



**NRC Group**



**2ND QUARTER  
REPORT  
2019**

# Highlights

## 2<sup>nd</sup> quarter 2019

### KEY EVENTS

- Appointed to EUR 220 million alliance contract by City of Espoo and City of Helsinki, the largest-ever Group contract to date
- Agreement for sale of the design division for EUR 42.5 million was signed subsequent to the quarter

### KEY FIGURES Q2 2019

- Revenues of NOK 1,654 million vs NOK 827 million in Q2 2018
- Total EBITDA\* of NOK 117 million vs NOK 65 million in Q2 2018
- Strong order intake in the quarter, amounting to NOK 3,372 million
- All time high order backlog of NOK 7,937 million

### KEY FIGURES FIRST HALF 2019

- Revenues of NOK 2,880 million vs NOK 1,355 million during first half 2018
- Total EBITDA\* of NOK 124 million vs NOK 67 million during first half 2018

\* Before other income and expenses (M&A expenses)



# NRC Group

NRC Group is the largest specialised rail infrastructure company in the Nordic region following the acquisition of VR Track Oy in January 2019. The Group is a supplier of all rail, road and harbour related infrastructure

services, including groundwork, specialised trackwork, safety, electro, telecom and signalling systems, and environmental services.

## Key figures

(Amounts in NOK million)	Q2 2019	Q2 2018	YTD 2019	YTD 2018	FY 2018
Revenue	1 654	827	2 880	1 355	3 176
EBITDA*	117	65	124	67	132
EBITA*	64	51	17	39	57
EBIT*	45	48	-20	30	29
EBITDA* (%)	7,1 %	7,9 %	4,3 %	4,9 %	4,2 %
Other income and expenses	-5	0	-53	0	-28
EBITDA	113	65	71	67	104
EBITA	59	51	-36	39	29
EBIT	40	48	-73	30	1
Employees	2 489	724	2 489	724	879
Investments	125	6	1 387	10	153
Order backlog	7 937	2 759	7 937	2 759	2 748
Order backlog from JVs	563	419	563	419	600

\* Before other income and expenses (M&A expenses)



# Comments on second quarter 2019 results

## All-time high order intake

Second quarter revenue was NOK 1,654 million, an increase of 100%, doubling from the NOK 827 million reported for the same period of 2018 mainly due to growth from the acquired companies. Group EBITDA\* was NOK 117 million and the EBITDA margin was 7.1%. Severance pay due to changes in management, amounted to NOK 14 million in the quarter.

Revenue for the first six months of 2019 was NOK 2,880 million, an increase of 112.5% from the first half of 2018. EBITDA\* amounted to NOK 124 million (NOK 67 million).

The Norwegian operation reported continued growth and good profitability in the second quarter of 2019. Revenue was NOK 545 million compared to NOK 335 million in second quarter of 2018. The organic growth was 18%. EBITDA\* margin was 11.8%.

As expected, revenue and profitability in Sweden are still impacted by the market decline from the second half of 2018 and a low order backlog at the start of 2019. Revenue from the Swedish operation amounted to NOK 411 million for the quarter compared to NOK 498 million in the second quarter of 2018. The organic growth was -32%. EBITDA\* margin was -3.0% including costs related to severance pay due to changes in management of NOK 5 million. It has been challenging to adjust the

costs in line with the significant revenue drop and costs in some of the projects have been somewhat higher than expected. Robert Röder has been appointed managing director of NRC Group Sweden, bringing with him extensive experience from the railway entrepreneur market, most recently as managing director of Strukton in Sweden. He will start his position 1<sup>st</sup> of September.

Tender and award activities in Sweden have increased to date in 2019 with a positive impact on NRC Group's order intake. However, as previously communicated, there will be a lag before new orders come to execution and impact revenue and margin.

Finland had revenue of NOK 601 million and an EBITDA\* margin of 10.6%. An organic growth of 13% was driven by good production on the Tampere Light Rail alliance project. NRC Group has been involved in all railway related alliance projects executed in Finland to date and the Group's market position was reaffirmed in the second quarter with the award of the Jokeri Light Rail alliance contract.

Design, which includes the Finnish and Swedish design business, had a revenue of NOK 112 million and an EBITDA\* margin of 15.7%.

Second-quarter order intake was NOK 3,372 million. Announced contracts amounted to NOK 2,650 million and unannounced order intake was NOK 722 million. The order backlog for

own production was NOK 7,937 million at the end of June. Approximately 33% of the backlog is estimated for production in 2019.

New orders included the Jokeri Light Rail alliance contract, which is the largest contract awarded to the Group to date, valued at EUR 220 million. Track construction started in June and the project is scheduled for completion in June 2024. Among other contracts awarded in the second quarter was a SEK 103 million contract for rehabilitation of Gothenburg Central Station and Almedal driftsplats in Sweden and a NOK 123 million contract for track renewal on Nordlandsbanen in Norway.

The Norwegian market was active with several contract awards and ongoing tenders for larger projects covering several special competencies. This is in line with the Group's strategic positioning in recent years. There is broad political support for improving the national railway system and more than NOK 26 billion is allocated to the railway sector in 2019, up 12% from 2018. The May revised national budget included an additional NOK 250 million for maintenance in the Oslo area in 2019 and NOK 101 million to new investments. Planned investment, maintenance and renewal spending is below the average level of the 2018-29 National Transport Plan (NTP) for a second consecutive year while the maintenance backlog is increasing. These factors indicate continued growth in railway infrastructure investments and activity in Norway.

In Sweden, tendering and award activity rebounded in the first half of 2019. The development reflects the planned growth in spending in the NTP for 2019-2030 approved in June last year. The national budget for 2019 shows SEK 11.4 billion in new investments, up 26% from 2018, and maintenance investments of SEK 9.3 billion, an increase of 6%. In 2020, the investments are expected to grow with approximately 30% compared with 2019. Consequently, the tendering activity is expected to increase in second half with several interesting projects to come out in the market.

The Finnish market also remains firm with forecasts of increased investments in 2019. In addition, the new Finnish Government proposed a supplementary appropriation of EUR 110 million in the revised budget for 2019 to defined projects. Finland is preparing a

transition from a four-year transport infrastructure planning horizon to a 12-year planning cycle, similar to Sweden and Norway. The first national transport plan for the period 2020-2031 is under development to ensure the long-term competitiveness of Finland's transport system and regional viability and accessibility, and is expected to be completed in spring 2020. The plan preparations are based on the policies outlined in the government programme on state funding, that includes an increase of EUR 300 million to the basic transport infrastructure from 2020 onwards.

NRC Group's business model revolves around sustainability. As population and cities grow, efficient transportation systems with a low carbon footprint are becoming increasingly important across the world. Building such systems is our core business. NRC Group contributes to the construction and maintenance of transport related infrastructure, including rail-based systems, harbours and roads, which all are critical components for modern and developing sustainable societies. Our competence and capabilities cover all phases of the projects. Since we take a holistic view in the planning and execution of the work, our projects are sustainable and create value in both economic and environment terms.

Subsequent to the quarter, on 12 August, an agreement was signed for sale of NRC Group Finland's design division, including subsidiaries Nordic Infrapro AB in Sweden and NRC Arcus Oy in Finland (the operating segment Design), to Sweco for an enterprise value of EUR 42.5 million on a cash and debt free basis with normalised working capital. The transaction will be paid in cash in full and the expected closing is 1 November 2019. The net proceeds from the transaction will be used to repay parts of NRC Group's bank debt. The net gain to be recognised is estimated to be approximately EUR 9 million and will be reported as part of discontinued operations at closing. The divestment is a strategic step to focus on NRC Group's core business, and releases resources to drive growth in other business areas. Limited synergies exist between Design and other operating segments and for certain projects involvement in design have negative synergies as it can limit access to the construction phase for the same projects.

\*

Before other income and expenses (M&A expenses)

## Cash flow

Net cash flow from operating activities for the second quarter 2019 was NOK -5 million compared to NOK 22 million in 2018. In addition to the total growth of the Group, the second quarter starts the high season, tying capital as the revenue grows. The Group also paid taxes of NOK 26 million in the second quarter for 2019 compared to NOK 7 million in the same period for 2018. The taxes paid in this quarter include ordinary final income tax payments related to 2017 of NOK 18 million.

Net cash flow from investing activities of NOK -106 million for the second quarter of 2019 mainly consisted of a final cash payment of EUR 11.4 million for the acquisition of VR Track Oy.

Net cash flow from financing activities for the second quarter of 2019 was NOK -103 million compared to NOK -96 million in 2018. The cash flow mainly consisted of repayments of borrowings (NOK 65 million) and payment of lease liabilities (NOK 42 million) in total NOK 107 million compared to NOK 23 million in 2018. The increase is related to new financing and new lease agreements in the acquired business in addition to lease contracts under IFRS 16 being capitalised. In 2018, a dividend payment of NOK 73 million was made.

The cash position at 30 June was NOK 226 million.

## Financial position

Following the significant changes in the first quarter due to the acquisition of VR Track Oy, only minor changes mainly related to amortisation and currency adjustments were made to intangible assets during the second quarter, decreasing the total book value by NOK 9 million to NOK 2,960 million at the end of June.

Other long-term assets mainly consist of tangible assets and right-of-use assets. Right-of-use assets are leasing contracts accounted for under the new IFRS 16 policy effective from 1 January 2019 for which all lease agreements including operating leases (such as real estate

rent), were capitalised. Previously, only financial lease agreements were capitalised. Right-of-use assets as of 30 June 2019 amounted to NOK 564 million. Upon implementation of IFRS 16, financial lease agreements as at 31 December 2018 amounting to NOK 253 million were reclassified from tangible assets and NOK 76 million related to operating leases was capitalised. The remaining amount mainly consists of lease agreements capitalised as part of the acquisition of VR Track during the first quarter. The remaining change is new agreements during the quarter, net of depreciations. The reduction of tangible assets is mainly related to the reclassification of financial lease agreements from tangible assets to right-of-use assets as part of implementing the new standard.

Inventory is related to the acquired business. Total receivables increased by NOK 298 during the quarter and mainly relate to increased activity due to seasonal variations.

The equity ratio is 34% at the end of the quarter with no significant changes during the quarter.

Interest-bearing debt consists of bank loans and discounted cash flow related to lease agreements, including operating lease agreements (mainly real estate rents) under IFRS 16. Short term interest-bearing debt includes a NOK 550 million acquisition loan that is due first quarter of 2020. Net of cash, the net interest-bearing debt increased by NOK 145 million to NOK 2,033 million during the quarter. The change is mainly related to the final payment of EUR 11.4 million for the acquisition of VR Track Oy, and currency adjustments related to EUR loans. Interest bearing debt excluding debt related to IFRS 16 is NOK 1,693 million, reduced by NOK 60 million during the quarter. Loan repayment amount to NOK 65 million reduced by a currency adjustment.

## Employees

NRC Group employees have a high level of competence. They represent the foundation for growth. As of 30 June 2019, 2,489 people were employed in the Group.

Health, safety and environmental considerations are priority areas. NRC Group has adopted HSE policies and implemented guidelines to comply with applicable local regulations and to maintain and develop its HSE standards. NRC Group's HSE efforts are managed on both central and regional levels. NRC Group is highly focused on ESG. The Group align their strategies with the UN Sustainable Development Goals to be able to adjust to global society's future needs and ensure a sustainable business with value creation for its stakeholders. NRC Group is building sustainable infrastructure and will actively seek to have a minimum of environmental impact in its activities.

The process of improving and updating Group policies, internal routines, risk management procedures and compliance functions is continuous.

## Risks

NRC Group is exposed to both operational and financial risks. Operational risks include risk assessment and contingency appraisal in project tendering, project execution and resource optimization following fluctuations in seasonal demand in the business of NRC Group.

NRC Group aims to undertake operational risk that the business units can influence and control. NRC Group has developed risk management processes that are well adapted to the business. This includes analysis of project risk from the tendering phase through to completion to ensure appropriate pricing and risk management. NRC Group also seeks to minimize the exposure to risk that cannot be managed.

Financial risks include market risk, credit risk and liquidity risk. Market risks most relevant for the Group are currency risk and interest rate risk. A Group risk management policy for hedging is implemented to consider this risk. By having operational units in different functional currencies, NRC Group is exposed to currency translation risks related to subsidiaries in Sweden (SEK) and Finland (EUR). The Group uses currency loans to hedge net investments in foreign currencies. Most transactions in the

Group are in functional currencies. Significant transactions in other currencies are assessed and hedging instruments are considered to limit the risks associated with foreign exchange.

Liquidity risk is the risk that the Group will be unable to meet its financial obligations when they are due. The Group has total short-term liabilities at the end of June amounting to NOK 2,446 million and current assets of NOK 2,002 million. Total cash amounts to NOK 226 million in addition to an unused credit facility of NOK 200 million. A short-term interest-bearing acquisition loan of NOK 550 million is due first quarter of 2020. In August, an agreement for the sale of the Design segment was signed at an enterprise value of EUR 42.5 million. Closing is expected to be at 1 November and the net cash proceeds will be utilised for the payment of short-term interest-bearing liabilities. The central management team and the local managers of the subsidiaries monitor the Group's liquid resources and credit facilities through revolving forecast based on expected cash flow. The cash flow is impacted by seasonal fluctuations.

Work in progress and trade receivables are set out contractually, which means that the amount of capital committed is determined by the credit terms of the contracts. NRC Group's liquidity reserves will normally be at its lowest in the spring and summer due to the seasonality in the business. Liquidity risk is overall considered low.

NRC Group's customers are primarily municipalities or government agencies, or companies or institutions where municipalities or government agencies have a dominant influence. NRC Group considers the risk of potential future losses from this type of customer to be low.

## Outlook

The positive investment outlook for Nordic infrastructure, and especially the railway segment, is supported by strong macro trends and political commitment. The markets in Norway, Sweden and Finland look strong in the coming years.

NRC Group is today the largest specialised rail infrastructure company in the Nordic region, with strong capabilities across the entire railway value chain and leading positions in the attractive Norwegian, Swedish and Finnish markets. With a broad operational scope and extensive construction and maintenance expertise, the Group is in a favourable position to capitalise on these positive market trends.

# Interim condensed consolidated statement of profit or loss

(Amounts in NOK million)	Q2 2019	Q2 2018	YTD 2019	YTD 2018	FY 2018
Revenue	1 654	827	2 880	1 355	3 176
Operating expenses	1 537	762	2 755	1 288	3 044
<b>EBITDA before other income and expenses</b>	<b>117</b>	<b>65</b>	<b>124</b>	<b>67</b>	<b>132</b>
Other income and expenses	-5	0	-53	0	-28
<b>EBITDA</b>	<b>113</b>	<b>65</b>	<b>71</b>	<b>67</b>	<b>104</b>
Depreciation	54	14	107	28	75
<b>Operating profit/loss before amortisation (EBITA)</b>	<b>59</b>	<b>51</b>	<b>-36</b>	<b>39</b>	<b>29</b>
Amortisation	19	3	38	10	28
<b>Operating profit/loss (EBIT)</b>	<b>40</b>	<b>48</b>	<b>-73</b>	<b>30</b>	<b>1</b>
Net financial items	-19	1	-36	-2	-11
<b>Profit/loss before tax (EBT)</b>	<b>21</b>	<b>49</b>	<b>-109</b>	<b>28</b>	<b>-10</b>
Taxes	-10	-11	7	-8	10
<b>Net profit/loss</b>	<b>11</b>	<b>38</b>	<b>-102</b>	<b>20</b>	<b>0</b>
<b>Profit/loss attributable to:</b>					
Shareholders of the parent	11	38	-102	20	0
Non-controlling interests	0	0	0	0	0
<b>Net profit / loss</b>	<b>11</b>	<b>38</b>	<b>-102</b>	<b>20</b>	<b>0</b>
<b>EARNINGS PER SHARE</b>					
Earnings per share in NOK (ordinary):	0,21	0,91	-1,91	0,48	0,01
Earnings per share in NOK (diluted):	0,21	0,90	-1,89	0,48	0,01

# Interim condensed consolidated statement of comprehensive income

(Amounts in NOK million)	Q2 2019	Q2 2018	YTD 2019	YTD 2018	FY 2018
<b>Net profit / loss</b>	<b>11</b>	<b>38</b>	<b>-102</b>	<b>20</b>	<b>0</b>
Translation differences	8	-19	-12	-60	-20
Net gain on hedging instruments	0	0	-18	0	18
<b>Total comprehensive profit/loss</b>	<b>19</b>	<b>19</b>	<b>-132</b>	<b>-40</b>	<b>-2</b>
<b>Total comprehensive profit/loss attributable to:</b>					
Shareholders of the parent	19	19	-132	-40	-2
Non-controlling interests	0	0	0	0	0
<b>Total comprehensive profit/loss</b>	<b>19</b>	<b>19</b>	<b>-132</b>	<b>-40</b>	<b>-2</b>

# Interim condensed consolidated statement of financial position

(Amounts in NOK million)

ASSETS	30.06.2019	30.06.2018	31.12.2018
Deferred tax assets	41	70	45
Goodwill	2 751	907	1 192
Customer contracts and other intangible assets	168	19	39
<b>Intangible assets</b>	<b>2 960</b>	<b>996</b>	<b>1 275</b>
Tangible assets	292	273	418
Right-of-use assets	564	0	0
Other non-current assets	11	9	11
<b>Total non-current assets</b>	<b>3 828</b>	<b>1 277</b>	<b>1 703</b>
Total inventories	184	0	0
Total receivables	1 591	828	819
Cash and cash equivalents	226	221	396
Other current financial assets	0	0	23
<b>Total current assets</b>	<b>2 002</b>	<b>1 049</b>	<b>1 237</b>
<b>Total assets</b>	<b>5 830</b>	<b>2 327</b>	<b>2 940</b>

(Amounts in NOK million)

EQUITY AND LIABILITIES	30.06.2019	30.06.2018	31.12.2018
<b>Equity</b>			
Paid-in-capital	1 710	970	1 053
Other equity	255	276	387
<b>Total equity attributable to owners of the parent</b>	<b>1 965</b>	<b>1 246</b>	<b>1 440</b>
Non-controlling interests	2	0	2
<b>Total equity</b>	<b>1 967</b>	<b>1 246</b>	<b>1 442</b>
<b>Liabilities</b>			
Pension obligations	15	0	0
Long-term leasing liabilities	403	86	152
Other non-current interest-bearing liabilities	936	202	287
Deferred taxes	35	22	20
Other non-current liabilities	28	0	25
<b>Total non-current liabilities</b>	<b>1 416</b>	<b>310</b>	<b>486</b>
Short-term leasing liabilities	163	50	89
Other interest-bearing current liabilities	757	71	86
Other current liabilities	1 527	650	838
<b>Total current liabilities</b>	<b>2 446</b>	<b>771</b>	<b>1 012</b>
<b>Total equity and liabilities</b>	<b>5 830</b>	<b>2 327</b>	<b>2 940</b>

# Interim condensed consolidated statement of cash flows

(Amounts in NOK million)	Q2 2019	Q2 2018	YTD 2019	YTD 2018	FY 2018
Profit/loss before tax	21	49	-109	28	-10
Depreciation and amortisation	73	17	145	37	103
Taxes paid	-26	-7	-27	-9	-12
Change in working capital and other accruals	-73	-37	-53	-103	112
<b>Net cash flow from operating activities</b>	<b>-5</b>	<b>22</b>	<b>-45</b>	<b>-47</b>	<b>192</b>
Purchase of property, plant and equipment	-14	-6	-18	-10	-14
Acquisition of companies, net of cash acquired	-111	0	-1 368	0	-139
Net proceeds from sale of property, plant and equipment	19	1	27	2	7
Proceeds from sale of shares and other investments	0	0	0	5	5
<b>Net cash flow from investing activities</b>	<b>-106</b>	<b>-5</b>	<b>-1 359</b>	<b>-3</b>	<b>-141</b>
Proceeds from issue of shares	2	0	2	0	0
Proceeds from borrowings	0	0	1 414	0	145
Repayments of borrowings	-65	-15	-87	-30	-81
Payments of lease liabilities	-42	-8	-75	-17	-48
Net proceeds from acquisition/sale of treasury shares	2	0	-10	-3	-3
Dividend paid	0	-73	0	-73	-73
<b>Net cash flow from financing activities</b>	<b>-103</b>	<b>-96</b>	<b>1 244</b>	<b>-123</b>	<b>-60</b>
<b>Net change in cash and cash equivalents</b>	<b>-214</b>	<b>-79</b>	<b>-160</b>	<b>-173</b>	<b>-9</b>
<b>Cash and cash equivalents at the start of the period</b>	<b>439</b>	<b>305</b>	<b>396</b>	<b>408</b>	<b>409</b>
Translation differences	0	-4	-10	-14	-3
<b>Cash and cash equivalents at the end of the period</b>	<b>226</b>	<b>221</b>	<b>226</b>	<b>221</b>	<b>396</b>
<i>Hereof presented as:</i>					
Free cash	225	208	225	208	377
Restricted cash	1	13	1	13	19
Cash and cash equivalents - continuing operations	226	221	226	221	396

# Interim condensed consolidated statement of changes in equity

(Amounts in NOK million)	Share capital	Treasury shares	Other paid-in capital	Hedge reserve	Translation differences	Retained earnings	Total	Non-controlling interests	Total equity
<b>Equity at 1 January 2018</b>	<b>42</b>	<b>0</b>	<b>927</b>		<b>14</b>	<b>374</b>	<b>1 357</b>		<b>1 357</b>
Profit/loss for the period			19			1	20		20
Other comprehensive income					-60		-60		-60
IFRS 15 implementation effect <sup>1)</sup>						1	1		1
Dividend paid			-73				-73		-73
Share-based payments			0			0	0		0
<b>Total changes in equity</b>	<b>0</b>	<b>0</b>	<b>-54</b>	<b>0</b>	<b>-60</b>	<b>2</b>	<b>-111</b>	<b>0</b>	<b>-111</b>
<b>Equity at 30 June 2018</b>	<b>42</b>	<b>0</b>	<b>874</b>	<b>0</b>	<b>-45</b>	<b>376</b>	<b>1 246</b>	<b>0</b>	<b>1 246</b>
<b>Equity at 1 January 2019</b>	<b>44</b>	<b>0</b>	<b>1 009</b>	<b>18</b>	<b>-6</b>	<b>375</b>	<b>1 440</b>	<b>2</b>	<b>1 442</b>
Profit/loss for the period						-102	-102	0	-102
Other comprehensive income				-18	-12		-30		-30
Increase share capital	10		649				659		659
Costs related to capital increase			-3				-3		-3
Employee share program			11				11		11
Share-based payments			3				3		3
Acquisition of treasury shares		0	-12				-12		-12
<b>Total changes in equity</b>	<b>10</b>	<b>0</b>	<b>647</b>	<b>-18</b>	<b>-12</b>	<b>-102</b>	<b>525</b>	<b>0</b>	<b>525</b>
<b>Equity at 30 June 2019</b>	<b>54</b>	<b>0</b>	<b>1 656</b>	<b>0</b>	<b>-18</b>	<b>273</b>	<b>1 965</b>	<b>2</b>	<b>1 967</b>

# Notes to the interim condensed consolidated financial statement

## General information

The legal and commercial name of the company is NRC Group ASA.

The company is a public limited liability company incorporated in Norway under the Norwegian Public Limited Liability Companies Act with registration number 910 686 909. The company address is Lysaker Torg 25, 1366 Lysaker, Norway.

The company is listed at Oslo Børs under the ticker "NRC" and with ISIN NO0003679102.

## Accounting policies and basis for preparation

The condensed consolidated financial statements as per 30 June 2019 are prepared in accordance with IFRS and comprise NRC Group ASA and its subsidiaries. The interim financial report is presented in accordance with revised IAS 34, Interim Financial Reporting. The accounting principles applied in the interim report are the same as those described in the consolidated accounts for 2018 except for what described under IFRS 16 and lease agreements. As described in the annual report of 2018, NRC Group has implemented IFRS 16 with effect from 1 January 2019.

The interim accounts do not contain all the information that is required in complete annual accounts, and they should be read in connection with the consolidated accounts for 2018. The report has not been audited.

The selected historical consolidated financial information set forth in this section has been derived from the company's consolidated, unaudited interim and half-year financial reports for 2018 and 2019 and audited financial report for the full year of 2018.

In 2019, with the acquisition of NRC Group Finland, the new segments Finland and Design were added to the existing operating segments Norway and Sweden. While the segments Norway, Sweden and Finland are based on the geographical location of the subsidiaries, the segment Design is established to include the specific engineering and consulting services which is distinctly separated from the business in the other segments.

## Change in accounting principles

This note explains the impact of the adoption of IFRS 16 Leases on the Group's financial statements and discloses the new accounting policies that have been applied from 1 January 2019.

## Adjustments recognised on adoption of IFRS 16

The Group has adopted IFRS 16 by applying the modified retrospective approach, which requires the recognition of the cumulative effect of initially applying IFRS 16, as of 1 January 2019, to the retained earnings and not restate prior years. When doing so, the Group also made use of the practical expedient to not recognise a right-of-use asset or a lease liability for leases for which the lease term ends within 12 months of the date of the initial application. Since the Group recognised the right-of-use

asset at the amount equal to the lease liabilities (as per IFRS 16.C8 (b)ii), there was no impact on retained earnings.

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 4.04% for Norway and 2.94% for Sweden.

For leases previously classified as finance leases the entity recognised the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right of use asset and the lease liability at the date of initial application. The measurement principles of IFRS 16 are only applied after that date. No measurement adjustments were identified.

The following reconciliation to the opening balance for the operating lease liabilities due to implementation of IFRS 16 as at 1 January 2019 is based upon the operating lease obligations as at 31 December 2018:

**(Amounts in NOK million)**  
**Reconciliation**

Operating lease obligations at 31 December 2018, ref. note 20 in annual report	89
Relief option for short-term assets and low-value assets	-4
<b>Gross lease liabilities at 1 January 2019</b>	<b>85</b>
Effect of discounting	-9
<b>Lease liabilities at 1 January 2019</b>	<b>76</b>
Of which are:	
Current lease liabilities	19
Non-current lease liabilities	57

Including the financial leased assets already presented as part of the consolidated statement of financial position (NOK 253 million) in 2018, the right-of-use assets as of 1 January 2019 consisted of:

<b>(Amounts in NOK million)</b> <b>Groups of right-of-use assets</b>	<b>Financial lease</b>	<b>Adjust.</b>	<b>IFRS 16</b>
Right-of-use: Intangible assets		5	5
Right-of-use: Land, offices and buildings		62	62
Right-of-use: Machinery, cars and equipment	253	9	262
<b>Total right-of-use assets at 1 January 2019</b>	<b>253</b>	<b>76</b>	<b>329</b>

Development of right-of-use assets in Q2 2019:

<b>Groups of right-of-use assets</b>	<b>30 June 2019</b>	<b>1 January 2019</b>
Right-of-use: Intangible assets	3	5
Right-of-use: Land, offices and buildings	220	62
Right-of-use: Machinery, cars and equipment	341	262
<b>Total right-of-use assets</b>	<b>564</b>	<b>329</b>

The following table shows the movements in the net book values of right-of-use of leased assets and lease liabilities for the period ended 30 June 2019:

(Amounts in NOK million)	Right-of-use 2019	Lease liabilities 2019
<b>Net book value on January 1</b>	<b>329</b>	<b>-317</b>
Translation differences	-11	13
Acquisitions of subsidiaries	284	-284
Net additions	39	23
Depreciation	-77	
<b>Net book value on June 30</b>	<b>564</b>	<b>-565</b>

## Practical expedients applied

The Group has elected to use the two exemptions proposed by the standard on the following contracts:

- Lease contracts with a duration of equal to or less than 12 months
- Lease contracts for which the underlying asset has a value when new below NOK 100,000

Options (extension / termination) on lease contracts have been considered on a case by case basis following a regular management assessment. The borrowing rates used for IFRS 16 purposes have been defined based on the underlying countries and asset classes related risks. The Group's expected weighted average incremental borrowing rate is 2.82%.

## The Group's leasing activities and how these are accounted for

The Group leases various offices, warehouses, equipment and cars. Rental contracts are typically made for fixed periods of 3 to 10 years but may have extension and termination options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

Until the 2018 financial year, leases of property, plant and equipment were classified as either finance or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate
- amounts expected to be payable by the lessee under residual value guarantees
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT-equipment, small items of office furniture and barracks.

## Significant estimates and judgements

The preparation of financial statements in accordance with IFRS requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Estimates and assumptions are evaluated continuously and based on historical experience and other factors, including expectations of future events that are regarded as probable under the current circumstances. Uncertainty about these estimates and assumptions could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities in future periods.

### Revenue from contracts with customers

The Group's business mainly consists of execution of projects. The complexity and scope of our projects mean that the project has an inherent risk that the results may differ from expected results. The Group recognises revenue over time using the input method, e.g. contract costs incurred, resources consumed, or hours spent in relation to the total expected input to fulfil the performance obligation. For projects in progress, the uncertainty is mainly linked to the estimate of total expenses and value of any project modifications including any disputes and contractual disagreements.

### Goodwill and other intangible assets

The Group performs annual tests to assess the impairment of goodwill, or more frequently if there is an indication of impairment. In the impairment test the carrying amount is measured against the recoverable amount of the cash generating unit to which the asset is allocated. The recoverable amount of cash generating units is determined by calculating its value in use. These calculations require the use of assumptions and estimates related to future cash flows and discount rate. The recoverable amount is sensitive to the discount rate used for the discounted cash flow model as well as the expected future net cash inflows and the growth rate used for extrapolation purposes.

### Purchase price allocation and accounting for contingent consideration in business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured at the fair value of the assets that are contributed as consideration for the acquisition, equity instruments that are issued and liabilities that are assumed. Identifiable acquired assets, liabilities and contingent liabilities that are assumed to be inherent in a business combination are assessed at their fair value. Estimating the fair value of acquired assets, liabilities and contingent liabilities require determination of all facts and information available and how this will impact on the calculations. These calculations require the use of assumptions and estimates related to future cash flows and discount rate.

Contingent consideration to be transferred will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IFRS 9 Financial Instruments, is subsequently measured at fair value with the changes in fair value recognised in the statement of profit or loss in accordance with IFRS 9. The contingent consideration can include facts and circumstances not available at the balance sheet date or assumptions related to future events such as meeting earning targets. Estimating the fair value of contingent consideration require determination of all facts and information available and how this will impact on the calculations. The key assumption is to consider the most likely outcome based on the current state of the target.

## Business combinations

### VR Track Oy

On 7 January 2019, NRC Group completed the transaction to acquire VR Track Oy at an estimated net settlement of NOK 2,027 million based on an enterprise value of EUR 225 million on a cash and debt free basis with a normalised working capital. VR Track Oy is a Finnish company engaged in the business of railway construction, maintenance services and design with operations in Finland and Sweden. Allocation of the purchase prices were prepared using the acquisition method according to IFRS 3. The allocations in VR Track were not finalised by the date of the annual report. Preliminary estimates are made regarding certain aspects of the opening balance sheet and the estimated purchase price.

The acquisition of VR Track OY was financed by cash and issuance of 9,877,953 consideration shares in NRC Group at a fixed price of NOK 75.31. The fair value of the consideration shares on the transaction day amounted to NOK 659 million. The cash settlement amounted to NOK 1,458 million. The cash amount was mainly financed with a EUR 89 million and a NOK 550 million (exchanged to a fixed exchange rate forward contract at 9.5535) loan in Danske Bank. The acquisition of VR Track Oy resulted in an estimated goodwill of EUR 162 million. Goodwill is related to the expected synergies arising from the acquired entities' competence within project - and site management as well as construction technique within the groundworks segment. Additionally, it will improve the Group's competence within maintenance. The acquisition will strengthen the NRC Group's overall capabilities, enabling the NRC Group to undertake larger, more complex and simultaneous projects. The acquisition will also improve the competitiveness of the Group's Finnish and Swedish operations.

Intangible assets related to the acquisition of VR Track Oy include customer contracts acquired through the business combination of NOK 112 million. They are recognised at their fair value at the date of acquisition and are subsequently amortised according to the straight-line method over their estimated useful life. The allocation of the purchase price resulted in a provision of NOK 1 million related to contract guarantees and a provision of NOK 17 million for loss-making projects, included as other current and non-current liabilities.

Presented below is the allocation of the purchase price based on the opening balance for the business combination made in the first quarter of 2019. The purchase price has been allocated at the fair value of the assets and liabilities of the acquired company.

(Amounts in NOK million)	VR Track Oy	VR Track Oy
Date of acquisition	07.01.2019	07.01.2019
Share of ownership	100 %	100 %
	<b>NOK</b>	<b>EUR</b>
Estimated cash settlement	1 458	148,8
Fair value of consideration shares in NRC Group ASA	659	67,2
Cash in target	-90	-9,2
<b>Net settlement</b>	<b>2 027</b>	<b>206,8</b>
		0,0
Property, plant and equipment	114	11,6
Intangible asset: Customer contracts and relations	112	11,4
Other intangible assets	54	5,5
Right-of-use assets	284	29,0
Other non-current assets	17	1,7
Current assets	906	92,4
Long-term leasing liabilities	-216	-22,0
Non-current liabilities	-32	-3,3
Pension obligations	-14	-1,4
Tax payable and deferred tax	-54	-5,5
Short-term leasing liability	-68	-7,0
Other current liabilities	-663	-67,6
<b>Net identifiable assets and liabilities</b>	<b>438</b>	<b>44,7</b>
Non-controlling interests *	0	0,0
<b>Goodwill (majority share)</b>	<b>1 588</b>	<b>162,1</b>
Consolidated revenue from date of acquisition	1 381	
Consolidated profit/loss before tax from date of acquisition	28	
Transaction costs expensed in 2018 and 2019	63	

## Corporate events during the quarter

On 10 April, NRC Group ASA completed the 2019 share programme for employees in the Company and the Company's subsidiaries in Norway, Sweden and Finland, where the employees have been offered the opportunity to purchase shares in the Company at a 20% discount for a total amount of either NOK 12,000, NOK 20,000 or NOK 32,000. The purchase price per share before the discount was NOK 59.70, corresponding to the closing trading price of the Company's share on the Oslo Stock Exchange on 9 April 2019. In connection with the programme, the Company transferred 187,875 of its shares held in treasury to employees participating in the programme. The Company holds 12,497 shares in treasury following the transaction.

On 11 April, the Annual report 2018 was published.

On 2 May, Henning Olsen replaced Øivind Horpestad as CEO of NRC Group.

On 8 May, the Annual General Meeting approved all items in accordance with the Notice to the General Meeting.

## Segments

Q2 2019 (in NOK million)	Norway	Sweden	Finland	Design	Other	Consolidated
External	541	411	599	103	0	1 654
Inter-segment	4	0	2	9	-15	0
<b>Total revenue</b>	<b>545</b>	<b>411</b>	<b>601</b>	<b>112</b>	<b>-15</b>	<b>1 654</b>
<b>EBITDA*</b>	<b>65</b>	<b>-13</b>	<b>64</b>	<b>18</b>	<b>-16</b>	<b>117</b>
Depreciation	22	11	19	1	0	54
<b>EBITA*</b>	<b>43</b>	<b>-24</b>	<b>45</b>	<b>16</b>	<b>-16</b>	<b>64</b>
Amortisation and impairment	8	0	10	2	0	19
<b>EBIT*</b>	<b>35</b>	<b>-24</b>	<b>35</b>	<b>15</b>	<b>-16</b>	<b>45</b>
Other income and expenses	2	0	0	1	1	5
<b>EBIT</b>	<b>33</b>	<b>-24</b>	<b>35</b>	<b>13</b>	<b>-17</b>	<b>40</b>

Q2 2018 (in NOK million)	Norway	Sweden	Finland	Design	Other	Consolidated
External	330	497			0	827
Inter-segment	5	0			-5	0
<b>Total revenue</b>	<b>335</b>	<b>498</b>			<b>-5</b>	<b>827</b>
<b>EBITDA*</b>	<b>26</b>	<b>46</b>			<b>-6</b>	<b>66</b>
Depreciation	7	7			0	14
<b>EBITA*</b>	<b>19</b>	<b>38</b>			<b>-6</b>	<b>51</b>
Amortisation and impairment	2	1			0	3
<b>EBIT*</b>	<b>16</b>	<b>37</b>			<b>-6</b>	<b>48</b>
Other income and expenses	0	0			0	0
<b>EBIT</b>	<b>16</b>	<b>37</b>			<b>-6</b>	<b>48</b>

<b>YTD 2019 (in NOK million)</b>	<b>Norway</b>	<b>Sweden</b>	<b>Finland</b>	<b>Design</b>	<b>Other</b>	<b>Consolidated</b>
External	1 011	709	960	199	0	2 880
Inter-segment	4	1	2	12	-19	0
<b>Total revenue</b>	<b>1 015</b>	<b>710</b>	<b>962</b>	<b>211</b>	<b>-19</b>	<b>2 880</b>
<b>EBITDA*</b>	<b>79</b>	<b>-19</b>	<b>68</b>	<b>25</b>	<b>-28</b>	<b>124</b>
Depreciation	42	24	37	3	1	107
<b>EBITA*</b>	<b>37</b>	<b>-44</b>	<b>32</b>	<b>21</b>	<b>-29</b>	<b>17</b>
Amortisation and impairment	15	0	20	3	0	38
<b>EBIT*</b>	<b>22</b>	<b>-44</b>	<b>11</b>	<b>19</b>	<b>-29</b>	<b>-20</b>
Other income and expenses	5	0	46	1	1	53
<b>EBIT</b>	<b>18</b>	<b>-44</b>	<b>-35</b>	<b>18</b>	<b>-30</b>	<b>-73</b>
<b>YTD 2018 (NOK million)</b>	<b>Norway</b>	<b>Sweden</b>	<b>Finland</b>	<b>Design</b>	<b>Other</b>	<b>Consolidated</b>
External	542	813			0	1 355
Inter-segment	5	1			-6	0
<b>Total revenue</b>	<b>547</b>	<b>814</b>			<b>-6</b>	<b>1 355</b>
<b>EBITDA*</b>	<b>25</b>	<b>54</b>			<b>-12</b>	<b>67</b>
Depreciation	13	15			0	28
<b>EBITA*</b>	<b>12</b>	<b>40</b>			<b>-12</b>	<b>40</b>
Amortisation and impairment	8	1			0	10
<b>EBIT*</b>	<b>3</b>	<b>38</b>			<b>-12</b>	<b>30</b>
Other income and expenses	0	0			0	0
<b>EBIT</b>	<b>3</b>	<b>38</b>			<b>-12</b>	<b>30</b>
<b>FY 2018 (in NOK million)</b>	<b>Norway</b>	<b>Sweden</b>	<b>Finland</b>	<b>Design</b>	<b>Other</b>	<b>Consolidated</b>
External	1 587	1 589			0	3 176
Inter-segment	11	2			-13	0
<b>Total revenue</b>	<b>1 598</b>	<b>1 591</b>			<b>-13</b>	<b>3 176</b>
<b>EBITDA*</b>	<b>136</b>	<b>26</b>			<b>-31</b>	<b>132</b>
Depreciation	40	35			0	75
<b>EBITA*</b>	<b>96</b>	<b>-9</b>			<b>-31</b>	<b>57</b>
Amortisation and impairment	20	8			0	28
<b>EBIT*</b>	<b>76</b>	<b>-16</b>			<b>-31</b>	<b>29</b>
Other income and expenses	7	0			21	28
<b>EBIT</b>	<b>69</b>	<b>-16</b>			<b>-52</b>	<b>1</b>

\*Before other income and expenses (M&A expenses)

## Transactions between related parties

NRC Group ASA had no significant related party transactions other than ordinary cause of business in the second quarter 2019. Note 6 and 7 in the annual report for 2018 provide further disclosures on the size and types of related party transactions during the previous years. NRC Group ASA has agreements with Board members for consultancy services related to certain internal projects such as acquisitions and management recruitment. The agreements are based on hourly rates and are carried out on arm's length terms. Currently there exists agreements with Visento AS, Hermia AS and Mats Williamson. The Chairman of the Board, Helge Midtun, is the owner of Visento AS. The Board member Harald Arnet is the majority owner of Hermia AS.

## Contract announcements

The table presented below provides an overview of the Stock Exchange announced contracts during second quarter 2019.

(Amounts in NOK million)	Client	Estimated value	Country
Swedish Transport Administration		40	Sweden
Bane NOR		34	Norway
Kultur-og idrettsbygg Oslo		68	Norway
The Finnish Transport Infrastructure Agency		37	Finland
City of Espoo		2,117	Finland
Bane NOR		123	Norway
Leonhard Weiss Norge		60	Norway
Bane NOR		33	Norway
The Swedish Transport Administration		95	Sweden
Borg Havn IKS		43	Norway
<b>Total</b>		<b>2,650</b>	

## Events after the end of the period

On 4 July, the Group was appointed to a Euro 7.4 million contract by The Finnish Transportation Infrastructure Agency for catenary and high voltage systems maintenance in Helsinki, Finland.

On 26 July, the Group was appointed to a Euro 3.4 million contract by the Finnish Transport Infrastructure Agency for track related work in Riihimäki in Finland.

On 12 August, an agreement was signed for sale of the Design segment for an enterprise value of EUR 42.5 million on a cash and debt free basis with a normalised working capital. The transaction will be paid in cash in full and the expected closing is 1 November 2019. In addition, on 12 August, a currency forward contract for selling EUR 42.5 million at a fixed rate of NOK 10.0525 at 1 November was also signed. From 12 August the Design segment will be reported as discontinued operations. In the second quarter report the segment was still included as continuing operations.

## IR Policy

The company's objective is to serve the financial market precise and relevant information about the company to ensure that the share price reflects the underlying values and future prospects.

The company discloses price sensitive information relating to significant contracts and investments or other material changes or events in NRC Group to investors and other market players through the Oslo Stock Exchange, [www.newsweb.no](http://www.newsweb.no), and the company's website, [www.nrcGroup.com](http://www.nrcGroup.com). In addition, the company intends to publicly disclose all tenders awarded with value exceeding NOK 30 million. All tenders awarded are normally subject to a 10-days appeal period before the award is definitive. The company's policy is to not inform the market of expiry of any such appeal period unless an actual appeal has been filed and the company is informed by the customer that the appeal is being considered and that this may lead to a delay or cancellation of the contract. Information about other tenders awarded will be updated quarterly as part of the company's order backlog.

## Dividend Policy

The company expects to create value for its shareholders by combining increased share value in a long-term perspective and distribution of dividends. The company aims to have a dividend policy comparable with peer Groups in the industry and to give its shareholders a competitive return on invested capital relative to the underlying risks. The Board of Directors at NRC Group has introduced a dividend policy whereby, subject to a satisfactory underlying financial performance, it is NRC Group's ambition over time to distribute as dividend a minimum of 30% of the profit for the year. The target level will be subject to adjustment depending on possible other uses of funds.

# Statement of the Board of Directors and CEO

The Board of Directors and CEO have today reviewed and approved the interim financial report and the unaudited condensed interim consolidated financial statements for the second quarter and the first half year of 2019. The condensed interim consolidated financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting, as adopted by the EU. To the best of our knowledge, the interim financial report gives a fair view of NRC Group's assets, liabilities, financial position and performance. In addition, the report gives a fair overview of important events in the reporting period and their impact on the financial statements, and describes the principal risks and uncertainties associated with the next reporting period.

*Oslo, 19 August 2019*

*The Board of Directors of NRC Group ASA*

**Helge Midttun**

Chairman

**Brita Eilertsen**

Board member

**Kjersti Kanne**

Board member

**Harald Arnet**

Board member

**Mats Williamson**

Board member

**Rolf Jansson**

Board member

**Eva Nygren**

Board member

**Henning Olsen**

CEO NRC Group ASA

# Alternative performance measures and definitions

Alternative performance measures are used to describe the development of operations and to enhance comparability between periods. These are not defined under IFRS but correspond to the methods applied by Group management and Board of Directors to measure the company's financial performance. Alternative performance measures should not be viewed as a substitute for financial information presented in accordance with IFRS but rather as a complement.

## **CONTRACT VALUE**

The amount stated in the contract for contract work excluding VAT.

## **EBT**

Profit before tax.

## **EBIT**

Operating profit.

## **EBIT%**

Operating profit in relation to operating revenues.

## **EBITA**

Operating profit plus amortisations.

## **EBITDA**

Operating profit plus depreciations and amortisations.

## **EBITDA (%)**

EBITDA in relation to operating revenues.

## **EBIT\*, EBITA\* or EBITDA\* (ex M&A)**

EBIT, EBITA or EBITDA plus expensed costs related to merger and acquisitions.

## **EBITDA\* (ex M&A) (%)**

EBITDA ex M&A in relation to operating revenues.

## **M&A EXPENSES**

Expensed external costs related to merger and acquisitions, including any subsequent adjustments to the final settlement that is not included in the final purchase price allocation.

## **EQUITY RATIO**

Total equity in relation to total assets.

## **INVESTMENTS**

Cash proceeds for purchase of property, plant and equipment and net cash proceeds for acquisitions of subsidiaries.

## **NET CASH/ NET DEBT**

Cash and cash equivalents minus interest-bearing liability.

## **OTHER INCOME AND EXPENSES**

Other income and expenses consist of M&A expenses and any subsequent adjustment of contingent considerations recognised in profit or loss.

## **ORDER BACKLOG**

Total nominal value of orders received less revenue recognised on the same orders.

## **ORDER BACKLOG FROM JVs**

Our relative ownership of the total nominal value of orders received less revenue recognised on the same orders for joint contracts operated in joint ventures/ associated companies without eliminating any intercompany transactions.

## **ORDER INTAKE**

Total nominal value of orders received.

## **ORGANIC GROWTH**

Total revenue growth compared to comparable numbers for the same period prior year including full year revenue effect (proforma) for any acquired business.

# NRC Group ASA

## Company information

### Visiting address

Lysaker Torg 25  
NO - 1366 Lysaker

### Postal address

P.O. Box 18  
NO - 1324 Lysaker

### Board of Directors

Helge Midttun	Chairman
Brita Eilertsen	Board member
Kjersti Kanne	Board member
Harald Arnet	Board member
Mats Williamson	Board member
Rolf Jansson	Board member
Eva Nygren	Board member

### Management

Henning Olsen	CEO and acting MD NRC Sweden
Dag Fladby	CFO
Hans Olav Storkås	MD NRC Norway
Harri Lukkarinen	MD NRC Finland

/ FINANCIAL CALENDAR 2019

5 November 2019 3<sup>rd</sup> quarter 2019 result report and presentation