

Citycon Q1: Good start to the year – EPRA Earnings growth fuelled by Sweden and Norway

Citycon Oyj Interim Report 20 April 2017 at 09:00 hrs

JANUARY—MARCH 2017

-Net rental income increased to EUR 56.6 million (Q1/2016: 55.2) mainly due to (re)development projects coming online (mainly Iso Omena) and the acquisition of the adjacent building to Citycon's Oasen shopping centre in Bergen, Norway. In addition, positive like-for-like growth contributed to net rental income growth by EUR 0.5 million. The non-core property divestments in 2016 and 2017 decreased net rental income by EUR 2.0 million.

-EPRA Earnings increased by EUR 2.4 million, or 6.6%, to EUR 38.3 million, especially due to the growth in net rental income and lower direct administrative expenses. EPRA Earnings per share (basic) increased to EUR 0.043 (EUR 0.040).

-Earnings per share decreased to EUR 0.03 (0.06) mainly due to lower fair value gains.

KEY FIGURES

		Q1/2017	Q1/2016	%1)	2016
Net rental income	MEUR	56.6	55.2	2.5	224.9
Direct operating profit ²⁾	MEUR	50.3	47.9	5.0	198.5
Earnings per share (basic)	EUR	0.03	0.06	-50.3	0.18
Fair value of investment properties	MEUR	4,447.3	4,079.1	9.0	4,337.6
Loan to Value (LTV) ²⁾	%	47.1	45.0	4.8	46.6
EPRA based key figures²⁾					
EPRA Earnings	MEUR	38.3	36.0	6.6	151.1
EPRA Earnings per share (basic)	EUR	0.043	0.040	6.6	0.170
EPRA NAV per share	EUR	2.83	2.78	1.7	2.82

1) Change from previous year. Change-% is calculated from exact figures.

2) Citycon presents alternative performance measures according to the European Securities and Markets Authority (ESMA) guidelines. More information is presented in Basis of Preparation and Accounting Policies in the notes to the accounts.

CEO, MARCEL KOKKEEL:

Citycon had a good start to the year 2017. The Swedish and Norwegian portfolio showed continued strong performance, while the ongoing (re)developments and performance of the non-core properties weighted negatively on the Finnish like-for-like results. Overall, like-for-like net rental income growth including Kista Galleria (50%) totalled 1.1%.

The outlook for the Finnish economy is gradually improving. We have seen leasing demand increasing for our assets in the Helsinki area, including our large (re)development projects, whereas we still expect some pressure on rental levels in other parts of Finland. The second phase of the Iso Omena extension will open on 20 April almost fully leased. With the opening of the new extended M.E.E.T restaurant concept, seven-screen cinema and Espoo's first Zara, Iso Omena has become the natural heart of Espoo and one of the leading shopping and leisure destinations in the Helsinki area.

In 2017, Citycon's focus will remain on operational improvement and upgrading the portfolio quality via asset rotation and (re)developments. Since the strategy update in 2011, Citycon has divested 52 properties for a total value of EUR 400 million and we aim to expedite further capital recycling. As previously communicated, our plan is to divest EUR 200–250 million of non-core assets, mainly in Finland, within the coming 1.5 years. Additionally, we have identified further potential to recycle capital in Norway and plan to divest smaller, non-urban Norwegian assets for up to EUR 200-250 million over the next three years.

BUSINESS ENVIRONMENT

There were no major changes in Citycon's macroeconomic environment during the first quarter of 2017. The Finnish economy grew last year at its fastest pace in five years and the economy is expected to continue to grow. Other Citycon's operating countries are expected to show positive economic development for the on-going year: the business environment in Sweden, Estonia and Denmark remains strong or relatively strong and the Norwegian economy is picking up momentum.

According to the European Commission (forecast), GDP growth for the Euro area in 2017 is expected to be approximately 1.6%. Sweden and Estonia are showing stronger growth figures than the Euro area average and Denmark is in line with the Euro area forecast, while the GDP growth for Finland and Norway is expected to be slightly lower than the Euro area average. Overall the GDP growth is expected to gradually converge in Citycon's operating countries.

Business environment key figures

%	Finland	Norway	Sweden	Estonia	Denmark	Euro area
GDP growth forecast, 2017	1.2	1.2	2.4	2.2	1.5	1.6
GDP growth forecast, 2018	1.5	1.5	2.1	2.6	1.8	1.8
Unemployment, Feb 2017	8.7	4.2	6.8	5.8	6.4	9.5
Retail sales growth, Jan-Feb 2017	1.1	1.7	0.7	1.0	-1.8	1.8

Sources: European Commission, Eurostat, Statistics Finland/ Norway/Sweden/ Estonia/ Denmark

The unemployment decreased in Sweden, Estonia and Norway during the first quarter of 2017, but increased slightly in Denmark. In Finland

the unemployment has remained unchanged during the reporting period. The unemployment rates in all of Citycon's operating countries remained below the Euro area average (9.5%). For the first two months retail sales growth has been positive in Finland, Norway, Sweden and Estonia, while Danish retail sales has been negative. (Source: Statistics Finland/Norway/Sweden/Estonia/Denmark)

In Sweden, Finland and Denmark the consumer confidence levels during the reporting period have continued a positive trend. The consumer confidence in Estonia and on average in the Euro area is still negative. (Source: Eurostat) Consumer prices have increased in all of Citycon's operating countries during the reporting period, and also in the Euro area generally. In Norway, Sweden and Estonia the consumer prices have increased faster than the Euro area average. (Source: Statistics Finland/Norway/Sweden/Estonia/Denmark)

In Finland, prime shopping centre rents have stayed unchanged quarter-to-quarter and are forecast to remain stable or increase slightly in 2017. In Norway, prime rents are forecast to remain unchanged. In Sweden, prime shopping centre rents have increased marginally over the quarter while in Estonia rents have decreased by 1% quarter-to-quarter. A slight decrease is forecasted to continue in Estonia in 2017 due to intensifying competition. (Source: JLL)

In Finland, the demand for core properties remains strong and the demand for secondary properties has also increased. In Norway, the investment demand continues strong but some upward pressure on yields may be expected. In Sweden and in Estonia, the prime shopping centre yields have stabilized. (Source: JLL)

RISKS AND UNCERTAINTIES

The most significant near-term risks and uncertainties in Citycon's business operations are associated with the general development of the economy and consumer confidence in the Nordic countries and Estonia as well as how this affects the fair values, occupancy rates and rental levels of the shopping centres and thereby Citycon's financial result. Especially a slower economic recovery in Finland could hamper the achievement of the set financial objectives.

The main risks that can materially affect Citycon's business and financial results, along with the main risk management actions, are presented in detail in Note 3.5 A) and on pages 73-74 in the Financial Statements 2016 as well as on Citycon's website in the Corporate Governance section. No material changes are estimated to have taken place during the first quarter of the year in the risks described.

DIVIDEND AND EQUITY REPAYMENT

Citycon's dividends and equity repayments in 2017:

Dividends and equity repayments paid on 31 March 2017¹⁾	Record date	Payment date	EUR / share
Dividend for 2016	24 March 2017	31 March 2017	0.01
Equity repayment Q1	24 March 2017	31 March 2017	0.0225
Remaining Board authorisation for equity repayment²⁾	Preliminary record date	Preliminary payment date	0.0975
Equity repayment Q2	22 June 2017	30 June 2017	
Equity repayment Q3	22 September 2017	29 September 2017	
Equity repayment Q4	14 December 2017	29 December 2017	

1) Board decision based on the authorisation issued by the AGM2017.

2) The AGM2017 authorised the Board of Directors to decide in its discretion on the distribution of dividend and assets from the invested unrestricted equity fund. Based on the authorisation the maximum amount of dividend to be distributed shall not exceed EUR 0.01 per share and the maximum amount of equity repayment distributed from the invested unrestricted equity fund shall not exceed EUR 0.12 per share. Unless the Board of Directors decides otherwise for a justified reason, the authorisation will be used to distribute dividend and/or equity repayment four times during the period of validity of the authorisation. In this case, the Board of Directors will make separate resolutions on each distribution of the dividend and/or equity repayment so that the preliminary record and payment dates will be as stated above. Citycon shall make separate announcements of such Board resolutions.

OUTLOOK

Citycon forecasts the 2017 Direct operating profit to change by EUR -7 to 12 million and EPRA Earnings to change by EUR -13 to 5 million from the previous year. Additionally, the company expects EPRA EPS (basic) to be EUR 0.155–0.175.

These estimates are based on the existing property portfolio as well as on the prevailing level of inflation, the EUR—SEK and EUR—NOK exchange rates, and current interest rates. Premises taken offline for planned or ongoing (re)development projects reduce net rental income during the year.

Financial calendar

Citycon will issue a half-year financial report and interim report of the third quarter in accordance with the following schedule:

January–June 2017 on Thursday, 13 July 2017 at about 9:00 a.m.

January–September 2017 on Thursday, 19 October 2017 at about 9:00 a.m.

Helsinki, 19 April 2017

Citycon Oyj
Board of Directors

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Citycon is an owner, developer and manager of urban grocery-anchored shopping centres in the Nordic and Baltic region, managing assets that total EUR 5 billion and with market capitalisation of EUR 2 billion. Citycon is the No. 1 shopping centre owner in Finland and Estonia and among the market leaders in Norway and Sweden. Citycon has also established a foothold in Denmark.

Citycon has investment-grade credit ratings from Moody's (Baa1) and Standard & Poor's (BBB). Citycon Oyj's share is listed in Nasdaq Helsinki.

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