ANNUAL REPORT 2003

KAPITEELI LTD IS A PROPERTY INVESTMENT COMPANY THAT LEASES, DEVELOPS AND SELLS REAL ESTATE AND OFFICE AND COMMERCIAL PREMISES. AT THE END OF 2003, THE BALANCE-SHEET VALUE OF THE COMPANY'S PROPERTY ASSETS WAS EUR 1.2 BILLION. THE COMPANY IS OWNED BY THE STATE OF FINLAND.

KAPITEELI'S GOAL IS TO ACHIEVE A STRONG MARKET POSITION. IN FUTURE, THE COMPANY WILL BE FOCUSING ON OWNING, LEASING AND DEVELOPING OFFICE, COMMERCIAL AND HOTEL PROPERTIES SUITABLE FOR LONG-TERM INVESTMENT. KAPITEELI'S PROPERTY ASSETS ARE CONCENTRATED ON NATIONAL GROWTH CENTRES AND THE ASSET STRUCTURE IS BEING IMPROVED BY PURCHASES AND SALES.

KAPITEELI SERVES COMPANIES AND OTHER ORGANIZATIONS AT 14 CUSTOMER SERVICE POINTS THROUGHOUT FINLAND. THE COMPANY'S HEAD OFFICE IS IN HELSINKI.

KAPITEELI

Year 2003

January 14 Kapiteeli signs a lease with Finnlines for 6,390 m^2 of office space at HTC Ruoholahti.

January 31 Kapiteeli buys the 17,800 m^2 former Trading House Hansel office properties at Valimotie 25 and 27 in Pitäjänmäki, Helsinki.

May 13 Kapiteeli buys the 7,050 m^2 Tallbergintalo building at Ruoholahti in Helsinki from the Sampo Life Insurance Company.

Kapiteeli continues the renovation and conversion work on the Salmisaarentalo building begun in 2002. The former Alko property is being converted into a new court house for Helsinki and modern office facilities. Total value of the investment is approx. EUR 60 million.

Work starts on the renovations to the office and commercial property at Hämeenkatu 18 in Tampere. October 31 Kapiteeli buys the adjoining office and commercial building at Hämeenkatu 20 from If Insurance Company.

Final phase of the repair work to the Hilton Helsinki Kalastajatorppa hotel property is completed in December.

Complete renovation of the Scandic Hotel Espoo is completed in October.

November 3 Kapiteeli buys the Tikankulma property adjoining the Scandic Hotel Tampere from Scandic Hotels. A modernization and extension scheme is launched at the same time and the new Scandic Hotel Tampere will be completed in summer 2005.

November 26 Kapiteeli sells 14 buildings in the former Poltinaho barracks area to the City of Hämeenlinna.

December 30 Kapiteeli buys a 2,600 m^2 office building at Leppävaara in Espoo from Pfizer.

February 28 and December 18 Kapiteeli sells a 1.6 hectare residential site at Mannerheimintie 162 in Helsinki to YIT Rakennus.

Key figures

	2003	2002	Change, %
Turnover, EUR million	300	334	-10
Profit before extraordinary items and taxes, EUR million	27	35	-23
Balance sheet total, EUR million	1,310	1,343	-2
Net rental yield, EUR million	78	68	15
Real estate sales, EUR million	140	178	-21
Net rental yield, %	6.5	5.5	–
Equity ratio including capital loan, %	53.9	53.2	–
Return on invested capital, %	3.9	4.6	–
Investments in real estate, EUR million	70	66	6
Average number of personnel	127	151	-16

Contents

KAPITEELI IN BRIEF

MISSION STATEMENT

Kapiteeli owns, develops, leases and sells office, commercial 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.

- 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.
- 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.
- 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.

VALUES

Target orientation

- Kapiteeli's activities are steered by jointly approved goals.
- We recognise the importance of our own work in aiming for shared goals.
- We make sure we reach our targets.
- We encourage initiative and reward results.

A partner for our customers

- We want to understand our customers' business needs and be able to anticipate them.
- We respect our customers and keep our promises.
- We redeem our promises with innovative solutions and services that exceed our customers' expectations.
- We interact with our customers in open discussion and actively seek feedback to improve our operations.

Professionalism

- We are professionals who are valued and trusted in the property sector.
- Our professional skills are based on systematic training and development as individuals and as a community.
- We acquire the right knowledge to back up our operations.
- We are responsible for the quality of our work and we complete each task down to the last detail.
- We carry our own social responsibility.

Joint development

- We value our colleagues as individuals and professionals.
- We understand the importance of our behaviour in maintaining a good working atmosphere.
- We seek new perspectives and new methods of improving our operations in an unprejudiced manner.
- We know how to share our expertise. We learn from success and failure and we are able to deal with both, openly and constructively.

STRATEGIC GOALS

Kapiteeli's long-term goal is to expand its ownership base by turning the company into an attractive and profitable investment for the capital markets. The long-term goal of the State of Finland is to reduce its equity investments in Kapiteeli. Since 1999, in order to achieve these two long-term goals Kapiteeli has been improving its real-estate assets and the productivity of those assets through sales, purchases and development activity. There are no plans for Kapiteeli to alter this trend during the strategic period 2004–2006. At the end of the period Kapiteeli and its business units are expected to have achieved these long-term balance sheet and financial performance goals.

Kapiteeli's real estate business operations are divided into four business units, Office and Commercial Property, Hotels, Sales Property and Kruunuasunnot Ltd. Kapiteeli is focusing its real estate assets on the growth centres, especially the most rapidly growing Helsinki, Tampere, Turku, Jyväskylä and Oulu regions. The company will increase its ownership of office and commercial properties and hotels to about 85% of all real estate assets by the end of 2006. Kapiteeli aims to divest itself of assets that are not compatible with the company's strategic aims due to their size, location or type.

Kapiteeli aims to increase its net rental yield from The Office and Commercial Property Unit to 9.5% and on hotels to 8.5%. Efforts will be made to increase the return on capital invested in office and commercial premises and hotels to the same level as Kapiteeli's competitors in the Nordic countries.

Capital employed in real estate assets

EUR million	2003	2002	2001	2000
Office and Commercial Property	657	617	552	584
Hotels	163	153	151	137
Sales Property	257	359	468	496
Kruunuasunnot Ltd	112	107	107	87
Total	**1,189**	**1,236**	**1,278**	**1,304**

Investments

EUR million	2003	2002	2001	2000
Office and Commercial Property	40	56	49	17
Hotels	14	6	4	0
Sales Property	2	1	1	0
Kruunuasunnot Ltd	14	3	0	0
Total	**70**	**66**	**54**	**17**

Operating profit

EUR million	2003	2002	2001	2000
Office and Commercial Property	43	41	48*	40*
Hotels	4	3	3	5
Sales Property	-3	17	9	17
Kruunuasunnot Ltd	0	-6	0	0
Intra-group sales + others	2	4	38	2
Total	**46**	**59**	**98**	**64**

*) Includes development unit operating profit
Operating profit of business units is based on internal calculations

Turnover

EUR million	2003	2002	2001	2000
Office and Commercial Property	112	124	126*	106*
Hotels	15	14	16	17
Sales Property	136	163	136	157
Kruunuasunnot Ltd	31	25	20	9
Intra-group sales + others	6	8	-2	29
Total	**300**	**334**	**296**	**318**

*) Includes development unit turnover
Turnover of business units is based on internal calculations

WE HAVE BEEN SYSTEMATICALLY IMPLEMENTING THE STRATEGY LAID DOWN FOR KAPITEELI FIVE YEARS AGO. AT THAT TIME, THE GOAL WAS TO TURN KAPITEELI INTO A PROPERTY INVESTMENT COMPANY THAT IS AN ACTIVE PLAYER ON THE MARKET. WE HAVE SUCCEEDED IN BOOSTING THE VALUE AND NET RETURN ON OUR KEY PROPERTY ASSETS, I.E. OFFICE AND COMMERCIAL PROPERTY AND HOTELS. SALES OF ASSETS THAT ARE INCOMPATIBLE WITH OUR STRATEGY HAVE BEEN MORE SUCCESSFUL THAN WE PLANNED.

REVIEW BY THE PRESIDENT AND CEO

Specified strategy implemented as planned

The value of Kapiteeli's property assets and their ability to produce earnings have shown a positive trend over the five years in which the company has been operating and conditions are looking good for this to continue. Despite the economic downturn, 2003 was another successful year for Kapiteeli. In contrast to the property sector as a whole, we were able to lease out more office and commercial premises than became vacant and the vacancy rate of our properties went down.

Kapiteeli is profiled as an active property investment company which buys, develops, leases and sells its properties. According to our strategy, the core of Kapiteeli's business operations is owning, leasing and developing office and commercial properties and hotels in the Helsinki Metropolitan Area and the major regional growth centres. The profitability of our investment operations has evolved in an extremely favourable way and our investment assets now represent more than two-thirds of the company's business.

Properties that are incompatible with Kapiteeli's investment strategy are sold and we have been successful in our sales operations. Property sales have exceeded the EUR 80 million target set in the company's early years, and have been well over EUR 100 million every year. In 2003, sales of sales properties amounted to EUR 102 million. The good results have been made possible by an effective, nationwide sales organization and our expert staff.

Owning, renting and developing housing is concentrated in the hands of Kapiteeli's subsidiary Kruunuasunnot. Besides investing in the development of its housing portfolio, the company has also sold housing, scheme by scheme. Kruunuasunnot's biggest customer is the Defence Forces, which rent roughly half the Kruunuasunnot housing stock. As developments have progressed, Kruunuasunnot's financial situation has improved and during the current financial period the company will be showing a positive result.

Kapiteeli achieved the targets set for 2003. Operating profit before extraordinary items for 2003 amounts to EUR 27 million. Earnings and sales targets for property assets were also reached. As well as financial targets, customer satisfaction based on customer feedback showed a distinct improvement. Satisfaction of our rental customers can be seen directly in the financial performance and in Kapiteeli's stronger position in the office and commercial market.

Kapiteeli's long-term goal is to extend the ownership base of the company. Our next challenge will be to ensure the company's marketability so that Kapiteeli can become an attractive and profitable investment on the capital markets.

Kapiteeli is a property investment company which focuses on its own core business, i.e leasing, developing and selling office and commercial premises. The maintenance services needed by properties and tenants are procured from outside service providers. Ovenia Oy, which is part owned by Kapiteeli, organizes key property and building management services on Kapiteeli's behalf and invites competitive tenders for them. Detailed partnership agreements based on set goals have proved to be essential in ensuring tenant satisfaction and a competitive cost structure. From Kapiteeli's point of view, the input of each and every partner is crucial. We have made a major leap forward in cooperation goals and achieved genuine added value through deepening partnerships.

The situation in the office and commercial premises market has been challenging during a period of recession, but in spite of the difficult operating environment, Kapiteeli has been able to continue its active property development work. In 2003, we were successful in launching several new development schemes in which we are investing about EUR 70 million.

The challenges for the future will be to continue our core operations, i.e. owning and leasing office and commercial premises and hotels and to improve the profitability of Kruunuasunnot. We also have to ensure that sales of assets incompatible with our investment strategy continue to be profitable. Improvements in financial performance will be ensured by continuous development, not only of our properties, but of our operations and our service capacity as well. When competing for the popularity of customers, the successful company is the one that does that best.

Property ownership has become increasingly international during 2003. It has been estimated that over half the major property deals were done with foreign capital. I believe that this trend will continue and even accelerate in the future. It is a significant change that is going to set new challenges for the property sector. It means that operators in the property sector will have to give details of their assets and investments in a more open and understandable way so that the international investor can compare and analyse information easily. The Finnish property sector still has a long way to go here.

I want to take this opportunity to thank our extensive clientele, our stakeholders and our staff for a busy and successful 2003.

Kari Inkinen

OPERATING ENVIRONMENT

Real estate going rapidly into international ownership

Economic development on the international scale in 2003 turned out to be more modest than forecast. Growth in gross domestic product in the Euro area remained at 1.5% and economic recovery is still awaited. Vacancy rates remain high in the European property market. Gross yields from property slipped back on the previous year, but international interest in property as an investment remained high.

In Finland, the property market has continued to decline and 2004 is not expected to bring any fundamental improvement. Finland's gross domestic product grew a shade more than elsewhere in Europe and a 2.8–3.0% rise is forecast for 2004. As an industry that follows the economic cycle, the property sector is not expected to begin enjoying economic recovery until 2005.

For the Finnish property market, 2003 was another difficult year. The volume of vacant office and commercial premises again increased slightly and there were pressures to bring rents down. There was a surplus of office space in particular. Demand for commercial facilities and industrial and storage premises remained good.

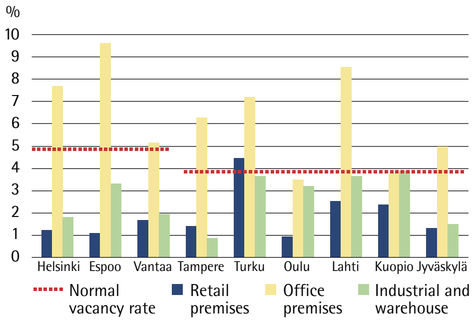
Because of low interest levels, the sales market for property remained reasonably good. The property sector has adapted to contracting investment demand and construction activity will remain at a low level in 2004.

The internationalisation of property ownership has picked up speed in Finland a few years behind Sweden. In Sweden, over half the major property deals are done with foreign capital and we are now approaching the same level in Finland. Finland's promising economic trends, steady conditions and relatively competitive yields have increased investors' interest in the Finnish market.

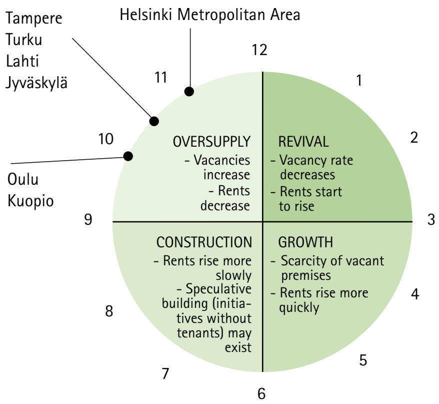
As international activity has increased, the domestic property sector has been able to improve its competitiveness. Attempts are being made to develop the legislation on property investment in different ways including a new act on property funds, and various management services needed by international investors have come onto the market. The improvements that have already occurred and continue to do so boost the liquidity of Finnish property and increase its attractiveness as an investment.

Vacancy rate in Finland 1/2004

Source: Catella Property Consultants 2004



Real estate cycle clock of office premises 1/2004



Source: Catella Property Consultants 2004

Summary by business unit, 2003

	Office and Commercial Property	Hotels	Sales Property	Kruunuasunnot Ltd
Real estate assets, EUR million	657	163	257	112
Net lettable area, 1,000 m^2	825	176	756	305
Occupancy rate, %	82.5	100	63.7	95.8
Rental yield, EUR million	84	15	37	23
Net rental yield, EUR million	54	12	10	3
Net rental yield, %	8.5	7.5	3.1	3.2
Sales, EUR million	31	0	102	7
Investments, EUR million	40	14	2	14
Number of leases	1,952	22	3,569	1,621
Average number of staff	25	3	49	15

Four business units

Kapiteeli's property business is divided into four business units, Office and Commercial Property, Hotels, Sales Property and Kruunuasunnot Ltd. The Office and Commercial Property Unit owns and leases office and commercial premises that are compatible with Kapiteeli's strategy and are located in the Helsinki Metropolitan Area and other growth centres.

The Hotels Unit owns hotel properties and is responsible for leasing them out. The Sales Property Unit's job is to lease and sell properties that are incompatible with the company's long-term ownership strategy. Kapiteeli's subsidiary Kruunuasunnot Ltd owns, rents and sells housing.

EUR 1.2 billion of capital is tied up in Kapiteeli's real estate assets and some 69% of this is investment property. Some 22% of the assets are sales properties and 9% are owned by Kruunuasunnot.

Kapiteeli develops its real estate assets by constructing new properties and converting the properties it already owns to new uses. In 2003, Kapiteeli invested a total of EUR 70 million in developing its properties. Some EUR 40 million was spent on developing office and commercial premises, EUR 14 million on developing hotel properties and EUR 14 million on developing housing. The company acquired new investments worth EUR 49 million and sold assets that were not compatible with its strategy for EUR 140 million.

Joint operating procedures

Kapiteeli's staff has a sound knowledge of local property markets, partnership networks and other stakeholders. Contact with customers is maintained on a day-to-day basis by the nationwide Customer Service Centre, which operates in a virtual mode, and 14 local customer service points. In addition, the largest properties are equipped with the Kapiteeli.net intranet service channel, which is geared to each property and can be used by tenants.

Regular monitoring of customer satisfaction is used to guide operations as part of the Kapiteeli quality system. Kapiteeli has an extensive customer base and many long-lasting customer relationships, which give us the chance to acquire valuable information about different spatial and service requirements. Kapiteeli is evolving flexible models for taking care of customer relationships through interaction with the customers themselves. The professional skill and expertise called for by the investment, leasing and sales processes and our demanding customer service procedures is ensured by continuous staff training and the use of evaluations derived from customer feedback.

Maintenance of Kapiteeli properties was outsourced from the beginning of 2003 to Ovenia Oy which invites competitive tenders and enters into service contracts with property management and property service companies. The aim is to improve property services by using a partnership network made up of the best operators in the field to ensure the customer gets rapid, high-quality services at optimal cost.

◄ THE ENTIRE HTC RUOHOLAHTI OFFICE DEVELOPMENT HAS A TOTAL OF ALMOST 13,000 m^2. IN 2004, KAPITEELI'S POSITION IN THE AREA WILL BE STRENGTHENED EVEN MORE WHEN THE CONVERSION OF THE SALMISAARENTALO BUILDING IS COMPLETED.

OFFICE AND COMMERCIAL PROPERTY

Office and commercial properties in the major growth centres

Kapiteeli's Office and Commercial Property Unit owns, leases and develops office and commercial properties in the Helsinki Metropolitan Area and the major growth centres. At the end of 2003, the balance sheet value of office and commercial properties was EUR 657 (617) million. In 2003, rental yield was around 9% higher than the previous year and rose to EUR 84 (77) million. Net rental yield on office and commercial premises excluding development schemes was 9.0% (8.1%) and occupancy rate was 90.5% (89.6%). Net operating profit for the Office and Commercial Property Unit was EUR 43 (41) million.

Kapiteeli improves the structure and earnings level of its investment assets by increasing the average size of its assets, by investing in development and by acquiring new high-yield properties in selected economic zones. Properties that are only partially owned by Kapiteeli and small individual properties in areas that are not compatible with Kapiteeli's strategy are sold.

In 2003, net growth of the property assets of the Office and Commercial Property Unit was EUR 40 million. At year end the unit had a total of 902,000 m^2 of rentable office and commercial premises in 207 different properties. Some 375,000 m^2 of this was office space and 350,000 m^2 of commercial space. The unit also had about 177,000 m^2 industrial and storage space. At the end of 2003, the unit had a total of around 1,900 lease agreements.

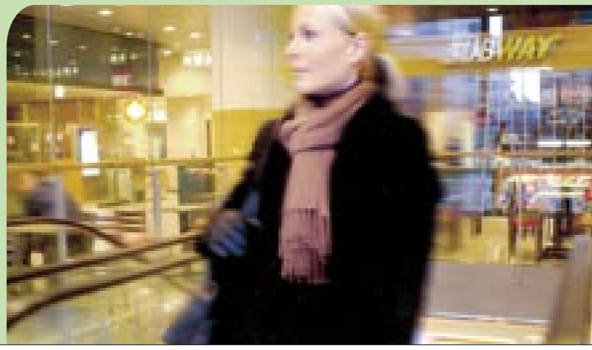
The most important new leases to be signed in 2003 were with Finnlines Plc for 6,400 m^2 in HTC Ruoholahti in Helsinki, with Ciba Specialty Chemicals Finland for 1,400 m^2 in the Itämerentalo building in Ruoholahti, and with Stockmann for 1,000 m^2 in the St. Erik scheme in Turku. At the end of 2003, the unit had about 1,300 customers, the biggest of whom were Kesko Plc, Stockmann Plc, TeliaSonera Finland Plc and Nordea Bank Finland Plc.

During 2003, Kapiteeli acquired office and commercial properties that were compatible with our strategy in Helsinki, Espoo, Turku and Tampere. Office and commercial premises were purchased in seven separate deals for a total of EUR 42.6 million. The total area of the premises acquired is about 42,000 m^2.

Kapiteeli's assets in Helsinki's Ruoholahti increased when the company bought the Tallbergintalo office property from the Sampo Life Insurance Company. An office building at Leppävaara in Espoo was purchased from Pfizer and the former Trading House Hansel office property at Pitäjänmäki in Helsinki was also acquired. A commercial and office building at Hämeenkatu 20 in Tampere was purchased from the If Insurance company. Commercial premises were acquired in Turku and Tuusula, Länsikulma in Turku from Sampo Plc and the Eurospar supermarket premises at Hyrylä in the centre of Tuusula, where work immediately started on an extension scheme.

Office and Commercial Property

	2003	2002	2001	2000
Real estate assets, EUR million	657	617	552	584
Net lettable area, 1,000 m²	825	831	867	900
Occupancy rate, %	82.5	82.1	80.1	76.1
Turnover, EUR million	112	124	126	106
Net rental yield, EUR million	54	46	45	41
Net rental yield, %	8.5	7.9	8.1	7.0
Investments, EUR million	40	56	49	17
Number of leases	1,952	1,979	2,159	3,129
Average number of staff	25	31	26	29



Kapiteeli sold office and commercial properties that were incompatible with its investment strategy for EUR 30.6 million. A total of 23 complete properties and shares in another 21 properties were sold with a net area totalling 49,000 m^2. Biggest individual deals in 2003 were the sale of commercial premises at Ratavartijankatu 3 in Helsinki to Nordea Life Insurance Finland, the sale of the Hammarinkulma commercial property in Oulu to Keisu Invest, the sale of the Hyvinkää Wilhelmiina commercial premises in Hyvinkää to the Lammi Savings Bank, the sale of the Lapinkaari hotel/training centre in Tampere to the Tampere Student Housing Foundation, the sale of the office and commercial property at Raatihuoneenkatu 7 in Hämeenlinna to the construction company Suomen Perusrakennus and the sale of the Kauppiaittentalo commercial property in Joensuu to the construction company A. Taskinen.

In 2003, the Office and Commercial Property Unit spent EUR 40 million on modernization and new investments. A further EUR 6.2 million was spent on other alteration and repair work. The main aim for 2003 was a higher level of investment, but reduced demand in the office and commercial market was not conducive to launching new projects. In 2003, Kapiteeli continued the renovation and alteration scheme on the Salmisaarentalo building in Ruoholahti. The former Alko head office and factory building is being converted into a new courthouse for Helsinki and modern office premises. The total value of the 70,000 m^2 investment is about EUR 60 million and it is scheduled for completion in autumn 2004.

A renovation project valued at EUR 5 million was started on a commercial block at Hämeenkatu 18 in Tampere that will also be completed in autumn 2004. No major investment schemes were completed in 2003.

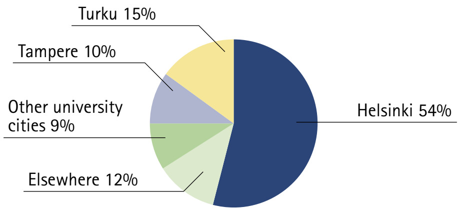
Property development is one of the key tools of the Kapiteeli Office and Commercial Property Unit. In addition to the Salmisaarentalo building, the unit has a total of 25 development schemes in progress. It also has 190 hectares of unbuilt land where there are a series of zoning schemes in progress at various stages. Apart from Ruoholahti, the biggest development schemes are at Marja-Vantaa and in Helsinki at Ilmalanrinne in Pasila, and in the Itäkeskus and Lassila districts. The intention is to start work on Kapiteeli's next new construction project, the 11,500 m^2 Sulka development in Ruoholahti, in 2004.

Property assets will continue to be developed in 2004. The most important ways of improving the yield levels of assets are the acquisition of properties that fulfil the company's investment criteria and investments in development. Property sales will continue according to plan. Over the next few years, the number of properties will be further reduced, their average size will be increased and assets will be concentrated on the most important growth centres, with the proviso that the net volume in terms of balance-sheet value increases.

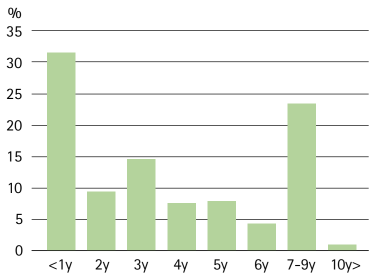
In 2004, Kapiteeli expects the occupancy rate and percentage net rental yield of its office and commercial properties to remain the same or even improve, and the balance-sheet value of the unit's assets to increase despite the challenging state of the market.

◀ THE RUOHOLAHTI SHOPPING CENTRE AT ITÄMERENKATU 21 IN HELSINKI IS WELL ESTABLISHED AS THE LEADING SHOPPING CENTRE IN THE DISTRICT. THE PROPERTY HAS A NET AREA OF OVER 32,000 m².

Office and commercial properties by region



Maturity of office and commercial properties, December 31, 2003



Major office and commercial properties in 2003

Name	Location	Use	Area m²
Helsingin Salmisaarentalo Koy	Helsinki	Office property	74,669
Helsingin Itämerenkatu 21 Koy	Helsinki	Commercial property	32,464
SP-kiinteistöt Oy Kilo	Espoo	Office property	28,093
Naulakatu 3 Koy	Tampere	Office property	15,334
Oulun Posteljooni Koy	Oulu	Commercial property	14,190
HTC Ruoholahden kokonaisuus	Helsinki	Office property	12,793
Turun Yliopistonkatu 22 Koy	Turku	Commercial property	12,700

Most important properties purchased in 2003

Name	Location	Use	Area m²
Tallbergintalo Koy	Helsinki	Office property	7,053
Hämeenkatu 20 Koy	Tampere	Office property	6,473
Tuusulan Pysäkkikuja 1 Koy	Tuusula	Commercial property	5,413
Pitäjänmäki Valimotie 27	Helsinki	Office property	5,025
Lars Sonckin Kaari Koy	Espoo	Office property	2,603

Hotels

	2003	2002	2001	2000
Real estate assets, EUR million	163	153	151	137
Net lettable area, 1,000 m²	176	165	173	190
Occupancy rate, %	100.0	99.9	99.9	97.5
Turnover, EUR million	15	14	16	17
Net rental yield, EUR million	12	10	11	8
Net rental yield, %	7.5	6.4	7.0	6.3
Investments, EUR million	14	6	4	-
Number of leases	22	20	20	23
Average number of staff	3	3	3	3

HOTELS

Extensive investment programme with Hilton Scandic

At the end of 2003, Kapiteeli owned 18 hotel properties with about 3,000 rooms. The total area of the properties is about 180,000 m² and the balance sheet value EUR 163 (153) million. The Hotels Unit showed an operating profit for 2003 of EUR 4 (3) million, net rental yield was EUR 12 (10) million and the leasing ratio for the properties was 100%.

Kapiteeli's biggest leaseholder for hotel properties is the international Hilton Scandic chain which runs 15 hotels owned by Kapiteeli. Hilton Scandic contributes around 93% of the business unit's rental income. The other three hotels are run by Lomaliitto (the Holiday Association), Finlandia Hotels and one private entrepreneur.

Kapiteeli's most important hotel properties are located in Helsinki, where four of the 12 biggest hotels are owned by Kapiteeli. They have a total of 1,500 rooms or about 23% of the region's hotel rooms.

At the beginning of 2003, Kapiteeli and the Hilton hotel chain adopted a new ten-year lease for each hotel tied to turnover since long-term leases provide a sound basis for developing hotel property. An extensive joint investment programme was agreed in conjunction with signing the leases.

Kapiteeli's hotel properties are divided into three classes, Prime Hotels, City Hotels and Local Hotels. The Hilton Helsinki Strand, the Hilton Helsinki Kalastajatorppa, the Scandic Hotel Grand Marina plus the Marina Congress Center which operates in conjunction with it, the Scandic Hotel Continental Helsinki and the Scandic Hotel Tampere are all Prime Hotels. The Scandic Hotel Espoo, the Scandic Hotel Serena Korpilampi in Espoo, the Scandic Hotel Rosendahl in Tampere, the Scandic Hotel Jyväskylä, the Scandic Hotel Kajanus in Kajaani, the Scandic Hotel Imatran Valtionhotelli and the Scandic Hotel Kuopio are all City Hotels. Most of the Local Hotels are located in key positions in smaller localities. Some 78% of the capital tied up in Kapiteeli's hotel properties is in hotels in Helsinki and 7% in Tampere. 72% of the rental yield comes from Prime Hotels, 22% from City Hotels and 6% from Local Hotels.

In the future, Kapiteeli will be investing in the development of six Prime Hotels and seven City Hotels, while the Local Hotels will be sold. At the beginning of 2004, the Hotel Musta Kissa in Lahti was sold to the hotel operator.

In 2003, a total of EUR 14 million was spent on hotel investments. The biggest of these were on the renovations to the Hilton Helsinki Kalastajatorppa and

◄◄ KAPITEELI'S GRANDEST HOTEL PROPERTIES ARE LOCATED IN HELSINKI, WHERE THE COMPANY OWNS FOUR OF THE TWELVE LARGEST HOTELS IN THE CITY. KAPITEELI'S BIGGEST LEASEHOLDER IS THE INTERNATIONAL HILTON-SCANDIC CHAIN WHICH RUNS 15 OF KAPITEELI'S HOTEL PROPERTIES. THE HILTON HELSINKI STRAND WAS THE FIRST HOTEL IN FINLAND TO CARRY THE HILTON NAME.

the Scandic Hotel Espoo. The last stage of the renovations at Kalastajatorppa were completed in December 2003 and in February 2004, the hotel's name was changed to the Hilton Helsinki Kalastajatorppa, so Finland has two Hilton Hotels and Kapiteeli is the owner of both of them. The Scandic Hotel Espoo was completely renovated and opened to customers in October 2003. The property adjacent to the Scandic Hotel Tampere was acquired at a price of EUR 5 million. Planning for the hotel extension and renovation project was completed and the actual renovation work commenced in late 2003. The new, extended 270-bedroom Scandic Hotel Tampere will be completed in June 2005.

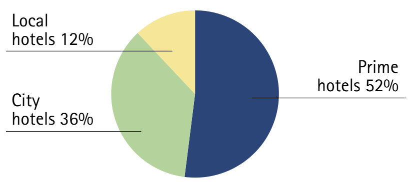
The leasing agreement between Kapiteeli and Hilton involves the implementation of an extensive investment programme. By 2012, Kapiteeli will have invested EUR 50 million in its hotel properties, of which EUR 14 million was spent in 2003. Correspondingly, Hilton Scandic will be spending EUR 28 million on developing its hotel operations. The investment programme will ensure that the hotel properties will remain competitive in the future.

The aim of the Hotels Unit is to increase net rental yield by investing in development and improving cost efficiency. Finding suitable Finnish and foreign partners is also written into the unit's strategy.

Major hotels

	Floor area, m^2	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	192

Hotels according to number of rooms, December 31, 2003



▶ THE KAPITEELI-OWNED KLONDYKE PROPERTY IN KERAVA HOUSES AROUND 27,500 m^2 OF OFFICE AND MANUFACTURING SPACE. THE FORMER INDUSTRIAL BUILDING, WHICH CAN BE ADAPTED TO MEET DIFFERING REQUIREMENTS, OFFERS TENANTS A WIDE RANGE OF USER SERVICES.

SALES PROPERTY

Property deals worth over EUR 100 million

The purpose of the Sales Property Unit is to sell and lease properties that are incompatible with Kapiteeli's investment strategy. Selling properties releases capital for Kapiteeli's other operations, new acquisitions, developing its investment property and returning capital to the owners.

At the end of 2003, Kapiteeli had 1,600 properties for sale in almost 400 municipalities. These included commercial and office premises, industrial and storage premises and land. The core of our customer base is made up of investors, end-users, builders and municipalities. The total balance sheet value of properties for sale is about EUR 257 (359) million. Net rental return for 2003 was 3.1% and occupancy rate 64%. During the year under review, the Sales Property Unit sold properties worth EUR 102 million.

The properties that Kapiteeli considers selling are divided into profit-making properties, development properties, land, and sales properties on the basis of their earning potential, sales potential and intended use. Profit-making properties are those with the highest earnings potential. Development properties include land that is upgraded through zoning changes. Other land areas include land that is leased and land that has yet to be built on. Sales properties include housing and properties with low yields.

Sales of business premises continued briskly in 2003, although international financial indicators suggested that the business cycle remained at a low ebb. Around 800 deals were made during the year. The most important properties sold during 2003 included the residential sites in the Tilkka district of Helsinki, the former depot in Oulu and the Poltinaho barracks area in Hämeenlinna. At Punkaharju, Kapiteeli sold the rehabilitation hospital land and associated buildings. Other assets sold in 2003 included properties in the centres of Kerava and Porvoo, sites for commercial buildings in Mäntsälä and Savonlinna and a piece of real estate used for research purposes at Jokioinen.

The Sales Property Unit's biggest tenants in 2003 were Nordea, Finland Post Plc, the Ministry of the Interior and TeliaSonera Finland Plc.

During the year under review, the Sales Property Unit paid particular attention to evolving the sales process and acquiring new customers. The Kapiteeli Customer Service Centre was reorganized. Customer services now operate

Sales properties

	2003	2002	2001	2000
Real estate assets, EUR million	257	359	468	496
Net lettable area, 1,000 m^2	756	998	1,244	1,240
Occupancy rate, %	63.7	66.1	66.8	68.4
Turnover, EUR million	136	163	136	157
Net rental yield, EUR million	10	12	12	16
Net rental yield, %	3.1	2.8	3.0	3.3
Investments, EUR million	2	1	1	-
Number of leases	3,569	4,554	5,763	6,105
Average number of staff	49	47	49	50

nationwide, but distributed among local Kapiteeli offices. As well as providing customer services, it is the Centre's job to provide backup for Kapiteeli's sales and leasing operations. The Centre operates in a virtual mode using VoIP technology.

Gauges of customer satisfaction are key instruments for improving Kapiteeli's operations. The Sales Property Unit monitors trends in customer satisfaction in property sales and leasing. Results are used to steer sales processes and improve the range of services on offer.

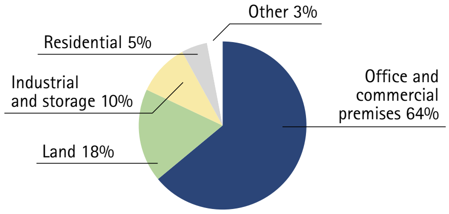
Upgrading land owned by Kapiteeli is another part of the Sales Property Unit's activities. In 2003, operations were organized as a property development group. The group's task is to respond to the sales unit's sales and development measures for development property nationwide. The group also coordinates research and rehabilitation projects on polluted land that has come into Kapiteeli's ownership. The property development group is also responsible for keeping in contact with builders and developers nationwide.

During 2004, the Sales Property Unit will focus particularly on sales of land and properties with low yields.

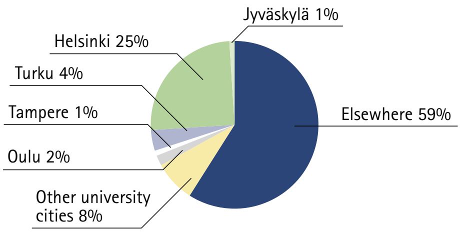
Major sales property deals in 2003

Name	Use
Helsinki Mannerheimintie 162	Land
Oulun varikkoalue	Office and commercial property/land
Rauman Savilankatu 5 Koy	Office and commercial property
Boreal Rn:o 1:154, Jokioinen	Office and commercial property
Uudenkaupungin Säästöpankintalo Koy	Office and commercial property

Sales properties by use



Sales properties by region



Kruunuasunnot

	2003	2002	2001	2000
Real estate assets, EUR million	112	107	107	87
Net lettable area, 1,000 m²	305	335	335	150
Occupancy rate, %	95.8	91.2	87.0	93.3
Turnover, EUR million	31	25	20	9
Net rental yield, EUR million	3.4	-2.1	-1.3	1.3
Net rental yield, %	3.2	-1.9	-1.3	1.5
Investments, EUR million	14	3	0	0
Average number of staff	15	13	10	8

KRUUNUASUNNOT LTD

A dynamic residential development company

Kruunuasunnot Ltd is a Kapiteeli subsidiary which owns, develops and leases housing. At the end of 2003, the company owned 450 residential buildings containing around 4,850 rental flats, in 45 different localities. Kruunuasunnot Ltd and the 133 housing companies and property companies that it owns, plus one ARAVA non-profit-making company, make up the Kruunuasunnot Group, which has a property asset balance-sheet value of EUR 112 (107) million. The extensive repair work to housing companies owned by Kruunuasunnot Ltd is a constant drain on financial performance at the Group level. In 2003, operating profit of the Kruunuasunnot Group amounted to EUR 0.4 (-5.9) million.

Kruunuasunnot is a residential development company which develops its housing portfolio by renovation, modernization, new construction and sales. For Kruunuasunnot, the most important rental customer is the Defence Forces, which lease about 2,850 units. Almost half the company's housing is rented on the open market.

Kruunuasunnot's real estate assets are divided up into 45 residential areas, which are classified as key areas, areas to be developed, areas to be surveyed and areas to be given up. The classification is based on the demand for rental housing and the competitiveness in each area and is used to steer the development of Kruunuasunnot properties.

The six key areas, Helsinki, Hyrylä, Hämeenlinna, Oulu, Turku and Tampere, have a total of about 1,400 housing units and in 2003, around 60% of Kruunuasunnot investments were made in these key areas. There are about 20 areas due to be developed with a total of around 2,400 housing units. These areas are in busy districts or localities that are important to the operations of the Defence Forces. The areas to be surveyed contain around 950 apartments and in 2003, about 500 apartments were given up. Around 400 of these were sold for a total of EUR 7 million, while around 100 apartments were demolished.

Kruunuasunnot intends to reduce its housing portfolio to about four thousand units. This aim will be achieved mainly by sales, but partially by demolishing properties that are not required or are in poor condition. At the same time, the company will be investing in renovations and modernization of its other housing. Moreover, Kruunuasunnot will be making the most of the building rights associated with land that it owns and has already made a start on constructing new housing.

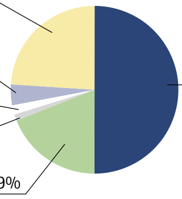
◄◄ IN 2003, KRUUNUASUNNOT SPENT EUR 21 MILLION ON RENOVATIONS AND REPAIRS TO ITS PROPERTIES. AT THE SAME TIME, PROPERTY MAINTENANCE HAS BEEN MADE MORE EFFICIENT BY TAKING PROPERTY MANAGEMENT AND MAINTENANCE COSTS INTO ACCOUNT, BY IMPROVING THE ENERGY ECONOMIES OF SEPARATE PROPERTIES AND CHOOSING ENERGY SUPPLIERS BY COMPETITIVE TENDERING.

In 2003, construction work started on 21 new homes at Yliopistonmäki in Turku.

In 2003, Kruunuasunnot spent EUR 21 million on renovations and repairs to its properties, while EUR 0.7 million was invested in new construction. At the same time, property maintenance has been made more efficient by taking property management and maintenance costs into account, by improving the energy economies of separate properties and choosing energy suppliers by competitive tendering. The most important morderniza-tion scheme was the old Intiö garrison area in the centre of Oulu, where modernization and work on converting the attics into housing was started in three blocks of flats. Two blocks of flats with a total of 60 apartments were modernized in Hyrylä.

In 2004, Kruunuasunnot will be continuing to develop its property portfolio and carry out its investment programme. The volume of investment will rise to EUR 20–25 million. Sales of property that is incompatible with the company's ownership strategy will continue.

Residential property by strategy, December 31, 2003



PERSONNEL

Expert developers in the real estate sector

On December 31, 2003, the Kapiteeli Group had 121 employees, 105 of whom were employed by the parent company and 16 by Kruunuasunnot.

Kapiteeli's personnel policy is based on the company's management system. The entire organization is covered by a system of target and follow-up discussions linked to an incentive pay scheme that is a key instrument in management. At the beginning of the year, all employees discuss the operational and results targets for the year with their supervisors. These targets, which are derived from the targets set for the company and for each of the business units, also have personal development goals written into them. The achievement of these targets is monitored in follow-up discussions held once a year. In addition, Kapiteeli's monitoring system produces information on the realization of numerical targets on a monthly basis in real time. Kapiteeli's incentive pay scheme rewards the fulfilment and exceeding of both numerical targets and personal development goals.

The achievement of Kapiteeli's goals depends on whether the core competence of the staff meets the needs of the company in the best possible way. This is ensured by continuous systematic training.

As a property investment company, Kapiteeli operates in close cooperation with outside service providers, which calls for networking and partnership management skills. The most important areas of development in 2003 were networking and customer management and the development challenges that come from customer feedback at the individual level. Kapiteeli's customer satisfaction indicators were overhauled so that the company received customer feedback at the personal level as well as the company level, where it can influence personal development goals and the implementation of the necessary training.

The internationalisation of the property sector can be clearly seen in Finland and this is reflected in the continued development of the professional skills of Kapiteeli's staff. Language teaching was continued in groups and on a one-to-one basis. Themes of internal training events were increased control of value-added taxation and amendments to legislation on the property sector.

The content of the personnel research carried out annually and the method used to perform it were overhauled in 2003. The response rate was again high with 75% of the entire Group's staff responding to the questionnaire. Using the Internet to complete the questionnaire meant that the research results could be handled in a variety of ways and external data could be used for comparison. In addition, more reliable data

◀ THE ACHIEVEMENT OF KAPITEELI'S GOALS DEPENDS ON WHETHER THE CORE COMPETENCE OF THE STAFF MEETS THE NEEDS OF THE COMPANY IN THE BEST POSSIBLE WAY. THIS IS ENSURED BY CONTINUOUS SYSTEMATIC TRAINING.

will be available in the future for monitoring how well the organization functions. Besides measuring job satisfaction and working atmosphere, the research included internal customer feedback as a new element. This can be used to improve operations that do not benefit from external customer feedback.

Kapiteeli personnel are satisfied with their work and well aware of their own goals and those of the company. Internally, the organization functions better than other comparable Finnish companies. The staff are satisfied with the way their supervisors work and supervisors' personnel management skills are better than in comparable companies. The staff are also satisfied with competence development. Target and follow-up discussions are seen as effective and members of staff are satisfied with the salary and incentive scheme.

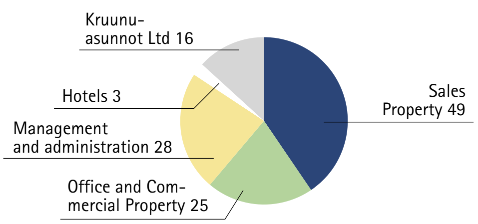
The fact that there is a low rate of sick leave also indicates that there is a good working atmosphere. Almost a third of the staff did not take any sick leave at all last year. Occupational health services have been outsourced at Kapiteeli to a selected network of partners, which means that health care and maintaining working ability are personal and confidential.

In 2003, Kapiteeli conducted a process to determine common values and discuss their content, in which the company's entire staff took part from the very beginning.

Personnel, key figures (Group)

Average age	46.4 y
Training costs as a percentage of salaries, %	5.1
Turnover of staff, %	3.3

Personnel by business unit on December 31, 2003



IN 2002, THE MANAGEMENT OF KAPITEELI APPROVED AN ENVIRONMENTAL POLICY LAID DOWN FOR THE COMPANY, WHICH MEANS THAT KAPITEELI WILL BE TAKING A RESPONSIBLE ATTITUDE TO ENVIRONMENTAL ISSUES. THE COMPANY WANTS TO BE INVOLVED IN THE PROMOTION OF SUSTAINABLE DEVELOPMENT AND IN ACTIVITIES THAT HELP TO KEEP THE LIVING ENVIRONMENT CLEAN AND SAFE.

RESPONSIBILITY FOR THE ENVIRONMENT

Aiming for sustainable development and a clean environment

Planning, decision-making and implementation of Kapiteeli's operations and projects are guided by the principle of economy over the complete life cycle. The aim is to cut consumption and use energy and raw materials efficiently.

In the property sector, construction, renovation, maintenance and use have the biggest impact on the environment. The importance of taking environmental issues into account in the property business has increased as life cycle thinking has become more common. From the point of view of the environment, the key decisions are made during the planning and construction phases of building projects when the methods and materials used to construct them and the extent to which the building pollutes the environment during use are all decided.

One good example of Kapiteeli's environmental thinking in conjunction with a development project is the change of use and renovations to the Salmisaarentalo building which will be completed in 2004. The project will be reusing the environmental loading from the construction of the building in the 1940s so that a new 60-year era in the life cycle of the property will begin while the building's energy efficiency will be improved using up-to-date technical solutions.

Property maintenance during use ties up a substantial quantity of energy. Over a 50-year reference period, 80% of a property's environmental impact derives from user operations, maintenance, repairs and replacements.

Kapiteeli's property management services are provided by Ovenia Oy. Ovenia puts work out to competitive tender and enters into service agreements with property services providers. The agreement between Kapiteeli and Ovenia requires that Ovenia and its service providers follow environmentally friendly operating procedures by taking environmental issues into account in all their operations.

Ovenia is also responsible for monitoring the life cycle consumption of water and energy in properties owned by Kapiteeli and for making any necessary recommendations for improvements. As far as offices and commercial premises are concerned, this monitoring of consumption takes place separately for each property. Ovenia is well equipped to carry out such monitoring and to note unusually high consumption, because it is responsible for an extensive property portfolio.

One example of the promotion of energy conservation in the construction and property sector is the KRESS monitoring scheme organized by the Ministry of Trade

and Industry in conjunction with RAKLI. Kapiteeli entered into a KRESS agreement in 2000. Energy reviews are carried out at office properties wholly owned by Kapiteeli and by the end of 2003, 75 energy reviews had been carried out. The reviews have been used as the basis for action particularly in those properties where the payback time on the investment is less than five years.

When Kapiteeli started operating as a company, several areas of polluted land or suspected polluted land came into its ownership. These include former shunting/marshalling yards, wood preservative treatment plants, sawmills, service stations and repair shops, shooting ranges and road maintenance depots. In 2003, Kapiteeli commissioned a study of the rehabilitation requirements for ten sites and four of them were rehabilitated. The costs of the rehabilitation were EUR 0.5 million and the most important site to be rehabilitated was in Espoo at Nöykkiö.

Kapiteeli develops and improves the environmental expertise of its staff, which enables environmental awareness to be passed on to the users of office and commercial premises owned by Kapiteeli. The Kapiteeli environmental handbook was drawn up in 2003 for this purpose. The office environmental handbook published by the Finnish Association for Nature Conservation, which provides information for users on implementing sustainable development in a working environment, was also distributed to all tenants.

Kapiteeli takes part in various property sector environmental projects and was involved in the project on environmental management in business premises. The aim is to show the importance of control of environmental issues in environmental management, to define environmental indicators and action to be taken for managing environmental issues in office and commercial premises.

Kapiteeli evolves business models for handling environmental issues that transcend the boundaries of ownership, service provision, management, use and entrepreneurship in partnership with Ovenia and other service providers in the study on environmental products for property management run by Helsinki University of Technology, which was launched in February 2004.

CORPORATE GOVERNANCE

Kapiteeli Ltd is a property investment company that is 100% owned by the State of Finland. The Kapiteeli Group is made up of Kapiteeli Ltd, the parent company, Kruunuasunnot Ltd and numerous housing and real estate companies. Kapiteeli is domiciled in Helsinki.

Kapiteeli's corporate governance is organized according to the Finnish Companies Act.
Other principles and operating procedures for steering the corporate governance of Kapiteeli:

- Principles of Corporate Governance, approved by the Board of Directors of Kapiteeli Ltd on January 29, 2003
- Operating procedures laid down and approved by the Management Team on February 25, 2003.

Annual General Meeting ▪ The Annual General Meeting decides whether to approve the financial statements and the balance sheet, and the consolidated financial statements and consolidated balance sheet, and on any action called for by the profit/loss on the approved consolidated balance sheet, discharge from liability of the members of the Board of Directors and the Chief Executive Officer, remuneration of the members of the Board and the Auditors and the number of Board members. The Annual General Meeting also elects the members of the Board, the Chairman and Deputy Chairman of the Board, and the Auditors and Deputy Auditors.

An Extraordinary General Meeting will be held whenever the Board deems it necessary or whenever else such a meeting must be held according to the law. The Annual General Meeting was held on March 12, 2003.

Board of Directors ▪ The task of the Board of Directors is to look after the management of the company and the proper arrangement of its operations, to give instructions and orders on day-to-day management, to make decisions on unusual or extensive issues and to ensure that bookkeeping and financial matters are properly supervised.

The operation of the company is based on a strategy approved by the Board of Directors. The plan for the year is drawn up on the basis of this strategy and principles for planning, steering and monitoring are approved as part of it.

The Board decides on the organization and representation of the company, on the implementation of decisions made by the Annual General Meeting, on supervision and giving instructions.

The Auditors and the internal auditor monitor the observance of the principles of governance and supervision set by the Board.

The Board appoints and dismisses the President and CEO and decides on the basis for his remuneration.

The Board of Directors consists of three to seven members. The term of office of members ends at the conclusion of the next Annual General Meeting following their election.

In 2003, the Board of Directors met 12 times, under the chairmanship of Professor Erkki KM Leppävuori.

President and Chief Executive Officer ▪ The task of the President and CEO is to handle the day-to-day management of the company according to the instructions and orders issued by the Board of Directors. The President and CEO is only permitted to embark on operations involving unusual or extensive issues considering the scope and nature of the company's operations if the Board of Directors has authorized him to do so or if waiting for a decision from the Board of Directors may cause essential damage to the operations of the company. The President and CEO must ensure that the bookkeeping of the company is in accordance with the law and that its financial management is organized in a reliable manner.

The current President and CEO is Kari Inkinen.

Operational organization ▪ The President and CEO is assisted by a Management Team which, besides the

President and CEO, consists of the Senior Vice Presidents of the Office and Commercial Property Unit, the Hotels Unit and the Sales Property Unit plus the company's Chief Financial Officer. The company's Chief Legal Counsel acts as secretary.

Control, target-setting and monitoring of Kapiteeli's business operations is organized into four business units, Office and Commercial Property, Hotels, Sales Property and Kruunuasunnot Ltd. Financial and data management, financing, legal affairs, human resources and communications services are consolidated at Group level.

The Senior Vice Presidents of the business units are responsible for managing the property business within their own units and the Chief Financial Officer is responsible for finance and administration. The Senior Vice Presidents report to the President and CEO.

Administration of subsidiaries ▪ The administration of Kruunuasunnot follows the principles of administration and supervision applied in Kapiteeli as applicable. The Board of Directors of Kruunuasunnot approves the company's operating principles as put forward by the President. Instructions for the administration of housing and property companies by the owners are given by the Kapiteeli Management Team.

Auditing ▪ Kapiteeli Ltd has at least one and at most three auditors and one deputy auditor who must be authorized public accountants or accounting firms, approved by the Central Chamber of Commerce.

The auditors' term of office is the financial year and their duties end at the conclusion of the next Annual General Meeting.

Kapiteeli's auditors for 2003 have been the Tuokko, Authorized Public Accounting Firm, with Yrjö Tuokko, Authorized Public Accountant, as responsible auditor and Olavi Guttorm, Authorized Public Accountant, as deputy auditor.

Internal supervision and auditing ▪ The task of Kapiteeli's internal supervision is to produce reasonable certainty that Kapiteeli's

- operations are efficient and appropriate
- funds and assets used in its operations are safe
- reporting is reliable, and
- its operations comply with the law, regulations and Kapiteeli's own internal operating principles.

The Board of Directors of Kapiteeli is responsible for internal supervision. Internal auditing is the responsibility of an internal auditor who reports to the President and CEO. The CEO advises the Board of Directors of the internal auditor's work and his principal observations once or twice a year.

Risk management ▪ Kapiteeli endeavours to recognise the risks involved in its business and operating environment and their significance in conjunction with strategic planning and annual plans.

The decision has been made to hedge against specific known risks involved in interest rates and exchange rates and risks associated with maintaining data security and preserving assets.

Interest rate risks ▪ The Group hedges against varying interest rate risks on liabilities within the framework of a hedging strategy approved by the Board of Directors.

Exchange rate risks ▪ The Group does not maintain a particularly exposed foreign exchange position.

Insurance ▪ The Group's property assets and contents are insured in the conventional way within the property sector. Each property is insured by competitive tender based on a framework agreement.

Data security ▪ The Kapiteeli Management Team has approved the Group's data security principles and policy.

Board of Directors

The Board of Directors of Kapiteeli met 12 times in 2003. The Board comprised:

Erkki KM Leppävuori, Chairman, Professor, born 1951
Director, VTT Technical Research Centre of Finland
Member of the Board since 2002

Jarmo Väisänen, Deputy Chairman,
Lic.Soc.Sc., born 1951
Financial Counsellor, State ownership policy, Ministry of Finance
Member of the Board since 1999

Erkki Helaniemi, LL.M., born 1962
Partner, Alexander Corporate Finance Oy
Member of the Board since 2002

Tapio Kiiskinen, Commercial Counsellor, B.Sc. (Econ.), born 1947
Chief Executive Officer (retired), HYY Group
Member of the Board since 2003

Ritva Sallinen, B.Sc. (Econ.), born 1949
Executive Vice President, Finance and Administration, Acta Print Oy
Member of the Board since 2003

Elina Selinheimo, M.Sc. (Econ.), born 1950
Senior Adviser for the Budget, Ministry of Finance
Member of the Board since 1999

Executive Management Team

On December 31, 2003, the Kapiteeli Executive Management Team comprised:

Kari Inkinen, M.Sc. (Tech.), born 1957
President and CEO
Kari Inkinen has worked for Kapiteeli and been a member of the Executive Management Team since January 1, 1999. On May 22, 2003, he was elected chairman of the Finnish Association of Building Owners and Construction Clients.

Ossi Hynynen, M.Sc. (Tech.), born 1955
Senior Vice President, Office and Commercial Property
Member of the Executive Management Team since 1999

Kari Koivu, M.Sc. (Tech.), born 1966
Senior Vice President, Sales Property
Member of the Executive Management Team since 2003

Seppo Lehto, M.Sc. (Tech.), born 1943
Senior Vice President, Hotels
Member of the Executive Management Team since 1999

Esko Mäkinen, M.Sc. (Econ.), born 1945
Chief Financial Officer
Member of the Executive Management Team since 1999

Erik Hjelt, LL.Lic., born 1961
Chief Legal Counsel and Secretary
Secretary of the Executive Management Team since 1999

THE MEMBERS OF THE KAPITEELI BOARD OF DIRECTORS, FROM THE LEFT: RITVA SALLINEN, TAPIO KIISKINEN, JARMO VÄISÄNEN, ERKKI KM LEPPÄVUORI, ELINA SELINHEIMO AND ERKKI HELANIEMI.

ABOVE FROM THE LEFT, SEPPO LEHTO AND ESKO MÄKINEN, ABOVE ON THE RIGHT KARI INKINEN, BELOW FROM THE LEFT, ERIK HJELT, KARI KOIVU AND OSSI HYNYNEN.

FINANCIAL STATEMENTS

Contents

Board report on operations Jan. 1 – Dec. 31, 2003

Trends in the real estate market ▪ For the last two years, both the United States and the euro zone have been in recession, and economic growth has largely been sustained by private consumption. Global uncertainty has meant that GDP growth in Finland, a country heavily dependent on exports, has dropped below 2%. Recently, there have been some signs of an upturn: the US economic indicators have been positive and, in a sign of optimism, share prices have been on the rise. However, any growth is expected to be modest and uncertainties remain.

Economic research institutes expect the Finnish economy to grow at a rate of 2.5% in 2004. Confidence indicators for the Finnish industry remain weak, however, and a large number of companies have announced layoffs. Any modest recovery would first have an effect on consumption and, consequently, on the demand for commercial premises. Changes in economic activity are reflected in the office and commercial premises market with a time lag and thus no growth is expected in the office premises sector before 2005.

Kapiteeli business operations January 1 to December 31, 2003 ▪ 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, while the State's long-term aim is to reduce its equity-rated investment in Kapiteeli by relinquishing its ownership in the company in whole or in part.

In order to achieve its long-term aims, Kapiteeli began improving its investments and financial position in 1999 by sales, purchases and development. During the year under review, Kapiteeli improved its real estate assets by selling properties to the value of EUR 140 million, by buying new properties that met its investment criteria to the value of EUR 49 million and by investing in development to the value of EUR 70 million.

Despite the uncertainties and challenges in the commercial premises market, there was no increase in the vacancy rates of premises owned by the Kapiteeli Group during 2003, and the Group's net rental yield was 6.5% (5.5%). Net rental income of the Office and Commercial Property Unit reached 8.5% (7.9%), while the figure for the Hotels Unit stood at 7.5% (6.4%). The targets set for property sales were met.

On March 12, 2003, the Annual General Meeting decided to reduce Kapiteeli Ltd's share capital and premium fund by EUR 80 million, and the reduction was entered in the Trade Register on July 17, 2003. For the reduction, Kapiteeli Ltd issued a capital loan bond to the State in the sum of EUR 80 million on August 4, 2003. On August 20, 2003, Kapiteeli Ltd paid back a total of EUR 28 million of the capital loan of EUR 120 million granted by the State. On December 31, 2003, Kapiteeli had a total of EUR 172 million of outstanding capital loans granted by the State.

Group structure ▪ The Kapiteeli Group is made of the parent company Kapiteeli Ltd, the subsidiary Kruunuasunnot Ltd and 608 real estate subsidiaries and 210 associated real estate companies. The parent company, Kruunuasunnot Ltd and the permanently owned real estate subsidiaries and associated real estate companies have been combined to form the Kapiteeli Group. The real estate corporations entered under current assets have not been consolidated.

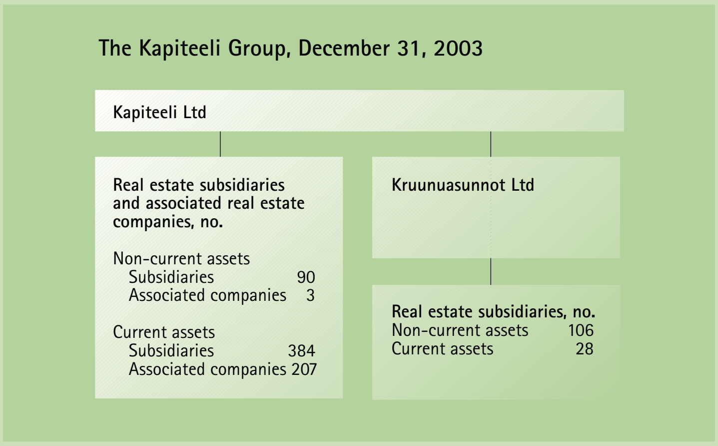
Parent company profit and loss statement ▪ Kapiteeli Ltd's turnover came to EUR 262.2 (301.2) million. This total comprises EUR 135.4 (137.0) million of rental revenue and compensations for use and EUR 126.8 (164.2) million received from sales of real estate.

The parent company's planned depreciation and write-downs amounted to EUR 8.1 (9.9) million. A total of EUR 25.1 (16.9) million in extraordinary write-downs was entered against real estate listed as current assets.

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

Profit for the year before extraordinary items, appropriations and taxes totalled EUR 24.4 (39.4) million. This includes EUR 40.6 (58.1) million in capital gains and a loss of EUR 15.1 (16.5) million from selling sales and office property and hotels. The EUR 6.7 million arising from the release of pension provision has been entered in extraordinary income. The profit for the year totalled EUR 31.4 (40.8) million.

In 2003, return on equity (ROE) was 3.7% (5.5%) and return on invested capital (ROI) 3.7% (5.1%).



Parent company balance sheet ▪ The parent company balance sheet total stood at EUR 1,222.5 (1,255.2) million. Non-current assets, at EUR 782.3 (695.0) 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 440.2 (560.2) million. Real estate assets entered under current assets stood at EUR 360.5 (482.3) million. Corporate loan receivables from real estate corporations entered under current assets totalled EUR 22.4 (31.5) million.

Financial assets comprise short-term investments and deposits and bank accounts, totalling EUR 19.8 (4.6) million.

The Company's equity stood at EUR 644.2 (650.9) million. During the year under review, Kapiteeli's share capital and premium fund were reduced by a total of EUR 80 million. The equity included an EUR 172 (120) million of capital loans granted to Kapiteeli Ltd by the Finnish State.

Consolidated profit and loss statement ▪ Consolidated turnover came to EUR 299.6 (334.2) million. This total comprises EUR 166.1 (168.2) million of rental revenue and compensations for use and EUR 133.5 (166.0) million received from sales of real estate.

Planned depreciation totalled EUR 16.7 (14.7) million, while extraordinary write-downs amounting to EUR 24.2 (19.6) million were entered in the books.

Consolidated profit before extraordinary items, appropriations and taxes totalled EUR 27.2 (35.2) million. The profit for the year was EUR 33.8 (35.2) million. This includes the net profit of EUR 27.1 (42.4) million arising from the sales of property and shares and the release of pension provision of EUR 6.7 million, which had been entered in the books as extraordinary income.

Return on equity was 3.8% (4.6%) and return on invested capital 3.9% (4.6%).

Consolidated balance sheet ▪ The consolidated balance sheet total stood at EUR 1,310.2 (1,343.3) million, with a minority interest of EUR 43.2 (42.8) 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 proportion of shareholders' equity, the differences have been allocated to the companies' assets.

The consolidated non-current assets of EUR 850.2 (757.9) million include long-term real-estate investments. Current assets comprise real estate and shareholdings classified as sales property. Corporate loan receivables from real-estate corporations entered under current assets totalled EUR 20.7 (31.4) million.

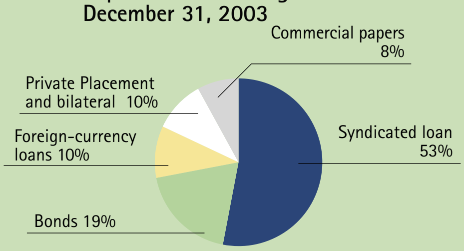
Consolidated financial assets comprise short-term investments and deposits of EUR 21.3 (4.0) million and bank accounts of EUR 2.1 (5.5) million.

Consolidated liabilities totalled EUR 592.0 (612,5) million. Of this amount, EUR 78.5 (210.1) million was current and EUR 513.5 (402.4) million non-current.

Consolidated equity totalled EUR 665.4 (669.7) million. This amount includes EUR 172 (120) million of capital loans granted to Kapiteeli Ltd by the State of Finland.

At the end of the year under review, the consolidated equity ratio (excluding capital loans) was 40.8% (44.2%), while the gearing ratio stood at 0.8% (0.8%) without the capital loans. With the capital loans included, the equity ratio stood at 53.9% (53.2%).

Kapiteeli Ltd, funding structure on December 31, 2003



Funding ▪ On December 31, 2003, Kapiteeli Ltd's interest-bearing liabilities totalled EUR 544.8 million. The Company's financial expenses amounted to EUR 22.3 million. The average loan period of Kapiteeli Ltd's credits was 2.7 years and the mean interest rate 4.0%. The average period for which interest rates were fixed was 1.5 years.

Administration

Meetings of Kapiteeli shareholders ▪ On March 12, 2003, 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 0.84 per share, corresponding to a total of EUR 10,080,000 and leave the remaining EUR 30,694,167.95 of the profit for the financial year to be carried over on the profit and loss account for previous years.
- Decided, following a proposal by the Board of Directors, and in order to distribute funds to shareholders, to reduce the Company's share capital by EUR 50,000,000 from EUR 240,000,000 to EUR 190,000,000, and to reduce the premium fund from EUR 106,700,000 to EUR 76,700,000 by redeeming 2,500,000 shares against payment.

The share capital and the premium fund will be reduced by a total of EUR 80,000,000. The redemption price will be paid by issuing the shareholder a capital bond of EUR 80,000,000.

- Elected Erkki KM Leppävuori as Chairman, Jarmo Väisänen as Deputy Chairman and Erkki Helaniemi, Tapio Kiiskinen, Ritva Sallinen and Elina Selinheimo as members of the Board of Directors until the Annual General Meeting of 2004.

Audit ▪ The auditor was Tuokko Tilintarkastus Oy, Authorized Public Accountants, with Yrjö Tuokko, Authorized Public Accountant, as responsible auditor, and Olavi Guttorm, Authorized Public Accountant, as deputy auditor.

Board of Directors ▪ The Board of Directors met 12 times in 2003. The Board comprised:

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

Jarmo Väisänen, born 1951, Deputy Chairman
Financial Counsellor, State ownership policy, Ministry of Finance

Erkki Helaniemi, born 1962
Partner, Alexander Corporate Finance Oy

Tapio Kiiskinen, born 1947
Chief Executive Officer (retired), HYY Group

Ritva Sallinen, born 1949
Executive Vice President, Finance and Administration, Acta Print Oy

Elina Selinheimo, born 1950
Senior Adviser for the Budget, Ministry of Finance

Management ▪ Kapiteeli's President and CEO is assisted by the Executive Management Team, which on December 31, 2003 comprised:

Kari Inkinen, born 1957, President and CEO

Ossi Hynynen, born 1955, Senior Vice President, Office and Commercial Property

Kari Koivu, born 1966, Senior Vice President, Sales Property

Seppo Lehto, born 1943, Senior Vice President, Hotels

Esko Mäkinen, born 1945, Chief Financial Officer

Erik Hjelt, born 1961, Chief Legal Counsel and Secretary to the Executive Management Team

Personnel ▪ On December 31, 2003, Kapiteeli Ltd's personnel numbered 105 (138) of whom 104 (136) were permanent and 1 (2) on a fixed term. At the same time, Kruunuasunnot Ltd had a staff of 16 (15).

Future prospects ▪ The uncertainties in the operating environment are also affecting the real estate market. However, the situation is not expected to lead to any significant rise in vacancy rates in Kapiteeli's office and commercial premises or to reduce rental levels. In the current market situation, Kapiteeli is launching new investment projects gradually and in accordance with the demand for office and commercial premises. Sales of real estate not compatible with Kapiteeli's strategy are expected to be slightly lower in 2004 than in the previous year.

Kapiteeli Group's profit for 2004 before extraordinary items is expected to be higher than in 2003.

Consolidated profit and loss statement

EUR 1,000	Note	Group Jan. 1–Dec. 31, 2003	Group Jan. 1–Dec. 31, 2002	Parent company Jan. 1–Dec. 31, 2003	Parent company Jan. 1–Dec. 31, 2002
TURNOVER	1	299,587	334,247	262,244	301,248
Other operating income	2	1,544	2,016	1,335	1,894
Materials and services	3	-107,419	-124,397	-102,222	-123,465
Personnel expenses	4	-8,617	-9,331	-7,524	-8,346
Depreciation and write-downs	5	-40,836	-34,300	-33,206	-26,807
Other operating expenses	6	-99,027	-112,037	-87,617	-92,371
Share of associated companies' profit		20			
OPERATING PROFIT		**45,252**	**56,198**	**33,010**	**52,153**
Financial income and expenses	7	-18,081	-21,020	-8,573	-12,775
PROFIT BEFORE INCIDENTAL ITEMS		**27,171**	**35,178**	**24,437**	**39,378**
Incidental income	8	6,695		6,695	
PROFIT BEFORE APPROPRIATIONS AND TAXES		**33,866**	**35,178**	**31,132**	**39,378**
Appropriations	9			282	1,396
Minority interest		-94	-21		
PROFIT FOR THE FINANCIAL YEAR		**33,772**	**35,157**	**31,414**	**40,774**

Consolidated balance sheet

EUR 1,000	Note	Group 31 Dec. 2003	Group 31 Dec. 2002	Parent company 31 Dec. 2003	Parent company 31 Dec. 2002
Assets					
NON-CURRENT ASSETS					
Intangible assets	10	5,745	5,026	1,553	1,734
Tangible assets		831,652	739,304	96,903	77,789
Investments	11				
Holdings in Group companies				443,999	410,942
Receivables from Group companies				227,241	191,155
Holdings in associated companies		1,595	1,660	1,706	1,706
Other investments		11,207	11,884	10,933	11,696
NON-CURRENT ASSETS, TOTAL		**850,199**	**757,874**	**782,335**	**695,022**
CURRENT ASSETS					
Inventories	12	377,128	504,140	363,492	485,221
Non-current receivables	13	21,587	32,543	23,351	32,625
Current receivables	14	37,931	39,311	33,518	37,756
Liquid securities		21,335	4,003	19,295	2,000
Cash in hand and at banks		2,052	5,479	549	2,559
CURRENT ASSETS, TOTAL		**460,033**	**585,476**	**440,205**	**560,161**
		1,310,232	**1,343,350**	**1,222,540**	**1,255,183**
Liabilities					
EQUITY	15				
Share capital		190,000	240,000	190,000	240,000
Premium fund		76,666	106,666	76,666	106,666
Profit/loss brought forward		192,979	167,902	174,155	143,461
Profit/loss for the financial year		33,772	35,157	31,414	40,774
Capital loan	16	172,000	120,000	172,000	120,000
TOTAL EQUITY		**665,417**	**669,725**	**644,235**	**650,901**
APPROPRIATIONS	17			**13,264**	**13,546**
MINORITY INTEREST		**43,248**	**42,793**		
PROVISIONS	18	**9,552**	**18,305**	**5,475**	**12,373**
LIABILITIES					
Non-current liabilities	19	513,536	402,376	477,022	363,898
Current liabilities	20	78,479	210,151	82,544	214,465
LIABILITIES, TOTAL		**592,015**	**612,527**	**559,566**	**578,363**
		1,310,232	**1,343,350**	**1,222,540**	**1,255,183**

Funds statement

EUR 1,000	Group Jan. 1–Dec. 31, 2003	Group Jan. 1–Dec. 31, 2002	Parent company Jan. 1–Dec. 31, 2003	Parent company Jan. 1–Dec. 31, 2002
CASH FLOW FROM OPERATIONS				
Operating profit/loss	45,252	56,198	33,010	52,153
Adjustments to operating profit	38,356	42,959	32,220	30,386
Change in working capital	70,545	102,500	61,764	106,128
Interest and charges paid	-22,185	-24,774	-20,035	-23,105
Dividends received	114	541	114	541
Interest received	4,169	3,502	11,419	10,074
Taxes paid	0	-21		
Cash flow from operations	**136,251**	**180,905**	**118,492**	**176,177**
CASH FLOW FROM INVESTMENTS				
Investments in tangible and intangible assets	-111,498	-110,146	-29,609	9,752
Capital expenditure on other investments	0	0	-26,945	-30,908
Approved loans	-1,085	-2,501	-45,179	-104,371
Reimbursements of loan receivables	12,041	10,729	18,367	29,356
Sales of other investments	1,545	1,385	1,545	1,385
Cash flow from investments	**-98,997**	**-100,533**	**-81,821**	**-94,786**
CASH FLOW FROM FINANCING				
Reimbursement of shareholders' equity	-50,000	-73,000	-50,000	-73,000
Premium fund	-30,000		-30,000	
Drawdowns of current loans	0	29,553	0	26,034
Repayments of current loans	-96,430	-15,000	-96,430	-15,000
Drawdowns of non-current loans	207,000	20,697	207,000	20,000
Repayments of non-current loans	-43,840	-12,762	-41,876	-9,740
Dividends paid	-10,080	-27,370	-10,080	-27,370
Cash flow from financing	**-23,350**	**-77,882**	**-21,386**	**-79,076**
Change in financial resources	**13,904**	**2,490**	**15,285**	**2,315**
Financial resources Jan. 1	9,483	6,993	4,559	2,244
Financial resources Dec. 31	**23,387**	**9,483**	**19,844**	**4,559**
CHANGE IN WORKING CAPITAL				
Decrease/increase in current receivables	1,349	-19,961	4,326	-22,541
Decrease/increase in inventories	104,586	119,995	93,087	128,704
Decrease/increase in current liabilities	-35,390	2,466	-35,649	-35
	70,545	**102,500**	**61,764**	**106,128**

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 sheet 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 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. Retirement pensions are treated as a payment-based system. As far as disability pension is concerned, actual disability is seen as an event that gives rise to an obligation. Unemployment pension is dealt with as a benefit that follows the end of an employment relationship and dismissal is seen as an event that gives rise to a potential obligation.

Expenses related to real estate assets ▪ The total sum of maintenance charges and financial considerations in 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 properties, have been capitalized in inventories at the acquisition cost of the property, and in non-current assets as projects in progress until the renovated facilities begin to be used. Investments under EUR 20,000 are entered as expenses.

Valuation of real estate assets ▪ Kapiteeli and Kruunuasunnot have made an internal valuation of the market values of their real estate assets in late 2003 early 2004. To complement Kapiteeli's internal valuation, external valuations of the market value of the real estate assets held as non-current assets by Kapiteeli's Office and Commercial Property Unit and the Hotels Unit and the market value of some of the properties classified as for sale were obtained, item by item.

Properties intended to remain in Kapiteeli's ownership were valued on the basis of investors' yield requirements. On the basis of the valuations made by Kapiteeli and Maakanta Ltd, the total market value of office, commercial and hotel properties exceeded the book value of the assets.

Properties intended for sale were valued mainly by using the market value method. On the basis of the valuations by Kapiteeli, Engel Construction Management Services Ltd and Maakanta Ltd, a total of EUR 25 million in market value write-downs on 170 properties intended for sale were entered in the financial statements. After the write-downs, the total market value of the properties for sale is estimated to at least correspond with the book value of the assets. The book value of real estate assets entered as current assets is estimated to be at most equal to the current market value, on the materiality principle.

Kruunuasunnot Ltd has valued its properties entered as non-current and current assets at the company's own valuations using the market value method as the basis for valuation. The book values of Kruunuasunnot properties were estimated as a whole and separately as equal to the current market value, on the materiality principle.

The phasing principle for loans, bonds and derivatives ▪ The costs incurred in issuing loans and bonds are phased throughout the term of the loan.

Premiums on capped options purchased are phased through the term of option validity. The interest on interest rate swaps accrued during the review period is entered under interest expenses.

Non-current assets ▪ Real estate used by the company and intended for long-term ownership plus 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 ownership 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 intended 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.

Depreciation ▪ 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 (office and commercial premises)	50 years
Buildings (housing)	40 years
Structures (maintenance and technical facilities)	30 years
Structures (lightweight)	15 years
Technical equipment (also in buildings)	8 years
Asphalting	10 years
Machinery and equipment	5 years
Modernization 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.

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

Notes to the profit and loss statement

EUR 1,000	Group 2003	Group 2002	Parent company 2003	Parent company 2002
1 TURNOVER				
Sale of inventories	133,549	165,961	126,802	164,185
Rental revenues	160,666	160,758	133,489	133,387
Compensations for use	5,372	7,528	1,953	3,676
Total	299,587	334,247	262,244	301,248
2 OTHER OPERATING INCOME				
Sales gains from fixed assets	1,125	1,386	1,187	1,386
Others	419	630	148	508
Total	1,544	2,016	1,335	1,894
3 MATERIALS AND SERVICES				
Change in stocks	-94,259	-117,092	-89,341	-116,183

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 2003	Group 2002	Parent company 2003	Parent company 2002
4 DATA CONCERNING PERSONNEL AND MEMBERS OF THE ADMINISTRATION				
PERSONNEL				
Average number of personnel during the financial period	127	151	111	138
MANAGEMENT SALARIES AND REMUNERATIONS				
President and CEO and the Executive Vice Presidents; members of the Board of Directors	451	392	330	278

It has been agreed that Kapiteeli Ltd's President and CEO, the Executive Vice Presidents responsible for operations, the Chief Financial Officer and the Executive Vice President of Kruunuasunnot Ltd must retire at the age of 63.

EUR 1,000	Group 2003	Group 2002	Parent company 2003	Parent company 2002
5 DEPRECIATION AND WRITE-DOWNS				
Planned depreciation				
Other long-term expenditure	381	489	381	489
Buildings and constructions	13,971	12,392	2,012	2,185
Machinery and equipment	2,308	1,821	159	167
	16,660	14,702	2,552	2,841
Write-downs on non-current assets	-76	398	5,581	7,054
Exceptional write-downs on current assets	24,252	19,200	25,073	16,912
	24,176	19,598	30,654	23,966
Depreciations and write-downs, total	40,836	34,300	33,206	26,807
6 OTHER OPERATING EXPENSES				
Administration services	5,645	6,474	2,428	3,033
Property maintenance expenses	89,366	100,319	80,199	82,195
Others	4,016	5,244	4,990	7,143
Total	99,027	112,037	87,617	92,371
7 FINANCIAL INCOME AND EXPENSES				
Dividend income				
From others	114	541	114	541
Interest income from non-current investments				
From Group companies	1,005	1,757	10,446	9,108
From others	1,479	1,191	1,061	1,124
Total	2,484	2,948	11,507	10,232

EUR 1,000	Group 2003	Group 2002	Parent company 2003	Parent company 2002
Other financial income				
From Group companies	1,654			
From others		700		
Interest expenses and other financial expenses				
Interest expenses to Group companies	-254	-136	-362	-723
Interest expenses to others	-21,621	-24,843	-19,694	-22,697
Total	-21,875	-24,979	-20,056	-23,420
Other financial expenses				
To others	-458	-230	-137	-128
Financial income and expenses, total	-18,081	-21,020	-8,572	-12,775

8 INCIDENTALS

Incidental income				
Pension reserve annulment	6,695		6,695	

9 APPROPRIATIONS

Difference between planned depreciation and depreciation made in taxation			282	1,396

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 following the caution principle.

10 TANGIBLE AND INTANGIBLE ASSETS

Intangible assets

Other long-term expenditure				
Acquisition cost Jan. 1	6,519	6,021	3,226	2,746
Increases	1,833	634	933	481
Decreases	-804	-136	-804	-1
Acquisition cost Dec. 31	7,548	6,519	3,355	3,226
Accumulated depreciation and write-downs	-1,493	-1,004	-1,492	-1,004
Accumulated depreciation from decreases	71		71	
Depreciation for the financial period	-381	-489	-381	-488
Book value Dec. 31	5,745	5,026	1,553	1,734

Tangible assets

Land and water				
Land areas				
Acquisition cost Jan. 1	104,677	96,784	17,178	23,820
Increases and transfers of asset items	20,015	9,725	6,718	10,070
Decreases and transfers of asset items	-9,638	-1,832	-8,952	-16,712
Book value Dec. 31	115,054	104,677	14,944	17,178
Connection fees				
Acquisition cost Jan. 1	2,404	2,263	360	360
Increases		141		
Book value Dec. 31	2,404	2,404	360	360
Book value Dec. 31, total	117,458	107,081	15,304	17,538

EUR 1,000	Group 2003	Group 2002	Parent company 2003	Parent company 2002
Buildings and constructions				
Acquisition cost Jan. 1	655,967	529,319	84,130	87,855
Increases and transfers of asset items	46,391	174,679	1,501	37,743
Decreases and transfers of asset items	-1,755	-48,031	-809	-41,468
Acquisition cost Dec. 31	700,603	655,967	84,822	84,130
Accumulated depreciation and write-downs	-52,841	-40,734	-32,298	-30,113
Accumulated depreciation from decreases	435	283	496	484
Depreciation for the financial period	-13,979	-12,391	-2,012	-2,185
Book value Dec. 31	634,218	603,125	51,008	52,316
Machinery and equipment				
Acquisition cost Jan. 1	16,727	15,501	715	683
Increases	3,115	1,272	63	76
Decreases	-50	-46	-43	-44
Acquisition cost Dec. 31	19,792	16,727	735	715
Accumulated depreciation and write-downs	-5,189	-3,413	-507	-339
Accumulated depreciation from decreases	58	45	67	39
Depreciation for the financial period	-2,308	-1,821	-158	-168
Book value Dec. 31	12,353	11,538	137	247
Other tangible assets				
Acquisition cost Jan. 1	552	452	79	87
Increases	404	100		
Decreases				-8
Book value Dec. 31	956	552	79	79
Advance payments and projects in progress				
Acquisition cost Jan. 1	17,008	37,574	7,609	8,020
Increases	45,859	8,246	18,587	6,250
Decreases	-379			
Transfers between items	4,180	-28,812	4,179	-6,661
Book value Dec. 31	66,668	17,008	30,375	7,609
Tangible assets, total	831,653	739,304	96,903	77,789

11 INVESTMENTS

	Group		Parent company		
	Shares Dec. 31, 2003		Shares Dec. 31, 2003		
	Joint ownership enterprises	Others	Group companies	Joint ownership enterprises	Others
Acquisition cost Jan. 1	1,681	11,893	410,941	1,706	11,696
Increases	1	65	34,155		65
Decreases	-12	-1,483	-208		-1,484
Transfers of asset items	-75	732	4,692		656
Acquisition cost Dec. 31	1,595	11,207	449,580	1,706	10,933
Write-downs			-5,581		
Book value Dec. 31	1,595	11,207	443,999	1,706	10,933

	Parent company Receivables Dec. 31, 2003
Acquisition cost Jan. 1	191,155
Increases	49,965
Decreases	-13,879
Acquisition cost Dec. 31	227,241
Book value Dec. 31	227,241

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	4,209
City-Raisio Kiint Oy	Raisio	100.00	2,670
Espoon Pyyntitie 1 Kiint Oy	Espoo	100.00	1,681
Helsingin Ehrensvärdintie 31-35 Kiint Oy	Helsinki	100.00	1,974
Helsingin Hämeentie 105 Kiint Oy	Helsinki	60.63	2,018
Helsingin Höyläämötie 5 Kiint Oy	Helsinki	100.00	1,880
Helsingin Itämerenkatu 21 Kiint Oy	Helsinki	100.00	42,171
Helsingin Itämerentalo Kiint Oy	Helsinki	100.00	16,139
Helsingin Kanavakatu 8-22 Kiint Oy	Helsinki	100.00	30,778
Helsingin Kirvesmiehenkatu 4 Kiint Oy	Helsinki	100.00	3,736
Helsingin Kulttuuritalo Kiint Oy	Helsinki	100.00	5,193
Helsingin Kuntotalo Kiint Oy	Helsinki	100.00	1,035
Helsingin Lautatarhankatu 2 B Kiint Oy	Helsinki	100.00	2,752
Helsingin Nuijamiestentie Kiint Oy	Helsinki	100.00	7,977
Helsingin Ohrahuhdantie 4 Kiint Oy	Helsinki	100.00	1,706
Helsingin Porkkalankatu 20 A Kiint Oy	Helsinki	100.00	10,221
Helsingin Porkkalankatu 20 B Kiint Oy	Helsinki	100.00	10,238
Helsingin Porkkalankatu 22 Kiint Oy	Helsinki	100.00	10,554
Helsingin Porkkalankatu 20 C Kiint Oy	Helsinki	100.00	3,154
Helsingin Ruoholahden Parkki Kiint Oy	Helsinki	90.78	21,618
Helsingin Salmisaarentalo Kiint Oy	Helsinki	100.00	25,687
Helsingin Vanhanlinnantie 3 Kiint Oy	Helsinki	100.00	8,450
Hermitec Oy	Tampere	100.00	7,834
Hämeenkatu 20 Kiint Oy	Tampere	100.00	10,809
Hämeentie 103 Kiint Oy	Helsinki	100.00	2,523
Isontammentie 4 Kiint Oy	Vantaa	100.00	601
Joensuun Ykköspaikoitus Oy	Joensuu	88.57	1,815
Jyväskylän Kauppakatu 32 Kiint Oy	Jyväskylä	100.00	4,293
Kajaanin Koskihotelli Kiint Oy	Kajaani	100.00	1,725
Kattotuoli Kiint Oy	Turku	100.00	2,085
Keravan Kauppakaari Kiint Oy	Kerava	100.00	2,647
Kuopion Kauppakatu 18 Kiint Oy	Kuopio	100.00	2,518
Kuopion Vuorikatu 26 Kiint Oy	Kuopio	100.00	2,150
Lahden Aleksanterinkatu 11 Kiint Oy	Lahti	100.00	5,159
Lahden Kulmala Kiint Oy	Lahti	100.00	5,252
Lampputie 4 Kiint Oy	Helsinki	100.00	6,696
Lampputie 12 Kiint Oy	Helsinki	100.00	1,367
Lausteen Taalintehtaankatu 10 Kiint Oy	Turku	100.00	973
Lintulankulma Kiint Oy	Rovaniemi	100.00	1,940
Marina Gongress Center Kiint Oy	Helsinki	100.00	7,969
Mikkelin Hallitustori Kiint Oy	Mikkeli	100.00	6,619
Moksunniemi Oy	Ähtäri	76.45	1,961
Moottorihotelli Tarvontie Kiint Oy	Espoo	100.00	7,269
Nordic Hotellikiinteistöt Kiint Oy	Helsinki	60.00	53,744
Oulun Posteljooni Kiint Oy	Oulu	100.00	12,666
Pieni Roobertinkatu 7 Kiint Oy	Helsinki	91.93	2,678
Pohjoislaakso Kiint Oy	Kouvola	100.00	4,488
Porin Augustinkulma Kiint Oy	Pori	100.00	1,947
Porin Itäpuisto 11 Kiint Oy	Pori	70.38	1,529
Porin Pentinkulma Kiint Oy	Pori	100.00	8,185
Porkkalankadun alitus Kiint Oy	Helsinki	62.64	1,771
Ratinanlinna Kiint Oy	Tampere	100.00	2,103
Ruoholahden Yhteissuoja Kiint Oy	Helsinki	100.00	2,446

Name	Domicile	Share of ownership, %	Capital employed
Ruoholahdenkatu 4 Kiint Oy	Helsinki	55.69	5,711
Satakansa Kiint Oy	Pori	100.00	2,569
Savonkartano Kiint Oy	Kuopio	100.00	1,900
Scifin Beta Kiint Oy	Espoo	100.00	3,549
Scifin Gamma Kiint Oy	Espoo	100.00	3,090
Sibylla Tehdaskiinteistö Oy	Helsinki	64.39	2,523
Silkkikutomo Kiint Oy	Helsinki	100.00	8,488
Sp-kiinteistöt Oy Kilo	Espoo	100.00	19,522
Säästötammela Kiint Oy	Tampere	100.00	4,592
Säästötasala Kiint Oy	Raisio	100.00	1,101
Tallbergintalo Kiint Oy	Helsinki	100.00	10,508
Tampereen Hatanpäänvaltatie 260 Kiint Oy	Tampere	100.00	6,837
Tampereen Naulakatu 3 Kiint Oy	Tampere	100.00	8,943
Tiistilän Miilu Kiint Oy	Espoo	100.00	2,535
Tiistinhovi Kiint Oy	Espoo	100.00	2,545
Tikankulma Kiint Oy	Tampere	100.00	4,867
Tikatapscan Oy	Helsinki	100.00	4,013
Tornilampi Kiint Oy	Espoo	100.00	8,295
Turun Centrum Kiint Oy	Turku	100.00	7,212
Turun Datakulma Kiint Oy	Turku	100.00	1,490
Turun Hansatorni Kiint Oy	Turku	100.00	3,130
Turun Julinia Fastighets Ab Kiint Oy	Turku	100.00	2,938
Turun Kauppiaskatu 9 b Kiint Oy	Turku	100.00	7,058
Turun Länsikulma Kiint Oy	Turku	100.00	2,330
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	32,439
Tuusulan Pysäkkikuja 1 Kiint Oy	Tuusula	100.00	5,901
Vaasan Portti Kiint Oy	Vaasa	100.00	3,515
Vantaan Harkkokuja 2 Kiint Oy	Vantaa	100.00	841
Vantaan Kuussillantie 27 Kiint Oy	Vantaa	100.00	3,001
Vantaan Simonrinne Kiint Oy	Vantaa	77.18	3,514
Vantaan Väritehtaankatu 8 Kiint Oy	Vantaa	100.00	1,727
Ämmänkievari Kiint Oy	Suomussalmi	88.73	1,460

Kruunuasunnot Ltd owns 106 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 Oy (formerly Vuoranta Oy)	Helsinki	100.00
Hotelli ja Ravintola Marski Oy	Helsinki	100.00
Ovenia Oy	Helsinki	37.50

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

EUR 1,000	Group 2003	Group 2002	Parent company 2003	Parent company 2002
12 INVENTORIES				
Land areas and buildings	110,329	150,431	109,554	148,580
Real estate company shares	263,784	350,806	250,936	333,742
Other shares	3,015	2,903	3,002	2,899
Total	377,128	504,140	363,492	485,221

The acquisition cost of Inventories is decreased by the provision of EUR 10.3 million for cleaning of polluted land entered in previous acc
207 associated companies which are not included in the consolidated financial statements. The companies are mainly real estate or housing companies.

EUR 1,000	Group 2003	Group 2002	Parent company 2003	Parent company 2002
13 LONG-TERM RECEIVABLES				
Receivables from Group companies				
Loan receivables	20,655	31,415	22,419	31,516
Total	20,655	31,415	22,419	31,516
14 SHORT-TERM RECEIVABLES				
Receivables from Group companies				
Prepaid expenses and accrued income	367	560	1,575	3,543
Total	367	560	1,575	3,543
RELEVANT ITEMS IN PREPAID EXPENSES AND ACCRUED INCOME				
Interest rate receivables	73	42	73	42
Receivables from other real estate corporations	2,867	3,394	1,270	2,265
Others	2,608	782	196	132
Total	5,548	4,218	1,539	2,439
15 EQUITY				
Share capital Jan. 1	240,000	340,000	240,000	340,000
Decrease in share capital	-50,000	-100,000	-50,000	-100,000
Share capital Dec. 31	190,000	240,000	190,000	240,000
Premium fund Jan. 1	106,666	226,666	106,666	226,666
Decrease in premium fund	-30,000	-120,000	-30,000	-120,000
Premium fund Dec. 31	76,666	106,666	76,666	106,666
Other unrestricted equity				
Retained earnings	203,059	195,272	184,235	170,831
Distribution of dividend	-10,080	-27,370	-10,080	-27,370
Profit for the financial period	33,772	35,157	31,414	40,774
Other unrestricted equity Dec. 31	226,751	203,059	205,569	184,235
Capital loan Jan. 1	120,000		120,000	
Increase	80,000	120,000	80,000	120,000
Decrease	-28,000		-28,000	
Capital loan Dec. 31	172,000	120,000	172,000	120,000
Equity, total	665,417	669,725	644,235	650,901
CALCULATION OF DISTRIBUTABLE FUNDS Dec. 31				
Other unrestricted capital	192,979	167,902	174,155	143,461
Profit for the financial period	33,772	35,157	31,414	40,774
Share of depreciation difference entered under unrestricted capital	-13,835	-13,553		
Sales profits to real estate companies not consolidated in the Group	-672	-826		
Total	212,244	188,680	205,569	184,235

EUR 1,000	Group 2003	Group 2002	Parent company 2003	Parent company 2002
16 CAPITAL LOAN	172,000	120,000	172,000	120,000

The government granted Kapiteeli Ltd a EUR 120 million capital loan on August 20, 2002. The capital loan is interest-free and unsecured. The loan must be paid back by June 30, 2005. During the period under review, Kapiteeli Ltd paid off EUR 28 million of the capital loan leaving EUR 92 million owing of the capital loan granted on August 20, 2002.

The government granted Kapiteeli Ltd a EUR 80 million capital loan on August 4, 2003. The capital loan is interest-free and unsecured. The loan must be paid back by December 31, 2006. The loan or part of the loan may not be repaid before the capital loan granted on August 20, 2002, has been repaid in full.

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.

EUR 1,000	Group 2003	Group 2002	Parent company 2003	Parent company 2002
17 APPROPRIATIONS				
Accrued depreciation difference				
On buildings			11,925	11,807
On machinery and equipment			1,383	1,813
Other long-term expenditure			-44	-74
Total			13,264	13,546
18 PROVISIONS				
Pension provisions	0	6,695	0	6,695
Other provision	9,552	11,610	5,475	5,678
	9,552	18,305	5,475	12,373

In 2003, the pension provisions annulment was entered as incidental income and decrease of provisions.

EUR 1,000	Group 2003	Group 2002	Parent company 2003	Parent company 2002
19 NON-CURRENT LIABILITIES				
Loans maturing after five years				
Loans from credit institutions	51,604	30,644	50,000	27,602
Bonds				
Bond due 2007	10,000	10,000	10,000	10,000
Bond due 2008	37,000		37,000	
Bond due 2009	50,000		50,000	
	97,000	10,000	97,000	10,000
20 CURRENT LIABILITIES				
Liabilities to Group companies				
Group accounts	9,272	9,649	27,546	28,931
Accrued liabilities and deferred income	179	233	1,396	2,198
Total	9,451	9,882	28,942	31,129
RELEVANT ITEMS IN ACCRUED LIABILITIES AND DEFERRED INCOME				
Interest liabilities	5,069	5,206	5,069	5,206
Holiday pay liability	1,185	1,325	1,052	1,209
Others	3,652	3,708	1,279	878
Total	9,906	10,239	7,400	7,293

EUR 1,000	Group 2003	Group 2002	Parent company 2003	Parent company 2002
21 PLEDGES GIVEN, CONTINGENT LIABILITIES AND OTHER COMMITMENTS				
PLEDGES, MORTGAGES				
Loans with mortgages as security				
Credit institution loans	0	18,931	0	18,931
Mortgages given	0	36,497	0	36,496
Group loans	53,796	52,147		
Mortgages given	51,379	49,531		
Mortgages as security, total	51,379	86,028	0	36,496
OTHER CONTINGENT LIABILITIES, GUARANTEES				
Guarantees given by the Group	1,874	2,457	1,874	2,457
OTHER COMMITMENTS				
Amounts payable for leasing contracts				
Due during the next financial period	184	189	184	189
Due later	184	106	184	106
Total	368	295	368	295
DERIVATIVES CONTRACTS				
Interest rate derivatives				
Interest rate cap options				
Nominal value of equity	247,000	118,000	247,000	118,000
Current value	2,199		2,199	
Interest rate swaps				
Nominal value of equity	181,000	151,000	181,000	
Current value	-2,835		-2,835	
Currency derivatives				
Currency swap options				
Nominal value of equity	55,022	55,022	55,022	55,022

Derivatives contracts have been used for securing the loan portfolio. Interest rate derivatives have been used to secure the interest risk for loans with fluctuating interest-rate. Currency derivatives have been used to change the fixed-rate loans in YENs into loans in EUR with fluctuating interest rates. The capitals and interest-rate flows of currency loans have been secured.

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.

LITIGATION

On the basis of the lease of the Ruoholahti Trade Centre, Kapiteeli Ltd filed a statement of claims to the Court of Arbitration on April 28, 2003, against Kesko Plc for the extra costs of some EUR 3 million caused to the building project and for the overdue rent of some EUR 0.3 million, also requiring Kesko Plc to pay EUR 0.06 million per month extra rent for the remaining 9-year period of the lease. Kesko Plc has contested the claim.

Key figures

EUR million	2003	2002	2001	2000
Turnover	300	334	296	318
Consolidated profit and loss statement				
Rental revenue	166	168	157	150
Management, maintenance and alteration costs	-88	-100	-89	-83
NET RENTAL YIELD	78	68	68	67
Profit/loss on sale	27	42	64	30
Administration and other expenses/income	-17	-17	-17	-19
Depreciation and write-downs	-41	-34	-17	-14
OPERATING PROFIT	47	59	98	64
Financial expenses	-20	-24	-32	-33
PROFIT BEFORE EXTRAORDINARY ITEMS	27	35	66	31
Extraordinary items	7			
PROFIT BEFORE APPROPRIATIONS AND TAXES	34	35	66	31
Change in tax/tax liabilities			5	
PROFIT FOR THE FINANCIAL YEAR	34	35	71	31
Net rental yield, %	6.5	5.5	5.3	5.1
Return on equity (including capital loan), %	3.8	4.6	9.4	4.1
Return on equity (excluding capital loan), %	4.8	5.0	9.4	5.2
Return on capital employed, %	3.9	4.6	7.1	4.5
Consolidated balance sheet total	1,310	1,343	1,373	1,430
Real estate assets by business unit				
Office and Commercial Property	657	617	552	584
Hotels	163	153	151	137
Sales Property	257	359	468	496
Kruunuasunnot	112	107	107	87
Total	1,189	1,236	1,278	1,304
Net rental yield by business unit, %				
Office and Commercial Property	8.5	7.9	7.6	7.2
Hotels	7.5	6.4	7.0	6.3
Sales Property	3.1	2.9	3.0	3.3
Kruunuasunnot	3.2	-1.9	-1.3	1.5
Total	6.5	5.5	5.3	5.1
Equity	665	670	762	766
Equity ratio (including capital loan), %	53.9	53.2	58.5	57.6
Equity ratio (excluding capital loan), %	40.8	44.2	58.5	50.5
Gearing	0.8	0.8	0.7	0.9
Average number of personnel	127	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, % = $\dfrac{\text{rent yield from real estate less maintenance costs}}{\text{average capital employed in real estate}} \times 100$

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 of the company´s loans determined by share ownership (ordinary limited companies)

Equity ratio, % = $\dfrac{\text{equity + minority interest}}{\text{balance sheet Dec. 31, 2003 less advances received}} \times 100$

Gearing, % = $\dfrac{\text{interest-bearing liabilities less cash funds}}{\text{equity Dec. 31, 2003 + minority interest}}$

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

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

Return on invested capital, % = $\dfrac{\text{profit/loss before extraordinary items + interest and other financial expenses}}{\text{balance sheet Dec. 31, 2003 less interest-free liabilities}} \times 100$

Proposal of the Board and Auditors' report

Board proposal for the disposal of profits ▪ On December 31, 2003, the Group's distributable funds stood at EUR 212,244,151.39. At the same time, the parent company's distributable funds totalled EUR 205,569,483.56.

The Board of Directors proposes to the Annual General Meeting that a dividend of EUR 0.92 per share be distributed, corresponding to a total of EUR 8,740,000, and that the remaining EUR 22,674,374.91 of the profit for the year be carried over on the profit and loss account for previous years.

Helsinki, February 26, 2004

Erkki KM Leppävuori Chairman	Jarmo Väisänen
Erkki Helaniemi	Tapio Kiiskinen
Ritva Sallinen	Elina Selinheimo
Kari Inkinen President and CEO	

Auditor's report

To the shareholders of Kapiteeli Ltd ▪ I have audited the accounting, financial statements and administration of Kapiteeli Ltd for the period January 1 – December 31, 2003. The financial statements that 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. On the basis of my audit, I express an opinion on these financial statements and the parent company's administration.

The audit has been conducted in accordance with good accepted auditing practice. The bookkeeping and accounting principles, contents and presentation have been examined to an adequate extent in order to state that the financial statements are free from material misstatements or deficiencies. The audit of the administration has evaluated whether the actions taken by the Board of Directors and the President and CEO were legitimate according to the Companies Act.

I give it as my opinion that the financial statements, which show a profit of EUR 31,414,374.91 by the parent company and a profit of EUR 33,772,004.31 by the Group, have been prepared in accordance with the Accounting Act and with the other rules and regulations regarding the preparation of financial statements. The financial statements give a true and fair view of the results of the operations as well as of the financial position of the Group and the parent company, as defined in the Accounting Act. The financial statements, including the consolidated financial statements, can be adopted and the members of the Board of Directors and the Managing Director can be discharged from liability for the period audited by me. The proposal by the Board of Directors regarding the parent company's profit for the period is in compliance with the Companies Act.

Helsinki, March 1, 2004

Tuokko Tilintarkastus Oy
Company of Authorized Public Accountants

Yrjö Tuokko
Authorized Public Accountant

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