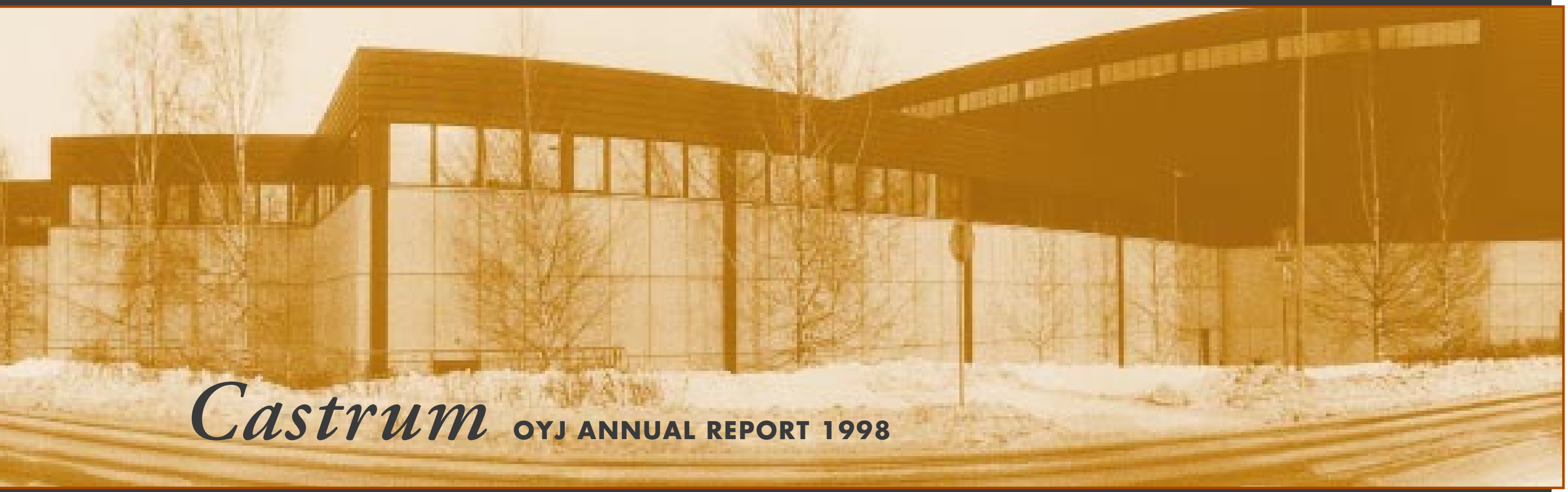

Castrum OYJ ANNUAL REPORT 1998

CONTENTS

CHIEF EXECUTIVE'S REVIEW

HANNU PARIKKA, CEO

1998 represented a turning point for Castrum. For years Castrum had concentrated on raising its financial performance and developing its existing property portfolio. External business conditions largely dictated what the company could and could not do.

A couple of years ago we began to securitize our property portfolio and this gradually created the framework and conditions for broader development of the company's operations. At the end of 1997 - while my predecessor was still in office - the company had formulated a business strategy to match the new operating environment and we were able to begin full implementation of this strategy during 1998.

From the shareholders' perspective, the most important goal we achieved during the year was focusing of the company's operations on ownership and leasing of warehouse and logistics properties and light industrial premises. Castrum is the only company in the Nordic countries specializing in this sector. This focus becomes all the more interesting when it is remembered that this is a well-recognized and successful sector in the REIT markets in the USA.

Castrum's most important strategic goal last year was to substantially increase its property assets and to broaden its ownership base. A typical feature of property development companies is their large number of stakeholders: property owners and sellers, financiers, investors, shareholders, tenants and officials. Reaching final agreements with all these parties simultaneously demands the reconciliation of many viewpoints before the project can be brought to a conclusion. The decisions are of great importance to each party; they are often unique and have far-reaching consequences.

During 1998 Castrum succeeded in reconciling the needs of its various stakeholders by the end of the year even better than its targets required. This would not have been possible, however, without the negotiating skills of the various parties and a common will to succeed. For this I should like to thank all the contracting parties, the experts involved and Castrum's own staff, who spared no effort in resolutely and unselfishly setting Castrum on its new course.

The most important factors affecting Castrum's future and financial performance in the agreements are as follows. The company's capital structure has been strengthened, the balance sheet has more than doubled in size to approximately FIM 1.3 billion, and the company's equity ratio has risen from 21 per cent to 43 per cent. The old financing agreement has been terminated and its loans repaid. New long-term financial agreements lay the foundation for developing our operations and ensuring stable performance. Moreover, our broader ownership base also creates the conditions for better share liquidity and thereby an increase in share value corresponding to the company's actual net worth.

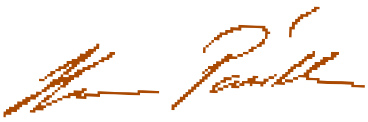
Our chosen line of development is already yielding results. In 1998 the company posted a profit before depreciation of FIM 14 million, whereas four years earlier the result of operations was a loss of similar proportions.

Our customers' attitudes have also changed along with our new business strategy. Active property ownership makes it essential for us to understand our customers' needs. This is not a matter of passive knowledge but of unceasing monitoring of their changing needs and finding appropriate solutions to meet them. We must be able to respond rapidly and actively to companies' requirements for business premises and also to operational and quantitative changes. We can only do this if our staff have a thorough understanding of their customers' business processes and though networking with our business partners.

Castrum's goal is to increase its solvency during the next two years by selling off several of its remaining non-core properties. We also intend to broaden our ownership base further and consolidate our property portfolio by acquiring new properties which fall within our focus. We will do this mainly though capital contributions so that by the end of the year 2000 our balance sheet will total more than FIM 2 billion.

Our current owners are committed for their part to selling 25 per cent of their shares according to a plan which we will put into effect during the spring of 1999. This will increase the number of owners in the company and thereby improve the liquidity of the Castrum share.

The decisions we made in 1998 have not only virtually recreated Castrum and met the targets of our financiers; they have also set us on course for profitable performance and a healthy dividend policy. Our intention is to distribute a dividend of 50 - 90 per cent of the company's result of operations, starting in 1999.



HANNU PARIKKA

BUSINESS OPERATIONS

Castrum Oyj is a Finnish real estate investment company that focuses on owning and leasing properties for warehousing, logistics and light industry. It is the only company operating in this specialized sector in the Nordic countries. Castrum offers its tenants a diversified range of premises and services for upgrading, outfitting, packing and storing products.

The balance sheet value of Castrum's real estate assets amounted to FIM 562 million at 31 December 1998. The company owned 20 properties with a total area of 115,000 m^2.

The real estate transactions enacted on 4 February 1999 increased the value of Castrum's property assets to app. FIM 1.3 billion and boosted the total area of Castrum's properties to some 400,000 m^2. The number of properties rose to 59. Most of Castrum's properties are situated in centres of growth in Finland close to main traffic arteries.

After the acquisitions in February 1999, 74 per cent of Castrum's property portfolio is situated in Greater Helsinki and other growth centres in Finland. Some 16 per cent of the properties are located in the Tampere region and about 2 per cent in the Oulu region. Around 8 per cent of Castrum's property portfolio is located elsewhere in Finland, primarily in logistics centres.

Contracts made with investors in conjunction with the acquisitions in February 1999 will increase Castrum's shareholders' equity from FIM 121 million to at least FIM 561 million. These will also increase Castrum's equity ratio from 21 per cent to at least 43 per cent.

REAL ESTATE

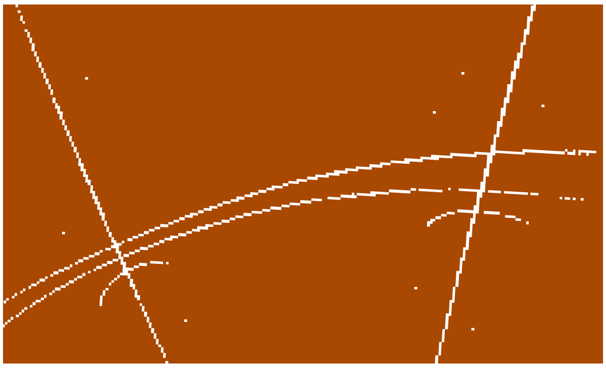
The properties owned by Castrum are easily adaptable to the needs of individual tenants. This flexibility allows the investment risk to be spread over different industrial sectors.

CASTRUM'S FOCUSED BUSINESS OPERATIONS

Castrum is Finland's leading real estate investment company specializing in owning and leasing properties for warehousing, logistics and light industry. Due to the focus Castrum knows the real space requirements of its customers and can offer solutions to satisfy them. This founds the basis for a long-term customer relationship and gives the preconditions to increase business together.

On following spreads four properties are presented together with their different stories of Castrum's ways of developing the premises.

LOCATION OF PROPERTY SITES IMPORTANT



Castrum has focused on Finnish centres of growth in the Greater Helsinki, Tampere, Turku and Oulu regions and on selected growth and skill centres for logistics in other areas. Most of the properties are situated close to main traffic arteries.

Castrum's real estate can be categorized into three main groups: properties for warehousing, logistics and light industry. Although the different types of properties owned by Castrum are not easy to categorize precisely, they have some definitive features.

Warehousing properties are easily accessible and are suitable for the importing, temporary storage and onward distribution of goods.

Logistics properties are suitable for upgrading and adding value to products - for instance, by changing packaging sizes, providing extra accessories or fittings, or meeting maturity or preservation requirements - in addition to normal storage.

Properties for light industry are suitable for adding more value to products, either through research and development or through light manufacturing processes.

Castrum's real estate investment policy is to acquire properties that with minor modifications tailored to the individual tenant can be adapted to a range of different uses. Such modifications enable the properties to be modernized and refurbished in line with the tenant's evolving needs.

Upgrading and refurbishment of properties also increases the level of their rental revenues. This is the case when warehousing properties are converted into logistics premises, and again when these are further converted into industrial premises.

The tenants of Castrum's properties are companies that need or provide warehousing and logistics services, and companies in light industries that need modern, effective and customized business premises. The diversified client base shields Castrum's business operations from fluctuations in the business cycles of individual industrial sectors.

KOY Lasilan Liiketalo, Vitikka 6, Espoo

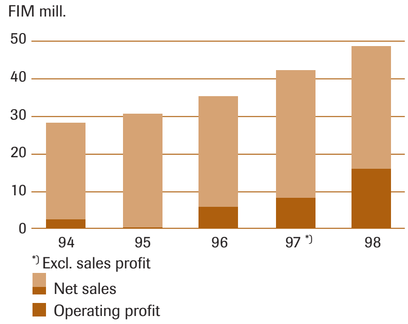
The real estate company Lasilan Liiketalo located in Kilo of Espoo is a warehousing property. Last year the original part was renovated and a new part built. The space is designed for basic warehousing taking into account the needs of modern warehouse operations.

It has a good location close to the Turku motorway and the soon to be ready Circle II. The property is easy to reach from all directions. It is also easy to spot from the Turku motorway.

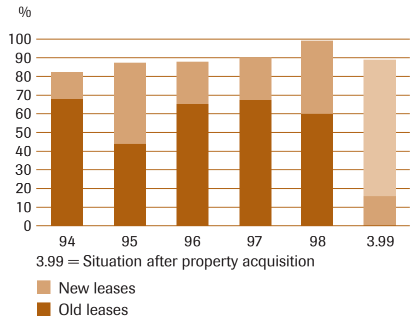
The clear layout enables also other ways to utilize the space than warehousing. It is well suited for light industrial activities or warehouse stores.

The site is under lease negotiations for the time being. Castrum aims to find a customer with space needs matching the property's possibilities.

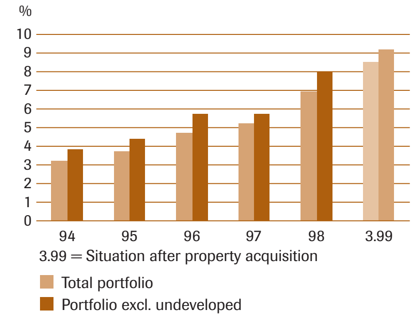
TURNOVER AND NET OPERATING PROFIT



OCCUPANCY RATE



NET YIELD OF PROPERTY PORTFOLIO



Since the acquisitions in February 1999, Castrum's largest clients have been Alko Oy, Nokia Telecommunications Ltd, Combitrans Oy, Tamro Oyj, ASG European Road Transport Oy, Oy Hobby Hall Ab, Kvaerner Pulping Oy, LP-Logistics Services Ltd, Oy Lindell Ab, AW-Store Oy, Berendsen PMC Oy Ab, Oy Esmi Ab, Wilson Finland Oy, Oy Nielsen Global Freight Corporation, Oy Tecalemit Ab, Merita Bank Plc, Novart Oy, Kesko Oyj, Valmet Plc, Valio Ltd, Patria Finavitec Oy and BDN Cargo Transport Oy.

PROPERTY MAINTENANCE

Castrum's technically trained in-house personnel are responsible for the management, financial supervision and maintenance of all Castrum's properties. The daily care, maintenance and monitoring of technical utilities, however, are outsourced to property management companies. This creates a good framework for up-to-date management of the rapidly developing real estate business.

Property management companies are responsible for utilizing information technology (IT) systems in monitoring the condition and costs of properties. Castrum has concentrated on managing the marketing of and revenue from leases.

Castrum aims to optimize the rental revenue of its properties by maximizing volumes, by knowing customers and their markets, and by applying its expertise. Castrum's specialized in-house sales team is responsible for leasing properties and collaborates with Huoneistomarkkinointi Oy, Catella. Local partners also assist Castrum in regional growth centres.

BUSINESS STRATEGY

Castrum's target is to be Finland's leading real estate investment company specializing in owning and leasing properties for warehousing, logistics and light industry.

The company has focused on Finnish centres of growth in the Greater Helsinki, Tampere, Turku and Oulu regions and on selected growth and skill centres for logistics in other areas. The growth centres outside the Greater Helsinki area generally contain a substantial amount of real estate

KOY Kuninkaanlinna ja KOY Kuninkaankaari, Heidehofintie 2, Vantaa

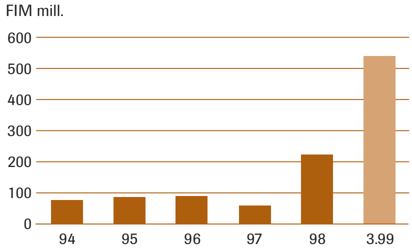
This property in Kuninkaala of Tikkurila is due to its easy access a logistical gem. It can be reached directly from the Circle III through a ramp of its own.

This originally a pharmaceutical warehouse (19,000 m²) is now the operational centre of Alko Oy, including head office as well as the main distribution centre.

Alko moved its warehouse from Salmisaari to Kuninkaala in 1995. In the next stage the purchase and sales operations moved into office premises rebuilt from warehousing space. In March 1999 all head office functions moved into its newly built office building.

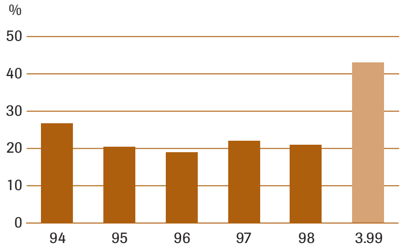
This property is a good example of how a property can be developed according to the needs of the tenant by utilizing undeveloped space among other things.

LEASES, TOTAL VALUE



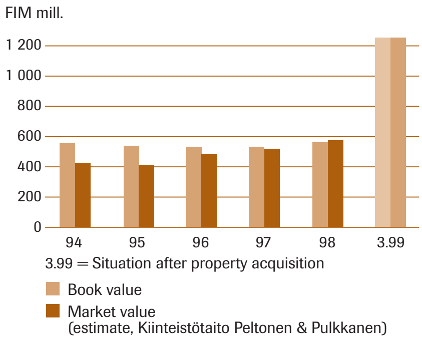
3.99 = Situation after property acquisition

SOLIDITY



3.99 = Situation after property acquisition

PROPERTY VALUATION



3.99 = Situation after property acquisition that could produce higher revenues if managed and marketed better than at present.

Castrum aims to establish a property portfolio with a market value high enough to safeguard the profitability of the company's operations in each centre of growth.

Castrum's focus on properties for warehousing and logistics keeps real estate servicing and repair costs at a reasonable level because maintenance of large premises is relatively cheaper per square metre than for real estate split into small units. Centralized operation also achieves savings in marketing costs. Castrum still owns property worth some FIM 80 million that does not fall within its core business area. The plan is to dispose of most this property over the next three years.

CASTRUM'S PROPERTY PORTFOLIO

The value of Castrum's real estate assets rose from FIM 580 million to some FIM 1.3 billion as a consequence of the acquisitions on 4 February 1999.

Castrum's property portfolio after the February 1999 acquisitions comprises 59 properties situated in Greater Helsinki, the Tampere and Oulu regions and in other growth and skill centres for logistics in Finland. The properties are mainly premises for warehousing, logistics and light industry.

The graphs on this and the next spread provide more detailed information about Castrum's property portfolio. The information given includes the acquisitions made on 4 February 1999.

Approximately 60 per cent of the properties were built during the 70s and 80s, not quite 10 per cent during the 50s or earlier and a good 10 per cent in the 90s. Regardless of their age, however, the buildings are continuously serviced, maintained, repaired and upgraded.

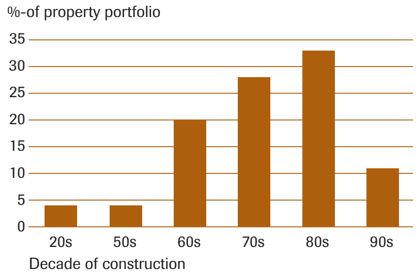
In line with the company's strategy over 90 per cent of its property portfolio is situated in the three largest growth centres in Finland: the Greater Helsinki, Tampere and Oulu regions.

Large properties can be managed appre-

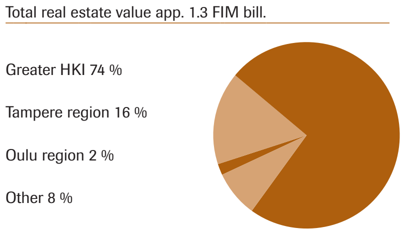
KOY Vantaan Köysikuja 1, Vantaan Hämevaara
This property originally built as a production facility of wires located in Hämevaara of Vantaa stands on a site of app. five hectares. Today it is a complex of 12,500 m² consisting of warehousing, terminal and office parts. The property is easy to spot in the junction of Vihdintie and Rajatorpantie.

Together with its present tenant the property was developed into a logistical centre starting in 1995. Today it is an example of a tailor made customer solution that offers the tenant the possibility to continue and develop its operations on a long-term base.

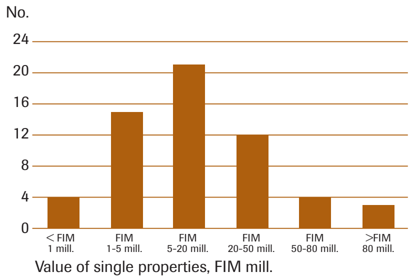
DISTRIBUTION OF PROPERTIES BY AGE



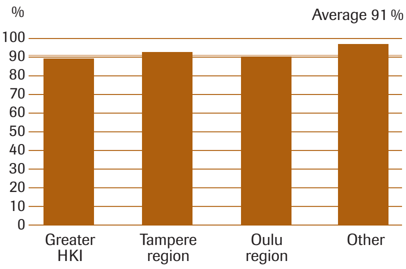
VALUE OF PROPERTIES BY REGION



DISTRIBUTION OF PROPERTIES BY VALUE



OCCUPANCY RATE BY REGION



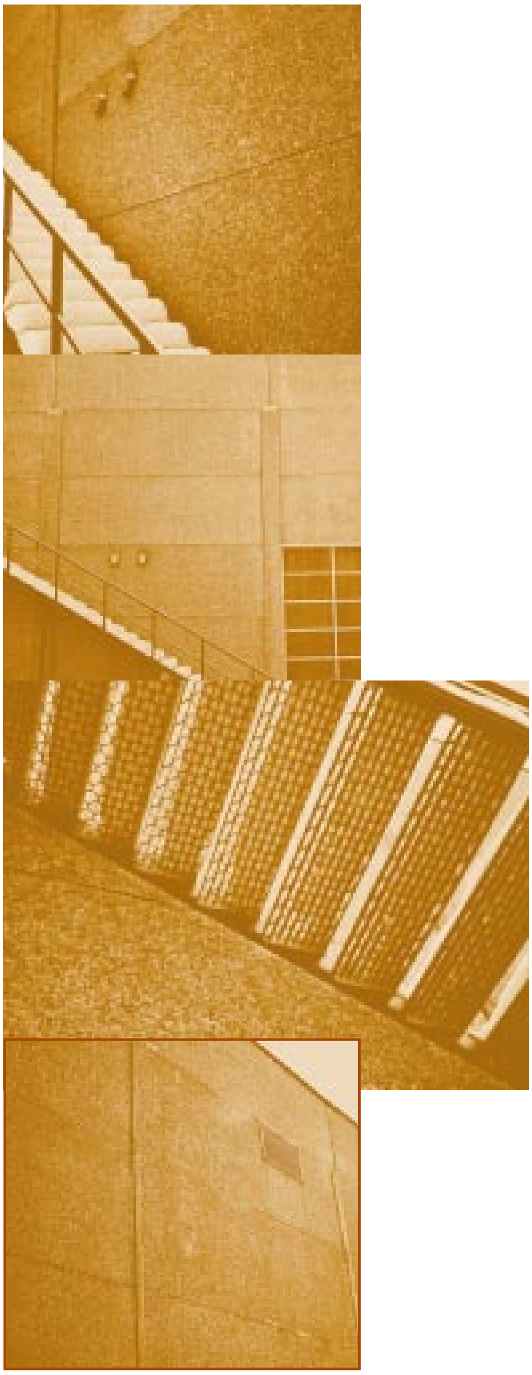
ciably more efficiently than properties of average size. This, combined with their lower costs per leasable square metre and the relatively higher proportion of large properties in the total portfolio, assures a good basic income from the property portfolio. Conversely, small properties allow flexibility and the solutions for the premises they contain can be tailored to the needs of one or two clients. Small properties are also more liquid on the real estate market than larger properties.

The occupancy rate for Castrum's properties is on an average on 91 per cent. Currently most vacant premises, in both relative and absolute terms, are situated in Greater Helsinki. Since there is continuous demand in Greater Helsinki for properties that conform to Castrum's strategy, the company has opportunities for increasing its rental revenues. Demand for leased premises in 'other localities' is not as brisk as in Finland's centres of growth. The occupancy rate in these localities is nevertheless very high.

94 per cent of Castrum's property portfolio represent warehousing, logistics and light industry premises. Logistics premises are partly included in the figures for warehousing premises and partly in the figures for light industry in the table. Undeveloped properties, and offices and commercial premises account for only a small proportion of the property portfolio. It is the company's strategy to realize a substantial number of these properties over the next three years according to drawn plans.

Two thirds of the net returns of Castrum's properties is originated in the Greater Helsinki region and close to a fifth comes from the Tampere region. The net yield of the entire property portfolio is 8.6 per cent, in the Greater Helsinki region the yield is 7.8 per cent and in the Tampere region 9.7.

Half of all leases have lasted from one to five years and every fourth lease from five to ten years, time being weighed by lease payments. The average lease period is for the time being 52 months.



KOY Vantaan Honkanummi,
Vanha Porvoontie 229, Vantaa

Kiinteistö Oy Vantaan Honkanummi is a logistical property located in the middle of the Hakkila industrial area close to the Lahti motorway and Circle III. The area is being developed into a logistical centre, North European Trade Centre.

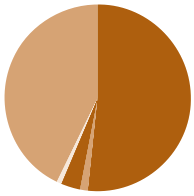
Castrum's properties are centrally located in the NETC area. The property complex consists of warehousing, office and service buildings. Services offered are good and include a canteen, day care centre, meeting room facilities, sauna and a car wash. Warehousing covers app. 16,000 m² and the office premises app. 10,000 m².

The strategy of the North European Trade Centre is to offer well planned premises for the logistical needs of companies and services supporting these functions. Castrum will take an active part in developing the area.

DISTRIBUTION OF LEASED AREA BY USE

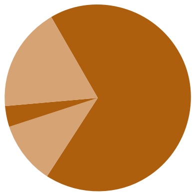
Total area 390 000 sq. meters

Industry (29) 51 %
Warehouses (18) 43 %
Commercial (4) 1 %
Offics (4) 4 %
Undeveloped (4) 1 %
(No. of properties)

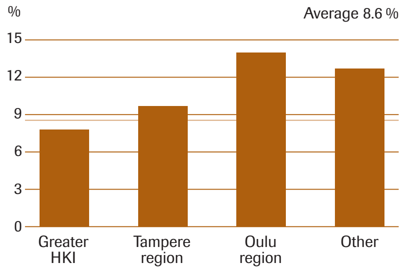


NET OPERATING INCOME FROM PROPERTIES BY REGION

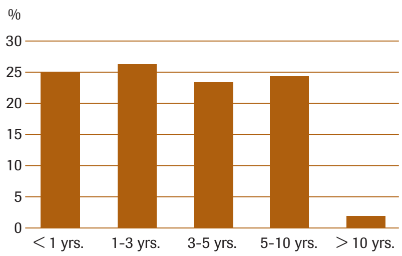
Greater Helsinki 67 %
Tampere region 18 %
Oulu region 4 %
Other 11 %



NET YIELD OF PROPERTIES BY REGIONS



DURATION OF LEASES



Duration of leases weighed by monthly rents

CASTRUM'S PROPERTY PORTFOLIO 1 MARCH 1999

			TOTAL LEASABLE AREA, M²							
PROPERTY	**CITY/TOWN**		**OFFICES**	**COMMERCIAL**	**RESIDENTIAL**	**INDUSTRIAL**	**WAREHOUSES**	**OTHER**	**TOTAL**	**YEAR BUILT**
GREATER HELSINKI										
Hankasuontie 13	Helsinki	U	1 510			1 050	6 240	660	9 460	1961
Haukilahdenkatu 4	Helsinki	U	840			2 234	15	213	3 302	1988
Heidehofintie 2	Vantaa	C	50				10 782	5000	15 832	1981
Heidehofintie 2	Vantaa	C	4 770			1170	11 000	1476	18 416	1982
Hitsaajankatu 8	Helsinki	C	4 470	665			500	21	5 656	1958
Honkanummi [1]	Vantaa	U								
Höyläämötie 12	Helsinki	U	518		54	1 246	87		1 905	1960
Insinöörikatu 2	Helsinki	U	1 023			3 162			4 185	1988
Juvan teollisuuskatu 23	Espoo	U	3 532		110		8 147		11 789	1974
Karapellontie 4 C	Espoo	C	3 381			614	3 601	499	8 095	1961
Kipparikatu 2	Espoo	C		535			264		799	1986
Kirkkoherrantie 6-8	Helsinki	C		196			95		291	1963
Kirkonkyläntie 5	Helsinki	C	1 101	1 051			534		2 686	1989
Köysikuja 1	Vantaa	C	1 300				10 779	706	12 785	1961
Luiskatie 8	Helsinki	U			45	941	72		1 058	1992
Matinpurontie 3	Espoo	U	392				1 907	77	2 376	1974
Melkonkatu 26	Helsinki	U	1 453				3 836		5 289	1982
Mestaritie 6	Vantaa	U	898			2 228	1 404		4 530	1991
Nukarintie 12	Jokela	C				2 853		63	2 916	1917
Olarinluoma 14	Espoo	U	1 900			5 203	60	286	7 449	1987
Ormuspellontie 20	Helsinki	C	115			964			1 079	1974
Purotie 1	Kirkkonummi	U	582			960			1 542	1981
Ruosilantie 14	Helsinki	C	5087				10 884	2 040	18 011	1974
Santaradantie 8	Vantaa	U	179			2 582	119		2 880	1974
Sörnäisten rantatie 33	Helsinki	U				1 532	676	60	2 268	1976
Sörnäisten rantatie 33	Helsinki	C				797			797	1976
Teollisuustie 5	Kauniainen	U	963		59	501	413	67	2 003	1981
Valimotie [1]	Vantaa	C								
Vanha Porvoontie 229	Vantaa	U					17 195		17 195	1971
Vanha Porvoontie 229	Vantaa	U	11 133					3 366	14 499	1971
Verkatehtaankatu	Hyvinkää	U				1 100			1 100	1977
Virkatie 12-14	Vantaa	C	2 850			2 490	12 610	1 350	19 300	1972
Vitikka 6	Espoo	U	254				3 779		4 033	1976
Väinö Tannerintie [1]	Vantaa	C								
Äyrikuja 3	Vantaa	U	1 064				8 165		9 229	1984
TAMPERE REGION										
Etu-Hankkionkatu 1	Tampere	U				41 528			41 528	1961
Huhtakatu 1	Valkeakoski	U				770	156	276	1 202	1969
Naulakatu 3	Tampere	U	4 669	278	70	6 316	3 380		14 712	1983
Pihtisulunkatu 9	Tampere	U	3 040			2 722	384	403	6 549	1990
Rautajalankatu 1	Valkeakoski	U	408			1 834	4 025		6 267	1983
Sarankulmankatu 22	Tampere	U	1 088			5 289		560	6 937	1974
Turkkirata 14	Pirkkala	U			78	4 113	1 154		5 345	1974
Vihiojantie 1	Tampere	U					5 270		5 270	1991
OULU REGION										
Kotkantie 3	Oulu	U	715		81	7 174	187		8 157	1981
Revontie 1	Oulu	U	275		55	1 118	1 030	621	3 099	1963
Tyrnäväntie 6	Oulu	U		1 970			1 145		3 115	1971
ELSEWHERE IN FINLAND										
Bulevardi 15	Hanko	C	212	1 150				56	1 418	1907
Humppilantie 35	Humppila	U	1 445			15 032	1 650		18 127	1968
Keskikankaantie 19	Hollola	U	1 843			1 752	52	94	3 741	1992
Keskikankaantie 9	Hollola	U	3 950			13 770	2 621		20 341	1970
Kouvolantie 225	Nastola	U				12 520			12 520	1961
Matinharjuntie 1	Harjavalta	U			320	1 580			1 900	1955
Mukulakuja 4	Hyrylä	U				1 898	306	36	2 240	1987
Ratakatu 12	Tammisaari	U					1 152		1 152	1983
Takojantie 32	Kotka	U	183				2 212	148	2 543	1980
Takojantie 7	Kouvola	U	160			700		200	1 060	1963
Tehtaankatu 11	Riihimäki	U				2 503			2 503	1990
Varjolanrinteentie	Nastola	U	385			4 010	585		4 980	1981
Vierikuja 7-9	Järvenpää	U	450			1 442			1 892	1986

[1] Undeveloped site

C = Castrum's property portfolio as at 31 December 1998 (excludes two office properties and one undeveloped site sold to companies in the Sponda Group)

U = Properties acquired on 4 February 1999

ENVIRONMENTAL MANAGEMENT

Castrum introduced a new environmental management model in 1998. Developed by the company itself, this model defines the measures necessary for fulfilling the environmental obligations arising from its activities and for preventing environmental risks and impacts. The model is based upon the requirements of the ISO 14001 standard.

Environmental issues are an important part of normal day-to-day property management. Castrum has also participated in RAKLI's development projects in order to assess its environmental responsibilities in anticipation of future challenges. In its environmental activities Castrum's policy is to promote the principle of sustainable development. The company's aim is to raise energy efficiency, reduce water consumption, and sort and recycle waste more effectively to reduce the load on waste disposal sites. In 1998 Castrum recycled 53 per cent of its waste, compared to 29 per cent in the previous year.

ENERGY AND WATER CONSUMPTION

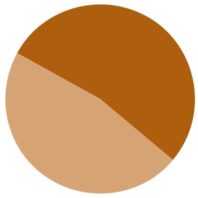
	1998	1997	1996
Thermal energy (standardized, MWh)	15,191	13,601	13,150
Electrical energy (MWh)	7,847	6,716	7,968
Water consumption (m3)	34,177	34,127	38,014

WASTE CATEGORIES

Total 222 tons

Waste for recovery 53 %

Waste for disposal 47 %



Mixed waste 48 %

Waste wood 3 %

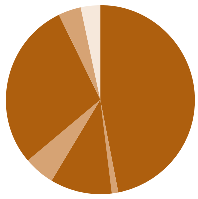
Plastic 4 %

Recycling cardboard 29 %

Office paper 5 %

Recycling paper 10 %

Organic waste 1 %



GROUP STRUCTURE ON 31 DECEMBER 1998

Castrum Oyj is the parent company to the Group and it is responsible for the lease operations. It also owned 17 real estate companies as well as Vedex Oy and Castrum Generator Oy.

Vedex Oy, which is responsible for Group administration, owns 3 real estate companies. Castrum Generator Oy wholly owns 7 real estate companies and has an 85 per cent holding in three other real estate companies. Castrum Generator Oy is responsible for the administration of real estate, such as building management and property maintenance.

CASTRUM OYJ
PARENT COMPANY
ACQUISITIONS AND LEASE OPERATIONS

100 %
CASTRUM GENERATOR OY
ADMINISTRATION OF PROPERTIES

100 %
KIINTEISTÖ OY HELSINGIN KALEVANKATU 30
KIINTEISTÖOSAKEYHTIÖ VANTAAN KÖYSIKUJA 1

JOKELA
KIINTEISTÖ OY TUUSULAN OPINKULMA
KIINTEISTÖ OY TUUSULAN KARTANONMÄKI
KIINTEISTÖ OY TUUSULAN PUISTONREUNA
KIINTEISTÖ OY TUUSULAN NUKARINSUORA
KIINTEISTÖ OY TUUSULAN TÄRKKELYSTEHDAS

85 %
ABG-PROJEKTI
KIINTEISTÖ OY VANTAAN ALFA
KIINTEISTÖ OY VANTAAN BETA
KIINTEISTÖ OY VANTAAN GAMMA

100 %
VEDEX OY
GROUP ADMINISTRATION

100 %
KIINTEISTÖ OY YLÄ-MALMIN TORI 6
KIINTEISTÖ OY KIRKKOHERRANTIE 6-8
KIINTEISTÖ OY
HANGON BULEVARDI 15

100 %
KIINTEISTÖ OY VANTAAN EPSILON
KIINTEISTÖ OY VANTAAN LAMBDA
KIINTEISTÖ OY VANTAAN OMEGA
KIINTEISTÖ OY VANTAAN OMIGRON
KIINTEISTÖ OY VANTAAN ZEETA
KIINTEISTÖ OY POHJOIS-RINTALA
KIINTEISTÖ OY KUNINKAANKRUUNU
KIINTEISTÖ OY KUNINKAANPUISTO
KIINTEISTÖ OY KUNINKAANVALA
KIINTEISTÖ OY KUNINKAANKAARI
KIINTEISTÖ OY KUNINKAANLINNA
KESKINÄINEN KIINTEISTÖ OY
RUOSILANTIE 14
KIINTEISTÖ OY KARAPELLONTIE 4 C
KIINTEISTÖ OY KAPPELITIE 8
KIINTEISTÖ OY TONTTIPAINO
KIINTEISTÖ OY HITSAAJATALO
KIINTEISTÖ OY ORMUSPELLONTIE 20

REPORT BY THE BOARD OF DIRECTORS

BUSINESS CLIMATE

There was significant restructuring of property portfolios during 1998 on the real estate investment market. In all cases the aim, besides securitizing the property portfolios, was to concentrate property holdings on a selected property type or group. The number, and particularly the market value, of real estate investment companies listed on the Helsinki Exchanges increased substantially during the review period.

Numerous new companies specializing in real estate investment were established in 1998 and they all intend to apply for listing on the Helsinki Exchanges. This will have an appreciable impact on the aggregate market value of listed real estate investment companies in Finland.

The buoyancy of the economy was reflected in the occupancy rate for leased premises. In Greater Helsinki the occupancy rate has already risen so high that there is a real shortage of premises available for leasing. Rent levels have risen as well. Quality requirements for business premises have increased in line with the higher level of rents and this has broadened the range of rents.

PROPERTY ASSETS AND INVESTMENTS

The Castrum Group acquired an industrial and warehousing building of approximately 1,100 m^2 in size in the Malmi district of Helsinki during the review period. The price of the property was FIM 3 million. The extensive renovation and modernization of building technology at Kalevankatu 30, started in the summer of 1997, was completed in the summer of 1998. In June 1998 construction of the new head office for Alko Oy at Heidehofintie 2 commenced. The office building will be commissioned in March 1999. Repairs and modifications were made to the warehousing and office building which Alko is already using during 1998, which is situated on the same site. The work was completed in February 1999. The warehousing and industrial property at Heidehofintie 2 was converted into laboratory premises for ACL Oy. The repairs to Karapellontie 4 C were successfully completed and the rest of the premises were commissioned in August 1998. The premises have been leased to Nokia Telecommunications Ltd. Gross investments during the review period amounted to FIM 44.5 million.

During the past year Castrum Oyj has actively focused on expanding its ownership base and increasing its property assets. A Letter of Intent concluded with a number of investors on 30 December 1998 will increase the value of Castrum's property assets to some FIM 1.3 billion.

RENTAL OPERATIONS

The Castrum Group's rental income has shown a marked increase. This is attributable to the higher occupancy rate and level of market rents as well as to active steps taken by the company to boost leasing activities. During 1998 leases were renewed or new leasing agreements were made for a total of some 60,000 m^2, representing annual revenue of about FIM 30 million. The occupancy rate at the end of the review period was 99 (90) per cent.

The total value of leases is an indicator of the total revenue available for the remaining period of existing leasing contracts. At the end of 1998 the total value of the Group's leases amounted to FIM 225.9 (60) million and the corresponding average duration of a contract weighted by the amount of rent was 51.9 (17.1) months.

Contracts were concluded during the review period with Alko Oy, ASG European Road Transport Oy, BDN

Cargo Transport Oy, Combitrans Oy, LP-Logistics Services Ltd, Metsä Tissue Plc, Nokia Telecommunications Ltd, Suomen Keltaiset Sivut Oy and Weilin + Göös Oy.

ORGANIZATION AND AUDITORS

Castrum Oyj's Annual General Meeting of shareholders held on 22 April 1998 decided that the Board of Directors would comprise six members. Mr Juhani Mäkinen, LLM, was re-elected Chairman. Ms Eeva Kemmo, Director of Administration, Mr Matti London, Executive Vice President, Mr Tapio Mansukoski, CEO, Mr Pentti Tarkkanen, Director of Administration, and Ms Helena Walldén, who is also a Branch Manager for OKOBANK, were re-elected to the Board of Directors. At an Extraordinary General Meeting held on 7 October 1998, Mr Juhani Pohjolainen, Executive Vice President, was elected to the Board as a new member.

Mr Tapani Väljä, MSc (Econ), served as the company's CEO until the end of February. The Board of Directors elected Mr Hannu Parikka, MSc, as the company's new CEO with effect from May 1998.

The Annual General Meeting re-elected Authorized Public Accountants KPMG Wideri Oy Ab and Mr Sixten Nyman, APA, as the company's auditors.

GROUP STRUCTURE

The real estate company Kiinteistö Oy Ormuspellontie was merged with the Group during the review period.

At the end of the review period Castrum Oyj was an associated company of the Tamro Group (45.7 per cent of shares and votes).

SHARE CAPITAL AND SHARE PRICE

The company's share capital was FIM 138,421,500 at the start of the review period. The Annual General Meeting authorized the Board of Directors to decide on issuing shares, bonds with warrants or convertible bonds within one year of the date of registration of the authorization. The bonds or shares may be issued on terms decided in more detail by the Board of Directors in one or more lots. However, the total number of shares issued in a rights issue, or through the exercise of bond warrants or conversion of convertible bonds may increase the share capital of the company by at most FIM 27,680,000. Shares may be subscribed using capital contributions. The Board of Directors may disapply shareholders' pre-emptive subscription rights within the limits set by the Companies Act if the company has a compelling financial reason for doing so, such as to acquire other companies or to increase the range of capital financing options.

This authorization was entered in the Trade Register on 9 September 1998. The authorization was not used during the review period. Castrum Oyj's share is listed on the Helsinki Exchanges. Some 910,000 Castrum shares were traded during 1998, representing 6.6 per cent of shares and votes.

FINANCING

The cash flow of the Castrum Group's business operations increased during the review period due to higher rental revenues and lower interest rates. A loan of FIM 35 million was raised in 1998 to finance the building of Alko Oy's head office. The financing agreement concluded between Castrum and its financiers in 1992 to ensure the company's liquidity extends to the end of 1999.

YEAR 2000

The properties owned by the Castrum Group contain elevators, security systems and other computerized equipment and control systems. Computers are also deployed in many of Castrum's business activities. The Group has commissioned independent consultants to ensure that no processes or activities are interrupted owing to malfunction of software or other systems at the change of the millennium. The company's management does not consider this risk to be significant.

ADOPTION OF THE EURO

In the opinion of the company's management, adopting the euro will not have any significant impact on business operations. It has been decided to adopt the euro in the company's operative activities and IT systems at the start of the year 2001.

FINANCIAL PERFORMANCE

Castrum's consolidated profit before provisions and taxes amounted to FIM 0.3 million, compared to FIM 8.4 million for the previous year. The figure for 1997 was substantially higher due to a profit of FIM 11.7 million made on the sale of shares in the Julius Tallberg properties. Shareholders' equity per share was FIM 8.73 (8.68) and earnings per share FIM 0.05 (0.60). The consolidated financial statements for 1998 apply different principles for calculating depreciation that better reflect the international practice that is being widely adopted in the real estate sector. Consequently, buildings are depreciated over a longer period. The change in depreciation lifetimes had a positive impact on the profit for 1998. Depreciation of buildings over the review period totaled FIM 7.8 million. Calculated on the principles applied prior to 1998, this figure would have been FIM 13.6 million.

Independent valuators assessed Castrum's property assets during 1998. The valuations amounted to a total of FIM 580 million. The independent valuations were FIM 18 million higher than the book value of the properties at the end of 1998 whereas in 1997 the independent valuations were FIM 12 million lower than the book values. Value adjustments were made on the properties in Castrum's property portfolio that will be realized over the next three years. Reversals of write-downs were also recorded in Castrum's property holdings. The net impact of these value adjustments on the Group's result was FIM - 5.3 million.

EVENTS SUBSEQUENT TO THE 1998 FINANCIAL STATEMENTS

Castrum Oyj concluded property transactions on 4 February 1999 with Sponda Oyj, Tamsoil Oy, ST International Insurance Company, Sampo Life Insurance Company Ltd, Pension Insurance Company Ilmarinen, Nokia Plc and Merita Real Estate Ltd that increase the value of Castrum's property assets by over FIM 700 million to a total of app. FIM 1.3 billion. Under the terms of the transactions the Castrum Group agreed to sell two office properties and one undeveloped site it owned to companies in the Sponda Group for FIM 81 million.

BOARD'S PROPOSALS TO THE ANNUAL GENERAL MEETING ON 9 MARCH 1999

The Board of Directors proposed that the nominal value of the company's shares be reduced from FIM 10 to FIM 8 as a consequence of the February 1999 property transactions. The amount of the reduction will immediately be used to cover losses. The change in nominal value does not affect the total shareholders' equity of the company.

Investors will be invited to subscribe for a FIM 354 million share issue that will partly be used to finance the February 1999 acquisitions. Existing shareholders will be given the opportunity of subscribing for one new share for each existing share. Holders of convertible bonds VVK I/1995 certificates may subscribe for one hundred new shares per certificate under the terms of the convertible bonds. The principal shareholders have undertaken to subscribe for new shares totalling FIM 85.9 million and to set the corresponding amount of the subscription prices against the amounts of principal for the I/1988 and I/1995 convertible bonds issued by the company.

The company has also agreed on a FIM 699 million debt financing programme with Den Danske Bank A/S, Leonia Bank Plc and Merita Bank Ltd. This programme will replace the present capital notes and will also partly finance the February 1999 acquisitions. The three banks will underwrite the programme in equal instalments.

When finalized the refinancing will increase the Group's shareholders' equity from FIM 121 million to at least FIM 561 million. The equity restructuring will considerably improve the Group's capital adequacy, and raise the equity ratio from about 21 per cent to at least 43 per cent.

Trading in the company's shares on the Helsinki Exchanges has been subdued recently. The principal owners of the company, Tamro Plc, Enterprise-Fennia Mutual Insurance Company and PMA Yhtymä Oy have agreed with Sponda Oyj, Tamsoil Oy, ST International Insurance Company, Sampo Life Insurance Company Limited, Pension Insurance Company Ilmarinen, Nokia Plc and Merita Real Estate Ltd to embark on measures to be taken following the capital restructuring that will improve the liquidity of the company's share on the Helsinki Exchanges.

The property acquisitions that Castrum Oyj has made are in line with its adopted strategy. All the properties acquired focus on logistics and warehousing or light industry and are situated in Greater Helsinki and selected centres of growth. The Castrum Group will continue to concentrate its property portfolio by selling properties outside the scope of its core business areas over the next three years.

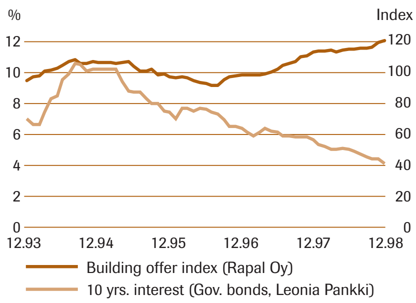
PROSPECTS

The property transactions made by the Castrum Group at the beginning of 1999 have enhanced its future prospects. By increasing its property assets, expanding its ownership and restructuring its financing the Group will become a more profitable real estate investment company with a stronger balance sheet. The new property portfolio is of good quality and some 90 per cent of it is leased. Raising the occupancy rate will bring a slight increase in the original rental revenue on acquisition.

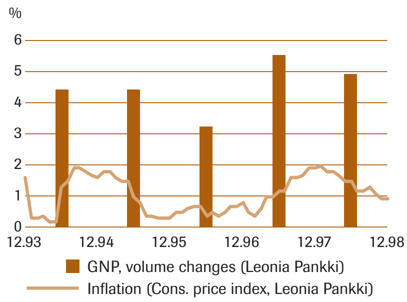
The Castrum Group plans to further expand its ownership base and increase its property assets in the years to come.

The Castrum Group expects to post a profit in 1999.

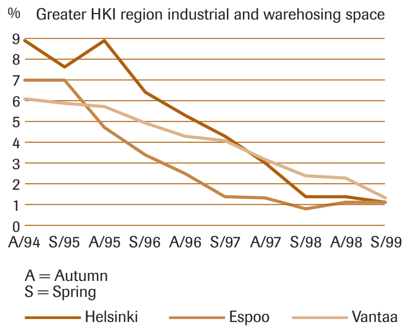
CHANGES IN EXTERNAL ECONOMIC FACTORS



CHANGES IN EXTERNAL ECONOMIC FACTORS



VACANCY RATES



INCOME STATEMENT

			GROUP		PARENT COMPANY	
FISCAL YEAR 1 JAN.-31 DEC.	**NOTE**	**1998**	**1998**	**1997**	**1998**	**1997**
FIM 1,000		EUR 1,000				
Turnover	1	8,153	**48,474**	42,101	35,720	30,736
Other operating income	2			12 478		
Personnel expenses	4	621	**3,693**	3,248	1,379	1,283
Depreciation and write-downs	5					
Depreciation according to plan		1,393	**8,280**	13,834	142	125
Real estate write-downs		882	**5,247**	13,800		
Depreciation and write-downs, total		2,275	**13,528**	13,834	13,942	125
Other operating expenses	6, 7	2,627	**15,598**	17,014	34,336	38,180
Operating profit		2,633	**15,655**	20,483	-13,937	-8,852
Financial income and expenses						
Income from investments held as fixed assets				40		40
Other interest and financial income				370		
From Group companies					11,127	9,480
From others		104	**616**	2,733	821	2,106
Interest and other financial expenses	8					
To others		2,750	**16,350**	14,821	14,830	13,113
Total financial income and expenses		-2,584	**-15,365**	-12,049	-2,882	-1,487
Profit/loss for the year before taxes and minority interest		49	**289**	8,434	-16,819	-10,339
Direct taxes						
On earlier financial years		17	**103**	205		
Minority interest		40	**239**	-48		
Profit/loss for the financial year		106	**631**	8,592	-16,819	-10,339

BALANCE SHEET

ASSETS			GROUP		PARENT COMPANY	
FISCAL YEAR 31 DEC.	**NOTE**	**1998**	**1998**	**1997**	**1998**	**1997**
FIM 1,000		EUR 1,000				
FIXED ASSETS AND LONG-TERM EXPENDITURE	10					
Tangible assets						
Land		31,144	**185,176**	172,510		
Buildings		57,426	**341,441**	342,982		
Machinery and equipment		282	**1,676**	1,226	692	291
Other tangible assets		164	**978**	994		
Advance payments and construction in progress		4,529	**26,922**			
		93,545	**556,194**	517,712	692	291
Investments	11					
Holdings in Group companies					64,307	64,578
Other shares and holdings		624	**3,712**	5,526	288	1,402
		624	**3,712**	5,526	64,595	65,980
CURRENT ASSETS						
Inventories						
Other inventories		840	**4,993**	11,735		
Receivables	12					
Long-term						
Amounts owed by Group companies					464,254	443,312
Short-term						
Accounts receivable		159	**945**	1,269	506	1,154
Other receivables		4	**26**	26	26	46
Prepaid expenses and accrued income		1,204	**7,155**	3,060	2,411	910
		1,367	**8,126**	4,355	2,943	2,110
Cash in hand and at banks		4,591	**27,296**	21,181	25,260	19,614
ASSETS, TOTAL		100,967	**600,321**	560,509	557,745	531,307

SHAREHOLDERS' EQUITY AND LIABILITIES			GROUP		PARENT COMPANY	
FISCAL YEAR 31 DEC.	**NOTE**	**1998**	**1998**	**1997**	**1998**	**1997**
FIM 1,000		EUR 1,000				
SHAREHOLDERS' EQUITY	13					
Share capital		23,281	**138,422**	138,422	138,422	138,422
Share premium fund		4,369	**25,979**	25,979	25,979	25,979
Accrued losses		-7,434	**-44,199**	-52,791	-26,843	-16,504
Profit/loss for the financial year		106	**631**	8,592	-16,819	-10,339
Shareholders' equity, total		20,323	**120,833**	120,202	120,738	137,557
MINORITY INTEREST		489	**2,908**	3,147		
PROVISIONS	14				6,000	
LIABILITIES						
Long-term						
Convertible bonds	16	14,450	**85,918**	85,918	87,878	87,878
Loans from credit institutions	15	63,236	**375,984**	340,409	337,761	302,761
Pension loans		496	**2,947**	3,600		
Other long-term liabilities		13	**77**			
		78,195	**464,926**	429,926	425,638	390,638
Short-term	12					
Accounts payable		1,054	**6,266**	1,882	1,401	245
Other liabilities				350		350
Other short-term liabilities		906	**5,388**	5,002	3,968	2,517
		1,960	**11,654**	7,234	5,369	3,112
SHAREHOLDERS' EQUITY AND LIABILITIES, TOTAL		100,967	**600,321**	560,509	557,745	531,307

SOURCE AND APPLICATION OF FUNDS

			GROUP		PARENT COMPANY	
FISCAL YEAR 1 JAN.-31 DEC.	**NOTES**	**1998**	**1998**	**1997**	**1998**	**1997**
FIM 1,000		EUR 1,000				
Operating activities						
Income from operations						
Operating profit/loss		2,633	**15,655**	20,483	-13,937	-8,852
Profit on sale of fixed assets				-11,721	-	-
Depreciation and write-downs		2,275	**13,528**	13,834	13,942	125
Financial income and expenses		-2,584	**-15,365**	-12,049	-2,882	-1,487
Taxes		17	**103**	205	-	-
Total		2,341	**13,921**	10,752	-2,877	-10,214
Change in working capital						
Inventories,increase (-) / decrease (+)		175	**1,042**	7,000		
Short-term receivables, increase (-) / decrease (+)		-634	**-3,771**	-2,158	-833	-1,752
Short-term interest-free liabilities, increase (-) / decrease (+)		802	**4,770**	-2,719	2,607	-948
Total		343	**2,041**	2,123	1,774	-2,700
Cash flow from operations			**15,962**	12,875	-1,103	-12,914
Investing activities						
Investments in fixed assets		-7,674	**-45,626**	-19,718	-2,088	-1,203
Proceeds from sale of fixed assets		190	**1,129**	16,725	1,129	0
Cash flow from investing activities		-7,484	**-44,497**	-2,993	-959	-1,203
Financing activities						
Increase (-) /decrease (+) in long-term receivables			**-**	4,254	-26,942	28,225
Increase (+) / decrease (-) in long-term loans		5,887	**35,000**	-15,777	35,000	-15,777
Increase (+) / decrease (-) in short-term loans		-59	**-350**	-297	-350	-297
Share issue			**-**	8,500	-	8,500
Cash flow from financing activities		5,826	**34,650**	-3,320	7,708	20,651
Increase (+) / decrease (-) in liquid funds		1,028	**6,115**	6,562	5,646	6,534
Liquid funds at beginning of financial year		3,562	**21,181**	14,619	19,614	13,080
Liquid funds at end of financial year		4,591	**27,296**	21,181	25,260	19,614

ACCOUNTING PRINCIPLES

The annual accounts have been prepared in conformance with the requirements of the new Finnish Accounting Act and Ordinance that came into force on 31 December 1997. The information for the 1997 annual accounts provided for comparison has been regrouped accordingly.

ASSESSMENTS USED IN THE FINANCIAL STATEMENTS

The preparation of the financial statements in conformity with applicable regulations and generally accepted accounting principles requires management to make estimates and assumptions that affect the valuation and allocation of the reported figures. Actual results may differ from such estimates.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include all Group companies and also real estate companies. The Group does not have any associated companies to include in the consolidated financial statements under the equity method of accounting, nor does it have any foreign subsidiaries.

All mutual shareholdings are eliminated using the acquisition cost method. The difference between the acquisition cost and the value of the net assets at the time of acquisition is allocated to land and buildings in the balance sheet, since all acquisition prices are based on the market value of the property and no actual business activities are acquired. The items allocated to buildings in the balance sheet are depreciated according to the planned depreciation for that fixed asset.

MINORITY INTERESTS

Minority interests include a 15 % interest in the shareholders' equity and profits of Kiinteistö Oy Vantaan Alfa, Vantaan Beta and Vantaan Gamma. Other companies are wholly owned by the Castrum Group.

INTRAGROUP TRANSACTIONS

All intragroup transactions as well as mutual receivables and liabilities are eliminated.

TURNOVER

Turnover includes rental income and maintenance fees from properties and shares in real estate companies. Credit losses on rental receivables are allocated to other operating expenses.

OTHER OPERATING INCOME

Profits from the sale of real estate shares of current and fixed assets are entered as other operating income.

DIRECT TAXES

Taxes are periodized based on the results of Group companies, taking into account the confirmed losses of the companies. As from 1998 the financial statements also include deferred tax liabilities and assets resulting from the timing differences between the financial statements and taxation. The changed method of calculation does not have any impact on the Group's profit or shareholders' equity. More details are given in Note 17.

VALUATION OF PROPERTY ASSETS

The book values of property assets are based on the acquisition price less depreciation according to plan and the write-downs recorded. The write-downs will be reversed if they are no longer justified.

The current market value of property assets is assessed annually by both the company and by external valuators. The difference between the book value and the value assessed by external valuators is stated in the notes to the annual accounts.

Properties that are not within the company's core business area, and which the Group plans to realize over the next three years, are valued mainly at the probable sale price according to an external valuation. More details are given in Note 5.

FIXED ASSETS AND DEPRECIATION

Fixed assets are valued at their direct acquisition cost. No construction-time or other interest expenses are capitalized in the acquisition cost. Existing fixed assets are depreciated according to a fixed plan. Depreciation of buildings is determined by the technical condition, use, phase of development and location of the specific building.

In the case of new tenants, repair costs for the tenant are recorded as an expense for that year or allocated over the duration of the leasing contract. A separate plan for depreciation is compiled for major renovation costs.

The financial statements for 1998 apply different principles for depreciation in order to correspond with the international practice widely adopted in the real estate sector. Consequently, buildings are depreciated over a longer period. In the new depreciation periods applied from 1998 the non-depreciated acquisition cost is depreciated over the length of the depreciation period remaining. The change in depreciation periods had a positive impact on the 1998 result. Depreciation of buildings during the review period amounted to FIM 7.8 million whereas this figure would have been FIM 13.6 million if calculated on the principles applied prior to 1998.

Depreciation according to plan is recorded on a straight-line basis over the estimated useful lifetimes of fixed assets as follows:

Buildings	
as from 1998:	
commercial premises, office buildings	75 years
warehouses, industrial premises and terminals	50 years
prior to 1998:	30 - 50 years
Machinery and equipment	5 - 15 years
Major renovation	5 - 20 years
Other long-term expenditure	5 - 10 years

No planned depreciation of land is made. Minor items of property are depreciated by the maximum amount allowed by Finnish law.

INVENTORIES

Inventories are valued at their direct acquisition cost. Real estate shares in inventories are valued using external valuations.

OTHER ACCOUNTING PRINCIPLES

No company debt has been allocated to shares in apartments owned by the Group.

The Group has arranged statutory pension insurance for its personnel with a pension insurance company. The insurance premiums are recorded as personnel expenses. The Group does not have any other pension arrangements other than statutory employee pension insurance.

Development costs of R&D-oriented projects are recorded as expenses. Fees paid for leasing commissions are recorded as expenses.

The financial statements do not include any items denominated in foreign currencies. No forward exchange contracts or other derivative instruments have been used. The Group does not have any financial leasing agreements.

NOTES TO THE FINANCIAL STATEMENTS

1. TURNOVER

(FIM 1,000)	GROUP 1998	GROUP 1997	PARENT COMPANY 1998	PARENT COMPANY 1997
Rental income and maintenance fees	48,474	42,101	35,720	30,736

2. OTHER INCOME FROM BUSINESS OPERATIONS

Other income from business operations in 1997 included a profit of FIM 11.7 million from the sale of shares in Julius Tallberg Kiinteistö Oy and in the Malmintori shopping centre.

3. LEASING

(FIM 1,000)	GROUP 1998	GROUP 1997
Leases, total value, FIM million	225.9	60.0
Average duration of leasing contract, months	51.9	17.1
Leasing ratio, %	99	90

The method for calculating the average length of contract was changed in 1998. As from 1998, the length of the contract is weighted by the rental income accruing from the contract. The 1997 figures have been adjusted accordingly.

4. DETAILS OF PERSONNEL AND ADMINISTRATION

(FIM 1,000)	GROUP 1998	GROUP 1997	PARENT COMPANY 1998	PARENT COMPANY 1997
Personnel expenses				
Fees and salaries paid to CEO and Board members	525	488	525	488
Other salaries and wages	2,196	1,931	333	193
Pension expenses	484	316	114	106
Other social security expenses	488	514	407	496
Personnel expenses, total	3,693	3,249	1,379	1,283
Average number of personnel during the financial year				
CEO	1	1	1	1
Financial management	2.5	1.5		
Real estate management	5	3.5		
Marketing	3.5	4		
Total	12	10	1	1

5. DEPRECIATION AND WRITE-DOWNS

In 1998 the Group started applying a different method for calculating depreciation. The impact of this change and the new principles applied are explained in more detail under Accounting Principles.

Properties that are not within the company's core business area, and which the Group plans to realize over the next three years, are valued at no more than their probable sale price according to an external valuation. A total net write-down of FIM 17.4 million was recorded in the financial statements for those properties which the Group plans to realize and for real estate shares in fixed assets.

Earlier write-downs of some properties within the core business area have been reversed to a total amount of FIM 12.2 million owing to the increase in the market value of these properties. Consequently, the figure shown in the consolidated income statement is FIM 5.3 million, which is the net sum of the value adjustments made to the property portfolio.

A net total of FIM 13.8 million is recorded in the parent company's income statement as write-downs in the value of shares in subsidiaries, and reversals of earlier write-downs, corresponding to the write-downs in the value of property assets.

6. OTHER OPERATING EXPENSES

The parent company's other operating expenses include maintenance fees paid to subsidiaries.

7. REAL ESTATE TAXES

Other operating expenses include real estate taxes as follows:

(FIM 1,000)	GROUP 1998	GROUP 1997	PARENT COMPANY 1998	PARENT COMPANY 1997
	1,132	1,120		

8. OTHER FINANCIAL EXPENSES

Other financial income and expenses comprise paid guarantee commissions, management fees and stamp duties on credits and mortgages.

9. VALUATION DIFFERENCES OF REAL ESTATE PROPERTY

The book values of real estate are calculated by subtracting planned depreciation and write-downs from the original acquisition prices. Write-downs recorded previously have been reversed if the increased market value proved the write-downs unnecessary. The market value of real estate is evaluated by the company and by external valuators annually. Market value depends on expectations, calculation methods, intended use and the valuator. The estimates given in the table below are based on sale prices at the time of the evaluation of properties sold voluntarily under normal terms.

YEAR, FIM MILLION	BOOK VALUE	ESTIMATED MARKET VALUE	VALUATION DIFFERENCE
1988	679	730	51
1989	640	785	145
1990	636	781	145
1991	677	697	20
1992	616	481	-135
1993	563	422	-141
1994	554	423	-131
1995	542	413	-129
1996	535	487	-48
1997	532	520	-12
1998	562	580	18

10. FIXED ASSETS

(FIM 1,000)	GROUP 1998	GROUP 1997	PARENT COMPANY 1998	PARENT COMPANY 1997
Land				
Acquisition cost 1 Jan.	220,294	213,794		
Increases	2,000	6,500		
Acquisition cost 31 Dec.	222,294	220,294		
Accumulated write-downs 31 Dec.	-37,117	-47,784		
Book value 31 Dec.	185,177	172,510		
Buildings				
Acquisition cost 1 Jan.	440,214	427,385		
Increases	16,983	12,829		
Acquisition cost 31 Dec.	457,197	440,214		
Accumulated planned depreciation 1 Jan.	-88,032	-74,597		
Depreciation for the financial year	-7,782	-13,435		
Accumulated planned depreciation 31 Dec.	-95,814	-88,032		
Accumulated write-downs 31 Dec.	-19,942	-9,200		
Book value 31 Dec.	341,441	342,982		
Machinery and equipment				
Residual value 1 Jan.	1,226	1,461	291	397
Increases	944	146	553	19
Decreases	-11		-10	
Residual value 31 Dec.	2,159	1,607	834	416
Planned depreciation for financial year 31 Dec.	-483	-381	-142	-125
Book value 31 Dec.	1,676	1,226	692	291
Other tangible assets				
Residual value 1 Jan.	994	1,898		
Increases				
Decreases		-886		
Residual value 31 Dec.	994	1,012		
Planned depreciation for financial year 31 Dec.	-16	-18		
Book value 31 Dec.	978	994		
Advance payments and construction in progress				
Acquisition cost 1 Jan.				
Increases	26,922			
Decreases				
Book value 31 Dec.	26,922			
Shares in subsidiary companies				
Book value 1 Jan.			64,578	61,522
Increases			7,529	3,056
Reversals of write-downs during the financial year			10,200	
Write-downs during the financial year			-18,000	
Book value 31 Dec.			64,307	64,578
Other shares and holdings				
Acquisition cost 1 Jan.	5,526	9,401	1,402	273
Increases	15		15	1,129
Decreases	-1,129	-3,875	-1,129	
Write-downs during the financial year	-700			
Book value 31 Dec.	3,712	5,526	288	1,402

11. PARENT COMPANY'S SHARES IN SUBSIDIARIES

	NO.	VOTING RIGHTS, %	NOMINAL VALUE, FIM 1,000	BOOK VALUE, FIM 1,000
Vedex Oy	20,000	100	20,000	20,200
Castrum Generator Oy	950	100	950	1,102
Kiinteistö Oy Mäntsälän Teollisuushallit	9,920	100	992	0
Kiinteistö Oy Karapellontie 4 C	310,000	100	3,100	3,100
Keskinäinen Kiinteistö Oy Ruosilantie 14	30,054	100	30	330
Kiinteistö Oy Pohjois-Rintala	7,000,000	100	70,000	19,847
Kiinteistö Oy Vantaan Omega	10,000	100	100	215
Kiinteistö Oy Vantaan Epsilon 4	200	100	42	342
Kiinteistö Oy Vantaan Lambda	5,500	100	55	55
Kiinteistö Oy Vantaan Omigron	2,000	100	20	45
Kiinteistö Oy Vantaan Zeeta	600	100	18	38
Kiinteistö Oy Kuninkaankaari	14,881	100	148	548
Kiinteistö Oy Kuninkaankruunu	15,576	100	156	296
Kiinteistö Oy Kuninkaanlinna	1,500	100	15	30
Kiinteistö Oy Kuninkaanpuisto	1,500	100	15	30
Kiinteistö Oy Kuninkaanvala	1,500	100	15	30
Castratti Oy	15	100	15	15
Kiinteistö Oy Kappelitie 8	1,500	100	15	7,500
Tonttipaino Oy	107,000	100	10,700	9,000
Kiinteistö Oy Ormuspellontie	100	100	15	1,529
Kiinteistö Oy Hitsaajatalo	5,546	100	55	55
				64 307
SUBSIDIARIES' SHARES IN SUBSIDIARIES				
Castrum Generator Oy				
Kiinteistö Oy Helsingin Kalevankatu 30	40,960	100	410	410
Kiinteistö Oy Vantaan Köysikuja 1	3 261	100	160	34,000
Kiinteistö Oy Vantaan Alfa	5 151	85	1,288	7,000
Kiinteistö Oy Vantaan Beta	5 151	85	1,288	7,000
Kiinteistö Oy Vantaan Gamma	5 151	85	1,288	7,000
CG-Autopaikoitus Oy	400	100	20	30
				55,440
Vedex Oy				
Kiinteistö Oy Ylä-Malmintori 6	2,466	100	1,233	39,800
Kiinteistö Oy Kirkkoherrantie 6-8	200	100	200	200
Kiinteistö Oy Hangon Bulevardi 4	200	100	4,200	3,024
				43,024
PARENT COMPANY'S OTHER SHARES				
Central Share Register of Finland Cooperative	3			210
Other				1,192
SUBSIDIARIES' OTHER SHARES AND HOLDINGS				
CG-Autopaikoitus, car park shares	246	18.40		2,278
Ylä-Malmintori, shares in parking garage	22	4.00	1,000	1,117

12. RECEIVABLES AND LOANS

Main items included in prepaid expenses and accrued income

Significant items included under prepaid expenses and accrued income for the Group and the parent company are value-added tax receivables (FIM 5.2 million for the Group and FIM 0.5 million for the parent company).

Main items included in accrued expenses and prepaid income

Significant items included in the Group's accrued expenses and prepaid income are value-added tax liabilities (FIM 0.9 million) and interest accruals on loans (FIM 2.9 million).

The parent company's most significant item is interest accruals (FIM 2.7 million).

Loans to inner circle members

No loans have been granted to the Members of the Board or the CEO nor have any guarantees been made on their behalf.

13. CHANGE IN SHAREHOLDER'S EQUITY

	GROUP		PARENT COMPANY	
(FIM 1,000)	1998	1997	1998	1997
Share capital at the beginning of the financial year	138,422	129,922	138,422	129,922
Share issue		8,500		8,500
At the end of the financial year	138,422	138,422	138,422	138,422
Share premium account				
At the beginning of the financial year	25,979	25,979	25,979	25,979
At the end of the financial year	25,979	25,979	25,979	25,979
Accumulated losses and profit for the financial year				
At the beginning of the financial year	-44,199	-52,791	-26,844	-16,504
Profit/loss for the financial year	631	8,592	-16,819	-10,340
At the end of the financial year	-43,568	-44,199	-43,663	-26,844
Shareholders' equity at the end of the financial year	120,833	120,202	120,738	137,557
Distributable funds	-43,568	-44,199	-43,663	-26,844

The Annual General Meeting authorized the Board of Directors to decide on issuing shares with rights, stock options or convertible bonds within one year of the date of registration of the authorization. The bonds, options or shares may be issued on terms decided in more detail by the Board of Directors in one or more lots. However, the total shares issued may increase the share capital of the company by at most FIM 27,680,000. Shares may be subscribed using capital contributions.

The Board of Directors may disapply shareholders' pre-emptive subscription rights within the limits set by the Companies Act if in the company's view there is a compelling financial reason for doing so, such as implementing acquisitions, facilitating cooperation arrangements or increasing financing options.

The authorization was entered in the Trade Register on 9 September 1998.

The authorization was not used during the review period. Castrum Oyj's Board of Directors decided after the end of the review period to propose to the Annual General Meeting held on 9 March 1999 that the company's share capital be lowered by FIM 27,684,300 by reducing the nominal value of the shared from FIM 10 to FIM 8, that the share capital be increased by at least FIM 391,000,000 and at most FIM 467,574,000 with a rights issue, and that the minimum and maximum share capital be raised. The Board proposes that the reduction in the share capital be used to cover confirmed losses.

14. PROVISIONS
The provision of FIM 6 million made by the parent company arises from the write-down in the value of the shares of subsidiaries.

15. CONVERTIBLE BONDS AND WARRANTS

	GROUP		PARENT COMPANY	
(FIM 1,000)	1998	1997	1998	1997
I/1998 5 April 1988	33,950	33,950	35,910	35,910
I/1995 17 February 1995	51,968	51,968	51,968	51,968
	85,918	85,918	87,878	87,878

The parent company's long-term liabilities include the FIM 35.9 million convertible bond I/1998 issued on 5 April 1988 with an original maturity of 6 years. The terms of the bond were changed with the consent of the bearers of the bond certificates in conjunction with a financing agreement made by Castrum Oyj in 1992; the bond now matures on 31 December 1997 and is interest-free. An extraordinary general meeting held on 11 January 1995 decided to extend the bond period to 30 April 2000 and, if the bond principal is not repaid by the due date, to keep the conversion right in force, however to 31 December 2000 at the latest. The bond in the Group company's investment portfolio has been eliminated in the consolidated financial statements. Convertible bond I/1988 can be converted for 1,521,595 shares at a share price of FIM 23.60 per share.

Convertible bond I/1995 was issued on 17 February 1995. The loan period started on 17 February 1995 and the bond is interest-free. The loan will be repaid in a single installment on 30 April 2000. Each FIM 1,000 bond can be converted to 100 Castrum Oyj shares with a nominal value of FIM 10 per share. The bonds are convertible to at most 5,196,800 shares. The bonds also carry a total of 51,968 warrants, each of which may be exercised to subscribe for one hundred Castrum Oyj shares of nominal value FIM 10 per share for FIM 10 per share, making a total of 5,196,800 shares. The subscription period is from 30 April 1995 to 30 April 2004. This bond and the attached warrants can be used to subscribe for shares annually between January and October. No shares were subscribed based on the convertible bond or warrants between 1995 and 1998.

Under the terms for share issues proposed to the Annual General Meeting held on 9 March 1999, the subscription price of new shares can be set off against the amounts of principal for the I/1988 and I/1995 convertible bonds.

16. LONG-TERM LOANS

	GROUP		PARENT COMPANY	
Long-term loans maturing (FIM 1,000)	1998	1997	1998	1997
1999	379,008	344,008	337,761	302,760
2000	85,918	85,918	87,878	87,878
	464,926	429,926	425,638	390,638

Castrum Oyj agreed on a long-term financing program with three financing banks after the end of the review period that will replace the loans maturing in 1999. The maturing loans are entered as long-term liabilities in the financial statements as a consequence of the new financing arrangements.

17. DEFERRED TAX LIABILITIES AND ASSETS
As from 1998 the consolidated financial statements include deferred tax liabilities and assets resulting from the timing differences between the financial statements and taxation. The changed method of calculation does not have any impact on the Group's profit or equity. There was no change in the deferred tax liability for the financial year.

In the Group's accounts the deferred tax liability arises from the goodwill on consolidation for buildings in the consolidated financial statements and the deferred tax assets for confirmed losses. Deferred tax assets are calculated on the confirmed losses following the prudence principle and taking into account the uncertainties attached to how the losses will be applied. The tax rate applicable on the balance sheet date has been used to calculate tax liabilities and assets.

	GROUP
(FIM 1,000)	1998
Balance sheets of Group companies	
Tax assets on confirmed losses	5,676
Consolidation	
Tax liability on consolidation goodwill	5,676
Net total	0

At the end of 1998 the parent company and other Group companies had confirmed losses totaling FIM 139.5 million.

18. PLEDGES, GUARANTEES AND OTHER LIABILITIES

	GROUP		PARENT COMPANY	
(FIM 1,000)	1998	1997	1998	1997
For financing loans, FIM 376 million				
mortgages on real estate	433,057	370,978		
other pledges	52,467	95,492	24,798	67,625
Other pledges given for own liabilities				
pledges	2,278	2,978		
Guarantees				
for others	280	280		

The Group does not have any liabilities arising from derivative contracts, unsecured pension liabilities or any significant leasing liabilities.

19. PRO FORMA CALCULATION OF PROPERTY ASSETS INCLUDING NEW ACQUISITIONS
The Business Review in this annual report describes the substantial growth in the Group's property assets after the closing of the 1998 accounts, and also the share issues and other measures taken to finance the acquisition of the new properties.

New property assets with a total value of FIM 709 million will be included in the Group's balance sheet as from 1 March 1999 as a consequence of these transactions. The property assets comprise land with an estimated value of approximately FIM 110 million and buildings with an estimated value of approximately FIM 599 million. The amount of fixed assets will also be increased by the capital transfer taxes and other expenses directly related to the acquisitions.

The agreed loan and capital financing programmes will increase the Group's interest-bearing long-term liabilities by about FIM 320 million and the share issues are expected to increase the shareholders' equity by at least FIM 440 million.

The increase in shareholders' equity includes a privileged share issue totalling FIM 355 million to the selling parties in the property transactions mentioned above and the use of FIM 86 million of the principal of the convertible bonds to offset the subscription price of the new shares.

When the deferred tax liability on the consolidation difference for buildings in the new property assets is included, an amount of FIM 26 million will be allocated to buildings and to long-term interest-free liabilities in the balance sheet.

If the new property assets had been included in the Group's financial statements for 1998, the consolidated balance sheet would probably have been as set out below. The pro forma balance sheet has been compiled purely to facilitate comparison. The result of the properties being merged with Castrum could have been different in the actual event.

	CASTRUM GROUP	
	Balance sheet	Pro forma balance sheet
(FIM MILLION)	31.12.1998	31.12.1998
Fixed assets and other long term investments	560	1,261
Current assets	40	44
Total assets	600	1,305
Shareholders' equity	121	561
Minority interest	3	3
Liabilities	476	741
Total shareholders' equity and liabilities	600	1,305

KEY INDICATORS

	1998	1998	1997	1996	1995	1994
FIM MILL.	EUR MILL.					
Turnover	8.2	**48.5**	42.1	36.5	30.4	28.0
Wages, salaries and fees	0.5	**2.7**	2.5	1.6	1.4	1.4
Operating profit	2.6	**15.6**	20.5	5.7	0.2	2.4
as % of turnover		**32.2**	48.7	15.6	0.7	0.9
Depreciation according to plan	1.4	**8.3**	13.8	13.4	11.9	11.4
Net financing expenses	-2.6	**-15.3**	-12.0	-19.2	-24.9	-26.1
as % of turnover		**31.5**	28.6	52.6	81.9	93.2
Profit/loss before extraordinary items	0,1	**0.3**	8.4	-13.5	-24.7	-23.7
as % of turnover		**0.6**	20.0	negative	negative	negative
Profit/loss before taxes and minority interest	0.1	**0.3**	8.4	-13.5	-35.0	-25.3
as % of turnover		**0,6**	20,0	negative	negative	negative
Added property value net worth	5.0	**30.0**	43.9	67.9	-33.0	-18.9
Added property value net worth per share	0.37	**2.20**	3.30	5.20	-2.50	-1.50
Interest-free liabilities	16.4	**97.6**	93.2	96.2	104.8	66.0
Interest-bearing liabilities	63.7	**378.9**	344.0	359.7	358.7	359.8
Shareholders' equity and untaxed reserves	20.8	**123.8**	120.2	103.1	116.6	151.7
Balance sheet total	101.9	**600.3**	560.5	562.2	582.5	580.7
Return on equity %		**0.3**	7.5	-12.8	-18.1	-14.1
Return on investment %		**3.4**	5.0	1.3	0.3	1.5
Equity ratio, %		**21.0**	22.0	18.9	20.5	26.7
Taxes	-0.02	**-0.1**	-0.2	0.1	0.1	0.1
Dividend [1)	0.00	**0.0**	0.0	0.0	0.0	0.0
Gross investment in fixed assets	7.5	**44.5**	19.8	5.8	3.9	0.2
as % of turnover		**91.8**	47.0	15.9	12.7	0.6
Personnel at end of period		**13**	12	8	7	7
Share capital	23.3	**138.4**	138.4	129.9	129.9	129.9
Number of shares at end of period (thousand)		**13,842.2**	13,842.2	12,992.2	12,992.2	12,992.2
Average number of shares (thousand)		**13,842.2**	13,240.3	12,992.2	12,992.2	12,992.2
Shares + convertible bonds (thousand)		**25,757.4**	25,757.4	24,907.4	24,907.4	13,968.0
Nominal number of shares (thousand)		**13,842.2**	13,842.2	12,992.2	12,992.2	12,992.2
Adjusted number of shares after share issue (thousand)		**13,842.2**	13,842.2	12,992.2	12,992.2	12,992.2
Share issues			8.5			
FIM	EUR					
Earnings per share	0.00	**0.05**	0.60	-1.04	-1.89	-1.82
Shareholders' equity per share	1.47	**8.73**	8.68	7.94	8.90	11.67
Dividend per share [1)	0.0	**0.00**	0.0	0.0	0.0	0.0
Nominal dividend per share		**0.00**	0.0	0.0	0.0	0.0
Nominal dividend per share (for shareholders entitled to dividend)		**0.00**	0.0	0.0	0.0	0.0
Pay-out ratio, %		**0.0**	0.0	0.0	0.0	0.0
Dividend yield, %		**0.0**	0.0	0.0	0.0	0.0
P/E ratio		**112.0**	14.7	negative	negative	negative
Average share price	1.22	**7.26**	10.40	6.18	3.36	5.78
Highest share price	1.77	**10.50**	13.50	7.50	4.00	7.10
Lowest share price	0.88	**5.20**	7.10	4.00	2.00	2.50
Share price at end of period	0.94	**5.60**	8.80	7.00	4.00	2.00
Market value of share capital at end of period, FIM mill.	EUR 13.0 mill.	**77.5**	121.8	90.9	52.0	26.0
Shares traded (volume)		**910.0**	1,112.7	668.0	4.2	0.7
Shares traded (%)		**6.6**	8.0	5.0	0.0	0.0
Stock exchange turnover, FIM mill.	EUR 1.1 mill.	**6.6**	11.6	4.1	0.0	0.0

[1)] Board's proposal for 1998

CALCULATION OF KEY INDICATORS

Capital invested	=	Balance sheet total - interest-free liabilities (average over period)
Return on investment (ROI), %	=	$\frac{\text{Profit before extraordinary items + interest and other financial expenses}}{\text{Balance sheet total - interest-free liabilities (average over period)}} \times 100$
Return on equity (ROE), %	=	$\frac{\text{Profit before extraordinary items - taxes for period}}{\text{Shareholder's equity + minority interest + provisions (average over period)}} \times 100$
Equity ratio, %	=	$\frac{\text{Shareholders' equity in balance sheet + minority interest + untaxed reserves}}{\text{Balance sheet total - advances received}} \times 100$
Earnings per share, FIM [1]	=	$\frac{\text{Profit before extraordinary items - corresponding taxes - minority interest}}{\text{Average number of shares}}$
Shareholders' equity per share, FIM [1]	=	$\frac{\text{Shareholders' equity + untaxed reserves + accumulated depreciation in excess of plan}}{\text{Number of shares at end of period}}$
Dividend per share, FIM	=	$\frac{\text{Nominal dividend per share}}{\text{Share issue ratio}}$
Pay-out ratio, %	=	$\frac{\text{Dividend for period}}{\text{Profit before extraordinary items}} \times 100$
Effective dividend yield, %	=	$\frac{\text{Dividend per share}}{\text{Share price on 31 Dec. / Share issue ratio}} \times 100$
P/E-ratio [1]	=	$\frac{\text{Share price on 31 Dec. / Share issue ratio}}{\text{Dividend per share}}$
Shares traded, %	=	$\frac{\text{Number of shares traded}}{\text{Average number of outstanding shares}} \times 100$
Average duration of leases	=	$\frac{\text{Total value of leases}}{\text{Rental revenue (month)}}$
Total value of leases	=	Rental revenue (FIM) x duration of lease (months)
Occupancy rate	=	$\frac{\text{Number of square metres rented}}{\text{Total number of square metres}}$

[1] = Key indicator adjusted for share issue

THE SHARE AND THE SHAREHOLDERS

CASTRUM OYJ'S LARGEST SHAREHOLDERS AT 31 DECEMBER 1998

	SHAREHOLDER' S NAME	NO. OF SHARES	% OF SHARES AND VOTES
1.	Tamro Plc [1)]	6,427,001	46.4
2.	Cast-Rixa Oy	1,523,512	11.0
3.	PMA-Invest Oy	1,485,752	10.7
4.	Enterprise-Fennia Mutual Insurance Company	1,336,800	9.7
5.	Finnish Foundation for Research of Natural Resources	850,000	6.1
6.	Convector International B.V.	723,872	5.2
7.	OKOBANK	613,620	4.4
8.	OKOBANK Pension Fund	359,480	2.6
9.	Arctos Capital Oy	316,300	2.3
10.	Olavi Rantanen	40,319	0.3
	Others, 456 in number	165,494	1.2
Total		13,842,150	100

[1)] 100,000 shares were sold during 1997, as notified by the company, after which the Tamro Group's holding in Castrum Oyj is 45.7 % (46.5 % in the share register).

SHAREHOLDERS BY NUMBER OF SHARES OWNED AT 31 DECEMBER 1998

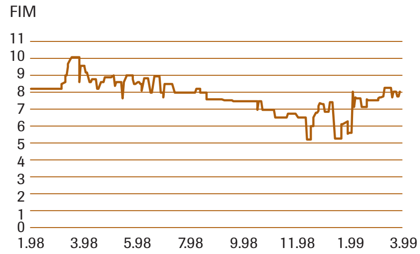
NO. OF SHARES	NO. OF SHAREHOLDERS	PERCENTAGE OF ALL SHAREHOLDERS, %	NO. OF SHARES OWNED	PERCENTAGE OF ALL SHARES, %
1 - 100	297	63.60	8,372	0.06
101 - 500	132	28.27	27,444	0.20
501 - 1,000	9	1.93	7,363	0.05
1,001 - 10,000	14	3.00	29,841	0.22
10,001 - 100,000	5	1.07	132,793	0.96
100,001 -	9	2.14	13,636,337	98.51
Total	466	100.0	13,842,150	100.0

DISTRIBUTION OF SHARES AT 31 DECEMBER 1998

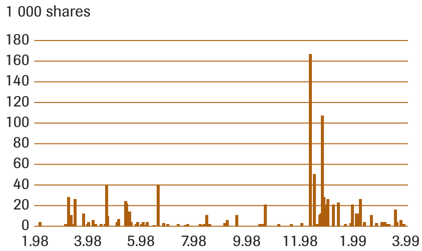
TYPES OF OWNERS	NO. OF SHAREHOLDERS	PERCENTAGE OF ALL SHAREHOLDERS, %	NO. OF SHARES OWNED	PERCENTAGE OF ALL SHARES, %
Corporations	29	6.4	9,816,025	70.91
Financial and insurance institutions	3	0.4	1,950,425	14.09
Non-profit organizations	2	0.4	1,209,480	8.74
Households	426	91.2	139,552	1.01
Foreign	6	1.3	726,668	5.25
Total	466	100.0	13,842,150	100.0

The members of the Board of Directors and the President own altogether 2,000 shares, representing 0.014 % of the total number of shares and votes.

THE STOCK PRICE



TRADING VOLUMES OF THE STOCK



PROPOSAL OF THE BOARD OF DIRECTORS

Group's profit for 1998	FIM 630,974.95
Accrued losses	FIM - 44,198,845.92
Group's non-restricted shareholders' equity according to the balance sheet at 31 December 1998	FIM - 43,567,870.97
Parent company's loss for 1998	FIM - 16,819,356.16
Accrued losses	FIM - 26,843,377.34

Parent company's non-restricted shareholders' equity according to the balance sheet at 31 December 1998

The Board of Directors proposes to the Annual General Meeting that: FIM - 43,662,733.50

- no dividend be distributed
- the loss of FIM 16,819,356.16 for the review period be charged to the accrued loss account
- FIM 15,978,433.50 be used from the share premium account to cover confirmed losses

If the Board's proposal is approved,the shareholders' equity of the company will be as follows:

Share capital	FIM 138,421,500.00
Share premium account	FIM 10,000,566.50
Accrued losses	FIM - 27,684,300.00
Total shareholders' equity	FIM 120,737,766.50

Helsinki, 1 March 1999

Juhani Mäkinen
chairman

Eeva Kemmo   Matti London   Tapio Mansukoski

Juhani Pohjolainen   Pentti Tarkkanen   Helena Walldén

AUDITORS' REPORT

TO THE SHAREHOLDERS OF CASTRUM OYJ,

We have audited the accounting, the financial statements and the corporate governance of Castrum Oyj for the 1998 financial year. The financial statements, which include the report of the Board of Directors, consolidated and parent company income statements, balance sheets, source and application of funds and notes to the financial statements, have been prepared by the Board of Directors and the Chief Executive Officer. Based on our audit we express an opinion on these financial statements and on the corporate governance.

We have conducted the audit in accordance with Finnish Standards on Auditing. Those standards require that we perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by the management as well as evaluating the overall financial statement presentation. The purpose of our audit of corporate governance is to examine that the members of the Board of Directors and the President have legally complied with the rules of Companies' Act.

In our opinion the financial statements have been prepared in accordance with the Accounting Act and other rules and regulations governing the preparation of financial statements. The financial statements give a true and fair view, as defined in the Accounting Act, of both the consolidated and parent company's result of operations as well as of the financial position. The financial statements with the consolidated financial statements can be adopted and the Members of the Board of Directors and President of the parent company can be discharged from liability for the period audited by us. The proposal by the Board of Directors regarding the treatment of the loss for the financial year is in compliance with the Companies' Act.

We have examined the Interim Reports published during the financial year. In our opinion the Interim Reports comply with the applicable rules and regulations.

Helsinki, 2 March 1999.

KPMG Wideri Oy

Sixten Nyman, APA   Tiina Torniainen, APA

ADMINISTRATION

PERSONNEL OF CASTRUM OYJ

ADMINISTRATION Castrum's administration is divided into three main groups: the marketing group, the group of property administration and the finance and accounting group. The managing director together with the members of these groups comprise the twelve person strong staff.

Responisibilities of the marketing group include additionally to leasing and selling properties also corporate marketing and communications.

The technically trained personnel of the property administration group carries the responsibility of the management, financial supervision and maintenance of all properties. It supervises and manages outsourced daily care, house managing and other services alike as well as renovations. One house manager is included in the group.

The finance and accounting group is responsible for budgeting, reporting and accounting and all financial and administrative functions like financing and cash management.

MANAGEMENT AND BOARD OF DIRECTORS

MANAGEMENT GROUP OF CASTRUM OYJ

MANAGEMENT GROUP Building manager Mr Risto Adler, vice president Mr Jukka Hakkila (property administration), CEO Mr Hannu Parikka, vice president Mr Calle Roselius (marketing).

CHIEF EXECUTIVE OFFICER Mr Hannu Parikka, MSc, (1952) was appointed CEO of Castrum Oyj in May 1998. Mr Parikka previously worked for NCC Puolimatka Oy.

MANAGEMENT The management of Castrum is the responsibility of the Board of Directors and the Chief Executive Officer (CEO) of the company. Under the terms of the Articles of Association, the Board of Directors is composed of at least three and at most eight members.

The members of the Board are elected at the Annual General Meeting and their terms of office last until the close of the next Annual General Meeting following their election. The Annual General Meeting elects the Chairman of the Board. The Board of Directors of the company elects the CEO.

BOARD OF DIRECTORS At present there are six members of the Board of Directors. They have all been appointed from outside the company. During 21 April 1998 - 9 March 1999 it consisted of:

Mr Juhani Mäkinen, chairman, is a legal counselor at in the law firm Hannes Snellman Oy. He has been Chairman of the Board of Directors of Castrum Oyj since 1996.

Ms Eeva Kemmo, member, is a Regional Director at Aleksia Oy.

Mr Matti London, member, is Executive Vice President of Enterprise-Fennia Mutual Insurance Company.

Mr Tapio Mansukoski, member, is the CEO of Tamro Distribution, Finland.

Mr Juhani Pohjolainen, MSc, member, retired at the beginning of 1999 from his position as Executive Vice President of Enso Plc.

Mr Pentti Tarkkanen, member, is Director of Administration at Tamro Plc.

Ms Helena Walldén, member, is a Branch Manager and Member of the Board at OKOBANK Plc.

BOARD OF DIRECTORS OFCASTRUM OYJ (21 APRIL 1998 - 9 MARCH 1999)

The Annual General Meeting on 9 March 1999 re-elected the board ecxpet for Ms Eeva Kemmo, Mr Matti London and Tapio Mansukoski who were replaced by:

Mr Hannu Lonka, member, Director at Merita Kiinteistöt Oy

Mr Asko Piekkola, member, President of AG-Partners Corporate Finance Oy.

AUDITORS The Annual General Meeting appoints two auditors each year. Their term lasts until the end of the next Annual General Meeting. The auditors must be public accountants certified by the Central Chamber of Commerce.

The company's present auditors are Mr Sixten Nyman APA and the certified public accounting firm of KPMG Wideri Oy Ab, with Tiina Torniainen APA as the main auditor.

THE HISTORY OF CASTRUM

1998
The Group purchased an industrial property in Malmi, Helsinki, in January. Castrum began to develop a new head office for Alko Oy in Vantaa. Mr Hannu Parikka, MSc (Eng.) was appointed President and CEO of the company in the spring. In December the company signed a letter of intent on property transactions which raised the value of Castrum's property portfolio to approximately FIM 1.3 billion; the transactions were closed on 4 February 1999. At the same time the company, its principal owners and the selling investors agreed on increasing the company's share capital from FIM 120 million to FIM 561 million through share issues to these investors and shareholders.

1997
The shares of Julius Tallberg Kiinteistöt Oy were sold, yielding a profit of FIM 11.7 million. Commercial premises in the Malmintori department store were sold as well. The Hitsaajatalo office and light industrial property was purchased and the share capital was raised by a privileged share issue to the Foundation for Research of Natural Resources in Finland as part of the Hitsaajankatu 8 property transaction.

1996
Rental income increased, cash flow stabilized and the company's value-added net worth became positive.

1995
Rental activity continued to gather strength. Rental income and the occupancy rate both increased. More renovation was carried out on the company's properties than in earlier years. The company's shareholders subscribed for convertible bonds issued in January and totalling FIM 52 million.

1994
Demand for leased premises continue to rise and small premises disappeared from the market altogether. No properties were sold, nor were any significant leasing agreements made. The financing agreement made with financiers was extended until the end of 1999.

1993
The property portfolio remained unchanged. Leasing of small premises became considerably more lively.

1992
This was the worst recession year for Castrum. The company's continued operation was secured by a five-year financing agreement. Mr Tapani Väljä, MSc (Econ.) was appointed President of the company.

1991
The Vääksyntie 2 renovation and repairs at Kalevankatu 30 were completed. The completion of the renovation of Vääksyntie 2, which had already been sold, proved more expensive than expected and created substantial losses for Castrum. General business conditions deteriorated rapidly. The company decided to postpone construction indefinitely and its organization was streamlined. FIM 58 million was added to the share capital and the nominal value of the shares was reduced from FIM 50 to FIM 10 per share. The new share capital totalled FIM 130 million.

1990
Vääksyntie 2 was sold and Castrum reached agreement with the Scandic hotel chain on construction of a hotel in Vantaa. Cast-Rixa Oy made an offer to the company's small shareholders which resulted in a reduction in their number.

1989
A programme to upgrade the company's property assets was developed. Those sites which were considered to have sufficient development potential were sold. Renovation of Vääksyntie 2 was started. The share capital was raised by FIM 129 million to FIM 358 million.

1988
The company began real estate development operations under the name Castrum Oy. Mr Jorma Heinonen, MSc (Eng.), was appointed President. Castrum Oy's share capital was raised during the year from FIM 42 million to FIM 229 million. Real estate development began with the acquisition of certain properties and at the end of 1988 Castrum's property portfolio had a value of approximately FIM 700 million. From 5 July 1988 Castrum Oy's shares were quoted on the main list of the Helsinki Stock Exchange.

1984 - 1987
The company acquired first a minority share and later majority shares in emerging technology companies, mainly in the mechatronics sector. The company's net sales reached FIM 100 million in 1997 but its result of operations was not satisfactory. Share transactions on 16 October 1987 transferred the voting power in the company to the Spontel group, which made a share exchange offer to the other shareholders. The company's investments were realized and its operations were entirely refocused. Dr Robert G. Gylling, DTech, acted as the company's president during its period as a development company.

1984
The company was established on 12 March 1984 and its FIM 2 million share capital was subscribed by Helsinki Cooperative Bank, Oy Bensow Ab, Oy Partek Ab, Sampo Companies and Dynamic Investment International Ltd. The company was called Oy Expaco Ab and its purpose was to adapt to Finnish conditions the methods and experiences developed in the international venture capital markets. The company's share capital was raised during 1984. From September 1984 the company was the first Finnish OTC company whose share was quoted on the list maintained by Bensow and Helsinki Cooperative Bank, and four months later on the banks' joint OTC list on the Helsinki Stock Exchange.

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