



NCC GROUP

## **President and CEO Olle Ehrlén's address at NCC's Annual General Meeting on April 14, 2010**

**Mr. Chairman, esteemed shareholders, ladies and gentlemen.**

The year 2009 was a turbulent, uncertain and challenging period. For NCC, it was marked by the financial crisis, a declining market and major workforce reductions. When I stood before you one year ago, I spoke about a weaker market. At the time, we were experiencing a 30-percent decline in orders received, but I also referred to actions to make NCC stronger.

When I now summarize the past year, I can state that things did not turn out as seriously as we had anticipated and that NCC in several ways managed to emerge stronger from a difficult year. Managing 2009 as successfully as we did was attributable in part to our own expertise. We took a number of key decisions at an early stage, which I will return to later.

However, we also received external assistance along the way. The financial crisis was averted as a result of various forms of support and stimulus packages aimed at the financial sector. The residential market in the Nordic region derived benefits from low interest rates. Public infrastructure investments and support for refurbishment and renovation have benefitted our industry. Overall, this all meant that consumers, despite the financial crisis and recession, regained some of their confidence in the future and once again have the courage to consume. Housing prices are at record levels in several Nordic countries and, for NCC, the trend of declining orders received was broken in the fourth quarter of 2009. However, our sector is late cyclical and we have not made it through the recession yet.

Despite financial turmoil, a declining market and weak profitability for housing operations, NCC reported a profit after financial items but before tax of nearly SEK 1.7 billion. Granted, this is lower than in recent years, but historically it is a high level. These were also earnings that were affected by the previous economic boom.

### **Outcome in 2009**

We entered 2009 with a high percentage of unsold residential properties. Accordingly, there was a natural focus on selling unsold housing units and the properties under construction, in order to strengthen cash flow and reduce capital tied up. We were highly successful in doing this. However, our sales were implemented at lower prices, which had an impact on earnings when combined with the effects of a weak market.



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We did not achieve our financial objective of a 20 percent return on equity after tax. However, we did reach 18 percent, which is close to the target, and significantly higher than NCC had reported in past years. Taking into account the many difficulties we faced in 2009, I believe that the earnings and the return figure were favorable. Moreover, NCC's financial position is solid. We comfortably achieved our objective of reporting net indebtedness that does not exceed shareholders' equity. And we achieved the objective of generating positive cash flow.

As a result of the earnings, cash flow and the financial position, the Board can propose that the Annual General Meeting resolve to pay a dividend to shareholders in line with our dividend policy.

Last year, the company deviated from the policy of paying a dividend of no less than 50 percent of profit after tax in consideration of the uncertain scenario facing the business community and NCC. The situation is currently more stable and NCC has a strong financial position that enables payment of a dividend of SEK 6 per share. This corresponds to slightly more than 50 percent of profit after tax, which amounted to SEK 11.63 per share.

In 2009, the shareholders of NCC received a total return on their investment – meaning the share performance plus dividends paid during the year – of a full 147 percent. The share-price performance can sometimes fluctuate rapidly from year to year – and the rise in 2009 meant that a large share of the substantial decline in 2008 was recovered.

During the year, we experienced a sharp decline in market conditions, which resulted in a decrease in orders received. In the first quarters of the year, orders received fell at a rate of 30 percent per quarter. The rate of decline leveled off late in the year and for the full-year 2009, orders received dropped 11 percent compared with 2008. The decline in orders received meant that NCC entered 2010 with an order backlog that was 16 percent lower than in the preceding year. This forms the basis of our volume in 2010.

### **Actions taken at an early stage**

NCC's relatively strong performance in 2009, despite a weak market, was attributable to the company making a number of essential decisions and taking strategic actions at an early stage.

Already in spring 2008, we reviewed our credit facilities and renegotiated our loan limits. This meant that we had secured credit facilities throughout 2009 and for several years to come. In autumn 2008, we decided to concentrate the residential development operation into a single business unit, NCC Housing, as of 2009. Accordingly, land assets, development rights and the allocation of capital are considered on the basis of a larger perspective, and we have gained increased momentum in marketing and sales. When the financial crisis broke out in autumn 2008, a number of already started residential projects that were at an early stage of development were put on hold, with the aim of reducing tied-up capital and thus risk exposure.



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We initiated forceful workforce reductions in autumn 2008. From September 2008 through year-end 2009, we reduced the number of employees by 15 percent, which corresponded to about 4,000 employees. We concentrated our specialist competencies in infrastructure work in an internal unit in Sweden under the name NCC Infra to satisfy the customer and the increased demand.

During the year, there was a major focus on selling housing that had been under construction. Moreover, due to the uncertain market, we did not start as many new projects in 2009. Accordingly, the number of sold housing units comfortably exceeded the number of housing starts during the year. This resulted in NCC reducing the risks in the housing business. In late 2008, we had more than 4,000 housing units in production, half of which were sold. By late 2009, we had reduced housing production by 50 percent and increased the percentage of units sold to 77 percent.

### **Strong 2009 – despite major challenges**

Due to the weak market scenario for housing in 2009, the newly formed business area for the proprietary development of housing, NCC Housing, posted a loss of SEK 126 M.

NCC Property Development, which develops commercial properties, experienced a decline from its high earnings in 2008 and reported profit of SEK 359 M, which is still favorable in a weak market. This was also a result of NCC foreseeing the weakening of the market and thus not starting any major new projects in recent years.

NCC Roads, our operation for aggregates, asphalt, paving and road service, delivered a satisfactory operating profit of SEK 387 M, nearly on a par with the preceding year.

Perhaps the most gratifying aspect of the year was that all Construction units were profitable, despite declining volumes caused by restructuring activities and cutbacks.

NCC Construction Sweden reported operating profit of slightly more than SEK 1 billion, which was close to the 2008 level. NCC Construction Finland generated a profit of SEK 172 M, despite weak conditions in the Baltic region. NCC Construction Norway posted a profit of SEK 140 M and NCC Construction Denmark of SEK 72 M. Overall, the Group reported operating profit of SEK 2,150 M, nearly on a par with the SEK 2,219 M achieved in 2008.

In other words, despite a challenging 2009, there were a number of positive signs: relatively strong earnings, maintained margins, positive cash flow and a reduction in indebtedness. Unfortunately, there were also adverse developments.

The verdict in 2009 from the Supreme Administrative Court of Sweden in the cartel case in Sweden and Finland resulted in an increase of SEK 95 M in the competition-infringement fee that NCC had to pay. Since 2001, we have trained more than 3,000 managers in ethics and competition law, and we are continuously working on our values and our corporate culture, in which the very foundations are honesty, respect and trust.



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Other adverse aspects included quality problems in certain parts of production. Single-stage finished façades have proven to be sensitive to the effects of fastenings and bushings. Unfortunately, we have not delivered quality in our work. On the up side, we have developed a thorough action program to take stock of and correct the problem, and this is being carried out with the least possible disturbance to residents. A provision has been posted for the estimated costs.

Overall, 2009 was a year in which we successfully managed the financial crisis and we succeeded in adapting our operations to lower demand. Now we must deal with the recession.

### **The current status**

The construction sector is late cyclical, which means that it will take time before we notice any change, and I believe that it will take time before we experience any sustainable growth.

However, there are some rays of light, by which I am primarily referring to the recovery in orders received in late 2009 and early 2010. According to preliminary figures, since we will not release our complete first-quarter report until May, orders received amounted to SEK 14 billion in the first three months of the year, which was significantly higher than a year earlier. This may appear to be a strong rebound, but it is based on extremely low levels.

In our assessment, sales will be lower in 2010 compared with 2009, since orders received include a number of large projects that will be implemented over several years and the order backlog was lower at the beginning of the year.

According to preliminary figures, sales of proprietary housing units amounted to 530 in the first quarter and 1.000 housing units were started. In other words, we sold approximately as many housing units as in the year-earlier period, although there were more housing starts this year. Despite this, we have relatively few housing units under construction. Having relatively few projects for sale, combined with NCC's adaptation to international accounting policies for profit recognition, will have an impact on earnings in 2010. The rules that NCC has chosen to comply concerning housing sales with entail that earnings will be deferred by between one and two years compared with the previous percentage-of-completion policy. As of 2010, earnings from housing sales will not be recognized until the buyer has taken over the property.

When it comes to the earnings trend, we will experience increased costs due to the long and cold winter that prevailed in the Nordic region. When the workplace needs to be shoveled, the frost is a meter thick, reinforcement bars freeze in place, the cold takes a toll on machinery and people and certain work phases cannot be completed, cost rise. In other words, 2010 will be another intense year with lower volumes and fierce competition.



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However, I am comfortable with NCC's current condition. We are streamlined, strong and have the advantage of having acted early to sharpen our offering. We will continue to maintain our position as the leading company in developing the future environments for working, living and communication.

### **Long term strategy**

For many years, NCC has pursued a long-term strategy, which acts as a stable guide in periods of economic prosperity and recessions alike. We usually refer to *customers, costs and competence*, and these are areas in which sustainable development forms the basis of our long-term business.

I will give you some examples:

### **Customers**

We aim to have the most attractive customer offering in the market. We achieve this by maintaining close contact with our customers.

We have *NCC Partnering* as a type of cooperation that is based on an open and trusting partnership in which problems are resolved jointly by all of the parties concerned and the best interests of the construction project are always in mind. We have observed that partnering reduces total costs and leads to satisfied customers and a stable margin for NCC. In 2009, the portion of partnering assignments rose nearly 20 percent to SEK 10 billion.

We are also able to offer our customers turnkey solutions from project engineering and production, to management and maintenance covering many years. What we call function contracts. These types of assignments are becoming increasingly frequent and we are also increasing our assignments in terms of providing service to the customers of customers, such as road-users. In 2009, we secured several major contracts for the management and maintenance of roads in all of our Nordic countries.

Sustainable development has been an area of focus for NCC in recent years and we have developed a number of offerings, particularly in the area of energy-efficiency enhancements. In addition, we are leaders in the construction of passive buildings. (Film – passive buildings)

Passive buildings are buildings that require minimal power for heating, since they are primarily heated by people and appliances in the building. Passive buildings benefit the environment and the finances of customers. For example, the Municipality of Storfors in Värmland expects to generate annual savings of SEK 1 M in energy costs by constructing the Vargbro School as a passive building. These funds can be used for other urgent causes in the municipality.



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We are also creating other energy-efficient solutions. All of NCC's commercial properties under development must fulfill GreenBuilding criteria, meaning energy consumption that is 25 percent below the prevailing norm. An increasing number of projects are being developed pursuant to the lifecycle approach. In the area of commercial development, we classify all of our projects under the European environmental-classification system BREEAM.

During the spring, for all Swedish procurement processes worth more than SEK 50 M, NCC has also begun supplying alternative green tenders, which will be climate-neutral, in addition to regular tenders. We expect to annually submit about 1,000 tenders of this nature. This is entirely in line with our simple strategy what we do that counts.

### **Costs**

An attractive offering also naturally entails cost efficiency. NCC works systematically to reduce total construction costs, since this forms the basis of our future competitiveness. About two-thirds, or approximately SEK 30 billion, of our costs are attributable to various types of purchases.

Our purchasing work adheres to two main approaches: coordinating purchases in the Nordic region to create benefits of scale, and purchasing goods and services internationally. We are reducing costs as a result of our purchasing work, and the cost of international purchases was 20-percent lower on average than if the equivalent purchase had been made in the Nordic region.

Substantial volumes affect the purchase price, which is why the platform approach is key to lowering costs. We are now noticing that our platforms, meaning joint, standardized technological solutions for buildings, schools, sports halls or bridges, generate significant cost savings, while simultaneously increasing quality.

New technology enables increased efficiency enhancements. I have previously spoken about virtual construction, meaning our increasing use of three- and four-dimensional designs. These designs enable us to avoid installation collisions. Quality is enhanced and costs are reduced as a result of more efficient project engineering and implementation. We are also increasingly using this as a natural tool in simpler project engineering.

New technology is also applicable in, for example, our contracting equipment. (Film about machine control).

A positive effect of using GPS in contracting equipment is the reduction in fuel consumption, which generates cost savings and benefits the climate. Efficiency-enhancements in transports related to proprietary production present significant opportunities for NCC in terms of reducing our carbon emissions.



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## **Competence**

A stronger NCC also includes our in-house competencies. This involves organizing and applying our knowledge and experience in the best possible manner. Competency involves also seeing business opportunities in challenging scenarios. In 2009, we managed to package our offering in a variety of ways, which attracted different types of customers.

At last year's Annual General Meeting, I had the opportunity to speak about our successful "a room on the house" campaign, which generated strong housing sales for NCC in Sweden and was also used in other countries with favorable results. We are deploying new sales channels, such as marketing housing through mobile phones. We have also sold land with contracting assignments attached, which means that we were involved early on and developed projects with mixed housing types, while simultaneously freeing up capital, reducing our risks and strengthening our cash flow. We managed to time our activities in the market for commercial premises well, made sales at an early stage and were cautious about initiating new projects when the market was turbulent. This is proof of professionalism at every level.

In autumn 2008, we formed NCC Infra, a specialist unit aimed at satisfying increased demand for infrastructure in Sweden. In NCC Infra, we combine our civil-engineering expertise in major projects with our strong positions in aggregates, asphalt, paving and road service.

We recently secured several orders, the largest of which is the expansion of Highway 50 between Mjölby and Motala in Sweden. This order involves the project engineering and construction of 28 kilometers of new road, 39 road bridges, eight junctions, a 620-meter-long bridge in Motala and the subsequent responsibility for the management and maintenance of the finished road over a period of 20 years. The assignment is valued at about SEK 1.3 billion and demonstrates that we satisfy the need of the customer, in this case the Swedish Transport Administration, to have the entire value chain supplied. By capitalizing on NCC's extensive expertise, we generate value and utility for the customer.

## **Health, environment and safety**

Employees make a company. Health, environment and safety form the basis of our social responsibility. Unfortunately, people are occasionally injured at our workplaces. This is highly regrettable and we are constantly working to improve our systems to prevent accidents and injuries.

Our experience tells us that the corporate culture has a strong impact on the number of accidents and their severity, and that we have a down turning trend in the number of accidents. We are in a strong position in the industry, but each accident is one too many. We know that taking responsibility, being well organized and having solid project management at the workplace prevent accidents. This is another important reason for NCC to continue working on its values and its corporate culture.



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NCC's employees are satisfied at their workplace; they are loyal to NCC and have a strong sense of motivation. This is demonstrated in our annual HR survey. In 2009, we also compared ourselves with other companies and we received high marks as an employer. We are in a better position than many others in the sector and our employees express a sense of pride at working at and for NCC. Eight of ten employees expressed a strong willingness to keep working for the company. This is an incredibly strong foundation on which to stand when making preparations for capitalizing on the impending economic growth. We are well positioned and we have a stronger NCC, despite the weaker market.

### **Focus in 2010**

We have a long-term and successful strategy that we are maintaining and that involves being able to offer low costs, attractive products and specialist expertise with the aim of achieving our business objectives. An organization like NCC has a number of objectives to strive for, although financial objectives form the foundation.

For 2010, we are adapting our financial objectives to align them with the new accounting policies, which entails that our debt/equity ratio may rise to 1.5 from the previous 1.0. However, this does not change our financial position, which remains favorable. We are abandoning our cash-flow target, due to the limitations imposed by the debt/equity ratio. The financial objective of an after-tax return on equity of 20 percent stands firm, as does the dividend policy of paying shareholders not less than 50 percent of after-tax profit.

Our focus in 2010 is on further capitalizing on cooperation, synergies and cost-efficiency across business areas and national borders, all in a bid to provide customers with a sharper offering and to make the best possible investments for future business without increasing financial risk. We are developing our sense of trends, tempo and timing when viewed from the perspective of the customer, whereby our sustainability efforts financially, socially and environmentally provide us with a natural holistic approach. We aim to capitalize on being the large company without losing sight of what forms the core of our operation; strong local ties. This is what makes NCC a local, world-class company.

The year 2009 will go down in history as a turbulent period in which the financial crisis amplified the recession. We managed that challenge and can now see the rays of light, and we are prepared. Together, we at NCC have created the foundation for investing and positioning ourselves when the market recovers.

Thank you!