees in Norske tog shall reflect the individual's responsibility for management, results and development, and take into account the company's size and complexity. The remuneration must not be of such a kind or such a size that it can damage the reputation of Norske tog.

- The executive pay shall comprise a fixed basic salary and additional benefits, including benefits in kind, pay after termination of employment and pension schemes. The fixed salary shall always constitute the main part of the remuneration.
- Norske tog AS does not use bonuses.
- The executive pay scheme shall be transparent and in line with the Norwegian government's corporate governance principles and guidelines for executive pay.
- The remuneration system shall be perceived as understandable and acceptable both within and outside Norske tog.
- The remuneration system shall be sufficiently flexible to enable adjustments to be made if necessary.

1.4 Elements of the executive remuneration package

The starting point for setting salaries is the combined level of fixed salary and variable payments. The different elements that may form part of the executive remuneration package are discussed below.

a) Fixed basic salary

The fixed basic salary is the main element of the remuneration package for senior employees at Norske tog. The basic salary shall be competitive without making Norske tog a wage leader. The basic salary is normally reviewed once a year. The "grandfather principle" is used when appointing new managers, such

that the manager setting the salary shall consult his/her own manager before the salary is determined. In the case of new appointments of and setting of salaries for members of the management group, the CEO shall consult the chair of the Board of Directors.

b) Benefits in kind

Managers are given benefits in kind that are standard for comparable positions, for example free phone, free broadband and car scheme.

c) Pension

When appointing new managers, the government's guidelines of 13.02.2015 on executive pay shall apply, such that the pension conditions for senior employees are in line with those for other employees. No former senior employees earn occupational pension rights after having left Norske tog.

All employees are members of a collective pension scheme. On 23.08.2018, the Board of Directors decided to move to a new pension scheme for Norske tog from the start of 2019. This involves closing down the current scheme with the Norwegian Public Service Pension Fund. The new scheme entails a company contribution rate of 5.5% up to 7.1 basic amounts and 15% between 7.1 and 12 basic amounts. The pension scheme will include a private contractual early retirement pension and group life insurance of 20 basic amounts plus 2 x salary.

The CEO has a retirement age of 67 with a collective defined contribution scheme. The scheme provides an entitlement to a pension of up to 12 basic amounts. When appointing new managers, the

government's guidelines on executive pay shall apply, such that the pension conditions for senior employees are in line with those for other employees.

d) Severance pay

In the case of termination by the company, the CEO has a contractual right to six months' pay after termination of employment, in addition to salary and payments during the six-month notice period. Any other salary received in the period during which pay after termination of employment is paid will reduce such pay in proportion to the other income received. The entitlement to pay after termination of employment does not apply if the CEO's conduct meets the material conditions for dismissal in accordance with the provisions of the Norwegian Working Environment Act. No other key management employee has an agreement of severance pay.

PART II

Implementation of executive pay principles in the previous financial year

The setting of executive pay for 2018 was carried out in accordance with the above guidelines and is accounted for in Norske tog's Declaration on executive pay.

No pay after termination of employment or severance pay exceeding 12 months' fixed salary was paid to managers in 2018.

Bonus for the CEO was discontinued in 2018, while the annual salary was adjusted from 1 684 TNOK to 1 894 TNOK as compensation for the loss of the bonus effective 1.1.2018.

PART III

Executive pay policy for the coming financial year

On 07.09.2017, the Board of Directors decided to use the Hay method as a basis for evaluating all positions in Norske tog AS.

The executive pay policy shall conform to the general guidelines adopted by the Board of Directors in the coming financial year.

Pursuant to Section 6-16 a cf. Section 5-6, third paragraph, of the Public Limited Liability Companies Act, the Declaration on executive pay is considered at the annual general meeting.

The Board of Directors

Declaration by the Board of Directors and CEO for the annual report 2018

The Board of Directors and CEO confirm that, to the best of their knowledge, the annual 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 2018 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 financial period and their impact on the financial statements.

Oslo, 14. February 2019



Annette Malm Justad
Chair of the Board



Marianne Abeler
Board Member



Espen Opedal
Board Member



Vidar Larsen
Board Member



Øystein Risan
CEO



To the General Meeting of Norske tog AS

Independent auditor's report

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Norske tog AS, which comprise the balance sheet as at 31 December 2018, the income statement, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements are prepared in accordance with law and regulations and give a true and fair view of the financial position of the Company as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by EU.

Basis for Opinion

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company as required by laws and regulations, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How our audit addressed the Key Audit Matter
<i>Accuracy and completeness of loans and derivatives</i>	
For a more detailed description of loans and derivatives, see note 7 and note 10.	We have assessed the guidelines and principles for accounting for loans and derivatives and found that these were in line with recognized principles and applicable regulations.
The carrying amount of the company's loan portfolio is NOK 9.8 billion as of 31 December 2018 and constitutes approximately 2/3 of the	We have focused on internal controls that help

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Auditors Report - Norske tog AS

company's total balance sheet.

The loan portfolio of Norske tog AS consists of bond loans in Swiss francs (CHF) and Norwegian kroner (NOK), with both floating and fixed interest rates. The loan portfolio is valued at both fair value and amortized cost. As a hedging instrument, interest rate and currency swaps have been entered into. These instruments are measured at fair value.

Because the loan portfolio amounts to a considerable value that is subject to a complex set of rules with accompanying comprehensive calculations, we have focused on routines and processes aimed at ensuring correct accounting of loans and derivatives.

ensure that loans and derivatives are completely and accurately recorded in the company's financial system in line with the related agreements. We also tested whether changes in parameters that are central to calculating loans and derivatives were fully and accurately recorded in the financial system and in line with observable market data.

Furthermore, we have manually calculated, on a random basis, the value of loans and derivatives that are machine-calculated by the financial system. We have also made our own calculations of loans and derivatives and have assessed these against the value of loans and derivatives calculated by the financial system. Our controls did not reveal any significant deviations.

Other information

Management is responsible for the other information. The other information comprises information in the annual report, except the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director (management) are responsible for the preparation in accordance with law and regulations, including fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

(2)



Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error. We design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

(3)



Auditors Report - Norske tog AS

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors' report concerning the financial statements and the going concern assumption is consistent with the financial statements and complies with the law and regulations.

Opinion on Registration and Documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements (ISAE) 3000, *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, it is our opinion that management has fulfilled its duty to produce a proper and clearly set out registration and documentation of the Company's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Oslo, 14 February 2019
PricewaterhouseCoopers AS

Marius Thorsrud
State Authorised Public Accountant

Note: This translation from Norwegian has been prepared for information purposes only.

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