



Norske
tog

Annual Report 2019

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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



 43  130 km/h  69C has 286 seats, 69D has 302/303 seats, 69G has 269 seats and 69H has 238/240 seats*  Local train E



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



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



79 200 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 Sørlands line ⓘ 73B has 249 seats and is only used on the Østfold line

Class 73B



- ⌘ Amount
- ⌚ Maximum speed
- ⌘ Number of types
- * Per train set
- ** Per cart
- 🛏 Beds per cart
- 📍 Field of application
- ⓘ Other

Milestones

8 February 2019

Last FLIRT train under option 3 of the contract with Sadler delivered on schedule.

17 June 2019

Traffic Package 2 North awarded to Swedish-owned SJ Norge, which will take over operations in June 2020.

9 December 2019

Traffic Package 3 West, the Bergen Line, awarded to Vy Tog, which will take over operations in December 2020.

10 December 2019

The government awarded funds to purchase Class 72 trains (Eastern Norway and the Jæren Line) allocated in the 2020 government budget. This will improve the travel experience for passengers and create a better working environment for train drivers and conductors.

10 December 2019

The Storting allocates funds to purchase 30 new trainsets to replace old trainsets on the Ski – Oslo – Stabekk line. The new trainsets are required to offer passengers better capacity and comfort than the vehicles currently in use.

15 December 2019

Go-Ahead starts up Traffic Package 1 South – the Sørland Railway and the Jæren Line.

This is Norske tog

Norske tog's activities are 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 shall operate efficiently.

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 3 company, meaning that the state has sector policy objectives for its ownership.

| Financial key figures (MNOK) | 2019 | 2018 |
|-------------------------------------|-------------|-------------|
| Operating profit | 392 | 426 |
| Pre-tax profit | 285 | 324 |
| Profit for the year | 222 | 279 |
| Net cash flow** | -638 | 2,012 |
| Working capital | 1,232 | 1,955 |
| Equity | 3,065 | 2,835 |
| Equity ratio | 22.5 % | 21.0 % |
| Return on equity | 7.8 % | 10.9 % |

*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 negative net cash flow can partly be attributed to a MNOK 572 prepayment for trains in Q2 2019.

The Norwegian Railway Reform and the role of Norske tog

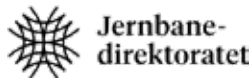


SAMFERDSELSDEPARTEMENTET

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.



Vygruppen AS
Passenger trains, freight and buses.

Train companies, maintenance companies, contractors and suppliers

Compete for contracts.



SJ Norge AS
Passenger train operator.



Go-Ahead Nordic
passenger train operator.



NÆRINGS- OG FISKERIDEPARTEMENTET

Ministry of Trade, Industry and Fisheries



Mantena AS
Vehicle maintenance. Moved to a different Ministry 01.01.20.



Flytoget AS

■ Administrative bodies

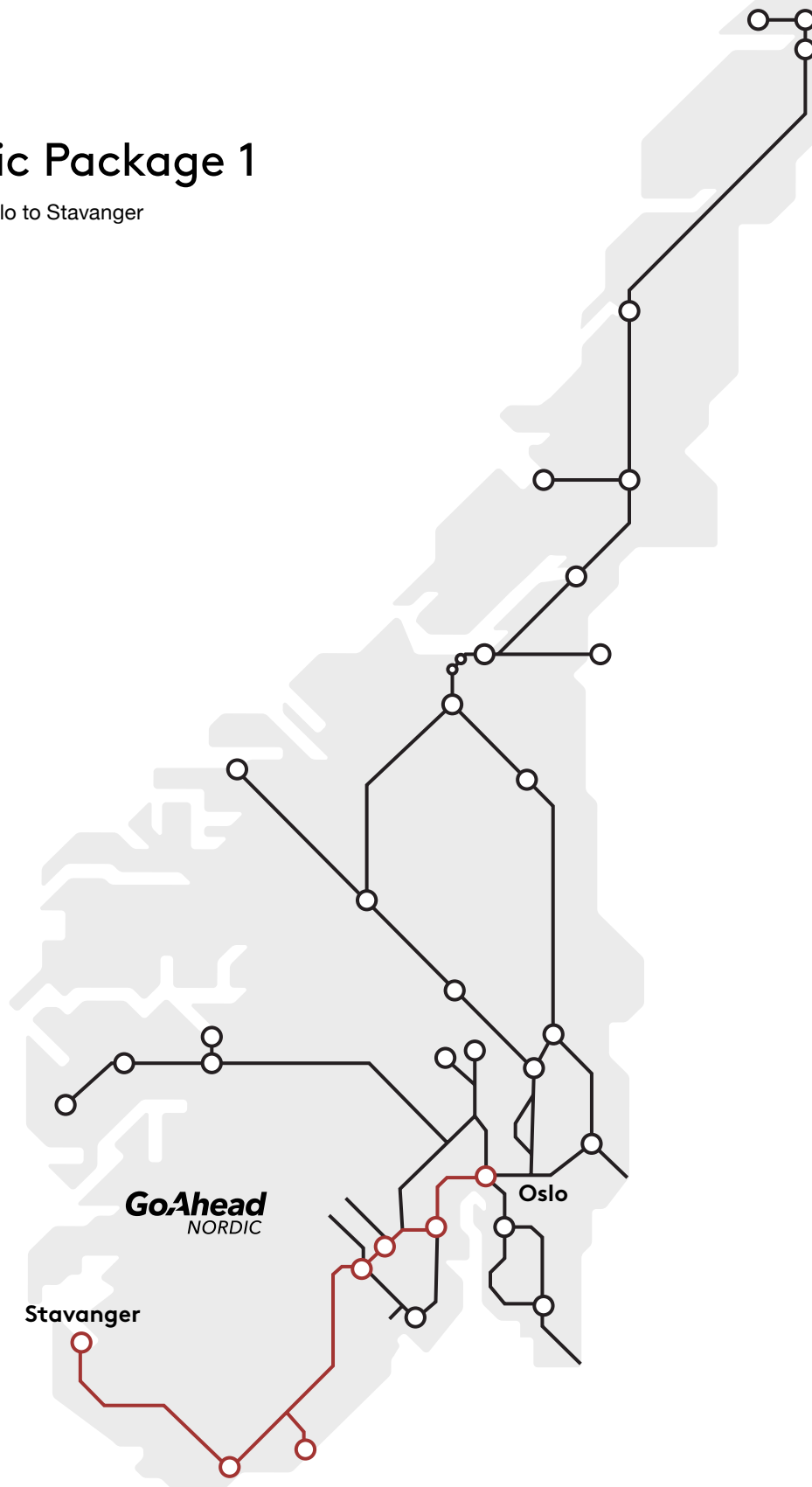
■ State-owned standalone units

■ Private sector

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

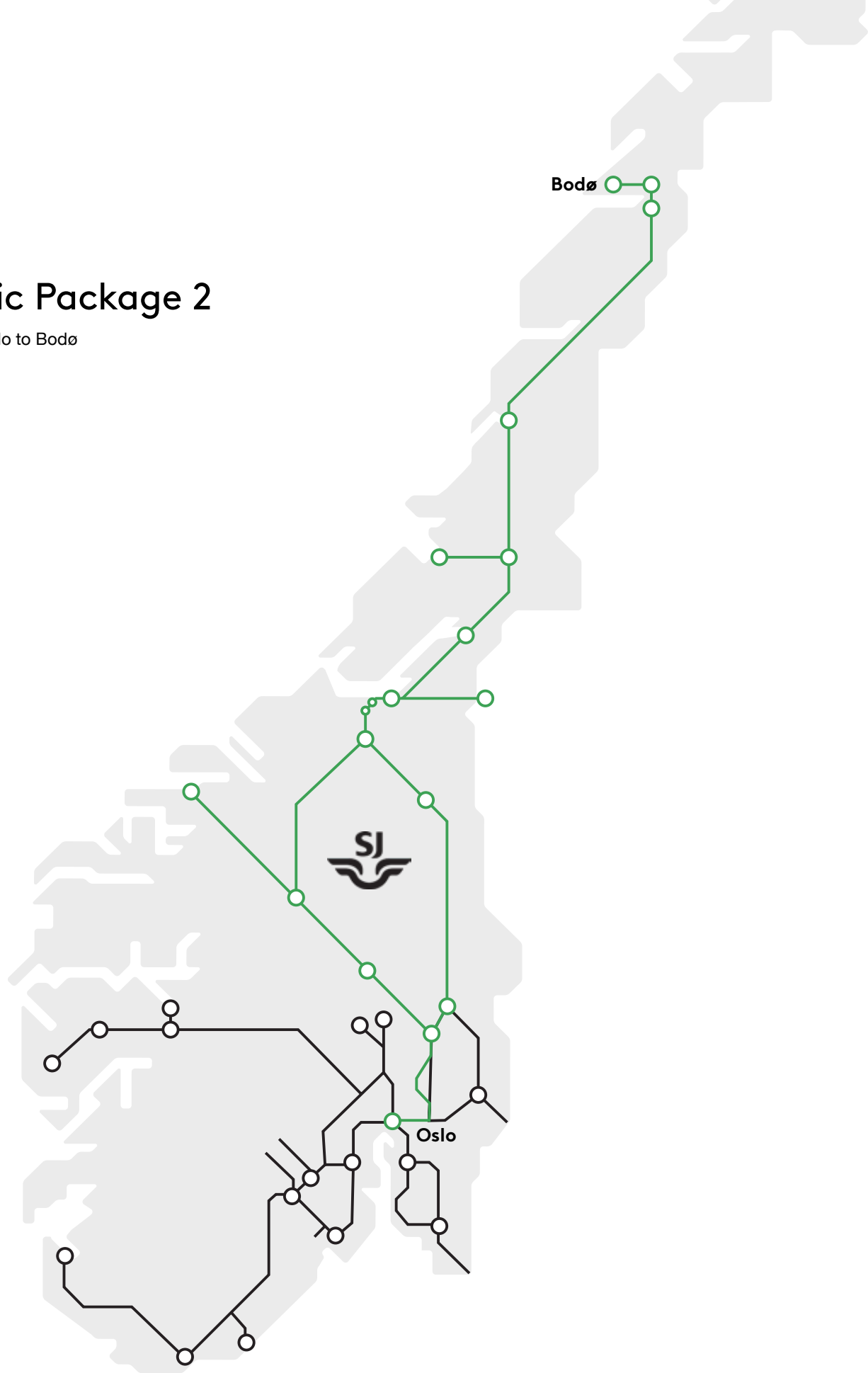
Traffic Package 1

South – Oslo to Stavanger



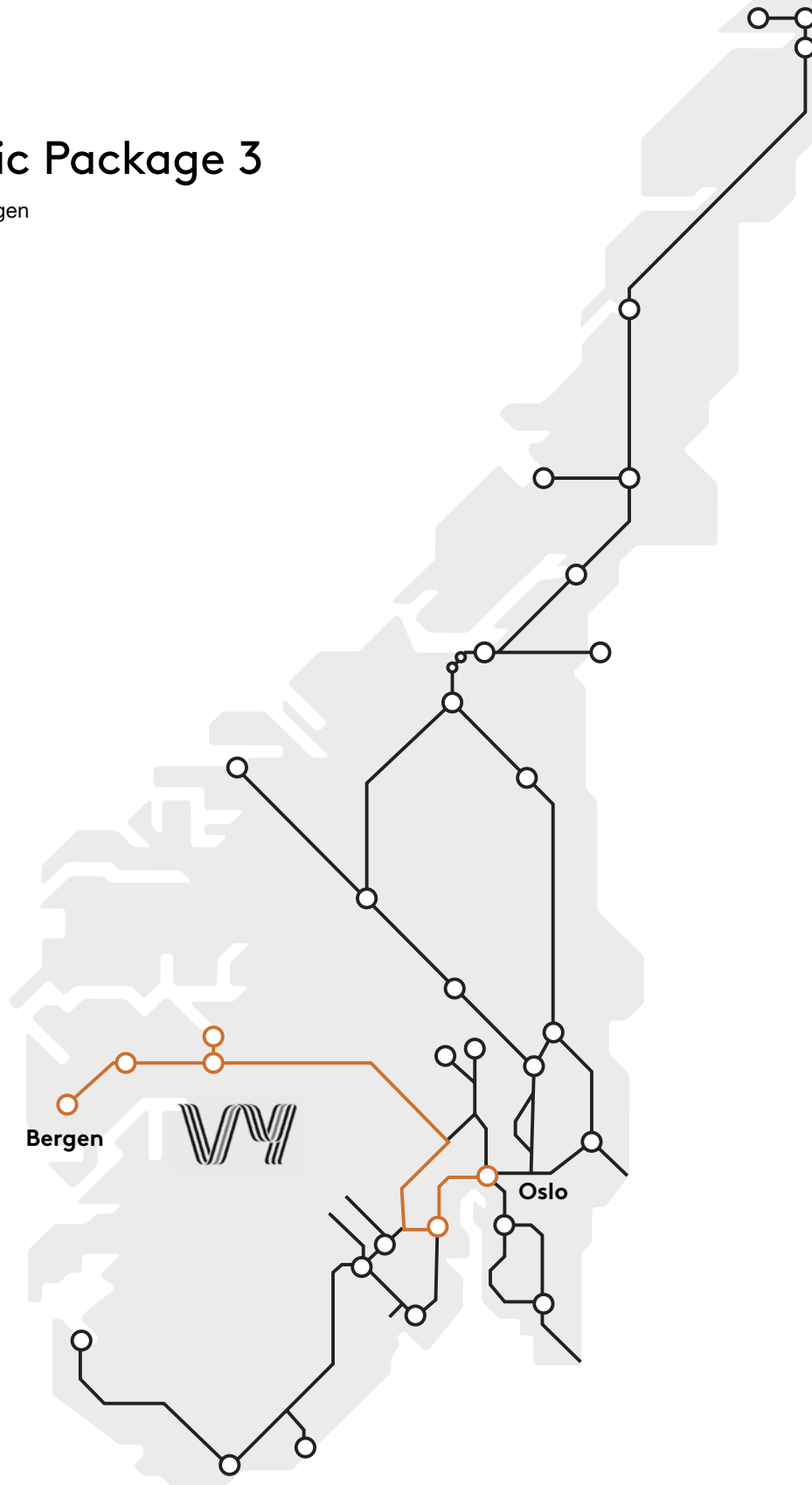
Traffic Package 2

North – Oslo to Bodø



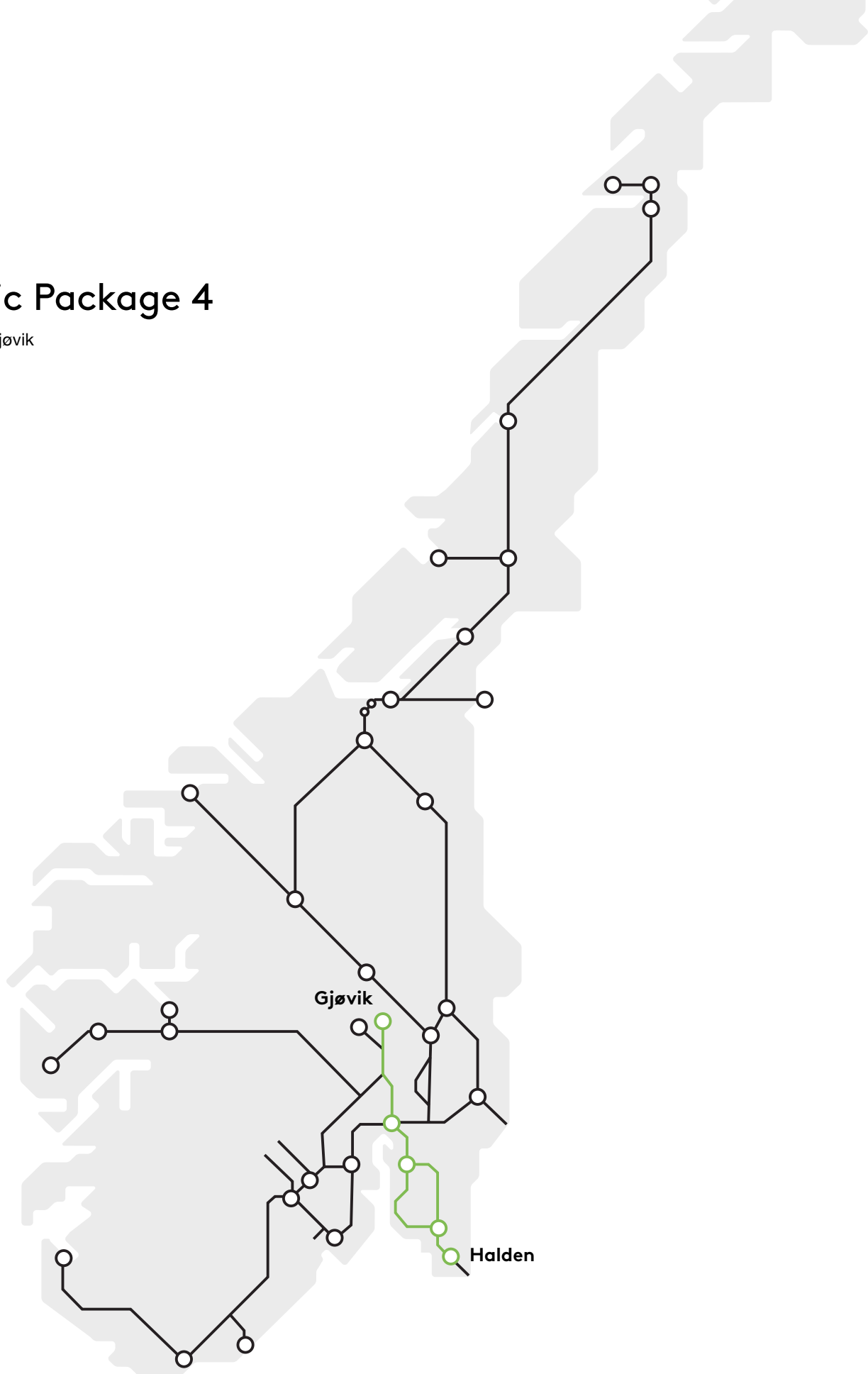
Traffic Package 3

Oslo – Bergen

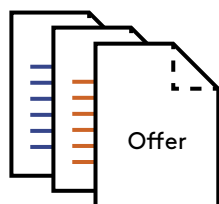


Traffic Package 4

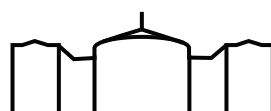
Halden – Gjøvik



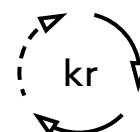
Business model



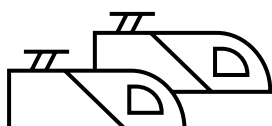
The Norwegian Railway Directorate specifies future train services in Norway and is the premise provider for Norske tog



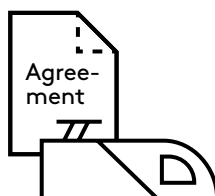
A residual value guarantee scheme has been set up whereby the state guarantees 75 % of the vehicles' book value



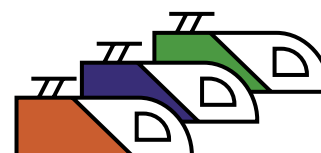
Norske tog finances its vehicle procurements through borrowings and capital inflows



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 (direct purchase agreements with Vy – formerly NSB – and Traffic Packages 1 South and 2 North)



Norske tog earns revenue from leasing out vehicles

Norske tog in figures

259

trainsets

A motor coach is a non-divisible train formation that can be operated as a train. By definition, this assumes that the configuration of the unit can only be modified in a workshop. A motor coach comprises single vehicles with traction, or vehicles with and without traction.

22

engines

An engine is a motor coach (or a combination of several single vehicles) that is not intended to carry a payload and that, in normal operation, can be uncoupled from a train and operated independently.

135

passenger coaches

A passenger coach is a single vehicle without traction that can carry passengers in a fixed or variable train formation.

17

vehicle classes 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 vehicle classes, so as to obtain better purchasing terms and reduce operational and maintenance costs.

77

satisfied passengers

Despite the 2-point drop in the customer satisfaction score, the majority of Norwegian rail passengers are satisfied with the trains.

18.8

average age of current fleet

The aim is to procure a minimum of one train per month, retiring those that are oldest and in worst condition first. This will ensure Norske tog has a more modern fleet of trains. In 2019, a total of ten trainsets were phased in and two retired.*

*The average age in 2018 would have been 18.5 years.

34

employees

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

7.8 %

return on equity

Norske tog achieved a return on equity of 7.8 % in 2019; the owner requires a return of 5 %.

A+

rating

The current rating from Standard & Poor's is A+. The aim is to retain the A+ rating.

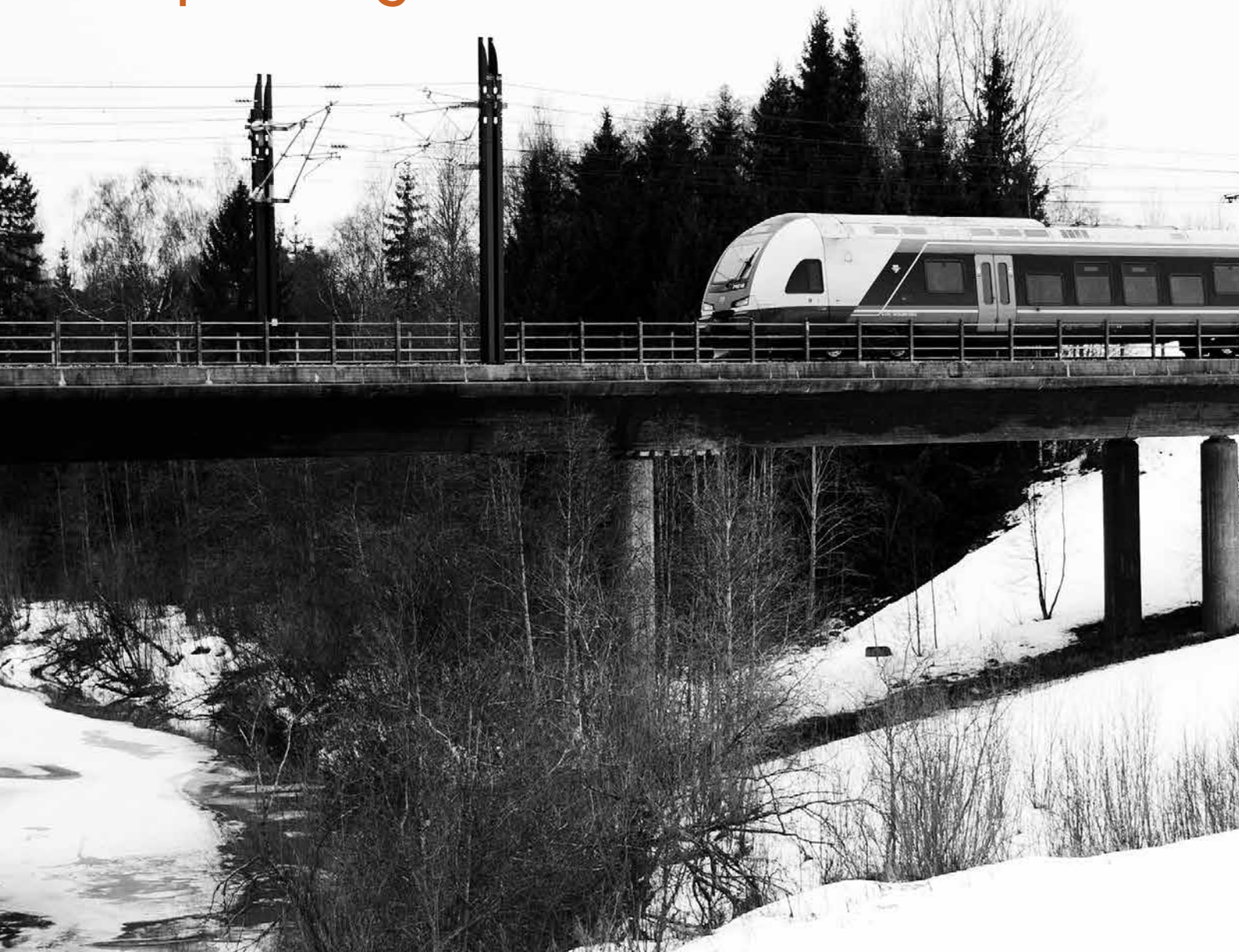
22.5 %

equity ratio

At 31 December 2019, the company had an equity ratio of 22.5 %.

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.



In this way, the company shall help to make passenger train transport attractive in Norway and contribute to “the Green shift”.







CEO's comment



Norske tog entered 2019 well aware that it would be a year of exciting challenges and one in which railway history would be made.

The start-up of Traffic Package 1 South (the Sørland Railway and the Jæren Line), operated by Go-Ahead, was particularly important, as were preparations for the procurement of new local trains. Ensuring that existing vehicles keep running every day is absolutely vital, which is why it is important to upgrade the Class 72 vehicles operating in Eastern Norway and on the Jæren Line. Equally important are procurements of critical components for maintenance of the vehicles.

Financial room for financial freedom

Norske tog has assumed a key role in the Norwegian rail sector. The company is responsible for procuring trains and ensuring that train operating companies awarded traffic packages are able to lease vehicles in accordance with their contract with the Norwegian Railway Directorate. As well as supplying vehicles to our customers, we play an important role in facilitating public transport that is more sustainable. We shall work with the rest of the Norwegian rail sector to contribute to the Green Shift.

We are satisfied with the financial results for the year, although they are slightly down on 2018. This is mainly due to the increased pace of upgrades and modifications to existing rolling stock. We are pleased to see that the company's operations are solid, meeting the owner's required rate of return at the same time as procuring new trains and spending more on fleet maintenance.

Norske tog funds future investments through borrowings and earns revenue from leasing out trains. Keeping financing costs low is important for us, which is why we target maintaining a high credit rating. Stable framework conditions are vital here, together with adequate equity and liquidity.

Financial room for financial freedom is essential for us to fulfil our tasks. The correct financing model provides the room for financial freedom to procure the necessary vehicles on time and have scope to carry out the necessary upgrades. This is a premise for our ability to deliver on our role in the railway sector, namely delivering safe, up-to-date and modern vehicles to our customers. By extension, this will contribute to passengers having

the best possible experience when they travel by train in Norway. Norske tog is working with the Ministry of Transport and Communications to find an improved financing model that is flexible enough for Norske tog to deliver effectively on its social function.

Norske tog shall offer the best possible vehicles to our customers, and hence to the passengers. We are familiar with the expectations of the train operating companies, which want to lease more trains, but also those of the passengers, who see that capacity in many parts of Norway is at bursting point. At the same time, we are seeing higher passenger growth than the forecasts had suggested. All the arrows are pointing upwards, which means that Norske tog needs to procure a large number of new vehicles in the next few years. The requirement seems to be two trains a month, compared with the current level of one train a month.

With Traffic Package 4 Oslo/Eastern Norway going out to tender in 2020, there are exciting times ahead. This is the traffic package for which we now need to acquire new local trains.

History made

Norwegian rail history was made when Go-Ahead started up operations on the Sørland Railway and the Jæren Line on 15th December. This was the first time that a train operating company other than Vy (formerly NSB) would operate ordinary passenger train traffic on behalf of the state.

The Norwegian Railway Directorate has awarded contracts for a further two packages: Traffic Package North to Swedish-owned SJ Norge and Traffic Package West to Vy Tog. This means that we will have four customers and train operating companies in the Norwegian rail system in the course of the next year.

This is the first time Norske tog has had more than one customer. A lot of work has gone into finding effective ways of working together and solving the challenges that have arisen along the way. It has been important for us to listen and learn, which we believe is the key to a good customer relationship.

For the train operating companies, it is absolutely critical that the trains work. The vehicles Go-Ahead is now

operating include Class 7 coaches on the Sørland Railway. Work has been ongoing for much of 2019 to repair cracks on these coaches, and we have to assume this work will continue for as long as these coaches remain in service.

A year of many important tasks

The entire organisation has worked hard over the past year, and the workload has been significant, with many major projects running simultaneously. One piece of feedback we therefore need to take on board from 2019 is the six-point reduction in employee satisfaction, down to 69. We are a small organisation, making it all the more important that we listen to our employees and ensure a good workplace.

Ready to order new local trains

One of the most important milestones in 2019 was the Parliament passing the investment framework for procurement of 30 new Class 77 local trains, with an option for an additional 170.

Procuring new trains is a long process. Time is short to have the vehicles ready for 2024, which is why the

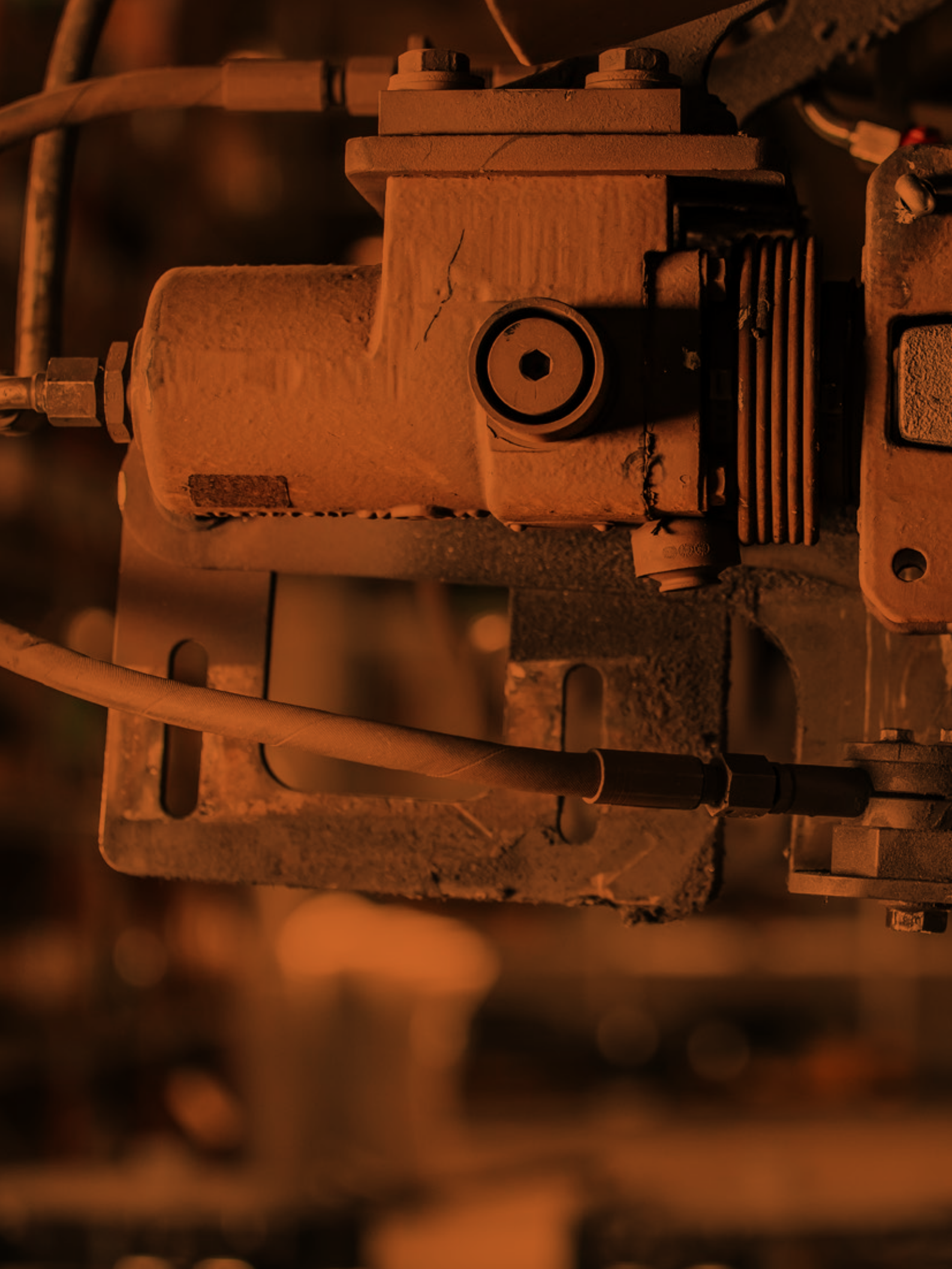
process for the tender competition is under way. The request for tenders was concluded and quality assured at the turn of the year, and published in January 2020. Criteria include solutions that are as standardised as possible, offer good capacity, are adapted to Norwegian conditions, and allow good passenger flow both in and out of the trains.

With a goal of encouraging even more people to choose to travel by train rather than car, we still have many important tasks ahead. There is a positive development in passenger growth, and Norske tog plays a key role in procuring and operating a sufficient number of safe, up-to-date trains to achieve the goal of environmentally friendly and sustainable public transport.



Øystein Risan
CEO

“With a goal of encouraging even more people to choose to travel by train rather than car, we still have many important tasks ahead.”





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 freedom



.....

Goal 5

Competent and
satisfied employees

Reporting on goals

In 2019, Norske tog started up with a new customer, Go-Ahead, and entered into contracts to lease rolling stock to SJ Norge for Traffic Package North and to Vy Tog for Traffic Package West. This means that the company now has two customers in operation, and a further two will be in place over the coming year. The transfer from Vy to Go-Ahead on Traffic Package 1 South took place in December. Go-Ahead performed in line with the Norwegian Railway Directorate's expectations for the first 24 hours of operations, and consequently received a start-up bonus.

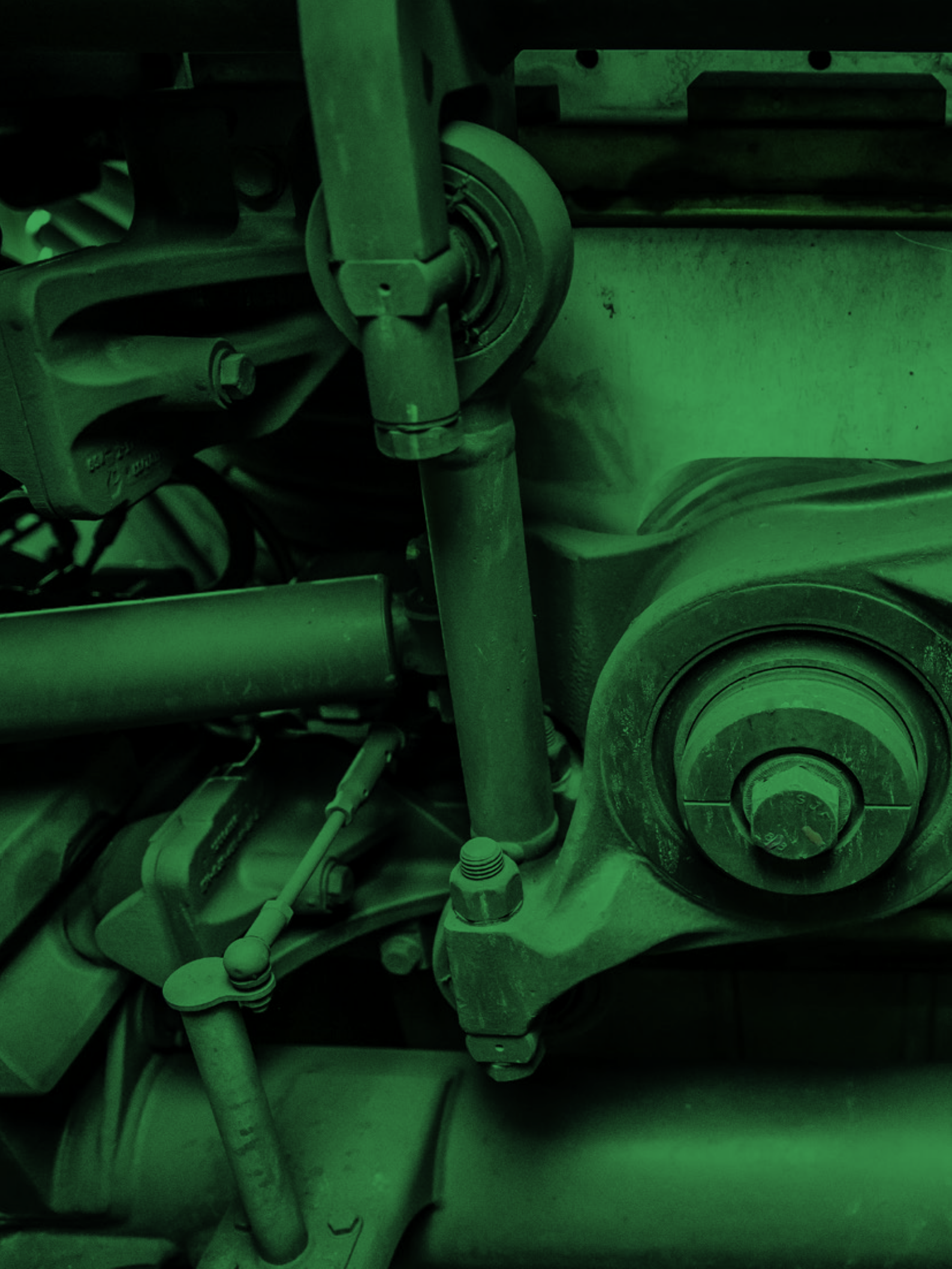
Vy has reported passenger satisfaction of 77 with the vehicles in 2019, down two points from 2018. The survey indicates a possible connection between the decline in satisfaction with the vehicles and passengers' perception of poor punctuality on the railway. At the same time, Bane NOR has reported an increase of 0.5 of a percentage point in punctuality to 89.2 %*; see Bane NOR's punctuality portal.

*<https://www.banenor.no/Nyheter/punktlighet/>

Norske tog has taken delivery of ten new FLIRT trainsets from Stadler in 2019, marking the conclusion of option 3 and start-up of option 4. The final delivery on option 4 is expected during 2020, and Norske tog will then have taken delivery of 125 trainsets. Work to repair cracks on Class 7 coaches (passenger coaches used on the Bergen Line and the Sørland Railway) has been carried out through the year and is continuing in 2020. This work is important to safeguard the condition of the vehicles. Other measures taken to maintain safe and reliable vehicles have included entering into contracts with several suppliers of components for maintenance, for example bogies, compressors and motors.

In 2019, the company trained all its employees in anti-corruption, and the ethical guidelines have been highlighted with a view to the major procurements the company is carrying out. Norske tog achieved an employee satisfaction score of 69 for 2019, down six points on 2018, and sick leave was 2.02 %.







Organisation

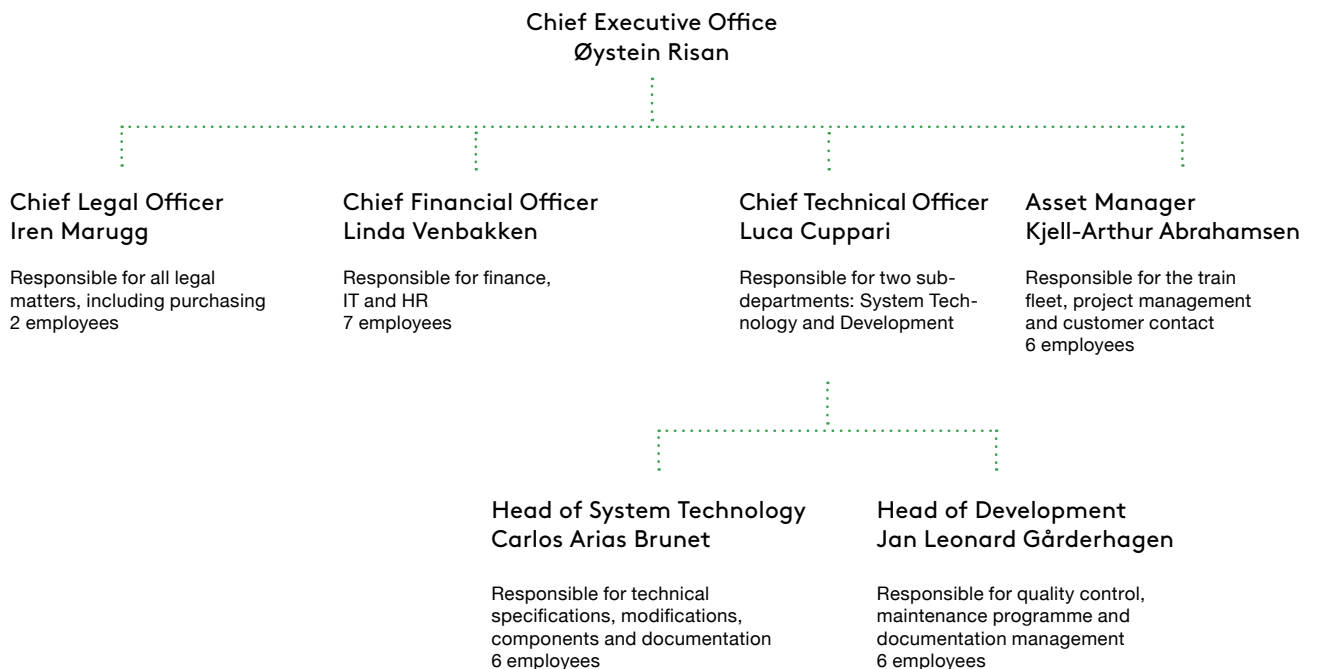
Norske tog is a
knowledge-based
company boasting
experienced employees
with top-level technical
expertise.



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

It is the expertise and experience of its employees that make Norske tog a solid knowledge enterprise. At the end of 2019, the company had 34 employees. After three years in operation and with the experience that has brought, customer-facing work was stepped up in 2019, and this work will continue in 2020.

Training in ethics and corruption has been conducted for all employees of the company. Since the company has more major procurement and bidding processes, it is important that all employees have a good understanding of ethical guidelines and anti-corruption.



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.

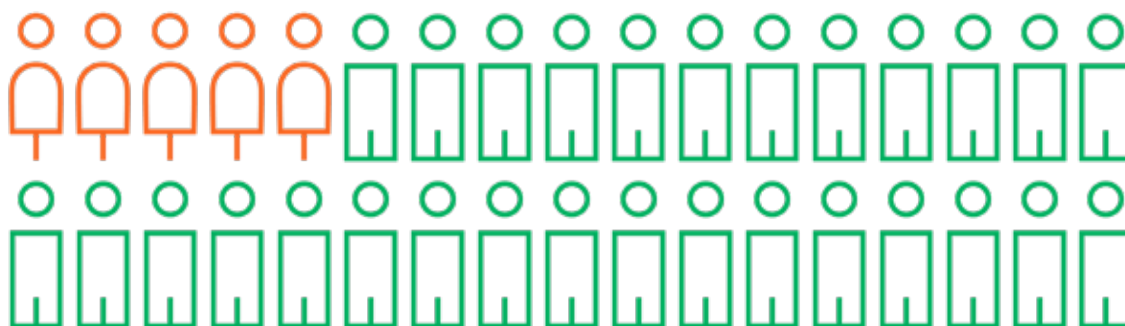
The ethical guidelines cover areas such as loyalty, impartiality and conflict of interests, and establish that Norske tog shall work actively to counter all forms of corruption. Gifts or payments of a personal nature that may compromise the recipient's integrity or may give such an impression must not 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.

Resource planning

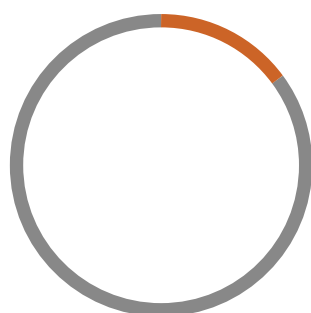
Systematic resource planning is essential as there are several major projects and procurements running in parallel. The company maps resource requirements regularly and hires in external resources when necessary. When external resources are engaged, it is important that the knowledge they accrue is transferred to Norske tog on completion of the contract.

Employees



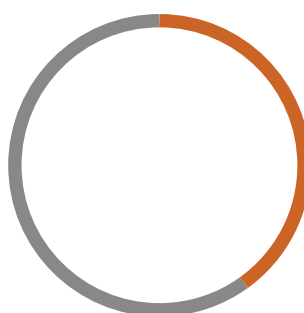
Number of employees: 34 (32 in 2018)
 Number of person-years: 34 (32 in 2018)

Figure 12: Employees and person-years



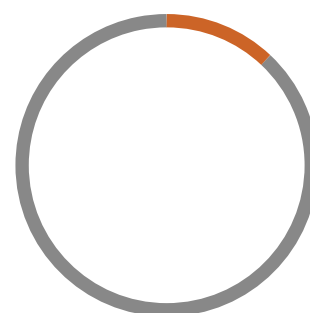
Share of women
 15 % (13 % in 2018)

Figure 13: Share of women



Share of females in the management team
 40 % (40 % in 2018)

Figure 14: Share of females in the management team



Share of minorities
 12 % (9 % in 2018)

Figure 15: Share of minorities

Achievement of objectives

Sick leave

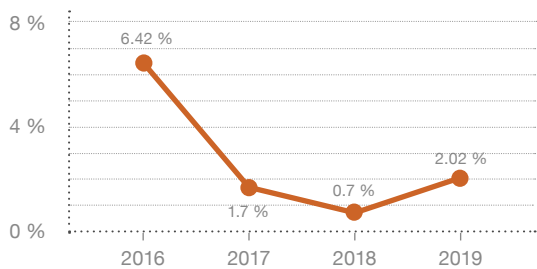


Figure 16: Sick leave

Employee satisfaction

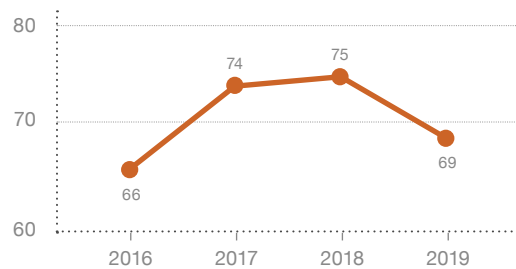


Figure 17: Employee satisfaction





Sustainability and
corporate social
responsibility

Norske tog's social function is to procure, own and manage rolling stock for passenger transport by train in Norway. As such, the company conducts operations that impact people, society and the environment both directly and indirectly

Norske tog has decided to use the Global Reporting Initiative (GRI) international standard to report on sustainability and corporate social responsibility. As this is a new way of reporting, it will be important in the 2019 report to highlight the structures underlying the different reporting areas. Over the coming year, efforts will be made to concretise what Norske tog is doing within the areas of sustainability and corporate social responsibility, how this will be done and what targets the company will set.

Corporate social responsibility at Norske tog

Norske tog's social function is to procure, own and manage rolling stock for passenger transport by train in Norway. As such, the company conducts operations that impact people, society and the environment both directly and indirectly: "indirectly" in the sense that Norske tog's activities help to influence the overall quality and hence also the "footprint" of the rail network, and "directly" in that choice of concrete solutions and working methods in itself impacts important aspects such as greenhouse gas emissions and energy consumption.

Norske tog's work to reduce energy consumption and greenhouse gas emissions from the rail network, and its efforts to make the train a preferred means of transport, must be viewed in this perspective.

Impact

The railway's greatest competitive advantage is its ability to carry large numbers of passengers, being energy efficient and essentially being powered by renewable energy. This energy consists of electricity from Bane Energi, which provides a guarantee of origin for all electricity used for rail operations in Norway. The most significant emissions challenges in the rail sector are linked to construction projects and operation and maintenance of Norway's rail network.

Although it is an environmental advantage to run trains, it is not an obstacle in the work to make the rail system even more climate and environmentally friendly. This provides scope for improvement and, for Norske tog, there are three particular areas where the company's operations impact the world around us and that it therefore make sense to prioritise:

1. Climate and the environment:

The rolling stock uses energy. Moreover, there are environmental and climate-related problems associated with producing and retiring trains. Norske tog must therefore work to achieve consistently more energy-efficient and emissions-free rolling stock and transport solutions, including the rolling stock's environmental and climate footprint from a life cycle perspective.

2. Purchasing and choice of suppliers:

Norske tog has a responsibility to guarantee a sustainable value chain by ensuring that suppliers comply with explicit standards regarding ethics, integrity and corporate social responsibility in all parts of its work process and value chain. Conscious efforts to tackle corruption and achieve good working conditions are important undertakings for any company entering into major contracts with international suppliers.

3. Train operating companies and passengers:

The quality of the trains is important to ensure punctuality and attract more passengers to the railway. Norske tog must therefore work with other players within the rail sector to develop solutions that together contribute to an even more sustainable railway, including safe and customer-friendly transport that meets the expectations of train operating companies and passengers.

In order to provide its stakeholders with an overview of how the company works on corporate social responsibility, Norske tog will increasingly apply the Global Reporting Initiative (GRI) international standard in the company's reporting in this area.

Norske tog's approach to the work on corporate social responsibility

Norske tog shall contribute to the Green Shift and encourage more people to choose to travel by train rather than car. In order to achieve this, the company must provide good experiences for the passengers in the form of modern trains and on-time departures. The current financing model has allowed little scope for upgrades to and investments in the rolling stock. This has impacted on the company's ability to modernise its vehicles, and consequently also on the vehicles' environmental and climate footprints. During the autumn 2019, the Parliament allocated Norske tog funding to procure new trains, which will bring down the average age of the train fleet.

Norske tog's work on corporate social responsibility is integrated in the company's day-to-day operations. Responsibility for the work rests with the CEO and his management team, and with the company's Board of Directors. This ensures accountability and makes it easier to integrate the work in the day-to-day business processes. The most important tools in ensuring such integration are establishing explicit guidelines, clear goals and concrete key performance indicators (KPIs) for the various processes and business areas. These must be grounded in the company's evaluations of responsibility and risk linked to corporate social responsibility.

The framework for corporate social responsibility is under constant development. A review of the business strategy in 2019 led to development of a new and more explicit set of indicators linked to Norske tog's work processes. The most important targets and metrics for corporate social responsibility have been integrated in these indicators.

In 2020, Norske tog will further develop the company's work on stakeholder dialogue and, through this, lay a better foundation for future materiality analyses and reports.

Values

Norske tog's vision is to be "a leading, future-oriented and financially sound company that provides a sufficient number of safe, reliable and up-to-date passenger train vehicles". Guided by this vision, Norske tog shall help to make passenger train transport attractive in Norway, thus also contributing to the Green Shift.

Principles and steering documents

Norske tog's approach to corporate social responsibility rests on internationally recognised principles laid down in the UN's Universal Declaration of Human Rights, the ILO's core conventions and the UN Sustainable Development Goals (SDGs).

The principles contained in policy documents have been translated into concrete guidelines and steering documents, the most important of which are:

- "Norske tog's ethical guidelines for employees and suppliers", which define the requirements and expectations made of employees and suppliers.
- "Norske tog's guidelines and qualification requirements for procurements", which define requirements for suppliers linked to procurements.
- "Guidelines for internal and external whistleblowing channels", which guarantee anonymity for whistleblowers, and ensure that any matters reported are treated seriously and dealt with thoroughly.
- "Norske tog's strategy and governance model", which defines work processes, goals and metrics for the business, including goals and indicators linked to the company's corporate social responsibility.

Priorities and goals

Within its corporate social responsibility as a whole, Norske tog has a particular focus on the areas that are important to society and stakeholders, and where the company can impact the outcome of activities in relation to these. The priorities are underpinned by a materiality analysis that assesses both external expectations and internal needs. Norske tog works actively to seek sustainable solutions, either in the form of reduced climate footprint or increased capacity within the climate footprint the company sets.

Materiality analysis

In 2018, Norske tog compiled a materiality analysis as a basis for its work on corporate social responsibility. The aim of this was to ensure that the company operates its business in a way that meets the expectations and requirements of society and its stakeholders. The starting point for the analysis was largely based on the 2017 materiality analysis and internal assessments of what these expectations were. These have subsequently been confirmed by means of the stakeholder dialogues Norske tog has conducted, including through face-to-face meetings, a dedicated "supplier day", user surveys from train operating companies and concrete collaboration projects. During 2020, Norske tog will carry out a stakeholder

analysis as a starting point for a more comprehensive framework for stakeholder dialogue.

Norske tog has a wide range of stakeholders, all with legitimate expectations of how the company is run. Several are also important premise providers or business partners, and thus have a significant influence on Norske tog's ability to achieve the company's goals. The key stakeholders are the Ministry of Transport and Communications (owner), regulatory authorities, train operating companies, business partners and suppliers, special interest organisations, investors and employees. The list of concrete stakeholders is revised annually.

The materiality analysis has been developed by Norske tog's administration and management team, and has been anchored through discussions with the company's Board of Directors. The topics that have been assessed to have a high degree of materiality both externally and internally are defined as the most material topics, and have consequently been given the highest priority. These are:

Procurement of new rolling stock:

The most important action Norske tog can take in order to meet expectations for the environment, climate and the quality of the rail service will be linked to renewal of the rolling stock, which currently comprises a series of old and, in part, outdated trains.

Safety and the environment:

The average age of Norske tog's rolling stock is currently 18.8 years*. Some trainsets are more than 30 years old. Increasing age brings both environmental and safety challenges.

Upgrades:

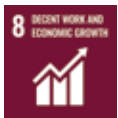
Most of Norske tog's stakeholders have expectations linked to train travel that cannot be met without significant upgrades to the current rolling stock. This concerns both expectations of a good level of comfort and good communication solutions, and the need for energy-efficiency improvements. In addition, the vehicles need to be upgraded so they can communicate with the new digital signalling system (ERTMS) being rolled out by Bane NOR.

**The discrepancy in the average age for 2018 is due to a miscalculation and should have been 18.5 years.*



The UN Sustainable Development Goals

Norske tog's administration and Board of Directors have identified seven of the UN Sustainable Development Goals as particularly relevant to the business. The most important are goals 8, 9, 11, 12 and 13:



Goal 8: Decent Work and Economic Growth
By emphasising work on anti-corruption, reputability requirements, safety, health and the working environment in procurements and day-to-day activities, Norske tog is contributing to sustainable economic growth and decent working conditions.



Goal 13: Climate Action
Norske tog is helping to stop climate change by systematically working to reduce the trains' energy and material consumption, and by designing vehicles that influence the transition from car to train.



Goal 9: Industry, Innovation and Infrastructure
By renewing and upgrading the rolling stock, and adapting the trains to a new, digital future, Norske tog is playing a part in renewing the rail network and ensuring Norway has a train service adapted to the needs of tomorrow.



Goal 5: Gender Equality
One of the ways in which Norske tog seeks to contribute to gender equality is by consciously recruiting more women to work in the company.



Goal 11: Sustainable Cities and Communities
Efficient rail transport is particularly important heading into urban centres and in densely populated areas. By developing solutions that can accommodate expected traffic growth, Norske tog is contributing to efficient and environmentally friendly transport – which in turn provides an important foundation for developing good residential environments and local communities.



Goal 7: Affordable and Clean Energy
Through its work to reduce the trains' energy consumption, Norske tog is helping to free up renewable power that can be used for other purposes, for example electrifying car transport.



Goal 12: Responsible Consumption and Production
By setting requirements for recycling and material and energy consumption, Norske tog is helping to ensure environmental and climate perspectives are considered throughout the train's life cycle.

In addition to the above goals, Norske tog also contributes to a lesser extent to Goals 5 and 7:

Reporting

Norske tog's work on corporate social responsibility is integrated in all the company's day-to-day work processes. In order to best live up to the Global Reporting Initiative's (GRI) ambitions of open, transparent and verifiable reporting, it will be most appropriate to base the reporting on these ambitions in accordance with the following structure:

- Environment and climate
- Health, safety and the environment, and anti-corruption
- Financial and other aspects

Environment and climate

The most important factors that Norske tog can influence in terms of climate and the environment are linked to energy consumption and emissions in connection with purchase or upgrade of the rolling stock, and material consumption and recyclability linked to the trains.

Procurement of new trains

In its consideration of the government budget for 2020, the Parliament passed an investment framework that enables Norske tog to start work on a contract for the procurement of 30 new local trains. The contract shall also include an option to allow the company to purchase more trains in the future. These trains are intended to replace 30 existing Class 69 trainsets operating on the Ski – Oslo – Stabekk line.

Preparatory work on the tender competition is well under way, and the aim is for the first new trains to be delivered during 2024. The specification of requirements for the suppliers sets explicit requirements for energy consumption, noise reduction, weight and passenger capacity, which are among the key indicators of environmental sustainability. Requirements have also been set concerning life cycle analyses, documentation of CO₂ emissions from the production process, and evaluating the trains for recyclability on scrapping. In addition to absolute requirements, documentation requirements have been set for deliveries and work processes in order to ensure that these are in line with the requirements set by Norske tog.

Upgrades and maintenance

The operating companies are responsible for ongoing maintenance of the trains, but Norske tog is responsible for upgrades. Both elements are important for opera-

tional reliability, energy consumption and maintaining the 30-year technical lifespan of the vehicles.

Mid-life upgrades, i.e. upgrades of the train's interior and technical components, provide an important opportunity for Norske tog to influence the vehicle characteristics in terms of both energy consumption and operational reliability. Norske tog has been granted residual value guarantee to upgrade its fleet of Class 72 trains, which operate in Eastern Norway and on the Jæren Line.

Innovation and development

Some sections of line have not yet been electrified and still use diesel engines. In 2018, a contract was entered into to purchase bimodal trains, i.e. trains that can run on both electricity and diesel. These will replace the Class 92 trainsets currently operating on Trønderbanen, the Trøndelag Commuter Rail.

Norske tog is also considering the possibility of testing trains that run purely on batteries. From a socio-economic and climate perspective, this could be a good alternative to full electrification of the rail network.

Health, safety and the environment, and anti-corruption

Health, safety and the environment

Norske tog's operations shall not cause serious injury to persons or serious harm to the environment or material assets. The same applies to injury/damage as a result of defects in Norske tog's rolling stock.

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 come to light, the responsible manager shall implement corrective measures.

In its report on the Filipstad accident on 24 February 2019, in which one person died and two were seriously injured, the Accident Investigation Board Norway made two safety recommendations. The accident happened when three youths climbed up on a set a side train. The youths suffered injuries from the high-voltage power line: one died and the other two were seriously injured. The report states that "The Accident Investigation Board Norway advises the Norwegian Railway Authority to ask Bane Nor SF and the owners of the rolling stock to risk-assess how easy these types of trains are to climb

with a view to stabling and inspection requirements". Norske tog will appoint a working group of external, independent participants and invite Vy, the other train operating companies and possibly other relevant players to map the recommended risk assessment. Other measures include the company not stabling trains, such that all vehicles are either leased out or sent directly to be scrapped.

Goal:

No serious injuries/damage

Result:

Norske tog's vehicles were involved in an accident in which one person lost his life and two were seriously injured. No other injuries to employees of Norske tog or passengers arising from the company's operations were reported in 2019.

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 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 anti-corruption efforts in their dealings with suppliers and business partners.

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. All suppliers must undertake to follow international conventions and facilitate inspections by Norske tog or relevant authorities of working conditions throughout the supply chain. Norske tog seeks to work with suppliers on continual improvements to safeguard good, safe working conditions.

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.

A routine has also been established for regular dilemma training for the company's employees. An external whistleblowing channel has been established and has been made available on the company's website.

Goal:

No corruption incidents

Result:

No reported corruption incidents

Financial and other aspects

Financial aspects

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

In November 2019, Norske tog went to the market with an issue of green bonds. The bond was evaluated by CICERO and rated "dark green" – the highest score from a climate perspective. This confirms Norske tog's strong climate profile, but also imposes stringent requirements on the business going forward.

Goal:

- 5 % return on equity
- Maintain A+ credit rating

Result:

- The company's return on equity for 2019 is 7.8 %
- The company has maintained its A+ credit rating in 2019

Non-discrimination and employees

Norske tog seeks to have a wide and diverse group of employees, where individual characteristics are respected and valued and where no one is discriminated against on the grounds of gender, age, disability, sexual orientation, or religious, cultural or ethnic background.

Women represent 15 % (5 out of 34) of the workforce at Norske tog, and the company strives to identify qualified female candidates where possible. Women make up 66 % of Norske tog's Board of Directors and 40 % of the company's management team.

Where possible, Norske tog will invite a minimum of one candidate from a minority background to interviews in order to ensure greater diversity among its employees.

Goal:

- Call at least one qualified female candidate to second interview
- Call at least one qualified candidate from a minority background to second interview

Result:

- Norske tog has achieved these goals where there have been suitably qualified candidates

Customer satisfaction

Norske tog has set high standards for customer satisfaction. This is important in order to contribute to a transition from cars to the railway.

The company's customers are the train operating companies that compete for new traffic packages and win the tenders, as well as Vy (formerly NSB) via its direct purchase agreement with the Norwegian Railway Directorate. Vy's customer satisfaction survey for 2019 reports a high level of satisfaction with the trains it operates. During 2020, Norske tog will obtain equivalent data from Go-Ahead and SJ Norge as they take over operations on their lines.

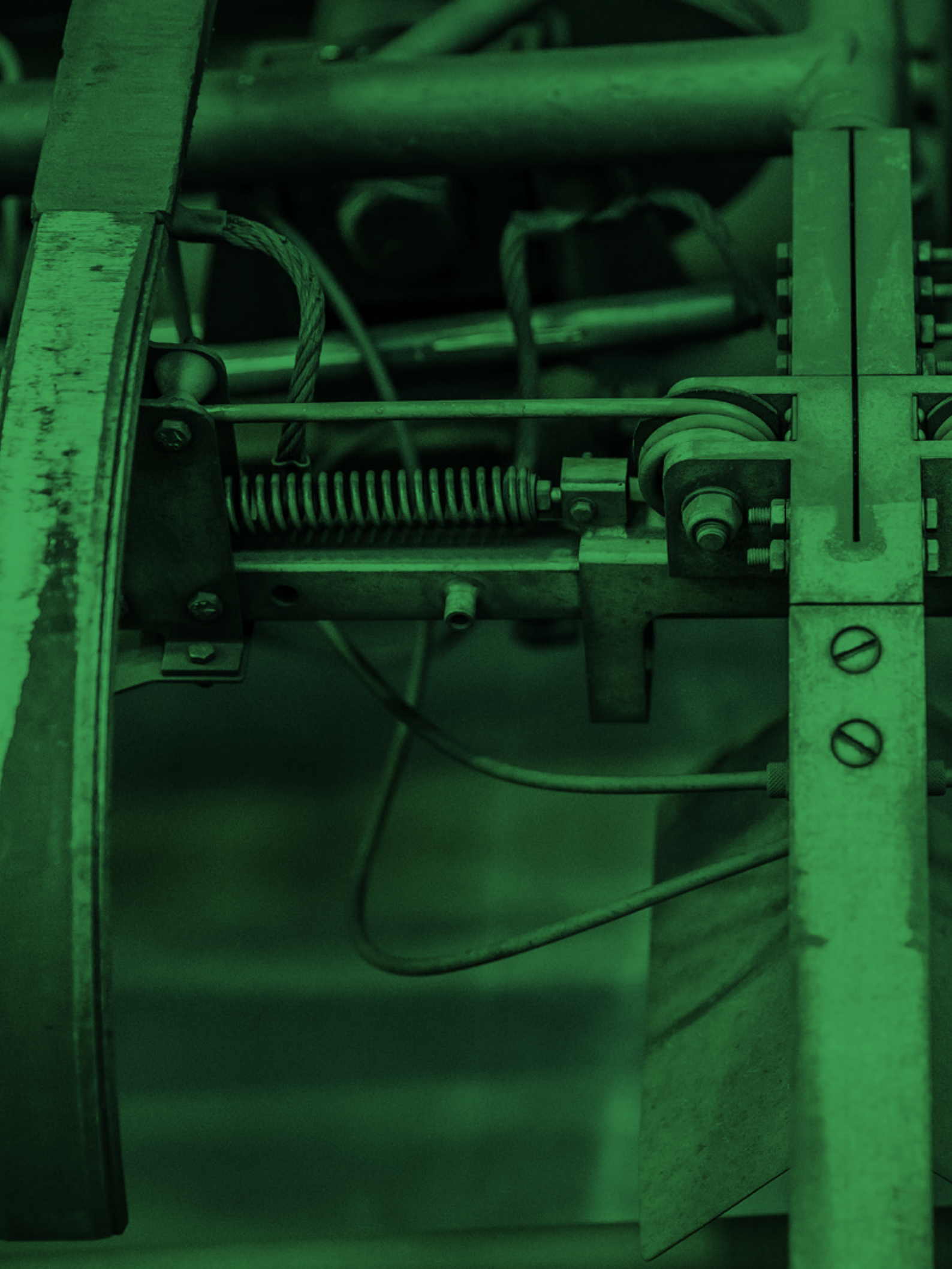
Goal:

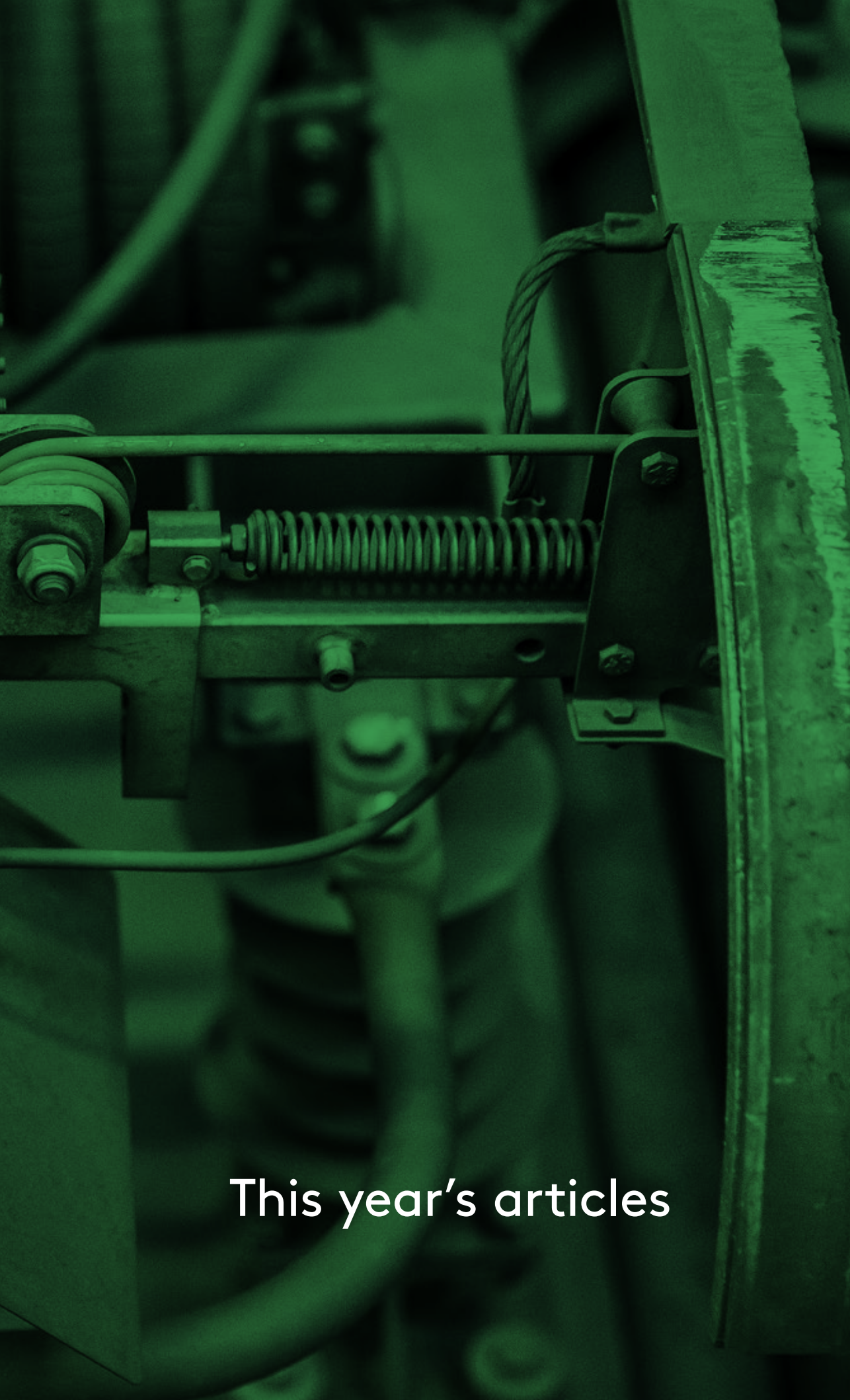
Average customer satisfaction score of 80

Result:

Customer satisfaction in 2019 was 77



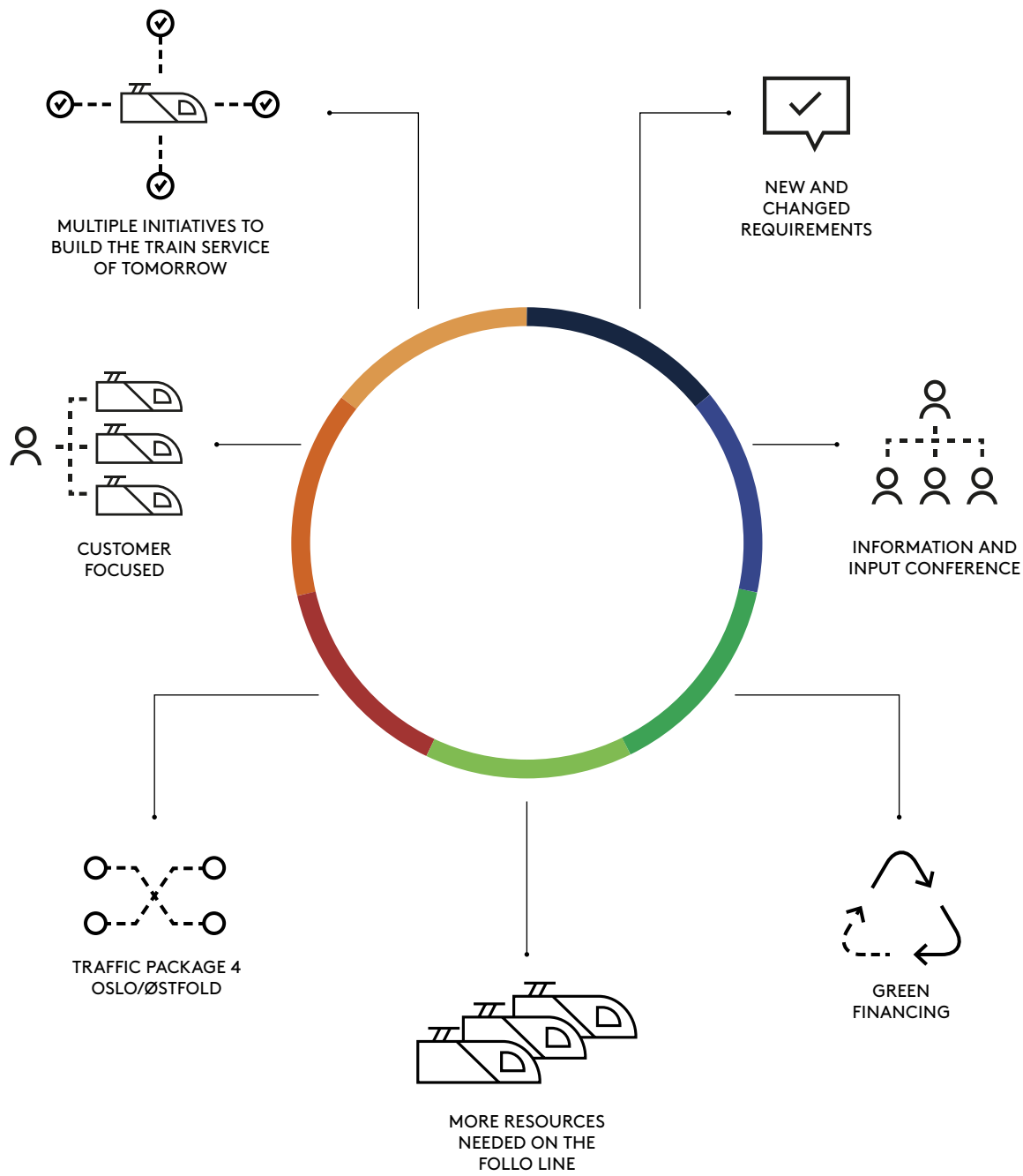




This year's articles

Norske tog has implemented and launched several major projects in 2019, all focusing on increased customer satisfaction and better trains, both for the train operating companies and the passengers. A green bond has been issued to finance trains more sustainably, and will help to finance new trains and upgrades of existing rolling stock.

Norske tog



1. New and changed customer requirements

Norske tog works continuously to enable the train operating companies to offer train passengers the best possible travel experience. In order to deliver on their promises to the approx. 215,600* people who travel by train in Norway every day, Norske tog's customers – Vy, Vy Tog, SJ Norge and Go-Ahead – are wholly dependent on the functioning of the trainsets they have at their disposal.

Figures from Vy show the company has recorded passenger growth of 2.8 % in 2019, and new forecasts suggest that passenger numbers will continue to increase in the years ahead.

Need increased capacity

First and foremost, Norske tog's customers need increased capacity on the trains and more departures. Current passenger numbers mean that capacity on the trains is already at bursting point. In addition, society's expectation of choosing more environmentally friendly forms of transport is also significant for further passenger growth. Choosing to travel by train rather than car or plane makes an important contribution to reducing emissions in Norway. To make a success of this transition, the train service has to be attractive to passengers. When all is said and done, it is a question of making people's everyday lives easier.

More frequent departures make journey planning easier for passengers, which is why the train operating companies want to offer as many departures as possible. However, all the available rolling stock Norske tog owns is already at full capacity. This means that if capacity is to be increased for the passengers, Norske tog will need to be able to procure new rolling stock. Norske tog's investment framework for purchasing new vehicles is allocated by the Parliament, which in December 2019 passed an investment framework for the purchase of 30 trains, with an option for a further 170.

Flexible solutions

Transport needs will change drastically over the next few years, and it is difficult to predict what concrete form this change will take. A trainset designed for use in Norway

has an estimated lifespan of 30 years, but the trains generally remain in service longer than that. Flexible interior solutions will be absolutely vital if the trainsets are to remain attractive and efficient throughout their lifespan. The train operating companies must be able to adapt the trains to the passengers' changing transport needs.

Norske tog works continuously to enable the train operating companies to offer train passengers the best possible travel experience.

Many parties have explored the question of sleeper coaches and what is required to improve this service and increase capacity. Norske tog is therefore in ongoing dialogue with train manufacturers on new concepts and innovations for better utilisation of the trains. Among other things, Norske tog wishes to see how the company can devise solutions that enable the sleeper coaches to be used around the clock, not just once a day. For example, one solution could be large seats that can be partly or fully reclined.

Norske tog works with the Ministry of Transport and Communications, the Norwegian Railway Directorate and its customers to consistently improve the train service throughout Norway.

***Figures from the Vy Group*



2. Information and input conference

In 2020, Norske tog will hold a competition to procure new local trains. These will operate on the Ski – Oslo – Stabekk line, replacing 30 Class 69 trainsets currently servicing the route.

The Class 69, which runs on local train lines in Eastern Norway, went into service at the end of the 1970s. The trainsets provide good passenger capacity, but are now outdated in terms of both technical lifespan and passenger comfort. This class of train has therefore presented a number of challenges, and replacement parts have proved both expensive and difficult to obtain.

Dialogue is the key

Useful input from important stakeholders, including train operating companies, passengers, the Ministry of Transport and Communications and the Norwegian Railway Directorate, is vital in drawing up the optimum specification of requirements for new local trains. In September, Norske tog therefore hosted an information and input meeting. The aim of the meeting was positive dialogue on what is critical in order for the new local trains to provide a better service for those who travel on the line.

The meeting gave train operating companies, experts and various stakeholders an opportunity to share their views of what will improve the train service on the Ski – Oslo – Stabekk line for the passengers. In addition, Norske tog shared its own dilemmas concerning the procurement, the choices it has to make and the input it needs in order for the new local trains to be the best they can be. Consulting stakeholders with special needs was particularly important. For example, representa-

tives of the Norwegian Association of the Disabled were present and shared their views on what is important for disabled persons to be able to use the train service. The key points that emerged were predictability, level entry, distance from platform and larger areas inside the doors with ample space for wheelchairs.

Predictability, flexibility, good information system as well as internet access, power and charging points came across as important for rail users.

Clear message from rail users

Norske tog received clear feedback and concurrent requests from the stakeholders who attended the meeting. Predictability, flexibility, good information system as well as internet access, power and charging points came across as important for rail users.

New local trains will change the daily commute for thousands of passengers. The aim is to improve the travel experience, increase punctuality and reduce passenger stress levels. New local trains are expected to be in service on the Ski – Oslo – Stabekk line from 2024.



3. Green financing

In order to be able to finance vehicle procurements and meet customer needs, Norske tog seeks residual value guarantee from the owner via the Ministry of Transport and Communications, and borrows in the international bond market.

Norske tog has an important role to play in the work to make Norway's public transport more sustainable and contribute to the Green Shift. The company has established a framework for issuing green bonds in order to contribute to further investments in rolling stock and upgrades of existing trains.

Norske tog's green framework is based on the 2018 Green Bond Principles issued by the International Capital Market Association (ICMA), and the company seeks to follow best practice in the market and update the framework as the principles evolve.

Funds received from the issue of green bonds will be used to finance or refinance electric trainsets or upgrade existing electric trains. Norske tog's qualified green investment projects shall thus contribute to the transition to a low-emission society and climate-friendly growth by means of clean transport and a reduced climate footprint from the transport sector. At the same time, qualified projects for green financing shall contribute to the work on achieving the following UN Sustainable Development Goals: goal 9 "Industry, Innovation and Infrastructure", goal 11 "Sustainable Cities and Communities" and goal 13 "Climate Action".

CICERO*, the Centre for International Climate and Environmental Research, has conducted an independent valuation of Norske tog's green framework. CICERO uses the "shades of green" method as a basis for evaluating to what extent investment projects contribute to the low-emissions society and transparency surrounding climate risk, climate change adaptation and strategy. A green bond is rated on a scale from dark green to light

green, and Norske tog's framework has come out at the top of the scale, assessed as "dark green" by CICERO. This means that the company's framework shows a good level of conformity to the ICMA's principles for green bonds and loans, and that investments in electric trains will help to achieve the goals for a low-emissions society.

At the end of November, the company issued its first green bond. This was extremely well received by the market, and Norske tog obtained financing for the desired loan amount.

At the end of November, the company issued its first green bond. This was extremely well received by the market, and Norske tog obtained financing for the desired loan amount.

Over the coming year, the company will compile a detailed report of which green investment projects are to be financed using the funds from this bond issue. A report on the actual environmental impacts of the company's investments will also be drawn up.

**The company's framework for green bonds and CICERO's evaluation of the framework are available on the company's website.*



4. More resources needed on the Follo Line

The Østfold Railway is one of the busiest lines in Norway, and traffic growth in recent years has outstripped the forecasts made in the Norwegian Railway Directorate's 2015 perspective report. This growth looks set to continue at the same high level, coupled with ever more people choosing to travel by train. Norske tog needs more trains in order to meet the increasing capacity requirements.

When Bane NOR's Follo Line project is ready at the end of 2022, trains will run on both the local train line and the new express line. The new line will mean significantly shorter journey times, something that will benefit passengers. All the trainsets Norske tog owns are currently in service. This means that new requirements, such as increased capacity for passengers, will have to be met by purchasing new trains. In addition, the Class 69 trainsets currently operating on the Østfold Railway are outdated and need to be replaced.

Norske tog was allocated an investment framework in the government budget for 2020 to order 30 new local trains, with an option for a further 170. The first 30 trains will operate on the Ski – Oslo – Stabekk local line. Getting new trainsets takes around four years from order to initial delivery. Since the Follo Line is scheduled for completion in December 2022, Norske tog is already playing catch-up; getting a contract in place is a matter of urgency.

Request for tenders

Through 2019, Norske tog has worked on and clarified the specifications of requirements for the request for tenders to manufacture new local trains. One of the main goals of the procurement is to obtain large-capacity trains capable of short stops at stations. The latter relies on good passenger flow and good acceleration. The design of the train shall be based on established solutions familiar to the suppliers and, wherever possible, the trainsets shall be constructed using rigorously tested components.

A train with the emphasis on safety and reliability is another key priority for the procurement. Trains that operate on Norwegian tracks must be able to deal with everything from snow and ice to steep gradients, a large number of tunnels and tight bends. At the same time, they need to offer passengers a punctual and comfortable service.

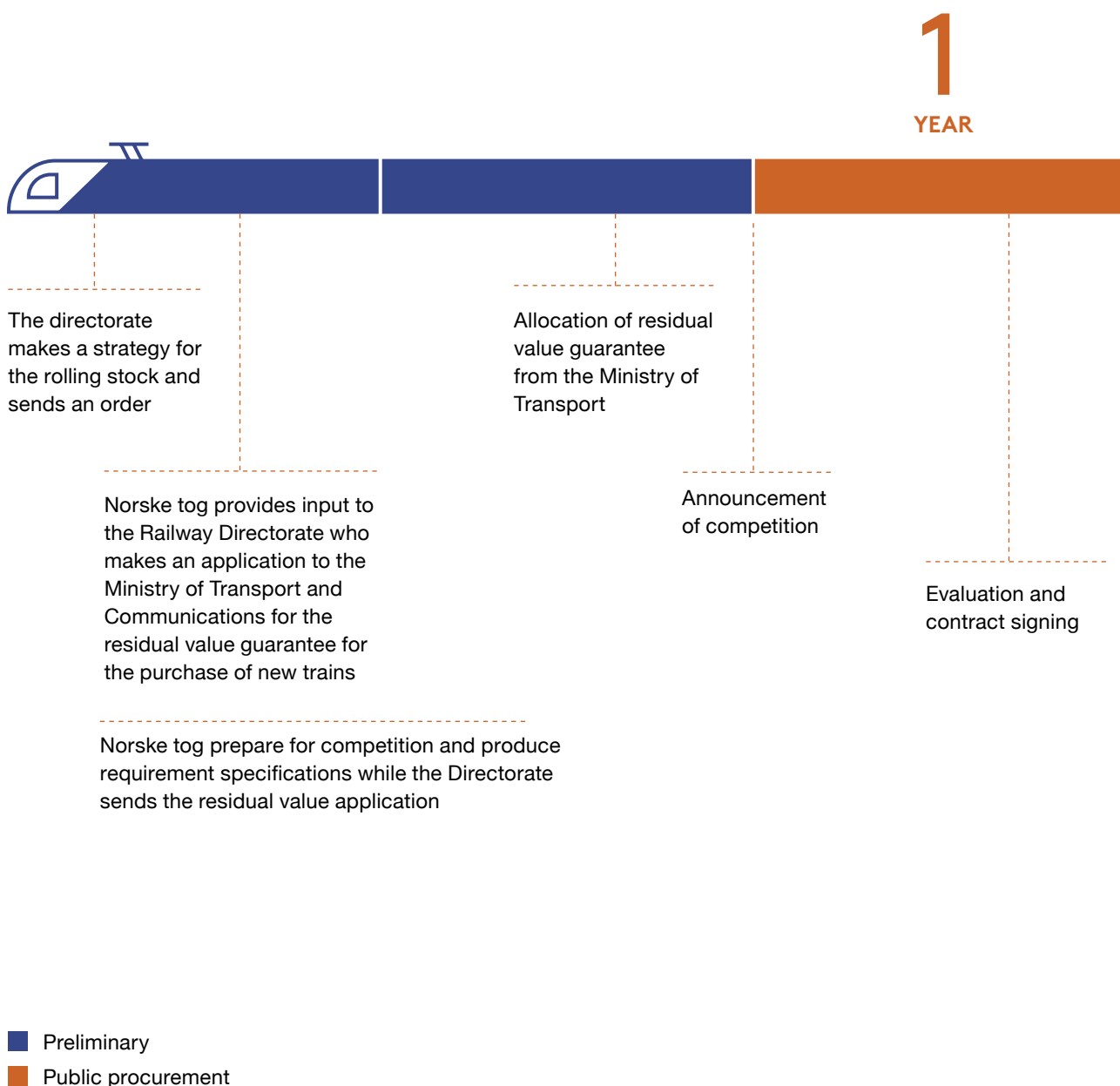
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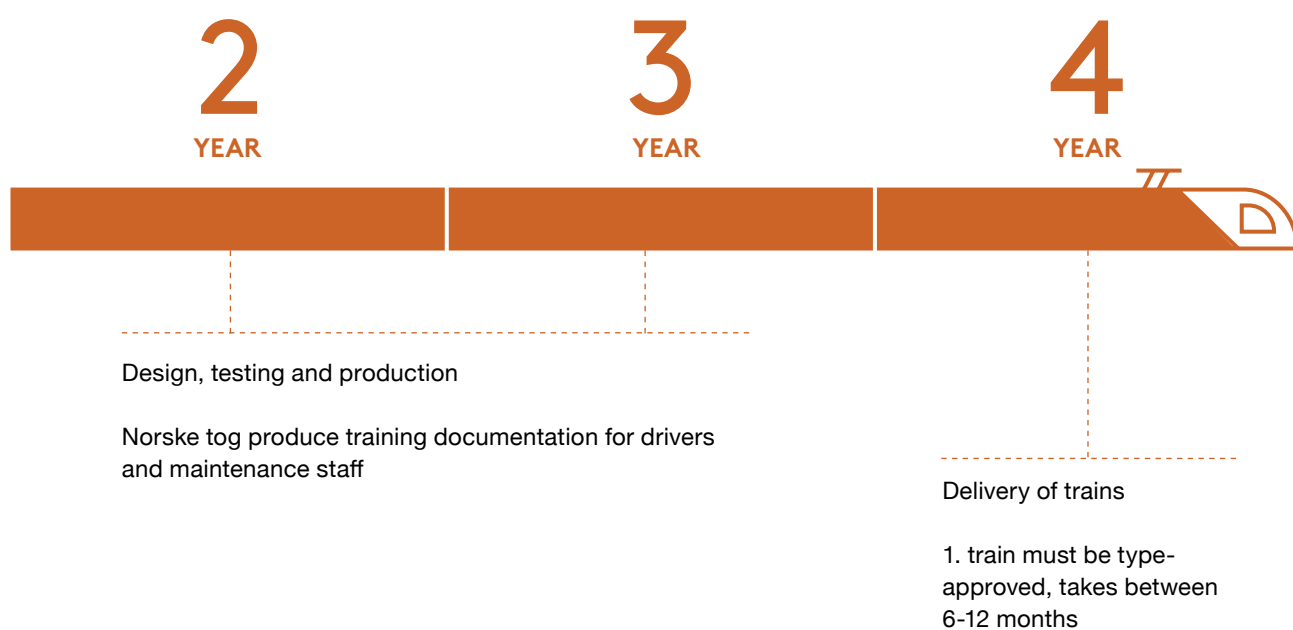
Norway's meteorological conditions will probably require modifications to most suppliers' standard solutions. Modifications mean higher initial costs for the supplier, so – in Norway's case – placing relatively large orders to bring down the unit costs will be extremely worthwhile. If, on top of this, the contracts include substantial options, this can contribute to standardisation and flexibility for growth.

The request for tenders was discussed and approved by the Board of Directors at the start of 2020 and, with residual value guarantee in place, Norske tog announced the competition at the end of January 2020. The company expects to receive tenders over the summer. By the end of 2020/early 2021, the aim is for Norske tog to have signed a contract with a manufacturer to produce and deliver new local trains.



Purchase of rolling stock





5. Traffic Package 4 – Oslo/Østfold

The Norwegian Railway Directorate has announced that the competition for Traffic Package 4 Oslo/Østfold, covering all traffic on the Østfold Railway and the Gjøvik Line, plus local trains L1 (Lillestrøm – Asker/Spikkestad) and L2 (Ski – Oslo – Stabekk), will be put out to tender in 2020.

Since the Norwegian Railway Reform came into effect, competitions have so far been announced for three Traffic Packages – Traffic Package 1: South, Traffic Package 2: North and Traffic Package 3: West (see overview on page 4).

Traffic Package 4 Oslo/Østfold is important to the economy because it includes both local and intercity trains that carry large numbers of people. Moreover, significant traffic growth is forecast on these lines. The Traffic Package also includes operation of passenger train services on the Follo Line.

The request for tenders for Traffic Package 4 Oslo/Østfold is expected to be sent out in September 2020, with a deadline for submissions in February 2021. Contract

signing is scheduled for the second half of 2021, with services on the lines due to start in December 2022, coinciding with the opening of the Follo Line.

The schedule provides for the train operating company awarded Traffic Package 4 Oslo/Østfold to have more than a year to prepare for start-up from when the contract is signed.

Traffic Package 4 Oslo/Østfold is important to the economy because it includes both local and intercity trains that carry large numbers of people.



6. Customer focused

Until December 2019, Vy – formerly NSB – was Norske tog's only operational customer. The collaboration between Norske tog and Vy was based on old structures and processes predating the Railway Reform. New routines and working conditions have gradually been introduced along the way.

In October 2018, Go-Ahead was awarded the tender to operate passenger train transport on the Sørland Railway. Go-Ahead's very first scheduled departure in Norway – from Stavanger to Oslo on 15 December – marked a new chapter in Norwegian railway history.

Having more customers means that Norske tog will have to deal with more and different organisations. Different organisations have different routines, processes and working methods. Norske tog is making good progress in its work with Go-Ahead and SJ Norge to ensure there are good processes and routines in place covering everything from maintenance issues to handover of new trainsets. The key is to listen and learn, in order to understand what the customers have offered and how they want to deliver on their contracts. Norske tog already has good experience of starting up traffic packages, experience it will take forward to start-up of the next package. The aim is to design best practice as a foundation for positive collaboration with new customers going forward.

In October 2019, SJ Norge was awarded the contract for Traffic Package 2 North (see overview on page 4). This will make SJ Norge the third train operating company to operate passenger train services under a public-sector contract on the Norwegian rail network. SJ Norge has already started work on building a Norwegian organisation, and good collaboration between Norske tog and SJ Norge will ensure a successful train service in Northern Norway.

The contracts entered into between the Norwegian Railway Directorate and the train operating companies awarded traffic packages (Go-Ahead and SJ Norge) include a start-up bonus. A scheme of this kind puts pressure on Norske tog's deliveries on the start-up date. Among other things, receiving the bonus is conditional on the train operating company running to schedule in

the first 24 hours. In other words, all the rolling stock Norske tog delivers to the customer has to be inspected, quality-assured and transferred at the right time so that the customer, in turn, is able to deliver the contractual train service. The Norwegian Railway Directorate has set the bonus at NOK 30–40 million, and views this as an incentive for the train operating companies to exceed expectations. Go-Ahead delivered satisfactorily on the requirements in the start-up phase, achieving a successful start-up.

The measures Norske tog implements and the adaptations it makes are important in enabling the company's customers to provide the best possible travel experience for the passengers.

At the start of December, Vy Tog was awarded the contract to operate passenger train services for Traffic Package 3 West: the Bergen Line; start-up is scheduled for December 2020. Norske tog leases out a sufficient number of safe, reliable and up-to-date trains to the customers operating the various traffic packages. The customer is responsible for operation and maintenance from the time of takeover and throughout the contract period. During the lease period, Norske tog shall also contribute to modifications that benefit both the train operating company and management of the fleet as a whole. Norske tog shall work with the train operating companies to build new solutions that help to make passenger train transport attractive and contribute to the Green Shift.

The measures Norske tog implements and the adaptations it makes are important in enabling the company's customers to provide the best possible travel experience for the passengers.



7. Multiple initiatives to build the train service of tomorrow

Norske tog is working purposefully to provide the best possible service to the company's customers and their passengers, in order to guarantee a good travel experience. The company therefore works continuously to upgrade rolling stock and has several upgrade projects in progress.

ERTMS

Signalling errors have been a challenge for the Norwegian rail system for many years. ERTMS is a common European system initiated by the EU that will standardise signalling and traffic management on railways throughout Europe. The new system is intended to provide better and faster information for train operating companies, fewer signalling errors, and more punctual and predictable rail traffic. It will help to reduce human errors and thus increase safety. The technology paves the way for self-driving trains in the future.

In 2018, Norske tog signed a contract with Alstom for delivery of on-board equipment for the new signalling system. Bane NOR has tested the technology on the eastern section of the Østfold Railway, with good results. Norske tog and Alstom have started planning how to convert the trainsets so they are ready to operate using the new signalling system when it comes into use.

This work is being done in stages to minimise inconvenience to passengers. Installation of the signalling system is expected to be completed on all Norwegian trains in 2026, and ERTMS will cover the entire Norwegian rail network by 2034.

Crack repairs – Class 7 (passenger coaches used on the Bergen Line and the Sørland Railway)

The Class 7 coaches are old and prone to cracks in the bodywork, which is made of aluminium. Norske tog's goal is to supply safe and reliable trains to its customers. In 2019, the company therefore continued its work to repair cracks on old vehicles. First and foremost, this involves welding cracks in the bodywork to guarantee the

vehicle's lifespan and quality, and high-quality vehicles for the passengers.

Several rounds of the work have been carried out. The current round of repairs will continue until summer 2020.

Cab radio

Cab radio is a statutory safety system that ensures engine drivers can communicate with train traffic controllers (dispatchers). All vehicles must have an approved and functioning cab radio system in order to operate on the rail network.

The current cab radios are no longer in production, and Norske tog therefore needs to purchase new cab radios for the new trains coming in the next few years. A new cab radio standard is expected in five to six years' time. The cab radios purchased must therefore be able to be upgraded and continue to be used when the new standard comes into force.

Norske tog has run a competition for delivery of cab radios, which was in the closing phase at the end of 2019/start of 2020.

This work is being done in stages to minimise inconvenience to passengers. Installation of the signalling system is expected to be completed on all Norwegian trains in 2026, and ERTMS will cover the entire Norwegian rail network by 2034.

Mobile signal boosters

To provide a good level of comfort, train bodywork is designed to absorb vibrations and noise, shield passengers from the sun and reduce heat loss. However, this means that the bodywork also prevents mobile signals from penetrating into the train, resulting in poor internet coverage for passengers on board. To improve internet coverage on board its trains, Norske tog has signed a contract to procure new 4G mobile signal boosters. In the first instance, 169 trains across six different classes will be upgraded, including trains operating on the Østfold and Sørland Railways. This will result in a faster data network for passengers, for both voice and data services.

Norske tog has installed 4G mobile signal boosters in all its FLIRT trains. Measurements by the telecoms providers confirm that this has significantly improved coverage on board the trains.

Norske tog has signed a contract with Site Service to supply mobile signal boosters. Installation of prototypes is being carried out in winter/spring 2020. Norske tog will work with the telecoms providers to verify the solution before starting series installation. Work is planned to start on Class 73B trains operating on the Østfold Rail-

way. The aim is for installation to be completed for the majority of the fleet during 2022.

Mid-life upgrade – Class 72

Norske tog will upgrade 36 Class 72 trainsets (the local trains that service Eastern Norway and the Jæren Line) to ensure that the trains are standardised and up to date, and that they better meet the needs of customers and passengers.

Drivers, conductors, passengers and the train operating companies have been invited to provide input on what is important to them. New doors, sockets at each seat, headlights, exterior paintwork and interior refurbishment are some of the upgrades that will be carried out. The emphasis will be on increased passenger comfort and staff well-being. Once the upgrade is complete, the trains will be in significantly better condition.

Planning is well under way, and the work will be put out for tender at the start of 2020. Trains will be upgraded two by two to minimise inconvenience to customers and passengers. Work is estimated to commence at the start of 2021.



A close-up photograph of a control panel with a warm, orange-brown color palette. On the left, a portion of a black dial is visible, showing white tick marks and the number '0'. To the right of the dial are three horizontal buttons of varying lengths. Further right is a circular button with a textured center. The background is a dark, textured surface with some faint, illegible markings.

Corporate
governance

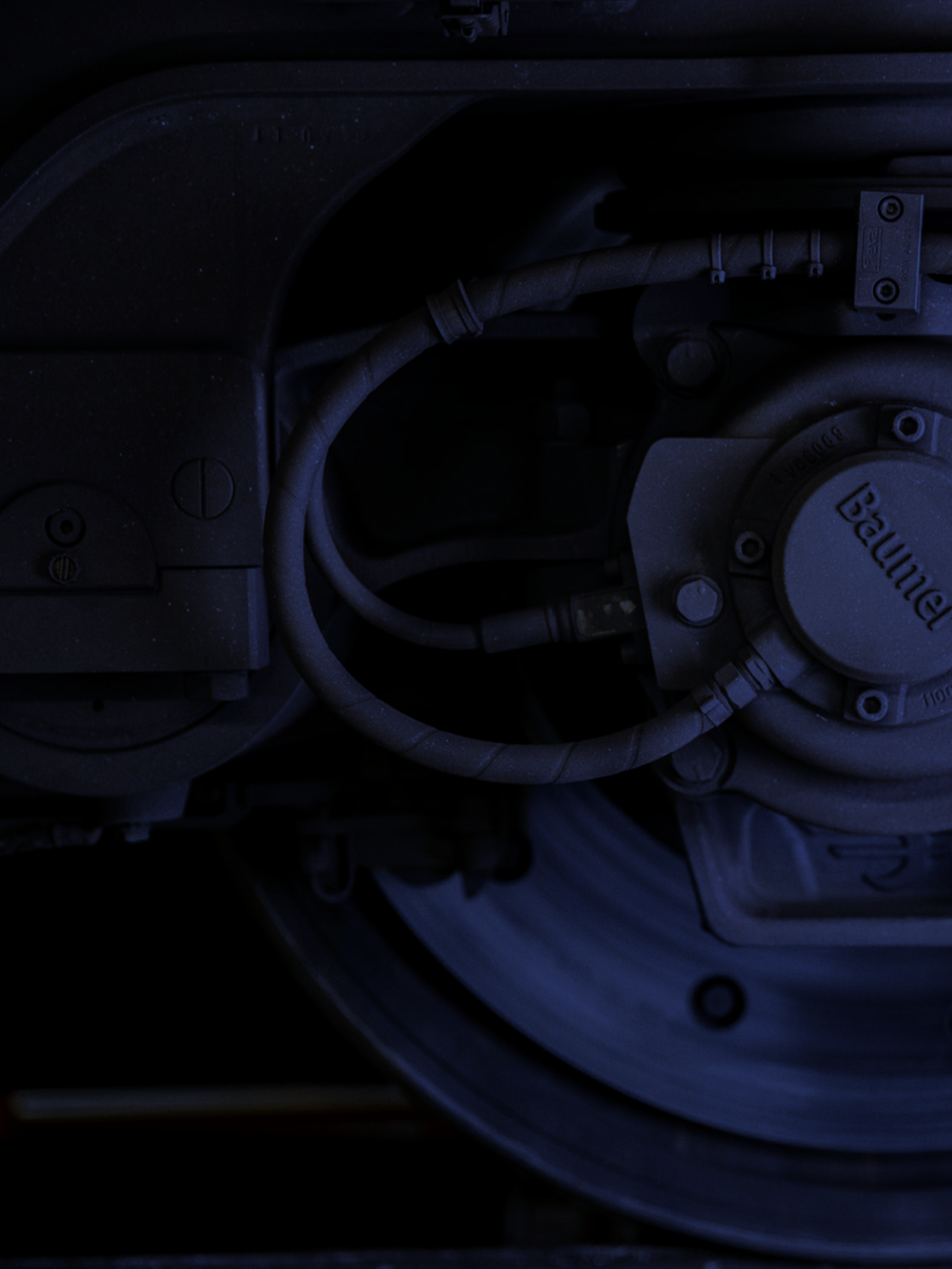
The Board of Directors of Norske tog AS is responsible for corporate governance and reports here on the company's compliance with the Norwegian Code of Practice for Corporate Governance issued by the Norwegian Corporate Governance Board (NUES).

| Area | Comply | Explain |
|---|---|---|
| Corporate governance report | 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. The company has adopted a set of values and guidelines for ethics and corporate social responsibility.</p> | |
| Equity and dividends | At 31 December 2019, Norske tog had equity of NOK 3,065 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 each year. 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. | |
| 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. |

| Area | Comply | Explain |
|---|--|---|
| Corporate assembly and the board of directors: composition and independence | Norske tog AS does not have a corporate assembly. In 2019, 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 | The Board of Directors meets a minimum of six times a year, including one annual strategy meeting. Meetings are otherwise convened as required. Seven meetings were held in 2019. 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. | |
| 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. | |
| Remuneration of the executive management | 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. The Board of Directors' declaration on executive pay is considered as a separate agenda item at the annual general meeting. | |
| Information and communications | 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. | The requirements are only partially relevant for the company, but are followed with regard to publication of reports. |

| Area | Comply | Explain |
|------------|--|---|
| Take-overs | The company is wholly owned by the Norwegian state and classified as a Category 3 company. | Based on the ownership situation and categorisation of the company, no separate principles governing take-overs have been drawn up. |
| 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 2019

Norske tog has a substantial and important social function. The company shall procure, own and manage vehicles on the Norwegian rail network, and 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 is responsible for the purchasing process for new railway vehicles.

In 2019, Norske tog has focused on the following elements of its social function: another two traffic packages have been awarded to two new train operating companies: SJ Norge and Vy Tog; Traffic Package 1 South – the Sørland Railway and the Jæren Line has started up with Go-Ahead; and the request for tenders has been drawn up for purchasing new local trains.

The Norwegian Railway Reform and division of the network into traffic packages brought a need to revise the contract Norske tog uses for leasing rolling stock to the train operating companies and make the necessary changes. The new contract was drawn up for the signing of the contract for Traffic Package 1 South in 2018 and, given the structure of the traffic packages, will generate an increase in the company's rental income in the long term. This increase will cover the company's increased costs.

In 2019, Norske tog went to the market with its first green bond, having formulated a green framework for issuing green bonds. This framework is based on the 2018 Green Bond Principles issued by the International Capital Market Association (ICMA), and has been given a "dark-green" rating by CICERO, the highest it awards. The funds received from the issue of this bond must be used to finance or refinance investments in electric trainsets or upgrades to existing electric trainsets.

Norske tog has posted net profit for the year of NOK 222 million (NOK 279 million). The decrease in profit can mainly be attributed to a faster pace of modifications and several ongoing procurement projects. The net profit for the year represents a return on equity of 7.8 % (10.9 %). The company has a target of 5 % for return on equity, but profits could vary over time as a result of investments in new rolling stock or modifications to existing trains.

Financial developments in Norske tog

Norske tog is posting profit for the year of NOK 222 million (NOK 279 million). The operating profit is NOK 392 million (NOK 426 million). The change in operating profit is the result of an increase in modification costs, balanced out by compensation for lease of premises from the Vy Group; see Note 18.

Net cash flow from operating activities is NOK 976 million (NOK 1,258 million). Net cash flow from investing activities is NOK 1,416 million (NOK 842 million). The funds have mainly been used to buy new trains and trigger option 5 in the contract with Stadler. The company has working capital of NOK 1,232 million (NOK 1,955 million). The change in working capital is mainly the result of procurements and other retained earnings.

At the end of 2019, the company issued a bond for NOK 1,300 million, which will be used to pay off a bond falling due in February 2020. This results in a high figure for cash in hand at 31 December 2019 of NOK 1,734 million.

Including the profit for the year, equity was NOK 3,065 million (NOK 2,835 million). The equity ratio is 22.5 %. Distributable reserves were NOK 665 million (NOK 435 million).

In 2019, the company introduced a defined contribution pension scheme for all employees. Final settlement for the old defined benefit scheme will take place in 2020; 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 Norwegian state. The company shall operate efficiently.

Norske Tog AS is 100 % owned by the Norwegian state; the Ministry of Transport and Communications exercises ownership on behalf of the state. The company is headquartered in Oslo.

Corporate governance report

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 possess 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. The 2019 survey reveals a decline in employee satisfaction, although this remains at a satisfactory level. This is a focus area for the company and, in line with its employee strategy, Norske tog works purposefully with the company's employees on skills development and engagement. Sick leave remains low, averaging 2.02 % in 2019. The working environment is considered to be good, and a new employee survey is planned for the end of 2020. Five employees joined the company and three resigned in

2019, thus increasing the number of person-years by two compared with 2018.

Norske tog's rolling stock was involved in an accident in Filipstad in February 2019 in which one person lost his life and two others were seriously injured. The company takes an extremely grave view of this incident and is seeking to implement measures to prevent a recurrence. No other injuries to employees of Norske tog or passengers arising from faults or defects in the rolling stock were reported in 2019.

In 2019, Norske tog's Board of Directors was unchanged from the previous year with three shareholder-elected members – two women and one man – and one employee representative. Having a good gender balance in the organisation is one of the company's goals. This shall be achieved by working systematically to recruit more women.

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

Norske tog has an important role to play in presenting the Norwegian rail system as an attractive transport option. By working consistently and purposefully on the customers' needs and the feedback the customers receive from their passengers, Norske tog shall help to persuade more people to choose to travel by train rather than car.

In a little over 12 months, the company will move from having one operational customer – Vy – to four, adding Go-Ahead, SJ Norge and Vy Tog. Improving the structure for customer dialogue and ensuring deliveries in line with the customer's expectations are top priorities. Experience gained from the start-up with Go-Ahead will enable Norske tog to develop effective methods for collaboration and dialogue.

Norske tog will implement a number of large-scale projects in order to meet both the customers' needs and passenger demands. The company has been allocated an investment framework for new local trains in the government budget. In the first instance, this will help Norske tog to meet its goal of having a modern and up-to-date train fleet. In addition, it will address the customers' needs for new larger-capacity rolling stock and accommodate the growth in passenger train transport.

Risk

Financial risk

The company's overall risk management plan focuses on the unpredictability of the capital markets and seeks to minimise any potential negative effects on the company's financial results. The company uses financial derivatives to hedge changes in interest rates and exchange rates.

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

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

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

Norske tog has developed a framework for issuing green bonds. At the end of November, the company issued its first green bond, which was well received by the market. Over the coming year, the company will compile a detailed report of which green investment projects are to be financed and the actual environmental and climate consequences of these.

Operational risk

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

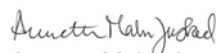
Norske tog is responsible for maintaining the technical lifespan of all the vehicles it owns. Lack of financing to maintain the lifespan by means of mid-life upgrades and other modifications represents a risk for the company. Another risk is not having access to the rolling stock at the right time in order to carry out major upgrades or modifications.

When carrying out mid-life upgrades on the Class 72 trains, it is planned to take trainsets out of operation two by two. As there are only two reserve sets of this class of train, there will be limited availability of back-up vehicles in this period should any unforeseen incidents occur. The availability of rolling stock will also be a challenge in several of the other projects Norske tog will be implementing in the next few years, for example installation of mobile signal boosters, cab radios and ERTMS.


Norske tog has decided to procure components for maintenance of the rolling stock owned by the company. In the first half of 2019, the company issued tenders for all the components in this category. Some of the components proved challenging to get hold of and have long lead times. This entails a risk that not all the necessary components will be available at all times.

The request for tenders for Traffic Package 3 West gives the bidder the option to use their own rolling stock on the routes in the traffic package if demand exceeds what Norske tog can procure. In principle, this could lead to Norske tog missing out on the opportunity of increased rental income. Loss of rental income will, in turn, affect Norske tog's scope to purchase additional new trains and to invest in meeting its customers' needs.

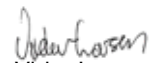
Oslo, 12 February 2020


Annette Malm Justad
Chairman


Espen Opedal
Board Member


Øystein Risan
CEO


Marianne Abeler
Board Member


Vidar Larsen
Board Member





Financial
statements

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*The Financial statement was approved by the Board on the 12th of February 2020

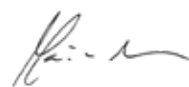
Statement of comprehensive income

| Income statement (All numbers in TNOK) | Notes | 2019 | 2018 |
|--|----------|------------------|------------------|
| Operating revenue | 2 | 1,256,002 | 1,217,061 |
| Payroll and related expenses | 12 | 51,034 | 43,028 |
| Depreciation and impairment | 17 | 702,417 | 692,055 |
| Other operating expenses | 18 | 110,775 | 56,045 |
| Total operating expenses | | 864,226 | 791,128 |
| Operating profit | | 391,776 | 425,933 |
| Financial posts | | | |
| Financial income | 19 | 138,144 | 169,200 |
| Financial expenses | 19 | -278,667 | -291,645 |
| Net financial expenses - pensions | 13, 19 | -900 | -311 |
| Unrealised fair value changes | 20 | 34,163 | 20,371 |
| Net financial items | | -107,260 | -102,385 |
| Profit before income tax | | 284,518 | 323,548 |
| Income tax expense | 11 | 62,636 | 44,243 |
| Profit for the year | | 221,882 | 279,305 |
| Attributable to | | | |
| Equity holders | | 221,882 | 279,305 |
| Other comprehensive income | | | |
| Profit for the year | | 221,882 | 279,305 |
| Items that will not be reclassified to profit or loss | | | |
| Deviation retirement benefit obligations | 13 | 10,646 | -13,423 |
| Tax related to items that will not be reclassified | 11 | -2,342 | 2,883 |
| Total comprehensive income for the period | | 230,186 | 268,765 |
| Attributable to | | | |
| Equity holders | | 230,186 | 268,765 |

Statement of financial position

| Balance sheet (All numbers in TNOK) | Notes | 31/12/2019 | 31/12/2018 |
|-------------------------------------|-------|-------------------|-------------------|
| Property, plant and equipment | 3 | 10,608,420 | 9,883,793 |
| Total non-current assets | | 10,608,420 | 9,883,793 |
| Trade and other receivables | 4 | 32,096 | 698 |
| Derivative financial assets | 6 | 1,235,475 | 1,203,006 |
| Cash and bank deposits | 8 | 1,733,834 | 2,372,091 |
| Total current assets | | 3,001,405 | 3,575,795 |
| Total assets | | 13,609,825 | 13,459,588 |
| Equity and liabilities | | | |
| Ordinary shares and share premium | 9 | 2,400,000 | 2,400,000 |
| Retained earnings | | 664,784 | 434,598 |
| Total equity | | 3,064,784 | 2,834,598 |
| Borrowings | 10 | 7,196,235 | 8,311,286 |
| Retirement benefit obligations | 13 | 29,130 | 32,296 |
| Deferred tax liability | 11 | 725,115 | 660,137 |
| Retirement benefit obligations | 21 | 8,420 | - |
| Total long term liabilities | | 7,958,900 | 9,003,719 |
| Trade and other payables | 14 | 47,609 | 138,676 |
| Derivative financial liability | 6, 10 | 7,739 | 18,732 |
| Borrowings | 10 | 2,530,792 | 1,463,863 |
| Total short term liabilities | | 2,586,140 | 1,621,271 |
| Total equity and liabilities | | 13,609,825 | 13,459,588 |

Oslo, 12 february 2020


Annette Malm Justad
Chairman

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 | 2019 | 2018 |
|--|----------|-------------------|------------------|
| Profit for the year before income tax expense | | 284,518 | 323,548 |
| Net financial items | | 107,260 | 102,385 |
| Depreciation and impairment in the income statement | 17 | 702,417 | 692,055 |
| Net changes to obligations and retirement benefit oblig. | 13 | 6,580 | 291 |
| Changes to short-term assets and liabilities* | | -124,868 | 139,717 |
| Net cash flow from operating activities | | 975,907 | 1,257,996 |
| Purchase of PPE | 3 | -1,416,220 | -842,064 |
| Net cash flow from investment activities | | -1,416,220 | -842,064 |
| Interest paid on borrowings | | -303,324 | -241,765 |
| Interest income | | 117,869 | 109,799 |
| Other financial items | | -12,389 | -22,269 |
| Proceeds from borrowings | 10 | 1,300,000 | 2,850,000 |
| Repayment of borrowings | 15 | -1,300,000 | -1,099,995 |
| Net cash flow from financial activities | | -197,844 | 1,595,770 |
| Net change in cash and bank deposits for the period | | -638,157 | 2,011,702 |
| Cash and bank deposits as at the beginning of the period | 8 | 2,372,091 | 360,499 |
| Foreign exchange gain/loss on cash and bank deposits | | -100 | -110 |
| Cash and bank deposits as at the end of the period | 8 | 1,733,834 | 2,372,091 |

*Norske tog has changed its definition on this line. This line only shows the change in Trade and other receivables as well as the change in Trade and other payables adjusting for the current debt related to IFRS 16 of - 2,404 TNOK.

Net financial items (from the Income statement) is taken out of cash flow from operating activities for 2019, so the 2018 numbers have been changed for comparative reasons.

Statement of changes in equity

| 2019 (All numbers in TNOK) | Notes | Ordinary shares | Share premium | Retained earnings | Total |
|--|--------------|------------------------|----------------------|--------------------------|------------------|
| Equity 1 st of January 2019 | 9 | 100,000 | 2,300,000 | 434,599 | 2,834,599 |
| Profit for the year | | - | - | 221,882 | 221,882 |
| From other comprehensive income | | - | - | 8,303 | 8,303 |
| Equity 31st of December 2019 | | 100,000 | 2,300,000 | 664,784 | 3,064,784 |

| 2018 (All numbers in TNOK) | Notes | Ordinary shares | Debt conversion | Retained earnings | Total |
|--|--------------|------------------------|------------------------|--------------------------|------------------|
| Equity 1 st 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 | 2,834,599 |

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 2019 was approved by the Board of Directors on 12 February 2020.

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 in-

volve 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.

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.

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.

Revenue from leasing is not included under IFRS 15; the company considers leasing of trains to be included under IFRS 16.

Fixed assets

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

Right-of-use assets (IFRS 16) 2-12 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.

The financial derivatives are included according to IFRS 9.

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.

The transition from an incurred loss model under IAS 39 to a expected loss model under IFRS 9 will result in a loss on receivables at an earlier time frame. In December 2019, Norske tog AS got a new main customer; Go-Ahead Norge AS which now operates Traffic package Sør (started 15th of December 2019). VyGruppen currently operates the rest of the traffic packages in Norway. Norske tog has not identified a need to increase the provision for contract losses as at 31.12.2019.

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.

On 1.1.2019, Norske tog changed over to a contribution pension plan, where the company contributes to their employees' future pension plan without any further obligation after the contribution has been paid. The contributions are expensed immediately as Payroll and related expense.

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

IFRS 16 Leases

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

Leasing out

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

Leasing in

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

Interpretation 23 Insecurity regarding accounting for income taxes

The interpretation explains how one recognizes and measures deferred tax and current tax assets and liabilities and debt where there is uncertainty regarding its tax treatment.

Other

IASB has also adopted several small changes and clarifications in several different standards. It is not expected that any of these changes will have considerable effect for the company.

New standards and interpretations not yet in effect and that are not adopted

The company has chosen not to early adopt any standard or interpretation that are entering into force after the balance sheet date. Below is an overview of the key regulations adopted by the IASB.

IFRS 17 Insurance contracts

IFRS 17 is adopted by the IASB and replaces IFRS 4 Insurance Contracts. IFRS 17 states principles for recognition, measurement, presentation and disclosure of insurance contracts. The new standard is not considered to be of importance to the company's operations. The standard takes mandatory effect on 1. January 2021.

Definition of «Material» – Amendments to IAS 1 and IAS 8

IASB has made changes to IAS 1 Presentation of financial statements and IAS 8 Accounting Policies, Changes in Accounting estimates and errors. The

changes' main message is that if entities do not give enough information, it will have the same effect as not being inclusive and to give wrong information.

The enforcement date is 1 January 2020.

Revised "Conceptual Framework" for Financial Reporting

IASB has published a revised «Conceptual framework» which will be used to set standard provisions with immediate effect. Several changes have been made.

The enforcement date is 1 January 2020.

Other

IASB has also adopted several small changes and clarifications in several different standards. It is not expected that any of these changes will have considerable effect for the company.



2. Segment information

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

| Analysis of operating income by category | 2019 | 2018 |
|---|------------------|------------------|
| Leasing revenue | 1,255,228 | 1,215,011 |
| Other revenue | 774 | 2,050 |
| Total | 1,256,002 | 1,217,061 |

Information on important customers

Until December 2019 the company only had one customer for leasing of trains for transportation of people. VyGruppen AS (former NSB AS). Go-Ahead Norge AS started operations on the Arendal line, Jær line and Sørlands line on December 5th 2019. These two companies make up 100 % of the leasing revenue, where VyGruppen has 99.54 % and Go-Ahead has 0.46 % in 2019.

| Overview future leasing agreements (nominal numbers) | 2019 | 2018 |
|---|------------------|------------------|
| Leasing agreements next 12 months | 1,237,743 | 1,248,000 |
| Leasing agreements next 2-5 years | 2,894,547 | 3,456,000 |
| Leasing agreements more than 5 years | 776,636 | 0 |
| Sum | 4,908,926 | 4,704,000 |

Leasing revenue

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

3. Property, plant and equipment

| | Machinery and equipm. | Transportation | Partially delivered trains | Under construction | Right-to-use other assets | Total |
|--|------------------------------|-----------------------|-----------------------------------|---------------------------|----------------------------------|------------------|
| At 1st of January 2019 | | | | | | |
| Accumulated acquisition cost | 46,693 | 10,803,140 | 480,053 | 15,287 | - | 11,345,173 |
| Accumulated depreciation | -36,385 | -1,424,995 | - | - | - | -1,461,380 |
| Total | 10,308 | 9,378,145 | 480,053 | 15,287 | - | 9,883,793 |

Year ended 31st of December 2019

| | | | | | | |
|---|--------------|------------------|----------------|---------------|--------------|-------------------|
| Opening net book value | 10,308 | 9,378,145 | 480,053 | 15,287 | - | 9,883,793 |
| Implementation effect IFRS 16 | - | - | - | - | 10,824 | 10,824 |
| Additions, including capitalised interest | - | - | 960,198 | 456,022 | - | 1,416,220 |
| Transfers within PPE | 1,187 | 916,924 | -462,175 | -455,936 | - | - |
| Depreciations | -5,482 | -695,639 | - | - | -1,296 | -702,417 |
| Total | 6,013 | 9,599,430 | 978,076 | 15,373 | 9,528 | 10,608,420 |

| | Machinery and equipm. | Transportation | Partially delivered trains | Under construction | Right-to-use other assets | Total |
|--|-----------------------|------------------|----------------------------|--------------------|---------------------------|-------------------|
| At 31st of December 2019 | | | | | | |
| Accumulated acquisition cost | 47,880 | 11,730,461 | 978,076 | 15,373 | | 12,782,614 |
| Accumulated depreciation | -41,867 | -2,131,031 | - | - | | -2,174,194 |
| Total | 6,013 | 9,599,430 | 978,076 | 15,373 | | 10,608,420 |
| Depreciation period | 3 - 10 years | 5 - 30 years | | | | |

| | | | | | | |
|--|---------------|------------------|----------------|----------------|--|------------------|
| 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, incl. capitalised interest | - | - | 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 | 3 - 10 years | 5 - 30 years | | | | |

Our trains have expected useful life between 10 and 30 years when put in operation. The difference is due to decomposition of the trains according to IFRS 16. The frame is normally depreciated over 30 years, while the inside of the trains (seats, floors, etc) is normally depreciated over 10-15 years.

The company also depreciate office equipment, software, computers, technical equipment, etc - hence the depreciation can be as low as 5 years.

Partially delivered trains:

consist only of pre-payments in accordance with agreements. There has been no form for physical delivery of trains to Norske tog. When receiving new trains, the pre-payment is credited and posted immediately to assets under construction pending capitalisation.

Assets under construction:

Assets under construction consists of trains that have been delivered to Norske tog, but still has not been given to any of the operators and consequentially into operations. When the operator takes over each train, it is activated as Transportation and depreciation is starting. Assets under construction also consists of high-cost components, changes made on the current stock or smaller projects that will be included on the train or agreed upon improvement, and where delivery has taken place, but the train or the delivery has not yet been activated.

Machinery and equipment:

Consist of IT-systems, IT-equipment and office equipment.

Interest included on the statement of financial position per 31.12.2019 is 22,980 TNOK (2018: 17,061 TNOK). Interest rate for 2019 is 2.22 % (2018: 2.53 %).

4. Trade and other receivable

| | 2019 | 2018 |
|---|---------------|------------|
| Trade receivables | 7,349 | - |
| Less: provision for impairment of receivables | - | - |
| Trade receivables - net | 7,349 | - |
| Prepayments | 1,870 | 662 |
| Other receivables | 22,877 | 37 |
| Total trade and other receivables | 32,096 | 698 |
| Total | 32,096 | 698 |

The carrying amounts of the trade receivables, prepayments and other receivables approximate their fair value.

| Maturity of receivables: | 2019 | 2018 |
|---|-------|------|
| Matured receivables on balance sheet date | 7,268 | - |
| Matured between 0 - 2 months ago | 7,268 | - |
| Matured between 2 - 6 months ago | - | - |
| Matured more than 6 months ago | - | - |

5. Financial risk management

Capital management

The company's goal for capital management is low risk and the company's ability to continue as a going concern.

The company invests its excess liquidity in interest bearing products as for example, bank deposits, certificates and bonds with short-term remaining life. The company has not had any short term placements outside bank deposits in either 2018 or 2019.

Norske tog will be a strong company with a high rating and low financial expenses. Standard & Poor's has given the company a credit rating on long-term borrowings of A+ (stable), which is a good credit rating.

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.

The company's target is to secure approximately 70 % of interest and 100 % of foreign currency in the bond portfolio. As at 31.12.2019 the company has floating interest on 29 % of its bond portfolio; on which NIBOR is utilised.

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

Sensitivity evaluation as at 31.12.2019.

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 166 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.

Norske tog uses reference-interest in borrowing agreements and derivative contracts and the company is mainly exposed against NIBOR and CHF LIBOR. The risk from possible changes to the reference-interests is low, the company doesn't use hedge accounting and has a high share of fixed interest rate. The company follows the development related to reference-interests and will perform a risk evaluation of possible consequences and measures continuously.

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.

No more than 25% of the company's debt are to mature within a 12 month period, and average remaining duration of the portfolio will be approximately 2-5 years.

The table shows future maturity for the company's contractual obligations as at 31.12.2019:

| Liquidity risk | < 1 year | 1 - 2 years (2021) | 2 - 5 years (2022-2024) | > 5 years |
|-------------------------------|-----------|-----------------------|----------------------------|-----------|
| Short term liabilities | 27,684 | - | - | - |
| Borrowings | 2,334,125 | 600,000 | 2,103,747 | 4,350,000 |
| Derivatives | -816,625 | | -434,747 | |
| Future interest payments* | 210,700 | 197,876 | 485,762 | 336,598 |
| New trains | 644,000 | 1,861,000 | - | - |
| Property, plant and equipment | 160,000 | 55,000 | - | - |

*) Based on interest level and bond portfolio as at 31.12.2019

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

| Liquidity risk | < 1 year | 1 - 2 years (2020) | 2 - 5 years (2021-2023) | > 5 years |
|-------------------------------|-----------|-----------------------|----------------------------|-----------|
| Short term liabilities | 12,152 | - | - | - |
| Borrowings | 1,300,000 | 2,276,578 | 2,125,292 | 3,600,000 |
| Derivatives | | -759,078 | -406,542 | |
| Future interest payments | 195,448 | 184,063 | 458,315 | 65,393 |
| 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.

As at 31.12.2019, the company has two large customer, VyGruppen AS and Go-Ahead Norge AS. The company is therefore not materially exposed to credit risk. The credit risk is considered to be low

because the company's largest customer, VyGruppen AS, also is 100 % owned by the Ministry of Transport.

Norske tog AS 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 moni-

tored. 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 AS 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: | 2019 | 2018 |
|---|------------------|------------------|
| Cash and bank deposits | 1,733,834 | 2,372,091 |
| Financial derivatives | 1,235,475 | 1,203,006 |
| Trade receivable and other short term receivables | 32,096 | 698 |
| Total | 3,001,405 | 3,575,795 |

6. Derivatives

| | 2019 | | 2018 | |
|-----------------------------------|------------------|--------------------|------------------|--------------------|
| | Assets | Liabilities | Assets | Liabilities |
| Interest- and currency rate swaps | 1,228,271 | | 1,202,828 | |
| Interest rate swaps | 7,203 | 7,739 | 179 | 18,732 |
| Total | 1,235,475 | 7,739 | 1,203,006 | 18,732 |

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.

Interest- and currency rate swaps

Since its foundation Norske tog has issued debt in the Norwegian bond market. Bonds with a duration of over 5 years are hedged to a fixed interest rate. About 1/3 of the issues from the company has been 5 years or shorter, and have been using floating interest rate. Borrowings in foreign currency is hedged towards Norwegian kroner through a combined interest- and foreign currency derivatives. Furthermore, Norske tog uses interest rate swaps on bonds in Norwegian kroner to reduce its interest rate risk to achieve expected interest rate structure on its debt. Swaps with a material value in the annual accounts is tied to two outstanding CHF bonds with fixed interest rate, which is swapped to 6 month NIBOR on the first day of the loan. The notional principal amounts of the outstanding interest rate swaps contracts at 31st of December 2019 was 3,487 MNOK (2018: 3,986 MNOK). At 31st of December 2019, the fixed interest rate varied from 1.92 % to 2.35 % (2018: 1.46 % til 2.34 %) and the floating rates are mainly 6M NIBOR + margin.

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



NSB

N-NOR. 94 0401 033-2

3,8m

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Bussveier går
automatisk
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40

Veien stengt
med bom
07 - 09
15 - 17
Mandag-Fredag

7. Financial instruments by category

| Assets at 31 st of December | Loans and receivables | | Assets at fair value through profit and loss | | Total | |
|---|-----------------------|------------------|--|------------------|------------------|------------------|
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| Derivatives | 1,235,475 | 1,203,006 | - | - | 1,235,475 | 1,203,006 |
| Trade and other receivables (excl. prepayments) | - | - | 32,096 | 698 | 32,096 | 698 |
| Cash and bank deposits | - | - | 1,733,834 | 2,372,091 | 1,733,834 | 2,372,091 |
| Total | 1,235,475 | 1,203,006 | 1,765,930 | 2,372,790 | 3,001,405 | 3,575,795 |

| Liabilities at 31 st of December | Liabilities at fair value through profit and loss | | Other financial liabilities at amortised cost | | Total | |
|--|---|------------------|---|------------------|------------------|------------------|
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| Borrowings (excl. financial lease liability) | 3,803,926 | 4,942,631 | 5,923,101 | 4,832,518 | 9,727,027 | 9,775,149 |
| Financial lease liabilities | - | - | 9,646 | - | 9,646 | - |
| Derivatives | 7,739 | 18,732 | - | - | 7,739 | 18,732 |
| Trade and other payables excl. statutory liabilities | - | - | 44,808 | 137,411 | 44,808 | 137,411 |
| Total | 3,811,665 | 4,961,363 | 5,977,555 | 4,969,929 | 9,789,220 | 9,931,292 |

Financial assets at fair value through profit or loss:

| | Level 1 | Level 2 | Level 3 | Total |
|---------------------------------|---------|------------------|---------|------------------|
| Derivatives | - | 1,235,475 | - | 1,235,475 |
| Total assets | - | 1,235,475 | - | 1,235,475 |
| Borrowings and accrued interest | - | 3,803,926 | - | 3,803,926 |
| Derivatives | - | 7,739 | - | 7,739 |
| Total liabilities | - | 3,811,665 | - | 3,811,665 |

Financial assets at fair value through profit or loss:

| | Level 1 | Level 2 | Level 3 | Total |
|---------------------------------|----------|------------------|----------|------------------|
| Derivatives | - | 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 | - | 18,732 | - | 18,732 |
| Total liabilities | - | 5,311,363 | - | 5,311,363 |

Overview bond portfolio

| Stock exchange | ISIN | Amount | Due date | Measuring principle |
|--------------------|--------------|------------|------------|---------------------|
| SIX Swiss Exchange | CH0123575091 | 250 MCHF | 14/02/2020 | Fair value |
| Luxembourg SE | NO0010703457 | 300 MNOK | 12/02/2021 | Amortised cost |
| Luxembourg SE | NO0010837263 | 300 MNOK | 26/11/2021 | Amortised cost |
| Luxembourg SE | NO0010635360 | 350 MNOK | 24/01/2022 | Amortised cost |
| SIX Swiss Exchange | CH0210891989 | 125 MCHF | 02/05/2023 | Fair value |
| Luxembourg SE | NO0010837271 | 550 MNOK | 26/02/2024 | Amortised cost |
| Luxembourg SE | NO0010837289 | 650 MNOK | 26/11/2025 | Amortised cost |
| Luxembourg SE | NO0010703556 | 500 MNOK | 18/02/2026 | Amortised cost |
| Luxembourg SE | NO0010635428 | 1 150 MNOK | 20/01/2027 | Amortised cost |
| Luxembourg SE | NO0010823792 | 750 MNOK | 12/06/2028 | Amortised cost |
| Luxembourg SE | NO0010870009 | 400 MNOK | 11/03/2025 | Amortised cost |
| Luxembourg SE | NO0010870017 | 900 MNOK | 11/12/2029 | Amortised cost |

Information on fair value (as described in the principle note):

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.

The company has reclassified a bond (350 MNOK) from fair value to amortised cost.

8. Cash and bank deposits

| | 2019 | 2018 |
|------------------------|-----------|-----------|
| Cash and bank deposits | 1,733,834 | 2,372,091 |

Includes restricted funds of 1,904 TNOK (2018: 1,590 TNOK)

9. Share capital and share premium

| | Number of Shares | Share capital | Share premium (TNOK) | Total (TNOK) |
|---|---------------------|---------------|-------------------------|--------------|
| Shares at the 1 st of January 2019 | 100 | 100,000 | 2,300,000 | 2,400,000 |
| Shares at the 31 st of December 2019 | 100 | 100,000 | 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 | 2019 | 2018 |
|---|------------------|------------------|
| Bonds | 1,352,859 | 4,117,910 |
| Bonds measured at amortized cost | 5,843,376 | 4,193,376 |
| Total | 7,196,235 | 8,311,286 |
| Current | | |
| Current share of non-current borrowings | 2,530,792 | 1,463,863 |
| Other current borrowings | - | - |
| Total | 2,530,792 | 1,463,863 |
| Total borrowings | 9,727,027 | 9,775,149 |

| Change in short- and long term borrowings 2019 | Short-term debt fair value | Short-term debt-Amort. cost | Long-term debt fair value | Long-term debt Amort. cost |
|---|-----------------------------------|------------------------------------|----------------------------------|-----------------------------------|
| Beginning balance | 76,869 | 1,386,994 | 4,117,910 | 4,193,376 |
| New loans for the year | | | - | 1,300,000 |
| Payment of borrowings | | -1,300,000 | - | - |
| Reclassification of loan | | | -350,000 | 350,000 |
| Reclassification from long-term debt to short-term debt | 2,334,125 | | -2,334,125 | - |
| Amortisation of transferred debt portfolio | | | -42,030 | - |
| Change in accrued interest | | -7,269 | - | - |
| Change in fair value | 40,073 | | -38,896 | - |
| Total borrowings | 2,451,067 | 79,725 | 1,352,859 | 5,843,376 |
| | | 2,530,792 | | 7,196,235 |

| 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 | 25,309 |
| Total borrowings | 1,463,863 | 8,311,286 |

| Nominal value of long-term interest bearing debt | 2019 | 2018 |
|---|------------------|------------------|
| 1 st of January | 8,129,626 | 5,879,626 |
| Changes during the year | - | 2,250,000 |
| 31st of December | 8,129,626 | 8,129,626 |

Norske tog has both paid off a bond of 1,300,000 TNOK and issued a new bond of 1,300,000 TNOK.

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 20 %.

For value on borrowings acquired from VyGruppen 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.

| Current borrowings expire in: | 2019 | 2018 |
|--------------------------------------|-------------|-------------|
| 6 months or less | 1,517,500 | 1,300,000 |
| More than 6 months | | - |

| Non-current borrowings expire in: | 2019 | 2018 |
|--|-------------|-------------|
| Between 1 and 2 years (year 2021) | 600,000 | 1,517,500 |
| Between 2 and 5 years (years 2022-2024) | 1,669,000 | 1,718,750 |
| Over 5 years (from 2025-) | 4,350,000 | 3,600,000 |

| Effective interest rate at the balance sheet date: | 2019 | 2018 |
|---|-------------|-------------|
| Bonds NOK | 2.94 | 2.13 |

The company has swapped all exposure in CHF.
The carrying amounts of the non-current borrowings approximate their fair value.

| The carrying amounts of borrowings are denominated in the following currencies: | 2019 | 2018 |
|--|------------------|------------------|
| NOK | 6,196,255 | 6,323,800 |
| CHF | 3,530,772 | 3,451,349 |
| Total | 9,727,027 | 9,775,149 |

| The company has the following undrawn borrowing facilities: | 2019 | 2018 |
|--|-------------|-------------|
| 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

| Income tax expense | 2019 | 2018 |
|--|-------------|-------------|
| Current income tax payable | - | - |
| Changes in deferred tax | -64,978 | -41,361 |
| Total income tax expense | -64,978 | -41,361 |
| Reconciliation between nominal and actual tax expense rate: | 2019 | 2018 |
| Net income before tax | 284,518 | 323,548 |
| Expected income tax using the nominal tax rate (23, 24 %) | 62,594 | 74,416 |
| Other non-taxable income | 42 | 38 |
| Effect of change in income tax rate | - | -30,211 |
| Income tax expense | 62,636 | 44,243 |
| Effective tax rate | 22 % | 14 % |

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

| 2019 | Book value 01.01. | Income state- ment charge | Charge to other comprehensive income | Book value 31.12. |
|--|------------------------------|--------------------------------------|---|------------------------------|
| Benefit (+) / Liability (-) | | | | |
| Fixed assets | -4,130,867 | -569,688 | - | -4,700,555 |
| Trade receivables | - | -147 | - | -147 |
| Value changes to financial current assets | -20,371 | -13,793 | - | -34,164 |
| Retirement benefit obligations | 27,890 | 9,886 | -10,646 | 27,130 |
| Losses carried forward | 1,122,723 | 289,034 | - | 1,411,757 |
| Total gross temporary differences | -3,000,625 | -284,708 | -10,646 | -3,295,979 |
| Net temporary differences | -3,000,625 | -284,708 | -10,646 | -3,295,979 |
| Net deferred tax asset/liability on the balance sheet 22 % | -660,137 | -62,636 | -2,342 | -725,115 |

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

| 2018 | Book value 01.01. | Income state- ment charge | Charge to other comprehensive 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 |
| Provisions for other liabilities and charges | - | - | | - |
| 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 |

12. Payroll and related expenses

| | 2019 | 2018 |
|---|---------------|---------------|
| Wages and salaries, including employment taxes | 35,417 | 32,250 |
| Compensation paid due to change in pension plan | 1,122 | - |
| Pension costs – defined benefit plans (note 13) | 6,726 | 7,394 |
| Pension costs - Pension contribution plan (note 13) | 2,024 | - |
| Other employee benefit expenses | 5,745 | 3,384 |
| Total | 51,034 | 43,028 |

Due to the transition from a defined benefit plan to the contribution plan, a permanent compensation has been issued to the employees as long as they are employed by Norske tog. Benefits for Chief Executive Officer and key management are referred to in the note for related-party transactions (note 22).

| | 2019 | 2018 |
|-----------------------------|------|------|
| Average man-labour year* | 33 | 30 |
| Average number of employees | 33 | 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 have, through tariff agreements, retirement benefit obligations in affiliation with Early Retirement Pension Regulated by Contract (AFP). Obligations through this agreement cover 30 active members as well as 3 retired persons.

Defined benefit plan closed

The company decided in 2018 to close the current pension benefit plan for Norske tog AS at the end of 2018. All employees was granted an earned right in the Norwegian Public Service Fund (SPK), as well as being included in the newly established defined contribution plan in Sparebank 1, which started 1.1.2019. The pension cost for 2019 and the obligations as at 31.12.19 are calculated according to IAS 19. The carrying value of the pension liability amounts to 29,130 (2018: 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. The company has asked SPK that the pension obligation will be settled and paid in full. This will most likely occur in the second half of 2020.

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 | 2019 | 2018 |
|--|---------------|---------------|
| Present value of earned pension rights for funded collective pension plans | 77,800 | 81,726 |
| Fair value of plan assets | -52,601 | -52,733 |
| Present value of unfunded obligations | 25,199 | 28,993 |
| Pension obligation AFP | 3,931 | 3,303 |
| Net pension obligation on the balance sheet | 29,130 | 32,296 |

| Changes in pension retirement obligations: | | |
|--|---------------|---------------|
| Bokk value net pension obligation 1 st of January | 32,296 | 18,271 |
| This years' actuarial deviations | -10,646 | 11,763 |
| This years net return on assets/increase in obligation | 458 | 4,783 |
| Net financial items in the account | 900 | 311 |
| Curtailments | 6,121 | - |
| Payments to plan | - | -6,135 |
| Pension obligation AFP | - | 3,303 |
| Book value 31st of December | 29,130 | 32,296 |

| Pension expenses included in the accounts, defined benefit pension plan | | |
|---|--------------|--------------|
| Present value of current pension earnings | 521 | 4,091 |
| Pension obligation AFP | 84 | 3,303 |
| Curtailments | 6,121 | - |
| Total return on pension plan, incl. in payroll and related expenses – see note 13 | 6,726 | 7,394 |
| Total financial items in the accounts | 900 | 311 |
| Total pension expenses defined benefit pension plan | 7,626 | 7,705 |

| Pension contribution plan | | |
|---|--------------|--------------|
| Employer contribution – Pension contribution plan | 2,024 | |
| Total pension costs | 9,650 | 7,705 |

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 % | (0 %) | (0 %) | (0 %) | (0 %) | (0 %) | (0 %) |
| Increase (+)/decrease (-) net pension oblig. at 31.12. in % | (-18 %) | (24 %) | (0 %) | (0 %) | (24 %) | (-19 %) |

Since Norske tog now has a pension contribution plan, the company no longer have any employees that are active in SPK. The population is affected by a high pensioner population and high average age on participants that affects the sensitivity analysis. Regulation of the earned rights and regulation of the pensions depend directly of the growth in G.

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

| Income statement | 2019 | 2018 | 2017 |
|--|---------------|---------------|--------------|
| Present value of current pension earnings | 521 | 4,091 | 3,606 |
| Pension obligation AFP | 84 | 3,303 | - |
| Curtailement | 6,121 | - | - |
| Total cost in the income statement | 6,726 | 7,394 | 3,606 |
| Changes and deviations in estimates allocated to OCI | -10,646 | 13,423 | 2,774 |
| Total financial items in the accounts | 900 | 311 | 334 |
| Total financial items in the accounts | -3,020 | 21,128 | 6,714 |

Financial position

| | | | |
|---|---------------|---------------|---------------|
| Total obligations | 77,800 | 81,726 | 68,232 |
| Pension assets | -52,601 | -52,733 | -49,961 |
| Total net pension obligations | 25,199 | 28,993 | 18,271 |
| Pension obligation AFP | 3,931 | 3,303 | - |
| Net pension oblig. at the balance sheet date | 29,130 | 32,296 | 18 271 |

| Financial assumptions (defined benefit plans) | 2019 | 2018 | 2017 |
|--|-------------|-------------|-------------|
| Discount rate | 2.30 % | 2.60 % | 2.40 % |
| Expected return on plan assets | 2.30 % | 2.60 % | 2.40 % |
| Average salary growth | 2.00 % | 2.75 % | 2.50 % |
| G-regulation | 2.00 % | 2.50 % | 2.25 % |
| Annual reg. of pension increases | 1.25 % | 1.75 % | 1.50 % |
| Average social security tax | 14.10 % | 14.10 % | 14.10 % |

Explanation to selected assumptions 31st of December 2019

The discount rate has been set at 2.3 % 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 år
Female 23 år

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

| | 2019 | 2018 |
|---------------------------------|---------------|----------------|
| Trade payables | 79 150 | 21 161 |
| Social security and other taxes | -55 417 | 31 004 |
| Other current liabilities | 23 876 | 86 511 |
| Total | 47 609 | 138 676 |

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

Legal disputes

Norske tog AS 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. As at 31.12.2019 there are no accruals charged in the accounts.

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

| | 2019 | 2018 |
|---|----------------|----------------|
| Depreciation non-current assets (note 3) | 701,121 | 689,448 |
| Depreciation right-to-use other assets (note 3) | 1,296 | - |
| Impairment non-current assets (note 3) | - | 2,607 |
| Total | 702,417 | 692,055 |

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.

Norske tog leases its trains to its customers based on book value. Additionally, the other costs (also financial costs) are also covered by the income from the leases. There is only a miniscule chance for the company to write down its assets.

In the future cash flows that include evaluations according to IAS36 and IAS 37, the following main assumptions are used:

| | 2019 | 2018 |
|----------------------------------|-------|--------|
| Growth rate of | 2.0 % | 2.0 % |
| Average cost of financing (WACC) | 3.2 % | 2.66 % |
| Borrowing rate | 3.0 % | 3.0 % |

18. Other expenses

| | 2019 | 2018 |
|---|----------------|---------------|
| Sales- and overhead expenses | 1,094 | 929 |
| Modifications* | 73,488 | 13,296 |
| Repair and maintenance, machinery rental, property expenses | 3,669 | 16,285 |
| Which costs are to be refunded by Vy for 2017-2019 | -14,620 | |
| Other operating expenses | 47,144 | 25,535 |
| Total | 110,775 | 56,045 |

*Costs for modifications on trains has increased considerably. The main reason is due to corrective maintenance on cracks on trains. Additionally, there has been a general increase in activity compared to 2018.

Auditing fees (excluding VAT):

| | | |
|-------------------------------|------------|------------|
| Auditing | 313 | 495 |
| Tax advisory | 8 | 3 |
| Other attestation services | 125 | |
| Other services outside audits | 125 | 179 |
| Total | 571 | 677 |

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

19. Financial income and expenses

| | 2019 | 2018 |
|--|-----------------|-----------------|
| Interest income | 119,064 | 105,118 |
| Other financial income | 42,030 | 64,075 |
| Net foreign exchange gains | 30 | 7 |
| Total financial income | 161,124 | 169,200 |
| Interest expense | -289,129 | -276,430 |
| Other financial expenses | -12,388 | -15,098 |
| Net foreign exchange losses | -130 | -117 |
| Total financial expenses | -301,647 | -291,645 |
| Net financial expenses - pensions | -900 | -311 |
| Unrealised value changes | 34,164 | 20,371 |
| Total financial items | -107,260 | -102,385 |

Other financial income consist of amortisation of the difference between nominal value and fair value on bonds acquired from VyGruppen 42 (2018: 47) MNOK.

20. Unrealized fair value changes

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

| | 2019 | 2018 |
|---|---------------|---------------|
| Unrealized value changes derivatives used for hedging | 35,341 | 16,524 |
| Unrealized value changes bonds | -1,177 | 3,847 |
| Total unrealized value changes financial items | 34,164 | 20,371 |

21. Leases

| | 2019 | 2018 |
|--|----------------|---------------|
| Lease of machinery/equipment, not incl. on the balance sheet | 112 | 163 |
| Lease expenses to be received from VyGruppen AS | -14,620 | |
| Lease of property (external) | 2,886 | 15,071 |
| Total | -11,623 | 15,233 |

Norske tog has paid leasing expenses on property in Drammen which has been included in public purchase for VyGruppen AS. These expenses were included in the annual accounts for the years 2016-2019.

| Expenses to be refunded: | | |
|---------------------------------|--|---------------|
| Annual accounts 2016 | | 151 |
| Annual accounts 2017 | | 2,701 |
| Annual accounts 2018 | | 5,582 |
| Annual accounts 2019 | | 6,186 |
| Total | | 14,620 |

| Lease agreements | | |
|--|---------------|---------------|
| Specification of changes in the period | Debt | Assets |
| Opening balance implementation effects leasing earlier classified as operational lease | 10,824 | 10,824 |
| Total opening balance right-to-use assets/lease obligations | 10,824 | 10,824 |
| Lease payments | -1,396 | |
| Financial expense | 218 | |
| Depreciations | | -1,296 |
| Total closing balance | 9,646 | 9,528 |

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

| Liabilities | 2019 |
|----------------------|--------------|
| Short-term liability | 1,226 |
| Long-term liability | 8,420 |
| Total | 9,646 |

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

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

| Additional information | 2019 |
|--|--------------|
| Leases not recognised | |
| Short-term agreements (between one month and one year) | 2,457 |
| Costs related to low value items | 132 |
| Total | 2,589 |

| Cash flows | 2019 | 2018 |
|-----------------------------------|---------------|-------------|
| Total cash flows from leases | -15,401 | - |
| Cash flow leases received | 12,812 | - |
| Net cash flows from leases | -2,589 | - |

*A large part of lease expenses was initially expensed in the annual accounts, but VyGruppen had the very same expenses paid for through public purchase; the end result is that VyGruppen will compensate Norske tog for these expenses.

The effective date for IFRS 16 was 1st of January 2019. Norske tog chose to use the modified retrospective method for its initial recognition.

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

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

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

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

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

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

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

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

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 VyGruppen, Mantena and BaneNor.

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 VyGruppen AS 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 Materiellselskapet at the date of acquisition

The board of VyGruppen AS 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.

For accounting purposes, Norske tog was only a part of the VyGruppen 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.

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:

| Revenue | 2019 | 2018 |
|-----------------|------------------|------------------|
| Leasing revenue | 1,249,414 | 1,215,402 |
| Total | 1,249,414 | 1,215,402 |

| Purchases of goods and services | 2019 | 2018 |
|--|-------------|-------------|
| Purchases of goods and services | 60,559 | 57,742 |

The expenses are mainly related to modifications on trains as well as lease expenses on property. Items are expensed in the "Other operating expenses" in the "Statement of comprehensive income".

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

| Receivables | 2019 | 2018 |
|--|---------------|-------------|
| Entities owned by the Ministry of Transportation | 22,959 | - |
| Total | 22,959 | - |

The receivables consists of lease exenses (note 21), modifications on trains as well as maintenance and service of equipment and software on-board the trains (including trade receivables and other receivables on the balance sheet). This is included in the "Other operating expenses" in the "Statement of comprehensive income".

| Debts | 2019 | 2018 |
|--|---------------|--------------|
| Entities owned by the Ministry of Transportation | 39,991 | 2,747 |
| Total | 39,991 | 2,747 |

The liabilities are mainly modifications performed to the trains.

Loans to related parties:

There are no loans from related parties.

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

| Board members | Title | 2019 | 2018 |
|----------------------|-----------------------------|-------------|-------------|
| Annette Malm Justad | Chairman (from April 2018) | 394 | 272 |
| Rolf Bergstrand | Chariman (until April 2018) | - | 113 |
| Marianne Abeler | Board member | 167 | 164 |
| Espen Opedal | Board member | 237 | 164 |
| Vidar Larsen | Board member-employee rep. | 83 | 82 |
| Total | | 881 | 795 |

2019

| Management | Title | Salary | Other benefits | Total benefits paid | Pension expenses |
|-------------------------|-------------------------|---------------|-----------------------|----------------------------|-------------------------|
| Øystein Risan | Chief executive officer | 1,940 | 132 | 2,072 | 230 |
| Kjell-Arthur Abrahamsen | Materiel Director | 1,525 | 12 | 1,537 | 213 |
| Linda Venbakken | Chief financial officer | 1,408 | 12 | 1,420 | 227 |
| Luca Cuppari | Technical Director | 1,408 | 12 | 1,420 | 177 |
| Iren Marugg | Judicial Director | 1,275 | 12 | 1,287 | 121 |
| Total | | | | 7,736 | |

2018

| Management | Title | Salary | Other benefits | Total benefits paid | Pension expenses |
|-------------------------|-------------------------|---------------|-----------------------|----------------------------|-------------------------|
| Øystein Risan | Chief executive officer | 2,108 | 121 | 2,229 | 273 |
| Kjell-Arthur Abrahamsen | Materiel Director | 1,499 | 9 | 1,508 | 299 |
| Linda Venbakken | Chief financial officer | 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 | |

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 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 2019 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 2019, 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 2019

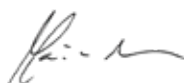
The Board of Director's and CEO confirm that, to the best of our knowledge, the annual report provides a description of significant transactions conducted with related parties during the current period and the main risk factors facing the business in the coming period.

The Board of Directors and the CEO confirm that, to the best of their knowledge, the financial statements for 2019 have been prepared in accordance with prevailing accounting standards, and the disclosures in the financial statements provide a true and fair view of the company's assets, liabilities, and financial position and profit or loss as a whole at the end of the period, as well as a true and fair view of key events during the financial period and their impact on the financial statements.

Oslo, 12 February 2020



Annette Malm Justad
Chairman



Marianne Abeler
Board Member



Espen Opedal
Board Member



Vidar Larsen
Board Member



Øystein Risan
CEO

APM

Return on equity:

Profit for the year/ equity at the beginning of the period (221,882/2,834,598=7.8 %)

This performance measurement shows the relationship between the company's equity and profit for the year. Norske tog uses this key number to measure the return that is generated for the owners. This key number for return on equity is also a part of the framework for the green bonds and will therefore also be important in the future.

Equity ratio (s..):

Total equity at the end of the period/total assets 3,064,784/13,609,825=22.5 %

This performance measurement states the solidity of the company. The equity ratio is also important to be able to monitor the company continuously, due to a revolving credit facility of 2,000 MNOK, its covenant being an equity ratio of 20 %. A healthy equity ratio is also important to be able to meet the targets regarding investments in new trains as well as upgrades to today's trains.

Operating revenue minus operating expenses:

Operating revenue minus operating expenses: 1,256,002-864,226=391,777

This performance measurement shows the net profit for the company's core business functions for a given period. Since it does not include financial- expenses or income it gives a picture of how well the core business functions really are, regardless if operations are financed by the owners through equity or externally financed through bonds and debt. For a reconciliation of operating profits in relation the profit for the year – see the company's statement of comprehensive income.

Working capital:

Total current assets minus total short-term liabilities: (3,001,405-1,769,515=1,231,890).

Working capital is important to monitor the short-term liquidity and to have some flexibility. Working capital is also an important performance measurement used in the company's external credit evaluations.



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 statement of financial position as at 31 December 2019, the statement of comprehensive income, statement of changes in equity and cash flow statement 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 2019, 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.

The company's operations have remained largely unchanged compared to last year. It has not been regulatory changes, transactions or events that have led to the identification of new key audit matters. Our focus areas have therefore been the same in 2019 as last year.

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Independent Auditor's Report - Norske tog AS

Key Audit Matter

How our audit addressed the Key Audit Matter

Accurate and complete accounting of loans and derivatives

For a closer description of loans and derivatives, please see note 6,7 and 10.

The carrying amount of the company's loan portfolio is NOK 9,7 billion as of 31 December 2019 and constitutes approximately 2/3 of the company's total balance.

The loan portfolio of Norske tog AS consists of bonds in Swiss francs (CHF) and Norwegian kroner (NOK), with both floating and fixed interest rates. The portfolio is valued at both fair value and amortized cost. Interest rate swaps and currency swaps are used as hedging instruments and both are measured at fair value. The company does not use hedge accounting.

Because of the considerably large carrying amount of the loan portfolio being subject to a complex set of rules and complex calculations we have focused on routines and processes aimed at ensuring accurate and complete accounting of loans and derivatives.

We have assessed the company's accounting guidelines and principles for loans and derivatives and found that these were in line with generally accepted accounting principles.

We have focused on internal controls that help ensure that loans and derivatives are completely and accurately recorded in the company's accounting system and in line with the related agreements. We also tested whether changes in variables affecting the calculations of loans and derivatives were accurately and completely recorded in the accounting system and reconciled to observable marked data.

Furthermore, we have on a sample basis, reperformed the calculations of loans and derivatives originally calculated by the accounting system. We have also made our own recalculations of the value of loans and derivatives and reconciled this to the values calculated by the accounting system. Our control activities did not reveal any significant deviations.

We also read the corresponding notes to the financial statements describing loans and derivatives and found the information to be sufficient.

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.

(2)



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.

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

(3)



Independent Auditor's Report - Norske tog AS

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.

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 and in the statements on Corporate Governance and Corporate Social Responsibility 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, 19 February 2020

PricewaterhouseCoopers AS

Marius Thorsrud
State Authorised Public Accountant

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

(4)

Tables, figures and photographs

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Photo Thomas Haugersveen:
page 14 (Gardermobanen)
page 25 (Oslo S)
page 41 (Oslo)
page 51 (Gardermobanen)
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Photo Hampus Lundgren:
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page 74 (Brake disc)

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page 47 (National Theatre)
page 49 (Oslo S)

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