Interim report NSB-Group
31. August 2006

Improved operating profit for the NSB-Group and segment areas

- **The Group's profit after tax as at 31. August 2006 has improved considerably compared to the same period last year:**
  - **NSB-Group's profit is 433 MNOK (256 MNOK), an improvement of 177 MNOK (+ 69 %) compared to the same period in 2005.**
- **Considerable improvement in the operating profit:**
  - **The operating profit for the Group is 511 MNOK (397 MNOK), an improvement of 114 MNOK (+ 29 %) compared to the same period in 2005.**
- **The growth in profit for passenger rail operations continues. Compared to the 1st interim period, punctuality has improved, but is still lower than last year.**
- **Continued growth in volume and profit for bus operations.**
- **Freight traffic (rail) operation has had a positive development, despite continued weak development in Sweden.**
- **Improved profits from the real estate operation.**
- **No serious injuries or accidents in train operations, but an increase in derailments and landslides.**

1. Development in pre-tax profit/loss.

Since 1. January 2006, NSB has submitted its accounts according to IFRS. The effects of the conversion as at 1. January 2005 and 1. January 2006 are shown in the 1st Interim report for 2006. All the comparable data's used in this report are calculated according to IFRS.

Pre-tax profit/loss, NSB-Group.
The operating profit as of the 2. interim period 2006 is 511 MNOK (397 MNOK), which is an improvement of 29 % compared to last year.

The main reason for the positive development can be explained by improved profits in passenger rail traffic and bus operations, and in the real estate operations. Income has increased by 5 % compared to last year. Operating expenses have increased by 3 % compared to last year. Gain on sale of assets of 32 MNOK (45 MNOK) are included in the interim period.

The profit after tax and minority interest is 425 MNOK (257 MNOK), an improvement of 168 MNOK, which is 65 % better than last year.

2. Trends.

Passenger Traffic (rail).
The operating profit for the Group's passenger traffic (rail) operations is 277 MNOK (210 MNOK), an improvement of 67 MNOK, which is 32 % higher than the same period in 2005. The improvement is due to higher transport revenue as well as lower maintenance-, and administrative expenses, and depreciation.

Bus.
The operating profit for the bus operations is 102 MNOK (76 MNOK), an improvement of 26 MNOK, which is +34 % higher compared to last year. Both income- and expense items have risen due to increased volume through acquisitions as well as growth within its own operations.

Freight Traffic (rail).
The operating profit for the freight traffic (rail) operations is -2 MNOK (-4 MNOK), an improvement of 2 MNOK, compared to the same period in 2005. The reasons for the improvement are mainly increased volumes and better profitability in the Norwegian part of operations, while the Swedish part of the business continues to show weak profitability.

Real estate.
The operating profit for the real estate operation is 91 MNOK (67 MNOK) an improvement of 24 MNOK, + 35 % compared to 2005, which is mainly due to settlement of a previously disputed claim. Gain on sale of fixed assets is 13 MNOK (33 MNOK), a reduction of 20 MNOK compared to the same period in 2005.

3. Financial areas.

Financial entries
The financial assets and liabilities are measured at fair value. The financial results are therefore affected by market valuation- and interest changes. The financial entries show a result of 80 MNOK (-41 MNOK), which is an improvement of 121 MNOK compared to the same period last year.

Liquidity.
The Group's liquidity at the end of the interim period is 972 MNOK (604 MNOK); placed in short-term Norwegian Commercial Papers and bonds, as well as bank deposits. 723 MNOK (1 142 MNOK) is placed in Norwegian short term notes and bonds.

A financial reserve of 1 000 MNOK (1 000 MNOK) has been established through a syndicated credit facility that expires in November 2008. Additionally, an overdraft facility of 50 MNOK (50 MNOK) has been established. These financing reserves are not utilized as of 31. August 2006.

Interest bearing debt.
Total interest bearing debt for the NSB-Group was 2 045 MNOK (2 737 MNOK), a reduction of 692 MNOK.

The company's long-term financing is obtained through a 750 MEUR (750 MEUR) European Medium Term Note (EMTN) borrowing program. Furthermore, the Group has a bond issue of 650 MNOK (650 MNOK) which expires in 2007.

4. Important events after the interim period.

No other main events have occurred after the interim period.

Oslo, 12. October 2006

Board of Directors, NSB-Group

Ingeborg Moen Borgerud, Chairman of the Board

Christian Brinch	Jon L. Gjemble	Bente Hagem
Tore Rasmussen	Øystein Aslaksen	Ole Reidar Rønningen
Øystein Sneisen		

Einar Enger, President and CEO

Profit and Loss Account

(In thousand NOK)	January-August 2006	January-August 2005	Last 12 month's	Year 2005
Operating income	**5 849 834**	**5 591 065**	**8 887 449**	**8 628 680**
Personnel & admin exp	2 494 098	2 434 515	3 695 560	3 635 977
Depreciation, amortization	534 103	544 127	845 639	855 663
Other operating expenses	2 310 412	2 215 410	3 548 522	3 453 520
OPERATING PROFIT/LOSS	**511 221**	**397 013**	**797 728**	**683 520**
Financial items	79 720	-41 029	89 419	-31 330
Pre tax profit/loss	**590 941**	**355 984**	**887 147**	**652 190**
Tax	158 407	99 675	267 611	208 879
Profit/loss for the period	**432 534**	**256 309**	**619 536**	**443 311**
Apportionment:				
Majority interest	425 522	257 475	608 932	440 885
Minority interest	7 012	-1 166	10 604	2 426
Total	**432 534**	**256 309**	**619 536**	**443 311**

Balance sheet as at 31. August 2006

(In thousand NOK)	31. August 2006	31. August 2005	31. December 2006
ASSETS			
Fixed Assets			
Rolling stock	5 304 877	4 820 388	4 930 695
Property	1 615 996	1 830 098	1 775 390
Other tangible fixed assets	315 308	351 518	484 787
Intangible assets	270 859	189 893	186 012
Other fixed assets	1 047 166	1 604 240	1 224 828
Sum Fixed Assets	**8 554 206**	**8 796 137**	**8 601 712**
Current Assets			
Goods	1 405 627	1 284 216	1 267 023
Account receivable	870 442	850 625	1 247 249
Financial assets at fair value	723 116	1 142 417	485 634
Liquid assets	971 557	603 502	762 299
Sum Current Assets	**3 970 742**	**3 880 760**	**3 762 205**
Total Assets	**12 524 948**	**12 676 897**	**12 363 917**
EQUITY & LIABILITY			
EQUITY			
Majority's portion of equity	6 349 829	6 012 878	6 181 247
Minority's portion of equity	210 310	199 806	201 756
Sum Equity	**6 560 139**	**6 212 684**	**6 383 003**
LIABILITIES			
Long-Term Liabilities			
Loans	1 323 929	1 187 315	1 949 402
Deferred tax	684 662	705 759	364 553
Pension liability and other commitments	538 613	252 754	627 539
Other long term liabilities	316 175	387 226	343 310
Sum Long-Term Liabilities	**2 863 379**	**2 533 054**	**3 284 804**
Short-Term Liabilities			
Accounts payable and other short term liabilities	3 101 430	3 931 159	2 696 110
Sum Short-Term Liabilities	**3 101 430**	**3 931 159**	**2 696 110**
Total Liabilities	**5 964 809**	**6 464 213**	**5 980 914**
Total Equity and Liabilities	**12 524 948**	**12 676 897**	**12 363 917**

Cash flow statement for the Group

(In thousand NOK)	1. January - 31. August 2006	2005
Cash flow from Operations		
Pre tax Profit/Loss	590 941	355 984
Gains/loss sale of fixed assets	-31 905	-45 086
Ordinary depreciation, write downs	534 103	544 127
Change in working capital	438 803	-142 749
Net cash flow from operations	**1 531 942**	**712 276**
Cash flow from investment activities		
Change in fixed assets	-451 211	-155 422
Net cash flow from investment activities	**-451 211**	**-155 422**
Cash flow from financial activities		
Net change in long term debt	-871 473	-734 610
Net cash flow from financial activities	**-871 473**	**-734 610**
Change in cash, cash equivalent and current drawing rights		
Cash, cash equivalent and current drawing rights as at 1. January	762 299	781 258
Cash, cash equivalent and current drawing rights as at 30. August	**971 557**	**603 502**

Business Operations

Primary reporting method business operations
The Group has operations within the following areas:

- Passenger traffic (rail)
- Bus
- Freight (rail)
- Real estate
- Support Services

The Passenger Traffic (rail) business includes group functions and the group bank. Therefore the financial entries do not give a clear view of the capital costs connected to the passenger traffic (rail) business.

SEGMENT REPORTING for 1.1.-31.08.2006 is as follows:

(In thousand NOK)	Passenger Traffic (rail)	Bus	Freight Traffic (rail)	Real Estate	Support functions	Group
Operating Income	**2 580 966**	**2 059 447**	**956 000**	**354 196**	**744 816**	**5 849 834**
Operating Expenses	2 063 137	1 817 097	882 619	212 609	679 025	4 804 510
Depreciation, amortization	240 609	140 045	75 496	50 994	28 382	534 103
Operating Profit/Loss	**277 220**	**102 305**	**-2 115**	**90 593**	**37 409**	**511 221**
Financial items	108 946	-22 624	10 660	-20 949	3 619	78 753
Proportion Profit/Loss in Assosiated Companies	2 955	0	0	-1 988	0	967
Pre tax Profit/Loss	**389 121**	**79 681**	**8 545**	**67 656**	**41 028**	**590 941**
Tax	108 954	15 299	2 393	18 944	12 818	158 407
Profit/Loss for the period	**280 167**	**64 382**	**6 152**	**48 712**	**28 210**	**432 534**
Assets	**6 422 505**	**2 127 320**	**820 526**	**4 209 341**	**1 065 711**	**12 524 948**
Interest Bearing Debt	**1 953 206**	**925 764**	**31 040**	**2 488 848**	**132 500**	**2 044 945**
Investments	**178 790**	**206 583**	**42 717**	**50 967**	**18 678**	**497 735**

SEGMENT REPORTING for 1.1.-31.08.2005 is as follows:

(In thousand NOK)	Passenger Traffic (rail)	Bus	Freight Traffic (rail)	Real Estate	Support functions	Group
Operating Income	**2 464 711**	**1 967 752**	**917 338**	**318 782**	**819 389**	**5 591 065**
Operating Expenses	2 023 753	1 731 028	862 383	185 270	744 811	4 649 925
Depreciation, amortization	230 530	161 124	59 138	66 912	34 544	544 127
Operating Profit/Loss	**210 428**	**75 600**	**-4 183**	**66 600**	**40 034**	**397 013**
Financial items	-2 100	-12 454	1 621	-33 888	4 053	-41 246
Proportion Profit/Loss in Assosiated Companies	1 996	1 523	0	-1 780	0	217
Pre tax Profit/Loss	**210 324**	**64 669**	**-2 562**	**30 932**	**44 087**	**355 984**
Tax	58 891	18 107	-717	8 661	12 344	99 675
Profit/Loss for the period	**151 433**	**46 562**	**-1 845**	**22 271**	**31 742**	**256 309**
Assets	**6 412 224**	**2 123 082**	**745 682**	**3 831 693**	**1 078 718**	**12 676 897**
Interest Bearing Debt	**2 648 193**	**1 040 275**	**33 906**	**2 453 000**	**180 381**	**2 737 208**
Investments	**171 454**	**261 476**	**50 313**	**13 999**	**18 305**	**515 547**

SEGMENT REPORTING for 1.1.-31.12.2005 is as follows:

(In thousand NOK)	Passenger Traffic (rail)	Bus	Freight Traffic (rail)	Real Estate	Support functions	Group
Operating Income	**3 731 165**	**2 991 393**	**1 423 035**	**618 795**	**1 207 573**	**8 628 680**
Operating Expenses	3 070 588	2 637 760	1 323 882	293 462	1 107 086	7 089 497
Depreciation, amortization	353 264	249 519	90 373	111 041	51 466	855 663
Operating Profit/Loss	**307 313**	**104 114**	**8 780**	**214 292**	**49 021**	**683 520**
Financial items	11 985	-10 615	1 433	-47 738	6 189	-38 746
Proportion Profit/Loss in Assosiated Companies	6 539	4 137	0	-3 260	0	7 416
Pre tax Profit/Loss	**325 837**	**97 636**	**10 213**	**163 294**	**55 210**	**652 190**
Tax	130 685	26 233	13 740	26 170	12 051	208 879
Profit/Loss for the period	**195 152**	**71 403**	**-3 527**	**137 124**	**43 159**	**443 311**
Assets	**5 966 179**	**1 952 742**	**783 271**	**3 883 294**	**1 027 483**	**12 363 917**
Interest Bearing Debt	**2 034 000**	**944 622**	**36 794**	**2 465 865**	**134 000**	**3 502 409**
Investments	**685 000**	**414 000**	**75 000**	**215 000**	**38 000**	**1 427 000**

Secondary reporting format – Geographical segments

The four operational segments of the group mainly operate in three geographical areas: Norway is the home country of the parent company, which is also the main operating company of the group. The group operates in the following countries:

- Norway
- Sweden
- Denmark.

The apportionment within the segment areas is based on the location of the assets.

Sales Income (In thousand NOK)	1.1.-31.8.2006	1.1.-31.8.2005	1.1.-31.12.2005	Last 12 months
Norway	5 263 109	5 061 233	7 895 152	8 097 028
Sweden	538 981	507 441	701 977	733 517
Denmark	47 744	22 391	31 551	56 904
SUM	**5 849 834**	**5 591 065**	**8 628 680**	**8 887 449**

Assets (In thousand NOK)	31. August 2006	31. August 2005	31. Dec 2005
Norway	11 827 109	12 041 484	11 748 614
Sweden	654 316	629 338	604 870
Denmark	43 523	6 075	10 433
SUM	**12 524 948**	**12 676 897**	**12 363 917**

Investment Expenses (In thousand NOK)	1.1.-31.8.2006	1.1.-31.8.2005	1.1.-31.12.2005	Last 12 months

Norway	468 365	407 093	1 285 748	1 452 373
Sweden	29 370	108 454	140 861	107 630
Denmark	0	0	391	3 799
SUM	**497 735**	**515 547**	**1 427 000**	**1 563 802**

Analysis of sales

Analysis of sales (In thousand NOK)	**1.1.-31.8.2006**	**1.1.-31.8.2005**	**1.1.-31.12.2005**
Transport Income	3 805 552	3 603 200	5 524 590
Public purchase of services	1 401 287	1 390 456	2 094 530
Gain on sale of fixed assets	31 905	45 086	197 261
Other revenue	611 090	552 323	812 299
Total	**5 849 834**	**5 591 065**	**8 628 680**

Short-term interest bearing debt

Short term interest bearing debt as at 31.August 2006 is 713 MNOK

Development within equity

(In thousand NOK)	**Sum**	**Majority's share**	**Minority's share**
Equity as at 1. January 2006	**6 383 003**	**6 181 247**	**201 756**
Transition differences	-9 398	-10 940	1 542
Dividends paid 2006	-246 000	-246 000	0
Profit/Loss for the period	432 534	425 522	7 012
Equity as at 31. August 2006	**6 560 139**	**6 349 829**	**210 310**

1. General information

NSB AS (the Company) and its subsidiaries ('the Group') do business in the market of passenger and freight transportation, in addition to business that naturally connected to this. The group also do business in real-estate. The group has its main office in Oslo.

Financial statements for the year 2005
These consolidated financial statements where approved by the Board of Directors on 9 March 2006. The Board recommended a dividend of 116 MNOK. The Annual Shareholders' Meeting held on 23 May approved a dividend of 246 MNOK. The allocation of the result in these financial statements was therefore reviewed again and approved in a Board meeting on June 15, 2006. The Board and the auditor issued new reports and the financial statements have been adapted in accordance with the latest approval.

Transition to IFRS
The Board approved on 9 March 2006 that the NSB Group will adapt IFRS as accounting principles with effect from 2006. The accounts for 2005 have been changed to be in accordance with IFRS.

2. Summary of significant accounting policies

The most important accounting principles which have been used to produce the Group accounts have been described below. The same principles have been used consequently throughout all periods, as long as nothing else is stated.

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as approved by the EU. The numbers for the year 2005 have been translated into IFRS. Information required by IFRS 1 and recommended by Oslo Stock Exchange is shown in a separate note.

The consolidated financial statements have been prepared under the historical cost convention, as modified by financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed separately.

Standards, interpretations and amendments to published standards not yet effective
Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2006 or for later periods but which the Group has not early adopted, as follows:

- **IFRS 7, Financial Instruments: Disclosures, and a complementary Amendment to IAS 1, Presentation of Financial Statements - Capital Disclosures** (effective from 1 January 2007). IFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and disclosure requirements in IAS 32, Financial Instruments: Disclosure and Presentation. It is applicable to all entities that report under IFRS. The amendment to IAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The Group assessed the impact of IFRS 7 and the amendment to IAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and the capital disclosures required by the amendment of IAS 1. The Group will apply IFRS 7 and the amendment to IAS 1 from annual periods beginning 1 January 2007.

- **IFRIC 8, Scope of IFRS 2** (effective from 1 May 2006**).** IFRIC 8 makes clear that the scope of IFRS 2 includes transactions where the Group can not separately identify some or all of the goods or services received. The interpretation is in line with the Group's present interpretation of IFRS 2. Management does not consider the formal use of IFRIC 8 to cause any changes for the Group.

- **IFRIC 9, Scope of IFRS 2** (effective from 1 June 2006). **IFRIC 9** clarifies that an entity shall assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. The interpretation is in line with the Group's present interpretation of IAS 39. Management does not consider the formal use of IFRIC 9 to cause any changes for the Group.

2.2 Consolidation

(a) Subsidiaries
Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date on which control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group.
The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired, and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the group's share of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement (see Note 2.6).

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Subsidiaries' accounting policies have been changed where necessary to ensure consistency with the policies adopted by the Group.

(b) *Transactions and minority interests*
The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. The gains or losses incurred on disposal to minority interests, are recorded in the income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

(c*) Joint ventures*
The Group's interests in jointly controlled entities are accounted for by proportionate consolidation.

The Group combines its share of the joint ventures' individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Group's financial statements.

The Group recognises the portion of gains or losses on the sale of assets by the Group to the joint venture that is attributable to the other ventures. The Group does not recognise its share of profits or losses from the joint venture that result from the Group's purchase of assets from the joint venture until it resells the assets to an independent party. A loss on the transaction is recognised immediately if it provides evidence of a reduction in the net realisable value of current assets, or an impairment loss.

(d) Associates
Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost.

The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition (see Note 2.6).

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Associates' accounting policies have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.3 Segment reporting
A business segment is a group of assets and operations engaged in providing products and/or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products and/or services within an economic environment that is subject to risks and returns that are different from those of segments operating in other economic environments.

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary environment in which the entity operates (the 'functional currency'). The consolidated financial statements are presented in NOK, which is the Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security, and other changes in the carrying amount of the security. Translation differences are recognised in profit or loss, and other changes in carrying amount are recognised in equity.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available for sale are included in the fair value reserve in equity.

(c) Group companies

The results and financial position of all group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
(iii) all resulting exchange differences are recognised as a separate component of equity (cumulative translation adjustment).

Exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity on consolidation. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2.5 Property, plant and equipment

All property, plant and equipment (PPE) is shown at cost less subsequent depreciation. Cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of PPE.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Investment properties, mainly office building, are held to earn rentals or for capital appreciation or both. These buildings are not utilized by the Group. Investment properties are shown at cost less subsequent depreciation.

Borrowing costs accrued during construction of PPE, are capitalized until the asset is ready for intended use.

Land and houses are not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate the cost of each asset to its residual value over its estimated useful life, as follows:

Railroad vehicle		
	Locomotives	25 years
	Multiple units	30 years
	Carriage, passenger transportation	30 years
	Carriage, freight transportation	25 years
	Inventory carriages	10 years
Buses		
	Route- and tour buses	12 years
	Express- and minibuses	6 years
Buildings		
	Commercial building	50 years
	Construcion and building	30-50 years
	Technical installations	30 years
	Reconstructions	10 years
	Inventory	10 years
Other fixed assets		
	Cars and trucks	5 years
	Crane and factory equipment	15 years
	Work station/real property	30 years
	IT-systems (special designed)	8 years
	IT-systems (standard)	5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.7). Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

Property, plant and equipment (groups of disposals) appointed for sale
Fixed assets (or groups of disposals) classified as assets appointed for sale is recognised at the lower of balance sheet value and fair value deducted sales cost if balance sheet value mainly is recovered by a sales transaction rather than continued use.

2.6 Intangible assets

(a) Goodwill
Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. Each of those cashgenerating units represents the Group's investment in each country of operation by each primary reporting segment (Note 2.7).

2.7 Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment and whenever events or changes in circumstance indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are tested for impairment whenever events or changes in circumstance indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.8 Investments

The Group classifies its investments in the following categories: a) financial assets at fair value through profit or loss, b) loans and receivables, and c) available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition.

(a) Financial assets at fair value through profit or loss
This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term, or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current if they are either held for trading, or are expected to be realised within 12 months of the balance sheet date.

(b) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, and with no intention of trading. They are included in current assets, except for maturities greater than 12

months after the balance sheet date. These are classified as non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet (see Note 2.11).

(c) Available-for-sale financial assets
Available-for-sale financial assets are non-derivatives that are either designated in this category, or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Purchases and sales of investments are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs, for all financial assets not carried at fair value through profit or loss. Investments are derecognised when the rights to receive cash flows from the investments have expired, or have been transferred, and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments, are carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category, including interest and dividend income, are presented in the income statement within 'other (losses)/gains – net' in the period in which they arise.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same and discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little s possible on entity-specific inputs.

The Group assesses at each balance sheet date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. Write-down is performed if the decrease in value is considered material and long lasting. What is considered material and long lasting depends on the volatility in the values. For assets in this category in which there are no quoted values, this can be difficult. NSB will evaluate a decrease in value greater than 15-20%, and lasting over six months as material.

2.9 Accounting for derivative financial instruments and hedging activities
Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either:

a) hedges of the fair value of recognised assets, or liabilities, or a firm commitment (fair value hedge)
b) hedges of highly probable forecast transactions (cash flow hedge)
c) hedges of net investments in foreign operations.

The Group documents at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective, and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values, or cash flows of hedged items. Such evaluations are documented both at the beginning hedge transaction, and through the hedging period.

The fair values of various derivative instruments used for hedging purposes, are disclosed in the notes. Movements on the hedging reserve in shareholders' equity are shown in Note 16. The full fair value of a hedging derivative is classified as a non-current asset or liability if the remaining hedge item is more than 12 months, and as a current asset or liability, if the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

As a main rule the group defines its derivatives as held for trading purposes, and thus as a main rule does not employ hedge accounting. Since debt is normally accounted for at fair value, the fair value of derivatives will mainly correspond to fair value of the debt that the derivatives are related to. This means that the value changes in derivatives will be included in the income statement, and classified as short term debt, or current asset in the balance sheet statement.

Certain derivative instruments do not qualify for hedge accounting. Such derivatives are classified as at fair value through profit or loss, and changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement as net loss/profit, or as net financial expenses in NSB the group. The Group normally treats derivatives this way, even if the derivative could qualify for hedge accounting.

(a) Fair value hedge
Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. Profit or loss from the effective part of interest rate swaps that hedges fixed rate loans is accounted for as financial expenses. Profit or loss from the ineffective portion is recognized as “other net loss/profit”. Changes in fair value of the hedged fixed rate loan that can be referred to hedged interest risk are recognized as “financial expenses”.

If the hedge no longer fulfils the criteria for hedge accounting, the accounted effect of the hedge for hedging items that is recognized as amortized cost will be amortized over the period through the instrument’s maturity.

(*b) Cash flow hedge*
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item will affect profit or loss (for example, when the forecast sale that is hedged takes place). The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognized in the income statement within ‘finance costs’. The gain or loss relating to the effective portion of forward foreign exchange contracts hedging export sales is recognized in the income statement within ‘sales’. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory) or a liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

(c) Net investment hedge
Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in equity; the gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Gains and losses accumulated in equity are included in the income statement when the foreign operation is disposed of.

2.10 Inventories
Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method. The cost of finished goods and work in progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Inventory costs include the transfer from equity of any gains/losses on qualifying cash flow hedges relating to inventory purchases.

2.11 Trade receivables
Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

2.12 Cash and cash equivalents
Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

2.13 Share capital
Ordinary shares are classified as equity.

2.14 Borrowings
External fixed rate bond loans are recognised initially at fair value, changes in value is recognised in the income statement.

Other borrowings, bank loans with floating interest, inter-company loans etc are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.15 Deferred income tax
Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. The deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit/loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date, and are expected to apply when the related deferred income tax asset is realised, or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group, and it is probable that the temporary difference will not reverse in the foreseeable future.

2.16 Employee benefits
(a) Pension obligations
Group companies operate various pension schemes. The schemes are funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations. The Group has defined benefit plans.

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

Most of the Groups employees in Sweden have pension rights and the companies liabilities are funded in ALECTA. This is a multiemployer plan and the employer is responsible for contributions until payment. Due to ALECTAs lack of ability to provide satisfactory documentation for evaluation of the liabilities and assets, the pension plan is treated as a defined contribution plan.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date, less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses, and past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows, using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

Cumulative actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10% of the value of plan assets, or 10% of the defined benefit obligation are spread to income over the employees' expected average remaining working lives.

Past-service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

2.17 Provisions
Provisions for environmental restoration, restructuring costs and legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the increases specific to the liability. The increase in the provision due to passage of time is recognized as interest expense.

2.18 Revenue recognition
Revenue comprises the fair value of the sale of goods and services, net of value-added tax, rebates and discounts and after eliminating sales within the Group. Revenue is recognised as follows:

(a) Sales of services
Sales of services are recognised in the accounting period in which the services are rendered. The government's purchase of passenger traffic services is also recognised in the period in which the delivery is performed.

(b) Dividend income
Dividend income is recognised when the right to receive payment is established.

2.19 Leases
Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

2.20 Group contribution
Group contribution in the company accounts is recognised in the year it is approved, and is then classified as liability and receivable. The consequence of recognising group contribution in the year of approval is that tax on this year's income will be reflected in the income statement in the year of recognition.

2.21 Dividend distribution
Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.