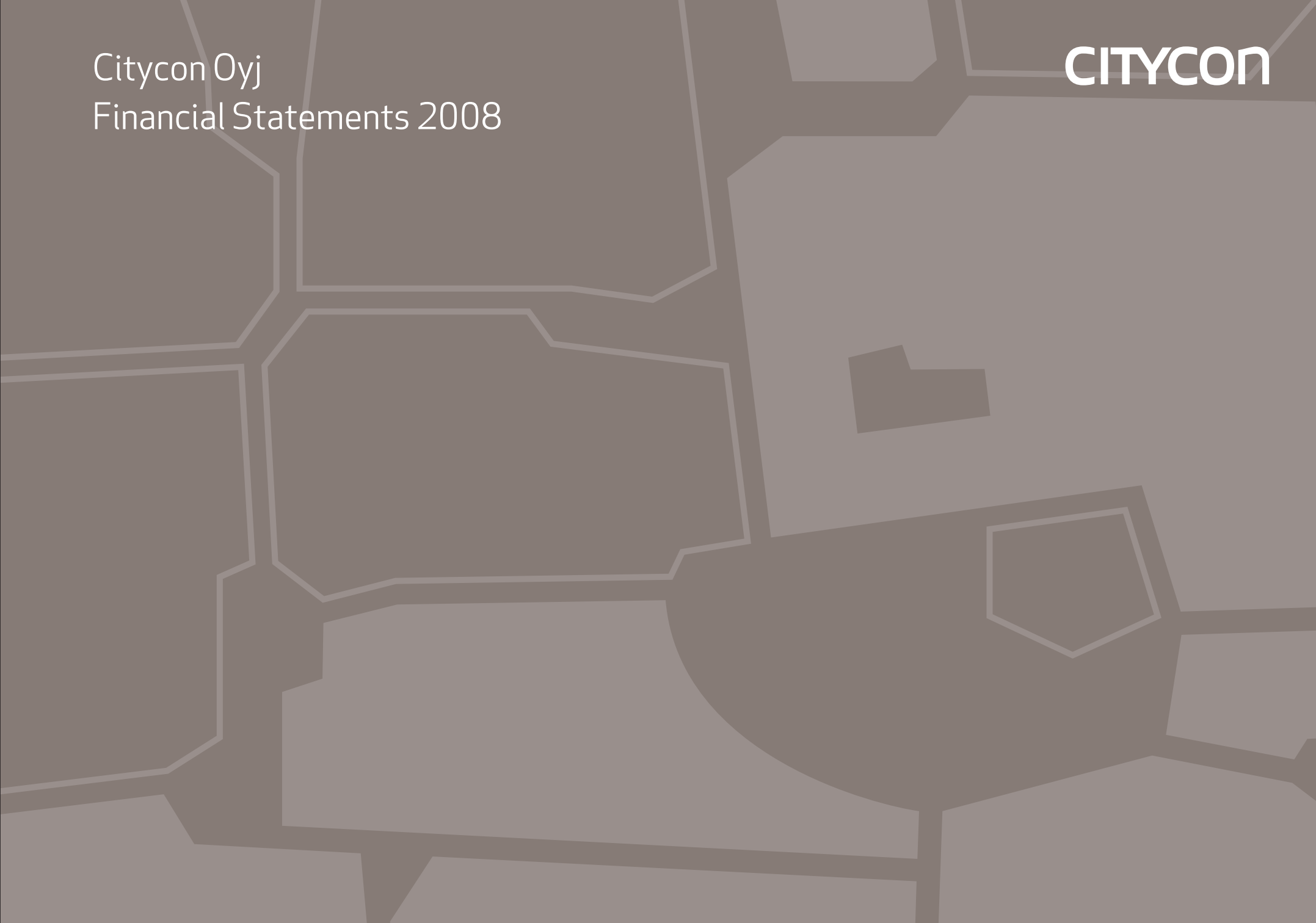


Citycon Oyj
Financial Statements 2008

CITYCON



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Report by the Board of Directors

Summary of the last quarter of 2008

- Turnover grew by 1.4 per cent to EUR 45.2 million (Q3/2008: EUR 44.6 million).
- Net rental income declined by 4.1 per cent to EUR 30.2 million (EUR 31.5 million) due to higher operating and maintenance expenses than in the previous quarter as a result of customary seasonal fluctuations.
- Net cash from operating activities per share rose to EUR 0.07 (EUR 0.02).
- Earnings per share were EUR -0.14 (EUR -0.21).
- Direct result per share (diluted) was EUR 0.05 (EUR 0.05). The result includes a gain of EUR 1.6 million, tax effect included, resulting from the buyback of the 2006 convertible bonds.
- The fair value change of investment properties was EUR -59.3 million (EUR -71.7 million). The fair market value of the investment properties decreased to EUR 2,023.6 million (EUR 2,094.4 million).
- The average net yield requirement for investment properties rose and was 6.4 per cent (6.2%) at the end of the period, according to an external appraiser. The increase in the net yield requirement was due to market conditions.
- Net financial expenses decreased to EUR 13.0 million (EUR 15.2 million) as a result of lower interest rates and the buyback of the convertible bonds. The period's net financial expenses include a non-cash expense of EUR 1.4 million (EUR 0.6 million) related to the valuation of interest rate derivatives.
- During the period, the refurbished Trio shopping centre was opened in Lahti while in Tallinn, Estonia, the first stage of the Rocca al Mare shopping centre redevelopment project was completed.

Key figures

	Q4/2008	Q4/2007 ⁵⁾	Q3/2008 ⁵⁾	2008	2007 ⁵⁾	Change-% ¹⁾
Turnover, EUR million	45.2	43.3	44.6	178.3	151.4	17.7%
Net rental income, EUR million	30.2	27.1	31.5	121.8	103.4	17.8%
Operating loss/profit, EUR million	-27.9	23.7	-44.1	-105.0	298.7	-
% of turnover	-	54.7%	-	-	197.3%	-
Loss/profit before taxes, EUR million	-40.9	10.0	-59.3	-162.3	253.5	-
Loss/profit attributable to parent company shareholders, EUR million	-30.7	9.3	-46.0	-124.1	200.3	-
Direct result, EUR million ²⁾	11.8	14.6	11.3	43.8	38.3	14.4%
Indirect result, EUR million	-42.5	-5.4	-57.3	-167.9	162.1	-
Earnings per share (basic), EUR	-0.14	0.04	-0.21	-0.56	1.00	-
Earnings per share (diluted), EUR	-0.14	0.04	-0.21	-0.56	0.91	-
Direct result per share (diluted), (diluted EPRA EPS), EUR ²⁾	0.05	0.07	0.05	0.20	0.19	3.3%
Net cash from operating activities per share, EUR	0.07	0.06	0.02	0.21	0.20	8.3%
Fair market value of investment properties, EUR million			2,094.4	2,023.6	2,215.7	-8.7%
Equity per share, EUR			3.87	3.62	4.44	-18.6%
Net asset value (EPRA NAV) per share, EUR ²⁾			4.16	3.88	4.82	-19.6%
EPRA NNNNAV per share, EUR			4.05	3.80	4.42	-14.0%
Equity ratio %			40.3	38.5	43.9	-
Gearing %			133.8	141.3	111.8	-
Net interest-bearing debt (fair value), EUR million			1,221.1	1,194.6	1,147.3	4.1%
Net rental yield, % ³⁾			5.6	5.8	5.8	-
Net rental yield, like-for-like properties, %			6.0	6.3	6.2	-
Occupancy rate %			95.6	96.0	95.7	-
Personnel (at the end of the period)			112	113	102	10.8%
Dividend per share, EUR				0.04 ⁴⁾	0.04	0.0%
Return from invested unrestricted equity fund per share, EUR				0.10 ⁴⁾	0.10	0.0%
Dividend and return from invested unrestricted equity fund per share total, EUR				0.14 ⁴⁾	0.14	0.0%

¹⁾ Change-% is calculated from exact figures and refers to the change between 2008 and 2007.

²⁾ In comparison to previous practice direct result excludes the changes in fair value of financial instruments that are recognized in the income statement. Please see the Note 3 "Reconciliation between direct and indirect result" for direct result calculations and Note 14 "Earnings per share and net asset value per share" for calculation of direct result and net asset value per share.

³⁾ Includes the lots for development projects.

⁴⁾ Proposal by the Board

⁵⁾ Restated according to the New IAS 23 Borrowing Costs Standard. Please see the Note 12 "Restatement of the financial information in 2007 and 2008 due to the new IAS 23 Borrowing Cost standard".

Key figures for the past five years can be found on page 42 in the Notes to the Financial Statements.

Summary of the year 2008

- The company's financial position remained good during the period. Total liquidity at the end of the reporting period was EUR 203.7 million, including unutilised committed debt facilities amounting to EUR 187.0 million and cash of EUR 16.7 million. The available liquidity will cover the authorised investments and scheduled debt interest and repayments until at least 2010, without the need for additional financing sources.
- Turnover grew by 17.7 per cent to EUR 178.3 million (2007: EUR 151.4 million), due mainly to the growth in gross leasable area and to active development of the retail properties.
- Profit before taxes was EUR -162.3 million (EUR 253.5 million), including a EUR -216.1 million (EUR 211.4 million) change in the fair value of investment properties.
- Net rental income from like-for-like properties rose by 3.6 per cent.
- The company's direct result rose to EUR 43.8 million (EUR 38.3 million), up due mainly to the full-year effect of properties acquired in 2007. Changes in the fair value of the company's property portfolio have no effect on the company's net rental income or direct result, but will affect the company's profit for the period.
- Direct result per share (diluted) was EUR 0.20 (EUR 0.19).
- Earnings per share were EUR -0.56 (EUR 1.00). The decrease resulted mainly from the fair value changes of the investment properties.
- Net rental income increased by 17.8 per cent, to EUR 121.8 million (EUR 103.4 million).
- Occupancy rate improved to 96.0 per cent (95.7%) as a result of advancing (re)development projects.
- Net cash from operating activities per share rose to EUR 0.21 (EUR 0.20).
- The equity ratio was 38.5 per cent (43.9%). The decrease resulted mainly from the fair

value changes of the investment properties and higher level of debt due to capital expenditure.

- Citycon signed three long-term loan agreements on competitive terms.

CEO Petri Olkinuora's comments on the year 2008:

"Citycon reached its all-time high direct result in 2008. The company's cash flow per share grew, and so did the turnover and net rental income. The shopping centres' sales rose and the occupancy rate was 96.0 per cent up from 95.7 per cent at the end of the year 2007. Grocery sales continued to grow in all our markets. In most of our shopping centres, grocery retailing is the anchor that maintains a steady footfall.

The construction of the Liljeholmstorget and Rocca al Mare shopping centres proceeded as scheduled. Both projects will be completed late 2009. The leasing of premises is progressing well, and all anchor tenant agreements have been signed. Financing for the projects is secured.

In November, the Trio shopping centre in Lahti was opened after having been redeveloped for almost two years. The opening was a big success and the centre has regained its position as the leading shopping centre in Lahti.

During the year, we invested in sustainable construction and we are applying international certification for our most important construction projects. We seek to comply with the principles of sustainable development in our operations.

In the last quarter, the decrease in interest rates and the successful buyback of the convertible bonds reduced our financial expenses.

The fair value of properties continued to fall following a rise in the current yield requirements in the markets. In 2008, the decline of property values did offset the fair value gains in 2007. Citycon's financial position is good and the company focuses on strong operative cash flow."

Business environment

Significant changes took place in financial environment in 2008. The escalation of the financial crisis from the US housing markets into a global economic crisis quickly led to tighter financial markets in Finland as well. Towards the year-end, the financial crisis began to affect the real economy, and it will not be long before the business fluctuations are likely to reflect on retail sales too.

At the beginning of the year, retail trade was showing strong growth but slowed down towards the year-end. In total, in cumulative terms retail trade grew by 5.6 per cent in Finland and by 3.3 per cent in Sweden in 2008. Trade slow down was the most significant in the Baltic countries. After years of considerable growth, the December retail sales decreased by 9.0 per cent in Estonia and by 8.8 per cent in Lithuania (Sources: Statistics Finland, Statistics Sweden, Statistics Estonia, Statistics Lithuania).

Consumer confidence in personal financial development has clearly weakened in Citycon's operating countries. Inflation took a downward turn and market interest rates fell quickly from the high levels seen early in the year. At the end of the year, construction costs and raw material prices also fell. Economic growth is expected to decelerate in all of Citycon's operating countries (source: Nordea).

Volatility in the global financial markets has reduced the availability of debt and clearly raised the margins on new loans. At the same time, long-term relationship with banks has become a key factor in financing decisions.

The property markets were active in Finland and Sweden at the beginning of the year. However, as financing opportunities almost disappeared towards the year-end, the property market slowed down. The few property deals closed in Finland at the year-end were primarily conducted between domestic institutional investors. Also, in Sweden deals were closed largely between domestic

players. In the Baltic countries, the property markets are almost at a complete standstill. (Source: Catella)

Business and property portfolio summary

Citycon is an active owner and long-term developer of shopping centres, laying the foundation for a successful retail business. The company aims to increase its net yield from shopping centres over the long term through active retail property management and redevelopment efforts. Citycon's retail properties serve both consumers and retailers.

Citycon is the market leader in the Finnish shopping centre business and holds a strong position in Sweden and a firm foothold in the Baltic Countries. It assumes responsibility for the business operations and administration of its investment properties. This differentiates Citycon from many other real estate companies, with principal focus on ownership.

Citycon is involved in the day-to-day operations of its shopping centres and, in co-operation with its tenants, aims continuously to increase the attractiveness, footfall, sales and profits of its shopping centres. Citycon is a pioneer in the Nordic shopping centre market, as it aims to factor environmental considerations into its shopping centre management as well as its redevelopment and development projects. The company has three sustainable development pilot projects, and the redevelopment of shopping centre Trio was the first one to be completed at the end of the year.

Citycon operates in Finland, Sweden and the Baltic countries. Thanks to careful market research and good local knowledge, Citycon has been able to acquire shopping centres in major growth centres in the countries in which it operates. Citycon's investments are focused on areas with expected population and purchasing power growth.

At the end of 2008, Citycon owned 33 (33) shopping centres and 52 (53) other properties. Of the shopping centres, 22 (22) were located in Finland, eight (8) in Sweden and three (3) in the Baltic countries.

At the end of the year, the market value of the company's property portfolio totalled EUR 2,023.6 million (EUR 2,215.7 million) with Finnish properties accounting for 73.1 per cent (71.6%), Swedish properties for 19.6 per cent (23.4%) and Baltic properties for 7.3 per cent (5.0%). The gross leasable area at the end of the year totalled 937,650 square metres.

Changes in the fair value of investment properties

Citycon measures its investment properties at fair value, under the IAS 40 standard, according to which changes in the fair value of investment properties are recognised through profit or loss. In accordance with the International Accounting Standards (IAS) and the International Valuation Standards (IVS), an external professional appraiser conducts a valuation of Citycon's property portfolio on a property-by-property basis at least once a year. However, in 2008, Citycon had its properties valued by an external appraiser on a quarterly basis, due to increased market volatility.

Citycon's property portfolio is valued by Realia Management Oy, part of the Realia Group. Realia Management Oy works in association with the leading provider of real estate services, the international company CB Richard Ellis. A summary of Realia Management Oy's Property Valuation Statement at the end of 2008 can be found at www.citycon.com/valuation. The valuation statement includes a description of the valuation process and the factors contributing to the valuation, as well as the results of the valuation, and a sensitivity analysis.

During the financial year, the fair value of Citycon's property portfolio decreased. This

decrease was due to changes in general market conditions on the property and financial market and to higher yield requirements resulting from the general economic recession. The period saw a total value increase of EUR 15.3 million and a total value decrease of EUR 231.4 million. The net effect of these changes on the company's profit was EUR -216.1 million (EUR 211.4 million).

On 31 December 2008, the average net yield requirement defined by Realia Management Oy for Citycon's property portfolio came to 6.4 per cent (Q3/2008: 6.2% and 31 December 2007: 5.6%).

Lease portfolio and occupancy rate

At the end of the year, Citycon had a total of 3,742 (3,700) leases. The average remaining length of the lease agreements was 3.2 (3.0) years. Citycon's property portfolio's net rental yield was 5.8 per cent (5.8%) and the occupancy rate was 96.0 per cent (95.7%).

Citycon's net rental income grew by 17.8 per cent to EUR 121.8 million during the year. The leasable area rose by 1.5 per cent to 937,650 square metres. Net rental income from like-for-like properties grew by 3.6 per cent.

Net rental income from like-for-like shopping centres grew by 4.5 per cent. Like-for-like properties are properties held by Citycon throughout the 24-month reference period, excluding properties under refurbishment and redevelopment as well as undeveloped lots. 77.9 per cent of like-for-like properties are located in Finland. The calculation method for net yield and standing (like-for-like) investments is based on guidelines issued by the KTI Institute for Real Estate Economics and the Investment Property Databank (IPD).

During the last 12 months, the rolling twelve-month occupancy cost ratio for like-for-like properties was 8.5 per cent. The occupancy cost ratio is calculated as the share of net rent and potential service charges paid by a tenant to City-

con out of the tenant's sales, excluding VAT. The VAT percentage is an estimate.

Acquisitions and divestments

Citycon continues to focus on the development and redevelopment of the company's shopping centres, and follows developments in the shopping centre market across its operating regions. During the year, no new shopping centres were acquired, but the company acquired more minority shares in several partially-owned properties. Acquisitions totalled EUR 17.4 million during the year.

In February, Citycon sold 40 per cent of the Iso Omena shopping centre to an affiliate of GIC Real Estate, the property investment arm of the Government of Singapore Investment Corporation. The purchase price totalled EUR 131.6 million, equivalent to 40 per cent of the purchase price at which Citycon bought Iso Omena in September 2007. The parties have agreed that Citycon will continue to be responsible for the management of Iso Omena and continue its development according to Citycon's operating concept against agreed consideration.

Related to the Lippulaiva shopping centre's redevelopment project, Citycon acquired all the shares in MREC Kiinteistö Oy Majakka and, at the same time, divested its entire holding in MREC Kiinteistö Oy Ulappatori. Kiinteistö Oy Majakka owns undeveloped land adjacent to Lippulaiva, in

the area planned for the extension of the shopping centre, located in Espoo, Finland. Citycon continues to have right of possession over the leasable areas of Kiinteistö Oy Ulappatori. This right of possession will terminate when the redevelopment project is completed or during 2011 at the latest. Kiinteistö Oy Majakka merged with MREC Kiinteistö Oy Lippulaiva in the beginning of July 2008.

In addition, in early July Citycon acquired an approximately 54 per cent holding in MREC Kiinteistö Oy Espoon Asematori. This acquisition is related to the shopping centre Espoonatori's refurbishment and redevelopment project currently in the pipeline. In January, Citycon sold its 44 per cent holding in Pukinmäki retail centre in Helsinki, Finland.

Changes in the Group structure during 2008 are presented in more detail in Note 30 of the Notes to the Financial Statements.

Development projects

Keeping its shopping centres competitive for both customers and tenants constitutes the core of Citycon's strategy. The company is pursuing a long-term increase in the footfall and cash flow, as well as in the efficiency and return of its retail properties. In the short term, redevelopment projects may weaken returns from some properties, as some retail premises may have to be tem-

Lease portfolio summary

	Q4/2008	Q4/2007	Q3/2008	2008	2007	Change-%
Number of leases started during the period	255	164	81	572	512	11.7
Total area of leases started sq.m.	69,730	27,854	12,810	124,960	103,408	20.8
Occupancy rate at end of the period, %			95.6	96.0	95.7	0.3
Average remaining length of lease portfolio at the end of the period, year			3.0	3.2	3.0	6.7

porarily vacated for refurbishment, which affects rental income. Citycon aims to carry out any redevelopment projects phase by phase so that the whole shopping centre does not have to be closed during the works in question, thus ensuring continuous cash flow.

Sustainable construction and management

In its development projects, Citycon is paying increasing attention to environmental management methods and solutions. The company has three pilot projects, aimed at identifying the best practices to be implemented in the sustainable construction and management of shopping centres. These pilot projects include building a new shopping centre at Liljeholmen in Stockholm, Sweden, and the redevelopment and extension of the Rocca al Mare shopping centre in Tallinn, Estonia, and of the Trio shopping centre in Lahti, Finland.

The assessment applied in the pilot projects comprises a total of over 60 points, reviewing various factors such as the energy efficiency of the property, indoor air quality, the choice of materials, the utilisation of public transport and minimising the environmental impacts of construction work. On the basis of this assessment, practical development measures will be introduced in order to establish systematic, sustainable construction practices.

Citycon seeks to obtain the international LEED (Leadership in Energy and Environmental Design) environmental certification for its projects. Furthermore, Citycon remains confident that in the long term a responsible approach to its business operations will enhance its reputation as a responsible player in the shopping centre markets and its attraction as an international investment.

The table below lists the most significant development and redevelopment projects in progress, as approved by the Board of Directors. More information on planned projects can be found on Citycon's website at www.citycon.com, in management presentations and the Annual Report 2008 to be published in February.

Capital expenditure during the year on all development projects amounted to EUR 56.5 million in Finland, EUR 60.5 million in Sweden and EUR 22.7 million in the Baltic countries.

The company's largest development project and its main sustainable construction project involves the construction of a new shopping centre in Liljeholmen, Stockholm. During the year, the project advanced within the planned budget and schedule. The new shopping centre is expected to open in October 2009, and the leasing of retail premises is also proceeding as planned, although the contract process is taking longer in the current market conditions.

The first stage of the redevelopment of the Rocca al Mare shopping centre in Tallinn was completed ahead of schedule, with new premises opening on 1 October 2008. The refurbished premises are fully leased, and the shopping centre has stayed open during the project. The next stage of the redevelopment project has already been launched, and the majority of the premises leased. In completely renovated form, Rocca al Mare is expected to open in the autumn of 2009.

The second stage of the redevelopment of the Trio shopping centre in downtown Lahti proceeded as planned and the totally refurbished Trio was completed in November 2008 in time for the Christmas sales. Trio, too, remained open during the whole redevelopment project, which was launched in 2007.

Citycon's Board of Directors has also approved a redevelopment project involving the Torikeskus in Seinäjoki.

During the year, Citycon and the City of Helsinki signed a preliminary agreement on the purchase of land for a planned new retail centre in Myllypuro, Helsinki. The agreement covers four lots zoned for commercial and residential development. The aim is to develop an attractive retail property in Myllypuro.

Other projects being planned but not yet approved by the Board of Directors include the extension of the Lippulaiva shopping centre as well as Åkersberga Centrum's and Tumba Centrum's redevelopment projects. However, these or other possible development projects will be started only once financing and leasing are adequately secured.

Business units

Citycon's business operations are divided into three business units: Finland, Sweden and the Baltic Countries. These are sub-divided into two business areas: Retail Properties and Property Development. The Finnish business unit also includes

a Commercial Development function, responsible for the commercial development of Citycon's Finnish shopping centres and the development of new commercial concepts.

Finland

Citycon is the market leader in the Finnish shopping centre business. Citycon's market share is 24 per cent of the Finnish shopping centre market (source: Entrecor). In 2008, the company's net rental income from Finnish operations grew by 20.1 per cent to EUR 90.9 million in spite of the ongoing redevelopment projects. The business unit accounted for 74.7 per cent of the company's total net rental income.

The key figures of the Finnish property portfolio are presented on the following page. Ongoing development projects have been covered previously in this document.

Sweden

Citycon has achieved a substantial position in the Swedish shopping centre market and has eight shopping centres and seven other retail properties in Sweden, located in the Greater Stockholm and Greater Gothenburg areas and in Umeå. The net rental income from Swedish operations increased by 11.3 per cent to EUR 24.1 million. The business unit's net rental income accounted for 19.8 per cent of Citycon's total net rental income.

The key figures for the Swedish property portfolio are presented on the following page. Ongoing redevelopment projects have been covered previously in this document.

Baltic Countries

At the end of 2008, Citycon owned three shopping centres in the Baltic countries: Rocca al Mare and Magistral in Tallinn, Estonia and Mandarinas in Vilnius, Lithuania. Due to the limited size of the Baltic market, the turbulence in property and financial markets, and the limited availability of suitable

(Re)development projects in progress

	Location	Estimated total cost (EUR million)	Actual gross expenditure 31 Dec. 2008 up to (EUR million)	Estimated final year of completion
Liljeholmstorget	Stockholm, Sweden	130	70.7	2009
Rocca al Mare	Tallinn, Estonia	64.3	36.6	2009
Trio	Lahti, Finland	60	58.3 ¹⁾	Completed
Torikeskus	Seinäjoki, Finland	4	2.6	2009

¹⁾ Current expenditure before the final project report.

Lease portfolio summary, Finland

	Q4/2008	Q4/2007	Q3/2008	2008	2007	Change-%
Number of leases started during the period	193	151	66	452	442	23
Total area of leases started, sq.m.	31,930	18,640	11,090	79,130	74,400	6.4
Occupancy rate at end of the period, %			95.7	95.7	95.6	0.1
Average remaining length of lease portfolio at the end of the period, year			3.1	3.1	3.1	0.0

Lease portfolio summary, Sweden

	Q4/2008	Q4/2007	Q3/2008	2008	2007	Change-%
Number of leases started during the period	19	13	13	58	49	18.4
Total area of leases started, sq.m.	9,060	9,179	1,670	15,340	25,800	-40.5
Occupancy rate at end of the period, %			94.8	96.0	95.1	0.9
Average remaining length of lease portfolio at the end of the period, year			2.4	2.4	2.4	0.0

Lease portfolio summary, Baltic Countries

	Q4/2008	Q4/2007	Q3/2008	2008	2007	Change-%
Number of leases started during the period	43	-	2	62	21	195.2
Total area of leases started, sq.m.	28,740	-	50	30,490	3,208	850.4
Occupancy rate at end of the period, %			99.8	99.8	100.0	-0.2
Average remaining length of lease portfolio at the end of the period, year			2.2	6.8	2.8	142.9

Financial performance, Finland

	Q4/2008	Q4/2007	Q3/2008	2008	2007	Change-%
Gross rental income, EUR million	30.8	29.1	30.8	122.5	100.7	21.7
Turnover, EUR million	32.0	30.2	31.9	126.8	104.3	21.6
Net rental income, EUR million	22.6	21.0	23.4	90.9	75.7	20.1
Net fair value losses/gains on investment property, EUR million	-48.6	-23	-45.0	-154.3	148.1	-
Operating loss/profit, EUR million	-21.7	17.3	-22.9	-62.9	218.4	-
Capital expenditure, EUR million	10.6	32.5	18.0	69.2	429.1	-83.9
Fair market value of investment properties, EUR million			1,519.3	1,480.2	1,587.0	-6.7
Net rental yield, % ⁽¹⁾			5.8	6.0	6.2	-
Net rental yield, like-for-like properties, %			6.3	6.5	6.6	-

⁽¹⁾ Includes the lots for development projects.

Financial performance, Sweden

	Q4/2008	Q4/2007	Q3/2008	2008	2007	Change-%
Gross rental income, EUR million	9.9	9.4	11.3	41.1	35.4	16.4
Turnover, EUR million	10.1	11.1	10.5	41.9	39.0	7.2
Net rental income, EUR million	5.3	4.7	6.5	24.1	21.6	11.3
Net fair value losses/gains on investment property, EUR million	-21.4	2.3	-29.3	-70.1	54.7	-
Operating loss/profit, EUR million	-16.9	6.9	-23.3	-49.1	73.4	-
Capital expenditure, EUR million	23.0	5.5	18.5	65.6	142.4	-53.9
Fair market value of investment properties, EUR million			464.1	396.1	517.5	-23.5
Net rental yield, % ⁽¹⁾			4.7	5.0	4.6	-
Net rental yield, like-for-like properties, %			5.2	5.4	4.9	-

⁽¹⁾ Includes the lots for development projects.

Financial performance, Baltic Countries

	Q4/2008	Q4/2007	Q3/2008	2008	2007	Change-%
Gross rental income, EUR million	3.0	2.1	2.1	9.3	7.7	20.7
Turnover, EUR million	3.1	2.0	2.1	9.6	8.0	19.4
Net rental income, EUR million	2.2	1.4	1.5	6.8	6.0	13.8
Net fair value gains/losses on investment property, EUR million	10.6	-0.1	2.6	8.3	8.7	-5.2
Operating profit/loss, EUR million	12.6	1.0	4.0	14.4	13.8	4.3
Capital expenditure, EUR million	6.7	5.6	3.8	22.7	31.7	-28.3
Fair market value of investment properties, EUR million			111.0	147.3	111.2	32.5
Net rental yield, % ⁽¹⁾			5.8	6.2	6.2	-
Net rental yield, like-for-like properties, %			7.1	7.2	7.3	-

⁽¹⁾ Includes the lots for development projects.

properties, Citycon has been selective in making investments in the region. Net rental income from Baltic operations increased by 13.8 per cent, to EUR 6.8 million. The business unit accounted for 5.6 per cent of Citycon's total net rental income.

The key figures for the Baltic property portfolio are presented on the previous page. Ongoing redevelopment projects have been covered previously in this document.

Turnover and profit

Turnover for the financial year came to EUR 178.3 million (EUR 151.4 million), principally derived from the rental income generated by Citycon's retail premises. Gross rental income accounted for 97.0 per cent (94.9%) of turnover.

Operating profit came to EUR -105.0 million (EUR 298.7 million). Profit before taxes was EUR -162.3 million (EUR 253.5 million) and profit after taxes attributable to the parent company's shareholders EUR -124.1 million (EUR 200.3 million). The decrease in operating profit was mainly due to the fair value loss of the property portfolio. On the other hand, as a result of the completed redevelopment projects, the operating profit rose due to net rental income generated by increased and refurbished premises.

The effect of changes in the fair value of the property portfolio, of gains on sales and of other indirect items on the profit attributable to the parent company's shareholders, was EUR 167.9 million (EUR 162.1 million), tax effects included. Taking this into account, the direct result after taxes was EUR 5.5 million above the reference period level (cf. Note Reconciliation between direct and indirect result). The growth in direct result resulted mainly from increased net rental income. Indirect result includes a EUR 5.9 million compensation from the City of Helsinki for the premature termination of the land lease agreement, in order to advance the Myllypuro development project. In addition, a gain of EUR 1.6 million, including tax

effect, for the buyback of convertible bonds was recognised under direct result.

Current taxes on direct result were higher during the financial year than during the reference period, due to direct result growth and buyback of convertible bonds.

Earnings per share amounted to EUR -0.56 (EUR 1.00). Direct result per share, diluted, (diluted EPRA EPS) was EUR 0.20 (EUR 0.19). Net cash flow from operating activities per share amounted to EUR 0.21 (EUR 0.20).

Due to the new IAS 23 standard Borrowing costs, Citycon has revised its accounting principles with respect to the capitalisation of interest expenses. As a result of the introduction of the new accounting principles, Citycon has adjusted its financial statements for 2007 and 2008. The new standard was published by the International Accounting Standards Board IASB. More information on the effects of the adjustment is available in Note 12 of the Notes to the Financial Statements.

Human resources and administrative expenses

At the end of the year, Citycon Group employed a total of 113 (102) persons, of whom 76 were employed in Finland, 29 in Sweden and eight in the Baltic countries. Administrative expenses increased to EUR 16.9 million (EUR 16.5 million), including EUR 0.3 million (EUR 0.7 million) calculated non-cash expenses related to employee stock options and the company's share-based incentive scheme. The higher expenses when compared to the reference period were due to organisation growth.

Wages and salaries paid by the Citycon Group totalled MEUR 7.6 (EUR 6.6 million), of which those paid to the CEO accounted for EUR 0.3 million (EUR 0.3 million) and those paid to the Board of Directors EUR 0.6 million (MEUR 0.5 million). Wages and salaries paid by the parent company totalled EUR 5.8 million (EUR 5.2 mil-

lion), of which those paid to the CEO accounted for EUR 0.3 million (EUR 0.3 million) and those paid to the Board of Directors EUR 0.6 million (EUR 0.5 million).

Key personnel figures for a three-year period

	2008	2007	2006
Average number during the year	109	93	62
Wages and salaries during the year, EUR million	7.6	6.6	4.6

Capital expenditure and divestments

Citycon's reported gross capital expenditure during the year totalled EUR 157.9 million (EUR 603.9 million). Of this, property acquisitions accounted for EUR 17.4 million (EUR 531.3 million), property development EUR 139.7 million (EUR 71.8 million) and other investments EUR 0.8 million (EUR 0.8 million). These investments were financed through cash flow from operations and existing financing arrangements.

The financial year saw the partial divestment of the shopping centre Iso Omena, involving the sale of a 40 per cent holding to a company in the GIC Real Estate Group. The selling price amounted to EUR 131.6 million.

Balance sheet and financial position

The balance sheet total at the end of the reporting period stood at EUR 2,178.6 million (EUR 2,308.6 million). Liabilities totalled EUR 1,341.5 million (EUR 1,297.7 million) with short-term liabilities accounting for EUR 109.5 million (EUR 157.8 million). The Group's financial position remained good during the year. At the end of the year, Citycon's liquidity was EUR 203.7 million, of which EUR 187.0 million consisted of undrawn, committed credit facilities and EUR 16.7 million of cash and

cash equivalents. At the end of the year, Citycon's liquidity, short-term credit limits excluded, stood at EUR 158.7 million (Q3/2008: EUR 202.6 million).

For the purpose of short-term liquidity management, the company uses a EUR 100 million non-committed Finnish commercial paper programme and a non-committed Swedish commercial paper programme worth SEK one billion. Due to more difficult market conditions, Citycon repaid all of its commercial papers at the end of the year by drawing funds from its committed long-term credit facilities. Consequently, Citycon's financing is mainly arranged on a long-term basis, with short-term interest-bearing debt constituting approximately 4.2 per cent of the Group's total interest-bearing debt at the end of the financial year.

From the reference period, interest-bearing debt increased by EUR 45.5 million to EUR 1,199.5 million (EUR 1,154.0 million). The fair value of Group's interest-bearing debt stood at EUR 1,211.3 million (EUR 1,171.4 million).

The Group's cash and cash equivalents totalled EUR 16.7 million (EUR 24.2 million). The fair value of the Group's interest-bearing net debt stood at EUR 1,194.6 million (EUR 1,147.3 million).

The year-to-date weighted average interest rate increased compared to the previous year and was 4.85 per cent (4.68% during reference period). The average loan maturity, weighted according to the principal amount of the loans stood at 4.6 years (4.7 years). The average interest-rate fixing period was 3.3 years (3.1 years).

The weighted interest rate, interest-rate swaps included, averaged 4.75 per cent on 31 December 2008.

The Group's equity ratio was 38.5 per cent (43.9%). Year-end gearing stood at 141.3 per cent (111.8%).

Of Citycon's year-end interest-bearing debt, 75.8 per cent (81.6%) was in floating-rate

loans, of which 66.4 per cent (61.1%) had been converted into fixed-rate loans by means of interest-rate swaps. Fixed-rate debt accounted for 74.5 per cent (68.3%) of the Group's year-end interest-bearing debt, interest-rate swaps included. The loan portfolio's hedging ratio is in line with the Group's financing policy, and the company increased the hedging ratio during the year.

Citycon applies hedge accounting, whereby changes in the fair value of interest-rate swaps subject to hedge accounting are recognised under equity. The period-end nominal amount of interest-rate swaps totalled EUR 591.7 million (EUR 634.5 million), with hedge accounting applied to interest-rate swaps whose nominal amount totalled EUR 568.7 million (EUR 558.0 million).

On 31 December 2008, the nominal amount of all of the Group's derivative contracts totalled EUR 614.8 million (EUR 674.8 million), and their fair value was EUR -9.8 million (EUR 9.1 million). The decline of market rates towards the end of the year decreased the fair value of Citycon's interest rate derivatives. Hedge accounting is applied for the majority of interest rate derivatives, meaning that any changes in their fair value will be recognised directly in shareholders' equity. Thereby, the fair value loss for these derivatives does not affect the profit for the financial year but the change is recognised in the consolidated shareholders' equity, thus weakening the consolidated equity ratio. The fair value loss recognised in the fair value reserve under shareholders' equity, taking account of the tax effect, totals EUR -17.7 million (30 September 2008: EUR 5.1 million).

Net financial expenses totalled EUR 57.3 million (EUR 45.3 million). The increase was primarily attributed to the rise in interest rates in the first nine months of the year and increased amount of interest-bearing debt.

Net financial expenses in the income statement for 2008 include EUR 3.1 million in non-cash

expenses related to derivative valuation, but also non-recurring income worth EUR 2.4 million for the buyback of the convertible bonds was recorded in net financial expenses. In addition, net financial expenses in the income statement include EUR 1.8 million (EUR 1.8 million) in non-cash expenses related to the option component on convertible bonds.

The IFRS standard IAS 23 was adjusted during the year with respect to the recognition of interest expenses relating to redevelopment projects. The adjustment of the IAS 23 standard most importantly affects the company's financial expenses in the income statement, as the new IAS 23 standard enables the capitalization of interest expenses arising from the redevelopment of existing properties and from the acquisition of lots for development projects in the balance sheet. This effect is discussed in greater detail in Note 12 of the Notes to the Financial Statements.

Loan market transactions

Regardless of the prevailing uncertainty in the financial market, Citycon signed three long-term loan agreements during the year. Local financing for the Magistral shopping centre, acquired in the summer of 2007, was finalised through the signing of a loan agreement for SEK 280 million, for a term of approximately five years. Additionally, the company increased its committed long-term credit limits by signing a EUR 50 million five-year credit facility agreement.

In June, Citycon and the Nordic Investment Bank (NIB) agreed on a loan amounting to EUR 30 million to be used to finance the development of the Liljeholmstorget shopping centre, located in Stockholm. Liljeholmstorget is Citycon's main sustainable development project, which was an essential factor in the loan arrangement. The maturity of the loan is 10 years. The company managed to conclude all three loan agreements with competitive loan margins.

In addition, on 15 April 2008, Citycon signed a commercial paper programme in Sweden worth SEK one billion (approximately EUR 102.1 million) with a Nordic bank group. Citycon intends to use the proceeds from the commercial paper programme for short-term liquidity management of the Group's Swedish operations. Under the programme, commercial papers may be issued either in Swedish crowns or in euros.

Subordinated convertible bonds 2006

In July of 2006, Citycon's Board of Directors decided to issue directed subordinated convertible bonds to the amount of EUR 110 million to international institutional investors. The issue of the convertible bonds waiving the shareholders' pre-emptive subscription rights was based on the authorisation given at Citycon's Annual General Meeting on 14 March 2006. These convertible bonds have been listed on the NASDAQ OMX Helsinki since 22 August 2006. The maturity of the bonds is 7 years and they will pay a coupon of 4.5 per cent annually in arrears. Furthermore, the conversion period is from 12 September 2006 to 27 July 2013 and the maturity date is 2 August 2013. The current conversion price is EUR 4.20.

In November-December 2008, Citycon repurchased a total of 442 bonds of the convertible bonds in several lots. The repurchased bonds were cancelled on 9 December 2008. After this cancellation, the number of bonds issued under the convertible bonds is 1,758 and the maximum number of shares to be subscribed for with bonds is 20,928,571. As a result of the cancellation, the maximum increase of Citycon's share capital on the basis of the convertible bonds decreased from EUR 35,357,142.60 to EUR 28,253,570.85. The amendments to Citycon's convertible bonds were registered in the Trade Register on 19 December 2008.

On 10 December, Citycon repurchased

another 100 bonds of the same convertible bonds. By the end of the financial year, these had not yet been cancelled.

In November-December, Citycon repurchased a total principal amount of EUR 27.1 million of the convertible bonds, corresponding to approximately 25 per cent of the aggregate amount of the convertible bonds. The weighted average repurchase price was 53.5 per cent of the face value of the bonds. These repurchases were carried out because the market situation enabled the company to repurchase the bonds at a price clearly below their face value and because the repurchases enabled the company to strengthen its balance sheet and decrease its net financial expenses.

The terms and conditions of the convertible bonds in more detail as well as the accrued interest are presented in the Notes to the Financial Statements under Note 22, Interest-bearing debt. The terms and conditions and the accrued interest of Citycon's capital loan are presented in the Note 22 as well.

Short-term risks and uncertainties

For its risk management purposes, Citycon has a holistic Enterprise Risk Management (ERM) programme in place. Citycon's risk management aims to ensure that the company can meet its strategic and operational goals while the ERM's purpose is to generate up-to-date and consistent information for the company's senior executives and Board of Directors on any risks threatening the targets set in strategic and annual plans.

Citycon's Board of Directors estimates that major short-term risks and uncertainties are associated with economic developments in the company's operating regions, availability of financing as well as changes in the fair value of investment properties and interest rates. Redevelopment and construction of the company's own properties means that also the risks associated with project

management and with the leasing of new premises will increase.

A number of factors contribute to the value of retail properties, such as general and local economic development, investment demand, and interest rates. At present, investment property values are subject to abnormally high uncertainty due to the global financial crisis and the dramatically weaker economic outlook in the company's operating regions.

As a result of the credit crisis, property prices have gone down, and Citycon has also recorded fair value losses for 2008 from the lower values of investment properties. During the year, trading activity in the property markets decreased significantly. Furthermore, the weakening economic conditions make the future development of properties' fair value even more uncertain. While changes in the investment properties' fair value have an effect on the company's profit for the financial year, they do not have an immediate impact on cash flow.

Economic fluctuations and developments materially affect the demand for rental premises and rental rates. These represent one of the company's key short-term risks. All of the company's operating regions experienced a marked slowdown of economic growth in 2008. Several economists forecast negative economic growth for almost all of the company's operating regions for 2009. These economic conditions could reduce the demand for business premises, weaken tenants' ability to pay rent and raise the vacancy rate in the company's properties, which might have a negative impact on the company's business and financial performance.

Citycon's growth relies on the refurbishment and redevelopment of retail properties. Implementation of this strategy requires both equity and debt financing. Difficulties in the banking sector have made banks more reluctant to lend money to enterprises. Furthermore, due to falling

share prices and investors' reluctance to invest in shares, it is more difficult for listed companies to acquire equity through share issues. Fortunately Citycon's financial position is strong, enabling it to finance its ongoing projects in full as planned. The company will need new financing for future new investments and growth efforts, and the terms of such arrangements will naturally be affected by the financial crisis.

In addition to the availability of financing, Citycon's main financial risk is the interest-rate risk of the company's loan portfolio. In the course of 2008, the six-month interest rate in the euro area fell by 1.74 percentage points while in Sweden the equivalent interest rate dropped 2.25 percentage points. During this period, Citycon's average interest rate rose by 0.17 percentage points because the sharp decrease in interest rates took place in the final quarter and thereby the lower interest rates could only have a limited impact on the full-year average interest rate. The average interest rate is likely to decrease during 2009 as a consequence of lower interest rates.

The short-term risks involved in (re)development projects are associated with the leasing of new premises and the implementation of construction projects. Leasing risks in projects are minimised by securing the allocation of sufficient resources to the leasing operations of new properties, investing in the marketing of new shopping centres and concluding agreements with anchor tenants prior to a project's commencement or in its initial stage. Project implementation risks are managed by sufficient resources. Responsibility for projects is carried by experienced in-house project managers.

More details of the company's risk management are available on the company's website at www.citycon.com/riskmanagement and on pages 32–34 of the Financial Statements.

Environmental responsibility

Citycon wants to lead the way in responsible shopping centre business and to promote sustainable development in the business. The location of Citycon's shopping centres in city centres, local centres or generally adjacent to major traffic flows, combined with excellent public transport connections, makes them well positioned to face the demands of sustainable development.

To further develop its operations, Citycon surveyed its tenants' views in 2008 on measures that promote sustainable development and has assembled a list of tangible proposals for improvement. The survey covered 350 tenants and store managers in Finland and Sweden, and another 13 persons responsible for environmental affairs in major retail companies were also interviewed.

The survey indicated that, up to the present day, environmental affairs have not been a key priority in sales activities conducted in shopping centres, but in this respect the retail sector may well put pressure on shopping centre operators in the future. Forerunners in the retail sector are already placing demands on partners such as shopping centres.

Citycon has initiated a Green Shopping Centre Management programme to foster sustainable development in all shopping centres owned by the company. The programme, to be implemented in 2009, aims to promote energy efficiency, recycling and other operations that support sustainable development.

Citycon is currently engaged in sustainable construction through three pilot projects, for which the company is seeking the international LEED (Leadership in Energy and Design) certification. These projects form an essential element of Citycon's efforts towards sustainable development and include the redevelopment of the Trio shopping centre in Lahti, the redevelopment and extension of the Rocca al Mare shopping centre in

Tallinn, and the construction of the Liljeholmstorget shopping centre in Stockholm.

Legal proceedings

Related to Citycon's business operations, there are claims that have been submitted to the company and which may potentially lead to legal proceedings. In the opinion of the company, it is not likely that aggregate potential liabilities related to these actions have significance on the financial position or results of the Group.

Annual General Meeting

Citycon Oyj's Annual General Meeting (AGM) 2008 took place in Helsinki, Finland, in March. The AGM adopted the consolidated financial statements and the parent company's financial statements for the financial year 2007 and discharged the members of the Board of Directors and the Chief Executive Officer from liability. The AGM decided on a dividend of EUR 0.04 per share for the financial year 2007 and, in addition, on an equity return of EUR 0.10 per share from the invested unrestricted equity fund. The dividend and equity return were paid on 2 April 2008.

Board of Directors

Under the Articles of Association, the Board consists of a minimum of five and a maximum of eight members, elected by the AGM for a term of one year at a time. A member of the Board of Directors may be discharged only upon a decision by the general meeting of shareholders. A decision to amend the Articles of Association requires a 2/3 majority vote at a general meeting.

The number of Board members remained at eight with Gideon Bolotowsky, Raimo Korpinen, Tuomo Lähdesmäki, Claes Ottosson, Dor J. Segal and Thomas W. Wernink being re-elected to the Board for a one-year-term. Per-Håkan Westin, M.Sc. (Eng.), and Amir Bernstein, LL.M., were

elected as new members to the Board. Thomas W. Wernink continued as the Board Chairman and Tuomo Lähdesmäki as the Deputy Chairman.

Auditor

Ernst & Young Oy, a firm of authorised public accountants, continues as the company auditor with Authorised Public Accountant Tuja Korpelainen as the chief auditor.

Shareholders, share capital and shares

Citycon shares have been listed on the Helsinki exchange since 1988. Citycon is a Mid Cap company in the Financials sector, sub-industry Real Estate Operating Companies. Its trading code is CTY1S and shares are traded in euros. The ISIN code used in international securities clearing is FI0009002471.

Trading and share performance

In 2008, the number of Citycon shares traded on the NASDAQ OMX Helsinki totalled 150.9 million (153.7 million) at a total value of EUR 443.1 million (EUR 738.1 million). The highest quotation during the year was EUR 4.28 (EUR 6.09) and the lowest EUR 1.26 (EUR 3.24). The reported trade-weighted average price was EUR 2.94 (EUR 4.76), and the share closed at EUR 1.68 (EUR 3.65). The company's market capitalisation at the end of the financial year totalled EUR 371.3 million (EUR 806.6 million).

Shareholders

On 31 December 2008, Citycon had a total of 2,190 (2,090) registered shareholders, of which ten were account managers of nominee-registered shares. Nominee-registered and other international shareholders held 210.7 million (210.9 million) shares, or 95.3 per cent (95.5%) of shares and voting rights in the company. Information on the company's major shareholders and sharehold-

ing is presented on page 52 of the Financial Statements.

Notifications of changes in shareholding

During the year, Citycon received three notifications regarding changes in shareholdings:

FIL Limited (formerly Fidelity International Limited) notified the company in March that the holdings of its direct and indirect subsidiaries in Citycon Oyj had fallen below the five per cent threshold. According to the notification, FIL Limited and its direct and indirect subsidiaries held a total of 10,904,704 Citycon shares on 5 March 2008, equivalent to 4.93 per cent of the company's share capital and voting rights.

AXA Investment Managers notified the company in March that the holdings of AXA S.A. and its subsidiaries in Citycon Oyj's voting rights and share capital had risen above the threshold of five per cent. According to the notification, the AXA Group held 11,892,688 shares on 21 March 2008, equivalent to 5.38 per cent of the company's voting rights and share capital. In May, AXA Investments Managers notified the company that the holdings of AXA S.A. and its subsidiaries in Citycon Oyj's voting rights and share capital had fallen below the five per cent threshold, to 4.99 per cent, due to stock transactions that took place on 13 May 2008. According to the notification, the AXA Group held 11,017,656 Citycon shares at the time.

Share capital

At the beginning of 2008, the company's registered share capital totalled EUR 259,570,510.20 and the number of shares 220,981,211. During the reporting period, the number of shares increased by 10,738 shares as a result of exercise of stock option rights and by 7,040 shares that were granted to the company's key personnel under a directed share issue without payment relating to the company's share-based incentive plan. At the

end of the year, the company's registered share capital totalled EUR 259,570,510.20, and the number of shares amounted to 220,998,989. The company has a single series of shares, with each share entitling to one vote at general meetings of shareholders. The shares have no nominal value.

Board authorisations

The AGM for 2007 authorised the Board of Directors to decide on issuing new shares and disposing of treasury shares through paid or free share issues. New shares can be issued and treasury shares can be transferred to shareholders in proportion to their existing shareholding or through a directed share issue waiving the pre-emptive rights of shareholders, if a weighty financial reason exists for doing so. The Board can also decide on a free share issue to the company itself. In addition, the Board was authorised to grant special rights referred to in Section 1 of Chapter 10 of the Finnish Limited Liability Companies Act, entitling their holders to receive, against payment, new shares in the company or treasury shares. The combined number of new shares to be issued and treasury shares to be transferred, including the shares granted on the basis of the special rights, may not exceed 100 million.

The Board exercised this authorisation in September 2007, when it decided on a share issue based on the shareholders' pre-emptive subscription right, and in May 2008, when it decided on a directed share issue without payment relating to the company's share-based incentive plan. As a result of these decisions, the number of shares that can be issued or disposed of on the basis of the authorisation now totals 72,398,178. This authorisation is valid until 13 March 2012.

At the end of the year, the Board had no other authorisations.

Treasury shares

During the financial year, Citycon Oyj held no treasury shares.

Stock options 2004

The Annual General Meeting held on 15 March 2004 authorised the issue of a maximum of 3,900,000 stock options to the personnel of the Citycon Group. Stock options 2004 A/B/C are listed on the NASDAQ OMX Helsinki. Trading in stock options 2004 C began on 1 September 2008.

The terms and conditions of the company's stock option plan 2004 were amended during the

Basic information on stock options 2004 as at 31 December 2008

	2004 A	2004 B	2004 C
No. of options granted	1,040,000	1,090,000	1,050,000
No. held by Veniamo-Invest Oy ¹⁾	260,000	210,000	250,000
Subscription ratio, option/shares	1:1.2127	1:1.2127	1:1.2127
Subscription price per share, EUR ²⁾	2.2732	2.6608	4.3613
Subscription period began	1.9.2006	1.9.2007	1.9.2008
Subscription period ends	31.3.2009	31.3.2010	31.3.2011
No. of options exercised	345,075	-	-
No. of shares subscribed with options	386,448	-	-

¹⁾ Veniamo-Invest Oy, a wholly-owned subsidiary of Citycon Oyj, cannot subscribe for its parent company's shares.

²⁾ Following the dividend payment and equity return in 2008. The share subscription prices are reduced by half of the per-share dividends paid and per-share equity returned. However, the share subscription price is always at least EUR 1.35.

year under a decision taken by the AGM. The terms and conditions were supplemented with a clause stating that the subscription prices of options 2004 A/B/C are to be reduced by half of potential per-share equity returns. The table below includes information on the number of stock options 2004 and their subscription ratios and prices at the year-end. The full terms and conditions of the stock option plan are available on the company's website at www.citycon.com/options.

During the reporting period, 10,132 shares were subscribed based on the A stock options relating to Citycon's stock option plan 2004, at a per-share subscription price of EUR 2.2732. Shares subscribed entitle their holders to a dividend for the financial year 2008.

The maximum number of shares that can be further subscribed for exercising the outstanding stock options 2004 amounts to 3,437,913 new shares.

Shares and stock options held by the Board of Directors and corporate management

On 31 December 2008, members of the Board of Directors, the CEO and other members of the Corporate Management Committee and their related parties held a total of 274,742 Citycon shares, accounting for 0.12 per cent of all shares and voting rights.

At year-end 2008, the number of stock options 2004 A/B/C held by Citycon's CEO totalled 75,000, 140,000 and 140,000, respectively. The number of 2004 option rights held by other members of the Corporate Management Committee totalled 150,000, 280,000 and 280,000, respectively. These option rights entitle the company's CEO and other members of the Corporate Management Committee to subscribe for a maximum of 1,291,525 Citycon shares. Board members are not included in the company's share-based incentive schemes.

Up-to-date information on the share and stock option holdings of the members of Citycon's Board of Directors and Corporate Management Committee is available on the company's website at www.citycon.com/insiders.

The main terms of the CEO's executive contract are described on page 41 of these Financial Statements.

Events after the financial year

At the end of January, Citycon divested all shares in its subsidiary MREC Kiinteistö Oy Keijutie 15. The debt-free sales price of this non-core property in Lahti amounted to approximately EUR 3 million.

Board proposal for dividend distribution and distribution of assets from the invested unrestricted equity fund

The parent company's retained earnings amount to EUR 17.8 million, of which profit for the period accounts for EUR 14.1 million. On the date of publication of the Financial Statements, funds in the parent company's invested unrestricted equity fund total EUR 179.0 million.

The Board of Directors proposes to the Annual General Meeting of 18 March 2009 that a per-share dividend of EUR 0.04 be paid out for the financial year ending on 31 December 2008, corresponding to a total of EUR 8.8 million, and that EUR 0.10 per share be returned from the invested unrestricted equity fund, corresponding to a total of EUR 22.1 million. The Board of Directors proposes that the record date for dividend payment and equity return be 23 March 2009 and that the dividend and equity return be paid on 3 April 2009.

The Board of Directors further proposes that the remaining balance of EUR 8.9 million of the retained earnings be recorded under retained earnings.

It is the Board of Directors' opinion that the proposed profit distribution and equity return do not pose a risk to the company's solvency.

Outlook

Citycon continues to focus on increasing its cash flow and operating profit (excluding fair value changes). In order to implement its strategy, the company will focus on value-added activities while cautiously monitoring the market for potential acquisitions.

Due to market changes and tight financing conditions, any project will be re-evaluated before its launch. Citycon intends to continue the divestment of its non-core properties to improve the property portfolio and to strengthen the balance sheet. The company is also considering alternative property financing sources.

The company expects its net rental income to increase in 2009 from the previous year's level based on at the end of 2008 completed and ongoing extension and redevelopment projects that will increase the leasable area, as well as on further improvements in shopping centre management.

Helsinki, 11 February 2009

Citycon Oyj
Board of Directors

Consolidated Income Statement, IFRS

EUR million	Note	1 Jan.–31 Dec. 2008	1 Jan.–31 Dec. 2007
Total revenues	1	207.4	371.1
Total expenses excluding financial expenses	2	-312.5	-72.4
Gross rental income		173.0	143.7
Service charge income		5.3	7.7
Turnover	4	178.3	151.4
Property operating expenses	5, 8	56.3	47.8
Other expenses from leasing operations	6	0.2	0.3
Net rental income		121.8	103.4
Administrative expenses	7, 8, 9	16.9	16.5
Other operating income and expenses	10	6.1	0.5
Fair value gains on investment property		15.3	219.0
Fair value losses on investment property		-231.4	-7.5
Net fair value losses/gains on investment property		-216.1	211.4
Investment property disposal proceeds		7.7	0.2
Carrying value of investment property disposals		-7.6	-0.3
Profit/losses on disposal of investment property		0.1	-0.1
Operating loss/profit		-105.0	298.7
Financial income		72.3	10.6
Financial expenses		-129.6	-55.9
Net financial income and expenses	11, 12	-57.3	-45.3
Loss/profit before taxes		-162.3	253.5
Current taxes	13	-6.6	-3.4
Change in deferred taxes	13, 24	30.0	-46.2
Income tax expense		23.4	-49.6
Loss/profit for the period		-138.9	203.9
Attributable to			
Parent company shareholders		-124.1	200.3
Minority interest		-14.8	3.6
Earnings per share attributable to parent company shareholders:			
Earnings per share (basic), EUR	14	-0.56	1.00
Earnings per share (diluted), EUR	14	-0.56	0.91
Direct result	3	43.8	38.3
Indirect result	3	-167.9	162.1
Loss/profit for the period attributable to parent company shareholders		-124.1	200.3

Consolidated Balance Sheet, IFRS

EUR million	Note	31 Dec. 2008	31 Dec. 2007
ASSETS			
Non-current assets			
Investment property	15	2,023.6	2,215.7
Development property	16	88.1	33.2
Property, plant and equipment	17	0.7	0.9
Intangible assets	18	0.9	0.5
Deferred tax assets	24	6.8	-
Derivative financial instruments and other non-current assets	23	6.0	10.1
Total non-current assets		2,126.1	2,260.5
Current assets			
Trade and other receivables	19	21.7	22.7
Derivative financial instruments	23	13.9	1.2
Cash and cash equivalents	20	16.7	24.2
Total current assets		52.4	48.1
Total assets		2,178.5	2,308.6
LIABILITIES AND SHAREHOLDERS' EQUITY			
Equity attributable to parent company shareholders			
Share capital	21	259.6	259.6
Share premium fund		131.1	131.1
Fair value reserve		-17.7	4.9
Invested unrestricted equity fund		177.3	199.3
Other reserves		0.0	0.0
Translation reserve		-10.3	-0.3
Retained earnings		259.1	387.2
Total equity attributable to parent company shareholders		799.1	982.0
Minority interest		38.2	28.9
Total shareholders' equity		837.3	1,010.9
Long-term liabilities			
Interest-bearing liabilities	22	1,149.2	1,049.3
Derivative financial instruments	23	24.7	2.3
Other non-interest-bearing liabilities		0.8	0.2
Deferred tax liabilities	24	57.1	88.1
Total long-term liabilities		1,231.7	1,139.9
Short-term liabilities			
Interest-bearing liabilities	22	50.3	104.7
Derivative financial instruments	23	4.9	-
Trade and other payables	25	54.3	53.1
Total short-term liabilities		109.5	157.8
Total liabilities		1,341.2	1,297.7
Total liabilities and shareholders' equity		2,178.5	2,308.6

Consolidated Cash Flow Statement, IFRS

EUR million	Note	1 Jan.–31 Dec. 2008	1 Jan.–31 Dec. 2007
Cash flow from operating activities			
Loss/profit before taxes		-162.3	253.5
Adjustments:			
Depreciation and amortization	9	0.5	0.5
Net fair value losses and gains on investment property	15	216.1	-211.4
Profit/losses on disposal of investment property	15	-0.1	0.1
Financial income	11	-72.3	-10.6
Financial expenses	11	129.6	55.9
Other adjustments		-5.6	0.6
Cash flow before change in working capital		105.8	88.5
Change in working capital		-2.1	0.2
Cash generated from operations		103.7	88.8
Interest and other financial expenses paid		-63.1	-42.7
Interest income, exchange rate gains and other financial income received		6.3	3.1
Taxes received/paid		0.2	-10.0
Net cash from operating activities		47.2	39.3
Cash flow from investing activities			
Acquisition of subsidiaries, less cash acquired	15	-24.0	-517.6
Acquisition of investment properties	15	-	-16.0
Capital expenditure on investment properties	15	-58.2	-39.3
Capital expenditure on development properties, PP&E and intangible assets	16, 17, 18	-68.8	-24.5
Sale of investment properties	15	7.0	0.3
Net cash used in investing activities		-144.1	-597.1
Cash flow from financing activities			
Proceeds from share issue		-	232.4
Equity contribution from minority shareholder		25.9	-
Proceeds from short-term loans		72.1	773.1
Repayments of short-term loans		-125.8	-727.9
Proceeds from long-term loans		623.3	535.8
Repayments of long-term loans		-473.6	-228.9
Dividends paid and return from the invested unrestricted equity fund		-30.9	-23.4
Net cash from financing activities		90.9	561.1
Net change in cash and cash equivalents		-6.1	3.3
Cash and cash equivalents at period-start	20	24.2	21.3
Effects of exchange rate changes		-1.4	-0.4
Cash and cash equivalents at period-end	20	16.7	24.2

Consolidated Statement of Changes in Shareholders' Equity, IFRS

EUR million	Equity attributable to parent company shareholders									Minority interest	Total shareholders' equity
	Share capital	Share issue	Share premium fund	Fair value reserve	Invested unrestricted equity fund	Other reserves	Translation reserve	Retained earnings	Total		
Balance at 31 Dec. 2006	225.7	0.1	131.1	-1.3	-	0.0	0.0	209.7	565.3	15.0	580.3
Cash flow hedges				6.3					6.3		6.3
Net gains recognised in equity				6.3					6.3	0.0	6.3
Profit for the period								200.3	200.3	3.6	203.9
Total recognised income and expense for the period				6.3				200.3	206.6	3.6	210.2
Share issues	33.8				197.6				231.3		231.3
Share subscriptions based on stock options	0.1	-0.1	0.0		1.8				1.8		1.8
Dividends								-23.4	-23.4		-23.4
Translation differences							-0.3		-0.3	-0.7	-1.0
Share-based payments (Note 26)								0.6	0.6		0.6
Other changes									0.0	11.0	11.0
Balance at 31 Dec. 2007	259.6	-	131.1	4.9	199.3	0.0	-0.3	387.3	982.0	28.9	1,010.9
Cash flow hedges				-22.6					-22.6		-22.6
Net gains recognised in equity				-22.6					-22.6		-22.6
Profit for the period								-124.1	-124.1	-14.8	-138.9
Total recognised income and expense for the period				-22.6				-124.1	-146.7	-14.8	-161.5
Share subscriptions based on stock options					0.0				0.0		0.0
Recognized gain in the equity arising from convertible bond buybacks								4.6	4.6		4.6
Dividends and return from the invested unrestricted equity fund					-22.1			-8.8	-30.9		-30.9
Translation differences							-10.0		-10.0	-3.0	-13.0
Share-based payments (Note 26)								0.3	0.3		0.3
Other changes									0.0	27.0	27.0
Balance at 31 Dec. 2008	259.6	-	131.1	-17.7	177.3	0.0	-10.3	259.1	799.1	38.2	837.3

Notes to the Consolidated Financial Statements, IFRS

Accounting policies

1. Basic company data

As a real estate company specialising in retail properties, Citycon operates largely in the Helsinki Metropolitan Area and Finland's major regional centres as well as in Sweden and the Baltic Countries. Citycon is a Finnish, public limited company established under Finnish law and domiciled in Helsinki, the address of its registered office being Pohjoisesplanadi 35 AB, FI-00100 Helsinki. The Board of Directors approved the financial statements on 11 February 2009.

2. Basis of preparation

Citycon has prepared its consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) and applied the IFRS/IAS standards, effective as of 31 December 2008, which refer to the approved applicable standards and their interpretations under European Union Regulation No. 1606/2002. Notes to the consolidated financial statements are also in compliance with Finnish accounting legislation and Community legislation. In addition, the best practices policy recommendations of the European Public Real Estate Association (EPRA) have been applied in preparing Citycon's financial statements. EPRA is the representative body of the publicly traded real estate sector in Europe, publishing recommendations on the presentation

of financial information for the sector.

Citycon has used IFRS as the primary basis of its financial statements preparation from the beginning of 2005. Available-for-sale financial assets, derivative contracts and investment properties, are measured at fair value following their initial recognition. In other respects, the consolidated financial statements are prepared at historical cost. The financial statements are shown in millions of euros.

Preparing the financial statements under IFRS requires that the company's management make certain accounting estimates and assumptions, which have an effect on the application of the accounting policies and the reported amounts of assets, liabilities, income and expenses, as well as notes to the accounts. These estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making management judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised for the period in which the estimate is revised if the revision affects only that period, or in the period and future periods if the revision affects both

current and future periods. The section 'Management's judgement in applying the most significant accounting policies and other key assumptions about future risks and uncertainties' below provides a more detailed description of the factors underlying judgements and assumptions.

3. Changes in IFRS and accounting policies

1. New Interpretations Applied in 2008

Citycon has not applied any new interpretations during 2008. However, Citycon has early adopted IAS 23 (Amendment), 'Borrowing costs' (effective from 1 January 2009). The amendment requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. However, the standard allows, but not requires, that the borrowing costs directly attributable to the construction or production of the assets measured at fair value are capitalized. Citycon will apply IAS 23 (Amendment) retrospectively from 1 January 2007. Before the adoption of the new standard, Citycon capitalised the interest expenses arising only from the development projects, in which significant extensions or new self-constructed properties were built and measured at cost in accordance with IAS 16. After applying the new standard in its 2008 Financial Statements, Citycon has expanded its policy of capitalizing the interest expenses into the redevelopment projects, in which the existing investment properties are refurbished and measured at fair value. The new IAS 23 had no impact on the profit for the period nor the balance sheet in 2008 and 2007 financial statements, since the change in financial expenses was offset by the change in net fair value gains/losses on investment property.

2. Interpretations Effective in 2008 but not Relevant to the Group

The following interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2008 but is not relevant to the group's operations: IFRIC 14, IAS 19 - 'The limit on a defined benefit asset, minimum funding requirements and their interaction', IFRIC 11, IFRS 2 - 'Group and treasury share transactions', IFRIC 12, 'Service concession arrangements' and IFRIC 13, 'Customer loyalty programmes.'

3. Standards, Amendments and Interpretations to Existing Standards That Are Not Yet Effective and Have Not Been Early Adopted by the Group:

IFRS 8, 'Operating segments' replaces IAS 14, 'Segment reporting'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. This has not changed the number of reportable segments presented.

IAS 1 (Revised), 'Presentation of financial statements' (effective from 1 January 2009). The revised standard will prohibit the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring these 'non-owner changes in equity' to be presented separately from owner changes in equity. The group will apply IAS 1 (Revised) from 1 January 2009.

IFRS 2 (Amendment), 'Share-based payment' (effective from 1 January 2009). The amended standard deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only and that all cancellations should receive the same accounting treatment. The group will apply IFRS 2 (Amendment) from 1 January 2009. It is not expected to have a material impact on the group's financial statements.

IAS 27 (Revised), 'Consolidated and separate financial statements', (effective from 1 July 2009). The revised standard requires the effects of all transactions with noncontrolling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss.

IFRS 3 (Revised), 'Business combinations' (effective from 1 July 2009). The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed.

IFRS 5 (Amendment), 'Non-current assets held-for-sale and discontinued operations' (effective from 1 July 2009). The amendment clarifies that all of a subsidiary's assets and liabilities are classified as held for sale if a partial disposal sale plan results in loss of control. Relevant disclosure should be made for this subsidiary if the definition of a discontinued operation is met.

IAS 36 (Amendment), 'Impairment of assets' (effective from 1 January 2009). Where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made.

IAS 40 (Amendment), 'Investment property and consequential amendments to IAS 16' (effective from 1 January 2009). Property that is under

construction or development is within the scope of IAS 40. These are measured at fair value when applying the fair value model. If the fair value is not reliably measurable, the property is measured at cost until the construction is completed or when the fair value can be measured reliably.

4. Summary of significant accounting policies

Group accounting

The consolidated financial statements include Citycon Oyj and its subsidiaries, as well as holdings in its associated and joint-venture companies.

Subsidiaries refer to companies in which the Group holds a controlling interest. This controlling interest implies that the Group has the power to govern the entity's financial and operating policies for the purpose of profiting from its operations. The consolidated financial statements have been prepared in accordance with the historical cost convention under which the historical cost of subsidiary shares in the parent company's non-current assets has been eliminated against the shareholders' equity of the subsidiary on the date of the subsidiary's acquisition. The portion of the acquired company's net assets exceeding their carrying amounts on the acquisition date has primarily been allocated to land and buildings up to their fair value. Subsidiaries are consolidated from the date on which control is transferred to the Group until the date on which said control ceases.

Intra-Group transactions and profit allocation are eliminated in the consolidated financial statements.

Mutual real estate companies refer to jointly controlled assets included in the consolidated financial statements using proportionate consolidation, as required by IAS 31 Interests in Joint Ventures, whereby the Group's share

of assets, liabilities, income and expenses are included in the consolidated financial statements. The proportionate consolidation method applies to all joint ventures of this kind, regardless of the Group's holding in the joint venture.

Citycon has no associated companies as referred to in IFRS since all mutual real estate companies are stated as jointly controlled assets, as described above.

Property acquisition is treated as such when the Group actually acquires a holding in a property. This acquisition does not generate goodwill, but the entire acquisition cost is allocated to land, buildings and other assets and liabilities.

If the property is included in the acquired business, IFRS 3 Business Combinations will apply, whereby the acquisition cost is allocated to the acquired assets and liabilities at their fair value. Goodwill is the residual stemming from the fair value of the acquired net assets exceeding that of the consideration given.

Foreign currency transactions

Transactions denominated in foreign currencies are measured at the exchange rate quoted on the transaction date. Any exchange rate differences resulting from currency translation are entered under financial expenses and income in the income statement.

Monetary receivables and payables denominated in foreign currencies on the balance sheet date are measured at the exchange rate quoted on the balance sheet date. Non-monetary items denominated in foreign currencies and measured at fair value are translated into euros using the exchange rates quoted on the valuation date, while other non-monetary items are measured at the exchange rate quoted on the transaction date.

Foreign subsidiaries' income statements have been translated into euros using average exchange rates quoted for the financial period and balance sheets using the exchange rate quoted on

the balance sheet date. Any resulting exchange rate difference is recognised as a translation difference under shareholders' equity. Translation differences resulting from the elimination of the historical cost of foreign subsidiaries and items included in shareholders' equity following their acquisitions are recognised under shareholders' equity.

Investment property

Investment property refers to land or a building, or part of a building, held to earn rental income or capital appreciation, or both. Under IAS 40, investment property is measured at fair value, with gains and losses arising from changes in fair values being included in the income statement.

The investment properties are measured initially at cost including transaction costs such as consultant fees and transfer taxes. After their initial measurement the investment properties are subject to a fair value model valuation, which is conducted by an external appraiser for the first time at the end of the quarter following the acquisition.

Fair value is defined as the amount for which an asset could be exchanged between knowledgeable, willing parties in an arms' length transaction. An investment property's fair value reflects the actual market position and circumstances on the balance-sheet date, best manifested in prices paid for properties on the active market on the review date, the location and condition of these properties corresponding to those of the property under review while applying similar lease or other contracts.

Using International Valuation Standards (IVS), an external professional appraiser conducts the valuation of the company's property at least once a year, or at more regular intervals due to any major changes in the market. In the event of no major market changes, the company updates these valuations using the basic quarterly data and the market variables used by the external

appraiser for the latest valuation.

A ten-year cash flow analysis based on the net rental income is used to determine the fair value of investment properties. The basic cash flow is determined by the company's lease agreements valid at the valuation date. Upon lease expiry, the market rent assessed by an external appraiser is used to replace the contract rent. Gross rental income less operating expenses and investments equals cash flow, which is then discounted at the property-specific yield requirements. Yield requirements are determined for each property in view of property-specific and market risks. The total value of the property portfolio is calculated as the sum of the individual properties based on the cash-flow method.

Citycon redevelops its investment properties. When Citycon begins to redevelop its existing investment property, the property remains as an investment property, which is measured based on a fair value model in accordance with IAS 40. The significant extension projects for existing investment properties are exceptions and are treated in accordance with the IAS 16 Property, Plant and Equipment standard until the project is completed.

The fair value of development projects is determined under IAS 40 and Citycon uses a special project model to measure the fair value of its development projects. This project model is a cash flow analysis, which takes account of capital expenditure on the development project and the property's future cash flows according to the development project's schedule. Citycon considers using the model on a case-by-case basis. As a rule, Citycon makes use of the model as soon as the Board of Directors has made a positive investment decision on the project and the external appraiser considers that all information required for a reliable valuation is available.

All potential development projects have been left out of the valuation conducted by the

Summary of accounting principles for the treatment of investment properties in Citycon's financial statements

	Standard	Recognition principle	In the balance sheet	In the income statement	Other
Property held to earn rental income or capital appreciation	IAS 40 Investment Property	Initially at cost and subsequently at fair value using the cash flow analysis model	Investment property	Fair value change recognised as valuation gain or loss	
Ordinary development project aimed at improving premises within the existing investment property	IAS 40 Investment Property	Initially at cost and subsequently at fair value using the project model based on the cash flow analysis	Investment property	Fair value change recognised as valuation gain or loss	
Property which is currently under construction and which will be used as an investment property upon completion	IAS 16 Property, plant and equipment	At cost, including financing costs arising from the project	Development property	Impairment losses	Upon completion, accounting treatment under IAS 40
Major development project, based on constructing either a new building or an extension to the existing investment property	IAS 16 Property, plant and equipment	Development project (new building or an extension) is recognized at cost, including financing costs arising from the project	Development property	Impairment losses	Upon completion, accounting treatment under IAS 40

external appraiser. The valuation of properties with potential development projects is based on the situation and the estimated rental value on the valuation date. All undeveloped lots, or those under development, are evaluated based on their zoning on the valuation date. The value in each case was set based on market observations.

The fair value of Citycon's investment properties in the balance sheet equals the property portfolio's total value determined by the external appraiser, capital expenditure on development projects that have not been taken into account by the external appraiser, as well as the value of new properties acquired during the reporting quarter.

Gains and losses resulting from fair-value changes for investment properties are stated as separate items in the income statement. Investment property is derecognised when it is disposed of or withdrawn from use permanently and its disposal has no future economic value.

The IAS 16 Property, Plant and Equipment standard is applied until the completion of investment properties under construction and built for future use as investment properties. After their completion, these properties are transferred to the investment property at cost, which is the accumulated capital expenditure up to the completion date. Subsequently, they are measured at fair value in accordance with IAS 40.

Property, plant and equipment

Property, plant and equipment (PPE) are measured at historical cost less straight-line depreciation and any impairment losses. These assets consist mainly of office machinery and equipment and other tangible assets such as artworks. Machines and equipment leased under finance leases are also recognised within property, plant and equipment.

PPEs are depreciated on a straight-line basis over the asset's expected useful economic life. The asset's useful economic life and esti-

mated residual values are reviewed on an annual basis, and if any major differences occur between the values, the depreciation plan will be revised to correspond to these new values. The following depreciation periods apply:

- Machinery and equipment are depreciated on a straight-line basis over ten years.
- Other PPEs are depreciated on a straight-line basis over three to ten years.
- This also applies to tangible assets leased under finance lease. Such an asset is depreciated over its useful economic life or within the shorter lease term.

Capital gains or losses on the sale of PPEs are recognised in the income statement.

Intangible assets

An intangible asset is recognised in the balance sheet, provided its historical cost can be measured reliably and it is probable that its expected economic benefits flow to the company.

Intangible assets are measured at cost less amortisation and any impairment losses.

These assets include computer software amortised on a straight-line basis over five years.

Impairment

On each balance-sheet date property, plant and equipment and intangible assets are assessed to determine whether there is any indication of impairment. If any indication of an impaired asset exists, the asset's recoverable amount must be calculated. Should the asset's carrying amount exceed its recoverable amount, it is impaired, and the resulting impairment loss is recognised in the income statement.

Financial assets and liabilities

1. Recognition and measurement

As required by IAS 39, financial assets are classified into the following categories for meas-

urement purposes: originated loans and other receivables not held for trading, available-for-sale assets and financial assets at fair value through profit or loss. The classification of a financial asset is determined by the purpose for which the asset is purchased at the time of its purchase.

Originated loans and other receivables not held for trading include financial assets which the company has created by providing money, goods or services directly to the debtor. Initially recognised at cost, these assets under short-term and long-term financial assets are carried at amortised cost. Their balance sheet value is impaired by the amount of any credit loss.

Investments intended to be held for an indefinite period are classified as available-for-sale assets, which can be sold at the time deemed appropriate. These financial assets are carried at fair value subsequent to their initial recognition. Changes in their fair value are recognised in the fair value reserve under shareholders' equity and in the income statement when the asset is disposed of or it has lost its value to the extent that an impairment loss must be recognised for the asset.

Citycon concludes derivative contracts for hedging purposes only. Derivative contracts not fulfilling the criteria set for hedge accounting or for which Citycon has decided not to apply hedge accounting, are classified as financial assets or liabilities at fair value through profit or loss.

Financial liabilities are classified as financial liabilities at fair value through profit or loss or as other liabilities. Non-derivative debt contracts concluded for purposes other than trading are classified as other financial liabilities.

Financial assets and liabilities are recognised in the balance sheet on the basis of the settlement date. They are initially measured at cost, and are recognised at amortised cost using the effective yield method.

Cash and cash equivalents consist of cash,

bank deposits withdrawable on call, and other short-term, highly liquid investments. A maximum maturity of three months from the date of acquisition applies to cash and cash equivalents.

2. Derivative contracts and hedge accounting

Derivatives are initially measured at cost (if available) and re-measured at fair value on each balance sheet date.

Citycon uses interest rate swaps to hedge the interest rate cash flow risk. These interest rate swaps hedge against volatility in future interest payment cash flows (cash flow hedging) resulting from interest rate fluctuations, and the resulting profit fluctuations. Citycon applies hedge accounting to the majority of its interest rate swaps, under IAS 39, according to which the amount of financial instruments' fair value change stemming from effective hedging is recognised in the fair value reserve under shareholders' equity, whereas the amount stemming from ineffective hedging is recognised in the income statement. The amount in the fair value reserve is recognised in the income statement during the period when the cash flow from the hedged item is realised and affects earnings. If the criteria for hedge accounting are not met, changes in fair value are recognised in full through profit or loss.

Interest payments based on interest rate swaps are included in interest expenses. Changes in fair value through profit or loss are recognised as financial expenses or income. The fair value of interest rate swaps is shown in current or non-current receivables or short-term or long-term liabilities in the balance sheet. The fair value of interest rate swaps is based on the present value of estimated future cash flows.

The company uses foreign exchange derivatives to hedge against exchange rate risk relating to financial assets and liabilities denominated in foreign currency. Fair value changes related to foreign exchange derivatives are recognised in

the income statement, since fair value changes related to financial assets and liabilities denominated in foreign currencies are also recognised therein.

3. Embedded derivatives

Under IAS 39, an embedded derivative – a derivative instrument included in another contract, or a host contract, whose financial characteristics are not closely related to those of its host contract – must be separated from the host contract under certain circumstances, accounted for at fair value and changes in its fair value must be recognised in the income statement. The Group has no embedded derivatives.

4. Impairment of financial assets

A financial asset is impaired if its carrying amount exceeds its estimated recoverable amount. If there is objective evidence that a financial asset measured at amortised cost is impaired, this resulting impairment loss must be recognised in the income statement. If the amount of impairment loss decreases during a subsequent financial period and this fall can be regarded as relating to an event after the date of impairment recognition, the asset's impairment will be reversed.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount of this obligation can be made.

Long-term provisions shown in the financial statements are based on net present values.

Borrowing costs

Borrowing costs are expensed as incurred. Borrowing costs, such as interest expenses and arrangement fees, directly attributable to the

acquisition, construction or production of a qualifying asset are capitalized as part of the cost of that asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready its intended use or sale. Capitalisation commences when refurbishment of a property, the construction of a new building or extension begins and ceases once the building is ready for lease. Capitalisable borrowing costs include costs of funds borrowed for a construction project or costs attributable to a construction project multiplied by the capitalisation rate. The capitalisation rate is the weighted average cost of Citycon's borrowings for the financial year

Loan-related transaction expenses clearly associated with a specific loan are included in the loan's cost on an accrual basis and recognised as interest expenses using the effective interest method.

Taxes

Income taxes include taxes based on taxable income of Group companies for the financial period, adjustments for previous periods' taxes and changes in deferred taxes. Tax based on taxable income for the period is calculated in accordance with the tax legislation enacted in each country.

Deferred tax assets and liabilities are calculated on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts. A major temporary difference may arise between the fair value and taxable value of investment properties. In such a case, taxes are calculated on the difference between property's fair value and the debt-free acquisition cost of shares in the mutual real estate company in question, or the non-depreciated residual value of the directly owned property.

It is the company's policy to realise its shareholding in property companies by selling the shares it holds. For properties owned abroad,

such deferred taxes are not recognised because property disposal does not lead to tax implications, due to the ownership structure.

No deferred tax on subsidiaries' retained earnings is recognised to the extent that the difference is unlikely to be discharged in the foreseeable future.

Deferred tax assets are recognised to the extent that it appears probable that future taxable profit will be available against which the temporary differences can be utilised.

If the recognition of deferred taxes is attributable to an item recognised in shareholders' equity, such as a change in the fair value of a derivative instrument used for hedging purposes, deferred taxes will also be recognised in shareholders' equity.

The tax rate enacted by the balance sheet date is used to determine deferred tax.

Income recognition

Citycon's income consists mainly of rental income from investment properties. Rental income is recognised in the income statement on a straight-line basis over the term of the lease.

Leases

Leases based on Citycon as a lessor renting out investment properties are not classified as finance leases.

Leases, for which Citycon acts as a lessee, are classified as finance leases and recognised as assets and liabilities if the risks and rewards related to the property have been passed on to the company. Leases are classified at their inception and recognised at the lower of the present value of the minimum lease payments and the fair value of the asset under PPE and financial liabilities. PPE is depreciated over its useful economic life or during the lease term. Lease payments in the income statement are recognised as interest or the repayment of financial liabilities.

Leases are classified as operating leases if substantially all of the risks and rewards inherent in holding such leased assets have not been transferred to the lessee.

Lease incentives

Citycon mainly uses alteration work on leased premises as lease incentives. On behalf of the lessee, Citycon performs alteration work on premises rented by the lessee and charges the lessee for the resulting costs in terms of a rent increase. The Group recognises the alteration-related rent increase as rental income over the lease term. Rent increase and the expense arising from the alteration work are taken into account when measuring the fair value of investment property.

Citycon has no significant leases that would involve rent-free periods or rent reductions.

Pensions

The Group's employee pension cover is based on statutory pension insurance. Pension schemes are classified into two categories: defined contribution plans and defined benefit plans. Where contributions under defined contribution plans are recognised in the income statement for the period during which such contributions are made, defined benefit pension plans are based on actuarial calculations. Currently, Citycon has no defined benefit pension plan in place.

Share-based payments

Citycon has applied IFRS 2 Share-based Payment to its stock options granted after 7 November 2002 and not vested before 1 January 2005, and to the long-term share-based incentive plan decided by the Board of Directors on 26 April 2007. Such stock options and share-based incentive plans are measured at fair value on the grant date and expensed over their vesting period. Stock options granted before the above date have not been expensed.

Citycon uses the Black & Scholes option-pricing model to measure the fair value of stock options.

5. Management's judgment in applying the most significant accounting policies and other key assumptions about future risks and uncertainties

The preparation of the financial statements in accordance with IFRS requires management to make estimates and assumptions. When accounting policies are applied, also judgement is required from management. These may affect the reported assets and liabilities, recognition of income and expense for the period and other information such as presentation of contingent liabilities. Eventhough these estimates base on management's best knowledge and current information available, the actual results may differ from the estimates.

Fair value of investment properties

Measuring the fair value of investment property forms one of the most significant accounting policy aspects, which involves the management's judgement and assumptions about future uncertainties. Market rents, occupancy rate, operating expenses and yield requirement form the key variables used in the investment property's fair-value measurement, whose measurement involves the management's judgement and assumptions.

Citycon uses a net rental income based cash flow analysis to measure the fair value of its investment properties. Net rental income and the yield requirement of each property must be defined for the cash flow analysis. Net rental income equals gross rental income less operating expenses. The yield requirement is used for discounting the yearly net rental income less investments, to which the discounted residual value and other assets, such as unused building rights and

lots, are added to obtain the fair value of investment property. The key parameters of the cash flow analysis are the following items:

- Market rents, which affect rental income in the cash flow analysis, are determined by market supply and demand. The external appraiser defines the market rents for each property.
- The occupancy rate stands for that part of the leasable space (Gross Leasable Area, GLA) that is leased. The occupancy rate is determined by the lease agreements valid on the valuation date. Upon a lease expiry, measuring the occupancy rate involves the management's assumptions. The occupancy rate affects the yearly rental income.
- Operating expenses comprise costs resulting from the property's management, maintenance, heating, electricity, water supply etc. Operating expenses are determined based on the previous year's operating expenses and the benchmark data collected by the external appraiser.
- The yield requirement comprises risk-free interest as well as property-specific and market risk. The property-specific risk is defined by Citycon and this definition involves the management's judgement and assumptions. Market risks are defined by an external appraiser. Yield requirement is used as the discount rate in the cash flow analysis. When yield requirement decreases, the fair value of investment properties increases.

Other variables involving judgment and assumptions are the current leases' extension probability, the duration of vacant areas, investments, the inflation rate and the rental growth assumptions.

Citycon uses a special project model to measure the fair value of its development projects. This project model is a cash flow analysis, which takes account of capital expenditure on the development project and the property's future cash flows according to the development project's

schedule. Although the model applies principles similar to those used in the cash flow analysis measuring the investment property's fair value, it is better suited to modelling changes, in many cases significant ones, in premises and contracts during the development project. In the project model, the property can be divided into different parts and the current leases, future leases, project schedules and capital expenditure can be defined for each of these parts, which may comprise the various floors, areas or a larger space within the building. In addition, risks associated with the development project and the property's future use can be defined for the yield requirement for development projects. Following this, each part is subject to the cash flow analysis and the parts' combined cash flow constitutes the development project's fair value.

The use of a special project model in the valuation of development projects requires the management's judgement or assumptions about future investments, rental agreements and the project's timetable.

Deferred taxes

Deferred tax assets and liabilities are calculated on temporary differences arising from the difference between carrying amounts used for financial reporting purposes and amounts used for taxation purposes. The tax rate used is the rate enacted on the balance sheet date in each jurisdiction.

The most significant temporary difference relates to the difference between the fair value and taxable value of investment properties. Other main temporary differences relate to unused tax losses and financial instruments.

When recognizing deferred tax assets, management exercises judgement, as the deferred tax asset is recognized only to the extent it is considered probable that future taxable income will be available against which the deductible temporary difference can be utilized.

No deferred tax is recognized on subsidiaries' retained earnings to the extent that such difference is considered unlikely to be discharged in the future.

Business acquisitions and asset acquisitions

Citycon purchases investment properties through asset acquisitions and business acquisitions. It applies IAS 40 Investment Property to the accounting treatment of asset acquisitions and IFRS 3 Business Combinations to the accounting treatment of business acquisitions. Citycon's management exercises judgement in assessing whether the purchase of an investment property or an investment property portfolio is classified as an asset acquisition or business acquisition. Criteria for business acquisitions identified by Citycon include acquired access to new market areas, a new business line, brand or another intangible asset related to customer relationships etc. However, this is not an exhaustive list, since Citycon's management assesses each investment property purchase on a case-by-case basis.

1. Total revenues

EUR million	2008	2007
Gross rental income	173.0	143.7
Service charge income	5.3	7.7
Other operating income	6.1	0.5
Fair value gains on investment property	15.3	219.0
Investment property disposal proceeds	7.7	0.2
Total	207.4	371.1

Total revenues disclosure is in accordance with the EPRA Recommendations.

2. Total expenses excluding financial expenses

EUR million	2008	2007
Property operating expenses	56.3	47.8
Other expenses from leasing operations	0.2	0.3
Administrative expenses	16.9	16.5
Fair value losses on investment property	231.4	7.5
Carrying value of investment property disposals	7.6	0.3
Total	312.5	72.4

Total expenses disclosure is in accordance with the EPRA Recommendations.

Total revenues deducted by total expenses equals to operating loss/profit in the consolidated income statement.

3. Reconciliation between direct and indirect result

Due to the nature of Citycon's business and the requirement to apply IFRS, the consolidated income statement includes a large number of items related to non-operating activities. In addition to the consolidated income statement under IFRS, Citycon also presents its profit for the period with direct result and indirect result separately specified, in an attempt to enhance the transparency of its operations and to facilitate comparability of financial years. Direct result describes the profitability of the Group's operations during the financial year dis-

regarding the effects of fair value changes, gains or losses on sales and other extraordinary items. Earnings per share calculated based on direct result corresponds to the earnings per share definition recommended by EPRA. In the notes of Consolidated Key Figures and Ratios the direct and indirect key-figures have been presented for five financial years and quarterly for years 2008 and 2007.

Direct result

EUR million	2008	2007
Net rental income	121.8	103.4
Direct administrative expenses	-16.5	-16.5
Direct other operating income and expenses	0.1	0.5
Direct net financial income and expenses	-54.2	-44.7
Direct current taxes	-4.8	-3.4
Direct change in deferred taxes	0.2	-0.2
Direct minority interest	-2.8	-0.9
Total	43.8	38.3
Direct result per share, diluted (Diluted EPRA EPS) ¹⁾	0.20	0.19

Indirect result

EUR million	2008	2007
Net fair value losses/gains on investment property	-216.1	211.4
Profit/loss on disposal of investment property	0.1	-0.1
Indirect administrative expenses	-0.4	-
Indirect other operating income and expenses	6.0	-
Movement in fair value of financial instruments	-3.1	-0.6
Indirect current taxes	-1.8	-
Change in indirect deferred taxes	29.7	-46.0
Indirect minority interest	17.6	-2.7
Total	-167.9	162.1
Indirect result per share, diluted ¹⁾	-0.76	0.71

Loss/Profit for the period attributable to parent company shareholders	-124.1	200.3
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¹⁾ Calculation of the number of the shares is presented in the note 14 Earnings per share an net asset value per share

4. Segment information

The presentation of segment information is based on geographical segments and business segments. Geographical segments are based on the Group's organisational structure and internal financial reporting. Segment assets and liabilities consist of operating items which the segment uses in its operations or which, on reasonable basis, can be allocated to the segment. Unallocated items include tax and financial items, as well as corporate items. Capital expenditure includes additions to the investment properties, development properties as well as property, plant and equipment and intangible assets in the balance sheet.

Geographical segments

Geographical segments are Finland, Sweden and the Baltic countries. Other segment includes mainly the expenses of the Group's finance and other administration.

Finland

Citycon is Finland's largest company in the shopping-centre business. It owns 22 shopping centres in addition to 45 other retail properties, of which 32 are located in the Helsinki Metropolitan Area and 35 elsewhere in Finland.

Sweden

Citycon has expanded especially in Sweden during the last three years. It now owns eight shopping centres and seven other retail properties.

Seven of the sites in Sweden are located in the Greater Stockholm Area, six in the Greater Gothenburg Area and two in Umeå.

The Baltic Countries

Citycon owns three shopping centres in the Baltic region, two in Estonia and one in Lithuania.

Business segments

Business segments comprise shopping centres and other retail properties

Shopping centres

The Shopping centres segment consists of 33 shopping and retail centre properties, 22 of which are located in Finland, eight in Sweden, two in Estonia and one in Lithuania. Shopping Centres form the core of Citycon's business. Citycon leads the Finnish property market for shopping centres.

Other retail properties

The Other retail properties segment consists of 52 properties. It serves the grocery and speciality shop sector by leasing and developing supermarket and shop properties.

A) Geographical segments

1 Jan.-31 Dec. 2008					
EUR million	Finland	Sweden	Baltic Countries	Other	Total
Gross rental income	122.5	41.1	9.3	-	173.0
Service charge income	4.3	0.7	0.3	0.0	5.3
Turnover	126.8	41.9	9.6	0.0	178.3
Property operating expenses	35.8	17.7	2.8	0.0	56.3
Other expenses from leasing operations	0.1	0.1	0.0	0.0	0.2
Net rental income	90.9	24.1	6.8	0.0	121.8
Administrative expenses	5.5	3.2	0.6	7.2	16.5
Other operating income and expenses	0.0	0.1	0.0	0.0	0.1
Direct operating profit	85.4	21.0	6.2	-7.2	105.3
Indirect administrative expenses	0.0	-	-	0.4	0.4
Indirect other operating income and expenses	5.9	-	-	0.1	6.0
Net fair value losses/gains on investment property	-154.3	-70.1	8.3	0.0	-216.1
Profit on disposal of investment property	0.1	0.0	0.0	0.0	0.1
Operating loss/profit	-62.9	-49.1	14.4	-7.4	-105.0
Net financial income and expenses				-57.3	-57.3
Income tax expense				23.4	23.4
Loss for the period					-138.9
Assets	1,504.2	466.9	156.3	51.1	2,178.5
Liabilities	10.4	7.9	1.1	1,321.8	1,341.2
Capital expenditure	69.2	65.6	22.7	0.3	157.9

1 Jan.-31 Dec. 2007					
EUR million	Finland	Sweden	Baltic Countries	Other	Total
Gross rental income	100.7	35.4	7.7	-	143.7
Service charge income	3.6	3.7	0.4	-	7.7
Turnover	104.3	39.0	8.0	0.0	151.4
Property operating expenses	28.5	17.3	2.1	-0.1	47.8
Other expenses from leasing operations	0.1	0.1	0.0	0.0	0.3
Net rental income	75.7	21.6	6.0	0.1	103.4
Administrative expenses	5.5	3.2	0.9	6.9	16.5
Other operating income and expenses	0.2	0.2	0.1	0.0	0.5
Direct operating profit	70.4	18.7	5.1	-6.8	87.4
Net fair value gains on investment property	148.1	54.7	8.7	0.0	211.4
Losses on disposal of investment property	-0.1	0.0	0.0	0.0	-0.1
Operating profit	218.4	73.4	13.8	-6.8	298.7
Net financial income and expenses				-45.3	-45.3
Income tax expense				-49.6	-49.6
Profit for the period					203.9
Assets	1,594.2	542.2	125.3	46.9	2,308.6
Liabilities	14.7	11.8	3.2	1,268.1	1,297.7
Capital expenditure	429.1	142.4	31.7	0.8	603.9

B) Business segments

1 Jan.-31 Dec. 2008	Shopping centres	Other retail properties	Other	Total
EUR million				
Turnover	146.3	31.9	-	178.3
Assets	1,826.6	300.8	51.1	2,178.5
Investments	152.3	4.8	0.8	157.9
1 Jan.-31 Dec. 2007	Shopping centres	Other retail properties	Other	Total
EUR million				
Turnover	120.6	30.8	-	151.4
Assets	1,908.9	352.8	46.9	2,308.6
Investments	571.4	31.7	0.8	603.9

5. Property operating expenses

EUR million	2008	2007
Heating and electricity	19.4	15.1
Maintenance expenses	18.4	15.2
Property personnel expenses	0.6	0.7
Administrative and management fees	2.9	2.8
Marketing expenses	2.5	1.4
Property insurances	0.7	0.5
Property taxes	4.9	4.3
Repair expenses	6.7	7.2
Other property operating expenses	0.2	0.5
Total	56.3	47.8

6. Other expenses from leasing operations

EUR million	2008	2007
Tenant improvement expenses and commissions	0.1	0.1
Credit losses	0.1	0.2
Total	0.2	0.3

Significant tenant improvements are recognized as investments.

7. Administrative expenses

EUR million	2008	2007
Personnel expenses	9.3	8.3
Consulting fees, advisory fees and outside services	2.9	3.2
Office and other administrative expenses	4.3	4.5
Depreciation and amortization	0.5	0.5
Total	16.9	16.5

Consulting and advisory fees in the administration expenses include the following audit fees and services:

EUR million	2008	2007
Audit fees	0.2	0.2
Other advisory services	0.2	0.4
Total	0.4	0.6

8. Personnel expenses

EUR million	2008	2007
Salaries and emoluments of management		
CEO	0.3	0.3
Management committee	1.2	1.1
Board	0.6	0.5
Other wages and salaries	5.4	4.6
Pension charges: defined contribution plans	1.1	0.8
Social charges	1.0	1.0
Expense of share based payments	0.3	0.6
Total	9.9	9.0

Personnel expenses of EUR 0.6 million (EUR 0.7 million) is included in property operating expenses and EUR 9.3 million (EUR 8.3 million) in administrative expenses.

The share based payments plans are described in the Note 26, Employee benefits.

Average Group staff during period

	2008	2007
Finland	75	68
Sweden	27	19
The Baltic Countries	7	6
Total	109	93

Information on management benefits are presented in the notes to the consolidated financial statements under 29. Related party transactions.

9. Depreciation and amortization

Depreciation and amortization of EUR 0.5 million (EUR 0.5 million) on machinery and equipment as well as on intangible assets is included in the administrative expenses.

10. Other operating income and expenses

EUR million	2008	2007
Other operating income	6.5	0.6
Other operating expenses	-0.3	0.0
Total	6.1	0.5

Other operating income includes EUR 5.9 million compensation from city of Helsinki relating to early termination of land lease agreement in Myllypuro retail premises.

11. Net financial income and expenses

EUR million	2008	2007
Interest income	0.8	1.4
Foreign exchange gains	68.7	9.2
Fair value gain from derivatives	0.4	-
Other financial income	2.4	0.1
Financial income, total	72.3	10.6

Interest expenses	60.6	45.3
Foreign exchange losses	68.9	9.3
Fair value loss from derivatives	3.5	0.6
Development interest capitalized	-7.1	-2.6
Other financial expenses	3.8	3.3
Financial expenses, total	129.6	55.9

Net financial income and expenses **57.3** **45.3**

Of which attributable to financial instrument categories:

Interest-bearing loans and receivables	77.9	49.1
Finance lease liabilities	0.0	0.0
Derivative financial instruments	-20.8	-3.8
Other liabilities and receivables	0.1	-0.1
Net financial income and expenses	57.3	45.3

In 2008, foreign exchange gains of EUR 21.0 million (gains of EUR 4.4 million) were recognised in the income statement from foreign exchange derivative agreements.

Interest on development expenditure is capitalized at a rate of 5.12% as at 31 December 2008 (4.91% as at 31 December 2007).

12. Restatement of the financial information in 2007 and 2008 due to the new IAS 23 borrowing cost standard

Due to the new IAS 23 Borrowing Costs standard, Citycon has re-evaluated its accounting policy regarding the capitalisation of the interest expenses and has concluded to revise the policy. As a result of adopting the revised accounting policy relating to the capitalisation of interest expenses, Citycon has restated its 2007 and 2008 financial statements. The new standard has been issued by the IASB and been endorsed by the EU on 10 December 2008. Before the adoption of the new standard, Citycon capitalised the interest expenses arising only from the development projects, in which significant extensions or new self-constructed properties were built and measured at cost in accordance with IAS 16.

After applying the new standard in its 2008 Financial Statements, Citycon expanded its policy of capitalizing the interest expenses into the redevelopment projects, in which the existing investment properties are refurbished and measured at fair value. The following table presents the impact of the new IAS 23 on the financial information for 2007 and 2008. The new IAS 23 had no impact on the profit for the period nor the balance sheet, since the change in financial expenses is offset by the change in net fair value gains/losses on investment property.

Due to the new IAS 23 -standard, Citycon capitalized an additional financial expenses of EUR 3.5 million in 2008 (EUR 2.0 million in 2007) than before the application of a new standard.

EUR million	2008	2008 Before Restatement	2007	2007 Before Restatement
Net fair value losses/gains on investment property	-216.1	-212.6	211.4	213.4
Operating loss/profit	-105.0	-101.5	298.7	300.7
Net financial income and expenses	57.3	60.8	45.3	47.3
Loss/profit before taxes	-162.3	-162.3	253.5	253.5
Loss/profit for the period	-138.9	-138.9	203.9	203.9
Direct result	43.8	40.3	38.3	36.3
Indirect result	-167.9	-164.4	162.1	164.0

13. Income tax expense

EUR million	2008	2007
Current tax	6.6	3.4
Tax for prior periods	-0.1	0.0
Deferred tax	-30.0	46.2
Income tax expense	-23.4	49.6

Reconciliation between tax charge and Group tax at Finnish tax rate (26%)

EUR million	2008	2007
Loss/profit before taxes	-162.3	253.5
Taxes at Finnish tax rate	-42.2	65.9
Fair value gains and losses from subsidiaries owned abroad	22.2	-16.7
Difference in foreign subsidiaries' tax rate	-1.0	-0.8
Undistributed profit of subsidiaries	0.0	-0.7
Unrecognised tax receivables from losses	3.8	3.0
Difference between fair value and tax base	-6.5	-1.9
Utilisation of previously unrecognised tax losses	0.1	0.1
Other	0.3	0.7
Income tax expense	-23.4	49.6

Effective tax rate 14.4 % 19.6 %

14. Earnings per share and net asset value per share

Earnings per share (basic) is calculated by dividing the net profit attributable to parent company shareholders by the share issue adjusted weighted average number of shares.

A) Earnings per share calculated from the profit for the period

	2008	2007
Earnings per share, basic		
Loss/profit attributable to parent company shareholders (EUR million)	-124.1	200.3
Issue-adjusted average number of shares (1,000)	220,991.5	199,403.7
Earnings per share (basic) (EUR)	-0.56	1.00
Earnings per share, diluted		
Loss/profit attributable to parent company shareholders (EUR million)	-124.1	200.3
Expenses from convertible loan, the tax effect deducted (EUR million)	-	5.7
Loss/profit used in the calculation of diluted earnings per share (EUR million)	-124.1	206.0
Issue-adjusted average number of shares (1,000)	220,991.5	199,403.7
Convertible capital loan impact (1,000)	-	26,190.5
Adjustments for stock options (1,000)	-	1,527.8
Issue-adjusted average number of shares used in the calculation of diluted earnings per share (1,000)	220,991.5	227,122.0
Diluted earnings per share (EUR)	-0.56	0.91

The incremental shares from assumed conversions or any income or cost related to dilutive potential shares are not included in calculating year 2008 diluted per-share amounts because the profit attributable to parent company shareholders was negative.

B) Earnings per share calculated from the direct result for the period

	2008	2007
Direct result per share, diluted (Diluted EPRA EPS)		
Direct result (EUR million) (Note 3)	43.8	38.3
Expenses from convertible loan, the tax effect deducted (EUR million)	5.6	5.7
Profit used in the calculation of diluted earnings per share (EUR million)	49.4	43.9
Issue-adjusted average number of shares used in the calculation of diluted earnings per share (1,000)	247,222.5	227,122.0
Direct result per share, diluted (Diluted EPRA EPS)	0.20	0.19

The diluted earnings per share is calculated adjusting the weighted average number of shares to assume conversion of all dilutive potential shares. The Group has currently two categories of dilutive shares in place: stock options and convertible capital loan.

- Stock options have dilutive potential when the subscription price of shares based on the stock options is lower than the share's fair value. The dilutive potential of stock options is calculated by taking into account the total number of shares that can be subscribed based on stock options, less the number of shares that group could acquire by using the assets received from the exercise of the stock options.

- The holder of the convertible loan has the right during 12 September 2006–27 July 2013 to convert the loan nominal amount into shares of the company. Based on the conversion price applicable on the balance sheet date, the dilution from full conversion of the loan nominal is approximately 19.7 million shares. When calculating the dilution effect, the loss/profit for the period is adjusted with the expenses arising from the convertible loan (including the tax effect).

Average number of shares used in the calculation of earnings per share

	Days	Number of shares
1/1/08	48	220,981,211
2/19/08	70	220,981,817
4/29/08	21	220,985,546
5/20/08	64	220,992,586
7/23/08	163	220,998,989
	366	
Weighted average (daily) number of shares		220,991,482

C) Net asset value per share

Citycon presents the net asset value (EPRA NAV) and adjusted net asset value per share (EPRA NNNAV) in accordance with the recommendations of the European Public Real Estate Association (EPRA).

	2008			2007		
	EUR million	Issue adjusted number of shares (1,000)	Per share, EUR	EUR million	Issue adjusted number of shares (1,000)	Per share, EUR
Equity attributable to parent company shareholders	799.1	220,991.5	3.62	982.0	220,981.2	4.44
Deferred taxes from the difference of fair value and fiscal value of investment properties	56.0	220,991.5	0.25	84.8	220,981.2	0.38
Fair value of financial instruments ¹⁾	2.1	220,991.5	0.01	-1.4	220,981.2	-0.01
Net asset value (EPRA NAV)	857.1	220,991.5	3.88	1,065.4	220,981.2	4.82
Deferred taxes from the difference of fair value and fiscal value of investment properties	-56.0	220,991.5	-0.25	-84.8	220,981.2	-0.38
The difference between the mark-to-market and book value of debt	40.8	220,991.5	0.18	-5.8	220,981.2	-0.03
Fair value of financial instruments	-2.1	220,991.5	-0.01	1.4	220,981.2	0.01
EPRA NNNAV	839.9	220,991.5	3.80	976.2	220,981.2	4.42

¹⁾In comparison to previous practice net asset value excludes the fair value of financial instruments which are not under hedge accounting.

15. Investment property

Citycon divides its investment properties into two categories: properties under redevelopment and operative investment properties.

Properties under redevelopment included during 2008 the projects in the following shopping centers Lahden Trio, Liljeholmstorget, Linjurin kauppakeskus, Lippulaiva, Rocca al Mare, Åkersberga, Torikeskus and Tumba.

2008	Properties under redevelopment	Operative investment properties	Investment properties total
EUR million			
At period-start	511.2	1,704.4	2,215.7
Acquisitions during the period	-	10.6	10.6
Investments during the period	50.6	12.0	62.7
Disposals during the period	-	-7.6	-7.6
Capitalized interest	3.3	-	3.3
Fair value gains on investment property	4.8	10.5	15.3
Fair value losses on investment property	-44.5	-186.9	-231.4
Exchange differences	-26.2	-41.6	-67.8
Transfer into development/operative investment properties	-315.6	338.5	22.9
At period-end	183.7	1,839.9	2,023.6
2007			
EUR million			
At period-start	152.4	1,295.5	1,447.9
Acquisitions during the period	59.4	471.9	531.3
Investments during the period	35.6	9.2	44.8
Disposals during the period	-	-0.3	-0.3
Capitalized interest	2.0	-	2.0
Fair value gains on investment property	54.8	164.2	219.0
Fair value losses on investment property	-2.1	-5.4	-7.5
Exchange differences	-5.1	-10.0	-15.1
Transfer into development/operative investment properties	214.3	-220.7	-6.4
At period-end	511.2	1,704.4	2,215.7

Under IAS 40 Investment Property -standard, Citycon measures its investment properties at fair value. An external professional appraiser has conducted the valuation of the company's properties with a net rental income based cash flow analysis. Market rents, occupancy rate, operating expenses and yield requirement form the key variables used in the cash flow analysis. The impact of key variables on the fair value of properties have been tested with the sensitivity analysis presented in note 23 Financial instruments.

Analysis indicates that the market value is most sensitive to the yield requirement and gross income levels. A ten percent decrease in the yield requirement results in an approximately 11 percent increase in total value. Correspondingly, a ten percent increase in gross income increases the value by approximately 14 percent. The segments' yield requirements and market rents used by the external appraiser in the cash flow analysis were as follows at 31 December 2008 and at 31 December 2007:

	Yield requirement (%)		Market rents (EUR/m ² /month)	
	2008	2007	2008	2007
Finland	6.4	5.7	21.9	21.1
Sweden	6.4	5.4	12.3	13.2
the Baltic Countries	7.4	6.4	20.2	16.4
Total	6.4	5.6	19.9	19.0

Realia Management Oy within Realia Group conducted the valuation of Citycon's properties for the Annual Report 2008 and 2007 and the Q2 and Q3/2007 Interim Reports while Aberdeen Property Investors Finland Oy did the same for the Q1/2007 Interim Report. The resulting fixed fees based on the 2008 valuations total EUR 0.1 million (EUR 0.1 million in 2007).

The fair value of Citycon's investment properties in the balance sheet equals the property portfolio's total value determined by the external appraiser, capital expenditure on development projects that haven't been taken into account by the external appraiser as well as the value of new properties acquired during the reporting quarter. The reconciliation between the fair value determined by the external appraiser and the fair value of investment properties in Citycon's balance sheet is as follows:

EUR million	2008	2007
Value determined by the external appraiser as at Dec. 31	2,021.0	2,194.8
Capital expenditure on development projects	2.6	4.7
Acquisition of new properties	-	16.2
Fair value of investment properties as at Dec. 31	2,023.6	2,215.7

16. Development property

When Citycon redevelops its existing investment properties, the properties remain as the investment properties in the balance sheet, and they are measured based on fair value model in accordance with IAS 40. The significant development projects, in which a new building or significant extension is constructed, are exceptions and they are treated in accordance with IAS 16 Property, Plant and Equipment standard. The significant extension

projects are presented as development properties separately from the property, plant and equipment in the balance sheet based on the recommendations of the European Public Real Estate Association (EPRA). As at 31 December 2008, the development properties consisted of the capital expenditure relating to extension projects in Rocca al Mare, Åkersberga, Liljeholmen and Lippulaiva shopping centres.

EUR million	2008	2007
At period-start	33.2	-
Acquisitions during the period	6.8	-
Investments during the period	70.3	26.4
Capitalized interest	3.5	0.6
Exchange differences	-2.6	-
Transfer from/to investment property	-23.1	6.2
At period-end	88.1	33.2

17. Property, plant and equipment

EUR million	2008	2007
Acquisition cost Jan. 1	1.8	1.4
Additions during the period	0.2	0.4
Accumulated acquisition cost Dec. 1	2.0	1.8
Accumulated depreciation and impairment losses, Jan. 1	1.0	0.7
Depreciation during the period	0.2	0.3
Accumulated depreciation and impairment losses, Dec 31.	1.3	1.0
Net carrying amount Jan 1.	0.9	0.6
Net carrying amount Dec 31.	0.7	0.9

Property, plant and equipment consisted mainly of machinery and equipment.

Machinery and equipment acquired through financial leases amounted to EUR 0.3 million (EUR 0.5 million).

18. Intangible assets

EUR million	2008	2007
Acquisition cost Jan. 1	1.0	0.6
Additions during the period	0.6	0.4
Accumulated acquisition cost Dec. 1	1.6	1.0
Accumulated depreciation and impairment losses, Jan. 1	0.4	0.3
Depreciation during the period	0.2	0.1
Accumulated depreciation and impairment losses, Dec 31.	0.6	0.4
Net carrying amount Jan 1.	0.5	0.3
Net carrying amount Dec 31.	0.9	0.5

Intangible assets consisted mainly of computer softwares.

19. Trade and other receivables

EUR million	2008	2007
Trade receivables	2.4	2.5
Accrued income and prepaid expenses	1.7	3.2
Tax receivables (incl. VAT-receivables)	10.5	16.3
Other receivables	7.2	0.7
Total	21.7	22.7

Ageing structure of trade receivables

EUR million	2008	2007
NOT past due nor impaired	0.4	0.6
Past due, less than 1 month	1.4	1.4
Past due, 1-3 months	0.3	0.2
Past due, 3-6 months	0.1	0.1
Past due, 6-12 months	0.1	0.1
Past due, 1-5 years	0.1	0.0
Total	2.4	2.5

20. Cash and cash equivalents

EUR million	2008	2007
Cash in hand and at bank	16.7	24.2
Short-term deposits	-	-
Total	16.7	24.2

Cash and cash equivalents comprise in the cash flow statement comprise the items presented above.

21. Shareholders' equity

A) The effect of the changed number of shares on funds included in the shareholders' equity

	Number of shares	Share capital (EUR million)	Share issue (EUR million)	Share premium fund (EUR million)	Invested unrestricted equity fund (EUR million)	Total (EUR million)
1 Jan. 2007	167,183,180	225.7	0.1	131.1	-	356.9
Directed share issue	25,000,000	33.8	-	-	98.8	132.6
Rights issue	27,594,782	-	-	-	98.7	98.7
Share subscriptions based on stock options	1,203,249	0.1	-0.1	-	1.8	1.8
31 Dec. 2007	220,981,211	259.6	-	131.1	199.3	590.0
Directed share issue without payment	7,040	-	-	-	-	-
Share subscriptions based on stock options	10,738	-	-	-	0.0	0.0
Return from the invested unrestricted equity fund	-	-	-	-	-22.1	-22.1
31 Dec. 2008	220,998,989	259.6	-	131.1	177.3	567.9

B) Description of funds and reserves included in shareholders' equity

Share premium fund

Since the entry into force of the new Finnish Companies Act, no new items are recognised in the share premium fund. The share premium fund accumulated before 2007 due to option schemes and share issues.

Invested unrestricted equity fund

Pursuant to the new Finnish Companies Act, which came into force in 2007, Citycon presents the invested unrestricted equity fund as a separate equity item. The invested unrestricted equity fund is credited, for instance, with that part of the subscription price of the shares that according to the Memorandum of Association or the share issue decision is not to be credited to the share capital. The invested unrestricted equity fund accumulated in 2008 and 2007 due to subscriptions under option schemes, a directed share issue and a rights issue.

Translation reserve

Translation reserve contains translation differences arising from the currency translation of foreign subsidiaries' financial statements.

Fair value reserve

Fair value reserve contains fair value changes of derivative instruments used to hedge cash flows.

22. Interest-bearing liabilities

A) Breakdown of interest-bearing liabilities

EUR million	Effective interest rate (%)	Carrying amount 2008	Carrying amount 2007
Long-term interest-bearing liabilities			
Loans from financial institutions			
EUR 435 million term loan facility	EURIBOR + 0,850	353.5	392.4
EUR 165 million revolving credit facility	EURIBOR + 0,650	142.7	162.4
EUR 200 million term loan facility	EURIBOR + 0,825	194.2	199.2
SEK 500 million bank loan	STIBOR + 0,750	46.0	53.0
EEK 470 million bank loan	5.599	28.8	28.8
LTL 52 million bank loan	VILIBOR + 0,525	11.3	13.5
EUR 30 million term loan facility	EURIBOR + 0,750	30.0	-
EUR 50 million revolving credit facility	EURIBOR + 0,600	45.0	-
Other loans from financial institutions	-	154.2	34.4
Convertible capital loan 1/2006	7.58	73.3	95.0
Subordinated capital loan 1/2005	4.7	70.0	70.0
Finance lease liabilities	-	0.1	0.5
Total long-term interest-bearing liabilities		1,149.2	1,049.3
Short-term interest-bearing liabilities			
Loans from financial institutions			
Commercial papers	EURIBOR + 0,1	-	54.5
Current portion of loans from financial institutions	-	20.1	20.0
Other loans from financial institutions	-	30.0	30.2
Finance lease liabilities	-	0.2	0.0
Total short-term interest-bearing liabilities		50.3	104.7

Carrying amount of term loan facility and convertible capital loan are stated at amortised cost using the effective yield method. The fair values of liabilities are shown in the note 23. Financial Instruments.

The market value of the option component at issue date of the Convertible capital loan of EUR 15.1 million is recognized in shareholders' equity under share premium fund.

Maturity of long-term interest-bearing liabilities

EUR million	2008	2007
1-2 years	90.7	20.4
2-3 years	170.6	91.8
3-4 years	44.6	193.6
4-5 years	485.0	72.4
over 5 years	358.2	671.2
Total	1,149.2	1,049.3

Long-term interest-bearing liabilities by currency

EUR million	2008	2007
EUR	751.5	670.8
EEK	45.5	28.8
SEK	341.6	336.2
LTL	10.6	13.5
Total	1,149.2	1,049.3

Short-term interest-bearing liabilities by currency

EUR million	2008	2007
EUR	48.3	94.9
EEK	1.2	1.2
SEK	0.1	7.8
LTL	0.8	0.8
Total	50.3	104.7

B) Terms and conditions of subordinated capital loans

Subordinated capital loan 1/2005

Citycon Oyj issued on 17 June 2005 five-year subordinated capital loan 1/2005 of EUR 70 million at a fixed annual nominal interest rate of 4.70 per cent. The loan's issue price accounted for 99.956 per cent of the nominal loan amount, and its maturity date is 17 June 2010.

The main terms and conditions of the subordinated capital loan 1/2005:

- 1) In the event of company dissolution or bankruptcy, obligations of the issuer arising for the subordinated capital loan shall be subordinated in right of payment to the claims of all unsubordinated creditors of Citycon Oyj but shall rank pari passu with all other obligations which qualify as a capital loan.
- 2) The loan's principal, including interest accumulated until the repayment date, will be repaid in one instalment on 17 June 2010 if full margin is available for the restricted shareholders' equity and other non-distributable earnings, based on the company's and its Group's latest adopted balance sheet, after the repayment. The accrued interest for the loan was EUR 1.8 million as of 31 December 2008.
- 3) Fixed annual interest of 4.70 percent will be paid annually in arrears on the loan's principal until 17 June 2010. Unless the loan is repaid in full on its maturity date of 17 June 2010, interest on the unpaid loan principal after that date is 12-month Euribor plus 5 percentage points. Interest can be paid only if this amount can be allocated to profit distribution based on the company's and its Group's latest adopted balance sheet.
- 4) The company has the right to repay the loan's principal in part or in full on each interest-payment date at a rate determined by discounting

the remaining cash flows up to the repayment date. The interest rate to be used for discounting is the Finnish government reference rate for the same period plus 1.5 percentage points.

Convertible capital loan 1/2006

Citycon Oyj issued on 2 August 2006 seven-year convertible capital loan 1/2006 of EUR 110 million at a fixed annual nominal interest rate of 4.50 per cent. After the buyback transactions performed during 2008, the outstanding amount was EUR 82.9 million. The loan's conversion price is EUR 4.2000 per share and a full conversion of the loan would result in the issue of 19,738,095 shares. The loan's issue price accounted for 100.00 per cent of the nominal loan amount, and its maturity date is 2 August 2013.

The main terms and conditions of the convertible capital loan 1/2006:

- 1) In the event of company dissolution or bankruptcy, obligations of the issuer arising for the convertible capital loan shall be subordinated in right of payment to the claims of all unsubordinated creditors of Citycon Oyj but shall rank pari passu with all other obligations which qualify as a capital loan.
- 2) The loan's principal, including interest accumulated until the repayment date, will be repaid in one instalment on 2 August 2013 if full margin is available for the restricted shareholders' equity and other non-distributable earnings, based on the company's and its Group's latest adopted balance sheet, after the repayment. The accrued interest for the loan was EUR 1.5 million as of 31 December 2008.
- 3) Fixed annual interest of 4.50 percent will be paid annually in arrears on the loan's principal until 2 August 2013. In the event, that the loan is not repaid in full on its maturity date of 2 August 2013, interest on the unpaid loan principal after that date is 3-month Euribor plus 5

percentage points. Interest can be paid only if this amount can be allocated to profit distribution based on the company's and its Group's latest adopted balance sheet. In the event, that the interest is not fully paid in any interest payment date, the interest on the unpaid interest amount after the interest payment date is 3-month Euribor plus 5 percentage points.

4) The holder of the loan has the right during 12 September 2006–27 July 2013 convert the loan nominal amount into shares of the company. The conversion price of the loan is EUR 4.2000 per share. The conversion price is subject to amendments in certain circumstances as specified in the terms of the loan. Based on the initial conversion price, the conversion of the whole loan nominal would result in the issue of a maximum of 19,738,095 shares.

5) The company has the right to repay the loan in full on or after 23 August 2010 at its principal amount if the closing price of the share on each of at least 20 dealing days in any period of 30 consecutive dealing days is 140 per cent of the conversion price in effect on such dealing day.

During 2008 Citycon has repurchased from the open markets the convertible capital bond for a nominal amount of EUR 27.1 million with a weighted average purchase price of 53.5%. The amount repurchased by Citycon equals approximately 25% of the initial nominal amount of the bonds issued. The income statement includes the gain after taxes of EUR 1.6 million and the group equity a gain after taxes of EUR 4.6 million from the repurchases.

C) Breakdown of finance lease liabilities

EUR million	2008	2007
Finance lease liabilities		
- minimum lease payments		
Not later than 1 year	0.2	0.3
1–5 years	0.1	0.4
Over 5 years	0.0	0.0
Total	0.4	0.7
Finance lease liabilities		
- present value of minimum lease payments		
Not later than 1 year	0.2	0.2
1–5 years	0.1	0.3
Over 5 years	0.0	0.0
Total	0.4	0.5
Future finance charges on finance leases	0.0	0.0
Total finance lease liabilities	0.4	0.5

Citycon's finance leases mainly apply to computer hardware and machinery and equipment.

23. Financial instruments

A) Carrying amount and fair value of financial assets and liabilities

EUR million	Note	Carrying amount 2008	Fair value 2008	Carrying amount 2007	Fair value 2007
Financial assets					
Cash and cash equivalents	20	16.7	16.7	24.2	24.2
Investments		0.0	0.0	0.0	0.0
Trade and other receivables	19	21.7	21.7	22.7	22.7
Derivative financial instruments		19.8	19.8	11.4	11.4
Financial liabilities					
Loans from financial institutions	22	1,055.9	1,058.1	988.5	990.9
Convertible capital loan 1/2006	22	73.3	82.9	95.0	110.0
Subordinated capital loan 1/2005	22	70.0	70.0	70.0	70.0
Finance lease liabilities	22	0.4	0.4	0.5	0.5
Trade and other payables and liabilities	25	54.3	54.3	53.1	53.1
Derivative financial instruments		29.6	29.6	2.3	2.3

Derivative financial instruments

Derivative financial instruments are initially measured at cost in the balance sheet and subsequently re-measured at their fair value on each balance-sheet date. The fair value of interest-rate swaps is calculated using the present value of estimated future cash flows. The fair value of a forward agreement is based on the difference between the exchange rate of the agreement and the prevailing exchange rate fixing on each balance-sheet date. The fair value of derivative financial instruments is the estimated amount that the Group would receive or pay to settle the related agreements.

Fair value of interest rate derivative financial instruments are determined by the counterparty banks using customary valuation techniques used by market participants in the OTC derivative market. The fair value of foreign exchange derivative contracts are based on quoted market prices.

Loans from financial institutions

Citycon's loans from financial institutions are floating rate loans which have fair value equal to

the nominal amount of the loan. The difference between the fair value and carrying amount is the unamortized capitalized arrangement fees of the loans.

Convertible capital loan 1/2006

Convertible capital loan 1/2006 is a fixed rate loan which has fair value equal to the nominal amount of the loan. The difference between the fair value and carrying amount is the unamortized capitalized arrangement fees of the loan together with the market value of the option component at issue date. When calculating the NNNAV in accordance with EPRA's recommendations the Subordinated capital loan 1/2005 and Convertible capital loan 1/2006 have been market-to-market using valuation from the secondary market on the balance sheet date. The secondary market valuation for Subordinated capital loan 1/2005 was 91.45 per cent and for Convertible capital loan 1/2006 58.0 per cent as of 31 December 2008.

Subordinated capital loan 1/2005

Subordinated capital loan 1/2005 is a fixed rate loan which has fair value equal to the nominal amount of the loan. The carrying amount of the loan equals the fair value.

Finance lease liabilities

The fair value of finance leases is based on discounted future cash flows. The discount rate used corresponds to that applied to similar leases.

Cash and cash equivalents, investments, trade and other receivables, trade payables and other payables

Due to their short maturity, the fair value of trade payables and receivables and other short-term receivables and payables is regarded as corresponding to their original carrying amount.

B) Group's derivative financial instruments

EUR million	Nominal amount 2008	Fair value 2008	Nominal amount 2007	Fair value 2007
Interest rate derivatives				
Interest rate swaps				
Maturity:				
less than 1 year	86.0	1.4	40.0	0.2
1-2 years	46.0	-1.5	112.5	-0.6
2-3 years	70.0	3.5	83.0	-1.1
3-4 years	41.8	-1.9	70.0	1.7
4-5 years	228.8	-10.1	20.0	0.2
over 5 years	119.0	-8.9	309.0	8.5
Subtotal	591.7	-17.5	634.5	8.8
Foreign exchange derivatives				
Forward agreements				
Maturity:				
less than 1 year	23.1	7.6	40.4	0.3
Total	614.8	-9.8	674.8	9.1

Interest on floating-rate loans is mainly fixed every six months and the interest-rate swaps have been concluded for the same days to ensure the optimum interest cash flow hedging.

Citycon uses interest rate swaps to hedge the interest rate cash flow risk. The Group applies hedge accounting to majority of its interest rate swaps, under IAS 39, according to which the amount of financial instruments' fair value change stemming from effective hedging is recognised in the fair value reserve under shareholders' equity.

The fair value of derivative financial instrument represent the market value of the instrument with prices prevailing on the balance sheet date. Derivative financial instruments are used in hedging the interest rate risk of the interest bearing liabilities and foreign currency risk.

The fair values include foreign exchange gain of EUR 16.2 million (EUR 1.0 million) which is recognized in income statement.

Hedge accounting is applied for interest rates swaps which have nominal amount of EUR 568.7 million (EUR 558.0 million). The fair value gain recognized in the fair value reserve under shareholders' equity taking account the tax effect totals EUR -17.7 million (EUR 4.9 million).

The average fixed interest rate of the interest rate swaps as at December 31, 2008 was 4.20% (4.38%).

Cash flow hedging

EUR million	2008	2008	2007	2007
Interest rate derivatives	Assets	Liabilities	Assets	Liabilities
Fair value	0.0	-23.9	8.9	-2.3

Citycon's cash flow hedges consist of interest rate and cross-currency swaps which are used to protect against exposure of changes in Citycon's interest expense cash outflow for variable rate interest bearing debt. Hedged instruments consist of long term floating rate debt and short term floating rate debt which is expected to be refinanced at maturity on similar terms.

The critical terms of the interest rate derivatives have been negotiated to match the respective terms of the variable rate loans.

The cash flow from all hedged liabilities over time is the basis for determining the gain and loss on the effective portions of derivatives designed as cash flow hedges. Gains and losses are initially recognized in equity and are trans-

ferred to the income statement when the forecast cash flows affect the income statement.

At 31 December 2008, interest rate derivatives assigned as cash flow hedges were assessed to be highly effective and the fair values recognized in the fair value reserve under shareholders' equity taking account the tax effect totals EUR -17.7 million. At 31 December 2007, interest rate derivatives assigned as cash flow hedges were assessed to be highly effective and the fair values recognized in the fair value reserve under shareholders' equity taking account the tax effect totals EUR 4.9 million.

C) Risk management

Objectives

Citycon uses a holistic Enterprise Risk Management (ERM) programme. The objective of the risk management is to ensure that Citycon will reach its business targets and identify the key risks which may threaten the ability to meet the targets before they realize.

Citycon's risk management process involves identifying, analysing, measuring, mitigating and controlling business-related risks. The Board of Directors has approved the company's risk management guidelines specifying risk management principles, which is subject to updating in order to take into account changes in the business operations. During the ERM process for each business unit a risk management policy has been prepared which outlines objectives, responsibilities and development plans within the unit.

Part of ERM process includes identification of existing and planning of new risk mitigation plans in the event that current action are not deemed sufficient for each risk identified. Successful risk management decreases the likelihood of risk realizing and mitigate the negative effects from realized risks.

Process

Risk management under ERM in Citycon comprises of three main elements, namely 1) risk management implemented into the main business processes 2) risk reporting and 3) continuous improvement of risk management.

Citycon has analyzed and identified five main business processes during the implementation of ERM which are property acquisitions, takeover of acquired properties, shopping centre management, property development and planning and control. Each main process has been carefully analyzed from a risk management angle and a detailed process description has been prepared for each process determining the target state of the process after implementation of improvement measures and taken into account risk management requirements. The implementation of these common best practices into the daily operations forms an essential part of the daily risk management throughout the whole organization is to adhere to these practices.

Risk reporting process gathers analytical data on risks and the respective mitigation plans which are used when risks are reported to the Board of Directors. During the risk reporting period each business unit and legal and finance units independently define their near term targets, risks threatening these targets and mitigation plans which relate to the risks. In order to evaluate the importance of each risk, an estimate on the loss associated with the risk is determined together with probability of risk realization and effectiveness of each mitigation plan on the loss and/or probability. Additional feature of the risk reporting is for each business unit to report the potentially realized risks during the previous year and mitigation plans which have been put into effect during the period. Risk data is inputted into one group wide risk register from which the business unit risk reports are prepared to the Board of Directors and Audit Committee. In addition,

from the risk register also a consolidated Citycon Group risk report and analysis is prepared which aims to recognize the group level risk concentrations cross the business units. Risk reports to the Board of Directors and Audit Committee are prepared in conjunction with budgeting during Autumn and strategy review during Spring. Risk management and business unit risk reports are additionally discussed four times a year in Corporate Management Committee.

Citycon aims to a continuous evaluate and develop its ERM process and risk management in general. Four times a year a risk management supervisory group meets and its tasks include the acceptance of the risk reports, evaluate annually the sufficiency of the risk management measures taken in the light of the identified risks, monitor the progress in implementation of the mitigation plans and annually assess the adequacy of the risk management capabilities of Citycon.

Organization

Each business unit and legal and finance units have a dedicated person responsible for the ERM process who is in charge of the reporting the risks and mitigation plans and follow-up on the implementation of the plans. Group Treasurer prepares the risk report to the Board of Directors and Audit Committee. Members of the risk management supervisory group are CEO, CFO, Head of Legal Affairs, Group Treasurer and business unit directors or the dedicated risk management person from each business unit.

Financial risk management

Financial risks have been defined to be business critical risks for Citycon. Financial risk of Citycon arises from financial instruments which are mainly used to raise financing for operations. The group also has interest rate and foreign exchange derivatives which are used in used to manage the interest rate and currency risks arising from the oper-

ations and financing sources. The Board of Directors has approved a Treasury Policy which defines the objectives, responsibilities and risk management indicators applicable for interest rate, foreign exchange, counterparty, liquidity and electricity risk management. The execution of interest rate risk management is done by the Group Treasurer under the supervision of the CFO. Group Treasurer reports the compliance with the objectives in conjunction with the interim and annual report to the Board of Directors and CFO.

Citycon's identified, key financial risks include interest rate risk related to cash flow, liquidity risk, credit risk and foreign currency risk. These risks are summarised below.

Interest rate risk

Citycon's key financial risk is the interest rate risk of its interest bearing liabilities where the changes in money market interest rates lead to fluctuations in future interest cash flows on floating rate borrowings. Interest rate risk management aims to reduce or eliminate the adverse effect of interest rate fluctuations on the company's profit and cash flow. The company aims to a loan portfolio which has a right mix between fixed and variable rate debts. Under the company's interest rate risk management policy, the target debt portfolio is such where a minimum of 70 and a maximum of 90 per cent of the interest bearing liabilities are based on fixed interest rates.

The company uses interest rate swaps to manage its interest rate risks and to convert floating rate loans into fixed rate loans. Portion of the hedges can also be done using inflation derivatives. The interest sensitivity of Citycon's loan portfolio at the end of 2008 is depicted by the fact that a one-percentage point rise in money market interest rates would increase its interest expenses for 2009 by EUR 2.8 million, while a fall of one-percentage point in money market interest rates would decrease them by EUR 2.8 million in 2009.

Interest rate sensitivity

The following table shows the sensitivity to a 100 basis point change in short term interest rates assuming all other variables constant. The impact is shown as a change in interest expenses resulting from changes in interest rate which relate to floating rate debt.

Effect on interest expenses from an increase of 100 basis points

EUR million	2008	2007
Euro	1.2	1.3
Swedish krona	1.3	1.5
Other currencies	0.3	0.1
Total	2.8	2.9

Liquidity risk

Given that Citycon's strategy is to expand in Finland, the Baltic countries and Sweden, the company will need both equity capital and borrowings. The minimum shareholders' equity is determined by the company's loan covenants. The Group uses cash-flow forecasts to continuously assess and monitor financing required for its business. The goal is to arrange financing on a long term basis and avoid large concentration of due dates of the loan agreements. Citycon aims to guarantee the

availability and flexibility of financing through unused credit limits and by using several banks and financing methods as sources of finance.

Citycon's financing policy states that company's committed credit limits or liquid assets should cover all approved and on-going investments. In addition, available liquidity should provide a sufficient buffer for unexpected payments based on the assessment of the management and the company arranges committed back-up limits for all funds drawn under commercial paper programmes. On 31 December 2008, unused credit limits amounted to EUR 187 million.

Table below summarizes the maturity profile of the Group's financial liabilities based on contractual payments. The table includes both interest and principal flows of loans and payments arising from derivative financial instruments. Future interest payments of floating rate loans have been determined based on the interest rate applicable on balance sheet date and are not discounted. The future interest payments of derivative financial instruments are based on discounted net present values and the future interest rates are obtained through interpolation from the yield curve prevailing on the balance sheet date.

EUR million	Less than 1 month	1 to 12 month	1-5 years	Over 5 years	Total
2008					
Loans from financial institutions	3.5	92.3	793.1	413.3	1,302.3
Convertible capital loan 1/2006	-	3.7	97.8	-	101.6
Subordinated capital loan 1/2005	-	3.3	73.3	-	76.6
Finance lease liabilities	-	0.2	0.1	0.0	0.4
Derivative financial instruments	-4.9	-1.1	15.7	3.2	12.8
Trade and other payables (excl. interest liabilities)	38.8	5.8	-	-	44.6
2007					
Loans from financial institutions	46.9	100.4	418.7	606.8	1,172.7
Convertible capital loan 1/2006	-	5.0	19.8	115.0	139.7
Subordinated capital loan 1/2005	-	3.3	76.6	-	79.9
Finance lease liabilities	-	0.3	0.1	-	0.4
Derivative financial instruments	-	1.5	6.6	6.9	15.1
Trade and other payables (excl. interest liabilities)	32.3	9.2	-	-	41.5

Citycon's rent revision procedures, long leases and high occupancy ratio generate a stable long term cash flow profile. Citycon expects to meet its liabilities shown in the table above from this stable cash flow and undrawn committed credit facilities.

EUR million	Less than 1 month	1 to 12 month	1-5 years	Over 5 years	Total
2008					
Undrawn committed credit facilities	-	15.0	172.0	-	187.0
2007					
Undrawn committed credit facilities	-	-	151.0	-	151.0

The above mentioned credit facilities are freely available to Citycon based on group's financing needs.

Credit risk

The Group's most significant credit-risk concentration relates to receivables from Kesko Group. Citycon controls its receivables within the framework of the given credit limits and does not currently identify any major credit risk associated with them. Credit-risk management caters for tenant-risk management, which is aimed at minimising the adverse effect of any unexpected changes in the customers' financial standing on Citycon's business and financial results. Customer-risk management focuses on the knowledge of the customers' business and active monitoring of customer data. Citycon's lease agreements include lease deposit provisions used to contribute to managing customers risks.

The maximum exposure from trade receivables is the carrying amount as disclosed in Note 19. Trade and other receivables.

Credit risk arising from cash and cash equivalents and certain derivative agreements relate to a default of the counterparty with a maximum exposure equal to the carrying amount of these instruments. Citycon invests its liquidity in a manner which does not put the nominal amount at

ties. In a long term debt refinancings and disposals of investment properties can be considered. The table below shows the maturity profile of the undrawn committed credit facilities.

risk. Citycon does not for example invest in equity markets. Citycon's cash and cash equivalents are primarily placed in short term money market deposit in which the counterparties are commercial banks which participate in Citycon's credit agreements. Citycon's financing policy also sets forth the approved financial instruments in which the company can invest in and includes counterparty limits for those investments.

Exchange rate risk

Citycon's entry into counties outside the eurozone exposes the company to exchange rate risk. Exchange rate risk stems from transaction risks resulting from the conversion of foreign currency denominated transactions into local currency, on the one hand, and from translation risks in the balance sheet associated with investments in foreign subsidiaries. The company hedges against exchange rate risk in the balance sheet by aiming to finance its foreign investments mainly in the local currency. The company uses foreign exchange derivatives to manage the transaction risk on committed transactions. Foreign exchange derivatives are also used to hedge a possible mis-

match between assets and liabilities denominated in the same currency in the balance sheet. Currently the company's exchange rate risk relates mainly to fluctuations in the euro/ Swedish krona exchange rate.

Foreign exchange sensitivity

The following table shows the sensitivity in income statement to a five percent change in foreign exchange rates assuming all other variables constant. The impact is attributable to a change in fair value of financial instruments given the assumed change in foreign exchange rates.

Effect from a five percent change in foreign exchange rates on net financial expenses

EUR million	2008	2007
Swedish krona	0.5	0.2
Other currencies	-	-
Total	0.5	0.2

Other currencies comprise of currencies in Estonia and Lithuania. The foreign exchange rate in these countries is tied to euro with a fixed peg.

Risks associated with the retail properties' value development

A number of factors contribute to the value of retail properties, such as national and local economic development, investment demand created

by property investors, and interest rates. While changes in investment properties' fair value have an effect on the company's profit for the financial year, they do not have an immediate impact on cash flow.

The yield requirement, rents, the occupancy rate and operating expenses form the key variables used in an investment property's fair-value measurement, based on a ten-year cash-flow analysis. Sensitivity to change in the properties' fair value, or the risk associated with fair value, can be tested by altering the above key parameters. The sensitivity analysis below uses the investment properties' fair value of EUR 2,021.0 million defined by the external appraiser at 31 December 2008 as the starting value. The reconciliation between the fair value used by the external appraiser and Citycon Oyj is disclosed in note 15 Investment property. Sensitivity analysis indicates that the market value is most sensitive to the yield requirement and gross income levels. A ten percent decrease in the yield requirement results in an approximately 11 percent increase in market value. Correspondingly, a ten percent increase in gross income increases the value by approximately 14 percent. The value is not as sensitive to changes in long-term vacancy or expenses.

Sensitivity analysis

EUR million	Value of properties				
	-10%	-5%	±0%	+5%	+10%
Change %					
Yield requirement	2,244.0	2,127.0	2,021.0	1,926.0	1,839.0
Gross income	1,736.0	1,878.0	2,021.0	2,164.0	2,306.0
Operating expenses	2,094.0	2,058.0	2,021.0	1,985.0	1,949.0
Vacancy	2,053.0	2,037.0	2,021.0	2,005.0	1,989.0

D) Capital management

The objective of the company's capital management is to support the growth strategy, maximise shareholder value, comply with loan agreement provisions and ensure the company's ability to pay dividends. Company's capital structure is managed in an active manner and the capital structure requirements are taken into consideration when considering various financing alternatives. The company can adjust the capital structure by deciding on issuance of new shares, raising debt financing or making adjustments to the dividend.

The long term equity ratio target of the company is 40 per cent and the current syndicated loan agreements require a minimum equity ratio of 32.5 per cent. The equity ratio of the loan agreements is calculated by making certain adjustments to the IFRS equity ratio by, among other things, adding the capital loan and convertible capital loan issued by the company to the shareholders' equity. The company's equity ratio as of 31 December 2008 stood at 38.5 per cent and the equity ratio as defined in the loan agreement was 45.1 per cent.

24. Deferred tax assets and liabilities

Changes in deferred tax assets and liabilities in 2008

EUR million	2008 1 Jan.	Income statement charge	Tax charged to equity	Exchange differences	Acquired/ disposed subsidiaries	2008 31 Dec.
Deferred tax assets						
Tax losses	0.2	-0.1	-	-	-	0.1
Measurement of interest-rate swaps at fair value	-1.7	0.5	8.0	-	-	6.8
Deferred tax assets, total	-1.5	0.4	8.0	-	-	6.8
Offset against deferred tax liabilities	1.5	-	-	-	-	-
Deferred tax assets, total	0.0	0.4	8.0	-	-	6.8
Deferred tax liabilities						
Measurement of investment property at fair value	84.8	-28.8	-	-	-	56.0
Undistributed profit of subsidiaries	-	-	-	-	-	-
Measurement of interest-rate swaps at fair value	0.4	-0.4	-	-	-	-
Temporary difference in financial expenses	1.3	-0.2	-	-	-	1.1
Temporary difference in provisions	0.2	-0.1	-	0.0	-	-
Deferred tax liabilities, total	86.6	-29.5	-	0.0	-	57.1
Offset against deferred tax assets	1.5	-	-	-	-	-
Deferred tax liabilities, total	88.1	-29.5	-	0.0	-	57.1

Changes in deferred tax assets and liabilities in 2007

EUR million	2007 1 Jan.	Income statement charge	Tax charged to equity	Exchange differences	Acquired/ disposed subsidiaries	2007 31 Dec.
Deferred tax assets						
Tax losses	0.3	-0.1	-	-	-	0.2
Measurement of interest-rate swaps at fair value	0.5	-	-2.2	-	-	-1.7
Deferred tax assets, total	0.8	-0.1	-2.2	-	-	-1.5
Offset against deferred tax liabilities	-0.8	0.1	2.2	-	-	1.5
Deferred tax assets, total	0.0	0.0	0.0	-	-	0.0
Deferred tax liabilities						
Measurement of investment property at fair value	38.8	46.0	-	-	-	84.8
Undistributed profit of subsidiaries	0.7	-0.7	-	-	-	0.0
Measurement of interest-rate swaps at fair value	0.5	-0.1	-	-	-	0.4
Temporary difference in financial expenses	1.1	0.8	-0.6	-	-	1.3
Temporary difference in provisions	0.1	0.1	-	0.0	0.0	0.2
Deferred tax liabilities, total	41.2	46.0	-0.6	0.0	0.0	86.6
Offset against deferred tax assets	-0.8	0.1	2.2	-	-	1.5
Deferred tax liabilities, total	40.4	46.2	1.6	0.0	0.0	88.1

Citycon's deferred taxes mainly arise from changes in the fair value of investment properties. In 2008, deferred taxes resulting from the changes in the investment properties' fair value recognised in the income statement totalled EUR 28.8 million (EUR -46.0 million).

The fair value of an investment property reflects the market price that would be paid for the property on the date of measurement, while deferred taxes refer to taxes imposed on any gain on sale if the property were to be sold.

Citycon's policy is to realise its properties' sales by selling its shares representing ownership in the property. The ownership structure is mainly organised so that one real estate company owns one building. The sale of shares representing ownership in properties owned by subsidiaries abroad does not have tax implications. Consequently, Citycon does not recognise deferred taxes related to the fair value of investment properties owned abroad. If Citycon would recognize the deferred taxes from the changes in fair values in subsidiaries owned abroad, the tax impact would have been EUR 22.2 million in 2008 (EUR -16.7 million) (See the Note 13. Income tax expense).

On the contrary, divesting a property in Finland through an asset or share sale does have tax implications and, therefore, Citycon recognises deferred taxes arising from the fair value changes of its investment properties located in Finland. Deferred taxes are calculated on the difference between an investment property's fair value and its taxable value. The taxable value consists of the acquisition cost of shares in the mutual real estate company and loans receivable from the company or a directly owned property's undepreciated, residual value.

The change in deferred taxes between the opening and closing balance sheets is recognised in the income statement as expense/income.

The fair value of the investment properties

is measured in accordance with IFRS (International Financial Reporting Standards). The provisions of the Finnish accounting and tax legislation affect the value of shares in, and loans receivable from, the mutual real estate company. For instance, investments conducted by the mutual real estate company or depreciation recorded by subsidiaries with outstanding debt entail a change in the value of shares and loans receivable."

On 31 December 2008, Group companies had confirmed losses for which tax assets of EUR 6 million (EUR 2 million in 2007) were not recognised since these Group companies are unlikely to record taxable profit, before the expiration of carry forwards of these losses, against which loss carry forwards can be utilised.

25. Trade and other payables

Trade and other payables

EUR million	2008	2007
Trade payables	23.5	13.1
Advanced received	5.1	4.4
Accrued expenses	20.9	19.5
Other short-term payables	4.7	16.1
Total	54.3	53.1

Payment maturity of trade and other payables

	2008	2007
NOT past due nor impaired	15.2	30.0
Past due, less than 1 month	26.2	14.0
Past due, 1-3 months	5.4	8.7
Past due, 3-6 months	0.8	0.0
Past due, 6-12 months	5.9	0.0
Past due, 1-2 years	0.2	0.0
Past due, 2-5 years	0.0	0.4
Past due, over 5 years	0.5	0.1
Total	54.3	53.1

Significant items included in accrued expenses:

EUR million	2008	2007
Interest liabilities	9.7	11.6
Other liabilities	11.2	7.9
Total	20.9	19.5

26. Employee benefits

Share-based payments

A) Stock option schemes

Citycon Group has had stock-option schemes in place since 1999. The Group has applied IFRS 2 Share-based Payment to its stock options granted after 7 November 2002 and not vested before 1 January 2005.

In 1999, the EGM decided to grant a maximum of 5,500,000 stock options. This stock-option scheme ended on 30 September 2007.

In 2004, the AGM decided to grant a maximum of 3,900,000 stock options. At year-end 2008, Citycon Group employees held a total of 2,834,925 options rights. By the end of the reporting year, 345,075 option rights had been exercised for share subscription. The remaining 720,000 stock options 2004 A/B/C are held by Veniamo-Invest Oy, a wholly-owned subsidiary of Citycon Oyj. If an employee left the Group prior to 1 September 2008, (s)he forfeited his/her right to exercise stock options for which the share subscription period had not have begun on the date of the termination of his/her employment/executive contract. However, the Board of Directors could specifically decide that the stock-option holder retained his/her stock options or some of them. Subsequently, changes in the number of granted stock options took place before the said date. The forfeited stock options are held by Veniamo-

2004 stock options

	2004 A	2004 B	2004 C
Number of options granted	1,040,000	1,090,000	1,050,000
Held by Veniamo-Invest Oy, number	260,000	210,000	250,000
Subscription ratio, stock option/share	1:1.2127	1:1.2127	1:1.2127
Subscription price/share, EUR	2.2732	2.6608	4.3613
Share subscription period started	1.9.2006	1.9.2007	1.9.2008
Share subscription period ends	31.3.2009	31.3.2010	31.3.2011
Number of exercised option rights	345,075	-	-
Number of subscribed shares	386,448	-	-

Invest Oy, which, however, is not entitled to subscribe parent company shares. The number of granted stock options can no longer change, since the share subscription period of all stock options has commenced.

Stock options entitle their holders to subscribe for company shares at the price and within the period specified in the terms and conditions of the stock-options. The terms and conditions of the 2004 scheme were amended during the reporting period by the resolution of the General Meeting. The General Meeting decided to amend the terms and conditions of the 2004 option scheme so that the share subscription prices of the 2004 A/B/C options shall also be reduced by half of any per-share equity returns in addition to per-share dividends. The number of 2004 stock options as well as the subscription ratios and subscription prices are specified in the enclosed table. The terms and conditions of the 2004 stock-option scheme in their entirety are available on the company's website at www.citycon.fi/options.

Citycon uses the Black & Scholes option-pricing model to measure the fair value of stock options at the grant date and reports them under personnel expenses in the income statement allocated over the instrument's vesting period. In 2008, the expense recognised in the income statement totalled EUR 0.2 million (EUR 0.6 million in 2007). The expected volatility is determined by calculating the company share price's historical volatility.

The maximum number of shares that can be subscribed for by exercising the outstanding 2004 option rights totals 3,437,913. The subscription of shares will not result in an increase in the company's share capital, since the entire subscription price is recognised under invested unrestricted equity fund.

The initial subscription prices of the shares to be subscribed for by exercising the 2004 stock options were determined on the basis of the trade-weighted average price of Citycon share quoted on the Helsinki exchange as follows:

2004A	during 1–30 April 2004
2004B	during 1–30 April 2005
2004C	during 1–30 April 2006

added with 20%. The share subscription prices will be reduced by 50 per cent of the amount of the per-share dividends and per-share equity returns paid before share subscription. The share subscription prices have been changed also due to the rights issues carried out in 2006 and 2007.

The following table provides additional information on the 2004 stock option scheme:

Additional information on the 2004 stock option scheme

	2004A stock options Share-based options, granted to all staff	2004B stock options Share-based options, granted to all staff	2004C stock options Share-based options, granted to all staff
Type of scheme	Granted stock options	Granted stock options	Granted stock options
Grant date	26 May 2004	13 Sept. 2005	27 April 2006
No. of instruments granted	1,135,000	1,195,000	1,250,000
Exercise price, EUR	2.51	2.91	4.62
Share subscription price at grant date, EUR	2.09	2.48	3.86
Vesting period as per agreement (No. of days)	1,770	1,660	1,799

Vesting conditions

	Employment during vesting period. In case of prior employment termination, stock options forfeited.	Employment during vesting period. In case of prior employment termination, stock options forfeited.	Employment during vesting period. In case of prior employment termination, stock options forfeited.
Exercise	In terms of shares	In terms of shares	In terms of shares
Expected volatility, %	18.60	31.18	27.84
Expected vesting period at grant date (No. of days)	943	943	856
Risk-free interest rate, %	3.56	2.58	3.79
Expected dividend/share, EUR	0.05*	0.05*	0.07*
Expected personnel reduction (at grant date), %	0	0	0
Instrument fair value determined at grant date, EUR	0.09	0.96	0.75
Option-pricing model	Black&Scholes	Black&Scholes	Black&Scholes

* Expected dividend is EUR 0.10 for stock options 2004A and 2004B and EUR 0.14 for stock options 2004C. EUR 0.05 (for 2004A and 2004B stock options) and EUR 0.07 (for 2004C stock options) are used in the option-pricing model, based on the distributed dividends' and equity returns' reducing effect on the subscription price.

Changes in the stock options and their weighted average exercise prices during the period were as follows (excluding Veniamo-Invest Oy's stock options that cannot be exercised for share subscription)

	2008 Exercise price, weighted average EUR/share	2007 Exercise price, weighted average EUR/share	2008 No. of stock options	2007 No. of stock options
At period-start	3.28	2.92	2,883,280	4,051,368
New stock options granted	-	-	-	-
Forfeited stock options	4.38	4.43	-40,000	-160,000
Exercised stock options	2.27	1.58	-8,355	-1,008,088
Lapsed stock options	-	-	-	-
At period-end	3.20	3.28	2,834,925	2,883,280
Exercisable stock options at period-end			2,834,925	1,793,280

The per-share exercise price of the stock options exercised during the financial year averaged EUR 2.2732 (EUR 1.58 in 2007) and these were exercised in April and July of 2008. The stock options exercised during 2008 brought in EUR 0.0 million (EUR 1.8 million in 2007), which were recognised in invested unrestricted equity fund.

Exercise prices and lapse periods of outstanding stock options on the balance sheet date were as follows

Year of lapse	Exercise price, EUR	2008 (No. of shares, 1,000)	2007 (No. of shares, 1,000)
2009	2.27	843	852
2010	2.66	1,322	1,322
2011	4.36	1,273	1,322

B) Long-term share-based incentive plan

The Board of Directors decided 26 April 2007 on a long-term share-based incentive plan for key personnel of the Citycon Group. The aim of the plan is to encourage the key personnel to sustained efforts to increase shareholder value and to strengthen their commitment to the development of the Group's operations. The potential incentive is determined on the basis of the growth of Citycon Group's adjusted net cash flow from operating activities per share and net rental income in 2007-2009. The incentive plan is divided into three incentive periods of 2007, 2008 and 2009.

The incentives will be granted to the key personnel during the years 2008-2012 so that the incentives earned during 2007 are paid in 2008, 2009 and 2010. The Board of Directors decides annually on the key personnel participating in the long-term incentive plan and on setting of the incentive goals. The incentive granted will comprise Citycon shares, cash or both. In the incentive period 2007, the maximum number of shares granted is determined by their volume weighted average price during the first quarter in the period. The incentives paid in shares are charged to administration expenses and recognized as an increase in shareholders' equity, and incentives paid in cash are charged to administration expenses and recognized as liabilities. In 2008, the expense recognised in the income statement amounted to EUR 0.1 million (EUR 0.0 million in 2007).

The following table presents additional information on the share-based incentive plan:

	Incentive period 2008	Incentive period 2007
Grant date	12.6.2008	26.4.2007
No. of key personnel	25	16
Maximum no. of shares ¹⁾	205,500	103,958
Shares given in 2008	-	7,012

¹⁾If incentive paid completely in shares

27. Cash generated from operations

	2008	2007
Profit before income tax including discontinued operations	-162.3	253.5
Adjustments for:		
- Depreciation and amortisation	0.5	0.5
- Net fair value losses (+)/gains (-) on investment property	216.1	-211.4
- Investment property disposal proceeds	-7.7	-0.2
- Carrying value of investment property disposals	7.6	0.3
- Share-based payment	0.3	0.6
- Other non-cash income	-5.9	-
- Foreign exchange losses (+)/gains (-) on operating activities	0.1	0.1
- Fair value changes of derivatives	3.1	0.6
- Interest and other financing expenses	54.1	44.6
Changes in working capital		
- Trade and other receivables	3.2	1.9
- Trade and other payables	-5.3	-1.6
Cash generated from operations	103.7	88.8

Other non-cash income includes a compensation of EUR 5.9 million from the City of Helsinki relating to a premature termination of the land lease agreement in Myllypuro retail premises. This compensation will be received during 2009.

28. Commitments and contingent liabilities

A) Other leases - Group as lessee

The future minimum lease payments under non-cancellable other leases are as follows:

EUR million	2008	2007
Not later than 1 year	1.2	0.7
1-5 years	1.9	1.0
Over 5 years	0.0	-
Total	3.1	1.7

Other leases with an average length of three years include mainly leases on office premises, cars and office equipment.

B) Other leases - Group as lessor

The future minimum lease payments receivable under non-cancellable leases are as follows:

EUR million	2008	2007
Not later than 1 year	53.1	51.4
1-5 years	90.2	78.2
Over 5 years	28.2	27.4
Total	171.5	157.0

The majority of Citycon's leases falls into the category of valid-until-further-notice agreements, whereby the rental rate is determined by the absolute net lease tied to the cost-of-living index, and the maintenance rent. The maintenance rent, charged separately from the lessee, covers operating expenses incurred by the property owner due to property maintenance while enabling the provision any additional services requested by the lessee. The Shopping Centres division also has leases tied to turnover generated by retailers, these accounting for roughly 24 per cent (16 per cent) of Citycon's lease portfolio. The share of the leases tied to the lessee's turnover will increase in the future.

C) Pledges and other contingent liabilities

EUR million	2008	2007
Loans, for which mortgages are given in security and shares pledged		
Loans from financial institutions	31.3	36.0
Contingent liabilities for loans		
Mortgages on land and buildings	40.6	46.4
Bank guarantees	45.6	49.8
Capital commitments	13.0	31.0
VAT refund liabilities	21.3	15.6

Capital commitments relate mainly to development projects.

There are value-added tax refund liabilities arising from capitalized renovations and new investments in Citycon's investment properties. The VAT refund liabilities will realize if the investment property is sold or transferred to non-VAT-liability use within 5 years.

Changes in the VAT Act has become in force as of 1st of January 2008 in Finland. This change in the Act applies to VAT deduction of new investments that have been completed on the 1st of January 2008 or later. A 10 year review period applies to these investments from the day of completion. Transfer period rules apply to investments

that have been completed prior to year 2008 and the review period is 5 years.

Related to Citycon's business operations, there are claims that have been submitted to the company and which may potentially lead to legal proceedings. In the opinion of the company, it is not likely that aggregate potential liabilities related to these actions have significance on the financial position or results of the Group.

D) Equity ratio commitment and interest coverage ratio

Under a commitment given in the terms of the syndicated loan facilities, Citycon Group undertakes to maintain its equity ratio at above 32.5% and its interest coverage ratio at a minimum of 1.8. For the calculation of the equity ratio, the shareholders' equity includes the capital loans and excludes non-cash valuation gain/loss from derivative contracts recognized in equity and the minority interest. The interest coverage ratio is calculated by dividing the EBITDA – adjusted by extraordinary gains/losses, provisions and non-cash items – by net financial expenses.

Accordingly, equity ratio on 31 December 2008 stood at approximately 45.1% and interest coverage ratio at approximately 2.0 (2007: equity ratio was around 50.1 per cent and interest coverage ratio around 2.0).

29. Related party transactions

A) Related parties

Citycon Group's related parties comprise the parent company, subsidiaries, associated companies, minority companies, Board members, CEO, Corporate Management Committee members and Gazit-Globe Ltd., whose shareholding in Citycon Oyj accounted for 43.42% on 31 December 2008 (31 December 2007: 39.35%).

Group companies	Country	Group holding,%	Parent company holding,%
Parent company: Citycon Oyj	Finland		
Asolantien Liikekiinteistö Oy	Finland	100.0	100.0
BHM Centrumfastigheter AB	Sweden	100.0	-
Citycon AB	Sweden	100.0	100.0
Citycon Centrum Sverige AB	Sweden	100.0	-
Citycon Estonia OU	Estonia	100.0	-
Citycon Göteborg AB	Sweden	100.0	-
Citycon Sverige AB	Sweden	100.0	-
Espeen Asemakuja 2 Koy	Finland	100.0	100.0
Forsan Hämeentie 3 Koy	Finland	100.0	100.0
Jakobsbergs 565 Fastighets AB	Sweden	100.0	-
Jakobsbergs Centrum Fastighets AB	Sweden	100.0	-
Jakobsbergs Centrum Galleria AB	Sweden	100.0	-
Jyväskylän Forum Koy	Finland	100.0	100.0
Jyväskylän Kauppakatu 31 Koy	Finland	100.0	100.0
Järfalla 7055 Fastighets AB	Sweden	100.0	-
Kaarinan Liiketalo Koy	Finland	100.0	100.0
Karjaan Ratakatu 59 Koy	Finland	100.0	100.0
Karjalan Kauppakeskus Koy	Finland	100.0	100.0
Kauppakeskus Columbus Koy	Finland	100.0	100.0
Kauppakeskus Isokarhu Oy	Finland	100.0	100.0
Keijutie 15 Koy	Finland	100.0	100.0
Kivensilmänkuja 1 Koy	Finland	100.0	100.0
Kotkan Keskuskatu 11 Koy	Finland	100.0	100.0
Kouvola Valtakadun Kauppakeskus Koy	Finland	100.0	100.0
Kuopton Kauppakatu 41 Koy	Finland	100.0	100.0
Kuusankosken Kauppakatu 7 Koy	Finland	100.0	100.0
Kuvernöörintie 8 Koy	Finland	100.0	100.0
Lahden Hansa Koy	Finland	100.0	100.0
Lahden Kauppakatu 13 Koy	Finland	100.0	100.0
Lappeenrannan Villimiehen Vitonen Oy	Finland	100.0	100.0
Lentolan Perusyhtiö Oy	Finland	100.0	100.0
Liljeholmsplan Bostadsfastigheter AB	Sweden	100.0	-
Liljeholmsplan Fastighets AB	Sweden	100.0	-
Liljeholmsplan Hotellfastigheter AB	Sweden	100.0	-
Liljeholmsstorget Development Services AB	Sweden	100.0	-
Lilinkulma Koy	Finland	100.0	100.0
Lintulankulma Koy	Finland	100.0	100.0
Lippulaiva Koy	Finland	100.0	100.0
Magistral Kaubanduskeskuse OU	Estonia	100.0	-
Martinlaakson Kivivuorentie 4 Koy	Finland	100.0	100.0
Minkkikuja 4 Koy	Finland	100.0	100.0
Montalbas B.V.	The Netherlands	100.0	100.0
Myllypuron Ostoskeskus Oy	Finland	100.0	100.0
Myrmani Koy	Finland	100.0	100.0
Naantalintulli 16 Koy	Finland	100.0	100.0
Oulun Galleria Koy	Finland	100.0	100.0
Porin Asema-Aukio Koy	Finland	100.0	100.0
Porin Isolinna 18 Koy	Finland	100.0	100.0
Riddarplatsen Fastigheter HB	Sweden	100.0	-
Rocca al Mare Kaubanduskeskuse AS	Estonia	100.0	-
Runeberginkatu 33 Koy	Finland	100.0	100.0

Group companies	Country	Group holding %	Parent company holding %
Sinikalliontie 1 Koy	Finland	100.0	100.0
Sverige 7059 Fastighets AB	Sweden	100.0	-
Säkylän Liiketalo Oy	Finland	100.0	100.0
Talvikkitie Koy 7-9	Finland	100.0	100.0
Tampereen Hatanpää Koy	Finland	100.0	100.0
Tampereen Hermannin Koy	Finland	100.0	100.0
Tampereen Suvantokatu Koy	Finland	100.0	100.0
Tenrot Fastighets AB	Sweden	100.0	-
Tumba Centrumfastigheter AB	Sweden	100.0	-
UAB Citycon	Lithuania	100.0	-
UAB Prekybos Centras Mandarinas	Lithuania	100.0	-
Ultima Oy	Finland	100.0	100.0
Valkeakosken Torikatu 2 Koy	Finland	100.0	100.0
Vantaan Kivivuorenlaki As Oy	Finland	100.0	100.0
Vantaan Laajavuoreнкуja 2 Koy	Finland	100.0	100.0
Varkauden Relanderinkatu 30 Koy	Finland	100.0	100.0
Wavulinintie 1 Koy	Finland	100.0	100.0
Veniamo-Invest Oy	Finland	100.0	100.0
Vaakalintu Koy	Finland	95.8	95.8
Lahden Trio Koy	Finland	89.7	89.7
Linjurin Kauppakeskus Koy	Finland	88.5	88.5
Mäntyvuoksi Koy	Finland	86.8	86.8
Lappeenrannan Brahenkatu 7 Koy	Finland	84.5	84.5
Tikkurilan Kauppakeskus Koy	Finland	83.8	83.8
Koskikeskuksen Huolto Oy	Finland	81.7	81.7
Orimattilan Markkinatalo Oy	Finland	77.3	77.3
Lappeen Liikekeskus Koy	Finland	80.2	80.2
Strömpilen AB	Sweden	75.0	-
Åkersberga Centrum AB	Sweden	75.0	-
Fastighets AB Fartyget i Åkersberga	Sweden	75.0	-
Hervannan Liikekeskus Oy	Finland	74.6	74.6

Group companies	Country	Group holding %	Parent company holding %
Myyrmäen Kauppakeskus Koy	Finland	74.0	74.0
Stenungs Torg Fastighets AB	Sweden	70.0	-
Kirkkonummen Liikekeskus Oy	Finland	66.7	66.7
Espoonatori Koy	Finland	66.6	66.6
Heikintori Oy	Finland	65.3	65.3
Tampereen Koskenranta Koy	Finland	63.7	63.7
Vantaan Säästöalo Koy	Finland	61.2	61.2
Espoonatorin Pysäköintitalo Oy	Finland	60.1	-
Big Apple Top Oy	Finland	60.0	-
Manhattan Acquisition Oy	Finland	60.0	-
Tullintori Koy	Finland	57.4	57.4
Espoon Asematori Koy	Finland	54.1	54.1
Laajasalon Liikekeskus Oy	Finland	50.4	50.4
Retail Park Oy	Finland	50.0	50.0
Espoon Louhenkulma Koy	Finland	48.9	48.9
Pihlajamäen Liiketalo Oy	Finland	42.7	42.7
Länsi-Keskus Koy	Finland	41.4	41.4
Hakunilan Keskus Oy	Finland	41.1	41.1
Otaniemen Liikekeskus Oy	Finland	39.2	39.2
Kontulan Asemakeskus Koy	Finland	34.8	34.8
Puujonlaakson Palvelukeskus Koy	Finland	31.3	31.3
Salpausseläntie 11 Koy	Finland	31.3	31.3
Valtakatu 5-7 Koy	Finland	31.3	31.3
Soukan Itäinentorni As Oy	Finland	27.3	27.3
Valkeakosken Liikekeskus Koy	Finland	25.4	25.4
Lauttasaaren Liikekeskus Oy	Finland	23.7	23.7
Hakucenter Koy	Finland	18.7	18.7
Helsingin Autotalo Oy	Finland	8.9	8.9
Partnership for taxation purposes: Hakarinne 4	Finland	55.6	55.6

B) Related party transactions

Group companies:

Group companies have paid to each other a.o. maintenance and financial charges, interest expenses, loan repayments and other administrative service charges.

This income and these expenses have been eliminated in the consolidated financial statements. There has been no other related party transactions between the group companies.

Management benefits

Personnel expenses for corporate management committee, EUR million	2008	2007
Wages and salaries	1.2	1.1
Pensions: defined contribution plans	0.3	0.3
Social charges	0.1	0.1
Total	1.5	1.5
Remuneration, EUR	2008	2007
CEO	342,549	338,707
Board members		
Bernstein Amir		-
Bolotowsky Gideon	48,100	45,400
Gal Amir (Board member until 13 March 2008)	-	44,200
Korpinen Raimo	50,200	45,200
Lähdesmäki Tuomo	68,300	73,200
Nordman Carl G. (Board member until 13 March 2008)	1,200	43,800
Ottosson Claes	45,800	43,000
Segal Dor J.	47,200	44,200
Wernink Thomas W.	174,200	166,600
Westin Per-Håkan	47,500	-
Total	529,500	505,600

The CEO is entitled to retire upon turning 62, provided that he will remain in the company's employ until that date. The Group has pension insurance to cover this pension plan. Both the CEO and the company may terminate the CEO's executive contract at six months' notice. If the company terminates the contract for a reason not attributable to the CEO, it will pay the CEO lump-sum compen-

sation equalling his 18-month salary in cash, in addition to the salary.

Based on his executive contract, the CEO was granted 1,500,000 stock options under the 1999 stock-option scheme in 2002, and, under the 2004 stock-option scheme, 150,000 2004A stock options in 2004, 140,000 2004B stock options in 2005, and 140,000 2004C stock options in 2006.

On 31 December 2008, the CEO held 75,000 2004A stock options, 140,000 2004B stock options and 140,000 2004C stock options.

Board members do not participate in the company's share-based incentive schemes.

Reporting to Gazit-Globe Ltd:

The company's main shareholder, Gazit-Globe Ltd, holding approximately 43 per cent of the shares in the company, has announced that it applies International Financial Reporting Standards (IFRS) in its financial reporting starting from the year 2007. According to IFRS one company may exercise a controlling interest in another company even if its shareholding it that company does not exceed 50 per cent. Gazit-Globe Ltd. holds the view that it exercises controlling interest, as defined in IFRS, in Citycon Oyj based on the fact that it has been able to exercise controlling interest in Citycon Oyj's shareholders' meetings pursuant to its shareholding. In accordance with an agreement concluded between the companies, Citycon Oyj will provide Gazit-Globe Ltd. with a more detailed breakdown of the accounting information it discloses in its interim and full-year reports so that Gazit-Globe Ltd. can consolidate Citycon Group figures into its own IFRS financial statements.

30. Changes in Group structure in 2008

Companies acquired

Majakka Koy, increase of ownership 100.00%
Espoonatorin Pysäköintitalo Oy, increase of ownership 28.99%
Espoon Asematori Koy, increase of ownership 54.12%
Myllypuron Ostoskeskus Oy, increase of ownership 26.54%
Lappeen Liikekeskus Koy, increase of ownership 4.95%
Myyrmäen Kauppakeskus Koy, increase of ownership 3.62%

Companies established

Fastighets AB Fartyget i Åkersberga
Lappeenrannan Villimiehen Vitonen Oy
Vantaan Kivivuorenlaki As Oy
Tenrot Fastighets AB

Companies sold

Manhattan Acquisition Oy, sold ownership 40.00%
Ulappapaikointus Oy, sold ownership 59.85%
Ulappatori Koy, sold ownership 100.00%
Pukinmäen Liikekeskus Oy, sold ownership 43.92%

Companies merged

Big Apple Mid Oy
Big Apple Acquisition Oy
Majakka Koy
Real Estate Iso Omena S a r.l.

31. Post balance sheet events

At the end of January, Citycon divested all shares in its subsidiary MREC Kiinteistö Oy Keijutie 15. The debt-free sales price of this non-core property in Lahti amounted to approximately EUR 3 million.

Consolidated Key Ratios

1. Consolidated Key Figures and Ratios for Five Years, IFRS

EUR million	Formula	IFRS 2008	IFRS 2007	IFRS 2006	IFRS 2005	IFRS 2004
Income statement data						
Turnover		178.3	151.4	119.4	92.2	84.7
Other operating income and expense		6.1	0.5	0.6	0.6	0.7
Depreciation according to plan		0.5	0.5	0.2	0.2	0.3
Operating loss/profit		-105.0	298.7	196.5	105.2	51.8
Loss/profit before taxes		-162.3	253.5	165.6	74.2	25.7
Loss/profit attributable to parent company shareholders		-124.1	200.3	124.9	59.2	19.9
Balance sheet data						
Non-current assets		2,126.1	2,260.5	1,453.3	957.6	745.6
Current assets		52.4	48.1	33.1	25.5	12.2
Equity attributable to parent company shareholders		799.1	982.0	565.3	356.6	237.7
Minority interest		38.2	28.9	15.0	3.6	0.0
Liabilities		1,341.2	1,297.7	906.1	622.9	520.0
Total liabilities and shareholders' equity		2,178.5	2,308.6	1,486.4	983.1	757.7
Key performance ratios						
Equity ratio, %	1	38.5	43.9	39.1	36.7	31.4
Equity ratio for bank, %		45.1	50.1	49.8	40.8	41.2
Gearing, %	2	141.3	111.8	136.6	156.8	201.3
Return on equity, % (ROE)	3	-15.0	23.3	25.8	22.5	9.5
Return on investment, % (ROI)	4	-1.5	16.3	16.8	13.5	7.2
Quick ratio	5	0.5	0.3	0.2	0.3	0.5
Gross capital expenditure, EUR million		157.9	603.9	436.4	178.5	18.8
% of turnover		88.6	398.9	365.5	193.6	22.2
Per-share figures and ratios						
Earnings per share, EUR	6	-0.56	1.00	0.76	0.46	0.17
Earnings per share, diluted, EUR	7	-0.56	0.91	0.73	0.45	0.17
Equity per share, EUR	8	3.62	4.44	3.30	2.39	1.95
Net asset value (EPRA NAV) per share, EUR	9	3.88	4.82	3.52	2.46	2.14
EPRA NNNAV per share, EUR	10	3.80	4.42	3.14	2.40	2.03
P/E (price/earnings) ratio	11	-3	3	7	7	14
Return from invested unrestricted equity fund per share, EUR		0.10 ¹⁾	0.10	-	-	-
Dividend per share, EUR		0.04 ¹⁾	0.04	0.14	0.14	0.14
Dividend and return from invested unrestricted equity fund per share total, EUR		0.14 ¹⁾	0.14	0.14	0.14	0.14
Dividend and return of equity per earnings, %	12	-24.9 ¹⁾	13.9	18.4	30.7	80.2
Effective dividend and return of equity yield, %	13	0.1 ¹⁾	4.3	2.8	4.5	5.7

¹⁾ Board proposal

Formulas are available on pages 54–55.

2. Consolidated Direct and Indirect Result for Five Years

EUR million	Formula	2008	2007	2006	2005	2004
Direct result	16					
Net rental income		121.8	103.4	82.8	67.0	62.3
Direct administrative expenses		-16.5	-16.5	-12.3	-8.3	-5.5
Direct other operating income and expenses		0.1	0.5	0.6	0.3	0.7
Direct net financial income and expenses		-54.2	-44.7	-32.0	-25.6	-26.1
Direct current taxes		-4.8	-3.4	-5.5	-4.6	-6.8
Direct change in deferred taxes		0.2	-0.2	-3.0	-2.8	-0.6
Direct minority interest		-2.8	-0.9	-0.3	-0.3	0.0
Total		43.8	38.3	30.4	25.7	24.0
Direct result per share (diluted), (diluted EPRA EPS), EUR	18	0.20	0.19	0.19	0.19	0.22
Indirect result	17					
Net fair value losses/gains on investment property		-216.1	211.4	120.1	45.9	-5.7
Loss/profit on disposal of investment property		0.1	-0.1	5.9	0.3	0.1
Indirect administrative expenses		-0.4	0.0	-0.6	0.0	0.0
Indirect other operating income and expenses		6.0	0.0	-	-	0.0
Indirect one-off financial income and expenses (net)		-	-	-0.9	-5.5	-
Movement in fair value of financial instruments		-3.1	-0.6	2.0	-	-
Indirect current taxes		-1.8	0.0	-1.9	1.3	0.0
Change in indirect deferred taxes		29.7	-46.0	-28.8	-8.3	1.5
Indirect minority interest		17.6	-2.7	-1.3	-0.4	0.0
Total		-167.9	162.1	94.5	33.5	-4.1
Indirect result per share, diluted, EUR		-0.76	0.71	0.54	0.25	-0.05
Loss/profit for the period attributable to parent company shareholders		-124.1	200.3	124.9	59.2	19.9

Formulas are available on pages 54–55.

3. Consolidated Direct and Indirect Result Quarterly

EUR million	Formula	Q4/2008	Q3/2008	Q2/2008	Q1/2008	Q4/2007	Q3/2007	Q2/2007	Q1/2007
Direct result	16								
Net rental income		30.2	31.5	30.5	29.7	27.1	27.3	25.8	23.2
Direct administrative expenses		-4.6	-3.9	-4.2	-3.8	-3.9	-4.0	-4.3	-4.3
Direct other operating income and expenses		0.1	0.0	0.0	0.0	0.6	0.0	-0.1	0.1
Direct net financial income and expenses		-11.7	-14.6	-14.1	-13.8	-13.9	-11.2	-9.7	-9.9
Direct current taxes		-1.4	-1.0	-1.2	-1.2	3.2	-2.4	-2.8	-1.4
Direct change in deferred taxes		0.0	0.2	0.0	-0.1	1.7	-0.5	-0.7	-0.6
Direct minority interest		-0.7	-0.9	-0.7	-0.4	-0.2	-0.3	-0.2	-0.1
Total		11.8	11.3	10.2	10.4	14.6	8.9	8.0	6.7
Direct result per share (diluted), (diluted EPRA EPS), EUR	18	0.05	0.05	0.05	0.05	0.07	0.05	0.04	0.04
Indirect result	17								
Net fair value losses/gains on investment property		-59.3	-71.7	-85.5	0.5	-0.1	20.4	159.8	31.4
Loss/profit on disposal of investment property		0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0
Indirect administrative expenses		-0.1	0.0	-0.2	-0.2	0.0	0.0	0.0	0.0
Indirect other operating income and expenses		5.9	0.0	0.0	0.1	0.0	0.0	0.0	0.0
Movement in fair value of financial instruments		-1.4	-0.6	0.2	-1.4	0.2	-1.4	0.1	0.6
Indirect current taxes		-0.8	0.0	0.0	-1.1	0.0	0.0	0.0	0.0
Change in indirect deferred taxes		7.5	8.2	11.6	2.4	-5.0	-4.5	-32.3	-4.2
Indirect minority interest		5.6	6.8	7.0	-1.8	-0.4	0.1	-0.9	-1.5
Total		-42.5	-57.3	-66.8	-1.3	-5.4	14.5	126.6	26.3
Indirect result per share, diluted, EUR		-0.19	-0.26	-0.30	-0.01	-0.02	0.08	0.66	0.15
Loss/profit for the period attributable to parent company shareholders		-30.7	-46.0	-56.6	9.1	9.3	23.4	134.6	33.0

Formulas are available on pages 54–55.

4. Quarterly Segment Information

EUR million	Q4/2008	Q3/2008	Q2/2008	Q1/2008	Q4/2007	Q3/2007	Q2/2007	Q1/2007
Turnover								
Finland	32.0	31.9	31.6	31.4	30.2	25.5	24.7	23.9
Sweden	10.1	10.5	10.6	10.7	11.1	10.1	9.3	8.6
Baltic Countries	3.1	2.1	2.1	2.2	2.0	2.3	1.9	1.8
Total	45.2	44.6	44.2	44.3	43.3	38.0	35.9	34.2
Net rental income								
Finland	22.6	23.4	22.5	22.3	21.0	18.9	18.2	17.5
Sweden	5.3	6.5	6.4	5.8	4.7	6.5	6.0	4.4
Baltic Countries	2.2	1.5	1.5	1.6	1.4	1.8	1.4	1.3
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0
Total	30.2	31.5	30.5	29.7	27.1	27.3	25.8	23.2
Direct operating profit								
Finland	21.0	22.1	21.2	21.1	19.6	17.8	16.9	16.2
Sweden	4.5	6.0	5.4	5.0	4.6	5.3	5.1	3.7
Baltic Countries	2.0	1.4	1.4	1.5	1.1	1.7	1.2	1.1
Other	-1.9	-1.9	-1.7	-1.6	-1.5	-1.5	-1.7	-2.1
Total	25.6	27.6	26.2	25.9	23.8	23.2	21.5	18.9
Operating loss/profit								
Finland	-21.7	-22.9	-37.4	19.0	17.3	33.8	137.1	30.2
Sweden	-16.9	-23.3	-15.7	6.7	6.9	7.2	40.5	18.8
Baltic Countries	12.6	4.0	-4.5	2.3	1.0	4.0	5.4	3.4
Other	-2.0	-1.9	-1.9	-1.6	-1.5	-1.5	-1.7	-2.1
Total	-27.9	-44.1	-59.5	26.4	23.7	43.6	181.2	50.3

Parent Company Income Statement, FAS

EUR million	Note	1 Jan.–31 Dec. 2008	1 Jan.–31 Dec. 2007
Gross rental income		100.8	89.5
Service charge income		3.4	2.9
Turnover	1	104.2	92.4
Property operating expenses		50.6	48.5
Other expenses from leasing operations	2	0.1	0.1
Net rental income		53.5	43.8
Administrative expenses	3, 4	21.7	14.0
Other operating income and expenses	5	5.6	0.3
Operating profit		37.3	30.0
Financial income		118.2	44.4
Financial expenses		-134.5	-63.9
Net financial income and expenses	6	-16.4	-19.5
Profit before taxes		21.0	10.6
Income tax expense	7	6.9	2.1
Profit for the period		14.1	8.4

Parent Company Balance Sheet, FAS

EUR million	Note	31 Dec. 2008	31 Dec. 2007
ASSETS			
Non-current assets			
Intangible assets	8	11.4	6.0
Tangible assets	9	32.1	31.6
Investments			
Shares in subsidiaries	10	826.4	733.8
Shares in associated companies	11	34.8	34.7
Other investments	12	746.6	915.4
Total investments		1,607.8	1,683.9
Total non-current assets		1,651.3	1,721.5
Current assets			
Short-term receivables	14	43.1	29.6
Cash and cash equivalents		0.7	3.7
Total current assets		43.9	33.3
Total assets		1,695.1	1,754.8
LIABILITIES AND SHAREHOLDERS' EQUITY			
Shareholders' equity			
Share capital	15	259.6	259.6
Share premium fund		133.1	133.1
Invested unrestricted equity fund and other reserves		179.0	201.1
Retained earnings		3.7	4.1
Profit for the period		14.1	8.4
Total shareholders' equity		589.4	606.3
Liabilities			
Subordinated loan	16	70.0	70.0
Convertible capital loan		73.3	95.0
Long-term liabilities		860.6	832.4
Short-term liabilities		101.8	151.1
Total liabilities		1,105.7	1,148.5
Total liabilities and shareholders' equity		1,695.1	1,754.8

Parent Company Cash Flow Statement, FAS

EUR million	1 Jan.–31 Dec. 2008	1 Jan.–31 Dec. 2007
Cash flow from operating activities		
Profit before taxes	21.0	10.6
Adjustments:		
Depreciation and impairment loss	3.0	1.8
Non-cash property operating expenses	21.7	23.5
Net financial income and expenses	16.4	19.5
Other adjustments	-4.1	-0.1
Cash flow before change in working capital	57.9	55.3
Change in working capital	1.0	1.7
Cash generated from operations	58.8	57.0
Interest and other financial expenses paid	-64.8	-40.6
Interest income, exchange rate gains and other financial income received	24.9	11.6
Income tax received/paid	0.6	-7.2
Net cash from operating activities	19.6	20.7
Cash flow from investing activities		
Investment in tangible and intangible assets	-2.1	-7.0
Other investments	-	-0.1
Proceeds from sale of tangible assets	0.7	0.2
Loans granted	-399.5	-555.5
Repayments of loans receivable	510.7	83.2
Increase in subsidiary shares	-101.9	-59.9
Sale of subsidiary shares	4.3	-
Purchase of minority and associate company shares	-0.7	-0.6
Sale of associate company shares	0.6	-
Net cash from investing activities	12.1	-539.7
Cash flow from financing activities		
Proceeds from share issue	-	232.4
Proceeds from short-term loans	72.0	773.1
Repayments of short-term loans	-125.8	-727.9
Proceeds from long-term loans	516.8	479.2
Repayments of long-term loans	-469.3	-223.7
Dividends paid and return from the invested unrestricted equity fund	-30.9	-23.4
Net cash used in financing activities	-37.2	509.7
Net change in cash and cash equivalents	-5.5	-9.3
Cash and cash equivalents at period-start	-6.8	2.5
Effects of exchange rate changes	1.4	-
Cash and cash equivalents at period-end ¹⁾	-10.9	-6.8

¹⁾ Cash and cash equivalents of Citycon Oyj were negative as at 31 December 2008 and as at 31 December 2007 due to group cash pool in which the parent company's bank account can have a negative balance. Cash pool balance of EUR -11.6 million as at 31 December 2008 and EUR -10.5 million as at 31 December 2007 has been recognized in the parent company's balance sheet under short-term liabilities.

Notes to the Parent Company's Financial Statements, FAS

Accounting policies

The parent company's financial statements are prepared in accordance with the Finnish law.

Income statement format

The income statement is presented in accordance with the function-based format and it includes both gross and net rental income.

Non-current assets

Non-current assets are recognized in the balance sheet at acquisition cost less impairment losses and depreciation/amortisation.

Property portfolio

The buildings' acquisition cost is depreciated annually on a straight line basis at 2-4 per cent. Repair costs are expensed as incurred.

Other non-current assets

Other non-current assets include capitalised costs related to the acquisition of properties, which are amortised over three years, and tenant improvements, which are amortised during the lease term.

Machinery and equipment is depreciated at 25 per cent annually using the reducing balance method of depreciation. The machinery and equipment category includes also technical equipment in buildings and the depreciation is made accordingly.

Pension scheme

The company's employee pension cover is based on statutory pension insurance.

Foreign currency receivables and payables

Receivables and payables denominated in foreign currencies as well as forward rate agreements are measured at the exchange rate quoted on the balance sheet date. Any exchange rate differences resulting from currency translations are recognized as exchange rate differences in the income statement.

Subordinated loan and convertible capital loan

The subordinated loan and convertible capital loan are shown as separate items in liabilities.

Taxes

Taxes are recognized on an accrual basis.

Important note

Individual figures and sum totals presented in the financial statements have been rounded to the nearest million euros; this may cause minor discrepancies between the sum totals and the sums of individual figures as given.

Notes to the parent company's financial statements

1. Turnover

EUR million	2008	2007
Turnover by business segments:		
Shopping centres		
Helsinki metropolitan area	34.0	28.0
other cities in Finland	40.4	36.1
Other retail properties	29.8	28.3
Total	104.2	92.4

Geographically the parent company's turnover is generated in Finland. Parent company turnover includes the following building-management and administrative fees received from Group companies:

	1.1	1.0
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2. Other expenses from leasing operations

EUR million	2008	2007
Tenant improvements and commissions	0.1	0.1
Credit losses	0.1	0.1
Total	0.1	0.1

3. Personnel expenses

EUR million	2008	2007
Average number of employees during period	75	67
Personnel expenses		
Wages and salaries	5.8	5.2
Pension charges	0.9	0.7
Other social expenses	0.5	0.5
Total	7.2	6.5

Personnel expenses include management salaries and emoluments

CEO's salary and emoluments	0.3	0.3
Board salaries and emoluments	0.6	0.5
Total	1.0	0.8

4. Depreciation and amortization and impairments

EUR million	2008	2007
The following depreciation and amortization as well as impairments are included in the administrative expenses:		
Amortization on intangible assets	2.1	0.9
Depreciation on buildings and constructions	0.5	0.5
Depreciation on machinery and equipment	0.4	0.4
Impairment of shares in subsidiaries	5.0	-
Total	8.0	1.8

5. Other operating income and expenses

EUR million	2008	2007
Profit on disposal of shares in subsidiaries and other investments	4.1	0.1
Property management fees from Group companies	1.3	-
Other operating income	0.2	0.3
Total	5.6	0.3

6. Net financial income and expenses

EUR million	2008	2007
Dividend income		
From Group companies	0.1	1.4
From others	0.0	0.0
Total	0.1	1.4
Interest and other financial income		
From Group companies	39.3	33.0
Gain from convertible bond buybacks	9.4	-
Foreign exchange gains	68.7	9.2
Other interest and financial income	0.8	0.9
Total	118.2	43.1
Total financial income	118.2	44.4
Interest and other financial expenses		
To Group companies	13.1	7.1
Foreign exchange losses	68.9	9.3
Interest and other financial expenses	52.5	47.5
Total financial expenses	134.5	63.9
Total net financial income and expenses	-16.4	-19.5

7. Income tax expense

EUR million	2008	2007
Taxes for the period	-6.9	-2.1

8. Intangible assets

EUR million	2008	2007
Intangible rights		
Acquisition cost 1 Jan.	0.9	0.6
Additions during the period	0.5	0.3
Accumulated acquisition costs 31 Dec.	1.4	0.9

Accumulated depreciation 1 Jan.	0.5	0.3
Depreciation for the period	0.2	0.1
Accumulated depreciation 31 Dec.	0.6	0.5

Net carrying amount 31 Dec.	0.8	0.4
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Connection fees

Acquisition cost 1 Jan.	0.2	0.2
Net carrying amount 31 Dec.	0.2	0.2

Other non-current assets

Acquisition cost 1 Jan.	9.6	5.3
Additions during the period	7.0	4.3
Disposals during the period	-	0.0
Transfer between items	0.0	0.0
Accumulated acquisition costs 31 Dec.	16.6	9.6

Accumulated depreciation 1 Jan.	4.3	3.4
Depreciation for the period	1.9	0.8
Accumulated depreciation 31 Dec.	6.2	4.3

Net carrying amount 31 Dec.	10.4	5.3
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Total intangible assets 31 Dec.	11.4	6.0
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9. Tangible assets

EUR million	2008	2007
Land		
Acquisition cost 1 Jan.	3.3	3.3
Accumulated acquisition costs 31 Dec.	3.3	3.3

Buildings and constructions

Acquisition cost 1 Jan.	68.3	66.5
Additions during the period	0.4	1.4
Transfer between items	-	0.4
Accumulated acquisition costs 31 Dec.	68.6	68.3

Accumulated depreciation 1 Jan.	43.1	42.6
Depreciation for the period	0.5	0.5
Accumulated depreciation 31 Dec.	43.6	43.1

Net carrying amount 31 Dec.	25.0	25.1
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Machinery and equipment

Acquisition cost 1 Jan.	4.9	4.0
Additions during the period	0.4	0.6
Transfer between items	-	0.2
Accumulated acquisition costs 31 Dec.	5.3	4.9

Accumulated depreciation 1 Jan.	3.5	3.0
Depreciation for the period	0.4	0.4
Accumulated depreciation 31 Dec.	3.9	3.5

Net carrying amount 31 Dec.	1.4	1.4
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Machinery and equipment also include technical equipment in buildings.

Other tangible assets

Acquisition cost 1 Jan.	0.2	0.2
Additions during the period	-	0.0
Accumulated acquisition costs 31 Dec.	0.2	0.2

Accumulated depreciation 1 Jan.	0.2	0.2
Accumulated depreciation 31 Dec.	0.2	0.2

Net carrying amount 31 Dec.	0.1	0.1
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Construction in progress

Acquisition cost 1 Jan.	1.7	2.2
Additions during the period	1.4	0.3
Reductions during the period	0.7	0.2
Transfer between items	0.0	-0.7
Net carrying amount 31 Dec.	2.4	1.7

Total tangible assets 31 Dec.	32.1	31.6
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10. Shares in subsidiaries

EUR million	2008	2007
Acquisition cost 1 Jan.	733.8	673.1
Additions during the period	101.9	59.9
Impairment	5.0	-
Reductions during the period	4.3	-
Transfer between items	-	0.8
Accumulated acquisition costs 31 Dec.	826.4	733.8

Accumulated depreciation 1 Jan.	-	0.5
Transfer between items	-	-0.5
Accumulated depreciation 31 Dec.	-	0.5

Net carrying amount 31 Dec.	826.4	733.8
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11. Shares in associated companies

EUR million	2008	2007
Acquisition cost 1 Jan.	34.7	34.2
Additions during the period	0.7	0.6
Reductions during the period	0.6	-
Accumulated acquisition costs 31 Dec.	34.8	34.7

Net carrying amount 31 Dec.	34.8	34.7
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12. Other investments

EUR million	2008	2007
Minority holdings		
Acquisition cost 1 Jan.	3.7	4.9
Additions during the period	-	0.1
Transfer between items	-	-1.3
Accumulated acquisition costs 31 Dec.	3.7	3.7

Net carrying amount 31 Dec.	3.7	3.7
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Loans receivable

From Group companies	742.9	911.7
Total other investments 31 Dec.	746.6	915.4

Total investments 31 Dec.	1,607.8	1,683.9
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13. Subsidiaries and associated companies

Parent company's subsidiaries and associated companies are presented in the notes to the consolidated financial statements 29. Related party transactions.

14. Short-term receivables

EUR million	2008	2007
Receivables from outside the Group		
Trade receivables	0.7	0.8
Other receivables	19.9	8.2
Accrued income and prepaid expenses	0.2	1.4
Total	20.7	10.4

Receivables from Group companies		
Trade receivables	0.9	1.5
Other receivables	11.0	2.8
Accrued income and prepaid expenses	10.5	14.9
Total	22.4	19.2

Total short-term receivables	43.1	29.6
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Significant other receivables from outside the Group		
Derivative financial instruments	19.8	1.0
Other	0.1	7.2
Total	19.9	8.2

Significant other receivables from Group companies		
Loan receivables	5.9	0.1
Maintenance charge receivables	4.2	2.7
Other	0.9	0.0
Total	11.0	2.8

Significant accrued income and prepaid expenses from Group companies		
Interest receivables	10.4	14.8

15. Shareholders' equity

EUR million	2008	2007
Share capital 1 Jan.	259.6	225.7
Directed share issue		
2/15/07	-	33.8
Stock options		
2/9/07	-	0.1
Share capital 31 Dec.	259.6	259.6
Share issue 1 Jan.	-	0.1
Registered to share capital	-	-0.1
Share issue 31 Dec.	-	0.0
Share premium fund 1 Jan.	133.1	133.0
Stock options	-	0.0
Share premium fund 31 Dec.	133.1	133.1
Invested unrestricted equity fund 1 Jan.	201.1	-
Directed share issue	-	100.0
Rights issue	-	99.3
Stock options	0.0	1.8
Return from the invested unrestricted equity fund	-22.1	-
Invested unrestricted equity fund 31.12.	179.0	201.1
Retained earnings 1 Jan.	12.6	27.5
Dividends	-8.8	-23.4
Net profit for the period 31 Dec.	14.1	8.4
Retained earnings 31 Dec.	17.8	12.6
Total shareholders' equity 31 Dec.	589.4	606.3

16. Liabilities

A) Long-term liabilities

EUR million	2008	2007
Fixed-rate loans		
Subordinated loan ¹⁾	70.0	70.0
Convertible capital loan ¹⁾	73.3	95.0
Floating-rate loans, which are converted into fixed rates through interest-rate swaps tied to market interest rates	591.7	584.5
Total	849.4	825.1
Current portion of long-term loans	-18.0	-18.0
Total	831.4	807.1
Long-term loans		
Loans from financial institutions	831.4	807.1
Loans from Group companies	29.2	25.4
Total long-term liabilities	860.6	832.4
Loans maturing later than 5 years	270.7	653.8

B) Short-term liabilities

EUR million	2008	2007
Short-term interest-bearing liabilities		
Loans from financial institutions	48.0	102.5
Loans from Group companies	18.9	10.5
Total	66.9	113.0
Short-term non interest-bearing liabilities		
Payables to outside the Group		
Advances received	0.2	-0.2
Accounts payable	0.9	1.1
Other payables	8.1	2.1
Accruals	10.2	12.5
Total	19.4	15.4
Payables to Group companies		
Other payables	14.3	20.1
Accruals	1.1	2.5
Total	15.4	22.6
Total short-term liabilities	101.8	151.1
Significant other payables to outside the Group		
Tax liability	3.1	-
VAT liability	1.2	0.9
Derivative financial instruments	3.6	-
Other accruals	0.3	1.2
Total	8.1	2.1
Significant accruals to outside the Group		
Interest liability	8.2	10.6
Significant other payables to Group companies		
Charge-for-financial cost payables	12.3	18.6
Total liabilities	1,105.7	1,148.5

¹⁾The terms and conditions of subordinated loan and convertible capital loan are presented in the notes to the consolidated financial statements 22. Interest-bearing liabilities.

All derivative financial instruments in Citycon are executed by the parent company Citycon Oyj. The fair values of derivative financial instruments are presented in the notes to the consolidated financial statements 23. Financial instruments.

17. Contingent liabilities

The parent company doesn't have any mortgages nor given securities. Given bank guarantees were EUR 45.6 million (EUR 49.8 million in 2007).

Lease liabilities

EUR million	2008	2007
Payables on lease commitments		
Maturing next financial year	1.1	0.8
Maturing later	1.1	0.8
Total	2.2	1.6

Citycon's finance leases mainly apply to computer hardware, machinery and equipment, cars and office premises.

VAT refund liabilities

	5 year checking period		10 year checking period	
	2008	2007	2008	2007
Capital expenditure (net)	0,9	1,1	0,5	-
VAT on capital expenditure (100%)	0,3	0,3	0,1	-
Annual adjustment amount	0,3	0,3	0,1	-
VAT deducted at completion date	0,1	0,1	0,0	-
VAT adjustment liability 31.12.2008	0,1	0,2	0,1	-

Shareholders and Shares

Major shareholders 31 December 2008

Name	Number of shares	% of shares and votes
Gazit-Globe Ltd ¹⁾	48,088,742	21.76
Ilmarinen Mutual Pension Insurance Company	1,568,914	0.71
Odin Finland	1,402,085	0.63
von Fieandt Johan	480,000	0.22
Tudeer Lauri	406,810	0.18
Odin Eiendom	240,285	0.11
Investment Fund Nordea Finland Index Fund	212,597	0.10
Aventum European REIT Fund	200,000	0.09
Tallberg Carl-Johan	180,000	0.08
Nordea Bank Finland Plc	173,858	0.08
10 major, total	52,953,291	23.96

Nominee-registered shares

Nordea Bank Finland Plc	95,077,935	43.02
Skandinaviska Enskilda Banken AB	51,373,169	23.25
Svenska Handelsbanken AB (publ.) Filialverksamheten i Finland	13,213,353	5.98
Other nominee-registered shares	1,314,758	0.59
Nominee-registered shares, total	160,979,215	72.84
Others	7,066,483	2.67
Shares, total	220,998,989	100.00

¹⁾ Gazit-Globe Ltd. has notified the company that the number of shares held by it on 31 December 2008 totalled 95,977,709 shares accounting for 43.42 per cent of the shares and voting rights in the company at the year-end of 2008. Gazit-Globe Ltd.'s shares are partly nominee-registered.

Notifications of changes in shareholding during 2008

Shareholder	Date of change in holding	New holding, No of shares	% of shares and votes on the date of change
AXA S.A. and its subsidiaries	13 May 2008	11,017,656	4.99
AXA S.A. and its subsidiaries	21 March 2008	11,892,688	5.38
FIL Limited and its direct and indirect subsidiaries	5 March 2008	10,904,704	4.93

Shareholders by ownergroup on 31 December 2008

	Number of owners	Percentage of owners	Number of shares	Percentage of shares and voting rights
Financial and insurance corporations	13	0.59	161,319,266	73.00
Corporations	139	6.35	1,566,840	0.71
Households	1,995	91.09	6,024,967	2.73
General government	2	0.09	1,651,914	0.75
Foreign	24	1.10	50,143,097	22.69
Non-profit institutions	17	0.78	292,905	0.13
Total	2,190	100.00	220,998,989	100.00
of which nominee-registered	10		160,979,215	72.84
Issued stock, total			220,998,989	

Breakdown of shareholders as at 31 December 2008 by number of shares

Number of shares	Number of shareholders	Percentage of owners	Number of shares	Percentage of shares and voting rights
11-1,000	1,204	54.98	446,214	0.20
1,001-5,000	708	32.33	1,622,013	0.73
5,001-10,000	131	5.98	912,045	0.41
10,001-50,000	115	5.25	2,549,847	1.15
50,001-100,000	9	0.41	638,398	0.29
100,001-500,000	16	0.73	3,355,899	1.52
500,001-1,000,000	1	0.05	750,375	0.34
1,000,001-	6	0.27	210,724,198	95.35
Total	2,190	100.00	220,998,989	99.99
of which nominee-registered	10		160,979,215	72.84
Issued stock, total			220,998,989	

Share price and trading volume

	Formula	Note	IFRS 2008	IFRS 2007	IFRS 2006	IFRS 2005	IFRS 2004
Share price, transactions, EUR							
Low			1.26	3.24	3.02	2.36	1.52
High			4.28	6.09	5.09	3.50	2.65
Average	12		2.94	4.76	3.86	2.95	1.94
Market capitalisation, EUR million	13	1)	371.3	806.6	844.3	424.1	273.9
Share trading volume							
No. of shares traded as of year-start, 1,000			150,852	153,696	51,193	40,695	115,056
Percentage of total			68.3	69.6	30.6	29.8	102.5
Issue-adjusted average number of shares, 1,000		1)	220,991	199,404	163,339	129,903	113,767
Issue-adjusted average number of shares, diluted, 1,000		1)	247,223	227,122	175,345	132,427	114,881
Issue-adjusted average number of shares on 31. Dec., 1,000		1)	220,999	220,981	171,233	149,029	121,998
Treasury shares, EUR million							
Treasury shares, 1,000			0	0	0	0	4.7
			0	0	0	0	3,874

¹⁾ When calculating this figure, treasury shares are deducted from shareholders' equity and the number of shares.

Formulas are available on pages 54–55.

Formulas for Key Figures and Ratios

1)	Equity ratio,%	$\frac{\text{Shareholders' equity}}{\text{Balance sheet total - advances received}} \times 100$
2)	Gearing,%	$\frac{\text{Interest-bearing liabilities - cash and cash equivalents}}{\text{Shareholders' equity}} \times 100$
3)	Return on equity (ROE), %	$\frac{\text{Profit/loss for the period}}{\text{Shareholders' equity (weighted average)}} \times 100$
4)	Return on investment (ROI), %	$\frac{\text{Profit/loss before taxes + interest and other financial expenses}}{\text{Balance sheet total (weighted average) - (non-interest-bearing liabilities on the balance sheet date + opening balance of non-interest-bearing liabilities)/2}} \times 100$
5)	Quick ratio	$\frac{\text{Current assets}}{\text{Short-term liabilities}}$
6)	Earnings per share (EPS), EUR	$\frac{\text{Profit/loss for the period attributable to parent company shareholders}}{\text{Issue-adjusted average number of shares for the period}} \times 100$
7)	Earnings per share, diluted, EUR	$\frac{\text{Profit/loss for the period attributable to parent company shareholders}}{\text{Diluted, issue-adjusted average number of shares for the period}} \times 100$
8)	Equity per share, EUR	$\frac{\text{Equity attributable to parent company shareholders}}{\text{Issue-adjusted number of shares on the balance sheet date}}$
9)	Net asset value (EPRA NAV) per share, EUR	$\frac{\text{Equity attributable to parent company shareholders} + \text{Deferred taxes from the difference of fair value and fiscal value of investment properties} + \text{Fair value of financial instruments}}{\text{Issue-adjusted number of shares on the balance sheet date}}$
10)	EPRA NNNAV per share, EUR	$\frac{\text{Net asset value (EPRA NAV)} - \text{Deferred taxes from the difference of fair value and fiscal value of investment properties} + \text{The difference between the mark-to-market and book value of debt} - \text{Fair value of financial instruments}}{\text{Issue-adjusted number of shares on the balance sheet date}}$
11)	P/E ratio (price/earnings)	$\frac{\text{Issue-adjusted closing price at year-end}}{\text{EPS}}$
12)	Dividend and return of equity per earnings,%	$\frac{\text{Dividend per share}}{\text{EPS}} \times 100$

13)	Effective dividend and return of equity yield,%	$\frac{\text{Dividend per share}}{\text{Issue-adjusted closing price at year-end}}$	
14)	Average share price, EUR	$\frac{\text{Value of shares traded (EUR)}}{\text{Average number of shares traded}}$	X 100
15)	Market capitalisation	Number of shares x closing price for the period excl. treasury shares	
16)	Direct result, EUR million	<ul style="list-style-type: none"> Net rental income - Direct administrative expenses +/- Direct other operating income and expenses - Direct net financial income and expenses - Direct current taxes -/+ Change in direct deferred taxes - Direct minority interest 	
17)	Indirect result, EUR million	<ul style="list-style-type: none"> Net fair value gains/losses on investment property +/- Profit/loss on disposal of investment property - Indirect administrative expenses - Indirect other operating income and expenses - Indirect one-off financial income and expenses - Movement in fair value of financial instruments - Indirect current taxes - Change in indirect deferred taxes - Indirect minority interest 	
18)	Direct result per share, diluted, EUR	$\frac{\text{Direct result + expenses from convertible loan, the tax effect deducted}}{\text{Diluted, issue-adjusted average number of shares for the period}}$	
19)	Net cash from operations per share, EUR	$\frac{\text{Net cash from operating activities}}{\text{Issue-adjusted average number of shares for the period}}$	
20)	Net interest-bearing debt (fair value), EUR million	Fair value of debts - cash and cash equivalents	
21)	Occupancy rate,%, sq.m.	$\frac{\text{Leased space}}{\text{Leasable space}}$	X 100
22)	Occupancy rate,%, EUR	$\frac{\text{Rental income as per leases}}{\text{Estimated market rent of vacant premises + rental income as per leases}}$	X 100
23)	Net income,%	$\frac{\text{Net rental income (last 12 months)}}{\text{Average fair value of investment property}}$	X 100

Signatures to the Financial Statement

Signatures to the Financial Statements 1 January–31 December 2008

Helsinki, 11 February 2009

Thomas W. Wernink
Amir Bernstein
Raimo Korpinen
Dor J. Segal

Tuomo Lähdesmäki
Gideon Bolotowsky
Claes Ottosson
Per-Håkan Westin

Petri Olkinuora
CEO

The Auditors Note

Our auditors' report has been issued today.

Helsinki, 11 February 2009

Ernst & Young Oy
Authorized Public Accountants

Tuija Korpelainen
Authorized Public Accountant

Auditors' Report

To the Annual General Meeting of Citycon Oyj

We have audited the accounting records, the financial statements, the report of the Board of Directors, and the administration of Citycon Oyj for the year ended on 31 December, 2008. The financial statements comprise the consolidated balance sheet, income statement, cash flow statement, statement of changes in equity and notes to the consolidated financial statements, as well as the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements.

The responsibility of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of the financial statements and the report of the Board of Directors and for the fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, as well as for the fair presentation of the parent company's financial statements and the report of the Board of Directors in accordance with laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The Board of Directors is responsible for the appropriate arrangement of the control of the company's accounts and finances, and the Managing Director shall see to it that the accounts of the company are in compliance with the law and that its financial affairs have been arranged in a reliable manner.

Auditor's responsibility

Our responsibility is to perform an audit in accordance with good auditing practice in Finland, and to express an opinion on the parent company's

financial statements, on the consolidated financial statements and on the report of the Board of Directors based on our audit. Good auditing practice requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements and the report of the Board of Directors are free from material misstatement and whether the members of the Board of Directors and the Managing Director have complied with the Limited Liability Companies Act.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the report of the Board of Directors. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements and the report of the Board of Directors.

The audit was performed in accordance with good auditing practice in Finland. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the consolidated financial statements

In our opinion, the consolidated financial statements give a true and fair view of the financial position, financial performance, and cash flows of the group in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

Opinion on the company's financial statements and the report of the Board of Directors

In our opinion, the financial statements, together with the consolidated financial statements included therein, and the report of the Board of Directors give a true and fair view of the financial performance and financial position of the company in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The information in the report of the Board of Directors is consistent with the information in the financial statements.

Helsinki, 11 February 2009

Ernst & Young Oy
Authorized Public Accountants

Tuija Korpelainen
Authorized Public Accountant

List of Properties 2008

Property	Address		Built in/ renovated in	Holding, %	Citycon's GLA, sq.m.	Occupancy rate, %, sq.m. ¹⁾	Occupancy rate, %, EUR. ¹⁾	
Finland								
Helsinki Metropolitan area								
1	Asolantien Liikekiinteistö Oy	Asolanväylä 50	01360 VANTAA	1986	100	1,900	55.1	58.8
2	Columbus					21,100	96.8	98.3
	Kauppakeskus Columbus Koy	Vuotie 45	00980 HELSINKI	1997/2007	100			
3	Espoon Louhenkulma Koy	Louhentie 2	02130 ESPOO	1963	49	880	100.0	100.0
4	Espoonatori					17,300	94.7	96.7
	Espoon Asemakuja 2 Koy	Asemakuja 2	02770 ESPOO	1991	100	6,300		
	Espoon Asematori Koy	Kamreerintie 5	02770 ESPOO	1989	54	1,900		
	Espoonatori Koy	Kamreerintie 3	02770 ESPOO	1987	67	9,100		
5	Hakarinne 4	Hakarinne 4	02120 ESPOO	1985	56	380	100.0	100.0
6	Hakunilan Keskus					3,780	84.1	82.2
	Hakucenter Koy	Laukkarinne 6	01200 VANTAA	1986	19	780		
	Hakunilan Keskus Oy	Laukkarinne 4	01200 VANTAA	1982	41	3,000		
7	Heikintori					5,800	90.7	94.7
	Heikintori Oy	Kauppamiehentie 1	02100 ESPOO	1968	65			
8	Helsingin Autotalo Oy	Salomonkatu 17	00100 HELSINKI	1958	9	1,300	100.0	100.0
9	Iso Omena					60,600	98.7	99.6
	Big Apple Top Oy	Piispansilta 9	02230 ESPOO	2001	60			
10	Isomyyri					10,900	92.7	96.6
	Myyrmäen Kauppakeskus Koy	Liesitori 1	01600 VANTAA	1987	74			
11	Kirkkonummen Liikekeskus Oy	Asematie 3	02400 KIRKKONUMMI	1991	67	5,000	100.0	100.0
12	Kontulan Asemakeskus Koy	Keinulaudankuja 4	00940 HELSINKI	1988/2007	35	4,500	100.0	100.0
13	Laajasalon Liikekeskus					2,660	100.0	100.0
	Laajasalon Liikekeskus Oy	Yliskyläntie 3	00840 HELSINKI	1972/1995	50	2,300		
	Kuvernöörintie 8 Koy	Kuvernöörintie 8	00840 HELSINKI	1982	100	360		
14	Lauttasaaren Liikekeskus Oy	Lauttasaarentie 28-30	00200 HELSINKI	1970	24	1,500	100.0	100.0
15	Lippulaiva					23,000	97.7	98.0
	Lippulaiva Koy	Espoonlahdenkatu 4	02320 ESPOO	1993/2007	100			
16	Länsi-Keskus Koy	Pihatörmä 1	02210 ESPOO	1989	41	8,600	100.0	100.0
17	Martinlaakson Kivivuorentie 4 Koy	Kivivuorentie 4	01620 VANTAA	1976	100	3,800	63.9	72.6
18	Minkkikuja 4 Koy	Minkkikuja 4	01450 VANTAA	1989	100	2,300	100.0	100.0
19	Myllypuron Ostoskeskus					7,700	57.3	63.5
	Kivensilmänkuja 1 Koy	Kivensilmänkuja 1	00920 HELSINKI	1988	100	1,400		
	Myllypuron Ostoskeskus Oy	Kiviparantie 2	00920 HELSINKI	1966	100	6,300		
20	Myyrmani					40,300	97.1	97.6
	Myyrmani Koy	Iskoskuja 3	01600 VANTAA	1994/2007	100			
21	Otaniemen Liikekeskus Oy	Otaakaari 11	02150 ESPOO	1969	39	340	100.0	100.0
22	Pihlajamäen liiketalo Oy	Meripihkatie 1	00710 HELSINKI	1970	43	1,700	75.6	82.3
23	Salpausseläntie 11 Koy	Salpausseläntie 11	00710 HELSINKI	1973	31	600	100.0	100
24	Sampotori	Heikintori, Kauppamiehentie	02100 ESPOO	lot	100	50	100.0	100.0
25	Sinikalliontie 1 Koy	Sinikalliontie 1	02630 ESPOO	1964/1992	100	15,700	92.2	96.3
26	Soukan Itäinentorni As Oy	Soukantie 16	02360 ESPOO	1972	27	1,600	100.0	100.0
27	Talvikkitie 7-9 Koy	Talvikkitie 7-9	01300 VANTAA	1989	100	9,800	100.0	100.0
28	Tikkuri					10,700	93.6	96.4
	Tikkurilan Kauppakeskus Koy	Asematie 4-10	01300 VANTAA	1984/1991	84			
29	Ultima Oy	Ayritie 1	01510 VANTAA	lot	100			
30	Vantaan Laajavuoreнкуja 2 Koy	Laajavuoreнкуja 2	01620 VANTAA	1976	100	2,000	100.0	100.0

Property	Address		Built in/ renovated in	Holding, %	Citycon's GLA, sq.m.	Occupancy rate, % ¹⁾ , sq.m ¹⁾	Occupancy rate, % ¹⁾ , EUR ¹⁾	
31	Vantaan Säästötalo Koy	Kielotie 20	01300 VANTAA	1983	61	3,800	98.1	98.4
32	Wavulinintie 1 Koy	Wavulinintie 1	00210 HELSINKI	1950/1992	100	1,700	14.0	10.8
Other areas in Finland								
33	Forssan Hämeentie 3 Koy	Hämeentie 3	31100 FORSSA	1978	100	4,500	1.9	2.2
34	Forum					17,500	98.5	98.8
	Jyväskylän Forum Koy	Asemakatu 5	40100 JYVASKYLA	1953/1972/1980/1991	100			
35	Galleria					3,500	89.4	92.4
	Oulun Galleria Koy	Isokatu 23	90100 OULU	1987	100			
36	Isokarhu					14,800	89.8	94.0
	Kauppakeskus IsoKarhu Oy	Yrjönkatu 14	28100 PORI	1972/2001/2004	100			
37	IsoKristiina					18,700	91.5	93.2
	Karjalan Kauppakeskus Koy	Brahenkatu 3	53100 LAPPEENRANTA	1987	100	8,400		
	Lappeen Liikekeskus Koy	Brahenkatu 5	53100 LAPPEENRANTA	1987	80	6,600		
	Lappeenrannan Brahenkatu 7 Koy	Brahenkatu 7	53100 LAPPEENRANTA	1993	84	3,700		
38	Isolinnankatu 18 Koy	Isolinnankatu 18	28100 PORI	1986	100	5,200	35.3	46.6
39	Jyväskeskus					5,800	97.3	98.6
	Jyväskylän Kauppakatu 31 Koy	Kauppakatu 31	40100 JYVASKYLA	1955/1993	100			
40	Kaarinan Liiketalo Koy	Oskarinkatu 5	20780 KAARINA	1979/1982	100	9,200	98.4	99.0
41	Karjaan Ratakatu 59 Koy	Ratakatu 59	10320 KARJAA	1993	100	3,100	100.0	100.0
42	Duo					13,000	94.4	97.3
	Hervannan Liikekeskus Oy	Insinöörinkatu 23	33720 TAMPERE	1979	75	4,700		
	Tampereen Hermanni Koy	Pietilänkatu 2	33720 TAMPERE	2007	100	8,300		
43	Kiinteistö Oy Keijutie 15	Keijutie 15	15700 LAHTI	1975	100	7,200	100.0	100.0
44	Koskikara					5,800	97.6	98.4
	Valkeakosken Liikekeskus Koy	Valtakatu 9-11	37600 VALKEAKOSKI	1993	25	1,500		
	Valkeakosken Torikatu 2 Koy	Valtakatu 9-11	37600 VALKEAKOSKI	1993	100	4,300		
45	Koskikeskus					26,100	96.7	98.4
	Tampereen Koskenranta Koy	Hatanpäänvaltatie 1	33100 TAMPERE	1988/1995	64	10,700		
	Tampereen Hatanpää Koy	Hatanpään Valtatie 1	33100 TAMPERE	1988	100	7,000		
	Tampereen Suvantokatu Koy	Hatanpään Valtatie 1	33100 TAMPERE	1988	100	8,400		
46	Kotkan Keskuskatu 11 Koy	Keskuskatu 11	48100 KOTKA	1976	100	4,300	100.0	100.0
47	Kuopion Kauppakatu 41 Koy	Kauppakatu 41	70100 KUOPIO	1977	100	11,200	96.7	98.5
48	Kuusankosken Kauppakatu 7 Koy	Kauppakatu 7	45700 KUUSANKOSKI	1980	100	2,100	100.0	100.0
49	Lahden Kauppakatu 13 Koy	Kauppakatu 13	15140 LAHTI	1971	100	8,600	100.0	100.0
50	Lentolan Perusyhtiö Oy	Mäkirinteentie 4	36220 KANGASALA	2007	100	11,900	100.0	100.0
51	Lillinkulma Koy	Jännekatu 2-4	20760 PIISPANRISTI	2007	100	7,400	100.0	100.0
52	Linjuri					9,300	91.1	90.7
	Linjurin Kauppakeskus Koy	Vilhonkatu 14	24100 SALO	1993/2007	89			
53	Mäntyvuoksi Koy	Vuoksenniskantie 50	55800 IMATRA	1974	87	1,300	100.0	100.0
54	Naantalin Tullikatun 16 Koy	Tullikatun 16	21100 NAANTALI	1985	100	3,100	12.9	15.3
55	Orimattilan Markkinatalo Oy	Erkontie 3	16300 ORIMATTILA	1983	77	3,500	100.0	100.0
56	Porin Asema-aukio Koy	Satakunnankatu 23	28130 PORI	1957/1993	100	18,900	81.8	89.2
57	Puijonlaakson Palvelukeskus Koy	Sammakkolammentie 6	70200 KUOPIO	1971	31	1,500	100.0	100.0
58	Runeberginkatu 33 Koy	Runeberginkatu 33	06100 PORVOO	1988	100	6,300	100.0	100.0
59	Sampokeskus					14,000	81.9	88.2
	Rovaniemen Sampotalo	Maakuntakatu 29-31	96200 ROVANIEMI	1990	100	12,000		
	Lintulankulma Koy	Rovakatu 28	96200 ROVANIEMI	1989/1990	100	2,000		
60	Kiinteistö Oy Säkyän Liiketalo	Pyhäjärventie	27800 SAKYLA	1969	100	1,200	100.0	100.0

Property	Address		Built in/ renovated in	Holding, %	Citycon's GLA, sq.m.	Occupancy rate, %, sq.m ⁻¹	Occupancy rate, %, EUR ⁻¹
61 Torikeskus	Kauppatori 1	60100 SEINÄJOKI	1992/2007	100	11,500	90.3	92.9
62 Trio					45,700	90.4	95.8
Lahden Hansa Koy	Kauppakatu 10	15140 LAHTI	1992	100	10,700		
Lahden Trio Koy	Aleksanterinkatu 20	15140 LAHTI	1977/1985-1987/1992/2007	90	35,000		
63 Tullintori					10,300	79.4	82.3
Tullintori Koy	Hammarinkatu 2	33100 TAMPERE	1930/1990	57			
64 Vaakalintu Koy	Keskuskatu 15	11100 RIIHIMAKI	1980	96	6,700	100.0	100.0
65 Valtakatu 5-7 Koy	Valtakatu 5-7	37600 VALKEAKOSKI	1938/1992	31	460	100.0	100.0
66 Valtari					7,600	69.6	75.6
Kouvolan Valtakadun Kauppakeskus Koy	Valtakatu 15	45100 KOUVOLA	1971-1975/1994-2002	100			
67 Varkauden Relanderinkatu 30 Koy	Relanderinkatu 28-34	78200 VARKAUS	1990	100	8,200	100.0	100.0
67 Finland total					600,750	91.9	95.7

The Baltic Countries

Estonia

1 Rocca al Mare					36,700	100.0	100.0
Rocca al Mare Kaubanduskeskuse AS	Paldiski mnt. 102	13522 TALLINN	1998/2000/2007	100			
2 Magistral					9,500	98.9	98.7
Magistral Kaubanduskeskuse Oü	Sõpruse pst 201/203	13419 TALLINN	2000	100			

Lithuania

3 Mandarinas					8,000	100.0	100.0
UAB Prekybos Centras Mandarinas	Ateities g. 91	06324 VILNIUS	2005	100			
3 The Baltic Countries total					54,200	99.8	99.8

Sweden

Stockholm Area and Umeå

1 Åkersberga Centrum					33,100	97.3	97.3
Åkersberga Centrum AB	Storängsvägen	18430 ÅKERSBERGA	1985/1995/1996	75			
Fastighets AB Fartyget i Åkersberga	Storängsvägen	18430 ÅKERSBERGA	1985/1995/1996	75			
2 Åkermyntan Centrum					8,400	89.6	84.3
3 Kallhäll	Skarprättarvägen 36-38	17677 JARFALLA	1991	100	3,500	100.0	100.0
4 Jakobsbergs Centrum					67,400	92.9	96.1
Jakobsbergs Centrum Fastighets AB	Tornérplatsen 30	17730 JARFALLA	1959/1993	100			
Jakobsbergs Centrum Galleria AB	Tornérplatsen 30	17730 JARFALLA	1959/1993				
Jakobsberg 565 Fastighets AB	Tornérplatsen 30	17730 JARFALLA	1959/1993				
5 Fruängen Centrum					14,600	90.6	93.8
6 Liljeholmstorget					20,200	100.0	100.0
Liljeholmsplan Fastighets AB	Liljeholmstorget 7	11763 STOCKHOLM	1973/1986	100			
7 Strömpilen					25,700	95.3	97.8
8 Länken	Gräddvägen 1	90620 UMEÅ	1978/2004/2006	75	7,300	100.0	100.0
9 Tumba Centrum					31,400	98.1	94.8
Tumba Centrumfastigheter Aktiefbolag	Tumba Torg 115	14730 BOTKYRKA	1954/2000	100			

Property	Address		Built in/ renovated in	Holding, %	Citycon's GLA, sq.m.	Occupancy rate, %, sq.m ¹⁾	Occupancy rate, %, EUR ¹⁾
Gothenburg area							
10 Stenungs Torg					37,600	96.2	96.6
Stenungs Torg Fastighets AB	Östra Köpmansgatan 2-16, 18A-C	44430	STENUNGSUND	1967/1993	70		
11 Backa	Backavägen 3-5	41705	GÖTEBORG	1990	100	7,800	77.9
12 Floda	Rurik Holms väg	44830	FLODA	1960/1990	100	11,400	91.0
13 Hindås	Hindås Stationväg 41-47	43063	HINDÅS	1978/1999	100	1,700	93.4
14 Landvetter	Brattåsvägen	43832	LANDVETTER	1975/1988/1999	100	4,800	100.0
15 Lindome	Almåsgången	43730	LINDOME	1974	100	7,800	100.0
15 Sweden total					282,700	94.3	95.5
85 Total all					937,650	93.3	96.0

¹⁾ Formulas are available on pages 54–55.

Valuation Statement

1. Appraisal method

Realia Management Oy has made a valuation of Citycon's property portfolio as at 31st of December 2008. The valuation was carried out as a cash flow analysis of the net operating income for a period of 10-years. For unbuilt lots and for properties affected by significant town plan alterations the market value is defined by the amount of building right in the existing town plan.

1.1 Cash Flow Calculation Method

The year-on-year cash flow was calculated on Citycon's existing leases, upon the expiry of which, the contract rent has been replaced with Realia Management Oy's view of the market rent. Potential Gross Rental Income (PGI) equals leased space with respect to contract rents and vacant space with respect to market rents. Deducting both the market rent for the idle time between the expired contract and assumed new contract, and the assumed general vacancy level, results in the Effective Gross Rental Income. Effective Gross Rental Income less operating expenses (incl. repairs and tenant improvements) equals the Net Operating Income (NOI). NOI less any investment type of repairs (CAPEX) equals the bottom level cash flow that has been discounted (IRR) to reach the present value of the income stream.

The exit value at the end of the valuation period was calculated by capitalizing the 11th year cash flow (base year) with an exit yield. The total value of the property was calculated as the sum of the yearly discounted net income stream, the discounted residual value at the end of the calculation period and any other value added assets such as unused building rights or unbuilt lots.

All variables were estimated based on

Realia Management's market observations, such as transactions, rental levels and other observations. All of this was done in close cooperation with Citycon's property management, where Realia Management used its objective veto on the data provided.

1.2 Market Analysis

Growth in the world economy slowed more abruptly than expected during the autumn of 2008. The gross domestic product has contracted in the US, the Euro zone, Sweden and in Japan, and the outlook for the world economy in 2009 is largely thought of as being rather bleak. In Finland, where domestic demand, consisting of both investment and consumption, has so far kept the economy afloat, forecasts for the short term are also bleak. Finnish economic growth is expected to gradually grind to a halt and turn negative during 2009. The employment rate will also see a fall, but, on the positive side, purchasing power is forecast to increase due to tax reductions and abating inflation.

As the economy deteriorates, central banks have cut their rates with exceptional aggressiveness and swiftness. The ECB cut its base rate by half a percentage point in November, and, in December, by a record breaking 0.75 percentage points. At the turn of the year, ECB's base rate was at 2.5 percent, but a further cut is expected in January 2009. In a similar manner, the Bank of England and the central bank of Sweden have resorted to exceptionally aggressive rate cuts. Following base rates, market rates have also fallen rapidly towards the end of the fall, 2008.

Consumer confidence had remained above its long term average, and also above European

average, between 2002 and 2007. However, during 2008, confidence began to decline rapidly.

1.3 Property Market Analysis

Real property investment transaction volume first began to decline during summer 2007, due to the credit crisis unfolding in the USA. However, the real crash in volume was felt during the first two quarters of 2008 when transactions ground to a halt.

The reasons behind the reduction of transaction volume are pan-European. The views on property values still differ significantly between the buying and selling parties. In addition, credit availability has suffered tremendously during year 2008, with financing costs rising and interest margins widening considerably. The market positioning of capital intensive investors has improved in conjunction with the changes in the financing market. In the boom years of cheap credit, institutions were largely taking part in the property market indirectly, mostly through funds. However, during 2009, it is expected that e.g. pension and insurance companies will considerably increase their direct investments in property when compared to the last few years. There have been signs of this development at the turn of the year, when the buyer had been a domestic institution in practically all the Finnish transactions.

When talking about market change, one must keep in mind that so far the market disturbances have almost entirely stemmed from the investment market. The user market has held up remarkably well, and, so far, no discernable changes have been detected in vacancy rates or rent levels, for example. The drop in market value of properties has been caused specifically by changes in yield requirement, not rental levels. Then again, the risks of disturbances also in the occupant market have increased substantially. Rental levels in retail premises have risen to a rather high level as the economy expanded. In case

of a change in consumer behaviour, as predicted by the consumer confidence index, downward pressure on rent levels may become relevant. In addition, retail vacancy rates have remained very low for a long time and new premises have been built at an ever increasing pace recently. The risk is that in a downturn, retail occupancy rate will also take a turn for the worse. Some relief to this situation comes from the fact that many of the unveiled plans for large scale shopping centre projects have been postponed for now, or even cancelled altogether. Of different asset classes grocery stores and shopping centres in good and traditional retail locations and with a good mix of different tenants will most likely prove to be most defensive in declining economical environment.

1.4 Development Projects

Some development projects were valued by using a separate project model. This model is only used in a project accompanied by: 1) a Citycon's board decision, and 2) enough information for a reliable valuation. Such information includes e.g. an extensive project plan, several new rental agreements, future investments, etc. The appraiser makes the final decision on the use of the model.

The project model is a 10-year cash flow model which also takes the projects' future investments and changing cash flows into consideration. It includes present cash flows up to the end of the development phase and future cash flows after the development.

The project model was used in the valuation of one property in this quarter. The property was the shopping centre Rocca Al Mare in Tallinn. In other potential development assets the valuation was based on current situation and properties were evaluated based on the current rental situation and current allocation of premises. If necessary future development potential has been taken into account, in the form of expected cash flow increase or in the value of unused building

rights. At the same necessary costs for development have been added as investment costs in the calculation.

All undeveloped lots or those under development were evaluated based on their current zoning and the amount of unused building right. The value in each case was set based on market observations of similar lots.

2. Results

The portfolio consists of a wide range of properties with different market values and varying in quality. The value of the total portfolio is calculated as the sum of the individual properties. A separate portfolio premium has not been applied. In the sections below we have presented the valuation result on a total and portfolio level. The different portfolios have been further grouped based on their geographical locations.

Citycon primarily owns retail properties. Only in a few selected properties the main use is other than retail. A large majority of portfolio value is in shopping centres. Especially in Finland Citycon has a strong position in the shopping centre market by owning five of the 20 largest shopping centres and having 22 properties which have been classified as shopping centres.

Citycon has announced that its strategic focus is the development of existing property volume. Especially in HMA, Citycon owns several shopping centres and retail premises in the suburbs. Examples are, the Myllypuro, Martinlaakso and Laajasalo retail properties. In these properties, it is expected that there will be major development and reworking of town plans in the coming years. This often means the demolishing of old buildings and building new ones from the ground up. These properties are always evaluated on a case by case basis. In case a new, updated town plan is enforced, and as a result the schedule for the development becomes clear, the valuation will take the building right into account, or if nec-

essary, the valuation will be done through the so-called development model cash flow analysis.

Several retail properties, both in Finland and Sweden, have either major development plans or considerable potential for development. These properties include e.g. Tumba, Åkersberga, Koskikeskus, Iso Omena and Isokristiina. The development of these properties is always considered on a case by case basis, often advancing in phases. This type of development is taken into account in valuation when credible plans exist and there is evidence of high likelihood for letting. In appraisal, the development potential signifies a potential increase in rental income levels through an increase in average rent or by an increase in the lettable floor area, which require investment for realization and a feasible construction or development time frame. The market value of the portfolio in total has been calculated at EUR 2.021 billion.

3. Sensitivity analysis

The sensitivity analysis of the fair value of the portfolio was tested by creating a so-called portfolio cash flow statement based on individual cash flow calculations. Changes in fair value have then been examined by modifying key input parameters of the calculations one at a time. The parameters tested were required yield, market rent level, operational costs and vacancy rate. The current market value of the properties is used as a reference for the analysis. The analysis is performed by changing one parameter at a time while all others remain unchanged and calculating the corresponding market value of the total portfolio. The sensitivity analysis is a simplified model intended to facilitate understanding of the effect of different parameters on portfolio valuation.

The results indicate that the market value is most sensitive to yield requirement and market rent levels. A ten percent decrease in yield requirement results in an approximately 11 percent increase in value. Correspondingly, a ten per-

cent increase in rental income increases the value by approximately 14 percent.

The value is not as sensitive to changes in the levels of expenses or long term vacancy. A ten percent increase in the expenses decreases the market value of portfolio by ca. four percents. It should also be noted that in retail premises the rental levels and expenses levels have a connection as the rental level increases if expenses increase via the maintenance rent charged from tenant. This connection is not comprehensive, but still strong enough to decrease the expenses risk in the valuation.

The effects of changes in the vacancy rate are not studied on a similar scale as other parameters – vacancy level is altered by 50 or 100 basis points at a time. Therefore the relative change is higher than 5 and 10 percent at a time as is the case in other parameters. Still the effect of changes in the vacancy level is smaller than in the other parameters – a change of 100 basis points (one percentage point) in the vacancy level alters the value of portfolio by less than two percent.

