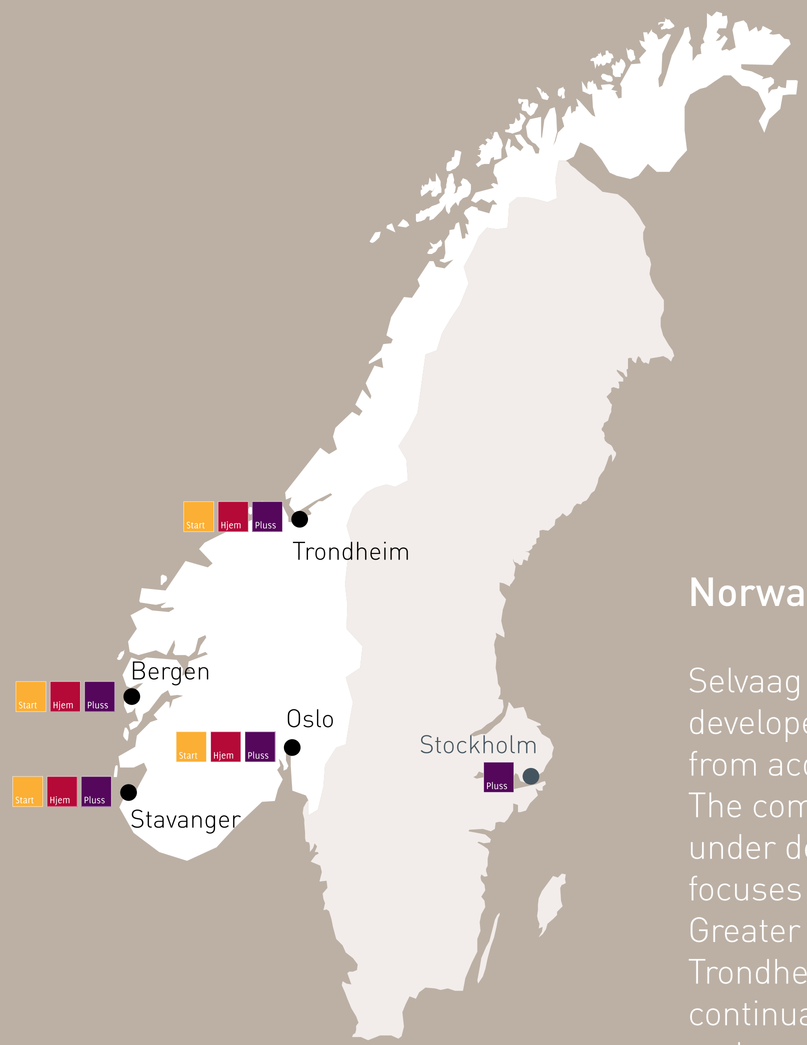
SELVAAG BOLIG

2016

ANNUAL REPORT

SELVAAG BOLIG



Norway's leading housebuilder

Selvaag Bolig ASA is a residential property developer controlling the entire value chain from acquisition of land to sale of homes. The company has several thousand homes under development at any given time, and focuses on the growth areas in and around Greater Oslo, Bergen, Stavanger and Trondheim. Selvaag Bolig represents a continuation of Selvaag's 70-year history and experience, and offers a broad variety of property types marketed under the brand names Start, Hjem and Pluss. The company is headquartered at Ullern in Oslo.

www.selvaagboligasa.no/en

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Record year

The year 2016 proved our best so far. We are proud of that. Record sales and profits, substantial land purchases and satisfied customers and employees gave us a fantastic year and created a solid foundation for future growth.

We sold 1 044 homes during the year with an overall value of NOK 4.36 billion. The average price per unit was NOK 4.2 million. The number of homes, turnover for the company and average value per unit sold all set records. This will find expression in solid good results and very low risk in the future.

That is because we had 1 356 homes under construction at 31 December. They had a combined sales value of NOK 5.7 billion, about NOK 1 billion higher than a year earlier. Eighty-five per cent of these units have already been sold – 98 per cent of the ones due for completion in 2017 and 87 per cent of those scheduled to be completed the year after.

Our progress clearly relates to the good performance of the housing market we operate in over time – particularly in 2016, when prices grew at a record rate. House prices in Norway rose by 12.8 per cent during the year. In Oslo, where we have the bulk of our projects, the increase was no less than 23.3 per cent. Our success factor where both development and profits are concerned is our business model. This makes it possible to take maximum advantage of a record-high housing market, with big demand and sharply rising prices. We only build large projects where the market is best. Another big advantage is that all construction is subject to competitive tendering, which means we build at fixed prices and most of the costs are locked in before sales begin. In addition, we sell homes throughout the construction period and price them in line with market trends, so that rising prices have a direct impact on our bottom line.

Operating revenues for 2016 in terms of segment reporting came to NOK 3.5 billion and EBITDA was NOK 683.5 million. That represents a margin of no less than 19.5 per cent. In the time to come, this will also find expression in strong IFRS results and increase our room for manoeuvre as the only listed company in Norway which concentrates solely on housing development. Our business model has made us a very profitable investment, through both a rising share price and the payment of bi-annual dividends. During the year, our share price rose by more than 70 per cent to NOK 40. The direct return comes on top of that in the form of NOK 1.60 in dividend. NOK 0.65 was paid for the first half, and the board has now recommended a payment of NOK 0.95 for the second half.

The investors are not the only beneficiaries of the return on our business model. We showed in 2016 that we are also a good choice for our customers and a fantastic place to work for our employees. We topped our sector's biggest customer satisfaction survey during the year with the Moss Glassverk Hus A2 project, which yielded us a score of no less than 92 out of 100 points. Lørenpynten in Oslo and Dockside in Tønsberg were also in the top 10. We are proud of this recognition, which demonstrates that our systems and routines – combined with the service-mindedness of our employees and partners – function very well. Satisfied customers are the best advertisement we can have. We are accordingly devoting active efforts to the working environment. Proud and satisfied employees, with a high level of expertise in a good working environment, make it possible to deliver at this level. Last year's employee survey was our best ever, and we can say with pride that we rank as one of Norway's best places to work.

That workplace has applied our business model, for example, in developing the Løren area. Ten years ago, this was a military camp on the edge of the city centre. We made a substantial investment in this site and developed a unique living environment, tailored to the whole range from first-time buyers to senior citizens. The area has been developed gradually, with new housing projects steadily put on the market. Løren is now a distinct city district with several thousand homes and its own metro station, and we will be continuing its development for many years to come.

Although our business model and strategy are clear, we are a young and dynamic company which adapts constantly to social developments. The biggest shift we have made in recent years is to position ourselves even further to respond to the urbanisation wave which we see strengthening both in Norway and abroad. We have only witnessed its start. People are moving to the cities and urbanisation is growing. That provides big opportunities for heavyweight urban development projects such as Løren.

A similar project is Fornebu Sentrum, part of Oslo's former airport. A town of more than 2 000 homes is to be developed on the site at a cost of over NOK 10 billion. This area is the same size as the Kvadraturen (Rectangle) district of central Oslo, and one of the most important and highest-priority urban development projects in the city.

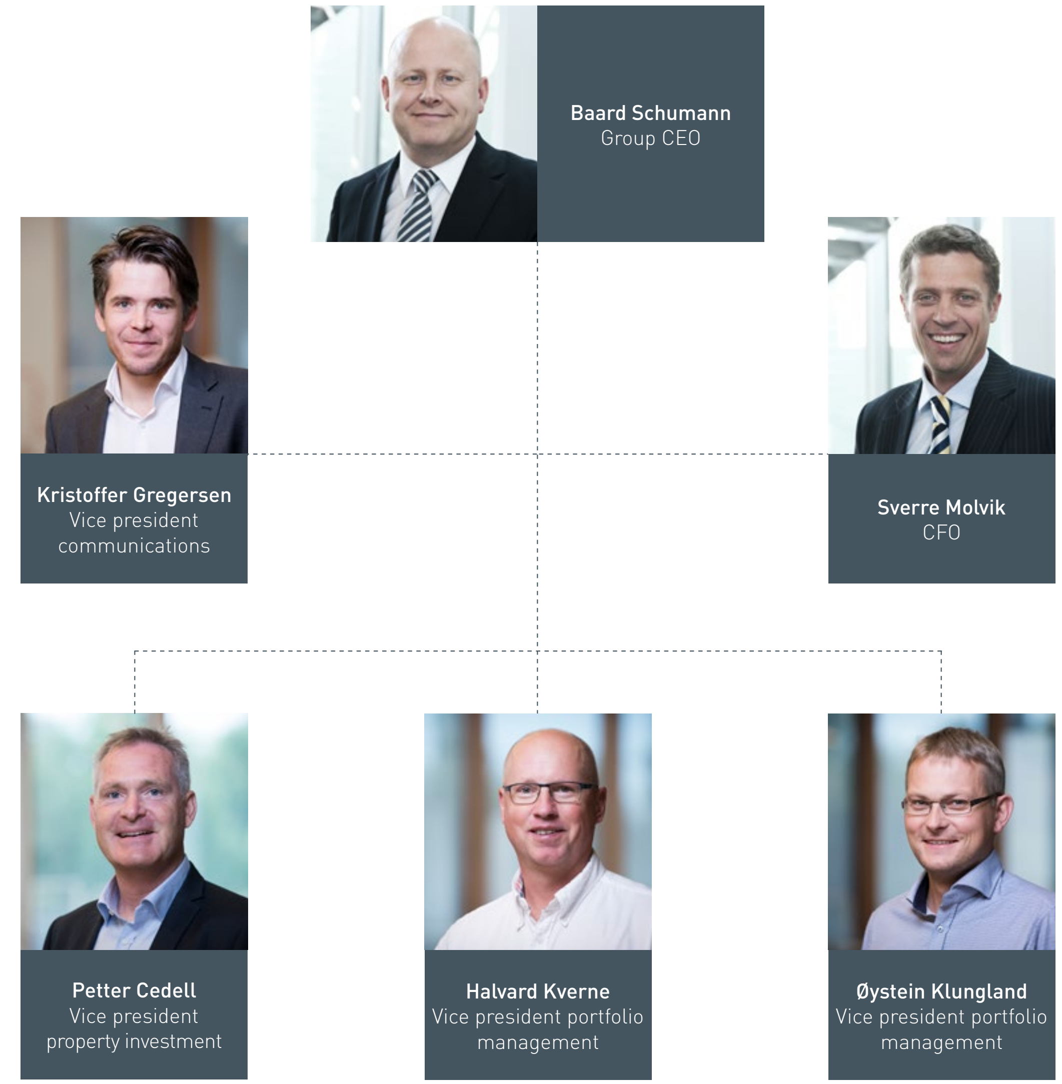
It will make a significant contribution to future sustainable urban development in the region, tie Bærum together with the capital and make Fornebu a local town. We are proud to have the opportunity to participate in building the towns of tomorrow, and look forward to getting to grips with the big jobs in the time to come – be they in Oslo or elsewhere in the country where we currently have projects.

Our land portfolio therefore increasingly comprises sites for this type of project, rather than the construction of detached and terraced housing outside the cities. Several of our large projects on the eastern side of central Oslo started to take shape during 2016, and we will be continuing their development in the years to come.

Requirements for urban development and construction are changing. Sustainability has become a more important consideration, hub developments are higher on the political agenda, and closeness between home and work will become more significant. The trend we see in Oslo, where car parking and use must give way to bus, rail and other forms of transport, could quickly spread to other urban areas. We will continue to oppose the authorities when we believe they are unreasonably penalising housebuyers or failing to take responsibility for efficient developments where conditions exist for them. As a big player, we must also accept this social responsibility – one we will be happily taking on again in 2017.

Baard Schumann
CEO

Executive management Selvaag Bolig ASA



Description of the business

Business model/strategy

Selvaag Bolig is a housing development company which offers homes tailored for specific customer groups in the growth areas in and around Greater Oslo, Bergen, Stavanger, Trondheim and Stockholm. By offering good housing at competitive prices, the company will give as many people as possible, in all phases of their lives, the opportunity to own a home. The company does not have an in-house construction arm, and concentrates primarily on developing large housing projects with more than 150 homes – mostly in the NOK 3-5 million price category. That reduces risk and improves prices.

Housing concepts tailored to the market

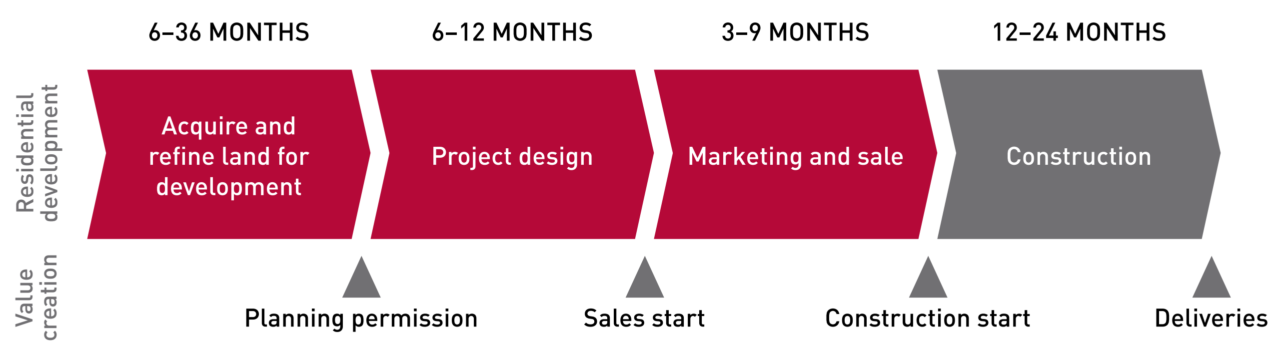
Through its Start, Hjem (Home) and Pluss concepts, Selvaag Bolig offers homes tailored to different target groups with varying needs and preferences. It also develops housing projects which combine the various concepts. That provides a range tailored to the market and helps to optimise the sales and income profile of each project.

Competitive tendering for all contracts

Selvaag Bolig takes an effective approach to housebuilding. This helps to position it as a cost-effective player, well equipped to meet possible fluctuations in the housing market. The company is solely a developer without its own construction organisation, and manages the whole value chain from the purchase of land to the sale of turnkey homes. Subjecting all construction activity to competitive tendering offers several advantages.

- **Fewer employees:** about 80 people in the core business. A small organisation improves cost efficiency.
- **Predictable construction costs:** tenders from several contractors always ensure that the right market price is obtained and construction takes place at fixed prices.
- **Less capital tied up and lower execution risk:** using turnkey contracts reduces tied-up capital and execution risk in the construction phase.
- **Lower market risk:** no big staffing adjustments in the event of market fluctuations.
- **Right expertise:** collaboration with contractors who can overcome the respective challenges in the best possible way, and who vary in their leading-edge expertise.
- **Improved capacity:** required capacity at any given time, no capacity problems when several projects are to be built simultaneously.

Value creation in Selvaag Bolig



Value drivers

In addition to subjecting construction to competitive tendering, Selvaag Bolig's strategy for buying and developing new sites is central to value creation at the company. Its existing land bank is large enough to ensure a high level of activity in the time to come. That permits purposeful selection of new sites which fit with the existing portfolio and meet the market requirements prevailing at any given time for location, size, price and development potential. The company continuously acquires land in line with an acquisition strategy which gives priority to large sites in its defined core areas.

The company's sales strategy is the key factor in its good progress. Segmentation of housing schemes and optimising composite projects which bring together various housing concepts have yielded positive sales and a favourable selling pace. Selvaag Bolig does not start construction until 60 per cent of the value of a building stage has been sold – ideally within six months. The rest of the building stage is sold during the period up to completion. A sales pace of that kind indicates that the units in the project are correctly priced, and ensures income optimisation.

Furthermore, the attention devoted to detailed planning, standardisation, site utilisation and strategic land development helps to provide low construction costs and good project margins for the company and competitive house prices. Selvaag Bolig sets high internal standards for quality at every level, and has extensive quality requirements for products and operations at its sub-contractors. That helps to reduce the risk of errors in the projects, and to ensure that all homes are good in technical terms and energy-efficient.

Goals

Selvaag Bolig aims to be one of Norway's leading housebuilder, and has a long-term goal of delivering 1 500 homes per year. Long-term growth will not reduce profitability or increase financial risk. The company's strategy helps to secure its position as market leader and to strengthen its competitiveness. The company has an expressed goal of achieving a project margin of 12 per cent.

Dividend policy

Selvaag Bolig's aim is to manage the group's resources so that shareholders secure a return in the form of dividend and the rise in the share price. This return will be competitive with other investments. The company's goal is to pay dividends twice a year totalling up to 50 per cent of its net profit.

Value drivers in Selvaag Bolig

Low risk business model

60 per cent presale before construction starts

Only present in fast growing urban regions with high demand and large market depth

Very competitive prices ensure a broad customer base

No in-house construction arm

All construction activity put out to competitive tender

Lower building costs

Fixed construction price

Reduced risk

Smaller exposure to market fluctuations

Defined housing concepts

Aimed at broad consumer categories

Profit maximisation in all projects

Large projects with more than 150 flats

Large land bank

Several thousand homes under development in Norway's four fastest growing urban regions

Risk management

Selvaag Bolig works actively to minimise the risk of cost overruns and delays. Risk is minimised by entering into turnkey contracts with solid construction companies which are well financed and have a high level of expertise as well as a documented ability to deliver. The turnkey contractor is responsible for delivering the project at the agreed time. In addition, the greater proportion of the project cost is assured by the fact that building does not begin until advance sales reach 60 per cent. Furthermore, a high degree of standardisation, combined with considerable detailing in the specifications to contractors, reduces the risk of delays in the construction process. Continuous learning at the contractors contributes to ever more efficient project execution while further reducing the risk of errors and delays.

External risk factors

Norway has low interest rates, low unemployment and a high level of purchasing power in households. Combined with high population growth and insufficient housebuilding in areas experiencing growth pressures, this contributes to a big need for new housing. However, experience from earlier years indicates that negative shifts could occur in demand despite solid underlying market conditions. This is often because consumer perceptions of the market may be out of step with actual conditions.

Key figures

Selvaag Bolig sold 1 044 homes in 2016. Construction started on 902, and 869 were delivered to customers. At 31 December, the company had 1 356 homes under construction.

Start

- Space-efficient two- and three-room flats
- Close to hubs in and around the big cities
- Aimed at young first-time buyers

Hjem

- Flats and small houses in and around the big cities
- Established housing solutions with solid quality and the emphasis on the living environment
- Single people and couples of all ages, with and without children

Pluss

- Flats in central and attractive locations in big cities
- Lifestyle homes of high quality and standard, with a service concept and common areas
- People of all ages who value comfort and convenience

Lørenporten, Oslo

Corporate governance in Selvaag Bolig

Selvaag Bolig wishes to maintain a high standard of corporate governance. This will strengthen confidence in the company, and contribute to long-term value creation by regulating the division of roles between shareholders, board and executive management over and above legal and regulatory requirements.

Corporate governance in Selvaag Bolig is based on the following main principles.

- Relevant and reliable information to all stakeholders, and identical information to all shareholders.
- The independence of Selvaag Bolig's board from the company's executive management.
- A clear internal division of roles and duties between board and executive management.
- All shareholders treated equally and in accordance with applicable legislation.

1. Implementation and reporting on corporate governance

Compliance

Selvaag Bolig regards corporate governance as an important subject, which deals with the relationship between society, the shareholders, the board of directors and the executive management of the company.

Selvaag Bolig ASA is a Norwegian public limited liability company listed on the Oslo Stock Exchange. The company is subject to section 3, subsection 3b of the Norwegian Accounting Act, which requires it to provide an annual statement of its principles and practice for corporate governance. This rule specifies the minimum information which the presentation must provide.

The Norwegian Corporate Governance Board (NCGB) has established the Norwegian code of practice for corporate governance (the code). Listed companies are required by the Oslo Stock Exchange to provide an annual overall presentation of their principles for corporate governance in line with the prevailing code. The current obligations for listed companies are available at www.oslobors.no, and the NCGB code can be found at www.nues.no.

Selvaag Bolig observes the applicable code, published on 30 October 2014, in accordance with the "comply or explain" principle. This means that the individual points in the code are observed, but possible variances are accounted for. The company provides an annual overall presentation of its principles for corporate governance in its annual report, and this information is available at www.selvaagboligasa.no/en.

Values base, ethical guidelines and CSR

Ethical guidelines and other policy documents have been formulated in accordance with the company's values base. The company's core values are concern for others and creativity, and these are well entrenched throughout the business.

The ethical guidelines contain general principles for business practice and personal behaviour, and are intended to serve as a starting point for the attitudes and basic views which will characterise Selvaag Bolig's corporate culture.

Selvaag Bolig is also concerned with its corporate social responsibility (CSR), and wants to build homes in a positive manner which creates better cities and good living environments, and which gives house-buyers the greatest possible "residential value" at competitive prices.

Continuous efforts are made by Selvaag Bolig to minimise emissions, discharges and environmental pollution. At the same time, the company is an active driver in the public debate in order to ensure operating parameters which make it possible to build better homes and cities. No separate guidelines on CSR have been drawn up, since this subject is covered in the ethical guidelines and in policy documents related to the company's values base. A presentation of CSR is also provided in this annual report.

More information related to the company's vision, strategy, values and CSR can be found on its website at www.selvaagboligasa.no/en.

The group's general policy is that no unequal treatment or other forms of discrimination will occur on the basis of gender or ethnic background.

Selvaag Bolig pays special attention to environmental considerations in pursuing its housing development activities, and has incorporated concern for the natural environment in its planning and management systems.

2. The business

The business purpose of Selvaag Bolig ASA is "to acquire and develop housing projects with a view to sale, to buy and sell real property, and other activities associated with this, including business property. The company can participate in other companies at home and abroad related to housing development". This appears in article 3 of the company's articles of association, which are available on the company's website at www.selvaagboligasa.no/en. Selvaag Bolig's goals and principal strategies are described in this annual report and on the website at www.selvaagboligasa.no/en. Through annual strategy processes, the board considers whether the goals and guidelines derived from the strategies are unambiguous, adequate, well operationalised and communicated to employees, customers and other stakeholders.

3. Equity and dividends

Selvaag Bolig had an equity of NOK 2 699.2 million at 31 December 2016. The board regards this as acceptable in relation to the company's business purpose, strategy and risk profile.

Dividend

Selvaag Bolig's aim is to manage the group's resources in such a way that shareholders achieve a return in the form of dividend and rising share price which is competitive with comparable investments. The company's goal is to pay dividends twice a year which total up to 50 per cent of its net profit. It will nevertheless be important to secure good financial freedom of action for the company, and this consideration could mean at times that the level of dividend paid falls short of the goal.

NOK 0.65 per share was paid in September 2016 as dividend for the first half of that year. This corresponds to NOK 60.9 million. The board has proposed a dividend of NOK 0.95 per share for the second half of 2016, corresponding to NOK 89.1 million. That will make the total dividend for 2016 NOK 1.60 per share. This corresponds to 50 per cent of net profit and amounts to NOK 150 million.

Purchase of Treasury shares

The board of Selvaag Bolig was mandated by the annual general meeting of 29 April 2016 to acquire the company's own shares up to a total nominal value of NOK 18 753 137, corresponding to 10 per cent of the share capital. This mandate can be used for a possible later reduction in the share capital with the consent of the general meeting, for remuneration of the directors, for incentive programmes or as settlement for the possible acquisition of businesses, and for the purchase of shares where this is financially advantageous. The mandate can be exercised several times, and remains valid until the AGM in 2017 and in any event no longer than to 30 June 2017. The board will propose to the AGM that the mandate be extended by one year until the AGM for 2018.

Share saving programme for all employees and share purchase programme for management

The company has a share saving programme for those of its employees working more than half-time. This is because co-ownership by the workforce is expected to promote value creation through increased commitment and greater loyalty. A share saving programme encourages broad and long-term ownership and gives employees the opportunity to acquire a direct stake in the company's value creation. Employees can purchase shares to a value of NOK 50 000 per year. The price per share is the stock market price less a discount of 20 per cent, conditional on a two-year lock-up period/restriction on sale. For the same incentive and reason, the company also has a share purchase programme for its executive management. The ceiling for annual investment in the share purchase programme is the individual's annual gross bonus. The price per share is the stock market price less a discount of 30 per cent, conditional on a three-year lock-up period/restriction on sale. Selvaag Bolig owned 637 959 of its own shares at 31 December 2016. Following the implementation of share sales in connection with the incentive programmes, Selvaag Bolig owned 515 154 of its own shares at 20 February 2017. Since the share programmes will continue in 2017, the board will propose to the AGM that the mandate be extended by one year until the AGM in 2018.

Capital increase

The same AGM mandated the board to increase the company's share capital by up to NOK 18 753 137. This mandate can be exercised several times, and remains valid until the AGM in 2017 and in any event no longer than to 30 June 2017. It replaces earlier mandates for similar purposes, and embraces capital increases in exchange for non-monetary considerations or the right to involve the company in special obligations. The mandate has not been utilised, and the board will propose to this year's AGM that it be extended by one year until the AGM in 2018.

4. Equal treatment of shareholders and transactions with related parties

Equal treatment of shareholders

Selvaag Bolig has one class of share and all the shares have equal voting rights. Emphasis is given in the work of the board and the executive management to treating all shareholders equally and to giving them the same opportunities to exercise influence. The company's articles of association impose no restrictions on voting rights.

The company's transactions in its own shares are conducted via the stock exchange or in other ways at the stock market price. In the event of an increase in share capital, existing shareholders will have a pre-emptive right to subscribe unless special considerations justify waiving this right. Any such waivers will be justified and published in a stock exchange announcement in connection with the increase in share capital.

Conflicts of interest and transactions with related parties

Selvaag Bolig is concerned to maintain an open and cautious approach to investments on terms which could be perceived as an undesirably close transaction or relationship between the company and a director, a senior executive or related parties of these. This is outlined in the company's ethical guidelines and instructions for the board. Each director is duty-bound to assess at all times whether conditions exist which could objectively weaken general confidence in their impartiality or which could give rise to conflicts of interest. The company also monitors the various offices and the like held by directors as a source of information for the executive management in avoiding unintentional conflicts of interest.

Where transactions take place with related parties, they must be conducted at arm's length and on market terms. The board has guidelines which ensure that executive personnel report to the board if they have a material interest, directly or indirectly, in a contract entered into by the company. In the event of not immaterial transactions between the company and related parties, the board will commission an independent valuation and make this known to the shareholders.

Transactions with related parties are reported in note 23 to the financial statements in the company's annual report, and in the half-year report.

Principal shareholder

Selvaag Gruppen AS is the principal shareholder in Selvaag Bolig ASA, and Selvaag Bolig ASA is a subsidiary of the Selvaag Gruppen group.

5. Freely negotiable shares

No restrictions are placed on the negotiability of shares in Selvaag Bolig ASA by its articles of association.

6. General meetings

About the general meeting

Shareholders exercise the highest authority in Selvaag Bolig ASA through the general meeting. The board makes provision to ensure that the general meeting is an effective forum for shareholders and directors.

Notice

The AGM is scheduled to take place from 10.00 on 21 April 2017 in the company's premises at Silurveien 2 in Oslo.

Notice of meetings is sent to the shareholders by post and is made available on the company's website 21 days before the general meeting at the latest. Detailed supporting documentation relating to items on the agenda, including the nomination committee's recommendations, are posted to the company's website 21 days before the general meeting at the latest. See article 9 in the articles of association. A shareholder can nevertheless request that supporting documentation for the general meeting be sent to them by post, and this right is enshrined in the company's articles of association. The supporting documentation must contain all the details required by the shareholders to form a view of every item on the agenda.

All shareholders registered in the Norwegian Central Securities Depository (VPS) will receive the notice, and have the right to submit motions and to vote directly or by proxy. A financial calendar, which includes the date of the AGM, is available on the company's website.

Registration and proxy form

Registration must be made in writing, by post, VPS account or e-mail. The board wishes to facilitate attendance by the largest possible number of shareholders at the general meeting. Shareholders who cannot attend in person are encouraged to appoint a proxy. Provision is made for the shareholder to specify separate voting instructions to their proxy for every item on the agenda. All information on the appointment of a proxy and the appropriate forms can be found on the company's website.

Agenda and execution

The general meeting elects its own chair. The meeting is opened by the chair of the board, who also arranges for the election of a chair for the meeting. The AGM's duties include adopting the annual financial statements and directors' report, and considering the board's declaration on the determination of executive pay and other remuneration.

Members of the nomination committee and its chair are elected by the general meeting. In addition, the general meeting considers such other matters as are assigned to it by legislation or the articles of association. The minutes of the general meeting are published via a stock exchange announcement and are made available on the company's website at www.selvaagboligasa.no/en after the meeting.

The AGM in 2016 took place on 29 April, and about 62.5 per cent of the total issued shares and votes were represented.

Deviation from the code: According to the code, the board, the nomination committee and the auditor should attend. The chairs of the board and the nomination committee, as well as the chief executive, are always present to answer possible question. The whole board will attend if this is considered necessary in view of items on the agenda.

7. Nomination committee

Article 7 of the articles of association specifies that the company will have a nomination committee. Guidelines have been established on this committee's duties and composition, and on the eligibility of candidates for election. These guidelines were adopted by the general meeting held on 30 August 2011.

Pursuant to the articles of association, the nomination committee will have three members elected for a one-year term. The majority of these members must be independent of the company's board and executive management, and the committee must act in the interests of shareholders in general. The chair of the nomination committee is elected by the general meeting, which also determines the remuneration of the committee's members. The nomination committee itself recommends members of the committee.

The present committee was elected at the AGM of 10 April 2013, with the exception of Leiv Askvig. He was elected at the extraordinary general meeting of 9 December 2014 to replace Peter Groth, who was elected to the company's board at the same time. All the members of the nomination committee are up for election in 2017. The nomination committee currently comprises:

- Steinar Mejlænder-Larsen (chair)
- Helene Langlo Volle
- Leiv Askvig

The chair of the nomination committee is employed by Selvaag Gruppen. The duties of the nomination committee are to propose candidates for election as directors and to recommend fees for the directors, members of board sub-committees and members of the nomination committee. The report of the board's annual self-assessment is considered by the committee. The committee will account for its work and present its recommendations, with justifications, to the general meeting. The recommendations must encompass relevant information about the candidates and an assessment of their independence from the company's executive management and board. The committee should be in contact with shareholders, directors and the chief executive during its work on proposing candidates for the board, and entrench its recommendations with the company's largest shareholders. The committee's recommendations, with justifications, are made available 21 days at the latest before the general meeting takes place. Recommendations from the committee must meet the requirements for the composition of the board which derive at any given time from applicable legislation and statutory regulations.

8. Composition and independence of the board

Composition of the board

Pursuant to article 5 of the company's articles of association, the board of Selvaag Bolig will comprise three-nine members. The chair and the shareholder-elected directors are elected by the general meeting, based on recommendations from the nomination committee.

The board currently comprises seven directors, of whom three are women.

Selvaag Bolig's board is composed in such a way that it meets the company's need for expertise, capacity and diversity. Weight is given to the whole board being in possession of a broad business and management background as well as in-depth understanding of the housing industry and property development. An overview of each director's expertise, background and shareholding in the company is available on the company's website at www.selvaagboligasa.no/en. Employees of the business are represented on the board, and the number of these worker directors is specified in the applicable agreement on pay and conditions. At present, two directors are elected by the employees. None of the shareholder-elected directors are employed by or have carried out work for Selvaag Bolig.

Shareholder-elected directors are elected for one-year terms. Employee-elected directors are elected for one-year terms. All shareholder-elected directors are up for election in 2017. Directors' fees are determined by the general meeting on the basis of a recommendation from the nomination committee.

Independence of the board

The composition of the board ensures that it can act independently of special interests, and it must also function effectively as a collective body to the benefit of the shareholders in general.

No shareholder-elected director is involved in the executive management. The chair, Olav H Selvaag, is a director of Selvaag Gruppen, and director Karsten Bomann Jonsen is the former chief executive of Selvaag Gruppen. Selvaag Gruppen is the company's principal shareholder and, through subsidiaries and other investments, may have business relations with Selvaag Bolig as a supplier.

The other shareholder-elected directors are independent of Selvaag Bolig's executive management and significant business relations.

See note 22 to the annual financial statements for information on the shareholdings of directors in Selvaag Bolig at 31 December 2016. By virtue of their position, each director is subject to the regulations on primary insiders, with clear rules related to such issues as the duty to investigate and report in the event of trading in the company's shares.

9. The work of the board of directors

The board's duties

The board of directors bears the ultimate responsibility for management of the group and for supervising the chief executive and the group's operations.

That makes the board responsible for ensuring an acceptable organisation of the business and determining strategies, plans and budgets. The board participates in important strategic discussions throughout the year and undertakes an annual audit of the company's strategy. Furthermore, the board is responsible for establishing control systems and for ensuring that the group is operated in compliance with the established values base, the ethical guidelines and the expectations

Lørenskog Stasjonsby, Lørenskog

	Meetings	% attendance
Olav Hindahl Selvaag	7 of 7	100 %
Karsten Bomann Jonsen	7 of 7	100 %
Gisele Marchand	7 of 7	100 %
Anne Sofie Bjørkholt	6 of 7	86 %
Peter Groth	6 of 7	86 %
Marianne Ørnsrud	6 of 7	86 %
Rune Thomassen[1)]	5 of 5	100 %

[1)] Joined the board in April 2016.

of the owners for socially responsible operation. The board has a duty to ensure that the financial statements and asset management are subject to satisfactory controls. Matters of significant strategic or financial importance are dealt with by the board. The board is responsible for appointing the chief executive, establishing the chief executive's instructions, authorities and terms of employment, and determining the chief executive's remuneration. In addition, the board will protect the interests of the shareholders while also having a responsibility for the company's other stakeholders.

A total of seven board meetings were held in 2016, all as physical gatherings.

Instructions for the board

The board has adopted instructions which specify the rules and guidelines for its work and administrative procedures. These are reviewed annually or as required. The instructions for the board define the duties and obligations associated with its work, and its relationship with the chief executive. The chair is responsible for ensuring that the work of the board is conducted in a correct and efficient manner. The board works on the basis of an annual plan, with specified topics and issues for board meetings. The board evaluates its work and competence on an annual basis. This is done through a self-assessment which is summarised for the nomination committee. At least once a year, the board reviews the most important areas of risk as well as internal control in the company.

Instructions for the chief executive

The chief executive of Selvaag Bolig ASA is responsible for the executive management of the Selvaag Bolig group. The chief executive must also ensure that the financial statements comply with legislation and other relevant provisions, and that the group's assets are managed in an acceptable manner. The chief executive is appointed by the board of directors and reports to it. The chief executive is duty-bound to keep the board continuously informed on the group's financial position, operations and asset management. The board has also approved an authority structure for the company which clarifies the authority of the chief executive and the executive management in terms of which issues must be considered by the board.

Financial reporting

The board receives periodic reports with comments on the company's financial status. Where interim reporting is concerned, the company observes the deadlines specified by the Oslo Stock Exchange.

Board committees

The board has found it appropriate to establish sub-committees to serve as preparatory and advisory bodies for the board.

Audit committee

The audit committee is elected by and from among the directors, and must comprise at least two directors. At least one of these should have experience from the exercise of accounting or financial management, or of auditing. Members of the audit committee are appointed by the board, and changes to its composition are made when the board might wish to do so or when the members cease to be directors of the company. The audit committee currently comprises the following members:

- Gisele Marchand (chair)
- Karsten Bomann Jonsen

The company's auditor also attends all the meetings.

The audit committee serves as a preparatory and advisory body for the board. It will (a) prepare the board's follow-up of the financial reporting process, (b) monitor the systems for internal control and risk management, (c) maintain ongoing contact with the company's elected auditor concerning the audit of the annual financial statements, and (d) assess and monitor the independence and objectivity of the auditor in relation to the company, and particularly the extent to which services other than audit provided by the auditor represent a threat to the latter's independence and objectivity in relation to the company. The audit committee met seven times in 2016.

Compensation committee

A compensation committee has also been established, comprising two directors who are independent of the company's executive management. The members of the compensation committee are appointed by the board for two-year terms or until they cease to be directors of the company. The compensation committee currently comprises the following members:

- Olav H. Selvaag
- Peter Groth

The compensation committee serves as a preparatory and advisory body for the board, and prepares issues for consideration and decision by the board concerning remuneration for the company's executive management and associated matters. The compensation committee helps the board to shape principles and strategies for remunerating senior executives. While the compensation committee reports and makes recommendations to the board, the latter is responsible for acting on such proposals. The company has drawn up separate instructions for the compensation committee's work, which contain further details on the committee's duties, composition and procedures. The committee held eight meetings in 2016.

10. Risk management and internal control

Responsibility and purpose of the board

Risk management and internal control in Selvaag Bolig are intended to help ensure that the company takes a coherent approach to its operations, financial reporting and compliance with applicable legislation and regulations. The board is required to conduct an annual review of Selvaag Bolig's risk management and internal control. Internal control also embraces the company's values base, CSR and ethical guidelines, which apply to all company employees.

Board reviews and reporting

An annual strategy meeting is held by Selvaag Bolig to lay the basis for the board's consideration and decisions during the year. The most important risk exposure areas and the internal control system are reviewed at this meeting.

A survey of the company's risk factors and management is conducted regularly. This exercise plays a key role for the board's strategy meeting, and defines the direction of further work on the company's risk management. An overarching management model has been established for continuous follow-up, based on the group's strategy, values base and ethical guidelines. In addition, principles have been drawn up for reporting in the key areas, as well as guidelines for central processes and activities. An authority matrix has also been established for delegating responsibilities to defined roles in the organisation. All employees have clear guidelines on the scope of their own authority and on the next level up for decisions or approvals.

Selvaag Bolig has established a set of internal procedures and systems which are intended to secure uniform and reliable financial reporting and operations. A quality assurance system has also been established to safeguard quality when executing the group's projects. One component of this system is a review, conducted at least once a quarter, of risk in the projects and other parts of the business with a view to securing reliable financial reporting and, if required, specifying necessary risk measures. Planning, management, execution and financial follow-up of construction and production processes and projects are integrated in the Selvaag Bolig group's commercial operation. Construction projects report systematically to the group management.

Selvaag Bolig's consolidated financial statements are prepared in accordance with the applicable IFRS. The board receives periodic reports on the group's financial results as well as a description of the status of the most important individual projects. In addition, quarterly financial reports are prepared and approved by the board ahead of interim reporting. The auditor attends meetings of the audit committee and board meetings related to the presentation of the preliminary annual financial statements. The company's key risk factors are described in the directors' report.

11. Remuneration of the board of directors

The general meeting determines directors' fees annually on the basis of a recommendation from the nomination committee.

A total of NOK 1 842 000 was paid in directors' fees for 2016. Fees paid to each director in 2016 are presented in note 22 to the annual financial statements. Directors' fees are not linked to the group's performance. No options are awarded to directors, and shareholder-elected directors have no agreement on a pension plan or on payment after their period of service has ended. None of the shareholder-elected directors do work for the company in addition to their directorship.

Directors observe general insider regulations for trading in the company's shares. See note 22 to the consolidated financial statements for an overview of shares owned by directors.

12. Remuneration of executive personnel

As mentioned in section 9, a compensation committee comprising two directors has been established to support the board's work on the conditions of employment for the chief executive and on the strategy for and main principles of remuneration for the company's senior executives. The group's guidelines for the remuneration of executive personnel are described in note 22 to the consolidated financial statements. The main element in the remuneration scheme is fixed basic pay. Variable pay takes the form of bonus payments, based on objective, definable and measurable criteria. Such variable pay (bonuses) cannot exceed 150 per cent of basic pay for the executive management. No options have been awarded to employees or elected officers of the company.

These guidelines are presented annually to the general meeting in connection with its consideration of the financial statements.

13. Information and communication

Selvaag Bolig endeavours to ensure that all reporting of financial and other information is timely and correct, and based on openness and equal treatment of players in the securities market. The company observes the recommendations of the Oslo Stock Exchange on reporting investor information, which came into force on 1 January 2012. Information from Selvaag Bolig is published in the form of annual and interim reports, press releases, stock exchange announcements and investor presentations. All information regarded as significant for the valuation of the company is distributed and published on the Nasdaq messaging system, the Oslo Stock Exchange Newsweb messaging system and the company's website at www.selvaagboligasa.no/en.

The company presents its interim annual results by the end of February. Full financial statements, together with the directors' report and the rest of the annual report, are made available to shareholders every year at least three weeks before the AGM, and by the end of April at the latest. Interim figures are reported within 60 days of the end of the quarter, in accordance with the rules of the Oslo Stock Exchange.

A financial calendar is published by the company for a year at a time, before 31 December as required by the rules of the Oslo Stock Exchange. This calendar is available on the websites of the company and the Oslo Stock Exchange.

The primary purpose of information from the company will be to clarify the company's long-term goals and potential, including its strategy, value drivers and important risk factors. The company's guidelines for investor relations provide more detailed specifications for the way information is handled in the group. Who will act as the company's spokesperson on various matters has been defined. The chief executive of Selvaag Bolig will be the primary spokesperson to the financial market on behalf of the company.

14. Take-overs

The company's articles of association place no restrictions on the purchase of shares in the company. In the event of a possible take-over bid, the board will help to ensure that the company's shareholders are treated equally and that the group's day-to-day operations are not disrupted unnecessarily. The board will seek to help ensure that the shareholders have sufficient information and adequate time to form an opinion on a take-over bid.

The instructions for the board of Selvaag Bolig ASA specify how the company will respond should an offer be made for the company's shares. In such cases, the board will issue a statement which contains an assessment of the offer and a recommendation to the shareholders on whether they should accept it. In this assessment, the board should take account of such considerations as the way a possible take-over would affect long-term value creation in the company. A justification of the recommendation must be provided.

15. Auditor

The group's auditor is elected by the general meeting. The board's audit committee will present its report when the general meeting comes to elect the auditor. Selvaag Bolig's auditor is PricewaterhouseCoopers.

Auditor's relationship with board and audit committee

The auditor gives the board an account of its work and provides an assessment of the company's financial reporting and internal control in connection with the annual financial statements. At this meeting, the board is briefed on which services in addition to auditing have been provided during the year. The auditor meets the board at least once a year without the executive management being present. The auditor has the right to attend Selvaag Bolig's general meeting. Written confirmation must be provided once a year by the auditor to the board that the specified requirements for the independence of the auditor have been met.

The auditor attends the meetings of the audit committee. Once a year, the auditor must present the committee with the main features of the plan for conducting the audit work. The auditor will review possible significant changes in Selvaag Bolig's accounting principles, assessments of significant accounting estimates and all significant conditions where disagreement has occurred between the auditor and the executive management. At least once a year, the auditor must review Selvaag Bolig's internal control system with the audit committee – including identifiable weaknesses and proposals for improvement. The board briefs the general meeting on the auditor's fee, broken down between audit work and other services in addition to auditing.

Lade Allé, Trondheim

Corporate social responsibility (CSR)

Selvaag Bolig will meet requirements related to

- human rights and social dumping
- worker rights and social conditions
- impact on the natural environment
- combating corruption and price fixing

The company ranks among the leading housing developers in Norway. Its operations have big spin-offs for Norwegian sub-contractors, public welfare and value creation. The business achieved a turnover of NOK 3 billion in 2016 with the help of 96 work-years. According to calculations by analyst NyAnalyse, activities in 2016 generated overall demand from Norwegian sub-contractors corresponding to roughly NOK 2.5 billion and helped to secure some 1 700 work-years of employment at these companies and in other parts of the value chain.

Selvaag Bolig will create value for society by building good homes which as many people as possible can afford to buy, develop good residential areas and contribute actively to the development of sustainable urban communities. This means in part that the company gives priority to urban areas experiencing expansion pressures as well as to large development projects, develops site-efficient homes with the greatest volume in lower price categories, seeks to be cost-effective and works to ensure positive official policies by being a clear voice in the public debate.

Ethical, social and environmental considerations are integrated in its day-to-day operations. The company has a goal of being a good and secure workplace, and requires that it and its suppliers pursue their operations in compliance with applicable legislation and statutory regulations. Furthermore, Selvaag Bolig will be a responsible social player and minimise emissions/discharges and damage to the natural environment. The company has ethical guidelines which are described at www.selvaagboligasa.no/en.

The company also reports on its corporate governance in this annual report and on the website at www.selvaagboligasa.no/en. Continuous efforts are made to ensure that employees are familiar with and observe all the company's guidelines. In order to ensure compliance, all employees must take a mandatory e-learning course on ethics and social responsibility. The whole workforce had taken and passed this course by 31 December.

Human rights and social dumping

Selvaag Bolig does not have its own construction company, and accordingly spends substantial amounts on purchasing construction services every year. That provides big opportunities for influencing the industry in the fight against social dumping. Selvaag Bolig sets requirements for and works continuously to help ensure that suppliers and sub-suppliers have pay and working conditions as required by law. The bulk of the company's operations are in Norway, and it purchases services primarily from large, highly reputable Norwegian construction contractors. In addition, it buys construction services from two large players in Estonia and Poland. The company does not accept any form of harassment or discrimination on such grounds as race, religion, nationality, sexual orientation or gender, and does not tolerate any behaviour which can be perceived as threatening or demeaning.

Selvaag Bolig requires that its suppliers do not practise social dumping and that all statutory requirements are observed. This requirement is included, for example, in contracts with suppliers of construction services. In this way, the company helps to ensure that its partners and suppliers work in accordance with applicable legislation and rules, and that no social dumping occurs in the value chain. Work done in Norway by supplier and/or partner employees complies with Norwegian collective pay agreements and legislation. Suppliers doing work on Norwegian building sites must, for example, be able to document at all times that the labour force used on these sites is legal. This is followed up with regular inspections.

To the best of the company's knowledge, no social dumping or breaches of human rights occurred in Selvaag Bolig or at its suppliers during 2016. The company's routines for safeguarding human rights and countering social dumping are considered to function well, and work on improving them will continue in 2017. Reference is also made to section 3.8 of the company's ethical guidelines on the working environment, available on its website at www.selvaagboligasa.no/en.

Worker rights and social conditions

Selvaag Bolig will be an inclusive workplace, where the rights of all employees are safeguarded in accordance with applicable legislation.

Expertise enhancement

All employees are given opportunities for professional development and expertise enhancement, including through courses, seminars and specialist gatherings both in-house and externally. All managers with personnel responsibility must conduct annual job reviews. Expertise enhancement is a key item in these discussions. Furthermore, a programme was introduced in 2016 which is mandatory for all middle managers with responsibility for personnel. Intended to enhance the awareness of the management team about its own leadership style, this is practically oriented and will provide specific tools which the manager can use in their day-to-day work. However, the biggest source of expertise development is daily work in the company. That includes giving employees assignments in new disciplines and projects, as well as sharing and enhancing expertise in and across the various departments.

Job satisfaction

The working environment in Selvaag Bolig is regarded as good. The company measures job satisfaction among employees on an annual basis, and the results in 2016 were the best ever for the company. The goal is for the company to be one of Norway's most attractive workplaces. On the basis of the employee survey, a number of measures were implemented in 2016. These included strengthening the middle manager function, establishing arenas for expertise-sharing and continuing efforts to reinforce the internal flow of information in the company. Special measures were also undertaken in the various departments. New surveys indicate that these measures have worked well. Selvaag Bolig is certified as a great place to work. This certification has been developed by the Great Place to Work Institute on the basis of a global standard for the characteristics of a good workplace. A survey and assessment of Selvaag Bolig's organisation and management practices has been conducted, as well as a detailed evaluation to identify strengths, weaknesses and improvement areas.

Working environment and sickness absence

Ensuring that efforts to reduce sickness absence and prevent injury have a high priority in the companies is given emphasis by the board. The group's target is that sickness absence will be below three per cent. It was 1.5 per cent for the group for 2016, compared with 3.5 per cent for 2015 and 3.1 per cent in 2014. The corresponding figures for the parent company were 1.8, 2.7 and 3.3 per cent. No lost-time injuries were recorded among the company's employees during 2016. The company works continuously on measures to reduce sickness absence.

Health, safety and the working environment (HSWE)

Selvaag Bolig has adopted guidelines based on ISO standards for health, safety and environment. Through the Norwegian construction client and internal control regulations, the company fulfils the requirements for construction clients on monitoring health, safety and the working environment (HSWE) at building sites. Contracts for all projects accord with regulatory requirements, and HSWE performance is reported regularly to the chief executive and board as specified by the guidelines to the regulations. Selvaag Bolig sets special requirements for HSWE in all turnkey contracts. Specific provisions are included in all contracts entered into by the company with contractors on turnkey contracts. As the construction client, Selvaag Bolig prepares an HSWE plan for its construction projects and ensures that the turnkey contractor follows up all the requirements defined in the contract. Regular inspections are conducted at the building sites. Immediate action is taken if nonconformities are detected. These routines function well and will be continued.

Equal opportunities

The group's general policy is that no unequal treatment or other form of discrimination related to gender or ethnic background will occur. It gives emphasise to expertise rather than gender, age or ethnic background when making appointments. Women account for 49 per cent of the workforce and 33 per cent of managers.

Impact on the natural environment

Selvaag Bolig pays special attention to environmental considerations when pursuing its housing development activities, and has taken account of the natural environment in its planning and management systems. The company will seek to minimise its negative impact on the environment and climate. Its environmental impact relates primarily to energy consumption, materials, waste, interventions in and use of natural resources, and the way the housing projects contribute to good local and urban development. Selvaag Bolig builds houses in accordance with applicable legislation and statutory regulations. These include strict requirements for climate-friendly and energy-efficient homes. The company is continuing to develop environment-friendly buildings more cheaply, in part so that the company can adapt its homes more easily to possible future and tougher official requirements. Internal work is evaluated regularly. The buildings and the construction process are followed up continuously through internal and external inspections. The company's routines and management systems are regarded as good, and are being continued without change.

Lørenskog Stasjonsby, Lørenskog

Combating corruption and price fixing

Selvaag Bolig does not accept any form of corruption. Its employees must exercise caution in accepting or providing gifts, services or other benefits from or to business contacts.

Selvaag Bolig does not accept any form of price fixing with other players. Employees must not contribute to any form of price collusion with business contacts or others which could distort competition or conflict with applicable regulations against price fixing and/or cartel operations. The regulations and how they are to be practised are known to the employees, in part through training programmes for new recruits and reviews in group meetings, and are available on the company's website. No cases of price fixing or corruption were exposed in 2016, and continuous efforts are made to strengthen knowledge of the company's routines among employees – in part through a mandatory course on ethics and social responsibility, which also deals with this topic.

Further information can be found in section 3.9 of the company's ethical guidelines on dealings with customers, suppliers, competitors and government agencies, which are available on the company's website at www.selvaagboligasa.no/en.

Whistleblowing routines

Section 3.15 of the company's ethical guidelines contains provisions on routines to be followed in the event of possible suspicions that formal legal or regulatory rules, or the company's ethical guidelines, have been breached. These routines instruct the employee concerned to raise the issue through the line organisation, possibly with the group's legal officer. The company also has a channel for anonymous whistleblowing on its intranet site, which goes to the company's legal officer. This is intended to lower the threshold for reporting on breaches. The ethical guidelines are available on the company's website and intranet.

Directors' report

BOARD OF DIRECTORS: (Far back from left) Karsten Bomann Jonsen, Peter Groth, Rune Thomassen, (back from left) Olav Hindahl Selvaag, Anne Sofie Bjørkholt, (front from left) Marianne Ørnsrud, Baard Schumann and Gisele Marchand.

Selvaag Bolig had a good year in 2016, delivering homes with a combined value of NOK 3 billion to customers. The level of activity in the group was high, and the order backlog is good. At 31 December, 1 356 homes with a combined sales value of roughly NOK 5.7 billion were under construction. That will help to secure future value creation for the company. Selvaag Bolig has land for about 10 200 homes in and around the four largest Norwegian cities as well as a number of interesting and profitable development projects, and is well positioned for continued growth. The board proposes a total dividend of NOK 1.60 per share for 2016.

Overview of 2016

Highlights

The level of activity in Selvaag Bolig was high during 2016, with good sales and strong financial progress. A total of 1 044 homes with a combined sales value of NOK 4 360 million were sold during the year. Completions totalled 836 units, with 869 delivered to customers. Selvaag Bolig's production and value creation were high at 31 December. Construction started on 902 homes during the year, and 85 per cent of the 1 356 being built at 31 December were sold. The market was particularly good in Greater Oslo, where the company has the bulk of its projects, and maintained a good and stable level throughout the year in Trondheim and Bergen. The housing market in the Stavanger area improved during the year.

A number of dispositions were made by Selvaag Bolig during 2016 to maintain and strengthen its position as one of the leading housebuilders in the markets where it operates. The land bank was strengthened in several of the core areas, particularly in and around Greater Oslo. Selvaag Bolig's acquisitions there included Fornebu Centre, which could accommodate more than 2 000 homes. Land holdings at 31 December would yield some 10 200 homes, with a high proportion of these in Greater Oslo. Selvaag Bolig has become well established over time in Greater Oslo, Stavanger and Trondheim, and also created its own organisation in Bergen during 2015. Selvaag Bolig is thereby present in Norway's four largest conurbations, which have the greatest need for new homes, leaving it well positioned for further growth. The company also develops some commercial property, primarily related to major housing projects where planning regulations call for this. The present portfolio embraces a total area of about 50 000 square metres for development as commercial premises.

The group's business

Selvaag Bolig is one of Norway's leading housing developers. It buys and develops new housing land, and manages the whole value chain from acquisition of land to completion and sale of homes. The group concentrates on the areas in and around Greater Oslo, Bergen, Stavanger and Trondheim. It also has collaboration projects in Stockholm. The Selvaag Pluss Service AS subsidiary offers services related to Selvaag Bolig's Pluss concept. The group's housing development business embraces both wholly and partly owned projects, a proportion of which take the form of joint ventures with external investors. Selvaag Bolig manages all the projects, with the exception of those in Stockholm.

Selvaag Bolig does not build itself, but awards construction contracts on a project-by-project basis. That gives it the opportunity to select the best and most competitive contractor for each project. Subjecting construction contracts to competitive tendering increases flexibility and reduces market risk. Using external contractors also ties up less capital and cuts execution risk during the construction phase.

The group possesses unique expertise with project development. With a modern and industrial approach to housebuilding, this helps to ensure lower construction costs, competitive prices for buyers and increased profits for the company and its owners.

Selvaag Bolig continues Selvaag's historical social commitment, where value creation is combined with socially useful measures. The company's goal is to develop and build good homes which provide the greatest possible residential benefit for its customers, and it works to ensure that as many people as possible can afford to buy their own home. Furthermore, Selvaag Bolig seeks to be a driver in social debate in order to promote good and sustainable housing and urban development policies and to be a spokesperson for its customers by communicating its views and daring to stand by these.

Financial review

Income statement

(Figures for 2015 are presented in brackets)

Operating revenue

Consolidated operating revenue for 2016 totalled NOK 3000,3 million (NOK 3 246 million). The decline from the year before primarily reflected some reduction in the number of homes delivered. During 2016, 869 (893) homes were delivered, including 840 (860) from the consolidated project companies. Units delivered accounted for NOK 2 869 million (NOK 3 177.4 million) of total revenues.

Operating costs

Operating costs totalled NOK 2 606.4 million (NOK 2 841.7 million), with project costs accounting for NOK 2 379.7 million (NOK 2 608.5 million). The latter relate mainly to construction costs for homes delivered in the period. Payroll costs accounted for NOK 109.4 million (NOK 97.1 million) of the total.

Other operating costs came to NOK 121.9 million (NOK 120.4 million), of which NOK 49.3 million (NOK 51.4 million) related to sales and marketing.

The item for gain (loss), net associates and joint ventures amounted to a loss of NOK 7.1 million (gain of NOK 8.3 million). This decline primarily reflects fewer units delivered in joint ventures than in 2015.

Operating profit

The group made an operating profit of NOK 393.9 million (NOK 404.3 million). Ordinary EBITDA was NOK 414.0 million (NOK 428.4 million) for the year, corresponding to a margin of 13.8 per cent (13.2 per cent). EBITDA adjusted for financial expenses incorporated in project costs came to NOK 514.4 million (NOK 538.9 million).

Financial items

Net financial expenses came to NOK 29.3 million (NOK 33.1 million).

Pre-tax profit

Profit before tax expense was NOK 364.6 million (NOK 371.2 million). Net tax expense was NOK 63.7 million (NOK 91.8 million). Consolidated tax expense does not include tax liability for tax objects which are not part of the Selvaag Bolig group. Tax on non-controlling shareholders' share of profit for the period is included in the non-controlling share of profit and equity.

Consolidated net profit came to NOK 300.9 million (NOK 279.4 million), of which NOK 301.2 million (NOK 281 million) is attributable to the shareholders of Selvaag Bolig ASA and a loss of NOK 0.3 million (NOK 1.7 million) to non-controlling shareholders.

Cash flow

Consolidated net cash flow from operational activities was NOK 440.3 million (NOK 465.9 million). The difference between pre-tax profit and operational cash flow primarily reflected declines in inventories and in accounts receivable from estate-agent client accounts for homes delivered. Payment for projects delivered will often take place in the following quarter, since the money is held in the estate agent's client account until the sale has been legally registered. The decrease in cash flow from last year was mainly due to fewer units delivered and an increase in taxes paid. This was partly offset by the fact that 2015 had substantial payments from land acquisitions.

Net cash flow from investing activities was negative at NOK 14.8 million (NOK 15.5 million). Investment in joint ventures involved total cash payments of NOK 12.8 million (NOK 44.4 million). Moreover, loans to and financial investments in joint ventures came to NOK 33 million (NOK 0). Receipts from joint ventures totalled NOK 6.3 million (NOK 1.9 million).

Net cash flow from financing activities was negative at NOK 211.5 million (NOK 344.1 million). The change from the year before mainly reflected reduced redemption of construction loans and somewhat lower dividend payments. Dividends totalled NOK 136 million, broken down into NOK 75 million for the second half of 2015 and NOK 60.9 million for the first half of 2016. By comparison, NOK 178.2 million was paid in dividend in 2015. A net amount of NOK 15.3 million (NOK 10.4 million) was devoted to buying the company's own shares for the employee share programme and the sale of shares to employees. Other cash flows correspond to net redemption of loans.

Cash and cash equivalents increased by NOK 213.9 million to NOK 886.2 million (NOK 672.3 million).

Balance sheet

Assets in Selvaag Bolig at 31 December 2016 totalled NOK 6 408.7 million (NOK 6 251.1 million). The carried amount of consolidated inventories (land, housing under construction and completed homes) at 31 December was NOK 4 284 million (NOK 4 715.4 million). This decrease primarily reflected the sale of a 50 per cent share in the Kaldnes Brygge project in Tønsberg and units delivered.

Equity at 31 December was NOK 2 699.2 million (NOK 2 549.2 million), corresponding to an equity ratio of 42.1 per cent (40.8 per cent). The board proposes that a dividend of NOK 1.60 per share be paid to shareholders in Selvaag Bolig ASA for 2016. NOK 0.65 per share was paid in September 2016 as dividend for the first half-year. The board has proposed a dividend of NOK 0.95 per share for the second half of 2016. That will make the total dividend for 2016 NOK 1.60 per share. This corresponds to 50 per cent of consolidated net profit and amounts to NOK 150 million.

The group held cash and cash equivalents of NOK 886.2 million (NOK 672.3 million) at 31 December. Selvaag Bolig ASA, the parent company, held cash and cash equivalents of NOK 264 million (NOK 235.4 million) at 31 December.

At 31 December, consolidated interest-bearing debt amounted to NOK 2 573.3 million (NOK 2 618 million), of which NOK 2 038.7 million (NOK 1 846.7 million) was non-current and NOK 534.7 million (NOK 771.3 million) was current. Other current non-interest-bearing debt amounted to NOK 666.2 million (NOK 582.8 million) at 31 December, of which advance payments by customers accounted for NOK 467.7 million (NOK 297.6 million).

Financing and debt

Consolidated interest-bearing debt can largely be divided into three categories: 1) top-up, 2) land and 3) construction loans. At 31 December 2016, the group had top-up loans of NOK 496 million, land loans of NOK 946 million and construction loans of NOK 1 131 million. The top-up loan comprised a bond carried at a net amortised cost of NOK 496 million.

The group has an unsecured bond loan of NOK 500 million, which was listed on the Oslo Stock Exchange in the third quarter of 2013. This loan has a five-year term and quarterly interest payments from 27 September 2013. The interest rate is three-month Nibor plus 475 basis points. Financial covenants attached to the loan require the group to have 1) a minimum equity ratio of 25 per cent until 30 June 2017 and 27.5 per cent thereafter until maturity in June 2018 and 2) a sales ratio of at least 60 per cent for houses under construction. Both these covenants were fulfilled at 31 December 2016, with equity and sales ratios of 42.1 and 85 per cent respectively.

The group had two undrawn overdraft facilities at 31 December, each of NOK 150 million.

Each project in Selvaag Bolig is organised as a single purpose vehicle (SPV). In addition to financing in the parent company, this means that each company seeks its own external capital financing for the development of a project. Land credits are converted to construction loans as the projects start up. Building costs are wholly financed by loans, and increased activity in the companies will accordingly mean that construction loans rise in line with progress.

Going concern

Pursuant to section 3-3a of the Norwegian Accounting Act, the board confirms that the going concern assumption is realistic and that the financial statements for 2016 have been prepared on that assumption. This view rests on the group's good capital adequacy and financial position.

Events after the balance sheet date

No events of significance for the financial statements have occurred after the balance sheet date.

Parent company Selvaag Bolig ASA

Operating revenues for Selvaag Bolig ASA, the parent company, came to NOK 179.3 million (NOK 68.7 million), and the operating profit of the year was NOK 2.8 million (loss of NOK 89.2 million). Ordinary net profit for the year was NOK 331,0 million (NOK 428.2 million). Profit for 2016 included NOK 461.5 million (NOK 702.2 million) in group contributions received from subsidiaries. A gain of NOK 52.5 million (NOK 35 million) from the sale of a site to a subsidiary is included in profit. These internal gains are eliminated in the consolidated financial statements.

Allocation of the net profit

The parent company, Selvaag Bolig ASA, made a net profit of NOK 331 million for 2016 (NOK 428.2 million). The parent company's equity amounted to NOK 2 668.2 million (NOK 2 498 million) at 31 December.

The board proposes that an overall dividend of NOK 1.60 per share be paid for 2016, corresponding to NOK 150 million. Of this, NOK 0.65 per share – corresponding to NOK 60.9 million – was paid in September 2016 on the basis of profit for the first half.

Strategy

The board participates in important strategic discussions during the year and conducts an annual revision of the company's three-year operational and financial strategy together with the executive management.

Selvaag Bolig worked actively in 2016 to manage the business in accordance with the approved strategy and to ensure that the company capitalises on the competitive advantages that this provides. Among other moves, Selvaag Bolig concentrated and strengthened its land bank exclusively in geographical priority areas, and now possesses a strong portfolio of sites and the ability to deliver in all its core markets. That creates a good basis for developing housing projects in both the short term and a longer perspective. The company has also capitalised on the opportunities provided by the ability to choose builders freely. All construction is outsourced through competitive tendering, and the necessary capacity is bought in at the market's best prices. That increases investment opportunities and the ability to deliver while reducing the risk profile and ensuring adaptability to market fluctuations both locally and nationally. Selvaag Bolig is well positioned to reach both short-term and long-term goals.

Risk and risk management

Risk management

As a housing developer, the group is exposed to risk related to land development, sales and the execution of construction projects. These factors can affect the group's business activities and financial position. The board of Selvaag Bolig accordingly gives a high priority to dealing with and managing risk, and has established routines and control systems to limit overall risk exposure to an acceptable level.

Regular risk surveys contribute to raising awareness of and to dealing with the most significant risk conditions which could affect the business goals defined in the company's strategy.

The primary risk factors can be categorised as market, operational and financial risk.

Market risk

Housing demand is influenced by a large number of factors at both micro and macro level. It may be affected by substantial fluctuations in the general level of interest rates and/or significant changes in other financial variables to which potential housebuyers might be exposed. Changes in housing demand could furthermore affect Selvaag Bolig's opportunities to sell homes at budgeted prices within the planned time frames. Were the pace of sales to be lower than expected because of changes in market conditions, planned developments could be postponed. The company accordingly has internal requirements related to advance sales, where the rule is that construction does not begin until homes corresponding to 60 per cent of the value of each building stage in the respective projects have been sold.

Operational risk

Risk related to contractors

Selvaag Bolig draws on external construction companies and service providers in connection with developing and building new projects. As a result, it is exposed to the risk of loss and additional project cost if a contractor/supplier finds itself in financial difficulties. To reduce this risk, the company mainly enters into construction contracts with large, well-established players who have a solid financial position and experience, and who can document quality work. In addition, standardised and detailed construction plans developed by Selvaag Bolig are used to reduce the risk of errors, misunderstandings and delays by the contractor.

Furthermore, Selvaag Bolig is exposed to increases in the level of prices for construction contracts and to cost overruns. For projects built on site, the company mainly enters into turnkey contracts. Costs are thereby fixed before sales and construction begins. That makes it easier to maintain a good overview of the level of costs. In the event of high building costs, the company also has the opportunity to use modular construction. This represents a cheaper form of production than site-build, but can involve increased risk related to foreign exchange fluctuations and to execution.

Planning risk
Planning changes by the relevant public authorities could affect both the progress and viability of Selvaag Bolig's various projects, and might thereby limit opportunities to continue developing its properties. That could lead to delays and increased costs.

Financial risk

Credit risk
The group's credit risk relates largely to the settlement of its accounts receivable, which primarily involve private customers as housebuyers. Buyers are required to pay a 10 per cent deposit in advance when a sale is agreed, and to document satisfactory financing for the property.

Foreign exchange risk
Virtually all the group's activities are based in Norway. However, the group buys modules from abroad in euros. When certain purchase contracts are signed with foreign module suppliers, the exchange rate is locked in by ordering foreign currency at a fixed rate for future settlement based on the supplier's payment plan. As a result, the group has some exposure to foreign exchange risk.

Interest rate risk (own financing, deposits)
Changes in interest rates affects the group's borrowing costs, and could affect the valuation of its assets. The company has opted not to enter into any form of hedging contract. Furthermore the interest levels affects company's return on free liquidity.

Financing risk (access to capital)
Selvaag Bolig depends on access to capital in order to acquire sites and realise projects. Where external capital is concerned, the company has good and close relations with its principal banks, which are well-capitalised Nordic institutions. Competition between the banks is perceived to be satisfactory, and the company has thereby been able to secure the financing required for its projects. However, that may change in the future. Selvaag Bolig also utilises other solutions for new land purchases, including agreements with landowners on future purchase which is conditional on planning permission being obtained.

Liquidity risk
Conservative liquidity management means having sufficient liquid assets and available financing through lines of credit to meet the group's obligations. The group issued a bond loan of NOK 500 million in 2013, and refinanced a large proportion of its loans. Selvaag Bolig administers liquidity actively, and pays special attention to maintaining adequate liquidity at all times. The company continuously monitors forecast and actual cash flows.

The board takes the view that the group had a well-balanced exposure to financial and liquidity risk at 31 December. Cash and cash equivalents in Selvaag Bolig at 31 December amounted to NOK 886.2 million (NOK 672.3 million) for the group and NOK 264 million (NOK 235.4 million) for the parent company. Liquid assets consisted primarily of cash and bank deposits. At 31 December, the group had two overdraft facilities of NOK 150 million each. Further reference is made to the comments on financing above and to note 16 to the consolidated financial statements for an overview of loans, maturities and loan terms.

Organisation

Selvaag Bolig ASA was established in 2008. It is the parent company for the underlying group subsidiaries, which are responsible for operations. At 31 December 2016, the Selvaag Bolig group had a total of 100 employees, including 68 in the parent company and 32 in the subsidiaries.

Corporate social responsibility (CSR)

Selvaag Bolig will create value for society by building good homes with the greatest possible residential benefit, and which as many people as possible can afford to buy. This means in part that the company gives priority to urban areas experiencing expansion pressures, develops site-efficient homes with the greatest volume in lower price categories, seeks to be cost-effective and works to ensure positive official policies through a clear presence in the public debate. Ethical, social and environmental considerations are integrated in its day-to-day operations. The company's goal is to be a good and secure workplace, and requires that it and its suppliers pursue their operations in compliance with applicable legislation and statutory regulations. Furthermore, Selvaag Bolig will be a responsible social player and minimise emissions/discharges and damage to the natural environment. The company has ethical guidelines which are described at www.selvaagboligasa.no/en. Continuous efforts are made to ensure that employees are familiar with and observe all the company's guidelines related to CSR. See the separate section on CSR in this annual report.

Shareholder information

The company was listed on the Oslo Stock Exchange on 14 June 2012. It had 2 072 shareholders (1 840) at 31 December 2016, of whom 95 were foreign (100). See note 14 to the consolidated financial statements for Selvaag Bolig ASA for detailed shareholder information.

Transactions with related parties

Selvaag Bolig sold a commercial site at Lørenskog to a subsidiary of Selvaag Gruppen AS for NOK 55 million in 2016. See note 23 to the consolidated financial statements for further information on transactions with related parties.

Corporate governance

Selvaag Bolig ASA is committed to maintaining a high standard of corporate governance. A healthy corporate culture is essential for safeguarding confidence in the company, securing access to capital and ensuing good value creation over time. All shareholders will be treated equally, and a clear division of labour will exist between the board and the company's executive management. Selvaag Bolig complies with the Norwegian code of practice for corporate governance of 30 October 2014.

A detailed statement on the way Selvaag Bolig implements the 15 sections of the code can be found on the company's website at www.selvaagboligasa.no/en and in this annual report.

Pay and other remuneration of senior executives

Pay and other remuneration of senior executives in the group are presented in note 22 to the consolidated financial statements. This note also outlines the principles on which executive remuneration is based. Selvaag Bolig introduced a share saving programme for all employees and a share purchase programme for the executive management in 2015. These programmes are described in the chapter on corporate governance in this report.

Annual general meeting

The AGM for 2016 will take place on 21 April 2017.

Outlook

Positive house sales, strong results and a number of strategic land purchases during 2016 confirmed Selvaag Bolig's position as one of Norway's leading and profitable housing developers. The company sold 1 044 homes worth NOK 4.36 billion during the year, and had 1 356 units with a sales value of NOK 5.71 billion under construction at 31 December. No less than 85 per cent of these were already sold at that date, including 98 per cent of homes to be completed in 2017 and 87 per cent of those due to be ready the following year. In other words, Selvaag Bolig has secure revenues for coming years. With an equity of 42.1 per cent and good liquidity, the company occupies a solid financial position.

Selvaag Bolig has a strong position and ambitions for further growth in and around Greater Oslo, Stavanger, Trondheim and Bergen. These markets have good prospects because of urbanisation, population growth and big housing requirements. The company has good sites centrally located in all these areas, and constantly acquires attractive new development land which will strengthen its position over time. Furthermore, the Stavanger market is now improving after three quiet years. That makes it possible for the company to launch new projects in this market in the time to come.

As a pure housing developer, the company puts all construction out to competitive tender and accordingly has a sensible staffing which can easily be adjusted to the level of activity in the market. In the board's view, this has given and will continue to give Selvaag Bolig competitive advantages. The company is well equipped financially, operationally and organisationally to safeguard and strengthen its position.

The government introduced new mortgage regulations on 1 January 2017. These include requirements that the mortgagee's overall debt must not exceed five times their gross annual income, and that buyers of second homes in Oslo must provide at least 40 per cent of the purchase price from their own equity. The banks still have the opportunity to make exceptions, but to a more limited extent than before. The tightening of the mortgage regulations could affect housing demand.

Oslo, 24 March 2017

Olav Hindahl Selvaag Chair	Peter Groth Director	Karsten Bomann Jonsen Director	Anne Sofie Bjørkholt Director
Gisele Marchand Director	Marianne Ørnsrud Director (elected by the employees)	Rune Thomassen Director (elected by the employees)	Baard Schumann President and CEO

Statement of comprehensive income

for the financial period ended 31 December

(amounts in NOK 1 000, except earnings per share)	Note	2016	2015
Sales revenues	*2*	2 923 966	3 191 585
Other revenues	*25*	76 381	54 457
Total revenues		**3 000 347**	**3 246 042**
Project expenses	*5*	(2 379 746)	(2 608 499)
Salaries and personnel expenses, administrative functions	*6*	(109 361)	(97 059)
Depreciation and amortisation	*9, 10*	(20 061)	(24 085)
Other operating expenses	*7*	(121 851)	(120 389)
Other gain (loss), net	*26*	31 679	-
Share of income (losses) from associated companies	*24*	(7 104)	8 326
Total operating expenses		**(2 606 444)**	**(2 841 706)**
Operating profit (loss)		**393 903**	**404 336**
Financial income	*8*	8 264	11 413
Financial expenses	*8*	(37 585)	(44 561)
Net financial expenses		**(29 321)**	**(33 148)**
Profit (loss) before income taxes		**364 582**	**371 188**
Income tax (expense) income	*19*	(63 694)	(91 828)
Profit (loss) for the year		**300 888**	**279 360**
Other comprehensive income items that may be reclassified to profit or loss			
Foreign currency translation		(3 095)	3 040
Total comprehensive income for the year		**297 793**	**282 400**
Profit (loss) for the year attributable to:			
Non-controlling interests		(267)	(1 771)
Shareholders of Selvaag Bolig ASA		301 155	281 131
Total comprehensive income for the year attributable to:			
Non-controlling interests		(267)	(1 771)
Shareholders of Selvaag Bolig ASA		298 060	284 171
Earnings per share for profit (loss) attributable to shareholders of Selvaag Bolig ASA			
Earnings per share (basic and diluted, in NOK)	*14*	3,21	3,00

Statement of financial position

at 31 December

(amounts in NOK 1 000)	Note	2016	2015
ASSETS			
Non-current assets			
Goodwill	*9*	383 376	383 376
Other intangible assets	*9*	-	13 799
Property, plant and equipment	*10*	10 867	20 314
Investments in associated companies and joint ventures	*24*	289 818	183 443
Loans to associated companies and joint ventures	*23, 24*	63 757	9 046
Other non-current assets	*11*	197 318	105 545
Total non-current assets		**945 136**	**715 523**
Current assets			
Inventory property	*5*	4 284 011	4 715 399
Trade receivables	*11*	103 420	110 288
Other current receivables	*11*	189 902	37 571
Cash and cash equivalents	*12*	886 193	672 284
Total current assets		**5 463 526**	**5 535 542**
TOTAL ASSETS		**6 408 662**	**6 251 065**
EQUITY AND LIABILITIES			
Equity			
Equity attributable to shareholders of the company	*13*	2 689 857	2 539 610
Non-controlling interests		9 315	9 582
Total equity		**2 699 172**	**2 549 192**
Liabilities			
Non-current liabilities			
Pension obligations		594	913
Deferred tax liabilities	*19*	84 486	158 837
Provisions	*20*	75 073	92 578
Other non-current non-interest-bearing liabilities		6 938	9 869
Non-current interest-bearing liabilities	*16*	2 038 660	1 846 715
Total non-current liabilities		**2 205 751**	**2 108 912**
Current liabilities			
Current interest-bearing liabilities	*16*	534 681	771 302
Trade payables	*17*	219 562	100 120
Current income taxes payable	*19*	83 343	138 722
Other current non-interest-bearing liabilities	*17*	666 153	582 817
Total current liabilities		**1 503 739**	**1 592 961**
Total liabilities		**3 709 490**	**3 701 873**
TOTAL EQUITY AND LIABILITIES		**6 408 662**	**6 251 065**

Oslo, 24 March 2017

Olav Hindahl Selvaag Chair	Peter Groth Director	Karsten Bomann Jonsen Director	Anne Sofie Bjørkholt Director
Gisele Marchand Director	Marianne Ørnsrud Director (elected by the employees)	Rune Thomassen Director (elected by the employees)	Baard Schumann President and CEO

Statement of changes in equity

(amounts in NOK 1 000)	Share capital	Share premium account	Other paid-in capital	Cumulative translation differences	Other reserves	Retained earnings	Equity attributed to shareholders in Selvaag Bolig ASA	Non-controlling interests	Total equity
EQUITY AT 1 JANUARY 2016	186 799	1 394 857	700 629	3 937	3 528	249 859	2 539 609	9 582 *)	2 549 192
Transactions with owners:									
Dividend	-	-	-	-	-	(135 961)	(135 961)	-	(135 961)
Share buy back	(1 419)	-	-	-	-	(22 415)	(23 834)	-	(23 834)
Employee share programme	918	-	-	-	-	11 064	11 982	-	11 982
Dividend to non-controlling interests	-	-	-	-	-	-	-	-	-
Total comprehensive income/(loss) for the period:									
Net income/(loss) for the period	-	-	-	-	-	301 155	301 155	(267)	300 888
Other comprehensive income/(loss) for the period	-	-	-	(3 095)	-	-	(3 095)	-	(3 095)
EQUITY AT 31 DECEMBER 2016	186 298	1 394 857	700 629	842	3 528	403 702	2 689 857	9 315 *)	2 699 172
EQUITY AT 1 JANUARY 2015	187 511	1 394 857	700 629	897	3 528	155 147	2 442 569	14 728 *)	2 457 298
Dividend	-	-	-	-	-	(178 155)	(178 155)	-	(178 155)
Share buy back	(863)	-	-	-	-	(10 000)	(10 863)	-	(10 863)
Employee share program	151	-	-	-	-	1 736	1 887	-	1 887
Dividend to non-controlling interests						-	-	(3 375)	(3 375)
Total comprehensive income/(loss) for the period:									
Net income/(loss) for the period	-	-	-	-	-	281 131	281 131	(1 771)	279 360
Other comprehensive income/(loss) for the period	-	-	-	3 040	-	-	3 040	-	3 040
EQUITY AT 31 DECEMBER 2015	186 799	1 394 857	700 629	3 937	3 528	249 859	2 539 609	9 582 *	2 549 192

* Non-controlling interests includes tax on profits in companies subject to partnership taxation. Income taxes in the group do not include taxes on tax subjects outside the Selvaag Bolig group.

Statement of cash flows

for the financial period from 1 January to 31 December

(amounts in NOK 1 000)	Note	2016	2015
CASH FLOW FROM OPERATING ACTIVITIES			
Profit (loss) before income taxes		364 582	371 188
Income taxes paid		(138 722)	(41 384)
Depreciation and amortisation	*9, 10*	20 061	24 085
Other (gains) losses, net	*26*	(31 679)	-
Share of (income) losses from associated companies and joint ventures	*24*	7 104	(8 326)
Change in inventory property	*5*	142 352	(305 876)
Change in trade receivables	*11*	(2 373)	330 109
Change in trade payables	*17*	121 626	(87 391)
Changes in other working capital assets		(67 062)	105 420
Changes in other working capital liabilities		24 377	78 082
Net cash flow from operating activities		**440 267**	**465 907**
CASH FLOW FROM INVESTING ACTIVITIES			
Proceeds from disposal of tangible and intangible fixed assets		3 580	-
Payments for acquisition of tangible and intangible fixed assets		(408)	(8 577)
Proceeds from disposal of businesses and subsidiaries, net of cash disposed	*12*	8 344	(114)
Payments for acquisitions of businesses and subsidiaries, net of cash acquired	*12*	-	691
Proceeds from disposal of associated companies and joint ventures		-	24 180
Payments for acquisition of associated companies and joint ventures	*24*	(12 835)	(44 394)
Proceeds from disposal of other investments and repayments on loans given		13 205	10 886
Payments for acquisition of other investments and loans given		(32 954)	-
Dividends and distributions from associated companies and joint ventures	*24*	6 250	1 850
Net cash flow from investing activities		**(14 818)**	**(15 478)**
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from borrowings	*16*	1 013 589	1 497 557
Repayments of borrowings	*16*	(1 073 895)	(1 594 653)
Net change in bank overdraft	*16*	-	(55 017)
Dividends paid to equity holders of Selvaag Bolig ASA		(135 961)	(178 155)
Payment of profit sharing and dividends to non-controlling interests in subsidiaries	*13*	-	(3 375)
Share buy back Selvaag Bolig ASA	*13*	(23 834)	(10 870)
Proceeds from disposal of shares Selvaag Bolig ASA	*13*	8 561	438
Net cash flow from financing activities		**(211 540)**	**(344 075)**
Net change in cash and cash equivalents		213 909	106 354
Cash and cash equivalents at 1 January	*12*	**672 284**	**565 930**
Cash and cash equivalents at 31 December	*12*	**886 193**	**672 284**

For further specifications refer to note 12.

Notes to the consolidated financial statements

Note 1: General information

Selvaag Bolig ASA (the company) and its subsidiaries (together the group) is a property development group involved in the construction of residential property for sale in the ordinary course of business. Selvaag Bolig ASA is listed on the Oslo Stock Exchange. The company's ultimate controlling party is Selvaag Gruppen AS.

The registered office of the company is Silurveien 2, NO-0380 Oslo.

Note 2: Significant accounting policies

The principal accounting policies are set out below and have been consistently applied to all accounting periods presented.

2.1 Statement of compliance

The group's consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) and interpretations issued by the International Accounting Standards Board (IASB) and endorsed by the EU at 31 December 2016.

These group's consolidated financial statements were authorised for issue by the board of directors on 24 March 2017.

2.2 Basis of preparation

The group's consolidated financial statements have been prepared on a going concern and historical cost basis, except for derivatives which are recognised at fair value through profit or loss.

2.3 Functional and presentation currency

(a) Functional and presentation currency

Items included in the individual financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in NOK, which also is the parent company's functional currency.

(b) Transactions and balances

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated in subsequent periods.

2.4 Consolidation

The consolidated financial statements include the financial statements of the company and entities (including special purpose entities) controlled by the company (its subsidiaries). Control is achieved where the company is exposed, or has rights, to variable returns from its involvement with an entity and has the ability to affect those returns through its power over the entity. This is generally presumed to exist when the company holds more than 50 % of the voting rights. The existence and effect of potential voting rights which are currently exercisable or convertible are considered when assessing whether the company controls another entity.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. A negative comprehensive income in the subsidiaries is attributed to the owners of the parent company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, restatements are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Changes in the group's ownership interests in subsidiaries which do not result in the group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the company.

When the group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. When assets of the subsidiary are carried at fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the company had directly disposed of the relevant assets (ie, reclassified to profit or loss or transferred directly to retained earnings as specified by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

2.5 Segment information

Operating segments are reported in a manner consistent with the internal reporting provided to the CEO and management group. This group is responsible for allocating resources and assessing performance of the operating segments. For the purposes of internal reporting, the group utilises the percentage of completion method for which the degree of completion is estimated on the basis of expenses incurred relative to total estimated cost and sales rate. Operating profit (loss) under the percentage of completion method also includes an estimated profit element.

2.6 Investments in associates

An associate is an entity over which the group has significant influence and which is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is neither control nor joint control over those policies. Significant influence is generally presumed to exist when the company holds between 20% and 50% of the voting rights.

Associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost and adjusted thereafter to recognise the group's share of the profit or loss and other comprehensive income of the associate. If the group's share of losses of an associate exceeds the group's carrying amount of that associate, the group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the group' consolidated financial statements only to the extent of interests in the associate which are not related to the group.

Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the group.

Share of income (loss) from associated companies is included within operating profit (loss), as the investments are considered an integral part of the group's operations.

2.7 Investments in joint arrangements

A joint arrangement is a contractual arrangement whereby the group and other parties undertake an economic activity which is subject to joint control (ie, when the strategic financial and operating policy decisions relating to the activities of the joint venture require the unanimous consent of the parties sharing control). Joint arrangements are classified as joint operations or joint ventures, depending on the rights to the assets and obligations for the liabilities of the parties to the arrangements. If the parties have rights to the net assets of the arrangement, the arrangement is a joint venture. If the parties have rights to the assets and obligations for the liabilities relating to the arrangement, the arrangement is a joint operation.

The group does not have any interests in joint arrangements classified as joint operations.

The group reports its interests in joint ventures using the equity method, as described in note 2.6 Investments in associates above, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

Share of income (loss) from joint ventures is included within operating profit (loss), as this is considered integral to the group's operations.

2.8 Business combinations

Where property is acquired through the acquisition of entities, management consider the substance of the assets and activities acquired. When acquiring a group of assets or net assets which do not constitute a business, the cost price is allocated between the individual identifiable assets and liabilities acquired on the basis of their relative fair values at the acquisition date.

Business combinations are accounted for using the acquisition method. The acquisition is recognised at the aggregate of the consideration transferred, measured at acquisition-date fair value, and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. Part of goodwill is due to the recognition of deferred tax obligation at nominal value.

When a business combination is achieved in stages, the group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (ie, the date when the group obtains control) and the resulting gain or loss, if any, is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of any contingent consideration classified as a liability will be recognised in profit or loss.

2.9 Intangible assets

(a) Goodwill

Goodwill arising on an acquisition of a business is recognised in the balance sheet at the date of acquisition of the business (see note 2.8 above). Goodwill is not amortised, but is tested for impairment annually. For the purposes of impairment testing, goodwill is allocated to each of the group's cash-generating units (or collections of cash-generating units) expected to benefit from synergies of the business combination.

Goodwill is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised in profit or loss in the consolidated income statement. An impairment loss recognised for goodwill will not be reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

(b) Other intangible assets
Other intangible assets acquired through a business combination are initially recognised at fair value, and otherwise at acquisition cost. The asset's residual value and expected useful life are reviewed on an annual basis and adjusted if necessary. If an asset's carrying value exceeds the recoverable amount, the asset will be written down to the recoverable amount. Any gain or loss arising from the disposal of an asset will be determined as the difference between the asset's sales price and carrying value, and recognised in the consolidated statement of comprehensive income as other net profit (loss).

2.10 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for the sale of property and related transactions in the ordinary course of the group's activities, in accordance with IAS 18 Revenues.

(a) Sale of property
Revenue from sale of residential property (including any sale of projects under development and undeveloped land) is recognised at the transaction date, when all the conditions for recognition have been satisfied. For residential property, the transfer of risk and control is completed at the time of delivery.

Property may be sold with a degree of continuing involvement by the seller, which may be commitments to complete construction of the property, or a seller guarantee of occupancy of a housing cooperative for a certain period of time. The group recognises revenue when the significant risks and rewards of ownership of property sold are transferred to the buyer, the group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the property sold, the amount of revenue can be measured reliably and it is probable that the economic benefits associated with the transaction will flow to the group. The amount of revenue is not considered to be reliably measurable until all material contingencies relating to the sale have been resolved.

(b) Lease revenues
Rental income from leasing of property (operating leases in which the group is a lessor) is recognised on a straight-line basis over the term of the relevant lease and included in other revenues.

(c) Sale of services
Revenue from sale of services is recognised when the service is performed. Estate agent services directly associated with the sale of property are included in sales revenue. Other services are included in other revenue.

2.11 Inventory property
IAS 2 Inventories defines inventories as assets held for sale in the ordinary course of business, in the process of production for such sale, or as materials or supplies to be consumed in the production process or in the rendering of services.

The group has property which is land and buildings intended for sale in the ordinary course of business or which is in the process of construction or development for such sale. Inventories thus comprise land, property held for resale, and property under development and construction. Inventories are measured at the lower of cost and net realisable value.

The cost of inventories comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present condition. The cost of conversion includes costs directly related to the construction of the property (such as amounts paid to sub-contractors for construction) and an allocation of fixed and variable overheads incurred during development and construction. Borrowing costs directly attributable to the acquisition, construction or production of property are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Capitalisation of borrowing costs commences when the plot is regulated. Capitalisation of other directly attributable costs commences when it is more likely than not that the project will be realised. Other costs are included in the cost of inventories only to the extent that they are directly attributable to bringing the inventories to their present location and condition, including, eg, planning and design costs.

Net realisable value is the estimated selling price in the ordinary course of business, based on market prices at the reporting date and discounted for the time value of money if material, less the estimated costs of completion and the estimated costs necessary to make the sale.

When properties are sold, the carrying amount is recognised as a project expense in the income statement in the period in which the related revenue is recognised.

2.12 Property, plant and equipment
Property, plant and equipment are recognised at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure which is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are recognised as an expense during the period in which they are incurred. Depreciation is calculated on a straight-line basis, generally three to 10 years.

The asset's residual value and useful life are reviewed annually, and adjusted if appropriate. An asset's carrying amount is written down to its recoverable amount if the asset's carrying amount exceeds its estimated recoverable amount.

Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement as other gain/(loss) net.

2.13 Financial assets
Financial assets are initially recognised at fair value. Subsequent measurement depends on the classification of the assets. The group classifies its financial assets in two categories: "at fair value through profit or loss" and "loans and receivables". The classification depends on the nature and purpose of the financial assets and is determined by management at the time of initial recognition. The group has no material financial assets classified at fair value through profit or loss.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments which are not quoted in an active market. Loans and receivables (including trade and other receivables, bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment.

Impairment of financial assets
Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events which occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

2.14 Financial liabilities
The group classifies its financial liabilities as either financial liabilities at "fair value through profit or loss" or "other financial liabilities". The classification depends on the nature and purpose of the financial liabilities and is determined by management at the time of initial recognition.

Borrowings
Borrowings are recognised initially at fair value, net of transaction expenditures incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction expenditures) and the nominal value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the group at the balance sheet date has an unconditional right to defer settlement of the liability for at least 12 months.

Trade and other payables
Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest-method. If the interest element is insignificant, trade payables are carried at the original invoice amount.

2.15 Cash and cash equivalents
Cash and cash equivalents as presented in the statement of cash flows include cash in hand, bank deposits, and other short-term highly liquid investments with original maturities of three months or less.

2.16 Equity
An equity instrument is any contract which evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the group are recognised at the proceeds received, net of direct issue expenditures (net of income tax).

Repurchase of the company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the company's own equity instruments. On subsequent disposal of own shares, any consideration received (net of any directly attributable incremental transaction expenditures and the related income tax effects) is included in equity attributable to shareholders of the company.

2.17 Income tax
Income tax expense represents current tax expense and changes in deferred tax expense.

Current tax
The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because of items of income or expense which are taxable or deductible in other years and items which are never taxable or deductible. The group's liability for current tax is calculated using tax rates which have been enacted or substantively enacted by the end of the reporting period.

Changes in deferred tax
Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction which affects neither the taxable profit nor the accounting profit.

Deferred tax is recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The group recognises deferred tax for associated companies and jointly controlled entities subject to partnership taxation. Deferred tax is not recognised for limited companies.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates which are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) which have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences which would follow from the manner in which the group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Current and deferred tax for the year
Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

2.18 Provisions
Provisions, eg, for warranties or investments in infrastructure, are recognised when the group has a present legal or constructive obligation as a result of past events; it is probable that an net outflow of resources will be required to settle the obligation; and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

2.19 Leases
Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. The group is currently not party to any finance lease arrangements.

Rental income from operating leases (in which the group is a lessor) is recognised on a straight-line basis over the term of the relevant lease and included in other revenue.

Operating lease payments (in which the group is a lessee) are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred. The group is currently not party to any material operating lease arrangements.

2.20 Employee benefits
Payments to defined-contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

Obligations related to early retirement (AFP) pensions are part of a multi-employer defined-benefit plan. However, the company's share of the liability is not measurable and the plan is thus accounted for as is it were a defined-contribution plan.

2.21 Adoption of new and revised standards and interpretations

New accounting standards and amendments

The following section provides a summary of (a) new standards and amendments which are effective for the first time for periods commencing on or after 1 January 2016 (ie, year ending 31 December 2016) and (b) forthcoming requirements, being standards and amendments which will become effective on or after 1 January 2016.

(a) New standards and amendments – applicable 1 January 2016

No new standards or amendments had a significant impact on the group accounts for 2016.

(b) Forthcoming requirements

Several standards and interpretations have been issued but were not mandatory for annual reporting periods ending 31 December 2016. Some changes can be adopted early, but the group has not currently adopted any new standards or interpretations early. The following are the most material new standards and interpretations.

IFRS 9 Financial Instruments and associated amendments to various other standards

The standard will be effective for reporting periods starting 1 January 2018.

IFRS 9 replaces the multiple classification and measurement models in IAS 39 Financial instruments: Recognition and measurement with a single model which initially has only two classification categories: amortised cost and fair value.

Classification of debt assets will be driven by the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. A debt instrument is measured at amortised cost if: a) the objective of the business model is to hold the financial asset for the collection of the contractual cash flows, and b) the contractual cash flows under the instrument solely represent payments of principal and interest. All other debt and equity instruments, including investments in complex debt instruments and equity investments, must be recognised at fair value.

All fair value movements on financial assets are taken through the statement of profit or loss, except for equity investments not held for trading, which may be recorded in the statement of profit or loss or in reserves (without subsequent recycling to profit or loss).

Where financial liabilities measured under the fair value option are concerned, entities will need to recognise the part of the fair value change which relates to changes in their own credit risk in other comprehensive income rather than in profit or loss.

The new hedge accounting rules align hedge accounting more closely with common risk management practices. As a general rule, it will be easier to apply hedge accounting in the future. The new standard also introduces expanded disclosure requirements and changes in presentation.

Other material changes in classification and measurement rules are:

- a third measurement category (FVOCI) for certain financial assets which are debt instruments
- a new expected credit loss (ECL) model which involves a three-stage approach whereby financial assets move through the three stages as their credit quality changes. The stage dictates how an entity measures impairment losses and applies the effective interest rate method. A simplified approach is permitted for financial assets which do not have a significant financing component (eg, trade receivables). On initial recognition, entities will record a day-one loss equal to the 12-month ECL (or lifetime ECL for trade receivables), unless the assets are considered credit-impaired.

The changes are not expected to have any material impact on the financial statements for the group.

IFRS 15 Revenue from contracts with customers

The standard will be effective for reporting periods starting 1 January 2018.

The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards.

A new five-step process must be applied before revenue can be recognised:

- identify contracts with customers
- identify the separate performance obligation
- determine the transaction price of the contract
- allocate the transaction price to each of the separate performance obligations, and recognise the revenue as each performance obligation is satisfied.

Key changes to current practice are:

- any bundled goods or services which are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements
- revenue may be recognised earlier than under current standards if the consideration varies for any reason (such as for incentives, rebates, performance fees, royalties, success of an outcome, etc) – minimum amounts must be recognised if they are not at significant risk of reversal
- the point at which revenue can be recognised may shift: some revenue which is currently recognised at a point in time at the end of a contract may have to be recognised over the contract terms, and vice versa
- new specific rules apply on licences, warranties, non-refundable upfront fees and consignment arrangements, to name a few.
- as with any new standard, there are also increased disclosures.

Entities will have a choice of full retrospective application or prospective application with additional disclosures.

According to the current accounting principle, revenue is recognised at the time of delivery. The question of whether revenue from the sale of housing units will be recognised over time or at point in time at delivery is currently unresolved. The effect of the new standard depends on the assessments and conclusions reached for the industry nationally and internationally in the coming year. If the conclusion is revenue recognition over time, this will have significant impact on the timing of revenue.

IFRS 16 Leases

The standard will be effective for reporting periods starting 1 January 2019.

IFRS 16 will primarily affect accounting by lessees and will result in the recognition of almost all leases on the balance sheet. The standard removes the current distinction between operating and financing leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for virtually all lease contracts. An optional exemption exists for short-term and low-value leases.

The income statement will also be affected because the total expense is typically higher in the earlier years of a lease and lower in later years. Additionally, operating expense will be replaced by interest and depreciation, so key metrics such as EBITDA will change.

Operating cash flows will be higher, since cash payments for the principal portion of the lease liability are classified within financing activities. Only the part of the payments which reflects interest can continue to be presented as operating cash flows.

Accounting by lessors will not significantly change. Some differences may arise as a result of the new guidance on the definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for a consideration.

The group has some leasing contracts related to offices and cars which will be affected by the standard. Present calculations indicate that the group would have an asset (the right to use the leased item) of about NOK 50 million, and a corresponding financial liability, if the standard were implemented on 31 December 2016.

Disclosure Initiative – Amendments to IAS 7

The standard will be effective for reporting periods starting 1 January 2017.

Entities will be required to explain changes in their liabilities arising from financing activities. These include changes arising from cash flows (eg, drawdowns and repayments of borrowings) and non-cash changes such as acquisitions, disposals, accretion of interest and unrealised exchange differences.

Changes in financial assets must be included in this disclosure if the cash flows were, or will be, included in cash flows from financing activities. This could be the case, for example, for assets which hedge liabilities arising from financing liabilities.

Entities may include changes in other items as part of this disclosure – by providing a "net debt" reconciliation, for example. In this case, however, the changes in the other items must be disclosed separately from the changes in liabilities arising from financing activities.

The information may be disclosed in tabular format as a reconciliation from opening and closing balances, but no specific format is mandated.

Note 3: Critical accounting judgements and key sources of estimation uncertainty

Preparation of financial statements in conformity with the IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies.

Estimates and assumptions about the carrying amounts of assets and liabilities which are not readily apparent from other sources will be required. The estimates and associated assumptions are based on historical experience and other factors which are considered to be relevant. The estimates will, by definition, rarely equal the related actual results.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, which have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in the next financial year. Certain amounts included in or affecting the financial statements and related disclosure must be estimated, requiring management to make assumptions with respect to values or conditions which cannot be known with certainty at the time the financial statements are prepared.

Estimation of net realisable value for inventory property:

The property development projects are classified as inventory in accordance with IAS 2. Inventories comprise of land (undeveloped), work in progress and finished goods, and are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. In determining the net realisable value, management carries out an assessment of important factors relevant for the valuation, including macroeconomic factors such as expected housing prices and rental levels, as well as expected yields, approvals from government, construction costs and project progression. When considered appropriate, management uses reports from external valuation experts to estimate property values or to corroborate the company's own estimates. Changes in circumstances and in management's assessment and assumptions will result in amendments to the estimated net realisable value. See also note 5.

Estimated impairment of goodwill

The group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in note 2.9. The recoverable amounts of cash-generating units are determined on the basis of fair value or useful value. These calculations require the use of estimates. No impairment charges have been made for the 2015 through 2016 financial periods, and management has determined that any reasonably possible change in key assumptions, such as discount rate and estimated cash flows, would not cause any need to reduce the carrying amount of goodwill. See also note 9.

Provisions

The group has made provisions for contractual obligations, eg, infrastructure and construction of parking areas, in situations where the investment will not be covered by a corresponding revenue. The provision is based on a present obligation which is of uncertain timing and amount. The size of the provision is estimated on the basis of individual contracts and circumstances. See also note 20.

Note 4: Segment information

Management has determined the operating segments based on reports reviewed by the CEO and management group and used to make strategic decisions. The figures below were reported to the CEO and the management group at the end of the reporting period. The main segment is defined as property development ("Boligutvikling"). In addition, the other segment consists of services as well as unallocated revenues and costs.

The group utilises the percentage of completion method in its internal reporting, for which the degree of completion is estimated on the basis of expenses incurred relative to total estimated costs and sales rate. Operating revenues under the percentage of completion method also includes an estimated profit element for sold units. The consolidated income statement is based on the completed contract method, in which revenue is recognised at the time of transfer of risk and control, being the point of delivery of the property. A reconciliation of this effect (from percentage of completion to completed contract) can be found in the segment reporting under "Reconciliation EBITDA to operating profit (loss)".

Group management considers segment results based on the percentage of completion method when determining EBITDA. The measurement method is defined as operating profit (loss) before "Depreciation and amortisation", "Other gain (loss), net", and "Share of income (losses) from associated companies". Financial income and expenses are not allocated to operating segments, since this type of activity is managed by a central finance function focused on managing the group's liquidity.

At 31 December 2016

(amounts in NOK 1 000)	Property development	Other	Total
Operating revenues	3 478 871	32 352	3 511 223
Project expenses	(2 592 702)	(3 817)	(2 596 519)
Other operating expenses	(61 254)	(169 958)	(231 212)
EBITDA (percentage of completion)	**824 915**	**(141 423)**	**683 492**
Reconciliation EBITDA to operating profit (loss):			
EBITDA (percentage of completion)	824 915	(141 423)	683 492
Sales revenues (adjustment effect of percentage of completion)	(3 360 929)	-	(3 360 929)
Sales revenues (completed contract)	2 850 214	-	2 850 214
Project expenses (adjustment effect of percentage of completion)	2 562 998	-	2 562 998
Project expenses (completed contract)	(2 346 386)	-	(2 346 386)
Depreciation and amortisation	-	(20 061)	(20 061)
Share of income (loss) from associated companies	(7 104)	-	(7 104)
Other gain (loss), net	31 679	-	31 679
Operating profit (loss)	**555 387**	**(161 484)**	**393 903**
Units in production	1 356	I/A	I/A
Units delivered	869	I/A	I/A

As of 31 December 2015

(amounts in NOK 1 000)	Property development	Other	Total
Operating revenues	3 205 890	23 174	3 229 064
Project expenses	(2 518 225)	(1 005)	(2 519 230)
Other operating expenses	(63 853)	(153 595)	(217 448)
EBITDA (percentage of completion)	**623 812**	**(131 426)**	**492 385**
Reconciliation EBITDA to operating profit (loss):			
EBITDA (percentage of completion)	623 812	(131 426)	492 385
Sales revenues (adjustment effect of percentage of completion)	(3 075 641)	-	(3 075 641)
Sales revenues (completed contract)	3 094 974	-	3 094 974
Project expenses (adjustment effect of percentage of completion)	2 432 341	-	2 432 341
Project expenses (completed contract)	(2 523 964)	-	(2 523 964)
Depreciation and amortisation	-	(24 085)	(24 085)
Share of income (loss) from associated companies	8 328	-	8 328
Other gain (loss), net	-	-	-
Operating profit (loss)	**559 849**	**(155 511)**	**404 336**
Units in production	1 339	I/A	I/A
Units delivered	893	I/A	I/A

Note 5: Inventory property

(amounts in NOK 1 000)	Land	Borrowing cost of land	Capitalised project expenses	Total
As of 1 january 2015	1 481 109	133 274	2 734 422	4 348 805
Additions	714 265	20 988	2 234 412	2 969 665
Acquisition of subsidiaries	-	-	5 428	5 428
Reclassifications of land to capitalised project expenses	(304 068)	(38 364)	342 432	-
Inventory expenses on delivered units	(31 950)	(6 458)	(2 570 091)	(2 608 499)
Annual impairment losses	-	-	-	-
Carrying amount at 31 December 2015	**1 859 356**	**109 440**	**2 746 603**	**4 715 399**
Additions	329 881	16 892	1 956 725	2 303 498
Sale of subsidiaries	(241 070)	(19 393)	(94 677)	(355 140)
Reclassifications of land to capitalised project expenses	(587 220)	(17 995)	605 215	-
Inventory expenses on delivered units (project expenses)	(11 374)	(1 258)	(2 364 327)	(2 376 959)
Annual impairment losses	-	-	(2 787)	(2 787)
Carrying amount at 31 December 2016	**1 349 573**	**87 686**	**2 846 752**	**4 284 011**

(amounts in NOK 1 000)	2016	2015
Land (undeveloped)	1 437 259	1 968 795
Work in progress	2 579 660	2 368 510
Finished projects	267 092	378 094
Carrying amount inventory	**4 284 011**	**4 715 399**

Sale of subsidiaries in 2016 were Kaldnes Brygge AS (previously Selvaag Bolig Vestfold AS) and Dockside Næring AS.

Acquisition of subsidiary in 2015 was Dockside Næring AS.
Capitalisation rates utilised to determine the amount of borrowing costs eligible for capitalisation were between 3.2% and 3.7% during 2016.

Corresponding rates were between 3.3% and 3.7% during 2015.
Land loans are normally converted to construction loans in line with the progress of the respective construction projects. They are capitalised against the site from the day the project secures planning permission, and recognised in profit and loss as part of the cost of sales when the units are delivered. Interest charges on construction loans are capitalised during the construction period and recognised under cost of sales in the same way. Capitalised interest on construction loans is included in additions to capitalised project expenses in the table above.

Valuation of properties

Plots of land are considered part of inventory and are valued at the lower of acquisition cost and net realisable value. An internal assessment of the value of inventory property is prepared annually at 31 December in order to determine net realisable value for individual plots/properties.

Additionally, and at the group's request, external valuations of properties have been performed by Akershus Eiendom at 31 December 2016. The group management has determined the most significant assumptions relevant to the valuation of individual plots/properties, including size, geographic location, current regulation, potential for development and timing of sale. The external valuation indicates an excess value of NOK 1 268 (881) million beyond the carrying amounts related to the properties included in land (undeveloped).

Impairment test inventory property

The group has recognised an impairment loss of NOK 2.8 million related to properties in Spain. There were no impairment charges on inventory property (buildings and land) in 2015.

See note 16 for inventory property pledged as collateral for borrowings from financial institutions.

Note 6: Salaries and personnel expenses

(amounts in NOK 1 000)	2016	2015
Wages and salaries	(100 768)	(99 154)
Social security tax	(17 648)	(16 278)
Pension costs	(6 111)	(4 405)
Other benefits	(11 696)	(8 600)
Salary expense capitalised to inventory	26 862	31 378
Total salaries and personnel expenses	**(109 361)**	**(97 059)**
Average number of employees	97	99

Specification of pension costs

(amounts in NOK 1 000)	2016	2015
Pension cost - defined contribution and disability pension plan	(5 054)	(3 376)
Pension cost - defined benefit plan	(121)	(130)
Other pension costs (including early retirement (AFP))	(936)	(899)
Net pension costs	**(6 111)**	**(4 405)**

At 31 December 2016, 97 employees were included in the defined contribution plan. In addition, four employees were included in a defined benefit plan which is closed to new members. The defined benefit plan carries a net obbligation of NOK 0.5 million. Seventy-two current employees were included in the early retirement (AFP) plan. See also note 8 for Selvaag Bolig ASA.

Companies in Norway are required to offer a pension plan in line with the Act on Mandatory Occupational Pensions ("lov om obligatorisk tjenestepensjon"), and the group's companies have a pension plan which meets these requirements. The basis for earned pension rights under the defined contribution plan is 4.5% of salary between 1 and 7.1 times the National Insurance base amount (G) and 10% between 7.1G and 12G.

Note 7: Other operating expenses

(amounts in NOK 1 000)	Note	2016	2015
Operation and maintenance		(24 478)	(24 766)
Consultancy expenses		(20 500)	(22 161)
Commisions and other sales-related expenses		(49 250)	(51 439)
Losses on receivables	*11*	91	(732)
Other operating expenses		(27 714)	(21 291)
Total other operating expenses		**(121 851)**	**(120 389)**

Operation and maintenance includes expenses of NOK 12.4 million (NOK 13.2 million) in 2016 related to lease contracts and operation of the Selvaag group headquarters purchased from Selvaag Gruppen. See also note 23 on related party transactions for further specifications.

Other operating expenses primarily consist of administrative expenses, including services purchased from Selvaag Gruppen, amounting to NOK 3.5 million in 2016 and NOK 2.5 million in 2015.

Note 8: Financial income and expenses

(amounts in NOK 1 000)	Note	2016	2015
Interest income on financial assets measured at amortised cost		8 245	9 686
Net foreign currency gains		(18)	-
Other financial income		37	2 984
Total financial income		**8 264**	**12 670**
Interest expenses on financial liabilities measured at amortised cost		(47 142)	(55 890)
Capitalised interest	*5*	16 892	20 988
Total interest expenses		**(30 250)**	**(34 902)**
Net foreign currency losses		49	(1 270)
Other financial expenses		(7 384)	(9 646)
Total financial expenses		**(37 585)**	**(45 818)**
Net financial expenses		**(29 321)**	**(33 148)**

Note 9: Intangible assets

		Other intangible assets		
(amounts in NOK 1 000)	Goodwill	Trademarks	Rental contracts	Total
Cost at 31 December 2014	383 376	50 000	44 545	477 921
Additions	-	-	-	-
Disposals	-	-	-	-
Cost at 31 December 2015	383 376	50 000	44 545	477 921
Additions	-	-	-	-
Disposals	-	-	-	-
Cost at 31 December 2016	383 376	50 000	44 545	477 921
Accumulated amortisation at 31 December 2014	-	(32 500)	(29 846)	(62 346)
Write-downs	-	-	-	-
Amortisation	-	(10 000)	(8 400)	(18 400)
Accumulated amortisation at 31 December 2015	-	(42 500)	(38 246)	(80 746)
Write-downs	-	-	-	-
Amortisation	-	(7 500)	(6 299)	(13 799)
Accumulated amortisation at 31 December 2016	-	(50 000)	(44 545)	(94 545)
Carrying amount at 31 December 2015	383 376	7 500	6 299	397 175
Carrying amount at 31 December 2016	383 376	-	-	383 376
Estimated useful life	-	5 years *	5 years *	
Amortisation method	-	Straight-line	Straight-line	

* Fully depreciated September 2016.

The value of intangible assets is tested for impairment annually, or more often when there is indication that the value may be impaired. If the recoverable amount is less than the carrying amount, the asset is written down to its recoverable amount.

Impairment testing of goodwill and other intangible assets

The group tests goodwill for impairment annually, or more often if internal or external indications of impairment exist. Other intangible assets, including the trademark "Selvaag Pluss" and long-term property leases will be amortised over their expected useful life and tested for impairment if events during the period indicate that the value may be impaired.

a) Goodwill

Goodwill arisen from business combinations is allocated to each of the Group's cash-generating segments as follows:

2016	Goodwill
Property development	382 176
Other	1 200
Total	**383 376**

2015	Goodwill
Property development	382 176
Other	1 200
Total	**383 376**

Cash-generating units are divided into the property development and other operating segments. Goodwill allocated to the "other" segment is related to Selvaag Eiendomsoppgjør AS, previously part of Meglerhuset Selvaag (estate agents).

An external valuation indicates excess values of NOK 1 268 million over and above the carrying amounts related to the properties included in land (undeveloped). See note 5. The excess value is allocated to the cash-generating units property development – Greater Oslo and property development – rest of Norway. The group expects to realise excess value in the existing land bank through projects developed over the next five to 10 years.

The group has tested the goodwill for impairment on the basis of a model for estimating future cash flows from property development projects. The annual growth in cash flow is set to 2%. The estimated cash flows are discounted to net present value using a weighted average cost of capital discount rate. Future cash flows are estimated on the basis of expected cash flow from ongoing projects, future projects from the current land bank and future projects requiring new investment in properties. Expected cash outflows related to new investment in properties and administrative costs are included in the calculation. The most significant assumptions in the calculation model are deemed to be sales volume and discount rate, in addition to the profit rate in the projects. The impairment test shows sufficient excess value over and above the carrying amount to conclude that any reasonable decrease in the key assumptions will not trigger an impairment charge for goodwill. The sensitivity analysis below shows the change in the net present value of future cash flows from changes to key assumptions:

		Units delivered per year		
		-10%	+-0	+10%
Margin as percentage of revenue	-0,5 pp	-17%	-6%	5%
	+- 0 pp	-11%	-	11%
	+ 0,5 pp	-6%	6%	18%

b) Trademark

The trademark "Selvaag Pluss" was included in the acquisition of Selvaag Pluss Eiendom KS in 2011. The recoverable amount of the asset was calculated on the basis of expected future value generated by the concept. The liquidity forecasts used in the estimates were based on management's estimate of the expected excess value of the "Pluss-concept" in the course of a five-year period. The book value of the asset was fully depreciated in 2016.

c) Other intangible assets

At the start of the year, other intangible assets consisted of a long-term property lease in acquired businesses from 2011. The recoverable amount of the asset was calculated on the basis of the expected future value of the property lease. Liquidity forecasts were based on management's estimate of future expected cash flows generated by property leases in the course of a five-year period. The book value of the asset was fully depreciated in 2016.

Note 10: Property, plant and equipment

(amounts in NOK 1 000)	Machinery and plant	Inventory and other equipment	Total
Cost at 31 December 2014	**3 556**	**20 890**	**24 446**
Additions 2015	6 409	2 168	8 577
Disposals 2015	-	(31)	(31)
Translation differences	-	58	58
Cost at 31 December 2015	**9 965**	**23 085**	**33 050**
Additions 2016	-	408	408
Disposals 2016	(5 335)	(454)	(5 789)
Translation differences	-	(47)	(47)
Cost at 31 December 2016	**4 630**	**22 992**	**27 622**
			-
Accumulated depreciation at 31 December 2014	**(118)**	**(6 933)**	**(7 051)**
Depreciation 2015	(1 611)	(4 074)	(5 685)
Disposals 2015	-	-	-
Translation differences	-	-	-
Accumulated depreciation at 31 December 2015	**(1 729)**	**(11 007)**	**(12 736)**
Depreciation 2016	(2 262)	(3 999)	(6 261)
Disposals 2016	2 049	193	2 242
Translation differences	-	-	-
Accumulated depreciation at 31 December 2016	**(1 942)**	**(14 813)**	**(16 755)**
Carrying amount at 31 December 2015	**8 236**	**12 078**	**20 314**
Carrying amount at 31 December 2016	**2 688**	**8 179**	**10 867**
Estimated useful life	3-5 years	3-5 years	
Depreciation method	*straight-line*	straight-line	

Note 11: Trade and other receivables

(amounts in NOK 1 000)	2016	2015
Receivables from sale of land	38 722	37 726
Seller credits *	117 605	29 748
Other loans and receivables	40 991	38 071
Other non-current assets	**197 318**	**105 545**

* NOK 100 million relates to the sale of shares in the Kaldnes Brygge project, Tønsberg.

(amounts in NOK 1 000)	2016	2015
Trade receivables	**103 420**	**110 288**
Current non-interest-bearing receivables from the Selvaag Group	55 000	-
Other receivables *	131 535	34 182
Other current financial receivables	**186 535**	**34 182**
Prepaid expenses	3 367	3 389
Total other current receivables	**189 902**	**37 571**

* NOK 109.5 million relates to a seller credit from the sale of shares in a project at Løren, Oslo.

The carrying amounts of trade and other receivables are denominated in NOK.

Analysis of trade receivables at the end of the reporting period	2016	2015
Not overdue	102 518	111 428
Overdue 1-100 days	776	(1 396)
Overdue -> 100 days	1 655	2 637
Gross trade receivables	**104 949**	**112 669**
Total allowance for doubtful debts	1 529	2 381
Net trade receivables	**103 420**	**110 288**

Losses on receivables	2016	2015
Movement in allowance for doubtful debts	(827)	(5 000)
Receivables written off during the year as uncollectible	736	5 732
Losses on receivables in the statement of comprehensive income	**(91)**	**732**

Note 12: Additional information to the statement of cash flows

Acquisitions of businesses and subsidiaries

The table below shows the effects on the consolidated statement of financial position from acquisitions of businesses and subsidiaries:

(amounts in NOK 1 000)	2016	2015
Current assets	-	6 127
Liabilities	-	(6 127)
Fair value of existing ownership interests in associated companies at acquisition date	-	-
Total consideration	**-**	**-**
Cash payments related to acquisitions	-	-
Cash in subsidiaries acquired	-	691
Payments for acquisitions of businesses and subsidiaries, net of cash acquired	**-**	**691**

Acquisitions in 2015 consist of former associated company Dockside Næring AS.

Disposal of businesses and subsidiaries

The table below shows the effects on the consolidated statement of financial position from disposal of businesses and subsidiaries:

(amounts in NOK 1 000)	2016	2015
Current assets	349 663	588
Liabilities	(197 630)	(114)
Gains (losses) on disposal of businesses and subsidiaries	(32 033)	-
Total consideration	**120 000**	**474**
Cash proceeds related to disposals of businesses and subsidiaries	20 000	474
Cash in subsidiaries disposed of	(11 656)	(588)
Payments for acquisitions of businesses and subsidiaries, net of cash acquired	**8 344**	**(114)**

Disposal in 2016 was the Kaldnes Brygge AS company (formerly Selvaag Bolig Vestfold AS).
Disposal in 2015 was the Kaldnes Eiendom AS company.

Cash and cash equivalents

(amounts in NOK 1 000)	2016	2015
Restricted bank accounts	708	97 917
Non-restricted bank deposits and cash	885 485	574 367
Total	**886 193**	**672 284**

Interest payments

Payments and proceeds of interests are classified as operating activities. Payments were NOK 105 and NOK 136 million in 2016 and 2015, respectively. Proceeds of interests were NOK 4 million in 2016 and NOK 5 million in 2015.

Note 13: Additional information to the statement of changes in equity and shareholders

Paid-in capital

(amounts in NOK 1 000, except number of shares)	Number of shares	Share capital	Share premium	Other paid-in capital	Total paid-in capital
Equity at December 2015	**93 399 125**	**186 799**	**1 394 857**	**700 629**	**2 282 285**
Share buy back Selvaag Bolig ASA related to share programme for employees	(709 611)	(1 419)	-	-	(1 419)
Sale of shares from Selvaag Bolig ASA to employees	458 855	918	-	-	918
Equity at 31 December 2016	**93 148 369**	**186 297**	**1 394 857**	**700 629**	**2 281 783**

At 31 December 2016 , the share capital of the company (net of treasury shares) was NOK 186.3 million, comprising 93 148 369 fully-paid ordinary shares with a par value of NOK 2.00.

At 31 December 2015 , the share capital of the company (net of treasury shares) was NOK 187.8 million, comprising 93 399 125 fully-paid ordinary shares. All issued shares carry equal rights. The change in 2016 is related to share buy back for the employee share purchase programme and the sale of shares to employees through this programme.

Selvaag Bolig ASA held 637 958 of its own shares at 31 December 2016 (394 794 at 31 December 2015)

The board of Selvaag Bolig ASA is mandated by the annual general meeting (AGM) to acquire the company's shares up to a total nominal value of NOK 18 753 137. The amount paid for the shares must be a minimum of NOK 10 and maximum of NOK 40. The board can use the mandate for a possible later write-down of the share capital with the consent of the general meeting, remuneration of directors, incentive programmes, settlement for the possible acquisition of businesses, or the purchase of shares where this is financially beneficial. The board has a free choice of the methods to be used for acquiring or disposing of shares. The mandate runs until the AGM in 2017, when an extension of the mandate until the AGM in 2018 will be proposed. The proposal also includes increasing the maximum amount paid per share to NOK 80.

Furthermore, the board of Selvaag Bolig ASA is mandated by the AGM to increase the share capital on one or more occasions up to a total of NOK 18 753 137. The mandate can be used to issue shares as payment related to incentive schemes, as consideration for the aquisition of business falling within the company's business purpose, or as necessary strengthening of the company's equity. The mandate runs until the AGM in 2017, when an extension of the mandate until the AGM in 2018 will be proposed.

Other equity reserves

Other reserves in the statement of changes in equity consist of the Group's share of transactions with owners in associated companies and joint ventures.

Non-controlling interests (NCI)

	NCI ownership in %		NCI share of profit (loss)		NCI carrying amount as of	
(amounts in NOK 1 000)	31.12.16	31.12.15	2016	2015	31.12.16	31.12.15
Nesttun Pluss AS/KS	25,0%	25,0%	(249)	(1 748)	9 357	9 605
Selvaag Bolig Vaagen AS	20,0%	20,0%	(19)	(23)	(42)	(23)
			(268)	**(1 771)**	**9 315**	**9 582**

In 2015 payments of NOK 3.4 million in dividends reduced the share of equity allocated to non-controlling interests to NOK 9.6 million. No dividend was paid in 2016.

Ownership structure

At 31 December 2016, the group had 2 072 shareholders, including 95 outside Norway. At 31 December 2015, the group had 1 840 shareholders, including 100 outside Norway.

The 20 largest shareholders at 31 December 2016 were as follows:

Shareholder	Shareholder	Ownership/ voting share %
Selvaag Gruppen AS	50 180 087	53.5%
Skandinaviska Enskilda Banken AB *)	5 268 003	5.6%
Morgan Stanley & Co. International *)	2 782 677	3.0%
Flps - All Sector Sub	2 581 800	2.8%
Pareto AS	2 065 624	2.2%
Verdipapirfondet Pareto Investment	1 596 000	1.7%
Holta Invest AS	1 200 000	1.3%
Verdipapirfondet Alfred Berg Gamba	1 061 201	1.1%
Regents Of The University Of Michi	1 045 000	1.1%
Storebrand Norge I Verdipapirfond	1 002 959	1.1%
MP Pensjon PK	962 872	1.0%
Evermore Global Value Fund	892 805	1.0%
JPMorgan Chase Bank, N.A., London *)	862 364	0.9%
J.P. Morgan Securities LLC *)	785 000	0.8%
Holberg Norge	724 667	0.8%
State Street Bank and Trust Comp *)	658 639	0.7%
Verdipapirfondet DNB SMB	641 173	0.7%
Selvaag Bolig ASA **)	637 958	0.7%
Jpmorgan Chase Bank, N.A., London *)	564 073	0.6%
Banan II AS	555 190	0.6%
Total 20 largest shareholders	**76 068 092**	**81.1%**
Other shareholders	17 697 596	18.9%
Total ordinary shares	**93 765 688**	**100.0%**

*) Further information regarding nominee accounts is presented at: http://sboasa.no/en/Aksjeinformasjon/Aksjonarer.aspx
**) The shares were purchased for the company's share programmes for employees

The 20 largest shareholders at 31 December 2015 were as follows:

Shareholder	Ordinary shares	Ownership/ voting share %
Selvaag Gruppen AS	50 180 087	53.5%
Skandinaviska Enskilda Banken AB	5 657 160	6.0%
Morgan Stanley & Co. International	2 648 779	2.8%
MP Pensjon PK	2 477 321	2.6%
J.P. Morgan Chase Bank N.A. London	2 190 874	2.3%
Pareto AS	2 065 624	2.2%
US BK Evermore Glo Val Fund	1 489 383	1.6%
Verdipapirfondet Pareto Investment	1 465 000	1.6%
Storebrand Norge I	1 300 800	1.4%
The Bank Of New York Mellon	1 251 136	1.3%
Holta Invest AS	1 200 000	1.3%
State Street Bank and Trust Co.	1 114 573	1.2%
Holberg Norden	910 217	1.0%
Uthalden A/S	861 581	0.9%
Verdipapirfondet Delphi Norden	819 213	0.9%
Storebrand Verdi	750 473	0.8%
Fidelity Select Portfolios: Fideli	717 592	0.8%
Delphi Kombinasjon	554 269	0.6%
Mustad Industrier AS	515 000	0.5%
Banan II AS	455 190	0.5%
Total 20 largest shareholders	**78 624 272**	**83.9%**
Other shareholders	15 141 416	16.1%
Total ordinary shares	**93 765 688**	**100.0%**

The directors and the chief executive officer held no share options in the company during 2016 and 2015. See note 22 for an overview of share ownership in the company by the directors' and the CEO.

Note 14: Earnings per share

Earnings per share are calculated by dividing the profit (loss) for the period with the weighted average number of shares in issue. There were no diluting effects related to the share capital in 2016 and 2015.

	2016	2015
Profit (loss) for the period attributable to shareholders of the company in NOK 1 000	301 155	281 131
Weighted average number of shares outstanding during the period	93 749 180	93 733 327
Basic earnings per share in NOK	**3.21**	**3.00**
Diluted earnings per share in NOK	**3.21**	**3.00**

Note 15: Dividend

The company has established a policy of paying dividends twice a year from 2015. The board has proposed a dividend of NOK 0.95 per share for the second half of 2016, corresponding to NOK 89.1 million. Furthermore, NOK 0.65 per share was paid on the basis of the financial results for the first half of 2016, corresponding to NOK 60.9 million. Total dividend for 2016 of NOK 150 million equals 50% of earnings per share. The dividend paid for 2015 was NOK 140.6 million, corresponding to NOK 1.50 per share. That equalled 50% of earnings per share. The dividend for the second half of 2016 is subject to approval by the AGM on 21 April and is not reflected in the financial statements for 2016.

Note 16: Interest-bearing liabilities

Specification of interest-bearing liabilities

(amounts in NOK 1 000)	2016	2015
Non-current liabilities		
Bank loans	1 542 472	1 352 424
Bond issue	496 189	494 291
Total non-current interest-bearing liabilities at amortised cost	**2 038 661**	**1 846 715**
Current liabilities		
Bank loans	534 681	771 302
Other current liabilities	-	-
Total current interest-bearing liabilities at amortised cost	**534 681**	**771 302**
Total interest-bearing liabilites at amortised cost	**2 573 341**	**2 618 017**

Two undrawn overdraft facilities of NOK 150 million each were held by the group at 31 December.

The group has an unsecured bond loan of NOK 500 million, listed on the Oslo Stock Exchange in the third quarter of 2013. This has a five-year term and quarterly interest payments from 27 September 2013. Interest on the loan is three months Nibor plus 475 basis points. The bond incorporates covenants which require the company to maintain 1) a minimum equity ratio of 25 per cent until 30 June 2017 and then 27.5 per cent until maturity in June 2018 and 2) a sales ratio of at least 60 per cent for units under construction. Both covenants were fulfilled at 31 December 2016. In September 2015, a bondholder meeting approved a change to the dividend provisions in the bond which gave Selvaag Bolig the opportunity to pay dividend more than once a year. The group's interest-bearing debt falls primarily into three categories: 1) liabilities in parent company Selvaag Bolig ASA (top-up loans), 2) land loans and 3) construction loans. At 31 December, the group had a top-up loan of NOK 496 million, land loans of NOK 946 million and construction loans of NOK 1 131 million. The top-up loan consisted of a bond carried at a net amortised cost of NOK 496 million.

Company *(amounts in NOK 1 000)*	Loan instrument	Lender	2016	Currency	Maturity date
Selvaag Bolig ASA	Bond	Bond owners	496 189	NOK	27.06.2018
Selvaag Bolig ASA	Working capital fascility	DNB	-	NOK	Unspecified
Selvaag Bolig ASA	Revolving credit fascility	DNB	-	NOK	22.12.2017
Selvaag Bolig Lørenskog AS	Land loan	DNB / Handelsbanken	93 300	NOK	30.09.2018
Selvaag Bolig Lørenskog AS	Land loan	DNB / Handelsbanken	15 000	NOK	28.06.2017
Selvaag Bolig ASA - Lørenporten	Land loan	DNB	267 000	NOK	03.08.2019
Skårer Bolig AS	Land loan	DNB	195 000	NOK	30.11.2018
Selvaag Løren 7 AS	Land loan	DNB	110 500	NOK	30.12.2019
Maria Dehlis vei 40 AS	Land loan	DNB	66 000	NOK	30.06.2018
Jaasund AS	Land loan	SR Bank	50 450	NOK	31.12.2018
Lervig Brygge AS	Land loan	SR Bank	82 774	NOK	31.12.2018
Aase Gaard AS	Land loan	SR Bank	6 050	NOK	31.12.2017

Selvaag Bolig Ballerud AS	Land loan	Sparebanken Øst	48 000	NOK	01.01.2017
Selvaag Bolig Stasjonsby I AS	Construction loan	DNB / Handelsbanken	80 476	NOK	31.05.2018
Selvaag Bolig Hovinenga AS	Construction loan	DNB / Handelsbanken	133 238	NOK	30.06.2020
Selvaag Boligutvikling I - Kilenkollen	Construction loan	DNB	99 773	NOK	31.08.2018
Selvaag Bolig Ormerud AS	Construction loan	DNB	26 744	NOK	30.11.2017
Selvaag Bolig Glassverket AS	Construction loan	DNB	20 555	NOK	31.01.2018
Selvaag Bolig Nybyen Økern AS	Construction loan	DNB	246 183	NOK	31.12.2019
Selvaag Bolig Løren 5 AS	Construction loan	DNB / Handelsbanken	190 500	NOK	31.10.2017
Selvaag Bolig Løren 5 AS	Construction loan	DNB / Handelsbanken	85 223	NOK	30.09.2018
Nyhavn Pluss KS	Construction loan	DNB	165 517	NOK	30.11.2017
Selvaag Bolig ASA - Øya Lervig Brygge	Construction loan	SR Bank	82 869	NOK	14.03.2017
Other companies	Other loans	Handelsbanken	12 000	NOK	31.12.2020
Total interest-bearing liabilities			**2 573 341**		

Interest rates are based on three-month Nibor plus a margin. At 31 December 2016, the average interest rate was 5.92% for the top-up loans, 3.58% for the land loans and 3.30% for the construction loans. The differences between the disclosed nominal interest rates and effective interest rates are deemed to be insignificant. Duration of construction loans follows the completion rate and delivery of housing units, hence final redemption is when the project is completed.

Company *(amounts in NOK 1 000)*	Loan instrument	Lender	2015	Currency	Maturity date
Selvaag Bolig ASA	Bond	Bond owners	494 291	NOK	27.06.2018
Selvaag Bolig ASA	Land loan	DNB	193 994	NOK	31.12.2016
Selvaag Bolig ASA	Working capital fascility	DNB	-	NOK	Unspecified
Selvaag Bolig ASA	Revolving credit fascility	DNB	-	NOK	31.12.2016
Selvaag Bolig Lørenskog AS	Land loan	DNB / Handelsbanken	108 300	NOK	30.09.2018
Skårer Bolig AS	Land loan	DNB	195 000	NOK	19.11.2015
Selvaag Bolig Løren 5 AS	Land loan	DNB / Handelsbanken	26 743	NOK	31.12.2016
Selvaag Bolig Vestfold AS	Land loan	DNB	54 250	NOK	31.12.2016
Selvaag Løren 7 AS	Land loan	DNB	42 000	NOK	31.12.2016
Selvaag Løren 7 AS	Land loan	DNB	68 500	NOK	28.02.2017
Selvaag Boligutvikling I - Kilenkollen	Land loan	DNB	78 000	NOK	30.04.2017
Selvaag Bolig Hovinenga AS	Land loan	DNB / Handelsbanken	132 000	NOK	31.10.2016
Jaasund AS	Land loan	SR Bank	53 245	NOK	31.12.2018
Lervig Brygge AS	Land loan	SR Bank	61 232	NOK	31.12.2018
Aase Gaard AS	Land loan	SR Bank	17 963	NOK	31.12.2017
Selvaag Bolig Ballerud AS	Land loan	Sparebanken Øst	48 000	NOK	01.01.2017
Selvaag Bolig Oppløpet AS	Construction loan	DNB / Handelsbanken	225 000	NOK	31.12.2016
Selvaag Bolig Stasjonsby I AS	Construction loan	DNB / Handelsbanken	18 000	NOK	31.05.2018
Vestparken AS	Construction loan	DNB	40 645	NOK	31.03.2017
Selvaag Bolig Glassverket AS	Construction loan	DNB	15 558	NOK	31.01.2018
Selvaag Bolig Nybyen Økern AS	Construction loan	DNB	99 956	NOK	31.12.2019
Selvaag Bolig Kornmoenga AS	Construction loan	DNB / Handelsbanken	5 000	NOK	30.03.2017
Selvaag Bolig Løren 5 AS	Construction loan	DNB / Handelsbanken	97 313	NOK	31.12.2016
Selvaag Bolig Løren 5 AS	Construction loan	DNB / Handelsbanken	80 000	NOK	31.10.2017
Strandkanten Pluss II KS	Construction loan	DNB	20 131	NOK	30.04.2017
Nyhavn Pluss KS	Construction loan	DNB	202 277	NOK	30.03.2017
Lade Allé 67 / 69 Holding AS	Construction loan	Sparebank 1 Midt-Norge	217 891	NOK	04.11.2017
Aase Gaard Bolig II AS	Construction loan	SR Bank	7 728	NOK	30.05.2017
Other companies	Other loans	DNB / Handelsbanken	15 000	NOK	2016-2020
Total interest-bearing liabilities			**2 618 017**		

Interest rates are based on three-month Nibor plus a margin. At 31 December 2015, the average interest rate was 5.88% for the top-up loans, 3.42% for the land loans and 3.21% for the construction loans. The differences between the disclosed nominal interest rates and effective interest rates are deemed to be insignificant. Duration of construction loans follows the completion rate and delivery of housing units, hence final redemption is when the project is completed.

Non-current interest-bearing liabilites

Maturity schedule for non-current loans:

Period	2016	2015
To be repaid during 2017	-	801 135
To be repaid during 2018	1 269 740	930 626
To be repaid during 2019	623 683	99 954
To be repaid during 2020 or later	145 238	15 000
Total	**2 038 661**	**1 846 715**

Current interest-bearing liabilities

The table below includes liabilities maturing within 12 months subsequent to the reporting period.

Maturity schedule for current loans:

Period	2016	2015
Repayable within 0-6 months after period-end	145 869	-
Repayable within 6-12 months after period-end	388 811	771 302
Total	**534 681**	**771 302**

Collateral and guarantees, etc.

Secured loans	2016	2015
Bank loans - financial institutions	2 077 153	2 123 726

Carrying value of land pledged as security on bank loans	2016	2015
Inventory	4 239 381	4 492 119

Note 17: Trade and other payables

(amounts in NOK 1 000)	2016	2015
Trade payables	**219 562**	**100 120**
Current non-interest-bearing liabilities payable to the Selvaag group	-	-
Accrued expenses	153 895	224 129
Other current financial liabilities	-	-
Total other current non-interest-bearing financial liabilities	**153 895**	**224 129**
Other current liabilities*	512 258	358 688
Total other current non-interest-bearing liabilities	**666 153**	**582 817**

* Prepayments from customers were NOK 467.7 million at year-end 2016, compared with NOK 297.6 million at year-end 2015.

Trade payables

The group's trade payables had the following maturity structure at 31 December:

Maturity	2016	2015
Repayable 0-3 months after the end of the reporting period	219 562	100 120
Repayable 3-6 months after the end of the reporting period	-	-
Net trade payables	**219 562**	**100 120**

Note 18: Managing capital and financial risk management

18.1 Financial risk factors
The group's activities expose it to a variety of financial risks: market (including currency, interest rate and price risk), credit and liquidity risk. The group's overall risk management activities seek to minimise potential adverse effects on its financial performance.

The CEO and the management group identify and evaluate financial risks on an on-going basis.

(a) Market risk
(i) Foreign exchange risk.
Projects outside Norway are financed in local currency through subsidiaries. The current policy is not to hedge foreign currency exposure.
The company is a Norwegian real estate developer, focusing on Norwegian development projects and properties. The group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk, but to a limited degree. Projects outside Norway are financed in local currency through subsidiaries. The group purchase modules from abroad which are priced in euros. When certain purchase contracts are signed with foreign module suppliers, the exchange rate is locked in by ordering foreign currency at a fixed rate for future settlement based on the supplier's payment plan. As a result, the group has some exposure to foreign exchange risk.

(ii) Price risk
The group is generally exposed to property price risk, and mainly in geographical terms in Norway. In addition, the group has invested in a future project in Sweden as well as one in Spain. The group is also exposed to risks related to construction costs and material prices. The profit margin for each project will vary, depending on the development of sales income per square metre for the residential properties. The group's exposure to price risk is partly hedged in that advance sales equivalent to 60% of the total sales value of each project are required before construction starts. "

The degree of risk associated with the prices of goods and services varies in accordance with contract type. Projects often span several years, and material prices and salary expenses may increase during the construction period. Most contracts are based on fixed prices for the construction period, but certain of them contain indexation clauses which permit price increases.

(iii) Interest rate risk
The group's interest rate risk arises largely from long-term borrowings. Borrowings raised at variable rates expose the group to interest rate fluctuations, which affect cash flows. The group capitalises interest cost as part of development projects (inventory property) in line with the progress of the projects in accordance with IAS 23 Borrowing Costs. See note 16 on interest-bearing liabilities for details of the group's borrowings.

(b) Credit risk
Credit risk is managed at group level. The group is exposed to counterparty risk when its companies enter into agreements regarding sales of residential property. Credit risk also arises from outstanding receivables, such as loans to associated companies.

Credit risk related to the sale of property is considered to be limited since sales take place through professional estate agents. Normally, a 10% deposit and documentation of financing are required from homebuyers when they enter into a contract. The balance is settled upon transfer of the title.

Based on the above, the group assesses credit risk associated with financial assets to be low.

The group's maximum exposure to credit risk comprises the classes "trade receivables and other current and non-current receivables" and "cash and cash equivalents". See note 18.3 for the carrying amounts of these classes as of 31 December in 2016 and 2015.

(c) Liquidity risk
The group manages liquidity conservatively by maintaining adequate cash reserves, banking facilities and borrowing facilities to meet its foreseeable obligations. In 2013, the group issued a NOK 500 million bond and refinanced several loans. The group manages its liquidity actively to ensure adequate liquidity at any time. It supervises forecasts and actual cash flows.

See note 16 on Interest-bearing liabilities and note 17 on trade and other payables for a maturity analysis of financial liabilities. The majority of current non-interest bearing liabilities are repayable within six months.

Maturity schedule for the group's liabilities (nominal values)

Interest-bearing liabilities

(amounts in NOK 1 000)	Note	Total per 31.12.2016	← 1 year	1-3 years	3-6 years	6-10 years	→ 10 years
Bank loans *	*16*	2 211 356	577 213	1 470 889	163 253	-	-
Other interest-bearing liabilities	*16*	544 035	29 600	514 435	-	-	-
Total interest-bearing liabilities		**2 755 391**	**606 813**	**1 985 324**	**163 253**	**-**	**-**

Non-interest-bearing liabilities

(amounts in NOK 1 000)	Note	Total per 31.12.2016	← 1 year	1-3 years	3-6 years	6-10 years	→ 10 years
Trade payables	*17*	219 562	219 562	-	-	-	-
Current non-interest-bearing liabilities payable to the Selvaag Group	*17*	-	-	-	-	-	-
Accrued expenses	*17*	153 895	153 895	-	-	-	-
Other current financial liabilities	*17*	-	-	-	-	-	-
Other current liabilities	*17*	512 258	512 258	-	-	-	-
Other non-current non-interest-bearing liabilities	*18.3*	6 938	-	6 938	-	-	-
Total non-interest-bearing liabilities		**892 653**	**885 715**	**6 938**	**-**	**-**	**-**

* Including estimated interest payments.

Maturity schedule for the group's liabilities (nominal values)

Interest-bearing liabilities

(amounts in NOK 1 000)	Note	Total per 31.12.2015	← 1 year	1-3 years	3-6 years	6-10 years	→ 10 years
Bank loans *	*16*	2 238 853	818 260	1 292 020	128 574	-	-
Other interest-bearing liabilities	*16*	573 218	29 400	543 818	-	-	-
Total interest-bearing liabilities		**2 812 071**	**847 660**	**1 835 838**	**128 574**	**-**	**-**

Non-interest-bearing liabilities

(amounts in NOK 1 000)	Note	Total per 31.12.2015	← 1 year	1-3 years	3-6 years	6-10 years	→ 10 years
Trade payables	*17*	100 120	100 120	-	-	-	-
Current non-interest-bearing liabilities payable to the Selvaag Group	*17*	-	-	-	-	-	-
Accrued expenses	*17*	224 129	224 129	-	-	-	-
Other current financial liabilities	*17*	-	-	-	-	-	-
Other current liabilities	*17*	358 688	358 688	-	-	-	-
Other non-current non-interest-bearing liabilities	*18.3*	9 869	-	9 869	-	-	-
Total non-interest-bearing liabilities		**692 806**	**682 937**	**9 869**	**-**	**-**	**-**

* Including estimated interest payments.

18.2 Capital risk management
"The group's objective when managing its capital is to ensure the ability of the entities in the group to continue as going concerns while providing returns for shareholders and benefits for other stakeholders as well as maintaining an optimum capital structure.

In achieving this objective, the group focuses on the profitability of the various projects. As a main rule, a 12% margin is required in the projects except for those based on modules, which require 16%. In order to optimise the capital structure, the management evaluates all available funding sources on an on-going basis. Capital requirements are mainly funded through a cash pool arrangement in which selected entities in the Selvaag Bolig group participate. In addition, the company has two facilities, each of NOK 150 million, for general funding of the group.

18.3 Financial assets and liabilites

Classification of financial assets and liabilities

(amounts in NOK 1 000)	Note	2016 Fair value through profit and loss	2016 Loans and receivables	2015 Fair value through profit and loss	2015 Loans and receivables
Financial assets					
Loans to associated companies and joint ventures		-	63 757	-	9 046
Other non-current assets	11	-	197 318	-	105 545
Financial non-current assets		**-**	**261 075**	**-**	**114 591**
Trade receivables		-	103 420	-	110 288
Other current financial receivables	*11*	-	186 535	-	34 182
Cash and cash equivalents		-	886 193	-	672 284
Financial current assets		**-**	**1 176 148**	**-**	**816 754**
Financial assets		**-**	**1 437 223**	**-**	**931 345**

		Fair value through profit and loss	Financial liabilities at amortised cost	Fair value through profit and loss	Financial liabilities at amortised cost
Financial liabilities					
Non-current interest-bearing liabilities	*16*	-	2 038 661	-	1 846 715
Other non-current non-interest-bearing liabilities		-	6 938	-	9 869
Financial non-current liabilites		**-**	**2 045 599**	**-**	**1 856 584**
Current interest-bearing liabilities	*16*	-	534 681	-	771 302
Trade payables		-	219 562	-	100 120
Other current non-interest-bearing financial liabilities	*17*	-	153 895	-	224 129
Financial current liabilites		**-**	**908 138**	**-**	**1 095 552**
Financial liabilites		**-**	**2 953 737**	**-**	**2 952 135**

Classes of financial assets and liabilities

(amounts in NOK 1 000)	Note	2016	2015
Trade receivables and other current and non-current financial assets			
Loans to associated companies and joint ventures		63 757	9 046
Other non-current assets	*11*	197 318	105 545
Trade receivables		103 420	110 288
Other current financial receivables	*11*	186 535	34 182
Total trade receivables and other current and non-current financial assets		**551 030**	**259 061**
Cash and cash equivalents			
Cash and cash equivalents		886 193	672 284
Trade payables and other non-interest-bearing financial liabilities			
Other non-current non-interest-bearing liabilities		6 938	9 869
Trade payables		219 562	100 120
Total other current non-interest-bearing financial liabilities	*17*	153 895	224 129
Total trade payables and other non-interest-bearing financial liabilities		**380 395**	**334 118**
Interest-bearing liabilities			
Non-current interest-bearing liabilities	*16*	2 038 661	1 846 715
Current interest-bearing liabilities	*16*	534 681	771 302
Total interest-bearing liabilities		**2 573 341**	**2 618 017**

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Sensitivity analysis

Interest rate risk

2016

Adjustment to interest level in basis points	50	100	150
Effect - bank loans	(10 502)	(21 004)	(31 507)
Effect - other loans	(2 476)	(4 952)	(7 429)
Effect on cash flow (in NOK 1 000)	**(12 978)**	**(25 957)**	**(38 935)**

2015

Adjustment to interest level in basis points	50	100	150
Effect - bank loans	(10 861)	(21 721)	(32 582)
Effect - other loans	(2 464)	(4 929)	(7 393)
Effect on cash flow (in NOK 1 000)	**(13 325)**	**(26 650)**	**(39 975)**

The above tables detail the group's sensitivity to a decrease or increase in interest rates by 50, 100 and 150 basis points respectively. The effects are calculated on a pre-tax basis and based on the average outstanding amounts during the period. Profit or loss and equity effects are expected to be approximately similar to the effects on cash flow after taxes.

Foreign exchange risk

The group is exposed to a limited degree to foreign currency risk. Fluctuations in the amount of +/- 5% at 31 December in 2016 and 2015 would cause immaterial changes to the group's profit and loss, and would affect the consolidated statement of changes in equity by only immaterial amounts.

Note 18.4 Fair values of financial instruments

Principles for estimating fair values

Based on the characteristics of the financial instruments that are recognised in the consolidated financial statements, the financial instruments are grouped into classes as described below. The estimated fair values of the Group's financial instruments are based on available market prices where applicable and the valuation methodologies per class are described below.

Fair value hierarchy

The group measures fair value using the following fair value hierarchy, which reflects the significance of the inputs used in measuring the fair value of financial instruments.

Level 1:quoted prices (unadjusted) in active markets for identical financial instruments.

Level 2: inputs other than quoted prices included in Level 1 which are observable for assets or liabilities, either directly (ie, as prices) or indirectly (ie, derived from prices).

Level 3: inputs for assets or liabilities which are not based on observable market data (unobservable inputs).

Trade receivables and other current and non-current financial assets

Where trade receivables and other current and non-current financial assets are concerned, the nominal amount, adjusted for allowance for bad debt, is assessed to be a reasonable approximation of fair value. The effect of not discounting is considered to be immaterial for this class of financial instruments.

Cash and cash equivalents

The fair value for this class of financial instruments is assessed to be equal to the nominal amount.

Trade payables and other non-interest-bearing financial liabilities

Where trade payables and other non-interest-bearing financial liabilities are concerned, the nominal amount is assessed to be a reasonable approximation of fair value. The effect of not discounting is considered to be immaterial for this class of financial instruments.

Interest-bearing liabilities

The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the group for similar financial instruments. The fair value for this class of financial liabilities is assessed to be equal to the nominal amount.

Derivatives

The fair value of foreign currency forward contracts is retrieved from external financial institutions on the basis of the applicable foreign currency rates in the market at the end of the reporting period. The fair value of interest-rate swap contracts is retrieved from external financial institutions on the basis of the applicable interest rates in the market at the end of the reporting period. The derivatives are measured using level 2 inputs. The carrying amounts for the assets and liabilities of all classes are assessed to be a reasonable approximation of fair values, and a table showing the carrying amounts and fair values per class is not considered necessary.

Note 19: Income taxes

Specification of income tax (expense) income:

(amounts in NOK 1 000)	2016	2015
Current income taxes payable	(83 343)	(138 722)
Under-allocated the year before	(592)	(461)
Changes in deferred taxes	20 241	47 355
Income taxes in profit (loss)	**(63 694)**	**(91 828)**

The group's business activities relate mainly to Norway with only insignificant amounts arising in other countries. An allocation of income tax expense between countries is thus not considered necessary.

Reconciliation from nominal to effective income tax rate:

(amounts in NOK 1 000)	2016	2015
Profit (loss) before income taxes	364 582	371 189
Estimated income taxes in accordance with the nominal tax rate (25%)	(91 146)	(100 221)
Taxable income related to the exemption method, in accordance with section 2-38 of the Norwegian Taxation Act	11 153	(143)
Other non-deductible expenses	(4 200)	(10 414)
Other non-taxable income	16 293	3 274
Other items	(1 090)	721
Unrecognised deferred tax assets	-	-
Changed income tax rate (from 25% to 24%)	3 520	12 707
Share of income from associated companies and joint ventures	1 776	2 248
Income tax income (expense)	**(63 694)**	**(91 828)**
Effective income tax rate *	**17,5 %**	**24,7 %**

* The difference between effective and nominal tax rates in 2016 and 2015 primarily reflects a reduction in the tax rate for Selvaag Bolig in Norway, substantial profits in subsidiaries with non-controlling interests which are subject to partnership taxation, and tax-free gains from sales of subsidiaries under the exemption method (Norwegian: fritaksmetoden). Profit (loss) before taxes includes the shares of profit (loss) attributable to Selvaag Bolig ASA and non-controlling interests in companies subject to partnership taxation. Consolidated tax expense does not include tax liabilities for taxable entities which are not part of the Selvaag Bolig group. The non-controlling share of the profit (loss) is regarded as a permanent difference. Tax on the non-controlling interests' share of profit (loss) for the period is included in the non-controlling interests' share of profit and equity.

The income tax rate for companies in Norway has been reduced to 24% with effect from 2017. Deferred tax at 31 December 2016 has consequenty been calculated on the basis of a 24% tax rate. The effect on the tax expense for 2016 is a reduction of NOK 3.5 million.

Share of income from associated companies and joint ventures
Share of income from associated companies and joint ventures which are not limited partnerships is recognised on a post-tax basis and therefore does not affect the group's income tax expense. See note 24.

Deferred tax assets and liabilities at 31 December

	2016		2015	
(amounts in NOK 1 000)	Asset	Liability	Asset	Liability
Non-current assets	6 100	-	-	1 007
Inventory property	-	121 744	-	196 095
Receivables	54	-	235	-
Current liabilities	12 398	-	15 293	-
Non-current liabilities	13 159	-	18 086	-
Losses carried forward	5 547	-	4 651	-
Total temporary differences	**37 258**	**121 744**	**38 265**	**197 102**
Unrecognised deferred tax assets	-	-	-	-
Net deferred tax assets (liabilities) in the statement of financial position	**(84 486)**	**-**	**(158 837)**	**-**

Deferred tax assets are included in the statement of financial position to the extent that the realisation of the related tax benefit through future taxable profits is probable. There are no expiration dates on losses carried forward. Selvaag Bolig ASA has acquired companies with land plots in 2016. These companies have no other activites than the ownership of the land plots. As a result, the purchases are recognised in the financial statements as purchase of assets and not of business combinations. No accrual for deferred tax occurs with the purchase of assets, which means the assets are recognised net after deferred tax. See IAS 12.22 c. The land plots in the land bank affected by this had a book value of NOK 618 million (NOK 205 million) at 31 December 2016. Based on a nominal tax rate of 24%, latent tax obligations of NOK (73.5) million relate to the plots (48.5). These latent deferred taxes are not recognsed in the financial statements.

The net movement of deferred tax assets (liabilities) is as follows:

(amounts in NOK 1 000)	2016	2015
Net deferred tax assets (liabilities) at 1 January	(158 837)	(205 355)
Acquisition of subsidiaries	10 464	345
Disposal of subsidiaries	43 646	-
Recognised in the statement of comprehensive income	20 241	47 355
Recognised directly in the statement of changes in equity	-	(1 182)
Net deferred tax assets (liabilities) at 31 December	**(84 486)**	**(158 837)**

Note 20: Provisions

(amounts in NOK 1 000)	2 016	2 015
Provision for contractual infrastructure	75 073	92 578
Other non-current provisions	-	-
Total non-current provisions for other liabilities	**75 073**	**92 578**

The provision for contractual infrastructure is relates to infrastructure and the construction of parking areas in Lørenskog. Infrastructure obligations amount to about NOK 20 million and are expected to start falling due from 2017. Obligations related to the contruction of parking areas are linked to previously completed projects, which included an obligation to provide a specific number of parking spaces. These obligations are currently being met through temporary parking areas. Future development of the area will determine when the temporary car parking areas are to be removed and construction of permanent car parking facilities must commence. The obligations accordingly fall due when the projects are realised. The car parking obligations are expected to fall due some years into the future.

Development during the period

(amounts in NOK 1 000)	2 016	2 015
As of 1 January	**92 578**	**92 578**
Obligations arising during the year and effects of changes in estimates	311	-
Amounts utilised	(17 816)	-
Reclassification after business combinations	-	-
Reclassification of pension obligations	-	-
Obligations in acquired companies	-	-
As of 31 December	**75 073**	**92 578**

Companies with active development projects have obligations to build infrastructure etc. as a consequence of regulatory requirements and development plans. These obligations are reflected in the carrying value of the various projects and are not recognised separately as provisions.

Note 21: Contingent liabilities and guarantees

The group is subject to the following contingent liabilities owing to ownership interests in subsidiaries and associated companies:

(amounts in NOK 1 000)	2016	2015
Guarantees to vendors	3 972	23 823
Capital not called up - limited partnerships	17 838	17 838
Total contingent liabilities	**21 810**	**41 661**

Parent company guarantees of NOK 397.4 million had been given in 2016 and NOK 707.0 million in 2015. These related mainly to gaurantees issued by Selvaag Bolig ASA in relation to internal transfers of land and the corresponding land and contruction loans from Selvaag Bolig ASA to subsidiaries. The group fulfils legal requirements pursuant to sections 12 and 47 of the Housing Construction Act) through purchased guarantees. In addition, it provides guarantees to contractors. Corresponding liabilities included in the statement of financial position are not included in the above amounts.

The National Authority for Investigation and Prosecution of Economic and Environmental Crime in Norway (Økokrim) charged Selvaag Bolig ASA in the autumn of 2014 with violating the Working Environment Act. This rested on an allegation of inadequate follow-up of health, safety and the working environment (HSWE) in one of the company's housing projects. The company is still awaiting a clarification of this matter.

Note 22: Remuneration of and fees to management, board of directors and auditors

"This statement of remuneration is valid for work performed by leading employees of the group. Pursuant to section 6-16a of the Public Limited Companies Act, the board of directors prepares a statement on the determination of salary and other remuneration for the CEO and other senior executives The group applies the following principles in determining the remuneration of the CEO and the management group.

The board takes the view that the salary and other remuneration of the CEO and the executive management should be competitive, and total remuneration should reflect the extent of their responsibilities. Senior executives may receive remuneration as a bonus in addition to basic salary, conditional on the fulfilment of certain performance criteria, as well as ordinary additional remuneration for this type of position. All executives are members of the group's ordinary pension scheme. The group has no specific remuneration arrangement for the CEO or other executives connected to the shares or the development of the share price, including options. In the event of dismissal, the CEO will receive 12 months' salary.

Specification of remuneration for management (amounts in NOK 1 000):

2016	Position	Salary	Bonus	Pension	Other	Total
Baard Schumann	CEO	4 092	2 878	84	820	7 874
Sverre Molvik	CFO	2 043	1 356	84	204	3 686
Halvard Kverne	Vice president portefolio management	2 043	1 344	84	200	3 671
Øystein Klungland	Vice president portefolio management	2 035	1 344	84	195	3 658
Kristoffer Gregersen	Vice president communications	1 167	707	84	62	2 020
Petter Cedell	Vice president property investment	1 810	1 091	84	31	3 016
Total - group management		**13 189**	**8 720**	**504**	**1 512**	**23 924**

2015	Position	Salary	Bonus	Pension	Other	Total
Baard Schumann	CEO	3 310	1 943	72	117	5 441
Sverre Molvik	CFO	1 960	1 140	72	18	3 190
Halvard Kverne	Vice president portefolio management	1 962	1 140	72	19	3 193
Øystein Klungland	Vice president portefolio management	1 881	1 056	72	22	3 031
Christian Flølo Geithus [1]	Vice president portefolio management	400	-	18	3	421
Bård Teigland	Vice president sales and marketing	1 802	1 056	72	15	2 944
Kristoffer Gregersen	Vice president communications	1 109	350	72	18	1 549
Petter Cedell	Vice president property investment	1 494	840	72	34	2 440
Total - group management		**13 918**	**7 525**	**522**	**245**	**22 210**

[1] Christian Flølo Geithus joined the company on 1 October 2015 and left the group management in 2016.

At 31 December 2016, the CEO had a loan of NOK 2.1 million from Selvaag Bolig ASA. The interest rate is equal to the norm rate published by the Norwegian Ministry of Finance.

Specification of directors' fees (amounts in NOK 1 000):

	Position	2016	2015
Olav Hindahl Selvaag	Chair	515	415
Karsten Bomann Jonsen [1]	Director	335	335
Gisele Marchand [2]	Director	360	360
Ole Jarl Rettedal [3]	Director	-	195
Peter Groth [4]	Director	310	26
Anne Sofie Bjørkholt	Director	260	260
Christopher Brunvoll [6]	Director (Elected by the employees)	31	31
Marianne Ørnsrud [5]	Director (Elected by the employees)	31	21
Anne -Kari Drønen Mathiesen [5]	Director (Elected by the employees)	-	10
Rune Thomassen [6]	Director (Elected by the employees)	-	-
Total - Board members		**1 842**	**1 653**

[1] The fee includes NOK 75 000 for work in the audit commitee.
[2] The fee includes NOK 100 000 for work as chair of the audit committee.
[3] Resigned from the board in September 2014. Fee paid in 2015.
[4] Fee of NOK 50 000 relates to the nomination committee in 2015, paid in 2016.
[5] Marianne Ørnsrud replaced Anne-Kari Drønen Mathiesen as a director in April 2014.
[6] Rune Thomassen replaced Christopher Brunvoll as a director in April 2016.

Specification of fees paid to the auditor:

(amounts in NOK 1 000)	2016	2015
Statutory audit services to the parent company	1 076	1 179
Statutory audit services to subsidiaries	1 522	1 385
Other assurance services	289	141
Tax advisory services	-	20
Other non-audit services	19	30
Total fees paid to the auditor (exclusive of VAT)	**2 906**	**2 755**

The following directors and group management personnel held shares in Selvaag Bolig ASA at 31 December (number of shares):

	Position	2016	2015
Olav Hindahl Selvaag [1]	Chair	50 231 661	50 231 661
Karsten Bomann Jonsen	Director	5 000	5 000
Peter Groth [2]	Director	120 000	120 000
Gisele Marchand	Director	5 000	5 000
Marianne Ørnsrud	Director (Elected by the employees)	6 250	6 250
Christopher Brunvoll	Director (Elected by the employees)	4 000	8 753
Rune Thomassen	Director (Elected by the employees)	4 000	2 503
Baard Schumann [2]	CEO	217 805	64 748
Halvard Kverne	Vice president portefolio management	70 390	6 250
Øystein Klungland	Vice president portefolio management	67 839	10 000
Sverre Molvik	CFO	87 390	37 250
Kristoffer Gregersen	Vice president sales communications	19 511	5 000
Petter Cedell	Vice president property investment	6 309	656

[1] Includes shares owned by Selvaag Gruppen AS and other related parties.
[2] Includes shares owned by related parties.

The board's statement on the determination of salary and other remuneration for leading personnel in Selvaag Bolig ASA

The following statement of salary and other remuneration for members of the group's management was approved by an extraordinary general meeting in September 2016, and will also be presented for a consultative vote at the annual general meeting in April 2017.

Guidelines for management remuneration

Leading personnel include the chief executive officer (CEO) and other senior management. For the purposes of these guidelines, the remuneration package means total compensation, including one or more of the following elements: fixed base salary, variable pay (including bonus), and other benefits (including pension contribution, termination benefits, fringe benefits and other benefits-in-kind). Severance pay comprises compensation related to resignation, and may include termination payments, other financial compensation and payment in kind.

Main principles for determination of remuneration packages

Remuneration to management in Selvaag Bolig ASA should be competitive. The primary element of a remuneration package will be the fixed base salary. Remuneration packages must be designed so as to avoid unreasonable compensation owing to external circumstances outside management's control. The individual elements in a remuneration package, including fixed base salary, any variable pay or other benefits such as pension contributions and severance pay, must be considered in the context of total compensation. The board must maintain an overview of the total value of each manager's agreed compensation and ensure that management's remuneration packages do not have adverse consequences for the company or in other ways are detrimental to the company's reputation. Individuals in the group's management will not receive specific compensation for directorships held in wholly owned subsidiaries.

Variable pay

Any variable pay will be based on the following principles:
Clear connections must exist between the goals determining variable pay and the objectives of the company. Variable pay must be based on objective, definable and measurable criteria. For the management group, variable pay (bonus) may not exceed 150 per cent of fixed base salary. The company has a share purchase programme for the company's executive management. Members of the executive management can choose to purchase shares in the company limited upwards to the individual's annual gross bonus. The price per share will be the market price reduced by a factor which reflects the reduction in value imposed by a lock-up period/sale restriction of three years. The criteria will be based on circumstances which are possible for management to influence and specify a distinct period which variable pay will be determined for. A system for variable pay must be transparent and easily comprehensible.

Pension contributions
The terms for determining management's pensions should be the same as those for other employees.

Severance pay
A provision on severance pay can be included in an advance agreement where the chief executive officer waives the protection against dismissal specified by the Working Environment Act ("Arbeidsmiljøloven"). Severance pay should not awarded in the event of voluntary resignation unless warranted by special circumstances. Severance pay should not exceed 12 months' fixed base salary in addition to any compensation during the period of notice.

Severance pay should be withheld if conditions for summary dismissal exist or if, during the period when severance pay is paid, irregularities or acts of negligence are discovered which may result in liability for damages or of the person concerned being indicted for a criminal behaviour.
No deviations from the guidelines for management remuneration occurred during the 2016 financial year.

Note 23: Related party transactions

Receivables, liabilities and transactions between Selvaag Bolig ASA and its subsidiaries, which are related parties to the company, have been eliminated on consolidation and are not disclosed in this note. Selvaag Gruppen AS owns 53.5% of the shares in Selvaag Bolig. Purchases and sales of services involving Selvaag Gruppen AS and its related parties are based on market terms. These relate mainly to rent, IT services and payroll services. Details of significant transactions between the group and other related parties are disclosed below.

During the year, group entities entered into the following transactions with related parties:

(amounts in NOK 1 000)	2016	2015
Sales of goods and services		
Selvaag Gruppen AS (parent company)	-	-
Associated companies	11 265	3 474
Joint ventures	-	-
Other related parties (including subsidiaries of parent company)	55 000	-
Purchase of goods and services		
Selvaag Gruppen AS (parent company)	(4 049)	(5 603)
Other related parties (including subsidiaries of parent company)	(8 324)	(8 025)
Financial income		
Other related parties (including subsidiaries of parent company)	997	1 275
Financial expenses		
Selvaag Gruppen AS (parent company)	-	-

The following receivables and liabilities were outstanding at 31 December:

(amounts in NOK 1 000)	2016	2015
Receivables		
Selvaag Gruppen AS (parent company)	38 722	-
Associated companies	63 757	9 046
Other related parties (including subsidiaries of parent company)	55 000	38 104
Liabilities		
Selvaag Gruppen AS (parent company)	(509)	(34)
Other related parties (including subsidiaries of parent company)	(250)	(2 220)

Other related party transactions
In 2016 Selvaag Bolig sold a commercial site at Lørenskog to a subsidiary of Selvaag Gruppen AS for NOK 55 million.
In 2015 Selvaag Bolig had no other significant transactions with related parties.

Note 24: Investments in associated companies and joint ventures

Company *(amounts in NOK 1 000)*	Year of acquisition	Registered office	Ownership and voting power 2016	Ownership and voting power 2015
Sandvika Boligutvikling KS	2008	Norway	33.3%	33.3%
Sandvika Boligutvikling AS	2008	Norway	37.0%	37.0%
Stord Industribygg AS and Holding AS*	2011	Norway	66.0%	66.0%
Tangen pluss AS	2011	Norway	50.0%	50.0%
S Trumpet Holding AB (prev. Projektbolaget Sädesärlan AB)	2011	Sweden	50.0%	50.0%
Kaldnes Boligutvikling AS **	2012	Norway	25.0%	50.0%
Sandnes Eiendom Invest AS	2013	Norway	20.0%	20.0%
Kirkeveien Utbyggingsselskap AS	2013	Norway	50.0%	50.0%
Tiedemannsfabrikken AS	2014	Norway	50.0%	50.0%
Smedplassen Prosjekt AS	2014	Norway	50.0%	50.0%
Sinsenveien Holding AS (incl. subsidiaries)	2015	Norway	50.0%	50.0%
Kaldnes Brygge AS ***	2016	Norway	50.0%	100.0%
Ehousing AS	2016	Norway	50.0%	-
Sandsliåsen Utbygging AS	2016	Norway	50.0%	-

* Classified as joint venture since the shareholder agreement does not grant majority control of the company.
** The company is a wholly owned subsidiary of Kaldnes Brygge AS, in which the group sold 50 per cent of its shares in 2016.
*** Formerly wholly owned subsidiary. The group sold 50 per cent of its shares in 2016. See note 5 for effects on consolidated investory and note 12 for effects on the consolidated financial position.

Specifications of investments in associated companies and joint ventures 2016:

Company *(amounts in NOK 1 000)*	Ownership share	Carrying amount 01.01.16	Additions/ disposals	Share of profit	Equity adjustments and dividends	Carrying amount 31.12.16
Sandvika Boligutvikling KS	33,3%	686	-	-	-	686
Sandvika Boligutvikling AS	37,0%	3 422	-	-	-	3 422
Kaldnes Brygge AS	50,0%	-	120 000	(1 093)	-	118 907
Kaldnes Boligutvikling AS	50,0%	22 888	(23 855)	7 217	(6 250)	-
Stord Industribygg AS and Holding AS	66,0%	37 523	-	(2 216)	-	35 307
Sandnes Eiendom Invest AS	20,0%	40 242	-	1 960	-	42 202
Tangen pluss AS	50,0%	597	-	(111)	-	486
S Trumpet Holding AB (prev. Projektbolaget Sädesärlan AB)	50,0%	34 155	11 833	-	-	45 988
Kirkeveien Utbyggingsselskap AS	50,0%	10 000	-	37	-	10 037
Tiedemannsfabrikken AS	50,0%	2 354	4 500	(2 512)	-	4 342
Smedplassen Prosjekt AS	50,0%	10 500	-	(1 149)	-	9 351
Sinsenveien Holding AS (incl. subsidiaries)	50,0%	21 076	-	(8 452)	-	12 624
Sandsliåsen Utbygging AS	50,0%	-	6 250	(22)	-	6 228
Ehousing AS	50,0%	-	1 000	(763)	-	237
Total		**183 443**	**119 729**	**(7 104)**	**(6 250)**	**289 818**

Specifications of investments in associated companies and joint ventures 2015:

Company *(amounts in NOK 1 000)*	Ownership share	Carrying amount 01.01.15	Additions/ disposals	Share of profit	Equity adjustments and dividends	Carrying amount 31.12.15
Sandvika Boligutvikling KS	33,3%	2 536	-	-	(1 850)	686
Sandvika Boligutvikling AS	37,0%	3 422	-	-	-	3 422
Kaldnes Boligutvikling AS	50,0%	13 525	-	9 363	-	22 888
Stord Industribygg AS and Holding AS *	66,0%	47 896	-	(10 373)	-	37 523
Sandnes Eiendom Invest AS	20,0%	38 892	-	1 350	-	40 242
Tangen pluss AS	50,0%	467	-	130	-	597
S Trumpet Holding AB (prev. Projektbolaget Sädesärlan AB)	50,0%	29 285	4 870	-	-	34 155
Kirkeveien Utbyggingsselskap AS	50,0%	10 000	-	-	-	10 000
Tiedemannsfabrikken AS	50,0%	2 446	-	(92)	-	2 354
Smedplassen Prosjekt AS	50,0%	8 250	2 250	-	-	10 500
Sinsenveien Holding AS (incl. subsidiaries)	50,0%	-	23 585	(2 509)	-	21 076
Fredensborgveien KS	50,0%	5	(10 463)	10 458	-	-
Total		**156 723**	**20 243**	**8 327**	**(1 850)**	**183 443**

* Share of profit/loss includes a write down of NOK 10 million.

Subsidiaries of the group had made NOK 63.8 million (NOK 9 million) in loans to associated companies and joint ventures at 31 December. The increase is reflects higher activity in part-owned projects as well as receivables owed by the previously wholly owned company Kaldnes Brygge AS, which are now reclassified as loans to associated companies.

Summarised financial information (100%) of associated companies and joint ventures at 31 December

(amounts in NOK 1 000)	**2 016**	**2 015**
Total assets	1 554 906	1 433 830
Total liabilities	1 221 822	1 036 204
Net assets	**333 085**	**397 626**
Total revenues	93 928	251 942
Total profit (loss) for the year	**(14 730)**	**12 062**

Note 25: Other revenues

(amounts in NOK 1 000)	**2016**	**2015**
Lease revenues *	35 908	28 626
Service revenue	33 000	15 311
Other operating revenues	7 473	10 520
Total other revenues	**76 381**	**54 457**

* At 31 December in both 2016 and 2015, all operating leases where the group acts as a lessor were cancellable.

Note 26: Other gain (loss)

The group sold 50 per cent of its equity stake in the Kaldnes Brygge project in Tønsberg. The gain of NOK 32 million from the transaction is included in the line item on other gain/(loss).

Note 27: Events after the reporting period

In March 2017, Selvaag Bolig sold the Maria Dehlis vei 40 commercial site in Oslo for NOK 140 million.

Declaration by the board of directors and CEO

We hereby confirm that the annual accounts for the group and the parent company for 2016 to the best of our knowledge have been prepared in accordance with applicable accounting standards and give a true and fair view of the assets, liabilities, financial position and profit or loss of the group and the parent company taken as a whole.

The directors' report gives a true and fair view of the development and performance of the business and the position of the group and the parent company, as well as a description of the principal risks and uncertainties facing the group.

The board of directors for Selvaag Bolig ASA
Oslo, 24 March 2017

Olav Hindahl Selvaag Chair	Peter Groth Director	Karsten Bomann Jonsen Director	Anne Sofie Bjørkholt Director
Gisele Marchand Director	Marianne Ørnsrud Director (elected by the employees)	Rune Thomassen Director (elected by the employees)	Baard Schumann President and CEO

To the General Meeting of Selvaag Bolig ASA

Independent Auditor's Report

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Selvaag Bolig ASA, in our opinion:

- The financial statements are prepared in accordance with the law and regulations.
- The accompanying financial statements give a true and fair view of the financial position of the parent company as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway.
- The accompanying financial statements give a true and fair view of the financial position of the group as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

The financial statements comprise:

- The financial statements of the parent company, which comprise the balance sheet as at 31 December 2016, and the income statement and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and
- The financial statements of the group, which comprise the balance sheet as at 31 December 2016 and income statement, statement of changes in equity, cash flow for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

Basis for Opinion

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, included International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company as required by laws and regulations, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

PricewaterhouseCoopers AS, Postboks 748 Sentrum, NO-0106 Oslo
T: 02316, org.no.: 987 009 713 VAT, www.pwc.no
State authorised public accountants, members of The Norwegian Institute of Public Accountants, and authorised accounting firm

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How our audit addressed the Key Audit Matter
Value of inventory *Note 3 and note 5*	
The company's inventory of property comprises: • undeveloped land, • work in progress, and • unsold finished units The inventory constitutes a substantial part of the company's assets, and is measured at the lower of acquisition cost and net realisable value, which requires management to exercise judgment. A project is only started when a defined minimum pre-sale is achieved. The remaining units are normally sold gradually throughout project completion. The risk of impairment of work in progress is therefore lower than for undeveloped land and unsold finished units. As a result we have focused on valuation of undeveloped land and unsold finished units. *Undeveloped land* Book value of undeveloped land is measured against net realisable value annually. If book value exceeds net realisable value, an impairment loss is recognized. Management derives net realisable value of land by discounting forecasted project cash flows, which can include factors such as expected housing prices and rate of return, government approvals and estimated construction costs. Determining such assumptions requires management to exercise judgement, which affects the value of the	*Undeveloped land* Acquisition cost of land consists of historic cost, with accumulated interest expenses from when government regulation was approved. We checked the acquisition cost for all material new acquisitions against purchase contracts. For undeveloped land where interest expenses are activated for the first time, we checked whether government regulation for housing purposes was approved, and the interest against bank confirmations received directly from the company's banks. Furthermore, we have checked sales against sales documentation and reclassification of undeveloped land to work in progress against documentation of building approvals. These procedures did not identify any material deviations. In order to assess the net realisable value of undeveloped land, we have obtained both management's and external valuations. Management and the external valuation firm have made independent valuations. For land where the two valuations depart significantly, and at least one of the valuations indicates impairment, there are grounds for further investigation. We assessed the competence and objectivity of the external valuation firm and we satisfied ourselves that they have used widely recognized and suitable methods and assumptions in their valuations. We inspected management's correspondence, in order to substantiate that the valuation firm received an unbiased mandate from management. These procedures provided no indication of significant errors or lack of objectivity in the external valuations. Where there were grounds for further investigation, we challenged management on their valuations. Our assessment included comparing management's assumptions to similar assumptions in the external

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land and the statement of comprehensive income.

Unsold finished units

Management measures book value of unsold finished units against expected net realisable value annually. If book value exceeds net realisable value, an impairment loss is recognized. Net realisable value is based on management judgment, which affects the value of unsold finished units and the statement of comprehensive income.

valuations, regulatory status, observed market prices and our knowledge and experience from the company's other projects. Our procedures substantiated that the assumptions used by management were reasonable. The components of the applied internal rate of return were tested against market data and our own expectations. We found that management's assumptions were reasonable.

Unsold finished units

To assess the value of unsold finished units, we obtained a specification of the units and their booked acquisition costs, and identified accompanying provisions in managements' forecasts.

We checked the booked acquisition cost of the units by testing management's internal controls directed at attributing correct costs to the correct projects and units.

We evaluated management's provisions to cover risk of decrease in sales prices, by comparing average provision per unsold unit for each market against the difference between prices in management's forecast and observed recent comparable sales in the area. We evaluated the adequacy of management's provisions for sales costs and other expected costs for disposing of the units, by comparing with historical figures from other projects, and by challenging management's assumptions. Our assessment was especially attentive to unsold units in areas where the housing market has been weak. Our procedures substantiated that management's provisions for unsold finished units are reasonable.

Other information

Management is responsible for the other information. The other information comprises the Board of Directors' report, statements on Corporate Governance and Corporate Social Responsibility, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director (management) are responsible for the preparation and fair presentation of the financial statements of the parent company in accordance with Norwegian Accounting Act and accounting standards and practices generally accepted in Norway, and for the preparation and fair presentation of the financial statements of the group in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's and the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern. The financial statements of the parent company use the going concern basis of accounting insofar as it is not likely that the enterprise will cease operations. The financial statements of the group use the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, included International Standards on Auditing (ISAs), we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error. We design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a

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going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors' report and statements on Corporate Governance and Corporate Social Responsibility concerning the financial statements and the going concern assumption is consistent with the financial statements and complies with the law and regulations.

Opinion on Registration and Documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements *(ISAE) 3000, Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, it is our opinion that management has fulfilled its duty to produce a proper and clearly

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set out registration and documentation of the company's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Oslo, 24 March 2017
PricewaterhouseCoopers AS

Thomas Fraurud
State Authorised Public Accountant

Note: This translation from Norwegian has been prepared for information purposes only.

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Selvaag Bolig ASA

Postal address:
P O Box 13, Øvre Ullern
NO-0311 Oslo

Visiting address:
Silurveien 2
NO-0380 Oslo

Phone: +47 23 13 70 00
E-mail: post@selvaagbolig.no
www.selvaagbolig.no

Photos:

APELAND
Nita Foto

Illustrations:
EVE Images
Oxivisuals

Consulting, design and production:

APELAND

SELVAAG BOLIG

Start Hjem Pluss