Valuation Statement

Citycon's properties in Finland and Sweden Q4 2021

12/2021

Executive Summary

At the end of December 2021, Citycon's investment portfolio being valued included 17 investment properties in Finland and Sweden. One of the properties is owned via joint venture and associated companies (IsoKristiina located in Finland).

14 of these 17 properties are shopping centres, two are residential properties and one is a retail/office property. Lippulaiva shopping centre and apartments are currently under construction and Heikintori, Kassatalo and Asematie 3 properties are development properties.

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, Kassatalo and Heikintori have been left out from other key figures because both have been valued based on development potential. 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 2021	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	12	1,631	5.1 %	4.8 %	5.4 %	30.0	7.4
Total Property Portfolio in Sweden	5	666	5.4 %	5.1 %	5.9 %	28.0	7.7
Total	17	2,297	5.2 %	4.9 %	5.6 %	29.3	7.5

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 2021 was approximately €2,297 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 2021, 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 also re-inspected part of the properties from Q3 2021 forward.

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 have 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 or 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 10.2503 SEK/EUR which is the exchange rate according to ECB between Swedish Krona and Euro at 2021-12-31.

3. Market overview

3.1. European Retail Market

3.1.1. Occupancy Market

While the worst fears about Omicron variant have proved unfounded, due to the new variant and increased number of infections restrictions have been implemented again in several European countries. After a slight downturn in early 2021, the euro area GDP grew by 2.1 per cent in Q3. The Omicron variant is slowing the recovery in some regions, mainly by delaying normalisation in service sectors. GDP for the EU is forecasted by Oxford Economics to grow by 5.8% in 2021 and 4.3% in 2022.

During the end of the year Eurostat data points to a shift in consumer spending back towards more traditional channels and that there has been a slight positive trend in retail spending between April 2021 to November 2021. The long-term outlook on the non-food retail sales growth forecast is positive but has been adjusted downwards from earlier projections. Retail sales across the EU are expected to rise by 2.9% in 2023 and 1.8% in 2024.

Omicron variant has not had the same negative effect on leasing activity and the leasing activity is on relatively good levels, albeit retailer demand remains focused on securing quality retail space in and around major cities that are on track to see a fast-paced recovery in economic activity and benefit from either large catchments or high levels of affluence. However, the recovery in markets that are largely dependent on international tourism spending is still lagging.

The pandemic is creating opportunities for retailers to secure quality retail space in some of the best locations at more attractive terms than before COVID-19, but retailers also recognise that the window of opportunity to capitalise on current market conditions will be limited. On a net-net basis less retail space is expected to be required as the market recovers, but it is increasingly clear that demand is pivoting towards experience led shopping destinations and accessible convenience orientated retail places.

Prime retail rents witnessed a sharp correction in 2020 in most European retail markets but are expected to gradually stabilise in 2021 and return to growth in 2022 and onwards. The actual impact is still difficult to assess as many rent renegotiations still need to take place between landlords and retailers. Retailers are keen to understand where sustainable rent levels are at to ensure they size their business accordingly.

3.1.2. Investment Market

The European retail real estate investment market is seeing a cautious recovery in investment activity with pockets of liquidity emerging in some countries. European retail investment volumes in Q2 were up 33% to €6.5 billion compared with the same period last year. Considering the first six months of 2021, volumes fell by 17.1% year-on-year to €11.1 billion. Investor demand for convenience retail real estate remains strong with investment volumes for retail warehouse assets and grocery real estate combined accounting for 48% of the total European retail investment volumes for H1 2021.

Disruption, volatility and change have accelerated in the European retail market over the past year, with a notable effect on deal execution and pricing for even the most attractive assets. Since the Covid-19 pandemic outbreak, the European retail investment market has become polarised between large transactions, consisting of core shopping centres and defensive income-producing retail portfolios, and small transactions by local buyers. The accelerated structural change of the retail market is likely to lead to a further re-appreciation of grocery real estate. The weaker secondary and tertiary shopping centre markets are seeing more activity with a wide range of buyers, including developers, PE-investors and UHNW-investors.

Domestic investors continue to drive demand across Europe, although demand for the different sub-sectors varies across markets. Some investors believe that retail income returns of good quality retail stock are beginning to look favourable when compared to office and industrial sectors, in some markets. Investor demand is pivoting towards food stores, retail warehouse assets, prime high street assets and depending on the market, shopping centres with redevelopment potential or a strong convenience offer.

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, 2020. The disease has spread around the world, but the situation (and its economic effects) vary notably within countries as well as between countries. Infection rates have fluctuated notably over time and areas, and appearance of new variants have altered the expected scenarios. Most recently the Omicron variant has significantly increased infection rates. However, by the end of 2021, the vaccinations have progressed well in many countries reducing pandemic's effects on health as well as economy. Globally risks still remain on an elevated level but the general sentiment is more optimistic.

When the pandemic struck in early 2020, the leading economic organisations predicted the COVID-19 pandemic to affect the world economy with a large, but short, drop in GDP. Initial statistics from 2020 would suggest this scenario was fairly close to reality. In December 2021, the OECD estimates the EU GDP to have decreased by 6.5% in 2020 and forecasts growth of 5.3 and 4.3 percent for years 2021-2022 respectively. The corresponding values from the IMFs October 2021 estimate for 2020 GDP growth is -6.3% and forecasts for the 2021-22 being 5.0% and 4.3% respectively.

Finland has thus far survived with relatively small damages from the pandemic. The Ministry of Finance and the Bank of Finland estimate the Finnish gross domestic product to decrease in 2020 by 2.9 percent (forecast 26.09.2021) and by 2.8 percent (forecast 15.06.2021) respectively. The increase in unemployment and the number of furloughed people has not been as bad as feared in the start of the pandemic. The amount of people in December 2021 furloughed has decreased around 70% compared to last year. The measures taken at the start of the pandemic to secure funding for companies seem to have worked, as by the end of 2021 the amount of bankruptcies in Finland remains at pre pandemic levels.

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 and culture/event sector. The prolonged pandemic period has dealt serious damages to businesses in this sector and the outlook is still uncertain. At the same time, for many the pandemic period has meant working remotely for over a year straight, which has developed both the practices and possibilities of remote working. It is widely believed to have caused a leap in remote working rates, which may have significant effect on real estate markets.

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 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. The immediate danger of market disturbance has for the most part faded away and currently the largest open questions for the world economy are inflation especially in the United States as well as the recovery of production and logistics chains.

3.2.2. Retail market

Retail Occupancy Market

Activity in the shopping centre leasing market has been in good level despite of the difficult and uncertain times due to the Covid-19 pandemic. However, the leasing negotiations between tenants and landlords are long and difficult. Tenants have many options to choose, and they are not shy when negotiating on rents and incentives. Incentives have become more and more common in the lease negotiations. Landlords are more often investing into tenant fit out costs in order to success in the negotiations and in order to reach wanted headline rent levels.

When in the office market tenants have been able to reduce the size of their premises and capable to pay even record high rents this has not been the case on the retail market. The trend in rent levels has been downwards which has been the trend already before the Covid-19 in some subsectors. So far, there are limited signs for this trend to end and market to move rapidly upwards again. Especially, largest over 1,000 sqm tenant are well aware of their negotiation power and can to some extend dictate their terms while landlords' position is to agree.

If there are challenges in achieving the historical/recent rent levels, there are also challenges in achieving historical lease lengths. It is very difficult to negotiate longer than 3-year lease. In case longer, a break option is often required from tenants' side or gained incentives are exceptionally high. Tenants may also require special conditions for exceptional future circumstances. Restaurant chains however are exception, and are may be willing to make even 10-year long leases.

Especially in Helsinki the shopping centre market is highly competitive. This has led to lowering occupancy rates in some locations. However, this is not the case in every centre and the best performing centres are almost on full occupancy.

In addition to grocery sector Covid-19 winner sectors include hobby equipment, DIY and hardware. Companies in those sectors have been active in the leasing side as well as surprisingly F&B players. However, most losers are also starting to bounce back. Some international occupiers are scanning the market and we have seen couple of new opening/published market entrants s in the market (Normal, KFC).

According to Statistics Finland the seasonally adjusted retail sales have increased during 2020 and 2021 but have remained relatively stable between April 2021 and November 2021. However, especially because changing consuming habits, the retail occupancy market is facing difficult years, at least in secondary locations and centres. E-commerce is taking a growing share of multiple retail sectors and consumer habits are changing towards more sustainable consumption. In F&B sector the increased interest in home delivery service might effect on quality and quantity of space needs of tenants.

One of the most discussed topic on the occupier market is opening hours. More flexible opening hours have allowed many companies to survive through difficult times. This will be very critical issue when attracting new tenants and especially small companies that create needed diversity into the shopping centres. Another trend challenging the retail market is lack of employees in some sectors, especially in F&B.

ESG is one of the key trends shaping retail market. As retailers typically trade in physical product, there can be a great deal of emissions embodied in upstream and downstream activities such as manufacturing, transport and distribution, waste generated in operations and end of life treatment of sold products. For a retailer, it can be more efficient to focus on these areas as a greater proportion of their carbon footprint can come from these activities as opposed to their physical retailing unit. This can result in a perceived level of apathy from occupiers towards landlords when it comes to paying a premium for sustainable space. However, green buildings are already requested by many tenants, and only being energy efficient does not form a competitive advantage for long. Instead, sustainable consumption and second-hand retail might open up new possibilities, especially in busy locations.

Retail Investment Market

Overall investment activity in the Finnish real estate market has picked up during 2021 after the previous year's slowdown. The preliminary figures of total transaction volume in 2021 amounted to €6.1 billion, while in 2020 the volume was around €4.5 billion.

The real estate investment market remains somewhat polarised, as certain segments have proved more resilient during the pandemic and are attracting more investor focus. Despite the fact that travelling is still far from the pre-pandemic levels cross border investing has continued with notable purchases from e.g. Sweden and Germany.

From investment demand perspective retail market is not one homogeneous market but several different sub sectors. Properties with heavy grocery weight and retail warehouses are facing high demand while traditional shopping centre market and high street retail are still lacking investor appetite and the views of counterparts are far from each other in relation to sustainable rent levels. The cost of financing and its availability also hinder transactions. However, the most pessimistic views for retail did not materialize during the pandemic, and severe competition for investments in other property sectors seems to help the retail sector to be seriously considered by investors again.

During the 2021 the market has seen few shopping centres deals after over year of quiet period. Citycon sold local shopping centre Columbus at €106.2 million to NREP in Q4 2021. Another transaction was United Bankers' purchase of Ideapark in Oulu with around €60 million euros from Alma Property Partners. The most notable transactions in the sector included also Cibus' purchase of 72 secondary grocery stores across the country at around 72 million euros.

The estimated prime yield for shopping centres stands at 5.2% which has remained stable since Q2 2020. Prime yield has increased by 70bps from mid-2018. The prime yield for retail warehouse parks is at 5.70% and unit shops at 3.95%.

In Finnish real estate market ESG questions become more and more important and for reason: in all real estate sectors as the built environment accounts for approximately 40% of all carbon emissions. Retail is one of the real estate sectors facing the biggest challenges on carbon emissions as activity density linked to asset performance is high; although reduction efforts have been high in this sector and results are beginning to become visible. Therefore, retail real estate has some of the greatest risks and opportunities, with some estimates showing emissions need to reduce by 95% from current levels. In case a property doesn't meet the ESG requirement of investors it might face limited demand and difficulties in financing.

Demand in the residential sector has remained strong and it became the largest sector with office sector during 2021 in transaction volume. Residential and office sectors each had a share of slightly over 30% of 2021 volume. The most notable transactions in the residential sector during the ongoing year have been CapMan's purchase of a 29-property portfolio in the Helsinki metropolitan area (HMA) for ca. 500 million euros, the Sirius Capital's purchase of a 13-property portfolio for 170 million euros, and Patrizia's purchase of a 9-property residential portfolio in the HMA for ca. 144 million euros.

In office sector investors are showing demand especially towards properties with defensive attributes, such as good locations and long lease agreements. The office prime yield has returned to the pre-pandemic level of 3.2%. The most notable transactions in the office sector during 2021 have been Castellum's purchase of 22 properties for ca. 640 million euros in multiple cities, Nyfosa's purchase of 9 office properties in Jyväskylä for ca. 208 million euros and LCN Capital Partners' investment of around 180 million euros to Nokia's new campus in Oulu.

Logistics sector exhibits perhaps the best the discrepancy between demand and supply. The larger demand is causing the prime yield to further decrease. Logistics prime yield is currently at 4.15%, which is a new record low. The most notable transactions during the ongoing year have been Baring's purchase of Onninen logistics centre in Hyvinkää for ca. 86 million euros, AXA's purchase of portfolio of logistics assets spread across Norway, Sweden, Denmark and Finland and Sagax's purchase of HKScan production and logistics facility in Vantaa in sale-and-leaseback process in Vantaa for ca. 77 million euros.

Comment on Citycon's properties

While the pandemic is slowly going in a better direction, fashion retailers are still struggling. Renegotiated contracts are almost without exception made with lower rents than before. However, despite the negative rent changes, the positive sign is that most of the tenants are willing to continue in the properties and believe in the trading potential in future.

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. While for the café and restaurant sector the recent difficult times have created some uncertainty, the viability in the future looks positive and the sector is seen as more defensive than fashion sector even in comparison to mega trends. Other growing sector that has located to shopping centres in recent years more heavily are public services and those are seen very positively by the investment market currently providing stability and predictable footfall to centres to also support success of traditional retailers.

The assets with high emphasis on grocery and other shops suited for everyday needs have better investment demand than centres with relatively high portion of cash flow coming from other, more traditional sectors, as was seen in Columbus transaction's keen yield.

In large-ticket properties the wall of money originating from international funds and investors is constantly looking for investment opportunities and growingly also in retail sector and opportunities for joint venture transactions have been enhanced. In shopping centres the management capabilities and existing relationships to occupiers are highly valued and thus the joint venture deal would be most likely transaction form in the largest properties.

3.3. Sweden

3.3.1. Economy

The Swedish economy improved rapidly in Q3 2021 despite logistical issues and shortages of materials holding back production in parts of the manufacturing industry. Demand for close-contact services, which had dropped due to the pandemic, bounced back quickly over the summer as formal restrictions were phased out and voluntary social distancing relaxed. The National Institute of Economic Research (NIER) confidence indicators for retail trade, service sector and consumer confidence were higher or much higher than normal in all parts of the business sector in Q3 and start of Q4 2021. However, the emergence of the new omicron variant in December and introduction of new recommendations for working from home has dampened the optimism providing some uncertainty of the short term path of the pandemic.

NIER estimated Swedish GDP at 4.8% for 2021 in their December report, revised up from 4.7% in late September. Their forecast for GDP in 2022 sits at 3.4%. Employment rates have been increasing during the second half of the year, and current employment rates are at pre pandemic levels, in November 2021 unemployment is estimated at 7.2 % (NIER). Economic policy has been expansionary during the crisis. Several measures were introduced for businesses to weather the crisis and to support employment. Shortages of materials and logistical issues is predicted to continue to constrain production to some extent in the coming quarters, but the economy is expected to continue to strengthen, nonetheless. CPI inflation has been rising in Sweden, similar to other regions in the world. Statistics Sweden reported CPI October 2021 year on year figures at 2,81%. NIER updated their inflation forecast to 2.7%, 1.4% and 2.3% for the next three years.

3.3.2. Retail market

Retail Occupancy Market

During the course of the pandemic consumers have taken to shop online, car-borne and close to homes. The effect clearly seen in larger shopping centres and city locations with large decreases in footfall and sales figures. Meanwhile, convenience, grocery anchored retail and the DIY segment have faired significantly better, in some cases even seeing an increase in sales.

In Sweden the majority of restrictions were lifted on September 29th 2021 following a period of lower infection rates and gradually fewer restrictions. In the fourth quarter 2021 increasing footfall and sale figures have been recorded for retail in general but high street locations and shopping centres in particular, although from lower levels. However, the emergence of the omicron variant in late December has put a damper on the outlook at the end of the year and for the first half of 2022. Consumer and retailer confidence dropped slightly following the emergence of the omicron variant but are still on high levels according to NIER in December 2021. HUI research estimated retail sales growth in Sweden to 3.5% in 2020, but polarization within the retail segment is currently large. For the first three quarters of 2021 the total retail sales grew by 6.2% compared to the same period last year, in line with expectations.

2020 was a record year for e-commerce in Sweden, which increased sales by 40% according to Postnord who also estimates e-commerce to stand for approximately 14% of the total retail sales in 2020 (11% in 2019). In Q3 2021 e-commerce grew by 11% year on year (39% in Q3 2020), a strong number, as the comparison is to a period with exceptional increase. With e-commerce growing and the pandemic accelerating pre pandemic trends with changing consumer behaviours, many tenants are facing difficulties and would be in the risk of bankruptcy if not for the government support measures. As such, there is a heightened risk of increasing numbers of bankruptcies in 2022 as support measures are winded down.

Many retailers are evaluating their business model and most traditional retail chains are continuing to consolidate their business. Retailer demand focuses on securing and upgrading quality retail space in and around major cities that are on track to see a fast-paced recovery in economic activity and benefit from either large catchments or high levels of affluence. Retailer demand for space is pivoting against experience led shopping destinations and accessible convenience-oriented retail places. Well capitalised mature and new brands are expanding their business focusing on fast and light concepts with lower capex.

The overall situation on the letting market has been putting downwards pressure on terms and rents in late 2020/2021 in shopping centresDuring the pandemic lease negotiations have been paused, prolonged and lease deals have required shorter lease terms, higher incentives and an element of tenant fit outs. Uncertainty remains high both in terms of how potential new variants would delay recovery but also the impact of the accelerated retail trends as of the pandemic with a higher degree of e-commerce which will most likely normalize at a higher level than prior to 2020.

Retail Investment Market

The Nordic equity markets, bond markets and real estate markets have continued to rebound over the past 12 months (2021), strengthened by the economic recovery and continued attractive interest rates (although considerable increase at year end) together with good opportunities to borrow at low costs through both the banking system, but mainly the bond market. This despite continued discussions on growing inflation.

Total real estate investment volumes in Sweden broke new records in 2021. Our estimation on full-year investment volumes for 2021 totalled SEK 361 billion, which is a record-breaking level, by far. The investment volume 2021 is 84% higher than the volume in 2020 and 64% higher than the previous record level from 2019. The investment market in 2021 has been characterised by M&A deals, which has been a strong driver for the new record volume, contributing with 50% of the volume in 2021.

Retail remains one of the sectors most severely hit by the effects of COVID-19 and the segment continues to recover gradually. Investor appetite is growing but coupled with cautious requirements. The ongoing challenges of increasing e-commerce, accelerating retail trends and the disruption caused by the pandemic with recurring restrictions as well as continued tightened financing conditions, particularly for riskier assets, has been putting pressure on physical retail properties.

However, there are large differences amongst performance of different retail segments and assets. Investor demand is pivoting towards grocery real estate, retail warehouse, prime high street assets and depending on the market, shopping centres with redevelopment potential or a strong convenience offer. Asset management, repositioning and repurposing of shopping centre space continues to attract investor interest. Cost inflation and demolition expenses have become areas for concern, resulting in weaker secondary and tertiary shopping centre markets seeing more activity from private investors

Overall, retail investment volumes in Sweden are estimated to amount to SEK 14.7 billion in 2021, accounting for 7% of the total investment volume during the period. Compared to 2020, the total investment volume is down 8 percent year on year, partly explained by the inclusion of the sale of Farsta centrum at SEK 4 billion in 2020. During the year retail investment activity has been higher, led by grocery focused retail and a number of shopping centres transactions in 2021. Most notably around the Stockholm region with transactions of Solna Centrum, Väsby, Bålsta, Högdalen, Fruängen, Tumba and Haninge centrum during 2021. Nevertheless, the situation for this segment remains challenging overall as foreign buyers are still holding back. Retail properties were sold for an estimated SEK 6 billion, corresponding to approximately 4% of the total transaction volume in Sweden during the fourth quarter 2021. During the quarter 13 retail transactions have been identified in Sweden. The largest transaction being Alectas acquisition of Solna centrum in the Stockholm region from Unibail Rodamco Westfield for SEK 2.8 billion in the end of Q4 2021.

Retail yield levels are estimated to have stabilized linked to transactions during the year and a stronger investment sentiment towards retail with more resilient tenants. Grocery anchored retail, DIY and asset retail are experiencing a slight yield compression. Prime shopping centre yield in Sweden is per Q4 2021 estimated at 4.90 percent, unchanged over the quarter.

Comment on Citycon's properties

Most of the shopping centres have performed better during the fourth quarter 2021 as majority of restrictions were removed. However, with the emergence of the omnicron variant footfall and sales are expected to be reduced in the short term. The challenges for physical retail remain and currently there is a differentiation in occupancy levels amongst the assets in the Swedish portfolio with Liljeholmen and Mölndal leading the way forward. In Stenungs Torg development plans are progressing as conversion to residential use is starting to concretise. Kista is currently repositioning and taking actions to further strengthening their convenience offer. Positive, as we assess active asset management, repositioning and repurposing of shopping centre space to drive and attract investor interest.

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 2021, Citycon's investment portfolio being valued included 17 investment properties in Finland and Sweden. One of the properties is owned via joined venture and associated companies (IsoKristiina located in Finland).

14 of these 17 properties are shopping centres, two are residential properties and one is a retail/office property. Lippulaiva shopping centre and apartments are currently under construction and Heikintori, Kassatalo and Asematie 3 properties are development properties.

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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.

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Helsinki Metropolitan Area	8	1,335	4.6 %	4.5 %	4.8 %	32.6	7.8
Other parts of Finland	4	296	6.4 %	5.6 %	7.1 %	21.7	6.2
Total Property Portfolio in Sweden	5	666	5.4 %	5.1 %	5.9 %	28.0	7.7
Greater Stockholm Area	3	491	5.2 %	4.8 %	5.5 %	30.2	8.3
Other parts of Sweden	2	174	6.0 %	5.9 %	7.1 %	21.8	6.0
Total Property Portfolio	17	2,297	5.2 %	4.9 %	5.6 %	29.3	7.5

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 2021 was approximately €2,297 million.

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

When excluding Lippulaiva (shopping centre and residential buildings) and other three development properties (Kassatalo, Asematie 3 and Heikintori), market rents increased and resulted impact of €7.0 million to the value. Adjustments to the exit yields increased the value by ca. €34.3 million.

Properties in Finland

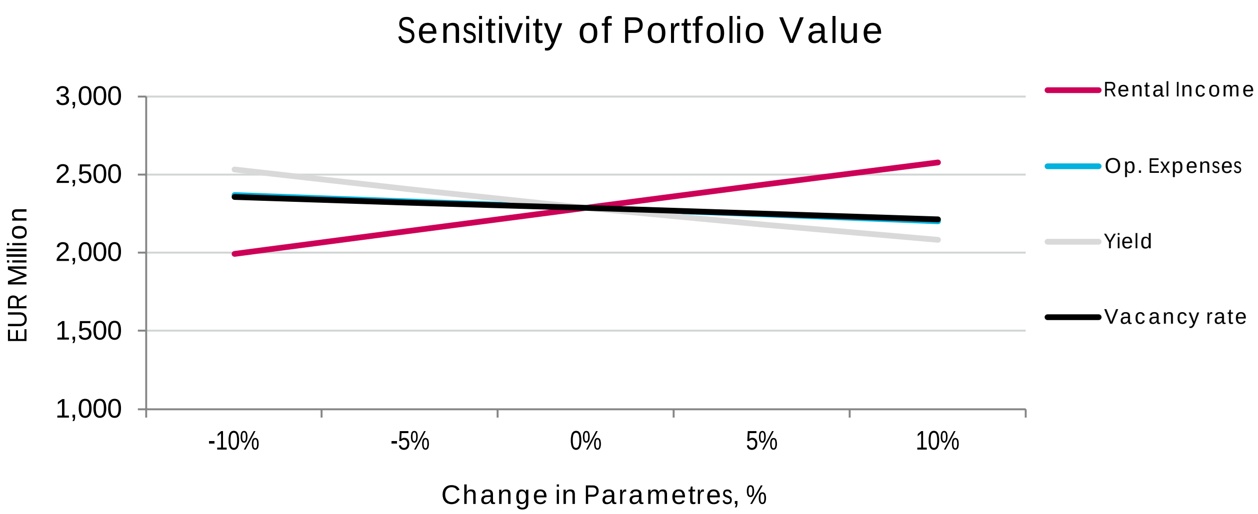
The fair value of the Finnish portfolio is €1,631 million and it increased by 3.0% from Q3 2021. When excluding Lippulaiva shopping centre and residential buildings, the fair value has increased by 1.3%. Compared to the previous quarter, the weighted average yield requirement has decreased by 1bps being 4.97%, and the weighted average exit decreased by 12bps being 4.85%. Value of the Finnish portfolio is driven upwards especially by committed investments and because of increased investment demand for grocery anchored shopping centre properties and development of Myyrmanni.

Properties in Sweden

The fair value of the Swedish portfolio is estimated at SEK 6,823 million, excluding Kista Galleria. With the exchange rate of 10.2503 SEK/EUR the portfolio has the value of €666 million. Compared to the value at Q3 2021, the portfolio's value has increased by 3.1% (excluding Kista). Compared to the previous quarter, the weighted average exit yield has decreased by 7 bps being from 5.39 to 5.32% (excluding Kista).

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 1st February 2022

Yours faithfully

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

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

In Stockholm 1st February 2022

Yours faithfully

Patrik Löfvenberg
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