Valuation *Advisory*

Citycon Oyj

Market Valuation of the Investment Properties

31 December 2016

Executive summary

At the end of December 2016, Citycon owned 52 investment properties, 6 properties owned through joint ventures and associated companies (including Kista Galleria, Mölndal Galleria and 4 properties located in Norway), two rented properties (located in Norway) and 4 properties held for sale. Of these, 52 investment properties and 3 properties held for sale are included in this valuation statement.

The valued portfolio is divided into four geographical areas; Finland, Norway, Sweden, and Estonia and Denmark. Below we present the key figures of the evaluated portfolio:

31 December, 2016	Number of properties	Fair Market Value, EUR million	Wght. Average Net Yield Requirement	Wght. Average Initial Yield	Wght. Average Reversionary Yield	Wght. Average Market Rent, EUR/sq.m./ month	Wght. Average Operating Costs EUR/sq.m./ month
Total Property Portfolio							
Finland	24	1,811	5.6 %	5.0 %	6.1 %	29.8	7.1
Norway	20	1,469	5.3 %	5.3 %	5.7 %	22.9	5.6
Sweden	8	749	5.2 %	5.2 %	5.5 %	26.3	7.1
Estonia and Denmark	3	340	6.7 %	7.2 %	7.0 %	20.1	3.3
Total	55	4,369	5.5 %	5.2 %	5.8 %	26.1	6.3

Citycon’s property portfolio includes a few relatively valuable properties compared to the rest of the portfolio. This means that the weighted averages are highly influenced by the changes in these properties. Shopping Centre Iso Omena (located in Finland) is the most valuable property in the portfolio.

The total fair value of the portfolio in Q4 2016 was approximately €4,369 million. Compared to Q3 2016 the fair value increased by ca. €33 million i.e. 0.8%. Committed investments, decreased yields and strengthened Swedish krona and Danish krone have increased the value.

Contents

Scope of Instructions

In accordance with our instructions as the External Valuer of Citycon Oyj ("Company"), we have carried out a fair valuation of the properties held within the Company's investment property portfolio as at 31 December 2016, to arrive at our opinion of Fair Value.

Fair value is defined by the International Accounting Standards Board (IASB) and IFRS 13 as:

"The price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants on the measurement date."

The International Valuation Standards Board (IVSB) considers that definitions of Fair Value are generally consistent with Market Value and we confirm that the Fair Value reported is effectively the same as our opinion of Market Value. The Fair Value does not include possible transaction costs.

We understand that this valuation is required for financial reporting and performance measurement purposes.

We confirm that our valuations are fully compliant with IFRS accounting standards and IVSC valuation standards and guidance. We also confirm that we have prepared our valuation as external valuers and that we have no involvement with the subscriber or the properties valued which is likely to cause a conflict of interest in our provision of this advice.

We carried out inspections of each of the properties during September–December 2011 when the property portfolio was evaluated by us for the first time. Properties added to the portfolio after the initial valuation have been inspected when added to the portfolio. In addition, we have re-inspected the other properties after the initial valuation. During Q4 2016 we have re-inspected Lippulaiva, Sampokeskus and Myyrmanni located in Finland and made initial inspection at Mölndal galleria located in Sweden.

We have not measured the properties leasable areas but have relied on the information supplied to us by the Company. We have not read copies of the leases or of other related documents, but have relied on the tenancy information provided by the Company, which reflects the latest available tenancy position.

The valuations were carried out by local JLL offices in Finland and Sweden. In Norway, Estonia and Denmark we were supported in the delivery of our advice by local affiliates.

This report is addressed to and may be relied upon by the Company. It has no other purpose and should not be relied on by any other person or entity. No responsibility whatsoever is accepted on the part of any third party, other than those specified above and neither the whole of the Report, nor any part, nor references thereto, may be published in any document, statement or circular, nor in any communication with such third parties, without our prior written approval of the form and context in which it will appear.

Market overview

Finland

According to Statistics Finland's data, Finland's GDP increased by 0.4% in Q3 2016 compared to the previous quarter and 1.6% compared to Q3 2015. Forecasts for GDP growth in 2016 range from +0.9% to +1.6%, while in 2017 economists predict growth varying between +0.9% and +1.5%. GDP growth during 2017 will be mainly supported by increase in exports. In addition the unemployment rate has decreased and investments on the construction sector in particular have been growing strongly.

According to Statistics Finland's flash, in November 2016 retail sales increased by 3.3% year–on–year. Over the same period, the volume of retail sales, from which the impact of prices has been eliminated, increased by 3.9%. For the full year 2016 forecasts expect a 1.7% increase, and the growth is forecasted to remain moderate also in 2016–2018 being 2.0% p.a. (Oxford Economics, October 2016).

Prime shopping centre rents stayed unchanged quarter–on–quarter and decreased ca. 3% year–on–year. The weak outlook for retail sales limits rental growth potential and has kept occupiers cautious. Only few new occupiers have entered the market and this has been seen almost exclusively in Helsinki city centre or shopping centres in Helsinki metropolitan area. Most recent challenge will be large units left vacant after Anttila as the number of potential occupiers is limited. On the positive side the restaurant occupiers are active but overall polarisation on the market between strong and weak locations and centres is increasingly evident. Prime shopping centre rents are forecasted to remain stable or increase slightly in 2017.

In Q4 2016 the retail transaction volume increased compared to previous quarter but decreased significantly year-on-year. The total volume of retail transactions in 2016 was higher than in 2015. There was no comparable deals in the last quarter as the transactions were focused mainly on big boxes. Overall, the demand for core assets remains strong, as equity rich investors keep looking for safe havens. However, an increase in investment demand outside prime properties has also been evident, brought on mainly by new funds and returning international investors. Prime shopping centre yields continued to move in being now at 4.60%.

Norway

According to Statistics Norway (SSB), gross domestic product (GDP) for Mainland Norway rose 0.2% in Q3 2016. This is a decrease from the 0.4% growth in the Q2 2016. GDP is expected to see a growth of 0.7 % for 2016 and 1.7% for 2017, which is slightly down from previous SSB estimates. Since mid 2016 interest rates have reversed its falling trend. 5-year swap rates have increased more than 50bps over the period. On average petroleum investments have fallen 4% per quarter the last two years, however the decline was only 0.6% in Q4 2016. Government investments on the other hand have seen a growth of 6% in 2016.

According to Statistics Norway, in November 2016 retail sales increased 3.2% year–on–year (unadjusted figures). Total household consumption of goods increased 1.2% year-on-year over the same period. The estimates for household consumption of goods point to an increase of 1.9% in 2017 and 2.0% in 2018.

By the end of 2016 we have observed an increased difference in attractiveness between prime and secondary centres, primarily outside the larger cities. Regional shopping centres are facing higher financing costs and consequently higher transaction yields. If this trend continues, the yield for selected shopping centres is estimated to increase by 25bps during Q1 2017. This is not the case for prime properties, as equity investors are more active. The prime rent for shopping centres is unchanged at NOK 13,500/sq. m/year, and is expected to remain so going forward. The attractiveness and demand for prime areas in prime shopping centres are still good.

The 2016 transaction volume was NOK 69 billion as of December. The solid performance is driven by interest rates remaining low, yet currently increasing (10Y SWAP 1.96% as of January 6). Despite an interest rate outlook pointing upwards, Norwegian real estate keeps attracting investors seeking returns when alternative asset classes are more volatile than ever. For foreign investors the Norwegian krone remains weak, ensuring Norway is still an attractive market. Furthermore, both Norwegian and foreign investors continue to observe the Norwegian economy showing relatively solid fundamentals despite the low oil price and a slower labour market. The demand for properties continues to exceed the supply in the Norwegian investment market, and we expect an active market going into 2017. Transaction volumes are expected to stay level with 2016 at NOK 60-70 billion. Prime yield for shopping centres is expected to remain at 4%.

Sweden

Sweden's GDP increased by 4.2% in 2015. In Q3 2016, GDP increased by 0.5% compared to Q2 2016. Forecast for GDP growth in 2016 is 3.6% and in 2017, 2.6%. The 2016 forecast is above the long term average. The main growth drivers to the Swedish economy are public consumption and fixed gross investments. Next year, the GDP growth rate is forecast to weaken with household consumption, fixed gross investments and public spending forecast to be less than 2016.

According to HUI Research, retail sales growth in 2015 was 5.8%. In the period January - October 2016 retail sales grew by 3.4% in current prices. Furniture and sport/leisure goods sales are continuing to perform strongly whereas sales of shoes and electronics goods is weak. For the full year of 2016, 3.5% retail turnover growth is forecast, followed by 3.0% in 2017.

In general terms, retail rents for strong shopping centres have increased in the region of 2% to 4% over the past year, assisted by the above average retail turnover growth in Sweden. A similar or slightly lower rate of rental growth is expected over the rest of the year as retail turnover growth rate eases somewhat and so the retailers ability to pay higher rents slightly decreases. Generally, restaurant turnover growth is currently increasing at a higher rate than retail turnover, hence there is generally higher rental growth for the restaurant sub-sector.

In Q4 2016 the retail transaction volume was approximately SEK 6.5 billion. The total volume of year 2016 was around SEK 25 billion, which is higher than the year 2015 volume of SEK 24.7 billion (higher than average). A notable transaction in Q4 was Torp Shopping Centre, Uddevalla which was sold to Olav Thon by Steen & Ström. The lettable area is 32,000 sq. m and the price SEK 1.3 billion (SEK 40,625 /sq. m). The yield is confidential, but market rumours suggest between 4.75% and 5%. The yield for prime external shopping centres in Sweden (Stockholm area) is currently in the region of 4.25%. Prime shopping centre yields have moved in and stabilised during the last year, given strong demand and low supply assisted by continued low interest rates. The market remains attractive with a very high transaction volume recorded for 2016, even though bank financing for more secondary retail assets has become slightly more difficult over the recent months.

Estonia

According to Statistics Estonia's data, Estonia's GDP increased by 0.2% in Q3 2016 compared to the previous quarter and 1.3% compared to Q3 2015. Forecasts for GDP growth in 2016 range from +1.3% to +1.8%, while in 2017 economists predict growth varying between +2.3% and +2.9%. The main growth engine of the Estonian economy is the recovering investment and export growth.

According to Statistics Estonia's data, in November 2016 the turnover of retail trade enterprises increased 4% year-on-year. The growth at constant prices over the same period was 7%. The turnover of grocery stores stayed at the same level as in November 2015. The forecasts expect that growth in retail sales will slow in 2017 with the effect of slower growth in disposable income and return of inflation.

Prime shopping centre rents have not changed in quarter–on–quarter, but have decreased 1-2% year–on–year. Despite strong retail sales growth, downward pressure on rents prevails due to increased new supply and rising level of market competition. Prime shopping centre rents are forecasted to continue a slight decline in 2017. The vacancy rates at prime shopping centres have remained stable over the past quarters.

Estonian transaction market did not record any significant retail transaction in the fourth quarter 2016. At the same time there were remarkable transactions in office segment. The Euroopa Liidu Maja – an A-class office property at Tallinn CBD was sold for 30.8 million euros to Lords LB Asset Management in November 2016. In addition, several smaller transactions in office segment were realised in Tallinn. Demand for prime assets remains strong, as the real estate market remains attractive in the low interest rate environment. The investment market is expected to remain active for the next quarters with prime yields facing a further decline. The current prime retail yield is estimated to be close to 6.5%.

Denmark

In the first half of 2016, Danish GDP growth was positive albeit modest. This trend continued in Q3 2016, with the latest Statistics Denmark forecasts indicating a moderate increase of 0.4% on the previous quarter. The Danish economic recovery is believed to continue; judging from macroeconomic key indicators, Britain's decision to exit the EU seems to have had limited short-term effects on the rest of Europe, including Denmark. According to a Danske Bank forecast, Danish GDP growth is estimated at 1.1% and 1.7% in 2016 and 2017, respectively.

According to Statistics Denmark's data, in November 2016 retail sales increased by 0.8% year-on-year when seasonality and holidays were accounted for. Retail sales saw a drop in the first months of 2016 before bouncing back in April a mere 1.3%, with numbers increasing since then, except for a slight decrease in July of 0.5%, with 0.6% in September, 0,8% in October and 0.2% in November.

Throughout 2014, 2015 and 2016 prime shopping centre rents have increased, whereas secondary shopping centre rents have slightly decreased or stayed unchanged. This is a result of consumers, and thereby retailers, still preferring attractive and well-assorted prime shopping. However, we see investors seeking towards the secondary segment as a result of increasing prices in the Copenhagen area. Employment rates and consumer spending point towards mounting investment needs. Danske Bank forecasts continued growth in consumer spending the coming years which indicate that the outlook for prime and secondary shopping centre rents is expected to remain positive.

The most notable deal in Q4 2016 was Standard Life Investments acquiring Frederiksberggade 16 located in Copenhagen CBD for DKK 275 million corresponding to a yield of 3.60%. The property is a mixed use of retail and offices. Also Patrizia acquired Købmagergade 11 corresponding to a yield of 3.50% and a private investor acquired Krystalgade 20 for DKK 174 million corresponding to a yield of 4.25%, both located in Copenhagen CBD. Overall, the quarter was characterised by large transactions in retail. A strong demand for prime retail assets in Copenhagen CBD together with a relatively limited supply have put an increase to prices, which is expected to result in more investments outside the prime area. The current low interest rate are contributing in several ways to making property investments attractive relative to other investment opportunities. Due to current demand, the prime shopping centre yield is now 4.25%.

Valuation Rationale

We have adopted a 10-year cash flow as the main valuation method. The model was provided by the Company. Cash flows are calculated based on information from existing lease agreements. For the period after the expiry of these agreements, our market evaluation of the estimated rental value (ERV) replaces the contract rent.

Potential Gross Rental Income equals leased space with respect to contract rents and vacant space with respect to ERV. Deducting both the ERV for the void period between the expired contract and assumed new contract, and the assumed general vacancy level after the start of the assumed new lease, results in the Effective Gross Rental Income. Effective Gross Rental Income less operating expenses (including repairs) equals the Net Operating Income (NOI). NOI less any capital expenditure and tenant improvements equals the bottom-level cash flow that has been discounted to reach the income stream's present value.

The residual value at the end of the 10-year cash flow period is calculated by using the exit yield to capitalise the 11th year bottom-level cash flow. The value of the property is calculated as the sum of the annually discounted net income stream, the discounted residual value at the end of the calculation period and any other assets increasing the value (e.g. unused usable building right) less the investments.

Development projects are included in the valuation of the portfolio in line with information received from the Company. Adopting the applied valuation model, future rental income is based on finalised rental agreements and rental projections for the valued development project. Correspondingly, the development period is considered as a period when premises generate no income or limited income and when uncommitted investments are included in the cost side as a value reducing factor. Thus, the value of a development project increases automatically when investments are committed and the opening day of the centre approaches.

Below is definition (according to IVSC glossary) and formula used to calculate some of the key figures reported in this valuation:

Weighted average yield requirement

"Yield – the return on an investment. Usually expressed annually as a percentage based on an investment's cost, its current market value or its face (par) value. Often used with a qualifying word or phrase."

In case of this valuation the weighted average yield requirement is weighted with the value of the property and the formula used is presented below.

$$= \frac{\text{(Value of property 1 x Yield requirement of property 1 + Value of property 2 x Yield requirement of property 2 ...)}}{\text{(Value of property 1 + Value of property 2 ...)}}$$

Initial yield

"The initial income from an investment divided by the price paid for the investment expressed as a percentage."

The formula used is presented below.

$$= \frac{\text{(Annualised current rents – operating expenses)}}{\text{(Market value – estimated value of building right)}}$$

Reversionary yield

"The anticipated yield from an Investment Property once a the Reversionary Value is attained."

"Reversionary Value – The estimated value of an investment property at the end of a period during which the rental income is either above or below the market rent."

The formula used is presented below.

$$= \frac{\text{(Annualised market rents – operating expenses)}}{\text{(Market value – estimated value of building right)}}$$

Valuation

Property Portfolio

At the end of December 2016, Citycon owned 52 investment properties, 6 properties owned through joint ventures and associated companies (including Kista Galleria, Mölndal Galleria and 4 properties located in Norway), two rented properties (located in Norway) and 4 properties held for sale. Of these, 52 investment properties and 3 properties held for sale are included in this valuation statement.

The property portfolio under valuation consists mainly of retail properties, of which 24 are located in Finland, 20 in Norway, eight in Sweden, two in Estonia and one in Denmark. The core of the portfolio consists of 51 shopping centre properties, which comprise 97% of the portfolio's leasable area and represent most of its value. The rest of the property portfolio consists of other retail properties.

The total fair value of the portfolio in Q4 2016 was approximately €4,369 million. Compared to Q3 2016 the fair value increased by ca. €33 million i.e. 0.8%. Committed investments, decreased yields and strengthened Swedish krona and Danish krone have increased the value.

In the table on the next page, weighted average yields (weighted by the value of the properties) are presented. Citycon's portfolio includes a few relatively valuable properties compared to the rest of the portfolio. This means that weighted averages are highly influenced by the changes in these properties. Iso Omena (located in Finland) is the most valuable property in the portfolio.

31 December, 2016	Number of properties	Fair Market Value, EUR million	Wght. Average Net Yield Requirement	Wght. Average Initial Yield	Wght. Average Reversionary Yield	Wght. Average Market Rent, EUR/sq.m./ month	Wght. Average Operating Costs EUR/sq.m./ month
Total Property Portfolio							
Finland	24	1,811	5.6 %	5.0 %	6.1 %	29.8	7.1
Norway	20	1,469	5.3 %	5.3 %	5.7 %	22.9	5.6
Sweden	8	749	5.2 %	5.2 %	5.5 %	26.3	7.1
Estonia and Denmark	3	340	6.7 %	7.2 %	7.0 %	20.1	3.3
Total	55	4,369	5.5 %	5.2 %	5.8 %	26.1	6.3
Finland							
Helsinki Metropolitan Area							
Shopping Centres	11	1,164	5.3 %	4.6 %	5.8 %	31.0	7.8
Other retail properties	1	0.1	10.0 %	31.5 %	10.3 %	18.0	0.0
HMA total	12	1,164	5.3 %	4.6 %	5.8 %	31.0	7.8
Other parts of Finland							
Shopping Centres	9	571	6.2 %	5.8 %	6.6 %	27.8	6.5
Other retail properties	3	76	6.5 %	2.3 %	2.5 %	19.1	2.4
Other total	12	647	6.3 %	5.3 %	6.1 %	27.4	6.0
Norway							
Greater Oslo Area							
Shopping Centres	7	602	5.0 %	5.0 %	5.3 %	25.4	6.2
Total	7	602	5.0 %	5.0 %	5.3 %	25.4	6.2
Other Areas in Norway							
Shopping Centres	13	867	5.5 %	5.4 %	5.9 %	21.4	5.2
Total	13	867	5.5 %	5.4 %	5.9 %	21.4	5.2
Sweden							
Greater Stockholm Area							
Shopping Centres	7	665	5.1 %	5.1 %	5.4 %	27.4	7.4
Total	7	665	5.1 %	5.1 %	5.4 %	27.4	7.4
Greater Gothenburg area							
Shopping Centres	1	85	6.0 %	5.9 %	6.5 %	17.4	4.7
Total	1	85	6.0 %	5.9 %	6.5 %	17.4	4.7
Estonia and Denmark							
Total	3	340	6.7 %	7.2 %	7.0 %	20.1	3.3

Properties in Finland

The fair value of the Finnish portfolio is €1,811 million and it increased by 0.9% from Q3 2016. Compared to the previous quarter, the weighted average yield requirement has decreased by 10bps being 5.6%, the weighted initial yield has decreased by 20bps being now 5.0%, while the weighted average reversionary yield has stayed unchanged (6.1%). The change in the value of the Finnish portfolio is driven by committed investments and decreased yields. In almost all of the properties market rents have been adjusted to reflect the changes in the local market. In four properties yield has been revised down due to market situation or changes in the property.

Properties in Norway

The fair value of the Norwegian portfolio is €1,469 million, meaning that the portfolio's value has decreased by 0.5% since Q3 2016. The weakening of the Norwegian krone affects the decrease and excluding this the value of the properties has increased by 0.6%. The weighted average yield requirement increased by 10 bps being 5.3% as has the weighted average initial yield being 5.3% and the weighted average reversionary yield has stayed unchanged being 5.7%. The increase in the value of the Norwegian portfolio is mostly driven by committed investments and increase in recoverable maintenance costs. In five properties the yields have been adjusted and in all of the properties market rents have been adjusted to reflect the current local market situation or changes in property.

Properties in Sweden

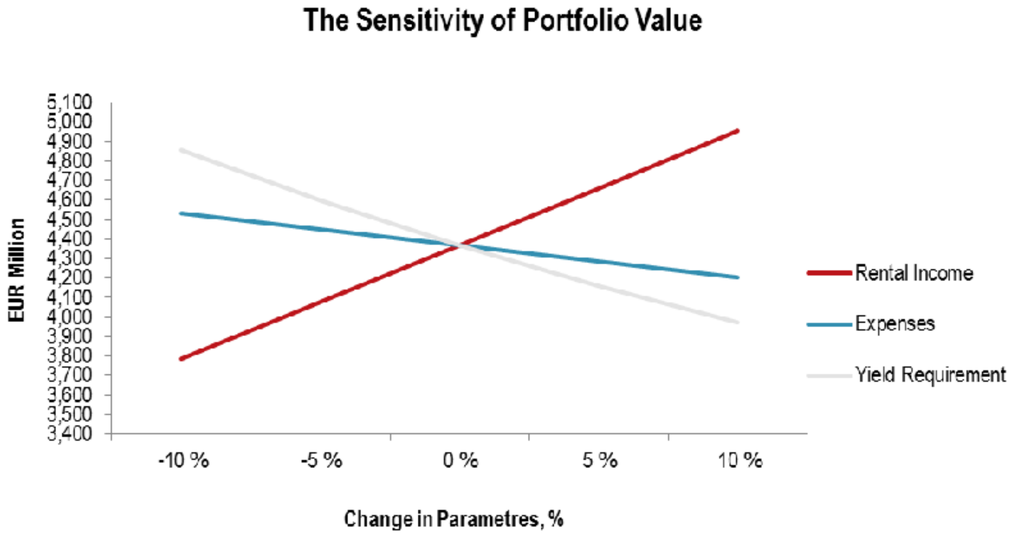
The fair value of the Swedish portfolio is €749 million, meaning that the portfolio's value has increased by 3.4% since Q3 2016. The strengthening of the Swedish krona also affects the value, and excluding this the value of the properties has increased by 2.5%. The weighted average yield requirement (5.2%) and the weighted average initial yield (5.2%) have stayed unchanged and the weighted average reversionary yield (5.5%) has decreased by 10bps. In four properties the yields have been moved in due to enhancement in the market situation or changes in the property. In addition, in all of the properties the market rents have been adjusted to reflect the changes in the local market or property.

Properties in Estonia and Denmark

The fair value of the Estonian and Danish property portfolio is €340 million, meaning that the portfolio's value has increased by 0.3% compared to Q3 2016 value. The weighted average yield requirement of the portfolio (6.7%) has stayed unchanged, the weighted average initial yield (7.2%) has decreased by 10bps and the weighted average reversionary yield standing at 7.0% has stayed unchanged when comparing to previous quarter. Yield requirement of the property in Denmark has been decreased and market rents have been revised to reflect current market situation.

Sensitivity Analysis

A sensitivity analysis of the portfolio's fair value was carried out by creating a summary cash flow based on individual cash flow calculations. Changes in fair value were tested by modifying the key input parameters of the calculations. The parameters tested were yield requirement, estimated rental value and operating expenses. The current fair value of the properties was used as a starting point for the analysis, which was performed by changing one parameter at a time and then calculating the corresponding fair value of the total portfolio. The sensitivity analysis is a simplified model intended to support the understanding of the value effect of different parameters on the valuation. The figure below represents the results of the analysis.



As seen in the figure above, the value of the portfolio is most sensitive to the changes in estimated rental value and yield requirement. A 10% increase in estimated rental value leads to change of around 13% in value, while a 10% fall in the yield requirement causes an increase of around 11% in value. Changes in expenses have a more modest effect on the value than the other parameters.

Fair Value as at 31 December 2016

We are of the opinion that the aggregate of the Fair Values, free of liabilities and debt, of the properties in the subject portfolio as at 31 December 2016, is ca.

€4,369,000,000

(Four Thousand Three Hundred and Sixty-Nine Million Euros)

In Helsinki and Stockholm 25th January 2017

Yours faithfully

Tero Lehtonen
Director
For and on behalf of
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