

# Corporate Governance Statement 2013

**CITYCON**

# Citycon Group's Corporate Governance Statement for the Financial Year 2013

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

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

This Corporate Governance Statement (Statement) has been prepared in accordance with Recommendation the 54 of the Finnish Corporate Governance Code. In 2013, Citycon followed the Corporate Governance Code with no deviations. The Finnish Corporate Governance Code is available on the Securities Market Association's website at [www.cgfinland.fi](http://www.cgfinland.fi).

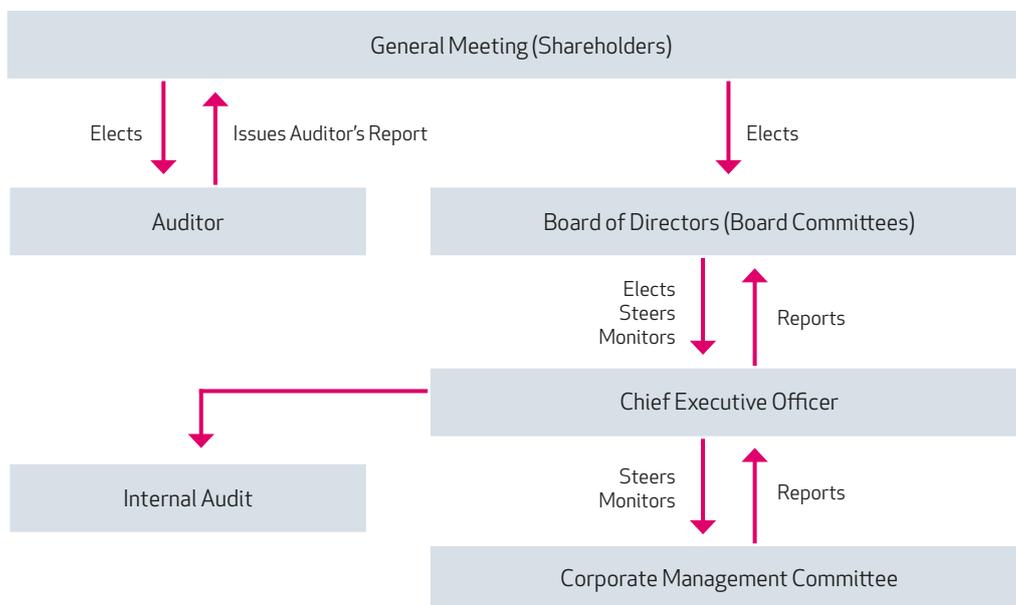
This Statement has been reviewed by the Audit and Governance Committee of Citycon's Board of Directors on 3 February 2014 and prepared as a separate report, distinct from the Report by the Board of Directors. Ernst & Young Oy, Citycon's audit firm, has verified that the Statement has been issued and that the description of the main features of the internal control and risk management systems related to the financial reporting process is consistent with the Financial Statements.

This Statement, Citycon's Financial Statements and the Report by the Board of Directors for the financial year 1 January–31 December 2013 were published on 5 February 2014 and are available on the corporate website at [www.citycon.com](http://www.citycon.com). The website also contains the same statements and reports for the previous five years.

## Citycon's corporate governance structure

The General Meeting, the Board of Directors and the CEO are responsible for the administration and operations of Citycon. The General Meeting elects members to the company's Board of Directors, and the Board appoints 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 enhanced by three 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. These guidelines contain charters for the Board and the committees, guidelines for the division of duties between the decision-making bodies, and guidelines for the arrangement of internal control and risk management.

## Citycon Group's corporate governance structure



## General Meeting of shareholders

The highest decision-making power in the company is exercised by the shareholders in the General Meeting. The Annual General Meeting takes place every year by the end of April, once the financial statements have been prepared. Extraordinary General Meetings are held whenever so required for decision-making purposes.

A notice of the General Meeting of shareholders is published on the corporate website no later than three weeks prior to the General Meeting. It includes a proposal for the meeting's agenda, the documents to be presented to the General Meeting and the resolution proposals by the Board of Directors and its committees. Under the Finnish Limited Liability Companies Act, a shareholder has the right to have a matter falling within the competence of the General Meeting included on the General Meeting agenda if the shareholder so demand in writing from the Board of Directors in good time in advance that the matter can be included in the agenda. In 2013 the latest possible date for issuing such demand was on 31 January 2013 which was also mentioned on Citycon's website [www.citycon.com/gm](http://www.citycon.com/gm).

Citycon uses international service providers to facilitate the participation of its nominee shareholders in General Meetings, and strives to arrange such meetings in a manner that enables both Finnish and international shareholders to participate and exercise their rights to vote, ask questions and speak in the meeting as extensively as possible.

In 2013, Citycon held two General Meetings. The Annual General Meeting (AGM) 2013 was held in Helsinki on 21 March. Notice of the meeting was published on 28 February 2013. A total of 261 shareholders attended the AGM either personally or through a proxy representative. Of the company's share capital and voting rights, 73.4 per cent (239,888,144 shares) were represented at the AGM. An Extraordinary General Meeting (EGM) was held in Helsinki on 6 February. A notice of the EGM was published on 16 January 2013.

A total of 217 shareholders attended the EGM either personally or through a proxy representative, and they represented 72.1 per cent (235,609,050 shares) of the company's total share capital and voting rights. The AGM was attended by the CEO, Chairman and Deputy Chairman of the Board, several other Board members and the company's responsible auditor. First-time nominees for Board membership attended the AGM where they were elected.

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

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

## Board of Directors

The General Meeting of shareholders decides the number of members of the Board of Directors and elects them. According to Citycon's Articles of Association, the Board of Directors consists of a minimum of five and a maximum of ten members. The Articles of Association do not contain other limitations concerning the election of members of the Board of Directors.

To be eligible for Board membership, the nominee must have the required qualifications and sufficient time at his or her disposal to manage the duties involved in Board membership. The majority of members must be independent of the company. In addition, this majority must include a minimum of two members who are independent of the company's significant shareholders. The Board of Directors annually assesses its members' independence in accordance with the Recommendation 15 of the Finnish Corporate Governance Code. 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.

In accordance with the company's Articles of Association Board members' terms of office end at the close of the first AGM following their election.

Citycon's AGM on 21 March 2013 set the number of Board members at ten and re-elected the following Board members: Ronen Ashkenazi, Chaim Katzman, Bernd Knobloch, Kirsi Komi, Claes Ottosson, Jorma Sonninen, Yuval Yanai and Ariella Zochovitzky. Karine Ohana and Per-Anders Ovin were elected as new members to replace Roger Kempe and Per-Håkan Westin.

Personal details of the Board members and their shareholdings in the company are shown in the table below, while more information on their career histories and key positions of trust is available on the corporate website at [www.citycon.com/board](http://www.citycon.com/board).

The Board of Directors elects the Chairman and one or more Deputy Chairmen from among its members. Chairman of the Board in 2013 was Chaim Katzman, with Ronen Ashkenazi and also, as of 21 March 2013, Bernd Knobloch, serving as Deputy Chairmen.

According to the independence assessment conducted by the Board on 21 March 2013, all Board members are independent of the company, given that none have an employment contract, executive contract or other contractual relationship with the company. According to the Board's assessment, Bernd Knobloch, Kirsi Komi, Karine Ohana, Per-Anders Ovin, Jorma Sonninen and Yuval Yanai are also independent of the company's significant shareholders. The Board also reassessed Claes Ottosson's independency of significant shareholders and, due to changes in circumstances and on the basis of an overall assessment, considered that he can be, as of 21 March 2013, considered independent of significant shareholders. Also Roger Kempe and Per-Håkan Westin were considered independent of significant shareholders until the termination of their Board membership.

Since Ronen Ashkenazi and Chaim Katzman are in the employ of Citycon's main shareholder, Gazit-Globe Ltd. or its affiliated companies, they are not independent of significant shareholders. Furthermore, Board member Ariella Zochovitzky served as Gazit-Globe Ltd's representative (Chairman of the Board) in a company called U.Dori Group Ltd., in which Gazit-Globe Ltd. exercises a controlling interest, until March 2012. Due to that previous representation, the Board has considered Ariella Zochovitzky not independent of significant shareholders.

#### Citycon Oyj's Board of Directors on 31 December 2013

Director	Director since	Education	Nationality	Born	Main occupation	Citycon shares	Independence
Chaim Katzman, Chairman of the Board of Directors	2010	LL.B.	US and Israeli	1949	Norstar Holdings Inc. (former Gazit Inc.), founder, controlling shareholder and Chairman of the Board of Directors since 1991; Gazit-Globe Ltd., Chairman of the Board of Directors since 1998	350,081 (through a closely associated party)	Independent of the company
Ronen Ashkenazi, Deputy Chairman of the Board	2009	B.Sc. (Civil Engineering)	Israeli	1962	Gazit Globe Israel (Development) Ltd., CEO and minority shareholder since 2005; U. Dori Group Ltd., CEO since 2011	4,080	Independent of the company
Bernd Knobloch, Deputy Chairman of the Board	2012	University degrees in Law and Business Administration	German	1951	Professional non-executive director	45,900	Independent of the company and significant shareholders
Kirsi Komi	2011	LL.M.	Finnish	1963	Professional non-executive director	4,100	Independent of the company and significant shareholders
Karine Ohana	2013	M.Sc (Finance)	French	1964	Ohana & Co., Paris, Managing Partner since 1998; OHANA Capital (Investment fund vehicle), Partner since 2013	4,090	Independent of the company and significant shareholders
Claes Ottosson	2004	Electrical Engineer	Swedish	1961	ICA Kvantum Hovås, Managing Director since 1990	41,685	Independent of the company and significant shareholders
Per-Anders Ovin	2013	M.Sc (Economics)	Swedish	1956	Mengus Stockholm AB, Chairman of the Board, Partner and Owner since 2005; Marrakech Design, Owner since 2006; Ovin Consulting AB, Owner since 2003	5,000	Independent of the company and significant shareholders
Jorma Sonninen	2011	Dipl. EMC (European Diploma in Marketing)	Finnish	1962	Realone Oy, Owner and Managing Director since 1997	15,867 (through a closely associated party)	Independent of the company and significant shareholders
Yuval Yanai	2012	B.A. (Economic and Accounting)	Israeli	1952	Given Imaging Ltd, Chief Financial Officer since 2005	4,200	Independent of the company and significant shareholders
Ariella Zochovitzky	2009	B.A. (Economics and Accounting), CPA (Israel), MBA	Israeli	1957	C.I.G. Consultants / Capital Investments Group Ltd., General Manager and Partner since 2001; C.I.G. Zochovitzky Ltd., General Manager & Partner since 2012	4,100	Independent of the company

#### Board of Directors' work

The Finnish Limited Liability Companies Act, Citycon's Articles of Association and the Corporate Governance Guidelines approved by the Board of Directors determine the Board of Directors' duties and responsibilities. The charters of the Board and Board committees are included in the Corporate Governance Guidelines.

In addition to duties provided for under the applicable legislation 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 business 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 the remunerations paid under said schemes
- Determine the company's dividend policy.

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

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

#### Board of Directors' year clock

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

In 2013, Citycon's Board of Directors held ten meetings in addition to its original meeting schedule and convened a total of 17 times. During the year, the Board held two meetings abroad, one in Stockholm and one in Tallinn in conjunction with visits to the local shopping centres owned by the company. Extraordinary meetings were mainly associated with the share issue executed in February-March and the Eurobond issued in June. In addition, the Board decided on (re)development projects of shopping centre IsoKristiina in Lappeenranta and shopping centre Iso Omena in Espoo. The average attendance rate at Board meetings stood at 90 per cent. The table below indicates attendance rates by member.

#### Attendance at Board meetings by member in 2013

Board member	Attendance rate, %
Chaim Katzman	77
Ronen Ashkenazi	85
Roger Kempe (until 21 March 2013)	86
Bernd Knobloch	100
Kirsi Komi	88
Karine Ohana (as of 21 March 2013)	80
Claes Ottosson	100
Per-Anders Ovin (as of 21 March 2013)	90
Jorma Sonninen	94
Per-Håkan Westin (until 21 March 2013)	100
Yuval Yanai	76
Ariella Zochovitzky	100

## Board Committees

The Board of Directors is assisted by three Board committees, which, effective as of 21 March 2013, are: the Audit and Governance Committee, the Nomination and Remuneration Committee and the Strategy and Investment Committee. The Board had four committees until 21 March 2013, but in Board's formative meeting on 21 March 2013 the Board decided to abolish the Nomination and Governance Committee and relegate its duties to the Audit Committee, which was then renamed Audit and Governance Committee, and to the Nomination Committee, which was renamed Nomination and Remuneration Committee. In Board committees, members 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' members and chairmen from among its members. The committee members must have the expertise and experience required by the committee's duties. A committee always has at least three members. Each committee's Chairman reports on issues discussed by the committee to the Board of Directors. In addition, minutes are prepared of all committee meetings and submitted to all Board members.

The members of the committees in 2013 are listed in the table below.

### Board Committees 2013

#### Committee members 1 January–21 March 2013

	Audit Committee	Nomination and Governance Committee	Remuneration Committee	Strategy and Investment Committee
<b>Members</b>	Ariella Zochovitzky (chair)	Kirsi Komi (chair)	Chaim Katzman (chair)	Ronen Ashkenazi (chair)
	Bernd Knobloch	Chaim Katzman	Claes Ottosson	Roger Kempe
	Kirsi Komi	Roger Kempe	Per-Håkan Westin	Bernd Knobloch
	Jorma Sonninen	Claes Ottosson	Yuval Yanai	Jorma Sonninen
	Yuval Yanai	Ariella Zochovitzky	Ariella Zochovitzky	Per-Håkan Westin

#### Committee members 21 March–31 December 2013

	Audit and Governance Committee	Nomination and Remuneration Committee	Strategy and Investment Committee
<b>Members</b>	Ariella Zochovitzky (chair)	Chaim Katzman (chair)	Ronen Ashkenazi (chair)
	Bernd Knobloch	Kirsi Komi	Bernd Knobloch
	Kirsi Komi	Claes Ottosson	Karine Ohana
	Karine Ohana	Yuval Yanai	Claes Ottosson
	Per-Anders Ovin	Ariella Zochovitzky	Per-Anders Ovin
	Yuval Yanai		Jorma Sonninen

## Committee duties

### Audit and Governance Committee (Audit Committee until 21 March 2013)

The Audit and Governance Committee supports the Board in reviewing the company's financial reporting and controls, and oversees compliance with the company's corporate governance practices.

The duties of the Audit and Governance Committee are:

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

- To oversee, review and make recommendations concerning the overall corporate governance of the company
- To develop the company's corporate governance practices and to recommend to the Board corporate governance policies applicable to the company as well as any modifications to the policies as appropriate
- To review the company's currently applicable Code of Conduct and compliance therewith
- To consider questions of possible conflicts of interest of the company, Board members and senior executives and initiate appropriate actions to address any such conflicts
- To evaluate the independence of each individual Board member and make recommendations to the Board
- To ensure that the Board annually engages in a self-evaluation process
- To perform any other duties or responsibilities related to the company's corporate governance issues.

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

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

In 2013, the Audit and Governance Committee performed the duties explained above, which included reviewing financial reports, internal audit plans and reports, relevant legislative reforms, the group's insurance issues as part of risk management, and property portfolio valuation reports. The committee also submitted its proposal to the AGM on the election of the auditor and the remuneration payable to the auditor. During the year, the Audit and Governance Committee convened seven times with an average attendance rate of 93 per cent. The table below indicates attendance rates by member.

#### **Audit and Governance Committee (Audit Committee until 21 March 2013) meeting attendance rate by member in 2013**

<b>Committee member</b>	<b>Attendance rate, %</b>
Ariella Zochovitzky (chair)	100
Bernd Knobloch	100
Kirsi Komi	100
Karine Ohana (as of 21 March 2013)	83
Jorma Sonninen (until 21 March 2013)	100
Per-Anders Ovin (as of 21 March 2013)	83
Yuval Yanai	86

#### **Nomination and Governance Committee (abolished on 21 March 2013)**

The Nomination and Governance Committee was abolished at the formative meeting of the Board of Directors on 21 March 2013. Before its abolition, the Nomination and Governance Committee convened twice in 2013. The attendance rate was 100 per cent. The Nomination and Governance Committee prepared proposals to the AGM on number, election and remuneration of Board members. The committee also performed regular review of corporate governance policies and Citycon's Code of Conduct.

#### **Nomination and Governance Committee meeting attendance rate by member in 2013**

<b>Committee member</b>	<b>Attendance rate, %</b>
Kirsi Komi (puheenjohtaja)	100
Chaim Katzman	100
Roger Kempe	100
Claes Ottosson	100
Ariella Zochovitzky	100

### **Nomination and Remuneration Committee (Remuneration Committee until 21 March 2013)**

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

The duties of the Nomination and Remuneration Committee are:

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

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

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

The Nomination and Remuneration Committee meets at least twice a year. In 2013, matters addressed at the Nomination and Remuneration Committee meetings focused primarily on revising the performance evaluation criterion of the company's short-term remuneration system and on assessing the work of the senior management. During the year, the Nomination and Remuneration Committee met three times with an average attendance rate of 95 per cent. The table below indicates attendance rates by member.

### **Nomination and Remuneration Committee meeting attendance rates by member in 2013 (Remuneration Committee until 21 March 2013)**

<b>Committee member</b>	<b>Attendance rate, %</b>
Chaim Katzman	67
Kirsi Komi (as of 21 March 2013)	100
Claes Ottosson	100
Per-Håkan Westin (until 21 March 2013)	100
Ariella Zochovitzky	100
Yuval Yanai	100

### **Strategy and Investment Committee**

The Strategy and Investment Committee supports the Board of Directors in setting a strategic direction for the company and in strategic steering.

The Strategy and Investment Committee has the following duties:

- To guide the optimisation and development of the company's property portfolio and to explore alternative ownership structures to optimise the portfolio
- To set general guidelines for the acquisition of new properties and the redevelopment of properties
- To supervise and develop investment and divestment planning and approval processes pertaining to the company's property business
- To decide on investments and divestments within the limits authorised by the Board of Directors
- To give the Board resolution recommendations concerning 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 at least twice a year. In 2013, the Strategy and Investment Committee made recommendations for resolutions to the Board in (re)development projects launched by Citycon during the year in the Iso Omena shopping centre in Espoo and the IsoKristiina shopping centre in Lappeenranta. The committee also discussed potential acquisitions and divestments. During the year, the Strategy and Investment Committee met four times with an average attendance rate of 96 per cent. The table below indicates attendance rates by member.

#### Attendance in Strategy and Investment Committee meetings by member in 2013

Committee member	Attendance rate, %
Ronen Ashkenazi	100
Roger Kempe (until 21 March 2013)	100
Bernd Knobloch	100
Karine Ohana (as of 21 March 2013)	100
Claes Ottosson (as of 21 March 2013)	100
Per-Anders Ovin (as of 21 March 2013)	67
Jorma Sonninen	100
Per-Håkan Westin (until 21 March 2013)	100

#### Chief Executive Officer (CEO)

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

It is the duty of the CEO to manage the 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 accounting system complies with the law 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, Board members receive all the information they need to monitor the company's financial position, liquidity, financing and development, and informs the Board of Directors of any major events, decisions and plans related to the company's business. In addition, the CEO serves as Chairman of the company's Corporate Management Committee.

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

The Board of Directors appointed Marcel Kokkeel (MA, born in 1958), a Dutch citizen, Citycon's CEO in 2011, and approved the terms of his service agreement. Mr Kokkeel assumed his duties on 24 March 2011. The CEO's service agreement has been signed for a fixed term and it will expire at the end of February 2015. The company may terminate the agreement prior to this date at any time, with a period of notice of six months. In this case the CEO will be paid, in addition to the salary payable for the notice period, severance pay consisting of 1.5 times the annual base salary at the moment of termination, as well as 1.5 times the most recent annual bonus payment.

#### Corporate Management Committee

CEO Marcel Kokkeel is assisted by the Corporate Management Committee which constitution remained unchanged in the year 2013. In addition to CEO the Corporate Management Committee consisted of Eero Sihvonen, Executive Vice President and CFO, Anu Tuomola, Head of Legal Affairs, Harri Holmström, Chief Operating Officer, and Nils Styf, Chief Investment Officer in 2013. Corporate Management Committee members' personal details and information on their share and stock option holdings are presented in the table below. Their career histories and any positions of trust are available on the corporate website at [www.citycon.com/management](http://www.citycon.com/management). The Secretary of the Corporate Management Committee is Henrica Ginström, IR Manager of the company.

### Citycon Oyj's Corporate Management Committee on 31 December 2013

Name	Position in the company	CMC member since	Born	Education	Nationality	Citycon shares	Citycon stock options 2011
Marcel Kokkeel	Chief Executive Officer	2011	1958	M.A. (Notary Law)	Dutch	216,405	1,000,000
Eero Sihvonen	Executive Vice President and Chief Financial Officer	2005	1957	M.Sc. (Econ.)	Finnish	85,826	750,000
Anu Tuomola	General Counsel, Head of Legal Affairs	2011	1974	LL.M., Trained at the Bench	Finnish	-	300,000
Harri Holmström	Chief Operating Officer	2005	1956	M.Sc. (Surveying), Authorised Property Appraiser	Finnish	27,036	420,000
Nils Styf	Chief Investment Officer	2012	1976	M.Sc. (Business Administration and Economics)	Swedish	2,080	300,000

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, to co-ordinate and develop the company's various operative functions and to promote information flow and co-operation between different parts of the organisation.

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

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

The Corporate Management Committee usually convenes twice a month. In 2013, the Corporate Management Committee convened 19 times.

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

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

### Financial reporting organisation and processes in Citycon group

Citycon, the parent company of Citycon group, has a total of 93 subsidiaries, 19 joint venture companies and associated companies and three companies with less than 20% minority ownership in its operating countries.

Citycon prepares its consolidated financial statements and interim reports in accordance with the International Financial Reporting Standards (IFRS), as adopted by the EU, and the Finnish Securities Market Act, and complies with the Finnish Financial Supervision Authority's regulations and guidelines as well as the Helsinki Stock Exchange's 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 consolidated segment reporting is based on geographical division: Finland, Sweden and the Baltic Countries and New Business. The reported segments are comprised of eight clusters. Group support functions operate mainly in the parent company's head offices in Helsinki, Finland. Each of the company's business units has its own financial administration. To ensure quality and control over financial reporting, Citycon has established a uniform reporting process applied by all group companies. This includes common accounting policies, a chart of accounts and a single financial reporting system.

Citycon's organisational structure is designed to establish clear areas of responsibility and division of authority. The parent company's Board of Directors is responsible for arranging and maintaining adequate and effective internal control. It is the CEO's duty to attend to

the implementation of practical actions regarding internal control. The CEO is responsible for maintaining an organisational structure in which responsibility, authority and reporting relationships are clearly and comprehensively defined in writing.

#### 2013 projects concerning the internal control of financial reporting

During 2013, Citycon further continued the development, supervision and continuous monitoring of the internal controls of the financial reporting processes. This work is based on a project initiated by Citycon's Board of Directors in the spring of 2010, in which the internal control mechanisms of the company's major operating processes were reviewed and documented in writing. In addition to representatives of Citycon's group functions, the business units in each country participated in the project, helping to build and implement a group-wide, harmonised control environment. Due to re-organisation of business operations executed in 2013 the financial reporting processes and controls of the group have been reviewed and updated accordingly.

During the financial year, the efficiency of the control points was tested. The company evaluated the testing, and any observations in the tests were assessed jointly and separately. Based on the resulting summary drawn up by the company, there are no indications to suggest that these control deviations would lead to material errors in Citycon's financial statements.

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

#### Control environment

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

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

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

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

#### Budget and planning process

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

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

## **Risk assessment**

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

The objective of Citycon's risk management program is to ensure that Citycon will reach its business targets and to identify key risks which may threaten its ability to meet these targets before they realise.

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

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

In 2013, Citycon updated risks related to processes deemed significant to financial reporting, to serve as a basis for internal control over external financial reporting. In addition to the group's finance function, the business units' financial management have participated in the risk assessment process. Citycon has nine processes significant to financial reporting: the company-level control process, financial statements preparation process, rental income process, operating expenses process, payroll accounting process, investments process, treasury process, investment property valuation process and general IT controls process.

## **Control activities**

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

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

## **Information and communication**

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

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

## **Monitoring activities**

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

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

During 2013, 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 who are independent of the business units' daily operations and were steered by the group management. The significance and impacts of deviations detected in these tests were evaluated by the group management, and the necessary corrective measures were initiated. Based on the resulting summary drawn up by the group management, there are no indications to suggest that these control deviations would lead to material errors in Citycon's financial statements.

The Audit and Governance Committee assesses and monitors the adequacy and effectiveness of internal controls and risk management. The internal audit function assists the Audit and Governance Committee in assessing and monitoring the adequacy and effectiveness of Citycon's internal controls and risk management, by performing audits in group legal entities and support functions according to the annual plan approved by the Audit and Governance Committee. The planned internal audit conducted in 2013 focused on group's HR processes, development project processes and operating expenses and rental income processes. Internal audit services were purchased from an external service provider, PricewaterhouseCoopers Oy. The external auditor conducts evaluations of internal controls as part of their annual audit as prescribed by law.

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