



Fourth quarter and preliminary results for 2018

AF Gruppen ASA

Q4



From the CEO

AF Gruppen's result for 2018 shows that we are on track to achieve our ambitions for profitable growth and revenues of NOK 20 billion in 2020. In 2018 we have seen significant organic growth in both Civil Engineering and Building. In addition, the acquisitions of western Norwegian contractor HTB in Q4 and the Swedish contractor HMB after the end of the year provide a good foundation for structural growth going forward. With earnings before tax for the year amounting to NOK 1,136 million and a profit margin of 6.1 per cent, there are a lot of employees who should be thanked.

Distinct core values, risk management and systematic work on health, safety and the environment are a part of AF's culture. Despite being able to look back on a year with a low injury rate, the fatal accident on the Tvedestrand-Arendal project in May has affected us. Our responsibility is to learn from our mistakes and implement measures that reinforce the barriers towards adverse events such that similar accidents do not happen again. Good value creation must not be at the expense of safety and ethics.

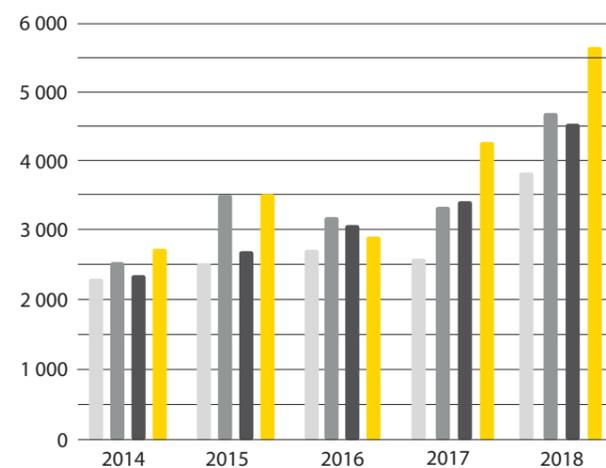
AF has always been proud of its strength and ability to perform complex tasks. The group's entrepreneurial spirit has been characterised by the ability and willingness to think differently and to find better, more future-oriented ways to generate value.

Addressing Future

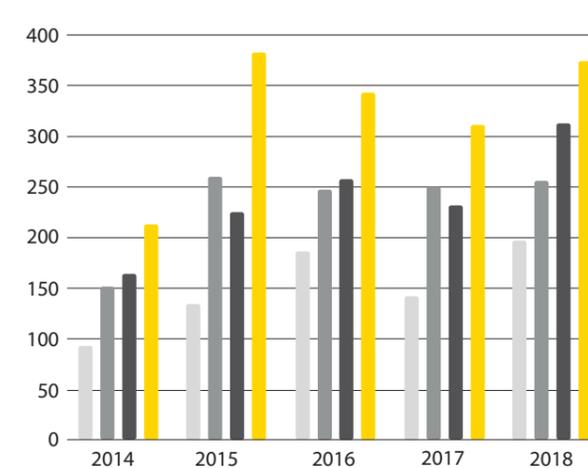
HIGHLIGHTS

- Revenues were NOK 5,656 million (4,296 million) in the 4th quarter and NOK 18,767 million (13,704 million) for the full year.
- Earnings before tax were NOK 373 million (310 million) for the 4th quarter and NOK 1,136 million (935 million) for the full year.
- Profit margin was 6.6% (7.2%) for the 4th quarter, and 6.1% (6.8%) for the full year.
- Net operating cash flow was NOK 582 million (325 million) for the 4th quarter and NOK 841 million (1,354 million) for the full year.
- The order book stood at NOK 21 541 million (19 773 million) as at 31 December 2018.
- Net interest-bearing receivables were NOK 894 million (1 210 million) as at 31 December 2018.
- Result per share for the full year was NOK 7.88 (6.43). The Board of Directors has proposed a dividend of NOK 5.00 (5.00) per share for the first half of the year.

REVENUES PER QUARTER (NOK MILLION)



EARNINGS BEFORE TAX PER QUARTER (NOK MILLION)



SUMMARY OF 4Q AND PRELIMINARY RESULT 2018

Key figures (NOK million)	4Q 18	4Q 17	2018	2017
Revenues and other income	5 656	4 296	18 767	13 704
EBITDA	412	343	1 303	1 092
Earnings before financial items and tax (EBIT)	363	297	1 119	924
Earnings before tax (EBT)	373	310	1 136	935
Result per share (NOK)	2.79	2.34	7.88	6.43
EBITDA margin	7.3 %	8.0 %	6.9 %	8.0 %
Operating profit margin	6.4 %	6.9 %	6.0 %	6.7 %
Profit margin	6.6 %	7.2 %	6.1 %	6.8 %
Return on capital employed (ROaCE) ¹⁾	-	-	53.9 %	42.7 %
Cash flow from operating activities	582	325	841	1 354
Net interest-bearing receivables (debt)	894	1 210	894	1 210
Equity ratio	25.0 %	26.9 %	25.0 %	26.9 %
Order backlog	21 541	19 773	21 541	19 773
LTI-1 rate	0.6	1.1	0.8	1.1
Absence due to illness	3.3 %	3.0 %	3.3 %	3.0 %

¹⁾ 12-month rolling average

Sweden was established as a new business area for AF Gruppen as of 1 January 2018. The new business area consists of the units AF Härnösand Byggreturer, Kanonaden Entreprenad and subsidiaries, Pålplintar, AF Bygg Gothenburg, AF Bygg Syd and AF Projektutveckling.

All the numbers from the business areas for 2017 have been restated in accordance with the new structure so that they are comparable.



E18 Tvedestrand - Arendal



Nes Environmental Park, Nes

BUSINESS AREAS

Civil Engineering

NOK million	4Q 18	4Q 17	2018	2017
Revenues and income	1 648	1 175	5 861	3 569
Earnings before financial items and tax (EBIT)	112	87	275	249
Earnings before tax (EBT)	113	101	293	269
Operating margin	6.8 %	7.4 %	4.7 %	7.0 %
Profit margin	6.9 %	8.6 %	5.0 %	7.5 %

The Civil Engineering business area encompasses AF's civil engineering activities in Norway.

Civil Engineering consists of two business units:

- AF Anlegg
- Målselv Maskin & Transport

The Civil Engineering business area reported revenues of NOK 1,648 million (1 175 million) for the 4th quarter. This corresponds to growth totalling 40 per cent compared with the same quarter last year. Earnings before tax were NOK 113 million (101 million). Revenues were NOK 5,861 million (3,569 million) and earnings before tax were NOK 293 million (269 million) for 2018.

AF Anlegg had very high activity and delivered good results in the 4th quarter. Målselv Maskin & Transport delivers excellent results both for the quarter and the year as a whole.

In October AF Gruppen signed a final agreement with Nye Veier for the planning and construction of the new E39 Kristiansand West – Mandal East. The project comprises 19 km of new four-lane motorway with a 110 km/h speed limit from Kristiansand West to Mandal East. Work includes several tunnels and bridges, including the 4 km Søgne tunnel and the 520 m Trysfjord bridge. AF has Norconsult as consultant and Kruse Smith Entreprenør as subcontractor. The work commenced in November 2018, and completion is scheduled for October 2022. The contract is valued at NOK 4,700 million, excluding VAT.

The order backlog for Civil Engineering stood at NOK 7,664 million (6,082 million) as at 31 December 2018.

Environment

NOK million	4Q 18	4Q 17	2018	2017
Revenues and income	148	101	598	474
Earnings before financial items and tax (EBIT)	14	9	44	28
Earnings before tax (EBT)	13	9	43	27
Operating margin	9.2 %	9.3 %	7.3 %	5.9 %
Profit margin	9.0 %	9.1 %	7.1 %	5.8 %

The Environment business area encompasses AF's services related to demolition and recycling onshore in Norway.

The business area consists of a single business unit:

- AF Decom

Environment also has operations in Rimol Miljøpark, Nes Miljøpark and Jølsen Miljøpark.

Environment reported revenues of NOK 148 million (101 million) and earnings before tax of NOK 13 million (9 million) for the 4th quarter. Revenues were NOK 598 million (474 million) and earnings before tax were NOK 43 million (27 million) for 2018.

There is a good market for environmental services. AF Decom reported a high level of activity and good operations in the 4th

quarter, and delivered a good result for the quarter. The unit has experienced increasing activity and profitability throughout the year.

The environmental centres have had high activity and deliver good results in the quarter. AF's decontamination method solves several environmental issues in one process. It reduces the volume of waste and contributes to social gains by increasing the life of the disposal sites. The technology makes it easier to manage the material and reduces the risks of storage. AF is looking at possibilities for establishing more environmental centres in the time ahead.

The order backlog for the Environment business area stood at NOK 258 million (274 million) as at 31 December 2018.



Skjoldnes, Bergen

Building

NOK million	4Q 18	4Q 17	2018	2017
Revenues and income	2 839	2 386	9 055	7 474
Earnings before financial items and tax (EBIT)	232	144	619	467
Earnings before tax (EBT)	241	148	645	481
Operating margin	8.2 %	6.0 %	6.8 %	6.3 %
Profit margin	8.5 %	6.2 %	7.1 %	6.4 %

The Building business area encompasses activities related to new building and renovation in Norway.

The Building business area is divided into eight business units:

- AF Bygg Oslo
- AF Byggfornyelse
- AF Nybygg
- AF Bygg Østfold
- Strøm Gundersen and subsidiaries
- MTH and subsidiaries
- EIQON and subsidiaries
- LAB and subsidiaries

The Building business area reported revenues of NOK 2,839 million (2,386 million) for the 4th quarter. Earnings before tax were NOK 241 million (148 million). Full-year revenues were NOK 9,055 million (NOK 7,474 million) and earnings before tax were NOK 645 million (481 million).

There is a high level of activity in the building market in Norway. Building had a high level of activity in the 4th quarter and delivered a strong quarterly result. AF Bygg Oslo and MTH both reported good results for the 4th quarter. AF Byggfornyelse, AF Bygg Østfold, LAB, EIQON and Strøm Gundersen all have high activity levels and report good results for the quarter.

In the 4th quarter LAB AS completed an agreement to acquire 70% of the shares in Helgesen Tekniske Bygg AS (HTB). HTB

is a well-run company with an excellent track record since being established as a company in 1987. The company's business concept is to guide projects from the concept phase to a finished building, and the company works closely with the customers in the project development phase. The main focus is on industrial and warehouse buildings, shopping centres and office buildings. Over the last three years, HTB has reported average revenues of NOK 335 million and an operating margin of 6.5%. See Note 3 at page 28 for more information.

In November LAB Entreprenør concluded an agreement with Skjoldnes Utvikling AS to build 65 apartments at Skjoldnes in the City of Bergen. The project comprises a total of five buildings connected to an underground parking facility. In connection with both construction stages, a costly outdoor facility will be established. The project will be carried out as a design and build contract and is valued at NOK 140 million, excluding VAT.

The Building business area reported a further three agreements to the stock exchange in the 4th quarter with a total contract value of NOK 558 million excluding VAT.

Building's order backlog as at 31 December 2018 was NOK 9,871 million (9,837 million).



Kilen Pier, Sandefjord

Property

NOK million	4Q 18	4Q 17	2018	2017
Revenues and income	10	6	73	21
Earnings before financial items and tax (EBIT)	24	25	166	78
Earnings before tax (EBT)	23	22	157	64
Operating margin	-	-	-	-
Profit margin	-	-	-	-

The Property business area develops residential units and commercial buildings in Norway. The activities take place in geographic areas where AF has its own production capacity. The development projects are primarily organised as partly-owned companies that are consolidated in accordance with the equity method of accounting. The earnings that are consolidated in AF correspond to the earnings after tax multiplied by the ownership interest.

Property reported earnings before tax of NOK 23 million (22 million) for the 4th quarter. Earnings before tax for the year were NOK 157 million (NOK 64 million). Earnings for the year include gains from the sales of commercial property at Hasle in Oslo.

The market in Greater Oslo is now marked by cautious optimism among the residential buyers. A total of 47 (86) apartments were sold in the 4th quarter, and AF's share was 17 (36). The sales ratio for projects in progress is 74%.

At the end of the year Property had ownership interest in residential projects with a total of 260 (353) units for sale. AF's share was 103 (143). There was a total of 1 (10) unsold completed apartment, of which AF's share was 0.3 (4).

Property has six residential property projects with a total of 921 apartments under construction, of which AF's share is 338:

- Krydderhagen at Hasle (143 apartments)
- Thurmannskog in Lørenskog (86 apartments)

- Lillo Gård at Nydalen (366 apartments)
- Nye Kilen Brygge in Sandefjord (100 apartments)
- Lilleby Triangel in Trondheim (97 apartments)
- Skiparviken in Bergen (129 apartments)

For further information, see Note 7 on page 31.

As at the 4th quarter, Property had ownership interests in three commercial projects under construction in Oslo, with a gross floor area of 44,755 square metres, of which AF's share is 20,597 sqm GFA:

- Lille Gård Shops at Nydalen (6,354 sqm GFA)
- Atea Building at Hasle (18 333 sqm GFA)
- K4 hotel and offices at Hasle (20,068 sqm GFA)

The sale of Haslevangen 16 was completed in the 4th quarter. This is a school with a gross floor area of 3,011 square metres, and Wang Ung is the tenant. The building was valued at NOK 135 million and AF had a stake of 49.5%.

AF has an ownership stake in a building site inventory (residential units under development) in Norway that is estimated to yield 1 831 (2 063) residential units. AF's share of this is 871 (831) residential units. In addition, AF also has an ownership stake in commercial property under construction with a gross floor area of 53 683 (92 084) square metres. AF's share of this is a gross floor area of 26 264 (45 273) square metres.



Energy efficient lighting at Vadsø library, EPC Finnmark county municipality



Brudaremissen, Gothenburg

Energy

NOK million	4Q 18	4Q 17	2018	2017
Revenues and income	84	73	277	244
Earnings before financial items and tax (EBIT)	2	6	0	20
Earnings before tax (EBT)	3	7	-2	22
Operating margin	2.3 %	7.5 %	0.1 %	8.2 %
Profit margin	4.1 %	10.0 %	-0.6 %	9.1 %

The Energy business area encompasses AF's energy services for onshore activities.

The business area consists of a single business unit:
• AF Energi & Miljøteknikk and subsidiaries

Revenues for the 4th quarter were NOK 84 million (73 million) and earnings before tax were NOK 3 million (7 million). Full-year revenues were NOK 277 million (244 million) and earnings before tax were NOK -2 million (22 million).

The energy services market is good, and the size of the contracts is increasing at the same time. AF Energi & Miljøteknikk has a stable level of activity for the 4th quarter, but the unit reported results below expectations in the quarter and a poor result for 2018.

AF Energi & Miljøteknikk has had many EPC contracts in the analysis phase, and several of these are in the process of being converted to projects to be executed.

After year end the entity entered into an agreement with Statsbygg for plumbing work in the new Life Science Building at the University of Oslo. The contract has an estimated value of around NOK 300 million and is not included in the order backlog as of 31.12.18.

The order backlog for Energy stood at NOK 243 million (260 million) as at 31 December 2018.

Sweden

NOK million	4Q 18	4Q 17	2018	2017
Revenues and income	658	492	2 270	1 611
Earnings before financial items and tax (EBIT)	27	24	114	83
Earnings before tax (EBT)	26	23	113	82
Operating margin	4.0 %	5.0 %	5.0 %	5.2 %
Profit margin	4.0 %	4.7 %	5.0 %	5.1 %

The Sweden business area encompasses activities related to building, civil engineering, property and environmental activities in Sweden.

The business area consists of six business units:
• Kanonaden Entreprenad and subsidiaries
• Pålplintar
• AF Bygg Göteborg
• AF Bygg Syd
• AF Projektutveckling
• AF Härnösand Byggreturer

Sweden reported revenues of NOK 658 million (492 million) and earnings before tax of NOK 26 million (23 million) for the 4th quarter. Full-year revenues were NOK 2,270 million (NOK 1,611 million) and earnings before tax were NOK 113 million (NOK 82 million).

The Swedish civil engineering market is marked by strong competition. Kanonaden Entreprenad reported good results for the 4th quarter. Pålplintar has a stable activity level, but has delivered poor results in the quarter.

In Sweden, the residential market is more hesitant than in Norway. AF Projektutveckling does not have any projects in the production phase but has some projects in the

development phase. AF Bygg Göteborg delivered poor results, while AF Bygg Syd delivered good results for the quarter and the year.

The market for environmental services is also good in Sweden. AF Härnösand Byggreturer reported a high level of activity and very good profitability for its projects. The unit also reports strong results for the 4th quarter.

After the end of the quarter AF Gruppen has concluded an agreement to acquire 70 per cent of the shares in HMB Holding AB (HMB). HMB constructs both commercial buildings and housing in Stockholm/Mälardalen, as well as in Dalarna, Västmanland, Uppland and Gästrikland. HMB's revenue in 2018 was SEK 1,259 million and the company has an order backlog of SEK 1,669 million as at 31 December 2018. This is not included in AF Gruppen's order backlog as at 31 December 2018.

AF's Swedish property business has a building site inventory (residential units under construction) that is estimated to yield 485 (251) residential units. AF's share of this is 343 (151) residential units.

The order backlog for Sweden stood at NOK 1,578 million (1 760 million) as at 31 December 2018.



The Dunlin Alpha platform, North Sea (English sector)

Offshore

NOK million	4Q 18	4Q 17	2018	2017
Revenues and income	135	154	655	664
Earnings before financial items and tax (EBIT)	-27	19	-21	59
Earnings before tax (EBT)	-30	17	-27	49
Operating margin	-20.1 %	12.5 %	-3.2 %	8.8 %
Profit margin	-22.5 %	11.0 %	-4.1 %	7.4 %

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

The business area consists of two business units:

- AF Offshore Decom and subsidiaries
- AF AeronMollier

Offshore also has activities related to the AF Environmental Base at Vats and the maintenance and modification of onshore facilities (MMO).

Revenues for the 4th quarter were NOK 135 million (154 million) and earnings before tax were NOK -30 million (17 million). Revenues totalled NOK 655 million (664 million) and earnings before tax totalled NOK -27 million (49 million) year to date.

AF Offshore Decom reported a low level of activity as expected, and the unit delivered weak results. As communicated earlier, the market for the removal of offshore installations is marked by strong competition and few projects in the short term. There is no activity at the Environmental Base at Vats. The unit contracted several new projects during the autumn, but offshore campaigns for these will not be carried out before 2020 or later.

AF AeronMollier is experiencing challenging market conditions. The unit has a stable level of activity for the 4th quarter, but delivered weak results for the quarter and the year. In the 4th quarter it was decided to discontinue the department in Shanghai, and costs in relation to this are reflected in the unit's result.

The order backlog for Offshore stood at NOK 1,456 million (916 million) as at 31 December 2018.

AFG - Share price performance over the last 12 months



FINANCIAL INFORMATION

AF Gruppen shall have robust financing with respect to operational and market-related fluctuations. The company's required return on invested capital is 20%, and its financial position shall at the same time reinforce the company's growth strategy and provide an adequate dividend capacity.

Net operating cash flow was NOK 582 million (325 million) and net cash flow from investments was NOK -15 million (196 million) for the 4th quarter. Cash flow before capital transactions and financing was NOK 567 million (521 million) for the 4th quarter. A dividend of NOK 489 million was distributed to AF Gruppen's shareholders in the 2nd quarter, and NOK 347 million was distributed in the 4th quarter. Net operating cash flow was NOK 841 million (1,354 million) and net cash flow from investments was NOK -255 million (-119 million) for the year. Cash flow before capital transactions and financing was NOK 586 million (1 235 million) for the year.

AF Gruppen had net interest-bearing receivables of NOK 894 million (1,210 million) at the end of the 4th quarter.

AF Gruppen's total financing facility is NOK 1 880 million.

AF Gruppen has a credit facility of NOK 1 200 million with Danske Bank that will remain in effect until 2020. The facility also consists of an overdraft of NOK 80 million with DnB. In addition, AF has a credit facility of NOK 600 million with Handelsbanken that will be renewed annually until June 2020.

Shares for NOK 87 million were issued in the 4th quarter in connection with the Group's option programme.

The available liquidity, including credit facilities, stood at NOK 2,536 million as at 31 December 2018.

Total assets were NOK 8,486 million (7,724 million) as at 31 December 2018. The Group's equity totalled NOK 2,124 million (2,078 million). This corresponds to an equity ratio of 25.0 % (26.9 %).

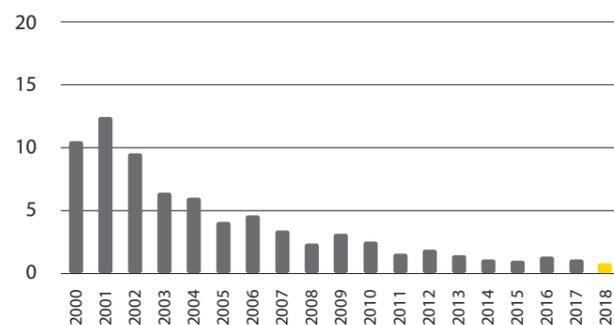
SHARE PERFORMANCE

AF Gruppen's shares are listed on the Oslo Børs OB Match List and trade under the ticker AFG. The share is included in the Oslo Børs All Share Index (OSEAX), Benchmark Index (OSEBX) and Mutual Fund Index (OSEFX), as well as the new Oslo Børs Mid Cap Index (OSEMX).

LIST OF SHAREHOLDERS AS AT 31 DECEMBER 2018

Name	No. shares	% share
OBOS BBL	18 066 733	18.2
ØMF Holding AS	14 818 859	15.0
Constructio AS	13 741 782	13.9
Folketrygdfondet	7 174 956	7.2
Artel II AS	2 508 267	2.5
LJM A/S	2 413 900	2.4
Landsforsakringar Fastighetsfond	2 014 154	2.0
VITO Kongsvinger AS	1 861 676	1.9
Arne Skogheim AS	1 753 870	1.8
Staavi, Bjørn	1 620 000	1.6
Ti største aksjonærer	65 974 197	66.6
Sum øvrige aksjonærer	32 814 982	33.1
Egne aksjer	220 000	0.2
Totalt antall aksjer	99 009 179	100.0

LTI RATE



The closing price for the AF share was NOK 132.00 as at 31 December 2018. This corresponds to a return of 6 per cent in 2018, adjusted for a dividend of NOK 8,50 per share distributed in 2018. The Oslo Børs Benchmark Index showed a return of -2% for the same period.

In October a total of 534 employees subscribed for a total of 1 000 000 shares in connection with AF's share programme. The shares were subscribed for a price of NOK 101.60 per share, which corresponds to a discount of 20 % in relation to the average market price during the subscription period. The Board of Directors resolved to sell 141 544 treasury shares in this connection. In addition, 858 456 new shares were issued.

In November AF increased its share capital in connection with the acquisition of Helgesen Tekniske Bygg AS. The capital increase was carried out as a private offering of 189 723 shares with a nominal value of NOK 0.05 at a price of NOK 126.50. The number of shares after these two new issues was 99 009 179 and the total share capital was NOK 4 950 458.95.

The company distributed a dividend of NOK 3.50 per share in the 4th quarter. In 2018, a total dividend of NOK 8.50 (8.50) per share was distributed. For 2019, a dividend of NOK 5.00 (5.00) per share has been proposed for the first half of the year.

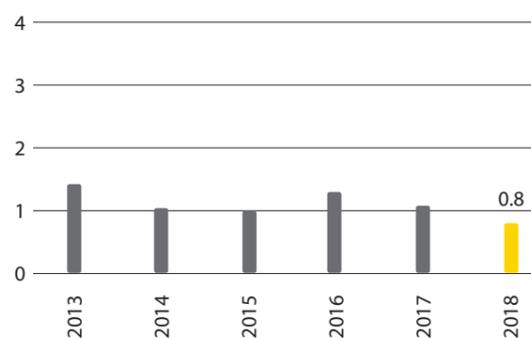
HEALTH, SAFETY AND THE ENVIRONMENT (HSE)

HSE has high priority in AF Gruppen and is an integral part of the management at all levels. AF has a structured and uniform HSE system that encompasses all the projects. The working environment should be safe for everyone – including those who are employed by our subcontractors. The figures from the subcontractors are therefore included in the injury statistics.

The LTI rate is an important measurement parameter for safety work at AF. The LTI rate is defined as the number of injuries resulting in absence per million man-hours. A total of three injuries resulting in absence were registered in the 4th quarter. This gives an LTI rate (lost-time injury rate) of 0.6 (1.1) for the 4th quarter. For 2018, the LTI rate was 0.8 (1.1).

Through systematic and long-term efforts, the LTI (lost time in jury) rate has been reduced over the years. Significant resources

LTI RATE DEVELOPMENT



are being invested to further improve our HSE efforts in order to be able to achieve our goal of an LTI rate of zero. Key to this work is AF's fundamental understanding and acceptance that all injuries have a cause and can, therefore, be avoided. Identifying risk and risk analysis are a key part of our preventive activities. Physical and organisational barriers are established to reduce the risk of personal injury to an acceptable level based on an assessment of the risks.

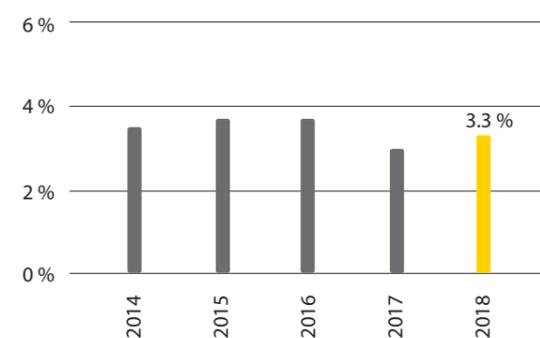
In addition to risk assessments, it is also vital to be able to learn from our mistakes. AF has systematised this through reporting and responding to undesired incidents, as well as investigating the most serious incidents. The number of reports has increased steadily during the last 14 years, and we see a clear correlation between the increased reporting of undesired incidents and the decrease in injuries.

The registration of sickness absence forms the basis for the measurement of health work at AF. For the 4th quarter, sickness absence was 3.3 % (3.0 %), and 3.3 % (3.0 %) for the full year 2018. AF's sickness absence is low compared to that of comparable businesses. Our target is total sickness absence of less than 3.0 %, a level we believe represents a healthy situation without absence due to occupational illnesses/injuries. Systematic efforts are being made, which consist, for example, of ongoing risk analysis of exposure that is harmful to health, the establishment of physical and organisational barriers, and close follow-up of employees on sick leave.

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 an integral part of HSE work, and the tools used are therefore the same that are used otherwise in connection with HSE work.

Follow-up of the source separation rate parameter acts as an extra driving force for AF's environmental work. This parameter places the focus on an important environmental factor that AF has an opportunity to influence. The source separation rate indicates how much of the waste from AF's operations is separated for the purpose of facilitating recycling. For the 4th quarter, the result for building was 92 % (83 %), the result for renovation was 87 % (83 %) and the result for demolition was 99 % (96 %). To date in 2018, the source separation rate for building was 89 % (83

SICK LEAVE DEVELOPMENT



%), for renovation it was 87 % (85 %) and for demolition it was 97 % (95 %). These results are considered very good, and they are well above the government requirement of a minimum of 60 %. A total of 312 492 (85 906) tonnes of waste has been sorted in the 4th quarter, and a total of 512 401 (324 370) tonnes has been sorted in 2018. The environmental centres have recycled a total of 219,005 tonnes (179,163) tonnes of materials year to date.

ORGANISATION

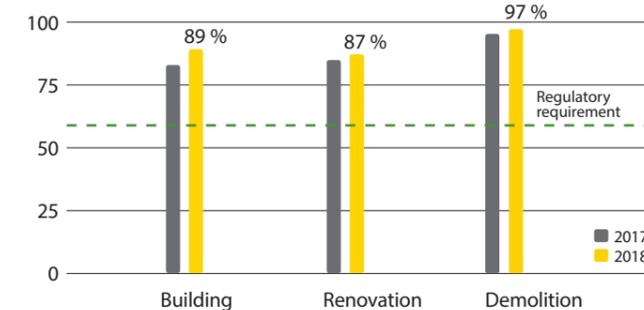
With clear growth ambitions and a rapidly increasing order backlog, there is an increasing need for resources. Therefore, the continuous effort to build a uniform corporate culture is more important than ever. Motivated employees and a solid organisation are an important foundation for creating value. AF is experiencing a major influx of competent resources who desire to work for the company, and in 2018 the number of employees has increased by 452 persons. At AF we are building the organisation with a robust composition of technical expertise and management capacity at all levels. The resources are organised close to production, with project teams where the managers have a major influential force.

The percentage of women in the building and civil engineering industry is too low. This also applies to AF Gruppen, where the percentage of women is 8.7% overall and 18.5% among salaried staff. AF has, as one of ten Norwegian companies, established cooperation with #ShesGotThis on a three-year research project. The goal is to find measures that will contribute to increasing the percentage of women at the company.

Ida Aall Gram (b. 1977) took up position as Executive Vice President for Eiendom on 1 February 2019. She came to AF as portfolio director of AF Eiendom in 2017. She has previous experience from Gyldendal, Orkla Eiendom and McKinsey has a degree in business administration from BI Norwegian School of Management.

AF is also maintaining a high focus on innovation and digitalisation within our business areas. We are working in a structured manner on how new technology can contribute to increased productivity and minimise risk in our projects, contribute to a safer daily life for our employees, and not to mention create greater value for our customers. In addition, we are continuously seeking new business models on the

SOURCE SEPARATION RATE



border of or outside of our current core areas. This last year we have reinforced our efforts further by creating a corporate function for innovation and digitalisation, in addition to a joint venture fund with OBOS (Construct Venture).

AF invests a lot of time and resources in the development of employees through training in various positions in production and through development of the AF Academy. More than 80% of the current managers have been recruited internally. Our employees are good ambassadors for the recruitment of new colleagues.

AF Gruppen had a total of 4,220 (3,768) employees at the end of the 4th quarter. Of these employees, 3,713 (3,301) were employed in Norway, 467 (448) in Sweden, 24 (5) in Lithuania, 8 (9) in China and 8 (5) in Germany.

RISK AND RISK MANAGEMENT

AF Gruppen is exposed to risk of both an operational and financial nature. AF wants to undertake operational risk that the business units can influence and control. AF has developed risk management processes that are well adapted to our operations. Standardised, action-oriented risk management processes ensure comprehensive and coherent risk management in all parts of the organisation. AF seeks to limit exposure to risk that cannot be influenced. A risk review is conducted for all projects before a tender is even submitted. Analysis of risk during the tendering phase enables the correct pricing and management of risk in the project. The same project organisations conduct detailed risk reviews every quarter. The Corporate Management Team will participate in risk reviews of all projects with a contract value in excess of NOK 100 million. In addition, a total of 24 risk reviews in the business units, in which the Corporate Management Team also participated, were conducted in connection with the 4th quarter of 2018.

Financial risk encompasses market risk, credit risk and liquidity risk. Market risk includes commodity price risk, foreign exchange risk and interest rate risk. AF is exposed to foreign exchange risk, and as a major demolition and recycling operator, AF is also exposed to fluctuations in steel prices. AF aims to have low exposure to risks that cannot be influenced, and it uses hedging instruments to mitigate the risk associated with foreign exchange rates and steel prices. AF has credit risk

in relation to customers, suppliers and partners. In addition to the parent company and bank guarantees, the use of credit rating tools contributes to reducing risk. The liquidity risk is considered low. AF Gruppen has a total financing facility of NOK 1,880 million and available liquidity of NOK 2,536 million as at 31 December 2018.

MARKET OUTLOOK

The civil engineering market in Norway is good and less sensitive to cyclical fluctuations since public sector demand is the greatest driver behind investments in civil engineering in Norway. In the 2019 State Budget, the government proposes to allocate NOK 73.1 billion to transport, which is an increase of NOK 5.4 billion (7.9 %) over the final budget for 2018. NOK 65.2 billion will be used to follow up the National Transport Plan 2018-2029, NOK 37.1 billion of which is for road purposes. This represents an increase of 3.3 % compared with 2018. Prognosesenteret expects a high level of activity in the civil engineering market for the period from 2018 to 2019, with growth in investments of 18.7 % and 16.9 %, respectively. The higher investment estimate for transport and road projects, as well as the planned start-up of many major civil engineering projects, provide a good foundation for further growth of AF's civil engineering activities.

Figures from Property Norway for January 2019 show the residential property prices in Norway rose 2.7 % compared to December 2018. However, adjusted for seasonal variations, the prices rose by 0.5 %. In January residential property prices were 3.6 % per cent higher than 12 months ago. The strong activity in the housing market in 2018 continues in 2019. In January there was an increase in the nominal prices throughout the country. The strongest 12-month growth is in Oslo with 5.3 %. Throughout 2018 there have been many resale homes for sale. Prognosesenteret expects this to persist in 2019, while at the same time a large number of completed new homes will reach the market due to extensive residential construction in recent years. In combination with the indications of interest rate increases from the Norwegian Central Bank has led Prognosesenteret to expect a slight decline in prices in 2019.

Prognosesenteret expects approximately zero growth in the construction market overall for 2019. A drop in residential production of 8.1 % is expected to be compensated by significant growth in non-residential production of NOK 5.5 billion (8,8 %), and a renovation market that is expected to grow by NOK 2.9 billion (1.8 %).

There are relatively significant regional difference in developments in 2019. A decline is expected in the south-eastern parts of the country, and an increase or zero growth in the remainder. A residential production decline 2019 reflects a strong decline in permissions to commence in 2018, which ensures a stronger decrease in housing at work in 2019.

Overall, a high level of activity is expected. A decrease in

permissions to commence will likely be reflected in fewer new projects starting in 2019, but there is still a good outlook for the Norwegian economy, which is currently experiencing a moderate cyclical upswing.

The Environment business area provides traditional demolition services and the subsequent receiving, treating and recycling of materials. The level of demolition activity is closely connected to the general level of activity in the building and civil engineering markets. A positive outlook for the civil engineering market in Norway and a good building market is positive for the demand for services in the Environment business area.

The market opportunities for the treatment of contaminated materials are huge, since the materials that were previously delivered to disposal sites can now be recycled. AF's decontamination method means that up to 80 per cent of the materials can be decontaminated, processed and reused. The method provides good socio-economic and commercial benefits by reducing the volume of waste, while clean materials can be reused in the form of gravel and stone.

The authorities in Norway have defined ambitious energy goals related to a reduction in the consumption of energy towards the year 2030. These goals are to be realised through a significant reduction in the consumption of energy by existing buildings compared with the current level, among other things. Enova has found that there is a major maintenance backlog for public buildings and major conservation opportunities in connection with the rehabilitation of buildings. The delivery of heating and cooling to commercial buildings is another interesting market. Demand here is associated with new residential and commercial building starts, where despite a decrease compared to 2018, a high number of starts is expected in 2019. The market for energy performance contracts (EPCs) in municipalities and public enterprises is also an interesting market area. Overall, a good market is expected for AF's activities in the Energy area.

Statistics Norway is expecting investments related to oil, gas a pipe transport in 2019 of NOK 165 billion, up from an estimated NOK 156 billion in 2018. Uncertainty in the oil industry may have an impact on AF's HVAC activities, as well as on maintenance and modification. The market for the removal of offshore installations is marked by strong competition and few demolition projects to be carried out in 2018 and 2019. Estimates from the British industry organisation Oil & Gas UK indicate that more than 200 platforms must be removed fully or partially on the British, Norwegian, Danish and Dutch sectors during the period from 2017 to 2025. This represents good opportunities for AF's offshore activities related to the demolition and removal of decommissioned oil installations.

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

passenger vessel segments.

The residential price performance in Sweden, like Norway, has been marked by strong growth over some time now. Growth has levelled off in 2018. This is considered a natural correction at the top of a boom, according to Svensk Fastighetsförmedling. A balanced market is expected in 2019. In December 2018 the Swedish Central Bank raised interest rates to -0.25 %. Although interest rates are expected to rise gradually in the time ahead, the Central Bank reports that monetary policy will remain expansive. Following several years of high growth, Sveriges Byggindustrier expects a drop in building and civil engineering investments in Sweden for 2019 of -3%. Going forward, credit tightening, moderate real wage growth and rising mortgage rates are expected to result in a reduction in residential investments. The largest segment measured by investment level, new homes, has seen strong growth in recent years, but is expected to drop by 16% in 2019. Nevertheless, the investment level will be at a higher level than one achieved as

recently as 2015. Increased investments are expected in both private and public non-residential property, where the growth in public non-residential property is greatest with 5% in 2019. Civil engineering investments are expected to grow by 4% in 2019, both in the public and private sectors. Overall, a good market is expected for AF's activities in Sweden.

Oslo, 14 February 2019

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Malin Trellevik is one of the few female workers at E18 Tvedestrand-Arendal. Photo: AF Gruppen / Eirik Førde

Financial Information



Anastasia Wraa and Einar Grimstad from AF Bygg Oslo using new digital tools. Photo: AFGruppen / Hans Fredrik Asbjørnsen

CONDENSED CONSOLIDATED STATEMENT OF INCOME

NOK million	4Q 18	4Q 17	2018	2017
Revenues and income	5 656	4 296	18 767	13 704
Subcontractors	-3 144	-2 326	-9 839	-6 233
Cost of materials	-590	-479	-2 843	-2 277
Payroll cost	-981	-877	-3 405	-2 961
Operating expenses ex. depreciation and impairment	-581	-315	-1 567	-1 256
Net gains (losses) and profit (loss) from associates	53	45	189	116
EBITDA	412	343	1 303	1 092
Depreciation and impairment of tangible fixed assets	-49	-45	-182	-166
Depreciation and impairment of intangible assets	-	-1	-2	-2
Earnings before financial items and tax (EBIT)	363	297	1 119	924
Net financial items	10	13	18	12
Earnings before tax (EBT)	373	310	1 136	935
Income tax expense	-50	-37	-215	-181
Net income for the period	323	274	921	754
Attributable to:				
Shareholders of the parent	274	228	772	621
Non-controlling interests	49	46	149	133
Net income for the period	323	274	921	754
Earnings per share (NOK)	2.79	2.34	7.88	6.43
Diluted earnings per share (NOK)	2.79	2.34	7.88	6.43
Key figures	4Q 18	4Q 17	2018	2017
EBITDA margin	7.3 %	8.0 %	6.9 %	8.0 %
Operating profit margin	6.4 %	6.9 %	6.0 %	6.7 %
Profit margin	6.6 %	7.2 %	6.1 %	6.8 %
Return on capital employed (ROaCE) ¹⁾	-	-	53.9 %	42.7 %
Return on equity	-	-	45.4 %	35.8 %
Equity ratio	25.0 %	26.9 %	25.0 %	26.9 %
Net interest-bearing receivables (debt) ²⁾	894	1 210	894	1 210
Capital employed ³⁾	2 223	2 198	2 223	2 198
Order backlog	21 541	19 773	21 541	19 773

¹⁾ Return on capital employed (ROaCE) = (Earnings before tax + interest expense) / average capital employed

²⁾ Net interest-bearing receivables (debt) = Cash and cash equivalents + interest-bearing receivables - interest-bearing debt

³⁾ Capital employed = Equity + interest-bearing debt

STATEMENT OF COMPREHENSIVE INCOME

NOK million	4Q 18	4Q 17	2018	2017
Net income for the period	323	274	921	754
Net actuarial gains and losses	-1	1	-1	1
Currency translation differences minority	3	1	-	2
Items that will not be reclassified to income statement in subsequent periods	1	2	-2	3
Net cash flow hedges	-33	1	-17	38
Currency translation differences majority	30	13	-13	26
Items that may be reclassified to income statement in subsequent periods	-2	14	-30	64
Other comprehensive income for the period	-1	16	-32	67
Total comprehensive income for the period	322	290	890	821
Attributable to:				
-Shareholders of the parent	270	243	741	686
- Minority	52	47	149	135
Total comprehensive income for the period	322	290	890	821

EQUITY

NOK million	Paid-in capital	Translation differences	Actuarial pension gains/(losses)	Cash flow hedge	Retained earnings	Attributable to shareholders	Minority	Total equity
As at 31/12/2016	223	6	-16	-53	1 519	1 680	270	1 950
Comprehensive income	-	26	1	38	621	686	135	821
Capital increase	371	-	-	-	-	371	-	371
Purchase of treasury shares	-	-	-	-	-55	-55	-	-55
Sale of treasury shares	-	-	-	-	45	45	-	45
Dividend paid	-121	-	-	-	-707	-829	-77	-906
Share-based remuneration	9	-	-	-	-	9	1	10
Put options for minority	-	-	-	-	-191	-191	-1	-192
Addition of minority by acquisitions	-	-	-	-	-	-	49	49
Transactions with minority	-	-	-	-	-24	-24	7	-17
As at 31/12/2017	482	32	-14	-15	1 209	1 693	384	2 078
Comprehensive income	-	-13	-1	-17	772	741	149	890
Capital increase	111	-	-	-	-	111	-	111
Purchase of treasury shares	-	-	-	-	-35	-35	-	-35
Sale of treasury shares	-	-	-	-	26	26	-	26
Dividend paid	-367	-	-	-	-469	-836	-128	-964
Share-based remuneration	29	-	-	-	-	29	1	30
Put options for minority	-	-	-	-	28	28	-54	-26
Transactions with minority	-	-	-	-	-12	-12	26	14
As at 31/12/2018	256	20	-16	-33	1 519	1 746	378	2 124

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

NOK million	31/12/18	31/12/17
Tangible fixed assets	1 356	1 241
Intangible assets	2 288	2 188
Investment in associates and joint ventures	361	363
Deferred tax asset	19	26
Interest-bearing receivables	305	216
Pension plan and other financial assets	8	10
Total non-current assets	4 337	4 045
Inventories	184	159
Projects for own account	38	186
Trade receivables and other receivables	3 238	2 216
Interest-bearing receivables	32	16
Derivatives	1	3
Cash and cash equivalents	656	1 098
Total current assets	4 149	3 679
Total assets	8 486	7 724
Equity attributable to shareholders of the parent	1 746	1 693
Minority interests	378	384
Total equity	2 124	2 078
Long-term interest-bearing debt	91	102
Retirement benefit obligations	1	1
Provisions	150	189
Deferred tax	418	327
Derivatives	43	23
Total non-current liabilities	704	643
Short-term interest-bearing debt	8	19
Trade payables and other short term debt	5 281	4 481
Derivatives	10	26
Provisions	223	353
Tax payable	138	126
Total current liabilities	5 659	5 003
Total liabilities	6 363	5 646
Total equity and liabilities	8 486	7 724

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

NOK million	4Q 18	4Q 17	2018	2017
Earnings before financial items and tax (EBIT)	363	297	1 119	924
Depreciation, amortisation and impairment	49	45	184	169
Change in net working capital	282	339	-178	775
Income taxes paid	-77	-312	-123	-407
Other adjustments	-35	-44	-160	-107
Cash flow from operating activities	582	325	841	1 354
Net investments	-15	196	-255	-119
Cash flow before financing activities	567	521	586	1 235
Share issue	87	90	87	322
Dividend paid to majority shareholders	-347	-343	-836	-829
Dividend paid to minority	-123	-3	-234	-77
Sale (purchase) of treasury shares	-10	-12	-10	-10
Borrowings (repayment of debt)	-10	-39	-24	2
Interest paid	-4	1	-13	-13
Cash flow from financing activities	-406	-306	-1 030	-604
Net decrease (increase) in cash and cash equivalents	160	215	-444	632
Net cash and cash equivalents at the beginning of period	493	883	1 098	469
Change in cash and cash equivalents without cash effect	2	-	1	-2
Net cash and cash equivalents at the end of period	656	1 098	656	1 098

BUSINESS AREAS

AF Gruppen's division into operating segments is consistent with the division of the business areas: Civil Engineering, Environment, Building, Property, Energy, Sweden and Offshore.

Sweden has been organised as a separate business area as of 1 January 2018. The new business area consists of the units AF Härnösand Byggreturer, Kanonaden Entreprenad and subsidiaries, Pålplintar, AF Bygg Göteborg, AF Bygg Syd and AF Projektutveckling. The comparable figures for the business areas have been similarly restated.

Segment information is presented in accordance with the AF Gruppen's accounting policies in accordance with IFRS with the exception of the principles for revenue recognition for residential property development in accordance with IFRS 15. This policy exception applies to the Building and Property segments and Sweden. Revenue from projects for own account in these segments is not recognised upon handover as regulated in IFRS 15, but in accordance with the degree of completion method. This means that the recognition of revenue in these projects is the product of the degree of completion, sales ratio and expected contribution margin.

Segment information is presented in accordance with reporting to the Corporate Management Team and is consistent with the financial information utilised by the Company's senior decision-makers when evaluating developments and allocating resources. The effect of the deviant application of principles on the consolidated accounts is illustrated in a separate table in the segment information. Additional information on projects for own account is provided in Note 7.

Civil Engineering

NOK million	4Q 18	4Q 17	2018	2017
External revenue and income	1 638	1 156	5 821	3 511
Internal revenue and income	10	19	40	59
Total revenue and income	1 648	1 175	5 861	3 569
EBITDA	127	102	340	306
Earnings before financial items and tax (EBIT)	112	87	275	249
Earnings before tax (EBT)	113	101	293	269
EBITDA-margin	7.7 %	8.7 %	5.8 %	8.6 %
Operating margin	6.8 %	7.4 %	4.7 %	7.0 %
Profit margin	6.9 %	8.6 %	5.0 %	7.5 %
Assets	2 014	1 871	2 014	1 871
Order backlog	7 664	6 082	7 664	6 082

Environment

NOK million	4Q 18	4Q 17	2018	2017
External revenue and income	136	81	559	404
Internal revenue and income	11	20	40	70
Total revenue and income	148	101	598	474
EBITDA	18	14	60	45
Earnings before financial items and tax (EBIT)	14	9	44	28
Earnings before tax (EBT)	13	9	43	27
EBITDA-margin	11.9 %	13.7 %	10.0 %	9.4 %
Operating margin	9.2 %	9.3 %	7.3 %	5.9 %
Profit margin	9.0 %	9.1 %	7.1 %	5.8 %
Assets	334	282	334	282
Order backlog	258	274	258	274

Building

NOK million	4Q 18	4Q 17	2018	2017
External revenue and income	2 811	2 378	8 945	7 455
Internal revenue and income	28	9	110	19
Total revenue and income	2 839	2 386	9 055	7 474
EBITDA	246	157	666	512
Earnings before financial items and tax (EBIT)	232	144	619	467
Earnings before tax (EBT)	241	148	645	481
EBITDA-margin	8.7 %	6.6 %	7.4 %	6.8 %
Operating margin	8.2 %	6.0 %	6.8 %	6.3 %
Profit margin	8.5 %	6.2 %	7.1 %	6.4 %
Assets	5 128	4 449	5 128	4 449
Order backlog	9 871	9 837	9 871	9 837

Property

NOK million	4Q 18	4Q 17	2018	2017
External revenue and income	10	6	73	21
Internal revenue and income	-	-	-	-
Total revenue and income	10	6	73	21
EBITDA	24	26	169	78
Earnings before financial items and tax (EBIT)	24	25	166	78
Earnings before tax (EBT)	23	22	157	64
EBITDA-margin	-	-	-	-
Operating margin	-	-	-	-
Profit margin	-	-	-	-
Assets	885	740	885	740
Order backlog	-	-	-	-

Energy

NOK million	4Q 18	4Q 17	2018	2017
External revenue and income	76	70	256	235
Internal revenue and income	8	4	20	9
Total revenue and income	84	73	277	244
EBITDA	2	6	1	21
Earnings before financial items and tax (EBIT)	2	6	-	20
Earnings before tax (EBT)	3	7	-2	22
EBITDA-margin	2.6 %	7.9 %	0.4 %	8.5 %
Operating margin	2.3 %	7.5 %	0.1 %	8.2 %
Profit margin	4.1 %	10.0 %	-0.6 %	9.1 %
Assets	155	163	155	163
Order backlog	243	260	243	260

Sweden

NOK million	4Q 18	4Q 17	2018	2017
External revenue and income	658	492	2 268	1 611
Internal revenue and income	1	-	2	-
Total revenue and income	658	492	2 270	1 611
EBITDA	32	29	131	102
Earnings before financial items and tax (EBIT)	27	24	114	83
Earnings before tax (EBT)	26	23	113	82
EBITDA-margin	4.8 %	6.0 %	5.8 %	6.4 %
Operating margin	4.0 %	5.0 %	5.0 %	5.2 %
Profit margin	4.0 %	4.7 %	5.0 %	5.1 %
Assets	1 332	1 249	1 332	1 249
Order backlog	1 578	1 760	1 578	1 760

Offshore

NOK million	4Q 18	4Q 17	2018	2017
External revenue and income	134	152	652	665
Internal revenue and income	1	2	3	-1
Total revenue and income	135	154	655	664
EBITDA	-23	23	-6	74
Earnings before financial items and tax (EBIT)	-27	19	-21	59
Earnings before tax (EBT)	-30	17	-27	49
EBITDA-margin	-17.1 %	15.0 %	-0.9 %	11.2 %
Operating margin	-20.1 %	12.5 %	-3.2 %	8.8 %
Profit margin	-22.5 %	11.0 %	-4.1 %	7.4 %
Assets	1 332	1 262	1 332	1 262
Order backlog	1 456	916	1 456	916

Other Segments (Group)

NOK million	4Q 18	4Q 17	2018	2017
External revenue and income	-	-14	17	34
Internal revenue and income	7	6	27	23
Total revenue and income	7	-8	44	57
EBITDA	-10	3	-28	-18
Earnings before financial items and tax (EBIT)	-16	-1	-48	-33
Earnings before tax (EBT)	-14	-1	-54	-32
Assets	2 673	2 050	2 673	2 050
Order backlog	-	-	-	-

Eliminations

NOK million	4Q 18	4Q 17	2018	2017
External revenue and income	11	-10	69	-47
Internal revenue and income	-66	-60	-242	-177
Total revenue and income	-55	-70	-173	-224
EBITDA	4	-5	11	-8
Earnings before financial items and tax (EBIT)	4	-5	11	-8
Earnings before tax (EBT)	4	-5	11	-8
Assets	-5 220	-4 236	-5 220	-4 236
Order backlog	94	157	94	157

GAAP adjustments

NOK million	4Q 18	4Q 17	2018	2017
External revenue and income	183	-14	107	-187
Internal revenue and income	-	-	-	-
Total revenue and income	183	-14	107	-187
EBITDA	-6	-11	-42	-19
Earnings before financial items and tax (EBIT)	-6	-11	-42	-19
Earnings before tax (EBT)	-6	-11	-42	-19
Assets	-147	-109	-147	-109
Order backlog	378	486	378	486

Segment total

NOK million	4Q 18	4Q 17	2018	2017
External revenue and income	5 656	4 296	18 767	13 704
Internal revenue and income	-	-	-	-
Total revenue and income	5 656	4 296	18 767	13 704
EBITDA	412	343	1 303	1 092
Earnings before financial items and tax (EBIT)	363	297	1 119	924
Earnings before tax (EBT)	373	310	1 136	935
EBITDA-margin	7.3 %	8.0 %	6.9 %	8.0 %
Operating margin	6.4 %	6.9 %	6.0 %	6.7 %
Profit margin	6.6 %	7.2 %	6.1 %	6.8 %
Assets	8 486	7 724	8 486	7 724
Order backlog	21 541	19 773	21 541	19 773

NOTES

1. GENERAL INFORMATION

AF Gruppen is one of Norway's leading construction and industrial groups. AF Gruppen is divided into seven business areas: Civil Engineering, Environment, Building, Property, Energy, Sweden and Offshore.

AF Gruppen ASA is a public limited company registered and domiciled in Norway. The head office is located at Innspurten 15, 0663 Oslo. AF is listed on the Oslo Børs OB Match List under the ticker symbol AFG.

This summary of financial information for the 4th quarter of 2018 has not been audited.

2. BASIS OF PREPARATION

The consolidated accounts for AF Gruppen encompass AF Gruppen ASA and its subsidiaries, joint ventures and associated companies. The consolidated financial statements for the 4th quarter have been prepared in accordance with IAS 34 Interim Accounts. The summary of the financial information presented in the quarterly accounts is intended to be read in conjunction with the annual report for 2017, which has been prepared in accordance with the International Financial Reporting Standards (IFRS).

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

3. CHANGES IN THE GROUP'S STRUCTURE

New segment structure

Sweden has been organised as a separate business area as of 1 January 2018. The new business area consists of the units AF Hämösand Byggreturer, Kanonaden Entreprenad and subsidiaries, Pålplintar, AF Bygg Göteborg, AF Bygg Syd and AF Projektutveckling.

The comparable figures for the business areas have been respectively restated.

Acquisition of Helgesen Tekniske Bygg AS

LAB AS, a subsidiary of AF Gruppen, carried out an agreement to acquire 70 per cent of the shares in Helgesen Tekniske Bygg AS (HTB) on 30 October 2018. HTB is a well-run company with an excellent track record since being established as a company in 1987. The company's business concept is to guide projects from the concept phase to a finished building, and the company works closely with the customers in the project development phase. The main focus is on industrial and warehouse buildings, shopping centres and office buildings. Over the last three years before the acquisition, HTB has reported average revenues of NOK 335 million and an operating margin of 6.5 %. The company has around 50 employees, and the head office is located at Valestrandsfossen outside of Bergen. LAB and AF complete their product line in Western Norway through the acquisition of HTB. Structural growth in Western Norway through building further on LAB's strong position is in accordance with AF's strategy. On a 100% basis, the agreed enterprise value for HTB AS was NOK 140 million and the estimated value of the shares was NOK 214 million. Settlement for the shares AF acquired consisted of 189 723 shares in AF Gruppen ASA at a price of NOK 126.50 per share, which corresponds to NOK 24 million, and of NOK 112 million in cash. In addition, contingent consideration of an estimated NOK 14 million has been agreed, which will be settled in 2020.

The company will be organised as a subsidiary of LAB AS, in which AF Gruppen has been the principal shareholder since the 1st quarter of 2015.

Presented above is an allocation of the purchase price based on the opening balance sheet of HTB as at 1 November 2018. Allocation of the purchase price was prepared using the acquisition method as regulated in IFRS 3. The purchase price has been allocated at the fair value of the assets and liabilities of HTB. The allocation is not final.

The acquisition will result in goodwill of NOK 102 million, which is linked to the geographical market position and the organisation's ability to operate profitably. None of the goodwill will be tax deductible.

At the acquisition time, the minority interests represented NOK 20 million and have been calculated as the non-controlling owners' share of the net fair value of identifiable assets and liabilities on the date of the acquisition. Goodwill is only recognised for the portion of the shares that AF acquired.

Amounts in NOK million	HTB
Cash consideration	112
Value of issued shares	24
Contingent consideration	14
Consideration 70 % of the the shares	149
Minority interests (30 % of assets and liabilities)	20
Gross consideration	170
Long-term interest-bearing receivable	15
Property, plant and equipment and intangible assets	9
Cash and cash equivalents	115
Short-term non-interest-bearing receivables	69
Deferred tax and tax payables	-23
Current interest-bearing liabilities	-3
Trade payables and current non-interest-bearing liabilities	-114
Net identifiable assets and liabilities	67
Goodwill	102
Cash consideration 70 % of the the shares	112
- Cash and cash equivalents	-115
Net consideration	-3

Acquisition of HMB Holding AB

After the end of the quarter, AF Gruppen Sverige AB, a subsidiary of AF Gruppen, concluded an agreement on 2 January 2019 to acquire 70 per cent of the shares of HMB Holding AB (HMB). The remaining 30 per cent of the shares will remain in the ownership of key individuals in the company. Sellers of shares in HMB Holding AB are 13 HMB employees through their respective investment companies. All sellers will continue both as employees of HMB and as owners of HMB Holding AB.

HMB is a successful construction company, established in 1994 with roots in Dalarna in Sverige. HMB builds commercial, residential and public buildings, and under every form of contract found in the market. HMB has operations in Stockholm/Mälardalen and in Dalarna, Västmanland, Uppland and Gästrikland. All of the owners are active in the company. HMB will become a subsidiary of AF Gruppen Sverige AB, where AF Gruppen's Swedish operations are organised. The acquisition will strengthen AF Gruppen's position in the Swedish building and civil engineering market, and is an important step in AF Gruppen's ambition to grow in Sweden. Over the period from 2015-2017, HTB has reported average revenues of NOK 1,076 million and an operating margin of 6.6%. On a 100% basis, the agreed enterprise value for HTB AS was SEK 600 million and the estimated value of the shares was SEK 614 million. Settlement for the shares AF acquired consisted of 736 911 shares in AF Gruppen ASA at a price of NOK 130.50 per share, which corresponds to SEK 99 million and SEK 286 million in cash. In addition, contingent consideration of an estimated SEK 44 million has been agreed, which will be settled in 2021.

In addition to the transaction described above, AF Gruppen Sverige AB has also acquired 3.4 per cent of the shares in HMB Construction AB, a 92 per cent owned subsidiary of HMB Holding AB. The sellers of the shares in HMB Construction AB are 69 employees of HMB Construction AB, and they will all continue as owners and employees after the transaction.

Presented above is an allocation of the purchase price based on the estimated opening balance sheet of HMB as at 2 January 2019. Allocation of the purchase price was prepared using the acquisition method as regulated in IFRS 3. The purchase price has been allocated at the fair value of the assets and liabilities of HMB. The allocation is not final.

The acquisition will result in goodwill of SEK 359 million, which is linked to the geographical market position and the organisation's ability to operate profitably. None of the goodwill will be tax deductible.

At the acquisition time, the minority interests represented SEK 45 million and have been calculated as the non-controlling owners' share of the net fair value of identifiable assets and liabilities on the date of the acquisition. Goodwill is only recognised for the portion of the shares that AF acquired.

4. ACCOUNTING POLICIES

The accounting policies applied to the accounts are consistent with those described in the annual report for 2017 with the exception of the principles for revenue recognition.

New and amended accounting standards

AF Gruppen has implemented IFRS 15 Revenue Recognition in 2018. The new standard for revenue recognition replaces IAS 11, IAS 18 and IFRIC 15. IFRS 15 stipulates evaluation criteria for revenue recognition that differs from earlier standards. The key principle of IFRS 15 is that compensation that an enterprise expects to be entitled to shall be recognised as revenue based on a pattern that reflects the transfer of the goods or services to the customer. IFRS 15 introduces a new and structured five-step model for the recognition and measurement of revenues.

IFRS 15 has been implemented in accordance with the modified retrospective method. The implementation has not led to an effect on the incoming balance for AF Gruppen as at 1 January 2018.

Amounts in SEK million	HMB
Cash consideration	286
Value of issued shares	99
Contingent consideration	44
Consideration 70% of the the shares	430
Minority interests (30 % of assets and liabilities)	39
Gross consideration HMB Holding AB	468
Cash consideration 3.4% of the shares in HMB Construction AB	20
Minority interests in HMB Construction AB (4.6%)	6
Gross consideration	489
Property, plant and equipment and intangible assets	81
Financial assets	6
Cash and cash equivalents	79
Short-term non-interest-bearing receivables	191
Short-term interest-bearing receivables	29
Deferred tax and tax payables	-23
Current interest-bearing liabilities	-13
Trade payables and current non-interest-bearing liabilities	-220
Net identifiable assets and liabilities	130
Goodwill	359
Cash consideration 70 % of the the shares	286
Cash consideration 3.4% of the shares in HMB Construction AB	20
- Cash and cash equivalents	-79
Net consideration	228

Projects for third-party accounts

A significant portion of AF Gruppen's business activities consists of construction and civil engineering projects. The projects are carried out most often on behalf of public and private clients based on contracts, so-called projects for third-party accounts. The characteristic feature of such contracts is that they are client financed.

Projects for third-party accounts are recognised as transferred to the customer over time, and project revenues are recognised in line with the degree of completion and the estimated transaction price for the performance obligations. The degree of completion of the delivery obligations is calculated as the completed production in proportion to the agreed production. Both input and output based assessments of the degree of completion are used, depending on the characteristics of the individual projects. The method for calculating the degree of completion is consistently used for the same type of contracts. An input-based calculation of the degree of completion is calculated on the basis of incurred costs on the balance sheet in proportion to the estimated total costs in the delivery obligation. An output-based calculation of the degree of completion is calculated on the basis of completed production, i.e. on completed invoiceable deliveries on the balance sheet in proportion to the agreed production in the performance obligation. The transaction price in the performance obligations includes both fixed and variable elements and is calculated as a best estimate based on the contract terms and assumptions.

Revenue from the projects is only recognised when it is highly probable that a significant reversal of the recognised cumulative operating revenue will not occur. In the early stages of a project, a smaller than the proportionate share of the expected profit is recognised as revenue if the remaining risk in the project is assessed as high. In the final stages of the project, a larger share is recognised as revenue, since the expected profit can be estimated with a greater degree of certainty and there is a narrower range of outcomes in the projects. Risk adjustment is particularly relevant for civil engineering projects.

When the outcome of the project cannot be estimated reliably, only revenue equivalent to the incurred project costs will be recognised. If a loss-making project is identified, the contract will be valued in accordance with IAS 37, and a provision for losses will be made in the current period corresponding to the best estimate of the expenses that will be incurred to settle the contractual obligation.

The recognition of revenue from disputed claims, claims for additional work, change orders, incentive bonuses, etc., starts when it has been recognised that AF Gruppen's rights to the consideration are legally enforceable. Provisions are made for identified and expected warranty work.

Projects for own account

Projects for own account largely involve the development and construction of apartment buildings for sale. These are self-financed projects. An apartment building consists of many units, and the majority of the units are sold before a project starts.

Since a home buyer is entitled to terminate the purchase prior to completion/handover, according to IFRS 15 the apartments are not considered handed over to the customer in line with completion, only at actual handover. Revenue from own account projects is thus recognised upon the handover. The expenses in projects for own account are capitalised on an ongoing basis in the balance sheet as current assets until they are recognised in the income statement. The associated prepayments from customers is recognised as current liabilities.

Demolition work

Demolition work encompasses the demolition of buildings, oil platforms and other installations. Demolition work that is recognised as transferred to the customer in line with the progress is treated in accordance with the same accounting policies as for projects for third-party accounts.

Sale of plant and equipment and other revenues

Gains/losses on the sale of plant and equipment and other goods are recognised in the income statement when delivery has been made.

Financial income

Interest is recognised as income in accordance with the effective interest method.

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

IFRS 16 Leases

The new standard for leases will replace IAS 17 Leases starting from 1 January 2019. AF Gruppen will implement IFRS 16 as of this date using a modified retrospective method. At the time of implementation, the lease liability for all contracts will be calculated based on discounted future cash flows. The right of use is assessed as equal to the lease liability for all contracts except for one. For this contract, the right of use is calculated from the start date of the contract with subsequent amortisation. The difference between the calculated lease liability and right of use for this contract is accounted for as adjustment to equity at the implementation date.

In IFRS 16 the distinction made between operating and financial leases is eliminated. All leases, except for leases with a duration of less than 12 months and leases with a low value, are to be recognised on the balance sheet of the lessee.

The present value of the future lease liability shall be recognised as an interest-bearing loan and the value of the lease (right of use) shall be recognised as a non-current asset. The balance sheet total will increase due to the transition to IFRS 16, and there will be related changes in the key figures, such as the equity ratio and net interest-bearing debt. Estimated lease liability as at 1 January 2019 is estimated at NOK 900 million.

The right of use recognised on the balance sheet will be amortised over the agreed term of the lease, and interest on the lease liability will be recognised as an interest expense. These income statement items will replace rental costs, which were recognised under other operating expenses in accordance with IAS 17.

5. ESTIMATES

The preparation of the interim accounts requires the use of assessments, estimates and assumptions that have an effect on the application of accounting principles and recognised figures related to assets and commitments, revenues and costs. The estimates are based on the management's best judgement and experience, and there is some uncertainty related to the concurrence of these estimates with the actual result. Estimates and their underlying assumptions are assessed on a continuous basis. Changes in accounting estimates are recognised for the period in which the estimate is changed and for future periods if these are affected by the change in estimate.

6. TRANSACTIONS WITH RELATED PARTIES

The Group's related parties consist of associates, joint ventures, the Company's shareholders and members of the Board of Directors and Corporate Management Team. All business transactions with related parties are carried out in accordance with the arm's length principle.

7. DEVIANT APPLICATION OF PRINCIPLES IN THE SEGMENT ACCOUNTS

The segment information is presented in accordance with the Group's accounting policies in accordance with IFRS with the exception of the principles for revenue recognition for residential property development in accordance with IFRS 15. This policy exception applies to the Building and Property segments and Sweden. Revenue from projects for own account in these segments is not recognised upon handover as regulated in IFRS 15, but in accordance with the degree of completion method. This means that the recognition of income in these projects is the product of the degree of completion, sales ratio and expected contribution margin. The effect of this on the consolidated accounts is illustrated in a separate table in the segment information.

The effect for the year of the deviant application of principles in the segment accounts with respect to earnings before tax is NOK -6 million (-11 million) for the 4th quarter and NOK -42 million (-19 million) for the year. The effect on equity was NOK -144 million (-103 million), and the accumulated reversed revenues were NOK 378 million (486 million) as at 31 December 2018.

The table below shows residential housing projects for our own account that are in the production phase. Contractor values have been included in those cases where group companies are the contractor.

Projects for own account - Property

Project	AFs construction value ex. VAT (NOK million)	Housing units	Construction period		Ownership share AF
			Start up	Completion	
Krydderhagen C1/C2/C3, Hasle	169	84	Q3 2016	Q1 2018	50 %
Krydderhagen D1/D2/D3/D4, Hasle	355	143	Q2 2017	Q2 2019	50 %
Krydderhagen E1/E2, Hasle	222	102	Q2 2017	Q4 2018	50 %
Thurmannskogen B/C/D, Lørenskog	220	96	Q4 2015	Q4 2017/Q1 2018	33 %
Thurmannskogen F/G, Lørenskog	150	72	Q3 2016	Q3 2018	33 %
Thurmannskogen H/J/K, Lørenskog	139	75	Q2 2017	Q1 2019	33 %
Thurmannskogen C/R, Lørenskog	67	11	Q2 2018	Q2/Q4 2019	33 %
Lillo Gård Haugen, Nydalen	563	174	Q1 2017	Q2/Q3 2019	25 %
Lillo Gård Lunden A/B/C/D, Nydalen	630	107	Q1 2017	Q1/Q4 2019	25 %
Lillo Gård Lunden E/F/G, Nydalen	600	133	Q1 2017	Q3/Q4 2020	25 %
Nye Kilen Brygge A1/A2 og C1/C2, Sandefjord	224	100	Q1 2018	Q1 2020	50 %
Skiparviken, Bergen	324	129	Q2 2018	Q2 2021	50 %
Stronde Byggetrinn I, Bergen	140	34	Q4 2018	Q2 2020	49 %
Lilleby Triangel, Trondheim	-	200	Q1 2019	Q2 2020	33 %

ALTERNATIVE PERFORMANCE TARGETS

AF Gruppen presents alternative performance targets as a supplement to performance targets that are regulated by IFRS. The alternative performance targets are presented to provide better insight into and understanding of the operations, financial standing and foundation for development going forward. AF Gruppen uses alternative performance targets that are commonly used in the industry and among analysts and investors.

Return on capital employed (ROaCE):

This performance target provides useful information to both AF's management and Board of Directors, as well as to investors concerning the results that have been achieved during the period under analysis. AF uses the performance target to measure the return on capital employed, regardless of whether the financing is through equity capital or debt. Use of the performance target should not be considered an alternative to performance targets calculated in accordance with IFRS, but as a supplement.

The alternative performance targets are defined as follows:

EBITDA – Earnings before i) taxes, ii) net financial items, iii) depreciation and amortisation.

Operating profit (EBIT) – Earnings before i) taxes, ii) net financial items.

EBITDA margin – EBITDA divided by operating revenue and other revenues.

Operating margin – Operating profit (EBIT) divided by operating revenue and other revenues.

Profit margin – Earnings before tax divided by operating revenue and other revenues.

Gross interest-bearing liabilities – Sum total of long-term interest-bearing loans and credits and short-term interest-bearing loans and credits.

Net interest-bearing liabilities (receivables) – Gross interest-bearing liabilities less i) long-term interest-bearing receivables, ii) short-term interest-bearing receivables and iii) cash and cash equivalents.

Capital employed – Sum total of shareholders' equity and gross interest-bearing liabilities.

Average capital employed – Average capital employed in the last four quarters.

Return on capital employed (ROaCE) – Earnings before taxes and interest for the last four quarters divided by the average capital employed.

Equity ratio – Shareholders' equity divided by total equity and liabilities.

Average shareholders' equity – Average shareholders' equity for the last four quarters.

Return on equity – Earnings for the last four quarters divided by the average shareholders' equity.

Order intake – Estimated value of contracts, contract changes and orders that have been agreed upon during the reporting period

Order backlog – Remaining estimated value of contracts, contract changes and orders that have been agreed upon, but have not been earned by the reporting date.

The tables below show the reconciliation of alternative performance targets with line items in the reported financial figures in accordance with IFRS.

Gross interest-bearing liabilities / Net interest-bearing liabilities

Amounts in NOK million	31/12/18	31/12/17
Interest-bearing loans and credit facilities – long-term	91	102
Interest-bearing loans and credit facilities – short-term	8	19
Gross interest-bearing liabilities	99	120
Less:		
Interest-bearing receivables	-305	-216
Interest-bearing receivables	-32	-16
Cash and cash equivalents	-656	-1 098
Net interest-bearing liabilities (receivables)	-993	-1 210



Capital employed

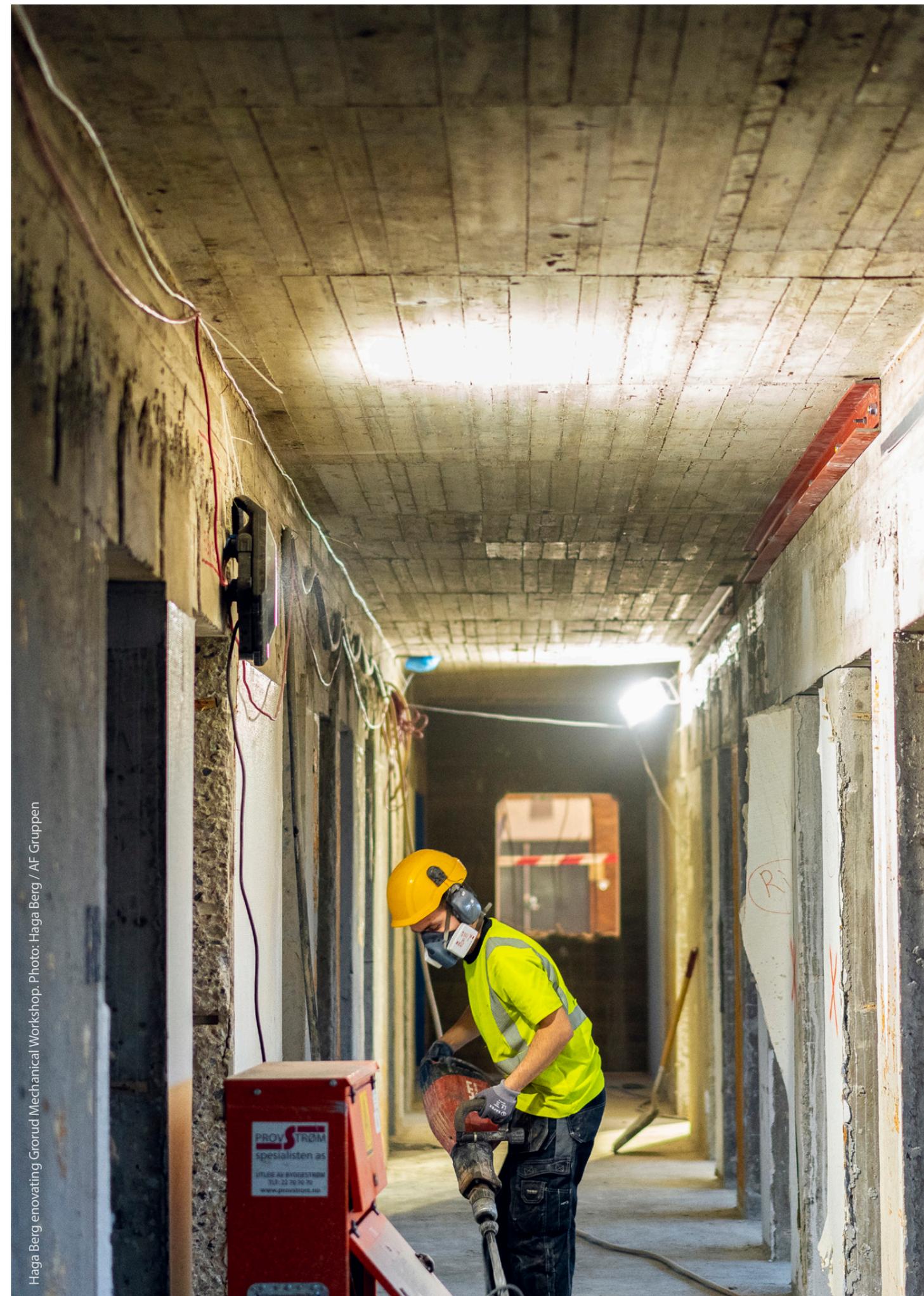
Amounts in NOK million	31/12/18	31/12/17
Shareholders' equity	2 124	2 078
Gross interest-bearing liabilities	99	120
Capital employed	2 123	2 198

Average capital employed

Amounts in NOK million	2018	2017
Capital employed as at 1 st quarter	2 240	2 396
Capital employed as at 2 nd quarter	1 908	2 154
Capital employed as at 3 rd quarter	2 162	2 173
Capital employed as at 4 th quarter	2 223	2 198
Average capital employed	2 133	2 230

Return on capital employed

Amounts in NOK million	2018	2017
Earnings before tax	1 136	935
Interest expense	14	17
Earnings before tax and interest expenses	1 150	952
Divided by:		
Average capital employed	2 133	2 230
Return on capital employed	53.9 %	42.7 %



Haga Berg renovating Grorud Mechanical Workshop. Photo: Haga Berg / AF Gruppen

Equity ratio

Amounts in NOK million	31/12/18	31/12/17
Shareholders' equity	2 124	2 078
Divided by:		
Total equity and liabilities	8 486	7 724
Equity ratio	25.0 %	26.9 %

Average shareholders' equity

Amounts in NOK million	2018	2017
Shareholder's equity as at 1 st quarter 2017	-	2 275
Shareholder's equity as at 2 nd quarter 2017	-	2 034
Shareholder's equity as at 3 rd quarter 2017	-	2 046
Shareholder's equity as at 4 th quarter 2017	-	2 078
Shareholder's equity as at 1 st quarter 2018	2 127	-
Shareholder's equity as at 2 nd quarter 2018	1 803	-
Shareholder's equity as at 3 rd quarter 2018	2 056	-
Shareholder's equity as at 4 th quarter 2018	2 124	-
Average shareholders' equity	2 027	2 108

Return on equity

Amounts in NOK million	2018	2017
Earnings	921	754
Divided by:		
Average equity	2 027	2 108
Return on equity	45.4 %	35.8 %



COMPANY INFORMATION

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Company's Board of Directors

Pål Egil Rønn, *Board Chairman*
Arne Baumann
Borghild Lunde
Hege Bømark
Kristian Holth
Kenneth Svendsen
Hilde Wikesland Flaen
Arne Sveen
Gunnar Bøyum, *deputy*

Corporate Management

Morten Grongstad, *CEO*
Sverre Hærem, *CFO*
Arild Moe, *EVP Civil Engineering*
Henning Olsen, *EVP Building*
Ida Aall Gram, *EVP Property*
Amund Tøftum, *EVP Offshore*
Eirik Wraal, *EVP Environment, Energy and Social responsibility*
Bård Frydenlund, *EVP HR and Sweden*

Financial calendar

Presentation of interim accounts:

15/02/2019 Interim report 4th quarter 2018
15/05/2019 Interim report 1st quarter 2019
23/08/2019 Interim report 2nd quarter 2019
08/11/2019 Interim report 3rd quarter 2019

The presentation of interim accounts will take place at Hotel Continental, Stortingsgata 24-26, at 8:30 a.m.

For more information on the company, visit our web site at: afgruppen.com

Cover: AF Bygg Østfold building The Coffee House at Vestby.
Photo: AF Gruppen / Hans Fredrik Asbjørnsen



OPERATIONAL STRUCTURE

