



# Veidekke towards 2022 Capital Markets Update

9 May 2019



# Increased profitability and strengthened position

## Agenda

09:00	<b>Veidekke towards 2022:</b> Increased profitability and strengthened position	Arne Giske
09:30	<b>Property development:</b> Market driven development from a strong position	Jørgen W. Porsmyr
	Break	
10:10	<b>Construction:</b> Increased profitability with lower risk	Arne Giske
	• Building Construction Denmark	Jørgen W. Porsmyr
	• Building Construction Norway	Hans Olav Sørli
	• Building Construction Sweden	Jimmy Bengtsson
	• Civil Engineering Sweden	Jimmy Bengtsson
	• Civil Engineering Norway	Øivind Larsen
	<b>Industrial:</b> Recreate strong profitability	Catharina Bjerke
	<b>Financial targets and priorities</b>	Terje Larsen
11:15	<b>Concluding remarks and Q&amp;A</b>	Arne Giske
11:45	End	



# This is Veidekke

---

Norway's largest and  
Scandinavia's fourth largest  
construction and property  
development company

---

Competent employees

**8 500**

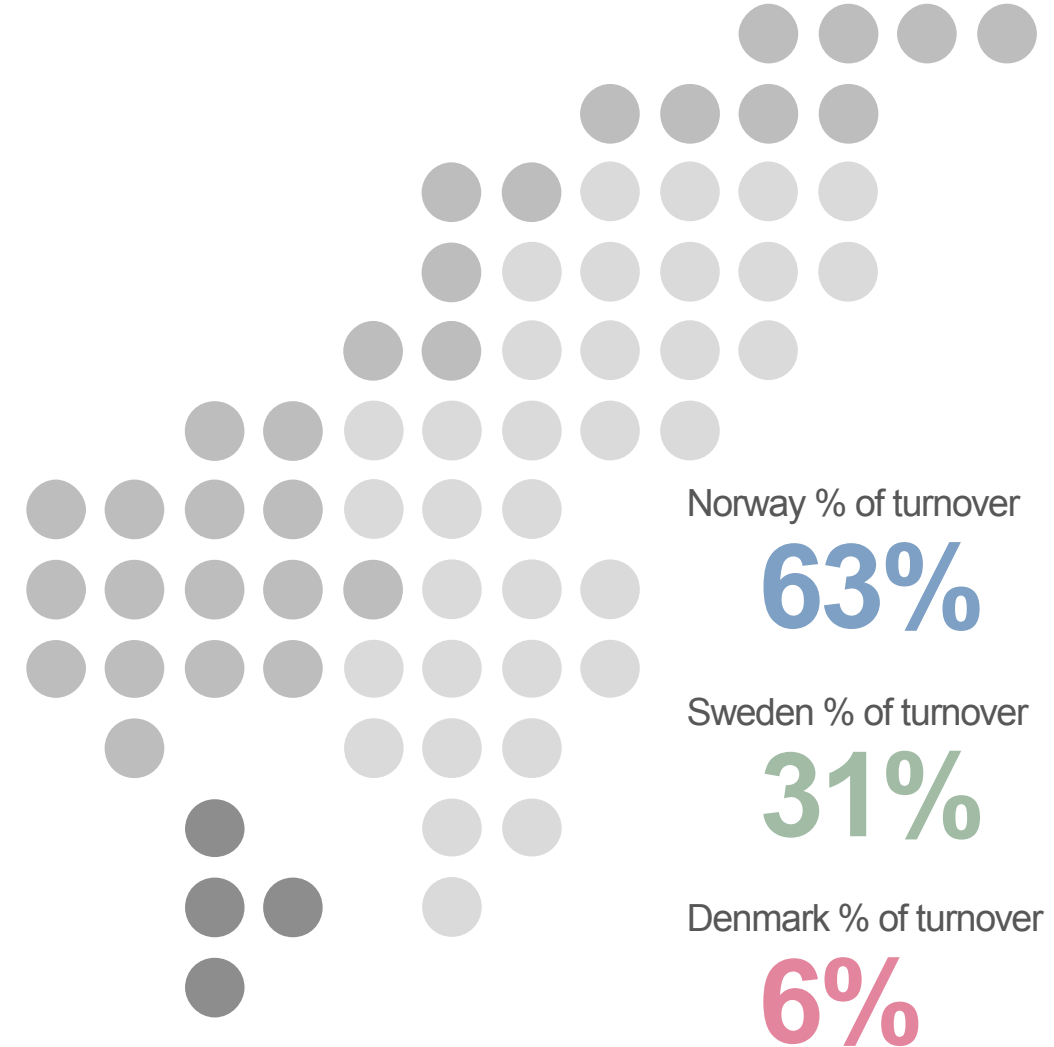
in three countries

---

Turnover 2018

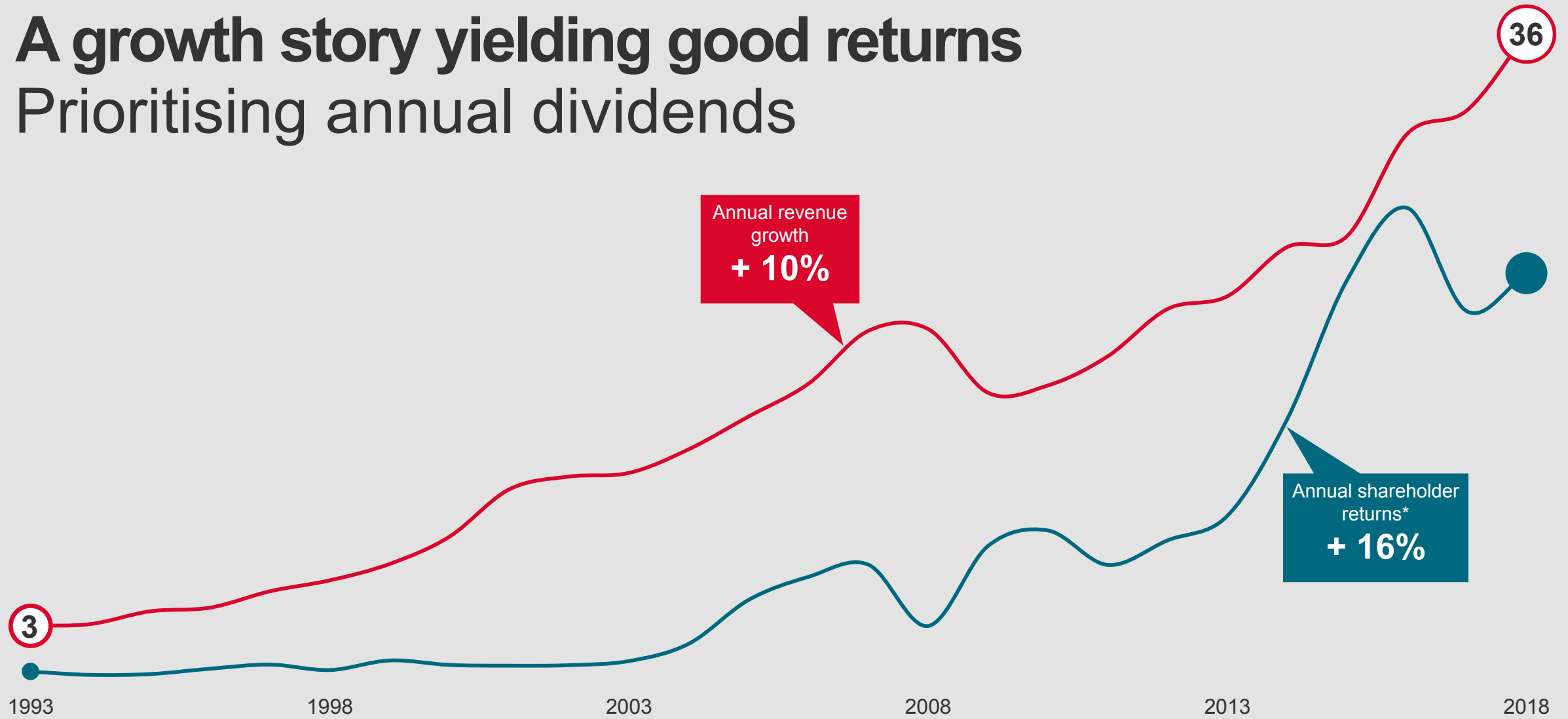
**35.6**

NOK billion



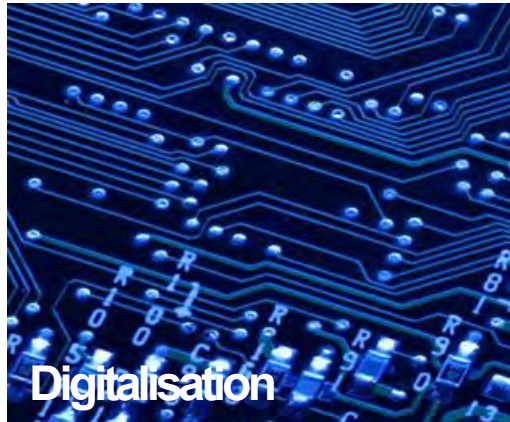
# A growth story yielding good returns

## Prioritising annual dividends



# Trends affecting our industries

## Global megatrends



## Industry development trends



# Sustainability and social responsibility

## The core of both strategy and performance

### Veidekke's materiality analysis

Six prioritised topics



### Veidekke's environmental policy

- Veidekke's ambition is to be a leading industry player with regards to reductions of climate gas emissions and practical safeguarding of the environment

### Implementation of the environmental policy means that Veidekke:

- shall run its operation in alignment with the UN's two degree target
- has integrated environmental aspects in all its activities
- offers its customers added value through its environmental competencies
- keeps records of the organisation's environmental impact, in order to reduce it
- Sets environmental and climate requirements for partners
- contributes beyond the company itself; in industry organisations, educational institutions, R&D, and in interaction with authorities and politicians





## Our most important resource

Veidekke employs 8 500 people in three countries. More than half of our employees are skilled workers and certified craftsmen in their respective trades

## Attractive employer

Veidekke is the most attractive employer among contractors for young engineers with 7-8 years' experience, according to Universum Norway 2018

## Value based management

Veidekke employees are expected to be professional, honest and enthusiastic, and to have ground-breaking curiosity

## Competence and experience

Veidekke employees have on average 4 years of higher education and have worked at Veidekke or in the industry for more than 9 years

## Co-ownership

Some 50% of Veidekke's employees own shares in the company. Veidekke's employees own 15 % of Veidekke



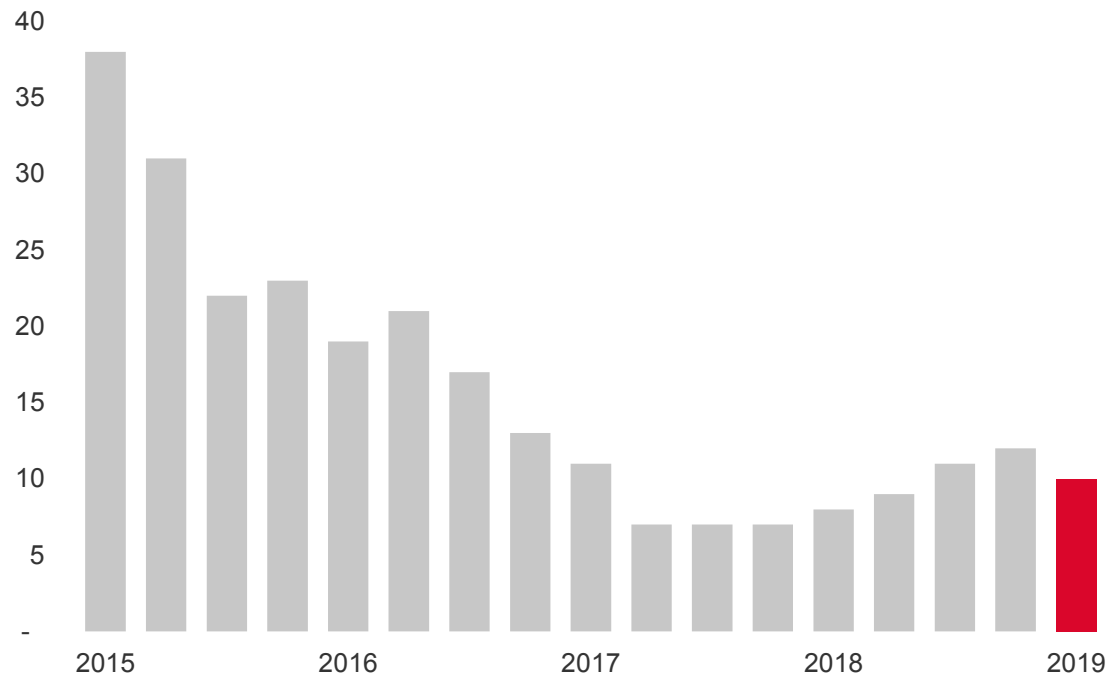


# Continuous safety work

## Involvement is key

### We shall create a safe workplace

Number of serious injuries, 12 months rolling







## Kay Fiskers Plads

One of the largest building construction projects in Denmark. On behalf of the Norwegian company KLP, Hoffmann has been working one full year without injuries







Commercial  
**42%**



Residential  
**23%**



Civil Engineering  
**20%**

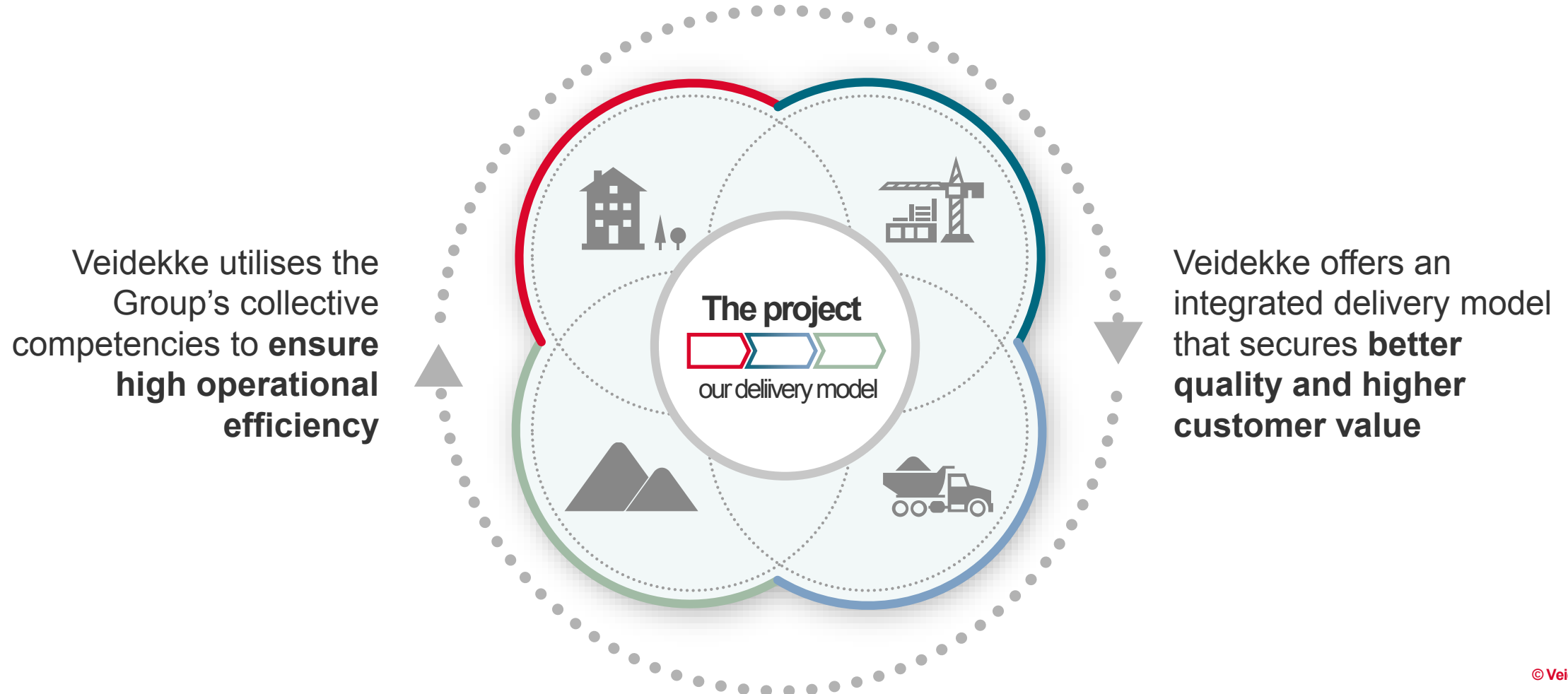


Industrial  
**15%**



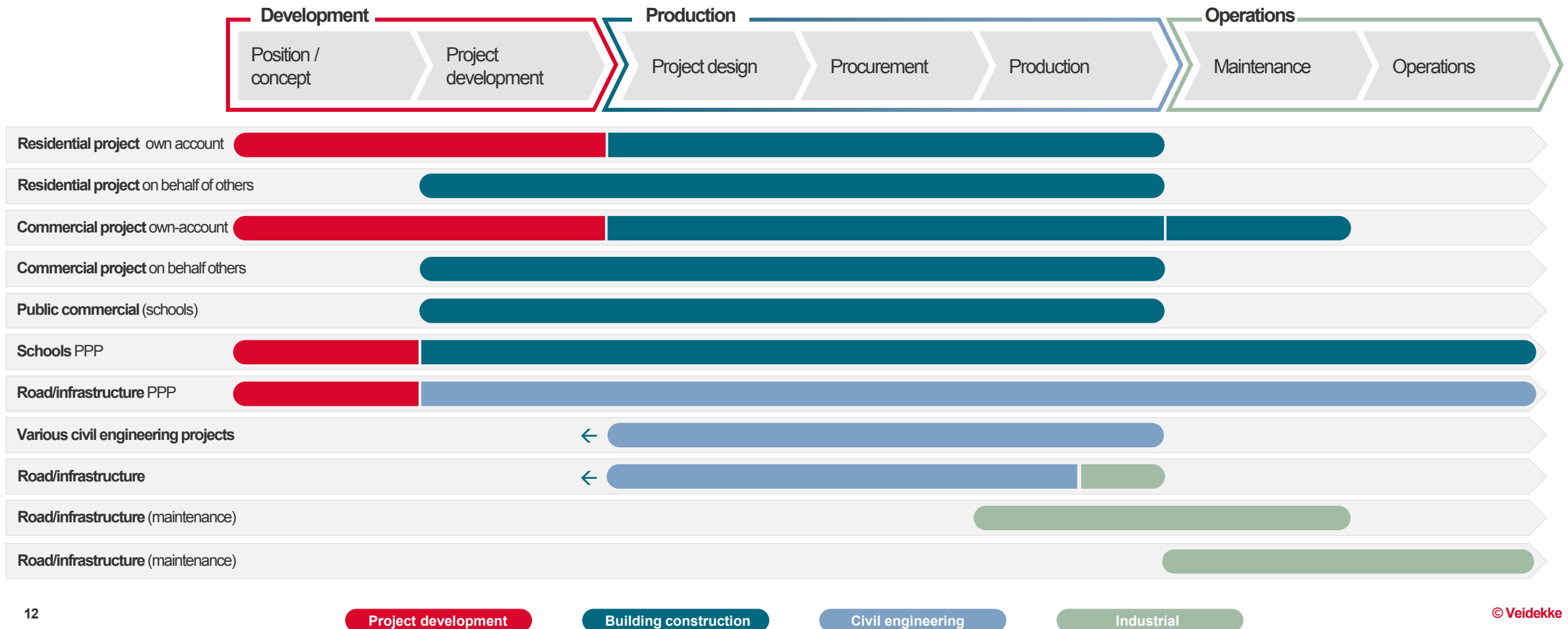
# Value added interaction in Veidekke

## An integrated value chain creates value for customers



# A common delivery model

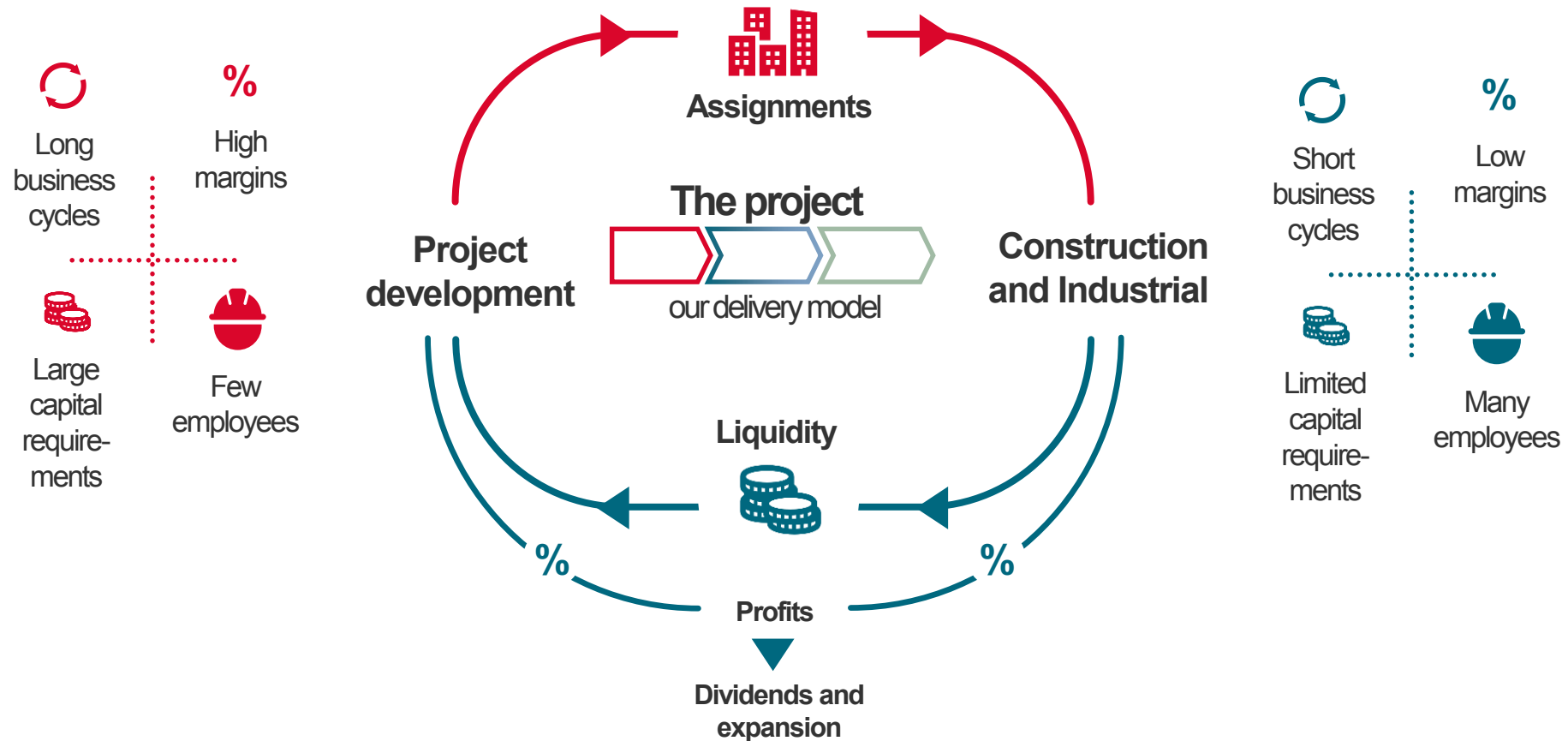
## Utilises Veidekke's competencies and strong positions





# Veidekke Group

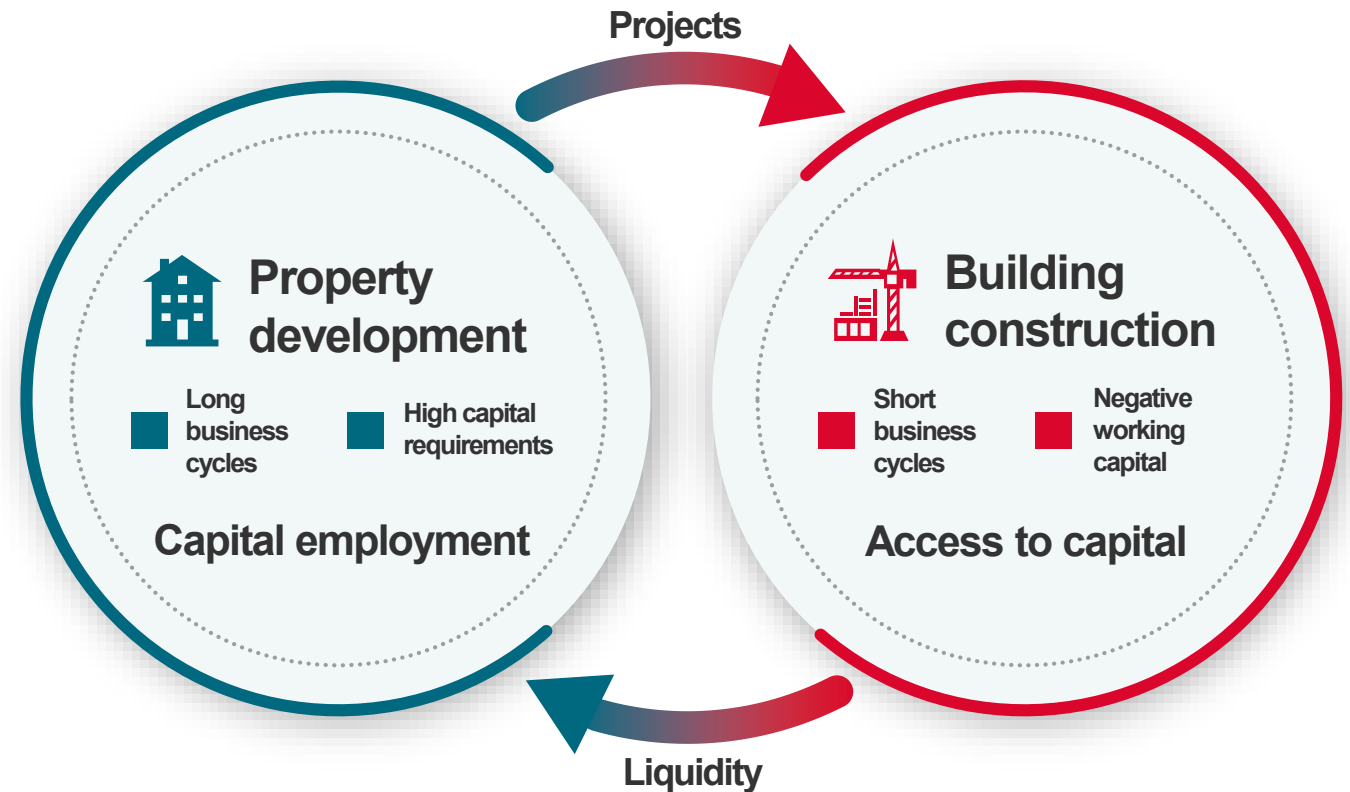
## Dual business model – creating value through interaction



# Value creating interaction – developer and contractor

## An important part of Veidekke's success

- Integrated delivery secures better quality and higher customer value
- Strategic development of competencies and project portfolio
- Manages liquidity from Building Construction in the form of negative working capital
- Creates value added and reduces risk both as a developer and constructor
- In 2016–18, our residential projects had a total revenue of **NOK 18 billion**, with a total profit of more than **NOK 1.7 billion**

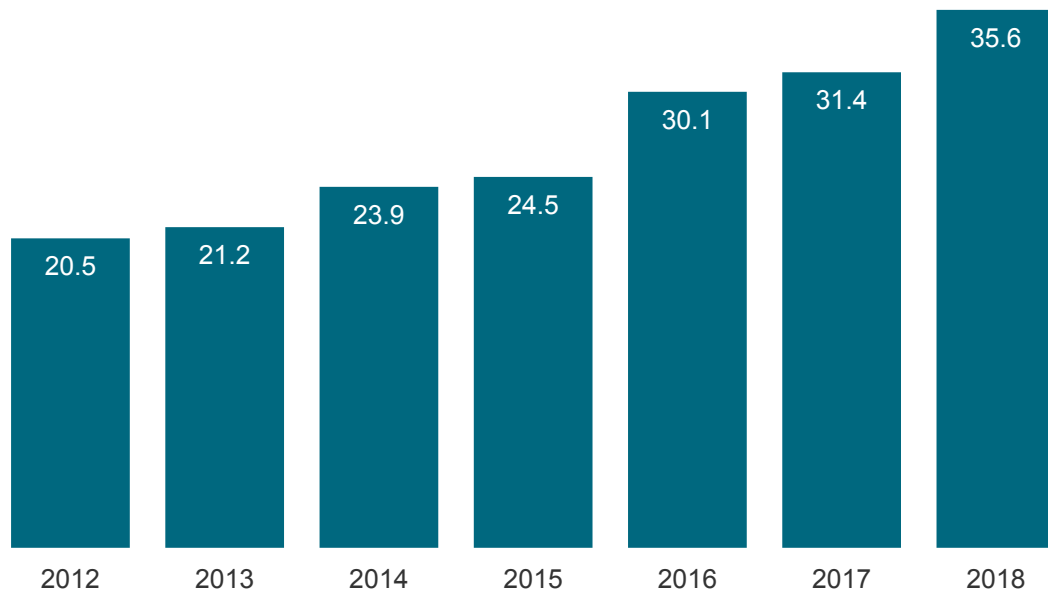




# High growth and good margin development ...took an abrupt turn in the past year

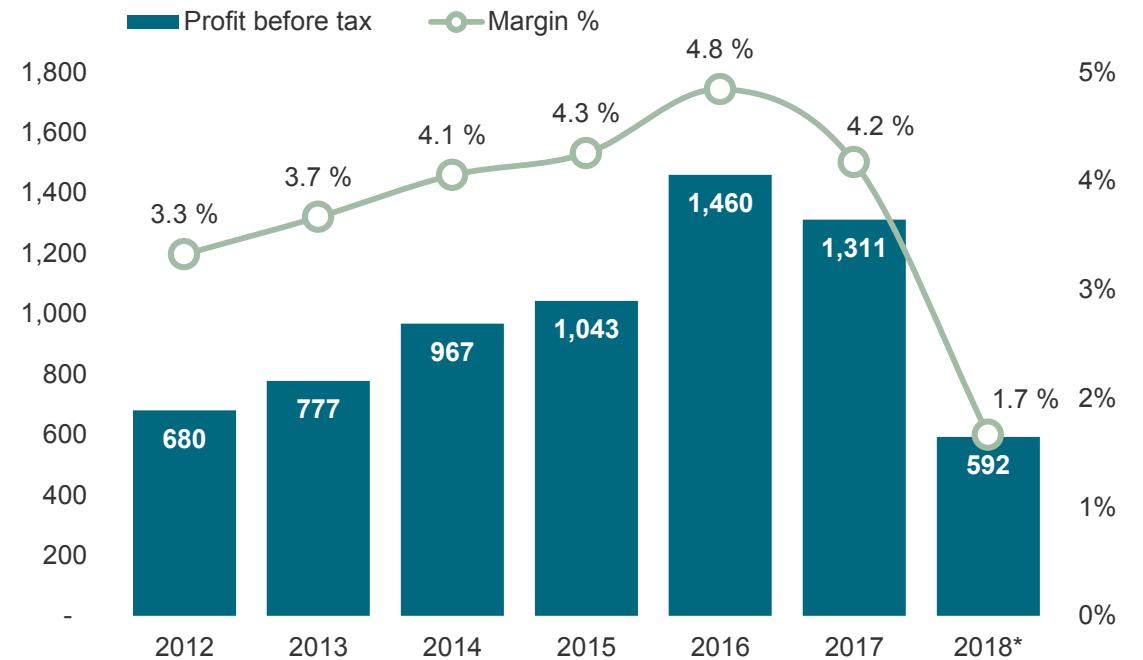
## Revenue

NOK billion. Annual growth of ~10% since 2012



## Profitability

NOK million



# Main reasons behind the weaker results



- Market driven decline in results
- Low activity in Sweden, particularly in the Stockholm area



- Residential construction Stockholm generates negative results due to losses in certain projects
- Profitability challenges in South and West Norway, and weak earnings in certain large projects



- Losses in major civil engineering projects, mainly due to uncertainty related to compensation for scope changes and additional work



- Increased input costs and lower capacity utilisation in asphalt

# Measures to improve profitability already implemented

## Implemented measures

### GROUP MEASURES

**Group-wide risk management programme**

**Improvement initiatives and resource efficiency**

**Changes to the corporate management group**

### BUSINESS AREA MEASURES



**Project development:**  
residential and commercial

- Portfolio optimisation and turnover
- Commercial project development



**Building Construction:**  
commercial and residential building

- Reorganisation in Norway
- Dividing residential and commercial construction in Sweden



**Civil Engineering:**  
ground work and infrastructure

- Reorganisation in Norway
- Write-down of project portfolio
- Selectivity



**Industrial:**  
infrastructure and road maintenance

- New segment and business area management
- Strategy change in D&V

© Veidekke



# Safeguarding results to increase margins in 2020

## Necessary and vigorous adaptation to a changing market

### Group margin before tax

Percentage

5%

4%

3%

2%

1%

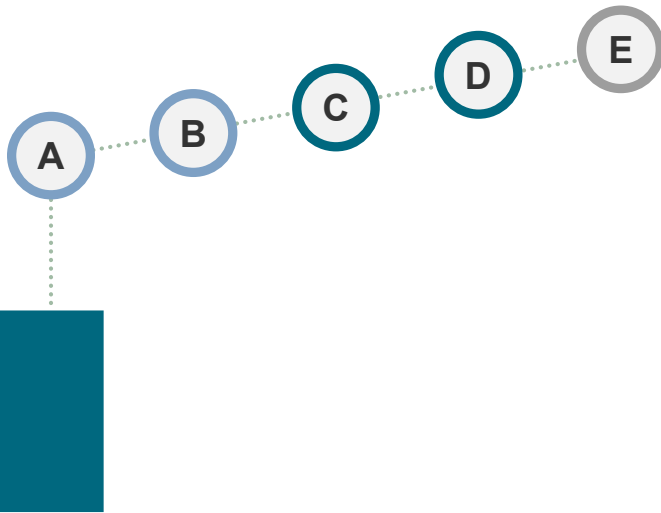
0%



2017



2018



Target 2020



**Civil Engineering Norway:** Write-downs 2018



**Civil Engineering Norway:** Portfolio changes and cost adjustments



**Building Construction Norway:** From generalist to product specialist



**Building Construction Stockholm:** Improved residential construction and portfolio adjustments



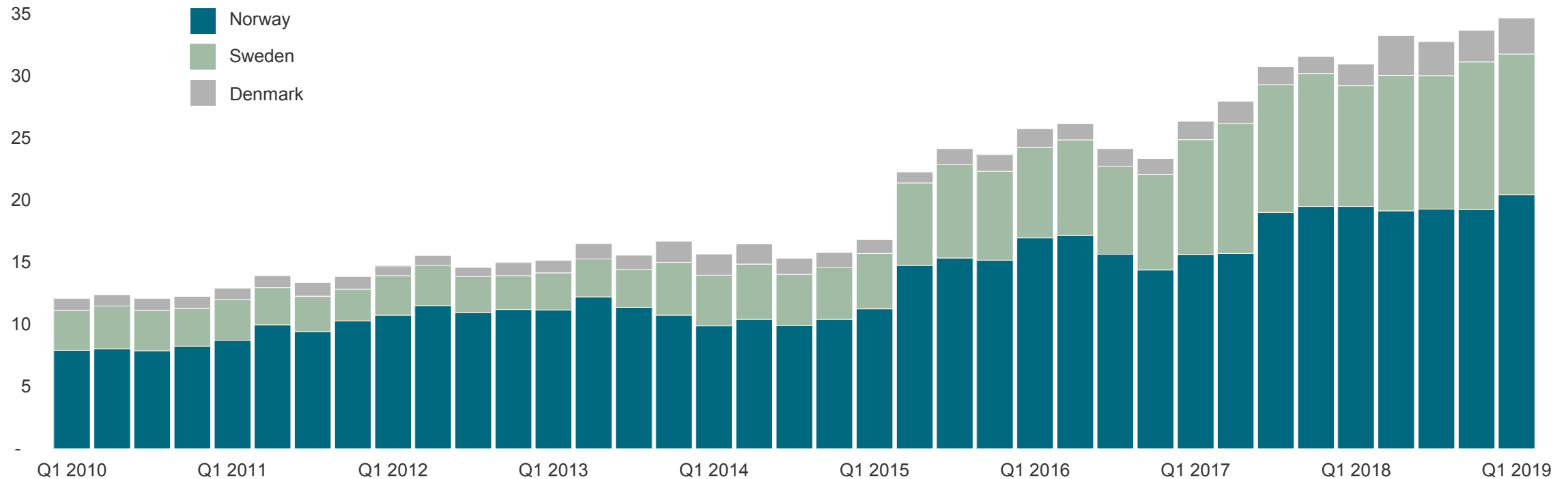
**Industrial:** Asphalt tender calculations, improved planning and increased road maintenance results

# The project portfolio has grown substantially

## Strong growth over past four years

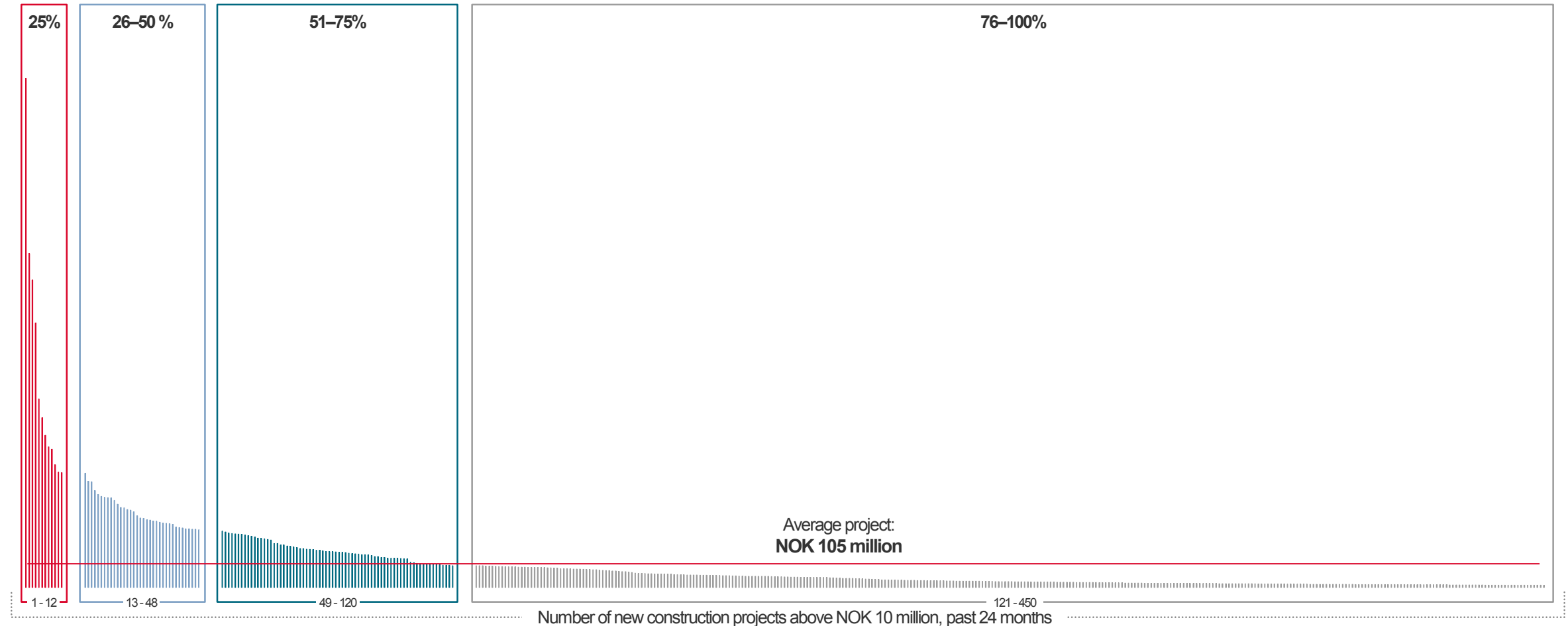
### Order book, Construction

NOK billion



# Portfolio risk profile affected by large projects

## 10% of the projects account for 50% of revenue



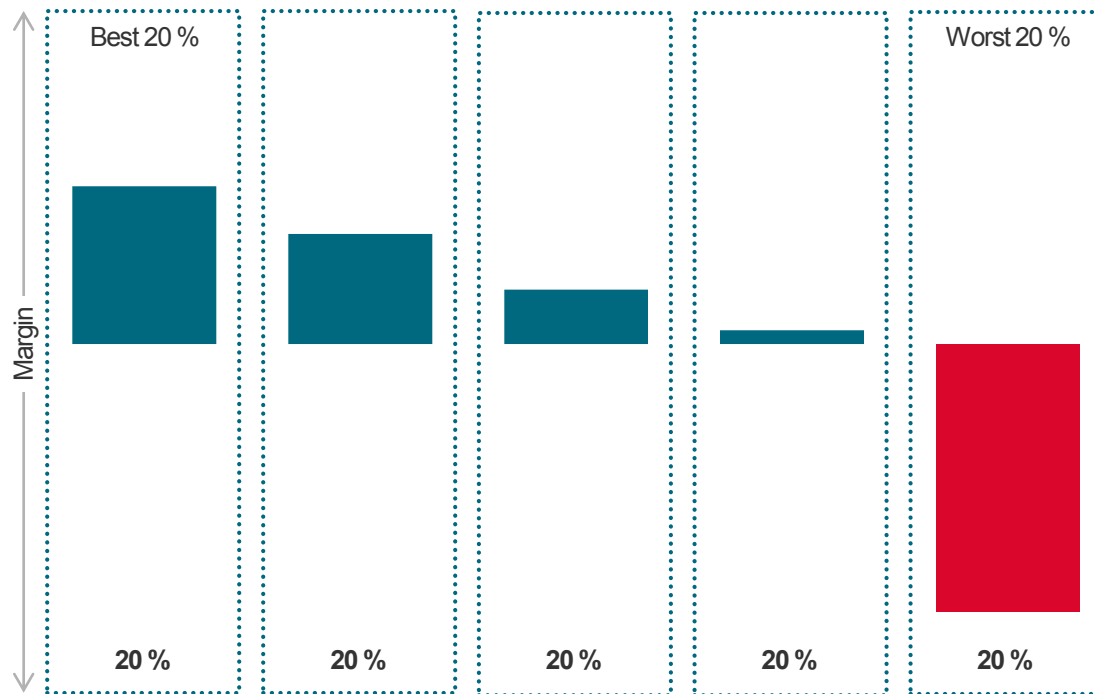


# Improve risk management: Reducing risk of big losses

## Satisfactory results in large parts of the portfolio

### Loss projects considerably weaken portfolio margin

Project revenue in ongoing projects ranked by profitability, quintiles



\*Analysis of the 170 largest ongoing Construction projects, by final margin prognosis

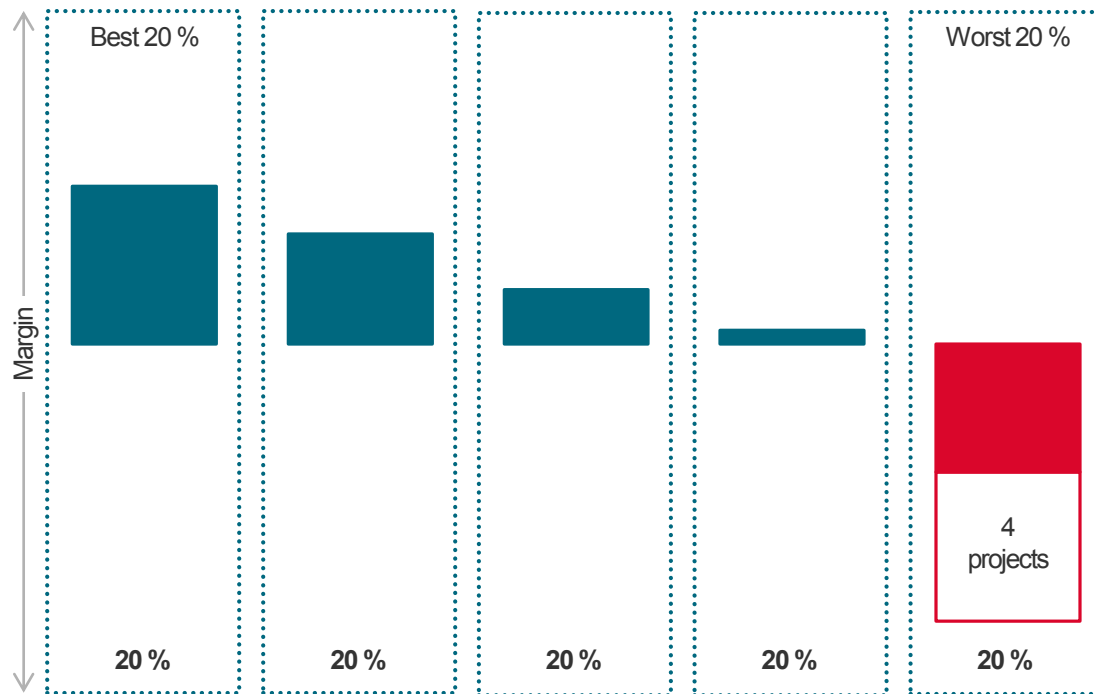
- Veidekke completes many successful and profitable projects every year
- We perform better in certain segments and geographies and will prioritise these to safeguard results
- Our focus:
  - Strengthened risk management
  - Improved calculation
  - The right project management for the right projects

# Improve risk management: Reducing risk of big losses

## Exclusion of four projects increase margins by <2%-p

### Loss projects considerably weaken portfolio margin

Project revenue in ongoing projects ranked by profitability, quintiles

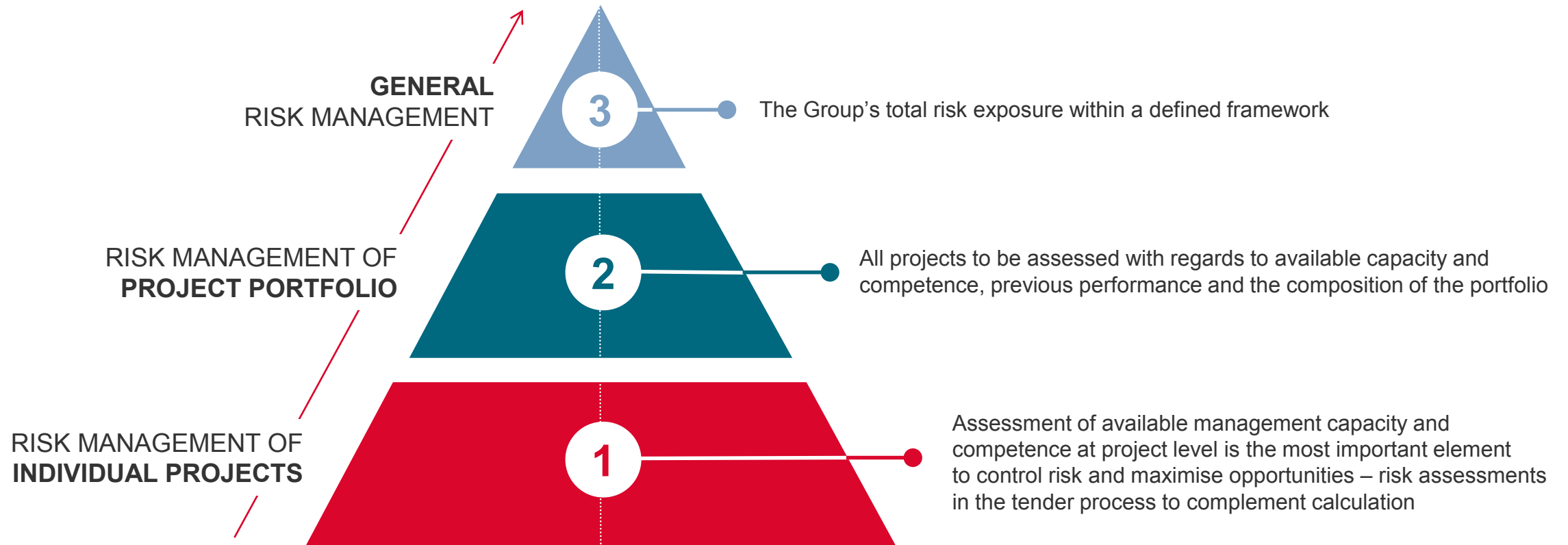


\*Analysis of the 170 largest ongoing Construction projects, by final margin prognosis

- Veidekke completes many successful and profitable projects every year
- We perform better in certain segments and geographies and will prioritise these to safeguard results
- Our focus:
  - Strengthened risk management
  - Improved calculation
  - The right project management for the right projects

# Firmer risk handling

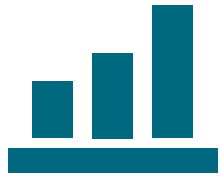
## Improved risk management at all levels in Veidekke





# Veidekke's ambitions towards 2022

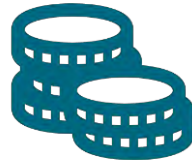
## Profitability before growth – maintain attractive dividend



Revenue growth

**3-5%**

p.a.



Margin 2022

**>4.5%**

before tax



Dividends

**>50%**

of net results



Serious injuries

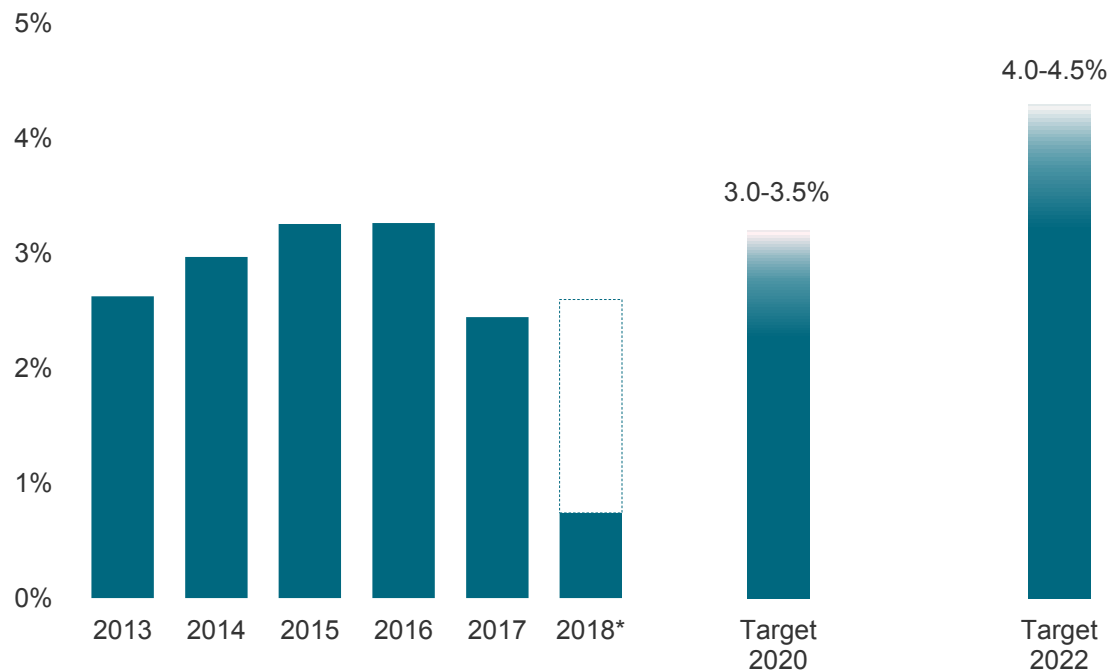
**0**

# Construction: Increased profitability with lower risk

## Prioritising projects and management capacity

### Construction segment towards 4.5% in 2022

Margin before tax



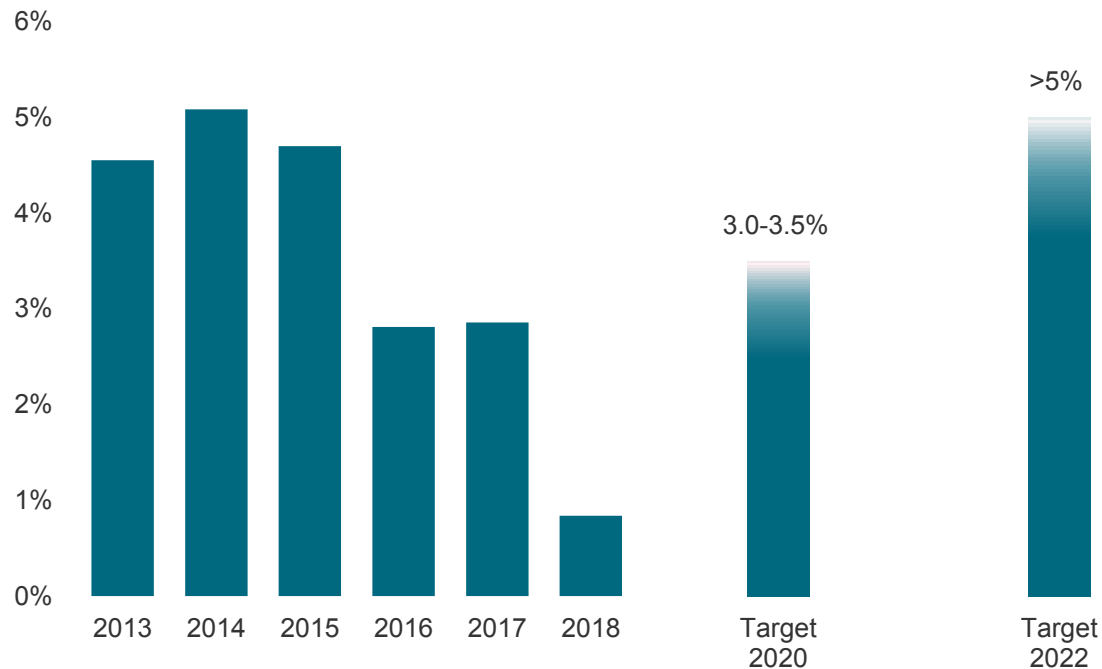
- 1 **Safeguarding results** until 2020
- 2 **Adjust strategy** to achieve lasting increase in profitability

# Industrial: Regenerate good profitability

## Focus on Asphalt and Road Maintenance

### Profitability to return to historical level

Margin before tax



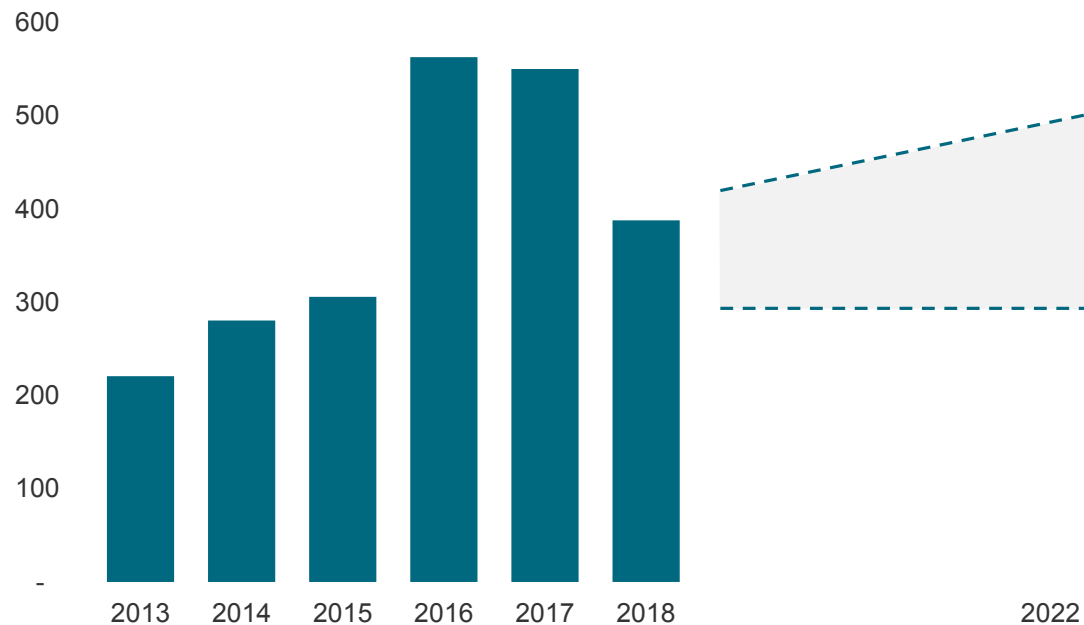
- 1 **Safeguarding results** until 2020
- 2 **Position and capacity** towards 2022

# Property Dev.: Market driven growth from solid portfolio

## Develop attractive projects from the land bank

### Property Development in Sweden and Norway

Profit before tax, NOK million



- 1 **Norway:** Take advantage of a good market
- 2 **Sweden:** Manage a challenging market
- 3 **Capital:** Increased capital efficiency





## Middelthunet

Nordea's old headquarters in Oslo are transformed into an attractive residential area located in close proximity to Frognerparken. The apartments are optimised for smart house technology

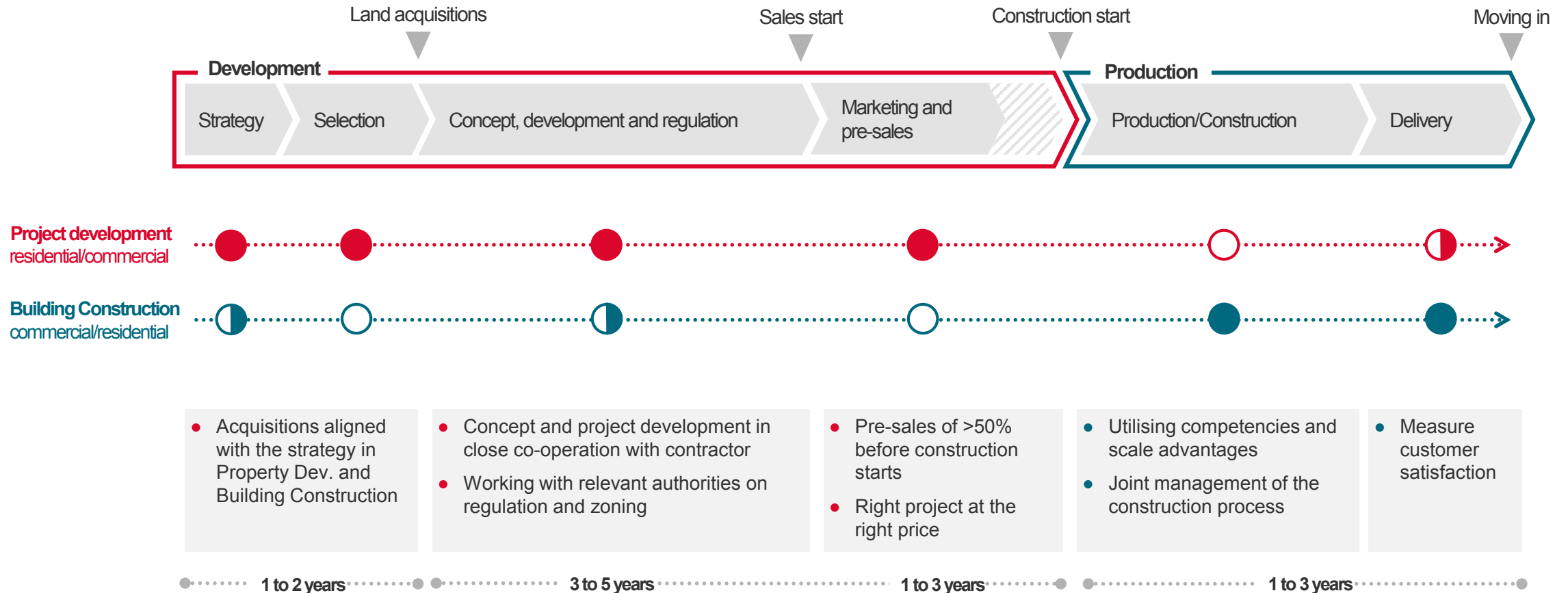
# Property Development Market driven development from a strong position

Jørgen Wiese Porsmyr, EVP  
Capital Markets Update 2019



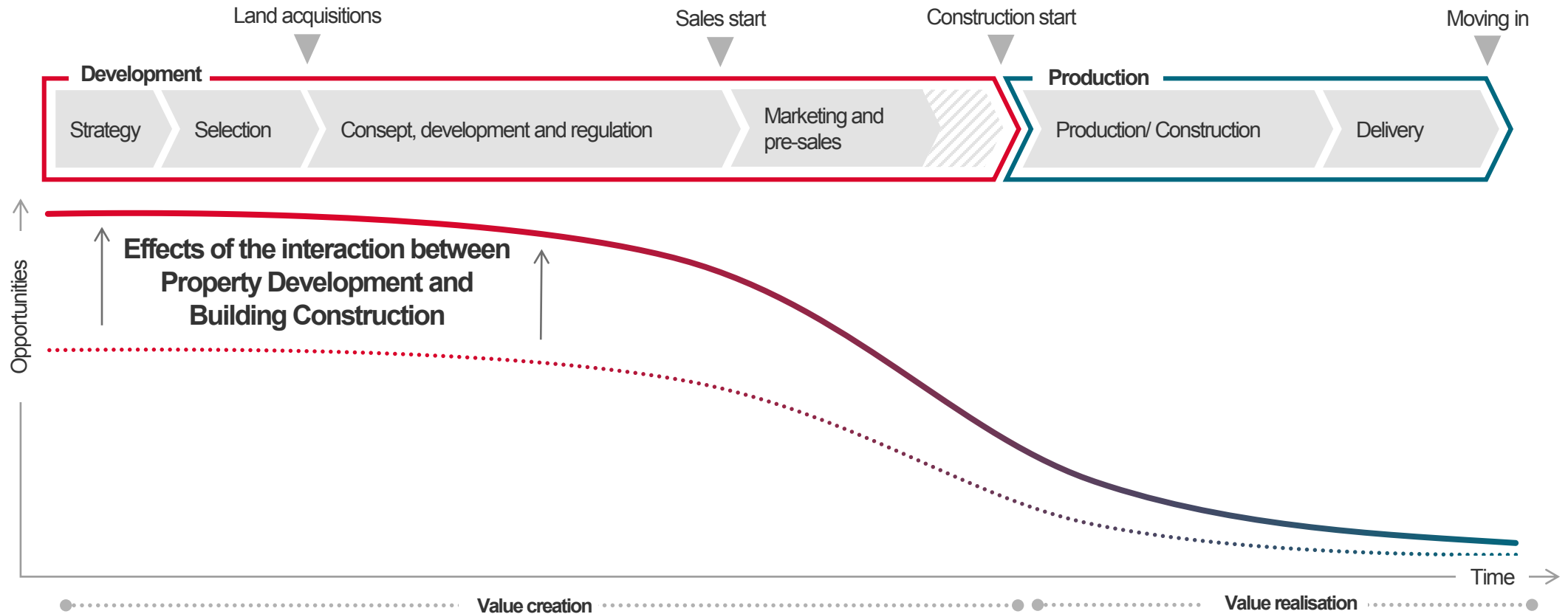
# The core of our model

## Interaction creates profitability and customer value








# The core of our model

## Interaction strengthens our position





# Good land positions in the metropolitan areas

REGION	LAND BANK*	UNITS IN PRODUCTION*
 MÄLARDALEN	7 800 Stockholm Uppsala	1 003
 EASTERN NORWAY	3 700 Oslo-area	665
 SOUTH AND WEST	3 000 Gothenburg Skåne	792
 MID-NORWAY	2 300 Trondheim	312
 SOUTH AND WEST	2 500 Bergen Stavanger	18
	19 300	2 799

- Solid foundation for activity over the coming years
- Limited need for immediate increase
- Sized and positioned for a better market in several regions
- Flexible execution model; we will make good choices with regards to form and timing of project realisation

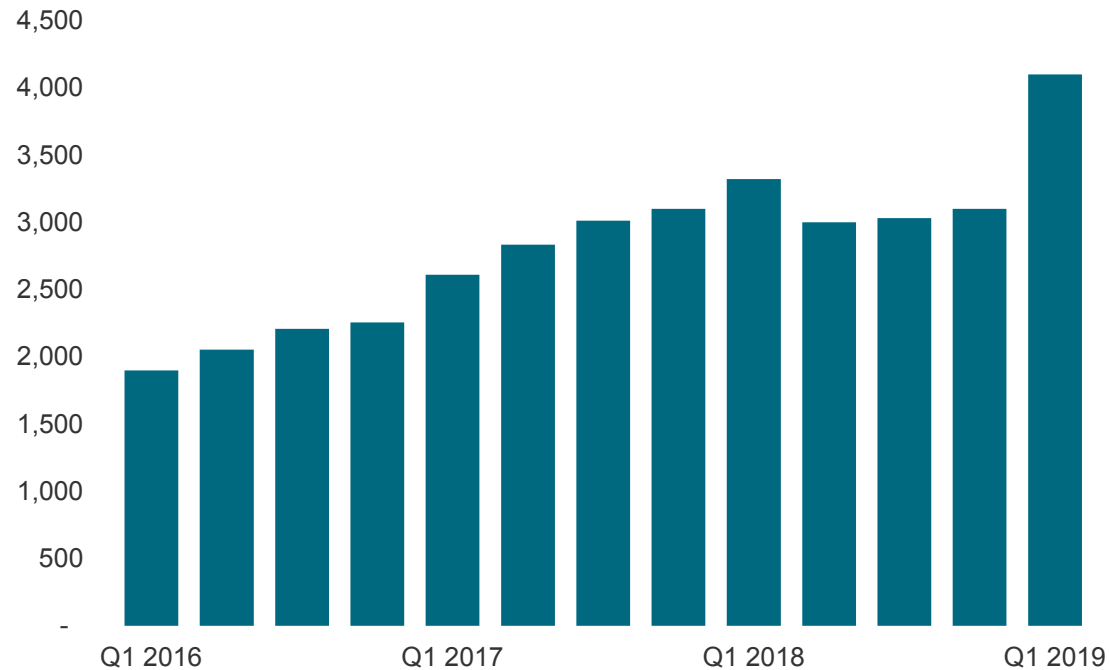
# Norway – business model and financials

## Capital intensive development phase

### Capital invested

Land values, development costs, investments in JVs and construction costs

NOK million



### Capital, liquidity and financing

- Capital intensive development phase
  - Land payments normally due upon signing of agreement before start of project development
  - Payment from customer due upon delivery of completed apartment/house
- Large share of portfolio in partnerships (55%) to reduce capital requirements
- Financial approach increasingly important to ensure land bank efficiency
- Estimated surplus values of NOK 1 billion in the land portfolio

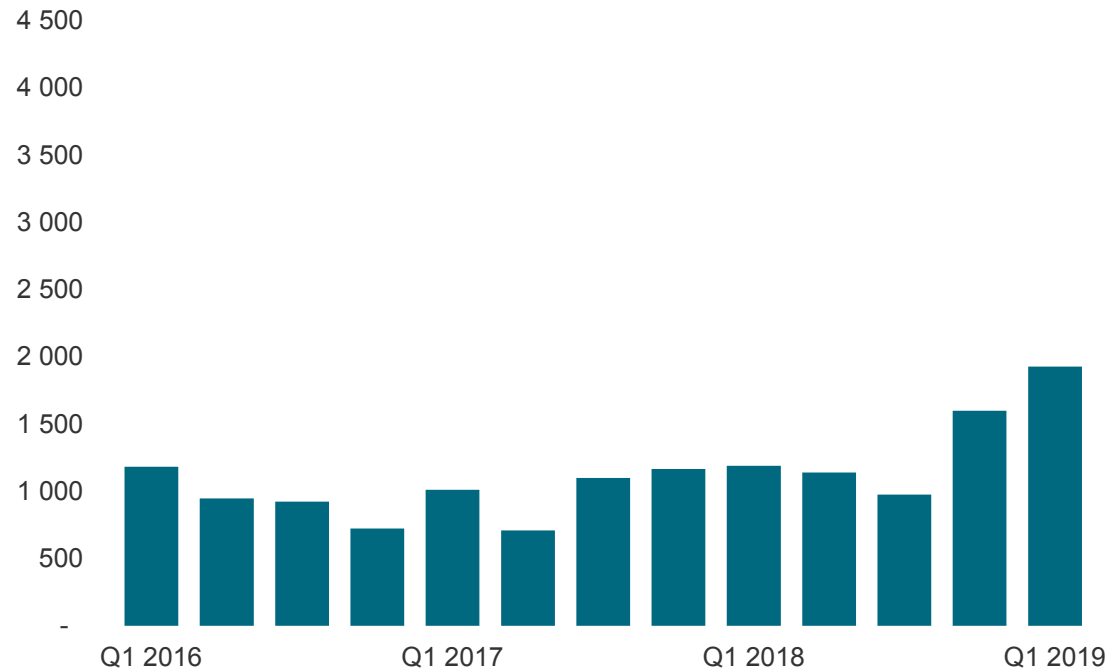
# Sweden – business model and financials

## Options and limited working capital

### Capital invested

Paid land and land with delayed payment agreements, plus development costs

NOK million



### Capital, liquidity and financing

- Land payments often due at zoning (long after initial option/purchase agreement)
- Housing cooperative model in Sweden: Payment for sold apartments at start of construction. Construction financed by the cooperative
- Veidekke guarantees completion and repurchase of any unsold apartments/houses
- Partnering only to a limited degree



# Development of commercial property projects

## Sharp and capital-efficient initiatives

### Offices



- Main product
- Office properties – often for own use
- Continuity – secure projects, always in cooperation with others

### Commercial as part of residential



- Competence development
- Enhances value of residential projects
- Strengthens position in acquisition market

### Logistics properties



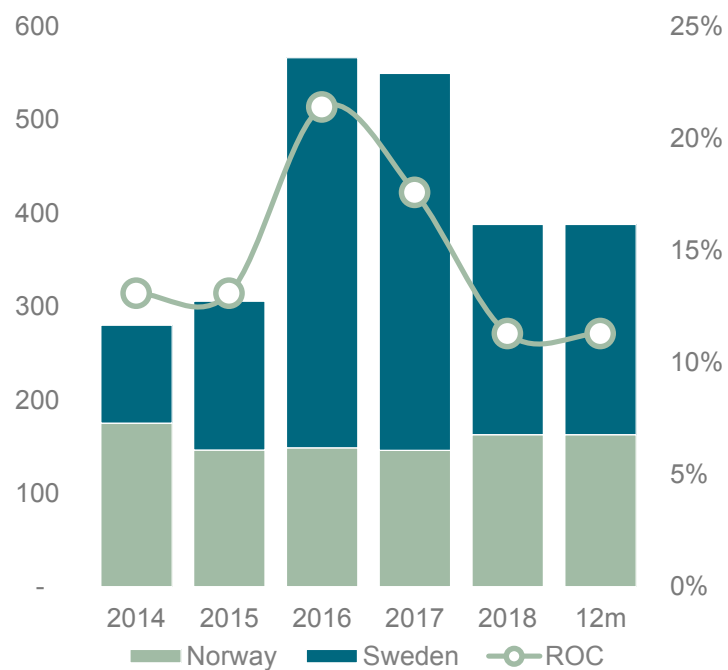
- Develop existing land bank
- Cooperate with our own contractor and complementary partner

# Results and activity

## Good value creation over time

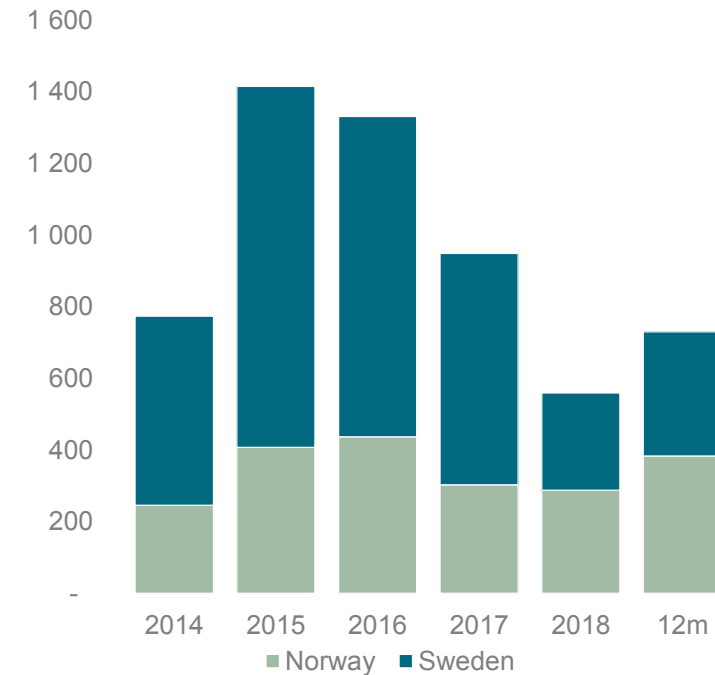
### Profits and return on capital

NOK million



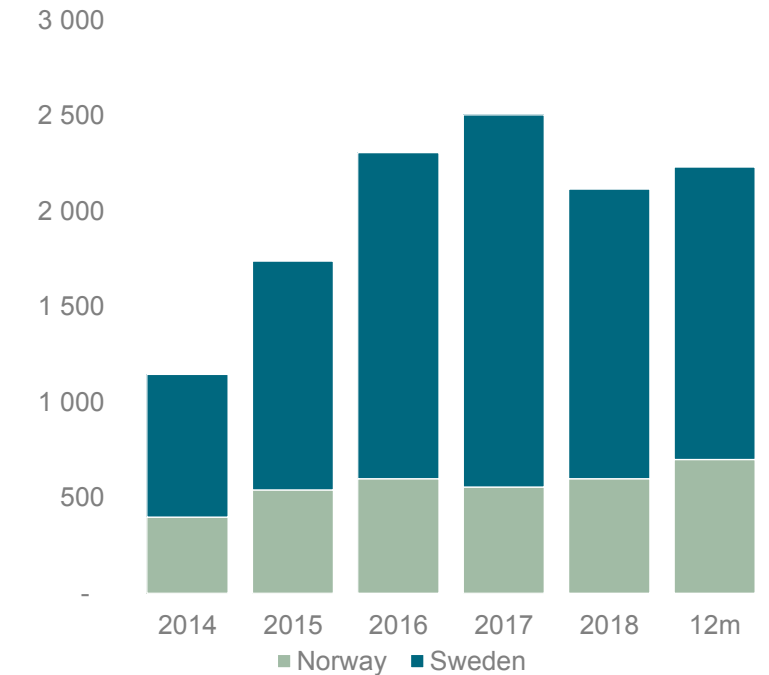
### Units sold

Veidekke's share



### Units under construction

Veidekke's share

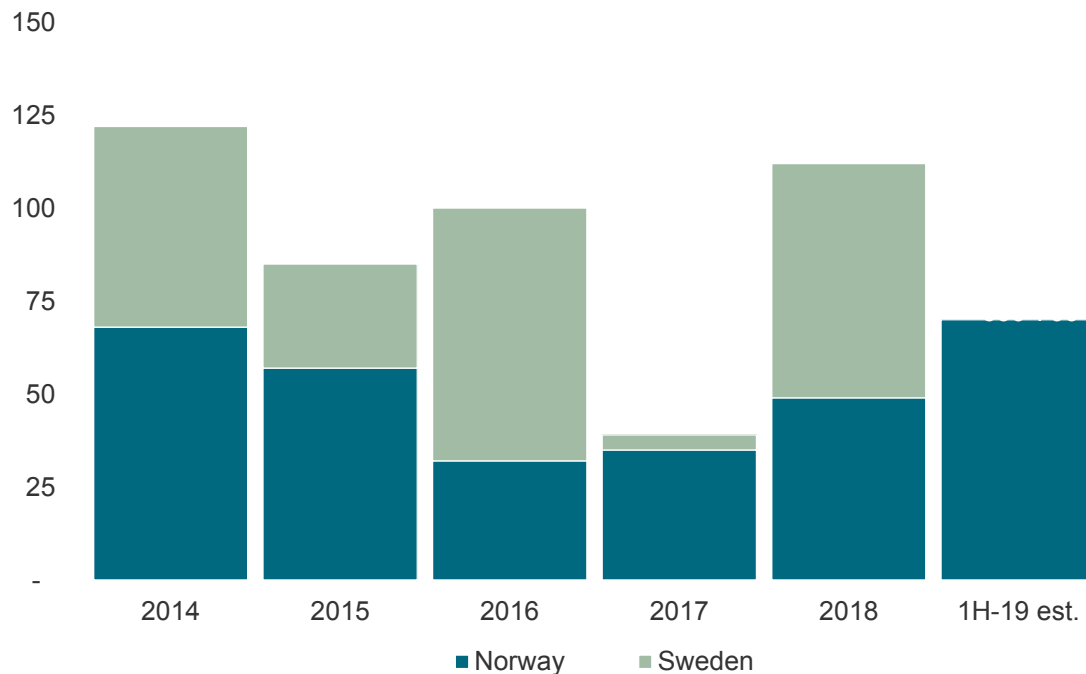


# Residential and commercial project sales

## Realised gains of more than NOK 500 mill. since 2014

### Effect on Profit before tax

NOK million



- Project transactions to realise value created in the development phase is an important part of our strategy
  - Conscious choices on a project basis
  - Criteria; opportunities in the market and operational and financial optimisation of own portfolio
- High transaction activity in 2019
  - Developed plot in Bærum sold with NOK 40 mill. gain
  - Several ongoing projects for possible conclusion from Q2 2019 onwards



# Property development Sweden

Flatås Park, Gothenburg



Central Park, Malmö



Veidekke Flex: Ängslyckan, Ale



Hagaterrassen, Hagastaden Stockholm

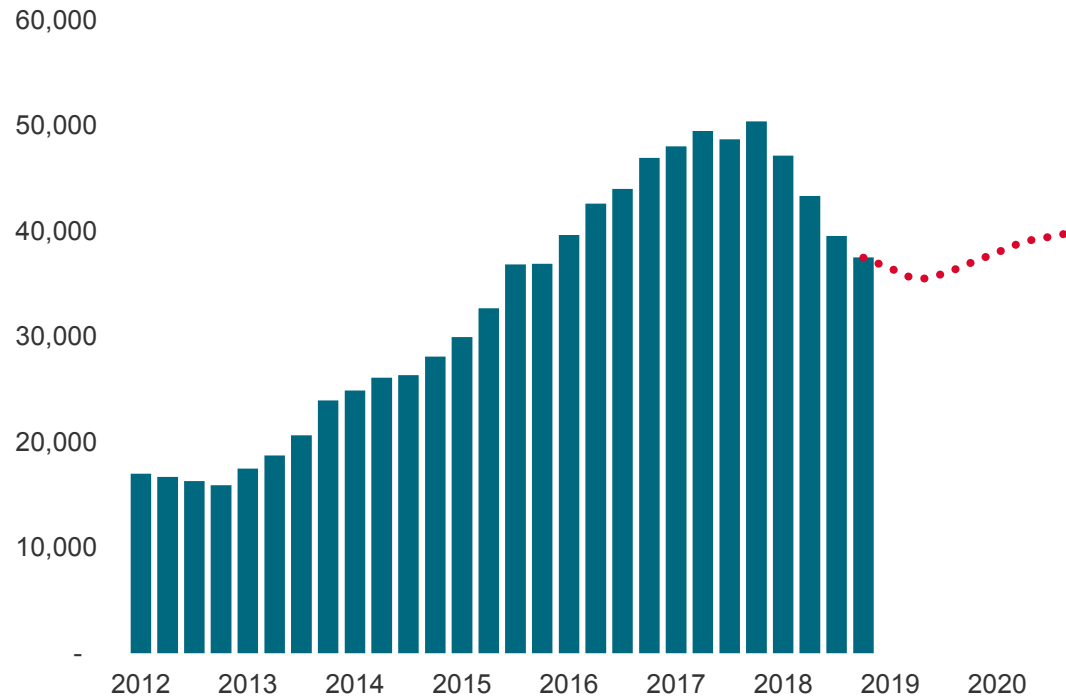


# The housing market in Sweden

## Sales decline reflected in building starts

### Building starts, apartments and small houses

12 month rolling per quarter, number of units



Source: SCB and Veidekke

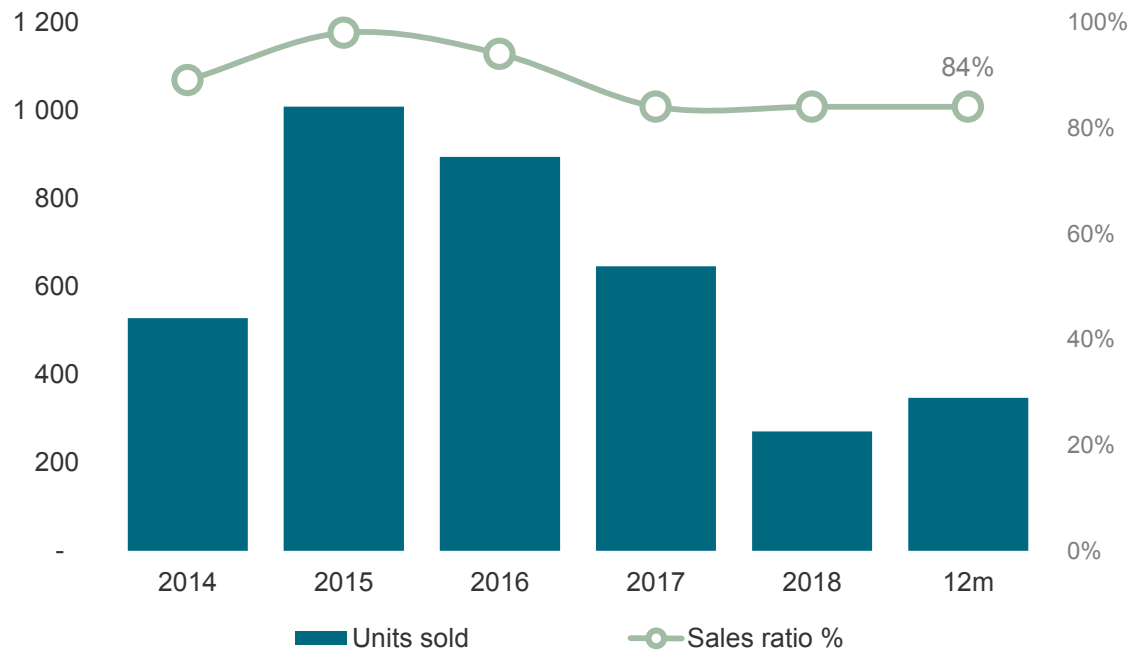
- **Building starts stabilising at a lower level**
  - Sales of new units still far below peak levels
- **Short term: buyers market in 2019**
  - Relatively large supply of newly developed homes
  - Limited financing options for buyers
- **Long term: Supportive fundamental conditions**
  - Positive macro prospects
  - Increased demand expected
  - Good prospects for developers with long-term industrial positions and solid financial position

# Activity in Sweden

## Strong decline in unit sales, high sales ratio

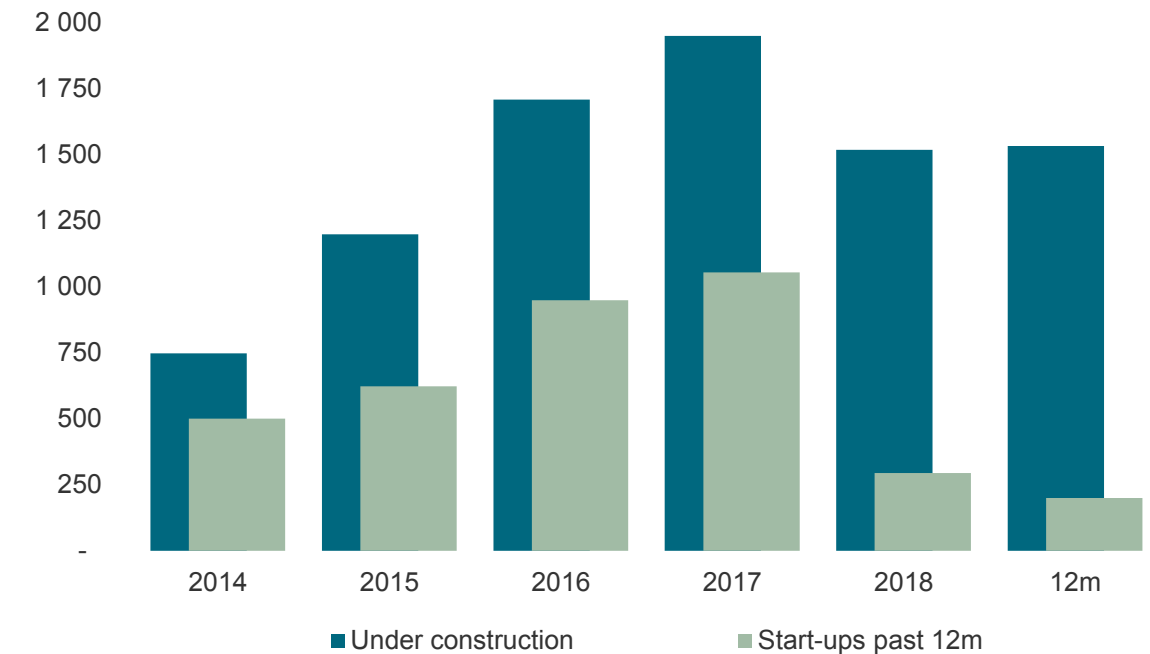
### Units sold

Veidekke's share



### Units in production and building starts

Veidekke's share

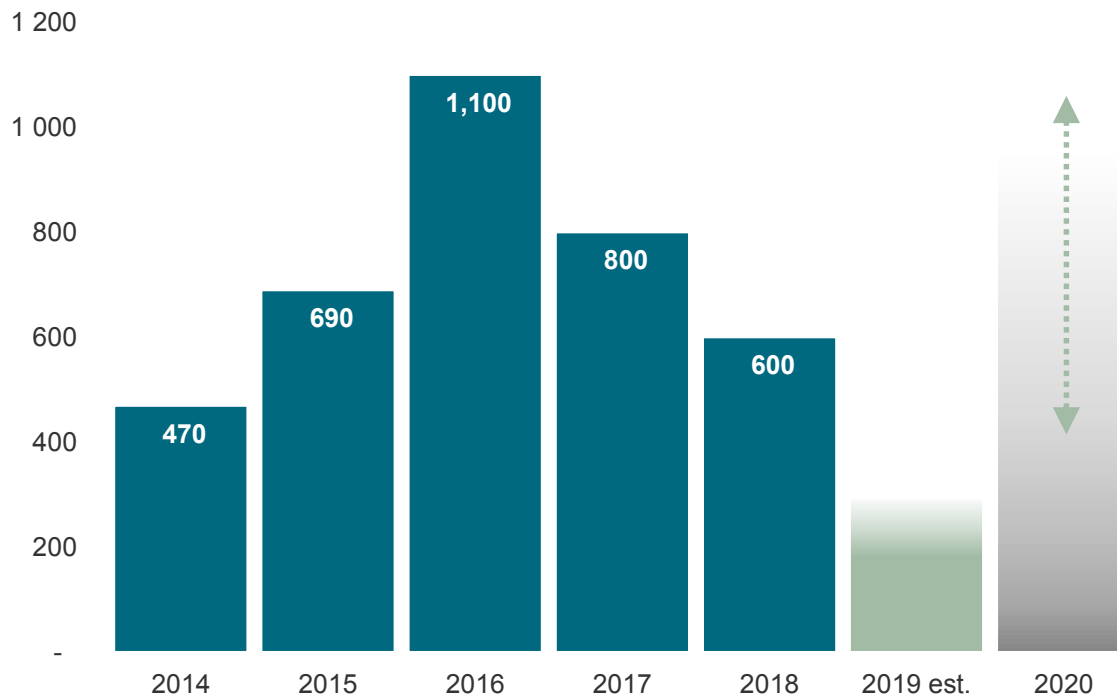


# Market driven activity for sales starts

## Probably few starts in 2019, increase expected in 2020/21

### Sales starts residential units, Sweden

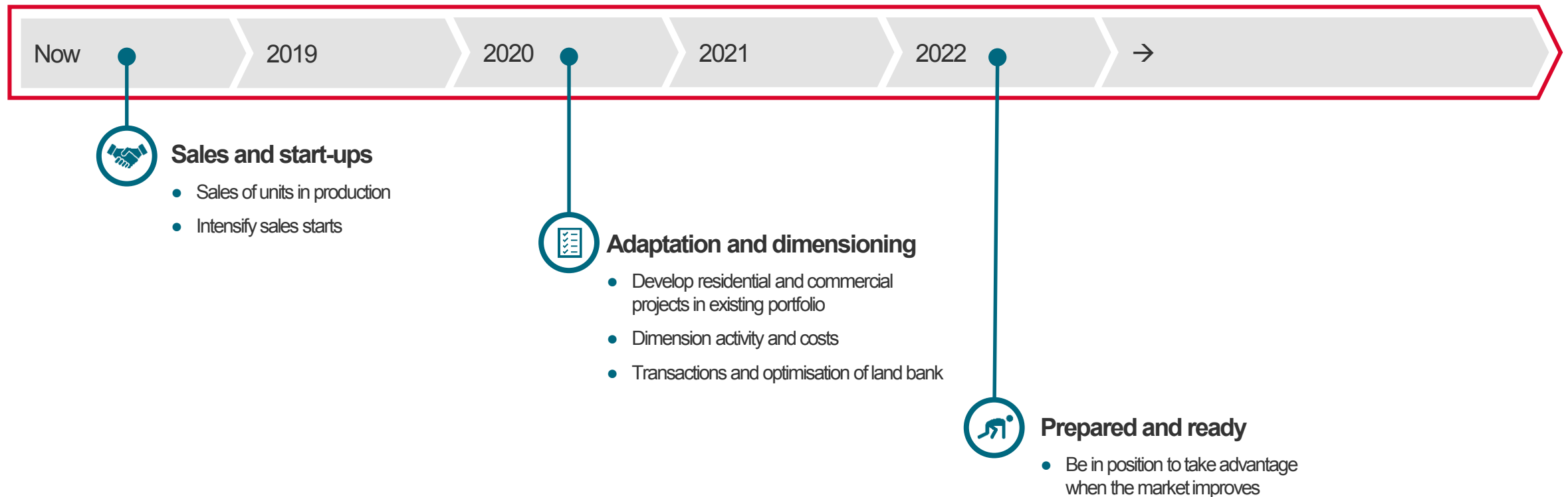
Number of residential units, Veidekke's share



- Sales starts highly dependent on developments in the Stockholm area housing market
- Two or three new projects under consideration for sales start in the Stockholm area in 2019
- Veidekke has many projects available for sales start in all regions at the end of 2019
- Which projects, and scope and time will depend on market

# Action plan Sweden

## Prioritising sales and the current situation







# Property development Norway

Sølyst ,Stavanger



NærByen, Trondheim



Nyegaardskvartalet, Oslo

Middelthuset, Oslo



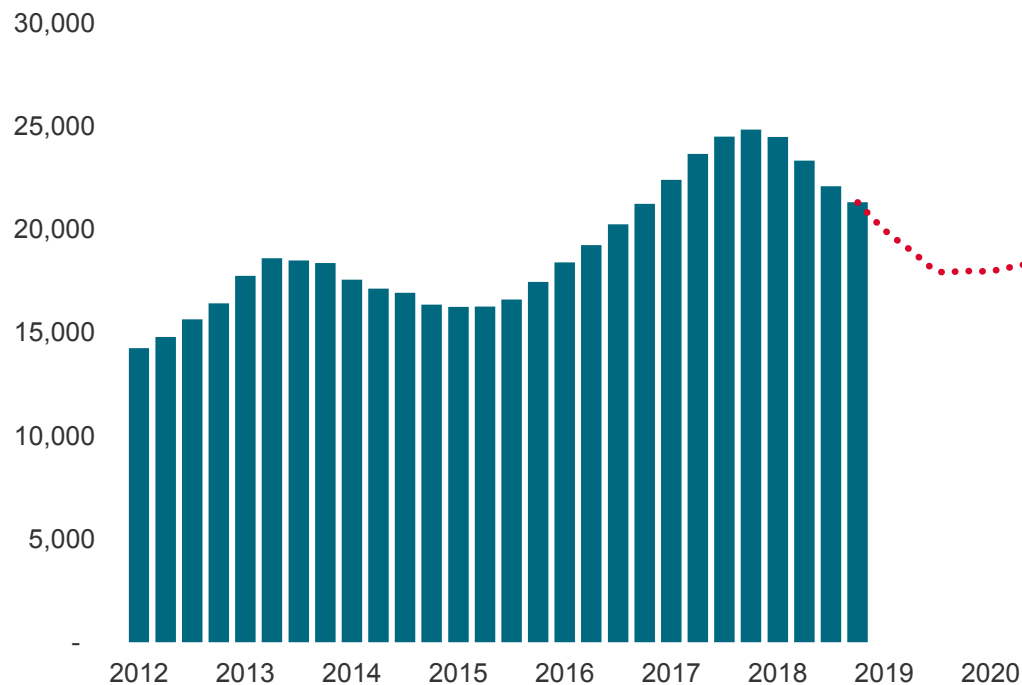


# Housing market in Norway

## «Back to normal»

### Start-ups apartments and small houses

12 months rolling per quarter, number of units



Source: SSB and Veidekke

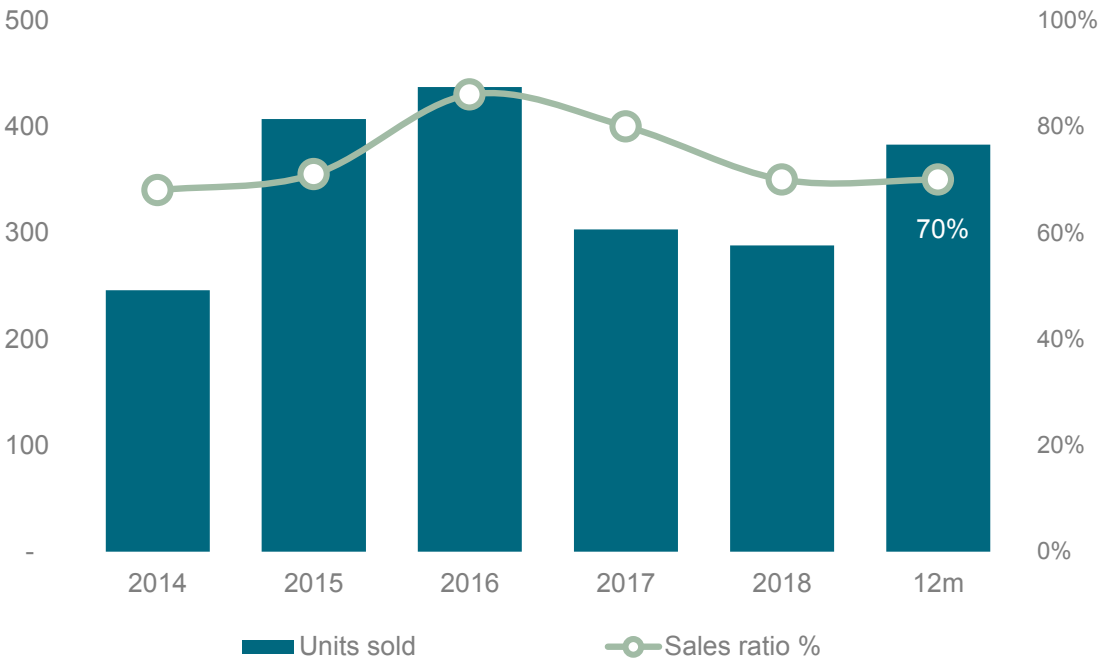
- **«Back to normal»**
  - Extraordinary sales levels in 2016/2017
- **Short term: Healthy market, increased competition**
  - Demand for housing is solid, but properties have become less attractive as investment objects
- **Long term: Relatively stable development expected**
  - Solid fundamental market conditions

# Activity in Norway

## Increasing sales and high production

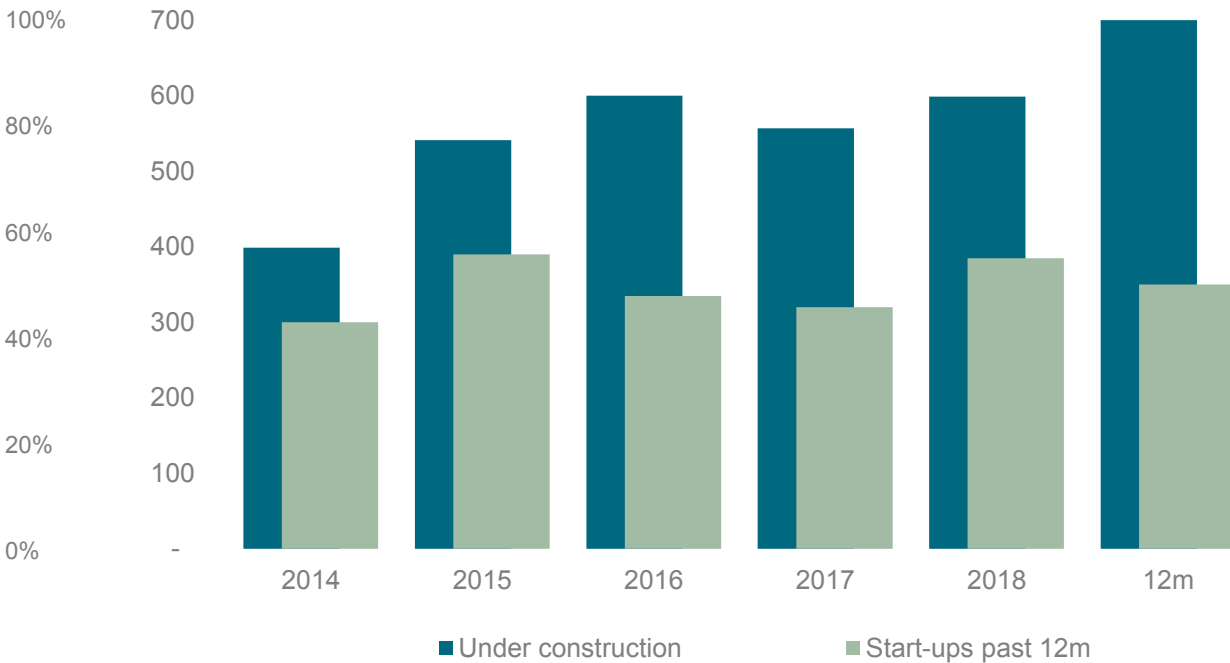
### Units sold

Veidekke's share



### Units in production and building starts

Veidekke's share

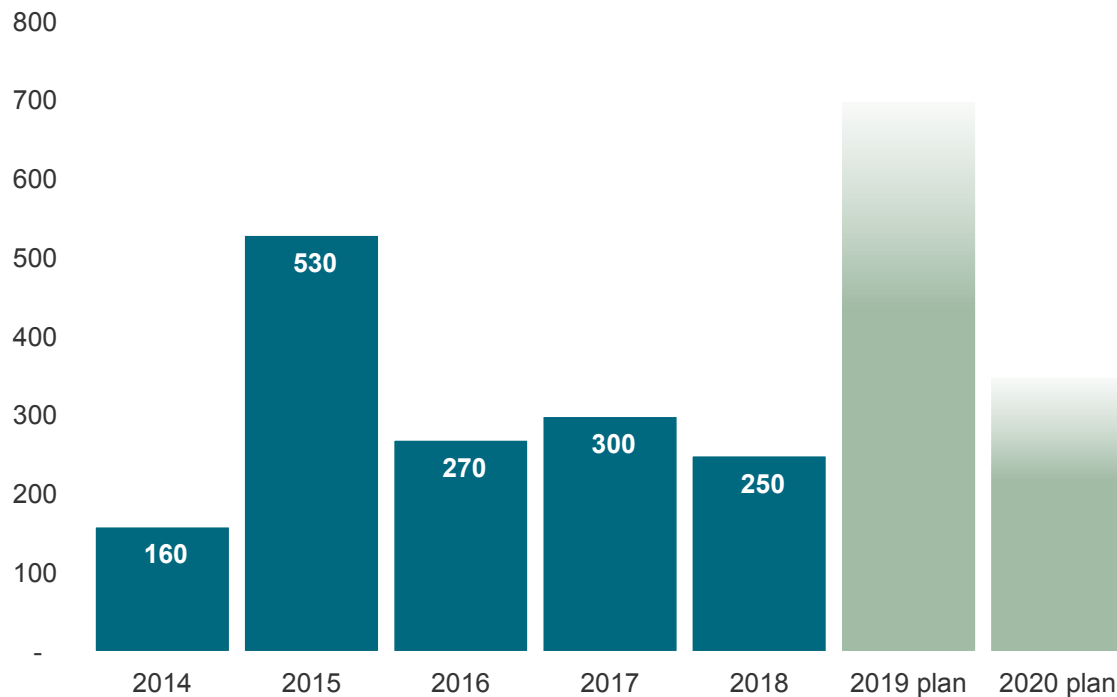


# Increased sales starts in a healthy market

## Middelthunet and Nye Lilleby important in 2019

### Sales starts residential units, Norway

Number of residential units, Veidekke's share



- Large number of sales starts expected in 2019
  - Middelthunet, Oslo, with 165 units
  - Nye Lilleby (B4/B5), Trondheim, with 370 units in total
  - Other potential projects
- Launch of several projects expected in and around Oslo in 2020, although fewer than in 2019



# Action plan Norway

## Projects ready for market



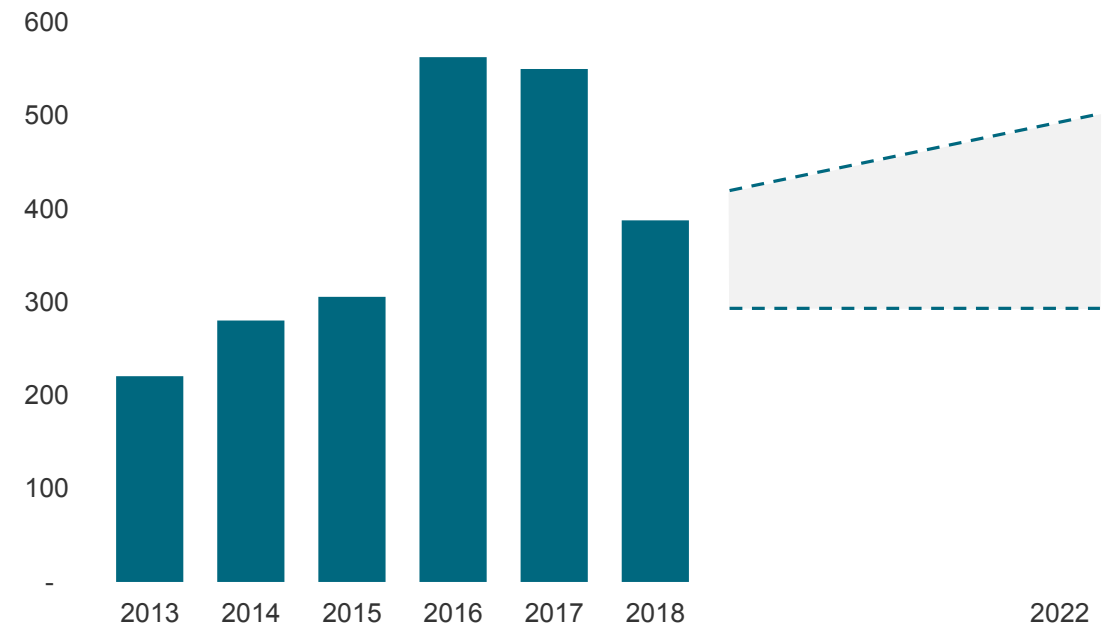
# Property Development Outlook

## Market driven development from strong position

- 1 We have strong, long-term positions
- 2 We will develop profitable projects with high returns on capital
- 3 Profits will vary with market activity, units in production, and transactions

### Property development, Sweden and Norway

Profit before tax, NOK million







## Nyegaards- kvartalet

Veidekke's largest wholly-owned residential project will be BREEAM-certified and built on a fossil-free construction site.

# Construction Profitability and risk

Arne Giske, CEO  
Capital Markets Update 2019

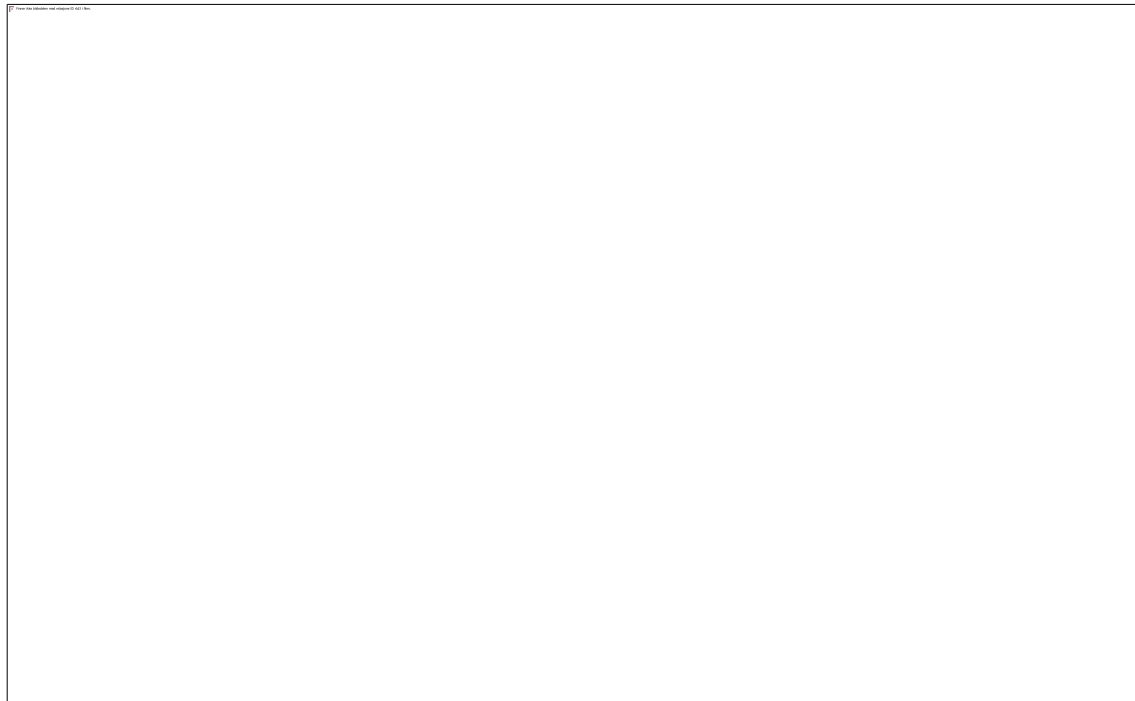


# An attractive construction market in Scandinavia

## Large addressable market

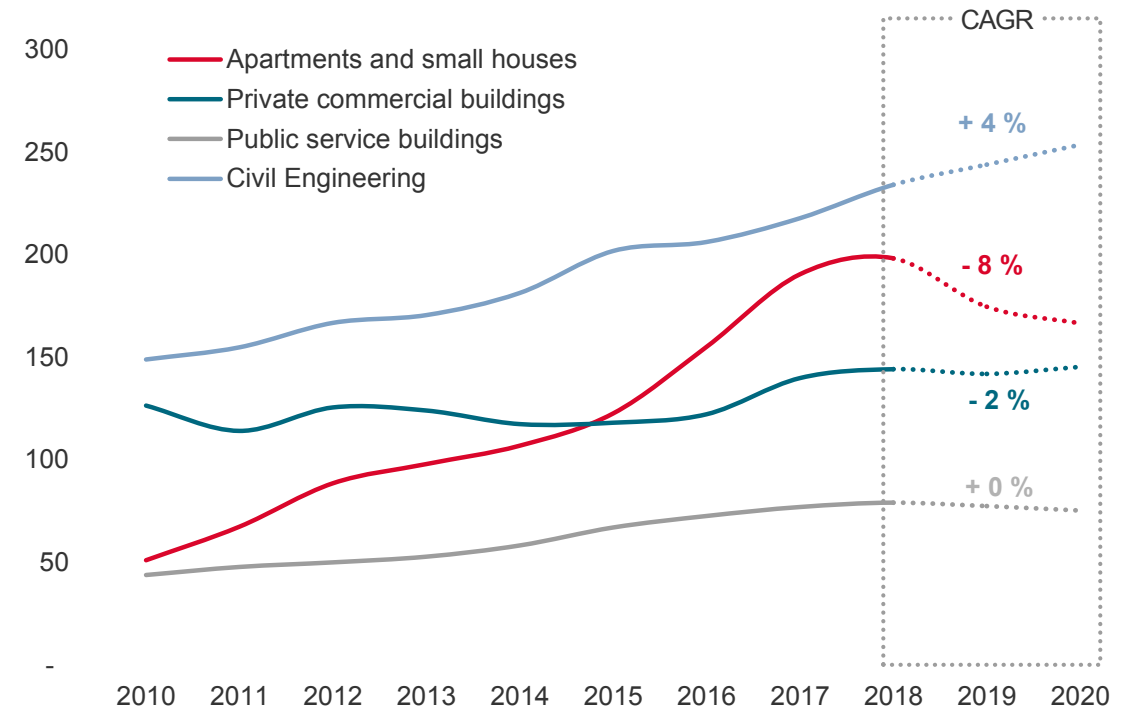
### Construction market 2018

Building construction and infrastructure



### Construction market

Production per year, NOK billion





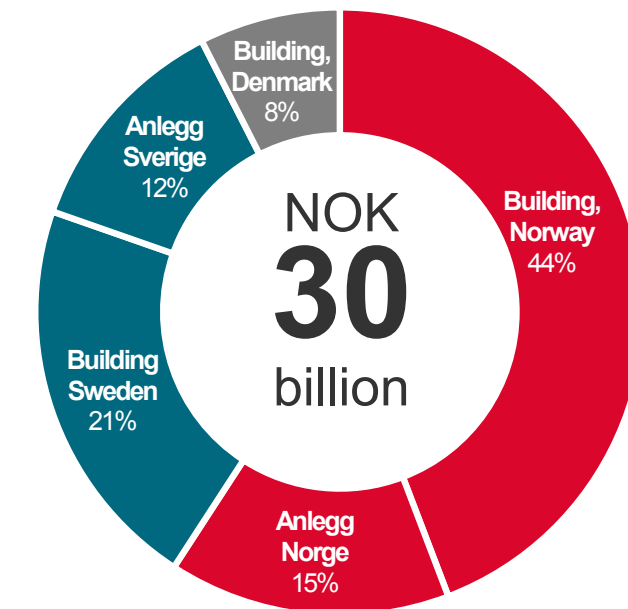
# Construction in Veidekke

## Solid position in a large market

- Veidekke is Norway's largest construction company
- Solid Scandinavian footprint
- Differentiated by product, sector and geography
- Strong growth over the past five years
- Improving profitability from today's position is top priority

### Geografical distribution

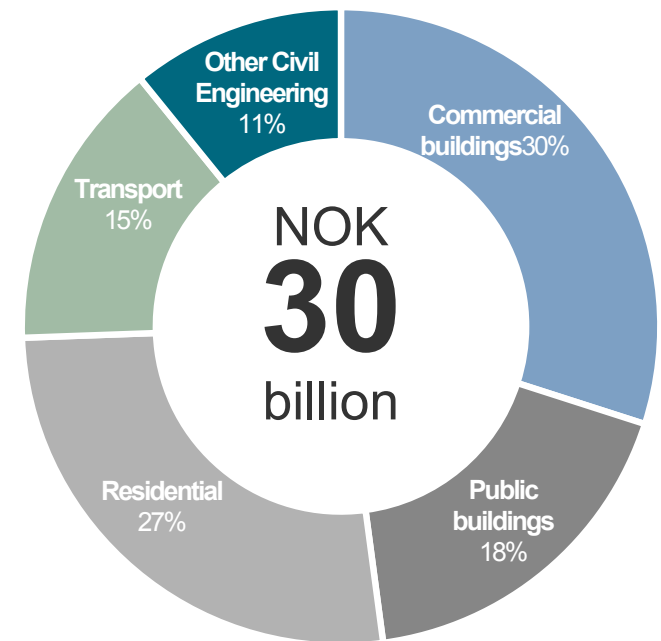
Revenue per segment and geography



■ Norway, 59% ■ Sweden, 33% ■ Denmark, 8%

### Diversified product portfolio

Revenue per product

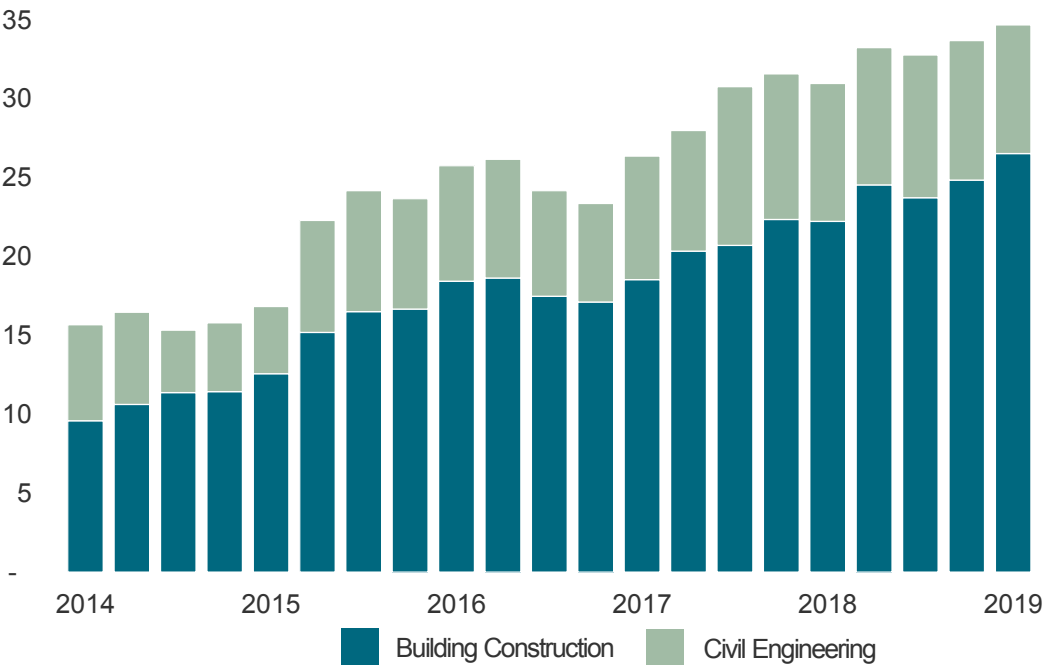


# Increased order book

## Shift towards commercial buildings

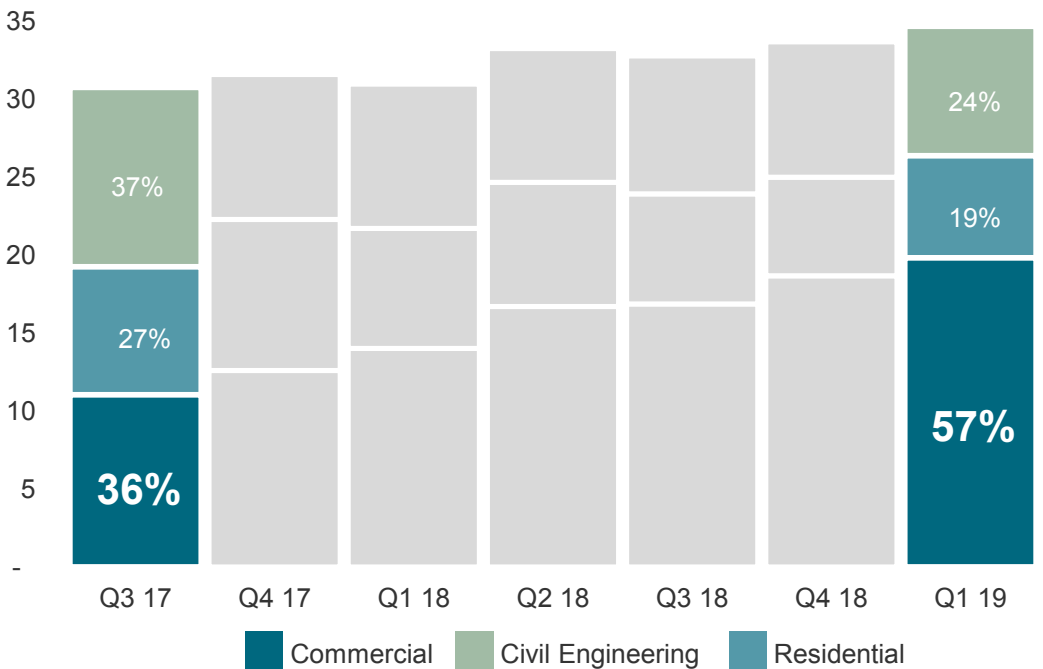
### Growing order book

Order book by business units, NOK billion



### BRA acquisition in 2018 strengthened Commercial

Order book by segment, NOK billion

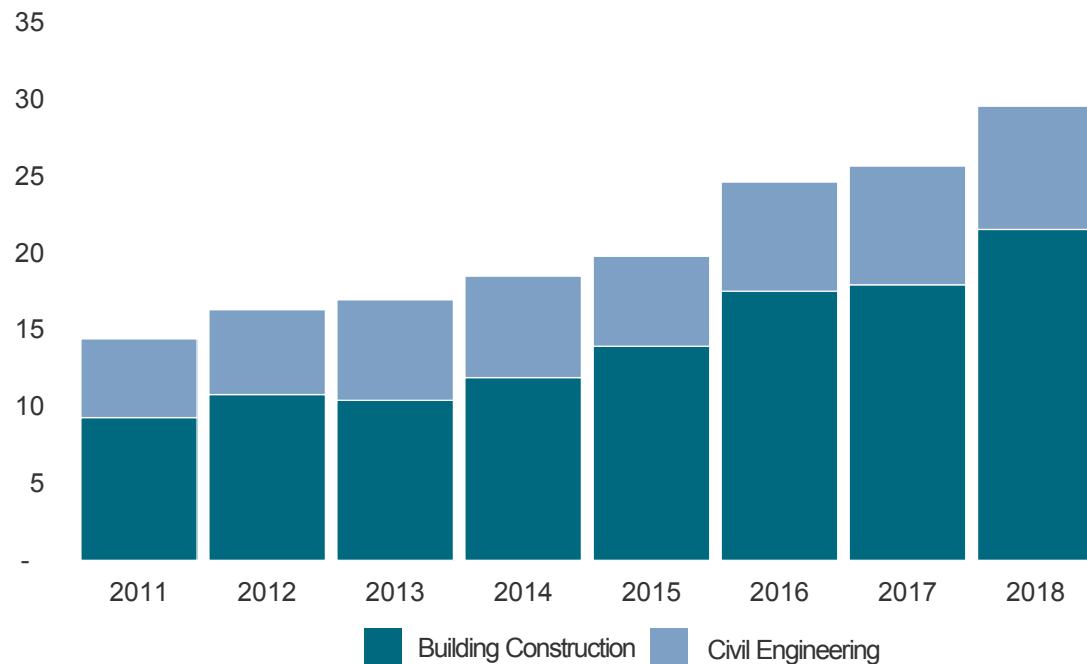


# Increased revenue but lagging profitability

## Decline in Civil Engineering profitability

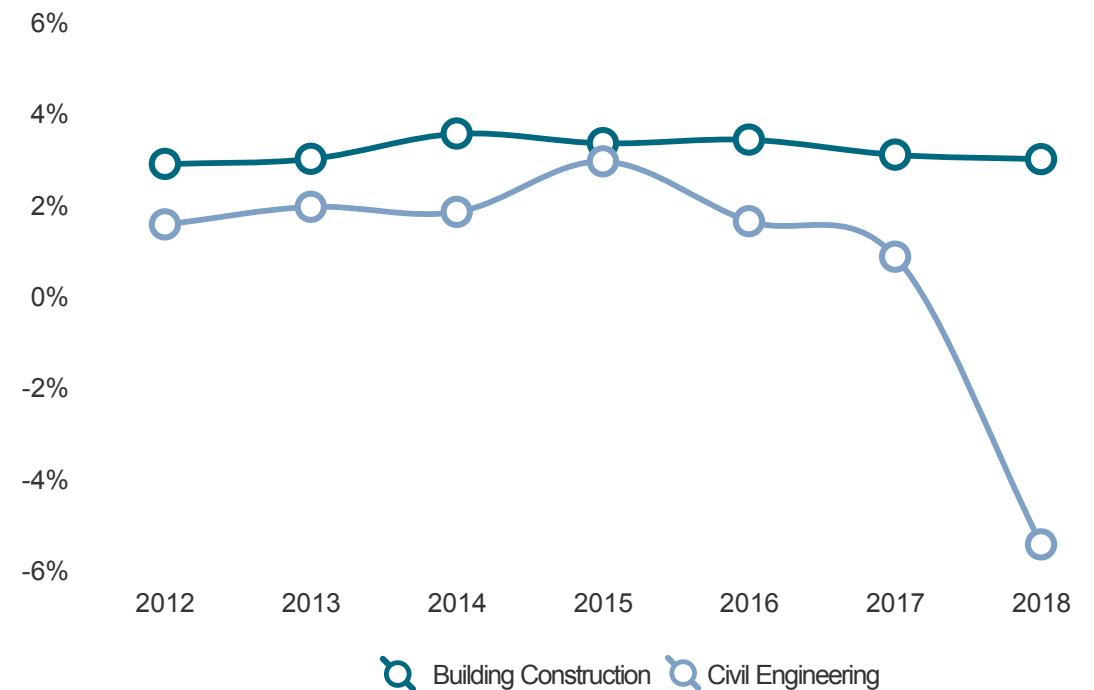
### Growth in both Building Constr. and Civil Engineering

Revenue, NOK billion



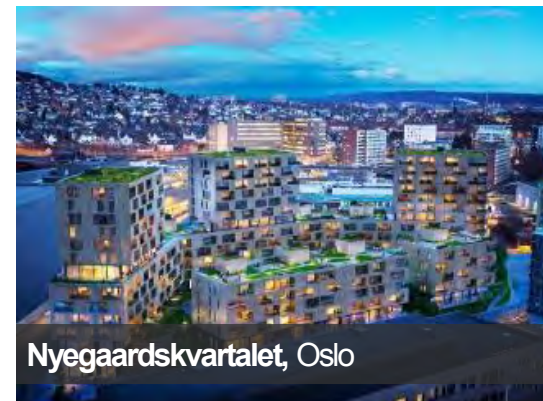
### Development: Building Constr. flat, Civil Engineering weak

Profit margin before tax\*



# Major new building construction projects

## Shift towards more commercial buildings





# Major new Civil Engineering projects

## Towards a more balanced portfolio



Highway E6 Arnkvern-Moelv



Foundation and infrastructure Oslo Airport



Foundation wind power station



Lundbyleden, Gothenburg



Underground construction in Sickla, Stockholm



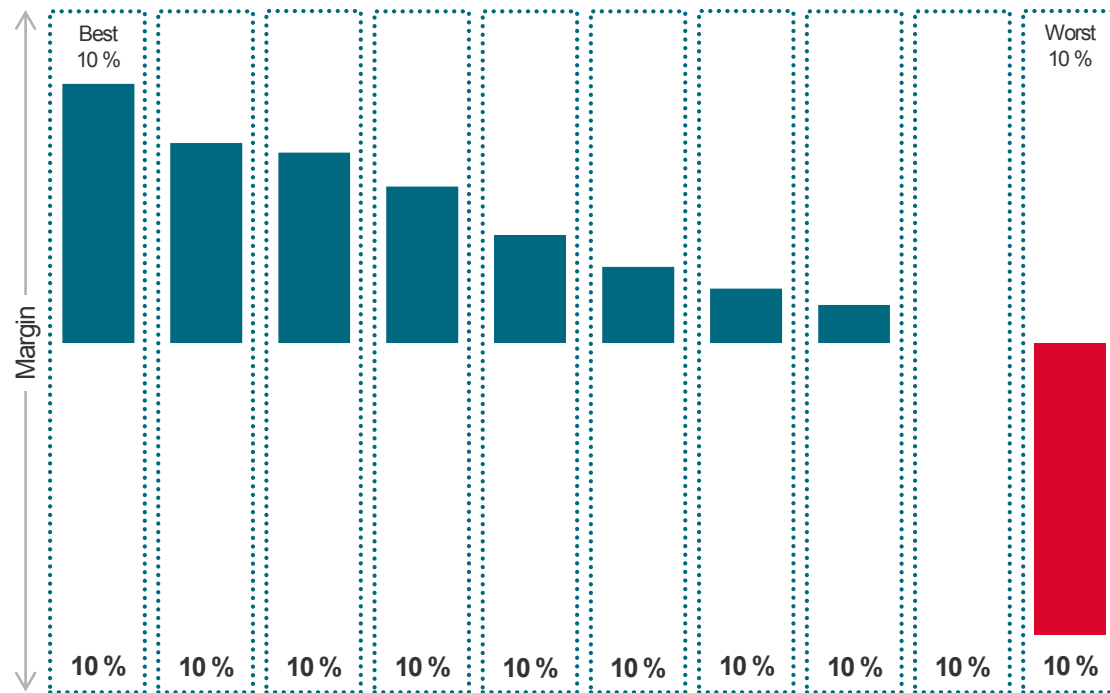
Crossroads Hjulsta Södra, Stockholm

# Increase profitability and avoid losses

## Satisfactory in large parts of building construction

### Loss projects weaken portfolio margins

Project revenue in ongoing projects ranked by profitability, deciles

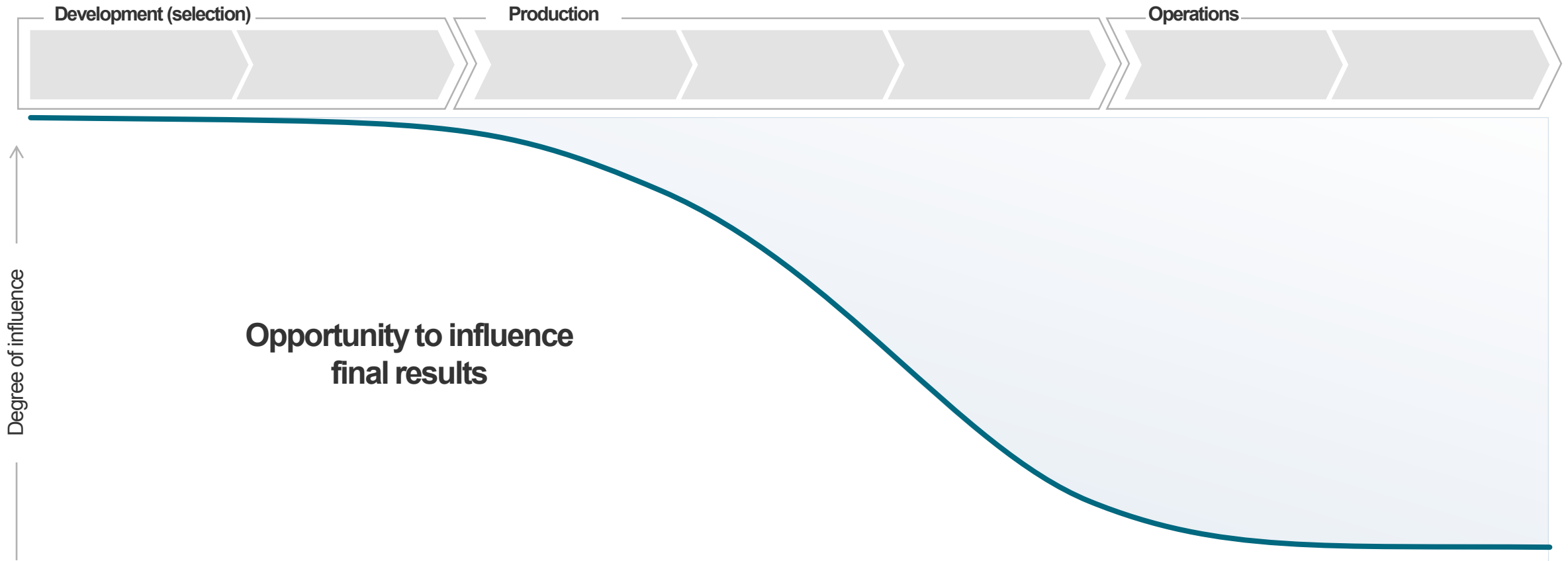


\*Analysis of the 140 largest ongoing building construction projects by end prognosis

- Accumulated revenue for the 90% best building construction projects has a profit margin of ~4%
- Loss projects have a major effect on overall profitability
- Risk management, project selection and proper project management are key

# Strengthened risk management in early phases

Key areas: Project selection, calculations and project design







## Hotel Ottilia

Hoffmann has been given the task of transforming Carlsberg's historic warehouse buildings into a modern and well functioning hotel.

# Hoffmann Early involvement

Jørgen Wiese Porsmyr, EVP  
Capital Markets Update 2019

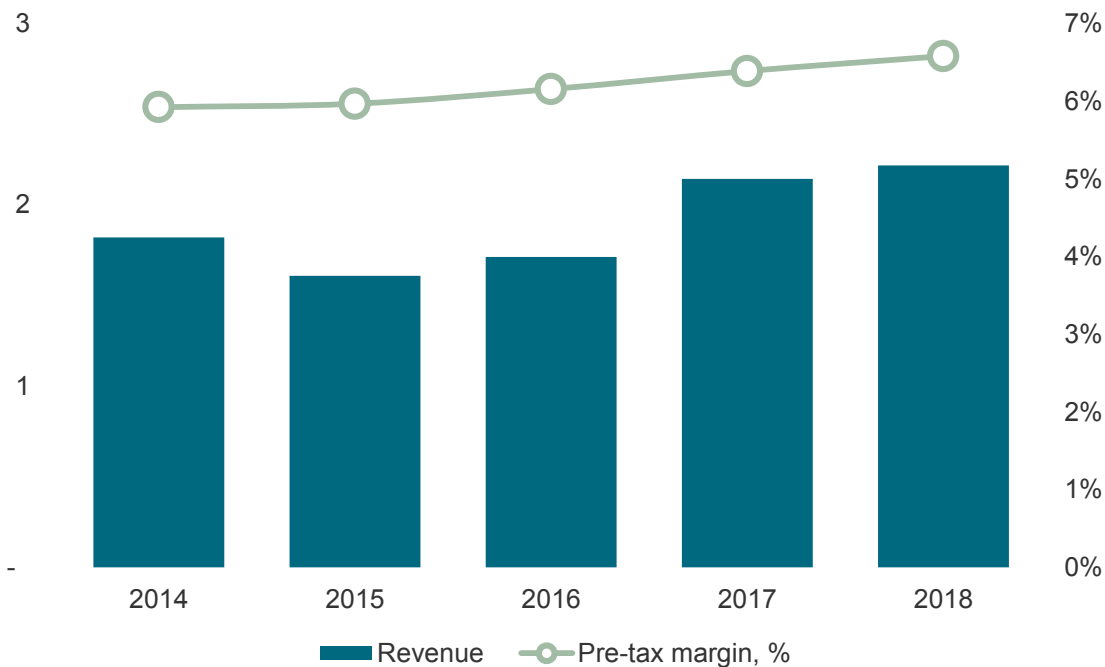


# Strong profitability

## Clear strategy and solid project execution

### Stable, strong results

Revenue and margin development, NOK billion and %



### Selective customer strategy

- Prioritising customers where we can get involved early; phase 1 of project development
- Cooperation model which includes both client and advisers, and secures project improvements and optimisation of the customer's business case
- This accounts for almost 80% of revenue

### Emphasis on technology and services closely related to the large commercial projects

- Hoffmann's service unit increases gradually
- These services accounted for almost 15% of revenue in 2018

# Major new projects in Denmark

## Large projects in early phase



# Still high ambitions for Denmark

## Staying true to our business model

- Hoffmann will be a selective construction company, which mainly develops and builds private commercial buildings
- Long-term customer relationships with key commercial property developers in the Copenhagen area
- True to strategy – focus on risk management

2014-2018	2018	2019-2020	2021-2022
Revenue growth p.a. <b>+11%</b>	Revenue growth <b>+3%</b>	Revenue growth p.a. <b>+0-5%</b>	Revenue growth p.a. <b>+0-5%</b>
Average margin <b>6.2%</b>	Margin 2018 <b>6.6%</b>	Margin target 2020 <b>&gt;5%</b>	Margin target 2022 <b>&gt;5%</b>





# Building Construction Norway Product specialisation

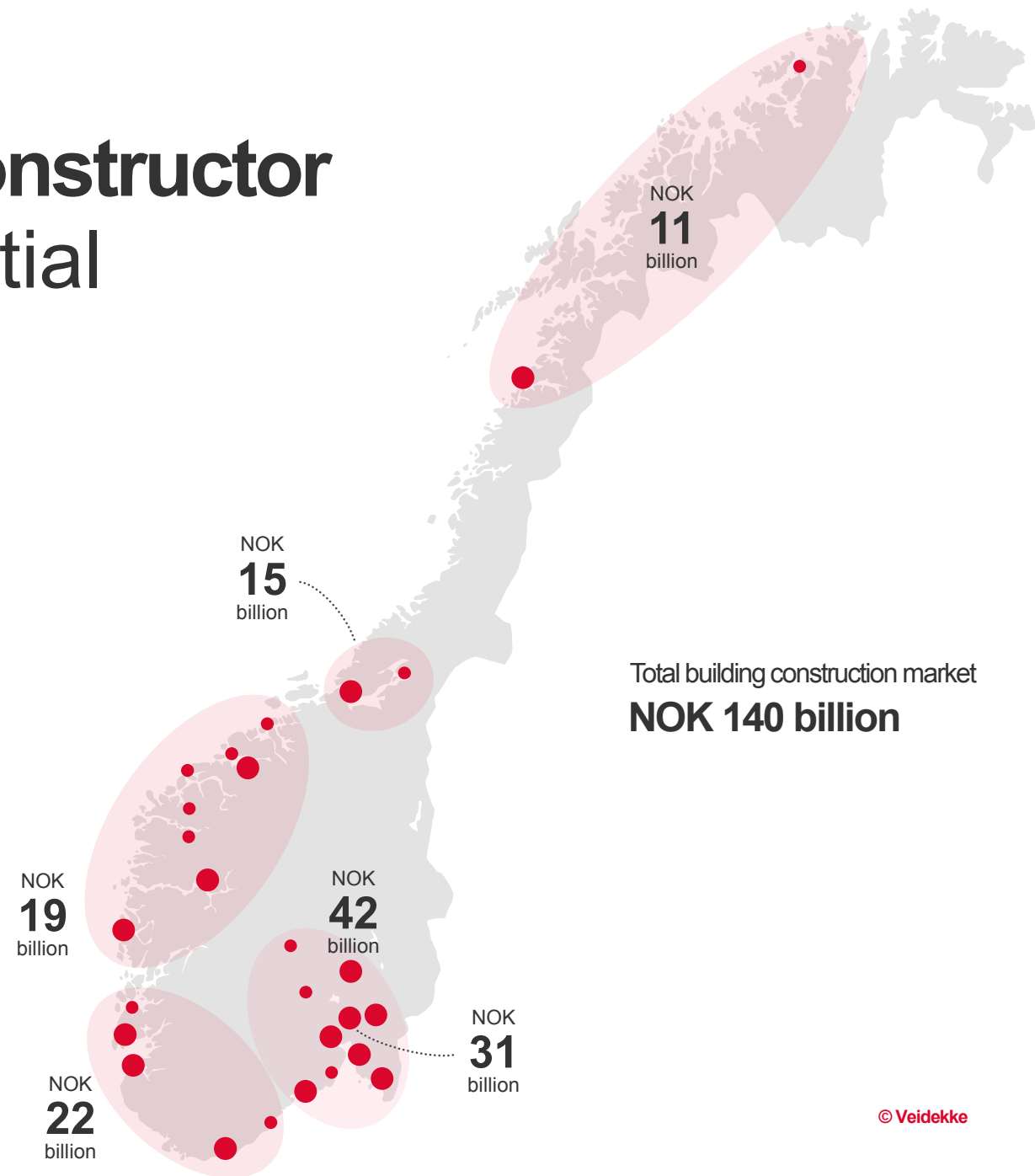
Hans Olav Sørli, EVP  
Capital Markets Update 2019

## Lysgården

Lysgården is an environmentally certified and groundbreaking office building. The building will be certified in accordance with the BREEAM Excellent environmental standard.

# Norway's largest building constructor in a market with great potential

- Veidekke has a market share of around 10% of the total building construction market in Norway
- Presence in all market regions, with a particularly strong position in the Oslo area
- Local presence along the entire coast from south to north
- Broad project portfolio in residential buildings and in private and public commercial buildings



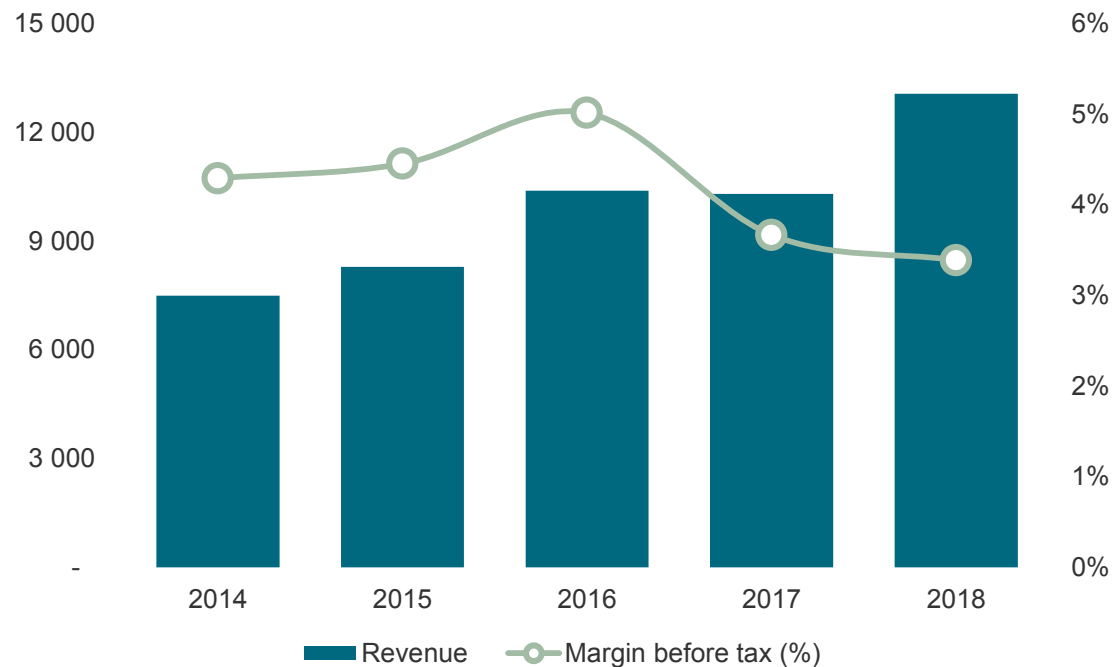


# High growth for several years

## Profitability put under pressure

### Building Construction Norway, revenue and margins

NOK million, %



### Challenges

- Wide spreads in performance and profitability between the different entities
- Complex projects have been handled by small and local entities with limited resources
- Inadequate risk management and increasingly sliding margins

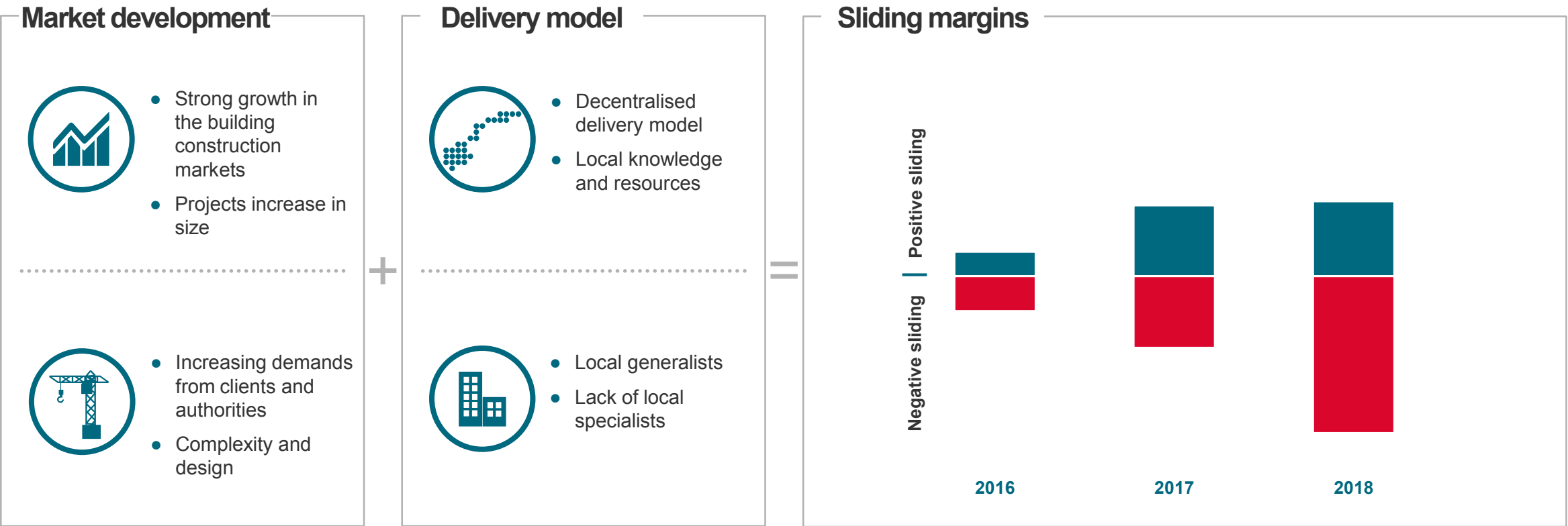
### Possibilities

- Market with large potential
- Stable organisation with solid competencies and vast experience



# Declining profitability

## Delivery model to be adapted to market developments

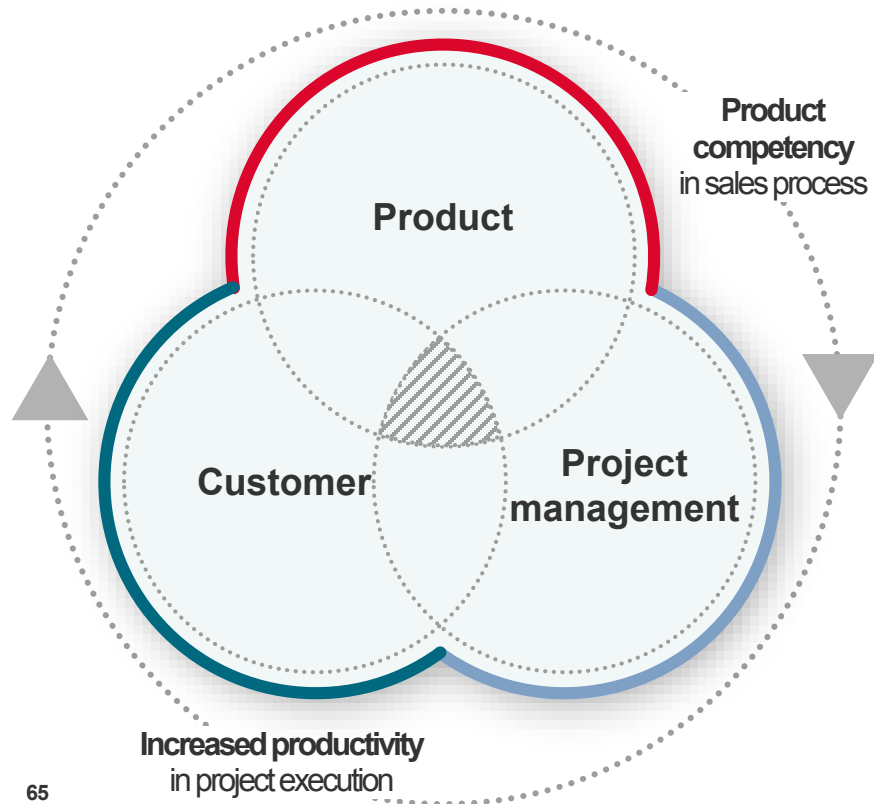


# Strategic turnaround – from generalist to specialist

## We aim for increased profitability with lower risk

### Complete and uniform delivery model

project development – projecting – purchasing – construction



1

### Enhanced focus on three product areas

- Apartment buildings
- Office buildings
- Schools

2

### Prioritising customers who...

- ...specialise in their type of buildings
- ...are professional and repeat customers
- ...encourage early involvement

3

### Going for project types where we have...

- ...competent and experienced project management
- ...risk understanding and experienced-based calculation
- ...standardised processes

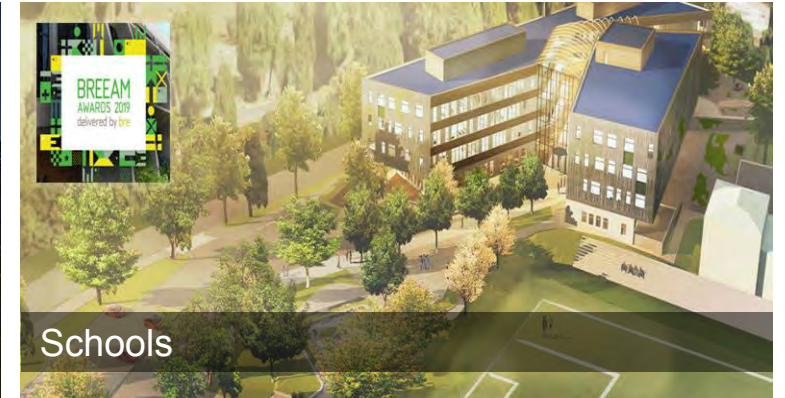
# We will do more of what we do best



- A few nationwide and many mid-sized local customers
- Homogeneous product
- Industrialised product and process
- High degree of repetition



- Professional and long-term repeat customers
- High architectural requirements
- Commercial, dynamic and user-driven processes



- Professional public purchasers
- High design and environmental requirements
- Industrialised process
- Significant share of «price & design»

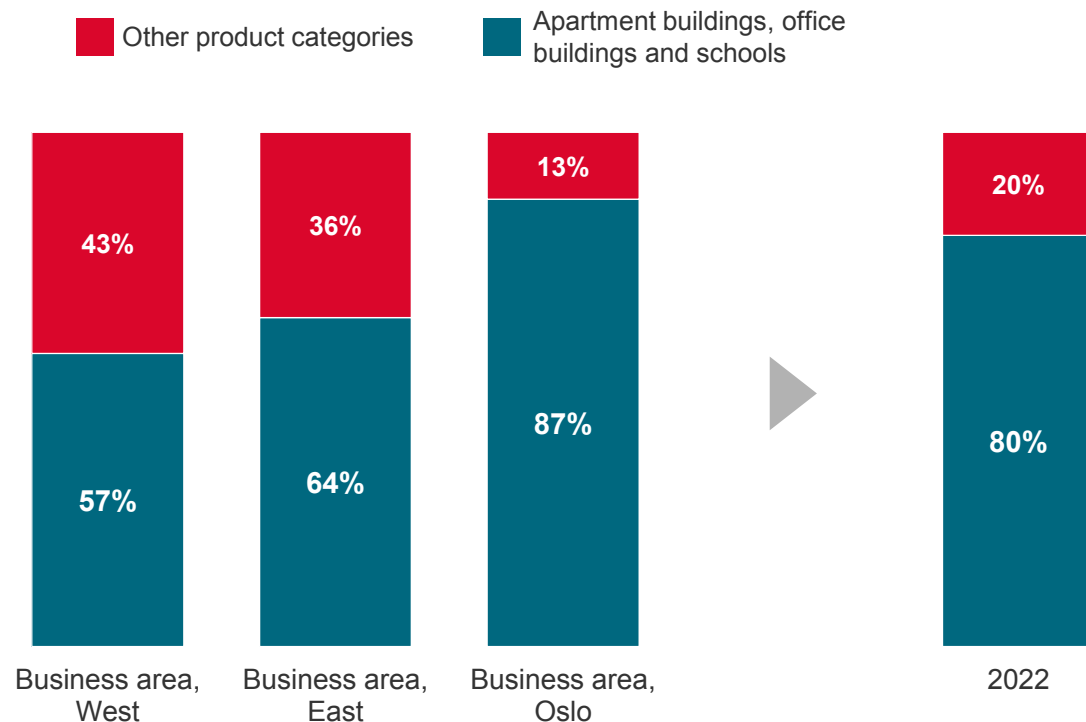


# Specialisation around three product categories

## Apartment buildings, office buildings and schools

### Specialising in desired product categories

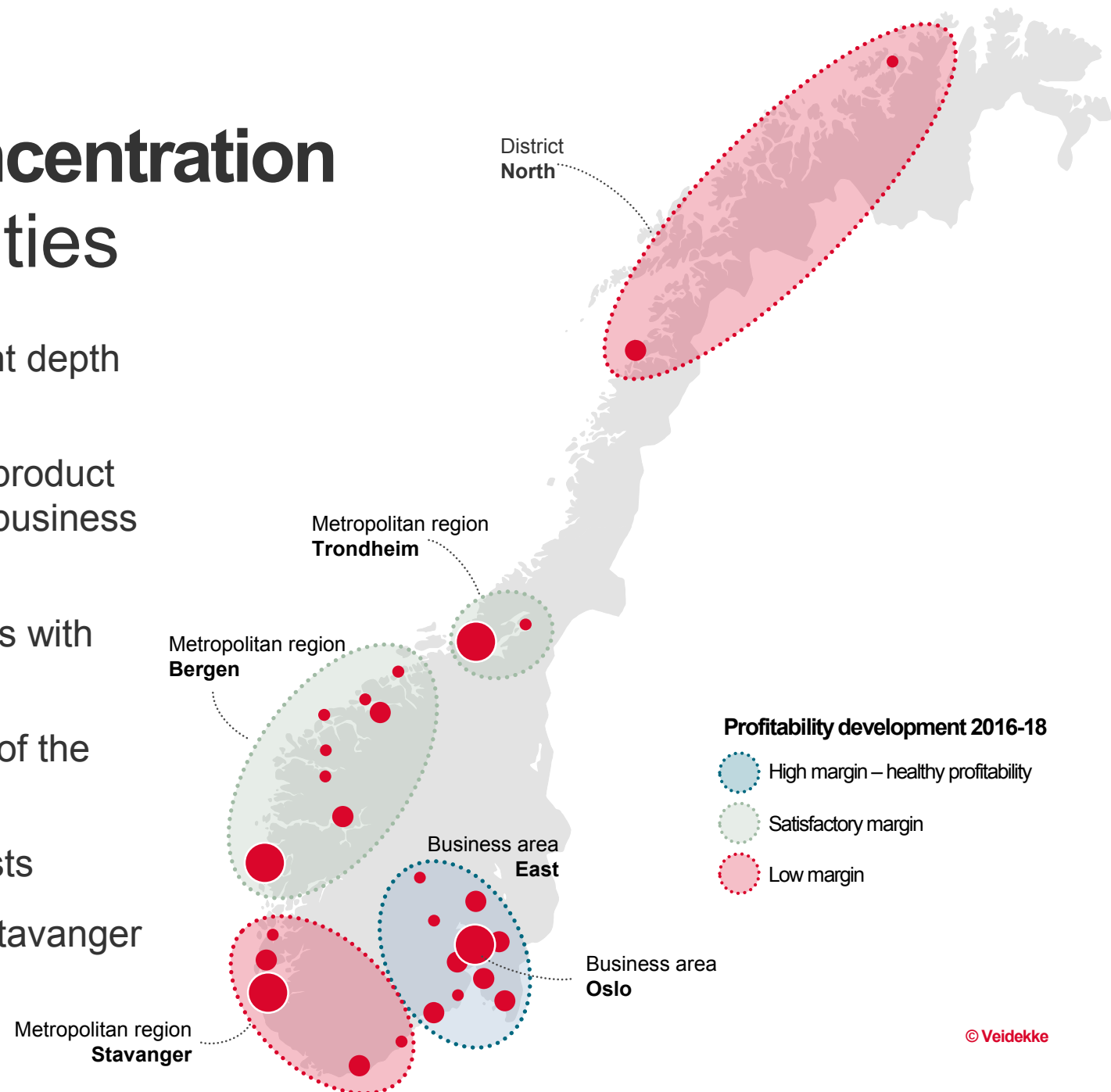
Product mix, share of revenue 2017-2018



- Apartment building, office buildings and schools account for ~60% of the total market or about NOK 80 billion per year
- Veidekke aims for a portfolio with >80% of revenue in these categories, across regions
- We deploy competencies and management capacity to a narrower product range

# Strategy will lead to concentration in and around the big cities

- Specialisation requires markets with sufficient depth and width
- From local competitive power to nationwide product specialisation - product organisation across business areas
- Big cities to support districts and departments with business critical competencies
- Big city focus in alignment with the priorities of the Property Development division
- New organisation to give lower structural costs
- Strengthening our positions in Bergen and Stavanger



# Ambitious goals

## Be the most profitable building constructor in Norway

- Increased degree of product specialisation
  - 80% of revenue in 2022 to be generated from three product categories: apartment buildings, office buildings and schools
- Profitability before growth
  - Selection, correct calculation, and risk management
- Effective and operational organisations – concentrated in the big cities

2014-2018	2018	2019-2020	2021-2022
Revenue growth, p.a. <b>+12%</b>	Revenue growth <b>+27%</b>	Revenue growth p.a. <b>+0-5%</b>	Revenue growth p.a. <b>+0-5%</b>
Average margin <b>4.1%</b>	Margin 2018 <b>3.4%</b>	Margin target 2020 <b>4%</b>	Margin target 2022 <b>&gt;5%</b>





---

## **‘Sund branch’**

Veidekke has taken a leading role in the work to establish a healthy building and construction industry in Sweden, and was the first contractor to sign agreement on ID06.

---

# Construction Sweden Clear priorities

---

Jimmy Bengtsson, EVP  
Capital Markets Update 2019

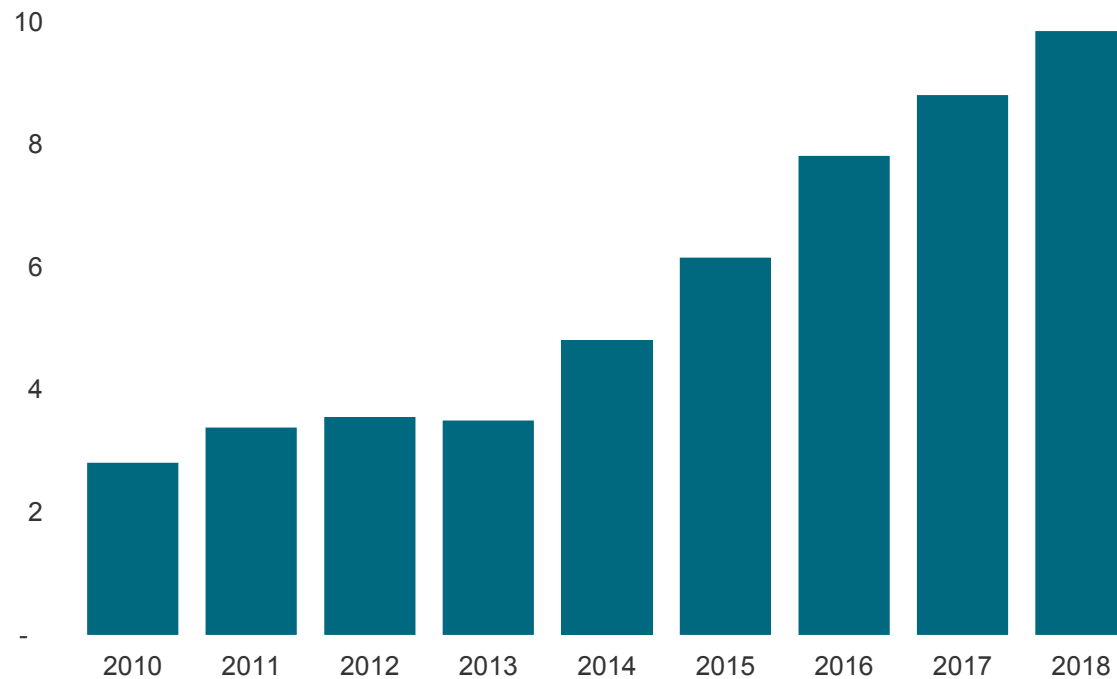
---

# Veidekke established as a major player in Sweden

## $\frac{2}{3}$ in Building Construction, the rest in Civil Engineering

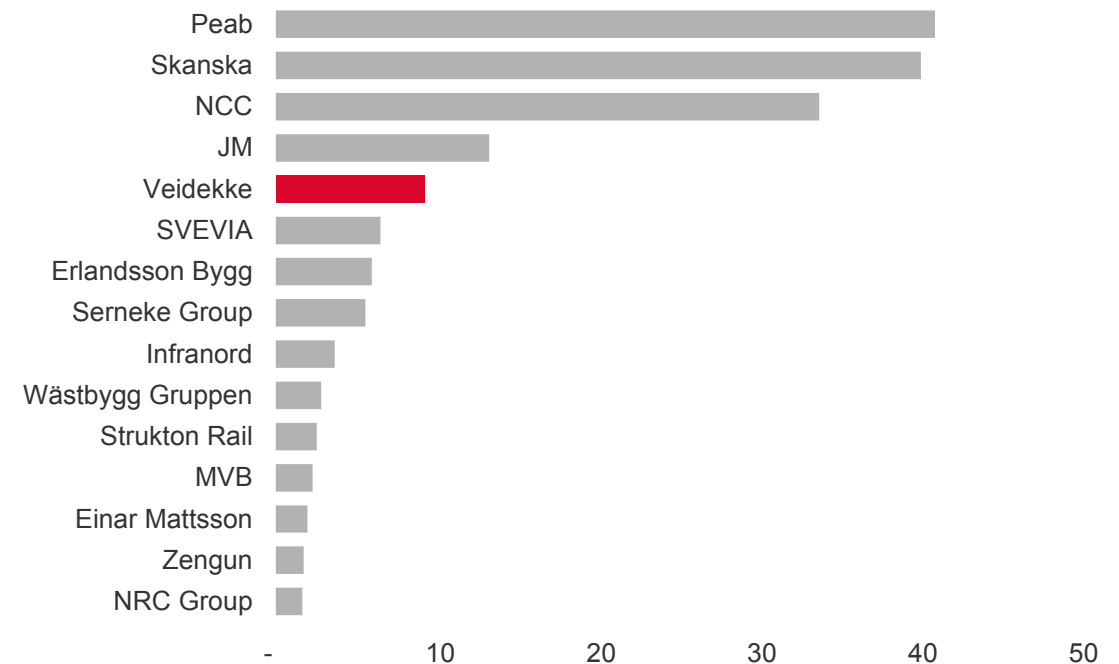
### Strong revenue growth the past few years

NOK billion



### Veidekke is the 5th largest contractor in Sweden

Annual revenue, SEK billion

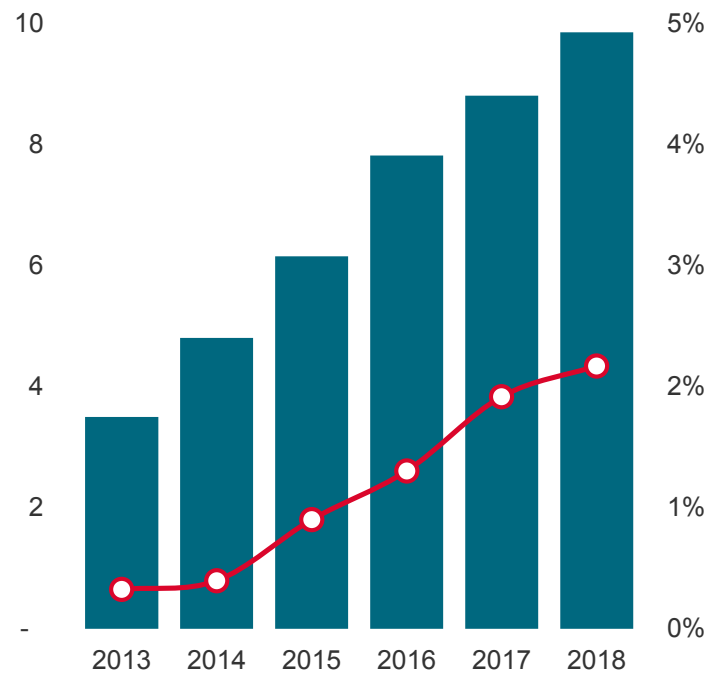


# Growth in Sweden mainly in Building Construction

## Increasing profitability but some units are laggards

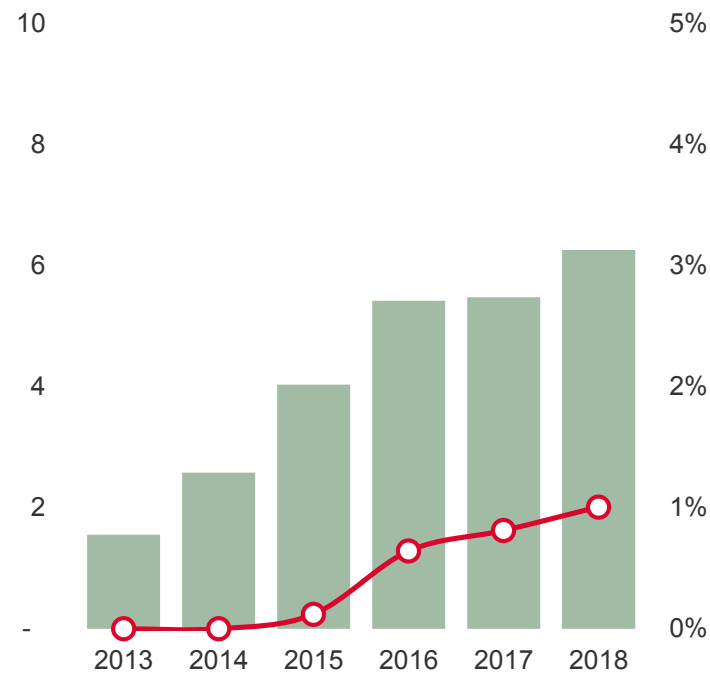
### Construction Sweden

Revenue (NOK billion) and margin (%)



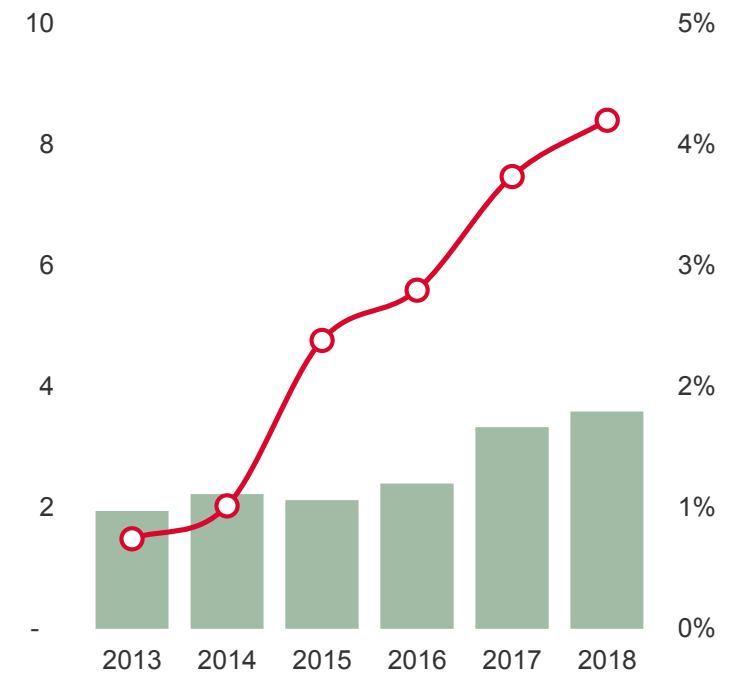
### Building Construction

Revenue (NOK billion) and margin (%)



### Civil Engineering

Revenue (NOK billion) and margin (%)







# Building Construction Sweden Safeguarding results and strengthening the position

Jimmy Bengtsson, EVP  
Capital Markets Update 2019

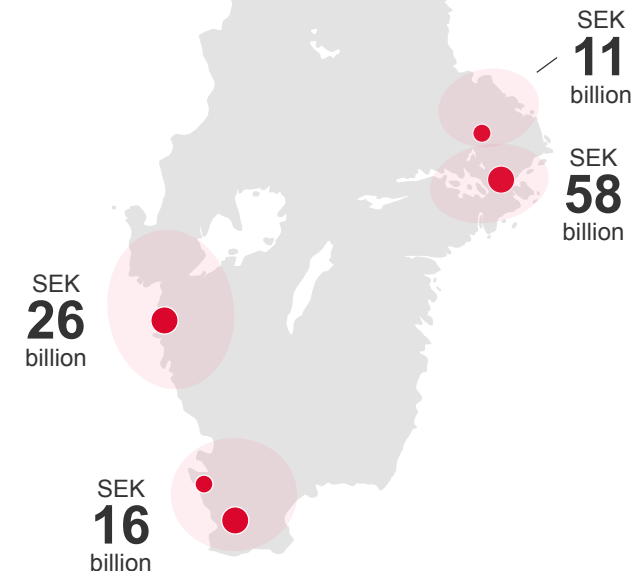
## Swan mark

As part of the overarching environmental focus in Veidekke, we have decided that all apartment buildings built on own account shall be certified with the Swan mark eco label

# Building Construction in Sweden

## A challenger in a large market

- Veidekke is a challenger in the Swedish Building Construction market
- Veidekke has a market share of around 4% of the total Swedish building construction market
- Focus on the growth regions around Stockholm, Gothenburg and Malmö
- Specialised in two business areas: Residential and Commercial
- Broad project portfolio within homes and offices, hotels, public services buildings and schools

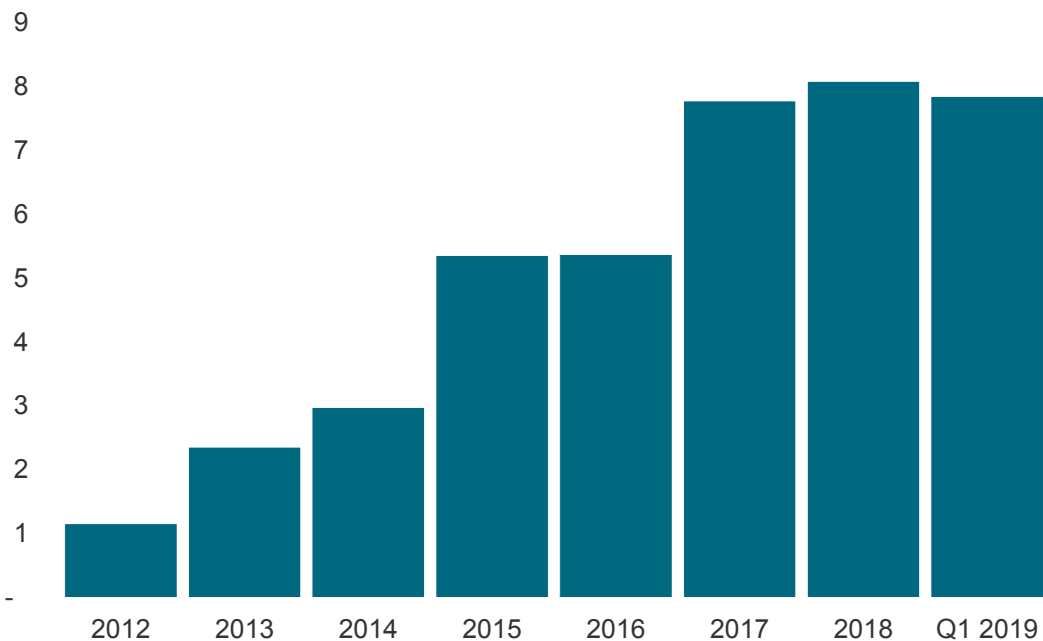


# Building Construction order book x7 in 6 years

## Change towards commercial buildings

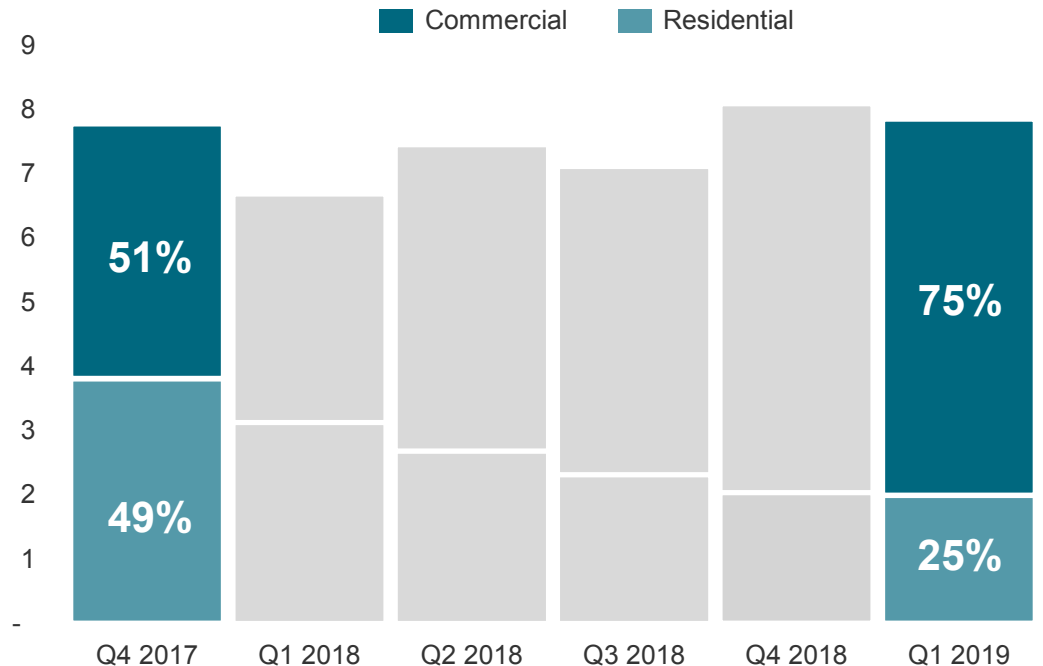
Ordre book Building Construction Sweden

NOK billion



Ordrer book by segment

NOK billion



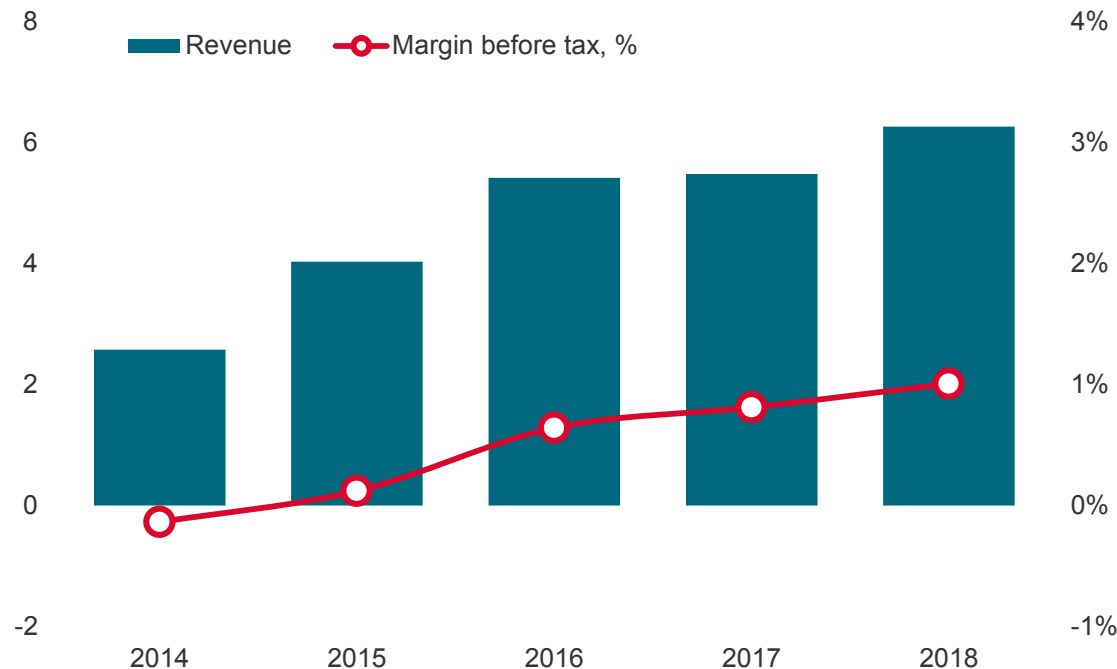


# Strong growth– margin increase from low level

## Weak profitability in residential in the Stockholm area

### Building Construction Sweden, revenue and margins

NOK billion, %



### Building Construction, Commercial

- Strong development and position
- Solid order book
- Profitability on par with Building Construction Norway

### Building Construction, Residential

- Very weak results on projects in the Stockholm area
- Challenges in ongoing projects due to a too high level of start-ups in a booming market without sufficient organisational capacity
- Measures implemented in Q3 2017 still ongoing

# Increase profitability in Residential

## Prioritising sharp improvement in the Stockholm area

### Improved profitability towards 2020

- Safeguarding results – risk management
- Competencies and management capacity
- Intensifying customer work and marketing
- Organisational adaptations to a lower activity level

### Strengthened positions towards 2022

- Strengthening the relation to prioritised customers seeking early involvement and positive interaction
- Further developing technical platform and products for increased competitiveness
- Increase efficiency and standardise processes and production



Turning the first shovel at HSB og Veidekkes fifth project in Malmö

# Competitive positions in important growth regions

## Focus on population centers and large cities



- Acquired 90.1 % of BRA in 2018
- Main focus on commercial buildings in a fast-growing region
- NOK 1.3 billion in revenue last 12 months



- Long experience and competency within hotels, public service buildings, schools, retail and offices
- Value adding architect- installation competency through BSK Arkitekter and Exengo



- Long experience in joint contracts and early involvement
- Leading deployment of VDC and digital tools
- Installation and technics through the subsidiary Veitech



# Strengthening the positions in Commercial

## Complex projects in cooperation with the client

### Safeguarding resultst towards 2020

- Develop and strengthen the position of Bygg Kommersiellt in Stockholm and Uppsala, and further strengthen the development of BRA in Gothenburg
- Get in position to take a larger share of joint contracts and early phase projects
- Develop activities within technical installations

### Increase profitability towards 2022

- Choose the right project given risks and potential rewards
- Strict project- and risk management
- Build project leader tems with the right and critical competencies



BRA Bygg AB builds Geely Innovation Centre in Gothenburg

# Improvement goals in Building Construction in Sweden

- Focus on safeguarding results in 2019 and 2020
  - Phasing-out loss projects in Stockholm
  - Increasing competencies, risk management and calculation
- Further develop competitive position in Gothenburg and Stockholm
- Prioritise collaborative construction projects and early-phase projects

2014-2018	2018	2019-2020	2021-2022
Revenue growth p.a. <b>+32%</b>	Revenue growth <b>+14%</b>	Revenue growth p.a. <b>+5-10%</b>	Revenue growth p.a. <b>+ 5-10%</b>
Average margin <b>0,6%</b>	Margin 2018 <b>1%</b>	Margin target 2020 <b>2%</b>	Margin target 2022 <b>3.5%</b>



# Civil Engineering Sweden

# Profitability before growth

Jimmy Bengtsson, EVP  
Capital Markets Update 2019

---

## Wind farm

Veidekke built roads, crane sites, internal power grids, fiber networks and 23 concrete foundations in connection with the establishment of the Jenåsen Wind Farm in Sundsvall for Eolus Vind.

---

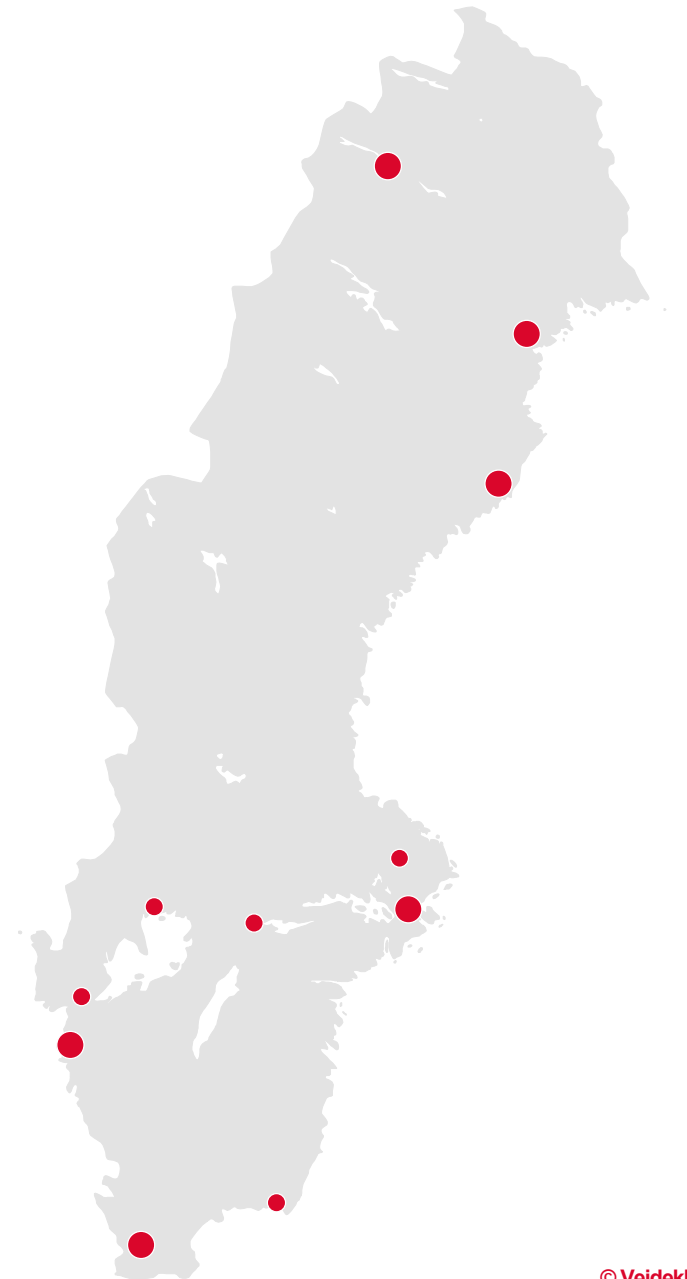




# Civil Engineering Sweden

## A selective civil engineering contractor

- Solid position in selective market segments
- Prioritising projects within infrastructure, extraction, heavy industry, the energy sector, and recycling facilities / landfills
- Focus on the major regions around Stockholm, Gothenburg and southwest Sweden
- Established player in the mining segment in northern Sweden
- Good profitability from increased activity

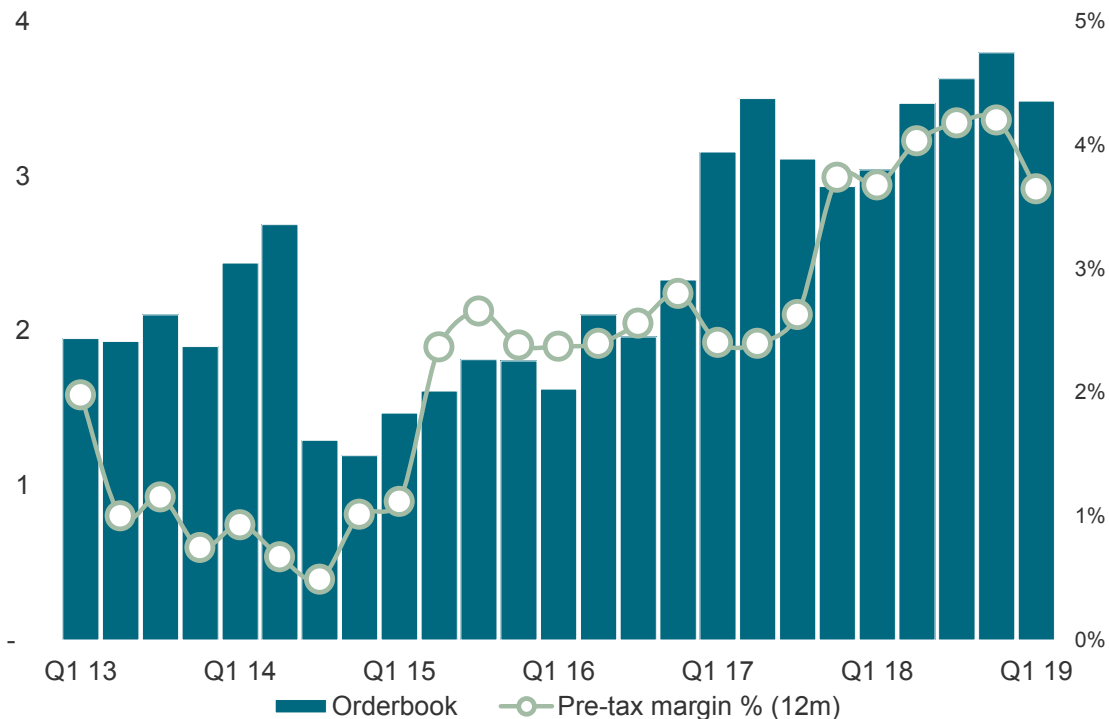


# Positive development

## Solid portfolio, increased activity level and margins

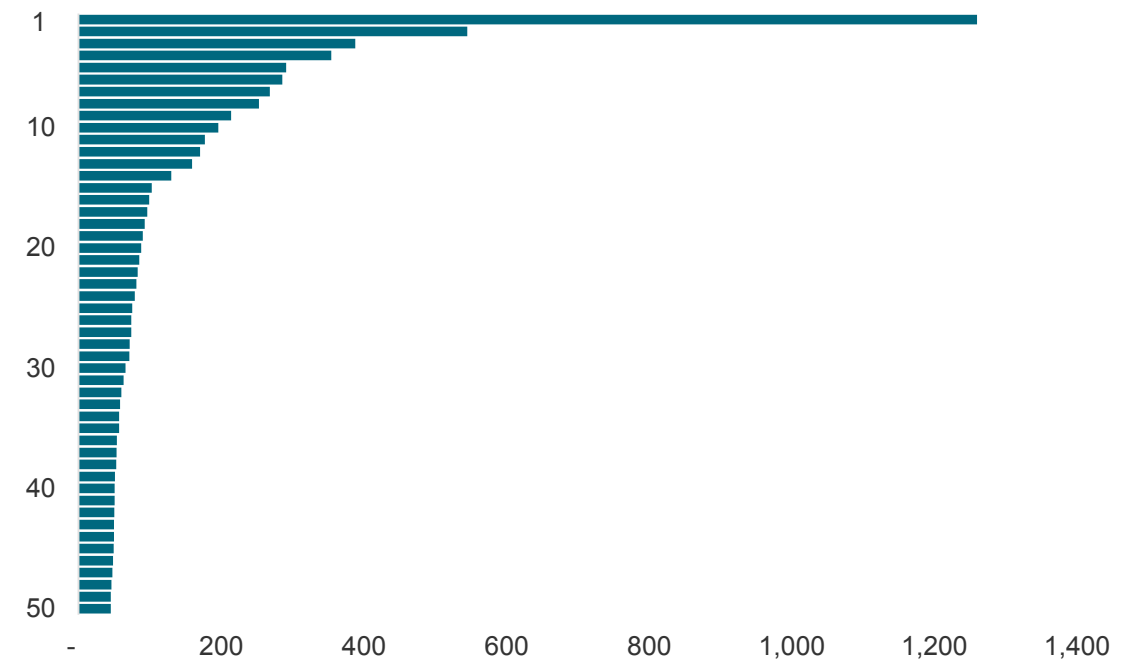
### Margin and order book Civil Engineering Sweden

NOK billion and %



### A balanced project portfolio

The 50 largest project wins last 4 years for Civil Engineering Sweden, NOK mill.



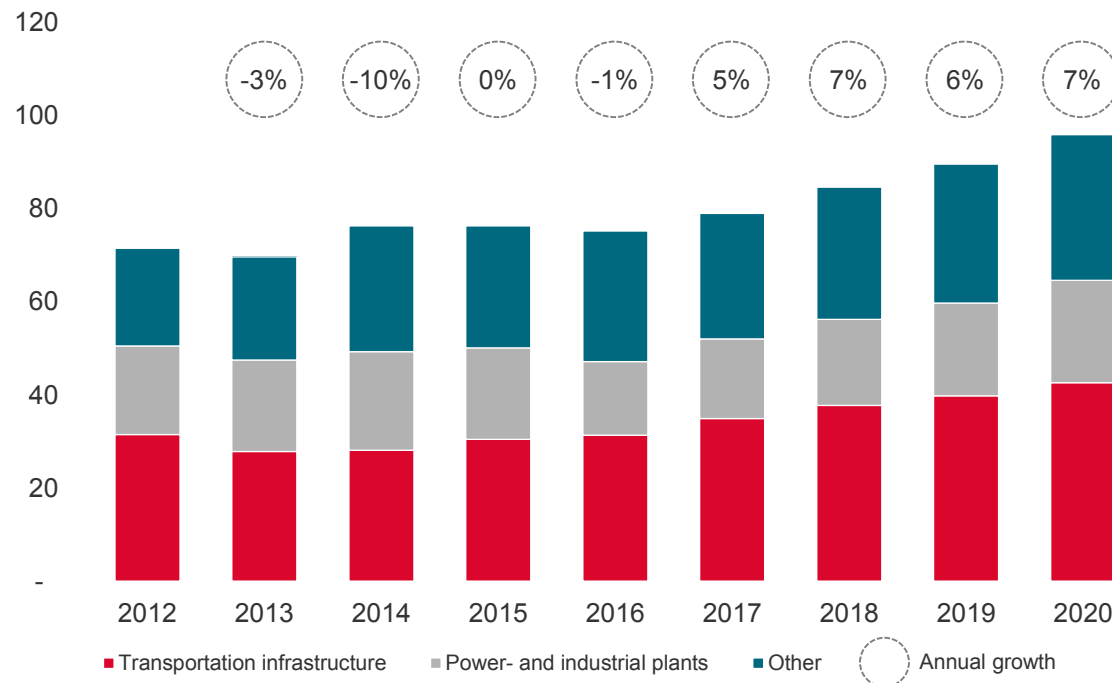
Includes contract entered into in Q2 19 with the Swedish Transport Administration to rebuild Lundbyleden in Gothenburg for around NOK 1.25 billion, whereof NOK 100 million to be entered into the order book in Q2 2019 for the first project phase

# Civil Engineering Sweden

## Continued good prospects

### Production in various construction segments

SEK billion, nominal



Source: SCB and Veidekke

- Increased production in 2018
- Increasing activity in the transportation infrastructure segment
- Energy sector turning clearly positive
- Growing market for municipal engineering projects



# Strategy and goals for Civil Engineering Sweden

- Profitability before growth
- Selectivity in the bidding and selection process
- Prioritise projects where we have particular strengths and expertise
- Continuously develop project management skills
- Effective operations throughout the value chain
- Collaborate with competitive partners

2014-2018	2018	2019-2020	2021-2022
Revenue growth p.a. <b>+13%</b>	Revenue growth <b>+7%</b>	Revenue growth p.a. <b>+0-5%</b>	Revenue growth p.a. <b>+0-5%</b>
Average margin <b>3%</b>	Margin 2018* <b>4%</b>	Margin target 2020 <b>4%</b>	Margin target 2022 <b>4.5%</b>

# Great potential in the Swedish civil engineering market

## Attractive position for improved profitability

### 1 Profitability before growth

- Eliminate loss projects through project- and risk management
- Selectivity based on risk and expected profitability

### 2 Build expertise and leadership capacity

- Strengthening competence and leadership capacity
- Clear management focus on results and customer satisfaction
- Further develop the brand to retain and attract the right employees and customers

### 3 Strengthen competitiveness

- Increased competitiveness through productivity initiatives
- Market leader for a serious building construction industry with competition on equal terms
- Follow the building construction sector's roadmap towards a fossil-free Sweden in 2045



Sund byggbransch i fokus på Veidekke

Pressmeddelande | 18.11.2024 12:00 PM



Med skogen Veidekke, som första byggbolag, på värdet för nya E30. Ett par timmar senare var man med för regeringens presentation med anledning av det nya lagförslaget om byggloshöjningen. Ett lagförslag i riksdagen, som det blev mer att göra. Veidekke som stöder ytterligare egenutveckling och gör företag skrytliga på bilden. Veidekke







# Civil Engineering Norway Turnaround - new strategy

---

Øivind Larsen, EVP  
Capital Markets Update 2019

---

## Sogn-Smestad

Statnett and Veidekke are now executing the first fossile-free tunnel/ civil engineering project in Norway. All machinery, trucks and vehicles are running on electricity or renewable diesel.

# Civil Engineering in a transition phase

## Reducing risk – increasing profitability

- More selective choice of projects
- Strengthening management capacity and competencies
- Reducing costs and increasing capital efficiency
- Aiming for significantly increased profitability with lower risk





# Civil Engineering Norway

A leading Norwegian constructor



Groundwork – Foundations - Fixation

Underground parking facilities

Road construction

Tunnels

Power- and industrial facilities

Special units

Kynningsrud Fundamentering AS  
Tore Løkke AS  
Veidekke Bane

## KEY INFORMATION

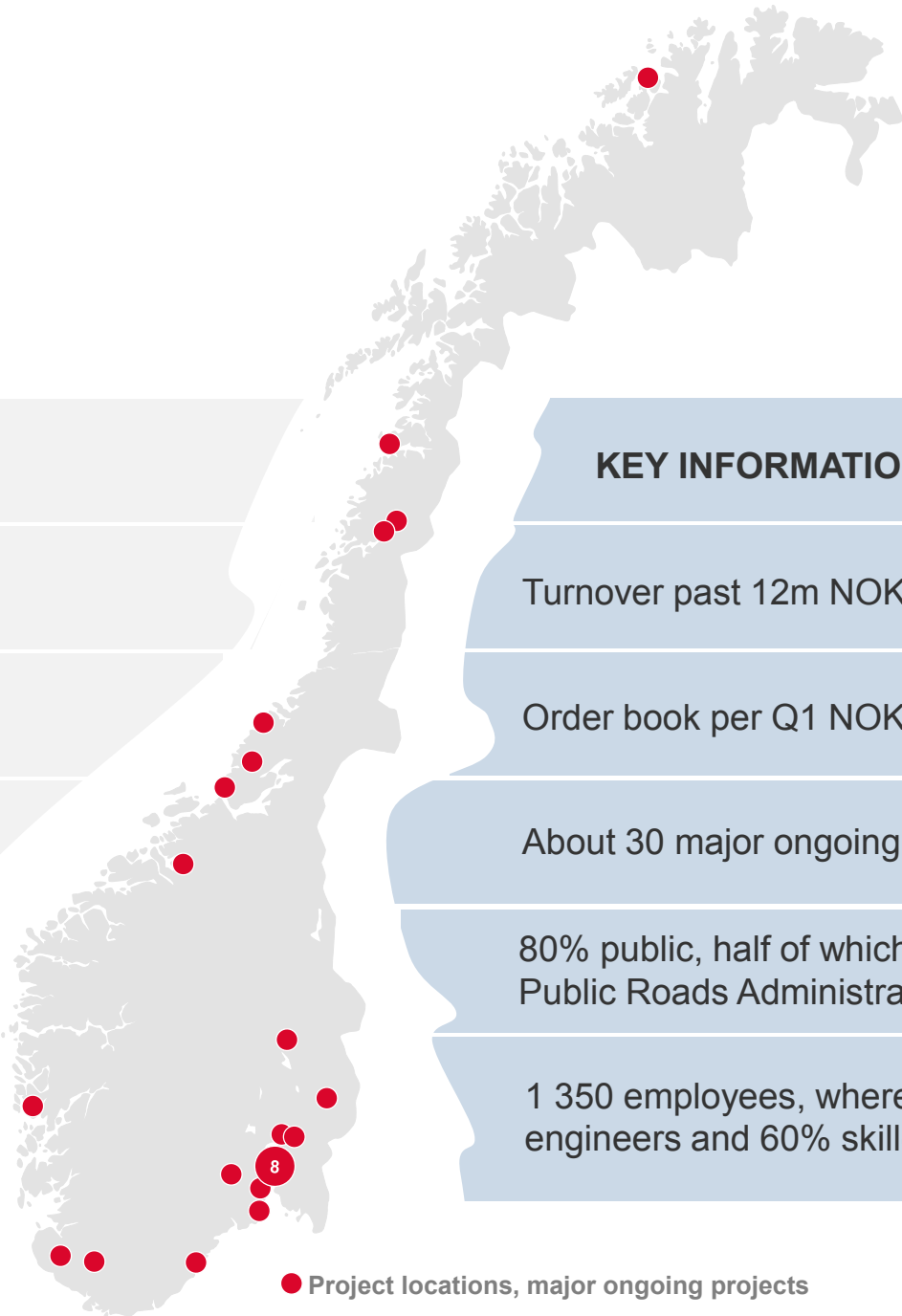
Turnover past 12m NOK 4.6 bn.

Order book per Q1 NOK 4.7 bn.

About 30 major ongoing projects

80% public, half of which for the  
Public Roads Administration (SVV)

1 350 employees, whereof 40%  
engineers and 60% skilled workers



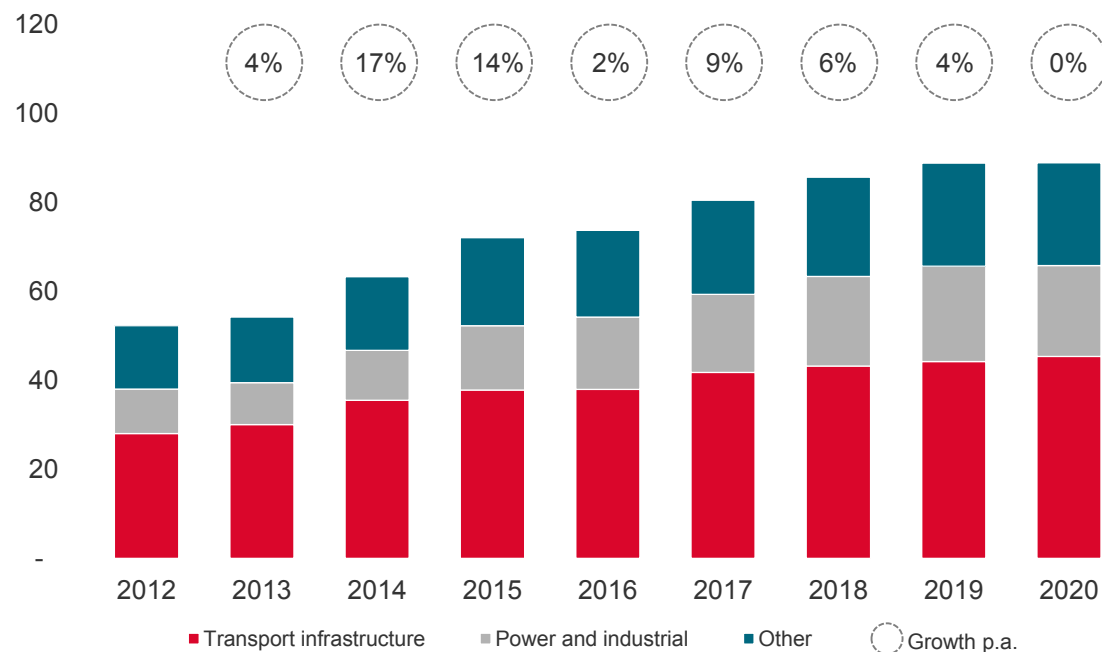
● Project locations, major ongoing projects

# Civil Engineering Norway

## High activity level and a changing market

### Production in different construction segments

NOK billion, nominal



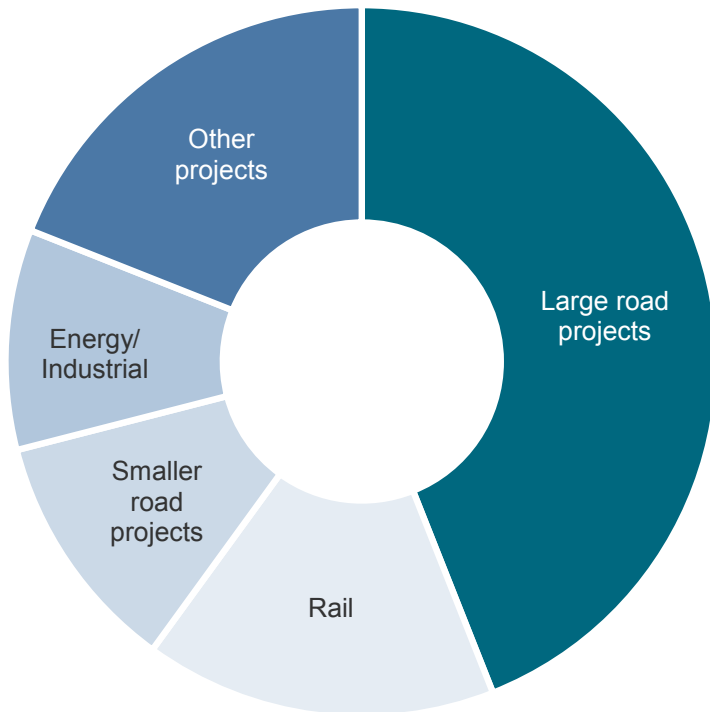
- High level of activity in all the main segments
- High growth and increasingly large transport infrastructure projects – especially in road construction

Source: SSB and Veidekke

# Large share of large road projects in the portfolio

## Seeking better balance in terms of project type and size

Civil Engineering Norway: Project mix

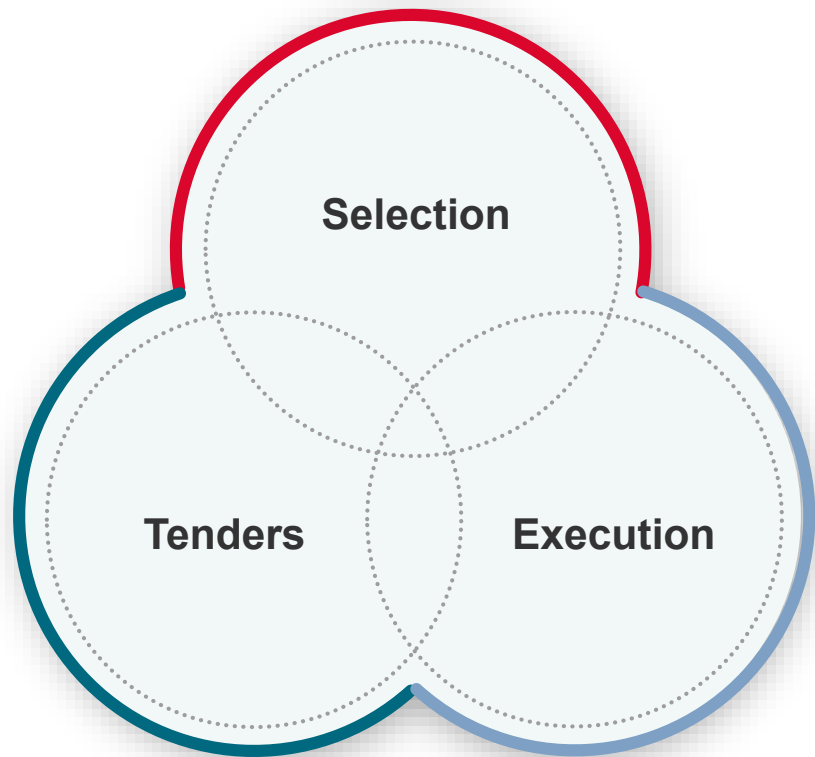


- Some road projects have been too large and risky both for our company and other contractors
  - Too dominant part of activity and revenues
  - Occupying management competence which could have been better utilised
  - Unclear responsibilities and risks related to major changes and change orders
- Signs of change – increased willingness from major client like the Public Roads Administration and Bane NOR to split projects
  - New contract forms entering the market



# Strategic change

## Project selection, bids and execution



### 1 Selection

- Seek project types we have succeeded with before
- Choose by competence – not capacity or employment

### 2 Tenders

- Increase management ownership to the bids
- Common tender unit – high quality tender processes
- Correct calculation – right pricing

### 3 Execution

- Strengthening project management capacity
- Strengthening projecting function
- Enhance customer knowledge and understanding
- Increase technical expertise in core functions

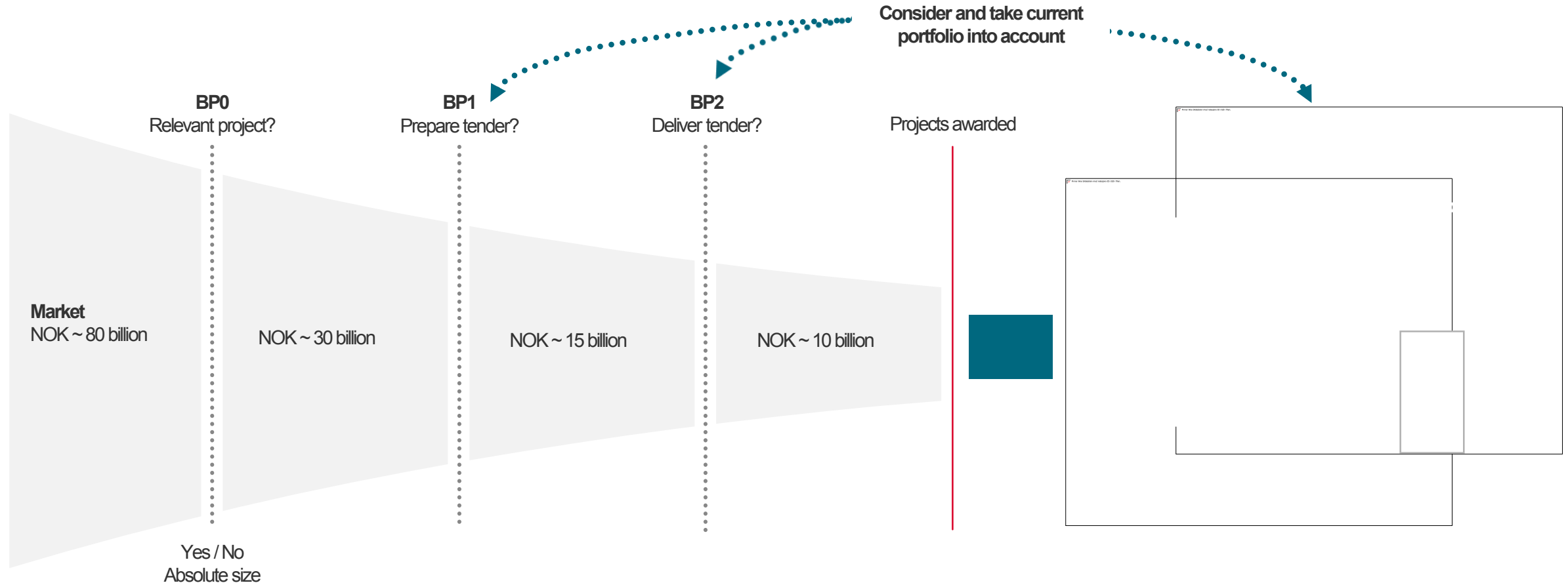
# Project selection criteria

1	<b>Management and competency</b>	Management capacity to execute and to safeguard continuity and management team development
2	<b>Portfolio</b>	Provide a balanced portfolio with regard to type of project, size and customer
3	<b>Size</b>	Contract size <50% of annual revenue, and annual contract revenue <20% of annual revenue
4	<b>Contract form</b>	Negotiated contracts - or contracts where Veidekke is involved in early phase
5	<b>Cash flow and investments</b>	Provides positive cash flow and does not require large machine investments



# Selection strategy for project choices

## Reduce risk - increase profitability

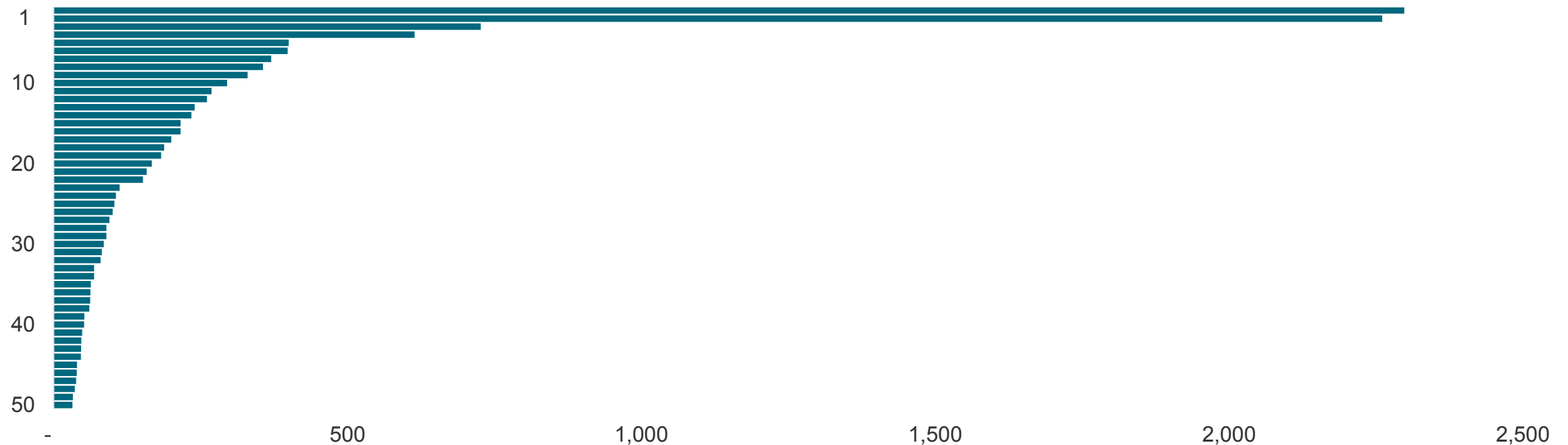


# Aiming for improved portfolio composition

## Increased profitability with lower risk

### Improved selection strategy to yield better composition and profitability

50 largest project wins past four years in Civil Engineering Norway, NOK million



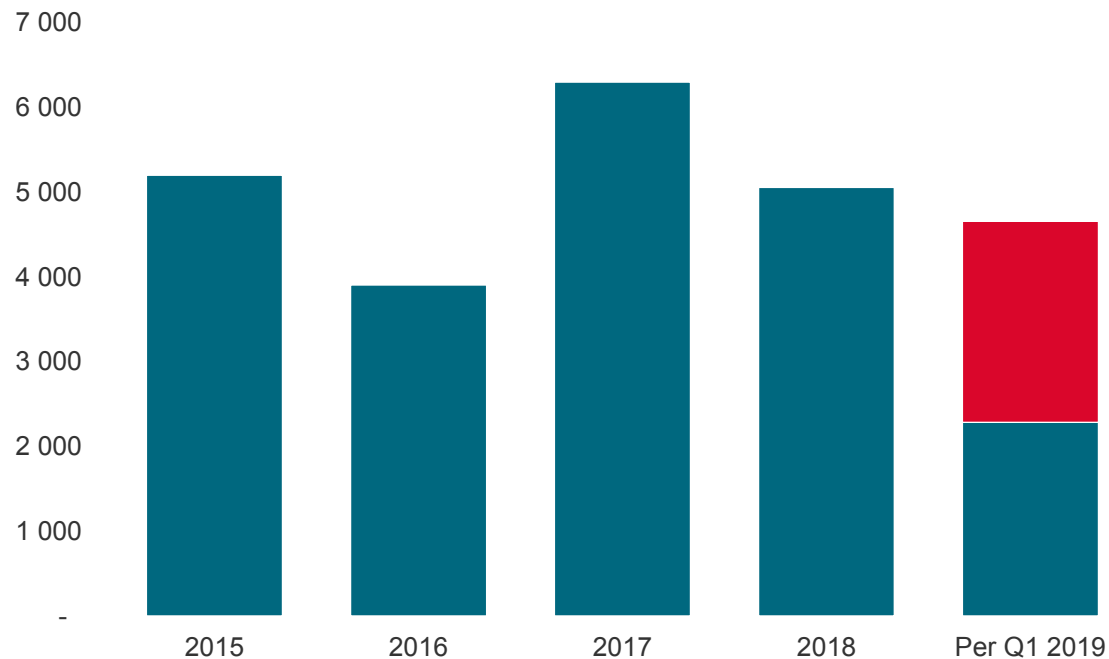


# Order book of uneven quality

Significant effect of projects that do not generate results\*

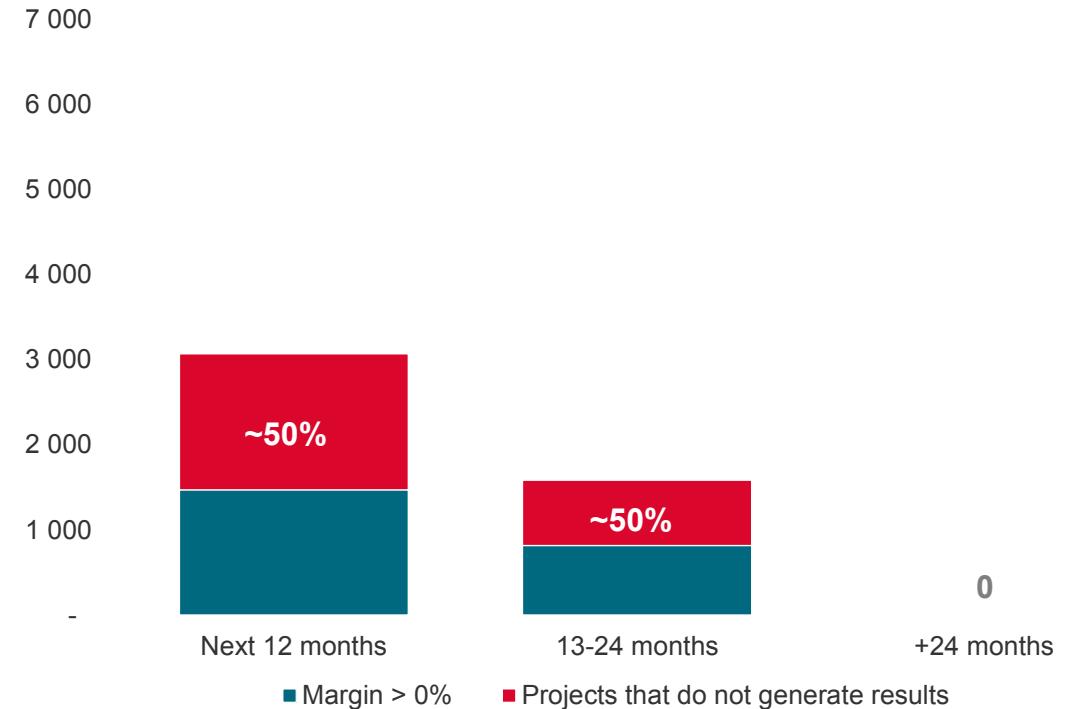
## Ordrebok Civil Engineering Norway

NOK million



## Order book by delivery date

NOK million



# Adjusting the cost level - and improving capital efficiency

## Reducing costs

**Reduction  
NOK 100 mill.**

- Mainly overhead and administration costs
- Impact on results expected from 2020

## Reducing machinery fleet

**Reduction  
~50%**

- Book value of machinery fleet in Civil Engineering Norway is ~NOK 950 million
- Better capacity utilisation and changes to the project portfolio will reduce requirements
- Considerations:
  - How to cover machinery demand
  - Possible third-party partnerships for machinery

## Reducing receivables – and reducing risk

**Reduction  
>50%**

- Veidekke has overdue accounts receivables of ~NOK 1.5 billion in Civil Engineering Norway
- Changes to the portfolio will contribute to reducing the level of accounts receivables and scope of disputes
- Veidekke has some major unresolved final settlements related to transport infrastructure projects and work is in progress to resolve current disputes

# We will restore profitability in Civil Engineering Norway

- Profitability before growth
  - Changes the portfolio mix
  - Cost reductions
- Reducing risk
  - Risk management
  - Selectivity
- Increasing capital efficiency
  - Reducing the machinery fleet – lower demand
  - Reducing number and scope of disputes

2014-2018	2018	2019-2020	2021-2022
Revenue growth p.a. <b>-1%</b>	Revenue growth <b>+0%</b>	Revenue growth p.a. <b>-10% - 0%</b>	Revenue growth p.a. <b>-10% - +10%</b>
Average margin* <b>-1.6%</b>	Margin 2018* <b>-13.2%</b>	Margin target 2020 <b>1.5%</b>	Margin target 2022 <b>4%</b>

\* Including write-downs of NOK 550 millions in 2018. Adjusted margin of -0.8% in 2018 and average +0.7% for 2014-18



---

## Low temperature Asphalt

Producing asphalt is a heat- and energyintensive process. By transitioning to low-temperature asphalt, Veidekke target a reduction in energy usage and thereby the CO2-emissions from the production process by 30 to 40 %.

---

# Industrial Recreating profitability

---

Catharina Bjerke, EVP  
Capital Markets Update 2019

---





## Aggregates

Market share >10 %

Revenue 2018:  
**NOK 0.6 billion**



## Asphalt

Market share >35 %

Revenue 2018:  
**NOK 3.3 billion**



## Road Maintenance

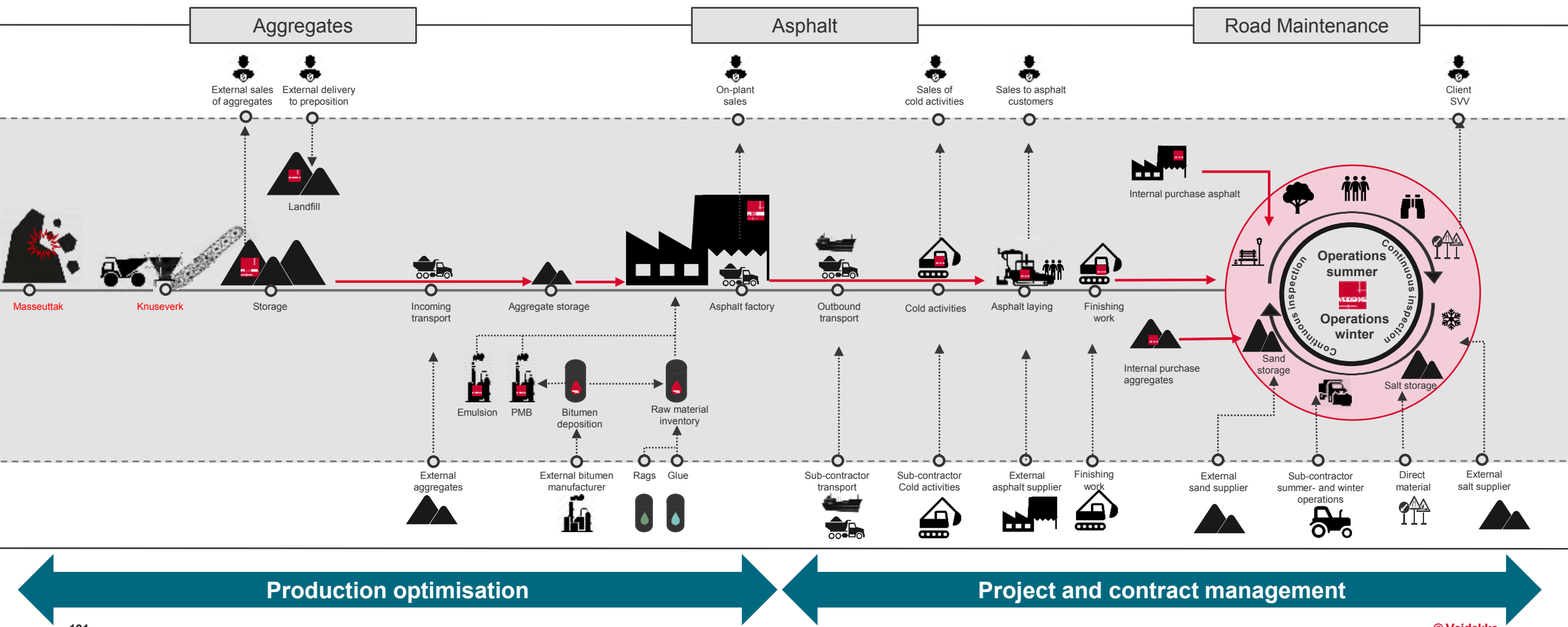
Market share >15 %

Revenue 2018:  
**NOK 1.0 billion**

# Veidekke Industrial

A strong  
position in  
the  
Norwegian  
market

# Operational synergies throughout the value chain



# Solid geographical footprint

30

asphalt plants

90

asphalt crews

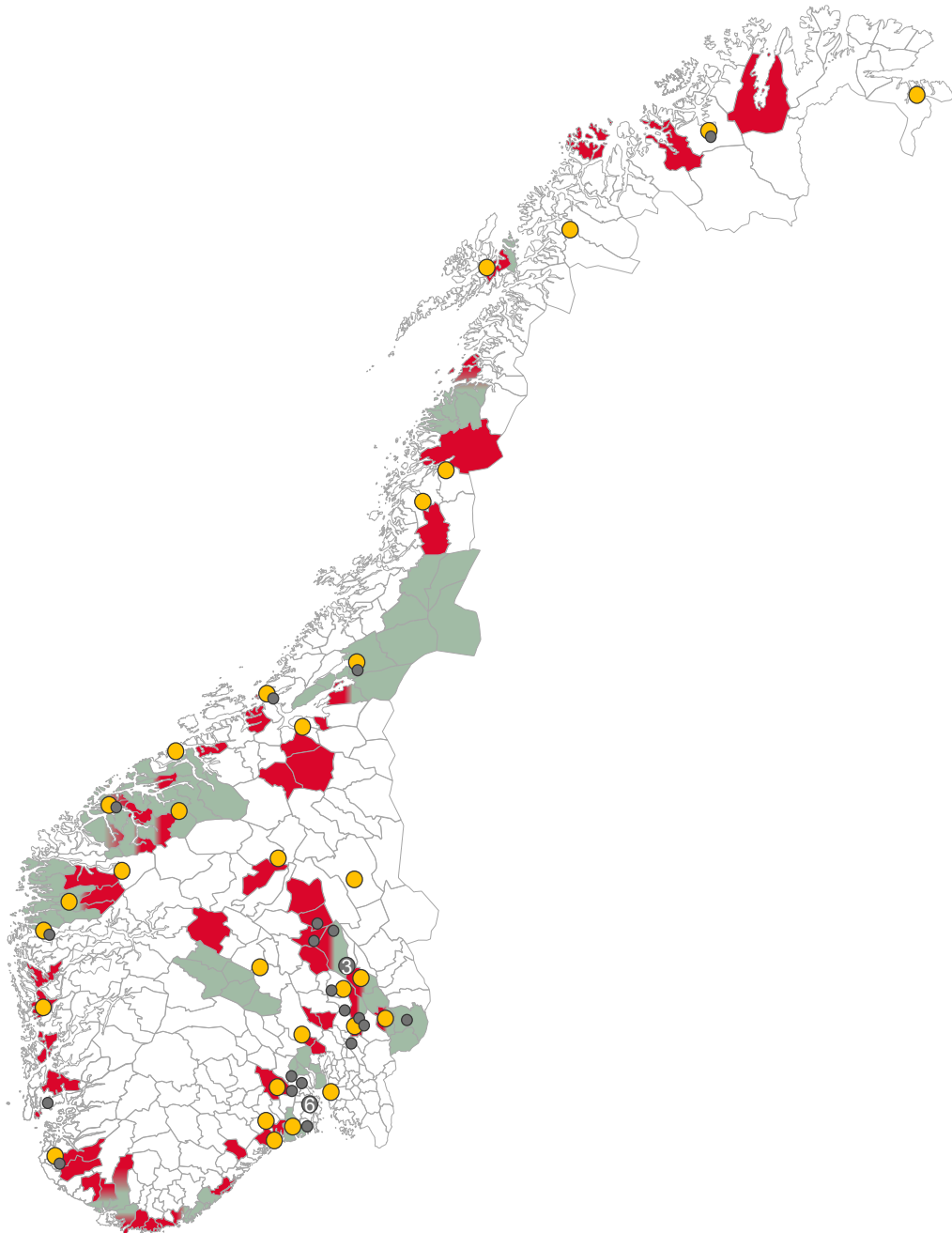
29

aggregate plants

20

operating contracts

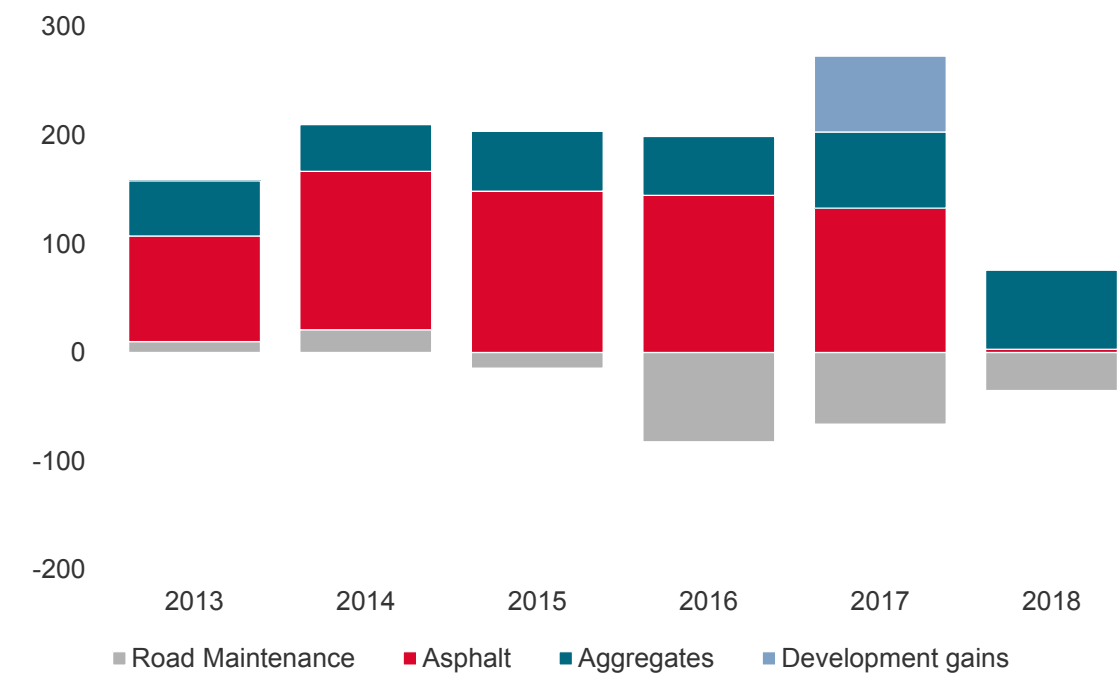
- Aggregates plants
- Asphalt plants
- Operating contracts with The Norwegian Public Roads Administration
- Planned projects NPRA and “Nye Veier” towards 2025
- Planned project NPRA/NV and operating contract



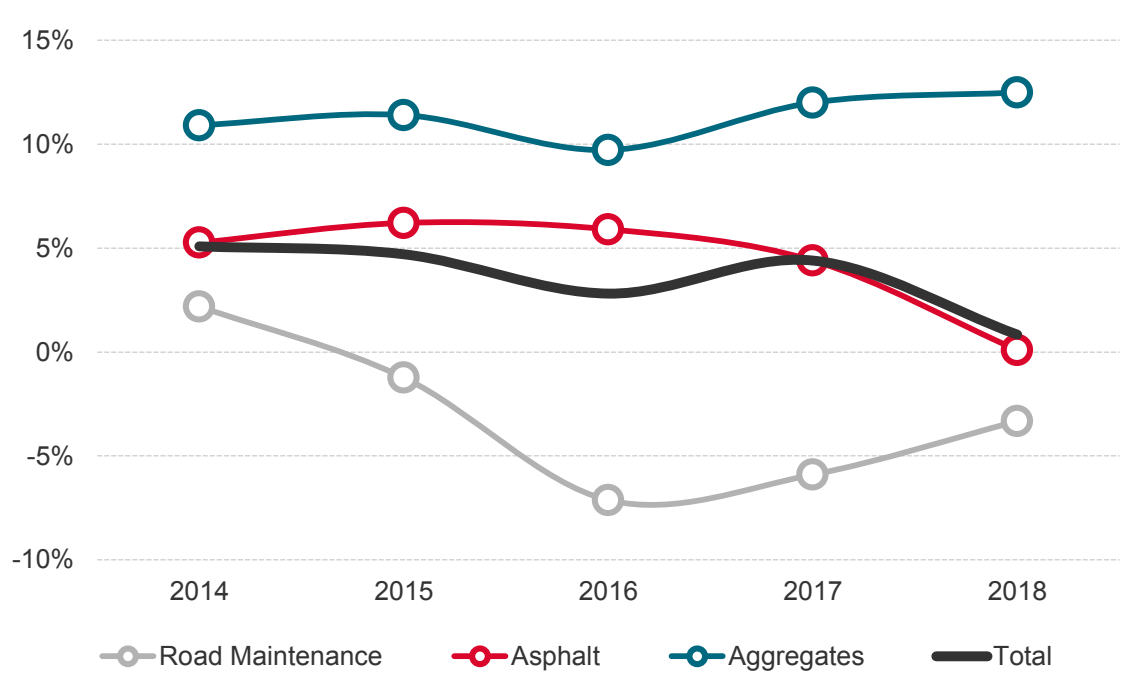
# Profits and margins

## Disappointing profitability in Asphalt in 2018

Profit before tax  
NOK million



Profit margin  
%





# Profitability in a safe and sustainable manner



Further profitable growth in Aggregates



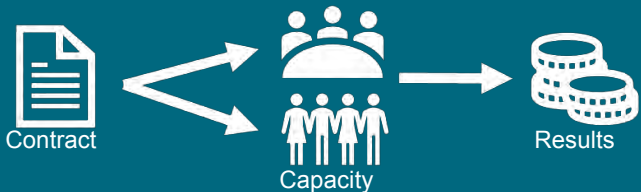
Optimal process and right capacity in Asphalt



Right entry to priority maintenance contracts

CREATE FLOW THROUGH CONTINUOUS IMPROVEMENTS

CONTRACT UNDERSTANDING AS A CORE COMPETENCE



# Aggregates

## Good profitability - landfills as a new focus area



- Solid business model with high profitability
- Efficient operations - high operational uptime
- A strategic and long-term resource
- Landfills as a new area - see great opportunities in having both outbound and inbound flows of masses
- Growth strategy

# Asphalt - measures implemented to safeguard results

## Stabilising measures 2019-2020



- Sales, calculation and pricing
- Planning
  - Improved flow in the value chain
  - Higher capacity utilisation of factories and machinery
- Safeguarding revenue
  - Focus on contract management
  - Forecasts and purchases
  - Reduced vulnerability to commodity price fluctuations

# Asphalt - developing position for sustained profitability

## Optimisation towards 2022

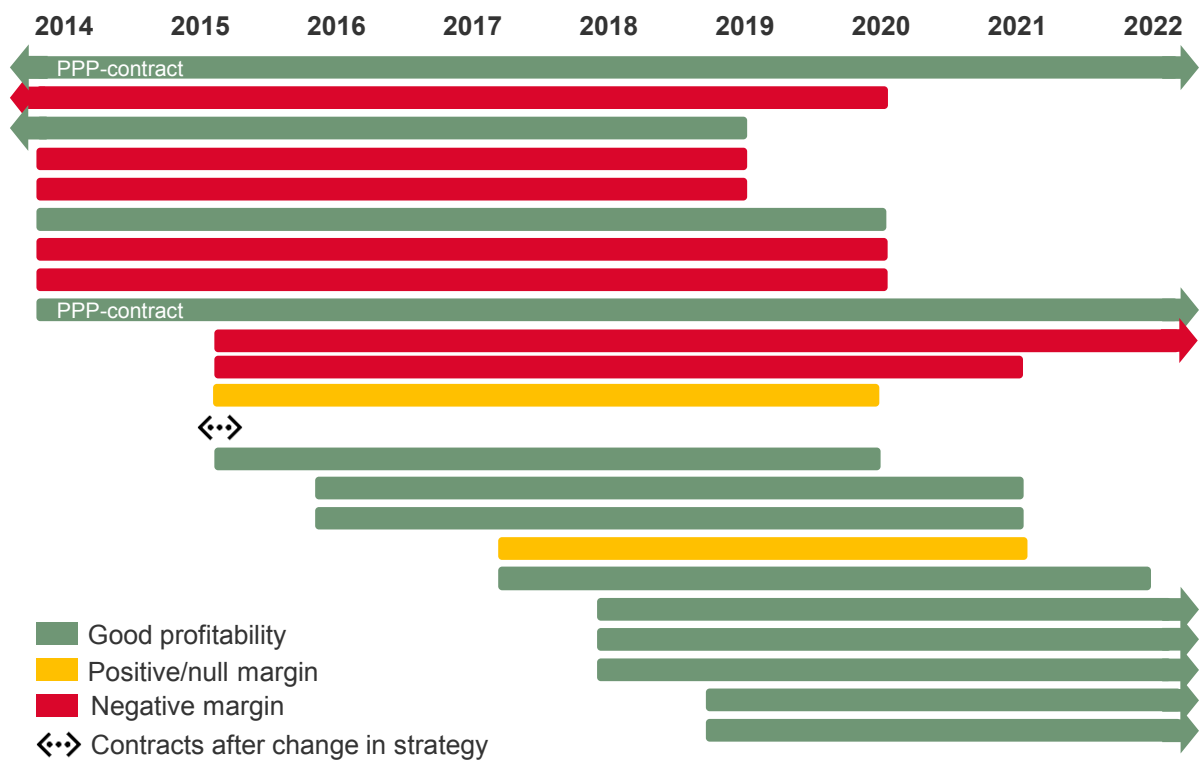


- Further industrialisation
  - Use of new technology
- Ensure correct geographical position and factory structure
- Focus on customers, environmental issues and quality to protect our market position



# Road Maintenance - the turnaround works out

## The new contracts have good profitability



- Selective new contracts - profitability over growth
- Positive development on contracts started in 2016-2017
- Three profitable contracts started up in the autumn of 2018
- Two contracts won in 2019, both showing good prospects
- Targeted work on calculation and project management to ensure profitability in new contracts

PPP - public-private partnership

# Industrial will recreate good profitability

Securing results in Asphalt and Road Maintenance, growth in Aggregates

- Asphalt: Increase profitability through higher capacity utilisation, contract management, and better calculation and pricing
- Road maintenance: The turnaround works
- Aggregates: Profitable growth opportunities

2014-2018	2018	2019-2020	2021-2022
Revenue p.a. <b>+7%</b>	Revenue <b>+3%</b>	Revenue p.a. <b>-5%-0%</b>	Revenue p.a. <b>0%-5%</b>
Average margin <b>3.6%</b>	Margin 2018 <b>0.8%</b>	Margin target 2020 <b>3.5%</b>	Margin target 2022 <b>5%</b>



# Financial targets and priorities

Terje Larsen, CFO  
Capital Markets Update 2019

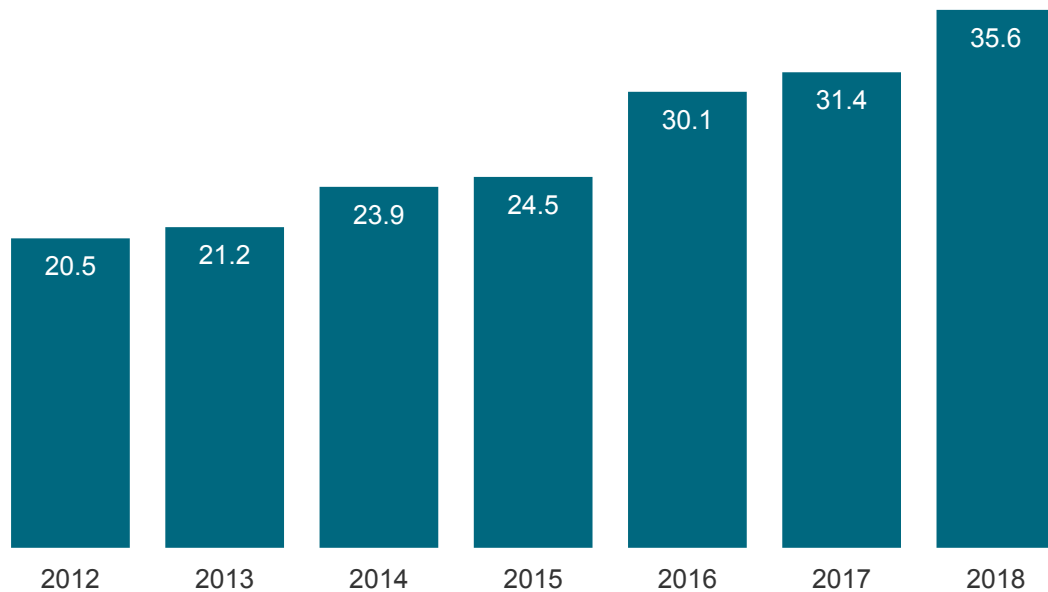
## Maskinparken TRE

Maskinparken TRE at Lilleby in Trondheim is the first apartment building in massive wood in Norway built on commercial terms. The building reduced the carbon footprint from materials by 39 % and by 17% from use of energy

# High growth and good margin development ... but abruptly changing trend the last year

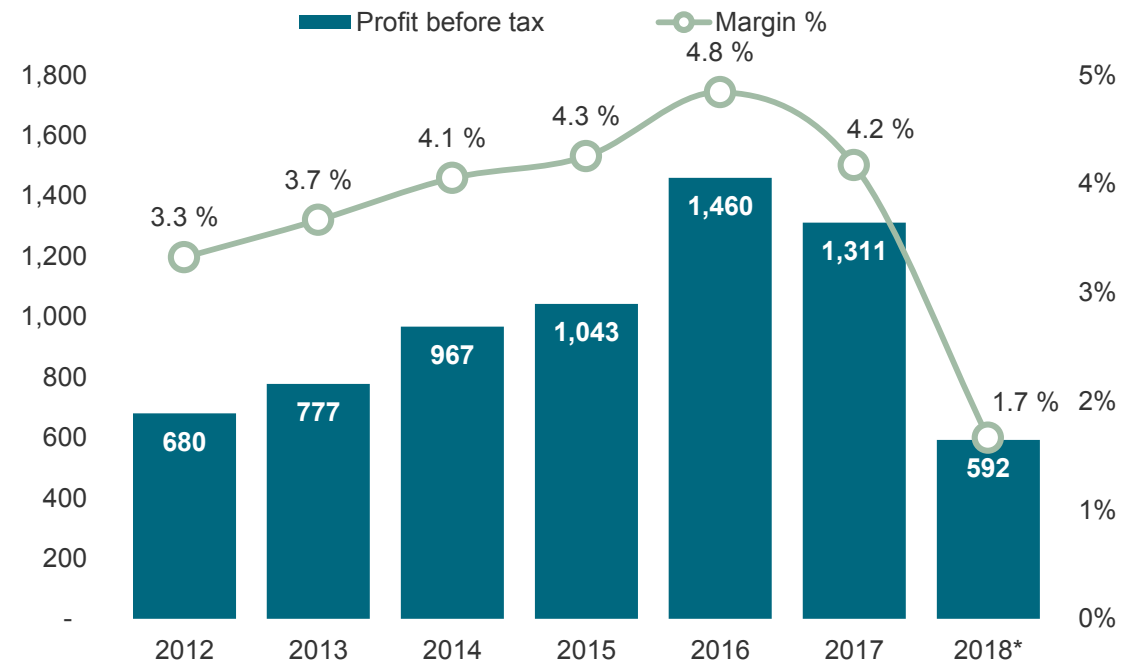
## Revenue

NOK billion. Annual growth of ~10% since 2012



## Profitability

NOK million



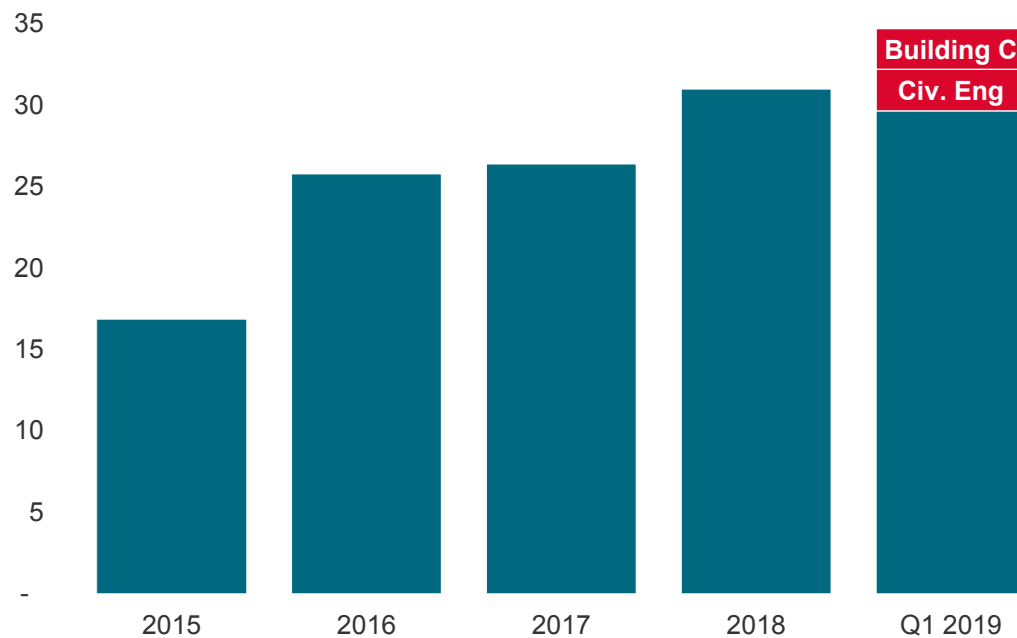


# Order book affects short-term earnings

## ~NOK 5bn remaining revenue that will not generate profits

### Order book, Construction

NOK billion



■ Revenue that will not generate profits\*

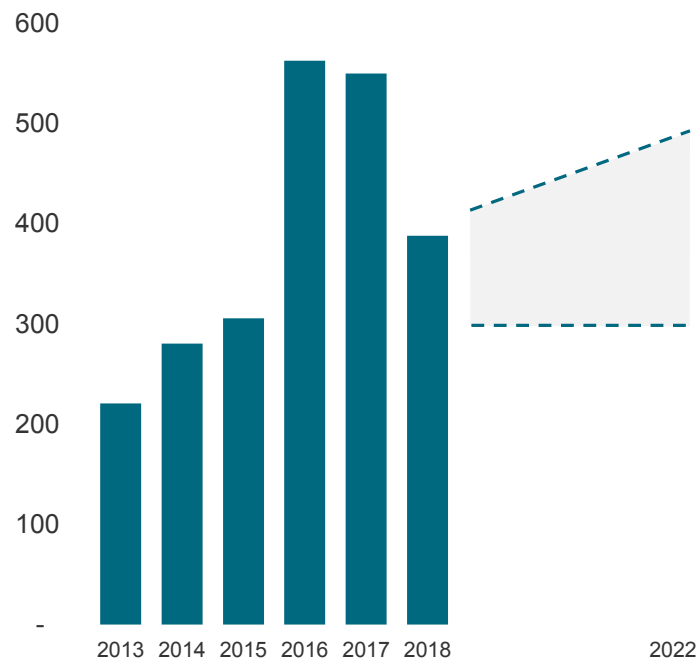
- ~NOK 5 billion of the order book is remaining revenue in projects that are not expected to generate profits
  - 50/50-split Building Construction and Civil Engineering
  - ~10% of total orders in Building Construction and ~30% of total orders in Civil Engineering
- Approx. NOK 23 billion of the order book is scheduled for delivery over the next 12 months
  - ~NOK 4 billion from projects that will not deliver profits

# We aim for significantly improved results

## Safeguard results to 2020 – higher ambitions for 2022

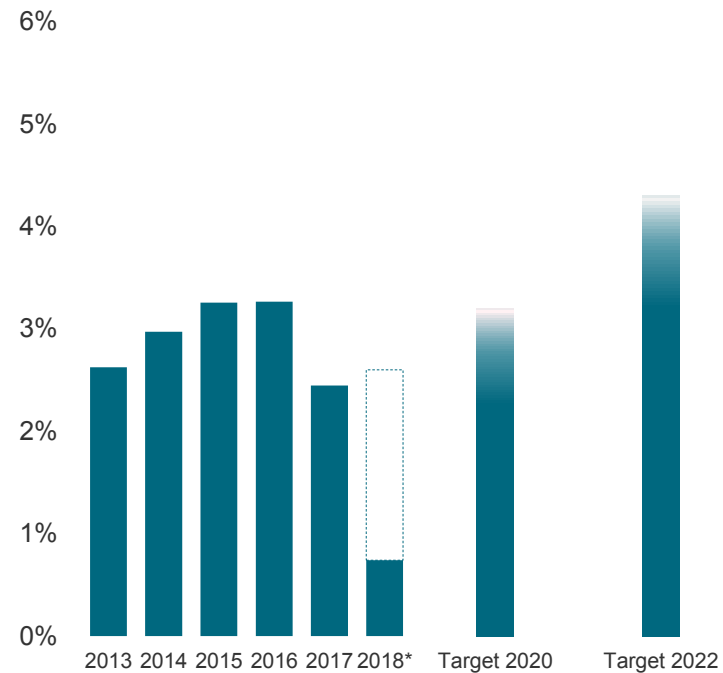
### Property development

Profit before tax, NOK million



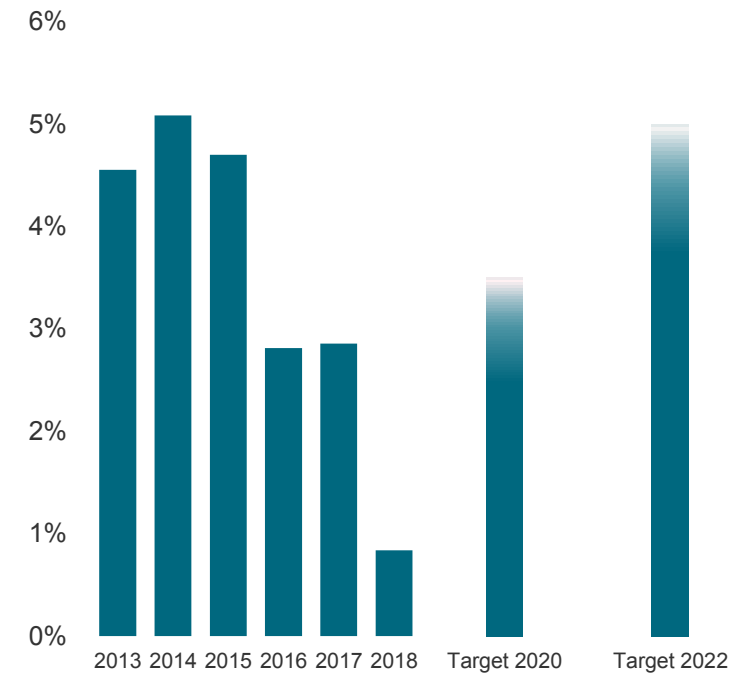
### Construction

Profit before tax, %



### Industrial

Profit before tax, %



# Financial capacity and flexibility

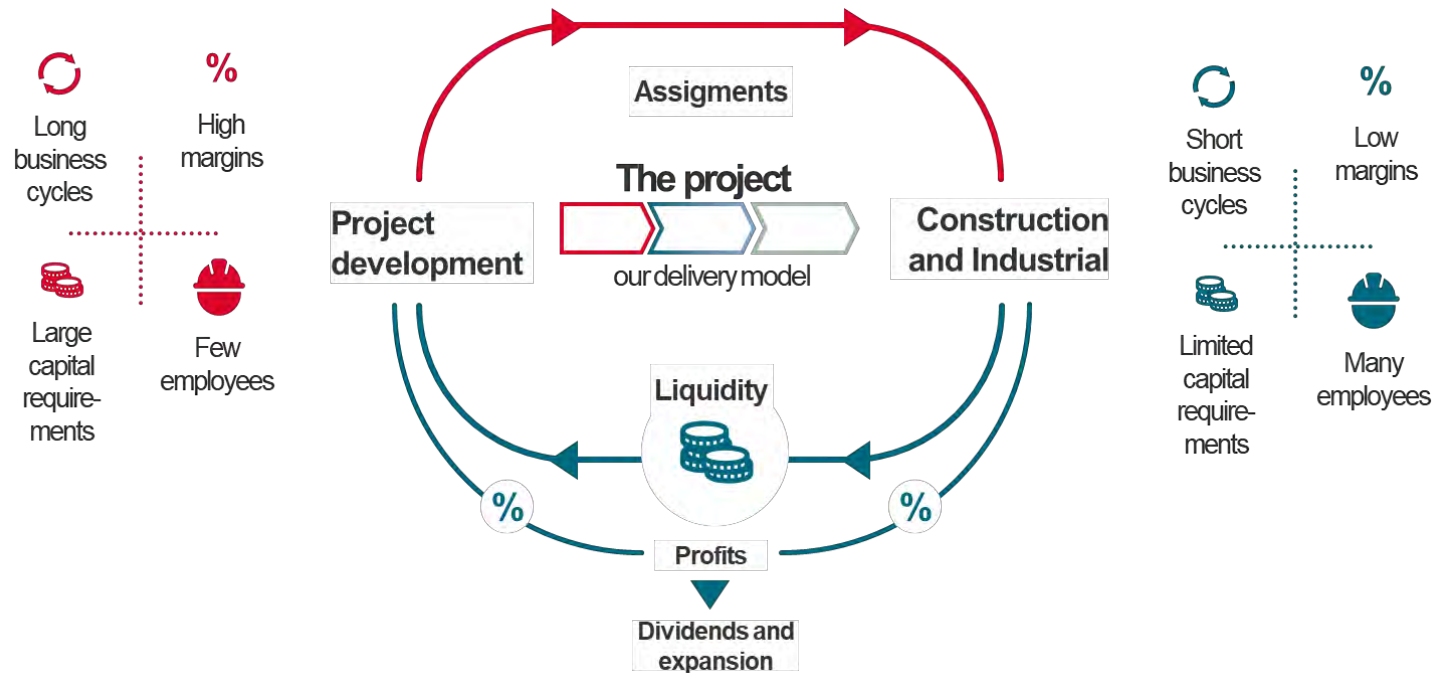
Reaching targets with healthy balance sheet and attractive dividends



# The financing model

## Challenged by capital requirements and low profits

- The cash flows from building construction projects create a significant liquidity position we can manage through good project development
- This financing model has been challenged by increased capital in Civil Engineering and Industrial and the size and scope of capital requirements in project development





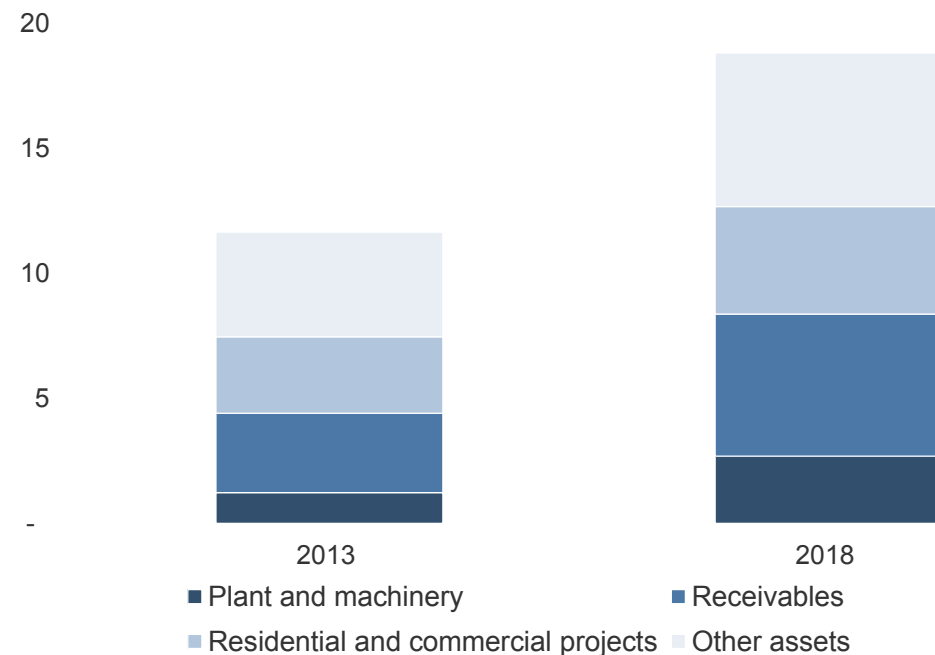
# Increased capital efficiency

## Reduced capital requirements unties liquidity

- Room for significant reduction of both fixed and current assets
  - Reducing receivables in Civil Engineering Norway
  - Reducing machinery fleet in Civil Engineering and Industrial
  - Lower net capital expenditure – from NOK 1.2 bn in 2018 to NOK 500-600 million in 2019
- Higher turnover in the property portfolio
  - Reduce capital requirements through transactions and more partnerships
- Targeting total reduction of capital requirements of NOK 2-3 billion from the current level

### Target: Slimmer balance sheet – higher capital efficiency

NOK billion



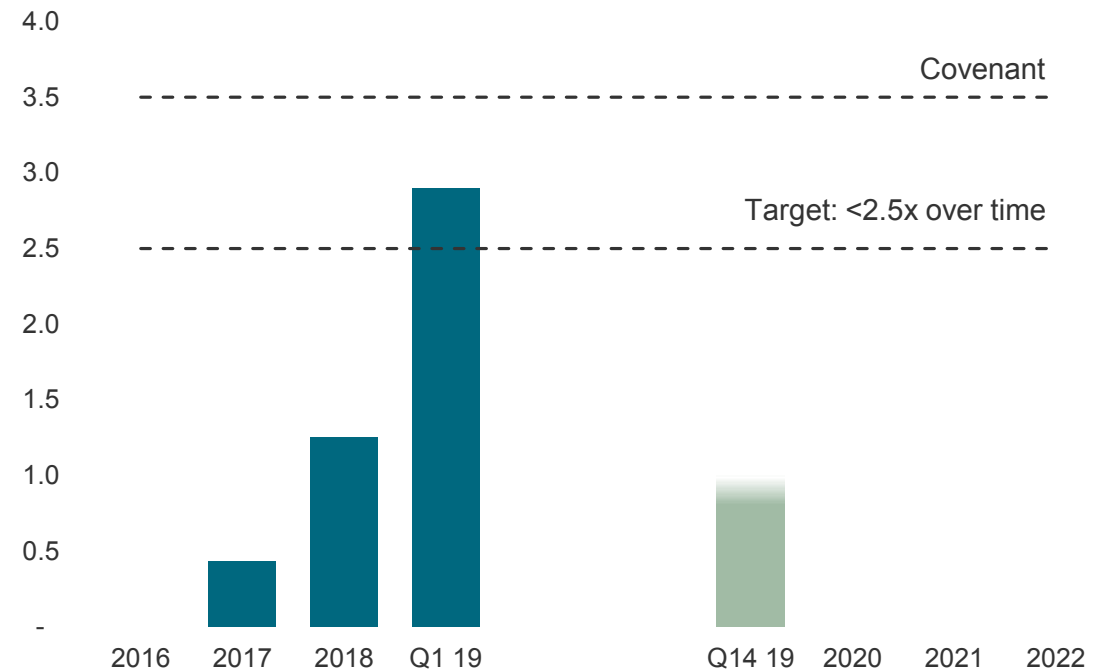
# Aims to retain “*Investment grade*”

## Veidekke shall be a solid company

- Net interest bearing debt to EBITDA should be below 2.5x over time
- Expecting significant improvement from high level in Q1 2019
  - Large land investments and low season in Q1
  - EBITDA last 12 months includes major write-downs in Q2 2018
  - Positive cash flow expected in the second half of 2019

### Net interest bearing debt / EBITDA (12 m)

Expects to satisfy requirements with solid margin



# Veidekke aims to offer attractive dividends over time

## 70% pay-out ratio past five years

### Our dividend policy stands firm

- Veidekke will provide shareholders competitive returns as a combination of dividends and return of shares
- Dividends shall represent at least 50% of the company's net result for the year
- Nominal dividend to increase with increasing profits

### Dividend and pay-out ratio





## Carbon Disclosure Project

The international non-profit organisation CDP has given Veidekke «A»-rating for the company's work on climate reporting. Veidekke is the only Norwegian construction company on the organisation's A-list

# Concluding remarks

Arne Giske, CEO  
Capital Markets Update 2019

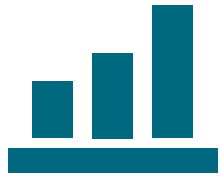


Photo: Mdh arkitekter sa



# Veidekke's ambitions towards 2022

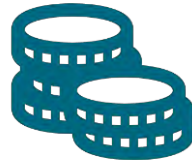
## Profitability before growth - maintain attractive dividend



Revenue growth

**3-5%**

p.a.



Margin 2022

**>4.5%**

before tax



Dividends

**>50%**

of net results



Serious injuries

**0**