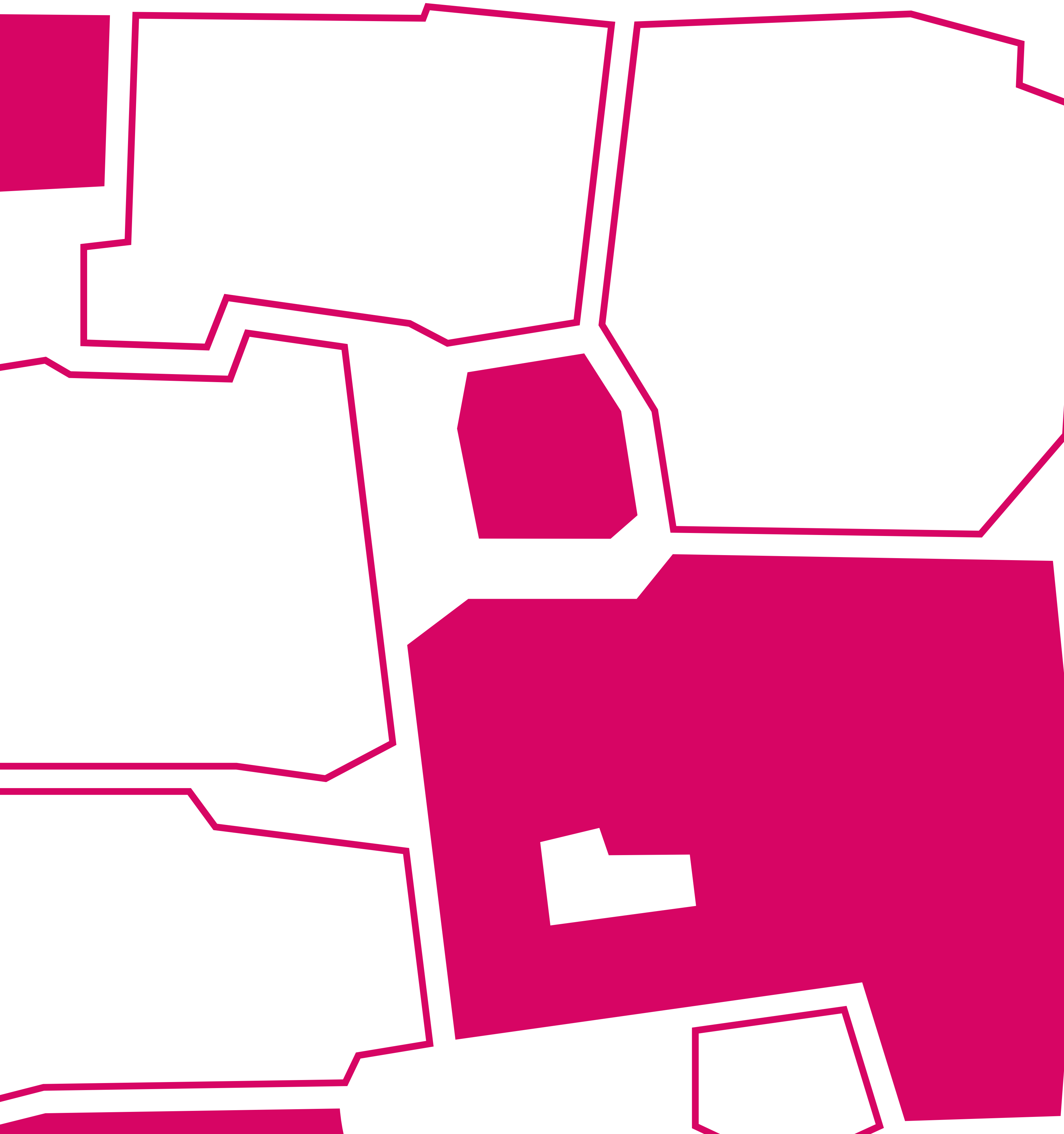
# Valuation Statement

September 30, 2011

creating success for retailing



# 1. APPRAISAL METHOD

Realia Management Oy has made a valuation of Citycon's property portfolio as at 30th of September 2011. The valuation was carried out as a cash flow analysis of the net operating income for a period of 10 years. For undeveloped plots, properties subject to town plan alterations and for buildings of low value due to their current state, market values for the relevant assets are determined by the value of building right.

Properties have been inspected by Realia Management Oy originally during 2007. Re inspection of properties is carried out as needed, giving emphasising to the most important assets, newly acquired properties and development projects. During the third quarter, the following properties have been inspected: Retail centre Myllypuron Ostoskeskus, Myyrmanni, Isomyyri, Columbus, Isokarhu, Asema-aukio in Pori, Isolinnankatu in Pori, Espoontori and Iso Omena.

## 1.1 Cash Flow Calculation Method

The year-on-year cash flow was calculated on Citycon's existing leases, upon the expiry of which, the contract rent has been replaced with Realia Management Oy's view of the market rent. Potential Gross Rental Income (PGI) equals leased space with respect to contract rents and vacant space with respect to market rents. Deducting both the market rent for the idle time between the expired contract and assumed new contract, and the assumed general vacancy level, results in the Effective Gross Rental Income. Effective Gross Rental Income less operating expenses (incl. repairs and tenant improvements) equals the Net Operating Income (NOI). NOI less any investment type of repairs (CAPEX) equals the bottom level cash flow that has been discounted (IRR) to reach the present value of the income stream.

The exit value at the end of the valuation period was calculated by capitalising the 11th year cash flow (base year) with an exit yield. The total value of the property was calculated as the sum of the yearly discounted net income stream, the discounted residual value at the end of the calculation period and any other value added assets such as unused building rights or unbuilt lots.

All variables were estimated based on Realia Management's knowledge of the markets and specified market observations, such as transactions, rental levels and other observations. The collection of relevant information was done in close cooperation with Citycon's property management in order to obtain an extensive set of data, where Realia Management used its objective veto on the data provided.

## 1.2 Market Analysis

Despite some positive news in the world economy such as the gradual unfolding of the Libyan crisis, the increase of US debt ceiling, tumbling of the oil price and the emerging economies' strong and largely self-reliant growth, the mid to long-term outlook for the world economy looks sombre. With political will lacking in the US, global food price trends hinting the social unrest to come, a gradual transformation of the Greek crisis in to an EU-wide one – and finally – questioning EU member states' ability and resolve in taking the measures required to tame the crisis all suggest that the era of high volatility is here to stay. What's more, the Swiss central bank's has opened the Pandora's Box by resorting to currency interventions – a questionable move in established free trade markets. Projections by IMF for the word economy growth 2011 and 2012 have also been subsequently revised down to four percentage points, and may yet be revised further.

In Europe the worries of stuttering growth have been overshadowed by woes in periphery Euro-area countries, the possibility of contagion, and especially by indecisiveness over its troubled Euro member, Greece. The direct impact of peak crisis will be felt by troubled countries and by businesses caught with the most exposure, but the effects will no doubt reverberate to the northern parts of the EU with ripple effects worldwide. Should the crisis unwind the wrong way, the financing sector may be affected detrimentally by lack of trust and possibly resulting in a second liquidity crisis. The Euro area inflation remains over the target rate, while nevertheless remaining stable at 2.5%, suggests that ECB benchmark rates, raised last in July, will remain roughly at 1.5% for the time being, balancing between sluggish growth (+0.2% Q2 over Q1) and inflationary fears.

### *Finland*

The growth of the Finnish economy has slowed down a notch, but despite the fears of sagging exports and high inflation it nevertheless remains strong, especially when compared to much of the other EU countries. According to latest figures by Statistics Finland, GDP growth year-on-year was 2.5% in June while for the entire second quarter the growth amounted to 3.4% over previous year's second quarter. Although somewhat optimistic in the light of latest market developments, according to Bank of Finland the economy is still expected to grow by 3.8% and 2.6% in whole of 2011 and 2012 respectively. The growth is hinged upon steady exports, strengthening employment figures and steady improvement of economic situation of businesses and consumers across the board. Future prospects are nevertheless marred by worries of possible EU-wide financial and economic turmoil, increasing public sector indebtedness, aging population and spiralling wage increases at these uncertain times.

According to Statistics Finland, annualised inflation rate was at 3.8% in August 2011, a level where it has roughly been since the beginning of the year and has been approximately one percentage point higher than the Euro-zone average. According to Bank of

Finland, inflation is likely to remain at a level of 3.5% for 2011, but expected to edge to an average level of 2.3% for 2012. Similarly, unemployment levels have remained steady at 7.7% (smoothed August figures), or 9.8% without trend adjustment and 0.7 percentage points lower than a year earlier.

Consumer confidence has continued its tumble and the index now stands at 2.3 in September, while in August and July the figures were 5.1 and 11.3 respectively. Consumer confidence, having gone below its 10-year average less than half a year ago, is now nearing the bottoms reached at the end of 2008. Three of the four components of the index fell with consumer's view of future direction of Finland's economy and unemployment development taking the worst hit while consumer's view of their own economy also suffered. The fourth component, savings possibilities, nevertheless remained relatively strong.

Despite the glum confidence trend, retail sales grew at a steady 6.0% year-on-year in August, or 2.3% when adjusted for price. Purchasing power is nevertheless likely to be affected by both some of the austerity measures and especially by the materialisation of the now seen confidence hit should the EU or Finland suddenly be thrown back into a deep recession.

***Sweden***

Sweden's economy had an outstanding growth in 2010, unmatched by any other EU country, and grew by 5.5%. Aided by solid exports figures and increases in inventory and fixed capital, the economic growth continued strong during the first two quarters of 2011 reaching a very pleasing rate of 6.4% for the first quarter but slowing to 4.9% for the second quarter. The Swedish government is expecting the economy to grow 4.1% in the whole of 2011 suggesting a sharp decline in expected growth for the latter part of 2011. This is due to disappointing retail sales, but also reflecting a break in the strong upward trend in construction, manufacturing and the service sector. Sweden's export sector plays a major part in the economy, much like in Finland, and the economy thus becomes very susceptible to the health of the whole world economy. This is also apparent in the 2012 growth estimation reaching only 1.3%, a meagre figure in comparison to the 2010 figures. According to Eurostat, unemployment level has come down slightly from the previous quarter and stood at 7.4% in August, with further improvement unlikely until after 2013 according to government estimates.

Swedish Riksbank has raised its repo rate in 2011 first to 1.5% in February and by a further 25 basis points in April to 1.75%, and finally 2.0% in July while hinting at another 10 basis point increase during the next quarter. Inflation, according to Eurostat methods, has remained below the 2% inflation target, at 1.6%. The Swedish consumer confidence index, an index compiled by NIER, however fell to -5.8 in September, its lowest figure since June 2009. The index was at 16.7 in June having averaged 21.4 for the first quarter in 2011.

***Baltics***

One of the key drivers for growth in the Baltics area has been the determined recovery in the Nordic region and Germany. Estonia has benefited tremendously from the internal devaluation and joining the Euro zone at the turn of the year. The economy is now expected to grow by 6.5% this year, almost double the estimate made earlier on this year, and by 4.0% for 2012, as projected by the IMF. Inflation has nonetheless proved persistent and has remained just above 5% since November 2010, but is expected to come down to a more manageable level for 2012. Latvia and Lithuania are also set to grow, with estimations of 4.0% and 6.0% growth for 2011 and 3.0% and 3.4% growth for 2012 respectively. Unemployment, highest among European countries, remains a considerable problem in the Baltics. Although unemployment has come down from the crisis-time highs, it has barely improved since last year. Furthermore, purchasing power in Latvia and Lithuania is affected by strict austerity measures undertaken in order to meet Euro zone accession criteria.

## 1.3 Property Market Analysis

The current uncertainty in the world economy has also cast its shadow on the property markets. Sentiments surrounding the investor markets could be described as careful and reserved at the moment. While there are transaction processes initiated during spring and summer that will be finalised over the autumn, new transaction processes will find the economic situation challenging. On the other hand, there is still capital in the markets looking for "safe havens" in the midst of financial turmoil where highest quality properties are generally considered of particular interest. In addition, prime properties are emphasised in property investment allocation from a financing point of view too with banks reluctant to finance anything, but good properties with stable cash flow. In the beginning of the year there was still hope and belief in investment activity recovering and spreading outside prime to more average properties and regional cities. However, after summer market developments have refocused both investors and financing interest ever tighter towards the very best properties in large cities. For Finland, the problem remains that truly high quality CBD properties are rarely available.

Spring and early summer were marked by a few major transactions in Finland that helped form a very active second quarter translating into a transaction level of approximately EUR 800 million. During the first quarter a transaction volume of EUR 200 million was attained which in turn translates into a volume of approximately one billion euro for the first half of 2011. For the outlook for the rest of the year considerable uncertainty remains but it is likely that the current year's transaction level will be in line with 2009-2010 figures, i.e. a volume of maximum EUR 2 billion.

Swedish property market recovered at a noticeably faster pace than its Finnish counterpart from the abrupt market freeze in 2008 and has remained very active for over a year now. Swedish aggregate transaction volume was approximately EUR 11 billion in 2010 while in 2006, at its highest; property transaction volume peaked at 17 billion. A noteworthy difference between property markets in Sweden and Finland is Sweden's considerably better liquidity and transparency. Transaction activity is domestic-led with plenty of small but active market participants included. Unlike in Finland, demand and deal making has spread out outside of the capital region to a large extent. On the other hand, also in Sweden it is expected that demand will focus more on large cities and significant properties at the expense of smaller regional assets as the economic risks are realised.

The Baltic countries are also gradually pulling out of the depths of recession. The fastest recovery has been in Estonia where the public austerity measures have left the macro economy in a very good shape when the coming years are considered. In addition, the common currency, Euro, was taken into use in Estonia at the turn of the year. Consumer demand remains weak in the Baltics and rental markets are still facing considerable challenges. Nevertheless, in Estonia particularly, the first major transactions since the recession have taken place. The development in the Baltics is nonetheless strongly entwined with the rest of Europe and in particular, with the growth prospects of Germany, Sweden and Finland.

Overall, the outlook for property markets for autumn 2011 is very reserved. A high likelihood of a lengthened period of low interest rate, high volatility in stock markets and continuing fears of high inflation will ensure interest in investment properties. There however remains uncertainty in the end user markets, the availability and price of financing as well as the future supply in property markets. Currently it seems likely that the best properties' relative position may even improve while holding their value whereas average and lower quality investment properties are affected by downward pressure in demand and value. It is likely that transaction figures will remain very moderate in the coming months.

### 1.4 Development Projects

The development projects have been included in the valuation of the total portfolio. In the applied valuation model, future rental income is based on finalised rental agreements and rental projections of the valued development project. Conversely, the development period is considered a period where premises generate no income and where uncommitted investments are included in the costs side of the valuation model as a value reducing factor. Thus, the value of development projects increase automatically as investments are committed and the opening day of the renewed premises are approaching. There are few considerable projects underway: the new shopping centre in Myllypuro Helsinki, the new shopping centre in Martinlaakso Vantaa, refurbishment of shopping centre Koskikeskus in Tampere and refurbishment and extension of shopping centre Magistral in Tallinn Estonia. In addition, several smaller development projects are underway or about to be commenced.

All properties are evaluated based on their current plan unless otherwise noted. Should an ongoing plan alteration be in process, unambiguous decision made and relevant document exist, and thus property's purpose of use and attributes be substantially changed, the altered plan can be taken into account in valuation through the value of unused building right. Prerequisite for the valuation is that the sanctioning of the plan is likely and that the new plan regulations are fully known. In that case, the remaining (current) rental income flow and demolition costs are also considered if needed in the valuation.

## 2. RESULTS

Citycon Oyj owns 62 properties in Finland, 16 properties in Sweden, and 4 in the Baltic countries, three in Estonia and one in Lithuania. All in all Citycon Oyj either fully owns, or owns a share of 82 different properties or property companies. The property portfolio is very heterogeneous both in quality and in value. The body of the holding is formed by 36 shopping centre properties, although the portfolio also includes other commercial properties, occasional commercial premises, development properties and, for example, one unbuilt lot. Citycon Oyj primarily owns retail properties. Only in a few selected properties, the main use is other than retail. A large majority of the portfolio value is in shopping centres (approximately 88 percent).

The value of the total portfolio is calculated as the sum of the individual properties. A separate adjustment for the aggregate value has not been applied. In the sections below, we have presented the valuation result on an aggregate and a sub-market level. The portfolio has been further regrouped geographically based on the locations of the properties.

### 2.1 Total Property Portfolio

The aggregated market value of the whole portfolio has been valued at approximately EUR 2,505 million. The aggregated value has increased by approximately 134 million Euros quarter-on-quarter (EUR 2,371 billion in Q2 2011) and in relative terms approximately 5.7%. The main reason behind the adjustment in value is the addition of new centres Högdalen in Stockholm and Kristiine in Tallinn into the valuations. If these two are excluded, the value change in euro has been very moderate, less than million euro positive.

The weighted average yield requirement of the portfolio has remained at 6.4% (6.4%, Q2 2011). The yield requirement has increased slightly (10 to 50 bps) in many of the properties located in Finland and Sweden. This is due to negative development in the overall market outlook. The adjustment of yields has concentrated on secondary properties, whereas large shopping centres have mainly remained untouched. The average initial yield is now at a level of 6.2% (6.1% Q2 2011) and the reversionary yield at 7.0% (7.0% Q2 2011).

The weighted averages in the table are weighted by the value of the property. Properties with relatively higher values will therefore have a stronger influence on the averaged figures than other properties. In the Citycon property portfolio in particular, the influence of largest properties is significant. The ten largest properties, 12 percent of the properties in the property portfolio, form over 60 percent of the entire portfolio value. Changes in these properties dominate the changes in the weighted averages. The most valuable property in the portfolio is shopping centre Iso Omena in Espoo, Finland.

## 2.2 Finland

The Finnish property portfolio has been valued at approximately EUR 1,551 million, which is ca. 0.3% higher than in the previous quarter (EUR 1,546 million in Q2 2011). The weighted yield requirement for Finnish properties stands at 6.3% (6.3% in Q2 2011). Similarly, the average initial yield is at a level of 6.1% (6.1% in Q2 2011) and yield for market rents at 7.0% (7.1% in Q2 2011).

All in all, the change in value considering the Finnish property portfolio is moderate. As a result of the economical turmoil and general uncertainty after summer, the yield requirements in the secondary assets of the portfolio have increased. Altogether, there has been an increase of yield requirement in 20 assets, whereas yield requirement has decreased in four assets. The yield movement has taken place mainly in the smaller asset, whereas shopping centres have mainly remained unchanged. The few decreases in yield requirements are based on positive developments in the assets themselves (development projects or improved rental situation) and not on general market changes. Overall, the positive value change of Finnish portfolion is mainly based on investments engaged on properties.

## 2.3 Sweden

The market value of the Swedish property portfolio is estimated at EUR 680 million, which is approximately 3.7% higher than the previous valuation (EUR 656 million in Q2 2011). Shopping centre Högdalen in Stockholm has been included in the valuations for the first time. Overall, the change in value in euro is slightly negative, if Högdalen and other engaged investments are excluded. This is mainly due to exchange rates, as Euro has strengthened ca. 0.9 per cent compared to Swedish Krona during the last quartile. For the entire Swedish portfolio, the weighted average of yield requirement is still at 6.0% (6.0% for Q2 2011). Yield requirement has increased in two properties and remained unchanged in others.

## 2.4 The Baltic Countries

The Baltic portfolio has been valued at EUR 273.5 million (EUR 168 million for Q2 2011). The weighted average yield requirement is at 7.9% (8.0% in Q2 2011). As a major change compared to previous valuations, shopping centre Kristiine in Tallinn has been included in the valuations for the first time in Q3. The addition of large-scale shopping centre (value of over one hundred million euro) has caused changes in the weighted average figures of the Baltic portfolio and in practise portfolio yield levels have decreased compared to previous quartile. In addition, a refurbishment and extension project of shopping centre Magistral in Tallinn has started and is included in the valuations. This affects especially the initial yield of the Baltic portfolio (as there is vacancy during construction) which stands at 7.3 per cent now (7.7 per cent in Q2 2011).

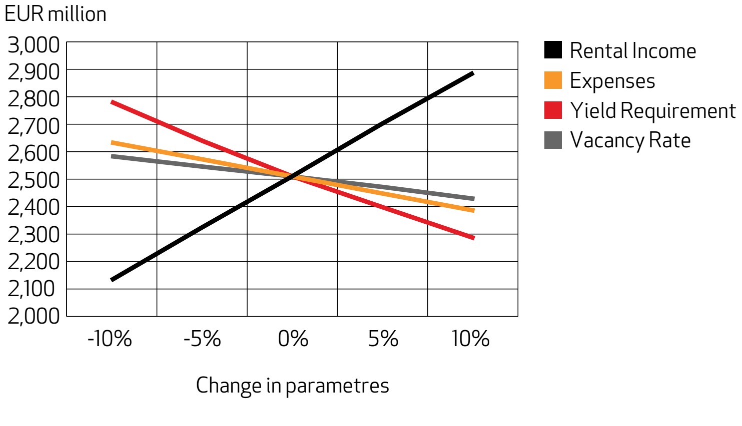
The downward spiral in the Baltic economy has levelled out, especially in Estonia. The property markets are also gradually recovering and a few significant property transactions have taken place during 2011. Due to the positive market development, upward pressure on yield requirements has abated and cautious anticipation of lower yield requirements has taken place in prime properties. Temporary rent reductions are still in place in many of the properties in the Baltic countries, which are generally valid for a few months at a time. However, occupancy rates for quality premises have remained at a high level so far. The tenants' declined ability to pay rent has been taken into account through cash flow adjustments for periods between 2011 and 2014 despite the fact that thus far rent concessions have been only few months in duration at a time.

| September 30, 2011 | Number of Properties | GLA, (sq.m.) | Wght. Average Net Yield Require-ment, % | Wght. Aver-age Initial Yield, % | Wght. Averag Reversionary Yield, % | Wght. Average Market Rent, EUR/sq.m./ month | Wght. Average Operating Costs EUR/ sq.m./month | Fair Market Value, EUR million |
|---|---|---|---|---|---|---|---|---|
| **Total property portfolio** | | | | | | | | |
| Finland | 62 | 580,908 | 6.3% | 6.1% | 7.0% | 24.9 | 6.1 | 1551.1 |
| Sweden | 16 | 308,746 | 6.0% | 5.8% | 6.7% | 23.3 | 7.3 | 680.4 |
| The Baltic Countries | 4 | 115,457 | 7.9% | 7.3% | 8.3% | 20.3 | 3.6 | 273.5 |
| **Total** | **82** | **1,005,111** | **6.4%** | **6.2%** | **7.0%** | **23.9** | **6.1** | **2505.0** |
| | | | | | | | | |
| **Finland** | | | | | | | | |
| **Helsinki Metropolitan Area** | | | | | | | | |
| Shopping Centres | 9 | 202,515 | 5.8% | 5.6% | 6.2% | 27.7 | 7.1 | 775.0 |
| Other retail properties | 21 | 64,835 | 7.8% | 7.2% | 8.9% | 15.8 | 4.5 | 94.1 |
| **HMA Total** | **30** | **267,351** | **6.0%** | **5.8%** | **6.5%** | **26.5** | **6.8** | **869.1** |
| **Other parts of Finland** | | | | | | | | |
| Shopping Centres | 14 | 199,873 | 6.4% | 6.3% | 7.3% | 25.1 | 5.6 | 553.2 |
| Other retail properties | 18 | 113,685 | 7.9% | 7.8% | 9.1% | 13.1 | 3.4 | 128.8 |
| **Other total** | **32** | **313,558** | **6.7%** | **6.6%** | **7.6%** | **22.9** | **5.2** | **682.0** |
| | | | | | | | | |
| **Sweden** | | | | | | | | |
| **Greater Stockholm Area and Umeå** | | | | | | | | |
| Shopping Centres | 8 | 227,560 | 5.9% | 5.5% | 6.4% | 25.0 | 7.7 | 579.1 |
| Other retail properties | 2 | 10,927 | 7.2% | 7.5% | 7.6% | 15.2 | 4.2 | 19.6 |
| **Total** | **10** | **238,487** | **5.9%** | **5.6%** | **6.5%** | **24.6** | **7.6** | **598.7** |
| | | | | | | | | |
| **Greater Gothenburg Area** | | | | | | | | |
| **Total** | **6** | **70,258** | **7.0%** | **7.4%** | **8.2%** | **13.4** | **5.0** | **81.7** |
| | | | | | | | | |
| **The Baltic Countries** | | | | | | | | |
| **Total** | **4** | **115,457** | **7.9%** | **7.3%** | **8.3%** | **20.3** | **3.6** | **273.5** |

# 3. SENSITIVITY ANALYSIS

The sensitivity analysis of the fair value of the portfolio was tested by creating a so-called portfolio cash flow statement based on individual cash flow calculations. Changes in fair value have then been examined by modifying key input parameters of the calculations one at a time. The parameters tested were required yield, market rent level, operational costs and vacancy rate. The current market value of the properties is used as a reference for the analysis. The analysis is performed by changing one parameter at a time while all others remain unchanged, and then calculating the corresponding market value of the total portfolio. The sensitivity analysis is a simplified model intended to facilitate understanding of the effect of different parameters on the valuation. The figure below shows the results of the analysis.

**The sensitivity of portfolio value**




**Note: Different scale used for vacancy variable*

The results indicate that the market value is most sensitive to yield requirement and market rent levels. A ten percent decrease in yield requirement results in an approximately 11 percent increase in value. Correspondingly, a ten percent increase in rental income increases the value by almost 15 percent.

The market value reacts also to a change in vacancy and operating expenses, but their relative effect is not as great as changes to rental income and yield requirement. A ten percent increase in the expenses decreases the market value of the property portfolio by nearly five percent. It should be noted however that in retail premises, the rental income and property expenses are often linked through the changes in the rental level in the form of maintenance rent charged from tenants. The ratio is not quite one-to-one, but the correlation is still strong enough to decrease the expense risk in the valuation.

The examination scale of vacancy rate is different from what is used with other parameters, and is altered by 1.0 or 2.0 percentage units at a time. Thus, the relative change is bigger than in other parameters. Two percentage units increase in vacancy reduces the market value by approximately 3.0 percent. However, it should be highlighted, that vacancy is an important variable in real estate investment. If realised, it has a considerable effect on other valuation parameters and market value in a way that is not fully demonstrated in a simplified examination of value such as the one used here.

## 4. VALUATION STATEMENT

We have made an assessment of the market value of Citycon Oyj's property portfolio. We have defined the value as at September 30th, 2011. The valuation was primarily carried out as a cash flow analysis. Based on the provided information, we have evaluated the overall debt-free market value of the portfolio at approximately EUR 2,505,000,000 (two billion five hundred and five million euro).

Helsinki October 3, 2011

| | |
|---|---|
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