KAPITEELI

Annual Report 2002

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Year 2002

May 24 Kapiteeli buys the complete share capital of Keskinäinen Kiinteistö Oy Naulakatu 3 from Sponda. Naulakatu 3 is an office property of 14,400 m^2 in Tampere.

June 28 Kapiteeli and the Ministry of Justice sign an agreement for a new courthouse to be located in the Salmisaarentalo building at Ruoholahti, which is owned by Kapiteeli. Roughly 22,000 m^2 of the property will be renovated for use as a new courthouse by autumn 2004.

Kapiteeli buys a department store property in the Hansa block in Turku from If Insurance. The 17,642 m^2 property is rented to Stockmann in its entirety.

October 29 Kapiteeli buys the Post Office and Telecom building in the centre of Oulu. The entire 16,700 m^2 property is leased.

In October, Kapiteeli and YIT Rakennus entered into a preliminary agreement for YIT to purchase a number of residential sites owned by Kapiteeli in the Tilkka district near the centre of Helsinki, in order to build a high-quality housing scheme of about 300 units.

November 22 Kapiteeli and Kiinteistövarma sign an agreement to join forces and combine their facility management operations into a single company managing property assets with a balance sheet value of EUR 4.5 billion.

Various development schemes are completed including the Ruoholahti shopping centre in Helsinki, the third office block in the HTC Ruoholahti complex and the renovation of the Itämerentalo building and its conversion into a modern office building.

Open the door to Kapiteeli

Kapiteeli Ltd is a Finnish real estate investment company focusing on owning, renting and developing business, office and hotel property. The company is owned by the Finnish Government.

Kapiteeli is the only nationwide operator in the business in Finland. Kapiteeli has 14 service outlets around the country for businesses and corporations operating both locally and nationwide. Kapiteeli´s customer-oriented service model is based on a strong regional presence, expertise on the local real estate market, and partnership thinking.

Key figures

	2002	2001	Change, %
Total real estate assets, EUR million	1,236	1,278	-3
Turnover, EUR million	334	296	13
Profit/loss before extraordinary items and taxes, EUR million	35	66	-47
Equity ratio, %	53.2	58.5	
Sale of real estate, EUR million	178	153	16
Real estate investment, EUR million	63	54	17
Average personnel	151	150	-

Mission statement Kapiteeli owns, develops, leases and sells commercial, office and hotel properties nationwide. We are concentrating our real estate assets on national growth centres and the most important regional centres.

Vision We want to be a real estate investment company operating profitably in Finland's most rapidly developing areas. We create the space for the customer's success by providing functional, high-quality spatial solutions. We want to be a respected partner and an expert, an active developer and an attractive employer.

Ownership vision Our ownership vision is to expand our business and develop our real estate assets so that the current owner can give up ownership of the company flexibly and profitably.

Customer vision We want to be a desirable and trustworthy partner for our customers. We bring our customers added value by offering them individual spatial solutions and services.

Staff vision We want to be an employer that respects its staff as professionals and individuals. We offer challenges and encourage initiative and innovation. We support personal development and the wellbeing of the individual by investing in training and a sound working environment.

Strategic aims Kapiteeli is owned by the State of Finland, whose long-term goal is to relinquish its ownership in whole or in part. Kapiteeli's long-term aim is to increase the asset value of the company by giving the company a strong market position as a nationwide property owner and an attractive partner. The idea is to achieve this by improving our real estate assets and the productivity of those assets through sales, purchasing and development activity. Kapiteeli is developing its four business units independently according to their own criteria and their own targets in order to boost their efficiency and improve the profitability of their operations.

Mission statement, vision and goals

Real estate assets Kapiteeli is focusing its real estate assets on the growth centres, especially on the most rapidly growing Helsinki, Tampere, Turku, Jyväskylä and Oulu regions.

The company will increase its ownership of office and commercial properties and the number of hotels it owns to at least 80% of all real estate assets by the end of 2005.

Kapiteeli aims to divest itself of assets that are not compatible with the company's strategic aims due to their size, location or type, by the end of 2005. The company's aim is to sell real estate to the value of over EUR 100 million every year. Kapiteeli will use the return on sales to finance most of the development of its investment property and the purchase of new investment properties.

Kapiteeli's subsidiary Kruunuasunnot Ltd focuses on owning housing in certain defined key areas and intends to reduce its existing housing portfolio by roughly one thousand units by the end of 2005. The number of housing units is expected to go down from 5,400 to 4,500.

Net rental yield and earnings from business operations Kapiteeli's aim is to increase the net rental yield on office, commercial and hotel properties to at least 9%. The company intends to improve the return on capital invested in it on an annual basis by sales, purchasing and development activity.

Kapiteeli sets regional net yield targets for its properties according to investment criteria that are confirmed by the Board of Directors. The profitability of Kapiteeli's business will improve as the volume of productive real estate assets increases and the volume of less productive assets, i.e. sales assets, decreases.

Kapiteeli's business units In 2002, Kapiteeli's real estate business operations were divided into four business units: Investment Property, Development Property and Sales Property, plus Kruunuasunnot Ltd. Since the beginning of 2003, the business units have been organized according to property type.

During the year under review, Kapiteeli focused its strategy and long-term operational targets. At the turn of the year we divided our real estate assets into four business units according to property type.

The core of Kapiteeli's real estate assets is made up of office and hotel property, suitable for long-term investment, which we concentrated in their own business units on January 1, 2003. Our aim is to raise the quantity and quality of the office and hotel property in our ownership. We are looking for a minimum net rental revenue of 9% on these.

Real estate that is incompatible with our strategy forms a sales portfolio of properties, which we will endeavour to sell to the value of EUR 100 million every year.

Housing development, ownership and rental is still in the hands of Kapiteeli's subsidiary Kruunuasunnot, whose properties were divided during the year into those to be kept and those to be sold, according to their location and regional market.

Results on target in an increasingly difficult market

The year 2002 was a profitable one for Kapiteeli despite an ever more challenging operating environment. In the main, Kapiteeli achieved its strategic aims and reached its performance targets.

Regional concentration of real estate in growth centres continued in line with our strategy. Real estate purchases and completed development schemes increased the volume of real estate assets in line with Kapiteeli's strategy and strengthened the Company's status as a supplier of business premises and hotel properties. Real estate sales targets were also achieved.

One of our most important acquisitions during the year was the Stockmann department store property in Turku. Some of the more important development schemes in Helsinki were the Ruoholahti shopping centre, the third office block in the HTC Ruoholahti development and the conversion of the Itämerentalo building into a modern office property. The uncertainty in the market for business premises was reflected in the rental and vacancy rate of Kapiteeli's investment property. Kapiteeli did not quite achieve its net rental targets and vacancy rates rose and exceeded the targets.

The company's investment in real estate development for the year 2002 came to EUR 63 million, slightly less than our strategic target. Because of the more difficult market situation, new investment schemes and conversion work were postponed because schemes have to be pre-let to a sufficient degree to permit a start to be made.

Goals set for the sale of real estate were reached, which is something to be proud of. The Group sold real estate to the value of EUR 178 million during the year,

Review by the President and CEO

of which sales by the sales property unit amounted to EUR 85 million. The volume of property sold exceeded the previous year's level and sales were concentrated, as planned, on property producing a smaller yield.

The reorganization of the real estate owned by Kruunuasunnot and the development of the rental stock continued according to plan. In conjunction with the classification of property, balance sheet values were reassessed. Because of the provisions that have been made, the financial performance of Kruunuasunnot went well into the red.

There were no significant changes in the operating environment for the real estate business during the year under review. The sector continued to suffer from the weakness of the economic situation generally and the uncertainty of recovery. Forecasts of an improvement in the situation are continually being postponed further into the future. The year 2003 will not bring property owners the parameters for improved business, but neither is there any sign of the situation deteriorating. Sales markets for real estate are continuing to operate fairly well, but the rental market for business premises and the launching of new property development investments will remain difficult for the whole of the year.

Focus on improved customer service and profitability

Improving customer services has had an important place in company strategy from the very beginning of Kapiteeli's operations. Our objective is to resolve the property needs of present and future customers with quality and efficiency. We are constantly developing new tools and products to improve customer service and promote interaction between Kapiteeli and our customers.

In November, Kapiteeli became a shareholder together with Varma-Sampo and the Sampo Group in a company named Ovenia Oy which specializes in property leasing, building management and maintenance, project management and real estate administration. Kapiteeli has a 37.5% share in the company.

Setting up a new property services company is part of Kapiteeli's strategy of diversifying its facility management services to provide a broader, higher-quality range of services. The owners are jointly committed to developing the company into the leading company producing facility management services in the market. Kapiteeli will be buying all the property maintenance management and leasing management services it requires from the new company.

Improving profitability is also our aim for 2003. The realisation of this aim will be promoted by a gradual increase in the proportion of office and hotel premises in our entire real estate portfolio, plus challenging results and development targets set for individual business units. On the basis of past experience, I believe that Kapiteeli and its staff will be able to respond to these challenges in 2003, as they have done in the past.

I should like to take this opportunity to thank the staff, our extensive clientele and our partners, for 2002 — a year that has gone extremely well.

Helsinki, March 20, 2003

Kari Inkinen
President and CEO

Real estate investments bring a steady return

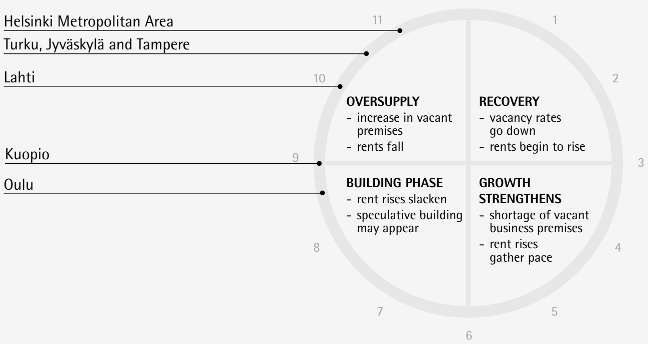
New construction reacted rapidly to a weakened economic situation. This has kept vacancy rates in Helsinki below many other European cities.

Volume of empty premises continues to grow The exceptionally vigorous growth in the real estate markets ended halfway through 2001 when the after effects of the weakening of the economy began to appear in the rental markets as well. In 2002, the vacancy rate for office premises continued to rise and rental levels eased slightly.

Vacancy rates for office and commercial premises grew. Rental levels for new leasing agreements fell slightly on the previous year and property owners rented out premises on shorter leases than normal. The sales market, on the other hand, continued to operate as in earlier years with supply matching demand more easily than in the rental market.

Vacancy rates remain the same There is a certain amount of uncertainty in the operating environment, which is reflected in the real estate markets and elsewhere as a slowing down in decision-making. Recovery of the global economy is turning out to be slower than expected. One individual factor that can be singled out here is the trend in oil prices, which will be affected considerably by the eventual outcome of the crisis in Iraq. Rapid growth in investment prospects cannot be expected before the summer. Neither can a rise in rental levels be expected in the short term – something that tends to increase investors' yield requirements. In the current situation, the role of foreign investors has grown substantially.

Office premises clock cycle



Operating environment

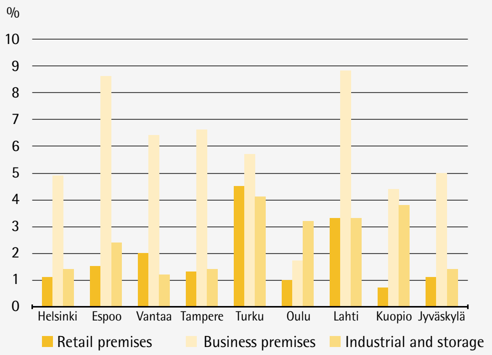
Vacancy rates for office and commercial premises are continuing to rise in most of the major cities in Europe. In Helsinki, the vacancy rate is expected to remain at around 6%.

Demand for commercial and storage premises remains high and investment activity is also expected to remain buoyant. The rental markets are going through a period of normalisation and there are going to be more alternatives available to users of business premises.

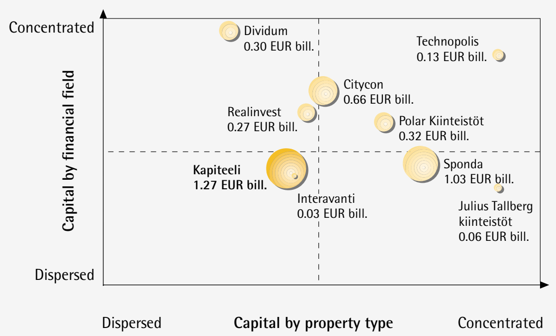
Interest growing in real estate investment The slide in the stock markets that has continued for the last two years coupled with low interest rates has considerably improved the competitiveness of real estate as an investment in a very short time. By their very nature, real estate investments are very similar to interest-investments, but they also provide a steady cash flow and a hedge against inflation. Real estate has also been going into foreign ownership over the last few years, both in the metropolitan area and elsewhere in Finland.

Real estate investment companies Property ownership in Finland has centred on owner/users and pension and insurance companies. Finnish real estate investment companies specialize in owning and renting office and commercial premises, industrial and storage premises, and hotel premises. The companies operate mainly in the metropolitan area and to a lesser extent in other major cities. Hotel property ownership in Finland is concentrated in the hands of three operators.

Vacancy rates in Finland 1/2003



Profiling real estate investment companies



Source:
Catella Property
consultants 2003

Next-door restaurant becomes new shopping area

Local presence means that decision-making is quick and easy points out Juha Oksanen, manager of the Stockmann department store in Turku.

Stockmann Turku began looking for new space for expanding their department store last summer. Part of the extension was implemented by renting one thousand square metres of space in the same block, formerly occupied by a hotel and restaurant. Stockmann and Kapiteeli worked together to plan the alterations and renovations necessary to turn the space into a shopping area to meet Stockmann's quality criteria. Kapiteeli was already familiar to Juha Oksanen, the department store manager, before the purchase of the store premises in July.

"It's a big plus that Kapiteeli have a local representative with whom we can make decisions. A shared outlook on the way the property should be developed to support business operations is also of key importance," says Juha Oksanen describing the cooperation between Stockmann and Kapiteeli.

Service model

Flexible partner for changing spatial needs

Kapiteeli puts a great deal of emphasis on an interactive business approach, on customer service and quality. At Kapiteeli a good customer relationship is a partnership based on the ability to provide customers with the right premises for their needs and the right services to go with them. We aim to achieve this through knowing the customers and their requirements and through monitoring various ways of gauging customer satisfaction.

Expertise and accessibility are important Kapiteeli has a nationwide service network comprising customer service points in 14 separate localities plus an online customer service centre and a range of other electronic service channels which makes it possible to provide personal customer service virtually round the clock. It also enables customer feedback to be collected effectively.

In 2002, Kapiteeli continued to improve its electronic service channels. The aim is to add on auxiliary services to the properties owned by Kapiteeli to make it easier to use the properties and work in them on a day-to-day basis. One example of this is the Kapiteeli.net intranet service, which is a separate service for each property providing a channel for information, feedback and networking and a source for procuring other services of various kinds. During 2002, Kapiteeli.net was rolled out for the first time at HTC Ruoholahti in Helsinki and Hatanpäänvaltatie 260 in Tampere.

New rental model for small offices Kapiteeli has responded to the growing demand for small offices by opening the first Kapiteeli Business Studios unit at HTC Ruoholahti. Calculated on a workstation basis, the Business Studios concept is a more affordable solution than conventional office premises rental models. The next Business Studio unit is already under construction in renovated premises in a former silk works at Herttoniemi in Helsinki. Other units will also be opened outside Helsinki to meet demand, the first being the Hermitec Business Studios in Tampere.

Outsourcing property services Kapiteeli's strategy of dividing property services into a separate company operating independently in the market became possible at the end of 2002, when Kapiteeli and Kiinteistövarma combined their facility management operations. This gave rise to the largest property services company in Finland, which will produce and coordinate all Kapiteeli's property services in the future.

Real estate assets to be gradually increased in line with strategy

The structure of Kapiteeli's real estate assets is being altered by buying, selling and developing.

The total balance sheet value of Kapiteeli's real estate assets is about EUR 1 200 million.

About 60% of Kapiteeli's assets are defined in the company strategy as investment assets, i.e. office, commercial and hotel premises. Roughly one-third of the assets are sales assets, which the company is endeavouring to sell. The company buys and develops properties that are in line with its investment strategy and sells properties that are incompatible with it.

Kapiteeli is continually developing real estate assets by building new properties or obtaining change use to suit the needs of its clients. Kapiteeli endeavours to get land areas that are in line with its investment criteria in terms of location and other characteristics zoned for building to construct office and commercial buildings on them that will remain in Kapiteeli's ownership.

In 2002, Kapiteeli invested EUR 57 million in developing office and commercial properties and EUR 6 million in developing hotel properties. The company spent EUR 60 million on acquiring new investment properties and sold properties that were incompatible with its strategy to the value of EUR 178 million.

Kapiteeli's business structure Jan. 1, 2003

Kapiteeli Ltd

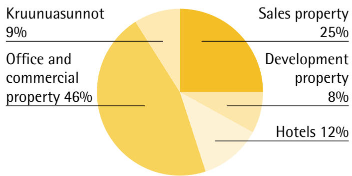
Finance and administration

Office and commercial property | **Hotels** | **Sales Property** | **Kruunuasunnot Ltd**

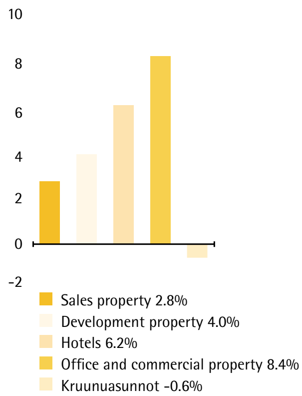
Real estate assets summary

Assets organized under independent units During 2002, Kapiteeli's real estate assets were divided into investment, development and sales properties and Kruunuasunnot. At the turn of the year, Kapiteeli split these real estate assets into four business units according to property type and location, in order to be able to develop them as effectively as possible. One unit is in charge of office and commercial properties and another in charge of ownership, development and leasing of hotel properties. Properties considered as sales assets are organized in a unit of their own. Kapiteeli's subsidiary Kruunuasunnot Ltd is in charge of housing ownership, sales and development. Kapiteeli is encouraging each of the business units to evolve independently in accordance with its own criteria and its own targets.

Real estate assets by business unit Dec. 31, 2002



Net rental yield on real estate assets by business unit, 2002



Major investments, 2002

Name (company)	Use	Floor area, m²	Invest-ment, 1 000 e
Helsingin Itämerenkatu 21	Commercial property	32,464	19,260
Ruoholahden Itämerentalo	Office property	15,640	11,037
HTC Ruoholahti, Porkkalankatu 20 C	Office property	4,408	5,194
Hotelli Kalastajatorppa, Helsinki	Hotel	23,291	4,842
Helsingin Ruoholahden Parkki	Car park	44,200	4,552

Net rental yield on real estate assets by business unit, 2002

	EUR million	Number of properties	Floor area, 1 000 m²
Office and commercial property	568	242	812.1
Hotels	155	20	172.3
Development property	100	85	262.8
Sales property	306	2,000	912.9
Kruunuasunnot	107	278	335.5

Telecommuting from Ruoholahti saves travelling time

Jyrki Merjamaa, development manager at Tiimari, used to travel from Helsinki to Tiimari's head office in Lahti on a daily basis. Now he and other Tiimari employees living in the capital can work for part of the week in Kapiteeli's Business Studios at HTC Ruoholahti, where Tiimari has rented a furnished office for two as a workstation for telecommuting.

"This is the most flexible solution from our point of view. We have parking places, computer connections and conference rooms, plus access to a whole package of outsourced conference services that Kapiteeli has put together from various service providers," explains Jyrki Merjamaa.

Some of Tiimari's 160 shops are located in properties owned by Kapiteeli. "Kapiteeli is a large property owner but an agile one, who is able to take care of the little things, too."

Jyrki Merjamaa is development manager of Tiimari. In his experience the right premises are easy to find when the landlord knows the tenant and the tenant's requirements.

Office and commercial property

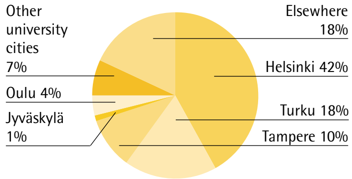
New business premises in the growth centres

Kapiteeli focuses on owning office and commercial properties of at least 2,000 m² in the capital and in other growth centres that are wholly owned by Kapiteeli. The company is aiming to increase the volume of office and commercial properties suitable as investment assets from the current 50% of its total real estate assets to 80% by the end of 2005.

All in all, Kapiteeli has approximately 800,000 square metres of rentable business space in a total of 220 investment properties. At the end of 2002, the balance sheet value of the company's office and commercial investment assets was EUR 568 million.

Kapiteeli's most important rental properties are the three prime office buildings in the HTC Ruoholahti development in Helsinki, the Ruoholahti shopping centre, the Itämerentalo office property also in Ruoholahti, the Sp-kiinteistöt office building at Kilo in Espoo, the Stockmann department store property in Turku, the Pentinkulma office property in Pori and the Naulakatu and Hatanpäänvaltatie 260 office properties in Tampere.

Office and commercial property[1] by region Dec. 31, 2002



[1] Includes industrial and storage premises

Office and commercial property, key figures[1]

	2002	2001	2000
Rental revenue, EUR million	72	63	60
Net rental yield, EUR million	44	39	36
Operating profit, EUR million	29	30	24
Net rental yield, %	8.4	8.8	7.8
Occupancy rate, %	87	87	88

[1] Includes industrial and storage premises

Most important properties purchased, 2002

Name (company)	Use	Floor area, m²
Turun Yliopistonkatu 22	Commercial property	12,700
Oulun Posteljooni	Office property	14,190
Tampereen Naulakatu 3	Office property	14,410
Savonkartano	Office property	3,057

The three buildings at HTC Ruoholahti contain a total of 19,000 m² of office and commercial premises.

The Ruoholahti shopping centre is an up-to-the-minute shopping and service centre with parking for 1,500 cars located in the Porkkalantalo building. The principal tenant for the Ruoholahti shopping centre is Kesko. The 17,600 m² department store property in the centre of Turku, which is wholly rented to Stockmann, forms part of the busy Hansakortteli shopping centre.

During 2002, Kapiteeli purchased office and commercial property in line with its investment and development strategy to the value of EUR 58 million and sold office and commercial property that was incompatible with its strategy to the value of EUR 40 million. Most important acquisitions were the Naulakatu 3 office property in Tampere, the Stockmann department store property in Turku, the Posteljooni office property in Oulu which is used as the Post Office and Telecom building, and the Savonkartano office building in Kuopio.

New build and renovation schemes In 2002, Kapiteeli implemented investments to the value of EUR 60 million. The largest schemes to be completed were at Ruoholahti in Helsinki, where the Ruoholahti shopping centre, the third office building in the HTC Ruoholahti complex and the Itämerentalo building were all finished. The last of these is a former industrial and storage building which has been modernised and adapted as office space.

Kapiteeli also owns two office sites in the area and is aiming to start work on one of these during 2003. Building rights for office space were ratified at a number of places including Lassila and Sörnäinen in Helsinki.

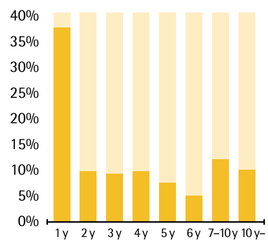
Kapiteeli is also acquiring new office and commercial properties by building them on land it already owns.

Salmisaarentalo to become offices and courthouse During 2002, Kapiteeli started work on renovating the Salmisaarentalo building at Ruoholahti and converting it into offices and a new courthouse for Helsinki. Premises in the building have been leased on long-term agreements to the Ministry of Justice and the Altia Group. Roughly half the property is to be used by the Helsinki District Court and the public prosecutor's office. Building work will be completed in stages during 2004.

Kapiteeli also continued renovation work on the elevations of the former silk works at Herttoniemi in Helsinki and refurbishment of the courtyard. The building is being converted into a modern office block.

Net rental yield on office and business properties in 2002 was 8.4%. Kapiteeli's target is to raise the net rental yield to 10% in 3 years by purchases and development operations.

Maturity of office and commercial property rental agreements Dec. 31, 2002[1)]



1) According to rental revenues excluding VAT

Biggest office and commercial properties

Name	Location	Use	Floor area, 1 000 m²
Helsingin Itämerenkatu 21	Helsinki	Commercial property	32,464
Turun Yliopistonkatu 22	Turku	Commercial property	12,700
Helsingin Ruoholahden Parkki	Helsinki	Car park	44,200
Sp-kiinteistöt Oy Kilo	Espoo	Office property	28,093
Ruoholahden Itämerentalo	Helsinki	Office property	15,641

Tomi Peitsalo, general manager of the Hilton Helsinki Strand, stresses the importance of hotel expertise to a property owner in a successful upgrading operation.

Hotel upgraded to Hilton

At the turn of the year, the Hilton Helsinki Strand, located at Hakaniemi, was given a new look and a new service concept. Renewing the hotel and upgrading the rooms was a substantial project, but the majority of it was completed in six months, according to plan. Tomi Peitsalo, general manager of the hotel, stresses the property owner's expertise in hotel operations when making investment decisions.

"The right approach is to promote the business operations of both the owner and the user. When the interests of both parties coincide the product is competitive and both sides have the best chance of getting the best return on their investment."

Hotels

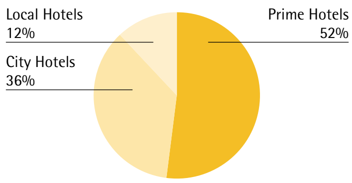
Knowledge of hotel operations a sound basis for property development

At the end of 2002 there were 18 hotel properties in Kapiteeli's ownership, 13 of which were located in Helsinki or the centres of other Finnish cities and 5 in key places in other localities. Altogether there are about 3 000 rooms in hotels owned by Kapiteeli, almost half of them in Helsinki. At the end of 2002, the balance sheet value of the company's hotel properties was EUR 155 million.

Focus on Prime Hotels Kapiteeli has divided the hotel properties it owns into three classes, Prime Hotels, City Hotels and Local Hotels. Prime Hotels are prestige properties in city centres that are in excellent condition and function well. All Kapiteeli's Helsinki hotels are Prime Hotels; they are the Hilton Helsinki Strand, the Hilton Helsinki Kalastajatorppa, the Continental, the Grand Marina and the Marina Congress Center. The Hotel Tampere is also in the Prime Hotel class.

City Hotels are hotels in city centres that are in good condition and work well. These include the Hotel Espoo, the Hotel Korpilampi in Espoo, the Hotel Rosendahl in Tampere, the Hotel Jyväskylä, the Hotel Kajanus in Kajaani, the Imatran Valtionotelli and the Hotel Kuopio. Most of the Local Hotels are located in key positions in smaller localities.

Hotels by number of rooms, Dec. 31, 2002



Hotels, key figures

	2002	2001	2000
Rental revenue, EUR million	13	14	11
Net rental yield, EUR million	10	11	8
Operating profit, EUR million	3	3	5
Net rental yield, %	6.2	6.9	7.8
Occupancy rate, %	97	97	97

Kapiteeli is concentrating on developing its Prime and City Hotels. The Local hotels will gradually be sold. The aim is to improve the return on Prime Hotels through new investments and to increase the number of Prime Hotels by purchasing new hotel properties and studying opportunities for collaborating with other owners of Prime hotels. Investments over the next few years will increase the balance-sheet value of the Prime and City Hotels to almost EUR 200 million. At the end of 2002, almost 50% of the room capacity in hotels owned by Kapiteeli was in Prime Hotels.

Kapiteeli's hotel properties in Helsinki have a total of about 1,400 rooms, almost one-fifth of all the hotel rooms in Helsinki.

Hilton Group the biggest customer Kapiteeli has leased the majority of its hotel property to one of the largest hotel chains in the world, the Hilton Group, which has almost 400 hotels in different parts of the globe. Kapiteeli also has three smaller hotel operators as customers.

The leases on the hotels owned by Kapiteeli were transferred to Hilton in June 2001 when Hilton bought Scandic Hotels AB, the best-known hotel chain in the Nordic countries. The Scandic name and the Scandic operating model have remained in force in most of the hotels. In addition to the Hilton Helsinki Strand, the hotel Kalastajatorppa will become a Hilton Hotel by the end of 2003.

Developing hotel properties Kapiteeli began work on renovating the Hilton Helsinki Kalastajatorppa in 2002 by renewing the rooms, bathrooms and M&E services in the 'shoreline' building and renovating the facades. The restaurant building was also renewed. The overhaul, which conforms to the Hilton brand image, will be completed stage by stage in 2003, when the main building is upgraded.

The Hotel Korpilampi and the Hotel Lapinportti were also refurbished in 2002. In 2002, Kapiteeli decided to start work on renovations to the Hotel Espoo, and refurbishment and new construction at the Hotel Tampere. Work on the Hotel Espoo will be completed by the end of 2003 and the Hotel Tampere will have been completely renewed by the end of 2004.

In 2002, Kapiteeli sold two hotels that were incompatible with its strategy for close on EUR 2 million.

Profitability grows as real estate assets are renewed Net rental yield on hotel properties for 2002 was 6.2%. The low yield was due to the refurbishment and renovation work at Kalastajatorppa, Korpilampi and Lapinportti. Kapiteeli is aiming for a net rental yield on its hotel property of 8.5–9% within 3 to 4 years on the basis of new leasing agreements.

Biggest hotels

	Floor area, m²	Number of rooms
Scandic Hotel Continental	30,000	512
Scandic Hotel Grand Marina	23,660	462
Hilton Helsinki Kalastajatorppa	23,290	235
Scandic Hotel Rosendahl	14,660	213
Hilton Helsinki Strand	10,250	200

Property sales develop assets structure

Kapiteeli's sales property comprises real estate assets that are incompatible with Kapiteeli's ownership strategy. Sales property includes office and business properties, hotels and other real estate outside the growth centres, plus land that cannot be zoned for building office or business properties or hotels in accordance with Kapiteeli's strategy.

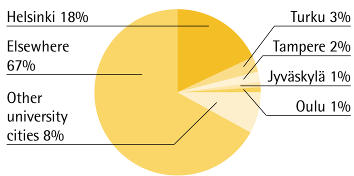
The balance sheet value of sales property at the end of 2002 was EUR 305 million.

Kapiteeli's aim is to divest itself of its sales property by the end of 2005, by selling property to the value of more than EUR 100 million every year. By selling properties, the Company will be able to finance property development in line with its strategy and purchase and build new properties.

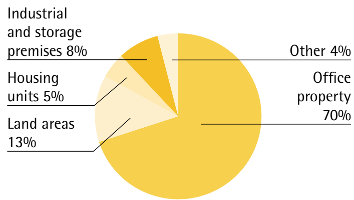
Customers buying Kapiteeli's sales property are mostly local investors, those who are going to use the property themselves and, in the case of land, municipalities and construction companies. Leaseholders also buy property that they see as of benefit to themselves. Some properties are suitable for training use, for example, so that they are of interest to firms in the social sector and other actors to whom municipalities have outsourced services that are not part of their core business.

2002 sales targets exceeded In 2002, Kapiteeli sold around 1 100 sales and development properties for a total of EUR 137 million. Kapiteeli also sold investment properties worth EUR 40 million. These sales produced a net capital gain of EUR 36 million. Sales of property with weaker yields were particularly successful. Kapiteeli sold 40% of its property to users, 30% to small local investors, 20% to construction companies and 10% to towns and municipalities.

Sales property
by region Dec. 31, 2002



Sales property
by property use Dec. 31, 2002



Major sales of Sales Property and Development Property, 2002

Name	Use
Helsinki Purjeentekijänkuja 1	Office and commercial property/land area
Espoon Rantamäki 3	Office and commercial property/land area
Helsingin Mannerheimintie 162	Land area
Espoo Kivenlahdentie 4	Land area
Helsinki Pekankatu 9	Land area

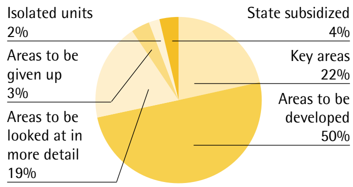
Sales property, key figures

	2002	2001	2000
Rental revenue, EUR million	41	46	52
Net rental yield, EUR million	10	12	16
Operating profit, EUR million	2	9	17
Net rental yield, %	2.8	3.0	3.4
Occupancy rate, %	66	67	69

Other property

Housing for the Defence Forces and the free market

Housing units
breakdown by strategy Dec. 31, 2002



Kapiteeli's subsidiary Kruunuasunnot Ltd is a housing and housing development company which owns around 5,350 housing units in 50 different localities. The balance sheet value of the company's housing was EUR 107 million at the end of 2002.

Roughly half the housing units owned by Kruunuasunnot are rented to the Finnish Defence Forces and half are rented on the open market.

In 2002, Kruunuasunnot classified the housing units it owns into key areas, plus housing areas to be developed, housing areas to be looked at in more detail and housing areas to be given up. Kruunuasunnot is focusing on property development in certain key areas, Helsinki, Oulu, Turku and Hämeenlinna, plus Hyrylä and its environs. In housing areas that are to be given up, there are only a small number of housing units. Kruunuasunnot is aiming to divest itself of these areas over the next couple of years.

Renovation and modernization Kruunuasunnot invested about EUR 12 million during 2002, in repair and renovation work on properties in key areas and housing areas to be developed. Kruunuasunnot is aiming to renovate almost the whole of its property portfolio in the key areas and areas to be developed over the next five years.

At the end of the year, 185 dwellings built with state-subsidized loans, 120 of them in Helsinki, were transferred to Kruunuasunnot from the parent company. The company renewed its contract with the Finnish Defence Forces by entering into a group rental agreement for 2,850 homes at the end of 2002. For one-third of the housing units, the agreement will be in force for 5 years to allow long-term development of the units. Further 5–15 year agreements have been made to cover housing units that are to be modernized.

Kruunuasunnot sales in 2002 amounted to EUR 2.2 million, and preparations for substantial growth in sales were made during the year.

Training real estate experts

Annual studies of working atmosphere show that Kapiteeli staff are satisfied with their workplace.

On December 31, 2002, the Kapiteeli Group had 153 employees, 138 of whom were employed by the parent company and 15 by the subsidiary, Kruunuasunnot Ltd.

Management Kapiteeli's personnel policy is based on respect for the staff, both as professionals and as individuals, providing sufficiently challenging work, encouraging staff initiative and supporting the development of the individual through proper training.

Everyone at Kapiteeli has the chance to discuss their personal development targets, main duties and performance targets with their immediate superior at regular appraisal interviews. This helps everyone to concentrate on what is essential for the Group as a whole and to assess the implications of strategic aims at the individual level.

The size and organization of the separate units at Kapiteeli create ideal opportunities for interaction between staff and supervisors on a daily basis. This helps in the more detailed specification of targets and makes it easier to give feedback.

The entire personnel at Kapiteeli is covered by an incentive scheme which rewards excellent performance and surpassing targets.

Expertise and improvement The staff at Kapiteeli has a wide variety of experience in the real estate and financial sector and a good deal of in-depth local knowledge about the markets for office space, decision-making in local government and business generally. Kapiteeli is seen as an interesting employer that bridges the gap between different business sectors.

Kapiteeli's induction programme for new employees has been harmonized. It begins with new staff familiarizing themselves with Kapiteeli's vision, strategy and targets to create a basis for seeing the importance of their own work to the implementation of Kapiteeli's overall aims.

Everyone at Kapiteeli takes part annually in training to maintain and develop their professional expertise according to targets agreed in appraisal interviews. During 2002, the appraisal interview targets were made more specific.

Personnel

Promoting customer-oriented practices continued to be one of the most important themes in improving Kapiteeli's operations in 2002. Development of a more effective customer feedback system began to improve individual work planning and targeting.

The internationalisation of the real estate sector coupled with an increasing number of foreign customers calls for better and better language skills from our staff. Last year Kapiteeli launched new language instruction and training groups specially tailored for Kapiteeli in Helsinki, Turku and Tampere.

Internal audits aimed at boosting the quality and efficiency of operations were started in autumn 2002 and the first internal auditors were trained in August. The audits have produced an abundance of ideas and suggestions for improving Kapiteeli's operations.

Wellbeing Kapiteeli monitors staff wellbeing with an annual working atmosphere survey and charts areas for improvement. In 2002, 86% of respondents to the survey said they were fairly satisfied or very satisfied with their current work and this time no general areas needing improvement emerged anywhere in Kapiteeli. It can also be inferred from the results of the survey that the action launched the previous year to improve internal flow of information has been effective. The regular briefing sessions on topical issues and new projects organized by various business units have been found useful by the staff and will be continued.

Personnel, key figures

Personnel turnover, % (group)	6.6
Training costs of total salaries, % (group)	4.2

Personnel by business unit Dec. 31, 2002

	Number
Sales property	48
Investment Property	27
Facility Management and Development Property	29
Management and administration	34
Kruunuasunnot	15

Environmental aspects affect progress in the sector

The outcome of the project management process controls almost all the environmental impacts that occur during the life cycle of the building.

The most important environmental impacts in the real estate sector are caused by the consumption of energy and materials and the generation of waste from building, repairs and use. All of these can be crucially affected at the design stage.

Decisions and efforts made by the building owner in the design of the building, the materials used and the methods of building affect the environment throughout the lifetime of the building. Kapiteeli favours energy-efficient and environmentally friendly building materials, building products, working methods, tools and systems in design, decision-making and construction.

The major part of the environmental impact resulting from the use of a building comes from energy consumption. Because of this, Kapiteeli aims to guide property users in the ecological use of their premises.

Environmental policy guides Kapiteeli's operations Kapiteeli operates in an environmentally friendly way guided by its environmental policy which is based on the following principles:

- To take lifecycle benefits into account in design, decision-making and implementation of operations and construction projects.
- To aim for efficient use of energy and materials plus reduced consumption.
- To give tenants sufficient information on the use of property and premises in relation to environmental issues.
- To take part in real estate sector environmental projects.
- To publish details of the environmental aspects of our operations in an open and transparent way.
- To continue to develop our environmental expertise.

Environment

Monitoring energy consumption In 2000, Kapiteeli joined KRESS, the voluntary energy conservation agreement for the property and construction sector. Some 38 of Kapiteeli's properties are being monitored for KRESS. During the year, energy reviews were carried out on 32 properties that will join the monitoring scheme in 2003.

The aim of the property companies that have joined the KRESS agreement is to cut heating consumption by 10% of 1998 levels by 2005 and 15% by 2010. As far as electricity consumption is concerned, the aim is to halt the growth in consumption by 2005. Work on implementing conservation measures spotted in the reviews has been started as the reviews have been completed.

During 2002, the company commissioned studies of polluted soil at 16 sites and rehabilitation work was started at 10 of them. Total costs of the rehabilitation work were EUR 1.2 million. The largest rehabilitation projects were carried out at Hyvinkää, Kajaani and Porvoo.

Kapiteeli is trying to get land areas that fulfil the appropriate investment criteria in terms of location and other characteristics zoned for building offices and commercial premises. These would then remain in the company's ownership, while Kapiteeli is offering other land areas for sale. Kapiteeli's intention is to try and retain existing buildings wherever economically and technically feasible. In Kapiteeli's biggest office cluster at Ruoholahti, the old building stock has undergone change of use and will do so again, while additional infill building has helped to boost density.

Research to support environmentally friendly operations Kapiteeli is taking part in the Rembrand Technology Programme organized by Tekes and Helsinki University of Technology. The programme is doing a number of things including studying environmental indices for office buildings and creating tools for managing environmental impacts throughout the company. Research is focusing on developing the organization's own operating approaches and procurement activities in environmental management.

Kapiteeli will continue to improve its environmental management system in 2003 with the overall aim of integrating a system covering the organization's entire operations into Kapiteeli's core business by the end of the year.

Board report on operations Jan. 1.– Dec. 31, 2002

Trends in the property market Since 2001, a substantial part of the global economy has been driven into a decline or even into recession, led by the United States. During a period of slow economic growth interest rates have gone down in all the important economic areas and inflationary pressures have slackened. The uncertainty in the global economy in 2001–2002 has also been reflected in Finland, so that companies have reduced their growth forecasts and invested cautiously.

Changes in economic activity are reflected in the property market with a time lag, which is apparent at the moment through an increase in vacancy rates for office premises and a slight fall in rental levels. The timing and strength of any upturn in the cycle is difficult to predict, but the economic operating environment for the real estate sector is not expected to strengthen until 2004.

Kapiteeli business operations January 1 to December 31, 2002 Kapiteeli Ltd is a real estate investment company looking for a strong market position by focusing on owning, renting and developing commercial, office and hotel property. The company's long-term aim is to increase the Finnish State's asset value. The State's long-term aim is to reduce its equity-rated investment in Kapiteeli by relinquishing its ownership of the company in whole or in part.

In order to achieve its long-term aims, Kapiteeli began improving its investments and financial status in 1999 by sales, purchasing and development activity. During the year under review, Kapiteeli developed its real estate assets by selling properties to the value of EUR 177.1 million, buying new properties that met the investment criteria to the value of EUR 59.6 million and investing in development to the value of EUR 62.9 million.

Uncertainty in the market for business premises in the metropolitan area in 2002 was reflected in the higher vacancy rates for business premises and in investment property rentals. Because of the market situation, Kapiteeli's net rental income for 2002 was somewhat below the target level and the vacancy rate rose somewhat above the target level. Net rental income from Kapiteeli investment properties was 7.9% (8.3%) and net rental income for the Kapiteeli Group as a whole was 5.5% (5.3%).

On April 4, 2002, the Annual General Meeting decided to reduce Kapiteeli's share capital and premium fund by EUR 220 million, and the reduction was entered in the Trade Register on July 31, 2002. Kapiteeli is paying the State EUR 100 million of the reduction in cash, EUR 73 million on November 29, 2002 and EUR 27 million on May 31, 2003. On August 20, 2002, Kapiteeli issued a capital loan promissory note to the State in the sum of EUR 120 million to cover the remainder of the reduction.

Kapiteeli Ltd, Varma-Sampo Mutual Insurance Company, Sampo Plc, Sampo Life Insurance Company, Kaleva Mutual Insurance Company and Kiinteistövarma Oy signed a shareholder agreement on November 22, 2002, under which Kapiteeli and Kiinteistövarma combined their property services into a single new company. Following the ownership rearrangements, Kapiteeli Ltd owns 37.5% of the share capital, Varma-Sampo owns 37.5%, Sampo and Sampo Life together own 23.2% and Kaleva owns 1.8%. Kapiteeli's property services and the staff who deal with them were transferred to the new company on January 1, 2003.

Group structure The Kapiteeli Group is made up of the Parent Company Kapiteeli Ltd, the subsidiary Kruunuasunnot Ltd and 751 real estate subsidiaries and 242 associated real estate companies. The Parent Company, Kruunuasunnot and the permanently owned real estate subsidiaries and associated real estate companies have been combined to form the Kapiteeli Group. The real estate corporations recorded under current assets have not been consolidated.

Parent Company profit and loss statement Kapiteeli's turnover totalled EUR 301.2 (268.4) million, including EUR 137.0 (136.7) million of rental revenue and compensation for use. In addition, turnover included EUR 164.2 (131.7) million from sales of real estate.

The Parent Company's planned depreciation and write-downs totalled EUR 9.9 (9.7) million. A total of EUR 16.9 (1.0) million in extraordinary write-downs was entered against real estate listed as current assets.

The Kapiteeli Group December 31, 2002

Kapiteeli Ltd

Real estate subsidiaries and associated real estate companies, no.

Non-current assets	
Subsidiaries	80
Associated companies	1
Current assets	
Subsidiaries	520
Associated companies	241

Kruunuasunnot Ltd

Real estate subsidiaries, no.

Non-current assets	118
Current assets	33

Due to losses confirmed in taxation, no taxes were entered in Kapiteeli's accounts for the financial year.

Profit for the year totalled EUR 40.8 (68.4) million. This includes EUR 58.1 (39.5) million in capital gains from sales and a loss of EUR 16.5 (14.9) million from selling sales property, investment property and development property. In the previous year, 2001, an additional sales profit of EUR 37.4 million was recorded from the sale of Scandic shares.

In 2002, return on equity (ROE) was 5.5% (9.5%) and return on invested capital (ROI) was 5.1% (7.6%).

Parent Company balance sheet The Parent Company balance sheet total stood at EUR 1,255.2 (1,289.5) million. Non-current assets, at EUR 695.0 (601.7) million, include long-term investments in real estate and corporate loan receivables from real estate corporations included in non-current assets. Current assets totalled EUR 560.2 (687.8) million. Real estate assets entered under current assets stood at EUR 482.3 (612.9) million. Corporate loan receivables from real estate corporations entered under current assets amounted to EUR 31.5 (37.3) million.

Financial assets comprise short-term investments and deposits and bank accounts totalling EUR 4.6 (2.2) million.

The Company's equity stood at EUR 650.9 (737.5) million. In 2002, Kapiteeli's share capital and premium fund were reduced by a total of EUR 220 million. The equity included an EUR 120 (0) million capital loan to Kapiteeli from the Finnish State.

Consolidated profit and loss statement Consolidated turnover totalled EUR 334.2 (296.1) million and consisted of EUR 168.2 (157.2) million worth of rental revenue and compensation for use. In addition, turnover included EUR 166.0 (138.9) million from sales of real estate assets.

Planned depreciation came to EUR 14.7 (12.6) million and extraordinary write-downs of EUR 19.6 (4.9) million were entered in the books. The extraordinary write-downs included predicted demolition costs of EUR 1.8 million for Kruunuasunnot properties scheduled for demolition, which have been entered as a statutory provision in Kruunuasunnot Ltd.

Consolidated net profit was EUR 35.2 (71.1) million. This includes EUR 42.4 (64.3) million in net profit from sales of shares and real estate.

Return on equity came to 5.0% (9.4%) and return on capital invested was 4.6% (7.1%).

Consolidated balance sheet The consolidated balance sheet total stood at EUR 1,343.3 (1,373.1) million, with a minority interest of EUR 42.8 (39.9) million. The consolidation differences arising from the amalgamation of real estate companies have been allocated to buildings and land. If the acquisition cost of associated companies' shares is higher or lower than the respective proportions of shareholders' equity, the differences have been allocated to the companies' assets.

Consolidated non-current assets amounted to EUR 757.9 (662.4) million including long-term real estate investments. Current assets comprise real estate and share holdings classified as sales property. Corporate loan receivables from real estate corporations entered under current assets came to EUR 31.4 (37.3) million.

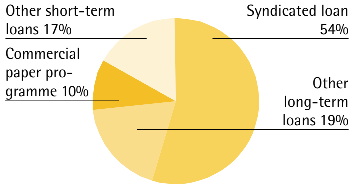
Consolidated financial assets comprise short-term investments and deposits, EUR 4.0 (1.8) million and bank accounts, EUR 5.5 (5.2) million.

Consolidated liabilities stood at EUR 612.5 (560.1) million, of which EUR 210.1 (165.7) million was current and EUR 402.4 (394.4) million non-current.

Consolidated equity was EUR 669.7 (761.9) million. It includes Kapiteeli Ltd's loan of EUR 120 (0) million from the State of Finland.

The consolidated equity ratio without the capital loan was 44.2% (58.5%) at the end of the financial year, and the gearing ratio was 0.8 (0.7). With the capital loan taken into account, the equity ratio was 53.2% (58.5%).

Kapiteeli Ltd, Funding structure on December 31, 2002



Funding On December 31, 2002, Kapiteeli Ltd's interest-bearing liabilities totalled EUR 505.6 million. The company's financial expenses amounted to EUR 23.5 million. The average loan period of Kapiteeli's credits was 2.2 years and the mean interest rate 4.27%. The average period for which interest rates were fixed was 1.1 years.

Administration

Meetings of Kapiteeli shareholders

On April 4, 2002, the Annual General Meeting:

- Approved the financial statements of Kapiteeli Ltd and the Kapiteeli Group and discharged the members of the Board of Directors and the President and CEO from liability.
- Decided, following a proposal by the Board of Directors, to distribute a dividend of EUR 1.61 per share, corresponding to a total of EUR 27,370,000, and to leave the remaining EUR 41,013,515.70 of the profit for the financial year to be carried over on the profit and loss account for previous years.
- Decided, in order to distribute funds to shareholders, to reduce the company's share capital by EUR 100,000,000 from EUR 340,000,000 to EUR 240,000,000 and to reduce the premium fund from EUR 226,700,000 to EUR 106,700,000 by redeeming 5,000,000 shares against payment.

  The share capital and the premium fund were reduced by a total of EUR 220,000,000. EUR 100,000,000 of the redemption price was paid in cash, and a capital loan promissory note was issued to the shareholder for the remaining EUR 120,000,000.
- Elected Erkki KM Leppävuori as Chairman, Jarmo Väisänen as Deputy Chairman and Erkki Helaniemi, Elina Selinheimo, Tuija Soanjärvi and Pertti Tuominen as members of the Board of Directors up to the Annual General Meeting of 2003.

An extraordinary meeting on August 20, 2002:

- Decided on a timetable for payments of the purchase price associated with the reduction in the company's share capital and premium fund. The timetable for the EUR 100,000,000 cash payment was that EUR 73,000,000 was to be paid on November 29, 2002 and EUR 27,000,000 is to be paid on May 31, 2003. The capital loan for the EUR 120,000,000 to be given to shareholders was signed on August 20, 2002.

Audit The auditors were Deloitte & Touche Oy, Authorized Public Accountants with Hannu T. Koskinen, Authorized Public Accountant, as responsible auditor and Aarne Koivikko, Authorized Public Accountant, as deputy auditor.

Board of Directors The Board of Directors met 11 times in 2002. The Board comprised

Erkki KM Leppävuori, Chairman, professor
Director, VTT Technical Research Centre of Finland

Jarmo Väisänen, Deputy Chairman, Lic. Soc. Sc.
Financial Counsellor, State ownership policy, Ministry of Finance

Erkki Helaniemi, LL.M.
Partner, Alexander Corporate Finance Oy

Elina Selinheimo, M.Sc. (Econ.)
Senior Adviser for the Budget, Ministry of Finance

Tuija Soanjärvi, M.Sc. (Econ.)
CFO, TietoEnator Corporation

Pertti Tuominen, M.Sc. (Tech.)
General Director (retired), State Real Property Authority, Senior Adviser, Catella Property Consultants Oy

Management Kapiteeli's President and CEO is assisted by the Executive Management Team, which in 2002 comprised:

Kari Inkinen, President and CEO, M.Sc. (Tech.)

Ossi Hynynen, Senior Vice President, Real estate development, M.Sc. (Tech.)

Heikki Kallio, Senior Vice President, Real estate sales, LL.M.

Seppo Lehto, Senior Vice President, Real estate investment, M.Sc. (Tech.)

Esko Mäkinen, Chief Financial Officer, M.Sc. (Econ.)

Chief Legal Counsel and Secretary to the Executive Management Team was Erik Hjelt.

Personnel On December 31, 2002, Kapiteeli's personnel numbered 138 (135), of whom 136 (133) were permanent and 2 (2) fixed-term employees. Kruunuasunnot Ltd employed 15 (10) people at year-end.

Future prospects There are uncertainties in the economic operating environment that are also reflected in the real estate market. However, the market situation is not expected to raise vacancy rates significantly in Kapiteeli's commercial premises or to reduce rental levels. In the current market situation, new investment projects are being introduced gradually according to the demand for commercial premises. Sales of real estate not compatible with Kapiteeli's strategy are expected to total EUR 100–120 million in 2003.

Kapiteeli Group's profit for 2003 is expected to be around last year's level.

Consolidated profit and loss statement

EUR 1,000	Note	Group Jan. 1–Dec. 31, 2002	Group Jan. 1–Dec. 31, 2001	Parent company Jan. 1–Dec. 31, 2002	Parent company Jan. 1–Dec. 31, 2001
TURNOVER	1	334,247	296,122	301,248	268,446
Other operating income	2	2,016	39,411	1,894	39,215
Materials and supplies	3	-124,397	-112,137	-123,465	-107,514
Personnel expenses	4	-9,331	-8,982	-8,346	-8,264
Depreciation and write-downs	5	-34,300	-17,527	-26,807	-10,711
Other operating expenses	6	-112,037	-104,656	-92,371	-94,506
OPERATING PROFIT		**56,198**	**92,231**	**52,153**	**86,666**
Financial income and expenses	7	-21,020	-26,221	-12,775	-19,023
PROFIT BEFORE EXTRAORDINARY ITEMS		**35,178**	**66,010**	**39,378**	**67,643**
PROFIT BEFORE APPROPRIATIONS AND TAXES		**35,178**	**66,010**	**39,378**	**67,643**
Appropriations	8			1,396	741
Income tax	9		5,234		
Minority interest		-21	-108		
PROFIT FOR THE FINANCIAL YEAR		**35,157**	**71,136**	**40,774**	**68,384**

Consolidated balance sheet

EUR 1,000	Note	Group 31 Dec. 2002	Group 31 Dec. 2001	Parent company 31 Dec. 2002	Parent company 31 Dec. 2001
Assets					
NON-CURRENT ASSETS					
Intangible assets	10	5,026	5,018	1,734	1,742
Tangible assets		739,304	637,745	77,789	90,374
Investments	11				
Holdings in Group companies				410,942	381,306
Receivables from Group companies				191,155	109,121
Holdings in associated companies		1,660	2,250	1,706	1,910
Other investments		11,884	17,416	11,696	17,274
NON-CURRENT ASSETS, TOTAL		**757,874**	**662,429**	**695,022**	**601,727**
CURRENT ASSETS					
Inventories	12	504,140	643,733	485,221	630,836
Non-current receivables	13	32,543	40,770	32,625	38,458
Current receivables	14	39,311	19,205	37,756	16,243
Liquid securities		4,003	1,839	2,000	
Cash in hand and at banks		5,479	5,154	2,559	2,244
CURRENT ASSETS, TOTAL		**585,476**	**710,701**	**560,161**	**687,781**
		1,343,350	**1,373,130**	**1,255,183**	**1,289,508**
Liabilities					
EQUITY	15				
Share capital		240,000	282,689	240,000	282,689
Share issue			57,311		57,311
Premium fund		106,666	226,666	106,666	226,666
Profit/loss brought forward		167,902	124,136	143,461	102,447
Profit/loss for the financial year		35,157	71,136	40,774	68,384
Capital loan	16	120,000		120,000	
TOTAL EQUITY		**669,725**	**761,938**	**650,901**	**737,497**
APPROPRIATIONS	17			**13,546**	**14,942**
MINORITY INTEREST		**42,793**	**39,860**		
PROVISIONS	18	**18,305**	**11,194**	**12,373**	**7,408**
LIABILITIES					
Non-current liabilities	19	402,376	394,441	363,898	353,638
Current liabilities	20	210,151	165,697	214,465	176,023
LIABILITIES, TOTAL		**612,527**	**560,138**	**578,363**	**529,661**
		1,343,350	**1,373,130**	**1,255,183**	**1,289,508**

Funds statement

EUR 1,000	Group Jan. 1–Dec. 31, 2002	Group Jan. 1–Dec. 31, 2001	Parent company Jan. 1–Dec. 31, 2002	Parent company Jan. 1–Dec. 31, 2001
CASH FLOW FROM OPERATIONS				
Operating profit/loss	56,198	92,231	52,153	86,666
Adjustments to operating profit	42,959	-38,939	30,386	-30,345
Change in working capital	102,500	-2,653	106,128	52,209
Interest and charges paid	-24,774	-31,986	-23,105	-28,805
Dividends received	541	1,536	541	1,536
Interest received	3,502	4,994	10,074	9,329
Taxes paid	-21	5,235		
Cash flow from operations	**180,905**	**30,418**	**176,177**	**90,590**
CASH FLOW FROM INVESTMENTS				
Investments in tangible and intangible assets	-84,808	-13,160	9,752	30,674
Capital expenditure on other investments	-25,338	35,043	-30,908	-37,962
Approved loans	-2,501	-1,055	-104,371	-59,244
Reimbursements of loan receivables	10,729	3,958	29,356	23,319
Sales of other investments	1,385	38,261	1,385	38,261
Cash flow from investments	**-100,533**	**63,047**	**-94,786**	**-4,952**
CASH FLOW FROM FINANCING				
Reimbursement of shareholders' equity	-73,000		-73,000	
Share issue		57,311		57,311
Rights issue		-31,693		-31,693
Drawdowns of current loans	29,553	465	26,034	9,539
Repayments of current loans	-15,000	-62,806	-15,000	-62,764
Drawdowns of non-current loans	20,697	95,324	20,000	55,022
Repayments of non-current loans	-12,762	-152,381	-9,740	-113,329
Dividends paid	-27,370		-27,370	
Cash flow from financing	**-77,882**	**-93,780**	**-79,076**	**-85,914**
Change in financial resources	**2,490**	**-315**	**2,315**	**-276**
Financial resources Jan. 1	6,993	7,308	2,244	2,520
Financial resources Dec. 31	**9,483**	**6,993**	**4,559**	**2,244**
CHANGE IN WORKING CAPITAL				
Increase in current receivables	-19,961	8,368	-22,541	9,844
Increase/decrease in inventories	119,995	9,468	128,704	58,342
Increase in current liabilities	2,466	-20,489	-35	-15,977
	102,500	-2,653	106,128	52,209

Notes to the financial statements

Accounting principles Kapiteeli and its subsidiaries have compiled the financial statements in accordance with uniform accounting principles.

General The profit and loss statements in the financial statements of other than real estate corporations have been compiled in accordance with section 1 of the Accounting Decree (business layout) and the balance sheets in compliance with section 6. Housing companies have compiled their profit and loss statements in accordance with section 4 of the Accounting Decree (real estate layout) and other real estate companies using a layout conforming to the recommendation issued by the State Accounting Board on October 26, 1998 (No. 1544/1998).

The Group mainly applies uniform valuation and entry principles. When the valuation and entry principles of a subsidiary deviate from the Group's standard practice, the necessary adjustments are made in the consolidation on the materiality principle.

Extent of consolidated accounts The Kapiteeli Group comprises a parent company and operating subsidiary Kruunuasunnot Ltd. In addition to the parent company and Kruunuasunnot Ltd, real estate subsidiaries and associated companies are classified as non-current assets and have also been consolidated into the Kapiteeli Group. Subsidiaries and associated companies recorded under current assets are not included in the consolidated accounts, but this has no significant impact on the Group's operating profit/loss or financial position.

Consolidation The financial statements of the subsidiaries forming part of non-current assets have been combined line by line. The financial statements of the subsidiaries have been adjusted in the consolidation to correspond to the profit and balance formula used by the parent company. Internal ownership has been eliminated using the acquisition cost method. The proportion accounted for by external shareholders of the subsidiaries in the subsidiaries' profits/losses and equity has been treated as a minority interest.

Associated real estate companies entered under non-current assets have been consolidated using the equity method. Consolidation differences and negative consolidation differences arising from real property corporations have been allocated to real estate assets. The real estate companies are mainly mutual companies whose expenses are covered out of maintenance charges. The share of profits of associated companies is not significant and their results have not been included in the consolidated accounts.

Turnover Turnover includes rental revenues, compensations for use and proceeds from sale of inventories.

Other operating income/expenses Sales profits from non-current assets have been entered under other operating income and losses under other operating expenses. A commission from Kruunuasunnot Ltd has been entered under other operating income.

Purchases during the financial period (Materials and supplies) Increases in inventories arising from either purchases, capitalizations or payments to funds are entered under purchases.

Personnel expenses The pension security of the Kapiteeli personnel is arranged through insurance (TEL) from an insurance company and the expenses arising are included in pension expenses. The Group's pension liabilities are covered.

Expenses related to real estate assets The total sum of maintenance charges and financial considerations at real estate companies is fixed by the parent company to adequately cover their maintenance and financial expenses. Renovation expenses, which extend the useful lives of the targets, have been capitalized in inventories at the acquisition cost of the target, and in non-current assets as projects in progress until the renovated facilities begin to be used. Investments under EUR 20,000 were entered as expenses.

Valuation of real estate assets Kapiteeli made an internal evaluation of the market values of its real estate assets at the end of 2002. To complement Kapiteeli's internal evaluation, external evaluations of the market value of some of the targets meant for sale were obtained. Targets for sale were valued using mainly the market value method. Targets meant for keeping were valued on the basis of investors' return requirements.

On the basis of the evaluations by Kapiteeli and Engel Construction Management Services Ltd, a total of EUR 15.8 million in market value write-downs on 84 real estate targets meant for sale were recorded in the financial statements. After the write-downs, the total book value of the targets for sale is estimated to correspond to the corresponding market value of the assets.

According to Kapiteeli's evaluations, the market value of real estate targets meant for keeping is estimated to be at least equal to the book value of the assets.

During 2002, the purpose and possibilities of use of Kruunuasunnot Ltd real estate targets were revalued. Using the evaluations as a basis, it has been decided that some of the targets will be demolished. In the 2002 financial statements, the acquisition costs of the targets to be demolished have been removed and future demolition expenses have been recorded as expenses under provisions.

Depreciation The Kapiteeli Group depreciation periods by property category are as follows:

Long-term expenditure (connection fees)	no depreciation
Long-term expenditure (IT licences)	3 years
Land and water	no depreciation
Buildings (operating premises)	50 years
Buildings (housing)	40 years
Constructions (maintenance and technical facilities)	30 years
Constructions (light)	15 years
Technical equipment (also in buildings)	8 years
Asphalting	10 years
Machinery and equipment	5 years
Basic renovation in housing company flats	10 years
Works of art	no depreciation

Kapiteeli Ltd has recorded its planned depreciation on real estate under non-current assets for the period of its ownership. The planned depreciation has been recorded item by item.

Planned depreciation on asset items of subsidiaries consolidated in the financial statements has been recorded according to the parent company's principles, i.e. the amount of depreciation corresponds to the depreciation plan on Group asset items. Write-downs corresponding to depreciation recorded in the subsidiaries' financial statements have been entered in the parent company profit and loss account, either as expenses arising from capital charges or as planned write-downs on acquisition costs, depending on the subsidiary's capital structure.

Non-current assets Real estate used by the company and intended for long-term keeping and related fittings and works of art are entered under tangible assets.

Shares in real estate corporations used by the company and meant for long-term keeping and corporate loans granted to such companies are entered under investments.

Current assets Real estate and shares in real estate companies and other companies that are meant for sale or which are being developed for sale are entered in inventories under current assets.

Corporate loans granted to Kapiteeli's own real estate subsidiaries included in inventories have been entered under non-current receivables.

Trade receivables included in current receivables have been valued at their nominal value. Rental receivables for which judicial collection is in progress are entered as credit losses. Trade receivables are included in current receivables and valued at nominal value.

Liquid securities Cash reserves invested in short-term instruments, such as certificates of deposit, were entered under liquid assets.

Notes to the profit and loss statement

EUR 1,000	Group 2002	Group 2001	Parent company 2002	Parent company 2001
1. TURNOVER				
Sale of inventories	165,961	138,876	164,185	131,731
Rental revenues	160,758	151,215	133,387	133,821
Compensations for use	7,528	6,031	3,676	2,894
Total	334,247	296,122	301,248	268,446
2. OTHER OPERATING INCOME				
Sales gains from fixed assets	1,386	38,261	1,386	38,261
Others	630	1,150	508	954
Total	2,016	39,411	1,894	39,215
3. MATERIALS AND SERVICES				
Change in stocks	-117,092	-105,436	-116,183	-100,823

Inventories include transfers of asset items from non-current assets which have been entered directly under inventories. 'Change in stock' in the profit and loss statement is therefore not comparable to 'change in inventories' in the balance sheet.

EUR 1,000	Group 2002	Group 2001	Parent company 2002	Parent company 2001
4. DATA CONCERNING PERSONNEL AND MEMBERS OF THE ADMINISTRATION				
Personnel				
Average number of personnel during the financial period	151	150	138	141
Management salaries and remunerations				
Members of the Board of Directors	99	91	87	82

It has been agreed that Kapiteeli Ltd's President and CEO, the director responsible for operations and the director of finance must retire at the age of 63.

EUR 1,000	Group 2002	Group 2001	Parent company 2002	Parent company 2001
5. DEPRECIATION AND WRITE-DOWNS				
Planned depreciation				
Other long-term expenditure	489	517	489	517
Buildings and constructions	12,392	10,287	2,185	2,691
Machinery and equipment	1,821	1,790	167	136
	14,702	12,594	2,841	3,344
Write-downs on non-current assets	398		7,054	6,391
Exceptional write-downs on current assets	19,200	4,933	16,912	976
	19,598	4,933	23,966	7,367
Depreciations and write-downs, total	34,300	17,527	26,807	10,711
6. OTHER OPERATING EXPENSES				
Administration services	6,474	4,262	3,033	3,664
Property maintenance expenses	100,319	94,095	82,195	83,128
Others	5,244	6,299	7,143	7,714
Total	112,037	104,656	92,371	94,506
7. FINANCIAL INCOME AND EXPENSES				
Dividend income				
From others	541	1,536	541	1,536
Interest income from non-current investments				
From Group companies	1,757	2,463	9,108	6,818
From others	1,191	2,327	1,124	1,452
Total	2,948	4,790	10,232	8,270
Other financial income				
From others	700	189		739

EUR 1,000	Group 2002	Group 2001	Parent company 2002	Parent company 2001
Interest expenses and other financial expenses				
Interest expenses to Group companies	-136	-4,180	-723	-1,016
Interest expenses to others	-24,843	-28,389	-22,697	-28,389
Total	-24,979	-32,569	-23,420	-29,405
Other financial expenses				
To others	-230	-167	-128	-163
Financial income and expenses, total	-21,020	-26,221	-12,775	-19,023

8. APPROPRIATIONS

Difference between planned depreciation and depreciation made in taxation			1,396	741

9. TAXES

Due to Kapiteeli's confirmed losses in taxation, no taxes have been recorded for the financial period. No deferred tax receivable arising from confirmed losses has been entered in the balance sheet.

10. TANGIBLE AND INTANGIBLE ASSETS

Intangible assets

Other long-term expenditure				
Acquisition cost Jan. 1	6,021	3,957	2,746	2,791
Increases	634	2,859	481	446
Decreases	-136	-795	-1	-491
Acquisition cost Dec. 31	6,519	6,021	3,226	2,746
Accumulated depreciation and write-downs	-1,004	-499	-1,004	-499
Accumulated depreciation from decreases		13		12
Depreciation for the financial period	-489	-517	-488	-517
Book value Dec. 31	5,026	5,018	1,734	1,742

Tangible assets

Land and water				
Land areas				
Acquisition cost Jan. 1	96,784	79,796	23,820	21,357
Increases	9,725	26,769	10,070	9,751
Decreases and transfers of asset items	-1,832	-9,781	-16,712	-7,288
Book value Dec. 31	104,677	96,784	17,178	23,820
Connection fees				
Acquisition cost Jan. 1.	2,263	1,997	360	360
Increases	141	266		
Book value Dec. 31	2,404	2,263	360	360
Book value Dec. 31, total	107,081	99,047	17,538	24,180
Buildings and constructions				
Acquisition cost Jan. 1	529,319	495,262	87,855	124,336
Increases	174,678	149,369	37,743	2,331
Decreases	-48,031	-115,312	-41,468	-38,812
Acquisition cost Dec. 31	655,966	529,319	84,130	87,855
Accumulated depreciation and write-downs	-40,734	-36,024	-30,113	-30,435
Accumulated depreciation from decreases	283	5,577	484	3,582
Depreciation for the financial period	-12,391	-10,287	-2,185	-3,259
Book value Dec. 31	603,124	488,585	52,316	57,743

EUR 1,000	Group 2002	Group 2001	Parent company 2002	Parent company 2001
Machinery and equipment				
Acquisition cost Jan. 1	15,501	6,284	683	715
Increases	1,272	11,119	76	20
Decreases	-46	-1,902	-44	-52
Acquisition cost Dec. 31	16,727	15,501	715	683
Accumulated depreciation and write-downs	-3,413	-2,136	-339	-215
Accumulated depreciation from decreases	45	512	39	15
Depreciation for the financial period	-1,821	-1,790	-168	-139
Book value Dec. 31	11,538	12,087	247	344
Other tangible assets				
Acquisition cost Jan. 1	452	416	87	87
Increases	100	36	-8	
Book value Dec. 31	552	452	79	87
Advance payments and projects in progress				
Acquisition cost Jan. 1	37,574	14,264	8,020	14,170
Increases	8,247	54,255	6,250	24,795
Transfers between items	-28,812	-30,945	-6,661	-30,945
Book value Dec. 31	17,009	37,574	7,609	8,020
Shares included in fixed assets	739,304	637,745	77,789	90,374

11. INVESTMENTS

	Group		Parent company		
	Shares Dec. 31, 2002			Shares Dec. 31, 2002	
	Joint ownership enterprises	Others	Group companies	Joint ownership enterprises	Others
Acquisition cost Jan. 1	2,249	17,416	381,306	1,910	17,275
Increases	154	11	38,708	154	10
Decreases	-743	-5,543	-2,018	-358	
Transfers of asset items					-5,589
Acquisition cost Dec. 31	1,660	11,884	417,996	1,706	11,696
Write-downs			-7,054		
Book value Dec. 31	1,660	11,884	410,942	1,706	11,696

	Receivables Dec. 31, 2002
Acquisition cost Jan. 1	109,121
Increases	101,870
Decreases	-19,836
Acquisition cost Dec. 31	191,155
Book value Dec. 31	191,155

THE REAL ESTATE SUBSIDIARIES ARE INCLUDED IN KAPITEELI LTD NON-CURRENT ASSETS AND IN THE CONSOLIDATED FINANCIAL STATEMENT

Name	Domicile	Share of ownership, %	Capital employed
Aleksintori Kiint Oy	Kerava	100.00	4,326
City-Raisio Kiint Oy	Raisio	100.00	2,670
Espoon Pyyntitie 1 Kiint Oy	Espoo	100.00	1,681
Etyk-palatsi Kiint Oy	Helsinki	100.00	9,284
Helsingin Ehrensvärdintie 31–35 Kiint Oy	Helsinki	100.00	1,974
Helsingin Hämeentie 105 Kiint Oy	Helsinki	60.63	2,018
Helsingin Itämerenkatu 21 Kiint Oy	Helsinki	100.00	47,392
Helsingin Kanavakatu 8–22 Kiint Oy	Helsinki	100.00	32,376
Helsingin Kirvesmiehenkatu 4 Kiint Oy	Helsinki	100.00	3,840
Helsingin Kulttuuritalo Kiint Oy	Helsinki	100.00	5,340
Helsingin Kuntotalo Kiint Oy	Helsinki	100.00	1,010
Helsingin Lautatarhankatu 2 B Kiint Oy	Helsinki	100.00	2,782
Helsingin Nuijamiestentie 3 Kiint Oy	Helsinki	100.00	8,032
Helsingin Ohrahuhdantie 4 Kiint Oy	Helsinki	100.00	1,730

Name	Domicile	Share of ownership, %	Capital employed
Helsingin Porkkalankatu 22 Kiint Oy	Helsinki	100.00	3,154
Helsingin Porkkalankatu 24 Kiint Oy	Helsinki	100.00	1,499
Helsingin Ruoholahden Parkki Kiint Oy	Helsinki	90.78	22,147
Helsingin Salmisaarentalo Kiint Oy	Helsinki	100.00	5,596
Helsingin Vanhanlinnantie 3 Kiint Oy	Helsinki	100.00	8,450
Hermitec Oy	Tampere	100.00	8,254
Hämeentie 103 Kiint Oy	Helsinki	100.00	2,523
Höyläämötie 5 Kiint Oy	Helsinki	100.00	1,880
Jaakkolanportti Kiint Oy	Kerava	100.00	1,657
Joensuun Ykköspaikoitus Oy	Joensuu	88.57	1,910
Jyväskylän Kauppakatu 32 Kiint Oy	Jyväskylä	100.00	4,293
Kajaanin Koskihotelli Kiint Oy	Kajaani	100.00	1,991
Kattotuoli Kiint Oy	Turku	100.00	2,085
Keravan Kauppakaari Kiint Oy	Kerava	100.00	2,647
Kiinteistö Oy Savonkartano	Kuopio	100.00	1,900
Kuopion Kauppakatu 18 Kiint Oy	Kuopio	100.00	2,612
Kuopion Vuorikatu 26 Kiint Oy	Kuopio	100.00	2,241
Lahden Aleksanterinkatu 11 Kiint Oy	Lahti	100.00	5,350
Lahden Kulmala Kiint Oy	Lahti	100.00	5,259
Lampputie 4 Kiint Oy	Helsinki	100.00	3,330
Lausteen Taalintehtaankatu 10 Kiint Oy	Turku	100.00	673
Lintulankulma Kiint Oy	Rovaniemi	100.00	2,018
Mikkelin Hallitustori Kiint Oy	Mikkeli	100.00	6,859
Moksunniemi Oy	Ähtäri	76.45	1,789
Moottorihotelli Tarvontie Kiint Oy	Espoo	100.00	1,782
Nordic Hotellikiinteistöt Kiint Oy	Helsinki	60.00	55,077
Pieni Roobertinkatu 7 Kiint Oy	Helsinki	91.93	2,816
Pohjoislaakso Kiint Oy	Kouvola	100.00	4,635
Porin Augustinkulma Kiint Oy	Pori	100.00	1,947
Porin Itäpuisto 11 Kiint Oy	Pori	70.38	1,514
Porin Pentinkulma Kiint Oy	Pori	100.00	8,146
Porkkalankadun alitus Kiint Oy	Helsinki	62.64	1,771
Porkkalankatu 20 A Kiint Oy	Helsinki	100.00	10,416
Porkkalankatu 20 B Kiint Oy	Helsinki	100.00	10,210
Porkkalankatu 20 C Kiint Oy	Helsinki	100.00	10,177
Ratinanlinna Kiint Oy	Tampere	100.00	2,266
Ruoholahden Itämerentalo Kiint Oy	Helsinki	100.00	16,501
Ruoholahdenkatu 4 Kiint Oy	Helsinki	58.63	5,785
Satakansa Kiint Oy	Pori	100.00	2,657
Scifin Beta Kiint Oy	Espoo	100.00	3,700
Scifin Gamma Kiint Oy	Espoo	100.00	3,219
Sibylla Tehdaskiinteistö Oy	Helsinki	64.39	2,523
Sp-kiinteistöt Oy Kilo	Espoo	100.00	19,437
Säästötammela Kiint Oy	Tampere	100.00	4,553
Säästötasala Kiint Oy	Raisio	100.00	1,143
Tampereen Hatanpäänvaltatie 260 Kiint Oy	Tampere	100.00	7,039
Tampereen Naulakatu 3 Kiint Oy	Tampere	100.00	8,943
Tiistilän Miilu Kiint Oy	Espoo	100.00	2,153
Tiistinhovi Kiint Oy	Espoo	100.00	2,690
Tornilampi Kiint Oy	Espoo	100.00	8,514
Turun Centrum Kiint Oy	Turku	100.00	7,412
Turun Datakulma Kiint Oy	Turku	100.00	1,482
Turun Hansatorni Kiint Oy	Turku	100.00	3,106
Turun Julinia Kiint Oy Fast Ab	Turku	100.00	3,032
Turun Kauppiaskatu 9 b Kiint Oy	Turku	100.00	7,058
Turun Länsiportti Kiint Oy	Turku	100.00	2,302
Turun Pitkämäki Kiint Oy	Turku	52.85	5,622
Turun Puutarhakatu 53 Kiint Oy	Turku	100.00	4,513
Turun Rautakatu Kiint Oy	Turku	100.00	483
Turun Yliopistonkatu 12 a Kiint Oy	Turku	100.00	1,508
Turun Yliopistonkatu 22 Kiint Oy	Turku	100.00	32,958
Vaasan Portti Kiint Oy	Vaasa	100.00	3,329
Vantaan Kuussillantie 27 Kiint Oy	Vantaa	100.00	3,001
Vantaan Simonrinne Kiint Oy	Vantaa	77.18	3,700
Ämmänkievari Kiint Oy	Suomussalmi	88.73	1,460

Kruunuasunnot Ltd owns 118 housing companies, which are included in the consolidated financial statement.

SHARES INCLUDED IN FIXED ASSETS BUT EXCLUDED FROM THE CONSOLIDATED FINANCIAL STATEMENT

Name	Domicile	Share of ownership, %
Arctia Hotel Partners Oy (in liquidation)	Helsinki	71.66
Arctia Oy (formerly Vuoranta Oy)	Helsinki	100.00
Estaks Invest B.V.	Amsterdam, Holland	100.00
Hotelli ja Ravintola Marski Oy	Helsinki	100.00
Kiinteistövarma Oy	Helsinki	37.50

Non-consolidation does not have any significant bearing on the Group result and shareholders' capital.

EUR 1,000	Group 2002	Group 2001	Parent company 2002	Parent company 2001
12. INVENTORIES				
Land areas and buildings	150,431	185,574	148,580	183,033
Real estate company shares	350,806	440,239	333,742	429,886
Other shares	2,903	17,920	2,899	17,917
Total	504,140	643,733	485,221	630,836

Inventories include 553 subsidiaries and 241 associated companies which are not included in the consolidated financial statements. The companies are mainly real estate or housing companies.

EUR 1,000	Group 2002	Group 2001	Parent company 2002	Parent company 2001
13. LONG-TERM RECEIVABLES				
Receivables from Group companies				
Loan receivables	31,415	39,584	31,516	37,333
Total	31,415	39,584	31,516	37,333
14. SHORT-TERM RECEIVABLES				
Receivables from Group companies				
Loan receivables		1,052		1,052
Prepaid expenses and accrued income	560	539	3,543	2,190
Total	560	1,591	3,543	3,242
RELEVANT ITEMS IN PREPAID EXPENSES AND ACCRUED INCOME				
Interest rate receivables	42	11	42	11
Receivables from other real estate corporations	3,394	2,482	2,265	
Others	782	986	132	616
Total	4,218	3,479	2,439	627
15. EQUITY				
Share capital Jan. 1	340,000	282,689	340,000	282,689
Increase in share capital / capital contribution		34		34
Increase in share capital / bonus issue		57,277		57,277
Decrease in share capital	-100,000		-100,000	
Share capital Dec. 31	240,000	340,000	240,000	340,000
Premium fund Jan. 1	226,666	258,359	226,666	258,359
Increase in premium fund / capital contribution		25,584		25,584
Decrease in premium fund / bonus issue		-57,277		-57,277
Decrease in premium fund	-120,000		-120,000	
Premium fund Dec. 31	106,666	226,666	106,666	226,666
Other unrestricted equity				
Retained earnings	195,272	124,136	170,831	102,447
Distribution of dividend	-27,370		-27,370	
Profit for the financial period	35,157	71,136	40,774	68,384
Other unrestricted equity Dec. 31	203,059	195,272	184,235	170,831
Capital loan Jan. 1		100,913		100,913
Increase	120,000		120,000	
Decrease		-100,913		-100,913
Capital loan Dec. 31	120,000		120,000	
Equity, total	669,725	761,938	650,901	737,497

EUR 1,000	Group 2002	Group 2001	Parent company 2002	Parent company 2001
CALCULATION OF DISTRIBUTABLE FUNDS Dec. 31				
Other unrestricted capital	151,996	124,136	143,461	102,447
Profit for the financial period	35,157	71,136	40,774	68,384
Share of depreciation difference entered under unrestricted equity	-13,553	-14,948		
Sales profits to real estate companies not consolidated in the Group	-826	-958		
Total	172,774	179,366	184,235	170,831
16. CAPITAL LOAN	**120,000**		**120,000**	

The government granted Kapiteeli Ltd a EUR 120 million capital loan on August 8, 2002. The capital loan is interest-free and unsecured. The loan must be paid back by June 30, 2005. The loan or part of the loan may not be repaid if the solvency ratio of Kapiteeli Ltd or, if Kapiteeli Ltd is the parent company, that of the Group, sinks below forty (40) per cent.

	Group 2002	Group 2001	Parent company 2002	Parent company 2001
17. APPROPRIATIONS				
Accrued depreciation difference				
On buildings			11,807	12,499
On machinery and equipment			1,813	2,459
Other long-term expenditure			-74	-16
Total			13,546	14,942
18. PROVISIONS				
Pension provisions	6,695	6,903	6,695	6,903
Other provision	11,610	4,291	5,678	505
	18,305	11,194	12,373	7,408

In addition to the expenses and provisions, a EUR 5.0 million provision for development charges and a EUR 1.8 million provision for future demolition costs have been recorded in 2002.

	Group 2002	Group 2001	Parent company 2002	Parent company 2001
19. NON-CURRENT LIABILITIES				
Loans maturing after five years				
Loans from credit institutions	30,644	50,987	27,602	27,602
Bonds				
Bond 2002/2007	10,000		10,000	
20. CURRENT LIABILITIES				
Liabilities to Group companies				
Group accounts	9,649	10,626	28,931	28,710
Accrued liabilities and deferred income	233	27	2,198	615
	9,882	10,653	31,129	29,325
RELEVANT ITEMS IN ACCRUED LIABILITIES AND DEFERRED INCOME				
Interest liabilities	5,206	5,656	5,206	5,656
Holiday pay liability	1,325	1,324	1,209	1,246
Others	3,708	3,797	878	1,107
Total	10,239	10,777	7,293	8,009

EUR 1,000	Group 2002	Group 2001	Parent company 2002	Parent company 2001
21. PLEDGES GIVEN, CONTINGENT LIABILITIES AND OTHER COMMITMENTS				
PLEDGES, MORTGAGES				
Loans with mortgages as security				
Credit institution loans	18,921	24,379	18,921	24,379
Mortgages given	36,497	28,087	36,496	28,087
Group loans	52,147	55,731		
Mortgages given	49,531	52,210		
Pension loans		4,726		4,726
Mortgages given		8,409		8,409
Mortgages as security, total	86,028	88,706	36,496	36,496
OTHER CONTINGENT LIABILITIES, GUARANTEES				
Guarantees given by the Group	2,457	3,048	2,457	3,048
OTHER COMMITMENTS				
Amounts payable for leasing contracts				
Due during the next financial period	189	406	189	406
Due later	106	137	106	137
Total	295	543	295	543
DERIVATIVES CONTRACTS				
Nominal value of equity				
Interest rate derivatives				
Interest rate swaps	151,000	202,000	151,000	202,000
Interest rate cap options	118,000	118,000	118,000	118,000
Total	269,000	320,000	269,000	320,000
Currency derivatives				
Currency swap	55,000	55,022	55,000	55,022

VAT LIABILITIES

As far as capitalized renovations and new construction are concerned, real estate assets involve a commitment to return the value-added tax if the property is sold or transferred to non-VAT-liable use within five years.

Key figures

EUR million	2002	2001	2000
Turnover	334	296	318
Consolidated profit and loss statement			
Rental revenue	168	157	150
Management, maintenance and alteration costs	-100	-89	-83
NET RENTAL YIELD	68	68	67
Profit/loss on sale	42	64	30
Administration and other expenses/income	-17	-17	-19
Depreciation and write-downs	-34	-17	-14
OPERATING PROFIT	59	98	64
Financial expenses	-24	-32	-33
PROFIT BEFORE EXTRAORDINARY ITEMS	35	66	31
Extraordinary items			
PROFIT BEFORE APPROPRIATIONS AND TAXES	35	66	31
Change in tax/tax liabilities		5	
PROFIT FOR THE FINANCIAL YEAR	35	71	31
Net rental yield, %	5.5	5.3	5.1
Return on equity (including capital loan), %	4.6	9.4	4.1
Return on equity (excluding capital loan), %	5.0	9.4	5.2
Return on capital employed, %	4.6	7.1	4.5
Consolidated balance sheet total	1,343	1,373	1,430
Real estate assets by business unit			
Investment Property	723	590	598
Sales Property	306	367	444
Development Property	100	214	175
Kruunuasunnot	107	107	87
Total	1,236	1,278	1,304
Net rental yield by business unit, %			
Investment Property	7.9	8.3	7.5
Sales Property	2.8	3.0	3.4
Development Property	4.0	3.0	2.7
Kruunuasunnot	-0.6	-0.9	0.4
Total	5.5	5.3	5.1
Equity	670	762	766
Equity ratio (including capital loan), %	53.2	58.5	57.6
Equity ratio (excluding capital loan), %	44.2	58.5	50.5
Gearing	0.8	0.7	0.9
Average number of personnel	151	150	207

Calculation of key figures

The indicators used in the financial statements were calculated as follows at the business unit or Group level:

Net rental yield, % = $\frac{\text{rent yield from real estate less maintenance costs}}{\text{average capital employed in real estate}} \times 100$

Operating profit = profit before planned depreciation, financial expenses, extraordinary items, taxes, and appropriations

Capital employed = book value of real estate + proportion of corporate loan (mutual companies) or proportion fo the company´s loans determined by share ownership (ordinary limited companies)

Equity ratio, % = $\frac{\text{equity + minority interest}}{\text{balance sheet Dec. 31, 2002 less advances received}} \times 100$

Gearing, % = $\frac{\text{interest-bearing liabilities less cash funds}}{\text{equity Dec. 31, 2002 + minority interest}}$

Short-term cash investments are classed as cash and cash equivalents.

Return on equity, % = $\frac{\text{Profit/loss before extraordinary items less taxes}}{\text{equity + minority interest}} \times 100$

Return on invested capital, % = $\frac{\text{profit/loss before extraordinary items + interest and other financial expenses}}{\text{balance sheet Dec. 31, 2002 less interest-free liabilities}} \times 100$

Proposal of the Board and Auditors' report

Board proposal for disposal of the profits

On December 31, 2002, the Group´s distributable funds stood at EUR 172,774,421.71. The parent company´s distributable funds amounted to EUR 184,235,108.65.

The Board of Directors proposes to the Annual General Meeting that a dividend of EUR 0.84 per share be distributed, corresponding to a total EUR 10,080,000, and that the remaining EUR 30,694,167.95 of the profit for the financial period be carried over on the profit and loss account for previous years.

Helsinki, February 27, 2003

Erkki KM Leppävuori
Chairman

Jarmo Väisänen

Erkki Helaniemi

Elina Selinheimo

Tuija Soanjärvi

Pertti Tuominen

Kari Inkinen
President and CEO

Auditors' report

To the shareholders of Kapiteeli Ltd

We have audited the accounting, the financial statements and the administration of Kapiteeli Ltd for the period January 1 – December 31, 2002. The financial statements which have been prepared by the Board of Directors and the President and CEO, include a Board report on operations, and a profit and loss statement, balance sheet and notes to the financial statements for the Group and the parent company. Based on our audit, we express an opinion on these financial statements, and administration of the parent company.

The audit has been conducted in accordance with generally accepted auditing standards. In our audit we have examined the bookkeeping and accounting principles, contents and presentation to obtain reasonable assurance about whether the financial statements are free from material misstatements or deficiencies. In our audit of the administration we have evaluated whether the actions taken by the Board of Directors and the President and CEO of the parent company were legitimate according to the Companies' Act.

We give it as our opinion that the financial statements, which show a profit of EUR 40,774,167.95 by the parent company and a profit of EUR 35,157,268.06 by the Group, have been prepared in accordance with the Accounting Act and other rules and regulations regarding the preparation of financial statements. The financial statements, including the consolidated financial statements, can be adopted and the members of the Board of Directors and the Managing Director of the parent company can be discharged from liability for the period audited by us. The proposal by the Board of Directors regarding the result is in compliance with the Companies Act.

Helsinki, February 28, 2003

Deloitte & Touche Oy
Company of Authorized Public Accountants

Hannu T. Koskinen
Authorized Public Accountant

Principles of corporate governance

The principles of corporate governance describe the Kapiteeli Group's division of executive power and responsibility, mode of administration and ethical values.

Decision-making system The Kapiteeli Group's decision-making system is based on Group structure, confirmed division of labour and delegated authority. There are decision-making organs in both Kapiteeli Ltd and its subsidiaries. In addition to the Company's affairs, Kapiteeli Ltd decides on the management and supervision of companies it owns wholly or partially and on the organization of the Group.

Shareholders' Meeting The Kapiteeli Ltd Shareholders' Meeting is the highest decision-making organ, meeting at least once a year. The Annual General Meeting deals with the items prescribed in the Articles of Association, i.e. it decides on a number of items including approval of the financial statements, distribution of profit and discharge from liability and elects the members of the Board of Directors, Chairman and Deputy Chairman, auditors and deputy auditor.

Board of Directors Kapiteeli Ltd has a Board of Directors consisting of three to seven ordinary members. The Annual General Meeting elects the members of the Board and its Chairman and Deputy Chairman for a period which ends at the conclusion of the next Annual General Meeting. The Board of Directors does not have any committees or internal division of labour. The Deputy Chairman of the Board has special responsibility for dealing with shareholder guidance issues.

The Board's task is to take care of the administration of the Company and the proper organization of its operations, to give guidance and instructions on day-to-day administration, to make decisions on extraordinary and major issues and to ensure that bookkeeping and financial management are properly supervised.

Thus the tasks of the Kapiteeli Board of Directors includes:

- deciding on organization and management systems,
- appointing and dismissing the President and CEO, and deciding on the basis for his remuneration,
- approving the principles of administration and supervision and giving other instructions to corporate management,
- ensuring that the law is observed within the Company and supervising the Company's business operations, use of financial resources and deciding on the organization of internal supervision,
- deciding on risk management,
- approving strategy and plans contained in it,
- approving the plan for the year and any incentive scheme based on it
- taking care of the implementation of the Company's obligation to keep the public informed
- ensuring that decisions made by the Annual General Meeting are implemented and shareholders are kept informed,

Members of the Kapiteeli Board from left to right: Jarmo Väisänen, Erkki KM Leppävuori, Elina Selinheimo, Pertti Tuominen, Tuija Soanjärvi and Erkki Helaniemi

The Board of Directors of Kapiteeli met 11 times in 2002 and comprised the following members:

Erkki KM Leppävuori, **Chairman**, professor, born 1951
Director, VTT Technical Research Centre of Finland

Jarmo Väisänen, **Deputy Chairman**, Lic. Soc. Sc., born 1951
Financial Counsellor, State ownership policy, Ministry of Finance

Erkki Helaniemi, LL.M., born 1962
Partner, Alexander Corporate Finance Oy

Elina Selinheimo, M.Sc. (Econ.), born 1950
Senior Adviser for the Budget, Ministry of Finance

Tuija Soanjärvi, M.Sc. (Econ.), born 1955
CFO, TietoEnator Corporation

Pertti Tuominen, M.Sc. (Tech.), born 1936
General Director (retired), State Real Property Authority, Senior Adviser, Catella Property Consultants Oy

President and Chief Executive Officer At Kapiteeli a President and Chief Executive Officer is chosen for the task for an indefinite period. He is appointed and dismissed by the Board of Directors. The task of the President and CEO is to answer for the Company's day-to-day administration according to guidance and instructions given by the Board of Directors. The President and CEO is not a member of the Board.

Since January 1, 1999 the President and CEO of Kapiteeli has been Kari Inkinen.

Board of the subsidiary According to the Articles of Association of Kruunuasunnot Ltd, the Kruunuasunnot Board of Directors consists of three to seven ordinary members. The Kapiteeli Board of Directors proposes members for election to the Board of Kruunuasunnot at the Annual General Meeting. Most of the Board members are on the Board of Kapiteeli. The Board of Directors chooses a Chairman from amongst its members.

In addition to the normal duties of a Board of Directors, the most important task of the Kruunuasunnot Board is to take care of communications between the Board of the Parent Company and the President.

Parent Company Management Team The President and CEO of Kapiteeli is assisted by an Executive Management Team whose members he appoints himself.

In 2002, Executive Management Team comprised the President and CEO, the Senior Vice Presidents of the Investment, Development and Sales Property Units and the Chief Financial Officer. The President and CEO chairs the Management Team and the Company's Chief Legal Counsel acts as secretary.

In 2002, the Executive Management Team of Kapiteeli consisted of:

Kari Inkinen, M.Sc. (Tech.), born 1957

Ossi Hynynen, M.Sc. (Tech.), born 1955

Heikki Kallio, LL.M., born 1963

Seppo Lehto, M.Sc. (Tech.), born 1943

Esko Mäkinen, M.Sc. (Econ.), born 1945

Erik Hjelt, LL.Lic., born 1961, secretary

Business organization At Kapiteeli, management, target setting and monitoring of business operations is organized in separate business units. Centralized Group services comprise financial administration and information management, financing, legal affairs, human resources management and communications.

On January 1, 2003, Kapiteeli's real estate business was divided into Office and Commercial, Hotel and Sales Property units and Kruunuasunnot. Ossi Hynynen was appointed Senior Vice President of the Office and Commercial Property unit and Seppo Lehto Senior Vice President of the Hotel unit. Heikki Kallio will continue as Senior Vice President of the Sales Property unit and Reijo Savolainen as Senior Vice President of Kruunuasunnot.

The Senior Vice Presidents of the business units are responsible for their own units and the Chief Financial Officer is responsible for finance and administration. The Senior Vice Presidents report to the President. The duties, areas of responsibility and remuneration of the Senior Vice Presidents are confirmed by the Chairman and Deputy Chairman of the Board of Directors in conjunction with the President and CEO.

Kapiteeli Executive Management Team from left to right: Kari Inkinen, Esko Mäkinen, Ossi Hynynen, Seppo Lehto, Heikki Kallio and Erik Hjelt

Monitoring system and auditors The Board and management of Kapiteeli endeavour to identify the risks involved in business and the business environment and assess their importance in conjunction with strategic planning and annual planning. Specific risks against which special precautions are taken are interest and exchange rate risks, and risks associated with data security and safeguarding property.

The highest level of responsibility for bookkeeping and financial management rests with the Company's Board of Directors. The Board of Kapiteeli has reinforced the principles to be observed in internal supervision within the Group. Supervision covers the Company's bookkeeping, financial management, data management, transactions and other key activities. Supervision includes power of approval, division of duties, internal control of accounting and management systems and explanations obtained from the President and from the external auditors.

The principal task of statutory auditing operations is to demonstrate that the financial statements give a true and fair review of the Group's financial performance and financial situation. In addition, the auditors report to the Board on regular audits on administration and operations.

According to the Articles of Association, the Company must have at least one and at most three auditors and one deputy auditor appointed by the Annual General Meeting. The auditors' term of office is the financial year. The auditors' duties end with the appointment of auditors for the next financial year at the conclusion of the next Annual General Meeting. The auditors and the deputy auditor must be Authorized Public Accountants or Accounting Firms.

For the year under review, Deloitte & Touche Oy, Authorized Public Accounting Firm acted as Kapiteeli's Auditors, with Hannu T. Koskinen, Authorized Public Accountant, as responsible auditor and Aarne Koivikko, Authorized Public Accountant, as deputy auditor.

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