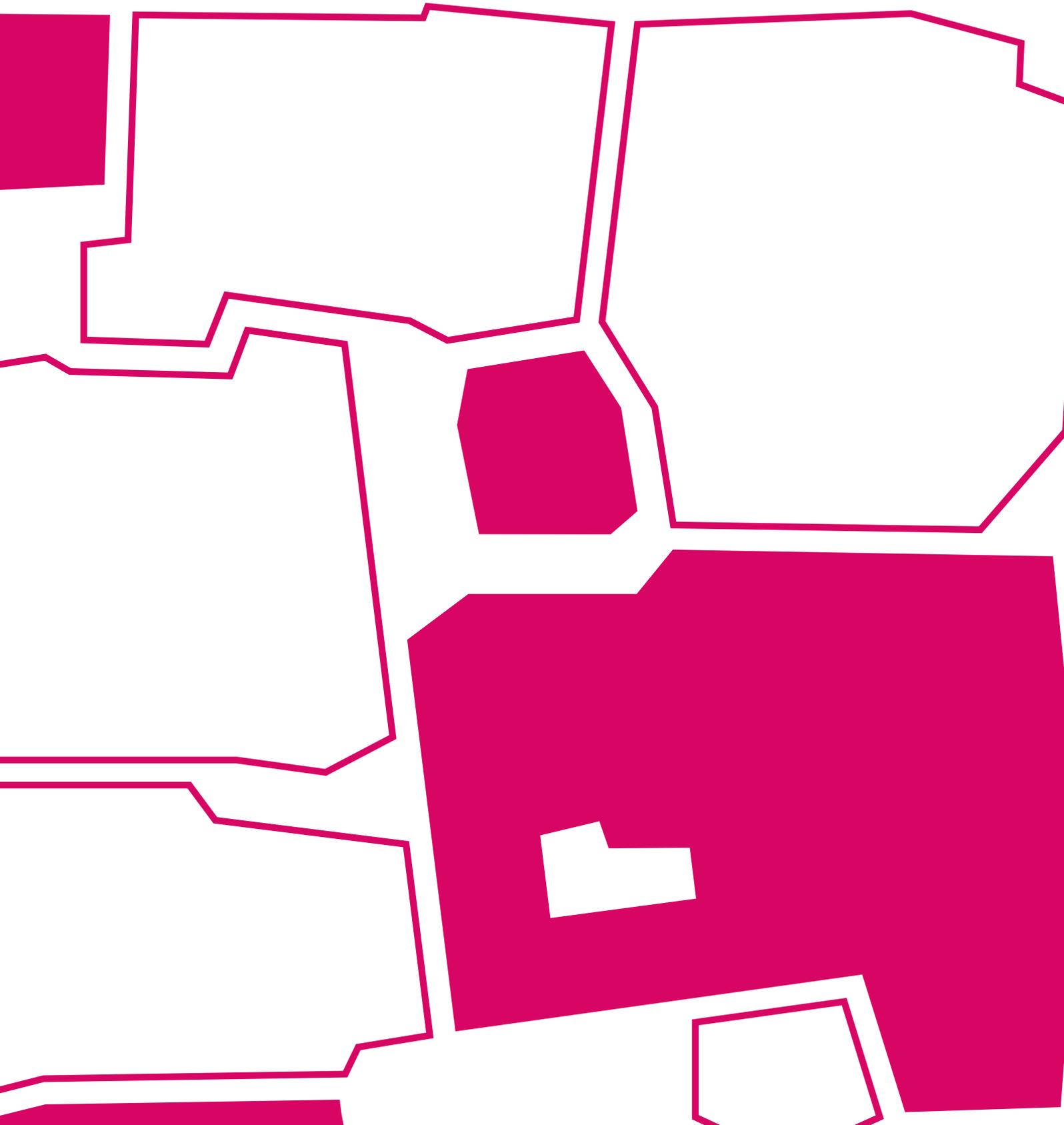


**Corporate Governance
Statement 2011**

CITYCON
creating success for retailing



Citycon Group's Corporate Governance Statement for the Financial Year 2011

Citycon Group's corporate governance and decision-making are based on the Finnish Limited Liability Companies Act, Securities Market Act and the Articles of Association of the Group's parent company, Citycon Oyj, and its subsidiaries.

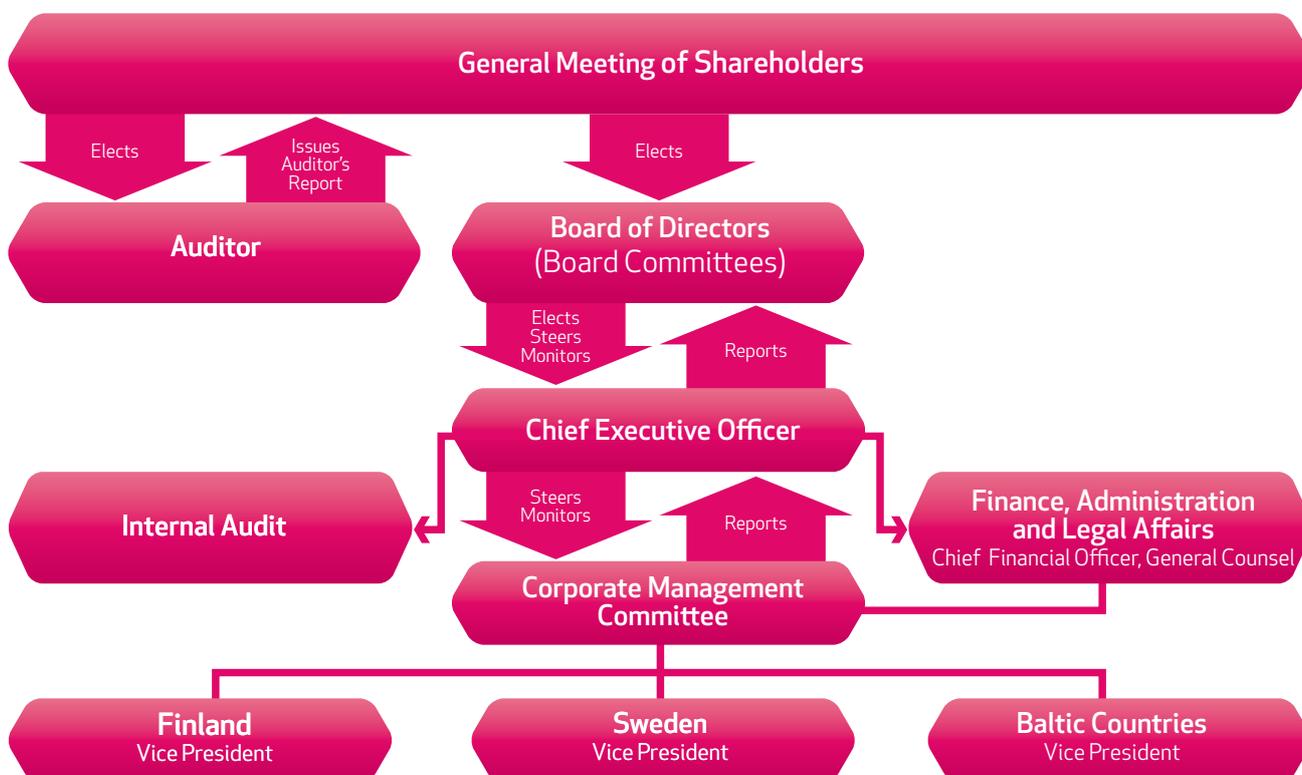
As a company listed on NASDAQ OMX Helsinki Ltd. (the Helsinki stock exchange), Citycon complies with the rules of the stock exchange and the Finnish Corporate Governance Code 2010 issued by the Finnish Securities Market Association on 15 June 2010. This Statement has been prepared in accordance with Recommendation 54 of the Corporate Governance Code. Citycon makes no exceptions in observing the Corporate Governance Code. This CG Code is available on the Securities Market Association's website at www.cgfinland.fi.

This Statement has been reviewed by Citycon's Audit Committee and prepared as a separate report, distinct from the Report by the Board of Directors. Ernst & Young Oy, Citycon's audit firm, has checked that the Statement has been issued and that the description of the main features of the internal control and risk management systems related to the financial reporting process is consistent with the financial statements. The present Statement, Citycon Oyj's Financial Statements and the Report by the Board of Directors for the financial year 1 January–31 December 2011 were published on 8 February 2012 and are available on the corporate website at www.citycon.com.

Citycon Group

In accordance with the Finnish Limited Liability Companies Act, Citycon Group's business operations and administration are under the responsibility of the following bodies: the General Meeting, the Board of Directors and the CEO. The General Meeting elects members to the company's Board of Directors, and the Board elects the company's CEO. In managing the company's business operations, the CEO is assisted by the Corporate Management Committee whose members are appointed, upon the CEO's proposal, by the Board of Directors. The Board of Directors' work is facilitated by four Board committees. The work of the Board of Directors and its committees, the CEO and the Corporate Management Committee is governed by the Corporate Governance Guidelines approved by the Board of Directors, which contains charters for the Board and the committees, guidelines for the division of duties between the decision-making bodies, as well as guidelines for the arrangement of internal control and risk management.

Citycon Group's corporate governance structure



Board of Directors

The general meeting of shareholders decides the number of members of the Board of Directors and elects them. Board members' terms of office end at the close of the first Annual General Meeting following their election. According to the Articles of Association, the Board of Directors consists of a minimum of five and a maximum of ten members. The Articles of Association do not contain other limitations concerning the election of members of the Board of Directors.

An eligible Director nominee must have the qualifications required for directorship and sufficient time at his or her disposal to manage his/her Director duties. A majority of the Directors must be independent of the company. In addition, a minimum of two Directors belonging to this majority must be independent of the company's major shareholders. The Board of Directors annually assesses its members' independence. Members of the Board of Directors are obliged to provide the Board with sufficient information for the evaluation of their qualifications and independence, and to notify the Board of any changes in this information.

Citycon's Annual General Meeting of 23 March 2011 set the number of Board members at ten and decided to re-elect the following Directors: Ronen Ashkenazi, Chaim Katzman, Claes Ottosson, Dor J. Segal, Thomas W. Wernink, Per-Håkan Westin and Ariella Zochovitzky. Roger Kempe, Kirsi Komi and Jorma Sonninen were elected as new members to the Board replacing Gideon Bolotowsky, Raimo Korpinen and Tuomo Lähdesmäki who stepped down from the Board. Directors' personal details and their shareholdings in the company are presented in the enclosed table. Their career histories as well as key positions of trust are available on the corporate website at www.citycon.com/Board.

The Board of Directors elects the Chairman and one or more Deputy Chairmen from among its members. Chaim Katzman was the Chairman of the Board of Directors in 2011, and Ronen Ashkenazi the Deputy Chairman. Thomas W. Wernink served as the other Deputy Chairman of the Board as of 23 March 2011.

According to the Board of Directors' independence assessment conducted on 23 March 2011, all Directors are independent of the company, given that none of them has an employment contract, executive contract or other contractual relationship with the company. Furthermore, the Board has assessed that Roger Kempe, Kirsi Komi, Jorma Sonninen, Thomas W. Wernink and Per-Håkan Westin are independent of major shareholders. Since Ronen Ashkenazi, Chaim Katzman and Dor J. Segal are in the employ of Citycon's main shareholder, Gazit-Globe Ltd. or its affiliated companies, they are not independent of major shareholders. Furthermore, Ariella Zochovitzky serves as Gazit-Globe Ltd's representative in a company called U. Dori Group Ltd., in which Gazit-Globe Ltd. exercises controlling interest, and is therefore not independent of major shareholders. The Board of Directors also deems Claes Ottosson non-independent of major shareholders due to his sister's family relationship with Dor J. Segal.

Board of Directors' Work

The Finnish Limited Liability Companies Act, the Articles of Association and the Corporate Governance Guidelines approved by the Board of Directors prescribe the Board of Directors' duties and responsibilities. The Charters of the Board and Board Committees are included in the Corporate Governance Guidelines. The Board of Directors constitutes a quorum if more than half of its members are present.

In addition to duties provided for under applicable laws and the company's Articles of Association, Citycon's Board of Directors shall:

- Confirm the company's long-term goals and business strategy
- Approve the company's budget and financing plan, and oversee their implementation
- Confirm the company's principles of internal control and risk management, review and manage the main risks associated with the company's business, and monitor the adequacy, appropriateness and efficiency of the company's administrative processes
- Decide on major and strategically important property acquisitions and divestments and other major investments
- Confirm the company executives' duties and areas of responsibility, and the reporting system
- Confirm the principles governing employees' short- and long-term bonus and incentive schemes, decide on said schemes as well as on the remunerations paid under said schemes
- Determine the company's dividend policy.

Citycon Oyj's Board of Directors on 31 December 2011

Director	Director since	Independence	Education	Nationality	Born	Main occupation	Citycon shares
Chaim Katzman, Chairman of the Board	2010	Independent of the company	LL.B.	US and Israeli	1949	Norstar Holdings Inc. (former Gazit Inc.), founder, controlling shareholder and Chairman of the Board of Directors since 1991; Gazit-Globe Ltd., Chairman of the Board of Directors since 1998	90,000 (through a closely associated party)
Ronen Ashkenazi, Deputy Chairman of the Board	2009	Independent of the company	B.Sc. (Eng.)	Israeli	1962	Gazit Globe Israel (Development) Ltd., CEO and minority shareholder since 2005; U. Dori Group Ltd., CEO and member of the Board of Directors since 2011	-
Thom Wernink, Deputy Chairman of the Board	2005	Independent of the company and significant shareholders	M.A. (General Economics)	Dutch	1945	Non-executive director on a number of property and investment companies based in Europe	57,500
Roger Kempe	2011	Independent of the company and significant shareholders	M.Sc. (Econ.)	Finnish	1959	Oy Fincorp Ab, Managing Director since 2006	110,000 (through a closely associated party)
Kirsi Komi	2011	Independent of the company and significant shareholders	LL.M.	Finnish	1963	Professional non-executive director	-
Claes Ottosson	2004	Independent of the company	Electrical Engineer	Swedish	1961	ICA Kvantum Hovås, Managing Director since 1989	23,336
Dori Segal	2004	Independent of the company	High school	US	1962	Gazit-Globe Ltd., Executive Vice Chairman since 2008; First Capital Realty Inc., President and CEO and member of the Board of Directors since 2000	7,174
Jorma Sonninen	2011	Independent of the company and significant shareholders	Dipl. EMC (European Diploma in Marketing)	Finnish	1962	Colliers International Oy, Head of Transaction since 2007	10,000 (through a closely associated party)
Per-Håkan Westin	2008	Independent of the company and significant shareholders	M.Sc. (Civil Engineering)	Swedish	1946	Professional non-executive director	10,000
Ariella Zochovitzky	2009	Independent of the company	B.A. (Economics and Accounting), CPA (Israel), MBA	Israeli	1957	C.I.G. Consultants / Capital Investments Group Ltd., General Manager & Partner since 2001; U. Dori Group Ltd., Chairman of the Board of Directors since 2008	-

The Board of Directors convenes according to a pre-determined meeting schedule and when deemed necessary. The meeting schedule is based on the company's reporting schedule and the Board of Directors' strategy and budget meetings, as indicated by the Board's enclosed year clock. In addition to regular topics, investment and divestment proposals associated with the company's shopping centre business as well as financing issues are usually discussed at the meetings. Meetings can also take place via telephone, which may sometimes be regarded as even necessary due to the Board of Directors' international composition. Items are discussed in Board meetings based on a pre-prepared agenda. Minutes are kept on each meeting and they will be reviewed and approved in the next meeting.

Board of Directors' year clock

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

In 2011, Citycon's Board of Directors held 5 meetings in addition to its original meeting schedule and convened 12 times. Extraordinary Board meetings related to changes in the corporate management, the directed share issue arranged in July, and to negotiations concerning potential acquisition targets conducted by the company in the ordinary course of its business. The Board also decided on a new long-term key employee incentive programme, i.e. stock option plan 2011. The average attendance rate in Board meetings stood at 95.8 per cent. Attendance rates by member are presented in the table below.

Directors' attendance in Board meetings by member

Director	Attendance rate, %
Chaim Katzman	91.7
Ronen Ashkenazi	100
Thom Wernink	100
Roger Kempe	100
Kirsi Komi	100
Claes Ottosson	100
Dori Segal	75.0
Jorma Sonninen	100
Per-Håkan Westin	100
Ariella Zochovitzky	100

Board Committees

The Board of Directors' work is enhanced by the following four Board committees: the Audit Committee, Nomination and Governance Committee, Remuneration Committee and Strategy and Investment Committee. In Board committees, member Directors are able to delve into matters in greater detail than the entire Board of Directors. The Corporate Governance Guidelines approved by the Board of Directors define the key duties and operating principles of the committees.

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

The members of the Committees in 2011 are listed in the table below.

Board Committees 2011

	Audit Committee	Nomination and Governance Committee (*)	Remuneration Committee	Strategy and Investment Committee
Committee members 1 January-23 March 2011				
Members	Raimo Korpinen (Ch.)	Tuomo Lähdesmäki (Ch.)	Tuomo Lähdesmäki (Ch.)	Ronen Ashkenazi (Ch.)
	Gideon Bolotowsky	Claes Ottosson	Gideon Bolotowsky	Raimo Korpinen
	Thom Wernink	Thom Wernink	Thom Wernink	Dori Segal
	Per-Håkan Westin	Per-Håkan Westin	Ariella Zochovitzky	Thom Wernink
	Ariella Zochovitzky	Ariella Zochovitzky	Chaim Katzman	Per-Håkan Westin
		Chaim Katzman		
Committee members 24 March-31 December 2011				
Members	Ariella Zochovitzky (Ch.)	Kirsi Komi (Ch.)	Chaim Katzman (Ch.)	Ronen Ashkenazi (Ch.)
	Kirsi Komi	Ronen Ashkenazi (until 12 July 2011)	Roger Kempe	Dori Segal
	Thom Wernink	Chaim Katzman	Claes Ottosson	Jorma Sonninen
	Jorma Sonninen	Roger Kempe	Per-Håkan Westin	Thom Wernink
		Claes Ottosson	Ariella Zochovitzky	Per-Håkan Westin
		Ariella Zochovitzky (as of 13 July 2011)		

*) Former Nomination Committee

Audit Committee

The Audit Committee supports the Board in reviewing the company's financial reporting and controls.

The Audit Committee has the following duties:

- To monitor financial reporting, particularly the financial statement reporting process, and to supervise the reliability and transparency of the reporting process
- To review the company's financial reports
- To monitor the efficiency of internal control, internal audit and risk management systems
- To review internal audit plans and reports
- To review the company's Corporate Governance Statement, prepared on an annual basis, and, in particular, the description of the main aspects of the internal control and risk management systems pertaining to the financial reporting process
- To communicate with the external auditor, review his or her reports and decide upon any measures required to be taken
- To evaluate the independence of the chief auditor and audit firm and, in particular, the provision of related services to the company
- To prepare for the General Meeting a resolution proposal for the election of the auditor
- To prepare for the Board of Directors a proposal for the election of an external appraiser to assess the company's property portfolio.

Members of the Audit Committee must be independent of the company and at least one committee member must be independent of significant shareholders of the company. At least one committee member must be a financial expert who has sufficient knowledge and experience in the fields of accounting, bookkeeping or auditing, and in the accounting principles applicable to the company. The chief auditor of the company attends the Audit Committee's meeting which reviews the company's annual financial statements, in order to report audit findings. The auditor also attends other Audit Committee meetings based on a decision taken by the Audit Committee.

Generally, the committee convenes at least four times per year, in accordance with the company's reporting schedule, to review its interim reports and annual financial statements. The committee also reviews all reports provided by internal audit and internal control and approves annual plans related to them. In 2011, the Audit Committee met five times and the average attendance rate was 100 per cent.

Nomination and Governance Committee

During the year, the Board of Directors paid special attention to governance issues and wanted to emphasise their weight even further by expanding the Nomination Committee's role to cover governance-related issues too. Simultaneously, the Nomination Committee was renamed the Nomination and Governance Committee, and its duties were redefined. The company's Corporate Governance Guidelines were amended accordingly.

The redefined duties of the Nomination and Governance Committee are:

- To seek new Board member candidates
- To prepare a proposal for the General Meeting on the election of Board members and their remuneration
- To present to the General Meeting a proposal for the appointment of Board members
- To prepare a proposal for the Board of Directors concerning the composition and chairmen of the Board Committees
- To oversee, review and make recommendations concerning the overall corporate governance of the company
- To develop the company's corporate governance practices and to recommend to the Board corporate governance policies applicable to the company as well as any modifications to the policies as appropriate
- To review the company's currently applicable Code of Conduct and compliance therewith
- To consider questions of possible conflicts of interest between the company, Board members and senior executives and initiate appropriate actions to address any such conflicts
- To evaluate the independence of each individual Board member and make recommendations to the Board
- To ensure that the Board annually engages in a self-evaluation process
- To perform any other duties or responsibilities related to the company's corporate governance issues.

The Nomination and Governance Committee's members must be independent of the company.

When seeking new potential Directors, the Nomination and Governance Committee shall take account of the requirements of the company's operations and the company's development stage. In addition, the composition of the Board must take into account the number of Directors, their independence, age, gender, skills, experience and opportunity to devote a sufficient amount of time to their work. Moreover, the Nomination and Governance Committee must consult significant shareholders on this matter. In general, the committee convenes at least three times a year. It begins preparations for the election of Directors well in advance in the autumn prior to the following year's AGM and consults with the company's significant shareholders. In 2011, the Nomination and Governance Committee met five times and the average attendance rate was 88.5 per cent. Attendance rates by member are presented in the table below.

Directors' attendance in Nomination and Governance Committee meetings by member

Committee member	Attendance rate, %
Kirsi Komi (Chairman)	100
Ronen Ashkenazi (member 23 March–12 July 2011)	50.0
Chaim Katzman	60.0
Roger Kempe	100
Claes Ottosson	100
Ariella Zochovitzky (member 1 Jan.–23 March and 13 July–31 Dec. 2011)	100

Remuneration Committee

The Remuneration Committee has the following duties:

- To prepare matters pertaining to the remuneration of the company's CEO, the CEO's deputy and other senior executives
- To prepare materials pertaining to the appointment of the company's CEO, the CEO's deputy and other senior executives, to identify possible successors and to evaluate the successor planning process concerning the entire corporate management
- To bear responsibility for the evaluation of the CEO's performance
- To prepare and develop materials pertaining to the company's remuneration schemes, make proposals for the Board thereon and to monitor their transparency and appropriateness.

The Remuneration Committee members are independent of the company.

The Remuneration Committee generally meets at least twice a year. The Committee prepares annually proposals to the Board of Directors related to the company's annual performance bonus scheme. During 2011, the Committee also prepared the company's new stock option plan and proposed its implementation to the Board. In 2011, the Remuneration Committee met two times and the average attendance rate was 100 per cent.

Strategy and Investment Committee

The Strategy and Investment Committee has the following duties:

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

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

The committee meets as necessary, but no less than twice a year. In 2011, the committee met three times and the average attendance rate was 100 per cent. The committee submitted several resolution recommendations to the Board related to the shopping centre acquisitions carried out and (re)development projects launched by the company during the year, and discussed potential acquisition and divestment targets.

Chief Executive Officer (CEO)

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

It is the duty of the CEO to manage the day-to-day operations of the company in accordance with the instructions issued by the Board of Directors. The CEO is responsible for ensuring that the company's accounts are legally compliant and that its financial affairs have been arranged in a reliable manner.

The CEO oversees compliance with the guidelines, procedures and strategic plans established by the Board of Directors, and he or she must ensure that these guidelines, procedures and plans are submitted to the Board of Directors for update or review when necessary. The CEO attends the Board of Directors' meetings and is responsible for ensuring that the relevant materials for consideration at Board meetings have been duly prepared. The CEO also ensures that, on a continuous basis, Directors receive the necessary information to monitor the company's financial position, liquidity, financing and development, and he or she informs the Board of Directors of any major events, decisions and plans related to the company's business. In addition, the CEO serves as chairman of the company's Corporate Management Committee.

Citycon's Board of Directors appoints the CEO and decides on the terms and conditions of his/her executive contract in writing.

On 13 January 2011, the Board of Directors appointed Marcel Kokkeel (MA, born in 1958), a Dutch citizen, Citycon's new CEO, and approved the terms and conditions of his executive contract. The new CEO assumed his duties on 24 March 2011. The CEO's service agreement has been signed for a fixed term and will expire at the end of February 2015. The company may terminate the agreement even earlier without cause at any time upon six months' notice period, in which case the CEO will be paid, in addition to the salary payable for the notice period, a severance pay consisting of 1.5 times the annual base salary at the moment of the termination as well as 1.5 times the most recent annual bonus payment.

Citycon Oyj's CEO since 2002, Petri Olkinuora, M.Sc. (Engineering), MBA, born in 1957, left his position following the company's Annual General Meeting on 23 March 2011. The decision to leave the CEO position was mutual between Mr. Olkinuora and the Board of Directors of Citycon.

Corporate Management Committee

CEO Marcel Kokkeel is assisted by the Corporate Management Committee, which at the end of 2011 consisted of Eero Sihvonen, Executive Vice President and CFO, Anu Tuomola, General Counsel and Head of Legal Affairs, Michael Schönach, Executive Vice President, Finnish Operations, Johan Elfstadius, Vice President, Swedish Operations and Harri Holmström, Senior Vice President, Group Leasing and Baltic Operations. Corporate Management Committee members' personal details and information on their share and stock option holdings are presented in the enclosed table. Their career histories and any positions of trust are available on the corporate website at www.citycon.com/management.

Citycon Oyj's Corporate Management Committee on 31 December 2011

Name	Position in the company	CMC member since	Born	Education	Nationality	Citycon shares	Citycon stock options 2011
Marcel Kokkeel	Chief Executive Officer (as of 24 March 2011)	2011	1958	M.A. (Notary Law)	Dutch	-	1,000,000
Eero Sihvonen	Executive Vice President and Chief Financial Officer	2005	1957	M.Sc. (Econ.)	Finnish	28,050	750,000
Anu Tuomola	General Counsel, Head of Legal Affairs (as of 1 Sept. 2011)	2011	1974	LL.M., Trained at the Bench	Finnish	-	300,000
Johan Elfstadius	Vice President, Swedish Operations (as of 21 Nov. 2011)	2011	1973	M.Phil., B.Sc.	Swedish	-	300,000
Harri Holmström	Senior Vice President, Group Leasing and Baltic Operations	2005	1956	M.Sc. (Surveying), Authorised Property Appraiser	Finnish	12,494	300,000
Michael Schönach	Executive Vice President, Finnish Operations (as of 1 March 2011)	2011	1975	B.Sc. (Finance), MBA	Austrian	-	500,000

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

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

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

The Corporate Management Committee convenes usually once a month. However, in 2011, the Corporate Management Committee had only six meetings due to several changes that took place in the Corporate Management Committee.

Description of the Main Features of the Internal Control and Risk Management Systems Pertaining to the Financial Reporting Process

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

Financial Reporting Organisation and Processes in Citycon Group

The parent company of Citycon Group is Citycon Oyj, a public Finnish limited liability company listed on the Helsinki stock exchange. Citycon Oyj has a total of 107 subsidiaries and associated companies in Finland, Sweden, Estonia, Lithuania, the Netherlands and

Luxembourg. The company has 81 subsidiaries and associated companies, primarily mutual real estate companies, in Finland, 15 subsidiaries in Sweden, 4 in Estonia, 2 in Lithuania, 4 in the Netherlands and 1 in Luxembourg. Non-Finnish subsidiaries are mostly limited liability companies. Citycon Oyj prepares its consolidated financial statements and interim reports in accordance with the International Financial Reporting Standards (IFRS), as adopted by the EU, and the Finnish Securities Market Act, and complies with the Finnish Financial Supervision Authority's standards as well as the Helsinki stock exchange rules. The report by the Board of Directors and the parent company's financial statements are prepared in accordance with the Finnish Accounting Act and the guidelines and statements issued by the Finnish Accounting Board.

Citycon Group's business operations are divided into three geographical business units: Finland, Sweden and the Baltic Countries. This same geographical division also applies to consolidated segment reporting. Group support functions operate in the parent company's head offices in Helsinki, Finland. Each of the company's business units has its own financial administration. To ensure quality of and control over financial reporting, Citycon has established a uniform reporting process applied by all Group companies. This includes the use of a common chart of accounts, common accounting policies and a single financial reporting system.

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

Projects in 2011 Concerning the Internal Control of Financial Reporting

During 2011, Citycon continued the development, supervision and continuous monitoring of the internal controls of the financial reporting processes. This related to a project initiated by Citycon's Board of Directors in the spring of 2010, in which the internal control mechanisms of Citycon's major operating processes were reviewed and documented in writing. In addition to representatives of Citycon's Group functions, also the business units of Finland, Sweden and the Baltic Countries participated in the definition work, and this helped to build and implement a Group-wide, harmonised control environment. In 2011, the coverage of control testing was extended in Sweden and in the Baltic countries, where new processes were incorporated in the testing of controls. During the financial year, the efficiency of the control points have been tested and observed shortcomings have been assessed, and, where deemed necessary, an action plan to correct such shortcomings has been prepared. The Group management evaluated the testing and following the evaluation, shortcomings observed in the tests were assessed, both together with other deviations and individually. Based on the resulting summary drawn up by the Group management, there are no indications that these control deviations would lead to material errors in Citycon's financial statements.

The elements of Citycon's internal control framework are described below. The description takes into account the systematic internal control development work initiated in 2010 and is based on the internationally renowned COSO framework. This framework was adopted as Citycon's internal control framework during the 2010 project. The headings used herein correspond to the COSO framework's elements: Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring.

Control Environment

Citycon Oyj's Board of Directors carries main responsibility for the internal control of financial reporting processes. The Board of Directors' written Charter is included in the company's Corporate Governance Guidelines and it specifies the division of duties and responsibilities between the Board and its committees. The Board of Directors has established an Audit Committee, whose duties include reviewing the appropriateness of the financial reporting process and system of internal control. (The Audit Committee's duties have been presented in more detail earlier as part of the presentation of the Board of Directors and its committees.) Maintaining the internal control system is defined as a duty of the CEO. The Internal Audit function reports audit results to the Board's Audit Committee.

Guidelines and procedures related to the internal control of the financial reporting process include the following: Corporate Governance Guidelines, which include the Charters of the Board of Directors and its committees and the guidelines for the division of tasks between the Board of Directors, the CEO and the Corporate Management Committee; decision-making authorisations including approval limits in euros; Citycon Group Accounting Policies and Reporting Guidelines; the Internal Audit Charter; Risk Management Policy; Treasury Policy and detailed process-level Control Catalogues.

All Citycon employees have a written job description, which includes key duties as well as instructions for decision-making situations and authorisations. Duties are checked twice a year during employee performance reviews, in which each employee's performance is assessed relative to set targets.

Budget and Planning Process

The budget process is a regular corporate activity and comprises annual planning and target setting. Through the annual budget process, financial and non-financial targets are set for Citycon personnel. Initially, Group level targets are set. These are then translated into business unit targets and employee level targets for the period. Group and business unit performance relative to financial targets is monitored through monthly management reporting, Corporate Management Committee meetings and business review

processes. Employee performance relative to targets is monitored in the semi-annual performance review discussions. An incentive system is in place to direct the Group at all levels towards the achievement of set targets.

The CEO is responsible for reporting to the Board of Directors any significant deviations from the targets set and approved by the Board. The Board assesses annually whether the targets have been achieved and decides on the incentives to be paid accordingly.

Risk Assessment

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

Citycon uses a holistic Enterprise Risk Management (ERM) programme. Risk management forms part of the company's internal control and its purpose is to ensure that the company meets its business targets. The Board of Directors has approved the company's Risk Management Policy, specifying the principles of the company's risk management and the risk management process. The company's risk management process includes recognition, assessment, measurement, limitation and monitoring of risks arising from business operations and those closely related thereto. Guidelines are in place to define the monitoring of the aforementioned processes as well as the risk management organisation.

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

As part of its 2011 internal control development project, Citycon has identified the processes significant to financial reporting and assessed the associated risks. During the financial year, the risk assessment was updated as a part of the testing of internal controls. In addition to the Group's Finance function, the business units' financial management have participated in the risk assessment process. Citycon has eight processes significant to financial reporting: Entity Level Controls, Financial Statements Closing, Property Rental Income, Property Rental Expense, Property Investments, Treasury, Investment Property Valuation and General IT Controls process.

Control Activities

Citycon has defined financial planning and control as one of its main business processes. Descriptions have been drawn up of processes that are significant to financial reporting and are implemented in the organisation's daily operations. Thus, they form a material part of the daily risk management within the organisation. In the 2010 internal control project, process descriptions were supplemented by defining control points in each process, based on the risk assessment conducted. Examples of control points include approvals, reconciliations of sub-ledgers and accounts, analytical reviews, limitations of access rights and segregation of duties. Control points for each process are documented in Control Catalogues, which have been customized by the business units to reflect the characteristics of their own organisations' operations.

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

Information and Communication

In financial reporting, there are accounting and reporting manuals that set the standards, processes and responsibilities for financial reporting. These manuals facilitate the achievement of Citycon objectives regarding the reliability of financial reporting. The Board of Directors approves Group level policies and any changes to them. Accounting and reporting manuals and policies are available on the company's internal intranet sites. Regular meetings are held in which the manuals are discussed with all personnel involved in the financial reporting process. All external communication is carried out in accordance with the Group communications policy. The Board of Directors approves all financial reports issued by the company.

The control points defined during the 2010 internal control project have been communicated to all Citycon personnel. Business units bore the main responsibility for this communication; they discussed the internal control project's targets and the defined control points in meetings at various organisational levels, from business unit management meetings down to group or unit meetings dealing with current topics.

Monitoring

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

In Citycon, monitoring of internal control includes both ongoing and separate evaluations and audits. Monthly analysis of reported figures at various levels (e.g. shopping centre, business unit, Group) aims to detect whether the reported figures deviate from budgeted or forecasted figures. The monitoring and testing of internal controls aims to detect control deviations in each significant process

for financial reporting that might affect the accuracy of Citycon's financial reporting, if the deviation in question is not corrected.

During 2011, testing of internal controls was pursued with regard to the main processes of the Group management and each business unit. These tests were carried out by assessors independent of the business units' daily operations and were steered by the Group management. The significance and impact of deviations detected in these tests were evaluated by the Group management, and the necessary corrective measures were initiated. Based on the resulting summary drawn up by the Group management, there are no indications that the control deviations detected may lead to material errors in Citycon's financial statements.

The Audit Committee of the Board of Directors assesses and monitors the adequacy and effectiveness of internal controls and risk management. The Internal Audit function assists the Audit Committee in assessing and monitoring the adequacy and effectiveness of Citycon's internal controls and risk management, by performing regular audits in Group legal entities and support functions according to the annual plan approved by the Audit Committee. In accordance with the 2011 audit plan, the internal audit focused on the company's investment process and (re)development projects. Internal audit services were purchased from an external service provider, PricewaterhouseCoopers Oy. In addition to these audits, Citycon's own personnel carried out operative audits and assessments related to on-going developments projects in line with Citycon's strategy. The external auditor conducts evaluations of internal controls as part of their annual audit as defined by law.

The Group Finance function monitors adherence to financial reporting processes and related controls. The Finance function also monitors the accuracy of external and internal financial reporting. The external auditors audit whether the annual financial reports give a true and fair view of the financial performance and financial position of the Group and the parent company for each financial period.