# Annual report 2011

AF Group

# Highlights 2011

## Record profit

In 2011 the AF Group delivered its highest net profit ever. The profit before tax was NOK 404 million, which corresponds to a profit margin of 5.5 per cent. It is especially the business areas Civil Engineering and Building, where the level of activity has been particularly high, that have contributed to the good results. The business areas Environment and Property can look back on a successful year. Overall, the future looks good for the Company at the start of 2012.

## Record-high order backlog

At the end of 2011 the order backlog was a record-high NOK 9,826 million, compared with NOK 6,193 million at the end of 2010, an increase of 59 per cent. The high order backlog provides the foundation for a high level of activity and good growth in 2012, and it will entail the need to recruit up to 600 engineers in the coming years.

## Expansion in the east and west

In the autumn of 2011 the AF Group acquired the majority shareholding in the companies Strøm Gundersen and Rogaland Entreprenør. These companies are located in Drammen and Stavanger, respectively. AF has thus expanded its geographical market for building and civil engineering services in high-growth regions.

## Expansion in the north and south

In 2011 AF entered into an agreement with Store Norske Spitsbergen Grubekompani relating to transport, civil engineering and maintenance services on Svalbard. In this connection AF established the company AF Arctic, and around 70 employees are employed in the project at Svea on Svalbard. In addition, AF has established building activities in Kristiansand, AF Bygg Sør, in 2011.

## 500 new employees in 2011

AF aims to be a leading industrial group in its field. The company is dependent on retaining and motivating its employees, as well as attracting new employees. As a result of business acquisitions and recruitment, more than 500 new employees joined the AF team in 2011. AF is continuously seeking to be one of the workplaces preferred by engineering students, and an employee survey conducted in the autumn of 2011 shows that job satisfaction and pride in working for AF have never been higher.

# Contents



# Operational structure

AF GROUP

- CIVIL ENG.
  - **AF Anlegg**
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- BUILDING
  - **AF Bygg Oslo**
  - **AF Byggfornyelse**
  - **AF Bygg Østfold**
  - **AF Bygg Sør**
  - **AF Rogaland Entreprenør**
  - **Strøm Gundersen**
  - **Thorendal**
  - **Consolvo**
  - **Haga & Berg Entreprenør**
  - **AF Bygg Göteborg**
- PROPERTY
  - **AF Eiendom**
- ENVIRONMENT
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  - **AF Decom**
  - **AF Decom AB**
  - **AF Group Polska**
- ENERGY
  - **AF Energi & Miljøteknikk**
  - **Mollier**
  - **Aeron**

## Civil Engineering

## Building

## Property

# Key figures

| YEAR | | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|---|
| **TURNOVER (NOK MILLION)** | | | | | | |
| Operating and other revenue | | 7,356 | 5,828 | 5,401 | 5,916 | 5,538 |
| Order backlog | | 9,826 | 6,193 | 6,033 | 4,912 | 5,862 |
| **EARNINGS (NOK MILLION)** | | | | | | |
| Earnings before interest, taxes, depreciation and amortisation (EBITDA) | | 474 | 463 | 417 | 417 | 311 |
| Depreciation, amortisation and impairment losses | | -85 | -97 | -83 | -88 | -82 |
| Earnings before interest and taxes (EBIT) | | 389 | 366 | 335 | 328 | 229 |
| Earnings before taxes (EBT) | | 404 | 372 | 366 | 308 | 232 |
| Net profit | | 303 | 277 | 270 | 219 | 175 |
| **PROFITABILITY (NOK MILLION)** | | | | | | |
| EBITDA % | 1) | 6.4 % | 7.9 % | 7.7 % | 7.0 % | 5.6 % |
| EBIT % | 2) | 5.3 % | 6.3 % | 6.2 % | 5.6 % | 4.1 % |
| EBT % | 3) | 5.5 % | 6.4 % | 6.8 % | 5.2 % | 4.2 % |
| Return on equity | 4) | 28.2 % | 37.6 % | 33.1 % | 33.5 % | 31.6 % |
| Return on average capital employed (ROaCE) | 5) | 35.5 % | 36.0 % | 35.7 % | 33.0 % | 29.3 % |
| Economic Value Added (EVA) | 6) | 193 | 181 | 183 | 154 | 107 |
| **BALANCE SHEET (NOK MILLION)** | | | | | | |
| Total assets | | 4,592 | 3,013 | 3 059 | 3,194 | 2 553 |
| Equity | | 1,331 | 968 | 915 | 741 | 570 |
| Capital employed | 7) | 1,461 | 1,040 | 1,009 | 1,202 | 859 |
| Average capital employed | | 1,143 | 1,047 | 1,075 | 1,024 | 843 |
| Equity ratio | 8) | 29.0 % | 32.1 % | 29.9 % | 23.2 % | 22.3 % |
| Net interest-bearing receivables (debt) | 9) | 450 | 580 | 185 | -297 | -124 |
| Debt-to-equity ratio | 10) | -0.50 | -1.50 | -0.25 | 0.29 | 0.18 |
| **THE SHARE (NOK)** | | | | | | |
| Share capital as at 31 December | | 4,040,725 | 3,555,897 | 3,524,797 | 3,467,472 | 3,442,472 |
| Number of shares as at 31 December | | 80,814,490 | 71,117,940 | 70,495,940 | 69,349,440 | 68,849,440 |
| Earnings per share | 11) | 3.85 | 3.92 | 3.85 | 3.16 | 2.55 |
| Diluted earnings per share | | 3.85 | 3.82 | 3.85 | 3.16 | 2.55 |
| Cash flow per share | 12) | 5.47 | 6.14 | 4.02 | 5.83 | 4.26 |
| Dividend per share | | 2.20 | 2.00 | 1.60 | 1.40 | 1.20 |
| Extraordinary dividend per share | | 2.30 | 2.50 | 2.00 | | |
| **PERSONNEL** | | | | | | |
| Number of salaried employees as at 31 December | | 1,158 | 972 | 977 | 963 | 857 |
| Number of skilled employees as at 31 December | | 1,236 | 961 | 997 | 1,084 | 1,033 |
| Total number of employees | | 2,394 | 1,933 | 1,974 | 2,047 | 1,890 |

## 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**
Shareholders' equity / total assets

**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

# Energy

# This is the AF Group

## The AF Group is one of Norway's leading contracting and industrial groups with operations in Civil Engineering, Building, Property, Environment and Energy.

AF has exhibited its power and expertise in solving complex challenges through a number of contracts. The Company's entrepreneurial spirit is evident in its ability to think differently and to find better, more future-oriented ways of creating value. Therefore AF stands for "Addressing the Future". AF is involved in everything from the demolition of oil platforms to major building and civil engineering projects. In addition, AF has created one of Scandinavia's largest centres of expertise in the area of energy efficiency. A broad range of services and many centres of expertise provide career opportunities across the Group. Competent employees are given responsibilities at an early stage, and there are many opportunities for personal development through AF's many projects. Thanks to ambitious and result-oriented employees, the AF Group has experienced strong growth during the past decade.

### Civil Engineering

AF has the experience and expertise required to carry out all types of civil engineering projects ranging from small and simple to large and demanding. AF carries out projects related to transport, ports, oil/energy/offshore and foundation work. Our clients are primarily public sector agencies and large energy and industrial companies.

### Building

AF is one of the largest players in the area of residential, commercial and public buildings. AF's experience spans the entire value chain from development and planning to building. AF is also a leader in renovation. AF delivers services to clients ranging from small companies with a single assignment to large private and public clients with a longstanding relationship. AF cooperates closely with clients to find efficient solutions that satisfy future environmental and energy requirements. The Building business area is established in Norway and Sweden.

## Highlights in the history of the AF Group

### 1986: Establishment and civil engineering

AF was established by a group of colleagues from a joint venture who decided to leave two major Norwegian contracting companies. Two construction contracts created the foundation for the company, the Dokkfløyvatn Dam and the Lodalen Train Formation Yard. The founders sought to create a company that encouraged entrepreneurial endeavour and provided incentives to pursue new opportunities for profitable growth. A combination of profitability and HSE results well above the norm in the industry provided the contractors in AF a platform for further growth and development of the company.
**Group turnover: NOK 118 million**

### 1997: Focus on Building and stock exchange listing

AF merges with the Oslo-based contracting company Ragnar Evensen AS. The merger helped AF to almost double its turnover. AF was listed on the Oslo Stock Exchange in the autumn of 1997 in connection with the merger. In addition, the acquisition of Brødr. Holstad AS in 2000 and Brødr. Glomsrød Entreprenør AS in 2005 has ensured AF a good position in the building market in Østfold. In 2001 AF entered the Swedish building market through the acquisition of a majority shareholding in JK Bygg Göteborg, now AF Bygg Göteborg. AF has gradually increased its ownership interest and has owned all the shares in the company from 1 January 2007.
**Group turnover: NOK 1,174 million**

*Thanks to ambitious and result-oriented employees, the AF Group has experienced strong growth in the past decade.*

## Property
AF develops residential and non-residential buildings for its own account. Most of the projects are located geographically where AF has its own contracting services. AF cooperates closely with other players in the industry, and the development projects are often organised as joint development companies. In this way we benefit from each other's expertise, while reducing project-specific risk.

## Environment
AF is Scandinavia's leading contractor for the demolition of buildings, industrial plants and petroleum installations. AF offers total solutions that satisfy the client's environmental challenges. AF has a state-of-the art reception facility at Vats near Haugesund for dismantling and recycling petroleum installations. The Environment business area is established in Norway, Sweden, Poland and the UK.

## Energy
With extensive industrial knowledge and advanced expertise in energy optimisation, AF delivers energy-efficient technical solutions. The solutions maintain comfort and working conditions while reducing energy consumption – in the building, industry, maritime and offshore sectors. In order for the market to choose correct solutions, it is not enough that they are energy-efficient, they must also benefit the client's bottom line and the environment!

### 2000: Profitable foundation and demolition activities
AF gained access to the foundation and demolition industry through the acquisition of companies such as Pålplintar AB and Graveservice AS. This laid the foundation for what today is a very profitable demolition business both on land and in the North Sea. Over NOK 500 million was invested in 2009 to create what is currently one of Europe's most modern reception facilities for decommissioned offshore installations at Vats near Haugesund.
**Group turnover: NOK 1,426 million**

### 2006: Demand for energy conservation
In 2006 AF established the business unit AF Energi & Miljøteknikk. Through the acquisition of the companies Holst & Brå AS and Energi & Miljøteknikk AS, AF secured expertise in a market showing substantial growth. Subsequently our investment in the Energy business area was strengthened further with expertise in the offshore and maritime sectors through the acquisition of Mollier AS in 2007 and Aeron in 2008.
**Group turnover: NOK 5,358 million**

### 2011: AF strengthens its Building business area
AF took over the majority shareholding in the Strøm Gundersen Group and Rogaland Entreprenør. Strøm Gundersen is a leading and significant building and civil engineering contractor. The business is located in Eastern Norway, and the head office is in Drammen. The largest operative companies in the Strøm Gundersen Group are Strøm Gundersen AS, Haga & Berg Entreprenør AS, Thorendahl AS, Consolvo and Protector.
**Group turnover: NOK 7,356 million**


## *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.

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

## 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-based company with a firmly anchored set of core values:

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

From the left: Sverre Hærem, Arild Moe, Pål Egil Rønn, Tore Fjukstad, Paul-Terje Gundersen, Robert Haugen.

## Pål Egil Rønn (1968)

**CEO**

Rønn has held various managerial posts at AF since 1999 and was appointed CEO of AF Gruppen ASA in 2007. He is a chartered engineer with a PhD from the Norwegian University of Science and Technology (NTNU) and has completed the Advanced Management Programme at INSEAD. Rønn owns 331,525 shares and 27,250 options in AF Gruppen ASA as at 31 December 2011.

## Robert Haugen (1959)

**Executive Vice President**

Haugen is responsible for the Environment business area. He has held various managerial posts at AF and been employed by the Company since 1986. Haugen holds degrees in engineering and business economics from Buskerud University College and has completed the Advanced Management Programme at INSEAD. Haugen owns 278,700 shares and 17,450 options in AF Gruppen ASA as at 31 December 2011.

## Sverre Hærem (1965)

**Executive Vice President/CFO**

Hærem was appointed Executive Vice President/CFO of AF in 2007. He has previously held the position of VP Finance at Dyno ASA and CFO at Fjord Seafood ASA. Hærem holds a Master of Science degree in Business from BI Norwegian Business School. Hærem owns 220,350 shares and 17,350 options in AF Gruppen ASA as at 31 December 2011.

## Paul-Terje Gundersen (1957)

**Executive Vice President**

Gundersen has been employed by the Company since 1991 and has been responsible for the Building and Property business areas since 2010. He has broad managerial experience from AF, Ragnar Evensen AS and Kruse Smith AS. He holds a degree in engineering from Akershus University College and has completed the SBL Managerial Programme at the Stockholm School of Economics. Gundersen owns 133,250 shares and 16,250 options in AF Gruppen ASA as at 31 December 2011.

## Tore Fjukstad (1961)

**Executive Vice President**

Fjukstad has been responsible for the Energy business area since 2007. He has managerial experience from several industrial groups and has degrees in engineering and economics from Trondheim and Sør-Trøndelag University College. Fjukstad has a Master in Energy Management from IFP and ESCP-EAP in Paris and BI Norwegian Business School. Fjukstad owns 210,850 shares and 17,200 options in AF Gruppen ASA as at 31 December 2011.

## Arild Moe (1965)

**Executive Vice President**

Moe is responsible for the Civil Engineering business area. He has held various managerial posts at AF and has been employed by the Company since 1990. Moe holds a degree in construction and civil engineering from Oslo University College and a degree in business economics from the University of Agder. He owns 382,970 shares and 17,100 options in AF Gruppen ASA as at 31 December 2011.

# AF's goals for profitable growth

AF aims to continuously create value, which will enhance the company's attractiveness to shareholders and investors. This will expand the scope of our business activities and opportunities for the development of our employees.

## Profitability

### Objective

AF's goal is to have an operating margin and a return on capital employed that is better than comparable companies. AF's target is to have a return on capital employed greater than 20 per cent.

### Results in 2011

AF achieved an operating margin of 5.3 per cent in 2011. The company's return on capital employed was 35.5 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 2011

AF's equity ratio was 29.0 per cent at the end of 2011, and the company had unutilised credit and loan facilities of NOK 900 million as at 31 December 2011.

AF seeks growth opportunities to leverage its core competencies and create value to stakeholders.

## Dividend

### Objective

AF's dividend policy is to provide shareholders with a competitive dividend yield.

The Company assumes that future dividends will be stable and ideally rise in line with the earnings performance. The AF Group's intention over time is to distribute a minimum of 50 per cent of the profit for the year as a dividend.

### Results in 2011

In 2011, AF paid a dividend of NOK 2.00 per share for the 2010 financial year. In addition, it distributed an extraordinary dividend of NOK 2.50 per share.

The Board is proposing a dividend of NOK 4.50 per share for 2011.

## 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 3.0 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 2011

AF achieved an LTI rate of 1.5 and a sickness absence rate of 3.6 per cent. This is on par with the best safety results in the contractor industry.

# Sustainable and profitable growth

## The year 2011 was a favourable year for the AF Group with strong performance in a number of important areas. AF has gained market shares in several sectors and continues to operate with healthy margins. We are especially pleased with our performance in the area of HSE. The Company has also carried out the largest acquisition in the history of the AF Group.

We are delivering very strong results for large parts of our business, and the improved competitiveness is resulting in higher market shares. At the end of 2011 we had a record-high order backlog, which provides a good, stable platform for further growth.

In 2011 we have transformed operations in several units that have been through a difficult period. By focusing on our core operating activities, we have restructured these business units to enhance their competitiveness.

Several acquisitions were made in 2011 that will be important to the further development of the AF Group. The acquisition of the majority shareholding in the Strøm Gundersen Group in Drammen is the largest transaction in the history of the AF Group. This acquisition gives us a strong market position in one of Norway's most exciting markets, in addition to increased expertise in renovation.

The acquisition of the companies Rogaland Entreprenør and Båtservice Offshore Verft (now AF Rogaland Entreprenør and AF Offshore Mandal) was smaller in scope, but these companies and their employees also represent valuable additions to the AF Group in markets and business areas that we believe have great potential in the future.

Profitable growth has been a core value of the AF Group right from the beginning. In 2011 we have shown that this is still key to us through our operations and acquisitions. Our platform at the start of 2012 gives us renewed strength to continue this development.

### Sustainable development

As a major player in the Norwegian market, we have a responsibility to ensure that our profitable growth is sustainable. We place great emphasis on ensuring that the creation of value takes place in a manner that safeguards the interests and opportunities of the current and future generations. At the AF Group this influences our execution of projects. Profitable growth should contribute to ensuring high value creation for our owners and provide opportunities for our employees. When we emphasise that this creation of value must take place in a sustainable manner, we have chosen to add some key factors that we consider critical for our type of business, such as ethics and HSE (Health, Safety and the Environment).

The AF Group aims to be a company that is reliable. Throughout our history we have placed emphasis on the development of a value-based culture. This still has high priority.

Our HSE goals of a sickness absence rate of under 3 per cent and no lost time injuries (LTI rate=0) will require long-term work on preventative measures, as well as efficient monitoring routines and systems. We would like everyone to come home from work just as healthy as when they left for work.

Environmental work is facing ever stricter requirements, especially with regard to recycling and efficient energy use. These are requirements we welcome. Our operations will affect the external environment, and in 2011 we have implemented much more thorough measurement and follow-up of how we can limit our impact on the environment. All our units are measured with respect to their ability to sort and recycle waste that is generated by their operations. In addition, AF actively seeks to limit $CO_2$ emissions from our operations.

Pål Egil Rønn, CEO, AF Group.

## Develop and attract the right expertise

Our good performance in 2011 is a result of the efforts and expertise of our employees. Profitable growth is a core value, because this creates a vitality in our organisation and gives our employees an opportunity to develop. Our most recent employee satisfaction survey shows that our employees are satisfied with the Company and are proud to work for the AF Group. Job satisfaction is our foundation for creating good teams. It is important to feel proud that our team is strong and growing. Nevertheless, the most important match is always the next one to be played. This also applies to the AF Group.

We are pleased that more and more people are finding that the AF Group is an attractive employer. Our future challenges will be the lack of qualified manpower in general, and engineers in particular. To ensure our continued progress, it is absolutely decisive that we are competitive in this market as well. Competent, motivated and committed employees are our most important tool for achieving profitable growth.

## 2012 and the road ahead

At the start of 2012 we have a record-high order backlog, which provides a good foundation for further development of the AF Group. We are facing many complex and demanding challenges. Our ability to handle risk will still be one of the key factors in the development of the AF Group.

The Civil Engineering market is driven primarily by major public infrastructure projects. AF expects that the level of investment will continue to be high in the future, and Civil Engineering is well positioned for further growth.

The Property and Building markets are performing well. Economic growth has fuelled increased housing project starts. The market for maintenance and building renovation is expected to remain at a high level in Norway. In Sweden, however, how the development of the economy will affect the demand for building and civil engineering services is more uncertain.

In the Environment business area AF's land-based demolition activities are closely related to the demand for new housing, non-residential buildings and industrial projects. The future market for AF’s offshore-related environmental services is considered to be large and interesting. The level of activity for new demolition projects is increasing. Several studies have been initiated and there is an increasing supply of projects.

In the Energy business area, the public sector has increased its focus on the lifetime costs of buildings and the energy efficiency of existing buildings. It is expected that the energy efficiency market has a potential for growth. The market in the maritime sector is marked by a weak international new build market for ships. The demand for AF's offshore energy services (HVAC) follows the increase in oil prices and increase in the level of petroleum activities on the Norwegian continental shelf.

The market and AF's market position are perceived overall as being strong at the start of 2012. The foundation for sustainable profitable growth is therefore good. At the AF Group we will maintain our focus on operations at the same time as we will challenge standard practices and seek new opportunities. This is what entrepreneurship is all about.

# Living well with risk

All projects involve risk. Risk management has therefore been essential for the AF Group during the past five years. Improved risk management has contributed to profitability in the individual projects and the Group overall.

AF's business areas manage projects with large volumes and small margins. To ensure the profitability of all projects, it is therefore important to actively deal with all types of risk related to the projects. The AF Group has therefore developed risk management systems that are well adapted to the business.

## Effective analysis

AF's focus on risk management is firmly anchored in the entire organisation from the individual project to the Corporate Management Team. A standardised analysis tool gives managers at all levels a better basis for making decisions, whether it concerns project management or other processes in the business units and at the corporate level. Over time this has provided greater insight into and ownership of the projects by the management at all levels.

The analysis tool used in risk management is adapted especially for the needs of the AF Group and is used actively in all of the Group's business areas. In addition, an internal specialist function has been established that facilitates and manages the necessary processes.

Standardised processes for risk management have contributed to a uniform management of risk in all phases. 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 means that risk factors that are identified will be handled and the correct measures can be implemented at the right level.

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

## Predictability and opportunities

Because risk is surveyed systematically, the results are also more predictable, both for the individual projects and the Group as a whole. Good risk assessment also provides the AF Group with better prerequisites for choosing the right tenders and


**Risk pyramid:** AF's focus on risk management is firmly anchored in the entire organisation from the individual project to the Corporate Management Team.

pricing these tenders correctly. Many of the projects in the AF Group are turnkey contracts in which the price is locked in when it is awarded. Surveying risk during the tender phase means that we can implement measures and price the risk that is actually present in the project.

Risk is not only a negative term in the AF Group. Risk analysis is also used to find new opportunities and new solutions to the benefit of our customers and AF. After five years the system has provided good insight into what types of projects provide the greatest potential for good earnings and where the risk of losses is greatest. Better risk management has resulted in a significant reduction in the number of loss-making projects and an improvement in the margins for the projects. AF's average EBIT margin for the period from 2002 to 2006 was 2.6 per cent. During the five years (2007-2011) AF has practised systematic risk management, the average EBIT margin has increased to 5.5 per cent. Correct pricing of risk is key in the competition for new projects and has contributed to an increased order backlog that is priced according to risk.

# Health, Safety and the Environment (HSE)

AF has reduced both the sickness absence rate and number of lost time injuries through a focused HSE effort.

## Health

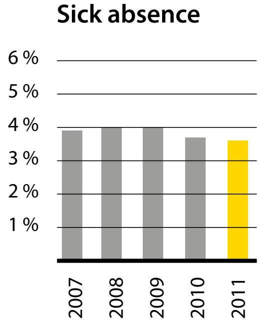
All employees of AF should have a working environment that promotes good health and job satisfaction. AF is working actively to achieve this goal. Our employees' health is monitored through our internal corporate health service and systematic surveys. Our goal is to eliminate all work-related illnesses.

### Sickness absence goal

Sickness absence is an important indicator of job satisfaction and good management. AF's goal is a sickness absence rate of under 3 per cent. This represents a normal situation without any work-related illnesses.

### Results

AF had a sickness absence rate of 3.6 per cent in 2011, which is a decline of 0.1 per cent from 2010. For the Norwegian portion of the business, the sickness absence rate was 3.4 per cent, which is a decline of 0.3 percentage points from 2010. AF's sickness absence rate is low compared with comparable businesses.




## Environment

Environmental work has high priority throughout the entire Group. AF would like to avoid environmental damage and minimise undesirable effects on the environment.

Environmental work is integrated with other HSE work at AF. Each business area will follow the principles in ISO 14001, the internationally recognised standard for environmental management. This means, for example, that the environmental impact of each individual project must be surveyed and monitored.

### External environment goals for our own operations

In order to improve our environmental work further for our own operations, AF actively uses the source separation rate and carbon footprint measurement parameters. The measurement and monitoring of these parameters is the driving force behind environmental work at AF.

### Means

The source separation rate indicates how much of the waste from own operations is sorted. The purpose of sorting is to facilitate recycling.

Our 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. A $CO_2$ equivalent is a unit for comparison of the effect of various greenhouse gases on the climate.

### Results

Carbon footprint for 2011: 34,344 tonnes of $CO_2$ equivalents, which corresponds to 4.7 tonnes per NOK million of turnover. See the Energy and Climate Accounts on page 18.

**Source separation rate for the Group:**

| | |
|---|---|
| Building (7,501 tonnes) | 78 % |
| Rehabilitation (2,704 tonnes) | 78 % |
| Demolition (236,018 tonnes) | 97 % |

# Safety

AF is uncompromising with respect to anything that affects the safety of its own employees and the employees of its partners. It should be safe for everyone to work on an AF project.

Parts of AF's operations entail risk. It is therefore important that all the risk factors are surveyed, that undesired incidents are reported and any injuries are investigated. All of AF's employees receive thorough training in safety work.

Everyone's safety is equally important at the workplace. Any subcontractor injuries are therefore included in AF's injury statistics in line with its own employees.

*AF's goal is to make use of experience from the past for the management of risk in the future.*

## Safety goal

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

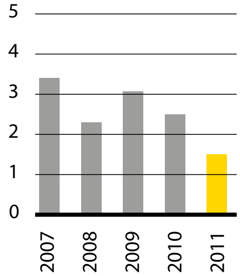
## Means

All injuries have a cause and therefore can be avoided. This fundamental understanding must be incorporated into all the planning and implementation of AF's projects. AF's goal is to make use of experience from the past for the management of risk in the future. All tasks with an injury potential are analysed through risk assessments, and risk-reducing measures are established.

## Results

The injury frequency rate has shown a favourable trend over the years. The LTI rate for the Norwegian operations of around 20 in the early 90s is 1.5 today.

LTI rate



# Sustainable entrepreneurship

## The AF Group will create value through profitable and sustainable business operations.

Profitable growth shall contribute to ensuring a high level of value creation for our owners and employees. The manner in which the operations create this value helps us to adapt for the future. For the AF Group this means that we integrate social and environmental considerations into our strategies and day-to-day operations. Focusing on profitability, safety and clear ethical guidelines have been the premises for the AF Group's vision and mission. The same applies to our long-term perspective and role as a challenger.

The core values below are the foundation for our operations:

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

The AF Group manages its operations in accordance with a set of basic principles. These principles are laid down in two documents: "Purpose, Goals and Values" and the "Code of Conduct". These documents describe the relationship between employees, customers and suppliers. The purpose of this is to maintain a culture in which orderly conduct is recognised, valued and lived up to by all the employees. AF expects that all employees are able to identify and comply with the guidelines in "Purpose, Goals and Values" and the "Code of Conduct". These premises are also the foundation for acquisitions and the integration of new businesses. Sustainable entrepreneurship in the AF Group concerns environmental factors, finance and business ethics, as well as social aspects, such as health, safety, diversity and equal opportunities. Sustainable entrepreneurship also presupposes that the operations have the required preparedness for undesired incidents, as well as systems for continuously learning from its mistakes.

## Environmental affairs

**All activities at AF are based on a fundamental understanding and acceptance that the impact on the external environment must be minimised.**

AF is engaged in operations that may affect the external environment by means of noise, dust, vibrations, emissions, discharges and other environmental impacts. Our operations may also entail encroachments on and changes to the landscape and nature.

Corporate policy and the associated management systems for the external environment should prevent or reduce any undesirable environmental impact. It is a requirement that the business units identify the environmental aspects of their operations and that they establish and maintain environmental goals in relation to these aspects. This management system complies with the principles in the environmental standard ISO 14001. Large parts of our operations are certified in accordance with this standard.

The source separation rate and carbon footprint have been chosen as the AF Group's common measurement parameters for the external environment. These parameters shall function as a driving force for AF's environmental work and are relevant to all the units.

**Waste**

AF's operations produce various types of waste and in varying quantities. This is managed by engineering and planning the projects so that the minimum amount of waste is generated and that the waste can be sorted to the greatest possible extent. The purpose of sorting is to facilitate recycling. This entails the recycling of materials and energy or reuse.

In 2011 AF established a common reporting system for the source separation rate for the entire Group, in the area of construction, renovation and demolition. The results for 2011 are illustrated in the table below.

| Source separation | 2011 |
|---|---|
| Construction | 78 % |
| Rehabilitation | 75 % |
| Demolition | 97 % |
| Total | 246,223 tonnes |

AF has operations that recycle asphalt and concrete from the building and civil engineering industry in Norway. The table below shows the amount of asphalt and concrete that was recycled into quality materials in 2011.

| **Recycling** | **2011** |
|---|---|
| **Asphalt** | **220,198 tonnes** |
| **Concrete** | **243,388 tonnes** |
| **Total** | **463,586 tonnes** |

**Climate**
AF consumes a significant amount of energy in the form of diesel oil for construction machinery and electricity for the projects. In addition, the Group's travel activities contribute indirectly to emissions.

In 2010 AF established consolidated climate accounts for the entire Group. The goal of the climate accounts is to find AF's carbon footprint expressed in tonnes of $CO_2$ equivalents. Carbon footprints are measured in relation to the turnover: tonnes $CO_2$/operating revenue in NOK million. The climate accounts identify where the consumption of energy is the greatest and how it develops over time. The climate accounts have been prepared in accordance with the international standard for measuring greenhouse gases, the Greenhouse Gas Protocol Initiative (GHG protocol).

Diesel oil consumption by construction machinery contributes the most to greenhouse gas emissions at AF. The quantity of construction machinery will increase in step with the turnover. We focus therefore on the replacement of old equipment and purchasing modern construction machinery with lower emissions.

*For the AF Group, sustainable entrepreneurship is how we create value.*

**Dust, noise and vibrations**
AF's operations impact the local environment by means of dust, noise and vibrations from several projects. These impacts must at least not exceed the limits stipulated by the authorities and the client.

AF establishes a number of measures and barriers in addition to these limits, often in collaboration with the municipalities where the projects are located or as part of the client's environmental monitoring programme. Spraying with water from mobile water tanks or by means of snow canons is a common measure to prevent significant spreading of dust. Other measures include asphalting and sweeping.

It can be difficult to prevent noise nuisance in large building and civil engineering projects, but it can be reduced through planning and the location of work stations, shielding the surroundings, and planning the times when noisy work will be performed. In addition, choosing low-noise equipment, such as fans for ventilation during tunnel building is an important measure.

With regard to tremors and vibrations, rock blasting and heavy construction work, such as sheet piling and piling, are the most important sources of noise. Tremors as a result of blasting should be avoided by the use of smaller charges, good protection and notification of those who are affected.

To reduce the negative impact from sheet piling and piling the equipment and times for performing this work should be adapted accordingly.

**Chemicals**
AF uses many chemicals that can cause harm if used incorrectly or if the incorrect type of chemical is used.

AF must ensure that no person or the external environment is harmed due to chemical use. Chemicals should be handled and stored in a proper manner, so that health damage, fires, explosions or other accidents are avoided. The existence of chemicals should be surveyed, and, the risk associated with chemicals should be assessed. Information about the chemicals can be found on the products' material safety data sheets, which are stored in the projects' substance indexes, as well as the AF Group's central substance index in BASS. Hazardous chemicals must not be used if they can be replaced by chemicals or processes that are less hazardous to employees or the environment.

**Discharges and emissions**
The AF Group's operations can result in discharges and emissions to water, soil and air. In general, a distinction is made between ordinary discharges and emissions and accidental discharges and emissions. All emissions and discharges from operations must at least not exceed the approved permits. This is ensured in the building or construction phase through good planning and the correct placement of temporary roads, disposal sites and rigging areas. In addition, temporary and permanent erosion methods are established to prevent direct run-off from excavation slopes etc., such as sediment reservoirs, treatment plants, oil separators and various types of filtration methods.

Accidental discharges, such as oil product spills in connection with a hose rupturing or while filling construction machinery are handled by means of special routines. Oil and fuels are stored so that the stored volume can be collected in the event of leaks. In addition, there are oil-absorbing materials in all the machines, so that any spills can be collected.

To check that the routines and implemented measures function, special external expertise and verificators are used when necessary.

## Energy and greenhouse account

| Category | Consumption | | Energy equiv.(MWh)[1] | Emissions (tonnes of $CO_2$) | Percentage |
|---|---|---|---|---|---|
| Petrol | 82,176 | l | 750 | 190 | 1 % |
| E85 | 2,382 | l | 17 | 2 | 0 % |
| Diesel | 9,467,744 | l | 93,591 | 24,947 | 73 % |
| Biodiesel (B30) | - | l | - | - | - |
| Autogas | - | l | - | - | - |
| Fuel oil/paraffin | - | l | - | - | - |
| Propane | 11,454 | kg | 146 | 34 | 0 % |
| Carbon dioxide $CO_2$ | - | kg | - | - | - |
| **Total direct emissions** | | | **94,504** | **25,173** | **73 %** |
| Electricity | 37,821,196 | kWh | 37,821 | 3,744 | 11 % |
| District heating | 983,479 | kWh | 984 | 64 | 0 % |
| **Total indirect emissions own activity** | | | **38,805** | **3,808** | **11 %** |
| Air travel – business | 4,095,622 | km | | 642 | 2 % |
| Air travel – commuting | 8,390,919 | km | | 1,296 | 4 % |
| Subcontractors | 1,081,250 | l | | 2,884 | 8 % |
| Residual waste | 1,995 | tonnes | | 539 | 2 % |
| Glass | 54 | tonnes | | 2 | 0 % |
| **Total indirect emissions, other** | | | | **5,363** | **16 %** |
| **Total $CO_2$ emissions from operations** | | | **133,309** | **34,344** [2)] | |

[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 4.7 tonnes per NOK million of turnover.

⩓ **The source separation rate and carbon footprint** have been chosen as the AF Group's common measurement parameters for the external environment. The purpose of sorting is to facilitate recycling. Fluorescent tubes from decommissioned platforms are sorted at the Environmental Base at Vats for recycling.

## Business ethics

**The AF Group has a large number of customers and suppliers and would like to exhibit good business ethical standards at all levels in the organisation. AF's competitiveness and place in society begins and ends with the fact that the company is reliable.**

**Customers**
AF's customers range from large private or public enterprises to a large number of smaller players. Contracts are awarded by means of tendering or through direct negotiation. There is a great deal of competition for the contracts.

All the customers should have the same rights and be treated fairly. Products and services shall be marketed and sold on the basis of the products' properties and the advantages of AF as supplier. AF should not make derogatory remarks about its competitors and should comply with the current competition laws and regulations. There is zero tolerance for price cooperation and corruption.

**Suppliers**
The purchase of goods and services accounts for 65 per cent of AF's turnover, and the share of international purchasing is increasing. AF is responsible for the entire contract pyramid and will only do business with suppliers that satisfy statutory requirements, requirements in tariff agreements, and internal requirements within the AF Group.

AF has, for example, clear guidelines for conduct related to competition, suppliers and conflicts of interest. In 2009, AF acceded to the United Nations Global Compact, which is based on ten fundamental principles for safeguarding human rights, working conditions, the environment and anti-corruption measures.

The AF Group has an authority matrix that has been approved by the Company's Board of Directors. The authority matrix ensures that the Company's guidelines for contract execution and purchasing are followed. The main rule in the Company's authority matrix states that all agreements and payments must be signed by at least two persons.

**Personal integrity**
All the employees represent the AF Group in every business context.

Employees must in no way have a dependent relationship with the Company's customers, shareholders, suppliers or other associates that can entail a conflict between the AF Group and personal interests. Employees must not carry out any transactions with a relative or close friend on behalf of the Company.

**Sensitive information**
AF should have a proper and open relationship with respect to information. All privileged information in the AF Group must be treated accordingly.

Information from the AF Group should be uniform and correct. There are guidelines related to who can make comments to the media. In addition, price-sensitive information must be handled in accordance with the policy of inside information. Employees who are in possession of inside information cannot buy or sell shares in the AF Group before this information has been made public. Price-sensitive information is made public through stock exchange announcements to the Oslo Stock Exchange and the Company's website.

The AF Group aims to create a working environment based on entrepreneurship with a great deal of freedom and opportunity to exert an influence.

## Working environment

**The AF Group aims to have a working environment that promotes health and prevents employee illness. AF would like to create an inspiring workplace with a high level of job satisfaction and energy. The working environment should be based on entrepreneurship with a great deal of freedom and opportunity to exert an influence.**

### Safety

AF carries out activities that are traditionally associated with risk and can result in injuries. AF is responsible for everyone who works on our projects, regardless of whether they are our own employees or subcontractors of the AF Group.

AF's goal is that no one should be injured as a result of their work. The safety of our employees, partners and third parties should never be compromised with a view to earnings or progress. This attitude is reflected in AF's systems and organisation, and by everyone taking personal responsibility for their own safety and the safety of others.

All subcontractors are required to follow AF's guidelines. AF conducts safety training for everyone, regardless of their native language or employer. AF also includes subcontractors in the calculation basis for the safety figures that are reported.

AF has a system to follow up and learn from all undesired incidents. Incidents of a certain severity must also be investigated, and the manager of the business unit and executive vice president must be involved.

### Health

At AF we see work as being a source of good health, but employees can also be affected negatively by various health strains as a result of their work.

The measurement and follow-up of sickness absence is an important indicator for both health and satisfaction. Specific arrangements are made to ensure that the working environment promotes health and prevents work-related illnesses. This work has been strengthened through the establishment of an internal corporate health service in 2008. The corporate health service has been key in our preventative work, and in the follow-up of the employees, individually and by groups.

In 2011 several measures have been continued and implemented in order to improve our preventative work, for example, a fixed routine entailing a sickness absence committee in each business unit and the establishment of new aids for the risk assessment of health-related complaints.

### Diversity and equality

The percentage of foreign employees and subcontractors is increasing. Like other players in the building and construction industry, AF has few female employees.

The AF Group aims to have a working environment without discrimination, harassment or bullying due to race, skin colour, religion, nationality, gender, sexual orientation, age or disability.

AF works deliberately to create an inclusive workplace that promotes a greater percentage of female employees and an environment with multiple nationalities.

### Relationship between managers and employees

AF has a well-functioning employee representative structure and safety organisation, which enables employees to influence decisions that concern the working environment. There is a separate Works Council and Working Environment Committee, and the Company has representatives from salaried employees and employees paid by the hour on the Board of Directors.

AF trains and develops employees through development programmes that are in accordance with our goals and values. Development interviews for all the employees should be conducted and documented at least once a year. In addition, employee satisfaction is measured regularly.

**Strøm Gundersen has** contributed to developing Drammen from an industrial city into a modern city of knowledge through its projects.

## Reputation

**Employees have contributed to building up the AF Group's reputation as a company that is reliable. Our reputation is affected by the conduct of each individual every day. All the projects should ensure that our reputation is maintained in their day-to-day work.**

The objective of our operations is to create value for our customers, owners, employees, suppliers and society at large. AF's attractiveness is reflected through how this value is created and managed. AFs competitiveness and place in society begins and ends with the fact that we are reliable. AF therefore requests that all employees think and act in accordance with AF's core values.

*AF's competitiveness and place in society begins and ends with the fact that the company is reliable.*

Managers in the AF Group have an overall responsibility to manage in a way that creates a culture where orderly conduct is recognised, valued and lived up to by all the employees. Whatever has been built up over many years can, however, be torn down by individual incidents and affected by the handling of incidents related to the environment, business ethics and social responsibility. AF is therefore uncompromising with regard to complying with the "Code of Conduct" and core values.

## Emergency planning

AF has an overarching contingency plan for the entire Group. The plan provides guidelines for how the contingency plan and the emergency preparedness organisation in the projects should be built up. A key element here is the requirement that the projects identify and define all the hazards and accident situations that can lead to damage, injury or the loss of property. The objective is to be able to handle and reduce the harmful effects of potential emergency situations.

The Group has an emergency management team that is available 24 hours a day in event of accidents or potential accidents. Depending on the situation, the need to establish a crisis team within the Group will be assessed.

## Learn from our mistakes

Undesired incidents can occur despite our focus on planning and preventative measures. It is therefore important to learn from these incidents. AF registers and handles all HSE incidents, quality discrepancies or incidents, which may be negative for the AF Group's reputation. The incident's severity and loss potential are always assessed upon registration. What part of the organisation should be involved, how the incident should be investigated and how the experience should be transferred is based on the degree of severity (red, yellow or green).

In a serious incident, such as a work-related accident resulting in lost time, the head of the business unit involved and the responsible executive vice president should be involved. An investigation report with corrective or preventative measures must be prepared to avoid the recurrence of similar accidents.

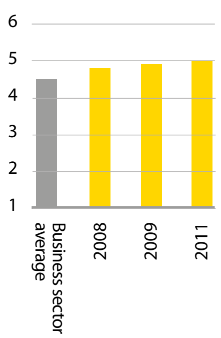
# People at AF

## The AF Group is showing strong growth. This provides many opportunities for the Company's ambitious and competent employees.

The most profitable investment AF makes is to develop the knowledge and expertise of its employees.

*The most profitable investment AF makes is to develop the knowledge and expertise of its employees.*

**Employee satisfaction survey**




Overall, I am satisfied with AF as an employer

Employees who are proud, satisfied and dedicated are a good foundation upon which AF can achieve its goal of becoming a leading industrial group. A recent survey shows that AF's employees have a high level of job satisfaction. On a scale from 1 to 6, our employees gave an average score of 5 when describing their level of job satisfaction in the Company. This is significantly higher than the average for the industry.

AF works in a targeted manner to develop the Company's standing as an attractive employer. AF has a human resource policy that challenges the employees to take responsibility and take on exciting challenges. This gives employees an opportunity for a fast-paced career and personal development.

## AF recruits for the future

The Company's growth gives AF an almost inexhaustible need for competent managers. A total of 600 engineers will be recruited over the next three years. In 2011 AF conducted the largest recruitment campaign in the Company's history, "Join us and build on Mars." Talented engineers were challenged to think in a different and future-oriented manner, and to contribute to the development of environmentally friendly and future-oriented solutions for the planet Mars. AF also works in a focused manner with a number of colleges and universities in order to attract new employees.

## AF develops its employees

The most profitable investment AF makes is to develop the knowledge and expertise of its employees. All the employees at AF have an opportunity to develop both their technical and management skills. "Learning by doing" is a tool that is used to a great extent in employee development.

All of the Group's courses and training programmes are combined under the AF Academy. AF focuses a great deal on developing its own managers. In 2011 over 1,100 employees participated in courses at the AF Academy. In addition, employees can apply to participate in courses and further education at renowned educational institutions such as INSEAD, the Norwegian School of Economics (NHH) and the Norwegian Business School (BI).

A broad range of services means that AF can offer many centres of expertise and career opportunities across the Group.

*AF's goal is that all employees should have an opportunity to become share-holders in the company and benefit from the increase in value arising from joint value creation and development.*

## Corporate culture and management

AF has attached importance to building a value-based corporate culture. 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 very clear about what qualities it values in our employees:

- Observance of AF's code of conduct and core values
- Being business-oriented
- Analytical abilities
- Ability to be decisive and take action
- Being leaders and motivators

## 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. In the last option programme, which was terminated in February 2011, AF's employees purchased shares totalling NOK 75 million. In September 2011, the Company launched a new three-year option programme, which more than 1,000 employees have already taken advantage of. In addition, employees have an opportunity to purchase shares in the Company at a discounted price each year. AF employees own about 17 per cent of the Company's shares.

## Corporate democracy

A well-functioning employee representative structure and safety organisation at all levels of the organisation ensures the employees' right to participate in decisions that affect their work situation.

**With nature as the classroom:** AF arranges an annual management development course at Gålå, with nature and the Peer Gynt play as a grand backdrop.

## Working Environment Commitee

| | |
|---|---|
| Pål Egil Rønn | CEO |
| Arild Moe | Executive Vice President |
| Paul-Terje Gundersen | Executive Vice President |
| Bård Frydenlund | Vice President Human Resources |
| Henrik Nilsson | Head employee representative |
| Arne Sveen | Head employee representative |
| Tore Solvang | Employee representative |
| Oddvar Skevik | Employee representative |

*The T-connection is a subsea tunnel with difficult ground conditions. The contractor must have the experience, technical expertise and financial strength to complete the job. In addition, we attach importance to an updated HSE and quality assurance system, so that the job can be carried out without any accidents and with the expected quality».*

Rune Sandven, Project Manager, Public Roads Administration

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

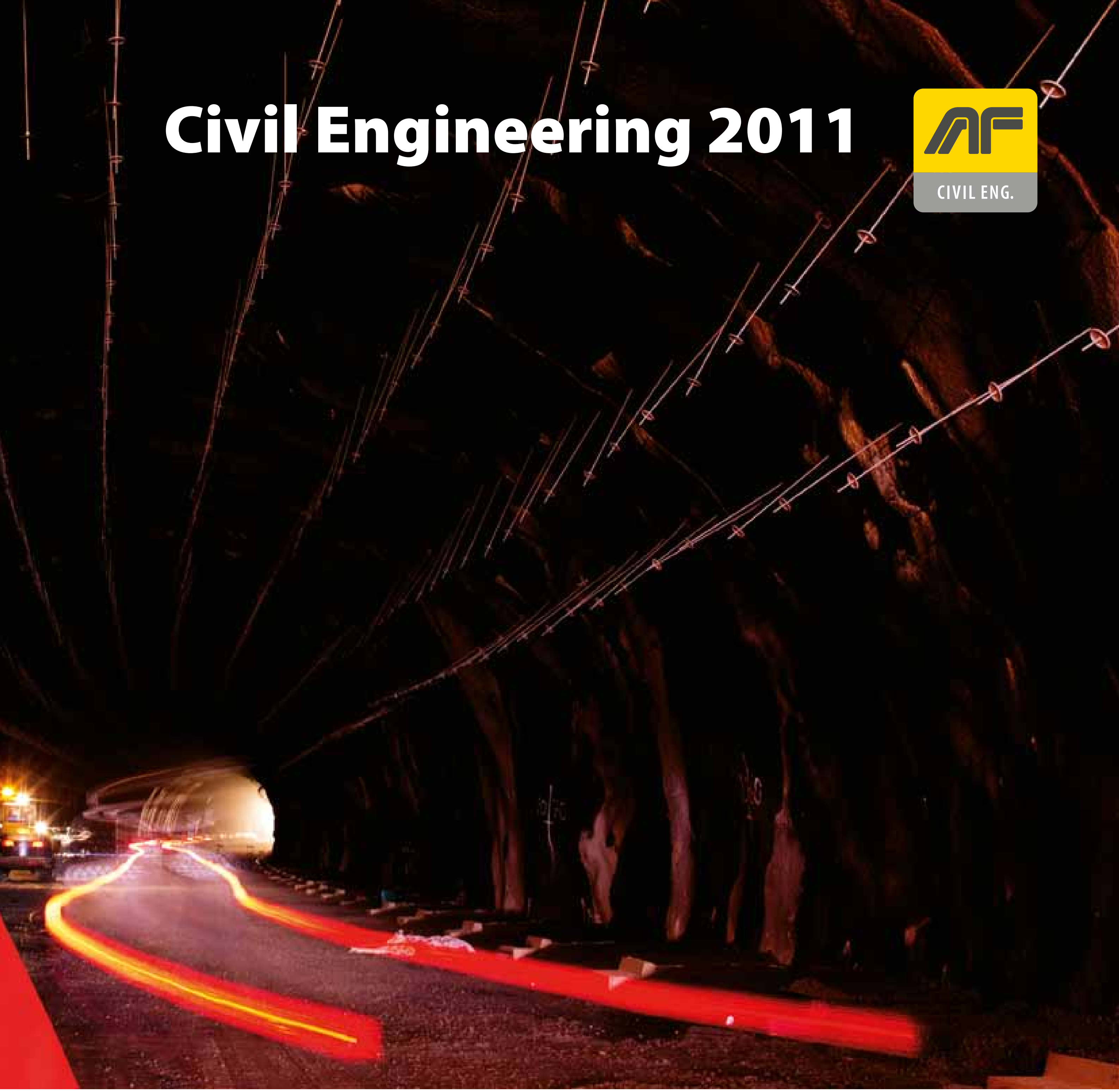
The Civil Engineering business area consists of:
• AF Anlegg
• AF Offshore & Civil Construction
• Pålplintar

**Key figures**

| NOK Million | 2011 | 2010 | 2009 |
|---|---|---|---|
| **Revenue** | **2,356** | **2,158** | **1,768** |
| EBITDA | 173 | 227 | 114 |
| Operating profit (EBIT) | 131 | 194 | 82 |
| **Earnings before taxes (EBT)** | **134** | **198** | **105** |
| EBITDA % | 7.3 % | 10.5 % | 6.5 % |
| EBIT % | 5.6 % | 9.0 % | 4.6 % |
| EBT % | 5.7 % | 9.2 % | 5.9 % |
| Capital employed | 500 | 446 | 221 |
| Return on capital employed | 30.3 % | 60.8 % | 63.3 % |
| Order backlog | 3,290 | 1,899 | 2,175 |

# Civil Engineering 2011

CIVIL ENG.



**Number of employees**

**763**
**32 %**

**AF Group 2,394**

**Turnover**
(EBT NOK million)

**134**
**33 %**

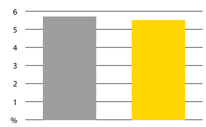
**AF Group 404**

**Earnings before taxes**
NOK million

**2,356**
**32 %**

**AF Group 7,356**

**EBT %**

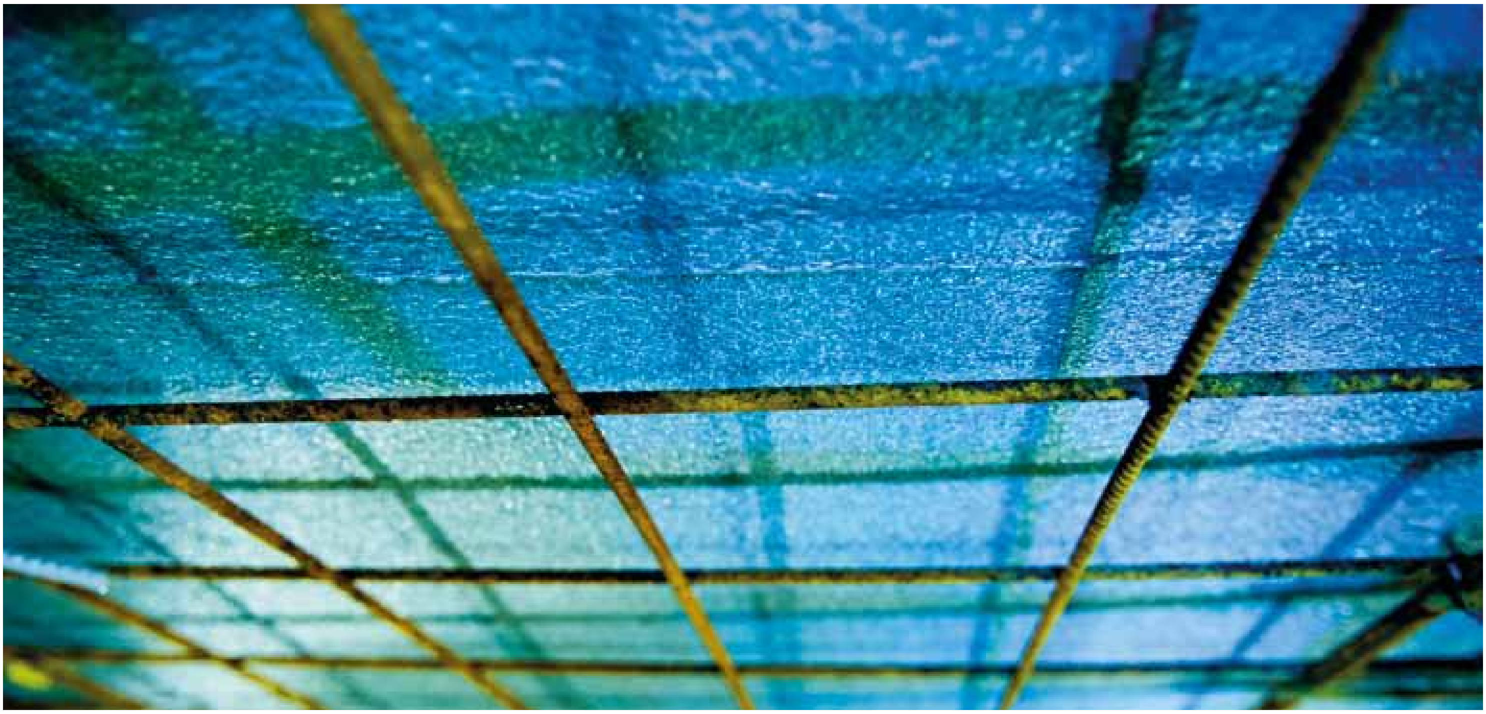



**5.7 %**

**AF Group 5.5 %**

# High level of activity and good results

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



**The Civil Engineering business area** carries out large complex civil engineering projects and niche projects in the following areas: transport, port facilities, oil/energy/offshore and foundation work.

AF Anlegg carries out traditional civil engineering 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 building and civil engineering projects aimed at the oil and gas industry, as well as projects in the area of power plants and sea and port facilities throughout Norway. The onshore facilities represent the core market in the oil and gas industry. Its main activities have been associated with onshore facilities, such as Kårstø, Kollsnes, Mongstad, Snøhvit and Ormen Lange. In addition, we deliver mechanical projects offshore.

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

## 2011 in brief

In 2011 Civil Engineering reported a turnover of NOK 2,356 million (2,158 million). The profit before tax was NOK 134 million (198 million). The profit margin was 5.7 per cent in 2011, compared with 9.2 per cent in 2010. The decrease in profit is attributed to weaker results in the port portfolio. Civil Engineering delivered better results overall than the long-term goal.

AF Anlegg saw a high level of activity and reported very good profits in 2011. Healthy profits were created by good project management. In 2011 AF Anlegg entered into contracts for several infrastructure projects, of which Ringway West Phase II in Bergen was the largest (NOK 821 million). The AF Group also entered into a large operations management contract with Store Norske Spitsbergen Grubekompani, which is valued at an estimated NOK 600 million over five years.
AF Offshore & Civil Construction has faced challenges in the port portfolio, but can report positive results again in Q4. AF was awarded two contracts to build foundations for the construction of transmission lines in 2011. It is expected that several large contracts for the construction of transmission lines will be put out to tender over the coming years. AF Offshore & Civil Construction is well positioned for further growth in this segment.

Pålplintar has had a stable and good performance throughout the year, but it experienced some decline in the level of activity towards the end of 2011. Our competitiveness in the pile market has been strengthened through the establishment of a concrete pile factory in 2011.

## Market outlook

The Civil Engineering market is driven primarily by major public infrastructure projects. The level of investment is high and further growth is anticipated. The strongest growth is expected in roads and power facilities. The Norwegian civil engineering market is expected to grow overall by 12 per cent in 2012. There is a great deal of competition in the infrastructure market, but AF Anlegg is well positioned to take its share of any growth.

Investments in new onshore installations for the oil and gas industry are still somewhat further in the future. Further positioning within the maintenance and modification market in the oil and gas industry and the development of renewable energy do nevertheless provide some potential for growth.

The Swedish market for foundation work has been challenging towards the end of 2011. The development in 2012 will depend on the macroeconomic developments in Sweden and the rest of Europe.

The Civil Engineering business area had an order backlog of NOK 3,290 million (1,899 million) as at 31 December.

AF entered into an agreement with Store Norske Spitsbergen Grubekompani for transport, civil engineering and maintenance services at Svea on Svalbard.

*Civil Engineering is continuously seeking to strengthen the organisation through new recruitment, training programmes and career planning.*

## Strategy

AF will seek growth by expanding its geographic market area and identifying opportunities for new activities close to their existing operations. Our focus is aimed at clients with large complex projects that require a great deal from AF's organisation in the areas of project management, technical implementation, operations management, risk management and HSE.

AF will seek to expand its range of services related to maintenance and modifications in the oil and gas sector. AF strengthened its presence in this segment in 2011 through the acquisition of parts of the operations of Båtservice Offshore/Verft. Further growth in the maintenance and modification market has high priority. Growth may 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 continuously seeking to strengthen the organisation through new recruitment, training programmes and career planning. The units should actively recruit qualified graduates from colleges and employees with experience in operations and project management.

## Largest contracts signed in 2011

| Name of project | Client | Description | Size (NOK million) | Business unit |
|---|---|---|---|---|
| Ringveg West, Phase II | Statens vegvesen | Tunnel and motorway | 821 | AF Anlegg |
| Svea, Svalbard | SNSG | Operations management contract for 5 years | 600 | AF Anlegg |
| Rv. 70 Oppdølsstranda | Statens vegvesen | Tunnel and road | 574 | AF Anlegg |
| Vettakollen water supply basin | Oslo kommune (VAV) | Water supply | 157 | AF Anlegg |
| Fugleåsen, Ski | Bulk Langhus I AS | Blasting and earth moving | 118 | AF Anlegg |

# Civil engineering projects during the year

## Rv. 70 Oppdølsstranda

In September 2011 AF began work on the development of the landslide-prone stretch of road on Rv. 70 Oppdølsstranda between Sunndalsøra and Modalan. This work consists of a 7 km tunnel to protect against falling rocks and 2 km of open road.

**Contract price:** NOK 574 million
**Completion:** 2014
**Client:** Norwegian Public Roads Administration

## Svea, Svalbard

In 2011 AF entered into an agreement with Store Norske Spitsbergen Grubekompani for transport, civil engineering and maintenance services at Svea on Svalbard. This contract encompasses the transport of coal, and the maintenance of roads, the airport and other infrastructure.

**Contract price:** NOK 600 million
**Completion:** 2016
**Client:** Store Norske Spitsbergen Grubekompani

## Sørenga Harbour Promenade

In the autumn of 2010 work began on the development of a harbour promenade at the Sørenga Pier in Oslo. This is the first phase of the harbour promenade in Bjørvika, which will be approximately 3 km long and extend along the water's edge throughout all of Bjørvika. The work encompasses piling to rock in the seabed, establishment of concrete load-bearing structures, building up level differences and surfacing of the promenade pier.

**Contract price:** NOK 95 million
**Completion:** 2012
**Client:** Bjørvika Infrastruktur AS

## Ringveg West, Phase II

In the spring of 2011 AF began work on the new four-lane motorway south-west of Bergen city centre. The work includes tunnelling a total of 8,340 metres and connection to the existing road.

**Contract price:** NOK 821 million
**Completion:** 2015
**Client:** Norwegian Public Roads Administration

# Building 2011

The Building business area performs traditional building activities with a solid local base.
The activities in the Building business area are divided into seven business units:

- AF Bygg Oslo
- AF Byggfornyelse
- AF Bygg Østfold
- AF Bygg Sør
- AF Bygg Göteborg, Sweden
- AF Rogaland Entreprenør
- Strøm Gundersen Group

**Key figures**

| NOK Million | 2011 | 2010 | 2009 |
|---|---|---|---|
| **Revenue** | **3,757** | **2,267** | **2,561** |
| EBITDA | 153 | 50 | 223 |
| Operating profit (EBIT) | 148 | 46 | 218 |
| **Earnings before taxes (EBT)** | **144** | **51** | **221** |
| EBITDA % | 4.1 % | 2.2 % | 8.7 % |
| EBIT % | 3.9 % | 2.0 % | 8.5 % |
| EBT % | 3.8 % | 2.3 % | 8.6 % |
| Capital employed | 907 | 385 | 306 |
| Return on capital employed | 25.1 % | 14.2 % | 163.5 % |
| Order backlog | 4,965 | 3,067 | 2,324 |

***«A complicated and complex technical project, such as the Kilden Theatre and Concert Hall, places heavy demands on communication and cooperation functioning during construction. The characteristic wave wall is the country's most complex wall. The work involved has required millimetre precision».*** Terje Eide, Operations Manager, Kilden Theatre and Concert Hall.

**Number of employees**

**1,000**

**42 %**

**AF Group 2,394**

**Turnover**
(EBT NOK million)

**144**

**36 %**

**AF Group 404**

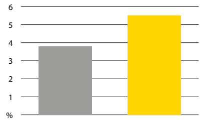
**Earnings before taxes**
NOK million

**3,757**

**51 %**

**AF Group 7,356**

**EBT %**




**3.8 %**

**AF Group 5.5 %**

# Strong growth and improved margins

The Building business area performs traditional building activities with a solid local base. Building has a strong market position in central Eastern Norway and, with the new establishments and acquisitions in 2011, there are also building activities in Southern and Western Norway. In Sweden the activities are focused on the Gothenburg – Halmstad area.

AF has shown through the Kilden Theatre and Concert Hall that the company has the resources and expertise required for the successful completion of large building projects. Our efforts in Southern Norway are being intensified now.

**AF has broad experience** across the entire value chain from development to completed buildings. The core markets are 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 client relationship. AF can increase the opportunities available to clients for the design of new buildings through technical solutions and the choice of materials. The Kilden Theatre and Concert Hall is a good example of how AF can solve complex challenges for clients. 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 share of international purchasing. Continuously seeking to improve quality will improve the margins and the clients' perception of AF will be strengthened further.

In Q4 2011 AF acquired the majority shareholding in Strøm Gundersen and Rogaland Entreprenør.

Strøm Gundersen includes the subsidiaries Strøm Gundersen AS, Haga & Berg Entreprenør AS, Thorendahl AS and Consolvo AS. In addition, there are several smaller companies.

- Strøm Gundersen is Buskerud's leading contractor for building and heavy concrete structures.
- Haga & Berg Entreprenør operates in the areas of renovation, remodelling, service and maintenance of commercial buildings in the Oslo region.
- Thorendal is one of Oslo's largest companies in the area of facade renovation of residential and commercial buildings.
- Consolvo carries out concrete renovation by means of mechanical repair and cathodic protection.

AF Rogaland Entreprenør is engaged in building activities in Rogaland. The company specialises in turnkey contracts for commercial and residential buildings.

Strøm Gundersen and AF Rogaland Entreprenør are included in the consolidated figures from the takeover dates, 3 and 15 November, respectively.

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

## 2011 in brief

Building reported revenues of NOK 3,757 million (2,267 million) in 2011, an increase of 66 per cent compared with 2010. This growth is a result of strong organic growth, combined with the acquisition of Strøm Gundersen and AF Rogaland Entreprenør. The profit before tax was NOK 144 million (51 million). The profit margin increased from 2.3 per cent in 2010 to 3.8 per cent in 2011. The improvement in the profit margin was a result of the fact that the Swedish operations delivered positive results, in addition to the very good profit margins in the Strøm Gundersen Group. The margin for Building is still lower than the long-term goal for the Building business area.

The Norwegian Building business area has been marked by strong growth in 2011 with many projects in the start-up phase. All of the units are delivering positive results, even though the margins vary. The restructuring of the operations in Sweden has started to show positive results in 2011. The efforts to improve profitability will continue in 2012.

## Market outlook

The demand for building services in the Norwegian market has been good throughout 2011, and this is expected to continue in 2012. The strongest segment in the market is residential construction and commercial buildings are somewhat more hesitant. The market in Østfold has improved in 2011, as a result of the development of a new hospital in Østfold. The market in Gothenburg is still marked by stiff competition for contracts, and there is more uncertainty related to the development of the market in 2012 than in the Norwegian part of the operations. At the end of the year the Building business area had an order backlog of NOK 4,965 million (3,067 million).

**Drammen Library.** The Strøm Gundersen Group complements AF geographically and provides specialist expertise in the renovation of buildings and the civil engineering market.

*AF has ambitions for further growth in Southern Norway.*

## Strategy

Building aims to achieve turnover and earnings growth. This growth will be realised by being a leading player in our existing home market, and establishing operations in new geographical areas in Norway and Sweden. New business will be established through organic growth or acquisitions.

Building has grown a great deal in 2011. The focus in 2012 will be on further development of the operations to achieve higher margins. This will be achieved by building up management capacity based on AF's corporate culture, and by recruiting new talent. Building will focus on reducing costs associated with quality discrepancies.

In 2011 AF established building operations in Southern Norway based on the position created through the construction of the Kilden Cultural Centre in Kristiansand. These operations have delivered positive results in the start-up year. AF has ambitions for further growth in Southern Norway.

In 2011 Building has also established operations in Buskerud and Rogaland through the acquisition of Strøm Gundersen and AF Rogaland Entreprenør. With Strøm Gundersen AF will continue to build on the local management so that the operations will continue to deliver strong results. Building sees a great potential for growth in Rogaland in the form of organic growth through AF Rogaland Entreprenør.

## Largest contracts signed in 2011

| Name of project | Client | Description | Size (NOK million) | Business unit |
|---|---|---|---|---|
| Sørenga, construction phases 3 & 4 | Sørenga Utvikling KS | Apartments and industry area | 464 | AF Bygg Oslo |
| HealthPlus | Værste AS | Health house | 280 | AF Bygg Østfold |
| Pier 7 | Union Eiendomsutvikling AS | Apartments and industry area | 275 | Strøm Gundersen |
| Siemens Norway head office | Østre Aker vei 90 AS | Office building | 264 | AF Bygg Oslo |
| Grefsen School | Undervisningsbygg Oslo KF | School | 210 | AF Byggfornyelse |

# Building projects during the year

**Kværnerbyen, Field D**
In this new city district in eastern Oslo AF began the construction of 264 apartments and 309 parking spaces, as well as shops and commercial premises on behalf of OBOS. Kværnerbyen is one of Norway's largest building projects, and a total of 1,600 to 1,800 homes are to be built on the former Kværner industrial site.

**Contract price:** NOK 381 million
**Completion:** 2013
**Client:** OBOS

**Kjelsås School**
The AF Group began the construction and renovation of Kjelsås School in the autumn of 2010. After the renovation the school will be a development and activity centre with a day care centre, school for grades 1-7, after-school club and a multi-use hall.

**Contract price:** NOK 188 million
**Completion:** 2012
**Client:** Undervisningsbygg Oslo KF

**New headquarters for Siemens**
AF began the construction of the new headquarters for Siemens Norway in December 2011. The agreement encompasses the construction of 25,000 m² of office space in two sections, and when completed it will be a high-quality building in accordance with energy class A and so-called LEED gold certification.

**Contract price:** NOK 264 million
**Completion:** 2013
**Client:** Østre Aker vei 90 AS

**Sjøbadet Park**
AF began the construction of Sjøbadet Park on Jeløya in Moss in 2011. The project encompasses the construction of 92 apartments, divided into two building phases, as well as a basement and parking facility.

**Contract price:** NOK 208 million
**Completion:** 2013
**Client:** Sjøgata 25 Moss AS

PROPERTY

# Property 2011

***At Rolvsrud we have facilitated the construction of residential units, nursing homes and day care centres, as well as the development of commercial premises. In developing the area, emphasis has been placed on high-quality architectural design, detailed planning and the use of materials, for both the buildings and the outdoor areas».***

Åge Tovan, Mayor of the Municipality of Lørenskog.

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

**Key figures**

| NOK Million | 2011 | 2010 | 2009 |
|---|---|---|---|
| **Revenue** | **70** | **134** | **51** |
| EBITDA | 37 | 42 | -10 |
| Operating profit (EBIT) | 37 | 42 | -10 |
| **Earnings before taxes (EBT)** | **31** | **35** | **-15** |
| EBITDA % | 53.3 % | 31.2 % | -19.1 % |
| EBIT % | 53.3 % | 31.2 % | -19.1 % |
| EBT % | 44.3 % | 25.8 % | -29.1 % |
| Capital employed | 249 | 287 | 271 |
| Return on capital employed | 13.4 % | 14.6 % | -3.6 % |
| Order backlog | 4 | 3 | - |

**Number of employees**

**9**

**0 %**

**AF Group 2,394**

**Turnover**
(EBT NOK million)

**31**

**8 %**

**AF Group 404**

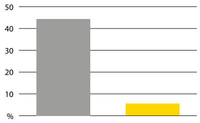
**Earnings before taxes**
NOK million

**70**

**1 %**

**AF Group 7,356**

**EBT %**




**44.3 %**

**AF Group 5.5 %**

# Good results for housing development

The Property business area comprises the development of residential housing units and commercial buildings for our own account, where the business area has access to its own contracting services.

**Together with the Municipality of Lørenskog,** the AF Group has been involved in developing Rolvsrud from a parcel of woodland with a few houses and industry to an attractive residential area with housing, serviced accommodation, a nursing home and a day care centre.

**AF will gain better control** over the value chain by increased collaboration between the property and contracting operations. This collaboration will reduce the level of uncertainty in the execution phase and contribute to more efficient development processes. This will result in increased profitability overall for AF.

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

## 2011 in brief

Property reported a healthy profit before tax of NOK 31 million (35 million) for 2011. The turnover of NOK 70 million (134 million) is lower than in 2010. The reduction in turnover is attributed to the fact that AF carried out a greater share of its projects through associated companies. Projects where AF has ownership interests sold a total of 199 apartments in 2011, compared with 196 apartments in 2010. AF's share of the apartments sold totalled 84 (91).

Development of 6 new housing projects/building phases started in 2011. The projects sold a total of 147 apartments in 2011. AF's share of the apartments sold is 52. AF's share of the unsold apartments in these projects is 29. Since the development projects are organised as associated companies in the AF Group, these projects are not included in the order backlog.

As at 31 December 2011 AF's share of unsold completed apartments totalled 17 (39). Property delivered two projects in 2011, Grefsenkollveien 16 and Rolvsrud Park Q. These projects accounted for a total of 97 apartments. All the apartments were sold on delivery.

Rolvsrud Park, which consists of 550 apartments, a nursing home and a day care centre, has been a successful project for AF. The project will be completed when the last construction phase is delivered in 2012. In collaboration with the Municipality of Lørenskog, AF has been involved in developing this centrally located area in Lørenskog. AF wishes to continue this success and has therefore entered into an agreement with the Municipality of Lørenskog for the development of a site on Nordliveien, opposite Rolvsrud Park.

As a step in strengthening the property portfolio, the Property business area has entered into an agreement to purchase 100 % of Bjørnsons Hage AS. This agreement encompasses the purchase of six residential properties in the centre of Lillestrøm. AF has also entered into an agreement to own one third of Rolfsbukta Utvikling KS, which has purchased the former headquarters of Fjellanger Widerøe at Fornebu.

## Market outlook

The brisk housing sales in 2011 are expected to continue in 2012. The economy is growing at a healthy pace, and the interest rate level is expected to remain low. AF Eiendom is well positioned to increase its turnover in the housing segment. The commercial property market is more hesitant, and it will still take some time before AF Eiendom will be able to realise new commercial projects.

AF develops residential and non-residential buildings for its own account. Most of the projects are located geographically where AF has its own contracting services.

*Going forward, Property will seek to strengthen its position in commercial property.*

## Strategy

Property's strategy is to develop properties in the same geographic markets where AF has building operations. The project development risk is reduced by entering into option agreements for land, and by having partners that also have ownership interests in 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 in the residential segment in the Oslo area. Property will follow the contracting operations and is therefore working to expand its geographic range to include Buskerud, the Agder counties and Rogaland. In addition, AF is seeking to gain a stronger position in property development in Østfold. Going forward, Property will seek to strengthen its position in commercial property. Property expects therefore to increase its investments and portfolio of sites.

# Property projects during the year

**Grefsenkollveien 16**
Centrally located in Oslo in close proximity to both recreational areas and the city, AF has built 57 apartments divided into two buildings situated above a common basement garage. The apartments have a generally high standard and the building has a modern and elegant appearance.

**Completion:** Q4 2011
**Client:** Grefsenkollveien 16 KS
**AF's stake:** 33 %
**Total turnover:** NOK 276 million
(AF's share: NOK 92 million)

**Blomsterstykket**
At Vollen in Asker 12 apartments and 10 townhouses are being built. The residential units will enjoy a great location just a stone's throw from the sea and walking distance to services and public transport.

**Completion:** Q3 2012
**Client:** Blomsterstykket Utvikling KS
**AF's stake:** 50 %
**Total turnover:** NOK 89 million
(AF's share: NOK 44.5 million)

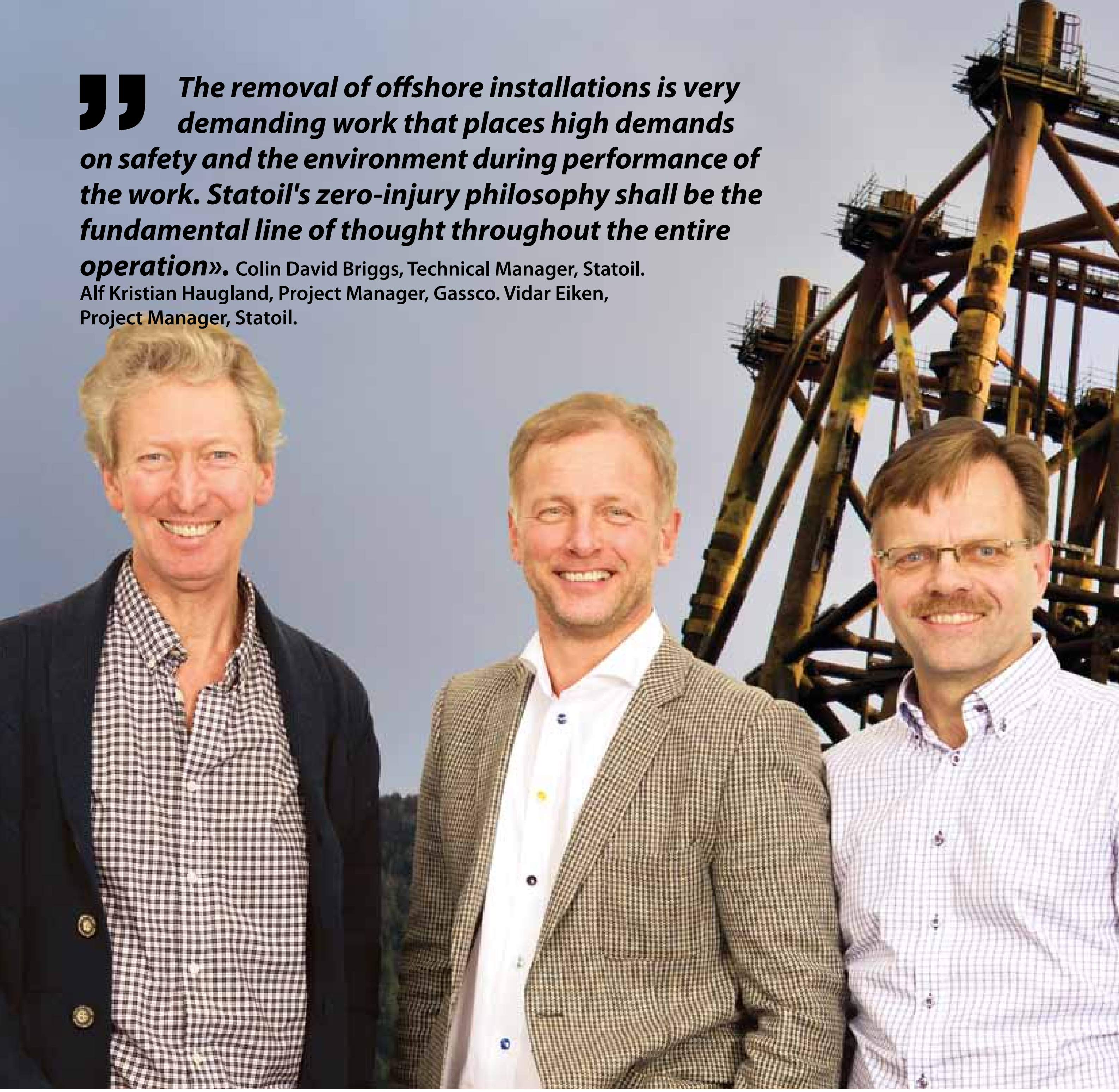
**Fossumhagen 2**
This is the second building phase of the Fossumhagen residential project at Stovner in Oslo. This building phase consists of 35 attractive freehold apartments in a six-storey building. Fossumhagen has a central location with all types of services and public transport in the immediate vicinity.

**Completion:** Expected Q1 2013
**Client:** Stovner Utvikling KS
**AF's stake:** 33 %
**Total turnover:** NOK 174 million
(AF's share: NOK 58 million)
Figures apply to building phases 1 and 2.

**Lillohagen, Building B**
AF is constructing the Lillohagen housing project between Nydalen and Sandaker in Oslo. Building B consists of 54 modern freehold apartments varying in size from 47 to 100 square metres. The apartments will have plenty of sunlight, pleasant common areas and a central location.

**Completion:** Q1 2013
**Client:** Sandakerveien 99 B KS
**AF's stake:** 33 %
**Total turnover:** NOK 192 million
(AF's share: NOK 64 million)

**„ The removal of offshore installations is very demanding work that places high demands on safety and the environment during performance of the work. Statoil's zero-injury philosophy shall be the fundamental line of thought throughout the entire operation».** Colin David Briggs, Technical Manager, Statoil. Alf Kristian Haugland, Project Manager, Gassco. Vidar Eiken, Project Manager, Statoil.



Environment will offer solutions that meet the environmental challenges faced by the Group's customers through state-of-the-art expertise.

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.

**Key figures**

| NOK Million | 2011 | 2010 | 2009 |
|---|---|---|---|
| **Revenue** | **777** | **767** | **743** |
| EBITDA | 92 | 147 | 80 |
| Operating profit (EBIT) | 79 | 107 | 46 |
| **Earnings before taxes (EBT)** | **80** | **90** | **43** |
| EBITDA % | 11.9 % | 19.2 % | 10.8 % |
| EBIT % | 10.2 % | 14.0 % | 6.2 % |
| EBT % | 10.4 % | 11.7 % | 5.8 % |
| Capital employed | 501 | 366 | 787 |
| Return on capital employed | 18.0 % | 16.9 % | 7.3 % |
| Order backlog | 1,081 | 892 | 1,070 |

# Environment 2011

**Number of employees**

**320**

**13 %**

**AF Group 2,394**

**Turnover**
(EBT NOK million)

**80**

**20 %**

**AF Group 404**

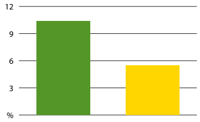
**Earnings before taxes**
NOK million

**777**

**11 %**

**AF Group 7,356**

**EBT %**




**10.4 %**

**AF Group 5.5 %**

# Good development

The Environment business area is a leader in Scandinavia in the removal, demolition and environmental clean-up of buildings, industrial plants and offshore installations. The business area includes AF's environmental services in the area of onshore and offshore demolition and recycling. Onshore demolition is carried out in Norway, Sweden and Poland. Offshore demolition and recycling focuses on the North Sea market.

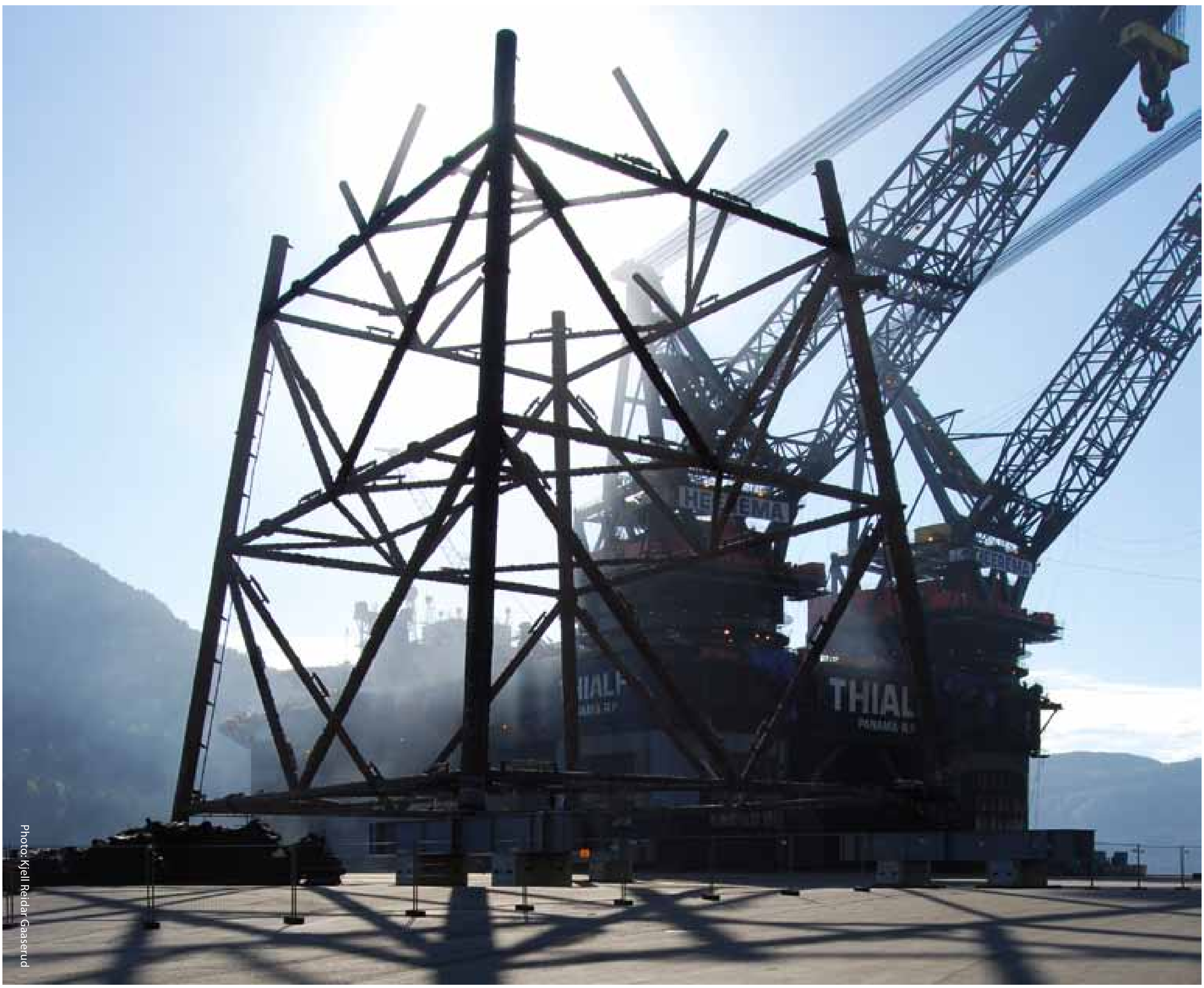


Photo: Kjell Reidar Gaaserud


**The AF Group's Environment business area** has been awarded the contract to demolish the 45 year old multi-level interchange Bispelokket in the centre of Oslo.

**Environment will offer** solutions that meet the environmental challenges faced by the Group's customers through state-of-the-art expertise. 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 it is Europe's most modern reception facility for recycling decommissioned oil installations.

## 2011 in brief

In 2011 Environment reported a turnover of NOK 777 million (767 million) and a profit before tax of NOK 80 million (90 million). The decrease in the profit before tax must be seen in light of the fact that the sale of 60 per cent of Miljøbase Vats AS resulted in a capital gain of NOK 42 million in 2010. Good operations for both onshore and offshore demolition and environmental clean-up are the reason for the very good results in 2011. Environment delivered better results overall than the long-term goal.

## Offshore activities

AF Decom Offshore saw considerable activity in the Norwegian sector in 2011. The company performed extensive and complex work offshore. 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 2011 the Environmental Base at Vats received approximately 23,900 tonnes (26,200 tonnes) of decommissioned offshore installations from the North Sea for demolition and recycling. The work to ensure an environmentally sound end to the installations' life cycle is well under way. Work to streamline the operations of the Environmental Base at Vats has contributed a great deal to the good results in 2011. Continuous improvement of the demolition and recycling processes will ensure that the facility represents an important competitive edge for AF in the coming years.

In 2011 AF was awarded the contract H7 Platform Removal Project (NOK 420 million). The fact that this contract was awarded shows that AF's strict requirements for safety and the environment during the performance of the work are appreciated by its customers. The contract also includes an option for the removal of B11, which is a similar platform. The market for the removal of offshore installations has been marked by volatility in the supply of projects. Being awarded the H7 project was an important milestone for maintaining good capacity utilisation at the Environmental Base at Vats. In 2011 the AF Group entered into an agreement with DeepOcean to bring ashore and recycle a loading buoy at Statfjord C for Statoil (NOK 49 million).

## Land-based demolition

The onshore demolition activities in Norway delivered a high turnover and a very good profit for 2011. Systematic work through focusing on project management and strengthening the capacity of the central management is showing results now. In Sweden the level of activity for the land-based activities has increased significantly over 2010, and they are also reporting good results.

Preparation for the demolition and dismantling of the wreck of the Russian cruiser, the "Murmansk", has continued throughout 2011. The work to seal the damage that occurred during the storm in November 2010 appears to be taking longer than originally anticipated. The removal of the "Murmansk" is expected in the autumn of 2012.

## Market outlook

A higher level of activity and continued good earnings are expected for the onshore activities in 2012. A good level of activity is expected for all the regions. The land-based activities are characterised by short time horizons from a project being ordered to completion. The duration of the order backlog is normally 3–6 months in the future. In a situation with new uncertainty related to the Norwegian and international economy, this could quickly affect the turnover and earnings in this part of the operations.


**AF Decom Offshore** is expanding its range of services at the Environmental Base at Vats. The deep water dock and the facilities at the base make it well-suited to receive rigs for maintenance.

There is great market potential for offshore demolition on both the Norwegian and British continental shelf. There is a total of around 500 installations on the Norwegian continental shelf, and the cost of removal and demolition is estimated to be NOK 160 billion. In a report from 2002, DNV estimated that more than 30 installations were to 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 for the period up until 2040. Recent years have shown that the decommissioning is proceeding slower than expected, and that there is great uncertainty about when it will be implemented. There is a good level of activity in Front End Engineering and Design (FEED) studies, and tendering activity is expected to increase on the British sector in 2012.

At the end of the year, the Environment business area had an order backlog of NOK 1,081 million (892 million).

*AF will continue to work on the establishment of an environmental base at Dales Voe on Shetland to strengthen our competitiveness on the British side of the North Sea.*

## Strategy

Environment's mission is to offer solutions that meet the environmental challenges the Group's customers face through state-of-the-art expertise. In addition to developing the onshore demolition activities in Norway further, the company is seeking to obtain an adequate volume for the demolition operations in Sweden and Poland. Growth in the Swedish demolition operations is expected to continue through increasing our geographic focus area. Growth will be achieved through organic growth and acquisitions.

There is strong demand in the area of services and maintenance services for rigs. AF is also seeking to position itself for such assignments through the deep water dock at the Environmental Base at Vats.

AF will continue to work on the establishment of an environmental base at Dales Voe on Shetland to strengthen our competitiveness on the British side of the North Sea. In Norway, work to streamline production at the Environmental Base at Vats will continue.

## Largest contracts signed in 2011

| Name of project | Client | Description | Size (NOK million) | Business unit |
|---|---|---|---|---|
| H7 | Gassco | Removal and recycling of platform | 420 | AF Decom Offshore |
| Loading buoy Statfjord C | DeepOcean | Removal and recycling of loading buoy | 49 | AF Decom Offshore |
| Simonsland | Kanico AB | Demolition and refurbishing | 30 | AF Decom AB |
| Bjørvika Stage 2 | Skanska Norge AS | Demolition of road and bridge constructions | 20 | AF Decom |
| Skattedirektoratet | Entra Eiendom AS | Removal of facade and refurbishing the interior of the building | 14 | AF Decom |

# Environmental projects during the year

### Riser platform H7
In 2011 AF was awarded the contract for the removal, demolition and recycling of the riser platform H7, which is located in the German sector of the North Sea. The contract also includes an option for the removal of B11, which is a similar platform. The Environmental Base at Vats will be used as the reception facility for this work.

**Contract price:** NOK 420 million
**Completion:** 2016
**Client:** Statoil/Gassco

### Loading buoy at Statfjord C
In 2011 the AF Group entered into an agreement with DeepOcean to bring ashore and recycle a loading buoy at Statfjord C for Statoil. The 181 metre high and 8,000 tonne loading buoy will be brought ashore and recycled at the Environmental Base at Vats.

**Contract price:** NOK 49 million
**Completion:** 2012
**Client:** DeepOcean/Statoil

### Fredrik Selmers vei 4
Renovation work at the Directorate of Taxes' premises at Helsfyr in Oslo started in the autumn of 2011. AF's demolition unit has been awarded a contract to remove the existing facade and refurbish the interior of the building.

**Contract price:** NOK 14 million
**Completion:** 2012
**Client:** Entra Eiendom AS

### Simonsland
In 2011 AF's Swedish demolition business was awarded a contract to demolish and environmentally decommission 35,000 m$^2$ at Simonsland in Borås. The agreement encompasses interior and exterior demolition of several old industrial buildings, and the removal of asbestos, PCB, tar and heavy metals.

**Contract price:** NOK 30 million
**Completion:** 2011
**Client:** Kanico AB

# Energy 2011

Global demand for energy is rising and opening up new business opportunities for the AF Group.

The Energy business area comprises the following business units:

- AF Energi & Miljøteknikk AS
- Aeron AS
- Mollier AS

**Key figures**

| NOK Million | 2011 | 2010 | 2009 |
|---|---|---|---|
| **Revenue** | **462** | **564** | **598** |
| EBITDA | 14 | -6 | 30 |
| Operating profit (EBIT) | 5 | -15 | 21 |
| **Earnings before taxes (EBT)** | **1** | **-21** | **16** |
| EBITDA % | 3.1 % | -1.1 % | 5.0 % |
| EBIT % | 1.1 % | -2.6 % | 3.5 % |
| EBT % | 0.3 % | -3.7 % | 2.6 % |
| Capital employed | 345 | 371 | 366 |
| Return on capital employed | 1.8 % | -3.9 % | 4.5 % |
| Order backlog | 434 | 299 | 463 |


> ***"Avinor wants to be best in energy conservation among the European airports. The goal of the project is to reduce energy consumption by 25 per cent. In addition to the fact that Avinor's energy costs will be reduced by more than NOK 20 million annually, the impact on the environment will also be reduced».***
>
> Rune Roger Johansen, Property Manager Avinor.

**Number of employees**

**206**
**9 %**

**AF Group 2,394**

**Turnover**
(EBT NOK million)

**1**
**0 %**

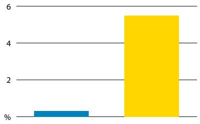
**AF Group 404**

**Earnings before taxes**
NOK million

**462**
**6 %**

**AF Group 7,356**

**EBT %**




**0.3 %**

**AF AF Group 5.5 %**

# High level of activity offshore, challenging for maritime and land-based activity

Global demand for energy is rising and opening up new business opportunities for the AF Group. Energy will drive the development of smarter, more energy-efficient technical solutions for the building, industry, offshore and maritime sectors.

Photo: Øyvind Markussen / Oslo Lufthavn AS

Mollier provides maintenance and modification services for HVAC systems on offshore installations.

**Energy's mission** is 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. AF can guarantee customers lower energy consumption through the delivery of technical systems and solutions. The collaboration with Avinor is a good example of this. AF has shown through the contract with Avinor how we can create profitability for both the client and the environment through good project planning and execution.

The product range of AF Energi & Miljøteknikk includes a thorough energy analysis that results in a system design and the implementation of measures to conserve the consumption of energy. In addition, energy and energy monitoring services are provided. AF also designs, installs and monitors local heating plants for commercial buildings and industry.

AF supplies offshore and maritime ventilation, heating and cooling systems (HVAC) through Energy. Aeron supplies HVAC systems for new build offshore service vessels to shipyards around the world. Maintenance and modification services for HVAC systems on offshore installations are supplied through Mollier. The solutions that are delivered will safeguard stable and efficient production for our clients.

## 2011 in brief

Energy had a lower level of activity in 2011 and a turnover of NOK 462 million (564 million). This reduction is attributed primarily to the reduced turnover in AF Energi & Miljøteknikk and Aeron. Energy delivered a profit before tax of NOK 1 million (-21 million) in 2011. The results are poor, but the improvement measures implemented are expected to gradually have a positive effect on the results. In the last quarter Energy had a profit margin of 5.8 per cent.

The level of activity in AF Energi & Miljøteknikk has been significantly lower in 2011 due to concentrating its operations on its core expertise. A stronger strategic focus is expected to give better results for the operations in the future.

Aeron saw a decline in turnover and earnings in 2011. Thanks to long-term work on international purchasing, Aeron is competitive in the market. In 2011 the company won several contracts in Asia, and exports comprise an increasing share of the turnover. The unrest in the European economy has made it difficult to maintain the same level of activity as in 2010.

Mollier has had an increasing level of activity and good profitability in 2011. The good results are attributed to consistently good quality in all deliveries. An increased focus on projects for new build vessels and modifications means that the company has the potential for further growth.

## Market outlook

The market for offshore HVAC has been good throughout all of 2011. The investment level in the North Sea is expected to increase in 2012, and this will provide a continued good market for Mollier. Aeron is exposed to the market for new build offshore service vessels. The market has been challenging in the aftermath of the financial crisis. After a slight improvement in the market in the first half of 2011, the market weakened again towards the end of the year.

The increased focus on energy-efficient buildings is expected to contribute to an improvement in AF Energi & Miljøteknikk's market. Support programmes are still necessary in order for businesses and private individuals to see adequate profitability from implementing the projects.

The Energy business area had an order backlog of NOK 434 million (299 million) as at 31 December.

Aeron supplies HVAC systems for new build offshore service vessels to shipyards around the world.

*A blue environmental effect means that solutions must be profitable for both the customer who invests and the environment.*

## 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 talent within our organisation, we will retain and develop future managers.

Professionalisation of customer and sales work is an important prerequisite for growth. Energy will market its combined range of services under the slogan "Blue Environmental Effect". A blue environmental effect means that solutions must be profitable for both the customer who invests and the environment.

In order to build competitiveness Energy will continue to develop its expertise and systems for purchasing from low-cost countries. Along with the industrialisation/standardisation of the project execution, this will contribute to a competitive cost level.

## Largest contracts signed in 2011

| Name of project | Client | Description | Size (NOK million) | Business unit |
|---|---|---|---|---|
| Avinor | Avinor | Energy saving airports | 60 | AF Energi & Miljøteknikk |
| Accomodation platform 2/4 L | SMOE | Complete cooling- and refrigeration plant | 30 | Mollier |
| Norne | Aibel | Complete HVAC- and cooling plant | 20 | Mollier |
| Seismic vessels | Mitsubishi | Complete HVAC-system | 20 | Aeron |
| Diving support & construction vessel | Keppel Singmarine | Complete HVAC-system | 12 | Aeron |

# Energy projects during the year

### Avinor

AF signed an energy conservation contract with Avinor in 2011. The contract encompasses three international and nine regional airports, and AF will make use of its substantial expertise in energy consumption through this contract, so that Avinor will achieve a significant and long-term reduction in energy and energy costs for its buildings and facilities. So far the energy consumption has been reduced by 22 per cent, which corresponds to approximately 12 million kWh per year.

**Contract price:** NOK 60 million
**Completion:** 2013
**Client:** Avinor


### Norne ship

In 2011 Mollier was awarded the contract to deliver two complete air supply systems with a separate cooling system for the ventilation of the equipment room on the Norne production ship. The ship does not have a lot of space available and Mollier is contributing, with its engineering expertise, to custom solutions that take advantage of any available space and ensure access for future maintenance.

**Contract price:** NOK 20 million
**Completion:** 2012
**Client:** Aibel


### Mitsubishi

In 2011 Aeron secured its first contract in Japan. The company's energy-efficient solutions will be used when Mitsubishi builds two new advanced seismic vessels for PGS. The contract includes the delivery of complete HVAC solutions.

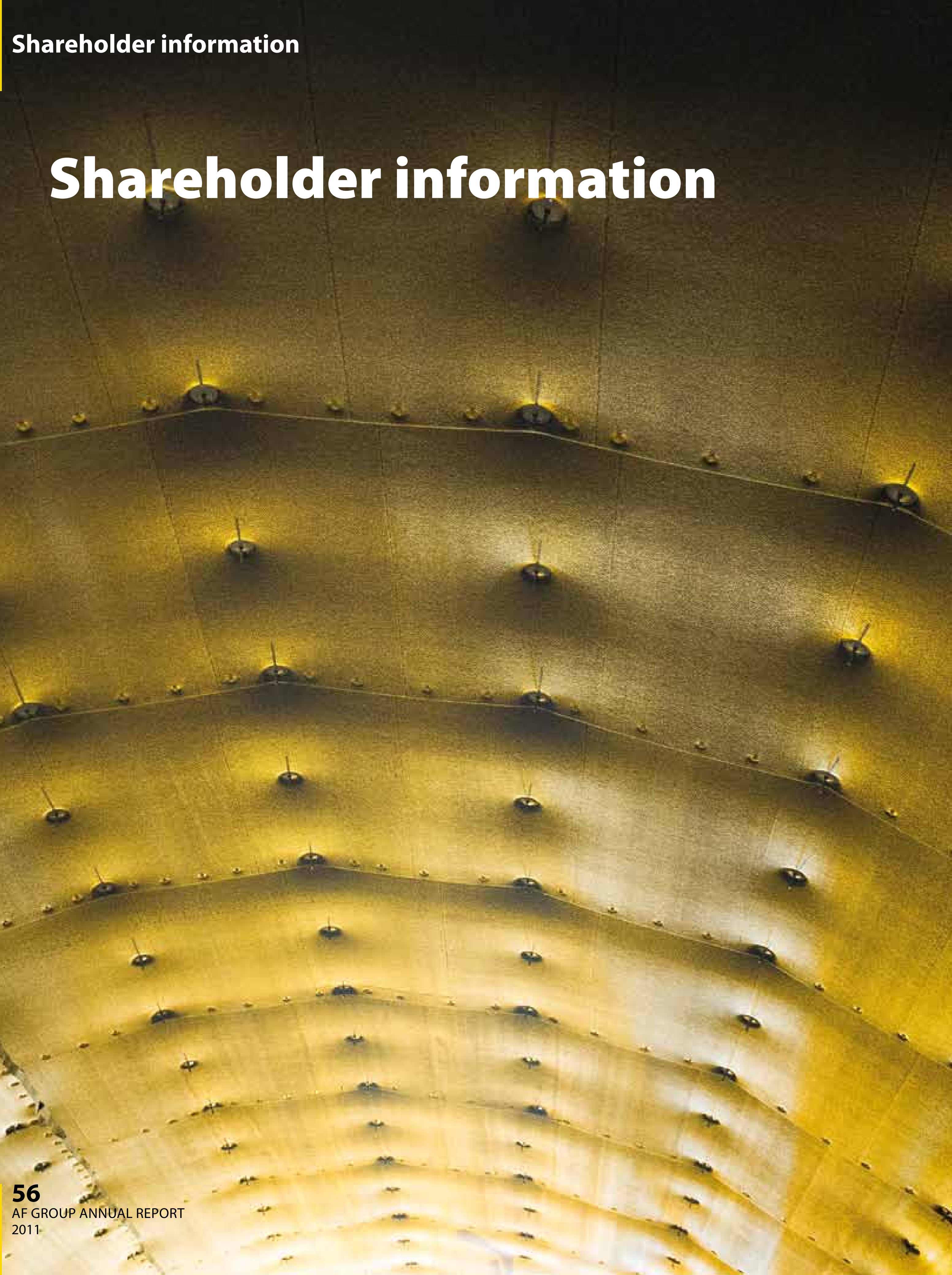
**Contract price:** NOK 20 million
**Completion:** 2013
**Client:** Mitsubishi

### SMOE

Mollier was selected as a partner when SMOE shipyard in Singapore was awarded the contract to deliver cooling systems to the accommodation platform 2/4 L on Ekofisk. The contract includes the complete delivery and installation of refrigeration and freezing plants, and refrigeration and freezer rooms for provisions, including electronic instruments.

**Contract price:** NOK 30 million
**Completion:** 2013
**Client:** SMOE

# 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 within the Group. The AF Group follows the Norwegian Code of Practice for Corporate Governance of 21 October 2010 and the subsequent amendments and amplifications stated in the document of 20 October 2011. The following description explains how the 15 points are followed up within the AF Group.

## 1. Statement of corporate governance

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 focus on managing the creation of value in a sustainable manner that safeguards the needs of the present generation without compromising the ability of future generations to meet their own needs. This involves safeguarding the ethical, environmental and social aspects of project implementation within Building, Civil Engineering, Property, Environment and Energy. Sustainable entrepreneurship 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 for 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 emphasises the importance of ensuring that all of its commercial activities are performed in accordance with the recommended standards and regulations. 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 it is built on transparency and equal treatment of our shareholders. The Company's management system 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 must 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 manages its operations in accordance with a set of basic principles. These principles are laid down in two documents: "Purpose, Goals and Values" and the "Code of Conduct". These documents describe the relationship between employees, customers and suppliers. The purpose of this is to maintain a culture in which orderly conduct is recognised, valued and lived up to by all employees. AF expects that all employees are able to identify and comply with the guidelines in "Purpose, Goals and Values" and the "Code of Conduct". These premises are also the foundation for acquisitions and integration.

At the heart of AF Group's vision and mission statement is a focus on profitability, safety and clear ethical guidelines. This includes a long term perspective and the Group's corporate role as a challenger.

Sustainable entrepreneurship in the AF Group concerns environmental factors, business ethics and social aspects, such as health, safety, diversity and equal opportunities. It also encompasses the intention to always learn from our mistakes, and to have the required level of preparedness for unexpected incidents. The AF Group's environmental and social responsibilities are described in greater detail 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 have a cause and can, therefore, be avoided. The AF Group has a strong focus on health, the environment and safety. This is described in further detail on page 14 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 the Articles of Association, the Company's objects include all types of business operations, including participation in other undertakings.

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

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

The Company's objective is to achieve a competitive return on the capital employed over time to maximise value creation for the Group and its owners:

- We aim to create continuous value growth, which will make us attractive to shareholders and investors, and expand the scope of our business activities.

- We aim to have an operating margin and return on the capital employed that are

- higher than the average for listed companies that are comparable to us.
- AF seeks opportunities to leverage its core competencies and grow its business by structuring and managing its operations to deliver value to stakeholders.

The Company's goals 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

As at 31 December 2011 AF Gruppen ASA had equity of NOK 212 million after provisions for the proposed, but not yet adopted dividend. The Board makes an 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 receive 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 2011, a dividend of NOK 4.50 per share was paid. Overall, NOK 346 million of the Group's profits were distributed as dividends in 2011. The dividend for distribution in 2012 is expected to amount to NOK 4.50 per share.

**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 13 May 2011. 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 13 May 2011 until the 2012 Annual General Meeting, hence not beyond 30 June 2012.

**Capital increase**
In connection with the Company's share programme for employees, two new issues of 5,676,750 shares were carried out in 2011. The share capital was thereby increased by NOK 283,838.

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 nominal value of NOK 0.05. This authority 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 new 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 2012 Annual General Meeting, hence not beyond 30 June 2012.

**Option programme for employees**
In 2008, the General Meeting adopted an option programme covering all the employees in the AF Group. The maximum number of options that could be allotted was 12,500,000. In accordance with the authority granted to the Board, the Board adopted a capital increase of 5,163,750 shares on 14 February 2011 in connection with the redemption of options. At the Annual General Meeting held on 13 May 2011 a new option programme was adopted. The maximum number of options that can be allotted in accordance with the new programme is 6,000,000. Each option entitles the holder to purchase one share in AF Gruppen ASA. The allotment of options started in the third quarter of 2011 and will end in the second quarter of 2013. An option may only be exercised if the holder is still employed by the Company on 31 March 2014.

The Board was authorised by the General Meeting to draw up detailed guidelines for the programme within the established 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 the 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**
In the event of a capital increase, 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.

**Treasury share transactions**
Transactions shall be carried out at market price in cases where the Board asks the General Meeting to authorise the purchase 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 the market price. There are no shareholder agreements between the Company's shareholders.

**Transactions with related parties**
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 party related to them. This is stated in the AF Group's Code of Conduct (see section 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 at arm's length. 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 carried out at the 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, AF Group's Corporate Management Team, Nomination Committee and auditor shall be present at the General Meetings.

The 2012 Annual General Meeting will be held on 11 May. Notice will be sent in the mail at least 21 days in advance to all the shareholders to the address registered in the shareholder register of the Norwegian Central Securities Depository. Documents regarding matters 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 compensation for sending documents to shareholders. Shareholders must notify their attendance to the Company no later than two days prior to 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 will be 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 elects a Nomination Committee consisting of three members, each elected for a term of one year, 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 candidates for shareholder-elected board members and alternates.

- Propose the remuneration of 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 Nomination Committee as at 29 March:
Arne Baumann (Chairman)
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 rules of procedure for the Board and the applicable policies and procedures. The Board held nine meetings in 2011.

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.

The Board's 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, which is 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: None.*

## 9. Work of the Board of Directors

**Duties 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 ensuring that the Group is managed 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 duties are to help the Group become competitive and ensure 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 goals for the financial structure and adopts the Company's plans and budgets. Major issues of a strategic or financial nature are considered by the Board. The CEO is hired and granted authority by 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 an ongoing basis. At least once a year the Board carries out a review of the Company's main risk areas and internal control within the Company.

**Rules of procedure for the Board and instructions for the day-to-day management**
The Board has adopted rules of procedure that stipulate rules for its work and procedures. These rules are reviewed annually or as required. The rules deal with the Board's duties, the CEO's duties and obligations in relation to the Board, the Board's procedures, minutes, follow-up of board meetings, conflicts of interest, confidentiality and formalities requiring new Board members to familiarise themselves with and accept the rules of procedure for the Board.

The Board has prepared an authority matrix that describes and clarifies what authority the CEO and management have and 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**
The Board has appointed an Audit Committee. The Company's Audit Committee consists of two shareholder-elected members who satisfy the independence and competence requirements laid down in the Public Limited Liability Companies Act.

Members of the Audit Committee as at 29 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 the management and performance of the Board's supervisory duties 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 duties are included in the Audit Committee's mandate:
• Assess the Group's financial and account reporting
• Evaluate the auditing, nominate an auditor candidate 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 within the Group.

The Committee prepares an annual report that is presented to the General Meeting.

**Compensation Committee**
The Board has a Compensation Committee to help ensure thorough and independent consideration of matters related to the remuneration of the CEO and other senior executives, such as 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 on Executive Remuneration.

The Committee prepares an annual report that is 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 the 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 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 life cycle.

All project risks are discussed in connection with quarterly reports. 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 registered for each business unit throughout the year.

The purpose of risk management is to manage the risks associated with successful business operations and enhance the quality of financial reporting in order to avoid loss-making projects and wrong decisions with serious consequences. Numerous risk analyses have been conducted, and we have implemented measures to reduce negative risks and take advantage of positive risks. Proper risk management has been important for achieving our goal of value creation and growth. More on risk management can be found under a separate section on page 12.

The Board is responsible for ensuring that the Company has sound internal control and that the systems for risk management are maintained. The Board receives quarterly reports on the Company's financial position and the 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 the 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 a 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 financial internal control is based on an organisational distinction between execution, control and assurance. 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 the business units, together with the financial managers, are responsible for ongoing financial reporting to the Group. A controller function has been established at the group level and the main task of this function is to control and verify 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 recommended by the Nomination Committee and adopted by the General Meeting, are not performance-based or linked to 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 6 to the consolidated financial statements shows the remuneration of board members and senior executives in the Group.

*Deviation from the Code of Practice: None.*

## 12. Remuneration of senior executives

The Compensation Committee determines, in cooperation with the Board, guidelines for senior executive remuneration. Guidelines for the remuneration of senior executives are presented to the General Meeting.

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 financial units below the group level. Bonuses based on the EVA model are linked to the profit performance of the Company or the financial unit over time. Bonuses are paid to eligible managers on a straight-line basis in proportion to the financial 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 per cent 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 programme for all the employees in 2008. This option programme is described in more detail under "Option programme for employees" in section 3.

*Deviation from the Code of Practice: The Board of Directors and Compensation Committee have decided that there should be no cap on performance-based remuneration for employees. The Group's fundamental idea is that employees at all levels can participate in the creation of value without limitations, in the same way as the owners.*

## 13. Information and communication

The AF Group's objective is for all investors and other stakeholders to have access to the same financial information on the Company at any given time. The information provided by the AF Group should ensure that the shares are priced as correctly 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 share market, and it desires an open dialogue with the players.

**Reporting**
The AF Group holds public presentations for its quarterly and annual results. These 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 readiness plan to provide the media with relevant information in case of unusual events or interest by the media.

The Company follows the Oslo Stock Exchange's recommendations for reporting IR information.

*Deviation from the Code of Practice: None.*

## 14. Company takeover

The Board has prepared written guidelines for how it will act in the event of a possible takeover bid by another company. The guidelines entail that the Norwegian Code of Practice for Corporate Governance will be followed if such a situation should arise.

The Board has prepared written guidelines for how the Board will act in the event of a possible takeover bid for the Company's shares. The Board will not seek to prevent bids for the Company's business or shares without a 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: None.*

## 15. Auditor

Ernst & Young AS is the auditor of the AF Group.

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 the auditing that has 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 expenses" for further information about the size of the auditor fees.

The General Meeting adopts the auditor fees.

To ensure the auditor's independence and competitive auditor 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.

*Deviation from the Code of Practice: None.*

# The share

## The AF Group share price rose by 10 per cent in 2011, finishing the year at NOK 44. The return including dividends was 21 per cent. Over the last five years, shareholders have earned a return of 173 per cent, adjusted for dividends. The Oslo Stock Exchange's benchmark index fell 13 per cent during the same period.

The AF Group was listed on 8 September 1997. The shares are listed on the Oslo Stock Exchange's OB Match list and traded 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 2011, the share capital was NOK 3,555,897, divided into 71,117,940 shares, each with a nominal value of NOK 0.05. During the year the Company has carried out three new issues of shares totalling 9,696,550 shares. Two of the new issues were offered to the employees in connection with the share and option programme and one new issue was carried out in connection with the acquisition of SG Gruppen Kongsvinger AS. As a result of this, the share capital increased by NOK 484,828. At the end of 2011, the share capital was NOK 4,040,725, divided into 80,814,490 shares, each with a nominal value of NOK 0.05.

The AF Group had 1,254 (914) shareholders at the end of the year. The shareholder structure is still characterised by stable, long-term owners, and as at 31 December the 10 largest shareholders owned 73 (81) per cent of the Company's shares. At year end, employees of AF owned approximately 17 (17) per cent of the shares in the Company, and the Company owned 64,585 treasury shares, which is equivalent to 0.08 per cent of the outstanding shares. At the end of the year, 98.6 per cent of the shares were owned by Norwegian shareholders.

**Distribution of shareholders, intervals**

| Number of shares | Number of owners | Percent |
|---|---:|---:|
| 1 - 100 | 110 | 0.01 % |
| 101 - 500 | 203 | 0.08 % |
| 501 - 1 000 | 118 | 0.13 % |
| 1,001 - 5,000 | 403 | 1.34 % |
| 5,001 - 10,000 | 150 | 1.32 % |
| 10,001 - 100,000 | 215 | 7.91 % |
| Over 100,000 | 55 | 89.22 % |
| | **1,254** | **100.00 %** |

| Shareholder | Number of shares | % av total |
|---|---:|---:|
| Obos Forretningsbygg AS | 21,162,075 | 26.19 % |
| Constructio AS | 10,168,670 | 12.58 % |
| ØMF Invest AS | 10,168,670 | 12.58 % |
| Aspelin-Ramm Gruppen AS | 4,787,385 | 5.92 % |
| VITO Kongsvinger AS | 3,461,676 | 4.28 % |
| LJM AS | 2,513,900 | 3.11 % |
| Moger Invest AS | 2,064,621 | 2.55 % |
| Skogheim, Arne | 1,723,870 | 2.13 % |
| ØMF Holding AS | 1,673,307 | 2.07 % |
| Staavi, Bjørn | 1,476,010 | 1.83 % |
| R Holth Holding AS | 854,471 | 1.06 % |
| Midtskog, Morten | 820,000 | 1.01 % |
| FK Holth Holding AS | 711,929 | 0.88 % |
| Evensen, Jon Erik Scheel | 710,000 | 0.88 % |
| Holstad Invest AS | 705,000 | 0.87 % |
| Eriksson, Erik Håkon | 560,000 | 0.69 % |
| Svenska Handelsbanken Clients Acc. | 502,850 | 0.62 % |
| ETV Invest AS | 426,844 | 0.53 % |
| Riddervold, Esben A. | 400,000 | 0.49 % |
| Moe, Arild Ingar | 382,970 | 0.47 % |
| **Total 20 largest** | **65,274,248** | **80.77 %** |
| Total other shareholders | 15,475,657 | 19.15 % |
| Treasury shares | 64,585 | 0.08 % |
| **Total number of shares** | **80,814,490** | **100.00 %** |

| Key figures shares | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|
| Market value (NOK million) | 3,556 | 2,845 | 2,242 | 1,269 | 1,859 |
| Number of shares traded (1,000) | 2,095 | 2,969 | 1,945 | 1,605 | 3,735 |
| Total number of shares as at 31.12 | 80,814,490 | 71,117,940 | 70,495,940 | 69,349,440 | 68,849,440 |
| Number of shareholders as at 31.12 | 1,254 | 914 | 733 | 686 | 677 |
| Share price as at 31.12 | 44.00 | 40.00 | 31.80 | 18.30 | 27.00 |
| - High | 53.00 | 43.00 | 31.80 | 27.70 | 27.00 |
| - Low | 38.60 | 32.60 | 18.20 | 16.90 | 22.00 |
| Earnings per share | 3.83 | 3.92 | 3.85 | 3.10 | 2.55 |
| Diluted earnings per share | 3.83 | 3.82 | 3.85 | 3.10 | 2.55 |
| Dividend per share | 2.20* | 2.00 | 1.60 | 1.40 | 1.20 |
| Extraordinary dividend | 2.30* | 2.50 | 2.00 | - | - |
| Distribution ratio (ordinary dividend) | 57.4 % | 51.0 % | 41.6 % | 45.1 % | 47.1 % |
| Direct return (total dividend) | 10.2 % | 11.3 % | 11.3 % | 7.7 % | 4.4 % |
| The share's total return | 21.3 % | 37.1 % | 81.4 % | -27.8 % | 24.4 % |
| Share price/earnings per share (P/E) | 11.5 | 10.2 | 8.3 | 5.9 | 10.6 |
| Share price/equity per share (P/B) | 2.7 | 2.9 | 2.5 | 1.7 | 3.3 |
| Enterprise value/earnings before interest and tax (EV/EBIT) | 8.0 | 6.2 | 6.1 | 4.8 | 8.7 |

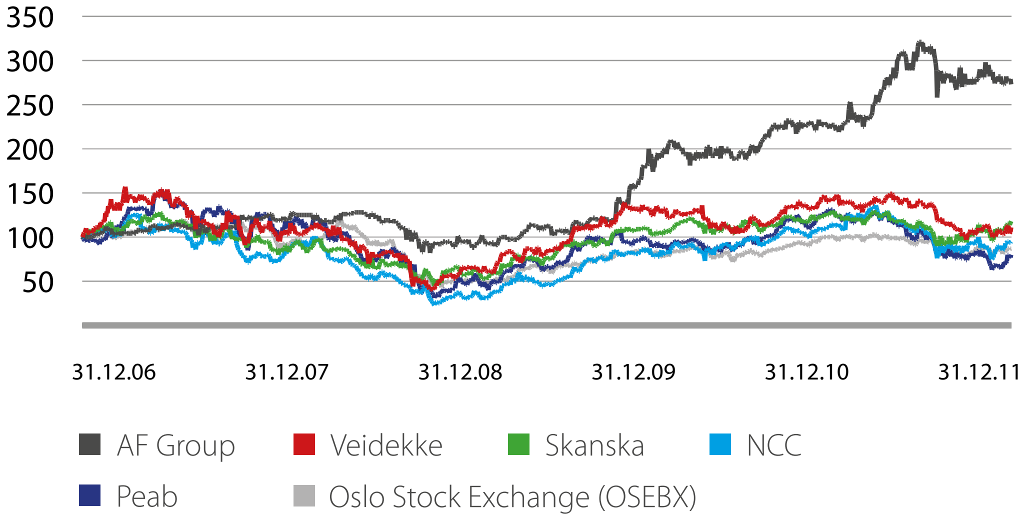
* Proposed dividend.

The shareholder structure changed somewhat in 2011. The AF Group's previously largest shareholder, KB Gruppen Kongsvinger AS, spun off the Company in 2011. As a result of this, Constructio AS, ØMF Invest AS and VITO Kongsvinger AS are now on the list of the ten largest shareholders.

In addition, the AF Group's acquisition of SG Gruppen Kongsvinger AS was partially financed by the issuance of 4,019,800 new shares offered to the sellers, which resulted in several new names on the shareholder list. As at 31 December 2011 OBOS Forretningsbygg AS is the AF Group's largest shareholder with 26.2 per cent of the Company's shares.

The buyback of shares will be considered on an ongoing basis in light of the Company’s alternative investment options, financial situation, and need for treasury shares in connection with the sale of shares to the employees, option programme, bonus programme and acquisitions. The AF Group has been granted authority by the General Meeting to buy up to 10 per cent of the shares outstanding in the Company.

**Share price over the last five years compared with competing contracting companies and Oslo Stock Exchange**




31 December 2006 = 100
Local currency, total return

## Return and turnover

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

The AF share price rose by 10 per cent in 2011, and the closing price as at 31 December 2011 was NOK 44 (40). This amounts to a total market capitalisation value of NOK 3,560 million for the Company. In June a dividend of NOK 4.50 per share was paid, NOK 2.00 per share of which was an ordinary dividend and NOK 2.50 per share of which was an extraordinary dividend. The return, including dividends, was 21 per cent for 2011. Over the last five-year period, AF shares have earned shareholders a return of 173 per cent, including dividends. During the same period an unweighted average of the share prices for competing contractors rose by 1 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 2011, a total of 2,094,569 (2,968,717) shares were traded on the stock exchange. The share was traded on 242 of 253 possible trading days, and the average turnover for each trading day was 8,279 shares. The AF Group has 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 the bid and asking prices when the Company's shares are traded.

## Share programme 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 programme should contribute to making the AF Group an attractive workplace for its employees and attract new employees. AF has, therefore, a share programme for employees, whereby the employees are given an opportunity to buy shares at a discount of 20 per cent on the current market price.

In 2011, 326 employees subscribed for a total of 800,000 shares. The purchase price after a 20 per cent discount was NOK 36.00. In connection with the sale, the Board used its authority and issued 513,000 new shares.

The remaining shares were transferred from the Company's treasury shares.

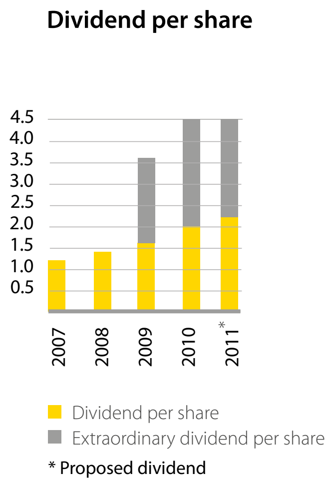
The Company has decided to continue the share programme for employees in 2012. The maximum number of shares that may be purchased in the share programme is 1,000,000, and the share programme will be executed in 2012 according to plan. The Board will therefore submit a proposal to the General Meeting for authorisation to issue a sufficient number of shares, enabling the share programme to be implemented.

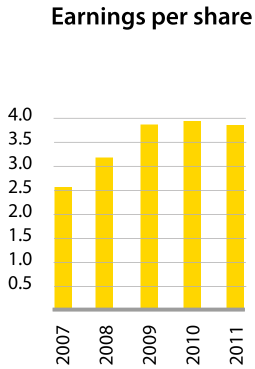
## Option programme for employees

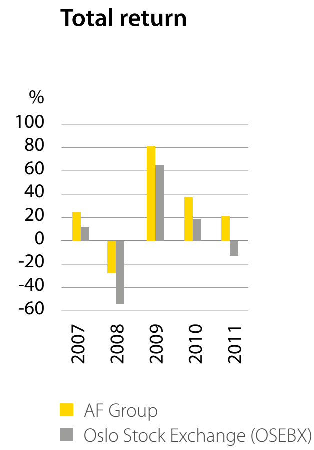
The AF Group has an option programme for all the employees in the Group. The purpose of the programme is to encourage long-term commitment and greater involvement in the Company's activities.

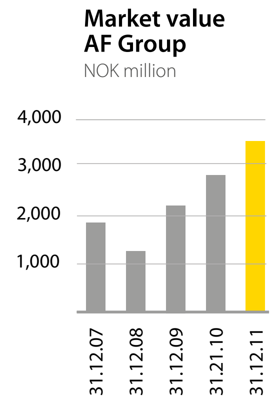
The option programme for employees that ran from 2008 to 2010 was terminated in February 2011. A total of 5,163,750 options were exercised by 787 employees, and the corresponding number of shares was issued.

# Shareholder information

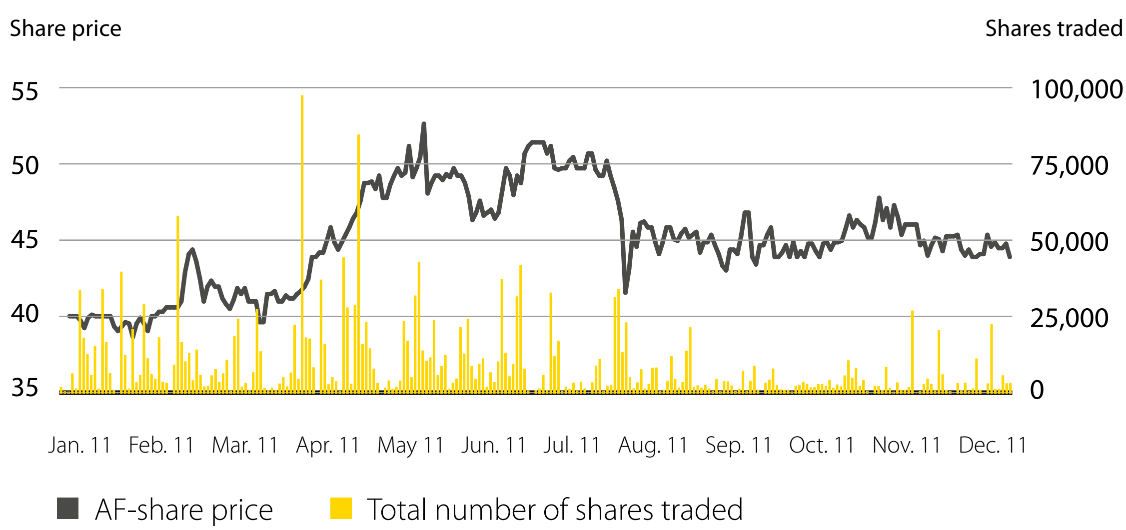



**Share price performance and trading volume in 2011**

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The option programme for employees that ran from 2008 to 2010 was terminated in February 2011. A total of 5,163,750 options were exercised by 787 employees, and the corresponding number of shares was issued.

At the General Meeting in May 2011 the AF Group adopted a new option programme for employees in the Group. The maximum number of options that can be granted is 6,000,000, and the programme entails an annual allotment for the years 2011-13 and exercising the options in 2014. The purchase price for the shares is based on the average market price during the last week before the subscription period.

The option premium is NOK 1.00 per option. Staff must be employed by the AF Group, or one of its subsidiaries, as at 31 March 2014 in order to exercise the options.

In the autumn of 2011, the AF Group issued 2,092,763 new options and 1,089 employees subscribed for options in the Group.

## Dividend

Over time the AF Group should provide a competitive return on the Company's shares for its shareholders. 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. The Board will evaluate the Company's liquidity and possible strategic transactions when a dividend is proposed. The AF Group's intention over time is to distribute a minimum of 50 per cent of the profit for the year as a dividend.

For the 2011 financial year, the Board proposes to pay a dividend of NOK 4.50 (4.50) per share. NOK 2.30 of this amount represents an extraordinary dividend. The dividend will be paid to shareholders who are registered on 11 May 2012.

## Investor relations

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

The information provided by 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 share 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 follows the Oslo Stock Exchange's recommendations for reporting IR information.

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

**Analyst coverage**

| Company | Telephone |
|---|---|
| ABG Sundal Collier | +47 22 01 60 28 |
| DNB Markets | +47 22 94 88 45 |
| Fondsfinans | +47 23 11 30 36 |
| Handelsbanken | +47 22 39 73 04 |
| Swedbank First Securities | +47 23 23 82 58 |
| Terra Markets | +47 21 95 37 47 |

AFG NOTERT OSLO BØRS

# Board of Directors' report

## Operations

### Introduction

The AF Group is a leading contracting and industrial group with five business areas: Civil Engineering, Building, Property, Environment and Energy. AF Gruppen ASA, the Group's parent company, is listed on the Oslo Stock Exchange. The head office of the AF Group is located in Oslo.

The AF Group was established in 1985. Ever since the company was established, AF has relied on its knowledge, expertise and ability to perform complex tasks. A strong entrepreneurial spirit coupled with the capacity and willingness to think differently and with foresight have characterised the Group's history. We help our customers succeed by delivering projects and services in accordance with their needs. Our conduct should be characterised by professionalism and high ethical standards.

### Vision

AF's vision is: Clearing up the past, building for the future.

### 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.

## Description of the business

### Civil Engineering

AF has the experience and expertise required to carry out all types of civil engineering projects ranging from small and simple to large and demanding. AF carries out projects related to transport, ports, oil/energy/offshore and foundation work. Our clients are primarily public sector agencies and large energy and industrial companies.

### Building

AF is one of the largest players in the area of residential, commercial and public buildings. AF's experience spans the entire value chain from development and planning to building. AF is also a leader in renovation. AF delivers services to clients ranging from small companies with a single assignment to large private and public clients with a longstanding relationship. AF cooperates closely with clients to find efficient solutions that satisfy future environmental and energy requirements. The Building business area is established in Norway and Sweden.

### Property

AF develops residential and non-residential buildings for its own account. Most of the projects are located geographically where AF has its own contracting services. AF cooperates closely with other players in the industry, and the development projects are often organised as joint development companies. In this way we benefit from each other's expertise, while reducing the project-specific risk.

### Environment

AF is Scandinavia's leading contractor for the demolition of buildings, industrial plants and petroleum installations. AF offers solutions that meet the clients' environmental challenges. AF has a state-of-the art reception facility at Vats near Haugesund for the environmental clean-up of petroleum installations. The Environment business is established in Norway, Sweden, Poland and the UK.

### Energy

With extensive industrial knowledge and advanced expertise in energy optimisation, AF delivers energy-efficient technical solutions. These solutions maintain comfort and working conditions with reduced consumption of energy in buildings, industry, marine applications and offshore. In order for the market to choose correct solutions it is not enough that they are energy-efficient, they must also benefit the client's bottom line and the environment.

## Presentation of the annual accounts

### Introduction

The 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 the simplified IFRS provisions laid down in section 3.9, fifth paragraph of the 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 fair picture of the Group's financial results for 2011 and its financial position as at 31 December 2011. 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. The Board's Corporate Governance Statement is an integral part of the Board of Directors' report. This is described on page 55 of the annual report.

### 2011 in brief

The year 2011 was a favourable year for the AF Group with strong performance in a number of important areas. AF has gained market shares in several sectors and continues to operate with healthy margins. In the area of HSE the LTI rate is among the lowest in the industry. The Company has also carried out the largest acquisition in the history of the AF Group.

AF is showing strong profits for large portions of its operations. In 2011 we have succeeded with turnaround operations in several units that have been through a difficult period.

AF has carried out several acquisitions in 2011. The acquisition of the majority shareholding in Strøm Gundersen in Drammen is the largest transaction in the history of the AF Group. This acquisition gives AF a strong market position in the building market in Buskerud and the renovation market in Oslo. With the acquisition of Rogaland Entreprenør AS the AF Group has established building operations in Stavanger and has strengthened its presence in Rogaland. AF has also acquired a portion of the operations of Båtservice Offshore/Verft in Mandal. These acquisitions represent valuable additions to the AF Group in markets and business areas that we believe have great potential in the future.

At the end of 2011 the order book stood at NOK 9,126 million (6,193 million), an increase of 59 per cent. The record-high order backlog lays the foundation for a high level of activity and good growth in 2012.

**Income statement, balance sheet and liquidity**
The AF Group reported operating and other revenues of NOK 7,356 million (5,828 million) in 2011, which represents growth of 38 per cent. The operating profit was NOK 389 million (366 million), which corresponds to an operating margin of 5.3 per cent (6.3 per cent). Profit before tax was NOK 404 million (372 million) and the profit after tax was NOK 303 million (277 million). This is the highest annual profit so far for the company. It is especially the business areas Civil Engineering and Building, where the level of activity has been particularly high, which have contributed to the good results. The business areas Environment and Property can also look back on a good year.

Earnings per share in 2011 were NOK 3.85 (3.92) and the diluted earnings per share were NOK 3.85 (3.82). The proposed divided is NOK 4.5 (4.5) per share. The share price was NOK 44.0 (40.0) at year end. The return to shareholders including dividends for 2011 was 21.3 per cent.

The return on equity in 2011 was 28.2 per cent (28.3 per cent). The return on average capital employed was 35.5 per cent (36.0 per cent).

The balance sheet total as at 31 December 2011 was NOK 4,592 million (3,013 million). At the end of the year the Group had net interest-bearing receivables of NOK 450 million (580 million) and liquid assets of NOK 458 million (622 million). Shareholders' equity at the end of the year was NOK 1,331 million (968 million), which corresponds to an equity ratio of 29.0 per cent (32.1 per cent). Cash flow from operations in 2011 was NOK 618 million (260 million). After the deduction of NOK 453 million (1 million) in net investments, NOK 437 million of which was in connection with company acquisitions, the cash flow before financing activities totalled NOK 165 million (259 million). A dividend of NOK 346 million (255 million) was paid in 2011.

**Distribution of profit for the year**
The net profit for AF Gruppen ASA was NOK 113 million and the following distribution is proposed:

| | |
|---|---|
| Transferred to/ from other reserves | NOK -251 million |
| Provision for dividend | NOK 364 million |
| Total allocations | NOK 113 million |

The company's distributable equity as of 31 December 2011 was NOK 91 million (45 million) after allocations as a result of the proposed, but not yet adopted dividend.

## Business areas 2011

### Civil Engineering

| NOK million | **2011** | 2010 | 2009 |
|---|---|---|---|
| Revenues and other income | 2,356 | 2,158 | 1,768 |
| Earnings before financial items and tax (EBIT) | 131 | 194 | 82 |
| Earnings before tax (EBT) | 134 | 198 | 105 |
| Operating profit margin (EBIT %) | 5.6 % | 9.0 % | 4.6 % |
| Pre-tax margin (EBT %) | 5.7 % | 9.2 % | 5.9 % |
| Order backlog | 3,290 | 1,899 | 2,175 |

The Civil Engineering business area comprises AF's civil engineering activities in Norway and Sweden.

The Civil Engineering operations comprise three business units:

- AF Anlegg
- AF Offshore & Civil Construction
- Pålplintar

**Results**
In 2011 Civil Engineering reported a turnover of NOK 2,356 million (2,158 million). The profit before tax was NOK 134 million (198 million). The operating margin was 5.6 per cent (9.0 per cent) in 2011. The decrease in profit is due to weaker results in the port portfolio. Overall the operating margin is better than the long-term target for Civil Engineering. The total order backlog for Civil Engineering at the end of 2011 was NOK 3,290 million (1,899 million).

AF Anlegg saw a high level of activity and reported good results in 2011. The favourable results were created by sound project management

AF Offshore & Civil Construction has faced challenges in the port portfolio, and the results for 2011 are significantly lower than in 2011 as a result of impairment losses. Towards the end of the year AF Offshore & Civil Construction started to show positive results again. Pålplintar has had a stable and good performance throughout the year, but it experienced some decline in the level of activity towards the end of 2011. Our competitiveness in the pile market has been strengthened through the establishment of a concrete pile factory in 2011.

**Acquisition of companies and establishment of new operations**
In February 2011 AF acquired a portion of the operations of Båtservice Offshore/Verft AS. AF took over all the employees, property, plant and equipment, and the operations were transferred to the newly established AF Offshore Mandal unit. The acquisition strengthens the AF Group's focus on the offshore maintenance and modification market.

**New contracts**
In March AF Anlegg signed a contract with the Public Roads Administration for the development of Ringveg West in Bergen. Ringway West comprises a new four-lane motorway between Flyplassvegen and Liavatnet Phase 2 in Bergen. The work includes building two tunnels and connection to the existing roads. The value of the contract is NOK 821 million, excluding VAT. The work began in March 2011 and is scheduled for completion in April 2015.

In June AF Anlegg entered into a contract with Store Norske Spitsbergen Grubekompani for transport, civil engineering and maintenance services in Svea on Svalbard. The contract encompasses the transport of coal, road maintenance, airport and other infrastructure in Svea. The contract is valued at NOK 600 million. Work began in September 2011 for a duration of five years and an option for an additional two years. The company AF Arctic AS was established in connection with the contract.

In July AF Anlegg entered into a final agreement with the Norwegian Public Roads Administration for the construction of Rv. 70 Oppdølsstranda in the Municipality of Sunndal in Inner Nordmøre. The contract is for a 7 km tunnel to protect against falling rocks and a 2 km road from Sunndalsøra to Modalen. The work consists of tunnel work, blasting, earthmoving and complete road building. This contract is valued at NOK 574 million, excluding VAT. The work began in September 2011 and will be completed in June 2014 at the latest.

In July AF Anlegg's subsidiary Johan Rognerud AS entered into a contract for the development of an industrial area at Fugleåsen in the Municipality of Ski. The contract is for the development of a 300,000 m$^2$ industrial area by means of blasting and earthmoving. The Contract is valued at NOK 118 million, excluding VAT. The work began in August 2011 and will be completed in October 2012.

In September AF Offshore & Civil Construction entered into an agreement with Statnett to build foundations for a power line between Ålfoten and Moskog. This contract is valued at NOK 50 million, excluding VAT. The work began in the spring of 2012 and the scheduled completion is in the autumn 2013.

In February 2012 AF Anlegg received a letter of intent from Statoil on behalf of the operator Gassco for the construction of a new production laboratory at Kårstø. The contract encompasses the construction of a new production laboratory at the Kårstø processing plant and the associated technical installations. This contract is valued at NOK 110 million, excluding VAT. The work began in March 2012 and completion is expected in June 2013.

In February 2012, AF Anlegg was appointed as a supplier by Statnett for the construction of five transformer stations for the Ørskog-Fardal project. The contract encompasses concrete work and building trades for five transformer stations for the Ørskog-Fardal project. The locations for the transformer stations are Høyanger, Moskog, Ålfoten, Ørsta and Sykkylven. The work began in April 2012, and the expected completion is in the February 2014. The value of the contract is NOK 160 million, excluding VAT.

In March 2012, AF Offshore & Civil Construction was appointed as the supplier for civil engineering work for ABB in connection with Statoil's Troll A 3 & 4 Pre-compression Project at Kollsnes. The contract encompasses the construction of a new rectifier building and a new landfall for cables to the Troll A platform. Several cable trenches and concrete platforms are to be built for the placement of equipment. The work will begin in March 2012, and the expected completion is in February 2014. The value of the contract is NOK 100 million, excluding VAT.

**Market outlook**

The order backlog is high, and the market outlook is good. 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 in the future and grow by 12 per cent in 2012 and 5 per cent in 2013. Growth in the market is expected primarily to come from roads and power installations. Civil Engineering has strengthened the organisation in 2011 and is well positioned for profitable growth in 2012.

**Building**

| NOK million | 2011 | 2010 | 2009 |
|---|---|---|---|
| Revenues and other income | 3,757 | 2,267 | 2,561 |
| Earnings before financial items and tax (EBIT) | 148 | 45 | 218 |
| Earnings before tax (EBT) | 144 | 51 | 221 |
| Operating profit margin (EBIT %) | 3.9 % | 2.0 % | 8.5 % |
| Pre-tax margin (EBT %) | 3.8 % | 2.3 % | 8.6 % |
| Order backlog | 4,965 | 3,067 | 2,324 |

The Building business area is divided into seven business units:

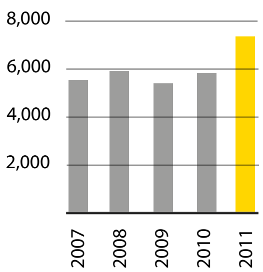
- AF Bygg Oslo
- AF Byggfornyelse
- AF Bygg Østfold
- AF Bygg Sør
- AF Bygg Göteborg, Sweden
- AF Rogaland Entreprenør
- Strøm Gundersen

**Acquisition of companies and establishment of new operations**

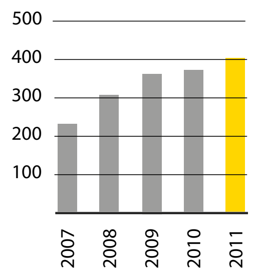
AF Bygg Sør was established with an office in Kristiansand in March 2011. AF has already carried out several projects in Southern Norway. AF has shown through the Kilden Theatre and Concert Hall that the company has the resources and expertise required for the successful completion of major building projects in the region. AF Bygg Sør is well underway and has been awarded its first contract by the Public Roads Administration and Statnett.

On 3 November 2011 AF acquired the majority shareholding in the Strøm Gundersen Group. The Strøm Gundersen Group complements AF geographically with its building activities in Buskerud and offers specialist expertise in the renovation of buildings and the civil engineering market. The acquisition of the majority shareholding in the Strøm Gundersen Group is the largest addition this year. This is a company that has performed well over time.

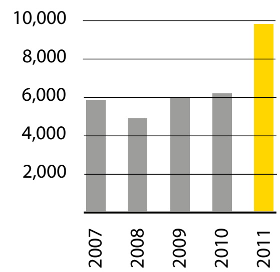
**Revenue**
NOK Million




**Earnings before tax**
NOK million




**Order book**
NOK million




The Strøm Gundersen group includes the subsidiaries Strøm Gundersen AS, Haga & Berg Entreprenør AS, Thorendahl AS and Consolvo AS. In addition, there are several smaller companies.

- Strøm Gundersen is Buskerud's leading contractor for building and heavy concrete structures.

- Haga & Berg Entreprenør operate in the areas of renovation, remodelling, service and maintenance of commercial buildings in the Oslo region.

- Thorendal is one of Oslo's largest companies in the area of facade renovation of residential and commercial buildings.

- Consolvo carries out concrete renovation by means of mechanical repair and cathodic protection.

On 15 November 2011 AF acquired the majority shareholding in Rogaland Entreprenør AS. AF established building activities in Stavanger and strengthened its presence in Rogaland through this acquisition. Rogaland Entreprenør is well established in the region and has specialised in turnkey contracts for commercial and residential buildings. The company will continue under the name AF Rogaland Entreprenør AS.

In 2011 the Strøm Gundersen Group and Rogaland Entreprenør had a combined turnover of approximately NOK 1,500 million. These acquisitions are expected to result in strong growth in turnover in Building in 2012.

**Results**
Building reported revenues of NOK 3,757 million (2,267 million) in 2011, an increase of 66 per cent compared with 2010. This growth is a result of strong organic growth combined with the acquisition of Strøm Gundersen and AF Rogaland Entreprenør. Profit before tax was NOK 144 million (51 million). The Building order book stood at NOK 4,965 million (3,067) at the end of the year.

The operating margin increased to 3.9 per cent (2.0 per cent) in 2011. The improvement in the operating margin was a result of the fact that the Swedish operations delivered positive results, in addition to the very good operating margins in the Strøm Gundersen Group. Overall the operating margin is somewhat lower than the long-term target for Building.

The Norwegian Building business area has been marked by strong growth in 2011 with many projects in the start-up phase. All the units are delivering positive results even though the margins vary. The restructuring of the operations in Sweden started to show positive results in 2011. The efforts to improve profitability will continue in 2012.

**New contracts**
In January AF Bygg Oslo signed an agreement with Sørenga Utvikling to build apartments and commercial premises for phase 3 of the Sørenga project. The contract encompasses the construction of 127 apartments and frameworks for a day care centre and commercial premises. The project will be carried out as a turnkey contract and is valued at NOK 230 million, excluding VAT. Building began in March 2011 and delivery is expected in Q4 2012.

In February AF Bygg Oslo signed an agreement with Sandakerveien 99B KS to build 145 apartments at Sandaker in Oslo. The contract encompasses the construction of 145 apartments, a day care centre and a basement car park. The agreement will be carried out as a turnkey contract and is valued at NOK 240 million, excluding VAT. Construction began in April 2011. Work will continue until September 2013. AF owns one-third of Sandakerveien 99B AS and KS.

In February AF Bygg Oslo entered into a contract with Østre Aker Vei 90 AS for the construction of a new energy-efficient head office for Siemens Norway at Linderud in Oslo. The contract encompasses the construction of 25,000 m$^2$ of commercial premises in two sections. The project will be carried out as a turnkey contract and is valued at NOK 264 million, excluding VAT. There is an option agreement for the construction of three additional sections.

In February AF Bygg Oslo signed a contract with Stovner Utvikling KS to build apartments and commercial premises at Stovner Centre in Oslo. The project encompasses the construction of 128 apartments and 2,000 m$^2$ of commercial premises. The work will be completed in Q1 2013. This contract is valued at NOK 205 million, excluding VAT. The AF Group has an ownership interest of 33 per cent in Stovner Utvikling AS and KS.

In April AF Bygg Oslo entered into two contracts with Gladengveien DA for the construction of 152 apartments and a parking garage with a framework for commercial premises at Ensjø in Oslo. This contract is valued at NOK 270 million, excluding VAT. The work will be completed in Q1 2013.

In April AF Bygg Østfold signed an agreement with Sjøgata 25 Moss AS for the construction of 92 apartments on Jeløy in Moss. The contract is valued at NOK 208 million. The work began in June 2011 and will be completed in July 2013.

In May AF Bygg Oslo signed an agreement with Neptune Properties to build 37 apartments with a parking garage at Vinderen in Oslo. This contract is valued at NOK 96 million, excluding VAT. The work began in the autumn of 2011 and will be completed in Q1 2013.

In September AF Byggfornyelse entered into a final agreement with Entra Eiendom to remodel the Tax Administration’s premises at Helsfyr in Oslo. The contract encompasses demolition, renovation, changing the facade and roof work. The contract is valued at NOK 150 million. The work began in September 2011 and will be completed in September 2012.

In October AF Bygg Oslo received an order from Sørenga Utvikling KS for building apartments and commercial premises for phase 4 of the Sørenga project. The project encompasses the construction of 118 apartments and frameworks for commercial premises and a day care centre. The contract is valued at NOK 234 million, excluding VAT. The work will begin in January 2012, and the scheduled completion is in the autumn of 2013.

In November AF Bygg Østfold entered into an agreement with Værste AS for the construction of HelsePluss, a new building for health services in Fredrikstad. The project encompasses the construction of medical offices, a casualty clinic, hospital and a nursing home. In addition, the contract encompasses the construction of a basement car park and preparation of outdoor areas. This contract is valued at NOK 280 million, excluding VAT. The work began in December 2011 and will be completed in the autumn of 2013.

In November AF Bygg Oslo entered into an agreement with Fornebu Utvikling for the development of Fjordvilla Kanalbygg 1 and Kanalbygg 2 at Fornebulandet. The contract encompasses the construction of 64 apartments and a basement car park. This contract is valued at NOK 158 million, excluding VAT. The work began in December 2011 and will be completed in Q3 2013.

In November AF Bygg Gøteborg entered into an agreement with Eklandia Fastighets AB to build a new commercial building at Lindholmen in Gothenburg. The project encompasses the construction of a seven-storey framework, including a basement car park. This contract is valued at SEK 115 million, excluding VAT. Work began in November 2011 and will be completed in December 2012.

In November AF Bygg Østfold received an order from the South Eastern Norway Regional Health Authority for ground and foundation work in connection with the construction of the new hospital in Østfold. This contract is valued at NOK 160-180 million. The work began in January 2012 and will be completed in December 2012.

In December AF Byggfornyelse was chosen by Undervisningsbygg Oslo KF to renovate and erect new buildings at Grefsen School in Oslo. The work encompasses demolishing the existing building, building a new school building and renovating existing buildings. This contract is valued at NOK 210 million, excluding VAT. The work began in August 2012 and will be completed in the summer of 2014.

In December Strøm Gundersen signed an agreement with Union Eiendomsutvikling AS to develop Pir 7, a new residential and commercial complex in Drammen. The project encompasses the construction of 18,000 m$^2$ of offices, apartments and a basement car park, and preparation of outside areas. This contract is valued at NOK 275 million, excluding VAT. The building period will be from December 2011 to December 2013.

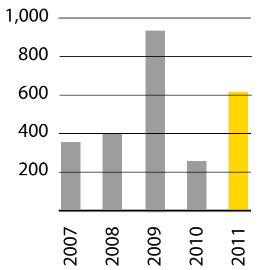
In March 2012 AF Bygg Østfold entered into a contract with the South Eastern Norway Regional Health Authority for Contract 2201, Construction of Framework, in connection with the construction of the new hospital in Østfold. The contract encompasses the framework for the bed wards and treatment building. The value of the contract is NOK 273 million, excluding VAT. The work began in June 2012 and will be completed in June 2013.

**Market outlook**

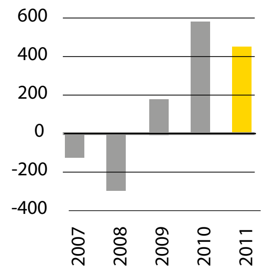
A strong increase in turnover is expected for 2012. The order backlog is high and the acquisition of Rogaland Entreprenør and Strøm Gundersen will contribute to a higher turnover in 2012. Normalisation of the economic situation has resulted in a higher number of housing and commercial project starts. Statistics Norway expects GDP growth of 2.5 per cent in 2012 and 2.7 per cent for mainland Norway.

Economic growth has fuelled increased housing project starts. Following a 5 per cent decline in the value of commenced non-residential buildings, growth of 8 per cent is expected in 2012. AF’s building activities are closely related to the demand for new housing, non-residential buildings and industrial projects.

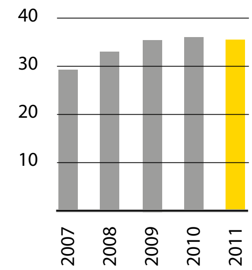
**Cash flow from operating activities**
NOK million




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




**Return on capital employed**
NOK million




The market for maintenance and building renovation is expected to remain at a stable high level in the future. The age of many public buildings and the ambitious public energy goals for buildings represent a substantial renovation potential. The Swedish economy is expected to grow by 0.5 per cent in 2012 and 2.4 per cent in 2013. The development of the market in Sweden is considered uncertain.

## Property

| NOK million | 2011 | 2010 | 2009 |
|---|---|---|---|
| Revenues and other income | 69 | 134 | 51 |
| Earnings before financial items and tax (EBIT) | 37 | 42 | -10 |
| Earnings before tax (EBT) | 31 | 35 | -15 |
| Return on average capital employed | 13.1 % | 14.6 % | -3.6 % |
| **Number of housing units** [1] | | | |
| Under construction | 152 | 49 | - |
| Sold during the year | 84 | 91 | 35 |
| Completed unsold units in inventory | 17 | 45 | 75 |
| Completed unsold units leased out | 8 | 24 | 43 |
| **Land and development rights** [1] | | | |
| Housing units | 639 | 436 | 644 |
| Industrial area m² | 22,000 | 22,000 | 22,000 |

1) AF's share of housing, sites and development rights.

AF Eiendom acquires sites that are developed for commercial or residential projects. The projects are geographically located where AF has its own contracting services. The majority of the property development projects are located in Oslo and in central Eastern Norway. AF Eiendom cooperates closely with other players in the industry, and the building projects are often organised as joint development companies.

### Results

Property delivered a profit before tax of NOK 31 million (35 million) in 2011. The turnover of NOK 69 million (134 million) is lower than in 2010. The reduction in turnover is attributed to the fact that AF carried out a greater share of its projects through associated companies. Return on average capital employed was 13.4 per cent (14.6 per cent). The rate of return is somewhat lower than the long-term goal for Property.

Property sold 84 (91) residential units in 2011. At the end of the year the number of residential units being built was 152 (49), three times the number compared with 2010. Development of six new housing projects/building phases started in 2011.

At the end of the year the number of completed unsold apartments was 17 (45). Of the 17 completed unsold residential units, 8 (24) were temporarily let as at 31 December 2011. The number of unsold apartments has been significantly reduced in 2010 and 2011.

Property has sites and development rights under development that represent a total of 639 (436) residential units and 22,200 $m^2$ (22,200 $m^2$) of commercial premises. Building delivered two projects in 2011, Grefsenkollveien 16 and Rolvsrud Park Q.
All the apartments were sold on delivery.

After 11 years the property project Rolvsrud Park in Lørenskog outside Oslo has been completed. The project started in 2000 and the last apartment was sold at the end of 2011. The project will be completed when the last construction phase is delivered in 2012. The project encompasses 550 apartments, serviced accommodation, nursing home, day care centre and infrastructure.

### Site acquisitions

In November AF Eiendom signed an agreement to buy shares in Bjørnsons Hage AS. The company owns a total of 6 residential properties in the centre of Lillestrøm. In the transaction the properties were valued at NOK 54 million and the development plans provide for up to 7,000 $m^2$ of housing. In November AF Eiendom also acquired a one-third interest in Rolfsbukta Utvikling KS, which has purchased the old headquarters of Fjellanger Widerøe at Fornebu. The property was purchased for NOK 84 million and the development plans provide for up to 5,500 $m^2$ of housing.

**Market outlook**
It is expected that the good housing sales will continue in 2012. The last forecast for permits for housing starts in Norway shows an increase of 30 per cent in 2011 and 11 per cent in 2012. There is good growth in the economy and interest rates are expected to remain at a low level. AF Eiendom is well positioned for growth in the residential segment.

**Environment**

| NOK million | 2011 | 2010 | 2009 |
|---|---|---|---|
| Revenues and other income | 777 | 767 | 743 |
| Earnings before financial items and tax (EBIT) | 79 | 107 | 46 |
| Earnings before tax (EBT) | 80 | 90 | 43 |
| Operating profit margin (EBIT %) | 10.2 % | 14.0 % | 6.2 % |
| Pre-tax margin (EBT %) | 10.4 % | 11.7 % | 5.8 % |
| Order backlog | 1,081 | 892 | 1,070 |

The Environment business area is established 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 North Sea market. At the Environmental Base at Vats AF Decom Offshore has the most modern reception facility for the environmental clean-up and recycling of petroleum installations.

The business area consists of two business units:

• AF Decom Offshore
• AF Decom

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

**Results**
Revenues for 2011 amounted to NOK 777 million (767 million) and earnings before tax amounted to NOK 81 million (90 million). The operating margin for 2011 was 10.2 per cent (14.0 per cent). The decrease in profit before tax is attributed to the fact that the sale of 60 per cent of Miljøbase Vats AS resulted in a profit of NOK 42 million in 2010. Good operations for both onshore and offshore demolition and environmental clean-up is the reason for the good results in 2011. Overall the operating margin is better than the long-term goal for Environment. At the end of the year the order book stood at NOK 1,081 million (892 million).

The onshore demolition activities in Norway reported high turnover and a very good profit for 2011. Systematic work through focusing on project management and strengthening the capacity of central management are now showing results. In Sweden the level of activity for land-based activities increased considerably over 2010, and these operations are also showing good results. Preparations for the demolition and dismantling of the wreck of the Russian cruiser, the “Murmansk”, has continued throughout 2011. The work to seal the damage that occurred during the storm in November 2010 appears to be taking longer than originally anticipated. The removal of the "Murmansk" is expected in the autumn of 2012.

AF Decom Offshore saw considerable activity in the Norwegian sector in 2011. In 2011 the Environmental Base at Vats received 23,900 tonnes (26,200 tonnes) of decommissioned offshore installations from the North Sea for demolition and recycling. The work to ensure an environmentally sound end to the installations' life cycle is well under way. Work to streamline the operations of the Environmental Base at Vats has contributed greatly to the good results in 2011. Continuous improvement in the demolition and recycling processes will ensure that the facility has an important competitive edge for AF Decom Offshore in the coming years.

AF has an environmental management system that ensures that all environmental aspects related to the activities at the Environmental Base at Vats are identified and controlled for the purpose of not impacting the local environment in a negative manner. AF renewed its discharge permits for the Environmental Base at Vats in 2011. It is the Climate and Pollution Agency (Klif) that is responsible for exercising authority and the follow-up of businesses that recycle decommissioned petroleum installations in Norway. On assignment from AF the Norwegian Institute for Water Research (NIVA) is conducting a monitoring programme to control the discharges. The measurements that were carried out in 2011 showed that the discharge level is significantly below the requirements from the authorities.

**New contracts**
In September AF Decom Offshore signed a contract with Statoil on behalf of Gassco for the "H7 Platform Removal Project". The contract encompasses the planning, removal and recycling of the entire installation. The value of this contract is NOK 420 million, excluding optional work. The contract also includes an option for the removal of B11, a similar platform. The contract is subject to approval by the holding company Gassled for the final execution of the removal project.

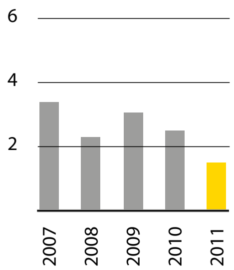
In September 2011 AF Decom Offshore signed a contract with DeepOcean to bring ashore and recycle a loading buoy at Statfjord C for Statoil. The contract encompasses planning, offshore preparation work and recycling on land. The Environmental Base at Vats will be used as the reception facility for this work. This contract is valued at NOK 49 million. The work began in September 2011 and will be completed in the autumn of 2012.

**Market outlook**
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 still expected to be high going forward.

The future market for AF’s offshore-related environment services is considered to be large and interesting. The level of activity for

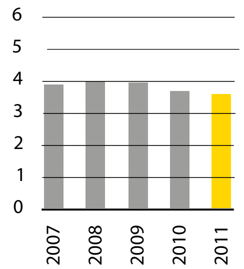
**Accident frequency rate**

Incidents per million hours worked

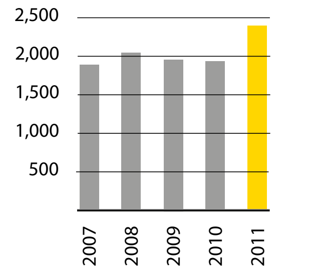



**Total sick leave**

Per cent




**Number of employees**




new demolition projects is increasing. Several FEED (Front End Engineering Design) studies have been initiated, and there is an increasing supply of projects.

### Energy

| NOK million | 2011 | 2010 | 2009 |
|---|---|---|---|
| Revenues and other income | 462 | 564 | 598 |
| Earnings before financial items and tax (EBIT) | 5 | -15 | 21 |
| Earnings before tax (EBT) | 1 | -21 | 16 |
| Operating profit margin (EBIT %) | 1.1 % | -2.6 % | 3.5 % |
| Pre-tax margin (EBT %) | 0.3 % | -3.7 % | 2.6 % |
| Order backlog | 434 | 299 | 463 |

The Energy business area comprises the AF Group's services related to energy for land-based activities, offshore installations and the maritime industry. The business area consists of three business units:
- AF Energi & Miljøteknikk AS
- Mollier AS
- Aeron AS

**Results**

Energy had a lower level of activity in 2011 with a turnover of NOK 462 million (564 million). This reduction is primarily due to the reduced turnover in AF Energi & Miljøteknikk and Aeron. Profit before tax was NOK 1 million (-21 million). Operating margin for 2011 was 1.1 per cent (-2.6 per cent). Overall the operating margin is lower than the long-term goal for Energy. At the end of the year the order book stood at NOK 434 million (299 million).

In 2010 AF Energi & Miljøteknikk 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. This has resulted in improved earnings in 2011, but a significantly lower level of activity. A stronger strategic focus is expected to give better results for the operations in the future.

Aeron is performing well, but the unit had a declining turnover and profits in 2011. Aeron supplies HVAC (Heating, Ventilation, Air-conditioning and Cooling) systems to the shipping industry and is exposed to the weak international newbuilding market for ships. In 2011 the company won several contracts in Asia, and exports comprise an increasing share of the turnover.

Mollier has had an increased level of activity and good profitability in 2011. The good results are a result of consistently good quality in all deliveries. Mollier has entered into several new contracts in both Norway and abroad in 2011.

**New contracts**

In February 2011 AF Energi & Miljøteknikk entered into an energy conservation contract with Avinor. AF Energi & Miljøteknikk will ensure profitable energy consumption at Avinor's airports. The goal is to reduce energy consumption by 20 per cent at Avinor's airports. Initially the agreement covers nine of Avinor's twelve airports. Energy production will also be assessed at the international and regional airports.

In December 2011 Mollier signed a joint venture agreement with the SMOE shipyard in Singapore for the delivery of HVAC systems to the accommodation platform 2/4 L on Ekofisk. The contract with SMOE encompasses the complete delivery and installation of refrigeration and freezing plants, and refrigeration and freezer rooms for provisions. Engineering has commenced and the physical deliveries will take place in 2012 and 2013. The contract and options are valued at NOK 30 million.

**Market 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 the energy efficiency of existing buildings. For 2012, an improved market is expected as a result of higher energy prices and a gradual increase in investments in energy conservation. In the long term, the market is expected to offer great growth potential.

## Information on the environment

**Personnel and organisation**

At the end of 2011, there were 2,396 (1,933) employees in the Group, 1,125 (971) of which were salaried and 1,171 (961) were paid by the hour. The recruitment and supply of new employees was satisfactory in 2011. The parent company, AF Gruppen ASA, had no employees at the end of 2011.

Of the Company's employees, 8.6 per cent (8.5 per cent) are women and 91.4 per cent (91.5 per cent) are men. Given the nature of the work and working conditions, the contractor industry has traditionally been dominated by men. For the recruitment of newly qualified engineers and economists, there is a more even balance between women and men than the distribution in the Group as a whole. The percentage of women among salaried staff was 16.2 per cent (15.4 per cent) at the end of 2011.

In the autumn of 2011 AF conducted an employee satisfaction survey (ESS) to measure the satisfaction of its employees. Around 80 per cent of the employees answered the survey. On a scale from 1 to 6 (where 6 is the best) our employees gave an average score of 5 when describing their satisfaction with the company. This is significantly higher than the industry average, and an improvement from a similar survey in 2009. ESS is an important tool for the Group to identify areas and measures for improving the working environment.

AF focuses a great deal on developing its own managers. In 2011 over 1,100 employees participated in courses at the AF Academy. In addition, employees can apply to participate in courses and further education at renowned educational institutions such as INSEAD, the Norwegian School of Economics (NHH) and the Norwegian Business School (BI).

In 2011 the Group Council, which is made up of employee representatives, senior safety representatives and management representatives, continued work on improving cooperation between all parts of the organisation. The AF Group seeks to be a workplace where there is no discrimination on grounds of ethnicity, gender, belief 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. 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 common facilities in the new main office are designed so that they can be used by all the 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 LTI rate for all operations in 2011 was 1.5 (1.7). Our LTI rate is among the lowest in the industry. In 2011 there was a total of 10 (8) lost time injuries, 9 (5) of which were with subcontractors. Lost time injuries included seven fractures or broken bones, one amputation of a finger, two torn tendons/ligaments. AF's operations in Sweden and Poland had no lost time injuries.

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 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 measured primarily through the 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 it includes our own employees and subcontractors. The overall goal is to avoid all lost time injuries (LTI rate = 0).

Sickness absence for the entire Group was 3.6 per cent (3.7 per cent). Sickness absence in the Norwegian operations was 3.4 per cent (3.7 per cent) in 2011. AF's operations in Sweden had a sickness absence rate of 4.6 per cent (3.3 per cent), and in Poland the sickness absence rate was 0.9 per cent (3.0 per cent). For sickness absence, the Company's target is to avoid work-related illnesses. The goal is a sickness absence rate under 3.0 per cent. This goal represents a normal sickness rate, without work-related illnesses. AF has great ambitions to eliminate work-related illnesses. To achieve this, AF is surveying which work-related illnesses affect the sickness absence rate. 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 the business units. AF has a well-functioning internal corporate health service, and the Group's working environment can be described as good.

The Group uses control systems that satisfy the requirements in 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 may 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 Group carries out its activities in such a way that the impact on resources and the environment is reduced 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 environment. The goal is to prevent, avert and reduce any undesirable impact 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 2011, 17 (18) incidents with an undesirable impact on the external environment were reported. Most of the events concerned minor oil and diesel spills from machinery, as well as flying gravel when blasting and the discharge of fallow water to the sea. AF systematically investigates all undesired incidents and is facilitating methods and control routines to prevent any recurrence and damage to the external environment.

To enhance environmental awareness and measure the impact of our operations on the external environment, two new measurement parameters were introduced in 2010. Carbon footprint and source separation rate. 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 motivate environmentally friendly resource consumption. The Group's carbon footprint for 2011 was measured at 34,344 tonnes (22,730 tonnes) of $CO_2$ equivalents. This is equivalent to 4.7 tonnes (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 was 78 per cent (80 per cent) for building, 75 per cent (78 per cent) for renovation and 97 per cent (95 per cent) for demolition in 2011. The authorities' required source separation rate for building and civil engineering is 60 per cent. In 2011, 246,223 tonnes of waste were sorted, and 463,586 tonnes of asphalt and concrete were recycled.

Measuring and monitoring our carbon footprint and source separation rate targets will help illustrate AF's environmental profile. The AF Group's business involvement in the demolition, recycling and development of environmentally friendly energy solutions also has a positive impact on the external environment.

## Risk management and financial risk

The AF Group is exposed to various types of risks of a market-related, operational and financial nature. 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 judgement and made assumptions based on uniform principles and guidelines. These assumptions are considered realistic.

Situations or changes in market conditions may arise during a project period in many cases, 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 risk analysis and the management of risk. Risk analysis is carried out continuously from 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, there is a focus on exploiting positive opportunities identified through the risk analysis of the projects.

Through its activities, the AF Group is exposed to various types of financial risk. Financial risk is divided into market risk, credit risk and liquidity risk. The AF Group's reporting currency is NOK. The Group has 91 per cent (90 per cent) of its revenues and expenses in NOK, 9 per cent (9 per cent) in SEK and 0 per cent (1 per cent) 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 operations in the UK, the AF Group is also exposed to fluctuations in the GBP, EUR and USD exchange rates. 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 accomplished by standard clauses for price and pay adjustments in the contracts and hedging purchase prices in the 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 million) credit facility and loan limit with Handelsbanken, which expires in June 2012. As at 31 December this facility was unutilised. A new credit limit is under negotiation, and it is expected that a new agreement will be entered into by the end of May 2012. In addition, AF had net interest-bearing receivables of NOK 450 million (580 million) at the turn of the year. The Group's liquidity is monitored through the follow-up of the cash flows in the projects. Discrepancies between the expected and actual cash flows are reviewed monthly in conjunction with a risk review of the projects. In addition, daily liquidity is monitored through the Group's central treasury function.

## Option programmes and sale of shares to employees

In 2011 AF Gruppen ASA purchased treasury shares for potential use as consideration for the acquisition of companies and sales to employees. AF Gruppen ASA purchased 64,285 (692,055) shares during the year. In 2011, 449,700 (492,100) shares were sold to employees. At the end of the year, AF Gruppen ASA held 64,585 (450,000) treasury shares.

The option programme for employees, which was adopted in 2008 was terminated in February 2011. In this connection 5,163,750 new shares were issued to employees in a private offering. An option programme for all employees of AF Gruppen ASA and subsidiaries was adopted at the Annual General Meeting held on 13 May 2011, and it entails entitlement to subscribing for a total of 6,000,000 options during the years 2011, 2012 and 2013, with redemption in 2014. In 2011 a total of 2,092,763 options were allotted in the new programme.

The AF Group would like all employees to participate in joint value creation by becoming a shareholder in the Company. In addition, the share programme should contribute to making the AF Group an attractive workplace for its employees and attract new employees. AF has, therefore, a share programme for employees, whereby the employees are given an opportunity to buy shares at a discount of 20 per cent on the current market price. In 2011, 326 employees subscribed for a total of 800,000 shares. The purchase price after a 20 per cent discount was NOK 36.00. In connection with the sale of the shares, the Board exercised its authority and issued 513,000 shares.

## Market outlook

The results of AF Gruppen ASA and the AF Group for 2011 were in accordance with the Board's expectations. The positive trend is expected to continue in 2012. At the end of the year, the Group had a solid order backlog of NOK 9,826 million (6,193 million) and the earnings on new and ongoing projects are considered good. The AF Group operates in an industry where there is normally uncertainty related to the assessment of future conditions.

Civil Engineering market is good. The Civil Engineering market is driven primarily by major public infrastructure projects. The investment level for Civil Engineering is expected to grow by 12 per cent in 2012

# The Board of Directors **Oslo, 29, March 2012**

Chairman
**Tore Thorstensen**

**Eli Arnstad**

**Mari Broman**

**Carl Henrik Eriksen**

and 5 per cent in 2013. AF Anlegg is well positioned for future growth.

The market for the Property and Building business areas is good in Norway, but somewhat weaker in Sweden. Statistics Norway expects GDP growth of 2.5 per cent in 2012 for mainland Norway and that the interest rate level will remain low. The last forecast for housing start permits in Norway shows an increase of 11 per cent in 2012. This will have a positive impact on the Property and Building business areas. The market for maintenance and renovation was lifted by the Government's stimulus package, and the market is expected to remain stable at a high level going forward. In Sweden the market is somewhat uncertain. Moderate growth in the Swedish economy is expected for 2012.

The market for land-based demolition services is good. Environment's land-based demolition operations take place prior to new building and civil engineering projects and are closely associated with the demand for new homes, non-residential buildings and industrial projects. 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.

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 the energy efficiency of existing buildings. An improved market is expected in 2012 as a result of higher energy prices and a gradual increase in investments in energy conservation. The market in the maritime sector is marked by a weak international newbuilding market for ships. The demand for AF's offshore energy services follows the increase in oil prices and the increased level of petroleum activities on the Norwegian Continental Shelf.

The high order backlog, combined with a good market and the acquisitions of the Strøm Gundersen Group and Rogaland Entreprenør form the foundation for strong turnover growth in 2012. By guiding the organisation towards challenging tasks and goals, the AF Group will continue to create value growth for its owners, employees, customers, suppliers and society at large. The AF Group has a high level of expertise and a solid corporate culture based on professionalism and high ethical standards. This, combined with the Company's strong financial position, entails that AF is well-equipped to take advantage of the opportunities that the market will provide in 2012.

The Board would like to thank the employees for their significant contribution to the good results in 2011. The Board believes that 2012 will also bring higher revenues and good earnings.

**Peter Groth**

**Tor Olsen**

**Henrik Nilsson**

**Arne Sveen**

# Annual accounts AF Group

# Consolidated statement of comprehensive income

| | | 1 January to 31 December | | |
|---|---|---|---|---|
| Amounts in NOK million | **Note** | **2011** | **2010** | **2009** |
| Operating revenue | 4,5 | 7,268 | 5,751 | 5,314 |
| Other revenue | 4,5 | 88 | 77 | 87 |
| **Total operating and other revenue** | 4,5 | **7,356** | **5,828** | **5,401** |
| | | | | |
| Cost of materials | | -1,429 | -817 | -884 |
| Subcontractors | | -3,208 | -2,428 | -2,100 |
| Payroll costs | 6 | -1,493 | -1,511 | -1,412 |
| Depreciation and impairment of property, plant and equipment | 13 | -76 | -87 | -75 |
| Amortisation and impairment of intangible assets | 14 | -8 | -10 | -8 |
| Other operating expenses | 7 | -830 | -671 | -604 |
| Net gains (losses) | 8 | 63 | 62 | 17 |
| Profit/(loss) from investments in associates | 17 | 17 | -1 | - |
| **Total operating expenses** | | **-6,966** | **-5,462** | **-5,067** |
| | | | | |
| **Earnings before interest and taxes (EBIT)** | | **389** | **366** | **335** |
| | | | | |
| Net financial items | 9 | 15 | 6 | 32 |
| **Earnings before taxes (EBT)** | | **404** | **372** | **366** |
| | | | | |
| Tax expense | 10 | -101 | -95 | -96 |
| **Profit for the year** | | **303** | **277** | **270** |
| | | | | |
| Attributable to: | | | | |
| Shareholders in the Parent Company | | 294 | 277 | 269 |
| Non-controlling interests | | 9 | - | 1 |
| **Total** | | **303** | **277** | **270** |
| | | | | |
| Earnings per share (amounts in whole NOK) | 12 | 3.85 | 3.92 | 3.85 |
| Diluted earnings per share (amounts in whole NOK) | 12 | 3.85 | 3.82 | 3.85 |
| | | | | |
| **Statement of comprehensive income** | | | | |
| Amounts in NOK million | | | | |
| Profit for the year | | 303 | 277 | 270 |
| | | | | |
| Translation differences | | - | 10 | -19 |
| **Total other comprehensive income** | | **-** | **10** | **-19** |
| | | | | |
| **Total comprehensive income for the year** | | **303** | **287** | **251** |
| | | | | |
| Attributable to: | | | | |
| – Shareholders in the Parent Company | | 294 | 287 | 251 |
| – Non-controlling interests | | 9 | - | 1 |
| **Total comprehensive income for the year** | | **303** | **287** | **251** |

# Consolidated statement of financial position as at 31 December

| Amounts in NOK million | Note | 2011 | 2010 | 2009 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Non-current assets** | | | | |
| Buildings and production facilities | 13,35 | 57 | 46 | 562 |
| Machinery and equipment | 13,35 | 303 | 262 | 186 |
| Intangible assets | 14 | 1,300 | 467 | 458 |
| Investments in associates | 17 | 146 | 126 | 27 |
| Deferred tax assets | 11 | 47 | 39 | - |
| Retirement benefit plan assets | 25 | 18 | 15 | 14 |
| Other financial assets | 30 | 1 | 1 | 1 |
| Interest-bearing receivables | 30,31 | 19 | 23 | 44 |
| Other receivables | 30 | - | 1 | 1 |
| **Total non-current assets** | | **1,890** | **979** | **1,294** |
| | | | | |
| **Current assets** | | | | |
| Inventories | 18 | 118 | 93 | 76 |
| Projects for own account | 19,35 | 239 | 207 | 257 |
| Trade and other non-interest-bearing receivables | 21,30,35 | 1,781 | 1,103 | 1,187 |
| Interest-bearing receivables | 30,31 | 103 | 6 | 12 |
| Other financial assets | 30 | 2 | 3 | 10 |
| Cash and cash equivalents | 22,30,31 | 458 | 622 | 223 |
| **Total current assets** | | **2,701** | **2,034** | **1,765** |
| | | | | |
| **Total assets** | | **4,591** | **3,013** | **3,059** |

# Consolidated statement of financial position as at 31 December

| Amounts in NOK million | Note | 2011 | 2010 | 2009 |
|---|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | | |
| **Equity** | | | | |
| Share capital | 23 | 4 | 4 | 4 |
| Other equity | 23,24 | 1,262 | 963 | 911 |
| **Total equity attributable to the Company's shareholders** | | **1,266** | **967** | **915** |
| | | | | |
| Non-controlling interests | | 65 | 1 | - |
| **Total equity** | | **1,331** | **968** | **915** |
| | | | | |
| **Non-current liabilities** | | | | |
| Interest-bearing loans and credit facilities | 26 | 90 | 49 | 22 |
| Retirement benefit liabilities | 25 | 2 | 1 | 1 |
| Provisions | 28 | 48 | 11 | - |
| Deferred tax | 11 | 423 | 302 | 276 |
| **Total non-current liabilities** | | **563** | **363** | **299** |
| | | | | |
| **Current liabilities** | | | | |
| Interest-bearing loans and credit facilities | 26 | 39 | 23 | 73 |
| Trade payables and non-interest-bearing debt | 29,30 | 2,551 | 1,488 | 1,715 |
| Other financial liabilities | 30 | - | 7 | - |
| Provisions | 28 | 75 | 95 | 53 |
| Current tax payable | 10 | 32 | 69 | 5 |
| **Total current liabilities** | | **2,697** | **1,682** | **1,845** |
| | | | | |
| **Total liabilities** | | **3,260** | **2,045** | **2,144** |
| | | | | |
| **Total equity and liabilities** | | **4,591** | **3,013** | **3,059** |

Oslo, 29 March 2012

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-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|---|---|
| **2009** | **Note** | **Share capital** | **Treasury shares 1)** | **Share premium account** | **Other paid-in capital** | **Translation differences** | **Retained earnings** | **Total** | | |
| 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 |
| Reclassification of gains on sale of treasury shares | | - | - | - | - | - | - | - | - | - |
| Dividend paid in 2009 | | - | - | - | - | - | -99 | -99 | - | -99 |
| Share value-based remuneration | | - | - | - | 4 | - | - | 4 | - | 4 |
| Transactions with non-controlling interests | | - | - | - | - | - | -37 | -37 | 37 | - |
| **Equity as at 1 January 2010** | | **4** | **-** | **28** | **16** | **-21** | **888** | **915** | **-** | **915** |
| **2010** | | | | | | | | | | |
| Equity as at 1 January 2010 | | 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 sale of treasury shares | | - | - | - | -6 | - | 6 | - | - | - |
| Dividend paid in 2010 | | - | - | - | - | - | -256 | -256 | - | -256 |
| Share value-based remuneration | 6 | - | - | - | 12 | - | - | 12 | - | 12 |
| Transactions with non-controlling interests | | - | - | - | - | - | - | - | - | - |
| **Equity as at 31 December 2010** | | **4** | **-** | **47** | **21** | **-11** | **907** | **967** | **1** | **968** |
| **2011** | | | | | | | | | | |
| Equity as at 1 January 2011 | | 4 | - | 47 | 21 | -11 | 907 | 967 | 1 | 968 |
| Profit for the year | | - | - | - | - | - | 294 | 294 | 9 | 303 |
| Comprehensive income for the year | | - | - | - | - | - | - | - | - | - |
| **Total comprehensive income for the year** | | **-** | **-** | **-** | **-** | **-** | **294** | **294** | **9** | **303** |
| Capital increase | | - | - | 336 | - | - | - | 336 | | 336 |
| Reduction of share premium reserve | | - | - | -383 | 383 | - | - | - | - | - |
| Purchase of treasury shares | 24 | - | - | - | - | - | -3 | -3 | - | -3 |
| Sale of treasury shares | 24 | - | - | - | - | - | 16 | 16 | - | 16 |
| Dividend paid in 2011 | | - | - | - | - | - | -346 | -346 | -5 | -350 |
| Addition of non-controlling interests from acquisition of business | | | | | | | | | 60 | 60 |
| **Equity as at 31 December 2011** | | **4** | **-** | **-** | **405** | **-11** | **868** | **1,266** | **65** | **1,331** |

1) As at 31 December 2011 the AF Group has share capital related to treasury shares in the amount of TNOK -4.

# Consolidated statement of cash flows

| Amounts in NOK million | Note | 2011 | 2010 | 2009 |
|---|---|---|---|---|
| **Cash flow from operating activities** | | | | |
| Profit before tax | | 404 | 372 | 366 |
| Depreciation, amortisation and impairment losses | 13,14 | 85 | 97 | 83 |
| Difference in retirement benefits carried as expense/paid | | -3 | -1 | -6 |
| Accounting cost of share value-based remuneration | 6 | - | 12 | 4 |
| (Gains)/losses on the sale of property, plant and equipment | | -28 | -10 | -6 |
| Net financial expenses/(income) | 9 | -15 | -6 | -32 |
| Recognised dividends | | -3 | | |
| (Gains)/losses on available-for-sale financial assets | 8 | - | - | -1 |
| (Gains)/losses on sale of joint ventures and associates | 8 | - | - | -7 |
| (Gains)/losses on the sale of subsidiaries | 8 | -25 | -59 | - |
| Fair value change in financial derivatives | | -8 | 4 | -4 |
| Net foreign exchange gains/(losses) related to operations | 8 | -1 | -3 | - |
| Profit attributable to associates | 17 | -17 | 1 | - |
| | | | | |
| Change in operating capital (excl. effects of acquisitions and currency translation differences) | | | | |
| Change in inventories and projects for own account | 16,17 | -59 | 35 | 144 |
| Change in non-interest-bearing receivables | | -381 | 172 | 416 |
| Change in trade payables and non-interest-bearing debt | | 741 | -318 | -15 |
| | | | | |
| Income tax paid | | -72 | -36 | -2 |
| **Net cash flow from operating activities** | | **618** | **260** | **941** |
| | | | | |
| **Cash flow from investment activities** | | | | |
| Acquisition of business | 4 | -437 | -11 | -8 |
| Investments in associates | | -13 | -26 | - |
| Investments in available-for-sale shares | | - | -1 | - |
| Purchase of intangible assets | 14 | -2 | -1 | -2 |
| Purchase of property, plant and equipment | 13 | -138 | -106 | -394 |
| Proceeds from sale of property, plant and equipment | | 121 | 25 | 24 |
| Proceeds from the sale of joint ventures | 4 | - | - | 10 |
| Proceeds from the sale of business | 4 | 2 | 119 | - |
| Proceeds from derivatives | | 1 | - | - |
| Dividends and capital from associates | | 15 | - | - |
| Proceeds from the sale of shares in other enterprises | | - | - | 6 |
| **Net cash flow from investment activities** | | **-453** | **-1** | **-364** |
| | | | | |
| **Net cash flow before financing activities** | | **165** | **259** | **578** |
| | | | | |
| **Cash flow from financing activities** | | | | |
| Issuance of shares | | 148 | 19 | 17 |
| Non-controlling interests and other equity transactions | | - | - | -6 |
| Dividends paid to Company's shareholders | | -346 | -255 | -99 |
| Payments due to change in interest-bearing receivables | | -92 | - | -31 |
| Proceeds due to change in interest-bearing receivables | | | 3 | - |
| Proceeds from new interest-bearing debt | | - | 400 | - |
| Repayment of interest-bearing debt | | -202 | -19 | -363 |
| Proceeds from the sale of treasury shares | 24 | 16 | 17 | 7 |
| Purchase of treasury shares | 24 | -3 | -26 | -7 |
| Interest and other financial expenses paid | 9 | -1 | -5 | -19 |
| Interest and other financial income received | 9 | 19 | 9 | 17 |
| **Net cash flow from financing activities** | | **-461** | **142** | **-484** |
| | | | | |
| **Net change in cash and cash equivalents during the year** | | **-297** | **401** | **93** |
| | | | | |
| Cash and cash equivalents as at 1 January | | 623 | 223 | 130 |
| Cash and cash equivalents received from business transfers | 4 | 132 | 2 | - |
| Disposal of cash and cash equivalents from the sale of business | | - | -3 | - |
| Effect of exchange rate fluctuations on cash and cash equivalents | | - | - | - |
| **Cash and cash equivalents as at 31 December** | 22 | **458** | **622** | **223** |

# Notes to the accounts AF Group

# 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 29 March 2012.

**1.1 Basis of preparation**

1.1.1 Introduction

The consolidated financial statements of the AF Group for the 2011 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 2011.

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

• Financial instruments at fair value through profit or loss, financial instruments available for sale that are recognised at fair value, loans and receivables and other financial liabilities that are measured at amortised cost.

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.

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

1.1.2 Recently published accounting standards and interpretations

(a) New and amended standards implemented by the Group

In 2011 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 described impact on the consolidated accounts or the presentation of the consolidated financial statements of the AF Group.

The following new standards and amended accounting standards were implemented for the first time in 2011:

**• IAS 24 (revised)** Related Party Disclosures. The IASB has prepared a definition of related parties. The amendment has not had any impact on the AF Group's financial standing or results.

**• IFRS 7** – Financial Instruments – Disclosures.
It is no longer a requirement to specify the maximum credit exposure in the notes for instruments where the amount recognised on the balance sheet represents the maximum credit exposure. Thus it is only the exposures where the recognised amount does not represent the maximum credit exposure that are required to be specified in the notes.

The requirement to disclose the carrying amount for financial assets for which the terms have been renegotiated, which would have otherwise been past due or in default, or would have been subject to an impairment loss, if such renegotiation had not taken place has been eliminated now.

A clarification has been issued with respect to disclosures on collateral held as security by the company and similar risk-reducing schemes. It is the financial effect of the collateral held and other risk-reducing schemes in relation to the maximum credit exposure that is to be disclosed (a shortfall in one scheme cannot be offset against a surplus in another scheme and presented on a net basis).

The requirement to disclose collateral held as security that the company has taken possession of has changed so that disclosures shall only be provided now for collateral held as security that the company has taken possession and still owns at the date of the balance sheet.

The requirement to disclose collateral held as security by the company and other credit enhancements for financial instruments that are past due, but not written down, and for instruments that are written down on an individual basis has been eliminated. The same applies to the requirement to provide an estimate of the fair value of the security provided by these instruments.

These amendments have an effect on the scope of the note information, but do not otherwise have any impact on the AF Group's financial standing or results.

**• IAS 1** – Presentation of Financial Statements.
A clarification has been issued that an analysis of other income and costs (OCI) shall be presented for each component of the equity, either in the statement of comprehensive income or in notes to the financial statements.

(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:

**• IAS 27** – Consolidated and Separate Financial Statements.

A clarification has been issued that the amendments in IAS 21, IAS 28, and IAS 31 as a result of the amendments in IAS 27 shall be applied prospectively for accounting periods that start on or after 1 July 2009, or earlier if IAS 27 is adopted earlier.

**• IFRS 3** – Business Combinations.
A clarification has been issued that the changes in IFRS 7, IAS 32 and IAS 39 that eliminate the exception for contingent consideration do not apply to contingent consideration in connection with business combinations when the acquisition date is earlier than the implementation of the revised version of IFRS 3 (2008).

In addition, a limitation of the scope of measurement alternatives for components of non-controlling ownership interests has been introduced. The alternative options apply only to the components of the non-controlling ownership interests that refer to the existing ownership interests. Other components of the non-controlling ownership interest shall be measured at fair value on the acquisition date.

Amendments have also been made to IFRS3 in order to clarify the rules for the accounting of share-based payment schemes in the acquired company that ceases to exist as a result of the acquisition, which the acquiring company voluntarily replaces with a new scheme. Such schemes shall be accounted for in their entirety as pay compensation for the period after the acquisition.

(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.

The Group has not chosen early implementation of any new or amended IFRSs or IFRIC interpretations.

d) The IASB has adopted revisions to a number of standards through the annual improvement project.

Adopted IFRS standards and IFRIC interpretations that will enter into force at a future date

**• Revision of IFRS 7 Financial Instruments - Disclosures**

The amendment concerns note requirements in connection with the transfer of financial assets that the company is still involved in, which aims to give the users a better picture of the exposure of the entity transferring the financial assets. These amendments enter into force for the financial year starting on or after 1 January 2012. The Group plans to adopt the amended standard from 1 January 2012. These amendments are expected to have an effect on the scope of the note information, but do not otherwise have any impact on the AF Group's financial standing or results.

**• IFRS 9 Financial Instruments**
IFRS 9 will replace the current IAS 39. The project has been divided into several phases. The first phase, which is related to the classification and measurement rules, has been completed by the IASB. In this first phase it emerges from IFRS 9 that financial assets

cont. note 1

that include ordinary loan terms are to be recognised at amortised cost, unless it has been decided to recognise them at fair value, while other financial assets are to be recognised at fair value. The classification and measurement rules for financial obligations in IAS 39 have been carried over, with the exception of financial obligations that are measured at fair value with any change in value through profit or loss (fair value option), where the change in value associated with the entity's own credit risk is isolated and recognised under other income and expenses. IFRS 9 enters into force for the financial year that starts on or after 1 January 2013, but the EU has not approved the standard. Early implementation is permitted if the EU approves the standard. The Group plans to adopt the IFRS 9 from 1 January 2015. The amendments are not expected to have any impact on the AF Group's financial standing or results.

**• IFRS 10 Consolidated Financial Statements**
IFRS 10 replaces the portions of IAS 27 Consolidated and Separate Financial Statements that concern the consolidated financial statements and SIC-12 Consolidation – Special Purpose Entities. IFRS 10 is based on a simple control model that is to be used for all units. The content of the control concept has amended somewhat from IAS 27. The existence of control is decisive for whether companies shall be consolidated in accordance with IFRS 10. Control exists when the investor has power over the investment object; is exposed to or entitled to a variable return from the investment object; and the ability to use power to control the activities in the investment object that significantly affect the return. IFRS 10 enters into force for the financial year that starts on or after 1 January 2013, but the EU has not approved the standard. Early implementation is permitted if the EU approves the standard. The Group plans to adopt the IFRS 10 from 1 January 2013. The amendments are not expected to have any impact on the AF Group's financial standing or results.

**IFRS 11 Joint Arrangements**
This standard replaces IAS 31 Interests in Joint Ventures, as well as SIC-13 Jointly Controlled Entities – Non-Monetary Contributions by Venturers. IFRS 11 applies to joint arrangements and provides guidelines on accounting for various types of joint arrangements – joint operations and joint ventures. It follows from IFRS 11 that joint ventures shall be accounted for by means of the equity method. For jointly controlled operations the parties shall recognise their share of the assets and liabilities in which they have a joint interest. Assets and liabilities that a party owns alone shall be recognised in their entirety. The profit or loss from jointly controlled operations shall be recognised by the parties proportionate to their share of the operations. IFRS 11 enters into force for the financial year that starts on or after 1 January 2013, but the EU has not approved the standard. Early implementation is permitted if the EU approves the standard. The Group plans to adopt the IFRS 11 from 1 January 2013. The amendments are not expected to have any significant impact on the AF Group's financial standing or results.

**• IFRS 12 Disclosure of Interests in Other Entities**
IFRS 12 applies to entities that have interests in subsidiaries, joint ventures, associated or non-consolidated structured units. IFRS 12 replaces the disclosure requirements that followed earlier from IAS 27 Consolidated and Separate Financial Statements, IAS 28 Investments in Associates and IAS 31 Interests in Joint Ventures. In addition, a number of new disclosure requirements have been introduced. IFRS 12 enters into force for the financial year that starts on or after 1 January 2013, but the EU has not approved the standard. Early implementation is permitted if the EU approves the standard. The Group plans to adopt the IFRS 12 from 1 January 2013. These amendments are expected to have an effect on the scope of the note information, but not otherwise have an effect on the AF Group's financial standing or results.

**• IFRS 13 Fair Value Measurement**
This standard defines the principles and provides guidelines for the measurement of the fair value of assets and liabilities that other standards require or allow to be measured at fair value. IFRS 13 enters into force for the financial year that starts on or after 1 January 2013, but the EU has not approved the standard. Early implementation is permitted if the EU approves the standard. The Group plans to adopt the IFRS 13 from 1 January 2013. The amendments are not expected to have any impact on the AF Group's financial standing or results.

**• Amendments to IAS 1 Presentation of Financial Statements**
The amendment to IAS 1 was a requirement to group income and expenses in the statement of other comprehensive income based on their potential to be reclassified to the income statement or not. The amendments enter into force for the financial year that starts on or after 1 July 2012, but the EU has not approved the amendments. Early implementation is permitted if the EU approves the amendments. The Group plans to adopt the amended standard from 1 January 2013. The amendments are not expected to have any impact on the presentation of the AF Group's financial standing or results.

**• Amendments to IAS 19 Employee benefits**
After the amendments in 2011, IAS 19 does not permit the "corridor method" used to account for actuarial gains or losses. Actuarial gains or losses are to be accounted for now in their entirety in the statement of other comprehensive income during the period they arise. This amendment also entails that the retirement benefit costs will be divided between the profit or loss on ordinary activities and other comprehensive income. The expected return on plan assets shall be calculated by means of the discount rate that is calculated for the gross pension obligation. The pension benefits earned during the period and the interest expenses are presented under the profit or loss on ordinary activities, while remeasurements such as actuarial gains or losses are presented under other comprehensive income in the comprehensive income. In addition, the disclosure requirements related to the benefit-based pension agreements have been amended. The amendments enter into force for the financial year that starts on or after 1 January 2013, but the EU has not approved the amendments. Early implementation is permitted if the EU approves the amendments. The Group plans to adopt the amended standard from 1 January 2013. The amendments are not expected to have any significant impact on the AF Group's financial standing or results.

**Amendments to IAS 27 (Revised) Separate Financial Statements**
As a result of the introduction of IFRS 10, IFRS 11 and IFRS 12 amendments were made to IAS 27 to coordinate the standard with the new accounting standards. IFRS 10 Consolidated Financial Statements replaced the parts of IAS 27 that refer to consolidated financial statements. IAS 27 only deals with individual company accounts now and will therefore not be relevant to consolidated financial statements after entry into force. The amendments enter into force for the financial year that starts on or after 1 January 2013, but the EU has not approved the amendments. Early implementation is permitted if the EU approves the amendments. The Group plans to adopt the amended standard from 1 January 2013. The amendments are not expected to have any impact on the AF Group's financial standing or results.

**• Amendments to IAS 28 (Revised) Investments in Associates and Joint Ventures**
The scope of IAS 28 has been expanded to include investments in joint ventures. The standard describes the principles for the accounting of investments in associates and joint ventures, and it specifies how the equity method is to be used. The amendments enter into force for the financial year that starts on or after 1 January 2013, but the EU has not approved the amendments. Early implementation is permitted if the EU approves the amendments. The Group plans to adopt the amended standard from 1 January 2013. The amendments are not expected to have any significant impact on the AF Group's financial standing or results.

**1.2 Principles of consolidation**

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 the company. 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

Business combinations are accounted for in accordance with the purchase method of accounting. The consideration provided is measured at the fair value of the assets transferred, liabilities assumed and equity instruments issued. If components of the consideration are contingent, the fair value of these is also included on the acquisition date. Expenses related to business combinations are recognised in the income statement as they are incurred. Assets and liabilities are recognised on the balance sheet at fair value on the acquisition date. If the sum of the consideration exceeds the fair value of the identified net assets in the acquired company on the acquisition date, the difference will be recognised on the balance sheet as goodwill. If the sum is lower than the company's net assets, the difference will be recognised immediately in the income statement.

The recognition of any non-controlling ownership interests will be measured based on the net value of identifiable assets and liabilities in the acquiring company or the fair value (i.e. including a goodwill component).

Provision is made for deferred tax on the difference between fair value and book value for all assets and liabilities, with the exception of goodwill, as well as assets in transactions that are not business combinations. When a property company is acquired, a concrete assessment is made to establish whether the acquisition concerns the business itself or assets (e.g. land). For the purchase 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 on the acquisition date and the carrying amount, adjusted for the cumulative amount recognised in consolidated equity through the Group's presentation of other comprehensive income in earlier periods.

1.2.1.d) Loss of control

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

Gains or 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 in relation to 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 proportionate 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 on the balance sheet based on the non-controlling owners' share of the net identifiable assets and liabilities or fair value, i.e. including a goodwill component. Non-controlling interests are recognised in the Group's equity. The recognition of non-controlling interests is considered for each acquisition.

The Group treats transactions with non-controlling interests in subsidiaries as equity transactions. For purchases from non-controlling interests, the difference between any consideration paid and the shares' proportionate share of the carrying amount of the net assets in the subsidiary is recorded in the equity of the parent company's owners. 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.

Losses in a consolidated subsidiary that can be attributed to non-controlling interests may exceed the non-controlling owners' 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 income statement, 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.

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 the acquisition cost at the time of purchase and subsequently by the equity method. The carrying amounts include any excess value and goodwill identified on the acquisition date, less subsequent depreciation, amortisation and impairment losses.

The Group's share of the profit or loss in associates is recognised in the income statement and added to the carrying amount of the investments. This applies from the date significant influence is achieved until such influence ceases. When the Group's share of losses exceeds the investment in an associate, the Group's book value is reduced to zero and further losses are not recognised unless the Group is obligated to cover the loss.

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, who is responsible for the allocation of resources to and the assessment of earnings in the operating segments, is defined as the corporate management.

**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 the recognition of income and valuations linked to long-term manufacturing projects, valuation of goodwill and valuations related to acquisitions, as well as retirement benefit obligations. Future events may entail changes to the 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 advance invoicing are presented on the balance sheet as current assets and current liabilities. For all civil engineering contracts, where amounts invoiced on account exceed contract revenue less contract losses, the surplus is recognised on the balance sheet as 'trade payables and non-interest-bearing liabilities'. Prepayments are deducted from invoiced revenue over the term of the project in line with the progress. Projects for own account and land for development are recognised as current assets.

cont. note 1

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 and presentation currencies

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 payables and other balance sheet items related to operations, are presented under net gains and losses in the income statement and specified otherwise in the notes.

Foreign exchange gains or losses related to loans, cash and cash equivalents are presented under net financial items in the income statement and specified otherwise in the notes.

The foreign exchange effect on non-monetary items (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.

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

Goodwill and excess value from the acquisition of a foreign unit will be treated as assets and liabilities in the acquired unit and translated at the rate prevailing on the balance sheet date.

**1.7 Principles of revenue recognition**

1.7.1 Revenue in general

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

1.7.2 Project revenue

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

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 based on the management's best estimate. The extent and complexity of the assessments mean that the actual contribution margins at the end of projects may deviate from the assessments made at year end.

Customers are 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 may occur, but these arrangements do not affect the accrual of revenue and expenses.

1.7.4 Projects for own account

Some production is carried out for the Group's own account, and these 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 in accordance with 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 Sale of plant and equipment
Gains/losses from sales of plant and equipment are recognised in the income statement once delivery has taken place and most of the risk and 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 under other comprehensive income or directly through equity. If this is the case, then the tax is also recognised under other comprehensive income or directly through equity.

The current tax payable for the period is calculated in accordance with the tax laws and regulations that have, or have essentially, been adopted by the tax authorities on the balance sheet date. It is the legislation in the countries where the Group's subsidiaries or associates operate 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 on the balance sheet.

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

Deferred tax assets are recognised on the balance sheet if it is probable that future taxable income will be generated so that the tax-reducing temporary differences can be utilised.

Deferred tax 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 on the balance sheet. The residual value recognised on the balance sheet relating to replaced parts is recognised in the income statement.

Every significant component of property, plant and equipment is depreciated over its estimated useful life. Production-related machinery is mainly depreciated using the reducing balance method, while other property, plant and equipment are depreciated on a straight-line basis.

Plants and equipment that are leased are depreciated over the term of the lease or useful life, whichever is shorter, unless it is reasonably certain that the Group will acquire the asset when the lease expires.

The depreciation period and deprecation method are evaluated annually and the retirement value is estimated at year end. Changes are recognised as a change of estimate.

**1.10 Intangible assets**

1.10.1 Goodwill

Goodwill is recognised on the balance sheet at historical cost less write-downs. Goodwill is not amortised, but is tested at least once a year for impairment. Any impairment of goodwill is not reversed, even if the basis for the impairment no longer exists.

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

1.10.2 Patents and licences

Amounts paid for patents and licences are recognised on the balance sheet and depreciated on a straight-line basis over their expected useful life. Their expected useful life for patents and licences varies from 5 to 10 years.

1.10.3 Software

Expenses related to the purchase of new software are recognised on the balance sheet as intangible assets, provided these expenses are not part of the acquisition cost of hardware. Software is normally depreciated on a straight-line basis over 3 years. Expenses incurred as a result of maintaining the future benefit of software are recognised as an expense unless the changes to the software increase the future economic benefit of the software.

1.10.4 Contractual customer relationships

Contractual customer relationships that are acquired separately are recognised on the balance sheet at fair value (cost) on the acquisition date. Contractual customer relationships that are acquired in business combinations are recognised on 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.

1.10.5 Quarrying rights

Quarrying rights are recognised on the balance sheet at fair value (cost) on the acquisition date. Quarrying rights acquired in business combinations are recognised on the balance sheet at fair value on the acquisition date. Quarrying rights have a limited useful life and are recognised at the acquisition cost less the accumulated 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 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 the utility value. When impairment is assessed, the intangible assets are grouped together at the lowest level it is possible to identify independent cash flows (cash-generating units).

The possibility of reversing previous impairment losses on property, plant and equipment and intangible assets that are 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 or the date when the parties commit themselves to the main terms of the agreement. If performance of the agreement requires the use of a specific asset or group of assets, 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.

Lease arrangements in which the Group acquires most of the risk and return and are associated with ownership of the assets are financial leases. Other leases are treated as operating leases.

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 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

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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 overpricing or underpricing compensated by future lease payments are amortised over the term of the lease.

1.12.2 Operating leases

Lease payments are classified as operating expenses and recognised in the income statement over the term of the contract.

Sale-leaseback gains are recognised immediately if a sales transaction is carried out at fair value. In addition, gains/losses resulting from overpricing or underpricing compensated by future lease payments are amortised over the term of the lease.

**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) Financial assets available for sale

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 through profit or loss in the form of forward exchange and commodity contracts. Forward exchange contracts are entered into to hedge future cash flows related to contracts entered into in foreign currencies and commodity futures contracts are entered into to hedge the price of recycled scrap steel to be sold. This hedging does not meet the conditions for hedge accounting and is therefore recognised at fair value with changes in value through profit or loss.

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

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 determinable payments that are not traded in an active market. Loans and receivables that are included in the Group's ordinary operating cycle, including trade receivables, or are expected to be realised within 12 months of the balance sheet date are classified as current assets. Other loans and receivables are classified as non-current assets.

Loans and receivables are recognised initially on the balance sheet at fair value plus transaction costs. Loans and receivables are measured on a current basis at amortised cost using the effective interest rate method. 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) Financial assets available for sale

Financial assets available for sale 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.

Financial assets available for sale are recognised initially at fair value. Financial assets available for sale 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 losses, 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 entered into in foreign currencies and commodity futures contracts are entered into to hedge the price of recycled scrap steel to be sold. This hedging does not meet the conditions for hedge accounting and is therefore recognised at fair value with changes in value through profit or loss.

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

See also 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 FIFO method and includes expenses incurred in acquiring the goods and the cost of bringing them to their present location and condition.

**1.15 Projects for own account**

In accordance with IFRIC 15 projects for own account in the AF Group are recognised in accordance with IAS 18 Under IAS 18 all the revenue (including the related costs) will be recognised on one specific date, normally on completion/delivery.

**1.16 Projects for third-party accounts**

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 advances received from a customer in connection with a construction contract reduce the receivable. If payments on account, advances, and any expected losses exceed the earned contract income, the surplus is recognised as an advance from the customer under current liabilities. Provision for expected losses on remaining contractual production is classified as a current liability after the recognised revenue earned, but not invoiced has been written down. Trade receivables are not offset against advances 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 on 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 estimated changes are recognised as an adjustment of the operating revenue. Changes in the value of trade receivables related to estimate changes are recognised as an adjustment of the operating revenue.

**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 on the balance sheet.

**1.19 Equity**

1.19.1 Treasury shares

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

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

**1.20 Employee benefits**

1.20.1 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 earning formula is used as the allocation method unless a large proportion of the pension-earning 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 on a straight line basis 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.

The 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 on a straight line basis over the assumed average pension-earning period remaining. The net retirement benefit expense for the period is included under payroll costs.

In addition, AF Gruppen Norge AS has participated in the Norwegian Federation of Trade Unions (LO)/ Norwegian Confederation of Norwegian Enterprise (NHO) scheme under which employees were entitled to early retirement pension (AFP) from the age of 62. A decision was made in this company to discontinue this scheme in 2010, and it was only possible to retire early in accordance with the old scheme until 31 December 2010. Contractual early retirement (AFP) is a defined-benefit multi-company scheme. There is a remaining provision covering the company's co-payment, which is 25 %, to individuals who retired early under the old scheme. Future liabilities associated with this scheme are funded through revenues from operations and are unfunded.

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.

1.20.2 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.

1.20.3 Share-based remuneration

Options for employees are measured at fair value on the allotment date. The calculated value is recognised under payroll costs and set off under other contributed equity. The expense is distributed over the period until the employee acquires an unconditional right to the options. The estimated number of options expected to be earned is reassessed on every balance sheet date. Any changes are recognised as an expense with a corresponding adjustment of equity.

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

Each option gives entitlement to purchase one share at a predetermined price. The Company does not have an agreed right to settle the value of the options issued in cash.

1.21 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

cont. note 1

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.

1.22 Loan expenses

Loan expenses are recognised on the balance sheet to the extent that they are directly attributable to manufacture of an asset that it takes a substantial amount of time to 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 on the balance sheet. Recognition on the balance sheet ceases when the assets are finished.

1.23 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.

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.

# Note 2 Estimate uncertainty

Estimates and discretionary assessments are evaluated continuously and based on historical experience and other factors, including expectations of future events that are regarded as reasonable under the current circumstances.

The Group prepares estimates and makes assumptions concerning the future. The accounting estimates that are made as a result of this will rarely coincide in full with the final outcome. Estimates and assumptions/prerequisites that represent a significant risk of major changes in the book value of assets and liabilities during the next financial year are discussed 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, there exists uncertainty 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 performs annual tests to assess whether the value of goodwill and intangible assets has been impaired, cf. 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. The recoverable amount from cash-generating units is determined by calculation of the utility value. 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 makes 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 advisors 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. For many transactions, there will be uncertainty related to the ultimate tax liability.

# 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 AF 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.

The Civil Engineering business area is a turnkey supplier of civil engineering services in Norway. In Sweden Civil Engineering performs foundation work in the Stockholm area. Civil Engineering has state-of-the-art expertise in the market areas of oil and energy, underground construction, infrastructure and harbours.

The Building business area 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 central East Norway, as well as Agder, Buskerud and Kristiansand. In addition, AF has building activity in Gothenburg, Sweden.

The Property business area acquires 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 the risk and benefit from each other's expertise.

Activities in the Environment business area include demolition, recycling and environmental clean-up onshore and offshore. Environment is the leading demolition contractor for buildings, plants and installations. Environment also has land-based demolition activities in Sweden and Poland. The Offshore business area removes and recycles decommissioned petroleum installations. This business area is established in Norway and the UK. Work is performed offshore or at the Environmental Base at Vats in the Municipality of Vindafjord.

The Energy business area offers expertise in energy conservation and energy-related services for buildings, industry, offshore and the marine sector. Energy offers measurable result guarantees for energy savings based on the analysis and monitoring of the flow of energy in buildings. Energy has operations in Oslo, Skien, Bergen and Stavanger. A company has been established in China to benefit from competitive advantages related to purchasing and logistics.

What remains after allocation to the business areas is presented as Other and involves primarily 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.

**Types of services**

The AF Group has primarily two types of projects/services: Projects for own account and projects for third-party accounts. Projects for own account largely involve the development and construction of residential housing for sale. Projects for own account are self-financed and the Property business area delivers primarily projects of this type. Activities in the other segments are performed for public and private clients based on contracts entered into with varying durations. The characteristic feature of such contracts is that they are client financed.

**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 AF Group's accounting policies in accordance with IFRS with the exception of IFRIC 15 (Agreements for the Construction of Real Estate). This policy exception applies to the Building and Property segments and Norway. Income from projects for own account in these segments is recognised based on the principles in IAS 11. The recognition of income in these projects is the product of the physical degree of completion, the percentage sold and the expected contribution margin. This means, for example, that a project that is 50 % complete, 50 % of which is sold on the reporting date, will be reported with a contribution margin of 25 % of the total expected contribution margin. In the consolidated accounts, the principles in IFRIC 15 are followed with the recognition of income from projects for own account in accordance with IAS 18. In accordance with IAS 18 all of the income (and the associated costs) are recognised at a single point in time, normally on delivery. The effect of IFRIC 15 on the consolidated accounts is illustrated in a separate table in the segment information.

**Important customers**

The AF Group has one customer, the Norwegian Public Roads Administration, which is responsible for more than 10% of the total operating revenues. In 2011 income of NOK 1,133 million (NOK 1,087 million) was recognised in connection with contracts entered into with the Norwegian Public Roads Administration.

Amounts in NOK million

| **2011**<br>**Income statement** | **Civil Engineering** | **Building** | **Property** | **Environ-ment** | **Energy** | **Others** | **Elim.** | **IFRIC 15** | **Total** |
|---|---|---|---|---|---|---|---|---|---|
| External revenue | 2,351 | 3,755 | 69 | 735 | 453 | 11 | - | -19 | 7,356 |
| Internal revenue | 5 | 2 | - | 42 | 9 | 11 | -69 | - | - |
| **Total revenue** | **2,356** | **3,757** | **69** | **777** | **462** | **22** | **-69** | **-19** | **7,356** |
| Earnings before interest, taxes depreciation and amortisation (EBITDA) | 173 | 153 | 37 | 92 | 14 | 16 | -9 | -3 | 474 |
| Earnings before interest and taxes (EBIT) | 131 | 148 | 37 | 79 | 5 | 1 | -9 | -3 | 389 |
| **Earnings before taxes (EBT)** | **134** | **144** | **31** | **81** | **1** | **37** | **-19** | **-3** | **404** |
| **Key figures and balance sheet** | | | | | | | | | |
| EBITDA % | 7.3 % | 4.1 % | 53.3 % | 11.9 % | 3.1 % | - | - | - | 6.4 % |
| EBIT % | 5.6 % | 3.9 % | 53.3 % | 10.2 % | 1.1 % | - | - | - | 5.3 % |
| EBT % | 5.7 % | 3.8 % | 44.3 % | 10.4 % | 0.3 % | - | - | - | 5.5 % |
| Assets as at 31 December | 1,537 | 2,305 | 298 | 786 | 469 | 111 | -899 | -16 | 4,591 |
| Capital employed as at 31 December | 500 | 907 | 249 | 501 | 346 | -358 | -669 | -15 | 1,461 |
| Return on capital employed | 30.3 % | 25.1 % | 13.4 % | 18.0 % | 1.8 % | - | - | - | 35.5 % |
| Order backlog as at 31 December | 3,290 | 4,965 | 4 | 1,081 | 435 | - | - | 52 | 9,826 |
| Number of employees as at 31 December | 763 | 1,000 | 9 | 320 | 206 | 98 | - | - | 2,396 |
| **Cash flow** | | | | | | | | | |
| Net cash flow from operating activities | 110 | 425 | 31 | -16 | 11 | 56 | -12 | 12 | 618 |
| Net cash flow from investment activities | -63 | -408 | 2 | 18 | -2 | - | - | - | -453 |
| **Net cash flow before financing activities** | **46** | **17** | **33** | **2** | **10** | **56** | **-** | **-** | **165** |

cont. note 3

Amounts in NOK million

| 2010<br>Income statement | Civil Engineering | Building | Property | Environ-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** | **82** | **-** | **-** | **259** |

Amounts in NOK million

| 2009<br>Income statement | Civil Engineering | Building | Property | Environ-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** |

cont. note 3

**Geographic distribution of revenue and assets**

The tables below show revenue and assets broken down by the countries in which the Group operates. The geographic area in which the companies are located coincide essentially with the location of the customers.

| **2011**<br>**Geographic distribution of revenue** | **Civil Engineering** | **Building** | **Property** | **Environ-ment** | **Energy** | **Others** | **Elim.** | **IFRIC 15** | **Total** |
|---|---|---|---|---|---|---|---|---|---|
| Norway | 2,201 | 3,286 | 69 | 711 | 462 | 22 | -63 | -19 | 6,670 |
| Sweden | 155 | 471 | - | 37 | - | - | -6 | - | 656 |
| Others | - | - | - | 30 | - | - | - | - | 30 |
| **Total** | **2,356** | **3,757** | **69** | **777** | **462** | **22** | **-69** | **-19** | **7,356** |
| | | | | | | | | | |
| **Geographic distribution of non-current assets, excl. financial instruments and deferred tax assets** | | | | | | | | | |
| Norway | 57 | 936 | 91 | 157 | 286 | 254 | -32 | - | 1,749 |
| Sweden | 13 | 86 | - | 3 | - | - | - | - | 101 |
| Others | - | - | - | - | - | - | - | - | - |
| **Total** | **70** | **1,022** | **91** | **160** | **286** | **254** | **-32** | **-** | **1,851** |
| | | | | | | | | | |
| **Geographic distribution of assets** | | | | | | | | | |
| Norway | 1,459 | 1,913 | 298 | 757 | 469 | 111 | -899 | -16 | 4,093 |
| Sweden | 78 | 392 | - | 14 | - | - | - | - | 484 |
| Others | - | - | - | 15 | - | - | - | - | 15 |
| **Total** | **1,537** | **2,305** | **298** | **786** | **469** | **111** | **-899** | **-16** | **4,592** |

| **2010**<br>**Geographic distribution of revenue** | **Civil Engineering** | **Building** | **Property** | **Environ-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 |
| Others | - | - | - | 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 |
| Others | - | - | - | - | - | - | - | - | - |
| **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 |
| Others | - | - | - | 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 |
| Others | - | - | - | 99 | - | - | -1 | - | 98 |
| **Total** | **1,768** | **2,561** | **51** | **743** | **598** | **-6** | **-315** | **-** | **5,401** |
| | | | | | | | | | |
| **Geographic distribution of assets** | | | | | | | | | |
| Norway | 757 | 946 | 320 | 993 | 499 | 491 | -1,182 | - | 2,822 |
| Sweden | 38 | 153 | - | 6 | - | -7 | - | - | 190 |
| Others | - | - | - | 45 | 2 | | - | - | 47 |
| **Total** | **795** | **1,099** | **320** | **1,043** | **501** | **484** | **-1,182** | **-** | **3,059** |

# Note 4 Changes in the Group's structure

**Business combinations in 2011**

**Rogaland Entreprenør**
On 15 November the AF Group acquired a controlling interest in Rogaland Entreprenør AS. This acquisition establishes the AF Group in the building industry in Stavanger and strengthens its presence in Rogaland. Rogaland Entreprenør is well-established in the region and specialises in turnkey contracts in commercial and residential building. The company will continue under the name AF Rogaland Entreprenør AS and become part of the Building business area. The AF Group owns 56.8 % of the company.

An allocation of the purchase price based on the opening balance sheet of Rogaland Entreprenør AS as at 15 November 2011 is presented below. Allocation of the purchase price has been prepared using the acquisition method as regulated in IFRS 3. The purchase price has been allocated at the fair value of the consolidated assets and liabilities of Rogaland Entreprenør AS. Non-controlling interests are measured at the net value of identifiable assets in Rogaland Entreprenør AS. Since the total consideration exceeds the fair value of the identifiable assets and liabilities on the acquisition date, the difference has been recognised as goodwill. This goodwill is related primarily to the market position and local presence.

| Amounts in NOK million | **Rogaland Entreprenør** |
|---|---|
| Cash consideration | 6 |
| Share issue | 12 |
| **Total purchase price** | **18** |
| | |
| Property, plant and equipment | 4 |
| Other non-current assets | 4 |
| Current assets, excl. cash and cash equivalents | 31 |
| Cash and cash equivalents, incl. capital increase | 14 |
| Non-controlling interests | 1 |
| Long-term loans and credit facilities | -6 |
| Short-term loans and credit facilities | -5 |
| Trade accounts payable and other current liabilities | -45 |
| **Total identified assets and liabilities** | **-2** |
| | |
| **Goodwill** | **20** |

After the acquisition date AF Rogaland Entreprenør has had operating revenue in 2011 of NOK 40 million and earnings before taxes of NOK 0 million.

**Strøm Gundersen**
On 3 November 2011, the AF Group implemented the agreement to purchase a majority shareholding in Strøm Gundersen. The acquisition gives the AF Group a strong market position in the building market in Buskerud and the renovation market in Oslo. Strøm Gundersen is part of the Building business area. The transaction priced the Strøm Gundersen companies at a combined value of NOK 997 million on a 100 % basis before correction for non-controlling interests and pro and con settlement. The purchase price has been adjusted for net interest-bearing liabilities on the takeover date and deviation from normalised working capital.

The transaction comprises AF Gruppen Norge AS' acquisition of 100 % of SG Gruppen Kongsvinger AS and the purchase of further shares in Strøm Gundersen Holding AS from Vålerveien 229 AS and employee shareholders, as well as the purchase of further shares in VSP Holding AS from employee shareholders.

The consideration consisted partly of shares and partly of cash. The share portion consisted of 4,019,800 shares, which were issued on 8 November 2011. In calculating the number of consideration shares, a fixed share price of NOK 48.5 per share was agreed. The actual issue price is used however for entering the issue in the accounts and in the acquisition analysis. The price at the time of issue, which is to say the market price on 1 November 2011, was NOK 46.8 per share.

Transaction costs were recognised as expenses as they arose. These costs amounted to NOK 3 million.

Presented below is a provisional allocation of the purchase price based on the opening balance sheet of Strøm Gundersen as at 3 November 2011. Allocation of the purchase price has been prepared using the acquisition method as regulated in IFRS 3. The purchase price has been allocated to the fair value of the assets and liabilities of Strøm Gundersen. Non-controlling interests are measured at the net value of identifiable assets in Strøm Gundersen. Since the total consideration exceeds the fair value of the identifiable assets and liabilities on the acquisition date, the difference has been recognised as goodwill. The goodwill/business value is related primarily to market positions and the organisation's overall expertise related to profitable business operations.

cont. note 4

| Amounts in NOK million | Strøm Gundersen |
|---|---|
| Cash consideration | 419 |
| Share consideration | 188 |
| **Total purchase price** | **607** |
| | |
| Property, plant and equipment | 73 |
| Intangible assets | 412 |
| Other non-current assets | 8 |
| Current assets, excl. cash and cash equivalents | 284 |
| Cash and cash equivalents | 93 |
| Non-controlling interests | -62 |
| Long-term loans and credit facilities | -99 |
| Provisions | -36 |
| Deferred tax | -18 |
| Short-term loans and credit facilities | -146 |
| Trade accounts payable and other current liabilities | -310 |
| **Total identified assets and liabilities** | **199** |
| | |
| **Goodwill** | **408** |

The book value of intangible assets in Strøm Gundersen as at the acquisition date consists exclusively of goodwill related to acquisitions made earlier. The total goodwill related to Strøm Gundersen is therefore NOK 820 million.

After the acquisition date Strøm Gundersen has had operating revenue of NOK 258 million and earnings before taxes of NOK 32 million.

**Båtservice Offshore/Verft AS**
The AF Group entered into a final agreement to purchase portions of the business operations of Båtservice Offshore Verft AS in February 2011. The AF Group will be taking over all the employees, as well as the net working capital and property, plant and equipment at a fair value of NOK 4 million. The operations will continue as part of the AF Group's services to the offshore market and become part of the Civil Engineering business area. All of the employees of Båtservice Offshore Verft will be transferred to the AF Group and the newly established business AF Offshore Mandal. The unit will continue to deliver services to the offshore market in particular. The acquisition strengthens the AF Group's focus on the offshore maintenance and modification market.

**Pro forma 2011**
If all of the acquisitions had been carried out by 1 January 2011, the AF Group would have had the following turnover and earnings before taxes for 2011:

| Amounts in NOK million | AF Group |
|---|---|
| Operating revenue | 8,407 |
| Earnings before taxes | 494 |

**Business combinations in 2010**
On 1 October 2010 the AF Group acquired 100% of the shares in the machinery contractor Johan Rognerud AS. The nationwide company has 70 employees and state-of-the-art earthmoving expertise. The company was acquired as part of the efforts to acquire a greater share of the infrastructure project 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, which is related to the expected economies of scale attributed to a coordination of the operations with the AF Group's other operations. None of the goodwill is expected to be tax deductible.

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

cont. note 4

| Amounts in NOK million | **Johan Rognerud AS** |
|---|---|
| Cash consideration | 10 |
| Contingent consideration, estimated fair value | 6 |
| **Total consideration to the 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 contingent consideration agreement, the AF Group shall pay the former owners of Johan Rognerud AS 50 % of the earnings before interest and taxes (EBIT) beyond an operating margin of 3.0 % for the next four years.

Since 1 October 2010 Johan Rognerud AS has had operating revenue of NOK 66 million and a profit for the year of NOK 0 million in the consolidated income statement.

On 1 April 2010 the AF Group acquired the remaining 50 % of the shares in the property company Spalding Fastigheter KB. The company owns an industrial and office building in the Gothenburg area free of consideration. Spalding has been classified as an associate earlier and consolidated in accordance with the equity method.

On 26 October 2010 AF Miljø AS acquired the remaining 50 % of the shares in BA Gjenvinning AS. BA Gjenvinning AS has been consolidated earlier as a joint venture in accordance with the gross method. If BA Gjenvinning had been wholly owned for all of 2010 revenue would have been NOK 10 million higher and the profit for the year would have been NOK 1 million lower.

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

| Amounts in NOK million | **100 %** | **60 %** |
|---|---|---|
| Cash consideration for the sale | | 120 |
| Transaction costs | | -1 |
| **Net cash consideration for the 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 the sale of business** | | **37** |
| | | |
| Latent gain on the remaining ownership interest from the sale of business, cf. IAS 27.34 (d) | | 17 |
| **Total gain on the sale of business** | | **54** |

**Changes in the group's structure in 2009:**
AF Gruppen Norge AS spun off the business areas Energy and Environment as separate companies owned by AF Gruppen ASA.

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 acquired 49% of the shares in Mollier AS for NOK 42 million. The remaining 40% of Stavanger Kulde AS was also acquired for NOK 2 million in 2009. Both of the companies are included in the Energy business area, and Stavanger Kulde AS has been merged into AF Energi og Miljøteknikk AS with effect in the accounts from 1 January 2010.

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

# Note 5 Operating and other revenue

| Amounts in NOK million | 2011 | 2010 | 2009 |
|---|---|---|---|
| Contract income | 7,203 | 5,641 | 5,186 |
| Other sales revenue | 11 | 12 | 17 |
| Revenue from projects for own account | 54 | 98 | 110 |
| **Total operating revenue** | **7,268** | **5,751** | **5,314** |
| | | | |
| Rental income | 15 | 14 | 17 |
| Other revenue | 73 | 63 | 71 |
| **Total other revenue** | **88** | **77** | **87** |
| | | | |
| **Total operating and other revenue** | **7,356** | **5,828** | **5,401** |

# Note 6 Remuneration of employees and senior executives

| Amounts in NOK million | 2011 | 2010 | 2009 |
|---|---|---|---|
| Fixed pay | -1,177 | -1,197 | -1,143 |
| Social security costs | -192 | -180 | -159 |
| Retirement benefit costs (see note 25) | -44 | -41 | -33 |
| Share-value based remuneration (option cost) | - | -12 | -4 |
| Other benefits | -80 | -80 | -74 |
| **Total payroll costs** | **-1,493** | **-1,511** | **-1,412** |
| | | | |
| **Average number of employees** | | | |
| Norway | 1,925 | 1,702 | 1,826 |
| Sweden | 193 | 181 | 191 |
| Poland | 12 | 10 | 8 |
| China | 3 | 3 | 2 |
| **Total** | **2,133** | **1,896** | **2,027** |

cont. note 6

**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 2011** (Amounts in NOK 1,000) | **Fixed pay** | **Bonus** | **Retirement benefits** | **Other benefits** | **Total** |
|---|---|---|---|---|---|
| Pål Egil Rønn, CEO | 2,884 | 1,749 | 34 | 80 | 4,747 |
| Sverre Hærem, Executive Vice President/CFO | 1,820 | 1,166 | 34 | 71 | 3,091 |
| Robert Haugen, Executive Vice President | 1,816 | 1,166 | 34 | 74 | 3,090 |
| Tore Fjukstad, Executive Vice President | 1,844 | 1,166 | 34 | 74 | 3,118 |
| Arild Moe, Executive Vice President | 1,820 | 1,166 | 34 | 55 | 3,075 |
| Paul-Terje Gundersen, Executive Vice President | 1,838 | 966 | 34 | 163 | 3,001 |
| **Total remuneration of the Corporate Management Team** | **12,022** | **7,379** | **204** | **517** | **20,122** |

In addition to the benefits in the table above, benefits related to the redemption of options are reported for the Corporate Management Team. This option programme was adopted in 2008 and terminated in 2011. The option programme has been described in greater detail further down. Benefits related to option programme redemptions are illustrated in the table below.

| **Corporate Management Team 2008–2011** (Amounts in NOK 1,000) | **Share-based pay** |
|---|---|
| Pål Egil Rønn, CEO | 1,911 |
| Sverre Hærem, Executive Vice President/CFO | 1,638 |
| Robert Haugen, Executive Vice President | 1,638 |
| Tore Fjukstad, Executive Vice President | 1,638 |
| Arild Moe, Executive Vice President | 1,228 |
| Paul-Terje Gundersen, Executive Vice President | 545 |
| **Total share-based pay of the Corporate Management Team** | **8,598** |

| **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 |
| Arild Moe, Executive Vice President | 1,640 | 1,661 | 33 | 100 | 3,434 |
| Paul-Terje Gundersen, Executive Vice President from 1 October | 534 | 275 | 8 | 45 | 863 |
| Jørgen Hals, Executive Vice President until 1 October | 1,168 | 1,405 | 22 | 123 | 2,718 |
| **Total remuneration of the Corporate Management Team** | **11,085** | **9,622** | **194** | **668** | **21,568** |

| **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** |

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

| **The Board of Directors' fees** (Amounts in NOK 1,000) | 2011 | 2010 | 2009 |
|---|---|---|---|
| Tore Thorstensen, Chairman of the Board from 28 May 2010 | 355 | 150 | - |
| Eli Arnstad, Board Member | 175 | 150 | 135 |
| Mari Broman, Board Member | 175 | 150 | 135 |
| Carl Henrik Eriksen, Board Member | 190 | 165 | 155 |
| Peter Groth, Board Member | 190 | 145 | 155 |
| Henrik Jan Nilsson, Board Member | 140 | - | - |
| Tor Olsen, Board Member | 140 | - | - |
| Arne Sveen, Board Member | 140 | - | - |
| Torstein Lange Larssen, Board Member | - | 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 |
| Rune Dale, Board Member | - | - | 115 |
| **Total directors' fees** | **1,505** | **1,300** | **1,210** |

| **Pay and other benefits to employee representatives on the Board:** (Amounts in NOK 1,000) | Fixed pay | Bonus | Retirement benefits | Other benefits | Total |
|---|---|---|---|---|---|
| Tor Olsen | 993 | - | 28 | 324 | **1,345** |
| Henrik Nilsson | 470 | - | 11 | 89 | **570** |
| Arne Sveen | 669 | - | 37 | 37 | **743** |

**Bonus for the purchase of shares**

Part of the pay of senior executives and other managers is based on the EVA (Economic Value Added) model. Eligible managers have an opportunity to invest some of their net bonus after tax in the Company's shares. Under the bonus programme 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 one year.

| **Number of shares / price** | 2011 | 2010 | 2009 |
|---|---|---|---|
| Number of bonus shares sold from own holdings | 162,700 | 329,400 | 257,000 |
| Number of bonus shares from new issue – without discount | - | - | 342,500 |
| Market price at the time of the agreement (amounts in whole NOK) | 40.0 | 31.8 | 18.3 |
| Selling price (amounts in whole NOK) | 32.0 | 25.4 | 14.6 |
| | | | |
| Impact of bonus shares on the financial statements (amounts in NOK 1,000) | | | |
| Payroll costs (discount including social security costs) | -1,485 | -2,321 | -1,023 |

**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** | 2011 | 2010 | 2009 |
|---|---|---|---|
| Number of shares sold from own holdings | 287,000 | 162,700 | - |
| Number of shares from new issue – without discount | 513,000 | 622,000 | 804,000 |
| Market price during subscription period (amounts in whole NOK) | 45.0 | 39.1 | 19.0 |
| Selling price (amounts in whole NOK) | 36.0 | 31.3 | 15.2 |
| | | | |
| Sale of shares to employees, impact on financial statements (Amounts in NOK 1,000): | | | |
| Payroll costs (including social security costs) | -3,598 | -2,138 | -90 |

cont. note 6

**Option programme**
The General Meeting adopted a new option programme for the employees of the AF Group on 13 May 2011. The maximum number of options that may be allocated is 6,000,000, and the programme entails annual allotments for the years 2011–13 and exercise of the options in 2014. The employees pay an option premium of NOK 1.00 per option, and the exercise price will be the average market price before the subscription period. A total of 2,092,763 options were subscribed for in the autumn of 2011, and the total number of outstanding options as at 31 December 2011 was 2,092,763.

The option programme adopted in January 2008 was terminated in 2011. The maximum number of options that could be granted was 12,500,000. The option programme entailed annual allotment during the years 2008–2010 and exercise of the options in 2011. A total of 5,163,750 options were exercised on 15 February 2011.

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

| | 2011 | 2010 | 2009 |
|---|---|---|---|
| Expected dividend yield (%) | 8.4 | 4.2 | 7.4 |
| Historical volatility (%) | 27.4 | 41.4 | 43.5 |
| Risk-free interest (%) | 2.4 | 4.0 | 3.9 |
| Expected life of option (years) | 3 | 1 | 2 |
| Share price (NOK) | 45.6 | 31.8 | 27.0 |
| Payment for option (NOK) | 1.0 | 0.6 | 0.6 |

**Impact of the option programme on the accounts:**

| Amounts in NOK 1,000 | Expected 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|
| Payroll costs | -2,956 | -370 | -11,510 | -4,087 |
| Debt – option premium paid | 2,093 | 2,093 | 3,132 | 1,659 |

Payroll costs in 2012 refers to the options subscribed for in 2011. New subscriptions in 2012 have not been taken into account.

| **Reconciliation of options** | |
|---|---|
| Number of options as at 31 December 2010 | 5,251,250 |
| Options subscribed for in 2011 | 2,092,763 |
| Options exercised in 2011 | -5,163,750 |
| Adjustment for employees who have left | -87,500 |
| **Number of options as at 31 December 2011** | **2,092,763** |

**Guidelines for 2012**
The Board will submit a statement to the General Meeting in accordance with section 6-16a of the Norwegian Public Limited Companies Act. The content of this statement is explained below in accordance with section 7-31b, seventh paragraph of the Norwegian Accounting Act:

Guidelines regarding fixed pay and other remuneration for senior executives have been established. The Board of Directors establishes guidelines for the remuneration of 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 as at 1 July based on an individual assessment. Senior executives receive payments in kind and participate in the Group's retirement benefit schemes on the same terms as other employees as described in the Group's Personnel Guide. There are no termination payment schemes.

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

The General Meeting adopted a new option programme for the employees of the AF Group on 13 May 2011. The maximum number of options that may be allocated is 6,000,000, and the programme entails annual allotments for the years 2011–13 and exercise of the options in 2014. The employees pay an option premium of NOK 1.00 per option, and the exercise price will be the average market price before the subscription period. A total of 2,092,763 options were subscribed for in the autumn of 2011, and the total number of outstanding options as at 31 December 2011 was 2,092,763.

The option programme was devised by the Board, and it was to provide an incentive for all the employees in the Group. The purpose of the programme 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 remuneration of senior executives in 2011 was in accordance with the statement submitted to the General Meeting in 2011.

# Note 7 Other operating expenses

| Amounts in NOK million | 2011 | 2010 | 2009 |
|---|---|---|---|
| **Other operating expenses** | | | |
| Rent | -102 | -94 | -58 |
| Other rental expenses | -274 | -180 | -209 |
| Insurance | -27 | -18 | -12 |
| Contracted manpower | -98 | -54 | -45 |
| Remuneration of auditor | -4 | -3 | -5 |
| Other fees (attorney, consultant, etc.) | -65 | -52 | -43 |
| Bad debts | -4 | -10 | -2 |
| Disposal and landfill fees | -52 | -37 | -31 |
| Marketing and advertising | -19 | -11 | -8 |
| IT expenses | -30 | -24 | -20 |
| Sundry other operating expenses | -155 | -188 | -171 |
| **Total other operating expenses** | **-830** | **-671** | **-604** |

| Amounts in NOK 1,000 | 2011 | 2010 | 2009 |
|---|---|---|---|
| **Remuneration of Ernst & Young** | | | |
| Statutory auditing | -2,966 | -1,729 | -2,518 |
| Other assurance engagements | -111 | -28 | -1,042 |
| Tax consulting | -61 | -100 | -120 |
| Other non-audit services | -669 | - | -68 |
| **Total** | **-3,808** | **-1,857** | **-3,747** |
| | | | |
| **Remuneration of other auditors** | | | |
| Statutory auditing | -318 | -973 | -771 |
| Other services beyond auditing | -105 | -162 | -85 |
| **Total** | **-424** | **-1,135** | **-856** |
| | | | |
| **Total remuneration of auditor** | **-4,231** | **-2,992** | **-4,603** |

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

# Note 8 Net gains/(losses)

| Amounts in NOK million | 2011 | 2010 | 2009 |
|---|---|---|---|
| Total gains/(losses) on sale of shares in subsidiaries, joint ventures and associates | 25 | 54 | 7 |
| Total unrealised gains/(losses) on available-for-sale financial assets | - | - | - |
| Total fair value adjustments of financial derivatives | 8 | -5 | 4 |
| Net gains/(losses) on the sale of property, plant and equipment | 29 | 10 | 6 |
| Net foreign exchange gains/(losses) related to operations | 1 | 3 | -1 |
| **Total net gains/(losses)** | **63** | **62** | **17** |

# Note 9 Net financial items

| Amounts in NOK million | 2011 | 2010 | 2009 |
|---|---|---|---|
| **Financial income** | | | |
| Interest income | 7 | 7 | 66 |
| Other financial income | 12 | 2 | 1 |
| **Total financial income** | **19** | **9** | **67** |
| | | | |
| **Financial expenses** | | | |
| Interest expense on loans and overdraft facilities | -1 | -1 | -16 |
| Interest expense on financial leases | -1 | -1 | -2 |
| Other interest expenses | 1 | -3 | - |
| Other financial expenses | - | - | -1 |
| **Total financial expenses** | **-1** | **-5** | **-19** |
| | | | |
| **Financial gains/(losses) on changes in value** | | | |
| Net foreign exchange gains/(losses) related to financing | -1 | 3 | -8 |
| Value adjustment of financial assets at fair value through profit or loss | -1 | -1 | 2 |
| Impairment of financial investments | - | - | -10 |
| **Total financial gains/(losses) on changes in value** | **-2** | **3** | **-16** |
| | | | |
| **Net financial items** | **15** | **6** | **32** |

# Note 10 Tax expense

| Amounts in NOK million | 2011 | 2010 | 2009 |
|---|---|---|---|
| Current tax payable for the year | -3 | -72 | -5 |
| Adjustment for previous years | 5 | -31 | 1 |
| **Total tax payable** | **3** | **-103** | **-4** |
| | | | |
| Change in temporary differences | -104 | 8 | -92 |
| **Total deferred taxes** | **-104** | **8** | **-92** |
| | | | |
| **Total tax expense** | **-101** | **-95** | **-96** |
| | | | |
| **Reconciliation of tax payable in the income statement against tax payable on the balance sheet** | | | |
| Current tax payable for the year | 3 | 72 | 5 |
| Tax paid in advance | -9 | - | - |
| Impact related to the acquisition and sale of business | 38 | -3 | - |
| Currency translation differences | - | -1 | - |
| **Tax payable on the balance sheet** | **32** | **69** | **5** |

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

| | | 2011 | | 2010 | | 2009 |
|---|---|---|---|---|---|---|
| Earnings before taxes | | 404 | | 372 | | 366 |
| Expected income tax at Norwegian nominal rate | *28.0 %* | -113 | *-28.0 %* | -104 | *-28.0 %* | -103 |
| Tax effects of: | | | | | | |
| – Divergent foreign tax rates | *-0.2 %* | 1 | *-0.5 %* | -2 | - | - |
| – Non-deductible expenses | *0.3 %* | -1 | *-1.4 %* | -5 | *-2.9 %* | -11 |
| – Other non-taxable income | *-2.7 %* | 11 | *4.8 %* | 18 | *2.7 %* | 10 |
| – Change in valuation of deferred tax assets | *-0.4 %* | 2 | *-0.3 %* | -1 | *1.2 %* | 5 |
| – Excessive/insufficient provisions in previous years | *-0.1 %* | - | *-0.2 %* | -1 | *0.8 %* | 3 |
| **Effective tax rate/expense in the income statement** | *25.0 %* | **-101** | *-25.6 %* | **-95** | *-26.3 %* | **-96** |

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

# Note 11 Deferred tax/deferred tax assets

Amounts in NOK million

| Change in recognised deferred tax | 2011 | 2010 | 2009 |
|---|---|---|---|
| Book value as at 1 January | 263 | 276 | 190 |
| Charged/(credited) to the income statement | 104 | -8 | 92 |
| Acquisition of business | 9 | -4 | -6 |
| Currency translation differences | - | -1 | - |
| **Carrying amount as at 31 December** | **376** | **263** | **276** |

| Classification on the balance sheet | 2011 | 2010 | 2009 |
|---|---|---|---|
| Deferred tax assets | -47 | -39 | - |
| Deferred tax | 423 | 302 | 276 |
| **Net deferred tax on the balance sheet** | **376** | **263** | **276** |

**Change in deferred tax assets and deferred taxes (without netting within the same tax regime):**

| 2011<br>Deferred tax | Balance sheet as at 1 January 2011 | Charged/ (credited) to the income statement | Acquisition of business | Balance sheet as at 31 December 2011 |
|---|---|---|---|---|
| Property, plant and equipment | 10 | - | 4 | 14 |
| Intangible assets | 5 | -2 | - | 3 |
| Projects in progress [1] | 335 | 181 | 17 | 533 |
| Other assets | - | 1 | - | 1 |
| Retirement benefits | 4 | 1 | - | 5 |
| Provisions | 1 | - | - | 1 |
| **Total** | **355** | **181** | **22** | **558** |
| | | | | |
| Recorded against deferred tax assets | | | | -135 |
| **Recorded deferred tax** | | | | **423** |

| Deferred tax assets | Balance sheet as at 1 January 2011 | Charged/ (credited) to the income statement | Acquisition of business | Balance sheet as at 31 December 2011 |
|---|---|---|---|---|
| Property, plant and equipment | -7 | -1 | - | -8 |
| Other assets | -4 | - | -1 | -5 |
| Provisions | -29 | 6 | -3 | -26 |
| Other | -6 | -1 | - | -7 |
| Recognised tax value of tax loss carryforward [2] | -46 | -82 | -9 | -137 |
| **Total** | **-92** | **-78** | **-13** | **-183** |
| | | | | |
| Recorded against deferred tax assets | | | | 135 |
| **Recorded deferred tax** | | | | **-47** |

cont. note 11

| 2010<br>Deferred tax | Balance sheet as at 1 January 2010 | Charged/ (credited) to the income statement | Acquisition of business | 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** |
| Recorded against deferred tax assets | | | | -53 |
| **Recorded deferred tax** | | | | **302** |

| Deferred tax assets | Balance sheet as at 1 January 2010 | Charged/ (credited) to the income statement | Acquisition of business | 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** |
| Recorded against deferred tax assets | | | | 53 |
| **Recorded deferred tax** | | | | **-39** |

| 2009<br>Deferred tax | Balance sheet as at 1 January 2009 | Charged/ (credited) to the income statement | Acquisition of business | 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** |
| Recorded against deferred tax assets | | | | -49 |
| **Recorded deferred tax** | | | | **276** |

| Deferred tax assets | Balance sheet as at 1 January 2009 | Charged/ (credited) to the income statement | Acquisition of business | 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** |
| Recorded against deferred tax assets | | | | 49 |
| **Recorded deferred tax** | | | | **-** |

[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] The deferred tax assets related to tax loss carryforwards are recognized on the balance sheet when it is probable that the group can apply this against future taxable income. The Group has failed to recognise deferred tax assets on the balance sheet related to related to tax loss carryforwards in Poland of NOK 6 million (NOK 7 million in 2010 and NOK 6 million in 2009). This tax loss carryforward is time limited. The tax loss carryforward recognised on the balance sheet is not time limited and totals NOK 488 million (NOK 151 million in 2010 and NOK 75 million in 2009).

Deferred tax is not calculated on retained earnings in subsidiaries and associates, since the companies are within the EU and earnings can be distributed tax-free as dividends.

# Note 12 Earnings and dividend per share

| **Earnings per share**<br>Amounts in whole NOK | 2011 | 2010 | 2009 |
|---|---|---|---|
| Profit for the year attributable to Parent Company shareholders | 293,911,000 | 276,716,400 | 269,346,721 |
| Number of shares: | | | |
| Time-weighted average number of externally owned shares[1] | 76,364,841 | 70,506,090 | 69,923,185 |
| Dilutive effect of share value-based remuneration [2] | - | 1,993,913 | 91,321 |
| Time-weighted average number of externally owned shares after dilution | 76,364,841 | 72,500,003 | 70,014,506 |
| **Earnings per share** | **3.85** | **3.92** | **3.85** |
| **Diluted earnings per share** | **3.85** | **3.82** | **3.85** |

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

[2] The AF Group's share value-based remuneration scheme (options), cf. note 6, entails that externally owned shares may be diluted as a result of the redemption of options. To take into account the future increase in the number of externally owned shares, the diluted earnings per share is calculated in addition to the earnings per share. In this calculation the average number of externally owned shares is adjusted to take into account the estimated dilutive effect of the option programme. In 2011 there is no dilutive effect since the exercise price is higher than the share price as at 31 December 2011.

**Dividend per share**
A dividend of NOK 4.5 per share for the 2010 financial year, representing a total of NOK 346 million, was distributed on 23 May 2011. NOK 2.0 of the dividend per share represented an ordinary dividend and NOK 2.50 represents an extraordinary dividend that was distributed to the company's strong financial position.

For the 2011 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 24 May 2012. The dividend must be approved by the General Meeting, and there is no provision for the liability on the balance sheet. The proposed dividend will be paid to all shareholders registered with the Norwegian Central Securities Depository (VPS) on 11 May 2012. No dividend will be paid on the Company's treasury shares. The total estimated dividend for the 2011 financial year is NOK 364 million.

In connection with the redemption of the employees' options (cf. note 6) the Board of AF Gruppen ASA resolved to issue 5,163,750 shares in a private offering. The new shares will be entitled to dividends for 2011.

| Amounts in whole NOK | **2011** | **2010** | **2009** |
|---|---|---|---|
| Total number of shares as at 31 December | 80,814,490 | 71,117,940 | 70,495,940 |
| Issue of new shares on 14 February 2011 | | 5,163,750 | - |
| Number of shares entitled to a dividend | 80,814,490 | 76,281,690 | 70,245,895 |
| Dividend per share | 4.50 | 4.50 | 1.60 |
| Total estimated dividend | 363,665,205 | 343,267,605 | 112,393,432 |

AF Group held 64,585 treasury shares as at 31 December 2011. Treasury shares are not entitled to a dividend.

# Note 13 Property, plant and equipment

| Amounts in NOK million | **Buildings and production facilities** | **Machinery and equipment** | **Total** |
|---|---|---|---|
| **Acquisition cost** | | | |
| 1.1.2011 | 49 | 567 | **616** |
| Ordinary additions | 10 | 129 | **138** |
| Additions from the acquisition of business | 45 | 37 | **82** |
| Disposals | -44 | -108 | **-152** |
| Reclassification between the groups | -2 | 2 | - |
| Translation differences | - | - | - |
| **31.12.2011** | **59** | **626** | **685** |
| | | | |
| **Depreciation and impairment** | | | |
| 1.1.2011 | -3 | -304 | -308 |
| Depreciation for the year | -1 | -76 | **-76** |
| Write-downs for the year | - | - | - |
| Accumulated depreciation on disposals for the year | 2 | 57 | **59** |
| Reclassification between the groups | - | - | - |
| Translation differences | - | - | - |
| **31.12.11** | **-2** | **-323** | **-325** |
| | | | |
| **Carrying amount** | | | |
| **31.12.2011** | **57** | **303** | **359** |

cont. note 13

| Acquisition cost | Buildings and production facilities | Machinery and equipment | Total |
|---|---|---|---|
| 1.1.2010 | | | |
| Ordinary additions | 575 | 500 | 1,075 |
| Additions from the acquisition of business | 6 | 100 | 106 |
| Disposals | 35 | 55 | 90 |
| Translation differences | -566 | -92 | -658 |
| 31.12.2010 | - | 3 | 3 |
| **31.12.10** | **49** | **567** | **616** |
| | | | |
| **Depreciation and impairment** | | | |
| 1.1.2010 | -12 | -314 | -327 |
| Depreciation for the year | -19 | -68 | -87 |
| Write-downs for the year | - | - | - |
| Accumulated depreciation on disposals for the year | 28 | 81 | 109 |
| Reclassification between the groups | - | -1 | -1 |
| Translation differences | - | -2 | -2 |
| **31.12.10** | **-3** | **-304** | **-308** |
| | | | |
| **Carrying amount** | | | |
| **31.12.2010** | **46** | **262** | **308** |

| Acquisition cost | | | |
|---|---|---|---|
| 1.1.2009 | 259 | 520 | 779 |
| Ordinary additions | 317 | 65 | 381 |
| Additions from the acquisition of business | - | - | - |
| Disposals | -1 | -79 | -80 |
| Reclassification between the groups | - | - | - |
| Translation differences | - | -5 | -5 |
| **31.12.2009** | **575** | **500** | **1,075** |
| | | | |
| **Depreciation and impairment** | | | |
| 1.1.2009 | -2 | -316 | -318 |
| Depreciation for the year | -11 | -64 | -75 |
| Write-downs for the year | - | - | - |
| Accumulated depreciation on disposals for the year | - | 63 | 63 |
| Reclassification between the groups | - | 3 | 3 |
| Translation differences | - | - | - |
| **31.12.09** | **-12** | **-314** | **-327** |
| | | | |
| **Carrying amount** | | | |
| **31.12.2009** | **562** | **186** | **748** |

| Leasing | 2011 | 2010 | 2009 |
|---|---|---|---|
| **Operational leasing (annual rent)** | 376 | 274 | 267 |
| **Financial leasing** [1] | 15 | 17 | 35 |

[1] Capitalised leases, machinery and equipment.

**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 production facilities | 2-5 % |
| Land | 0 % |

**Collateral**

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

# Note 14 Intangible assets

| Amounts in NOK million | Goodwill | Licences and software | Customer relationships | Quarrying rights | Other rights | Total |
|---|---|---|---|---|---|---|
| **Acquisition cost** | | | | | | |
| 01.01.2011 | 445 | 2 | 41 | 12 | - | 499 |
| Ordinary additions | - | 2 | - | - | **1** | 2 |
| Additions from the acquisition of business | 840 | - | - | - | - | 840 |
| Disposals at cost price | - | - | - | - | - | - |
| Reclassification between the groups | - | 3 | -3 | - | - | - |
| **31.12.2011** | **1,285** | **6** | **37** | **12** | **1** | **1,341** |
| | | | | | | |
| **Depreciation and impairment** | | | | | | |
| 1.1.2011 | - | - | -23 | -8 | - | -32 |
| Amortisation for the year | - | -1 | -7 | 0 | - | -8 |
| Write-downs for the year | - | - | - | - | -1 | -1 |
| Reclassification between the groups | - | -1 | 1 | - | - | - |
| **31.12.11** | **-** | **-2** | **-29** | **-9** | **-1** | **-40** |
| | | | | | | |
| **Carrying amount** | | | | | | |
| **31.12.11** | **1,285** | **4** | **8** | **3** | **-** | **1,300** |
| | | | | | | |
| **Acquisition cost** | | | | | | |
| 1.1.10 | 429 | 1 | 38 | 12 | - | 480 |
| Ordinary additions | - | - | 1 | - | - | 1 |
| Additions from the acquisition of business | 11 | - | - | - | - | 11 |
| Reclassification between the groups | - | - | 2 | - | - | 2 |
| Translation difference | 6 | - | - | - | - | 6 |
| **31.12.10** | **445** | **2** | **41** | **12** | **-** | **500** |
| | | | | | | |
| **Depreciation and impairment** | | | | | | |
| 1.1.2010 | - | - | -15 | -8 | - | -23 |
| Amortisation for the year | - | - | -8 | 0 | - | -8 |
| Write–downs for the year | - | - | -2 | - | - | -2 |
| **31.12.10** | **-** | **-** | **-24** | **-8** | **-** | **-32** |
| | | | | | | |
| **Carrying amount** | | | | | | |
| **31.12.10** | **445** | **1** | **18** | **3** | **-** | **467** |
| | | | | | | |
| **Acquisition cost** | | | | | | |
| 1.1.2009 | 440 | - | 38 | 12 | - | 490 |
| Ordinary additions | - | 1 | - | - | - | 1 |
| Reduction from the sale of business | -2 | - | - | - | - | -2 |
| Translation differences | -9 | - | - | - | - | -9 |
| **31.12.09** | **429** | **1** | **38** | **12** | **-** | **480** |
| | | | | | | |
| **Depreciation and impairment** | | | | | | |
| 1.1.09 | - | - | -7 | -8 | - | -15 |
| Amortisation for the year | - | - | -8 | - | - | -8 |
| **31.12.09** | **-** | **-** | **-15** | **-8** | **-** | **-23** |
| | | | | | | |
| **Carrying amount** | | | | | | |
| **31.12.09** | **429** | **1** | **23** | **4** | **-** | **458** |

cont. note 14

| | Licences and software | Customer relationships | Quarrying rights |
|---|---|---|---|
| Economic lifetime | 4–5 years | 5 years | 22 years |
| Amortisation schedule | Straight-line | Straight-line | Straight-line |

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

| Amounts in NOK million | 2011 | 2010 | 2009 |
|---|---|---|---|
| AF Anlegg | 11 | 11 | - |
| Pålplintar i Sverige AB | 3 | 3 | 3 |
| **Total Civil Engineering** | **13** | **13** | **3** |
| | | | |
| AF Bygg Göteborg AB | 77 | 77 | 72 |
| AF Bygg Østfold | 47 | 47 | 47 |
| Rogaland Entreprenør AS | 20 | - | - |
| Strøm Gundersen | 820 | - | - |
| **Total Building** | **964** | **124** | **119** |
| | | | |
| AF Decom AS | 37 | 37 | 37 |
| **Total Environment** | **37** | **37** | **37** |
| | | | |
| Aeron AS | 186 | 186 | 186 |
| AF Energi & Miljøteknikk AS | 53 | 55 | 55 |
| Mollier AS | 31 | 29 | 29 |
| **Total Energy** | **271** | **271** | **271** |
| | | | |
| **Carrying amount as at 31 December** | **1,285** | **445** | **429** |

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

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

| **Norway** | **2011** | **2010** | **2009** |
|---|---|---|---|
| Growth rate [1)] | 2.5 % | 2.0 % | 2.5 % |
| WACC before tax | 10.7 % | 11.5 % | 12.6 % |
| | | | |
| **Sweden** | | | |
| Growth rate [1)] | 2.5 % | 2.0 % | 2.5 % |
| WACC before tax | 9.5 % | 10.7 % | 12.6 % |

[1)] In 2009 growth was estimated only for the first four years. Perpetual growth is assumed for 2010 and 2011.

cont. note 14

Anticipated cash flows are based on the budget for 2012 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, for example, the 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. Wage inflation of 4.7 % and a 2.0 % increase in the cost of materials are anticipated for all business units.

**Sensitivity analysis for key assumptions**

The calculated value of the individual cash-generating units exceeds the book value with a relatively good margin at the end of 2011. 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 1 percentage point increase in the WACC will make it necessary to recognise an impairment loss for the goodwill allocated to Aeron AS.

| | | | **Recoverable amount if WACC is increased by:** | |
|---|---|---|---|---|
| Indexed values | **Recoverable amount** | **Book value of assets** | **100 bp** | **500 bp** |
| AF Bygg Göteborg AB | 208 | 100 | 181 | 100 |
| Strøm Gundersen | 183 | 100 | 163 | 114 |
| AF Decom AS | 266 | 100 | 237 | 163 |
| AF Energi og Miljøteknikk AS | 185 | 100 | 165 | 115 |
| Mollier AS | 446 | 100 | 397 | 277 |
| Aeron AS | 102 | 100 | 92 | 62 |

**b) Sensitivity analysis of cash flows**

The table below shows the relationship between normalised cash flows assumed in the calculation of the recoverable amount and the estimated 'break even' cash flow in the impairment test of 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 Strøm Gundersen, 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 Göteborg AB | 222 | 100 | 200 | 111 |
| Strøm Gundersen | 169 | 100 | 152 | 84 |
| AF Decom AS | 373 | 100 | 336 | 187 |
| AF Energi & Miljøteknikk AS | 186 | 100 | 168 | 93 |
| Mollier AS | 446 | 100 | 401 | 223 |
| Aeron AS | 108 | 100 | 97 | 54 |

# Note 15 Subsidiaries

| Company name | Date acquired | Business address City | Country | Direct ownership | Indirect ownership | Voting share | Business area |
|---|---|---|---|---|---|---|---|
| AF Gruppen Norge AS | 05.09.85 | Oslo | Norway | 100.00 % | 100.00 % | 100.00 % | Civil Engineering, Building, Property |
| Pålplintar i Sverige AB | 14.01.00 | Södertälje | Sweden | 100.00 % | 100.00 % | 100.00 % | Civil Engineering |
| Johan Rognerud AS | 01.10.10 | Jessheim | Norway | 100.00 % | 100.00 % | 100.00 % | Civil Engineering |
| AF Arctic AS | 14.02.11 | Longyearbyen | Norway | 100.00 % | 100.00 % | 100.00 % | Civil Engineering |
| AF Bygg Göteborg AB | 01.07.01 | Göteborg | Sweden | 100.00 % | 100.00 % | 100.00 % | Building |
| AF Bygg Syd AB | 30.06.07 | Halmstad | Sweden | 75.00 % | 75.00 % | 75.00 % | Building |
| SG Gruppen Kongsvinger AS | 03.11.11 | Kongsvinger | Norway | 100.00 % | 100.00 % | 100.00 % | Building |
| Strøm Gundersen Holding AS | 03.11.11 | Drammen | Norway | 84.50 % | 84.50 % | 84.50 % | Building |
| Strøm Gundersen AS | 03.11.11 | Mjøndalen | Norway | 84.50 % | 100.00 % | 100.00 % | Building |
| Haga & Berg Holding AS | 03.11.11 | Mjøndalen | Norway | 84.50 % | 100.00 % | 100.00 % | Building |
| Haga & Berg Entreprenør AS | 03.11.11 | Oslo | Norway | 50.70 % | 60.00 % | 60.00 % | Building |
| VSP Holding AS | 03.11.11 | Mjøndalen | Norway | 65.74 % | 77.80 % | 77.80 % | Building |
| Consolvo AS | 03.11.11 | Tranby | Norway | 65.74 % | 100.00 % | 100.00 % | Building |
| Consolvo Support AS | 03.11.11 | Tranby | Norway | 39.44 % | 60.00 % | 60.00 % | Building |
| Consolvo Overflate AS | 03.11.11 | Tranby | Norway | 33.53 % | 51.00 % | 51.00 % | Building |
| Protector AS | 03.11.11 | Tranby | Norway | 65.74 % | 100.00 % | 100.00 % | Building |
| Consolvo Eiendom AS | 03.11.11 | Tranby | Norway | 65.74 % | 100.00 % | 100.00 % | Building |
| Protector CPE AB | 03.11.11 | Göteborg | Sweden | 55.88 % | 85.00 % | 85.00 % | Building |
| Protector KKS GmbH | 03.11.11 | Remsekk | Germany | 65.74 % | 100.00 % | 100.00 % | Building |
| Corroteam AS | 03.11.11 | Mjøndalen | Norway | 59.15 % | 70.00 % | 70.00 % | Building |
| MTH AS | 03.11.11 | Mjøndalen | Norway | 48.92 % | 67.00 % | 67.00 % | Building |
| Thorendahl AS | 03.11.11 | Oslo | Norway | 48.92 % | 100.00 % | 100.00 % | Building |
| Oslo Stillasutleie AS | 03.11.11 | Oslo | Norway | 48.92 % | 100.00 % | 100.00 % | Building |
| Storo Blikkenslagerverksted AS | 03.11.11 | Oslo | Norway | 34.25 % | 70.00 % | 70.00 % | Building |
| Ulf W Jacobsen AS | 03.11.11 | Oslo | Norway | 34.25 % | 100.00 % | 100.00 % | Building |
| AF Rogaland Entreprenør AS | 15.11.11 | Stavanger | Norway | 56.80 % | 56.80 % | 56.80 % | Building |
| Kilen Bygg AS | 25.05.04 | Oslo | Norway | 100.00 % | 100.00 % | 100.00 % | Property |
| Kilen Brygge AS | 15.03.05 | Sandefjord | Norway | 100.00 % | 100.00 % | 100.00 % | Property |
| Kirkeveien Utbyggingsselskap AS | 01.07.06 | Oslo | Norway | 100.00 % | 100.00 % | 100.00 % | Property |
| Rolvsrud Utbygging AS | 31.10.08 | Oslo | Norway | 100.00 % | 100.00 % | 100.00 % | Property |
| Rolvsrud Bygg AS | 31.10.08 | Oslo | Norway | 100.00 % | 100.00 % | 100.00 % | Property |
| Kilen Boliger AS | 31.08.10 | Oslo | Norway | 100.00 % | 100.00 % | 100.00 % | Property |
| Kilen Høyhus AS | 31.08.10 | Oslo | Norway | 100.00 % | 100.00 % | 100.00 % | Property |
| Palmer Gotheim Skiferbrudd AS | 01.01.07 | Oppdal | Norway | 100.00 % | 100.00 % | 100.00 % | Environment |
| AF Group Polska Sp.z.o.o. | 24.10.07 | Warszawa | Poland | 100.00 % | 100.00 % | 100.00 % | Environment |
| AF Decom AB | 15.12.07 | Göteborg | Sweden | 100.00 % | 100.00 % | 100.00 % | Environment |
| AF Miljø AS | 01.01.09 | Oslo | Norway | 100.00 % | 100.00 % | 100.00 % | Environment |
| AF Decom AS | 01.01.09 | Oslo | Norway | 100.00 % | 100.00 % | 100.00 % | Environment |
| AF Decom Offshore AS | 01.01.09 | Oslo | Norway | 100.00 % | 100.00 % | 100.00 % | Environment |
| Vici Ventus Construction AS | 08.12.09 | Oslo | Norway | 100.00 % | 100.00 % | 100.00 % | Environment |
| AF Decom Offshore UK Ltd. | 24.05.10 | London | England | 100.00 % | 100.00 % | 100.00 % | Environment |
| BA Gjenvinning AS | 01.11.10 | Oslo | Norway | 100.00 % | 100.00 % | 100.00 % | Environment |
| AF Energi & Miljøteknikk AS | 31.05.06 | Oslo | Norway | 100.00 % | 100.00 % | 100.00 % | Energy |
| AF Entech AS | 02.04.09 | Oslo | Norway | 100.00 % | 100.00 % | 100.00 % | Energy |
| Mollier AS | 12.10.07 | Sandnes | Norway | 100.00 % | 100.00 % | 100.00 % | Energy |
| Aeron AS | 01.07.08 | Flekkefjord | Norway | 100.00 % | 100.00 % | 100.00 % | Energy |
| Aeron Energy Technologies Ltd. | 16.11.09 | Shanghai | China | 100.00 % | 100.00 % | 100.00 % | Energy |
| RCO2 AS | 21.12.09 | Langhus | Norway | 94.80 % | 94.80 % | 94.80 % | Energy |

# Note 16 Joint ventures

| Company | Acquisition date | Business address | Ownership interest | Voting share | Business area |
|---|---|---|---|---|---|
| Kjørbokollen AS | 02.09.99 | Bærum, Norway | 50 % | 50 % | Property |
| Ørebekksstranda AS | 30.01.06 | Råde, Norway | 50 % | 50 % | Property |
| Karlstadgata Utbygging ANS | 29.04.05 | Oslo, Norway | 50 % | 50 % | Property |

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 | 2011 | 2010 | 2009 |
|---|---|---|---|
| Non-current assets | - | - | 4 |
| Current assets | 2 | 3 | 7 |
| Non-current liabilities | - | - | -2 |
| Current liabilities | -5 | - | -4 |
| **Net assets** | **-3** | **3** | **5** |
| | | | |
| Revenues | - | 11 | 17 |
| Expenses | -5 | -13 | -17 |
| **Profit before tax** | **-5** | **-2** | **-** |

# Note 17 Investments in associates

| Amounts in NOK million | 2011 | 2010 | 2009 |
|---|---|---|---|
| Book value of investments in associates as at 1 January | 126 | 27 | 31 |
| Additions | 1 | 99 | 2 |
| Disposals | -1 | - | - |
| Reclassification of investments | - | - | -4 |
| Share of profit after tax for the year | 17 | -1 | -1 |
| Adjustments through profit and loss | - | - | 1 |
| Impairment losses | - | - | -5 |
| Other equity adjustments | 1 | - | 4 |
| Currency translation differences | - | 1 | -1 |
| **Investments in associates as at 31 December** | **146** | **126** | **27** |

cont. note 17

| Company | Acquisition date | Business address | Ownership stake | Voting share | Business area |
|---|---|---|---|---|---|
| Skummeslövsgården AB | 1.2.07 | Gothenburg | 38.00 % | 38.00 % | Building |
| Västra Sandarna Fastighetsutveckling AB | 7.2.08 | Gothenburg | 25.00 % | 25.00 % | Building |
| Surte Tower AB | 30.6.08 | Gothenburg | 50.00 % | 50.00 % | Building |
| Fastigheter i Strandängen AB | 14.5.08 | Gothenburg | 50.00 % | 50.00 % | Building |
| AF Göteborg Lagerhyllan 3 AB | 14.5.08 | Gothenburg | 34.00 % | 34.00 % | Building |
| AF Göteborg Lagerhyllan 1 AB | 14.1.11 | Gothenburg | 38.00 % | 38.00 % | Building |
| Romerike Boligutvikling AS | 2.11.93 | Lillestrøm | 40.00 % | 40.00 % | Property |
| Randemjordet AS | 10.8.05 | Bodø | 49.00 % | 49.00 % | Property |
| Sandakerveien 99B AS | 20.8.07 | Oslo | 33.33 % | 33.33 % | Property |
| Sandakerveien 99B KS | 20.8.07 | Oslo | 33.33 % | 30.00 % | Property |
| Grefsenkollveien 16 AS | 9.11.07 | Oslo | 33.33 % | 33.33 % | Property |
| Grefsenkollveien 16 KS | 9.11.07 | Oslo | 33.33 % | 30.00 % | Property |
| Stovner Utvikling AS | 12.2.10 | Oslo | 33.33 % | 33.33 % | Property |
| Stovner Utvikling KS | 12.2.10 | Oslo | 33.33 % | 30.00 % | Property |
| Blomsterstykket Utvikling KS | 1.4.11 | Oslo | 33.33 % | 30.00 % | Property |
| Blomsterstykket Utbygging AS | 1.6.10 | Oslo | 50.00 % | 50.00 % | Property |
| Nordliveien Utbygging AS | 14.2.11 | Oslo | 33.33 % | 30.00 % | Property |
| Sponvika Utvikling AS | 22.6.11 | Oslo | 40.00 % | 40.00 % | Property |
| Sponvika Utvikling 1 KS | 22.6.11 | Oslo | 36.00 % | 36.00 % | Property |
| Skoggata KS | 22.6.11 | Oslo | 36.00 % | 36.00 % | Property |
| Rolfsbukta Utvikling AS | 22.11.11 | Oslo | 33.33 % | 30.00 % | Property |
| Rolfsbukta Utvikling KS | 22.11.11 | Oslo | 30.00 % | 30.00 % | Property |
| Rolvsrud Utbygging 1 AS | 30.4.10 | Oslo | 45.00 % | 45.00 % | Property |
| Rolvsrud Utbygging 1 KS | 30.4.10 | Oslo | 45.00 % | 40.50 % | Property |
| Rolvsrud Utbygging 2 AS | 30.4.10 | Oslo | 45.00 % | 45.00 % | Property |
| Rolvsrud Utbygging 2 KS | 30.4.10 | Oslo | 45.00 % | 40.50 % | Property |
| Vici Ventus Technology AS | 26.9.09 | Stavanger | 33.33 % | 33.33 % | Environment |
| Miljøbase Vats AS | 15.11.10 | Oslo | 40.00 % | 40.00 % | Environment |

The Group's share of profit, assets and liabilities in associates:

Amounts in NOK million

| Company | Assets | Liabilities | Equity | Revenue | Profit/(loss) | Book value |
|---|---|---|---|---|---|---|
| Skummeslövsgården AB | 3 | 1 | 3 | 3 | - | 7 |
| Västra Sandarna Fastighetsutveckling AB | - | - | - | - | - | - |
| Surte Tower AB | - | - | - | - | - | - |
| Fastigheter i Strandängen AB | 5 | 5 | - | - | - | - |
| AF Göteborg Lagerhyllan 3 AB | - | - | - | - | -2 | - |
| AF Göteborg Lagerhyllan 1 AB | 2 | 1 | - | - | - | - |
| Romerike Boligutvikling AS | 1 | - | 1 | - | - | 1 |
| Randemjordet AS | 10 | 7 | 3 | 2 | 1 | 3 |
| Sandakerveien 99B AS | 5 | - | 5 | - | 2 | - |
| Sandakerveien 99B KS | 89 | 80 | 10 | 47 | 5 | 9 |
| Grefsenkollveien 16 AS | 2 | - | 2 | - | - | 2 |
| Grefsenkollveien 16 KS | 23 | 10 | 13 | 57 | 3 | 10 |
| Stovner Utvikling AS | 2 | - | 2 | - | 1 | -1 |
| Stovner Utvikling KS | 41 | 28 | 13 | 38 | 3 | 10 |
| Blomsterstykket Utbygging AS | 1 | - | 1 | 10 | - | 2 |
| Blomsterstykket Utvikling KS | 24 | 14 | 10 | 16 | 3 | 7 |
| Nordliveien AS | 1 | 1 | - | - | - | 5 |
| Sponvika Utvikling AS | - | - | - | - | - | - |
| Sponvika Utvikling KS | 1 | - | 1 | - | - | 1 |
| Rolfsbukta Utvikling AS | 1 | - | 1 | - | - | 1 |
| Rolfsbukta Utvikling KS | 31 | 28 | 2 | - | - | 2 |
| Skoggata KS | 2 | - | 1 | - | - | 1 |
| Rolvsrud Utbygging 1 AS | 1 | - | 1 | - | - | 1 |
| Rolvsrud Utbygging 1 KS | 20 | 7 | 13 | 38 | 2 | 11 |
| Rolvsrud Utbygging 2 AS | 1 | - | 1 | - | 2 | -3 |
| Rolvsrud Utbygging 2 KS | 31 | 25 | 6 | 34 | - | - |
| Vici Ventus Technology AS | 2 | - | 2 | 1 | - | 1 |
| Miljøbase Vats AS | 218 | 156 | 63 | 19 | - | 73 |
| **Total** | **518** | **365** | **154** | **266** | **17** | **146** |

# Note 18 Inventories

| Amounts in NOK million | 2011 | 2010 | 2009 |
|---|---|---|---|
| Spare parts and project inventories | 63 | 44 | 25 |
| Raw materials | 40 | 25 | 33 |
| Finished products | 15 | 24 | 18 |
| **Total inventories** | **118** | **93** | **76** |

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 2011, 2010 or 2009.

# Note 19 Projects for own account

| Beløp i MNOK | 2011 | 2010 | 2009 |
|---|---|---|---|
| Housing projects in progress [1)] | 103 | 18 | 12 |
| Completed housing units for sale | 52 | 99 | 153 |
| Land for development [2)] | 84 | 90 | 92 |
| **Total projects for own account** | **239** | **207** | **257** |
| | | | |
| Of which capitalised interest | 4 | 5 | 7 |
| Interest rate for capitalised interest | 4 % | 4 % | 4 % |

[1)] Projects in progress represent housing units under construction.

[2)] Land for development represents sites and development rights for which no decision on development has yet been taken. This can be used to build 1,101 residential units, of which AF's share is 639 (436) and 22,200 m² (22,200) of commercial area.

Inventories of projects for own account 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 the fair value of completed housing units for sale would not have resulted in impairment of the carrying amount at the end of 2011 or 2010.

| | 2011 | 2010 | 2009 |
|---|---|---|---|
| Number of completed housing units for sale | 17 | 45 | 75 |
| Number of completed housing units for sale temporarily rented out | 8 | 24 | 43 |

Completed housing units that are not sold are rented out on short-term contracts which are terminated if a sale is imminent.

# Note 20 Projects in progress

| Amounts in NOK million | Note | 2011 | 2010 | 2009 |
|---|---|---|---|---|
| **Contracts in progress at year end** | | | | |
| **Unearned revenue invoiced** | | | | |
| Recognised as revenue under projects in progress | | 10,289 | 10,305 | 3,721 |
| Invoiced on projects in progress | | -11,233 | -10,900 | -4,260 |
| **Total unearned revenue invoiced** | | **-944** | **-595** | **-539** |
| | | | | |
| **Distribution in the balance sheet** | | | | |
| Production invoiced in advance included in trade receivables | 21 | -352 | -358 | -234 |
| Production invoiced in advance included in other current liabilities | 29 | -592 | -237 | -305 |
| **Total unearned revenue invoiced** | | **-944** | **-595** | **-539** |
| | | | | |
| **Earned revenue not invoiced** | | | | |
| Recognised as revenue under projects in progress | | 3,062 | 1,824 | 2,562 |
| Invoiced on projects in progress | | -2,874 | -1,656 | -2,349 |
| **Total earned revenue not invoiced** | 21 | **188** | **168** | **214** |
| | | | | |
| **Credit balances with customers** | 21 | **363** | **198** | **219** |
| | | | | |
| **Recognised in the income statement under projects in progress:** | | | | |
| Accumulated revenue | | 13,351 | 12,129 | 6,283 |
| Accumulated project contributions | | 1,029 | 533 | 653 |
| Production outstanding on onerous contracts [1)] | | 104 | 57 | 178 |

[1)] Expected loss on production outstanding on onerous contracts is recognised in the income statement.

# Note 21 Trade and non-interest-bearing receivables

| Amounts in NOK million | Note | 2011 | 2010 | 2009 |
|---|---|---|---|---|
| Trade receivables | | 1,493 | 995 | 929 |
| Earned revenue, not invoiced on projects in progress | 20 | 188 | 168 | 214 |
| Unearned revenue, invoiced on projects in progress | 20 | -352 | -358 | -234 |
| Credit balances with clients | 20 | 363 | 198 | 219 |
| Tax paid in advance | | 2 | 2 | 2 |
| Value-added tax and other public charges paid in advance | | 5 | 4 | 2 |
| Prepaid expenses | | 20 | 45 | 10 |
| Other current non-interest-bearing receivables | | 62 | 49 | 46 |
| **Trade and other non-interest-bearing receivables** | 30 | **1,781** | **1,103** | **1,187** |
| | | | | |
| Gross trade receivables | | 1,507 | 1,008 | 934 |
| Provisions for bad debt | 30 | -14 | -13 | -5 |
| **Trade receivables recognised on the balance sheet** | | **1,493** | **995** | **929** |
| | | | | |
| **Movement in provisions for losses on trade receivables** | | | | |
| Provision for losses as at 1 January | | -13 | -5 | -3 |
| Losses written off during the year | | 3 | 2 | - |
| Reversal of last year's provisions | | - | - | - |
| Provisions for the year | 6 | -4 | -10 | -2 |
| **Provision for losses as at 31 December** | | **-14** | **-13** | **-5** |

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 2011 NOK 10 million (5) was restricted funds. The AF Group has provided a bank guarantee of NOK 85 million (80) as security for tax withholding funds in the Group.

# Note 23 Share capital and shareholder information

Amount in whole NOK

| **The share capital consists of:** | **Number** | **Nominal value** | **Book value** |
|---|---|---|---|
| A-shares | 80,814,490 | 0.05 | 4,040,724,50 |

| **Shareholder** | **Andel (%)** | **Antall aksjer** |
|---|---|---|
| Obos Forretningsbygg AS | 26.2 | 21,162,075 |
| Constructio AS | 12.6 | 10,168,670 |
| ØMF Invest AS | 12.6 | 10,168,670 |
| Aspelin-Ramm Gruppen AS | 6.0 | 4,787,385 |
| VITO Kongsvinger AS | 4.3 | 3,461,676 |
| LJM AS | 3.1 | 2,513,900 |
| Moger Invest AS | 2.6 | 2,064,621 |
| Skogheim, Arne | 2.1 | 1,723,870 |
| ØMF Holding AS | 2.1 | 1,673,307 |
| Staavi, Bjørn | 1.8 | 1,476,010 |
| **Ten largest shareholders** | **73.3** | **59,200,184** |
| Total other shareholders | 26.7 | 21,549,721 |
| Treasury shares | 0.1 | 64,585 |
| **Total outstanding shares** | **100.0** | **80,814,490** |

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 2011** | **71,117,940** |
|---|---|
| New issue to employees on 18 February 2011 | 5,163,750 |
| New issue to employees on 12 May 2011 | 513,000 |
| Private offering for acquisition of a company on 2 November 2011 | 4,019,800 |
| **Total number of shares as at 31 December 2011** | **80,814,490** |

**Shares and options owned by senior executives as at 31 December 2011**

| **Board of Directors** | | **No. of options** | **No. of shares** |
|---|---|---|---|
| Tore Thorstensen [1)] | Elected by shareholders (Chairman) | - | 11,500 |
| Peter Groth [2)] | Elected by shareholders | - | 11,500 |
| Eli Arnstad [3)] | Elected by shareholders | - | - |
| Mari Broman | Elected by shareholders | - | - |
| Carl Henrik Eriksen [4)] | Elected by shareholders | - | - |
| Tor Olsen [5)] | Elected by employees | 5,130 | 23,775 |
| Henrik Nilsson | Elected by employees | 1,370 | 12,950 |
| Arne Sveen | Elected by employees | - | - |
| **Total** | | **6,500** | **59,725** |

cont. note 23

[1] Represents, in addition to his own shares, KB Gruppen Kongsvinger AS, Tokanso AS, Vålerveien 229 AS og Gunnar Holth Holding AS as the owner of 191,564, 368,346, 103,800 and 106,907 shares, respectively.
[2] Represents, in addition to his own shares, Aspelin Ramm Gruppen AS, which owns 4,787,385 shares and Ringkjøb Invest AS, which owns 76,355 shares.
[3] A party related to Eli Arnstad owns 1,440 shares.
[4] Represents OBOS Forretningsbygg AS, which owns 21,162,075 shares.
[5] Represents, in addition to his own shares, T. Olsen Holding AS, which owns 96,515 shares.

| Corporate Management Team | | Options | Shares |
|---|---|---|---|
| Pål Egil Rønn | CEO | 27,250 | 331,525 |
| Sverre Hærem | Executive Vice President/CFO | 17,350 | 220,350 |
| Tore Fjukstad | Executive Vice President | 17,200 | 210,850 |
| Robert Haugen | Executive Vice President | 17,450 | 278,700 |
| Paul-Terje Gundersen | Executive Vice President | 16,250 | 133,250 |
| Arild Moe | Executive Vice President | 17,100 | 382,970 |
| **Total** | | **112,600** | **1,557,645** |

The Board is authorised to acquire up to 10 % of the share capital. This authority is valid until the 2012 Annual General Meeting, which is scheduled for 11 May 2012.

The option programme for employees was adopted in 2008 and terminated in February 2011. In this connection 5,163,750 new shares were issued to employees in a private offering.

An option programme for all employees of AF Gruppen ASA and subsidiaries was adopted at the Annual General Meeting held on 13 May 2011, and it entails entitlement to subscribing for a total of 6,000,000 options during the years 2011, 2012 and 2013, with redemption in 2014. In 2011 a total of 2,092,763 options were allotted in the new programme.

# Note 24 Treasury shares

Treasury shares have been bought with a view to selling to the employees and as partial payment for company acquisitions. Shares have not been bought from related parties in 2011 or 2010.

| Share transactions | 2011 | 2010 | 2009 |
|---|---|---|---|
| Number of shares acquired | 64,285 | 692,055 | 278,000 |
| Average acquisition cost per share (NOK) | 45,6 | 38,1 | 24,4 |
| **Total acquisition cost** | **3** | **26** | **7** |
| Number of shares sold to employees | 449,700 | 492,100 | 257,000 |
| Shares forming part of consideration for acquisition of business | | - | 91,105 |
| **Total disposal of shares** | **449,700** | **492,100** | **348,105** |
| Average selling price per share (NOK) | 34,6 | 34,2 | 18,7 |
| **Sales proceeds (amounts in NOK million)** | **16** | **17** | **7** |
| – Cost price of shares sold (amounts in NOK million) | -17 | -15 | -8 |
| **Gain/(loss) on shares sold (amounts in NOK million)** | **-2** | **1** | **-1** |
| Number of treasury shares as at 31 December | 64,585 | 450,000 | 250,045 |
| Nominal value of treasury shares at NOK 0.05 each (NOK) | 3,229 | 22,500 | 12,502 |

Transactions recognised directly through equity are specified in the 'Consolidated statement of changes in equity'.

# 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 1G [G is the National Insurance base amount] and 6G and 8 % of pay between 6G and 12G, with the employees paying 2 % of their 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 12G [G is the 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 payments expected from this scheme. The rest is funded through accumulated reserves in insurance companies. At the end of 2011 there were 56 (74) active participants and 97 (91) pensioners in the scheme.

In addition, AF Gruppen Norge AS has participated in the Norwegian Federation of Trade Unions (LO)/Norwegian Confederation of Norwegian Enterprise (NHO) scheme under which employees were entitled to early retirement pension (AFP) from the age of 62. A decision was made in this company to discontinue this scheme in February 2010, and it was only possible to retire early in accordance with the old scheme 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 scheme. Future liabilities associated with this scheme are funded through revenues from operations and are unfunded. In addition, there are two other companies in the Group that are members in the scheme, and they have a total of 167 active participants covered by the scheme. At the end of the year the Group had 44 (48) contractual early retirement 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 contractual early retirement pension scheme was terminated. This shortfall will have to be covered 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 contractual retirement scheme was established to replace the old scheme. The new contractual retirement scheme is, as opposed to the old scheme, not an early retirement scheme, but a scheme that pays a lifelong supplement to an ordinary pension. The employees can choose to start drawing on this retirement scheme from the age of 62, even while working, and it offers entitlement to additional benefits if the employees work until the age of 67. The new contractual retirement scheme is a defined benefit multi-company pension scheme, and it is financed through premiums that are defined as a percentage of the employee's salary. At present there is no reliable measurement and allocation of the liabilities and funds in the scheme. In the accounts this scheme is treated as a defined contribution pension scheme in which the premium payments are recognised as costs on an ongoing basis, and no provisions are set aside in the accounts. The premium will be fixed at 1.4% of the total payments between 1G and 7.1G 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.

All the employees in Sweden are members of two defined-benefit multi-company schemes that are recognised as defined-contribution schemes in the accounts (see note on accounting policies). This scheme covers 183 (189) persons.

**Retirement benefit expenses for the year has been calculated as follows:**

| Amounts in NOK million | 2011 | 2010 | 2009 |
|---|---|---|---|
| Present value of pension benefits earned during the year | -3 | -3 | -3 |
| Interest cost of vested pension obligations | -3 | -4 | -3 |
| Expected return on pension plan assets | 4 | 5 | 5 |
| Social security costs | - | -1 | -1 |
| Actuarial gains/losses recognised in the income statement | -2 | -2 | -1 |
| **Total defined-benefit retirement benefits** | **-4** | **-5** | **-3** |
| Defined-contribution retirement benefits, Norway [*)] | -27 | -31 | -24 |
| Contributions to retirement benefit schemes, Sweden [*)] | -5 | -5 | -5 |
| Other retirement benefit expenses [*)] | -7 | - | - |
| **Retirement benefit expense for the year** | **-42** | **-41** | **-33** |

[*)] Exclusive of social security costs

The retirement benefit expense 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.

cont. note 25

| Amounts in NOK million | 2011 | | | 2010 | | | 2009 | | |
|---|---|---|---|---|---|---|---|---|---|
| **Retirement benefit obligations and plan assets** | **Funded** | **Unfunded** | **Total** | **Funded** | **Unfunded** | **Total** | **Funded** | **Unfunded** | **Total** |
| **Change in gross retirement benefit obligations** | | | | | | | | | |
| Gross retirement benefit obligations as at 1 January | 78 | 8 | 87 | 83 | 3 | 86 | 80 | 2 | 83 |
| Present value of benefits earned during the year | 3 | - | 3 | 3 | - | 3 | 3 | - | 3 |
| Interest expense on retirement benefit obligations | 2 | - | 2 | 5 | - | 5 | 3 | - | 3 |
| Actuarial losses/(gains) | -3 | - | -3 | -8 | 6 | -2 | - | 2 | 2 |
| Retirement benefit payments, excl. social security costs | -4 | -3 | -7 | -3 | -2 | -5 | -4 | -1 | -5 |
| PBO discrepancy, change due to change in data | - | 1 | 1 | - | - | - | - | - | - |
| **Gross retirement benefit obligations as at 31 December** | **76** | **6** | **81** | **79** | **7** | **86** | **83** | **3** | **86** |
| | | | | | | | | | |
| Change in gross plan assets | | | | | | | | | |
| Fair value of plan assets as at 1 January | 88 | - | 88 | 93 | - | 93 | 86 | - | 86 |
| Expected return on plan assets | 4 | - | 4 | 5 | - | 5 | 5 | - | 5 |
| Actuarial (losses)/gains | -6 | - | -6 | -9 | - | -9 | - | - | - |
| Premium payments | 4 | - | 4 | 3 | - | 3 | 6 | - | 6 |
| Retirement benefit payments | -4 | - | -4 | -3 | - | -3 | -4 | - | -4 |
| **Fair value of plan assets as at 31 December** | **86** | **-** | **86** | **88** | **-** | **88** | **93** | **-** | **93** |
| | | | | | | | | | |
| Net retirement benefit obligations | -10 | 6 | -4 | -10 | 7 | -2 | -9 | 3 | -7 |
| Social security costs | | 1 | 1 | - | 1 | 1 | - | - | - |
| Unrecognised actuarial gains or losses | -8 | -5 | -13 | -5 | -7 | -13 | -5 | -2 | -7 |
| **Net book retirement benefit obligations (assets) as at 31 December** | **-18** | **2** | **-16** | **-15** | **1** | **-14** | **-14** | **1** | **-13** |
| | | | | | | | | | |
| Actual return on plan assets | -2 | - | -2 | -4 | - | -4 | 5 | - | 5 |
| Expected premium payment for next year | 4 | - | 4 | 3 | - | 3 | 4 | - | 4 |
| Expected benefit payments for next year | -4 | -2 | -6 | -3 | -2 | -5 | -4 | -1 | -5 |
| | | | | | | | | | |
| Change in obligations | | | | | | | | | |
| Net book retirement benefit obligations as at 1 January | -15 | 2 | -13 | -14 | 1 | -13 | -10 | 2 | -8 |
| Retirement benefit expense recognised in the income statement | 2 | 3 | 5 | 3 | 2 | 5 | 2 | 1 | 3 |
| Premium payments, incl. social security costs | -5 | - | -5 | -3 | - | -3 | -6 | - | -6 |
| Retirement benefit payments, unfunded schemes | - | -4 | -4 | - | -2 | -2 | - | -2 | -2 |
| **Net book retirement benefit obligations (assets) as at 31 December** | **-18** | **2** | **-16** | **-15** | **1** | **-14** | **-14** | **1** | **-13** |
| | | | | | | | | | |
| **Book retirement benefit obligations as at 31 December** | **-** | **2** | **2** | **-** | **1** | **1** | **-** | **1** | **1** |
| **Book plan assets as at 31 December** | **18** | **1** | **18** | **15** | **-** | **15** | **14** | **-** | **14** |

| **Development** | **2011** | **2010** | **2009** | **2008** | **2007** | **2006** |
|---|---|---|---|---|---|---|
| Gross retirement benefit obligations as at 31 December | 82 | 86 | 86 | 83 | 85 | 76 |
| Fair value of plan assets as at 31 December | -86 | -88 | -93 | -86 | -75 | -74 |
| Net retirement benefit obligations as at 31 December, excl. social security costs | -4 | -2 | -7 | -3 | 9 | 2 |
| | | | | | | |
| Actuarial (losses)/gains on retirement benefit obligations | 4 | 2 | -2 | 4 | -7 | - |
| Actuarial (losses)/gains on plan assets | -6 | -9 | - | -3 | -5 | 2 |

OThe above information was determined prospectively.

cont. note 25

| Assumptions for actuarial calculations | 31.12.2011 | 31.12.10 | 31.12.09 |
|---|---|---|---|
| Discount rate | 3.30 % | 3.20 % | 4.40 % |
| Return on plan assets * | 4.80 % | 4.60 % | 5.60 % |
| Pay inflation | 3.50 % | 3.50 % | 4.00 % |
| Adjustment of National Insurance base amount (G) | 3.75 % | 3.75 % | 4.00 % |
| Adjustment of retirement benefits | 0.70 % | 0.50 % | 1.30 % |
| Turnover | 10.00 % | 10.00 % | 10.00 % |
| Disability | ** | ** | ** |

*) Based on historical return realised by Norwegian life insurance companies.
**) K2005 adjusted for observed development.

| | 2011 | | 2010 | | 2009 | |
|---|---|---|---|---|---|---|
| **Estimated life expectancy** | **Men** | **Women** | **Men** | **Women** | **Men** | **Women** |
| Age 65 | 84.28 | 86.84 | 84.28 | 86.84 | 82.60 | **84.89** |
| Age 45 | 82.40 | 85.58 | 82.40 | 85.58 | 77.10 | **82.42** |
| Age 40 | 82.24 | 85.47 | 82.24 | 85.47 | 76.76 | **82.18** |

| Distribution of plan assets by investment category | 31.12.11 | 31.12.10 | 31.12.09 |
|---|---|---|---|
| Equities | 17.70 % | 13.6 % | **7.0 %** |
| Property | 17.30 % | 19.0 % | **21.0 %** |
| Non-current bonds | 41.30 % | 43.1 % | **45.0 %** |
| Current bonds | 20.50 % | 22.7 % | **26.0 %** |
| Other | 3.20 % | 1.6 % | **1.0 %** |
| **Total** | **100.0 %** | **100.0 %** | **100.0 %** |

# Note 26 Interest-bearing loans and credit facilities

| Amounts in NOK million | Effective interest rate | 2011 | 2010 | 2009 |
|---|---|---|---|---|
| Bank overdraft [1] | 6.8 % | 9 | 6 | - |
| Mortgage loans | 5.0 % | 80 | 16 | 50 |
| Financial lease liabilities | 3.5 % | 19 | 19 | 35 |
| Other loans | 5.7 % | 21 | 31 | 10 |
| **Total interest-bearing loans and credit facilities** | | **129** | **72** | **95** |
| **Classification on the balance sheet:** | | | | |
| **Current liabilities** | | | | |
| Non-current liabilities | | 39 | 23 | 73 |
| Total interest-bearing loans and credit facilities | | 90 | 49 | 22 |
| | | **129** | **72** | **95** |
| Maturity structure: | | | | |
| **Liabilities maturing within 1 year** | | | | |
| Liabilities maturing in between 1 and 5 years | | 39 | 23 | 73 |
| Liabilities maturing in more than 5 years | | 83 | 34 | 22 |
| Total | | 7 | 15 | - |
| **Sum** | | **129** | **72** | **95** |

1) At the end of 2011 the Group had an unutilised bank overdraft facility linked to a corporate cash pooling system of NOK 555 million (546 million). Assuming that additional collateral is furnished, the Group had unused credit lines for bank loans including overdraft facilities of NOK 900 million (900 million) at the end of 2011.

cont. note 26

**Financial lease liabilities are due for repayment as follows:**

| 2011 | 0–1 years | 1–5 years | After 5 years | Total |
|---|---|---|---|---|
| Repayment | 6 | 11 | 2 | 19 |
| Interest | - | 1 | - | 1 |
| **Minimum payment** | **6** | **12** | **2** | **20** |

| 2010 | 0–1 years | 1–5 years | After 5 years | Total |
|---|---|---|---|---|
| Repayment | 7 | 12 | - | 19 |
| Interest | - | 1 | - | 1 |
| **Minimum payment** | **7** | **13** | **-** | **20** |

| 2009 | 0–1 years | 1–5 years | After 5 years | Total |
|---|---|---|---|---|
| Repayment | 17 | 17 | - | 35 |
| Interest | 1 | 1 | - | 2 |
| **Minimum payment** | **18** | **19** | **-** | **36** |

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:**

| Minimum liabilities – operating leases | 2011 | 2010 | 2009 |
|---|---|---|---|
| **Machinery and vehicles** | | | |
| Leasing of machinery, due within 1 year | 101 | 100 | 70 |
| Leasing of machinery, due within 1–5 years | 220 | 207 | 171 |
| Leasing of machinery, due after 5 years | 3 | 14 | 16 |
| **Total** | **323** | **321** | **257** |
| | | | |
| **Office rent, installations and furnishings** | | | |
| Rent due within 1 year | 121 | 119 | 44 |
| Rent due within 1–5 years | 469 | 462 | 196 |
| Rent due after 5 years | 642 | 749 | 381 |
| **Total** | **1,232** | **1,331** | **620** |
| | | | |
| **Total operating lease liabilities** | **1,555** | **1,652** | **877** |
| | | | |
| **Maturity structure** | | | |
| Operating lease liabilities due within 1 year | 222 | 219 | 114 |
| Operating lease liabilities due within 1–5 years | 689 | 669 | 367 |
| Operating lease liabilities due after 5 years | 645 | 763 | 396 |
| **Total operating lease liabilities** | **1,555** | **1,652** | **877** |

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 17,290 square metres.

**Gross lease liabilities, excluding sublease income:**

| | |
|---|---|
| Office premises at Helsfyr, total $m^2$ | 17,290 |
| Rent per $m^2$ (NOK) | 1,937 |
| Annual rent (NOK million) | 33 |
| Rental period (years) | 14 |
| Minimum contractual payment (NOK million) | 469 |

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. The lease was entered into on 31 August 2010, is non-terminable and runs until 1 July 2025. The rental fee is NOK 47 million, excl. VAT per year. The table above includes 100 % of the lease liabilities related to Miljøbase Vats, however, the AF Group owns 40 % of the company.

Some of the assets leased under non-terminable operating leases are sub-leased. The figures for non-terminable leases are shown net of 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 ordinarily 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 376 million (274 million) has been recognised in the Group's consolidated income statement for operating leases for 2011, including NOK 102 million (94 million) for rented premises. Operating leases primarily consist of rented premises under non-terminable leases, machine hire under non-terminable leases, and short-term terminable leases for machinery and equipment.

**Group as lessor**
Revenue of NOK 14 million (14 million) has been recognised in the Group's consolidated income statement for operating leases. Lease income consists mainly of short-term office rental. Minimum sublease income is:

| Sublease of offices | 2011 | 2010 | 2009 |
|---|---|---|---|
| Sublease rent due within 1 year | 10 | 5 | **2** |
| Sublease rent due within 1–5 years | 39 | 12 | **2** |
| Sublease rent due after 5 years | - | - | - |
| **Total** | **49** | **16** | **4** |

# Note 28 Provisions

| Amounts in NOK million | Provisions for warranty work | Provisions for early retirement | Social security costs for options | Other provisions | Total provisions |
|---|---|---|---|---|---|
| As at 1 January 2011 | 38 | 11 | 11 | 46 | 106 |
| Reversal of earlier provisions | -32 | -3 | -11 | -19 | -65 |
| Provisions for the year | 43 | -1 | - | 49 | 91 |
| Used during the year | -4 | - | - | -5 | -10 |
| **As at 31 December 2011** | **44** | **7** | **-** | **70** | **122** |

| **Classification on the balance sheet** | 2011 | 2010 | 2009 |
|---|---|---|---|
| Non-current liabilities | 48 | 11 | - |
| Current liabilities | 75 | 95 | 53 |
| **Total** | **122** | **106** | **53** |

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 | 2011 | 2010 | 2009 |
|---|---|---|---|---|
| Trade payables | | 1,498 | 455 | 686 |
| Public liabilities | | 129 | 92 | 73 |
| Prepayments from customers | 20 | 592 | 237 | 305 |
| Accrued holiday pay, incl. social security costs | | 150 | 134 | 131 |
| Accruals and other current liabilities | | 182 | 570 | 520 |
| **Total trade payables and non-interest-bearing liabilities** | | **2,551** | **1,488** | **1,715** |

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 risks above 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 commodity and exchange 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 the granting of 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 related to trade and other 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 effect 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 for 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 | **2011** | **2010** | **2009** |
|---|---|---|---|
| **Trade receivables – age distribution** | | | |
| 1–30 days overdue | 357 | 107 | 100 |
| 31–60 days overdue | 53 | 26 | 37 |
| 61–90 days overdue | 41 | 62 | 16 |
| 91–120 days overdue | 40 | 3 | 11 |
| More than 120 days overdue | 88 | 114 | 168 |
| **Total receivables overdue, but not written down** | **579** | **312** | **332** |
| | | | |
| Receivables not yet due | 914 | 683 | 602 |
| **Trade receivables on the balance sheet** | **1,493** | **995** | **934** |

| **Age distribution 2011** | **Not yet due** | **1–30** | **31–60** | **61–90** | **91–120** | **>120** | **Total** |
|---|---|---|---|---|---|---|---|
| Trade receivables, gross | 914 | 357 | 54 | 41 | 41 | 100 | 1,507 |
| Provision for losses | - | - | -1 | - | -1 | -12 | -14 |
| **Trade receivables on the balance sheet** | **914** | **357** | **53** | **41** | **40** | **88** | **1,493** |

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 the 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.

cont. note 30

The tables below show the maximum credit exposure. The maximum credit exposure corresponds to book value.

| Amounts in NOK million | 2011 | 2010 | 2009 |
|---|---|---|---|
| **Financial assets** | | | |
| **Non-current assets** | | | |
| Interest-bearing receivables | 19 | 23 | 44 |
| Other receivables | - | 1 | 1 |
| **Current assets** | | | |
| Trade and non-interest-bearing financial receivables | 1,754 | 1,052 | 1,173 |
| Interest-bearing receivables | 103 | 6 | 12 |
| Cash and cash equivalents | 458 | 623 | 223 |
| **Maximum credit exposure** | **2,334** | **1,705** | **1,453** |

**(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 the description in Note 19 – Projects for own account for further information. The AF Group's financing is based on variable interest rates and the Group is, therefore, exposed to interest rate risk. The Group does not have any fixed interest rate agreements. See the description in Note 26 – Interest-bearing loans and credit facilities for further information.

The Group does not use derivatives to hedge the effective interest rate exposure.

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

| Amounts in NOK million | 2011 | 2010 | 2009 |
|---|---|---|---|
| Financial assets with a variable interest rate | 579 | 652 | 279 |
| Financial liabilities with a variable interest rate | -129 | -72 | -95 |
| **Net financial receivables** | **450** | **580** | **185** |
| Effect of a 100 basis point increase in rates on the profit after tax | 3 | 4 | 1 |
| Effect of a 100 basis point increase in rates on the profit after tax | -3 | -4 | -1 |

**(2.2) Currency risk and scrap steel price risk**
The Group operates in several countries and is exposed to currency risks in several currencies. The Group has 91 % (90 %) of its revenues and expenses in NOK, 9 % (8 %) in SEK and 0 % (2 %) in other currencies. The Group's currency risk is limited therefore primarily to fluctuations in the exchange rate between NOK and SEK. 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. In 2011 the net foreign exchange gain was NOK 0 million (6 million).

The Group is exposed to price risk from the sale of scrap steel recycled from the 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 around 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:**

| Amounts in NOK million | Current assets/(current liabilities) 2011 | 2010 | 2009 |
|---|---|---|---|
| Forward currency contracts | 1 | 7 | - |
| Forward commodity contracts | -7 | - | - |

**Sensitivity to exchange rate fluctuations**

**Receivables and liabilities in foreign currencies**
The AF Group has raised loans and has deposits in EUR, GBP, USD and SEK. Net bank deposits and receivables in foreign currencies other than the functional currency are exposed to an exchange rate risk and result in a foreign exchange gain or loss in the event of exchange rate fluctuations. The table illustrates the effect of a change in the exchange rates by 10 % on the profit after tax. The analysis assumes that other variables remain constant.

| Amounts in NOK million | Current assets/(current liabilities) 2011 | 2010 | 2009 |
|---|---|---|---|
| Effect of a 10 % appreciation of NOK in relation to all the currencies on the profit after tax | -6 | -4 | 10 |
| Effect of a 10 % weakening of NOK in relation to all the currencies on the profit after tax | 6 | 4 | -10 |

**Changes related to the translation of the profit after tax**
The book profit after tax for foreign companies is translated to NOK based on the average rate during the financial year and balance sheet items are translated at the rate in effect on the date of the balance sheet. The table shows how the profit after tax and equity will be affected by a fluctuation of 10 % in all the exchange rates. The analysis assumes that other variables remain constant.

| Amounts in NOK million | 2011 | 2010 | 2009 |
|---|---|---|---|
| **Effect on profit after tax** | | | |
| Effect of a 10 % appreciation of NOK in relation to all the currencies on the profit after tax | -1 | 6 | 1 |
| Effect of a 10 % weakening of NOK in relation to all the currencies on the profit after tax | 1 | -6 | -1 |
| **Effect on equity** | | | |
| Effect of a 10 % appreciation of NOK in relation to all the currencies on the equity | -15 | -14 | -15 |
| Effect of a 10 % weakening of NOK in relation to all the currencies on the equity | 15 | 14 | 15 |

**(2.3) Other price risks**
The Group is exposed to a price risk related to investments on the Group's balance sheet classified as available for sale or as assets at fair value through profit or loss. Financial assets exposed to a price risk totalled NOK 2 million (3 million) as at 31 December 2011.

**(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 linked to a corporate cash pooling system. Surplus liquidity in the consolidated account beyond what constitutes the necessary working capital is managed by the company's finance function. Surplus liquidity is mainly placed 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 of the projects. At the end of the year the Group had an unutilised bank overdraft facility linked to the corporate cash pooling system of NOK 555 million (546 million). 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 2011. See note 31 Capital management for information on the targets for capital management and the debt ratio in the Group.

cont. note 30

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

**Maturity structure of financial liabilities**

| | | | Maturity structure of contractual cash flows | | | | |
|---|---|---|---|---|---|---|---|
| Amounts in NOK million<br>**31 December 2011** | **Carrying amount** | **Future payment** | **Less than 6 months** | **6–12 months** | **1–2 years** | **2–5 years** | **More than 5 years** |
| **Non-derivative financial liabilities** | | | | | | | |
| Overdraft facility drawdowns | 9 | 9 | 9 | - | - | - | - |
| Mortgage loans | 80 | 92 | 6 | 7 | 20 | 52 | 7 |
| Financial lease liabilities | 19 | 20 | 3 | 4 | 7 | 4 | 2 |
| Other loans | 21 | 24 | 8 | 3 | 6 | 7 | - |
| Trade payables and other financial debt 1) | 1,680 | 1,680 | 1,680 | - | - | - | - |
| **Financial derivatives** | | | | | | | |
| Forward currency contracts | - | - | - | - | - | - | - |
| Forward commodity contracts | - | - | - | - | - | - | - |
| **Total** | **1,809** | **1,825** | **1,706** | **14** | **33** | **63** | **9** |
| | | | | | | | |
| **31 December 2010** | | | | | | | |
| **Non-derivative financial liabilities** | | | | | | | |
| Overdraft facility drawdowns | 6 | 6 | 6 | - | - | - | - |
| Mortgage loans | 16 | 17 | - | 3 | 6 | 8 | - |
| Financial lease liabilities | 19 | 20 | 4 | 3 | 5 | 8 | - |
| Other loans | 31 | 38 | 7 | - | 3 | 8 | 19 |
| Trade payables and other financial debt *) | 1,025 | 1,025 | 1,025 | - | - | - | - |
| **Financial derivatives** | | | | | | | |
| Forward currency contracts | - | - | - | - | - | - | - |
| Forward commodity contracts | 7 | 7 | 4 | 3 | - | - | - |
| **Total** | **1,104** | **1,114** | **1,047** | **10** | **15** | **24** | **19** |
| | | | | | | | |
| **31 December 2009** | | | | | | | |
| **Non-derivative financial liabilities** | | | | | | | |
| Overdraft facility drawdowns | - | - | - | - | - | - | - |
| Mortgage loans | 50 | 51 | 25 | 24 | 1 | 1 | - |
| Financial lease liabilities | 35 | 37 | 9 | 9 | 4 | 15 | - |
| Other loans | 10 | 10 | 8 | - | 2 | - | - |
| Trade payables and other financial debt *) | 1,206 | 1,206 | 1,206 | - | - | - | - |
| **Financial derivatives** | | | | | | | |
| Forward currency contracts | - | - | - | - | - | - | - |
| Forward commodity contracts | - | - | - | - | - | - | - |
| **Total** | **1,301** | **1,304** | **1,248** | **33** | **7** | **16** | **-** |

See Note 26 – Interest-bearing loans and credit facilities for information on interest-bearing loans and liabilities in respect of financial leases.

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

**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.

cont. note 30

| Amounts in NOK million | | Financial assets / (liabilities) | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | At amortised cost | | At fair value through profit and loss | | At fair value through comprehensive income | | | |
| **31.12.11** | **Note** | **Loans and receivables** | **Financial liabilities** | **Earmarked from start** | **Held for trading purposes** | **Available for sale** | **Total** | **Non-financial assets/ (liabilities)** | **Total carrying amount** |
| **Assets** | | | | | | | | | |
| **Non-current assets** | | | | | | | | | |
| Other financial assets | | - | - | - | - | 1 | 1 | - | 1 |
| Interest-bearing receivables | | 19 | - | - | - | - | 19 | - | 19 |
| Other receivables | | - | - | - | - | - | - | - | - |
| **Current assets** | | | | | | | | | |
| Trade and non-interest-bearing receivables [1] | 21 | 1,754 | - | - | - | - | 1,754 | 27 | 1,781 |
| Interest-bearing receivables | | 103 | - | - | - | - | 103 | - | 103 |
| Other financial assets | | - | - | 1 | 1 | - | 2 | - | 2 |
| Cash and cash equivalents | | 458 | - | - | - | - | 458 | - | 458 |
| **Liabilities** | | | | | | | | | |
| **Non-current liabilities** | | | | | | | | | |
| Interest-bearing loans and credit facilities | 26 | - | -90 | - | - | - | -90 | - | -90 |
| **Current liabilities** | | | | | | | | | |
| Interest-bearing loans and credit facilities | 26 | - | -39 | - | - | - | -39 | - | -39 |
| Trade payables and non-interest-bearing debt [2] | 29 | - | -1,680 | - | - | - | -1,680 | -871 | -2,551 |
| Other financial liabilities | | - | - | - | - | - | - | - | - |
| **Total** | | **2,334** | **-1,809** | **1** | **1** | **1** | **528** | **-844** | **-316** |
| **Fair value** | | **2,334** | **-1,809** | **1** | **1** | **1** | **528** | | |
| **Unrealised gains/losses** | | **-** | **-** | **-** | **-** | **-** | **-** | | |
| **31.12.10** | | | | | | | | | |
| **Assets** | | | | | | | | | |
| **Non-current assets** | | | | | | | | | |
| Other financial assets | | - | - | - | - | 1 | 1 | - | 1 |
| Interest-bearing receivables | | 23 | - | - | - | - | 23 | - | 23 |
| Other receivables | | - | - | - | - | - | - | 1 | 1 |
| **Current assets** | | | | | | | | | |
| Trade and non-interest-bearing receivables [1] | 21 | 1,053 | - | - | - | - | 1,053 | 50 | 1,103 |
| Interest-bearing receivables | | 6 | - | - | | - | 6 | - | 6 |
| Other financial assets | | - | - | 1 | 2 | - | 3 | - | 3 |
| Cash and cash equivalents | | 623 | - | - | - | - | 623 | - | 623 |
| **Liabilities** | | | | | | | | | |
| **Non-current liabilities** | | | | | | | | | |
| Interest-bearing loans and credit facilities | 26 | - | -49 | - | - | - | -49 | - | -49 |
| **Current liabilities** | | | | | | | | | |
| Interest-bearing loans and credit facilities | 26 | - | -23 | - | - | - | -23 | - | -23 |
| Trade payables and non-interest-bearing debt [2] | 29 | - | -1,025 | - | - | - | -1,025 | -463 | -1,488 |
| Other financial liabilities | | - | - | -7 | - | - | -7 | - | -7 |
| **Total** | | **1,705** | **-1,097** | **-6** | **2** | **1** | **605** | **-412** | **193** |
| **Fair value** | | **1,705** | **-1,097** | **-6** | **2** | **1** | **605** | | |
| **Unrealised gains/losses** | | **-** | **-** | **-** | **-** | **-** | **-** | | |

cont. note 30

| Amounts in NOK million<br>31.12.09 | Note | Loans and receivables | Financial liabilities | Earmarked from start | Held for trading purposes | Available for sale | Total | Non-financial assets/ (liabilities) | Total carrying amount |
|---|---|---|---|---|---|---|---|---|---|
| | | Financial assets / (liabilities) | | | | | | | |
| | | At amortised cost | | At fair value through profit and loss | | At fair value through comprehensive income | | | |
| **Assets** | | | | | | | | | |
| **Non-current assets** | | | | | | | | | |
| Other financial assets | | - | - | - | - | 1 | 1 | - | 1 |
| Interest-bearing receivables | | 44 | - | - | - | - | 44 | - | 44 |
| Other receivables | | - | - | - | - | - | | 1 | 1 |
| **Current assets** | | | | | | | | | |
| Trade and non-interest-bearing receivables [1] | 21 | 1,174 | - | - | - | - | 1,174 | -43 | 1,131 |
| Interest-bearing receivables | | 12 | - | - | | - | 12 | - | 12 |
| Other financial assets | | - | - | 7 | 3 | - | 10 | - | 10 |
| Cash and cash equivalents | | 223 | - | - | - | - | 223 | - | 223 |
| **Liabilities** | | | | | | | | | |
| **Non-current liabilities** | | | | | | | | | |
| Interest-bearing loans and credit facilities | 26 | - | -22 | - | - | - | -22 | - | -22 |
| **Current liabilities** | | | | | | | | | **0** |
| Interest-bearing loans and credit facilities | 26 | - | -73 | - | - | - | -73 | - | -73 |
| Trade payables and non-interest-bearing debt [2] | 29 | - | -1,206 | - | - | - | -1,206 | -509 | -1,715 |
| Total | | 1,453 | -1,301 | 7 | 3 | 1 | 163 | -551 | -388 |
| **Fair value** | | **1,453** | **-1,301** | **7** | **3** | **1** | **163** | | |
| **Unrealised gains/losses** | | **-** | **-** | **-** | **-** | **-** | **-** | | |
| **Urealisert gevinst/tap** | | | | | | | | | |

[1] Trade and non-interest-bearing receivables classified as loans and receivables include trade receivables, other non-interest-bearing liabilities and interest-bearing receivables. Prepaid expenses are not regarded as loans and receivables.

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

For a description of the terms and conditions related to collateral, see further details in note 35.

**1) Customers and non-interest-bearing receivables, cash and cash equivalents and trade payables, and other non-interest-bearing liabilities**
The fair value of cash and cash equivalents, trade receivables and other non-interest-bearing receivables, and trade payables and other non-interest-bearing liabilities is regarded as equal to the carrying amount based on a short time horizon for financial instruments of this type. Interest-free customer and supplier credit is discounted to the present value if there is a significant difference between the carrying amount and fair value. The assessed value of loans and receivables is net after provisions for bad debt. 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 the individual financial instrument. All interest-bearing receivables have a variable interest rate. No significant discrepancies between the carrying amount and fair value have been identified based on the valuations made.

**2) Interest-bearing loans and credit facilities**
The fair value of interest-bearing loans and credit facilities is estimated by using future cash flows that are based on the 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 on the balance sheet for the first time. No discrepancies between the carrying amount and fair value have been identified based on the valuations made.

**3) Financial assets available for sale, financial derivatives and financial assets at fair value through profit or loss**
Financial assets available for sale, financial derivatives and financial assets at fair value through profit or loss have been assessed at fair value in accordance with the valuation hierarchy, levels 1 to 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 quoted prices within level 1
Level 3 – Valuation based on inputs not obtained from observable markets.

**The following table shows the Group's assets and liabilities measured in accordance with the valuation hierarchy in IFRS 7:**

| Amounts in NOK million | Assets/(liabilities) | | | |
|---|---|---|---|---|
| **2011** | **Level 1** | **Level 2** | **Level 3** | **Total** |
| Shares listed on the OTC list | 1 | - | - | 1 |
| Various non-current investments | - | - | 1 | 1 |
| Financial derivatives – forward commodity contracts | - | 1 | - | 1 |
| **Total** | **1** | **1** | **1** | **3** |
| | | | | |
| **2010** | **Level 1** | **Level 2** | **Level 3** | **Total** |
| Shares listed 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 listed on the OTC list | 3 | - | - | 3 |
| Various non-current investments | - | - | 1 | 1 |
| Financial derivatives – forward currency contracts | - | 7 | - | 7 |
| **Total** | **3** | **7** | **1** | **11** |

The following table illustrates changes in the financial instruments classified within the level 3 valuation hierarchy as at 31 December:

| Amounts in NOK million | 2011 | 2010 | 2009 |
|---|---|---|---|
| Carrying amount as at 1 January | 1 | 1 | 1 |
| Additions | - | - | - |
| Disposals | - | - | - |
| Changes in value | - | - | - |
| **Carrying amount as at 31 December** | **1** | **1** | **1** |

# 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. There have been no changes to the Group's capital management guidelines in 2011.

The Group manages its capital structure by looking at the equity ratio and financial key figures. The Group's policy is to have an equity ratio of at least 20% and net interest-bearing liabilities < 2 * EBITDA.

The AF Group has a three-year credit and loan facility with Handelsbanken that expires in June 2012. Negotiations for a new credit facility and loan limit have started. It is expected that a new agreement will be entered into no later than May 2012. At the end of 2011 the AF Group had utilised NOK 555 million (546 million) of the limit through an unutilised bank overdraft facility linked to a corporate cash pooling system. 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 2011 in accordance with the agreement with Handelsbanken.

The agreement with Handelsbanken contains financial covenants. The most important covenants dictate an equity ratio > 20 % and net interest-bearing debt < 4* EBITDA.

All of the conditions of the loan agreement that relate to the overdraft facility and loan limit were met at the end of 2011, 2010 and 2009.

cont. note 31

The table below illustrates the Group's key figures compared with the covenants.

| Amounts in NOK million | 2011 | 2010 | 2009 |
|---|---|---|---|
| **Key figures for the Group** | | | |
| Equity ratio | 29.0 % | 32.1 % | 29.9 % |
| EBITDA | 474 | 463 | 417 |
| Net interest-bearing receivables (debt) | 450 | 580 | 185 |
| **Covenants** | | | |
| Minimum equity ratio in accordance with the covenants | 20.0 % | 20.0 % | 20.0 % |
| Maximum net interest-bearing debt in accordance with the covenants < | 1,896 | 1,852 | 1,668 |

# 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 2011, the AF Group is only involved in the following lawsuits of any significance:

Kilen Brygge AS, a company in the AF Group, filed a suit against Kilen Hotell AS and the guarantors in 2011 for breach of contract with respect to the sale of a hotel site. Kilen Brygge AS won the case in the District Court and was awarded NOK 11 million plus costs. The case has been appealed by Kilen Hotell AS and the guarantors.

In 2011 the Municipality of Bærum filed a suit against Kjørbokollen Utbygging AS, a joint venture owned 50% by the AF Group, claiming that a road be built in connection with the residential development. The Municipality of Bærum won the case in Bærum District Court and Kjørbokollen Utbygging AS was ordered to pay NOK 9 million (AF Group's share is NOK 5 million) to the Municipality of Bærum. The case has been appealed by Kjørbokollen Utbygging AS.

The following matters mentioned in the annual report for 2010 have been concluded in 2011:

Raunes Fiskefarm filed a suit against AF Gruppen Norge in connection with the expansion of the Vats Disposal Yard. On 8 October 2009 the Haugaland District Court delivered a judgment in the case and ordered AF to pay NOK 40 million in compensation. This judgment was appealed by both parties to the Court of Appeal and a new judgment was handed down by the Gulating Court of Appeal on 25 February 2011. In the Court of Appeal the AF Group was ordered to pay NOK 6 million in compensation. Raunes Fiskefarm was ordered to pay NOK 3 million to AF in costs. Raunes Fiskefarm appealed the judgment, but the case was dismissed by the Supreme Court. The judgment from the Gulating Court of Appeal will therefore remain in effect.

In March 2011, the AF Group and Krüger AS filed a suit against the Municipality of Oslo in connection with the settlement for the construction of the Oset water treatment plant. The case was resolved through negotiation in 2011.

# Note 33 Related parties

The Group's related parties consist of associates (note 17), joint ventures (note 16), the Company's shareholders and members of the Board of Directors and Corporate Management Team.

OBOS Forretningsbygg AS and Aspelin Ramm Gruppen AS have major shareholdings in the AF Group and are also important business partners. AF Bygg Oslo and AF Byggfornyelse have ongoing contracts with the OBOS Group and the Aspelin Ramm Group. KB Gruppen Kongsvinger is a supplier to the AF Group through the subsidiaries Contiga AS and Åsland Pukkverk AS, as well as the joint venture Betong Øst AS. The contracts were won in competition. Representatives of these companies are members of the Board of Directors of AF Gruppen ASA.

Both KB Gruppen Kongsvinger AS as a shareholder and Chairman of the Board Thore Thorstensen, represented by Vålerveien 229 AS, were on the selling side when the AF Group acquired Strøm Gundersen. The transaction encompassed AF Gruppen Norge AS's acquisition of 100% of SG Gruppen Kongsvinger AS and the purchase of further shares in Strøm Gundersen Holding AS from Vålerveien 229 AS and employee shareholders, as well as the purchase of further shares in VSP Holding AS from employee shareholders. KB Gruppen Kongsvinger AS was formerly a major shareholder in AF Gruppen ASA. Before the sale most of the shareholdings in AF were spun off from KB Gruppen Kongsvinger AS and divided between the shareholders in KB Gruppen Kongsvinger AS.

cont. note 33

**Transactions with related parties:**

| Amounts in NOK million | 2011 | 2010 | 2009 |
|---|---|---|---|
| **Contract price** | | | |
| OBOS Group | 755 | 234 | 359 |
| Aspelin Ramm Group | 262 | 262 | 321 |
| Joint ventures / associates | 683 | 243 | 170 |
| **Total** | **1,701** | **739** | **850** |
| | | | |
| **Turnover** | | | |
| OBOS Group | 161 | 17 | 126 |
| Aspelin Ramm Group | 222 | 151 | 62 |
| Joint ventures / associates | 286 | 76 | 44 |
| Senior executives and Board of Directors | - | - | - |
| **Total** | **669** | **244** | **232** |
| | | | |
| **Purchase of goods and services** | | | |
| OBOS Group | 3 | 3 | 13 |
| KB Gruppen Kongsvinger | 46 | 45 | 75 |
| Joint ventures / associates | 48 | -6 | - |
| Senior executives and Board of Directors | 1 | 1 | 4 |
| **Total** | **97** | **43** | **92** |
| | | | |
| **Receivables as at 31 December** | | | |
| OBOS Group | 33 | 1 | 18 |
| Aspelin Ramm Group | 76 | - | 3 |
| Joint ventures / associates | 40 | 14 | - |
| Senior executives and Board of Directors | - | - | - |
| **Total** | **150** | **14** | **21** |
| | | | |
| **Loans and guarantees as at 31 December** | | | |
| OBOS Group | 1 | - | 4 |
| KB Gruppen Kongsvinger | 3 | - | 9 |
| Joint ventures / associates | - | - | 10 |
| Senior executives and Board of Directors | - | - | - |
| **Total** | **4** | **1** | **24** |
| | | | |
| **Leases** | | | |
| OBOS Forretningsbygg AS, annual rent (index-linked) | - | 5 | 13 |

Members of the Board of Directors and the management of the Group and their immediate family control 38% of the shares in AF Gruppen ASA. Reference is made to note 6 for information on the remuneration of the Board of Directors and management. There are no agreements or transactions with related parties beyond this.

# 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 that provide new information about circumstances that existed on the date of the balance sheet (which are 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 | 2011 | 2010 | 2009 |
|---|---|---|---|
| Carrying amount of liabilities secured by pledges, etc. | 99 | 53 | 77 |
| | | | |
| **Carrying amount of pledged assets** | | | |
| Buildings and production facilities | 25 | - | - |
| Machinery * | 26 | 48 | 36 |
| Trade and non-interest-bearing receivables | 300 | 34 | 50 |
| Short-term financial investments | 57 | - | - |
| Long-term financial investments | 489 | - | - |
| Projects for own account | - | 20 | 72 |
| Inventories | 8 | 5 | 4 |
| **Carrying amount of pledged assets** | **906** | **107** | **162** |

* NOK 19 million of the liabilities related to leasing liabilities and collateral 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 555 million (546 million) overdraft facility with Handelsbanken is secured in part by a NOK 300 million (300 million) charge on non–current assets. 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 2011.

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 on the balance sheet**

| | 2011 | 2010 | 2009 |
|---|---|---|---|
| Guarantees issued to clients | 1,455 | 1,068 | 1,133 |
| Other commercial guarantees | 85 | 87 | 17 |
| **Total** | **1,540** | **1,156** | **1,150** |

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 | 2011 | 2010 | 2009 |
|---|---|---|---|---|
| Operating revenue | 2 | | | |
| Group contributions received | 3 | 111 | 202 | 53 |
| Dividends from subsidiaries | 3 | - | 203 | - |
| **Total operating and other revenue** | | **111** | **405** | **53** |
| | | | | |
| Other operating expenses | 5 | -10 | -7 | -2 |
| **Total operating expenses** | | **-10** | **-7** | **-2** |
| | | | | |
| **Operating profit** | | **101** | **398** | **50** |
| | | | | |
| Financial income | 6 | 26 | 32 | 6 |
| Financial expenses | 6 | -14 | -18 | -12 |
| **Net financial items** | | **12** | **14** | **-6** |
| | | | | |
| **Profit before tax** | | **113** | **413** | **44** |
| | | | | |
| Tax expense | 7 | - | -3 | - |
| **Profit for the year** | | **113** | **409** | **44** |
| | | | | |
| **Other comprehensive income:** | | | | |
| Profit for the year | | 113 | 409 | 44 |
| Other income and expenses | | - | - | - |
| **Total comprehensive income for the year** | | **113** | **409** | **44** |

# Statement of financial position

| Amounts in NOK million | Note | 2011 | 2010 | 2009 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Non-current assets** | | | | |
| | | | | |
| Deferred tax assets | 7 | - | - | 3 |
| **Total intangible assets** | | **-** | **-** | **3** |
| | | | | |
| Investments in subsidiaries | 9 | 607 | 357 | 357 |
| Other financial investments | 9 | - | - | - |
| Interest-bearing non-current receivables | 10,11 | - | 25 | 23 |
| **Total non-current asset investments** | | **607** | **382** | **380** |
| | | | | |
| **Total non-current assets** | | **607** | **382** | **384** |
| | | | | |
| **Current assets** | | | | |
| Receivables from group companies | 10 | 510 | 208 | 985 |
| Taxes and public charges receivable | | - | - | 8 |
| Other financial assets | 8 | 1 | 2 | 3 |
| Bank deposits | 12 | 98 | 131 | 180 |
| **Total current assets** | | **609** | **342** | **1,176** |
| | | | | |
| **Total assets** | | **1,216** | **723** | **1,560** |
| | | | | |
| **EQUITY AND LIABILITIES** | | | | |
| **Equity** | | | | |
| | | | | |
| Share capital | 13,14 | 4 | 4 | 4 |
| Share premium account | 14 | - | 47 | 28 |
| Other paid-in capital | 14 | 208 | 2 | 8 |
| **Total paid-in equity** | | **212** | **53** | **40** |
| | | | | |
| Other equity | 14 | -113 | -345 | 99 |
| Profit for the year | 14 | 113 | 409 | 44 |
| **Total retained earnings** | | **212** | **64** | **143** |
| | | | | |
| **Total equity** | | **212** | **116** | **182** |
| | | | | |
| **Current liabilities** | | | | |
| Debt to credit institutions | 12 | | - | - |
| Trade payables and other non-interest-bearing debt | | 4 | 4 | 3 |
| Taxes and public charges payable | 10 | 17 | 3 | - |
| Debt to group companies | 10 | 619 | 256 | 1,261 |
| Proposed dividend | 14 | 364 | 343 | 113 |
| **Total current liabilities** | | **1,004** | **607** | **1,377** |
| | | | | |
| **Total equity and liabilities** | | **1,216** | **723** | **1,560** |

Oslo, 29 March 2012

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

# Statement of cash flows
## 1 January – 31 December

| Amounts in NOK million | 2011 | 2010 | 2009 |
|---|---|---|---|
| **Cash flow from operating activities** | | | |
| Profit before tax | 113 | 413 | 44 |
| Tax payable | -43 | - | - |
| Group contributions recognised as income | -111 | | |
| Reversal of losses on receivables | -10 | - | - |
| Value adjustment of shares held as current assets | 1 | 1 | -2 |
| Change in trade receivables and payables | -1 | 1 | - |
| Change in balances with group companies | 361 | -230 | 348 |
| Change in accruals | 57 | 11 | -42 |
| **Net cash flow from operating activities** | **367** | **195** | **347** |
| | | | |
| **Cash flow from investment activities** | | | |
| Acquisition of companies | - | - | - |
| Capital contributions to subsidiaries | -250 | - | - |
| Payments/proceeds from other investments | - | - | -23 |
| Proceeds from the sale of shares | - | - | 1 |
| **Net cash flow from investment activities** | **-250** | **-** | **-23** |
| | | | |
| **Cash flow from financing activities** | | | |
| Proceeds from equity issuance | 148 | 19 | 17 |
| Proceeds from the sale of treasury shares | 16 | 17 | 7 |
| Purchase of treasury shares | -3 | -26 | -7 |
| Settlement of long-term receivable received | 35 | - | - |
| Payment of dividends | -346 | -255 | -99 |
| **Net cash flow from financing activities** | **-150** | **-245** | **-82** |
| | | | |
| Net change in cash and cash equivalents during the year | -33 | -49 | 243 |
| Cash and cash equivalents as at 1 January | 131 | 180 | -63 |
| **Cash and cash equivalents as at 31 December** | **98** | **131** | **180** |

# 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, 0603 Oslo, Norway.

AF Gruppen ASA is a holding company without any activities other than investing in other companies.

The financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU and the simplified IFRS provisions for company accounts laid down in section 3.9, fifth paragraph of the special regulations pursuant to the Norwegian Accounting Act. (Regulations relating to the simplified application of international accounting standards, chapter 4, laid down by the Ministry of Finance on 21 January 2008). These regulations can be used by any entities that are required to keep accounts, both company accounts and consolidated accounts, unless they are required to use the full IFRS.

The consolidated financial statements 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 29 March 2012.

The accounting policies 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 in accordance with the cost method in the Parent Company accounts. The investment is valued at the historical cost of the shares unless a write-down of the shares has been necessary. They are written down to fair value in the event of an impairment in value that is attributed to causes that cannot be expected to be of a temporary nature and must be regarded as necessary in accordance with the generally accepted accounting principles. Write-downs are reversed when the basis for the write-down 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 they are received or the payment is adopted. The same applies to any tax effect of such transactions.

# Note 2 Operating revenue

The Company has not had any operating revenue.

# Note 3 Dividend and group contribution

| Amounts in NOK million | 2011 | 2010 | 2009 |
|---|---|---|---|
| Group contributions received | 111 | 202 | 53 |
| Dividends from subsidiaries | - | 203 | - |
| **Total** | **111** | **405** | **53** |

# Note 4 Lønnskostnad, lån og honorarer

AF Gruppen ASA has no employees, and the Company is not required, therefore, to have a pension scheme. The CEO is employed formally by the subsidiary AF Gruppen Norge AS.

| Amounts in NOK 1,000 | | | |
|---|---|---|---|
| **Remuneration of the CEO** | **2011** | **2010** | **2009** |
| Fixed pay | 2,884 | 2,645 | 2,286 |
| Bonus | 1,749 | 2,066 | 1,503 |
| Other benefits | 80 | 1,142 | 91 |
| **Total** | **4,713** | **5,853** | **3,879** |
| | | | |
| Retirement benefits | 34 | 33 | 31 |
| Benefit from purchase of options | 1,911 | | |
| | | | |
| Directors' fees | 1,505 | 1,389 | 1,210 |

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 6 to the consolidated accounts for further information.

# Note 5 Other operating expenses

| Amounts in NOK million | 2011 | 2010 | 2009 |
|---|---|---|---|
| Audit fees | - | - | - |
| Other operating expenses | -10 | -7 | -2 |
| **Total other operating expenses** | **-10** | **-7** | **-2** |

| Amounts in NOK 1,000 | | | |
|---|---|---|---|
| **Audit fees** | | | |
| Ordinary audit fees | -453 | -112 | -140 |
| Other assurance engagements | -11 | - | -248 |
| Other services beyond auditing | -16 | - | -68 |
| **Total audit fees** | **-480** | **-112** | **-456** |

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

# Note 6 Financial income and expenses

| Amounts in NOK million | 2011 | 2010 | 2009 |
|---|---|---|---|
| **Financial income** | | | |
| Interest income from companies in the same group | 15 | 27 | 6 |
| Other interest income | 1 | 3 | - |
| Net gains on the sale of financial assets | - | - | - |
| Foreign exchange gains | - | - | - |
| Value adjustment of receivables | - | 2 | - |
| Value adjustment of financial assets | 10 | - | 2 |
| **Total financial income** | **26** | **32** | **9** |
| | | | |
| **Financial expenses** | | | |
| Interest charges from companies in the same group | -12 | -16 | -3 |
| Other interest expenses | - | -1 | -2 |
| Foreign exchange losses | -1 | - | - |
| Net losses on the write-down of other financial assets | -1 | -1 | -10 |
| Other financial expenses | - | - | - |
| **Total financial expenses** | **-14** | **-18** | **-15** |

# Note 7 Tax expense

| Amounts in NOK million | 2011 | 2010 | 2009 |
|---|---|---|---|
| **The tax expense for the year can be broken down as follows:** | | | |
| Current tax payable | - | - | - |
| Change in deferred tax | - | 3 | - |
| **Tax charge** | **-** | **3** | **-** |
| | | | |
| **Calculation of the tax base for the year** | | | |
| Profit before tax | 113 | 413 | 44 |
| Non-deductible expenses | 1 | -9 | 10 |
| Non-taxable income | -10 | - | -3 |
| 3% of gains on shares | - | - | - |
| Application of losses carried forward | - | -2 | - |
| Repaid capital (dividends) without any tax impact | - | -203 | - |
| Group contributions received without any tax impact | -104 | -198 | -51 |
| **Tax base for the year** | **-** | **-** | **-** |
| | | | |
| Tax for the year (28 % of the tax base for the year) | - | - | - |
| | | | |
| **Summary of temporary differences** | | | |
| Provisions | - | 10 | 10 |
| Tax loss carryforward | - | - | 2 |
| **Total** | **-** | **10** | **12** |
| | | | |
| **Recognised deferred tax assets** | **-** | **-** | **3** |
| **Unrecognised deferred tax assets** | **-** | **3** | **-** |

The deferred tax assets are based on future revenue. The tax loss carryforward of NOK 342,000 is not time-limited.

# Note 8 Other financial assets

Other financial assets are valued at fair value, and the value is determined based on the market price on the date of the balance sheet. The amount consists of shares in investment funds that invest in listed shares. The historical cost of the investment is NOK 7.8 million. A write-down of NOK 1.4 million to fair value was recognised in the income statement.

# Note 9 Investments in subsidiaries

| Name of company | Date acquired | Business address | Ownership interest | Voting share |
|---|---|---|---|---|
| AF Gruppen Norge AS | 05.09.85 | Oslo | 100 % | 100 % |
| AF Entech AS | 02.04.09 | Oslo | 100 % | 100 % |
| AF Miljø AS | 15.01.09 | Oslo | 100 % | 100 % |
| AFG Invest 3 AS | 08.12.09 | Oslo | 100 % | 100 % |
| AFG Invest 4 AS | 25.08.11 | Oslo | 100 % | 100 % |
| AFG Invest 5 AS | 25.08.11 | Oslo | 100 % | 100 % |
| AFG Invest 6 AS | 25.08.11 | 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 2011 | Number of shares | Share capital | Equity capital | Carrying amount |
|---|---|---|---|---|---|
| AF Gruppen Norge AS | 200,352 | 9,869 | 722 | 617 765 | 258,561 |
| AF Entech AS | 3,345 | 10,000 | 11,000 | 318,822 | 287,635 |
| AF Miljø AS | 664 | 10,000 | 10,000 | 11,848 | 60,565 |
| AFG Invest 3 AS | 1 | 100 | 100 | 101 | 100 |
| AFG Invest 4 AS | 1 | 120 | 120 | 121 | 120 |
| AFG Invest 5 AS | 1 | 120 | 120 | 121 | 120 |
| AFG Invest 6 AS | 1 | 120 | 120 | 121 | 120 |

# Note 10 Intercompany balances with Group companies

| Amounts in NOK million | 2011 | 2010 | 2009 |
|---|---|---|---|
| Interest-bearing receivables, non-current | - | 25 | 23 |
| Interest-bearing receivables, current | 384 | - | 923 |
| Other receivables, current | 126 | 208 | 62 |
| Interest-bearing liabilities, current | 619 | 249 | 1,244 |
| Other liabilities, current | - | 7 | 17 |

# Note 11 Non-current receivables

**Receivables that mature in more than one year**

| Amounts in NOK million | 2011 | 2010 | 2009 |
|---|---|---|---|
| Non-current receivables | - | 35 | 33 |
| Provisions for bad debts | - | -10 | -10 |
| **Carrying amount** | **-** | **25** | **23** |

# Note 12 Interest-bearing loans and credit facilities

A NOK 80 million corporate guarantee has been furnished for withholding tax.

| Amounts in NOK million | Effective interest rate | 2011 | 2010 | 2009 |
|---|---|---|---|---|
| Corporate cash pooling system | 3 %–5 % | 98 | 131 | 180 |

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 98.4 million (131.5 million) 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 2011 and 2010.

# Note 13 Share capital and shareholder information

| **The share capital consists of (**Amounts in NOK million**)** | **Number** | **Nominal value** | **Carrying amount** |
|---|---|---|---|
| A shares after the split | 80,814,490 | 0.05 | 4,040,725 |

| **Eierstruktur** | **Number** | **Voting share/ stake %** |
|---|---|---|
| Shareholders with a stake > 1 % | | |
| OBOS Forretningsbygg AS | 21,162,075 | 26.2 % |
| Construction AS | 10,168,670 | 12.6 % |
| ØMF Invest AS | 10,168,670 | 12.6 % |
| Aspelin-Ramm Gruppen AS | 4,787,385 | 5.9 % |
| VITO Kongsvinger AS | 3,461,676 | 4.3 % |
| LJM A/S | 2,513,900 | 3.1 % |
| Moger Invest AS | 2,064,621 | 2.6 % |
| Skogheim, Arne | 1,723,870 | 2.1 % |
| ØMF Holding AS | 1,673,307 | 2.1 % |
| Staavi, Bjørn | 1,476,010 | 1.8 % |
| R Holth Holding AS | 854,471 | 1.1 % |
| Morten Midtskog | 820,000 | 1.0 % |
| **Total for shareholders with a stake > 1 %** | **60,874,655** | **75.3 %** |
| | | |
| Total other shareholders | 19,939,835 | 24.7 % |
| **Total outstanding shares** | **80,814,490** | **100.0 %** |

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

| **Owned by senior executives as at 31 December 2011** | | **Number of shares** | **Number of options** |
|---|---|---|---|
| **Board of Directors** | | | |
| Tore Thorstensen, styrets leder [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 | 23,775 | 5,130 |
| Henrik Nilsson | Elected by employees | 12,950 | 1,370 |
| Arne Sveen | Elected by employees | - | - |
| **Total** | | **59,725** | **6,500** |

1) Represents in addition to his own shares, KB Gruppen Kongsvinger, Gunnar Holth Holding AS, Vålerveien 229 AS and Tokanso AS, which own 191,564, 106,907, 103,800 and 368,346 shares, respectively.
2) A party related to Eli Arnstad owns 1,440 shares.
3) Represents OBOS Forretningsbygg AS, which owns 21,162,075 shares.
4) Represents Aspelin Ramm Gruppen AS, which owns 4,787,385 shares and Ringkjøb Invest AS, which owns 76,355 shares, in addition to his own shares.
5) Represents T. Olsen Holding AS, which owns 96,515 shares.

cont. note 13

| Corporate Management Team | | Number of shares | Number of options |
|---|---|---|---|
| Pål Egil Rønn | CEO | 331,525 | 27,250 |
| Sverre Alf Hærem | Executive Vice President/CFO | 220,350 | 17,350 |
| Paul-Terje Gundersen | Executive Vice President | 133,250 | 16,250 |
| Robert Haugen | Executive Vice President | 278,700 | 17,450 |
| Tore Fjukstad | Executive Vice President | 210,850 | 17,200 |
| Arild Moe | Executive Vice President | 382,970 | 17,100 |
| **Total** | | **1,557,645** | **112,600** |

The Board has the authority to acquire up to 10% of the share capital. This authority is valid until the 2012 Annual General Meeting, which is scheduled for 11 May 2012.

An option programme for the employees was adopted in 2008. A total of 5,163,750 options were redeemed in February 2011 and the programme was terminated.

An option programme for all the employees of AF Gruppen ASA and subsidiaries was adopted at the Annual General Meeting held on 13 May 2011, and it entails entitlement to subscribe for a total of 6,000,000 options during the years 2011, 2012 and 2013, with redemption in 2014.

In 2011 a total of 2,092,763 options were allotted in the new programme.

# Note 14 Equity

| Amounts in NOK million | Share capital | Treasury shares | Share premium account | Other paid-in equity | Other equity | Total |
|---|---|---|---|---|---|---|
| **Equity as at 1 January 2010** | **4** | | **28** | **8** | **143** | **183** |
| 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 amount set aside in 2009 | - | - | - | - | -142 | -142 |
| **Equity as at 31 December 2010** | **4** | **-** | **47** | **2** | **64** | **116** |
| Capital increase | - | - | 336 | - | - | 336 |
| Purchase of treasury shares | - | - | - | - | -3 | -3 |
| Sale of treasury shares | - | - | - | - | 16 | 16 |
| Reclassification of gains on sale of treasury shares | - | - | - | -2 | 2 | - |
| Reduction of share premium account [1)] | - | - | -383 | 383 | - | - |
| Total comprehensive income for the year | - | - | - | - | 113 | 113 |
| Proposed dividend for 2011 | - | - | - | -175 | 175 | - |
| Reclassification | - | - | - | - | -364 | -364 |
| Dividend paid in 2011 beyond amount set aside in 2010 | - | - | - | - | -2 | -2 |
| **Equity as at 31 December 2011** | **4** | **-** | **-** | **208** | **-** | **212** |

The Company has 64,585 treasury shares with a nominal value of NOK 0.05 (450,000 treasury shares with a nominal value of NOK 0.05 in 2010). Treasury shares have been bought to sell to employees and as partial payment for company acquisitions. Shares have not been bought from related parties in 2011.

Share capital in accordance with Articles of Association as at 31 December 2011: 80,814,490 shares a par value of NOK 0.05. All shares were issued and fully paid.

[1)] The share premium reserve was by the general meeting on 1 November 2011 decided transferred to other equity and the transmission was registered accomplished on 20 February 2012.

# Note 15 Guarantees and pledged assets

| Amounts in NOK million | 2011 | 2010 | 2009 |
|---|---|---|---|
| Guarantees issued to clients | 1,455 | 1,069 | 1,133 |
| Tax withholding guarantees | 85 | 87 | 17 |
| **Total** | **1,540** | **1,156** | **1,150** |

In connection with construction contracts entered into, the subsidiaries are subject to the usual contracting obligations and the associated guarantees. AF Gruppen ASA guarantees the warranty liability of its subsidiaries.

See note 35 to the consolidated accounts for further information.

## Responsibility statement from the members of the board and ceo

With regard to the annual accounts for 2011 for AF Gruppen ASA, we confirm to the best of our knowledge that:

- The consolidated financial statements have been prepared in accordance with IFRS, as adopted by the EU, and the additional disclosure requirements that follow from the Norwegian Accounting Act.
- The financial statements for the Parent Company, AF Gruppen ASA, have been presented in accordance with IFRS and the simplified IFRS provisions for company accounts laid down in Section 3.9, fifth paragraph of the regulations pursuant to the Norwegian Accounting Act.
- The amounts and disclosures in the accounts provide a true and fair view of the Company's and the Group's assets, liabilities, financial positions and results as a whole.
- The amounts and disclosures in the annual report provide a true and 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, 29 March 2012

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

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Member of the Norwegian Institute of Public Accountants

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 statement of financial position as at 31 December 2011, the statements of comprehensive income and cash flows for the year then ended and 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 2011, 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 financial statements of 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.

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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 2011 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 2011 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 and the statement on corporate governance*

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Directors' report and the statement on corporate governance 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 ensure that the Company's accounting information is properly recorded and documented as required by law and generally accepted bookkeeping practice in Norway.

Oslo, 29 March 2012
ERNST & YOUNG AS

Asbjørn Ler
State Authorised Public Accountant (Norway)

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

# Financial 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

**P/E**
Price / earnings per share

**P/B**
Price / book value per share

**EV / EBIT**
Economic value / earnings before interest and tax

# 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

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