Valuation Statement

31 December 2008

CITYCON

creating success for retailing

1. APPRAISAL METHOD

Realia Management Oy has made a valuation of Citycon's property portfolio as at 31st of December 2008. The valuation was carried out as a cash flow analysis of the net operating income for a period of 10-years. For unbuilt lots and for properties affected by significant town plan alterations the market value is defined by the amount of building right in the existing town plan.

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 capitalizing 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 market observations, such as transactions, rental levels and other observations. All of this was done in close cooperation with Citycon's property management, where Realia Management used its objective veto on the data provided.

1.2 Realia Management Oy: Market Analysis

Growth in the world economy slowed more abruptly than expected during the fall of 2008. The gross domestic product has contracted in the US, the Eurozone, Sweden and in Japan, and the outlook for the world economy in 2009 is largely thought of as being rather bleak. In Finland, where domestic demand, consisting of both investment and consumption, has so far kept the economy afloat, forecasts for the short term are also bleak. Finnish economic growth is expected to gradually grind to a halt and turn negative during 2009. The employment rate will also see a fall, but, on the positive side, purchasing power is forecast to increase due to tax reductions and abating inflation.

As the economy deteriorates, central banks have cut their rates with exceptional aggressiveness and swiftness. The ECB cut its base rate by half a percentage point in November, and, in December, by a record breaking 0.75 percentage points. At the turn of the year, ECB's base rate was at 2.5 percent, but a further cut is expected in January 2009. In a similar manner, the Bank of England and the central bank of Sweden have resorted to exceptionally aggressive rate cuts. Following base rates, market rates have also fallen rapidly towards the end of the fall, 2008.

According to Statistics Finland, the compiler of the index, consumer confidence worsened further in December - the index was at -6.5 in December, while in November and October the figures were -4.5 and 0.2 respectively. The last time confidence in the economy was as negative in the beginning of the 1990's depression years. Consumer expectations concerning employment development were especially gloomy. In December, expectations concerning unemployment and the Finnish economy were the lowest in the history of the consumer barometer, maintained since 1987. However, when it came to personal (household) finances and savings ability, consumers have remained somewhat optimistic.

Similar developments have been seen in Sweden's consumer confidence index. Consumer confidence had remained above its long term average, and also above European average, between 2002 and 2007. However, during 2008, confidence began to decline rapidly.

1.3 Property Market Analysis

Real property investment transaction volume first began to decline during summer 2007, due to the credit crisis unfolding in the USA. However, the real crash in volume was felt during the first two quarters of 2008 when transactions ground to a halt. In 2008, European aggregate quarter-to-quarter transaction volume fell by two-thirds from over 60 billion euro to approximately 20 billion euro. In the Nordic countries, the market change has been obvious when examining e.g. the number of transactions. Nevertheless, the total, aggregate volume has been supported by a small number of very large transactions. In the third quarter of 2008, the Swedish state sold Vasakrona's office portfolio for approximately five billion euro, and the largest shopping centre owner in the Nordic countries, Steen & Strom, was sold for approximately 2.7 billion euro to a French company, Klepierre, and a Dutch pension fund, ABP.

In Finland, financing plans that were agreed before the credit crisis hit were utilized to finalize a handful of significant transactions (Kamppi shopping centre, L & R hotel portfolio) up until the beginning of 2008. However, in the last three quarters, the transaction volume settled down to between 600 and 700 million euros per quarter. Percentage-wise, the drop in transaction volume corresponds to that elsewhere in Europe. For comparison, a volume of up to 2 billion euro was not unusual during 2006 and 2007.

The reasons behind the reduction of transaction volume are pan-European. The views on property values still differ significantly between the buying and selling parties. In addition, credit availability has suffered tremendously during year 2008, with financing costs rising and interest margins widening considerably. The market positioning of capital intensive investors has improved in conjunction with the changes in the financing market. In the boom years of cheap credit, institutions were largely taking part in the property market indirectly, mostly through funds. However, during 2009, it is expected that e.g. pension and insurance companies will considerably increase their direct investments in property when compared to the last few years. There have been signs of this development at the turn of the year, when the buyer had been a domestic institution in practically all the Finnish transactions.

Investors have also returned to their roots when it comes to their investment strategies. After competition stepped up from 2006 onwards, many investors broadened their investment scope. Thus, for example, an investor originally investing only in growth centre commercial property may have expanded their portfolio to include office and logistics space in regions with less business activity. In the midst of fierce competition, investors were willing to compromise on quality criteria while going after higher returns. With the changes in the market, investors have now fallen back to their original strategy, concentrating on certain submarkets and investing only in quality properties. In addition, reliable tenants are once again held in great respect, with longer lease contracts being insisted upon. Typical in a downturn, the effect of occupant attributes on property value is once again emphasized.

Virtually limitless availability of debt capital resulted in an unparalleled growth in demand in the property markets. At the same time, investor yield requirements were lowered irrespective of the facility type and location. The change could be observed in the best locations in the largest cities, in so-called prime properties, but the change was especially marked in remote and risky properties. The end result was that the difference in risk between the best and the worst properties was no longer realistically reflected in yield requirements. In particular, long term risk (residual risk) was underestimated, consciously or unconsciously, in calculations both by investors and financing parties.

In Finland, the first signs of the reduced attractiveness of below average properties, or rather the lack of finance for them, was already visible in fall 2007. During 2008, properties with sub-optimal market attributes no longer sold as, with the economy turning sour, the risks had been recognized and financing these transactions became close to impossible. Therefore, practically the only buyers have been local players who have raised yield requirements into double figures; reducing offer prices which, in turn, make potential seller parties less keen on closing transactions. In many cases, it's no longer a question of the price or yield, but rather whether it can be sold in the first place. Buyer parties' demands on quality have risen considerably since last year. Prime locations are still sought after and financing can be arranged, but only if the investor's reputation and skill satisfy the financing parties. A good investment property is no longer sufficient on its own.

When talking about market change, one must keep in mind that so far the market disturbances have almost entirely stemmed from the investment market. The user market has held up remarkably well, and, so far, no discernable changes have been detected in vacancy rates or rent levels, for example. The drop in market value of properties has been caused specifically by changes in yield requirement, not rental levels. Then again, the risks of disturbances also in the occupant market have increased substantially. Rental levels in retail premises have risen to a rather high level as the economy expanded. In case of a change in consumer behaviour, as predicted by the consumer confidence index, downward pressure on rent levels may become relevant. In addition, retail vacancy rates have remained very low for a long time and new premises have been built at an ever increasing pace recently. The risk is that in a downturn, retail occupancy rate will also take a turn for the worse. Some relief to this situation comes from the fact that many of the unveiled plans for large scale shopping centre projects have been postponed for now, or even cancelled altogether. Of different asset classes grocery stores and shopping centres in good and traditional retail locations and with a good mix of different tenants will most likely prove to be most defensive in declining economical environment.

1.4 Development Projects

Some development projects were valued by using a separate project model. This model is only used in a project accompanied by: 1) a Citycon's board decision, and 2) enough information for a reliable valuation. Such information includes e.g. an extensive project plan, several new rental agreements, future investments, etc. The appraiser makes the final decision on the use of the model.

The project model is a 10-year cash flow model which also takes the projects' future investments and changing cash flows into consideration. It includes present cash flows up to the end of the development phase and future cash flows after the development.

The project model was used in the valuation of one property in this quarter. The property was the shopping centre Rocca Al Mare in Tallinn.

In other potential development assets the valuation was based on current situation and properties were evaluated based on the current rental situation and current allocation of premises. If necessary future development potential has been taken into account, in the form of expected cash flow increase or in the value of unused building rights. At the same necessary costs for development have been added as investment costs in the calculation.

All undeveloped lots or those under development were evaluated based on their current zoning and the amount of unused building right. The value in each case was set based on market observations of similar lots.

2. RESULTS

The portfolio consists of a wide range of properties with different market values and varying in quality. The value of the total portfolio is calculated as the sum of the individual properties. A separate portfolio premium has not been applied. In the sections below we have presented the valuation result on a total and portfolio level. The different portfolios have been further grouped based on their geographical locations.

Citycon primarily owns retail properties. Only in a few selected properties the main use is other than retail. A large majority of portfolio value is in shopping centres. Especially in Finland Citycon has a strong position in the shopping centre market by owning five of the 20 largest shopping centres and having 22 properties which have been classified as shopping centres.

Citycon has announced that its strategic focus is the development of existing property volume. Especially in HMA, Citycon owns several shopping centres and retail premises in the suburbs. Examples are, the Myllypuro, Martinlaakso and Laajasalo retail properties. In these properties, it is expected that there will be major development and reworking of town plans in the coming years. This often means the demolishing of old buildings and building new ones from the ground up. These properties are always evaluated on a case by case basis. In case a new, updated town plan is enforced, and as a result the schedule for the development becomes clear, the valuation will take the building right into account, or if necessary, the valuation will be done through the so-called development model cash flow analysis.

Several retail properties, both in Finland and Sweden, have either major development plans or considerable potential for development. These properties include e.g. Tumba, Åkersberga, Koskikeskus, Iso Omena and Isokristiina. The development of these properties is always considered on a case by case basis, often advancing in phases. This type of development is taken into account in valuation when credible plans exists and there is evidence of high likelihood for letting. In appraisal, the development potential signifies a potential increase in rental income levels through an increase in average rent or by an increase in the lettable floor area, which require investment for realization and a feasible construction or development time frame.

2.1 Total Property Portfolio

The market value of the portfolio in total has been calculated at EUR 2.021,0 million. The market value has continued to decrease in Q4 2008. A new asset was added to the portfolio as Citycon procured shares in Koy Espoon Asematori, a property in the vicinity of Espoontori.

The reduction in the portfolio market value has primarily been caused by disturbances in the financing markets and by the increased property yield requirements typical in a widespread recession. There have been no significant changes in rental levels or operating expenses compared to last valuation in Q3 2008.

The vast majority (over 73%) of the portfolio value is located in Finland. The weighted average yield requirement of the total portfolio has increased by 0.2 percentage points to 6.4 percent. The weighted averages in the table are weighted by the value of the property. Therefore properties with higher values have a stronger influence on the average values than properties with lower values. The ten largest properties in the portfolio form close to 60 percent of the entire portfolio value. Changes in these properties dominate the changes in the weighted averages. The largest property in the portfolio is Iso Omena in Espoo, which forms ca. 15 percent share of the entire portfolio value.

The ten most valuable properties are:

- Iso Omena, Espoo, Finland
- Myyrmanni, Vantaa, Finland
- Trio, Lahti, Finland
- Rocca Al Mare, Tallinn, Estonia
- Koskikeskus, Tampere, Finland
- Jakobsberg, Järfalla, Sweden
- Columbus, Helsinki, Finland
- Liljeholmen, Stockholm, Sweden
- Forum, Jyväskylä, Finland
- Lippulaiva, Espoo, Finland

2.2 Finland

Geographically, the properties in Finland are allocated evenly and over 46 percent of portfolio value consists of properties outside Helsinki Metropolitan Area. Approximately 80% of the Finnish portfolio value consists of shopping centre properties. Yield requirements have risen in all property types and classes, especially in lower, B and C grade assets. There have been no noticeable changes in market rents or operational costs when compared to last quarter. The small changes in weighted averages have been caused by changes in the property portfolio—due to project developments and new acquisitions—rather than a clear trend in market rent levels. The most significant changes in the fourth quarter have been the completion of Trio shopping centre in Lahti and the inclusion of a new acquisition, Espoo Asematori, into the portfolio. No index-linked rental increases due to high inflation were observed by the end of the year. It is likely that rent increases will, for the most part, take place in the first quarter of 2009.

2.3 Sweden

There has been an apparent readjustment in the value of Swedish properties compared to last quarter. Optimism in the Swedish economy remained strong up until last summer, but in the last months of 2008, the widespread economic recession struck in the form of, for instance, the crisis-hit auto industry and the resulting mass layoffs. The effects of the recession have also been reflected in the property investment markets, where demand and liquidity have seen a substantial drop when compared to year 2007. At the same time yield requirements have risen sharply in just a short amount of time. One must also realize that the development in the exchange rate between Swedish krona and euro has been exceptionally abrupt in the past quarter—the krona has lost close to ten percent of its value against the euro. The exchange rate obviously has a substantial effect on the statement which is expressed in euro.

The Swedish portfolio consists of many development projects that are either underway or under planning. Liljenholmen Centrum in Stockholm is one of Citycon's key projects. An extensive renewal and expansion phase is currently taking place in the property, although, for now, only the existing part is taken into consideration in the valuation.

The overall weight of the Swedish portfolio is strongly focused on Stockholm and Umeå regions, and more specifically, on the shopping centres in these regions. The Gothenburg region's portfolio consists mostly of properties functioning as municipal centres of the surrounding municipalities, where the municipality is typically a major tenant. The average size and the effect of these properties on the portfolio's weighted average remains somewhat small. A speciality of the Swedish portfolio is the large share of apartments in many of the properties. For example, a large proportion of leasable floor area of the largest property in Swedish portfolio, Jakobsberg, consists of apartments.

2.4 The Baltic Countries

In the Baltic countries, general uncertainty over the economy remains at a higher level than in the Nordic countries. So far the recession has not had a pronounced effect on rental levels, although aggressive rent increases, rendered possible by high inflation, have generally been moderated. However, it is expected that a reduction in consumption during year 2009 will begin to affect tenants' ability to pay rent. This, however, is not to say that individual centres could not have potential for development. Citycon's main property in the Baltic region is Tallinn's Rocca Al Mare shopping centre where extensive expansion and development projects are taking place. The leasing has progressed, for now, and, by and large, according to budget. Among the new tenants is the first Marks & Spencer store in Estonia.

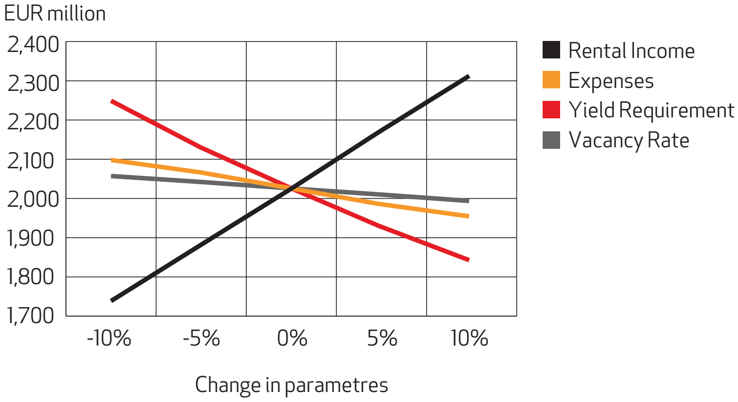
The first stage of the Rocca Al Mare expansion has been open to the public since October, with Prisma as the main tenant, and the extension has subsequently been taken into account in the valuation. Since the expansion, Rocca Al Mare forms close to 80 percent of the value in Citycon's Baltic portfolio. Therefore, its effect on the weighted average of the Baltic portfolio is considerable. Rocca Al Mare is still under development and the extensions are to completed in fall 2009.

31 December 2008	Wght. Average Net Yield Requirement (%)	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	6.4%	21.9	4.8	1,477.6
Sweden	6.4%	12.3	3.9	396.1
The Baltic Countries	7.4%	20.2	4.6	147.3
Total	**6.4%**	**19.9**	**4.6**	**2,021.0**
Finland				
Helsinki Metropolitan Area				
Shopping Centres	5.9%	26.0	5.9	663.2
Other retail properties	7.4%	14.9	3.3	128.2
HMA Total	6.1%	24.3	5.5	791.4
Other parts of Finland				
Shopping Centres	6.4%	21.3	4.4	528.3
Other retail properties	7.6%	11.7	2.4	157.9
Other total	**6.7%**	**19.1**	**3.9**	**686.2**
Sweden				
Greater Stockholm Area and Umeå				
Shopping Centres	6.2%	12.9	4.0	314.1
Other retail properties	6.6%	11.5	2.3	16.9
Total	**6.3%**	**12.8**	**4.0**	**331.0**
Greater Gothenburg Area				
Total	**7.1%**	**9.8**	**3.4**	**65.1**
The Baltic Countries				
Total	**7.4%**	**20.2**	**4.6**	**147.3**

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 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 portfolio valuation. The figure below shows the results of the analysis.

The Sensitivity of Portfolio Value



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 approximately 14 percent.

The value is not as sensitive to changes in the levels of expenses or long term vacancy. A ten percent increase in the expenses decreases the market value of portfolio by ca. four percents. It should also be noted that in retail premises the rental levels and expenses levels have a connection as the rental level increases if expenses increase via the maintenance rent charged from tenant. This connection is not comprehensive, but still strong enough to decrease the expenses risk in the valuation.

The effects of changes in the vacancy rate are not studied on a similar scale as other parameters – vacancy level is altered by 50 or 100 basis points at a time. Therefore the relative change is higher than 5 and 10 percent at a time as is the case in other parameters. Still the effect of changes in the vacancy level is smaller than in the other parameters – a change of 100 basis points (one percentage point) in the vacancy level alters the value of portfolio by less than two percent.