Material risks and uncertainties

## Top risks at Group level

| Risk | Risk description | Key mitigating action plans |
|---|---|---|
| **Market** | | |
| 1. Geopolitical situation | The global geopolitical situation is unstable in several parts of the world with a potential impact on the normal course of international relations. This leads to more complex situations for companies in several respects, including inflation and economic developments, rising energy prices and interest rates, austerity in financing markets, higher risk for cyber-attacks and disturbances in the supply chain. | • NCC only conducts operations in the Nordic region, which limits exposure to international geopolitical situations and their consequences on NCC's general economy and supply chain<br>• The organization has managed and mitigated challenges related to the geopolitical situation, including cost inflation and disturbances in the supply chains during 2024. The risk remains in the coming years with a potential broad impact on the business.<br>• See sections 2, 3 and 11 below for more details about risk description and key mitigation action plans relating to the situation |
| 2. Market volatility | Risk of loss of revenue due to weakening market overall. More specifically a risk of underestimating the size and speed of the downturn of the market and then being too slow to respond. The market sentiment is a material risk for the property development operations both in terms of letting and divestments. Furthermore, there are cost increases linked to interest and inflation. | • NCC carefully monitors developments in the market and the financial development of customers and suppliers<br>• Internal processes are designed to ensure that price increases can be passed to customers (fixed prices from suppliers where appropriate)<br>• NCC works continuously to steer operations through segment prioritization and portfolio governance to limit exposure to vulnerable parts of the economy where possible |
| 3. Material and price increases | Risk of shortage of materials and price increases in general, for instance metals, steel, energy, cement, plastics and freight, due to the external circumstances in the market.<br><br>Stone material and asphalt plants are highly dependent on the supply of raw material, such as aggregates reserves, bitumen, recycled asphalt etc. | • Price and delivery stability are secured by long-term agreements and continuous supplier risk assessments. To guarantee deliveries, the supplier base has several key suppliers.<br>• Work with NCC's supplier relationship to ensure that we are a prioritized customer<br>• Focus on hedging activities mainly for bitumen. Multiple sources and volume commitment to ensure supply. Hedging strategy for electricity, and transportation contracts with indexation. |
| **People** | | |
| 4. Competence supply & Leadership | The foundation of NCC's strategic direction is to be a knowledge-based company, and it is therefore imperative for us to have the right people with the right attitude, skills and experience on. Successful recruitment, retention and development of people with necessary skills is crucial for the company.<br><br>Lack of leadership increases the risk that we cannot deliver according to quality and profitability and will not be able to retain our employees. The development of managers is essential to drive and deliver quality in projects and retain personnel with the desired skills. | • Development plans are created for both the short and long term, based on continuous discussion about the skills development needed by our employees (focus on general development and project management ability)<br>• Group-wide development programs are conducted for project management and leadership, such as the Mega Project Management Program, Senior executive program, Strategic leadership program and Practical leadership program for site managers<br>• Workshops based on the Group's Star behaviors have been conducted to improve culture and behavior across the organization<br>• Star behaviors form the basis of all leadership programs<br>• A structured succession planning process is in place to ensure that we constantly replenish with the right competencies and experience |
| 5. Health & Safety | In the construction business, there is a high risk of different types of accidents. Fatal and serious accidents still occur and often within the three high-risk areas: working at height, heavy crane lifting and use of heavy vehicles. Analyses implemented have concluded that root causes are poor planning, less involvement from production management, and improper and high-risk behaviors among workers.<br><br>Another conclusion is that there are few or poor safety barriers between people and this increases the risk of an accident. Many operations in the Group feature risky elements for workers, placing high demands on correct training and safety equipment, and not least an established culture that has the health and safety of employees as its highest priority. | • Strategic direction that aims to reduce common accidents, and to eliminate serious incidents and fatalities<br>• Systematic work to improve and increase the number of digital and physical safety barriers in collaboration with NCC Group R&I, IT and Purchasing. It is important to incorporate more qualitative safety barriers into equipment, machinery and production vehicles we purchase or lease. NCC stipulates clear safety requirements for production machinery and vehicles used by our subcontractors.<br>• Within the framework of Star behaviors, NCC focuses systematically on reducing behavior among NCC employees and subcontractors that is not in line with NCC's values<br>• Intensive work to improve our Site Introduction tool to align and digitize our safety requirements for NCC worksites<br>• Each employee, supplier and subcontractor must pass the Site Introduction to gain access to our worksites. The purpose of this is to increase safety awareness.<br>• Clarification of what applies to the entire Group and what all managers must know. At Group level, distinct directives and guidelines are set for safety work, and instructions are devised for each business area, all to achieve the vision of zero accidents at our workplaces. All reported incidents are analyzed with the aim of improving injury-prevention activities, with a particular focus on creating a culture that encourages a safe work environment. |

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| **Environment** | | |
| **6. Climate** | NCC's environmental work focuses on reducing greenhouse gas emissions throughout the value chain.<br><br>The biggest sources of climate impact are the materials used in the construction process and the fuel that drives various parts of this process.<br><br>Energy use is also a significant factor, as NCC's operations require a lot of energy for machinery, heating, electricity on construction sites and in the manufacture of materials.<br><br>If we fail to adapt our operations to climate change, we risk facing higher costs, reduced access to capital and lost business opportunities. | • Introduction of stricter $CO_2$ requirements and strategies in projects<br>• Plans and actions to phase out fossil fuels and drive change towards lower climate emissions<br>• Building standards that ensure that constructions are adapted to climate change<br>• Assessment of climate risks and vulnerability, with contingency plans for construction sites<br>• NCC's work with wind and hydropower and climate-optimized construction to meet external demands and adapt operations to climate change |
| **7. Resource use** | The construction sector consumes large amounts of materials, which significantly affects society's use of resources. Concrete, steel and asphalt are the materials that contribute the most to the climate impact, but other materials such as rock and soil materials also have a significant impact, especially when closed material flows are important.<br><br>In addition, the business generates large amounts of waste throughout the value chain, making this a significant issue for both NCC and the industry at large. | • Streamline and reduce the use of materials, fuel and energy as well as promote the recycling and reuse of building materials, where NCC makes major efforts<br>• NCC adapts its work with material selection, circularity and waste to the unique conditions of each business area and the aim is to reduce the use of materials that harm the climate, the environment and human health |
| **Management** | | |
| **8. Management of operations** | Within contracting operations, the main operating risks are project selection and project management.<br><br>There is also a risk of failure in the ability to implement what has been decided according to the processes and strategic initiatives.<br><br>For Industry the season is limited and there is competition to provide large volumes in a short period of time. | • NCC assigns priority to submitting tenders with identified risks that are manageable and calculable. Different forms of contracts and partnerships with customers facilitate the management of various risks. These operating risks are counteracted by NCC's project selection, assessment of tenders and operational control systems.<br>• For NCC Industry, we work with capacity, sales control, tender evaluation and pricing to ensure the right volume and cost control |
| **9. Supply chain** | Inadequate control of the supply chain gives rise to the risk of human rights violations, such as illegal labor, which remains an industry risk. It also gives rise to the risk of commercial breaches and, lastly, a poor overview of material being brought into our worksites. | • All international suppliers are pre-qualified before entering into a contract to ensure compliance with rules and regulations, including internal rules<br>• NCC conducts systematic evaluations to ensure compliance with rules and regulations<br>• At the worksites, the Site Introduction initiative helps to identify personnel on site who support our efforts against illegal labor and unfair pay<br>• During 2025 the two initiatives supplier control and subcontractor control will be rolled out to further strengthen the control with our supplier base |

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| **IT** | | |
| **10. Group Common IT Development** | Failure to implement shared IT developments leads to significant costs for development without any realized benefits, implying lack of commitment and readiness for change in NCC's operations. In the event of failure, NCC will face new stalemates in the future, both in terms of the technological lifecycle and adaptation to business needs. | • Dedicated resources for leading the program and a business approach (future processes and ways of working at NCC) before selection of the tools<br>• Clear roles and responsibilities have been defined to ensure business alignment and maximum benefit<br>• Process framework and governance are in place and shared process owners have already been appointed for some process areas<br>• NCC has developed and implemented a common way of working with business change management and is continuously working with building capability to ensure sustainable change<br>• NCC is continuously following up the ongoing implementations and realized benefits to ensure that we are progressing as planned |
| **11. IT security (Information security)** | The ongoing advances in technology, rapid digitization and emergence of information-dependent societies are expected to give rise to new types of cyberattacks and network vulnerabilities.<br><br>It is fundamental to continue to monitor the fast-changing technical development and ensure proper security governance and planning to prevent weaknesses in the IT environment. | • NCC Security Strategy and roadmap, in combination with the NCC Finance & IT development roadmap, together with each business area's and Group function's roadmap, describe the necessary activities to mitigate information security risks<br>• NCC is continuing to develop our Information Security Management System and a Cyber Security Operation Center, which increases the threat-monitoring ability and capabilities for resilience to security incidents |
| **Compliance** | | |
| **12. Compliance** | Risk of penalties and sanctions and risks related to branding, lawsuits and costs for disqualification from public tenders due to compliance breaches. | • A risk-based compliance program that includes a whistleblower channel and policies governing anti-corruption, competition law, conflicts of interest, data privacy and human rights<br>• Mandatory training for white-collar employees in anti-corruption, competition law and data privacy. The training programs are regularly followed up. |