Valuation Statement

Citycon's properties in Finland and Sweden Q4 2020

12/2020

Executive Summary

At the end of December 2020, Citycon's investment portfolio being valued included 21 investment properties in Finland and Sweden. One of the properties is owned via joint venture and associated companies (IsoKristiina located in Finland).

18 of these 21 properties are shopping centres, two are residential properties and one is a retail/office property. One of the shopping centres is a development project and one of the residential properties is a development project as well.

The valued portfolio is divided into two geographical areas; Finland and Sweden. Below we present the key figures of the evaluated portfolio. Asematie 3, Heikintori and Lippulaiva shopping centre and residential buildings are included the stated value but Asematie 3 and Heikintori has been left out from other key figures because both have been valued based on building right value. Also, Lippulaiva shopping centre and residential buildings have been left out of all key figures except weighted net yield.

In addition, we have carried out a fair valuation of Kista Galleria locating in Sweden. In Citycon's reporting, Kista Galleria is treated as a joint venture and the shopping centre's fair value is not included in the presented figures.

31 December 2020	Number of properties	Fair Market Value, EUR million	Wght. Average Net Yield Requirement	Wght. Average Initial Yield	Wght. Average Reversionary Yield	Wght. Average Market Rent, EUR/sq.m./ month	Wght. Average Operating Costs EUR/sq.m./ month
Total Property Portfolio in Finland	13	1,590	5.3 %	5.1 %	5.5 %	31.7	7.5
Total Property Portfolio in Sweden	8	794	5.7 %	5.5 %	5.9 %	27.8	7.3
Total	21	2,384	5.4 %	5.3 %	5.7 %	30.2	7.4

Iso Omena is distinctly valuable property compared to the rest of the portfolio, which means that weighted averages are highly influenced by the changes in Iso Omena.

The total fair value of the portfolio in Q4 2020 was approximately €2,384 million.

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1. Instructions

In accordance with our instructions as the External Valuer of Citycon Oyj ("Company"), we have carried out a fair valuation of the properties held within the Company's investment property portfolio located in Finland and Sweden as at 31 December 2020, to arrive at our opinion of Fair Value.

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

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

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

The International Valuation Standards Board (IVSB) considers that definitions of Fair Value are generally consistent with Market Value and we confirm that the Fair Value reported is effectively the same as our opinion of Market Value.

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

The Fair Value stated do not include transaction costs, in accordance with normal valuation practice in the market.

2. Scope of Work

We have valued the properties individually and no account has been taken of any discount or premium that may be negotiated in the market if all or part of the portfolio was to be marketed simultaneously, either in lots or as a whole.

We have carried out our work based upon information supplied to us by Citycon, which we have assumed to be correct and comprehensive.

We have inspected all the properties in Finland and in Sweden between Q4 2019 and Q4 2020.

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

We were not instructed to carry out a site survey or environmental assessment nor have we investigated any historical records to establish whether any land or premises are or have been contaminated. Unless we have been provided with information to the contrary, we assume that the Properties neither are, nor are likely to be, affected by land contamination and that there are no ground conditions which would affect its present or future use.

We were not instructed to carry out a structural survey but we have reflected any apparent wants of repair in our opinion of the value as appropriate. The Properties has been valued on the basis of the Properties owner's advice save where we have been specifically advised to the contrary, that no deleterious materials have been used in its construction.

We have assumed that the Properties have been erected and are being occupied and used in accordance with all applicable planning and zoning laws and regulations, consents and permits and that there are no outstanding statutory notices. We assume that the Properties and the buildings comply with all statutory and authority requirements including, but not limited to building, fire and health and safety regulations

Finally, and in accordance with our normal practice we confirm that this report is confidential to the party to whom it is addressed for the specific purpose to which it refers. No responsibility whatsoever is accepted to any third party in relation to this report of the contents thereof. Neither the whole or part of the report, nor any references thereto, may be published or referred to in any document or statement or in any form of media or communicated to any third party without our prior written approval of the form and context in which it will appear.

Please note that the Swedish assets have been valued in SEK. Figures for the Swedish asset presented in Euro in this report has been converted with an exchange rate of 10.0343 SEK/EUR which is the exchange rate according to ECB between Swedish Krona and Euro at 2020-12-31.

3. Market overview

3.1. COVID-19 and retail as asset class

Retail is one of the sectors where the impact of COVID-19 pandemic has been the strongest and clearly visible from the beginning.

The drop in international travellers has most acutely impacted global gateway cities, luxury markets and superprime retail destinations. Domestic retail spending has been suffering a temporary decline from consumer reluctance or inability to visit destinations where infection risks are elevated. Retail sales have been hit hard by the changes in customer behaviour and the temporal closures of shops. Shopping centres have remained open throughout the pandemic, but many fashion retailers, among others, have reported significant sales losses. Groceries have stood out from the rest of retail categories as the sales of the sector have been growing, but mainly on the expense of restaurants and cafes.

While the vaccines are currently being largely distributed and realized all over Europe, the vaccination schedule is still open.

Sales volumes of online retail have been growing, and it seems that the outbreak is accelerating the shift from traditional retail to online platforms and multi-channel. The phenomenon has been visible also in Finland, where the growth of e-commerce has generally been slower than in the top European countries. Retailers with the infrastructure to fulfil online orders through home delivery are currently being perceived as beneficiaries of consumers' reluctance to visit stores and we are seeing an increased conversion of people to online. It remains to be seen how permanent the changes are. Greater emphasis will be placed on the shift towards a flexible omni-channel retail model and sustainable fulfilment; strengthened partnerships between landlords and retailers will need to emerge to achieve this.

In the longer term many retailers are likely to rethink their supply chains to ensure continuity of their operations and to mitigate risks of future shocks. Coupled with initiatives to improve the sustainability performance and limit the environmental impact of wider operations, retailers may opt to produce and house more stock locally. This may boost additional demand for logistics space and/or drive the repurposing of existing store networks.

3.2. Finland

3.2.1. Economy

The world economy is still at a state of elevated uncertainty due to the COVID-19 pandemic. The World Health Organisation (WHO) classified the Coronavirus as a pandemic on March 11th. The disease has spread around the world, but the situation (and its economic effects) vary notably within countries as well as between countries. In Europe, after the first wave in the Spring of 2020, the situation improved notably during the Summer with relative normality returning, which also reduced economic uncertainty. However, during October the infection rates rose drastically around Europe reminding that the pandemic is not over. Globally risks are still on an elevated level and possible future infection waves can endanger recovery.

According to the leading economic organisations the COVID-19 pandemic affects the world economy with a large, but short, drop in GDP. In September 2020 OECD forecasts the global GDP to drop 4.5 percent in 2020 but growing 5.0 percent in 2021. The respective numbers for IMF's October forecast are -4.4 percent and 5.2 percent. According to both organisations the Euroarea GDP is forecasted to drop approximately 8 percent during 2020 and increasing by 5 percent in 2021 in year over year terms.

Finland has thus far survived with relatively small damages from the pandemic. The Ministry of Finance and the Bank of Finland forecast the Finnish gross domestic product to decrease in 2020 by 3.3 percent (forecast 17.12.2020) and decrease 3.7 percent (forecast 15.12.2020) respectively. The increase in unemployment and the number of furloughed people has not been as bad as feared in the start of the pandemic. Both have decreased from the peak witnessed during spring of 2020. However, the unemployment level and the number of furloughed people are still higher than in normal market situation. The measures taken during the Spring to secure funding for companies to have worked, as by the beginning of November there has been less bankruptcies in Finland than by the same time during the past two calendar years. However, the effect of temporary legislation which prevents creditors to claim non-performing companies to bankruptcy may result in higher figures for some time once the restriction period ends.

The changes in the real economy can be felt in the letting market faster than in the capital market. The effects of the COVID-19 pandemic can be seen primarily in accommodation sector, restaurants, services and non-essential retail. If the pandemic persists for an extended period, causing the economic growth to decrease notably, businesses will start to renew their views of the future. This will be reflected in their demand for space and eventually at the demand of office premises.

The effects on the capital market lag behind the letting market. In situations where the real economy experiences negative changes, the free capital searches more vigorously for safe havens and the importance of cash flow is further highlighted. In addition to this, the volatility of the stock market further increases the appeal of real estate in the eyes of investors. The possible significant slowdown of the economy affects the allocations within the real estate market. The capital gravitates towards secure core real estate, which in turn means a decrease in demand for the more opportunistic assets, assuming the possible influx of new capital does not replace the lost demand.

The largest risk for the real estate sector is a possible disturbance in the financial market, which could be caused by a wave of bankruptcies or the loss of trust between market players as in the financial crisis of 2008. The disruption would likely severely hamper the financing of real estate investments. The effect is further enhanced by the fact that real estate investing is commonly largely funded by debt and investment unit size is large. This could have severe and long-term effects on the functioning and the liquidity of the real estate market.

3.2.2. Retail market

Retail Occupancy Market

Despite the situation caused by the COVID-19 pandemic the shopping centres has been open throughout the country. The retail sector has however been forced to take actions in order to prevent the pandemic from spreading and because of severe decrease in customers. The shopping centres have widely agreed to more flexible opening hours and especially majority of the specialty stores have used the opportunity and have reduced the opening hours. There are some restrictions in effect; for example, there is still limit for the maximum number of customers and opening hours. There is also recommendation to close all the public areas within shopping centres in cities, where the coronavirus is in the spread phase. Some of the restaurants are still fully closed, especially nightclubs, of which the restrictions impact heavily. It is still possible that restrictions will be tightened before vaccination programme has been completed.

The reduced opening hours combined with people’s want to avoid close contact with each other have reduced the foot fall drastically. Current situation is affecting letting of the currently vacant units and re-negotiations as occupiers are still faced with uncertainty of the affects and length of the restrictions. There are however only limited number of rent frees, rebates or other arrangements requested. However, the general financial situation of the tenants is still a question and the wave of bankruptcies is possible. An example of financial uncertainty is Outlet village Zsar, which has applied to company restructuring process after significant decrease of visitors and sales.

Retail Investment Market

While there have been several transactions which have included big box retail stores and hypermarkets, only few shopping centre transactions were made in H2 2020. Property of 5,900 sq. m, which is part of shopping centre Jyväskeskus, was purchased in Jyväskylä. The purchaser was private investor and seller West Capital Oy. Other shopping centre transaction made was done in Lauttasaari, Helsinki, in where local mall Lauttis has been purchased by Veritas from Aberdeen Standard Investment. Lauttis has around 6,000 sq. m of lettable area and has strong emphasis on everyday services, such as groceries and pharmacy.

The shopping centre prime yield in Q4 2020 stood at 5.2 %. Prime yield has increased by 70bps from mid-2018. Even prior to COVID-19 the demand for retail properties has decreased as the sector is facing difficulties as the people's consumption habits continue to change and online shopping is increasing. In addition, retail stock has increased significantly during past year especially in HMA and it is still a question whether the population and purchase power growth is fast enough to provide room for every centre.

Comment on Citycon's properties

During 2020 there have been some evidence of decrease in rents, as tenants have been renewing their leases. Decrease is most visible within fashion sector, which have already seen some bankruptcies in Europe. The most defensive assets in the current situation have been the ones with the most tenants providing services and products for everyday needs, such as grocery stores and pharmacies. Approximately half of the shopping centres in Finland are more grocery emphasized shopping centres, which in addition to retail assets have protected portfolio from more severe value decrease and effects of non-payment of rents.

Footfall, sales and turnovers have all come down within last year and Citycon's portfolio is not immune to these changes. As transactions activity proves, big box retail stores and grocery stores are in more demand than traditional shopping centres as they are a safer investment in current climate. In shopping centre sector the views of market participants are not facing at the moment and prime properties have not been on market lately. Overall, the current uncertainty has raised the need to increase yields on Citycon portfolio.

3.3. Sweden

3.3.1. Economy

The pandemic still has a firm grip on the overall society with infection levels and mortality rates peaking in late 2020. Subsequently, more stringent actions and guidelines have been introduced in Sweden during Q4 2020. During the latter part of the year the government have prepared a temporary pandemic law making it possible to impose further regulation on businesses than previously possible. The law can be used to close and restrict the amount of people in shopping centres, restaurants and gyms etc. The temporary law started to take effect on the 10th of January 2021 and expires at the end of September 2021.

However, during the fourth quarter 2020 the economic activity seems to be performing relatively well in comparison to the initial outbreak with monthly GDP indicators pointing to economic expansion for both October and November. The production and export industry being viewed as the main factors for the better performing economy with factories remaining open across Europe in contrast to Q1 and Q2 and strong activity is bolstering demand in Sweden through tight-knit supply chains.

The service industry is still struggling but with the vaccines now being largely distributed and realized all over Europe, most indicators point to the sector having a strong recovery in H1 2021. Although the 2021 GDP forecasts have been lowered somewhat from 3.0% in December 2020 to 2.9% in January 2021, the vaccine developments in combination with monetary policies and fiscal stimulus results in a positive outlook for the new year. Stimulus of over SEK 100 billion or 2% of the GDP have been deployed, additionally, the Swedish national bank has purchased assets equalling 14% of the GDP.

The Swedish labour market improved slightly after seeing an alarming level of unemployment peaking at around 9.2% and over 10% of the labour force on short-term work schemes. The unemployment as of December 2020 was at 8.8% and further improvements are expected for 2021 in line with a solid recovery, with the unemployment rate expected to be back to pre-crisis levels by mid-2022.

Consumer spending activity in Sweden has decreased as a consequence of stricter guidelines and rules and is not expected to revert to a normal level until mid-2021 when the vaccines are implemented at a larger scale. Rather contradicting is the private property market which once again rose abruptly in H2 2020 corresponding to an increase demand for space when working from home. It can be noted nevertheless that the household debt ratio has not increased intensely, and the record low interest rates are expected to remain low in a foreseeable future.

The turbulent ending of the presidential period in the US is now over and the transition to Joe Biden, who has now been sworn in as the 46th president of the US. The US congress approved a second stimulus package in December 2020 and the new administration is working on several new measures. The UK which suffers from both the now approved Brexit deal and terrible Covid-19 cases is not expected in increase stimulus due to high government debt. The UK has however started the vaccination process relatively early speaking for an early recovery.

In summary, with regards to Sweden, positive vaccine developments and supportive fiscal and monetary policy mean that there should be a positive outlook on the economy for the rest of 2021, which should see the labour market continue to improve during the year.

3.3.2. Retail market

Retail Occupancy Market

As of March 2020, the COVID-19 outbreak has affected the retail and restaurant business with declining sales figures and footfall. There has not been a quarantine in Sweden like in other countries, but the public has been encouraged to work from home and to restrict social contact. Shopping centers have been open, but property owners have in most cases allowed stores to decide their opening hours individually. With the introduction of the temporary pandemic law in January 2021 the government will now be able to restrict and impose, opening hours and a maximum amount of people allowed within businesses, something that was not possible during 2020.

The measures to prevent the spread of the pandemic have not affected all retailers equally during 2020. In general grocery stores and pharmacies have been resilient to a fall in turnover and have in some cases experienced an increase in turnover and footfall. Fashion and shoe retailers are the retailers which have been most affected by the pandemic and has experienced a sharp decrease in turnover. As people have worked from home, restaurants and stores in city centre locations have been affected to a higher degree than restaurants in residential areas and stores which are easy to access by car.

Due to the current situation, the terms for lease contracts are being renegotiated if possible and retailers generally want to postpone opening dates for new stores. It is at this point hard to predict how the pandemic will affect the retail and restaurant business in the mid to long term, but the outbreak likely to increase the rate of development for E-commerce further, which already has shown to be the case with increased E-commerce for many companies during the year.

Retail Investment Market

The transaction volume during 2020 was the third largest since 2006 with a total volume of transacted properties at SEK 193.5 billion. Compared to the record year 2019 the volume is down 12% and compared to Q4 2019 the transaction volume is down 22%. This is regarded as a strong performance, especially considering COVID-19. The strongest segments during 2020 have been residential, public use and industrial / logistic properties. These segments have been considered as more stable and provide a more secure cashflow.

The transaction volume for retail properties totalled SEK 15.2 billion which accounts for 15% of the total transaction volume during 2020. The largest retail transaction was Farsta Centrum during Q1 which Stadsrum Fastigheter acquired from Atrium Ljungberg. The property was sold for almost SEK 4 billion at an initial yield 5.25%.

During Q4 2020 several retail transactions took place of which one comprised a shopping centre, the other transactions were mainly of retail parks. Grosvenor sold the shopping centre Burlöv Center to Trianon and Wallfast in December for a price of MSEK 500. The shopping centre has a retail area of 43,000 sqm and building rights for residential of 48,000 sqm. Currently the property has an income of MSEK 50 and a reported vacancy of approx. 30%. This is considerably lower than what Grosvenor et al acquired the property for in 2012, MSEK 1,158.

In October Eurocommerical sold the 18,800 sqm retail park Moraberg Handelsplats located south of Stockholm in Södertälje. Serena Properties was the Purchaser. The transaction price was MSEK 431 which equals approx. 23,000 SEK/sqm. Moraberg Handelsplats has tenants such as Jysk, Elgiganten, Jula, Intersport, Plantagen and Rusta.

In December Svenska Handelsfastigheter purchased the property Fodret 14 also called Bolltorps Handelsområde from Ekström Fastigheter. The 14,000 sqm property was sold for MSEK 240 which equals approx. 17,000 SEK/sqm. The property has tenants such as Coop, Dollarstore, Lager 157, Rusta, ÖoB and Jysk.

In December three grocery stores was sold by ABG Fastena to NREP. The properties are located in Botkyrka, Trelleborg and Motala. The transaction price was MSEK 345 and which equals approx. 24,000 SEK/sqm for the combined area of the properties are 14,300. The properties are fully let with a WALT of 8 years. Coop is the largest tenant.

In December the properties Berthåga 11:20 and 11:36 also called Stenhagens Handelsområde was sold to Arwidsro from Patrizia for a price of MSEK 207. The property has a lettable area of approx. 12,000 sqm and rental value of MSEK 16.3. The properties are fully let, has a WALT is 5.2 years and is let to Rusta, Willys, Dollarstore, Systembolaget, Arken Zoo among others.

In December the properties Hemmestorp 3:14, 3:9 & Brågarp 6:870, also called Rondellens Handelsområde. The purchaser was Arwidsro and the seller was Mims Invest. The properties comprise an area of approx. 29,300 sqm and has a rental value of MSEK 27.4. The properties have a WALT of 6 years and is fully let. Tenant in the retail area are Willys, Plantagen, Dollarstore, STC-träningsklubb, Returhuset och Padel of Sweden among others.

Comment on Citycon's properties

During Q4 2020 there has been several transactions of retail parks anchored with grocery store tenants and discount retailers. These properties have been in demand from investors as they are seen as a safer investment than other retail properties. Regarding shopping centres, the sale of Burlöv Centre provides some evidence on the markets view on secondary shopping centres. The transaction is however hard to analyse and compare to Citycon's properties as the property is reported to have considerable vacancy and include a significant amount of building rights for residential use.

We have seen a decrease in both turnover and sales during 2020 for the majority of Citycon's assets which is expected due to the pandemic. During 2020 there have been evidence of decrease in rents for some assets in the portfolio. Compared to our valuation in 2020 Q2 the value has decreased which is mostly due to higher yield requirements or decreased estimated market rent.

4. Valuation rationale

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

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

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

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

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

Weighted average yield requirement

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

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

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

Initial yield

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

The formula used is presented below.

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

Reversionary yield

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

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

The formula used is presented below.

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

5. Valuation

At the end of December 2020, Citycon's investment portfolio being valued included 21 investment properties in Finland and Sweden. One of the properties is owned via joined venture and associated companies (IsoKristiina located in Finland).

18 of these 21 properties are shopping centres, two are residential properties (located in Finland) and one is retail/office property (located in Finland). One of the shopping centres is a development project (located in Finland).

The value of one of the properties includes unused building right and two of the properties is valued by the total building right, from which the cost of demolishing the existing building has been deducted.

The valued portfolio is divided into two geographical areas; Finland and Sweden. Below we present the key figures of the evaluated portfolio. Asematie 3, Heikintori and Lippulaiva shopping centre and residential buildings, all locating in Helsinki Metropolitan Area in Finland, are included the stated value but Asematie 3 and Heikintori has been left out from other key figures because both have been valued by building right. Also, Lippulaiva shopping centre and residential buildings has been left out of all key figures except weighted net yield.

In addition, we have carried out a fair valuation of Kista Galleria locating in Sweden. In Citycon's reporting, Kista Galleria is treated as a joint venture and the shopping centre's fair value is not included in the presented figures.

31 December 2020	Number of properties	Fair Market Value, EUR million	Wght. Average Net Yield Requirement	Wght. Average Initial Yield	Wght. Average Reversionary Yield	Wght. Average Market Rent, EUR/sq.m./ month	Wght. Average Operating Costs EUR/sq.m./ month
Total Property Portfolio in Finland	13	1,590	5.3 %	5.1 %	5.5 %	31.7	7.5
Helsinki Metropolitan Area	9	1,296	5.0 %	4.8 %	5.0 %	33.8	7.8
Other parts of Finland	4	294	6.4 %	5.9 %	7.1 %	24.5	6.4
Total Property Portfolio in Sweden	8	794	5.7 %	5.5 %	5.9 %	27.8	7.3
Greater Stockholm Area	6	622	5.5 %	5.6 %	5.8 %	29.2	7.7
Other parts of Sweden	2	172	6.2 %	5.4 %	6.7 %	22.9	6.0
Total Property Portfolio	21	2,384	5.4 %	5.3 %	5.7 %	30.2	7.4

Iso Omena is distinctly valuable property compared to the rest of the portfolio, which means that weighted averages are highly influenced by the changes in Iso Omena (located in Finland).

The total fair value of the portfolio in Q4 2020 was approximately €2,384 million.

Market rent changes' and yield movement's impact to the market value

When excluding Lippulaiva (shopping centre and residential buildings), market rents decreased and resulted impact of −€10.7 million to the value. Adjustments to the exit yields decreased the value by ca. -€9.9 million.

Properties in Finland

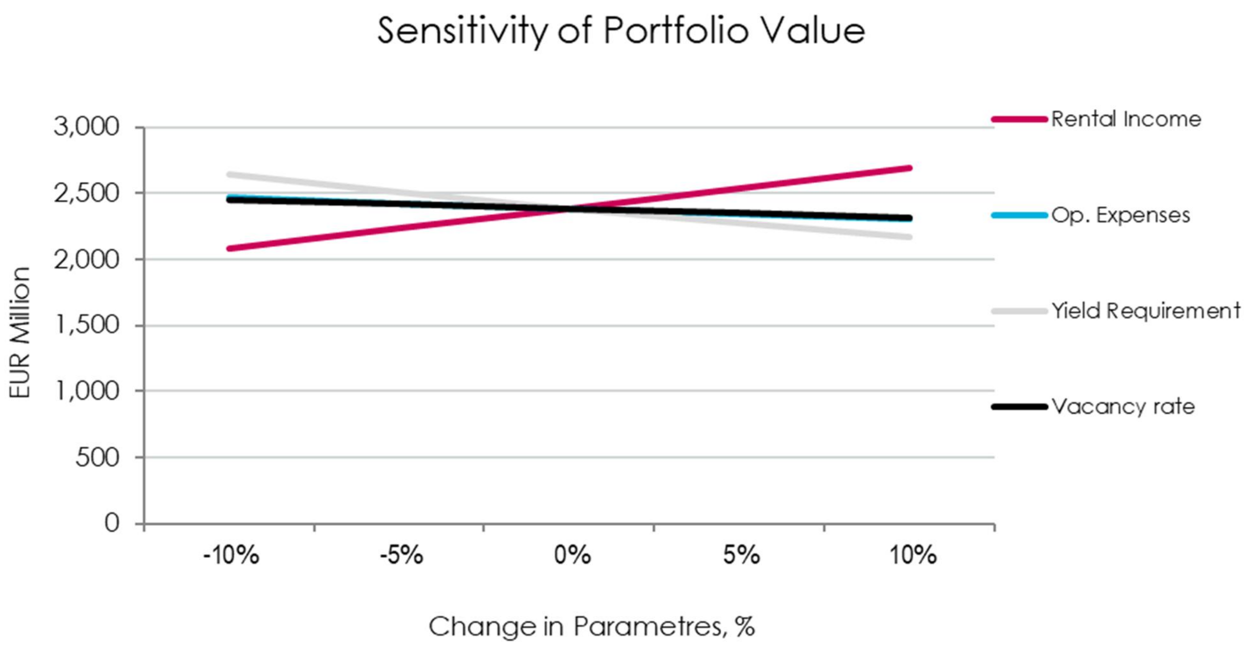
The fair value of the Finnish portfolio is €1,590 million and it increased by 0.3% from Q3 2020. When excluding Lippulaiva shopping centre and residential buildings, the fair value has been decreased by 1.0%. When excluding Lippulaiva's residential buildings, compared to the previous quarter, the weighted average yield requirement has decreased by 1bps being 5.29%, and the weighted average exit has not changed being 5.16%. Value of the Finnish portfolio is driven upwards by committed investments and because of decreased demand of shopping centre properties and general uncertainty above retail market, the yields have increased and market rents have decreased pushing the value downwards.

Properties in Sweden

The fair value of the Swedish portfolio is estimated at SEK 7,968 million, excluding Kista Galleria. With the exchange rate of 10.0343 SEK/EUR the portfolio has the value of €794 million. Compared to the value at Q3 2020, the portfolio's value has decreased by 1.2%. Compared to the previous quarter, the weighted average exit yield has increased by 3bps being from 5.23 to 5.26%.

Sensitivity Analysis

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



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

In Helsinki 4th February 2021

Yours faithfully

Mikko Kuusela
Director
For and on behalf of
Jones Lang LaSalle Finland Oy

Robin Hertéus
Senior Associate
For and on behalf of
Jones Lang LaSalle Sweden

Simo Hännikäinen
Associate
For and on behalf of
Jones Lang LaSalle Finland Oy

Tomas Shaw
Senior Associate
For and on behalf of
Jones Lang LaSalle Sweden

JLL office

Keskuskatu 5 B
00100 Helsinki
+358 (0)207 619 960

Mikko Kuusela
Director
Valuation & Strategic Consulting
Helsinki

mikko.kuusela@eu.jll.com

jll.fi