



CORPORATE GOVERNANCE

ANNUAL REPORT 2019

CORPORATE GOVERNANCE

■ An open and solid management structure instils confidence and lays the foundation so that AF Gruppen can achieve its goals and ensure long-term value creation for investors, employees, customers and society at large.

Supplemented by AF Gruppen's values and culture, the principles for risk management and internal control are the cornerstones of corporate governance.

1. STATEMENT OF CORPORATE GOVERNANCE

Good corporate governance is the responsibility of the Board of Directors. The Board of Directors reviews AF Gruppen's principles and code of practice for corporate management. A continuous effort is made to improve both the overall decision-making processes and the day-to-day management of the Group. A statement has been prepared in accordance with the Norwegian Code of Practice of 17 October 2018, cf. www.nues.no. In the following, an explanation is given for how the 15 sections in the Code of Practice are followed up within AF Gruppen.

There are no significant deviations between the Code of Practice and how AF Gruppen complies with the code. Two deviations under Section 6 on general meetings, one deviation under Section 7 on the nomination committee and one deviation under Section 12 on the remuneration of executive personnel have been justified and disclosed.

Deviation from the Code of Practice: None.

2. ACTIVITIES

AF Gruppen is a contracting and industrial group with project-based operations in the business areas of Civil Engineering, Building, Betonmast, Property, Energy and the Environment, Sweden and Offshore. The operations of AF Gruppen are based on a sustainable vision: Clearing up the past and building for the future. Our head office is located in Oslo, and more than 80 per cent of our revenues are from operations in Norway, which is the Group's principal market.

STRATEGY AND GOALS

The Articles of Association state that the object of the Group is to engage in contracting and industrial

activities, as well as any activities related thereto. This also includes participation in other undertakings.

The Board of Directors follows a four-year cycle for its strategy work. A strategy towards 2020 was established in 2016. This strategy maintains the ambition of profitability and growth. In 2019, the Board worked on the follow-up of this strategy and operationalisation of the strategy's four principal initiatives in the business units. The initiatives are: organic and structural growth, customer and partner relations, creativity and innovation, and management capacity and technical expertise.

The Board reviews annually whether the goals and guidelines ensuing from the strategies are clear, adequate, operationally effective and easy to understand for employees and other stakeholders.

CORE VALUES, ETHICS AND SOCIAL RESPONSIBILITY

AF Gruppen is a values-based company with a firmly anchored set of core values:

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

BOARD OF DIRECTORS

Members	Number of shares ¹⁾	Attendance record
Pål Egil Rønn (Chairman)	207,225	11/11
Arne Baumann	17,053,686	11/11
Kristian Holth	15,491,531	11/11
Hege Bømark	-	11/11
Borghild Lunde	26,048	10/11
Kjetel Rokseth Digre	-	8/8
Kristina Alvendal	-	8/8
Kenneth Svendsen	90,370	11/11
Hilde W. Flaen	25,527	8/8
Arne Sveen	-	11/11

¹⁾ Number of shares owned as at 31 December 2019 includes shares that belong to the immediate family and companies in which the individual has a controlling influence.

These values are the cornerstones of AF Gruppen's culture, in which orderly conduct is recognised, valued and lived up to by all employees. A code of conduct has been prepared to strengthen this culture, generate commitment and develop expertise. This code of conduct is communicated to all our employees and used in organisational development. The publications, "Purpose, Goals and Values" and the "Code of Conduct" are available on AF Gruppen's website www.afgruppen.no. Acquired and part-owned companies have ethical guidelines that are consistent with the Group's code of conduct.

Procedures and routines related to the notification of censurable conditions at AF have been prepared, including the violation of laws and ethical guidelines, and an electronic whistleblowing portal has been established at www.afgruppen.no/varsling. The whistleblowing system applies both internally and externally, and a special whistleblowing committee has been established to follow this up.

Focusing on profitability, safety and clear ethical guidelines have been premises for AF Gruppen's vision and mission. The creation of value by AF Gruppen should be both profitable and sustainable. Our vision of "clearing up the past and building for the future" also means that everything we do should impact society and the environment negatively to the least possible extent. Our source separation rate and carbon footprint have been chosen as AF Gruppen's common measurement parameters for the external environment.

AF Gruppen's guidelines for corporate social responsibility and sustainable entrepreneurship concern the external environment, working environment and reputation. These guidelines are described in greater detail on page 30–43 of the annual report, as well as the website www.afgruppen.no.

Deviation from the Code of Practice: None.

3. SHARE CAPITAL AND DIVIDENDS

The financing of AF Gruppen shall be robust in relation to market-related and operational fluctuations and support our dividend and growth strategy. In 2019, new financing facilities were established with DNB og Handelsbanken in the amount of NOK 3,000 million. The Group had a solid capital structure as at 31 December 2019 with net interest-bearing liabilities of NOK 163 million, equity of NOK 2,999 million and an equity ratio of 23.3 per cent. Net interest-bearing liabilities include liabilities related to leases of NOK 1,014 million, of which NOK 941 million is recognised in accordance with IFRS 16 Leases. The loan covenants related to AF Gruppen's financing facilities are measured exclusive the effect of IFRS 16. The IFRS 16 adjusted equity ratio was 25.3 per cent as at 31 December 2019. This is in accordance with the Group's goal of having an equity ratio, exclusive the effects of IFRS 16, of at least 20 per cent, and adapted in the opinion of the Board to AF Gruppen's strategy and risk profile.

DIVIDEND

AF Gruppen's dividend policy is to pay a dividend of at least 50 per cent of the profit for the year. Distribution will take place up to twice yearly, preferably after the Annual General Meeting and after presentation of the quarterly report for the 3rd quarter. The dividend that was distributed in the autumn of 2019 was adopted by the Board of Directors in accordance with the time and purpose limited authorisation by the General Meeting.

SHARE CAPITAL INCREASES

The Board's authorisation to increase the share capital is limited to defined purposes and limited in time until the next General Meeting. Each purpose for which authorisation is granted will be considered as a separate item by the General Meeting. Such authorisations to issue shares were used in connection with the issuance of shares as consideration for the acquisition of HMB in January 2019 in connection with AF Gruppen's share programme for employees in the summer of 2019. In connection with the acquisition of Betonmast in the autumn of 2019, authorisations were used both for the private offering to AF Gruppen's largest owners and the subsequent repair issue.

ACQUISITION OF TREASURY SHARES

AF Gruppen has authorisation from the General Meeting to buy and sell treasury shares. This authorisation is justified by the need to obtain the necessary number of shares to carry out the sale of shares to employees in connection with AF Gruppen's bonus and share programme. This authorisation is valid until the next Annual General Meeting.

Deviation from the Code of Practice: None.

4. EQUAL TREATMENT OF SHAREHOLDERS AND TRANSACTIONS WITH RELATED PARTIES

AF Gruppen ASA has one class of shares, and all the shares give entitlement to the same rights.

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 in the resolution to increase the capital. The General Meeting has resolved to make an exception to the preferential rights in connection with AF Gruppen's share purchase and option programme in order to stimulate increased share ownership among the employees. The Board of Directors has adopted that invitation to a repair issue of shares shall be considered for major acquisitions with consideration in shares, so that the existing shareholders can maintain their ownership stake in AF Gruppen ASA after the acquisition. In connection with the acquisition of Betonmast in the autumn of 2019, a private offering was carried out to AF Gruppen's largest shareholders and a subsequent repair issue was carried out to the other shareholders.

TREASURY SHARE TRANSACTIONS

All treasury share purchases and sales shall be made at the market price and traded on Oslo Børs. This authorisation from the General Meeting provides one exception for the use of market prices for the sale of shares to employees. In connection with AF Gruppen's share purchase and bonus programme, treasury shares are sold at a discount of 20 per cent.

TRANSACTIONS WITH RELATED PARTIES

To safeguard its reputation, AF Gruppen 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 AF Gruppen's code of conduct. A board member does not participate in the consideration of board business when it involves a party that is closely related to the board member. Each individual board member has a duty to alert about any impartiality or conflict of interest issue. The Board of Directors also has a collective responsibility 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.

Deviation from the Code of Practice: None.

5. NEGOTIABILITY

The shares of AF Gruppen ASA are listed on Oslo Børs, and there are no restrictions on their negotiability in accordance with the Articles of Association. There are not any restrictions either on the opportunity to own or vote for shares in AF Gruppen ASA.

Deviation from the Code of Practice: None.

6. GENERAL MEETING

The shareholders exercise the highest authority in AF Gruppen through the General Meeting.

PARTICIPATION IN THE GENERAL MEETING

The Board Chairman, CEO, CFO, Nomination Committee Chairman and auditor shall be present at the General Meetings. Other board members and members of the Corporate Management Team shall attend as required or if they represent shareholder interests.

The Board of Directors shall make provisions so that as many shareholders as possible can exercise their rights by participating in the General Meeting. Shareholders who do not have an opportunity to attend in person may attend by proxy. The registration and proxy forms shall be attached to the notice of the General Meeting.

Shareholders must notify the Group that they will attend no later than two days prior to the General Meeting.

Shareholders who do not register by the deadline, may be allowed to participate nevertheless unless there are space or other special considerations preventing their participation.

EXECUTION OF THE GENERAL MEETING

The Board shall ensure that the General Meeting is an effective forum for shareholders and the Board.

Notice of a General Meeting, and the associated agenda papers, 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. The aim will be to ensure that the agenda papers contain adequate detail so that the shareholders can make a decision on the matters that are to be considered. The agenda papers shall be sent as attachments to the notice and made available at the same time to shareholders on the Group's website. The annual report will only be distributed on paper on request due to environmental considerations.

All notices and minutes from the General Meeting will be disclosed to the stock exchange.

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:

AF Gruppen has two deviations from the Code of Practice for this section.

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

The second deviation from this section is the fact that not all the board members attend the General Meeting. The Board of Directors considers it adequate that the Board Chairman, Chairmen of the Audit Committee and Chairman of the Compensation Committee are present. Other board members will attend as required.

7. NOMINATION COMMITTEE

The General Meeting elects a Nomination Committee consisting of three to four members, each elected for a term of one year. The Nomination Committee scheme is pursuant to the Articles of Association.

The duties of the Nomination Committee are as follows:

- Nominate candidates for shareholder-elected board members and alternates, as well as Nomination Committee members
- 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
- Assess the work of the Board of Directors and prepare an annual report for the General Meeting

COMPOSITION AND INDEPENDENCE OF THE NOMINATION COMMITTEE

Importance is attached to the Nomination Committee having a composition that reflects the interests of the shareholders as a whole. Members of the Nomination Committee as at 19 April 2020 were Roar Engeland (Chairman), Marianne E. Johnsen, Roy G. Holth and Peter Groth.

Of these Nomination Committee members, two of the members are independent of the Board of Directors. Roar Engeland is the Board Chairman of OBOS, and has thereby a close business association with Board Member Arne Baumann. Roy G. Holth has a close business association and family relationship with Board Member Kristian Holth.

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

8. CORPORATE ASSEMBLY AND BOARD OF DIRECTORS – COMPOSITION AND INDEPENDENCE

CORPORATE ASSEMBLY

The parent company, AF Gruppen ASA, is a holding company without employees and is therefore not subject to the provisions of the Limited Liabilities Company Act that require a Corporate Assembly. 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. The employees, however, are represented both on the Board of AF Gruppen Norge AS and the Board of AF Gruppen ASA.

COMPOSITION OF THE BOARD OF DIRECTORS

As at 19 April 2020, AF Gruppen ASA had ten permanent board members. Three of the board members have been elected by the employees. Of the seven shareholder-elected board members, four are men and three are women. Of the three employee-elected board members, two are men and one is a woman. The board members have a varied background, and the Board of Directors is composed to safeguard the interests of the community of shareholders and the company's need for expertise and capacity. Information regarding the board members' age, education and professional experience is published on the website www.afgruppen.no.

Board members are elected for one year at a time. The Chairman of the Board is elected by the General Meeting.

INDEPENDENCE OF THE BOARD OF DIRECTORS

The Board aims to act as a collegiate body in exercising its duties. The Board of Directors annually assesses its independence, and the following factors are relevant to this assessment:

- Five of the seven shareholder-elected board members are independent of the company's principal shareholders. Board Member Arne Baumann represents OBOS BBL, which owns 16.67 per cent of the shares in AF Gruppen as at 19 April 2020. Board Member Kristian Holth is the CEO and has significant ownership interests in Constructio AS, which owns 15.15 per cent of the shares in AF Gruppen ASA as at 19 April 2020.

None of the shareholder-elected board members are involved in the day-to-day management of the company or have cross-relations with other executive personnel.

- One of the shareholder-elected board members has been employed by AF Gruppen during the last five years. This concerns Board Chairman Pål Egil Rønn, who was the CEO of AF Gruppen until October 2015.
- One of the six shareholder-elected board members represents a company with a significant customer relationship to AF Gruppen. This applies to Board Member Arne Baumann, who represents OBOS BBL, which is both a customer and an business partner of AF Gruppen.
- Two of six shareholder-elected board members are not independent of the Nomination Committee. Board Member Kristian Holth has a close business association and family relationship with one of the members of the Nomination Committee, Roy G. Holth. Arne Baumann has close business connections to the Nominating Committee Chairman Roar Engeland.

The Board has assessed its independence and finds that it is satisfactory. Processes have been implemented for ongoing control of what other duties the board members have. When new board members are nominated, the Nomination Committee also assesses their independence.

Each individual board member has a duty to alert about any impartiality or conflict of interest issue. The Board of Directors also has a collective responsibility 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.

Board members are encouraged to hold shares in AF Gruppen. Information on the shareholdings of the board members is disclosed in the annual accounts (Note 31 – Share capital and shareholder information).

Deviation from the Code of Practice: None.

9. WORK OF THE BOARD OF DIRECTORS

The Board of Directors has the overall responsibility for the management and organisation of AF Gruppen, as well as the execution of the Group's strategy.

The Board's duties also include supervision of the Group's management and operations, including the establishment of systems for control and risk management. This shall ensure that the Group is managed in accordance with the established core values and guidelines for ethics and social responsibility. The management of AF Gruppen draws up proposals relating to strategy, long-term goals and budgets. The overall strategy and budget are adopted by the Board of Directors. The Board of Directors recruits the CEO, sets the CEO's remuneration and stipulates the CEO's work instructions. The Board of Directors also adopts the Group's authority matrix.

In addition to the regular items, the Board of Directors considers all potential acquisitions, site investments and contract tenders with a contract sum in excess of NOK 600 million. The tenders are considered, inter alia, on the basis of strategic, financial and organisational criteria and important risk factors are highlighted in particular. Contracts with a lower contract sum are also considered by the Board of Directors if the risk situation or other factors so indicate. In 2019, the Board of Directors considered 9 tenders before the tenders were submitted.

The Board continuously assesses the need to use committees. As at 19 April 2020, the Board of Directors has two committees: The Audit Committee and the Qualification and Compensation Committee. These committees present matters to the Board for a final decision. The duties and members of the committees are described below.

RULES OF PROCEDURE FOR THE BOARD OF DIRECTORS

Provisions relating to the board's areas of responsibility and administrative procedures are specified in separate rules of procedure. The Board works according to an annual plan with established topics and items for the board meetings. The rules of procedure for the Board are reviewed annually or more often as required.

BOARD CHAIRMAN

The Board Chairman is responsible for ensuring that the work of the Board of Directors is performed in an efficient and correct manner in accordance with the current legislation, Articles of Association and the adopted Rules of Procedure for the Board of Directors. Board business is prepared by the CEO and management in consultation with Board Chairman.

In matters of a significant nature, in which the Board Chairman is, or has been, actively involved, a substitute chairman will be appointed. There have been no such matters in 2019.

MEETING STRUCTURE

Eight board meetings are normally held during the year. Extraordinary board meetings are held, if required, to

deal with business that cannot wait until the next ordinary board meeting.

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

A total of 11 ordinary board meetings were held in 2019. In addition, five circulating board meetings were held. Of the shareholder-elected board members, Pål Egil Rønn, Hege Bømark and Kristian Holt attended all the ordinary board meetings. Borghild Lunde attended ten out of eleven board meetings. Kristina Alvendal and Kjetel R. Digre attended all eight board meetings that were held after they were elected to the Board of Directors. Of the employee-elected board members, Kenneth Svendsen, Arne Sveen and Hilde W. Flaen attended all eleven of the ordinary board meetings.

AUDIT COMMITTEE

The purpose of the Audit Committee is to assist the Board of Directors with management and performance of the Board's supervisory responsibility pursuant to Sections 6–12 and 6–13 of the Public Limited Liability Companies Act.

AF Gruppen's Audit Committee consists of three shareholder-elected members, all of whom satisfy the requirement of independence pursuant to the Public Limited Liability Companies Act. The Audit Committee consists of Hege Bømark (Chairman), Borghild Lunde and Kjetel R. Digre. The Committee meets when necessary, but at least four times annually, including at least once a year with the Group's auditor. The CFO and auditor attend all the meetings. 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, including annual tests and assessments related to goodwill and other assets
- 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 Group's internal controls, including:
 - › Group's management of risk
 - › Group's internal control functions and authority matrix
 - › Group's cash management
 - › Group's ability to perform assessments, improve, execute and follow up investment decisions
 - › Organisational matters related to financial reporting and control

The Committee had six ordinary meetings in 2019. The auditor attended all the meetings. The Audit Committee prepares an annual report that is presented to the General Meeting.

QUALIFICATION AND COMPENSATION COMMITTEE

The purpose of the Qualification and Compensation Committee is 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 consists of four shareholder-elected board members: Pål Egil Rønn (Chairman), Arne Baumann, Kristian Holth and Kristina Alvendal.

The Committee had four meetings in 2019. The Compensation Committee prepares an annual report that is presented to the General Meeting.

FINANCIAL REPORTING

The board receives interim reports on the Group's economic and financial status. The company's management submits and reports on the interim and annual financial statements. The company follows the deadlines from Oslo Børs for interim reporting.

BOARD OF DIRECTORS' SELF-EVALUATION

The Board conducts an annual evaluation of its work and methods, which provides a basis for changes and measures. In addition, the expertise of the Board of Directors is evaluated. The evaluation by the Board is reported to the Nomination Committee. The Board also performs a corresponding evaluation of the CEO.

INSTRUCTIONS FOR THE CEO

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 Group's financial position, activities and asset management. As part of the accounting treatment, the CEO and CFO submit a declaration to the auditor stating that the annual accounts have been prepared in accordance with the International Financial Reporting Standards (IFRS), as approved by the EU, and that all the information is consistent with the company's actual situation and no material information has been omitted from the accounts.

Deviation from the Code of Practice: None.

10. RISK MANAGEMENT AND INTERNAL CONTROL

The Board is responsible for ensuring that AF Gruppen has sound internal control and appropriate systems for risk management. Good systematic risk management is a strategic tool that improves competitiveness and increases the creation of value. Internal control should contribute to ensuring efficient operations and responsible management of significant risks to achieve the Group's commercial goals.

The Board receives a quarterly report on the management's assessment of the most significant risk factors affecting AF Gruppen and how they are being managed. The Board also conducts an annual review of the Group's risk areas and internal control systems, as well as the core values and guidelines for ethics and social responsibility.

RISK MANAGEMENT

Risk management is good management in practice. AF Gruppen has uniform systems for risk management and a culture in which everyone is aware of risk. AF Gruppen seeks risk that can be influenced and looks for both opportunities and threats when risk is analysed. A special unit in the Group helps 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. 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, management of the business unit and a facilitator from AF Gruppen's own risk unit. The quarterly risk review concludes with a summary by the Corporate Management Team. The risk is quantified and recorded for each business unit on an ongoing basis 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. Risk management at AF Gruppen is described in greater detail on page 14–15 of the annual report.

INTERNAL CONTROL

Internal control is a continuous process that is performed in all parts of the organisation. AF Gruppen's internal control is designed to provide reasonable assurance of:

- Targeted, cost-effective operations
- Reliable external financial reporting
- Compliance with the current laws and regulations

The financial internal control is based on an organisational distinction between execution, control and

assurance. AF Gruppen has extensive written job descriptions at all levels of the organisation.

There are project economists who assist the project management with the financial monitoring of projects for all major projects. The heads of the business units, together with the financial managers, are responsible for ongoing financial and operational 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 interim reporting period.

The Audit Committee prepares an annual report that describes and assesses internal control at AF Gruppen.

Deviation from the Code of Practice: None.

11. DIRECTORS' FEES

Remuneration of board members is adopted annually by the General Meeting based on a recommendation from the Nomination Committee. The remuneration of the Board of Directors shall reflect the Board's responsibility, expertise and time spent, and the complexity of the operations.

The remuneration of Directors is not performance related. Options are not issued to board members. The shareholder-elected board members do not have any pension plan or severance pay agreement from the Group.

The Board must approve any remuneration other than directors' fees and Compensation Committee fees paid by the Group to board members. Note 32 to the consolidated financial statements shows the remuneration of board members and executive personnel in the Group.

Deviation from the Code of Practice: None.

12. REMUNERATION OF EXECUTIVE PERSONNEL

The Compensation Committee determines, in cooperation with the Board, guidelines for executive personnel remuneration. A declaration on the fixing of salaries and other remuneration is presented annually to the General Meeting. The main purpose of the guidelines is to contribute to converging interests between shareholders and executive personnel.

The CEO's salary is set annually by the Board. The Board of Directors establishes guidelines for the remuneration of executive personnel in consultation with the CEO.

REWARD SYSTEM

The reward system for executive personnel consists of a base salary, bonus, options, pension and share purchase

scheme. AF Gruppen does not have any severance pay schemes. The reward system essentially makes provisions so that as many employees as possible at all levels of the organisation can own shares. Through a lock-in period for share purchases and an option programme over a period of several years, employees are influenced to have a long-term perspective of ownership and employment. Bonuses to executive personnel are based on the EVA model. The essence of this model is the measurement of results achieved against the requirement rate of return on invested capital. This corresponds well with the interests of the shareholders. The reward system is described in greater detail in Note 7 – Payroll costs and Note 32 – Remuneration of executive personnel in the consolidated annual financial statements.

Deviation from the Code of Practice:

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

13. INFORMATION AND COMMUNICATION

The Board of Directors has established guidelines for AF Gruppen's reporting of financial and other information. The guidelines are based on transparency and the principle of equal treatment of shareholders. Relevant, comprehensive and updated information creates interest and confidence – which is a prerequisite for the liquidity of the shares.

FINANCIAL INFORMATION

The Board of Directors shall ensure that the interim reports and annual report from the company provide a correct and complete picture of the Group's financial and commercial position, as well as whether the company's operational and strategic goals are achieved.

AF Gruppen's interim report presentations are open to all interested parties and are broadcast live over the Internet. The financial calendar and financial information are published on the website of Oslo Børs. The same information is published at the same time on AF Gruppen's website.

INVESTOR RELATIONS

AF Gruppen aims to publish significant information of importance to the shareholders' and equity market's assessment of the Group, its operations and results, without undue delay. Publication through the websites of Oslo Børs and AF Gruppen ensure that everyone has equal access to the information. The CEO and CFO are responsible for communication with the shareholders. During the period prior to the presentation of results extra caution is

exercised to ensure information symmetry in the market. AF Gruppen follows Oslo Børs' recommendation of 1 July 2019 for reporting IR information.

Deviation from the Code of Practice: None.

14. COMPANY TAKEOVER

The Board of Directors has adopted guidelines for how the Board and management shall act in the event of a potential takeover offer. The guidelines shall ensure equal treatment of the shareholders and potential offers shall be facilitated as a rule.

EQUAL TREATMENT AND TRANSPARENCY

In talks with the bidder and in other actions, the Board and management shall seek to safeguard the common interests of AF Gruppen and the shareholders as a whole. The Board and management both have an independent responsibility to ensure that the shareholders are treated equally and that the operations are not unnecessarily interrupted. The Board of Directors has a special responsibility for ensuring that the shareholders have the information and time required so that they can take a stand on the offer.

EVALUATION OF OFFERS

If a takeover offer is made, the Board of Directors will obtain an valuation and prepare a recommendation to the shareholders for whether they should accept the offer or not. Both the financial advisor and any other advisors involved in evaluating an offer that has been made or announced shall be independent. The Board of Directors shall not attempt to prevent or place obstacles in the way of submitting an offer that may be in the interests of the shareholders, and it shall not use any authorisation to increase the share capital to prevent an offer.

Deviation from the Code of Practice: None.

15. AUDITOR

ELECTION OF AN AUDITOR

The Group's auditor is elected by the General Meeting. The Board's Audit Committee is consulted when an auditor is to be elected, and the Audit Committee's statement will be attached to the recommendation to the General Meeting. To ensure the auditor's independence and competitive auditor fees, the Audit Committee has decided that auditing should be put out to tender every 5–7 years. After eight years with EY as its auditor, AF Gruppen changed to PwC in 2017.

BOARD'S RELATIONSHIP TO THE AUDITOR

The auditor's primary duty is to perform the auditing mandated by law and professional standards with the accuracy, competence and integrity prescribed by law and professional standards. Separate rules of procedure have been adopted for the Board's relationship to the auditor, including guidelines for the company's access to use the auditor for services other than auditing. The required independence of the auditor indicates that AF Gruppen should minimise its use of the elected external auditor for services other than statutory financial auditing and assurance engagements. If there is a lack of capacity or expertise within the organisation, the auditor can also be used for tax consulting and audit-related tasks, such as technical assistance with tax returns and the annual financial statements. See Note 8 – Other operating expenses in the consolidated annual financial statements for further information on the auditor fees.

The auditor shall meet with the Board of Directors at least once a year without the management being present. The auditor shall present the Board with an annual written confirmation that the requirement of independence has been satisfied. The auditor attends the meeting of the Board at which the annual financial statements are scrutinised.

The auditor attends the meetings of the Audit Committee. The auditor shall annually present the main elements of its plan for performing the auditing work and the auditor's review of the Group's internal control systems, including the weaknesses identified and suggested improvements. The auditor also reviews any material changes to AF Gruppen's accounting policies, evaluations of significant accounting estimates and any matters where there may have been disagreement between the auditor and the management.

The Board of Directors will brief the General Meeting on the auditor's fees broken down into auditing and other services.

MEETINGS WITH THE AUDITOR IN 2019

AF Gruppen's auditor PwC (PricewaterhouseCoopers AS), represented by the responsible partner Rita Granlund attended one board meeting in 2019. The auditor also attended the Annual General Meeting in 2019. The auditor attended all six ordinary meetings held by the Audit Committee in 2019.

Deviation from the Code of Practice: None.