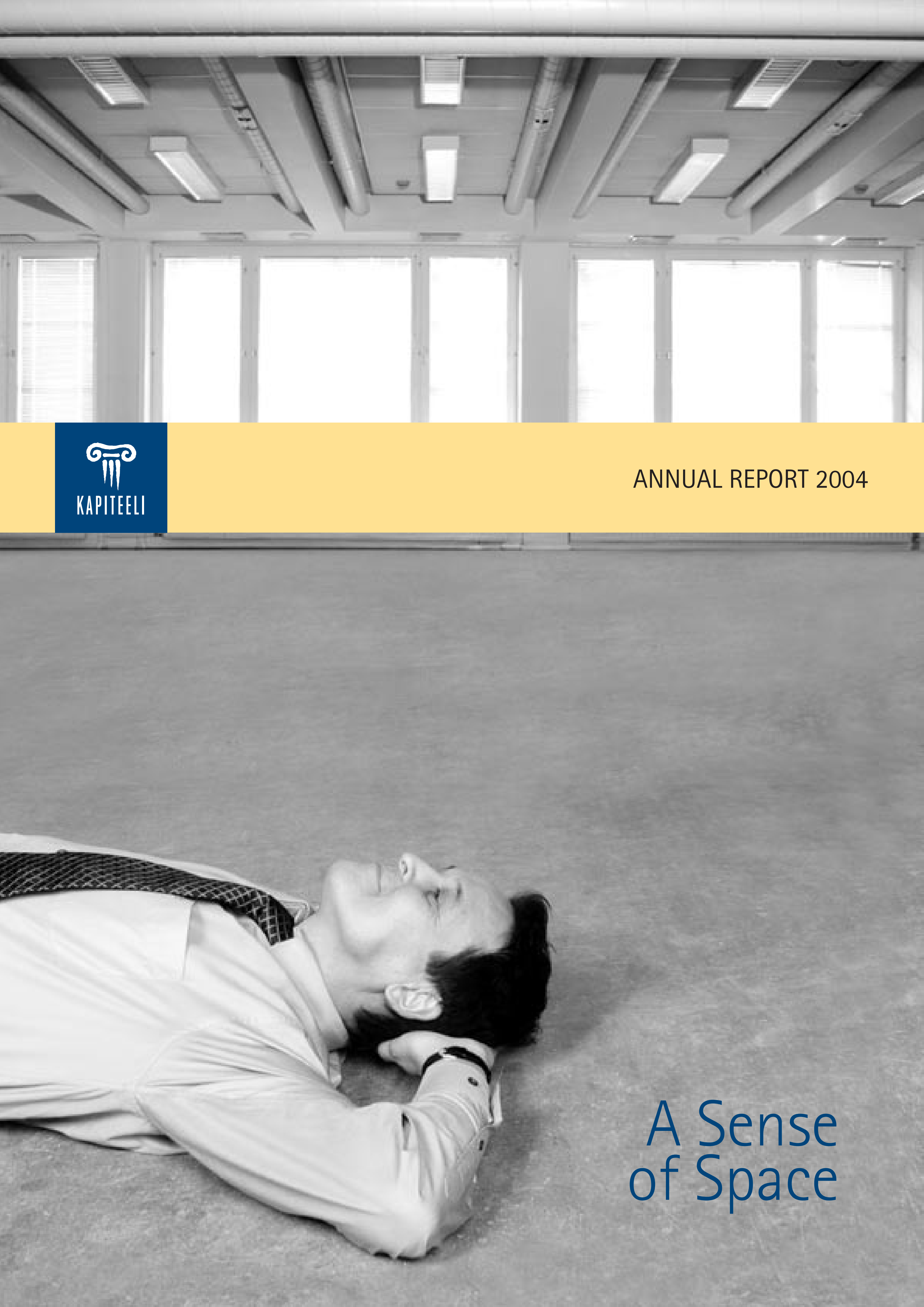
KAPITEELI

ANNUAL REPORT 2004



A Sense of Space

Year 2004

Office and retail property ▪ In office and retail property, the most important renovations and the biggest property deals of the year consisted of the renovations and conversion work on the Salmisaarentalo building in Ruoholahti. The building has been converted into a new courthouse for Helsinki and office premises that can be leased to various enterprises. As a renovation project it was the biggest in Finland, with a total investment value of EUR 64.2 million.

Kapiteeli Plc started work on renovations to the Kauppakulma property it owns in a prime business location in Jyväskylä. Kapiteeli is making a lifecycle investment in the property, whereby the interior of the building will be thoroughly renovated to meet modern standards. The work will be completed in May 2005 and the cost estimate for the project is about EUR 7 million.

Kapiteeli Plc is developing an office property in Ruoholahti to head-office standard. The approx. 10,500 m^2 Ruoholahden Sulka office block will supplement Kapiteeli's property assets in Ruoholahti. The project will be completed in late 2005 early 2006 and the total value of the investment will be around EUR 27 million.

Kapiteeli Plc has bought an office property at Pronssitie 1 in the Lassila district of Helsinki from the Finnish Association of Graduates in Economics and Business Administration (SEFE). The premises are leased to Lohja Rudus.

The renovations to the building at Hämeenkatu 18 in Tampere were completed in October 2004. A total of EUR 5.3 million was invested in the renovations and extensions to 3,000 m^2 of office and retail premises in the building.

Hotel property ▪ Kapiteeli Plc signed a long-term tenancy agreement with Restel for the historic Imatran Valtionhotelli. Kapiteeli is refurbishing and upgrading the hotel in cooperation with Restel and a total of about EUR 3 million will be spent on the renovations and refurbishments.

One of the first hotel investments in 2004 consisted of renovations to the Hilton Helsinki Kalastajatorppa hotel, which were finished in February 2004 when Kalastajatorppa became Finland's second Hilton hotel.

Another important hotel investment in 2004 was the commencement of renovation and extension work on the Scandic Tampere City hotel. The project will be completed in summer 2005.

Changes in Group structure ▪ Kapiteeli Plc acquired a majority shareholding in Ovenia Ltd. Following the deal, which was made in September 2004, Kapiteeli became the majority shareholder with 50.91% of the shares. Ovenia produces property management services for all its shareholders and other companies.

In September 2004, Kapiteeli Plc sold its holding in Kruunuasunnot Ltd to Solidium Ltd. Kapiteeli thus gave up residential property ownership entirely and will now focus on office and retail property investments in line with its strategy.

CERS Award for Excellence in Relationship Marketing Management ▪ In 2004, Kapiteeli received an award for its work in customer relationship marketing from the Center for Relationship Marketing and Service Management at the Swedish School of Economics and Business Administration. This was the sixth time the prize was awarded.

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Key figures

	2004	2003	Change, %
Turnover, EUR million	276	300	-8
Profit before extraordinary items and taxes, EUR million	65	27	141
Balance sheet total, EUR million	1,270	1,253	1
Net rental yield, EUR million	85	78	9
Real estate sales, EUR million	127	140	-9
Net rental yield, %	7.1	6.5	-
Equity ratio including capital loan, %	48.2	53.9	-
Return on equity, %	10.1	3.8	-
Investments in real estate, EUR million	92	70	31
Average number of personnel	215	127	69

Kapiteeli in brief

Capital employed in real estate assets

EUR million	2004	2003	2002	2001	2000
Office and Retail Property	685	646	617	552	584
Hotels	170	163	153	151	137
Sales Property	204	268	359	468	496
Kruunuasunnot Ltd	129	112	107	107	87
Total	1,188	1,189	1,236	1,278	1,304

Investments

EUR million	2004	2003	2002	2001	2000
Office and Retail Property	52	40	56	49	17
Hotels	12	14	6	4	0
Sales Property	1	2	1	1	0
Kruunuasunnot Ltd	27	14	3	0	0
Total	92	70	66	54	17

Operating profit

EUR million	2004	2003	2002	2001	2000
Office and Retail Property	41	43	41	48*	40*
Hotels	7	4	3	3	5
Sales Property	29	-3	17	9	17
Kruunuasunnot Ltd	5	0	-6	0	0
Intra-group sales + others	0	2	4	38	2
Total	82	46	59	98	64

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

Turnover

EUR million	2004	2003	2002	2001	2000
Office and Retail Property	91	112	124	126*	106*
Hotels	16	15	14	16	17
Sales Property	130	136	163	136	157
Kruunuasunnot Ltd	32	31	25	20	9
Intra-group sales + others	7	6	8	-2	29
Total	276	300	334	296	318

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

Mission statement

Kapiteeli is a property investment company that leases, develops, buys and sells office and retail premises, and seeks to increase their asset value. As innovators in the property sector, we aim to resolve our customers' spatial needs in ways that support their core business.

Vision

Kapiteeli wants to be its customers' preferred partner when it comes to resolving their spatial needs.

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 in the right quantities 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 and give each other the support we need.
- 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.

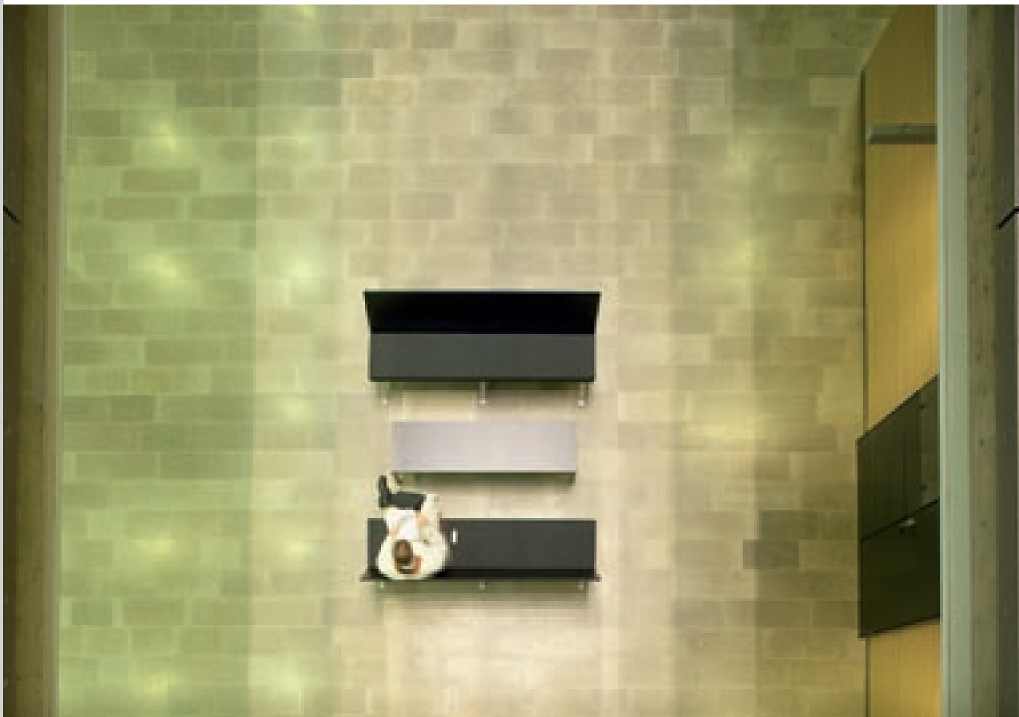
Strategic aims

Kapiteeli's business activities are divided among three business units, Office and Retail Property, Hotels and Sales Property. A detailed development programme has been drawn up for each unit for the period 2005–2007, which provides the foundation for improving the consolidated balance sheet and the Group's profit-making ability thereby making Kapiteeli competitive with other property companies in the Nordic countries.

- Office and retail property assets will be improved by investing in development schemes, acquiring new high-yield investments in national growth centres and selling small and partially owned assets.

As far as hotels are concerned, the focus will be on developing hotel investments during the strategic period.

- Kapiteeli plans to increase the proportion of its office and retail properties and hotel properties that can be classed as investment assets to between 95% and 100% of its total real estate assets by the end of 2007.
- Properties that are incompatible with Kapiteeli's ownership strategy will be sold. The capital released through sales will be used for developing and expanding the company's investment assets.
- Net rental yield on office and retail property will be raised from the present 8.9% to 9.3-9.5%. Net rental yields on hotels will be raised from 7.6% to 8.5%.
- The Group's long-term equity ratio is 40%.
- The Group's target yield for return on capital is 8-9%.



Review by the President and CEO

At Kapiteeli, 2004 was an eventful and profitable year. Financial performance was excellent with operating profit exceeding EUR 64 million (2003, EUR 34 million). We also exceeded our targets for return on equity. As a company, Kapiteeli is in excellent financial shape and very profitable.

Over the last few years, Kapiteeli has been built up into a property investment company that attracts interest internationally. In line with its strategy, Kapiteeli is seeking growth in the office and retail property market and the hotel market by focusing on Finland's major growth centres, i.e. the Helsinki Metropolitan Area, Tampere, Turku, Oulu and Jyväskylä. One of the company's key aims is to increase its attractiveness as a target for investment. Kapiteeli gives up property assets that are incompatible with its strategy in terms of location and size or any other features. Sales of such properties are now drawing to an end. At the end of 2004, the volume of sales properties was less than 20% of the balance sheet value of Kapiteeli's total property assets. Correspondingly, over 80% of our property portfolio is made up of investment property which fulfils the criteria we have set.

Net rental yield for the Office and Retail Property Unit continued to grow and the unit exceeded its financial targets. In contrast to the general trend in the property sector, vacancy rates went down. Investments by the unit totalled around EUR 50 million, with the biggest individual investment being the renovation of the Salmisaarentalo building and its conversion into a new courthouse for Helsinki.

The Hotels Unit was also successful in meeting its aims and improved its net rental yield. The substantial renovation and new build investment currently under way at the hotel Scandic Tampere City will be completed on time in summer 2005.

The Sales Property Unit again exceeded its set sales targets with sales totalling EUR 109 million, about EUR 6 million more than the previous year.

Kruunuasunnot Ltd, the group subsidiary which specializes in owning, developing and renting housing, has continued to develop in a positive direction and the net yield from the company's property portfolio has continued to grow. The company exceeded the set targets. After the financial year, on January 3rd, 2005, Kapiteeli Plc sold its shareholding in Kruunuasunnot to Solidium Ltd. Behind the deal lies Kapiteeli's strategy whereby the company plans to focus on the ownership of office and retail properties and hotels; residential property does not form part of this concept.

Ovenia Ltd, which specializes in property and facility management services, became a subsidiary of Kapiteeli in autumn 2004 when Kapiteeli increased its holding to 50.9%. The other shareholders are the Varma Mutual Pensions Insurance Company, the Sampo Group and the Kaleva Mutual Insurance Company. Ovenia produces property management services for its shareholder companies and many others.
The subsidiary has a key role in Kapiteeli strategy. The aim is to boost the cost effectiveness of Kapiteeli's real estate property services and improve customer services generally. The arrangements also ensure that Ovenia's operations will continue to expand in a rapidly developing new business sector. Ovenia continued to develop favourably in 2004 and the company made a modest profit.

Kapiteeli's aim is to continue its profitable growth as a property owner and developer in its main markets, office and retail properties and hotels. Growth has arisen mainly as a result of the company's own investments. Besides growth in property assets, profitable growth also means improvements in return on equity and in this we have been proceeding according to plan. In 2004, return on equity was 10.1%, while the previous year it was 3.8%. In the future, the aim is to keep return on equity at a competitive level permanently.

Over the last few years, the real estate sector has been particularly affected by foreign investors entering the Finnish office and retail property market. In 2004, there was more money available than there were attractive properties for sale. This is a favourable trend from the property owner's perspective, because property values have been rising at the same time. The long-awaited entry of international investors to the Finnish market has signalled improved liquidity in the sector and the development of a new kind of competitive situation. Acquiring completed and rented office and retail property in particular has become essentially more challenging than before, as investor interest has exceeded supply.

Over the last few years, Kapiteeli has been built up into a property investment company that attracts interest internationally. In line with its strategy, Kapiteeli is seeking growth in the office and retail property market and the hotel market by focusing on Finland's major growth centres. One of the company's key aims is to increase its attractiveness as a target for investment.

As a property investment company, Kapiteeli has the expertise that we can use to demonstrate our success in the office and retail sector in the long term, too. Attracting international interest calls for credibility, which is derived from previous achievements and clear targets for the future. International investors need an efficient and effective organization that is able to carry out the international investor's own strategy. The competence of the organization and the expertise of its staff are crucial here. Our aim is to be an operator with an attractive property portfolio and the ability to perform basic tasks better than anyone else. At Kapiteeli these two issues are in good order and we are developing them efficiently in tandem.

In 2004, the rental markets were uncertain, even poor as far as offices were concerned. The vacancy rate for offices grew to about 9% in the Helsinki Metropolitan Area, which is distinctly higher than the normal level. In other parts of the country, the situation was clearly better. On the other hand, the rental situation for industrial property was moderate throughout the country, while for retail property it was even good.

Kapiteeli has been doing well in the rental markets with net yields on property continuing to improve in 2004. The number of vacant premises was brought down in contrast to the general trend and vacancy rates were reduced. This tendency has continued for several years now and is not simply a matter of chance, but rather that we have been paying special attention to looking after our customers. In the autumn, Kapiteeli was presented with the CERS Award for Excellence in Relationship Marketing and Service Management by the Swedish School of Economics and Business Administration in recognition of the way we take care of customer relationships and develop them. The international jury considered Kapiteeli to be an interesting instance in a business sector where thinking about the customer is still something of a rarity. Kapiteeli was also thought to be a good example of customer relationships being taken care of in a way that is predictive and strategy based. The way information is gathered and used, plus an anticipatory approach to developing the customer relationship and serving the customer were also seen as particularly positive aspects.

The background to Kapiteeli's success is the fact that the customer's operations form the starting point and we take the trouble to understand and resolve the spatial requirements they give rise to down to the last detail. This generates an interactive operating model in which the key principles of the service concept are flexibility and regular continuing discussions with the customer.

The Kapiteeli brand is based on the ability of our staff to resolve major and minor problems linked with the customer's spatial requirements at the right time and in the correct, logical way. The brand is also derived from our unequalled market expertise and our active way of operating. We have to produce reliable innovations and new solutions to our customers' needs.

The most important environmental issues and questions of social responsibility within Kapiteeli's operations are those associated with the built environment, such as protecting buildings and remedial works to polluted ground. Developing prestigious old properties and finding new uses for them while respecting the existing fabric is also important. The renovation of the Salmisaarentalo industrial building and its conversion into a new courthouse for Helsinki is a good example of this. Finland's biggest renovation project, costing over EUR 64 million, was completed in September. The renovations and conversion of the prestigious protected building turned out to be a great success.

The situation in the office and retail property market is unlikely to change significantly in 2005 with the rental market remaining tight. The rush of international operators onto the Finnish property market will continue. Kapiteeli's profitability and rate of yield will continue to improve and we shall be able to maintain our present growth rate at least. The number of vacant premises will continue to decline while the volume of investments and purchases as a whole is expected to reach the EUR 100 million level.

I should like to take this opportunity of thanking our customers and partners and indeed our own staff for contributing to such a successful 2004.

Kari Inkinen

Operating environment

In 2004, Finland's national economy showed cautiously positive developments. Gross domestic product grew more than the average for the euro area and key fundamentals for investment were in better condition in Finland than in any other country in the area. This has helped to maintain interest in the Finnish office and retail property market and to strengthen it. The year that has just begun also shows promise. The Ministry of Finance estimates that GDP will grow this year by 2.7%, which will be sufficient to maintain positive developments.

The office and retail market has fluctuated considerably over the last few years. Changes associated with ownership and the way the market operates have been distinctly favourable. In 2004, developments in the office and retail market in Finland were marked by the increasing input from international investors. Over the last three years, an estimated EUR 5-6 billion of international capital has gone into office and retail property deals in Finland. This is a very substantial sum and we can expect international operators to increase their activity still further.

Changes associated with ownership and the way the market operates have been distinctly favourable. In 2004, developments in the office and retail market in Finland were marked by the increasing input from international investors.

The internationalisation of property ownership in Finland has other effects on the property sector, too. It has improved the liquidity of Finnish real estate considerably, something that has long proved to be a key problem for property owners. Internationalisation has also meant that property ownership has become more professional, which in turn has had a major impact beyond ownership itself, for example, on the way that real estate is managed, on the type of expert services that are required, on the type of information property owners need to have available or on the ways that transparency can be increased within the sector.
One good example of this is the emergence of entirely new business sectors, such as the growth and development of companies specializing in property management. Previously, property owners produced all key property management services within their own organizations, but now, these tasks have been switched to companies that specialize in producing them. The need to lead and control these outsourced services has given rise to a substantial management business.

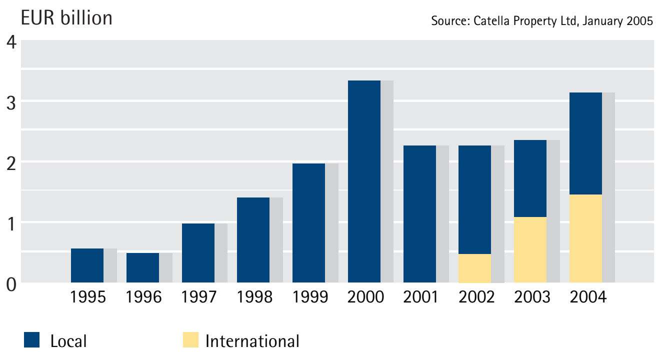
Improvements in liquidity in the property market have also been reflected among traditional owner-occupiers. Many companies that formerly operated in office and retail premises they owned themselves have now sold the property to an investor, leased it back and continued to operate there, while at the same time releasing a substantial amount of equity that can be used to develop their own operations. This is another trend that can be expected to continue on the assumption that the office and retail market continues to function properly and remains liquid.

The key challenge for the operating environment for property investment is the introduction of legislation on property funds that is tax neutral. The performance and competitiveness of the property market are dependent on tax-neutral investment instruments being available within the sector. This in turn will increase the liquidity of the market and the number of operators. The property sector itself has tried to encourage legislation to be brought up to date and, at present, the Ministry of Finance is working on revising the law.

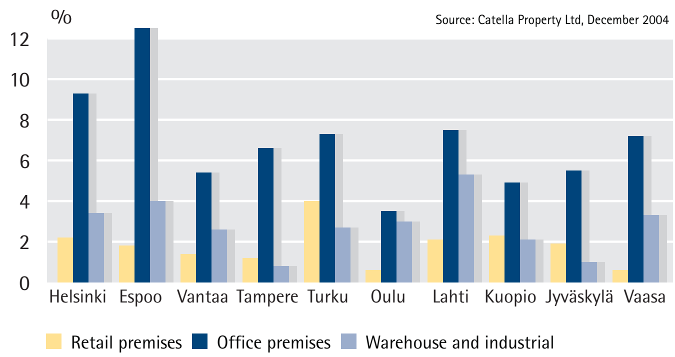
The capital market for office and retail property has been developing favourably, though there has been close competition in rental operations over the last few years. The challenge for the rental market is the slow growth in job numbers despite the cautious growth in the national economy as a whole. This is particularly noticeable in the market for office property in the form of vacant premises, though regional differences are particularly large. No rapid improvements are in sight in the near future, however. One of the particularly challenging problems in the surplus of office and retail premises is the amount of old office space that does not come up to modern standards. Renovating this type of property calls for considerable investment input from the owner, coupled with innovativeness in finding the kind of solutions that ensure old building stock remains competitive. On the whole, the market situation for retail property is brighter than it is for offices and the amount of vacant retail space is significantly less than the amount of vacant office space. Demand for retail space is kept up in particular by the trend in private consumption, which continues to be favourable.

The internationalisation of property ownership, which has got off to a good start, is continuing this year and there is plenty of foreign money available. Expectations about positive developments for liquidity in the real estate market will continue to be realistic in the future. The next stage in the internationalisation process is that foreign investors who have put their money in the Finnish markets will begin trading actively in their assets with Finnish investors or investors from elsewhere.

Investment volume in Finland 1995–2004



Vacancy rate in Finland 12/2004



Summary by business unit, 2004

	Office and Retail Property	Hotels	Sales Property	Kruunu-asunnot Ltd
Real estate assets, EUR million	685	170	204	129
Net lettable area, 1,000 m^2	765	173	574	288
Occupancy rate, %	85.4	100	58.7	91.4
Occupancy rate (excluding development schemes), %	89.8	100	59.6	96.3
Rental yield, EUR million	84	15	31	24
Net rental yield, EUR million	59	13	8	6.3
Net rental yield, %	8.9	7.6	3.2	5.2
Sales, EUR million	7	1	109	10
Investments, EUR million	52	12	1	27
Number of leases	1,772	21	2,284	1,638
Average number of staff	23	3	47	16

Business

Real estate assets

Kapiteeli's property business is divided among three business units: Office and Retail Property, Hotels and Sales Property. The Office and Retail Property Unit leases and develops office and commercial properties in the Helsinki Metropolitan Area and the major growth centres. These properties are investment assets that are compatible with Kapiteeli's strategy. The Hotels Unit develops and leases hotels owned by Kapiteeli, and the Sales Property Unit is responsible for selling and leasing real estate assets that are incompatible with Kapiteeli's investment strategy. Property sales release capital for developing investment assets, making new acquisitions and for repaying capital to Kapiteeli's owners.

In September 2004, Kapiteeli became the majority shareholder in Ovenia Ltd. Ovenia is responsible for property manegement services on Kapiteeli premises. On January 3, 2005 following the close of the year under review, Kapiteeli's subsidiary Kruunuasunnot Ltd, which specialises in owning, developing and renting housing, was sold.

At the end of 2004, a total of EUR 1,188 (1,189) million was tied up in Kapiteeli's real estate assets. Some 72% (69%) of this was in investment properties and 28% (31%) was in sales properties and residential property owned by Kruunuasunnot. Kapiteeli develops its real estate assets by investing in development schemes and acquiring new high-yield properties in the growth centres. In 2004, the company invested EUR 92 (70) million in developing its properties, of which office and retail property accounted for EUR 52 million and hotels for EUR 12 million. In 2004, Kapiteeli spent EUR 16 million on acquiring new investment properties and sold assets that are incompatible with its strategy for EUR 127 million.

Competitive factors in the future

Kapiteeli's success is founded on its fundamental activities, i.e. a high degree of expertise in owning, developing and leasing real estate, plus continual improvements in customer services and in monitoring customer satisfaction. Future success factors for Kapiteeli will include spatial solutions and service packages for customers that will be implemented by expert staff and backed up by effective property services.

Since it commenced operations, Kapiteeli has put a great deal of emphasis on developing the capability of its staff in handling customer services and managing customer relationships. The Customer Service Centre has a key role as a channel of communication between Kapiteeli and its customers. The Centre operates nationwide, but can take care of customer service on a local basis as it is dispersed amongst Kapiteeli's various offices.

Kapiteeli's subsidiary Ovenia Ltd is responsible for property management services on Kapiteeli premises. Ovenia supports Kapiteeli's strategic aims by building up its business in a profitable way, and by improving customer services and boosting the cost efficiency of its property services.

Regular monitoring of customer satisfaction is of key importance in developing operations. Kapiteeli takes a particular interest in monitoring the experiences customers have of the level of competence of Kapiteeli staff and the quality of the property services it provides.

Office and Retail Property

Office and Retail Property

	2004	2003	2002	2001	2000
Real estate assets, EUR million	685	646	617	552	584
Net lettable area, 1,000 m^2	765	795	831	867	900
Occupancy rate, %	85.4	82.4	82.1	80.1	79.1
Occupancy rate (excluding development schemes), %	89.8	90.0	89.0	87.0	89.1
Turnover, EUR million	91	112	124	126	106
Net rental yield, EUR million	59	54	46	45	41
Net rental yield, %	8.9	8.5	7.9	7.5	7.0
Net rental yield (excluding development schemes), %	9.6	9.0	8.1	8.0	7.6
Investments, EUR million	52	40	56	49	17
Number of leases	1,772	1,770	1,979	2,159	3,129
Average number of staff	23	25	31	26	29

The Office and Retail Property Unit owns, leases and develops office and commercial property in the Helsinki Metropolitan Area and in the major growth centres. The unit's properties are investment assets that are compatible with Kapiteeli's strategy. The target set for the unit is profitable growth, which will be achieved by increasing the volume of investment assets by acquisitions and other investments.

The balance sheet value of the Office and Retail Property Unit at the end of 2004 was EUR 684.5 (646) million, which amounts to almost 60% of the company's total balance sheet value.

In 2004, the Office and Retail Property Unit exceeded its targets for both operating profit and net rental yield. Net operating profit for the unit was EUR 41 (43) million, while net rental yield was 8.9% (8.5%) and leasing ratio was 85.4% (82.4%). Excluding development projects, net rental yield stood at 9.6% and leasing rate at 89.8%. Rental revenue totalled EUR 84 million.

At the end of 2004, the Office and Retail Property Unit owned premises totalling 845,000 m^2. The area leased amounted to about 765,000 m^2, 48% of which was office space, 30% was retail and about 20% industrial and storage. At the end of 2004, the unit had a total of 1,800 leasing agreements and 1,300 tenants.

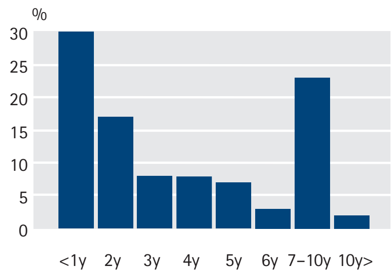
The structure of the investment assets is being improved by developing the competitiveness of existing properties by renovation and conversion work and through selling small and part-owned properties and real estate located outside the major growth centres.

Property development forms part of the operations of an active property investment company. Development projects include master planning for sites owned by the company, change of use for existing buildings, and renovations and extensions.

Total investments by the Office and Retail Property Unit amounted to around EUR 52 million. The most important investment that was finished was the completion of the premises for the Helsinki District Court and the District Prosecutor's office in the Salmisaarentalo building. The Ministry of Justice signed a 27-year leasing agreement with Kapiteeli for 23,000 m^2 of premises. The total value of the Salmisaarentalo renovations is around EUR 64 million and the project has been the biggest of its kind in Finland.

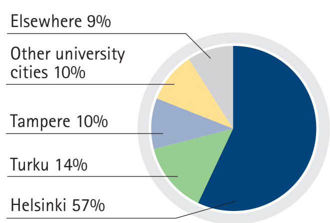
A 5,000 m^2 alteration and renovation project was launched in September at the Hermitec office property in Tampere, and a renovation and extension scheme on an office and retail property was completed at Hämeenkatu 18 in October.

Maturity of office and retail property rental agreements, December 31, 2004*



* Based on VAT-free rental yield

Office and retail property by region December 31, 2004



Property development forms part of the operations of an active property investment company. Development projects include master planning for sites owned by the company, change of use for existing buildings, and renovations and extensions.

A 6,000 m² office renovation scheme for the Sp-kiinteistöt Ltd building in Espoo was also completed in December. In Jyväskylä, work started on renovation and conversion of a property at Kauppakatu 32 for office and commercial use. At the end of the year, construction work also began on the 10,000 m² Ruoholahden Sulka office development at Ruoholahti in Helsinki, which will be completed at the end of 2005 beginning of 2006.

Kapiteeli also owns a site at Porkkalankatu 22 in Ruoholahti for an office development of 14,000 m². The preparatory work on the development is being done at the moment and a decision on starting work will be dependent on the market situation. Most important land use development schemes under way in 2004 were the change of use of the MTV site in Pasila to residential and office use and the zoning of the Ilmalanrinne site in Pohjois-Pasila for office use.

The only acquisition in 2004 was the purchase from the Finnish Association of Graduates in Economics and Business Administration of the office property used by Lohja Rudus at Lassila in Helsinki. Achieving acquisition targets is becoming more challenging than before as the arrival of international property investors on the Finnish office and retail property market has brought stiff competition for prime properties.

Our key successes in 2004 included raising the leasing ratio of office and retail property and boosting the yield. Apart from the leasing of premises in the Salmisaarentalo building to the Ministry of Justice and the renovated premises in the Sp-kiinteistöt building in Kilo to Inex Partners, the biggest new rental agreements or extensions included the lease of Yliopistonkatu 22 in Turku to Stockmann Plc, the lease of Tuusulan Pysäkkikuja to Suomen Spar Plc, and the lease of the Hermitec premises to Nokia Plc.

The Office and Retail Property Unit sells office and commercial property that is incompatible with its investment strategy. In 2004, property worth EUR 7 million was sold. The total net area of the properties sold amounted to 8,500 m². Biggest sales in 2004 were the sale of the Karhuvuori shopping centre in Kotka and the sale of part of Vapaudenkatu 40–42 in Jyväskylä.

In 2005, the Office and Retail Property Unit will increase its property assets, primarily through its own investment projects. Competition for acquiring high-yield properties will continue to be stiff in 2005 and demand is not expected to improve in the rental market.

Major office and retail properties in 2004

Name	Location	Use	Area m²
Helsingin Salmisaarentalo Koy	Helsinki	office property	58,118
Helsingin Itämerenkatu 21 Koy	Helsinki	retail property	32,464
Sp-kiinteistöt Oy Kilo	Espoo	office property	28,093
Tampereen Naulakatu 3 Koy	Tampere	office property	15,334
Porin Pentinkulma Koy	Pori	retail property	15,081
Helsingin Itämerentalo Koy	Helsinki	office property	14,611
Oulun Posteljooni Koy	Oulu	retail property	14,190
Joensuun Kehityskeskus Koy	Joensuu	industrial property	13,933
HTC Ruoholahti	Helsinki	office property	12,897
Turun Yliopistonkatu 22 Koy	Turku	retail property	12,700

Hotels

Hotels

	2004	2003	2002	2001	2000
Real estate assets, EUR million	170	163	153	151	137
Net lettable area, 1,000 m^2	173	176	165	173	190
Occupancy rate, %	100	100	99.9	99.9	97.5
Turnover, EUR million	16	15	14	16	17
Net rental yield, EUR million	13	12	10	11	8
Net rental yield, %	7.6	7.5	6.4	7.0	6.3
Investments, EUR million	12	14	6	4	–
Number of leases	21	22	20	20	23
Average number of staff	3	3	3	3	3

At the end of 2004, Kapiteeli owned a total of 17 hotel properties. Thirteen of these, the Scandic Continental, the Scandic Grand Marina, the Hilton Helsinki Kalastajatorppa, the Hilton Helsinki Strand, the Hotel Korpilampi, the Scandic Espoo, the Scandic Tampere City, the Scandic Rosendahl, the Scandic Kajanus, the Scandic Jyväskylä, the Scandic Kuopio, the Imatran Valtionhotelli and the Marina Congress Center, make up the development hotels portfolio as a whole. The overall area of the properties is 173,770 m^2 and they hold a total of 2,740 rooms. The balance sheet value of the development hotels portfolio is around EUR 170 million.

Four of the hotel properties owned by Kapiteeli, the Scandic Mesikämmen, the Scandic Kiannon Kuohut, the Scandic Luosto and the Hotel Lapinportti are local hotels with a total of 300 rooms. Local hotels do not fit in with Kapiteeli's investment strategy, so they are being sold one by one. Early in 2004, Kapiteeli sold the Hotel Musta Kissa in Lahti to a private hotel enterprise.

Net operating profit for the Hotels Unit in 2004 was EUR 7 (4) million, net rental yield was EUR 13 (12) million and leasing ratio was 100% (100%). Some 82% of the rental yield from hotels came from the Helsinki Metropolitan Area and 10% came from Tampere.

In 2005, the ability of the hotel properties owned by Kapiteeli to make a profit will improve as the investment programme is completed.

Kapiteeli's leaseholders comprise four hotel operators, both Finnish and foreign. The Hilton Group, which is quoted on the London Stock Exchange and operates in 75 countries, runs the Hilton Helsinki Kalastajatorppa and the Hilton Helsinki Strand. Scandic, the biggest hotel operator in the Nordic countries, runs 15 of the hotel properties owned by Kapiteeli. Of the Finnish operators, Lomaliitto has leased the Hotel Korpilampi in Espoo and the Imatran Valtionhotelli has been run by Restel/Rantasipi since the beginning of 2005. Restel won the competitive tendering procedure that was arranged to find a hotel operator in autumn 2004 and the renovated Valtionhotelli was opened for business in March 2005.

The leases between Kapiteeli and the Hilton Group and Scandic are in force until 2011-2012. Long-term leases have provided a sound basis for developing hotel properties. The leases are separate ones for each hotel and the rental level is tied in with the hotel turnover; 54% of the rent is fixed and 46% is linked with turnover. Hilton and Scandic together contribute 92% of the rental yield from Kapiteeli's hotel properties, while Lomaliitto contributes 5% and Restel 3%.

In accordance with the leases signed with Scandic and Hilton, Kapiteeli will be investing a total of EUR 50 million in developing hotel properties up to 2012. In 2004, investments totalled EUR 12 (14) million. The aim is that by the end of the investment programme, all the hotel properties classed as development hotels will be in excellent condition. The investment programme, which is being implemented in close cooperation with the hotel operators, has been progressing rapidly on an accelerated timetable. The goal of the investments is to raise the value of the hotels portfolio and improve the competitiveness of the operators.

Of the investments, the renovations to the Scandic Espoo, worth EUR 6 million, were completed in 2003 and the renovations to the Hilton Helsinki Kalastajatorppa, worth EUR 15 million, were completed early in 2004. The renovations and extension to the Scandic Tampere City, worth EUR 21 million, are currently under way and will be completed in summer 2005.

In January 2005, renovations valued at around EUR 3 million were launched at the Imatran Valtionhotelli in conjunction with Restel and were completed in March 2005. Renovations to the Scandic Grand Marina will be started towards the end of 2005. This means that most of the investment programme will be completed several years early.

Kapiteeli is the second largest hotel property owner in Finland after Dividum, which has been acquired by London& Regional. The market situation for hotel operation in Finland will remain challenging. The occupancy rates for hotels in Helsinki, Kapiteeli's main market area, rose slightly in 2004, but the average room price fell correspondingly. For hotel owners this has meant that rental yields have remained at the previous year's levels. Four of the ten largest hotel properties in Helsinki are owned by Kapiteeli.

In 2005, the ability of the hotel properties owned by Kapiteeli to make a profit will improve as the investment programme is completed. The profit-making potential of hotels can be boosted by the property owner and the operator working together to implement separate development plans for each individual hotel. The investment programme that is being implemented jointly by Hilton and Kapiteeli is a good example of this.

Portfolio summary

Name	City	Area m²	Number of rooms	Operator
Scandic Continental (60%)	Helsinki	30,000	512	Scandic
Scandic Grand Marina	Helsinki	23,661	462	Scandic
Hilton Helsinki Kalastajatorppa	Helsinki	23,291	238	Hilton
Hilton Helsinki Strand (60%)	Helsinki	10,250	200	Hilton
Marina Congress Center	Helsinki	11,000	0	Scandic
Hotel Korpilampi	Espoo	9,777	150	Lomaliitto
Scandic Espoo	Espoo	5,005	96	Scandic
Scandic Tampere City	Tampere	16,527	263	Scandic
Scandic Rosendahl	Tampere	14,662	213	Scandic
Scandic Kajanus	Kajaani	10,468	228	Scandic
Scandic Jyväskylä	Jyväskylä	7,360	150	Scandic
Scandic Kuopio	Kuopio	7,113	134	Scandic
Imatran Valtionhotelli	Imatra	10,097	92	Rantasipi
Total	**13**	**179,211**	**2,738**	

Sales Property

Sales Property

	2004	2003	2002	2001	2000
Real estate assets, EUR million	204	268	359	468	496
Net lettable area, 1,000 m^2	574	786	998	1,244	1,240
Occupancy rate, %	58.7	64.5	66.1	66.8	68.4
Turnover, EUR million	130	136	163	136	157
Net rental yield, EUR million	8	10	12	12	16
Net rental yield, %	3.2	3.1	2.8	3.0	3.3
Investments, EUR million	1	2	1	1	-
Number of leases	2,284	3,612	4,554	5,763	6,105
Average number of staff	44	49	47	49	50

The Sales Property Unit is in charge of selling and leasing real estate assets that are not compatible with Kapiteeli's investment strategy. Property sales release capital for other operations, for developing investment assets, making new acquisitions and for repaying capital to Kapiteeli's owners.

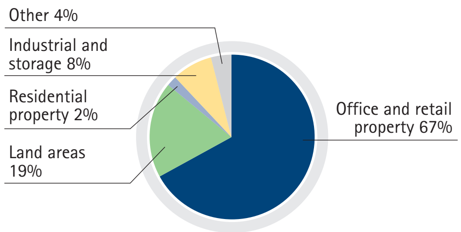
At the end of 2004, Kapiteeli owned 1,400 (1,600) sales properties. Sales properties include office and commercial properties, hotels, industrial and warehouse premises and land areas all of which are incompatible with the company's investment strategy.

The balance sheet value of sales properties was EUR 204 (268) million. Net rental yield from sales properties in 2004 was 3.2% (3.1%) and the occupancy rate for these properties was 59% (64%). There were about 2,300 leases covering a total of 574,000 m^2.

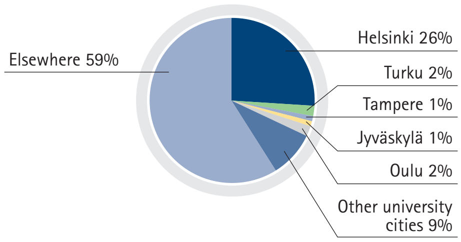
Kapiteeli classifies its sales properties into profit-making properties, development properties, sales properties and land, according to their potential yield, potential sale and intended use. Development properties also include land areas at the zoning stage.

Property sales continued to be brisk as in the previous year and again exceeded the unit's set targets. During the year under review, real estate to the value of EUR 109 (102) million was sold in a total of around 640 deals, almost the same number as the previous year. Background factors in demand remaining high were the continuing low interest rates and the brisk demand for land that went with the lively level of housing construction. Low risk levels and steady yields have also meant that property has remained an attractive investment.

Sales properties by use December 31, 2004*



Sales properties by region December 31, 2004*



* According to capital employed

Property sales release capital for other operations, for developing investment assets, making new acquisitions and for repaying capital to Kapiteeli's owners.

Upgrading land owned by Kapiteeli forms part of the Sales Property Unit's activities. The company works in close co-operation with local authorities, which has made it possible to bring sites onto the market quickly to meet the needs of the housing construction sector, for example. In land deals, Kapiteeli's customers have included both developers and construction firms.

Among the more important land areas sold in 2004 were the 400-hectare Strömsö leisure area in Tammisaari, a residential area at Tapanila in Helsinki, an industrial and warehousing property in Turku known as Business Park Alfa, and land at Malminkartano and Kannelmäki in Helsinki.

In 2004, investments by the Sales Property Unit focused mainly on developing the most profitable properties. In 2005, the unit's investments will focus on making profitable properties easier to rent, and on studying and rehabilitating polluted land.

The Sales Property Unit's most important leaseholders in 2004 were the Nordea Group, Finland Post Plc, the Ministry of the Interior, TeliaSonera Finland Plc, Tradeka and the Sampo Group.

The Kapiteeli Customer Service Centre was reorganized in 2003 and 2004 was thus the first year in which the new operating model was used. The Centre operates nationwide, but can take care of customer service on a local basis as it is dispersed amongst Kapiteeli's various offices. In addition to customer services, the Centre supports Kapiteeli's sales and rental processes. Experiences of the new operating model have been good and encouraged the company to continue in the same direction.

In 2005, expectations for the Sales Property Unit will follow the previous year's trend. Investor demand will continue to be lively. Housing construction is also expected to continue to be brisk, which will keep up the demand for sites. Kapiteeli will continue to focus on developing its land assets.

Ovenia Ltd

Kapiteeli Plc, the Varma Mutual Pensions Insurance Company and the Sampo Group set up Ovenia in 2002 to take care of property management services at their properties. Ovenia produces leasing operations and tenant management, maintenance management, administration, project management and advisory services for other property owners as well as the shareholders. The company manages, organizes and invites competitive tenders for services for its customers.

Ovenia's nationwide organization is made up of nine separate offices. The company has a staff of around 100 and service agreements with about 700 property service providers. Ovenia's operations are based on customer satisfaction among property users which calls for a high standard of management of the service provider network and regular quality audits of operations.

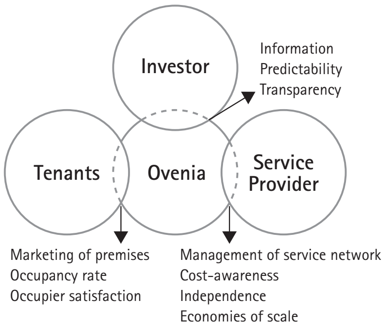
A nationwide presence coupled with cost-effective and high-quality services guarantee the volume of Ovenia's services and its quality control. In 2004, Ovenia had over 20 customer organizations and was in charge of the services required by a property portfolio of more than 4.5 million square metres.

Ovenia's most important customers are its shareholders, Kapiteeli, the Varma Mutual Pensions Insurance Company and the Sampo Group. Besides these, Ovenia produces services for various companies including the Etera Mutual Pension Insurance Company, Valio, Medivire Hoivakodit, Citycon and Pörssisäätiö (the Finnish Foundation for Share Promotion).

In autumn 2004, the Ovenia shareholders carried out a rearrangement of ownership whereby Kapiteeli became the majority shareholder with a 51% shareholding. At the same time, Ovenia became a subsidiary of Kapiteeli. The arrangement will increase Ovenia's potential for profitable growth and boost the cost-efficiency of the property management services provided for the shareholders and other customers. The Ovenia board has set the company an annual growth target of 20% for the period up to 2008.

The demand for property management services is growing rapidly in Finland. One of the background factors behind this growth is the arrival of foreign property owners on the Finnish office and retail property market. Foreign operators need partners to manage their activities locally. In recent years, Finnish property owners have also been focusing on their own core business and transferred their property management services to companies focusing on this area. Central and local government both provide a growing market for firms specializing in property management. Within the next few years the sector is expected to grow at an accelerating rate.

Ovenia's relationship with property investor, tenants and service provider



Key figures of Ovenia on Dec. 31, 2004

Turnover, EUR million	7.7
Operating profit, EUR million	0.2
Number of personnel	96

Corporate social responsibility

At Kapiteeli, corporate social responsibility is based on company values, which include being target oriented and being a partner for our customers, coupled with professionalism and joint development. Responsibility is written into Kapiteeli's Principles of Corporate Governance and its operating instructions. In 2003, the Board of Directors of Kapiteeli approved the environmental handbook as a guide to fulfilling our responsibilities for the environment.

Kapiteeli takes the three areas of corporate social responsibility into account in its operations: financial responsibility, social responsibility and environmental responsibility.

Relations with interest groups

The essential principles in taking care of relations with Kapiteeli's interest groups are transparency and mutual respect. In 2004, the focus in developing relations with interest groups was on customer relationship management.

Personnel
A competent staff is one of the most important success factors for the future of Kapiteeli, and competence is ensured by staff development and training. The level of staff expertise gives customers and partners a reliable and professional image of Kapiteeli.

The success of the Kapiteeli staff in their tasks is assessed at appraisal discussions. In 2004, the annual personnel surveys were carried out for the fifth time. The results from these are better than average for equivalent Finnish organizations.

Customers
Kapiteeli's customers are tenants of office and retail premises, hotel operators and property buyers. Kapiteeli's goal is to resolve the spatial needs of its customers flexibly and reliably. The added value Kapiteeli brings to its customers is made up of prime real estate, services that are tailored for its customers, professional care of customer relationships and property maintenance services.

Kapiteeli monitors developments in customer satisfaction on an annual basis. Tenants of properties owned by Kapiteeli can pass on feedback directly to Kapiteeli customer services, to the property manager for the site, or to the provider of maintenance services for the property.

Service providers and materials producers
Maintenance services for properties owned by Kapiteeli are produced by the service provider network run by Ovenia. Other partners include designers of buildings, planners of renovations and refurbishment, and the construction firms that carry out the work.

Kapiteeli has set its own criteria for selecting service producers and partners. Ovenia conducts development discussions with the more important service producers twice a year whereas feedback on construction work, renovation and refurbishment is discussed separately for each project.

Owners
Kapiteeli Plc, which is owned by the State of Finland, was established in 1999 to implement government real estate strategy. Kapiteeli comes under the jurisdiction of the Ministry of Finance.

The deputy chairman of the Kapiteeli Board of Directors is a representative of the Ministry of Finance. Operational guidelines from the owner are mainly passed on through the deputy chairman, and reporting back to the owner takes place in the same way.

Authorities
Kapiteeli complies with laws and regulations in its operations, and takes care of and develops the real estate portfolio in its ownership with a high degree of responsibility. Kapiteeli carries out remedial works on polluted areas of land it owns, in cooperation with the authorities, town-planners and other land-owners.

Kapiteeli's degree of success in carrying out its social responsibilities is gauged in a number of ways including the amount of salaries and the amount of investment.

The media
Kapiteeli reports on its activities, its goals and the financial results of its business operations openly and truthfully. Relations with the media are handled at both national and local level.

Social responsibility

Human resources

Human resources policy is based on Kapiteeli's values, which the entire staff had a hand in defining in 2003. The importance of these values and recognition of them were confirmed in 2004 as the controlling element in Kapiteeli's operations.

The basic strategy for Kapiteeli's personnel policy is written into management operating instructions and includes checking job descriptions, pay principles, training principles, employment relation benefits, appraisal discussions and an incentive pay scheme covering the entire staff.

The company's recruitment policy was defined jointly by representatives of management and staff in 2001 and is reviewed every year and specified more precisely if necessary to correspond with the company's strategic goals, ethical principles, values and legislative requirements.

Human resources appraisal and development ▪ Implementing the strategy that was defined more precisely in 2004 also sets new requirements for personnel development. Systematic personnel development helps to secure the quantity and quality of expertise needed to support Kapiteeli's future competitiveness. Assessing the areas of expertise that are critical for Kapiteeli and the strategy and targets of its individual business units forms the background to drawing up personnel development plans.

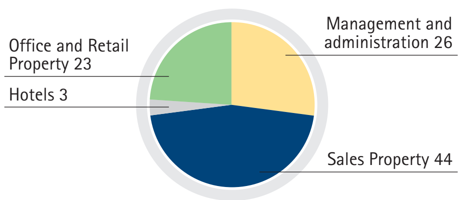
Besides the company's overall strategic aims, planning of joint training programmes for 2005 makes use of feedback from various customer satisfaction surveys and targets set for building customer relationships in the guidelines for developing the Kapiteeli brand. In 2005, training programmes will focus on developing a consistent supervisor/management culture and on expertise in customer relationships. As the operating environment continues on the path to internationalisation, the language-teaching programme, in which there has been a high degree of active participation, will also be continued.

In the appraisal discussions held twice a year, the targets derived from Kapiteeli's strategy are taken to the level of the detailed work of each individual member of staff in the form of results targets and development targets. The achievement of these targets is monitored jointly against agreed benchmarks every six months.

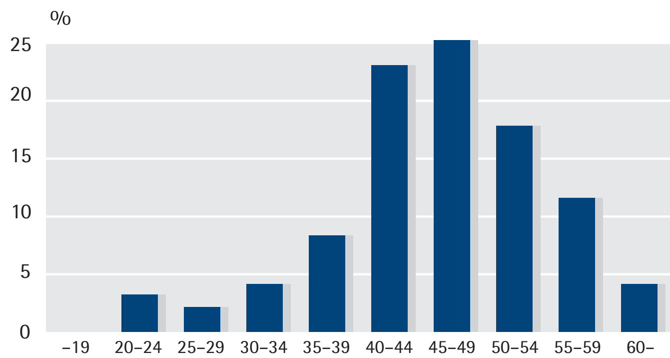
Training costs amounted to 6% of pay and the average number of training days per person was 6.7.

Kapiteeli's personnel structure ▪ On December 31, 2004, the Kapiteeli Group had 208 employees and an average of 215 throughout the whole of the year. In 2004, the parent company had an average of 96 employees while its subsidiary Kruunuasunnot had an average of 16 and the subsidiary Ovenia had an average of 96.

Parent company staff by business unit on December 31, 2004



Parent company staff by age on December 31, 2004



Occupational health care and wellbeing at work ▪ The aim of occupational health care is to maintain and improve the working ability and functional capacity of Kapiteeli staff in conjunction with management, supervisors, and occupational health and safety personnel.

The framework for occupational health care consists of a health check on starting work coupled with regular age-related checks after reaching the age of 45.

In order to maintain working ability, Kapiteeli subsidises opportunities for staff to take part in various sports activities, which over 50% of the staff take advantage of. In 2004, the emphasis has been on the responsibility of individual employees for wellbeing and maintaining their working ability, and guidance on these matters has been available. The fact that there is a low rate of sick leave at Kapiteeli particularly indicates that there is a good working atmosphere.

The satisfaction that Kapiteeli personnel experience at work is something that has been studied since 2000 and results are better than the average for equivalent Finnish organizations. Kapiteeli's strengths are the internal functionality of the company, its target-oriented operations, its personnel development, the internal atmosphere and community spirit, supervisors' leadership, remuneration and operational communication of information.

On the basis of the results from each business unit, the units are in a position to monitor their own operations and job satisfaction and focus specifically on the activities that are most important for their own development.

Internal communications ▪ Performance and attitude surveys show that the most important channel of internal communication at Kapiteeli is the individual's own supervisor. The staff feel that the flow of information has improved since 2003. The staff's own assessment of internal corporate communications is clearly better than comparative material.

At Kapiteeli, the business units are small and the organizational structure is flat, so it is easy for staff and management to interact. The company sets great store by lively interaction and personnel surveys show that staff trust in management has shown a distinct improvement since 2003.

Environmental responsibility

Kapiteeli Plc approved a set of guidelines for implementing environmental responsibility on December 19, 2003.

- We take lifecycle economy into account in planning our activities and projects, and in making decisions and carrying them out.
- Our goals are efficient use of energy and raw materials and reductions in consumption.
- We expect suppliers of goods and services to take environmental issues into account in their own operations.
- We provide tenants with information and operating instructions on environmental issues linked with using properties and premises.
- We take part in environmental projects run by the real estate sector.
- We openly publish information on environmental issues linked with our operations.
- We take care to ensure that our staff knows the environmental impact of our operations and that we improve our environmental expertise on a continuous basis.

In 2004, environmental responsibility in Kapiteeli's operations focused on taking lifecycle economy into account in developing and maintaining its property portfolio.

Ovenia is responsible for acquiring and managing maintenance services for property owned by Kapiteeli. Ovenia plans to develop its environmental expertise in 2005 and 2006.

Environmental projects in the real estate sector

Kapiteeli is involved in the construction and property sector's KRESS energy conservation agreement, whereby Kapiteeli is committed to cutting specific heat-energy consumption by 10% from the 2000 level by 2005 and 15% by 2010. A further target is to halt the growth in the consumption of electricity consumed by the property as a whole and to begin reducing it by 2005.

Kapiteeli took part in the TEKES-funded Rembrand Real Estate Technology Programme which ended in June 2004. The object of the Rembrand Programme was to determine the strategic importance of controlling the environmental issues linked with office and retail premises in environmental management and to define indicators and tangible methods for doing so. The programme studied the methods that can be used to bring maximum impact to bear on the environmental performance of tenant organizations.

Kapiteeli is taking part in the KYKY study of environmental products used in property maintenance, which was launched in February 2004 and is led by

Helsinki University of Technology. The aims of the project are to develop an appropriate environmental management model for the real estate sector and to determine tenants' environmental management needs. The research project will run until 2006.

Staff expertise on environmental issues
Kapiteeli has published an environmental handbook for the use of its own staff and has also given the staff in its Sales Property Unit training on environmental issues, particularly from the aspect of the seller's responsibility. Ovenia, too, continues to develop the expertise of its staff on environmental issues.

Environmental responsibility at properties owned by Kapiteeli
The Kapiteeli subsidiary Ovenia Ltd is in charge of organizing maintenance services for Kapiteeli-owned properties. Ovenia has also drawn up environmental guidelines for service providers.

When they move in, tenants of Kapiteeli's office and retail premises are given a thorough introduction to the property and the environmental issues associated with it insofar as they affect the user. Tenants of the Office and Retail Property Unit are given a copy of the guidebook on environmental issues published by the Finnish Association for Nature Conservation.

Suppliers of goods and services
Kapiteeli expects suppliers of goods and services to take environmental issues into account in their own operations and, in fact, calls for environmental responsibility reports from its suppliers at the tender stage. In practice, tender action is handled by Ovenia, but Ovenia's choices are guided by the requirements set by Kapiteeli.

Lifecycle economy
The extent to which detailed lifecycle economy calculations are performed in new construction and renovation is defined separately for each project. Generally speaking, Kapiteeli adheres to the lifecycle economy solutions put forward by its chosen designers, i.e. the projects are implemented on the basis of design approaches that are deemed to be good ones. Staff expertise in lifecycle thinking is developed with the help of training and expert resources.

Remedial works to polluted land
There are properties in Kapiteeli's ownership where the land is known to be or suspected of being polluted as a result of operations previously carried out on them. These include former shunting yards, sawmills, service stations and repair shops and old industrial properties.

Kapiteeli is responsible for research and remedial works projects on polluted land areas as required by legislation, the environmental authorities and any agreements it has entered into. Research on the subsoil is carried out and reports written mainly in connection with property deals and town-planning schemes. In 2004, some EUR 400,000 was spent on research work and remedial projects.

Financial responsibility

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. In order to achieve its long-term goals Kapiteeli has been improving its real-estate assets and its finances through sales, purchase and development activity since 1999.

Kapiteeli Plc handles its leasing operations itself. Property management services are outsourced to its subsidiary Ovenia which manages and supervises entire supply chains that produce premises and user services. The activity of the service chains is measured by their efficiency and the customer satisfaction of the tenants in the properties.

Corporate governance

Kapiteeli Plc is a property investment company owned by the State of Finland. The Kapiteeli Group is made up of the parent company, Kapiteeli Plc, Ovenia Ltd and numerous residential and real estate companies. Kapiteeli is domiciled in Helsinki.

Kapiteeli Plc increased its shareholding in Ovenia Ltd to 51% on September 15, 2004 and sold the entire stock of Kruunuasunnot Ltd on January 3, 2005.

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 Plc on January 29, 2004
- Operating procedures laid down and approved by the Management Team on February 23, 2004.

Organs of corporate governance

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 balance sheet and 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 16, 2004.

Board of Directors ▪ The task of the Board of Directors is to look after the corporate administration of the company and the proper organization of its operations, to give guidance and instructions on day-to-day administration, to make decisions on extraordinary and major issues and to ensure that bookkeeping and financial management are properly supervised.

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

The Auditors and internal auditor monitor the observance of the principles of governance and supervision set by the Board. The Board evaluates its operations and methods of working through internal self-assessment.

The Board of Directors consists of three to seven members, at least two of whom must be independent of any shareholders. The term of office of members ends at the conclusion of the next Annual General Meeting following their election.

The Board has no committees nor any internal division of labour. The Deputy Chairman of the Board has special responsibility for issues associated with shareholder instructions. The individual Board members have no specific tasks.

The Chairman of the Board of Kapiteeli Plc is Professor Erkki KM Leppävuori and the Deputy Chairman Jarmo Väisänen. The other Board members are Tapio Kiiskinen, Matti R J Niemi, Ritva Sallinen and Elina Selinheimo. All Board members are independent of Kapiteeli Plc. Apart from Jarmo Väisänen and Elina Selinheimo, the Board members are independent of any major shareholders.

In 2004, the Board of Directors met 14 times with an average attendance of 98.8%.

President and Chief Executive Officer ▪ The task of the President and CEO is to handle the day-to-day administration of the company in accordance with the guidance and instructions issued by the Board of Directors. The President and CEO is only permitted to embark on operations involving extraordinary and major issues considering the extent or nature of the company's operations if the Board of Directors has empowered 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 President and CEO is not a member of the Board of Directors, but is accountable to the Board.

The conditions of employment of the President and CEO are defined in a written agreement approved by the Board. The retirement age for the President and CEO is 63 and his period of notice is six months. If the company exercises its right to dismiss the President and CEO he is entitled to a one-off payment equal to six months' salary in addition to his pay for the period of notice.

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 Retail 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 three business units, Office and Retail Property, Hotels, and Sales Property. 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

Administration of Ovenia Ltd ▪ The principles of administration and supervision used by the Board of Kapiteeli are applied to Ovenia as appropriate. Kapiteeli appoints two of the four members of the Ovenia Board of Directors and one of the two acts as the Chairman of the Board. Kari Inkinen is currently Chairman of the Board of Ovenia and the other member appointed by Kapiteeli is Ossi Hynynen.

Auditing ▪ Kapiteeli Plc 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 following their election.

Kapiteeli's Auditors for 2004 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.

The level of internal supervision is assessed by the internal auditor himself and the internal quality auditors, the Auditors and possibly by other outside interests, as well.

Ethical principles ▪ Kapiteeli has a set of confirmed ethical principles, customs to be observed in business and instructions on equality in working life issues.

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

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.

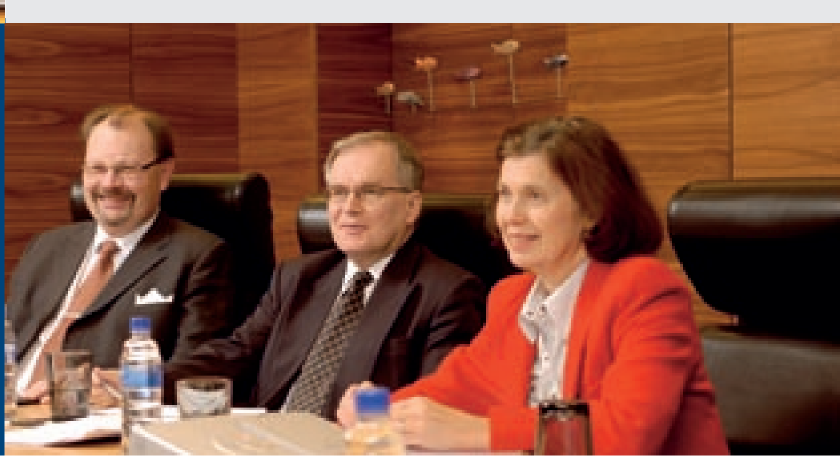
Insurance ▪ The Group's property assets and contents are insured in the conventional way within the property sector. Each property is insured by competitive tender based on a framework agreement.

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

Board of Directors

▲ FROM THE LEFT MATTI R J NIEMI, RITVA SALLINEN AND TAPIO KIISKINEN

▶ FROM THE LEFT ERKKI KM LEPPÄVUORI, JARMO VÄISÄNEN AND ELINA SELINHEIMO



The Board of Directors of Kapiteeli Plc met 14 times in 2004. The Board comprised:

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

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

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

Matti R J Niemi, B.Sc. (Econ.), born 1947
Varma-Sampo Mutual Pension Insurance Company, Deputy CEO (retired)
Member of the Board of Directors since 2004

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

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

Executive Management Team

▲ FROM THE LEFT ESKO MÄKINEN, SEPPO LEHTO, KARI INKINEN, ERIK HJELT, OSSI HYNYNEN AND KARI KOIVU

On December 31, 2004, the Kapiteeli Plc 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.
Chairman, The Finnish Association of Building Owners and Construction Clients RAKLI

Ossi Hynynen, M.Sc. (Tech.), born 1955,
Senior Vice President, Office and Retail 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

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Board report on operations January 1–December 31, 2004

Kapiteeli business operations January 1 to December 31, 2004 ▪ Kapiteeli Plc is a real estate investment company that is 100% owned by the State of Finland. Kapiteeli is looking for a strong market position by focusing on owning, renting and developing retail, office and hotel property. Kapiteeli's property business is divided into three business units: Office and Retail Property, Hotels and Sales Property. The Office and Retail Property Unit owns and leases retail property compatible with Kapiteeli's strategy in the Helsinki Metropolitan Area and in other growth centres. The Hotels Unit owns hotel property and is responsible for leasing them. The Sales Property Unit is responsible for selling and leasing properties that are not compatible with the company's long-term strategy. Kruunuasunnot Ltd, which was still a subsidiary of the Kapiteeli Group in 2004, owns, develops and leases residential property.

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 127 million, by buying new properties that met its investment criteria to the value of EUR 16 million and by investing in development to the value of EUR 92 million. Consolidated capital employed in real estate assets was EUR 1,188 million at the end of the financial year, of which 72% was accounted for by investment property assets. 17% of the investment assets are sales properties and 11% is owned by Kruunuasunnot Ltd.

During 2004, Kapiteeli reorganized its capital structure and refinanced long-term funding. On June 22, 2004 Kapiteeli signed two credit agreements: a EUR 100 million bilateral loan over seven years and a syndicated revolving credit facility agreement for EUR 100 million over six years. This credit arrangement was made to refinance the syndicated loan of EUR 200 million drawn in 2000. During the year under review, Kapiteeli Plc paid back a total of EUR 112.5 million of capital loans granted by the State. At the close of the financial year, there was a total of EUR 59.5 million in capital loans receivable from the State.

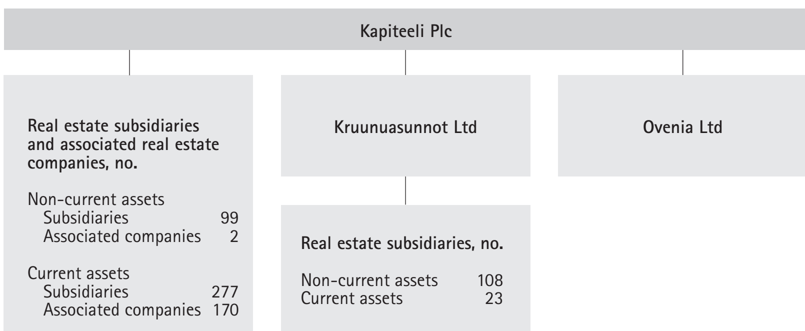
On September 15, 2004 Kapiteeli Plc acquired a majority stake in the share capital of Ovenia Ltd. After the deal, Kapiteeli became the majority shareholder with a 50.91% share. The other shareholders in the company are the Varma Mutual Pension Insurance Company (28.75%), the Sampo Group (18.50%) and the Kaleva Mutual Insurance Company (1.84%).

Ovenia Ltd is one of Finland's leading property management companies specializing in leasing operations and tenant management, maintenance management, project management and administration services. The current shareholders transferred property care and maintenance to Ovenia, which was established in autumn 2002 and which provides services for both shareholders and other property owners.

Kapiteeli Plc and Solidium Ltd signed a preliminary agreement on September 29, 2004 concerning the sale of Kruunuasunnot Ltd's share capital. The final deal was completed after the close of the year under review on January 3, 2005. By selling off Kruunuasunnot's share capital, Kapiteeli gave up its residential property investment activities in order to concentrate on investment in office and retail property in accordance with its strategy. The total value of the sale was about EUR 130 million of which EUR 50 million was made up of Kruunuasunnot Ltd shares. The company's EUR 80 million of debts were also transferred to the buyer.

Despite the uncertainties in the commercial premises market, there was no increase in the vacancy rates of premises owned by the Kapteeli Group during 2004, and the group's net rental yield was 7.1% (6.5%). Net rental income of the Office and Retail Property Unit reached 8.9% (8.5%), while the figure for the Hotels Unit stood at 7.6% (7.5%). The targets set for property sales were met.

The Kapiteeli Group, December 31, 2004



Group Structure ▪ The Kapiteeli Group was made up of the parent company Kapiteeli Plc, the subsidiaries Kruunuasunnot Ltd and Ovenia Ltd and 507 real estate subsidiaries and 172 associated real estate companies. The parent company, Kruunuasunnot Ltd, Ovenia 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.

Consolidated profit and loss statement ▪ Consolidated turnover came to EUR 276.1 (298.6) million. This total comprises EUR 157.0 (165.1) million of rental revenue and compensations for use and EUR 119.1 (133.5) million received from sales of real estate.

Planned depreciation totalled EUR 20.3 (16.7) million. Exceptional write-downs totalling EUR 5.2 (24.2) million were entered against certain properties listed under current assets.

Consolidated operating profit for the year was EUR 80.6 (46.0) million and net interest expenses were EUR 15.9 (18.9) million.

Consolidated profit before extraordinary items, appropriations and taxes totalled EUR 64.7 (27.1) million. The profit for the year was EUR 64.4 (33.8) million. This includes the net profit of EUR 38.8 (27.1) million arising from the sales of property and shares.

Return on equity was 10.1% (3.8%) and return on invested capital 6.7% (3.9%).

Consolidated balance sheet ▪ The consolidated balance sheet total stood at EUR 1,269.5 (1,252.7) 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 867.0 (793.4) 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 16.0 (20.7) million.

Consolidated financial assets comprise short-term investments and deposits of EUR 0.8 (20.9) million and bank accounts of EUR 25.1 (1.9) million.

Consolidated liabilities totalled EUR 636.0 (576.5) million. Of this amount, EUR 156.9 (77.2) million was short-term and EUR 479.1 (499.3) million long-term.

Consolidated equity totalled EUR 608.6 (665.4) million. This amount includes EUR 59.5 (172.0) million of capital loans granted to Kapiteeli Plc by the State of Finland

At the end of the year under review, the consolidated equity ratio (excluding capital loans) was 43.5% (40.8%), while the gearing ratio stood at 1.0% (0.8%) without the capital loans. With the capital loans included, the equity ratio stood at 48.2% (53.9%).

Parent company profit and loss statement ▪ Kapiteeli Plc's turnover came to EUR 241.1 (262.2) million. This total comprised EUR 129.3 (135.4) million of rental revenue and compensations for use and EUR 111.8 (126.8) million received from sales of real estate.

The parent company's planned depreciation and write-downs amounted to EUR 9.6 (8.1) million. A total of EUR 5.2 (25.1) million in extraordinary write-downs was entered against real estate listed as current assets.

Profit for the year before extraordinary items, appropriations and taxes totalled EUR 56.4 (24.4) million. This includes EUR 46.3 (40.6) million in capital gains and a loss of EUR 11.9 (15.1) million from sales of property and shares. The profit for the year totalled EUR 63.3 (31.4) million.

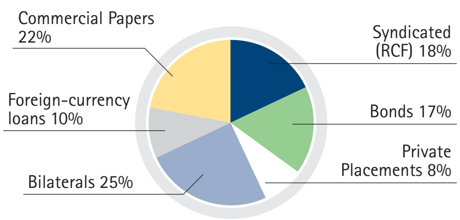
In 2003, return on equity (ROE) was 11.0% (3.7%) and return on invested capital (ROI) 6.2% (3.7%).

Parent company balance sheet ▪ The parent company balance sheet total stood at EUR 1,217.7 (1,222.5) million. Non-current assets, at EUR 853.1 (782.3) 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 364.6 (440.2) million. Real estate assets entered under current assets stood at EUR 287.2 (363.5) million. Corporate loan receivables from real estate corporations entered under current assets totalled EUR 16.0 (22.4) million.

Financial assets comprise short-term investments and deposits and bank accounts, totalling EUR 1.2 (19.8) million.

The Company's equity stood at EUR 586.3 (644.2) million. The equity included an EUR 59.5 (172.0) million of capital loans granted to Kapiteeli Plc by the Finnish State.

Kapiteeli Plc, funding structure on December 31, 2004



Funding ▪ On December 31, 2004, Kapiteeli Group's interest-bearing liabilities totalled EUR 578 million. The Group's financial expenses amounted to EUR 15.9 million. The weighted average debt maturity was 3.8 years and the weighted average interest rate 3.35%. The weighted average fixed interest period was 1.3 years.

Administration

Meetings of Kapiteeli shareholders ▪ On March 16, 2004, the Annual General Meeting:

▪ Approved the financial statements of the parent company 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 0.92 per share, corresponding to a total of EUR 8,740,000 and leave the remaining EUR 22,674,374.91 of the profit for the financial year to be carried over on the profit and loss account for previous years.

▪ Elected Erkki KM Leppävuori as Chairman, Jarmo Väisänen as Deputy Chairman and Tapio Kiiskinen, Matti R J Niemi, Ritva Sallinen and Elina Selinheimo as members of the Board of Directors until the Annual General Meeting of 2005.

▪ Appointed, for the period commencing at the close of the Annual General Meeting, Tuokko Tilintarkastus Oy, Authorized Public Accountants, as the company's approved auditor, with Yrjö Tuokko, Authorized Public Account, as responsible auditor, and Olavi Guttorm, Authorized Public Accountant, as deputy auditor.

▪ Decided, following a proposal by the Board of Directors, to make Kapiteeli Ltd a public limited company and change Kapiteeli's company name to Kapiteeli Plc. At the same time, a decision was taken to use the parallel company names Kapiteeli Abp and Kapiteeli Plc.

On September 20, 2004, the Extraordinary General Meeting:

▪ Decided to sell the whole share capital of Kruunuasunnot Ltd to Solidium Ltd.

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 14 times in 2004. The Board comprised:

Erkki KM Leppävuori, Chairman
(born 1951),
Director, VTT Technical Research Centre of Finland
Member of the Board of Directors since 2002
Joint Research Centre JRC, Member of the Board of Governors
Building Information Foundation RTS, Member of the Board
Finnmap Consulting Ltd, Member of the Board
Espoo Chamber of Commerce, Member of the Executive Board
Member of the Science and Technology Council of Finland
Culminatum Ltd – Helsinki Region Centre of Expertise, Member of the Board of Directors

Jarmo Väisänen, Deputy Chairman
(born 1951),
Financial Counsellor, State ownership policy, Ministry of Finance
Member of the Board of Directors since 1999
Sponda Plc, Deputy Chairman, Board of Directors

Tapio Kiiskinen, (born 1947),
Chief Executive Officer (retired), HYY Group
Member of the Board since 2003
KILROY travels International A/S, Chairman, Board of Directors
MyPlanet International AS, Chairman, Board of Directors
Member of the Finnish Association of Professional Board Members

Matti R J Niemi, (born 1947),
Varma-Sampo Mutual Pension Insurance Company, Deputy CEO (retired)
Pension-Varma, Executive Vice President, 1996-1998
Postipankki Ltd, various management duties 1974-1995 including Managing Director, 1988-1995
Member of the Board of Directors since March 16, 2004

Solidium Ltd, Chairman, Board of Directors
Hollming Ltd, Board of Directors
Fifty-Fifty Holding Finland Ltd, Board of Directors
Finnish Reservists' Union RES, Chairman

Ritva Sallinen, (born 1949)
Executive Vice President, Finance and Administration, Acta Print Oy
Member of the Board of Directors since 2003
Supervisor, Nordea Järvenpää Branch
Louhela Settlement, Board of Governors
Järvenpää Rotary Club, Board of Directors and Treasurer

Elina Selinheimo, (born 1950)
Senior adviser for the budget, Ministry of Finance
Member of the Board of Directors since 1999
The State Pension Fund, Member of the Board of Directors

Management ▪ Kapiteeli's President and CEO is assisted by the Executive Management Team, which on December 31, 2004 comprised:

Kari Inkinen, (born 1957),
President and CEO
Member of the Executive Management Team since 1999
Chairman, The Finnish Association of Building Owners and Construction Clients RAKLI

Ossi Hynynen, (born 1955),
Senior Vice President, Office and Retail Property
Member of the Executive Management Team since 1999

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

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

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

Erik Hjelt, (born 1961),
Chief Legal Counsel and Secretary to the Executive Management Team
Secretary of the Executive Management Team since 1999

Personnel ▪ On December 31, 2004, Kapiteeli Plc's personnel numbered 96 (105). At the same time, Kruunuasunnot Ltd had a staff of 16 (16) and Ovenia Ltd 96.

Adoption of IFRS standards ▪ The Kapiteeli Group will publish the first set of annual accounts in accordance with IFRS standards for the 2005 financial year and the first interim report for the period January 1—March 31, 2006.

Operating environment — prospects for 2005 ▪ The uncertainties in the operating environment are also affecting leasing activity in the office property sector. Demand for leases in the retail property sector is expected to remain strong. The situation in 2005 is not expected to lead to a rise in vacancy rates in Kapiteeli's office and retail 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 retail premises. Sales of real estate not compatible with Kapiteeli's strategy are expected to be slightly lower in 2005 than in the previous year.

The improvement in Kapiteeli Group's net property rental yield is expected to continue in 2005. Capital gains from real estate in 2005 are expected to remain below last year's level. Because of the smaller amount of capital gains, the profit for 2005 is expected to be lower than 2004.

Consolidated profit and loss statement

EUR 1,000	Note	Group Jan. 1–Dec. 31, 2004	Group Jan. 1–Dec. 31, 2003	Parent company Jan. 1–Dec. 31, 2004	Parent company Jan. 1–Dec. 31, 2003
TURNOVER	1	276,084	298,570	241,111	262,244
Other operating income	2	8,963	1,543	1,914	1,335
Materials and services	3	-83,399	-107,419	-79,124	-102,222
Personnel expenses	4	-12,841	-8,616	-6,996	-7,524
Depreciation and write-downs	5	-25,484	-40,836	-14,811	-33,206
Other operating expenses	6	-82,688	-97,248	-80,812	-87,617
Share of associated companies' profit		0	21		
OPERATING PROFIT		**80,635**	**46,015**	**61,282**	**33,010**
Financial income and expenses	7	-15,940	-18,932	-4,897	-8,573
PROFIT BEFORE INCIDENTAL ITEMS		**64,695**	**27,083**	**56,385**	**24,437**
Incidental income	8		6,695	7,100	6,695
PROFIT BEFORE APPROPRIATIONS AND TAXES		**64,695**	**33,778**	**63,485**	**31,132**
Appropriations	9			-123	282
Income taxes	10	-87		-23	
Minority interest		-172	-6		
PROFIT FOR THE FINANCIAL YEAR		**64,436**	**33,772**	**63,339**	**31,414**

Consolidated balance sheet

EUR 1,000	Note	Group Dec. 31, 2004	Group Dec. 31, 2003	Parent company Dec. 31, 2004	Parent company Dec. 31, 2003
Assets					
NON-CURRENT ASSETS					
Intangible assets	11	6,602	5,668	1,852	1,553
Tangible assets		855,990	775,408	102,143	96,903
Investments	12				
Holdings in Group companies				401,664	443,999
Receivables from Group companies				343,425	227,241
Holdings in associated companies		3,213	1,594	3,346	1,706
Other investments		1,203	10,729	718	10,933
NON-CURRENT ASSETS, TOTAL		867,008	793,399	853,148	782,335
CURRENT ASSETS					
Inventories	13	301,212	377,128	287,506	363,492
Non-current receivables	14	16,884	21,587	16,831	23,351
Current receivables	15	58,464	37,796	59,046	33,518
Liquid securities		835	20,935	283	19,295
Cash in hand and at banks		25,101	1,891	903	549
CURRENT ASSETS, TOTAL		402,496	459,337	364,569	440,205
		1,269,504	1,252,736	1,217,717	1,222,540
Liabilities					
EQUITY	16				
Share capital		190,000	190,000	190,000	190,000
Premium fund		76,666	76,666	76,666	76,666
Profit/loss brought forward		218,011	192,979	196,829	174,155
Profit/loss for the financial year		64,436	33,772	63,339	31,414
Capital loan	17	59,500	172,000	59,500	172,000
TOTAL EQUITY		608,613	665,417	586,334	644,235
APPROPRIATIONS	18			13,386	13,264
MINORITY INTEREST		1,644	1,293		
PROVISIONS	19	23,243	9,552	20,243	5,475
LIABILITIES					
Non-current liabilities	20	479,114	499,250	432,022	477,022
Current liabilities	21	156,890	77,224	165,732	82,544
LIABILITIES, TOTAL		636,004	576,474	597,754	559,566
		1,269,504	1,252,736	1,217,717	1,222,540

Funds statement

EUR 1,000	Group Jan. 1–Dec. 31, 2004	Group Jan. 1–Dec. 31, 2003	Parent company Jan. 1–Dec. 31, 2004	Parent company Jan. 1–Dec. 31, 2003
CASH FLOW FROM OPERATIONS				
Operating profit/loss	80,635	46,015	61,282	33,010
Adjustments to operating profit	25,972	37,031	24,632	32,220
Change in working capital	48,496	70,545	49,400	61,764
Interest and charges paid	-17,513	-22,185	-19,230	-20,035
Dividends received	76	114	76	114
Interest received	2,123	4,169	12,224	11,419
Taxes paid	-86		-23	
Cash flow from operations	**139,703**	**135,689**	**128,361**	**118,492**
CASH FLOW FROM INVESTMENTS				
Investments in tangible and intangible assets	-87,283	-111,498	-12,818	-56,554
Approved loans	-115	-1,085	-70,475	-45,179
Reimbursements of loan receivables	4,818	12,041	16,485	18,367
Sales of other investments	4,918	1,545	3,583	1,545
Cash flow from investments	**-77,662**	**-98,997**	**-63,225**	**-81,821**
CASH FLOW FROM FINANCING				
Reimbursement of shareholders' equity		-50,000		-50,000
Premium fund		-30,000		-30,000
Drawdowns of current loans/repayments	82,447	-96,430	82,447	-96,430
Drawdowns of non-current loans	264,929	207,000	240,000	207,000
Repayments of non-current loans	-397,566	-43,840	-397,500	-41,876
Dividends paid	-8,740	-10,080	-8,740	-10,080
Cashflow from financing	**-58,930**	**-23,350**	**-83,793**	**-21,386**
Change in financial resources	3,111	13,342	-18,657	15,285
Financial resources Jan. 1	22,825	9,483	19,844	4,559
Financial resources Dec. 31	**25,936**	**22,825**	**1,187**	**19,844**
CHANGE IN WORKING CAPITAL				
Decrease/increase in current receivables	-19,965	1,349	-24,825	4,326
Decrease/increase in inventories	72,571	104,586	72,156	93,087
Decrease/increase in current liabilities	-4,110	-35,390	2,069	-35,649
	48,496	**70,545**	**49,400**	**61,764**

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 the operating subsidiaries Kruunuasunnot Ltd and Ovenia Ltd. In addition to the parent company, Kruunuasunnot Ltd, and Ovenia 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 majority of subsidiaries classified as non-current assets are mainly mutual real estate companies whose expenses are covered out of maintenance charges. 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. The financial statements of the subsidiaries have been combined line by line. Internal ownership has been eliminated using the acquisition cost method.

The proportion accounted for by external shareholders of non-mutual subsidiaries belonging to Ovenia and the Group 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 estate property corporations have been allocated to real estate assets.

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.

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 Kapiteeli's 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 Plc and Kruunuasunnot Ltd have made an internal valuation of the market values of their real estate assets in late 2004 early 2005. 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 Retail Property Unit and Hotels Unit and the market value of some of the properties classified as for sale were obtained, item by item.

Office and retail properties, complying with IAS 40 Investment Property standards, intended to remain in Kapiteeli's ownership have been valued in cooperation with Maakanta Ltd (AKA) using an accounting model for determining value developed by Kapiteeli based on discounts and cash flow. The model has been verified by experts from Ernst & Young. The accounting model complies with IFRS valuation standards, international valuation standards and criteria of the Association for Authorized Real Estate Valuation (AKA).

The current value of land, hotel property and certain special premises is based on valuations drawn up by Maakanta Ltd using valuation methods most applicable for each property.

The market value on December 31, 2004 of office, retail and hotel property intended to remain in Kapiteeli's ownership exceeded the book value of the assets by EUR 116.9 million.

Properties intended for sale were valued mainly by using the market value method. On the basis of the valuations by Kapiteeli and Maakanta Ltd, a total of EUR 5.2 million in market value write-downs on 27 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 valuation statement from SKV Oy on the current value of real estate assets supplements Kruunuasunnot Ltd's own valuations. On the basis of the valuations the book values were estimated as a whole and separately as equal to the current market value, on the materiality principle.

The phasing principles 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.

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

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

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

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 2004	Group 2003	Parent company 2004	Parent company 2003
1 TURNOVER				
Sale of inventories	119,068	133,549	111,797	126,802
Rental revenues	152,858	159,756	127,917	133,489
Compensations for use	4,158	5,265	1,397	1,953
Total	276,084	298,570	241,111	262,244
2 OTHER OPERATING INCOME				
Sales gains from fixed assets	3,099	1,125	1,763	1,187
Others	5,864	418	151	148
Total	8,963	1,543	1,914	1,335
3 MATERIALS AND SERVICES				
Change in stocks	**–75,754**	**–94,259**	**–72,744**	**–89,341**

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.

4 DATA CONCERNING PERSONNEL AND MEMBERS OF THE ADMINISTRATION				
PERSONNEL				
Average number of personnel during the financial period	215	127	101	111

The Group's personnel expenses include EUR 4.6 million of Ovenia Ltd personnel expenses.

MANAGEMENT SALARIES AND REMUNERATIONS				
Presidents; members of the Board of Directors	611	451	342	330

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.

5 DEPRECIATION AND WRITE-DOWNS				
Planned depreciation				
Other long-term expenditure	532	381	370	381
Buildings and constructions	16,961	13,971	2,375	2,012
Machinery and equipment	2,758	2,308	97	159
	20,251	16,660	2,842	2,552
Write-downs on non-current assets	0	-76	6,736	5,581
Exceptional write-downs	5,233	24,252	5,233	25,073
	5,233	24,176	11,969	30,654
Depreciations and write-downs, total	25,484	40,836	14,811	33,206
6 OTHER OPERATING EXPENSES				
Administration services	7,787	5,631	2,362	2,428
Property maintenance expenses	71,559	87,531	73,829	80,199
Others	3,342	4,086	4,621	4,990
Total	82,688	97,248	80,812	87,617
7 FINANCIAL INCOME AND EXPENSES				
Dividend income				
From others	76	114	76	114
Interest income from non-current investments				
From Group companies	811	1,005	11,502	10,445
From others	1,520	1,467	1,419	1,061
Total	2,331	2,472	12,921	11,506

EUR 1,000	Group 2004	Group 2003	Parent company 2004	Parent company 2003
Other financial income				
From others	495		6	
Interest expenses and other financial expenses				
Interest expenses to Group companies	-75	-254	-296	-362
Interest expenses to others	-18,503	-20,924	-17,353	-19,694
Total	-18,578	-21,178	-17,649	-20,056
Other financial expenses				
To others	-264	-340	-251	-137
Financial income and expenses, total	-15,940	-18,932	-4,897	-8,573
8 INCIDENTALS				
Incidental income				
Pension reserve annulment		6,695		6,695
Group subsidy			7,100	
9 APPROPRIATIONS				
Difference between planned depreciation and depreciation made in taxation			-123	282
10 TAXES				
Profit for the financial period	64,436	33,772	63,339	31,414
Increases/decreases				
Income taxes	87		23	
Other increases/decreases	1,503	-2,261	2,406	97
Taxable profit for the financial period	66,026	31,511	65,768	31,511
Income tax on the profit for the financial period	19,148	9,138	19,073	9,138
Decrease for deferred tax receivables	-19,060	-9,138	-19,073	-9,138
Income taxes payable for the financial period	88	0	0	0

The Group has deferred tax receivables on losses confirmed in the taxation of previous years and on provisions not deducted in taxation that result in a total of almost EUR 290.0 million.

No deferred tax receivables have been entered in the balance sheet.
In 2005 deferred tax receivables will decrease by about EUR 130.0 million due to confirmed losses of EUR 397.6 million becoming time-barred and the change in the tax rate.

11 TANGIBLE AND INTANGIBLE ASSETS

Intangible assets

	Group 2004	Group 2003	Parent company 2004	Parent company 2003
Other long-term expenditure				
Acquisition cost Jan. 1	7,471	6,447	3,355	3,226
Increases	1,471	1,827	674	933
Decreases	-5	-803	-5	-804
Acquisition cost Dec. 31	8,937	7,471	4,024	3,355
Accumulated depreciation and write-downs	-1,803	-1,493	-1,802	-1,492
Accumulated depreciation from decreases		71		71
Depreciation for the financial period	-532	-381	-370	-381
Book value Dec. 31	6,602	5,668	1,852	1,553

EUR 1,000	Group 2004	Group 2003	Parent company 2004	Parent company 2003
Tangible assets				
Land and water				
Land areas				
Acquisition cost Jan.1	109,773	99,396	14,944	17,178
Increases and transfers of asset items	7,035	20,015	23	6,718
Decreases and transfers of asset items		-9,638		-8,952
Book value Dec. 31	116,808	109,773	14,967	14,944
Connection fees				
Acquisition cost Dec. 31	2,404	2,404	360	360
Increases				
Book value Dec. 31	2,404	2,404	360	360
Book value Dec. 31, total	119,212	112,177	15,327	15,304
Buildings and constructions				
Acquisition cost Jan. 1	650,479	604,909	84,822	84,130
Increases and transfers of asset items	88,977	47,325	15,527	1,501
Decreases and transfers of asset items		-1,755		-809
Acquisition cost Dec. 31	739,456	650,479	100,349	84,822
Accumulated depreciation and write-downs	-66,385	-52,841	-33,814	-32,298
Accumulated depreciation from decreases		435		496
Depreciation for the financial period	-14,813	-13,979	-2,374	-2,012
Book value Dec. 31	658,258	584,094	64,161	51,008
Machinery and equipment				
Acquisition cost Jan. 1	18,950	16,343	735	715
Increases	11,692	2,657	8	63
Decreases		-50		-43
Acquisition cost Dec. 31	30,642	18,950	743	735
Accumulated depreciation and write-downs	-7,439	-5,189	-598	-507
Accumulated depreciation from decreases		58		67
Depreciation for the financial period	-4,906	-2,308	-97	-158
Book value Dec. 31	18,297	11,511	48	137
Other tangible assets				
Acquisition cost Jan. 1	956	552	79	79
Increases	440	404		
Book value Dec. 31	1,396	956	79	79
Advance payments and projects in progress				
Acquisition cost Jan. 1	66,668	17,008	30,375	7,609
Increases	54,930	58,796	12,169	18,587
Decreases	-753	-379	-753	
Transfers between items	-62,018	-8,755	-19,263	4,179
Book value Dec. 31	58,827	66,670	22,528	30,375
Tangible assets, total	855,990	775,408	102,143	96,903

	Group		Parent company		
12 INVESTMENTS	**Shares Dec. 31, 2004**		**Shares Dec. 31, 2004**		
	Joint ownership companies	Others	Group companies	Joint ownership companies	Others
Acquisition cost Jan. 1	1,574	11,306	443,999	1,706	10,932
Increases	145		8,318	146	
Decreases	-2	-1,708	-59,686	-2	-1,819
Transfers of asset items	1,496	-8,395	15,769	1,496	-8,395
Acquisition cost Dec. 31	3,213	1,203	408,400	3,346	718
Write-downs			-6,736		
Book value Dec. 31	3,213	1,203	401,664	3,346	718

	Receivables Dec. 31, 2004
Acquisition cost Jan. 1	227,241
Increases	130,898
Decreases	-14,714
Acquisition cost Dec. 31	343,425
Book value	343,425

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

Name	Domicile	Share of ownership, %	Capital employed, EUR 1,000
Aleksintori Kiint Oy	Kerava	100.00	4,048
City-Raisio Kiint Oy	Raisio	100.00	2,616
Espoon Itsehallintotie 3 Kiint Oy	Espoo	100.00	4,273
Espoon Pyyntitie 1 Kiint Oy	Espoo	100.00	1,950
Helsingin Ehrensvärdintie 31-35 Kiint Oy	Helsinki	100.00	1,944
Helsingin Hämeentie 105 Kiint Oy	Helsinki	60.63	1,950
Helsingin Itämerenkatu 21 Kiint Oy	Helsinki	100.00	45,805
Helsingin Kanavakatu 2-22 Kiint Oy	Helsinki	100.00	29,780
Helsingin Kirvesmiehenkatu 4 Kiint Oy	Helsinki	100.00	3,686
Helsingin Kulttuuritalo Kiint Oy	Helsinki	100.00	5,177
Helsingin Kuntotalo Kiint Oy	Helsinki	100.00	1,027
Helsingin Lampputie 12 Kiint Oy	Helsinki	100.00	1,345
Helsingin Lampputie 4 Kiint Oy	Helsinki	100.00	5,238
Helsingin Lautatarhankatu 2 C Kiint Oy	Helsinki	100.00	2,774
Helsingin Nuijamiestentie 3 Kiint Oy	Helsinki	100.00	7,592
Helsingin Ohrahuhdantie 4 Kiint Oy	Helsinki	100.00	1,648
Helsingin Porkkalankatu 20 A Kiint Oy	Helsinki	100.00	9,888
Helsingin Porkkalankatu 20 B Kiint Oy	Helsinki	100.00	9,934
Helsingin Porkkalankatu 20 C Kiint Oy	Helsinki	100.00	10,232
Helsingin Porkkalankatu 22 Kiint Oy	Helsinki	100.00	3,293
Helsingin Ruoholahden Parkki Kiint Oy	Helsinki	90.78	20,710
Helsingin Salmisaarentalo Kiint Oy	Helsinki	100.00	54,093
Helsingin Silkkikutomo Kiint Oy	Helsinki	100.00	9,373
Helsingin Vanhanlinnantie 3 Kiint Oy	Helsinki	100.00	8,556
Hermitec Oy	Tampere	100.00	8,314
Hämeenkatu 20 Kiint Oy	Tampere	100.00	10,738
Hämeentie 103 Kiint Oy	Helsinki	100.00	2,470
Höyläämötie 5 Kiint Oy	Helsinki	100.00	1,841
Isontammentie 4 Kiint Oy	Vantaa	100.00	601

Name	Domicile	Share of ownership, %	Capital employed, EUR 1,000
Joensuun Ykköspaikoitus Oy	Joensuu	88.57	1,762
Jyväskylän Kauppakatu 32 Kiint Oy	Jyväskylä	100.00	7,235
Kajaanin Koskihotelli Kiint Oy	Kajaani	100.00	1,578
Kattotuoli Kiint Oy	Turku	100.00	1,995
Keravan Kauppakaari Kiint Oy	Kerava	100.00	2,590
Kotkan Liikekeskus Kiint Oy	Kotka	100.00	7,700
Kuopion Kauppakatu 18 Kiint Oy	Kuopio	100.00	2,470
Kuopion Vuorikatu 26 Kiint Oy	Kuopio	100.00	2,104
Lahden Aleksanterinkatu 11 Kiint Oy	Lahti	100.00	5,464
Lahden Kulmala Kiint Oy	Lahti	100.00	5,140
Lausteen Taalintehtaankatu 10 Kiint Oy	Turku	100.00	953
Lintulankulma Kiint Oy	Rovaniemi	100.00	1,901
Marina Congress Center Kiint Oy	Helsinki	100.00	7,566
Mikkelin Hallitustori Kiint Oy	Mikkeli	100.00	6,481
Moksunniemi Kiint Oy	Ähtäri	76.45	1,903
Moottorihotelli Tarvontie Kiint Oy	Espoo	100.00	7,161
Nordic Hotellikiinteistöt Kiint Oy	Helsinki	60.00	53,104
Oulun Posteljooni Kiint Oy	Oulu	100.00	12,642
Pieni Roobertinkatu 7 Kiint Oy	Helsinki	91.93	2,601
Pohjoislaakso Kiint Oy	Kouvola	100.00	4,378
Porin Augustinkulma Kiint Oy	Pori	100.00	2,127
Porin Itäpuisto 11 Kiint Oy	Pori	70.38	1,494
Porin Pentinkulma Kiint Oy	Pori	100.00	7,852
Pronssitie 1 Kiint Oy	Helsinki	100.00	4,338
Ratinanlinna Kiint Oy	Tampere	100.00	2,010
Ruoholahden Itämerentalo Kiint Oy	Helsinki	100.00	15,774
Ruoholahden Sulka Kiint Oy	Helsinki	100.00	7,499
Ruoholahden Yhteissuoja Kiint Oy	Helsinki	100.00	3,685
Ruoholahdenkatu 4 Kiint Oy	Helsinki	55.69	5,572
Satakansa Kiint Oy	Pori	100.00	2,498
Savonkartano Kiint Oy	Kuopio	100.00	1,867
Scifin Beta Kiint Oy	Espoo	100.00	3,455
Scifin Gamma Kiint Oy	Espoo	100.00	3,004
Sibylla Tehdaskiinteistö Oy	Helsinki	64.39	2,523
Sp-kiinteistöt Oy Kilo	Espoo	100.00	23,599
Säästötammela Kiint Oy	Tampere	100.00	4,611
Säästötasala Kiint Oy	Raisio	100.00	1,076
Tallbergintalo Kiint Oy	Helsinki	100.00	10,237
Tampereen Hatanpäänvaltatie 260 Kiint Oy	Tampere	100.00	6,723
Tampereen Naulakatu 3 Kiint Oy	Tampere	100.00	8,779
Tampereen Tikankulma Kiint Oy	Tampere	100.00	10,367
Tiistilän Miilu Kiint Oy	Espoo	100.00	2,453
Tiistinhovi Kiint Oy	Espoo	100.00	2,460
Tornilampi Kiint Oy	Espoo	100.00	8,086
Turun Centrum Kiint Oy	Turku	100.00	7,041
Turun Datakulma Kiint Oy	Turku	100.00	1,478
Turun Hansatorni Kiint Oy	Turku	100.00	3,159
Turun Julinia Kiint Oy Fast Ab	Turku	100.00	2,889
Turun Kauppiaskatu 9 b Kiint Oy	Turku	100.00	6,912
Turun Länsikulma Kiint Oy	Turku	100.00	2,290
Turun Länsiportti Kiint Oy	Turku	100.00	2,227
Turun Pitkämäki Kiint Oy	Turku	52.85	5,510
Turun Puutarhakatu 53 Kiint Oy	Turku	100.00	4,400
Turun Rautakatu Kiint Oy	Turku	100.00	465
Turun Taoskuja 1 Kiint Oy	Turku	100.00	740

Name	Domicile	Share of ownership, %	Capital employed, EUR 1,000
Turun Yliopistonkatu 12 a Kiint Oy	Turku	100.00	1,520
Turun Yliopistonkatu 22 Kiint Oy	Turku	100.00	31,918
Tuusulan Pysäkkikuja 1 Kiint Oy	Tuusula	100.00	7,467
Vaasan Portti Kiint Oy	Vaasa	100.00	3,310
Vantaan Harkkokuja 2 Kiint Oy	Vantaa	100.00	841
Vantaan Kuussillantie 27 Kiint Oy	Vantaa	100.00	2,922
Vantaan Simonrinne Kiint Oy	Vantaa	77.18	3,446
Vantaan Väritehtaankatu 8 Kiint Oy	Vantaa	100.00	1,727
Zeppelinin Kauppakeskus Kiint Oy	Kempele	91.47	1,399
Zeppelinin Kauppapörssi Kiint Oy	Kempele	88.64	1,402
Zeppelinin Markkinapaikka Kiint Oy	Kempele	58.71	499
Zeppelinin Pikkukulma Kiint Oy	Kempele	100.00	131
Zeppelinin Tavaratori Kiint Oy	Kempele	78.87	710
Ämmänkievari Kiint Oy	Suomussalmi	88.73	1,430

Kruunuasunnot Ltd owns 108 housing companies, which are included in the consolidated financial statement.

EUR 1,000	Group 2004	Group 2003	Parent company 2004	Parent company 2003
13 INVENTORIES				
Land areas and buildings	90,955	110,996	89,841	109,554
Real estate company shares	209,943	263,117	197,375	250,936
Other shares	314	3,015	290	3,002
Total	301,212	377,128	287,506	363,492

In 2003, the acquisition cost of inventories was decreased by a reserve of EUR 10.3 million for cleaning of polluted land entered in previous accounting periods. In the 2004 accounting period reserves for cleaning have been entered under provisions and they no longer decrease the acquisition costs of inventories. In the 2004 accounting period write-downs ammounting to EUR 5.2 (24.3) million were made on inventories. Inventories include 300 subsidiaries and 170 associated companies which are not included in the consolidated financial statements. The companies are mainly real estate or housing companies.

EUR 1,000	Group 2004	Group 2003	Parent company 2004	Parent company 2003
14 LONG-TERM RECEIVABLES				
Receivables from Group companies				
Loan receivables	16,040	20,655	16,041	22,418
From others	844	932	790	933
Total	16,884	21,587	16,831	23,351
15 SHORT-TERM RECEIVABLES				
Accounts receivable	42,519	26,025	41,722	25,072
Other receivables				
VAT receivables	3,588	2,729	3,549	2,729
Advance payments	2,807	2,608	2,802	2,603
Other receivables	3,196	3,134		
Total	9,591	8,471	6,351	5,332
Receivables from Group companies				
Prepaid expenses and accrued income	246	367	8,395	1,575
Relevant items in prepaid expenses and accrued income				
Interest rate receivables	776	73	776	73
Others	5,332	2,860	1,802	1,466
Total	6,108	2,933	2,578	1,539
Total short-term receivables	58,464	37,796	59,046	33,518

EUR 1,000	Group 2004	Group 2003	Parent company 2004	Parent company 2003
16 EQUITY				
Share capital Jan. 1	190,000	240,000	190,000	240,000
Decrease in share capital		-50,000		-50,000
Share capital Dec. 31	190,000	190,000	190,000	190,000
Premium fund Jan. 1	76,666	106,666	76,666	106,666
Decrease in premium fund		-30,000		-30,000
Premium fund Dec. 31	76,666	76,666	76,666	76,666
Other unrestricted equity				
Retained earnings	226,751	203,059	205,569	184,235
Distribution of dividend	-8,740	-10,080	-8,740	-10,080
Profit for financial period	64,436	33,772	63,339	31,414
Other unrestricted equity Dec. 31	282,447	226,751	260,168	205,569
Capital loan Jan. 1	172,000	120,000	172,000	120,000
Increase		80,000		80,000
Decrease	-112,500	-28,000	-112,500	-28,000
Capital loan Dec. 31	59,500	172,000	59,500	172,000
Equity, total	608,613	665,417	586,334	644,235
CALCULATION OF DISTRIBUTABLE FUNDS DEC. 31				
Other unrestricted capital	218,011	192,979	196,829	174,155
Profit for the financial period	64,436	33,772	63,339	31,414
Share of depreciation difference entered under unrestricted capital	-13,436	-13,835		
Share of optional reserves entered under equity	-3,786			
Sales profits to real estate companies not consolidated in the group	-672	-672		
Total	264,553	212,244	260,168	205,569
17 CAPITAL LOAN	59,500	172,000	59,500	172,000

The government granted Kapiteeli Plc a EUR 120 million capital loan on August 20, 2002. The capital loan is interest-free and unsecured. Kapiteeli paid off EUR 28 million of the loan in 2003. During the period under reveiw, Kapiteeli Plc paid off EUR 92 million thus repaying the entire loan.

The government granted Kapiteeli Plc a EUR 80 million capital loan on August 4, 2003. The loan is interest-free and unsecured. The loan must be paid back by December 31, 2006. During the period under review, Kapiteeli Plc paid off EUR 20.5 million.

The loan or part of the loan may not be repaid if the solvency ratio of Kapiteeli Plc or, if Kapiteeli is the parent company, that of the Group, sinks below forty (40) per cent.

EUR 1,000	Group 2004	Group 2003	Parent company 2004	Parent company 2003
18 APPROPRIATIONS				
Accrued depreciation difference				
On buildings			12,224	11,925
On machinery and equipment			1,175	1,383
Other long-term expenditure			-13	-44
Total			13,386	13,264
19 PROVISIONS				
Pension provisions		6,695		6,695
Decrease		-6,695		-6,695
Provision Dec. 31		0		0

EUR 1,000	Group 2004	Group 2003	Parent company 2004	Parent company 2003
Provisions for the repair of real estate and cleaning of polluted land	10,284		10,284	
Increase	10,848		7,848	
Decrease	-504		-504	
Provision Dec. 31	20,628		17,628	
Other provisions Dec. 31	9,552	9,755	5,475	5,679
Decrease	-6,937	-203	-2,860	-204
Provision Dec. 31	2,615	9,552	2,615	5,475
Total	23,243	9,552	20,243	5,475

At the end of the 2003 accounting period, a reserve of EUR 10.3 million for repairs and cleaning of polluted land reduced the acquisition cost of inventories. From the beginning of the 2004 accounting period, this figure has been entered as a provision and as an increase to the acquisition cost of inventories.

20 NON-CURRENT LIABILITIES

EUR 1,000	Group 2004	Group 2003	Parent company 2004	Parent company 2003
Loans from credit institutions	381,455	401,557	335,022	380,022
Other loans	659	693		
Bonds				
Bonds due 2007	10,000	10,000	10,000	10,000
Bonds due 2008	37,000	37,000	37,000	37,000
Bonds due 2009	50,000	50,000	50,000	50,000
	97,000	97,000	97,000	97,000
Non-current liabilities, total	479,114	499,250	432,022	477,022
Loans maturing after five years				
Loans from credit institutions	201,195	51,604	200,000	50,000

21 CURRENT LIABILITIES

EUR 1,000	Group 2004	Group 2003	Parent company 2004	Parent company 2003
Loans from credit institutions	37	710		
Advances received	3,985	3,540	2,720	2,097
Accounts payable	9,927	8,656	3,253	2,469
Commercial papers	122,700	40,253	122,700	40,253
Others	9,882	5,206	1,447	1,382
Total	146,531	58,365	130,120	46,201
Liabilities to Group companies				
Group accounts	5,183	9,149	29,387	27,546
Accrued liabilities and deferred income	158	179	397	1,396
Total	5,341	9,328	29,784	28,942
Relevant items in accrued liabilities and deferred income				
Interest liabilities	3,745	5,069	3,743	5,069
Holiday pay liabilities	1,086	1,185	953	1,052
Others	187	3,277	1,132	1,280
Total	5,018	9,531	5,828	7,401
Current liabilities, total	156,890	77,224	165,732	82,544

EUR 1,000	Group 2004	Group 2003	Parent company 2004	Parent company 2003
22 PLEDGES GIVEN, CONTINGENT LIABILITIES AND OTHER COMMITMENTS				
PLEDGES, MORTGAGES				
Group loans	36,585	53,796		
Mortgages given	19,844	51,379		
Mortgages as security, total	19,844	51,379		
OTHER CONTINGENT LIABILITIES, GUARANTEES				
Guarantees given by the Group	1,579	1,874	1,579	1,874
OTHER COMMITMENTS				
Amounts payable for leasing contracts				
Due during the next financial period	185	184	185	184
Due later	275	184	275	184
Total	460	368	460	368

	Group 2004	Group 2003	Parent company 2004	Parent company 2003
DERIVATIVES CONTRACTS				
Interest rate derivatives				
Interest rate cap options				
Nominal value	267,000	247,000	267,000	247,000
Current value	865	2,199	865	2,199
Interest rate swaps				
Nominal value	104,000	181,000	104,000	181,000
Current value	-1,431	-2,835	-1,431	-2,835
Currency derivatives				
Currency swap options				
Nominal value	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 floating interest rate. Currency derivatives have been used to change the fixed-rate loans in YENs into loans in EUR with floating interest rates. The capitals and interest rate flows of currency have been secured. Current value represents the profit, which would have been produced if the derivative positions had been closed when the accounts were closed.

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 Plc 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	2004	2003	2002	2001	2000
Turnover	276	300	334	296	318
Consolidated profit and loss statement					
Rental revenue	157	166	168	157	150
Management, maintenance and alteration costs	-72	-88	-100	-89	-83
NET RENTAL YIELD	85	78	68	68	67
Profit/loss on sale	39	27	42	64	30
Administration and other expenses/income	-16	-17	-17	-17	-19
Depreciation and write-downs	-26	-41	-34	-17	-14
OPERATING PROFIT	82	47	59	98	64
Financial expences	-18	-20	-24	-32	-33
PROFIT BEFORE EXTRAORDINARY ITEMS	64	27	35	66	31
Extraordinary items		7			
PROFIT BEFORE APPROPRIATIONS AND TAXES	64	34	35	66	31
Change in tax/tax liabilities				5	
PROFIT FOR THE FINANCIAL YEAR	64	34	35	71	31
Net rental yield, %	7.1	6.5	5.5	5.3	5.1
Return on equity (including capital loan), %	10.1	3.8	4.6	9.4	4.1
Return on equity (excluding capital loan), %	12.4	4.8	5.0	9.4	5.2
Return on capital employed, %	6.7	3.9	4.6	7.1	4.5
Consolidated balance sheet total	1,270	1,253	1,343	1,373	1,430
Real estate assets by business unit					
Office and Retail Property	685	646	617	552	584
Hotels	170	163	153	151	137
Sales Property	204	268	359	468	496
Kruunuasunnot	129	112	107	107	87
Total	1,188	1,189	1,236	1,278	1,304
Net rental yield by business unit, %					
Office and Retail Property	8.9	8.5	7.9	7.5	7.0
Hotels	7.6	7.5	6.4	7.0	6.3
Sales Property	3.2	3.1	2.8	3.0	3.3
Kruunuasunnot	5.2	3.2	-1.9	-1.3	1.5
Total	7.1	6.5	5.5	5.3	5.1
Equity	609	665	670	762	766
Equity ratio (including capital loan), %	48.2	53.9	53.2	58.5	57.6
Equity ratio (excluding capital loan), %	43.5	40.8	44.2	58.5	50.5
Gearing	1.0	0.8	0.8	0.7	0.9
Average number of personnel	215	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, % =	rent yield from real estate less maintenance costs / average capital employed in real estate	x 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, % =	equity + minority interest / balance sheet December 31, 2004 less advances received	x 100
Gearing, % =	interest-bearing liabilities less cash funds / equity December 31, 2004 + minority interest	
	Short-term investments of cash reserves are included in financial resources.	
Return on equity, % =	profit/loss before extraordinary items less taxes / equity + minority interest	x 100
Return on invested capital, % =	profit/loss before extraordinary items + interest and other financial expenses / balance sheet December 31, 2004 less interest-free liabilities	x 100

Proposal of the Board and Auditors' report

Board proposal for the disposal of profits

On December 31, 2004, the Group's distributable funds stood at EUR 264,552,635.16. At the same time, the parent company's distributable funds totalled EUR 260,168,556.32.

The Board of Directors proposes to the Annual General Meeting that a dividend of EUR 4.22 per share be distributed, corresponding to a total of EUR 40,090,000, and that the remaining EUR 23,249,072.76 of the profit for the year be carried over on the profit and loss account for previous years.

Helsinki, March 4, 2005

Erkki KM Leppävuori Chairman	Jarmo Väisänen
Tapio Kiiskinen	Matti R J Niemi
Ritva Sallinen	Elina Selinheimo
Kari Inkinen President and CEO	

Auditor's report

To the shareholders of Kapiteeli Plc

We have audited the accounting, financial statements and administration of Kapiteeli Plc for the period January 1 – December 31, 2004. 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 our audit, we express an opinion on these financial statements and the parent company's administration.

The audit has been conducted in accordance with good 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.

We give it as our opinion that the financial statements, which show a profit of EUR 64,436,220.43 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 President and CEO can be discharged from liability for the period audited by us. 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 4, 2005

Tuokko Tilintarkastus Oy
Company of Authorized Public Accountants

Yrjö Tuokko
Authorized Public Accountant

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THE REPORTS ARE ALSO AVAILABLE ON THE KAPITEELI WEB SITE AT
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