



Economic Activity Report FOR THE SCANDINAVIAN COUNTRIES

March 2010



Foreword

Veidekke is pleased to present its first Economic Activity Report for 2010. The aim of the Economic Activity Report is to present the group's overall view of the building and construction market and the macroeconomic performance assumptions on which we will be basing our activities in Scandinavia.

No specific analyses concerning economic performance in general have been conducted in conjunction with the writing of the report. Instead it is based on current, generally agreed estimates for the most important economic indicators. The forecasts for building and construction are based on current official statistics, as well as forecasts produced by Veidekke.

The report is aimed at a broad target group. It is intended to be used as a basis for our in-house strategy processes and is also distributed to external interested parties via our website, www.veidekke.no.

Oslo, 12 March 2010



Rolf O. Albriktsen
Senior Vice President Strategy and Market

What happened in 2009?

International economy turns around during the summer and autumn

Macroeconomic performance in 2009

The global economy reached a turning point in the late summer. After four to five quarters of recession, GDP in countries such as the USA, Japan and parts of the eurozone grew in the fourth quarter. Industrial production in the major Asian countries increased markedly from early spring 2009 and led the way in the international upswing. A very expansive fiscal and monetary policy played an important role in the turnaround. A strong supply of liquidity, interest rates near zero, tax relief, and major public investment have resulted in the global economy now appearing to be on the road to recovery.

The American economy grew again in the third quarter 2009 by 0.7% after five quarters of recession in a row, and fourth quarter growth exceeded expectations as well. There is much to suggest that the growth in the USA might be temporary. The rebuilding of stock levels could be transient. The job market continues to perform poorly and there was a marked fall in employment of 7.3 million people. Very high debt levels and large falls in worth due to falls in house prices and equity prices will result in households prioritising repaying debt in the time ahead.

The economic turnaround has also spread to Europe, and several major countries such as Germany and Italy were also reporting GDP growth in the fourth quarter. Parts of the European business sector are characterised by increasing orders in business and greater optimism. Much of this growth can be ascribed to the huge public stimulus packages and record low interest rates.

Norwegian economy improving, but slowly

The Norwegian economy put in a weaker than expected performance in 2009. Low interest rates and a very expansive fiscal policy coupled with higher oil investment countered the effects of the global crisis. GDP growth in mainland Norway was -1.5% compared to the forecast -0.5% for 2009. Slightly better growth in private consumption from the second quarter turned the performance of the mainland economy around. The export companies' weaker growth and the substantially weaker growth in investment contributed to a slightly lower GDP growth than expected. The change in fiscal policy and low interest rates contributed to growth in both public and private consumption. According to the state budget for 2010, this aggressive trend is expected to be continued during the year and will contribute to continued high consumption.

The Swedish economy is improving faster than expected

The Swedish economy experienced more positive growth in the second half of 2009 than in the first half. GDP fell by 7% in the first half of 2009 compared to the year before. GDP growth for the full year 2009 is estimated to have fallen by approx. 4.5% compared to 2008. The fall was due to substantially lower investment, reductions in stock levels, and lower net exports. The improvement in the second half of 2009 is primarily ascribed to greater international demand for goods and services. Consumers have proven to be more resistant and have continued to increase their consumption and helped to minimise the fall in GDP.

The Danish economy is emerging from its worst crisis in a long time

The Danish economy is emerging from its worst growth crisis in recent times. Growth was positive in the third quarter. GDP growth for the full year 2009 is expected to be around -5%. Even though most key figures exhibited a negative trend during 2009, the low interest rates helped to halt the decline in the housing market.

The building and construction market in 2009 Norway

The building and construction market was down by 12% in 2009, which was substantially more than we expected at the start of the year. Non-residential buildings for the private sector was the segment that fell the most, by around 37%. During the period 2004 to 2007, investment in private non-residential buildings increased by more than 60%, which resulted in a high activity level. Housing investment fell by around 14% in 2009.

Much of the fall occurred in the first half of the year, while the second half of the year saw a levelling off in housing investment. A substantial effort within the transport sector resulted in growth of approx. 8% within construction. Investment in public non-residential buildings also increased in the last year. The growth appears to be around 10%.

Sweden

Building and construction investment fell by 10% in 2009, which was slightly more than our forecast of -7%. Housing investment and private non-residential buildings contributed to the fall. Construction activity is high, but there was no substantial growth in the last year. However, local authority investment in buildings helped to keep activity up through 2009.

Denmark

Building and construction investment in Denmark fell by 9% in 2009. Our forecast was a fall of 6% for the year. The building and construction market in Denmark has been falling for a number of years. The activity level is therefore markedly lower than in the record year 2006. Housing investment fell the most in 2009, by approx. 20% compared with 2008.

The outlook for 2010

Main point

The global economy has gone through a number of phases since the financial crisis erupted in 2007. In the first phase, the focus was on the collapse of the housing market in the USA and the consequences this had for financial institutions' liquidity and solvency. Governments and central banks introduced measures to stabilise the financial market. Then demand fell and warnings of lay-offs and unemployment were sounded. The focus now switched to the real economy. Fiscal policy stimulus packages were introduced to cushion the fall and stimulate the job market. Further interest rate reductions were made to stimulate households and the corporate sector.

Last autumn prices on the equity markets rose considerably and optimism in both the household and business sectors is starting to return. Heavy falls in the housing market in a number of countries appear to have halted, and in some areas prices are on the way up again. The stimulus packages appear to have worked, though growth is currently largely dependent on continued state stimulation. Today the debate is about the effect withdrawing the state measures will have on the international economy.

The public debt-equity ratio in OECD countries will probably increase to undesirable levels during 2010. The need to restructure debt, tighten economic policy, and continued high unemployment will contribute to a long period, two to four years, of low growth in the OECD countries.

The USA started to grow in the third quarter and is expected to continue growing in 2010–2011 at a rate of 2%–2.5%. There is much to suggest that the fall in private demand has ended. Retail sales have improved, but fluctuate from month to month. High unemployment and a large number of homeowners with a loan that exceeds the value of their home is a problem.

The EU is also battling high unemployment and falling demand. In some countries the increasing debt restructuring after the fall in the housing market is also acting as an obstacle to new and sustainable growth. Growth is expected to be between 1% and 1.5% in 2010 and 2011.

Emerging economy countries (China, India and Brazil) have weathered the financial crisis better than other countries. High currency reserves and balance of trade surpluses meant they were better equipped to face the economic crisis. Growth rates of between 7% and 8% are expected here in both 2010 and 2011.

The key points for growth in 2010 are

Norway

- GDP growth 2.5%
- Unemployment will peak towards the end of year
- Key interest rate will increase by one percentage point to 2.75%
- Building and construction investment will increase by around 2%
- But, private non-residential buildings will continue to fall
- House building will gradually increase to 23,000
- House prices for used housing will continue to increase, approx. 5%

Sweden

- GDP growth of 2.5%
- Gradual normalisation of interest rates, key interest rate at 1% at the end of the year
- Unemployment increases less than previously expected
- Building and construction investment unchanged in 2010
- House prices up by 6% in Stockholm and Skåne
- House building will gradually increase to 18,000 starts

Denmark

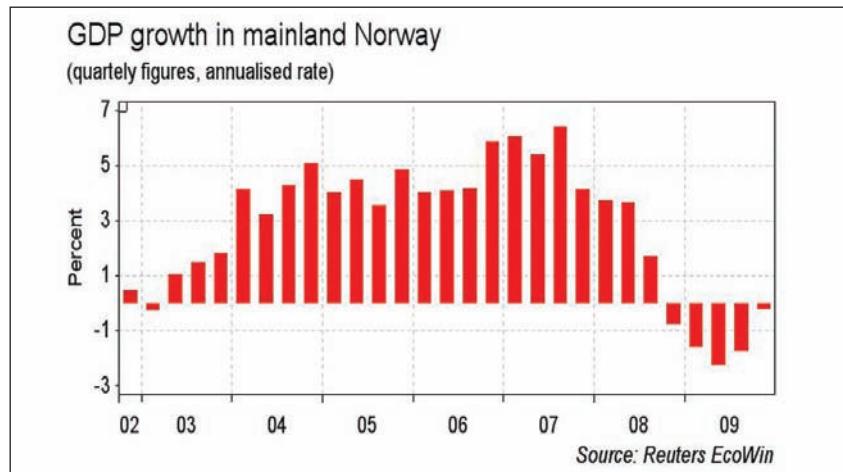
- GDP growth of 1.5%
- Continued increasing unemployment
- Building and construction continuing to fall -6%
- House building at a historically low level: 9,500 starts.

Norway

GDP growth of around 2.5% in Norway in 2010

Economic indicators for Norway

There is much to suggest that the negative growth we have experienced in the Norwegian economy is turning around and that we will experience growth of about 2.5% in 2010. A number of factors will affect the Norwegian economy.



Disposable incomes increase by 4.5%

Growth stimuli from fiscal policy, as described in the state budget for 2010, amount to around 2.5%. These stimuli will probably be smaller in 2011 and 2012, when this expansive fiscal policy is gradually eased off.

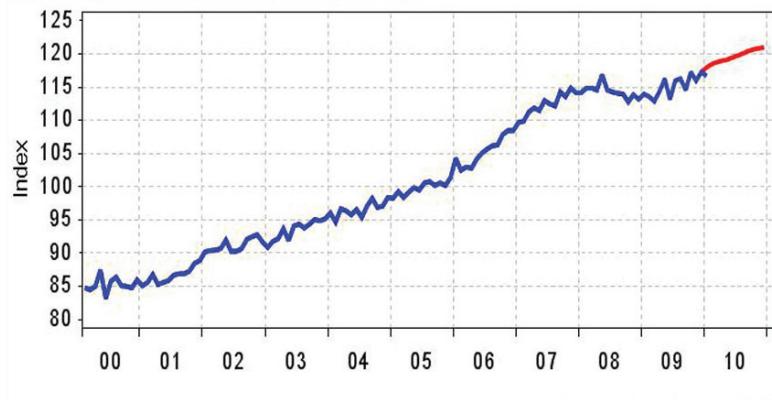
Households' disposable income grew by about 4% in 2009. Low price inflation this year will pull the growth in disposable income up to 4.5% this year. Housing wealth will also increase due to price inflation and contribute to further growth in private consumption in 2010. The growth in private consumption is expected to taper off again in 2011 and 2012 due to lower growth in disposable income.

Total investment doubled in the period 2003 to 2008. Near zero growth is expected in fixed gross investments in coming years. Housing investment will result in new growth during the year as new house starts increase again. Petroleum investment is expected to remain unchanged and stable through 2010.

Performance of the individual indicators

Household consumption grew substantially in 2009 due to low interest rates in 2009. The increase must be seen in the context of the fact that consumption fell throughout the whole of 2008.

Norway: Retail sales
Seasonally adjusted volume index, 2005 = 100



Source: Reuters EcoWin

Latest data from December 2009 (red line shows our prognosis for 2010)

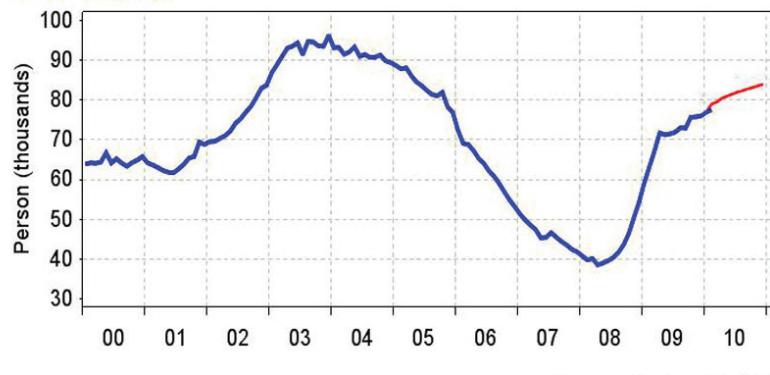
3% rise in retail sales during 2010

Retail sales increased by 3% in 2009, which was in line with our forecasts. The effect the previous year's interest rate cuts had on consumption is probably not exhausted yet, and we are therefore expect retail sales to continue to grow in 2010 as well. Interest rate rises at the end of the year will result in lower growth in retail sales in 2011. An estimated growth in disposable income of around 4% in 2010 should on its own contribute to strong growth in consumption. Increasing unemployment and uncertainty about future economic development will contribute to increasing savings rates and retail sales will thus develop poorer.

Unemployment is increasing less than expected

Overall unemployment increased significantly less than expected in 2009, even though employment fell more than expected.

Norway: Unemployment
Seasonally adjusted



Source: Reuters EcoWin

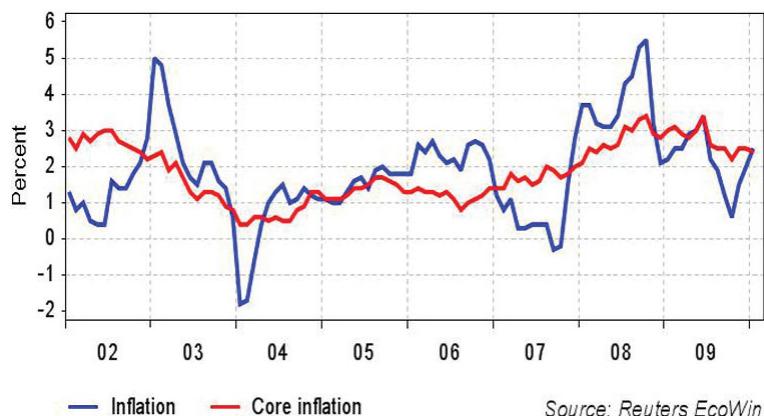
Latest data from January 2010 (red line shows our prognosis for 2010)

The downturn in the Norwegian economy contributed to a fall in employment in the private and public sectors of around 40,000 people, counting from the third quarter 2008 to the third quarter 2009. There were big falls in industry and building and construction. Fewer housing starts for the remainder of the year and a continued fall in new orders in industry will contribute to a further fall in employment in the fourth quarter. A still weakened industrial sector, slightly improved new orders in building and construction, and weak growth in oil-related industry will together contribute to a continued slight fall in employment throughout 2010. However, the fall in employment has not resulted in a corresponding increase in unemployment. Younger unemployed people have switched to further education and foreign labour has returned home. There is a lot of evidence that this effect has now been exhausted. Therefore, we are expecting unemployment to grow by 6-8,000 people from January 2010 to the end of the year.

Inflation under 2% in 2010

Inflation was 2.2% in 2009, while core inflation (inflation adjusted for changes in duties and energy prices) was 2.6% measured in relation to the year before. Relatively high price inflation for imported goods kept inflation up, while prices for domestic products and services decreased.

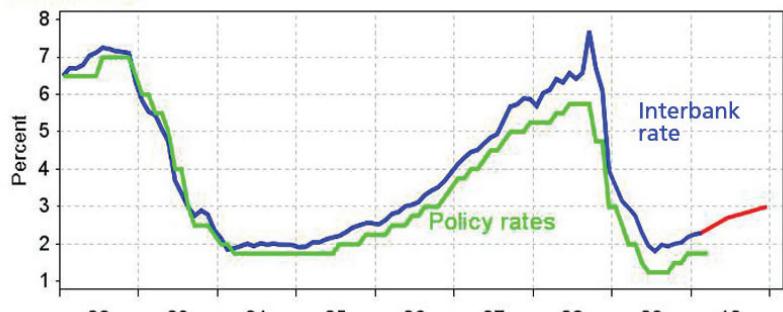
Norway: Consumer prices



Core inflation is expected to be around 1.5% for 2010, and inflation could be just below 2%. A cold winter with little precipitation could contribute to an increase in energy prices and result in higher price inflation than expected. A stronger Norwegian krone will result in lower price inflation for imported goods and services and help keep inflation down. There is reason to believe that core inflation will be lower in 2010 than general inflation.

Norway, Interbank Rates and Policy rates

3 Month, Fixing



Latest data from January 2010 (red line shows our prognosis for 2010)

Market interest rates approaching 3% towards end of 2010

There is a consensus in the market that the Norwegian economy will experience moderate growth in both 2010 and 2011. Even if growth improves, there will still be unused capacity in the market, both internationally and in Norway. There is also a perception that, with the exception of Sweden, international interest rates will not rise until next year. The situation has developed as expected in relation to the course laid out by Norges Bank last autumn. Key international figures continue to fluctuate, and the strength and durability of the upturn is uncertain. The key interest rate was kept unchanged at 1.75% in February and a possible increase in March or May was indicated. According to Norges Bank's forecast the interest rate will be increased to 2.75% during 2010. Based on this, market interest rates are expected to increase to around 3% by the end of this year.

The building, construction and property markets

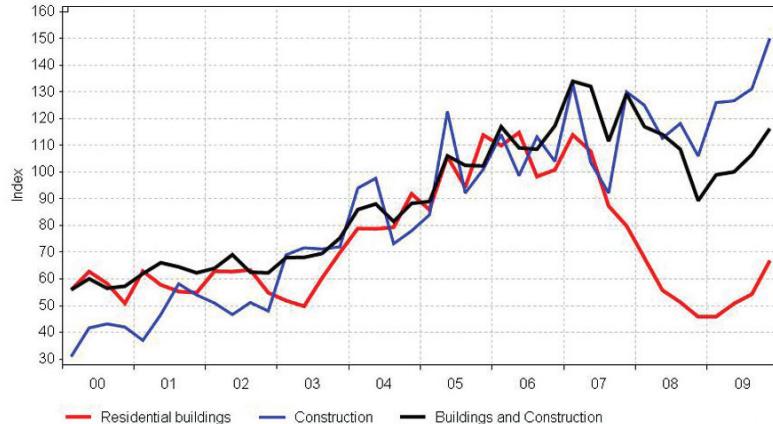
The building and construction market

Order books

The flow of new orders in the fourth quarter 2009 was substantially better than in the first quarter. The decrease in new orders for housing halted in the first quarter of 2009 and these have started to increase again. The situation for construction improved throughout 2009. We expect a gradual improvement in new orders for housing throughout 2010.

Norway, New Orders

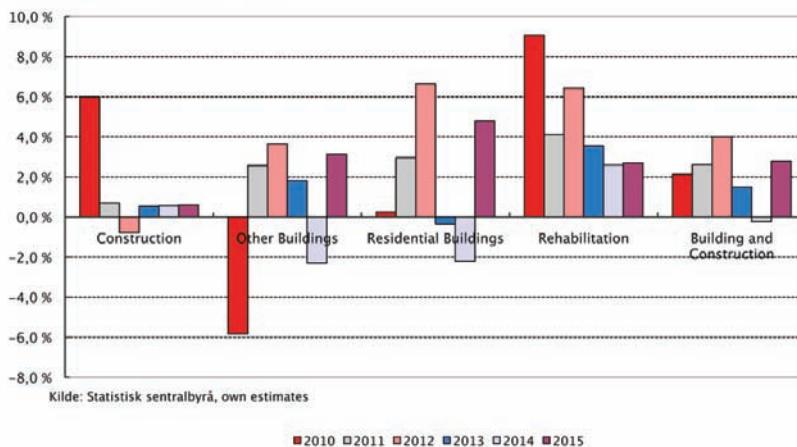
Index, 2000=100



Building and construction investment will experience weak growth in 2010

Building and construction investment were hit hard by the financial crisis. Public investment in increased road and rail construction and the bringing forward of some public building projects helped to cushion the negative development in building and construction slightly. It was private investment in housing and non-residential building that fell heavily during this period.

Buliding and Construction market, Norway
(annual growth in fixed 2007 prices)



Our forecast for each segment is as follows:

- Housing investment is expected to increase by about 1% in 2010. The figures for housing starts indicate the fall has levelled off. Strong growth in housing sales prices and lower building costs may indicate starts will increase slightly in 2010. Expected growth in 2011 is estimated to be around 3%. This means the level in 2011 will be around 17% lower than in the record year 2007.
- Non-residential building starts decreased significantly throughout 2009 and contributed to a fall in investment of around 22% from 2008 to 2009. The fall was from a very high level and was largest for private non-residential buildings at around 35%. Public buildings saw investment growth of approx. 10%. We expect a further fall in investment in non-residential buildings of around 5% for 2010.
- The growth in the construction market over the last two years was due to the increased investment in upgrading and expanding the road and rail network. In 2009, total investment in construction increased by around 7% due to strong growth in transport investment, while investment in industrial projects decreased slightly. The extraordinary package of measures introduced in 2009 will also have an effect on activity in 2010. The state budget indicated growth of about 16% in railway investment and 23% in road investment in relation to the revised budget for 2009. Investment in industrial projects will continue to fall in 2010, while local authority technical facilities will remain unchanged. Overall construction investment is expected to increase by 6% in 2010. This growth will level off in 2011 and probably fall slightly towards 2015, but still contribute to a relatively high activity level going forward.
- Repairs and maintenance is the area experiencing most growth. Growth was around 13% in 2009. The growth came as a result of the measures proposed in the confidence package. The growth is therefore split between public buildings and construction. A slowdown in growth to around 9% is expected in 2010.

House prices will continue to rise in the first half of 2010 and then level off

House prices



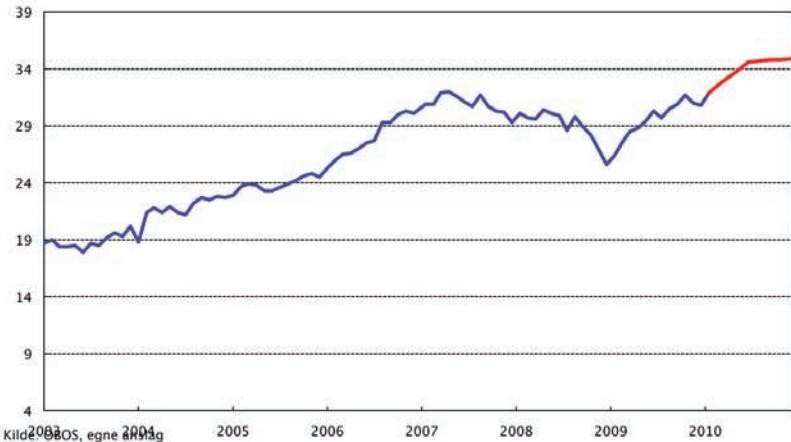
Latest data from January 2010 (red line shows our prognosis for 2010)

Prices for used housing have risen continuously since November 2008 by a total of 15%, and the strongest growth of 17% was experienced by flats in blocks. Our forecast was a decrease of around 3%. The growth came after a fall of around 10% from June 2007 to November 2008. House prices are determined in the short-term by changes in interest rates, unemployment, and households' disposable income. All these factors developed more favourably for households in 2009 than expected. Interest rates remained low throughout the year, without the prospect of a dramatic increase. Unemployment was also lower than expected, and households' disposable income increased by around 4% compared to the expected 3% for 2009. In addition to this, a low level of supply in the housing market, combined with continued growth in the number of households, contributed to strong price inflation.

The effect of these factors has probably been exhausted. Interest rates bottomed out in the fourth quarter of 2009 and will gradually increase throughout 2010, and the banks will also probably practise more restrictive lending policies this year than in 2009. Households' real disposable income is expected to grow by 2.7% in 2010, which is slightly lower than in 2009. Unemployment will continue to rise in 2010, and probably peak towards the end of the year. The supply of housing will increase throughout 2010 due to the number of completions increasing over the autumn, and high sales prices for used housing will result in increased supply.

We expect house prices to rise by around 5% in 2010 with the strongest growth in the first half of the year and flatter growth in the second half.

Housing prices in the Oslo area
1000 Nok per m²



Latest data from January 2010 (red line shows our prognosis for 2010)

Continued rise in house prices in Oslo

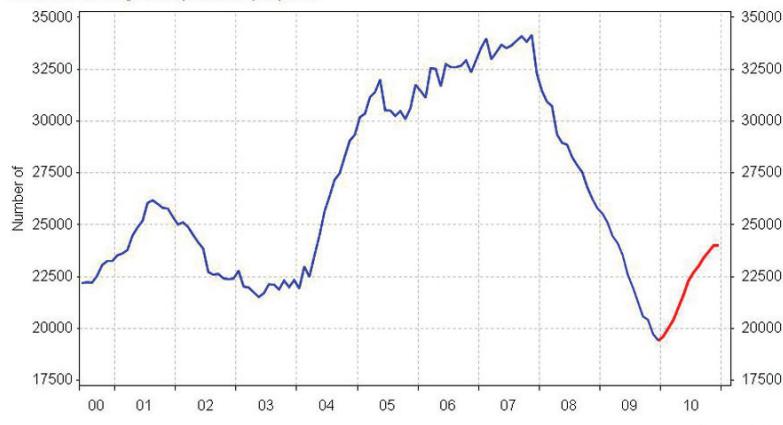
Sales prices for used OBOS flats rose by 18% during 2009 and the number of sold homes in January was around 17% higher than in January the year before. Prices increased by 3.8% from December 2009 to January 2010. Optimism seems to have returned to the housing market in Oslo. Unemployment is lower in Oslo than in the rest of the country and more new families are moving to the city than expected. The supply of housing is low due to lower house building in 2009.

Prices are expected to grow by around 9% in 2010. The growth will probably come in the first half of the year with flatter growth in the second half, in line with an expected increase in interest rates and an increasing supply of housing.

Housing starts

House building fell evenly throughout 2009. 19,500 homes were started in 2009, which is somewhat higher than our forecast of 16,000 starts. Measured in terms of the number of homes, the fall was stronger than we saw around 20 years ago. Geographically speaking, the fall had widespread impact, with a slightly higher impact in heavily populated areas. It was also the flat segment that was hit hard, while terraced houses and detached houses largely stayed up.

Norway, Housing Starts
Number of dwellings annually, seasonally adjusted



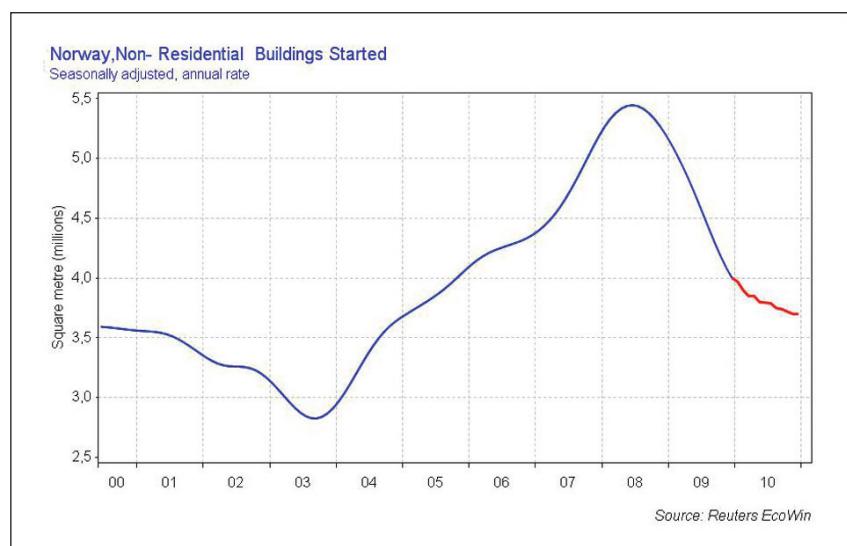
Latest data from December 2009 (red line shows our prognosis for 2010)

23,000 housing starts in 2010

There is much to suggest that the number of housing starts has bottomed out and that in the first half of the year we will see renewed growth in starts. Sales of new housing have risen significantly from a low point at the start of 2009. We are also seeing that the supply of new homes on the market is significantly lower than the long-term need. Based on the population growth Statistics Norway assumes in its forecasts and annual sales of 4,000 homes, the calculated annual housing need in Norway is between 30,000 and 35,000 homes. Given today's completions of less than 20,000, this will continue to press prices for new housing up and contribute to increased profitability in the start-up of new housing projects. We therefore expect around 23,000 starts in 2010.

Non-residential building starts

Non-residential buildings starts slow down in 2010 as well



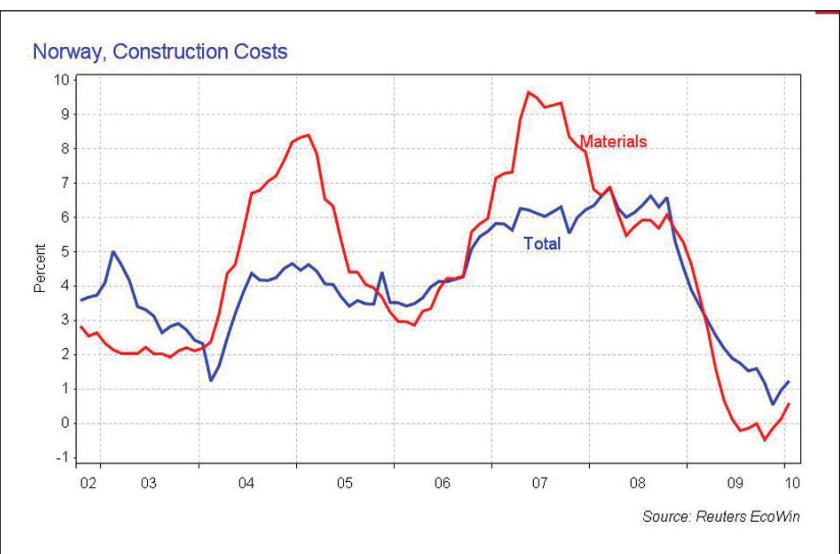
Latest data from December 2009 (red line shows our prognosis for 2010)

Non-residential building starts have fallen by more than 25% since their record level in summer 2008. The fall was from a record high level and impacts all categories of building. In the last two months we have seen clear indications that this fall has slowed. In December there was a slight increase in public buildings and in parts of the buildings for service providers segment.

We expect non-residential building starts to be around 8% lower in 2010 than at the start of the year. The following development is expected in the individual segments:

- Within office buildings we anticipate a continued fall of 8–10% over the year
- Commercial buildings will also fall slightly
- Continued stability in transport and communication buildings
- For health care buildings and educational buildings, we expect the high level of current activity to continue, but without growth
- Garages and recreational buildings will continue to fall by around 10% over the year

Annual growth in building costs of 1% at start of 2010



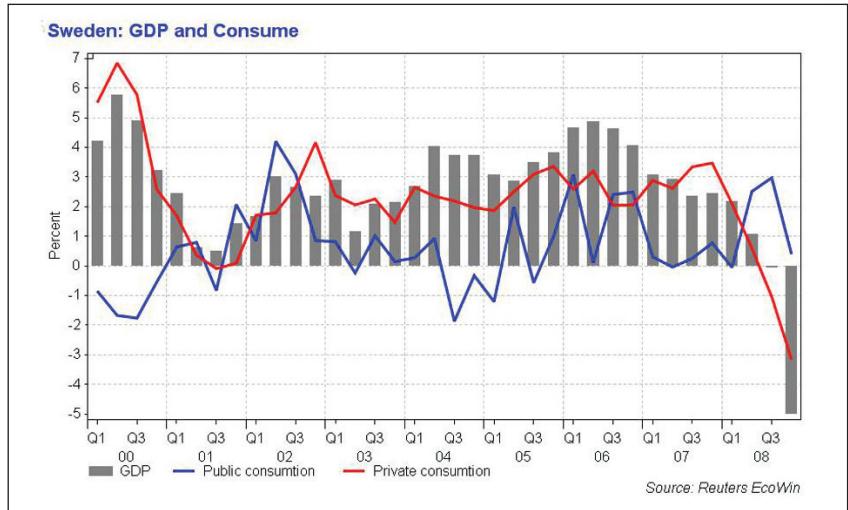
Probable rise in building costs of 2–3% in 2010

Growth in building costs slowed in 2009 and was around 1% at the start of the year. The building costs index only measures price changes for inputs in a building project and takes little account of changed margin requirements, wage drift, and productivity changes. This means that the real costs have probably fallen by more. Slightly greater growth in building costs is expected this year (measured by the building costs index for blocks of flats). The growth could perhaps rise to an annualised rate of 3%.

Sweden

Economic indicators for Sweden

The Swedish economy was hit particularly hard by the financial crisis. Swedish GDP fell by 6% (annual rate) up to and including the first quarter of 2009. The situation improved in the second quarter with positive quarter on quarter growth. Even though the downturn was heavy in Sweden, the potential for a strong economic upturn is regarded as great. There are a number of reasons for this.

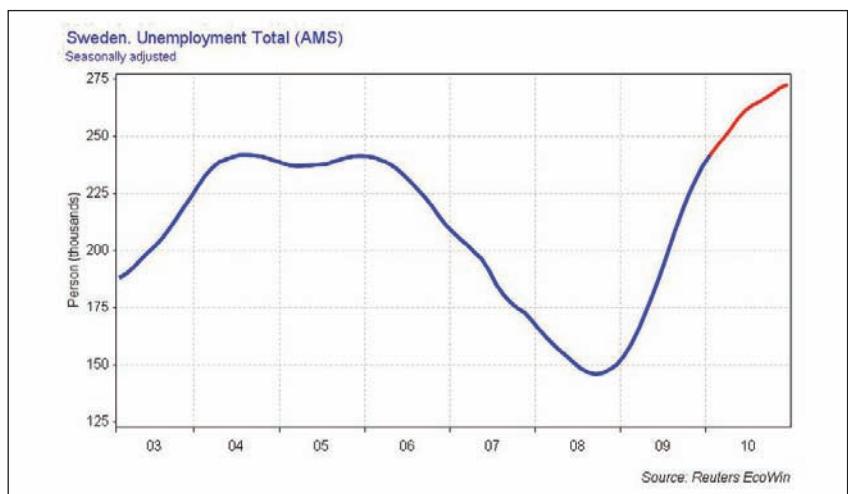


GDP growth of 2.5% in Sweden in 2010

The Swedish export industry is well-equipped for a global upturn. A weak Swedish krone also makes a positive contribution. The financial balance of households is regarded as reasonably good. Nor have households experienced the same fall in housing wealth as other countries and they therefore have substantial savings buffers. The state finances are also strong, which means that unfortunate cuts do not appear necessary. Opportunities for further stimulus remain. The risk lies in high unemployment that could be hard to move and weakened state finances. The estimate of 2.5% GDP growth for 2010 therefore represents an upward adjustment in relation to earlier estimates.

Continued moderate increase in unemployment in 2010, around 9.5%

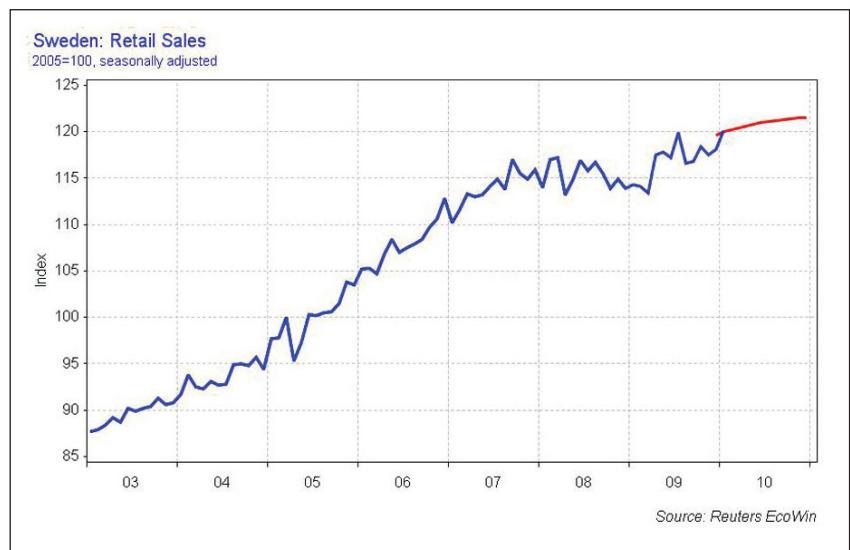
Unemployment climbed to almost 9% and employment fell by 3% in the third quarter compared to the same quarter last year. The fall was largest within industry with the loss of 100,000 jobs (15%). Continued low capacity utilisation may indicate a continued fall in industry. Employment started to rise again in 2009 in the service sector and building and construction.



Latest data from December 2009 (red line shows our prognosis for 2010)

Low productivity within these sectors could push employment down again in 2010. An improvement in parts of industry and building and construction will result in slightly lower growth in unemployment than we previously assumed. We estimate that unemployment will peak at around 9.5% in early autumn 2010.

Retail sales will increase by around 2% in 2010

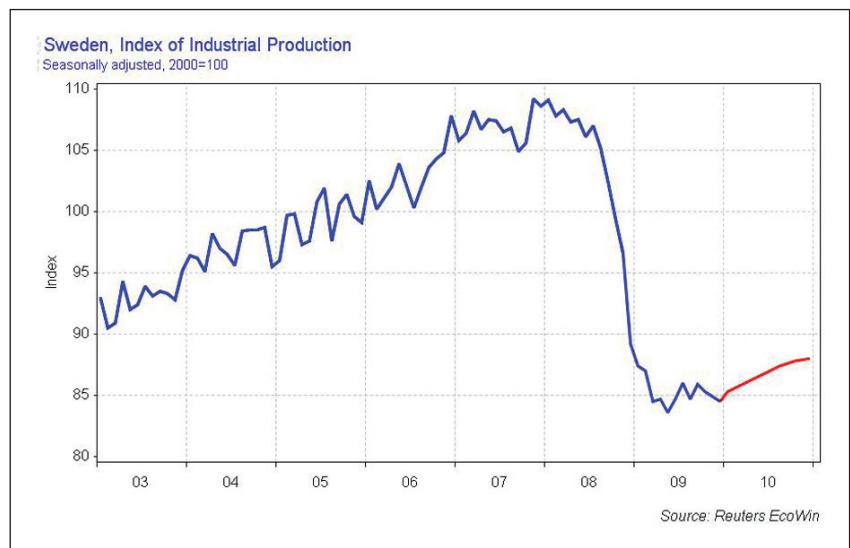


Latest data from December 2009 (red line shows our prognosis for 2010)

After a weak start to 2009, retail sales increased again and ended up at around 5% higher, which is slightly more than we estimated. The deviation was due to a high level of growth in disposable income in 2009 and less fear than we assumed. We expect growth of around 2% in 2010. Higher interest rates and continue high unemployment could contribute to a weakening of households' purchasing power compared with the year before.

Industrial production up 4% in 2010

The downturn in industrial production bottomed out in spring 2009 and a tendency toward growth has been seen throughout the autumn. New orders for industry increased significantly in the fourth quarter and industry's confidence indicators are pointing upwards.



Latest data from December 2010 (red line shows our prognosis for 2010)

Industry's confidence indicators fell by 10% from November to December 2008, and half of companies reported significant cuts in workforce and production going forward. Total growth in industrial production of around 4% is expected in 2010. The growth will take place in both the export industry and industry for the domestic market.

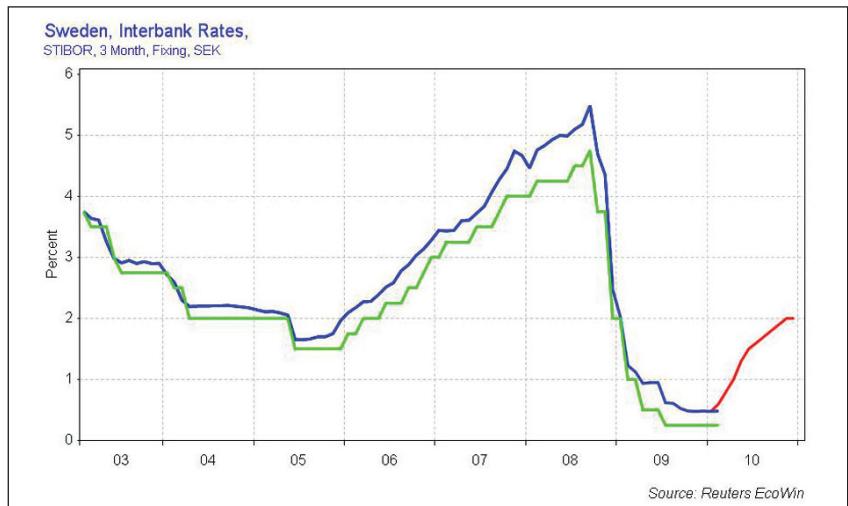
Inflation on the rise in Sweden, but this could be temporary

Inflation measured by CPI has risen in the last few months and is expected to continue rising. One important reason for the rise is that households' interest costs have stopped falling and are expected to rise again in line with rises in the key interest rate. However, there is reason to expect that the rate of inflation will fall again in 2010. Wage increases are falling at the same time as productivity is increasing, which means that companies' labour costs per unit are falling. In addition to this, the Swedish krone is expected to strengthen, which will result in lower price inflation for imported goods. Prices for electricity and oil are pulling in the other direction, which could change the inflation picture.



A normalisation of interest rates in Sweden during 2010

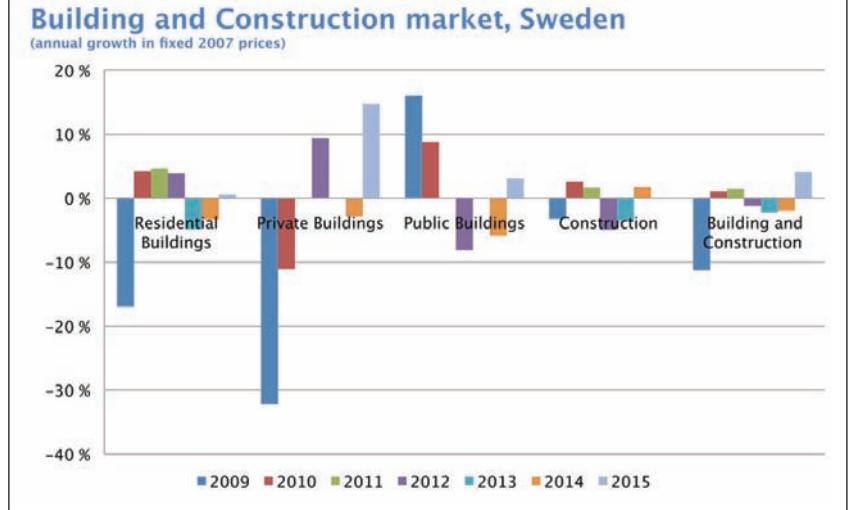
The situation in the financial markets has steadily improved and today is no longer regarded as an obstacle to an economic upturn. The key interest rate has lain at 0.25% in Sweden since July 2009. Riksbanken's forecast for the key interest rate has remained the same since the meeting in February this year. At the interest rate meeting in February, Riksbanken decided to keep the interest rate at 0.25%, but indicated at the same meeting that higher inflation, strong international growth, and better employment could result in the interest rate being increased in early autumn. The interest rate is expected to be around 1% at the end of the year. At the same time it was indicated that the interest rate was expected to be 4% in 2013 and that this is regarded as a neutral rate (a rate that has neither a positive nor a negative effect on the economy).



Latest data from January 2010 (red line shows our prognosis for 2010)

Building and construction investment unchanged in 2010

The building and construction market in Sweden



Despite the economic upturn in Sweden, it has not been followed by an upturn within building and construction. The decrease in the total available market in Sweden was 12% in 2009. Housing investment and private non-residential buildings in particular pulled investment down heavily. Housing investment, together with construction and public buildings, are expected to increase growth in 2010. Uncertainty concerning the international economic situation means that investment in building and construction will fluctuate around the zero line for the next few years. Households and the private sector in particular will be reticent with respect to investment in a period of great risk concerning the development of the international economy. The regional differences in activity remain great, with high activity in the Greater Stockholm area, while activity in Western Sweden is very low.

Fall in private buildings continues in 2010

The demand for private buildings was hit the hardest by the recession. We estimate that private building investment fell by around 30% in 2009. The outlook for a moderate economic upturn and uncertainty about what is will happen in the international economy when the support measures are gradually reduced will help to dampen private demand for premises. A continued fall of 9% is expected in investment in 2010.

Public buildings continue to increase in 2010

The public sector demand for premises is increasing. Investment grew by 16% in 2009. Much of the growth occurred within the local government sector. There is a major risk of lower growth in investment when the budgets of local authorities and county councils contract. To counter this and to stimulate the building of public buildings, the government allocated SEK 10 billion to local authorities and county councils last autumn.

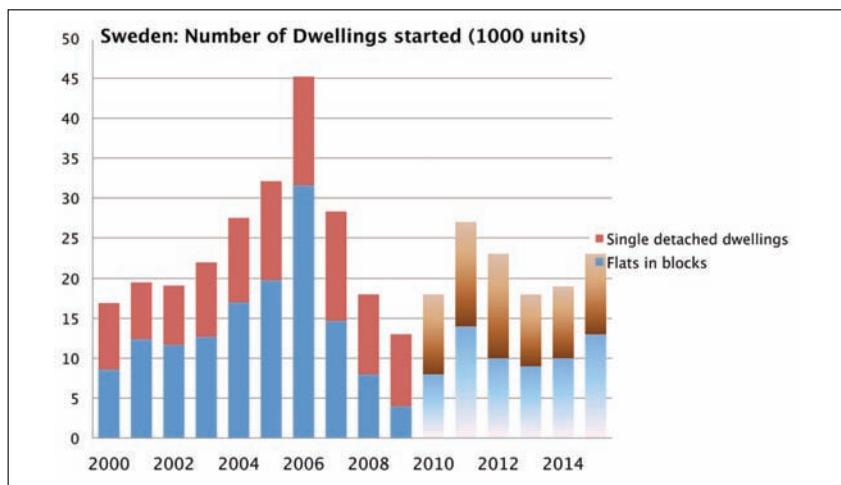
Construction sector to continue at high level in 2010

Today, construction investment is at a high level due to a number of years of focusing on better and more efficient transport solutions in Sweden. This applies to both roads and railways. In 2009 we saw a weak fall in activity due to the decrease in investment in mail, telecommunications and transport investments. We expect growth of around 4% within construction for 2010.

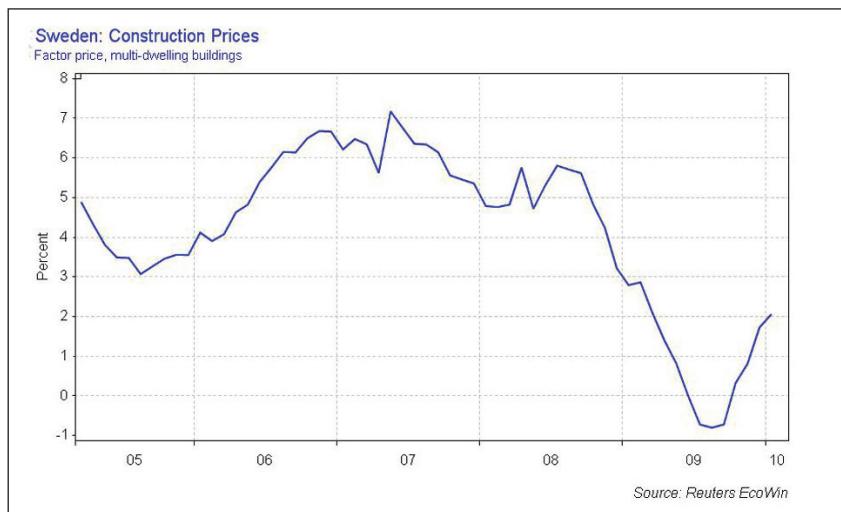
The housing market

Housing starts fell heavily throughout 2009. Tighter credit access and the increasing pessimism of households and companies resulted in a heavy fall in new housing projects during the year. This applies to housing cooperatives, rented housing and small houses.

In the third quarter, house building was down by an annualised rate of 12,000 houses. Blocks of flats have fallen in particular. We forecast 15,000 housing starts in 2009. The number of houses that were started last year was around 13,000.



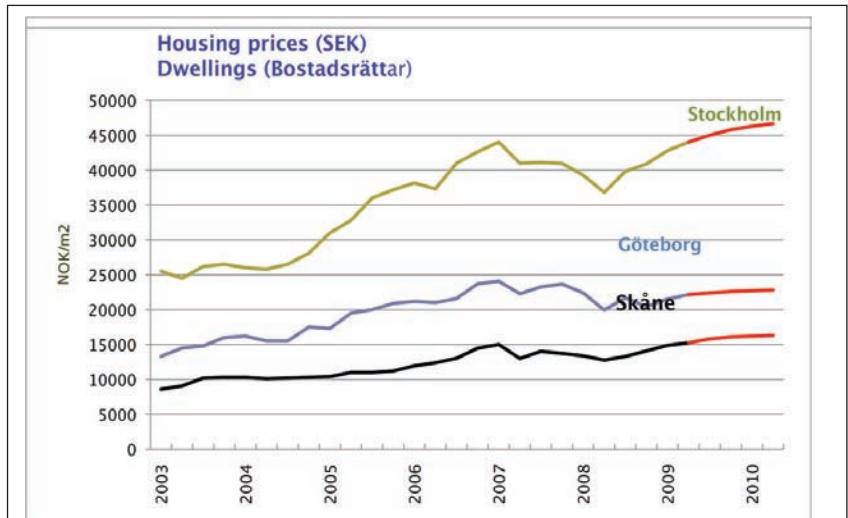
House building in Sweden has been low for more than three years, and the lack of housing is increasing in more urban areas. At the same time, sales prices for used housing in the market and building costs are falling. The profitability in starting new projects is therefore increasing. In addition to this, migration to the major urban areas is still great, which is pressing prices up since access to new housing is falling at the same time. We believe housebuilding will grow again by around 18,000 housing starts in 2010.



Building costs fell heavily during the first half of 2009 due to lower raw material prices and energy costs, and lower prices for steel and timber. We do not think building costs are likely to increase strongly in 2010, but we expect prices to level off at between 2% and 2.5% annual growth.

House prices

House prices in Stockholm were 19% above the level they were the year before in the fourth quarter of 2009. House prices in Gothenburg have varied slightly from quarter to quarter since the start of 2007, but in the fourth quarter were 11% above the level they were in the same period the year before. Meanwhile, the upturn in Skåne was on a par with that in Stockholm, 19%.



Latest data from Q4 2010 (red line shows our prognosis for 2010)

The housing market performed substantially better in 2009 than we expected at the start of the year, with a weak fall in all regions.

In the short-term house prices are to a large degree affected by households' disposable income, job market prospects, access to loans, belief in the future, and the development of interest rates.

Households' disposable income will continue to increase in the coming period, but not at the same pace as in 2009, when we estimated the growth at 2.5%. The growth in 2010 is expected to be around 1.5%. The job market is still uncertain, but our overall picture is of continued weak growth in unemployment in 2010. Experience also shows that it takes time (1 year) before an increase in unemployment is reflected in lower house prices. Households' confidence in the future also increased during 2009, even though growth slowed towards the end of the year. In addition to this, interest rates are expected to remain low, even though Riksbanken is indicating a slightly earlier rise in interest rates than they expected a year ago. The bank also indicated a lower neutral interest rate than earlier (4% versus the previous 5%).

Based on these assumptions we forecast the following for house prices in 2010:

- In Stockholm, house prices will rise by 6% measured from the fourth quarter 2010 to the same quarter 2009.
- In Gothenburg prices will rise by 3% measured from the fourth quarter 2010 to the same quarter 2009.
- In Skåne prices will rise by 6% measured from the fourth quarter 2010 to the same quarter 2009.

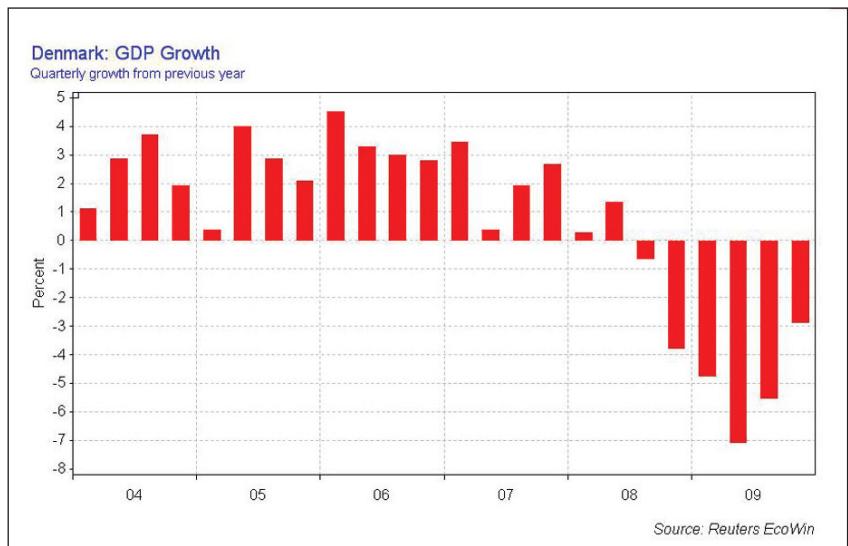
Denmark

Economic indicators for Denmark

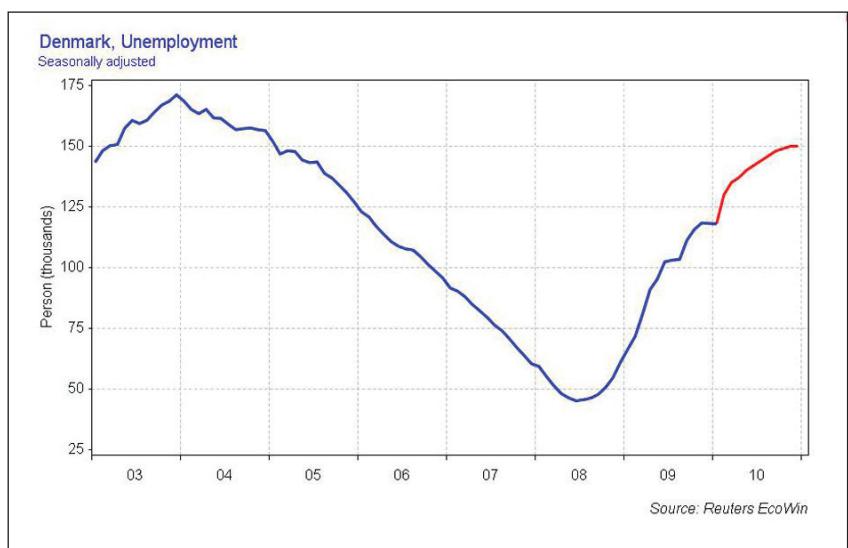
Weakest GDP growth in Denmark for 30 years at -4.5% in 2009

Being a small, open economy, Denmark was hit very hard by the financial crisis and the global economic downturn. It appears that GDP fell by 4.5% in 2009 and that the downturn was broadly rooted in private consumption, housing investment, industrial investment, and exports. However, there are signs that indicate that the arrows have now begun to point in a positive direction, but the rebuilding will be a long process. Unemployment will continue to increase and it will probably take a long time before production growth generates new jobs. GDP growth of 1.5% is expected for 2010. Private consumption may increase by 2.5%, while total investment will fall by 6% in 2010.

GDP growth 1.5% in 2010



GDP growth of 1.5% in 2010 will not generate many new jobs

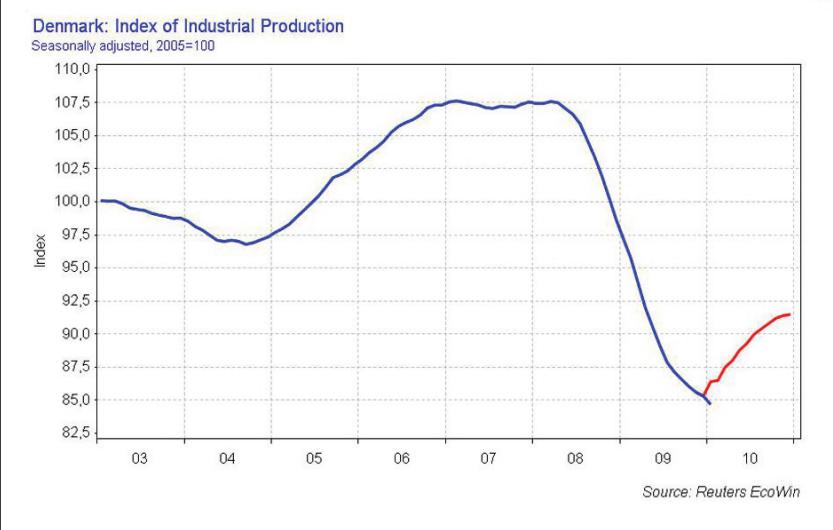


Latest data from December 2009 (red line shows our prognosis for 2010)

Unemployment will increase by a further 25,000 in 2010

Unemployment will increase to around 150,000 people at the end of this year. This represents around 5.6% of the labour force in Denmark. Even though we are seeing an improvement in production in 2010, it will take time before the job market reacts. There are several explanations for this: Firstly, we have seen in previous downturns that it can take up to six months before production results in lower unemployment. The tight labour market we had before the crisis, combined with a fall in productivity, will now be restored. This means that it will take even longer before increased production results in increased employment.

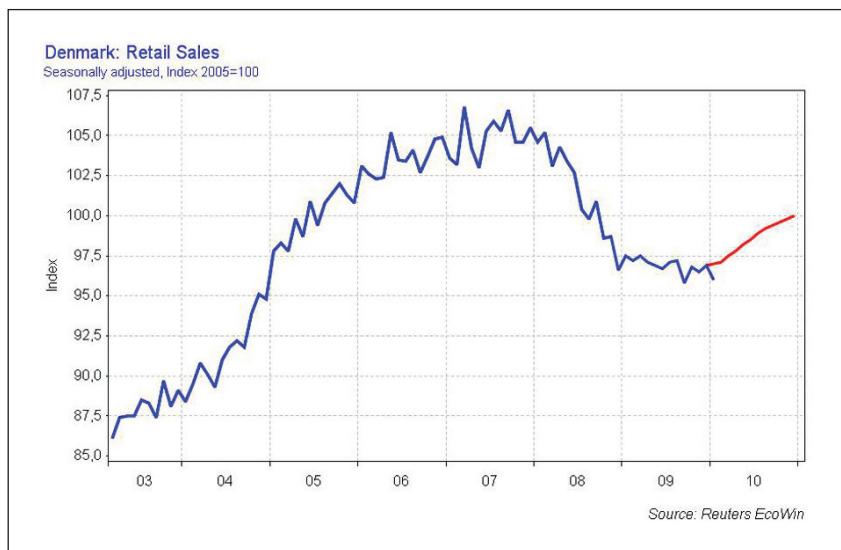
Industrial production in Denmark began to fall in October 2008 and has so far fallen by around 20%. 7% growth is expected in 2010, but from a low starting point.



Latest data from January 2010 (red line shows our prognosis for 2010)

Retail sales down 5% in Denmark in 2009

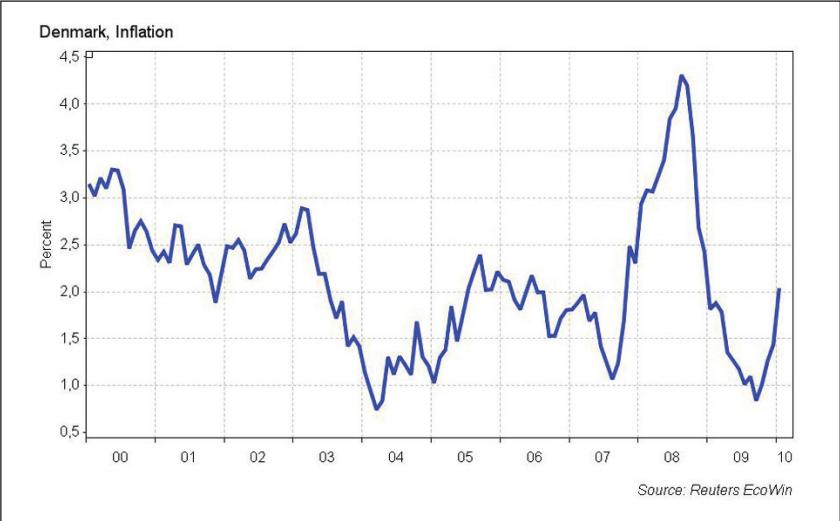
Retail sales remained almost unchanged during 2009, following a falling trend up to and including the third quarter. Retail sales increased slightly after this. Slightly greater optimism about the future may contribute to new growth in retail sales in 2010 in Denmark. We estimate growth of around 3%, but from a low starting point.



Latest data from January 2010 (red line shows our prognosis for 2010)

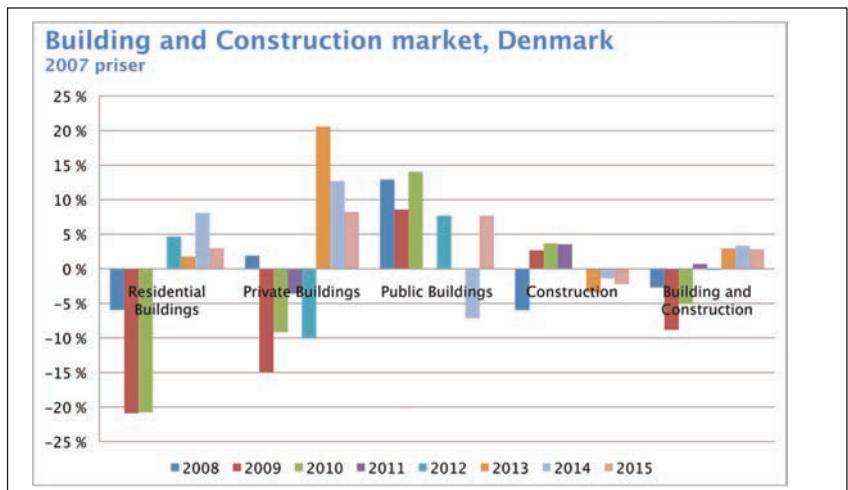
Inflation bottomed out in October 2009 and has since then increased slightly to an annualised rate of around 2%. Much of the increase can be ascribed to rises in energy prices during the autumn and winter. Low capacity utilisation combined with increasing unemployment will put the brakes on wages growth and push inflation downwards in 2010. We expect an inflation rate of 1.7% in 2010.

Inflation rising slowly



How far will building and construction fall in Denmark?

The building and construction market



In 2009, the available building and construction market in Denmark fell by around 9% and was at its lowest activity level in 25 years. The fall in housing and non-residential building starts contributed to this heavy fall.

Negative growth in the building and construction market for at least another two years

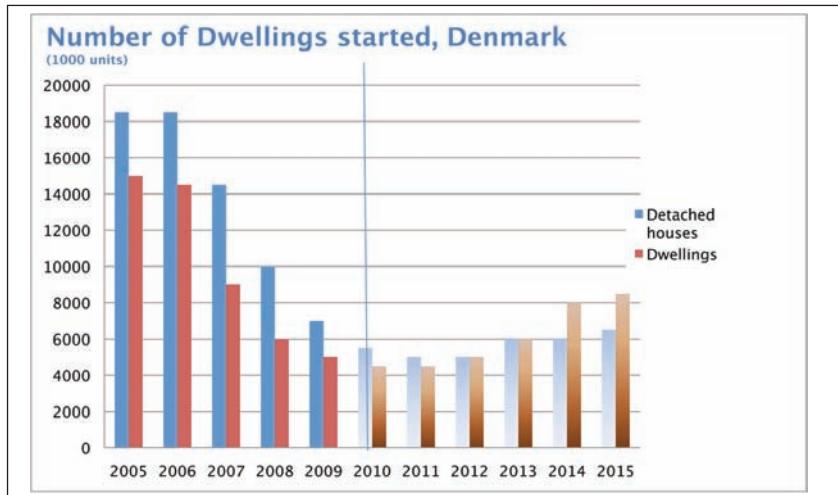
A further fall of 6% is expected in 2010, and today it is hard to see good reasons for when growth will return. The activity level is currently so low within house building in particular that it is difficult to imagine that any further fall is possible based on a normal development in the number of new households and homes that will disappear from the market. There is also reason to assume that new growth in the international economy, better productivity in the Danish economy, and better competitiveness may also result in renewed optimism and provide a basis for increase building activity again. We therefore expect a gradual improvement during 2011 and new growth from 2012.

Construction investment slowly rising

There are still prospects of an improvement in construction investment in Denmark. Growth of around 3% is expected in 2010. Local authority investment in construction is expected to remain unchanged during 2010 compared to 2009. An increase of 3%–4% is expected in the road sector, which will go to implementing the planned road projects in the “traffic agreement” from January 2009.

Investment in private non-residential buildings fell in 2009 by around 15% and is expected to fall a further 10% this year. The largest falls have been in farming buildings (25%) and buildings for administration and commerce (approx. 20%). The fall in other areas is small, but the activity level is low.

Housing investment fell by just under 20% in 2009 and is expected to fall a further 20% in 2010. This means the activity level is on a par with that in 2002.

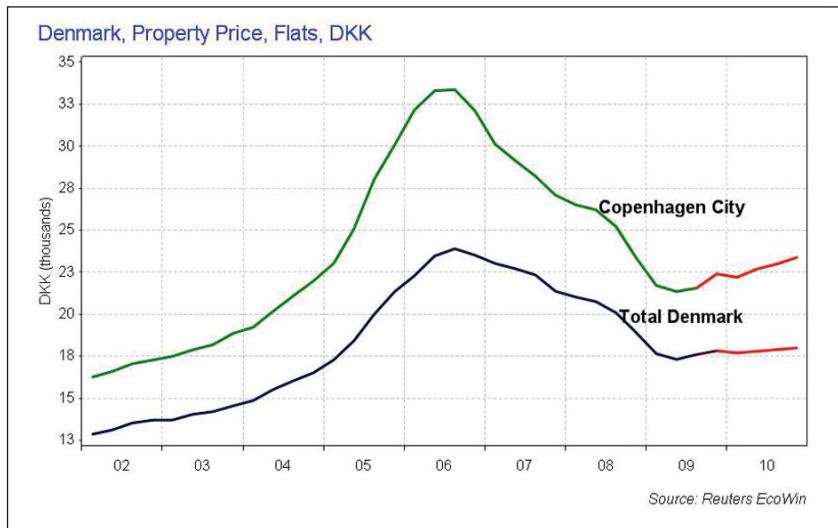


Housing investment is expected to fall by 13% this year and a further 1% next year. The fall will come in all types of housing, but will be largest within blocks of flats.

The housing market

Sales prices for used housing have risen from a low level

Prices for used housing in Denmark developed slightly better in 2009 than expected. There will be around zero growth for the year as a whole. Our forecast was a fall of 5%.



Latest data from Q4 2010 (red line shows our prognosis for 2010)

The housing market was stabilised by the heavy fall in interest rates, continued strong growth in income, and a general improvement in the financial outlook. The increase in prices also indicates that the supply of housing in the market is at a record low level. The house building that is planned provides reason to assume prices will continue to rise during 2010. In 2008 public sector investment is expected to increase and contribute to a total growth of about 5%.

We welcome opinions and comments.

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