



ECONOMIC ACTIVITY REPORT SEPTEMBER 2018

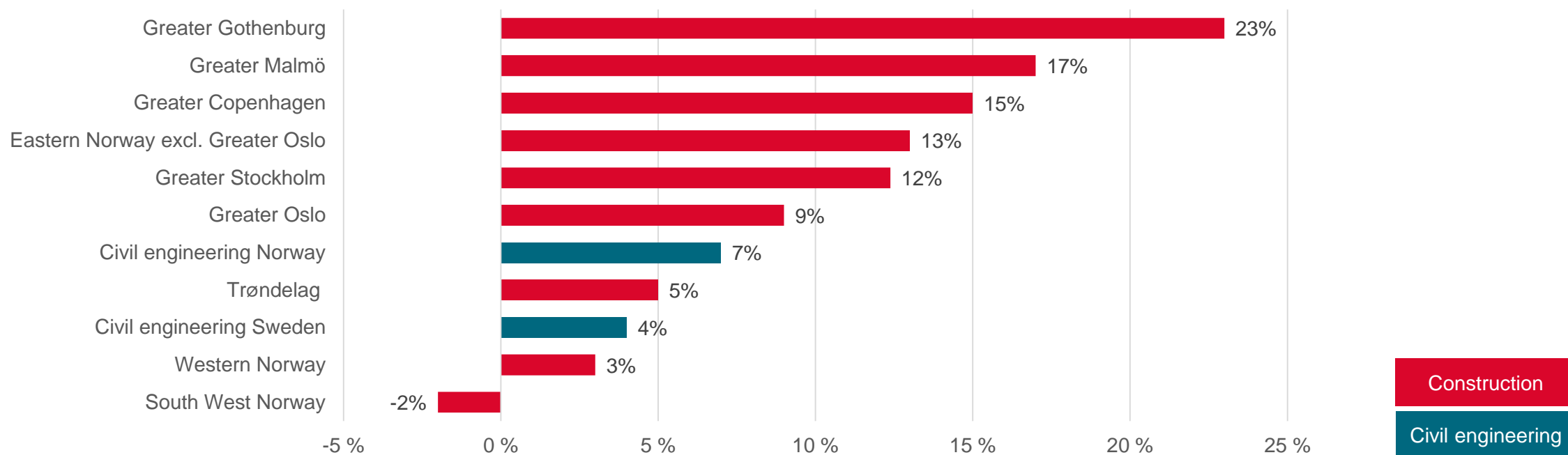
27 September 2018

Kristoffer Eide Hoen

Anders Wettre

END OF AN ERA OF STRONG GROWTH

Selected contracting markets CAGR* 2014–2017

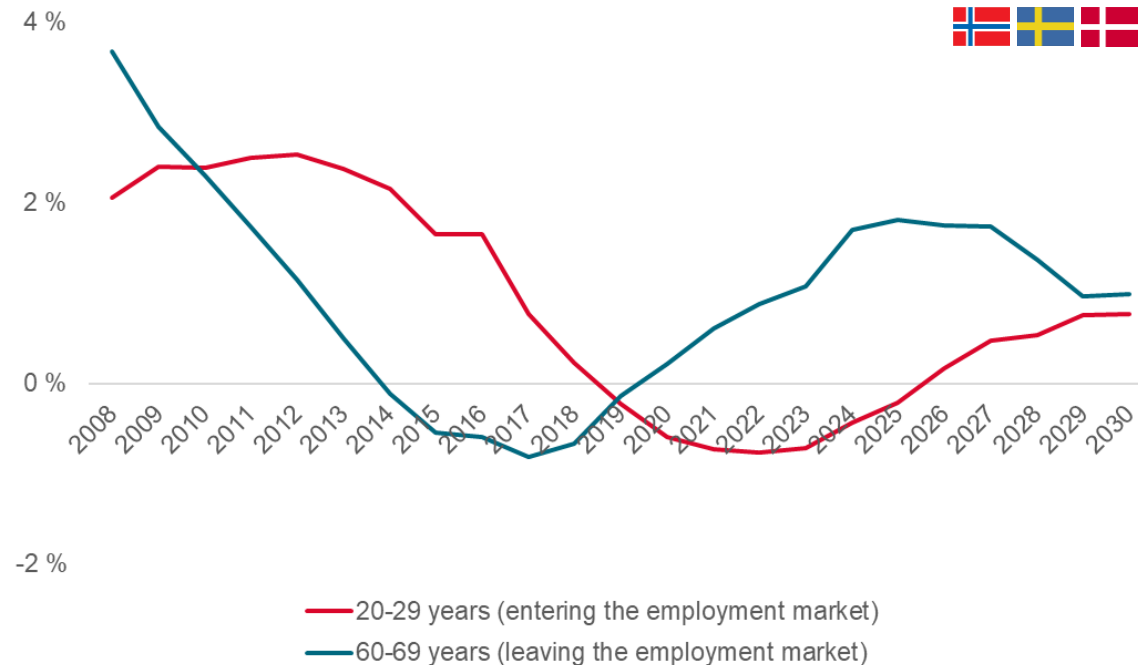


Source: Veidekke's market data

INCREASED COMPETITION FOR LABOUR?

Scandinavia

Number of people per age group, relative change (%)

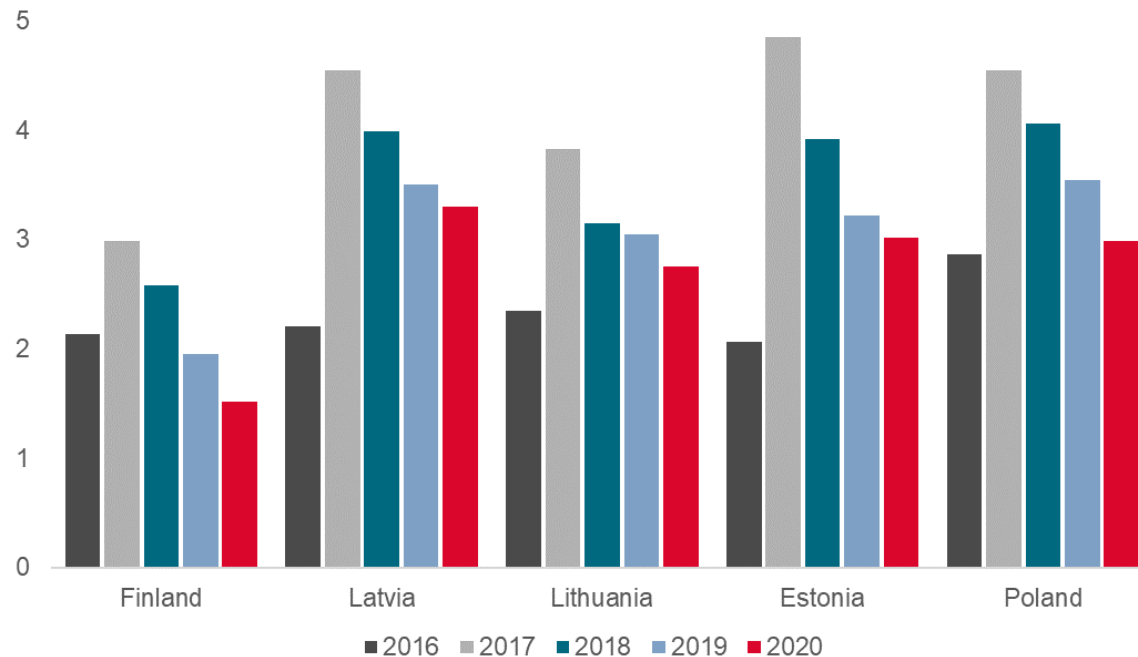


- + Growth in young jobseekers is declining
- + New growth in workers reaching retirement age
- + Decrease in labour immigration

Source: Statistics Norway, Statistics Sweden and Statistics Denmark

STRONG GROWTH IN OUR REGION

GDP growth around the Baltic Sea (%)



+ Economic upturn around the Baltic Sea

+ Affects access to resources:

- Labour
- Suppliers
- Subcontractors

Source: IMF

VEIDEKKE'S ECONOMIC ACTIVITY REPORT

- + Provides forecasts for production/revenue in construction and civil engineering through to the end of 2020
 - Thoughts concerning driving forces and uncertainties

- + Consensus economic forecasts based on data from recognised economic analysis institutions:
 - The IMF, the Swedish National Institute of Economic Research, Statistics Norway, the Danish Economic Councils, central banks, etc.

- + The forecasts for the contracting market are prepared by Veidekke on the basis of:
 - Digital models for data capture and forecasting
 - Internal observation points across Scandinavia
 - Industry reports

ABOUT VEIDEKKE'S ECONOMIC ACTIVITY REPORT

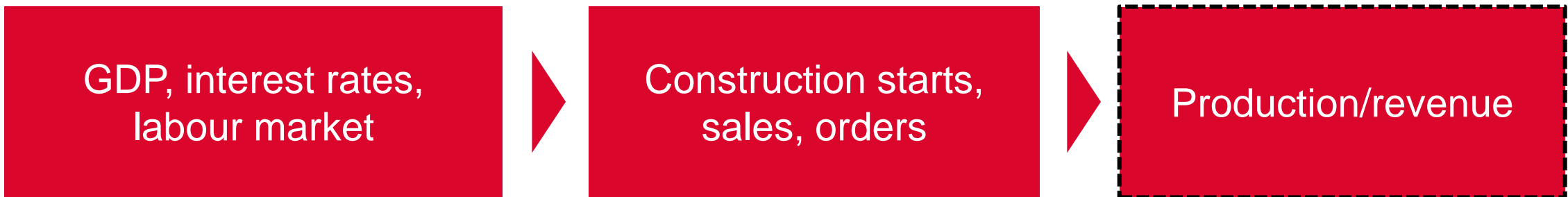
- + The report outlines expected developments in the Scandinavian contracting markets for the period through to the end of 2020 but does not reflect Veidekke's expectations for the Group's own development during the period. The macroeconomic forecasts are based on consensus estimates from established forecasting companies in Norway, Sweden, and Denmark.

FORECASTS FOR CONTRACTING MARKETS 2018–2020



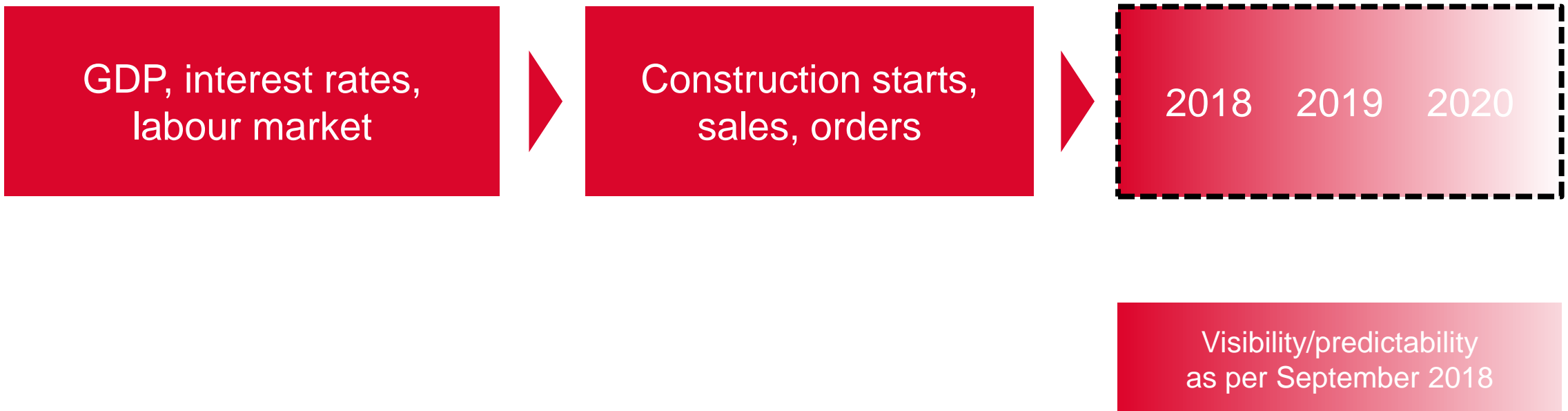
FORECASTS FOR CONTRACTING MARKETS 2018–2020

Indicators:



FORECASTS FOR CONTRACTING MARKETS 2018–2020

Indicators:



HIGHLIGHTS



- + Better market outlook now than in March
- + Residential production is decreasing, but from record levels
- + We expect an attractive contracting market over the next two years

AGENDA



- + **Market drivers**
- + Forecasts for the Scandinavian market
- + Sector review

THE GLOBAL ECONOMY IS LOOKING HEALTHY

GDP growth

Figures in %	2016	2017	2018	2019	2020
Euro zone	1.8	2.4 (2.1)	2.2 (1.9)	1.9 (1.7)	1.8
Germany	1.9	2.5 (2.1)	2.2 (1.8)	2.1 (1.5)	1.5
UK	1.8	1.7 (1.7)	1.4 (1.5)	1.5 (1.6)	1.5
US	1.5	2.3 (2.2)	2.9 (2.3)	2.7 (1.9)	1.9
China	6.7	6.9 (6.8)	6.6 (6.5)	6.4 (6.3)	6.3
Global	3.2	3.7 (3.7)	3.9 (3.9)	3.9 (3.9)	3.8

Figures from March in brackets

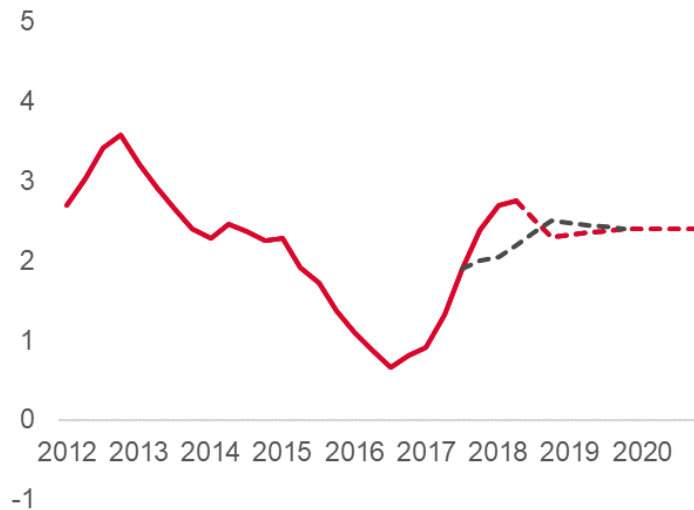
- + Continued stable, positive forecasts for the international economy
- + Rising interest rates in USA, Canada and UK
- + Uncertainties:
 - Financial markets
 - International trade

Source: IMF

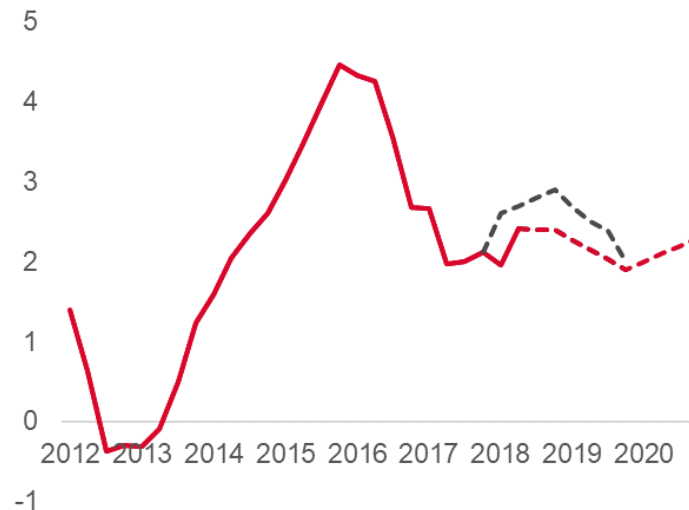
ECONOMIC GROWTH:

THE ECONOMIC UPSWING CONTINUES

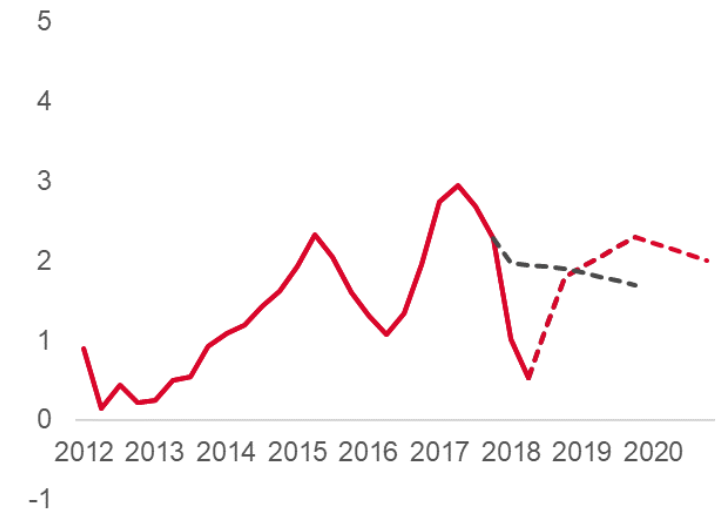
GDP growth Norway (%)



GDP growth Sweden (%)



GDP growth Denmark (%)



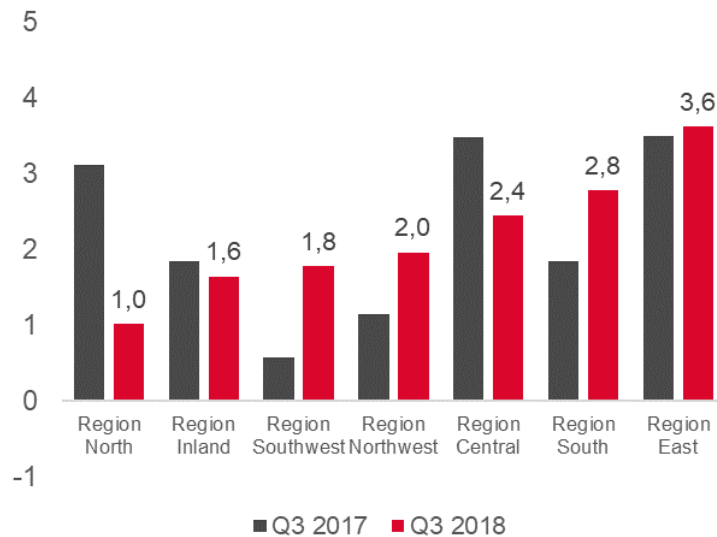
--- Forecast Economic Activity Report March 2018
- - - Forecast Economic Activity Report September 2018

Source: Statistics Norway, Statistics Sweden, the Swedish National Institute of Economic Research and the Danish Economic Councils

ECONOMIC GROWTH:

THE ECONOMIC UPSWING CONTINUES

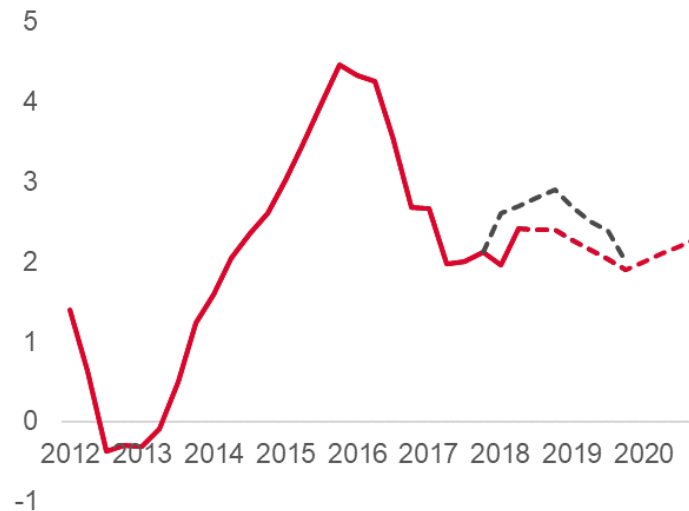
Production growth past 3 months*



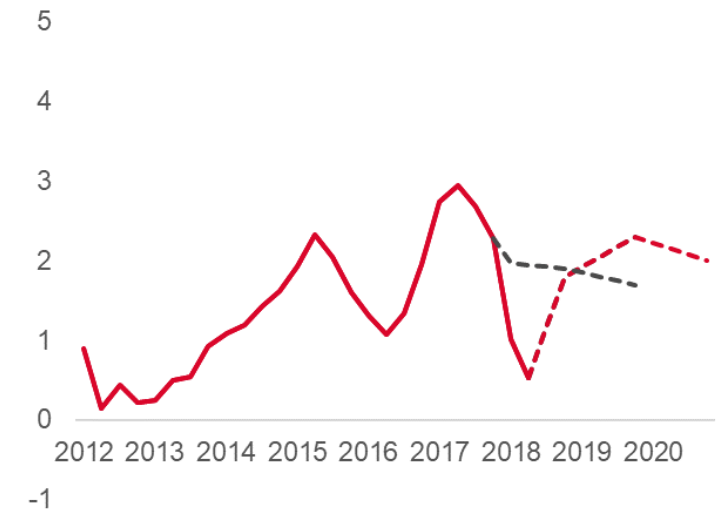
*Recalculated annual growth

--- Forecast Economic Activity Report March 2018
- - - Forecast Economic Activity Report September 2018

GDP growth Sweden (%)



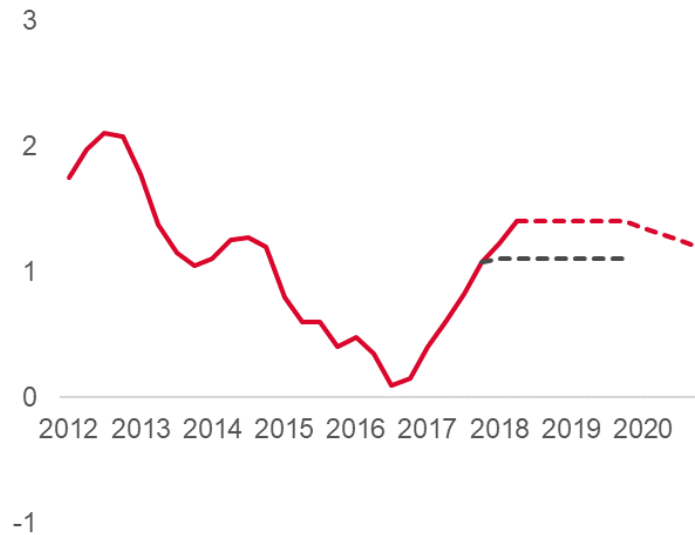
GDP growth Denmark (%)



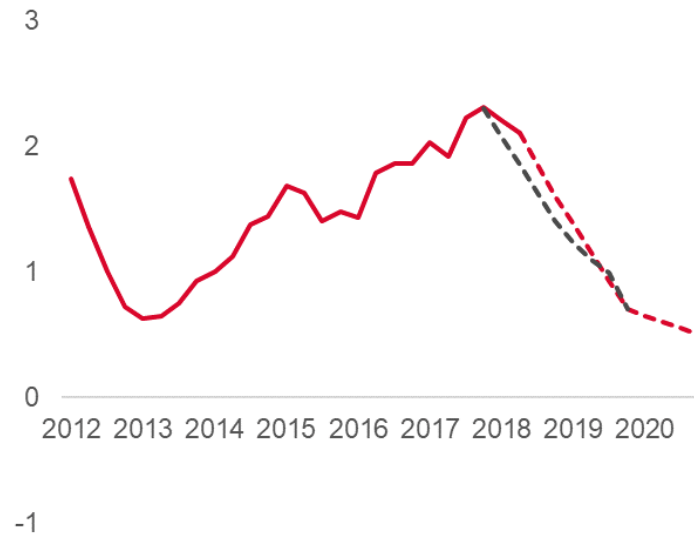
Source: Statistics Norway, Norges Bank, Statistics Sweden, the Swedish National Institute of Economic Research and the Danish Economic Councils

CONTINUED GOOD EMPLOYMENT FIGURES

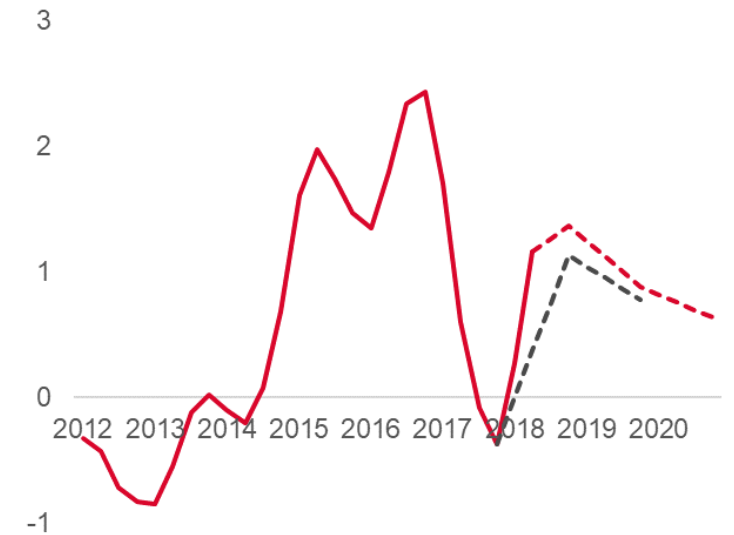
Employment growth Norway (%)



Employment growth Sweden (%)



Employment growth Denmark (%)



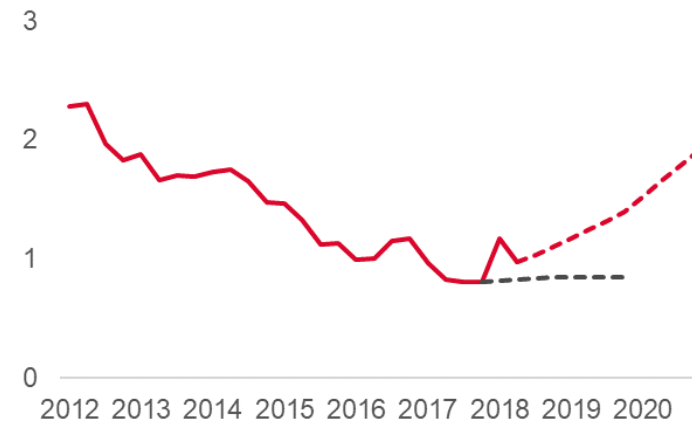
--- Forecast Economic Activity Report March 2018
- - - Forecast Economic Activity Report September 2018

Source: Statistics Norway, Statistics Sweden, the Swedish National Institute of Economic Research and the Danish Economic Councils

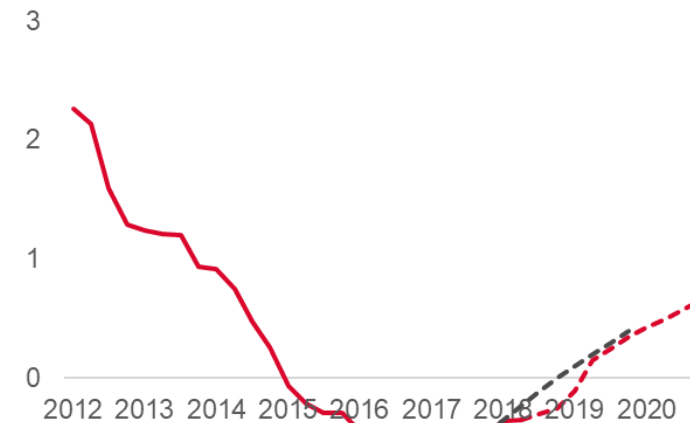
INTEREST RATES:

INTEREST RATES ARE RISING – UNCERTAINTY ABOUT THE EFFECT

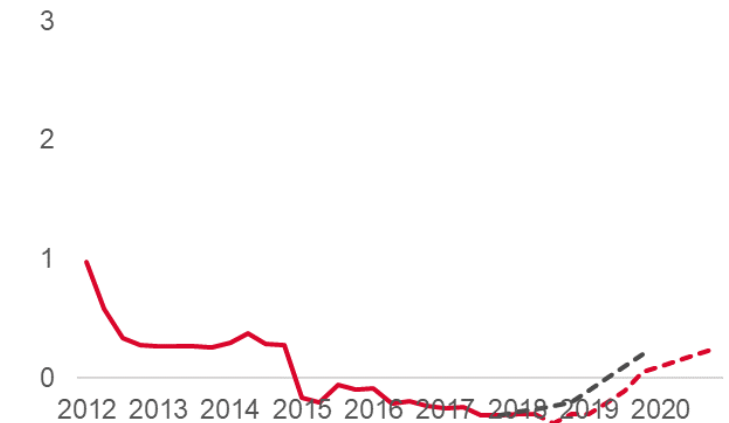
Interest rates Norway



Interest rates Sweden



Interest rates Denmark



--- Forecast Economic Activity Report March 2018
- - - Forecast Economic Activity Report September 2018

Source: Macrobond and Handelsbanken

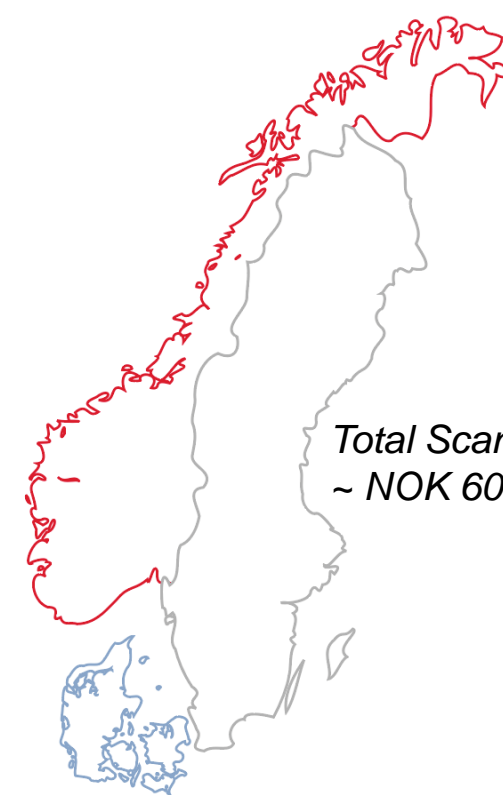
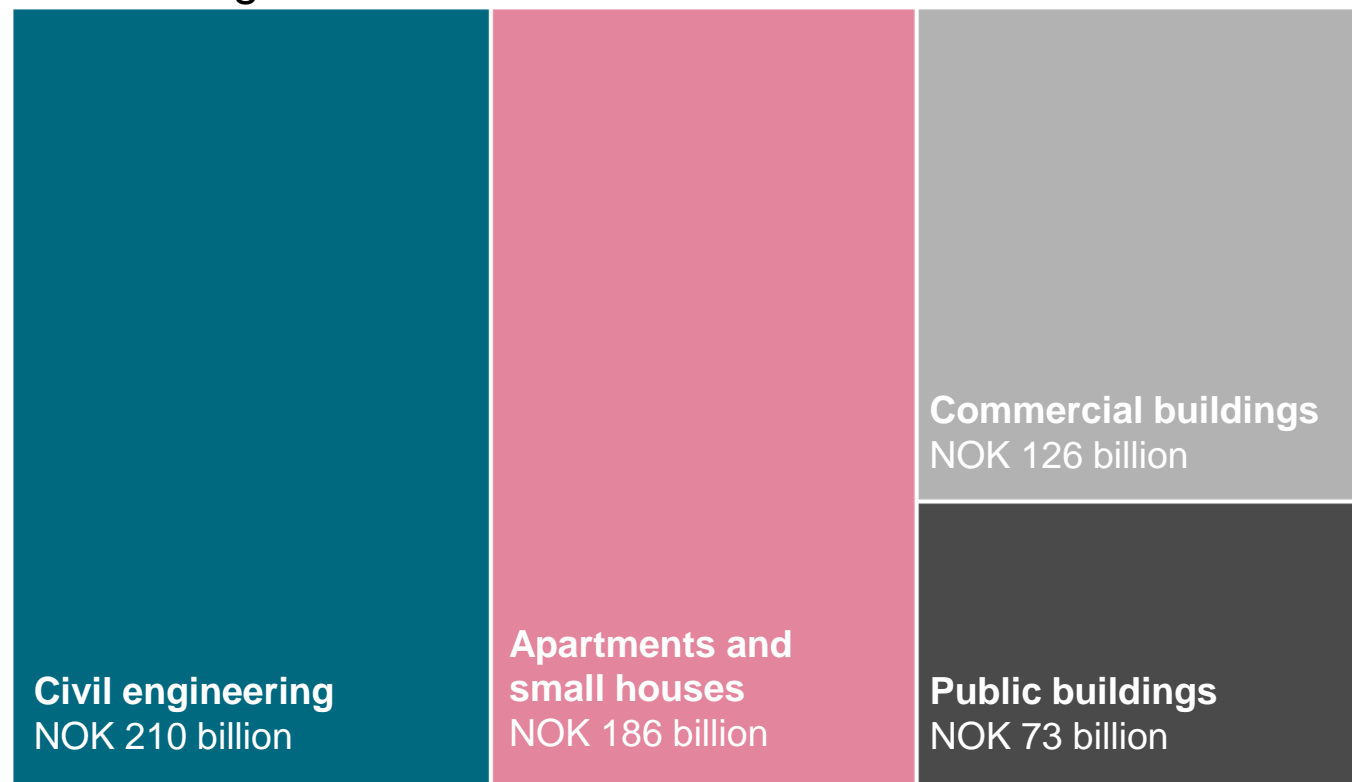
AGENDA



- + Market drivers
- + **Forecasts for the Scandinavian market**
- + Sector review

MARKET OVERVIEW SCANDINAVIA

Contracting market 2017

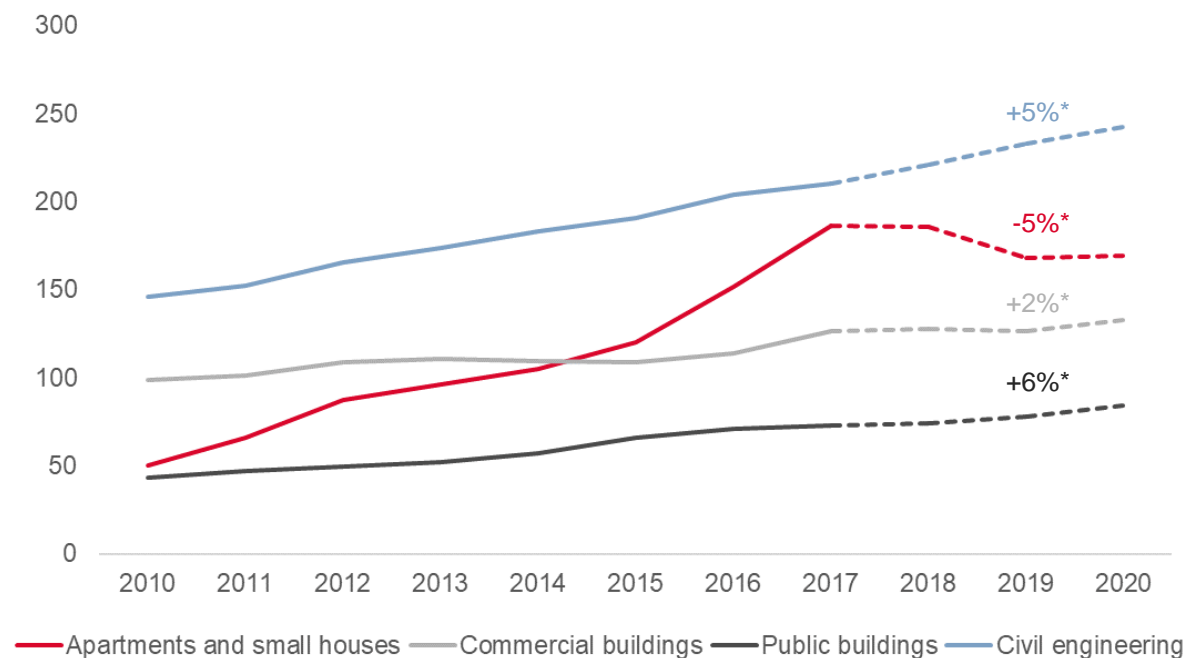


*Total Scandinavian market 2017:
~ NOK 600 billion*

Source: Veidekke's market data

SLIGHT DOWNTURN AHEAD

Contracting market, production per year
NOK billion



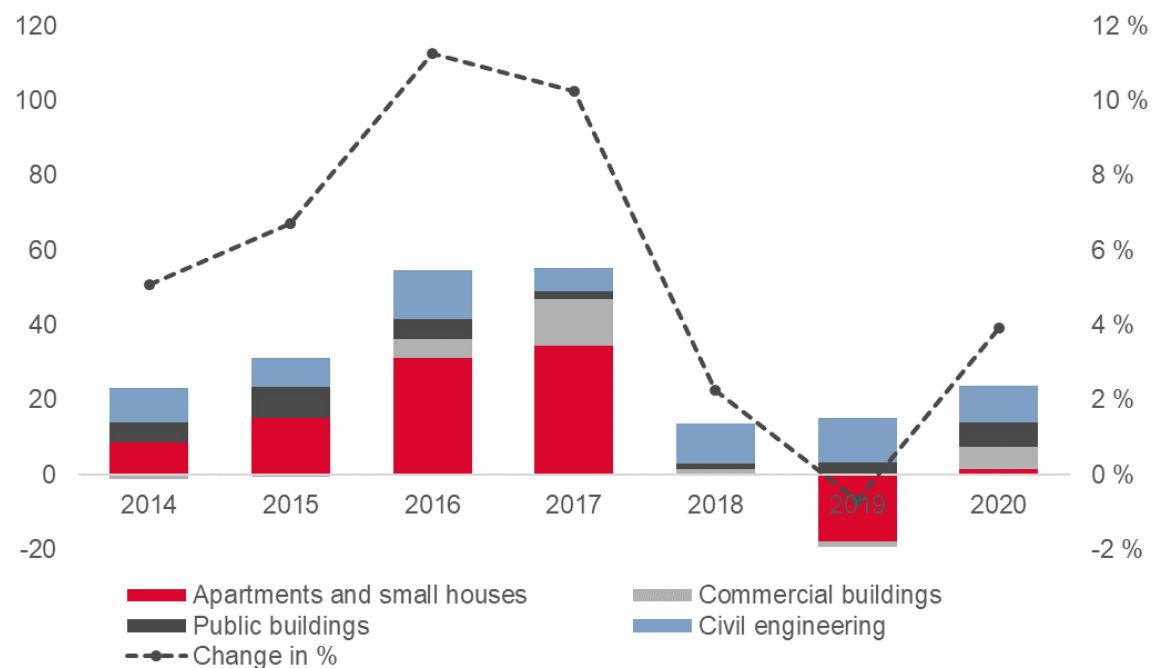
* Annual growth rate 2019 and 2020

- + Stable growth in civil engineering and public buildings
- + Correction in production of apartments and small houses

Source: Veidekke

SLIGHT DOWNTURN AHEAD

Contracting market, production per year
Change in NOK billion per sector and total (%)



- + Stable growth in civil engineering and public buildings
- + Correction in production of apartments and small houses

Source: Veidekke

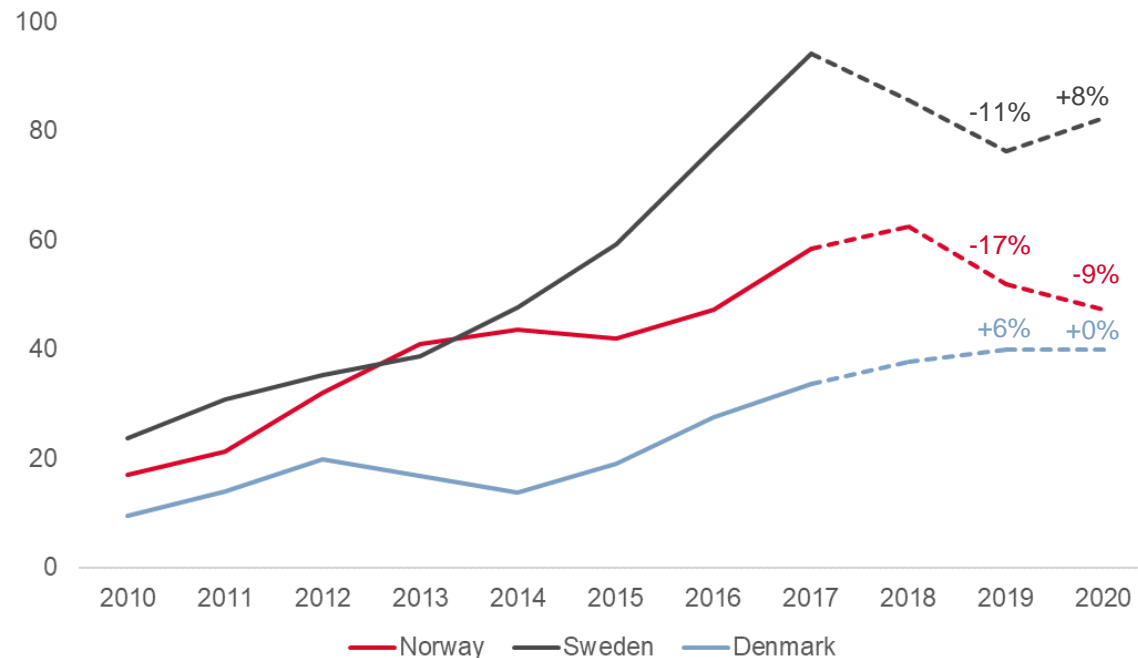
AGENDA



- + Market drivers
- + Forecasts for the Scandinavian market
- + **Sector review**

APARTMENTS AND SMALL HOUSES – LOWER PRODUCTION LEVEL

Contracting market for apartments and small houses
NOK billions, current prices (2018 exchange rate)



* Annual growth rate 2019 and 2020

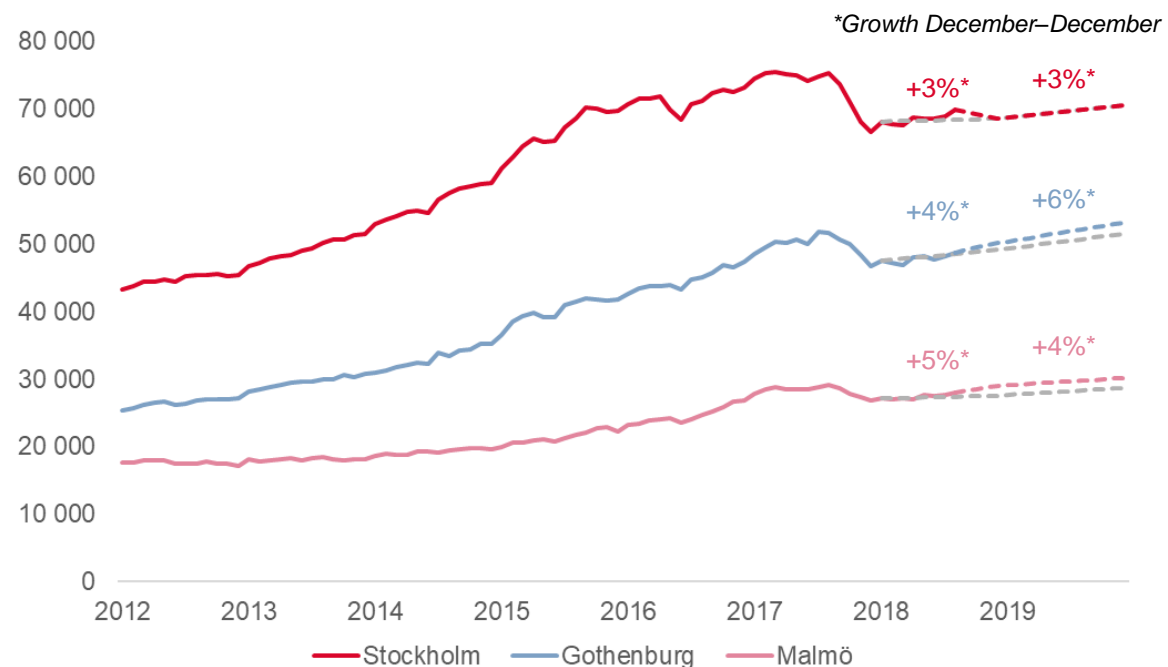
- + Production will follow the decline in sales
- + Abnormally high production in the past few years
- + Positive effects:
 - Strong capacity pressure led to sharp rise in contract costs, particularly in Sweden

Source: Veidekke



SWEDEN: MORE STABLE DEVELOPMENT IN RESIDENTIAL MARKET

Price per square metre, apartments in selected cities, SEK



Grey dashed line shows Veidekke's forecast from March 2018, updated

Source: Veidekke and HOX Valueguard

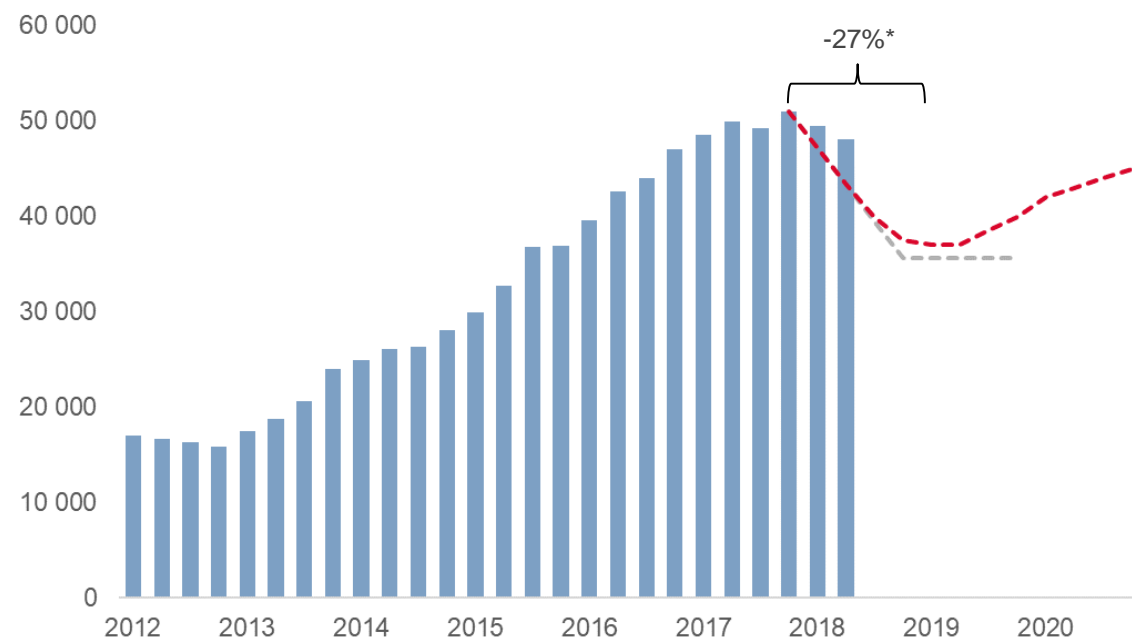
- + Good price development
 - Even regional distribution
- + High but stable supply side
 - Both resale and new
- + Demand for loans rising again
 - But more restrictive practices will affect some groups of buyers



NEW HOMES – DECREASE IN CONSTRUCTION STARTS AND PRODUCTION

Construction starts – apartments and small houses

No. of units, 12 months rolling



Grey dashed line shows Veidekke's forecast from March 2018, updated

*From top point 4Q 2017 to low point 1Q 2019

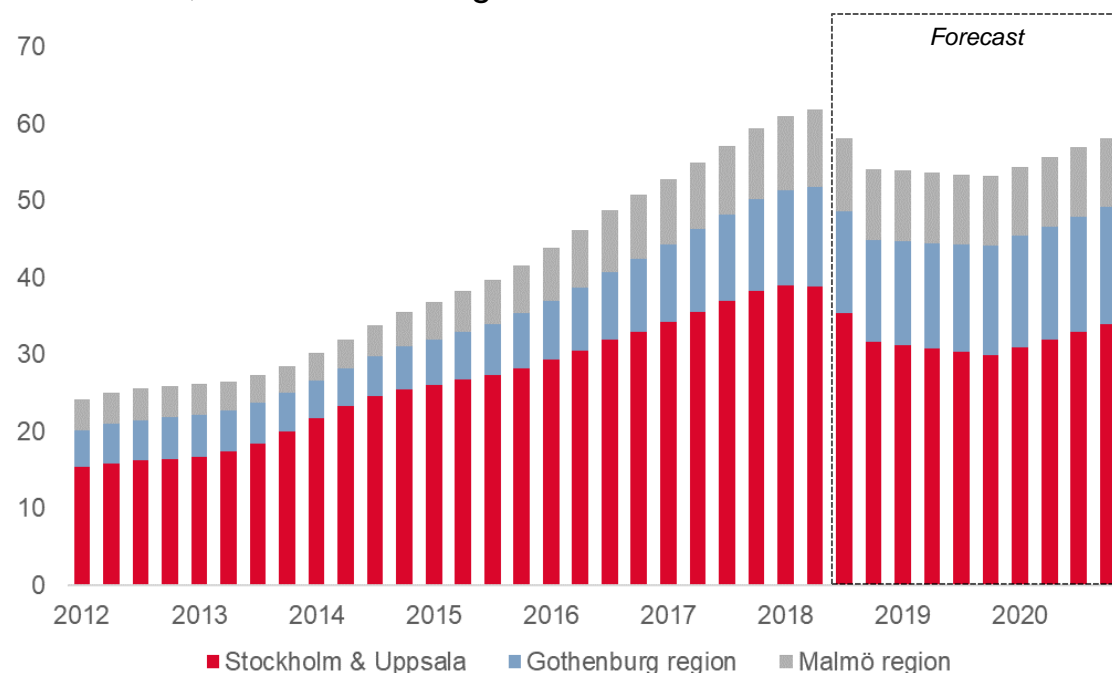
Source: Veidekke and Statistics Sweden

- + Decrease in construction starts, with positive effect on the market
 - Positive signals from sales
 - Supply side remains high
- + Upward adjustment from March based on:
 - The resale housing market
 - Strong macroeconomy
- + Biggest decline in the Stockholm region



NEW HOMES – DECREASE IN CONSTRUCTION STARTS AND PRODUCTION

Production of apartments and small houses (no. of units)
SEK billions, 12 months rolling



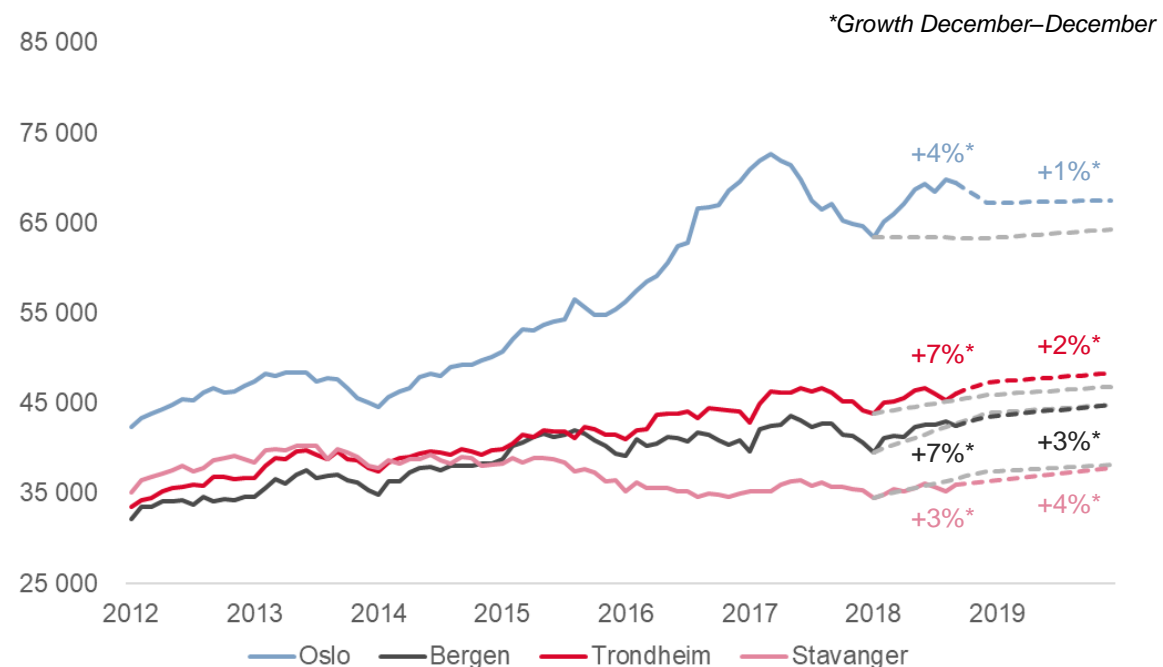
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Source: Veidekke



NORWAY: GOOD HOUSING MARKET IN FIRST HALF OF THE YEAR

Price (NOK) per square metre, all residential



Grey dashed line shows Veidekke's forecast from March 2018

Source: Property Development Norway and Veidekke

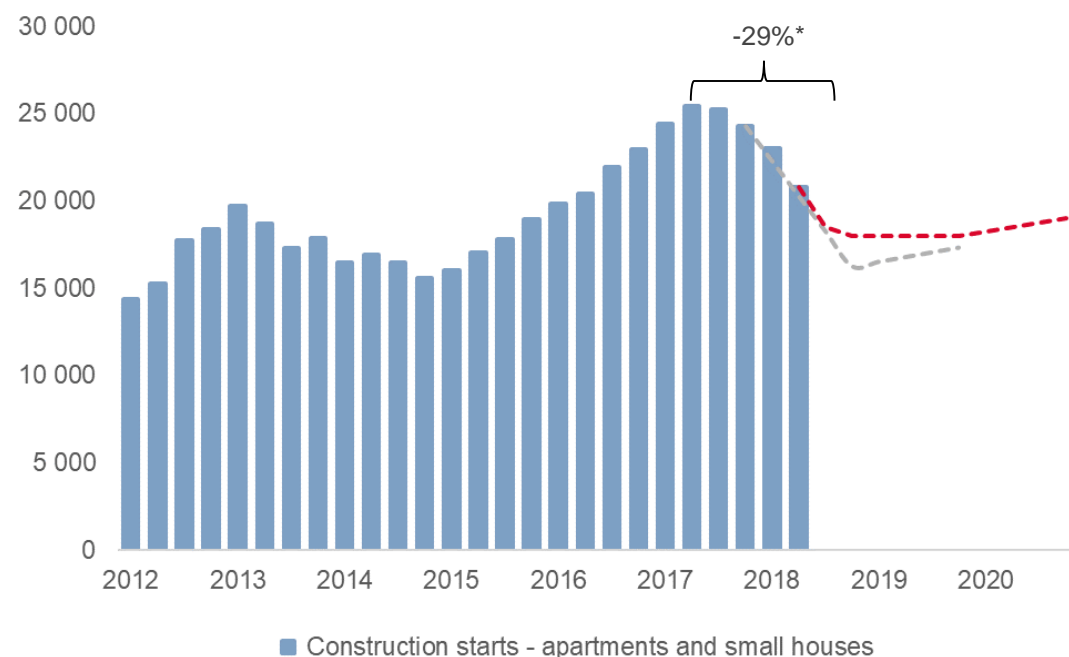
- + Price growth and high transaction activity
- + Calming effects:
 - Growing supply of new houses in the market
 - Rising interest rates
 - Lower population growth
- + Joker: Market psychology and media
 - Prices in Oslo expected to fall during autumn...



NO. OF CONSTRUCTION STARTS AND PRODUCTION WILL REFLECT SALES

Construction starts – apartments and small houses

No. of units, 12 months rolling



Grey dashed line shows Veidekke's forecast from March 2018, updated

*From top point 4Q 2017 to low point 1Q 2019

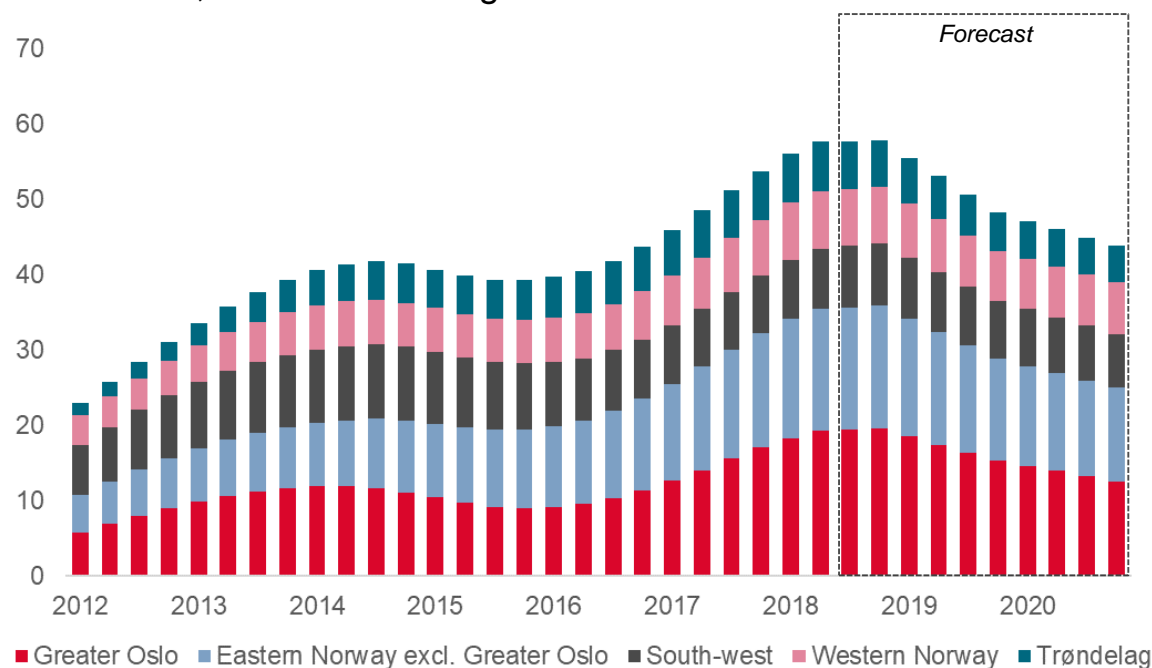
Source: Veidekke and Statistics Norway

- + Number of construction starts will follow sales down
- + Upward adjustment from March based on:
 - The resale housing market
 - Registered sales of new homes
 - The economy in general
- + Largest market corrections in Oslo



NO. OF CONSTRUCTION STARTS AND PRODUCTION WILL REFLECT SALES

Production of apartments and small houses (no. of units)
NOK billions, 12 months rolling



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 - The resale housing market
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 - The economy in general
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Source: Veidekke's market data

NON-RESIDENTIAL BUILDINGS

Commercial buildings:

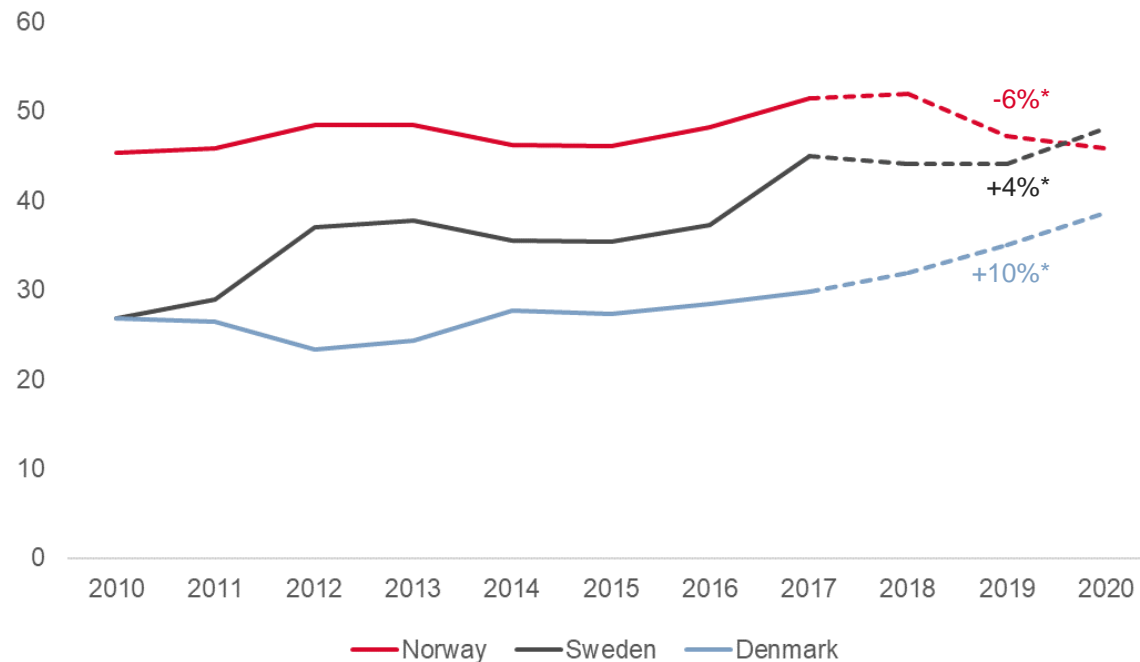
Offices, wholesale and retail trade, industry and warehouses

Public buildings:

Schools, cultural and recreational buildings, nursing homes and hospitals

COMMERCIAL BUILDINGS

Contracting market commercial buildings
NOK billions, current prices (2018 exchange rate)



*Annual growth rate 2019 and 2020

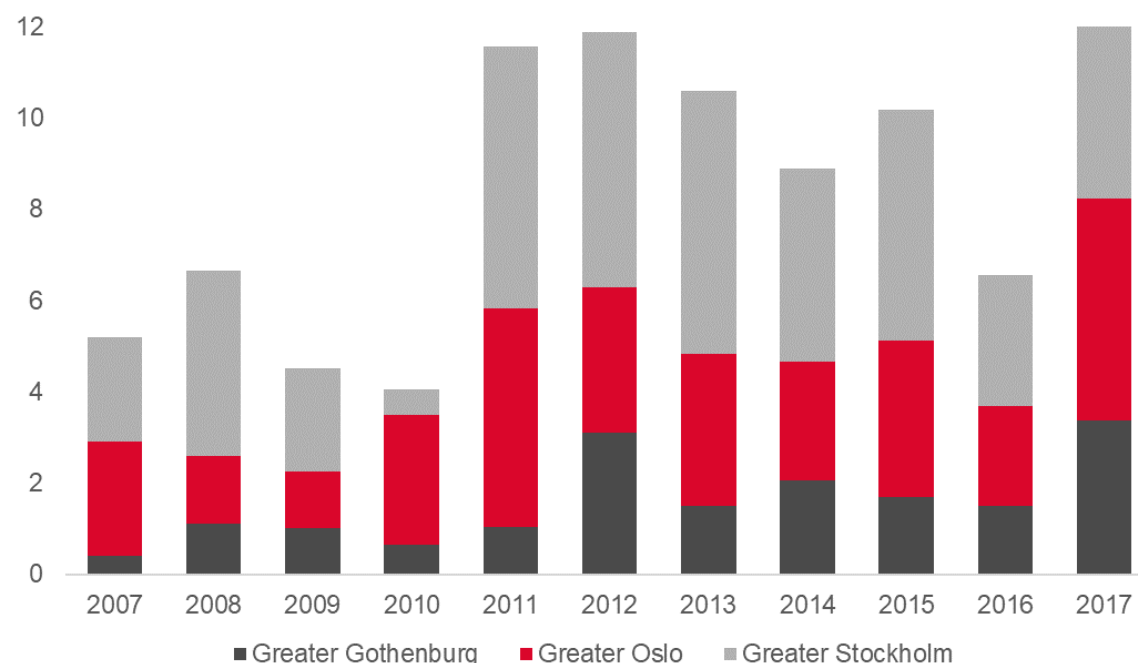
Source: Veidekke

- + Slight decline from high level in Norway
 - Falling number of construction starts registered
- + Market assessment from the organisation:
 - Many development projects and good economic climate, but...
 - Tougher competition
- + Continued growth in Denmark

LARGEST OFFICE MARKETS

Contracting market office buildings – three largest markets

Value of started sites – NOK billions, current prices (2018 exchange rate)



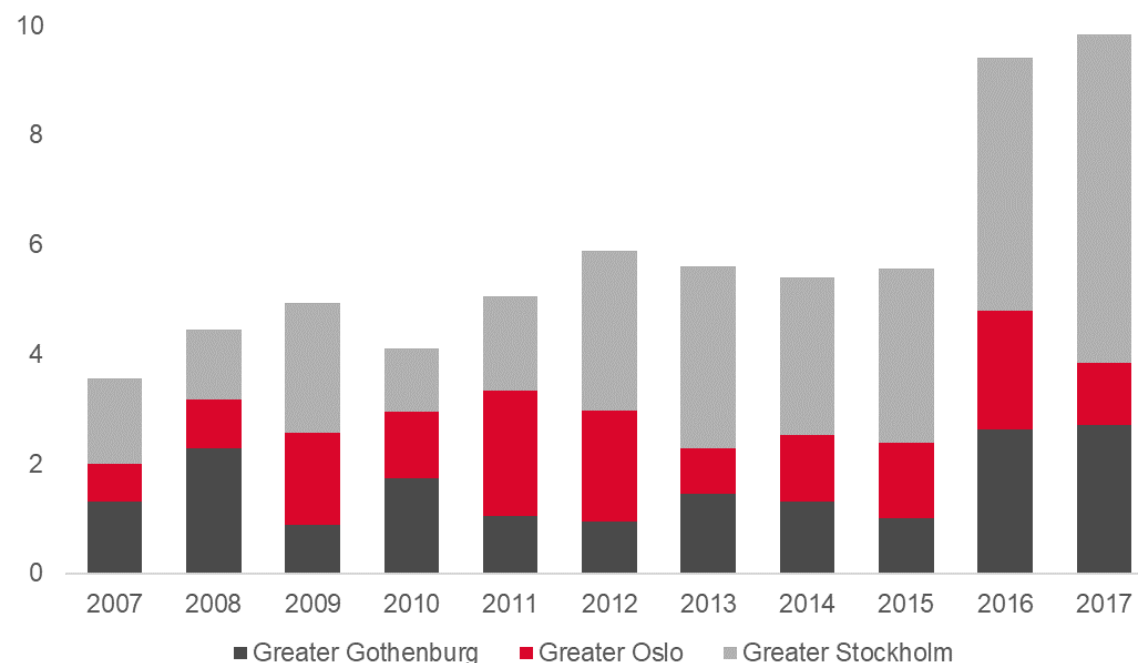
- + Total number of construction starts 2017 (Norway and Sweden) ~ NOK 25 billion.
- + The 2017 office market boom will result in a high number of completions in 2019 and 2020
 - In Greater Oslo almost 300,000 m² per year
- + The underlying drivers are good
 - Employment growth
 - Interest rates

Source: Veidekke

LARGEST INDUSTRY AND WAREHOUSES MARKETS

Contracting market industry and warehouses – largest markets

Value of started sites – NOK billions, current prices (2018 exchange rate)

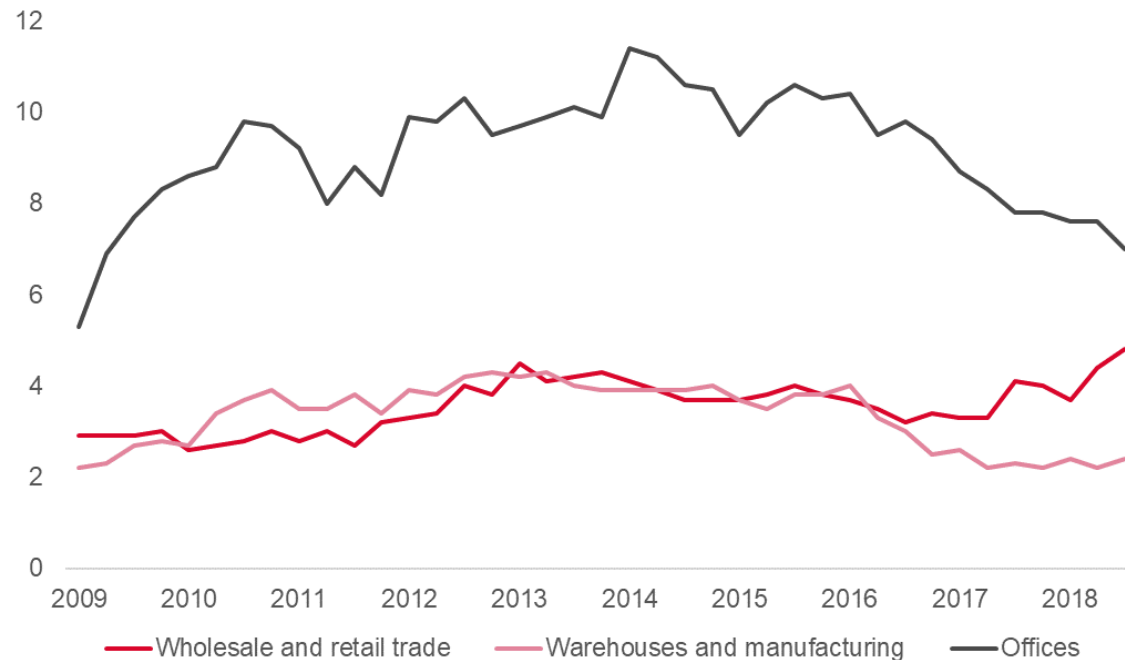


- + Total number of construction starts 2017 (Norway and Sweden) ~ NOK 45 billion
- + Strong upswing for industry and warehouses
 - Strong export market and weak krone in industry
 - Economic and structural factors in logistics

Source: Veidekke

THE VACANCY RATE CONTINUES TO FALL IN DENMARK

Vacancy rate in the Copenhagen region

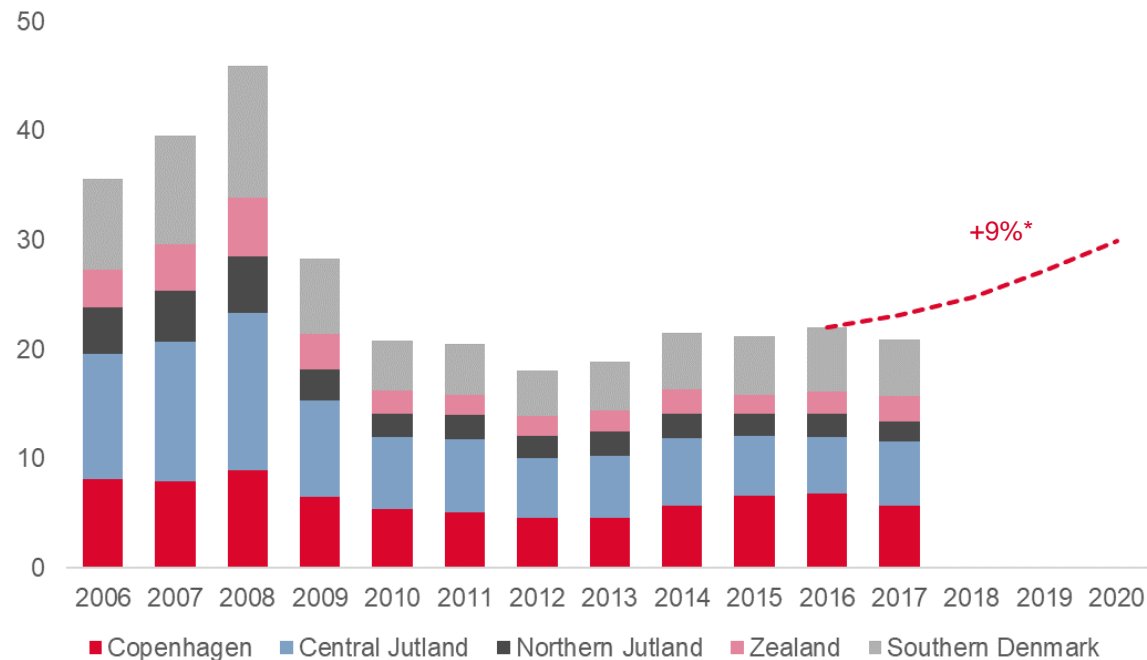


- + Improvements in Copenhagen and the surrounding region
 - Major urban development projects
- + The vacancy rate is slowly declining
- + Increased vacancy in the retail segment

Source: Ejendomstorvet

COMMERCIAL BUILDINGS: DENMARK

Production of commercial buildings DKK billions, current prices



* Annual growth rate 2018–2020

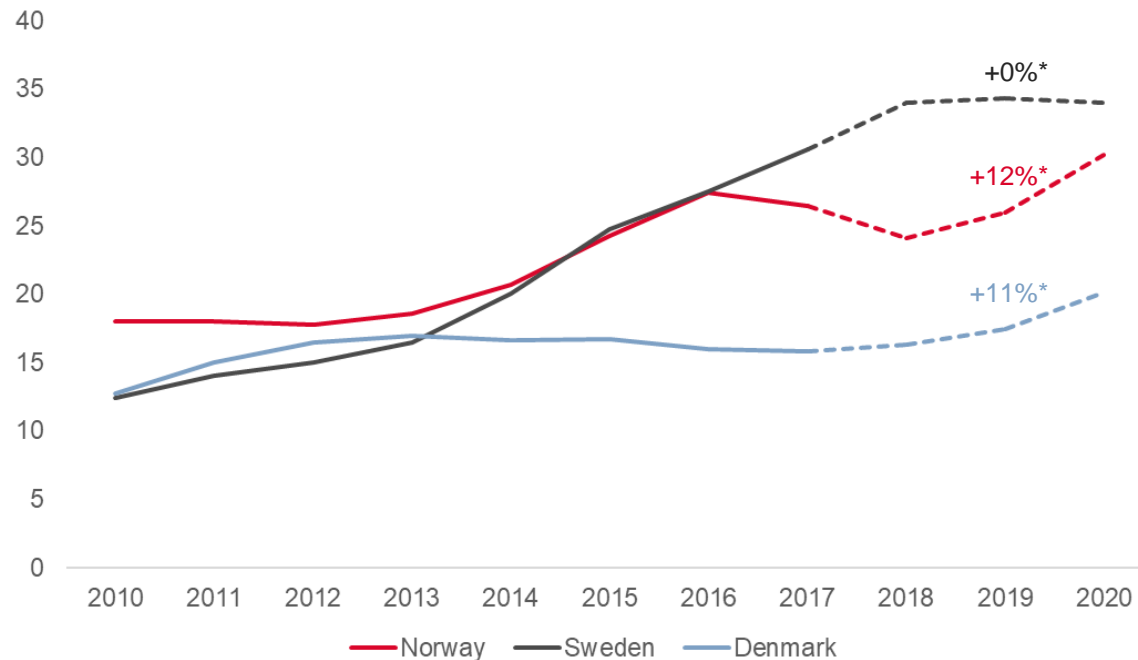
- + The market is picking up again after a prolonged recession
- + The Copenhagen region is leading the way
- + Significant underreporting for 2017 due to technical changes in Statistics Denmark

Source: Statistics Denmark and Veidekke's market data

PUBLIC BUILDINGS

Production of public buildings

NOK billions, current prices (2018 exchange rate)



* Annual growth rate 2019 and 2020

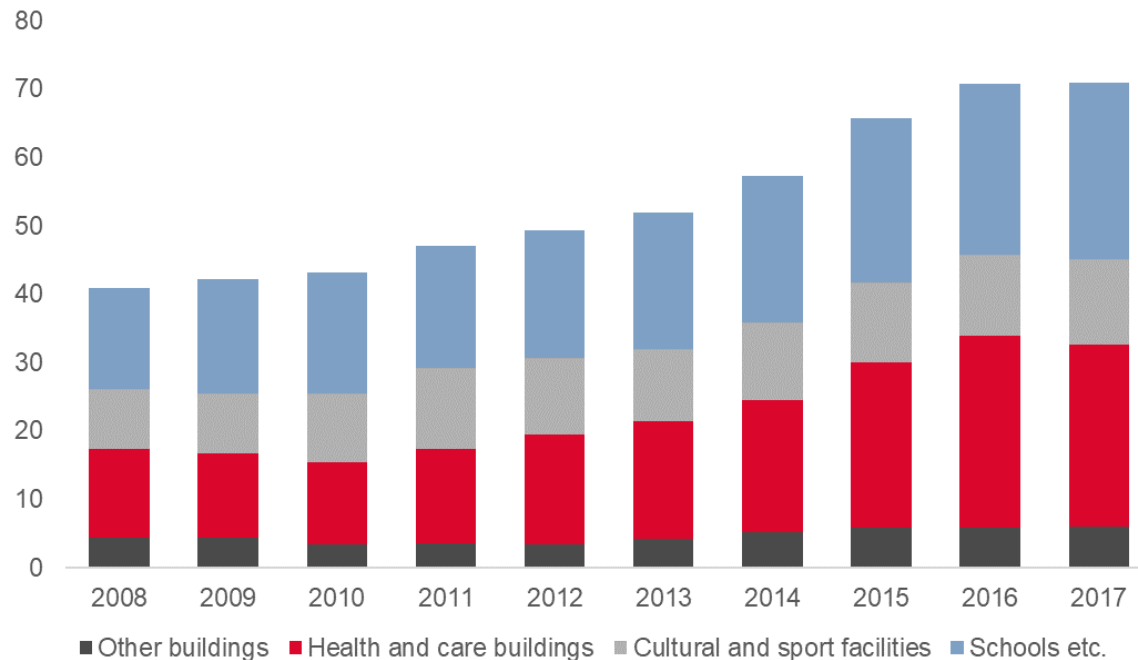
+ A mixed bag

- High level of production in Sweden and Norway
- The Danish market is more hesitant
- High level of debt in the municipal sector – susceptible to interest rate hikes

Source: Veidekke's market data

SCHOOLS HAVE BEEN A DOMINANT SEGMENT

Production of public buildings per segment
NOK billions, current prices (2018 exchange rate)



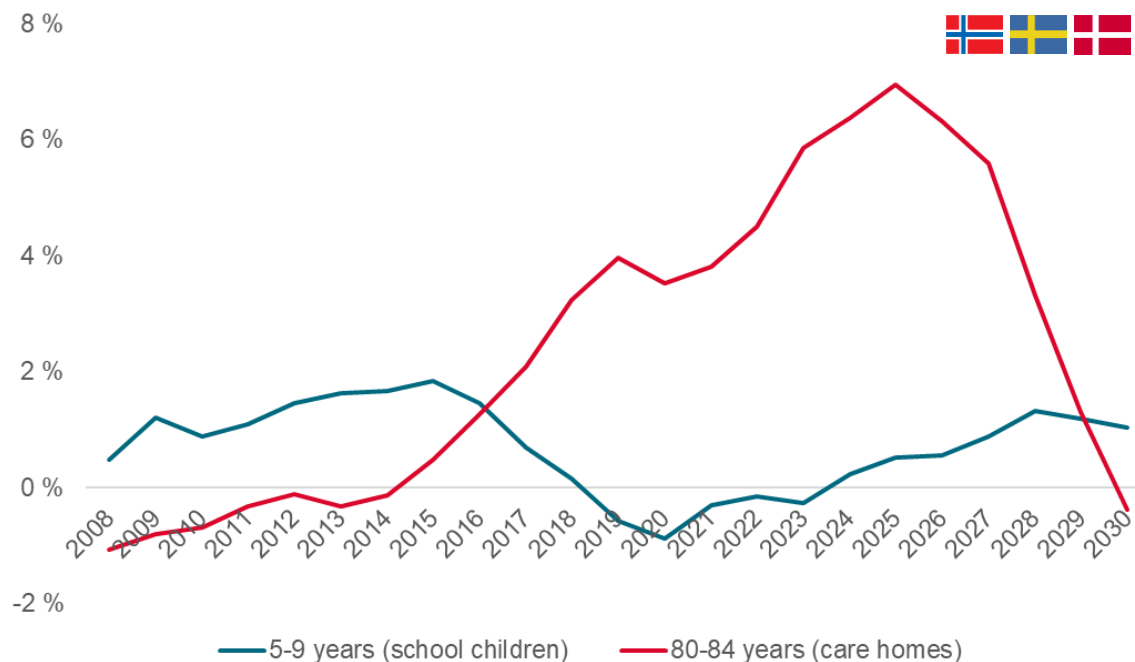
- + New growth in the care market
 - But different developments in the three countries
- + There has been a boom in school building for some time – slightly declining needs going forwards?

Source: Veidekke's market data

A SURGE OF INCREASED DEMAND IN THE HEALTH SECTOR

Scandinavia

Number of people in age group, relative change (%)



- + Number of school children aged 5–9 years will fall
- + Number of people over 80 will increase by almost 70 % over the next 10 years
- + Greatest change in Norway and Sweden

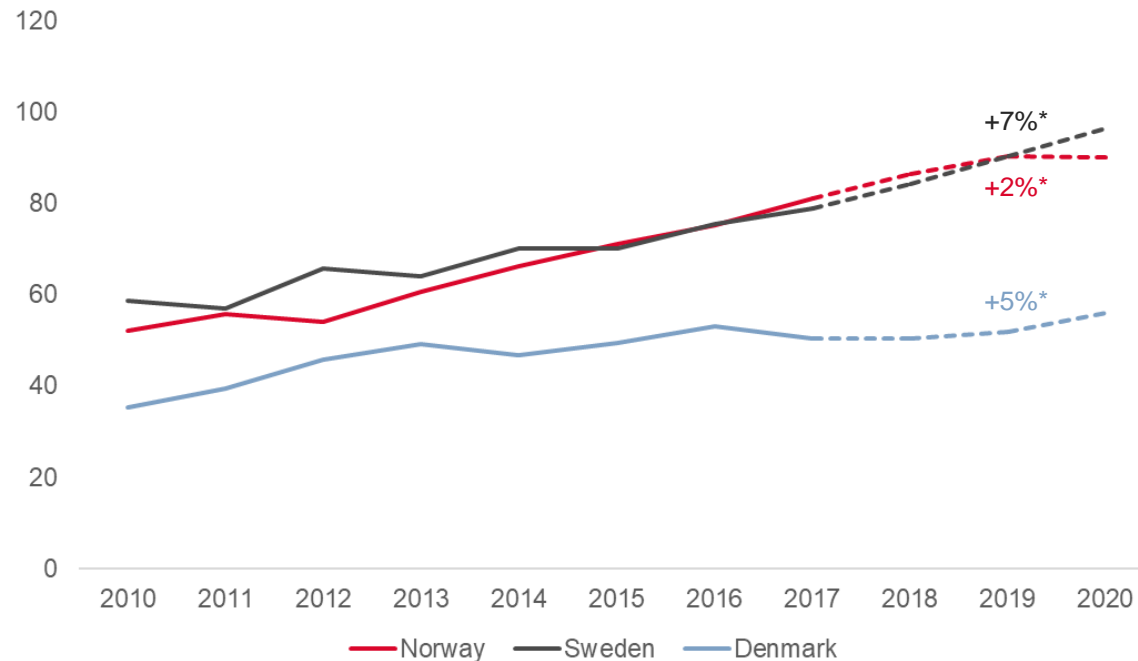
Source: Veidekke



CIVIL ENGINEERING MARKET

CIVIL ENGINEERING

Investments in civil engineering
NOK billions, current prices (2018 exchange rate)



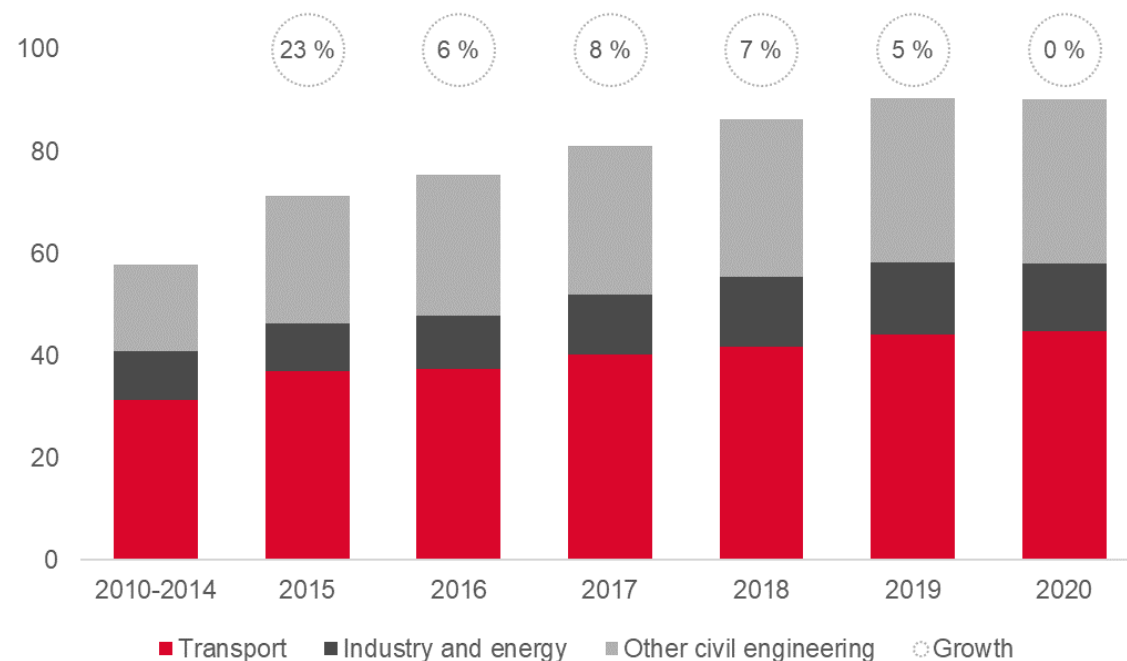
* Annual growth rate 2019 and 2020

- + Growth continues in Sweden
- + Slowdown at a very high level in Norway
- + No growth in Denmark

Source: Veidekke, Statistics Norway, Statistics Sweden and Statistics Denmark

NORWAY: LEVELLING OFF TOWARDS 2020

Production in various civil engineering segments
NOK billions, current prices



- + Progress in all segments this year
- + Great optimism and high number of contracts among companies in the Norwegian Association of Heavy Equipment Contractors (MEF)
- + Transport represents about half of the market
- + Slower growth going forwards

Source: Veidekke, Statistics Norway, Norwegian Public Roads Administration, National Transport Plan, National Budget

TRANSPORT IN NORWAY: AMBITIOUS PLANS, BUT TIGHTER BUDGETS...

Knipen Solberg advarer regjeringskollegene

Når økonomien går bra, må det offentlige holde tilbake. Det betyr stram budsjett disiplin, også i valgåret 2019, varsler statsminister Erna Solberg (H).



Source: VG and Aftenposten

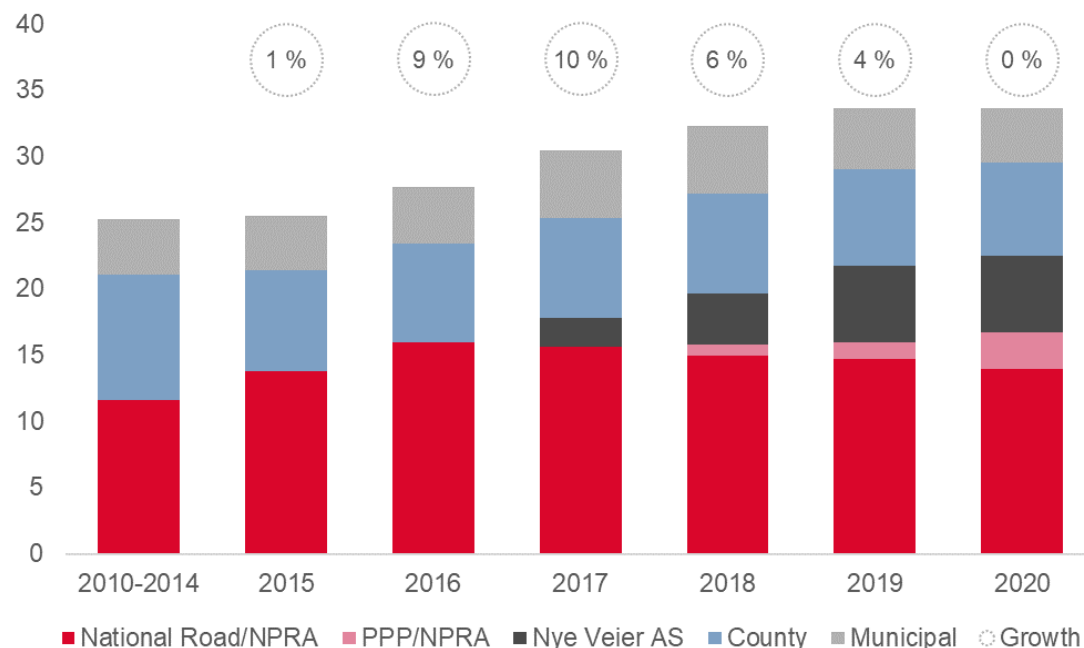


TREKKER SEG: Samferdselsminister Ketil Solvik-Olsen flytter til USA med kona. Foto: Trond Solberg

Solvik-Olsen trekker seg som samferdselsminister

ROADS IN NORWAY: STEADY AT A HIGH LEVEL

Road production by customer
NOK billions, current prices

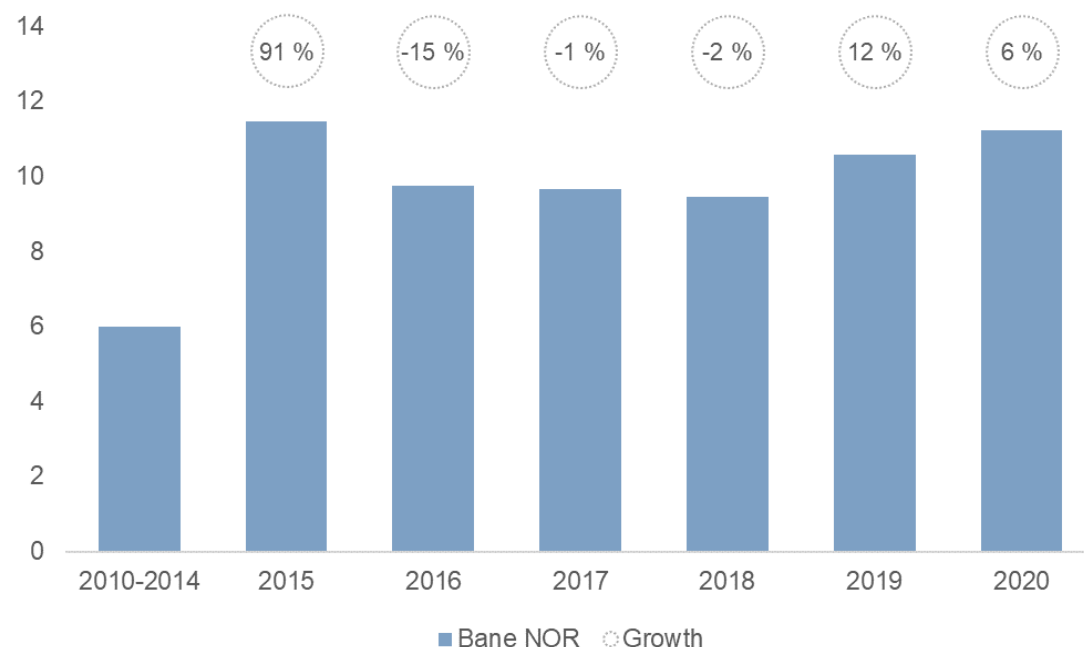


- + Upward adjustment of the market for 2017
 - Municipal investments in roads
- + The main drivers going forwards will continue to be PPP projects and growth in Nye Veier AS
- + Levelling off at a very high level towards the end of the forecast period

Source: Veidekke, Statistics Norway, Norwegian Public Roads Administration, National Transport Plan, National Budget

RAILWAYS IN NORWAY: CONTINUED DEVELOPMENT AT A SLOWER PACE

Investments in railways NOK billions, current prices

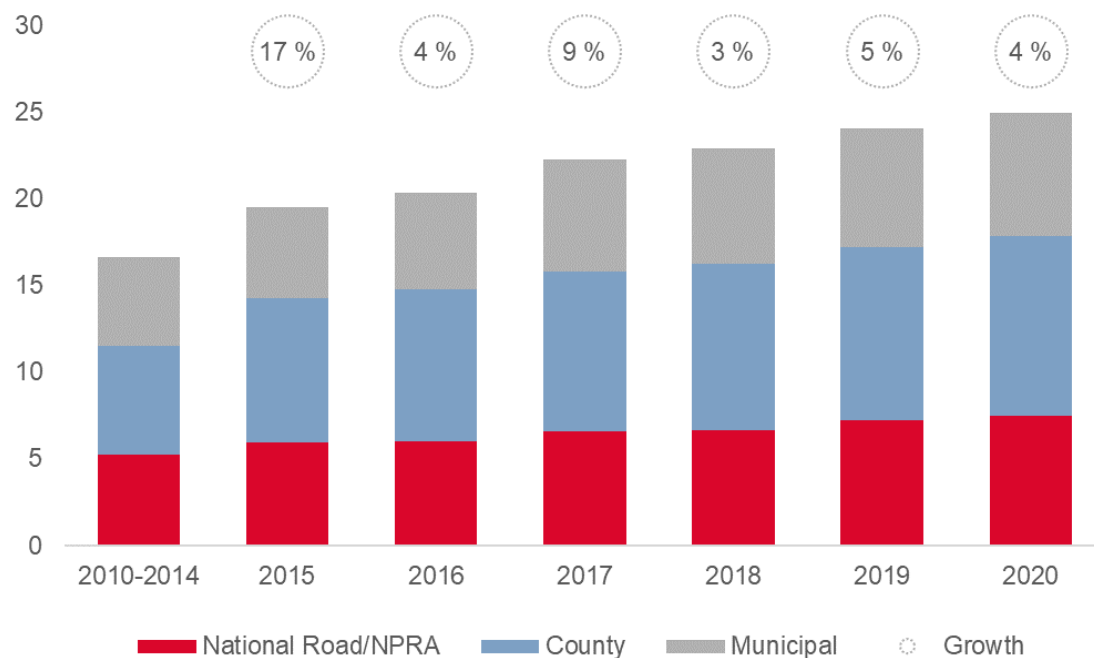


- + The InterCity triangle is being developed at a more moderate pace
 - Downward adjustment from March
- + New contracts worth NOK 60 billion in the market over the next three years
- + Railways will become the main driver in the transport segment in the future

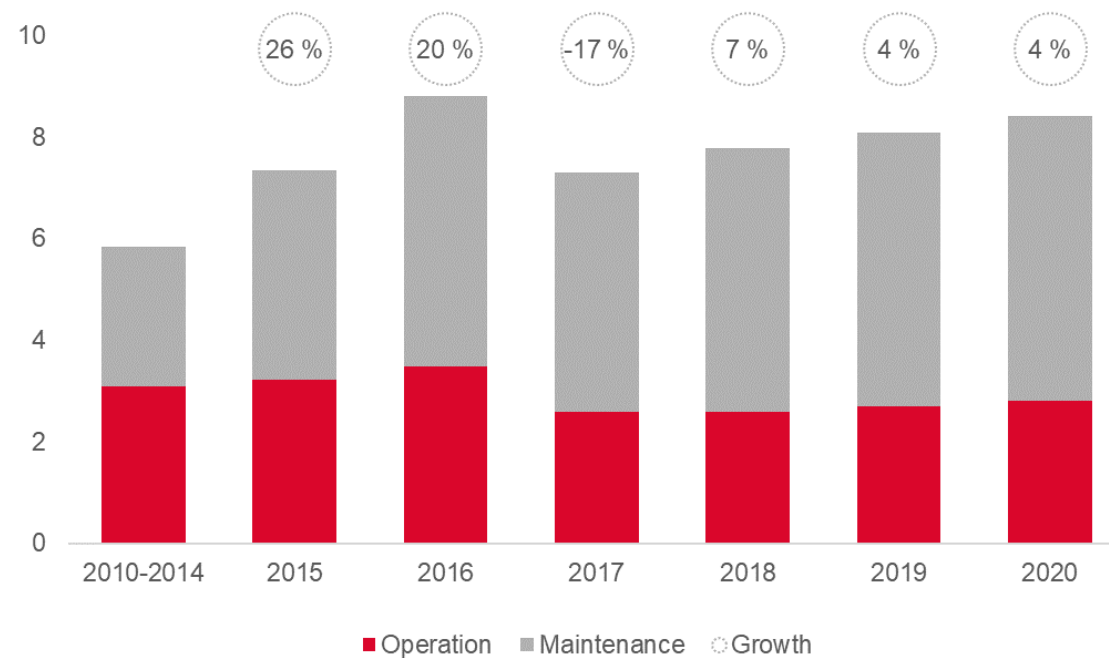
Source: Veidekke, Statistics Norway, Norwegian Public Roads Administration, National Transport Plan, National Budget

ROAD MAINTENANCE: GRADUAL INCREASE

Operation and maintenance of roads
NOK billions, current prices



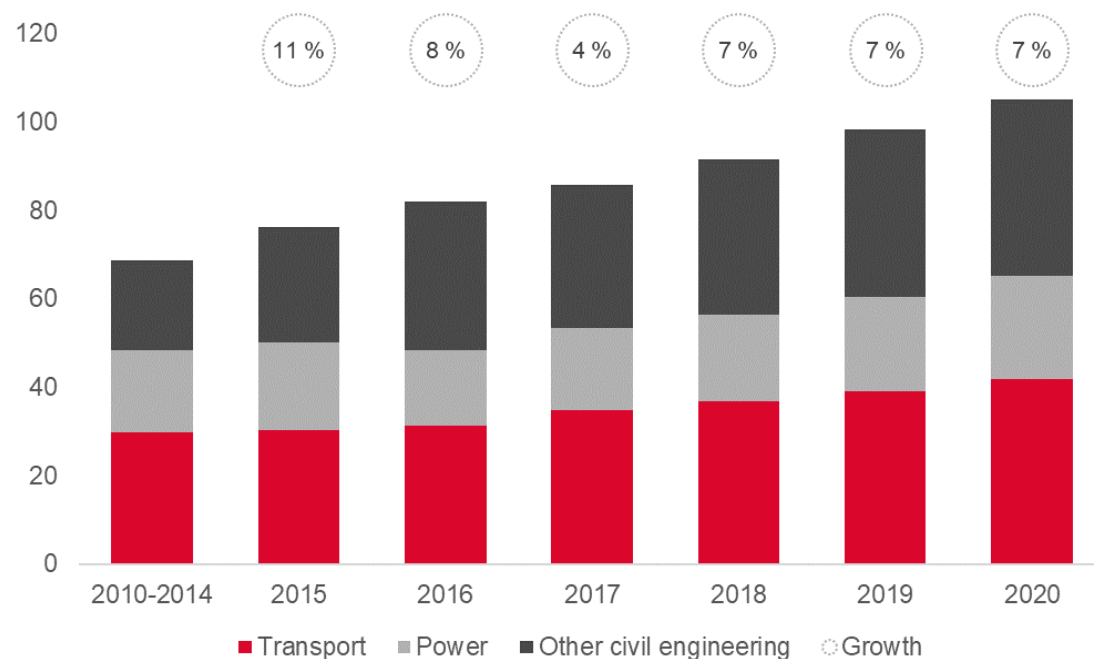
Operation and maintenance of railways
NOK billions, current prices



Source: Veidekke, Statistics Norway, Norwegian Public Roads Administration, National Transport Plan, National Budget

SWEDEN: VERY POSITIVE PROSPECTS

Production in several civil engineering segments
SEK billions, current prices

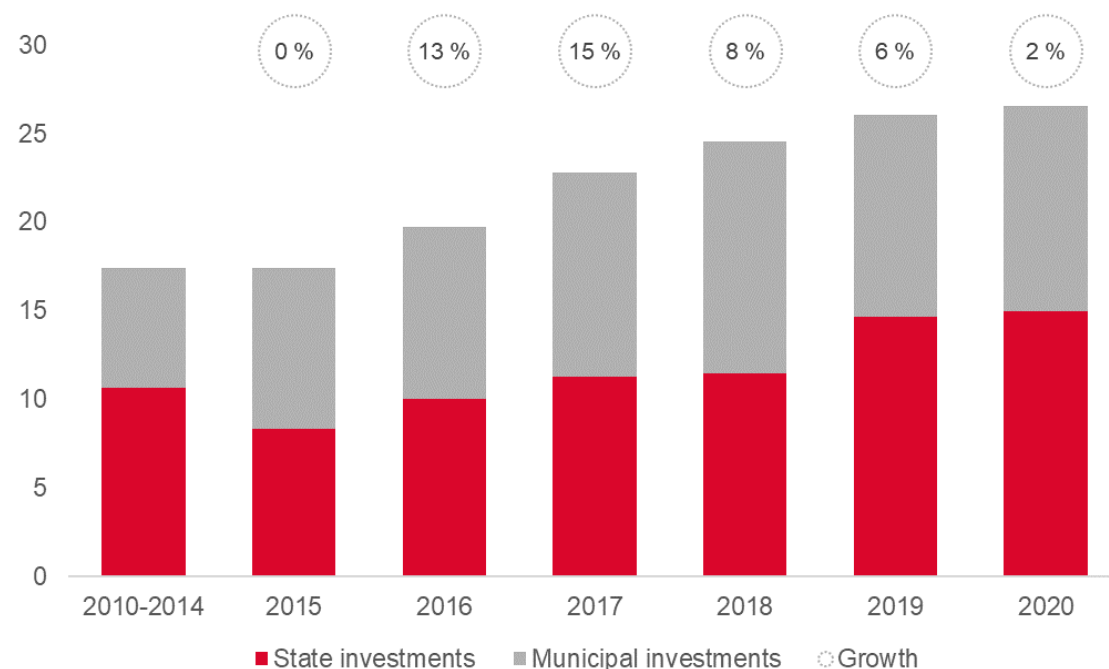


- + Progress across the board in the Swedish civil engineering market
- + Positive contributions from the energy sector
 - Upgrade of the power grid
 - Other renewable sources
- + Strong growth expected in the mining industry
- + Major transport projects in metropolitan areas

Source: Veidekke, Statistics Sweden, Swedish Transport Administration

ROADS IN SWEDEN: A GROWING MARKET

Road production by customer
SEK billions, current prices

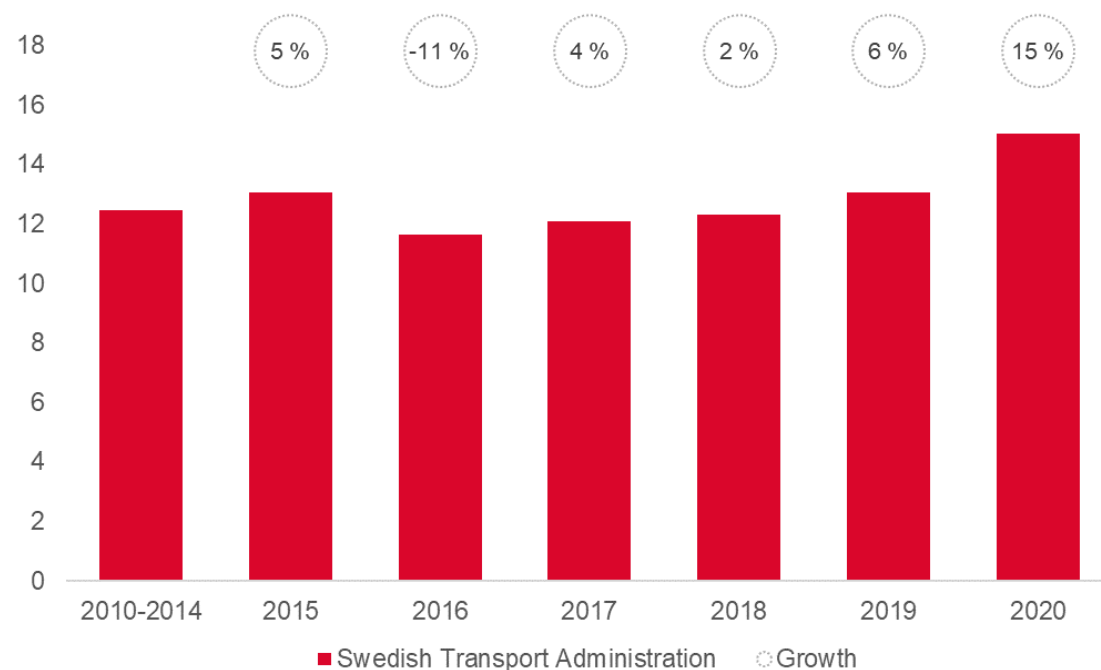


- + The municipalities continue to dominate this market
- + More large projects, representing a greater share of investments in the future
- + High activity expected in Stockholm and Gothenburg

Source: Veidekke, Statistics Sweden, Swedish Transport Administration

RAILWAYS IN SWEDEN: MANY SIGNS OF NEW GROWTH

Investments in railways SEK billions, current prices



- + High production in ongoing projects has contributed to stable development in recent years
- + Prospects for growth in the railways market
 - Realisation of huge projects

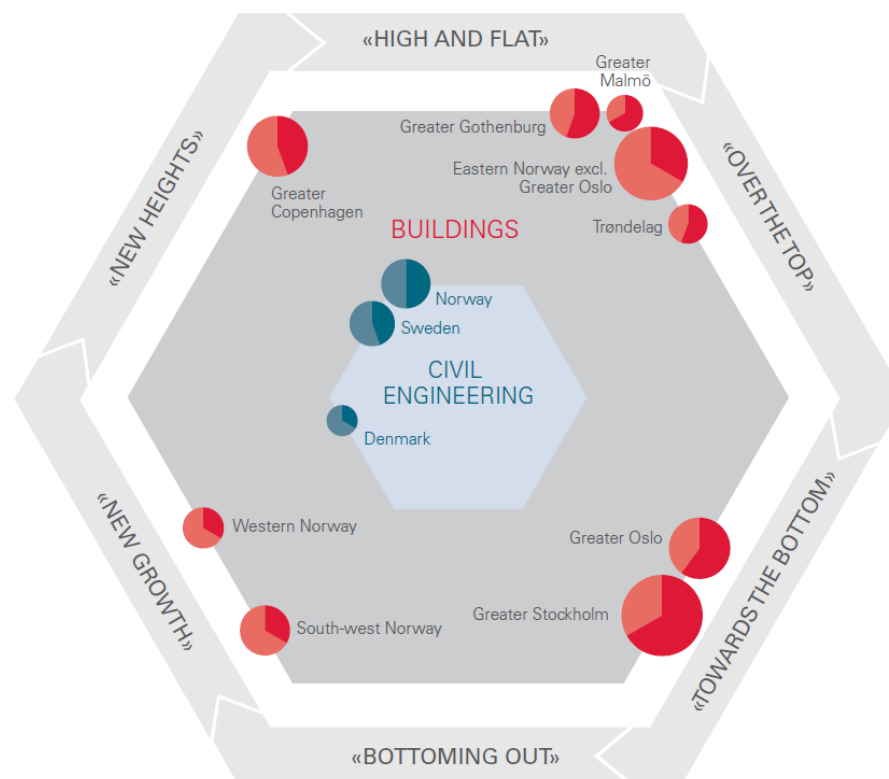
Source: Veidekke, Statistics Sweden, Swedish Transport Administration



IN SUMMARY

MARKET GROWTH IN METROPOLITAN REGIONS IN 2019 AND 2020

TREND FOR PRODUCTION AND SALES REVENUE IN 2019 AND 2020



Source: Veidekke

HIGHLIGHTS



- + Better market outlook now than in March
- + Residential production is decreasing, but from record levels
- + We expect an attractive contracting market over the next two years



APPENDIX – FORECASTS

NEW DIGITALISED METHODS

- + Automate:
 - More efficient and more detailed data capture
- + Better quality and control:
 - Identify strengths and weaknesses in the source material
 - Consistent forecasting and uncertainty estimates
- + Increase operational relevance:
 - Details broken down by organisation
 - Broken down by product and municipality as well as construction phase
- + ... starting the digital journey

NEW DIGITALISED METHODS

+ Historical construction data, up to Q2 2018

- From Statistics Norway, Statistics Denmark and Statistics Sweden: Started/approved sites in square metres, broken down by municipality and type of building
- From Veidekke: Estimate of the industry's construction contract cost per square metre excl. VAT and normal construction time

+ Construction forecasts:

- RNN forecasting tools (AI tools)
- The tool has observations from 1996 in Sweden and 2000 in Norway, broken down by county*
- Forecasts based only on observations, most recently Q2

* The forecasting tool is currently only for Norway and Sweden

EXPLANATORY VARIABLES

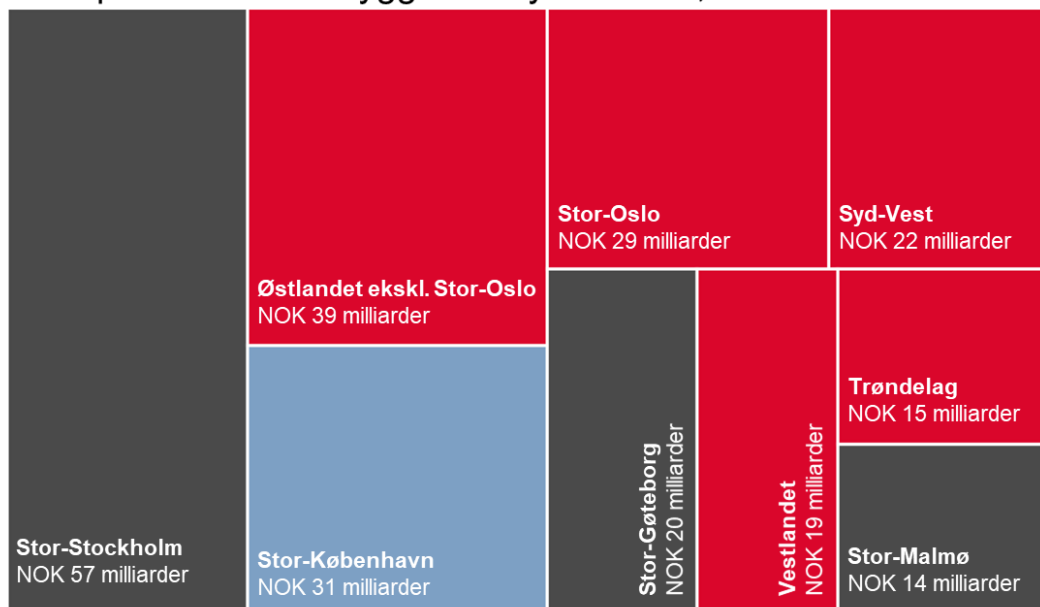
- + The sector's historical data and co-variation with other market segments
- + Income, interest
- + General local and national economic indicators
- + Tighter lending rules
- + Psychological factors
- + Demographics

Variable (Norway)	Variable (Sweden)
<i>Construction start</i>	<i>Construction start</i>
<i>Approved</i>	<i>Conversion</i>
<i>Conversion</i>	<i>Net immigration</i>
<i>Net immigration</i>	<i>Population statistics</i>
<i>Population statistics</i>	<i>Occupancy rate</i>
<i>Occupancy rate</i>	<i>Municipal profit</i>
<i>Municipal profit</i>	<i>Municipal debt</i>
<i>Municipal debt</i>	<i>Bankruptcies</i>
<i>Bankruptcies</i>	<i>House price growth</i>
<i>House price growth</i>	<i>Resale housing sales</i>
<i>Credit lending indicator</i>	<i>Credit lending indicator</i>
<i>Sales of new homes</i>	<i>EUR-NOK</i>
<i>EUR-NOK</i>	<i>USD-NOK</i>
<i>USD-NOK</i>	<i>SEK-NOK</i>
<i>Oil price</i>	<i>2 year government bond</i>
<i>2 year government bond</i>	<i>Unemployment rate</i>
<i>Unemployment rate</i>	<i>Forecast construction</i>
<i>Oil county</i>	<i>Forecast households</i>

ANALYSES – FROM GENERAL TO SPECIFIC

The construction market in Scandinavia

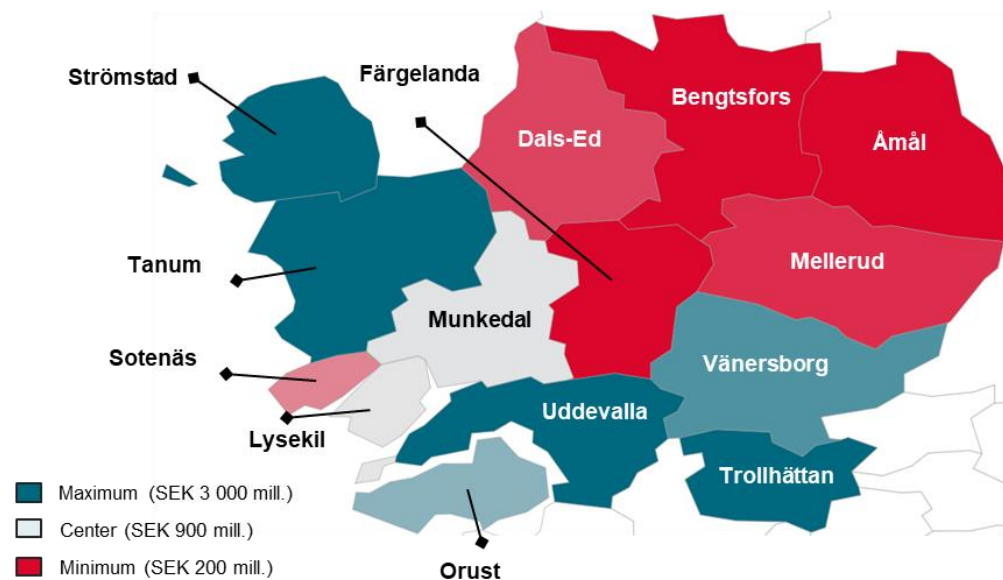
Entreprenørmarked Bygg i storbyene 2017, NOK milliarder



Kilde: Veidekkes markedsdata

Construction market in Bohuslän county

PRODUKSJONSVERDI SISTE FEM ÅR, MARKEDSOMRÅDE



Kilde: Veidekkes markedsdata

MARKET DATA NORWAY

Current prices, relative change (%)	Level (NOK billions)	2017 Growth	2018 Growth	2019 Growth	2020 Growth	2019– 2020 Growth
Apartments and small houses	58	24%	7%	-17%	-9%	-13%
Commercial buildings	21	7%	1%	-9%	-3%	-6%
Public buildings	26	-4%	-9%	8%	16%	12%
Civil engineering	81	5%	9%	4%	-2%	2%
Contracting production	217	10%	3%	-4%	-1%	-3%
Number of apartments and small houses started		24 312	17 000	18 000	20 500	

Source: Statistics Norway and Veidekke

MARKET DATA SWEDEN

Current prices, relative change (%)	Level (SEK billions)	2017 Growth	2018 Growth	2019 Growth	2020 Growth	2019– 2020 Growth
Apartments and small houses	102	23%	-9%	-11%	8%	-2%
Commercial buildings	49	23%	-2%	0%	9%	4%
Public buildings	33	11%	11%	1%	-1%	0%
Civil engineering	86	4%	7%	7%	7%	7%
Contracting production	271	15%	0%	-1%	6%	3%
Number of apartments and small houses started		51 000	40 000	44 000	45 000	

Source: Statistics Sweden and Veidekke

MARKET DATA DENMARK

Current prices, relative change (%)	Level (DKK billions)	2017 Growth	2018 Growth	2019 Growth	2020 Growth	2019– 2020 Growth
Apartments and small houses	26	22%	12%	6%	0%	3%
Commercial buildings	23	5%	7%	10%	10%	10%
Public buildings	12	-1%	3%	7%	15%	11%
Civil engineering	39	-5%	0%	3%	8%	5%
Contracting production	101	4%	5%	6%	7%	7%

Source: Statistics Denmark and Veidekke