

Corporate Governance
Statement 2014

CITYCON

Citycon Group's Corporate Governance Statement for the Financial Year 2014

Citycon Oyj (**Citycon** or **company**) is a Finnish public limited liability company listed on the NASDAQ OMX Helsinki Ltd (the **Helsinki Stock Exchange**). Citycon Oyj and its subsidiaries constitute the Citycon group.

Citycon's corporate governance principles are based on Finnish laws, the rules and regulations issued for listed companies by the Helsinki Stock Exchange and the Finnish Financial Supervisory Authority as well as Citycon's Articles of Association. Corporate governance in Citycon's subsidiaries is also governed by the laws of the country in which the subsidiary is domiciled, and by each subsidiary's Articles of Association. Citycon also applies the Finnish Corporate Governance Code 2010 published by the Finnish Securities Market Association and Citycon's own Corporate Governance Guidelines.

This corporate governance statement (**Statement**) has been prepared in accordance with Recommendation 54 of the Finnish Corporate Governance Code. In 2014, Citycon followed the Corporate Governance Code, deviating only from Recommendation 3 of the Code (Attendance of the Board of Directors at the General Meeting) as permitted by the Comply or Explain principle under the Code. The deviation is explained on page 2 of this Statement. The Finnish Corporate Governance Code is available on the Securities Market Association's website at www.cgfinland.fi.

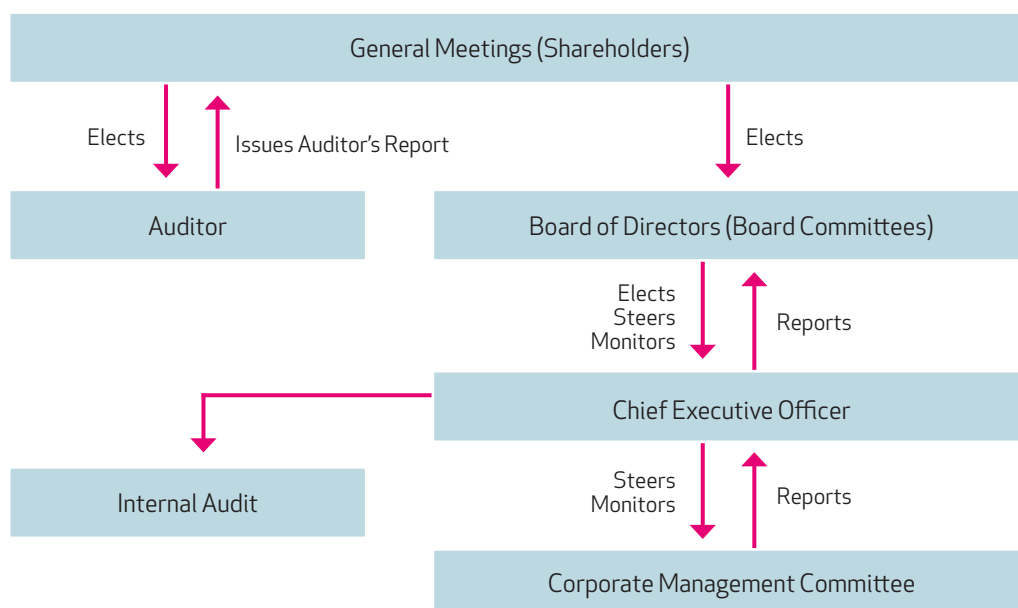
This Statement has been reviewed by the Audit and Governance Committee of Citycon's Board of Directors on 9 February 2015, and prepared as a separate report, distinct from the Report by the Board of Directors. Ernst & Young Oy, Citycon's audit firm, has verified that the Statement has been issued and that the description of the main features of the internal control and risk management systems related to the financial reporting process is consistent with the company's Financial Statements.

This Statement, Citycon's Financial Statements and the Report by the Board of Directors for the financial year 1 January–31 December 2014 were published on 11 February 2015 and are available on the company's website at www.citycon.com. The website also contains the same statements and reports for the previous five years.

Citycon's corporate governance structure

Citycon's statutory bodies are the General Meeting, the Board of Directors and the CEO. The General Meeting elects members to the company's Board of Directors, and the Board of Directors appoints the company's CEO. The Board of Directors' work is enhanced by three Board committees. In managing the company's business operations, the CEO is assisted by the Corporate Management Committee whose members are appointed, upon the CEO's proposal, by the Board of Directors. The work of the Board of Directors and its committees, the CEO and the Corporate Management Committee is governed by the Corporate Governance Guidelines approved by the Board of Directors. These guidelines contain charters for the Board and the committees, guidelines for the division of duties between the decision-making bodies, and guidelines for the arrangement of internal control and risk management.

Citycon Group's corporate governance structure



General Meeting of shareholders

Citycon's shareholders exercise their rights at the General Meeting, which constitutes the company's highest decision-making body. According to the Articles of Association, Citycon's Annual General Meeting is held annually by the end of April, once the financial statements have been prepared. An Extraordinary General Meeting is convened whenever deemed necessary for decision-making purposes or when required by law.

The company publishes the notice of a General Meeting including a proposal for the meeting's agenda, the documents to be presented to the General Meeting and the resolution proposals by the Board of Directors and its committees on the company's website, no later than three weeks prior to the General Meeting. A shareholder is entitled to demand a matter for discussion at a General Meeting if such a matter falls under the competence of the General Meeting according to the Finnish Companies Act and if (s)he demands it by giving notice to the company well in advance so that the matter can be included in the notice of a General Meeting. In 2014, the latest possible date for issuing such a demand was on 31 January 2014, which was also stated on Citycon's website www.citycon.com/gm.

Citycon strives to facilitate the participation of its shareholders in General Meetings by arranging such meetings in a manner that enables both Finnish and international shareholders to participate and exercise their right to vote, ask questions and speak at the meeting as extensively as possible.

In 2014, Citycon held two General Meetings.

The Annual General Meeting (**AGM**) 2014 was held in Helsinki on 19 March 2014. Notice of the meeting was published on 5 February 2014. A total of 325 shareholders attended the AGM either personally or through a proxy representative. Of the company's share capital and voting rights, 76.1% were represented at the AGM. The AGM was attended by the Deputy Chairman of the Board Bernd Knobloch, several other Board members, the CEO and the company's responsible auditor. As the Chairman of the Board of Directors was prevented from attending the AGM, the company deviated from Recommendation 3 of the Finnish Corporate Governance Code (Attendance of the Board of Directors at the General Meeting).

An Extraordinary General Meeting (**EGM**) was held in Helsinki on 6 June 2014. A notice of the EGM was published on 15 May 2014. A total of 276 shareholders attended the EGM either personally or through a proxy representative, and they represented 75.9% of the company's total share capital and voting rights. First-time nominees for Board membership attended the EGM where they were elected.

Citycon published the decisions taken by the General Meetings in stock exchange releases and on its website. The minutes of the meetings were available on the company's website within two weeks of the meetings.

Minutes of the General Meetings and summaries of the decisions taken by each General Meeting since 2009 are available at www.citycon.com/gm. This section also contains general information on General Meetings and shareholders' rights.

Board of Directors

According to Citycon's Articles of Association, the Board of Directors consists of a minimum of five and a maximum of ten members. The Articles of Association do not contain other limitations concerning the election of members of the Board of Directors. The Annual General Meeting of shareholders decides on the number of members of the Board of Directors and elects them for a term of one year that ends at the close of the first Annual General Meeting following their election.

The majority of the members of the Board of Directors must be independent of the company. In addition, a minimum of two members belonging to this majority must be independent of the company's significant shareholders. Both genders shall be represented on the Board. A person to be elected to the Board of Directors, shall have the qualifications required by the duties and the possibility to devote a sufficient amount of time to the work. Members of the Board of Directors are obliged to provide the Board with sufficient information for the evaluation of their qualifications and independence, and to notify the Board of any changes in this information. The Board of Directors assesses its members' independence annually in accordance with Recommendation 15 of the Finnish Corporate Governance Code.

Citycon's AGM on 19 March 2014 set the number of Board members at ten and re-elected the following Board members: Ronen Ashkenazi, Chaim Katzman, Bernd Knobloch, Kirsi Komi, Karine Ohana, Claes Ottosson, Per-Anders Ovin, Jorma Sonninen, Yuval Yanai and Ariella Zochovitzky. The EGM of 6 June 2014 elected Andrea Orlandi and Arnold de Haan as new Board members to replace Yuval Yanai and Jorma Sonninen.

The personal details of Board members and their shareholdings in the company are shown in the table below, while more information on their career histories and key positions of trust is available on the company's website at www.citycon.com/board.

The Board of Directors elects the Chairman and one or more Deputy Chairmen from among its members. The Chairman of the Board in 2014 was Chaim Katzman, with Ronen Ashkenazi and Bernd Knobloch serving as Deputy Chairmen.

According to the independence assessments conducted by the Board on 19 March 2014 and 8 June 2014, all Board members are independent of the company, given that none have an employment contract, executive contract or other contractual relationship with the company. Furthermore, Arnold de Haan, Bernd Knobloch, Kirsi Komi, Karine Ohana, Claes Ottosson and Per-Anders Ovin are independent of the company's significant shareholders.

Since Ronen Ashkenazi and Chaim Katzman are in the employ of Citycon's main shareholder, Gazit-Globe Ltd. or its affiliated companies, they are not independent of significant shareholders. Since Andrea Orlandi is in the employ of Canada Pension Plan Investment Board, which wholly owns CPP Investment Board European Holdings S.à.r.l, a significant shareholder in the company, he is not independent of significant shareholders. Ariella Zochovitzky served until March 2012 as Gazit-Globe Ltd's representative (Chairman of the Board) in a company called U.Dori Group Ltd., in which Gazit-Globe Ltd. exercises a controlling interest, and is therefore not considered independent of significant shareholders.

Citycon Oyj's Board of Directors on 31 December 2014

Director	Director since	Education	Nationality	Born	Main occupation	Citycon shares	Independence
Chaim Katzman, Chairman of the Board of Directors	2010	LL.B.	US and Israeli	1949	Norstar Holdings Inc. (former Gazit Inc.), founder, controlling shareholder and Chairman of the Board of Directors since 1991; Gazit-Globe Ltd., Chairman of the Board of Directors since 1998	431,081	Independent of the company
Ronen Ashkenazi, Deputy Chairman of the Board	2009	B.Sc. (Civil Engineering)	Israeli	1962	Gazit Globe Israel (Development) Ltd., CEO and minority shareholder since 2005	4,080	Independent of the company
Bernd Knobloch, Deputy Chairman of the Board	2012	University degrees in Law and Business Administration	German	1951	Professional non-executive director	45,900	Independent of the company and significant shareholders
Arnold de Haan	2014	LL.M.	Dutch	1954	Boishaen B.V., Founder and Managing Director since 2008	20,000	Independent of the company and significant shareholders
Kirsi Komi	2011	LL.M.	Finnish	1963	Professional non-executive director	7,800	Independent of the company and significant shareholders
Karine Ohana	2013	M.Sc. (Finance)	French	1964	Ohana & Co., Paris, Managing Partner since 1998; OHANA Capital (Investment fund vehicle), Partner since 2013	4,090	Independent of the company and significant shareholders
Andrea Orlandi	2014	MBA (INSEAD)	Italian	1971	Canada Pension Plan Investment Board (CPPIB), London, Managing Director, Head of Real Estate Investments Europe since 2014	-	Independent of the company
Claes Ottosson	2004	Electrical Engineer	Swedish	1961	ICA Kvantum Hovås, Managing Director since 1990	45,385	Independent of the company and significant shareholders
Per-Anders Ovin	2013	M.Sc. (Economics)	Swedish	1956	Mengus Stockholm AB, Chairman of the Board, Partner and Owner since 2005; Marrakech Design/Ovin Consulting AB, Owner since 2003	9,714	Independent of the company and significant shareholders
Ariella Zochovitzky	2009	B.A. (Economics and Accounting), CPA (Israel), MBA	Israeli	1957	C.I.G. Consultants Ltd., General Manager and Partner since 2001; C.I.G. Zochovitzky Ltd., General Manager & Partner since 2012	7,800	Independent of the company

Board of Directors' work

The Board of Directors' duties and responsibilities are determined by the Finnish Companies Act, Citycon's Articles of Association, the Finnish Corporate Governance Code and the written Board Charter included in the Corporate Governance Guidelines approved by Citycon's Board of Directors.

In addition to the duties provided for under the Finnish Companies Act, Citycon's Board of Directors shall

- appoint the CEO and approve the appointment of other members of the Corporate Management Committee based on a proposal by the CEO
- confirm the company's long-term targets and business strategy
- approve the company's budget and financing plan, and oversee their implementation
- confirm the company's principles of internal control and risk management, review the main risks associated with the company's business and their management, and monitor the adequacy, appropriateness and efficiency of the company's administrative processes
- decide on major and strategically important property acquisitions and divestments and other major investments
- confirm the company executives' duties and areas of responsibility, and the reporting system
- confirm the principles governing employees' short- and long-term bonus and incentive schemes, decide on the schemes as well as the remunerations paid under the schemes
- determine the company's dividend policy.

The Board of Directors convenes according to a pre-determined meeting schedule and when deemed necessary. The meeting schedule is based on the company's reporting schedule and the Board of Directors' strategy and budget meetings, as indicated in the Board's year clock shown below. Items are discussed in Board meetings based on a prepared agenda. The Board of Directors constitutes a quorum if more than half of its members are present. Considering the Board of Directors' international composition, telephone or video conferencing may sometimes take place instead of face-to-face meetings. Minutes are kept of each meeting, and they are reviewed and approved in the next meeting.

The Board is regularly updated on major topical issues by the CEO and reviews financial reports as well as approves interim reports and financial statements. In addition to regular topics, investment and divestment proposals associated with the company's shopping centre business as well as development projects and financing-related matters are usually discussed at the meetings.

Board of Directors' year clock

Time	Matters to be decided
February	Financial statements and report by the Board of Directors, proposal for profit distribution and other proposals for the AGM, performance-based bonuses payable for the previous year
March	Election of the Chairman and Deputy Chairman or Chairmen of the Board, election of Committee Chairmen and members, assessment of the Board members' independence
April	Interim Report
July	Interim Report
October	Interim Report, Strategy Day
December	Budget, risk management, Board's self-evaluation, bonus criteria and targets for the following year

In 2014, Citycon's Board of Directors held seven meetings in addition to its original meeting schedule and convened a total of 13 times. During the year, the Board held one meeting in Stockholm in conjunction with visits to the local shopping centres owned by the company. Meetings in addition to original meeting schedule were mainly associated with the directed share issue and rights issue executed in June-July and the Eurobond issued in September-October. The average attendance rate at Board meetings stood at 93%. The table below indicates attendance rates by member.

Attendance at Board meetings by member in 2014

Board member	Attendance rate, %
Chaim Katzman	92
Ronen Ashkenazi	83
Bernd Knobloch	92
Arnold de Haan (since 10 June 2014)	86
Kirsi Komi	100
Karine Ohana	85
Andrea Orlandi (since 10 June 2014)	100
Claes Ottosson	100
Per-Anders Ovin	92
Jorma Sonninen (until 10 June 2014)	83
Yuval Yanai (until 10 June 2014)	100
Ariella Zochovitzky	100

Board Committees

The Board of Directors is assisted by three Board committees: the Audit and Governance Committee, the Nomination and Remuneration Committee, and the Strategy and Investment Committee.

In Board committees, members are able to delve into matters in greater detail than the entire Board of Directors. The committee's main duties and working principles are established by the Committee Charter included in Citycon's Corporate Governance Guidelines.

The committee members must have the expertise and experience required by the duties of the committee. The Board of Directors elects the Board committees' members and chairmen from among its members. A committee always has at least three members. The committees' chairmen report on issues discussed by the committees to the Board of Directors. In addition, minutes are prepared of all committee meetings and submitted to all Board members.

The members of the committees in 2014 are listed in the table below.

	Audit and Governance Committee	Nomination and Remuneration Committee	Strategy and Investment Committee
Members	Ariella Zochovitzky (chair)	Chaim Katzman (chair)	Ronen Ashkenazi (chair)
	Bernd Knobloch	Arnold de Haan ¹⁾	Bernd Knobloch
	Kirsi Komi	Kirsi Komi	Karine Ohana
	Karine Ohana	Claes Ottosson	Andrea Orlandi ¹⁾
	Andrea Orlandi ¹⁾	Yuval Yanai ²⁾	Claes Ottosson
	Per-Anders Ovin	Ariella Zochovitzky	Per-Anders Ovin
	Yuval Yanai ²⁾		Jorma Sonninen ²⁾

1) since 10 June 2014

2) until 10 June 2014

Committee duties

Audit and Governance Committee

The Audit and Governance Committee supports the Board in reviewing questions pertaining to the company's financial reporting and controls as well as oversees compliance with these, and develops the company's corporate governance practices.

The duties of the Audit and Governance Committee are

- to monitor financial reporting, particularly the financial statement reporting process, and to supervise its reliability and transparency
- to review the company's financial reports
- to monitor the efficiency of internal control, internal audit and risk management systems
- to review internal audit plans and reports
- to review the company's Corporate Governance Statement, prepared on an annual basis, and, in particular, the description of the main aspects of the internal control and risk management systems pertaining to the financial reporting process
- to communicate with the external auditor, review his or her reports and decide on any measures required
- to evaluate the independence of the responsible auditor and audit firm and, in particular, the provision of related services to the company
- to prepare a resolution proposal for the General Meeting for the election and remuneration of the auditor
- to prepare a proposal for the Board of Directors on the election of an external appraiser to assess the company's property portfolio
- to oversee, review and make recommendations concerning the overall corporate governance of the company
- to develop the company's corporate governance practices and to recommend to the Board corporate governance policies applicable to the company as well as any modifications to the policies as appropriate
- to review the company's currently applicable Code of Conduct and compliance with it
- to consider questions of possible conflicts of interest of the company, Board members and senior executives and initiate appropriate actions to address any such conflicts
- to evaluate the independence of each individual Board member and make recommendations to the Board
- to ensure that the Board annually engages in a self-evaluation process
- to perform any other duties or responsibilities related to the company's corporate governance issues.

Members of the Audit and Governance Committee must be independent of the company and at least one committee member must be independent of significant shareholders of the company. At least one committee member must be

a financial expert who has sufficient knowledge and experience in the fields of accounting, bookkeeping or auditing, and in the accounting principles applicable to the company. Citycon's responsible auditor attends the Audit and Governance Committee meeting in which the annual financial statements are discussed, in order to report on audit findings. In accordance with a decision made by the Audit and Governance Committee, the responsible auditor also attends all other Audit and Governance Committee meetings.

The committee meets at least four times a year, in accordance with the company's reporting schedule, to review its interim reports and annual financial statements.

In 2014, the Audit and Governance Committee performed the duties explained above, which included, among others, reviewing financial reports and changes in accounting policies, internal audit plans and reports as well as property portfolio valuation reports. The committee also submitted its proposal to the AGM on the election of the auditor and the remuneration payable to the auditor. During the year, the Audit and Governance Committee convened nine times with an average attendance rate of 89%. The table below indicates attendance rates by member.

Audit and Governance Committee meeting attendance rate by member in 2014

Committee member	Attendance rate, %
Ariella Zochovitzky (chair)	100
Andrea Orlandi (since 10 June 2014)	80
Bernd Knobloch	89
Kirsi Komi	78
Karine Ohana	78
Per-Anders Ovin	100
Yuval Yanai (until 10 June 2014)	100

Nomination and Remuneration Committee

The Nomination and Remuneration Committee's task is to ensure that proposals regarding Board member election and remuneration are prepared efficiently. The committee is also responsible for the efficient preparation of matters regarding the appointment of the CEO and other senior management, and regarding the employee remuneration systems.

The duties of the Nomination and Remuneration Committee are

- to seek new Board member candidates
- to prepare a proposal for the General Meeting on the election of Board members and their remuneration
- to present to the General Meeting a proposal for the appointment of Board members
- to prepare a proposal for the Board of Directors concerning the composition and chairmen of the Board committees
- to prepare matters pertaining to the remuneration of the company's CEO, the CEO's deputy and other senior executives
- to prepare matters pertaining to the appointment of the company's CEO, the CEO's deputy and other senior executives, to identify their possible successors and to evaluate the successor planning process concerning the entire corporate management
- to bear responsibility for the evaluation of the CEO's performance
- to prepare and develop materials pertaining to the company's remuneration schemes, make proposals for the Board thereon and to monitor their transparency and appropriateness.

The Nomination and Remuneration Committee members are independent of the company.

When seeking potential new Board members, the Nomination and Remuneration Committee shall take account of the requirements of the company's operations and the company's development stage. In addition, in the composition of the Board shall be taken into account the number of directors, their independence, age, gender, skills, experience and opportunity to devote a sufficient amount of time to their work. The committee begins preparations for the election of Board members in the autumn prior to the following year's Annual General Meeting. The Nomination and Remuneration Committee consults significant shareholders in this matter.

The Nomination and Remuneration Committee meets at least twice a year. In 2014, the Nomination and Remuneration Committee prepared proposals for the AGM on number, election and remuneration of Board members and a proposal to the EGM on new Board members. Other matters addressed at the committee's meetings focused on, among others, amendment of the CEO's service agreement and changes in the Corporate Management Committee. During the year, the Nomination and Remuneration Committee met seven times with an average attendance rate of 100%. The table below indicates attendance rates by member.

Nomination and Remuneration Committee meeting attendance rates by member in 2014

Committee member	Attendance rate, %
Chaim Katzman	100
Arnold de Haan (since 10 June 2014)	100
Kirsi Komi	100
Claes Ottosson	100
Yuval Yanai (until 10 June 2014)	100
Ariella Zochovitzky	100

Strategy and Investment Committee

The Strategy and Investment Committee supports the Board of Directors in defining and monitoring the company's strategic direction.

The Strategy and Investment Committee has the following duties

- to guide the optimisation and development of the company's property portfolio and to explore alternative ownership structures to optimise the portfolio
- to set general guidelines for the acquisition of new properties and the redevelopment of properties
- to supervise and develop investment and divestment planning and approval processes pertaining to the company's property business
- to decide on investments and divestments within the limits authorised by the Board of Directors
- to give the Board resolution recommendations concerning acquisitions and divestments of properties and property redevelopment projects
- to follow-up on property redevelopment projects as well as integration process and profitability of acquired properties.

The Strategy and Investment Committee members are independent of the company.

The committee meets as necessary but at least twice a year. In 2014, the Strategy and Investment Committee made recommendations for resolutions to the Board regarding entering into a joint venture with NCC to develop Mölndals Galleria in Gothenburg and acquiring GIC's 40% stake in the Iso Omena shopping centre in Espoo. The committee also discussed potential acquisitions and divestments. During the year, the Strategy and Investment Committee met six times with an average attendance rate of 97%. The table below indicates attendance rates by member.

Attendance in Strategy and Investment Committee meetings by member in 2014

Committee member	Attendance rate, %
Ronen Ashkenazi	100
Bernd Knobloch	100
Karine Ohana	83
Andrea Orlandi (since 10 June 2014)	100
Claes Ottosson	100
Per-Anders Ovin	100
Jorma Sonninen (until 10 June 2014)	100

Chief Executive Officer (CEO)

Citycon's CEO is responsible for the day-to-day management and supervision of the company in accordance with the provisions of the Finnish Companies Act, the company's Corporate Governance Guidelines and the authorisations and guidelines received from the Board of Directors.

It is the duty of the CEO to manage the everyday management of the company in accordance with the guidelines and instructions given by the Board of Directors. The CEO is responsible for ensuring that the company's accounting is legally compliant and that its financial affairs have been arranged in a reliable manner.

The CEO oversees compliance with the guidelines, procedures and strategic plans established by the Board of Directors, and he or she must ensure that these guidelines, procedures and plans are submitted to the Board of Directors for update or review when necessary. The CEO attends the Board of Directors' meetings and is in charge of the preparation of matters to be presented to the Board. The CEO also ensures that, on a continuous basis, Board members receive all the information they need to monitor the company's financial position, liquidity, financing and development, and informs the Board of Directors of any major events, decisions and plans related to the company's business. In addition, the CEO serves as Chairman of the company's Corporate Management Committee.

Citycon's Board of Directors appoints the CEO and decides on the terms and conditions of his/her executive contract. The service terms of the CEO are stipulated in a written executive contract approved by the Board of Directors.

The Board of Directors appointed Marcel Kokkeel (LL.M., born in 1958), a Dutch citizen, Citycon's CEO in 2011, and approved the terms of his service agreement. Mr Kokkeel assumed his duties on 24 March 2011. As of 19 March 2014, the CEO's service agreement has been amended from a fixed term appointment to an appointment being valid for an indefinite duration. The period of notice of the service agreement is six months, both for the CEO and the company. In the same time also severance pay terms of the CEO were amended. In case of notice by the company, the CEO will be paid, in addition to the salary payable for the notice period, a severance pay consisting of 1.5 times his annual base salary at the moment of termination. Severance pay no longer consists of additional 1.5 times the most recent annual bonus payment of the CEO.

Corporate Management Committee

The CEO, Marcel Kokkeel, is assisted by the Corporate Management Committee comprising at least three members. In 2014, in addition to the CEO, the Corporate Management Committee consisted of Eero Sihvonen, Executive Vice President and CFO, Anu Tuomola, General Counsel and Head of Legal Affairs, Jurn Hoeksema, Chief Operating Officer (since June), Harri Holmström, Chief Commercial Officer (since June and until then as Chief Operating Officer), and Nils Styf, Chief Investment Officer.

Corporate Management Committee members' personal details and information on their share and stock option holdings are presented in the table below. Their career histories and any positions of trust are available on the company's website at www.citycon.com/management. The Secretary to the Corporate Management Committee is Henrica Ginström, Vice President, IR and Communications.

Citycon's Corporate Management Committee on 31 December 2014

Name	Position in the company	CMC member since	Born	Education	Nationality	Citycon shares	Citycon stock options 2011
Marcel Kokkeel	Chief Executive Officer	2011	1958	LL.M. (Notary Law)	Dutch	304,630	1,000,000
Eero Sihvonen	Executive Vice President and Chief Financial Officer	2005	1957	M.Sc. (Econ.)	Finnish	108,102	750,000
Anu Tuomola	General Counsel, Head of Legal Affairs	2011	1974	LL.M., Trained at the Bench	Finnish	-	300,000
Jurn Hoeksema	Chief Operating Officer	2014	1974	M. Sc. (Engineering)	Dutch	-	-
Harri Holmström ¹⁾	Chief Commercial Officer	2005	1956	M.Sc. (Surveying), Authorised Property Appraiser	Finnish	32,918	420,000
Nils Styf	Chief Investment Officer	2012	1976	M.Sc. (Business Administration and Economics)	Swedish	2,080	300,000

¹⁾ Harri Holmström, Citycon's Chief Commercial Officer and member of the CMC left the company at the end of January 2015.

As an expert body, the Corporate Management Committee's main duty is to assist the CEO in the management of the company's operative business, to co-ordinate and develop the company's various operative functions and to promote information flow and co-operation between different parts of the organisation.

The Corporate Management Committee assists the CEO, particularly in the following matters

- preparing changes and revisions to the company's strategy in accordance with the guidelines issued by the Board of Directors for presentation to the Board
- preparing a budget for presentation to the Board, and monitoring its implementation
- monitoring the profitability of the company and its business units and current affairs relevant to the business
- planning and preparing organisational changes required by the Board of Directors and CEO
- ensuring the processing of issues related to the Corporate Management Committee's annual plan and the implementation of the necessary measures.

The Corporate Management Committee usually convenes twice a month. In 2014, the Corporate Management Committee convened 20 times.

Description of the main features of the internal control and risk management systems pertaining to the financial reporting process

The purpose of Citycon's internal control and risk management is to ensure that operations are both efficient and effective, that reporting is consistent and reliable and that the applicable laws and regulations as well as the Citycon group's operating principles are observed. Internal control of financial reporting aims to ensure that any interim reports and financial statements to be published are reliable and are prepared in compliance with the accounting policies and reporting principles applied by Citycon.

Financial reporting organisation and processes in Citycon group

Citycon has a total of 85 subsidiaries, 15 joint venture companies and associated companies and three companies with less than 20% minority ownership in its operating countries.

Citycon prepares its consolidated financial statements and interim reports in accordance with the International Financial Reporting Standards (IFRS), as adopted by the European Union, and the Finnish Securities Markets Act, and complies with rules and regulations issued by the Helsinki Stock Exchange and the Finnish Financial Supervision Authority. The Report by the Board of Directors and the parent company's financial statements are prepared in accordance with the Finnish Accounting Act and the guidelines and statements issued by the Finnish Accounting Board.

Citycon group's consolidated segment reporting is based on geographical division: Finland, Sweden and the Baltic Countries and New Business. The reported segments are comprised of eight clusters. Group support functions operate mainly in the parent company's head office in Helsinki, Finland. Each of the company's business units has its own financial administration. To ensure quality and control over financial reporting, Citycon has established a uniform reporting process applied by all group companies. This includes common accounting policies, a chart of accounts and a single financial reporting system.

Citycon's organisational structure is designed to establish clear areas of responsibility and division of authority. The parent company's Board of Directors is responsible for arranging and maintaining adequate and effective internal control. It is the CEO's duty to attend to the implementation of practical actions regarding internal control. The CEO is responsible for maintaining an organisational structure in which responsibility, authority and reporting relationships are clearly and comprehensively defined in writing.

Development of internal controls over financial reporting processes in 2014

During 2014, Citycon further continued the development, supervision and continuous monitoring of the internal controls of the financial reporting processes. This work is based on a project initiated by Citycon's Board of Directors in the spring of 2010, in which the internal control mechanisms of the company's major operating processes were reviewed and documented in writing. In addition to representatives of Citycon's group functions, the business units in each country participated in the project, helping to build and implement a group-wide, harmonised control environment. The financial reporting processes and controls of the group were reviewed in 2014 to reflect the changes that occurred in the organisation.

During the financial year, the effectiveness of the controls was assessed by testing individual controls in the company's business units. The company evaluated the testing, and any exceptions in the tests were assessed individually and in aggregate. Based on the resulting summary drawn up by the company, there are no indications that these control deviations would lead to material errors in Citycon's financial statements.

The elements of Citycon's internal control framework are described below. The following description takes account of the systematic internal control development work initiated in 2010. Citycon's internal control system is based on the international COSO framework (Committee of Sponsoring Organizations of the Treadway Commission). In 2014, Citycon implemented the changes needed based on the updated COSO 2013 framework on its internal control system. The headings in the following description are based on the various components of the COSO framework: control environment, risk assessment, control activities, information and communication, and monitoring activities. Citycon's internal control system for external financial reporting is organised in accordance with these components.

Control environment

Citycon's Board of Directors carries the main responsibility for the internal control of financial reporting processes. The company's Corporate Governance Guidelines contain written charters of the Board of Directors and its committees which specify the division of duties and responsibilities between the Board and its committees. The Board's Audit and Governance Committee is tasked with assessing the financial reporting process and the appropriateness of the internal control system, and with reviewing the internal control reports. The Audit and Governance Committee's duties are presented in more detail in the section regarding the Board of Directors and its committees.

The responsibility for maintaining the internal control system has been assigned to the CEO.

The internal audit of the financial reporting process is governed by the following guidelines and practices: Corporate Governance Guidelines, which contains charters for the Board and its committees and guidelines for the division of duties between the Board of Directors, the CEO and the Corporate Management Committee; decision-making powers including approval limits in euros; Citycon's accounting policies, reporting guidelines and risk management principles; Treasury Policy; and individual, process-level control catalogues.

All of Citycon group's employees have a written job description, which includes key duties and instructions for decision-making situations and authorisations. Job descriptions are reviewed twice a year during employee performance reviews, in which each employee's performance is assessed against set targets.

Budget and planning process

The budget process is a regular corporate activity and comprises annual planning and target setting. Through the budget process, financial and non-financial targets are set for Citycon group personnel annually. Initially, group-level targets are set, which are then translated into business unit targets and employee-level targets for the period. Group- and business area-specific performance relative to financial targets is monitored through monthly management reporting and business review processes. Employee performance relative to targets is monitored in the biannual performance review discussions. An incentive system is in place to promote the achievement of set targets across the group.

The CEO is responsible for reporting to the Board of Directors any significant deviations from the targets approved by the Board. The Board conducts an annual performance assessment to establish whether targets have been achieved and decides on the incentives to be paid accordingly.

Risk assessment

Group-wide risk management is part of Citycon's annual planning and management

Risk management forms part of the company's internal control. The objective of Citycon's risk management programme is to ensure that Citycon reaches its business targets by identifying and mitigating key risks which may threaten its ability to meet these targets before they are realised.

Citycon's risk management and reporting process involves identifying, analysing, measuring, mitigating and controlling business-related risks in all the main business processes. The process also includes identification of existing, and the planning of new, risk mitigation plans in the event that current actions are not deemed sufficient for each risk identified in order to continuously improve risk management processes. Successful risk management decreases the likelihood of risk realisation and mitigates the negative effects of realised risk. The risk reporting process gathers analytical data on risks and the respective mitigation plans into one group-wide risk register, for annual reporting to Citycon's Board of Directors. This is done in conjunction with the budgeting process so that the risks are linked to the annual targets. In order to evaluate the importance of each risk and to improve the comparativeness of risks between the units, an estimate of the loss associated with the risk is determined together with the probability of risk realization. Also the realised risks during the previous year are assessed and reported.

Each function has a dedicated person who is the owner of the risks in that area and is also responsible for the reporting of the risks and mitigation plans and following up on their implementation. Core risks are reported to the Group Treasurer of the company who prepares the risk report for the Board of Directors and the Audit and Governance Committee. It is the duty of the CEO and the Corporate Management Committee to develop and maintain procedures in line with the principles of risk management approved by the Board of Directors. The company's Board of Directors regularly monitors the company's business risks and uncertainties and reports them as required under the legislation in force and regulations or guidelines issued by the Finnish Financial Supervisory Authority.

Risk assessment of financial reporting processes identifies the risks associated with financial reporting

In 2014, Citycon updated risks related to processes deemed significant to financial reporting, to serve as a basis for internal control over external financial reporting. In addition to the group's finance function, the business units' financial management has participated in the risk assessment process. Citycon has nine processes significant to financial reporting: the company-level control process, financial statements preparation process, rental income process, operating expenses process, payroll accounting process, investments process, treasury process, investment property valuation process and general IT controls process.

Control activities

Citycon has defined financial planning and control as one of its main business processes. Descriptions have been drawn up of processes that are significant to financial reporting. These are implemented in the organisation's daily operations and are thus a material part of the daily risk management within the organisation. Process descriptions have been supplemented by defining control points in each process, based on the risk assessment conducted. These control points include approvals, reconciling sub-ledgers and accounts, analytic reviews, limitations of access rights and segregation of duties. Control points for each process are documented in Control Catalogues, which have been customised by the business units to reflect the characteristics of their own organisations' operations.

The defined control points are designed to detect and correct material errors and deviations in financial reporting. The number of control points varies by process, from approximately 10 to 20. These control points are also included in employees' job descriptions.

Information and communication

Accounting and reporting manuals set the standards, processes and responsibilities for financial reporting. These manuals facilitate the achievement of Citycon objectives regarding the reliability of financial reporting. The Board of Directors

approves group-level policies and any changes to them. Accounting and reporting manuals and policies are available on the company's intranet sites. Regular meetings are held in which the manuals are discussed with all personnel involved in the financial reporting process. All external communication is carried out in accordance with the company's Disclosure Policy. The Board of Directors approves all financial reports issued by the company.

The control points of the internal control are communicated to Citycon group personnel. Business units assume the main responsibility for this communication; they discuss the internal control targets and the defined control points in their meetings at various organisational levels.

Monitoring activities

Citycon's business unit executives are responsible for ensuring that the relevant laws and regulations are adhered to in their respective areas of responsibility. The Corporate Management Committee also monitors compliance as part of regular supervisory activities. Group and business unit financial performance is monitored monthly in Corporate Management Committee meetings and business review processes.

In Citycon group, monitoring of internal control includes both ongoing and separate evaluations and audits. The objective of the monthly analysis of reported figures at various levels (e.g. shopping centre, cluster, business unit, group) is to detect whether the reported figures deviate from budgeted or forecasted figures. The purpose of internal controls monitoring and testing is to detect control deviations in each significant process for financial reporting that might affect the accuracy of Citycon's financial reporting, if the deviation in question is not corrected.

During 2014, testing of internal controls was performed with regard to the main processes of the group management and each business unit. These tests were carried out by assessors who are independent of the business units' daily operations and were steered by the group management. The significance and impacts of deviations detected in these tests were evaluated by the group management, and the necessary corrective measures were initiated. Based on the resulting summary drawn up by the group management, there are no indications that these control deviations would lead to material errors in Citycon's financial statements.

The Audit and Governance Committee assesses and monitors the adequacy and effectiveness of internal controls and risk management. The internal audit function assists the Audit and Governance Committee in assessing and monitoring the adequacy and effectiveness of Citycon's internal controls and risk management, by performing audits in group legal entities and support functions according to the annual plan approved by the Audit and Governance Committee. The planned internal audit conducted in 2014 focused on the shopping centre maintenance re-charges and maintenance costs related processes and follow-up of previous years' audit observations. Internal audit services were purchased from an external service provider, PricewaterhouseCoopers Oy. The external auditor conducts evaluations of internal controls as part of their annual audit as prescribed by law.

The group finance function monitors adherence to financial reporting processes and related controls. The finance function also monitors the accuracy of external and internal financial reporting. The external auditors examine the annual financial reports to ensure they give a true and fair view of the financial performance and financial position of the group and the company for each financial period.