



ANNUAL REPORT 2016

# CORPORATE GOVERNANCE STATEMENT

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## HOW TO READ CITYCON'S ANNUAL REPORT 2016

Citycon’s Annual Report 2016 consists of four parts. To read all the parts, please visit [www.citycon.com/annual-reports](http://www.citycon.com/annual-reports)

 <p><b>01</b></p> <p>Annual Review</p>	 <p><b>02</b></p> <p>Sustainability Accounts</p>
 <p><b>03</b></p> <p>Corporate Governance Statement</p>	 <p><b>04</b></p> <p>Financial Statements</p>

## INTEGRATED REPORTING

This is the first time we will publish an integrated report on our sustainability statements integrated with the financial, company and management review.

# CITYCON GROUP'S CORPORATE GOVERNANCE STATEMENT FOR THE FINANCIAL YEAR 2016

## I. INTRODUCTION

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

Citycon's corporate governance principles are based on legislation in force in Finland, the rules and regulations issued for listed companies by the Helsinki Stock Exchange and the Finnish Financial Supervisory Authority as well as Citycon's Articles of Association. Corporate governance in Citycon's subsidiaries is also governed by the laws of the country in which the subsidiary is domiciled, and by each subsidiary's Articles of Association. In addition, Citycon applies the Finnish Corporate Governance Code 2015 published by the Finnish Securities Market Association (Corporate Governance Code) and Citycon's own Code of Conduct and Corporate Governance Guidelines.

This corporate governance statement (CG Statement) has been prepared in accordance with the recommendations of the Corporate Governance Code.

In 2016, Citycon followed the recommendations of the Corporate Governance Code without deviation.

This CG Statement has been prepared as a separate report, distinct from the Report by the Board of Directors. The Audit and Governance Committee of the Board of Directors has reviewed the CG Statement on 7 February 2017. Ernst & Young Oy, the company's auditor, has verified that the CG 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 company's Financial Statements.

This CG Statement was published on 9 February 2017 simultaneously with Citycon's Financial Statements and the Report by the Board of Directors for 2016.

 The Corporate Governance Code is available on the Securities Market Association's website at [www.cgfinland.fi](http://www.cgfinland.fi).

 The CG Statement and the same statements for previous years since 2010 are available on the company website at [www.citycon.com/corporate-governance](http://www.citycon.com/corporate-governance).

## II. DESCRIPTIONS CONCERNING CORPORATE GOVERNANCE

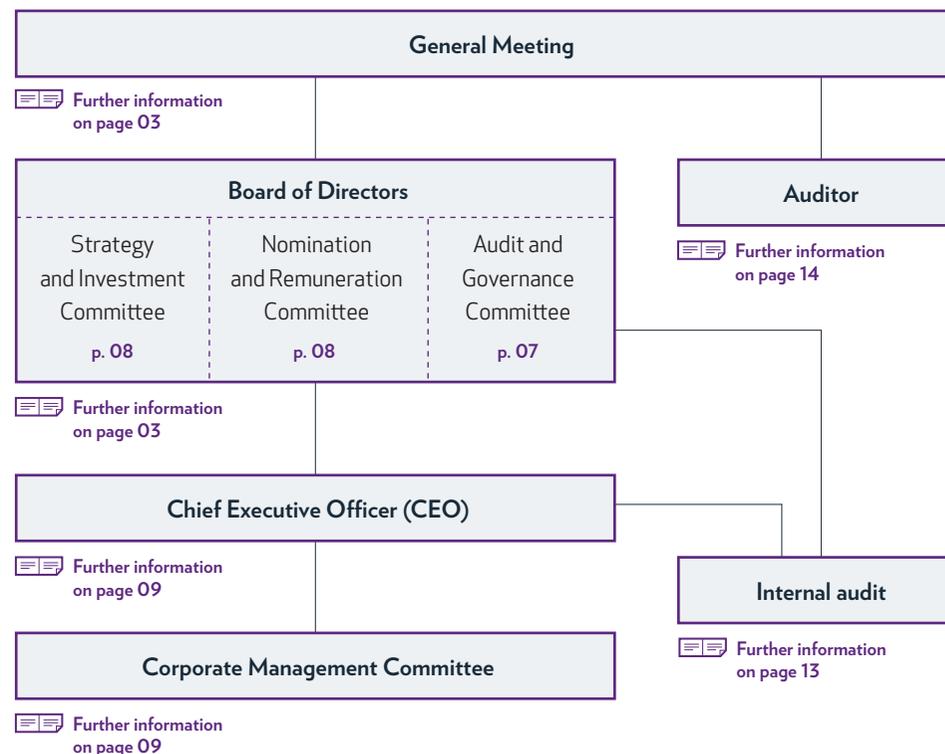
Citycon's statutory bodies are the General Meeting, the Board of Directors and the CEO. The General Meeting elects members to the company's Board of Directors, and the Board of Directors appoints the company's CEO. The Board of Directors' work is enhanced by three Board committees whose members are elected by the Board of Directors among its members. 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 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. Charters are discussed in more detail below.

Citycon updated its Corporate Governance Guidelines to conform with the new Corporate Governance Code

### 1. CITYCON'S CORPORATE GOVERNANCE MODEL



## 2. GENERAL MEETING OF SHAREHOLDERS

Citycon's shareholders exercise their decision-making power at the General Meeting. According to the Articles of Association, Citycon's Annual General Meeting is held annually by the end of April, once the financial statements have been prepared. Extraordinary General Meetings are convened whenever deemed necessary for decision-making purposes or when required by law.

The company publishes the notice of a General Meeting which includes a proposal for the meeting's agenda, the documents to be presented to the General Meeting and the Board of Directors' resolution proposals on the company's website, no later than three weeks prior to the General Meeting. The notice of a General Meeting includes proposals for the composition of the Board of Directors and the remuneration of Board members, as well as a proposal for auditors if these items are included in the agenda of the meeting. In addition, where applicable information on all proposed Board members is provided on the company's website. The notice of the General Meeting is also published simultaneously as a stock exchange release.

A shareholder is entitled to demand a matter for discussion at a General Meeting if such a matter falls under the competence of the General Meeting according to the Finnish Limited Liability Companies Act and if they demand it by giving notice to the company well in advance so that the matter can be included in the notice of a General Meeting. Before the end of the financial year 1 January – 31 December 2015, the company announced on its website at [www.citycon.com/general-meeting](http://www.citycon.com/general-meeting) and in the investor calendar that 31 January 2016 was the latest date on which shareholders may have requested a matter for discussion at the Annual General Meeting of 2016.

Citycon strives to facilitate the participation of its shareholders in General Meetings by arranging such meetings in a manner that enables both Finnish and international shareholders to participate in the meeting as extensively as possible and to efficiently exercise their right to vote, ask questions and speak at the meeting.

Citycon's Annual General Meeting (AGM) 2016 was held on 16 March 2016. The meeting was attended by members of the Board of Directors, the CEO, other senior executives of the company and the company's auditor. The Board Chairman's words to shareholders were heard on video.

Citycon published the decisions taken by the General Meeting 2016 in stock exchange release and on its website. The minutes of the General Meeting were available on the company's website within two weeks of the General Meeting.



Minutes of the General Meetings, General Meeting documents presented on the website and summaries of the resolutions of each General Meeting since 2010 are available in Citycon's GM archive at [www.citycon.com/agm-archive](http://www.citycon.com/agm-archive).

General information on General Meetings and shareholder rights can be found at [www.citycon.com/general-meeting](http://www.citycon.com/general-meeting).

## 3. BOARD OF DIRECTORS

### 3.1 The composition and operations of the Board of Directors

According to Citycon's Articles of Association, the company's Board of Directors consists of a minimum of five and a maximum of ten members. The Articles of Association do not contain any regulations on a specific procedure according to which the Board members are to be appointed.

The General Meeting of shareholders decides on the number of members of the Board of

Directors and elects them at the Annual General Meeting and, when necessary, at Extraordinary General Meetings.

According to the Corporate Governance Code, the majority of the directors shall be independent of the company. In addition, at least two directors who are independent of the company shall also be independent of the significant shareholders. The Board of Directors evaluates the independence of the directors annually.

The Board of Directors' proposal to the General Meeting on the composition of Citycon's Board of Directors is prepared by the Nomination and Remuneration Committee of the Board of Directors. The company's strategy and the requirements set by its operations, the company's development stage and the diversity principles specified by the company for the Board shall be taken into account when planning the composition of the Board of Directors. According to the diversity principles the factors to be taken into account in the planning of the composition of the Board include the appropriate number of Board candidates and their background, independence, age, gender, skills and experience. However, the ultimate proposal to the General Meeting on the composition of the Board of Directors shall always be based on the candidates' merit. A person to be elected to the Board of Directors also must have the possibility to devote a sufficient amount of time to the work. Both genders shall be proposed as Board members.

Members of the Board of Directors and candidates for the Board are obligated to provide the Board with sufficient information for the evaluation of their qualifications and independence, and to notify the Board of any changes to this information.

The company shall ensure that new directors are adequately familiarised with the company and

its business operations and practices.

The Board of Directors elects the Chairman and one or more Deputy Chairmen from among its members.

### 3.2 The composition of the Board of Directors in 2016

Citycon's AGM on 16 March 2016 set the number of Board members at ten. The following Board members were re-elected: Chaim Katzman, Bernd Knobloch, Arnold de Haan, Kirsi Komi, Rachel Lavine, Andrea Orlandi, Claes Ottosson, Per-Anders Ovin and Ariella Zochovitzky. Dor J. (Dori) Segal was elected as a new member. The members of the Board of Directors were elected for a term of one year that ends at the close of the first AGM following their election.

The Board of Directors evaluated its members' independence on 16 March 2016. The Board of Directors concluded that all Board members are independent of the company. Furthermore, according to the Board of Directors' evaluation, Arnold de Haan, Bernd Knobloch, Kirsi Komi, Claes Ottosson, Per-Anders Ovin and Ariella Zochovitzky are independent of the company's significant shareholders. Chaim Katzman, Rachel Lavine and Dori Segal are in the employ of or Board members of Citycon's main shareholder, Gazit-Globe Ltd., or its affiliated companies and, therefore, are not independent of the company's significant shareholders. Andrea Orlandi is in the employ of Canada Pension Plan Investment Board, the parent company of CPP Investment Board European Holdings S.à.r.l, which is a significant shareholder in the company. Therefore, Andrea Orlandi is not independent of the company's significant shareholders.

The Chairman of the Board in 2016 was Chaim Katzman, with Bernd Knobloch and Dori Segal serving as Deputy Chairmen.

### 3.3 Information about Board members, 31 December 2016



**Chairman of the Board**  
**Chaim Katzman**

Member and Chairman of the Board of Directors since 2010  
LL.B., Israeli and US citizen, born 1949  
Main occupation: Norstar Holdings Inc. (former Gazit Inc.), founder, controlling shareholder and Chairman of the Board of Directors since 1991; Equity One Inc., founder and Chairman of the Board of Directors since 1992; Gazit-Globe Ltd., Executive Chairman of the Board of Directors since 1998  
The Board's assessment of independence: Independent of the company  
Citycon shares\*: 178,856  
Membership in Citycon's Board committees: Nomination and Remuneration Committee, Chairman



**Deputy Chairman of the Board**  
**Bernd Knobloch**

Member of the Board of Directors since 2012, Deputy Chairman since 2013  
University degrees in Law and Business Administration, German citizen, born 1951  
Main occupation: Professional non-executive director  
The Board's assessment of independence: Independent of the company and significant shareholders  
Citycon shares\*: 108,685  
Membership in Citycon's Board committees: Audit and Governance Committee  
Strategy and Investment Committee



**Deputy Chairman of the Board**  
**Dori Segal**

Member and Deputy Chairman of the Board of Directors from 16 March 2016  
High school, US citizen, born 1962  
Main occupation: Gazit-Globe Ltd., Member of the Board of Directors since 1993, Deputy Chairman of the Board of Directors since 2008, CEO since 20 January 2017, First Capital Realty Inc., Chairman of the Board of Directors since 2015  
The Board's assessment of independence: Independent of the company  
Citycon shares\*: 57,174  
Membership in Citycon's Board committees: Strategy and Investment Committee, chairman (from 16 March 2016)



**Arnold de Haan**

Member of the Board of Directors since 2014  
LL.M., Dutch citizen, born 1954  
Main occupation: Boishaen B.V., Founder and Managing Director since 2008  
The Board's assessment of independence: Independent of the company and significant shareholders  
Citycon shares\*: 200,000  
Membership in Citycon's Board committees: Nomination and Remuneration Committee  
Strategy and Investment Committee



**Kirsi Komi**

Member of the Board of Directors since 2011  
LL.M., Finnish citizen, born 1963  
Main occupation: Professional non-executive director  
The Board's assessment of independence: Independent of the company and significant shareholders  
Citycon shares\*: 11,933  
Membership in Citycon's Board committees: Audit and Governance Committee  
Nomination and Remuneration Committee



**Rachel Lavine**

Member of the Board of Directors since 2015  
CPA, MBA, Israeli citizen, born 1965  
Main occupation: Atrium European Real Estate Ltd., Vice Chairman of the Board of Directors 2014 – 19 January 2017; Gazit-Globe Ltd., CEO 2015 – 19 January 2017  
The Board's assessment of independence: Independent of the company  
Citycon shares\*: -  
Membership in Citycon's Board committees: Audit and Governance Committee  
Strategy and Investment Committee



**Andrea Orlandi**

Member of the Board of Directors since 2014  
MBA (INSEAD), Italian citizen, born 1971  
Main occupation: Canada Pension Plan Investment Board (CPPIB), London, Managing Director, Head of Real Estate Investments Europe since 2014  
The Board's assessment of independence: Independent of the company  
Citycon shares\*: -  
Membership in Citycon's Board committees: Audit and Governance Committee  
Strategy and Investment Committee



**Claes Ottosson**

Member of the Board of Directors since 2004  
Electrical Engineer, Swedish citizen, born 1961  
The Board's assessment of independence: Independent of the company and significant shareholders  
Main occupation: ICA Kvantum Hovås, Managing Director since 1990  
Citycon shares\*: 77,802  
Membership in Citycon's Board committees: Nomination and Remuneration Committee  
Strategy and Investment Committee



**Per-Anders Ovin**

Member of the Board of Directors since 2013  
M.Sc (Economics), Swedish citizen, born 1956  
Main occupation: Mengus Stockholm AB, Chairman of the Board, Partner and Owner since 2005; Marrakech Design/Ovin Consulting AB, owner since 2003  
The Board's assessment of independence: Independent of the company and significant shareholders  
Citycon shares\*: 23,000  
Membership in Citycon's Board committees: Audit and Governance Committee  
Nomination and Remuneration Committee



**Ariella Zochovitzky**

Member of the Board of Directors since 2009  
B.A. (Economics and Accounting), CPA (Israel), MBA, Israeli citizen, born 1957  
Main occupation: C.I.G. Consultants Ltd., General Manager & partner since 2001; C.I.G. Zochovitzky Ltd., General Manager & partner since 2012  
The Board's assessment of independence: Independent of the company and significant shareholders  
Citycon shares\*: 11,700  
Membership in Citycon's Board committees: Audit and Governance Committee, chairman  
Nomination and Remuneration Committee

Board members' personal details can also be found on the company's website at [www.citycon.com/board-directors](http://www.citycon.com/board-directors) and information on their personal shareholdings in Citycon at [www.citycon.com/insiders-shareholdings](http://www.citycon.com/insiders-shareholdings).

\*Includes the shares and share-based rights in the company and companies belonging to the same group held by the director and corporations over which he or she exercises control.

### 3.4 Description of the charter and operations of the Board of Directors

The Board of Directors' duties and responsibilities are determined by the Finnish Limited Liability Companies Act, the Corporate Governance Code, Citycon's Articles of Association and the written charter of the Board of Directors. The charter of the Board of Directors is included in the Corporate Governance Guidelines approved by Citycon's Board of Directors. The main content of the charter is described below. According to the charter the most important duties of the Board in addition to its statutory duties are:

- confirm the business strategy, targets and main procedures
- appoint the CEO and approve the appointment of other members of the Corporate Management Committee
- supervise the finances (including, for example, approval of interim reports, financial statements and group-level budgets and financing plans and overseeing their implementation)
- determine the company's dividend policy
- decide on major and strategically important (property) acquisitions, (property) divestments and (property) development projects
- decide on employees' bonus and incentive schemes and the principles governing them and approve the allotment of remuneration paid under the schemes
- confirm the corporate governance principles and the principles of internal control and risk management and monitor the adequacy, appropriateness and efficiency of the company's administrative processes

The CEO provides the Board of Directors with a regular review of the most significant matters with regard to the company's operations, business environment and financial position.

The Board of Directors convenes according to a predetermined meeting schedule eight times a year and when deemed necessary. The meeting schedule is based on the company's financial reporting schedule, the schedule of the asset distribution and the Board of Directors' strategy and budget meetings, as indicated in the Board's year clock shown on the right.

Items are discussed in Board meetings in accordance with 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, the use of telephone or video conferencing for meetings is possible. Minutes are kept of each meeting, and they are reviewed and approved in the following meeting.

The Board of Directors evaluates its operations and working methods annually. The Nomination and Remuneration Committee ensures that the evaluation is carried out. In 2016, the evaluation was conducted as self-evaluation.

In 2016, Citycon's Board of Directors held six meetings in addition to its original meeting schedule, convening a total of 12 times during the year. Meetings in addition to the original meeting schedule were mainly associated with the transition to the quarterly asset distribution schedule, and with the Eurobond issued in August. During the year, the Board of Directors held one meeting in Stockholm at Citycon's office in Kista Galleria.

### Board of Directors' annual clock

#### DECEMBER

- Budget
- Bonus criteria and targets for the following year
- Risk management
- Board's self-evaluation
- Possible quarterly distribution of assets\*

#### OCTOBER

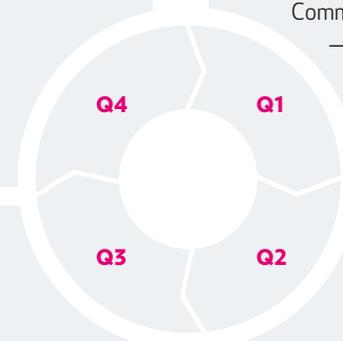
- Interim report 1 Jan – 30 Sep

#### FEBRUARY

- Financial statements and Report by the Board
- Proposal for profit/asset distribution and other proposals to the General Meeting
- Corporate Governance Statement
- Performance bonuses for the previous year

#### MARCH

- Annual General Meeting
- Chairman and Deputy Chairman (Chairmen) of the Board
- Chairmen and members of Board Committees
  - Independence assessment of the directors
  - Possible quarterly distribution of assets\*



#### SEPTEMBER

- Possible quarterly distribution of assets\*

#### JULY

- Interim report 1 Jan – 30 Jun

#### APRIL

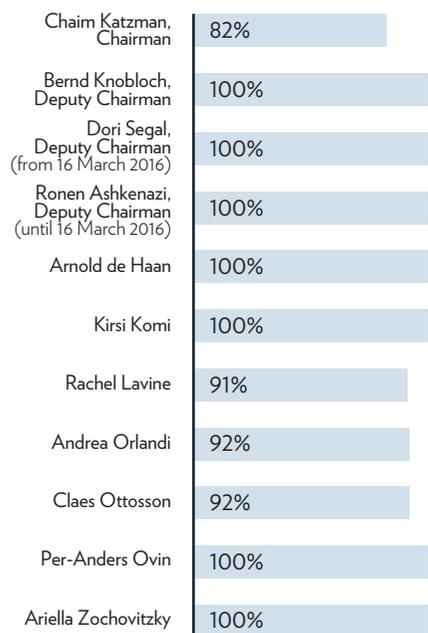
- Interim report 1 Jan – 31 March

#### JUNE

- Possible quarterly distribution of assets\*

\* Authorisation granted by the GM to the Board is required

The average attendance rate at Board meetings in 2016 was 96%. The graph below indicates attendance rates by member.



### 3.5 Diversity of the Board of Directors

At the beginning of 2016, Citycon's Board of Directors recorded the principles concerning the diversity of the Board of Directors in the company's Corporate Governance Guidelines. According to the principles of diversity, when planning the composition of the Board, the Nomination and Remuneration Committee shall take into account the candidates' background, independence, age, gender, skills and experience, the suitable number of candidates and their opportunity to devote a sufficient amount of time to their work. In addition, the company's strategy, the requirements set by the company's operations and the company's stage of

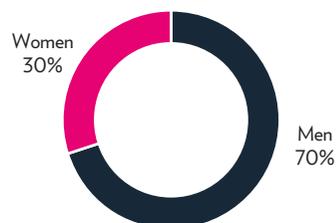
development shall be taken into account in the composition of the Board of Directors. The Nomination and Remuneration Committee shall take account of proposing both genders as members of the Board of Directors.

The company's Nomination and Remuneration Committee took into account the company's diversity principles when preparing a proposal for the composition of the Board of Directors for the Board of Directors to be presented to the AGM 2016. The directors elected to the Board of Directors in 2016 are presented above under [3.3 Information about Board members](#).

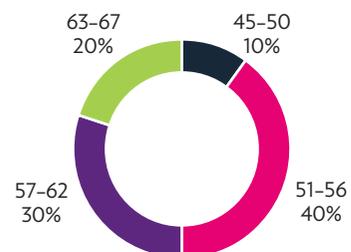
In 2016, the composition of Citycon's Board of Directors was balanced with regard to the

diversity principles. The members of Citycon's Board of Directors had versatile expertise and international background. The competence, education, experience and seniority of the directors complemented each other. The Board of Directors had special expertise and experience in the fields of real estate and retail business, financing and accounting, legal affairs and business management and administration. The directors represented eight nationalities. Both genders were represented on Citycon's Board of Directors in accordance with the objectives specified by the company, and the directors were active in their participation in the Board work.

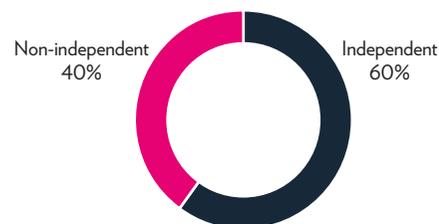
#### GENDER



#### AGE

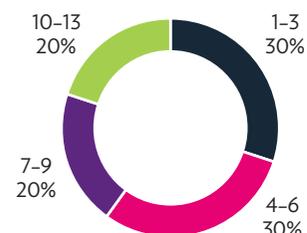


#### INDEPENDENCE OF SIGNIFICANT SHAREHOLDERS\*



\* All Board members are independent of the company

#### TOTAL DURATION OF BOARD MEMBERSHIP AT CITYCON\*



\* Total but not continuous duration if the person has been a Board member in two different periods

The composition of Citycon's Board of Directors is international and diverse

## 4. BOARD COMMITTEES

### 4.1 Composition and operations of the committees

Citycon's Board of Directors is assisted by three committees set up by the Board of Directors: the Audit and Governance Committee, the Nomination and Remuneration Committee and the Strategy and Investment Committee.

In Board committees, directors are able to delve into matters in greater detail than the Board of Directors as a whole. Each committee's main duties and working principles are established in writing by the committee charters included in Citycon's Corporate Governance Guidelines approved by Citycon's Board of Directors.

The Board of Directors elects the Board Committee members and chairmen from among its members. The CEO does not belong to any of the committees. A committee always has at least three members. The committee members shall have the expertise and experience required for the duties of the committee.

The committees' chairmen report on issues discussed by the committees to the Board of Directors. In addition, minutes are prepared of all committee meetings and made available to all Board members.

The members of Board committees in 2016 are listed above under [3.3 Information about Board members](#) and below in connection with the description of each committee.

### 4.2 Descriptions of committee charters and operations

#### Audit and Governance Committee

The Audit and Governance Committee supports the Board in reviewing questions pertaining to the company's financial reporting. It controls, oversees and develops Citycon's corporate governance practices.

According to the committee charter, the most important duties of the Audit and Governance Committee are as follows:

- monitor financial reporting, particularly the financial statement reporting process, and review the financial reports and the corporate governance statement
- monitor the efficiency of internal control, internal audit and risk management systems and approve internal audit plans and reports
- make recommendations related to corporate governance and review the company's Code of Conduct and compliance with it
- evaluate the independence of the directors and make recommendations to the Board
- prepare a proposal for the Board of Directors to be presented to the General Meeting for the election and remuneration of the auditor
- review auditor's reports and communicate with the external auditor
- evaluate the independence of the responsible auditor and audit firm and
- prepare a proposal to the Board of Directors for the election of an external appraiser to assess the company's property portfolio

Members of the Audit and Governance Committee must be independent of the company and at least one committee member must be independent of the company's significant shareholders. Committee members

must have expertise and experience in the respective field. At least one committee member must be a financial expert with sufficient knowledge and experience in the fields of accounting 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 company's annual financial statements are reviewed, and reports on audit findings. The responsible auditor also attends other Audit and Governance Committee meetings upon the committee's request. In 2016, the company's responsible auditor, Mikko Ryttilahti at Ernst & Young Oy, attended the committee meetings in which the company's interim reports, financial statements and budget-related risks were reviewed.

The Audit and Governance Committee meets at least four times a year, in accordance with the company's financial reporting schedule, to review the interim reports and annual financial statements of the company. In 2016, the Audit and Governance Committee also reviewed the company's risk management reporting, internal audit plans and reports, property portfolio valuation reports and property valuation process, the new practices pursuant to the requirements of the EU's Market Abuse Regulation, the updating of the Insider Guidelines and Disclosure Policy, the updating of the Corporate Governance Guidelines in accordance with the new Corporate Governance Code, and familiarized with the audit regulation reform. The committee also prepared its proposal for the Board of Directors on the election of the auditor and the remuneration payable to the auditor to be presented to the AGM.

During the year, the Audit and Governance Committee convened seven times with an average attendance rate of 98%. The graph below indicates attendance rates by member.



### Nomination and Remuneration Committee

The Nomination and Remuneration Committee's task is to ensure that proposals regarding Citycon's Board member election and remunerations are efficiently prepared. The committee is also responsible for the preparation of matters regarding the appointment and remuneration of the CEO and other senior executives and regarding the employee remuneration schemes.

According to the committee charter, the most important duties of the Nomination and Remuneration Committee are as follows:

- seek new Board member candidates and prepare a proposal for the Board of Directors to be presented to the General Meeting for the election of Board members and for their remuneration
- prepare a proposal to the Board of Directors for the composition and chairmen of the Board committees
- ensure that the Board carries out its annual self-evaluation
- prepare matters pertaining to the appointment and remuneration of the company's CEO, the CEO's deputy and other senior executives
- prepare the company's remuneration schemes and monitor the appropriateness of the remuneration schemes
- evaluate the CEO's performance
- evaluate the successor planning of the corporate management

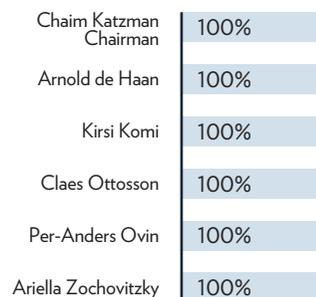
The members of the Nomination and Remuneration Committee must be independent of the company.

When seeking potential new Board members, the Nomination and Remuneration

Committee shall take account of the requirements of the company's strategy and operations, the diversity principles of the Board and the company's stage of development. The company's diversity principles are described above under 3.5 Diversity of the Board of Directors. The committee begins preparations for the election of Board members in the autumn prior to the following year's AGM. The Nomination and Remuneration Committee consults significant shareholders of the company in this matter.

The Nomination and Remuneration Committee meets at least twice a year. In 2016, the Nomination and Remuneration Committee prepared proposals for the Board of Directors to be presented to the AGM concerning the number and remuneration of Board members and the composition of the Board. Other matters addressed at the committee's meetings focused on, among others, the company's short- and long-term remuneration schemes and remunerations paid under the schemes.

During the year, the Nomination and Remuneration Committee convened three times with an average attendance rate of 100%. The graph below indicates attendance rates by member.



### Strategy and Investment Committee

The Strategy and Investment Committee supports the Board of Directors in defining and monitoring the company's strategic direction.

According to the committee charter, the most important duties of the Strategy and Investment Committee are as follows:

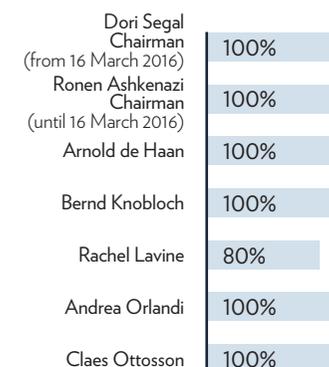
- guide and develop the optimisation of the company's property portfolio and explore alternative ownership structures to optimise the property portfolio
- set general guidelines for the acquisition of new properties and the redevelopment of properties
- develop and supervise planning and approval processes of acquisitions, property development projects and divestments pertaining to the company's property business
- follow-up on property development projects as well as integration process and profitability of completed projects and acquired properties
- decide on acquisitions, property development projects and divestments within the authorisations set by the Board of Directors, or make recommendations to the Board

The members of the Strategy and Investment Committee must be independent of the company.

The Strategy and Investment Committee meets as necessary but at least twice a year. In 2016, the Strategy and Investment Committee made recommendations for resolutions to the Board regarding, for instance, divestment of non-core assets and property development projects. The committee also discussed

measures for further development of Citycon's property portfolio and the market conditions in Citycon's operating countries.

During the year, the Strategy and Investment Committee convened five times with an average attendance rate of 97%. The graph below indicates attendance rates by member.



## 5. CHIEF EXECUTIVE OFFICER (CEO)

Citycon's Board of Directors appoints the company's CEO and decides on the terms and conditions of his/her service agreement. The service terms of the CEO are stipulated in a written service agreement approved by the Board of Directors.

According to the company's Corporate Governance Guidelines, the duties of the CEO are as follows:

- be in charge of 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
- bear responsibility for ensuring that the company's accounting is legally compliant and that its financial affairs are arranged in a reliable manner
- attend to the everyday management of the company in accordance with the guidelines and instructions given by the Board of Directors
- prepare matters to be presented to the Board
- attend the meetings of the Board of Directors and the committees and present matters to the Board insofar as this is not done by the chairman of the Board or the committee in question
- oversee compliance with the guidelines, procedures and strategic plans established by the Board of Directors
- ensure that Board members continuously receive all the information they need to monitor the company's financial position, liquidity, financing and development

- inform the Board of Directors of any major events, decisions and plans related to the company's business
- serve as the Chairman of the company's Corporate Management Committee

Marcel Kokkeel (LL.M., born 1958), a Dutch citizen, has been the company's CEO since 2011. The CEO's service agreement is valid for an indefinite duration. The period of notice of the service agreement is six months, both for the CEO and the company. In case of notice by the company, the CEO shall be paid, in addition to the salary payable for the notice period, a severance pay consisting of 1.5 times the CEO's fixed annual salary at the moment of termination.

## 6. CORPORATE MANAGEMENT COMMITTEE

In managing the company's business operations, Citycon's CEO is assisted by the Corporate Management Committee, comprising at least three members.

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 in accordance with the company's Corporate Governance Guidelines, particularly in the following matters:

- preparing changes and revisions related to the company's strategy in accordance with the guidelines issued by the Board of Directors for presentation to the Board
- preparing the company's budget for presentation to the Board and monitoring its implementation
- planning and preparing organisational changes required by the Board of Directors and the CEO
- monitoring the profitability of the company and its business units and current affairs relevant to the business

The Corporate Management Committee usually convenes twice a month. In 2016, the Corporate Management Committee convened 20 times. The secretary to the Corporate Management Committee was Henrica Ginström, Vice President, IR and Communications.



**Chief Executive Officer (CEO),  
Chairman of the Corporate  
Management Committee  
Marcel Kokkeel**

Member of the Corporate Management  
Committee since 2011  
LL.M. (Law), Dutch citizen, born 1958  
Citycon shares\*: 535,160  
Citycon stock options 2011: 1,000,000



**Executive Vice President  
and Chief Financial Officer  
Eero Sihvonen**

Member of the Corporate Management  
Committee since 2005  
M. Sc. (Econ.), Finnish citizen, born 1957  
Areas of responsibility: finance, treasury,  
investor relations, IT  
Citycon shares\*: 140,282  
Citycon stock options 2011: 750,000



**General Counsel,  
Head of Legal Affairs  
Anu Tuomola**

Member of the Corporate Management  
Committee since 2011  
LL.M., Trained at the Bench, Finnish citizen,  
born 1974  
Areas of responsibility: legal, compliance,  
secretary of the Board of Directors  
Citycon shares\*: -  
Citycon stock options 2011: 300,000



**Chief Operating Officer  
Jurn Hoeksema**

Member of the Corporate Management  
Committee since 2014  
M.Sc. (Engineering), Dutch citizen, born 1974  
Areas of responsibility: operational business  
and shopping centre management  
Citycon shares\*: 3,000  
Citycon stock options 2011: -



**Vice President, Marketing and Branding  
Marianne Mazarino Håkonsen**

Corporate Management Committee member  
since December 2015  
M.Sc. (Communications), Norwegian citizen,  
born 1967  
Areas of responsibility: marketing and branding  
Citycon shares\*: -  
Citycon stock options 2011: -

*Chief Investment Officer  
Nils Styf  
Member of the Corporate Management  
Committee 2012 - 31 August 2016  
M.Sc. (Business and Administration),  
Swedish citizen, born 1976  
Citycon shares\*: 10,770 (on the day of  
resignation, 31 August 2016)  
Citycon stock options 2011: 300,000*

\*Includes the shares and share-based rights in the company and companies belonging to the same group held by the CEO or Corporate Management Committee member and corporations over which he or she exercises control.

## 7. REMUNERATION

Citycon's Remuneration Statement is provided as a separate report, distinct from this CG Statement. The Remuneration Statement includes the description of the decision-making procedure concerning the remuneration of the directors, the CEO and any other executives and of the main principles of remuneration, as well as the remuneration report which discloses the remuneration paid during the previous reporting period.



Citycon's Remuneration Statement is available on the company's website at [www.citycon.com/remuneration](http://www.citycon.com/remuneration).



Information on Corporate Management Committee members' career histories and positions of trust is available on the company's website at [www.citycon.com/corporate-management-committee](http://www.citycon.com/corporate-management-committee).

### III. DESCRIPTIONS OF INTERNAL CONTROL PROCEDURES AND THE MAIN FEATURES OF RISK MANAGEMENT SYSTEMS

The purpose of Citycon's risk management and internal control is to ensure that the Group's 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 and give materially correct information about the company's financial position.

Citycon has a total of 102 subsidiaries, 39 joint ventures and associated companies and 3 companies with less than 20% minority ownership in its operating countries.

#### 1. GENERAL DESCRIPTION OF RISK MANAGEMENT

The risk management and reporting process involves identifying the existing risks, assessing the risk management measures and making new risk limitation plans if the current measures are

Citycon's risk management and reporting process involves identifying, analysing, measuring, limiting and monitoring the most important business-related risks

not deemed sufficient for the management of the identified risks. The objective is to achieve the business targets and improve the risk management

in the company continuously. Successful risk management decreases the likelihood of risk realisation and mitigates the negative effects of a realised risk. Risk management constitutes part of the company's internal control.

The risk reporting process gathers data on risk analysis and the respective management plans into one group-wide risk register, for annual reporting to Citycon's Board of Directors. This is done in conjunction with the budgeting process, so that the risks are linked to the annual targets. In order to evaluate the importance of each risk, an estimate of the loss associated with a realised risk is determined together with the probability of risk realisation. This also improves the comparability of risks between units and functions. In addition, the realised risks during the previous year are assessed and reported.

Each function in the company has a designated person who is the owner of the risks in that area and is also responsible for the reporting of risks, the limitation plans and the monitoring of the implementation of the plans. Core risks are reported to the Group Treasurer, who prepares the risk report for the Board of Directors. The CEO and the Corporate Management Committee are responsible for developing and maintaining the processes in accordance with the risk management principles approved by the Board of Directors. The Board of Directors monitors the company's business risks and uncertainties on a regular basis and reports them as required by law and the

Successful risk management decreases the likelihood of risk realisation and mitigates the negative effects of a realised risk

significant to financial reporting, to serve as a basis for internal control over external

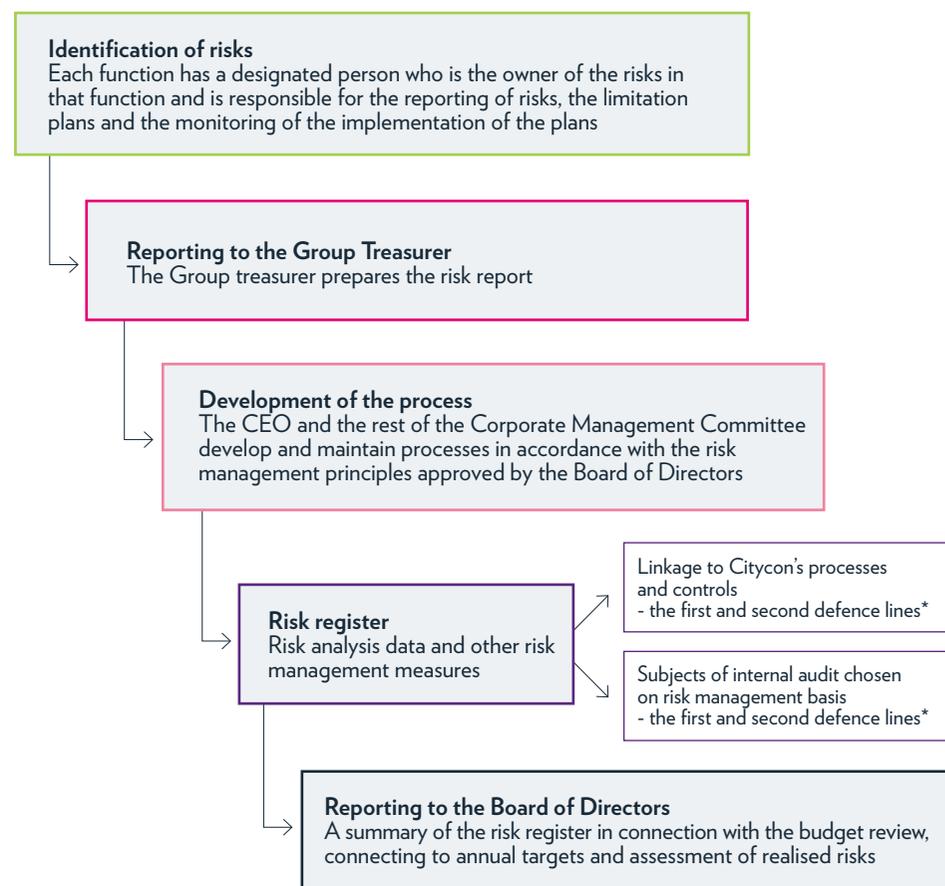
regulations and guidelines issued by the Finnish Financial Supervisory Authority.

Each year, Citycon assesses risks related to processes deemed

financial reporting. In addition to the group's finance function, the business units' financial management participates in the risk assessment process. Fraud risks are also assessed in this connection.

The company's key risks and uncertainties and the most important risk management measures and principles are covered more extensively annually in Citycon's financial statements.

#### Main features of the risk management process and its relation to internal control



\*Presented in the graph of the defense lines on page 12

## 2. GENERAL DESCRIPTION OF INTERNAL CONTROL

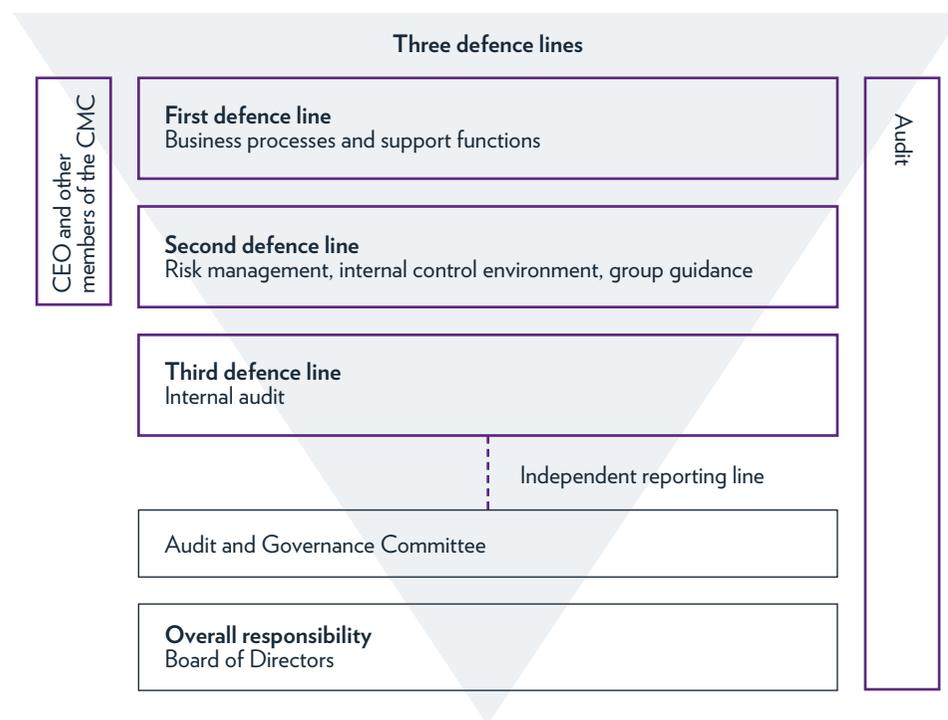
Citycon's internal control system is based on the international COSO 2013 framework (Committee of Sponsoring Organizations of the Treadway Commission). It includes the key principles related to the control environment, risk assessment, control activities, information, communication and monitoring activities. The cornerstones of Citycon's control environment include group-level operating policies and guidelines, harmonised controls in the operating processes and assessment of controls and deviations during the reporting period.

In 2016, Citycon continued to develop, supervise and monitor the internal controls in

its processes, within the framework prepared in 2010 and updated in 2014.

The development of internal control focused on the implementation and monitoring of the internal control operating models of the Norwegian business acquired in July 2015. The assessment of the effectiveness of control points continued by testing controls in the business units and group functions. The company evaluated the testing, and any exceptions in the tests were assessed individually and in aggregate. On the basis of the summary prepared by the company, there are no indications that these control deviations would lead to material errors in Citycon's financial statements.

### Roles in internal control and risk management



## 3. INTERNATIONAL COSO FRAMEWORK AS THE FOUNDATION FOR INTERNAL CONTROL

### Control environment

The division of duties included in Citycon's Corporate Governance Guidelines and the group's organisational structure ensure that the areas of responsibility and division of authority are clear for all functions and the management and employees.

At Citycon, the Board of Directors is responsible for arranging and maintaining adequate and effective internal control.

In accordance with the Board of Directors' and its committees' written charters included in the company's Corporate Governance Guidelines, the Board's Audit and Governance Committee assesses the company's financial reporting process and the appropriateness of the internal control system and reviews the internal control reports. The duties of the Board of Directors and the Audit and Governance Committee are presented in more detail in the section regarding the Board of Directors and its committees.

It is the CEO's duty to attend to the implementation of practical actions regarding internal control and to maintain an organisational structure in which responsibility, authority and reporting relationships are clearly and comprehensively defined in writing. Citycon uses an authorisation matrix that covers all functions. It defines the division of authority by specifying approval limits in euros for each job.

In addition, all of Citycon group's employees have a written job description, which includes the employee's key duties, areas of responsibility and authorisations. Job descriptions are reviewed twice a year during employee

performance reviews, in which each employee's performance is assessed against set targets.

The ethical principles and business norms of Citycon's business are specified in Citycon's Code of Conduct, which is one of the basic documents of the company's corporate governance principles. Compliance with the principles is promoted through internal communication and training. Citycon makes an effort to ensure that its key business partners also comply with the same or similar ethical principles.



On Citycon's website at [www.citycon.com/sustainability/report-violation](http://www.citycon.com/sustainability/report-violation), Citycon group's personnel and business partners can report violations and suspected violations of Citycon's Code of Conduct.

#### 4. CONTROL ACTIVITIES

The company's accounting and reporting manuals define the standards, processes and responsibilities for financial reporting. These manuals facilitate the achievement of Citycon's 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 site. Meetings are held on a regular basis in which the manuals are discussed with all personnel involved in the financial reporting process.

Descriptions have been drawn up of processes that are significant to Citycon's business and reporting. These are implemented in the organisation's daily operations and thus

constitute 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 in reporting. These control points include, for example, 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 organisation's 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 the descriptions of the day-to-day duties of employees participating in the reporting.

#### 5. INFORMATION AND COMMUNICATION

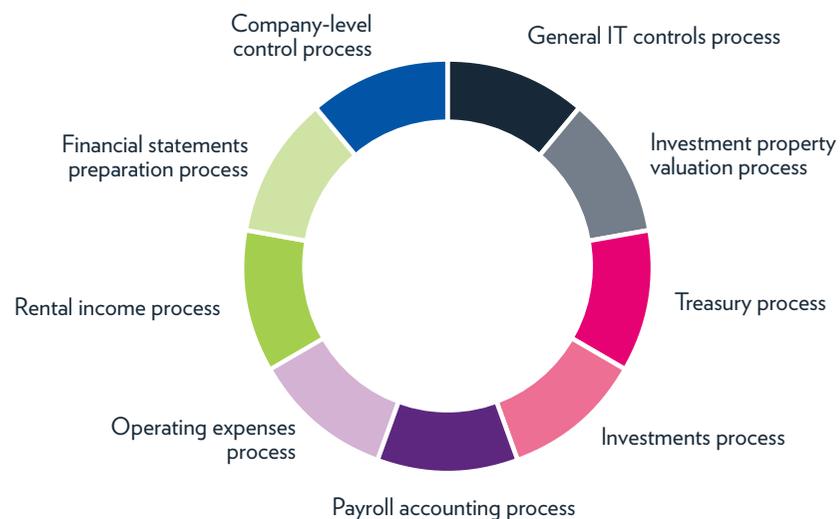
All external communication is carried out in accordance with Citycon's Disclosure Policy. The Board of Directors approves all financial reports issued by the company before they are published as stock exchange releases.

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

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

In 2016, testing of internal controls continued with regard to the main processes of the group management and each business area. These tests were carried out by assessors who are independent of the business areas' 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. On the basis of 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.

#### Financial reporting processes



#### 6. MONITORING ACTIVITIES

Citycon's business area 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 with laws and regulations as part of regular supervisory activities. The financial performance of the group and business areas is monitored monthly through the group's 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 forecast figures. The purpose of internal controls monitoring and testing is to detect control deviations in each significant process

## IV. OTHER INFORMATION TO BE PROVIDED IN THE CG STATEMENT

### 1. DESCRIPTION OF THE ORGANISATION OF THE COMPANY'S INTERNAL AUDIT AND THE MAIN PRINCIPLES OBSERVED IN THE INTERNAL AUDIT

Citycon has a separate internal audit function. The duties of internal audit include independent and objective auditing activities, as well as value-adding consulting activities that improve operations. Internal audit contributes to the achievement of the company's objectives through systematic assessment and development of the company's risk management, internal control and corporate governance processes. The internal audit function reports directly to the Board's Audit and Governance Committee and, administratively, to the CEO. The internal audit reporting relationships are also described in section II. [Descriptions concerning corporate governance](#) of this CG Statement (see the figure 'Citycon's corporate governance model'). A representative from Citycon's organisation has been designated to co-ordinate the practical work of internal audit. In 2016, internal audit services were purchased from an external service provider, PricewaterhouseCoopers Oy.

The Internal Audit Charter was last approved by the Board's Audit and Governance Committee in 2014. According to the charter, the duties of internal audit include, among others, assisting the Board of Directors, its committees and the corporate management with the assessment of processes related to the identification and management of risks, supervision of financial reporting, efficiency of operations and

compliance with law. Within the scope of the authorisation granted through the Internal Audit Charter, the internal audit function has unlimited access to Citycon's functions, processes, documents and personnel in order to perform audits.

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 processes in accordance with the annual plan approved by the Audit and Governance Committee. The annual plan is approved by the Audit and Governance Committee at its meeting each year. The progress of the audits according to the internal audit annual plan is reported to the Audit and Governance Committee each quarter. In addition, the Audit and Governance Committee deals with all internal audit reports at its meeting, including observations, recommendations and action plans. Observations from the previous year and the progress of the action plans are reported to the Audit and Governance Committee's second meeting of the year.

In accordance with Citycon's audit plan, internal audits in 2016 focused on the implemented shopping centre lease and rental income management system and process, controls related to payment system access rights, processes and controls related to IT system environment, follow-up of the implementation of internal guidelines and policies in Norway (Norway being a new operating country) and follow-up of previous years' audit observations.

### 2. RELATED PARTY TRANSACTIONS

The company has determined that its related parties comprise Citycon Oyj and its subsidiaries,

associated companies, joint ventures; Board members; CEO and other Corporate Management Committee members; and the company's largest shareholder Gazit-Globe Ltd. that held 43.9% of the company's shares and votes on 31 December 2016.

Citycon evaluates and monitors transactions concluded between the company and its related parties and reports on them as required by the Finnish Limited Liability Companies Act and regulations concerning the preparation of financial statements, in the company's Report by the Board of Directors, the notes to the financial statements and interim reports. In addition, the company's Executive Vice President and Chief Financial Officer reports quarterly on the company's related party transactions, if any, to the Audit and Governance Committee of the Board of Directors and to Board members who are independent of significant shareholders. In decision-making pertaining to related party transactions, the company ensures that potential conflicts of interests are appropriately taken into account and related parties or their representatives do not participate in the decision-making.

In 2016, the company had no related party transactions deviating from the company's normal business operations or not made on market or market equivalent terms.

### 3. MAIN PROCEDURES RELATING TO INSIDER ADMINISTRATION

Citycon applies the EU's Market Abuse Regulation (MAR) and the Insider Guidelines issued by Nasdaq Helsinki Ltd. The Insider Guidelines approved by the company's Board of Directors supplement the applied insider regulation and specify the company's insider administration procedures. The company's

General Counsel and Head of Legal Affairs, Anu Tuomola, is in charge of Citycon's insider issues.

In 2016, the Insider Guidelines were updated to correspond to the MAR regulation that came into effect in July.

#### 3.1 Persons discharging managerial responsibilities and insider lists

As a result of the MAR regulation, Citycon no longer has public insiders or a permanent, company-specific insider register. Instead, it has project- and event-based insider lists.

The company has specified the members of the Board of Directors, the CEO and other members of the Corporate Management Committee as persons discharging managerial responsibilities. Citycon maintains a list of persons discharging managerial responsibilities and their related parties in Euroclear Finland Ltd's SIRE system. The persons on the list are obligated to report their business transactions in Citycon's financial instruments to the company and the Financial Supervisory Authority. Citycon publishes such business transactions in stock exchange releases.

Project- or event-based insider lists are established at the beginning of insider projects. The lists include information of persons participating in projects, such as capital market events or significant company or property business transactions. During insider projects, they are not allowed to trade in financial instruments related to the company.

#### 3.2 Silent period

Citycon applies a silent period of 30 calendar days prior to announcing its financial statements and interim reports. The silent period concerns persons discharging managerial responsibilities in the company and other company employees

who participate in the preparation of financial statements and interim reports. During that period, they are not allowed to trade in securities issued by Citycon, or other securities or financial instruments targeting Citycon shares or securities entitling to Citycon shares. In addition, persons discharging managerial responsibilities are at all times obligated to consult Citycon's insider administration prior to a planned transaction in Citycon's financial instruments.



Silent periods are shown in the investor calendar, available at [www.citycon.com/investor-calendar](http://www.citycon.com/investor-calendar).

#### **4. AUDITOR AND REMUNERATION PAID TO THE AUDITOR**

On 16 March 2016, Citycon's Annual General Meeting re-elected audit firm Ernst & Young Oy the company's auditor, with Mikko Rytilahti (Authorised Public Accountant) acting as the responsible auditor appointed by the firm since 2014.

In 2016, Citycon paid EUR 0.7 million in remuneration to its auditor, related to its general audit. In addition, Citycon purchased advisory services from the auditor by less than EUR 50,000, relating to matters such as the company's financing transactions and the bond issued in August.

