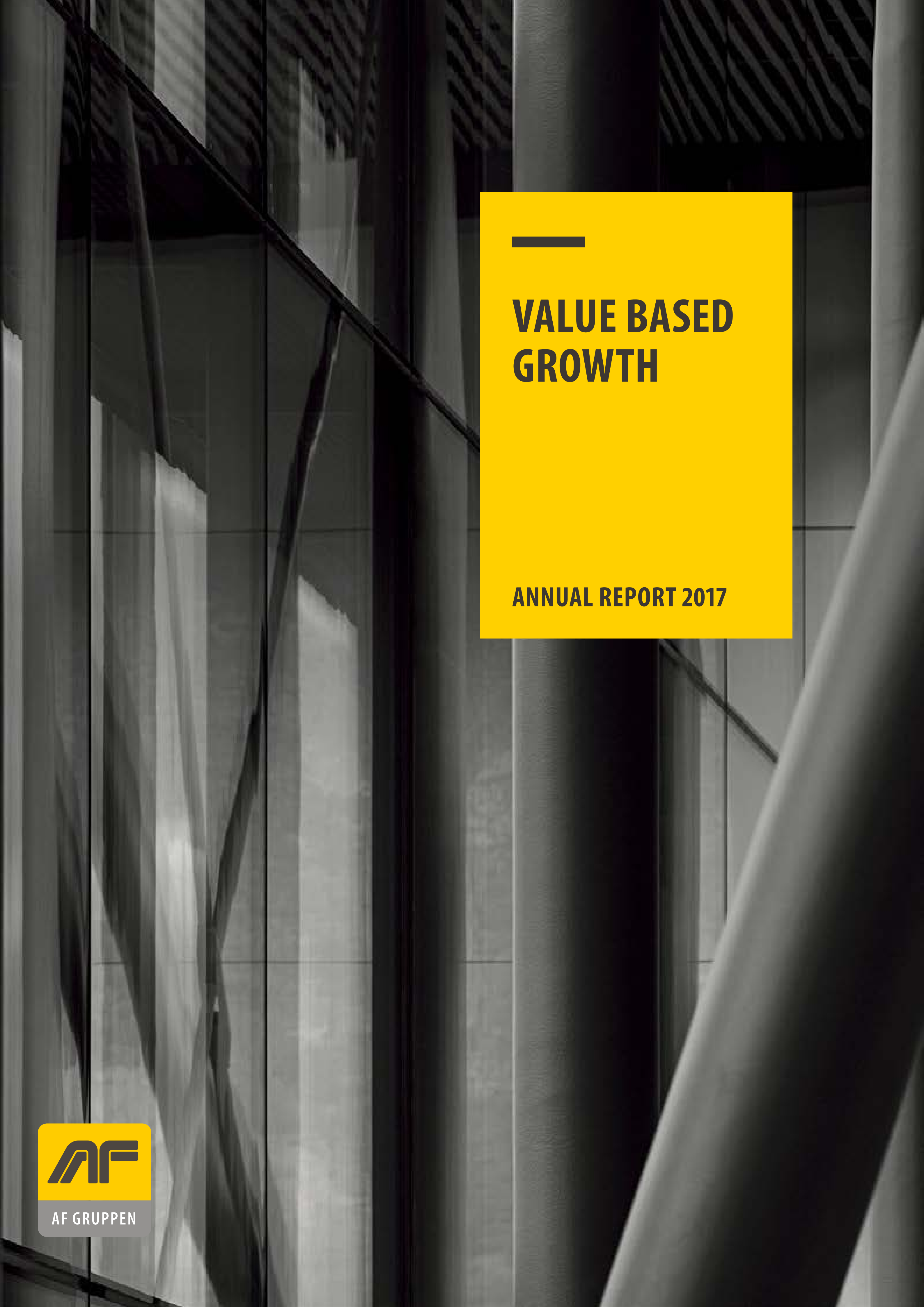


VALUE BASED GROWTH

ANNUAL REPORT 2017

AF GRUPPEN

GROWTH FROM BEING DARING

No one has built so much road in such a short time as AF is doing on the new E18 between Tvedestrand and Arendal.
Page 7

LANDED SAFELY WITH TEAMWORK AND FLEXIBILITY

Internal and external cooperation resulted in good project execution at Bergen Airport Flesland.
Page 17

FROM OLD BUILDING TO NEW MATERIAL

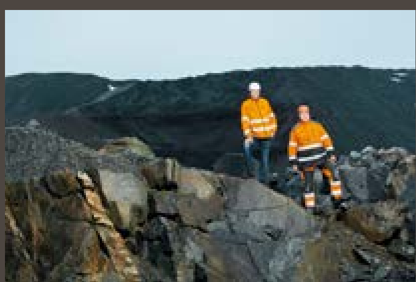
AF's expertise ensured a safe and environmentally friendly demolition of the factory Peterson & Søn in Moss.
Page 26

CURIOSITY GIVES NEW SOLUTIONS

The AF engineers challenge given truths and creates better solutions.
Page 37

OWNERSHIP CREATES DEDICATION

AF wants a strong presence of employers amongst shareholders.
Page 40



CONTENT

AF Gruppen is a leading contracting and industrial group that was formed by an entrepreneurial spirit and execution capabilities. We provide a broad range of services in the areas of Civil Engineering, Environment, Building, Property, Energy and Offshore. AF creates value for its customers, owners and employees, and we contribute at the same time to solving important social challenges. In brief, we clear the past and build for the future.

We have set ambitious growth targets towards 2020. Our results from 2017 show that we made good use of the year. While we are growing, we will preserve and reinforce what has characterised AF Gruppen since the start: a value-based corporate culture and a uncompromising attitude towards health, safety and ethics.

REVENUES

NOK MILLION 13,704

EBIT

NOK MILLION 924

OPERATING MARGIN

6.7%

EQUITY RATIO

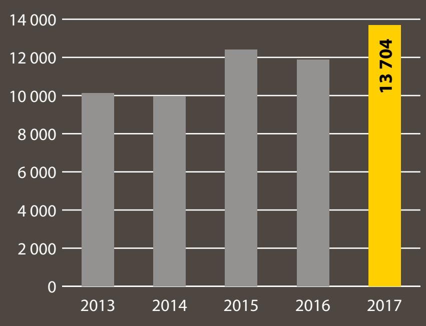
29.8%

LTI-1 RATE

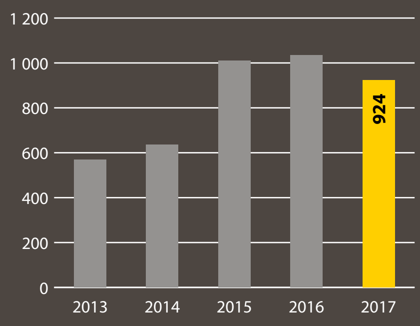
1.1

FRONT PAGE PHOTO WAS TAKEN FROM INSIDE THE NEW TERMINAL BUILDING AT BERGEN AIRPORT FLESLAND. PHOTO: HANS FREDRIK ASBJØRNSEN

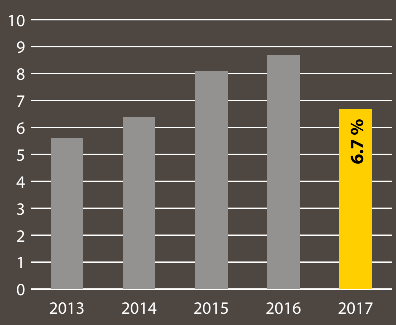
REVENUES (NOK MILLION)



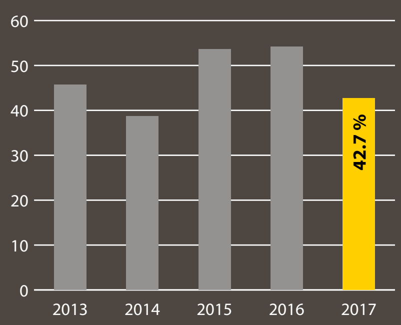
EARNINGS BEFORE INTEREST AND TAXES (NOK MILLION)



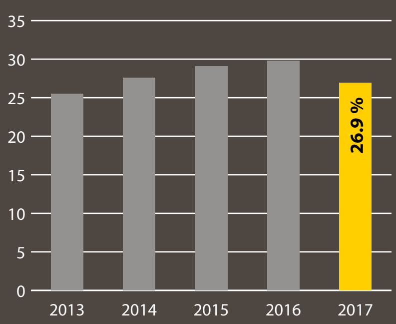
OPERATING MARGIN



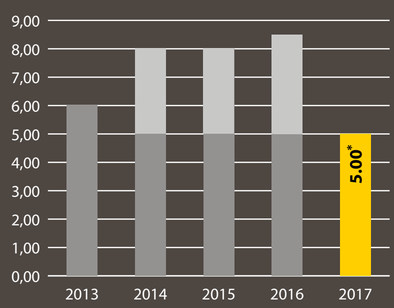
RETURN ON AVERAGE CAPITAL EMPLOYED (ROACE)



EQUITY RATIO

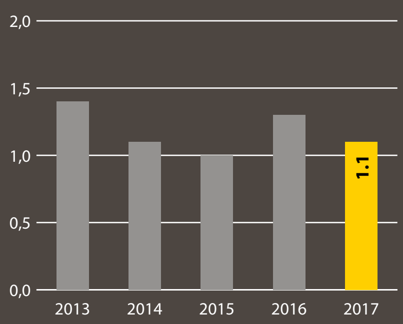


DIVIDEND PER SHARE (NOK)

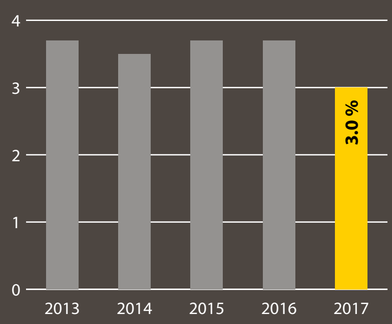


** Dividend to be distributed first half of 2018*

LTI-1 RATE



ABSENCE DUE TO ILLNESS



FINANCIAL RATIOS

YEAR	2017	2016	2015	2014	2013
REVENUES (NOK MILLION)					
Operating and other revenue	**13 704**	11 876	12 398	9 935	10 127
Order backlog	**19 773**	15 332	11 183	9 429	10 976
EARNINGS (NOK MILLION)					
Earnings before interest, tax, depreciation and amortisation (EBITDA)	**1 092**	1 212	1 151	752	679
Depreciation and write-downs	**-169**	-177	-142	-117	-110
Earnings before interest and tax (EBIT)	**924**	1 034	1 010	635	568
EBT	**935**	1 040	1 004	625	580
Earnings after tax	**754**	787	778	483	453
PROFITABILITY					
EBITDA margin	**8.0%**	10.2%	9.3%	7.6%	6.7%
Operating margin	**6.7%**	8.7%	8.1%	6.4%	5.6%
Profit margin	**6.8%**	8.8%	8.1%	6.3%	5.7%
Return on equity	**35.8%**	43.3%	43.8%	34.3%	38.4%
Return on average capital employed (ROaCE)	**42.7%**	54.2%	53.6%	38.7%	45.7%
Economic Value Added (MNOK)	**552**	624	590	320	312
Cash flow from operations (NOK million)	**1 354**	822	1 418	86	1 015
BALANCE SHEET (NOK MILLION)					
Total assets	**7 724**	6 549	6 243	5 428	5 237
Shareholders' equity	**2 078**	1 950	1 820	1 499	1 334
Invested capital	**2 198**	2 063	1 925	1 814	1 414
Average invested capital	**2 230**	1 954	1 942	1 662	1 288
Equity ratio	**26.9%**	29.8%	29.1%	27.6%	25.5%
Gross interest-bearing liabilities	**120**	113	105	315	79
Net interest-bearing receivables (debt)	**1 210**	606	593	-95	751
THE SHARE					
Market value at 31/12 (NOK)	**133.50**	154.50	139.50	79.0	67.75
No. of shares	**97 961 000**	93 610 000	92 680 000	88 724 904	82 332 980
Market value (NOK million)	**13 078**	14 463	12 929	7 009	5 578
Earnings per share (NOK)	**6.43**	7.44	7.64	5.11	5.26
Diluted earnings per share (NOK)	**6.43**	7.29	7.50	5.09	5.11
Dividend per share (NOK) (first half of the year) [1]	**5.00**	5.00	5.00	5.00	6.00
Dividend per share (NOK) (second half of the year)	-	3.50	3.00	3.00	-

[1] *The dividend to be distributed first half of 2018 is proposed, not approved.*

PERSONNEL					
Number of salaried employees	**1 564**	1 322	1 378	1 325	1 327
Number of skilled employees	**2 204**	1 727	1 652	1 472	1 381
Total number of employees	**3 768**	3 049	3 030	2 797	2 708
LTI rate	**1.1**	1.3	1.0	1.1	1.4
Absence due to illness	**3.0%**	3.7%	3.7%	3.5%	3.7%
EXTERNAL ENVIRONMENT					
Carbon footprint	**4.5**	3.1	3.3	4.9	4.1
Source separation rate – building	**83%**	85%	84%	82%	81%
Source separation rate – renovation	**85%**	79%	87%	82%	80%
Source separation rate – demolition	**95%**	97%	96%	96%	96%
Total amount source separated in tonnes	**324 370**	507 198	319 225	479 135	408 365

For definitions of key figures, see the description of alternative performance targets on page 180 and the definitions on page 182.

CULTURE FOR GROWTH

AF has taken a large step in 2017 towards its growth target for 2020. CEO Morten Grongstad believes that this is attributed to a clear and strong culture and the best people in the industry.

When 2017 ended, we could ascertain that AF Gruppen was well on its way to realising the targets for 2020. Throughout the year, we have strengthened our team by 700 employees, our revenues increased 15 per cent and we are entering 2018 with a record-high order backlog. We are also proud that we have delivered above average margins for the industry in 2017 as well, and we are humbled by the tasks that lie ahead of us.

In spite of growth and good results, 2017 was one of the few years when the return on our shares was not positive. This is probably attributed to the market's fear that the development of the residential market will dampen growth for contractors in both Norway and Sweden, but it can also be linked to the market's high expectations for AF for the year in isolation. Ambitious targets and high expectations for our own performance are also characteristic of AF. We prioritise long-term value creation based on good operational performance and continuous improvement. Market fluctuations even out over time, and the really good companies build up shareholder value in both periods of economic growth and decline.

AF aims for both organic and structural growth, and Kanonaden became a part of AF in 2017. The unit has a substantial position in the Swedish civil engineering market and added many capable employees to the AF team. To support further growth in Sweden, the Swedish units will be organised in a separate business area as of 2018. The most important criteria for successful growth is our basic philosophy of local management and a strong and clear AF culture.

The AF culture focuses on people. Satisfaction and good health are essential to our ability to perform. It is therefore satisfying that the employee satisfaction survey for 2017 shows that satisfaction at AF is record high. Absence due to illness was at the same time the lowest ever at AF and well below the industry average. These are strong indicators of good future performance.

One goal has greater priority than any other at AF: We shall have zero work-related absence. No one should get sick from working at AF, whether it concerns workplace injuries or an illness that develops over time. We must never be satisfied, even if our numbers for work-related injuries are low, because behind each injury lies the fate of an individual person. Our zero vision for work-related absence places health and safety high on the agenda throughout the entire organisation.

There is a clear majority of men in all position categories at AF. We have not been good enough at recruiting and developing female employees and managers. In order to achieve our growth targets for 2020, we must focus on the best technical and managerial expertise regardless of gender. A project has been launched to ensure equal career opportunities for women and men at AF.

My best memories of the year that has passed are related to my visits to AF's projects. It is the projects that create value at AF, and it is easy to get carried away by the work that is being performed. It makes me proud to see that a clear AF culture is maintained even in a year of strong growth. It is the set of values at our core that ensure that the non-financial targets for health, safety and employee development can also be achieved.

Like in the sports world, in the building and civil engineering industry we must develop faster than our competitors to increase our competitiveness. AF's focus on innovation and creativity is an important tool for continuous improvement. However, to achieve our goals, increased digitalisation and robotisation is not enough. The most important driving force for progress is in everyone's daily contribution. Our greatest competitive advantage has always been and always will be our curious, competent and capable employees.

GROWTH FROM BEING DARING

The E18 between Tvedestrand and Arendal is AF's first project with Nye Veier, and it is our largest ever turnkey contract. A 23 kilometre section of new motorway is to be constructed in two and a half years. Nobody has ever built so much road in such a short period of time in Norway. The project has mobilised approximately 700 employees and a record large fleet of machinery.

NOK million 3,200

CONTRACT VALUE.
CLIENT: NYE VEIER AS

1,250

TRUCKLOADS OF STONE EVERY DAY FOR A YEAR AND A HALF

700

APPROXIMATE NUMBER OF EMPLOYEES ON THE PROJECT

CLEARING UP THE PAST, BUILDING FOR THE FUTURE

AF's values and the company's uncompromising attitude towards safety and ethics is the foundation of our business model and forms the basis for everything we do. AF Gruppen's criteria for success are to combine these factors with an entrepreneurial spirit and execution capability through the AF organisation. This is how we create value for our stakeholders.

OUR VALUES

- Reliability
- Freedom to exercise entrepreneurship and discipline in accordance with goals and requirements
- Thoroughness and hard work
- Persistence in achieving profitable growth
- Management through presence and involvement

CRITERIA FOR SUCCESS

- Corporate culture and values
- Motivated and competent employees
- Systematic risk management
- Uncompromising attitude towards safety and ethics
- Decentralised operating model with authority and responsibility where the value is created
- Clear ownership model

BUSINESS MODEL

ENTREPRENEURIAL SPIRIT

MISSION

AF Gruppen shall create value and opportunities through project activities with an uncompromising attitude towards safety and ethics

EXECUTION CAPABILITY

VALUE FOR SOCIETY

AF shall engage in business based on sustainable entrepreneurship. This means managing the projects with a sustainable business model and adding value to society by offering services that contribute to solving society's challenges. AF contributes to improving the environment by reducing waste, promoting recycling and reuse, and minimising the consumption of non-renewable resources.

VALUE FOR OWNERS

AF's owners shall receive a competitive return on their investment in the AF share through dividends and price appreciation.

VALUE FOR EMPLOYEES

The employees are AF's most important resource. We will provide a safe and secure workplace and a good working environment. AF shall also facilitate the development of competence. In addition, employees are given an opportunity to participate in the creation of financial value through employee ownership.

VALUE FOR CUSTOMERS

AF shall have a good dialogue with the customer when carrying out projects to ensure they are satisfied with the results. The services and solutions offered by AF Gruppen shall be in accordance with what the customer needs, and they shall be delivered at competitive prices.

OPERATIONS

AF is a project-based contracting and industrial group with six operational business areas: Civil Engineering, Environment, Building, Property, Energy and Offshore. From 2018, Sweden will be established as a separate business area.

CIVIL ENGINEERING

AF is one of Norway's largest actors in the civil engineering market, and the customers include both public and private actors. Its project portfolio includes roads, railways, port facilities, airports, tunnels, foundation work, power and energy, as well as onshore facilities for oil and gas. The Civil Engineering business area is established in Norway and Sweden.

ENVIRONMENT

AF is a leading company in environmental clean-up, demolition and recycling.
AF recycles more than 95% of the demolition materials in clean-up and demolition projects. At AF's environmental centres contaminated materials are sorted, decontaminated and recycled, and more than 80% of the raw materials are reused. The Environment business area is established in Norway and Sweden.

BUILDING

AF provides contracting services for residential, public and commercial buildings. Our services range from planning to building and renovation.
AF cooperates closely with customers to find efficient and innovative solutions adapted to their needs. The Building business area is established in Norway and Sweden.

	Civil Engineering	Environment	Building
Revenues NOK million	4 478	601	8 041
Earnings before tax NOK million	292	45	480
Employees	1 357	164	1 776

PROPERTY

AF develops residential and commercial buildings for its own account. AF cooperates closely with other actors in the industry, and development projects are organised as joint development companies, in which AF has an ownership stake of 40% on average. The Property business area is established in Norway and Sweden.

ENERGY

AF provides smart, energy-efficient solutions for buildings and industry. Expert industrial knowledge allows AF to offer advisory services and the implementation of energy conservation measures that entail a reduced environmental impact and major cost savings for the customer. The Energy business area is established in Norway.

OFFSHORE

AF has varied activities aimed at the oil and gas industry. The services include the removal, dismantling and recycling of offshore installations, and the maintenance and modification of HVAC plants, rig services and onshore facilities. The Offshore business area is established in Norway, the UK and China.

	Property	Energy	Offshore
Revenues NOK million	43	244	664
Earnings before tax NOK million	88	20	59
Employees	27	86	226

SOME HIGHLIGHTS FROM 2017

1

2

3

Work on the implementation and operationalisation of the corporate strategy for 2017–2020 has been a key focus in 2017. The strategy highlights four principal initiatives for AF's work: organic and structural growth, customer and partner relations, creativity and innovation, and management capacity and technical expertise.

1 RECORD-HIGH ORDER BACKLOG

The contract intake in 2017 was NOK 18,145,000 million, and the order backlog as at 31 December 2017 was a record-high NOK 19,773,000 (15,332,000). The largest individual contract that was signed in 2017 was the contract for the construction of the new E6 through Soknedal in Trøndelag for the Norwegian Public Roads Administration. The value of the contract is estimated at NOK 994 million, excluding VAT. The largest project contracted during the year was linked to Oslo S Utvikling's development in Bispevika. This applies to two contracts for the construction of a total of 355 apartments in the Dronninglunden and Vannkunsten projects. The contracts have an estimated value of NOK 1,109 million, excluding VAT.

2 STRONGER FOOTHOLD IN SWEDEN

In February 2017, AF completed the acquisition of 70 per cent of the shares in Kanonaden Entreprenad AB. The acquisition has given AF a stronger foothold in the Swedish building and civil engineering markets. Kanonaden has 260 employees and reported revenues of SEK 788 million for 2017.

3 BIM STATIONS IN THE CONSTRUCTION PIT

We are working systematically to facilitate innovation and digitalisation in the Group. In our work to expand the Vamma Power Plant, BIM stations in the construction pit replaced drawings and thus became AF's first paperless project. To create inspiration and fertile grounds for innovation, two innovation gatherings were arranged at MESH in 2017. These gatherings were open to all employees of AF. The portal www.nyskaperen.no was recently established. Here one can get support for the realisation of ideas that contribute to the improvement of AF and the industry in general.

4 LARGEST EVER ROAD CONTRACT
January 2017 marked the start-up of the E18 Tvedestrand-Arendal project. The contract for Nye Veier is valued at NOK 3.2 billion, and it was the largest Norwegian road contract in history when it was advertised. Almost 700 workers have been mobilised, and the value of the production has exceeded NOK 1 billion after the start-up of work on the 23 km long section of road. It is expected that the project will be completed as early as the autumn of 2019.

FINANCIAL RESULTS

PROFITABILITY

GOAL

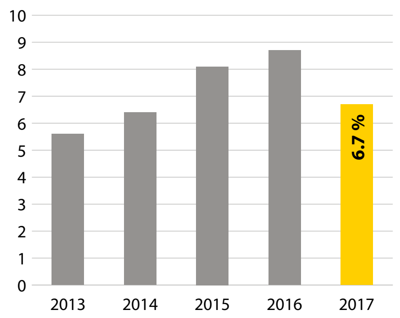
AF's goal is to have a better operating margin and a better return on invested capital than comparable companies.

AF has a goal of a return on invested capital greater than 20% and an operating margin greater than 5%.

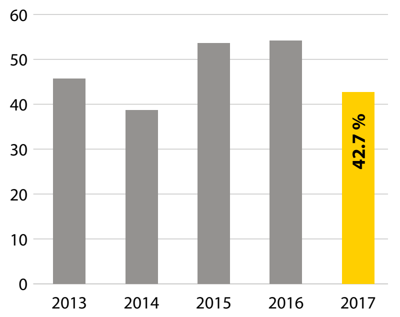
RESULT FOR 2017

AF achieved an operating margin of 6.7% in 2017. This is a better operating margin than acchieved by comparable companies. The return on invested capital was 42.7%.

OPERATING MARGIN



RETURN ON AVERAGE CAPITAL EMPLOYED



FINANCIAL STRENGTH

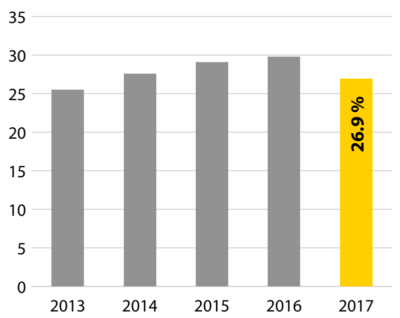
GOAL

AF's goal for financial strength is to achieve an equity ratio of a minimum of 20%, and to have sufficient liquidity to cover the Group's current needs at any given time.

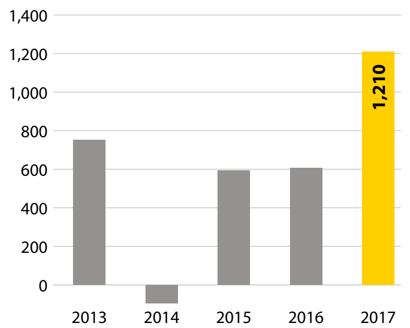
RESULT FOR 2017

AF's equity ratio was 26.9% at the end of 2017. The Group had net interest-bearing receivables of NOK 1,210 million, in addition to unutilised credit and loan facilities of NOK 1,768 million.

EQUITY RATIO



NET INTEREST-BEARING RECEIVABLES (DEBT) (NOK MILLION)



DIVIDENDS

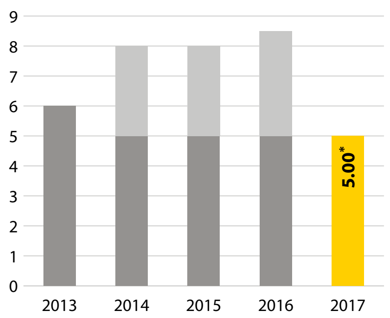
GOAL

AF's dividend policy is to give shareholders a competitive return in the form of a dividend. Dividends will be paid semi-annually. The dividend shall be stable and ideally rise in line with earnings performance. AF Gruppen's intention over time is to distribute a minimum of 50% of the profit for the year as a dividend.

RESULT FOR 2017

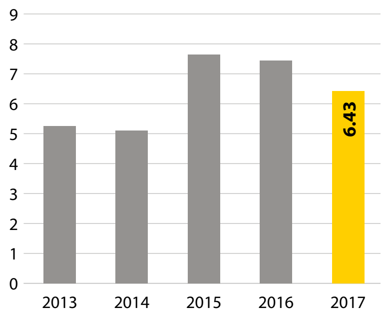
In 2017, AF paid a total dividend of NOK 8.50 per share for the 2016 financial year. Earnings per share was NOK 7.44 in 2016. Earnings per share was NOK 6.43 in 2017. For the 2017 financial year, payment of a dividend of NOK 5.00 per share is proposed for the 1st half of 2018. The dividend for payment in the 2nd half of 2018 will be announced when the results for the 3rd quarter of 2018 are presented.

DIVIDEND PER SHARE (NOK)



* Proposed dividend for distribution in the first half of 2018

EARNINGS PER SHARE (NOK)



HEALTH AND SAFETY

GOAL

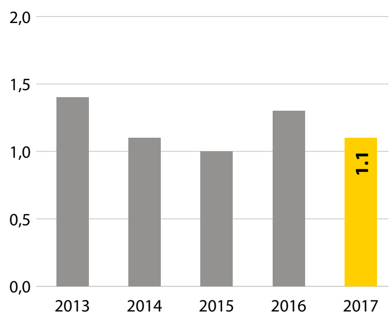
AF's goal is to perform all our operations without injuries, with an LTI rate of zero and absence due to illness of less than 3.0%.

AF's partners are subject to the same requirements as AF itself, and AF includes them in its target for lost-time injuries.

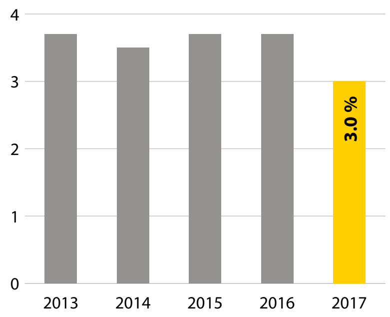
RESULT FOR 2017

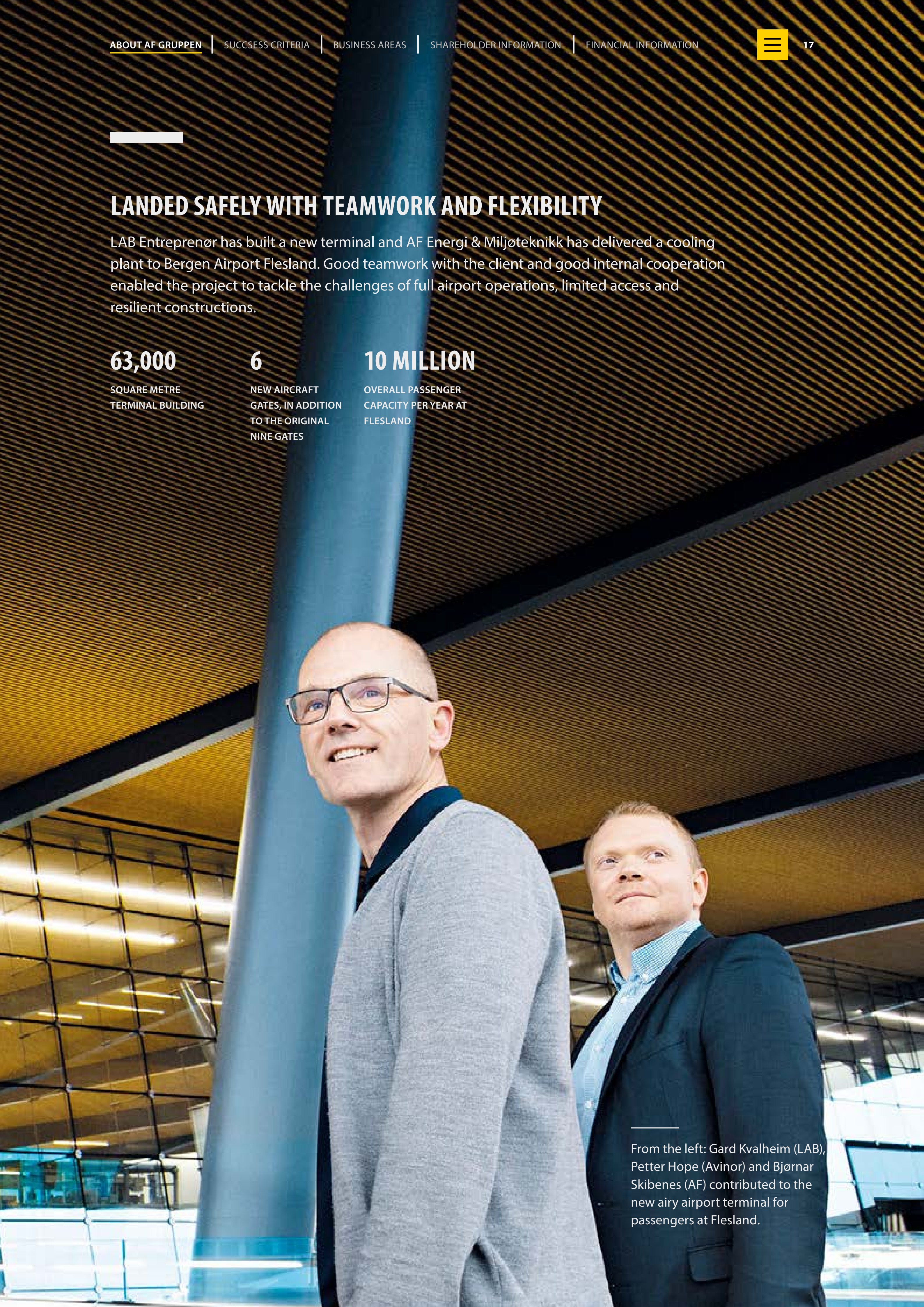
AF achieved an LTI rate of 1.1 and absence due to illness of 3.0%. This is on par with the best safety results in the contractor industry.

LTI-1 RATE



ABSENCE DUE TO ILLNESS





LANDED SAFELY WITH TEAMWORK AND FLEXIBILITY

LAB Entreprenør has built a new terminal and AF Energi & Miljøteknikk has delivered a cooling plant to Bergen Airport Flesland. Good teamwork with the client and good internal cooperation enabled the project to tackle the challenges of full airport operations, limited access and resilient constructions.

63,000
SQUARE METRE TERMINAL BUILDING

6
NEW AIRCRAFT GATES, IN ADDITION TO THE ORIGINAL NINE GATES

10 MILLION
OVERALL PASSENGER CAPACITY PER YEAR AT FLESLAND

From the left: Gard Kvalheim (LAB), Petter Hope (Avinor) and Bjørnar Skibenes (AF) contributed to the new airy airport terminal for passengers at Flesland.

STRATEGY TOWARDS 2020

In its corporate strategy for 2017–2020, AF Gruppen has set a clear and ambitious goal to achieve revenues of NOK 20 billion before the end of the strategy period. Our results for 2017 show that we are on our way to achieving this goal. Growth is fundamental to increasing the creation of value and ensuring that our employees have development opportunities. Regardless of whether this growth is organic or structural, our profitability requirements must be met.

Our corporate strategy for 2017–2020 was developed on the backdrop of the macroeconomic developments and important societal trends.

MARKET TRENDS

AF operates in Norway and Sweden, and the greatest activity is in and around the major cities. The following trends formed the basis for our corporate strategy for 2017–2020:

- The major cities are growing rapidly, which places greater pressure on the existing infrastructure, available residential units and commercial buildings. A greater public willingness to invest is therefore expected in the major cities.

- Public building and civil engineering contracts in Norway are becoming larger and more complex.

- The development of technology and digitisation are occurring rapidly, and this can contribute to making the projects more efficient.

- The market is becoming globalised, and this entails more foreign competitors.

- Greater market uncertainty and regional differences make contractors more vulnerable to changes in each individual market. Local adaptability will be important in the future.

- Climate change entails pressure on the environment and scarce resources, and the strength of national and international regulation is increasing.

AF will achieve its growth targets through four selected focus areas. We will establish a clear position in major cities in Norway and Sweden, and we will be a mobile and comprehensive provider of services onshore and offshore.

MAJOR CITIES IN NORWAY

The priority growth areas in Norway are Greater Oslo and Greater Bergen. Oslo is growing rapidly, and AF is already well-established with a high potential for organic growth. The market opportunities in Greater Oslo are promising, especially new residential units and the associated infrastructure. Bergen is a large and stable market where AF can potentially gain a greater share. Through LAB, we have a strong foothold in the building area, and this provides good opportunities for growth on the border of the services that we provide in the region today. This applies in particular to renovation, remodelling and extension, and environmental, energy and civil engineering activities.

MAJOR CITIES IN SWEDEN

AF has identified Gothenburg and Stockholm as particularly interesting markets in Sweden. AF is well-established in Gothenburg, but we need to strengthen our position further. AF has a limited position in Stockholm today and would like to significantly strengthen its position in this area. There is particularly good growth here in private residential units and civil engineering. In addition, we see a market for environmental and recycling services in Sweden that is less mature than the market in Norway. This gives AF an advantage and good growth opportunities. Growth in Sweden will be structural to a great extent.

NATIONWIDE AND MOBILE PROJECT OPERATIONS

The largest public civil engineering investments in the future will result in large complex projects throughout the entire country. AF is already well-positioned to compete for these projects through our mobile and nationwide civil engineering activities, and growth will primarily be organic. Due to the need for local expert knowledge, AF will nevertheless seek to acquire well-managed companies with niche geographic and market expertise.

OFFSHORE

Offshore is a fourth priority growth area. Growth in demand is expected for offshore removal services in the years to come, since low oil prices and an uncertain offshore market will make the fields in the North Sea less profitable. AF therefore desires strong growth in our core operations related to the demolition and recycling of offshore installations. In addition, AF would like to be a full-range provider, from the shutdown of wells to the recycling of oil installations.

Revenue goal 2020

20 MRD

Organic growth

60%

Structural growth

40%

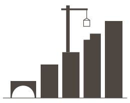
Read about the corporate initiatives we have implemented to achieve the strategic goals on the next page.

CORPORATE INITIATIVES

We have defined four initiatives that are to be prioritised in order to achieve our strategic goals. Growth shall build on AF's business model, our core values and our corporate culture. Growth shall not be at the expense of our uncompromising attitude towards health, safety, the environment and ethics.

ACTION POINTS

1



ORGANIC AND STRUCTURAL GROWTH

We shall realise profitable growth and achieve revenues of NOK 20 billion by 2020. Growth shall primarily be organic, but also through significant structural growth (up to 40 per cent). AF shall stimulate organic growth through recruitment and the development of its own employees, in addition to facilitating mobility across units and regions. For structural growth, we will search for well-managed companies that will be able to "stand on their own feet", where the employees would like to participate further on the ownership side. Structural growth is expected to occur on the border of our core operations, as well as from new business. All the acquired companies shall share the same values as AF and observe AF's four absolute requirements:

- Values and code of conduct
- HSE routines
- Risk management
- Financial reporting

2

CUSTOMER AND SUPPLIER RELATIONSHIPS

We will work to ensure that our customers and suppliers select us as their preferred partner. Cooperation with customers and suppliers shall provide mutual added value in a long-term perspective. AF shall seek contractual forms and cooperation with shared incentives, among other things. We shall be aware of the importance of good customer service at all levels of the organisation. Good relationships strengthen our competitiveness and improve our quality.

3

INNOVATION AND CREATIVITY

We will increase our competitiveness through an entrepreneurial spirit. Innovation and creativity entail both the identification and realisation of productivity improvements in existing operations, for example, by increasing the use of digital tools, and by investing in new business opportunities in the project industry. In this way, we can ensure our competitiveness through being cost and productivity leaders in the industry, and by identifying new business opportunities.

4

MANAGEMENT CAPACITY AND TECHNICAL EXPERTISE

We will attract and develop the industry's best management and technical expertise. To ensure adequate management capacity, we will strengthen our management development programme for the internal development of managers and facilitate the mobility of resources across the business units. Industry-leading technical expertise shall be attained through focused external recruitment and by the development of technical expertise internally. Another goal going forward is to ensure diversity at AF by increasing the percentage of women overall, as well as of the number of women who are trained to be managers.

WHAT WE HAVE DONE IN 2017

In February 2017, AF completed the acquisition of 70 per cent of Kanonaden Entreprenad. The company and its subsidiaries reported revenues of SEK 788 million for 2017 and had 260 employees as at 31 December 2017. The acquisition has strengthened AF's presence in Sweden. There has also been a great deal of organic growth. The record-high order backlog of NOK 19,773 million as at 31 December 2017 provides a good basis for future growth as well. The order backlog has increased for all the business areas compared with 2016.

Revenues for 2017 (NOK million)

13,704

In order to follow up our work with customer and supplier relationships, AF has started to measure customer and supplier satisfaction in 2017, and this has also become a permanent item on the agenda of all management and quarterly meetings. We are working strategically with selected suppliers to ensure long-term cooperation. Another important measure to strengthen relationships with customers and suppliers has been to increase AF's presence and visibility in industry forums, such as the customers' supplier days. AF also arranged its own industry gathering "Entreprenørens marked" at Lillo Gård in Nydalen, where the topic addressed was innovation and creativity.

Customer satisfaction (scale of 1–6)

5.2

In 2017, an organisation that works with facilitating innovation and digitalisation at AF in a structured manner has been established. Two innovation gatherings at MESH were arranged and open to all employees, and the portal www.nyskaperen.no was established in 2017 to identify innovative ideas that AF may be interested in exploring. The Vamma Power Plant project was the first AF project that was carried out without drawings, with BIM stations in the construction pit instead of traditional paper drawings. Data robots and drones have also been implemented to enhance efficiency and support the projects.

Number of processes automated by RPA

10

In 2017, 1,052 employees attended courses in the Af Academy. Our internal management courses were developed further to provide more comprehensive skills development for new mangers. We have not been good enough at recruiting and developing female employees and managers. Therefore, a working group has been appointed to study how we can ensure equal career opportunities for women and men at AF Gruppen. In addition, AF cooperates with the organisation ShesGotThis, which addresses unconscious gender stereotypes. Both consciousness-raising and concrete measures were carried out to increase the percentage of women.

Percentage of women at AF

7.5%

SUCCESS-CRITERIA

CORPORATE SOCIAL RESPONSIBILITY THROUGH SUSTAINABLE ENTREPRENEURSHIP

We assume corporate social responsibility at AF through sustainable entrepreneurship. This means that we carry out our operations in a sustainable manner and contribute at the same time to solving the societal challenges of our time.

The 17 sustainable development goals adopted by the United Nations is the world's common global work plan to eradicate poverty, combat inequality and stop climate change by 2030. The sustainable development goals apply to us all and specify the global societal challenges that we must collectively solve. If we are to achieve good results, both the public and private sectors must contribute to good, sustainable solutions. At AF, we call this sustainable entrepreneurship.

Sustainable entrepreneurship is an integral part of our corporate culture, which is founded on an uncompromising attitude towards health and safety, the environment and ethics. Growth must never be at the expense of these absolutes. More detailed information on our foundation can be read on p. 28 (health and safety), p. 30 (the environment) and p. 32 (ethics).

AF Gruppen is a member of the United Nations Global Compact and considers compliance with the principles to be a natural part of our sustainable entrepreneurship. The United Nations Global Compact is a voluntary framework for corporate social responsibility. Read more on p. 34.

SUSTAINABLE ENTREPRENEURSHIP

There is a fundamental connection between business activities and society, and we have a special responsibility in which society's challenges can be related to our business activities. The purpose of our business is to create value for our customers, owners, employees, suppliers and society. By offering services required by society, sustainable entrepreneurship will be a source of growth and profitability in addition to benefiting society.

A number of the services offered by AF are solutions to specific societal challenges. Through our environmental centres, our technology contributes to the treatment, recycling and reuse of scarce resources. We have developed the technology ourselves and can treat and recycle up to 80 per cent of contaminated materials that would have traditionally been sent to a disposal site. The EU has defined specific goals related to waste management that Norway has also undertaken to comply with. AF will continue to develop the environmental centres in order to meet the environmental challenges of tomorrow. Read more on p. 30 (the environment).

AF also offers energy conservation solutions for buildings and environmentally friendly removal of offshore installations. AF Miljøbase Vats is one of Europe's most modern reception facilities for decontamination and source separation of decommissioned offshore installations. We allocate a great deal of resources to source separation of building materials for recycling. AF has dedicated employees in the Civil Engineering business area who follow up the impact of the projects on the external environment. Information on our services are presented in the relevant business areas as well as in our description of the environmental area on p. 30.

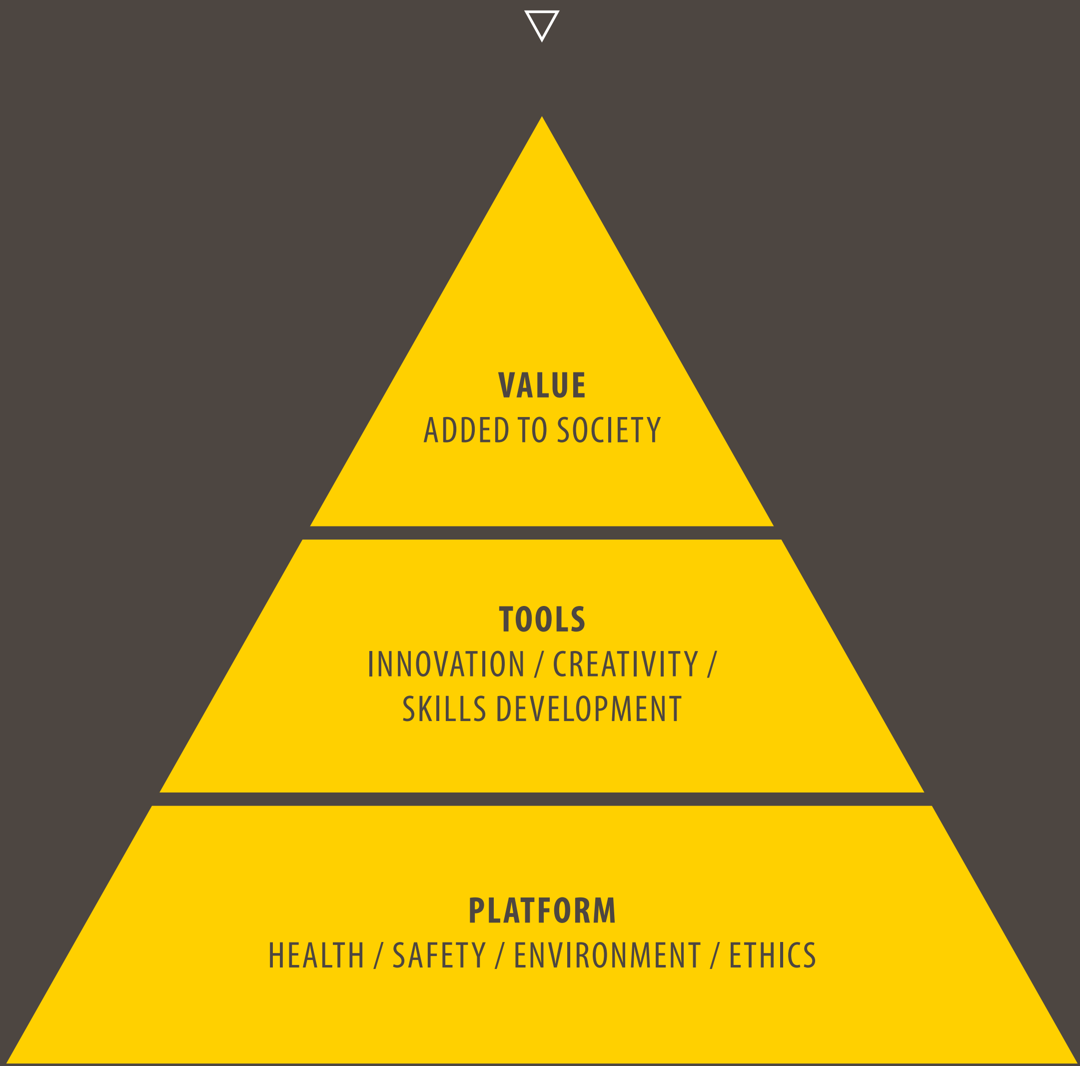
FOLLOW-UP OF CORPORATE SOCIAL RESPONSIBILITY AT AF

With the support of the Board, AF Gruppen's corporate management team have stipulated general principles for corporate governance. The principles constitute the framework for business activities within all areas and at all levels of the organisation and are enshrined in the documents:

- Purpose – Goals – Values
- Code of Conduct.
- Group Policy

CEO Morten Grongstad is responsible for AF's corporate social responsibility and this follows his line management. Each executive vice president is responsible for his/her respective business areas. Executive Vice President Eirik Wraal has specialist responsibility for corporate social responsibility. The organisation shall ensure that the units comply with the requirements and guidelines adopted in laws, regulations and our own corporate policy and the associated guidelines.

SOCIETAL CHALLENGES



OLD BUILDING BECOMES NEW RAW MATERIAL

We take care of environmentally hazardous waste, demolish and recycle everything we can from the old cellulose mill Peterson & Søn in Moss. The steel from the old building will become new raw material, and the entire area will become a new, vibrant urban district.

38,000

CUBIC METRES WILL BE REMOVED IN TWO DEMOLITION PHASES

120 YEAR

OLD BRICK IN LOAD-BEARING STRUCTURES REQUIRES CAREFUL DEMOLITION

400 TONNES

OF STEEL IN THE DEMOLISHED BUILDING

The enormous concrete crusher smashes the concrete in the old factory so that we can sort and recycle reinforcement iron and other metal.
Client: Høegh Eiendom AS

HEALTH AND SAFETY ARE OUR NUMBER ONE PRIORITY

Our goal is that no one should become ill or get injured from working at AF. We achieve this through an uncompromising attitude towards safety and systematic and focused work on health.

AF's primary goal is to avoid all forms of work-related absence. Work-related absence includes both absence due to personal injuries and illness that is attributed to negative exposure at work. Such exposure may be due to ergonomic conditions, chemicals, noise, dust or other health hazards that a person may be exposed to.

AF has a structured and uniform system for health and safety work, for which AF's employees receive thorough training. A key element of the system is the fact that all undesired incidents and circumstances are registered and dealt with in the non-conformance system Synergi in order to find the underlying causes and measures for improvement. The reporting frequency is increasing, and in 2017, more than 25,000 incidents and circumstances were reported (RUI).

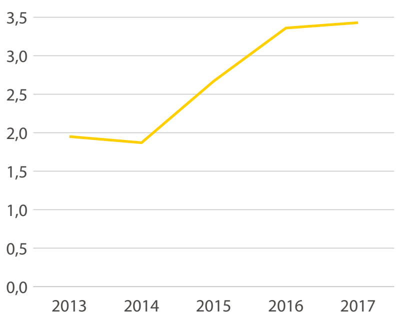
Growth must not be at the expense of either health or safety. AF stipulates clear requirements for acquired companies, and assistance is offered to strengthen the system and culture related to health and safety work. AF imposes the same strict safety requirements on its subcontractors as on its own organisation.

A SAFE WORKPLACE

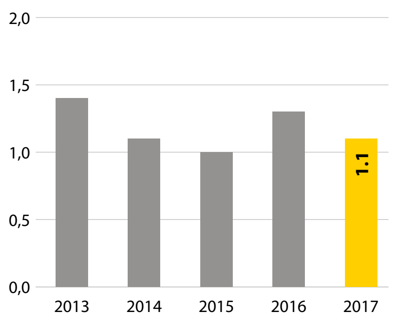
The basic idea behind safety work at AF is that all undesired incidents have a cause, and that they can therefore be avoided. Through risk analysis, possible undesired incidents and their causes can be identified. Preventive barriers are subsequently established so that the risk is eliminated or reduced to an acceptable level. If undesired incidents nevertheless occur, they are followed up to find the underlying causes, so that preventive measures can be implemented. The most severe incidents are thoroughly followed up after the fact by investigations in which the Corporate Management Team is also involved.

The most important measurable parameter for safety work at AF is the LTI rate. The LTI rate is defined as the number of injuries resulting in absence per million man-hours. Personal injuries at subcontractors are included in the calculation. The injury frequency rate has shown a positive trend through the years, from an LTI rate for Norwegian operations of around 20 in the early 90s, to an LTI rate of 1.1 (1.3) for 2017. This represents 13 lost time injuries in 2017. AF classifies personal injuries in accordance with their degree of severity, and even if the LTI rate is lower than last year, the number of serious injuries has not declined. Each and every one of these serious personal injuries is testimony to the fact that we have not achieved our target, and it is a reminder of what the target of an LTI rate of zero means to us.
In spite of continuous safety work, AF must

REPORTED INCIDENTS AND CIRCUMSTANCES (RUI) PER MAN-YEAR



LTI-1 RATE



always be prepared for serious accidents. We are therefore organised with a preparedness system for each project and overall in the Group, which is to handle and reduce the harmful effects of serious accidents and provide good follow-up.

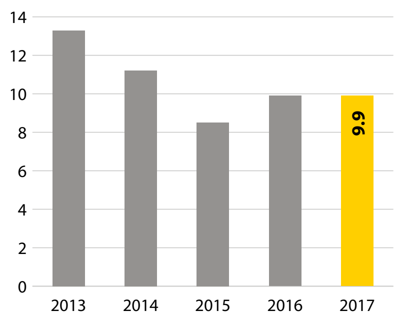
HEALTHY EMPLOYEES

No one should become ill from working at AF, and we work to ensure that all employees experience job satisfaction and well-being. Absence due to illness is an indicator for our health work. Absence due to illness was historically low in 2017 at 3.0% (3.7%).

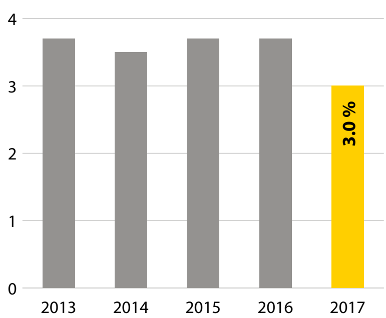
AF has an internal corporate health service that assists with preventive health work. They monitor employee health through regular health check-ups, and they assist the absence due to illness committees that have been established in the business units to ensure that everyone with absence due to illness is followed up well.

To ensure that there is knowledge of what one can be exposed to while working and what measures can prevent health injuries, AF has health cards for the 15 most relevant types of exposure. These cards are available in several languages. In addition, AF has developed and implemented a Health Risk programme that enables us to better identify and influence health risks.

LTI-2 RATE



ABSENCE DUE TO ILLNESS



ENVIRONMENTAL CHALLENGES ARE A RESPONSBILITY AND AN OPPORTUNITY

AF's goal is to reduce emissions from its operations, improve the efficiency of the resources used in its projects and create new business opportunities in the area of waste management.

One of our time's greatest societal challenges is climate change. As a consequence of this, the European Commission has launched a plan of action for a circular economy. A circular economy is based on the reuse and recycling of materials, so that as few resources as possible are lost. Key to the EU's plan of action is the Framework Directive on Waste. Norway is obligated to observe the Framework Directive on Waste through the EEA Agreement. The EU's Framework Directive sets a goal of reusing or recycling 70 per cent of construction and demolition waste by 2020. If we look at construction waste as a whole, the industry needs good contributions in order to meet this goal.

GREATER ENVIRONMENTAL AWARENESS PROVIDES NEW BUSINESS OPPORTUNITIES

AF has chosen a commercial approach to the increasing environmental challenges and scarcity of resources in society. AF's environmental work starts at the project and business unit level. Here environmental aspects are identified and ranked. We seek to optimise our operations to create the smallest possible footprint.

The three business areas, Environment, Offshore and Energy are all based on services that solve environmental challenges. AF's offshore demolition activities were established based on an increasing need for the safe and environmentally friendly removal of offshore installations. AF's environmental base at Vats outside of Haugesund is one of Europe's most modern reception facilities for the decontamination and recycling of decommissioned offshore installations.

AF's environmental centres are another example of the development of future-oriented environmental services. Using new technology, the environmental centres decontaminate and recycle 80 per cent of the contaminated materials that would have otherwise ended up at traditional disposal sites. In 2018, Norway's most modern and high-tech environmental centre will be operative at Nes in Akershus. In accordance with the EU's goals, the environmental centres will enable a substantial increase in the reuse of raw materials and a significant reduction in the volume of materials that need to be disposed of.

AF focuses on environmental conditions that we can influence. The projects are planned so that as little waste as possible is created, and so that the waste can be sorted for recycling to the greatest possible extent. To facilitate recycling, the source separation rate at all our business units is measured, and this rate represents how much of the waste from the activities is sorted for recycling. The source separation rate at AF as a whole is well above the current regulatory requirements.

AF is at all times prepared to minimise damage to and losses in the external environment if an accident or incident with a pollution potential were to occur. The incident will be subsequently analysed in order to establish preventive barriers for future projects.

AF's management system for environmental work follows the principles in the environmental standard ISO 14001. AF is a control member of Green Dot, an international scheme that is to help ensure the financing of return schemes for used packaging.

USE OF DIESEL IS THE GREATEST SOURCE OF CO_2 EMISSIONS

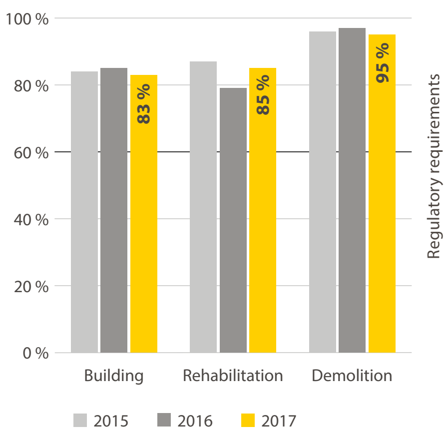
AF's impact on climate is measured continuously in the form of the volume of greenhouse gas emissions in tonnes of CO_2 equivalents. A CO_2 equivalent is a unit that is used for comparison of the effects of various greenhouse gases on the climate. Our climate accounts show that the consumption of diesel by construction machinery accounts for the greatest share of AF's greenhouse gas emissions. In 2017, AF saw a 45 per cent increase in greenhouse gas emissions. This increase is attributed to increased use of construction machinery in our transport infrastructure projects.

ENERGY AND CLIMATE ACCOUNTS 2017

Category	Consumption	Energy equi. (MWh) [1]	2017 Emissions (tonnes CO_2e) [2]	2016 Emissions (tonnes CO_2e) [2]
Petrol (l)	7 440	71	17	22
Diesel oil (l)	13 567 577	144 203	36 207	24 272
Propane (kg)	33 247	456	98	32
Total direct emissions		**144 730**	**36 322**	**24 326**
District cooling (kWh)	21 400	21	-	-
District heating (kWh)	36 517	37	2	5
Power (kWh)	21 623 211	21 623	1 124	1 409
Total indirect emissions from own activities		**21 681**	**1 126**	**1 414**
Air travel (passenger km)	na		2 459	2 124
Car travel (km)	1 238 664		179	210
Waste (tonnes)	3 806		1 888	670
Total indirect emissions from others			**4 526**	**3 004**
CO_2 emissions (tonnes CO_2e)			**41 974**	**28 743**
Carbon footprint (tonnes CO_2e per NOK 1 million revenue)			**4.5**	**3.1**

[1] *Energy equivalents are calculated for the core operations (direct and indirect emissions) in order to illustrate the annual energy intensity of AF Gruppen's activities.*
[2] *Greenhouse gas emissions with warming potential equivalent to CO_2*

SOURCE SEPARATION RATE



Total amount of mass separated at source 2017

(tonnes)

324,370

ETHICS REPRESENT THE BACKBONE OF ALL OUR ACTIVITIES

AF's credibility and competitiveness are based on trust. We have an uncompromising attitude regarding ethics and clear demands that apply to everyone we cooperate with.

CORPORATE CULTURE IS THE KEY

Our employees represent AF Gruppen in all business contexts, and it is essential that all the employees identify with AF's Code of Conduct. Suppliers and subcontractors are also required to observe the Code of Conduct through AF's Supplier Statement. In the assessment of candidates for acquisition, decisive importance is placed on whether the company's corporate culture and core values are in accordance with those of AF.

AF participates in competitive tenders, and there is therefore a risk that some individuals may enter into anticompetitive agreements or act in collusion with other companies. Our Code of Conduct forbids the company's employees to discuss, propose or enter into agreements with competitors that may affect the competitive situation. There is zero tolerance for price collusion and corruption.

In 2017, AF has established better routines for the notification of censurable conditions. Notification can be carried out through a new notification portal to a notification committee that will ensure that the condition reported is followed up properly. The notification portal is available on our website to both our own employees and partners.

MEASURES AGAINST WORK-RELATED CRIME

Efforts to prevent work-related crime were reinforced in 2014 through AF's seriousness initiative. Organisational and structural measures were implemented to ensure that AF only cooperates with serious actors. Among other things, a position was created in the Group that has work-related crime as its speciality, and each business unit has its own seriousness manager. They meet regularly through AF's network organisation related to work-related crime, A-krim. The purpose of the forum is to learn from each other, and to maintain and develop common barriers against work-related crime. AF offers courses about work-related crime least twice a year.

The procurement of goods and services accounts for around 70% of the revenues of AF. AF is responsible for the entire contract pyramid for our projects. We therefore work proactively and reactively to ensure compliance with our ethical guidelines among our suppliers. Routines are used proactively for the prequalification of subcontractors. AF permits only two levels of subcontractors. We use StartBANK, as well as a prequalification module in StartBANK that we have developed ourselves, to asses potential suppliers before they are approved. When subcontractors are approved and given access to a building site, they are followed up reactively through spot checks and controls to verify that the operations are carried out in accordance with the framework conditions by verifying pay and working conditions, among other things.

If "red incidents" are uncovered nonetheless, i.e. indications or incidents of work-related crime among our subcontractors, this will have consequences. The agreement with the actor in question will be terminated, and an investigation will be launched. Since the seriousness initiative in 2014, we have uncovered two red incidents in AF projects. AF wishes to reject fly-by-night actors, and in time we hope that the fly-by-night actors reject us. We will achieve this by being consistent in our treatment of any identified non-conformance.

See the table on page 34 with answers to the UN Global Compact

UNITED NATIONS GLOBAL COMPACT

The United Nations Global Compact is based on ten principles in the areas of human rights, working conditions, the environment and anti-corruption. Adherence to the UN Global Compact entails that companies do their utmost to operate their businesses in accordance with the ten principles.

THE TEN PRINCIPLES		Relevance for AF	Measures
HUMAN RIGHTS			
1	**Businesses should support and respect the protection of internationally proclaimed human rights; and**	AF Gruppen complies with all applicable laws and respects internationally recognised human rights, irrespective of where we operate. .	AF has expressed its attitudes and principles regarding human rights in fundamental documents such as the Code of Conduct, Group Policy and Purpose– Goals– Values. These documents have been revised and updated in 2017.
2	**make sure that they are not complicit in human rights abuses.**	AF does not trade with companies that are in any way involved in violations of human rights.	All subcontractors and suppliers must undergo a prequalification process. AF also follows up suppliers on a continual basis and disqualifies operators that we suspect of having unethical practices. *See also Principle 4.*
WORKING CONDITIONS			
3	**Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;**	AF enables employees to unionise and the right to conduct collective bargaining is recognised and respected.	More than 90 per cent of the skilled workers at wholly-owned AF entities are union members. AF conducts collective bargaining for all employees and at all levels where this is relevant. AF also has a well-functioning employee representative system. *See p. 38.*
4	**the elimination of all forms of forced and compulsory labour;**	AF's employees have pay conditions that are in ac-cordance with national laws and agreements with trade unions. AF only uses suppliers that pledge to abide by our ethical guidelines and comply with statutory requirements, the requirements contained in collective wage agreements, and AF's internal requirements.	AF has procedures for verifying the pay and working conditions of subcontractors and staffing agencies. In 2017, AF disqualified specific operators that do not comply with AF's ethical guidelines for working conditions. The circum-stances were uncovered before these suppliers were awarded assignments with AF. *See p. 32.*
5	**the effective abolition of child labour; and**	AF does not use child labour in its projects and we do not use companies (particularly transnational companies) that have goods and services chains that involve the financial exploitation of children.	AF reviews the employment contracts of all employees of subcontractors and staffing agencies. *See p. 32.* We have not identified any suspected or actual cases of child labour in any of our projects or with any of our suppliers.
6	**the elimination of discrimination in respect of employment and occupation.**	AF shall have a working environment in which there is no prejudice, discrimination, verbal abuse or persecution. AF's principles concerning dis-crimination are enshrined in the Code of Conduct.	All employees must sign the Code of Conduct when they are recruited, and participate in an introductory course at which the Code of Conduct is reviewed. A specific goal in the strategy towards 2020 is to increase the percentage of women at AF. In 2017, a working group has been formed that is to look at how AF is organised in order to ensure equal career options for women and men. *See p. 38.*

PRINCIPLES		Relevance for AF	Measures
ENVIRONMENT			
7	**Businesses should support a precautionary approach to environmental challenges;**	AF continuously works to limit its impact on the environment. Each company and business unit at AF Gruppen has its goals for the external environ-ment. AF shall also comply with the core princi-ples in the environmental standard ISO 14001.	It is a requirement at AF that all projects must be subject to a risk analysis prior to commencement. Environmental risk is an element in this analysis. Risk analyses are carried out in accordance with the Group policy for 2017. *See p. 44.*
8	**undertake initiatives to promote greater environ mental responsibility; and**	By focusing on the environment, energy and recycling, we will safely remove and eliminate materials, ground and energy solutions that are harmful to the environment. Our services and solutions shall make it possible for our custom-ers to take greater environmental responsibility.	AF continually develops its range of services. The source separation rate and carbon footprint are measurement parameters for AF's projects and focus on these targets promotes greater environmental responsibility in the organisation as a whole. *See p. 30.*
9	**encourage the development and diffusion of environmentally friendly technologies.**	One of AF's core values is entrepreneurial spirit. Through our environmental expertise, we shall offer services and solutions that meet the environ-mental challenges of both today and the future.	AF has developed unique technology that makes it possible to treat and reuse contaminated materials. For offshore activities, the Environmental Base at Vats has been established as an approved and certified reception facility for recyclable materials. *See p. 30.*
ANTI-CORRUPTION			
10	**Businesses should work against corruption in all its forms, including extortion and bribery.**	AF must be trustworthy. The company has an uncompromising attitude towards safety and ethics. AF's Code of Conduct outlines our attitude towards corruption, price collusion and bribery.	No instances of corruption, including extortion and bribery, were identified in 2017. An approval requirement prior to engaging subcontractors and suppliers is that they have previously com-plied with applicable laws and rules relating to corruption, including compliance with tax laws. AF has established a better routine for whistle-blowing in 2017. Whistleblowing can now occur at a new web portal. *See p. 32.*

CURIOSITY GIVES NEW SOLUTIONS

AF can achieve better profitability for its projects by challenging given truths. For example, engineer Christian Anderson found that the dock facilities at AF Miljøbase Vats can withstand a 30 per cent heavier load than assumed, and the engineering team for the Loggs project discovered a safer and more efficient way of installing lifting devices on oil platforms.

13 TONNES

LOAD CAPACITY PER SQUARE METRE AT AF MILJØBASE VATS

30%

INCREASED LOAD CAPACITY AT AF MILJØBASE VATS

From the left: Yngve Windsland – Project Engineer, Christian Anderson – Structural Engineer, Helene Kinge – Business Analyst.

EMPLOYEE DEVELOPMENT PROVIDES GROUNDS FOR GROWTH

At AF, value and profitable growth are created through robust organisation in combination with the competence, commitment and willpower of each individual employee. Therefore we augment the expertise of our employees and give them space for development.

A clear and value-driven corporate culture and a strong desire to achieve has been the foundation of profitable growth since the establishment of AF Gruppen. In 2017, the number of employees increased by 700 persons, representing growth of 23 per cent. AF's growth target towards 2020 entails an additional increase of 1,300 new employees. It is also a goal to increase the percentage of female employees and to strengthen our technical expertise.

BUILDING CULTURE WITH COMPETENCE TRAINING

Developing the knowledge and competence of our employees is the most profitable investment we make. AF has a decentralised decision-making structure and capable employees are given an early opportunity to assume responsibility and thus strengthen their own expertise and development.

AF's goal is to develop managers through internal training, and around 80 per cent of today's managers have been recruited internally. The most important tool for promoting professional development is practical training in the line. However, AF also offers an internal management development programme over several levels and external continuing education. The offerings are under continuous development to ensure the future management capacity and expertise.

SATISFIED EMPLOYEES

The employee satisfaction survey that was conducted in 2017 shows that our employees are very satisfied with their own job and with AF as their employer. Personal development, job content and the company's goals and values, as well as the terms and conditions, are strong drivers for satisfaction among our employees. The level of satisfaction has been high for several years, and according to the consulting firm Rambøll, which conducted the survey, the level is significantly higher than the industry average.

AF offers a number of employee benefits, such as company sports, a corporate health service and good pension and insurance benefits. Ownership in one's own workplace is also an important principle for AF, and therefore the employees are given an opportunity to buy shares in AF Gruppen at a 20 per cent discount. The idea is that as many employees as possible should be able to take part in the common creation of value and development of the company. Overall, our employees are among AF Gruppen's largest shareholders.

We also have a well-functioning employee representative structure and safety organisation, which ensures employees the right to participate in decisions concerning the working environment. There is a special Works Council and Working Environment Committee with representatives from the Corporate Management Team, the employees and senior employee representatives. New internal guidelines have been issued for the election of employee representatives to the Board of Directors as of 2018. These guidelines require that both salaried employees and skilled workers, as well as both genders, must be represented among those who are elected.

STILL NEED MORE AF-ERS

AF shall attract and develop the best managers and technical expertise in the industry. We develop our managers in general through allowing employees to train in various positions and through our internal management development programme at the AF Academy. Technical expertise shall be recognised in the same manner as management expertise and attract the best people to us.

Another important measure is to increase the percentage of women. AF wants to invest in the best, and it is therefore important to recruit from both genders. We have therefore established a working group that will look into how we can ensure that both genders have equal opportunities to pursue a career at AF.

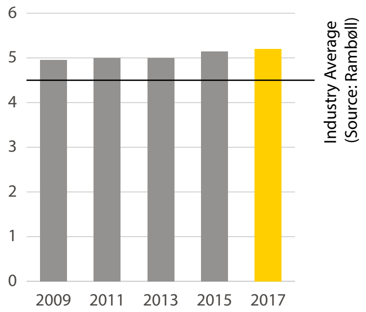
Some of AF's employee growth will take place through the acquisition of well-managed companies. A prerequisite for acquisitions is that the employees of the company in question share common core values with AF.

ESS AF Gruppen 2017

Scale 1–6

5.2

EMPLOYEE SATISFATION SURVEY (ESS)



Satisfaction and development opportunities
Guro Kristiansen has worked for AF since July 2017. She manages work on the external environment for the E18 construction between Tvedestrand and Arendal. "A pleasant working environment is very important during a hectic project work day. The project provides many professional challenges where I can use my expertise and learn new things. Learning and development on the job is incredibly important to my job satisfaction."

OWNERSHIP CREATES DEDICATION

Kanonaden Entreprenad has built up an identity and expertise in site preparation work in Sweden over 15 years. AF acquired 70 per cent of Kanonaden Entreprenad in 2017, while the remaining 30 per cent of the company is owned by key persons at the company. This is an acquisition model that makes AF an attractive principal owner. Employee ownership contributes to the creation of value and development opportunities for both Kanonaden and for AF.

30%

SHARE OF OWNERSHIP BY KEY PERSONS AT KANONADEN

17%

SHARES IN AF GRUPPEN ASA OWNED BY EMPLOYEES

Approx. 1,500

EMPLOYEES OWNING SHARES IN AF GRUPPEN ASA

Project manager Magnus Gustavsson and construction worker Faik Begovic at Hisingen in Gothenburg, where Kanonaden is performing the site preparation and concrete work for a large residential property project.

EMPLOYEE OWNERSHIP IS PART OF THE AF CULTURE

Employees of AF own shares in AF Gruppen ASA valued at more than NOK 2 billion. In addition to this, there is the value of the shares in subsidiaries that are owned by employed minority shareholders. Employee ownership is part of the AF culture and a driving force for success.

When AF Gruppen was established in 1985, one of the aims was for the employees to be given an opportunity to become co-owners. The idea was that as many employees as possible should be able to take part in the increase in value resulting from the joint creation of value and the development of the company. The same philosophy still applies, and employee ownership is now firmly anchored in the AF culture.

SHARE AND OPTION PROGRAMMES FOR EMPLOYEES

The offer of co-ownership through share and option programmes contributes to making AF an attractive place to work. The purpose of the programmes is to motivate employees to have a greater, long-term commitment to the business.

The share programme gives all employees an opportunity to buy shares at a discount of 20 per cent on the current market price. In 2017, there were 543 employees who subscribed for a total of 1,000,000 shares. The purchase price after a 20 per cent discount was NOK 115.80. In connection with the sale, the Board of Directors used its authority and issued 778,888 new shares. The remaining shares were transferred from the holding of treasury shares.

The Board of Directors has decided to recommend continuing the share programme for employees in 2018. The maximum number of shares that can be subscribed for in the share programme, which will take place in September 2018 according to plan, will be 1,000,000. The Board will submit a proposal to the General Meeting for authorisation to issue a sufficient number of shares, enabling the share programme to be carried out.

AF Gruppen has had an option programme for all employees in the Group since 2008. The exercise date for the option programme that was adopted in 2014 was in March 2017. A total of 3,253,346 options were exercised by 1,133 employees at an average exercise price of NOK 71.37.

The General Meeting of AF Gruppen adopted a new option programme in May 2017. The maximum number of options that may be allocated is 3,500,000 with an option premium of NOK 1 per option, and the programme entails annual allotments in 2017–19 and an exercise date in March 2020. The purchase price for the shares will be based on the average market price during the week before the three respective subscription periods. In order to exercise the options, it is a condition that one be employed by the Group on 1 March 2020.

AF Gruppen issued 3,325,000 options to 1,537 employees in 2017. The total number of outstanding options, adjusted for employees who left the company, was 3,264,143 as at 31 December.

EMPLOYEE OWNERSHIP IS A FACTOR FOR SUCCESS FOR ACQUISITIONS

Both in Norway and internationally, there is an increasing interest in ownership models in which employees are invited to participate on the ownership side. It has also become more common for professional investors to seek companies with employees on the list of shareholders when they are making investment decisions. Primarily because these companies tend to yield a higher return, but also because they give investors a sense of security when the investors, management and other employees are all in the same boat.

AF Gruppen wants to maintain the employee ownership culture when new businesses are acquired. Therefore we only want to own 70 per cent of the shares in companies that are acquired, and we want executive personnel and key persons in the acquired companies to participate on the ownership side. In 2017, Kanonaden Entreprenad AB in Sweden was acquired based on this model. Several key employees of Kanonaden are still co-owners of Kanonaden and AF Gruppen, and several became owners in connection with the acquisition.

Percentage of shares owned by employees

17%

Approximate value of shares owned by employees

NOK 2 BILLION

Ownership of one's own workplace
Project Director Johannes Thrane has been employed by AF for 14 years and is a shareholder. “I fundamentally agree with AF's core values and have a positive view of AF Gruppen's future competitiveness in existing and new markets. As a shareholder, I am participating in the common creation of value and am automatically interested in what is going on throughout the Group.”

ACTIVE RISK MANAGEMENT PROVIDES BETTER PROFITABILITY

Risk management is an important tool that enables AF Gruppen to deliver stable, good results over time. AF has a systematic approach to risk management in the projects and the business units, during both the tender and the execution phases.

Risk is an uncertain element that can have a positive or negative effect on project targets, such as time, cost, scope or quality. AF Gruppen works systematically with risk management in all projects and business units. The aim is not to eliminate risk, but to identify, manage and price risk correctly.

We desire to actively assume risk that we can influence, and to ensure against or avoid risk that we cannot influence. This approach to risk also contributes to our ability to submit competitive tenders. In addition, we want to have a better decision-making basis and insight before operative decisions are taken in matters with a high level of risk and a broad range of potential outcomes.

Risk management has contributed to fewer loss-making projects and increased profitability in general. Since AF started to work systematically with risk management in 2006, the average operating margin has increased from 2.6 per cent (2002 to 2006) to 6.22 per cent (2008 to 2017).

AF'S RISK MANAGEMENT PROCESSES

Risk management and a scenario mentality have become integral parts of all commercial activities of AF Gruppen, involving managers at all levels. A special function for risk management facilitates the necessary processes related to risk. They also work with the continuous improvement of AF Gruppen's processes and methods in this area.

Risk management at the project level is the foundation of AF's risk work, and risk assessments are made before a project tender is submitted. Various opportunities and threats associated with the project are discussed in the risk review, and various scenarios are considered for 5-10 predefined risk groups. This may, for example, include risk related to our capacity, our experience with the customer, contractual terms and conditions and the extent to which the project is in accordance with our strategy and expertise. For tenders in excess of NOK 100 million, the Executive Vice President for the business area will participate in the risk review, and the Corporate Management Team must approve the tender before it is submitted. Tenders with a contract value in excess of NOK 600 million are also reviewed by the Board of Directors prior to submission.

During the executing phase, risk reviews are carried out for large projects every quarter, with broad participation from the project organisation. The project management is responsible for defining specific and measurable measures for handling threats and exploiting opportunities in the project.

The business unit's management group aggregates the project analyses. A risk analysis of the project portfolio is conducted quarterly, with a quantitative assessment of the range of outcomes for each project. Representatives from the Corporate Management Team participate in the risk review by the business units. This analysis establishes the basis for the unit's priorities in the following quarter and illustrates the risk situation in the unit to the Corporate Management Team.

All the risk reviews at the business unit level are aggregated by the Corporate Management Team, and the main points are presented to the Board of Directors every quarter.

SCOPE OF RISK MANAGEMENT IN 2017

In 2017, AF Gruppen carried out approximately 120 risk reviews prior to the submission of large tenders and 84 quarterly reviews of the project portfolios in the business units. The scope of risk reviews has remained at a stable level in recent years, with broad involvement from all units and the Corporate Management Team.

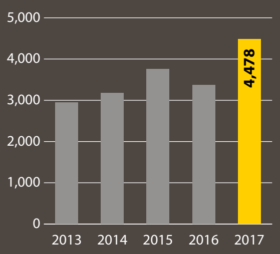
Risk pyramid
The focus on risk management is firmly anchored in all commercial activities, from the individual project to the Corporate Management Team.

Continuous work with risk management in the projects
Risk management is performed in all processes ranging from tender management, project execution and the ongoing management of the projects.

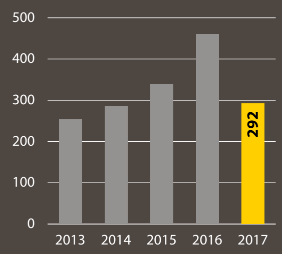
BUSINESS AREAS

CIVIL ENGINEERING

REVENUES NOK MILL.

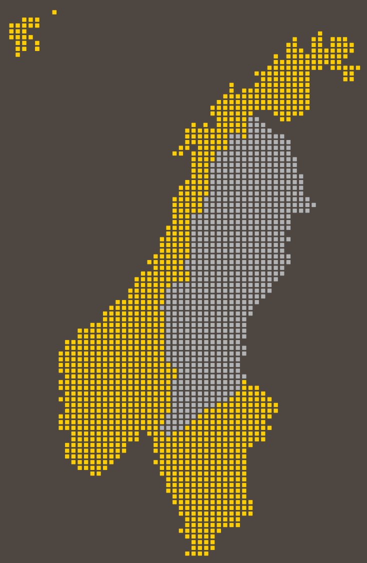


OPERATING PROFIT NOK MILL.



GEOGRAPHIC PRESENCE

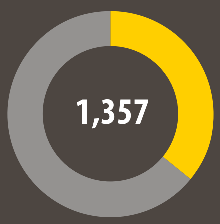
- Norway
- Sweden



KEY FIGURES

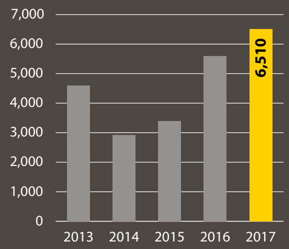
NOK million	2017	2016	2015
Revenue	4 478	3 368	3 760
Operating profit (EBIT)	292	461	339
Earnings before tax (EBT)	311	475	339
Operating margin	6.5%	13.7%	9.0%
Profit margin	7.0%	14.1%	9.0%
Order backlog	6 510	5 589	3 402

EMPLOYEES



AF Gruppen 3,768

ORDER BACKLOG NOK MILL.



CIVIL ENGINEERING CONSIST OF

- AF Anlegg
- *JR Anlegg*
- Målselv Maskin & Transport
- Kanonaden Entreprenad
- Pålplintar

GOOD OPERATIONAL PERFORMANCE AND SOLID RESULTS

In 2017, the Civil Engineering business area delivered solid results with a profitability that is leading in the industry. The year was marked by the start-up of the largest Norwegian road contract ever awarded, E18 Tvedestrand – Arendal, in addition to the acquisition and integration of Kanonaden Entreprenad in Sweden.

The Civil Engineering business area encompasses AF's civil engineering activities in Norway and Sweden. The Civil Engineering business area consists of four business units: AF Anlegg, Målselv Maskin & Transport, Kanonaden Entreprenad and Pålplintar.

AF Anlegg carries out traditional civil engineering projects throughout Norway in the fields of transport, infrastructure, port facilities and in the oil and gas industry, as well as projects in the fields of hydropower and energy. Målselv Maskin & Transport is the largest machinery contractor in Troms and carries out projects in the areas of technical municipal facilities, road construction, earthmoving, and site preparation and concrete work, among others. Kanonaden Entreprenad is engaged in activities in Southern Sweden, including Stockholm, Mälardalen and Gothenburg. The company performs work in the fields of site preparation, water and sewage, concrete, district heating, cable laying, wind power and roadworks. Pålplintar carries out foundation work projects and produces concrete for industrial, residential and public buildings in Stockholm and Mälardalen.

YEAR 2017 IN BRIEF

In 2017, the Civil Engineering business area reported revenues of NOK 4,478 million (3,368 million). Earnings before tax were NOK 311 million (475 million). The profit margin ended at 7.0 per cent, compared with 14.1 per cent in 2016. AF Anlegg has had a very high level of activity and reported good results. The results in 2016 were marked by the completion of many projects, which entailed a very high profit margin. The results in 2017 are marked by the start-up of many projects, but the business area is nevertheless delivering an industry-leading profit margin. There has been a high level of activity and good operational performance for the major project E18 Tvedestrand – Arendal, and the project is well on track for completion in 2019. AF Anlegg has entered into a number of large contracts during the year, of which the new E6 through Soknedal in Trøndelag with an estimated contract value of NOK 994 million, excl. VAT, was the largest.

Målselv Maskin & Transport had a very good 2017 with a high level of activity and good results.

Påplintar had a higher level of activity in 2017 than the previous year, but delivered weak results.

AF has increased its presence and civil engineering activity in Sweden through the acquisition of Kanonaden Entreprenad. The company performs well operationally and delivered solid results for 2017.

At year end, the Civil Engineering business area had an order backlog of NOK 6,510 million (5,589 million).

MARKET OUTLOOK

The civil engineering market in Norway is good and not very sensitive to cyclical fluctuations, since public sector demand is the greatest driver behind civil engineering investments. In the 2018 State Budget, NOK 67.5 billion has been allocated to transport, which is an increase of 6.5 per cent over the budget for 2017. NOK 35.9 billion of this amount has been allocated to roads. This represents an increase of 7.7 per cent compared with 2017. Prognosesenteret expects a high level of activity in the civil engineering market for the period from 2018 to 2019, with growth in investments of 12 per cent in 2018 and 13 per cent in 2019. It is primarily the large road projects in the Interior Region and Southern and Southwestern Norway that are driving growth. The higher investment estimate for transport and road projects, as well as the planned start-up of many large civil engineering projects, provide a good foundation for further growth of AF's civil engineering activities.

There has been a high level of activity in the Swedish civil engineering market for several years. According to the Swedish Construction Federation, additional growth of 4 per cent is expected in 2018.

SELECTED PROJECTS

E18 TVEDESTRAND ARENDAL

AF is planning and constructing 23 kilometres of new four-lane motorway between Tvedestrand and Arendal. This work includes all disciplines and encompasses four double bedrock tunnels, 30 constructions and moving 10 million cubic metres of earth. A total of 600 people are associated with the project, 350 of which are employed by AF. The turnkey contract is one of Norway's largest road projects of all times.

CLIENT: NYE VEIER
COMPLETION: OCTOBER 2019
CONTRACT VALUE: NOK 3,200 EXCL. VAT
BUSINESS UNIT: AF ANLEGG

RINGEDALEN POWER PLANT

Since March 2015, AF Anlegg has worked on the construction of a new 60 GWh power plant at the Ringedalen Power Plant in Hordaland. At the lake Mosdalsvatnet, at an elevation of 1,000 metres, around 2,000 cubic metres of rock has been blasted out and a 20 metre long inlet tunnel has been driven. The power plant has been constructed underground to reduce the environmental impact as much as possible, and from here power for around 3,300 households will be generated.

CLIENT: STATKRAFT
COMPLETION: AUGUST 2017
CONTRACT VALUE: NOK 130 MILLION, EXCL. VAT
BUSINESS UNIT: AF ANLEGG

TUNNEL REHABILITATION IN RAUMA

AF's work to upgrade and rehabilitate the Innfjord and Måndal Tunnels along the E136 in the Municipality of Rauma started in August 2016. Electrotechnical installations and safety equipment will be replaced, and both the tunnels will have DAB coverage, new water and frost protection, fire ventilation, concrete guardrails and new niches for turning. The Innfjord Tunnel will also be equipped with camera surveillance, speakers and emergency lighting throughout.

CLIENT:
NORWEGIAN PUBLIC ROADS ADMINISTRATION
COMPLETION: APRIL 2018
CONTRACT VALUE: NOK 308 MILLION, EXCL. VAT
BUSINESS UNIT: AF ANLEGG

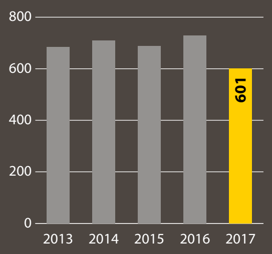
ØRLAND

New construction of 40,000 square metres and rebuilding of 25,000 square metres at Ørland, the main base for Norway's new F-35 fighter jets. The project is the largest ever undertaken by the Norwegian Defence Estates Agency. AF has secured three contracts at the fighter jet base. The contracts encompass site preparation work with infrastructure, establishment of hangar floors and the construction of 12 hangars, as well as the establishment of a protective zone around the airport.

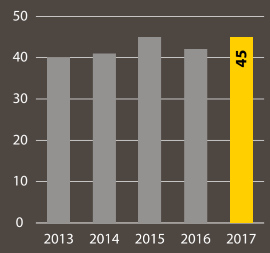
CLIENT: NORWEGIAN DEFENCE ESTATES AGENCY
COMPLETION: JANUARY 2020
CONTRACT VALUE: NOK 1,109 MILLION, EXCL. VAT
BUSINESS UNIT: AF ANLEGG

ENVIRONMENT

REVENUES NOK MILL.

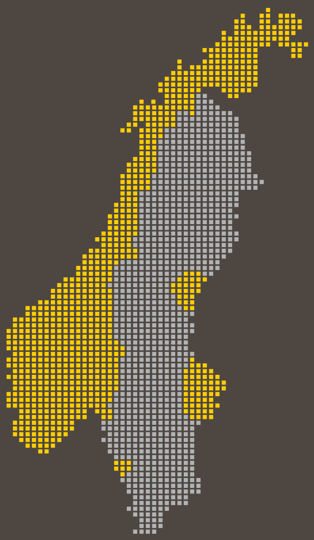


OPERATING PROFIT NOK MILL.



GEOGRAPHIC PRESENCE

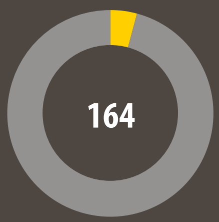
- Norway
- Sweden



KEY FIGURES

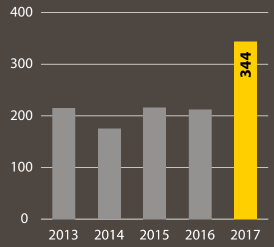
NOK million	2017	2016	2015
Revenue	601	729	687
Operating profit (EBIT)	45	42	45
Earnings before tax (EBT)	45	42	46
Operating margin	7.5%	5.8%	6.6%
Profit margin	7.4%	5.7%	6.7%
Order backlog	344	212	216

EMPLOYEES



AF Gruppen 3,768

ORDER BACKLOG NOK MILL.



ENVIRONMENT CONSIST OF

- AF Decom
- *Rimol Miljøpark*
- *Jølsen Miljøpark*
- AF Härnösand Byggreturer

GOOD OPERATIONAL PERFORMANCE AND A SOLID ORDER BACKLOG

The level of activity in the business area has increased throughout the year, but fewer large demolition projects resulted in a reduce in revenue for 2017, compared with 2016. Environment delivered nevertheless a higher profit margin than the previous year and has a record-high order backlog at the start of 2018.

The business concept for the Environment business area is to offer solutions that meet the environmental challenges faced by customers. The business area has solid expertise in areas such as environmental clean-up, demolition, constructive blasting and recycling. AF's demolition activities are characterised by a high level of safety and protection of the external environment. The Environment business area consists of the units AF Decom and AF Härnösand Byggreturer, in addition to activities at Rimol Miljøpark and Jølsen Miljøpark. The Environment business area provides services in Norway and Sweden.

The European Commission's goal for a circular economy is that more than 80 per cent of the materials that are used are to be recycled and remain in circulation by 2030. The aim of the clean-up and demolition projects in AF's demolition activities is to have the highest possible source separation rate to facilitate reuse and recycling. The environmental aspects are therefore an integral part of project planning. The average sorting rate for AF's clean-up and demolition projects is greater than 9.5 per cent.

For several years, AF has developed methods and technology for the reuse and recycling of contaminated materials in cooperation with SINTEF, among others. This research has resulted in a special decontamination method inspired by mine operations and gold mining. The solution makes it possible to extract contaminated particles by means of advanced sorting, water and chemicals. Recycling operations are organised in special environmental centres. The technology contributes to a cleaner environment, since up to 80 per cent of the materials that would have otherwise ended up at traditional disposal sites are reused or recycled.

YEAR 2017 IN BRIEF

Environment reported revenues of NOK 601 million (729 million) and earnings before tax of NOK 45 million (42 million) for 2017. This gave a profit margin of 7.4 per cent, compared with 5.7 per cent in 2016.

The Norwegian operations, AF Decom, reported a somewhat lower level of activity, compared with the previous year, but the projects performed well operationally in general and the profit margin was better than 2016.

The Swedish operations, AF Härnösand Byggreturer, reported a higher level of activity in 2017 than the previous year and delivered very good results.

The environmental centres increased their overall level of activity in 2017 and reported good results. Environment is developing a new environmental centre for the treatment of contaminated materials at Nes in Akershus. Work on the new environmental centre has started, and completion is expected in the 2nd quarter of 2018.

At the end of 2017, the Environment business area had an order backlog of NOK 344 million (212 million).

MARKET OUTLOOK

The Environment business area provides traditional demolition services and the subsequent receiving, treating and recycling of materials. The level of demolition activity is closely connected to the general level of activity in the building and civil engineering markets. The positive outlook for the civil engineering market in Norway and moderate growth in the building market is positive for the demand for services in the Environment business area. The same tendency is expected in Sweden, where forecasts indicate growth in the building and civil engineering markets in 2018.

The market opportunities for the treatment of contaminated materials are huge, since the materials that were previously delivered to disposal sites can now be recycled. AF's decontamination method means that up to 80 per cent of the materials can be decontaminated, processed and reused. The method provides good

SELECTED PROJECTS

PETERSON & SØN IN MOSS

The production of chemical pulp at Peterson & Søn in Moss was the cause of the well-known "Moss smell". The 50 metre high steel building weighing 400 tonnes, Sodahus 3, one of a total of 13 structures that were demolished by AF Decom were blasted with 18 kg of explosives. The demolition work was carried out next to protected historic buildings and required a great deal of special expertise. Höegh Eiendom is developing a new, vibrant urban district in the area now.

CLIENT: HÖEGH EIENDOM AS
COMPLETION: JUNE 2018
CONTRACT VALUE: NOK 18.5 MILLION, EXCL. VAT
BUSINESS UNIT: AF DECOM

ERAMET

AF Decom has demolished three industrial cranes in Porsgrunn. The cranes, which were 49 metres high and consisted of around 1,000 tonnes of steel, were demolished by controlled blasting. After the blasting, the cranes and the 150 m long concrete crane track were demolished by a 100-tonne demolition machine. The steel from the crane structure was cut up and transported away for remelting and reuse as reinforcement steel, for example.

CLIENT: ERAMET NORWAY AS
COMPLETION: JANUARY 2018
CONTRACT VALUE: NOK 1 MILLION, EXCL. VAT, PLUS THE VALUE OF THE METAL
BUSINESS UNIT: AF DECOM

ASKO

Just before Easter in 2017, a fire broke out at Asko's freezer storage facility in Vestby. AF Decom mobilised crews and machines for the challenging job to secure and clean up the site on short notice. The job had to be carried out at the same time as the fire service's extinguishing work, and the crew worked day and night throughout Easter. Several thousand tonnes of food were retrieved from the building and close to 10,000 square metres of warehouse were demolished.

CLIENT: GJENSIDIGE
COMPLETION: APRIL 2017
CONTRACT VALUE: NOK 6.5 MILLION, EXCL. VAT
BUSINESS UNIT: AF DECOM

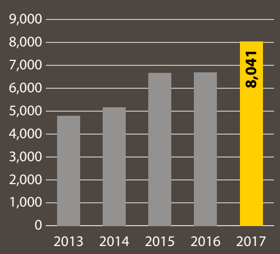
NORRLANDS UNIVERSITY HOSPITAL IN UMEÅ, BUILDING 5B

Norrlands University Hospital in Umeå is undergoing extensive renovation, and AF Härnösand Byggreturer carried out the demolition of Building 5B in 2017. The project encompassed demolition of the roof on the eight-storey building. The project was carried out be lifting up a demolition machine on the outside of the building. AF Härnösand Byggreturer has also carried out clearance and dismantling work on the inside and façade of the building.

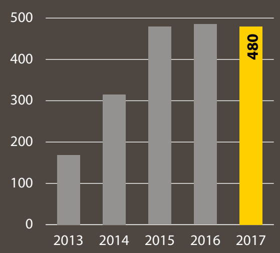
CLIENT: SKANSKA SVERIGE AB
COMPLETION: JUNE 2017
CONTRACT VALUE: SEK 10 MILLION, EXCL. VAT
BUSINESS UNIT: AF HÄRNÖSAND BYGGRETURER

BUILDING

REVENUES NOK MILL.

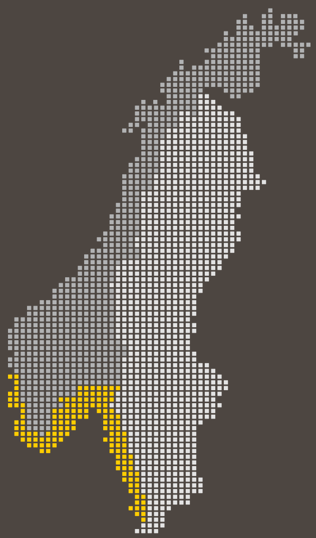


OPERATING PROFIT NOK MILL.



GEOGRAPHIC PRESENCE

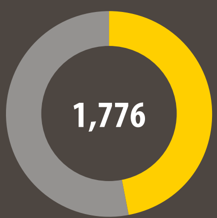
- Norway
- Sweden



KEY FIGURES

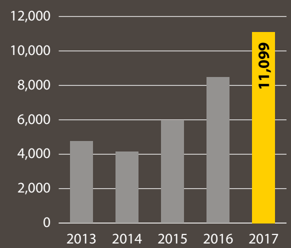
NOK million	2017	2016	2015
Revenue	8 041	6 688	6 678
Operating profit (EBIT)	480	485	479
Earnings before tax (EBT)	493	498	485
Operating margin	6.0%	7.3%	7.2%
Profit margin	6.1%	7.4%	7.3%
Order backlog	11 099	8 467	5 947

EMPLOYEES



AF Gruppen 3,768

ORDER BACKLOG NOK MILL.



BUILDING CONSIST OF

- AF Bygg Oslo
- AF Bygg Østfold
- AF Byggfornyelse
- AF Bygg Prosjektpartner
- AF Nybygg
- Strøm Gundersen with daughters
- MTH with daughters
- LAB with daughters
- AF Bygg Sverige with daughters

SOLID RESULTS

Building reported a good performance by projects and delivered solid results overall. The business area has shown a high level of competitiveness and won many new projects throughout the year. This has resulted in a record-high order backlog at the end of 2017.

Building is the largest business area and encompasses activities related to new building and renovation in Norway and Sweden. Building spans the entire value chain from the early planning stage to the construction, renovation and completion of buildings. In addition to being one of the largest actors in the area of residential, commercial and public buildings, AF Gruppen has a leading position in renovation in Norway.

The Building business area is divided into nine business units and their associated subsidiaries: AF Bygg Oslo, AF Byggfornyelse, AF Nybygg, AF Bygg Østfold, AF Bygg Prosjektpartner, AF Bygg Sweden, Strøm Gundersen, MTH and LAB. All the units have strong local roots and a broad range of services.

AF Bygg Prosjektpartner will be part of AF Anlegg as of 2018. Upon the reorganisation, the projects in AF Bygg Prosjektpartner can draw on AF Anlegg's management and expertise in mobile project operations.

YEAR 2017 IN BRIEF

Building reported revenues of NOK 8,041 million (6,688 million) and earnings before tax of NOK 493 million (498 million) in 2017. This yields a profit margin of 6.1 per cent, compared with 7.4 per cent in 2016.

The building operations in Norway reported a high level of activity in 2017 and delivered good results. This applies in particular to the units AF Bygg Oslo, Strøm Gundersen, MTH and LAB. AF Byggfornyelse and AF Bygg Prosjektpartner in particular delivered weak results that are below the Group's requirements in 2017.

To increase organic growth in Greater Oslo, AF Nybygg was established as a new business unit in January 2017. This unit is expecting a higher level of activity in 2018.

AF Bygg Sweden increased its level of activity in 2017, but delivered overall results that were below the Group's requirements. AF Bygg Syd reported growth and good profitability, but the unit in Gothenburg reported weak results for 2017.

At the end of 2017, Building had an order backlog of NOK 11,100 million (8,467 million).

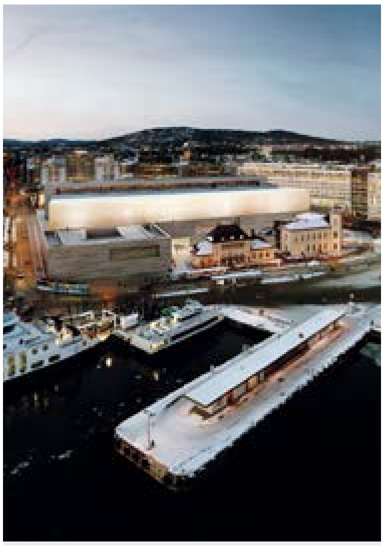
MARKET OUTLOOK

In January of 2018, residential property prices were 2.2 per cent lower than 12 months ago. According to Property Norway, there is a moderate or negative price trend in most areas of the country, but an increase in the number of residential units sold in January indicates good demand. In combination with a decline in the number of residential units for sale, this gives us reason to believe that the prices are flattening out. Nevertheless, residential buyers still have many units to choose from in the market, which will probably result in a continued moderate price development in the months to come. Prognosesenteret expects overall growth in the building market to be 1.3 per cent in 2018. A retraction of 0.8 per cent is expected for investments in new residential units, but new commercial buildings and renovation, remodelling and extension for residential and commercial buildings are expected to grow from 1.5 to 2.5 per cent.

The Swedish Construction Federation assumes there will be declining growth in building and civil engineering investments in Sweden in 2018 after several years of strong growth. Continued growth combined with an expansive monetary policy and increased employment provides a good foundation for AF's Swedish operations.

A high level of activity is expected overall, but a more hesitant residential market in both Norway and Sweden will probably result in the start-up of fewer new projects in 2018.

SELECTED PROJECTS



NEW NATIONAL MUSEUM

The new National Museum for art, architecture and design will be Norway's largest cultural building and the largest art museum in the Nordic region. It will have a total area of 54,600 square metres, 13,000 square metres of which will be exhibition areas. AF has been awarded the Structural Shell, Airtight Building and Interior Work contracts. A new National Museum will be a model of environment-friendly construction techniques with a 50 per cent reduction in greenhouse gas emissions compared with the current construction practices.

CLIENT: STATSBYGG
COMPLETION: OCTOBER 2019
CONTRACT VALUE: NOK 1.245 MILLION, EXCL. VAT
BUSINESS UNIT: AF BYGGFORNYELSE

EXPANSION OF THE SHOPPING CENTRE LAGUNEN STORSENTER

LAB Entreprenør is the turnkey contractor for the expansion of the shopping centre Lagunen Storsenter in Bergen. The contract encompasses site preparation work, infrastructure, pile driving and structural shell for all the extensions and additions. In addition, the contract also encompasses complete airtight building work, technical installations and the interior design of shops and common areas. In just under two years, the number of shops and food and beverage establishments will increase from 135 to more than 200.

CLIENT: LAGUNEN DA
COMPLETION: JUNE 2019
CONTRACT VALUE: NOK 850 MILLION, EXCL. VAT
BUSINESS UNIT: LAB ENTREPRENØR

HOPPERN SCHOOL

Hoppern School will be a future-oriented school building. AF will demolish the existing school and gym and then build a new lower secondary school with five parallel classes and a sports hall in solid wood, and it will also prepare the outdoor areas. The school will be environmentally certified in accordance with the Breeam-NOR standard "Very Good", and separate solar cell systems will be installed in the school and sports hall. The school will have the capacity for 450 students and approximately 50 employees.

CLIENT: MOSS MUNICIPALITY
COMPLETION: AUGUST 2019
CONTRACT VALUE: NOK 215 MILLION, EXCL. VAT
BUSINESS UNIT: AF BYGG ØSTFOLD

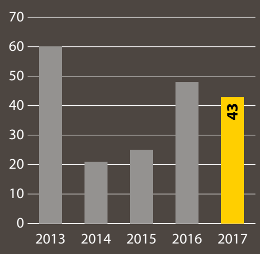
SJÖLUNDA ARV

The sewage treatment plant for Malmö, Sjölunda, is one of Sweden's largest municipal treatment plants. AF Bygg Syd will design and build a new inlet and preliminary treatment building that will form the first step of the treatment process for all sewage in Malmö. Around 20 of our own employees and a number of subcontractors are in full swing with the casting of reservoirs and channels.

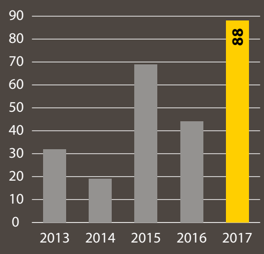
CLIENT: VA SYD
COMPLETION: MARCH 2019
CONTRACT VALUE: SEK 205 MILLION, EXCL. VAT
BUSINESS UNIT: AF BYGG SYD

PROPERTY

REVENUES NOK MILL.

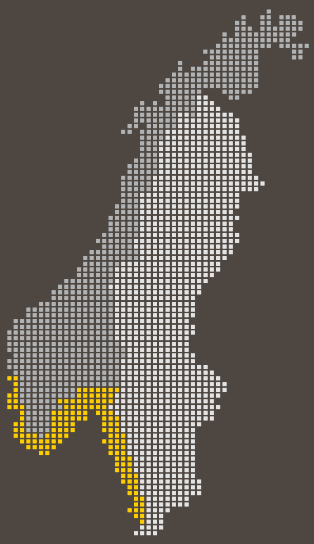


OPERATING PROFIT NOK MILL.



GEOGRAPHIC PRESENCE

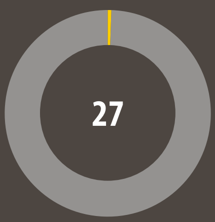
- Norway
- Sweden



KEY FIGURES

NOK million	2017	2016	2015
Revenue	43	48	25
Operating profit (EBIT)	88	44	69
Earnings before tax (EBT)	75	30	57
Operating margin	-	-	-
Profit margin	-	-	-
Order backlog	-	-	-

EMPLOYEES



AF Gruppen 3,768

PROPERTY CONSIST OF

- AF Eiendom
- AF Prosjektutveckling
- LAB Eiendom

GOOD RESULTS IN A MORE HESITANT MARKET

There was a high level of activity and good results in the Property business area in 2017 in spite of a somewhat more hesitant market in Norway and Sweden, compared with recent years.

The Property business area develops residential units and commercial buildings in Norway and Sweden. The activities generally take place in geographic areas where AF has its own production capacity. Most of the development projects are organised in associates and joint ventures, which are recognised in the accounts in accordance with the equity method of accounting, and only AF's share of the earnings are included in the consolidated financial statements. The revenues and order backlog in the partly-owned development projects are not included in AF's consolidated reporting.

YEAR 2017 IN BRIEF

Property reported revenues of NOK 43 million (48 million) and earnings before tax of NOK 75 million (30 million) for 2017.

A total of 285 (668) apartments were sold in 2017, of which AF's share was 111 (316). As at 31 December 2017, AF's share of unsold completed apartments was 4 (5).

The residential market in Greater Oslo, where Property has most of its activities, has been marked by a more hesitant attitude among the residential buyers in large parts of 2017. The Property business area nevertheless achieved good results for 2017, and the Krydderhagen Project at Hasle in Oslo has been the greatest contributor to this. The Property business area has two ongoing projects in Sweden, located at Halmstad and at Surte near Gothenburg.

At the start of 2018, AF's property business had five residential housing projects with a total of 742 apartments in the production phase, and AF's share was 338. The largest projects under construction are Krydderhagen at Hasle, Thurmannskogen at Lørenskog and Lillo Gård at Nydalen. At the end of the year, AF had sites and development rights estimated at 2,314 (2,054) residential units, of which AF's share was 982 (848) units.

AF has a total of 92,084 (107,310) gross square metres of commercial property under development, of which AF's share is 45,273 (51,213) square metres. Property has three commercial projects under construction: Lillo Gård Shops at Nydalen, Securitas Building at Hasle and Hasle Linje Næring Wang Ung at Hasle.

MARKET OUTLOOK

The development of residential property prices in Norway in 2017 shows that the prices at the end of the year were 1.1 per cent lower than the previous year and 6.1 per cent lower than the peak in April 2017. This is according to numbers from Property Norway. The greatest price decline was in Oslo (10.5 per cent). The price movement in January 2018 was also weaker than what is normal for the month. There was, however, a high level of activity in January, and more than 6 700 residential units were sold, an increase of 8.4 per cent, compared with the corresponding month in 2017. This indicates good demand, and in combination with a decline in the number of residential units for sale, this gives us reason to believe that the prices are about to flatten out. Nevertheless, residential buyers still have many units to choose from in the market, which will probably result in a continued moderate price performance in 2018.

The residential price performance in Sweden, like Norway, has been marked by strong growth over a long period of time. Throughout 2017, the residential property prices also fell in Sweden. The residential property prices in January 2018 were 4 per cent lower than the corresponding period in 2017, and Stockholm had the greatest price decline (8 per cent). The Swedish central bank Riksbanken points out that Sweden and the surrounding world are showing strong economic expansion. The central bank assumes that the demand for residential units will remain high and that the decline in prices will be limited and temporary.

SELECTED PROJECTS

LILLO GÅRD

At Lillo Gård in Storo, AF have developed a new residential project together with several partners. Lillo Gård consists overall of 420 apartments, an urban square and a newly restored farm. Lillo Gård and several of the surrounding buildings are listed, and the new homes will be centrally located in an area that is really coming into its own.

COMPLETION: JUNE 2020
OWNERSHIP STAKE: 25%
NUMBER OF UNITS: 420
BUSINESS UNIT: AF EIENDOM

TORNET AT SURTE

At Surte north of Gothenburg, AF is constructing an 11-storey block with 20 apartments, which will be Sutre's new landmark. The apartments are being constructed with a high standard and large southwestern-facing balconies. Most of the apartments will have a wonderful vast view of the Göta River, which flows past the apartments. It is expected that the apartments will be occupied in the first quarter of 2018.

COMPLETION: FEBRUARY 2018
OWNERSHIP STAKE: 100%
NUMBER OF UNITS: 20
BUSINESS UNIT: AF PROJECTUTVECKLING

ROLFSBUKTA TERRASSE

At Rolfsbukta in Fornebu, AF Gruppen and its partners have developed a residential project with 72 apartments that vary in size from 53 to 128 square metres, all with private outdoor spaces. The apartments are divided across five buildings with a common basement. There has been a focus on ensuring plenty of sun in the design of the apartments. Rolfsbukta terrasse satisfies the energy class B requirements.

COMPLETION: MAY 2017
OWNERSHIP STAKE: 33%
NUMBER OF UNITS: 72
BUSINESS UNIT: AF EIENDOM

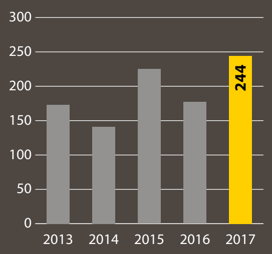
SECURITAS BUILDING AT HASLE

At Hasle, AF Gruppen, in cooperation with Höegh Eiendom, is building a new eight-storey office building with two basement floors, which will be the new head office of Securitas. The building will have an A energy rating, comply with the passive house standard and achieve a BREEAM-NOR environmental classification of "Very Good".

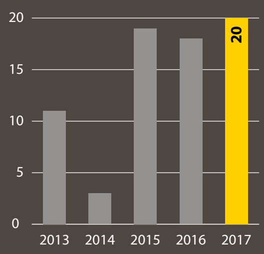
COMPLETION: MARCH 2018
OWNERSHIP STAKE: 50%
BUSINESS UNIT: AF EIENDOM

ENERGY

REVENUES NOK MILL.



OPERATING PROFIT NOK MILL.



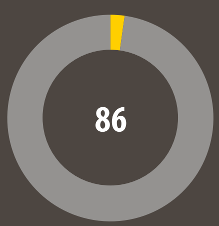
GEOGRAPHIC PRESENCE

- Norway
- Lithuania

KEY FIGURES

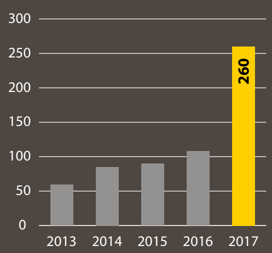
NOK million	2017	2016	2015
Revenue	244	177	225
Operating profit (EBIT)	20	18	19
Earnings before tax (EBT)	22	16	21
Operating margin	8.2%	10.0%	8.3%
Profit margin	9.1%	8.9%	9.4%
Order backlog	260	108	90

EMPLOYEES



AF Gruppen 3,768

ORDER BACKLOG NOK MILL.



ENERGY CONSIST OF

- AF Energi & Miljøteknikk
- *Boligenergi*

INCREASING LEVEL OF ACTIVITY AND GOOD RESULTS

The year 2017 has been marked by an increasing level of activity, good operational performance by ongoing projects and good results.

The Energy business area provides energy-efficient and future-oriented technical energy services for buildings and industry. The business area consists of a single business unit, AF Energi & Miljøteknikk, but it also has activities in Boligenergi AS, which is owned jointly with OBOS. AF Energy provides services in Norway.

Energy's range of services includes thorough energy analyses that result in a system design and the implementation of measures to conserve the consumption of energy. AF designs, installs and monitors local heating plants for commercial buildings and industry, in addition to supplying heating and cooling plants for residential and commercial buildings. In addition, services related to the operational monitoring of energy plants, energy services and energy monitoring are provided. Boligenergi offers total energy conservation and renewable energy solutions for housing cooperatives and condominiums.

YEAR 2017 IN BRIEF

In 2017, the Energy business area reported revenues of NOK 244 million (177 million). Earnings before tax were NOK 22 million (16 million). This corresponds to a profit margin of 9.1 (8.9) per cent. The good results can be attributed to good operational performance and efficient use of resources in the projects.

The energy services market is growing, and the size of the contracts is increasing at the same time. It is in Energy Conservation and Energy Services in particular that the unit has experienced growth in 2017.

In 2017, the unit AF Energija Baltic was established in Lithuania. The unit will primarily be a supplier to the Norwegian Energy business.

There is a high level of tender calculation activity and a good order backlog in the Energy business area. At the end of the year, the order backlog was NOK 260 million (108 million).

MARKET OUTLOOK

The authorities in Norway have defined ambitious energy goals related to a reduction in the consumption of energy towards the year 2030. These goals are to be realised through a significant reduction in the consumption of energy by existing buildings compared with the current level, among other things. Enova has found that there is a major maintenance backlog for public buildings and major conservation opportunities in connection with the rehabilitation of buildings. The delivery of complete heating and cooling plants is another interesting market. The demand here is associated with new residential and commercial building starts, where a high number of starts is expected in 2018. The market for energy performance contracts (EPCs) in municipalities and public enterprises is also an interesting market area for AF. There has been a significant increase in the number of advertised energy performance contracts in recent years, and this growth is expected to continue.

Overall, a good market is expected for AF's energy activities.

SELECTED PROJECTS

CAMPUS ÅS, HEATING AND COOLING PLANT

AF is delivering the heating and cooling plant at Campus Ås. Heating and cooling is supplied to eight buildings with 2,400 rooms and a total area of 63,000 square metres through 55 kilometres of piping. The heating comes from the local district heating plant. The cooling is produced by AF's solution – underground cooling energy stores filled with 40,000 cooling elements. Campus Ås is being built as a passive house that provides great energy savings potential.

CLIENT: STATSBYGG
COMPLETION: MAY 2020
CONTRACT VALUE: NOK 109 MILLION, EXCL. VAT
BUSINESS UNIT: AF ENERGI & MILJØTEKNIKK

LINDHØY ENERGY PLANT, FÆRDER

AF has delivered an energy plant that consists of five heat pumps with a total capacity of 370 kW, an electric boiler with a capacity of 600 kW and a well farm with over 30 wells that are 300 metres deep. Outdoor area, water and sewer system and parking area with charging stations for electric vehicles, as well as a retention basin for surface water was also included in the contract. Four customer plants for heating have been installed and two buildings were equipped with free cooling. Four ventilation units have been converted to water-borne heating.

CLIENT: TJØME MUNICIPALITY
COMPLETION: NOVEMBER 2017
CONTRACT VALUE: NOK 20 MILLION, EXCL. VAT
BUSINESS UNIT: AF ENERGI & MILJØTEKNIKK

SØRUM MUNICIPALITY, EPC CONTRACT

The EPC contract in Sørum Municipality resulted in energy savings of close to 33 per cent, far beyond what was guaranteed in the contract. The measures that were implemented by AF included the establishment of energy monitoring, operational optimisation, ventilation, automation, insulation, pumps, water purification and treatment. In 2017, AF provided energy savings beyond the contractual guarantees for all the EPC contracts carried out.

CLIENT: SØRUM MUNICIPALITY
COMPLETION: DECEMBER 2016
CONTRACT VALUE: NOK 3.4 MILLION, EXCL. VAT
BUSINESS UNIT: AF ENERGI & MILJØTEKNIKK

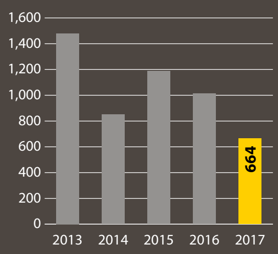
WILHELMSEN CHEMICALS, ENERGY CONVERSATION

AF has constructed a new transformer building and established a 400V power supply for the factory, in addition to delivering a 300 kW heat pump and 900 kW electric boiler as a replacement for the old burner. A new system to preheat water for production contributes to a significantly higher production capacity. Four old ventilation units have been replaced by new units that ensure efficient distribution and heat recycling. The outdoor area around the transformer building has been levelled and asphalted.

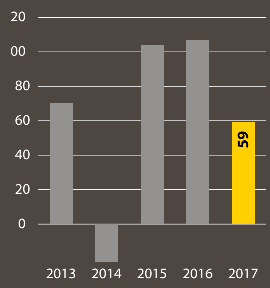
CLIENT: WILHELMSEN CHEMICALS AS
COMPLETION: DECEMBER 2017
CONTRACT VALUE: NOK 13 MILLION EXCL. VAT.
BUSINESS UNIT: AF ENERGI & MILJØTEKNIKK

OFFSHORE

REVENUES NOK MILL.



OPERATING PROFIT NOK MILL.



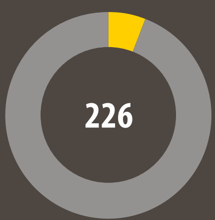
GEOGRAPHIC PRESENCE

- Norwegian and British continetal shelf
- Norway
- UK
- China

KEY FIGURES

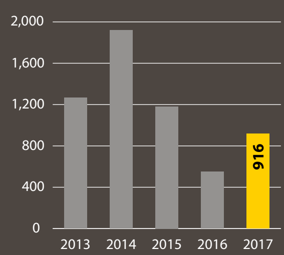
NOK million	2017	2016	2015
Revenue	664	1 014	1 187
Operating profit (EBIT)	59	107	104
Earnings before tax (EBT)	49	94	83
Operating margin	8.8%	10.5%	8.7%
Profit margin	7.4%	9.3%	7.0%
Order backlog	916	550	1 182

EMPLOYEES



AF Gruppen 3,768

ORDER BACKLOG NOK MILL.



OFFSHORE CONSIST OF

- AF Offshore Decom
- *AF Offshore Decom UK Ltd.*
- *AF Miljøbase Vats*
- AF AeronMollier
- *Aeron Energy Technology Co.*

LOWER LEVEL OF ACTIVITY WITH GOOD RESULTS

AF Offshore delivered very good results for 2017, even though the market conditions in the offshore sector are challenging in general.

The Offshore business area encompasses AF's services connected to the removal, demolition and recycling of offshore installations. Offshore also includes new building, modification and maintenance work related to HVAC and rig services. In addition, Offshore has services related to the maintenance and modification of onshore facilities for the oil and gas industry.

Offshore consists of the business units AF AeronMollier and AF Offshore Decom with subsidiaries. Offshore also has activities in AF Miljøbase Vats and activities related to the maintenance and modification of onshore facilities.

YEAR 2017 IN BRIEF

Offshore reported revenues of NOK 664 million (1,014 million) for 2017. Earnings before tax was NOK 49 million (94 million). This yielded a profit margin of 6.5 per cent, compared with 9.3 per cent in 2016.

AF Offshore Decom performed well and reported good results for 2017. The unit reported a lower level of activity in 2017 than in 2016, since the revenues and results in 2016 were affected by a successful offshore campaign in connection with the removal of the Murchison platform. The unit did not have any significant offshore campaigns in 2017, but there has been a high level of activity at AF Miljøbase Vats, as well as the planning and start-up of new projects.

In 2017, AF Offshore Decom was awarded a contract as a subcontractor to Heerema Marine Contractors by ConocoPhillips Skandinavia AS in connection with the removal and recycling of platforms linked to the Ekofisk field in the North Sea. The contract encompasses four platforms, and an option for one additional platform during the period from 2017 to 2022. In addition, AF Offshore Decom received notice in September that ConocoPhillips (UK) Limited will enter into a framework agreement for the future removal and decommissioning of up to seven platforms in the southern North Sea over the next ten years. AF Offshore Decom UK is studying the opportunities to establish operations in the British sector of the North Sea in cooperation with Forth Ports Limited at Dundee Harbour.

AF AeronMollier has experienced challenging market conditions for a long period of time. The unit reported a low level of activity for 2017 and delivered a weak result. Organisational adaptations were made during the year, which included increasing sales to the cruise and passenger vessel segment, as well as a greater focus on land-based projects. AeronMollier has also expanded its range of services to include a greater degree of electrical and piping services related to existing business and is studying the opportunities within this area.

At year end, the Offshore business area had an order backlog of NOK 916 million (550 million). New projects related to the removal of platforms contracted in 2017 will primarily be carried out in 2019 or later. The order backlog related to other offshore activities will largely be carried out in 2018.

MARKET OUTLOOK

Low oil prices have contributed to reduced profitability and a reluctance to invest among oil companies. Statistics Norway estimates that investments related to oil, gas and pipeline transport will amount to NOK 144.3 billion in 2018. This is a decline of 1.6 per cent compared with the corresponding figures for 2017. Lower oil prices will reduce the profitability of the oil fields in the North Sea, and the oil companies will to a greater extent than previously consider shutting down and removing the older platforms. The market outlook for offshore demolition activities therefore has a positive correlation with lower oil prices. The market for the removal of offshore installations is marked by strong competition and few demolition projects to be carried out in 2018 and 2019. Estimates from the British industry organisation Oil & Gas UK indicate that more than 200 platforms must be removed fully or partially on the British, Norwegian, Danish and Dutch sectors during the period from 2017 to 2025. This represents good opportunities for AF's activities related to the demolition and removal of decommissioned oil installations.

For AF's offshore activities in the HVAC area, as well as maintenance and modifications, the market conditions are still challenging, but growth is expected for the cruise and passenger vessel segments.

SELECTED PROJECTS

CAT 3

In 2017, AF entered into an agreement with Conoco Philips regarding the removal and recycling of four platforms in the Ekofisk area. The platforms have a combined weight of more than 36,500 tonnes. The first part of the platform removal was carried out in December 2017, and the project will continue for several years. The contract encompasses engineering, preparation, removal and decommissioning (EPRD).

CLIENT: CONOCO PHILLIPS
COMPLETION: 2021
CONTRACT VALUE: NOT STATED
BUSINESS UNIT: AF OFFSHORE DECOM

JANICE

Janice A is a semi-submersible rig, originally built and used as an accommodation vessel. The rig was subsequently rebuilt as a floating production unit and used at the Janice field for Maersk Oil UK. The rig, which weighs approximately 18,500 tonnes, will be cut up at AF Miljøbase Vats and processed onshore prior to demolition and recycling. The method used for Janice is new and represents an expansion of the range of services provided by AF Offshore Decom.

CLIENT: MAERSK OIL & GAS UK
COMPLETION: 2017
CONTRACT VALUE: NOT STATED
BUSINESS UNIT: AF OFFSHORE DECOM

MURCHISON

AF has completed the removal of the Murchison platform in the North Sea in a consortium with Heerema Marine Contractors Netherlands SE. The platform weighed more than 37,000 tonnes. The platform's topsides were removed over the course of three months in 2016, and in the spring of 2017 the steel jacket was transported to AF Miljøbase Vats, where the demolition will be completed in 2020 – one year ahead of the original schedule. Overall, 96 per cent of Murchison will be recycled.

CLIENT: CANADIAN NATURAL RESOURCES INTERNATIONAL (U.K.) LIMITED
COMPLETION: 2020
CONTRACT VALUE: NOK 700 MILLION, EXCL. VAT
BUSINESS UNIT: AF OFFSHORE DECOM

PETROJARL

AF has a contract with Teekay for the delivery of HVAC equipment in connection with the rebuilding of the FPSO Petrojarl 1. The delivery encompasses cooling, piping, welding and electrical work. The delivery includes a chiller, 500 metres of plastic piping and 300 metres of Mapress pipes, as well as the installation of cables and cable racks for the entire delivery. Petrojarl 1 will be transported to Brazil after it has been rebuilt.

CLIENT: TEEKAY
COMPLETION: 2017
CONTRACT VALUE: NOT STATED
BUSINESS UNIT: AF AERONMOLLIER

SHAREHOLDER INFORMATION

CORPORATE MANAGEMENT TEAM

MORTEN GRONGSTAD

(1975)
CEO

Morten Grongstad was employed by AF in 2012 and was the Executive Vice President for Property and Building before he was appointed CEO in 2015. He was formerly the CEO of Fornebu Utvikling, and he has experience from Orkla Eiendom and McKinsey. Morten Grongstad has an advanced economics degree (siviløkonom) from BI Norwegian Business School. He owns 205,923 shares and 35,922 options in AF Gruppen ASA as at 31 December 2017.

SVERRE HÆREM

(1965)
CFO

Sverre Hærem has been the CFO of AF since 2007. During the period from 2012 to 2013, he was also the Executive Vice President for the Energy business area. He has previously been the CFO of Fjord Seafood ASA and CFO of Dyno. Sverre Hærem has an advanced economics degree (siviløkonom) from BI Norwegian Business School. He owns 120,662 shares and 24,918 options in AF Gruppen ASA as at 31 December 2017.

EIRIK WRAAL

(1979)
Executive Vice President

Eirik Wraal is responsible for the Environment business area and corporate social responsibility at AF Gruppen. He came from the position of head of AF Decom and has been with the company since 2004. Eirik Wraal has also held various operational roles in AF's environmental business and has an advanced engineering degree (sivilingeniør) from the Norwegian University of Science and Technology (NTNU). He owns 20,003 shares and 21,970 options in AF Gruppen ASA as at 31 December 2017.

ARILD MOE

(1965)
Executive Vice President

Arild Moe is responsible for the Civil Engineering business area. He has held various managerial positions at AF and has been employed by the company since 1990. Arild Moe has a degree in construction and civil engineering from Oslo University College and a degree in business economics from the University of Agder. He owns 251,261 shares and 24,152 options in AF Gruppen ASA as at 31 December 2017.

ANDREAS JUL RØSJØ

(1980)
Executive Vice President

Andreas Jul Røsjø is responsible for the Property and Energy business areas. He has held various managerial positions at AF and has been employed by the company since 2007. Before he came to AF, he worked as a consultant at Capgemini. Andreas Jul Røsjø has an advanced degree in economics (siviløkonom) from BI Norwegian Business School. He owns 54,947 shares and 21,970 options in AF Gruppen ASA as at 31 December 2017.

BÅRD FRYDENLUND

(1968)
Executive Vice President

From 1 January 2018, Bård Frydenlund is responsible for HR, communications and the Swedish operations, which were established as a separate business area from 2018. He was responsible for HR and Building in the South West in 2017. He has worked for AF since 2000. He has been the Vice President Human Resources and had various roles in finance and accounting. Bård Frydenlund has a degree in economics (diplomøkonom) and Master of Management from BI Norwegian Business School. He owns 124,864 shares and 21,970 options in AF Gruppen ASA as at 31 December 2017.

HENNING OLSEN

(1978)
Executive Vice President

Henning Olsen is responsible for the Building business area. He came from the position of head of AF Eiendom and was formerly the CFO of AF Bygg Oslo. He has been with AF since 2010. Previously, he has worked at Statkraft and BCG. Henning Olsen has an advanced degree in economics (siviløkonom) from BI Norwegian Business School. He owns 27,805 shares and 21,970 options in AF Gruppen ASA as at 31 December 2017.

AMUND TØFTUM

(1978)
Executive Vice President

Amund Tøftum is responsible for the Offshore business area. He came from the position of project director at AF Offshore Decom. Amund Tøftum has an advanced engineering degree (sivilingeniør) from the Norwegian University of Science and Technology (NTNU) and has worked at AF since 2005. He owns 66,344 shares and 21,970 options in AF Gruppen ASA as at 31 December 2017.

BOARD OF DIRECTORS

PÅL EGIL RØNN

(1968)
Board Chairman

Pål Egil Rønn was the CEO of AF Gruppen from 2007 to 2015. He has held various managerial positions at AF Gruppen since 1999. His other board positions include Bouvet ASA, Sparebank 1 Gudbrandsdalen and Øster Hus Gruppen AS. He has an advanced engineering degree (sivilingeniør) and doctorate from the Norwegian University of Science and Technology (NTNU).

BORGHILD LUNDE

(1965)
Board Member

Throughout her career, Borghild Kunde has held managerial positions in the oil and gas industry at ABB. She is now the Director of Oil, Gas and Chemicals at ABB and is a member of the corporate management team for the Norwegian operations. In the global management group for Oil, Gas and Chemicals, she is responsible for Denmark and Russia. She has an advanced engineering degree (sivilingeniør) from the Norwegian University of Science and Technology (NTH).

DANIEL KJØRBERG SIRAJ

(1975)
Board Member

Daniel Kjørberg Siraj is the CEO of OBOS. He was the former CEO of OBOS Nye Hjem and OBOS Fornebulandet. Previously, he was also the Director of Strategy and Business Development at OBOS, and a lawyer and city government secretary for business and urban development for the City of Oslo. Other board positions include Board Chairman of Block Watne AS. He has a law degree (cand.jur.) from the University of Oslo.

ARNE SVEEN

(1970)
Board Member

Arne Sveen is an employee representative on the Board of Directors. He has worked at AF since 1999, and has held the roles of chief employee representative and chief safety representative for the past twelve years, with responsibility for the Collective Agreement for Building Trades. Previously, he worked as a crane operator/site preparation worker at AF Bygg Oslo.

HEGE BØMARK

(1963)
Board Member

Hege Bømark has a background as a financial analyst at Fearnley Finans (Fonds) AS and Orkla Finans (Fondsmegling) AS. Past board positions have included Norwegian Property ASA, Fornebu Utvikling ASA and BWG Homes ASA, and she is currently a board member at Europris ASA, Union Eiendomsinvest Norge AS and OBOS-banken AS. She has an advanced economics degree (siviløkonom) from the Norwegian School of Economics (NHH).

KENNETH SVENDSEN

(1973)
Board Member

Kenneth Svendsen is an employee representative on the Board of Directors. Has been with AF Gruppen since 1998 and has had various roles within the company, including surveying supervisor, operations manager and project manager. He is currently the head of AF Anlegg's underground service division. He has a degree in construction and civil engineering from Narvik University College.

KRISTIAN HOLTH

(1984)
Board Member

Kristian Holth has a background as the CFO of KB Gruppen Kongsvinger AS and Contiga AS. He also has experience from McKinsey & Company. Other board positions include Gunnar Holth Grusforretning AS, Nordic Precast Group and BRG Entreprenør AS. He has an advanced engineering degree (sivilingeniør) in industrial economics from the Norwegian University of Science and Technology (NTNU).

PÅL JACOB GJERP

(1957)
Board Member

Pål Jacob Gjerp is an employee representative on the Board of Directors. He was employed by AF Gruppen in 2000 as a specialist in concrete. Today he is the QA manager at AF Bygg Oslo. He has previously worked at NOTEBY (Multiconsult), Norwegian Concrete Technologies and PA Entreprenør. He has an advanced engineering degree (sivilingeniør) from the Norwegian University of Science and Technology (NTH).

CORPORATE GOVERNANCE

AF Gruppen is a values-based company with a strong culture. AF Gruppen's values together with the principles for risk management and internal control make up the cornerstones of corporate governance.

KEY EVENTS IN 2017

Work on the implementation of a new corporate strategy for 2017-2020 has been an important item for the Board of Directors in 2017. The new corporate strategy highlights four principal initiatives for AF's future work: organic and structural growth, customer and partner relations, creativity and innovation, and management capacity and technical expertise. The initiatives were reviewed thoroughly at each board meeting to ensure that the strategy is operationalised well in the business units.

The acquisition of 70% of the shares in Kanonaden Entreprenad was also completed in 2017. The acquisition has given AF Gruppen an opportunity to participate in the growing civil engineering market in Sweden and was in accordance with the strategy's focus on Sweden.

WORK OF THE BOARD OF DIRECTORS

Good corporate governance is the responsibility of the Board of Directors. The Board of Directors annually reviews AF Gruppen's principles and code of practice for corporate management and prepares a statement in accordance with the Norwegian Code of Practice of 30 October 2014, cf. www.nues.no.

The Board has an established annual plan for its work. The annual plan includes a review of risk areas and internal control, as well as the approval of the strategy, interim financial statements, annual financial statements and budget. In addition, the core values, guidelines for ethics and social responsibility and organisational structure are reviewed.

In addition to the regular items, the Board of Directors considers all potential acquisitions, site investments and contract tenders with a contract sum in excess of NOK 600 million. The tenders are considered, for example, on the basis of strategic, financial and organisational criteria, and important risk factors are highlighted in particular. Contracts with a lower contract sum are also considered by the Board of Directors if the risk situation or other factors so indicate. In 2017, the Board of Directors considered 14 tenders before the tenders were submitted, as well as four potential site investments in connection with property development.

BOARD OF DIRECTORS

Members	Number of shares [1]	Attendance record
Pål Egil Rønn (Chairman)	207 225	10/10
Daniel Kjørberg Siraj (Deputy Chairman)	18 066 733	9/10
Hege Bømark	-	9/10
Borghild Lunde	10 000	10/10
Kristian Holth	14 763 291	8/10
Gunnar Bøyum (alternate)	-	7/7
Kenneth Svendsen	88 370	9/10
Pål Jacob Gjerp	51 043	10/10
Arne Sveen	-	7/10

[1] Number of shares owned as at 31 December 2017 includes shares that belong to the immediate family and companies in which the individual has a controlling influence.

BOARD'S AUDIT COMMITTEE
Hege Bømark (Chairman)
Borghild Lunde
Gunnar Bøyum

BOARD'S COMPENSATION COMMITTEE
Daniel Kjørberg Siraj (Chairman)
Pål Egil Rønn
Kristian Holth

NOMINATION COMMITTEE
Tore Thorstensen (Chairman)
Ove B. Haupberg
Peter Groth

EXTERNAL AUDITOR
PricewaterhouseCoopers AS

The complete statement of corporate governance is available at afgruppen.no

AF'S COMPLIANCE WITH THE NORWEGIAN CODE OF PRACTICE FOR CORPORATE GOVERNANCE

	Section of the Norwegian Code of Practice for Corporate Governance	Deviation from the Code of Practice
1	Statement of corporate governance	No deviation
2	Activities	No deviation
3	Share capital and dividends	No deviation
4	Equal treatment of shareholders and transactions with related parties	No deviation
5	Negotiability	No deviation
6	General Meeting	Three deviations, see the text below
7	Nomination Committee	One deviation, see the text below
8	Corporate Assembly and Board of Directors – composition and independence	No deviation
9	Work of the Board of Directors	No deviation
10	Risk management and internal control	No deviation
11	Directors' fees	No deviation
12	Remuneration of executive personnel	One deviation, see the text below
13	Information and communication	No deviation
14	Company takeover	No deviation
15	Auditor	No deviation

DEVIATIONS FROM THE NORWEGIAN CODE OF PRACTICE FOR CORPORATE GOVERNANCE

In the opinion of the Board of Directors, AF Gruppen has deviations from three of the sections in the Code of Practice:

Section 6. General Meeting
AF Gruppen has three deviations from the Code of Practice for this section.

The General Meeting is not chaired by an independent chairperson, but by the Board Chairman. The fact that the General Meeting shall be chaired by the Board Chairman in stipulated in the Articles of Association. The need for an independent chairperson has not been considered necessary either based on the items that are reviewed at the General Meeting and a limited degree of disagreement among the shareholders.

The second deviation from this section is the fact that not all the board members attend the General Meeting.

The Board of Directors considers it adequate that the Board Chairman, Chairmen of the Audit Committee and Chairman of the Compensation Chairman are present. Other board members will attend as required.

The third deviation from this section is the fact that the entire Nomination Committee does not attend the General Meeting.
The Nomination Committee considers it adequate that the Nomination Committee Chairman is present and that the other members attend as required.

Section 7. Nomination Committee
AF Gruppen has one deviation from the Code of Practice for this section. The majority of the Nomination Committee is not independent of the Board of Directors.

Section 12. Remuneration of executive personnel
AF Gruppen has one deviation from the Code of Practice for this section. There is no ceiling for performance-related remuneration for employees. This has been adopted by the Board of Directors with the aim that employees, in the same manner as the owners, shall have an opportunity to share in the creation of value without limitation.

THE SHARE

After a strong upturn for several years, shares in AF and most of the other contractor shares retreated somewhat in 2017. Including dividends, the shares in AF yielded a return of -8 per cent, while the Oslo Stock Exchange's benchmark index rose 19 per cent.

AF Gruppen was listed on 8 September 1997. The shares are listed on the Oslo Stock Exchange's OB Match list and trade under the ticker AFG. There is only one class of shares, and all the shares carry voting rights. The AF share is included in the total index, benchmark index, fund index and mid-cap index.

RETURN AND TURNOVER

The company's goal is to create value for shareholders through a competitive return relative to comparable investment alternatives. This return will be a combination of dividends and share price appreciation.

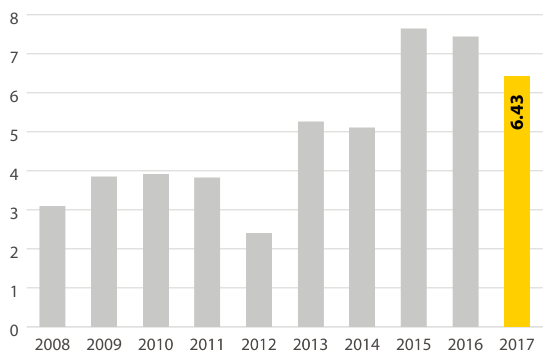
The AF share fell 14 per cent in 2017, and its closing price as at 31 December 2017 was NOK 133.50 (154.50). Adjusted for the total dividend of NOK 8.50 per share distributed in 2017, the return was -8 per cent. AF Gruppen is still among the shares on the Oslo Stock Exchange that have yielded the highest return for its shareholders. Over the last five years, the AF share has yielded a return of 232 per cent, including dividends. This corresponds to an average annual return of 27 per cent. In comparison, the Oslo Stock Exchange's benchmark index rose 83 per cent over the last five years, which corresponds to an average annual return of 7 per cent.

The liquidity of the share has improved in recent years. From 2009 to 2013, the turnover rate for the AF share was approximately 3 per cent per year. The turnover rate for the years 2014-2017 was 8.5 per cent. In 2017, a total of 8,137,064 (6,690,343) shares were traded on the stock exchange. The AF share was traded on 253 out of 253 possible trading days, and the average turnover for each trading day was 32,419 (26,444) shares. Of the 8.1 million shares that were traded on the stock exchange in 2017, AF Gruppen itself accounted for 394,291 (223,772) shares, corresponding to 4.8 (3.3) per cent of the total turnover. These are shares the company bought on the stock exchange for use in the share and bonus programmes for employees.

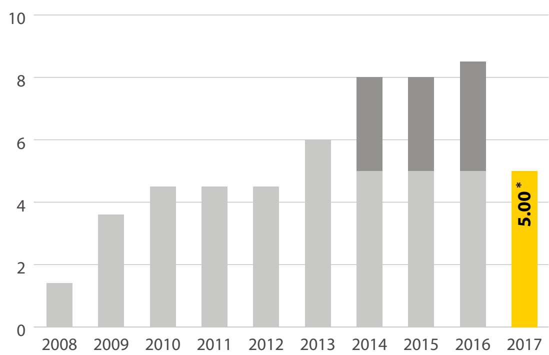
DIVIDEND

Over time, AF Gruppen should provide its shareholders with a competitive return. Provided that the underlying performance is satisfactory, AF Gruppen assumes that dividends will be stable and, preferably, rise the future. The Board

EARNINGS PER SHARE (NOK)



DIVIDEND PER SHARE (NOK)

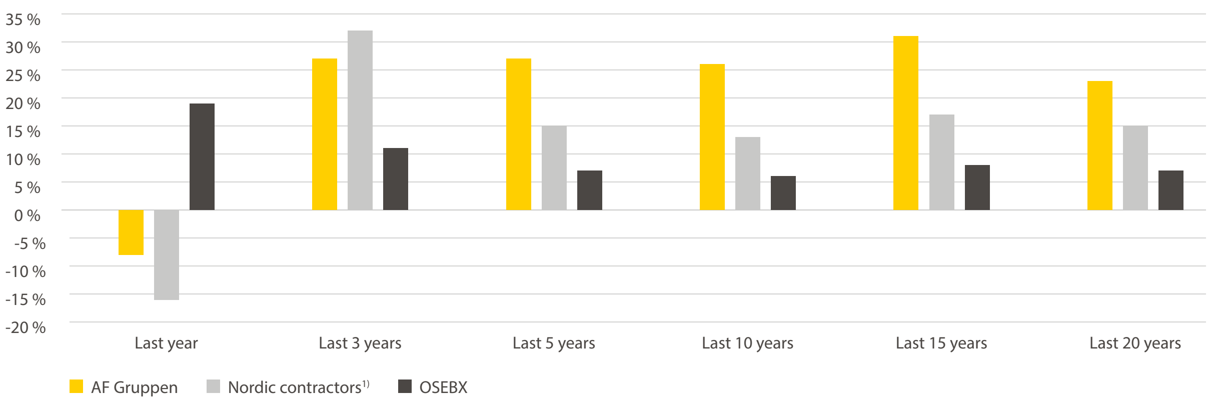


** Proposed, not adopted dividend for 1st half-year 2018*

Key figures for the share	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Market value (NOK million)	13 078	14 463	12 929	7 009	5 578	4 578	3 556	2 845	2 242	1 269
Number of shares traded (1.000)	8 137	6 690	10 370	7 102	2 559	2 568	2 095	2 969	1 945	1 605
Total number of shares as at 31.12 (Mill.)	97.96	93.61	92.68	88.72	82.33	81.38	80.81	71.12	70.50	69.35
Number of shareholders as at 31.12	3 158	2 737	2 575	1 815	1 494	1 407	1 254	914	733	686
Share prices as at 31.12	133.50	154.50	139.50	79.00	67.75	56.25	44.00	40.00	31.80	18.30
– High	162.00	164.50	139.50	82.00	72.00	59.25	53.00	43.00	31.80	27.70
– Low	122.00	120.00	77.25	66.50	54.75	41.50	38.60	32.60	18.20	16.90
Earnings per share (NOK)	6.43	7.44	7.64	5.11	5.26	2.40	3.83	3.92	3.85	3.10
Diluted earnings per share (NOK)	6.43	7.29	7.50	5.09	5.11	2.37	3.83	3.82	3.85	3.10
Dividends per share (NOK)	*5.00	8.50	8.00	8.00	6.00	4.50	4.50	4.50	3.60	1.40
Distribution ratio	77.8%	114.2%	104.7%	156.6%	114.1%	187.5%	117.5%	114.8%	93.5%	45.2%
Direct return	3.8%	5.5%	5.7%	10.1%	8.9%	8.0%	10.2%	11.3%	11.3%	7.7%
Share's total return	-8.1%	16.5%	89.2%	25.5%	28.4%	38.1%	21.3%	37.1%	81.4%	-27.8%
Return on equity (ROE)	35.8%	43.3%	43.8%	34.3%	38.4%	19.0%	28.5%	37.6%	33.1%	33.5%
Share price /earnings per share (P/E)	20.8	20.8	18.3	15.5	12.9	23.4	11.5	10.2	8.3	5.9
Share price / equity per share (P/B)	6.3	7.4	7.1	4.7	4.2	3.8	2.7	2.9	2.5	1.7
Return on average capital employed (ROaCE)	42.7%	54.2%	53.6%	38.7%	45.7%	24.8%	35.9%	36.0%	35.7%	33.0%
Enterprice value / EBIT (EV/EBIT)	12.8	13.4	12.2	11.2	8.5	13.5	8.0	6.2	6.1	4.8
Enterprice value /Invested capital (EV/CE)	5.4	6.7	6.4	3.9	3.4	3.3	2.1	2.2	2.0	1.3

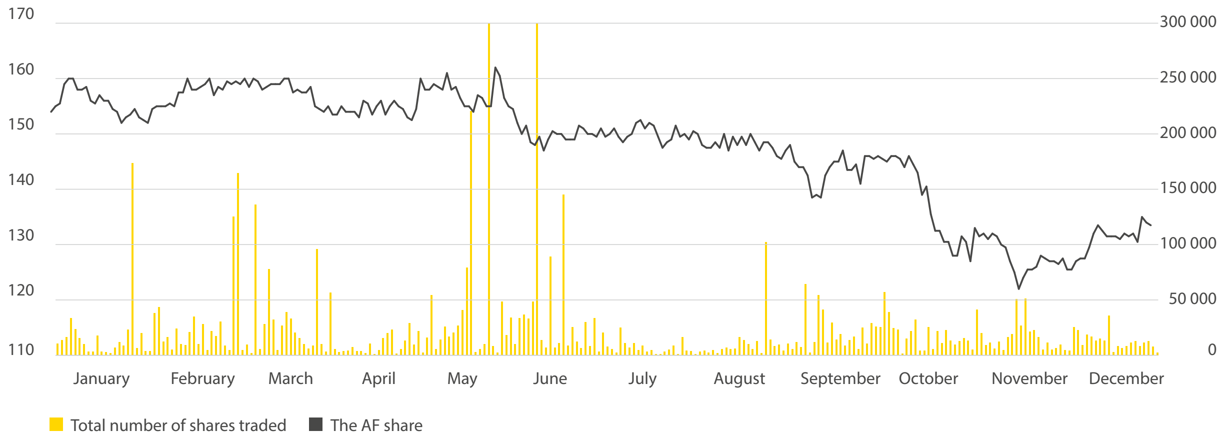
** Proposed, not adopted dividend for payment 1st half-year 2018*

BAR GRAPH OF THE ANNUAL TOTAL RETURN OVER 1, 3, 5, 10, 15 AND 20 YEARS



[1] *Unweighted avarage of competing nordic contractors (local currency)*

GRAPH FOR THE AF SHARE FOR 2017



evaluates the company's liquidity and possible strategic transactions before proposing a dividend to the General Meeting. The intention over time is to distribute a minimum of 50 per cent of the profit for the year as a dividend.

In 2015, AF Gruppen changed its dividend policy. The change entailed the distribution of a dividend up to twice a year, provided the company's earnings so allow. Distribution will preferably take place after the Annual General Meeting and after presentation of the quarterly results for the 3rd quarter. The company paid a dividend of NOK 3.50 per share in November 2017, in addition to the NOK 5.00 per share that was paid in May 2017. A total of NOK 8.50 per share was paid in 2017 for the 2016 financial year.

For the 2017 financial year, the Board of Directors proposes distribution of a dividend of NOK 5.00 per share for the 1st half of 2018 to the General Meeting. The dividend will be distributed on 23 May to shareholders of record as at 14 May 2018.

SHARE CAPITAL AND SHAREHOLDER COMPOSITION

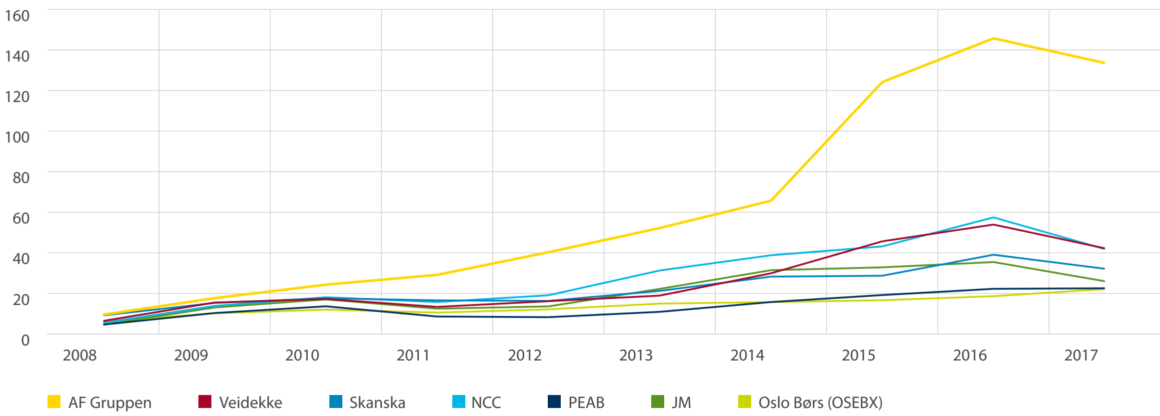
At the start of 2017, the share capital was NOK 4,680,500, divided into 93,610,000 shares, each with a nominal value of NOK 0.05. During the year, the company carried out three new share issues for a total of 4,351,000 shares. The new issues were carried out in connection with the acquisition of companies (318,766 shares), the employees' redemption of options (3,253,346 shares) and the company's share programme for employees (778,888 shares). As a result of these new issues, the share capital increased by NOK 217,550 and totalled NOK 4,898,050, divided into 97,961,000 shares, each with a nominal value of NOK 0.05, at the end of 2017.

In 2017, AF Gruppen also gained additional shareholders. At the end of the year, there were 3,158 (2,737) shareholders on the list of shareholders, and around 1,500 were employees of the AF Gruppen.

Shareholders	Number of shares	% of total
OBOS BBL	18 066 733	18.44%
ØMF Holding AS	14 752 859	15.06%
Constructio AS	13 741 782	14.03%
Folketrygdfondet	6 924 956	7.07%
ARTEL II AS	2 508 267	2.56%
LJM A/S	2 413 900	2.46%
VITO Kongsvinger AS	1 861 676	1.90%
Arne Skogheim AS	1 753 870	1.79%
Landsforsakringar Fastighetsfond	1 695 454	1.73%
Staavi, Bjørn	1 560 000	1.59%
Moger Invest AS	1 240 541	1.27%
Flygind AS	1 021 509	1.04%
JP Morgan Chase Bank	999 504	1.02%
Stenshagen Invest AS	609 977	0.62%
KLP AksjeNorge Indeks	572 674	0.58%
Eriksson, Erik Håkon	560 000	0.57%
JANIKO AS	522 741	0.53%
Skandinaviska Enskilda Banken AB	443 245	0.45%
Regom Invest AS	433 212	0.44%
Riddervold, Esben A.	400 000	0.41%
Total 20 largest	**72 082 900**	**73.58%**
Total other shareholders	25 732 999	26.27%
Treasury shares	145 101	0.15%
Total number of shares	**97 961 000**	**100.00%**

Number of shares	Number of owners	Per cent
1–100	579	0.02%
101–500	508	0.14%
501–1 000	393	0.34%
1 001–5 000	851	2.27%
5 001–10 000	336	2.43%
10 001–100 000	420	11.51%
100 001–1 000 000	59	14.33%
> 1 000 000	12	68.95%
Total	**3 158**	**100.00%**

GRAPH FOR THE PRICE PERFORMANCE FOR THE LAST 10 YEARS COMPARED WITH COMPETING CONTRACTORS AND THE OSLO STOCK EXCHANGE



Oslo Stock Exchange and competing contractors rebased, 31 December 2017 =13.30
Local currency, total return

As at 31 December, the ten largest shareholders owned 67 (67) per cent of the company's shares. Employees of AF owned approximately 17 (14) per cent of the shares in the company. At the end of the year, 94.4 (95.3) per cent of the shares were owned by Norwegian shareholders. As at 31 December 2017, OBOS is still AF Gruppen's largest shareholder with 18.4 (16.7) per cent of the company's shares. The greatest changes among the ten largest shareholders in 2017 were the National Insurance Scheme Fund (Folketrygdfondet) increasing its ownership stake from 4.5 to 5.4 per cent and Stenshagen Invest AS reducing its ownership stake from 5.4 to 7.1 per cent. In addition, OBOS increased its ownership stake by 1.7 percentage points through the acquisition of 2.35 million shares from Sole Active AS, which reduced its stake in the company. There have been no significant changes among the other major shareholders.

The buyback of shares will be considered on an ongoing basis in light of the company's alternative investment options, financial situation and need for treasury shares in connection with the sale of shares to employees, options programme, bonus programme and acquisitions. AF Gruppen is authorised by the General Meeting to buy up to 10 per cent of the shares outstanding.

INVESTOR RELATIONS

AF Gruppen's objective is for all investors and other stakeholders to have access to the same financial information on the company at any given time. The information provided by AF Gruppen should ensure that valuation of the share is as correct as possible. Information that may affect the price of the shares will be disclosed through stock exchange announcements to the Oslo Stock Exchange and on the Company's website.

AF Gruppen puts a high priority on contact with the equity market and desires an open dialogue with the players.

AF Gruppen holds public presentations of its quarterly and annual results. These presentations are transmitted directly by a webcast, and are available on the Oslo Stock Exchange's website and AF's own website.

In addition, the company maintains ongoing contact with investors and analysts. The company's website provides a list of the analysts that follow the AF share.

The company follows the Oslo Stock Exchange's recommendations for reporting IR information. Sverre Hærem, Executive Vice President/CFO, is responsible for investor relations.

Analyst coverage table	Telephone
ABG Sundal Collier	+47 22 01 60 98
Arctic Securities	+47 21 01 32 09
Carnegie	+47 22 00 93 54
DNB Markets	+47 24 16 92 09
Handelsbanken	+46 87 01 51 18

FINANCIAL INFORMATION

BOARD OF DIRECTORS' REPORT 2017

AF Gruppen delivered good results for 2017. Revenues increased 15.4 per cent to NOK 13,704 million, and the profit margin for the year was a solid 6.8 per cent. With a robust organisation and record-high order backlog, the Board of Directors is of the opinion that AF is well-positioned for a continued increasing level of activity and good results for the coming year.

OPERATIONS

AF Gruppen is one of Norway's leading contracting and industrial groups and is listed on the Oslo Stock Exchange under the ticker symbol AFG. Ever since the company was established in 1985, the AF organisation has relied on its own execution capabilities and expertise to solve complex tasks. The company's entrepreneurial spirit is distinguished by a willingness to think differently and to seek better, more future-oriented ways of creating value.

AF Gruppen has six business areas: Civil Engineering, Environment, Building, Property, Offshore and Energy. The head office is in Oslo.

VISION

AF's vision is: Clearing away the past and building for the future.

MISSION

AF Gruppen shall create value and opportunities through project activities with an uncompromising attitude towards safety and ethics.

EXPLANATION OF THE FINANCIAL STATEMENTS

The financial statements of AF Gruppen have been prepared in accordance with the International Financial Reporting Standards (IFRS). The financial statements for the parent company, AF Gruppen ASA, have been prepared in accordance with simplified IFRS. The Board of Directors is of the opinion that the annual financial statements provide an accurate and fair picture of the financial results for 2017 and financial position as at 31 December 2017. In accordance with the requirements in the Norwegian accounting legislation, the Board of Directors confirms that the prerequisites have been met for preparation of the accounts under the assumption that the company will continue as a going concern and that the accounts have been prepared under this assumption. The Board's Corporate Governance Statement is an integral part of the Board of Directors' report. The statement is summed up on page 78 of the annual report and is presented in its entirety on afgruppen.no. The treatment of sustainable entrepreneurship and social responsibility is discussed on page 24 of the annual report.

INCOME STATEMENT, BALANCE SHEET AND LIQUIDITY

AF Gruppen reported operating and other revenues of NOK 13,704 million (11,876 million) for 2017. Earnings before interest and tax were NOK 924 million (1,034 million), which corresponds to an operating margin of 6.7 (8.7) per cent. This is well above the long-term operating margin requirement of 5 per cent.

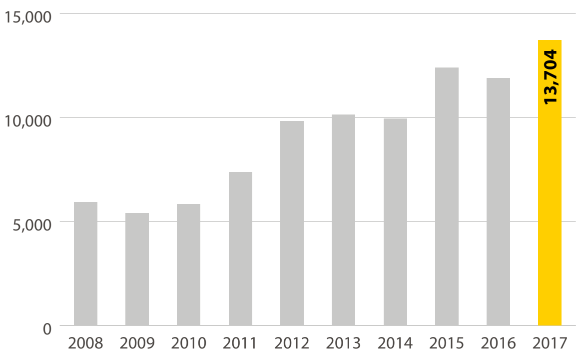
Earnings before tax were NOK 935 million (1,040 million) and the earnings after tax were NOK 754 million (787 million).

In 2017 Civil Engineering started a large number of new projects, but nevertheless delivered a healthy result. The greatest amount of activity has been in the E18 Tvedestrand–Arendal project for Nye Veier, which started in January 2017. Building has had significant growth in revenues and achieved a good result with some regional differences. In Property, the sale of new residential units has declined, but Property has a high level of activity and many projects under construction. This provided good results for 2017. Both Environment and Energy delivered good results for the year and have a solid order backlog. Offshore has a challenging market, but delivered nevertheless good results for 2017.

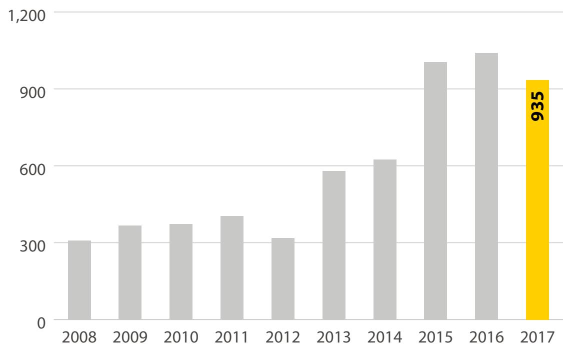
Low oil prices throughout 2017 have resulted in a challenging market for oil-related business. The market for the removal and recycling oil platforms is characterized by strong competition and few demolition projects for 2018 and 2019. Offshore nevertheless reported a good result for 2017. Revenues for 2017 amounted to NOK 664 million (1,014 million) and earnings before tax amounted to NOK 49 million (94 million).

The return on equity was 35.8 (43.3) per cent for 2017. The return on average invested capital was 42.7 (54.2) per cent. Total assets were NOK 7,724 million (6,549 million) as at 31 December 2017. At year end, the Group had net interest-bearing receivables of NOK 1,210 million (606 million) and cash and cash equivalents of NOK 1,098 million (469 million). Shareholders' equity at the end of the year was NOK 2,078 million (1,950 million), which corresponds to an equity ratio of 35.8 (29.8) per cent. Cash flow from operations in 2017 was NOK 1,354 million (822 million). Cash flow before capital transactions and financing

REVENUES (NOK MILLION)



EARNINGS (NOK MILLION)



was NOK 1,235 million (809 million). A dividend of NOK 829 million (744 million) was paid to the shareholders of AF Gruppen ASA in 2017.

THE SHARE

Earnings per share were NOK 6.43 (7.44) in 2017. Diluted earnings per share were NOK 6.43 (7.29).

The Board proposes that an ordinary dividend of NOK 490 million for the first half of the year be distributed for the 2017 financial year. This corresponds to a dividend of NOK 5.00 (5.00) for the first half of the year.

In accordance with AF's dividend policy, semi-annual dividends will be distributed, provided the company's earnings and financial position so allows. AF distributed a dividend of NOK 3.50 (3.00) per share in the 4th quarter of 2017. The combined dividend per share distributed in 2017 was thus NOK 8.50 (8.00).

The share price was NOK 133.5 (154.50) at year end. This yielded a return to shareholders, including dividends for 2017, of -8.3 (16.5) per cent.

DISTRIBUTION OF COMPREHENSIVE INCOME FOR THE YEAR

Comprehensive income for the year for AF Gruppen ASA was NOK 474 million and the following distribution is proposed:

Transferred to (from) other reserves	NOK -16 million
Provision for dividend	NOK 490 million
Total allocations	**NOK 474 million**

BUSINESS AREAS 2017

CIVIL ENGINEERING

Description of the business

The Civil Engineering business area encompasses AF's civil engineering activities in Norway and Sweden. Civil Engineering operations consist of the business units AF Anlegg, Målselv Maskin & Transport, Kanonaden Entreprenad and Pålplintar.

AF Anlegg carries out traditional civil engineering projects throughout Norway in the fields of transport, infrastructure, port facilities and in the oil and gas industry, as well as projects in the fields of hydropower and energy. Målselv Maskin & Transport is the largest machinery contractor in Troms and carries out projects in the areas of technical municipal facilities, road construction, earthmoving, site preparation and concrete work, among others. Kanonaden Entreprenad is engaged in activities in Southern Sweden, including Stockholm, Gothenburg and Mälardalen. The unit performs work in the fields of site preparation, water and sewage, concrete, district heating, cable laying, wind power and roadworks. Pålplintar carries out foundation work projects and produces concrete for industrial, residential and public buildings in Stockholm and Mälardalen.

Amounts in NOK million	2017	2016	2015
Revenues	4 478	3 368	3 760
Operating profit (EBIT)	292	461	339
Earnings before tax (EBT)	311	475	339
Operating margin	6.5%	13.7%	9.0%
Result margin	7.0%	14.1%	9.0%
Order backlog	6 510	5 589	3 402

In 2017, Civil Engineering reported revenues of NOK 4,478 million (3,368 million). This represents growth in revenues of 33.0 per cent compared with 2016. Operating profit for 2017 amounted to NOK 292 million (461 million) and earnings before tax amounted to NOK 311 million (475 million). The operating margin was 6.5 (13.7) per cent.

AF Anlegg saw a very high level of activity in 2017 and delivered good results. AF Anlegg has, for example, started work for Nye Veier in 2017 on E18 Tvedestrand–Arendal, which has a contract value of NOK 3.2 billion. The recognition of earnings is normally lower at the start of a project when the risk is still high and increases gradually as the risk is reduced. Earnings in 2017 have been marked by the start-up of new projects, while the earnings in 2016 were marked by the completion of several projects. Målselv Maskin & Transport had a good year in 2017 with a high level of activity and good results. Kanonaden Entreprenad reported good operational performance and delivered good results for the year. Pålplintar reported a lower level of activity and weak results.

Acquisitions

In February 2017, AF entered into an agreement with the Swedish contractor Kanonaden Entreprenad AB to acquire 70 per cent of the company. Kanonaden Entreprenad AB is a Swedish civil engineering company established in 1983, with headquarters in Nässjö in Jönköping County. In 2016, the company and its subsidiaries saw revenue of SEK 708 million and had 188 employees. The agreed enterprise value for 100 per cent of Kanonaden Entreprenad AB on a cash and debt-free basis was SEK 260 million. The settlement consisted of shares in AF Gruppen ASA at a value of SEK 52 million and SEK 131 million in cash.

New contracts

In 2017, AF Anlegg was selected as the contractor for three contacts at Ørland air base. The work is being performed for the Norwegian Defence Estates Agency and consists primarily of the construction of hangars and the associated infrastructure, outdoor work and the establishment of a protective zone around the airport. The work started in May 2017, and completion is expected in 2021. The combined value of the contracts is estimated at NOK 1,109 million, excluding VAT.

AF Anlegg was nominated as the contractor for the construction of a new E6 section through Soknedal in Trøndelag by the Central Region of the Norwegian Public Roads Administration in the 3rd quarter. The work started in September 2017, and the expected completion is in 2021. The contract is a general contract and has an estimated value of NOK 994 million, excluding VAT.

In addition, AF was nominated as the contractor for the renovation of tunnels in Sunnmøre by the Central Region of the Norwegian Public Roads Administration in the 3rd quarter. The work encompasses the construction, civil engineering and electrical disciplines. The work started up in September 2017, and completion is expected by May 2019. The contract is a general contract and has an estimated value of NOK 600 million, excluding VAT.

In 2017, Civil Engineering had an order intake of NOK 5,399 (5,555 million) and an order backlog of NOK 6,510 million (5,589 million) at the end of 2017.

Market outlook

The civil engineering market in Norway is good and not very sensitive to cyclical fluctuations, since public sector demand is the greatest driver behind civil engineering investments. In the 2018 State Budget, NOK 67.5 billion has been allocated to transport, which is an increase of 6.5 per cent over the budget for 2017. NOK 35.9 billion of this amount has been allocated to roads. This represents an increase of 7.7 per cent compared with 2017. Prognosesenteret expects a high level of activity in the civil engineering market for the period from 2018 to 2019, with growth in investments of 12 per cent in 2018 and 13 per cent in 2019. It is primarily the large road projects in the Interior Region and Southern and Southwestern Norway that are driving growth. The higher investment estimate for transport and road projects, as well as the planned start-up of many large civil engineering projects, provide a good foundation for further growth of AF's civil engineering activities.

There has been a high level of activity in the Swedish civil engineering market for several years. According to the Swedish Construction Federation, additional growth of 4 per cent is expected in 2018.

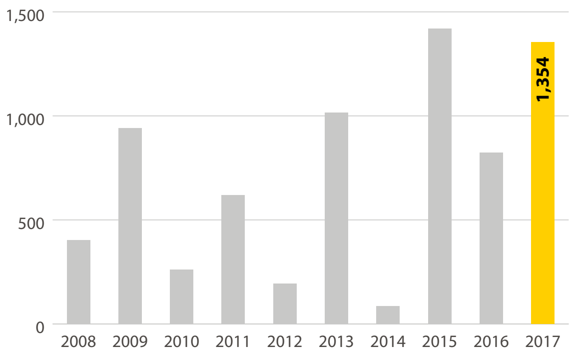
ENVIRONMENT

Description of the business

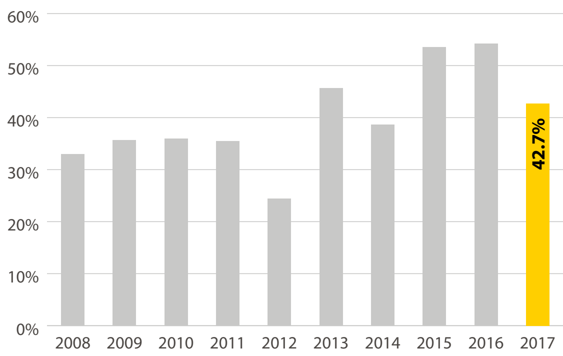
The Environment business area encompasses AF's services related to onshore demolition in Norway and Sweden and recycling in Norway. The business area is leading in both Norway and Sweden in the area of demolition and the environment. In Norway, the business area is Europe's largest contractor for the demolition and environmental clean-up of buildings and structures. Environment also has solid expertise in areas such as blasting, dredging, handling of contaminated material and removing shipwrecks. With the investment in environmental centres, Environment also provides the clean-up and recycling of contaminated materials. A recycling rate of approximately 80 per cent reduces both the use of scarce resources, such as stone, and the need for disposal capacity.

Amounts in NOK million	2017	2016	2015
Revenue	601	729	687
Earnings before interest and tax (EBIT)	45	42	45
Earnings before tax (EBT)	45	42	46
Operating margin	7.5%	5.8%	6.6%
Profit margin	7.4%	5.7%	6.7%
Order backlog	344	212	216

CASH FLOW FROM OPERATIONS (NOK MILLION)



RETURN ON CAPITAL EMPLOYED



In 2017, the Environment business area reported revenues of NOK 601 million (729 million). The level of activity in the business area has increased throughout the year, but fewer large demolition projects for AF Decom in Norway resulted in a reduction in revenue of 17.6 per cent, compared with 2016. Earnings before interest and tax were NOK 45 million (42 million), and earnings before tax were NOK 45 million (42 million). The operating margin for 2017 was 7.5 (5.8) per cent. In Sweden, AF Härnösand Byggreturer reported a high level of activity and very good profitability for 2017. Both units reported a record-high order backlog at the start of 2018.

Environment is developing a new environmental centre for the treatment of contaminated materials at Nes in Akershus. Work on the new environmental centre has started, and completion is expected in the summer of 2018.

New contracts
Environment's project portfolio consists of both large and many small and medium-sized projects with a contract value of around NOK 1 million. The large projects contracted in 2017 include Filling Work at Vervet in Tromsø for Vervet AS (NOK 75, excluding VAT), work in connection with Trondheim Spektrum for Veidekke (NOK 25 million, excluding VAT) and demolition work for the Hospital in Tønsberg for Skanska (NOK 22 million, excluding VAT)

In 2017, Environment had an order intake of NOK 733 million (724 million) and an order backlog of NOK 344 million (212 million) at the end of the year.

Market outlook
The business concept for the Environment business area is to offer solutions that meet the environmental challenges faced by customers. The business area has solid expertise in areas such as environmental clean-up, demolition, constructive blasting and recycling. AF's demolition activities are characterised by a high level of safety and protection of the external environment. The Environment business area consists of the units: AF Decom and AF Härnösand Byggreturer, in addition to activities at Rimol Miljøpark and Jølsen Miljøpark. The Environment business area provides services in Norway and Sweden.

BUILDING
Description of the business
Building is the largest business area and encompasses activities related to new building and renovation in Norway and Sweden. Building spans the entire value chain from the early planning stage to the construction, renovation and completion of buildings. In addition to being one of the largest actors in the area of residential, commercial and public buildings, AF Gruppen has a leading position in renovation in Norway.

The Building business area is divided into the business units AF Bygg Oslo, AF Byggfornyelse, AF Nybygg, AF Bygg Østfold, AF Bygg Prosjektpartner, AF Bygg Sweden, Strøm Gundersen, MTH and LAB. All the units have strong local roots and a broad range of services.

Amounts in NOK million	2017	2016	2015
Revenues	8 041	6 688	6 678
Operating profit (EBIT)	480	485	479
Earnings before tax (EBT)	493	498	485
Operating margin	6.0%	7.3%	7.2%
Result margin	6.1%	7.4%	7.3%
Order backlog	11 099	8 467	5 947

In 2017, Building reported revenues of NOK 8,041 million (6,688 million). This represents an increase of 20.2 per cent compared with 2016. In 2017, the business area reported an operating profit of NOK 480 million (485 million) and earnings before tax of NOK 493 million (498 million). The operating margin was 6.0 (7.3) per cent.

The building operations in Norway delivered good results overall, but there is a great deal of variation in the profitability of the business units. AF Bygg Oslo, LAB, the companies in Strøm Gundersen and MTH all reported very good results. AF Byggfornyelse and AF Bygg Prosjektpartner in particular reported weak results in 2017. The projects of AF Bygg Prosjektpartner have been transferred to AF Anlegg effective as of 2018.

AF Bygg Sweden reported an increasing level of activity, but the profitability of the underlying units varied. AF Bygg Syd reported growth and good profitability, but the unit in Gothenburg reported weak results for 2017.

New contracts
The largest projects contracted in the Building business area for the year are linked to Oslo S Utvikling's development in Bispevika. This applies to two contracts for the construction of

a total of 355 apartments in the Dronninglunden project. The value of the contracts is estimated at NOK 370 million, excluding VAT, and NOK 739 million, including VAT, respectively.

In July, AF Bygg Göteborg entered into a contract with Alecta pensjonsforsikring for the construction of an office building with an area of 20,000 square feet in the Krokslätt district in Mölndal. The building will be constructed in conjunction with Mektagonen, which is an existing commercial property with offices, a hotel, training studio and shops. The project shall be carried out as a turnkey contract in cooperation, and it has a contract value of approximately SEK 400 million, including tenant adaptations in the existing property.

Four school projects have been contracted in Østfold during the year: Bjørlien School in Vestby (NOK 124 million, including VAT), Rustad School in Ås (NOK 224 million, including VAT), Hoppern School in Moss (NOK 215 million, including VAT) and Idd School in Halden (NOK 173 million, including VAT)

The following contracts have been entered into in connection with Property's residential development activities: 241 apartments for Lillo Gård KS in the Lillo Gård project at Nydalen in Oslo (NOK 600 million, excluding VAT), 144 apartments for Haslemann AS in the Krydderhagen project at Hasle in Oslo (NOK 353 million, excluding VAT) and 280 apartments for Kilen Utbygging 2 AS in the Nye Kilen Brygge project in Sandefjord (NOK 224 million, excluding VAT)

In 2017, Building had an order intake of NOK 10,673 million (9,208 million) and an order backlog at the end of the year of NOK 11,099 million (8,467 million).

Market outlook

Figures from Property Norway for February 2018 show that residential property prices in Norway rose 1.1 per cent compared with January 2018. Adjusted for seasonal variations, prices rose 0.4 per cent. In February, residential property prices were 2.3 per cent lower than 12 months ago. According to Property Norway, this confirms the trend that the residential property prices are stabilising. The supply side is diminished, but an increase in the number of residential units sold in February indicates rising demand. The sales rate is increasing in Oslo in particular. Prognosesenteret expects total growth in the building market to be 1.3 per cent in 2018. A retraction of 0.8 per cent is expected for investments in new residential units, but new commercial buildings and renovation, remodelling and extension for residential and commercial buildings are expected to grow from 1.5 to 2.5 per cent.

The Swedish Construction Federation assumes there will be declining growth in building and civil engineering investments in Sweden after several years of strong growth. Continued growth combined with an expansive monetary policy and increased employment provides a good foundation for AF's Swedish operations.

A high level of activity is expected overall, but a hesitant residential market in both Norway and Sweden will probably result in the start-up of fewer new projects in 2018.

PROPERTY

Description of the business

The Property business area encompasses the development of sites for residential units and commercial buildings for own account in areas where AF has access to its own contracting services. Property consists of the business unit AF Eiendom in Norway and AF Projektutveckling in Sweden. Development projects are often organised through the establishment of joint development companies with partners. This reduces project-specific risk and adds the benefit of complementary expertise in development work.

The majority of the property development projects in Norway are located in Oslo and central Eastern Norway, Bergen and Trondheim. AF Projektutveckling has projects in Gothenburg and Halmstad.

NOK million	2017	2016	2015
Revenues	43	48	25
Operating profit (EBIT)	88	44	69
Earnings before tax	75	30	57
Return on capital employed	8.7%	4.4%	9.3%
NUMBER OF HOUSING UNITS [1)]			
Under construction	338	456	297
Sold during the year	111	316	178
Completed unsold units in inventory	4	5	11
LAND AND DEVELOPMENT RIGHTS [1)]			
Housing units	982	848	997
Industrial area m²	45 273	51 213	59 272

[1)] AF's share of housing units, land and development rights

Property delivered a profit before tax of NOK 88 million (44 million) in 2017.

Property's activities are primarily carried out through associates and joint ventures, with an ownership stake ranging from 25 to 50 per cent. Property reported revenues of NOK 2,128 million (1,615 million) for 2017, of which AF's share was NOK 832 million (692 million). The development projects are organised in companies that are recognised in accordance with the equity method of accounting, and only AF's share of the earnings is included in the accounts. The revenues reported in the Property business area therefore only refer to the wholly-owned activities of the business area.

Property's residential production increased a great deal throughout 2017, but the sales rate for new residential units has declined. A total of 285 (668) apartments were sold in 2017, of which AF's share was 111 (316) residential units. At the end of the year, Property had five active residential projects with a total of 742 apartments in the production phase (AF's share was 338).

Property has three commercial projects under construction in Oslo with a total gross area of 24,564 square metres (AF's share is 10,602 square metres). It is expected that the largest of these projects, the Securitas building with a gross area of 15,159 square metres, will be completed in 2018.

Property had a total of 363 apartments in the sales phase, 79 of which were AF's share. AF also has ownership interests in land and development rights in progress, which are estimated to amount to 2,314 (2,054) residential units. AF's share of this is 982 (848) residential units. AF has commercial property with a gross area of 92,084 (107,310) square metres under development. AF's share is 45,273 (51,213) square metres.

Market outlook

Figures from Property Norway for February 2018 show that residential property prices in Norway rose 1.1 per cent compared with January 2018. Adjusted for seasonal variations, prices rose 0.4 per cent. In February, residential property prices were 2.3 per cent lower than 12 months ago. According to Property Norway, this confirms the trend that the residential property prices are stabilising. The supply side is diminished, but an increase in the number of residential units sold in February indicates rising demand. The sales rate is increasing in Oslo in particular. There are several signs of improvement in the Norwegian residential market, compared with the weak performance in 2017.

The residential price performance in Sweden, like Norway, has been marked by strong growth over a long period of time. Throughout 2017, the residential property prices also fell in Sweden. The residential property prices in January 2018 were 4 per cent lower than the corresponding period in 2017, and Stockholm had the greatest price decline (8 per cent). The Swedish central bank Riksbanken points out that Sweden and the surrounding world are showing strong economic expansion. The central bank assumes that the demand for residential units will remain high and that the decline in prices will be limited and temporary.

ENERGY

Description of the business

The Energy business area encompasses AF's energy services for onshore activities. Energy seeks to reduce energy consumption and expenses for customers through advisory services and the implementation of new energy solutions.

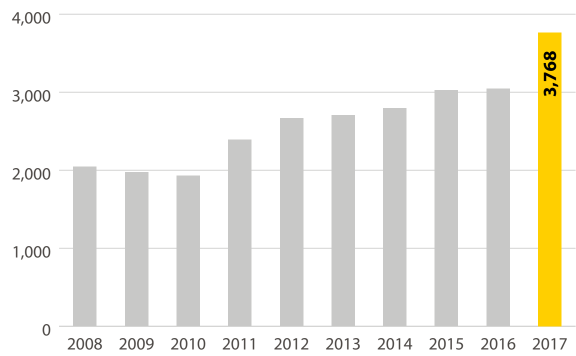
Amounts in NOK million	2017	2016	2015
Revenue	244	177	225
Earnings before interest and tax (EBIT)	20	18	19
Earnings before tax (EBT)	22	16	21
Operating margin	8.2%	10.0%	8.3%
Profit margin	9.1%	8.9%	9.4%
Order backlog	260	108	90

Energy reported revenues of NOK 244 million (177 million) and earnings before interest and tax of NOK 20 million (18 million) for 2017. This is equivalent to an operating margin of 8.2 (10.0) per cent. The earnings before tax was NOK 22 million (16 million).

AF Energi & Miljøteknikk's ongoing projects are performing well operationally and delivered good results for 2017. The unit has had many EPC contracts in the analysis phase, and several of these have been converted to projects to be executed. There is therefore a large order backlog at the end of 2017.

In 2017, the unit AF Energija Baltic was established in Lithuania. The unit is to primarily be a supplier to the Norwegian Energy business. After the end of the year,

NUMBER OF EMPLOYEES



Energy has established a new company Enaktiva, which is to be a co-owner of energy plants built by AF Energi & Miljøteknikk.

New contracts

Energy's project portfolio consists of many small and medium-sized projects with contract values ranging from NOK 0.5 to 10 million, as well as an increasing number of large contracts. The energy services market is growing and the size of the contracts is increasing.

AF Energi & Miljøteknikk was awarded the K302 Heating and Cooling Plant contract for Statsbygg at Campus Ås in 2017. Contract encompasses the delivery and installation of equipment for cooling production, heat recycling and thermal energy storage with the associated distribution network. The gross building area is 63,000 square metres, in addition to technical mezzanines. The contract is a general contract and has an estimated value of NOK 109 million, excluding VAT. The work will start in September 2017, and completion is expected in May 2020.

In 2017, Energy had an order intake of NOK 396 million (195 million) and an order backlog at the end of the year of NOK 260 million (108 million).

Market outlook

The authorities in Norway have defined ambitious energy goals related to a reduction in the consumption of energy towards the year 2030. These goals are to be realised through a significant reduction in the consumption of energy by existing buildings compared with the current level, among other things. Enova has found that there is a major maintenance backlog for public buildings and major conservation opportunities in connection with the rehabilitation of buildings.

The market for energy performance contracts (EPCs) in municipalities and public enterprises is also an interesting market area. There has been a significant increase in the number of advertised energy performance contracts in recent years. This growth is expected to continue. The delivery of heating and cooling plants for non-residential buildings is also an interesting market. The demand here is connected to commercial building starts, and an increased number of starts is expected for 2018. Overall, a good market is expected for AF's activities in the Energy area.

OFFSHORE

Description of the business

The Offshore business area encompasses AF's services connected to the removal, demolition and recycling of offshore installations. At the Environmental Base at Vats outside of Haugesund, Offshore has the most modern reception facility in Europe for the recycling of decommissioned petroleum installations. Strict environmental regulations and demanding demolition work mean that attention to environmental protection and safety must permeate our work at all times. Offshore also includes new building, modification and maintenance work in the area of ventilation (HVAC) for marine, offshore and onshore operations.

Amounts in NOK million	2017	2016	2015
Revenue	664	1 014	1 187
Earnings before interest and tax (EBIT)	59	107	104
Earnings before tax (EBT)	49	94	83
Operating margin	8.8%	10.5%	8.7%
Profit margin	7.4%	9.3%	7.0%
Order backlog	916	550	1 182

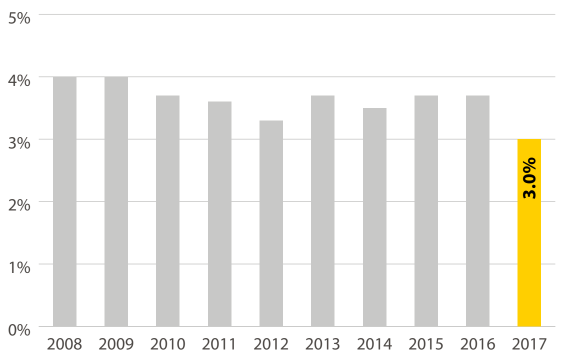
Offshore reported revenues of NOK 664 million (1,014 million) and earnings before interest and tax of NOK 59 million (107 million) for 2017. This gives an operating margin of 8.8 (10.5) per cent for 2017. The earnings before tax was NOK 49 million (94 million).

Revenues and earnings for 2016 and 2017 were marked by AF Offshore Decom's removal of the Murchison platform. In 2016, a major offshore campaign linked to this project was carried out, and this resulted in high revenue for that year. The unit did not have any significant offshore campaigns in 2017, but there has been a high level of activity at AF Miljøbase Vats.

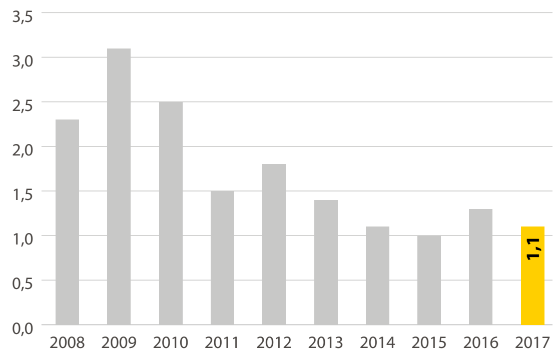
AF Offshore AeronMollier has experienced challenging market conditions for a long period of time. The unit has had a significantly lower level of activity in 2017 than in 2016 and delivered weak results. Organisational adaptations were made during the year.

AF Decom UK and Forth Ports Limited signed a letter of intent in August to establish a new joint venture, AF Dundee. This venture will form the basis for building a demolition centre for oil and gas in the British sector of the North Sea to be located at the Port of Dundee.

ABSENCE DUE TO ILLNESS



LTI1-RATE



New contracts

In 2017, AF Offshore Decom was awarded a contract, as a subcontractor to Heerema Marine Contractors (HMC), by ConocoPhillips Skandinavia AS for the removal and recycling of platforms linked to the Ekofisk field in the North Sea. The contract encompasses four platforms, and an option for one additional platform during the period from 2017 to 2022.

In the autumn of 2017, AF Offshore Decom entered into a framework agreement with ConocoPhillips (UK) Limited for the future removal and recycling of up to seven platforms in the southern North Sea over the next ten years. Only the volume ordered is included in the order backlog.

In 2017, Offshore had an order intake of NOK 1,030 million (382 million) and an order backlog at the end of the year of NOK 916 million (550 million).

Market outlook

Low oil prices have contributed to reduced profitability and a reluctance to invest among oil companies. Statistics Norway estimates that investments related to oil, gas and pipeline transport will amount to NOK 144.3 billion in 2018. This is a decline of 1.6 per cent compared with the corresponding figures for 2017. Uncertainty in the oil industry may have an impact on AF's HVAC activities, as well as on maintenance and modification. At the same time, a lower oil price will make several of the fields in the North Sea less profitable, and the oil companies will to a greater extent than previously consider shutting down and removing the older platforms. Even though this represents good opportunities for AF's offshore activities in the demolition and removal of decommissioned oil installations, 12–18 months pass from when new contracts are signed until the demolition starts. The level of demolition activities will be low in 2018.

ORGANISATION, HEALTH, SAFETY AND THE ENVIRONMENT

PERSONNEL AND ORGANISATION

AF Gruppen is working continuously to build a uniform corporate culture. Motivated employees and a solid organisation are an important foundation for creating value. At AF we prioritise building organisations with a robust composition of technical expertise and management at all levels. The resources are organised close to production, with project teams where the managers have a major influential force.

AF invests a lot of time and resources in the development of employees through training in various positions in production and through development in the AF Academy. In 2017, 1,052 employees participated in courses at the AF Academy. More than 80 per cent of the current managers have been recruited internally. AF is experiencing an increasing and satisfactory influx of qualified employees, and our employees are good ambassadors for the recruitment of new personnel.

At the end of 2017, there were 3,768 (3,049) employees in the Group, 1,564 (1,322) of which were salaried and 2,204 (1,727) of which were skilled workers. The parent company, AF Gruppen ASA, had no employees at the end of 2017.

Of the employees, 7.5 (7.4) per cent are women and 92.5 (92.6) per cent are men. Given the nature of the work and working conditions, the contractor industry has traditionally been dominated by men. For the recruitment of newly qualified engineers and economists, there is a more even balance between women and men than the distribution in the Group as a whole. The percentage of women among salaried staff was 16.6 (16.1) per cent at the end of 2017. There is a clear majority of men in all position categories at AF. A project has been launched to ensure equal career opportunities for women and men at AF, and one of the initiatives is cooperation with the organisation ShesGotThis.

Absence due to illness at AF was 3.0 (3.7) per cent in 2017. The low absence due to illness rate indicates that the level of satisfaction and motivation to go to work is high. This is supported by the results of the last employee satisfaction survey that was conducted in November 2017, which show that AF's employees are very happy, have a high degree of job satisfaction and are proud to work for AF. The results are better than the previous survey in 2015 and significantly better than the industry average.

In 2017 the Group Council, which is made up of employee representatives, senior safety representatives and management representatives, continued work on improving cooperation between all parts of the organisation.

AF Gruppen seeks to be a workplace where there is no discrimination on grounds of ethnicity, gender, philosophy of life or sexual orientation. This applies, for example, to matters relating to pay, promotion, recruitment and general career development. AF Gruppen has written objectives and rules to promote a good working environment with equality and without discrimination or harassment. The goals and rules are laid down in the company's Code of Conduct. When they are recruited, all employees in AF Gruppen must sign off that they have received the Code of Conduct and that they undertake to comply with it. The object of the Code of Conduct is, in line with the Discrimination Act, to promote equality, ensure equal opportunities and rights, and prevent discrimination on the grounds of ethnicity, nationality, heritage, skin colour, language, religion or beliefs.

Notification routines have been prepared for when the ethical norm is violated. In 2017, new internal and external notification channels were established.

All common facilities in AF's offices are designed so that they can be used by all employees, including those with disabilities. Individual adaptation of the workplace is done to the extent possible, based on the nature of the work.

EMPLOYEE OWNERSHIP

AF Gruppen would like all employees to participate in joint value creation by becoming shareholders in the company. Therefore, AF has a share programme for employees whereby the employees are given an opportunity to buy shares at a discount of 20 per cent on the current market price. In 2017, 543 (580) employees subscribed for a total of 1,000,000 (1,000,000) shares. The purchase price after a 20 per cent discount was NOK 115.80. A total of 778,888 new shares were included in connection with the sale of shares. The remaining shares were transferred from the company's treasury shares.

AF Gruppen also has an option programme for all employees. The programme was adopted by the General Meeting in 2017, and the options can be subscribed during the period from 2017 to 2020. As at 31 December 2017, there were 3,264,143 options in the programme that are redeemable in March 2020.

HEALTH AND SAFETY

AF's primary goal for health and safety is to avoid all forms of work-related absence. Work-related absence includes both personal injuries that are so serious that they entail absence and absence due to illness that is attributed to negative exposure at work. Such exposure may be due to ergonomic conditions, chemicals, noise, dust or other health hazards that a person may be exposed to.

AF has a structured and uniform system for health and safety work, and AF's employees receive thorough training in both the basic principles and the systems. A key element is the fact that all undesired incidents and circumstances are registered and dealt with in the non-conformance system Synergi in order to find the underlying causes and measures for improvement. There is a strong willingness for continuous improvement, and the frequency of reporting is increasing. In 2017, more than 24,365 incidents and circumstances were reported (RUI).

The most important measurable parameter for safety work at AF is the LTI rate. The LTI rate is defined as the number of injuries resulting in absence per million man-hours. Personal injuries at subcontractors are included in the calculation of the LTI rate. The injury frequency rate has shown a positive trend through the years, from an LTI rate for Norwegian operations of around 20 in the early 90s, to an LTI rate of 1.1 (1.3) for 2017. This number represents 13 lost time injuries in 2017.

The goal is that no one should become ill from working at AF, and we work to ensure that all employees experience job satisfaction and well-being. Absence due to illness is an indicator of health work, and the target is for absence due to illness of less than 3 per cent. In our opinion, this represents a normal situation, without any work-related illnesses. Absence due to illness in 2017 was 3.0 (3.7) per cent.

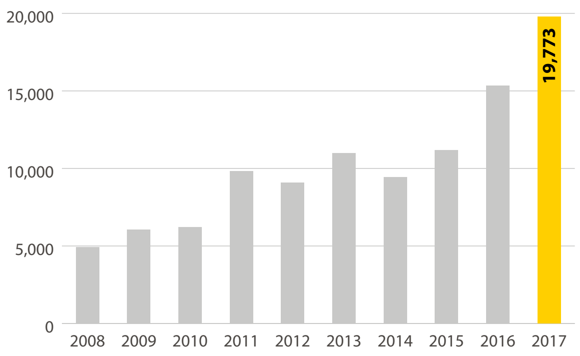
AF has an internal corporate health service that assists with preventive health work. They monitor employee health through regular health check-ups, and they assist the absence due to illness committees that have been established in the business units to ensure that everyone with absence due to illness is followed up well.

To ensure that there is knowledge of what one can be exposed to while working and what measures can prevent health injuries, AF has health cards for the 15 most relevant types of exposure. These cards are available in several languages. In addition, AF has developed and implemented a Health Risk programme that enables us to better identify and influence health risks.

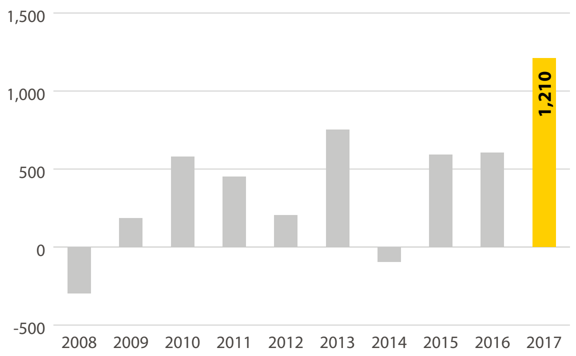
EXTERNAL ENVIRONMENT

All employees of AF shall have a fundamental understanding and acceptance of the idea that the impact on the environment must be minimised. AF's continuous environmental work starts at the project and business unit level. Here environmental aspects are identified and ranked. Together with statutes, regulations and specific contractual requirements,

ORDER BACKLOG (NOK MILLION)



NET INTEREST BEARING RECEIVABLES (NOK MILLION)



these analyses form the basis for project and unit goals for the external environment.

All business units at AF are measured, in addition to specific parameters related to the environmental impact: Source Separation Rate and Greenhouse Gas Emissions. The measurement parameters clarify AF's environmental profile, and are figures that can be influenced through our environmental work.

In Norway, the government requirement for source separation is a minimum of 60 per cent. The source separation rate indicates how much of the waste from operations is separated for the purpose of facilitating recycling. In 2017, the source separation rate for building was 83 (85) per cent, for renovation it was 85 (79) per cent and for demolition it was 95 (97) per cent. A total of 324,370 tonnes (507,198 tonnes) were separated at source. These results are considered very good, and they are well above the government requirement.

AF's impact on climate is measured continuously in the form of the volume of greenhouse gas emissions in tonnes of CO_2 equivalents. A CO_2 equivalent is a unit that is used for comparison of the effects of various greenhouse gases on the climate. AF's climate accounts show that the consumption of diesel in the use of construction machinery accounts for the greatest share of greenhouse gas emissions. Among other things, we work to reduce emissions by replacing machines on an ongoing basis, so that we have a modern fleet of machinery with lower emissions at any given time.

AF is at all times prepared to minimise damage to and losses in the external environment if an accident or incident with a pollution potential were to take place. Any incidents will be subsequently analysed in order to establish preventive barriers for future projects.

AF's management system for environmental work follows the principles in the environmental standard ISO 14001. In 2016, the Group became a control member of Green Dot, an international scheme that is to help ensure the financing of return schemes for used packaging.

AF has chosen a commercial approach to the increasing environmental challenges and scarcity of resources in society. The three business areas, Environment, Offshore and Energy are all based on services that solve environmental challenges. Offshore and Environment in the area of demolition and recycling, and Energy in energy optimisation. The need for the removal of offshore installations was decisive for the establishment of AF's offshore demolition operations and the AF Environmental Base at Vats. The environmental base outside of Haugesund is one of Europe's most modern reception facilities for decommissioned offshore installations. Another example of the development of future-oriented services that solve environmental challenges is the establishment of environmental centres. Using new environmental technology, Rimol Miljøpark decontaminates and recycles 80 per cent of the contaminated materials that would have otherwise ended up directly at a disposal site.

RISK, MARKET OUTLOOK AND STRATEGY

RISK MANAGEMENT AND FINANCIAL RISK

AF Gruppen is exposed to risk of both an operational and financial nature. AF Gruppen wants to assume operational risk that the business units can influence and control. AF has developed risk management processes that are well adapted to our operations. Standardised, action-oriented risk management processes ensure comprehensive and coherent risk management in all parts of the organisation. AF seeks to limit exposure to risk that cannot be influenced, including financial risk. A risk review will already be conducted for all projects before a tender is submitted. Analysis of risk during the tendering phase enables the correct pricing and management of risk in the project. The same projects conduct detailed risk reviews every quarter. In addition, a total of approximately 190 risk reviews of the business units, in which the Corporate Management Team also participated, were conducted in 2017.

Financial risk encompasses market risk (including risk related to commodity prices, interest rates and foreign exchange), credit risk and liquidity risk.

MARKET RISK

Market risk includes foreign exchange risk, commodity price risk and interest rate risk.

Foreign exchange risk

The Group has a low exchange rate risk related to revenue from the Civil Engineering, Environment, Building, Property and Energy business areas, since all revenues are in the functional currency. Portions of the revenues in the Offshore business area are in EUR and USD. These are hedged naturally in some cases, since the costs are in the same currency as the revenues, or they are hedged by means of forward currency contracts. For a major offshore contract denominated in USD, the effects of the forward exchange contracts are recognised in accordance with the rules for cash flow hedging. At the end of 2017, AF Gruppen had NOK 16 million (78 million) in net recognised liabilities related to forward exchange contracts.

AF Gruppen makes most of their purchases in their respective functional currencies. The Group bears a risk related to purchases in foreign currency, either directly through purchases from foreign suppliers, or indirectly from Norwegian suppliers who import goods from abroad. The Group protects itself by entering into all major purchase agreements in NOK. Major individual purchases in foreign currency that are not encompassed by purchase agreements in NOK are hedged by forward contracts.

In 2017, the Group had 89 (93) per cent of its recognised revenues in enterprises with NOK as their functional currency, 11 (6) per cent with SEK as their functional currency and 0 (0) per cent with another functional currency. The net foreign exchange gain/(loss) was NOK -4 million (-9 million) in 2016. The total translation differences were NOK 28 million (-23 million) in 2017.

Commodity price risk

The demolition activities in Offshore are exposed to price risk from the sale of scrap steel recycled from steel structures in the North Sea. A continuous assessment is made of whether the price of steel should be hedged, based both on exposure and on the efficiency of the market for forward contracts.

Interest rate risk

AF Gruppen's financing is based on variable interest rates, and the Group is therefore exposed to interest rate risk. The Group has a fixed interest rate agreement, but as a rule does not use derivatives to hedge the effective interest rate exposure. AF is also exposed to interest rate risk for building and property activities, especially for residential building for own account, in which the general interest rate level will have an impact on the saleability of completed residential units and consequently the Group’s tied-up capital. The Group endeavours to minimise this risk by requiring advance sales of residential units and deposits from home buyers.

Credit risk

Credit risk is the risk that AF Gruppen's customers, or counterparties for financial instruments, will inflict financial losses on the company by not fulfilling their obligations. AF has credit risk in relation to customers, suppliers and partners. The Group has established guidelines to safeguard against credit risk in cash and cash equivalents, loans and receivables. Historically, the Group has had negligible credit losses. In addition to the parent company and bank guarantees, the use of credit rating tools contributes to reducing risk. AF will have corresponding guarantee commitments to its partners.

Liquidity risk

Liquidity risk is the risk of not being able to meet financial obligations when they fall due. Based on the Group's strong financial position at the end of the year, the liquidity risk is considered low. AF Gruppen has a total financing framework of NOK 1,880 million. This facility consists of an overdraft facility of NOK 800 million (800 million) and a three-year revolving credit facility of NOK 1,200 million (600 million) that is available until June 2020. This facility was unused at the end of the year. In addition, Strøm Gundersen has a one-year revolving credit facility of NOK 80 million (80 million). AF had net interest-bearing receivables of NOK 1,210 million (606 million) as at 31 December 2017. The available liquidity, including credit facilities, stood at NOK 2,978 million as at 31 December 2017.

The Group's liquidity is monitored through the follow-up of cash flows in the projects. Discrepancies between expected and actual cash flows are reviewed monthly in conjunction with risk reviews of the projects. In addition, daily liquidity is monitored through the Group’s central treasury function.

MARKET OUTLOOK AND STRATEGY

AF Gruppen operates in an industry where there is normally uncertainty related to the assessment of future conditions. The Group's revenues and results for 2017 have been in accordance with the Board's expectations. At the end of 2017, the Group had an order backlog of NOK 19,773 million (15,332 million) and earnings from ongoing projects are considered good.

The market outlook is less uncertain than one year ago, and 2.6 per cent gross national product growth in 2017 was higher than expected by Statistics Norway (SSB). Statistics Norway is expecting gross national product growth of 2.4 and 2.3 per cent, respectively, for mainland Norway for the next two years. Higher oil investments help boost the Norwegian economy, but declining residential investments and a stronger

Norwegian krone are impulses that pull in the opposite direction. With a neutral fiscal policy, a moderate upswing is expected for the coming years. The outlook is better for the civil engineering market: Prognosesenteret expects a high level of activity for the period from 2018 to 2019, with growth in investments of 12.8 and 12.1 per cent, respectively.

In Sweden, the central bank Riksbanken expects the gross national product to grow 2–3 per cent towards 2020. The forecasts from the Swedish Construction Federation assume growth of 4–5 per cent for building and civil engineering investments in Sweden in 2018. Further information on the market outlook for the various business areas has been presented earlier in this annual report.

In 2016, AF prepared a new corporate strategy for 2017–2020 with ambitions of strong, profitable growth.

The four main initiatives in the strategy have marked the work of the Board and AF in 2017: organic and structural growth, customer and partner relations, creativity and innovation, and management capacity and technical expertise. The goal is for AF Gruppen to have annual revenues of NOK 20 billion by 2020 and to achieve a clear position in several large cities such as Oslo, Bergen, Gothenburg and Stockholm.

AF shall also grow through the development of nationwide project activities and expansion of its portfolio of services offshore. It is expected that most of this growth will be organic, but in order to achieve our goal, structural revenue growth bordering on our core operations and new operations will also be required.

For AF Gruppen, a good market outlook and record-high order backlog lays the foundation for a high level of activity in 2018 as well. AF has a solid corporate culture based on professionalism and high ethical standards, and motivated employees with a high level of expertise. This, combined with strategic priorities and a strong financial position, means that AF is well-equipped to take advantage of the opportunities that the market will provide in the future.

The Board thanks the employees for their significant contributions to the good results of 2017. The Board is confident that a high level of activity and good earnings will prevail in 2018 as well.

OSLO, 22 MARCH 2018

Pål Egil Rønn
Board Chairman

Hege Bømark

Borghild Lunde

Kristian Holth

Daniel Kjørberg Siraj
Deputy Chairman

Morten Grongstad
CEO

Kenneth Svendsen
Employee elected

Arne Sveen
Employee elected

Pål Jacob Gjerp
Employee elected

CONSOLIDATED ANNUAL ACCOUNTS

INCOME STATEMENT

		For the financial year		
Amounts in NOK million	Note	2017	2016	2015
Operating revenue	5	13 642	11 775	12 342
Other revenue	5	61	102	56
Total operating and other revenue		**13 704**	**11 876**	**12 398**
Subcontractors		-6 233	-5 168	-6 145
Cost of materials		-2 277	-1 778	-1 765
Payroll costs	7,32	-2 961	-2 650	-2 535
Depreciation and impairment of property, plant and equipment	14	-166	-135	-123
Amortisation and impairment of intangible assets	13	-2	-42	-18
Other operating expenses	8	-1 256	-1 084	-968
Total operating expenses		**-12 896**	**-10 857**	**-11 554**
Net gains / (losses)	9	25	18	135
Profit / (loss) from associates and joint ventures	27,28	91	-4	31
Earnings before interest and tax (EBIT)		**924**	**1 034**	**1 010**
Net financial items	19	12	6	-6
EBT		**935**	**1 040**	**1 004**
Income tax expense	25,26	-181	-253	-226
Profit / (loss) for the year		**754**	**787**	**778**
Attributable to:				
Shareholders in the Parent Company		621	691	697
Minority interests		133	96	81
Profit / (loss) for the year		**754**	**787**	**778**
Earnings per share (NOK)	21	6.43	7.44	7.64
Diluted earnings per share (NOK)	21	6.43	7.29	7.50
Dividend per share (NOK) [1)]	21	5.00	8.50	8.00

[1)] *Dividend for 2017 has been proposed for first half of the year.*

COMPREHENSIVE INCOME

Amounts in NOK million		2017	2016	2015
Profit / (loss) for the year		754	787	778
Change in actuarial gains or losses on pensions (gross)	18	2	-5	2
Change in actuarial gains or losses on pensions (tax)	26	-	1	-1
Translation differences for minority interests		2	-	1
Income and expenses that will not be reclassified to the income statement		**3**	**-4**	**3**
Change in cash flow hedging (gross)	23	48	150	-124
Change in cash flow hedging (tax)	26	-10	-32	26
Translation differences for majority interests		26	-23	20
Income and expenses that may be reclassified to the income statement		**64**	**94**	**-77**
Total other revenues and expenses		**67**	**90**	**-75**
Total comprehensive income for the year		**821**	**877**	**703**
Attributable to:				
– Shareholders in the Parent Company		686	781	621
– Minority interests		135	96	83
Total comprehensive income for the year		**821**	**877**	**703**

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER

Amounts in NOK million	Note	2017	2016
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	14,34	1 241	1 105
Intangible assets	13	2 188	2 032
Associated companies and joint ventures	27,28	363	389
Deferred tax assets	26	26	51
Interest-bearing receivables	20,22,24	216	206
Pension plan and other financial assets	18,23,24	10	6
Total non-current assets		**4 045**	**3 789**
CURRENT ASSETS			
Inventories	11	159	139
Projects for own account	12	186	47
Trade and other non-interest-bearing receivables	10,24	2 216	2 061
Interest-bearing receivables	20,24	16	44
Derivatives	22,23,24	3	-
Cash and cash equivalents	20,24	1 098	469
Total current assets		**3 679**	**2 760**
Total assets		**7 724**	**6 549**

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER

Amounts in NOK million	Note	2017	2016
EQUITY AND LIABILITIES			
SHAREHOLDERS' EQUITY			
Equity attributable to Parent Company shareholders		1 693	1 680
Minority interests	30	384	270
Total equity		**2 078**	**1 950**
LONG-TERM LIABILITIES			
Interest-bearing loans and credit facilities	20,22,24	102	83
Pension liabilities	18	1	1
Provisions for liabilities	15	189	158
Deferred tax	26	327	265
Derivatives	22,23,24	23	46
Total non-current liabilities		**643**	**553**
CURRENT LIABILITIES			
Interest-bearing loans and credit facilities	20	19	30
Trade payables and current non-interest-bearing liabilities	16,24	4 481	3 369
Derivatives	22,23,24	26	63
Provisions for liabilities	15	353	207
Current tax payable	25	126	377
Total current liabilities		**5 003**	**4 046**
Total liabilities		**5 646**	**4 599**
Total equity and liabilities		**7 724**	**6 549**

OSLO, 22 MARCH 2018

Pål Egil Rønn
Board Chairman

Daniel Kjørberg Siraj
Deputy Chairman

Borghild Lunde

Kristian Holth

Hege Bømark

Morten Grongstad
CEO

Kenneth Svendsen
Employee elected

Arne Sveen
Employee elected

Pål Jacob Gjerp
Employee elected

STATEMENT OF CHANGES IN EQUITY

Amounts in NOK million		Equity attributable to Parent Company shareholders							Minority interests	Total equity
	Note	Share capital	Other paid-in equity	Translation differences	Actuarial pension gains/ (losses)	Cash flow hedging	Retained earnings	Total		
2015										
Equity as at 01/01/2015		4	352	9	-13	-74	1 083	1 362	137	1 499
Profit / (loss) for the year		-	-	-	-	-	697	697	81	778
Other revenues and expenses for the year		-	-	20	2	-98	-	-76	1	-75
Total comprehensive income for the year		**-**	**-**	**20**	**2**	**-98**	**697**	**621**	**83**	**703**
Capital increases	31	-	364	-	-	-	-	364	-	364
Purchase of treasury shares	31	-	-	-	-	-	-20	-20	-	-20
Sale of treasury shares	31	-	-	-	-	-	23	23	-	23
Dividend adopted and paid	21	-	-315	-	-	-	-420	-735	-31	-766
Share value-based remuneration	7	-	5	-	-	-	-	5	-	6
Addition of minority interests from acquisition of business	4	-	-	-	-	-	-	-	115	115
Transactions with minority interests		-	-	-	-	-	-60	-60	-46	-106
Equity as at 31/12/2015		**5**	**407**	**29**	**-12**	**-171**	**1 303**	**1 561**	**259**	**1 820**
2016										
Profit / (loss) for the year		-	-	-	-	-	691	691	96	787
Other comprehensive income for the year		-	-	-23	-4	118	-	91	-	90
Total comprehensive income for the year		**-**	**-**	**-23**	**-4**	**118**	**691**	**781**	**96**	**877**
Capital increases	31	-	120	-	-	-	-	120	-	120
Purchase of treasury shares	31	-	-	-	-	-	-32	-32	-	-32
Sale of treasury shares	31	-	1	-	-	-	23	24	-	24
Dividend adopted and paid	21	-	-315	-	-	-	-429	-744	-74	-818
Share value-based remuneration	7	-	7	-	-	-	-	7	1	7
Transactions with minority interests		-	-	-	-	-	-37	-37	-11	-48
Equity as at 31/12/2016		**5**	**218**	**6**	**-16**	**-53**	**1 519**	**1 680**	**270**	**1 950**
2017										
Profit / (loss) for the year		-	-	-	-	-	621	621	133	754
Other comprehensive income for the year		-	-	26	1	38	-	65	2	67
Total comprehensive income for the year		**-**	**-**	**26**	**1**	**38**	**621**	**686**	**135**	**821**
Capital increases	31	-	371	-	-	-	-	371	-	371
Purchase of treasury shares	31	-	-	-	-	-	-55	-55	-	-55
Sale of treasury shares	31	-	-	-	-	-	45	45	-	45
Dividend adopted and paid	21	-	-121	-	-	-	-707	-829	-77	-906
Share value-based remuneration	7	-	9	-	-	-	-	9	1	10
Minority put options	15	-	-	-	-	-	-191	-191	-1	-192
Addition of minority interests from acquisition and formation of business	4	-	-	-	-	-	-	-	49	49
Transactions with minority interests		-	-	-	-	-	-24	-24	7	-17
Equity as at 31/12/2017		**5**	**478**	**32**	**-14**	**-15**	**1 209**	**1 693**	**384**	**2 078**

CASH FLOW

Amounts in NOK million	Note	2017	2016	2015
CASH FLOW FROM OPERATING ACTIVITIES				
Profit / (loss) before tax		935	1 040	1 004
Depreciation and write-downs	13,14	169	177	142
Change in retirement benefit liabilities		-	-1	-2
Accounting cost of share value-based remuneration	7	9	7	5
Net financial expenses / (income)	19	-11	-6	6
Net gains / (losses)	9	-25	-18	-135
Profit attributable to associated companies and joint ventures	27,28	-91	4	-31
Change in operating capital (excluding acquisitions and foreign currency)				
Change in inventories and projects for own account	11, 12	-155	27	40
Change in trade and other non-interest-bearing receivables	10	-17	-431	867
Change in trade payables and other non-interest-bearing liabilities	16	947	188	-118
Income tax paid		-407	-166	-361
Net cash flow from operating activities		**1 354**	**822**	**1 418**
CASH FLOW FROM INVESTMENT ACTIVITIES				
Acquisition of business	4	-103	-5	49
Investments in property companies		-12	-7	-12
Purchase of property, plant and equipment and intangible assets	13,14	-250	-143	-126
Proceeds from the sale of property companies		-	-	10
Proceeds from sale of property, plant and equipment		44	71	85
Payments for derivatives		-6	-	-17
Transactions with minority interests		28	-	-
Dividends and capital from associates		136	48	54
Payments due to change in interest-bearing receivables	20	-27	-37	-42
Proceeds due to change in interest-bearing receivables	20	45	37	42
Interest and other financial income received	19	27	24	30
Net cash flow from investment activities		**-118**	**-13**	**74**
Net cash flow before financing activities		**1 235**	**809**	**1 492**
CASH FLOW FROM FINANCING ACTIVITIES				
Issuance of shares		322	120	72
Dividends paid to shareholders in the Parent Company		-829	-744	-735
Dividends paid to minority interests		-77	-74	-31
Transactions with minority interests		-	-49	-97
Proceeds from new interest-bearing debt	20	22	7	2
Repayment of interest-bearing debt	20	-21	-43	-300
Net (purchase) / sale of treasury shares	31	-10	-8	3
Interest and other financial expenses paid	19	-13	-15	-34
Net cash flow from financing activities		**-604**	**-807**	**-1 119**
Total change in liquid assets		**632**	**3**	**372**
Cash and cash equivalents as at 1 January	20	469	459	91
Foreign currency effect on cash and cash equivalents		-2	7	-4
Cash and cash equivalents as at 31 December	**20**	**1 098**	**469**	**459**

NOTE 1 GENERAL INFORMATION

AF Gruppen ASA is a public limited company registered in Norway and listed on the Oslo Stock Exchange (OB Match). The Company's head office is located at Innspurten 15, 0603 Oslo, Norway.

AF Gruppen is one of Norway's leading contracting and industrial groups with operations in the areas of Civil Engineering, Environment, Building, Property, Energy and Offshore. The Group's activities are described in greater detail in Note 3 – Segment information.

The annual financial statements were adopted by the Board of Directors on 22 March 2018 and have been prepared in accordance with the International Financial Reporting Standard (IFRS) as stipulated by the EU.

No recently published accounting standards or interpretations have had a significant impact on the consolidated financial statements of AF Gruppen in 2017.

The accounting policies applied in the consolidated financial statements are consistent with the policies applied in the previous accounting periods. The Group's significant accounting policies are described in Note 37 – New and amended accounting standards and Note 38 – Significant accounting policies.

As a result of rounding off, the numbers or percentages in the consolidated financial statements will not always add up to the total.

NOTE 2 BASIS OF PREPARATION FOR ANNUAL FINANCIAL STATEMENTS

The consolidated financial statements of AF Gruppen have been prepared in accordance with the International Financial Reporting Standards (IFRS), which have been adopted by the EU and are mandatory for financial years starting on or after 1 January 2017, as well as Norwegian disclosure requirements that follow from the Norwegian Accounting Act as at 31 December 2017.

The consolidated financial statements are based on the historical cost accounting convention, with the exception of the following items in the accounts:

- Financial instruments at fair value through profit or loss
- Financial instruments used in cash flow hedging
- Financial instruments available for sale are recognised at fair value
- Contingent consideration for the acquisition of business

The preparation of financial statements in accordance with IFRS requires the use of estimates. In addition, the application of the company's accounting policies requires that the management exercise judgement. Areas with a high degree of discretionary assessments or a high level of complexity, or areas where assumptions and estimates are essential to the accounts, are described in Note 38 – "Significant accounting assessments, estimates and assumptions"

The consolidated accounts have been prepared on the basis of uniform accounting principles for equivalent transactions and events under otherwise equivalent circumstances.

NOTE 3 SEGMENT INFORMATION

The operating segments as they are presented in the annual report correspond to the reporting by which the Corporate Management Team manages when they evaluate performance and profitability at a strategic level. The segment results used for management by the Corporate Management Team are the earnings before interest and tax (EBIT) and earnings before tax (EBT).

BUSINESS AREAS
AF Gruppen is a project-based contracting and industrial group. The Corporate Management Team manages the business operations on the basis of the Civil Engineering, Environment, Building, Property, Energy and Offshore business areas.

Civil Engineering carries out large complex civil engineering projects and niche projects related to roads and railways, port facilities, foundation work, power and energy. AF is a turnkey supplier of civil engineering services in Norway. In Sweden, Civil Engineering provides services in the fields of foundation work, water and sewage, concrete, district heating, cable laying, wind power and roadworks in the Stockholm area, Mälardalen and Gothenburg. The business area consists of the business units AF Anlegg, Målselv Maskin & Transport, Kanonaden Entreprenad and Pålplintar.

The Environment business area is a leader in onshore demolition, removal and environmental clean-up of buildings and industrial plants. Land-based demolition is carried out in Norway and Sweden. The business area consists of the business units AF Decom and Härnösand Byggreturer.

The Building business area performs traditional building activities with a solid local base. The business includes the development, engineering and building of commercial, residential and public buildings, as well as rehabilitation projects. Building has a strong market position in Central East Norway. Through new establishments and acquisitions in recent years, we have also established activities in Southern and Western Norway. In Sweden the geographical centre of the activities is in the Gothenburg – Halmstad area. The business area consists of the business units AF Bygg Oslo, AF Byggfornyelse, AF Nybygg, AF Bygg Østfold, AF Bygg Prosjektpartner, AF Bygg Sweden, Strøm Gundersen and LAB.

The Property business area comprises the development of residential units and commercial buildings for own account. For better control over the value chain, property development is limited to areas where AF Gruppen is engaged in contracting operations. Development projects are often organised through the establishment of joint development companies with partners. Collaboration reduces project-specific risk and adds the benefit of complementary expertise.

The land-based activities deliver energy-efficient technical solutions that will provide a profitable bottom line for customers and the environment. Energy services for onshore activities are performed in the business unit AF Energi & Miljøteknikk.

Offshore encompasses AF's services connected to the removal, demolition and recycling of offshore installations. Offshore also includes new building, modification and maintenance work related to HVAC, cranes, modules and rig services. In addition, services related to the maintenance and modification of onshore facilities for the oil and gas industry are provided. The business area consists of the business units: AF AeronMollier and AF Offshore Decom. Offshore also has activities in AF Miljøbase Vats.

Activities that are not allocated to the business areas are presented as Other and involve primarily activities in the Parent Company and some general services. AF Gruppen's corporate cash pooling system is included in Other.

Transactions between segments in the Group are carried out based on market terms and in accordance with the arm's length principle. Transactions and balances between the various segments, in addition to elements of internal profit, are presented in the eliminations column in the segment note.

TYPES OF SERVICES
AF Gruppen's revenues are primarily from production contracts of varying sizes and durations. The client, who may be in the public or private sector, is responsible for the financing. AF Gruppen also provides some services that are billed by the hour, cf. Note 5 – Operating and other revenue. In addition, the Property business area is engaged in projects for own account related to the development and construction of residential units for sale. Projects for own account are self-financed.

GEOGRAPHIC SEGMENTS
The division into geographic segments is not reported on an ongoing basis to the Corporate Management Team. Geographically segmented key figures required by IFRS 8 are presented in a separate table and supplement information to analysts and other users of the financial statements.

ACCOUNTING POLICIES
Segment information is presented in accordance with the Group's accounting policies in accordance with IFRS, with the exception of IFRIC 15 Agreements for the Construction of Real Estate). This policy exception applies to the Building and Property

NOTE 3 SEGMENT INFORMATION CONT.

Amounts in NOK million	Civil Engineering	Environment	Construction	Property	Energy	Offshore	Other	Elim.	IFRIC 15	Total
2017										
INCOME STATEMENT										
External revenue	4 413	531	8 017	42	235	665	34	-47	-187	13 704
Internal revenue	65	70	24	-	9	-1	23	-189	-	-
Total revenue	**4 478**	**601**	**8 041**	**43**	**244**	**664**	**57**	**-236**	**-187**	**13 704**
Earnings before interest, tax, depreciation and amortisation (EBITDA)	367	63	525	88	21	74	-18	-8	-19	1 092
Earnings before interest and tax (EBIT)	292	45	480	88	20	59	-33	-8	-19	924
EBT	**311**	**45**	**493**	**75**	**22**	**49**	**-32**	**-8**	**-19**	**935**
KEY FIGURES AND BALANCE SHEET										
EBITDA margin	8.2%	10.4%	6.5%	-	8.5%	11.2%	-	-	-	8.0%
Operating margin	6.5%	7.5%	6.0%	-	8.2%	8.8%	-	-	-	6.7%
Profit margin	7.0%	7.4%	6.1%	-	9.1%	7.4%	-	-	-	6.8%
Assets as at 31 December	2 245	347	5 066	945	163	1 262	2 050	-4 245	-109	7 724
Capital employed as at 31 December	541	153	2 214	917	72	1 003	1 266	-3 865	-104	2 198
Order backlog as at 31 December	6 510	344	11 099	-	260	916	-	157	486	19 773
Number of employees as at 31 December	1 357	164	1 776	27	86	226	132	-	-	3 768
CASH FLOW										
Net cash flow from operating activities	733	21	681	-145	7	88	-31	-	-	1 354
Net cash flow from investing activities	-193	-10	-85	154	-1	-	18	-	-	-119
Net cash flow before financing activities	**540**	**10**	**595**	**9**	**6**	**87**	**-13**	**-**	**-**	**1 235**

GEOGRAPHIC DISTRIBUTION OF REVENUE AND ASSETS

The tables below show revenue and assets broken down by the countries in which the Group operates. The operations are essentially located where the customers are located. The export of goods and services is not evident from the table.

Amounts in NOK million	Civil Engineering	Environment	Construction	Property	Energy	Offshore	Other	Elim.	IFRIC 15	Total
GEOGRAPHIC DISTRIBUTION OF REVENUE										
Norway	3 562	474	7 439	21	244	460	57	-211	-83	11 963
Sweden	917	127	571	21	-	-	-	-25	-105	1 506
Other	-	-	30	-	-	204	-	-	-	234
Eliminations	-	-	-	-	-	-	-	-	-	-
Total	**4 478**	**601**	**8 041**	**43**	**244**	**664**	**57**	**-236**	**-187**	**13 704**
GEOGRAPHIC DISTRIBUTION OF NON-CURRENT ASSETS, EXCLUDING FINANCIAL INSTRUMENTS AND DEFERRED TAX ASSETS										
Norway	145	140	1 826	403	60	825	622	-447	-70	3 505
Sweden	217	21	114	13	-	-	-	-	-	364
Other	-	-	1	-	-	-	-	-	-	2
Eliminations	-	-	-	-	-	-	-	-	-	-
Total	**362**	**161**	**1 941**	**415**	**60**	**825**	**622**	**-447**	**-70**	**3 871**
GEOGRAPHIC DISTRIBUTION OF ASSETS										
Norway	1 733	282	4 556	755	163	996	2 050	-4 228	-94	6 215
Sweden	512	65	501	189	-	-	-	-17	-16	1 234
Other	-	-	9	-	-	266	-	-	-	275
Eliminations	-	-	-	-	-	-	-	-	-	-
Total	**2 245**	**347**	**5 066**	**945**	**163**	**1 262**	**2 050**	**-4 245**	**-109**	**7 724**

NOTE 3 SEGMENT INFORMATION CONT.

Amounts in NOK million	Civil Engineering	Environment	Construction	Property	Energy	Offshore	Other	Elim.	IFRIC 15	Total
2016										
INCOME STATEMENT										
External revenue	3 364	689	6 622	46	177	1 013	29	58	-121	11 876
Internal revenue	4	40	66	2	1	1	38	-151	-	-
Total revenue	**3 368**	**729**	**6 688**	**48**	**177**	**1 014**	**67**	**-93**	**-121**	**11 876**
Earnings before interest, tax, depreciation and amortisation (EBITDA)	512	58	523	44	18	161	-42	-5	-58	1 212
Earnings before interest and tax (EBIT)	461	42	485	44	18	107	-60	-5	-58	1 034
EBT	**475**	**42**	**498**	**30**	**16**	**94**	**-51**	**-5**	**-58**	**1 040**
KEY FIGURES AND BALANCE SHEET										
EBITDA margin	15.2%	8.0%	7.8%	-	10.2%	15.9%	-	-	-	10.2%
Operating margin	13.7%	5.8%	7.3%	-	10.0%	10.5%	-	-	-	8.7%
Profit margin	14.1%	5.7%	7.4%	-	8.9%	9.3%	-	-	-	8.8%
Assets as at 31 December	1 326	260	3 554	868	140	1 537	1 110	-2 157	-89	6 549
Capital employed as at 31 December	155	97	1 407	814	42	1 034	383	-1 787	-83	2 063
Order backlog as at 31 December	5 589	212	8 467	-	108	550	-	106	299	15 332
Number of employees as at 31 December	845	165	1 617	17	59	209	137	-	-	3 049
CASH FLOW										
Net cash flow from operating activities	428	18	550	-77	14	17	-143	15	-	822
Net cash flow from investing activities	-22	-12	-27	40	-1	-	25	-15	-	-13
Net cash flow before financing activities	**406**	**6**	**523**	**-37**	**13**	**16**	**-118**	**-**	**-**	**809**

GEOGRAPHIC DISTRIBUTION OF REVENUE AND ASSETS

The tables below show revenue and assets broken down by the countries in which the Group operates. The operations are essentially located where the customers are. The export of goods and services is not evident from the table

Amounts in NOK million	Civil Engineering	Environment	Construction	Property	Energy	Offshore	Other	Elim.	IFRIC 15	Total
GEOGRAPHIC DISTRIBUTION OF REVENUE										
Norway	3 237	608	6 192	47	177	799	67	-90	-121	10 917
Sweden	131	120	485	1	-	-	-	-3	-	733
Other	-	-	11	-	-	421	-	-	-	432
Eliminations	-	-	-	-	-	-206	-	-	-	-206
Total	**3 368**	**729**	**6 688**	**48**	**177**	**1 014**	**67**	**-93**	**-121**	**11 876**
GEOGRAPHIC DISTRIBUTION OF NON-CURRENT ASSETS, EXCLUDING FINANCIAL INSTRUMENTS AND DEFERRED TAX ASSETS										
Norway	142	77	1 714	487	57	841	459	-346	-63	3 368
Sweden	13	19	165	12	-	-	-	-	-	208
Other	-	-	1	-	-	-	-	-	-	1
Eliminations	-	-	-	-	-	-	-	-	-	-
Total	**156**	**95**	**1 879**	**499**	**57**	**841**	**459**	**-346**	**-63**	**3 577**
GEOGRAPHIC DISTRIBUTION OF ASSETS										
Norway	1 222	199	3 143	811	140	1 250	1 110	-2 157	-68	5 650
Sweden	104	61	405	58	-	-	-	-	-21	607
Other	-	-	5	-	-	287	-	-	-	292
Eliminations	-	-	-	-	-	-	-	-	-	-
Total	**1 326**	**260**	**3 554**	**868**	**140**	**1 537**	**1 110**	**-2 157**	**-89**	**6 549**

NOTE 3 SEGMENT INFORMATION CONT.

Amounts in NOK million	Civil Engin-eering	Environ-ment	Construc-tion	Property	Energy	Offshore	Other	Elim.	IFRIC 15	Total
2015										
INCOME STATEMENT										
External revenue	3 759	641	6 661	25	225	1 186	45	-	-144	12 398
Internal revenue	1	47	17	-	-	2	42	-109	-	-
Total revenue	**3 760**	**687**	**6 678**	**25**	**225**	**1 187**	**88**	**-109**	**-144**	**12 398**
Earnings before interest, tax, depreciation and amortisation (EBITDA)	394	56	510	69	19	134	-6	2	-27	1 151
Earnings before interest and tax (EBIT)	339	45	479	69	19	104	-21	2	-27	1 010
EBT	**339**	**46**	**485**	**57**	**21**	**83**	**-4**	**2**	**-27**	**1 004**
KEY FIGURES AND BALANCE SHEET										
EBITDA margin	10.5%	8.2%	7.6%	-	8.5%	11.3%	-	-	-	9.3%
Operating margin	9.0%	6.6%	7.2%	-	8.3%	8.7%	-	-	-	8.1%
Profit margin	9.0%	6.7%	7.3%	-	9.4%	7.0%	-	-	-	8.1%
Assets as at 31 December	1 232	278	3 903	630	133	1 354	528	-1 784	-31	6 243
Capital employed as at 31 December	163	118	1 728	620	73	956	-127	-1 576	-29	1 925
Order backlog as at 31 December	3 402	216	5 947	-	90	1 182	-	168	178	11 183
Number of employees as at 31 December	1 069	198	1 314	18	60	241	130	-	-	3 030
CASH FLOW										
Net cash flow from operating activities	502	138	588	-25	25	166	23	-	-	1 418
Net cash flow from investing activities	-26	-7	84	62	-	-31	-8	-	-	74
Net cash flow before financing activities	**476**	**131**	**672**	**37**	**26**	**134**	**15**	**-**	**-**	**1 492**

GEOGRAPHIC DISTRIBUTION OF REVENUE AND ASSETS

The tables below show revenue and assets broken down by the countries in which the Group operates. The operations are essentially located where the customers are. The export of goods and services is not evident from the table

Amounts in NOK million	Civil Engin-eering	Environ-ment	Construc-tion	Property	Energy	Offshore	Other	Elim.	IFRIC 15	Total
GEOGRAPHIC DISTRIBUTION OF REVENUE										
Norway	3 624	529	6 230	24	225	1 237	88	-101	-144	11 713
Sweden	136	159	441	1	-	-	-	-8	-	728
Other	-	-	7	-	-	124	-	-	-	131
Eliminations	-	-	-	-	-	-174	-	-		-174
Total	**3 760**	**687**	**6 678**	**25**	**225**	**1 187**	**88**	**-109**	**-144**	**12 398**
GEOGRAPHIC DISTRIBUTION OF NON-CURRENT ASSETS, EXCLUDING FINANCIAL INSTRUMENTS AND DEFERRED TAX ASSETS										
Norway	177	89	1 749	435	56	895	457	-333	-23	3 501
Sweden	15	19	135	-	-	-	-	-	-	169
Other	-	-	1	-	-	-	-	-	-	1
Eliminations	-	-	-	-	-	-	-	-	-	-
Total	**191**	**108**	**1 885**	**435**	**56**	**895**	**457**	**-333**	**-23**	**3 671**
GEOGRAPHIC DISTRIBUTION OF ASSETS										
Norway	1 158	220	3 466	630	133	1 318	528	-1 784	-31	5 638
Sweden	74	58	434	-	-	-	-	-	-	566
Other	-	-	4	-	-	46	-	-	-	49
Eliminations	-	-	-	-	-	-10	-	-	-	-10
Total	**1 232**	**278**	**3 903**	**630**	**133**	**1 354**	**528**	**-1 784**	**-31**	**6 243**

NOTE 4 ACQUISITION AND SALE OF BUSINESSES

BUSINESS COMBINATIONS IN 2017

In 2017, the Group completed a business combination with Kanonaden Entreprenad AB. A small business combination with Oslo Brannsikring AS, which is part of the Building business area, was also carried out.

Kanonaden Entreprenad AB
On 9 February, AF Gruppen executed the agreement to acquire 70 per cent of the shares in Kanonaden Entreprenad AB. The acquisition is in accordance with AF's strategy towards 2020, which entails a greater investment in Sweden, and it gives AF part of the growing civil engineering market in Sweden. All the shares have voting rights. The transaction encompasses the subsidiaries Bergbolaget i Götaland AB, Kanonaden Entreprenad Öst AB and Täkt och Förvaltning AB. Kanonaden Entreprenad is part of the Civil Engineering business area.

Kanonaden Entreprenad AB was established in 1983, with headquarters in Nässjö, Jönköping County, Sweden. Including subsidiaries, Kanonaden Entreprenad saw revenue of SEK 708 million and the company had 188 employees in 2016. Kanonaden Entreprenad AB performs work in the fields of site preparation work, water and sewage, concrete, district heating, cable laying, wind power and roadworks. The company is engaged in activities in Southern Sweden, including Stockholm and Gothenburg.

The business operations of Kanonaden Entreprenad AB, including shares in subsidiaries, are valued at SEK 261 million on a 100 per cent (EV) basis. The shares were valued at the same value, and the settlement for the 70 per cent AF acquired consisted of payment by 318,766 shares of AF Gruppen ASA at NOK 153.40 per share, which corresponds to SEK 52 million, and SEK 131 million in cash.

An allocation of the purchase price based on the opening balance sheet of Kanonaden Entreprenad AB as at 9 February 2017 is presented below. Allocation of the purchase price was prepared using the acquisition method as regulated in IFRS 3. The purchase price has been allocated at the fair value of the assets and liabilities of Kanonaden Entreprenad AB. The allocation is final.

Amounts in SEK million	Kanonaden Entreprenad AB
Cash consideration	131
Share issue	52
Gross consideration	**183**
– Cash and cash equivalents	-33
Net consideration	**150**
Tangible fixed assets and intangible assets	58
Inventories	5
Current non-interest-bearing receivables	133
Deferred and payable tax	-22
Current interest-bearing liabilities	-6
Current non-interest-bearing liabilities	-138
Net identifiable assets and liabilities	**31**
Minority interests	-19
Goodwill	**139**

The acquisition resulted in goodwill of SEK 139 million (130 million), which is linked to the geographical market position and the organisation's ability to operate profitably. None of the goodwill will be tax deductible.

At the time acquisition, the minority interests represented SEK 19 million and have been calculated as the non-controlling owners' share of the net fair value of identifiable assets and liabilities on the date of the acquisition. Goodwill is only recognised for the portion of the shares that AF acquired.

AF Gruppen Sweden is also obligated to purchase up to 15 per cent of the shares in Kanonaden Entreprenad AB during the period from 2020–2023 on market terms. An estimate of this liability has been recognised on the balance sheet, cf. Note 15.

NOTE 4 ACQUISITION AND SALE OF BUSINESSES CONT.

RECONCILIATION OF NET CASH CONSIDERATION

Amounts in NOK million	Note	Kanonaden Entreprenad	Other	Total
Gross cash consideration		124	13	137
– Cash and cash equivalents		-31	-3	-34
Net cash consideration		**93**	**10**	**103**
RECONCILIATION OF ADDITIONS FROM THE ACQUISITION OF BUSINESS				
Goodwill	13	130	11	141
Intangible assets	13	**130**	**11**	**141**
Buildings and production facilities	14	10	9	19
Machinery, fixtures and fittings	14	45	2	47
Property, plant and equipment	14	**55**	**12**	**67**

BUSINESS COMBINATIONS IN 2016

The Group did not complete any business combinations in 2016.

NOTE 5 OPERATING AND OTHER REVENUE

Amounts in NOK million	Note	2017	2016	2015
Revenue from long-term production projects		13 475	11 540	12 067
Revenue from sale of services		64	159	182
Other sales revenue		103	75	93
Total operating revenue		**13 642**	**11 775**	**12 342**
Rental income		33	16	23
Other income[1)]		28	86	33
Total other revenue		**61**	**102**	**56**
Total operating and other revenue	3	**13 704**	**11 876**	**12 398**

[1)] *The amount for 2016 includes a compensation settlement of NOK 41 million for lost jobs.*

NOTE 6 PROJECTS IN PROGRESS

PROJECTS IN PROGRESS AT YEAR END

Amounts in NOK million	Note	2017	2016	2015
UNEARNED REVENUE INVOICED IN THE INCOME STATEMENT				
Recognised as revenue under projects in progress		12 135	15 334	15 532
Invoiced on projects in progress		-14 558	-17 237	-17 186
Total unearned revenue invoiced		**-2 423**	**-1 903**	**-1 654**
DISTRIBUTION ON THE BALANCE SHEET				
Production invoiced in advance included in trade receivables	10	-1 539	-1 439	-1 413
Production invoiced in advance included in other current liabilities	16	-884	-464	-241
Total unearned revenue invoiced		**-2 423**	**-1 903**	**-1 654**
EARNED REVENUE NOT INVOICED				
Recognised as revenue under projects in progress		3 020	2 871	4 455
Invoiced on projects in progress		-2 630	-2 403	-4 163
Total earned revenue not invoiced	10	**390**	**468**	**293**
Credit balances with clients [1)]	10	**698**	**418**	**491**

[1)] As security for AF Gruppen's contractual obligations during the contract's performance period, including liability for delayed completion, 10 per cent of the contract sum is retained. The retained amount is referred to as "credit balances with clients" and is regulated in contract standards such as NS 8405. When the final settlement is paid, the credit balance is released.

RECOGNISED IN THE INCOME STATEMENT UNDER PROJECTS IN PROGRESS		2017	2016	2015
Accumulated revenue		15 155	18 205	19 988
Accumulated project costs		-14 138	-16 945	-17 786
Accumulated project contributions		1 017	1 260	2 202
Production outstanding (revenue) on loss-making projects		399	28	449

NOTE 7 PAYROLL COSTS

Amounts in NOK million	Note	2017	2016	2015
Fixed pay		-2 332	-2 135	-2 057
Social security costs		-383	-326	-302
Retirement benefit costs	18	-99	-80	-78
Share value-based remuneration		-9	-8	-8
Other benefits		-137	-101	-90
Total payroll costs		**-2 961**	**-2 650**	**-2 535**

AVERAGE NUMBER OF FULL-TIME EQUIVALENTS			
Norway	3 217	2 912	2 872
Sweden	411	171	179
Germany	5	3	4
Lithuania	2	2	42
China	9	9	9
Total	**3 643**	**3 096**	**3 106**

SALE OF SHARES TO EMPLOYEES

In recent years, AF Gruppen has given all its employees the opportunity to buy shares at a 20 per cent discount. The discount is calculated cent in relation to the average market price during the subscription period. The lock-in period for the shares is one year.

NUMBER OF SHARES / PRICE	2017	2016	2015
Number of shares sold from own holdings	221 112	70 000	148 145
Number of shares from new issues	778 888	930 000	851 855
Market price during subscription period (NOK)	144.70	160.70	106.20
Selling price (NOK)	115.80	128.56	85.00
Accounting impact of sale of shares to employees (NOK 1000):			
Payroll costs (discount on sale of shares including social security costs)	-9 360	–3 702	-5 368

OPTION PROGRAMME

The General Meeting adopted a new option programme for all the employees of AF Gruppen in May 2017. The maximum number of options that may be allocated is 3,500,000 over three years, and the programme entails annual allotments for the years 2017–19 and exercising the options in 2020. The purchase price for the shares is based on the average market price during the last week before the three respective subscription periods. The option premium was NOK 1 per option. In order to exercise the options, it was a condition that one be employed by AF Gruppen or one of its subsidiaries on 31 March 2020. AF Gruppen issued 3,325,000 options to 1,536 employees in 2017. A total of 60,857 options became void in 2017 due to employees leaving the company. The total number of outstanding options, adjusted for employees who have left company, was 3,264,143 as at 31 December 2017. Recognised option costs for 2017 were NOK 9 million (8 million).

Expiration date and exercise price for outstanding options at year end:

ALLOTMENT YEAR	Exercise deadline	Exercise price (NOK per share)	Number of options
Number of options as at 31 December 2016	1.3.2017	71.37	3 647 779
Options exercised in March 2017			-3 253 346
Options not exercised in March 2017 (lapsed)			-394 433
Options subscribed for in June 2017	1.3.2020	148.71	3 325 000
Correction for employees who have left after June 2017			-60 857
Number of options as at 31 December 2017			**3 264 143**

AF Gruppen has used the Black-Scholes options pricing model to value the options. The following assumptions were used in the model:	2017	2016	2015
Expected dividend yield	2.9%	3.5%	4.1%
Historical volatility	18.3%	18.8%	18.8%
Risk-free interest	1.5%	1.3%	1.9%
Expected life of option (years)	2.8	0.8	2.0
Share price (NOK)	153.21	132.68	108.33

NOTE 8 OTHER OPERATING EXPENSES

Amounts in NOK million	Note	2017	2016	2015
OTHER OPERATING EXPENSES				
Rent		-118	-108	-108
Other rental expenses		-461	-413	-461
Insurance		-32	-29	-31
Contracted manpower		-93	-89	-90
Audit fees		-7	-6	-6
Other fees		-97	-70	-68
Bad debts	10	-1	-1	-3
Disposal and landfill fees		-88	-74	-72
Marketing and advertising		-21	-22	-18
IT expenses		-70	-46	-43
Sundry other operating expenses		-268	-224	-67
Total other operating expenses		**-1 256**	**-1 084**	**-968**

Amounts in NOK 1000	2017	2016	2015
REMUNERATION OF THE GROUP'S ELECTED AUDITOR			
Statutory auditing	-2 950	-2 381	-2 868
Other assurance engagements	-136	-45	-87
Tax consulting	-32	-127	-4
Other non-audit services	-209	-245	-353
Total	**-3 327**	**-2 798**	**-3 311**
REMUNERATION OF OTHER AUDITORS			
Statutory auditing	-2 778	-2 356	-1 442
Other services beyond auditing	-597	-736	-805
Total	**-3 376**	**-3 093**	**-2 247**
Total auditor's fees	**-6 703**	**-5 891**	**-5 558**

Remuneration of the auditor is exclusive of value-added tax.

AF Gruppen elected PricewaterhouseCoopers AS (PwC) as the new auditor in 2017. The remuneration in 2017 refers to the 2016 financial year, which has been paid to Ernst & Young AS (EY), and a payment on account for the 2017 financial year, which has been paid to PwC. Amounts paid to the elected auditor for previous years are payments to EY.

NOTE 9 NET GAINS/(LOSSES)

Amounts in NOK million	2017	2016	2015
Gains / (losses) on sale of businesses	-	2	-
Gains / (losses) on sale of shares in property companies [1]	7	2	42
Fair value changes in financial derivatives	-3	-17	64
Net (gains) / losses on the sale of property, plant and equipment	23	33	29
Net foreign exchange gains / (losses) related to operations	-2	-2	-
Total net gains / (losses)	**25**	**18**	**135**

[1] Gains / (losses) on the sale of shares in property companies include both the sale of shares in associates and joint ventures, and the sale of shares in subsidiaries that engage in property activities. In an early development phase, the ownership interest in the property companies is often greater than when the construction starts. In the production phase, most of the projects are organised as associated companies, cf. Note 27 – Investments in associated companies and Note 28 – Investments in joint ventures. Gains on the sale of shares in property companies of NOK 42 million in 2015 were primarily linked to the sale of 50 per cent of the shares in Bjørnsons Hage AS and Bjørnsons Hage 2 AS. The sale entailed loss of control, and the gain thus also includes a latent gain on AF Gruppen's remaining ownership stake of 50 per cent.

NOTE 10 TRADE AND NON-INTEREST-BEARING RECEIVABLES

Amounts in NOK million	Note	2017	2016
Trade receivables		2 566	2 524
Unearned revenue, invoiced on projects in progress	6	-1 539	-1 439
Earned revenue, not invoiced on projects in progress	6	390	468
Credit balances with clients	6	698	418
Tax paid in advance		4	3
Value-added tax and other public charges paid in advance		13	7
Prepaid expenses		56	37
Other current non-interest-bearing receivables		27	42
Trade and other non-interest-bearing receivables	24	**2 216**	**2 061**
Gross trade receivables		2 570	2 528
Provision for losses		-4	-3
Trade receivables recognised on the balance sheet		**2 566**	**2 524**

Maximum exposure to credit risk in respect of trade receivables on the balance sheet date according to age:

Amounts in NOK million	2017	2016
TRADE RECEIVABLES – AGE DISTRIBUTION		
1–30 days overdue	445	200
31–60 days overdue	29	60
61–90 days overdue	11	197
91–120 days overdue	9	47
More than 120 days overdue	395	541
Total receivables overdue, but not written down	**899**	**1 045**
Receivables not yet due	1 677	1 480
Trade receivables recognised on the balance sheet	**2 566**	**2 524**

AGE DISTRIBUTION 2017	Not yet due	1–30	31–60	61–90	91–120	> 120	Total
Trade receivables, gross	1 677	445	30	11	9	399	2 570
Provision for losses	-	-	-	-	-	-4	-4
Trade receivables recognised on the balance sheet	**1 677**	**445**	**29**	**11**	**9**	**395**	**2 566**

A relatively large proportion of trade receivables are more than 120 days overdue. This is attributed to the complexity of the final settlement for the projects. The final account lists all the work performed under the contract against the contract prices. In addition, the actual work performed will normally include items that are not described in the contract, and the parties have to reach an agreement on how to calculate the price and quantity of such items. This work usually takes several months and, in the case of complex contracts, can take up to a year. Impairment due to unwillingness or inability to pay is rare. Changes in the value of receivables are primarily due to changes in project revenue estimates and are entered as an adjustment of the project revenue.

MOVEMENT IN PROVISIONS FOR LOSSES ON TRADE RECEIVABLES	Note	2017	2016
Provision for losses as at 1 January		-3	-2
Losses written off during the year		1	-
Reversal of last year's provisions		1	-
Provisions for the year	8	-2	-1
Provision for losses as at 31 December		**-4**	**-3**

Provisions for losses on trade receivables only cover provisions related to the customers' ability to pay. Other risk related to trade receivables is considered in the assessment of each project.

NOTE 11 INVENTORIES

Amounts in NOK million	2017	2016
Spare parts and project inventories	82	59
Raw materials	44	52
Finished products	34	28
Total inventories	**159**	**139**

Inventories mainly consist of spare parts and equipment for use in production. Inventories were not subject to impairment in 2017. NOK 22 of the inventories has been pledged as security for liabilities, cf. Note 34 – Pledged assets and guarantees.

NOTE 12 PROJECTS FOR OWN ACCOUNT

Development projects in AF Gruppen are generally organised through setting up joint development companies with partners. Most of these companies are organised as associates or joint ventures, cf. Note 27 – Associated companies and Note 28 – Joint ventures. What is presented on the balance sheet as projects for own account, which are specified in the table below, are only the projects that are developed in subsidiaries.

Amounts in NOK million	2017	2016
Housing projects in progress	108	-
Completed residential units for sale	-	1
Land for development	78	46
Total projects for own account	**186**	**47**

There is no capitalised interest recognised in the balance sheet for projects for own account.

LAND FOR DEVELOPMENT

Land for development is defined as sites and development rights for which no decision on development has yet been taken. Combined with the sites and development rights in associates, they can be used to build 2,314 (2,054) residential units and 92,084 (107,310) square metres of commercial area. AF's share is 982 (848) residential units and 45,273 square metres (51,213) of commercial area.

COMPLETED RESIDENTIAL UNITS FOR SALE	2017	2016
Number of completed residential units for sale in subsidiaries	-	1
AF's share of completed residential units for sale in associates	4	4

NOTE 13 INTANGIBLE ASSETS

Amounts in NOK million	Note	Goodwill	Customer relationships	Other intangible assets	Total
ACQUISITION COST					
01/01/2016		2 083	30	29	2 143
Ordinary additions		-	-	2	2
Additions from the acquisition of business	4	5	-	-	5
Disposals		-	-	-1	-1
Translation difference		-11	-	-	-11
31/12/2016		**2 078**	**30**	**30**	**2 138**
Ordinary additions		-	-	-	-
Additions from the acquisition of business	4	141	-	-	141
Disposals		-	-	-	-
Translation difference		17	-	-	17
31/12/2017		**2 237**	**30**	**30**	**2 297**
DEPRECIATION AND WRITE-DOWNS					
01/01/2016		-15	-30	-20	-66
Disposals		-	-	1	1
Depreciation for the year		-	-	-2	-2
Write-downs for the year		-40	-	-	-40
31/12/2016		**-55**	**-30**	**-21**	**-107**
Disposals		-	-	-	-
Depreciation for the year		-	-	-2	-2
Write-downs for the year		-	-	-	-
31/12/2017		**-55**	**-30**	**-23**	**-109**
CARRYING AMOUNT					
Acquisition cost		2 078	30	30	2 138
Depreciation and write-downs		-55	-30	-21	-107
31/12/2016		**2 023**	**-**	**9**	**2 032**
Acquisition cost		2 237	30	30	2 297
Depreciation and write-downs		-55	-30	-23	-109
31/12/2017		**2 182**	**-**	**6**	**2 188**

	Customer relationships	Other intangible assets
Economic life	5 years	0–22 years
Depreciation schedule	Straight-line	Straight-line

NOTE 13 INTANGIBLE ASSETS CONT.

ALLOCATION OF GOODWILL TO CASH-GENERATING UNITS

Goodwill is allocated to the Group's cash-generating units that are expected to draw synergies from business combinations. Goodwill is mainly allocated to business units. The allocation is shown in the summary below:

Amounts in NOK million	2017	2016
Målselv Maskin & Transport	64	64
AF Anlegg	17	17
Kanonaden Entreprenad	139	-
Pålplintar	3	3
Total Civil Engineering	**222**	**84**
AF Decom	37	37
Härnösand Byggreturer	14	13
Total Environment	**50**	**50**
Strøm Gundersen	760	749
MTH	94	94
LAB	649	649
AF Bygg Sweden	107	99
AF Bygg Østfold	47	47
AF Bygg Prosjektpartner	20	20
Total Building	**1 678**	**1 659**
AF AeronMollier	176	177
Total Offshore	**176**	**177**
AF Energi & Miljøteknikk	54	53
Total Energy	**54**	**53**
Book value as at 31 December	**2 182**	**2 023**

IMPAIRMENT TESTS FOR GOODWILL

The Group performs annual tests to assess whether the value of goodwill and intangible assets has been impaired. In the impairment test the book value is measured against the recoverable amount from the cash-generating unit to which the asset is allocated. The recoverable amount from cash-generating units is determined by calculation of the utility value. The utility value is calculated on the basis of discounting the anticipated future cash flows before tax with a relevant discount rate (WACC) before tax that takes the term and risk into account. Different discount rates have been used for Norwegian and Swedish operations as a result of the differences in the risk-free interest rates. A different required rate of return has also been used for Offshore and other contracting operations to reflect the differences in market risk.

The principal assumptions used in the calculation of the recoverable amounts:

NORWAY	2017	2016
Growth rate [1]	2.0%	2.0%
WACC before tax for offshore	9.8%	10.3%
WACC before tax for other	7.9%	8.2%

SWEDEN	2017	2016
Growth rate [1]	2.0%	2.0%
WACC before tax	6.8%	6.5%

[1] *The growth rate is nominal and assumed to be perpetual.*

Anticipated cash flows for 2018 in the calculation of the recoverable amount are based on the budget for 2018 approved by the management. If next year's budget is not representative, and there are budgets approved by the management for several years, the budgets for up to three years will be used. Budgets and business plans are based on assumptions regarding, for example, the demand, cost of materials, cost of labour and the overall competitive situation in the markets in which AF Gruppen operates. The assumptions made are based on management's experience as well as external sources. Wage inflation of 3.3 per cent is anticipated for all the business units in 2018.

In 2016, goodwill was written down by NOK 40 million in connection with AF AeronMollier as a result of the unit experiencing difficult market conditions over a long period of time and a lower than desired level of activity. Significant organisational adaptations have been implemented. AF AeronMollier belongs to the Offshore business area.

NOTE 13 INTANGIBLE ASSETS CONT.

SENSITIVITY ANALYSIS FOR KEY ASSUMPTIONS

Sensitivity analyses have been carried out for all the goodwill items related to the discount rate (WACC) and cash flows. The sensitivity analyses for the units with the largest goodwill items are presented in the section below. The calculated value of the individual cash-generating units exceeds the book value with a relatively good margin at the end of 2017 for most of the units in the test. The exception is AF AeronMollier, in which the goodwill was written down to the calculated recoverable amount in 2016. The circumstances of the unit have not changed significantly this last year, and the calculated value is also close to the recoverable amount in 2017. Based on the current information, the management of AF Gruppen is of the opinion that reasonable changes in key assumptions which form the basis for calculation of the recoverable amount will not entail any need for a write-down.

A) SENSITIVITY ANALYSIS OF DISCOUNT RATE (WACC))

The table below shows the relationship between the estimated recoverable amount and the book value of the assets in the impairment test of AF Gruppen's largest goodwill items. The book value of the assets in the impairment test is expressed as an index of 100. In addition, it shows how the recoverable amount changes if the discount rate (WACC) changes by respectively 50, 100 and 300 basis points (i.e. . 0.5, 1 and 3 percentage points). All other factors are held constant in the calculation.

The higher the index for the estimated cash flow, the more robust the unit is with respect to a possible write-down. Even with an increase in the WACC by 300 basis points, Målselv Maskin & Transport will have an estimated value that is 69 per cent higher than what is necessary to justify the assets. 69 per cent is then calculated as an index of 169 divided by an index of 100 minus 1. If the index for the recoverable amount is less than 100, this indicates that the recoverable amount is lower than the carrying amount of the assets in the impairment test, making a write-down of goodwill necessary. For example, the table shows that a 1 percentage point increase in the WACC will make it necessary to recognise an impairment loss for the goodwill allocated to AF AeronMollier.

2017	Indexed values		Recoverable amount if WACC is increased by		
COMPANY	Recoverable amount	Book value of assets	50 bp	100 bp	300 bp
Målselv Maskin & Transport	241	100	231	214	169
Strøm Gundersen	322	100	297	276	214
MTH	296	100	249	231	129
LAB	294	100	271	251	195
AF Bygg Sweden	615	100	556	508	377
AF AeronMollier	108	100	102	96	78

2016	Indexed values		Recoverable amount if WACC is increased by		
COMPANY	Recoverable amount	Book value of assets	50 bp	100 bp	300 bp
Målselv Maskin & Transport	306	100	294	273	218
Strøm Gundersen	316	100	229	213	167
LAB	269	100	249	232	181
AF Bygg Sweden	700	100	630	573	420
AF AeronMollier	100	100	94	90	73

B) SENSITIVITY ANALYSIS OF CASH FLOWS

The table below shows the relationship between normalised cash flows assumed in the calculation of the recoverable amount and the estimated "break even" cash flow in the impairment test of AF Gruppen's largest goodwill items. The cash flow providing the "break even" in the impairment test, that is the cash flow that provides a recoverable amount equal to book value of assets, is expressed as an index of 100. In addition, it shows how recoverable amounts change if the cash flow is reduced respectively by 10, 30 and 50 per cent.

The higher the index for the estimated cash flow, the more robust the unit is with respect to a possible write-down. Even with a reduction in cash flow by 50 per cent, Målselv Maskin & Transport will have an estimated value that is 21 per cent higher than what is necessary to justify the assets. 21 per cent is then calculated as an index of 121 divided by an index of 100 minus 1. If the index of estimated cash flows is less than 100, this indicates that the recoverable amount is lower than the carrying amount of the assets in the impairment test, making a write-down of goodwill necessary. For example, the table shows that a 10 per cent reduction in estimated cash flow will necessitate the recognition of an impairment loss for the goodwill allocated to AF AeronMollier.

NOTE 13 INTANGIBLE ASSETS CONT.

2017	Indexed values		Recoverable amount if cash flow is reduced by		
COMPANY	Estimated cash flow	"Break even" cash flow	10%	30%	50%
Målselv Maskin & Transport	242	100	218	169	121
Strøm Gundersen	267	100	240	187	133
MTH	197	100	178	138	99
LAB	326	100	294	229	163
AF Bygg Sweden	616	100	554	431	308
AF AeronMollier	109	100	98	76	54

2016	Indexed values		Recoverable amount if cash flow is reduced by		
COMPANY	Estimated cash flow	"Break even" cash flow	10%	30%	50%
Målselv Maskin & Transport	306	100	275	214	153
Strøm Gundersen	300	100	270	210	150
LAB	291	100	262	204	146
AF Bygg Sweden	699	100	629	489	349
AF AeronMollier	100	100	90	70	50

NOTE 14 PROPERTY, PLANT AND EQUIPMENT

Amounts in NOK million	Note	Buildings, production facilities and land	Machinery and equipment	Total
ACQUISITION COST				
01/01/2016		730	894	1 624
Ordinary additions		5	162	167
Additions from the acquisition of business	4	-	-	-
Disposals		-12	-108	-120
Translation differences		-1	-5	-6
31/12/2016		**723**	**943**	**1 666**
Ordinary additions		31	222	253
Additions from the acquisition of business	4	19	47	67
Disposals		-2	-93	-95
Translation differences		1	6	7
31/12/2017		**772**	**1 126**	**1 897**
DEPRECIATION AND WRITE-DOWNS				
01/01/2016		-23	-490	-513
Depreciation for the year		-9	-125	-135
Write-downs for the year		-	-	-
Accumulated depreciation on disposals for the year		2	81	83
Translation differences		-	5	5
31/12/2016		**-30**	**-530**	**-560**
Depreciation for the year		-10	-157	-166
Write-downs for the year		-	-	-
Accumulated depreciation on disposals for the year		-	73	73
Translation differences		-	-3	-3
31/12/2017		**-39**	**-617**	**-657**
CARRYING AMOUNT				
Acquisition cost		723	943	1 666
Depreciation and write-downs		-30	-530	-560
31/12/2016		**693**	**413**	**1 105**
Acquisition cost		772	1 126	1 897
Depreciation and write-downs		-39	-617	-657
31/12/2017		**733**	**509**	**1 241**

DEPRECIATION RATES

Non-current assets are depreciated over the expected economic life of the asset. Production machinery is normally depreciated degressively, while a linear method is used for other depreciable assets.

THE FOLLOWING DEPRECIATION RATES HAVE BEEN USED:

Machinery and equipment	10–33%
Buildings and production facilities	2–5%
Land	0%

NOTE 14 PROPERTY, PLANT AND EQUIPMENT CONT.

LEASING

Amounts in NOK million	2017	2016	2015
Operating leasing (annual rental cost)	429	392	432
Financial leasing (carrying amount)	90	86	76

The financial leases are included in the property, plant and equipment category Machinery and Equipment.

PLEDGED ASSETS

Information on collateralised property, plant and equipment is given in Note 34 – Pledged assets and guarantees.

NOTE 15 PROVISIONS FOR LIABILITIES

Amounts in NOK million	Warranty work [1]	Contingent consideration [2]	Minority put options [3]	Other provisions	Total provisions
01/01/2017	123	150	-	91	365
Reversal of earlier provisions	-104	-	-	-17	-120
Provisions set aside during the year	149	4	192	14	358
Used during the year	-	-	-	-61	-61
31/12/2017	**168**	**154**	**192**	**28**	**542**

[1] *Provisions for warranty work represent the management's best estimate of the warranty liability for ordinary building and civil engineering projects and warranty liability under the Housing Construction Act. The warranty period is normally 3–5 years.*

[2] *Provisions for contingent consideration is linked to contingent consideration elements in connection with the acquisition of business in 2015. New contingent consideration has not been recognised in 2016 or 2017.*

[3] *AF Gruppen has an estimated obligation related to agreements that entitle minority shareholders to sell shares to AF at given times (put options) of NOK 192 million. The price is not stipulated, but it is based on the results for the last three years with an adjustment for liabilities at the time of the transaction. The price that is calculated in the valuation model is regarded as corresponding to the fair value. The contra entry for the liability is the equity of the majority interests, cf. Statement of Changes in Equity. Of the liabilities that have been calculated as at 31 December 2017, agreements with an estimated liability of NOK 141 million were entered into prior to 2017. These were not recognised on the balance sheet as a provision as at 31 December 2016 and were classified then as part of the equity of the majority interests. Minority owners that hold put options have dividend rights and full ownership rights otherwise until the put option is possibly exercised.*

CLASSIFICATION ON THE BALANCE SHEET	2017	2016
Long-term liabilities	189	158
Current liabilities	353	207
Total	**542**	**365**

NOTE 16 TRADE PAYABLES AND NON-INTEREST-BEARING LIABILITIES

Amounts in NOK million	2017	2016
Trade payables	1 989	1 394
Public liabilities	400	361
Prepayments from customers	884	464
Accrued holiday pay, incl. social security costs	287	238
Other accrued expenses and other current liabilities	921	913
Total trade payables and non-interest-bearing liabilities	**4 481**	**3 369**

NOTE 17 LEASES

OPERATING LEASES

Amounts in NOK million	2017	2016	2015
Rent	-118	-108	-108
Other rental costs	-461	-413	-461
Total	**-580**	**-521**	**-569**

GROUP AS LESSEE

The Group has entered into operating lease agreements. They are primarily non-terminable leases for premises and machinery and short-term terminable leases for machinery and equipment.

Non-terminable leases are entered for a period of 5–10 years for offices and 3–5 years for machinery. For office leases, the agreements normally contain a clause for renewal at market rent once the minimum term expires.

Some of the assets that are leased are subleased. The figures are shown net of deductions for sublease income in the note.

The leases do not contain restrictions regarding the Group's dividend policy or financing options.

MINIMUM OBLIGATION – NON-TERMINABLE OPERATING LEASES

		31 December	
Amounts in NOK million	2017	2016	2015
MACHINERY AND VEHICLES			
Rent due within 1 year	109	149	189
Rent due within 1–5 years	207	239	305
Rent due after 5 years	12	3	7
Total minimum obligation	**328**	**391**	**501**
OFFICES, INSTALLATIONS AND FURNISHINGS			
Rent due within 1 year	83	76	75
Rent due within 1–5 years	276	263	276
Rent due after 5 years	157	173	161
Total minimum obligation	**515**	**512**	**512**
Aggregate total minimum obligation	**843**	**903**	**1 013**
MATURITY STRUCTURE			
Operating lease liabilities due within 1 year	192	225	264
Operating lease liabilities due within 1–5 years	482	502	581
Operating lease liabilities due after 5 years	169	177	168
Aggregate total minimum obligation	**843**	**903**	**1 013**

Amounts in NOK million	2017	2016	2015
LEASES FOR OFFICE SPACE [1)]			
Lease for Helsfyr, Oslo	318	365	398
Other leases	39	50	104
Total minimum obligation	**357**	**415**	**502**

[1)] *Lease for Helsfyr:*
Leases as specified in the table are included in aggregate total minimum obligation for offises, installations and furnishings in the table above.

NOTE 17 LEASES CONT.

GROUP AS LESSOR

In 2017, revenue of NOK 33 million (16) has been recognised in the Group's consolidated income statement for operating leases. Lease income consists mainly of short-term office rental.

MINIMUM SUBLEASE INCOME FOR OFFICES:

Amounts in NOK million	2017	2016	2015
Sublease rent due within 1 year	5	5	7
Sublease rent due within 1–5 years	12	11	1
Sublease rent due after 5 years	-	-	-
Total	**17**	**16**	**8**

FINANCIAL LEASES

The financial leases are linked to the leasing of machinery and equipment, cf. Note 14 – Property, plant and equipment

Amounts in NOK million	2017	2016	2015
Rent due within 1 year	22	19	16
Rent due within 1–5 years	58	51	47
Rent due after 5 years	7	5	8
Nominal value, minimum obligation	**87**	**76**	**70**
Interest	4	5	5
Present value of minimum obligation	**83**	**70**	**65**

NOTE 18 RETIREMENT BENEFITS

The Norwegian companies in the Group are obligated to have an occupational pension scheme in accordance with the Norwegian Mandatory Occupational Pensions Act. The Group's pension schemes satisfy the statutory requirements.

DEFINED CONTRIBUTION PLAN

A defined-contribution pension scheme for all employees born in or after 1952 or employed in or after 2003 has been established for the Group's employees in Norway. From 1 July 2016, the contributions have been 4.25 per cent of pay > 1G < 7.1 G and 13 per cent of pay > 7.1 G < 12 G, with the employee paying 2 per cent of pay up to a maximum of half the contribution. Contributions to defined-contribution schemes are recognised in the income statement in the year to which they apply.

DEFINED-BENEFIT PENSION PLAN

The Group has a collective pension scheme for employees in Norway born in or before 1951. The scheme only covers retirement pensions. The plan aims to pay benefits of 60 per cent of the pay level up to 12G at retirement. This benefit level is based on a 30-year qualification period. The retirement age is 67, and there is a 15-year payment period. Parts of the retirement benefit payments are covered by the Norwegian National Insurance Scheme and payments expected from this scheme. The rest is funded through accumulated reserves in insurance companies. At the end of 2017, there were 15 (18) active participants and 98 (97) pensioners in the scheme.

All employees in the Sweden group companies are members of defined-benefit multi-company schemes. The schemes encompass old-age, sickness and family benefits. Some of the pension costs are included in the social security mark-up on payroll costs. In addition, the employees have their own contractual schemes that vary according to what contract they are under. The schemes are recognised in the accounts as defined-contribution schemes. The reason for this is the fact that the companies have not had access to adequate information so that they could treat the schemes as defined benefit schemes. The premiums are paid on an ongoing basis throughout the year to various insurance companies, and they are calculated as part of the employees' pay. This scheme covers 440 (168) persons.

NOTE 18 RETIREMENT BENEFITS CONT.

Retirement benefit costs for the year have been calculated as follows:

Amounts in NOK million	2017	2016	2015
Present value of pension benefits earned during the year	-1	-1	-2
Interest expense on incurred pension liabilities	-2	-2	-2
Expected return on plan assets	1	1	2
Social security costs	-	-	-
Actuarial gains / losses recognised in the income statement	-	-	-
Total defined-benefit retirement benefit costs	**-2**	**-2**	**-2**
Defined-contribution retirement benefits, Norway	-56	-44	-43
Contributions to retirement benefit schemes, abroad	-17	-10	-12
Other retirement benefit expenses	-25	-24	-21
Retirement benefit costs for the year, excl. social security costs	**-100**	**-80**	**-78**
Social security costs	-14	-10	-10
Retirement benefit costs for the year, incl. social security costs	**-114**	**-90**	**-88**

The retirement benefit costs for the year are based on financial assumptions at the start of the year, while the balance sheet status is based on financial assumptions at the end of the year.

RETIREMENT BENEFIT LIABILITIES AND PLAN ASSETS

The Group had gross retirement benefit liabilities of NOK 66 million (75 million) as at 31 December. Of these liabilities, NOK 65 million (74 million) are funded and NOK 1 million (1 million) is unfunded. Fair value of the plan assets was NOK 71 million (78 million) as at 31 December. Recognised plan assets in the Group amount to NOK 5 million (4 million) and retirement benefit liabilities amount to NOK 1 million (1 million). Actuarial gains recognised in the retirement benefit liabilities amount to NOK 5 million (5 million) and actuarial losses in the assets amount to NOK 4 million (2 million). The actual return on plan assets was NOK 1 million (1 million) and the expected premium payment for next year is NOK 1 million (1 million).

ASSUMPTIONS FOR ACTUARIAL CALCULATIONS	31/12/2017	31/12/2016	31/12/2015
Discount rate	2.30%	2.10%	2.50%
Return on pension plan assets	2.30%	2.10%	2.50%
Pay inflation	2.50%	2.25%	2.50%
Basic amount (G) adjustment	2.25%	2.00%	2.25%
Adjustment of retirement benefits	0.40%	0.00%	0.00%
Turnover	10.00%	10.00%	10.00%

The actuarial calculations take explicitly into account the reactivation of persons with reduced functional ability. The calculations are based on Statistics Norway's K2013 mortality table.

DISTRIBUTION OF PLAN ASSETS BY INVESTMENT CATEGORY	31/12/2017	31/12/2016	31/12/2015
Shares	10.1%	8.4%	9.4%
Property	10.0%	12.1%	14.7%
Non-current bonds	58.4%	47.5%	39.8%
Current bonds	21.0%	28.8%	34.0%
Other	0.5%	3.2%	2.1%
Total	**100.0%**	**100.0%**	**100.0%**

NOTE 19 NET FINANCIAL ITEMS

Amounts in NOK million	Note	2017	2016	2015
FINANCIAL INCOME				
Interest income on cash and cash equivalents	20	2	2	3
Interest income from associated companies	20	8	7	6
Interest income from customers		15	6	7
Other interest income	20	-	8	13
Other financial income		1	1	2
Total financial income		**27**	**24**	**31**
FINANCIAL EXPENSES				
Interest expenses on loans and overdraft facilities	20	-1	-12	-13
Other interest expenses	20	-16	-7	-24
Other financial expenses		-1	-1	-1
Total financial expenses		**-18**	**-20**	**-39**
FINANCIAL GAINS / (LOSSES) ON CHANGES IN VALUE				
Net foreign exchange gains / (losses) related to financing		-2	-7	-1
Fair value of interest rate swaps	23	5	8	3
Total financial gains / (losses) on changes in value		**3**	**1**	**2**
Net financial items		**12**	**6**	**-6**

NOTE 20 NET INTEREST-BEARING RECEIVABLES (DEBT)

Amounts in NOK million	Note	2017	2016
NET INTEREST-BEARING RECEIVABLES (DEBT)			
Interest-bearing receivables – non-current		216	206
Interest-bearing receivables – current		16	44
Cash and cash equivalents		1 098	469
– Interest-bearing loans and credit facilities – non-current		-102	-83
– Interest-bearing loans and credit facilities – current		-19	-30
Net interest-bearing receivables (debt)	22,24	**1 210**	**606**

Amounts in NOK million	Note	2017	2016
CASH AND CASH EQUIVALENTS			
Cash and bank deposits		1 098	469
Cash and cash equivalents	**22,24**	**1 098**	**469**
Of which restricted funds		21	18

Restricted funds consist primarily of deposits related to the settlement of tax withholdings.

NOTE 20 NET INTEREST-BEARING RECEIVABLES (DEBT) CONT.

Amounts in NOK million	Note	Effective interest rate	2017	2016
INTEREST-BEARING LOANS AND CREDIT FACILITIES				
Overdraft facilities outside of the corporate cash pooling system		2.5%	4	2
Mortgage loans		2.5%	8	15
Financial lease liabilities		2.3%	83	78
Other loans		2.8%	26	19
Total interest-bearing loans and credit facilities	**22,24**		**120**	**113**
CLASSIFICATION ON THE BALANCE SHEET				
Current liabilities			19	30
Long-term liabilities			102	83
Total interest-bearing loans and credit facilities	**22,24**		**120**	**113**
MATURITY STRUCTURE:				
Liabilities maturing within 1 year			19	30
Liabilities maturing in between 1 and 5 years			88	76
Liabilities maturing in more than 5 years			13	7
Total	**24**		**120**	**113**

NOTE 21 EARNINGS AND DIVIDEND PER SHARE

CAPITAL MANAGEMENT

The aim of the Group's capital management is to ensure a predictable financial framework for the operations and give the shareholders a return that is better than that of comparable companies. The capital structure is managed on a running basis based on key figures and assessments of the economic conditions under which the business is conducted, as well as the short and medium term outlook. AF Gruppen's policy is to have an equity ratio of at least 20 per cent and net interest-bearing liabilities < 2 * EBITDA.

There have been no changes to the Group's capital management guidelines in 2017. AF Gruppen's dividend policy is to pay a dividend semi-annually and that the dividend shall represent 50 per cent or more of the profit for the year. If the Group's financial position and capital structure so indicates, the dividend can be increased. In its dividend proposal the Board of Directors will also take into account future financial and strategic transactions.

EARNINGS PER SHARE

Amounts in NOK million	2017	2016	2015
Profit for the year attributable to Parent Company shareholders	621	691	697
NUMBER OF SHARES AS AT 31 DECEMBER			
Time-weighted average number of externally owned shares[1)]	96 493 500	92 797 169	91 183 492
Dilutive effect of share value-based remuneration [2)]	-	1 942 272	1 734 467
Time-weighted average number of externally owned shares after dilution	96 493 500	94 739 441	92 917 959
Earnings per share (NOK)	**6.43**	**7.44**	**7.64**
Diluted earnings per share (NOK)	**6.43**	**7.29**	**7.50**

[1)] *Time-weighted average number of shares issued minus treasury shares.*

[2)] *AF Gruppen's share value-based remuneration scheme (options), cf. Note 7 – Payroll costs, entails that externally owned shares may be diluted as a result of the redemption of options. To take into account the future increase in the number of externally owned shares, the diluted earnings per share is calculated in addition to the earnings per share. The dilutive effect is calculated by dividing the value of the options as at the date of the balance sheet by the market price of the AF share at the same point in time. The value of the options is calculated by multiplying the number of options by the difference between the market price of the AF share on the date of the balance sheet and the average redemption price. As at 31 December 2017, the market price was lower than the exercise price. Thus there was no dilutive effect for 2017.*

DIVIDEND PER SHARE

A dividend of NOK 5.00 per share for the 2016 financial year was paid on 23 May 2017. NOK 1.25 of the dividend of NOK 5.00 was the reimbursement of capital. On 21 November 2017, an additional NOK 3.50 per share was paid as a dividend due to the Company's strong financial position. A total of NOK 829 million was distributed as a dividend to shareholders in 2017.

For the 2017 financial year, the Board of Directors proposes a dividend of NOK 5.00 per share for the first half of 2018. It is expected that the dividend will be paid to the shareholders on 23 May 2018. NOK 3.75 will represent the reimbursement of paid-in capital. The dividend must be approved by the General Meeting, and there is no provision for the liability on the balance sheet. No dividend will be paid on the company's treasury shares.

The total estimated dividend for the 2017 financial year for distribution in the first half of 2018 is NOK 490 million. The Board of Directors will request authorisation by the General Meeting for the distribution of a dividend in November 2018 as well.

Amounts in NOK	2017
Total number of shares as at 31 December	97 961 000
Number of shares entitled to a dividend	**97 961 000**
Proposed dividend per share	5.00
Total estimated dividend	**489 805 000**

NOTE 22 FINANCIAL RISK MANAGEMENT

The Group is exposed to various types of financial risk, credit risk, market risk and liquidity risk through its activities.

The overall goal of risk management in the Group is to minimise risk that AF Gruppen cannot influence. Unpredictable changes in the capital markets are an example of this.

The Board has overall responsibility for establishing and supervising the Group's risk management framework. Risk management principles have been established in order to identify and analyse the risk to which the Group is exposed, set limits for acceptable risk and relevant controls, monitor risk, and comply with the limits. Risk management principles and systems are reviewed regularly to reflect changes in activities and the market conditions. Through training, standards and procedures for risk management, the Group aims to develop a disciplined and constructive environment of control, in which every employee understands his/her roles and duties.

A) CREDIT RISK

Credit risk is the risk of financial loss if a customer or counterparty to a financial instrument does not manage to fulfil his contractual obligations. Credit risk is usually a consequence of the Group's trade receivables. There is also credit risk related to cash and cash equivalents and financial derivatives. The management has established guidelines to ensure that the granting of credit and exposure to credit risk are monitored continuously.

Trade and other receivables

The Group's exposure to credit risk related to trade and other receivables is principally affected by individual circumstances relating to a particular customer. Other circumstances, such as the demographics, geographical factors, etc. have little effect on the credit risk.

Trade and other receivables on the balance sheet are presented net of provisions for anticipated losses. Provision is made for losses when there is objective evidence that a credit risk can be expected to result in a loss. If a credit risk is identified on the contract date, the company will ask for a bank guarantee as security for payment in accordance with the contract.

The Group's largest customers are the Norwegian Public Roads Administration, municipalities and oil companies on the Norwegian and British continental shelves. These customers are either government agencies or they have high international credit rankings, and the management believes that the credit risk these customer represent is minimal. In accordance with the Norwegian standard for building and construction contracts, the customer must provide security for 10 to 17.5 per cent of the contract price for fulfilment of his contractual obligations. The contractor is not obligated to start work on a contract before he receives security from the customer.

The remaining credit risk of the Group is spread over a large number of contract partners and home buyers. Home buyers always pay a deposit of at least 10 per cent of the purchase price when entering into a purchase contract. The Company has a vendor's fixed charge on sold residential units. The credit risk is spread over a large number of home buyers and is considered low.

Maximum exposure to credit risk in respect of trade receivables on the balance sheet date according to age, see Note 10 – Trade and other non-interest-bearing receivables:

A relatively large proportion of trade receivables are more than 120 days overdue. This is linked to the complexity of the final account for the projects. The final account lists all the work performed under the contract against the contract prices. In addition, the actual work performed will normally include items that are not described in the contract, and the parties have to reach an agreement on how to calculate the price and quantity of such items. This work usually takes several months and, in the case of complex contracts, can take up to a year. Impairment due to unwillingness or inability to pay is rare. Changes in the value of receivables are primarily due to changes in project revenue estimates and are entered as an adjustment of the project revenue.

Cash and cash equivalents

Cash and cash equivalents include bank deposits and investments in money market funds. The credit risk linked to bank deposits is limited, as the counterparties are banks with a high credit ranking that is assessed and published by international credit rating institutes such as Moody's and Standard & Poors. The strict creditworthiness requirements mean that counterparties are expected to fulfil their obligations. Any investments in money market funds are only made in liquid securities and only with counterparties with good creditworthiness.

Derivatives

The credit risk linked to transactions with financial derivatives is considered limited as the counterparties are banks with a high credit ranking.

Credit exposure to financial assets

Maximum credit exposure to financial assets corresponds to the book value.

B) MARKET RISK

i) Interest rate risk

AF Gruppen's financing is based on variable interest rates, and the Group is therefore exposed to interest rate risk. The Group has a fixed interest rate agreement, but as a rule does not use fixed interest rate agreements to hedge the effective interest rate exposure. See the description in Note 20 – Net interest-bearing receivables for further information. AF is also exposed to interest rate risk for building and property activities, especially for residential building for own account, in which the general interest rate level will have an impact on the saleability of completed residential units and consequently the Group's tied-up capital. The Group reduces this risk by requiring advance sales of residential units and deposits from home buyers. See the description in Note 12 – Projects for own account for further information.

Sensitivity to interest rate changes

The Group is exposed to an interest rate risk with respect to assets and liabilities with a variable interest rate. The table illustrates the effect of a change in the interest rate by 100 basis points on the profit after tax. The analysis assumes that other variables remain constant.

NOTE 22 FINANCIAL RISK MANAGEMENT CONT.

Amounts in NOK million	2017	2016
Financial assets with a variable interest rate	1 330	719
Financial liabilities with a variable interest rate	-120	-113
Net financial receivables	**1 210**	**606**
EFFECT ON PROFIT AFTER TAX		
Effect of a 100 basis point increase in rates on the profit after tax and equity	9	5
Effect of a 100 basis point decrease in interest rates on the profit after tax and equity	-9	-5

ii) Currency risk
AF Gruppen has operations in a number of countries and is exposed to exchange rate risk in a number of currencies, particularly the SEK, EUR and USD. The Group has 87 (93) per cent of its recognised revenue from operations with NOK as the functional currency, 11 (6) per cent with SEK as the functional currency and 2 (0) per cent with other functional currencies.

An exchange rate risk arises from future commercial transactions, in the translation of recognised assets and liabilities and net investments in foreign operations to NOK. The net foreign exchange gain / (loss) was NOK -4 million (-9 million) in 2017. The total translation differences were NOK 28 million (-23 million) in 2017.

The Group has a low exchange rate risk related to revenue from the Civil Engineering, Environment, Building, Property and Energy business areas, since all revenues are in the functional currency. Portions of the revenues in the Offshore business area are in EUR and USD. These are hedged naturally in some cases, since the costs are in the same currency as the revenues, or they are hedged by means of forward currency contracts. For a large USD contract, the effects of the forward exchange contracts are recognised in accordance with the rules for cash flow hedging, cf. Note 23 – Derivatives and Note 24 – Financial Instruments – Category Table.

AF Gruppen makes most of their purchases in their respective functional currencies. The Group bears a risk related to purchases in foreign currency, either directly through purchases from foreign suppliers, or indirectly from Norwegian suppliers who import goods from abroad. The Group protects itself by entering into all major purchase agreements in NOK. Major individual purchases in foreign currency that are not encompassed by purchase agreements in NOK are hedged by forward contracts.

Sensitivity currency derivatives

Amounts in NOK million	2017	2016
EFFECT ON PROFIT AFTER TAX		
Effect of a 10 per cent appreciation of NOK in relation to all the currencies on the profit after tax	-	-
Effect of a 10 per cent weakening of NOK in relation to all the currencies on the profit after tax	-	-
EFFECT ON OTHER COMPREHENSIVE INCOME (OCI)		
Effect of a 10 per cent appreciation of NOK in relation to all the currencies on other comprehensive income (OCI).	2	6
Effect of a 10 per cent weakening of NOK in relation to all the currencies on other comprehensive income (OCI).	-2	-6
EFFECT ON EQUITY		
Effect of a 10 per cent appreciation of NOK in relation to all the currencies on the equity	1	6
Effect of a 10 per cent weakening of NOK in relation to all the currencies on the equity	-1	-6

Sensitivity associated with the translation of receivables and liabilities denominated in foreign currencies to NOK
AF Gruppen has deposits and liabilities in EUR, GBP, USD and SEK. Net bank deposits and receivables in foreign currencies other than the functional currency are exposed to an exchange rate risk and result in a foreign exchange gain or loss in the event of exchange rate fluctuations. The table illustrates the effect of a change in all the exchange rates by 10 per cent on the profit after tax. The analysis assumes that other variables remain constant.

Amounts in NOK million	2017	2016
EFFECT ON EARNINGS AFTER TAX AND EQUITY		
Effect of a 10 per cent appreciation of NOK in relation to all the currencies on profit after tax	-1	-7
Effect of a 10 per cent weakening of NOK in relation to all the currencies on profit after tax	1	7

Sensitivity associated with translation of income statement and balance sheet in foreign currencies to NOK
The profit after tax for foreign companies is translated to NOK based on the average monthly rate during the financial year and balance sheet items are translated at the rate in effect on the date of the balance sheet. The table shows how the profit after tax and equity will be affected by a fluctuation of 10 per cent in all the exchange rates. The analysis assumes that other variables remain constant.

NOTE 22 FINANCIAL RISK MANAGEMENT CONT.

Amounts in NOK million	2017	2016
EFFECT ON PROFIT AFTER TAX		
Effect of a 10 per cent appreciation of NOK in relation to all the currencies on the profit after tax	-9	-12
Effect of a 10 per cent weakening of NOK in relation to all the currencies on the profit after tax	9	12
EFFECT ON EQUITY		
Effect of a 10 per cent appreciation of NOK in relation to all the currencies on the equity	-71	-44
Effect of a 10 per cent weakening of NOK in relation to all the currencies on the equity	71	44

iii) Other price risks

The demolition activities in Offshore are exposed to price risk from the sale of scrap steel recycled from steel structures in the North Sea. A continuous assessment is made of whether the price of steel should be hedged, based both on exposure and on the efficiency of the market for forward contracts. As at 31 December 2017, AF Gruppen has a liability related to commodity derivatives for steel. See Note 23 – Derivatives for further information.

C) LIQUIDITY RISK

Liquidity risk is the risk that AF Gruppen will not be able to service its financial obligations when they are due. The Group's strategy for handling liquidity risk is to have sufficient cash and cash equivalents at all times in order to fulfil its financial obligations when due without risking unacceptable losses or damaging its reputation. Most of the companies in AF Gruppen are linked to a corporate cash pooling system. Surplus liquidity in the corporate cash pooling system beyond what constitutes the necessary working capital is managed by the company's finance function. Portions of the surplus liquidity are placed in the money market. The management monitors cash and cash equivalents on a weekly basis, and each month the Corporate Management Team reviews the liquidity of the projects. See Note 20 – Net interest-bearing receivables (debt) for information on liquidity and available credit facilities.

MATURITY STRUCTURE OF FINANCIAL LIABILITIES

The following table provides a summary of the maturity structure of the Group's financial liabilities based on contractual payments, including the estimated interest. Financial derivatives that are classified as liabilities are included in the maturity analysis. In cases where the other contracting party can demand early redemption the amount is included in the earliest period in which payment can be required by the other party. If liabilities are subject to redemption on demand, they have been included in the column under 6 months.

			Maturity structure of contractual cash flows				
Amounts in NOK million 31/12/2017	Carrying amount	Future payment	Less than 6 months	6–12 months	1–2 years	2–5 years	More than 5 years
NON-DERIVATIVE FINANCIAL LIABILITIES							
Overdraft facilities outside of the corporate cash pooling system	4	4	–	2	–	–	–
Mortgage loans	8	8	1	1	2	2	2
Financial lease liabilities	83	89	2	2	19	48	11
Other loans	26	28	7	1	8	9	1
Trade payables and other financial debt [1]	2 910	2 910	2 910	–	–	–	–
FINANCIAL DERIVATIVES							
Interest rate swaps	22	22	4	4	5	10	-
Commodity derivatives	4	4	4	-	-	-	-
Forward currency contracts	23	23	-	15	7	2	-
Total	**3 080**	**3 089**	**2 928**	**25**	**41**	**71**	**13**

[1] Trade payables and other financial liabilities consist of ordinary trade payables and other current liabilities. Financial liabilities do not include prepayments from customers and statutory obligations such as unpaid value-added tax, retirement benefits and other personnel-related costs.

NOTE 22 FINANCIAL RISK MANAGEMENT CONT.

Amounts in NOK million 31/12/2016	Carrying amount	Future payment	Maturity structure of contractual cash flows: Less than 6 months	6–12 months	1–2 years	2–5 years	More than 5 years
NON-DERIVATIVE FINANCIAL LIABILITIES							
Overdraft facilities outside of the corporate cash pooling system	2	2	-	2	-	-	-
Mortgage loans	15	15	9	1	1	2	1
Financial lease liabilities	78	83	9	9	17	37	6
Other loans	19	21	-	-	5	13	1
Trade payables and other financial debt [1)]	2 306	2 306	2 306	-	-	-	-
FINANCIAL DERIVATIVES							
Interest rate swaps	27	27	3	3	5	16	-
Commodity derivatives	4	4	4	-	-	-	-
Forward currency contracts	78	78	21	12	22	34	-
Total	**2 529**	**2 537**	**2 352**	**27**	**50**	**103**	**7**

[1)] *Trade payables and other financial liabilities consist of ordinary trade payables and other current liabilities. Financial liabilities do not include prepayments from customers and statutory obligations such as unpaid value-added tax, retirement benefits and other personnel-related costs.*

NOTE 23 DERIVATIVES

Amounts in NOK million	2017 Assets	2017 Liabilities	2016 Assets	2016 Liabilities
Interest rate swap contracts – held for trading purposes	-	15	-	20
Forward foreign exchange contracts – held for trading purposes	4	2	-	-
Forward foreign exchange contracts – cash flow hedging	-	7	-	26
Total non-current assets / liabilities	**4**	**23**	**-**	**46**
Interest rate swap contracts – held for trading purposes	-	7	-	7
Commodity derivatives – held for trading purposes	-	4	-	5
Forward foreign exchange contracts – held for trading purposes	3	-	-	1
Forward foreign exchange contracts – cash flow hedging	-	15	-	51
Total current assets / liabilities	**3**	**26**	**-**	**63**
Total carrying amount	**7**	**49**	**-**	**110**

INTEREST RATE SWAPS

AF Gruppen has an interest rate swap linked to the financing of Miljøbase Vats.

COMMODITY DERIVATIVES

To hedge against undesired fluctuations in the price of commodities that AF uses or recycles, commodity derivatives are entered into in certain cases. In the assessment, the exposure and how efficient the market for forward contracts is are taken into account. As at 31 December 2017, AF Gruppen has a liability related to commodity derivatives for steel.

FORWARD FOREIGN EXCHANGE CONTRACTS

Since 2014, AF Gruppen has recognised changes in the value of foreign exchange derivatives related to large contracts denominated in foreign currencies in accordance with the rules for cash flow hedging. As at 31 December 2017, this applies only to the Murchison contract. The hedged expected transactions in this contract are very probable and are expected to take place on various dates up until 2019. See Note 22 for a table of the maturity structure. Gains or losses recognised in the hedging reserve will be recognised in the income statement in the same accounting periods that the hedged transactions affect the profit or loss. There was no ineffectiveness associated with the Group's cash flow hedging in 2017. For other forward foreign exchange contracts, the changes in value are recognised in the income statement on an ongoing basis, cf. Note 9 – Net gains / (losses).

THE TABLE BELOW SHOWS HOW CASH FLOW HEDGING IS RECLASSIFIED FROM OTHER COMPREHENSIVE INCOME TO THE INCOME STATEMENT:

Amounts in NOK million	2017	2016	2015
Cash flow hedges (gross)	47	145	-
Cash flow hedges (tax)	-10	-30	-
Reclassified from other comprehensive income (OCI) to the income statement	**37**	**115**	**-**
Cash flow hedges (gross)	1	5	-124
Cash flow hedges (tax)	-	-1	26
Change in value for the year	**1**	**3**	**-98**
Cash flow hedges (gross)	48	150	-124
Cash flow hedges (tax)	-10	-32	26
Total revenues and expenses	**38**	**118**	**-98**

NOTE 23 DERIVATIVES CONT.

FINANCIAL ASSETS AND LIABILITIES ARE MEASURED AT FAIR VALUE IN ACCORDANCE WITH THE VALUATION HIERARCHY

AF Gruppen measures all derivatives and financial investments at fair value. As at 31 December 2017, AF Gruppen has derivatives related to foreign exchange, interest rates and commodities. Currency derivatives are used to make revenues or commodity costs in foreign currencies predictable.

Fair value hierarchy

The table below illustrates the financial instruments at fair value in accordance with the valuation hierarchy in IFRS 7. The various levels are defined as follows:

Level 1 – Quoted price in an active market for an asset or liability.

Level 2 – Valuation derived directly or indirectly from a quoted price within level 1.

Level 3 – Valuation based on inputs not obtained from observable markets.

FINANCIAL ASSETS AND LIABILITIES ARE MEASURED AT FAIR VALUE IN ACCORDANCE WITH THE VALUATION HIERARCHY:

Amounts in NOK million

2017	Level 1	Level 2	Level 3	Total
Assets – Derivatives	-	7	-	7
Liabilities – Derivatives	-	-49	-	-49
Total	**-**	**-42**	**-**	**-42**

Amounts in NOK million

2016	Level 1	Level 2	Level 3	Total
Assets – Derivatives	-	-	-	-
Liabilities – Derivatives	-	-110	-	-110
Total	**-**	**-110**	**-**	**-110**

Fair value of interest rate swaps is calculated as the present value of the future cash flow based on the observable yield curve.

Fair value of forward contracts in a foreign currency is calculated as the present value of the difference between the agreed forward price and the forward price for the currency on the date of the balance sheet multiplied by the contract volume in a foreign currency. Fair value of interest rate swaps is calculated as the present value of the estimated future cash flow based on the observable yield curve.

NOTE 24 FINANCIAL INSTRUMENTS: CATEGORY TABLE

The table below shows AF Gruppen's financial instrument classes and the associated book value in accordance with IAS 39 – Financial Instruments – Recognition and Measurement. All financial instruments are measured at fair value, or approximately at fair value, with the exception of long-term financial liabilities. See Note 20 – Net interest-bearing receivables (debt) for information on the fair value of long-term financial liabilities.

FINANCIAL ASSETS BY CATEGORY

Amounts in NOK million 31/12/2017	Note	Loans and receivables	Derivatives at fair value through profit and loss	Derivatives classified as hedging instruments	Total	Non-financial assets	Total carrying amount
Non-current interest-bearing receivables	20	216	-	-	216	-	216
Non-current pension plan and other financial assets	18	2	4	-	5	5	10
Current trade and other non-interest-bearing receivables [1]	10	2 143	-	-	2 143	73	2 216
Current interest-bearing receivables	20	16	-	-	16	-	16
Current derivatives	23	3	-	-	3	-	3
Cash and cash equivalents	20	1 098	-	-	1 098	-	1 098
Total		**3 478**	**4**	**-**	**3 482**	**78**	**3 560**

31/12/2016	Note	Loans and receivables	Derivatives at fair value through profit and loss	Derivatives classified as hedging instruments	Total	Non-financial assets	Total carrying amount
Non-current interest-bearing receivables	20	206	-	-	206	-	206
Non-current pension plan and other financial assets	18	1	-	-	1	4	5
Current trade and other non-interest-bearing receivables [1]	10	2 014	-	-	2 014	47	2 061
Current interest-bearing receivables	20	44	-	-	44	-	44
Current derivatives	23	-	-	-	-	-	-
Cash and cash equivalents	20	469	-	-	469	-	469
Total		**2 734**	**-**	**-**	**2 734**	**51**	**2 785**

[1] *Trade and non-interest-bearing receivables classified as loans and receivables do not include prepaid expenses.*

FINANCIAL LIABILITIES BY CATEGORY

31/12/2017	Note	Liabilities at amortised cost	Derivatives at fair value through profit and loss	Derivatives classified as hedging instruments	Total	Non-financial liabilities	Total carrying amount
Non-current interest-bearing loans and credit facilities	20,22	102	-	-	102	-	102
Current interest-bearing loans and credit facilities	20,22	19	-	-	19	-	19
Current trade payables and non-interest-bearing debt [2]	16,22	2 910	-	-	2 910	1 571	4 481
Non-current derivatives	22,23	-	15	9	24	-	24
Current derivatives	22,23	-	11	15	26	-	26
Total		**3 030**	**26**	**24**	**3 080**	**1 571**	**4 651**

[2] *Trade payables and non-interest-bearing liabilities classified as financial liabilities at amortised cost consist of ordinary trade payables and other current liabilities. Financial liabilities do not include prepayments from customers and statutory obligations such as unpaid value-added tax, retirement benefits and other personnel-related costs.*

NOTE 24 FINANCIAL INSTRUMENTS: CATEGORY TABLE CONT.

31/12/2016	Note	Liabilities at amortised cost	Derivatives at fair value through profit and loss	Derivatives classified as hedging instruments	Total	Non-financial liabilities	Total carrying amount
Non-current interest-bearing loans and credit facilities	20,22	83	-	-	83	-	83
Current interest-bearing loans and credit facilities	20,22	30	-	-	30	-	30
Current trade payables and non-interest-bearing debt [2)]	16,22	2 306	-	-	2 306	1 063	3 369
Non-current derivatives	22,23	-	20	26	46	-	46
Current financial derivatives	22,23	-	23	41	63	-	63
Total		**2 419**	**43**	**67**	**2 529**	**1 063**	**3 591**

[2)] *Trade payables and non-interest-bearing liabilities classified as financial liabilities at amortised cost consist of ordinary trade payables and other current liabilities. Financial liabilities do not include prepayments from customers and statutory obligations such as unpaid value-added tax, retirement benefits and other personnel-related costs.*

NOTE 25 INCOME TAX EXPENSE

Amounts in NOK million	2017	2016	2015
Current tax payable for the year	-133	-357	-168
Adjustment for previous years	-	-15	-
Total tax payable	**-134**	**-372**	**-168**
CHANGE IN DEFERRED TAX RELATED TO:			
Change in temporary differences	-62	93	-89
Change in tax rate	15	13	31
Changed valuation of temporary differences	-	2	-1
Adjustment for previous years	-	11	1
Tax change in deferred tax	**-47**	**119**	**-58**
Total income tax expense	**-181**	**-253**	**-226**

RECONCILIATION OF TAX PAYABLE IN THE INCOME STATEMENT AGAINST TAX PAYABLE ON THE BALANCE SHEET	2017	2016	2015
Current tax payable for the year	133	357	168
Tax payable linked to previous years	-	21	-
Impact related to the acquisition / (sale) of business	1	-2	7
Tax paid in advance	-9	-	-
Impact related to limited partnerships that are recognised in accordance with the equity method	-	1	1
Tax payable from other comprehensive income	-	-	-
Currency translation differences	1	-	1
Total tax payable on the balance sheet	**126**	**377**	**178**

RECONCILIATION OF INCOME TAX EXPENSE CALCULATED AT THE NORWEGIAN TAX RATE AND THE INCOME TAX EXPENSE AS PRESENTED IN THE INCOME STATEMENT	2017	2016	2015
Profit / (loss) before tax	935	1 040	1 004
Expected income tax at Norwegian nominal rate	-224	-260	-271
Tax effects of:			
– Divergent tax rates for foreign countries and Svalbard	1	12	8
– Non-deductible expenses	-16	-24	-9
– Profit attributable to associates	41	1	9
– Non-taxable revenues	4	2	6
– Change in tax rate	15	13	31
– Change in valuation of deferred tax assets	-	7	-1
– Excessive / insufficient provisions in previous years	-	-4	1
Total tax expense recognised in income statement	**-181**	**-253**	**-226**
Effective tax rate	19.4%	24.3%	22.5%

NOTE 26 DEFERRED TAX / DEFERRED TAX ASSETS

CHANGE IN RECOGNISED NET DEFERRED TAX

Amounts in NOK million	2017	2016
Book value as at 1 January	214	298
Recognised in the period	47	-119
Recognised in OCI	10	31
Impact related to the acquisition / (sale) of business	14	3
Impact related to limited partnerships that are recognised in accordance with the equity method	19	-
Currency translation differences	-2	1
Book value as at 31 December	**301**	**214**
CLASSIFICATION ON THE BALANCE SHEET		
Deferred tax assets	-26	-51
Deferred tax	327	265
Net deferred tax on the balance sheet	**301**	**214**

CHANGE IN DEFERRED TAX ASSETS AND DEFERRED TAX (WITHOUT NETTING WITHIN THE SAME TAX REGIME)

2017 **DEFERRED TAX**	01/01/2017	Recognised in the period	Recognised in OCI	Acquisition/sale of businesses	Currency translation	31/12/2017
Property, plant and equipment	21	-1	-	1	-	21
Intangible assets	3	-2	-	-	-	-
Projects in progress [1)]	305	147	-	-	-	452
Other assets	13	4	-	-	-	17
Retirement benefits	1	-	-	-	-	1
Accruals reserve	2	-2	-	12	-	12
Total deferred taxes	**346**	**145**	**-**	**14**	**-**	**504**
Of which netted against deferred tax assets						-177
Deferred tax assets recognised on balance sheet						**327**

DEFERRED TAX ASSETS	01/01/2017	Recognised in the period	Recognised in OCI	Acquisition/sale of businesses	Currency translation	31/12/2017
Property, plant and equipment	-6	-2	-	-	-	-8
Other assets	-38	6	10	-	-	-23
Provisions	-51	-10	-	-	-	-61
Recognised tax value of tax loss carryforward 2)	-39	-74	-	-	-2	-114
Total deferred tax assets	**-133**	**-80**	**10**	**-**	**-2**	**-206**
Of which netted against deferred tax						177
Of which off-balance-sheet deferred tax assets						3
Deferred tax assets recognised on the balance sheet						**-26**

NOTE 26 DEFERRED TAX / DEFERRED TAX ASSETS CONT.

2016 DEFERRED TAX	01/01/2016	Recognised in the period	Recognised in OCI	Acquisition/sale of businesses	Currency translation	31/12/2016
Property, plant and equipment	20	2	-	-	-	21
Intangible assets	1	2	-	-	-	3
Projects in progress [1)]	422	-120	-	3	-	305
Other assets	16	-3	-	-	-	13
Retirement benefits	4	-2	-1	-	-	1
Accruals reserve	2	-	-	-	-	2
Total deferred taxes	**465**	**-121**	**-1**	**3**	**-**	**346**
Of which netted against deferred tax assets						-82
Deferred tax assets recognised on balance sheet						**265**

DEFERRED TAX ASSETS	01/01/2016	Recognised in the period	Recognised in OCI	Acquisition/sale of businesses	Currency translation	31/12/2016
Property, plant and equipment	-5	-2	-	-	-	-6
Other assets	-73	4	32	-	-	-38
Provisions	-44	-6	-	-	-	-51
Recognised tax value of tax loss carryforward [2)]	-49	10	-	-	1	-39
Total deferred tax assets	**-172**	**6**	**32**	**-**	**1**	**-133**
Of which netted against deferred tax						82
Of which off-balance-sheet deferred tax assets						1
Deferred tax assets recognised on the balance sheet						**-51**

[1)] *Projects in progress have a major impact on the calculation of deferred tax and the current tax payable. Projects in progress are valued at the direct production cost, and revenue is not recognised for tax purposes until delivery.*

[2)] *The deferred tax assets related to tax loss carryforwards are recognised on the balance sheet when it is probable that the Group can apply this against future taxable income. The tax loss carryforward recognised on the balance sheet is not time limited and totals NOK 499 million (NOK 176 million in 2016).*

NOTE 27 ASSOCIATED COMPANIES

Beløp i MNOK	2017	2016	2015
Book value of investment as at 1 January	266	295	105
Additions	6	1	24
Disposals	-	-3	3
Share of profit for the year	59	-28	42
Tax on distributions from limited and internal partnerships	8	-	1
Equity transactions, incl. dividends	-51	1	-40
Currency translation differences	1	-1	1
Total investments in associates as at 31 December	**288**	**266**	**137**

AF Gruppen carries out residential and commercial building projects in cooperation with professional co-investors. This is done to provide complementary competence in the projects and diversify risk. AF Gruppen never owns more than a 50 per cent interest in the development companies. In addition, the Group has a few associated companies with other activities, but they are not defined as essential to the Group.

The owners have regulated cooperation, pre-emptive rights, buyout rights, etc., as well as the requirement of a majority for certain decisions, in the partnership agreement. In all of the important ongoing projects, there is loan financing, for which there are agreements that contain provisions stipulating that the development company cannot pay dividends or repay loans from the owners before any bank loans have been redeemed.

All the associated companies in which AF has an ownership stake have been assessed with respect to actual control. It was concluded that AF does not have control over these investments, and the companies have thus been incorporated into the consolidated financial statements in accordance with the equity method of accounting.

There are no public quoted prices for any of these companies.

In the note, the associated companies are grouped according to their importance to the Group. The assessment of the company's materiality is based on an overall assessment of the activity, financial results and book value.

NOTE 27 ASSOCIATED COMPANIES CONT.

2017

SPECIFICATION OF THE AMOUNTS IN THE ACCOUNTS:

Amounts in NOK million	Essential companies	Other companies	Total
Amounts recognised in the balance sheet	204	84	288
Amounts recognised in the income statement	58	1	59

Below is a summary of the financial information for the Group's essential associates. The figures in the summary of financial information is presented on a 100 per cent basis. The unaudited draft accounts are used as the basis if the companies' annual financial statements have not been approved when the Group's financial statements are presented.

SUMMARY OF FINANCIAL INFORMATION – ASSOCIATES

Amounts in NOK million	Lillestrøm By and Næringsutv. AS	Lillo Gård AS and KS	Nordlivn. AS and KS	Rolvsbukta AS and KS	Hasle Linje Næring DA	Total
Registered office	Oslo	Oslo	Oslo	Oslo	Oslo	
Ownership interest	40.2%	22.5%	33.3%	33.3%	49.5%	
Current assets	154	773	425	23	9	1 385
Non-current assets	11	107	2	5	1 085	1 211
Total assets	**165**	**881**	**428**	**28**	**1 095**	**2 597**
Current liabilities	64	641	385	14	48	1 152
Non-current liabilities	2	156	1	-	788	948
Total liabilities	**66**	**797**	**386**	**14**	**836**	**2 099**
Shareholders' equity	99	83	41	14	259	497
Total equity and liabilities	**165**	**881**	**428**	**28**	**1 095**	**2 597**
Operating revenue	816	-	503	470	2	1 790
Earnings after tax / comprehensive income	85	17	67	60	-9	221
RECONCILIATION OF BOOK VALUE						
Group's share of the investment	39	23	16	5	128	211
Tax from limited and internal partnerships	-	-5	-3	-1	-	-9
Excess/lower value	1	-	-	-	-1	-
Gains	-	-	1	-	-	1
Other items	-	-	-	-	-	-
Book value of the investment	**40**	**18**	**14**	**4**	**127**	**204**
RECONCILIATION OF SHARE OF COMPREHENSIVE INCOME FOR ESSENTIAL COMPANIES						
Group's share of comprehensive income	34	4	22	20	-4	77
Tax from limited and internal partnerships	-	-	-5	-4	-	-9
Recognised excess/lower value	-1	-	-	-	-	-1
Reversed capitalised expenses	-	-4	-	-	-	-4
Gains	-	-	-1	-	-	-1
Other items	-	-	-	-	-3	-3
Recognised share of comprehensive income	**33**	**-**	**16**	**16**	**-7**	**58**

COMPREHENSIVE INCOME, ALL ASSOCIATES	Total essential companies	Total other companies	Total
Earnings after tax / comprehensive income	221	-7	214
Group's share of comprehensive income	58	1	59

The result presented is the comprehensive income from continuing businesses. There are no discontinued businesses.
NOK 36 million was received in dividends from associated companies in 2017.

NOTE 27 ASSOCIATED COMPANIES CONT.

2016

SPECIFICATION OF THE AMOUNTS IN THE ACCOUNTS:

Amounts in NOK million	Essential companies	Other companies	Total
Amounts recognised in the balance sheet	191	75	266
Amounts recognised in the income statement	-24	-4	-28

Below is a summary of the financial information for the Group's essential associates. The figures in the summary of financial information is presented on a 100 per cent basis. The unaudited draft accounts are used as the basis if the companies' annual financial statements have not been approved when the Group's financial statements are presented.

SUMMARY OF FINANCIAL INFORMATION – ASSOCIATES

Amounts in NOK million	Lillestrøm By and Næringsutv. AS	Lillo Gård AS and KS	Nordlivn. AS and KS	Rolvsbukta AS and KS	Hasle Linje Næring DA	Total
Registered office	Oslo	Oslo	Oslo	Oslo	Oslo	
Ownership interest	40.2%	22.5%	33.3%	33.3%	49.5%	
Current assets	390	450	536	351	20	1 746
Non-current assets	41	55	2	4	863	965
Total assets	**430**	**504**	**538**	**355**	**883**	**2 710**
Current liabilities	81	5	461	67	56	669
Non-current liabilities	341	370	34	253	559	1 556
Total liabilities	**421**	**375**	**495**	**320**	**615**	**2 226**
Shareholders' equity	9	129	43	35	268	485
Total equity and liabilities	**430**	**504**	**538**	**355**	**883**	**2 710**
Operating revenue	298	3	365	257	6	929
Earnings after tax / comprehensive income	2	-1	15	8	-34	-10
RECONCILIATION OF BOOK VALUE						
Group's share of the investment	4	30	14	11	133	191
Tax from limited and internal partnerships	-	-	-4	-4	-	-8
Excess/lower value	2	-	-	-	-1	1
Gains	1	-	2	-	-	4
Other items	-	-	-	-	3	3
Book value of the investment	**7**	**30**	**12**	**7**	**135**	**191**
RECONCILIATION OF SHARE OF COMPREHENSIVE INCOME FOR ESSENTIAL COMPANIES						
Group's share of comprehensive income	1	-	5	3	-17	-10
Tax from limited and internal partnerships	-	-	-3	-3	-	-6
Gains	-1	-	-2	-	-	-3
Other items	-	-	-	-	-5	-5
Recognised share of comprehensive income	**-**	**-**	**-**	**-**	**-22**	**-23**

COMPREHENSIVE INCOME, ALL ASSOCIATES	Total essential companies	Total other companies	Total
Earnings after tax / comprehensive income	-10	-3	-13
Group's share of comprehensive income	-23	-4	-26

The result presented is the comprehensive income from continuing businesses. There are no discontinued businesses.
NOK 5 million in dividends has been received from associates in 2016.

NOTE 28 JOINT VENTURES

Amounts in NOK million	2017	2016	2015
Book value of investment as at 1 January	123	122	301
Additions	-	-	10
Disposals	-	-	1
Share of profit for the year	32	24	-11
Tax on distributions from limited and internal partnerships	11	1	-
Equity transactions, incl. dividends	-91	-24	-4
Currency translation differences	-	-	-
Total investments in joint ventures as at 31 December	**75**	**123**	**296**

AF Gruppen carries out residential and commercial building projects in cooperation with professional co-investors. This is done to provide complementary competence in the projects and diversify risk. AF Gruppen never owns more than a 50 per cent interest in the development companies. In addition, the Group has a few joint ventures with other activities, but they are not defined as essential to the Group.

The owners have regulated cooperation, pre-emptive rights, buyout rights, etc., as well as the requirement of a majority for certain decisions in the partnership agreement. In all of the important ongoing projects, there is loan financing, for which there are agreements that contain provisions stipulating that the development company cannot pay dividends or repay loans from the owners before any bank loans have been redeemed.

All the joint ventures in which AF has an ownership stake have been assessed with respect to actual control. It was concluded that AF does not have control over these investments, and the companies have thus been incorporated into the consolidated financial statements in accordance with the equity method of accounting.

There are no public quoted prices for any of these companies.

In the note, the joint ventures are grouped according to their importance to the Group. The assessment of the company's materiality is based on an overall assessment of the activity, financial results and book value.

2017
SPECIFICATION OF THE AMOUNTS IN THE ACCOUNTS:

Amounts in NOK million	Essential companies	Other companies	Total
Amounts recognised in the balance sheet	12	63	75
Amounts recognised in the income statement	20	12	32

NOTE 28 JOINT VENTURES CONT.

Below is a summary of the financial information for the Group's essential joint ventures. The figures in the summary of financial information is presented on a 100 per cent basis. The unaudited draft accounts are used as the basis if the companies' annual financial statements have not been approved when the Group's financial statements are presented.

SUMMARY OF FINANCIAL INFORMATION – ESSENTIAL JOINT VENTURES

Amounts in NOK million	Haslemann AS and IS
Registered office	Oslo
Ownership interest	50%
Current assets	967
Non-current assets	56
Total assets	**1 023**
Current liabilities	717
Non-current liabilities	213
Total liabilities	**931**
Shareholders' equity	93
Total equity and liabilities	**1 023**
Operating revenue	383
Earnings after tax / comprehensive income	51
RECONCILIATION OF BOOK VALUE	
Group's share of the investment	11
Tax on distributions from limited and internal partnerships	-
Excess/lower value	-
Other items	1
Book value of the investment	**12**
RECONCILIATION OF SHARE OF COMPREHENSIVE INCOME FOR ESSENTIAL COMPANIES	
Group's share of comprehensive income	25
Tax on distributions from limited and internal partnerships	-6
Recognised excess/lower value	-
Recognised share of comprehensive income	**20**

COMPREHENSIVE INCOME OF ALL JOINT VENTURES	Total essential companies	Total other companies	Total
Earnings after tax / comprehensive income	51	22	73
Group's share of comprehensive income	20	12	32

The result presented is the comprehensive income from continuing businesses. No companies were discontinued in 2017.
NOK 39 million was received in dividends from joint ventures in 2017.

2016
SPECIFICATION OF THE AMOUNTS IN THE ACCOUNTS

Amounts in NOK million	Essential companies	Other companies	Total
Amounts recognised in the balance sheet	57	67	123
Amounts recognised in the income statement	18	7	24

NOTE 28 JOINT VENTURES CONT.

Below is a summary of the financial information for the Group's essential joint ventures. The figures in the summary of financial information are presented on a 100 per cent basis. The unaudited draft accounts are used as the basis if the companies' annual financial statements have not been approved when the Group's financial statements are presented.

SUMMARY OF FINANCIAL INFORMATION – JOINT VENTURES

Amounts in NOK million	Haslemann AS and IS
Registered office	Oslo
Ownership interest	50%
Current assets	849
Non-current assets	64
Total assets	**913**
Current liabilities	208
Non-current liabilities	265
Total liabilities	**473**
Shareholders' equity	440
Total equity and liabilities	**913**
Operating revenue	420
Earnings after tax / comprehensive income	50

RECONCILIATION OF BOOK VALUE	Total
Group's share of the investment	70
Tax on distributions from limited and internal partnerships	-13
Book value of the investment	**57**

RECONCILIATION OF SHARE OF COMPREHENSIVE INCOME	Total
Group's share of comprehensive income	25
Tax on distributions from limited and internal partnerships	-8
Recognised share of comprehensive income	**18**

RECONCILIATION OF ALL JOINT VENTURES	Total essential companies	Total other companies	Total
Earnings after tax / comprehensive income	74	44	118
Group's share of comprehensive income	25	5	31

The result presented is the comprehensive income from continuing businesses. There are no discontinued companies.
NOK 23 million was received in dividends from joint ventures in 2016.

NOTE 29 SUBSIDIARIES

The list below includes subsidiaries that are owned directly and indirectly. The direct ownership column states the parent company's ownership stake in the subsidiary in question. Pure holding companies and companies without any activity have been omitted. The voting rights in all the subsidiaries follow the shares.

Name of company	Acquisition date	Office address Place	Country	Financial ownership		Direct ownership	Business area
				31/12/16	31/12/17	31/12/17	
AF Gruppen Norge AS	05/09/85	Oslo	Norway	100.00%	100.00%	100.00%	1)
Pålplintar i Sverige AB	14/01/00	Södertälje	Sweden	100.00%	100.00%	100.00%	Civil Engineering
JR Anlegg AS	01/10/10	Jessheim	Norway	100.00%	100.00%	100.00%	Civil Engineering
AF Arctic AS	14/02/11	Longyearbyen	Norway	100.00%	100.00%	100.00%	Civil Engineering
Palmer Gotheim Skiferbrudd AS	01/01/07	Oppdal	Norway	100.00%	100.00%	100.00%	Civil Engineering
Målselv Maskin & Transport AS	04/03/15	Karlstad	Norway	70.00%	70.00%	70.00%	Civil Engineering
Kanonaden Entreprenad AB	09/02/17	Nässjö	Sweden	–	70.00%	70.00%	Civil Engineering
Bergbolaget i Götaland AB	09/02/17	Nässjö	Sweden	–	70.00%	100.00%	Civil Engineering
Kanonaden Mälardalen AB	30/06/17	Stockholm	Sweden	–	38.50%	55.00%	Civil Engineering
Täkt og Förvaltning AB	09/02/17	Nässjö	Sweden	–	70.00%	100.00%	Civil Engineering
Skaftviken AB	09/02/17	Nässjö	Sweden	–	70.00%	100.00%	Civil Engineering
AF Decom AB	15/12/07	Gothenburg	Sweden	100.00%	100.00%	100.00%	Environment
Härnösand Byggreturer AB	01/07/13	Stockholm	Sweden	100.00%	100.00%	100.00%	Environment
AF Decom AS	01/01/09	Oslo	Norway	100.00%	100.00%	100.00%	Environment
Jølsen Miljøpark AS	01/11/13	Lillestrøm	Norway	100.00%	100.00%	100.00%	Environment
Rimol Miljøpark AS	11/12/14	Tillier	Norway	50.00%	50.00%	50.00%	Environment
Nes Miljøpark AS	09/06/17	Nes	Norway	–	51.00%	51.00%	Environment
AF Bygg Göteborg AB	01/07/01	Gothenburg	Sweden	100.00%	100.00%	100.00%	Construction
AF Bygg Syd AB	30/06/07	Halmstad	Sweden	90.10%	90.10%	90.10%	Construction
Strøm Gundersen AS	03/11/11	Mjøndalen	Norway	91.29%	91.29%	100.00%	Construction
Strøm Gundersen Vestfold AS	01/10/16	Mjøndalen	Norway	52.49%	52.49%	57.50%	Construction
Corroteam AS	03/11/11	Mjøndalen	Norway	63.90%	63.90%	70.00%	Construction
Oslo Brannsikring AS	27/09/17	Oslo	Norway	–	44.99%	51.00%	Construction
Haga & Berg Entreprenør AS	03/11/11	Oslo	Norway	89.26%	90.17%	100.00%	Construction
Haga & Berg Service AS	19/02/14	Oslo	Norway	66.50%	73.49%	81.50%	Construction
Problikk AS	25/02/13	Tranby	Norway	77.98%	77.98%	100.00%	Construction
Consolvo AS	03/11/11	Tranby	Norway	77.98%	77.98%	100.00%	Construction
Consolvo Support AS	15/03/12	Vilnius	Lithuania	46.79%	46.79%	60.00%	Construction
Consolvo Overflate AS	03/11/11	Tranby	Norway	46.79%	46.79%	60.00%	Construction
Consolvo Nybygg AS	03/12/15	Tranby	Norway	42.62%	42.62%	91.10%	Construction
Consolvo Betongbygg AS	01/02/16	Tranby	Norway	37.43%	37.43%	80.00%	Construction
Consolvo Eiendom AS	03/11/11	Tranby	Norway	77.98%	77.98%	100.00%	Construction
Vannmeisling AS	06/12/16	Tranby	Norway	60.83%	60.83%	78.00%	Construction
Microtrenching Norge AS	16/09/14	Tranby	Norway	70.26%	77.98%	100.00%	Construction
Protector AS	03/11/11	Tranby	Norway	77.98%	77.98%	100.00%	Construction
Protector CPE AB	03/11/11	Gothenburg	Sweden	66.28%	66.28%	85.00%	Construction
Protector KKS GmbH	03/11/11	Remseck	Germany	65.50%	65.50%	84.00%	Construction
Protector Services GmbH	31/08/13	Remseck	Germany	65.50%	65.50%	100.00%	Construction
Fjerby AS	16/09/14	Fjerdingby	Norway	67.14%	67.14%	100.00%	Construction
Oslo Stillasutleie AS	03/11/11	Oslo	Norway	59.88%	59.88%	91.00%	Construction
Oslo Prosjektbygg AS	01/03/13	Oslo	Norway	56.92%	56.92%	95.50%	Construction
Lasse Holst AS	09/03/16	Gressvik	Norway	23.49%	23.49%	70.00%	Construction
Storo Blikkenslagerverksted AS	03/11/11	Oslo	Norway	46.06%	46.06%	70.00%	Construction
Oslo Papp og Membran AS	09/05/12	Oslo	Norway	46.06%	46.06%	100.00%	Construction
VD Vindu & Dør Montasje AS	06/03/15	Skotterud	Norway	46.06%	46.06%	100.00%	Construction
Thorendahl AS	03/11/11	Oslo	Norway	61.41%	61.41%	93.33%	Construction
Fagbetong AS	03/11/11	Oslo	Norway	61.41%	61.41%	100.00%	Construction

1) AF Gruppen Norge AS encompasses the Civil Engineering, Building and Property business areas

NOTE 29 SUBSIDIARIES CONT.

Name of company	Acquisition date	Office address Place	Country	Financial ownership 31/12/16	Financial ownership 31/12/17	Direct ownership 31/12/17	Business area
Kirkestuen AS	12/01/16	Gressvik	Norway	33.56%	33.56%	51.00%	Construction
Drift og Bemanning AS	05/01/16	Oslo	Norway	52.13%	52.13%	100.00%	Construction
LAB Entreprenør AS	11/03/15	Bergen	Norway	70.00%	70.00%	100.00%	Construction
Åsane Byggmesterforretning AS	11/03/15	Bergen	Norway	49.00%	49.00%	70.00%	Construction
Fundamentering AS	11/03/15	Bergen	Norway	49.00%	49.00%	70.00%	Construction
Kilen Brygge AS	15/03/05	Sandefjord	Norway	100.00%	100.00%	100.00%	Property
BRF Ekbacken i Surte	01/01/17	Gothenburg	Sweden	–	100.00%	100.00%	Property
BRF Glashuset in Halmstad	01/09/16	Gothenburg	Sweden	–	100.00%	100.00%	Property
Fastigheter i Strandängen AB	14/05/08	Gothenburg	Sweden	100.00%	100.00%	100.00%	Property
Vestre Nordgardsleitet AS	11/03/15	Bergen	Norway	24.94%	24.94%	50.99%	Property
Djupedalen Utviklingsselskap AS	15/02/16	Bergen	Norway	49.00%	49.00%	100.00%	Property
Toppemyr AS	11/03/15	Bergen	Norway	70.00%	70.00%	100.00%	Property
Nordstraumen Utbyggingsselskap AS	11/03/15	Bergen	Norway	42.,00%	42.00%	60.00%	Property
Hardangerfjord Eiendom AS	09/03/17	Bergen	Norway	–	70.00%	100.00%	Property
AF Energi & Miljøteknikk AS	31/05/06	Asker	Norway	100.00%	100.00%	100.00%	Energy
AF Energija Baltic UAB	04/07/17	Vilnius	Lithuania	–	95.00%	95.00%	Energy
AF Miljøbase Vats AS	09/09/14	Oslo	Norway	100.00%	100.00%	100.00%	Offshore
AF Offshore Decom AS	01/01/09	Oslo	Norway	100.00%	100.00%	100.00%	Offshore
AF Offshore Decom UK Ltd.	24/05/10	London	England	100.00%	100.00%	100.00%	Offshore
AF Offshore Decom BV	11/07/16	Heemstede	Netherlands	100.00%	100.00%	100.00%	Offshore
AF AeronMollier AS	01/07/08	Flekkefjord	Norway	100.00%	100.00%	100.00%	Offshore
Aeron Energy Technologies Ltd.	16/11/09	Shanghai	China	100.00%	100.00%	100.00%	Offshore

NOTE 30 SIGNIFICANT MINORITY INTERESTS

The table below shows AF Gruppen's comprehensive income and equity attributable to minority interests allocated to sub-groups with significant minority interests.

Amounts in NOK million	Strøm Gundersen Holding	LAB	Other	Total
Minority interests as at 01/01/2016	102	110	47	259
Share of comprehensive income	36	49	12	96
Share of adopted and paid dividends in 2016	-24	-46	-4	-74
Addition of minority interests from acquisition of business	1	-	-	1
Transactions with minority interests	-14	1	1	-12
Minority interests as at 01/01/2017	**102**	**113**	**55**	**270**
Share of comprehensive income	35	49	51	135
Share of adopted and paid dividends in 2017	-14	-48	-14	-77
Addition/disposal of minority interests from acquisition (sale) of business	-26	-	75	49
Minority put options	-1	-	-	-1
Transactions with minority interests	-	-3	11	8
Minority interests as at 31/12/17	**95**	**110**	**178**	**384**

The table below shows a summary of the financial information for sub-groups with significant minority interests.

	Strøm Gundersen Holding		LAB	
Amounts in NOK million	2017	2016	2017	2016
Profit/(loss) for the year	177	103	132	127
Non-current assets	452	559	209	194
Current assets	586	440	702	663
Total assets	**1 037**	**999**	**911**	**856**
Equity attributable to shareholders	476	385	228	146
Minority interests	95	108	66	35
Long-term liabilities	43	96	85	78
Current liabilities	423	410	532	597
Total equity and liabilities	**1 037**	**999**	**911**	**856**
Equity of the minority interests in the parent company [1)]	15.5%	15.5%	30.0%	30.0%

[1)] *Strøm Gundersen Gruppen AS, wholly owned subsidiary of AF Gruppen Holding AS, has an 84.5 per cent interest in Strøm Gundersen Holding AS. In addition, AF Gruppen Norge AS also has a direct ownership stake in Strøm Gundersen Holding AS, as well as several subsidiaries of the Strøm Gundersen Holding Group. These assets must thus be deducted from the calculation of the share of the consolidated financial statements of AF Gruppen attributable to the minority interests. The minority interest allocated to Strøm Gundersen Holding in consolidated financial statements is therefore lower than what can be calculated directly from the amounts in the table above and the percentage rate specified below the table.*

AF Gruppen Holding AS owns 70 per cent of LAB AS.

There are no contingent liabilities or pledges made regarding capital transfers in connection with any of the subsidiaries.

NOTE 31 SHARE CAPITAL AND SHAREHOLDER INFORMATION

THE SHARE CAPITAL CONSISTS OF:

Amounts in NOK	Number of	Nominal value	Book
A-shares	97 961 000	0.05	4 898 050

SHAREHOLDER	Stake	No. of shares
OBOS BBL	18.44%	18 066 733
ØMF Holding AS	15.06%	14 752 859
Constructio AS	14.03%	13 741 782
National Insurance Scheme Fund	7.07%	6 924 956
ARTEL II AS	2.56%	2 508 267
LJM AS	2.46%	2 413 900
VITO Kongsvinger AS	1.90%	1 861 676
Arne Skogheim AS	1.79%	1 753 870
Landsforsäkringar Fastighetsfond	1.73%	1 695 454
Staavi, Bjørn	1.59%	1 560 000
Ten largest shareholders	**66.64%**	**65 279 497**
Total other shareholders	33.36%	32 681 503
Total number of shares	**100.00%**	**97 961 000**

The shares are not subject to any voting restrictions and are freely negotiable. Each share represents one vote.

All the shares issued are fully paid-up as at 31 December 2017.

MOVEMENT IN NUMBER OF SHARES DURING THE YEAR

Total number of shares as at 01/01/2017	93 610 000
New issues related to the acquisition of companies	318 766
New issue to employees related to exercising options	3 253 346
New issue to employees related to the share purchase programme	778 888
Total number of shares as at 31/12/2017	**97 961 000**

SHARES AND OPTIONS OWNED BY THE BOARD OF DIRECTORS AND SENIOR EXECUTIVES AS AT 31/12/2017

Board of Directors		Options	Shares
Pål Egil Rønn	Elected by shareholders (Chairman)	-	207 225
Daniel Kjørberg Siraj [1)]	Elected by shareholders (Deputy Chairman)	-	-
Kristian Holth [2)]	Elected by shareholders	-	-
Hege Bømark	Elected by shareholders	-	-
Borghild Lunde [3)]	Elected by shareholders	-	-
Kenneth Svendsen	Elected by employees	10 339	88 370
Pål Jacob Gjerp	Elected by employees	3 722	51 043
Arne Sveen	Elected by employees	-	-
Total		**14 061**	**346 638**

[1)] *Represents OBOS BBL, which owns 18,066,733 shares.*
[2)] *Represents Constructio AS and Flygind AS, which own 13,741,782 and 1,021,509 shares, respectively.*
[3)] *Related party to Toniti AS which own 10,000 shares.*

NOTE 31 SHARE CAPITAL AND SHAREHOLDER INFORMATION CONT.

Corporate Management Team		Options	Shares
Morten Grongstad	CEO	35 922	205 923
Sverre Hærem	Executive Vice President/CFO	24 918	120 662
Arild Moe	Executive Vice President	24 152	251 261
Bård Frydenlund	Executive Vice President	21 970	124 864
Amund Tøftum	Executive Vice President	21 970	66 344
Andreas Jul Røsjø	Executive Vice President	21 970	54 947
Eirik Wraal	Executive Vice President	21 970	20 003
Henning Olsen	Executive Vice President	21 970	27 805
Total		**194 842**	**871 809**

The Board has the authority to acquire up to 10 per cent of the share capital. This authority is valid until the 2017 Annual General Meeting, which is scheduled for 9 May 2018. A new option programme for all employees of AF Gruppen ASA and subsidiaries was adopted at the Annual General Meeting held on 12 May 2017, which entails entitlement to subscribing for a total of 3,500,000 options during the years 2017, 2018 and 2019, with redemption in 2020. As at 31 December 2017, there were 3,264,143 outstanding options linked to this programme.

TREASURY SHARES

Treasury shares have been acquired with a view to sales to employees. Shares have not been bought from related parties in 2015, 2016 or 2017.

Share transactions	2017	2016
Number of shares acquired	394 291	223 772
Average acquisition cost per share (NOK)	139.5	142.7
Total acquisition cost (NOK million)	**55**	**32**
Number of shares sold to employees	307 412	165 550
Average selling price per share (NOK)	147.5	144.2
Total sales consideration (NOK million)	**45**	**24**
Number of treasury shares as at 31 December	145 101	58 222
Nominal value of treasury shares at NOK 0.05 each	7 255	2 911

NOTE 32 REMUNERATION OF THE BOARD OF DIRECTORS AND SENIOR EXECUTIVES

The salaries of senior executives are made up of a fixed salary and a bonus based on the EVA (Economic Value Added) model. AF Gruppen uses EVA as a management and control tool and incentive systems based on the EVA model have been introduced for executives in large parts of the Group. EVA is an indicator for the creation of value, and the aim of the analysis is to ensure that every part of AF works to increase the creation of value.

Senior executives may invest 25–50 per cent of their net bonus after tax in shares in AF Gruppen ASA. The shares are sold at a 20 per cent discount based on the prevailing market price at the end of the year. The lock-in period for the shares is one year.

The CEO's salary is set at a Board Meeting every year. The Board of Directors establishes guidelines for the remuneration of executive personnel in consultation with the CEO. There are no agreements with the Corporate Management Team or Chairman of the Board regarding severance pay or early retirement if their employment is terminated or modified. The Corporate Management Team participates in the general retirement benefit scheme for AF Gruppen's employees as described in Note 18 – Retirement benefits.

No loans nor guarantees have been granted to the Board of Directors or Corporate Management Team.

2017

Corporate Management Team (NOK 1000)	Fixed pay	Bonus	Retirement benefits	Other benefits [1]	Andre ytelser	Total
Morten Grongstad, CEO	3 849	5 726	65	2 822	38	12 501
Sverre Hærem, Executive Vice President / CFO	2 014	3 000	70	2 555	36	7 675
Bård Frydenlund, Executive Vice President	1 608	2 827	73	1 665	40	6 213
Eirik Wraal, Executive Vice President	1 589	2 125	69	1 402	27	5 211
Amund Tøftum, Executive Vice President	1 609	2 265	65	1 218	30	5 186
Arild Moe, Executive Vice President	1 896	2 642	66	2 694	32	7 330
Andreas Jul Røsjø, Executive Vice President	1 601	2 288	69	2 359	29	6 345
Henning Olsen, Executive Vice President	1 609	2 594	65	1 050	40	5 357
Total remuneration to the Corporate Management Team	**15 773**	**23 467**	**540**	**15 765**	**273**	**55 818**

[1] *Other benefits include amounts reported in connection with the redemption of the option programme that expired in 2017.*

For 2017, bonuses to the Corporate Management Team totalling NOK 25 million were recognised. Bonuses for the 2017 financial year will be paid in 2018 and 2019 (holiday pay on bonuses).

2016

Corporate Management Team (NOK 1000)	Fixed pay	Bonus	Retirement benefits	Other benefits	Total
Morten Grongstad, CEO	3 498	3 717	53	101	7 369
Sverre Hærem, Executive Vice President/CFO	1 921	3 279	57	34	5 292
Bård Frydenlund, Executive Vice President	1 590	1 416	59	33	3 098
Eirik Wraal, Executive Vice President	1 581	818	56	31	2 486
Amund Tøftum, Executive Vice President	1 233	1 829	53	58	3 172
Arild Moe, Executive Vice President	1 826	2 441	54	84	4 404
Andreas Jul Røsjø, Executive Vice President	1 514	1 926	53	49	3 542
Henning Olsen, Executive Vice President	1 592	1 295	52	62	3 002
Total remuneration to the Corporate Management Team	**14 754**	**16 720**	**438**	**452**	**32 364**

For 2016, bonuses to the Corporate Management Team totalling NOK 24 million were recognised. Bonuses for the 2016 financial year will be paid in 2017 and 2018 (holiday pay on bonuses).

BONUS FOR THE PURCHASE OF SHARES

Number of shares / price	2017	2016
Number of bonus shares sold from own holdings	86 300	95 550
Number of bonus shares from new issues	-	-
Market price at the time of the agreement (NOK)	155	140
Selling price (NOK)	124	112
Accounting consequences of bonus shares (NOK 1000)		
Indirect payroll costs (discount incl. social security costs)	-2 939	-3 042

Shares owned by senior executives and subscribed options are described in Note 30 – Share capital and shareholders.

NOTE 32 REMUNERATION OF THE BOARD OF DIRECTORS AND SENIOR EXECUTIVES CONT.

DIRECTORS' FEES

Amounts in NOK 1000	2017	2016
Pål Egil Rønn, Board Chairman from 12 May 2016 [1]	440	-
Tore Thorstensen, Board Chairman until 12 May 2016	-	470
Daniel Kjørberg Siraj, Deputy Board Chairman	295	272
Borghild Lunde, board member	279	272
Hege Bømark, board member	294	287
Peter Groth , alternate member [2]	191	270
Kristian Holth, board member [3]	279	210
Pål Gjerp, employee-elected board member	190	190
Arne Sveen, employee-elected board member	190	190
Kenneth Svendsen, employee-elected board	190	190
Total directors' fees	**2 347**	**2 351**

Directors' fees are paid in the year after they are earned, i.e. The directors' fees that are paid in 2017 refer to 2016.

[1] In addition to the Board Chairman's remuneration of NOK 440,000 that was paid in 2017, AF Gruppen has an agreement with the Department of Civil and Environmental Engineering at NTNU stipulating that AF Gruppen is to cover the costs related to Pål Egil Rønn's employment as an adjunct professor at NTNU. The agreement concerns 15 per cent of a full-time position that is covered by NOK 250,000 per year, in addition to consulting hours beyond the fixed position for up to NOK 150,000 per year. The agreement will remain in effect for five years from August 2017, and NOK 104,000 has accrued related to this agreement in 2017. Pål Egil Rønn was the CEO of AF Gruppen until 16 October 2015. During the period from 16 October 2015 to 30 June 2016, he was employed as a consultant in the company. In 2016, Rønn was paid a total of NOK 2,495,000 in salary, NOK 7,517,000 in bonuses and NOK 90 000 in retirement and other benefits. The bonus that was paid in 2016 referred to 2015 when Rønn was the CEO. Rønn received in 2017 NOK 390,000 in salary (vacation pay) and NOK 3,414,000 in bonus related to the period when he was employed in 2016.

[2] Peter Groth was a board member until 12 May 2016, and he has been an alternate member with a right to attend meetings from 13 May 2016.

[3] Kristian Holth has been a board member from 12 May 2016, and he was formerly an alternate member with a right to attend meetings.

GUIDELINES FOR 2017

The Board will submit a statement to the General Meeting in accordance with section 6-16a of the Norwegian Public Limited Companies Act. The content of this statement is explained below in accordance with Section 7–31b, seventh paragraph of the Norwegian Accounting Act:

Guidelines regarding fixed pay and other remuneration for senior executives have been established. The Board of Directors establishes guidelines for the remuneration of executive personnel in consultation with the CEO. The CEO's fixed pay is set by the Board. Base pay is fixed in line with the market rates. Base pay is adjusted annually as at 1 July, based on an individual assessment. Senior executives receive payments in kind and participate in the Group's retirement benefit schemes on the same terms as other employees as described in the Group's Personnel Guide. There are no termination payment schemes.

Bonuses for senior executives are based on the EVA (Economic Value Added) model. EVA is a method of calculating and analysing value creation in the Group and in economic units below group level. Bonuses based on the EVA model are linked to the Group's value creation during the financial year. If the performance requirements are met, the bonus payment should represent 5-8 months' pay. This is, however, not the absolute maximum limit. Of the total bonus earned, 25 per cent can be used to buy shares at a 20 per cent discount and the remainder is paid in cash.

Shares can be sold to senior executives, subject to the approval of the Board of Directors at a 20 per cent discount on the prevailing market price. Shares are offered to senior executives in the same way as to other employees.

The General Meeting adopted an option programme for all the employees of AF Gruppen on 12 May 2017. The maximum number of options that may be allocated is 3 500 000, and the programme entails annual allotments for the years 2017-19 and exercise of the options in 2020. A total of 3 325 000 options were subscribed for in June 2017. The total number of outstanding options, adjusted for employees who have left the company, was 3 264 143 as at 31 December 2017.

The employees pay an option premium of NOK 1.00 per option. The exercise price in 2020 for the options subscribed for in 2017 will be NOK 153.21 per share.

The option scheme has been established by the Board, and it is to provide an incentive for all the employees in the Group. The purpose of the scheme is to encourage long-term commitment and greater involvement in the Group's activities. It is believed that the Group's future objectives will best be achieved if the interests of the Group and its employees coincide.
The remuneration of senior executives in 2017 has been in accordance with the statement submitted to the General Meeting in 2017.

NOTE 33 RELATED PARTIES

The Group's related parties consist of shareholders of AF Gruppen ASA, members of the Board of Directors and Corporate Management Team, as well as associates and joint ventures, cf. Note 27 – Associated companies and Note 28 Investments in joint ventures.

AF Gruppen has made an assessment of who its related parties are in 2017. In previous years, companies in which key persons in AF Gruppen have had a significant influence, such as OBOS BBL, have been included in the list. These companies are not related parties according to the definition and have therefore been removed from the note.

TRANSACTIONS WITH RELATED PARTIES

Amounts in NOK million	2017	2016	2015
CONTRACT TOTAL			
Associated companies and joint ventures	4 175	2 943	2 557
Total	**4 175**	**2 943**	**2 557**
TRADING VOLUME			
Associated companies and joint ventures	1 040	756	607
Total	**1 040**	**756**	**607**
PURCHASE OF GOODS AND SERVICES			
Associated companies and joint ventures	-	-	-
Total	**-**	**-**	**-**
NON-INTEREST-BEARING RECEIVABLES AS AT 31 DECEMBER			
Associated companies and joint ventures	97	82	85
Total	**97**	**82**	**85**
INTEREST-BEARING RECEIVABLES AND GUARANTEES AS AT 31 DECEMBER			
Associated companies and joint ventures	161	106	173
Total	**161**	**106**	**173**

Members of the Board of Directors and the management of the Group and their related parties control 34,8 (33.6) per cent of the shares in AF Gruppen ASA at the end of the year. For information on remuneration of the Board of Directors and management, see Note 32 – Remuneration of senior executives and the Board of Directors. There are no agreements or transactions with related parties beyond this.

NOTE 34 PLEDGED ASSETS AND GUARANTEES

PLEDGED ASSETS

Amounts in NOK million	Note	2017	2016
Book value of liabilities secured by pledges, etc. [1]	20	90	92
BOOK VALUE OF SECURED ASSETS:			
Buildings and production facilities		17	18
Machinery, fixtures and fittings		101	132
Trade and non-interest-bearing receivables		344	215
Projects for own account		-	-
Other pledged assets		22	21
Total book value of pledged assets		**485**	**386**

[1] NOK 83 (78) million of the liabilities related to leasing liabilities have machinery as collateral, cf. Note 20 – Net interest-bearing liabilities.

A negative letter of charge has been provided for trade receivables and inventories related to the Group's financing framework.

Through participation in general partnerships, the Group could be held liable for the inability of other participants to fulfil their obligations. Joint and several liability cannot be enforced until the company in question is unable to fulfil its obligations.

GUARANTEES

In connection with construction contracts entered into, the subsidiaries in the Group are subject to the usual contracting obligations and the associated guarantees. AF Gruppen ASA has furnished guarantees to subsidiaries in the form of absolute guarantees to financial institutions. In addition, AF Gruppen ASA and AF Gruppen Norge AS have issued parent company guarantees, which primarily concern guarantees of this type. The amount drawn on these contracts as at 31 December can be found in the table below.

Amounts in NOK million	2017	2016
Guarantees issued to clients [1]	3 548	3 208
Guarantees issued to associates and joint ventures [2]	280	240
Total	**3 828**	**3 448**

[1] In connection with construction contracts entered into, the subsidiaries in AF Gruppen are subject to the usual contracting obligations and the associated guarantees. In this connection, AF Gruppen ASA has furnished guarantees to subsidiaries in the form of absolute guarantees to financial institutions. In addition, AF Gruppen ASA and AF Gruppen Norge AS have issued parent company guarantees, which primarily concern guarantees of this type.The guarantees issued to clients are related to contractual obligations and are primarily issued as tender guarantees, delivery guarantees and payment guarantees.

[2] AF Gruppen Norge AS has in some cases issued guarantees as security for loans etc. in favour of development companies. This can typically be in connection with the fact that the development company has received financing from a bank and the owners have chosen to provide a guarantee for parts of such financing, based on a specific assessment. This concerns partial guarantees, in which AF Gruppen only guarantees for a portion of the amount corresponding to its ownership interest in the project in question.The guarantee cannot be enforced unless the development company is not able to fulfil its obligations.

In addition, as a part-owner in limited partnerships, AF Gruppen has undertaken to contribute partnership capital. As at 31 December 2017, committed, unpaid partnership capital totalled NOK 71 (91) million.

NOTE 35 CONTINGENCIES

The performance of building and civil engineering assignments occasionally leads to disputes between the contractor and client regarding how to understand the underlying contract. AF Gruppen prefers to resolve such disputes through negotiation outside the courts. In spite of this, some cases are resolved through arbitration or the courts. Disputed claims against customers and claims against AF from subcontractors are assessed on an ongoing basis to ensure that the financial account reporting is as correct as possible. Provisions and revenue recognitions for uncertainty related to contingent outcomes are made in the projects.

AT THE END OF 2017, AF GRUPPEN WAS INVOLVED IN THE FOLLOWING SIGNIFICANT LAWSUITS:
AF Anlegg has filed suit against the Norwegian State represented by the Ministry of Transport and Communications concerning the final settlement for the construction of the Dregebø-Grytås and Birkeland-Sande sections of the new E39 in the Municipality of Gaular. It is expected that the case will be scheduled for a hearing in the autumn of 2018.

THE FOLLOWING CASES MENTIONED IN THE ANNUAL REPORT FOR 2016 HAVE BEEN CONCLUDED IN 2017:
In 2016, AF Anlegg filed suit against the Norwegian State represented by the Ministry of Transport and Communications concerning final settlement for the construction of State Road 3 at Åsta. The case was settled and adjourned in 2017.

In 2016, AF Anlegg filed suit against the City of Oslo, represented by the Agency for Water and Sewerage Works, concerning final settlement for the Vettakollen Elevated Basin project. The case was settled and adjourned in 2017.

NOTE 36 EVENTS AFTER THE BALANCE SHEET DATE

No events have taken place after the date of the balance sheet that are of significance to the published annual financial statements.

NOTE 37 NEW AND AMENDED ACCOUNTING STANDARDS

NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS THAT HAVE BEEN IMPLEMENTED BY THE GROUP

In 2017, the Group has not implemented new or amended accounting standards or interpretations that have a significant impact on the Group's financial standing or results.

NEW FUTURE STANDARDS, AMENDMENTS AND INTERPRETATIONS

The IASB has adopted new standards and interpretations, in addition to amendments to existing standards and interpretations that have not yet entered into force at the end of 2017. Below is an assessment of the amendments that are relevant to the AF Gruppen. New and amended standards and interpretations that are not discussed below have been assessed as not having any impact on the consolidated financial statements of AF Gruppen.

IFRS 9 Financial Instruments

The new standard for financial instruments will replace IAS 39 Financial Instruments – Recognition and Measurement. The standard introduces new principles for classification, measurement, hedge accounting and write-downs.

So far the Group's assessments have not identified circumstances, which upon implementation, will significantly affect the Group's financial standing or results. IFRS 9 will enter into force on 1 January 2018, and AF Gruppen will implement the standard from this date.

IFRS 15 Revenue from Contracts with Customers

The new standard for revenue recognition will replace IAS 11 , IAS 18 and IFRIC 15, which govern the recognition of revenue for AF Gruppen at the end of 2017. The key principle of IFRS 15 is that compensation that an enterprise expects to be entitled to shall be recognised as revenue based on a pattern that reflects the transfer of the goods or services to the customer. IFRS 15 introduced a new and structured model for the recognition and measurement of revenues.

The greatest impact on AF Gruppen's financial standing and results will be related to property projects for own account. In accordance with IFRIC 15 and IAS 18, revenue from such projects is to be recognised at handover. Upon the introduction of IFRS 15, revenue from these projects will be recognised based on the percentage of completion and percentage of sales method. This corresponds to the current recognition of revenue in the segment note. Upon the transition to IFRS 15 in 2017, the Group's revenues will be NOK 105 million higher, and earnings before tax will be NOK 15 million higher.

The recognition of revenue from property projects for own account in Norway will not change from the current practice upon the implementation of IFRS 15. The problem has been assessed by the International Financial Reporting Interpretations Committee (IFRIC) and a final decision in the case was made in March 2018. In the opinion of the IFRIC, the prerequisites for ongoing revenue recognition have not been met in the Norwegian market due to the fact that residential buyers have an opportunity to cancel their contracts prior to handover. Revenue from own account projects in Norway will still be recognised on handover.

AF Gruppen has not identified any other significant impact on the financial standing or results in the consolidated financial statements due to the implementation of IFRS 15. IFRS 15 will enter into force on 1 January 2018. AF Gruppen will implement the standard from this date with prospective application, which entails that the accumulated effect of the transition will be recognised against other reserves and the comparative figures will not be restated.

IFRS 16 Leases

The new standard for leases will replace IAS 17 Leases. In IFRS 16 the distinction made between operating and financial leases is eliminated, and practically all leases are to be recognised on the balance sheet of the lessee. There are only two exceptions to this, leases with a duration of less that 12 months and leases with a low value.

The present value of the future lease liability shall be recognised as an interest-bearing loan and the value of the lease (right of use) shall be recognised as a non-current asset. The balance sheet total will increase due to the transition to IFRS 16, and there will be related changes in the key figures, such as the equity ration and net interest bearing debt.

The right of use recognised on the balance sheet will be amortised over the agreed term of the lease, and interest on the lease liability will be recognised as an interest expense. These income statement items will replace rental costs, which were recognised under other operating expenses in accordance with IAS 17. Key figures such as the operating profit and EBITDA will increase. The recognition of expenses will be more progressive as the interest element will be higher at the beginning of the lease period.

In addition to the effects on the balance sheet and income statement, the cash flow from operating activities will be affected, since payment of the lease liability's principal will be classified as a financing activity and not an operating activity. Cash flow from operating activities will hence be improved and the opposite effeect will occur for cash flow from financing activity.

AF Gruppen has many operating leases that will be recognised on the balance sheet upon the implementation of IFRS 16, primarily related to the leasing of office space and construction machinery. The effects on the accounts have not been fully analysed. As at 31 December 2017, the Group has a calculated minimum liability for operating leases of NOK 843 million, as described in Note 17. This is an estimate of the increase in interest-bearing liabilities that will be recognised upon the implementation of IFRS 16. This liability is not discounted, and the amount recognised in the balance sheet will therefore be lower than the amount disclosed in Note 17. The liability will be disounted with a rate corresponding to the company's marginal borrowing rate.

AF Gruppen's current lease agreements do not contain substantial options that are expected to be recognised on the balance sheet at the transition to IFRS 16.

The analysis of the effects on the financial statements are not final.

IFRS 16 will enter into force on 1 January 2019. AF Gruppen will implement IFRS 16 as of this date with a prospective application, which entails that the accumulated effect of the transition will be recognised against other reserves and the comparative figures will not be restated.

NOTE 38 SIGNIFICANT ACCOUNTING POLICIES

SIGNIFICANT ACCOUNTING ASSESSMENTS, ESTIMATES AND ASSUMPTIONS

In the preparation of the annual financial statements, the management has used estimates and assumptions that have affected the valuation of assets and liabilities, recognition of revenues and expenses, and information on potential liabilities for accounting purposes. The estimates and underlying assumptions are assessed continuously based on historical experience and other factors, including expectations of future events that are assessed to be reasonable under the current circumstances. The estimates used in the accounts are based on uniform policies.

Changes in accounting estimates are recognised in the period in which they occur. If the changes also apply to future periods, the effect of the changes will be distributed between the present and future periods.

Projects

AF Gruppen's activities consist mainly of carrying out projects. Projects for third-party accounts and demolition work are recognised on an ongoing basis based on the project's expected final outcome and percentage of completion (see description under the section entitled "Principles of revenue recognition" for more details). The ongoing recognition of revenue from projects is based on estimates and assessments made based on the management's best estimate. For projects in progress, there are estimates regarding the progress, disputes, warranty work, final prognosis, etc. For completed projects, there are estimates regarding any hidden defects or faults and the scope of warranty work, as well as possible disputes with the customer. The scope and complexity of the assessments entail that the actual contribution margins at the end of projects may deviate from the assessments made at year end.

Lines in the accounts with significant estimate items	Notes to the accounts	Book value of project-related items (MNOK)	2017	2016
Revenues, expenses, trade receivables and trade payables	6, 10,16	Accrued, non-invoiced (receivables):	390	468
		Invoiced, non-accrued (receivables):	-1 539	-1 439
		Invoiced, non-accrued (debt):	-884	-464
Provisions	15		542	365

Goodwill

There exists uncertainty regarding the assessment of goodwill, since the value of the assets is based on earning principles from the allocation of the purchase value, cf. Note 4 – Acquisition and sale of businesses. Goodwill is not amortised, but is tested at least once a year for possible impairment. Concerning the tests performed and the assumptions for these, reference is made to Note 13 – Intangible assets.

Lines in the accounts with significant estimate items	Notes to the accounts	Book value of goodwill (MNOK) 2017	2016
Intangible assets	4,13	2 182	2023

CONSOLIDATION POLICIES

Subsidiaries

The consolidated financial statements encompass the financial statements of AF Gruppen ASA (the parent company) and the associated subsidiaries. Subsidiaries are any entities in which the Group has a controlling influence. A controlling influence over an entity arises when the Group is exposed to a variable return from the unit and is able to influence this return through its power over the entity. Normally a controlling influence is achieved when the Group owes more than 50 per cent of the shares in the company. Subsidiaries are consolidated from the day a controlling influence arises, and until such influence ceases.

Intercompany transactions, balances and unrealised gains or losses are eliminated. Figures reported by the subsidiaries are restated if necessary to achieve compliance with the Group's accounting policies.

Business combinations

Business combinations are recognised in accordance with the acquisition method of accounting. The consideration provided is measured at the fair value of the assets transferred, liabilities assumed and equity instruments issued. Any contingent consideration elements are included in the consideration at fair value on the acquisition date. Contingent consideration that is not settled in equity instruments is a liability that is measured at fair value with value changes through profit or loss.

Expenses related to acquisitions are recognised as they are incurred. When a company is acquired, an assessment is made to establish whether the acquisition concerns the business itself or assets. If it is assessed to be the acquisition of assets, the entire purchase price, including any liabilities acquired, will be allocated to the acquired assets on a pro rata basis in relation to the fair value. This means that no provision is made for deferred tax for such acquisitions.

If it is assessed to be the acquisition of a business, the identifiable assets and liabilities, including the identified excess values, are recognised on the balance sheet at fair value on the acquisition date. If the sum of the consideration exceeds the fair value of the net identified assets and liabilities in the acquired company on the acquisition date, the difference will be recognised on the balance sheet as goodwill. Goodwill is not amortised, but is tested at least once a year for impairment. The fair value of goodwill is assessed more often than once a year if there are events or changes in circumstances that indicate a possible impairment in value. In connection with the impairment assessment, goodwill is allocated to the cash flow generating units or groups of cash flow generating units.

If the fair value of the net assets in a business combination exceed the consideration (negative goodwill) the difference will be immediately recognised as income on the acquisition date.

Provision is made for deferred tax on the difference between fair value and book value for all assets and liabilities in a business combination with the exception of goodwill.

Business combinations by step-by-step acquisitions

For step-by-step acquisitions, the earlier equity interest in the acquired company should be remeasured at fair value on the acquisition date when AF Gruppen acquired a controlling influence over the company. Any gains or losses are recognised in the income statement. The gain or loss is calculated as the difference between the fair value of the earlier asset on the acquisition date and the carrying amount adjusted for the cumulative amount recognised in the consolidated equity through other comprehensive income that is to be reclassified on disposal.

NOTE 38 SIGNIFICANT ACCOUNTING POLICIES CONT.

Change in ownership interests with loss of control
When the Group no longer has a controlling influence, any remaining equity interest is measured at fair value with the recognition of gains / losses through profit or loss. In subsequent accounting, the fair value at the time of the loss of control constitutes the acquisition cost, either as an investment in an associate, joint venture or financial asset. Amounts previously recorded in statement of other comprehensive income related to this company are treated as if the Group had disposed of the underlying assets or liabilities. This may entail that amounts previously recognised in the statement of other comprehensive income are reclassified to the income statement.

Minority interest and change in ownership interests without a change in control
Minority interests include the non-controlling owners' share of the carrying amount of subsidiaries, including the share of identified excess value on the acquisition date. No minority interest is calculated on the basis of goodwill. The minority interest may be negative if the share of assets and liabilities is negative.

Transactions with minority interests in subsidiaries are treated as equity capital transactions. For the purchase of shares from minority interests, the difference between any consideration paid and the shares' proportionate share of the carrying amount of the net assets in the subsidiary is recognised in the equity of the parent company's owners. Gains or losses from sales to minority owners are recognised correspondingly in equity.

Joint arrangements
Joint arrangements are arrangements whereby two or more parties have joint control of the arrangement through a contractual agreement. Joint arrangements are classified as joint operations or joint ventures. In a joint operation, the parties have joint control rights to the assets and are responsible for the liabilities in the arrangement. In a joint venture, the parties have joint control rights to the net assets in the joint arrangement.

A key element in the assessment of whether a joint arrangement is a joint operation or a joint venture is whether the arrangement has been organised as a separate entity. If there is no separate entity, then the arrangement is classified as a joint operation. Otherwise, the legal status, terms and conditions in the contractual agreement and other factors and circumstances are assessed to determine whether the arrangement is a joint venture or joint operation.

Joint ventures are common in construction and civil engineering projects where two or more parties decide to carry out a joint project and all operational, financial and strategic decisions must be taken unanimously by the parties. AF Gruppen's joint arrangements are assessed to be joint ventures.

Joint ventures are recognised at the acquisition cost on the acquisition date. In addition, the units are incorporated in accordance with the equity method of accounting. The carrying amounts include any excess value and goodwill identified on the acquisition date, less subsequent depreciation, amortisation and impairment losses.

Associates
Associates are business units in which the Group has a significant, but not a controlling influence over the financial and operational management. Normally this occurs when there is an ownership stake ranging from 20 to 50 per cent.

Investments in associates are recognised at the acquisition cost on the acquisition date and subsequently in accordance with the equity method of accounting. The carrying amounts include any excess value and goodwill identified on the acquisition date, less subsequent depreciation, amortisation and impairment losses.

The Group's share of the profit or loss in associates is recognised in the income statement and added to the carrying amount of the investments. This applies from the date significant influence is achieved until such influence ceases. When the Group's share of losses exceeds the investment in an associate, the Group's book value is reduced to zero. Further losses are not recognised unless the Group is obligated to cover the loss.

Foreign currency translation
Functional currency and presentation currencies
The consolidated financial statements are presented in Norwegian kroner (NOK), which is both the Parent Company's functional currency and the Group's presentation currency.

Group companies
The income statement and balance sheet for group companies with a functional currency different than the presentation currency are translated as follows:

- Balance sheet items are translated at the rate prevailing on the balance sheet date.
- Income statement items are translated at the transaction exchange rate. The average monthly rates are used as an approximation of the transaction date exchange rates.
- Translation differences are recognised under other comprehensive income.

For the loss of control, significant influence or joint control, the accumulated translation differences related to the investment attributable to the controlling interests are recognised in the income statement. For the partial disposal of subsidiaries (not loss of control) the proportionate share of the accumulated translation differences are classified as minority interests.

Goodwill and excess value from the acquisition of a foreign unit will be treated as assets and liabilities in the acquired unit and translated at the rate prevailing on the balance sheet date.

Elimination of transactions and balances with group companies
Intercompany transactions and accounts, including internal profit and unrealised gains and losses, are eliminated. Unrealised gains linked to transactions with associates and joint ventures are eliminated in proportion to the Group's stake in the company / enterprise. Unrealised losses are also eliminated, but only if there are no indications of impairment of assets sold internally.

REVENUE RECOGNITION PRINCIPLES

Revenue is recognised when it is probable that transactions will generate future economic benefits for the company and the size of the income can be reliably estimated. Sales revenue is presented less value-added tax and discounts.

Projects for third-party accounts
A significant portion of AF Gruppen's business activities consists of construction and civil engineering projects. The projects are carried out most often on behalf of public and private clients based on contracts, so-called projects for third-party accounts. The characteristic feature of such contracts is that they are client financed. The treatment of construction and civil engineering contracts defined as projects for third-party accounts in the financial statements is in accordance with IAS 11.

Project revenues are recognised in the income statement in step with the progress. Each individual project is recognised on an ongoing basis in the income statement based on the project's degree of completion and the

NOTE 38 SIGNIFICANT ACCOUNTING POLICIES CONT.

estimated contribution margin. The degree of completion is calculated as the production carried out in relation to the production agreed on. For turnkey contracts (form of contract that encompasses responsibility for the design and construction) and small projects, the production completed is assessed as a rule in accordance with an input-based method in which the costs incurred on the balance sheet date in relation to the estimated total costs are used as a reasonable approximation. For general contracts (form of contract that encompasses a large share of the construction work, such as site preparation and concrete work, carpentry, etc.) the production completed is assessed as a rule in accordance with an output-based method based on the invoiceable deliveries completed in the project.

The revenue recognition in the projects is adjusted for the remaining risk in the project. In the early stages of a project, a smaller than the proportionate share of the expected profit is recognised as revenue if the remaining risk in the project is assessed as high. In the final stages of the project, a larger share is recognised as revenue, since the expected profit can be estimated with a greater degree of certainty and there is a narrower range of outcomes in the projects. Risk adjustment is particularly relevant for civil engineering projects.

When the outcome of the project cannot be estimated reliably, only revenue equivalent to the incurred project costs will be recognised. If a project is identified as loss-making, the total estimated loss on the contract will be recognised as an expense in its entirety in the current period regardless of the degree of completion.

The recognition of revenue from disputed claims, claims for additional work, change orders, incentive bonuses, etc., starts when it is probable that the customers will approve the claim. Provisions are made for identified and expected warranty work.

Projects for own account

Projects for own account largely involve the development and construction of apartment buildings for sale. These are self-financed projects. An apartment building consists of many units, and the majority of the units are sold before a project starts. In accordance with IFRIC 15, such projects for own account are recognised in accordance with IAS 18. This means that the revenues and associated expenses are recognised when the apartment is handed over. The expenses in projects for own account are capitalised on the balance sheet as current assets until they are recognised in the income statement. The associated prepayments from customers is recognised as current liabilities.

Demolition work

Demolition work encompasses the demolition of buildings, oil platforms and other installations. Demolition work is defined under IAS 11 and dealt with by using the same accounting policies as for projects for third-party accounts.

Sale of plant and equipment

Gains / losses from sales of plant and equipment are recognised in the income statement once delivery has taken place and most of the risk and control has been transferred.

Other revenue

Revenues from sales of goods are recognised in the income statement once delivery has taken place and most of the risk and control has been transferred.

Financial income

Interest is recognised as income in accordance with the effective interest method.

Dividends are recognised as revenue when the shareholders' right to receive a dividend has been established by the General Meeting.

OTHER ACCOUNTING POLICIES

Classification of receivables and liabilities

Receivables and payables that are related to the construction and civil engineering business areas are classified as current assets and current liabilities. If the invoiced revenue in a project is greater than the accrued revenue, the excess will be recognised as "Invoiced, non-accrued for projects in progress" under current liabilities. If the invoiced amount is less than the accrued amount, the difference will be recognised as "Accrued, non-invoiced for projects in progress" under current liabilities.

Any difference between the costs incurred in the project and the accumulated project expenses increases other current liabilities if the difference applies to the provisions for costs incurred. A difference that is attributed to invoicing in advance from subcontractors reduces other current liabilities. If the costs incurred in the project are lower than the accumulated project expenses due to the purchase of inventory, the difference is recognised as inventories.

Deposits from customers in accordance with Norwegian Standard contracts are classified as current assets. The "deposits" represent security for the client during the construction period, and they are a percentage of the ongoing invoices that is retained until the project has been handed over and the final invoice issued.

Receivables and debt related to the same customer will be presented on a net basis, unless there are circumstances that do not permit offsetting.

Projects for own account (including land for development) are recognised as current assets.

Other receivables and liabilities that mature in more than one year are classified as non-current assets and non-current liabilities. The first year's instalment on long-term debt will be classified under current liabilities.

Provisions for warranties on projects are classified as current liabilities, even if a large portion of the provisions are expected to mature in more than one year.

Translation of transactions and balance sheet items in foreign currencies

Transactions in foreign currencies are translated to the functional currency based on the current rate on the transaction date.

Foreign exchange gains and losses related to trade receivables, trade payables and other balance sheet items related to operations, are presented under net gains and losses in the income statement and specified otherwise in the notes.

Foreign exchange gains or losses related to loans, cash and cash equivalents are presented under net financial items in the income statement and specified otherwise in the notes.

Tax

The income tax expense consists of current tax payable and deferred tax. Tax is recognised in the income statement unless it is related to items that have been recognised under other comprehensive income or directly through equity. In these cases, the tax is also recognised under other comprehensive income or directly through equity.

It is the legislation that has been adopted, or essentially adopted, by the tax authorities in the countries where the Group's subsidiaries or associates operate that applies to the calculation of the tax payable and deferred tax.

NOTE 38 SIGNIFICANT ACCOUNTING POLICIES CONT.

Deferred tax is recognised for the temporary differences between the financial and tax values of assets and liabilities. One exception is the temporary differences that arise These are not recognised on the balance sheet

Deferred tax assets are recognised on the balance sheet if it is probable that future taxable income will be generated so that the tax-reducing temporary differences can be utilised.

Deferred tax assets and deferred tax are offset if there is income tax imposed by the same tax authority and there is a legally enforceable right to offset these. It is a prerequisite for offsetting between different taxable enterprises that the Group has the opportunity and intent to settle the liabilities and assets on a net basis.

Uncertain tax liabilities, or disputed tax positions, will be recognised using a best estimate. The last judgment handed down or assessment decision is regarded as the best estimate.

Property, plant and equipment

Property, plant and equipment are measured at cost minus accumulated depreciation and impairment losses. When assets are sold or retired, the book value is deducted and any loss or gain recognised in the income statement. Acquisition cost includes all expenses that are directly attributable to the purchase or manufacture of the asset. In the case of plant and equipment manufactured in house, a proportion of other attributable costs and loan expenses are also included in the acquisition cost.

Property, plant and equipment are recognised on the balance sheet if it is probable that the expected future financial benefits attributable to the asset will pass to the company and the asset's acquisition cost can be measured reliably. Subsequent expenses for remodelling or the replacement of parts will be recognised on the balance sheet if corresponding criteria have been satisfied. The remaining value recognised on the balance sheet relating to replaced parts is recognised in the income statement. Costs for service, repair and maintenance are recognised on a current basis.

Every significant component of property, plant and equipment is depreciated over its estimated useful life. Production-related machinery is mainly depreciated using the reducing balance method, while other property, plant and equipment are depreciated on a straight-line basis.

Leased plant and equipment that are not expected to be acquired at the end of the term of the lease will be depreciated over the shorter of the term of the lease or the useful life. Leased plant and equipment that are expected to be acquired at the end of the term of the lease will be depreciated over the expected life.

The depreciation period and deprecation method are evaluated annually and the retirement value is estimated at year end. Changes are recognised as a change of estimate.

Intangible assets

Goodwill

Goodwill is recognised on the balance sheet at historical cost less write-downs. Goodwill is not amortised, but is tested at least once a year for impairment. Any write-down of goodwill will not be reversed even if the grounds for the impairment no longer exist.

Goodwill is allocated to the cash-generating units or groups of cash-generating units that are acquired or are expected to gain synergies from the acquisition.

Patents and licences

Amounts paid for patents and licences are recognised on the balance sheet and amortised on a straight-line basis over their expected useful life. Their expected useful life for patents and licences varies from 5 to 10 years.

Software

Expenses related to the purchase of new software are recognised on the balance sheet as intangible assets if these expenses are not part of the acquisition cost for hardware. Software is normally amortised on a straight-line basis over 3 years. Expenses incurred to maintain or keep up the future benefit of software are recognised as an expense unless the changes to the software increase the future economic benefit of the software.

Contractual customer relationships

Contractual customer relationships that are acquired separately are recognised in the balance sheet at fair value on the acquisition date. Contractual customer relationships that are acquired in business combinations are recognised in the balance sheet at fair value on the acquisition date. Contractual customer relationships have a limited useful life and are recognised at the acquisition cost less the accumulated amortisation. Amortisation is carried out on a straight-line basis over the expected life of the customer relationship.

Quarrying rights

Quarrying rights are recognised on the balance sheet at fair value (cost) on the acquisition date. Quarrying rights acquired in business combinations are recognised on the balance sheet at fair value on the acquisition date. The quarrying rights (which have a limited useful life) are recognised at the acquisition cost less the accumulated amortisation. Amortisation is carried out on a straight-line basis over the expected life of the quarrying rights.

Impairment in the value of non-financial assets

Intangible assets with an indefinite useful life and goodwill are not amortised, but tested for impairment annually. Property, plant and equipment and intangible assets that are amortised are assessed for impairment in value when there are indicators that the future earnings cannot justify the book value of the asset.

The difference between the book value and recoverable amount is recognised in the income statement as an impairment loss. The recoverable amount is the higher of the fair value less selling costs or the utility value. When impairment is assessed, the intangible assets are grouped together at the lowest level it is possible to identify independent cash flows (cash-generating units).

The possibility of reversing previous impairment losses on property, plant and equipment and intangible assets that are amortised is evaluated on each reporting date.

Leasing

To determine whether an agreement is a lease, or contains a lease element, the substance of the agreement is assessed on the earlier of the date of the agreement or the date when the parties commit themselves to the main terms of the agreement. If performance of the agreement requires the use of a specific asset or group of assets and transfers the right to control the use of the underlying asset to the buyer, the agreement is treated as a lease agreement.

Lease arrangements in which the Group acquires most of the risk and return and are associated with ownership of the assets are financial leases. Other leases are treated as operating leases.

NOTE 38 SIGNIFICANT ACCOUNTING POLICIES CONT.

Financial leases
AF Gruppen presents financial leases in the financial statements as assets and liabilities. At the beginning of the term of the lease, financial leases are included at an amount equivalent to fair value or the present value of the minimum payment, whichever is lower. The implicit interest cost is used to calculate the present value of the lease. Direct costs involved in arranging the lease are added to the cost of the asset.

Plants and equipment that are leased are depreciated over the term of the lease or useful life, whichever is shorter, unless it is reasonably certain that the Group will acquire the asset when the lease expires. The annual payment consists of an interest portion, which is recognised in the income statement as an interest expense, and a repayment portion, which reduces the liability. Sale-leaseback gains are recognised immediately if a sales transaction is carried out at fair value. Gains / losses resulting from overpricing or underpricing compensated by future lease payments are amortised over the term of the lease.

Operating leases
Lease payments are classified as operating expenses and recognised in the income statement over the term of the contract. Sale-leaseback gains are recognised immediately if a sales transaction is carried out at fair value. If the sales transaction has not been carried out at fair value, the gain / loss will be recognised at fair value and the overprice or underprice that is compensated through future lease payments will be amortised over the term of the lease.

Financial instruments
The Group's financial instruments are classified by the following categories according to the type of instrument and purpose of the asset or liability.
- Financial assets and liabilities at fair value through profit or loss
- Financial liabilities classified as a hedging instrument
- Loans and receivables
- Other financial liabilities

Financial assets and liabilities at fair value through profit or loss
Financial assets and liabilities at fair value through profit or loss are derivatives (except for derivatives classified as hedging instruments) and other financial instruments held for trading. Financial assets and liabilities are classified in this category if they have been acquired mainly to profit from short-term price fluctuations.

The Group has derivatives in the form of foreign currency and forward commodity contracts. Exchange contracts are entered into to hedge future cash flows related to contracts entered into in foreign currencies and commodity futures contracts are entered into to hedge the price of recycled scrap steel to be sold. Most of the Group's hedging does not meet the conditions for hedge accounting and is therefore recognised at fair value through profit or loss.

Forward currency and commodity contracts that are not for the purpose of hedging will be recognised at the time of the contract and measured in subsequent periods at fair value based on observable market data. Changes in value are recognised through profit or loss. Transaction costs are recognised immediately.

Forward currency and commodity contracts that mature within 12 months are presented as short-term financial derivatives, and contracts that mature in more than 12 months are classified as long-term financial derivatives. Financial derivatives are presented as assets when the fair value is positive and as liabilities when the fair value is negative.

Financial liabilities classified as hedging instruments
When entering into new contracts it is considered whether the contract concerns hedging of fair value of an accounting item or hedging of a signed commitment (hedging of cash flows). For contracts that are defined as hedging and satisfy the requirements for the hedging of cash flows, changes are recognised at the fair value of the derivative through comprehensive income. The entries are reversed and recognised as a revenue or expense in the period the hedged liability or transaction is recognised in the income statement.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not traded in an active market. Loans and receivables that are included in the Group's ordinary operating cycle (including trade receivables), or are expected to be realised within 12 months of the balance sheet date are classified as current assets. Other loans and receivables are classified as non-current assets.

Loans and receivables are recognised initially on the balance sheet at fair value plus transaction costs. Loans and receivables are measured on a current basis at amortised cost using the effective interest rate method. Current receivables that mature in less than three months are not normally discounted.

Changes in the value of trade receivables related to estimated changes are recognised in the accounts as an adjustment of the operating revenue. Impairment in the value of trade receivables related to the ability to pay is recognised as bad debts.

Gains and losses are recognized by write-downs or derecognition of the instruments.

Loans and receivables are written down when there are objective indications that the Group will not receive settlement in accordance with the original terms. Objective indications of impairment are evaluated specifically for each customer and will typically consist of serious financial problems experienced by the other party and late or non-payment. The amount of the write-down is recognised in the income statement. If the cause of the write-down no longer applies in a subsequent period and this can be linked to an event that occurred after the impairment was recognised, the earlier write-down is reversed. The reversal must not result in the book value of the financial asset exceeding what amortised cost would have been if the impairment had not been recognised when the write-down is reversed.

Other financial liabilities
Other financial liabilities are measured on their initial recognition at fair value, less the transaction costs. Thereafter financial liabilities are recognised at amortised cost using the effective interest rate – method. Any issuing costs, discounts or premiums are taken into account in the calculation of amortised cost.

Financial liabilities that are expected to be settled in the Group's ordinary operating cycle or due for settlement within 12 months of the balance sheet date are classified as current liabilities. Other financial liabilities are classified as non-current liabilities.

Segment reporting
The operating segments are reported in the same manner as the internal reporting to the Company's highest decision-maker. The Group's highest decision-maker is defined as the Corporate Management Team. They are responsible for the allocation of resources to and the assessment of earnings in the operating segments.

Inventories
Inventories are recognised on the balance sheet at cost or net selling price, whichever is the lower. Inventories mainly consist of spare parts,

NOTE 38 SIGNIFICANT ACCOUNTING POLICIES CONT.

equipment, and materials for use in production. Cost is recognised using the FIFO method and includes expenses incurred in acquiring the goods and the cost of bringing them to their present state and location.

Projects for own account

Inventories of projects for own account are classified as current assets on the balance sheet. Projects for own account include inventories of sites for development.

Cash and cash equivalents

Cash and cash equivalents include bank deposits and short-term fixed income securities. The short-term fixed income securities consist primarily of investments in funds. Bank overdrafts are included in loans under current liabilities on the balance sheet.

Shareholders' equity

Treasury shares

When treasury shares are bought back, the purchase price, including directly attributable costs, are recognised as a deduction from equity. Treasury shares are presented as a reduction in equity.

Translation differences

Translation differences arise in connection with exchange differences in the consolidation of foreign units. Foreign units with a functional currency other than NOK are consolidated step by step. Hence translation differences are identified at different levels according to the Group structure, and are reclassified to the income statement in the event of the disposal of a foreign unit where the direct mother company has a different functional currency.

Dividend

Dividends are recognised as a liability when they are adopted by the General Meeting. This means that proposed dividends that are not yet adopted are included in equity.

Employee benefits

Defined-benefit plans

The Group has defined-benefit plans in the Norwegian companies for employees born in or before 1951 who joined the Group prior to 1 January 2003. The pension plans are funded through accumulated reserves in insurance companies. The net liability is calculated on the basis of the present value of future retirement benefits that the employees have earned on the balance sheet date less the fair value of plan assets. The plan's benefit formula is used as allocation method. Actuarial gains and losses are recognised under other comprehensive income during the period in which they arise.

AF has a defined-benefit multi-company scheme for the early retirement (AFP) scheme, which is financed by premiums set at 1% of the employee's salary. At present there is no reliable measurement or allocation of the liabilities and funds in the scheme. In the accounts this scheme is therefore treated as a defined contribution pension scheme in which the premium payments are recognised as costs on an ongoing basis, and no provisions are set aside in the accounts. The premium is fixed at 2.4% of the total payments between 1 and 7.1 times the National Insurance basic amount (G) to the company's employees. There is no accumulation of funds in the scheme, and it is expected that the premium level will increase in the coming years.

Employees in the Swedish subsidiaries are members of two defined-benefit multi-company schemes. Due to the structure of the plans, there is no basis for calculating plan surpluses or deficits or the impact on future premiums. The schemes have therefore been recognised as defined-contribution plans.

The net retirement benefit expense for the period is included under payroll costs.

Defined-contribution pension plans

The Group has a defined-contribution pension plan for all the employees in Norway that are not encompasses by the defined-benefit plan. The pension premium is recognised as an expense when it incurs, and the Group has no obligations over and above this.

Share-based compensation

AF Gruppen offers employees discounted shares with a lock-in period of one year, either from the sale of treasury shares or by a private offering. The sale of shares is recognised in accordance with the requirements for share-based remuneration.

Discounts on the sale of treasury shares to employees are recognised as expenses at fair value on the allotment date. The value of the discounts is calculated using an option pricing model that takes the vesting period into account.

AF Gruppen also offers share options to employees: through a three-year option programme. Options are measured at fair value at the time of allotment. The calculated value is recognised under payroll costs and set off under other contributed equity. The expense is distributed over the period until the employee acquires an unconditional right to redeem the options. The estimated number of options that can be redeemed is reassessed on every balance sheet date. Any changes reduce the future cost by a corresponding adjustment of the equity.

Social security costs on options are recognised in the income statement using a best estimate for the liability.

Each option gives entitlement to purchase one share at a predetermined price. The Company does not have an agreed right to settle the value of the options issued in cash.

Provisions

A provision is recognised when the Group has an obligation (legal or self-imposed) as a consequence of an earlier event and it is probable (more probable than not) that an economic settlement will be made as a consequence of this obligation that can be measured reliably. If the impact is significant, the provisions are calculated by discounting the estimated future cash flows by a discount rate before tax that reflects the market's pricing of the current value of money and, where relevant, risks specifically linked to the liability.

Restructuring provisions are included when the Group has approved a detailed and formal restructuring plan, and the restructuring has either started or been announced.

Provisions for guarantees are recognised when the underlying projects and services are sold. Provisions are based on historical information on guarantees and a weighting of possible outcomes against the probability of their occurrence.

Provisions for loss-making contracts are recognised when the Group's expected revenue from a contract is less than the unavoidable costs incurred in order to fulfil the obligations under the contract.

In connection with the completion of business combinations, sales options may be agreed on for all or parts of the sellers' remaining interests in the acquired company. The sales price of the shares at the time of the redemption of the shares is in such cases dependent on the acquired company's future performance. The estimated fair value of the sales options issued will be discounted and recognised on the balance sheet as a liability at the time of the business combination with a cross entry in

NOTE 38 SIGNIFICANT ACCOUNTING POLICIES CONT.

the equity of the majority interests. Subsequent changes in the fair value of the liability are recognised through profit or loss. Changes in the liability as a consequence of the options not being redeemed is recognised directly through equity.

Borrowing expenses
Loan expenses are recognised on the balance sheet to the extent that they are directly attributable to manufacture of an asset that it takes a substantial amount of time to prepare for use or sale. AF Gruppen recognises loan expenses that accrue during the production of projects for own account (residential housing) and plant and equipment for own use on the balance sheet. Recognition on the balance sheet ceases upon completion of the assets.

Kontantstrøm
The cash flow statement has been prepared in accordance with the indirect method and shows cash flows from operating, investing and financing activities, respectively, and it explains the change in cash and cash equivalents for the period.

Contingent liabilities and assets
Contingent liabilities are not recognised in the financial statements. Significant contingent liabilities are disclosed with the exception of contingent liabilities with a low probability.

Contingent assets are not recognised in the annual financial statements, but disclosed if it is probable that the benefit will pass to the Group.

Events after the balance sheet date
New information concerning the Group's financial position on the balance sheet date that is received after the balance sheet date is considered in the financial statements. Events after the balance sheet date that do not affect the Group's financial position on the balance sheet date, but will affect its financial position in the future, are disclosed if they are significant.

ANNUAL ACCOUNTS

INCOME STATEMENT

Amounts in NOK million	Note	2017	2016
Dividend received and group contributions	7	481	669
Other income		-	-
Total operating and other revenue		**481**	**670**
Total operating expenses	3	-15	-16
Earnings before interest and tax (EBIT)		**465**	**654**
Net financial items	4	6	4
EBT		**472**	**658**
Income tax expense	5	2	-
Profit for the year		**474**	**658**

TOTAL COMPREHENSIVE INCOME

Amounts in NOK million	2017	2016
Profit for the year	474	658
Other comprehensive income for the year	-	-
Total comprehensive income for the year	**474**	**658**

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER

Amounts in NOK million	Note	2017	2016
ASSETS			
NON-CURRENT ASSETS			
Deferred tax assets	5	2	-
Investments in subsidiaries	6	1 231	581
Total non-current assets		**1 233**	**581**
CURRENT ASSETS			
Other non-interest-bearing receivables from group companies	7	555	767
Other non-interest-bearing receivables		-	-
Total current assets		**555**	**767**
Total assets		**1 788**	**1 348**
EQUITY AND LIABILITIES			
SHAREHOLDERS' EQUITY			
Share capital	8,9	5	5
Treasury shares	9	-	
Premium	9	4	-
Other paid-in equity	9	48	48
Total paid-in capital		**57**	**53**
Other equity	9	299	300
Total retained earnings		**299**	**300**
Total equity		**356**	**353**
CURRENT LIABILITIES			
Interest-bearing debt to group companies	7	862	402
Trade payables and other non-interest-bearing debt		5	9
Taxes and public charges payable		68	96
Other debt to group companies	7	7	2
Proposed dividend	9	490	487
Total current liabilities		**1 432**	**996**
Total equity and liabilities		**1 788**	**1 348**

OSLO, 22 MARCH 2018

Pål Egil Rønn
Board Chairman

Hege Bømark

Borghild Lunde

Kristian Holth

Daniel Kjørberg Siraj
Deputy Chairman

Morten Grongstad
CEO

Kenneth Svendsen

Arne Sveen

Pål Jacob Gjerp

CASH FLOW STATEMENT

Amounts in NOK million	2017	2016
CASH FLOW FROM OPERATING ACTIVITIES		
Profit before tax	472	658
Dividends and group contributions recognised	-481	-669
Change in trade receivables and payables	-3	-
Change in balances with group companies	488	154
Change in accruals	-28	11
Net cash flow from operating activities	**448**	**154**
CASH FLOW FROM INVESTMENT ACTIVITIES		
Contributions from capital reductions in subsidiaries	-650	-
Net cash flow from investment activities	**-650**	**-**
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from capital increases	371	120
Proceeds from the sale of treasury shares	45	24
Dividends received and group contributions	669	478
Purchase of treasury shares	-55	-32
Payment of dividends	-829	-744
Net cash flow from financing activities	**202**	**-154**
Net change in cash and cash equivalents during the year	-	-
Cash and cash equivalents as at 1 January	-	-
Cash and cash equivalents as at 31 December	**-**	**-**

NOTE 1 ACCOUNTING POLICIES

GENERAL

AF Gruppen ASA is a public limited company registered in Norway. The company's head office is located at Innspurten 15, 0603 Oslo, Norway.

AF Gruppen ASA is a holding company without any activities other than investing in other companies.

The financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU and the simplified IFRS provisions for company accounts laid down in Section 3–9, fifth paragraph of special regulations pursuant to the Norwegian Accounting Act. (Regulations relating to the application of international accounting standards, Chapter 4, laid down by the Ministry of Finance on 21 January 2008).

The consolidated accounts have been prepared in accordance with the International Financial Reporting Standards (IFRS).

For information on related parties, sale / acquisition of business areas, earnings per share and events after the balance sheet date, reference is made to the relevant notes in the consolidated financial statements.

The financial statements for the Parent Company, AF Gruppen ASA, were approved for publication by the Board of Directors on 22 March 2018.

The accounting policies described for the Group are consistent with those used for the Parent Company financial statements. Reference is made to Note 38 in the consolidated financial statements for a detailed description of the accounting policies applied.

Accounting policies that are only relevant to the Parent Company or deviate from the consolidated financial statements are as follows:

SHARES IN SUBSIDIARIES
Subsidiaries are valued in accordance with the cost method in the company's accounts. Investments are valued at historical cost unless a write-down of the shares has been necessary. They are written down to fair value in the event of an impairment in value that is attributed to causes that cannot be expected to be of a temporary nature and must be regarded as necessary in accordance with the generally accepted accounting policies. Write-downs are reversed when the basis for the write-downs no longer exists.

DIVIDENDS AND GROUP CONTRIBUTIONS
Entities that are required to keep accounts and prepare company accounts in accordance with the regulations pursuant to Section 3.9 of the Norwegian Accounting Act may, regardless of other provisions in these regulations, recognise dividends and group contributions in accordance with the provisions of the Norwegian Accounting Act. AF Gruppen ASA has chosen to make use of this exception. This means that dividends and group contributions received and paid by the parent company will be recognised the year prior to when the receipt or payment is adopted. The same applies to any tax effect of such transactions.

NOTE 2 REMUNERATION OF THE CEO AND BOARD OF DIRECTORS

Amounts in NOK 1.000	2017	2016
REMUNERATION OF THE CEO		
Fixed pay	3 849	3 498
Bonus	5 726	3 717
Retirement benefits	65	53
Share-based remuneration [1)]	2 822	-
Other benefits	38	101
Total	**12 501**	**7 369**
Directors' fees	2 347	2 351

[1)] Share-based remuneration consists mainly of reported amounts connected to the exercise of the three-year option probram that ended in 2017.

AF Gruppen ASA has no employees and is not required, therefore, to have a pension scheme. The CEO is employed formally by the subsidiary AF Gruppen Norge AS.

Complete information on the pay and remuneration of the CEO, Board of Directors and senior executives is provided in the consolidated financial statements, and reference is made to Note 7 and Note 32 in the consolidated financial statements for further information.

NOTE 3 OTHER OPERATING EXPENSES

Amounts in NOK million	2017	2016
Audit fees	-	-
Ownership costs	-10	-13
Other operating expenses	-5	-2
Total other operating expenses	**-15**	**-16**

Amounts in NOK 1.000	2017	2016
Remuneration to the auditor		
Statutory audit fees	-420	-200
Other assurance engagements	-	-45
Other services beyond auditing	-66	-14
Total audit fees	**-486**	**-259**

Remuneration of the auditor is exclusive of value-added tax.

NOTE 4 NET FINANCIAL ITEMS

Amounts in NOK million	2017	2016
FINANCIAL INCOME		
Interest income from companies in the same group	6	7
Total financial income	**6**	**7**
FINANCIAL EXPENSES		
Interest charges from companies in the same group	-	-3
Total financial expenses	**-**	**-3**
Net financial items	**6**	**4**

NOTE 5 INCOME TAX EXPENSE

Amounts in NOK million	2017	2016
THE TAX EXPENSE FOR THE YEAR CAN BE BROKEN DOWN AS FOLLOWS:		
Current tax payable	-	-
Change in deferred tax	2	-
Income tax expense	**2**	**-**
CALCULATION OF THE TAX BASE FOR THE YEAR		
Profit before tax	472	658
Non-taxable income	-	-
Dividends received and group contributions	-481	-658
Tax base for the year	**-9**	**-**

NOTE 6 INVESTMENTS IN SUBSIDIARIES

Name of company	Date acquired	Business address	Ownership interest	Voting share
AF Gruppen Norge AS	05/09/85	Oslo	100%	100%
AF Gruppen Holding AS	25/09/17	Oslo	100%	100%
AF Offshore AS	02/04/09	Oslo	100%	100%
AF Miljø AS	15/01/09	Oslo	100%	100%
AF Energi AS	25/08/11	Oslo	100%	100%

NOTE 7 INTERCOMPANY BALANCES AND TRANSACTIONS WITH GROUP COMPANIES

Amounts in NOK 1.000	2017	2016
RECEIVABLES FROM GROUP COMPANIES		
Group contributions and dividends received, non-interest-bearing receivables	481	669
Joint VAT registration, non-interest-bearing receivables	75	98
Total receivables from group companies	555	767

Amounts in NOK 1.000	2017	2016
DEBT TO GROUP COMPANIES		
Corporate cash pooling system debt, interest-bearing liabilities	862	402
Joint VAT registration, non-interest-bearing receivables	7	2
Total debt to group companies	869	404

NOTE 8 SHARE CAPITAL AND SHAREHOLDER INFORMATION

The share capital consists of	Number	Nominal value	Carrying amount
A shares	97 961 000	0.05	4 898 050

Ownership structure	Number	Voting share/ stake %
SHAREHOLDERS WITH A STAKE > 1%		
OBOS BBL	18 066 733	18.44%
ØMF Holding AS	14 752 859	15.06%
Constructio AS	13 741 782	14.03%
National Insurance Scheme Fund	6 924 956	7.07%
ARTEL II AS	2 508 267	2.56%
LJM AS	2 413 900	2.46%
VITO Kongsvinger AS	1 861 676	1.90%
Arne Skogheim AS	1 753 870	1.79%
Länsförsäkringar Fastighetsfond	1 695 454	1.73%
Staavi, Bjørn	1 560 000	1.59%
Total for shareholders with a stake > 1%	**65 279 497**	**66.64%**
Total other shareholders	32 681 503	33.36%
Total number of shares	**97 961 000**	**100.0%**

The company has only one class of shares with equal voting rights for all shares.

Shares owned by the Board of Directors as at 31 December 2017			No. of shares	Number of options
BOARD OF DIRECTORS				
Pål Egil Rønn	Elected by shareholders	(Board Chairman)	207 225	-
Daniel Kjørberg Siraj [1)]	Elected by shareholders	(Deputy Chairman)	-	-
Hege Bømark	Elected by shareholders		-	-
Kristian Holth [2)]	Elected by shareholders		-	-
Borghild Lunde [3)]	Elected by shareholders		-	-
Arne Sveen	Elected by employees		-	-
Pål Jacob Gjerp	Elected by employees		51 043	3 722
Kenneth Svendsen	Elected by employees		88 370	10 339
Total			**346 638**	**14 061**

[1)] *Represents OBOS BBL, which owns 18.066.733 shares.*

[2)] *Represents Constructio AS and Flygind AS, which own 13.741.782 and 1.021.509 shares, respectively.*

[3)] *Close associate of Toniti AS, which owns 10.000 shares.*

NOTE 8 SHARE CAPITAL AND SHAREHOLDER INFORMATION CONT.

Corporate Management Team		No. of shares	Number of options
Morten Grongstad	CEO	205 923	35 922
Sverre Alf Hærem	Executive Vice President / CFO	120 662	24 918
Arild Moe	Executive Vice President	251 261	24 152
Bård Frydenlund	Executive Vice President	124 864	21 970
Amund Tøftum	Executive Vice President	66 344	21 970
Andreas Jul Røsjø	Executive Vice President	54 947	21 970
Eirik Wraal	Executive Vice President	20 003	21 970
Henning Olsen	Executive Vice President	27 805	21 970
Total		**871 809**	**194 842**

The Board has the authority to acquire up to 10 per cent of the share capital. This authority is valid until the Annual General Meeting, which is scheduled for 9 May 2018.

A new option programme for all employees of AF Gruppen was adopted at the General Meeting held on 12 May 2017, which entails entitlement to subscribing for a total of 3,500,000 options during the years 2017, 2018 and 2019, with redemption in 2020. As at 31 December 2017, a total of 3,264,143 options have been allotted in this programme.

NOTE 9 EQUITY

Amounts in NOK million	Share capital capital	Treasury shares	Premium	Other paid-in equity	Other equity	Total
Equity as at 1 January 2015	5	-	2	47	297	351
Capital increase	-	-	120	-	-	120
Purchase of treasury shares	-	-	-	-	-32	-32
Sale of treasury shares	-	-	-	-	24	24
Loss on sale of treasury shares	-	-	-	1	-1	-
More distributed in dividends than allocated	-	-	-	-	658	658
Proposed dividend for 2015	-	-	-	-	-281	-281
Group contributions paid without tax	-	-	-122	-	-365	-487
Equity as at 31 December 2016	**5**	**-**	**-**	**48**	**300**	**353**
Capital increase	-	-	371	-	-	371
Purchase of treasury shares	-	-	-	-	-55	-55
Sale of treasury shares	-	-	-	-	45	45
Total comprehensive income for the year	-	-	-	-	474	474
More distributed in dividends than allocated	-	-	-	-	-343	-343
Proposed dividend for 2016	-	-	-	-	1	1
Reclassification	-	-	-367	-	-122	-490
Equity as at 31 December 2017	**5**	**-**	**4**	**48**	**299**	**356**

As at 31 December 2017, the Company had 145,101 (58,222) treasury shares with a nominal value of NOK 0.05. Treasury shares have been acquired with a view to sales to employees and as partial payment for business acquisitions.

NOTE 10 GUARANTEES AND PLEDGED ASSETS

In connection with construction contracts entered into, the subsidiaries are subject to the usual contracting obligations and the associated guarantees. In this connection, AF Gruppen ASA has furnished guarantees to subsidiaries in the form of absolute guarantees to financial institutions. AF Gruppen ASA has further guaranteed for bank credit lines and tax deductions for subsidiaries in the form absolute guarantees.

	2017		2016	
Amounts in NOK million	Limit	Drawn	Limit	Drawn
Guarantees issued to clients	4 900	3 548	4 150	3 208
Tax withholding guarantees	183	130	185	134
Leasing limits	956	796	1 073	605
Bank credit and loan facilities	2 424	-	2 424	-
Total	**8 463**	**4 474**	**7 832**	**3 946**

RESPONSIBILITY STATEMENT FROM MEMBERS OF THE BOARD AND CEO

With regard to the annual accounts for 2017 for AF Gruppen ASA, we confirm to the best of our knowledge that:

- The consolidated financial statements have been prepared in accordance with IFRS, as adopted by the EU, and the additional disclosure requirements that follow from the Norwegian Accounting Act.
- The financial statements for the Parent Company, AF Gruppen ASA, have been presented in accordance with IFRS and the simplified IFRS provisions for company accounts laid down in section 3.9, fifth paragraph of the regulations pursuant to the Norwegian Accounting Act.
- The amounts and disclosures in the accounts provide a true and fair view of the Company's and the Group's assets, liabilities, financial standing and results as a whole.
- The amounts and disclosures in the annual report provide a true and fail view of performance, earnings and the position of the Company and Group, along with a description of the most important risk and uncertainty factors AF Gruppen faces.

OSLO, 22 MARCH 2018

Pål Egil Rønn
Board Chairman

Hege Bømark

Borghild Lunde

Kristian Holth

Daniel Kjørberg Siraj
Deputy Chairman

Morten Grongstad
CEO

Kenneth Svendsen

Arne Sveen

Pål Jacob Gjerp

AUDITOR'S REPORT

To the General Meeting of AF Gruppen ASA

Independent Auditor's Report

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of AF Gruppen ASA. The financial statements comprise:

- The financial statements of the parent company, which comprise the balance sheet as at 31 December 2017, and income statement, statement of comprehensive income, cash flow for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and
- The financial statements of the group, which comprise the balance sheet as at 31 December 2017, and income statement, statement of comprehensive income, statement of changes in equity, cash flow for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion:

- The financial statements are prepared in accordance with the law and regulations.
- The accompanying financial statements present fairly, in all material respects, the financial position of the parent company as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with simplified application of international accounting standards according to § 3-9 of the Norwegian Accounting Act.
- The accompanying financial statements present fairly, in all material respects, the financial position of the group as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Basis for Opinion

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

Key Audit Matters

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

Key Audit Matter	How our audit addressed the Key Audit Matter
Recognition of income from construction contracts	
Revenue from construction contracts amounts MNOK 13.475 in 2017 (note 5).	We revised a sample of construction contracts and compared the accounting to the company's accounting

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Independent Auditor's Report - AF Gruppen ASA

For calculation of income from construction contracts, the percentage of completion method based on expected contract costs and stage of contract completion, is used. The assessment of total estimated contract costs, including impact of any disputes and guarantee work, and revenue and the stage of contract completion is updated on a regular basis.

Accounting for contract revenue is a key audit matter due to several causes. The company has a large amount of construction contracts, the construction projects can be long lasting and the calculation of level of completion can be complex and characterized by judgement. Further, managements' use of judgement in these calculations affect many entries in the financial statements, such as revenue, costs, accounts receivables, accounts payable, provisions and deferred tax.

principles. We compared the company's accounting principles for accounting of revenue to IAS 11. We found the accounting of contracts to be in accordance with contract terms, and that the applied accounting principles, was in accordance with relevant requirements in IAS 11.

To ensure a qualitative and consistent processing of risk and estimates in the projects, the Group has established a risk framework. Controls have been established to ensure compliance with the framework. The controls are primarily directed at ensuring appropriate assessments of total expected costs, that the estimate take into consideration the impact of any disputes and guarantee work, controls directed at invoicing of sales, and calculation of stage of contract completion. The controls are established in several levels of the organisation, and includes periodical reviews of the project portfolio in meetings. We participated in a sample of these reviews. We revised relevant documentation that support the discussions im the meeting and other controls that were executed, and that they worked efficiently.

Furthermore, we tested the control directed at ensuring that only hours and costs that pertain a project were actually allocated to the project. Our testing of this control did not reveal significant deviations.

Determination of final forecast and stage of contract completion involves use of judgement by the project manager and management. To challenge their use of assumptions in these estimates, we have amongst other:

- interviewed and challenged project managers and the management about the assumptions in the estimates
- inquired about accrued costs and hours and compared them to budgeted costs and hours
- reviewed a sample of finalised projects and compared actual results to forecasts from previous periods
- assessed the progress to actual invoicing

We tested the reconciliation of the project system to the general ledger and that accounting for work in progress and cost of materials were based on calculated contract completion.

We tested contract revenue by reviewing a sample of contracts.

Our substantive procedures revealed no material

Independent Auditor's Report - AF Gruppen ASA

	deviations. We checked that disclosures in the key notes are in accordance with the project information, and appropriately satisfied IFRS requirements.
Impairment of Goodwill	
Goodwill regarding the cash generating unit AeronMollier was MNOK 176 as of 31 December 2017. Challenging market conditions has led to lower results than expected. The impairment assessment of goodwill is a key audit matter because of the amounts involved and the significance of estimates. The valuation of goodwill is described in note 13 to the financial statement.	We reviewed the company's impairment assessment of goodwill. The impairment assessment comprises a judgement of cash generating unit (CGU) and key assumptions made by management. We assessed the model to be a valuation model based on discounted cash flows containing the elements IFRS requires, and whether the model made mathematical calculations correctly. We challenged management's use of assumptions regarding forecasts of future profits, operating expenses and reinvestments, by comparing these to the company's historical results and approved budgets by the Board of Directors. We found that the assumptions were connected to historical results and in line with the budgets. We compared the discount rate to empirical data and expectations of future interest rates, relevant risk mark-up and debt ratio. We found the used discount rate to be reasonable.

Other information

Management is responsible for the other information. The other information comprises all other information in the annual report, but does not include the financial statements and our auditor's report thereon.

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

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

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

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

The Board of Directors and the Managing Director (management) are responsible for the preparation in accordance with law and regulations, including fair presentation of the financial statements of the parent company in accordance with simplified application of international accounting standards according to the Norwegian Accounting Act section 3-9, and for the preparation and fair presentation of the financial statements of the group in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Independent Auditor's Report - AF Gruppen ASA

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report

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

Opinion on Registration and Documentation

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

Oslo, 22 March 2018

PricewaterhouseCoopers AS

Rita Granlund

State Authorised Public Accountant

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

ALTERNATIVE PERFORMANCE TARGETS

AF Gruppen presents alternative performance targets as a supplement to performance targets that are regulated by IFRS. The alternative performance targets are presented to provide better insight into and understanding of the operations, financial standing and foundation for development going forward. AF Gruppen uses alternative performance targets that are commonly used in the industry and among analysts and investors.

RETURN ON CAPITAL EMPLOYED (ROACE):
This performance target provides useful information to both AF's management and Board of Directors, as well as to investors concerning the results that have been achieved during the period under analysis. AF uses the performance target to measure the return on capital employed, regardless of whether the financing is through equity capital or debt. Use of the performance target should not be considered an alternative to performance targets calculated in accordance with IFRS, but as a supplement.

The alternative performance targets are defined as follows:
EBITDA – Earnings before i) taxes, ii) net financial items, iii) depreciation and amortisation.
Operating profit (EBIT) – Earnings before i) taxes, ii) net financial items.
EBITDA margin – EBITDA divided by operating revenue and other revenues.
Operating margin – Operating profit (EBIT) divided by operating revenue and other revenues.
Profit margin – Earnings before tax divided by operating revenue and other revenues.
Gross interest-bearing liabilities – Sum total of long-term interest-bearing loans and credits and short-term interest-bearing loans and credits.
Net interest-bearing liabilities (receivables) – Gross interest-bearing liabilities less i) long-term interest-bearing receivables, ii) short-term interest-bearing receivables and iii) cash and cash equivalents.
Capital employed – Sum total of shareholders' equity and gross interest-bearing liabilities.
Average capital employed – Average capital employed in the last four quarters.
Return on capital employed (ROaCE) – Earnings before taxes and interest divided by the average capital employed.
Economic Value Added (EVA) – Return on capital employed, less cost of capital before taxes, multiplied by i) one minus the tax rate, ii) average capital employed.
Equity ratio – Shareholders' equity divided by total equity and liabilities.
Average shareholders' equity – Average shareholders' equity in the last four quarters.
Return on equity – Earnings divided by average shareholders' equity.
Order intake – Estimated value of contracts, contract changes and orders that have been agreed upon during the reporting period.
Order backlog – Remaining estimated value of contracts, contract changes and orders that have been agreed upon, but have not been earned by the reporting date.

The table below shows the reconciliation of alternative performance targets with line items in the reported financial figures in accordance with IFRS.

Amounts in NOK million	2017	2016
GROSS INTEREST-BEARING LIABILITIES / NET INTEREST-BEARING LIABILITIES		
Interest-bearing loans and credit facilities – long-term	83	83
Interest-bearing loans and credit facilities – short-term	30	22
Gross interest-bearing liabilities	**113**	**105**
Less:		
Interest-bearing receivables – long-term	216	206
Interest-bearing receivables – short-term	16	44
Cash and cash equivalents	1 098	469
Net interest-bearing liabilities (receivables)	**-1 210**	**-606**
INVESTED CAPITAL		
Shareholders' equity	2 078	1 950
Gross interest-bearing liabilities	120	113
Invested capital	**2 198**	**2 063**
AVERAGE INVESTED CAPITAL		
Capital employed as at 1st quarter	2 396	2 040
Capital employed as at 2nd quarter	2 154	1 753
Capital employed as at 3rd quarter	2 173	1 960
Capital employed as at 4th quarter	2 198	2 063
Average invested capital	**2 230**	**1 954**

Amounts in NOK million	2017	2016
RETURN ON INVESTED CAPITAL		
Profit/(loss) before tax	935	1 040
Interest expenses	17	19
Earnings before tax and interest expenses	**952**	**1 059**
Divided by:		
Average invested capital	2 230	1 954
Return on invested capital	**42.7%**	**54.2%**
ECONOMIC VALUE ADDED (EVA)		
Return on invested capital	42.7%	54.2%
Less:		
Cost of capital before taxes	12.0%	12.0%
Extra return before taxes	**30.7%**	**42.2%**
Multiplied by:		
One minus the tax rate	80.6%	75.7%
Extra return after taxes	**24.7%**	**31.9%**
Multiplied by:		
Average invested capital	2 230	1 954
Economic Value Added (EVA)	**552**	**624**
EQUITY RATIO		
Shareholders' equity	2 078	1 950
Divided by:		
Total equity and liabilities	7 724	6 549
Equity ratio	**26.9%**	**29.8%**
AVERAGE SHAREHOLDERS' EQUITY		
Shareholders' equity as at 1st quarter	2 275	1 910
Shareholders' equity as at 2nd quarter	2 034	1 594
Shareholders' equity as at 3rd quarter	2 046	1 824
Shareholders' equity as at 4th quarter	2 078	1 950
Average shareholders' equity	**2 108**	**1 819**
RETURN ON EQUITY		
Income statement	754	787
Divided by:		
Average shareholders' equity	2 108	1 819
Return on equity	**35.8%**	**43.3%**

DEFINITIONS

FINANCIAL RATIOS

Earnings per share
Earnings after tax / average number of shares outstanding.

P/E
Share price / earnings per share.

P/B
Share price / book value per share.

EV / EBIT
Enterprise value / earnings before interest and tax.

OTHER DEFINITIONS

BRA
Abbreviation for available area. Available area is the gross area minus the area occupied by external walls. Indicated in m^2 or sqm.

BREEAM
BRE Environmental Assessment Method. Developed in the UK by BRE (Building Research Establishment). Europe's leading environmental classification tool.

Own account
When AF buys land, develops projects and then sells units for its own account.

EPC
Energy performance contract.

EPCIC
Engineering, Procurement, Construction, Installation & Commissioning.

LTI-1 rate
Number of lost time injuries per million man-hours. AF Gruppen includes all subcontractors when calculating the LTI-1 value.

LTI-2 rate
Number of lost time injuries + number of injuries requiring medical treatment + number of injuries in alternative work per million man-hours. AF Gruppen includes all subcontractors when calculating the LTI-2 value.

HVAC
Heating, Ventilation, Air conditioning and Cooling systems.

Source separation rate
Separate rate for demolition waste that can be recycled.

Carbon footprint
Emissions of greenhouse gases in tons of CO_2 equivalents (CO_2e) per NOK million in turnover.

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