AF GROUP

# Annual report 2010

## AF Group



## Highlights 2010

**Record profit**
The AF Group ended its 2010 anniversary year with the highest annual net profit in the history of the company. Profit before tax for 2010 was NOK 372 million, corresponding to a profit margin of 6.4 per cent. While the outlook for the five business areas varies, overall the AF Group is well positioned for the future from both an organisational and financial standpoint.

**Financially sound position**
At the end of 2010 AF had NOK 580 million in net interest-bearing receivables and an equity ratio of 32.1 per cent. Thanks to the sale of parts of the Environmental Base at Vats and profits from operations AF is financially strong and well equipped to meet opportunities and challenges in the time to come.

**High activity and good performance in Civil Engineering**
AF's Civil Engineering business area reported its highest level of activity and earnings ever in 2010. Revenues in 2010 amounted to NOK 2,158 million and profit before tax was NOK 198 million, equivalent to a profit margin of 9.2 per cent. All the Civil Engineering units performed very well during the year.

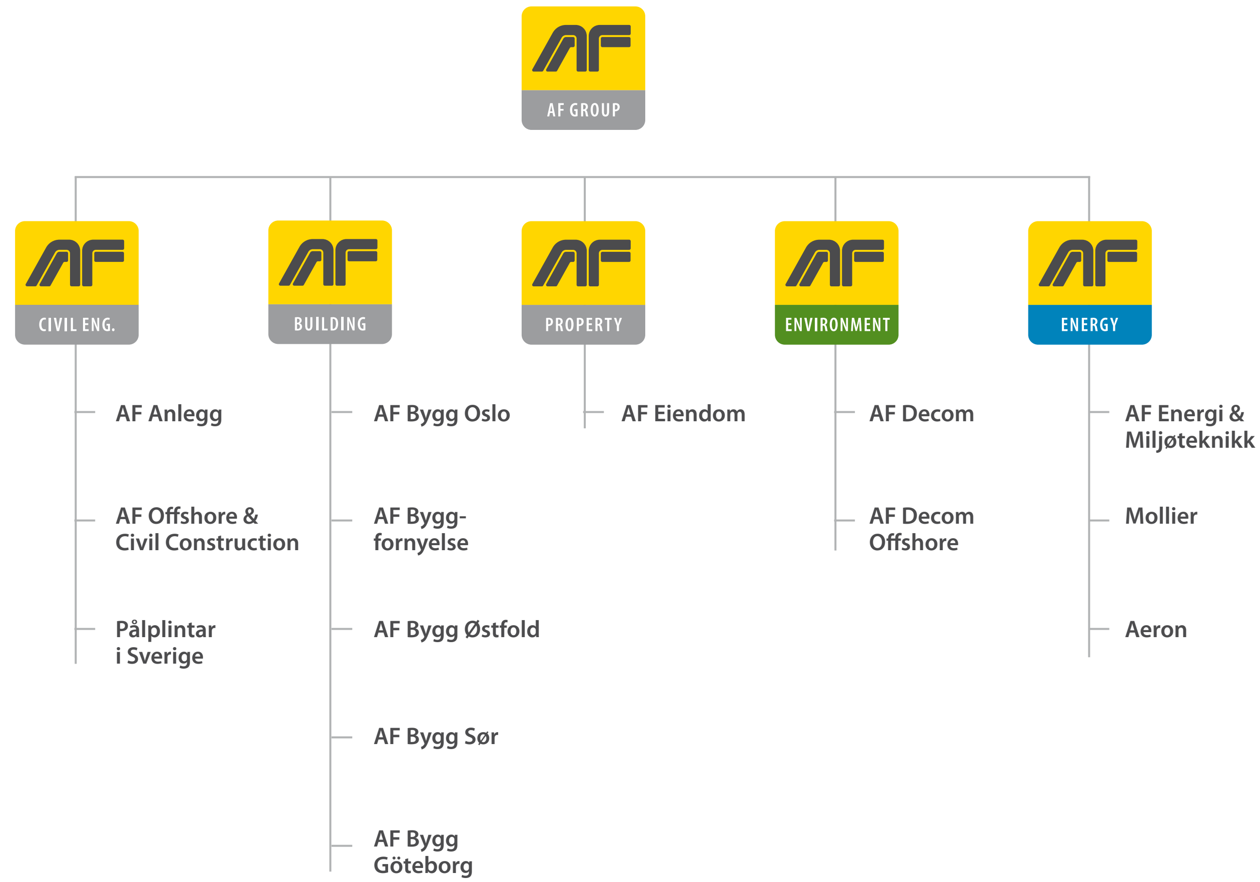
**Historically low level of injuries**
HSE has high priority at AF and is an integral part of management at all levels. In 2010, AF had a historically low level of injuries, with an LTI rate of 1.7 for the Norwegian part of the business. The LTI rate is defined as the number of lost time injuries per million man-hours, and AF includes all sub-contractors in the calculation.

**AF shareholders acquire Environmental Base at Vats**
In the autumn of 2010 AF sold parts of its Environmental Base at Vats, Europe's most modern reception facility for decommissioned offshore installations. The buyers were the largest shareholders in the AF Group along with several smaller ones, including employees of AF. AF retains a 40 per cent ownership interest in the environmental base.

## Contents



# Operational structure




## Civil Eng.

Civil Engineering carries out large complex construction projects and niche projects in the following areas: ports, oil and energy and foundations. Customers include both public sector and municipal agencies and large industrial companies.

## Building

Building performs traditional building operations with a solid local base. The business area enjoys a strong market position in the central Eastern Norway region and in southern Sweden. AF is also one of Norway's largest building renovation contractors.

## Property

Property comprises the development of residential housing units and commercial buildings for own account in Eastern Norway, where the company has access to its own contracting services. AF will gain better control over the value chain by collaboration between property and contracting operations.

# Key figures

| YEAR | | 2010 | 2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|---|---|
| **TURNOVER (NOK MILLION)** | | | | | | |
| Operating and other revenue | | 5,828 | 5,401 | 5,916 | 5,538 | 5,358 |
| Order backlog | | 6,193 | 6,033 | 4,912 | 5,862 | 5,177 |
| **EARNINGS (NOK MILLION)** | | | | | | |
| Earnings before interest taxes, depreciation and amortisation (EBITDA) | | 463 | 417 | 417 | 311 | 266 |
| Depreciation, amortisation and impairment losses | | -97 | -83 | -88 | -82 | -74 |
| Earnings before interest and taxes (EBIT) | | 366 | 335 | 328 | 229 | 192 |
| Earnings before taxes (EBT) | | 372 | 366 | 308 | 232 | 185 |
| Net profit | | 277 | 270 | 219 | 175 | 134 |
| **PROFITABILITY (NOK MILLION)** | | | | | | |
| EBITDA % | 1) | 7.9 % | 7.7 % | 7.0 % | 5.6 % | 5.0 % |
| EBIT % | 2) | 6.3 % | 6.2 % | 5.6 % | 4.1 % | 3.6 % |
| EBT % | 3) | 6.4 % | 6.8 % | 5.2 % | 4.2 % | 3.5 % |
| Return on equity | 4) | 37.6 % | 33.1 % | 33.5 % | 31.6 % | 27.8 % |
| Return on average capital employed (ROaCE) | 5) | 36.0 % | 35.7 % | 33.0 % | 29.3 % | 25.4 % |
| Economic Value Added (EVA) | 6) | 181 | 183 | 154 | 107 | 79 |
| **BALANCE SHEET (NOK MILLION)** | | | | | | |
| Total assets | | 3,013 | 3 059 | 3,194 | 2 553 | 2,155 |
| Equity | | 968 | 915 | 741 | 570 | 534 |
| Capital employed | 7) | 1,040 | 1,009 | 1,202 | 859 | 834 |
| Average capital employed | | 1,047 | 1,075 | 1,024 | 843 | 922 |
| Equity ratio | 8) | 32.1 % | 29.9 % | 23.2 % | 22.3 % | 24.8 % |
| Net interest-bearing receivables (debt) | 9) | 580 | 185 | -297 | -124 | -206 |
| Debt-to-equity ratio | 10) | -1.50 | -0.25 | 0.29 | 0.18 | 0.28 |
| **THE SHARE (NOK)** | | | | | | |
| Share capital as at 31 December | | 3,555,897 | 3,524,797 | 3,467,472 | 3,442,472 | 3,442,472 |
| Number of shares as at 31 December | | 71,117,940 | 70,495,940 | 69,349,440 | 68,849,440 | 68,849,440 |
| Earnings per share | 11) | 3.92 | 3.85 | 3.16 | 2.55 | 1.95 |
| Diluted earnings per share | | 3.82 | 3.85 | 3.16 | 2.55 | 1.95 |
| Cash flow per share | 12) | 6.14 | 4.02 | 5.83 | 4.26 | 3.65 |
| Dividend per share | | 4.50 | 3.60* | 1.40 | 1.20 | 1.00 |
| **PERSONNEL** | | | | | | |
| Number of salaried employees as at 31 December | | 972 | 977 | 963 | 857 | 736 |
| Number of employees paid by the hour as at 31 December | | 961 | 997 | 1,084 | 1,033 | 1,057 |
| Total number of employees | | 1,933 | 1,974 | 2,047 | 1,890 | 1,793 |

* Includes extraordinary dividend of NOK 2.00 per share.

## Definitions and glossary

**Financial ratios**

**1) EBITDA %**
(Operating profit+depreciation, amortisation and impairment)/operating revenue

**2) EBIT %**
Operating profit/operating revenue

**3) EBT %**
Earnings before taxes/operating revenue

**4) Return on equity**
Net profit/average shareholders' equity

**5) Return On Average Capital Employed (ROaCE)**
(Earnings before taxes+interest expenses)/average capital employed

**6) Economic Value Added (EVA)**
(Return on capital employed*0.72-average capital costs after tax)*average capital employed

**7) Capital employed**
Shareholders' equity+interest-bearing liabilities

**8) Equity ratio**
Equity/total capital

**9) Net interest-bearing receivables (debt)**
Interest-bearing receivables+liquid assets- interest-bearing liabilities

**10) Debt-to-equity ratio**
Net interest-bearing liabilities/(shareholders' equity+net interest-bearing liabilities)

**11) Earnings per share**
Net profit/average number of shares outstanding

**12) Cash flow per share**
(Earnings before taxes+depreciation-taxes paid)/average number of shares outstanding

# Environment

Through state-of-the-art expertise Environment offers solutions that meet the environmental challenges faced by the Group's customers. The business area includes AF's environmental services within onshore and offshore demolition and recycling. Onshore demolition is carried out in Norway, Sweden and Poland. Offshore demolition and recycling focuses on the market in the North Sea.

# Energy

The world needs more energy. This will create more business opportunities. Energy will drive the development of smarter, more energy-efficient technical solutions for the building, industry, marine and offshore sectors. AF's solutions will be profitable for both the customer and the environment.

# This is the AF Group

# AF Gruppen ASA is one of Norway's leading contracting and industrial groups. In 2010 the Group posted a turnover of NOK 5,828 million and had 1,933 employees in Norway, Sweden, Poland, the UK and China. The AF Group is listed on the Oslo Stock Exchange (AFG) and consists of five business areas: Civil Engineering, Building, Property, Environment and Energy.


AF has always been independent and proud of its own strength and ability to master complex challenges. Our entrepreneurial spirit is distinguished by an ability and willingness to think Alternatively and to seek better, more Future-oriented ways of generating value. AF stands for: "Addressing Future".

## Civil Engineering
AF is a turnkey supplier of civil engineering services in Norway. For 25 years, AF has built up the experience and expertise required to carry out everything from small and simple to large and demanding construction projects. Customers include both public sector agencies and large industrial companies. Civil Engineering has state-of-the-art expertise in the market areas of oil and energy, underground construction, infrastructure and harbours.

## Building
The Building business area performs all types of building work for private and public clients and carries out renovation work in residential and commercial buildings. AF is also one of Norway's largest providers of energy efficiency solutions for buildings. AF has a strong position in Oslo and the central Eastern Norway region, as well as the Gothenburg-Halmstad area in Sweden. In 2010 AF established building operations in Southern Norway starting with the organisation that is carrying out the prestigious Kilden theatre and concert hall project.

## Property
AF's Property operation identifies, acquires, develops, sells and executes residential and non-residential building projects in areas where AF is engaged in contracting operations. The business area makes its own investments or cooperates with partners.

## Environment
Activities in the Environment business area include onshore and offshore demolition and environmental clean-up. AF is Scandinavia's leading demolition contractor for buildings, plants and installations, as well as demolition in connection with rehabilitation jobs. AF is established in Norway, Sweden and Poland. The offshore unit provides preparatory, dismantling and recycling services for petroleum installations. AF has a state-of-the-art reception facility for the environmental decommissioning of offshore structures at Vats near Haugesund and has set up operations in England.

## Energy
The Energy business supplies smarter, more energy-efficient technical solutions for the building, industry, marine and offshore sectors. The solutions will provide profitability for customers and benefit the environment. With extensive industry knowledge and cutting-edge expertise in energy efficiency, energy production and operation optimisation, service and maintenance, Energy contributes to the implementation of reliable, clean and cost-effective solutions. The business area has a presence in Oslo, Skien, Bergen, Trondheim, Stavanger, Flekkefjord and Shanghai.

## Vision

***Clearing up the past, building for the future.***

The AF Group will be one of Europe's leading companies for environmental solutions through its state-of-the-art expertise in the Environment and Energy focus areas.

Through the innovative use of materials and efficient project execution the AF Group will create solutions that are adapted to future use and provide high customer value.

## Mission

AF's mission is to be an industrial group that delivers value by forming the future through contracting, energy and environmental services. The company has an uncompromising attitude towards safety and ethics.

## Core values

The AF Group is a values-driven company with a firmly anchored set of core principles:

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

# Corporate Management Team

## Pål Egil Rønn

**CEO**

Has held various managerial posts at AF. Chartered engineer with a PhD from the Norwegian University of Science and Technology (NTNU). Completed the Advanced Management Programme at INSEAD. Holdings: 172,075 shares and 140,000 options in AF Gruppen ASA as at 31 December 2010.

## Sverre Hærem

**Executive Vice President/CFO**

Previously VP Finance at Dyno ASA and CFO at Fjord Seafood ASA. MSc degree in business administration from BI Norwegian School of Management. Holdings: 86,000 shares and 120,000 options in AF Gruppen ASA as at 31 December 2010.

## Tore Fjukstad

**Executive Vice President**

Responsible for the Energy business area. Managerial experience from several industrial groups. Degrees in engineering and economics from Trondheim and Sør-Trøndelag University College. Has a Master in Energy Management from IFP and ESCP-EAP in Paris and BI Norwegian School of Management. Holdings: 76,500 shares and 120,000 options in AF Gruppen ASA as at 31 December 2010.

## Robert Haugen

**Executive Vice President**

Responsible for the Environment business area. Has held various managerial posts at AF. Degrees in engineering and business economics from Buskerud University College. Holdings: 144,350 shares and 120,000 options in AF Gruppen ASA as at 31 December 2010.

## Paul-Terje Gundersen

**Executive Vice President**

Responsible for the Building and Property business areas. Has broad managerial experience from AF, Ragnar Evensen and Kruse Smith. Degree in engineering from Akershus University College. Holdings: 83,800 shares and 40,000 options in AF Gruppen ASA as at 31 December 2010.

## Arild Moe

**Executive Vice President**

Responsible for the Civil Engineering business area. Has held various managerial posts at AF. Degree in engineering from Oslo University College and degree in business economics from the University of Agder. Holdings: 278,620 shares and 90,000 options in AF Gruppen ASA as at 31 December 2010.

# AF's goals for profitable growth

AF will create continuous value growth that makes the company attractive to investors. This provides flexibility for business operations and opportunities for developing our employees.

AF is to seek opportunities, and organise and conduct its business so that the value the company creates is recognised.

## Profitability

### Objective

AF's goal is to have an operating margin and return on capital employed that is better than comparable companies.

AF's target is to have a return on capital employed that is higher than 20 per cent.

### Results in 2010

AF achieved an operating margin of 6.3 per cent in 2010. The company's return on capital employed was 36 per cent.

## Financial strength

### Objective

AF's financial strength target is to achieve a minimum equity ratio of 20 per cent and to have sufficient liquidity to cover the company's current needs at any given time.

### Results in 2010

AF's equity ratio was 32.1 per cent at the end of 2010, and the company had unutilised credit and loan facilities of NOK 900 million as at 31 December 2010.

## Dividend

### Objective
AF's dividend policy is to give shareholders a competitive return in the form of a dividend.

The company assumes that future dividends will be stable and ideally rise in line with its earnings performance.

### Results in 2010
In 2010, AF paid a dividend of NOK 1.60 per share for the 2009 financial year. In addition, it paid an extraordinary dividend of NOK 2.00 per share.

For 2010, the Board of Directors proposes a dividend of NOK 4.50 per share.

## Health, safety and the environment

### Objective
AF's objective is to perform all our operations without injuries, with an LTI rate of zero and sickness absence rate of less than 3 per cent. AF's partners are subject to the same requirements as AF itself, and AF includes them in its LTI rate target.

### Results in 2010
AF achieved an LTI rate of 1.7 and a sickness absence rate of 3.7 per cent. This is on a par with the best safety results in the contractor industry

# History of the AF Group 25 years

## The AF Group is established

AF Group was established in 1985 by Per Aftreth and Leif Jørgen Moger, who worked together at Ingeniør F. Selmer on several large construction projects. They wanted a company where there was freedom to cultivate an entrepreneurial spirit and incentives for profitable growth. Their idea was to focus on heavy construction projects anywhere in Norway. Aftreth ran the large projects outside Oslo, while Moger was responsible for the major urban projects. By Easter 1986, AF was involved in two major contracts, Dokkfløyvatn Dam as well as the construction of the Lodalen Train Formation Yard.

**Company turnover: NOK 118 million**

1985


## Stock exchange listing and merger with Ragnar Evensen

After 10 years of carrying out large and complex construction projects, AF began to look at the building and property market. The will to grow had been there all along, but the economic slowdown at the start of the 90s delayed the process. Not until 1997 did AF have the muscle to carry out acquisitions. The merger with one of Oslo's largest contracting companies, Ragnar Evensen, roughly doubled AF's turnover. AF was listed on the Oslo Stock Exchange in the autumn of 1997. The listing helped to professionalise the company further and also provided greater financial flexibility.

**Group turnover: NOK 1,174 million**

1997

## Establishes environmental business

AF saw potential in old industries that were to be phased out, and launched its environmental activities during the millennial year. In just two years, the acquisition of Graveservice and focus on large projects made AF the largest demolition player in Norway. The first major project was the Sola refinery in which 64,000 tonnes of concrete and 22,000 tonnes of steel were removed.

## Expands building operations in Østfold and Sweden

The acquisition of Brødrene Holstad in 2000 bolstered building operations in Østfold and the southern part of Akershus counties. Today, the business unit is called AF Bygg Østfold, and its building credits include Østfoldbadet Water Park and Halden Prison. The hunt for new markets led AF to the Swedish building market in 2001. In 2001 AF bought the majority share in JK Bygg Göteborg AB, which since 2007 has been wholly owned by AF and has changed its name to AF Bygg Göteborg.

## Reinforces underground construction and foundation skills

The acquisition of Scandinavian Rock Group (SRG) in 2000 enabled AF to undertake even more complex underground construction jobs. Swedish Pålplintar, which offers piling, sheet piling, drilling and site preparation services, was purchased by AF in 2000.

**Group turnover: NOK 1,426 million**

2000

"Independence, a thirst for complex challenges, a willingness and capacity to think differently and an ability to manage risk." These qualities have characterised AF ever since its inception in 1986.

## AF goes offshore

In 2005, AF took its environmental activities offshore. When the Ekofisk tank was to be removed, AF used its in-house developed "small piece" methodology to pick the tank clean with excavators in the North Sea, transporting the parts to the environmental base for recycling. Ekofisk was a success for both the client and AF, and as much as 98 per cent of the platform was recycled. Since then, recycling of offshore installations has been an important part of the company's business. In total, around 550 installations in the North Sea will be removed over the next 30-40 years.

## Environmental base for recycling offshore installations

The Environmental Base at Vats was established in 2005 by the AF Group's environmental operation. The base is located in Vindafjord Municipality in an industrial area where Norwegian Contractors previously built a number of North Sea installations on site. When the platform modules arrive at Vats, they are cut into smaller pieces and sent to materials or energy recovery facilities. Waste is sorted into different fractions before it is sent to landfills.

**Group turnover: NOK 4,175 million**

2005

## AF starts energy business

Recognising that a substantial part of the world's energy consumption takes place in buildings, AF saw great potential in expanding its main business. With the acquisition of the Energi & Miljøteknikk and Holst & Brå centres of expertise in 2006, AF could offer energy efficiency and guarantee savings for commercial buildings and industry.

## Focus on maintenance of offshore HVAC systems and marine ventilation systems

In the autumn of 2006 AF's energy business established a HVAC service (Heating, Ventilation and Air Conditioning) in Bergen. In October 2007, AF boosted its focus on energy-related offshore services by acquiring Mollier. The acquisition provided access to interesting customer contracts, key skills and a presence in the oil cities of Stavanger and Bergen. The Flekkefjord-based company Aeron is a leading supplier of HVAC systems to the shipbuilding industry. Founded in 1979, the company operates in 60 countries. Aeron was purchased by the AF Group in July 2008.

**Group turnover: NOK 5,358 million**

2006

## Opens Europe's most modern environmental base

When AF won contracts to remove several offshore installations, it provided the basis for expanding the already existing environmental base in Vats. AF has invested NOK 600 million in the Environmental Base at Vats, which is Europe's most modern and environmentally correct reception facility for decommissioned offshore installations. The facility includes a new 182-metre-long paved deep water quay with a membrane underlay that collects run-off for on-site treatment. In 2010 AF sold 60 per cent of the environmental base to shareholders of AF Gruppen ASA. At the same time AF Decom Offshore entered into a 15-year lease with Miljøbase Vats AS.

**Group turnover: NOK 5,401 million**

2009

## Addressing Future:

# Well-equipped for further growth

### For AF, 2010 was an anniversary year highlighted by the company's best ever results in terms of profits and HSE. Happy employees and a solid financial position provide a good foundation for continued profitable growth.

In 2010 the AF Group celebrated its 25th anniversary. We can look back on a history of profitable growth based on an entrepreneurial spirit and expertise to master complex challenges.

This has been a golden thread running through the company's history. Our core is made up of a cohesive work community, with a corporate culture based on hard work, thoroughness and solid values.

Profitability, safety and clear ethical guidelines have been, and will continue to be, the pillars of our development. We will continue to develop our ability to think Alternatively and be Future-minded so that we can live up to our slogan: "Addressing Future".

Going forward, we will also stress the importance of developing a strong and healthy corporate culture based on our core values. Developing the knowledge and expertise of our employees is the most profitable investment we make. In AF, all our employees must have the will to develop their skills. Each year we therefore spend a significant amount on training employees.

In 2010, AF focused in particular on developing the role of the project manager and production managers. In total, over 200 employees completed management training courses offered by AF. The objective has been to make participants more confident in their role as manager, able to communicate, exercise leadership and demonstrate the attitudes required of a manager in the AF Group. The AF Group works on a project basis. Each project is like a business within a business. At the same time AF's core values and culture are to underlie and serve as a framework for the projects. One of our highest goals is to develop many of our new leaders within our own organisation, including from the ranks of skilled workers.

Increasing order books show that we have employees who succeed in a tough market. Our HSE ambitions and results are a prerequisite for deliveries to our customers and creating a good, healthy working environment. Pride, job satisfaction and dedication are good starting points for giving the AF Group a further boost.

We expect to see an even stronger environmental awareness both in business and industry and in consumers' choice of products and services. Challenges associated with climate change affect us all and place new demands on how buildings and plants are designed, built, managed and demolished. In the short-term, this will require investments in resources and skills enhancement, and can also create new profitable business opportunities. By focusing on Energy and Environment as separate business areas, the AF Group has acquired expertise that benefits the rest of the Group. Going forward, a distinct environmental profile will be a significant competitive advantage. Skills that will enable us to create more value for society and extract more value for AF can be found in the intersections between our business segments.

The flow of information in society is steadily increasing and new views on what the world will be like in the future abound. On the whole, the AF Group considers the market prospects for our business segments to be good.

We will continue to invest in our employees and focus on things that we can do something about.

Pål Egil Rønn, CEO, AF Group

*We can look back on a history of profitable growth based on our entrepreneurial spirit and our employees' ability to master complex challenges.*

# Active attitude to risk

## To achieve its goals of profitability and growth, AF must assume risk in an increasing number of new projects. It is therefore essential that managers of AF have good tools for managing risk. The aim is not to eliminate, but to identify, manage and price risk correctly.

Since 2006, AF has had a strong focus on risk management to improve profitability and ensure its competitiveness. An important goal for AF is to eliminate losses in projects. AF operates in an industry characterised by large volumes, small margins and projects with an asymmetric risk profile. AF has therefore historically had a number of loss-making projects, often involving tens of millions of kroner. These occurrences had to be stopped if the Group's goal of improved margins was to be reached.

### Risk management in AF

AF has developed a management system that is adapted to its business. Analysis tools have been specially adapted and gradually implemented in all the Group's business areas. At the same time professional internal support functions have been established to facilitate and drive these processes forward. AF's focus on risk management is firmly anchored in the organisation from the projects to the Corporate Management Team. Risk analysis is a uniform tool that provides managers at all levels with a better basis for making decisions. The same types of assessments are made out in the projects, in the business units and at Group level. This provides good traceability of the risk. In practice, this means that a significant risk factor that is identified in a project will be dealt with in the project itself, by the business unit and by the Corporate Management Team. This type of risk factor assessment ensures that effective measures are implemented at the right level of the organisation. The risk analysis provides valuable information about what the company is good at and vice versa.

### Risks are opportunities and threats

Risk management largely involves identifying the risk of loss in projects. Equally important are efforts to identify new opportunities as a result of improved insight and decision making. AF has many examples of risk management processes that have opened up new opportunities and solutions for customers and AF. The risk analyses are also used to look at whether AF can think creatively in terms of procurement, organisation of projects and in relation to how we solve special challenges.

### Pricing of risk

Based on history, the tool provides useful information about the type of projects in which the company has the greatest potential to turn a profit. This puts AF in a better position to prioritise tenders and to price them correctly.

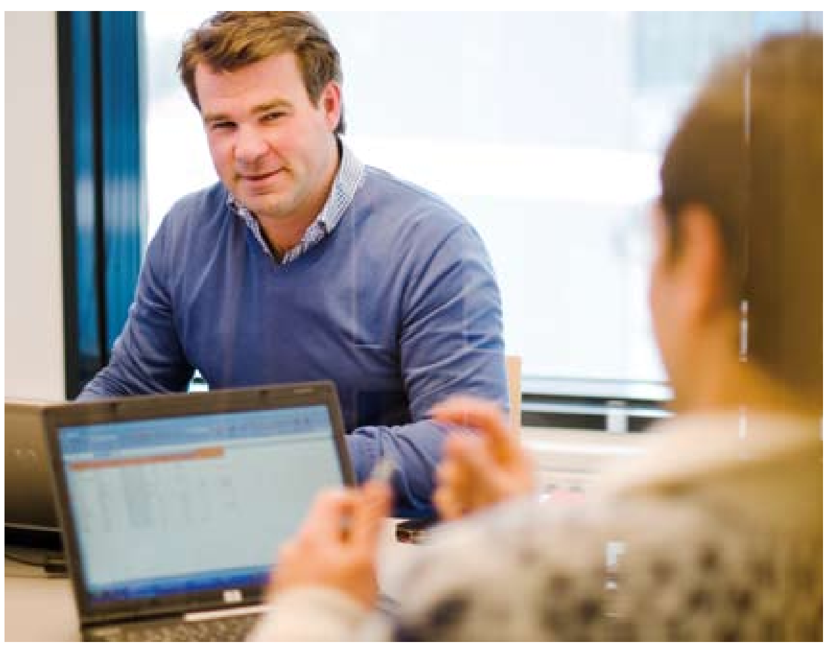
Risk assessment is carried out in the tender phase by quarterly reviews of the project and project portfolio in the business unit. A complete risk assessment is carried out for all projects over NOK 25 million.

| Risk analysis of tenders | Quarterly risk analysis in projects | Quarterly risk analysis of portfolio |
|---|---|---|
| The tender team presents its proposed solution to an analysis group to obtain a common understanding of the project and provide a basis for identifying risk | Risk identification. Top 10 list of the greatest opportunities and threats | Review of all projects in the business unit's portfolio based on the Top 10 list |
| Risk Identification brainstorming | Quantification of risk. Ranking of factors with greatest risk | Quantification of risk. Prioritisation of projects with the greatest uncertainty |
| Analysis and quantification of risk | Defining measures and responsibilities in the project | Defining measures and responsibilities of the business unit |
| Summary of risks | Follow-up actions | Follow-up actions |

Projects over NOK 100 million are presented to the Corporate Management Team. A simplified risk analysis model was developed in 2010 for projects under NOK 25 million.

## Risk management yields results

Improved risk management has resulted in a sharp reduction in the number of loss-making projects and improved margins in the projects. AF's EBIT margin has risen from 3.5 per cent in 2006 to 6.4 per cent in 2010. Proper pricing of risk is a key factor in competing for new projects and has helped bring about an increased backlog of orders that are properly priced in relation to risk.



# Health, safety and the environment (HSE)

## Health

The sickness absence rate is an important indicator of successful management and job satisfaction. AF will facilitate a working environment that promotes good health and prevents work-related illnesses.

**Sickness absence goal**
Below 3 per cent. The goal represents a normal sickness rate, without work-related illness.

**Means**
AF's sickness absence rate has been low compared with comparable businesses for a number of years. Through long-term and systematic efforts it is AF's ambition to eliminate all work-related illness. To achieve this, the work-related illnesses that affect sickness absence are surveyed. The survey has shown that measures to combat musculoskeletal disorders will help to reduce sickness absence further.

**Result**
AF had a sickness absence rate of 3.7 per cent in 2010, both for the Norwegian part of operations and across the Group. For the Norwegian operations, this corresponds to a decrease of 0.3 percentage points, which is 8 per cent lower than in 2009.

## Environment

AF wants to avoid environmental damage and to minimise adverse effects on the environment. This is being met by environmental protection work that is an integral part of AF's HSE system. In addition, each AF business unit must follow the principles in ISO 14001, the internationally recognised standard for environmental management, by identifying and monitoring the most important environmental impact that their activities represent. Through the Environment and Energy business areas AF has also reduced the environmental impact of many customers. AF is therefore creating competitiveness and developing its business in accordance with society's resource and environmental requirements. Read more about this on page 20.

**External environment goals in own operations**
AF has introduced two new parameters to improve environmental work in its own operations: source separation rate and carbon footprint.

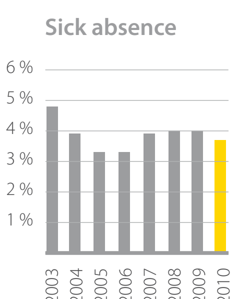
**Means**
The source separation rate indicates how much of the waste from own operations is sorted. The purpose of sorting is to facilitate recycling. AF has sorted its waste for years, but will now measure and track the overall sorting rate per business unit and across the Group.

Carbon footprint is the measurement of AF's impact on the climate related to the amount of greenhouse gas emissions in tonnes of $CO_2$ equivalents. $CO_2$ equivalent is a unit for comparing the effects of various greenhouse gases on the climate.

Measuring and monitoring these parameters will be a driving force in AF's environmental work. The parameters will also illustrate AF's environmental profile and business involvement in demolition and recycling, and its development of environmentally friendly energy solutions.

**Result**
Carbon footprint for 2010: 22,730 tonnes of $CO_2$ equivalents equal to 3.9 tonnes per NOK million of turnover. See Energy and climate account on page 21.

The total source separation rate for the Group will be measured from 2011. Measurements from the last half of 2010 indicate the following sorting rate: Building: 80 per cent, Rehabilitation: 78 per cent and Demolition: 95 per cent.





# Ever since it was established, the AF Group has given high priority to safety. In 2010 it recorded its lowest level of injuries in company history. Good safety-related work methods means continuously making use of experience from the past to handle future risks.

## Safety

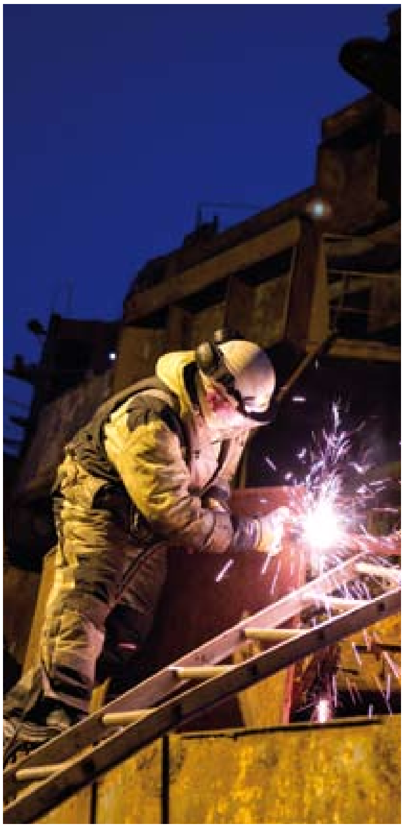
Good safety work requires a good organisational culture and appropriate attitudes to safety. To support these objectives safety management is integrated at all levels of AF's organisation. This should be clear in meetings and dealings with managers. In addition, it is stressed that each individual AF employee is responsible for their own well-being as well as their co-workers.

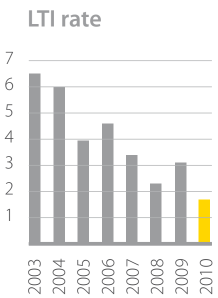
AF believes that it is important to take responsibility for safety throughout the entire project phase. AF expects its partners and suppliers to do the same and that all the parties play an active role in ensuring that shared worksites are safe. A substantial proportion of injuries take place at our partners' sites. Subcontractors must therefore be included in the calculations when safety figures are reported. In addition, all subcontractors must follow AF's guidelines and the managers must acknowledge and verify this.

**Safety goal**
The overall goal is to avoid all lost time injuries (LTI rate = 0).

**Means**
An important instrument for achieving this goal is AF's policy that all planning and execution must be based on a fundamental understanding and acceptance that all injuries have a cause and can therefore be avoided. One of the key tools for achieving this is the Safe Job Analysis, in which all tasks with the potential for injury are analysed and risk mitigation measures are established. This entails continually drawing from past experience in dealing with future risks. It is also about continuously being able to change, adapt and optimise work methods with regard to changes in the organisation and business.

**Result**
The injury frequency rate has shown a positive trend over the years, with an LTI rate for the Norwegian operations of around 20 in the early 90s to today's LTI rate of 1.7.






*AF will facilitate a working environment that promotes good health and prevents work-related illnesses.*

# Environmental and social responsibility

A focus on safety and clear ethical guidelines have been standards in AF's development, just as they will continue to be in the future.

## Ethical guidelines

AF has placed importance on building a value-based corporate culture ever since its establishment in 1985. AF will create a culture where orderly conduct is recognised and lived up to by all employees. AF's core values are the bedrock of its operations:

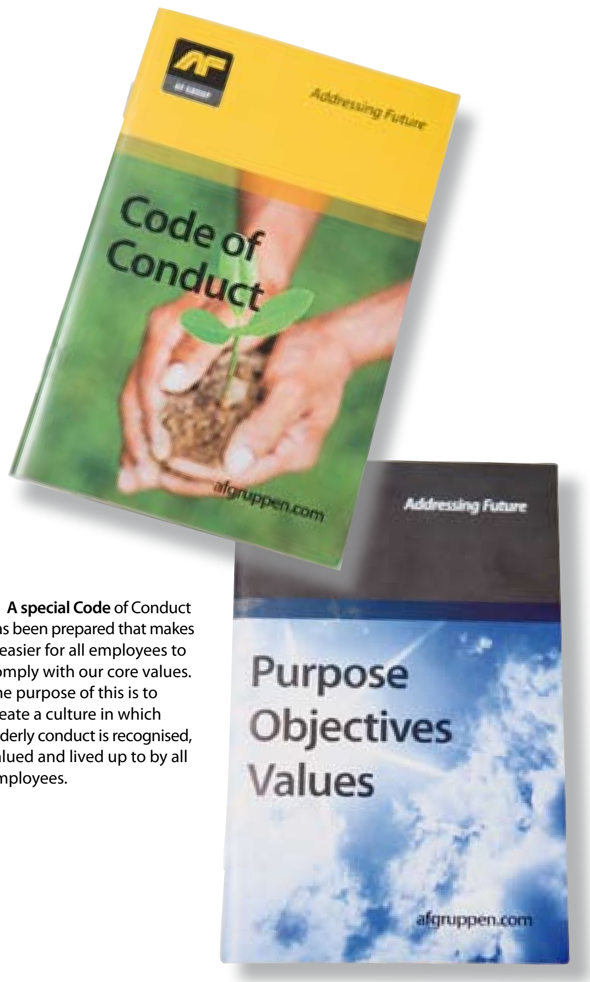
- Reliability
- Freedom to exercise entrepreneurship and discipline in relation to goals and requirements
- Thoroughness and hard work
- Persistence in achieving profitable growth
- Management through presence and involvement

AF expects all employees to identify with and live by these values. A Code of Conduct has also been prepared to make it easier to live by the core values.

## Suppliers and purchasing

National and international purchasing of goods and services constitutes 65 per cent of AF's turnover. Purchasing from China and other countries in Asia and Eastern Europe is increasing. AF's Code of Conduct serves as the standard for the expectations and demands we make of our suppliers and subcontractors.

In 2009, AF became an official member of the United Nations Global Compact, which is based on ten fundamental principles for safeguarding human rights, working conditions, the environment and anti-corruption measures. AF encourages all suppliers and subcontractors to follow the same guidelines.




» **A special Code** of Conduct has been prepared that makes it easier for all employees to comply with our core values. The purpose of this is to create a culture in which orderly conduct is recognised, valued and lived up to by all employees.

> *AF is engaged in activities that can affect the environment and continuously works to lessen its impact on its surroundings.*

# AF's mission is to create value through future-oriented contracting, energy and environmental operations with an uncompromising attitude towards safety and ethics.



## Environment

AF is engaged in operations that can affect the external environment in the form of noise, dust, vibrations, emissions, discharges and other means of pollution. Its activities may also entail encroachments on and changes to the landscape and nature. The AF Group aims to carry out its activities in such way that the impact on resources and the environment is reduced to a level well within what is required by the authorities and clients. Corporate policy and the associated control systems for the external environment are to prevent or reduce any undesirable environmental impact. The control systems are meant to ensure that AF is able to identify and control the most important environmental aspects of each business unit. All business units in AF have control systems that comply with the principles in ISO 14001. Large parts of our operations are certified in accordance with this standard. A total of 18 (10) incidents involving an undesirable impact on the external environment were reported in 2010, the majority of which involved minor oil or diesel spills from machinery and equipment. AF works systematically to prevent any recurrence and damage to the external environment. AF seeks to avoid the use of products with substances/chemicals that are hazardous to health or the environment. The company utilises the Building and Civil Engineering industry's substance information system for risk assessment and the evaluation of substitute products. To further improve its work on the external environment, AF introduced two new parameters in 2010: Source separation rate and carbon footprint. Read more about AF's efforts to reduce the environmental impact of its operations in the HSE chapter on page 16.

*The AF Group aims to carry out its activities in a manner that reduces its impact on resources and the environment to a level well within what is required by the authorities and clients.*

**AF demolishes everything** from houses to oil platforms and ensures that steel and other materials are recycled. AF can document a recycling rate of up to 98 per cent.

## Environmentalism as a competitive advantage

"Clearing up the past and building for the future" is the AF Group's vision and forms the basis for our mission and strategic development. AF has made a conscious choice to look at the business opportunities for value creation in the Environment and Energy business areas.

***Environment business area***

Waste is a by-product of an increasingly prosperous society. Today, waste is considered a resource and a secondary raw material that is becoming increasingly important as primary virgin raw materials become more scarce.

Through its Environment business area AF has established a business concept in response to this situation by demolishing, removing, sorting and recycling structures and buildings as well as decommissioned offshore installations.

AF's environmental business is a leader in Norway and one of Europe's largest players in demolition and environmental clean-up, both onshore and offshore. Its demolition and recycling facility, the Environmental Base at Vats, is Europe's most modern environmental base for recycling oil installations. BA Gjenvinning specialises in receiving, processing and recycling asphalt and concrete from the building and construction industry.

AF sorts waste to facilitate further recycling whether it is recirculation, conversion, energy recovery, or pure reuse.

**Result**

In 2010 the Environment business area sorted a total of 290,000 tonnes of waste, a rate of over 95 per cent.

***Energy business area***

According to IEA forecasts, world energy demand will increase by 45 per cent from now until 2030. Meeting the demand gap and simultaneously stopping the development of greenhouse gas emissions requires, among other things, huge investments in energy efficiency and great political will.

Within the Energy business area AF offers customers cost-effective and environmentally friendly energy solutions in commercial buildings, offshore installations and within the shipbuilding industry. AF's competitive advantage is the fact that the company can deliver complete solutions from A to Z. AF is currently a preferred partner in consumption reduction, production of renewable energy and monitoring of energy consumption in the public and private sectors. This expertise is also used internally, primarily toward the Property and Building units, where environmentally-friendly solutions with respect to energy use are emphasised.

**Result**

The Energy business area helped reduce energy consumption by a total of about 7 million Kwh in 2010, an amount equivalent to cutting greenhouse gas emissions by 2,500 tonnes of $CO_2$ equivalents.

***"AF has made a conscious choice to look at the business opportunities for value creation in the Environment and Energy business areas.***

### *Source separation that pays*

***Where others see garbage, AF sees valuable resources. As much as 8,800 tonnes of waste was sold or given away for reuse or recycling when AF Decom tore down ScanRope's old buildings in Tønsberg.***

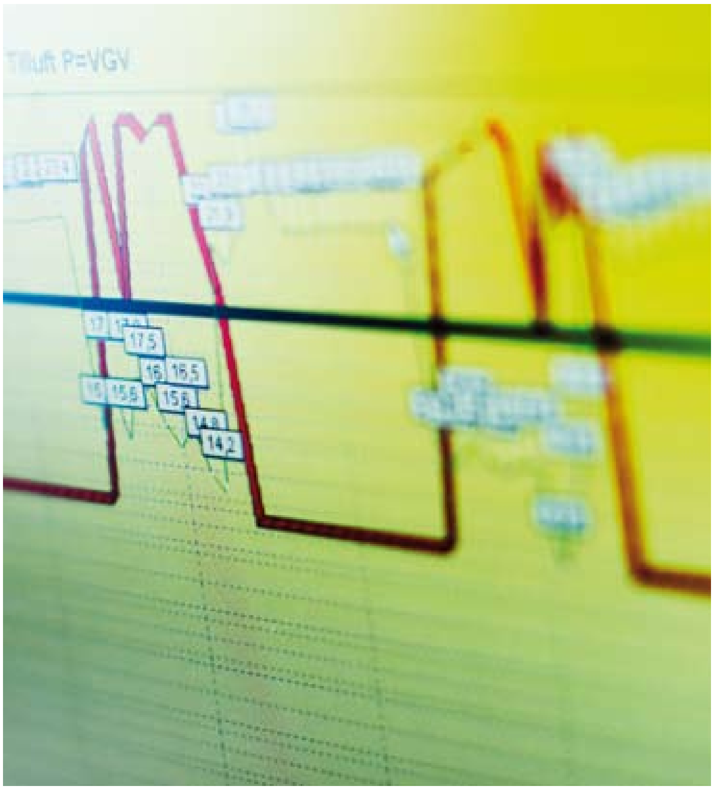
*AF has been sorting and recycling materials from demolition jobs for many years. Not only is it good for the environment - sorting also contributes to healthy margins and profitability in the projects.*

*When AF tore down the 11,000 square metres of office building, warehouses and production facilities at Scanrope's site in Tønsberg, an emphasis was placed on giving the old buildings new uses. The result was that 8,800 tonnes of demolition materials were recycled or reused, while 1,100 tonnes went to the materials and energy recovery depot. Only 300 tonnes of waste went to a landfill.*

*Result: The source separation rate for the Scanrope project was all of 97 per cent.*

**Re-use in practice:** Hundred-year-old beams from Scanrope's warehouse were purchased by a local enthusiast who will use them as decorative beams in his rec- room.

AF has a leading centre of expertise that provides customers with smarter and more energy-efficient technical solutions.




AF customers achieve both significant cost reductions, and the ability to reduce their impact on the environment. In commercial buildings and industries where AF carries out energy efficiency measures, AF gives customers guarantees for costs and savings in the project.

### Energy and greenhouse gas account

| Category | Consumption | | Energy equiv. (MWh) [1] | Emissions (tonnes $CO_2$) | Percentage |
|---|---|---|---|---|---|
| Petrol | 67,660 | l | 615.7 | 156.7 | 0.7 % |
| E85 | 3,015 | l | 19.3 | 1.0 | 0.0 % |
| Diesel | 7,406,153 | l | 68,136.6 | 18,736.5 | 82.0 % |
| Biodiesel (B30) | - | l | - | - | - |
| Fuel oil/paraffin | 84,055 | l | 798.5 | 223.8 | 1.0 % |
| Propane LPG | 10,194 | kg | 131.5 | 30.6 | 0.1 % |
| Carbon dioxide $CO_2$ | - | kg | - | - | 0.0 % |
| **Total direct emissions** | | | **69,701.6** | **19,148.6** | **84.0 %** |
| Electricity | 17,057,518 | kWh | 17,057.5 | 1,697.2 | 7.5 % |
| District heating | 295,034 | kWh | 295.0 | 31.4 | 0.1 % |
| **Total indirect emissions own activity** | | | **17,352.6** | **1,728.6** | **8.0 %** |
| Air travel – business | 4,657,394 | km | | 678.9 | 3.0 % |
| Air travel – commuting | 8,113,317 | km | | 1,173.5 | 5.0 % |
| **Total indirect emissions, other** | | | **-** | **1,852.5** | **8.0 %** |
| **Total $CO_2$ emissions from operations** | | | **87,054.2** | **22,729.6** [2] | **100.0 %** |

1) Energy equivalents are calculated for the organisation's core business (direct and indirect emissions from own activities) to show the annual energy intensity of the company's daily activities.

2) Equivalent to 3.9 tonnes per NOK million of turnover.


# People in AF

Thanks to our ambitious and results-oriented employees the AF Group has experienced rapid growth in recent decades. In AF, capable employees are given responsibility early on along with great opportunities for personal development.

# Employees who accept the challenge

AF's core activity is project-oriented industry. This means that the company needs both technical and management expertise. In AF new projects are always starting, offering opportunities for employees who want to take responsibility, have a desire for new tasks and aren't afraid of a steep learning curve.

AF is involved in everything from demolition of oil platforms to large building and construction projects. In addition, AF has built up Scandinavia's largest centre of expertise for optimal energy consumption. Having a broad range of services means that the company has many areas of expertise and career opportunities across the Group.

## High job satisfaction

AF employees like their jobs. The Employee Satisfaction Survey conducted in December 2009 shows that AF employees like their jobs better than most others in the industry. Proud, satisfied and dedicated employees are a good foundation so that AF can achieve its goal of becoming a leading industrial group.

AF has a human resource policy that gives employees opportunities to take on exciting challenges. Ambitious and talented employees can therefore look forward to fast-paced career development. Because the most profitable investment is to develop the knowledge and expertise of employees, AF focuses heavily on developing its own managers. Many AF managers have been recruited from our own ranks.

## Corporate culture and management

AF is committed to building a values-based corporate culture and works in a targeted manner to develop and maintain the company's standing as an attractive employer. Developing good managers is important for ensuring the achievement of our goals and ambitions. Good management is reflected through a low sickness absence rate and high employee satisfaction.

Managers at AF are to achieve results by setting a good example and building a culture in which orderly conduct is recognised, valued and lived up to by our employees. AF has therefore been clear about what qualities it values in its managers:

- Observance of AF's Code of Conduct and core values
- Being business-oriented
- Ability to be decisive and doers
- Being leaders and motivators
- Analytical abilities

These management qualities are used when we recruit, evaluate and train our employees.

*The company offers competitive pay with attractive bonus schemes and exciting career and development opportunities.*

## Recruitment

AF works systematically to attract qualified people who can contribute to achieving challenging goals. The company offers competitive pay with attractive bonus schemes and exciting career and development opportunities. Over the next few years, AF will recruit 600 new managers.

AF follows a dual track of recruiting recent graduates and employees with relevant experience, while also providing apprentice places. In recent years, AF has presented itself to a variety of colleges and universities, and in 2011 AF has high hopes that its eye-catching recruitment campaign will increase interest in the company.

The general message to potential employees is that AF is an Alternative-thinking and Future-minded corporation that is growing and is a good place for individuals to realise their aspirations for personal development.

## Ownership of own workplace

AF's goal is that all employees should have an opportunity to become shareholders in the company and benefit from the increase in value arising from joint value creation and development. For many years AF's employees have been given an opportunity to purchase discounted shares. At the end of the option programme in February 2011, many AF employees became shareholders for the first time. Today, AF employees own about 20 per cent of the company's shares, an amount corresponding to NOK 600 million.

## Corporate democracy

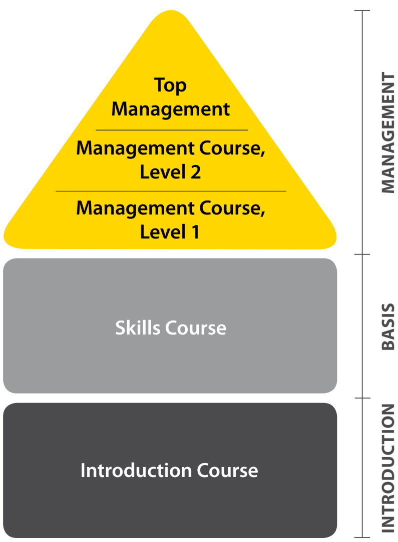
AF has a well-functioning employee representative structure and safety organisation, which enables employees to influence important issues that are addressed in the Group. Close cooperation with the management at the project, business unit and group levels is vital to remain focused on AF's core values and employee well-being through reduced sickness absence rates and fewer injuries.

## Employee development

Developing the knowledge and expertise of our employees is the most profitable investment we make in AF. All employees must have the willingness and ability to develop their skills. In 2010, more than 200 employees took management training courses offered by AF. The company has its own AF Academy, which offers both technical and management courses at different levels.

**Proud, satisfied and dedicated** employees are a good foundation so that AF can achieve its goal of becoming a leading industrial group.

## AF Academy




## Working Evironment Commitee

| | |
|---|---|
| Pål Egil Rønn | CEO |
| Robert Haugen | Executice Vice President |
| Paul-Terje Gundersen | Executice Vice President |
| Bård Frydenlund | Vice President Human Resources |
| Henrik Nilsson | Head employee representative |
| Arne Sveen | Head employee representative |
| Tommy Larsen | Employee representative |


# Civil Engineering 2010

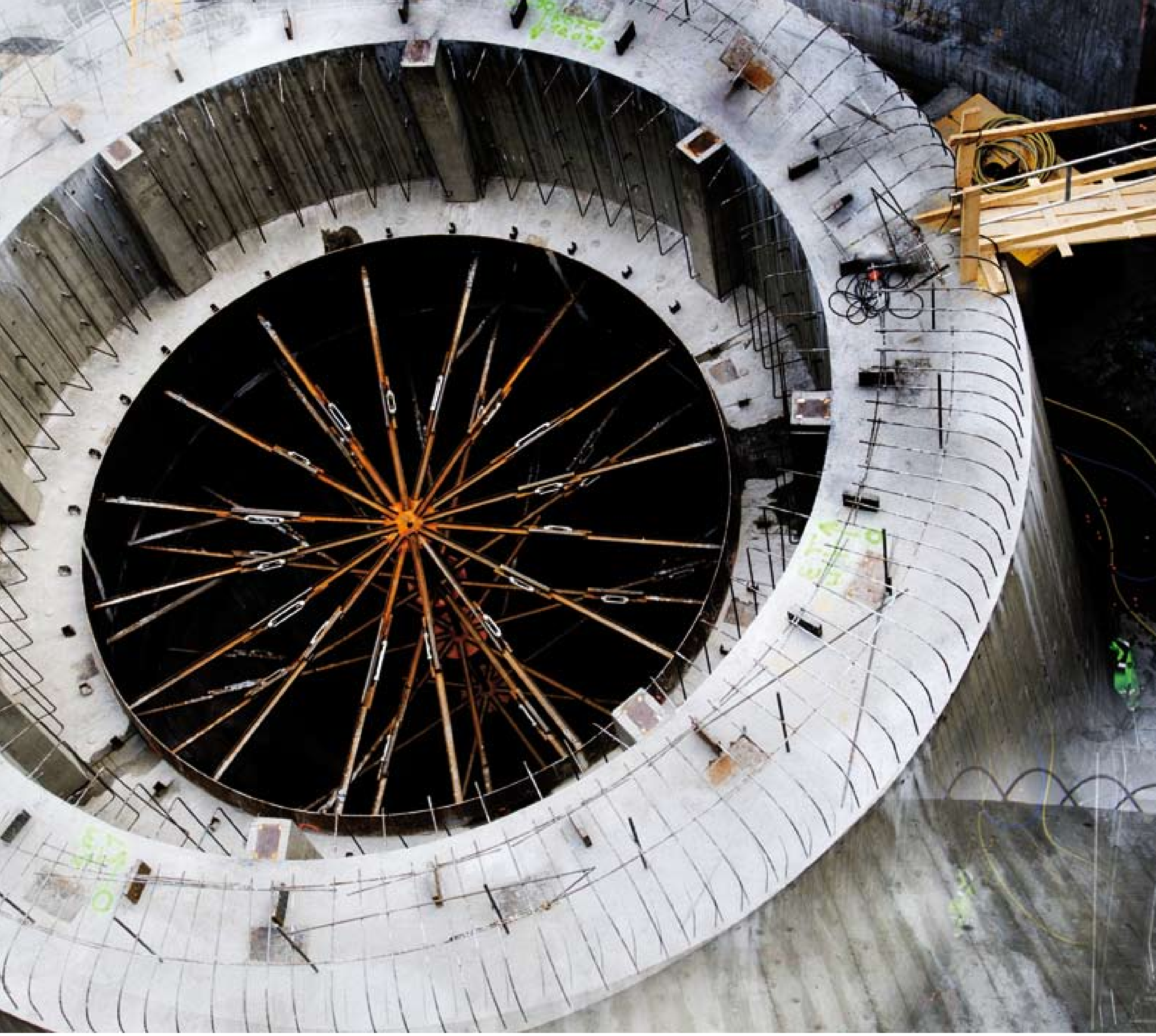
**The Civil Engineering business area comprises all of AF's construction activities in Norway and Sweden.**

The Civil Engineering business area consists of:

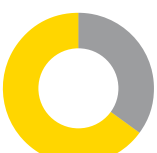
- AF Anlegg
- AF Offshore & Civil Construction
- Pålplintar i Sverige AB

## Key figures

| NOK MILLION | 2010 | 2009 | 2008 |
|---|---|---|---|
| **Revenue** | **2,158** | **1,768** | **2,044** |
| Earnings before interest, taxes, depreciation and amortisation (EBITDA) | 227 | 114 | 172 |
| Earnings before interest and taxes (EBIT) | 194 | 82 | 130 |
| **Earnings before taxes (EBT)** | **198** | **105** | **122** |
| EBITDA % | 10.5 % | 6.5 % | 8.4 % |
| EBIT % | 9.0 % | 4.6 % | 6.4 % |
| EBT % | 9.2 % | 5.9 % | 5.9 % |
| Capital employed | 446 | 221 | 296 |
| Return on capital employed | 60.8 % | 63.3 % | 42.8 % |
| Order backlog | 1,899 | 2,175 | 888 |



Number of employees

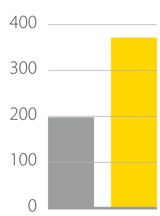


- Civil Engineering **670 (35 %)**
- AF Group **1,933**

Turnover in NOK million

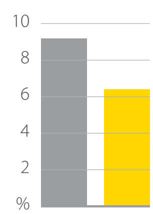
- Civil Engineering **2,158 (37 %)**
- AF Group **5,828**

Earnings before taxes (EBT) NOK million




- Civil Engineering **198 (53 %)**
- AF Group **372**

EBT %




- Civil Engineering **9.2 %**
- AF Group **6.4 %**

# Civil Engineering – all-time record level of activity and earnings

**AF is a turnkey** provider of civil engineering services and has built up the experience and expertise required to carry out everything from small and simple to large and demanding construction projects.

2013

2013

### Øyer-Tretten

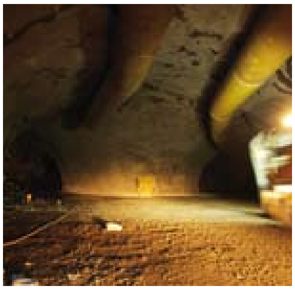
AF started the E6 project between Øyer and Tretten in Oppland County in the spring of 2010. The work includes construction of a 3,850-metre tunnel and upgrading of 10 kilometres of the existing E6 highway.

**Contract price:** NOK 680 million
**Completion:** 2013
**Client:** Public Roads Administration

### T-connection

In September 2009 AF commenced a large project in Rogaland called the T-connection. An 8,950-metre tunnel and 4,500 meters of open road will link the three municipalities of Karmøy, Haugesund and Tysvær together when the project is completed.

**Contract price:** NOK 878 million
**Completion:** 2013
**Client:** Public Roads Administration



The Civil Engineering business area comprises all of AF's construction activities in Norway and Sweden. In Norway, AF is engaged in civil engineering operations throughout the country. Located in the Stockholm area, the wholly-owned subsidiary Pålplintar carries out the Swedish operations.

The Civil Engineering business area carries out large complex construction projects and niche projects in the following areas: ports, oil and energy and foundations.

AF Anlegg carries out traditional construction projects throughout Norway. The unit is one of Norway's leading tunnel contractors and focuses on large complex projects. AF Offshore & Civil Construction carries out port construction, and sea, bridge and dam projects throughout Norway. Civil Construction's core market also includes land facilities of the oil and gas industry. Its main activities have been linked to onshore facilities such as Kårstø, Kollsnes, Mongstad, Snøhvit and Ormen Lange.

Pålplintar i Sverige AB carries out foundation projects for industrial, residential and public buildings in Stockholm and Mälardalen.

**In AF, capable employees** are given responsibility early on along with great opportunities for personal development.

## 2010 in brief

Civil Engineering reported its highest level of activity and earnings ever in 2010. All business units met the Group's margin and return on capital employed requirements.

In 2010 Civil Engineering reported revenues of NOK 2,158 million (1,768) and earnings before tax of NOK 198 million (105). The business area realised a record high profit margin of 9.2 per cent (5.9 per cent).

# 2014

### Kårstø

In the last 15 years the AF Group has had a number of major construction projects for Statoil. The framework agreement for Kårstø includes maintenance and modifications to buildings and infrastructure as well as excavation, grading and concrete work.

**Contract price:** NOK 350 million
**Completion:** 2014
**Client:** Statoil

Photo: Øyvind Hagen/Statoil

*Civil Engineering reported its highest level of activity and earnings ever in 2010.*

2010's healthy profits were created by good project management. This is a result of long-term work in the business units on risk management, project management and development of specialised expertise. In 2010 the units paid additional attention to developing production managers to increase quality and productivity in their production.

On 1 September 2010 AF Anlegg entered into an agreement to acquire all of the shares of the machinery contractor Johan Rognerud AS. The company was acquired with accounting effect on 1 October. The acquisition strengthens AF's position in earth moving.

## Market outlook

An increased level of activity is expected for infrastructure projects, including roads and railways. The forecast for the overall construction market indicates a growth rate of about 5 per cent in 2011. While there is considerable competition in the infrastructure market, AF Anlegg is well positioned to take its share of the growth. Since the end of the year, Civil Engineering has submitted a number of new tenders and is in a good position to win new contracts.

The port market is expected to be stable in 2011, but with the expansion of its market and geographical catchment area AF has ambitions to increase its level of activity in 2011.

Because investments in new onshore facilities for the oil and gas industry are still some time off, this will represent a challenging market situation for AF. Further positioning within the maintenance and modification market in the oil and gas industry, and the development of renewable energy still provide the potential for growth.

The Swedish market for foundation work rose in the last half of 2010. The positive trend is expected to continue in 2011.

The Civil Engineering business area had an order backlog of NOK 1,899 million (2,175) as at 31 December. The order backlog is expected to rise in 2011.

*In 2010 the units paid additional attention to developing production managers to increase quality and productivity in their production.*

« **AF has long** experience and expertise in underground projects and has equipment that covers all main activities in underground work, i.e., driving and securing, injection, shotcreting and finishing work.

# Contracts

### Largest contracts signed in 2010

| Name of project | Client | Description | Size (NOK million) | Business unit |
|---|---|---|---|---|
| **E6 Øyer-Tretten** | Public Roads Administration | E6, road and tunnel | 680 | AF Anlegg |
| **Rånåsfoss III** | Glomma Kraftproduksjon AS | River power plant | 100 | AF Anlegg |
| **Sørenga pier** | Bjørvika Infrastruktur AS | Harbour promenade | 95 | AF Offshore & Civil Construction |
| **Hysnes** | Norwegian Defence | Sea works | 50 | AF Offshore & Civil Construction |

*An increased level of activity is expected for infrastructure projects, including roads and railways.*

**The development of** hydropower in Norway from the 1970s until the mid-1980s formed the basis of AF. This is from the construction of the Embretsfoss 4 power plant in Drammen River.

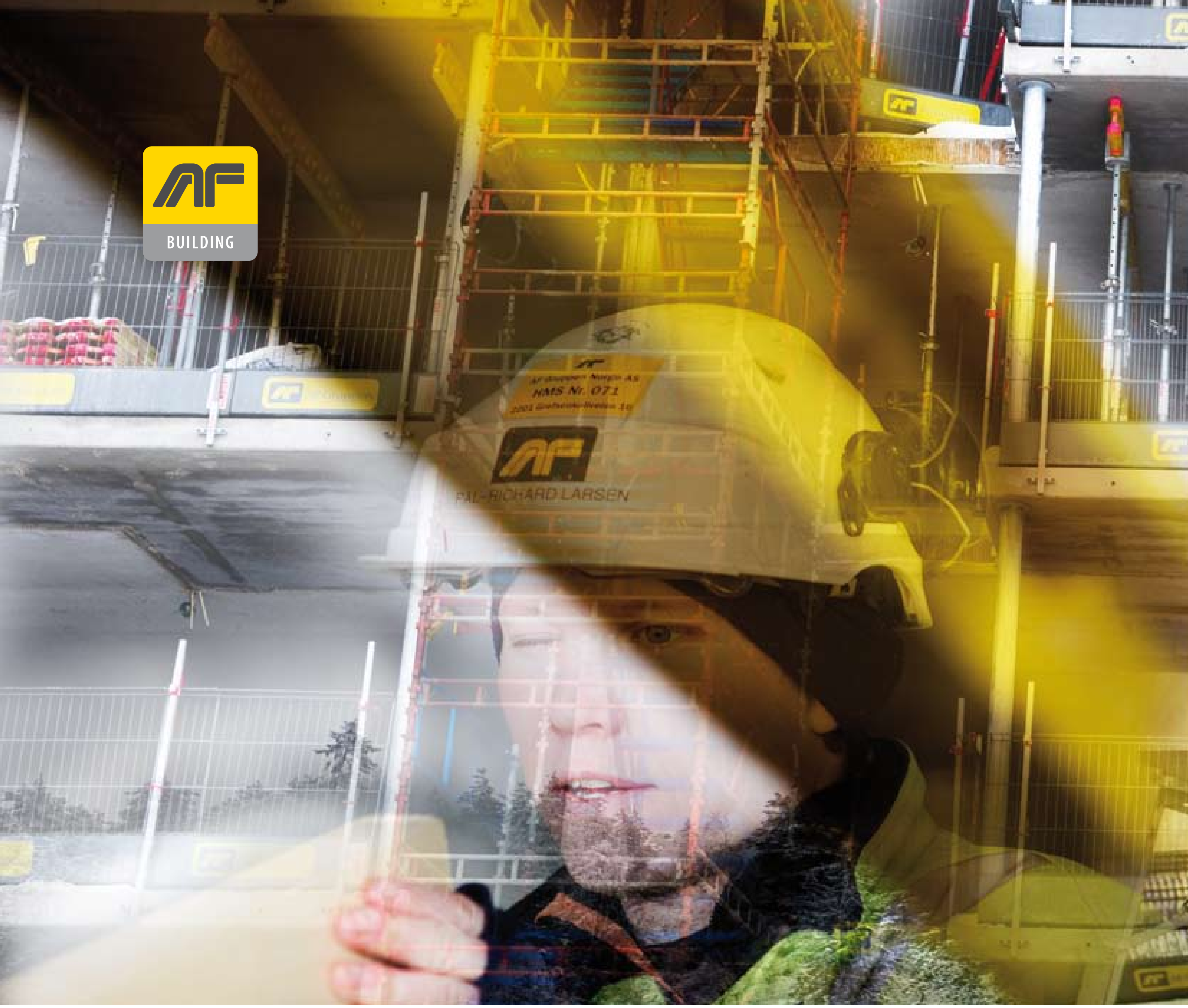
# Strategy

*Civil Engineering operations will grow by seizing the opportunities that exist in the market. Growth will be realised by expanding the geographic market area and identifying opportunities for new activities close to existing operations.*

*The acquisition of Johan Rognerud AS puts Civil Engineering in a better position to compete for large complex infrastructure contracts in the future. Given its strong market position in marine and port facilities AF will consider expanding its geographical market area to include Sweden.*

*AF will seek to expand its range of services related to maintenance and modifications within oil and gas. Growth will be achieved through organic growth or acquisitions. In addition, AF continues to work on positioning itself in renewable energy projects, particularly in wind power, both offshore and onshore.*

*Civil Engineering is working continuously to strengthen the organisation through training and career planning. The units will actively recruit qualified graduates from colleges and employees with experience in operations and project management.*




# Building 2010

**The Building business area performs traditional building operations with a solid local base.**

Building activities are divided into five business units:

- AF Bygg Oslo
- AF Byggfornyelse
- AF Bygg Østfold
- AF Bygg Sør
- AF Bygg Göteborg AB

## Key figures

| NOK MILLION | 2010 | 2009 | 2008 |
|---|---|---|---|
| **Revenue** | **2,267** | **2,561** | **2,881** |
| Earnings before interest, taxes, depreciation and amortisation (EBITDA) | 50 | 223 | 144 |
| Earnings before interest and taxes (EBIT) | 46 | 218 | 140 |
| **Earnings before taxes (EBT)** | **51** | **221** | **156** |
| EBITDA % | 2.2 % | 8.7 % | 5.0 % |
| EBIT % | 2.0 % | 8.5 % | 4.9 % |
| EBT % | 2.3 % | 8.6 % | 5.4 % |
| Capital employed | 385 | 306 | 182 |
| Return on capital employed | 14.2 % | 163.5 % | 82.3 % |
| Order backlog | 3,067 | 2,324 | 2,382 |

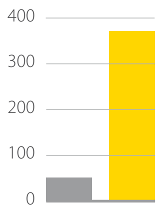
Number of employees

Building **617 (32 %)**
AF Group **1,933**

Turnover in NOK million

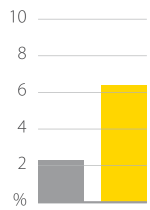
Building **2,267 (39 %)**
AF Group **5,828**

Earnings before taxes (EBT) NOK million




Building **51 (14 %)**
AF Group **372**

EBT %




Building **2.3 %**
AF Group **6.4 %**

# Building – good performance in Norway, challenging year in Sweden

**AF is a** major player in residential, commercial and public buildings. Our building services include both new construction and building renovation.

2011

### Kilden

The AF Group is building Kilden, the new theatre and concert hall in Kristiansand. The building consists of a foyer, four stages with more than 2,200 seats, rehearsal rooms and facilities for the administration.

**Contract price:** NOK 450 million
**Completion:** 2011
**Client:** Kilden TKS

2011

### Nøkkeland School

AF started building Nøkkeland School in the autumn of 2009. The lower secondary school will include a multi-purpose hall, swimming pool and artificial grass field, and will be handed over to the client before school starts in 2011.

**Contract price:** NOK 97 million
**Completion:** 2011
**Client**: Moss Municipality

The Building business area performs traditional building operations with a solid local base. Building enjoys a strong market position in the central Eastern Norway region and the Gothenburg-Halmstad area in Sweden.



**AF emphasises leadership**, quality, risk assessment and flexibility in all projects. This is essential for ensuring a profitable project for customers and AF.

AF has broad experience across the value chain from development and engineering to building. Our core market is commercial buildings, residential projects and public buildings. Our customers cover a broad spectrum from small companies with a simple assignment to large private and public clients with a longstanding relationship. AF can increase the opportunities available to the client for designing new buildings through technical solutions and choice of materials. AF is also one of Norway's largest building renovation contractors.

Building will actively search for new and better production techniques, new methods and building processes that provide a greater degree of industrialisation. Future growth will be realised by being in the forefront of new trends and concepts, and increasing the proportion of international purchasing.

AF Bygg Göteborg is AF's largest operation in Sweden. In addition to traditional building activities, the business unit is engaged in developing and building property projects for own account. The business unit also carries out building activities in Halmstad through its subsidiary AF Bygg Syd.

## 2010 in brief

Building posted a lower turnover and profits in 2010 compared with 2009. The business area reported revenues of NOK 2,267 million (2,561) and earnings before tax of NOK 51 million (221). The operating margin in 2010 was 2.0 per cent (8.5 per cent), which is lower than the Group's long-term operating margin requirement. The result was strongly affected by AF Bygg Göteborg, which posted a loss before tax of NOK 84 million in 2010. With organisational changes, the addition of expertise and initiatives focused on project management and project implementation, better results are expected from the Swedish operation from 2011.

## 2013

### Risløkka Competence Centre

In May 2010 AF started construction of the new vocational school in Oslo. The 40,000 m² school facility has seven floors and will house more than 1,400 students and teachers when it is ready in 2013.

**Contract price:** NOK 623 million
**Completion:** 2013
**Client:** Undervisningsbygg

*Future growth will be realised by being in the forefront of new trends and concepts, and increasing the proportion of international purchasing.*

Norwegian building activities are delivering strong results and good performances. AF Byggfornyelse posted strong profits in 2010. Throughout the year, AF Byggfornyelse won contracts for the renovation of three schools in Oslo for the Municipal Undertaking for Educational Buildings and Property (Undervisningsbygg). AF Bygg Oslo performed well in 2010. The unit has a steady intake of orders and entered 2011 with a very large order backlog. The market in Østfold was challenging throughout 2010.

## Market outlook

The market situation gradually improved over the year, and is expected to continue into 2011. The residential construction market in the Oslo area is booming. While the market in Østfold County and Gothenburg is improving, the competition for jobs is tough. At the end of the year, building operations had an order backlog of NOK 3,067 million (2,324).

*AF Bygg Oslo performed well in 2010. The unit has a steady intake of orders and entered 2011 with a very large order backlog.*

# Contracts

### Largest contracts signed in 2010

| Name of project | Client | Description | Size (NOK million) | Business unit |
|---|---|---|---|---|
| **Kværnerbyen Field D** | OBOS | Apartments and commercial space | 381 | AF Bygg Oslo |
| **Idun stage 1+2** | Idun Industri Eiendom AS | Apartments | 295 | AF Bygg Oslo |
| **Kjelsås School** | Undervisningsbygg Oslo KF | School | 188 | AF Byggfornyelse |
| **Rolfsbukta stage 2** | Fornebu Utvikling AS | Apartments | 130 | AF Bygg Oslo |
| **Sagabakken School** | Fredrikstad Municipality | School and multipurpose hall | 95 | AF Bygg Østfold |

Through the Kilden theatre and concert hall project AF shown that the company has the resources and expertise required to succeed in large building projects. A focus on Southern Norway will now be intensified.

*The residential construction market in the Oslo area is booming.*

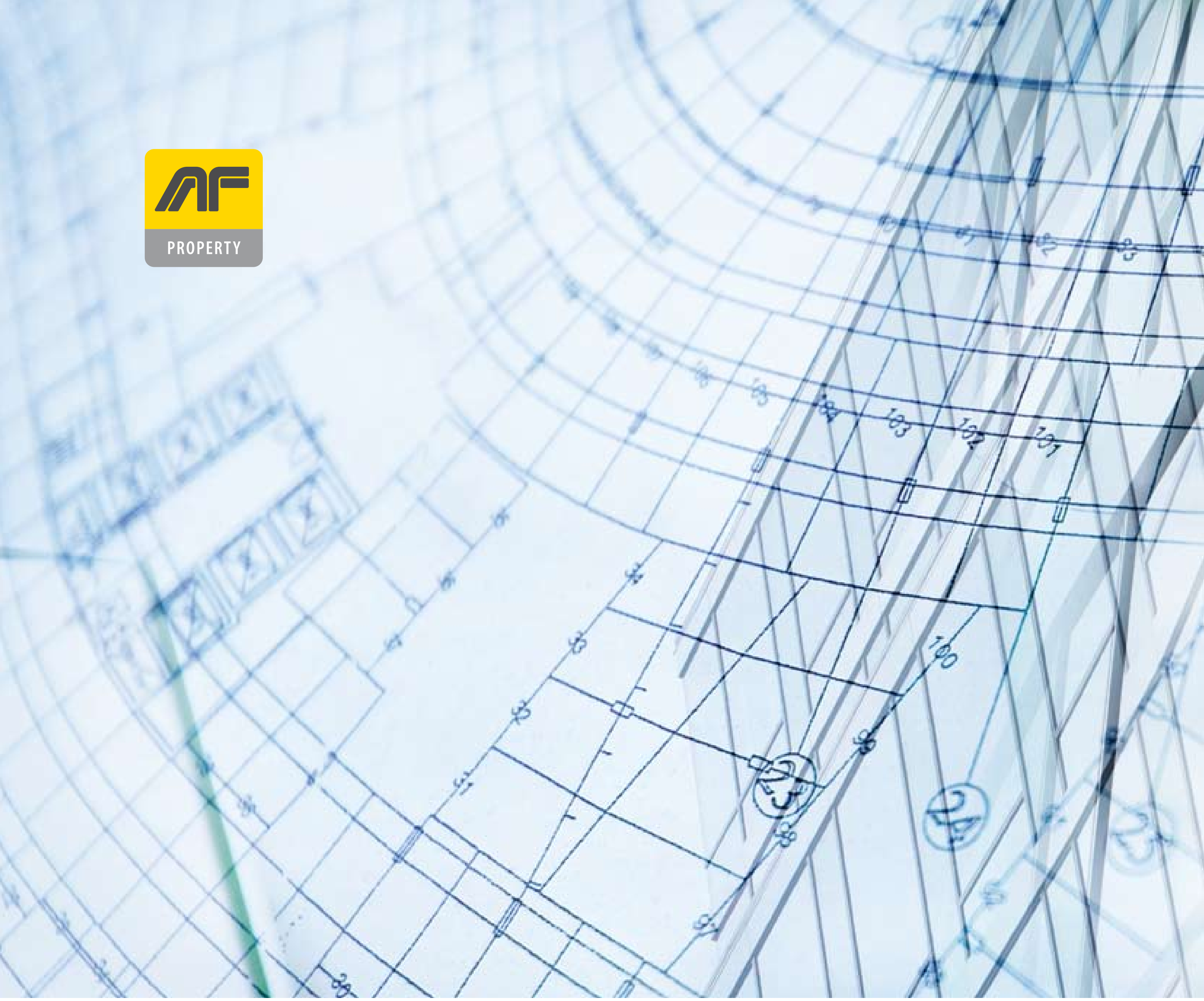
# Strategy

*Building aims to grow its turnover and profit. Growth will be realised by being a leading player in the existing home market, and establishing operations in new geographical areas in Norway and Sweden. New establishments will be achieved through organic growth or acquisitions.*

*AF will continue to build on the position created by the construction of the Kilden cultural centre in Kristiansand, and has decided to establish a local building company based in Southern Norway.*

*To strengthen its competitiveness in Østfold a decision was made in 2010 to merge AF Bygg Øst and AF Bygg Glomsrød. The merged business unit, AF Bygg Østfold, will have a better chance of competing for large, complex projects in its market.*

*To ensure organic growth Building will increase its focus on recruitment and building up management capacity based on AF's corporate culture.In addition, Building will focus on reducing the costs ofa quality non-conformances.*




# Property 2010

**AF will gain better control over the value chain by increased collaboration between property and contracting operations.**

## Key figures

| NOK MILLION | 2010 | 2009 | 2008 |
|---|---|---|---|
| **Revenue** | **134** | **51** | **102** |
| Earnings before interest, taxes, depreciation and amortisation (EBITDA) | 42 | -10 | -33 |
| Earnings before interest and taxes (EBIT) | 42 | -10 | -33 |
| **Earnings before taxes (EBT)** | **35** | **-15** | **-45** |
| EBITDA % | 31.2 % | -19.1 % | -32.5 % |
| EBIT % | 31.2 % | -19.1 % | -32.6 % |
| EBT % | 25.8 % | -29.1 % | -43.6 % |
| Capital employed | 287 | 271 | 317 |
| Return on capital employed | 14.6 % | -3.6 % | -11.6 % |
| Order backlog | 3 | - | 9 |

Number of employees



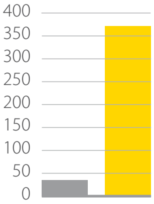


Turnover in NOK million



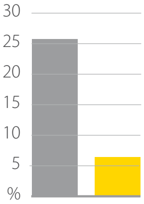


Earnings before taxes (EBT) NOK million





EBT %



# Property – positive performance in 2010

AF identifies properties with development potential and gives them added value through a development process.

AF will gain better control over the value chain by increased collaboration between property and contracting operations. Collaboration reduces the uncertainty in the implementation phase, contributing to more efficient development processes. In sum, this provides increased profitability for AF as a whole.

AF works closely with other players in the industry. Development projects are often organised by setting up joint development companies with partners to reduce project-specific risk and benefit from each other's expertise.

## 2010 in brief

Property posted healthy pre-tax earnings of NOK 35 million (-15) for 2010. Although its turnover of NOK 134 million (52) is significantly better than in 2009, revenues are still too low.

Building of the Rolvsrud Park Q and R houses and the Grefsenkollveien 16 project commenced in 2010. The projects sold a total 89 apartments in 2010. AF's share of the apartments sold is 34. AF's share of the unsold apartments in these projects is 10.

2012

### Rolvsrud Park, Building R

This is the final building phase of the popular Rolvsrud complex in Lørenskog. AF is building 27 apartments on five floors in the conclusion of the Rolvsrud Park project, where more than 500 apartments have been built since ground was broken in 2001.

**Completion:** Q2 2012
**Client:** Rolvsrud Utbygging
**AF's stake:** 45 %
**Total turnover:** NOK 108 million (AF's share: NOK 48.6 million)

2012

### Fossumhagen

In Stovner in Oslo AF is building 128 apartments in four buildings and 2,000 m$^2$ of commercial space. Fossumhagen will have a central location with all types of businesses, services and public transport in the immediate vicinity.

**Completion:** Q2 2012
**Client:** Stovner Utvikling KS
**AF's stake:** 33 %
**Total turnover:** NOK 405 million (AF's share: NOK 135 million)

## The Property business area comprises the development of residential housing units and commercial buildings for own account in the Eastern Norway region, where the company has access to its own contracting services.

Since these development projects are organised as associates in the AF Group, these projects are not included in the order backlog.

The sale of the Fossumhagen, Lillohagen and Blomsterstykket projects, with a total of 131 residential units, was also initiated in 2010. 65 residential housing units had been sold by the end of the year. After the end of the year, AF Eiendom, through Stovner Utvikling KS, of which AF owns 33 per cent of the shares, decided to commence construction of Fossumhagen. The project is expected to be completed in Q1 2013.

### Market outlook

The brisk housing sales in 2010 are expected to continue in 2011. The economy is growing at a healthy pace and interest rates are expected to remain at a low level. AF Eiendom is well positioned to increase its turnover in the housing segment. The market within commercial property is more hesitant. The office property vacancy rate is still 8 per cent in Oslo. It will still take some time before AF Eiendom will be able to realise new commercial projects.


### Strategy

*Property's strategy is to develop properties in the same geographic markets where AF has building operations. Project development risk is reduced by entering into option agreements for land, and by having partners that are co-owners of the projects. As a general rule, at least 50 per cent of the units in a residential project should be sold before construction begins.*

*AF has had the most success in property development within the residential segment in the Oslo area. Going forward, Property will work to strengthen its position in commercial property. In addition, AF will seek a stronger position in property development in Østfold. As a consequence of the establishment of building activities in Southern Norway property development in this region will also be considered.*

**2012**

### Lillohagen

AF is building Lillohagen, a residential housing project centrally located between Sandaker, Storo and Nydalen. A total of 270 apartments in seven buildings with underground parking and a day-care centre will be going up in this popular fast-growing area of Oslo.

**Completion:** Q3 2012
**Client:** Sandakerveien 99 B KS
**AF's stake:** 33 %
**Total turnover:** NOK 960 million
(AF's share: NOK 320 million)

*The brisk housing sales in 2010 are expected to continue in 2011. The economy is growing at a healthy pace and interest rates are expected to remain at a low level.*


# Environment 2010

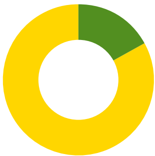
**Through state-of-the-art expertise Environment offers solutions that meet the environmental challenges faced by the Group's customers.**

The Environment business area consists of:
- AF Decom Offshore
- AF Decom Offshore UK Ltd.
- AF Decom
- AF Decom AB
- AF Group Polska Sp.z.o.o.
- Palmer Gotheim Skiferbrudd AS
- BA Gjenvinning AS
- Miljøbase Vats AS (40 %)
- Vici Ventus Technology AS (33 %)

## Key figures

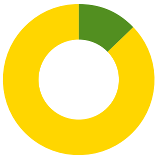
| NOK MILLION | 2010 | 2009 | 2008 |
|---|---|---|---|
| **Revenue** | **767** | **743** | **667** |
| Earnings before interest, taxes, depreciation and amortisation (EBITDA) | 147 | 80 | 90 |
| Earnings before interest and taxes (EBIT) | 107 | 46 | 56 |
| **Earnings before taxes (EBT)** | **90** | **43** | **54** |
| EBITDA % | 19.2 % | 10.8 % | 13.5 % |
| EBIT % | 14.0 % | 6.2 % | 8.4 % |
| EBT % | 11.7 % | 5.8 % | 8.1 % |
| Capital employed | 366 | 787 | 403 |
| Return on capital employed | 16.9 % | 7.3 % | 22.6 % |
| Order backlog | 892 | 1,070 | 1,285 |

### Number of employees



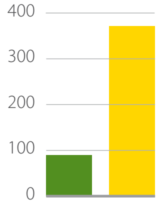
- Environment **322 (17 %)**
- AF Group **1,933**

### Turnover in NOK million



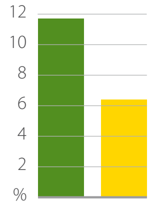
- Environment **767 (13 %)**
- AF Group **5,828**

### Earnings before taxes (EBT) NOK million




- Environment **90 (24 %)**
- AF Group **372**

### EBT %




- Environment **11.7 %**
- AF Group **6.4 %**

# Environment – good performance, good results

**On assignment from** the Norwegian National Coastal Administration, AF is carrying out the removal of the Russian cruiser the "Murmansk". In brief, AF's method involves preparing for the dry demolition and dismantling of the wreck where it lies.

2011

2011

### The "Murmansk"

AF is well under way with the removal of the Russian cruiser "Murmansk", which lies outside Sørvær on the coast of Finnmark. 2010 was spent building the breakwater and driving sheet piling around the wreck. During 2011, a dry dock will be built and work on the actual demolition and removal of the wreck can begin.

**Contract price:** NOK 239 million
**Completion:** December 2011
**Client:** Norwegian National Coastal Administration

### LCC Roza Luksemburg

AF Group Polska has been commissioned to demolish the old incandescent lamp factory in Warsaw. The building totals 27,500 m$^2$ and is 44 metres high. Due to high mercury contamination inside clean-up and removal of contaminated material will be carried out before mechanical demolition commences.

**Contract price:** NOK 12 million
**Completion:** May 2011
**Client:** LC Corp/Warszawa Przyokopowa Sp.z.o.o

Through state-of-the-art expertise Environment offers solutions that meet the environmental challenges faced by the Group's customers. The business area includes AF's environmental services within onshore and offshore demolition and recycling. Onshore demolition is carried out in Norway, Sweden and Poland. Offshore demolition and recycling focuses on the market in the North Sea.

The Environment business area is a leader in Scandinavia in the removal, demolition and environmental clean-up of buildings, industrial plants and offshore installations. Strict environmental regulations and demanding demolition work means that attention to environmental protection and safety must permeate our work at all times. The Environmental Base at Vats accepts and processes materials from demolition activities in the North Sea, and is Europe's most modern reception facility for recycling decommissioned oil installations.

In February, AF Decom Offshore UK Limited and the Lerwick Port Authority signed an exclusive letter of intent to develop an environmental base with a deep-water quay at Dales Voe, Lerwick, Shetland. The environmental base will be built to handle the increased British demand for demolition and recycling of large offshore installations from the North Sea. Because large parts of the market in the North Sea are in the British sector it is a natural step to have a base in Shetland.

On 11 November AF sold 60 per cent of the shares of Miljøbase Vats AS. In connection with the sale, AF Decom Offshore AS entered into a 15-year agreement for the lease of the land.

On 26 October, the AF Group agreed to purchase the remaining 50 per cent stake in BA Gjenvinning AS from Franzefoss Pukk AS, and now owns 100 per cent of the company. The business will be integrated as part of the land-based demolition operations in Norway.

## 2010 in brief

In 2010 Environment reported revenues of NOK 767 million (743) and earnings before tax of NOK 90 million (43). The sale of 60 per cent of Miljøbase Vats AS resulted in a gain of NOK 42 million.

**The purpose of** the breakwaters that are being built around the wreck of the "Murmansk" is to shelter the dry dock from swells and waves.

# 2012

### Ineos Bamble factory

The HDPE plant was demolished during the winter of 2010, while demolition of the next phase, the PP plant, is scheduled to begin in 2011. However, the final start-up date has not been clarified. The demolition will free up important industrial areas that can be used for other Ineos production or be leased to other companies.

**Completion:** 2012
**Client:** Ineos Bamble AS

*The Environment business area is a leader in Scandinavia in the removal, demolition and environmental clean-up of buildings, industrial plants and offshore installations.*

## Offshore activities

AF Decom Offshore saw considerable activity in both the British and Norwegian sectors in 2010. The company performed extensive and complex work offshore using the reversed installation and small piece methods. Through its work, the company has again demonstrated its ability to perform demanding operations in an efficient and safe manner, protecting both personnel and the environment.

In 2010 the Environmental Base at Vats received approximately 30,000 tonnes of decommissioned offshore installations from the North Sea. The work of ensuring an environmentally sound end of the installations' lifecycle is well under way. During the year the company worked hard to streamline the operations of the Environmental Base at Vats. The effort is important for enabling AF Decom Offshore to maintain its competitive edge in the demolition and recycling of offshore installations.

## Land-based demolition

After a challenging 2009, systematic efforts to improve profits were initiated. The focus on project management and strengthening the capacity of central management are now visible in 2010's good result. In 2010 AF Decom made preparations for the demolition and dismantling of the wreck of the Russian cruiser, the "Murmansk". During the year the project worked to build a breakwater and dry dock so that demolition, clean-up and recycling of the vessel can be completed in the summer of 2011.

## Market outlook

An increased level of activity and continued good earnings are expected for the onshore activities in 2011. The market potential for offshore demolition is large on both the Norwegian and British continental shelf. In all, there are about 500 installations on the Norwegian continental shelf, where the cost of removal and demolition is estimated at NOK 160 billion. In a report from 2002 DNV estimated that more than 30 installations would be removed and demolished from 2010 to 2020. On the British continental shelf the removal and demolition market is expected to total approximately NOK 250 billion until 2040. Recent years have shown that decommissioning is proceeding slower than expected, and that there is great uncertainty about when it will be implemented. During 2010, activity has increased within Front End Engineering and Design (FEED) studies, and tendering activity is on the rise.

At the end of the year, Environment had an order backlog of NOK 892 million (1,070).

> ***Through its work, the company has again demonstrated its ability to perform demanding operations in an efficient and safe manner, protecting both personnel and the environment.***

« **The Environmental Base** at Vats is Europe's most modern and environmentally correct reception facility for decommissioned offshore installations. A large number of offshore installations will be recycled over the next few years.

*An increased level of activity and continued good earnings are expected for the onshore activities in 2011.*

# Strategy

*Through state-of-the-art expertise, Environment's mission is to offers solutions that meet the environmental challenges faced by the Group's customers. AF will continue to work on establishing the environmental base at Dales Voe, Shetland to strengthen the competitiveness of the British side of the North Sea. In Norway work on streamlining production at the Environmental Base at Vats will continue.*

*In addition to expanding onshore demolition activities in Norway the company is working to obtain adequate volume of demolition operations in Sweden and Poland. Vici Ventus continues to work on concept development, and has signed a contract with Vestavind Offshore on the further development of technical solutions in conjunction with the planned Havsul 1 wind farm.*

# Energy 2010

**The world needs more energy. This will create more business opportunities.**

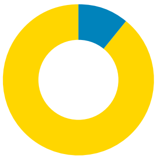
The Energy business area comprises the following units:

- AF Energi og Miljøteknikk AS
- Aeron AS
- Mollier AS

## Key figures

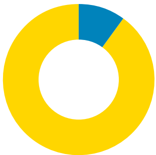
| NOK MILLION | 2010 | 2009 | 2008 |
|---|---|---|---|
| **Revenue** | **564** | **598** | **542** |
| Earnings before interest, taxes, depreciation and amortisation (EBITDA) | -6 | 30 | 54 |
| Earnings before interest and taxes (EBIT) | -15 | 21 | 48 |
| **Earnings before taxes (EBT)** | **-21** | **16** | **46** |
| EBITDA % | -1.1 % | 5.0 % | 10.0 % |
| EBIT % | -2.6 % | 3.5 % | 8.8 % |
| EBT % | -3.7 % | 2.6 % | 8.5 % |
| Capital employed | 371 | 366 | 405 |
| Return on capital employed | -3.9 % | 4.5 % | 20.5 % |
| Order backlog | 299 | 463 | 556 |

Number of employees



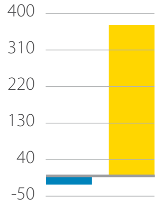
Energy **211 (11 %)**
AF Group **1,933**

Turnover in NOK million



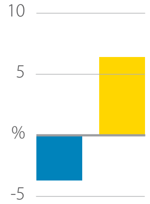
Energy **564 (10 %)**
AF Group **5,828**

Earnings before taxes (EBT) NOK million




Energy **-21 (-6 %)**
AF Group **372**

EBT %




Energy **-3.7 %**
AF Group **6.4 %**

# Energy – demanding 2010, opportunities in the market

**With extensive industry** knowledge and cutting-edge expertise in energy reduction, operation optimisation, service and maintenance, AF contributes to the implementation of reliable, clean and cost-effective solutions.

## 2010

### Dubai

In the summer of 2010, AF's wholly-owned subsidiary Aeron carried out rebuilding and upgrading work on an oil tanker in Dubai. Among other things, the job included creating good indoor air quality, increasing cooling capacity and reducing the need for energy.

**Completion:** 2010
**Client:** Teekay Corporation

## 2011

### Yme platform

Mollier has been commissioned to modify and complete the HVAC system on the Yme platform docked at Rosenberg shipyard in Stavanger. Built to serve the Yme field for Talisman Energy, the jack-up platform was built at the Adyard Liva yard in Abu Dhabi.

**Completion:** 2011
**Client:** Bergen Group Rosenberg and SBM Offshore

## The world needs more energy. This will create more business opportunities. Energy will drive the development of smarter, more energy-efficient technical solutions for the building, industry, marine and offshore sectors. AF's solutions will be profitable for both the customer and the environment.

Energy's mission is to utilise engineering expertise to help customers lower their operating costs and achieve the best possible solutions for efficient energy use.

AF Energi & Miljøteknikk works with the building and industry market segments in Norway. Through the delivery of technical systems and solutions AF can guarantee customers lower energy consumption. The product range includes detailed energy analyses resulting in system design and implementation of measures to rationalise energy consumption. In addition, it provides energy and energy monitoring services. AF also designs, installs and monitors local heating plants for commercial buildings and industries.

Through Energy, AF supplies offshore and marine ventilation, heating and cooling systems (HVAC). Aeron supplies HVAC systems for offshore service vessel newbuildings at shipyards around the world.


Maintenance and modification of HVAC systems on offshore installations is supplied via Mollier. The solutions that are delivered will help provide customers with stable and efficient production.

**Through Aeron the** AF Group is a leading supplier of HVAC systems to the shipbuilding industry.

# 2011

### Skedsmo Municipality

Skedsmo Municipality is one of the most active municipalities in Norway in energy efficiency measures. AF Energi & Miljøteknikk has a framework agreement with the municipality focusing on energy conservation measures, and has carried out projects including a conversion from electric to water-borne heating for the municipality.

**Completion:** 2011
**Client:** Skedsmo Municipality

*The solutions that are delivered will help to provide customers with stable and efficient production.*

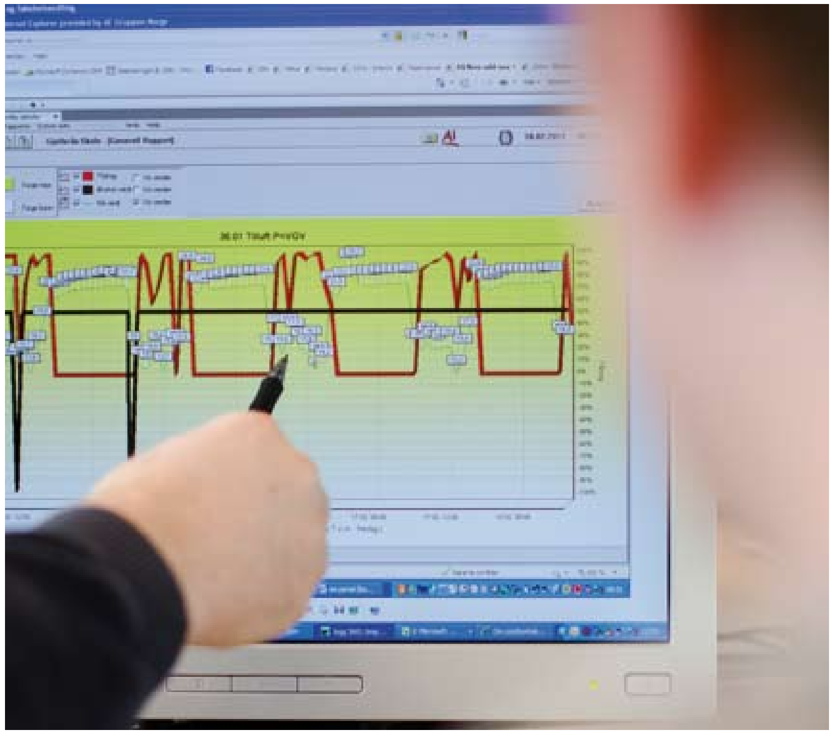
## 2010 in brief

Energy reported revenues of NOK 564 million (598) in 2010 and earnings before tax of NOK -21 million (16). The year was marked by a weak market within the entire business area, which resulted in low activity.

AF Energi & Miljøteknikk reported a loss of NOK 22 million in 2010. The loss is mainly related to technical contracting. The unit is winding up all of its activities related to purely technical contracting to focus on its core activities of energy conservation and energy services.

Aeron saw a decline in sales and profits in 2010. Although the market was challenging, implementation of the project portfolio was solid. Thanks to long-term work on international procurement Aeron is competitive in the market.

While Mollier also had lower revenues in 2010, it maintained its operating margin by focusing on costs. Its result and revenue were marked by the postponement at short notice of major offshore projects due to weather conditions and a lack of accommodation capacity.



**An energy conservation** analysis provides a specific recommendation of the measures that are profitable, the investment required and the savings this will provide customers.

*Thanks to long-term work on international procurement Aeron is competitive in the market.*

## Market outlook

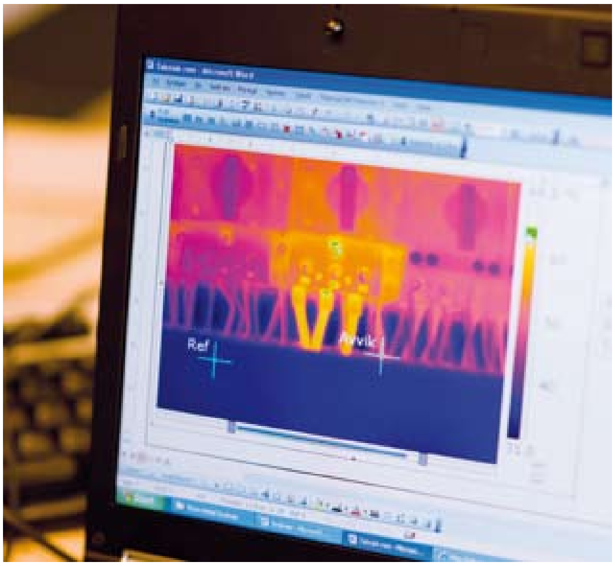
Aeron is exposed to the market for offshore service vessel newbuildings. The market picked up somewhat after a year with very few newbuilding contracts in 2009. The market is expected to remain challenging in 2011. For Mollier the market gradually improved during 2010. The level of investment in the North Sea is expected to rise in 2011, contributing to positive earnings for Mollier.

The effects of the new technical regulations and the energy labelling scheme are expected to contribute to an improvement of AF Energy & Miljøteknikk's market. Enova's support for players who want to convert to, or build, new heat production based on renewable energy sources may also have a positive impact in 2011.

After the end of the year AF Energi & Miljøteknikk signed an energy conservation contract with Avinor. The contract covers nine airports. Through the agreement AF is to ensure profitable energy use at Avinor's airports. The contract is based on energy conservation contracts designed for public procurements.

The Energy business area had an order backlog of NOK 299 million (463) as at 31 December.

**A profitable bottom line** for customers and the environment
– AF calls it the BLUE ENVIRONMENTAL EFFECT!




# Strategy

*Energy aims to grow both through organic growth and acquisitions. This requires increased management capacity and good access to expertise. Through targeted identification and follow-up of talents within our organisation, we will retain and develop future managers.*

*The market situation sets high standards for sales and marketing efforts. Energy will continue working in 2011 to professionalise customer relations and sales work. Energy will market its combined range of services under the slogan 'Blue environmental effect'. Blue environmental effect means that solutions must be profitable both for the customer who invests and the environment.*

*In order to build competitiveness Energy will continue to develop skills and systems for procurement from low-cost countries. Along with the industrialisation and standardisation of project implementation this will contribute to a competitive cost level.*

# Shareholder information

# Corporate governance

Each year the management and Board of Directors of the AF Group evaluates its corporate governance principles and how they work in the Group. The AF Group follows the Norwegian Code of Practice for Corporate Governance of 21 October 2010. The following description explains how the 15 points are followed up in the AF Group.

## 1. Corporate Governance Statement

Corporate governance is a broad subject that deals with the relationship between society, the owners, the Board and the management of the AF Group.

The AF Group wishes to contribute to sustainable development through responsible business practices. This involves safeguarding ethical, environmental and social aspects of project implementation within Building, Civil Engineering, Property, Environment and Energy. Corporate social responsibility also involves controlling business risk, maintaining environmental order in one's own operations and being an attractive workplace. The AF Group has focused on finding future-oriented ways of creating value since it was established. The Environment and Energy business areas are good examples of how we create competitiveness and develop our operations in accordance with the resource and environmental requirements dictated by our society.

The Company must have high standards of corporate governance. A transparent and sound governance structure is necessary if the Company is to achieve its financial goals and meet its social obligations. The Company finds it important to ensure that all of its business activities are in accordance with the recommended standards and rules. This concerns, for example, the integrity of the Group and its employees, proper market behaviour, consideration for the external environment, a good working environment and a safe workplace for employees.

Good corporate governance is a prerequisite for a sound and sustainable company, and is built on transparency and equal treatment of our shareholders. The Company's management and control routines help us ensure that we conduct our business in a prudent and profitable manner for the benefit of our employees, shareholders, partners, customers and society in general. A healthy corporate culture is a key driver in instilling confidence in the Company, providing access to capital and ensuring sound value creation over time. There is to be a clear division of work between the Board and the management. While the AF Group does not have a corporate assembly, it has three employees on the Board.

The AF Group wants to focus on safety and clear ethical guidelines in addition to meeting its environmental and social responsibilities. The AF Group has designed a booklet that describes its purpose, goals and values and how employee are to conduct themselves (Code of Conduct). The AF Group's environmental and social responsibilities are described on page 18 and on our website at **www.afgruppen.com.**

By steering the AF Group towards challenging tasks and goals, our operations will, over time, maintain and improve their position in the market and continue to create value growth for our owners, employees, customers, suppliers and society at large. The AF Group has a fundamental understanding and acceptance that injuries to persons, materials and the working environment shall be avoided. The AF Group has a strong focus on health, the environment and safety. This is described in further detail on page 16 of the annual report.

*Deviation from the Code of Practice: None.*

## 2. Activities

The AF Group (AF) consists of the parent company AF Gruppen ASA and its subsidiaries.

The purpose of the AF Group's operations is to create value for customers, owners, employees, suppliers and society within the framework of the legislation in effect at any given time. The Articles of Association are on the Group's website. According to its Articles of Association, the Company's objectives include all types of business operations, including participation in other undertakings.

The Board of Directors' report contains an account of the Group's objectives and strategies, and the market is updated through investor presentations in connection with the quarterly accounts.

In the annual strategy processes the Board reviews whether the goals and guidelines ensuing from the strategies are clear, adequate, well-operationalised and easy to understand for employees. All significant policies are available to employees via the AF Group's intranet.

Over time, the Company's objective is to achieve a competitive return on investment to maximise value creation for the Group and its owners:

- We will create continuous value growth, which will make us attractive to shareholders and investors, and give us freedom of action in our business.
- We are to have an operating margin and return on investment that are higher than the average for listed and comparable companies.
- We are to seek opportunities, and organise and conduct the business so that the value we create is recognised.

[1] Issued by the Norwegian Corporate Governance Board - NUES, the Norwegian Code of Practice is available at **www.nues.no**

The Company's objectives are described in more detail in the booklet "Purpose, Goals and Values". In addition, all employees and officers at AF must follow the Company's Code of Conduct. Both booklets have been distributed to employees and Board members and can be downloaded from the Company's website.

*Deviation from the Code of Practice: None.*

## 3. Share capital and dividends

At 31 December the equity of AF Gruppen ASA amounted to NOK 460 million. The Board undertakes ongoing assessment of the capital situation in light of the Company's objectives, strategy and desired risk profile.

**Dividend**
The AF Group's goal is to manage the Group's resources so that shareholders get a return in the form of dividends and share price appreciation that is competitive relative to comparable investments. The Company assumes that future dividends will be stable and, preferably, rise. In 2010, it paid a dividend of NOK 1.60 per share in June and an extraordinary dividend of NOK 2.00 per share in November. Overall, NOK 256 million of the Group's profits were paid out as dividends in 2010.

**Authority to acquire treasury shares**
The General Meeting has authorised the Board to acquire treasury shares. A more detailed description of this is provided in the minutes of the Annual General Meeting of AF Gruppen ASA on 28 May 2010. When buying and selling treasury shares the Company should seek to achieve the most favourable price possible. The Board is free with respect to the methods used to acquire and dispose of treasury shares, though always with the provision that the general principle of equal treatment of shareholders must be observed. Shares sold to employees and elected representatives may be sold at a discount of up to 20 per cent below the prevailing market price. This authority is valid from 31 May 2010 until the 2011 Annual General Meeting, hence not beyond 30 June 2011.

**Capital increase**
In connection with the Company's share scheme for employees, a private placement of 622,000 shares was carried out in May 2010, thereby increasing the share capital by NOK 31,100.

At an extraordinary general meeting on 31 January 2011, the Board was authorised to increase share capital by up to NOK 300,000 divided into 6,000,000 shares, each with a par value NOK 0.05. The power of attorney may only be used to issue shares in connection with the Company's option programme and share programme for employees in the Group, by one or more issues. The Board may decide to deviate from the shareholders' pre-emptive right to subscribe for shares under Section 10-4 of the Public Limited Companies Act.

This authority is valid until the 2011 Annual General Meeting, hence not beyond 30 June 2011.

**Option scheme for employees**
In 2008, the Extraordinary General Meeting adopted an option scheme covering all employees in the AF Group. The maximum number of options that could be granted was 12,500,000. Each option entitled the holder to purchase one share in AF Gruppen ASA. Allocation of options started in 2008 and was completed in 2010. An option could only be exercised if the holder was still employed by the Company on 31 December 2010. In accordance with the authorisation, the Board adopted a capital increase of 5,163,750 shares on 14 February 2011 in connection with the exercise of share options for employees.
The option programme is thus concluded. For further information on options, see information about the Share on page 60.

The Board was authorised by the General Meeting to draw up detailed guidelines for the scheme within the set framework.

*Deviation from the Code of Practice: None.*

## 4. Equal treatment of shareholders and transactions with related parties

**Equal treatment of shareholders**
AF Gruppen ASA has one class of shares and all shares have equal voting rights. In their work the Board and management emphasise that all shareholders are to be treated equally and have the same opportunities for influence.

**Capital increase**
During capital increases, existing shareholders are to be given priority, unless special circumstances dictate that this can be waived. Such deviation would then be justified and made public in stock exchange announcements in connection with the capital increase.

| The Board | Shareholder/ elected by employees | Shares | Options |
|---|---|---|---|
| Tore Thorstensen[1] | Elected by shareholders | 11,500 | - |
| Carl Henrik Eriksen [2] | Elected by shareholders | - | - |
| Peter Groth [3] | Elected by shareholders | 11,500 | - |
| Eli Arnstad [4] | Elected by shareholders | - | - |
| Mari Broman | Elected by shareholders | - | - |
| Tor Olsen [5] | Elected by employees | 11,000 | 20,000 |
| Henrik Nilsson | Elected by employees | 12,300 | 2,500 |
| Arne Sveen | Elected by employees | - | 1,250 |

[1] Represents, in addition to his own shares, KB Gruppen Kongsvinger AS, which owns 23,295,235 shares and Tokanso AS, which owns 346,100 shares.
[2] Represents OBOS Forretningsbygg, which owns 20,466,730 shares.
[3] Represents, in addition to his own shares, Aspelin Ramm Gruppen AS, which owns 4,092,040 shares and Ringkjøb Invest AS, which owns 76,355 shares.
[4] A party related to Eli Arnstad owns 1,440 shares.
[5] Represents, in addition to his own shares, T Olsen Holding AS, which owns 96,515 shares.

**Treasury share transactions**
Transactions shall be carried out at market price in cases where the Board asks the General Meeting to authorise the repurchase of treasury shares. Any deviations from the equality principle must be approved by the General Meeting.

The Company's transactions in its own shares, with the exception of sales to employees, take place at market price. There are no shareholder agreements between the Company's shareholders.

**Transactions with close associates**
To safeguard its reputation, the AF Group supports openness and caution in relation to investments where there are circumstances that can be perceived as an unfortunate close involvement, or close relationship, between the Company and a Board member, senior executive or close associate of them. This is stated in the AF Group's Code of Conduct (see paragraph 1). It is incumbent upon the individual Board member to assess on an ongoing basis whether there are circumstances that objectively speaking are likely to weaken public confidence in the Board member's impartiality or may give rise to conflicts of interest.

Transactions with related parties are conducted on market terms. The Board has guidelines to ensure that senior executives inform the Board if they have a material interest, directly or indirectly, in any agreement entered into by the Company. Two of the Board members represent companies that are major customers of the AF Group. Transactions with them are done at market price.

*Deviation from the Code of Practice: None.*

## 5. Negotiability

The shares are listed on the Oslo Stock Exchange and are freely negotiable. The Articles of Association contain no restrictions on negotiability.

*Deviation from the Code of Practice: None.*

## 6. General Meeting

The shareholders exercise the highest authority in the AF Group through the General Meeting. The Board shall ensure that the General Meeting is an effective forum for shareholders and the Board. The Board, the AF Group's Corporate Management Team, Nomination Committee and auditor shall be present at the General Meetings.

The 2011 Annual General Meeting will be held on 13 May. Notice will be sent in the mail at least 21 days in advance to all shareholders under the address registered in the shareholder register of the Norwegian Central Securities Depository. Documents regarding items to be considered at the General Meeting must either be sent as enclosures to the notice or made available to the shareholders on the Company's website at the same time the notice is sent. Shareholders may still demand to receive the documents by mail. The Company may not demand any form of remuneration for sending documents to shareholders. Shareholders must notify their attendance to the Company no later than two days before the General Meeting to be entitled to attend.

Minutes of General Meetings, powers of attorney granted to the Board by the General Meeting and the current Articles of Association will be published on the AF Group's website. The website also contains information on procedures for appointing a proxy for the General Meeting, the right of shareholders to put forward a motion at the General Meeting, proxy forms, etc.

The election of new members to the Board and Nomination Committee is arranged so that the General Meeting can vote on each candidate. The General Meeting is chaired by the Chairman of the Board.

*Deviation from the Code of Practice: None.*

## 7. Nomination committee

The General Meeting votes on a Nomination Committee consisting of three members, each elected for one year at a time, see the Company's Articles of Association. No employees or Board members are members of the Nomination Committee.

The duties of the Nomination Committee are as follows:

- Nominate shareholder-elected Board members and alternates for election.
- Propose remuneration for Board members to the General Meeting.
- Comment on and, if necessary, make proposals to the General Meeting regarding the Board's size, composition and work methods.
- Prepare an annual report for the General Meeting.

Members of the Nominating Committee at 31 March:
Arne Baumann (Chair)
Tor Øivind Fjeld
Jan Fredrik Thronsen

*Deviation from the Code of Practice: None.*

## 8. Corporate Assembly and Board of Directors – composition and independence

The Parent Company, AF Gruppen ASA, is a holding company without employees and is not subject to the provisions of the Limited Liabilities Company Act regarding corporate assemblies.

The employees and the Group's largest operating company, AF Gruppen Norge AS, have entered into an agreement stating that AF Gruppen Norge AS is not required to have a Corporate Assembly.

In accordance with the group organisation approved by the Industrial Democracy Committee in 2007, AF Gruppen ASA and AF Gruppen Norge AS have the same Board of Directors.

The AF Group's Board has a diverse composition and wide range of competencies suited to the Company's needs. Information regarding the Board members' age, education and professional experience is published on the Company's website. Apart from representatives of the employees, none of the Board members are employed or have performed work for the AF Group. The Board's work is in accordance with the AF Group's board instructions and applicable policies and procedures. The Board held eight meetings in 2010.

AF Gruppen ASA has eight Board members, three of whom are elected by the employees. Of the Board members elected by the shareholders, there are three men and two women. The Chairman of the Board is elected by the Annual General Meeting. Board members are elected for one year at a time.

**Board independence**
- None of the shareholder-elected Board

members are involved in the day-to-day management of the Company.

- Chairman Tore Thorstensen is CEO of KB Gruppen Kongsvinger AS, the Company's largest shareholder. KB Gruppen Kongsvinger is also a major supplier to the Group.
- Board Member Carl Henrik Eriksen represents one of the principal shareholders, OBOS Forretningsbygg AS, which is a large customer of the Company.
- Board Member Peter Groth also represents one of the principal shareholders, Aspelin Ramm Gruppen AS, which is also a large customer of the Group.

Two of the five Board members elected by the shareholders are independent of the Company's principal shareholders and business associates. Three of five Board members elected by the shareholders represent companies that are major customers and/or suppliers of the AF Group.

The Board has assessed its independence and believes that it is in accordance with the applicable standards.

Information about the shareholdings of Board members can be found in Note 23.

*Deviation from the Code of Practice: According to the Code, the majority of the shareholder-elected members of the Board should be independent of the Company's executive personnel and material business contacts. In the AF Group, three of the five shareholder-elected board members are material business contacts.*

## 9. Work of the Board of Directors

### The tasks of the Board

The Board has overall responsibility for the management of the Group and implementation of the Company's strategy. This means that the Board is responsible for establishing control systems and shall ensure that the Group is operated in accordance with the established core values, business ethics policies and the owners' expectations for socially responsible operations. The Board shall safeguard shareholders' interests while also being responsible for the Company's other interests.

The Board's main tasks are to help the Group become competitive, and that it develops and creates value. The Board shall be involved in developing the Group's strategy, performing necessary control functions and ensuring that the Group is satisfactorily managed and organised. The Board sets financial structure goals and adopts the Company's plans and budgets. Major issues of a strategic or economic nature are considered by the Board. The CEO is hired by and receives his powers from the Board. The Board determines the CEO's salary and work instructions.

Each year the Board evaluates its performance and competence, and the need for the use of Board committees is assessed on a regular basis. At least once a year the Board carries out a review of the Company's main risk areas and internal control in the Company.

### Instructions for the Board

The Board has adopted instructions that provide rules for its work and procedures. These instructions are reviewed annually or as needed. The instructions deal with the Board's duties, the CEO's duties and obligations to the Board, Board procedure, minutes, follow-up of Board meetings, conflict of interest, confidentiality and formalities requiring new Board members to familiarise themselves with and accept the instructions to the Board.

The Board has prepared an authority matrix that describes and clarifies what authority the CEO and management have and define what matters have to be dealt with by the Board. The Board is continuously informed about the Company's financial position, activities, and asset management. As part of the accounts procedure, the CEO and CFO submit a declaration to the Board stating that the annual accounts have been prepared in accordance with the generally accepted accounting principles and that all information is consistent with the Company's actual situation, and that no relevant information or material has been omitted from the accounts.

### Audit Committee

Effective 2008, the Board appointed an Audit Committee. The Company's Audit Committee consists of two shareholder-elected members who meet the independence and competence requirements laid down in the Public Limited Liability Companies Act.

Members of the Audit Committee as at 31 March are:
Carl Henrik Eriksen (Chairman)
Mari Broman
Sverre Hærem, Executive Vice President/CFO of the AF Group, is the Audit Committee's secretary.

The purpose of the Audit Committee is to assist the Group Board with management and performance of the Board's supervisory responsibility pursuant to Sections 6-12 and 6-13 of the Public Limited Liability Companies Act. The Audit Committee's duties are described in the "Mandate for the Group Board's Audit Committee". They meet when necessary, but at least four times annually, including at least once a year with the Company's auditor and its management. The Committee is elected for one year at a time.

The following tasks are included in the Audit Committee's mandate:

- Assess the Group's financial and account reporting
- Evaluate the auditing, nominate an auditor for election and explain the auditor's fees broken down by auditing and other services to the Annual General Meeting
- Assess the Company's internal controls, including:
  - the Group's management of risk
  - the Group's internal control functions
  - the Group's authority matrix
  - the Group's cash management
  - the Group's ability to perform assessments, improve, execute and follow up investment decisions
  - organisational matters related to financial reporting and control in the Group.

The Committee produces an annual report presented to the General Meeting.

### Compensation Committee

In 2008 the Board elected a Compensation Committee to help ensure thorough and independent preparation of matters relating to the remuneration of the CEO and other senior executives: salaries, bonuses, options, severance pay, early retirement and pensions. The Committee's work is described in the "Mandate for the Compensation Committee". See also the statement of the Board regarding the determination of salary and remuneration of senior executives.

The Committee produces an annual report presented to the General Meeting.

The Compensation Committee is made up of three shareholder-elected Board members.
Peter Groth (Chairman)
Eli Arnstad
Tore Thorstensen

*Deviation from the Code of Practice: None.*

## 10. Risk management and internal control

**Risk management**
Risk management is good management in practice. Systematic risk management has strengthened the AF Group's competitiveness and increased profitability. Extensive work has been carried out since 2006 to introduce uniform systems for risk management and create a culture whereby everyone has a conscious awareness of risk. A special unit has been established in the Group to help the business units and projects identify and systematise risk. Risk analyses are carried out in all tendering processes, in projects in progress and for evaluation of uncertainty in all project-based activities. An overview of the risk elements as early as the tendering phase increases our ability to reduce overall risk and to price the tender properly. The risk analysis in the tendering phase forms the basis for further analysis, follow-up and control of risk throughout the project's lifecycle.

All project risks are discussed in connection with the quarterly report. Each business unit undertakes an overall risk review of the entire project portfolio in each business unit. A broadly composed group analyses the projects and arrives at a prioritised list of uncertainties. The group consists of representatives from the Corporate Management Team, projects, management of the business unit and a facilitator from the AF Group's own risk unit. The quarterly risk review concludes with a summary by the Corporate Management Team. The risk is quantified, summarised and reported for each business unit throughout the year.

The purpose of risk management is to manage the risks associated with successful business performance and enhance the quality of financial reporting in order to avoid loss-making projects and serious wrong decisions. Numerous risk analyses have been completed and we have implemented measures to reduce negative risks and actions to take advantage of positive risks. Proper risk management has been important for achieving our goal of value creation and growth. More on risk management is written under a separate section on page 14.

The Board is responsible for ensuring that the Company has sound internal control and risk management systems that are maintained. The Board receives quarterly reports on the Company's financial position and management's assessment of the situation with regard to risk and its management. Effective risk management and sound internal control help protect the shareholders' investments and Company's assets.

The Board reviews the Company's most important risk areas and internal controls at least once a year. The review also covers the Company's core values, ethical guidelines and any relevant risks that can influence achievement of the Company's business goals.

The AF Group aims to create competitiveness by maintaining and developing its business in accordance with the resource and environmental requirements society places on us.

**Internal control**
Internal control is a process initiated and conducted by the Company's board, management and employees. It is designed to provide reasonable assurance of goal achievement in:

- Targeted, cost-effective operations
- Reliable external financial reporting
- Compliance with laws, rules and regulations
- Control signals from management

The Company's internal accounting control is based on an organisational separation between execution, control and attestation. The Company has extensive written job descriptions at all levels of the organisation. Project economists who assist project management with the financial monitoring of projects have been hired for all major projects. The heads of business units, along with financial managers, are responsible for regular financial reporting to the Group. At the corporate level a controller function has been established with the main task of checking and verifying reporting from the business units. Deviations are reported directly to the Corporate Management Team. Financial reporting from business units is reviewed by the Corporate Management Team at a separate meeting in conjunction with each reporting period.

*Deviation from the Code of Practice: None.*

## 11. Directors' fees

Directors' fees, as set by the Nomination Committee and adopted by the General Meeting, are not earnings-related or connected with the share price performance of AF Gruppen ASA. The Board must approve any remuneration other than directors' fees, Audit Committee fees and Compensation Committee fees paid by the Company to members of the Board. Note 5 to the consolidated financial statements shows remuneration of Board members and senior executives in the Group.

*Deviation from the Code of Practice: None.*

## 12. Remuneration of senior executives

In cooperation with the Board, the Compensation Committee determines guidelines for remuneration of senior executives. Guidelines for the remuneration of senior executives will be presented to the General Meeting for its information.

The CEO's salary is set annually at a Board meeting. The Board of Directors establishes guidelines for the remuneration of senior executives in consultation with the CEO. Remuneration of senior executives and the Board can be found in Note 5 to the annual accounts.

The salaries of senior executives are market-based and made up of a fixed salary and a bonus based on the EVA (Economic Value Added) model. EVA is a method of calculating and analysing value creation in the Group and economic units below Group level. Bonuses based on the EVA model are linked to the profit performance of the Company or the economic unit over time. Bonuses are paid to eligible managers on a straight-line basis in proportion to the economic unit's value creation over, and above, an individually set threshold in excess of the weighted average cost of capital (WACC). Eligible managers may invest some of their net bonus after tax in the Company's shares. The shares are sold at a 20 % discount on the market price at the turn of the year. The lock-in period for the shares is one year.

The AF Group has a share scheme for employees whereby all employees are given an opportunity to buy shares at a discount of 20 per cent on the current market price.

The Company introduced an option scheme for all employees in 2008. The option scheme is described in more detail under "Option scheme for employees" under No. 3.

*Deviation from the Code of Practice:*
*In the AF Group, the Board and the Compensation Committee have decided there should be no cap on earnings-related remuneration for senior executives.*

## 13. Information and communication

The AF Group's objective is for all investors and other stakeholders to have access to the same financial information about the Company at any given time. The information provided by the AF Group should ensure that the 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 via the Company's website. The AF Group assigns high priority to contact with the stock market, and it desires an open dialogue with the players.

**Reporting**
The AF Group holds public presentations for its quarterly and annual results. The presentations are transmitted directly via the Internet and are available on the Oslo Stock Exchange's website and the AF Group's own website. In addition, the Company maintains ongoing contact with investors and analysts.

Information about the Company is published in Norwegian and English. The Company has drawn up a contingency plan to provide information in case matters of a special nature should arise or interest by the media.

The Company has been awarded the Oslo Stock Exchange Information Symbol. The Information Symbol is a quality mark indicating that the Company satisfies a number of requirements stipulated by the Oslo Stock Exchange with regard to financial information.

*Deviation from the Code of Practice: None.*

## 14. Company takeover

The Board does not have any written guidelines for how to act in the event of a possible takeover bid by another company. The Board assumes that it will follow the Norwegian Code of Practice for Corporate Governance if such a situation should arise.

Nor does the Board have any written guidelines for how to act in the event of a possible takeover bid for the Company's shares. The Board believes, nevertheless, that it would not seek to prevent bids for the Company's business or shares without special reason for doing so. The Board would not exercise its authority to issue shares or take other measures to prevent the execution of a bid, without the approval of the General Meeting after the bid was announced.

If a bid is made for the Company's shares, the Board of Directors will issue a statement containing an assessment of the bid and a recommendation to shareholders as to whether they should accept or reject the bid. As part of this process, the Board will obtain a valuation from an independent expert.

*Deviation from the Code of Practice: While the Board has no written guidelines for preparation of takeover bids, it still believes that the guidelines will be followed.*

## 15. Auditor

Ernst & Young is the auditor of the AF Group. There have never been any qualifications in the auditor's report. The auditor gives the Board an account of his work and assesses the Company's financial reporting and internal controls in connection with the annual accounts. At this meeting, the Board is informed about the services in addition to auditing that have been provided during the year.

The auditor attends the AF Group's General Meeting and confirms in writing to the Board annually whether the stipulated independence requirements for auditors have been met. The Board has established guidelines for when the management can use the auditor for services other than auditing. The required independence of the auditor indicates that the Company should minimise its use of the elected external auditor for services other than the statutory financial audit. However, the auditor is used nevertheless for assignments that are related to the audit, including technical tax return assistance, annual accounts, interpretation of accounting and tax rules and the verification of financial information in various contexts. See Note 6 "Other operating costs" for further information about the size of the audit fee.

The General Meeting considers the determination of the auditor's fee.

To ensure the auditor's independence and competitive audit fees, the Board has decided that auditing should be put out to tender on a regular basis. The Audit Committee believes that it is natural to request such tenders every 5-7 years.

# The share



## 2010 was a good year for the AF share. At year-end the share price was NOK 40, which represents an increase of 26 per cent in 2010. The return including dividend was 37 per cent. Over the last three years the AF share has increased by 82 per cent, adjusted for dividends. The Oslo Stock Exchange's benchmark index fell 10 per cent during the same period.

The AF Group's 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.

### Share capital and shareholder composition

At the beginning of 2010, the share capital was NOK 3,524,797 divided into 14,099,188 shares, each with a face value of NOK 0.25. In 2010 the Company carried out a 1:5 share split and a share issue for employees. At the end of 2010, the share capital was NOK 3,555,897 divided into 71,117,940 shares, each with a face value of NOK 0.05.

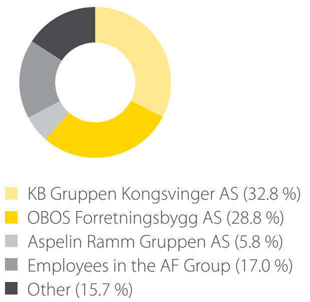
The AF Group had 914 (733) shareholders at the end of the year. The shareholder structure is still characterised by stable, long-term owners, and as at 31 December the ten largest shareholders owned 81 per cent of the Company's shares. At year-end, employees of AF owned approximately 17 per cent of the shares in the Company and the Company owned 450,000 shares, equivalent to 0.63 per cent of the shareholding.

The buyback of shares will be considered in light of the Company's alternative investment options, financial situation, and need for treasury shares in connection with sales to employees, option schemes, bonus schemes and acquisitions. The AF Group is authorised by the General Meeting to buy up to 10 per cent of the shares outstanding in the Company.

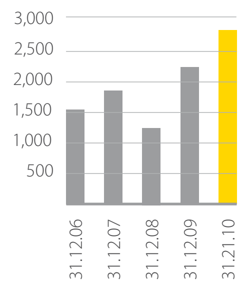
### Return and turnover

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

**Largest shareholders in the AF Group**




**Market value AF Group**
NOK million



appreciation. The AF share rose by 26 per cent in 2010. Two dividends were paid during the year: an ordinary dividend of NOK 1.60 per share in May and an extraordinary dividend of NOK 2.00 kroner per share in November. The return including dividend for 2010 was 37 per cent. Over the last 3-year period the AF share has yielded an 82 per cent return, adjusted for dividends. During the same period an unweighted average of the share prices of competing contractors rose 25 per cent.

The liquidity of the share is characterised by the fact that several large, long-term shareholders own a substantial portion of the Company's shares. In 2010, a total of 2,968,717 shares were traded on the stock exchange, up 53 per cent from the year before. On 1 February 2009 the AF Group entered into a market-making agreement with the brokerage firm Fondsfinans ASA. The purpose of the agreement is to promote the liquidity of the Company's shares and decrease the spread between bid and ask prices when the Company's shares are traded.

Two major transactions in company shares were carried out off-exchange in 2010. Two of the company's founders decided to sell all and part of their holdings in the Company, selling a total of 16,410,400 shares. Of these, OBOS Forretningsbygg AS bought 10,770,400 shares and KB Gruppen Kongsvinger AS bought 5,640,000 shares.

## Share scheme for employees

The AF Group would like all employees to participate in joint value creation by becoming a shareholder in the Company. In addition, the share scheme should contribute to making the AF Group an attractive workplace for employees and attract new employees.

AF therefore has a share scheme for employees whereby they are given an opportunity to buy shares at a discount of 20 per cent on the current market price.

During 2010, 221 employees subscribed for a total of 784,700 shares. The purchase price after a 20 per cent discount was NOK 31.28. In connection with the sale the Board used its authority and issued 622,000 shares. The remaining shares were transferred from the Company's treasury shares.

The Company will continue the share scheme for employees in 2011. AF will seek to buy shares in the market to cover its needs in connection with the share scheme for employees. Any additional need will be covered by exercising the Board's authority to issue shares. The Board is authorised to issue up to 6,000,000 shares pursuant to resolutions of the Extraordinary General Meeting on 31 January 2011.

| Key figures Shares | 2010 | 2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|---|
| Market value (NOK million) | 2,845 | 2,242 | 1,269 | 1,859 | 1,549 |
| Number of shares traded (1,000) | 2,969 | 1,945 | 1,605 | 3,735 | 4,800 |
| Total number of shares as at 31/12 | 71,117,940 | 70,495,940 | 69,349,440 | 68,849,440 | 68,849,440 |
| Share price as at 31/12 | 40.00 | 31.80 | 18.30 | 27.00 | 22.50 |
| - High | 43.00 | 31.80 | 27.70 | 27.00 | 22.80 |
| - Low | 32.60 | 18.20 | 16.90 | 22.00 | 16.60 |
| Earnings per share | 3.92 | 3.85 | 3.10 | 2.55 | 1.95 |
| Dividend per share | 2.00 | 1.60 | 1.40 | 1.20 | 1.00 |
| Extraordinary dividend | 2.50 | 2.00 | - | - | - |
| Distribution ratio* | 51.00 % | 41.60 % | 45.10 % | 47.10 % | 51.40 % |
| Direct return | 5.00 % | 5.00 % | 7.70 % | 4.40 % | 4.40 % |
| P/E | 10.2 | 8.3 | 5.9 | 10.6 | 11.6 |

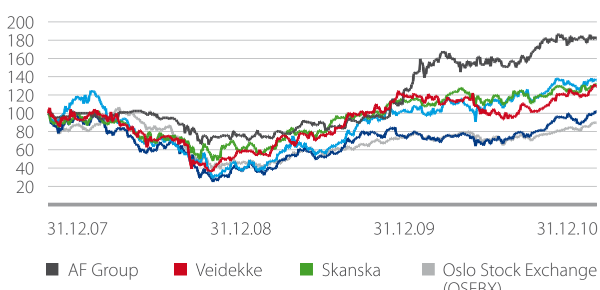
* Based on ordinary dividend

## Financial calendar 2011

| | |
|---|---|
| 13 May 2011 | Presentation of results for first quarter of 2011 |
| 13 May 2011 | Annual General Meeting of AF Gruppen ASA |
| 26 August 2011 | Presentation of results for second quarter of 2011 |
| 11 November 2011 | Presentation of results for third quarter of 2011 |

The Company reserves the right to amend these dates.

### Share price over last three years compared with competing contracting companies and Oslo Stock Exchange




31 December 2007 = 100 Local currency, total return

## Option scheme for employees

The AF Group adopted an option scheme for all the employees in the Group at the Extraordinary General Meeting in January 2008. The option scheme provided an opportunity to subscribe for options to purchase shares in the Company in each of the three years from 2008 to 2010.

The purpose of the scheme was to encourage long-term commitment and greater involvement in the Company's activities. The purchase price of the shares was based on market value as at 31 December of the previous year, with, however a minimum price of NOK 27.00. The option premium was NOK 0.60 per option. Staff had to be employed by the AF Group, or one of its subsidiaries, as at 31 December 2010 in order to exercise the options.

In 2010 AF issued 2,751,250 options and 644 employees subscribed for options in the Group.

A total of 5,163,750 options were exercised on 15 February 2011, and a corresponding number of shares was issued. The number of outstanding non-exercised options in the AF Group after this is 0. The total number of shares after the issue is 76,281,690.

## 10 largest shareholders as at 31 December 2010

| Shareholder | Number of shares | % of total |
|---|---|---|
| KB Gruppen Kongsvinger AS | 23,295,235 | 32.76 % |
| Obos Forretningsbygg AS | 20,466,730 | 28.78 % |
| Aspelin Ramm Gruppen AS | 4,092,040 | 5.75 % |
| LJM AS | 2,513,900 | 3.53 % |
| Moger Invest AS | 2,064,621 | 2.90 % |
| Skogheim, Arne | 1,704,720 | 2.40 % |
| Staavi, Bjørn | 1,471,860 | 2.07 % |
| Evensen, Jon Erik | 710,000 | 1.00 % |
| Holstad Invest AS | 691,560 | 0.97 % |
| Midtskog, Morten | 650,000 | 0.91 % |
| **Total 10 largest** | **57,660,666** | **81.08 %** |
| Total other shareholders | 13,007,274 | 18.29 % |
| Treasury shares | 450,000 | 0.63 % |
| **Total number of shares** | **71,117,940** | **100.00 %** |

## Dividend

Over time the AF Group shall give its shareholders a competitive return on the Company's shares. Provided that the underlying development of the AF Group is satisfactory, the Company assumes that dividends will be stable and, preferably, rise in the future.
For the 2010 financial year, the Board proposes to pay a dividend of NOK 4.50 (1.60) per share. Of this, NOK 2.50 is extraordinary dividend. The dividends will be paid to shareholders who are registered on 20 May 2011.

## Investor relations

The AF Group's objective is for all investors and other stakeholders to have access to the same financial information about the Company at any given time.

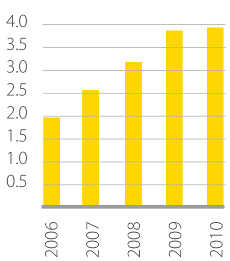
The information provided by the AF Group should ensure that the valuation of the share is as correct as possible. Information that may affect the price of the shares will be disclosed through stock exchange announcements to the Oslo Stock Exchange and on the Company's website. The AF Group assigns high priority to contact with the stock market, and it desires an open dialogue with the players.

The AF Group holds public presentations for its quarterly and annual results. The presentations are transmitted directly via the Internet and are available on the Oslo Stock Exchange's website and AF's own website. In addition, the Company maintains ongoing contact with investors and analysts. The Company's website provides a list of the analysts that follow the AF share.

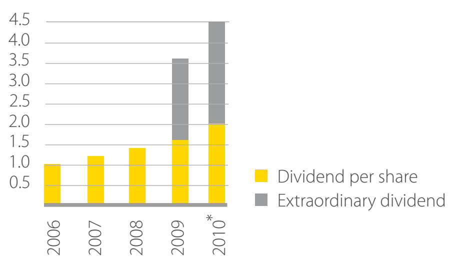
The Company provides information in Norwegian and English, and it qualifies for the Information Symbol (i) and Liquidity Provider (l) on the Oslo Stock Exchange.

Sverre Hærem, Executive Vice President/CFO, is responsible for investor relations.

### Earnings per share




### Dividend per share




* Proposed dividend

**www.afgruppen.no/investor**

# Board of Directors' report

## Operations

The AF Group is a leading contracting and industrial group with five business areas: Civil Engineering, Building, Property, Environment and Energy.

Ever since it was established in 1985, the AF Group has relied on its strength and ability to perform complex tasks. A strong entrepreneurial spirit and ability and willingness to think differently and into the future have characterised the Group's history. We help our customers succeed by delivering projects and services in accordance with their needs at the agreed cost. Our conduct is to be characterised by professionalism and high ethical standards.

AF Gruppen ASA, the Group's Parent Company, is listed on Oslo Stock Exchange. The head office of the AF Group is located in Oslo.

### Vision

Clearing up the past, building for the future.

### Mission

The AF Group is an industrial group delivering value by clearing up the past and building for the future through contracting, energy and environmental services. The Group has an uncompromising attitude towards safety and ethics. The mission highlights the AF Group's intention to develop its contracting operations within civil engineering, building and property, while increasing its commitment to energy-related and environmental services. The Group's mission is supported by the operative organisation model and the Civil Engineering, Building, Property, Environment and Energy business areas.

### Civil Engineering

AF is a turnkey supplier of civil engineering services in Norway. In Sweden, Civil Engineering carries out foundation services in the Stockholm area. For 25 years, Civil Engineering has built up the experience and expertise required to carry everything from small and simple to large and demanding construction projects. Customers include both public sector agencies and large industrial companies. Civil Engineering has state-of-the-art expertise in the market areas of oil, energy, underground construction, infrastructure and harbours.

### Building

Building performs all types of building work for private and public clients. The business area includes the development, engineering and building of commercial, residential and public buildings, as well as rehabilitation projects. Building has a solid local base with a strong market position in Oslo and the central Eastern Norway region, as well as Kristiansand. In addition, AF has building activities in Gothenburg, Sweden.

### Property

The business area acquires land and develops residential and commercial property for its own account in areas where the AF Group is engaged in contracting operations. Property development is often carried out in cooperation with partners to spread project risk and benefit from each other's expertise.

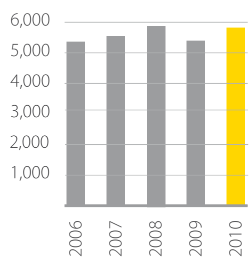
### Environment

Activities in the Environment business area include offshore and onshore demolition, recycling and environmental clean-up. Environment is Norway's leading demolition contractor for buildings, plants and installations, as well as demolition in connection with rehabilitation jobs. Environment also has land-based demolition operations in Sweden and Poland. Environment's offshore operation removes and recycles decommissioned petroleum installations in the North Sea (EPRD - Engineering, Preparation, Removal and Disposal). Operations have been established in Norway and the UK. The work is performed offshore or at the Environmental Base at Vats outside Haugesund.

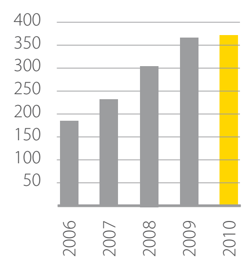
### Energy

The Energy business area in the AF Group offers expertise in energy efficiency and energy-related services for buildings, industry, offshore and the marine sector.
This business area offers measurable result guarantees for energy savings based on

**Revenue**
NOK million




**Earnings before tax**
NOK million



analyses and monitoring of energy flows in buildings. Energy has operations in Oslo, Skien, Bergen, Stavanger, and Trondheim, and a subsidiary has been established in China to gain a competitive advantage in procurement and logistics.

## Presentation of the annual accounts

### Introduction

The consolidated financial statements for the AF Group have been prepared in accordance with the International Financial Reporting Standards (IFRS). 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 special regulations pursuant to the Norwegian Accounting Act. The Board of Directors is of the opinion that the consolidated financial statements provide an accurate and truthful picture of the Group's financial results for 2010 and its financial position as at 31 December 2010. We confirm pursuant to Section 3-3a of the Norwegian Accounting Act that the financial statements for the Parent Company and the consolidated operations have been prepared on the basis of a going concern assumption. Figures for the previous year appear in brackets.
The Board's Corporate Governance Statement is an integral part of the Board of Directors' report. The statement is presented on page 55.

### Highlights

The AF Group posted operating and other revenues of NOK 5,828 million (5,401) in 2010. Profit before tax was NOK 372 million (366), the best annual result in the company's history. While the situation for the five business areas varies, overall the AF Group is well positioned to handle continued growth.
Earnings per share in 2010 were NOK 3.92 (3.85). The proposed divided is NOK 4.5 (1.6) per share. At the end of the year the order book stood at NOK 6,193 million (6,033). The Group's accident frequency and sickness absence rates are on a par level with the best in the industry, with an LTI rate of 1.7 (3.1) and sickness absence of 3.7 % (4.0 %).

In February 2010 a letter of intent was signed to develop an environmental base at Dales Voe, Lerwick in Shetland. The environmental base should be able to handle the anticipated increased demand for recycling large offshore installations in the British sector of the North Sea.

On 1 September 2010 the AF Group purchased all the shares of the machinery contractor Johan Rognerud AS. The nationwide company has 70 employees and state-of-the-art expertise in earth moving. The company was acquired as part of a move to capture a larger share of the infrastructure projects market. Johan Rognerud AS will continue as a wholly owned subsidiary of the AF Group and is part of the Civil Engineering business area.

The sale of 60 % of the shares in Miljøbase Vats AS was completed on 11 November 2010. The sale generated a profit of NOK 42 million in Environment and NOK 54 million in the AF Group. In connection with the sale, an extraordinary dividend of NOK 2.00 per share was paid in November.

In December 2010 the Board of the AF Group decided that the building operations of AF Bygg Glomsrød and AF Bygg Øst should be combined into one unit, AF Bygg Østfold. The merger was completed on 1 January 2011. By pooling its expertise the business unit will gain increased capacity and flexibility to take on more residential and commercial projects in Østfold and the southern part of Akershus.

During 2010, the AF Group completed and delivered several major projects:
In the spring of 2010 Helsfyr Atrium, the AF Group's new headquarters, was completed. The NOK 700 million structure is a modern office building with low energy consumption and a total area of 38,000 $m^2$. The AF Group has leased 22,000 $m^2$ of the space to its new main office.

In the autumn of 2010 the first part of Sørenga project, the eastern part, was delivered. Part of the infrastructure development in Bjørvika in Oslo, the project includes road and tunnel construction. The final amount of the contract is NOK 1,350 million.

Other major projects completed in 2010 include the NOK 310 million Park Inn airport hotel at Gardermoen and the NOK 260 million office building at Hoffsveien 4 in Skøyen in Oslo.

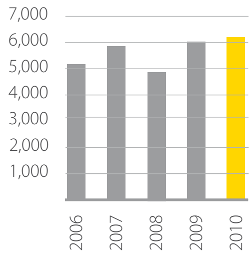
The AF Group won several competitive tenders in 2010 and the first quarter of 2011.

The largest are:

In March a contract was signed with the Public Roads Administration for the expansion of E6 Øyer – Tretten in Oppland County. Work started in April and includes the construction of a 4 km tunnel and 10 km of open road. The work includes tunnel work, blasting, earth moving and road construction. The value of the contract is NOK 680 million excl. VAT. The work will be completed in the first half of 2013.

In June an agreement was signed with the Municipal Undertaking for Educational

**Order book**
NOK million



Buildings and Property in Oslo for new construction and renovation of Kjelsås School in Oslo. The work includes demolition of portions of existing buildings, construction of new school building and renovation of existing buildings. The work started in October and the school will be completed in the summer 2012. The value of this contract is NOK 188 million, excl. VAT.

In September an agreement was signed with OBOS to build apartments and commercial space in Kværnerbyen in Oslo. The agreement includes construction of 264 apartments, 309 parking spaces, a shop and smaller commercial premises. The project will be carried out as a turnkey contract and is valued at NOK 381 million, excl. VAT. Construction started in February 2011.

In November, AF was chosen by the City of Oslo as the contractor for the construction of the Vettakollen Elevated Basin to safeguard the supply of water in parts of Oslo. The client is the City of Oslo. The work includes construction of the elevated basin, tunnel and piping to the basin. Value of the contract is NOK 157 million, excl. VAT. Commencement is planned for the first half of 2011 with a building period of 2.5 years.

In November an agreement was signed with Idun Industri Eiendom AS to build apartments in Sandaker in Oslo. The new agreement is for the construction of 98 new apartments in three buildings. The project will be carried out as a turnkey contract and is valued at NOK 158 million, excl. VAT. Construction commenced in January 2011 and work will continue until November 2012.

In December, AF signed an agreement with Kirkeveien 71 AS to build 85 apartments at Haslum in Bærum. One building will be renovated and converted from an office building to housing and the other building will be an adjoining new building. The project will be carried out as a turnkey contract and is valued at NOK 130 million, excl. VAT. Construction will start in April 2011.
The AF Group has signed contracts for several large projects since the end of the financial year:

In January 2011 the Building business area entered into an agreement with Sørenga Utvikling for the construction of apartments and commercial space for Sørenga Building Phase 3. The agreement includes construction of 127 apartments, the framework for a day care centre and commercial space. The project will be carried out as a turnkey contract and is valued at NOK 230 million, excl. VAT. Construction began in March 2011, with delivery expected in the 4th quarter of 2012.

In February 2011, an agreement was entered into with Stovner Utvikling KS for the construction of apartments and commercial space. The project includes construction of 128 apartments in four buildings and 2,000 $m^2$ of commercial space. A turnkey project, the contract is valued at NOK 205 million. Construction started in February 2011 with completion the 1st quarter of 2013. The AF Group has a 33 % stake in Stovner Utvikling KS.

In February 2011 an agreement was signed with Sandakerveien 99B KS to build 145 apartments at Sandaker in Oslo. The agreement includes construction of 145 apartments, a day care centre and parking basement. The project will be carried out as a turnkey contract and is valued at NOK 240 million, excl. VAT. Construction will start in April 2011 and will continue until September 2013.

In February 2011, Building entered into an agreement with Østre Aker Vei 90 AS for the construction of a new energy-efficient headquarters for Siemens Norway at Linderud in Oslo. The agreement includes construction of 25,000 $m^2$ of office space in two buildings. The project will be carried out as a turnkey contract and is valued at NOK 264 million, excl. VAT. An option agreement was signed for the construction of three additional buildings.

In March 2011 Civil Engineering signed a contract with the Public Roads Administration for the development of the Ringway West project in Bergen. Ringway West includes a new four-lane motorway between Flyplassvegen (airport road) and Liavatnet in Bergen. The work includes construction of two tunnels and connection to existing roads. The value of the contract is NOK 821 million, excl. VAT. Work started in March 2011 and will be completed in April 2015.

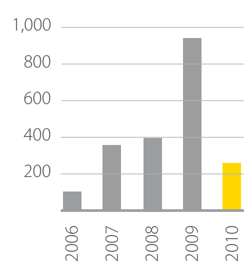
**Income statement**
Revenues for 2010 amounted to NOK 5,828 million (5,401) and the operating profit was NOK 366 million (335). This is equivalent to an operating margin of 6.3 % (6.2 %). EBITDA was NOK 463 million (417), and profit before tax was NOK 372 million (366).

The net profit for 2010 was NOK 277 million (270), which corresponds to earnings per share of NOK 3.92 (3.85).

**Balance sheet and liquidity**
The balance sheet total at 31 December 2010 was NOK 3,013 million (3,059). As at 31 December 2010, the Group had net interest-bearing receivables of NOK 580 million (185). Cash and cash equivalents amounted to NOK 623 million (223) as at 31 December 2010. Shareholders' equity at the end of the year was NOK 968 million (915), which corresponds to an equity ratio of 32.1 % (29.9 %).

**Cash flow**
Net cash flow from operating activities in 2010 was NOK 260 million (941). Net cash

**Cash flow from operating activities**
NOK million



used in investing activities was NOK -1 million (-364). The cash consideration from the sale of 60 % of the shares of the Environmental Base at Vats is included in net cash flow from investing activities. Other cash flows are used for the payment of dividends and repayment of debt.

**Risk management and financial risk**
The AF Group is exposed to various types of market-related, operational and financial risks. A substantial portion of the Group's balance sheet consists of assets and liabilities associated with ongoing projects. Some of the items are subject to estimate uncertainty, and for these items the Corporate Management Team and project managers have exercised judgment and made assumptions based on uniform principles and guidelines. These assumptions are considered realistic.

In many cases, situations or changes in market conditions may arise during a project period, and they may entail changes to the estimates and thus affect the company's assets, liabilities, equity, and earnings. The Group has systems and meticulous routines for analysing and managing risk. Risk analyses are done continuously from the tender assessment until the completed project. The risk management systems are embedded throughout the organisation, from the projects via the management of the business units to the Corporate Management Team and the Board of Directors of AF Gruppen ASA. The purpose of risk management is to limit undesirable financial and production-related consequences through corrective action. At the same time, the focus is to exploit positive opportunities manifested through the risk analyses of the projects.

Through its activities, the AF Group is exposed to various types of financial risk. Financial risks are divided into market risk, credit risk and liquidity risk. The AF Group's reporting currency is NOK. The Group has 90 % of its revenue and expenses in NOK, 8 % in SEK and 2 % in other currencies. The Group's currency risk is therefore limited and primarily related to changes in the exchange rate between NOK and SEK. In connection with contracts and the start-up of operations in the UK, the AF Group is also exposed to fluctuations of the GBP, EUR and USD. The Group hedges against foreign exchange exposure by using forward contracts for currency. Forward contracts for scrap steel are used to limit the price risk for scrap steel from demolition activities in the North Sea. The Group continuously seeks to limit price risk. This is done by standard clauses for price and pay adjustments in the contracts and hedging purchase prices in local currency by entering into framework agreements for the procurement of goods and services.

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.

Based on the Group's strong financial position at 31 December 2010 the liquidity risk is low. The AF Group has a three-year, NOK 900 million (900) credit facility and credit limit with Handelsbanken, which expires in June 2012. As at 31 December this facility was unutilised. In addition, AF had net interest-bearing receivables of NOK 580 million (185) at the turn of the year. The Group's liquidity is monitored through follow-up of the cash flows of the projects. Differences between anticipated and actual cash flows are reviewed monthly in conjunction with a risk review of the projects. In addition, daily liquidity is monitored by the Group's central finance function.

**Distribution of profit for the year**
The net profit for the year for AF Gruppen ASA was NOK 409 million and the following distribution is proposed:

| | |
|---|---|
| Transferred to other equity | NOK 66 million |
| Provision for dividend | NOK 343 million |
| Total distributed | NOK 409 million |

As at 31 December 2010, the Group's distributable equity was NOK 45 million after allocations as a result of the proposed, but not yet adopted dividend.

**Return, share and dividend**
The return on average capital employed was 36.0 % (35.7 %) in 2010. Earnings per share were NOK 3.92 (3.85) and the proposed dividend per share is NOK 4.5 (NOK 1.6). The share price on 31 December 2010 was NOK 40.0.

## Business areas
### Civil Engineering

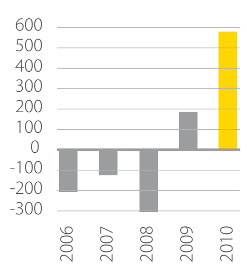
| NOK million | 2010 | 2009 | 2008 |
|---|---|---|---|
| Revenue | 2,158 | 1,768 | 2,044 |
| Operating profit (EBIT) | 194 | 82 | 130 |
| Earnings before taxes (EBT) | 198 | 105 | 122 |
| EBIT % | 9.0 % | 4.6 % | 6.4 % |
| EBT % | 9.2 % | 5.9 % | 5.9 % |
| Order backlog | 1,899 | 2,175 | 888 |

The Civil Engineering business area comprises AF's construction activities in Norway and Sweden. Civil Engineering operations comprise three business units:

- AF Anlegg
- AF Offshore & Civil Construction
- Pålplintar i Sverige AB

**Highlights**
Revenues for 2010 were NOK 2,158 million (1,768). Profit before tax was NOK 198 million (105), The operating margin for 2010 was

**Net interest bearing receivables (debt)**
NOK million



9.0 % (4.6 %). CIvil Engineering reported its highest level of activity and earnings ever in 2010.

Civil Engineering scored many good contracts in 2010. In March, AF Anlegg signed a contract with the Public Roads Administration for the development of E6 Øyer – Tretten in Oppland County. Work started in April and includes the construction of a 4 km tunnel and 10 km of open road. The NOK 680 million contract includes tunnel work, blasting, earth moving and road construction. The contract is worth NOK 680 million. The work will be completed in the first half of 2013.

In November, AF Anlegg was chosen by the City of Oslo as the contractor for the construction of the Vettakollen Elevated Basin. The facility is being built to ensure water supplies in parts of Oslo. The work comprises the construction of an elevated basin and tunnel and piping to the basin. The contract has a value of NOK 157 million, excl. VAT. Commencement is planned for the first half of 2011 with a building period of 2.5 years.

After the end of the financial year, AF Anlegg signed a contract in March 2011 with the Public Roads Administration for the development of Ringway West Stage II in Bergen. Ringway West includes a new four-lane motorway between Flyplassvegen (airport road) and Liavatnet in Bergen. The work includes construction of two tunnels between Sandeide and Liavatnet and connection to existing roads. The value of the contract is NOK 821 million, excl. VAT. Construction started in March 2011 with completion scheduled for the first half of 2015.

On 1 September 2010 the AF Group purchased all the shares of the machinery contractor Johan Rognerud AS. The nationwide company has 70 employees and state-of-the-art expertise in earth moving. The company was acquired as part of a move to capture a larger share of the infrastructure projects market. Johan Rognerud AS will continue as a wholly owned subsidiary of the AF Group and is part of the AF Anlegg business unit.

In February 2011, the AF Group signed a final agreement to acquire parts of the operations of Båtservice Offshore/Verft AS. The business will continue as part of the AF Group's services to the offshore market. All employees of Båtservice Offshore/Verft will be transferred in 2011 to the newly established undertaking AF Offshore Mandal. The unit will strengthen the land-based activities of AF Offshore & Civil Construction and expand the service spectrum. AF Offshore Mandal will also continue to provide services to the offshore market.

### Outlook

AF's Civil Engineering operations entered 2011 with an order backlog of NOK 1,899 million (2,175). Together with the two new projects of almost NOK 1,000 million won by Civil Engineering in 2011 the order backlog was record high in February 2011. The civil engineering market is driven primarily by major public infrastructure projects. The investment level for civil engineering is expected to remain at a high level going forward. Growth in the market is expected to be in the form of investments in railways and roads. Civil Engineering strengthened its organisation in 2010 and is well positioned for profitable growth in 2011.

## Building

| NOK million | 2010 | 2009 | 2008 |
|---|---|---|---|
| Revenue | 2,267 | 2,561 | 2,881 |
| Operating profit (EBIT) | 46 | 218 | 140 |
| Earnings before taxes (EBT) | 51 | 221 | 156 |
| EBIT % | 2.0 % | 8.5 % | 4.9 % |
| EBT % | 2.3 % | 8.6 % | 5.4 % |
| Order backlog | 3,067 | 2,324 | 2,382 |

The Building business area comprises activities related to new construction and renovation in Norway and Sweden.

Building is divided into five business units:

- AF Bygg Oslo
- AF Byggfornyelse
- AF Bygg Østfold
- AF Bygg Sør
- AF Bygg Göteborg AB, Sweden

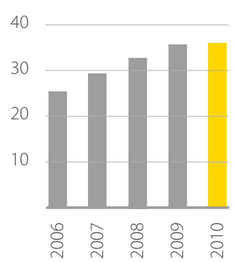
### Highlights

Revenues for 2010 were NOK 2,267 million (2,561). Profit before tax was NOK 51 million (221). The operating margin for 2010 was 2.0 % (8.5 %). Building posted a lower turnover and profits in 2010 compared with 2009. The result was strongly influenced by the result of AF Bygg Göteborg, which posted a loss before tax of NOK 84 million in 2010. Norwegian building activities are delivering good earnings and demand for services has been particularly strong.

The Building business area signed a series of new contracts in 2010. In June, AF Byggfornyelse signed an agreement with the Municipal Undertaking for Educational Buildings and Property in Oslo for new construction and renovation of Kjelsås School in Oslo. The work includes demolition of portions of existing buildings, construction of a new school building and renovation of existing buildings. The work started in October and the school will be completed in the summer of 2012. The value of this contract is NOK 188 million, excl. VAT.

In September, AF Bygg Oslo entered into an agreement with OBOS to build apartments and commercial space in Kværnerbyen in Oslo. The agreement includes construction of 264 apartments, 309 parking spaces, a shop and small commercial premises. The project will be carried out as a turnkey

**Return on capital employed**
NOK million



contract and is valued at NOK 381 million. Construction started in February 2011.

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The new agreement is for the construction of 98 new apartments in three buildings. The project will be carried out as a turnkey contract and is valued at NOK 157 million, excl. VAT. Construction commenced in January 2011 and work will continue until November 2012.

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Building has signed several major contracts since the end of the financial year:

In January 2011 AF Bygg Oslo entered into an agreement with Sørenga Utvikling for the construction of apartments and commercial space for Sørenga Building Phase 3. The agreement includes construction of 127 apartments, the framework for a day care centre and commercial space. The project will be carried out as a turnkey contract and is valued at NOK 230 million, excl. VAT. Construction began in March 2011, with delivery expected in the 4th quarter of 2012.

In February 2011 AF Bygg Oslo entered into an agreement with Stovner Utvikling KS for the construction of apartments and commercial space. The project includes construction of 128 apartments in four buildings and 2,000 m$^2$ of commercial space. A turnkey project, the contract is worth NOK 205 million excl. VAT. Construction started in February 2011 with completion the 1st quarter of 2013. The AF Group has a 33 % stake in Stovner Utvikling KS.

In February 2011 AF Bygg Oslo signed an agreement with Sandakerveien 99B KS to build 145 apartments at Sandaker in Oslo. The agreement includes 145 apartments in three buildings plus underground parking and a day care centre. The project will be carried out as a turnkey contract and is valued at NOK 240 million, excl. VAT. Planned start of construction is April 2011 and will continue until September 2013.

In February 2011, AF Bygg Oslo entered into an agreement with Østre Aker Vei 90 AS for the construction of a new energy-efficient headquarters for Siemens Norway at Linderud in Oslo. The agreement includes construction of 25,000 m$^2$ of office space in two buildings. The project will be carried out as a turnkey contract and is valued at NOK 264 million, excl. VAT. An option agreement was signed for the construction of three additional buildings.

At the end of the year the total order book stood at NOK 3,067 million (2,324).

**Outlook**
The market situation for Building gradually improved throughout the year and is expected to continue to improve in 2011. The home building market in the Oslo area is particularly good. Normalisation of the economic situation has resulted in higher housing project starts. This will have a positive effect on both the Property and Building business areas.

The market for maintenance and renovation was boosted by the Government's stimulus package, and the market is expected to remain stable at a high level going forward. The age of many public buildings and the ambitious public energy goals for buildings represents a substantial renovation potential.

The building market in Sweden is growing rapidly. Growth in the Swedish economy implies a gradual improvement in the building market. Through organisational changes, the addition of expertise and initiatives focused on project management and project implementation, AF Bygg Göteborg is also expected to achieve better results in 2011 and 2012.

## Property

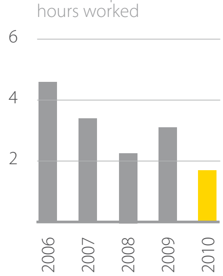
| NOK million | 2010 | 2009 | 2008 |
|---|---|---|---|
| Revenue | 134 | 51 | 102 |
| Operating profit (EBIT) | 42 | -10 | -33 |
| Earnings before taxes (EBT) | 35 | -15 | -45 |
| EBIT % | 31.2 % | -19.1 % | -32.6 % |
| EBT % | 25.8 % | -29.1 % | -43.6 % |
| ROaCE | 14.6 % | -3.6 % | -11.6 % |

The Property business area comprises the development of residential housing units and office buildings for own account in the Eastern Norway region.

**Highlights**
Operating revenue for 2010 was NOK 134 million (52) and profit before tax was NOK 35 million (-15). Return on capital employed was 14.6 % (-3.6 %). The housing market in 2010 rebounded from a low level in 2009. In 2010, 30 housing units completed at the end of 2009 were sold.

The sale of the Rolvsrud Park Q and R and Grefsenkollveien projects has commenced. The projects sold a total of 89 apartments in 2010. AF's share of the apartments sold is

**Accident frequency rate**
Incidents per million hours worked



34. AF's share of unsold apartments in these projects is 10. Since these development projects are organised as associate companies in the AF Group, these projects are not included in the order backlog.

2010 also saw the initiation of the sale of the Fossumhagen, Lillohagen and Blomsterstykket projects numbering 131 residential housing units. 65 residential housing units had been sold by the end of the year. After the end of the year, AF Eiendom, through Stovner Utvikling KS, of which AF owns 33 % of the shares, decided to commence construction of Fossumhagen. This is expected to be completed in 2013.

### Outlook

Brisk housing sales are expected to continue in 2011. The economy is growing at a healthy pace and interest rates are expected to remain low. AF Eiendom is well positioned to increase sales in the housing segment.

### Environment

| NOK million | 2010 | 2009 | 2008 |
|---|---|---|---|
| Revenue | 767 | 743 | 667 |
| Operating profit (EBIT) | 107 | 46 | 56 |
| Earnings before taxes (EBT) | 90 | 43 | 54 |
| EBIT % | 14.0 % | 6.2 % | 8.4 % |
| EBT % | 11.7 % | 5.8 % | 8.1 % |
| Order backlog | 892 | 1,070 | 1,285 |

The Environment business area encompasses the AF Group's environmental services related to demolition and recycling services offshore and onshore. The business area has activities in Norway, Sweden, Poland and the UK. Land-based demolition is carried out in Norway, Sweden and Poland, while offshore demolition and recycling are aimed at the market in the North Sea. Environment is a leader in Scandinavia in the removal, demolition and environmental clean-up of buildings, industrial plants and offshore installations. The business area comprises the following business units:

- AF Decom Offshore (Norway and the UK)
- AF Decom

In addition, Environment also has activities in the subsidiaries AF Decom Sweden, AF Decom Poland, Palmer Gotheim Skiferbrudd, BA Gjenvinning and the associated companies Miljøbase Vats and Vici Ventus Technology.

### Highlights

Revenues for 2010 amounted to NOK 767 million (743) and earnings before tax amounted to NOK 90 million (43). The operating margin for 2010 was 14.0 % (6.2 %). In November 2010, 60 % of the shares in Miljøbase Vats AS were sold. The sale generated capital gains of NOK 42 million in Environment.

AF Decom has a high level of activity and is performing well in line with the improved building market. AF Decom has been making preparations since the summer of 2009 for the demolition and dismantling of the wreck of the Russian cruiser, the "Murmansk". The AF method involves demolishing the wreck in a dock that is protected by jetties. The onshore demolition market is showing a positive trend in line with stepped up building activity.

AF Decom Offshore is performing well at the Environmental Base at Vats and received five platforms for demolition and recycling during the year. AF Decom Offshore AS signed a 15-year lease for the environmental base in conjunction with the sale of the shares of Miljøbase Vats AS. In February 2010 AF Decom Offshore UK signed a letter of intent to develop an environmental base at Dales Voe, Lerwick in Shetland. The environmental base should be able to handle the anticipated increased demand for recycling large offshore installations in the British sector of the North Sea.

In January 2011 Vici Ventus Technology AS signed an agreement with Vestavind Offshore to develop solutions for offshore wind turbines at Norway's first full-scale wind farm, Havsul at Møre. Havsul I will be able to produce energy equivalent to the annual consumption of 50,000 households. It will thus make a significant contribution to Norwegian wind power production and alleviate some of the strain on the power situation in Middle Norway. The total order backlog for the Environment business area at 31 December 2010 was NOK 892 million (1,070).

### Outlook

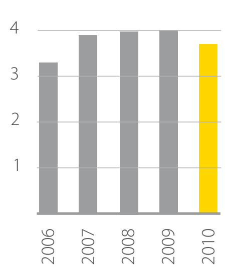
The future market for AF's offshore-related environment services is considered to be large and interesting. The level of activity for new demolition projects is increasing. Several FEED (Front End Engineering Design) studies have been initiated and there is an increasing supply of projects. AF's land-based activities are closely related to the demand for new housing, non-residential buildings and industrial projects, and the level of activity in the market is expected to remain high going forward.

### Energy

| NOK million | 2010 | 2009 | 2008 |
|---|---|---|---|
| Revenue | 564 | 598 | 542 |
| Operating profit (EBIT) | -15 | 21 | 48 |
| Earnings before taxes (EBT) | -21 | 16 | 46 |
| EBIT % | -2.6 % | 3.5 % | 8.8 % |
| EBT % | -3.7 % | 2.6 % | 8.5 % |
| Order backlog | 299 | 463 | 556 |

**Total sick leave**

Per cent



The Energy business area comprises the AF Group's energy services for land-based activities, offshore installations and the maritime industry. The business area comprises three business units:

- AF Energi og Miljøteknikkk AS (AF EMT)
- Mollier AS
- Aeron AS

**Highlights**
Revenues in 2010 were NOK 564 million (598). Profit before tax was NOK -21 million (16). The operating margin for 2010 was -2.6 % (3.5 %). Energy's result was impacted by a loss before tax of NOK 22 million for AF EMT.

AF EMT wound up all of its activities related to purely technical contracting and will concentrate in the future on its core activities of energy conservation and energy-related services. After the end of the year, AF EMT signed a contract with Avinor to plan and implement energy conservation measures at 9 airports. The contract is based on energy conservation contracts designed for public procurements.

Mollier had a low level of activity in 2010. Towards the end of 2010, the company saw increasing activity and an improvement in operations. In March 2010, Mollier signed a two-year agreement with ConocoPhillips for HVAC work on the Ekofisk field in the North Sea. Aeron performed well in 2010, but demanding market conditions have resulted in a low level of activity. The market is showing signs of more contracting in the Norwegian shipping industry.

The total order backlog in Energy at 31 December 2010 was NOK 299 million (463).

**Outlook**
In the Energy business area, mandatory energy labelling of houses was introduced from 1 July 2010. In addition, the public sector has increased its focus on the lifetime costs of buildings and energy efficiency of existing buildings. For 2011, an improved market is expected as a result of higher energy prices and a gradual increase of investments in energy conservation. In the longer term, the market is expected to offer great growth potential.

## Information on environment

**Personnel and organisation**
At the end of 2010 there were 1,933 (1,974) employees in the Group, 972 (977) of whom were salaried and 961 (997) were paid by the hour. The recruitment and supply of new employees was satisfactory in 2010. The Parent Company, AF Gruppen ASA, had no employees at the end of 2010.

Of the Group's employees, 8.5 % (8.5 %) are women and 91.5 % (91.5 %) 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 men and women than in the Group as a whole. The percentage of women among salaried staff was 15.4% (15.5%) at the end of 2010.

In December 2009 the AF Group conducted an employee satisfaction survey showing a higher level of satisfaction among AF employees than the average in the industry.

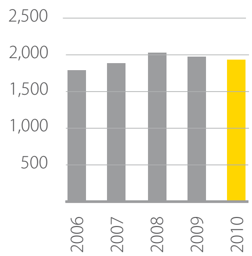
In 2010 the Group Council, which is made up of employee representatives, senior safety representatives and management representatives, continued its work on improving cooperation between all parts of the organisation.

The AF Group 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. The AF Group 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. The Code of Conduct is the AF Group's rule book. When they are hired, all employees in the AF Group must sign off that they have received the Code of Conduct and that they undertake to comply with it. In line with the Discrimination Act, the object of the Code of Conduct is to promote equality, ensure equal opportunities and rights, and prevent discrimination on the grounds of ethnicity, nationality, heritage, skin colour, language, religion or beliefs. In 2010 the AF Group moved into new quarters. All joint facilities in the new main office are designed so that they can be used by all employees, including those with disabilities. Individual adaptation of the workplace is otherwise done to the extent possible based on the nature of the work.

**Health, safety and the environment**
The AF Group assumes that all activities should be planned and carried out based on a fundamental understanding and acceptance that all personal injuries and damage to equipment and the external environment can be avoided.

The company employs analysis tools in its preventive work to identify risk associated with future activities and define and initiate risk-reducing measures. The reporting, investigation and analysis of hazardous conditions, near misses and accidents are regarded as tools for improvement. The investigation and analysis focus on identifying the underlying causes so that the organisation and management can be improved. The Corporate Management Team is involved in the investigation of all accidents that result in a lost

Number of employees



time injury, while the management of the business unit concerned is involved in all investigations of incidents that have the potential to cause serious injury. The safety of each project is principally measured through registration of injuries. The registration of injuries provides the basis for calculating the LTI (loss time injury) rate. The LTI rate is defined as the number of lost time injuries per million man-hours and includes all employees and sub-contractors. The overall goal is to avoid all lost time injuries.

In 2010, the LTI rate for the company's Norwegian business was the lowest ever and among the lowest in the industry. The LTI rate in 2010 was 1.7 (3.1). 2010 had a total of 8 (14) lost time injuries, of which 4 (11) occurred at sub-contractors.

Lost time injuries included five hairline fractures or fractures, an amputation of a finger, a sprain and a corneal inflammation. AF's activities in Sweden had 6 (6) lost time injuries. The operations in Poland did not have any lost time injuries.

Absence due to illness in Norwegian operations was 3.7 % (4.0 %) in 2010. AF's activities in Sweden had a sickness absence rate of 3.3 % (3.5 %) and in Poland, sickness absence was 3.0 % (0.9 %). The company's goal for sickness absence is to prevent work-related illness. The goal is a sickness absence rate under 3.0 %. The goal represents a normal sickness rate, without work-related illness. AF has great ambitions to eliminate work-related illness. To achieve this AF is surveying which work-related illnesses affect sickness absence. The survey shows that measures to combat musculoskeletal disorders will help to reduce sickness absence further. As part of the company's HSE improvement efforts, sickness absence committees have been established in all business units. AF has a well-functioning internal occupational health service, and the Group's working environment can be described as good.

The Group uses control systems that comply with the Norwegian Working Environment Act, the Regulations relating to Systematic Health, Safety and Environment Work in Enterprises (Internal Control Regulations) and the Regulations relating to Safety, Health and Working Environment on Construction Sites (Construction Client Regulations).

**External environment**

The Group is engaged in operations that can affect the external environment in the form of noise, dust, vibrations, discharges and other means of pollution. Its activities may also entail encroachments on and changes to the landscape and nature. The Group aims to carry out its activities in a manner that reduces its impact on resources and the environment to a level well within what is required by the authorities and clients.

The Group's management systems and work methods are designed to safeguard the interests of the environment. The goal is to prevent, avert and reduce undesirable impacts on the environment. Each AF business unit must follow the principles of ISO 14001, the international standard for environmental management. This will be done by identifying and monitoring the main environmental impacts represented by the various business units. In 2010, 18 (10) incidents with an undesirable impact on the external environment were reported. Most of the events concern minor oil and diesel spills from machinery. AF systematically investigates all undesired incidents and is facilitating working methods and control procedures to prevent recurrence and damage to the external environment.

Two new measurement parameters, carbon footprint and source separation rate, were introduced in 2010 to enhance environmental awareness and to measure the impact of our operations on the external environment. Measuring our carbon footprint will map and measure the emission of greenhouse gases in tonnes of $CO_2$ equivalents. The purpose of the measurements is to inspire environmentally friendly resource consumption. The Group's carbon footprint for 2010 was measured at 22,730 tonnes of $CO_2$ equivalents. This is equivalent to 3.9 tonnes per NOK million of revenue. Measuring the source separation rate was introduced to improve the handling of waste from our operations. The source separation rate indicates how much of the waste is sorted and can be recycled. The source separation rate for the Group will be measured from 2011. Measurements from the last half of 2010 indicate a source separation rate of 80 % for building, 78 % for renovation and 95 % for demolition.

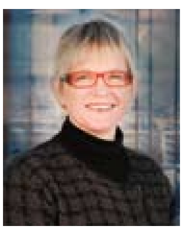
Measuring and monitoring carbon footprint and source separation rate targets will help

# The Board of Directors

**Oslo, 31 March 2011**

**Chairman**
**Tore Thorstensen**

**Eli Arnstad**



**Mari Broman**

**Carl Henrik Eriksen**

manifest AF's environmental profile and the company's business involvement in the demolition, recycling and development of environmentally friendly energy solutions.

## Other factors

**Acquisition of treasury shares**

In 2010 AF Gruppen ASA purchased treasury shares for potential use as consideration for acquisitions of companies and for sales to employees. AF Gruppen ASA purchased 692,055 shares during the year. Of these, 492,100 shares have been sold to employees. At the end of the year, AF Gruppen ASA held 450,000 treasury shares.

## Outlook

The results of AF Gruppen ASA and the AF Group for 2010 were in accordance with the Board's expectations. The positive trend is expected to continue in 2011. At the end of the year, the Group had a solid order backlog of NOK 6,193 million and anticipates that the earnings on new and ongoing projects will be good.

The AF Group operates in an industry where there is normally uncertainty connected with assessments of future factors.

The investment level for civil engineering is expected to remain at a high level going forward. Growth in the market is expected to come particularly from investments in railways and roads.

The market situation within Building gradually improved in 2010. Normalisation of the economic situation has resulted in higher housing project starts. This will have a positive effect on both the Building and Property business areas. The market for maintenance and renovation was boosted by the Government's stimulus package, and the market is expected to remain stable at a high level in the future. In Sweden the rapid growth of the economy is expected to lead to a gradual improvement in the building market. Through organisational changes, the addition of expertise and initiatives focused on project management and project implementation, AF Bygg Göteborg is also expected to achieve better results in 2011.

Several housing projects were commenced in Property in 2010. The economy is growing at a good pace, prices of existing homes are record-high and interest rates are expected to remain low. This indicates that the brisk sales of homes will continue in 2011.

In Environment, the market for AF's offshore-related environmental services is considered to be large. The level of activity for new demolition projects is increasing. Several FEED (Front End Engineering Design) studies have been initiated and there is an increasing supply of projects.

Environment's land-based operations are advance activities for the building and construction industry. Business is therefore closely related to the demand for new housing, non-residential buildings and industrial projects, and the level of activity in the market is expected to be high going forward.

In the Energy business area, mandatory energy labelling of houses was introduced from 1 July 2010. In addition, the public sector has increased its focus on the lifetime costs of buildings and energy efficiency of existing buildings. For 2011, an improved market is expected as a result of higher energy prices and a gradual increase of investments in energy conservation. In the long term, the market is expected to offer growth potential.

The record-high order backlog, together with an improved market situation is laying the foundation for revenue growth in 2011. By guiding the organisation towards challenging tasks and goals, the AF Group will continue to create value growth for our owners, employees, customers, suppliers and society. AF Group has a high level of expertise and a strong corporate culture founded on professionalism and high ethical standards. This, together with the Company's strong financial situation means that AF is well equipped to handle the opportunities the market offers in 2011.

The Board would like to thank the employees for their significant contribution to the good result in 2010. The Board believes 2011 will also bring increased revenues and a good profit.

**Peter Groth**

**Tor Olsen**

**Henrik Nilsson**

Henrik Nilsson

**Arne Sveen**

Arne Sveen

# Annual accounts AF Group

# Consolidated statement of comprehensive income

| | | 1 January to 31 December | | |
|---|---|---|---|---|
| Amounts in NOK million | **Note** | **2010** | **2009** | **2008** |
| Operating revenue | 3, 4 | 5,751 | 5,314 | 5,880 |
| Other revenue | 3, 4 | 77 | 87 | 37 |
| **Total operating and other revenue** | 3, 4 | **5,828** | **5,401** | **5,916** |
| | | | | |
| Cost of materials | | -817 | -884 | -1,028 |
| Subcontractors | | -2,428 | -2,100 | -2,408 |
| Payroll costs | 5 | -1,511 | -1,412 | -1,440 |
| Depreciation and impairment of property, plant and equipment | 12 | -87 | -75 | -74 |
| Amortisation and impairment of intangible assets | 13 | -10 | -8 | -14 |
| Other operating expenses | 6 | -671 | -604 | -620 |
| Net gains (losses) | 7 | 62 | 17 | - |
| Profit (loss) from investments in associates | 17 | -1 | - | -4 |
| **Total operating expenses** | | **-5,462** | **-5,067** | **-5,588** |
| | | | | |
| **Earnings before interest and taxes (EBIT)** | | **366** | **335** | **328** |
| | | | | |
| Net financial items | 8 | 6 | 32 | -21 |
| **Earnings before taxes (EBT)** | | **372** | **366** | **308** |
| | | | | |
| Tax expense | 9 | -95 | -96 | -88 |
| **Profit for the year** | | **277** | **270** | **219** |
| | | | | |
| Attributable to: | | | | |
| Shareholders in the Parent Company | | 277 | 269 | 218 |
| Non-controlling interests | | - | 1 | 1 |
| **Total** | | **277** | **270** | **219** |
| | | | | |
| Earnings per share (amounts in whole NOK) | 11 | 3,92 | 3,85 | 3,16 |
| Diluted earnings per share (amounts in whole NOK) | 11 | 3,82 | 3,85 | 3,16 |

| **Statement of comprehensive income** | | | | |
|---|---|---|---|---|
| Amounts in NOK million | | **2010** | **2009** | **2008** |
| Profit for the year | | 277 | 270 | 219 |
| | | | | |
| Translation differences | | 10 | -19 | 11 |
| **Total other comprehensive income** | | **10** | **-19** | **11** |
| | | | | |
| **Total comprehensive income for the year** | | **287** | **251** | **231** |
| | | | | |
| Attributable to: | | | | |
| - Shareholders in the Parent Company | | 287 | 251 | 229 |
| - Non-controlling interests | | - | 1 | 1 |
| **Total comprehensive income for the year** | | **287** | **251** | **231** |

# Consolidated balance sheet as at 31 December

| Amounts in NOK million | Note | 2010 | 2009 | 2008 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Non-current assets** | | | | |
| Buildings and prod. facilities | 12,35 | 46 | 562 | 258 |
| Machinery and equipment | 12,35 | 262 | 186 | 205 |
| Intangible assets | 13 | 467 | 458 | 475 |
| Investments in associates | 17 | 126 | 27 | 31 |
| Deferred tax assets | 10 | 39 | - | 15 |
| Retirement benefit plan assets | 25 | 15 | 14 | 10 |
| Available-for-sale financial assets | 30 | 1 | 1 | - |
| Interest-bearing receivables | 30,31 | 23 | 44 | 23 |
| Other receivables | 30 | 1 | 1 | 8 |
| **Total non-current assets** | | **979** | **1,294** | **1,025** |
| | | | | |
| **Current assets** | | | | |
| Inventories | 18 | 93 | 76 | 99 |
| Projects for own account | 19,35 | 207 | 257 | 377 |
| Trade and other non-interest-bearing receivables | 21,30,35 | 1,103 | 1,187 | 1,549 |
| Interest-bearing receivables | 30,31 | 6 | 12 | 12 |
| Financial assets at fair value through profit or loss | 30 | 2 | 3 | 1 |
| Financial derivatives | 30 | 1 | 7 | - |
| Cash and cash equivalents | 22,30,31 | 622 | 223 | 130 |
| **Total current assets** | | **2,034** | **1,765** | **2,168** |
| | | | | |
| **Total assets** | | **3,013** | **3,059** | **3,194** |

# Consolidated balance sheet as at 31 December

| Amounts in NOK million | Note | 2010 | 2009 | 2008 |
|---|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | | |
| **Equity** | | | | |
| Share capital | 22,23 | 4 | 4 | 3 |
| Other equity | 23,24 | 963 | 911 | 775 |
| **Total equity attributable to the Company's shareholders** | | **967** | **915** | **778** |
| | | | | |
| Non-controlling interests | | 1 | - | -38 |
| **Total equity** | | **968** | **915** | **741** |
| | | | | |
| **Non-current liabilities** | | | | |
| Interest-bearing loans and credits | 26,30,31 | 49 | 22 | 110 |
| Retirement benefit liabilities | 25 | 1 | 1 | 2 |
| Provisions | 28 | 11 | - | 3 |
| Deferred tax | 10 | 302 | 276 | 205 |
| **Total non-current liabilities** | | **363** | **299** | **320** |
| | | | | |
| **Current liabilities** | | | | |
| Interest-bearing loans and credits | 26,30,31 | 23 | 73 | 352 |
| Trade payables and non-interest-bearing debt | 29,30 | 1,488 | 1,715 | 1,725 |
| Financial derivatives | 30 | 7 | - | - |
| Provisions | 28 | 95 | 53 | 54 |
| Current tax payable | 9 | 69 | 5 | 2 |
| **Total current liabilities** | | **1,682** | **1,845** | **2,133** |
| | | | | |
| **Total liabilities** | | **2,045** | **2,144** | **2,453** |
| | | | | |
| **Total equity and liabilities** | | **3,013** | **3,059** | **3,194** |

Oslo, 31 March 2011

Tore Thorstensen
Chairman of the Board

Eli Arnstad

Mari Broman

Pål Egil Rønn
CEO

Peter Groth

Carl Henrik Eriksen

Tor Olsen
Employee elected

Arne Sveen
Employee elected

Henrik Nilsson
Employee elected

# Consolidated statement of changes in equity

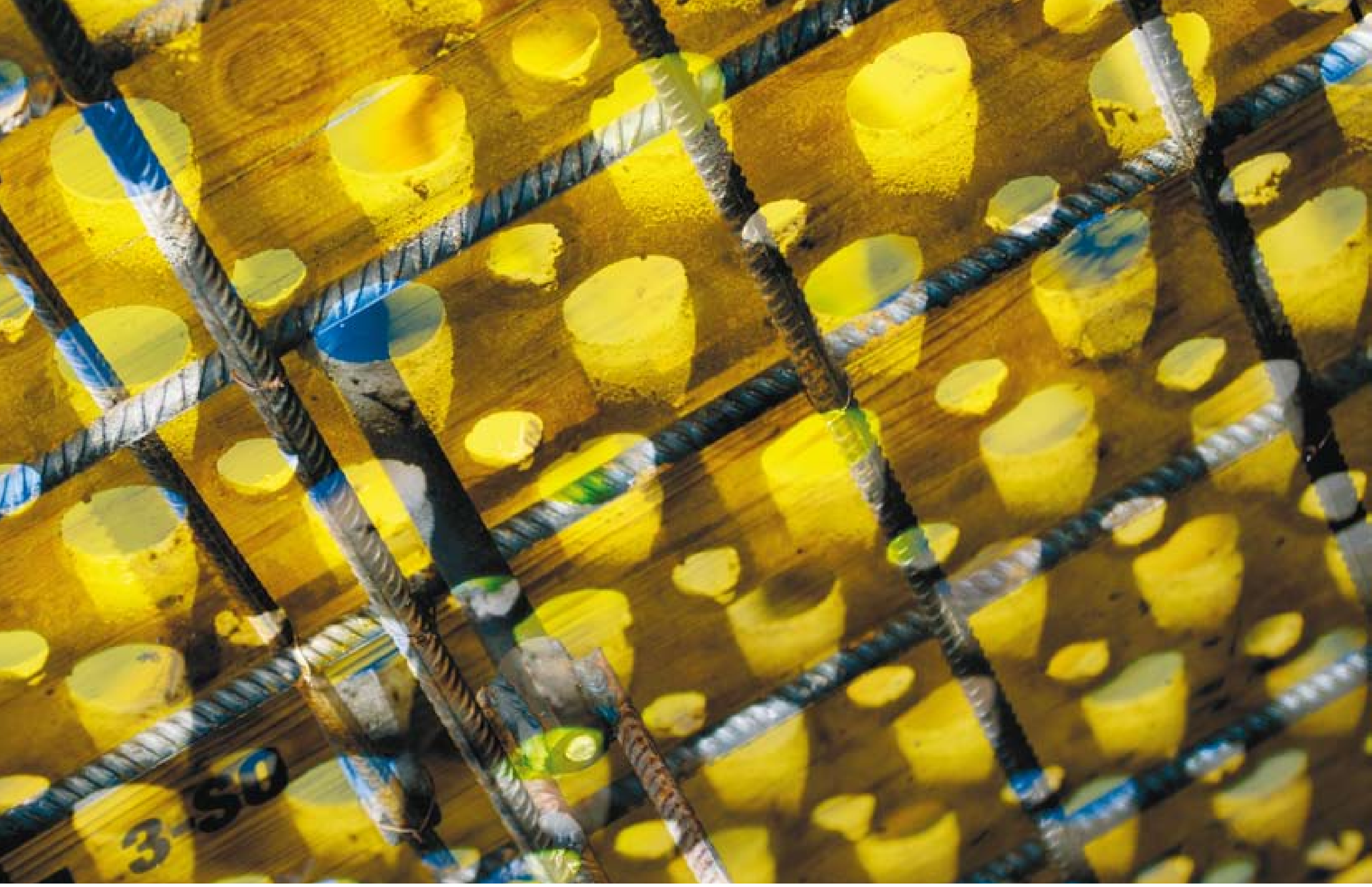
| Amounts in NOK million | | Equity attributable to Parent Company shareholders | | | | | | | Non-con. interests | Total equity |
|---|---|---|---|---|---|---|---|---|---|---|
| | Note | Share capital | Treasury shares [1] | Share premium account | Other contributed capital | Other unrecognised equity | Retained earnings | Total | | |
| **Equity as at 1 January 2008** | | 3 | - | - | - | -14 | 620 | 609 | -39 | 570 |
| Profit for the year | | - | - | - | - | - | 218 | 218 | 2 | 219 |
| Comprehensive income for the year | | - | - | - | - | 11 | - | 11 | - | 11 |
| **Total comprehensive income for the year** | | **-** | **-** | **-** | **-** | **11** | **218** | **229** | **2** | **231** |
| Capital increase | | - | - | 11 | - | - | - | 11 | - | 11 |
| Purchase of treasury shares | 24 | - | - | - | - | - | -21 | -21 | - | -21 |
| Sale of treasury shares | 24 | - | - | - | - | - | 29 | 29 | - | 29 |
| Reclassification of gains on sale of treasury shares | | - | - | - | 8 | - | -8 | - | - | - |
| Dividend paid in 2008 | | - | - | - | - | - | -83 | -83 | - | -83 |
| Share value-based remuneration | | - | - | - | 4 | - | - | 4 | - | 4 |
| **Equity as at 1 January 2009** | | **3** | **-** | **11** | **12** | **-3** | **755** | **778** | **-38** | **741** |
| Profit for the year | | - | - | - | - | - | 269 | 269 | 1 | 270 |
| Comprehensive income for the year | | - | - | - | - | -19 | - | -19 | - | -19 |
| **Total comprehensive income for the year** | | **-** | **-** | **-** | **-** | **-19** | **269** | **251** | **1** | **251** |
| Capital increase | | - | - | 17 | - | - | - | 17 | - | 17 |
| Purchase of treasury shares | 24 | - | - | - | - | - | -7 | -7 | - | -7 |
| Sale of treasury shares | 24 | - | - | - | - | - | 6 | 6 | - | 6 |
| Dividend paid in 2009 | | - | - | - | - | - | -99 | -99 | - | -99 |
| Share value-based remuneration | 5 | - | - | - | 4 | - | - | 4 | - | 4 |
| Transactions with non-controlling interests | | - | - | - | - | - | -37 | -37 | 37 | - |
| **Equity as at 31 December 2009** | | **4** | **-** | **28** | **16** | **-21** | **888** | **915** | **-** | **915** |
| Profit for the year | | - | - | - | - | - | 277 | 277 | - | 277 |
| Comprehensive income for the year | | - | - | - | - | 10 | - | 10 | - | 10 |
| **Total comprehensive income for the year** | | **-** | **-** | **-** | **-** | **10** | **277** | **287** | **-** | **287** |
| Capital increase | | - | - | 19 | - | - | - | 19 | - | 20 |
| Purchase of treasury shares | 24 | - | - | - | - | - | -26 | -26 | - | -26 |
| Sale of treasury shares | 24 | - | - | - | - | - | 17 | 17 | - | 17 |
| Reclassification of gains on treasury shares | | - | - | - | -6 | - | 6 | - | - | - |
| Dividend paid in 2010 | | - | - | - | - | - | -256 | -256 | - | -256 |
| Share value-based remuneration | 5 | - | - | - | 12 | - | - | 12 | - | 12 |
| **Equity as at 31 December 2010** | | **4** | **-** | **47** | **21** | **-11** | **907** | **967** | **1** | **968** |

[1] As at 31 December 2010 the AF Group had share capital related to treasury shares in the amount of NOK -23,000.

# Consolidated cash flow statement



| | Amounts in NOK million | Note | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|
| | **Cash flow from operating activities** | | | | |
| + | Profit before tax | | 372 | 366 | 308 |
| + | Depreciation, amortisation and impairment losses | 12,13 | 97 | 83 | 88 |
| +/- | Difference in retirement benefits carried as expense/paid | | -1 | -6 | -3 |
| + | Share value-based remuneration | 5 | 12 | 4 | 4 |
| - | (Gains)/losses on sale of property, plant and equipment | | -10 | -6 | -8 |
| + | Net financial expenses/(income) | 8 | -6 | -32 | 21 |
| - | (Gains)/losses on available-for-sale financial assets | 7 | - | -1 | - |
| - | (Gains)/losses on sale of joint ventures and associates | 7 | - | -7 | - |
| - | Gains/losses on sale of subsidiaries | 7 | -59 | - | - |
| - | Fair value change in financial derivatives | | 4 | -4 | - |
| - | Net foreign exchange gains/(losses) related to operations | 7 | -3 | - | - |
| -/+ | Profit attributable to associates | 17 | 1 | - | - |
| | | | | | |
| | Change in operating capital (excl. effects of acquisitions and curr. trans. diff.) | | | | |
| +/- | Change in inventories and projects for own account | 18,19 | 35 | 144 | 92 |
| +/- | Change in non-interest-bearing receivables | | 172 | 416 | -222 |
| +/- | Change in trade payables and non-interest-bearing debt | | -318 | -15 | 117 |
| - | Income tax paid | | -36 | -2 | 5 |
| = | **Net cash flow from operating activities** | | **260** | **941** | **402** |
| | | | | | |
| | **Cash flow from investment activities** | | | | |
| - | Acquisition of companies | | -11 | -8 | -96 |
| - | Investments in associates | | -26 | - | -14 |
| - | Investments in available-for-sale shares | | -1 | - | - |
| - | Purchase of intangible assets | 13 | -1 | -2 | -2 |
| - | Purchase of property, plant and equipment | 12 | -106 | -394 | -254 |
| + | Proceeds from sale of property, plant and equipment | | 25 | 24 | 28 |
| + | Proceeds from sale of joint ventures | 14 | - | 10 | - |
| + | Proceeds from sale of companies | 14 | 119 | - | - |
| + | Proceeds from derivatives | | - | - | - |
| + | Proceeds from sale of shares in other enterprises | | - | 6 | - |
| = | **Net cash flow from investment activities** | | **-1** | **-364** | **-338** |
| = | **Net cash flow before financing activities** | | **259** | **578** | **64** |
| | | | | | |
| | **Cash flow from financing activities** | | | | |
| + | Proceeds from issuance of shares | | 19 | 17 | 11 |
| + | Non-controlling interests and other equity transactions | | - | -6 | - |
| - | Dividends paid to Company's shareholders | | -255 | -99 | -83 |
| - | Payments due to change in interest-bearing receivables | | - | -31 | -16 |
| + | Proceeds due to change in interest-bearing receivables | | 3 | - | - |
| + | Proceeds from new interest-bearing debt | | 400 | - | 181 |
| - | Repayment of interest-bearing debt | | -19 | -363 | -149 |
| + | Proceeds from the sale of treasury shares | 24 | 17 | 7 | 18 |
| - | Purchase of treasury shares | 24 | -26 | -7 | -21 |
| - | Interest and other financial expenses paid | 8 | -5 | -19 | -44 |
| + | Interest and other financial income received | 8 | 9 | 17 | 33 |
| = | **Net cash flow from financing activities** | | **142** | **-484** | **-70** |
| = | **Net change in cash and cash equivalents during the year** | | **401** | **93** | **-6** |
| | | | | | |
| + | Cash and cash equivalents as at 1 January | | 223 | 130 | 136 |
| + | Cash and cash equivalents received on transfer of undertaking | | 2 | - | - |
| - | Disposal of cash and cash equivalents on sale of companies | | -3 | - | - |
| +/- | Effect of exchange rate fluctuations on cash and cash equivalents | | - | - | - |
| = | **Cash and cash equivalents as at 31 December** | 22 | **622** | **223** | **130** |



# Notes to the accounts AF Group

# Notes

## Note 1 Accounting policies

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

The Group's activities are described in note 3 (segment information). The financial statements were signed by the Board on 31 March 2011.

**1.1 Basis of preparation**

**1.1.1 Introduction**

The consolidated financial statements of the AF Group for the 2010 financial year have been presented in accordance with the EU-approved IFRS (International Financial Reporting Standards) and the associated interpretations, as well as additional Norwegian disclosure requirements that follow from the Norwegian Accounting Act, Stock Exchange Regulations and Stock Exchange Rules, which are applicable as at 31 December 2010.

The consolidated financial statements are based on the modified historical cost convention. The deviations refer primarily to available-for-sale financial assets and financial assets and liabilities (including derivatives) at fair value through profit and loss.

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 2.

**1.1.2 Recently published accounting standards and interpretations**

a) New and amended standards implemented by the Group

In 2010 the Group implemented the following new standards and amendments, and the introduction of the standards or the interpretation of the standards has been assessed to have the following impact on the consolidated accounts or the presentation of the consolidated financial statements of the AF Group:

The following new standards and supplements to standards are obligatory with effect from 1 January 2010:

- **IFRS 3 – Business Combinations (revised).** The acquisition method of accounting for business combinations has changed significantly. Any consideration for the acquisition of a business shall be recognised at fair value on the acquisition date. Contingent consideration is normally classified as a liability, and subsequent changes in value are recognised in the income statement. For each individual acquisition, the Group may choose whether any non-controlling interests in the acquired company are to be measured at fair value or only as the share of net assets, excluding goodwill. All the transaction costs are to be recognised. The revised standard will affect the Group's accounting of future business combinations.

- **IAS 27 – Consolidated and Separate Financial Statements (revised).** In accordance with the revised standard, the effect of all the transactions with non-controlling interests is recognised in equity if there is no change of control. Such transactions will no longer result in goodwill or capital gains or losses. When control ceases, any remaining interests in the unit will be measured at fair value and the gain or loss will be recognised. The revised standard will affect the Group's accounting of future business combinations and any purchase/sale of remaining interests in subsidiaries.

- **IFRIC 15 - Agreements for the Construction of Real Estate.** The introduction of IFRIC 15 means that an individual assessment will have to be made of all agreements and contracts that are involved in the sale of property to establish whether the criteria for using IAS 11 Construction Contracts or IAS 18 Revenue should be applied. For the AF Group, this has affected the date on which revenue and profit are recognised when residential housing units are sold. The income recognition date will be deferred, and all the revenue (including the related costs) will be recognised on one specific date, normally on completion/delivery. The implementation of IFRIC 15 in the 2010 consolidated financial statements does not have any effect on the equity as at 1 January 2010. This is because the number of new project starts in 2009 was limited.

b) Standards and amendments to and interpretations of existing standards that have been adopted but do not have an impact on the consolidated financial statements of the AF Group:

- Amendments to IFRS 1 - First-time Adoption of IFRS
- Amendments to IFRS 2 - Share-based Payment
- IFRIC 12 - Service Concession Arrangements
- IFRIC 16 - Hedges of a Net Investment in a Foreign Operation
- IFRIC 17 Distribution of Non-cash Assets to Owners
- IFRIC 18 – Transfer of Assets from Customers

c) Standards and amendments to and interpretations of existing standards that have not entered into force and for which the Group has not chosen early implementation.

- **IFRS 7 Financial Instruments - Disclosures (revised).** The revision concerns note requirements in connection with the transfer of financial assets in which the company still has an involvement. The revisions aim to give users a better picture of the exposure of the entity that transfers the financial assets. IFRS 7 is effective for annual periods beginning on or after 1 July 2011, but the standard has yet to be approved by the EU. The Group expects to apply the standard from 1 January 2012.

- **IFRS 9 Financial instruments.** IFRS 9 replaces the classification and measurement rules in IAS 39 Financial Instruments: Recognition and Measurement. Pursuant to IFRS 9 financial assets that contain ordinary loan terms shall be recognised at amortised cost unless the entity chooses to recognise them at fair value, while other financial assets shall be recognised at fair value. The classification and measurement rules for financial liabilities in IAS 39 are continued, with the exception of financial liabilities designated at fair value through profit or loss (fair value option), where changes in fair value relating to own credit risk are separated and presented in other comprehensive income. IFRS 9 is effective for annual periods beginning on or after 1 January 2013, but the standard has yet to be approved by the EU. The Group expects to apply the standard from 1 January 2013.

- **IAS 24 (revised) - Related Party Disclosures.** In relation to the current IAS 24, the revised standard clarifies and simplifies the definition of related parties. The revised standard is effective for annual periods beginning on or after 1 January 2011. The Group expects to apply the revised IAS 24 from 1 January 2011.

- **IAS 32 - Financial Instruments - Presentation - Classification of Rights Issues (amendment).** The amendment to IAS 32 means that subscription rights issued in currencies other than the entity's functional currency may be classified as equity. The amendment is effective for annual periods beginning on or after 1 February 2010. The Group expects to apply the amendments from 1 January 2011.

- **FRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (amendment).** The amendment means that entities subject to minimum funding requirements for pension schemes will be permitted to treat prepayments of premiums in a defined benefit pension scheme as an economic benefit. After the amendment such prepayments will qualify for recognition on the balance sheet. The amendment to IFRIC 14 is effective for annual periods beginning on or after 1 January 2011. The Group expects to apply the amendment from 1 January 2011.

- **IFRIC 19 - Extinguishing Financial Liabilities with Equity Instruments.** The interpretation provides guidance for how transactions should be treated in the financial statements when a company settles all or part of financial obligations by issuing equity instruments, and applies when debt conversion takes place due to the renegotiation of the loan agreement. The issuance of equity instruments shall be measured at fair value and is viewed as consideration for the settlement of the debt. The difference between the carrying amount of the financial liability and the fair value of the equity instruments is recognised in profit or loss. The interpretation is effective for annual periods beginning on or after 1 July 2010. The Group expects to apply IFRIC 19 from 1 January 2011.

d) In its annual improvements project, the IASB has adopted amendments to a number of standards. These amendments are effective for accounting periods commencing on or after 1 July 2010. The amendments have yet to be approved by the EU. The Group expects to apply the amendments with effect from 1 January 2011.

- **IFRS 3 – Business Combinations:** The standard states that the amendments to IFRS 7, IAS 32 and IAS 39 that remove the exemption for contingent consideration do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of IFRS 3 (revised in 2008).

It also introduces a limit on the scope of the measurement choices for components of non-controlling interests (minority interests).

The rules on accounting for share value-based payments are also clarified. Under the revised IFRS 3, an acquirer may exchange its share value-based payment awards (replacement awards) for awards held by employees of the acquiree.

The option schemes are measured at their fair value at the acquisition date and the equity associated with the new option schemes is classified as non-controlling interests.

- **IFRS 7 – Financial Instruments – Disclosures:** The amended standard describes the interaction between quantitative and qualitative disclosures and the nature and extent of exposure to risks arising from financial instruments. Amendments have also been made to the note requirements regarding quantitative and credit risk disclosures. The Group expects to apply the amendments with effect from 1 January 2011.

- **IAS 27 – Consolidated and Separate Financial Statements:** The standard requires amendments to IAS 21, IAS 28 and IAS 31 resulting from the amendments to IAS 27 to be applied prospectively for accounting periods commencing on or after 1 July 2009, or earlier in the case of early adoption of IAS 27.

- **IAS 1 – Presentation of Financial Statements:** The standard requires an analysis of each individual component of other comprehensive income for each individual component of equity to be presented, either in the statement of changes in equity or in the notes to the financial statements.

- **IAS 34 - Interim Financial Reporting:** The amended standard provides guidelines on the application of the disclosure requirements contained in IAS 34. There are also additional disclosure requirements regarding circumstances that will affect the fair value of financial instruments and their classification, transfers between different categories of financial instruments in the fair value hierarchy, changes to the classification of financial assets and changes to contingent liabilities and assets.

**1.2.1 Subsidiaries**

1.2.1.a) General

The consolidated financial statements include AF Gruppen ASA and companies in which AF Gruppen ASA has a controlling influence. A controlling influence is normally achieved if the Group owns more than 50 % of the shares in the company and is able to exercise actual control over it. Companies that are bought or sold during the year are included in the consolidated financial statements from the date on which control is achieved or ceases.

1.2.1.b) Business Combinations

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. If elements of the consideration are contingent the fair value of these is also included on the acquisition date. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of comprehensive income.

The recognition of any non-controlling interests is measured on the basis of the net value of identifiable assets and liabilities of the transferor company or fair value (i.e., including a goodwill element).

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 and assets in transactions that are not business combinations. When a property company is acquired, a concrete assessment is made to establish whether the acquisition concerns the business itself or assets (e.g. land). For purchases of assets the entire purchase price is allocated to acquired assets on the acquisition date.

1.2.1.c) Step-by-step acquisitions

For step-by-step acquisitions, the earlier equity interest in the acquired company shall 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 at 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.

1.2.1.d) Loss of control

When the Group no longer has control any remaining equity interest is measured at fair value through profit or loss. In further accounting fair value at the time of loss of control constitutes cost, either as an investment in associates, joint ventures or financial asset. Amounts previously recorded in the presentation of 'other comprehensive income' related to this company are treated as if the Group had disposed of the underlying assets or liabilities. This could mean that amounts previously recognised in the presentation of 'other comprehensive income' are reclassified to profit or loss.

Gains and losses on the disposal of an entity include the carrying amount of goodwill allocated to the entity sold.

1.2.1.e) Business combinations completed before 1 January 2010

The following differences with the aforementioned policies applied to business combinations completed before 1 January 2010: Business combinations were accounted for using the purchase method. Directly attributable transaction costs were viewed as part of the consideration. Non-controlling interests (previously referred to as the minority) were measured as a proportional share of the acquired entity's identifiable net assets. Step-by-step acquisitions were accounted for as separate transactions and additional acquisitions of interests did not affect the previously recognised goodwill.

**1.2.2 Non-controlling interests**

Non-controlling interests are recognised based on the non-controlling owners' share of net identifiable assets and liabilities or fair value, i.e., including a goodwill element. Non-controlling interests are included in consolidated equity.

The Group treats transactions with non-controlling interests as transactions with equity owners of the group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

Non-controlling interests include the non-controlling owners' share of the carrying amount of subsidiaries including the share of identified excess values on the acquisition date.

A loss in a consolidated subsidiary that can be attributed to non-controlling interests may exceed the non-controlling interests' share of equity in the consolidated subsidiary.

**1.2.3 Joint ventures**

Joint ventures are enterprises in which the Group exercises joint control through a contractual agreement between the parties. Joint ventures are recognised using the gross method from the date on which joint control is achieved and until joint control ceases. The gross method means that the Group's share of the joint venture's earnings, balance sheet and cash flow items are included line by line.

Joint ventures are common in construction and civil engineering projects where two or more parties decide to carry out a joint project/contract and all operational, financial and strategic decisions must be taken unanimously by the parties. The Group is involved in several joint ventures with other contracting firms for particular contracts. Joint ventures take the form of unregistered companies, general partnerships, limited partnerships, limited companies, etc.

**1.2.4 Associates**

Associates are business units in which the Group enjoys a significant influence (normally with a stake between 20 % and 50 %), but does not exercise financial or operational control. Investments in associates are accounted for at cost at the time of purchase and subsequently by the equity method. The carrying amounts include any fair value adjustments and goodwill identified on acquisition, net of future depreciation, amortisation and impairment losses.

The group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. 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.

**1.2.5 Elimination of transactions by consolidation**

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.

**1.3 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, which is responsible for the allocation of resources to and assessment of earnings in the operating segments, is defined as the Corporate Management Team.

**1.4 Use of estimates in preparation of the financial statements**

The management has used estimates and assumptions that have affected assets, liabilities, revenues, expenses, and information on potential liabilities. These estimates apply in particular to recognition of income and valuations linked to long-term manufacturing projects, retirement benefit liabilities, and valuation of goodwill. Future events may lead to changed estimates. Estimates and the underlying assumptions are assessed continuously. Changes in accounting estimates are reported in the period in which they occur. If they also relate to future periods, the effect is spread over present and future periods. See also note 2.

**1.5 Classification**

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 prepayment invoicing are presented in 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 included in the balance sheet as 'trade payables and other non-interest-bearing liabilities'. Prepayments are deducted from invoiced revenue over the project period in line with 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.

**1.6 Foreign currency translation**

**1.6.1 Functional currency and presentation currency**

The financial statements for the individual units in the Group are measured in the currency primarily used where the unit operates (functional currency). 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.

**1.6.2 Transactions and balance sheet items**

Transactions in foreign currencies are translated to the functional currency at the transaction exchange rate. Realised 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. If the foreign currency position is regarded as cash flow hedging or the hedging of a net investment in a foreign enterprise, then the gain or loss will be recognised under 'other comprehensive income'.

Foreign exchange gains and losses related to trade receivables, trade payable and other balance sheet items related to operations, are presented under net gains and losses in the income statement, with other specification in 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 (both assets and liabilities) 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'.

**1.6.3 Group companies**

The income statement and balance sheet for group companies (none with hyperinflation) with a functional currency other than the presentation currency are translated as follows:

a) The balance sheet is translated at the rate prevailing on the balance sheet date.
b) The income statement is translated at the average exchange rate (if the average exchange rate does not give a reasonable overall estimate of the use of the transaction exchange rate, then the transaction exchange rate shall be used).
c) Translation differences are recognised under 'other comprehensive income' and specified in the equity as a separate item.

Translation differences related to net investments in foreign enterprises and financial instruments designated as hedges for such investments are recognised under 'other comprehensive income' and as a separate item in equity. 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 fair value adjustments 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.

**1.7 Principles of revenue recognition**

**1.7.1 Revenue in general**

Revenue is recognised as income when it is probable that transactions will generate future economic benefits that will benefit the Company and the size of the amount can be reliably estimated. Sales revenue is presented less value-added tax and discounts.

**1.7.2 Projects in general**

Revenue from the sale of services and long-term manufacturing projects is recognised in the income statement in line with the project's degree of completion when the result of the transaction can be estimated reliably. Progress is measured on the basis of an assessment of the work carried out. When the result of the transaction cannot be estimated reliably, only revenue equivalent to incurred project costs will be recognised. In the period when it is identified that a project will lead to a negative result, the estimated loss on the contract will be recognised in full in the income statement.

**1.7.3 Projects for third-party accounts**

The AF Group's business consists mainly of construction and civil engineering activities that are carried out for public and private clients and based on contracts of varying duration. 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 (percentage-of-completion method). The degree of completion is mainly calculated on the basis of incurred costs on the balance sheet date as a percentage of estimated total costs or based on a concrete assessment of the physical degree of completion.

In the early stages of a project, a smaller than the proportionate share of the expected profit is normally recognised as income, while 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. In the period in which it is identified that a project will produce a negative result, the estimated loss on the contract will be fully recognised 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 to 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 billed monthly in relation to the proportion of the contract price and for additional work carried out and approved in the period. Deviating payment plans can occur, but these arrangements do not affect the accrual of revenue and expenses.

Demolition work is defined under IAS 11 and dealt with by using the same accounting policies as for projects for third-party accounts.

**1.7.4 Projects for own account**

Some production is carried out for the Group's own account, which means that the projects are self- financed. Projects for own account largely involve the development and construction of residential housing for sale. 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 in the AF Group are recognised according to IAS 18. Under IAS 18 all the revenue (including the related costs) will be recognised on one specific date, normally on completion/delivery.

**1.7.5 Sales 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 return has been transferred.

**1.7.6 Other revenue**

Revenues from sales of goods are recognised in the income statement once delivery has taken place and most of the risk and return has been transferred.

**1.7.7 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.

**1.8 Payable and deferred tax**

The 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 in the presentation of 'other comprehensive income' or directly in equity. If this is the case, then the tax is also recognised under 'other comprehensive income' or directly in 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 and generate taxable income 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 allocated for the expected tax charges, as considered necessary, based on the management's evaluations.

Deferred tax is calculated by means of the liability method on all temporary differences between the tax values and consolidated accounting 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 in 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.

Deferred tax assets are recognised in 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 is calculated based on temporary differences from investments in subsidiaries and associates except when the Group controls the timing for the reversal of the temporary differences, and it is probable that they will not be reversed in the foreseeable future.

Deferred tax assets and deferred tax are to be 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 on the same taxable enterprise or different taxable enterprises with the intent to settle liabilities and assets in respect of the current tax payable on a net basis.

**1.9 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, such as ongoing maintenance, are recognised in the income statement, while other expenses that are expected to generate future economic benefits are recognised in the balance sheet. The residual value recognised in 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.

**1.10 Intangible assets**

**1.10.1 Goodwill**

Goodwill is carried at cost less any impairment losses. Goodwill is not amortised, but is tested annually 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.

**1.10.2 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. The contractual customer relationships have a limited useful life and are recognised at the acquisition cost less the accumulated depreciation. Depreciation is carried out on a straight-line basis over the expected life of the customer relationship.

**1.10.3 Quarrying rights**

Quarrying rights that are acquired separately are recognised in the balance sheet at fair value (cost) on the acquisition date. Quarrying rights acquired in business combinations are recognised in 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 depreciation. Depreciation is carried out on a straight-line basis over the expected life of the quarrying rights.

**1.11 Impairment of non-financial assets**

Intangible assets with an indefinite useful life and goodwill are not depreciated, but tested for impairment annually. Property, plant and equipment and intangible fixed assets that are depreciated 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 it value in use. 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 depreciated is evaluated on each reporting date. The reversal of impairment losses is calculated in the same manner as impairment losses.

**1.12 Leases**

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 and 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, or if the agreement provides more indirect entitlement to use a specific asset or group of assets, the agreement is treated as a lease agreement.

Leasing 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.

**1.12.1 Financial leases**

The AF Group 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 the 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.

Leased plant and equipment are depreciated according to the same principles as the Group's other plant and equipment. The annual payment consists of an interest portion, which is recognised in the income statement as an interest expense, and a repayment portion, which reduces the liability. Sale-leaseback gains are recognised immediately if a sales transaction is carried out at fair value. In addition, gains/losses resulting from over- or underpricing compensated by future lease payments are amortised over the lease period.

**1.12.2 Operating leases**

Lease payments are classified as operating costs 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 over- or underpricing compensated by future lease payments are amortised over the lease period.

**1.13 Financial instruments**

**1.13.1 Financial assets**

The Group has financial assets that are classified in the following categories:
a) At fair value through profit or loss,
b) Loans and receivables
c) Available-for-sale financial assets

The classifications are based on the purpose of the asset. The classifications take place at acquisition and are reviewed on each reporting date.

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 in the form of forward exchange and commodity contracts. Forward exchange contracts are entered into to hedge future cash flows related to contracts 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.

Non-forward contract financial assets at fair value through profit or loss 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.

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.

See also section 13.2 a) for a description of forward exchange and commodity contracts.

b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determined 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 in 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. Gains and losses are recognised in the income statement when loans and receivables are recognised, written down or amortised.

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.

c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are placed in this category by choice or do not fall under any other category. They are classified as non-current assets, provided the investment does not mature or the management does not intend to sell the investment within 12 months from the balance sheet date.

Available-for-sale financial assets are recognised initially at fair value. Available-for-sale financial assets are assessed subsequently at fair value and changes in fair value are recognised in 'other comprehensive income' until the asset is sold or assessed to have suffered impairment in value, whereupon accumulated gains or losses recognised in 'other comprehensive income' are included in the income statement for the period.

**1.13.2 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 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 are 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 Section 13.1 a) 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.

**1.14 Inventories**

Inventories are recognised 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 determined using the first-in, first-out (FIFO) method and includes all costs of purchase and other costs incurred in bringing the inventories to their present location and condition.

**1.15 Projects for own account**

Projects for own account are basically manufacturing for inventory. Usually, some or all of the projects are sold during the project period. If this is the case, the project for own account is reclassified from inventory to a construction contract in which the contract costs are compared with earned income. Earned income that has not been settled is regarded as a trade receivable. Land for development and costs incurred for the part of the project that has not been sold/recognised as revenue are included in the balance sheet as projects for own account. Own-account projects are recognised at cost or net selling price, whichever is the lower. Acquisition costs include direct costs, a proportion of indirect costs (based on normal capacity utilisation) and interest accrued during the construction period. The net selling price is an estimated selling price less completion and selling costs.

**1.16 Projects for outside account**

Projects for third-party accounts are presented in the financial statements using the percentage of completion method in accordance with IAS 11 Construction Contracts. This means that 'income earned but not invoiced' is presented as a trade receivable. Payments on account and prepayments received from a customer in connection with a construction contract reduce the receivable. If payments on account, prepayments, and any expected losses exceed the earned contract income, the surplus is recognised as a prepayment from the customer under current liabilities. Provision for expected losses on remaining contractual production is classified as a current liability after the 'income earned but not invoiced' is recognised in the balance sheet and written down. Trade receivables are not offset against prepayments on different contracts or if other circumstances suggest that it would not be permitted.

**1.17 Trade and other current receivables**

Trade receivables arise from the sale of goods or services within the ordinary operating cycle. If settlement is expected during the ordinary operating cycle, then the receivables are classified as current assets. If this is not the case, then the receivables are classified as non-current assets. Trade receivables are measured at fair value for the initial recognition in the balance sheet. For subsequent measurement, the trade receivables are recognised at amortised cost using the effective interest method. Current receivables that mature in less than three months are not normally discounted.

Changes in the value of trade receivables related to estimate changes are recognised as an adjustment of the operating revenue. Impairment of trade receivables related to capacity to pay is recognised as losses on trade receivables.

**1.18 Cash and cash equivalents**

Cash and cash equivalents include bank deposits and other short-term fixed income securities. Bank overdrafts are included in loans under current liabilities in the balance sheet.

**1.19 Equity**

**1.19.1 Treasury shares**

When treasury shares are bought back, the purchase price, including directly attributable costs, is recognised as a deduction from equity. Treasury shares are presented as a reduction of equity. The cumulative gain or loss on sales of treasury shares is presented net in equity. Net accumulated losses on sales of treasury shares are recognised under other retained earnings, while net accumulated gains are recognised under other contributed equity.

### 1.19.2 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.

### 1.19.3 Dividend

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

### 1.21 Employee benefits

### 1.21.1 Retirement benefits

a) Defined benefit plans

The Group has defined-benefit plans for employees of the Norwegian companies 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 calculations are carried out by a qualified actuary. The plan's credit formula is used as the allocation method unless a large proportion of crediting takes place towards the end of the pension-earning period. In this case a linear allocation method is used.

Introducing a new benefit plan or changing a current benefit plan will result in changes in the retirement benefit liabilities. Any change is carried as an expense in a straight line until the effect of the change has been earned. The introduction of new schemes or changes to existing schemes that have retroactive effect so that employees earn unconditional pension rights immediately, are recognised in the income statement at once. Gains or losses relating to restrictions or termination of retirement benefit plans are recognised in the income statement when they take place.

An accumulated impact of estimate changes and changes in financial and actuarial assumptions (actuarial gains or losses) of less than 10 % of the higher of the defined-benefit retirement benefit liabilities or plan assets at the start of the year is not recognised. In the case of deviations in excess of 10 %, the surplus is recognised in the income statement and distributed in a straight line over the assumed average pension-earning period remaining. The net retirement benefit expense for the period is included under payroll costs.

Employees in the Norwegian companies are entitled to an early retirement pension (AFP) under a collective agreement between the Norwegian Federation of Trade Unions (LO) and the Confederation of Norwegian Enterprise (NHO). AFP is a defined-benefit multi-company scheme. Future liabilities associated with this scheme are financed by the operations and are unfunded. The annual cost and future liabilities associated with former employees who are included in this scheme are included in the actuarial calculations.

Employees in Sweden are members of two defined-benefit multi-company schemes. Due to the structure of the plans, there is no basis for calculating plan surpluses or deficits or their impact on future premiums. The schemes have therefore been recognised as defined-contribution plans.

b) Defined contribution plans

In addition to the defined-benefit plan described above, the Group has a defined-contribution pension scheme for all employees in Norway who are not covered by the scheme mentioned above. The pension premium is recognised as an expense when it incurs, and the Group has no obligations over and above this.

### 1.21.3 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.

### 1.21.4 Share-based remuneration

Options for employees are measured at fair value on the allotment date. 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.

### 1.22 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 the obligation and the size of the amount can be measured reliably. If the impact is significant, the provisions are calculated by discounting the estimated future cash flows by a discount rate before tax that reflects the market's pricing of the current value of money and, where relevant, risks specifically linked to the liability.

Restructuring provisions are included when the Group has approved a detailed and formal restructuring plan, and the restructuring has either started or been announced.

Provisions for guarantees are recognised when the underlying projects and services are sold. Provisions are based on historical information on guarantees and a weighting of possible outcomes against the probability of their occurrence.

Provisions for loss-making contracts are recognised when the Group's expected revenue from a contract is less than the unavoidable costs incurred in order to fulfil the obligations under the contract.

### 1.23 Loan expenses

Loan expenses are recognised in 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 make for use or sale. The AF Group recognises loan expenses that accrue during the production of projects for own account (residential housing) and plant and equipment for own use in the balance sheet. Recognition in the balance sheet ceases when the assets are finished. If a loan is raised specifically for a project, the actual loan expense is used. Otherwise the loan expense is calculated on the basis of the Group's financing costs.

### 1.24 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.

### 1.25 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.

### 1.26 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.

# Note 2 Estimate uncertainty

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

**Revenue recognition during execution of projects**
The AF Group's activities are mainly project-based. Revenue from projects is recognised in the income statement in line with the project's degree of completion and final outcome. The ongoing recognition of revenue from projects entails uncertainty, since it is based on estimates and assessments. For projects in progress, uncertainty exists regarding the progress of remaining work, disputes, warranty work, end results, etc. For completed projects, there exists uncertainty regarding hidden defects or faults, as well as possible disputes with the customer. 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. The complexity and scope mean, however, that there is an inherent risk that the final results of projects may deviate from the expected results.

**Goodwill and other intangible assets**
The Group tests annually to assess whether goodwill and intangible assets have suffered any impairment, see note 13. In the impairment test the book value is measured against the recoverable amount from the cash-generating unit to which the asset is allocated. Recoverable amounts from cash-generating units are determined by estimating their value in use. These calculations require the use of estimates.

**Plant and equipment**
The expected economic life of the Group's plant and equipment is very much affected by the nature and duration of the assignments, as well as the development of technology. Production-related machinery is mainly depreciated using the reducing balance method to the expected residual value at the end of the period of use, while other plant and equipment is depreciated in a straight line over its economic life of 3-10 years.

Plant and equipment are tested for impairment if there are indications of a reduction in value. The method corresponds to that described in the section on goodwill and intangible assets.

**Business combinations**
The AF Group allocates the purchase price for acquired businesses to acquired assets and liabilities based on the estimated fair value. In this connection, the management must make assessments to determine the method of valuation, estimates and assumptions. In addition, best judgement is often used to determine any additional consideration. For large acquisitions, the AF Group uses independent external advisers to assist in determining the fair value.

**Retirement benefits**
The present value of the retirement benefit obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. This includes assumptions related to the discount rate, wage inflation, adjustment of retirement benefits, expected return on plan assets, and demographic factors such as disability and mortality. These assumptions are based on observable market prices and historical developments in the Group and society as a whole. Changes in assumptions will affect the projected retirement benefit obligations and retirement benefit expense.

**Income tax**
The Group is taxed on its income in several countries. Considerable judgement is required in determining the income tax for all countries together in the consolidated financial statements. There will be uncertainty about the final tax liability for many transactions. The Group recognises tax liabilities relating to future decisions in tax and dispute cases, based on estimates of whether additional income taxes will be incurred. If the final outcome of a case differs from the originally allocated amount, such differences will impact the recognised tax expense and provision for deferred tax in the period the difference is determined.

# Note 3 Segment information

The operating segments are identified based on the reporting the Corporate Management Team uses when they allocate resources and make assessments of performance and profitability at a strategic level.

**Business areas**
The Group is engaged in industrial and contracting operations. The Corporate Management Team assesses the business operations on the basis of the Civil Engineering, Building, Property, Environment and Energy business areas.

While the majority of its operations take place in Norway and Sweden, the AF Group also has operations in other EU countries, and a small portion of the Energy operations are located outside the EU. Ordinary building and construction projects are included in the Building or Civil Engineering business areas. The Group's property portfolio is included in the Property business area. Services related to offshore and onshore demolition and recycling are included in the Environment business area. Energy comprises offshore and onshore energy optimisation services.

What remains after allocation to the business areas is presented as Other and mainly includes activities in the Parent Company and some general services.

Transactions between segments in the Group are carried out based on market terms and in accordance with the arm's length principle. Transactions between the various segments are eliminated.

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

**Accounting policies**
Segment information is presented in accordance with the Group's accounting policies in accordance with IFRS with the exception of IFRIC 15 (Agreements for the Construction of Real Estate). The effect of IFRIC 15 on the consolidated accounts is illustrated in a separate table in the segment information.

Amounts in NOK million

| 2010<br>Income statement | Civil<br>Engineering | Building | Property | Environ-<br>ment | Energy | Others | Elim. | IFRIC 15 | Total |
|---|---|---|---|---|---|---|---|---|---|
| External revenue | 2,157 | 2,265 | 134 | 739 | 556 | 9 | - | -32 | 5,828 |
| Internal revenue | 2 | 2 | 1 | 28 | 9 | 130 | -171 | - | - |
| **Total revenue** | **2,158** | **2,267** | **134** | **767** | **564** | **139** | **-171** | **-32** | **5,828** |
| Earnings before interest, taxes, depreciation and amortisation (EBITDA) | 227 | 50 | 42 | 147 | -6 | 123 | -109 | -12 | 463 |
| Earnings before interest and taxes (EBIT) | 194 | 46 | 42 | 107 | -15 | 112 | -108 | -12 | 366 |
| **Earnings before taxes (EBT)** | **198** | **51** | **35** | **90** | **-21** | **140** | **-108** | **-12** | **372** |
| **Key figures and balance sheet** | | | | | | | | | |
| EBITDA % | 10.5 % | 2.2 % | 31.2 % | 19.2 % | -1.1 % | - | - | - | 7.9 % |
| EBIT % | 9.0 % | 2.0 % | 31.2 % | 14.0 % | -2.6 % | - | - | - | 6.3 % |
| EBT % | 9.2 % | 2.3 % | 25.8 % | 11.7 % | -3.7 % | - | - | - | 6.4 % |
| Assets as at 31 December | 1,079 | 938 | 327 | 782 | 480 | 437 | -1,018 | -12 | 3,014 |
| Capital employed as at 31 December | 446 | 385 | 287 | 366 | 371 | -217 | -587 | -11 | 1,040 |
| Return on capital employed | 60.8 % | 14.2 % | 14.6 % | 16.9 % | -3.9 % | - | - | - | 36.0 % |
| Order backlog as at 31 December | 1,899 | 3,067 | 3 | 892 | 299 | - | - | 32 | 6,193 |
| Number of employees as at 31 December | 670 | 617 | 8 | 322 | 211 | 105 | - | - | 1,933 |
| **Cash flow** | | | | | | | | | |
| Net cash flow from operating activities | 69 | 283 | 74 | -247 | -8 | 91 | - | - | 260 |
| Net cash flow from investment activities | -68 | - | -27 | 104 | -3 | -8 | - | - | -1 |
| **Net cash flow before financing activities** | **1** | **283** | **47** | **-143** | **-11** | **83** | **-** | **-** | **259** |

| 2009<br>Income statement | Civil<br>Engineering | Building | Property | Environ-<br>ment | Energy | Others | Elim. | IFRIC 15 | Total |
|---|---|---|---|---|---|---|---|---|---|
| External revenue | 1,521 | 2,562 | 52 | 700 | 592 | -26 | - | - | 5,401 |
| Internal revenue | 247 | -1 | -1 | 43 | 7 | 20 | -315 | - | - |
| **Total revenue** | **1,768** | **2,561** | **51** | **743** | **598** | **-6** | **-315** | **-** | **5,401** |
| Earnings before interest, taxes, depreciation and amortisation (EBITDA) | 114 | 223 | -10 | 80 | 30 | -7 | -13 | - | 417 |
| Earnings before interest and taxes (EBIT) | 82 | 218 | -10 | 46 | 21 | -10 | -13 | - | 335 |
| **Earnings before taxes (EBT)** | **105** | **221** | **-15** | **43** | **16** | **9** | **-13** | **-** | **366** |
| **Key figures and balance sheet** | | | | | | | | | |
| EBITDA % | 6.5 % | 8.7 % | -19.1 % | 10.8 % | 5.0 % | - | - | - | 7.7 % |
| EBIT % | 4.6 % | 8.5 % | -19.1 % | 6.2 % | 3.5 % | - | - | - | 6.2 % |
| EBT % | 5.9 % | 8.6 % | -29.1 % | 5.8 % | 2.6 % | - | - | - | 6.8 % |
| Assets as at 31 December | 795 | 1,099 | 320 | 1,043 | 501 | 484 | -1,182 | - | 3,059 |
| Capital employed as at 31 December | 221 | 306 | 271 | 787 | 366 | 148 | -1,090 | - | 1,009 |
| Return on capital employed | 63.3 % | 163.5 % | -3.6 % | 7.3 % | 4.5 % | -4.4 % | 4.3 % | - | 35.7 % |
| Order backlog as at 31 December | 2,175 | 2,324 | - | 1,070 | 463 | - | - | - | 6,033 |
| Number of employees as at 31 December | 650 | 619 | 8 | 373 | 222 | 102 | - | - | 1,974 |
| **Cash flow** | | | | | | | | | |
| Net cash flow from operating activities | 213 | 328 | 36 | 143 | 64 | -94 | 251 | - | 941 |
| Net cash flow from investment activities | -33 | -11 | -4 | -325 | -9 | -2 | 21 | - | -364 |
| **Net cash flow before financing activities** | **180** | **317** | **32** | **-182** | **55** | **-96** | **272** | **-** | **578** |

| 2008<br>Income statement | Civil<br>Engineering | Building | Property | Environ-<br>ment | Energy | Others | Elim. | IFRIC 15 | Total |
|---|---|---|---|---|---|---|---|---|---|
| External revenue | 1,907 | 2,772 | 102 | 657 | 478 | - | - | - | 5,916 |
| Internal revenue | 137 | 109 | - | 10 | 64 | - | -320 | - | - |
| **Total revenue** | **2,044** | **2,881** | **102** | **667** | **542** | **-** | **-320** | **-** | **5,916** |
| | | | | | | | | | |
| Earnings before interest, taxes, depreciation and amortisation (EBITDA) | 172 | 144 | -33 | 90 | 54 | -2 | -8 | - | 417 |
| Earnings before interest and taxes (EBIT) | 130 | 140 | -33 | 56 | 48 | -2 | -10 | - | 328 |
| **Earnings before taxes (EBT)** | **122** | **156** | **-45** | **54** | **46** | **-13** | **-13** | **-** | **308** |
| | | | | | | | | | |
| **Key figures and balance sheet** | | | | | | | | | |
| EBITDA % | 8.4 % | 5.0 % | -32.4 % | 13.5 % | 10.0 % | - | - | - | 7.0 % |
| EBIT % | 6.4 % | 4.9 % | -32.6 % | 8.4 % | 8.8 % | - | - | - | 5.6 % |
| EBT % | 5.9 % | 5.4 % | -43.6 % | 8.1 % | 8.5 % | - | - | - | 5.2 % |
| | | | | | | | | | |
| Assets as at 31 December | 783 | 969 | 398 | 620 | 563 | 375 | -514 | - | 3,194 |
| Capital employed as at 31 December | 296 | 182 | 317 | 403 | 405 | 42 | -444 | - | 1,202 |
| Return on capital employed | 42.8 % | 82.3 % | -11.6 % | 22.6 % | 20.5 % | - | - | - | 33.0 % |
| Order backlog as at 31 December | 888 | 2,382 | 9 | 1,285 | 556 | - | -207 | - | 4,912 |
| Number of employees as at 31 December | 679 | 737 | 14 | 348 | 183 | 86 | - | - | 2,047 |
| | | | | | | | | | |
| **Cash flow** | | | | | | | | | |
| Net cash flow from operating activities | 162 | 62 | 78 | 38 | 52 | -71 | 80 | - | 402 |
| Net cash flow from investment activities | -4 | -26 | 3 | -248 | -221 | 16 | 142 | - | -338 |
| **Net cash flow before financing activities** | **158** | **36** | **81** | **-210** | **-169** | **-55** | **222** | **-** | **64** |

**Geographic distribution of revenue and assets**

The tables below show revenue and assets broken down by the countries in which the Group operates.

| 2010<br>Geographic distribution of revenue | Civil<br>Engineering | Building | Property | Environ-<br>ment | Energy | Others | Elim. | IFRIC 15 | Total |
|---|---|---|---|---|---|---|---|---|---|
| Norway | 2,034 | 1,911 | 134 | 642 | 564 | 140 | -171 | -32 | 5,222 |
| Sweden | 125 | 356 | - | 12 | - | - | - | - | 493 |
| Other | - | - | - | 112 | - | - | - | - | 112 |
| **Total** | **2,158** | **2,267** | **134** | **767** | **564** | **140** | **-171** | **-32** | **5,828** |
| | | | | | | | | | |
| **Geographic distribution of non-current assets excl. financial instruments and deferred tax assets** | | | | | | | | | |
| Norway | 150 | 54 | 52 | 180 | 294 | 51 | -26 | - | 754 |
| Sweden | 11 | 134 | - | 3 | - | - | - | - | 147 |
| Other | - | - | - | - | - | - | - | - | - |
| **Total** | **161** | **187** | **52** | **182** | **294** | **51** | **-26** | **-** | **901** |
| | | | | | | | | | |
| **Geographic distribution of assets** | | | | | | | | | |
| Norway | 1,023 | 646 | 327 | 732 | 480 | 437 | -1,018 | -12 | 2,616 |
| Sweden | 56 | 292 | - | 5 | - | - | - | - | 353 |
| Other | - | - | - | 44 | - | - | - | - | 44 |
| **Total** | **1,079** | **938** | **327** | **782** | **480** | **437** | **-1,018** | **-12** | **3,013** |

| 2009<br>Geographic distribution of revenue | Civil Engineering | Building | Property | Environ-ment | Energy | Others | Elim. | IFRIC 15 | Total |
|---|---|---|---|---|---|---|---|---|---|
| Norway | 1,656 | 2,130 | 51 | 630 | 598 | -6 | -310 | - | 4,749 |
| Sweden | 112 | 431 | - | 14 | - | - | -3 | - | 554 |
| Other | - | - | - | 99 | - | - | -1 | - | 98 |
| **Total** | **1,768** | **2,561** | **51** | **743** | **598** | **-6** | **-315** | **-** | **5,401** |
| | | | | | | | | | |
| **Geographic distribution of revenue** | | | | | | | | | |
| Norway | 757 | 946 | 320 | 993 | 499 | 491 | -1,182 | - | 2,822 |
| Sweden | 153 | 38 | - | 6 | - | -7 | - | - | 190 |
| Other | - | - | - | 45 | 2 | | - | - | 47 |
| **Total** | **795** | **1 099** | **320** | **1,043** | **501** | **484** | **-1,182** | **-** | **3,059** |

| 2008<br>Geographic distribution of revenue | Civil Engineering | Building | Property | Environ-ment | Energy | Others | Elim. | IFRIC 15 | Total |
|---|---|---|---|---|---|---|---|---|---|
| Norway | 1,868 | 2,246 | 102 | 653 | 542 | - | -320 | - | 5,091 |
| Sweden | 176 | 635 | - | 14 | - | - | - | - | 825 |
| **Total** | **2,044** | **2,881** | **102** | **667** | **542** | **-** | **-320** | **-** | **5,916** |
| | | | | | | | | | |
| **Geographic distribution of revenue** | | | | | | | | | |
| Norway | 714 | 615 | 398 | 603 | 563 | 375 | -514 | | 2,754 |
| Sweden | 69 | 354 | - | 17 | - | - | - | - | 440 |
| **Total** | **783** | **969** | **398** | **620** | **563** | **375** | **-514** | **-** | **3,194** |

# Note 4 Operating and other revenue

| Amounts in NOK million | 2010 | 2009 | 2008 |
|---|---|---|---|
| Contract income | 5,641 | 5,186 | 5,550 |
| Other sales revenue | 12 | 17 | 66 |
| Revenue from projects for own account | 98 | 110 | 264 |
| **Total operating revenue** | **5,751** | **5,314** | **5,880** |
| | | | |
| Rental income | 14 | 17 | 8 |
| Other revenue | 63 | 71 | 29 |
| **Total other revenue** | **77** | **87** | **37** |
| | | | |
| **Total operating and other revenue** | **5,828** | **5,401** | **5,916** |

# Note 5 Remuneration of employees and senior executives

| Amounts in NOK million | 2010 | 2009 | 2008 |
|---|---|---|---|
| Fixed pay | -1,197 | -1,143 | -1,118 |
| Social security costs | -180 | -159 | -183 |
| Retirement benefit costs (see note 25) | -41 | -33 | -42 |
| Share-value based remuneration (option cost) | -12 | -4 | -4 |
| Other benefits | -80 | -74 | -93 |
| **Total payroll costs** | **-1,511** | **-1,412** | **-1,440** |
| | | | |
| **Average number of employees** | | | |
| Norway | 1,702 | 1,826 | 1,921 |
| Sweden | 181 | 191 | 252 |
| Poland | 10 | 8 | 6 |
| China | 3 | 2 | - |
| **Total** | **1,896** | **2,027** | **2,179** |

**Remuneration of senior executives**

The salaries of senior executives are made up of a fixed salary and a bonus based on the EVA model. The AF Group uses EVA as a management and control tool. EVA is a method of calculating and analysing value creation in the Group and in economic units below group level. The aim of this analysis is to ensure that every part of the Group works to increase value creation. Incentive systems based on the EVA model have been introduced for executives in large parts of the Group. Senior executives may invest 25-50 % of their net bonus after tax in shares in the Company. The shares are sold at a 20 % discount based on the prevailing market price at the end of the year. The lock-in period for the shares is 1 year.

The CEO's salary is set at a Board Meeting every year. The Board of Directors establishes guidelines for the remuneration of senior executives 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 the AF Group's employees as described in note 25 on retirement benefits.

No loans or guarantees have been granted to the Board of Directors or Corporate Management Team.

| **Corporate Management Team 2010** (Amounts in NOK 1,000) | Fixed pay | Bonus | Retirement benefits | Other benefits | Total |
|---|---|---|---|---|---|
| Pål Egil Rønn, CEO | 2,645 | 2,066 | 33 | 114 | 4,858 |
| Sverre Hærem, Executive Vice President/CFO | 1,681 | 1,405 | 33 | 92 | 3,211 |
| Robert Haugen, Executive Vice President | 1,690 | 1,405 | 33 | 90 | 3,218 |
| Tore Fjukstad, Executive Vice President | 1,726 | 1,405 | 33 | 104 | 3,267 |
| Paul-Terje Gundersen, Executive Vice President from 1 October | 1,640 | 1,661 | 33 | 100 | 3 434 |
| Jørgen Hals, Executive Vice President until 1 October | 534 | 275 | 8 | 45 | 863 |
| Total remuneration of the Corporate Management Team | 1,168 | 1,405 | 22 | 123 | 2,718 |
| **Samlet godtgjørelse til konsernledelsen** | **9,445** | **7,961** | **161** | **568** | **18,134** |

| **Corporate Management Team 2009** (Amounts in NOK 1,000) | Fixed pay | Bonus | Retirement benefits | Other benefits | Total |
|---|---|---|---|---|---|
| Pål Egil Rønn, CEO | 2,286 | 1,503 | 31 | 91 | 3,911 |
| Sverre Hærem, Executive Vice President/CFO | 1,622 | 1,042 | 31 | 93 | 2,788 |
| Robert Haugen, Executive Vice President | 1,655 | 1,042 | 31 | 93 | 2,821 |
| Tore Fjukstad, Executive Vice President | 1,667 | 1,042 | 31 | 105 | 2,845 |
| Arild Moe, Executive Vice President | 1,425 | 1,040 | 31 | 74 | 2,570 |
| Jørgen Hals, Executive Vice President | 1,463 | 1,042 | 31 | 148 | 2,684 |
| **Total remuneration of the Corporate Management Team** | **10,118** | **6,711** | **186** | **604** | **17,619** |

| **Corporate Management Team 2008** (Amounts in NOK 1,000) | Fixed pay | Bonus | Retirement benefits | Other benefits | Total |
|---|---|---|---|---|---|
| Pål Egil Rønn, CEO | 1,955 | 1,139 | 34 | 170 | 3,298 |
| Sverre Hærem, Executive Vice President/CFO | 1,365 | 871 | 34 | 153 | 2,423 |
| Robert Haugen, Executive Vice President | 1,669 | 871 | 34 | 152 | 2,726 |
| Tore Fjukstad, Executive Vice President | 1,546 | 871 | 34 | 121 | 2,572 |
| Jørgen Hals, Group Vice President from 1 June 2008 | 748 | - | 15 | 57 | 820 |
| **Total remuneration of the Corporate Management Team** | **7,283** | **3,752** | **151** | **653** | **11,839** |

Shares owned by senior executives and subscribed options are described in note 23.

| **Board of Directors' fees** (Amounts in NOK 1,000) | **2010** | **2009** | **2008** |
|---|---|---|---|
| Tore Thorstensen, Chairman of the Board from 28 May 2010 | 150 | - | - |
| Eli Arnstad, Board Member from 10 May 2008 | 150 | 135 | - |
| Mari Broman, Board Member from 4 January 2008 | 150 | 135 | 40 |
| Carl Henrik Eriksen, Board Member | 165 | 155 | 130 |
| Peter Groth, Board Member from 9 May 2008 | 145 | 155 | 70 |
| Torstein Lange Larssen, Board Member from 10 May 2008 | 120 | 115 | - |
| Nils-Henrik Pettersson, Chairman of the Board from 10 May 2008 to 28 May 2010 [1)] | 300 | 285 | - |
| Arne Røthe, Board Member | 120 | 115 | 110 |
| Rune Dale, Board Member | - | 115 | 110 |
| Lars A. Christensen, Chairman of the Board until 9 May 2008 | - | - | 275 |
| Leif Jørgen Moger, Board Member until 9 May 2008 | - | - | 110 |
| Erik Frogner, Board Member until 23 May 2008 | - | - | 110 |
| Leif Andersson, Board Member until 9 May 2008 | - | - | 110 |
| Anne Mürer, Board Member until 9 May 2008 | - | - | 130 |
| Long Litt Woon, Board Member until 9 May 2008 | - | - | 130 |
| **Total Board of Directors' fees** | **1,300** | **1,210** | **1,325** |

[1)] Nils-Henrik Pettersson, Chairman of the Board until 28 May 2008, is a partner in the law firm Schjødt. In addition to regular to ordinary directors' fees, NOK 88,000 in fees for legal services from Schjødt was charged to the income statement in 2010.

| **Pay and other benefits to employee representatives on the Board**<br>Amounts in NOK 1,000 | **Fixed pay** | **Bonus** | **Retirement benefits** | **Other benefits** | **Total** |
|---|---|---|---|---|---|
| Tor Olsen | 803 | - | 29 | 48 | **880** |
| Henrik Nilsson | 546 | - | 12 | 47 | **605** |
| Arne Sveen | 526 | - | 11 | 14 | **551** |

**Bonus for the purchase of shares**

Part of the senior executives' pay is based on the EVA (Economic Value Added) model. Eligible managers may invest some of their net bonus after tax in the Company's shares. The shares are sold at a 20% discount based on the prevailing market price at the end of the year. The lock-in period for the shares is 1 year.

| **Number of shares/price** | **2010** | **2009** | **2008** |
|---|---|---|---|
| Number of bonus shares sold from own holdings | 329,400 | 257,000 | 153,500 |
| Number of bonus shares from new issue - without discount | - | 342,500 | - |
| Market price as at date of agreement (amounts in whole NOK) | 31.80 | 18.30 | 27.00 |
| Selling price (amounts in whole NOK) | 25.44 | 14.64 | 21.60 |
| Impact of bonus shares on the financial statements (NOK 1,000): | | | |
| Payroll costs (discount including social security costs) | -2,321 | -1,023 | -946 |

**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 as the difference between the average market price during the subscription period and the market price on the date of purchase.

| **Number of shares/price** | **2010** | **2009** | **2008** |
|---|---|---|---|
| Number of shares sold from own holdings | 162,700 | - | 500,000 |
| Number of shares from new issue - without discount | 622,000 | 804,000 | 500,000 |
| Market price during subscription period (amounts in whole kroner) | 39.10 | 19.00 | 27.00 |
| Selling price (amounts in whole NOK) | 31.28 | 15.20 | 21.60 |
| Impact of sale of shares to employees on the financial statements (amounts in NOK 1,000): | | | |
| Payroll costs (discount including social security costs) | -2,138 | -90 | -3,081 |

**Option scheme**
In January 2008, the General Meeting adopted an option scheme for all employees in the AF Group. The maximum number of options that could be granted was 12,500,000. Each option entitled the holder to purchase one share in AF Gruppen ASA. The option scheme entailed an annual allotment of options for 2008, 2009 and 2010, with the allotting starting in 2008 and ending in 2010.

The employees paid an option premium of NOK 0.60 per option. The exercise price was set at the market value of the shares on 31 December of the previous year, with, however, a minimum price of NOK 27.00. When options were allotted in 2010, employees subscribed for a total of 2,751,250 (2009: 505,000, 2008: 2,520,000) options. Total number of outstanding options as at 31 December 2010 was 5,251,250, adjusted for options subscribed by employees who have left the Group. Weighted average value of the options is NOK 14.75 as at 31 December 2010.

5,163,750 options were exercised on 15 February 2011. An option could only be exercised if the holder was still employed by the Company on 31 December 2010.

The AF Group used Merton's model to value the options. The following assumptions were used in the model:

| | 2010 | 2009 | 2008 |
|---|---|---|---|
| Expected dividend yield (%) | 4.20 | 7.37 | 4.00 |
| Historical volatility (%) | 41.4 | 43.5 | 32.8 |
| Risk-free interest (%) | 4.0 | 3.9 | 4.7 |
| Expected life of option (years) | 1 | 2 | 3 |
| Share price (NOK) | 31.8 | 27.0 | 27.0 |
| Payment for option (NOK) | 0.6 | 0.6 | 0.6 |

**Accounting effect of the option scheme:**

| Amounts in NOK 1,000 | 2010 | 2009 | 2008 |
|---|---|---|---|
| Payroll costs | -11,510 | -4,087 | -4,171 |
| Debt - option premium paid | 3,132 | 1,659 | 1,512 |

Since further grants of options will not be made in 2011 the option scheme is not expected to affect earnings in 2011. The debt will be redeemed when the options are exercised in February 2011, while the effect on equity as at 31 December 2010 will remain in the accounts.

| **Reconciliation of options** | |
|---|---|
| Number of options as at 31 December 2009 | 2,771,250 |
| Options subscribed for in 2010 | 2,751,250 |
| Adjusted for employees who have left | -271,250 |
| Number of options as at 31 December 2010 | 5,251,250 |

**Guidelines for 2010**
The Board will submit a statement to the General Meeting in accordance with section 6-16a of the Norwegian Public Limited Companies Act. The contents of the statement are 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 senior executives 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 on 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 % can be used to buy shares at a 20 % 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.

In January 2008, the General Meeting of AF Gruppen ASA adopted an option scheme that included all the employees in the AF Group. The option scheme was established by the Board, and was to provide an incentive for all the employees in the Group. The purpose of the scheme was 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 scheme gave the employees an opportunity to buy shares in AF Gruppen ASA.

Under the options scheme the Group's employees were given the opportunity to buy options each year in 2008, 2009 and 2010. This was accomplished by granting the individual employee a certain number of options annually. Employees were granted a specific number of options each year, all of which had to be accepted.

The remuneration of senior executives in 2010 was in accordance with the statement submitted to the General Meeting in 2010.

# Note 6 Other operating expenses

| Amounts in NOK million | 2010 | 2009 | 2008 |
|---|---|---|---|
| **Other operating expenses** | | | |
| Rent | -94 | -58 | -41 |
| Other rental expenses | -180 | -209 | -208 |
| Remuneration of auditor | -3 | -5 | -5 |
| Other fees (attorney, consultant, etc.) | -52 | -100 | -112 |
| Bad debts | -10 | -2 | -2 |
| Sundry other operating expenses | -332 | -231 | -252 |
| **Total other operating expenses** | **-671** | **-604** | **-620** |

| Amounts in NOK 000) | 2010 | 2009 | 2008 |
|---|---|---|---|
| **Remuneration of Ernst & Young** | | | |
| Statutory auditing | -1,729 | -2,518 | -2,227 |
| Other verification services | -28 | -1,042 | -3 |
| Tax consulting | -100 | -120 | -981 |
| Other non-audit services | - | -68 | -705 |
| **Total** | **-1,857** | **-3,747** | **-3,916** |
| | | | |
| **Remuneration of other auditors** | | | |
| Statutory auditing | -973 | -771 | -1,006 |
| Assistance | -162 | -85 | -235 |
| **Total** | **-1,135** | **-856** | **-1,241** |
| | | | |
| **Total remuneration of auditor** | **-2,992** | **-4,603** | **-5,157** |

Value-added tax is not included in the audit fees.

# Note 7 Net gains (losses)

| Amounts in NOK million | 2010 | 2009 | 2008 |
|---|---|---|---|
| Dividend | - | 1 | - |
| Total gains/(losses) on sale of shares in subsidiaries | 54 | 3 | - |
| Total gains/(losses) on sale of shares in joint ventures | - | 4 | - |
| Total fair value adjustments of financial derivatives | -5 | 4 | - |
| Net gains/(losses) on sales of property, plant and equipment | 10 | 6 | - |
| Net foreign exchange gains/(losses) related to operations | 3 | -1 | - |
| **Total net gains/(losses)** | **62** | **17** | **-** |

# Note 8 Net financial items

| Amounts in NOK million | 2010 | 2009 | 2008 |
|---|---|---|---|
| **Financial income** | | | |
| Interest income | 7 | 66 | 18 |
| Other financial income | 2 | 1 | - |
| **Total financial income** | **9** | **67** | **18** |
| | | | |
| **Financial expenses** | | | |
| Interest expense on loans and overdraft facilities | -1 | -16 | -24 |
| Interest expense on financial leases | -1 | -2 | -5 |
| Other interest expenses | -3 | - | - |
| Other financial expenses | - | -1 | - |
| **Total financial expenses** | **-5** | **-19** | **-29** |
| | | | |
| **Financial gains (losses) and changes in value** | | | |
| Net foreign exchange gains (losses) related to financing | 3 | -8 | 6 |
| Value adjustment of financial assets at fair value through profit or loss | -1 | 2 | -10 |
| Impairment of financial investments | - | -10 | -16 |
| Revaluation of financial liability | - | - | 10 |
| **Total financial gains (losses) and changes in value** | **3** | **-16** | **-10** |
| | | | |
| **Net financial items** | **6** | **32** | **-21** |

# Note 9 Tax expense

| Amounts in NOK million | 2010 | 2009 | 2008 |
|---|---|---|---|
| Current tax payable for the year | -72 | -5 | -2 |
| Adjustment for previous years | -31 | 1 | - |
| **Total current tax payable** | **-103** | **-4** | **-2** |
| | | | |
| Change in temporary differences | 8 | -92 | -87 |
| **Total deferred tax** | **8** | **-92** | **-87** |
| | | | |
| **Total tax expense** | **-95** | **-96** | **-88** |
| | | | |
| **Reconciliation of current tax payable in income statement against current tax payable in balance sheet:** | | | |
| Current tax payable for the year | 72 | 5 | 2 |
| Effect related to sale and purchase of operations | -3 | - | - |
| Currency translation differences | -1 | - | - |
| **Current tax payable in balance sheet** | **69** | **5** | **2** |

**Reconciliation of income tax expense calculated at the Norwegian tax rate and tax expense as presented in the income statement:**

| | | 2010 | | 2009 | | 2008 |
|---|---|---|---|---|---|---|
| Profit before tax | | 372 | | 366 | | 308 |
| Expected income tax at Norwegian nominal rate | *-28.0 %* | -104 | *-28.0 %* | -103 | *-28.0 %* | -86 |
| Tax effects of: | | | | | | |
| - Divergent foreign tax rate | *-0.5 %* | -2 | - | - | - | - |
| - Non-deductible expenses | *-1.4 %* | -5 | *-2.9 %* | -11 | *-3.1 %* | -10 |
| - Non-taxable income | *4.8 %* | 18 | *2.7 %* | 10 | *3.0 %* | 9 |
| - Change in valuation of deferred tax assets | *-0.3 %* | -1 | *1.2 %* | 5 | *-1.0 %* | -3 |
| - Excessive/insufficient provisions in previous years | *-0.2 %* | -1 | *0.8 %* | 3 | *0.5 %* | 2 |
| **Effective tax rate/tax expense in income statement** | *-25.6 %* | **-95** | *-26.3 %* | **-96** | *-28.7 %* | **-88** |

There are no tax expenses related to items in comprehensive income.

# Note 10 Deferred tax/deferred tax assets

Amounts in NOK million

| Change in recognised deferred tax | 2010 | 2009 | 2008 |
|---|---|---|---|
| Carrying amount as at 1 January | 276 | 190 | 80 |
| Charged/(credited) to the income statement | -8 | 92 | 87 |
| Acquisition of enterprise | -4 | -6 | 23 |
| Currency translation difference | -1 | - | - |
| **Carrying amount as at 31 December** | **263** | **276** | **190** |

The movement in deferred income tax assets and liabilities during the year, without takinginto consideration the offsetting of balances within the same tax jurisdiction, is as follows:

| 2010<br>Deferred tax | Balance sheet as at 1 January 2010 | Charged/(credited) to the income statement | Acquisition of enterprise | Balance sheet as at 31 December 2010 |
|---|---|---|---|---|
| Property, plant and equipment | - | 2 | 8 | 10 |
| Intangible assets | 6 | -1 | - | 5 |
| Projects in progress [1)] | 315 | 20 | - | 335 |
| Retirement benefits | 4 | - | - | 4 |
| Provisions | - | 1 | - | 1 |
| **Total** | **325** | **22** | **8** | **355** |

| Deferred tax assets | Balance sheet as at 1 January 2010 | Charged/(credited) to the income statement | Acquisition of enterprise | Balance sheet as at 31 December 2010 |
|---|---|---|---|---|
| Property, plant and equipment | -13 | 6 | - | -7 |
| Other assets | -1 | -3 | - | -4 |
| Provisions | -10 | -19 | - | -29 |
| Other | -2 | -4 | - | -6 |
| Recognised tax value of tax loss carryforward [2)] | -23 | -11 | -12 | -46 |
| **Total** | **-49** | **-31** | **-12** | **-92** |

| 2009<br>Deferred tax | Balance sheet as at 1 January 2009 | Charged/(credited) to the income statement | Acquisition of enterprise | Balance sheet as at 31 December 2009 |
|---|---|---|---|---|
| Intangible assets | 10 | -3 | - | 6 |
| Projects in progress [1)] | 230 | 85 | - | 315 |
| Retirement benefits | 2 | 1 | - | 4 |
| Other | 1 | -1 | - | - |
| **Total** | **243** | **82** | **-** | **325** |

| Deferred tax assets | Balance sheet as at 1 January 2009 | Charged/(credited) to the income statement | Acquisition of enterprise | Balance sheet as at 31 December 2009 |
|---|---|---|---|---|
| Property, plant and equipment | -11 | -3 | - | -13 |
| Other assets | - | -2 | - | -1 |
| Provisions | -15 | 5 | - | -10 |
| Other | - | -1 | -1 | -2 |
| Recognised tax value of tax loss carryforward [2)] | -28 | 11 | -5 | -23 |
| **Total** | **-53** | **10** | **-6** | **-49** |

| 2008<br>Deferred tax | Balance sheet as at 1 January 2008 | Charged/(credited) to the income statement | Acquisition of enterprise | Balance sheet as at 31 December 2008 |
|---|---|---|---|---|
| Intangible assets | -5 | 6 | 8 | 10 |
| Projects in progress [1] | 151 | 73 | 6 | 230 |
| Retirement benefits | -1 | 4 | - | 2 |
| Other | 16 | -15 | - | 1 |
| **Total** | **161** | **68** | **14** | **243** |

| Deferred tax assets | Balance sheet as at 1 January 2008 | Charged/(credited) to the income statement | Acquisition of enterprise | Balance sheet as at 31 December 2008 |
|---|---|---|---|---|
| Property, plant and equipment | -12 | 1 | - | -11 |
| Other assets | - | 2 | -1 | - |
| Provisions | -8 | -6 | -1 | -15 |
| Recognised tax value of tax loss carryforward [2] | -61 | 22 | 11 | -28 |
| **Total** | **-81** | **19** | **9** | **-53** |

[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 completion.

[2] Deferred income tax assets are recognised for tax loss carryforwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group did not recognise deferred income tax assets of NOK 8 million (NOK 6 million in 2009 and NOK 2 million in 2008) in respect of losses in Poland that can be carried forward against future taxable income. This tax loss carryforward is subject to a time limit. Recognised tax loss carryforwards are not subject to a time limit and amount to NOK 151 million (NOK 75 million in 2009 and NOK 99 million in 2008).

No deferred tax is calculated on unremitted earnings of subsidiaries and associates since the companies are within the EU and the earnings can be distributed tax-free as dividends.

| Classification in the balance sheet | 2010 | 2009 | 2008 |
|---|---|---|---|
| Deferred tax assets | -39 | - | -15 |
| Deferred tax | 302 | 276 | 205 |
| **Net deferred tax in the balance sheet** | **263** | **276** | **190** |

# Note 11 Earnings and dividend per share

**Earnings per share**

| Amounts in whole NOK | 2010 | 2009 | 2008 |
|---|---|---|---|
| Profit for the year attributable to Parent Company shareholders | 276,716,400 | 269,346,721 | 217,725,000 |
| Number of shares: | | | |
| Time-weighted average number of externally owned shares[1] | 70,506,090 | 69,923,185 | 68,860,590 |
| Dilutive effect of share value-based remuneration [2] | 1,993,913 | 91,321 | - |
| Time-weighted average number of externally owned shares after dilution | 72,500,003 | 70,014,506 | 68,860,590 |
| **Earnings per share** | **3.92** | **3.85** | **3.16** |
| Diluted earnings per share | 3.82 | 3.85 | 3.16 |

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

[2] The AF Group's share-value based remuneration scheme (options), see note 5, entails that externally owned shares may be diluted as a result of the redemption of options. To take the future increase in the number of externally owned shares into account, the diluted earnings per share is calculated in addition to the earnings per share. In this calculation the average number of externally owned shares is adjusted to take the dilution effect into account.

**Dividend per share**
An ordinary dividend of NOK 1.60 per share for the 2009 financial year, representing a total of NOK 113 million, was paid to shareholders on 8 June 2010. An extraordinary dividend of NOK 2.00 per share, representing a total of NOK 141 million, was adopted in connection with the sale of the Environmental Base at Vats and was paid on 4 November 2010.

For the 2010 financial year, the Board proposes a dividend of NOK 4.50 per share. It is expected that the dividend will be paid to the shareholders on 1 June 2011. The dividend must be approved by the General Meeting, and there is no provision for the liability in the balance sheet. The proposed dividend will be paid to all shareholders registered with the Norwegian Central Securities Depository (VPS) on 13 May 2011. No dividend will be paid on the Company's treasury shares. The total estimated dividend for the 2010 financial year is NOK 343 million.

**Capital increase 2011**
In connection with the redemption of options by employees, (see note 5) the Board of Directors of AF Gruppen ASA resolved to issue 5,163,750 shares in a private placing. The total number of shares after the issue is 76,281,690. The issued shares are entitled to dividends for 2010.

| Amounts in whole NOK | 2010 | 2009 | 2008 |
|---|---|---|---|
| Total number of shares as at 31 December | 71,117,940 | 70,495,940 | 69,349,440 |
| Issue of new shares 14 February 2011 | 5,163,750 | - | - |
| Number of dividend entitled shares | 76 281 690 | 70,245,895 | 69,029,290 |
| Dividend per share | 4,50 | 1,60 | 1,40 |
| Total estimated dividend | 343,267,605 | 112,393,432 | 96,641,006 |

As at 31 December 2010 the AF Group had 450,000 treasury shares. Treasury shares are not entitled to dividend. The AF Group is not expected to have treasury shares at the time dividends are paid.

# Note 12 Property, plant and equipment

| Amounts in NOK million | Buildings and prod. facilities | Machinery and equipment | Total |
|---|---|---|---|
| **2010 financial year** | | | |
| Carrying amount as at 1 January 2010 | 562 | 186 | 748 |
| Translation differences, acquisition cost | - | 3 | 3 |
| Translation differences, accumulated depreciation | - | -2 | -2 |
| Ordinary additions | 6 | 100 | 106 |
| Additions from acquisition of enterprises | 35 | 55 | 90 |
| Reclassification from non-current assets to intangible assets | - | -2 | -2 |
| Disposals, accumulated depreciation | 28 | 81 | 109 |
| Disposals at cost price | -566 | -92 | -658 |
| Depreciation and impairment for the year | -19 | -68 | -87 |
| **Carrying amount as at 31 December 2010** | **46** | **262** | **308** |
| | | | |
| **As at 31 December 2010** | | | |
| Acquisition cost | 48 | 522 | 570 |
| Accumulated depreciation | -2 | -259 | -261 |
| **Carrying amount as at 31 December 2010** | **46** | **262** | **308** |
| | | | |
| **2009 financial year** | | | |
| Carrying amount as at 1 January 2009 | 258 | 205 | 463 |
| Translation differences, acquisition cost | - | -5 | -5 |
| Translation differences, accumulated depreciation | - | 3 | 3 |
| Ordinary additions | 316 | 65 | 381 |
| Additions from acquisition of enterprises | - | - | - |
| Disposals, accumulated depreciation | - | 62 | 62 |
| Disposals at cost price | -1 | -79 | -80 |
| Depreciation and impairment for the year | -11 | -64 | -75 |
| **Carrying amount as at 31 December 2009** | **562** | **186** | **748** |

| Amounts in NOK million | Buildings and prod. facilities | Machinery and equipment | Total |
|---|---|---|---|
| **As at 31 December 2009** | | | |
| Acquisition cost | 575 | 500 | 1,075 |
| Accumulated depreciation | -12 | -314 | -327 |
| **Carrying amount as at 31 December 2009** | **562** | **186** | **748** |
| | | | |
| **2008 financial year** | | | |
| Carrying amount as at 1 January 2008 | 45 | 239 | 284 |
| Translation differences | - | - | - |
| Ordinary additions | 202 | 52 | 254 |
| Additions from acquisition of enterprises | 12 | 7 | 19 |
| Disposals at cost price | - | -70 | -70 |
| Disposals, accumulated depreciation | - | 50 | 50 |
| Depreciation and impairment for the year | -1 | -73 | -74 |
| **Carrying amount as at 31 December 2008** | **258** | **205** | **463** |
| | | | |
| **As at 31 December 2008** | | | |
| Acquisition cost | 260 | 520 | 780 |
| Accumulated depreciation | -2 | -315 | -317 |
| **Carrying amount as at 31 December 2008** | **258** | **205** | **463** |

| **Leasing** | **2010** | **2009** | **2008** |
|---|---|---|---|
| **Operating leases** (annual rent) | 274 | 267 | 249 |
| **Financial leasing** (Capitalised leases, machinery and equipment) | 17 | 35 | 59 |

**Depreciation rates**

Non-current assets are depreciated over the expected economic life of the asset. Production-related machinery is normally depreciated using the reducing balance method, while other property, plant and equipment are depreciated on a straight-line basis.

| **The following depreciation rates have been used:** | |
|---|---|
| Machinery and equipment | 10–33 % |
| Buildings and prod. facilities | 2–5 % |
| Land | 0 % |

**Collateral**

Information about collateralised property, plant and equipment is given in note 35.

**Capitalised interest**

In 2008 and 2009, property, plant and equipment, buildings and production facilities include capitalised interest related to the Environmental Base at Vats. The Environmental Base at Vats was built in house and was completed in 2009. As at 31 December 2008 the environmental base was plant and equipment in progress that was included in Buildings and production facilities. The Environmental Base at Vats was sold on 15 November 2010. AF Group has no other capitalised interest included in property, plant and equipment.

| **Environmental Base at Vats** | **2010** | **2009** | **2008** |
|---|---|---|---|
| Capitalised interest | - | 8 | 3 |
| Carrying amount as at 31 December | - | 547 | 240 |

# Note 13 Intangible assets

| Amounts in NOK million | Goodwill | Licences | Customer relationships | Quarrying rights | Total |
|---|---|---|---|---|---|
| **2010 financial year** | | | | | |
| Carrying amount as at 1 January 2010 | 429 | 1 | 24 | 4 | 458 |
| Ordinary additions | - | - | 1 | - | 1 |
| Additions from acquisition of enterprises | 11 | - | - | - | 11 |
| Reclassification from non-current assets to intangible assets | - | - | 2 | - | 2 |
| Disposals from sale of enterprises | - | - | - | - | |
| Impairment losses | - | - | -1 | - | -1 |
| Amortisation for the year | - | - | -8 | - | -8 |
| Translation differences | 6 | - | - | - | 6 |
| **Carrying amount as at 31 December 2010** | **445** | **1** | **17** | **3** | **467** |
| | | | | | |
| **As at 31 December 2010** | | | | | |
| Acquisition cost | 445 | 2 | 42 | 12 | 500 |
| Accumulated amortisation and impairment losses | - | - | -24 | -8 | -33 |
| **Carrying amount as at 31 December 2010** | **445** | **1** | **17** | **3** | **467** |
| | | | | | |
| **2009 financial year** | | | | | |
| Carrying amount as at 1 January 2009 | 440 | - | 31 | 4 | 475 |
| Translation differences | -9 | - | - | - | -9 |
| Ordinary additions | - | 1 | - | - | 2 |
| Additions from acquisition of enterprises | - | - | - | - | - |
| Disposals from sale of enterprises | -2 | - | - | - | -2 |
| Amortisation for the year | - | - | -8 | - | -8 |
| **Carrying amount as at 31 December 2009** | **429** | **1** | **24** | **4** | **458** |
| | | | | | |
| **As at 31 December 2009** | | | | | |
| Acquisition cost | 429 | 1 | 38 | 12 | 484 |
| Accumulated amortisation and impairment losses | - | - | -15 | -8 | -27 |
| **Carrying amount as at 31 December 2009** | **429** | **1** | **24** | **4** | **458** |
| | | | | | |
| **2008 financial year** | | | | | |
| Carrying amount as at 1 January 2008 | 226 | - | 7 | 11 | 244 |
| Translation differences | 6 | - | - | - | 6 |
| Ordinary additions | - | - | 1 | - | - |
| Additions from acquisition of enterprises | 208 | - | 30 | - | 238 |
| Amortisation for the year | - | - | -7 | -7 | -14 |
| **Carrying amount as at 31 December 2008** | **440** | **-** | **31** | **4** | **475** |
| | | | | | |
| **As at 31 December 2008** | | | | | |
| Acquisition cost | 440 | - | 38 | 12 | 493 |
| Accumulated amortisation and impairment losses | - | - | -7 | -8 | -19 |
| **Carrying amount as at 31 December 2008** | **440** | **-** | **31** | **4** | **475** |

| | Licences | Customer relationships | Quarrying rights |
|---|---|---|---|
| Economic life | 5 years | 5 years | 22 years |
| Amortisation schedule | Straight-line | Straight-line | Straight-line |

Intangible assets related to customer relationships were written down by NOK 1 million in BA Gjenvinning AS in 2010.

**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. Goodwilll is mainly allocated to business units. The allocation is shown in the summary below:

| Amounts in NOK million | 2010 | 2009 | 2008 |
|---|---|---|---|
| AF Anlegg | 11 | - | - |
| Pålplintar i Sverige AB | 3 | 3 | 3 |
| **Total Civil Engineering** | **14** | **3** | **3** |
| | | | |
| AF Bygg Østfold | 47 | 47 | 47 |
| AF Bygg Gøteborg AB | 77 | 72 | 80 |
| **Total Building** | **124** | **119** | **127** |
| | | | |
| AF Decom AS | 37 | 37 | 37 |
| Svensk Kross & Återvinning AB | - | - | 2 |
| **Total Environment** | **37** | **37** | **39** |
| | | | |
| AF Energi & Miljøteknikk AS | 55 | 55 | 55 |
| Mollier AS | 29 | 29 | 29 |
| Aeron AS | 186 | 186 | 186 |
| **Total Energy** | **270** | **271** | **270** |
| | | | |
| **Carrying amount as at 31 December** | **445** | **429** | **440** |

**Impairment tests for goodwill**
The Group carries out annual tests to assess the impairment of goodwill and intangible assets. In the impairment test the book value is measured against the recoverable amount from the cash-generating unit to which the asset is allocated. Recoverable amounts from cash-generating units are determined by estimating their value in use. The value in use is calculated on the basis of discounting the future anticipated cash flows before tax with a relevant discount rate (WACC) before tax that takes the term and risk into account. Different discount rates were used for the Norwegian and Swedish operations as a result of differences in risk-free interest and tax.

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

| **Norway** | **2010** | **2009** | **2008** |
|---|---|---|---|
| Growth rate [1] | 2.00 % | 2.50 % | 2.50 % |
| WACC before tax | 11.51 % | 12.60 % | 11.60 % |
| | | | |
| **Sweden** | **2010** | **2009** | **2008** |
| Growth rate [1] | 2.00 % | 2.50 % | 2.50 % |
| WACC before tax | 10.72 % | 12.60 % | 11.60 % |

[1] In 2009 and 2008, growth was estimated for only the first four years. Perpetual growth is assumed for 2010.

Anticipated cash flows are based on the budget for 2011 approved by the management. Insofar as they exist, management approved business plans for 2012 are also included in these calculations. Budgets and business plans are based on assumptions regarding, among other things, demand, cost of materials, cost of labour and the overall competitive situation in the markets in which the AF Group operates. The assumptions made are based on management's experience as well as external sources. A 4.0 % wage increase and 2.0 % increase in material costs are anticipated for all business units.

**Sensitivity analysis for key assumptions**

The calculated value of the individual cash-generating units exceeded the carrying amount by a relatively good margin at the end of 2010. Based on the existing knowledge, the Company's management believes that moderate changes in the key assumptions for the calculation of recoverable amounts will probably not necessitate the recognition of an impairment loss.

**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 the AF Group'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 100 and 500 basis points (i.e. 1 and 5 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 5 percentage point increase in the WACC will make it necessary to recognise an impairment loss for the goodwill allocated to AF Bygg Gøteborg and Aeron AS.

| | | | Remaining amount with increase of WACC with: | |
|---|---|---|---|---|
| Indexed values | **Recoverable amount** | **Book value of assets** | **100 bp** | **500 bp** |
| AF Bygg Østfold | 392 | 100 | 355 | 257 |
| AF Bygg Göteborg AB | 137 | 100 | 122 | 84 |
| AF Decom AS | 441 | 100 | 399 | 289 |
| AF Energi og Miljøteknikk AS | 154 | 100 | 139 | 101 |
| Mollier AS | 253 | 100 | 229 | 166 |
| Aeron AS | 119 | 100 | 107 | 76 |

**b) Sensitivity analysis of cash flows**

The table below shows the relationship between normalised cash flows assumed in the calculation of recoverable amount and the estimated 'break even' cash flow in the impairment test of the AF Group'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 % and 50 %. 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 50 % reduction in estimated cash flow will necessitate the recognition of an impairment loss for the goodwill allocated to AF Bygg Gøteborg, AF Energi og Miljøteknikk AS and Aeron AS.

| | | | Estimated cash flow reduced by: | |
|---|---|---|---|---|
| Indexed values | **Estimated cash flow** | **'Break even' cash flow** | **10.0 %** | **50.0 %** |
| AF Bygg Østfold | 393 | 100 | 354 | 196 |
| AF Bygg Göteborg AB | 151 | 100 | 135 | 75 |
| AF Decom AS | 441 | 100 | 397 | 221 |
| AF Energi og Miljøteknikk AS | 156 | 100 | 141 | 78 |
| Mollier AS | 253 | 100 | 228 | 127 |
| Aeron AS | 127 | 100 | 115 | 64 |

# Note 14 Changes in the Group's structure

**Business combination in 2011**
In February 2011, the AF Group signed a final agreement to acquire parts of the operations of Båtservice Offshore/Verft AS. AF Group is taking over all employees and net working capital and property, plant and equipment at the fair value of NOK 4 million. The business will continue as part of the AF Group's services to the offshore market. All employees of Båtservice Offshore/Verft will be transferred to the AF Group and the newly established undertaking AF Offshore Mandal. The division will continue to provide services to the offshore market in particular. The acquisition strengthens the AF Group's focus on the offshore maintenance and modification market.

**Business combination in 2010**
On 1 October 2010 the AF Group purchased 100 % the shares of the machinery contractor Johan Rognerud AS. The nationwide company has 70 employees and state-of-the-art expertise in earth moving. The company was acquired as part of a move to capture a larger share of the infrastructure projects market. Johan Rognerud AS will continue as a wholly owned subsidiary of the AF Group.

The acquisition of Johan Rognerud AS resulted in goodwill of NOK 11 million related to anticipated economies of scale resulting from the coordination of activities with the AF Group's other activities. No part of the goodwill is expected to be tax deductible.

The following table shows the consideration and the fair value of assets acquired and liabilities relating to the acquisition of Johan Rognerud AS:

| Amounts in NOK million | **Johan Rognerud AS** |
|---|---|
| Cash consideration | 10 |
| Contingent consideration, estimated fair value | 6 |
| **Total consideration to seller** | **16** |
| | |
| Property, plant and equipment | 58 |
| Deferred tax assets | 3 |
| Receivables | 76 |
| Non-current interest-bearing liabilities | -22 |
| Current interest-bearing liabilities | -13 |
| Trade payables | -97 |
| **Total net fair value of identifiable assets and liabilities** | **5** |
| | |
| **Goodwill** | **11** |

Based on the agreement on contingent consideration the AF Group is to pay the former owners of Johan Rognerud AS 50 % of the company's operating profit (EBIT) beyond an operating margin of 3.0 % for the next four years.

Since 1 October 2010 Johan Rognerud AS has contributed NOK 66 million in operating revenues and NOK 0 million in profit for the year in the consolidated income statement.

On 1 April 2010 AF purchased the remaining 50 % the shares of the property company Spalding Fastigheter KB. The company owns an industrial and office building in the Gothenburg area and was acquired free of charge. Spalding was previously classified as an associate and consolidated according to the equity method.

On 26 October 2010 AF Miljø AS purchased the remaining 50 % of BA Gjenvinning AS. BA Gjenvinning AS was previously consolidated as a joint venture by the proportionate method. If BA Gjenvinning AS had been 100 % owned throughout 2010 revenues would have been NOK 10 million higher and the profit for the year would have been NOK 1 million less.

**Sale of companies in 2010:**
On 11 November 2010 60 % of the shares in Miljøbase Vats AS, a wholly owned subsidiary, were sold. As a result of the sale Miljøbase Vats AS was reclassified from subsidiary to an associate in the Group.

| Amounts in NOK million | 100 % | 60 % |
| --- | --- | --- |
| Cash consideration for sale | | 120 |
| Transaction costs | | -1 |
| **Net cash consideration for sale** | | **119** |
| | | |
| Property, plant and equipment | 539 | 323 |
| Cash and cash equivalents | 3 | 2 |
| Non-current interest-bearing liabilities | -373 | -224 |
| Current interest-bearing liabilities | -27 | -16 |
| Trade payables | -2 | -1 |
| Current tax payable | -3 | -2 |
| **Net identifiable assets and liabilities** | **137** | **82** |
| | | |
| **Direct gains on sale of operations** | | **37** |
| | | |
| Latent gain on remaining ownership interest on sale of operations, see IAS 27.34 (d) | | 17 |
| **Total gains on sale of operations** | | **54** |

**Legal changes in the corporate structure in 2010:**
On 16 December 2010 the Board of the AF Group decided that the building operations of AF Bygg Glomsrød and AF Bygg Øst should be combined into one unit, AF Bygg Østfold. The units were operationally merged from 1 January 2011. Legally, the merger will be accomplished by the merger of AF Bygg Glomsrød into the AF Group Norway. This was decided by the respective boards of directors on 14 February 2011.

**Changes in the Group's structure in 2009:**
AF Gruppen Norge AS demerged the Energy and Environment business areas to separate companies owned by AF Gruppen ASA.

In December 2009, AF acquired 100 % of the shares in RCO2 for NOK 167,000. The company is part of the Energy business area.

In April 2009, the AF Group bought the remaining 49 % stake in Mollier AS for NOK 42 million. In 2009 the remaining 40 % of Stavanger Kulde AS was also bought for NOK 2 million. Both companies are part of the Energy business area and Stavanger Kulde AS was merged into AF Energi og Miljøteknikk AS with accounting effect from 1 January 2010.

In July 2009, the AF Group sold its 50 % interest in the joint venture Svensk Kross & Återvinning AB. The consideration was NOK 10 million and the sale generated a gain of NOK 4 million.

**Changes in the Group's structure in 2008:**
On 4 July 2008 AF bought 100 % of the shares of Aeron AS for NOK 228 million. Aeron AS is part of the Energy business area.

| Amounts in NOK million | Aeron AS |
| --- | --- |
| Cash consideration | 90 |
| Transaction costs | 1 |
| Shares in AF Gruppen ASA (treasury shares) | 10 |
| Contingent consideration, estimated fair value | 128 |
| **Total consideration to seller** | **228** |
| | |
| Property, plant and equipment | 2 |
| Intangible assets | 26 |
| Inventories | 4 |
| Trade receivables | 58 |
| Cash and cash equivalents | 17 |
| Non-current interest-bearing liabilities | -4 |
| Trade payables and other current liabilities | -44 |
| Current tax payable | -3 |
| Deferred tax | -13 |
| **Total net fair value of identifiable assets and liabilities** | **42** |
| | |
| **Goodwill** | **186** |

# Note 15 Subsidiaries

| Company name | Date acquired | Business address | Ownership stake | Voting share | Primary activity |
|---|---|---|---|---|---|
| AF Gruppen Norge AS | 05/09/1985 | Oslo | 100 % | 100 % | Civil Engineering, Building, Property |
| Johan Rognerud AS | 01/10/2010 | Oslo | 100 % | 100 % | Civil Engineering |
| Pålplintar i Sverige AB | 14/01/2000 | Södertälje | 100 % | 100 % | Civil Engineering |
| AF Bygg Göteborg AB | 01/07/2001 | Gothenburg | 100 % | 100 % | Building |
| AF Bygg Glomsrød AS | 01/09/2005 | Halden | 100 % | 100 % | Building |
| Kilen Brygge AS | 15/03/2005 | Sandefjord | 100 % | 100 % | Property |
| Kilen Bygg AS | 25/05/2004 | Oslo | 100 % | 100 % | Property |
| Kilen Boliger AS | 31/08/2010 | Oslo | 100 % | 100 % | Property |
| Kilen Høyhus AS | 31/08/2010 | Oslo | 100 % | 100 % | Property |
| Blomsterstykket Utbygging AS | 08/12/2009 | Oslo | 100 % | 100 % | Property |
| Kirkeveien Utbyggingsselskap AS | 01/07/2006 | Oslo | 100 % | 100 % | Property |
| Rolvsrud Utbygging AS | 31/10/2008 | Oslo | 100 % | 100 % | Property |
| Rolvsrud Bygg AS | 31/10/2008 | Oslo | 100 % | 100 % | Property |
| AF Miljø AS | 01/01/2009 | Oslo | 100 % | 100 % | Environment |
| AF Decom AS | 01/01/2009 | Oslo | 100 % | 100 % | Environment |
| AF Decom Offshore AS | 01/01/2009 | Oslo | 100 % | 100 % | Environment |
| Palmer Gotheim Skiferbrudd AS | 01/01/2007 | Oppdal | 100 % | 100 % | Environment |
| AF Decom AB | 15/12/2007 | Gothenburg | 100 % | 100 % | Environment |
| AF Group Polska Sp.z.o.o. | 24/10/2007 | Warsaw | 100 % | 100 % | Environment |
| BA Gjenvinning AS [1)] | 01/11/2010 | Oslo | 100 % | 100 % | Environment |
| AF Decom Offshore UK Ltd. | 24/05/2010 | London | 100 % | 100 % | Environment |
| AF Energi og Miljøteknikk AS | 31/05/2006 | Asker | 100 % | 100 % | Energy |
| Mollier AS | 12/10/2007 | Sandnes | 100 % | 100 % | Energy |
| Aeron AS | 01/07/2008 | Flekkefjord | 100 % | 100 % | Energy |
| Aeron Energy Technologies Ltd. | 16/11/2009 | Shanghai | 100 % | 100 % | Energy |
| RCO2 AS | 21/12/2009 | Langhus | 100 % | 100 % | Energy |
| AFG Invest 2 AS | 08/12/2009 | Oslo | 100 % | 100 % | Others |
| AFG Invest 3 AS | 08/12/2009 | Oslo | 100 % | 100 % | Others |

[1)] In 2009, AF Miljø AS owned 50 % of the shares in BA Gjennvinning AS, which was accounted for as a joint venture. The remaining 50 % of the shares were purchased on 1 November 2010, from which date the company was consolidated as a subsidiary.

# Note 16 Joint ventures

| Company | Acquisition date | Business address | Ownership stake | Voting share | Primary activity |
|---|---|---|---|---|---|
| BA Gjenvinning AS [1)] | 01/03/2003 | Oslo | 50 % | 50 % | Environment |
| Kjørbokollen Utbygging AS | 02/09/1999 | Bærum | 50 % | 50 % | Property |
| Ørebekkstranda AS | 30/01/2006 | Råde | 50 % | 50 % | Property |
| Karlstadgata Utbygging ANS | 29/04/2005 | Oslo | 50 % | 50 % | Property |

[1)] BA Gjenvinning AS was consolidated as a joint venture until 1 November 2010, when the remaining 50% of the shares were purchased. BA Gjenvinning AS has been consolidated as a subsidiary since 1 November 2010.

The table below shows the Group's share (50 %) of assets and liabilities, sales and profit before tax of the investments in joint ventures.

| Amounts in NOK million | 2010 | 2009 | 2008 |
|---|---|---|---|
| Non-current assets | - | 4 | 11 |
| Current assets | 3 | 7 | 28 |
| Non-current liabilities | - | -2 | -4 |
| Current liabilities | - | -4 | -10 |
| **Net assets** | **3** | **5** | **25** |
| | | | |
| Income | 11 | 17 | 57 |
| Expenses | -13 | -17 | -52 |
| **Profit before tax** | **-2** | **-** | **6** |

# Note 17 Investments in associates

| Amounts in NOK million | 2010 | 2009 | 2008 |
|---|---|---|---|
| Carrying amount of investments in associates as at 1 January | 27 | 31 | 29 |
| Additions | 99 | 2 | - |
| Disposals | - | - | -2 |
| Reclassification of investments | - | -4 | - |
| Share of profit after tax for the year | -1 | -1 | 4 |
| Adjustments through profit and loss | - | 1 | - |
| Impairment losses | - | -5 | - |
| Other equity adjustments | - | 4 | - |
| Currency translation differences | 1 | -1 | - |
| **Investments in associates as at 31 December** | **126** | **27** | **31** |

| **Company** | **Acquisition date** | **Business address** | **Ownership stake** | **Voting share** | **Primary activity** |
|---|---|---|---|---|---|
| Skummeslövsgården AB | 01/02/2007 | Gothenburg | 38.00 % | 38.00 % | Building |
| Vestra Sandarna Fastighetsutv. AB | 30/06/2008 | Gothenburg | 25.00 % | 25.00 % | Building |
| Surte Tower AB | 01/12/2009 | Gothenburg | 50.00 % | 50.00 % | Building |
| Fastigheter i Strandvägen AB | 14/05/2008 | Gothenburg | 50.00 % | 50.00 % | Building |
| AF Göteborg Lagerhyllan 3 AB | 14/05/2008 | Gothenburg | 34.00 % | 34.00 % | Building |
| Romerike Boligutvikling AS | 02/11/1993 | Lillestrøm | 40.00 % | 40.00 % | Property |
| Randemjordet AS | 10/08/2005 | Bodø | 49.00 % | 49.00 % | Property |
| Sandakerveien 99B AS | 20/08/2007 | Oslo | 33.33 % | 33.33 % | Property |
| Sandakerveien 99B KS | 20/08/2007 | Oslo | 33.33 % | 33.33 % | Property |
| Grefsenkollveien 16 AS | 09/11/2007 | Oslo | 33.33 % | 33.33 % | Property |
| Grefsenkollveien 16 KS | 09/11/2007 | Oslo | 33.33 % | 33.33 % | Property |
| Stovner Utvikling AS | 12/02/2010 | Oslo | 33.33 % | 33.33 % | Property |
| Stovner Utvikling KS | 12/02/2010 | Oslo | 33.33 % | 33.33 % | Property |
| Rolvsrud Utbygging 1 AS | 30/04/2010 | Oslo | 45.00 % | 45.00 % | Property |
| Rolvsrud Utbygging 1 KS | 30/04/2010 | Oslo | 45.00 % | 45.00 % | Property |
| Rolvsrud Utbygging 2 AS | 30/04/2010 | Oslo | 45.00 % | 45.00 % | Property |
| Rolvsrud Utbygging 2 KS | 30/04/2010 | Oslo | 45.00 % | 45.00 % | Property |
| Vici Ventus Technology AS | 26/09/2009 | Stavanger | 33.33 % | 33.33 % | Environment |
| Miljøbase Vats AS [1)] | 15/11/2010 | Oslo | 40.00 % | 40.00 % | Environment |

[1)] Miljøbase Vats AS was previously a 100 % owned subsidiary. Miljøbase Vats AS was classified as an associate from the sell-down date on 15 November 2010.

The Group's share of profit, assets and liabilities in associates.

Amounts in NOK million

| Company | Assets | Liabilities | Equity | Income | Profit | Book value |
|---|---|---|---|---|---|---|
| Skummeslövsgården AB | 7 | - | 7 | - | - | 7 |
| V. Sandarna Fastighetsutv. | - | - | - | - | - | - |
| Surte Tower AB | 1 | 1 | - | - | - | - |
| Fastigheter i Strandv. AB | 11 | 11 | - | - | - | - |
| AF Göteborg Lagerh. 3 AB | 2 | - | 2 | 2 | - | 2 |
| Romerike Boligutvikling AS | 3 | 2 | 1 | - | -1 | 1 |
| Randemjordet AS | 9 | 7 | 2 | 1 | - | 2 |
| Sandakerveien 99B AS | 5 | - | 5 | - | 1 | 5 |
| Sandakerveien 99B KS | 51 | 49 | 2 | - | -1 | 2 |
| Grefsenkollvn. 16 AS | 2 | - | 2 | - | -7 | 2 |
| Grefsenkollvn. 16 KS | 38 | 32 | 6 | - | 7 | 6 |
| Stovner Utvikling AS | 2 | - | 2 | - | - | 2 |
| Stovner Utvikling KS | 9 | 1 | 8 | - | - | 8 |
| Rolvsrud Utbygging 1 AS | 1 | - | 1 | - | - | 1 |
| Rolvsrud Utbygging 1 KS | 33 | 15 | 8 | 21 | 2 | 9 |
| Rolvsrud Utbygging 2 AS | 1 | - | 1 | - | - | 1 |
| Rolvsrud Utbygging 2 KS | 9 | 5 | 4 | 1 | - | 4 |
| Vici Ventus Technology AS | 3 | - | 1 | - | -1 | 1 |
| Miljøbase Vats AS [1)] | 226 | 163 | 63 | 2 | - | 72 |
| **Total** | **413** | **286** | **115** | **27** | **-1** | **126** |

[1)] Revenues and profits apply to the period Miljøbase Vats AS was an associate in the Group, i.e. from 15 November 2010 to 31 December 2010.

# Note 18 Inventories

| Amounts in NOK million | 2010 | 2009 | 2008 |
|---|---|---|---|
| Spare parts and project inventories | 44 | 25 | 54 |
| Raw materials | 25 | 33 | 32 |
| Finished products | 24 | 18 | 13 |
| **Total inventories** | **93** | **76** | **99** |

Inventories mainly consist of spare parts, project inventories, and raw materials for use in production. Inventories are valued at cost or fair value on the balance sheet date, whichever is the lower. Inventories were not subject to impairment in 2010, 2009 or 2008.

# Note 19 Projects for own account

| Amounts in NOK million | 2010 | 2009 | 2008 |
|---|---|---|---|
| Housing projects in progress | 18 | 12 | 111 |
| Completed housing units for sale | 99 | 153 | 187 |
| Impairment of completed housing units for sale | - | - | -7 |
| Land for development | 90 | 92 | 87 |
| **Total projects for own account** | **207** | **257** | **377** |
| | | | |
| Of which capitalised interest | 5 | 7 | 10 |
| Interest rate for capitalised interest | 4 % | 4 % | 4 % |

Projects in progress represent housing units under construction.

Land for development represents sites and building rights for which no decision on development has yet been taken. These sites can be used to build approximately 608 residential housing units, whereof AF's share is 436 (644) and 22,200 m$^2$ (22,200) of commercial space.

Inventories are valued at cost or the expected selling price, whichever is the lower, less the estimated selling costs on the balance sheet date.

**Sensitivity to price changes for completed residential units for sale**
A price decrease corresponding to 10 % of fair value of completed housing units for sale would not have resulted in impairment of the carrying value at year end 2010.

| Amounts in NOK million | 2010 | 2009 | 2008 |
|---|---|---|---|
| Number of completed residential housing units for sale | 45 | 75 | 77 |
| Number of completed homes for sale that are temporarily rented out | 24 | 43 | 15 |

Completed housing units that are not sold are rented out on short-term contracts and are terminated if a sale is imminent.



# Note 20 Projects in progress

| Amounts in NOK million | Note | 2010 | 2009 | 2008 |
|---|---|---|---|---|
| **Contracts in progress at year end** | | | | |
| **Unearned revenue invoiced** | | | | |
| Recognised as revenue under projects in progress | | 10,305 | 3,721 | 3,472 |
| Invoiced on projects in progress | | -10,900 | -4,260 | -3,794 |
| **Total unearned revenue invoiced** | | **-595** | **-539** | **-322** |
| | | | | |
| **Distribution in the balance sheet** | | | | |
| Production invoiced in advance included in trade receivables | 21 | -358 | -234 | -122 |
| Production invoiced in advance included in other current liabilities | 29 | -237 | -305 | -200 |
| **Total unearned revenue invoiced** | | **-595** | **-539** | **-322** |
| | | | | |
| **Earned revenue not invoiced** | | | | |
| Recognised as revenue under projects in progress | | 1,824 | 2,562 | 1,758 |
| Invoiced on projects in progress | | -1,656 | -2,349 | -1,670 |
| **Total earned revenue not invoiced** | 21 | **168** | **214** | **88** |
| | | | | |
| **Credit balances with customers** | 21 | **198** | **219** | **210** |
| | | | | |
| **Recognised in the income statement under projects in progress:** | | | | |
| Accumulated revenue | | 12,129 | 6,283 | 5,230 |
| Accumulated project contributions | | 533 | 653 | 398 |
| Production outstanding on onerous contracts [1)] | | 57 | 178 | 283 |

[1)] Expected loss on production outstanding on onerous contracts is recognised in the income statement.

# Note 21 Trade and other non-interest-bearing receivables

| Amounts in NOK million | Note | 2010 | 2009 | 2008 |
|---|---|---|---|---|
| Trade receivables | | 995 | 929 | 1,309 |
| Earned revenue, not invoiced on projects in progress | 20 | 168 | 214 | 88 |
| Unearned revenue, invoiced on projects in progress | 20 | -358 | -234 | -122 |
| Credit balances with clients | 20 | 198 | 219 | 210 |
| Tax paid in advance | | 2 | 2 | - |
| Value-added tax and other public charges paid in advance | | 4 | 2 | - |
| Prepaid expenses | | 45 | 10 | - |
| Other current non-interest-bearing receivables | | 49 | 46 | 63 |
| **Total trade and other non-interest-bearing receivables** | 30 | **1,103** | **1,187** | **1,549** |
| | | | | |
| Gross trade receivables | | 1,008 | 934 | 1,312 |
| Provisions for bad debt | 30 | -13 | -5 | -3 |
| **Trade receivables recognised in balance sheet** | | **995** | **929** | **1,309** |
| | | | | |
| **Movement in provision for losses on trade receivables** | | | | |
| Provision for losses as at 1 January | | -5 | -3 | -1 |
| Bad debts during the year | | 2 | - | 2 |
| Reversal of last year's provisions | | - | - | - |
| Provisions for the year | 6 | -10 | -2 | -5 |
| **Provision for losses as at 31 December** | | **-13** | **-5** | **-3** |

Provisions for bad debt only covers provisions related to the customers' ability to pay. Other risk related to trade receivables is considered in the assessment of each project. Amounts posted to the provisions account are written off when there is no expectation of collecting additional cash.

# Note 22 Restricted funds

Of the Group's cash and cash equivalents as at 31 December 2010 NOK 5 million (2) was restricted funds. The AF Group has provided a bank guarantee of NOK 80 million as security for tax withholding funds in the Group.

# Note 23 Share capital and shareholder information

Amount in NOK

| The share capital consists of: | Number | Par value | Book value |
|---|---|---|---|
| A shares | 71,117,940 | 0.05 | 3,555,897 |

| Shareholder | Share (%) | Number of shares |
|---|---|---|
| KB Gruppen Kongsvinger AS | 32.8 | 23,295,235 |
| OBOS Forretningsbygg AS | 28.8 | 20,466,730 |
| Aspelin Ramm Gruppen AS | 5.8 | 4,092,040 |
| LJM A/S | 3.5 | 2,513,900 |
| Moger Invest AS | 2.9 | 2,064,621 |
| Arne Skogheim | 2.4 | 1,704,720 |
| Bjørn Staavi | 2.1 | 1,471,860 |
| Jon Erik Evensen | 1.0 | 710,000 |
| Holstad Invest AS | 1.0 | 691,560 |
| Morten Midtskog | 0.9 | 650,000 |
| **Ten largest shareholders** | **81.1** | **57,660,666** |
| Total other shareholders | 18.3 | 13,007,274 |
| Treasury shares | 0.6 | 450,000 |
| **Total number of shares** | **100.0** | **71,117,940** |

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

| **Total number of shares as at 1 January 2010** | **70,495,940** |
|---|---|
| Issue for employees 26 March 2010 | 622,000 |
| **Total number of shares as at 31 December 2010** | **71,117,940** |

**Shares and options owned by senior executives as at 31 December 2010**

| The Board | | Number of options | Number of shares |
|---|---|---|---|
| Tore Thorstensen 1) | Elected by shareholder (Chairman) | - | 11,500 |
| Peter Groth 4) | Elected by shareholders | - | 11,500 |
| Carl Henrik Eriksen 3) | Elected by shareholders | - | - |
| Eli Arnstad 2) | Elected by shareholders | - | - |
| Mari Broman | Elected by shareholders | - | - |
| Henrik Nilsson | Elected by employees | 2,500 | 12,300 |
| Tor Olsen 5) | Elected by employees | 20,000 | 11,000 |
| Arne Sveen | Elected by employees | 1,250 | - |
| **Total** | | **23,750** | **46,300** |

[1] Represents, in addition to his own shares, KB Gruppen Kongsvinger AS, which owns 23,295,235 shares and Tokanso AS, which owns 346,100 shares.
[2] A party related to Eli Arnstad owns 1,440 shares.
[3] Represents OBOS Forretningsbygg, which owns 20,466,730 shares.
[4] Represents, in addition to his own shares, Aspelin Ramm Gruppen AS, which owns 4,092,040 shares and Ringkjøb Invest AS, which owns 76,355 shares.
[5] Represents, in addition to his own shares, T Olsen Holding AS, which owns 96,515 shares.

| Corporate Management Team | | Number of options | Number of shares |
|---|---|---|---|
| Pål Egil Rønn | CEO | 140,000 | 172,075 |
| Tore Fjukstad | Executive Vice President | 120,000 | 76,500 |
| Paul-Terje Gundersen | Executive Vice President | 40,000 | 83,800 |
| Robert Haugen | Executive Vice President | 120,000 | 144,350 |
| Sverre Alf Hærem | Executive Vice President/CFO | 120,000 | 86,000 |
| Arild Moe | Executive Vice President | 90,000 | 278,620 |
| **Total** | | **135,589** | **677,945** |

The Board is authorised to acquire up to 10 % of the share capital. This authority is valid until the 2011 Annual General Meeting, which is scheduled for 13 May 2011. An option scheme for all employees of AF Gruppen ASA and its subsidiaries was approved at an Extraordinary General Meeting held on 4 January 2008. The option scheme was concluded in February 2011 when the Board issued a total of 5,163,750 shares in a private placing for employees.

# Note 24 Treasury shares

Treasury shares have been bought to sell to employees and as partial payment for company acquisitions.
Shares were not bought from related parties in 2010 or 2009.

| Share transactions | 2010 | 2009 | 2008 |
|---|---|---|---|
| Number of shares purchased | 692,055 | 278,000 | 831,500 |
| Average acquisition cost per share (amounts in whole NOK)* | 38.1 | 24.4 | 24.9 |
| **Total acquisition cost** | **26** | **7** | **21** |
| Number of shares sold to employees | 492,100 | 257,000 | 653,500 |
| Shares forming part of consideration for acquisition of companies | - | 91,105 | 450,500 |
| **Total disposal of shares** | **492,100** | **348,105** | **1,104,000** |
| Average sales price per share (amounts in whole NOK)* | 34.2 | 18.7 | 26.5 |
| **Sales proceeds (amounts in NOK million)** | **17** | **7** | **29** |
| - Purchase price for shares sold (amounts in NOK million) | -15 | -8 | -21 |
| **Gain (loss) on shares sold (amounts in NOK million)** | **1** | **-1** | **8** |
| Number of treasury shares as at 31 December | 450,000 | 250,045 | 320,150 |
| Par value of treasury shares at NOK 0.05 each (amounts in NOK million) | 22,500 | 12,502 | 16,008 |

Transactions recognised directly in equity are specified in the 'Consolidated statement of changes in equity'.

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# Note 25 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 requirements of the Act.

**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. The contributions constitute 4 % of pay between 1 G and 6 G and 8 % of pay between 6 G and 12 G, with the employee paying 2 % of pay up to a maximum of half of 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 born in or before 1951 that is defined as a defined-benefit plan. The scheme only covers retirement pensions. The plan aims to pay benefits of 60 % of the pay level up to 12 G (G is National Insurance base amount) 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 expected payments from this scheme. The rest is funded through accumulated reserves in insurance companies. At the end of 2010 there were 74 (102) active participants in the scheme and 91 (91) pensioners.

In addition, in Norway the company has participated in the Norwegian Federation of Trade Unions (LO)/Norwegian Confederation of Norwegian Enterprise (NHO) agreement under which employees were entitled to early retirement pension (AFP) from the age of 62. It was decided to discontinue this plan in February 2010 and early retirement under the plan was only possible until 31 December 2010. There is a remaining provision covering the company's co-payment, which is 25 %, to individuals who retired early under the old plan. Future liabilities associated with this scheme are financed by operations and are unfunded. At the end of the year the Group had 48 (22) AFP pensioners. The expense for the year and future liabilities associated with this scheme have been included in the statement below.

A significant shortfall was identified when the old AFP pension plan was terminated. This shortfall will have to be made up by the member companies continuing to pay premiums for the next five years. The company's share of this shortfall has been estimated and provision has been made for it in the accounts. See note 28 'Provisions'.

A new AFP pension plan has been established as a replacement for the old one. Unlike the old plan, the new AFP plan is not an early retirement scheme, but a plan that provides a lifelong supplement to the regular pension. Employees can take the new AFP scheme from the age of 62 or remain in employment and earn further benefits until the standard retirement age of 67. The new AFP pension scheme is a defined benefit multi-employer pension plan, funded through premiums that are defined as 1 % of salary. The scheme's *retirement benefit obligation and plan assets cannot be reliably measured and allocated at present. For accounting purposes, the scheme is treated as a defined contribution plan, with premium payments expensed as incurred, and no provisions made in the accounts. No premiums will be paid into the new scheme before 2011, when the premium will be fixed at 1.4 % of total payments between 1 G and 7.1 G to the company's employees. There are no accumulated reserves in the scheme and it is expected that the level of premiums will rise over the coming years.

Employees in Sweden are members of two defined-benefit multi-company schemes that are recognised under the defined-contribution scheme (see note on accounting policies). The schemes cover 189 (171) people.

**Retirement benefit expense for the year has been calculated as follows:**

| Amounts in NOK million | 2010 | 2009 | 2008 |
|---|---|---|---|
| Current service cost | -3 | -3 | -3 |
| Interest expense on incurred pension liabilities | -4 | -3 | -4 |
| Expected return on pension plan assets | 5 | 5 | 4 |
| Social security costs | -1 | -1 | - |
| Actuarial gains/losses recognised in the income statement | -2 | -1 | - |
| **Total defined-benefit retirement benefit** | **-5** | **-3** | **-3** |
| Defined-contribution pension, Norway *) | -31 | -24 | -27 |
| Contributions to pension schemes, Sweden *) | -5 | -5 | -5 |
| Other retirement benefit costs *) | - | - | -7 |
| **Service cost for the year** | **-41** | **-33** | **-42** |

*) Exclusive of social security costs.

The service cost for the year is 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.

Amounts in NOK million

| Retirement benefit obligations and plan assets | 2010 Funded | 2010 Unfunded | 2010 Total | 2009 Funded | 2009 Unfunded | 2009 Total | 2008 Funded | 2008 Unfunded | 2008 Total |
|---|---|---|---|---|---|---|---|---|---|
| **Change in gross retirement benefit obligations** | | | | | | | | | |
| Gross retirement benefit obligations as at 1 January | 83 | 3 | 86 | 80 | 2 | 83 | 82 | 3 | 85 |
| Current service cost | 3 | - | 3 | 3 | - | 3 | 3 | - | 3 |
| Interest expense on retirement benefit obligations | 5 | - | 5 | 3 | - | 3 | 4 | - | 4 |
| Actuarial gains/losses | -8 | 6 | -2 | - | 2 | 2 | -4 | - | -4 |
| Retirement benefit payments, excl. social security costs | -3 | -2 | -5 | -4 | -1 | -5 | -4 | -1 | -5 |
| **Gross retirement benefit obligations as at 31 December** | **79** | **7** | **86** | **83** | **3** | **86** | **80** | **2** | **83** |
| **Change in gross plan assets** | | | | | | | | | |
| Fair value of plan assets as at 1 January | 93 | - | 93 | 86 | - | 86 | 75 | - | 75 |
| Expected return on plan assets | 5 | - | 5 | 5 | - | 5 | 4 | - | 4 |
| Actuarial (losses)/gains | -9 | - | -9 | - | - | - | -3 | - | -3 |
| Premium payments | 3 | - | 3 | 6 | - | 6 | 13 | - | 13 |
| Retirement benefit payments | -3 | - | -3 | -4 | - | -4 | -4 | - | -4 |
| **Fair value of plan assets as at 31 December** | **88** | **-** | **88** | **93** | **-** | **93** | **86** | | **86** |
| Net retirement benefit obligations | -10 | 7 | -2 | -9 | 3 | -7 | -5 | 2 | -3 |
| Social security costs | - | 1 | 1 | - | - | - | - | - | - |
| Unrecognised actuarial gains or losses | -5 | -7 | -13 | -5 | -2 | -7 | -5 | -1 | -6 |
| **Net book retirement benefit obligations (plan assets) as at 31 December** | **-15** | **1** | **-14** | **-14** | **1** | **-13** | **-10** | **2** | **-8** |
| Actual return on plan assets | -4 | - | -4 | 5 | - | 5 | 1 | - | 1 |
| Expected premium payment for next year | 3 | - | 3 | 4 | - | 4 | 9 | - | 9 |
| Expected benefit payments for next year | -3 | -2 | -5 | -4 | -1 | -5 | -4 | -1 | -5 |
| **Changes in obligations** | | | | | | | | | |
| Net book retirement benefit obligations as at 1 January | -14 | 1 | -13 | -10 | 2 | -8 | 2 | 3 | 5 |
| Retirement benefit expense recognised in the income statement | 3 | 2 | 5 | 2 | 1 | 3 | 3 | - | 3 |
| Premium payments, incl. social security costs | -3 | - | -3 | -6 | - | -6 | -15 | - | -15 |
| Retirement benefit payments, unfunded schemes | - | -2 | -2 | - | -2 | -2 | - | -1 | -1 |
| **Net book retirement benefit obligations (plan assets) as at 31 December** | **-15** | **1** | **-14** | **-14** | **1** | **-13** | **-10** | **2** | **-8** |
| **Book retirement benefit obligations as at 31 December** | **-** | **1** | **1** | **-** | **1** | **1** | **-** | **2** | **2** |
| **Book plan assets as at 31 December** | **15** | **-** | **15** | **14** | **-** | **14** | **10** | **-** | **10** |

| **Development** | **2010** | **2009** | **2008** | **2007** | **2006** |
|---|---|---|---|---|---|
| Gross retirement benefit obligations as at 31 December | 86 | 86 | 83 | 85 | 76 |
| Fair value of plan assets as at 31 December | -88 | -93 | -86 | -75 | -74 |
| Net retirement benefit obligations as at 31 December, before social security costs | -2 | -7 | -3 | 9 | 2 |
| Actuarial (losses)/gains on retirement benefit obligations | 2 | -2 | 4 | -7 | - |
| Actuarial (losses)/gains on plan assets | -9 | - | -3 | -5 | 2 |

The above information was determined prospectively.

| Assumptions for actuarial calculations | 31.12.2010 | 31.12.2009 | 31.12.2008 |
|---|---|---|---|
| Discount rate | 3.20 % | 4.40 % | 4.30 % |
| Return on plan assets * | 4.60 % | 5.60 % | 6.30 % |
| Pay growth | 3.50 % | 4.00 % | 4.25 % |
| Adjustment of National Insurance base amount (G) | 3.75 % | 4.00 % | 4.25 % |
| Adjustment of retirement benefits | 0.50 % | 1.30 % | 2.00 % |
| Turnover | 10.00 % | 10.00 % | 10.00 % |
| Disability | ** | ** | ** |

*) Based on historical return for Norwegian life insurance companies.
**) K2005 adjusted for observed development.

| | 2010 | | 2009 | | 2008 | |
|---|---|---|---|---|---|---|
| **Life expectancy** | **Men** | **Women** | **Men** | **Women** | **Men** | **Women** |
| Age 65 | 84.28 | 86.84 | 82.60 | 84.89 | 82.60 | 84.89 |
| Age 45 | 82.40 | 85.58 | 77.10 | 82.42 | 77.10 | 82.42 |
| Age 40 | 82.24 | 85.47 | 76.76 | 82.18 | 76.76 | 82.18 |

| Distribution of plan assets by investment category | 31.12.10 | 31.12.09 | 31.12.08 |
|---|---|---|---|
| Equities | 13.6 % | 7.0 % | 6.0 % |
| Property | 19.0 % | 21.0 % | 23.0 % |
| Non-current bonds | 43.1 % | 45.0 % | 48.0 % |
| Current bonds | 22.7 % | 26.0 % | 22.0 % |
| Other | 1.6 % | 1.0 % | 1.0 % |
| **Total** | **100.0 %** | **100.0 %** | **100.0 %** |

# Note 26 Interest-bearing loans and credits

| Amounts in NOK million | Effective interest rate | 2010 | 2009 | 2008 |
|---|---|---|---|---|
| Bank overdraft [1] | 3.4 % | 6 | - | 63 |
| Building loans and other bank loans | 3.7 % | 16 | 50 | 145 |
| Financial lease liabilities | 3.6 % | 19 | 35 | 59 |
| Other liabilities | 4.5 % | 23 | 6 | 7 |
| Loans related to acquisition of enterprises | 4.0 % | 8 | 4 | 188 |
| **Total interest-bearing loans and credits** | | **72** | **95** | **462** |
| | | | | |
| **Classification in the balance sheet:** | | | | |
| Current liabilities | | 23 | 73 | 352 |
| Non-current liabilities | | 49 | 22 | 110 |
| **Total interest-bearing loans and credits** | | **72** | **95** | **462** |
| | | | | |
| **Maturity groupings:** | | | | |
| Liabilities maturing within 1 year | | 23 | 73 | 352 |
| Liabilities maturing in between 1 and 5 years | | 34 | 22 | 53 |
| Liabilities maturing in more than 5 years | | 15 | - | 57 |
| **Total** | | **72** | **95** | **462** |

1) At the end of 2010 the Group had an unutilised bank overdraft facility of NOK 546 million (541) linked to a corporate cash pooling system. Assuming that additional collateral is furnished, the Group had unused credit lines for bank loans including overdraft facilities of NOK 900 million (900) at the end of 2010.

**Financial lease liabilities are due for repayment as follows:**

| 2010 | 0-1 years | 1-5 years | After 5 years | Total |
|---|---|---|---|---|
| Repayment | 7 | 12 | - | 19 |
| Interest | - | 1 | - | 1 |
| **Minimum payment** | **7** | **13** | **-** | **20** |

The interest rate on leasing loans years 1-5 is calculated based on an interest rate of 3.6% and average debt for 4 years.

| 2009 | 0-1 years | 1-5 years | After 5 years | Total |
|---|---|---|---|---|
| Repayment | 17 | 17 | - | 35 |
| Interest | 1 | 1 | - | 2 |
| **Minimum payment** | **18** | **19** | **-** | **36** |

| 2008 | 0-1 years | 1-5 years | After 5 years | Total |
|---|---|---|---|---|
| Repayment | 23 | 34 | 2 | 59 |
| Interest | 3 | 4 | - | 8 |
| **Minimum payment** | **27** | **38** | **2** | **66** |

See note 30 for further information.

# Note 27 Leases

**Group as lessee**
The Group has entered into various operating leases for machinery, offices and other facilities. The majority of the non-terminable leases have an extension option.

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

The Group has the following future minimum liabilities related to non-terminable operating leases as at 31 December:

Amounts in NOK million

| Minimum liabilities - operating leases | 2010 | 2009 | 2008 |
|---|---|---|---|
| **Machinery and vehicles** | | | |
| Leasing of machinery, due in year 1 | 100 | 70 | 55 |
| Leasing of machinery, due in years 1-5 | 207 | 171 | 146 |
| Leasing of machinery, due after 5 years | 14 | 16 | 13 |
| **Total** | **321** | **257** | **215** |
| | | | |
| **Office rent, installations and furnishings** | | | |
| Rent due in year 1 | 119 | 44 | 25 |
| Rent due in years 1-5 | 462 | 196 | 161 |
| Rent due after 5 years | 749 | 381 | 356 |
| **Total** | **1,331** | **620** | **542** |
| | | | |
| **Total operating lease liabilities** | **1,652** | **877** | **757** |
| | | | |
| **Maturity groupings** | | | |
| Operating lease liabilities due within 1 year | 219 | 114 | 81 |
| Operating lease liabilities due in 1-5 years | 669 | 367 | 307 |
| Operating lease liabilities due after 5 year | 763 | 396 | 369 |
| **Total operating lease liabilities** | **1,652** | **877** | **757** |

| | |
|---|---|
| New offices at Helsfyr, number of square metres | 13,000 |
| Rent per m$^2$ (NOK) | 1,750 |
| Annual rent (NOK million) | 22,750 |
| Rental period (years) | 15 |
| Minimum contractual payment (NOK million) | 341,250 |

In 2007 a 15-year lease was entered into for new office premises at Helsfyr in Oslo. The lease will run from 2010 to 2025 and covers an area of approximately 13,000 square metres. The total minimum payment under the lease is NOK 341,250,000.

In connection with the sale of Miljøbase Vats a new long-term lease was entered into between Miljøbase Vats and AF Decom Offshore AS to regulate the lease agreement concerning the environmental base facility at Vats. Entered into on 31 August 2010, the lease is non-terminable and runs until 1 July 2025. The rental fee is NOK 47 million, excl. VAT per year.

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

An expense of NOK 274 million (267) is recognised in the consolidated income statement for operating leases for 2010, including NOK 94 million (58) in rent. Operating leases primarily consist of rent for non-terminable leases, machine hire for non-terminable leases, and short-term terminable leases for machinery and equipment.

**Group as lessor**
Revenue of NOK 14 million (17) is recognised in the consolidated income statement for operating leases in 2010. Lease income consists mainly of short-term renting of offices. Minimum sublease income is:

| Sublease of offices | 2010 | 2009 |
|---|---|---|
| Sublease rent due in year 1 | 5 | 2 |
| Sublease rent due in years 1-5 | 12 | 2 |
| Sublease rent due after 5 years | - | - |
| **Total** | **16** | **4** |

# Note 28 Provisions

| Amounts in NOK million | Provisions for warranty work | Provision AFP | Social sec. costs options | Other provisions | Total provisions |
|---|---|---|---|---|---|
| As at 1 January 2010 | 37 | - | - | 16 | 53 |
| Reversal of previous provisions | -32 | - | - | -13 | -45 |
| Provisions for year | 36 | 11 | 11 | 43 | 101 |
| Used during the year | -3 | - | - | - | -3 |
| **As at 31 December 2010** | **38** | **11** | **11** | **46** | **106** |

| Classification in the balance sheet | 2010 | 2009 | 2008 |
|---|---|---|---|
| Non-current liabilities | 11 | - | 3 |
| Current liabilities | 95 | 53 | 54 |
| **Total** | **106** | **53** | **57** |

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. The provisions include completed projects and are based on experience.

# Note 29 Trade payables and non-interest-bearing liabilities

| Amounts in NOK million | Note | 2010 | 2009 | 2008 |
|---|---|---|---|---|
| Trade payables | | 455 | 686 | 1,057 |
| Public liabilities | | 92 | 73 | 124 |
| Prepayments from customers | 20 | 237 | 305 | 200 |
| Accrued holiday pay, incl. social security costs | | 134 | 131 | 133 |
| Accruals and other current liabilities | | 570 | 520 | 211 |
| **Total trade payables and non-interest-bearing liabilities** | | **1,488** | **1,715** | **1,725** |

Trade payables and other current liabilities consist primarily of liabilities linked to purchases, advances on construction contracts, employee benefits, value-added tax and other public liabilities.

# Note 30 Financial risk and financial instruments

**Financial risk**
The Group is exposed to the following risks through the use of financial instruments:

1 Credit risk
2 Market risk
  2.1 Interest rate risk
  2.2 Currency risk and scrap steel price risk
  2.3 Other price risks
3 Liquidity risk

This note provides information on exposure to each of the above risks and the goals, principles and processes for measuring and managing them. Further quantitative information is included elsewhere in the consolidated financial statements.

The Board has the 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.

The Group uses financial instruments, such as bank loans and settlement agreements, in connection with the acquisition of companies. The purpose of these financial instruments is to raise capital for investments needed for the Group's activities. The Group also has financial instruments such as trade receivables, trade payables, forward exchange and commodity contracts, etc., which are directly linked to the day-to-day operation of the business.

**(1) Credit risk**
Credit risk is handled at the Group level. The management has established guidelines to ensure that granting credit and exposure to credit risk are monitored continuously. 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 are also credit risks linked to transactions with derivatives and deposits in banks and financial institutions.

**Trade and other receivables**
The Group's exposure to credit risk linked to trade receivables and other current receivables is principally affected by individual circumstances relating to a particular customer. Other circumstances, such as the demographics of the customer base, geographical factors, etc. have little affect on the credit risk.

The amounts in the balance sheet are 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, Statoil, and other oil companies on the Norwegian Continental Shelf. 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 of 10 to 17.5 % 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 % 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:

| Amounts in NOK million | 2010 | 2009 | 2008 |
|---|---|---|---|
| **Trade receivables - age distribution** | | | |
| 1-30 days overdue | 107 | 100 | 366 |
| 31-60 days overdue | 26 | 37 | 21 |
| 61-90 days overdue | 62 | 16 | 12 |
| 91-120 days overdue | 3 | 11 | 1 |
| More than 120 days overdue | 114 | 168 | 270 |
| **Total receivables overdue, but not written down** | **312** | **332** | **670** |
| | | | |
| Receivables not yet due | 683 | 602 | 641 |
| **Total receivables not written down** | **995** | **934** | **1,312** |

| Age distribution 2010 | Not yet due | 1–30 | 31–60 | 61–90 | 91–120 | >120 | Total |
|---|---|---|---|---|---|---|---|
| Trade receivables, gross | 683 | 107 | 28 | 62 | 4 | 124 | 1,008 |
| Provision for losses | - | - | -2 | - | -1 | -10 | -13 |
| **Trade receivables in the balance sheet** | **683** | **107** | **26** | **62** | **3** | **114** | **995** |

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 normally 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 project revenue.

**Cash, cash equivalents and money market investments**
Investments in money market funds, certificates, etc., are permitted only in the case of liquid securities and only with counterparties with good creditworthiness. The credit risk linked to cash and cash equivalents 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.

The tables below show the maximum credit exposure. The maximum credit exposure corresponds to book value.

| Amounts in NOK million | 2010 | 2009 | 2008 |
|---|---|---|---|
| **Financial assets** | | | |
| Interest-bearing receivables (non-current) | 23 | 44 | 23 |
| Other receivables (non-current) | 1 | 1 | 8 |
| Trade and non-interest-bearing financial receivables | 1,052 | 1,173 | 1,549 |
| Interest-bearing receivables | 6 | 12 | 12 |
| Cash and cash equivalents | 623 | 223 | 130 |
| **Maximum credit exposure** | **1,705** | **1,453** | **1,722** |

**(2) Market risk**

**(2.1) Interest rate risk**
The Group is exposed to interest rate risk for building activities and, especially for, home building for own account, in which the general interest rate level will have an impact on the saleability of completed homes 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 homebuyers. See also the description in note 19 Projects for own account.

The AF Group's financing is based on variable interest rates and the Group is, therefore, exposed to interest rate risk. The Group has no fixed interest agreements. See further description in note 26 Interest-bearing loans and credits.

The Group does not use derivatives to hedge effective interest rate exposure.

**Sensitivity to changes in interest rates**
At the end of the year the Group's interest-bearing financial instruments were as follows:

| Amounts in NOK million | 2010 | 2009 | 2008 |
|---|---|---|---|
| Financial assets with variable interest rates | 652 | 279 | 165 |
| Financial liabilities with variable interest rates | -72 | -95 | -462 |
| **Net financial receivables (debt)** | **580** | **185** | **-297** |

A change in the interest rate by 100 bp on the balance sheet date would have increased/reduced earnings by NOK 4/-4 million after tax. The analysis assumes that other variables remain constant.

**(2.2) Currency risk and scrap steel price risk**
The Group operates in several countries and is exposed to currency risks in several currencies. This risk is particularly relevant in relation to SEK, GBP and EUR. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations. The companies in the AF Group make most of their purchases in their respective functional currencies. Net exchange gains in 2010 were NOK 6 million (-8).

The Group is exposed to price risk from the sale of scrap steel recycled from demolition of steel structures in the North Sea. Scrap steel prices are hedged by forward contracts. The Group's policy is to hedge scrap steel prices in NOK for about 75 % of the coming year's expected sales of scrap steel.

The management has issued guidelines that require Group companies to manage their currency and price risk for scrap steel. In order to manage the currency and price risk from future commercial transactions and recognised assets and liabilities Group entities use forward exchange and scrap steel contracts.

**Fair value of forward contracts entered into as at 31 December:**

| | Current assets/liabilities | | |
|---|---|---|---|
| Amounts in NOK million | 2010 | 2009 | 2008 |
| Forward currency contracts | 1 | 7 | - |
| Forward commodity contracts | -7 | - | - |

**Sensitivity to changes in exchange rates**

**Assets and liabilities in foreign currencies**
AF Gruppen ASA and AF Gruppen Norge AS have raised loans and have deposits in EUR, GBP, USD and SEK. Net bank deposits and receivables in foreign currencies amounted to NOK 62 million at year-end. If the NOK had weakened/strengthened 10 % against these currencies, the earnings after tax would have been NOK 4 million higher/lower in 2010 (10). The analysis assumes that other variables remain constant.

**Changes linked to translation differences related to equity**
Book equity in foreign currencies was NOK 140 million at year-end. If the NOK had weakened/strengthened 10 % against other currencies, primarily SEK, this would have entailed an increase/reduction in book equity as at 31 December 2010 by NOK 14 million (15). The analysis assumes that other variables remain constant.

**Changes related to the translation of earnings after tax**
Book earnings after tax for foreign companies was NOK -60 million in 2010. If the NOK had weakened/strengthened 10 % against other currencies, primarily SEK, earnings after tax would have been NOK 6 million (1) lower/higher.

**(2.3) Other price risks**
The Group is exposed to equity securities price risk because of investments held by the Group and classified on the consolidated balance sheet either as available for sale or at fair value through profit or loss. Total financial assets exposed to price risk was NOK 3 million (4) as at 31 December 2010.

**(3) Liquidity risk**

Liquidity risk is the risk that the Group 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. All companies in the AF Group are connected to a corporate cash pooling system. Surplus liquidity on a consolidated account beyond the part which constitutes necessary working capital, is managed by the company's finance function. Surplus liquidity is mainly invested in money market funds The management monitors cash and cash equivalents on a weekly basis, and each month the Corporate Management Team reviews the liquidity in the projects. At the end of the year the Group had an unutilised bank overdraft facility linked to a corporate cash pooling system of NOK 546 million (541). Assuming that additional collateral is furnished, AF had unused credit lines for bank loans including overdraft facilities of NOK 900 million (900) at the end of 2010. See note 31 Capital management for information about targets for capital management debt ratio in the Group.

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

**Maturity groupings of financial liabilities**

| | | Maturity groupings of contractual cash flows | | | | | |
|---|---|---|---|---|---|---|---|
| Amounts in NOK million<br>**31.12.10** | **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** | | | | | | | |
| Drawings on the corporate cash pool | 6 | 6 | 6 | - | - | - | - |
| Building loans and other bank loans | 16 | 17 | - | 3 | 6 | 8 | - |
| Financial lease liabilities | 19 | 20 | 4 | 3 | 5 | 8 | - |
| Other non-current liabilities | 23 | 29 | 5 | - | 1 | 3 | 19 |
| Loans related to acquisition of enterprises | 8 | 9 | 2 | - | 2 | 4 | - |
| Trade payables and other financial debt *) | 1,025 | 1,025 | 1,025 | - | - | - | - |
| **Financial derivatives** | | | | | | | |
| Forward commodity contracts | 7 | 7 | 4 | 3 | - | - | - |
| **Total** | **1,104** | **1,113** | **1,047** | **10** | **15** | **23** | **19** |
| **31.12.09** | | | | | | | |
| **Non-derivative financial liabilities** | | | | | | | |
| Drawings on the corporate cash pool | - | - | - | - | - | - | - |
| Building loans and other bank loans | 50 | 51 | 25 | 24 | 1 | 1 | - |
| Financial lease liabilities | 35 | 37 | 9 | 9 | 4 | 15 | - |
| Other non-current liabilities | 6 | 6 | 6 | - | - | - | - |
| Loans related to acquisition of enterprises | 4 | 4 | 2 | - | 2 | - | - |
| Trade payables and other financial debt *) | 1,206 | 1,206 | 1,206 | - | - | - | - |
| **Total** | **1,301** | **1,304** | **1,248** | **33** | **7** | **16** | **-** |
| **31.12.08** | | | | | | | |
| **Non-derivative financial liabilities** | | | | | | | |
| Drawings on the corporate cash pool | 63 | 63 | 63 | - | - | - | - |
| Building loans and other bank loans | 145 | 170 | 41 | 40 | 6 | 24 | 59 |
| Financial lease liabilities | 59 | 66 | 13 | 13 | 8 | 30 | 2 |
| Other non-current liabilities | 7 | 7 | 7 | - | - | - | - |
| Loans related to acquisition of enterprises | 188 | 193 | 189 | - | 2 | 2 | - |
| Trade payables and other financial debt *) | 1,268 | 1,268 | 1,268 | - | - | - | - |
| **Total** | **1,730** | **1,767** | **1,581** | **53** | **16** | **56** | **61** |

See Note 26 - Interest-bearing loans and credits for information on interest-bearing loans and liabilities in respect of financial leases.

*) 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.

**Other note information**

No financial assets have been reclassified so that the valuation method is changed from amortised cost to fair value or vice versa.



**Fair value of financial instruments compared with carrying amounts**

| Amounts in NOK million<br>**Assets (liabilities)** | | **2010**<br>**Carrying amount** | **Fair value** | **2009**<br>**Carrying amount** | **Fair value** | **2008**<br>**Carrying amount** | **Fair value** |
|---|---|---|---|---|---|---|---|
| Available-for-sale financial assets | 3) | 1 | 1 | 1 | 1 | - | - |
| Financial derivatives - forward currency contracts | 3) | 1 | 1 | 7 | 7 | - | - |
| Financial assets at fair value through profit or loss | 3) | 2 | 2 | 3 | 3 | 1 | 1 |
| Loans and receivables *) | 1) | 1,082 | 1,082 | 1,230 | 1,230 | 1,592 | 1,592 |
| Cash and cash equivalents | 1) | 623 | 623 | 223 | 223 | 130 | 130 |
| Loans | 2) | -53 | -53 | -60 | -60 | -403 | -403 |
| Financial leases | 2) | -19 | -19 | -35 | -35 | -59 | -59 |
| Financial derivatives - forward commodity contracts | 3) | -7 | -7 | - | - | - | - |
| Trade payables and other financial debt **) | 1) | -1,025 | -1,025 | -1,206 | -1,206 | -1,268 | -1,268 |
| **Total** | | **605** | **605** | **163** | **163** | **-7** | **-7** |

*) Loans and receivables include trade receivables, other non-interest bearing receivables and interest- bearing receivables. Loans and receivables are not prepaid expenses.

**) 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.

For a description of the terms and conditions related to pledged assets and guarantees, see further details in note 34.

**Principles for determining fair value**

**1) Loans and receivables, cash and cash equivalents and trade payables and other financial liabilities**

The fair value of cash and cash equivalents, trade receivables, other non-interest bearing receivables, trade payables and other non-interest bearing liabilities is evaluated as equal to book value based on the short time horizon for this type of financial instrument. Interest-free customer and supplier credits are discounted to present value if the difference between book value and fair value is significant. The assessed values of loans and receivables are net of provision for bad debts. Long-term receivables with variable interest rates are valued by the Group based on interest rates, market risk, individual credit ratings, and other risk factors linked to each financial instrument. All interest-bearing liabilities have a floating interest rate. Based on the assessments made, no significant discrepancies have been identified between book value and fair value.

**2) Loans and financial lease agreements**

The fair value of loans and financial leases has been estimated by using future cash flows that are based on current market interest rates and the remaining term. All interest-bearing liabilities have a variable interest rate. Loans are included at fair value when they are recognised in the balance sheet for the first time. Based on the assessments made, no discrepancies have been identified between book value and fair value.

**3) Available-for-sale financial assets, financial derivatives and financial assets at fair value through profit or loss**

Available-for-sale financial assets, financial derivatives and financial assets at fair value through profit or loss are measured at fair value according to the valuation hierarchy, Level 1 - Level 3 in IFRS 7.

Level 1 - Quoted prices in an active market for an asset or liability
Level 2 - Valuation derived directly or indirectly from the quoted price in level 1
Level 3 - Valuation based on factors not obtained from observable markets.

**The following table shows the Group's assets and liabilities as measured by the valuation hierarchy in IFRS 7:**

| Amounts in NOK million | Assets (liabilities) | | | |
|---|---|---|---|---|
| **2010** | **Level 1** | **Level 2** | **Level 3** | **Total** |
| Shares quoted on the OTC list | 2 | - | - | 2 |
| Financial derivatives - forward currency contracts | - | 1 | - | 1 |
| Various non-current investments | - | - | 1 | 1 |
| Financial derivatives - forward commodity contracts | - | -7 | - | -7 |
| **Total** | **2** | **-6** | **1** | **-3** |
| | | | | |
| **2009** | **Level 1** | **Level 2** | **Level 3** | **Total** |
| Shares quoted on the OTC list | 3 | - | - | 3 |
| Various non-current investments | - | - | 1 | 1 |
| Financial derivatives - forward currency contracts | - | 7 | - | 7 |
| **Total** | **3** | **7** | **1** | **11** |
| | | | | |
| **2008** | **Level 1** | **Level 2** | **Level 3** | **Total** |
| Shares quoted on the OTC list | 1 | - | - | 1 |
| Various non-current investments | - | - | - | - |
| Financial derivatives - forward currency contracts | - | - | - | - |
| **Total** | **1** | **-** | **-** | **1** |

**The following table shows the changes in financial instruments classified by valuation hierarchy Level 1 - Level 3 at 31 December:**

| Amounts in NOK million<br>**2010** | **Fin. assets at fv in profit or loss** | **Financial derivatives** | **Avail.-for-sale fin. assets** | **Total** |
|---|---|---|---|---|
| Book value as at 1 January 2010 | 3 | 7 | 1 | 11 |
| Additions | - | - | - | - |
| Disposals | - | -9 | - | -9 |
| Impairment due to distributions from the company | - | - | - | - |
| Changes in value | -1 | -4 | - | -5 |
| **Book value as at 31 December 2010** | **2** | **-6** | **1** | **-3** |
| | | | | |
| **Classification in the balance sheet** | | | | |
| Non-current assets | - | - | 1 | 1 |
| Current assets | 2 | 1 | - | 3 |
| Current liabilities | - | 7 | - | 7 |
| | | | | |
| **2009** | | | | |
| Book value as at 1 January 2009 | 1 | - | 1 | 2 |
| Additions | - | - | - | - |
| Disposals | - | - | - | - |
| Impairment due to distributions from the company | - | - | - | - |
| Changes in value | 2 | 7 | - | 9 |
| **Book value as at 31 December 2009** | **3** | **7** | **-** | **11** |
| | | | | |
| **Classification in the balance sheet** | | | | |
| Non-current assets | - | - | 1 | 1 |
| Current assets | 3 | 7 | - | 10 |
| Current liabilities | - | - | - | - |
| | | | | |
| **2008** | | | | |
| Book value as at 1 January 2008 | 11 | - | - | 11 |
| Additions | - | - | - | - |
| Disposals | - | - | - | - |
| Impairment due to distributions from the company | - | - | - | - |
| Changes in value | -10 | - | - | -10 |
| **Book value as at 31 December 2008** | **1** | **-** | **-** | **1** |
| | | | | |
| **Classification in the balance sheet** | | | | |
| Non-current assets | - | - | 1 | - |
| Current assets | 1 | - | - | 1 |
| Current liabilities | - | - | - | - |

# Note 31 Capital management

The main objective of the Group's management of its capital structure is to maintain a good credit rating for the Group in order to obtain reasonable loan terms that are proportionate to the business conducted.

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's capital structure is managed by adjusting dividends, buying back treasury shares, reducing the share capital or issuing new shares. No changes were made in the Group's capital management guidelines in 2010.

The Group monitors its capital structure by reviewing the debt ratio, which is defined as net interest-bearing debt devided by the shareholders' equity. The Group's policy is to have a debt ratio between 20 % and 50 %.

Net interest-bearing debt is defined as interest-bearing debt less interest-bearing receivables and cash and cash equivalents. Equity includes total equity including non-controlling interests.

The AF Group has a three-year credit facility and credit limit with Handelsbanken that expires in June 2012. At the end of 2010 AF had used NOK 546 million (541) of the limit through an unused line of credit connected to a corporate cash pooling system. Assuming that AF furnishes further security, the Group, according to the agreement with Handelsbanken, had unused credit lines for bank loans including unutilised overdraft facililties of NOK 900 (900) million year-end.

The agreement with Handelsbanken contains financial covenants. The most important covenants dictate an equity ratio > 20 % and net interest-bearing debt/EBITDA < 4. All of the conditions of the loan agreement that relate to the overdraft facility were met at the end of 2010, 2009 and 2008.

| Amounts in NOK million | 2010 | 2009 | 2008 |
|---|---|---|---|
| Interest-bearing liabilities | 72 | 94 | 462 |
| Interest-bearing receivables | -30 | -56 | -35 |
| Cash and cash equivalents | -622 | -223 | -130 |
| **Net interest-bearing liabilities (receivables)** | **-580** | **-185** | **297** |
| | | | |
| Equity | 968 | 915 | 741 |
| **Total shareholders' equity and non-interest-bearing liabilities** | **388** | **730** | **1,038** |
| | | | |
| Debt-to-equity ratio | -149.5 % | -25.3 % | 28.6 % |

# Note 32 Contingencies

The performance of building and civil engineering assignments occasionally leads to disagreements/disputes between the contractor and client regarding how to understand the underlying contract. The Group prefers to resolve such disagreements/disputes through negotiation outside the courts.
At the end of 2010, the AF Group is only involved in the following lawsuits of special significance:

Raunes Fiskefarm sued AF Gruppen Norge in connection with the expansion of the Vats Disposal Yard. On 8 October 2009 the Haugaland District Court delivered its judgement in the case and ordered AF to pay NOK 40 million in compensation. The judgement was appealed by both parties and a new judgement was handed down by Gulating Court of Appeal on 25 February 2011. The Court of Appeal ordered AF to pay NOK 6 million in compensation. Raunes Fiskefarm was ordered to pay NOK 3 million to AF for costs. The judgement is within AF's expectations concerning the outcome. The judgement was appealed by Raunes Fiskefarm.

In March 2011 AF and Krüger AS brought suit against the City Oslo in connection with the settlement for the construction of the Oset water treatment plant.

# Note 33 Related parties

The Group's related parties consist of associates (note 17), joint ventures (note 16), the Company's shareholders represented by the OBOS Forretningsbygg AS, the Aspelin Ramm Gruppen AS and KB Gruppen Kongsvinger AS, and members of the Board of Directors and Corporate Management Team.

AF Bygg Oslo and AF Byggfornyelse have ongoing contracts with the OBOS Group and the Aspelin Ramm Group. The contracts were won in competition. Representatives of these companies are members of the Board of Directors of AF Gruppen ASA.

**Transactions with related parties:**

| Amounts in NOK million | 2010 | 2009 | 2008 |
|---|---|---|---|
| **Contract price** | | | |
| OBOS Group | 234 | 359 | 407 |
| Aspelin Ramm Group | 262 | 321 | 63 |
| Joint ventures/associates | 243 | 170 | 399 |
| **Total** | **739** | **850** | **868** |
| | | | |
| **Turnover** | | | |
| OBOS Group | 17 | 126 | 187 |
| Aspelin Ramm Group | 151 | 62 | 16 |
| Joint ventures/associates | 76 | 44 | 196 |
| Senior executives and Board of Directors | - | - | - |
| **Total** | **244** | **232** | **399** |
| | | | |
| **Purchase of goods and services** | | | |
| OBOS Group | 3 | 13 | 17 |
| KB Gruppen Kongsvinger AS | 45 | 75 | 10 |
| Joint ventures/associates | -6 | - | - |
| Senior executives and Board of Directors | 1 | 4 | 3 |
| **Total** | **43** | **92** | **30** |
| | | | |
| **Receivables as at 31 December** | | | |
| OBOS Group | 1 | 18 | 46 |
| Aspelin Ramm Group | - | 3 | 4 |
| Joint ventures/associates | 14 | - | 16 |
| Senior executives and Board of Directors | - | - | - |
| **Total** | **14** | **21** | **66** |
| | | | |
| **Loans and guarantees as at 31 December** | | | |
| OBOS Group | - | 4 | 6 |
| KB Gruppen Kongsvinger AS | - | 9 | 3 |
| Joint ventures/associates | - | 10 | 16 |
| Senior executives and Board of Directors | - | - | - |
| **Total** | **1** | **24** | **25** |
| | | | |
| **Leases** | | | |
| OBOS Forretningsbygg AS, annual rent (index-linked) | 5 | 13 | 13 |

Along with related parties, members of the Board of Directors and the management of the Group control 69 % of the shares in AF Gruppen ASA. Reference is made to note 5 for information on the remuneration of the Board of Directors and management. There are no agreements or transactions with related parties beyond this.

On 15 November 2010, 60 % of the shares in the wholly-owned subsidiary Miljøbase Vats AS was sold to the shareholders of AF Gruppen ASA for NOK 120 milion. KB Gruppen Kongsvinger AS, OBOS Forretningsbygg AS and Aspelin Ramm Gruppen AS, all which are related parties, purchased a total of NOK 105 million worth of shares, representing 87 % of the shares that were offered for sale.

# Note 34 Events after the balance sheet date

There have been no events after the balance sheet date and before the date the accounts were presented which provide new information about circumstances that existed at the balance sheet date (that is not already reflected in the financial statements). Nor have other significant post-balance sheet date events been identified that require information in the notes.

# Note 35 Pledged assets and guarantees

| Amounts in NOK million | 2010 | 2009 | 2008 |
|---|---|---|---|
| Carrying amount of liabilities secured by pledges etc. | 53 | 77 | 152 |
| | | | |
| **Carrying amount of pledged assets** | | | |
| Buildings and production facilities | - | - | 17 |
| Machinery * | 48 | 36 | 59 |
| Trade and non-interest-bearing receivables | 34 | 50 | 142 |
| Projects for own account | 20 | 72 | 171 |
| Inventories | 5 | 4 | 4 |
| **Total carrying amount of pledged assets** | **107** | **162** | **393** |

* NOK 19 million (32) of the liabilities related to leasing liabilities and security are attributed to machinery.

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

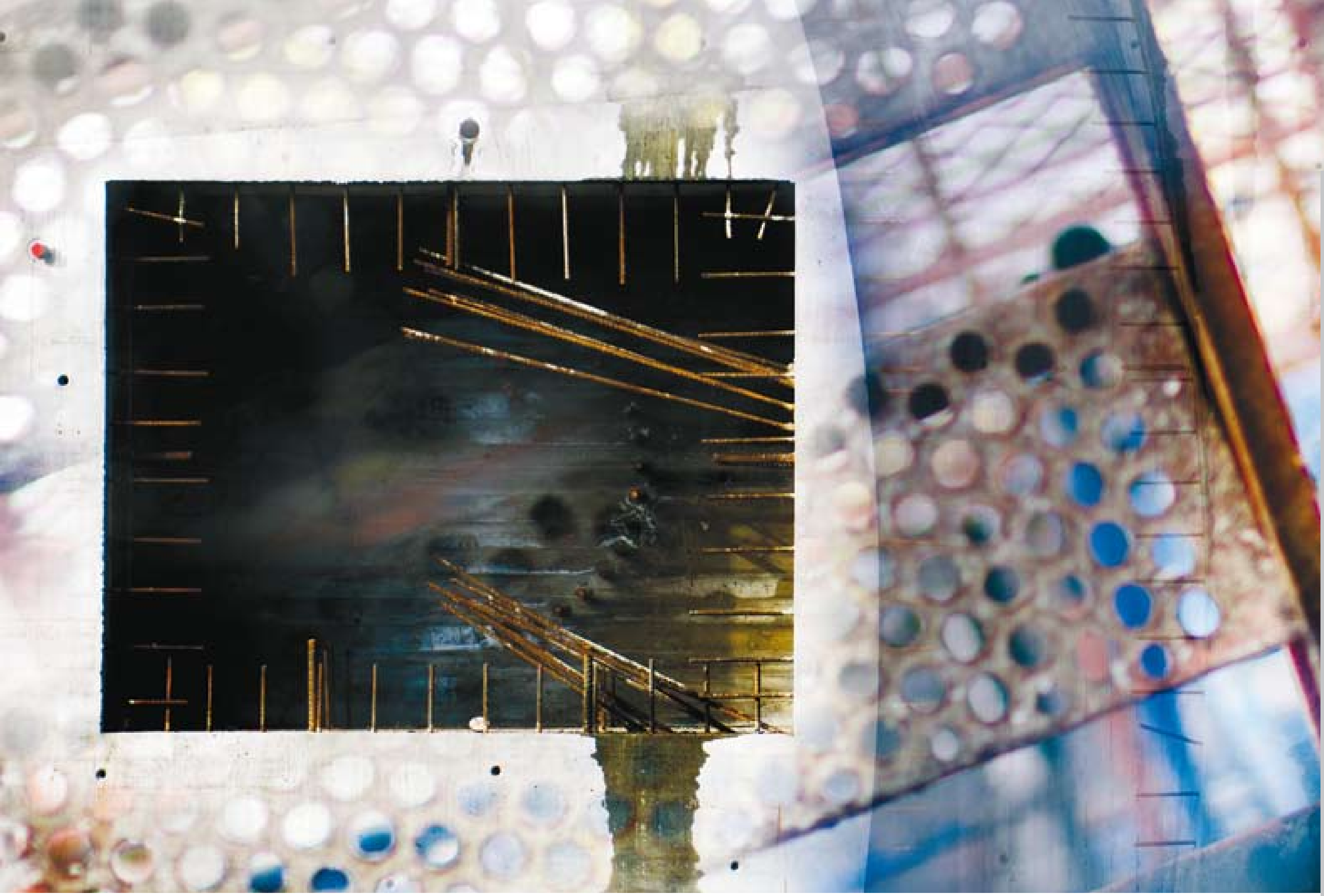
The unutilised NOK 546 million (541) overdraft facility at Handelsbanken is partially secured by a fleet pledge of NOK 300 million (300) in non-current assets and NOK 16 million (50) in properties (note 30). Assuming that AF furnishes further collateral, the Group had unused credit lines for bank loans including overdraft facilities of NOK 900 million (900) at year-end.

Through participation in general partnerships and joint ventures, 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.

**Group guarantees not recognised in the balance sheet**

| | 2010 | 2009 | 2008 |
|---|---|---|---|
| Guarantees issued to clients | 1,068 | 1,133 | 822 |
| Other commercial guarantees | 87 | 17 | - |
| **Total** | **1,156** | **1,150** | **822** |

The guarantees consist of commercial guarantees that are not included in the AF Group's balance sheet. These are guarantees related to contractual obligations that are primarily issued in favour of clients as tender guarantees, delivery guarantees and payment guarantees. These guarantees are issued on behalf of the Parent Company, subsidiaries and associates. If any of the contractual obligations are breached, the AF Group may be requested to cover the loss up to the amount of the guarantee.





# Annual accounts AF Gruppen ASA

# Statement of comprehensive income 1 January - 31 December

| Amounts in NOK million | Note | 2010 | 2009 | 2008 |
|---|---|---|---|---|
| Operating revenue | 2 | - | - | - |
| Group contributions received | 3 | 202 | 53 | - |
| Dividend from subsidiaries | 3 | 203 | - | - |
| **Total operating and other revenue** | | **405** | **53** | **-** |
| | | | | |
| Other operating expenses | 5 | -7 | -2 | -2 |
| **Total operating expenses** | | **-7** | **-2** | **-2** |
| | | | | |
| **Operating profit** | | **398** | **50** | **-2** |
| | | | | |
| Financial income | 6 | 32 | 6 | 1 |
| Financial expenses | 6 | -18 | -12 | -12 |
| **Net financial items** | | **14** | **-6** | **-11** |
| | | | | |
| **Profit before tax** | | **413** | **44** | **-13** |
| | | | | |
| Tax expense | 7 | -3 | - | 1 |
| **Profit for the year** | | **409** | **44** | **-12** |
| | | | | |
| **Other comprehensive income:** | | | | |
| Profit for the year | | 409 | 44 | -12 |
| Other income and expenses | | - | - | - |
| **Total comprehensive income for the year** | | **409** | **44** | **-12** |

# Balance sheet as at 31 December

| Amounts in NOK million | Note | 2010 | 2009 | 2008 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Deferred tax assets | 7 | - | 3 | 4 |
| **Total intangible assets** | | **-** | **3** | **4** |
| | | | | |
| Investments in subsidiaries | 9 | 357 | 357 | 357 |
| Other financial investments | 9 | - | - | - |
| Non-current interest-bearing receivables | 10,11 | 25 | 23 | - |
| **Total non-current financial assets** | | **382** | **380** | **357** |
| | | | | |
| **Total non-current assets** | | **382** | **384** | **360** |
| | | | | |
| Receivables from Group companies | 10 | 208 | 985 | 207 |
| Taxes and public charges receivable | | - | 8 | - |
| **Total current receivables** | | **208** | **993** | **207** |
| | | | | |
| Shares held as current assets | 8 | 2 | 3 | 1 |
| Bank deposits | 12 | 131 | 180 | - |
| **Total current assets** | | **342** | **1,176** | **208** |
| | | | | |
| **Total assets** | | **723** | **1,560** | **569** |
| | | | | |
| **EQUITY AND LIABILITIES** | | | | |
| Share capital (71,117,940 shares with a par value of NOK 0.05) | 13,14 | 4 | 4 | 3 |
| Share premium account | 14 | 47 | 28 | 11 |
| Other contributed equity | 14 | 2 | 8 | 8 |
| **Total contributed equity** | | **53** | **40** | **22** |
| | | | | |
| Other equity | 14 | -345 | 99 | 226 |
| Profit for the year | 14 | 409 | 44 | -12 |
| **Total retained earnings** | | **64** | **143** | **214** |
| | | | | |
| **Total equity** | | **116** | **182** | **236** |
| | | | | |
| Interest-bearing loans and credits | 12 | - | - | 63 |
| Trade payables and other non-interest-bearing debt | | 4 | 3 | 2 |
| Taxes and public charges payable | 10 | 3 | - | 36 |
| Debt to Group companies | 10 | 256 | 1,261 | 136 |
| Proposed dividend | 14 | 343 | 113 | 97 |
| **Total current liabilities** | | **607** | **1,377** | **332** |
| | | | | |
| **Total equity and liabilities** | | **723** | **1,560** | **569** |

Oslo, 31 March 2011

Tore Thorstensen
Chairman of the Board

Eli Arnstad

Mari Broman

Pål Egil Rønn
CEO

Peter Groth

Carl Henrik Eriksen

Tor Olsen
Employee elected

Arne Sveen
Employee elected

Henrik Nilsson
Employee elected

# Cash flow statement

| Amounts in NOK million | | 2010 | 2009 | 2008 |
|---|---|---|---|---|
| **Cash flow from operating activities** | | | | |
| + | Profit before tax | 413 | 44 | -13 |
| - | Current tax payable | - | - | - |
| - | Gains on the sale of shares | - | - | - |
| +/- | Value adjustment of shares held as current assets | 1 | -2 | - |
| +/- | Change in trade receivables and payables | 1 | - | 14 |
| +/- | Changes in balances with Group companies | -230 | 348 | -128 |
| +/- | Change in accruals | 11 | -42 | 45 |
| **=** | **Net cash flow from operating activities** | **196** | **347** | **-82** |
| **Cash flow from investment activities** | | | | |
| - | Acquisition of companies | - | - | - |
| +/- | Payments/proceeds from other investments | - | -23 | - |
| + | Proceeds from the sale of shares | - | 1 | - |
| = | **Net cash flow from investment activities** | **-** | **-22** | **-** |
| **Cash flow from financing activities** | | | | |
| + | Proceeds from issuance of shares | 19 | 17 | 11 |
| + | Proceeds from the sale of treasury shares | 17 | 7 | 18 |
| - | Purchase of treasury shares | -26 | -7 | -21 |
| - | Payment of dividends | -255 | -99 | -83 |
| **=** | **Net cash flow from financing activities** | **-245** | **-82** | **-75** |
| | Net change in cash and cash equivalents during the year | -49 | 243 | -157 |
| + | Cash and cash equivalents as at 1 January | 180 | -63 | 94 |
| **=** | **Cash and cash equivalents as at 31 December** | **131** | **180** | **-63** |

# Notes



## Note 1 Accounting policies

**General**
AF Gruppen ASA is a public limited company registered in Norway. The Company's head office is located at Innspurten 15, 0663 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.

An account of the accounting principles and changes resulting from simplified IFRS is provided below and in note 2 to the accounts.

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 31 March 2011.

The accounting principles described for the Group are consistent with those used for the Parent Company. Reference is made to note 1 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 according to the cost method in the company accounts. The investment is valued at the acquisition cost of the shares, unless impairment was necessary. It is written down to fair value when the impairment is due to reasons that cannot be assumed to be transient, and deemed necessary in accordance with generally accepted accounting principles. Impairment losses are reversed when the basis for the impairment 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. This means that dividends and group contributions received and paid by the parent company will be recognised the year prior to when the receipt or payment is adopted.
The same applies to any tax effect of such transactions.

## Note 2 Operating revenue

The company has not had operating revenues.

# Note 3 Dividend and group contribution

| Amounts in NOK million | 2010 | 2009 | 2008 |
|---|---|---|---|
| Group contribution received | 202 | 53 | - |
| Dividend from subsidiaries | 203 | - | - |
| **Total** | **405** | **53** | **-** |

Group contributions and dividends are considered to be a part of the operation of AF Gruppen ASA and have therefore been reclassified from financial income to other income in the year's accounts. Group contributions of NOK 53 million received in 2009 have been reclassified in this year's accounts.

# Note 4 Payroll costs, loans and fees

| Amounts in NOK 1,000 | | | |
|---|---|---|---|
| **Remuneration of the CEO** | **2010** | **2009** | **2008** |
| Fixed pay | 2,645 | 2,286 | 1,955 |
| Bonus | 2,066 | 1,503 | 1,139 |
| Other benefits | 1,142 | 91 | 170 |
| **Total** | **5,853** | **3,879** | **3,264** |
| Retirement benefits | 33 | 31 | 34 |
| Board of Directors' fees | 1,389 | 1,210 | 1,325 |

AF Gruppen ASA has no employees and is not required, therefore, to have a pension scheme. The CEO is employed formally by the subsidiary AF Gruppen Norge AS.

Complete information on the pay and remuneration of the CEO, Board of Directors and senior executives is provided in the consolidated financial statements, and reference is made to note 5 in the consolidated accounts for further information.

# Note 5 Other operating expenses

| Amounts in NOK million | 2010 | 2009 | 2008 |
|---|---|---|---|
| Audit fees | - | - | -1 |
| Other operating expenses | -7 | -2 | -1 |
| **Total other operating expenses** | **-7** | **-2** | **-2** |

| Amounts in NOK 1,000 | 2010 | 2009 | 2008 |
|---|---|---|---|
| **Audit fees** | | | |
| Ordinary audit fees | -112 | -140 | -253 |
| Other verification services | - | -248 | - |
| Other services beyond auditing | - | -68 | -326 |
| **Total audit fees** | **-112** | **-456** | **-579** |

Value-added tax is not included in the audit fees.

# Note 6 Financial income and expenses

| Amounts in NOK million | 2010 | 2009 | 2008 |
|---|---|---|---|
| **Financial income** | | | |
| Interest income from group companies | 27 | 6 | 6 |
| Other interest income | 3 | 1 | 1 |
| Net gains on the sale of financial assets | - | - | - |
| Foreign exchange gains | - | - | - |
| Value adjustment of receivables | 2 | - | - |
| Value adjustment of financial assets | - | 2 | - |
| **Total financial income** | **32** | **9** | **6** |
| | | | |
| **Financial expenses** | | | |
| Interest expenses from group companies | -16 | -3 | -8 |
| Other interest expenses | -1 | -2 | - |
| Foreign exchange losses | - | - | - |
| Net loss on sale (impairment) of financial assets | -1 | -10 | -10 |
| Other financial expenses | - | - | - |
| **Total financial expenses** | **-18** | **-15** | **-17** |

# Note 7 Tax expense

| Amounts in NOK million | 2010 | 2009 | 2008 |
|---|---|---|---|
| **Tax cost for the year can be broken down as follows:** | | | |
| Current tax payable | - | - | - |
| Change in deferred tax | 3 | - | - 1 |
| **Tax expense** | **3** | **-** | **- 1** |
| | | | |
| **Calculation of the tax base for the year:** | | | |
| Profit before tax | 413 | 44 | -13 |
| Non-deductible expenses | -9 | 10 | 10 |
| Non-taxable income | - | -3 | - |
| 3 % of gains on shares | - | - | - |
| Application of loss carryforward | -2 | - | - |
| Repaid capital (dividends) without tax effect | -203 | - | - |
| Group contributions received without tax effect | -198 | -51 | - |
| **Tax base for the year** | **-** | **-** | **-3** |
| | | | |
| Tax for the year (28 % of the tax base for the year) | - | - | -1 |
| | | | |
| **Summary of temporary differences:** | | | |
| Provisions | 10 | 10 | 1 |
| Tax loss carryforward | - | 2 | 11 |
| **Total** | **10** | **12** | **13** |
| | | | |
| **Deferred tax assets recognised** | **-** | **3** | **4** |
| **Deferred tax assets not recognized** | **3** | **-** | **-** |

The deferred tax assets are based on future revenue. The tax loss carryforward of NOK 14,000 is not subject to a time limit.

# Note 8 Shares held as current assets

Shares held as current assets are assessed at fair value and the value is based on the quoted price on the balance sheet date. The amount consists of shares in investment funds that invest in listed shares. The acquisition cost of the investment is NOK 7.8 million. NOK 0.6 million was recognised in the income statement as a fair value adjustment in 2010.

# Note 9 Investments in subsidiaries

| Name of company | Date acquired | Business address | Ownership interest | Voting share |
|---|---|---|---|---|
| AF Gruppen Norge AS | 05/09/1985 | Oslo | 100 % | 100 % |
| AF Entech AS | 02/04/2009 | Oslo | 100 % | 100 % |
| AF Miljø AS | 15/01/2009 | Oslo | 100 % | 100 % |
| AFG Invest 2 AS | 08/12/2009 | Oslo | 100 % | 100 % |
| AFG Invest 3 AS | 08/12/2009 | Oslo | 100 % | 100 % |

**Overview of the subsidiaries' earnings, equity and carrying amount in the company accounts of AF Gruppen ASA:**

| Amounts in NOK 1,000 | Earnings 2010 | Number of shares | Share capital | Equity | Carrying amount |
|---|---|---|---|---|---|
| AF Gruppen Norge AS | 254,058 | 9,869 | 722 | 459,343 | 258,561 |
| AF Entech AS | 5,547 | 10,000 | 10,000 | 68,815 | 37,635 |
| AF Miljø AS | 62,809 | 10,000 | 10,000 | 11,683 | 60,565 |
| AFG Invest 2 AS | 1 | 100 | 100 | 101 | 100 |
| AFG Invest 3 AS | 1 | 100 | 100 | 101 | 100 |

# Note 10 Intercompany balances with Group companies

| Amounts in NOK million | 2010 | 2009 | 2008 |
|---|---|---|---|
| Non-current interest-bearing receivables | 25 | - | - |
| Current interest-bearing receivables | - | 923 | 171 |
| Other current receivables | 208 | 62 | 36 |
| Current interest-bearing liabilities | 249 | 1,244 | 96 |
| Other current liabilities | 7 | 17 | 40 |

# Note 11 Non-current receivables

**Receivables that mature later than one year**

| Amounts in NOK million | 2010 | 2009 | 2008 |
|---|---|---|---|
| Gross non-current receivables | 35 | 33 | - |
| Allowance for bad debts | -10 | -10 | - |
| **Carrying amount** | **25** | **23** | **-** |

# Note 12 Interest-bearing loans and credits

A NOK 80 million corporate guarantee has been furnished for tax deductions.

| Amounts in NOK million | Effective interest rate | 2010 | 2009 | 2008 |
|---|---|---|---|---|
| Corporate cash pooling system | 3 %–5 % | 131 | 180 | -63 |

The AF Group has a three-year credit facility of NOK 900 million with Handelsbanken that expires in June 2012.

At the end of the year, the Group had deposits of NOK 131 million (180) linked to a corporate cash pooling system. In the corporate cash pooling system AF Gruppen ASA has the direct account with the bank. Other accounts in the corporate cash pooling system are regarded as intercompany balances.

The agreement with Handelsbanken contains financial covenants that apply to the Group. The most important covenants dictate an equity ratio > 20 % and net interest-bearing debt/EBITDA < 4. All of the conditions of the loan agreement that relate to the overdraft facility were met at the end of 2010 and 2009.

# Note 13 Share capital and shareholder information

| The share capital consists of: | Number | Par value | Carrying amount |
|---|---|---|---|
| Class A shares after split | 71,117,940 | 0.05 | 3,555,897 |

| Ownership structure | Number | Voting share/ stake % |
|---|---|---|
| **Shareholders with a stake >1%** | | |
| KB Gruppen Kongsvinger AS | 23,295,235 | 32.8 % |
| OBOS Forretningsbygg AS | 20,466,730 | 28.8 % |
| Aspelin Ramm Gruppen AS | 4,092,040 | 5.8 % |
| LJM A/S | 2,513,900 | 3.5 % |
| Moger Invest AS | 2,064,621 | 2.9 % |
| Skogheim, Arne | 1,704,720 | 2.4 % |
| Staavi, Bjørn | 1,471,860 | 2.1 % |
| Evensen, Jon Erik | 710,000 | 1.0 % |
| **Total with stake of >1%** | **56,319,106** | **79.2 %** |
| Total other shareholders | 14,798,834 | 20.8 % |
| **Total outstanding shares** | **71,117,940** | **100.0 %** |

There is only one class of shares, with equal voting rights.

| Owned by senior executives as at 31 December 2010 | | Number of shares | Number of options |
|---|---|---|---|
| **Board of Directors** | | | |
| Tore Thorstensen, Board Chairman [1)] | Elected by shareholders | 11,500 | - |
| Eli Arnstad [2)] | Elected by shareholders | - | - |
| Mari Broman | Elected by shareholders | - | - |
| Carl Henrik Eriksen [3)] | Elected by shareholders | - | - |
| Peter Groth [4)] | Elected by shareholders | 11,500 | - |
| Tor Olsen [5)] | Elected by employees | 11,000 | 20,000 |
| Henrik Nilsson | Elected by employees | 12,300 | 2,500 |
| Arne Sveen | Elected by employees | - | 1,250 |
| **Total** | | **46,300** | **23,750** |

[1] Represents, in addition to his own shares, KB Gruppen Kongsvinger, which owns 23,295,235 and Tokanso AS, which owns 346,100 shares
[2] A party related to Eli Arnstad owns 1,440 shares
[3] Represents OBOS Forretningsbygg AS, which owns 20,466,730 shares
[4] Represents, in addition to his own shares, Aspelin Ramm Gruppen AS, which owns 4,092,040 shares and Ringkjøb Invest AS, which owns 76,355 shares
[5] Represents T. Olsen Holding AS, which owns 96,515 shares

| Corporate Management Team | | Number of shares | Number of options |
|---|---|---|---|
| Pål Egil Rønn | CEO | 172,075 | 140,000 |
| Sverre Alf Hærem | Executive Vice President/CFO | 86,000 | 120,000 |
| Paul-Terje Gundersen | Executive Vice President | 83,800 | 40,000 |
| Robert Haugen | Executive Vice President | 144,350 | 120,000 |
| Tore Fjukstad | Executive Vice President | 76,500 | 120,000 |
| Arild Moe | Executive Vice President | 278,620 | 90,000 |
| **Total** | | **841,345** | **630,000** |

The Board is authorised to acquire up to 10 % of the share capital. This authority is valid until the 2011 Annual General Meeting, which is scheduled for 13 May 2011.

At an extraordinary general meeting on 4 January 2008, a share option scheme was adopted for all employees of AF Gruppen ASA and its subsidiaries with the right to subscribe in the years 2008, 2009 and 2010. 5,251,250 options were allocated that could be redeemed 15 February 2011. 5,163,750 options were exercised.

# Note 14 Equity

| Amounts in NOK million | Share capital | Treasury shares | Share premium account | Other contributed equity | Retained earnings | Total |
|---|---|---|---|---|---|---|
| **Equity as at 1 January 2009** | **3** | **-** | **11** | **8** | **214** | **236** |
| Capital increase | - | - | 17 | - | | **17** |
| Purchase of treasury shares | - | - | - | - | -7 | **-7** |
| Sale of treasury shares | - | - | - | - | 6 | **7** |
| Total comprehensive income for the year | - | - | - | - | 44 | **44** |
| Proposed dividend for 2009 | - | - | - | - | -113 | **-113** |
| Dividend paid in 2009 beyond 2008 provision | - | - | - | - | -2 | **-2** |
| **Equity as at 31 December 2009** | **4** | **-** | **28** | **8** | **143** | **182** |
| Capital increase | - | - | 19 | - | - | **19** |
| Purchase of treasury shares | - | - | - | - | -26 | **-26** |
| Sale of treasury shares | - | - | - | - | 17 | **17** |
| Reclassification of gains on sale of treasury shares | - | - | - | -6 | 6 | **-** |
| Total comprehensive income for the year | - | - | - | - | 409 | **409** |
| Proposed dividend for 2010 | - | - | - | - | -343 | **-343** |
| Dividend paid in 2010 beyond 2009 provision | - | - | - | - | -142 | **-142** |
| **Equity as at 31 December 2010** | **4** | **-** | **47** | **2** | **64** | **116** |

The company has 450,000 treasury shares with a par value of NOK 0.05 (250,045 treasury shares with a par value of NOK 0.05 in 2009). Treasury shares have been bought to sell to employees and as partial payment for company acquisitions. Shares were not bought from related parties in 2010.

[1] Share capital in accordance with Articles of Association: 71,117,940 shares with a par value of NOK 0.05.
[2] Number of paid-up shares issued: 71,117,940 shares with a par value of NOK 0.05.

# Note 15 Guarantees and pledged assets

| Amounts in NOK million | 2010 | 2009 | 2008 |
|---|---|---|---|
| Warranty liability | 1,156 | 1,150 | 814 |

In connection with the construction contracts entered into, the subsidiaries are subject to customary contracting obligations associated with associated guarantees. AF Gruppen ASA guarantees the warranty liability of its subsidiaries.

See note 35 to the consolidated accounts for further information.

# Responsibility statement

With regard to the 2010 annual accounts 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 special 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 fair view of performance, earnings and the position of the Company and Group, along with a description of the most important risk and uncertainty factors the AF Group faces.

Oslo, 31 March 2011

Tore Thorstensen
Chairman of the Board

Eli Arnstad

Mari Broman

Pål Egil Rønn
CEO

Peter Groth

Carl Henrik Eriksen

Tor Olsen
Employee elected

Arne Sveen
Employee elected

Henrik Nilsson
Employee elected

**Statsautoriserte revisorer**
**Ernst & Young AS**

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Medlemmer av Den norske Revisorforening

To the Annual Shareholders' Meeting of AF Gruppen ASA

## AUDITOR'S REPORT

### Report on the financial statements

We have audited the accompanying financial statements of AF Gruppen ASA, comprising the financial statements for the Parent Company and the Group. The financial statements of the Parent Company comprise the balance sheet as at 31 December 2010, the statement of comprehensive income and cash flows for the year then ended as well as a summary of significant accounting policies and other explanatory information. The financial statements of the Group comprise the consolidated statement of financial position as at 31 December 2010, the statements of comprehensive income, cash flows and changes in equity for the year then ended as well as a summary of significant accounting policies and other explanatory information.

*The Board of Directors' and Chief Executive Officer's responsibility for the financial statements*

The Board of Directors and Chief Executive Officer are 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 the International Financial Reporting Standards as adopted by the EU for the Group, and for such internal control as the Board of Directors and Chief Executive Officer determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

*Auditor's responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Ernst & Young



We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the financial statements for the Parent Company and the Group.

*Opinion on the financial statements of the Parent Company*

In our opinion, the financial statements of AF Gruppen ASA have been prepared in accordance with laws and regulations and present fairly, in all material respects, the financial position of the Company as of 31 December 2010 and its financial performance and cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway.

*Opinion on the financial statements of the Group*

In our opinion, the financial statements of the Group have been prepared in accordance with laws and regulations and present fairly, in all material respects, the financial position of the Group as of 31 December 2010 and its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards on Accounting as adopted by the EU.

**Report on other legal and regulatory requirements**

*Opinion on the Board of Directors' report*

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Directors' report concerning the financial statements, the going concern assumption and the 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 the Board of Directors and Chief Executive Officer have fulfilled their duty to properly record and document the Company's accounting information as required by law and generally accepted bookkeeping practice in Norway.

Oslo, 31 March 2011
Ernst & Young AS

Asbjørn Ler
State Authorised Public Accountant (Norway)

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

# Glossary



## Finansial ratios

**EBITDA %**
(Operating profit + depreciation, amortisation and impairment) / operating revenue

**EBIT %**
Operating profit/operating revenue

**EBT %**
Earnings before taxes/operating revenue

**Return on equity**
Net profit/average shareholders' equity

**Return on capital employed (ROACE)**
(Earnings before taxes + interest expenses) / average capital employed

**Economic Value Added (EVA)**
(Return on capital employed)* 0.72 - average capital costs after tax)* average capital employed

**Capital employed**
Shareholders' equity + interest-bearing liabilities

**Equity ratio**
Shareholders' equity / total capital

**Net interest-bearing receivables (debt)**
Interest-bearing receivables + liquid assets - interest-bearing liabilities

**Debt-to-equity ratio**
Net interest-bearing liabilities / (shareholders' equity + net interest-bearing liabilities)

**Basic earnings per share**
Net profit / average number of shares outstanding

**Cash flow per share**
(Net profit + depreciation - taxes paid)/average number of shares outstanding

# Definitions

## Other definitions

**Own account**
When AF buys land, develops projects and then sells units for its own account.

**LTI-1 rate**
Number of lost time injuries per million man-hours

The AF Group 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

The AF Group includes all subcontractors when calculating the LTI-2 value.

**HVAC**
Heating, ventilation, air conditioning and cooling system

# Addresses

**AF Gruppen ASA**
**AF Gruppen Norge AS**
**AF Anlegg**
**AF Offshore & Civil Construction**
**AF Byggfornyelse**
**AF Bygg Oslo**
**AF Eiendom**
**AF Decom AS**
**AF Decom Offshore AS**
**AF Entech AS**
**AF Energi & Miljøteknikk AS**
**AF Miljø AS**
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