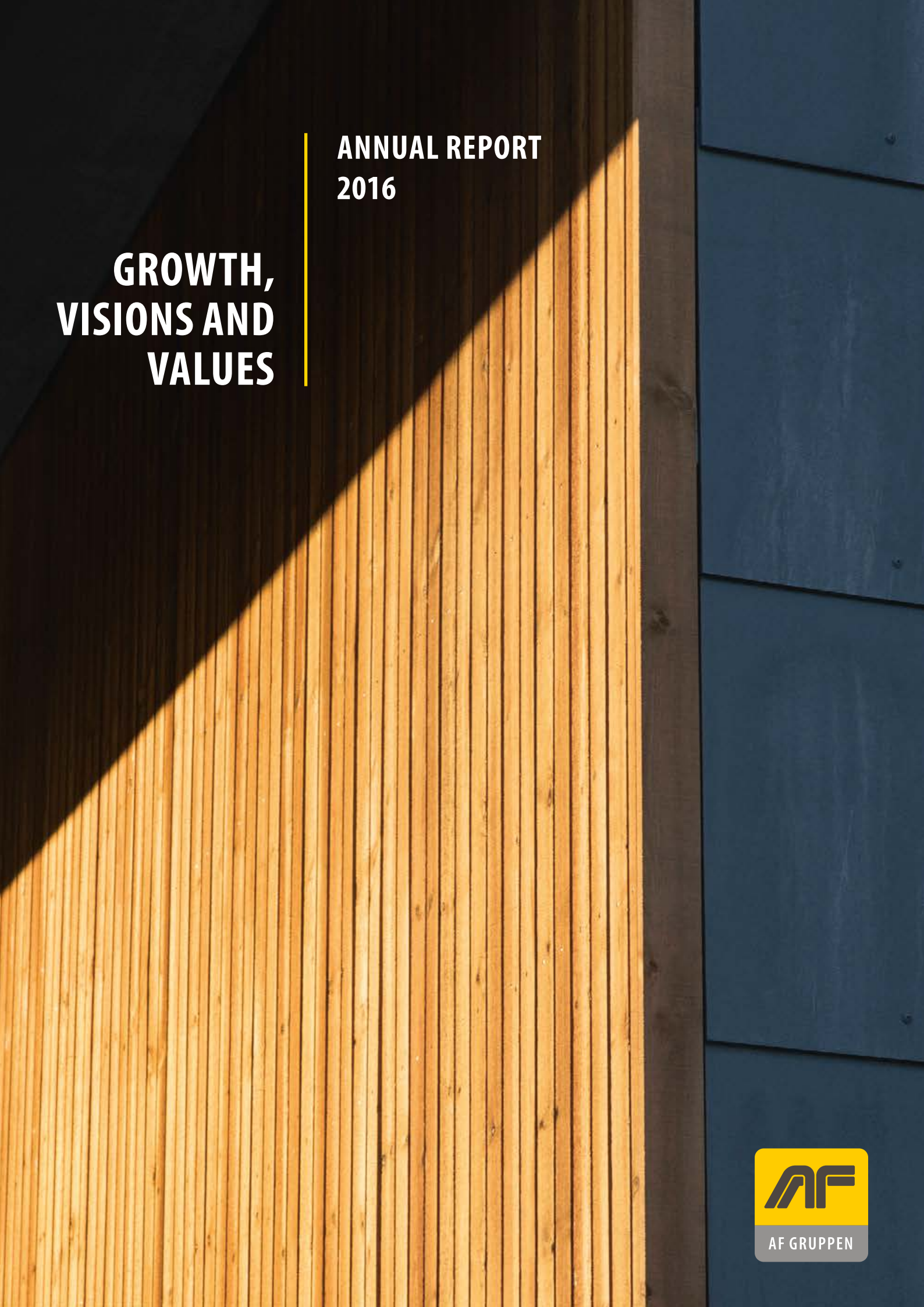


ANNUAL REPORT 2016

GROWTH, VISIONS AND VALUES

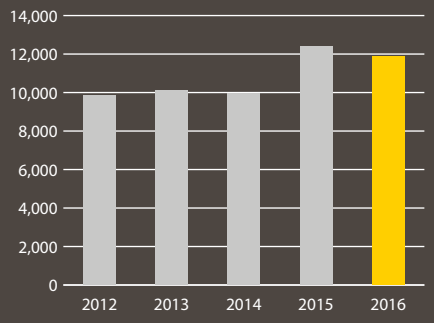
AF GRUPPEN

CONTENT

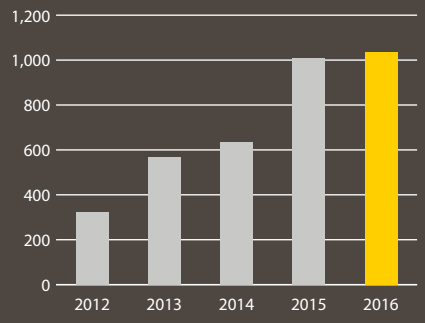
THIS IS AF GRUPPEN

AF Gruppen is a leading contracting and industrial group. The purpose of our business is to create value for our customers, owners, employees and society at large. We are proud of our good financial results, but every bit as important are the non-financial values that we create every day. Examples of this include a safe working environment for our employees, new services that help solve society's environmental challenges and ethical business operations that create security for our customers. This in turn provides us the opportunity to create additional value for our owners.

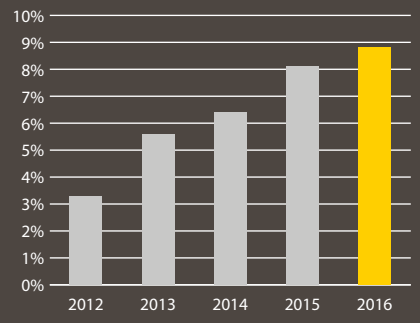
OPERATING AND OTHER REVENUE (NOK MILLION)



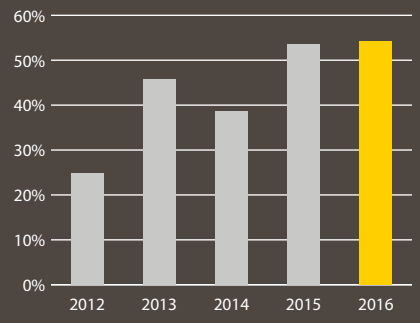
EARNINGS BEFORE INTEREST AND TAXES (NOK MILLION)



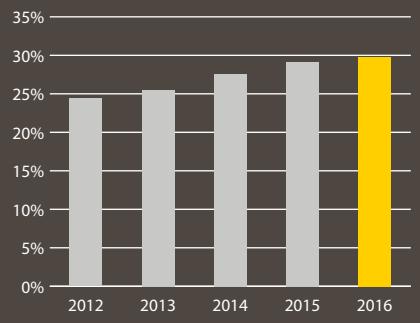
EBIT



RETURN ON AVERAGE CAPITAL EMPLOYED (ROACE)

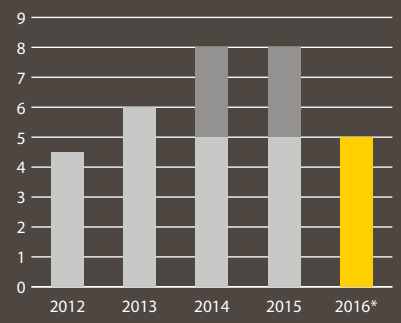


EQUITY RATIO

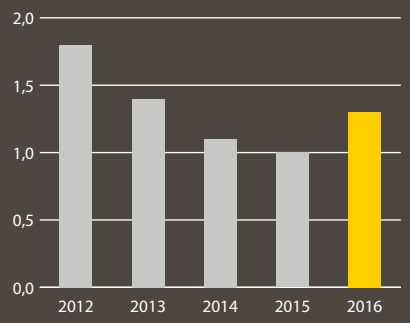


DIVIDEND PER SHARE (NOK)

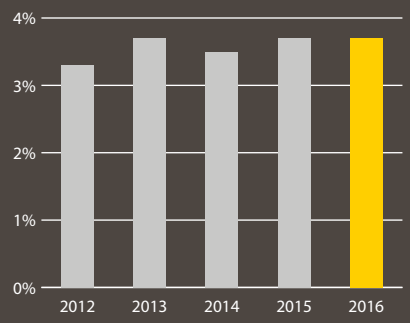
* Proposed dividend for payment 1st half of 2017



LTI-1 RATE



ABSENCE DUE TO ILLNESS



KEY FIGURES

YEAR	2016	2015	2014	2013	2012
REVENUES (NOK MILLION)					
Operating and other revenue	**11 876**	12 398	9 935	10 127	9 830
Order backlog	**15 332**	11 183	9 429	10 976	9 074
EARNINGS (NOK MILLION)					
Earnings before interest, tax, depreciation and amortisation (EBITDA)	**1 212**	1 151	752	679	430
Earnings before interest and taxes (EBIT)	**1 034**	1 010	635	568	325
Earnings before taxes (EBT)	**1 040**	1 004	625	580	318
Earnings after tax	**787**	778	483	453	225
PROFITABILITY					
EBITDA margin	**10.2%**	9.3%	7.6%	6.7%	4.4%
Operating margin	**8.7%**	8.1%	6.4%	5.6%	3.3%
Profit margin	**8.8%**	8.1%	6.3%	5.7%	3.2%
Return on equity	**43.3%**	43.8%	34.3%	38.4%	19.0%
Return on average capital employed (ROaCE)	**54.2%**	53.6%	38.7%	45.7%	24.8%
Economic Value Added (NOK million)	**619**	590	320	312	123
Cash flow from operations (NOK million)	**822**	1 418	86	1 015	194
BALANCE SHEET (NOK MILLION)					
Total assets	**6 549**	6 243	5 428	5 237	4 919
Equity capital	**1 950**	1 820	1 499	1 334	1 202
Capital employed	**2 063**	1 925	1 814	1 414	1 343
Average capital employed	**1 954**	1 942	1 662	1 288	1 334
Equity ratio	**29.8%**	29.1%	27.6%	25.5%	24.4%
Gross interest-bearing debt	**113**	105	315	79	141
Net interest-bearing receivables (debt)	**606**	593	-95	751	204
THE SHARE					
Market value per share at 31/12 (NOK)	**154.50**	139.50	79.00	67.75	56.25
Number of shares	**93 610 000**	92 680 000	88 724 904	82 332 980	81 384 100
Market value (NOK million)	**14 463**	12 929	7 009	5 578	4 578
Earnings per share (NOK)	**7.44**	7.64	5.11	5.26	2.41
Diluted earnings per share (NOK)	**7.29**	7.50	5.09	5.11	2.38
Dividend per share (NOK)[1)]	**5.00**	8.00	8.00	6.00	4.50

[1)] The dividend for 2016 is the proposed, not adopted dividend for the 1st half of 2017

PERSONNEL					
Number of salaried employees	**1 322**	1 378	1 325	1 327	1 314
Number of skilled employees	**1 727**	1 652	1 472	1 381	1 356
Total number of employees	**3 049**	3 030	2 797	2 708	2 670
LTI-1 rate	**1.3**	1.0	1.1	1.4	1.8
Absence due to illness	**3.7%**	3.7%	3.5%	3.7%	3.3%
EXTERNAL ENVIRONMENT					
Carbon footprint	**3.1**	3.3	4.9	4.1	4.3
Source separation rate – building	**85%**	84%	82%	81%	79%
Source separation rate – renovation	**79%**	87%	82%	80%	89%
Source separation rate – demolition	**97%**	96%	96%	96%	98%
Total amount source separated in tonnes	**507 198**	319 225	479 135	408 365	511 110

For definitions of key figures see presentation of alternative performance measures (APMs) at p. 168 and definitions at p. 170.

OUTSIDE PERSPECTIVES

AF Gruppen's activities create value in many areas of society. Under "Business Areas" in this report, we have invited some customers, partners and end-users to put in words what AF's work means to them.

CIVIL ENGINEERING
Meet Anders Østy from Hafslund, p. 42

ENVIRONMENT
Meet Trond Skottvoll from Anleggsmaskiner AS, p. 46

BUILDING
Meed Ane Nordskar from Frogn municipality, p. 50

PROPERTY
Meet the Høydahl family at Krydderhagen, p. 54

ENERGY
Meet Didrik Koren from NTNU, p. 58

OFFSHORE
Meet Elin Anita Hansen from Statsbygg, p. 62

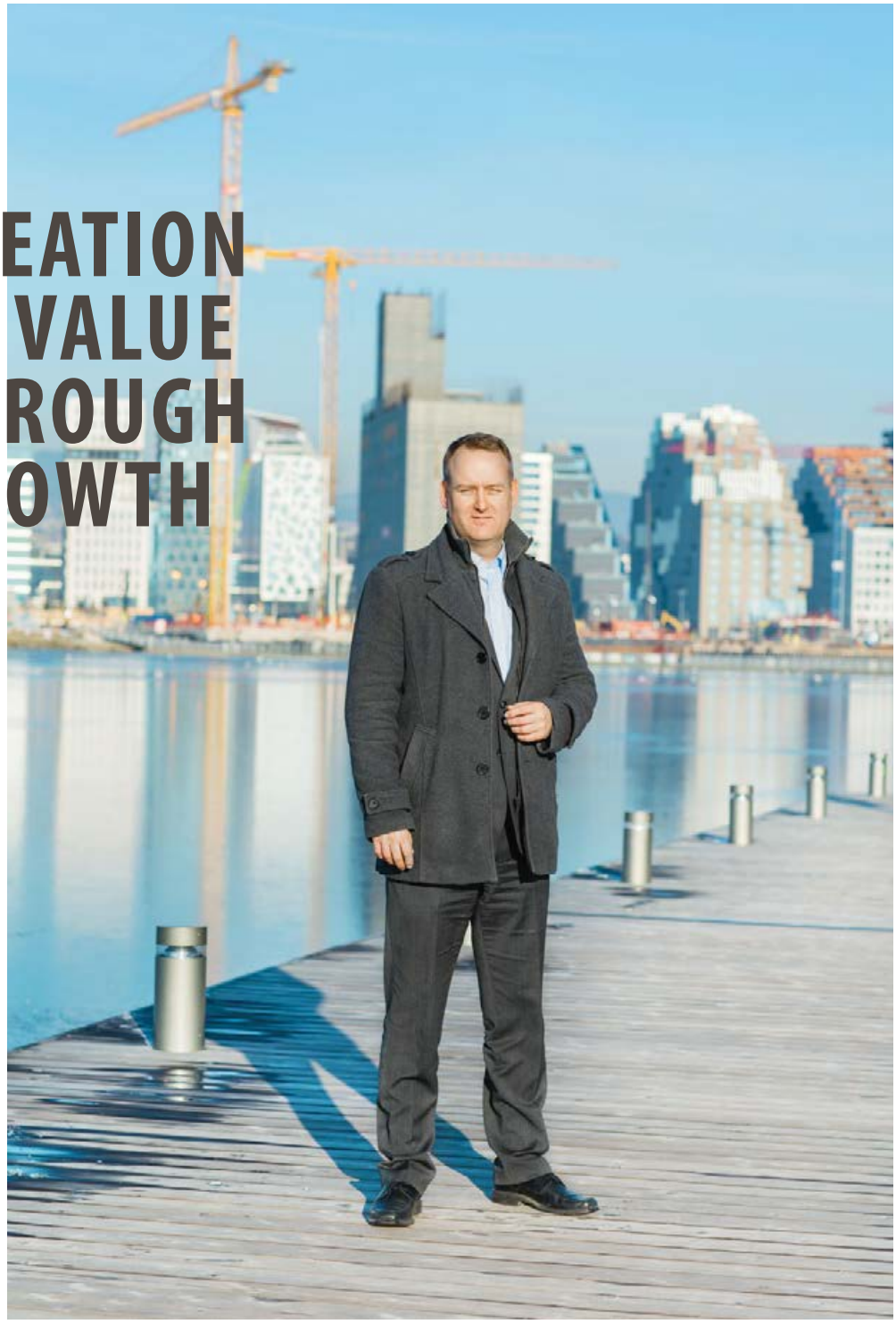
A VALUES-BASED COMPANY

The history of AF Gruppen is one of a values-based corporate culture. Our core values have their roots in the establishment of AF Gruppen in 1985. The core values are the very bedrock of our operations, and a governing factor in everything we do.

OUR VALUES ARE:

- 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

CREATION OF VALUE THROUGH GROWTH



– Curiosity, entreprenerurial spirit and our persistence and ability to fint new and better ways to create value will be even more important when we are solving the projects of tomorrow.

[**Morten Grongstad** *CEO*]

Giant contracts, a record-high order backlog and the best results ever for AF Gruppen have been a recurrent theme throughout 2016. New ambitious goals have been set for the future, and CEO Morten Grongstad is clear that growth is not only important to the owners. Profitable growth is a prerequisite for being able to provide the employees with development opportunities and to strengthen and expand our range of services so that new value is created for our customers and society.

We entered 2016 with a good order situation and a solid foundation for good operational performance in our backpack. This gave us room to manoeuvre and the confidence to look towards the future. While we have set tough new goals for the next four years, the orders and positive events in 2016 have been many, topped by the fact that AF won the largest single contract in the history of Norwegian roads right before Christmas. When we were also able to report the best result for AF of all time, I cannot say anything but that it has been my great privilege to be employed by and lead AF Gruppen throughout 2016.

The figures in this annual report reflect the willingness, drive and genuine commitment of the over 3,000 employees who have contributed to creating good, profitable results. I believe that we possess something unique at AF and that our employees, who are the best in the industry, are our greatest competitive advantage. It is also then our duty to contribute to the creation of new opportunities for them.

In 2016, we set a goal that AF shall report revenue of NOK 20 billion by 2020. If we are to succeed with such an ambitious goal, we must assume a leading position for work with customer and supplier relationships, we must cultivate creativity and innovation, and we must focus on management and technical expertise. Our growth will be achieved in the major cities in Norway and Sweden, in nationwide project activities and through taking a greater share of the offshore market, among other things.

Our employees deserve the opportunity for development. Profitable growth is also an important part of the AF culture, and strong markets propel us towards continued growth. It is an ambitious strategy, but AF is well-suited to having high goals.

At the same time, we must acknowledge that it is challenging to grow. We will be met by increasingly higher expectations and demands from the world around us when we become more visible as a company. In addition, growth will require that we acquire around 2,000 new employees, through both organic and structural growth, and that we increase the number of our partners. This means that our ability to communicate our core values will be decisive for whether we can maintain a strong and clear AF culture in a growing company, and whether we can create value for our customers, suppliers and society together.

Our uncompromising focus on safety and ethics will not change, and must not weaken when ambitions for great growth are to be realised. Our core values and our focus on safety and risk management must be equally clear in the coming years. It will require a great deal of our managers, as well as from anyone who works at or for AF Gruppen. We are not satisfied that we saw a slight increase in the number of lost time injuries in 2016. This means that our continuous focus on good, preventive safety and health work must continue unabated. The goal is also clear – we shall have zero work-related lost time injuries at AF Gruppen, and everyone shall make it home safely every day

We ended 2016 with a record-high order backlog, and many of our business areas are experiencing strong markets. This convinces me that our best days lie ahead of us. As managers, we must use our room to manoeuvre to create profitable growth and to continue to provide our employees with development opportunities. Curiosity, entrepreneurial spirit and our persistence and ability to find new and better ways to create value will be even more important when we are solving the projects of tomorrow.

It is the employees who have created AF, and my goal is to ensure that the company feels just as close-knit when we grow, probably to more than 5,000 employees, in the coming years. It should still be just as easy to stop by for a cup of coffee and a chat with your manager. At AF we will continue to grow with open doors.

OPERATIONS

AF is a project-based contracting and industrial group with six operational business areas: Civil Engineering, Environment, Building, Property, Energy and Offshore.

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.

Revenues NOK million	3 368	729	6 688
Earnings before tax NOK million	461	42	485
Employees	845	165	1 617

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 offers services to the oil and gas industry, ranging from HVAC to removal and dismantling of offshore installations. AF has a modern facility for environmental clean-up at Vats. Offshore also offers rig services and maintenance and modification of onshore facilities. Offshore is established in Norway, the UK and China.

	PROPERTY	ENERGY	OFFSHORE
Revenues NOK million	48	177	1 014
Earnings before tax NOK million	44	18	107
Employees	17	59	209

HIGHLIGHTS

In 2016, the Corporate Management Team prepared a new corporate strategy for the period of 2017 to 2020. AF has set a goal to achieve revenues of NOK 20 billion by 2020 and has defined four corporate initiatives that have been implemented to achieve profitable growth.

In 2016, Nye Veier AS announced the largest ever road contract, E18 Tvedestrand – Arendal, with a contract value of NOK 3.2 billion. The highlight of the year was when it became clear that AF had won the tendering process. Work on this 23 km long section of road will start in the spring of 2017 after a planning phase, and completion is scheduled as early as the autumn of 2019.

In 2016, AF carried out an offshore campaign to remove the deck of the Murchison platform, which was in the British sector of the North Sea. The deck was transported to the AF Environmental Base at Vats for dismantling and recycling. Murchison was one of the world's largest steel platforms and weighed in excess of 37,000 tonnes.

The largest contract of the year for the Building business area was concluded with Lagunen DA in the summer of 2016, and the work ranges from site preparation work to interior work in connection with the expansion of the shopping centre Lagunen Storsenter in Bergen. The turnkey contract has a value of NOK 615 million, excluding VAT.

In the autumn of 2016, AF entered into exclusive contract negotiations with Oslo S Utvikling AS. The aim is to become their partner for the development of Bispevika and jointly negotiate cost-effective solutions for the area. The scope of this cooperation is potentially large, since a total of 1,300 residential units are to be built in the area with commercial space at street level.

In 2016, AF entered into a letter of intent to acquire 70% of the shares of Kanonaden Entreprenad AB in Sweden. The agreement was signed in February 2017. The enterprise value of the company, which is located in southern Sweden, was SEK 260 million, and it gives AF a stronger foothold in the Swedish building and civil engineering markets.

FINANCIAL RESULTS

PROFITABILITY

GOAL

AF's goal is to have a higher operating margin and a higher 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

AF achieved earnings far exceeding comparable companies, with an operating margin of 8.7% in 2016. The return on invested capital was 54.2%.

OPERATING MARGIN

8.7%

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

AF's equity ratio was 29.8% at the end of 2016. The Group had net interest-bearing receivables of NOK 606 million, in addition to unutilised credit and loan facilities of NOK 1,880 million.

EQUITY RATIO

29.8%

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

In 2016, AF paid a total dividend of NOK 8.00 per share. Earnings per share was NOK 7.64 in 2015. Earnings per share was NOK 7.44 in 2016. For the 2016 financial year, payment of a dividend of NOK 5.00 per share is proposed for the 1st half of 2017. The dividend for payment in the 2nd half of 2017 will be announced when the results for the 3rd quarter of 2017 are presented.

DIVIDEND PER SHARE

5.00[1] NOK

[1] *Dividend due for payment in 1st half-year 2017*

The share p. 72

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

AF achieved an LTI rate of 1.3 and absence due to illness of 3.7%. This is on par with the best safety results in the contractor industry.

LTI-1 RATE

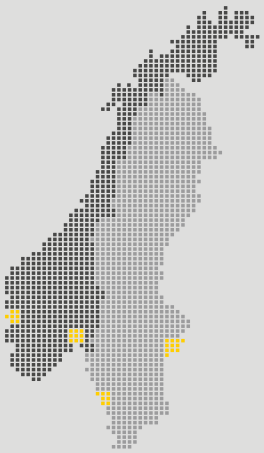
1.3

Health and safety p. 26

STRATEGY

MARKET DEVELOPMENT

Developments in the markets where AF operates are driven by economic fluctuations.

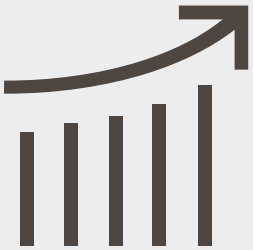


MAJOR CITIES SHOW FASTEST GROWTH

It has been estimated that Norway and Sweden will surpass a population of 6 million and 11.4 million, respectively, by 2031. Due to urbanisation, the greatest growth is expected in and around the cities. This entails increased pressure on the existing infrastructure, and available residential and non-residential buildings in the major cities. Increased investment in and a higher rate of development for property, buildings, transport and infrastructure will be required. It is expected that public willingness to invest in Norway and Sweden will be high, especially in the largest cities.

PROJECTS BECOME MORE COMPLEX

Public building and civil engineering contracts in Norway have been changing in recent years. Turnkey contracts and public-private partnerships (PPP) are being used more frequently. Large public clients such as the Norwegian Public Roads Administration, the Norwegian National Rail Administration and Nye Veier AS are also advertising increasingly larger contracts. The purpose is to increase the efficiency of planning and project execution. Increasingly large and more complex projects will change the traditional competition situation and entail greater demands on the planning, execution model and comprehensive risk management on the part of the contractor.



TECHNOLOGY DRIVES EFFICIENCY

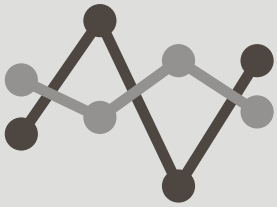
Technological development and digitalisation will affect the building and civil engineering industry going towards the year 2030. Development is taking place at a rapid rate, and the cost of technology is decreasing. This can contribute to greater efficiency in existing project processes, for example through more efficient planning and the use of modelling. A greater degree of robotisation can increase efficiency, reduce errors and improve the safety of the workplace. This development will require innovative contractors. The ability to deliver cost-effective solutions will be decisive in a price sensitive market.

MARKETS ARE BECOMING MORE GLOBAL

The Norwegian building and civil engineering industry has traditionally been a local and regional industry in Norway. In recent years, international competition has increased. The barriers for relocation and competing in new markets have been reduced, for example, through regulations, opportunities to use labour and goods across national borders and technology. The economic downturn in Europe brings foreign contractors to a strong market in Scandinavia, this particularly applies to the civil engineering market. The expected outcome is sharper competition and price pressure in the market.

GREATER REGIONAL DIFFERENCES

The development of the market nationally and regionally in Norway and Sweden is affected by macroeconomic factors, such as the development of interest rates, the price of oil and public willingness to invest. These factors have different and at times opposing outcomes, depending on the region. Major changes in key factors have created greater uncertainty and ranges of outcomes in certain local Norwegian and Swedish markets. Contractors will be more vulnerable to changes in each individual market, and the local ability to adapt and reorganise will be more important going forward.



80%

European Commission's goal for recycling of materials in a circular economy

PRESSURE ON THE ENVIRONMENT

Climate change entails pressure on the environment and scarce resources. The impact of national and international regulations to reduce CO_2 emissions is increasing, and climate requirements are transitioning from ideology to a prerequisite for value creation. Because of scarcity of resources, the European Commission's goal is a circular economy where more than 80% of all materials will be recycled by 2030. A documented reduction in the climate impact of one's own value chain and in the end products is becoming a prerequisite for being a leading serious actor.

BUSINESS MODEL

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.

VISION

Clearing up the past, building for the future

MISSION

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

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

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 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.

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 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.

STRATEGY TOWARDS 2020

In 2016, the Corporate Management Team prepared a new corporate strategy for the period from 2017 to 2020. AF has set a goal to achieve revenues of NOK 20 billion by 2020. The strategy is to invest in major cities in Norway and Sweden, nationwide and mobile project operations and offshore.

The level of ambition in the new strategy is high. Essentially, the goal for the next four years is that AF shall achieve revenue of NOK 20 billion per year, attain a substantial position in several major cities and expand the AF family by up to 2,000 new employees. Increased revenue is not important seen in isolation. The goals have been set because AF believe that growth is a foundation for the creation of value and provides opportunities for our partners and, not least, for our employees. Profitability, however, is more important than growth; AF Gruppen will not grow for the sake of growth.

Work on the new strategy has to a large extent been carried out by internal resources, and the strategy is firmly anchored in the entire organisation. We have looked at the key to the success of AF, have examined the market opportunities and have obtained an overview of the resources that AF already possesses. Based on our employees, our business model and the company's financial capacity, AF believes that our ambitions are both realistic and realisable.

MARKET

The market for services related to building and civil engineering in Norway and Sweden is large, and the prospects for growth are good. Annual investments in building and civil engineering projects in 2016 were estimated by Prognosesenteret and the Swedish Construction Federation to be just over NOK 400 billion, both in Norway and in Sweden.

The general growth in building and civil engineering investments has been 3% per year according to Prognosesenteret, and growth in civil engineering investments alone has been 6%. Investment growth is expected to increase further during the period up until 2020. For building investments, there are major regional differences, but residential building around the major cities has also seen significant growth.

Building and civil engineering investments in Sweden have seen even greater growth than in Norway, with as much as 7%, according to the Swedish Construction Federation. This growth has been driven by residential building around the largest cities. It is expected that this growth will decline to around 5% annually in the future.

As a result of low oil prices and an uncertain offshore market, Statistics Norway estimates that investments related to oil, gas and pipeline transport will be NOK 146.6 billion in 2017, a decline of approximately 10% compared with the estimate for 2016. In particular, investments in exploration are being reduced. 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. This entails that the market for the demolition and removal of platforms is showing a significant increase.

MAJOR CITIES IN NORWAY

It is expected that the greatest growth in the future will be around the major cities. The priority growth areas in Norway are in particular Greater Oslo and Greater Bergen. Oslo is growing rapidly, and AF is already well-established with a high potential for organic growth. This especially applies to new residential units and the associated infrastructure, the market opportunities are promising on both the building and the civil engineering sides in Greater Oslo. Bergen is a large and stable market where AF can potentially gain a greater share. Through LAB, AF has 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

Major cities in Sweden also experience strong growth. AF has identified Gothenburg and Stockholm as particularly interesting markets. AF is well-established in Gothenburg, but need to strengthen this position further. AF has a limited

– The best days are those that lie ahead of us

[**Morten Grongstad** *CEO*]

position in Stockholm today and would like to significantly strengthen our position in this area. There is particularly good growth here in private residential units and civil engineering. In addition, AF sees a market for environmental and recycling services in Sweden that is less mature than the market in Norway. This gives AF, as leading within environmental services, an advantage and good opportunities for growth.

Growth in Sweden will to a great extent come from structural growth. This work has already started through the acquisition of Kanonaden Entreprenad AB, which was carried out in February 2017. The acquisition gives AF a stronger position in the niche market for civil engineering activities in Southern Sweden, including Stockholm and Gothenburg.

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

The opportunities for AF are also connected to the range of services we can offer, and Offshore is another priority growth area. We have a unique opportunity to grow during a period of economic downturn. Growth is expected in the demand for offshore removal services in the years to come. AF therefore desires strong growth in the project-based offshore industry to strengthen our core offshore operations related to the demolition and recycling of offshore installations. In addition, AF would like to be a total provider, from the shutdown of wells to the recycling of oil installations.

Revenue goal 2020

20 MRD.

Organic growth

60%

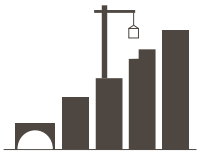
Structural growth

40%

CORPORATE INITIATIVES

We have defined four focus areas 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.

1 ORGANIC AND STRUCTURAL GROWTH



We shall realise profitable growth to NOK 20 billion in revenue by 2020. Growth shall primarily be organic, but also through significant structural growth (up to 40%). 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 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. It also entails investing in new business opportunities in the projet industry.

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.

CORPORATE SOCIAL RESPONSIBILITY – SUSTAINABLE ENTREPRENEURSHIP

A well-functioning society is dependent on responsible business and industry that create value for society. Corporate social responsibility is not only of major importance from a societal perspective, but also because it provides opportunities for profitable growth. At AF, we call this sustainable entrepreneurship.

The objective of AF's business activities is to create value for customers, owners, employees and society. Our corporate social responsibility, whereby we add value to society, is an integrated part of our culture, history and business model. We have a particular responsibility when societal challenges can be linked to our activities. Therefore, at AF, corporate social responsibility is referred to as sustainable entrepreneurship. Sustainable entrepreneurship is about creating competitiveness, while at the same time contributing to solving the social challenges of our time.

OUR PLATFORM

Sustainable entrepreneurship at AF is founded on our fundamental goals and values. AF has an uncompromising attitude towards health and safety, the environment and ethics. The values are integrated into all of our activities and processes and growth must never compromise these values. Detailed information about our platform can be found on page 26 (health and safety), page 28 (environment) and page 30 (ethics).

AF Gruppen is a member of the United Nations Global Compact and considers compliance with the principles in the areas of human rights, working conditions, the environment and anti-corruption 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 page 31.

TOOLS

AF's most important tools for managing sustainable entrepreneurship are promoting innovation, creativity and skills development. By innovation, we mean improving existing processes and services. By creativity, we desire to develop new opportunities and services that society has a need for. Good specialist expertise is a vital source of innovation and creativity which can, over time, create new standards in our industry. Therefore, our combined expertise is decisive for long-term and sustainable value creation. Read more about skills development on page 32.

VALUE CREATION

There is a fundamental connection between business activities, society and the environment. The challenges society faces can therefore also provide us with new opportunities. We shall create value by supplying services that society needs, and thus sustainable entrepreneurship will also be a source of growth and profitability.

A number of the services AF already offers within the Energy, Environment and Offshore business areas are responses 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% of materials that would otherwise have been sent to a disposal site. AF also offers energy efficiency solutions for buildings and environmentally friendly removal of offshore installations. Information about our services for the relevant business areas is presented on pages 44, 56 and 60 and also in our description regarding the environment on page 28.

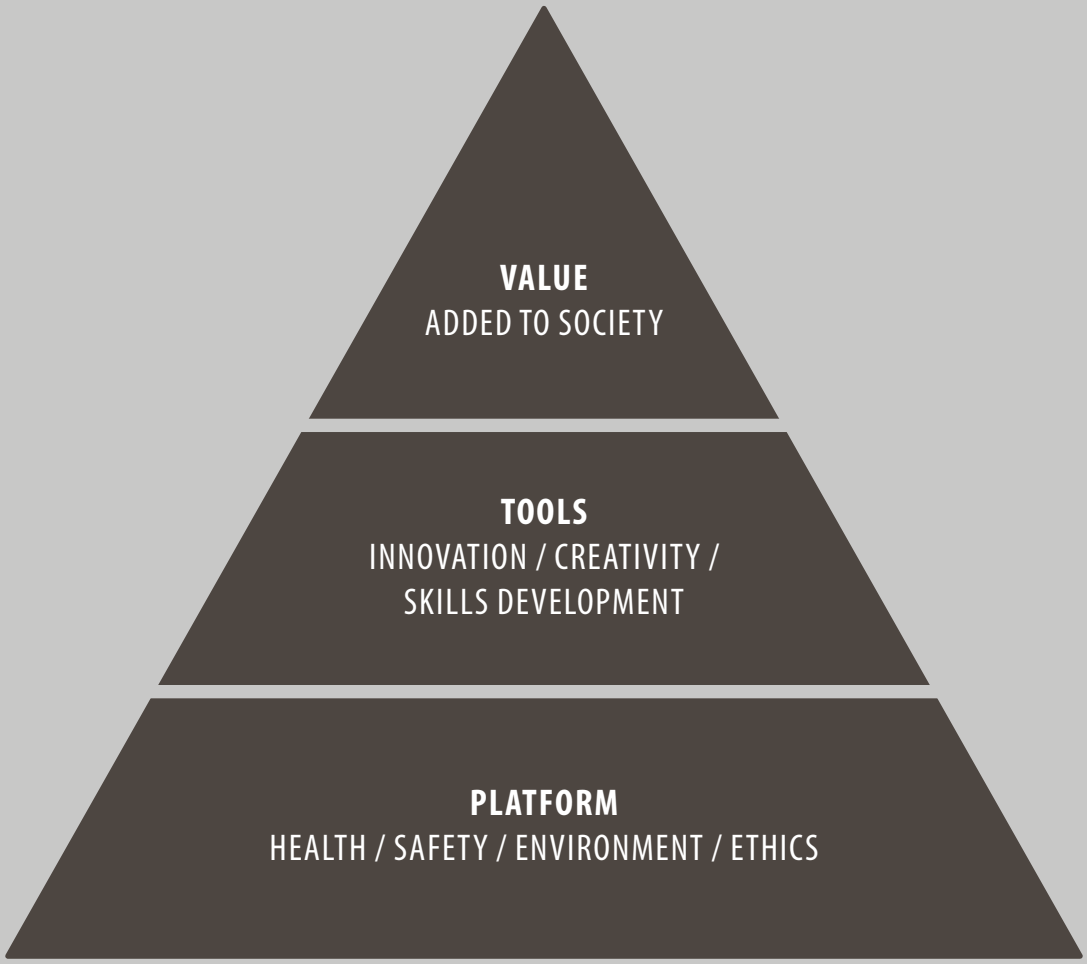
FOLLOW-UP OF CORPORATE SOCIAL RESPONSIBILITY AT AF

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 respective business areas. Executive Vice President Eirik Wraal has specialist responsibility for corporate social responsibility. The organisation shall ensure that the units follow-up the requirements and guidelines that are stipulated in laws and rules, as well as Group policy with the associated guidelines.

SOCIETAL CHALLENGES



SUCCESS CRITERIA

HEALTH AND SAFETY – PEOPLE FIRST

AF aims to have a working environment that promotes health and prevents injuries and illness among our employees. 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 personal injuries that are so serious that they entail absence and absence attributable 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 2016, more than 20,000 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 also stipulates the same safety requirements for its subcontractors as for their own employees.

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. Risk-reducing barriers are established such that the risk of undesired incidents 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 established. The most serious incidents are followed up immediately in order to ensure the best possible help and support to those involved. Serious 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-1 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 1.3 (1.0) for 2016. This number represents 13 lost time injuries in 2016.

In spite of continuous safety work, AF must 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.

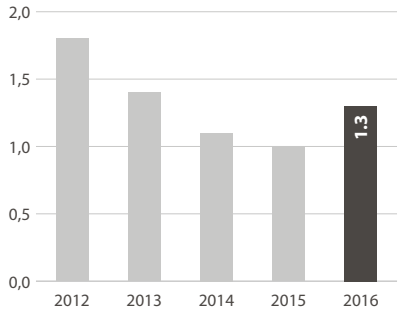
HEALTHY EMPLOYEES

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 of health work, and the target is an absence due to illness rate of less than 3%. In our opinion, this represents a normal situation, without any work-related illnesses. Absence due to illness in 2016 was 3.7% (3.7%).

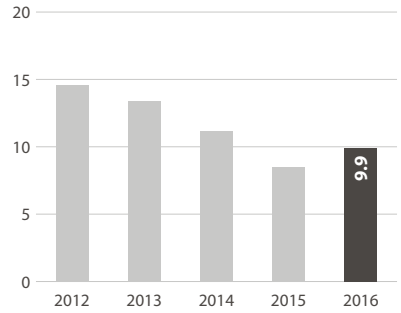
AF has an internal corporate health service that assists with preventive health work. They monitor employee health through regular health check-ups, and they assist the absence due to illness committees that have been established in the business units to ensure that everyone with absence due to illness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

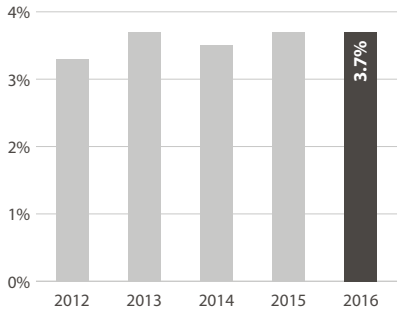
LTI-1 RATE



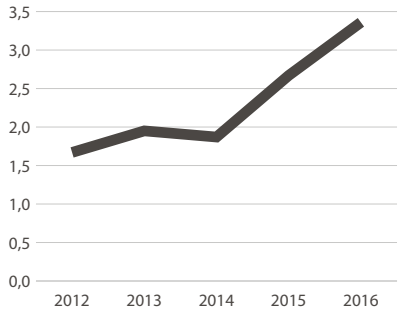
LTI-2 RATE



ABSENCE DUE TO ILLNESS



REPORTED INCIDENTS AND CIRCUMSTANCES (RUI)



NORTHERN EUROPE'S STEEPEST DEMOLITION JOB

The Old Bjølvo power station, which was constructed between 1915 and 1918, is located on a very steep mountain-side in Ålvik. When AF Decom started on the job in the spring of 2016, there were many challenges that had to be solved and considerations to be taken into account.

"At the steepest we were working at an incline of 62 degrees, so we had to remain vigilant and light on our feet", says Project Manager Agnar Eilif Haugen.

Statkraft's job was to remove everything from the top of the mountain down to the old power plant, a total of 3,000 tonnes of steel and metal. Around 20 AF employees participated in the project, which placed particularly high HSE demands on both the crews and the project organisation.

"Everyone was secured with rope and hooks at all times. We worked in very steep terrain, where there was also a risk of rock slides", he says. Fog and rough weather were also a risk factor.

"There were days when we could not transport the crews back down from the mountain. They then spent the night in a cabin at the top that we had made sure was equipped with whatever they might need. In spite of the challenges and the rough environment, it has been an incredibly exciting project to work with", he says.

THE ENVIRONMENT – A SHARED RESPONSBILITY

Contracting operations have an impact on the external environment. The goal is to reduce AF's impact on resources and the 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 laws, regulations and specific contractual requirements, these analyses form the basis for project and unit goals for the external environment.

All business units at AF are measured 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.

AF is at all times prepared to minimise damage to the external environment if an accident or incident with a pollution potential were to take place. 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. In 2016, the Group became a control member of Green Dot, an international network that helps to ensure the financing of return schemes for used packaging.

AF has delivered several buildings that are BREEAM classified. BREEAM-NOR is the leading tool in Norway for the environmental classification of buildings. Certification is based on documented environmental performance.

WELL BEYOND GOVERNMENT REQUIREMENTS

AF manages waste by designing and planning projects so that there is as little waste as possible, and such that the waste that does arise is of a type that can be sorted and recycled.

In Norway, the government requirement for source separation is a minimum of 60%. The source separation rate indicates how much of the waste from operations is separated for the purpose of facilitating recycling. In 2016, the source separation rate for building was 85% (84%), for renovation it was 79% (87%) and for demolition it was 97% (96%). A total of 507,198 tonnes (319,225 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 replace construction machines on an ongoing basis so that we have a modern fleet of machinery with lower emissions.

GREATER ENVIRONMENTAL AWARENESS GIVES US NEW BUSINESS OPPORTUNITIES

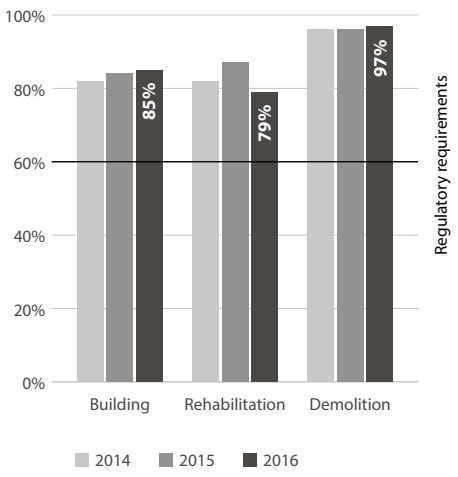
AF has chosen a commercial approach to the increasing environmental challenges and scarcity of resources in society. The three business areas, Environment, Offshore and Energy are all based on services that solve environmental challenges. Offshore and Environment in the area of demolition and recycling, and Energy in energy optimisation. The need for the removal of offshore installations was decisive for the establishment of AF's offshore demolition activities 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 future-oriented services that solve environmental challenges is the establishment of environmental centres. Using new environmental technology, Rimol Miljøpark decontaminates and recycles 80% of contaminated materials that would have otherwise ended up directly at a disposal site.

AFs goal is to continue to create competitiveness and develop services in accordance with the needs of society.

ENERGY AND CLIMATE ACCOUNTS 2016

Category	Consumption	Energy equivalent (MWh)	2016 Emissions (tonnes CO_2e)	2015 Emissions (tonnes CO_2e)
Petrol (l)	9 363	90	22	49
Diesel oil (l)	9 071 209	96 500	24 272	29 780
Propane (kg)	10 675	136	32	37
Paraffin (l)	70	1	-	-
Refrigerant gas HFC134a (kg)	-	-	-	270
Direct emissions		**96 727**	**24 326**	**30 135**
District cooling (kWh)	24 600	25	-	1
District heating (kWh)	207 835	208	5	23
Power (kWh)	25 164 281	25 164	1 409	1 983
Indirect emissions from own activities		**25 397**	**1 414**	**2 007**
Air travel (passenger km)	na		2 124	2 370
Car travel (km)	1 420 514		210	138
Waste (tonnes)	1 363		670	1 287
Indirect emissions from others			**3 003**	**3 795**
CO_2 emissions (tonnes CO_2e)			**28 743**	**35 937**
Carbon footprint (tonnes CO_2e per NOK 1 million revenue)			**3,1**	**3,3**

SOURCE SEPARATION RATE



Total amount of mass separated at source 2016 (tonnes)

507 198

FLOWERS AND BEES ON THE PORTAL BUILDING

Maria Kristiansen was the BREEAM coordinator for the Portal Building at HasleLinje, the new head office of COWI.

"It has become a very green commercial building, even though many measures are not visible to the naked eye. We have, for example, drilled deep into the ground to supply the building with geothermal heat", she says.

"Among the most visual measures are the placement of two insect hotels on the roof, a large number of plant species surrounding the building and three roof terraces that are covered with sedum plants. Otherwise, there is indoor bicycle and electric vehicle parking, which also paid off in the environmental accounts", she says.

ETHICS – GOOD BUSINESS PRACTICES IN OUR BACKBONE

AF's competitiveness and place in society begins and ends with the fact that the company is reliable. An uncompromising attitude towards ethics is part of the foundation of our business strategy.

AF's operations and employees shall be distinguished by good ethical conduct. This also applies to our subcontractors. AF does not want to be associated with fly-by-night partners, and we have therefore implemented barriers to prevent that our suppliers or subcontractors commit any economic or financial crime.

AF has acceded to the UN Global Compact, the world's largest initiative for corporate social responsibility.

CORPORATE CULTURE IS THE KEY

Our employees represent AF Gruppen in all business contexts, and it is essential that all the employees are familiar with and identity with AF's Code of Conduct. When they are hired, employees must sign a declaration that they are familiar with and comply with the Code of Conduct, and this is a topic that is covered at the introductory course for new employees. Suppliers and subcontractors are also required to comply with the Code of Conduct through AF's Supplier Statement. In the assessment of candidates for acquisition, decisive importance is placed on whether the acquired company's corporate culture and core values are in accordance with those of AF.

AF participates in competitive tenders, and there is therefore a potential 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.

MEASURES AGAINST WORK-RELATED CRIME

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 will only do business with suppliers that follow the same ethical guidelines as we do. AF's goal is to avoid all forms of 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 for work-related crime. The purpose of the forum is to learn from each other, and to maintain and develop common barriers against work-related crime. AF offers work-related crime courses at least twice a year.

We work proactively and reactively to ensure compliance with our ethical guidelines among our suppliers. Routines are used proactively for the prequalification and approval 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 our 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.

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.
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% 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. 32.*
4	**the elimination of all forms of forced and compulsory labour;**	AF's employees have pay conditions that are in accordance 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 2016, AF disqualified specific operators that do not comply with AF's ethical guidelines for working conditions. The circumstances were uncovered before these suppliers were awarded assignments with AF. *See p. 30.*
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. 30.* 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 discrimination are enshrined in the Code of Conduct.	All new employees are made aware of 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. *See p. 32.*
	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 environment. AF shall also comply with the core principles 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 2016. *See p. 36.*
8	**undertake initiatives to promote greater environmental 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 customers 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. 28.*
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 environmental 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. 28.*
	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 2016. An approval requirement prior to engaging subcontractors and suppliers is that they have previously complied with applicable laws and rules relating to corruption, including compliance with tax laws. *See p. 30.*

EMPLOYEES – DEVELOPED 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. It is then also AF's responsibility to replenish the employees.

A clear and value-driven corporate culture with a strong desire to achieve has been the foundation of profitable growth since the establishment of AF Gruppen. In 2016, AF announced new growth targets, which among other things entail an increase of 2,000 new employees, an increased percentage of women and strengthening the company's own technical expertise. AF has a decentralised decision-making structure in which employees at many levels have an opportunity to influence the execution of projects and their own development.

BUILDING CULTURE WITH COMPETENCE TRAINING

Developing the knowledge and competence of our employees is the most profitable investment we make. Therefore capable employees are given an opportunity to assume responsibility and strengthen their own competence early on. AF's goal is to develop managers through internal training, and around 80% of today's managers have been recruited internally. The breadth of AF's centres of expertise also provides a good foundation for professional development and career opportunities throughout the Group. This development is supported by practical training in the line, internal management courses and external continuing education. This offering will be intensified in the coming years to ensure that we have adequate management capacity.

All of the Group's courses and training programmes are combined under the AF Academy. In 2016, a total of 1,158 course days were offered through the AF Academy, of which 232 were related to management development.

SATISFIED EMPLOYEES

The employee satisfaction survey that was conducted in 2015 shows that our employees are very happy, have a high degree of job satisfaction and are proud to work for AF. The results were the best ever achieved at AF. AF also shows a positive trend on Universum's lists of the companies that students regard as attractive workplaces.

AF offers a number of employee benefits, such as company sports, a corporate health service and good pension and insurance benefits. We believe that ownership in one's own workplace results in greater commitment, and therefore employees are offered the opportunity to buy shares in AF Gruppen at a discount of 20% off the market price. The idea is that as many employees as possible should be able to take part in the appreciation resulting from the common creation of value and development of the company. The employees of AF own approximately 14.3% of the shares in the company – which corresponds to a value of approximately NOK 2 billion.

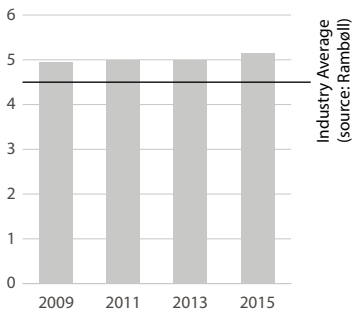
AF has a well-functioning employee representative structure and safety organisation, which ensures employees the right to participate in decisions concerning the working environment. There is a special Works Council and Working Environment Committee with representatives from the Corporate Management Team, the employees and senior employee representatives. AF also has salaried employee and skilled worker representatives on the Board of Directors.

MORE AF-ERS NEEDED

A new corporate strategy was presented in 2016. One of the group initiatives in the strategy is that AF shall attract and develop the best management and technical expertise in the industry, as well as increase the percentage of women in the organisation. With expected growth by 2,000 employees over the next four years, our recruitment team has enough to keep it busy. A new Employer Branding strategy was rolled out in the autumn of 2016. As a result of this, 20 employees have been trained to participate in AF's new ambassador programme, the purpose of which is to attract the very best students. The idea is that the employees are AF's best ambassadors. This is supported by a marketing film that plays on AF's "curiosity concept", and AF has increased its presence on social media.

Some of AF's employee growth will take place through acquisitions. AF seeks to acquire well-managed companies in which the employees have core values in common with AF. Common core values are a prerequisite for completion of the acquisition. In acquisitions, AF still considers employee ownership to be important, and seeks acquisition candidates in which the employees still want to remain on the ownership side.

EMPLOYEE SATISFACTION SURVEY (ESS)



AF gruppen 2015

Skala 1-6

5.15

MUST DEVELOP GOOD ROLE MODELS

AF's ambitions for growth will require many new employees. Towards the year 2020, it is expected that the number of employees at AF will increase to around 5,000, through both recruitment and the acquisition of new companies.

"We will recruit new graduates and ensure that we have the technical expertise that is required in order to take on larger and more complex projects", says Executive Vice President Bård Frydenlund, who is responsible for the group initiative.

The recruitment of more women and skilled workers, and an increased focus on the development of our own leaders, are initiatives that he emphasises to meet this growth.

"If we are to preserve the AF culture while growing at the same time, today's employees must lead the way as good ambassadors and role models. Then we must facilitate a high level of satisfaction and a good working environment, develop our employees and offer them ownership", he says.

EMPLOYEE OWNERSHIP – PART OF THE AF CULTURE

Employees of AF own shares in their own company valued at more than NOK 2 billion. We think that is an important reason for the success of AF Gruppen.

When AF Gruppen was established in in 1985, it was a goal that employees should be given an opportunity to become co-owners of the company. 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.

WIN-WIN

Ownership in the company where one works provides an extra dimension to the day-to-day work. In addition to allowing AF's employees to participate in the company's creation of financial value, ownership contributes to commitment, team spirit and motivation. This in turn results in increased added value – in other words a win-win situation for the employees and for the company. Over time, AF will provide its shareholders with a competitive return in the form of dividends and price appreciation. The share price can go up and down along the way, but the majority who participate through regular, long-term savings will benefit from the investment.

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 both the management and the other employees are in the same boat as themselves.

The offer of co-ownership through share and option programmes contributes to making AF an attractive place to work.

SHARE PROGRAMME FOR EMPLOYEES

AF Gruppen has a share programme for employees whereby all employees are given an opportunity to buy shares at a discount of 20% on the current market price. In 2016, there were 580 employees who subscribed for a total of 1,000,000 shares in the programme. The purchase price after a 20% discount was NOK 128.60. In connection with the sale, the Board of Directors used its authority and issued 930,000 new shares. The remaining shares were transferred from AF's treasury shares.

The Board of Directors has decided to recommend continuation of the share programme for employees in 2017 as well. The maximum number of shares that can be subscribed for in the share programme, which will take place in September 2017, is 1,000,000. The Board will therefore submit a proposal to the General Meeting for authorisation to issue a sufficient number of shares, enabling the share programme to be carried out.

OPTIONS PROGRAMME FOR EMPLOYEES

AF Gruppen has had an option programme for all employees in the Group since 2008. The purpose of the programme is to motivate employees to engage in long-term commitment and greater involvement in the company's operations.

The General Meeting of AF Gruppen in May 2014 adopted a new option programme. The maximum number of options that could be allocated was 4,500,000, and the programme entailed annual allotments for the years 2014-16 with the exercise of the options in March 2017. The purchase price for the shares was based on the average market price during the last week before the three respective subscription periods.

The option premium was NOK 1.00 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 1 March 2017.

AF Gruppen issued 3,500,000 options to 1,383 employees in 2014, 650,000 options to 280 employees in 2015 and 146,863 options to 105 employees in 2016. The total number of outstanding options, adjusted for employees who left the company, was 3,759,599 as at 31 December. The option programme ended in the middle of March 2017. A total of 3,253,346 options were exercised by 1,133 employees. The average redemption price for the options was NOK 71,37. The Board of Directors of AF Gruppen will propose to the General Meeting in May 2017 that a new option programme for employees be established.

Percentage of shares owned by employees

14.3%

Approximate value of shares owned by employees

2 MRD.

– LIKE WINNING THE LOTTERY

It took a little while before Njål Torvald Bakkeberg's investment in his workplace started to show results, but the last ten years have been a financial dream, according to the experienced foreman.

"I go and check the share price every single day. Not just because it is fun, but also that is where I have my best daily earnings", smiles Njål Torvald Bakkeberg, a foreman with AF Byggfornyelse. He was one of the first to participate in AF Gruppen's share programme when the company was listed on the stock exchange in 1997, and he has seen both the share price and his workplace grow rapidly over the past 20 years.

"The first few years were not particularly profitable, but then the share price took off. For employees like me who have participated every time we have been offered shares, this has been like winning the lottery."

Long-term investment

Bakkeberg has regarded his investment in AF shares as a long-term investment in his workplace, and he has encouraged many younger employees to participate in both the share and the option programmes throughout the years.

"For me, this has been a gilt-edged investment that in the long term will give me much greater buying power and strong motivation for my daily work. You undoubtedly make a greater effort when you see the result of your efforts through the share price, and not least of all, it contributes to more people staying with the company. For my part, I will continue in both my job and in investing in my workplace for as long as I can", he says.

RISK MANAGEMENT – WE SHALL ACTIVELY ASSUME RISK THAT WE CAN INFLUENCE

Risk management is an important tool for AF Gruppen to be able to achieve its goal of profitable growth and deliver stable 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 event or action that, if it occurs, can have a positive or negative effect on project targets such as time, cost, scope or quality. AF's definition of risk also includes positive effects, which is a special characteristic of how AF works with risk management. The aim is not to eliminate risk, but to identify, manage and price risk correctly.

AF Gruppen works systematically with risk management. 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 contributes to our ability to submit competitive tenders. At the same time, we will have a better decision-making basis and insight before we make decisions in uncertain environments with a variable range of 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% (2002 to 2006) to 6.0% (2007 to 2016).

OUR RISK MANAGEMENT PROCESSES

Risk management and scenario mentality have become integral parts of all commercial activities at AF Gruppen, involving managers at all levels. AFs risk management specialists facilitate the necessary risk processes

Risk management at the project level is the foundation of AF's risk work, and risk assessments start already before a project tender is submitted. Tenders are calculated based on an assessment of AFs capacity, experience with the customer, contractual terms and conditions and the extent to which the project is in accordance with our strategy and expertise. Before a tender is submitted, a risk review of the calculated tender is conducted. For tenders in excess of NOK 100 million, the associated executive vice president participate in the risk review. Various opportunities and threats associated with the project are discussed in the review, and different scenarios are considered for 5-10 agreed risk groups. All tenders with a contract value in excess of NOK 100 million are approved by the Corporate Management Team before a tender is submitted. Tenders with a contract value in excess of NOK 600 million are also reviewed by the Board of Directors prior to submission.

For major ongoing projects, a risk review is conducted quarterly with broad participation from the project organisation. The project management is responsible for defining specific and measurable actions for handling threats and exploiting opportunities in the project.

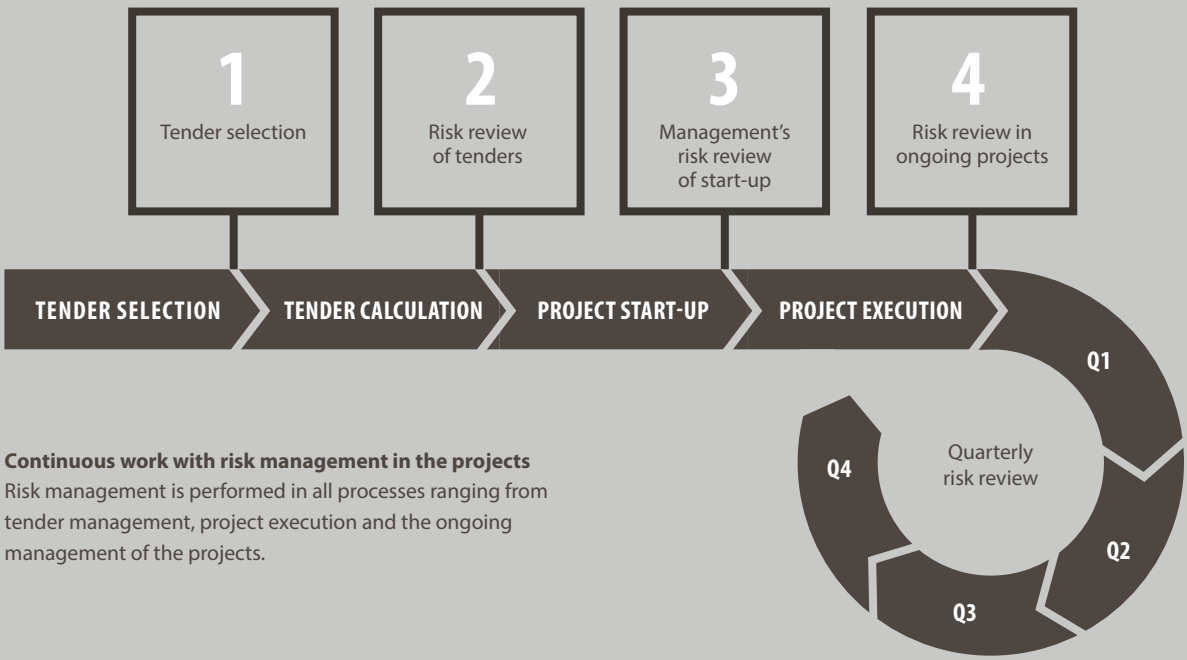
The business unit's management group aggregates the project analyses. A risk analysis of the project portfolio is conducted quarterly, with a quantitative assessment of the range of outcomes for each project. Representatives from the Corporate Management Team participate in the risk review by the business 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 by the business units are summed up by the Corporate Management Team, and the main points are presented to the Board of Directors every quarter.

SCOPE OF RISK MANAGEMENT IN 2016

In 2016, AF Gruppen carried out approximately 110 risk reviews prior to the submission of large tenders and 70 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.

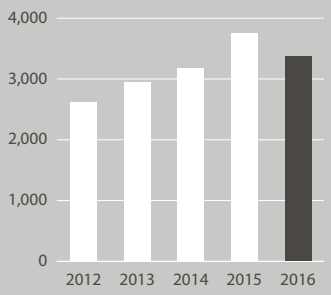


Continuous work with risk management in the projects
Risk management is performed in all processes ranging from tender management, project execution and the ongoing management of the projects.

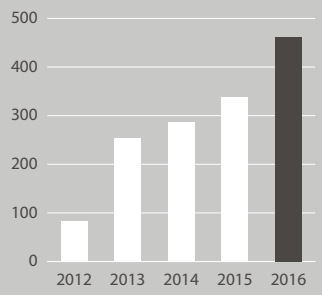
BUSINESS AREAS

CIVIL ENGINEERING

REVENUES NOK MILL.



OPERATING MARGIN NOK MILL.



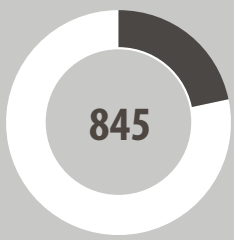
GEOGRAPHIC PRESENCE

- Norway
- Sweden

KEY FIGURES

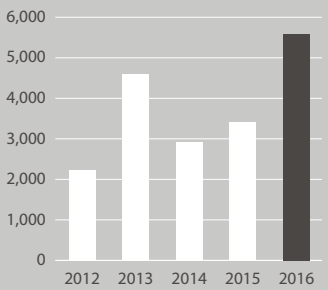
Amounts in NOK million	**2016**	2015	2014
Revenues	**3 368**	3 760	3 172
Earnings before interest and tax (EBIT)	**461**	339	286
Earnings before tax (EBT)	**475**	339	288
Operating margin	**13.7%**	9.0%	9.0%
Profit margin	**14.1%**	9.0%	9.1%
Order backlog	**5 589**	3 402	2 913
Employees (number of people)	**845**	1 069	1 038

EMPLOYEES



AF Gruppen 3,049

ORDER BACKLOG NOK MILL.



CIVIL ENGINEERING CONSIST OF

- AF Anlegg
  AF Arctic
  JR Anlegg
- Målselv Maskin & Transport
- Pålplintar

GOOD OPERATIONAL PERFORMANCE AND SOLID RESULTS

In 2016, the Civil Engineering business area delivered solid results with a profitability that is leading in the industry. The year was marked by a high level of activity, good operational performance and winning the largest Norwegian road contract ever awarded. This was an important confirmation of our competitiveness.

The Civil Engineering business area consists of three business units: AF Anlegg, Målselv Maskin & Transport and Pålplintar.

AF Anlegg carries out traditional civil engineering projects throughout Norway in the areas of transport, infrastructure, port facilities and the oil and gas industry, as well as projects in 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. The Swedish unit Pålplintar carries out foundation work projects and produces concrete for industrial, residential and public buildings in Stockholm and Mälardalen.

YEAR 2016 IN BRIEF

In 2016, the Civil Engineering business area reported revenues of NOK 3,368 million (3,760 million). Earnings before tax were NOK 475 million (339 million). The profit margin ended at 14.1%, compared with 9.0% in 2015.

AF Anlegg had a high level of activity and reported very good results. The unit has increased its presence and regional activity in Greater Oslo. Capacity has increased, and is now adapted to the coming market for design and build contracts and major projects. The highlight of the year was winning E18 Tvedestrand - Arendal, the largest ever road contract in Norway with a contract value of NOK 3.2 billion.

Målselv Maskin & Transport had a very good 2016 with a high level of activity and good results.

In 2016, Pålplintar had a level of activity on par with the previous year and reported weak results. Operational and organisational adjustments have been carried out.

In February 2017, AF entered into a final agreement with the Swedish contractor Kanonaden Entreprenad AB to acquire 70% of the company. Kanonaden Entreprenad AB reported revenues of SEK 708 million in 2016 and had 188 employees.

At year end, the Civil Engineering business area had an order backlog of NOK 5,589 million (3,402 million).

MARKET OUTLOOK

The forecasts for the Norwegian economy for 2017 are still marked by uncertainty, but there are substantial regional differences. One of the measures to buffer the decline in the economy is that the authorities have increased appropriations to the civil engineering market in recent years. In the 2017 State Budget, NOK 66.8 billion has been allocated to transport, which is an increase of 11.8% over the budget for 2016. NOK 33.6 billion of this is for roads, which is an increase of 9.4%. The analysis company Prognosesenteret expects that total civil engineering investments will increase by 12% in 2017, and a further 12% in 2018. The greatest growth is expected to be in road construction, as well as in power and energy plants. In particular, the Oslo Region, Interior Region and Southern Norway are expected to have the greatest growth. This is primarily due to the fact that several large road projects are to be carried out in these regions.

The development of the Swedish economy is influenced by the Eurozone, and the Swedish central bank Riksbanken has lowered its key rate to -0.5% in order to stimulate the Swedish economy. An expansive monetary policy and increased employment contribute to the Riksbanken expecting annual growth in the gross national product of around 2.5% in the coming years. The forecasts from the Swedish Construction Federation assume continued strong growth for building and civil engineering investments in Sweden in 2017.

In summary, the market outlook for the Norwegian and Swedish civil engineering markets is good. Higher estimates for investments related to transport and road construction provide a good foundation for further growth of AF's civil engineering activities.

STRATEGY

The Norwegian portion of the civil engineering business has a nationwide and mobile organisation that focuses on large, complex civil engineering projects. The aim of the Civil Engineering business is to continue profitable organic growth within its core operations, in other words, large complex projects that require a great deal of expertise in project management, technical execution, operations management, risk management and HSE. In addition, there will be growth through the acquisition of well-managed companies with geographic and market-related niche expertise.

The Swedish portion of the civil Engineering business will have a niche focus, and its primary strength will be around the largest cities. Growth is also a goal for these activities, primarily through geographic expansion in Sweden.

Renewable energy - "With the new generator at Vamma, the additional production throughout the year will correspond to the power consumption of 11,500 single family homes. These are the power development projects in the country that are being carried out with the least encroachment on nature", says Anders Østby, Executive Vice President for Production at Hafslund.

Clean investment for the future

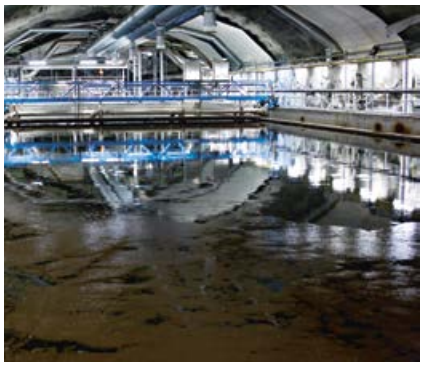
A new, modern generator will ensure that the production capacity of Norway's largest river power station increases by 50%. For Anders Østby at Hafslund, this is not just about a business opportunity, it is also about corporate social responsibility.

Read about it here : afgruppen.no/2016

SELECTED PROJECTS | CIVIL ENGINEERING

BEKKELAGET TREATMENT PLANT

The Bekkelaget treatment plant is Norway's second largest treatment plant, and AF Gruppen has been appointed as the contractor for performance of structural work in connection with the expansion of the plant. The work is performed inside an underground cavern and mainly consists of in-situ cast concrete and steel constructions. The work started in November 2016, and completion is scheduled for March 2020.



Completion **Q1 2020**	Contract value NOK mill. excl. VAT **450**
Client **CITY OF OSLO, AGENCY FOR WATER AND SEWERAGE WORKS**	

Completion **Q2 2018**	
Client **SOUTHERN REGION OF THE NORWEGIAN PUBLIC ROADS ADMINISTRATION**	
Contract value NOK mill. excl. VAT **230**	

COUNTY ROAD 32, PORSGRUNN

County Road 32 Gimlevegen-Augestadvegen (Lilleelv intersection) is the biggest road project in the Grenland city package. The project will be carried out as a turnkey contract and includes planning and building a new county road between the railway and the residential area. The soil mechanics are challenging, and the Norwegian Public Roads Administration asked for the contractors' proposals for a technical solution. AF Gruppen and Norconsult have developed the technical solution through the procedure for competitive dialogue in close cooperation with the Norwegian Public Roads Administration.

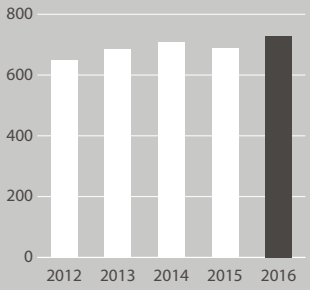
Completion **Q1 2019**	Contract value NOK mill. excl. VAT **370**
Client **HAFSLUND PRODUKSJON AS**	

VAMMA POWER PLANT

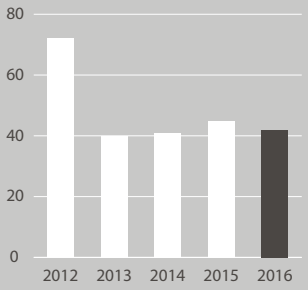
Hafslund Produksjon AS has entered into a contact with AF Gruppen for the development of "Vamma 12", an expansion of the Vamma Power Plant in the municipality of Skiptvet. The Vamma Power Plant is located in the Glomma River, and the "Vamma 12" expansion will be one of Norway's largest river power stations with a throughput of 500 m^3 per second and head of 28 metres. The project includes establishing a new intake channel, building a new power station, suction pipe and discharge channel. Parts of the watercourse will be established in a tunnel.

ENVIRONMENT

REVENUES NOK MILL.

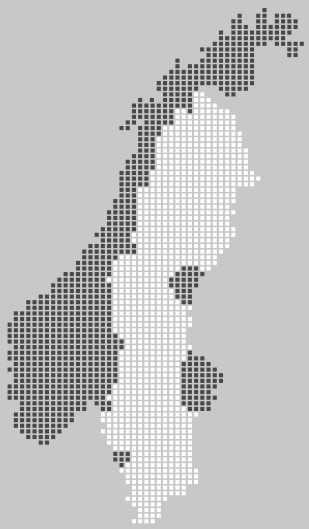


OPERATING PROFIT NOK MILL.



GEOGRAPHIC PRESENCE

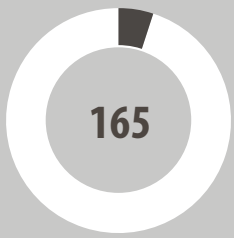
- Norway
- Sweden



KEY FIGURES

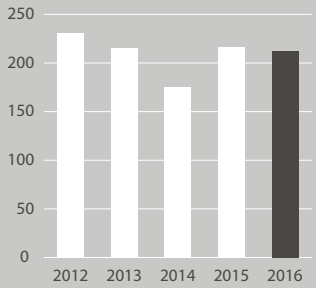
Amounts in NOK million	**2016**	2015	2014
Revenues	**729**	687	709
Earnings before interest and tax (EBIT)	**42**	45	41
Earnings before tax (EBT)	**42**	46	39
Operating margin	**5.8%**	6.6%	5.8%
Profit margin	**5.7%**	6.7%	5.5%
Order backlog	**212**	216	175
Employees (number of people)	**165**	198	226

EMPLOYEES



AF Gruppen 3,049

ORDER BACKLOG NOK MILL.



ENVIRONMENT CONSIST OF

- AF Decom
  Rimol Miljøpark
  Jølsen Miljøpark
- AF Härnosand Byggreturer

GOOD OPERATIONAL PERFORMANCE AND INCREASING LEVEL OF ACTIVITY

The Environment business area reported good results for 2016, but in the project portfolio there has been a great deal of variation in the results.

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, AF Härnösand Byggreturer, 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% 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 operations 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 95%.

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% of the materials that would have otherwise ended up at traditional disposal sites are reused or recycled.

YEAR 2016 IN BRIEF

Environment reported revenues of NOK 729 million (687 million) and earnings before tax of NOK 42 million (46 million) for 2016. The profit margin was 5.7%, compared with 6.7% in 2015.

The level of activity in Norwegian operations is increasing, and there is a high supply of new projects. The operational performance of the projects is generally good in the business area, but there has been too much variation in project results. The Swedish company, AF Härnösand Byggreturer, reported a level of activity on par with the previous year, and the unit delivered very good results in 2016. The investment in environmental centres is bearing fruit. The level of activity at the environmental centres increased, and they performed well operationally and reported good results in 2016.

The total order book for Environment stood at NOK 212 million (216 million) at the end of 2016.

MARKET OUTLOOK

The Environment business area provides traditional demolition services and the subsequent receiving, treating and recycling of materials. The level of activity for the demolition operations is closely connected to the general level of activity in the building and civil engineering markets. A positive outlook for the civil engineering market in Norway, expectation of further price growth in the residential housing market, as well as a stable, high number of start permits for 2017, will have a positive impact on the demand for services. The same tendency is expected in Sweden, where the forecasts indicate growth in the building and civil engineering markets in 2017.

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% of the materials can be processed, decontaminated and reused. The method results in a commercial gain since the volume of waste is reduced, and at the same time contributes to social gains by increasing the life of the disposal sites.

STRATEGY

Onshore demolition operations shall prioritise their core activities and gradually develop their range of services in Norway and Sweden in line with customer needs. Strict environmental requirements demand knowledge of safe handling of environmentally hazardous waste. In Norway, the Environment business area would like to expand expertise so that it can take on more special jobs in demolition and recycling. Demolition operations in Norway are nationwide, but in Sweden there is a great potential to increase volume by expanding the geographic area beyond Stockholm. Growth in Sweden will be realised both organically and through acquisitions. As a result of AF's leading technology, we are very well-positioned to gain larger market shares in the future. For the environmental centres, new start-ups near many of the largest cities in Norway are therefore a goal, based on the environmental technology that has been developed.

A goal of the Environment business area is also to further develop its environmental position through innovation at the environmental centres and further development of its range of services, for example connected to the sale of reusable and recycled products.

Recycling
Anleggsmaskiner AS is performing site preparation work for a project where a petrol station was previously located.
"The soil on this construction site was highly contaminated. We have therefore transported just over 20,000 tons of contaminated material for recycling. The industry is moving towards being environmentally friendly. It is part of our corporate social responsibility to make use of recycled aggregate, gravel and cement," says Trond Skottvoll, Managing Director at Anleggsmaskiner AS.

From discard to use

Materials from building and construction activities are often contaminated and transported to a disposal site as waste, despite the fact that the toxic substances only constitute a small part. Trond Skottvoll at Anleggsmaskiner AS believes that there is major value both for the environment and in financial terms from having the materials treated at Rimol Miljøpark.

Read about it here : afgruppen.no/2016

SELECTED PROJECTS | ENVIRONMENT

OLD BJØLVO POWER PLANT

The Old Bjølvo power station is located on a very steep mountain side at Ålvik in the municipality of Kvam. It consists of a power plant with a dam, pipe trench and turbine hall that was constructed between the years of 1907 and 1938. Statkraft's mission was to remove everything from the top of the mountain down to the old power plant – a total of 3,000 tonnes of steel from the pipe trench, 800 tonnes of concrete from the pipe trench superstructure, 700 tonnes of wood from the pipe trench superstructure, steps and trolley track.

Completion **Q2 2017**	Contract value NOK mill. excl. VAT **50**
Client **STATKRAFT ENERGI AS**	

HOTEL BRITANNIA IN TRONDHEIM

The venerable Hotel Britannia in Trondheim closed its doors in the summer of 2016, and will not open again until the summer of 2018. In the meantime, the 146-year-old building will be partially demolished and fully restored to its former glory. The façade facing Dronningens gate will remain the same, while the older and more debilitated sections of the hotel further back on the block will be demolished and rebuilt.

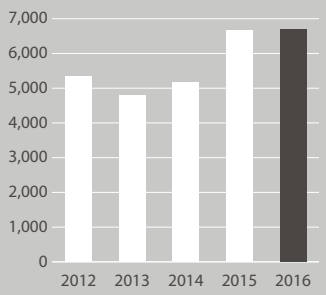
Completion **Q2 2017**
Client **HENT AS**
Contract value NOK mill. excl. VAT **20**

RIMOL MILJØPARK

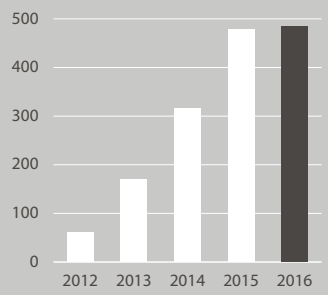
Rimol Miljøpark, which is located outside of Trondheim, is a high technology decontamination and recycling facility. AF has developed methods and technology in cooperation with SINTEF here to achieve the highest possible reuse and recycling rate for contaminated materials. With mechanical and chemical treatment, up to 80% of the materials can be recycled and the need for disposal can be reduced correspondingly. The materials can subsequently be sold, and the environmental centre thus creates value both for society and for the shareholders of AF.

BUILDING

REVENUES NOK MILL.



OPERATING MARGIN NOK MILL.



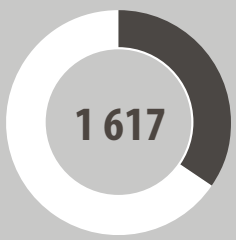
GEOGRAPHIC PRESENCE

- Norway
- Sweden

KEY FIGURES

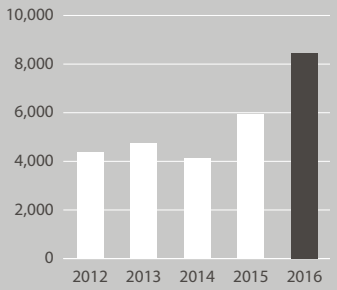
Amounts in NOK million	**2016**	2015	2014
Revenues	**6 688**	6 678	5 172
Earnings before interest and tax (EBIT)	**485**	479	315
Earnings before tax (EBT)	**498**	485	311
Operating margin	**7.3%**	7.2%	6.1%
Profit margin	**7.4%**	7.3%	6.0%
Order backlog	**8 467**	5 947	4 138
Employees (number of people)	**1 617**	1 314	988

EMPLOYEES



AF Gruppen 3,049

ORDER BACKLOG NOK MILL.



BUILDING CONSIST OF

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

SOLID RESULTS

Building reported a good performance by many projects and delivered solid results. The business 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 2016.

Building is AF's largest business area. Building spans the entire value chain from development and planning 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 has a leading position in renovation in Norway.

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

To increase organic growth in Greater Oslo, AF Nybygg was established as a new business unit in 2016. The unit will focus on public projects and residential construction in Greater Oslo. In 2016, AF Bygg Rogaland and AF Bygg Sør were merged under the new name AF Bygg Prosjektpartner. The unit will deliver projects throughout the entire country, in areas where AF has market and customer potential.

YEAR 2016 IN BRIEF

Building reported revenues of NOK 6,688 million (6,678 million) and earnings before tax of NOK 498 million (485 million) in 2016. The profit margin was 7.4%, compared with 7.3% in 2015.

The building business in Norway delivered very good results. This applies to the units AF Bygg Oslo, AF Byggfornyelse, AF Bygg Østfold, Strøm Gundersen and LAB. The primary geographic area of AF Bygg Prosjektpartner was in Southwestern Norway until recently. The unit has experienced a challenging year and delivered a result below the Group's requirements. The Swedish unit AF Bygg Sweden delivered results somewhat below the Group's requirements. Growth and increased profitability for our Swedish units is expected due to new management and organisation, as well as good market conditions.

In 2016, AF Gruppen and Oslo S Utvikling AS (OSU) decided to enter into exclusive contract negotiations with the aim of AF Gruppen becoming OSU's contracting partner for the development of Bispevika, one of Oslo's most attractive residential areas. The area will be developed with approximately 1,300 residential units and retail premises at street level. The agreement will be included in AF's order backlog once a final agreement has been entered into.

The total order book for Building stood at NOK 8,467 million (5,947 million) at the end of the 2016.

MARKET OUTLOOK

For 2017, continued growth in residential property prices is expected. Lower wage growth, somewhat higher unemployment and stricter lending practices may have a dampening effect on residential property prices, while urbanisation in combination with the record-low interest rate level will contribute to maintaining demand.

The trend for registered start permits has pointed upwards since the autumn of 2014. Prognosesenteret reported that the number of start permits for residential units was 36,530 in 2016, which corresponds to an increase of 18% compared with 2015. In the future, Prognosesenteret expects that the number of start permits will flatten out at a high level.

The Building business area is also exposed to fluctuations in the commercial property market. The construction of commercial buildings with a total area of 4.97 million square metres started in 2016, an increase of 10% over 2015. Commercial building starts are expected to show a weak downward trend in 2017.

The Swedish Construction Federation forecasts growth of 5% for building and civil engineering in Sweden for 2017. The greatest growth is expected in the new residential units segment (9%), but some growth is also expected for commercial property (1%).

STRATEGY

In recent years, the building business has delivered solid results and a high level of profitability. Key success factors for the results have included good risk management and the right organisation of the projects during the execution phase. The Building business area will continue its profitable growth in major Norwegian and Swedish cities towards the year 2020. Oslo, Bergen, Gothenburg and Stockholm are the chosen priority areas. This will be accomplished by further developing and increasing the newbuilding portfolio and the renovation, remodelling and extension portfolio, in combination with the acquisition of established and well-managed companies. The first concrete growth initiative for the building business has been the establishment of AF Nybygg in January of 2017. The object of this business unit is to carry out projects for public and private clients, and the geographic area for the unit is the Oslo region.

Simplifying everyday life

"Welcome to Norway's first nursing home constructed from solid wood. The building has modern solutions that are built to last. This applies to energy, use of materials, welfare technology, and the flexible manner in which the building is organised," says Ane Nordskar, Head of Nursing and Care Services at Frogn Municipality.

Fresh initiative using solid wood

At the new Ullerud helsebygg (Ullerud Nursing Home), environmentally friendly materials and modern technology shall meet the needs of the senior citizens of the future. Ane Nordskar from Frogn municipality is proud of the solutions they offer the residents in the lavish green surroundings.

Read about it here : afgruppen.no/2016

SELECTED PROJECTS | BUILDING

BERGEN STATION

On a long, narrow site between the Bergen Railway Station and Zander Kaaes gate, LAB Entreprenør has constructed a 15,000 m² office building. The north and east wings have four storeys, while the south wing has seven storeys. Construction started in January of 2014, and the building was handed over on 27 May 2016. LAB carried out the project as a turnkey contract.

Completion	**Q3 2016**
Client	**ROM EIENDOM**
Contract value NOK mill. excl. VAT	**400**

TRONDHEIMSVEIEN 387

AF Byggfornyelse has been appointed by the Municipal Undertaking for Social Housing to build and rehabilitate 91 care home units with adjacent common and commercial areas at Trondheimsveien 387. The existing low-rise building and the intermediary building at Trondheimsveien 387 are to be demolished, and a new building is to be constructed. The units are to be built in compliance with the passive house standard. The new low-rise building will contain 36 residential units, while the new intermediary building will contain common functions. The existing high-rise building is to be renovated to a modern standard, and a total of 55 residential units are to be established in addition to offices and commercial premises on the 1st floor. The combined gross area of the buildings will be 10,589 m².

Completion **Q1 2019**	Contract value NOK mill. excl. VAT **168**
Client **MUNICIPAL UNDERTAKING FOR SOCIAL HOUSING**	

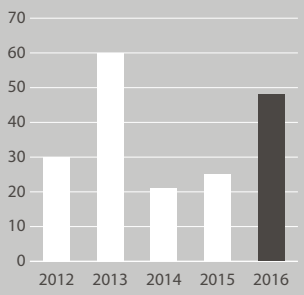
ULLERUD HELSEBYGG

Ullerud Helsebygg is the largest nursing home in Norway built in solid wood, and thereby also the first health centre of its kind in the country. Ullerud Helsebygg has a gross area of approximately 12,000 m² and encompasses 108 nursing home places, a learning, mastering and rehabilitation centre, a day centre for the elderly and a central kitchen. The new health building at Ullerud will make use of the very best welfare technology available, and will make daily life easier and safer for the residents and the staff.

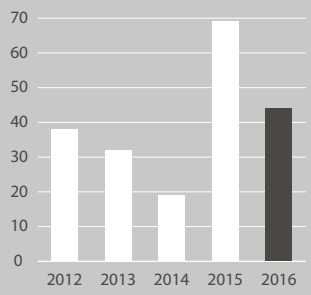
Completion	**Q1 2017**
Client	**MUNICIPALITY OF FROGN**
Contract value NOK mill. excl. VAT	**227**

PROPERTY

REVENUES NOK MILL.



OPERATING PROFIT NOK MILL.



GEOGRAPHIC PRESENCE

- Norway
- Sweden

KEY FIGURES

Amounts in NOK million	**2016**	2015	2014
Revenues	**48**	25	21
Earnings before interest and tax (EBIT)	**44**	69	19
Earnings before tax (EBT)	**30**	57	13
Operating margin	**-**	-	-
Profit margin	**-**	-	-
Order backlog	**-**	-	-
Employees (number of people)	**17**	18	14

EMPLOYEES

AF Gruppen 3,049

PROPERTY CONSIST OF

- AF Eiendom
- AF Projectutveckling
- LAB Eiendom

HIGH LEVEL OF ACTIVITY IN A STRONG MARKET IN GREATER OSLO

In 2016, there was a further increase in the level of activity in the Property business area. Successful project launches in a strong residential property market in the Greater Oslo Region have resulted in record-high sales for AF's property business.

The Property business area encompasses the development of residential units and commercial buildings under our own management. Most of the property projects are organised as separate legal entities, in which AF has an ownership stake ranging from 25% to 50%. For these associated companies, only Property's share of the profit for the period is recognised. Revenues and the order backlog for the partly-owned development projects are not included in reporting for the business area.

YEAR 2016 IN BRIEF

Property reported revenues of NOK 48 million (25 million) and earnings before tax of NOK 30 million (57 million) for 2016. A total of 688 (438) apartments were sold in 2016, of which AF's share was 316 (178). As at 31 December 2016, AF's share of unsold completed apartments totalled 5 (11).

The residential property market in Greater Oslo, where Property has most of its activities, has been strong in 2016. Price growth in the market has allowed for regular price increases as the apartments have been released for sale. The launch of the residential project Lillo Gård and the last construction stages of Krydderhagen were the highlights of 2016. Both projects were very well received on the market, and profit forecasts for the projects are good for 2017. In Sweden, two wholly-owned residential property projects with a total of 74 apartments were released for sale, and 58 of them were sold. These are located in Halmstad and near Gothenburg, and construction started in 2017. Outside of Greater Oslo and the western coast of Sweden, there was a low level of activity for the property portfolio in 2016.

At the start of 2017, AF's property business had eight construction stages with a total of 1,006 apartments in the production phase, of which AF's share was 456 apartments. The largest projects in the production phase are Thurmannskogen in Lørenskog with 334 apartments, Krydderhagen at Hasle with 273 apartments and Engebrets Promenade in Lillestrøm with 171 apartments. At the end of the year, AF had sites and development rights under development that totalled an estimated 2,054 (2,367) residential units, of which AF's share is 848 (997) residential units.

AF has a total of 107,310 m² (122,717 m²) of commercial property under development, of which AF's share is 51,213 m² (59,212 m²). Property has two commercial projects in the production phase, the 13,584 m² Securitas Building and the 7,200 m² Midtun Allier. They are scheduled for completion in 2017. There have not been sales of commercial property of any significance in 2016.

MARKET OUTLOOK

The development of residential property prices was particularly strong in 2016, and figures from Property Norway in December 2016 show a 12-month residential property price growth of 12.8% in Norway. The greatest price increase was in Oslo (23.3%), and the weakest performance was in Stavanger with a price decline of 2.6%. Property Norway's forecasts for the Norwegian residential property market in 2017 show an expected increase of an additional 9-11%. It is expected that the regional differences will diminish throughout 2017, but that Oslo will continue to show the highest price growth and that the Stavanger region will continue to show the weakest performance.

The residential property market in the major cities in Sweden showed a strong performance in 2016, and further growth is also expected in 2017. A low interest rate level in Europe also results in increased demand for long-term commercial property investments.

STRATEGY

AF's property business has a two-fold objective and strategy. The unit aims to develop property in cooperation with the building business and at the same time contribute to its own profitability and an extra return on the investments. Project development risk is reduced by entering into option agreements for the acquisition of sites, or by having partners with ownership stakes in the projects. Our partnering strategy also contributes to securing AF a good supply of sites, and it adds the benefit of complementary expertise for the development and implementation of the projects.

Property's strategy is to follow the activity in the building market, and it has therefore started to expand its geographic area of operation and balance the portfolio with commercial projects. In 2017, AF will focus on the realisation of projects through the sale of residential units and commercial property, while at the same time actively seeking to make new investments in building sites and development property in cooperation with the Building business area and selected co-investors.

Green urban space
"It is important for us to live in a car-free area, where the buildings are not too close together and there are also several green areas. A very important factor for us choosing to move here was that this would be a great place for our daughter Sol to grow up," say Karoline and Erling Høydahl.

Life in an unusual urban space

When the Høydahl family moved into one of the top floor apartments at Krydderhagen, the main attractions were green lungs, car-free environment and the special character of the buildings. For the new parents, life in Hasle is like living in the country, while being in the middle of the city.

Read about it here : afgruppen.no/2016

SELECTED PROJECTS | PROPERTY

BRF GLASHUSET

In Halmstad, Sweden, 54 space-efficient apartments will be constructed in a residential building that will represent a new landmark for the entire Östre Stranden district. A large glass facade frames the interior courtyard, which is surrounded by two five-storey apartment buildings. The apartments were released for sale in Q4 2016, and both buildings sold out at the start of sales.

Completion **Q2 2018**	Residental units **54**
Ownership stake **100%**	

LILLO GÅRD

People have lived at Lillo since the Stone Age. The yard of Lillo Farm, with the renovated wooden farm buildings, will form the focal point for a new residential project encompassing 440 apartments. The project has been developed in cooperation with OBOS and is located in the Storo District of Oslo, with Nydalen and walking trails along the Akerselva River in the immediate vicinity. The project was released for sale in the autumn of 2016, and the first and second construction stages have sold out.

Completion **2019 -2021**
Ownership stake **25%**
Residental units **440**

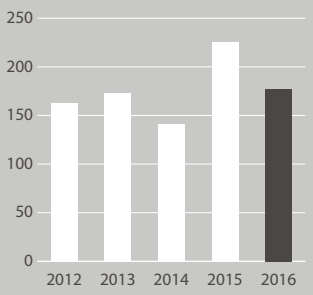
KRYDDERHAGEN

At Vinmonopolet's old property at Hasle, AF Gruppen and Höegh Eiendom have developed a property project that has appealed to both younger and more mature apartment buyers. Due to strong sales, the project will be completed as much as two years before originally planned. Krydderhagen will be a green, modern garden city at Hasle. The construction stages Coriander, Nutmeg and Basil were the first of a total of 500 apartments. Many people have already moved in.

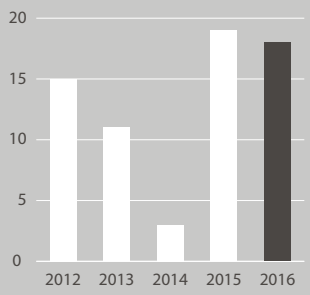
Completion **Q3 2019**
Ownership stake **50%**
Residental units **500**

ENERGY

REVENUES NOK MILL.

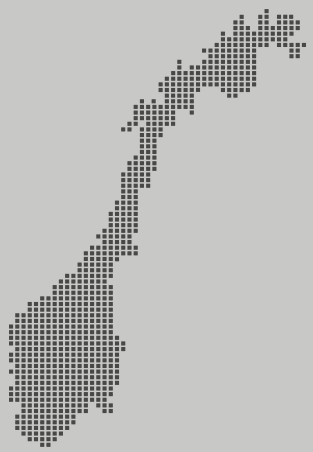


OPERATING PROFIT NOK MILL.



GEOGRAPHIC PRESENCE

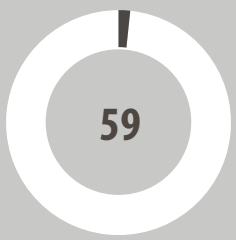
- Norway



KEY FIGURES

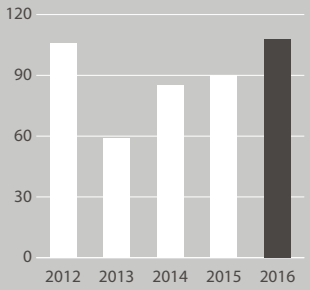
Amounts in NOK million	**2016**	2015	2014
Revenues	**177**	225	141
Earnings before interest and tax (EBIT)	**18**	19	3
Earnings before tax (EBT)	**16**	21	3
Operating margin	**10.0%**	8.3%	2.1%
Profit margin	**8.9%**	9.4%	2.2%
Order backlog	**108**	90	85
Employees (number of people)	**59**	60	57

EMPLOYEES



AF Gruppen 3,049

ORDER BACKLOG NOK MILL.



ENERGY CONSIST OF

- AF Energi & Miljøteknikk
  Boligenergi

LOWER LEVEL OF ACTIVITY, BUT GOOD RESULTS

Energy reported a somewhat lower level of activity in 2016, but the unit is performing well operationally and many of the projects are showing strong results.

The Energy business area provides energy-efficient and future-oriented technical energy services for buildings and industry. The business area consists of the units AF Energi & Miljøteknikk and Boligenergi.

The range of services at AF Energi & Miljøteknikk 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, services related to the operational monitoring of energy plants, energy services and energy monitoring are provided.

Boligenergi is owned jointly with OBOS and offers total solutions connected to renewable energy and energy conservation for housing cooperatives and condominiums.

YEAR 2016 IN BRIEF

In 2016, the Energy business area reported revenues of NOK 177 million (225 million). Earnings before tax were NOK 16 million (21 million). The profit margin was 8.9% (9.4%). The good results can be attributed to good operational performance and efficient use of resources in the projects. For example, the T3 project at Bergen Airport Flesland, the largest contract ever for the Energy business area, reported both good financial and safety results. The energy plant at the Moholt Student Village was handed over in the autumn of 2016 and was the most noteworthy project of the year. The reduction in revenue in 2016 is attributed mainly to fewer advertised tenders and the postponed start-up of certain contracts.

In 2016, AF Energi & Miljøteknikk has experienced a lower than expected order intake in the renewable energy portfolio. The trend for the last half of the year was nevertheless positive, and Energy is entering 2017 with a higher order backlog than one year ago.

The level of activity in the service portfolio has increased throughout the year, with an increasing number of ongoing agreements and more technical contract jobs.

Fewer energy savings contracts (EPC) have been advertised in 2016, but Energy won a large share of the advertised contracts. The energy savings contracts have had a very modest effect on the order backlog, since they do not include a contractual volume beyond the analysis phase. The extrapolated value of the EPC contracts was NOK 158 million (110 million) at year end.

The order backlog for Energy stood at NOK 108 million (90 million) at the end of the year.

MARKET OUTLOOK

In 2016, the Norwegian Parliament adopted ambitious energy goals related to a reduction in the consumption of energy towards the year 2030. The Norwegian Parliament's energy goals are to be realised through a significant reduction in the consumption of energy by existing buildings compared with the current level (10 TWh reduction), among other things. Enova has surveyed the potential conservation of energy in Norwegian buildings. They point out that there is a major maintenance backlog for public buildings and major conservation opportunities in connection with the rehabilitation of buildings.

Energy savings contracts (EPCs) in municipalities and public enterprises have thus become an increasingly interesting market area after a standardisation of contract terms took place. There has been a significant increase in the number of advertised energy savings contracts in recent years, and this growth is expected to continue in 2017.

Regulatory changes in the district heating market have resulted in a better regulatory framework for the establishment of local heating plants based on renewable energy. There is greater awareness of solutions like this, and completed projects illustrate the potential to reduce energy costs.

STRATEGY

The ambition is to become Norway's leading energy contractor with expert knowledge in the areas of energy reduction and production. The Energy business area already has a strong position in its market segments. A prerequisite for further growth is increased management capacity and access to expertise in planning, project management and technical disciplines. Our work also focuses on adaptation of our range of services in order to reach additional customer segments. Multi-deliveries together with business units in the Building business area are an interesting opportunity.

The goal of profitable growth will be reached by a combination of organic growth and acquisitions. Energy will work with the development of new services that border on our existing activities. There are also clear ambitions to increase our market share in the growing municipal EPC market. More standardised project execution and further development of cost-effective solutions in cooperation with foreign suppliers are important premises for further strengthening the market position of Energy.

Arouses curiosity
"It's really cool that the energy plant is so clearly visible in a glass cabinet. I think it's very cool that people walking past can see all of the plant's technical solutions that would otherwise be hidden," says Didrik Kroen, a civil and environmental engineering student at the Norwegian University of Science and Technology (NTNU).

Energy on display

Located in one of Trondheim's most popular student areas are five new, energy-efficient residential blocks. Between them, a very unusual energy plant is lit up. For student Didrik Kroen, Moholt's new energy plant is a study programme in practice.

Read about it here : afgruppen.no/2016

SELECTED PROJECTS | ENERGY

T3 BERGEN AIRPORT, FLESLAND

AF Gruppen secured its largest ever energy project when it was awarded the heating and cooling plant contract for the new T3 terminal at Bergen Airport Flesland. AF Gruppen's contract encompasses cooling, heat recycling and thermal cooling energy storage, as well as the distribution network for 63,000 m².

Completion **Q1 2017**	Contract value NOK mill. excl. VAT **81**
Client **AVINOR**	

Completion **Q4 2017**
Client **MUNICIPALITY OF ULLENSAKER**
Contract value NOK mill. excl. VAT **32**

MUNICIPALITY OF ULLENSAKER – EPC

AF has been awarded an EPC for the Municipality of Ullensaker for energy conservation measures in 13 buildings. EPC (Energy Performance Contracting) is an energy savings contract in which the contractor guarantees specific future savings through energy conservation measures. For the Municipality of Ullensaker, the savings will amount to 4.97 GWh of the total energy consumption and 29.5% of the total energy expenses for the buildings.

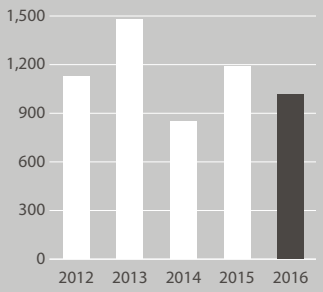
MOHOLT 50/50

Energy-efficient solutions have been in focus in the Moholt 50/50 project. In addition to space efficiency and the passive building standard, the Student Welfare Organisation in Trondheim (SiT) looked further and brought in the expertise of AF Energi & Miljøteknikk to ensure energy-efficient operations for the coming years. The result is an innovative and complex energy system that ensures a green energy consumption that very few other Norwegian residential areas can boast. Heat is collected from a well farm, surplus heat in buildings, the sun and waste water.

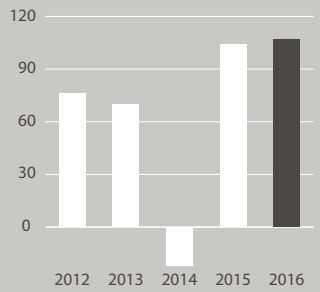
Completion **Q3 2016**
Client **STUDENT WELFARE ORGANISATION IN TRONDHEIM**
Contract value NOK mill. excl. VAT **11**

OFFSHORE

REVENUES NOK MILL.

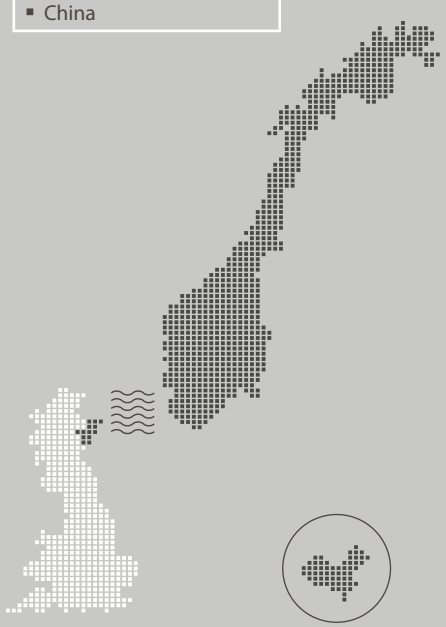


OPERATING PROFIT NOK MILL.



GEOGRAPHIC PRESENCE

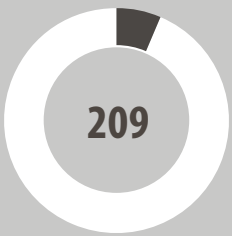
- Norwegian and British continental shelf
- Norway
- UK
- China



KEY FIGURES

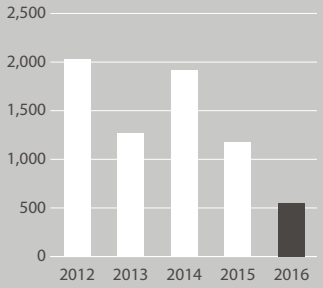
Amounts in NOK million	**2016**	2015	2014
Revenues	**1 014**	1 187	850
Earnings before interest and tax (EBIT)	**107**	104	-22
Earnings before tax (EBT)	**94**	83	-45
Operating margin	**10.5%**	8.7%	-2.6%
Profit margin	**9.3%**	7.0%	-5.3%
Order backlog	**550**	1 182	1 918
Employees (number of people)	**209**	241	354

EMPLOYEES



AF Gruppen 3,049

ORDER BACKLOG NOK MILL.



OFFSHORE CONSIST OF

- AF Offshore Decom
  AF Decom Offshore UK Ltd.
  AF Environmental Base Vats
- AF Offshore AeronMollier
  Aeron Energy Tech Co.
- V & M Landanlegg

HIGH LEVEL OF ACTIVITY AND GOOD RESULTS FOR REMOVAL AND RECYCLING

Overall, 2016 was a good year for AF's offshore business. The global decline in the offshore market has entailed a higher demand for offshore demolition services, while the other offshore activities are experiencing a lower level of activity and challenging times.

The Offshore business area encompasses AF's services related to the removal and recycling of offshore installations, and also includes new building, modification and maintenance work related to cranes, 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 Offshore Decom and AF Offshore AeronMollier. Offshore also has activities related to the maintenance and modification of onshore facilities (V & M Landanlegg).

YEAR 2016 IN BRIEF

Offshore reported revenues of NOK 1,014 million (1,187 million) for 2016. Earnings before tax were NOK 94 million (83 million). The profit margin was 9.3%, compared with 7.0% in 2015.

In 2016, AF Offshore Decom carried out an offshore campaign to remove the deck of the Murchison steel platform, which was in the British sector of the North Sea. This contributed to a high level of activity and good results for the unit. The project also resulted in a high level of activity at the reception facility at Vats in 2016. This project, in addition to the scrapping of the Janice A platform for Maersk, among other things, is expected to contribute to a high level of activity at the Environmental Base at Vats in 2017 as well.

AF Offshore AeronMollier has experienced challenging market conditions for a long period of time, and AF decided to write down goodwill by NOK 40 million in 2016. Several organisational measures have been carried out, and the unit managed to maintain its revenues and achieved better profitability in 2016 than in the previous years. The unit has had a high level of activity in the Johan Sverdrup project, which will continue in 2017.

V & M Landanlegg performed well, but experienced a somewhat lower level of activity in 2016.

At year end, the Offshore business area had an order backlog of NOK 550 million (1,182 million).

MARKET OUTLOOK

The price of oil was stable at over USD 110 until the summer of 2014. After that the price fell sharply until the beginning of 2016, when it went below USD 30. The price of oil recovered somewhat in 2016, but the drop in oil prices have contributed to reduced profitability and a lower willingness to invest among oil companies. Statistics Norway estimates that investments related to oil, gas and pipeline transport will amount to NOK 146.6 billion in 2017. This is a decline of approximately 10%, compared with the estimate for 2016. In particular, investments in exploration are being reduced. 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. Estimates from the British industry organisation Oil & Gas UK indicate that more than 100 platforms on the Norwegian and British continental shelves are to be removed fully or partially over the next 10 years. In addition, over 1,800 wells will be plugged permanently and approximately 7,500 kilometres of pipeline are to be cleaned and decommissioned. The cost of this has been estimated at up to NOK 200 billion. This represents good opportunities for AF's offshore activities in the demolition and removal of decommissioned installations.

STRATEGY

AF Gruppen is and will continue to be the leading company for the removal and recycling of decommissioned offshore installations in the North Sea. In addition, AF Gruppen aims to be a niche-based maintenance and modification provider for small and medium-sized deliveries, and to be the leading supplier of HVAC services to the marine and offshore sectors.

The corporate strategy for 2017-2020 states that the Offshore business area shall strengthen its position in the offshore market. This will entail expanding both the portfolio of services and the geographic presence. Offshore shall be a complete supplier and establish project-based services that border on our core operations in markets that do not follow the same economic cycle as offshore removal. To achieve this goal, both organic and structural growth will be required.

A focus on recycling
"We are facing major climate and energy consumption challenges. Statsbygg is a major government actor, and it is therefore important that we are a good example of environmentally friendly building processes", says Elin Anita Hansen, environmental manager for Statbygg's New National Museum Project.

Recycling for the climate and for art

The skeleton of the new National Museum is rising like a sculpture in the middle of Oslo. One of the developer's requirements is that the reinforcement iron must be recycled. AF recycles steel from the largest platforms in the North Sea – such as Murchison. The steel is smelted down and used as reinforcement iron in new buildings, among other things.

Read about it here : afgruppen.no/2016

SELECTED PROJECTS | OFFSHORE

JANICE A

Janice A is a semi-submersible rig that was originally built and used as an accommodation vessel. Janice was subsequently rebuilt as an FPU (Floating Production Unit) for use on the Janice field for Maersk Oil UK. The rig, which weighs approximately 18,500 tonnes, shall be cut up at the dock at the AF Environmental Base at Vats and processed onshore prior to demolition and recycling. This is the first time that AF implements the method that is to be used, and the project represents an expansion of the range of services offered by AF Decom Offshore.

Completion **2017**	Contract value
Client **MAERSK OIL & GAS UK**	**CURRENTLY NOT DISCLOSED**

Completion **2020**	Contract value NOK mill. excl. VAT
Client **STATOIL**	**250**

JOHAN SVERDRUP

AF Offshore AeronMollier has secured a framework agreement for the delivery of HVAC (Heating, Ventilation and Air Conditioning) equipment for the development of Johan Sverdrup on behalf of Statoil. Johan Sverdrup is one of the largest fields on the Norwegian continental shelf, and the agreement entails that AF will deliver all of the ventilation systems for the four installations for accommodation, processing, drilling and risers in what will be the first construction stage for the field centre.

MURCHISON

In a consortium with Heerema Marine Contractors Nederland SE (Heerema-AF Consortium), AF Decom Offshore has started work on the removal and recycling of the Murchison platform in the North Sea. The contract encompasses planning, preparation, removal and recycling of both decks and the steel foundations, which have a combined weight of more than 37,000 tonnes. The removal and decommissioning work will be completed by 2020. The recycling work will be carried out at the AF Environmental Base at Vats.

Completion **2020**
Client **CANADIAN NATURAL RESOURCES INTERNATIONAL (U.K.) LIMITED**
Contract value NOK mill. excl. VAT **700**

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 150,187 shares and 30,521 options in AF Gruppen ASA as at 31 December 2016.

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 119,290 shares and 31,372 options in AF Gruppen ASA as at 31 December 2016.

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 8,170 shares and 17,233 options in AF Gruppen ASA as at 31 December 2016.

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 242,646 shares and 30,764 options in AF Gruppen ASA as at 31 December 2016.

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 20,255 shares and 26,877 options in AF Gruppen ASA as at 31 December 2016.

BÅRD FRYDENLUND

(1968)
Executive Vice President

Bård Frydenlund is responsible for Personnel and Organisation and Bygg Sør-Vest. He has been with AF as the personnel director, and he has held various roles in AF within Personnel and Organisation since 2000. Bård Frydenlund has a degree in economics (diplomøkonom) and Master of Management from BI Norwegian Business School. He owns 97,815 shares and 20,144 options in AF Gruppen ASA as at 31 December 2016.

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 held various positions in finance and accounting and 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 9,779 shares and 14,911 options in AF Gruppen ASA as at 31 December 2016.

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. He has experience from business development and various operational roles in Civil Engineering and Offshore at AF. 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 42,903 shares and 15,626 options in AF Gruppen ASA as at 31 December 2016.

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 Vedal AS, 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 Lunde 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, Russia, France, Poland and South Corea. She has an advanced engineering degree (sivilingeniør) from the Norwegian University of Science and Technology (NTH).

DANIEL KJØRBERG SIRAJ

(1984)
Deputy Chairman

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 two 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 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 and BRG Entrepenør 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 2016

Work on a new corporate strategy for 2017-2020 has been an important item for the Board of Directors in 2016. The ambition of profitability and strong growth from our previous strategy period will continue. 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.

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.

Pål Egil Rønn was elected to the Board of Directors at the Annual General Meeting in May 2016, and he is now the Board Chairman. Rønn was the CEO of AF Gruppen until October 2015

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 code of practice for corporate management and prepares a statement in accordance with the Norwegian Code of Practice for Corporate Governance 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, inter alia, 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 2016, the Board of Directors considered 16 tenders before the tenders were submitted, as well as three potential site investments in connection with property development.

BOARD OF DIRECTORS

Members	Number of shares	Attendance record
Pål Egil Rønn (Chairman)	199 825	6/6
Daniel Kjørberg Siraj (Deputy Chairman)[1]	-	8/8
Hege Bømark	-	8/8
Borghild Lunde	-	7/8
Kristian Holth[2]	-	8/8
Peter Groth (alternate)[3]	11 500	8/8
Kenneth Svendsen	73 858	8/8
Pål Jacob Gjerp	43 495	7/8
Arne Sveen	-	8/8

[1] Represents OBOS BBL, which owns 15,643,841 shares.
[2] Represents Constructio AS and Flygind AS, which own 13,678,049 and 1,016,771 shares, respectively.
[3] Is related to Ringkjøb Invest AS, which owns 76,355 shares, in addition to its own shares.

Board's audit committee

Hege Bømark (Chairman)
Borghild Lunde
Kristian Holth

Board's compensation committee

Daniel Kjørberg Siraj (Chairman)
Peter Groth

Nomination committee

Tore Thorstensen (Chairman)
Ove B. Haupberg
Gunnar Bøyum

External auditor

Ernst & Young 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	AF Gruppen has three deviations from the Code of Practice for this section: i) 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 is 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. ii) 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 Committee are present. Other board members will attend as required. iii) 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.
7	Nomination Committee	AF Gruppen has one deviation from the Code of Practice for this section: i) The majority of the Nomination Committee is not independent of the Board of Directors.
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	AF Gruppen has one deviation from the Code of Practice for this section: i) 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.
13	Information and communication	No deviation
14	Company takeover	No deviation
15	Auditor	No deviation

THE SHARE

Shareholders in AF Gruppen received a good return on their investment in 2016 as well. Including dividends, the share yielded a return of 16.5%, while the Oslo Stock Exchange's benchmark index rose 12%. The AF share has yielded a higher return than the Oslo Stock Exchange's benchmark index in each of the last 13 calendar years.

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

AF'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.

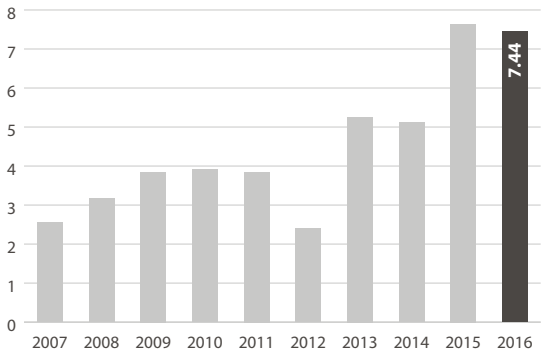
The AF share rose 11% in 2016, and its closing price as at 31 December 2016 was NOK 154.50 (139.50). Adjusted for the total dividend of NOK 8.00 per share distributed in 2016, the return was 16.5% (dividend reinvested). AF Gruppen is among the shares on the Oslo Stock Exchange that have yielded the highest return for its shareholders. Over the last 10 years, the AF share has yielded a return of 1,243%, including dividends. This corresponds to an average annual return of 30%. In comparison, the Oslo Stock Exchange's benchmark index has risen 55% over the last 10 years, which corresponds to an average annual return of 6%.

The liquidity of the share has improved in recent years, but the trading volume declined in 2016 compared with the previous year. From 2009 to 2013, the turnover rate for the AF share was approximately 3% per year. In 2014, 2015 and 2016, the turnover rate was 8, 11 and 7%, respectively. In 2016, a total of 6,690,343 (10,369,757) 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 26,444 (41,314) shares. Of the 6.7 million shares that were traded on the stock exchange in 2016, AF Gruppen itself accounted for 223,772 shares, corresponding to 3.3% of the total turnover. These are shares the company bought on the stock exchange for use in the share and bonus programmes for employees.

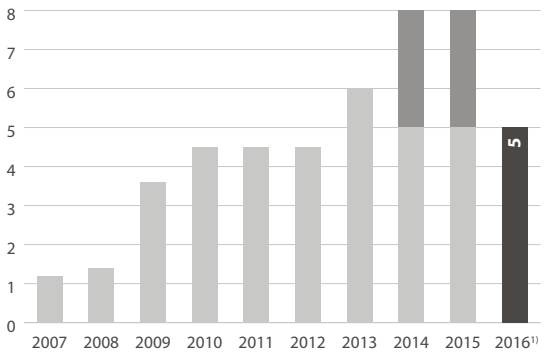
DIVIDEND

Over time, AF Gruppen should provide its shareholders with a competitive return. Provided that the underlying development of AF Gruppen is satisfactory, the company assumes that dividends will be stable and, preferably, rise in the future. The Board will evaluate the company's liquidity and

EARNINGS PER SHARE



DIVIDEND PER SHARE

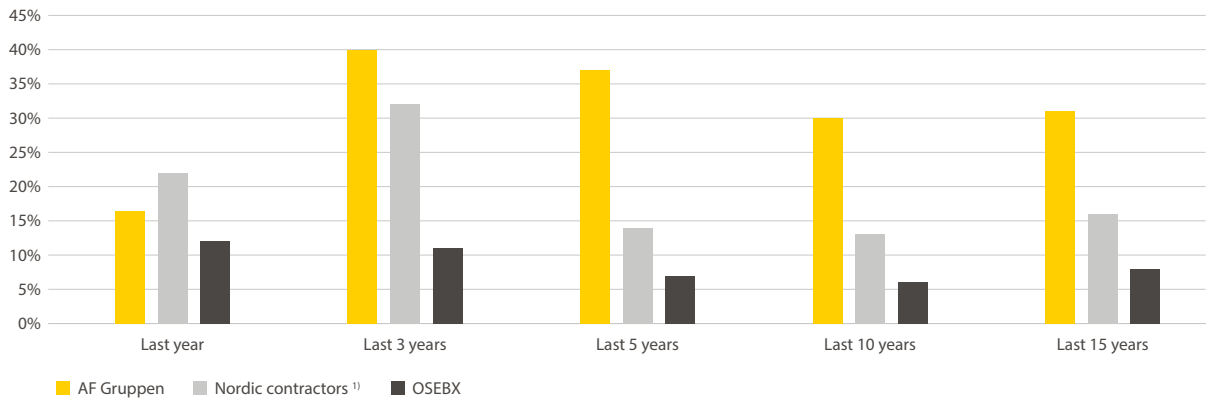


[1)] *Proposed, not adopted dividend for 1st half-year 2017*

Key figures for the share	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Market value (NOK million)	14 463	12 929	7 009	5 578	4 578	3 556	2 845	2 242	1 269	1 859
Number of shares traded (1,000)	6 690	10 370	7 102	2 559	2 568	2 095	2 969	1 945	1 605	3 735
Total number of shares as at 31.12 (Mill.)	93.61	92.68	88.72	82.33	81.38	80.81	71.12	70.50	69.35	68.85
Number of shareholders as at 31.12	2 737	2 575	1 815	1 494	1 407	1 254	914	733	686	677
Share prices as at 31.12	154.50	139.50	79.00	67.75	56.25	44.00	40.00	31.80	18.30	27.00
- High	164.50	139.50	82.00	72.00	59.25	53.00	43.00	31.80	27.70	27.00
- Low	120.00	77.25	66.50	54.75	41.50	38.60	32.60	18.20	16.90	22.00
Earnings per share	7.44	7.64	5.11	5.26	2.40	3.83	3.92	3.85	3.10	2.55
Diluted earnings per share	7.29	7.50	5.09	5.11	2.37	3.83	3.82	3.85	3.10	2.55
Dividends per share	5.00[1]	8.00	8.00	6.00	4.50	4.50	4.50	3.60	1.40	1.20
Distribution ratio (ordinary dividend)	67.2%	104.7%	156.6%	114.1%	187.5%	117.5%	114.8%	93.5%	45.2%	47.1%
Direct return (total dividend)	3.2%	5.7%	10.1%	8.9%	8.0%	10.2%	11.3%	11.3%	7.7%	4.4%
Share's total return	16.5%	89.2%	25.5%	28.4%	38.1%	21.3%	37.1%	81.4%	-27.8%	24.4%
Return on Equity	43.3%	43.8%	34.3%	38.4%	19.0%	28.5%	37.6%	33.1%	33.5%	31.6%
Share price / earnings per share (P/E)	20.8	18.3	15.5	12.9	23.4	11.5	10.2	8.3	5.9	10.6
Share price / equity per share (P/B)	7.4	7.1	4.7	4.2	3.8	2.7	2.9	2.5	1.7	3.3
Return on average capital employed	54.5%	53.6%	38.7%	45.7%	24.8%	35.9%	36.0%	35.7%	33.0%	29.3%
Enterprice value / EBIT (EV/EBIT)	13.4	12.2	11.2	8.5	13.5	8.0	6.2	6.1	4.8	8.7
Enterprise value / Invested capital (EV/CE)	6.7	6.4	3.9	3.4	3.3	2.1	2.2	2.0	1.3	2.3

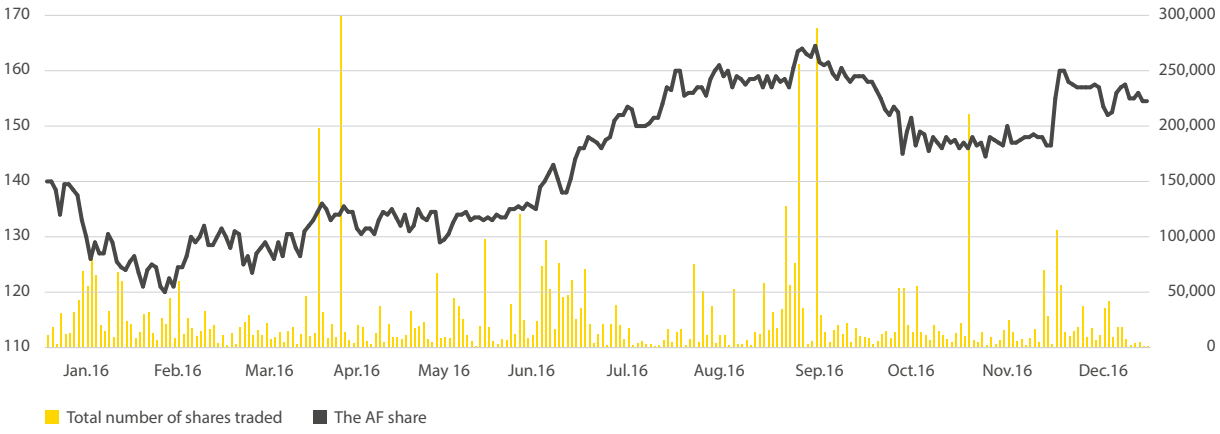
[1] Proposed, not adopted dividend for payment 1st half-year 2017

ANNUAL TOTAL RETURN PER 31 DECEMBER 2016



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

SHARE PRICE PERFORMANCE AND TRADING VOLUME IN 2016



possible strategic transactions when a dividend is proposed. AF Gruppen's intention over time is to distribute a minimum of 50% 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. In 2016, a dividend of NOK 3.00 (3.00) per share was distributed in November, in addition to NOK 5.00 (5.00) per share, which was distributed in May. A total of NOK 8.00 (8.00) per share was distributed in 2016 for the 2015 financial year.

For the 2016 financial year, the Board of Directors proposes distribution of a dividend of NOK 5.00 per share for the 1st half of 2017 to the General Meeting. The dividend will be distributed on 23 May to shareholders of record as at 16 May 2017.

SHARE CAPITAL AND SHAREHOLDER COMPOSITION

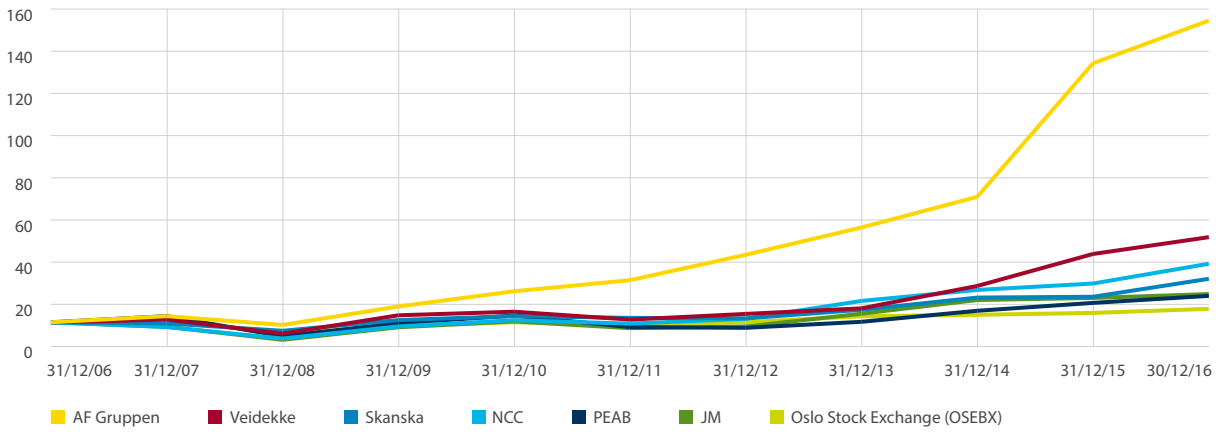
At the start of 2016, the share capital was NOK 4,634,000, divided into 92,680,000 shares, each with a nominal value of NOK 0.05. During the year, the company has carried out one share issue of 930,000 shares in connection with the company's share programme for employees. As a result of this new issue, the share capital increased by NOK 46,500 and totalled NOK 4,680,500, divided into 93,610,000 shares, each with a nominal value of NOK 0.05, at the end of 2016.

In 2016, AF Gruppen also gained some additional shareholders. At the end of the year there were 2,737 (2,575) shareholders on the list of shareholders. Close to 1 200 of the shareholders were employed by AF Gruppen. As at 31 December, the ten largest shareholders owned 67% (66%) of the company's shares. Employees of AF owned approximately 14% (15%) of the shares in the company. At the end of the year, 95.3% (96.2%) of the shares were owned by Norwegian shareholders. As at 31 December 2016, OBOS is

Shareholders	Number of shares	% of total
OBOS BBL	15 643 841	16.71%
ØMF Holding AS	14 617 226	15.62%
Constructio AS	13 678 049	14.61%
Folketrygdfondet	5 031 393	5.37%
Aspelin Ramm Gruppen AS	4 993 269	5.33%
LJM AS	2 413 900	2.58%
VITO Kongsvinger AS	1 861 676	1.99%
Arne Skogheim AS	1 723 870	1.84%
Skandinaviska Enskilda Banken AB (nom.)	1 557 961	1.66%
Staavi, Bjørn	1 515 452	1.62%
Moger Invest AS	1 240 541	1.33%
Stenshagen Invest AS	1 124 977	1.20%
Handelsbanken Norge (fond)	1 025 000	1.09%
Flygind AS	1 016 771	1.09%
KLP AksjeNorge Indeks	597 018	0.64%
Eriksson, Erik Håkon	560 000	0.60%
Janiko AS	522 741	0.56%
Regom Invest AS	433 212	0.46%
Skandinaviska Enskilda Banken AB (nom.)	425 925	0.45%
Protector Forsikring ASA	416 806	0.45%
Total 20 largest	**70 399 628**	**75.21%**
Total other shareholders	23 152 150	24.73%
Treasury shares	58 222	0.06%
Total 20 largest	**93 610 000**	**100.00%**

Number of shares	Number of owners	Per cent
1 - 100	539	0.03%
101 - 500	562	0.17%
501 - 1 000	280	0.24%
1 001 - 5 000	686	1.93%
5 001 - 10 000	266	2.00%
10 001 - 100 000	336	10.37%
100 001 - 1 000 000	54	13.21%
> 1 000 000	14	72.05%
	2 737	**100.00%**

SHARE PRICE PERFORMANCE FOR THE LAST TEN YEARS COMPARED WITH COMPETING CONTRACTORS AND THE OSLO STOCK EXCHANGE



Oslo Stock Exchange and competing contractors rebased, 31 December 2006 = 11.50
Local currency, total return

still AF Gruppen's largest shareholder with 16.7% (16.9%) of the company's shares. The greatest changes among the ten largest shareholders in 2016 was the National Insurance Scheme Fund (Folketrygdfondet) increasing its ownership stake from 4.5% to 5.4%, while Stenshagen Invest AS reduced its ownership stake from 1.9% to 1.2%. There have been no significant changes among the 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% of the shares outstanding in the company.

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 via 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 table to the right 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
Beringer Finance	+47 23 11 30 30
Danske Bank	+47 85 40 70 73
DNB Markets	+47 24 16 92 09
Handelsbanken	+46 87 01 51 18
Swedbank	+47 23 23 82 58

FINANCIAL INFORMATION

BOARD OF DIRECTORS' REPORT 2016

AF Gruppen delivered strong results in 2016, with an operating margin of 8.7%. In 2017, AF Gruppen is embarking on a new strategy period that will last until 2020. The new strategy defines clear priorities and entails a clear ambition of continued profitable growth. With a robust organisation and high order backlog, the Board of Directors is of the opinion that the company is well-positioned for a continued high 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, AF has relied upon its own execution capability and expertise to perform complex tasks. The company's entrepreneurial spirit is distinguished by an ability and 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.

PRESENTATION OF THE ANNUAL ACCOUNTS

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 financial statements of the parent company AF Gruppen ASA and the Group provide an accurate and fair picture of the financial results for 2016 and the financial position as at 31 December 2016. The Board of Directors confirms that the prerequisites for the going concern assumption have been met. The Board's Corporate Governance Statement is an integral part of the Board of Directors' report. The statement is summed up on page 70 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 22 of the annual report.

INCOME STATEMENT, BALANCE SHEET AND LIQUIDITY

AF Gruppen reported operating and other revenues of NOK 11,876 million (12,398 million) for 2016. Earnings before interest and tax were NOK 1,034 million (1,010 million), which corresponds to an operating margin of 8.7% (8.1%). This is well above the long-term operating margin requirement of a minimum of 5%.

Earnings before tax were NOK 1,040 million (1,004 million) and the earnings after tax were NOK 787 million (778 million).

The Civil Engineering, Building, Property and Offshore business areas showed a high level of activity in 2016 and contributed to very good results. The Environment and Energy business areas showed varying activity throughout the year. Offshore's level of activity and results are marked by a well-executed offshore campaign for the demolition of Murchison, one of the world's largest steel platforms. The market is still challenging for offshore maintenance and modification operations. The results for 2016 were positive, but lower than desired, and goodwill was written down by NOK 40 million.

The return on equity was 43.3% (43.8%) for 2016. The return on average invested capital was 54.2% (53.6%). The balance sheet total as at 31 December 2016 was NOK 6,549 million (6,243). At year end, the Group had net interest-bearing receivables of NOK 606 million (593 million) and cash and cash equivalents of NOK 469 million (459 million). Shareholders' equity at the end of the year was NOK 1,950 million (1,820 million), which corresponds to an equity ratio of 29.8% (29.1%). Cash flow from operations in 2016 was NOK 822 million (1,418 million). Cash flow before capital transactions and financing was NOK 809 million (1,492 million). A dividend of NOK 744 million (735 million) was paid in 2016.

THE SHARE

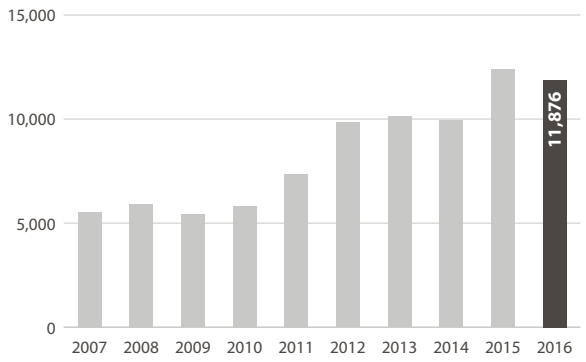
Earnings per share were NOK 7.44 (7.64) in 2016. Diluted earnings per share were NOK 7.29 (7.50).

The Board proposes that an ordinary dividend of NOK 487 million be distributed for the 2016 financial year. This corresponds to an ordinary dividend per share of NOK 5.00 (NOK 5.00).

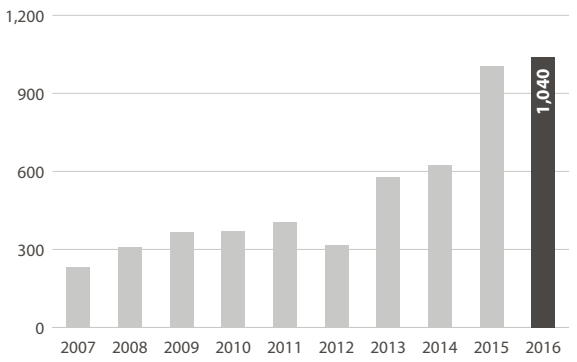
In accordance with AF's dividend policy, semi-annual dividends will be distributed, provided the company's earnings and financial position so allows. AF distributed a dividend of NOK 3.00 (3.00) per share in the 4th quarter of 2016. The combined dividend per share distributed in 2016 was therefore NOK 8.00 (8.00).

The share price was NOK 154.50 (139.50) at year end. This yielded a return to shareholders, including dividends for 2016, of 16.5%.

REVENUES NOK MILLION



EARNINGS BEFORE TAX NOK MILLION



DISTRIBUTION OF COMPREHENSIVE INCOME FOR THE YEAR

Comprehensive income for the year for AF Gruppen ASA was NOK 658 million and the following distribution is proposed:

Transferred to other reserves	NOK 171 million
Provision for dividend	NOK 487 million
Total allocations	**NOK 658 million**

BUSINESS AREAS 2016

CIVIL ENGINEERING

Description of the business

The Civil Engineering business area comprises all of AF's civil engineering activities in Norway and Sweden. Civil Engineering has the experience and expertise required to carry out everything from small and simple to large and demanding civil engineering projects. Civil Engineering carries out projects in the fields of hydropower, transport, port facilities, onshore facilities for the oil and gas industry, and foundation work. Our customers are primarily public sector agencies, as well as large energy and industrial companies.

NOK million	2016	2015	2014
Revenue	3 368	3 760	3 172
Operating profit (EBIT)	461	339	286
Earnings before tax (EBT)	475	339	288
Operating margin	13.7%	9.0%	9.0%
Profit margin	14.1%	9.0%	9.1%
Order backlog	5 589	3 402	2 913

In 2016, Civil Engineering reported revenues of NOK 3,368 million (3,760 million). This represents a decline in revenue of 10.4% compared with 2015. Operating profit for 2016 amounted to NOK 461 million (339 million) and earnings before tax amounted to NOK 475 million (339 million). The operating margin was 13.7% (9.0%).

AF Anlegg saw a high level of activity in 2016 and delivered very good results. The unit has increased its presence and regional activity in Greater Oslo. Målselv Maskin & Transport also had a very good year with a high level of activity and good results. In 2016, Pålplintar had a level of activity on par with the previous year and reported weak results. Operational and organisational adjustments have been carried out.

Acquisitions

In February 2017, AF entered into a final agreement with the Swedish contractor Kanonaden Entreprenad AB to acquire 70% 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% 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 December 2016, Civil Engineering entered into a contract for the planning and construction of 23 kilometres of new motorway on the E18 between Tvedestrand and Arendal. This is the first major design and build contract awarded by the public road construction company Nye Veier. The work includes all disciplines and encompasses four double bedrock tunnels, 30 constructions and moving 10 million cubic metres of earth. The contract is worth about NOK 3,200 million, excl. VAT. Following a planning and design period, work will commence early in 2017. The work is scheduled for completion already in the autumn of 2019.

In the autumn of 2016, AF Anlegg entered into a contract with the City of Oslo (Agency for Water and Sewerage Works) for the performance of structural work in connection with the expansion of the Bekkelaget treatment plant. The work started in November 2016, and completion is scheduled for March 2020. The contract is a general contract and has an estimated value of NOK 450 million, excl. VAT.

In the summer of 2016, Civil Engineering entered into a contract with the Central Region of the Norwegian Public Roads Administration for improvement of the Innfjord and Måndal Tunnel on E136 in the Municipality of Rauma. Work began in August 2016, and completion is scheduled for May 2018. The contract is a general contract, and the value is estimated at NOK 308 million, excl. VAT.

In 2016, major contracts were also entered into with Boliden Odda AS for the construction of underground disposal sites (NOK 140 million excl. VAT) and the joint venture company

Acciona Infraestructuras and Ghella ANS (AGJV) for tunnel work on the Follo Line (NOK 200 million, excl. VAT). The latter contract is part of AGJV's contract with the Norwegian National Rail Administration, and Civil Engineering also previously performed corresponding work related to the same contract.

In 2016, Civil Engineering had an order intake of NOK 6,260 million and an order backlog of NOK 5,589 million (3,402 million) at the end of the year.

Market outlook

The forecasts for the Norwegian economy for 2017 are still marked by uncertainty, but there are substantial regional differences. One of the measures to buffer the decline in the economy is that the authorities have increased appropriations to the civil engineering market in recent years. In the 2017 State Budget, NOK 66.8 billion has been allocated to transport, which is an increase of 11.8% over the budget for 2016. NOK 33.6 billion of this is for roads, which is an increase of 9.4%. The analysis company Prognosesenteret expects that total civil engineering investments will increase by 12% in 2017, and a further 12% in 2018. The greatest growth is expected to be in road construction, as well as in power and energy plants. In particular, the Oslo Region, Interior Region and Southern Norway are expected to have the greatest growth. This is primarily due to the fact that several large road projects are to be carried out in these regions.

The development of the Swedish economy is influenced by the Eurozone, and the Swedish central bank Riksbanken has lowered its key rate to -0.5% in order to stimulate the Swedish economy. An expansive monetary policy and increased employment contribute to the Riksbanken expecting annual growth in the gross national product of around 2.5% in the coming years. The forecasts from the Swedish Construction Federation assume continued strong growth for building and civil engineering investments in Sweden in 2017.

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 the leader in Norway in demolition and environment, and Europe's largest contractor for demolition and the environmental clean-up of buildings and structures. Environment also has solid expertise in areas such as blasting, dredging, handling contaminated bulk 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% reduces both the use of scarce resources, such as stone, and the need for disposal capacity.

NOK million	2016	2015	2014
Revenue	729	687	709
Operating profit (EBIT)	42	45	41
Earnings before tax (EBT)	42	46	39
Operating margin	5.8%	6.6%	5.8%
Profit margin	5.7%	6.7%	5.5%
Order backlog	212	216	175

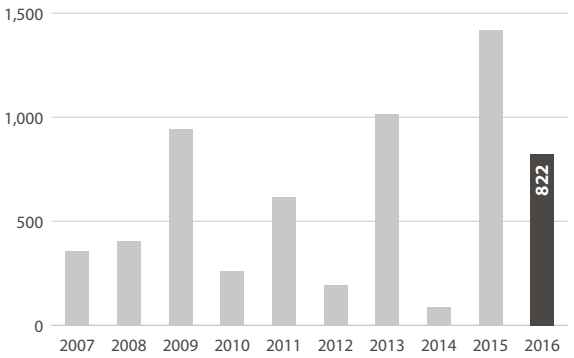
In 2016, the Environment business area reported revenues of NOK 729 million (687 million). This represents growth in revenue of 6.0% compared with 2015. Earnings before interest and tax were NOK 42 million (45 million), and earnings before tax were NOK 42 million (46 million). The operating margin for 2015 was 5.8% (6.6%). The level of activity in Norwegian operations is increasing, and there is a high supply of new projects. The operational performance of the projects is generally good in the business area, but there has been too much variation in project results. The Swedish company, AF Härnösand Byggreturer, reported a level of activity on par with the previous year, and the unit delivered very good results in 2016. The investment in environmental centres is bearing fruit. The level of activity at the environmental centres increased, and they performed well operationally and reported good results in 2016.

In March, Environment sold the remaining 50% of the company BA Gjenvinning AS to Gunnar Holth Grusforretning AS. The value of the shares corresponded to the book value. The transaction did thus not affect the results for 2016 to any significant degree.

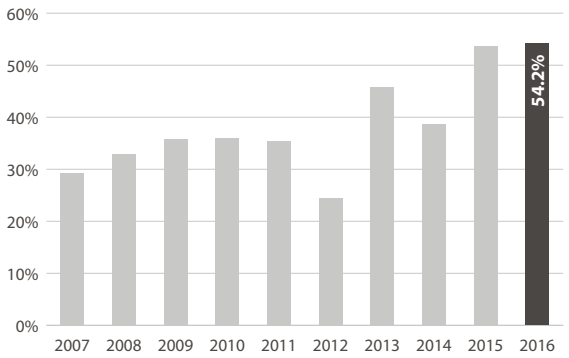
New contracts

Environment's project portfolio consists of both large and many small and medium-sized projects with a contract value of around NOK 1 million. Major jobs that were contracted in 2016 are the demolition of the pipe trench at the Old Bjølvo Power Station in the Municipality of Kvam for Statkraft (NOK 50 million, excl. VAT), demolition of the Trondheim Goods Station for the Norwegian

CASH FLOW FROM OPERATIONS NOK MILLION



RETURN ON CAPITAL EMPLOYED



National Rail Administration (NOK 25 million, excl. VAT) and the demolition of furnishings and fittings at Britannia Hotell for Hent (NOK 19 million, excl. VAT).

In 2016, Environment had an order intake of NOK 724 million and an order backlog of NOK 212 million (216 million) at the end of the year.

Market outlook

The Environment business area provides traditional demolition services and the subsequent receiving, treating and recycling of materials. The level of activity for demolition operations is closely connected to the general level of activity in the building and civil engineering markets. A positive outlook for the civil engineering market in Norway, expectation of further price growth in the residential housing market, as well as a stable, high number of start permits for 2017, will have a positive impact on the demand for services. The same tendency is expected in Sweden, where forecasts indicate growth in the building and civil engineering markets in 2017.

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% of the materials can be processed, decontaminated and reused. The method results in a commercial gain by reducing the volume of waste, and at the same time contributing to social gains by increasing the life of the disposal sites.

BUILDING

Description of the business

The Building business area encompasses AF's services in the building of private and public non-residential buildings, residential construction, and renovation, remodelling and extension work.

Building is one the largest entities in the area of private and public non-residential buildings, residential housing, and renovation, remodelling and extension work. The business area's expertise spans the entire value chain from development and planning to building. The business area delivers services to clients ranging from smaller companies with a single task, to large private or public clients with long-standing customer relationships. AF cooperates closely with clients to find efficient solutions that satisfy future environmental and energy requirements. Building is established in Norway and Sweden.

NOK million	2016	2015	2014
Revenue	6 688	6 678	5 172
Operating profit (EBIT)	485	479	315
Earnings before tax (EBT)	498	485	311
Operating margin	7.3%	7.2%	6.1%
Profit margin	7.4%	7.3%	6.0%
Order backlog	8 467	5 947	4 138

Building reported revenues of NOK 6,688 million (6,678 million) for 2016. This represents an increase of 1.4% compared with 2015. In 2016, the business area reported earnings before interest and tax of NOK 485 million (479 million) and earnings before tax of NOK 498 million (485 million). The operating margin was 7.3% (7.2%).

The building business in Norway delivered very good results. This applies to the units AF Bygg Oslo, AF Byggfornyelse, AF Bygg Østfold, Strøm Gundersen and LAB. The primary geographic area of AF Bygg Prosjektpartner was in Southwestern Norway until recently. The unit has experienced a challenging year and delivered a result below the Group's requirements.

The Swedish unit AF Bygg Sweden delivered results somewhat below the Group's requirements. Growth and increased profitability for our Swedish units is expected due to new management and organisation, as well as good market conditions.

New contracts

The largest contract of the year for the Building business area was concluded with Lagunen DA in the summer of 2016, and the work ranges from site preparation work to interior work in connection with the expansion of the shopping centre Lagunen Storsenter in Bergen. The design and build contract has a value of NOK 615 million, excl. VAT.

In the summer of 2016, a general contract was also entered into with Statsbygg for Campus Ås in Akershus. The user of the building will be the Norwegian University of Life Sciences and the School of Veterinary Medicine. The contract valued at NOK 273 million, excl. VAT is for an airtight building and encompasses a gross building area of 63,000 square metres.

In the autumn of 2016, Building entered into a contract with Rom Eiendom AS for the office project Schweigaardsgate 33 in central Oslo. The contract is a design and build contract valued at NOK 362 million, excl. VAT.

The following contracts have been entered into in connection with Property's residential development activities: 147 apartments for Nordliveien Utbygging KS in the project Thurmannskogen in Lørenskog (NOK 301 million, excl. VAT), 84 apartments for Haslemann AS in the project Krydderhagen at Hasle in Oslo (NOK 166 million, excl. VAT) and 178 apartments for Lillo Gård KS in the project Lillo Gård at Nydalen in Oslo (NOK 526 million, excl. VAT)

In 2016, AF Gruppen and Oslo S Utvikling AS (OSU) decided to enter into exclusive contract negotiations with the aim of AF Gruppen becoming OSU's contracting partner for the development of Bispevika, one of Oslo's most attractive residential areas. The area will be developed with approximately 1,300 residential units and retail premises at street level. The agreement will be included in AF's order backlog once a final agreement has been entered into.

In 2016, Building had an order intake of NOK 9,208 million and an order backlog at the end of the year of NOK 8,467 million (5,946 million).

Market outlook

For 2017, continued growth in residential property prices is expected. Lower wage growth, somewhat higher unemployment and stricter lending practices may have a dampening effect on residential property prices, while urbanisation in combination with the record-low interest rate level will contribute to maintaining demand.

The trend for registered start permits has pointed upwards since the autumn of 2014. Prognosesenteret reported that the number of start permits for residential units was 36,530 in 2016, which corresponds to an increase of 18% compared with 2015. In the future, Prognosesenteret expects that the number of start permits will flatten out at a high level.

The Building business area is also exposed to fluctuations in the commercial property market. The construction of commercial buildings with a total area of 4.97 million square metres started in 2016, an increase of 10% over 2015. Commercial building starts are expected to show a weak downward trend in 2017.

The Swedish Construction Federation forecasts growth of 5% for building and civil engineering in Sweden for 2017. The greatest growth is expected in the new residential units segment (9%), but some growth is also expected for commercial property (1%).

PROPERTY

Description of the business

The Property business area encompasses the development of sites for residential housing units and commercial buildings for own account in areas where AF has access to its own contracting services. AF Eiendom collaborates closely with other actors in the industry. 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 are located in Oslo and in central Eastern Norway. AF has also established property operations in Bergen, in Southern Norway, in Rogaland, in Gothenburg and in Halmstad.

NOK million	2016	2015	2014
Revenue	48	25	21
Operating profit (EBIT)	44	69	19
Earnings before tax (EBT)	30	57	13
Return on capital employed	4.4%	9.3%	2.9%
NUMBER OF HOUSING UNITS [1)]			
Under construction	456	297	94
Sold during the year	316	178	44
Completed unsold units in inventory	5	11	20
LAND AND DEVELOPMENT RIGHTS [1)]			
Housing units	848	997	1 052
Industrial area m²	51 213	59 272	71 322

[1)] AF´s share of housing units, land and developement rights

Property delivered a profit before tax of NOK 44 million (57 million) in 2016.

AF Eiendom's activities are primarily carried out through associates, with an ownership stake ranging from 25% to 50%. It is only AF's share of the earnings after tax from the associates that are recognised in the income statement, and this share of the earnings is included in the earnings before interest and tax. The revenues reported in the Property business area therefore only refer to the wholly-owned activities of the business area. AF's share of the revenues in the associated companies was NOK 669 million (298 million).

In the Property business area, there has been a significant increase in the level of activity throughout 2016. A total of 668

(438) apartments were sold in 2016, of which AF's share was 316 (178) residential housing units. At the end of the year, Property had eight active residential housing projects with a total of 1,006 apartments in the production phase (AF's share was 456).

Property handed over one commercial project in 2016, the Cowi Building with an area of 13,390 square metres, which is located at Hasle in Oslo. Höegh Eiendom, which owns Hasle Linje Næring DA jointly with AF, triggered a pre-emptive right to the building. The sale did therefore not have an impact on the income statement. The Securitas Building, with an area of 13,584 square metres, is in the production phase and scheduled for completion in 2018. Höegh Eiendom does not have a pre-emptive right to the Securitas Building.

Property has five construction stages in the sales phase with a total of 191 apartments, of which AF's share is 79. AF also has ownership interests in land and development rights in progress, which are estimated to amount to 2,054 (2,367) residential units. AF's share of this is 848 (997) residential units. AF has commercial property with a gross area of 107,310 (122,717) square metres under development. AF's share is 51,213 (59,272) square metres.

Market outlook

The development of residential property prices was particularly strong in 2016, and figures from Property Norway in December 2016 show a 12-month residential property price growth of 12.8% in Norway. The greatest price increase was in Oslo (23.3%), and the weakest performance was in Stavanger with a price decline of 2.6%. Property Norway's forecasts for the Norwegian residential property market in 2017 show an expected increase of an additional 9-11%. It is expected that the regional differences will diminish throughout 2017, but that Oslo will continue to show the highest price growth and that the Stavanger region will continue to show the weakest performance.

The residential property market in the major cities in Sweden showed a strong performance in 2016, and further growth is also expected in 2017. A low interest rate level in Europe also results in increased demand for long-term commercial property investments.

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.

NOK million	2016	2015	2014
Revenue	177	225	141
Operating profit (EBIT)	18	19	3
Earnings before tax (EBT)	16	21	3
Operating margin	10.0%	8.3%	2.1%
Profit margin	8.9%	9.4%	2.2%
Order backlog	108	90	85

Energy reported revenues of NOK 177 million (225 million) and earnings before interest and tax of NOK 18 million (19 million) for 2016. This is equivalent to an operating margin of 10.0% (8.3%). Earnings before tax were NOK 16 million (21 million).

The good results can be attributed to good operational performance and efficient use of resources in the projects. For example, the T3 project at Bergen Airport Flesland, the largest contract ever for the Energy business area, reported both good financial and safety results. The energy plant at the Moholt Student Village was handed over in the autumn of 2016 and was the most noteworthy project of the year. The reduction in revenue in 2016 is attributed mainly to fewer advertised tenders and the postponed start-up of certain contracts.

New contracts

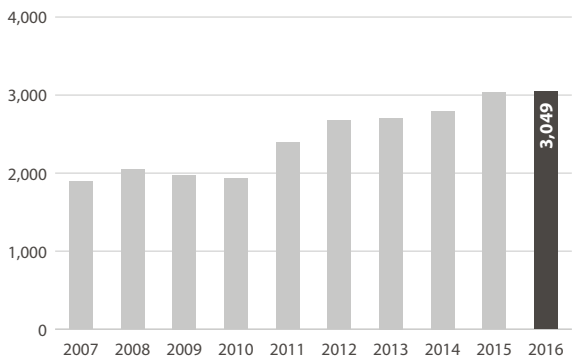
Energy's project portfolio consists of many small and medium-sized projects with contract values ranging from NOK 0.5 to 10 million. The largest contracts entered into in 2016 include the energy conservation contracts with the Akershus Country Administration valued at NOK 15 million, with the Municipality of Ullensaker valued at NOK 13 million and with Wilhelmsen Chemicals valued at NOK 13 million.

In 2016, Energy had an order intake of NOK 195 million and an order backlog at the end of the year of NOK 108 million (90 million).

Market outlook

In 2016, the Norwegian Parliament adopted ambitious energy goals related to a reduction in the consumption of energy

NUMBER OF EMPLOYEES



towards the year 2030. The Norwegian Parliament's energy goals are to be realised through a significant reduction in the consumption of energy by existing buildings compared with the current level (10 TWh reduction), among other things. Enova has surveyed the potential conservation of energy in Norwegian buildings. They point out that there is a major maintenance backlog for public buildings and major conservation opportunities in connection with the rehabilitation of buildings.

Energy savings contracts (EPCs) in municipalities and public enterprises have thus become an increasingly interesting market area after a standardisation of contract terms took place. There has been a significant increase in the number of advertised energy savings contracts in recent years, and this growth is expected to continue in 2017.

Regulatory changes in the district heating market have resulted in a better regulatory framework for the establishment of local heating plants based on renewable energy. There is greater awareness of solutions like this, and completed projects illustrate the potential to reduce energy costs.

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), cranes, modules and rig services. In addition, Offshore has services related to the maintenance and modification of onshore facilities for the oil and gas industry.

NOK million	2016	2015	2014
Revenue	1 014	1 187	850
Operating profit (EBIT)	107	104	-22
Earnings before tax (EBT)	94	83	-45
Operating margin	10.5%	8.7%	-2.6%
Profit margin	9.3%	7.0%	-5.3%
Order backlog	550	1 182	1 918

Offshore reported revenues of NOK 1,014 million (1,187 million) and earnings before interest and tax of NOK 107 million (104 million) for 2016. This gives an operating margin of 10.5% (8.7%) for 2016. Earnings before tax were NOK 94 million (83 million).

The level of demolition activity has remained high throughout the year. The offshore campaign for removal of the deck of the steel platform Murchison for CNR International was carried out in the summer of 2016. Murchison was one of the largest steel platforms in the North Sea and the removal was carried out in a consortium with Hereema Marine Contractors. There has been a high level of activity at the reception facility at Vats as a result of this campaign. The results from the project have also been good. A high level of activity is expected at Vats in 2017 in connection with the Murchison project.

AF Offshore AeronMollier has experienced challenging market conditions for a long period of time, and AF decided to write down goodwill by NOK 40 million in 2016. Several organisational measures have been carried out, and the unit managed to maintain its revenues and achieved better profitability in 2016 than in the previous years. The unit has had a high level of activity in the Johan Sverdrup project, which will continue in 2017.

V & M Landanlegg performed well, but experienced a somewhat lower level of activity in 2016.

New contracts

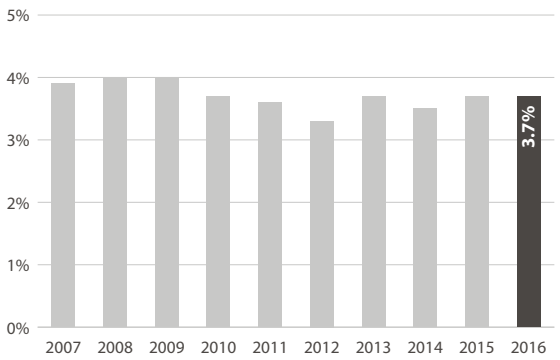
In the autumn of 2016, Offshore won a contract for recycling the Janice A rig for Maersk Oil UK. The rig was cut into sections at the dock at the Environmental Base at Vats in the winter of 2016, and then processed and recycled onshore. The value of the contract was approximately NOK 70 million. In 2016, Offshore was awarded the contract for the scrapping and recycling of the Huldra platform for Statoil. The platform, which has a total weight of approximately 10,000 tonnes, will be recycled at the Environmental Base at Vats in 2019/2020. At the end of the year, Offshore was also awarded a contract for the demolition and recycling of Jotun B for Hereema Marine Contractors.

In 2016, Offshore had an order intake of NOK 382 million and an order backlog of NOK 550 million (1,182 million) at the end of the year.

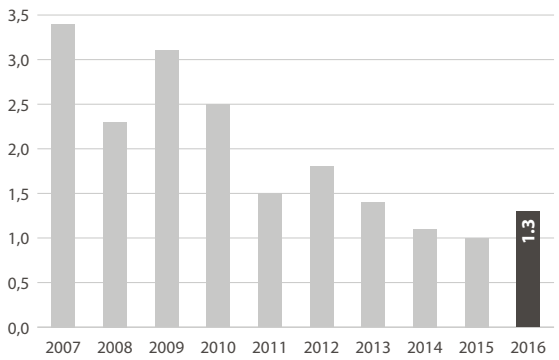
Market outlook

The price of oil was stable at over USD 110 until the summer of 2014. After that the price fell sharply until the beginning of

ABSENCE DUE TO ILLNESS



LTI-1 RATE



2016, when it went below USD 30. The price of oil recovered somewhat in 2016, but the drop in oil prices have contributed to reduced profitability and a lower willingness to invest among oil companies. Statistics Norway estimates that investments related to oil, gas and pipeline transport will amount to NOK 146.6 billion in 2017. This is a decline of approximately 10%, compared with the estimate for 2016. In particular, investments in exploration are being reduced. 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. Estimates from the British industry organisation Oil & Gas UK indicate that more than 100 platforms on the Norwegian and British continental shelves are to be removed fully or partially over the next 10 years. In addition, over 1,800 wells will be plugged permanently and approximately 7,500 kilometres of pipeline are to be cleaned and decommissioned. The cost of this has been estimated at up to NOK 200 billion. This represents good opportunities for AF's offshore activities related to the demolition and removal of decommissioned installations.

ORGANISATION, HEALTH, SAFETY AND THE ENVIRONMENT

PERSONNEL AND ORGANISATION

Four new executive vice presidents took over at AF as of 1 January 2016 The new executive vice presidents are Eirik Wraal (Environment), Henning Olsen (Building), Amund Tøftum (Offshore) and Bård Frydenlund (Bygg Sør-Vest and HR). In addition, the Corporate Management Team includes the CEO Morten Grongstad and the executive vice presidents Sverre Hærem (CFO), Arild Moe (Civil Engineering) and Andreas Jul Røsjø (Property and Energy).

The 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 2016, 1,160 (1,130) employees participated in courses at the AF Academy. More than 80% 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 2016 there were 3,049 (3,030) employees in the Group, 1,322 (1,378) of which were salaried and 1,727 (1,652) were skilled workers. The parent company, AF Gruppen ASA, had no employees at the end of 2016.

Of the employees, 8.9% (9.2%) are women and 91.1% (90.8%) 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 in the distribution in the Group as a whole. The percentage of women among salaried staff was 16.8% (16.7%) at the end of 2016.

Absence due to illness at AF was 3.7% (3.7%) in 2016. 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 2015, 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 2013 and significantly better than the industry average.

In 2016 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, beliefs 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.

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 all employees are given an opportunity to buy shares at a discount of 20% on the current market price. In 2016, 580 (567) employees subscribed for a total of 1,000,000 (1,000,000) shares. The purchase price after a 20% discount was NOK 128.60. In connection with the sale, the Board of Directors used its authority and issued 930,000 new 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 2014 and the options were subscribed for from 2014 to 2016, with redemption in 2017. As at 31 December 2016, there were 3,647,779 options in the programme that had redemption in March 2017.

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 2016, more than 20,000 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 1.3 (1.0) for 2016. This number represents 13 lost time injuries in 2016.

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%. This represents in our opinion a normal situation without any work-related illnesses. Absence due to illness in 2016 was 3.7% (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.

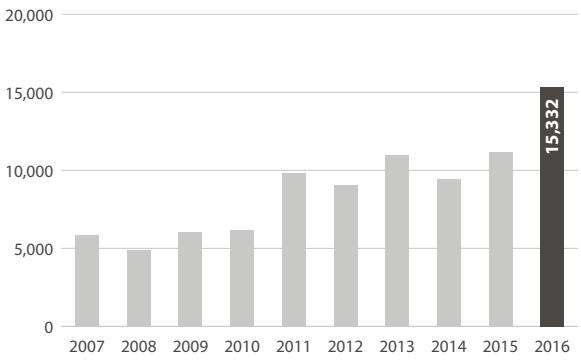
EXTERNAL ENVIRONMENT

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 laws, regulations and specific contractual requirements, these analyses form the basis for project and unit goals for the external environment.

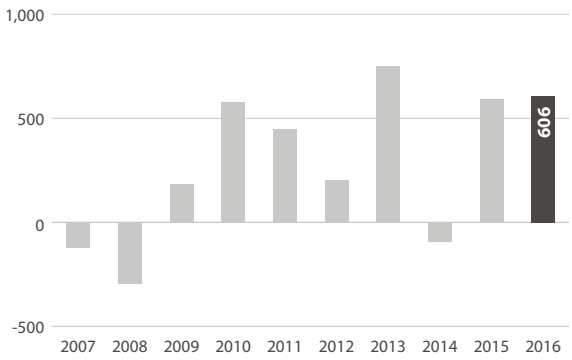
All business units at AF are measured, in addition to specific parameters related to the environmental impact: Source Separation Rate and Greenhouse Gas Emissions. The measurement parameters clarify AF's environmental profile, and are figures that can be influenced through our environmental work.

In Norway, the government requirement for source separation is a minimum of 60%. The source separation rate indicates how much of the waste from operations is separated for the

ORDER BACKLOG NOK MILLION



NET INTEREST BEARING RECEIVABLES NOK MILLION



purpose of facilitating recycling. In 2016, the source separation rate for building was 85% (84%), for renovation it was 79% (87%) and for demolition it was 97% (96%). A total of 507,198 tonnes (319,225 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 CO2 equivalents. A CO2 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. 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. 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% 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 180 risk reviews of the business units, in which the Corporate Management Team also participated, were conducted in 2016.

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 2016, AF Gruppen had NOK 64 million (126 million) in 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 2016, the Group had 93% (95%) of its recognised revenues in enterprises with NOK as their functional currency, 6% (5%) with SEK as their functional currency and 0% (0%) with another functional currency. The net foreign exchange gain/(loss) was NOK -9 million (-1 million) in 2016. The total translation differences were NOK -23 million (21 million) in 2016.

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. As at 31 December 2016, AF Gruppen does not have any commodity derivatives.

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 housing units and deposits from home buyers.

Credit risk

Credit risk is the risk that AF Gruppen's customers, or financial instrument counterparties, will inflict financial losses on the company by not fulfilling their obligations.

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. AF has credit risk in relation to customers, suppliers and partners. 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 revolving credit facility of NOK 600 million (600 million) that is renewed annually 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 606 million (593 million) at the end of the year. 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 2016 have been better than the Board's expectations. At the end of 2016, the Group had an order backlog of NOK 15,347 million (11,184 million) and earnings from ongoing projects are considered good.

The market outlook for 2017-2018 is marked by uncertainty, but the outlook is in general considered good. Statistics Norway (SSB) expects the gross national product for mainland Norway to grow 1.7% to 2.0% for the next two years. Prognosesenteret expects continued strong growth in the civil engineering business, 12% in 2017 and an additional 12% in 2018, respectively.

The expectation of continued low interest rates in the future may entail higher residential housing prices and make it more attractive to embark on projects. In Sweden, the central bank Riksbanken expects the gross national product to grow by approximately 2.2% to 2.5% in the coming years. Further information on the market outlook for the various business areas is presented under each respective business area earlier in this annual report.

In 2016, AF prepared a new corporate strategy for 2017-2020. The ambition of profitability and strong growth from our previous strategy period will continue. At the same time, new focus areas will be refined in the new strategy.

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 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 high order backlog lays the foundation for a high level of activity in 2017 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 2017.

The Board thanks the employees for their significant contributions to the good results of 2016. The Board is confident that a high level of activity and good earnings will prevail in 2017 as well.

OSLO, 6TH APRIL 2017

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	2016	2015	2014
Operating revenue	5	11 775	12 342	9 885
Other revenue	5	102	56	50
Total operating and other revenue		**11 876**	**12 398**	**9 935**
Subcontractors		-5 168	-6 145	-4 498
Cost of materials		-1 778	-1 765	-1 468
Payroll costs	7,32	-2 650	-2 535	-2 238
Depreciation and impairment of property, plant and equipment	14	-135	-123	-114
Amortisation and impairment of intangible assets	13	-42	-18	-3
Other operating expenses	8	-1 084	-968	-1 116
Total operating expenses		**-10 857**	**-11 554**	**-9 436**
Net gains/(losses)	9	18	135	126
Profit/(loss) from associates and joint ventures	27,28	-4	31	10
Earnings before interest and taxes (EBIT)		**1 034**	**1 010**	**635**
Net financial items	19	6	-6	-10
Earnings before taxes (EBT)		**1 040**	**1 004**	**625**
Income tax expense	25,26	-253	-226	-142
Profit for the year		**787**	**778**	**483**
Attributable to:				
Shareholders in the Parent Company		691	697	442
Minority interests		96	81	41
Profit for the year		**787**	**778**	**483**
Earnings per share (amounts in NOK)	21	7.44	7.64	5.11
Diluted earnings per share (amounts in NOK)	21	7.29	7.50	5.09
Dividend per share (amounts in NOK) [1]	21	5.00	8.00	8.00

[1] *The dividend for 2016 is the adopted, not approved dividend for the 1st half of 2017.*

COMPREHENSIVE INCOME

Amounts in NOK million	2016	2015	2014
Profit for the year	787	778	483
Change in actuarial gains or losses on pensions (gross)	-5	2	1
Change in actuarial gains or losses on pensions (tax)	1	-1	-
Income and expenses that will not be reclassified to the income statement	**-4**	**2**	**1**
Change in cash flow hedging (gross)	150	-124	-93
Change in cash flow hedging (tax)	-32	26	20
Translation differences	-23	21	4
Income and expenses that may be reclassified to the income statement	**94**	**-76**	**-69**
Comprehensive income for the year	**90**	**-75**	**-68**
Total comprehensive income for the year	**877**	**703**	**415**
Attributable to:			
– Shareholders in the Parent Company	781	621	374
– Minority interests	96	83	41
Total comprehensive income for the year	**877**	**703**	**415**

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER

Amounts in NOK million	Note	2016	2015
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	14,34	1 105	1 111
Intangible assets	13	2 032	2 077
Associates and joint ventures	27,28	389	433
Deferred tax assets	26	51	94
Interest-bearing receivables	20,24	206	169
Pension plan and other financial assets	20,24	6	10
Total non-current assets		**3 789**	**3 895**
CURRENT ASSETS			
Inventories	11	139	152
Projects for own account	12	47	67
Trade and other non-interest-bearing receivables	10,24	2 061	1 599
Interest-bearing receivables	20,24	44	70
Financial derivatives	22,23,24	-	1
Cash and cash equivalents	20,24	469	459
Total current assets		**2 760**	**2 348**
Total assets		**6 549**	**6 243**

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER

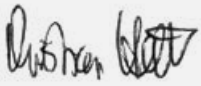
Amounts in NOK million	Note	2016	2015
EQUITY AND LIABILITIES			
EQUITY CAPITAL			
Equity attributable to Parent Company shareholders		1 680	1 561
Minority interests	30	270	259
Total equity		**1 950**	**1 820**
NON-CURRENT LIABILITIES			
Interest-bearing loans and credit facilities	20,22,24	83	83
Retirement benefit liabilities	18	1	2
Provisions for liabilities	15	158	183
Deferred tax	26	265	392
Financial derivatives	22,23,24	46	54
Total non-current liabilities		**553**	**714**
CURRENT LIABILITIES			
Interest-bearing loans and credit facilities	20	30	22
Trade payables and current non-interest-bearing liabilities	16,24	3 369	3 236
Financial derivatives	22,23,24	63	108
Provisions for liabilities	15	207	165
Current tax payable	25	377	178
Total current liabilities		**4 046**	**3 710**
Total liabilities		**4 599**	**4 424**
Total equity and liabilities		**6 549**	**6 243**

OSLO, 6 APRIL 2017

Pål Egil Rønn
Board Chairman

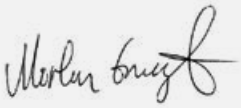
Hege Bømark

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

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 capital	Translation differences	Actuarial pension gains/ (losses)	Cash flow hedging	Retained earnings	Total		
2014										
Equity as at 1 January 2014		4	269	5	-14	-	965	1 229	106	1 334
Profit for the year		-	-	-	-	-	442	442	41	483
Comprehensive income for the year		-	-	4	1	-74	-	-68	-	-68
Total comprehensive income for the year		**-**	**-**	**4**	**1**	**-74**	**442**	**374**	**41**	**415**
Capital increase		-	279	-	-	-	-	279	-	279
Purchase of treasury shares	31	-	-	-	-	-	-33	-33	-	-33
Sale of treasury shares	31	-	-	-	-	-	35	35	-	35
Dividend adopted and paid		-	-205	-	-	-	-324	-529	-16	-544
Share value-based remuneration	7	-	9	-	-	-	-	9	-	9
Transactions with minority interests		-	-	-	-	-	-2	-2	6	4
Equity as at 31/12/2014		**4**	**352**	**9**	**-13**	**-74**	**1 083**	**1 362**	**137**	**1 499**
2015										
Profit for the year		-	-	-	-	-	697	697	81	778
Comprehensive income for the year		-	-	20	2	-98	-	-76	1	-75
Total comprehensive income for the year		**-**	**-**	**20**	**2**	**-98**	**697**	**621**	**83**	**703**
Capital increase		-	364	-	-	-	-	364	-	364
Purchase of treasury shares	31	-	-	-	-	-	-20	-20	-	-20
Sale of treasury shares	31	-	-	-	-	-	23	23	-	23
Dividend adopted and paid		-	-315	-	-	-	-420	-735	-31	-766
Share value-based remuneration	7	-	5	-	-	-	-	5	-	6
Addition of minority interests from acquisition of business		-	-	-	-	-	-		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 for the year		-	-	-	-	-	691	691	96	787
Comprehensive income for the year		-	-	-23	-4	118[1)]	-	91	-	90
Total comprehensive income for the year				**-23**	**-4**	**118**	**691**	**781**	**96**	**877**
Capital increase		-	120	-	-	-	-	120	-	120
Purchase of treasury shares	31	-	-	-	-	-	-32	-32	-	-32
Sale of treasury shares	31	-	1	-	-	-	23	24	-	24
Dividend adopted and paid		-	-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**	**1 679**	**270**	**1 950**

[1)] Of which NOK 114 million is reclassified to profit of the year and NOK 4 million is the periods net gain recognised in the comprehensive income for the year.

CASH FLOW STATEMENT

Amounts in NOK million	Note	2016	2015	2014
CASH FLOW FROM OPERATING ACTIVITIES				
Earnings before tax		1 040	1 004	625
Depreciation, amortisation and impairment losses	13,14	177	142	117
Change in retirement benefit liabilities		-1	-2	-1
Accounting cost of share value-based remuneration		7	5	9
Net financial expenses/(income)	19	-6	6	10
Net gains/(losses)	9	-18	-135	-126
Profit attributable to associates and joint ventures	27	4	-31	-10
Change in operating capital (excluding acquisitions and foreign currency)				
Change in inventories and projects for own account	11,12	27	40	-3
Change in accounts receivable and other non-interest-bearing receivables	10	-431	867	-42
Change in trade payables and other non-interest-bearing debt	16	188	-118	-292
Income tax paid		-166	-361	-201
Net cash flow from operating activities		**822**	**1 418**	**86**
CASH FLOW FROM INVESTMENT ACTIVITIES				
Acquisition of business	4	-5	49	-140
Investments in property companies		-7	-12	-170
Purchase of property, plant and equipment and intangible assets	13,14	-143	-126	-112
Proceeds from the sale of business		-	-	14
Proceeds from the sale of property companies		-	10	10
Proceeds from sale of property, plant and equipment		71	85	50
Proceeds (payments) from derivatives		-	-17	13
Dividends and capital from associates		48	54	59
Payments due to change in interest-bearing receivables	20	-37	-42	-
Proceeds due to change in interest-bearing receivables	20	37	42	-
Interest and other financial income received	19	24	30	27
Net cash flow from investment activities		**-13**	**74**	**-250**
Net cash flow before financing activities		**809**	**1 492**	**-164**
CASH FLOW FROM FINANCING ACTIVITIES				
Issuance of shares		120	72	279
Dividends paid to shareholders in the Parent Company		-744	-735	-529
Transactions with minority interests		-123	-128	-12
Proceeds from new interest-bearing debt	20	7	2	-
Repayment of interest-bearing debt	20	-43	-300	-160
Net (purchase)/sale of treasury shares	31	-8	3	2
Interest and other financial expenses paid	19	-15	-34	-20
Net cash flow from financing activities		**-807**	**-1 119**	**-440**
Total change in liquid assets		**3**	**372**	**-604**
Cash and cash equivalents as at 1 January	20	459	91	695
Currency translation differences on cash and cash equivalents		7	-4	-
Cash and cash equivalents as at 31 December	**20**	**469**	**459**	**91**

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 6 April 2017 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 2016.

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 01 January 2016, as well as Norwegian disclosure requirements that follow from the Norwegian Accounting Act as at 31 December 2016.

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

- Financial derivatives at fair value through profit or loss
- Financial derivatives recognised as cash flow hedge
- Financial instruments available for sale are recognised at fair value
- Contingent consideration recognised in acquisitions

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 36.2 – Significant accounting assessments, estimates, assumptions and judgement.

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 presented in the annual report, correspond to the reporting the Corporate Management Team uses when they make assessments of 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, Building, Property, Energy and Offshore business areas.

The Civil Engineering business area is a turnkey supplier of civil engineering services in Norway. In Sweden Civil Engineering performs foundation work in the Stockholm area. The business area carries out large complex civil engineering projects and niche projects related to roads and railways, port facilities, foundation work, power and energy. The business area has three business units: AF Anlegg, Målselv Maskin & Transport 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 units AF Decom and Härnösand Byggreturer are part of the Environment business area.

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, the Building business area has also established activities in Southern and Western Norway. In Sweden the geographical centre of the activities is in the Gothenburg – Halmstad area.

The Property business area comprises the development of residential housing 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 setting up 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.

The Offshore business area encompasses AF's services related 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, Offshore also provides services related to the maintenance and modification of onshore facilities for the oil and gas industry. The business area consists of the business units: AF Offshore AeronMollier and AF Offshore Decom. Offshore also has activities at the Environmental Base at 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 housing 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 according to 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 segments. Income from projects for own account in these segments is recognised based on the principles in IAS 11 Construction Contracts. The recognition of income in these projects is the product of the physical degree of completion, the percentage sold and the expected contribution margin. This means, for example, that a project that is 50 per cent complete, 50 per cent of which is sold on the reporting date, will be reported with a contribution margin of 25 per cent of the total expected contribution margin. In the consolidated accounts, the principles in IFRIC 15 are followed with the recognition of income from projects for own account in accordance with IAS 18 Revenue. In accordance with IAS 18 all of the income (and the associated costs) are recognised at a single point in time, normally on delivery. The effect of IFRIC 15 on the consolidated accounts is illustrated in a separate table in the segment information.

IMPORTANT CUSTOMERS

The public sector, represented by the Norwegian Public Roads Administration, municipalities and Undervisningsbygg (the Municipal Undertaking for Educational Buildings and Property in Oslo) are responsible for more than 10 per cent of AF Gruppen's total operating revenues. In 2016 income of NOK 3,482 million (3,084 million) was recognised in connection with contracts entered into with the public sector.

IMPAIRMENT LOSSES

Goodwill has been written down by NOK 40 million (16 million) in the Offshore business area. Impairment losses have not been recognised in the other segments.

NOTE 3 SEGMENT INFORMATION CONT.

Amounts in NOK million	Civil Engin-eering	Environ-ment	Building	Property	Energy	Offshore	Others	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 taxes (EBIT)	461	42	485	44	18	107	-60	-5	-58	1 034
Earnings before taxes (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 investment 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 geographic area in which the companies are located coincides essentially with the location of the customers. The export of goods and services is not evident from the table.

Amounts in NOK million	Civil Engin-eering	Environ-ment	Building	Property	Energy	Offshore	Others	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
Others	-	-	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
Others	-	-	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
Others	-	-	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	Building	Property	Energy	Offshore	Others	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 taxes (EBIT)	339	45	479	69	19	104	-21	2	-27	1 010
Earnings before taxes (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 investment activities	-26	-7	84	62	-	-31	-8	-	-	74
Net cash flow before financing activities	**476**	**131**	**672**	**37**	**26**	**134**	**15**	**-**	**-**	**1 492**

EOGRAPHIC DISTRIBUTION OF REVENUE AND ASSETS

The tables below show revenue and assets broken down by the countries in which the Group operates. The geographic area in which the companies are located coincides essentially with the location of the customers. The export of goods and services is not evident from the table.

Amounts in NOK million	Civil Engin-eering	Environ-ment	Building	Property	Energy	Offshore	Others	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
Others	-	-	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
Others	-	-	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
Others	-	-	4	-	-	46	-	-	-	49
Eliminations	-	-	-	-	-	-10	-	-	-	-10
Total	**1 232**	**278**	**3 903**	**630**	**133**	**1 354**	**528**	**-1 784**	**-31**	**6 243**

NOTE 3 SEGMENT INFORMATION CONT.

Amounts in NOK million	Civil Engin-eering	Environ-ment	Building	Property	Energy	Offshore	Others	Elim.	IFRIC 15	Total
2014										
INCOME STATEMENT										
External revenue	3 160	692	5 169	21	141	840	38	-111	-15	9 935
Internal revenue	12	17	3	-	-	10	40	-81	-	-
Total revenue	**3 172**	**709**	**5 172**	**21**	**141**	**850**	**78**	**-193**	**-15**	**9 935**
Earnings before interest, tax, depreciation and amortisation (EBITDA)	339	51	332	19	3	-4	17	-5	-1	752
Earnings before interest and taxes (EBIT)	286	41	315	19	3	-22	-2	-5	-1	635
Earnings before taxes (EBT)	**288**	**39**	**311**	**13**	**3**	**-45**	**21**	**-5**	**-1**	**625**
KEY FIGURES AND BALANCE SHEET										
EBITDA margin	10.7%	7.2%	6.4%	-	2.4%	-0.4%	-	-	-	7.6%
Operating margin	9.0%	5.8%	6.1%	-	2.1%	-2.6%	-	-	-	6.4%
Profit margin	9.1%	5.5%	6.0%	-	2.2%	-5.3%	-	-	-	6.3%
Assets as at 31 December	1 246	348	2 206	622	115	1 390	1 038	-1 531	-5	5 428
Capital employed as at 31 December	163	159	853	591	68	881	532	-1 429	-5	1 814
Order backlog as at 31 December	2 913	175	4 138	-	85	1 918	-	166	35	9 429
Number of employees as at 31 December	1 038	226	988	14	57	354	120	-	-	2 797
CASH FLOW										
Net cash flow from operating activities	-553	676	-19	19	-3	63	-96	-	-	86
Net cash flow from investment activities	-14	-19	-112	6	1	-128	16	-	-	-250
Net cash flow before financing activities	**-567**	**657**	**-132**	**25**	**-3**	**-65**	**-79**	**-**	**-**	**-164**

GEOGRAPHIC DISTRIBUTION OF REVENUE AND ASSETS

The tables below show revenue and assets broken down by the countries in which the Group operates. The geographic area in which the companies are located coincides essentially with the location of the customers. The export of goods and services is not evident from the table.

Amounts in NOK million	Civil Engin-eering	Environ-ment	Building	Property	Energy	Offshore	Others	Elim.	IFRIC 15	Total
GEOGRAPHIC DISTRIBUTION OF REVENUE										
Norway	3 045	530	4 760	16	141	840	78	-192	-15	9 202
Sweden	128	180	408	5	-	-	-	-1	-	720
Others	-	-	40	-	-	41	-	-	-	81
Eliminations	-	-	-36	-	-	-31	-	-	-	-68
Total	**3 172**	**709**	**5 172**	**21**	**141**	**850**	**78**	**-193**	**-15**	**9 935**
GEOGRAPHIC DISTRIBUTION OF NON-CURRENT ASSETS, EXCLUDING FINANCIAL INSTRUMENTS AND DEFERRED TAX ASSETS										
Norway	72	66	951	193	54	371	524	-359	-3	1 869
Sweden	14	27	122	25	-	-	-	-	-	189
Others	-	-	1	-	-	1	-	-	-	1
Eliminations	-	-	-	-	-	-	-	-	-	-
Total	**86**	**93**	**1 074**	**218**	**54**	**371**	**524**	**-359**	**-3**	**2 059**
GEOGRAPHIC DISTRIBUTION OF ASSETS										
Norway	1 177	269	1 841	544	115	1 326	1 038	-1 511	-5	4 794
Sweden	69	79	351	77	-	-	-	-19	-	556
Others	-	-	15	-	-	64	-	-	-	79
Eliminations	-	-	-	-	-	-	-	-	-	-
Total	**1 246**	**348**	**2 206**	**622**	**115**	**1 390**	**1 038**	**-1 531**	**-5**	**5 428**

NOTE 4 ACQUISITION AND SALE OF BUSINESSES

BUSINESS COMBINATIONS IN 2016

The Group has not completed any business combinations in 2016. After the end of the year, on 9 February 2017, AF Gruppen completed the agreement to acquire Kanonaden Entreprenad AB.

Kanonaden Entreprenad AB

On 9 February 2017, AF Gruppen agreed 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 will be part of the Civil Engineering business area.

Kanonaden Entreprenad AB was established in 1983, with headquarters in Nässjö, Jönköping County, Sweden. In 2016, the company and its subsidiaries saw revenue of SEK 708 million, and the company had approximately 188 employees. 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 equity of Kanonaden Entreprenad AB, including shares in subsidiaries, are valued at SEK 261 million on a 100 per cent basis. Settlement consisted of 318,766 shares in AF Gruppen ASA at NOK 153.40 per share 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 not 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
Minority interests	-20
Deferred and payable tax	-14
Current interest-bearing liabilities	-6
Current non-interest-bearing liabilities	-145
Net identifiable assets and liabilities	**11**
Goodwill	**138**

The acquisition will result in goodwill of NOK 138 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 NOK 20 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.

NOTE 4 ACQUISITION AND SALE OF BUSINESSES CONT.

BUSINESS COMBINATIONS IN 2015

Målselv Maskin & Transport AS

On 4 June 2015 AF Gruppen agreed to acquire 70 per cent of the shares in Målselv Maskin & Transport AS. The transaction includes the company's interests in Holmen Betong AS and Anlegg og Maskin AS and sites under development. Målselv Maskin & Transport AS is part of the Civil Engineering business area.

Målselv Maskin & Transport AS is the largest machinery contractor in Troms. The company reported revenues of NOK 186 million in 2015, and it has 60 employees. Revenues after the acquisition date in 2015 were NOK 139 million, and earnings before tax were NOK 25 million.

Operations in Målselv Maskin & Transport AS, including interests in subsidiaries and sites, are valued at NOK 155 million on a 100% basis. Settlement consisted of 400,538 shares in AF Gruppen ASA at NOK 111.60 per share, conditional vendor financing and NOK 99 million in cash. The vendor financing conditions are linked to result guarantees for 2015–2017.

Presented below is an allocation of the consideration based on the opening balance sheet of Målselv Maskin & Transport AS as at 4 June 2015. Allocation of the compensation 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 Målselv Maskin & Transport AS. The allocation is final.

Amounts in NOK million	Målselv Maskin & Transport AS
Cash consideration	99
Share issue	45
Contingent consideration	12
Gross consideration	**155**
– Cash and cash equivalents	-71
Net consideration	**84**
Tangible fixed assets and intangible assets	42
Investments in associates	12
Non-current interest-bearing receivables	1
Inventories and projects for own account	11
Current non-interest-bearing receivables	26
Minority interests	-39
Deferred and payable tax	-5
Current non-interest-bearing liabilities	-19
Other short-term provisions	-7
Net identifiable assets and liabilities	**20**
Goodwill	**64**

The acquisition resulted in goodwill of NOK 64 million, which is linked to the geographical market position and the organisation's ability to operate profitably.

PRO FORMA 2015

If the acquisition had been carried out by 1 January 2015, AF Gruppen would have had the following revenues and earnings:

Amounts in NOK million	AF Gruppen	Målselv M & T [1]	Pro forma
Operating revenue	12 342	46	12 388
Earnings before tax	1 004	8	1 012

[1] *The accounting figures in the table are the operating revenues and earnings for Målselv Maskin & Transport up until the acquisition date.*

NOTE 4 ACQUISITION AND SALE OF BUSINESSES CONT.

LAB AS

On 11 March 2015, AF Gruppen completed the agreement to acquire 70 per cent of the shares in LAB AS. LAB will be part of the Building business area. LAB AS is the parent company in a group where the most important companies are LAB Entreprenør AS, Åsane Byggmesterforretning AS, Fundamentering AS and LAB Eiendom AS. The LAB Group reported revenues of NOK 1,940 million and earnings before tax of NOK 153 million for 2015. Revenues after the acquisition date in 2015 were NOK 1,710 million, and earnings before tax were NOK 141 million. LAB Entreprenør AS is the largest building contractor in the Bergen area. The company's head office is in Bergen and it operates in Western Norway. The company reported revenues of NOK 1,361 million for 2015 and had 140 employees. Åsane Byggmesterforretning AS is the leading building contractor firm in Bergen with revenues of NOK 405 million in 2015 and 100 employees. Fundamentering AS performs sheet piling, pile driving, drilling and anchoring jobs throughout the country. The company's head office is located in Heimdal outside of Trondheim and reported revenues of NOK 257 million in 2015. Fundamentering AS has around 70 employees. LAB Eiendom AS develops properties that are centrally located near the main arteries into Bergen. The company has ownership interests in five residential projects with the potential to develop 212 residential units, as well as development rights for a total gross area of 15,440 square metres of commercial property. LAB's share of this is 148 residential units and commercial property with a total gross area of 8,606 square metres.

The purchase price of NOK 735 million, consists of a cash payment, payment in shares and conditional vendor financing. The payment in shares consists of 2,702,703 issued shares in AF Gruppen ASA at a price of NOK 74. Fair value of these shares at the time of the transaction was NOK 247 million. The vendor financing conditions are linked to result guarantees for 2015 to 2017.

Presented below is an allocation of the purchase price based on the opening balance sheet of LAB AS as at 11 March 2015. Allocation of the compensation was prepared using the acquisition method as regulated in IFRS 3. The consideration has been allocated at the fair value of the assets and liabilities of LAB AS. The allocation is final.

Amounts in NOK million	LAB
Cash consideration	360
Share issue	247
Contingent consideration	128
Gross consideration	**735**
– Cash and cash equivalents	-445
Net consideration	**290**
Tangible fixed assets and intangible assets	131
Non-current interest-bearing receivables	58
Inventories and projects for own account	77
Current non-interest-bearing receivables	311
Minority interests	-75
Deferred and payable tax	-127
Interest-bearing loans	-84
Current non-interest-bearing liabilities	-613
Net identifiable assets and liabilities	**-322**
Goodwill	**613**

The acquisition resulted in goodwill of NOK 613 million, which is linked to the market position and the organisation's ability to operate profitably.

PRO FORMA 2015

If the acquisition had been carried out by 1 January 2015, AF Gruppen would have had the following revenues and earnings:

Amounts in NOK million	AF Gruppen	LAB [1]	Pro forma
Operating revenue	12 342	230	12 571
Earnings before tax	1 004	12	1 016

[1] *The accounting figures in the table are the operating revenues and earnings for LAB up until the acquisition date.*

NOTE 5 OPERATING AND OTHER REVENUE

Amounts in NOK million	Note	2016	2015	2014
Revenue from construction projects		11 540	12 067	9 626
Revenue from sale of services		159	182	194
Revenue from projects for own account		-	-	5
Other sales revenue		75	93	60
Total operating revenue		**11 775**	**12 342**	**9 885**
Rental income		16	23	19
Other income[1)]		86	33	31
Total other revenue		**102**	**56**	**50**
Sum driftsinntekter og andre inntekter	3	**11 876**	**12 398**	**9 935**

[1)] The amount for 2016 includes a compensation settlement of NOK 41 million for lost jobs, cf. Note 35 – Contingencies.

NOTE 6 PROJECTS IN PROGRESS

PROJECTS IN PROGRESS AT YEAR END

Amounts in NOK million	Note	2016	2015	2014
UNEARNED REVENUE INVOICED IN THE INCOME STATEMENT [1)]				
Recognised as revenue under projects in progress		15 334	15 532	19 363
Invoiced on projects in progress		-17 237	-17 186	-21 005
Total unearned revenue invoiced		**-1 903**	**-1 654**	**-1 642**

[1)] Of the total amount recognised as revenue under projects in progress in 2016, NOK 6,855 million is related to terminating production contracts for tax purposes in AF Gruppen Norge AS. The amount invoiced for these contracts totals NOK 7,668 million.

DISTRIBUTION ON THE BALANCE SHEET [2):]				
Production invoiced in advance included in trade receivables	10	-1 439	-1 413	-1 260
Production invoiced in advance included in other current liabilities	16	-464	-241	-382
Total unearned revenue invoiced		**-1 903**	**-1 654**	**-1 642**

[2)] Of the production invoiced in advance included in trade receivables in 2016, terminating production contracts for tax purposes in AF Gruppen Norge AS amounts to NOK 813 million.

EARNED REVENUE NOT INVOICED				
Recognised as revenue under projects in progress		2 871	4 455	5 481
Invoiced on projects in progress		-2 403	-4 163	-5 047
Total earned revenue not invoiced	10	**468**	**293**	**434**
Credit balances with clients [3)]	10	**418**	**491**	**469**

[3)] As security for AF Gruppen's contractual obligations during the 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 [4):]				
Accumulated revenue		18 205	19 988	24 844
Accumulated project costs		-16 945	-17 786	-23 005
Accumulated project contributions		1 260	2 202	1 840
Production outstanding on onerous contracts		28	449	109

[4)] Of the accumulated revenue in 2016, NOK 6,855 million is related to terminating production contracts for tax purposes in AF Gruppen Norge AS. The project contribution associated with these contracts amounts to NOK 240 million.

NOTE 7 PAYROLL COSTS

Amounts in NOK million	Note	2016	2015	2014
Fixed pay		-2 135	-2 057	-1 781
Social security costs		-326	-302	-289
Retirement benefit costs	18	-80	-78	-71
Share-value based remuneration (option cost)		-8	-8	-16
Other benefits		-101	-90	-80
Total payroll costs		**-2 650**	**-2 535**	**-2 238**

AVERAGE NUMBER OF FULL-TIME EQUIVALENTS			
Norway	2 912	2 872	2 570
Sweden	171	179	217
Germany	3	4	3
Lithuania	2	42	59
Poland	-	-	1
UK	-	-	3
China	9	9	5
Total	**3 096**	**3 106**	**2 858**

SALE OF SHARES TO EMPLOYEES

In recent years, the AF group has given all its employees the opportunity to buy shares at a 20% 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	2016	2015	2014
Number of shares sold from own holdings	70 000	148 145	360 000
Number of shares from new issues	930 000	851 855	636 245
Market price during subscription period (amounts in NOK)	161	106	73,7
Selling price (amounts in NOK)	129	85	58,9
Impact of sale of shares to employees on the financial statements (amounts in NOK 1000):			
Payroll costs (discount including social security costs)	-3 702	-5 368	-7 024

OPTION PROGRAMME

The General Meeting adopted a new option programme for all the employees of AF Gruppen in May 2014. The maximum number of options that could be allotted was 4,500,000 over three years, and the programme entails annual allotments for the years 2014-16 with the exercise of the options in March 2017. The purchase price for the shares was based on the average market price during the last week before the three respective subscription periods. The option premium was NOK 1.0 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 2017. AF Gruppen issued 3,500,000 options to 1,383 employees in 2014, 650,000 options to 280 employees in 2015 and 146,863 options to 105 employees in 2016. A total of 256,684 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 3,647,779 as at 31 December 2016. A total of 3 253 346 options in the program was exercised March 2017. The option cost in 2016 was NOK 8 million (NOK 8 million). In addition, there has been an increase in the provision for social security cost.

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

ALLOTMENT YEAR	Exercise deadline	Exercise price (NOK per share)	Number of options
2014	1/3/17	63.60	2 900 949
2015	1/3/17	100.20	601 966
2016	1/3/17	128.70	144 864
Total			**3 647 779**

AF Gruppen has used the Black-Scholes options pricing model to value the options.
The following assumptions were used in the model

	2016	2015	2014
Expected dividend yield	3.5%	4.1%	4.5%
Historical volatility	18.8%	18.8%	16.0%
Risk-free interest	1.3%	1.9%	2.6%
Expected life of option (years)	0.8	2.0	2.8
Share price (NOK)	132.7	108.3	74.3

The expected volatility will be equal to the historical volatility, since this is an option programme in which the allotment takes place over three years, with an exercise price set at the average share price during the subscription period.

NOTE 8 OTHER OPERATING EXPENSES

Amounts in NOK million	Note	2016	2015	2014
OTHER OPERATING EXPENSES				
Rent		-108	-108	-97
Other rental expenses		-413	-461	-497
Insurance		-29	-31	-29
Contracted manpower		-89	-90	-102
Audit fees		-6	-6	-6
Other fees		-70	-68	-78
Bad debts	10	-1	-3	-5
Disposal and landfill fees		-74	-72	-73
Marketing and advertising		-22	-18	-17
IT expenses		-46	-43	-36
Sundry other operating expenses		-224	-67	-177
Total other operating expenses		**-1 084**	**-968**	**-1 116**

Amounts in NOK 1,000	2016	2015	2014
REMUNERATION OF EY (ERNST & YOUNG)			
Statutory auditing	-2 381	-2 868	-3 227
Other assurance engagements	-45	-87	-114
Tax consulting	-127	-4	-132
Other non-audit services	-245	-353	-555
Total	**-2 798**	**-3 311**	**-4 028**
REMUNERATION OF OTHER AUDITORS			
Statutory auditing	-2 356	-1 442	-1 137
Other services beyond auditing	-736	-805	-1 060
Total	**-3 093**	**-2 247**	**-2 197**
Total auditor's fees	**-5 891**	**-5 558**	**-6 225**

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

NOTE 9 NET GAINS/(LOSSES)

Amounts in NOK million	2016	2015	2014
Gains/(losses) on sale of businesses[1)]	2	-	57
Gains/(losses) on sale of shares in property companies[2)]	2	42	21
Fair value changes in financial derivatives	-17	64	18
Net (gains)/losses on the sale of property, plant and equipment	33	29	28
Net foreign exchange gains/(losses) related to operations	-2	-	2
Total net gains/(losses)	**18**	**135**	**125**

[1)] Gains on the sale of businesses in 2014 include a gain of NOK 22 million on the buyback of 60 per cent of the shares in Miljøbase Vats AS, as well as a gain of NOK 28 million from the sale of 50 per cent of the shares in BA Gjenvinning. The sale of the shares in BA Gjenvinning resulted in the loss of control, and the recognition of the remaining ownership stake at fair value on the balance sheet. The remaining ownership stake was sold in March 2016.

[2)] 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 in associates, cf. Note 28 – Investments in associates and Note 29 - Investments in joint ventures. The gains on the sale of shares in property companies of NOK 42 million in 2015 were linked primarily 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 our remaining ownership stake of 50 per cent.

NOTE 10 TRADE AND NON-INTEREST-BEARING RECEIVABLES

Amounts in NOK million	Note	2016	2015
Trade receivables		2 524	2 132
Unearned revenue, invoiced on projects in progress	6	-1 439	-1 413
Earned revenue, not invoiced on projects in progress	6	468	293
Credit balances with clients	6	418	491
Tax paid in advance		3	6
Value-added tax and other public charges paid in advance		7	12
Prepaid expenses		37	23
Other current non-interest-bearing receivables		42	56
Trade and other non-interest-bearing receivables	24	**2 061**	**1 599**
Gross trade receivables		2 528	2 134
Provision for losses		-3	-2
Trade receivables recognised on the balance sheet		**2 524**	**2 132**

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

Amounts in NOK million	2016	2015
TRADE RECEIVABLES – AGE DISTRIBUTION		
1–30 days overdue	200	213
31–60 days overdue	60	30
61–90 days overdue	197	24
91–120 days overdue	47	22
More than 120 days overdue	541	624
Total receivables overdue, but not written down	**1 045**	**914**
Receivables not yet due	1 480	1 218
Trade receivables recognised on the balance sheet	**2 524**	**2 132**

AGE DISTRIBUTION 2016	Not yet due	1-30 d.	31-60 d.	61-90 d.	91-120 d.	> 120 d.	Total
Trade receivables, gross	1 480	200	60	197	47	544	2 528
Provision for losses	-	-	-	-	-	-3	-3
Trade receivables recognised on the balance sheet	**1 480**	**200**	**60**	**197**	**47**	**541**	**2 524**

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	2016	2015
Provision for losses as at 1 January		-2	-3
Losses written off during the year		-	4
Reversal of last year's provisions		-	-
Provisions for the year	8	-1	-3
Provision for losses as at 31 January		**-3**	**-2**

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	2016	2015
Spare parts and project inventories	59	86
Raw materials	52	42
Finished products	28	24
Total inventories	**139**	**152**

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 – Associates 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	2016	2015
Housing projects in progress	-	9
Completed housing units for sale	1	11
Land for development	46	47
Total projects for own account	**47**	**67**

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 2,054 (2,367) residential units and 107,310 m^2 (122,717) of commercial area. AF's share is 848 (997) residential units and 51,213 m^2 (59,272) of commercial area.

Completed housing units for sale	2016	2015
Number of completed housing units for sale in subsidiaries	1	11
Number of completed housing units for sale in associates	4	-

NOTE 13 INTANGIBLE ASSETS

Amounts in NOK million	Goodwill	Customer relationships	Other intangible assets	Total
ACQUISITION COST				
01/01/2015	1 350	30	25	1 405
Ordinary additions	-	-	3	3
Additions from the acquisition of business	724	-	-	724
Translation difference	10	-	-	10
31/12/2015	**2 083**	**30**	**29**	**2 143**
ORDINARY ADDITIONS	-	-	2	2
Additions from the acquisition of business	5	-	-	5
Disposals	-	-	-1	-1
Translation difference	-11	-	-	-11
31/12/2016	**2 078**	**30**	**30**	**2 138**
DEPRECIATION AND WRITE-DOWNS				
01/01/2015	-	-30	-17	-47
Depreciation for the year	-	-	-2	-2
Write-downs for the year	-15	-	-1	-16
31/12/2015	**-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**
CARRYING AMOUNT				
Acquisition cost	2 083	30	29	2 143
Depreciation and write-downs	-15	-30	-20	-66
31/12/2015	**2 068**	**-**	**9**	**2 077**
Acquisition cost	2 078	30	30	2 138
Depreciation and write-downs	-55	-30	-21	-107
31/12/2016	**2 023**	**-**	**9**	**2 032**

	Customer relationships	Other intangible assets
Economic life	5 years	4–22 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	2016	2015
Målselv Maskin & Transport	64	64
AF Anlegg	17	17
Pålplintar	3	3
Total Civil Engineering	**84**	**84**
AF Decom	37	37
Härnösand Byggreturer	13	14
Total Environment	**50**	**51**
Strøm Gundersen	843	838
LAB	649	649
AF Bygg Sverige	99	109
AF Bygg Østfold	47	47
AF Bygg Prosjektpartner	20	20
Total Building	**1 659**	**1 662**
AF Offshore AeronMollier	177	217
Total Offshore	**177**	**217**
AF Energi & Miljøteknikk	53	53
Total Energy	**53**	**53**
Balance sheet value 31.12	**2 023**	**2 068**

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 been used for Offshore for 2016 to reflect the differences in market risk.

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

NORWAY	2016	2015
Growth rate [1)]	2.0%	2.5%
WACC before tax for offshore	10.3%	8.3%
WACC before tax for other	8.2%	8.3%

SWEDEN	2016	2015
Growth rate[1)]	2.0%	2.5%
WACC before tax	6.5%	6.5%

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

Anticipated cash flows for 2017 are based on the budget for 2017 approved by the management. 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 2.8 per cent is anticipated for all the business units in 2017.

In 2016, goodwill was written down by NOK 40 million in connection with AF Offshore 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. Substantial organisational adjustments have been carried out over the last year, and the unit delivered a positive result for 2016. In the test, the recoverable amount for AF Offshore AeronMollier was calculated to NOK 238 million. AF Offshore 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 2016 for most of the units in the test. The exception is AF Offshore AeronMollier, in which the goodwill was written down to the calculated recoverable amount in 2016. Based on our current knowledge, 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 write-downs in cash-generating units other than AF Offshore AeronMollier.

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.

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 0.5 percentage point increase in the WACC will make it necessary to recognise an impairment loss for the goodwill allocated to AF Offshore AeronMollier.

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 Sverige	700	100	630	573	420
AF Offshore AeronMollier	100	100	94	90	73
AF Energi & Miljøteknikk	632	100	585	545	427

2015		Indexed values	Recoverable amount if WACC is increased by:		
COMPANY	Recoverable amount	Book value of assets	50 bp	100 bp	300 bp
AF Bygg Göteborg	368	100	325	293	210
Strøm Gundersen	251	100	367	326	227
AF Decom	1 117	100	1 015	940	726
AF Energi og Miljøteknikk	698	100	642	595	459
AF Offshore AeronMollier	102	100	97	90	71

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, i.e. 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.

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 Offshore AeronMollier.

NOTE 13 INTANGIBLE ASSETS CONT.

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 Sverige	699	100	629	489	349
AF Offshore AeronMollier	100	100	90	70	50
AF Energi & Miljøteknikk	625	100	562	437	312

2015		Indexed values	Recoverable amount if cash flow is reduced by:		
COMPANY	Estimated cash flow	"Break even" cash flow	10%	30%	50%
AF Bygg Göteborg	368	100	332	258	184
Strøm Gundersen	251	100	226	175	125
AF Decom	1 117	100	1 005	782	558
AF Energi og Miljøteknikk	698	100	628	489	349
AF Offshore AeronMollier	102	100	92	71	51

NOTE 14 PROPERTY, PLANT AND EQUIPMENT

Amounts in NOK million	Buildings, production facilities and land	Machinery and equipment	Total
ACQUISITION COST			
01/01/2015	693	761	1 454
Ordinary additions	3	146	149
Additions from the acquisition of business	45	101	147
Disposals	-12	-120	-132
Reclassification between the groups	-	-	-
Translation differences	1	5	7
31/12/2015	**730**	**894**	**1 624**
Ordinary additions	5	162	167
Additions from the acquisition of business	-	-	-
Disposals	-12	-108	-120
Translation differences	-1	-5	-6
31/12/2016	**723**	**943**	**1 666**
DEPRECIATION AND WRITE-DOWNS			
01/01/2015	-18	-443	-461
Depreciation for the year	-4	-117	-122
Write-downs for the year	-1	-1	-2
Accumulated depreciation on disposals for the year	1	75	76
Reclassification between the groups	-	-	-
Translation differences	-	-4	-4
31/12/2015	**-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
Currency translation differences	-	5	5
31/12/2016	**-30**	**-530**	**-560**
CARRYING AMOUNT			
Acquisition cost	730	894	1 624
Depreciation and write-downs	-23	-490	-513
31/12/2015	**708**	**404**	**1 111**
Acquisition cost	723	943	1 666
Depreciation and write-downs	-30	-530	-560
31/12/2016	**693**	**413**	**1 105**

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%

LEASING

Amounts in NOK million	2016	2014
Operating leasing (annual rental cost)	392	441
Financial leasing	86	38

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	Contingent consideration	Other provisions	Total provisions
01/01/2016	120	146	82	349
Reversal of earlier provisions	-92	-	-7	-99
Provisions set aside during the year	98	4	25	128
Used during the year	-4	-	-9	-13
31/12/16	**123**	**150**	**91**	**365**

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.

Provisions for contingent consideration is linked to contingent consideration elements in connection with the acquisition of business, cf. Note 4 – Acquisition and sale of businesses New contingent consideration has not been recognised in 2016.

Other provisions include NOK 41 million in provisions for estimated social security costs related to the redemption of options. AF Gruppen's option programme for employees.

CLASSIFICATION ON THE BALANCE SHEET	2016	2015
Non-current liabilities	158	183
Current liabilities	207	165
Total	**365**	**349**

NOTE 16 TRADE PAYABLES AND NON-INTEREST-BEARING LIABILITIES

Amounts in NOK million	2016	2015
Trade payables	1 394	939
Public liabilities	361	317
Prepayments from customers	464	241
Accrued holiday pay, incl. social security costs	238	238
Other accrued expenses and other current liabilities	913	1 500
Total trade payables and non-interest-bearing liabilities	**3 369**	**3 236**

NOTE 17 LEASES

OPERATING LEASES

Amounts in NOK million	2016	2015	2014
Rent	-108	-108	-97
Rental cost for Environmental Base at Vats [1]	-	-	-34
Other rental costs [2]	-413	-461	-463
Total	**-521**	**-569**	**-594**

[1] *The company Miljøbase Vats AS was acquired from an associate to become a wholly owned subsidiary in 2014. After this, the rent is an intercompany cost that is eliminated.*
[2] *The other rental costs items varies based on the level of activity related to offshore campaigns.*

GROUP AS LESSEE

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

Non-terminable leases have been agreed for an average period of 5–10 years for offices and 3–5 years for machinery. Lease agreements ordinarily contain a right to extend the term of the lease. For office leases, the agreements normally contain a clause for renewal at market rent once the minimum term expires.

Some of the assets leased under non-terminable operating leases are subleased. The figures for non-terminable leases are shown gross before deductions for sublease income.

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

The Group has the following future minimum obligation related to non-terminable operating leases:

MINIMUM OBLIGATION – OPERATING LEASES 31. DECEMBER	2016	2015	2014
MACHINERY AND VEHICLES			
Rent due within 1 year	149	189	186
Rent due within 1–5 years	239	305	337
Rent due after 5 years	3	7	13
Total minimum obligation	**391**	**501**	**536**
OFFICES, INSTALLATIONS AND FURNISHINGS			
Rent due within 1 year	76	75	75
Rent due within 1–5 years	263	276	273
Rent due after 5 years	173	161	230
Total minimum obligation	**512**	**512**	**579**
Aggregate total minimum obligation	**903**	**1 013**	**1 115**
MATURITY STRUCTURE			
Operating lease liabilities due within 1 year	225	264	261
Operating lease liabilities due within 1–5 years	502	581	610
Operating lease liabilities due after 5 years	177	168	244
Aggregate total minimum obligation	**903**	**1 013**	**1 115**

The operating lease liabilities include lease liabilities from previous years related to the Environmental Base at Vats. After the acquisition of the remaining shares, Miljøbase Vats AS became a subsidiary of AF Gruppen, and this is thus no longer a lease liability for the Group.

Amounts in NOK million	2016	2015	2014
LEASES FOR OFFICE SPACE			
Lease for Helsfyr, Oslo	365	398	458
Other leases	50	104	103
Total minimum obligation	**415**	**502**	**561**

NOTE 17 LEASES CONT.

GROUP AS LESSOR

In 2016 revenue of NOK 16 million (23 million) 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 is:

Amounts in NOK million	2016	2015	2014
Sublease rent due within 1 year	5	7	14
Sublease rent due within 1–5 years	11	1	6
Sublease rent due after 5 years	-	-	-
Total	**16**	**8**	**21**

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	2016	2015	2014
Rent due within 1 year	19	16	7
Rent due within 1–5 years	51	47	24
Rent due after 5 years	5	8	8
Nominal value, minimum obligation	**76**	**70**	**38**
Interest	5	5	1
Present value of minimum obligation	**70**	**65**	**37**

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 2008 the contributions have been 4,25 per cent of pay > 1G < 7,1G and 13 per cent of pay > 7,1G < 12G, 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 2016, there were 18 (31) active participants and 97 (86) 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 come 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 168 (176) persons.

NOTE 18 RETIREMENT BENEFITS CONT.

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

Amounts in NOK million	2016	2015	2014
Present value of pension benefits earned during the year	-1	-2	-2
Interest expense on incurred pension liabilities	-2	-2	-3
Expected return on plan assets	1	2	3
Social security costs	-	-	-
Actuarial gains/losses recognised in the income statement	-	-	-
Total defined-benefit retirement benefits	**-2**	**-2**	**-2**
Defined-contribution pension, Norway	-44	-43	-39
Contributions to retirement benefit schemes, abroad	-10	-12	-9
Other retirement benefit costs	-24	-21	-21
Retirement benefit costs for the year, excl. social security costs	**-80**	**-78**	**-71**
Social security costs	-5	-10	-9
Retirement benefit costs for the year, excl. social security costs	**-86**	**-88**	**-80**

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 Company had gross retirement benefit liabilities of NOK 75 million (75 million) as at 31 December. Of these liabilities, NOK 74 million (74 million) is funded and NOK 1 million (2 million) is unfunded. Fair value of the plan assets was NOK 78 million (83 million) as at 31 December. Recognised plan assets in the company amount to NOK 4 million (9 million) and retirement benefit liabilities amount to NOK 1 million (2 million). Actuarial gains recognised in the retirement benefit liabilities amount to NOK 5 million (1 million) and actuarial losses in the assets amount to NOK 2 million (1 million). The actual return on plan assets was NOK 1 million (2 million) and the expected premium payment for next year is NOK 1 million (2 million).

ASSUMPTIONS FOR ACTUARIAL CALCULATIONS	31/12/2016	31/12/2015	31/12/2014
Discount rate	2.1%	2.5%	2.3%
Return on pension plan assets	2.1%	2.5%	3.2%
Pay inflation	2.3%	2.5%	2.8%
Basic amount (G) adjustment	2.0%	2.3%	2.5%
Adjustment of retirement benefits	0.0%	0.0%	0.0%
Turnover	10.0%	10.0%	10.0%

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	31/12/2016	31/12/2015	31/12/2014
Shares	8.4%	9.4%	9.9%
Property	12.1%	14.7%	15.0%
Non-current bonds	47.5%	39.8%	35.6%
Current bonds	28.8%	34.0%	37.4%
Other	3.2%	2.1%	2.1%
Total	**100.0%**	**100.0%**	**100.0%**

NOTE 19 NET FINANCIAL ITEMS

Amounts in NOK million	Note	2016	2015	2014
FINANCIAL INCOME				
Interest income on cash and cash equivalents	20	2	3	1
Interest income from associated companies	20	7	6	4
Interest income from customers		6	7	3
Other interest income	20	8	13	19
Other financial income		1	2	-
Total financial income		**24**	**31**	**26**
FINANCIAL EXPENSES				
Interest expenses on loans and overdraft facilities	20	-12	-13	-9
Other interest expenses	20	-7	-24	-10
Other financial expenses		-1	-1	-1
Total financial expenses		**-20**	**-39**	**-20**
FINANCIAL GAINS/(LOSSES) ON CHANGES IN VALUE				
Net foreign exchange gains/(losses) related to financing		-7	-1	-5
Fair value of interest rate swaps	23	8	3	-13
Total financial gains/(losses) on changes in value		**1**	**2**	**-17**
Net financial items		**6**	**-6**	**-10**

NOTE 20 NET INTEREST-BEARING RECEIVABLES (DEBT)

Amounts in NOK million	Note	2016	2015
NET INTEREST-BEARING RECEIVABLES (DEBT)			
Interest-bearing receivables – non-current		206	169
Interest-bearing receivables – current		44	70
Cash and cash equivalents		469	459
– Interest-bearing loans and credit facilities – non-current		-83	-83
– Interest-bearing loans and credit facilities – current		-30	-22
Net interest-bearing receivables (debt)	22,24	**606**	**594**

Amounts in NOK million	Note	2016	2015
CASH AND CASH EQUIVALENTS			
Cash and bank deposits		469	459
Short-term money market investments		-	-
Cash and cash equivalents	22,24	**469**	**459**
Of which restricted deposits		18	18

Restricted deposits 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	2016	2015
INTEREST-BEARING LOANS AND CREDIT FACILITIES				
Overdraft facilities outside of the corporate cash pooling system	22,24	1.9%	2	3
Mortgage loans	22,24	2.9%	15	18
Financial lease liabilities	22,24	2.7%	78	69
Other loans	22,24	3.2%	19	16
Total interest-bearing loans and credit facilities			**113**	**105**
CLASSIFICATION ON THE BALANCE SHEET				
Current liabilities	22,24		30	22
Non-current liabilities	22,24		83	83
Total interest-bearing loans and credit facilities			**113**	**105**
MATURITY STRUCTURE:				
Liabilities maturing within 1 year	24		30	22
Liabilities maturing in between 1 and 5 years	24		76	74
Liabilities maturing in more than 5 years	24		7	9
Total			**113**	**105**

Interest-bearing loans and credit facilities are measured on an ongoing basis at amortised cost. Fair value is calculated by discounting future cash flows and is classified at level 2 in the fair value hierarchy, cf. Note 24 – Financial instruments category table. Fair value coincides essentially with the book value.

DRAWING RIGHTS

At the end of 2016, the Group had an unused bank overdraft facility linked to the corporate cash pooling system of NOK 1,280 million (880 million). In addition, the Group has a committed unused loan facility of NOK 600 million. The Group had unused credit lines for bank loans including overdraft facilities of NOK 1,880 million (1,480 million) as at 31 December 2016.

NOTE 21 EARNINGS AND DIVIDEND PER SHARE

EARNINGS PER SHARE

Amounts in NOK million	2016	2015	2014
Profit for the year attributable to Parent Company shareholders	691	697	442
NUMBER OF SHARES AS AT 31 DECEMBER			
Time-weighted average number of externally owned shares[1)]	92 797 169	91 183 492	86 623 279
Dilutive effect of share value-based remuneration[2)]	1 942 272	1 734 467	210 443
Time-weighted average number of externally owned shares after dilution	94 739 441	92 917 959	86 833 722
Earnings per share (amounts in NOK)	**7.44**	**7.64**	**5.11**
Diluted earnings per share (amounts in NOK)	**7.29**	**7.50**	**5.09**

[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 31 December 2016 by the market price of the AF share as at 31 December 2016. 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.

DIVIDEND PER SHARE

A dividend of NOK 5.00 per share for the 2015 financial year was paid on 24 May 2016. NOK 3.40 of the dividend of NOK 5.00 was the reimbursement of capital. On 23 November 2016, an additional NOK 3.00 per share was paid as a dividend due to the Company's strong financial position. A total of NOK 744 million was distributed as a dividend to shareholders in 2016.

For the 2016 financial year, the Board of Directors proposes a dividend of NOK 5.00 per share for the 1st half of the year. It is expected that the dividend will be paid to the shareholders on 23 May 2017. 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 2016 financial year for distribution in the 1st half of the year is NOK 487 million. The Board of Directors will request authorisation by the General Meeting for the distribution of a dividend in November 2017 as well.

Amounts in NOK	2016
Total number of shares as at 31 December	93 610 000
New issue in connection with acquisition of Kanonaden Entreprenad AB on 23 February 2017	318 766
Estimated number of shares issued in connection with the redemption of options	3 500 000
Number of shares entitled to a dividend	**97 428 766**
Dividend per share	5,00
Total estimated dividend	**487 143 830**

NOTE 22 FINANCIAL RISK MANAGEMENT

22.1 FINANCIAL RISK FACTORS

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 homebuyers. Homebuyers 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 housing units. The credit risk is spread over a large number of homebuyers and is considered low.

Maximum exposure to credit risk in respect of trade receivables on the balance sheet date according to age, see Note 11 – 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.

Financial 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 housing 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	2016	2015
Financial assets with a variable interest rate	719	698
Financial liabilities with a variable interest rate	-113	-105
Net financial receivables	**606**	**593**
Effect of a 100 basis point increase in rates on the profit after tax and equity	5	4
Effect of a 100 basis point decrease in interest rates on the profit after tax and equity	-5	-4

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 93 per cent (94 per cent) of its recognised revenue from operations with NOK as the functional currency, 6 per cent (6 per cent) with SEK as the functional currency and 0 per cent (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 -9 million (-1 million) in 2016. The total translation differences were NOK -23 million (21 million) in 2016.

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	2016	2015
EFFECT ON PROFIT AFTER TAX		
Effect of a 10 % 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).	6	9
Effect of a 10 per cent weakening of NOK in relation to all the currencies on other comprehensive income (OCI).	-6	-9
EFFECT ON EQUITY		
Effect of a 10 per cent appreciation of NOK in relation to all the currencies on the equity	6	9
Effect of a 10 per cent weakening of NOK in relation to all the currencies on the equity	-6	-9

Sensitivity associated with the translation of receivables and debt in foreign currency to NOK

AF Gruppen has deposits and liabilities in Euro, 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	2016	2015
EFFECT ON PROFIT AFTER TAX		
Effect of a 10 per cent appreciation of NOK in relation to all the currencies on profit after tax	-44	-11
Effect of a 10 per cent weakening of NOK in relation to all the currencies on profit after tax	44	11

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	2016	2015
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	-12	-2
Effect of a 10 per cent weakening of NOK in relation to all the currencies on the profit after tax	12	2
EFFECT ON EQUITY		
Effect of a 10 per cent appreciation of NOK in relation to all the currencies on the equity	-44	-27
Effect of a 10 per cent weakening of NOK in relation to all the currencies on the equity	44	27

iii) Other 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. As at 31 December 2016, AF Gruppen has a liability related to commodity derivatives for steel. See Note 23 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.

Amounts in NOK million 31/12/2016	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	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**

NOTE 22 FINANCIAL RISK MANAGEMENT CONT.

			Maturity structure of contractual cash flows				
Beløp i MNOK 31/12/2015	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	3	3	3	-	-	-	-
Mortgage loans	18	20	1	2	3	9	5
Financial lease liabilities	69	74	7	7	15	34	5
Other loans	16	18	1	-	-	17	-
Trade payables and other financial debt [1)]	2 440	2 440	2 440	-	-	-	-
FINANCIAL DERIVATIVES							
Interest rate swaps	35	35	1	1	3	9	20
Forward currency contracts	127	127	48	5	29	43	-
Total	**2 708**	**2 717**	**2 503**	**16**	**50**	**112**	**30**

[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.*

22. 2. 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 Group manages its capital structure and makes the necessary changes based on a continuous assessment of the economic conditions under which the business is conducted, as well as the short and medium term outlook.

The Group manages its capital structure by looking at the equity ratio and financial key figures. 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 2016.

AF Gruppen's dividend policy is to pay a dividend of at least 50 per cent 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. AF Gruppen has started to distribute dividends on a semi-annual basis from 2015.

22. 3. ASSESSMENT OF FAIR VALUE

AF Gruppen measures all financial derivatives and financial investments at fair value. As at 31 December 2016, 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. See Note 23 – Derivatives.

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.

NOTE 22 FINANCIAL RISK MANAGEMENT CONT.

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

Amounts in NOK million

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

Amounts in NOK million

2015	Level 1	Level 2	Level 3	Total
Assets – financial derivatives	-	1	-	1
Liabilities – financial derivatives	-	-162	-	-162
Total	**-**	**-161**	**-**	**-161**

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 23 FINANCIAL DERIVATIVES

	2016		2015	
Amounts in NOK million	Assets	Liabilities	Assets	Liabilities
FIXED ASSETS				
Interest rate swap contracts – held for trading purposes	-	20	-	-
Forward foreign exchange contracts – cash flow hedging	-	26	-	54
Total non-current assets	**-**	**46**	**-**	**54**
CURRENT ASSETS				
Interest rate swap contracts – held for trading purposes	-	7	-	35
Commodity derivatives – held for trading purposes	-	5	-	-
Forward foreign exchange contracts – held for trading purposes	-	1	1	-
Forward foreign exchange contracts – cash flow hedging	-	51	-	73
Total current assets	**-**	**63**	**1**	**108**
	-			
Total carrying amount	**-**	**110**	**1**	**162**

INTEREST RATE SWAPS

AF Gruppen has an interest rate swap linked to the financing of the Environmental Base at 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 2016, 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 2016, 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 22.1 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 2016. For other forward foreign exchange contracts, the changes in value are recognise in the income statement on an ongoing basis, cf. Note 9 – Net gains/(losses).

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 31/12/2016	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	10	2 014	-	-	2 014	47	2 061
Current interest-bearing receivables	20	44	-	-	44	-	44
Current financial derivatives	23	-	-	-	-	-	-
Cash and cash equivalents	20	469	-	-	469		469
Total		**2 734**	**-**	**-**	**2 734**	**51**	**2 785**

31/12/2015	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	169	-	-	169	-	169
Non-current pension plan and other financial assets	18	2	-	-	2	9	10
Current trade and other non-interest-bearing receivables	10	1 558	-	-	1 558	41	1 599
Current interest-bearing receivables	20	70	-	-	70	-	70
Current financial derivatives	23	-	1	-	1	-	1
Cash and cash equivalents	20	459	-	-	459	-	459
Total		**2 258**	**-**	**-**	**2 259**	**50**	**2 309**

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

FINANCIAL LIABILITIES BY CATEGORY

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 financial 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**

NOTE 24 FINANCIAL INSTRUMENTS: CATEGORY TABLE CONT.

31/12/2015	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	22	-	-	22	-	22
Current trade payables and non-interest-bearing debt [2)]	16,22	2 440	-	-	2 440	797	3 236
Non-current financial derivatives	22,23	-	-	54	54	-	54
Current financial derivatives	22,23	-	36	72	108	-	108
Total		**2 545**	**36**	**126**	**2 707**	**797**	**3 503**

[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	2016	2015	2014
Current tax payable for the year	-357	-168	-311
Adjustment for previous years	-15	-	-1
Total tax payable	**-372**	**-168**	**-312**
CHANGE IN DEFERRED TAX RELATED TO:			
Change in temporary differences	93	-89	167
Change in tax rate	13	31	-
Changed valuation of temporary differences	2	-1	4
Adjustment for previous years	11	1	-
Tax change in deferred tax	**119**	**-58**	**170**
Total income tax expense	**-253**	**-226**	**-142**
RECONCILIATION OF TAX PAYABLE IN THE INCOME STATEMENT AGAINST TAX PAYABLE ON THE BALANCE SHEET:			
Current tax payable for the year	357	168	311
Tax payable linked to previous years	21	-	-
Impact related to the acquisition/(sale) of business	-2	7	-1
Impact related to limited partnerships that are recognised in accordance with the equity method	1	1	13
Tax payable from other comprehensive income	-	-	-
Currency translation differences	-	1	-
Total tax payable on the balance sheet	**377**	**178**	**322**
RECONCILIATION OF INCOME TAX EXPENSE CALCULATED AT THE NORWEGIAN TAX RATE AND THE INCOME TAX EXPENSE AS PRESENTED IN THE INCOME STATEMENT:			
Profit before tax	1 040	1 004	625
Expected income tax at Norwegian nominal rate	-260	-271	-169
Tax effects of:			
– Divergent tax rates for foreign countries and Svalbard	12	8	6
– Non-deductible expenses	-24	-9	-5
– Profit attributable to associates	1	9	3
– Non-taxable revenues	2	6	22
– Change in tax rate	13	31	-
– Change in valuation of deferred tax assets	7	-1	4
– Excessive/insufficient provisions in previous years	-4	1	-1
Total tax expense recognised in income statement	**-253**	**-226**	**-142**
Effective tax rate	24.3%	22.5%	22.7%

NOTE 26 DEFERRED TAX / DEFERRED TAX ASSETS

CHANGE IN RECOGNISED NET DEFERRED TAX

Amounts in NOK million	2016	2015
Book value as at 1 January	298	183
Recognised in the income statement during the period	-119	58
Recognised in OCI	31	-26
Impact related to the acquisition/(sale) of business	3	86
Currency translation differences	1	-4
Book value as at 31 December	**214**	**298**
CLASSIFICATION ON THE BALANCE SHEET		
Deferred tax assets	-51	-94
Deferred tax	265	392
Net deferred tax on the balance sheet	**214**	**298**

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

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 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**

NOTE 26 DEFERRED TAX / DEFERRED TAX ASSETS CONT.

2015 DEFERRED TAX	01/01/2015	Recognised in the period	Recognised in OCI	Acquisition/sale of businesses	Currency translation	31/12/2015
Property, plant and equipment	10	6	-	4	-	20
Intangible assets	1	-	-	-	-	1
Projects in progress [1]	304	26	-	92	-	422
Other assets	17	-1	-	-	-	16
Retirement benefits	-	3	-	-	-	4
Accruals reserve	2	-	-	-	-	2
Total deferred taxes	**335**	**35**	**-**	**95**	**-**	**465**
Of which netted against deferred tax assets						-72
Deferred tax recognised on balance sheet						**392**

DEFERRED TAX ASSETS	01/01/2015	Recognised in the period	Recognised in OCI	Acquisition/sale of businesses	Currency translation	31/12/2015
Property, plant and equipment	-5	-	-	-	-	-5
Other assets	-44	-2	-26	-1	-	-73
Provisions	-34	-4	-	-7	-	-44
Recognised tax value of tax loss carryforward [2]	**-69**	25	-	-1	-4	-49
Total deferred tax assets	**-152**	**19**	**-26**	**-9**	**-4**	**-172**
Of which netted against deferred tax						72
Of which off-balance-sheet deferred tax assets						5
Deferred tax assets recognised on the balance sheet						**-94**

[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 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 176 million (222 million in 2015).

NOTE 27 ASSOCIATED COMPANIES

Amounts in NOK million	2016	2015	2014
Book value of investment as at 1 January	295	105	178
Additions from the acquisition of interests	1	24	12
Additions due to sell-off of subsidiaries	-	-	26
Disposals due to acquisition to create a subsidiary	-	-1	-62
Disposals	-3	4	-
Share of profit for the year	-28	42	12
Tax on distributions from limited partnerships	-	1	13
Equity transactions, incl. dividends	1	-40	-45
Currency translation differences	-1	1	-
Total investments in associates as at 31 December	**266**	**137**	**134**

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 ordinarily owns less than 50% of the development companies and has thus a significant, but not controlling influence over these companies. In addition, the Group has a few companies with other activities, but they are not defined as essential to the Group.

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. 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.

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

NOTE 27 ASSOCIATED COMPANIES CONT.

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% 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 og 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 stake	33.3%	22.5%	33.3%	33.3%	49.5%	
Current assets	390	450	536	351	20	1 746
Fixed 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**
Equity capital	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						Total
Group's share of the investment	4	30	14	11	133	191
Limited partnership unit tax	-	-	-4	-4	-	-8
Overprice, purchase of shares	2	-	-	-	-	2
Excess value	-	-	-	-	-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						Total
Group's share of comprehensive income	1	-	5	3	-17	-9
Tax on profit for the year	-	-	-3	-3	-	-6
Gains	-1	-	-2	-	-	-3
Other items	-	-	-	-	-6	-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.

2015

SPECIFICATION OF THE AMOUNTS IN THE ACCOUNTS:

Amounts in NOK million	Essential companies	Other companies	Total
Amounts recognised in the balance sheet	94	43	137
Amounts recognised in the income statement	38	4	42

NOTE 27 ASSOCIATED COMPANIES CONT.

SUMMARY OF FINANCIAL INFORMATION – ASSOCIATES

Amounts in NOK million	Bergervn. AS and IS	Lillo Gård AS and KS	Nordlivn. AS and KS	Rolvsbukta AS and KS	AFG Invest 5 AS	Bjørnsons Hage	Total
Registered office	Oslo	Oslo	Oslo	Oslo	Oslo	Oslo	
Ownership stake	33.3%	22.5%	33.3%	33.3%	33.3%	34.0%	
Current assets	5	67	195	137	16	27	446
Fixed assets	51	390	2	4	8	11	466
Total assets	**56**	**457**	**197**	**141**	**24**	**38**	**912**
Current liabilities	-	9	138	26	8	28	209
Non-current liabilities	-	317	33	76	-	2	427
Total liabilities	**1**	**326**	**170**	**102**	**8**	**29**	**636**
Equity capital	56	131	27	38	16	8	276
							-
Operating revenue	-	14	-	-	114	1	130
Earnings after tax / comprehensive income	-	3	3	4	111	-	121

Earnings after tax / comprehensive income for other associates, which are not defined as essential to the Group, totals NOK 17 million.

RECONCILIATION OF BOOK VALUE							Total
Group's share of the investment	19	30	8	8	5	3	73
Limited partnership unit tax	-	-	-1	-1	-	-	-2
Changed valuation due to sell-off	-	-	-	-	-	18	18
Gains	-	-	5	-	-	-	5
Book value of the investment	**19**	**30**	**12**	**7**	**5**	**21**	**94**

RECONCILIATION OF SHARE OF COMPREHENSIVE INCOME							Total
Group's share of comprehensive income	-	1	1	1	37	-	40
Tax on profit for the year	-	-	-1	-1	-	-	-2
Recognised share of comprehensive income	**-**	**1**	**-**	**-**	**37**	**-**	**38**

COMPREHENSIVE INCOME, ALL ASSOCIATES	Total essential companies	Total other companies	Total
Earnings after tax / comprehensive income	121	15	136
Group's share of comprehensive income	38	4	43

NOK 42 million in dividends has been received from associates in 2015. NOK 34 million of this has been received from the company AFG Invest 5 AS.

NOTE 28 JOINT VENTURES

Amounts in NOK million	2016	2015	2014
Book value of investment as at 1 January	122	301	94
Additions from the acquisition of interests	-	10	174
Additions due to sell-off of subsidiaries	-	-	-
Disposals due to acquisition to create a subsidiary	-	-	-
Disposals	-	1	-
Share of profit for the year	24	-11	-2
Tax on distributions from limited partnerships	1	-	-
Equity transactions, incl. dividends	-24	-4	6
Currency translation differences	-	-	-
Total investments in joint ventures as at 31 December	**123**	**296**	**272**

AF Gruppen carries out residential and commercial building projects in cooperation with professional partners. This is done to provide complementary competence in the projects and diversify risk. AF Gruppen does not ordinarily own more than 50% of the development companies and has thus a significant, but not controlling influence over these companies. In addition, the Group has a few companies with other activities, but they are not defined as essential to the Group.

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. 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.

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 is presented on a 100% 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 stake	50%
Current assets	849
Fixed assets	64
Total assets	**913**
Current liabilities	208
Non-current liabilities	265
Total liabilities	**473**
Equity capital	440
Total equity and liabilities	**913**
Operating revenue	420
Earnings after tax / comprehensive income	50
RECONCILIATION OF BOOK VALUE	
Group's share of the investment	70
Limited partnership unit tax	-13
Book value of the investment	**57**
RECONCILIATION OF SHARE OF COMPREHENSIVE INCOME	
Group's share of comprehensive income	25
Tax on profit for the year	-8
Recognised share of comprehensive income	**18**

COMPREHENSIVE INCOME OF JOINT VENTURES

	Essential companies	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 businesses. NOK 23 million in dividends has been received from joint ventures in 2016.

2015

SPECIFICATION OF THE AMOUNTS IN THE ACCOUNTS:

Amounts in NOK million	Total essential companies	Total other companies	Total
Amounts recognised in the balance sheet	273	28	301
Amounts recognised in the income statement	1	-2	-1

NOTE 28 JOINT VENTURES CONT.

SUMMARY OF FINANCIAL INFORMATION – JOINT VENTURES

Amounts in NOK million	Hasle Linje Næring	Haslemann AS and IS	Kirkeveien Utbygg. AS	Total
Registered office	Oslo	Oslo	Oslo	
Ownership stake	50%	50%	50%	
Current assets	17	826	29	871
Fixed assets	1 036	22	-	1 058
Total assets	**1 052**	**848**	**29**	**1 930**
Current liabilities	54	140	-	194
Non-current liabilities	686	572	25	1 283
Total liabilities	**740**	**711**	**25**	**1 477**
Equity capital	312	136	4	453
Operating revenue	4	-	195	199
Earnings after tax / comprehensive income	-36	36	1	1

Earnings after tax / comprehensive income for other joint ventures, which are not defined as essential to the Group, totals NOK 6 million.

RECONCILIATION OF BOOK VALUE				Total
Group's share of the investment	156	68	2	226
Limited partnership unit tax	-	-6	-	-6
Excess value	-	-	19	19
Other items	4	-	-	4
Book value of the investment	**160**	**62**	**21**	**243**

RECONCILIATION OF SHARE OF COMPREHENSIVE INCOME				Total
Group's share of comprehensive income	-18	5	-	-13
Tax on profit for the year	-	-5	-	-5
Other items	5	-	-	5
Recognised share of comprehensive income	**-13**	**-**	**-**	**-13**

RECONCILIATION OF JOINT VENTURES	Total material companies	Total other companies	Total
Earnings after tax / comprehensive income	-26	6	-20
Group's share of comprehensive income	-13	2	-11

NOK 2 million in dividends has been received from joint ventures in 2015.

NOTE 29 SUBSIDIARIES

Company name	Acquisition date	Office address Place	Country	Direct ownership	Financial ownership	Business area
AF Gruppen Norge AS	05/09/85	Oslo	Norway	100.00%	100.00%	Civil Engineering, Building, Property
Pålplintar i Sverige AB	14/01/00	Södertälje	Sweden	100.00%	100.00%	Civil Engineering
JR Anlegg AS	01/10/10	Jessheim	Norway	100.00%	100.00%	Civil Engineering
Palmer Gotheim Skiferbrudd AS	01/01/07	Oppdal	Norway	100.00%	100.00%	Civil Engineering
Målselv Maskin & Transport AS	04/03/15	Karlstad	Norway	70.00%	70.00%	Civil Engineering
Härnösand Byggreturer AB	01/07/13	Stockholm	Sweden	100.00%	100.00%	Environment
AF Decom AS	01/01/09	Oslo	Norway	100.00%	100.00%	Environment
Jølsen Miljøpark AS	01/11/13	Skedsmokorset	Norway	100.00%	100.00%	Environment
Rimol Miljøpark AS	11/12/14	Tiller	Norway	50.00%	50.00%	Environment
AF Bygg Göteborg AB	01/07/01	Gothenburg	Sweden	100.00%	100.00%	Building
AF Bygg Syd AB	30/06/07	Halmstad	Sweden	90.00%	90.00%	Building
Strøm Gundersen AS	03/11/11	Mjøndalen	Norway	100.00%	91.29%	Building
Corroteam AS	03/11/11	Mjøndalen	Norway	70.00%	63.90%	Building
Haga & Berg Entreprenør AS	03/11/11	Oslo	Norway	100.00%	89.26%	Building
Haga & Berg Service AS	19/02/14	Oslo	Norway	74.50%	66.50%	Building
Problikk AS	25/02/13	Tranby	Norway	100.00%	77.98%	Building
Consolvo AS	03/11/11	Tranby	Norway	100.00%	77.98%	Building
Consolvo Support AS	03/11/11	Tranby	Norway	60.00%	46.79%	Building
Consolvo Overflate AS	03/11/11	Tranby	Norway	51.00%	39.77%	Building
Consolvo Nybygg AS	03/12/15	Tranby	Norway	91.10%	36.23%	Building
Consolvo Betongbygg AS	01/02/16	Tranby	Norway	100.00%	39.77%	Building
Consolvo Overflate UAB	15/03/12	Tranby	Norway	100.00%	39.77%	Building
Consolvo Eiendom AS	03/11/11	Tranby	Norway	100.00%	77.98%	Building
Microtrenching Norge AS	16/09/14	Tranby	Norway	90.10%	70.26%	Building
Protector AS	03/11/11	Tranby	Norway	100.00%	77.98%	Building
Protector CPE AB	03/11/11	Gothenburg	Sweden	85.00%	66.28%	Building
Protector KKS GmbH	03/11/11	Remseck	Germany	100.00%	77.98%	Building
Fjerby AS	16/09/14	Fjerdingby	Norway	100.00%	70.26%	Building
Lasse Holst AS	09/03/16	Gressvik	Norway	70.00%	21.28%	Building
Kirkestuen AS	12/01/16	Oslo	Norway	51.00%	30.40%	Building
Thorendahl AS	03/11/11	Oslo	Norway	100.00%	59.61%	Building
Drift og Bemanning AS	05/01/16	Oslo	Norway	100.00%	59.61%	Building
Oslo Stillasutleie AS	03/11/11	Oslo	Norway	100.00%	59.61%	Building
Storo Blikkenslagerverksted AS	03/11/11	Oslo	Norway	70.00%	41.72%	Building
Oslo Papp og Membran AS	09/05/12	Oslo	Norway	100.00%	41.72%	Building
Oslo Prosjektbygg AS	01/03/13	Oslo	Norway	70.00%	41.72%	Building
VD Vindu & Dør Montasje AS	06/03/15	Skotterud	Norway	100.00%	41.72%	Building
LAB Entreprenør AS	11/03/15	Bergen	Norway	100.00%	70.00%	Building
Åsane Byggmesterforretning AS	11/03/15	Bergen	Norway	70.00%	49.00%	Building
Fundamentering AS	11/03/15	Bergen	Norway	70.00%	49.00%	Building
Kilen Brygge AS	15/03/05	Sandefjord	Norway	100.00%	100.00%	Property
Fastigheter i Strandängen AB	14/05/08	Gothenburg	Sweden	100.00%	100.00%	Property
Skummeslövsgärden AB	01/02/07	Hälland County	Sweden	100.00%	100.00%	Property
BRF Strandängen	01/10/13	Hälland County	Sweden	100.00%	100.00%	Property
Vestre Nordgardsleitet AS	11/03/15	Bergen	Norway	51.00%	24.99%	Property
Djupedalen Utviklingsselskap AS	15/02/16	Bergen	Norway	100.00%	49.00%	Property
Toppemyr AS	11/03/15	Bergen	Norway	100.00%	100.00%	Property
Nordstraumen Utbyggingsselskap AS	11/03/15	Bergen	Norway	60.00%	42.00%	Property
AF Energi & Miljøteknikk AS	31/05/06	Oslo	Norway	100.00%	100.00%	Energy
Miljøbase Vats AS	09/09/14	Oslo	Norway	100.00%	100.00%	Offshore
AF Offshore Decom AS	01/01/09	Oslo	Norway	100.00%	100.00%	Offshore
AF Offshore Decom UK Ltd.	24/05/10	London	England	100.00%	100.00%	Offshore
AF Offshore AeronMollier AS	01/07/08	Flekkefjord	Norway	100.00%	100.00%	Offshore
Aeron Energy Technologies Ltd.	16/11/09	Shanghai	China	100.00%	100.00%	Offshore
Aeron Energy Technologies Ltd.	16/11/09	Shanghai	China	100.00%	100.00%	Offshore

The list includes subsidiaries that are owned directly and indirectly. Pure holding companies and companies without any activity have been omitted. The voting rights in all the subsidiaries follow the shares.

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	Others	Total
Minority interests 01/01/2015	125	-	13	137
Share of comprehensive income	35	41	7	83
Share of adopted and paid dividends in 2015	-23	-8	-1	-31
Addition of minority interests from acquisition of business	-	76	40	115
Transactions with minority interests	-35	-	-11	-45
Minority interests 31/12/2015	**102**	**110**	**47**	**259**
Share of comprehensive income	36	49	12	96
Share of adopted and paid dividends in 2015	-24	-46	-4	-74
Addition of minority interests from acquisition of business	1	-	-	1
Transactions with minority interests	-14	1	1	-12
Minority interests 31/12/2016	**102**	**113**	**55**	**270**

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

Amounts in NOK million	Strøm Gundersen Holding	Strøm Gundersen Holding	LAB	LAB
	2016	2015 [2]	2016	2015
Profit for the year / comprehensive income [1]	103	114	127	113
Non-current assets	559	521	194	191
Current assets	440	393	663	830
Total assets	**999**	**914**	**856**	**1 021**
Equity attributable to shareholders	385	357	146	262
Minority interests	108	95	35	31
Non-current liabilities	96	87	78	90
Current liabilities	410	376	597	637
Total equity and liabilities	**999**	**914**	**856**	**1 021**
Minority interest in the Parent Company [3]	15.5%	15.5%	30.0%	30.0%

[1] The 2015 figures have been changed due to the fact that the profit after minority interests was stated in the annual financial statements for 2015.

[2] The 2015 figures for Strøm Gundersen Holding have been changed due to the fact that figures for the subgroup Strøm Gundersen AS stated in the annual financial statements for 2015.

[3] Strøm Gundersen Gruppen AS, one of the subsidiaries of AF Gruppen Norge AS, is the parent company of Strøm Gundersen Holding. AF Gruppen Norge AS also has a direct ownership stake in Strøm Gundersen Holding AS, as well as other subsidiaries in the Strøm Gundersen Holding Group. The minority interest allocated to Strøm Gundersen Holding in AF Gruppen is therefore lower than what can be calculated from the figures in the table above. 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	Nominal value	Carrying amount
A shares	93 610 000	0,05	4 680 500

SHAREHOLDERS	Stake	Number of shares
OBOS BBL	16.71%	15 643 841
ØMF Holding AS	15.62%	14 617 226
Constructio AS	14.61%	13 678 049
National Insurance Scheme Fund	5.37%	5 031 393
Aspelin-Ramm Gruppen AS	5.33%	4 993,269
LJM AS	2.58%	2 413 900
VITO Kongsvinger AS	1.99%	1 861 676
Arne Skogheim AS	1.84%	1 723 870
SE Banken (nom)	1.66%	1 557 961
Staavi, Bjørn	1.62%	1 515 452
Ten largest shareholders	**67.34%**	**63 036 637**
Total other shareholders	32.66%	30 573 363
Total outstanding shares	**100.0%**	**93 610 000**

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

MOVEMENT IN NUMBER OF SHARES DURING THE YEAR

Total number of shares as at 01/01/2016	92 680 000
New issue to employees	930 000
Total number of shares as at 31/12/2016	**93 610 000**

SHARES AND OPTIONS OWNED BY THE BOARD OF DIRECTORS AND SENIOR EXECUTIVES AS AT 31 DECEMBER 2016

Board of Directors		Options	Shares
Pål Egil Rønn	Elected by shareholders (Chairman)	-	199 825
Daniel Kjørberg Siraj [1)]	Elected by shareholders (Deputy Chairman)	-	-
Kristian Holth [2)]	Elected by shareholders	-	-
Peter Groth[3)]	Elected by shareholders (alternate)	-	11 500
Hege Bømark	Elected by shareholders	-	-
Borghild Lunde	Elected by shareholders	-	-
Kenneth Svendsen	Elected by employees	11 397	73 858
Pål Jacob Gjerp	Elected by employees	5 318	43 495
Arne Sveen	Elected by employees	-	-
Total		**16 715**	**328 678**

[1)] Represents OBOS BBL, which owns 15,643,841 shares.

[2)] Represents Constructio AS and Flygind AS, which own 13,678,049 and 1,016,771 shares, respectively.

[3)] Is related to Ringkjøb Invest AS, which owns 76,355 shares, in addition to its own shares.

NOTE 31 SHARE CAPITAL AND SHAREHOLDER INFORMATION CONT.

Corporate Management Team		Options	Shares
Morten Grongstad	CEO	30 521	150 187
Sverre Hærem	Executive Vice President/CFO	31 372	119 290
Arild Moe	Executive Vice President	30 764	242 646
Bård Frydenlund	Executive Vice President	20 144	97 815
Amund Tøftum	Executive Vice President	15 626	42 903
Andreas J. Røsjø	Executive Vice President	26 877	20 255
Eirik Wraal	Executive Vice President	17 233	8 170
Henning Olsen	Executive Vice President	14 911	9 779
Total		**187 448**	**691 045**

The Board of Directors has the authority to acquire up to 10 per cent of the share capital. This authority is valid until the 2016 Annual General Meeting, which is scheduled for 12 May 2017.

TREASURY SHARES

Treasury shares have been acquired with a view to sales to employees. Shares have not been bought from related parties in 2014, 2015 or 2016.

Share transactions	2016	2015
Number of shares acquired	223 772	189 065
Average acquisition cost per share (amounts in NOK)	142.7	104.3
Total acquisition cost (NOK million)	**32**	**20**
Number of shares sold to employees	**165 550**	**239 065**
Average acquisition cost per share (NOK)	144.2	95.9
Total sales consideration (NOK million)	**24**	**23**
Number of treasury shares as at 31 December	58 222	-
Nominal value of treasury shares at NOK 0.05 each (amounts in NOK)	2 911	-

NOTE 32 REMUNERATION OF THE BOARD OF DIRECTORS AND SENIOR EXECUTIVES

REMUNERATION OF 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. Incentive systems based on the EVA model have been introduced for executives in large parts of the Group. EVA is a method of calculating and analysing value creation in the Group and in profit centres below group level. The aim of this analysis is to ensure that every part of the Group works to increase value creation.

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.

2016 *Corporate Management Team (Amounts in 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 totalled NOK 24 million. Bonuses for the 2016 financial year will be paid in 2017 and 2018 (holiday pay on bonuses).

2015 *Corporate Management Team (Amounts in NOK 1000)*	Fixed pay	Bonus	Retirement benefits	Other benefits	Total
Pål Egil Rønn, CEO until 16 October 2015	2 913	3 935	39	227	7 114
Morten Grongstad, CEO from 16 October 2015	704	-	8	7	719
Morten Grongstad, Executive Vice President until 15 October 15	1 528	1 842	31	152	3 554
Sverre Hærem, Executive Vice President/CFO	1 873	2 083	39	152	4 147
Arild Moe, Executive Vice President	1 790	1 914	39	154	3 897
Robert Haugen, Executive Vice President	1 856	125	39	61	2 081
Andreas Jul Røsjø, Executive Vice President	1 513	1 185	39	66	2 804
Total remuneration to the Corporate Management Team	**12 179**	**11 086**	**232**	**820**	**24 317**

For 2015, bonuses to the Corporate Management Team totalled NOK 21 million. Bonuses for the 2015 financial year will be paid in 2015 and 2016.

BONUS FOR THE PURCHASE OF SHARES

Number of shares / price	2016	2015
Number of bonus shares sold from own holdings	95 550	88 920
Number of bonus shares from new issues	-	-
Market price at the time of the agreement (amounts in NOK)	140	79
Selling price (amounts in NOK)	112	63
Impact of bonus shares on the accounts (amounts in NOK 1000):		
Indirect payroll costs (discount incl. social security costs)	-3 042	-1 545

Shares owned by senior executives and subscribed options are described in Note 31 – Share capital and shareholders.

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

DIRECTORS' FEES

(Amounts in NOK 1000)	2016	2015
Pål Egil Rønn, Board Chairman from 12 May 2016 [1]	-	-
Tore Thorstensen, Board Chairman until 12 May 2016	470	460
Daniel Kjørberg Siraj, Deputy Board Chairman	272	265
Mari Broman, board member until 13 May 2015	-	265
Borghild Lunde, board member from 13 May 15	272	-
Hege Bømark, board member	287	280
Peter Groth, board member until 12 May 2016 [2]	270	265
Kristian Holth, board member from 12 May 2016 [3]	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	**2 351**	**2 105**

Directors' fees are paid in the year after they are earned, i.e. The directors' fees that are paid in 2016 refer to 2015.

[1] 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 and received a salary, bonus, retirement and other benefits for this work. In 2016, this totalled 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. As of 31/12/2016 there is a provision for bonus to Rønn of NOK 3,642,000. The bonus will be paid in 2017 and 2018 (holiday pay).

[2] Peter Groth is an alternate member with the right to attendfrom 13 May 16.

[3] Kristian Holth was an alternate member with the right to attend until 12 May 16.

GUIDELINES FOR 2016

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% 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 15 May 2014. The maximum number of options that may be allocated is 4,500,000, and the programme entails annual allotments for the years 2014-16 and exercise of the options in 2017. The employees pay an option premium of NOK 1.00 per option. The exercise price in 2017 for the options subscribed for in 2014, 2015 and 2016 will be NOK 63.63, NOK 100.15 and NOK 128.68 per share, respectively. A total of 3,500,000 options were subscribed for in June 2014, 650,000 in June 2015 and 146,863 in June 2016. The total number of outstanding options, adjusted for employees who have left company, was 3,647,779 as at 31 December 2016.

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 2016 was in accordance with the statement submitted to the General Meeting in 2016.

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 Associates and Note 28 – Joint ventures.

OBOS BBL has a large shareholding in AF Gruppen and is represented on the Board of Directors of AF Gruppen ASA by Daniel Kjørberg Siraj. OBOS BBL is also an important business partner, both as a client and co-investor in the area of property development. Board member Kristian Holth has a substantial shareholding and is the General Manager of Constructio AS. Gunnar Holth Grusforretning AS, which is a subsidiary of Constructio, is a subcontractor to AF. Holth is also a member of the Boards of Nordic Precast Group AB and KB Spennteknikk AS, which is a supplier to AF. The figures for these were reported under KB Gruppen Kongsvinger in 2014 and 2015, but they have now been itemised as a separate line. KB Gruppen Kongsvinger and Aspelin Ramm Gruppen are no longer related parties from 2016.

Transactions with related parties:

Amounts in NOK million	2016	2015	2014
CONTRACT PRICE			
OBOS BBL	2 288	943	951
Associates and joint ventures	2 943	2 557	1 612
Total	**5 231**	**3 500**	**2 563**
REVENUE			
OBOS BBL	341	271	184
Associates and joint ventures	756	607	615
Total	**1 097**	**878**	**798**
PURCHASE OF GOODS AND SERVICES			
KB Gruppen Kongsvinger	-	34	41
Aspelin Ramm Group	-	5	4
Constructio	8	29	-
KB Spennteknikk	4	1	3
Nordic Precast Group AB	8	56	54
Associates and joint ventures	-	-	61
Total	**19**	**126**	**164**
NON-INTEREST-BEARING RECEIVABLES AS AT 31 DECEMBER			
OBOS BBL	56	63	13
Associates and joint ventures	82	85	77
Total	**139**	**149**	**90**
INTEREST-BEARING RECEIVABLES AND GUARANTEES AS AT 31 DECEMBER			
Associates and joint ventures	106	173	53
Total	**106**	**173**	**53**

Members of the Board of Directors and the management of the Group and their related parties control 33.6 per cent (24.2 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. Gunnar Holth Grusforretning AS bought 50% of the shares in the joint venture BA Gjenvinning AS in 2016. There are no agreements or transactions with related parties beyond this.

NOTE 34 PLEDGED ASSETS AND GUARANTEES

Amounts in NOK million	Note	2016	2015
Carrying amount of liabilities secured by pledges, etc.[1]	20	92	87
CARRYING AMOUNT OF PLEDGED ASSETS			
Buildings and production facilities		18	23
Machinery		132	112
Furnishings and fixtures		-	2
Trade and non-interest-bearing receivables		215	229
Projects for own account		-	4
Inventories, etc.		21	14
Carrying amount of pledged assets		**386**	**384**

[1] *NOK 78 (69) 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	2016	2015
Guarantees issued to clients[2]	3 208	2 247
Other guarantees	-	33
Total	**3 208**	**2 280**

[2] *Guarantees issued to clients are related to contractual obligations and are primarily issued as tender guarantees, delivery guarantees and payment guarantees.*

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. The Group 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 the AF Gruppen 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 2016, AF GRUPPEN WAS INVOLVED IN THE FOLLOWING SIGNIFICANT LAWSUITS:
AF Anlegg has filed a 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. This case has not yet been scheduled.

AF Anlegg has filed a suit against the City of Oslo, represented by the Agency for Water and Sewerage Works, concerning final settlement for the Vettakollen Elevated Basin project. This case has not yet been scheduled.

THE FOLLOWING CASES MENTIONED IN THE ANNUAL REPORT FOR 2015 HAVE BEEN CONCLUDED IN 2016:
AF Anlegg filed a suit against the Norwegian State represented by the Ministry of Transport and Communications concerning the grounds for rejecting AF's tender for State Road 2 Slomarka - Fulu. AF Gruppen was awarded NOK 41 million plus interest and costs of action in the District Court in March 2016. This judgment is enforceable.

AF Anlegg filed a suit against Statnett SF concerning settlement for the construction of grid stations for the power transmission line between Ørskog and Fardal. The case was resolved by arbitration in July 2016.

AF Anlegg filed a suit against the Norwegian State represented by the Ministry of Transport and Communications concerning final settlement for the construction of a tunnel and the adjoining road on State Road 70 between Sunndalsøra and Modalan. The case was settled and adjourned in June 2016.

NOTE 36 EVENTS AFTER THE BALANCE SHEET DATE

On 9 February 2017, AF Gruppen agreed to acquire 70 per cent of the shares in Kanonaden Entreprenad AB. See Note 4 – Acquisition and sale of business for further details. The acquisition did not affect the Groups result for 2016 or the groups financial position as of 31/12/2016.

No other 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 2016, 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.

37.1 NEW PRONOUNCEMENTS

- IFRS 9 Financial Instruments
- IFRS 15 Revenue from Contracts with Customers
- IFRS 16 Leases

IFRS 9 Financial Instruments

The new standard for financial instruments enters into force on 1 January 2018. So far the Group's assessments have not identified circumstances, which upon implementation, will significantly affect the Group's financial standing or results.

IFRS 15 Revenue from Contracts with Customers

The new standard for recognition of income enters into force on 1 January 2018. The Group has assessed what effect implementation of the standard will have on the Group's financial standing and results, but has not yet fully analysed this. At the present time, the understanding of some central issues in IFRS 15 is not clarified. The most important assessment is if income from the sale of residential units under construction is recognised by completion, or if revenue is recognised in the income statement as the project progresses. AF expects to conclude on this issue during 2017. If the principle for income recognition changes, the Groups equity will increase.

The positive effect on equity from a transition as at 31 December 2016 would be NOK 83 million. The earnings before tax for 2016 would have correspondingly been NOK 58 million higher. If the current practice is continued, the Group has not identified any significant impact on the financial standing or results in the consolidated financial statements due to the introduction of IFRS 15.

IFRS 16 Leases

The new standard for leases enters into force on 1 January 2019. The implementation of this will entail that the Group's operational leases will generally be recognised in the balance sheet. As at 31 December 2016, the Group had a calculated minimum obligation for operating leases of NOK 948 million.

37.2 AMENDMENTS AND INTERPRETATIONS

- Amendments to IFRS10 Consolidated Financial Statements and IFRS12 Disclosure of Interests in Other Entities and IAS28 Investments in Associates and Joint Ventures: Investment enterprises – Application of the consolidation exception
- Amendments to IFRS 11 – Joint Arrangements: Accounting of investments in joint arrangements
- Amendments to IAS 19 – Defined Benefit Plans: Contributions from employees
- Amendments to IAS 16 – Property, Plant and Equipment and IAS 38 – Intangible Assets Method of amortisation
- Amendments to IAS 12– Income taxes: Accounting of deferred tax assets related to unrealised losses
- Amendments to IAS 1 – Presentation of Financial Statements
- The improvement project (2012–2014)

Amendments to and interpretations of the standards listed above are not expected to have any significant impact on the Group's financial standing or results.

Other standards, amendments to standards and interpretations that have been published, but have not entered into force, and not expected to be relevant to the consolidated financial statements of AF Gruppen when they are implemented.

NOTE 38 SIGNIFICANT ACCOUNTING POLICIES

38.1 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 and based on historical experience and other factors, including expectations of future events that are regarded as reasonable under the current circumstances. The estimates used in the accounts are based on uniform policies and are subjected to control procedures that are intended to ensure reliable measurement of project results and progress.

Changes in accounting estimates are reported 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.

Accounting items for which there is significant uncertainty

Projects
AF Gruppen's activities consist mainly of construction contracts. Revenue from projects is recognised in the income statement based on the project's expected final outcome and degree of completion (see Section 37.3 under the section entitled "Principles of revenue recognition"). The ongoing recognition of revenue from projects is based on estimates and assessments, and entails uncertainty. For projects in progress, there exists uncertainty regarding the progress, disputes, warranty work, final prognosis, etc. For completed projects, there exists uncertainty regarding any hidden defects or faults, as well as possible disputes with the customer.

Significant accounting items that are affected: Revenue and expenses, trade receivables, trade payables, provisions and deferred tax.

Goodwill
Goodwill of NOK 2,032 million is stated in the consolidated financial statements. There exists uncertainty regarding the assessment of this accounting item, because 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 depreciated, but annual tests of possible impairment are carried out. Concerning the tests performed and the assumptions for these, reference is made to Note 13 – Intangible assets.

38.2 SIGNIFICANT ACCOUNTING POLICIES

BASIS OF CONSOLIDATION

Subsidiaries

General
Subsidiaries are any entities in which the Group alone 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. Subsidiaries are consolidated from the day a controlling influence arises, and until such influence ceases.

Business combinations
Business combinations are recognised in accordance with the purchase 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 is classified as a liability in accordance with IAS 39, and it is recognised at fair value during subsequent periods with value changes through profit or loss.

Expenses related to acquisitions are recognised as they are incurred.

Assets and liabilities 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 identified net assets 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. If there are events or changes in circumstances that indicate a possible impairment in value, the fair value of goodwill is assessed more often than once a year. 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, with the exception of goodwill, as well as assets in transactions that are not business combinations. When a company is acquired, an assessment is made to establish whether the acquisition concerns the business itself or assets. If it is considered to be the acquisition of assets, the entire purchase price is allocated to acquired assets on the acquisition date.

Intercompany transactions, balances and unrealised gains or losses on transactions between group companies are eliminated. Figures reported by the subsidiaries are restated if necessary to achieve compliance with the Group's accounting policies.

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. Any gains or losses are recognised in the income statement. The gain is calculated as the difference between the fair value of the earlier equity interest on the acquisition date and the carrying amount, adjusted for the cumulative amount recognised in consolidated equity through the Group's presentation of other comprehensive income in earlier periods.

Change in ownership interests with loss of control
When the Group no longer has control, 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

NOTE 38 SIGNIFICANT ACCOUNTING POLICIES CONT.

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 arranged through a contractual agreement. Joint arrangements are classified as a joint operation or joint venture. In a joint venture, the parties have joint control rights to the net assets in the joint arrangement. In a joint operation, the parties have joint control rights to the assets and are liable for liabilities in the 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.

Joint ventures are accounted for at the acquisition cost on the acquisition date. Thereafter a closer assessment is made and all entities that satisfy the definition of a joint venture will be recognised 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.

Investments in associates are accounted for at the acquisition cost at the time of purchase and subsequently by the equity method. 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 and 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.

Transactions and balance sheet items
Transactions in foreign currencies are translated to the functional currency at the transaction exchange rate based on the current rate on the transaction date. Foreign exchange gains or losses from the settlement or translation of monetary items in a foreign currency are recognised at the rate prevailing on the balance sheet 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.

The foreign exchange effect on non-monetary items is included as part of the assessment of fair value. Foreign exchange differences relating to non-monetary items, such as shares at fair value through profit and loss, are recognised as part of a combined gain or loss. Foreign exchange differences relating to shares classified as available for sale are included in the change in value that is recognised under other comprehensive income.

Group companies
The income statement and balance sheet for group companies with a functional currency different than the presentation currency are translated as follows:

a) Balance sheet items are translated at the rate prevailing on the balance sheet date.
b) 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.
c) Translation differences are recognised under other comprehensive income and expenses.

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.

Upon the sale of all or any portion of a foreign enterprise, the associated translation difference will be reclassified from other comprehensive income to part of the gain or loss from the sale through profit and loss.

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.

Segment reporting
The operating segments are reported in the same manner as the internal reporting to the Company's highest decision-maker. The Company's highest decision-maker, who is responsible for the allocation of resources to and the assessment of earnings in the operating segments, is defined as the corporate management.

Principles for recognising revenue

Revenue recognition in general
Revenue is recognised when it is probable that transactions will generate

NOTE 38 SIGNIFICANT ACCOUNTING POLICIES CONT.

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
AF Gruppen's business consists mainly of construction and civil engineering activities that are carried out for public and private clients and based on contracts. The characteristic feature of such contracts is that they are client financed. The treatment of construction and civil engineering contracts in the financial statements conforms to IAS 11.

Revenue related to projects is recognised in the income statement as the project progresses. Each project is recognised in the income statement based on the project's degree of completion and the estimated contribution margin at the end of the project. The degree of completion is calculated primarily based on the production completed. For smaller projects, the degree of completion is calculated based on the ratio between the costs incurred on the balance sheet date and the estimated total costs.

In the early stages of a project, a smaller than the proportionate share of the expected profit is normally recognised as revenue in the accounts. In the final stages of a project, a larger share is recognised, since the expected profit can be assessed then with a greater degree of certainty. When the outcome of the project cannot be estimated reliably, only revenue equivalent to the incurred project costs will be recognised. If it is identified that a project will produce a negative result, the estimated loss on the contract will be fully recognised during the same period as an expense, irrespective 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.

Contribution margin earned on projects in progress involves a number of assessments. These assessments are made based on the management's best estimate. The extent and complexity of the assessments mean that the actual contribution margins at the end of projects may deviate from the assessments made at year end.

Customers are invoiced monthly based on the proportion of the contract price earned, as well as for additional work carried out and approved in the period. If the invoiced revenue in a project is greater than the earned revenue, the excess will be recognised as "Unearned revenue, invoiced on projects in progress" under current liabilities. If the invoiced amount is less than the earned amount, the difference will be recognised as "Earned uninvoiced revenue from projects in progress" under current liabilities.

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
Projects for own account largely involve the development and construction of residential housing for sale. These are self-financed projects. A residential housing project may consist of many units, and the majority of the units are sold before a project starts. In accordance with IFRIC 15 projects for own account are recognised in accordance with IAS 18. This means that the income and associated cost is normally recognised on completion/delivery.

Demolition work
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 income is recognised based on the effective interest rate method as it is earned.

Dividends are recognised as revenue when the shareholders' right to receive a dividend has been established by the General Meeting.

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. This means that balances with customers and advance invoicing are presented on the balance sheet as current assets and current liabilities. For all civil engineering contracts, where amounts invoiced on account exceed contract revenue less contract losses, the surplus is recognised on the balance sheet as 'trade payables and non-interest-bearing liabilities'. Prepayments are deducted from invoiced revenue over the term of the project in line with the progress. Projects for own account and land for development are recognised as current assets.

Other receivables and payables that are due in more than a 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.

Payable and deferred tax
The income tax expense consists of current tax payable and deferred tax. Tax is recognised in the income statement except when it is related to items that have been recognised under other comprehensive income or directly through equity. If this is the case, then the tax is also recognised under other comprehensive income or directly through equity.

The current tax payable for the period is calculated in accordance with the tax laws and regulations that have, or have essentially, been adopted by the tax authorities on the balance sheet date. It is the legislation in the countries where the Group's subsidiaries or associates operate that determine how the taxable income is calculated. The management assesses the points of view asserted in the tax returns wherever the tax laws are subject to interpretation. Provisions are made for expected tax charges when the Group has an existing obligation that is a result of an earlier event, and it is likely that a stream of resources that include economic benefits from the undertaking will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Deferred tax is calculated for all the temporary differences between the financial and tax values of assets and liabilities. If deferred tax arises upon the initial recognition of liabilities or assets in a transaction that is not part of a business combination and does not affect either the reported or taxable profit on the transaction date, it will not be recognised on the balance sheet.

Deferred tax is determined by means of the tax rates and tax laws that have been adopted or essentially adopted on the balance sheet date, which are assumed to apply when the deferred tax asset is realised or when the deferred tax is settled.

NOTE 38 SIGNIFICANT ACCOUNTING POLICIES CONT.

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 a legally enforceable right to offset assets in respect of the current tax payable against liabilities in respect of the current tax payable, and the deferred tax assets and deferred tax refer to income tax that is imposed by the same tax authority. It is a prerequisite for offsetting between different taxable enterprises that the Group has the opportunity and intent to settle liabilities and assets in respect of the current tax payable on a net basis.

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. Expenses that have incurred after the asset has been put to use are recognised in the income statement, while other expenses that are expected to generate future economic benefits are recognised in the balance sheet. The remaining value recognised on the balance sheet relating to replaced parts is recognised in the income statement.

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.

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 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 impairment of goodwill is not reversed, even if the basis for the impairment no longer exists.

Goodwill is allocated to cash-generating units or groups of cash-generating units that are expected to benefit from the acquisition from which the goodwill arose.

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, provided these expenses are not part of the acquisition cost of hardware. Software is normally amortised on a straight-line basis over 3 years. Expenses incurred to maintain 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. Quarrying rights 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 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 depreciated/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.

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

NOTE 38 SIGNIFICANT ACCOUNTING POLICIES CONT.

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. In addition, gains/losses resulting from overpricing or underpricing compensated by future lease payments are amortised over the term of the lease.

Financial instruments

Financial assets
The Group classifies financial assets in the following categories:
a) At fair value through profit or loss
b) Loans and receivables

The classifications are based on the type of instrument and purpose of the asset.

a) At fair value through profit or loss
Financial assets at fair value through profit or loss are derivatives and other financial assets that are held for trading. Financial assets are classified in this category if they have been acquired mainly to profit from short-term price fluctuations.

The Group has financial assets at fair value through profit or loss in the form of forward exchange and 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.

Forward exchange and commodity contracts are recognised on the contract date and measured in subsequent periods at fair value based on observable market data. Financial assets that mature within 12 months are presented as current financial derivatives, and assets that mature in more than 12 months are classified as non-current financial derivatives.

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). Changes in the fair value of derivatives, which both is defined as hedging and satisfies requirements toward the hedging of cash flows, are recognized against the comprehensive income. Items are reversed and recognized as income or expense in the period the hedged liability or transaction is recognised in the income statement. Changes in fair value of derivatives that do not qualify as hedges or as fair value, are expensed as incurred.

Financial assets at fair value through profit or loss that are not forward contracts are reported at fair value on the acquisition date and the transaction costs are recognised in the income statement. The assets are measured on a current basis at fair value with changes in value through profit or loss. All financial assets in this category are presented as current assets and measured at fair value based on observable market data.

b) 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.

Financial liabilities
a) At fair value through profit or loss
The Group has financial liabilities at fair value through profit or loss in the form of forward exchange and commodity contracts. Forward 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. This hedging does not meet the conditions for hedge accounting and is therefore recognised at fair value with changes in value through profit or loss.

Transaction costs are recognised immediately. The contracts are recognised on the contract date and measured in subsequent periods at fair value based on observable market data. Financial assets/liabilities that mature within 12 months are presented as current financial derivatives, and assets/liabilities that mature in more than 12 months are classified as non-current financial derivatives.

See also the section above for a description of forward exchange and commodity contracts.

b) Other financial liabilities
Financial liabilities that are not recognised at fair value through profit or loss are measured at fair value on initial recognition, less 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.

NOTE 38 SIGNIFICANT ACCOUNTING POLICIES CONT.

Inventories
Inventories are recognised on the balance sheet at cost or net selling price, whichever is the lower. Inventories mainly consist of spare parts, equipment, and materials for use in production. Cost is determine using the FIFO method and includes expenses incurred in acquiring the goods and the cost of bringing them to their present location and condition.

Projects for own account
Inventories of projects for own account are classified as current assets on the balance sheet.

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.

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. On disposal of a foreign unit, the accumulated translation difference relating to the unit is reversed and recognised in the income statement in the same period in which the gain or loss on disposal is recognised in the income statement.

Dividend
Dividends are recognised as a liability once they are adopted by the General Meeting. This means that proposed dividends that are not yet adopted are included in equity.

Employee benefits

Retirement 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 (OCI) during the period in which they arise.

AF Gruppen Norge AS and some other subsidiaries have participated in the Norwegian Federation of Trade Unions (LO)/Norwegian Confederation of Norwegian Enterprise (NHO) scheme under which employees were entitled to early retirement pension (AFP) from the age of 62. This scheme was discontinued in 2010, and it was only possible to retire early in accordance with the old scheme until 31 December 2010. Upon discontinuation the scheme proved to be significantly underfunded. The member companies had to cover this underfunding by continuing to pay premiums until 2015.

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. Based on the structure of the plans, all the required prerequisites are not available to calculate a surplus or deficit in the plans and the impact on future premiums, and 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 discounts
Discounts on private share offerings and 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. The discount is charged to payroll costs and credited to equity.

Share-based compensation
Options for employees are measured at fair value on the allotment date. 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 the options. The estimated number of options expected to be earned is reassessed on every balance sheet date. Any changes are recognised as an expense with a corresponding adjustment of equity.

The social security costs for options are recognised in the income statement over the expected vesting period.

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.

NOTE 38 SIGNIFICANT ACCOUNTING POLICIES CONT.

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.

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 when the assets are finished.

Cash flow
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.

A contingent asset is not recognised in the financial statements, but disclosed if it is probable that it will benefit 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	2016	2015
Other income		-	-
Dividend received and group contributions	7	669	478
Total operating and other revenue		**670**	**479**
Total operating expenses	3,7	-16	-11
Earnings before interest and tax (EBIT)		**654**	**468**
Net financial items	4,7	4	8
Earnings before tax (EBT)		**658**	**475**
Income tax expense	5	-	-
Profit for the year		**658**	**475**

COMPREHENSIVE INCOME

Amounts in NOK million	2016	2015
Profit for the year	658	475
Comprehensive income for the year	-	-
Total comprehensive income for the year	**658**	**475**

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER

Amounts in NOK million	Note	2016	2015
ASSETS			
NON-CURRENT ASSETS			
Investments in subsidiaries	6	581	581
Total non-current assets		**581**	**581**
CURRENT ASSETS			
Other receivables from group companies	7	767	577
Other receivables		-	-
Cash and cash equivalents		-	-
Total current assets		**767**	**577**
Total assets		**1 348**	**1 158**
EQUITY AND LIABILITIES			
EQUITY			
Share capital	8,9	5	5
Treasury shares	9	-	-
Premium	9	-	2
Other paid-in capital	9	48	47
Total paid-in capital		**53**	**54**
Other equity	9	300	297
Total retained earnings		**300**	**297**
Total equity		**353**	**351**
CURRENT LIABILITIES			
Interest-bearing debt to group companies	7	402	196
Trade payables and other non-interest-bearing debt		9	9
Taxes and public charges payable	7	96	84
Other debt to group companies	7	2	54
Proposed dividend	9	487	463
Total current liabilities		**996**	**807**
Total equity and liabilities		**1 348**	**1 158**

CASH FLOW STATEMENT 1 JANUARY – 31 DECEMBER

Amounts in NOK million	2016	2015
CASH FLOW FROM OPERATING ACTIVITIES		
Profit before tax	658	475
Dividends / Group contributions recognised	-669	-478
Change in trade receivables and payables	-	3
Change in balances with group companies	154	-11
Change in accruals	11	-9
Net cash flow from operating activities	**154**	**-21**
CASH FLOW FROM INVESTMENT ACTIVITIES		
Contributions for capital reductions in subsidiaries	-	-
Net cash flow from investment activities	**-**	**-**
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from equity issuance	120	364
Proceeds from the sale of treasury shares	24	23
Dividend received and group contributions	478	388
Purchase of treasury shares	-32	-20
Payment of dividends	-744	-735
Net cash flow from financing activities	**-154**	**21**
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 January	**-**	**-**

NOTE 1 ACCOUNTING POLICIES

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). These regulations can be used by any entities that are required to keep accounts, both company accounts and consolidated accounts, unless they are required to use the full IFRS.

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 6 April 2017.

The accounting principles described for the Group are consistent with those used for the Parent Company. Reference is made to note 37 in the consolidated financial statements for a detailed description of the accounting policies applied. Accounting principles that are only relevant for the Parent Company or deviate from the consolidated financial statements are as follows:

1.1 SHARES IN SUBSIDIARIES

Subsidiaries are valued in accordance with the cost method in the company's accounts. The investment is valued at the historical cost of the shares 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 principles. Write-downs are reversed when the basis for the write-downs no longer exists.

1.2 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 recognized 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 BOARD OF DIRECTORS AND CEO

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.

Amounts in NOK 1,000	2016	2015
REMUNERATION OF THE CEO		
Fixed pay	3 498	3 617
Bonus	3 717	3 935
Retirement benefits	53	47
Other benefits	101	234
Total	**7 369**	**7 833**
Directors' fees	2 351	2 105

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	2016	2015
Audit fees	-	-
Ownership costs	-13	-9
Other operating expenses	-2	-2
Total other operating expenses	**-15**	**-11**

Amounts in NOK 1,000	2016	2015
Audit fees		
Statutory audit fees	-200	-258
Other assurance engagements	-45	-23
Other services beyond auditing	-14	-8
Total audit fees	**-259**	**-289**

Audit fees are exclusive of value-added tax.

NOTE 4 NET FINANCIAL ITEMS

Amounts in NOK million	2016	2015
FINANCIAL INCOME		
Interest income from companies within the group	7	9
Other interest income	-	-
Foreign exchange gains	-	-
Total financial income	**7**	**9**
FINANCIAL EXPENSES		
Interest charges from companies within the group	-3	-2
Other interest expenses	-	-
Total financial expenses	**-3**	**-2**
Net financial items	**4**	**8**

NOTE 5 TAX EXPENSE

Amounts in NOK 1,000	2016	2015
THE TAX EXPENSE FOR THE YEAR CAN BE BROKEN DOWN AS FOLLOWS:		
Tax payable	-	-
Change in deferred tax	-	-
Tax expense	-	-
CALCULATION OF THE TAX BASE FOR THE YEAR		
Profit before tax	658	475
Dividend received and group contributions	-658	-475
Non-taxable income	-	-
Tax base for the year	-	-

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 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%

INVESTMENTS BY THE COST METHOD

Amounts in NOK 1,000	Profit/Loss 2016	Number of shares	Share capital	Equity capital	Book value
AF Gruppen Norge AS	744 654	10 000	200 000	940 639	258 561
AF Offshore AS	42 425	3 000	30 000	205 924	215 118
AF Miljø AS	12 527	10 000	5 910	24 321	35 794
AFG Invest 6 AS	13 985	5 000	5 000	30 124	71 543

NOTE 7 INTERCOMPANY BALANCES AND TRANSACTIONS WITH GROUP COMPANIES

Amounts in NOK million	2016	2015
RESULTS		
Dividend received	593	478
Group contributions received	76	-
Ownership costs	-13	-9
Interest income	7	9
Interest expenses	-3	-2
BALANCE		
Other receivables, current	767	577
Interest-bearing liabilities, current	402	196
Other liabilities, current	2	54

NOTE 8 SHARE CAPITAL AND SHAREHOLDER INFORMATION

The share capital consists of:	Number	Nominal value	Carrying amount
A shares	93 610 000	0,05	4 680 500

Ownership structure	Number	Voting share/ stake %
SHAREHOLDERS WITH A STAKE > 1%		
OBOS BBL	15 643 841	16.7%
ØMF Holding AS	14 617 226	15.6%
Constructio AS	13 678 049	14.6%
National Insurance Scheme Fund	5 031 393	5.4%
Aspelin Ramm Gruppen AS	4 993 269	5.3%
LJM A/S	2 413 900	2.6%
VITO Kongsvinger AS	1 861 676	2.0%
Arne Skogheim AS	1 723 870	1.8%
Skandinaviska Enskilda Banken AB (nominee)	1 557 961	1.7%
Staavi, Bjørn	1 515 452	1.6%
Moger Invest AS	1 240 541	1.3%
Stenshagen Invest AS	1 124 977	1.2%
Verdipapirfondet Handelsbanken Norge	1 025 000	1.1%
Flygind AS	1 016 771	1.1%
Total for shareholders with a stake > 1%	**67 443 926**	**72.0%**
Total other shareholders	26 166 074	28.0%
Total outstanding shares	**93 610 000**	**100.0%**

There is only one class of shares with identical voting rights.

Owned by the Board of Directors as at 31 December 2016			Number of shares	Number of options
BOARD OF DIRECTORS				
Pål Egil Rønn	Elected by shareholders	(Board Chairman)	199 825	-
Daniel Kjørberg Siraj [1]	Elected by shareholders	(Deputy chairman)	-	-
Hege Bømark	Elected by shareholders		-	-
Kristian Holth [2]	Elected by shareholders		-	-
Peter Groth [3]	Elected by shareholders	(alternate member)	11 500	
Borghild Lunde	Elected by shareholders		-	-
Arne Sveen	Elected by employees		-	-
Pål Jacob Gjerp	Elected by employees		43 495	5 318
Kenneth Svendsen	Elected by employees		73 858	11 397
Total			**328 678**	**16 715**

[1] Represents OBOS BBL, which owns 15,643,841 shares.
[2] Represents Constructio AS and Flygind AS, which own 13,678,049 and 1,016,771 shares, respectively.
[3] Related to Ringkjøb Invest AS, which owns 76,355 shares.

NOTE 8 SHARE CAPITAL AND SHAREHOLDER INFORMATION CONT.

Corporate Management Team		Number of shares	Number of options
Morten Grongstad	CEO	150 187	30 521
Sverre Alf Hærem	Executive Vice President/CFO	119 290	31 372
Arild Moe	Executive Vice President	242 646	30 764
Bård Frydenlund	Executive Vice President	97 815	20 144
Eirik Wraal	Executive Vice President	8 170	17 233
Amund Tøftum	Executive Vice President	42 903	15 626
Henning Olsen	Executive Vice President	9 779	14 911
Andreas Jul Røsjø	Executive Vice President	20 255	26 877
Total		**691 045**	**187 448**

The Board has the authority to acquire up to 10% of the share capital. This authority is valid until the 2017 Annual General Meeting, which is scheduled for 12 May 2017.

An option programme for all the employees of AF Gruppen ASA and subsidiaries was adopted at the Annual General Meeting held on 15 May 2014, and it entails entitlement to subscribe for a total of 4,500,000 options during the years 2014, 2015 and 2016, with redemption in 2017. 3,253,346 options were redeemed from this scheme in March 2017.

NOTE 9 EQUITY

Amounts in NOK million	Share capital capital	Treasury shares	Premium	Other paid-in equity	Other equity	Total
Equity as at 01/01/2015	4	-	1	37	247	290
Capital increase	-	-	317	47	-	364
Purchase of treasury shares	-	-	-	-	-20	-20
Sale of treasury shares	-	-	-	-	23	23
Loss on sale of treasury shares	-	-	-	-	-	-
Total comprehensive income for the year	-	-	-	-	475	475
More distributed in dividends than proposed	-	-	-	-	-278	-278
Proposed dividend for 2015	-	-	-315	-	-148	-463
Group contributions paid without tax	-	-	-	-	-40	-40
Reclassification	-	-	-	-37	37	-
Equity as at 31/12/2015	**5**	**-**	**2**	**47**	**297**	**351**
Capital increase	-	-	120	-	-	120
Purchase of treasury shares	-	-	-	-	-32	-32
Sale of treasury shares	-	-	-	-	24	24
Gain on sale of treasury shares	-	-	-	1	-1	-
Difference between dividend set aside and paid	-	-	-	-	-	-
Total comprehensive income for the year	-	-	-	-	658	658
More distributed in dividends than proposed	-	-	-	-	-281	-281
Proposed dividend for 2016	-	-	-122	-	-365	-487
Equity as at 31/12/2016	**5**	**-**	**-**	**48**	**300**	**353**

As at 31 December 2016, the Company had 58,222 (0) 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.

[1] Share capital in accordance with Articles of Association: 93,610,000 shares with a nominal value of NOK 0.05
[2] Number of paid-up shares issued: 93,610,000 shares with a nominal value of NOK 0.05

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.

	2016		2015	
Amounts in NOK million	Limit	Drawn	Limit	Drawn
Guarantees issued to clients	4 150	3 208	2 850	2 223
Tax withholding guarantees	185	134	171	145
Leasing limits	1 073	605	1 173	647
Bank credit and loan facilities	2 424	-	2 024	-
Total	**7 832**	**3 946**	**6 218**	**3 015**

RESPONSIBILITY STATEMENT FROM MEMBERS OF THE BOARD AND CEO

With regard to the annual accounts for 2016 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 positions 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, 6 APRIL 2017

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

AUDITOR´S REPORT

EY
Building a better working world

Statsautoriserte revisorer
Ernst & Young AS

Dronning Eufemias gate 6, NO-0191 Oslo
Postboks 1156 Sentrum, NO-0107 Oslo

Foretaksregisteret: NO 976 389 387 MVA
Tlf: +47 24 00 24 00
Fax: +47 24 00 24 01
www.ey.no
Medlemmer av Den norske revisorforening

INDEPENDENT AUDITOR'S REPORT

To the Annual Shareholders' Meeting of AF Gruppen ASA

Report on the audit of the financial statements

Opinion

We have audited the financial statements of AF Gruppen ASA comprising the financial statements of the parent company and the Group. The financial statements of the parent company comprise the statement of financial position as at 31 December 2016, the income statement, statement of comprehensive income, and statements of cash flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies. The consolidated financial statements comprise the statement of financial position as at 31 December 2016, the income statement, statements of comprehensive income, cash flows and changes in equity 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 financial statements present fairly, in all material respects, the financial position of the parent company as at 31 December 2016, and of its financial performance and its cash flows for the year ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway;
- the consolidated financial statements present fairly, in all material respects the financial position of the Group as at 31 December 2016 and of 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 in accordance with the ethical requirements that are relevant to our audit of the financial statements in Norway, and we have fulfilled our ethical responsibilities as required by law and regulations. We have also complied with our other ethical obligations 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 for 2016. 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. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the financial statements.

EY
Building a better working world

Revenue recognition of construction projects

Revenue from construction projects amounted to NOK million 11 540 in 2016 (note 5). Revenue recognition of construction projects is a key audit matter due to the magnitude of construction projects, the duration of the projects, and the estimates applied in the calculation of percentage of completion.

We evaluated the accounting principles applied for revenue recognition. We obtained an understanding of the monitoring of projects and revenue recognition by discussing progress and estimated cost to complete with Group management, head of business areas, and project managers. We tested controls for reporting and monitoring of projects. We participated in business area meetings and visited project sites. For a sample of projects, we reviewed signed contracts, considered change orders, assessed claims and verified incurred project costs against timesheets and external invoices. We analyzed actual earnings for selected projects against estimated outcome throughout the project period to evaluate management's accuracy of applied estimates.

We refer to note 5 Operating and other revenue, note 6 Projects in progress and Note 38 Significant accounting policies (section 38.2 Principles for recognizing revenue) in the consolidated financial statements about revenue recognition.

Valuation of goodwill AF Offshore AeronMollier AS

At 31 December 2016, goodwill related to the cash-generating unit (CGU) AF Offshore AeronMollier AS amounted to NOK million 177 (note 13). Challenging market conditions has increased the uncertainty in future cash flows for the entity. The amounts involved and the use of estimates make the valuation of the goodwill a key audit matter.

We obtained an understanding of the process related to impairment testing for the CGU AF Offshore AeronMollier AS. We assessed data used in the impairment model, including the forecasted future cash flows and weighted average cost of capital based on available market information, historical results and management's forecast. We tested the mathematical accuracy of the model. Further, we involved internal valuation specialists in evaluating the model and assessing of the weighted average cost of capital. In addition we analyzed the sensitivity of the key assumptions used in the valuation model, and assessed the historical accuracy of management's budget against actual cash flow.

We refer to the disclosures included in note 13 Intangible assets and note 38 Significant accounting policies (section 38.2 Intangible assets) in the consolidated financial statements about impairment test for goodwill, and principles for accounting intangible assets.

Other information

Other information consists of the information included in the Company's annual report other than the financial statements and our auditor's report thereon. The Board of Directors and Chief Executive Officer (management) are responsible for the other information. 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 management for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway for the financial statements of the parent company and International Financial Reporting Standards as adopted by the EU for the financial statements of the Group, and for such internal

EY
Building a better working world

control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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 the 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 law, regulations and generally accepted auditing principles 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, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- 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 those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that

EY
Building a better working world

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 and on the statements on corporate governance and corporate social responsibility

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors' report and in the statements on corporate governance and corporate social responsibility concerning the financial statements, the going concern assumption, and proposal for the allocation of the result 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 ensure that the Company's accounting information is properly recorded and documented as required by law and bookkeeping standards and practices accepted in Norway.

Oslo, 6 April 2017
ERNST & YOUNG AS

Tommy Romskaug
State Authorised Public Accountant (Norway)

(This translation from Norwegian has been made for information purposes only.)

ALTERNATIVE PERFORMANCE MEASURES

AF Gruppen presents alternative performance measures (APMs) as a supplement to performance targets that are regulated by IFRS. The alternative performance measures 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 measures 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 (receivables) – Sum total of long-term interest-bearing loans and credits and short-term interest-bearing loans and credits.
Net interest-bearing liabilities – 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 years.
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 measures with line items in the reported financial figures in accordance with IFRS.

Amounts in NOK million	2016	2015
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	206	169
Interest-bearing receivables	44	70
Cash and cash equivalents	469	459
Net interest-bearing liabilities (receivables)	**-606**	**-594**
CAPITAL EMPLOYED		
Shareholders' equity	1 950	1 820
Gross interest-bearing liabilities	113	105
Capital employed	**2 063**	**1 925**
AVERAGE CAPITAL EMPLOYED		
Capital employed as at 1st quarter	2 040	2 091
Capital employed as at 2nd quarter	1 753	1 936
Capital employed as at 3rd quarter	1 960	1 815
Capital employed as at 4th quarter	2 063	1 925
Average capital employed	**1 954**	**1 942**

Amounts in NOK million	2016	2015
RETURN ON CAPITAL EMPLOYED		
Earnings before tax	1 040	1 004
Interest expenses	19	38
Earnings before tax and interest expenses	**1 059**	**1 041**
Divided by:		
Average capital employed	1 954	1 942
Return on capital employed	**54.2%**	**53.6%**
ECONOMIC VALUE ADDED (EVA)		
Return on capital employed	54.2%	53.6%
Less:		
Cost of capital before taxes	12.0%	12.0%
Extra return before taxes	**42.2%**	**41.6%**
Multiplied by:		
One minus the tax rate	75.7%	73.0%
Extra return after taxes	**31.9%**	**30.4%**
Multiplied by:		
Average capital employed	1 954	1 942
Economic Value Added (EVA)	**624**	**590**
EQUITY RATIO		
Shareholders' equity	1 950	1 820
Divided by:		
Total equity and liabilities	6 549	6 243
Equity ratio	**29.8%**	**29.1%**
AVERAGE SHAREHOLDERS' EQUITY		
Shareholders' equity as at 1st quarter	1 910	1 879
Shareholders' equity as at 2nd quarter	1 594	1 702
Shareholders' equity as at 3rd quarter	1 824	1 699
Shareholders' equity as at 4th quarter	1 950	1 820
Average shareholders' equity	**1 819**	**1 775**
RETURN ON EQUITY		
Profit	787	778
Divided by:		
Average shareholders' equity	1 819	1 775
Return on equity	**43.3%**	**43.8%**

DEFINITIONS

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

For other definitions of financial ratios, see alternative performance targets on page 168.

Other definitions

BRA

Abbreviations for available area. Available area is the gross area minus the area occupied by external walls. Indicated in m2 or sqm.

BREEAM

BRE Environmantal 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

Numer 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 resulting 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.

ADRESSES

AF Gruppen ASA
AF Gruppen Norge AS
AF Anlegg
AF Byggfornyelse
AF Bygg Oslo
AF Eiendom
AF Decom AS
AF Offshore Decom AS
AF Energi & Miljøteknikk AS
JR Anlegg AS
Miljøbase Vats AS
AF Nybygg
AF Arctic AS

Visiting adress
Innspurten 15
0663 Oslo

Postal adress
Postboks 6272 Etterstad
0603 Oslo
Tel +47 22 89 11 00
Faks +47 22 89 11 01

www.afgruppen.no

Målselv Maskin & Transport AS
Rossvoll
9322 Karlstad
Tel +47 77 83 28 80

Pålplintar AB
Kumla Gårdsväg 3
S-145 63 Norsborg
Tel +46 85 506 50 50

Kanonaden Entreprenad AB
Bockängsgatan 2
S - 571 38 Nässjö
Tel +46 38 055 52 50

AF Härnösand Byggreturer AB
Torsgatan 8
S-871 42 Härnösand
Tel +46 61 155 05 90

Rimol Miljøpark AS
Tiller-ringen 166
7092 Tiller
Tel +47 22 89 11 00

Jølsen Miljøpark AS
Jølsenveien 26
2000 Lillestrøm
Tel +47 22 89 11 00

AF Bygg Østfold
Sarpsborgveien 25
1640 Råde
Tel +47 69 28 35 00

AF Bygg Prosjektpartner
Auglendsmyrå 8
4016 Stavanger
Tel +47 51 58 55 58

AF Prosjektutveckling AB
Theres Svenssons gata 9
S - 417 55 Göteborg
Tel +46 31 762 40 00

Strøm Gundersen AS
Papyrusveien 33
3050 Mjøndalen
Tel +47 32 27 43 50

Consolvo AS
Ringveien 6
3409 Tranby
Tel +47 40 07 34 22

Haga & Berg Entreprenør AS
Postboks 6503 Rodeløkka
0501 Oslo
Tel +47 22 71 77 61

Protector AS
Ringveien 6
3408 Tranby
Tel +47 32 22 08 10

Thorendahl AS
Tvetenveien 44
0660 Oslo
Tel +47 23 25 34 00

LAB Entreprenør AS
Kanalveien 105 B
5068 Bergen
Tel +47 55 20 62 00

Åsane Byggmesterforretning AS
Hesthaugvegen 18
5119 Ulset
Tel +47 55 39 39 00

Fundamentering AS
Løvåsmyra 4
7093 Tiller
Tel +47 73 82 26 30

AF Bygg Göteborg AB
Theres Svenssons gata 9
S - 417 55 Göteborg
Tel +46 31 762 40 00

AF Bygg Syd AB
Tullkammarhuset
Strandgatan 3
S - 302 50 Halmstad
Tel +46 35 710 20 00

Miljøbase Vats AS
Raunesveien 597
5578 Nedre Vats
Tel +47 22 89 14 40

AF Offshore AeronMollier AS
Nulandsvika 8
4400 Flekkefjord
Tel +47 38 32 78 00

AF Offshore Decom UK Ltd.
Centurion Court
North Esplanade West
Aberdeen, AB11 5QH
UK
Tel +44 (0) 1224 284 370

Design: Fete typer + Savant | Photo: Hans Fredrik Asbjørnsen and AF Gruppen | Cover: Ullerud Helsebygg | Print: RK Grafisk | Paper: Soporset 130g | April 2017

AF GRUPPEN ASA

Innspurten 15
P.O. box 6272 Etterstad
0603 Oslo

Phone 22 89 11 00
www.afgruppen.no