

On the right track

NCC is one of the Nordic region's leading construction and property development companies. We stand on a stable and profitable foundation based on healthy demand, a multitude of frequently long-term customer relationships and employees with solid expertise, broad experience and strong technical know-how. The core of our business is managing and delivering successful construction projects.

In addition to everyday work in all of these projects and in our industrial and property development operations, the focus in 2019 was on creating conditions for a sustainable improvement in profitability and launching efforts to define the company's future strategic orientation and operational model. During the year, our performance and rate of change was favorable. NCC enters 2020 as a stronger company with higher profitability.

NCC is a Nordic construction company with commercial property development and industrial production. The company engages in both small-scale assignments and major complex projects. We have five business areas, but fundamentally have three different businesses: Construction and civil engineering operations, industrial operations and commercial property development. The conditions in these businesses vary, as do their priorities and expectations. However, there are strong and key links between all of the operations.

In 2019, we implemented important parts of the action plan adopted in late 2018 with the aim of stabilizing NCC and creating a platform for a sustainable improvement in profitability. I can confirm that we have made significant improvements, and that these have been made in all business areas and in all countries.

- **Distinct organization and the right teams**

We have strengthened the organization in a number of key positions and clarified the structure.

- **Exit unprofitable businesses**

Most of the small-scale operations and assets identified for sale in autumn 2018 have been sold or closed down. Divestment of the Road Services division is under way.

- **Program to turn profitability around**

A structured action program is under way in a number of identified departments in the company.

- **Skills enhancement and improved processes**

Internal processes for selecting, securing and implementing projects have been strengthened and we have launched the NCC Project Management Academy.

Focus on projects

Work is now focusing on ensuring that these improvements become permanent, that the progress continues and that we build more resilient and sustainable profitability for the future throughout the company. Key components include a clear focus on the projects, in the form of stronger internal processes prior to tendering, and investing in skills development and knowledge transfer both in and outside the company. We have also initiated a comprehensive project involving the company's future IT architecture.

This is to make it possible for NCC to work in a more data-driven manner and to utilize the opportunities that increased digitalization entails throughout the value chain.

A major change process was also launched during the year, with the focus on creating a joint operational model for NCC in the medium and long term. A large number of employees are involved in identifying and prioritizing activities and creating a foundation for a clear direction moving forward. This work will result in a distinct base for NCC in the future that is firmly rooted in the company.

Profitability ahead of volume

To increase the stability of the company, we have made it clear that we must choose the right tenders and prioritize profitability ahead of volume. Risks associated with tenders are balanced against the earnings potential. With stronger internal processes for the tendering stages, we are able to analyze the risk in every project and make distinct choices. There have been a number of attractive projects and our orders received have been satisfactory. We are gradually approaching higher and more stable profitability within project operations.

However, a lower risk profile does not mean lowering our ambitions. We must endeavor to always make continuous improvements, we must undertake complex projects and we must be a professional partner to our customers and the most attractive employer in the industry.

Performance during the year

NCC reported improved earnings in 2019. Operating profit was SEK 1,296 M, equal to an operating margin of 2.2 percent. Although this was better than in 2018, we have some way to go before achieving our objective of an operating margin of ≥ 4 percent. If we disregard the remeasurements and restructuring costs charged against the third and fourth quarters of 2018, and which resulted in a significant operating loss in 2018, operating profit improved by 36 percent. Net sales increased slightly.

Orders received were slightly lower year-on-year but there were variations among the business areas. In the Nordic construction operations, orders received rose sharply, driven primarily by major projects in Denmark, while there was a slight decline in Sweden. Due to conscious decisions to increase profitability through selective tendering procedures, orders received by the Road Service division, which is to be divested, declined. Orders received by the remaining civil engineering operations were on a par with the preceding year, if the large-scale order for the Centralen project, which was booked in 2018, is excluded. Industrial



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operations were on the same level as in 2018. The total order backlog is larger than it was a year ago.

Earnings in all of the business areas active in construction and civil engineering continue to be impeded by projects with low profitability and by more cautious recognition of profit at early project stages. Earnings will improve as the project portfolio is renewed and replenished, and as the actions to improve profitability have an impact.

Activity in property development was high. A number of important sales were implemented during the year, such as the Valle Wood and Valle View office projects in Norway, and adjacent development rights in the Helsfyr area, two office properties in Fredriksberg, Finland, and the K12 property in Järva krog in Solna, Stockholm, where NCC has its new Head Office. Leasing activity was high.

NCC has the financial strength needed to drive and develop the business. Toward year-end, the company generated a strong cash flow. The return on shareholders' equity was 32 percent, exceeding the target of 20 percent. NCC's net debt comprises pension debt, lease liability and other net debt. The financial objective is that other net debt in relation to EBITDA will be less

than 2.5. At the end of 2019, NCC had net cash, meaning no net debt at all in this respect. NCC's dividend policy states that at least 40 percent of after-tax profit for the year is to be distributed to the shareholders.

Favorable market conditions despite signs of economic weakening

The market in the Nordic region is largely favorable. There are, however, challenges, such as increased competition from mid-size companies that are emerging in local markets, and the establishment of non-Nordic players. But there are also major opportunities moving forward. The economies of the Nordic countries are robust and we are experiencing healthy demand in general, driven by such factors as population growth and urbanization. In Sweden, demand has weakened somewhat from a very high to a more normal but strong level.

We noted that levels in the Nordic housing market stabilized during the year. In Sweden, rental apartments accounted for two thirds of orders received, which reflects the changes in the market. In general, demand for renovation and refurbishment is strong. In Norway and Sweden, public sector initiatives are driving the

infrastructure market, which is resulting in many attractive projects. Demand for asphalt and stone materials in Norway and Sweden is stable, driven by a strong civil engineering market.

Complex market conditions impacting the industry

The need for investments in, for example, infrastructure expansion is great virtually throughout the Nordic region and functional transportation facilities are vital for a functioning society. NCC links towns with rural areas through smart and sustainable infrastructure solutions. The planning and preparation horizon for many of the investments encompassed by NCC's offering is long, often as much as 15–20 years, and can extend over entire business cycles. Infrastructure construction can rarely be managed separately from other construction. In Stockholm, for example, the build-out of the Eastern Link is necessary to cope with the region's growing traffic situation. In this project, we can clearly see the problems resulting from the long processing periods required for projects of this magnitude.

Well-founded decisions, checks and legislation aimed at preserving and protecting valuable areas are important; however, the lack of predictability and the protracted period required for decisions both prior to and during projects has an adverse impact on implementation and completion of major projects that are of vital importance to a well-functioning society. This is leading to delays in the projects, and often results in conventional solutions that no one questions, rather than investigating innovative new opportunities that drive development forward. This is also pushing up costs. A more long-term approach among all those involved – customers, politicians and construction companies – would benefit the stability of residential construction and social infrastructure.

Construction projects are characterized by the fact that the conditions change over the course of the project, due to technical factors or other changes, and therefore project planning has to be updated and changes regulated. Regulation of these changes is a natural feature of the industry and they are usually managed as they arise. In Norway, the market has been characterized for a number of years by an exceptionally high conflict level, which is creating a climate in which it is difficult to conduct good business, with alarming consequences for future investment levels. Commercial conditions in Norway have also entailed other impediments; for example, in the event of a dispute with customers, the construction company is required to pay VAT on the entire sum before the amount has even been addressed, which can delay projects by several years when conflicts are postponed until after the project close.

We are pleased that the Norwegian government has now decided to examine this and that there are indications of a more collaborative climate.

Digitalized work methods for increased productivity and higher customer value

The Swedish construction sector is in the middle of a comprehensive digitalization migration process and we will see an increasingly rapid pace in terms of digital progress in the future. NCC was quick to utilize this cutting-edge technology and has a high level of maturity and understanding of the benefits represented by digitalization. The real power comes when we can use the data we integrate in our own projects and systems relating to how we build successfully, and use this in new projects. An increasingly

integrated and controlled information flow between processes in the construction projects will contribute to shorter lead-times, higher quality and improved productivity. On this basis, a project has been launched to develop our IT architecture and renew our systems and our work methods. The project process will extend over a number of years and is expected to result in even better decision-making support and reduced risk levels through more efficient work methods.

Responsible enterprise entails working sustainably

The purpose of NCC's sustainability work is to help create conditions for people to work, reside, travel and live in a sustainable manner. NCC supports the UN's Global Compact and its ten principles in the areas of human rights, labor conditions, the environment and anticorruption. They form the foundation for NCC's future development, as defined in our sustainability framework. In our communication on progress (CoP), we describe the measures we are taking to integrate the Global Compact and its principles into our business strategy, culture and daily operations. Our sustainability work also encompasses the UN's global Sustainable Development Goals (SDGs). NCC has selected four global goals where we have the greatest potential to contribute through societal solutions, and has identified a further 11 targets that are fundamental to our operations and offerings.

A key feature of our sustainability work is limiting the environmental impact generated by our operations. For example, we are working to recycle asphalt and, to date, NCC has converted 25 of a total of 28 asphalt plants in Sweden to being fueled by biofuel rather than oil.

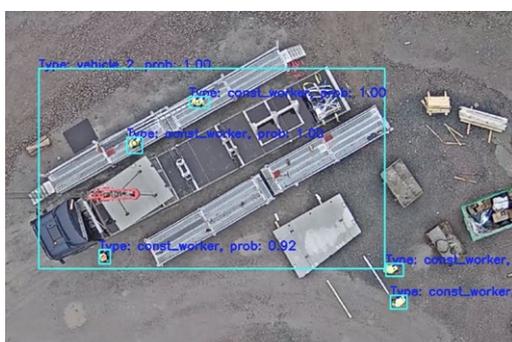
During the year, NCC provided the capital market with an opportunity to invest in green projects by issuing green bonds in a combined amount of SEK 1.6 billion. The proceeds will be used to finance green investments, primarily in sustainable property development projects and further conversion to renewable energy sources at asphalt plants.

High level of safety vital for the operations

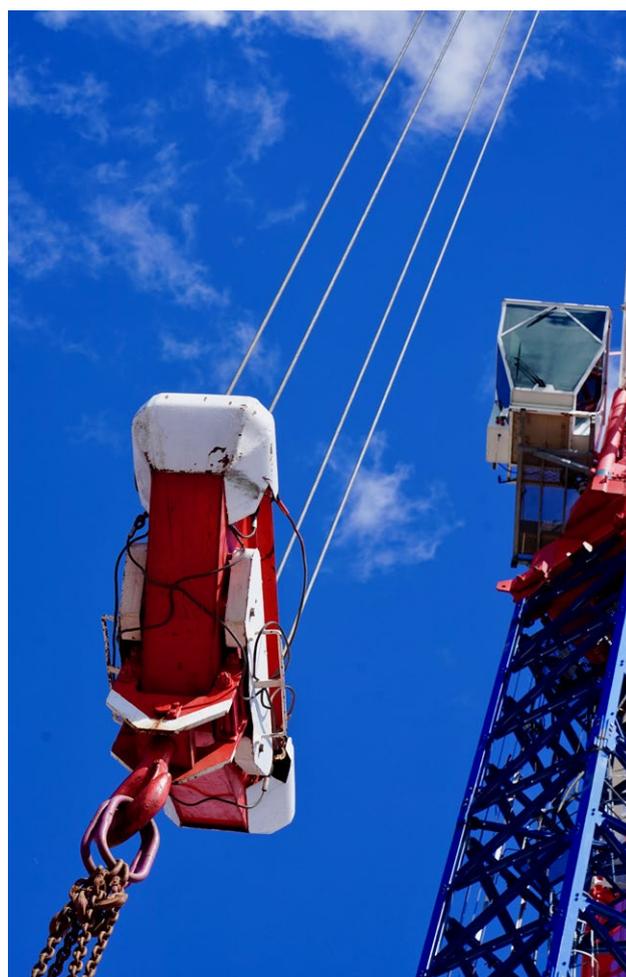
One of our most important priorities for the operations involves the work environment and safety. NCC is striving for a zero accident work environment and our aim must always be to make worksites 100 percent safe and secure. The trend progressed in the right direction in 2019 with lower accident figures than before, but we are not content and these efforts must continue to be prioritized. During the year, responsibility for safety was clarified and decentralized to business areas to a greater extent, with fewer and clearer processes. We thereby achieve more focused work with the potential to take targeted actions in respect of preventive safety measures, where there is cause to do so. This could involve anything from education and training to support from Group staffs and increased management presence.

Our worksites are characterized by a strong safety culture and, during 2019, nine out of ten were completely free from accidents leading to absence from work.

Although safety awareness and caring about oneself and one's work colleagues is completely fundamental to a high safety level, modern technology and digitalization can contribute to further raising the level of safety. For example, NCC is testing how AI technology, in the form of digital safety barriers and object identification, can help to make crane lifts safer by increasing control of what is happening directly under the crane.



The AI technology tests using digital safety barriers at Ångströmlaboratoriet, in Uppsala, Sweden, have shown that it is possible to both discover, and by extension also warn, employees who are in or about to enter a risk zone.



Securing key competencies

In recent years, we have noted a distinct trend that projects are becoming increasingly complex and comprehensive, a factor that demands a lot from employees, both at NCC and in the customers' organizations, and this relates in particular to project-managing engineers. Since the construction industry is facing major challenges in respect of competency supply, NCC works in various ways to cope with this development through frequent contacts with universities and colleges, trainee positions, apprenticeship schemes and other activities that enhance interest in the industry and in NCC.

During the year, we also highlighted issues related to skills development internally throughout the company. Employees are offered further training in managing projects, but also in the form of leadership training courses. Our platform for promoting knowledge is NCC Project Management Academy, through which we offer further training with a variety of orientations. NCC Project Management Academy's greatest initiative is a skills inventory and development program designed to improve the project management competencies of the company's just over 500 project managers in the various countries. Based on the results, customized development initiatives are formulated at both an individual and organizational level. The initiatives range from workshops with expert functions to mentorship.

Work in progress

In November, we moved into our new Head Office located in the middle of the city district that NCC is developing around Järva Krog. The focus is on a productive work environment that will promote health and sustainability for both employees and inhabitants of the new city district.

We can look back on a year of action and perseverance. The strategic actions we took in 2018 and 2019 have started to generate results. We worked systematically with the action program and change process during the year and I am proud of the progress we have made. However, a lot of work remains before the measures gain their full impact. The focus in 2020 will be on keeping to the charted course for developing and strengthening NCC as one of the leading construction companies in the Nordic region.

With that, I would like to thank our employees, customers, business partners and shareholders for the past year. I look forward to a continued stable and sustainable development in 2020.

Solna, March 2020

Tomas Carlsson
President and CEO