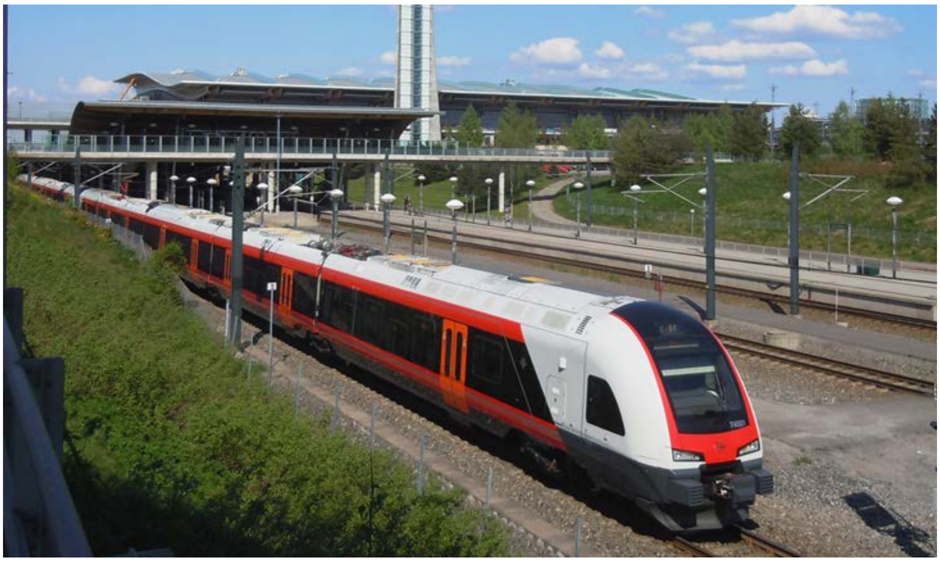
Materiellselskapet AS



Annual Report 2016

Report of the Board of Directors for Materiellselskapet AS 2016

Background and purpose of the enterprise
The government has initiated the implementation of the approved railway reform, and as part of the reform, Materiellselskapet was established on the 16th June 2016 as a wholly owned subsidiary of NSB AS.

Materiellselskapet AS shall acquire, manage and let passenger rolling stock, with intent to have adequate timely rolling stock to appropriate cost and high quality. The Company must have expertise in the area of public procurement and management of passenger rolling stock. The Company should ensure low barriers of entry and equal terms for the operations of the Norwegian railway.

The rolling stock owned by NSB AS was spun off and transferred to Materiellselskapet by acquisition, as at the 14th October 2016. The same date 32 of NSB's employees were transferred to Materiellselskapet.

The amount paid for the rolling stock was 8 558 MNOK. In addition to the trains a pension liability of 10 MNOK for the aforementioned employees was also transferred with corresponding compensation from NSB. The consideration for the transfer of operations was settled by the issue of debt from NSB AS. The value of the trains was calculated on the basis of discounted future cash flows using risk-adjusted discount rate. The valuation of the business is conducted by Kjelstrup & Wiggen Consulting AS. As part of the business transfer Materiellselskapet AS took over plant under construction from NSB AS as at the 31.12.

Bonds and related basis swaps were in accordance with the agreement on the settlement of claims on the acquisition of loans and derivative financial items were transferred from NSB to Materiellselskapet on the 9th of December 2016. The consideration for the transfer of the bonds to Materiellselskapet 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 NSB AS has issued a statement under the Securities Act § 3-8, in conjunction with the company has signed agreements with the company's shareholders to acquire the business and the acquisition of loans and derivative commitments.

Materiellselskapet AS shall with effect from 1st January demerge from the NSB Group and the ownership will be transferred to the Ministry of Transport and Communications.

Statement of Corporate Governance
Materiellselskapet AS is part of the NSB Group, and the same governing documents, policies and procedures are applicable for Materiellselskapet. The Group's report on Corporate Governance appears on the Group's website, and we refer to this for further information.

During April, Materiellselskapet will officially demerge from NSB. The shareholdings will be transferred to Togmateriell AS located under the Ministry of Transport and Communications.

Summary of results and trends for Materiellselskapet AS in 2016

Materiellselskapet AS shows negative results for the first 2 ½ months the company has been in operation. This is due to the costs of establishing credit facilities for the company.

- Operating profit is 68 MNOK
- Profit before income tax -5 MNOK
- Start-up costs related to the establishment of credit facilities for the company

Economic development for the Materiellselskapet AS

Materiellselskapets profit is -4 MNOK. Operating profit is 68 MNOK.

Net cash flow from operations is 557 MNOK. Net cash used for investment is 9 370 MNOK. This includes 9 370 MNOK for acquisition of fixed assets. Investments are mainly used to buy new rolling stock.

Total equity was 2 393 MNOK, including the loss for the year. The equity ratio is 23 percent. Uncovered losses totalled -7 MNOK.

The company’s working capital is 413 MNOK.

The accounts are prepared on the assumption of continued operations; the Board confirms that assumption is correct. Net income recognized is stated as uncovered loss.

Ownership

Materiellselskapet is owned by NSB AS. The company’s headquarters is in Oslo.

Organisation

The company operates in the following main areas:

- Acquiring passenger rolling stock
- Letting of passenger rolling stock

Goals and strategies

The goal for Materiellselskapet is to contribute to a comprehensive rolling stock reserve for the Norwegian railway.

The company will be the preferred provider of reliable and timely passenger rolling stock.

Materiellselskapet shall develop plans to meet capacity in the near and subsequent rental periods. The company shall develop leasing contract with incentives that will form the basis for rental of rolling stock to all operators, and contribute to developing rolling stock strategy to ensure standardisation and optimisation of passenger rolling stock systems. The company shall also provide advice regarding conditions at the interface between rolling stock and infrastructure/workshops, and have leading expertise in procurement of passenger rolling stock and systems and keep track of new technological solutions.

Internal control

Materiellselskapet has its own framework for internal control, and has established internal control systems, which consist of values, ethical and social responsibility, organisational structure and management documents. Risk within financial reporting is evaluated through their own risk analyses.

Based on this the internal control systems are revised as required, in an audit of management documents, policies and procedures and key controls.

Risk

Financial risk

The company’s activities involve various types of financial risk: market risk (currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The Company’s overall risk management program focuses on capital markets unpredictability and tries to minimise potential adverse effects on its financial results. The company uses financial derivatives to hedge against certain risks. Further information about the company’s financial risk management is described in the annual accounts note 5.

Materiellselskapet issue bonds in the markets and currencies that as a whole provide the most favourable conditions. Loans in foreign currency are converted to Norwegian kroner through currency swaps. Materiellselskapet aims to minimise currency risks in financial management. In its daily operations, Materiellselskapet is to a certain extent exposed to currency risk on liquidity assets in connection with activities abroad. Otherwise, the company is not exposed to currency risk as the majority of revenues and expenses are in NOK. If agreement for larger procurements are done in foreign currency, currency risk is covered almost 100 percent through the duration of the agreement.

Materiellselskapet is exposed to interest rate changes. The Company uses interest rate swaps to reduce interest rate risk and to achieve the desired interest rate structure on the outstanding debt. Targets are established which regulate the proportion of debt with floating rate being regulated during a twelve month period, and for the duration of the portfolio.

Through established objectives, borrowing needs should during the next twelve months be covered through excess liquidity and committed credit facilities. The company has a goal of having a free liquidity of at least 150 MNOK.

Materiellselskapet will focus on counterparty risk in financial transactions.

Operational risk

Systematic analysis of operational risk and achievement of financial goals are completed. Control activities have been established based on risk analysis, to reduce identified risks, including automatic controls, audits and follow-up, extended analyses related to certain risk areas.

Personnel, equality and external environment

Materiellselskapet is a newly established company, which has not conducted surveys of work environment or registered occupational accidents. Employee satisfaction survey will be completed during 2017.

The Board for Materiellselskapet has a gender mix of 50 percent women and the company consists of 9 percent women.

Sick leave for Materiellselskapet has been on average 5.44 percent for the period November – December 2016.

Materiellselskapet refers to the statement for Social responsibility in the Annual report for NSB Group, which is prepared according to Norwegian GAAP §3-3C.

Future challenges

Materiellselskapet will own and rent out passenger train rolling stock to Norwegian railway undertakings. By the end of 2016 all rolling stock was leased to NSB. Together with the railway directorate, the company will establish a strategy for rolling stock and procurement in order to be able to provide the correct rolling stock at the disposal of the supplier who win future tenders.

An agreement was entered into with Stadler in 2005 with an option to purchase 150 regional- and local trains. The acquisition is subject to the plan and as of the 31.12.2016, 81 of the trains have been received under this contract. As of the end of December, 26 more train sets have been ordered which are expected to be delivered by February 2019, and a further 18 train sets are expected to be ordered during 2017. There is a plan to purchase 125 new trains, with an expected delivery of approximately 10 a year.

In connection with the railway reform, the government has announced two competitions for passenger transport by rail, Traffic package South and Traffic package north, to commence in 2018 and 2019. The operator, which is awarded the traffic package, is obligated to lease passenger rolling stock from Materiellselskapet. Based on this calculated rental risk for the company should be low. The pricing model assumes a fixed price for the rental period. The price model compensates with a capital of the carry value of the assets plus annual depreciation and all other operating expenses.

For future investments, the Materiellselskapet will use the international bond market.

It will be important to further develop the company and the organisation after the demerger from the NSB Group in 2017, to ensure good and effective processes that safeguard the company's purpose.

Oslo, 2nd of February 2017

Geir Isaksen
Chairman

Synne Larsen Homble

Irene Katrin Thunshelle

Øystein Risan
CEO

Vidar Larsen

NSB AS

INCOME STATEMENT	Notes	2016
		All numbers in TNOK
Operating revenue	2	**207 606**
Payroll and related expenses	12	9 473
Depreciation and impairment	17	126 803
Other operating expenses	18	3 471
Total operating expenses		**139 747**
Operating profit		**67 859**
Financial posts		
Financial income	19	3 825
Financial expenses	19	-76 348
Net financial expenses - pensions	13, 19	-58
Unrealised fair value changes	20	-199
Net financial items		**-72 780**
Profit before income tax		-4 921
Income tax expense	11	-1 179
Profit for the year		**-3 742**
Attributable to		
Equity holders		**-3 742**
OTHER COMPREHENSIVE INCOME		
Profit for the year		-3 742
Items that will not be reclassified to profit or loss		
Deviation retirement benefit obligations	13	-4 250
Tax related to items that will not be reclassified	11	1 020
Total comprehensive income for the period		**-6 972**
Attributable to		
Equity holders		**-6 972**

MATERIELLSELSKAPET AS

OVERVIEW FINANCIAL POSITION		31.12.2016
		All numbers in TNOK
ASSETS	**Notes**	
Deferred tax	11	2 199
Property, plant and equipment	3	9 242 702
Total non-current assets		**9 244 901**
Trade and other receivables	4	150 660
Derivative financial assets	6	1 187 027
Cash and bank deposits	8	1 245
Total current assets		**1 338 932**
TOTAL ASSETS		**10 583 833**
EQUITY AND LIABILITIES		
Ordinary shares and share premium	9	2 400 000
Uncovered loss		-6 972
Total equity		**2 393 028**
Borrowings	10	7 463 668
Retirement benefit obligations	13	16 739
Total long term liabilities		**7 480 407**
Trade and other payables	14	563 956
Borrowings	10	146 442
Derivative financial instruments	6	-
Total short term liabilities		**710 398**
TOTAL EQUITY AND LIABILITIES		**10 583 833**

Oslo, 2nd of February 2017

Geir Isaksen
Chairman

Irene Katrin Thunshelle

Synne Larsen Homble

Vidar Larsen

Øystein Risan
CEO

MATERIELLSELSKAPET AS

CASH FLOW STATEMENT FOR THE GROUP	Notes	2016 All numbers in TNOK
Profit for the period before income tax expense		-4 921
Depreciation and impairment in the income statement	17	126 803
Net changes to obligations and retirement benefit oblig.	13	12 411
Net changes to provisions for other liabilities and charges		-
Net unrealised fair value changes	19, 20	199
Interest items		9 216
Changes to working capital		413 374
Net cash flow from operating activities		**557 082**
Purchase of PPE	3	-9 370 214
Proceeds from sale of PPE	3	708
Net cash flow from investment activities		**-9 369 506**
Issue of stock	9	2 400 000
Proceeds from borrowings	10	6 413 669
Net cash flow from financial activities		**8 813 669**
Net change in cash and bank deposits for the period		**1 245**
Cash and bank deposits as at the beginning of the period	8	-
Foreign exchange gain/loss on cash and bank deposits		-
Cash and bank deposits as at the end of the period	8	**1 245**

MATERIELLSELSKAPET AS

DEVELOPMENT IN EQUITY

2016	Notes	Ord. shares and share premium	Debt conversion	Retained earnings	TOTAL
			All numbers in TNOK		
Equity 1st of January 2016	9	-		-	**-**
Cash contributions		100	2 399 900	-	**2 400 000**
Profit for the year		-		-3 742	**-3 742**
From other comprehensive income		-		-3 230	**-3 230**
Equity 31st of December 2016		**100**	**2 399 900**	**-6 972**	**2 393 028**

2015	Notes	Ord. shares and share premium	Retained earnings	TOTAL
Equity 1st of January 2015	14	-	-	**-**
Profit for the interim period		-	-	**-**
From other comprehensive income		-	-	**-**
Change in income tax rate	16	-	-	**-**
Dividends paid		-	-	**-**
Equity 31st of December 2015		**-**	**-**	**-**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2016

All figures in the report are in TNOK.

The financial statements were approved by the Board of Directors on 2nd of February 2017.

1. General information and summary of important accounting principles

General information
Materiellselskapet AS was established on the 16th June 2016.

In the White paper 27 (2014-2015) it is determined that the passenger rolling stock currently owned by NSB should be collected in a government controlled rolling stock company to ensure low barriers to entry and competition on equal terms.

Purpose and scope of the company
The Company shall acquire, manage and let passenger rolling stock. The aim is to have sufficient timely rolling stock to appropriate cost with high quality. The company must have expertise in the area of public procurement and management of passenger rolling stock.

Materiellselskapet has its headquarters in Oslo.

All the shares for Materiellselskapet AS are owned by Norges Statsbaner AS.

The Annual Report for 2016 was approved by the Board on the 2nd of February 2017.

All figures in the report are stated in TNOK, unless otherwise stated.

Basis of Preparation
The financial statement for Materiellselskapet AS have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRIC interpretation as approved by the EU.

The most important accounting principles, which are utilized in the preparation of the company's financial statements, are described below.

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

The Company adopts the going concern basis in preparation of its financial statements.

Important assumptions and accounting estimates
Application of the companies accounting principles implies the management must exercise judgement through use of estimates and assumptions. Estimates and assumptions are continuously evaluated and are based on historical experience combined with expectations of future events that are probable at the time of evaluation.

Areas where the use of assumptions and estimates are material for the company's accounts:

Financial assets and liabilities at fair value
The company has long-term debt, financial derivatives and certain financial assets, that are accounted for using fair value. The estimates are mainly based on observed prices, which change over time. Changes in assumptions will lead to change on the balance sheet as well as affecting the income statement.

Property, plant and equipment
The company continues to evaluate expected useful life and expected residual value on fixed assets. This is of importance for annual depreciation. Furthermore, the company considers the value of its fixed assets and whether write-downs are necessary. With indication that the recoverable amount is lower than book value, a devaluation is completed. These considerations involve a great deal of judgement.

Estimated provisions for contract losses
The company conducts tests annually to evaluate provisions for contract losses, where there are negative operating profits and therefore indications of impairment. For property, plant and equipment that are used in these contracts, an impairment test is performed first, as mentioned above. Then the present value of future cash flow for each separate contract is measured. These evaluations involve a large degree of judgement. We refer to the note on Provisions for further description.

Retirement benefit obligations
The company has liabilities related to employees' pension rights regarding defined pension benefit plans. Calculations show that the company must determine economic and demographic assumptions. Changes to assumptions can result in considerable benefit expenses. For more information on pensions and for more detailed description on what assumptions are used, see the retirement benefit obligation note to the financial statements.

Included in the note is a sensitivity analysis that shows how sensitive the calculations are in relation to central assumptions. Actuarial deviations related to such changes are included in other comprehensive income with a direct effect to equity, after deducting deferred tax.

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Segment information
Materiellselskapet reports its operating segments according to how the management of the company, which is the operating decisionmaker, adopt, follow-up and evaluate decisions.

Currency

Functional currency and presentation currency

The financial statements are presented in Norwegian kroner, which is both the functional currency and presentation currency of the parent company.

The companys operation is only conducted in Norway.

Revenue

The company's revenues come from the letting of passenger rolling stock. Revenues accrued linearly over the lease term as rental agreements in its entirety are based on fixed prices. Rental revenues are recovered when earned and invoiced in advance every month.

Property, Plant and Equipment

Operating revenues and expenses, purchasing and financing costs are mainly in NOK, CHF and EUR. Transactions in foreign currencies are translated into functional currency at the transaction date. Exchange gains and losses arising from the translation of items in foreign currencies are recognized.

Fixed assets are stated at cost less depreciation. Cost includes costs directly related to acquisition of the assets, so that it is ready for use.

Subsequent costs are capitalised when it is probable that future economic benefits associated with the item will flow to the company and the cost can be measured reliably. Other repair and maintenance costs are recognised in the income statement in the period in which they are incurred.

Borrowing costs incurred by the construction of assets are capitalised until the asset is ready for use and is included in the capital base.

Fixed assets are depreciated using the straight-line method, so that their cost to their residual values over their estimated useful life, which is within the following range:

Passenger rolling stock	10 – 30 years

Depreciation methods, estimated useful life and residual values are reviewed annually and adjusted if necessary.

Gains and losses on disposal of assets is recognized as the difference between sales price and book value.

Impairment

Assets that are depreciated are considered for impairment only when there are indications that future earnings do not justify the carrying amount.

Impairment is recognised if the carrying amount is higher than the recoverable amount. The recoverable amount is the higher of fair value less selling costs and value in use.

For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generated units). At each reporting date, one considers the possibilities for reversal of prior impairments.

Possible contract losses

The company operates long-term contracts with public entities regarding the rental of passenger trains. In the contract, the company carries risk for development in costs without the possibility for adjusting the income in the contract accordingly. This could result in contract losses if future remaining costs are higher than estimated revenues.

Before a provision is performed for contracts that may result in losses according to IAS 37, an evaluation is completed in accordance with IAS 36 (see selection for impairment above). Then the company's present value of the future expected cash flow operational activities in each separate contract, where estimated payments consists of all future unavoidable operating costs were on assets. The provision is limited to the lower of continuing the contract or to go out of the contract.

Derivatives and financial instruments

The company uses swap and currency on long-term debt to ensure predictability, and to obtain the lowest possible price and predictability in prices.

The company does not use hedge accounting. Derivative financial instruments are recognized at fair value on the date a derivative contract is entered into and are subsequently measured at fair value. Changes in fair value contracts entered into as debt instruments are included in net financial income, while derivative contracts related electric power are included as other operating expenses.

Financial assets held for trading purposes

A financial asset is classified as held for trading purposes if its primary reason for acquiring is to result in gains due to short-term changes in fair value.

Receivables

Receivables include trade receivables and are initially measured at original value, which is also considered fair value.

For subsequent measurement, receivables are considered at amortised cost using the effective interest method, fewer provisions for probable losses. A provision for impairment of trade receivables is estimated when there is objective evidence that the company will not be able to collect all amounts due according to the original terms of the receivables.

Cash and bank deposits

Cash and bank deposits including restricted tax withholdings and specified in note 8.

If bank overdrafts are utilised, it will be included in borrowings under current liabilities.

Borrowings/Loans

The initial recognition for loans is fair value adjustment for directly related transaction costs.

In the following accounting periods, the loans are, as a rule, measured at amortising cost using the effective interest method such that the effective interest is equal throughout the life of the loan.

The company has several bonds that have associated interest- and currency swaps. Where measurement and reporting at fair value show information that is more relevant because inconsistent measures of loans and associated interest swap is eliminated, or to a certain degree reduced, this principle is used in the financial statements. Choice of principle is made at the time of each loan raised and is binding throughout the term of the loan.

Tax

Income tax expense for a period consists of tax payable and deferred tax.

Deferred income tax is calculated on all temporary differences between tax- and book values as well as tax effect on net losses carry forward. Deferred income tax is determined using tax rates and tax laws that apply on the balance sheet date. Deferred tax asset that are expected to be utilized are included in on the balance sheet.

Deferred income tax asset and liability are offset when there is a legally enforceable right to offset, and it is related to income taxes levied by the same taxation authority for (i) the same taxable entity or (ii) for separate taxable entities where the intention is to settle taxable positions on a net basis. .

Retirement benefit obligations

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

Defined benefit pension plans are schemes where the employer commits to periodical pension benefits to the employee when he/she retires. The pension payment will mainly depend on number of years in the plan, compensation level at retirement age and the size of the benefits from the national insurance scheme.

The liability recognised on the balance sheet is the present value of the defined benefit plan at the balance sheet date, less the fair value of plan assets at the balance sheet date. The defined pension liability is calculated annually by an independent actuary using the projected unit credit method. The cost of pension contributions and net interest rate on the defined benefit pension plan is included in the net income.

Changes to the pension plan benefits (plan changes) are expected or recognized as income continuously in the income statement. Actuary deviations that are caused by new information and changes to the actuarial assumptions are included instantly, through comprehensive income.

Other short-term debt

Other short-term debt include trade payable and are initially measured at original value, which is also considered to be fair value. At later measurement dates, trade receivables will be considered at amortised cost using the effective interest method.

Fair value estimation

The company measures several financial assets and obligations at fair value. For classification of fair value, the company uses a system that reflects the significance on the input that is utilized in the preparation with the following divisions:

Level 1
Fair value is measured using quoted prices from active markets for identical assets and obligations.

Level 2
Fair value is decided by using input based on other observable factors, either direct (price) or indirect (derived from prices) rather than noted prices (used in level 1) for the asset or obligation.

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Level 3
Fair value is measured using input that are not based on observable market data.

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

Changes in accounting principles, new standards and new interpretations

The company has not implemented any new accounting standards or made changes to accounting principles in 2016.

NOTES 2016 All numbers in TNOK

New standards and interpretations not yet taken effect and not yet implemented

The company has elected not to early adopt any standard or interpretations that have an adoption date after the balance sheet date. Below is an overview of the most central Standards that have been adopted by the IASB, but not the EU.

IFRS 9 Financial instruments replaces parts of IAS 39, which deals with accounting, classification and measurement of financial assets and liabilities, hedge accounting, measurement at amortised cost and impairment of financial assets. The last phases were completed by the IASB in the fall of 2014. The standard takes mandatory effect on 1st of January 2018.

IFRS 15 Revenue recognition
In the spring of 2014, the IASB adopted a new standard for revenue recognition. The standard established a framework for recognition and measurement of revenue based fundamental principle that recognition of revenue reflects the transfer of ownership of goods and service to the customer. The standard takes mandatory effect on the 1st of January 2018.

Assessment of the impact of adoption of IFRS 9 and IFRS 15 are not completed for the company. Major effects are not expected.

IFRS 16 Leasing

IASB adopted early in 2016 a new standard for leasing. The main rule of the new standard is that the lessee shall incorporate all leases in the balance sheet. According to IFRS 16 all significant leases lasting longer than a year are to be capitalised.
The tenant shall incorporate obligation to pay rent and associated «right to use the asset» for use of the underlying asset over the term of the lease. Under IFRS 16 there will no longer be a distinction between financial and operating leases for the tenant.

As at the balance sheet date Materiellselskapet has no significant lease agreements and are therefore not affected by this provision.

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

2 Segment information

Materiellselskapet AS has only one segment - leasing og passenger rolling stock.

Analysis of operating income by category	**2016**
Leasing revenue	207 338
Other revenue	268
Total	**207 606**

Information on important customers
The company only has one customer for leasing of passenger rolling stock, Norges Statsbaner AS, which accounts for 100 % of operating income (see note 22).

NOTES 2016 All numbers in TNOK

3 Property, plant and equipment

	Machinery and equipm.	Trans-portation	Partially delivered trains	Under construc-tion	Total
At 1st of January 2016					
Accumulated acquisition cost	-	-	-	-	-
Accumulated depreciation	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**
Year ended 31st of December 2016					
Opening net book value	-	-	-	-	-
Additions	31 206	8 736 185	532 886	69 936	9 370 213
Disposals at acquisition cost	-	-708	-	-	-708
Transfers within PPE	477	-	-	-477	-
Depreciations	-3 165	-123 638	-	-	-126 803
Total	**28 518**	**8 611 839**	**532 886**	**69 459**	**9 242 702**
At 31st of December 2016					
Accumulated acquisition cost	31 683	8 735 477	532 886	69 459	9 369 505
Accumulated depreciation	-3 165	-123 638	-	-	-126 803
Total	**28 518**	**8 611 839**	**532 886**	**69 459**	**9 242 702**
Depreciation period	5 - 30 years	5 - 30 years			

All values by business aquisitions are allocated to passenger rolling stock.

4 Trade and other receivable

	2016
Trade receivables	181
Group internal trade receivables	150 439
Less: provision for impairment of receivables	-
Trade receivables - net	**150 620**
Prepayments	40
Other receivables	-
Total trade and other receivables	**150 660**
Total	**150 660**

The carrying amounts of the trade receivables, prepayments and other receivables approximate their fair value.
Trade receivables include mainly passenger train income.

Maturity of receivables:	**2016**
Matured receivables on balance sheet date	-
Matured between 0 - 2 months ago	-
Matured between 2 - 6 months ago	-
Matured more than 6 months ago	-

5 Financial risk management

Capital management

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

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

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 the Nordic region, 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 in the derivatives. The company is therefore not exposed to foreign currency exchange risk on debt instruments.

Interest rate risk

Interest rate risk is the risk for the fair value of the financial instrument or future cash flows to fluctuate due to change in the market rate.

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

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

Sensitivity evaluation as at 31.12.2016

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 55 MNOK.

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

Liquidity risk

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

Materiellselskapet'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.

Materiellselskapet 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 Materiellselskapets revolving credit facility of 2 000 MNOK which expires in October 2021.

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

Liquidity risk	**< 1 year**	**1 - 2 years**	**2 - 5 years**	**> 5 years**
Short term liabilities	553 511	-	-	-
Borrowings	146 442	1 314 988	2 611 574	3 537 106
New trains	702 000	600 000	150 000	-
Property, plant and equipment	178 000	-	-	-

Credit risk

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

The company has one large customer, NSB, and is therefore not materially exposed to credit risk.

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

NSB assesses maximum credit risk to be the following:	**2016**
Cash and bank deposits	1 245
Financial derivatives	1 187 027
Trade receivable and other short term receivables	150 660
Total	**1 338 932**

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

6 Derivatives

	2016	
	Assets	**Liabilities**
Interest rate swaps	1 187 027	-
Sum	**1 187 027**	**-**

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

Changes in fair value of derivatives:	**2016**
This period's change in fair value:	46 047
Accumulated change in fair value:	46 047

Interest rate and foreign exchange swaps

The notional principal amounts of the outstanding interest rate swaps contracts at 31st of December 2016 were 2 286 MNOK. At 31st of December 2016, the fixed interest rates vary from 1,14 % to 2,14 % and the floating rates are mainly 6M NIBOR + margin.

7 Financial instruments by category

Assets at 31st of December	Loans and receivables	Assets at fair value through profit and loss	Total
Year	**2016**	**2016**	**2016**
Financial fixed assets	-	-	-
Derivative financial instruments	-	1 187 027	1 187 027
Trade and other receivables (excl. prepayments)	150 660	-	150 660
Cash and bank deposits	1 245	-	1 245
Total	**151 905**	**1 187 027**	**1 338 932**

Liabilities at 31st of December	Liabilities at fair value through profit and loss	Other financial liabilities at amortised cost	Total
Year	**2016**	**2016**	**2016**
Borrowings (excl. Financial lease liabilities)	3 980 743	3 629 367	7 610 110
Derivative financial instruments	-	-	-
Financial lease liabilities	-	-	-
Trade and other payables excl. statutory liabilities	-	562 870	562 870
Total	**- 3 980 743**	**- 4 192 237**	**- 8 172 980**

The following table presents the Group's assets and liabilities that are measured at fair value at 31st of December 2016.

Financial assets at fair value through profit or loss:	Level 1	Level 2	Level 3	Total
Derivatives used for hedging	-	1 187 027	-	1 187 027
Total assets	**-**	**1 187 027**	**-**	**1 187 027**
Borrowings and accrued interest	-	3 980 743	-	3 980 743
Derivatives used for hedging	-	-	-	-
Total liabilities	**-**	**3 980 743**	**-**	**3 980 743**

8 Cash and bank deposits

NS B AS is the Group bank account owner for the "kassekredittkonto". The company's operating account which is included in the Group bank accounts represents an intercompany balance with NSB AS.

	2016
Cash and bank deposits	1 245

Includes restricted funds of 1 245 TNOK .

9 Share capital and share premium

	Number of Shares	Ordinary Shares	Share premium	Total (TNOK)
Shares at the 1st January 2016	-			
Shares at the 31st December 2016	100	100	2 300 000	2 400 000

There is only one class of shares, each share with a value of NOK 1.000.000,-.

10 Borrowings

Non-current	2016
Bonds at fair value	4 220 292
Bonds measured at amortized cost	3 243 376
Total	**7 463 668**

Current	
Current share of non-current borrowings	146 442
Other current borrowings	-
Total	**146 442**
Total borrowings	**7 610 110**

Nominal value of long-term interest bearing debt	2016
1st of January	-
Changes during the year	5 879 626
31st of December	**5 879 626**

Fair value on bonds measured at amortized cost is TNOK 3 645 102 as at 31 December.

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 Materiellselskapet.

Materiellselskapet has a multicurrency revolving credit facility of 2 000 MNOK with a covenant that demands a minimum equity share of 18 %.

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

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

Borrowings and hedgings	2016
6 months or less	3 185 766

Non-current borrowings expire in:	2016
Between 1 and 2 years	1 314 988
Between 2 and 5 years	2 611 574
Over 5 years	3 537 106

Effective interest rate at the balance sheet date:

		2016
Bonds	NOK	2,35

Calculated effective interest rate includes the effect of interest rate swaps. The company has swapped all exposure in CHF.

The carrying amounts of the non-current borrowings approximate their fair value.

Changes in fair value on non-current borrowings:	2016
This periods change in fair value	44 945
Accumulated change in fair value	44 945

NOTES 2016 All numbers in TNOK

The carrying amounts of the company`s borrowings are denominated in the following currencies:	2016
NOK	4 124 569
CHF	3 485 541
Total	**7 610 110**

The company has the following undrawn borrowing facilities:	2016
Floating interest rate	
- Expiring within one year	-
- Expiring beyond one year	2 000 000
Total	**2 000 000**

The credit is for one year at the time and is renewed annually. Materiellselskapet`s long term revolving credit facility which expires in October 2021.

11 Deferred income tax/Income tax expense

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

Income tax expense	2016
Tax payable	-
Changes in deferred tax	-1 179
Tax expense	-1 179

Tax payable on the balance sheet are as follows:	2016
Tax expense	-
Tax payable on the balance sheet	-

Reconciliation between nominal and actual tax expense rate:	2016
Net income before tax	-4 921
Expected income tax using the nominal tax rate (24 % / 25 %)	-1 229
Tax effect of the following items:	
Other non-deductible expenses	1
Other non-taxable income	-
Effect of change in income tax rate	49
Insufficient tax provision prior years	-
Income tax expense	-1 179
Effective tax rate	24 %

NOTES 2016 All numbers in TNOK

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

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

2016	Book value 01.01.	Effect of change i acco-unting prin-ciple	Income state-ment charge	Charge to other compre-hensive income	Effect due to change in income tax rate charged directly to equity	Tax effect Group contri-bution	Book value 31.12.
Benefit (+) / Liability (-)							
Fixed assets	-	-	-2 549 559	-	-	-	-2 549 559
Inventories	-	-	-	-	-	-	-
Receivables	-	-	-22	-	-	-	-22
Value changes to financial current assets	-	-	198	-	-	-	198
Retirement benefit obligations	-	-	3 972	4 250	-	-	8 222
Provisions for other liabilities and charges	-	-	500	-	-	-	500
Gains (losses)	-	-	-	-	-	-	-
Losses carried forward	-	-	2 549 825	-	-	-	2 549 825
Other	-	-	-	-	-	-	-
Total gross temporary differences	-	-	4 648	4 250	-	-	9 164
Net temporary differences	-	-	-	4 250	-	-	9 164
Net deferred tax asset/liability 25%	-	-	1 228	1 063	-	-	2 291
Effect from changes in tax rate	-	-	-49	-43	-	-	-92
Net deferred tax asset/liability on the balance sheet 24%	-	-	1 179	1 020	-	-	2 199

NOTES 2016 All numbers in TNOK

Deferred income tax assets	2016
Deferred income tax assets to be recovered after more than 12 months	616 004
Deferred income tax assets to be recovered within 12 months	120
Total	**616 124**

Deferred tax liabilities	2016
Deferred income tax liabilities to be recovered after more than 12 months	-613 340
Deferred income tax liabilities to be recovered within 12 months	-585
Total	**-613 925**
Total deferred income tax liability (net)	**2 199**

12 Payroll and related expenses

	2016
Wages and salaries, including employment taxes	5 455
Pension costs – defined benefit plans (note 13)	659
Other employee benefit expenses	3 359
Total	**9 473**

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

	2016
Average man-labour year*	32
Average number of employees	32

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

13 Retirement benefit obligations and similar obligations

General

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

Defined benefit pension plan

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

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

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

NOTES 2016 All numbers in TNOK

Specification of net defined benefit pension plan obligations	2016
Present value of earned pension rights for funded collective pension plans	59 677
Fair value of plan assets	-42 938
Present value of unfunded obligations	16 739
Unrecognised actuarial losses	-
Net pension obligation on the balance sheet	**16 739**

Changes in pension retirement obligations:	
Book value net pension obligation 1st of January	10 000
This years' actuarial deviations	3 724
This years net return on assets/increase in obligation	1 184
Net financial items in the acount	58
Curtailments	-
Payments to plan	-
Plan changes during the year	1 773
Book value 31st of December	**16 739**

Pension expenses included in the accounts, defined benefit pension plan	2016
Present value of current pension earnings	659
Employee contribution	-
Total return on pension plan, incl. in payroll and related expenses – see note 12	659
Total financial items in the accounts	**58**
Total pension expenses defined benefit pension plan	**717**

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 expense in %	(-17 %)	(23 %)	(16 %)	(-14 %)	(4 %)	(-4 %)
Increase (+)/decrease (-) net pension obligation at 31.12. in %	(-16 %)	(21 %)	(13 %)	(-12 %)	(6 %)	(-6 %)

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

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

	2016
INCOME STATEMENT	
Present value of current pension earnings	659
Plan changes during the year	-
Changes and deviations in estimates allocated to net income	4 249
Total cost in the income statement	4 908
Total financial items in the accounts	58
Total financial items in the accounts	**4 966**

	2016
Financial position	
Total obligations	59 677
Pension assets	-42 938
Total net pension obligations	16 739
Non-recognised actuarial losses	-
Net pension oblig. at the balance sheet date	**16 739**

Financial assumptions (defined benefit plans)

	2016
Discount rate	2,60 %
Expected return on plan assets	2,60 %
Average salary growth	2,35 %
G-regulation	2,50 %
Corridor: % of max (PBO, pension assets)	10,00 %
Annual reg. of pension increases	1,75 %
Average social security tax	14,10 %

Explanation to selected assumptions 31st of December 2016

The discount rate has been set at 2,7 % and is determined with basis in preferential bonds (OMF). The OMF-market has been assessed to represent a deep and liquid marked 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 0,55 % (incl career salary increase) and inflation of 2,0 % 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 years
Female	23 years

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

	2016
Trade payables	733
Group internal trade payables	525 033
Social security and other taxes	1 164
Other current liabilities	37 026
Total	**563 956**

The amount due to related parties is in 2016: 525.033 TNOK.

Book value of trade and other payables corresponds to fair value. Other current liabilities include pre-paid revenue, accrued payroll and related expenses as well as other accrued expenses.

NOTES 2016 All numbers in TNOK

15 Provisions for other liabilities and charges

Work related injuries

Provisions have not been made in the accounts to cover estimated liabilities expectations of cases that are being handled and not reported, but justifiable cases

Legal disputes

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

16 Loss on Contracts

Provision have not been made in 2016 for future losses on contracts in business, because it is considered that there is no need for provisions.

17 Depreciation, amortization and impairment

	2016
Depreciation current assets (note 3)	126 803
Total	**126 803**

Fixed assets and losses on contracts

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

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

Growth rate of	**2,5 %**	
Dicount rate	**7,0 %**	evaluations according to IAS 36
Borrowing rate	**3,5 %**	evaluations according to IAS 37

18 Other expenses

	2016
Sales- and overhead expenses	931
Energy used in operations	-
Repair and maintenance, machinery rental, property expenses	104
Other operating expenses	2 436
Total	**3 471**

Auditing fees (excluding VAT):	
Auditing	80
Other services	-
Total	**80**

NOTES 2016 All numbers in TNOK

19 Financial income and expenses

	2016
Interest income	3 825
Total financial income	**3 825**
Interest expense	-42 055
Other financial expenses	-34 234
Net foreign exchange losses	-59
Total financial expenses	**-76 348**
Net financial expenses - pensions	-58
Unrealised value changes	-199
Total financial items	**-72 780**

NOTES 2016 All numbers in TNOK

20 Unrealised fair value changes

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

	2016
Unrealized value changes derivatives used for hedging	44 748
Unrealized value changes bonds	-44 947
Unrealized value changes Group internal loans	-
Total unrealized value changes financial items	**-199**

21 Leases

	2016
Lease of machinery/equipment, not incl. on the balance sheet	-
Lease of property (external)	677
Total	**677**

22 Related party transactions

Materiellselskapet has the following related parties:

Owner
Materiellselskapet AS is owned 100% by NSB. As the owner of NSB, the Ministry of Transport and Communication is a related party. In addition, other businesses owned by the Ministry of Transport and Communication will also be a related party to Materiellselskapet.

Materiellselskapet AS owned by NSB AS. On the 15th October 2016 32 NSB employees where transferred to the Materiellselskapet AS. Purchase consideration for rolling stock was 8,558 million. In addition to the trains was also a pension liability of NOK 10 million on the aforementioned employees transferred with corresponding compensation from NSB. The consideration for the transfer of operations was settled by the issue of debentures of NSB AS. The value of the trains were calculated on the basis of discounted future cash flows using risk-adjusted discount rate. The valuation of the business is conducted by Kjelstrup & Wiggen Consulting AS. As part of the business transfer took stock company AS plant under construction from NSB AS 31.12.

Bonds and related basis swaps were in accordance with the agreement on the settlement of claims on the acquisition of loans and derivative financial transferred from NSB to Materiellselskapet on the 9th December 2016. The consideration for the transfer of the bonds to Materiellselskapet 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 NSB AS has issued a statement under the Securities Act § 3-8, in conjunction with the company has signed agreements with the company's shareholders to acquire the business and the acquisition of loans and derivative commitments.

Companies within the same Group

All subsidiaries, associates and joint ventures for NSB AS will be related parties to Materiellselskapet.

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

NOTES 2016 All numbers in TNOK

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

Sale of goods and services:	**2016**
Sales of other goods and services	268
Sales to other companies within the Group	207 338
Total	**207 606**

Purchases of goods and services:	91 228

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

Receivables:	**2016**
Group internal trade reveivables	150 439
Entities owned by the Ministry of Transportation	181
Total	**150 620**

Debts	**2016**
Group internal trade payables	525 033
Other companies in the Group	-
Entities owned by the Ministry of Transportation	-
Total	**525 033**

There are no borrowings from related parties.

Compensation for members of the Board and key management

Management	**Titel**	**Salary**	**Other benefits**	**Total benefits paid**	**Total Benefits**	**Pension expenses**
Øystein Risan	CEO	333	25	358		-
Total					###	

Øystein Risan has been employed in the company since 01.09.2016.

It is not paid directors' fees to Board members who are employed by the owner. The employees are members of group pension schemes. There are no further pension charge of CEO beyond the collective pension scheme.

23 Contingencies

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

24 Events after the balance sheet date

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

Statement from the Board and CEO regarding the annual report 2016

The Board of Directors and the CEO's confirm that to the best of our knowledge the report expresses significant transactions carried out with related parties in the current period and the main risk factor facing the business in the coming period.

The Board of Directors and the CEO confirm, to the best of our knowledge, that the annual report has been prepared in accordance with current accounting standards, and the information in the annual report gives a true and fair view of the companies assets, liabilities, financial position and profit or loss as a whole as at the end of the interim period as well as an overview over important events in the accounting period and their influence on the accounts.

Oslo, 2nd of February 2017

Geir Isaksen
Chairman of the Board

Irene Katrin Thunshelle

Synne Larsen Homble

Vidar Larsen

Øystein Risan

CEO

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Translation from the original Norwegian version

To the General Meeting of Materiellselskapet AS

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Materiellselskapet AS which comprise the balance sheet as at 31 December 2016, income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2016, 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, included 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.

Carrying amount of rolling stock

Key audit matter	How the matter was addressed in the audit
Refer to note 1 for description on the company's process for evaluating the carrying amount of the fixed assets. The carrying amount of the company's fixed assets amounts to MNOK 9 243 as of 31 December 2016 and represent a significant portion of the company's assets. The fixed assets consist mainly of rolling stock produced and customized for train operation in Norway. The company continuously evaluates the residual value	We have assessed the company's internal control activities established to support the carrying amount of the fixed assets, including processes that identify and assess the impairment of rolling stock. At the time of purchase of rolling stock from Norges Statsbaner AS, we reviewed and evaluated the company's documentation regarding the future revenue model, lease agreements and other key assumptions applied in the valuation of the rolling stock. We utilized Deloitte's internal valuation experts in the evaluation.

Carrying amount of rolling stock continues

Key audit matter	How the matter was addressed in the audit
and the expected useful life of the fixed assets and whether there are indications of impairment. When there are indicators of impairment an impairment test is conducted by the company based on present value of estimated future cashflow. As the rolling stock represents a substantial part of the company's assets, and the depreciation, residual value and evaluation of impairment involve use of estimates, the carrying amount of rolling stock is considered a key audit matter.	We challenged the company's management with respect to whether there was any indications of impairment; and reviewed and evaluated the company's documentation of whether there were any impairment indicators in the period subsequent to the acquisition of rolling stock.

Other information

Management is responsible for the other information. The other information comprises the Board of Directors' report, statements on Corporate Governance and Corporate Social Responsibility, but does not include 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.

Responsiblities 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 and 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, included International Standards on Auditing (ISAs), we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

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

We communicate with those charged with governance 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 those charged with governance 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 those charged with governance, 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, 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, 2 February 2017
Deloitte AS

Eivind Skaug
State Authorised Public Accountant (Norway)

Translation has been made for information purposes only