Annual Report 2009

STEEN STRØM

KEY FIGURES

	2009	2008	2007	2006
Number of shopping centers	30,0	30,0	30,0	28,0
Net leasable area	806 682,0	675 000,0	670 500,0	657 588,0
Average remaining lease period	3,5	3,5	3,0	3,0
Gross rental income	1 430,1	1 340,6	1 214,2	1 119,4

KEY FIGURES FROM STATUTORY ACCOUNTS

Gross income	2 578,6	2 339,4	2 217,5	2 010,3
Operating profit before fair value adjustments	1 035,1	675,9	976,3	825,3
Operating profit after fair value adjustments	299,3	457,4	2 064,5	1 762,1
Profit before tax	-304,0	-207,6	1 556,2	1 460,2
Profit for the year	-136,8	-422,5	1 169,9	1 084,4
Cashflow from operations	641,1	351,2	348,9	484,2
Book value of investment properties and projects	24 984,9	25 142,3	21 702,2	19 161,1
Book equity	7 262,2	7 797,5	8 175,7	6 107,9
Total assets	26 573,4	26 544,5	23 862,9	19 825,5
Book equity ratio	27,3 %	29,4 %	34,0 %	31,0 %
Total debt	19 308,7	18 744,0	5 687,2	13 717,5
Interest bearing debt	15 627,4	14 587,5	11 328,3	10 859,1

KEY FIGURES PER SHARE

Number of oustanding shares	30 402 116	30 402 116	30 402 116	27 883 223
Average number of outstanding shares	30 402 116	30 402 116	26 890 000	26 784 569
Book equity per share	238,9	265,5	268,9	219,1
Profit per share	-4,7	-14,4	43,4	40,4
Cashflow per share	21,1	11,6	13,0	18,1
				4,0

KEY INDICATORS SHOPPING CENTERS

Growth in turnover	3,40 %	2,60 %	4,50 %	6,20 %
Growth in gross rental income	6,68 %	10,40 %	8,50 %	22,90 %
Vacancy	4,20 %	3,10 %	3,60 %	3,20 %
Operating expenses in percentage of gross rental income	18,00 %	18,70 %	17,30 %	18,90 %

ANNUAL REPORT

Steen & Strøm saw growth in retail sales at its shopping centers in 2009, in addition to growth in rental income. However, negative value adjustments of shopping centres and projects decrease profits. Lower interest rates have a positive impact on the profit. The group had a negative pre-tax profit in 2009 of NOK -304.0 million (NOK 207.6 million).

It was invested NOK 1 779.0 million in 2009, mainly on projects at existing shopping centres. Recorded assets amounted to NOK 26.6 billion as of 31.12.2009, while group net interest-bearing debts amounted to NOK 15.6 billion. The book equity-to-assets ratio amounted to 27.3 %.

Steen & Strøm has a solid financial foundation based on attractive shopping centers with long-term rental contracts mainly with large retail trade operators as tenants.

Other highlights:

- Retail sales rose by 1.6 % at shopping centers managed by Steen & Strøm. For com parable floor space, there was a decline of 0.4 %. Comparable figures on a national basis were 1.5 % in Norway, 0.6 % in Sweden and -4.1 % in Denmark, respectively.
- The shopping centers saw an increase in rental income of 6.7 % in 2009 compared with 2008.
- Operating profits for the shopping center business increased from NOK 1 081.8 million in 2008 to NOK 1 131.7 million in 2009.
- Value adjustments of the shopping centers and projects amounted to NOK -735.7 million in 2009 compared with NOK -568.0 million in 2008. The valuation of the shopping centers is based on an average yield of 6.3 %.
- The average loan interest rate was 3.9 % in 2009 compared to 6.0 % in 2008.

Based on the group's investment program for existing and new shopping centers, the board of directors recommends that no dividends are paid to shareholders for 2009.

EXPLANATION OF THE ANNUAL ACCOUNTS

Steen & Strøm lease out premises at its shopping centers. The rent that the individual stores are able to pay depends primarily on their turnover from sales. This implies that rental income for Steen & Strøm depends mostly on developments in retail sales revenues at the centers.

Steen & Strøm saw growth in revenues from its shopping centers despite 2009 being a turbulent year, when considering the effects of the international finance crisis. Forecasts for Norwegian, Swedish and Danish economies predict growth in Scandinavian retail trade in 2010.

Operating revenues

Operating revenues amounted to NOK 2 578.6 million. Of this amount, rental income came to

NOK 1 462.4 million. This is an increase of 9.1 % compared with last year. Growth came as a result of a general increase in rental income and investment activity.

Most of the rental contracts have elements of both minimum rental fees and turnover rent. New contracts are normally signed for a duration of 5 years. The average duration of remaining contracts is approximately 3 years.

Operating expenses
Operating expenses amounted to NOK 1 543.6 million, a decrease of 7.2 % compared with last year. This decrease is primarily related to depreciation of project values in Sweden.

Value adjustments
Value adjustment of investment properties was NOK -735.7 million in 2009 (NOK -568.0 million). The shopping center portfolio was recorded in the books at NOK 24 985 million as of 31.12.2009. This valuation is based on an average yield of 6.3 %.

Operating profit/loss
The group's operating profit was NOK 299.4 million (NOK 457.4 million)

Financial expenses
Steen & Strøm's net financial expenses amounted to NOK 603.4 million (NOK 665.0 million). Net interest-bearing debts rose by 1 039.9 million in 2009 to NOK 15 627.4 mill. at 13.12.2009. The average interest rate was 3.9 % in 2009.

Pre-tax profit
Pre-tax profits amounted to NOK -304.0 million (NOK -207.6 million). Adjusted for value adjustments and one-off effects the profit amounted to NOK 479.5 million, which is NOK 100.9 millon higher than 2008. The increase is due to lower financial expenses by NOK 61.6 millon and improved operations by NOK 39.3 millon.

Cash flow
Net cash flow from operational activities amounted to NOK 641.1 million (NOK 351.2 million), while net cash flow from investment activities amounted to NOK -1 990.3 million (NOK -3 114.9 million). Net cash flow from financial activities amounted to NOK 1 323.8 million (NOK 2 080.7 million). Cash and cash equivalents for 2009 were reduced by NOK 25.4 million and amounted to NOK 68.9 million as of 31.12.2009. The group has liquidity reserves through unused drawing rights and unmortgaged properties.

Balance sheet

Group assets as of 31.12.2009 were recorded at NOK 26 573.4 million (NOK 26 544.5 million), of which investment properties amounted to NOK 24 985 million (NOK 24 349.1 million). The recorded value of group projects was NOK 898.3 million. The projects are mainly Emporia and Hovlandbanen.

Steen & Strøm's gross investments in 2009 amounted to NOK 1 779.0 million.
The largest investments were:

- expansion and rehabilitation of Sollentuna Center (NOK 527.0 million),
- expansion and rehabilitation of Marieberg Center (NOK 81.4 million),
- expansion and rehabilitation of Hageby Center (NOK 451.6 million),
- expansion and rehabilitation of Gulskogen Center (NOK 190.0 million),
- expansion and rehabilitation of Torvbyen (NOK 87.3 million)

Equity recorded in the books amounted to NOK 7 264.7 million as of 31.12.2009, corresponding to an equity ratio of 27.3 % (29.4 %).

SHOPPING CENTER ACTIVITIES

Steen & Strøm is responsible for developing and operating 56 shopping centers in Scandinavia. Of these, Steen & Strøm owns all or part of 18 centers in Norway, 9 centers in Sweden and 3 centers in Denmark. The strategy is to put great effort into prominent centers located in popular shopping areas around Scandinavia. An important element is to continue to make improvements at existing centers.

The occupancy rate measured by total floor space on our properties averaged 96.0 %. Vacancies are considerably lower when measured in their value, as vacant areas are mostly office space at the centers, or store areas at centers where expansion and rehabilitation are ongoing. Most of the rental contracts contain terms and conditions that establish a turnover rent based on a percentage of a store's sales, yet also with an agreed minimum rental fee.

Shopping centers in Norway

Steen & Strøm are sole owners of 16 shopping centers in Norway and is co-owner of additional 2. The group is also responsible for the management of 12 shopping centers for Storebrand.

A pool agreement exists with Storebrand that ends on 31.12.2010. This agreement is based on operating results from Steen & Strøm/Storebrand shopping centers, being combined in a common pool, and shared according to a distribution formula agreed for such pool. For 2009, this agreement implied that Steen & Strøm had to transfer 3.6 million kroner (7.9 million kroner) to Storebrand.

Steen & Strøm's centers saw a growth in retail sales in 2009 of 2.1 %, on comparable floor space. The shopping centers had operating revenues of NOK 708.2 million in 2009 (NOK 662.6 million). Operating profit amounted to NOK 606.8 million (NOK 555.7 million), an increase of 9.2 % compared with 2008. This increase is due to a general rise in rents at the centers, as well as investments.

A significant amount of money was invested in development projects at Metro Senter and Gulskogen.

Steen & Strøm Norway had an operating profit of NOK -22.3 million (NOK -10.9 million) for commercial operations.

Shopping centers in Denmark

Steen & Strøm Denmark is responsible for the management of 17 shopping centers in Denmark. Danica owns 14 of these. Shopping centers in Denmark saw a decrease in retail sales of 4.1 % in 2009 compared with last year.

Rental income for the 3 wholly-owned centers amounted to NOK 380.4 million (NOK 350.4 million). Operating profits of NOK 304.3 million were earned (NOK 289.9 million).

Operating profits from commercial operations at Steen & Strøm Denmark amounted to NOK 12.9 million (NOK 10.6 million).

Shopping centers in Sweden

Steen & Strøm owns 9 shopping centers in Sweden. These saw a rise in retail sales of 0.6 % in 2009. Operating revenues at Swedish shopping centers amounted to NOK 341.5 million (NOK 327.6 million). Operating profits amounted to NOK 244.4 million (NOK 232.3 million).

Extensive expansion and upgrading is being done at a number of Swedish centers. This includes Sollentuna Centrum, Hageby Centrum. Expansion and upgrading of Marieberg Centrum was completed in 2009. These expansions and upgrades are expected to increase turnover significantly in 2010.

Steen & Strøm Sweden had an operating profit from commercial operations of NOK -10.4 million (NOK 0.3 million).

SHAREHOLDER ISSUES

Shareholder policy

Steen & Strøm's long-term goal is to ensure a competitive return on invested capital and equity. Assets are managed with the aim of giving optimal long-term returns.

Ownership structure

The shares in Steen & Strøm AS is held by Storm Holding Norway AS. Storm Holding Norway AS is owned by Nordica Holdco AB, which again is owned by the French shopping center group Klepierre (56.1%) and the Dutch Pension Fund ABP (43.9%). Klepierre has 374 shopping centers under its administration, of which 274are owned. The company is represented in 10 countries in addition to Scandinavia and is Europe's second largest shopping center enterprise. ABP is one of the world's largest pension funds, which administers assets for over EUR 200 billion.

OUR ORGANIZATION AND ENVIRONMENTAL ASPECTS

Employees

Steen & Strøm had 440 (423) employees at the end of 2009; 14 (13) of these were employed in the parent company. Employees working for the group are by gender 46 percent women and 54 percent men. The group's main office is located in Oslo. The group also has offices in Copenhagen, Stockholm and Goteborg, in addition to the offices at all the shopping centers.

Women are overrepresented in positions and departments like accounting, marketing and as shopping center secretaries, while men are overrepresented in corporate management, shopping center management, caretakers, operations managers, development activities and rental departments. Normal work hours are about the same for all employees.

Steen & Strøm is an equal opportunity employer. The average yearly salary for women is lower than that for men. The main reason for this is that more men than women work at management level in our company. The board of directors is composed of one women and four men. The executive management and the board of directors are interested in recruiting women to new or available positions.

Absence due to illness on average at the group was approximately 2.7 % of all work hours at the company. The board of directors considers the working environment in general to be satisfactory. There have been no injuries or accidents of any significance in the company.

An incentive program for senior executives has been established with the aim of promoting long-term profitability and value creation in the group.

Outdoor environment

The group's activities only pollutes the external environment to a limited degree. Still, Steen & Strøm has put a lot of effort into environmental issues. The best way to improve environmental aspects of the company is to focus on development projects and commercial operation of the shopping centers. We are careful to make the right decisions when planning development. This is decisive for future environmentally efficient operation of our centers. Special focus is placed on reducing energy consumption at the centers. Waste management is also an important focus area; we are trying to increase source separation, and in that way achieve greater recycling of waste.

Corporate governance

Steen & Strøm always aims to comply with requirements of laws, regulations and general good business ethics. The company also tries to be open about economic conditions and other issues. The corporate governance policy of the group is based on a systematic application of principles laid down in Norwegian recommendations in this area, which we try to harmonize as much possible with current international guidelines for good corporate governance.

Risk
The group ' s activities involves different kinds of risks; inter alia market risk, credit risk, liquidity risk and risks related to floating/fixed interest rates. The board of directors sets the goals and frameworks for how financial risk is managed.

The group's credit risk is primarily related to the ability of our tenants to pay rent. The group has more than 2000 lease contracts. Prominent, stable retail chain stores form the largest group of our tenants. Our tenants almost always present some form security for the rent, and good routines have been established to follow-up and collect on rent receivables. The group has had very limited losses on receivables in the past.

The liquidity risk is managed by always having liquid reserves in the form of liquid current assets, unused credit ceilings and unmortgaged properties. We try to limit liquidity risk that arises from the refinancing of group debts by scheduling maturity dates for loans at different times of the year and by having sufficient reserves available to cover short-term refinancing needs.

To reduce the exposure to interest rate changes in the short-term interest market, the group has signed fixed interest agreements for approximately 60% of its loan portfolio.

Going concern
Steen & Strøm owns, develops and manages shopping centres, and currently operates 56 shopping centers around Scandinavia. The annual accounts have been presented under the assumption of going concern. It is the opinion of the board of directors that the accounts and notes presented for the year give satisfactory information about company operations and the group's financial position at the end of the year. The board of directors believes that the annual accounts give a true picture of company/group's assets, liabilities, financial position and profit/loss for the year. It is the board of directors' opinion that nothing of significance has occurred after the end of the year that would harm the company's reputation or change the group's financial situation. In accordance with Section 3-3a of the Norwegian Accounting Act, we hereby confirm that conditions for going concern exist. The basis for our assumption of going concern is the group's shopping center portfolio being of high quality, a strong financial position and employees working at our company with the highest degree of competence.

Disposal of profits
Steen & Strøm AS had a loss for the year of NOK 34,6 million. Of this, NOK 11,5 million was transferred to the fair value fund, and NOK 46,1 million kroner from other equity. As a result of need for liquidity in the future for expanding the group's development portfolio, the board of directors recommends that no dividends are paid to shareholders for fiscal year 2009. Free equity at Steen & Strøm AS amounted to NOK 2 684,9 million at the end of 2009.

Conditions arising after the end of the fiscal year
Steen & Strøm has choosen not to continue management of shopping centers for Storebrand after the expiration of the existing agreement 31.12.2010. The economic impact will be limited.

FUTURE PROSPECTS

The market in general
In historical terms, consumer spending has been stable in Scandinavia. However, due to the financial crisis, the growth has been lower in 2009 in Norway and Sweden, while Denmark has experienced a decrease. The first months of 2010 have been positive, and based on national forecasts we can assume that the growth will be normalized in 2010, however a bit later in Denmark than in Norway and Sweden.

Steen & Strøm's market position
Steen & Strøm is Scandinavia's leading market operator in shopping center activities. The board of directors and company administration consider our market position to be a good reason to maintain a high level of activity, yet being responsible. Statistics for turnover show that customers appreciate the extensive modernizations, expansions and upgrades being carried out by Steen & Strøm at many of our shopping centers. We are also working actively to maintain a low level of vacancy, good marketing and a high level of commercial activity at all shopping centers.

Legal disputes
Steen & Strøm is not involved in any significant legal disputes that could be of significance for our economic position.

Thank you
The board of directors would like to thank all employees and customers for great efforts and positive contributions in 2009.