

## Review by the CEO

# Well positioned for increased value creation

Healthy orders received in a divided construction market Higher operating profit. Substantial earnings improvement in asphalt operations. A new business area for the green industrial transformation. Stagnant property market with few transactions. Continued focus on digitization and skills development. Important internal strategic development steps. This is how we can summarize our 2023.

The prospects for 2023 were uncertain but with hindsight we can state that NCC skillfully navigated this uncertainty and a divided market. Orders received increased and net sales were stable. Operating profit rose to just over SEK 1.8 billion. We achieved the target we set in 2020 – that earnings per share in 2023 would be at least SEK 16.

The Industry business area accounted for the largest improvement in operating profit, primarily as a result of asphalt operations again returning to a reasonable earnings level. The sale of the subsidiary Bergnäset, within the Infrastructure business area, also contributed positively. The Infrastructure business area has strengthened its margins and steadily increased its operating profit since 2019. Parts of Building Nordics and Building Sweden are performing very well, while others have faced problems such as increased costs in ongoing projects. At the same time, the operating result in both of these business areas is well on par with or above Nordic peers. Property Development focused on letting in a stagnant property market.

Over the past five years, we have established a new strategic direction, improved operating profit and navigated our way through a number of external crises. Viewed in this perspective, I am proud of our performance both in 2023 and over a longer term. NCC is a stable company that is evolving. We are correctly positioned geographically and in our segments. In my opinion, our strategic focus has secured deeper acceptance in the past year, and we are taking important steps not just toward short-term profitability but also toward creating conditions for a sustainable, higher level of value generation.

## A new business area

We are currently witnessing the greatest industrial transformation we have seen in many decades. Mining, steel, energy and industrial operations are transitioning in order to reduce their climate impact and fossil dependence. Completely new technologies are being introduced in many places.

This is having two effects. Firstly, widespread construction will be required in order to realize these major projects. Secondly, the right conditions must be in place in society at large – transport and social infrastructure. Residential. Healthcare, schools and preschools. Water and wastewater treatment. Energy distribution, roads and railways.

In November, we presented a new business area – NCC Green Industry Transformation – in which we are gathering our expertise and major projects emanating from the industrial developments taking place. Other opportunities relating to social and transportation infrastructure will be leveraged within

our current business areas, which already have strong organizations in place.

The climate issue and the green transition are strong drivers for today's societal transformation. These factors are also driving NCC's development. Many of our customers are placing high demands on low-carbon projects; however, we believe that these demands could go even further. If all the parts of the value chain work in unison, good results can be achieved even with today's technology. In the asphalt operations, for example, public sector clients could place significantly higher demands and thus contribute to a more rapid transition. Our own emissions-reduction targets stand firm and we are working hard to achieve our transition.

The construction industry is complex and there will never be a few, simple solutions or major technology leaps that solve the climate challenge. Meanwhile, business opportunities are being created in connection with urban climate adaptation, the green transition, changes in energy and transportation systems, and upgrades to water infrastructure.

## Focus on shareholder value

NCC's primary financial target is earnings per share. The target has been set to achieve a clear focus on creating value for shareholders and because steering toward delivering profit on the bottom line is relevant for all business areas. Our target for 2023 was SEK 16 per share and we achieved that. We achieved it despite not being able to recognize any major property sale in profit since the first quarter. However, the sale of a subsidiary made a positive contribution.

In November, we decided that we would retain the target of SEK 16 per share in the medium term until we see if we can achieve this level consistently over time. In turn, this will depend on a number of factors: Firstly, that the business areas active in construction operations and Industry perform favorably so that they can steadily increase their share of profit. Secondly, that there is activity in the property market to enable us to realize the value we already have and the value we are creating in our property development portfolio.

During 2023, we did not sell a single property. In the Property Development business area, we recognized one project in profit, which had been sold earlier, as well as parts of a land sale. At year-end, NCC had four completed projects. We are working actively to sell these and have the financial strength to wait for an improvement in the market. We have ample headroom in terms of our debt target.

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“Leading the industry when it comes to expertise in managing the complexity of a construction process”



### The value of being the large company

NCC’s strategic focus is based on increasing our ability to leverage the strength of being the large company. It’s about expertise, resources and experience – and increasingly about access to data. By making the data we generate in our construction projects more available and useful, we will be able to make better decisions.

This is a long-term effort stretching over many years. It can sometimes be difficult to see the wood for the trees, or the results of many parallel development initiatives and investments. However, the contours of a new data-informed and more digitized NCC are beginning to emerge. During the year, we launched more than ten new initiatives, many focusing on simplifying and improving existing processes and being able to deliver the data that our customers expect.

In the health and safety area, it was a difficult year in some respects. There were serious injuries in the industry and, just before the new year, a serious accident occurred in Skellefteå, where an NCC employee died and another person was severely injured. When it comes to accidents resulting in more than four days of absence, we remain at the same level as in 2022. This means that we did not achieve our targets for the year. We are continuing our work to completely eliminate serious accidents and incidents at an undiminished pace. Despite the somber outcome for 2023, we note that there were fewer serious incidents. We fully support greater demands and further measures to increase safety at our worksites.

### Taking a fresh look at knowledge in the company

Construction, in a broad sense, accounts for a large part of the economy and corresponds to about 10 percent of GDP. If we choose to include all planning and peripheral services, this figure increases. More than one million people in the Nordic region have some professional involvement in construction.

If we are to understand developments in the industry and be able to make well-informed decisions concerning both regulation and development initiatives, it is important not to tar all construction – the entire “construction industry” – with the same brush. There is a huge difference between being a small-scale operator and a large group such as NCC. As a large company, we have the knowledge, experience, systems and processes for resolving complex challenges and we face completely different expectations.

We also operate in an environment with professional customers, whose job is to build and develop. They know what they are buying. The wide-ranging legal aspects that surround our major

projects are part of the complexity we are experts in managing. Within a regulatory and contractual framework, we can retain our innovative capacity, development drive and business acumen.

This perspective, that we as a large company can and must drive development, is the reason why we have set the target of being a leader in the industry when it comes to expertise in managing the complexity of a construction process. Through collaboration with academic institutions in the Nordic region and Europe, and through clear-cut internal priorities in terms of the professional roles that have the greatest impact on the development of the projects and thus the company, we are seeing the results.

### No crystal ball

In recent years, we have learned that making macroeconomic forecasts is next to impossible. We need to be realistic about the effects that the absence of residential construction, a stagnant property market and the worsening economic situation of municipalities and regions could have. Meanwhile, we know that construction is needed and that the assignments are awarded to reliable contractors. We also know that it is probably easier for us than for many others to manage the increased complexity, not least in terms of providing various types of data. So we look positively but realistically to the future, but refrain from making any detailed predictions. NCC is fundamentally a stable company in a fundamentally attractive market. We can create value.

NCC has many long-term customer relationships. Our aim is that every customer, in every project, will perceive that we make the best expertise and resources available in order to realize their projects in the best possible way. I would like to thank our customers for their confidence in us.

And finally, I would like to thank all NCC employees, our business partners and suppliers, and our shareholders.



Solna, March 2024

**Tomas Carlsson,**  
President and CEO