

Focus on our core competency

The coronavirus pandemic defined 2020. For NCC, however, it was not only the pandemic that characterized the year. Our operations functioned well despite the limitations that existed and the actions we have taken to be able to work safely. In 2020, we improved our profitability and implemented the measures we had planned in order to create increased stability in the company. We also devoted time and focus to the company's long-term development. During the year, following an extensive process involving many employees, we completed work on a new strategic direction and started work on introducing a Group-wide operational model.

Performance during the year

In autumn 2018, we established a new plan with three phases. The first was to stabilize the company through better controls and clearer processes. We have achieved this. The second phase was to initiate a stable and sustainable profitability improvement. We are currently in this phase. In 2020, the Group's operating profit improved 5 percent to SEK 1,360 M, equal to an operating margin of 2.5 percent. Operating profit increased in four of the five business areas. In the fifth, the Industry business area, we have formulated a plan for improving earnings, which entails a new organization and new ways of working. Costs for this change were charged against the business area in 2020, but we expect to note positive results as early as 2021.

Orders received during the year declined slightly. It is normal that orders received show variations. We assess the underlying market as being favorable. The year is also influenced by how rigorous and clear we are in how we select projects. In several ongoing projects, cooperation with the customer started at an early stage in order to jointly define the project – a structure known as early involvement, where the order is registered later in the process. Net sales were also lower, which was due firstly to the decline in orders received in 2019 and secondly to various decisions to exit from unprofitable businesses by closing offices or selling operations, such as our road services operations.

NCC reported a stronger cash flow throughout the year. Our financial position is strong. Throughout 2020 and despite the coronavirus pandemic, NCC continued in the direction staked out to create solid and sustainable improvement.

Strategic focus and financial objectives

NCC's core competency lies in managing the complexity of the construction process, taking its customers from concept to finished product in a way that is as positive as possible for all stakeholders. Our definition of the construction process is broad; it comprises both industrial operations and property development. NCC is a knowledge-based company. We base our success on the ability to capitalize on our access to data and our employees' skills and experience, as well as working in close dialogue with our customers and other stakeholders.

With our core competency as the base, we have defined the Group's strategic focus and formed the foundation for a Group-wide operational model. We intend to use the strength and expertise of the large, and broad, company to create benefits for all stakeholders. It may sound obvious, but history has proven the

need to establish a clear, sustainable and consistent platform in order to capitalize on being a large company with a broad profile. We have done that now.

One key insight is that the change we want to achieve requires widespread commitment and a shared culture in the company. Accordingly, we have launched a process to place the focus on culture and corporate values. We plan to implement Group-wide exercises and training in behavior and values for all NCC employees in 2021. I am pleased that our annual employee survey shows rising commitment, and we intend to build on this trend. NCC aims to be the best employer in the industry for all who are attracted by the complexity of a construction process. For this reason, one of our strategic initiatives entails training, in such areas as project management and leadership. Employee commitment is decisive in a knowledge-based company.

We have also defined a number of strategic initiatives designed to increase our competitiveness as a unified company and to raise profitability: cost management, an integrated supply chain, working in a data-informed manner and strengthening IT systems. In addition, all business areas are working on how to derive benefits from our collective expertise and how to create better business.

In November 2020, the Board adopted new financial targets for the Group. Instead of a weighted margin target, the target is that NCC will increase its earnings per share from this year's figure of SEK 11.68 to at least SEK 16 in 2023. This reflects a clear ambition and a focus on generating shareholder value. Internally, each business area has been set goals that are relevant to the specific operation and that support the Group's objective. These goals involve a focus on profit margins for contracting operations, on profit margins and the return on capital employed for the more capital-intensive industrial business and on the return on capital employed for the investment-based property development business. We have also retained our earlier Group-wide target for net debt, which we currently meet by a comfortable margin.

Focused work on sustainability

At NCC, sustainability efforts are integrated in the business areas and in the ongoing work and mandates of other functions. Targets in various areas are integrated in the business areas' operational control systems. The ultimate responsibility rests with me as CEO, while the Senior Management Team accounts for the overall control. Our ambition is to work as close as possible to our customers and stakeholders so that we can adapt our operations to their expectations and requirements. Today, we have a clear



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and well-defined sustainability agenda based on the needs of our customers and society. We know what we want, and what we must prioritize, and we are working on integrating sustainability work in our business models.

In November, the Board adopted new external targets in two of our focus areas: Health and Safety and Climate and Energy. Regarding health and safety, we have elected to focus on the objective of reducing the more serious accidents. We need to leave no stone unturned to ensure that we use technology, procedures and behaviors that ensure that no-one is injured seriously or loses his/her life at work.

Within the Climate and Energy area, we have reduced CO₂e emissions from our own operations by 42 percent since 2015, primarily through active work in our asphalt production in the

form of asphalt recycling and the conversion to biofuel in our asphalt plants. Our target is to reduce emissions by 60 percent by 2030. We have also launched an effort to halve indirect emissions from what are – to date – the four most important sources of CO₂e emissions in construction operations. Concrete, steel, transport and asphalt. Close cooperation with all stakeholders is required to achieve this target. There are still differences in the laws and priorities applying in the countries in which we operate, despite us being in a cohesive region of the world. These need to be harmonized so that the measures taken will be truly effective.

Macro environmental factors and market conditions moving forward

NCC is a major employer and also generates employment for sub-suppliers that is many times larger than its in-house workforce. When the coronavirus pandemic broke out, we had cause to reflect over what contribution we should make. We could quickly conclude that the most important thing to do in an acute situation was to help to keep the wheels turning in society by continuing to pursue our own projects. NCC is a company with strong local decision-making power. This proved to be a success factor during this trying year. Our local managers and employees found solutions that enabled us to safely continue our projects and to adapt operations. I am very proud of this.

As a company, we also became involved by proposing solutions and pointing to needs in society that keep activities moving. These do not relate primarily to support packages and infrastructure initiatives, even though these are important, but mainly focus on not allowing activity in already started processes to stagnate. If this happens, we will see a sharp decline in activity in a year or so, when we are hopefully out of the pandemic and the economy will need increased stimulus and activity. We also pointed to areas where grants and subsidies can generate major value: Hydroelectric power and water and sewage plants, as well as infrastructure renovation, are examples that strengthen society for both current and future generations, while being reasonably well prepared and easy to start.

The construction industry normally tracks the general economic trend relatively well. Will this established correlation be altered by the coronavirus pandemic? Probably not. Although short-term support measures can have a certain effect, confidence in the future and access to capital will still have the most important impact on the economy. It will bounce back. Society has a fundamental need for infrastructure and housing, and demand is generally still favorable. Our property development, which mainly involves offices, naturally keeps a close eye on how the needs in society change, based on the insight that one should not make hasty conclusions. The property market was cautious during the year, but is still showing activity. We ended the year with our strongest quarter for some time in terms of letting in our property development operations.

Conclusion and thank you

In conclusion, I would like to express my deep gratitude to our employees, customers, business partners and shareholders for the past year. During a trying year for the entire world, NCC's employees demonstrated their ability to adjust and find solutions. This alone is a core competency in our strategic focus and for our ability to achieve our objectives and generate increased shareholder and societal value moving forward.

Solna, March 2021

Tomas Carlsson
President and CEO