KAPITEELI

Annual Report 2005

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

Kapiteeli in brief

Kapiteeli Plc is a property investment company that invests in office and retail premises and hotel properties. The company focuses its operations on growth centres in Finland.

Kapiteeli offers its customers flexible spatial solutions that meet customers' business needs together with management, maintenance and user services.

Kapiteeli is owned by the State of Finland. At the end of November 2005, Parliament authorized the divestment of shares of Kapiteeli either partially or wholly.

Business idea

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 business operations.

Vision

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

Kapiteeli's values

Target orientation

- Kapiteeli's activities are guided by jointly approved goals.
- We recognize the importance of our own work in aiming for shared goals.
- We make sure we achieve 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.

- Value of property assets EUR 1.3 billion
- 1,100 properties
  - office, retail, industrial and warehouse premises
  - hotel properties
  - sales properties
- Total area of 1.5 million square metres
- Lettable area of 1.4 million square metres
- 2,750 tenants
- 3,700 leases
- Number of staff around 90 (parent company)

Kapiteeli's business

The Office and Retail Property Unit leases and develops office and commercial properties in the Helsinki Metropolitan Area and major growth centres.

The balance sheet value of the Office and Retail Property Unit at the end of 2005 was EUR 896 (793) million and net rental yield was EUR 66 (59) million. In 2005, Kapiteeli's investments in office and retail property were EUR 40 (52) million.

The Unit has 1,300 tenants.

The leading leaseholders at the end of 2005 were Kesko Plc, the Ministry of Justice, Stockmann Plc, TeliaSonera Finland Plc and Nokia Asset Management.

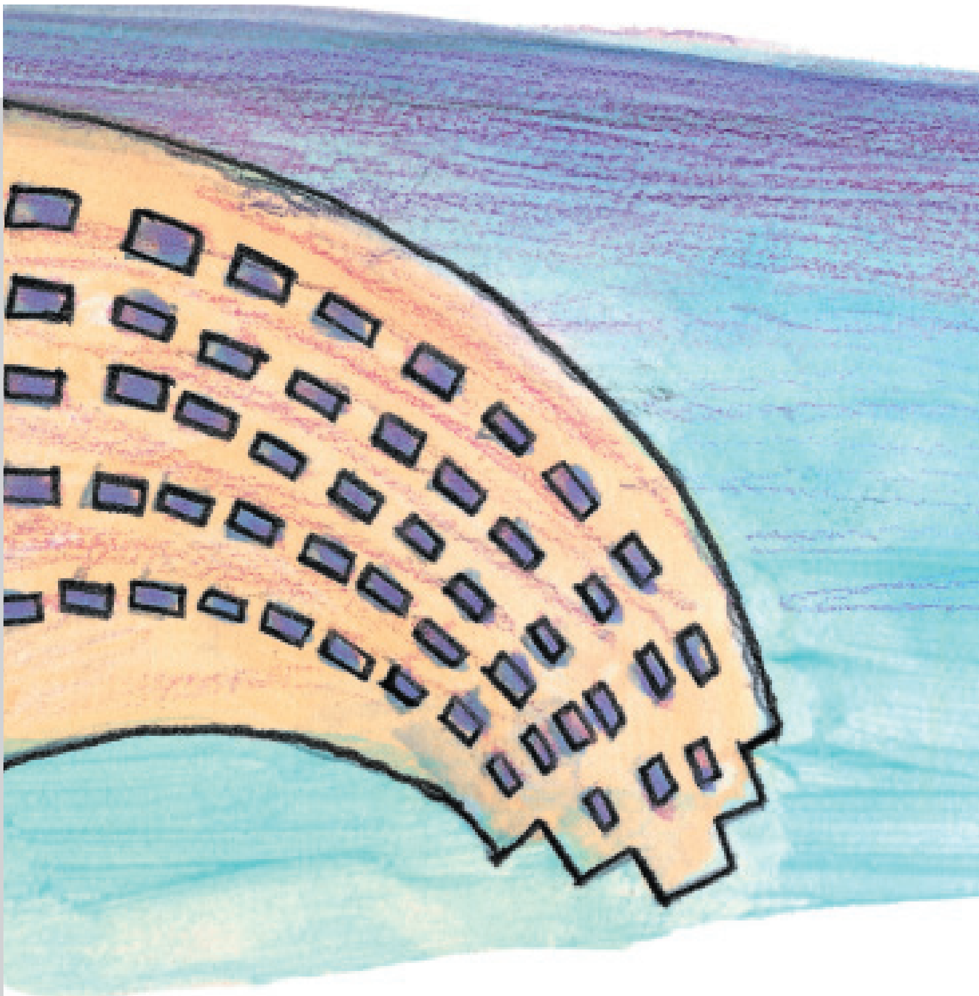
The Hotels Unit develops and leases hotel properties that are compatible with Kapiteeli's strategy.

The balance sheet value of the hotel properties at the end of 2005 was EUR 218 (178) million and net rental yield was EUR 15 (13) million. Kapiteeli invested a total of EUR 11 (12) million in hotel properties in 2005.

The leading leaseholders at the end of 2005 were Scandic and the Hilton Group.

The Sales Property Unit is responsible for selling and leasing real estate assets that are incompatible with Kapiteeli's investment strategy.

The balance sheet value of the Sales Property Unit at the end of 2005 was EUR 158 (204) million and net rental yield was EUR 3 (8) million. Property sales totalled EUR 64 (109) million in 2005, and investments were EUR 1 million.



Kapiteeli is an active property investment company.

Year 2005

Major investments and property acquisitions

During 2005, Kapiteeli developed its real estate assets by buying new investment properties worth EUR 65 (16) million and by investing EUR 53 (92) million in development schemes. Real estate sales reduced the balance sheet by EUR 112 (83) million, EUR 50 million of which was accounted for by the sales of shares in Kruunuasunnot Ltd.

Work on the 11,000 m^2 Ruoholahden Sulka office development project in the Ruoholahti area of Helsinki is in its final stages. The total investment is approximately EUR 19 million.

In April 2005, Kapiteeli acquired office premises from Elisa Corporation at Hallituskatu 8 and Näsilinnankatu 41 in Tampere, and at Pieni Roobertinkatu 9 in Helsinki. These centrally located premises are well suited to Kapiteeli's investment strategy. The total purchase price for these properties was EUR 19 million.

In Kempele, the EUR 4.5 million alterations to the Zeppelin Shopping Centre were completed in the autumn. This project involved converting a 5,000 m^2 commercial property into a Prisma Hypermarket. In addition, another 5,000 m^2 of other commercial premises were renovated. Kapiteeli concluded three separate deals and acquired commercial premises at the Zeppelin Shopping Centre to the value of EUR 3.5 million.

Renovations to Kapiteeli's property at Kauppakatu 32 in Jyväskylä were completed in May. The total value of this project was EUR 6.6 million and it covered 8,800 m^2.

Major investments in hotel properties and lease agreements

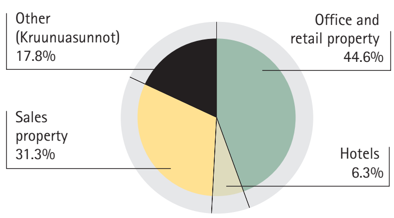
The renovation of the Imatran Valtionhotelli owned by Kapiteeli was carried out in January – March 2005 as a joint venture with Restel Ltd, the long-term leaseholder. The total investment in the project was around EUR 3 million, which was divided equally between Kapiteeli Plc and Restel Ltd.

At the end of June, Kapiteeli purchased a 40% stake in the share capital of Kiinteistö Oy Nordic Hotellikiinteistöt from the Finnair Pension Fund. The debt-free purchase price was EUR 41.2 million. As a result of this deal, the proportion accounted for by Kiinteistö Oy Nordic Hotellikiinteistöt in Kapiteeli's portfolio increased to almost a third. Renovations and extensions to the Scandic Tampere City Hotel, worth EUR 21 million, were completed and the hotel was opened to the public in July.

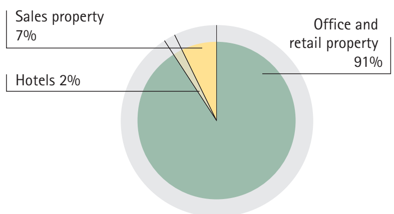
Changes in the Executive Management Team

Ossi Hynynen, M.Sc. (Tech.) was appointed Kapiteeli's President and CEO as of June 1, 2005. Ossi Hynynen continues as Senior Vice President of the Office and Retail Property unit, and has been working for Kapiteeli since 1999.

Distribution of turnover 2005



Distribution of operating profit 2005



Kapiteeli is a property company that leases, develops, purchases and sells office and retail premises, increasing their asset value.

Investments

EUR million	2005	2004	2003	2002	2001
Office and Retail Property	40	52	40	56	49
Hotels	11	12	14	6	4
Sales Property	1	1	2	1	1
Other	–	27	14	3	0
Total	52	92	70	66	54

Turnover

		IFRS	FAS			
EUR million	**2005**	**2004**	**2004**	**2003**	**2002**	**2001**
Office and Retail Property	128	92	91	112	124	126*
Hotels	18	16	16	15	14	16
Sales Property	90	134	130	136	163	136
Other	51	36	39	37	33	18
Total	287	278	276	300	334	296

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

Capital employed in real estate assets

		IFRS	FAS			
EUR million	**2005**	**2004**	**2004**	**2003**	**2002**	**2001**
Office and Retail Property	896	793	685	646	617	552
Hotels	218	178	170	163	153	151
Sales Property	158	204	204	268	359	468
Other	–	124	129	112	107	107
Total	1,272	1,299	1,188	1,189	1,236	1,278

Operating profit

		IFRS	FAS			
EUR million	**2005**	**2004**	**2004**	**2003**	**2002**	**2001**
Office and Retail Property	140	83	41	43	41	48*
Hotels	3	13	7	4	3	3
Sales Property	11	29	29	-3	17	9
Other	-6	3	5	2	-2	38
Total	148	128	82	46	59	98

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

Review by the President and CEO

2005 was the most profitable year in Kapiteeli's history to date. The operating profit of EUR 112 million (2004, EUR 81 million) exceeded all the targets set for the company against all indicators. Kapiteeli is in an excellent shape and over the course of six years has become one of Finland's leading property investment companies. The market value of Kapiteeli's property assets is around EUR 1.3 billion.

In line with its strategy, Kapiteeli is seeking profitable growth by focusing on the Helsinki Metropolitan Area and regional growth centres. Kapiteeli is divesting itself of property assets that are incompatible with its strategy, and in 2005, sales of such properties were drawing to an end.

Decisions on Kapiteeli's ownership

On establishing the company in 1999, Kapiteeli's owner, the State of Finland, set a target of turning Kapiteeli into a property investment company attractive to international investors so that it could eventually give up its shares in the company. This target has now been attained. In October 2005, Parliament authorized the sale of Kapiteeli, either partly or wholly.

We achieved our targets in 2005

In 2005, conditions in the office and retail property market were still challenging. Kapiteeli is well established in the property investment market and we succeeded well in all our business sectors. The company met all the targets set and achieved the best return in its history. Kapiteeli's operating profit in 2005 was EUR 112 (81) million. We succeeded in cutting vacancy rates and the occupancy rate of properties was 83.3% (76.9%). Net rental yield was 6.6% (6.7%) and return on equity was 15.4% (12.5%).

At the end of 2005, the market value of Kapiteeli's property assets was EUR 1.3 billion, of which investment property accounted for 81%, in line with company strategy. The value of sales properties is EUR 235 million. When the company started operations six years ago, the share of investment property was around 50%. The balance sheet value of these assets has remained the same, but the property portfolio has been developed in accordance with company policy.

Kapiteeli's core business comprises leasing and developing office and retail premises, industrial and storage premises and hotel properties. Developing its own property portfolio is the key to Kapiteeli's success. In 2005, we spent around EUR 52 million on development investments while strengthening the competitiveness of our property portfolio through the acquisition of properties in line with our strategy to the value of approximately EUR 65 million. At the same time, we sold properties incompatible with our strategy for around EUR 149 million. The latest development project, completed at the end of 2005, was the office property Ruoholahden Sulka.

We look to the future with confidence

Kapiteeli's balance sheet is sound and its financial position is solid. This will create the foundation for continuing with the chosen strategy and for operating actively in the property market in the future, too.

Kapiteeli's success is due to well-devised internal changes in operational procedures. Instead of focusing on property ownership, we now aim to meet our customers' requirements for space by looking for solutions on the basis of customers' business needs. At the same time, we have changed the focus of our operations from investment business to service business.

We concentrate on customer relationships so that we can listen to the customer and anticipate customer needs to the best of our ability. Property services have been outsourced to Ovenia Ltd.

Kapiteeli's problem-solving role also involves being able to manage the service network operations, the results of which are felt most immediately by tenants. Kapiteeli's subsidiary, Ovenia, plays a key role in this, too. Continuous and systematic training to enhance the expertise of our own staff is also an essential aspect of Kapiteeli's operations. In 2005, tailored training was organized for the staff to ensure a consistent operating approach in dealings with clients.

The role of Kapiteeli's Customer Service Centre has been strengthened. Since the beginning of 2006, the Centre has operated as an independent unit, which will enable it to

Over the course of six years Kapiteeli has become one of Finland's leading property investment companies.

support Kapiteeli's business units in the best possible way. This change emphasizes the customer-centred approach and the importance of systematic contact with clients by increasing the number of staff and communication channels at the customer level.

Sales of properties incompatible with Kapiteeli's strategy will continue as effectively as in 2005. During 2006, the focus will be on getting new development projects to their implementation stage, e.g. constructing a new commercial property in Itäkeskus next to the present shopping centre. Another important new building project is the construction of the Noste office building in the Ruoholahti area of Helsinki.

Kapiteeli emphasises operational responsibility

Kapiteeli is an environmentally responsible company that operates according to its environmental programme. Environmental responsibility is essential in property management and, in practice, Kapiteeli's environmental programme is carried out by Ovenia Ltd.

Prospects for 2006

The share accounted for by international investors in the Finnish property market will increase and they have become a permanent feature of the Finnish property market. This has meant that the acquisition of property has become more challenging and that prices will continue to rise. At the same time, the market has become more professional, which has stressed the importance of staff expertise and having a network of cooperation partners.

The good trend in Kapiteeli's results is expected to continue. Net rental yield will improve and the vacancy rate will decline, although there may be a decline in the number of development projects and property acquisitions as well as in the volume of investments compared with the year under review. The property market will remain challenging, which will be reflected in the construction of new projects, as there is still plenty of underutilized office property available in the Helsinki Metropolitan Area. However, sales of property will probably remain at the same level as in 2005.

I should like to take this opportunity to thank our customers and partners and indeed our own staff for contributing to such a successful 2005.

Ossi Hynynen

Operating environment

The world economy is showing signs of slow recovery. The US national product increased by a good 3% in 2005. After a long period of recession, the Japanese economy is on the upturn and the prospects for growth in the Chinese economy are promising. The gross domestic product of the euro area increased in 2005 by about 1.8% and in Finland the rise was 2.1%. The recovery in the euro area was due to the growth in the international economy and the value of the euro against the US dollar. A strengthening of the dollar would improve the competitiveness and export demand of companies in the euro area.

Over the past few years, excluding 2005, economic growth in Finland has been faster than elsewhere in the euro area. Nevertheless, industrial investments have remained low. Furthermore, tightening international competition has forced companies to reconsider their strategies and transfer production to low-cost countries nearer to growing markets. The low volume of investments and reorganization of production have also contributed to the continuing high level of unemployment in Finland. Consumer demand has been the engine of Finnish economic growth, which has been partially supported by the low level of interest rates.

The state of the economy has been reflected in the property market by the continuing low demand for office and retail premises, the increase in the volume of vacant premises, the slight reduction in leasing rates and the reduction in the construction of new property. However, vacancy rates in the Helsinki Metropolitan Area have shown slight improvement lately. Increased consumer demand has contributed to the brisk demand for and construction of retail premises, while low interest rates have supported investment demand for office, retail and storage premises. Economic growth is not expected to significantly strengthen rental demand in the office and retail property market.

International investors and property funds are changing the market

During 2003-2005, the faster economic growth in Finland compared with the rest of the euro area and the yield on Finnish property investments have increased foreign investors' interest in Finnish property investments. Foreign investors have made their investments primarily through portfolio deals, which have speeded up the transfer of property investments from passive owners to active investors. The advent of foreign investors in the market has raised property prices, reduced the yield requirement, diversified the range of investors and improved liquidity, all of which have served to increase the desire of investors to revise their own portfolios through sales and acquisitions.

The interest shown by foreign investors in Finnish real estate has also increased the need to spread the risk of property portfolios regionally. The need to spread risk is correspondingly reflected in investments abroad by Finnish institutional investors. Liquidity and risk spreading of property investments would increase both internationally and nationally, if the taxation and other obstacles relating to real estate securitization were reduced. For this reason, making property funds tax-neutral, compared with direct property investments, is a significant trend in Europe. Finland, too, is moving in the same direction with the revision of the Act on Real Estate Funds.

International property funds have been busy adding Finnish property to their investment portfolios. An estimated one third of all foreign property deals in Finland has been made by property funds. The first property investment funds that solely invest directly in real estate were established in Finland in 2005. Currently, one of the most important funds is the CapMan property capital fund worth EUR 500 million. The total market value of unlisted funds in Europe was around EUR 270 million in autumn 2005.

Stiff competition in the rental market for commercial properties

Economic growth is not expected to improve rental demand in the office and retail market during 2006–2008. Property market liquidity and investment demand are also expected to remain at the level of recent years. Interest from foreign investors and the desire of Finnish institutional investors to retain at least the current proportion of Finnish properties in their portfolios will continue to support demand. Hundreds of millions of euros have been raised by property funds for investing in the Finnish property market. Increasingly, both foreign and domestic investors are expected to update their investments to suit their strategies, which will increase market liquidity and the restructuring of the market.

There will continue to be stiff competition for tenants in the office and retail market. Improving the leasing rates and net rental yields of Kapiteeli's property assets over the next few years will require a brand strategy that positively differentiates Kapiteeli from the competition, together with a better service capability and concept than its competitors.

The faster economic growth in Finland compared with the rest of the euro area and the yield on Finnish property investments have increased foreign investors' interest in Finnish property investments. The advent of foreign investors in the market has raised property prices, reduced the yield requirement, diversified the range of investors and improved liquidity.

Strategy

Kapiteeli is a property investment company which seeks to attain a strong market position by focusing on ownership, leasing and developing office, retail and hotel properties.

Over the 2006–2008 strategic period, Kapiteeli aims to improve its consolidated balance sheet and profit-making potential so that the company's competitiveness is comparable with other operators in the Nordic countries.

Kapiteeli will concentrate its property assets in growth centres, mainly in the Helsinki, Tampere, Turku and Oulu areas. By 2008, Kapiteeli will have given up properties that are incompatible with its strategic aims because of their size, location or type.

Kapiteeli's property business is divided among three units: Office and Retail Property, Hotels, and Sales Property and the Board of Directors has drawn up individual development programmes for each unit for the period of 2006–2008

Office and Retail Property Unit

The properties of this unit comprise office and retail properties and industrial and storage premises. The unit's aim is to grow profitably and to develop Kapiteeli's office and retail properties by increasing the size of the properties, by investing in development projects and by acquiring new profitable assets in national growth centres. Small real estate assets, partial ownerships and real estate assets in locations incompatible with Kapiteeli's investment strategy will be sold.

In 2005, sales property assets incompatible with Kapiteeli's strategy were sold to the value of EUR 36 million. The value of the real estate assets compatible with Kapiteeli's strategy increased by EUR 62 million, and at the end of 2005 their total value was EUR 896 million.

Hotels Unit

The assets of the Hotels Unit are divided into investment hotels and local hotels. While the focus will be on developing investment hotels, the aim is to sell the local hotels during the strategic period.

In 2005, investments in developing investment hotels totalled EUR 11 million. The total value of the hotel property assets was EUR 218 million at the end of 2005.

Sales Property Unit

Real estate assets incompatible with Kapiteeli's ownership strategy will be sold and the capital released will be invested in developing Kapiteeli's investment assets and in acquisitions.

In 2005, properties were sold to the value of EUR 64 million. At the end of 2005, the value of sales property assets was EUR 158 million. The target is that by 2008, all real estate assets not compatible with Kapiteeli strategy will have been sold.

Financial targets

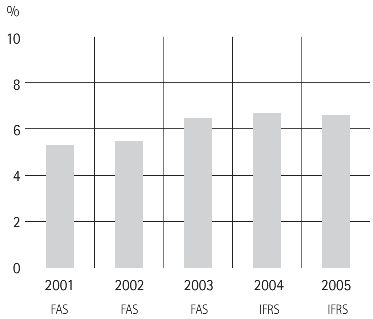
Strategic targets for developing Kapiteeli's property assets

Strategic targets for developing the property assets have been set for the period 2006–2008 (in accordance with FAS), according to which by 2008

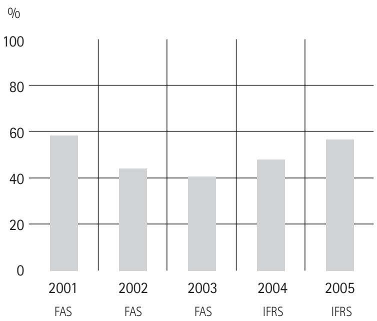
- the balance sheet value of the office and retail premises will be EUR 815 million
- the balance sheet value of hotel properties will be EUR 200 million

Kapiteeli's financial targets for 2006–2008 have been set in accordance with Finnish Accounting Standards (FAS).

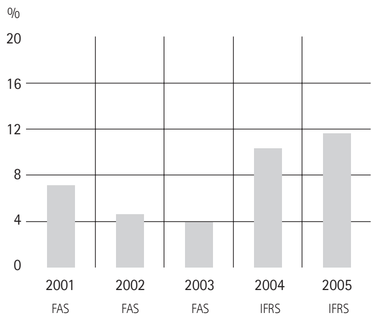
Net rental yield



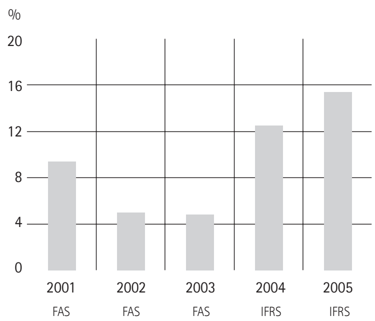
Consolidated equity ratio



Return on invested capital (ROI)



Return on equity (ROE)



Net rental yield

The target for net rental yield on capital employed will be raised to 9.2% (FAS target) by the end of 2008. Net rental yield in accordance with FAS was 7.8% at the end of 2005 (6.6% in accordance with IFRS).

Consolidated equity ratio

The Kapiteeli Group's targeted long-term equity ratio according to FAS is 40 percent. At the end of 2005, the FAS equity ratio was 51% (56% in accordance with IFRS).

Return on invested capital (ROI)

The target for return on invested capital for 2008 in accordance with FAS is 7.1%. At the end of 2005, the FAS return on invested capital was 7.2% (11.6% in accordance with IFRS).

Return on equity (ROE)

The target for return on equity for 2008 in accordance with FAS is 9.7%. At the end of 2005, the FAS return on equity was 11.7% (15.4% in accordance with IFRS).

Deloitte moves to Ruoholahti

Ruoholahden Sulka, named Deloitte House by its user, is the most recent example of Kapiteeli's joint development work. The main leaseholder in the building is Deloitte, the international consultant organization.

"When we were choosing the location for our new premises, the functionality and identity of the neighbourhood came under scrutiny," says Kati Lehesmaa, Head of Administration. "Ruoholahti is an environment that is youthful and inspiring and supports Deloitte's identity. The important factors for customers and staff alike, i.e. accessibility, good transport connections and parking facilities, were also essential criteria for choosing the site. Furthermore, the flexibility of the property, tailor-made premises and the availability of services also influenced our decision. We are particularly pleased with the excellent customer reception facilities located at street level near the staff restaurant. High quality customer reception facilities are essential in our line of business.

"The new premises are a significant investment for Deloitte, but they will support the company's growth strategy. In the first phase, 300 of our staff moved to Deloitte House, but, in future, we will require more room for growth."

Office and Retail Property Unit

The Office and Retail Property Unit is responsible for leasing and developing investment property other than hotel property. Its operations focus on office, commercial, and industrial and storage properties in the Helsinki Metropolitan Area and in other growth centres. At the end of 2005, the market value of office and retail property was EUR 896 (793) million, which is 70% of the total balance sheet value of Kapiteeli's property assets. At the end of 2005, the lettable area amounted to about 765,000 m², 50% of which was office space, 30% was retail and about 20% industrial and storage. At the end of 2005, the unit had a total of 1,750 lease agreements and 1,300 tenants. Major customers are Kesko Plc, the Ministry of Justice, Stockmann Plc, Telia-Sonera Finland Plc and Nokia Asset Management.

Unit's strategy and targets

The unit's properties are investment assets that are compatible with Kapiteeli's strategy. The unit is essentially responsible for implementing Kapiteeli's strategy, and the target set for the unit is profitable growth, which will be achieved through property development projects, property acquisitions and active customer relationship management.

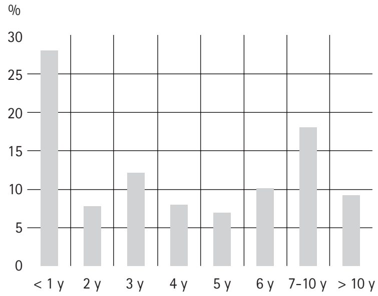
The value and yield of investment assets will be increased by further investments and by developing the structure of the property portfolio through sales of small and partly-owned properties as well as properties located outside growth areas. Other targets include raising the occupancy rate, increasing the net rental yield and improving the value of properties.

To achieve these targets it will be essential to succeed in customer relationship management and in obtaining new customers.

Business in 2005

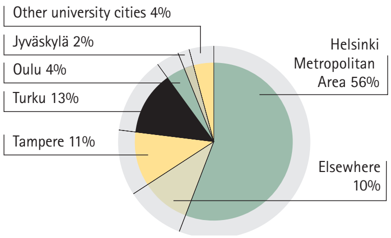
The Office and Retail Property Unit exceeded its targets for both operating profit and net rental yield in 2005. Net operating profit for the unit was EUR 139.5 (82.6) million, while net rental yield was 7.8% (7.8%) and the occupancy rate was 87.4% (85.4%). Excluding development projects, the occupancy rate was 89.2%. Rental revenue totalled EUR 93.9 million.

Maturity of leases, December 31, 2005*



* Based on VAT-free rental yield.

Office and retail property by region,* December 31, 2005



* According to capital employed

Office and Retail Property

	2005	IFRS 2004	FAS 2004	2003	2002	2001
Property assets, EUR million	896	793	685	646	617	552
Net lettable area, 1,000 m²	765	765	765	795	831	867
Occupancy rate, %	87.4	85.4	85.4	82.4	82.1	80.1
Occupancy rate (excluding development schemes), %	89.2	89.8	89.8	90.0	89.0	87.0
Turnover, EUR million	128	92	91	112	124	126
Net rental income, EUR million	66	59	59	54	46	45
Net rental yield, %	7.8	7.8	8.9	8.5	7.9	7.5
Investments, EUR million	40	52	52	40	56	49
Number of leases	1,764	1,772	1,772	1,770	1,979	2,159
Average number of staff	22	23	23	25	31	26

In 2005, the Office and Retail Property Unit purchased properties to the value of EUR 23.6 million. The biggest deals were concluded in April when office properties were bought from Elisa Corporation at Pieni Roobertinkatu 9 in Helsinki and at Näsilinnankatu 41 and Hallituskatu 8 in Tampere. Kapiteeli increased its share of ownership in the Zeppelin Shopping Centre through three separate deals. A total of around 27,000 m² of office and retail property was acquired.

The Office and Retail Property Unit is selling properties that are incompatible with its investment strategy. In 2005 properties were sold to the value of EUR 35.8 million. Major office and retail property sales included the Tammisaari Rural District Court House to Nordisk Renting, the Rovaniemi Lintulankulma commercial property to Citycon Plc, Tornion Säästötulli to a private investor, and the sale of the industrial and storage property at Sammonkatu 44 in Tampere to Rakennustoimisto Pohjola. The total area of the properties sold amounted to 21,000 m².
The biggest sale in value was the sale of a site in Pasila, Helsinki, to MTV Service Properties.

Major leasing agreements were signed with Deloitte & Touche for the Ruoholahden Sulka office building, and with Finnlines Plc for Porkkalankatu 20 in Helsinki, with Inex Partners Ltd for Kutojantie, Espoo and with Osuuskauppa Arina for the Zeppelin Shopping Centre.

Major office and retail properties in 2005

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
Kauppakeskus Zeppelin	Kempele	retail property	15,248
Porin Pentinkulma Koy	Pori	office property	15,081
Ruoholahden Itämerentalo Koy	Helsinki	office property	14,602
Oulun Posteljooni Koy	Oulu	office property	14,190
Porkkalankatu 20 A, B, C	Helsinki	office property	12,897
Turun Yliopistonkatu 22 Koy	Turku	retail property	12,700

Development and investments

Total investments by the Office and Retail Property Unit amounted to EUR 40.3 (51.9) million in 2005. The biggest project was the Ruoholahden Sulka office property, completed in December, in which a total of EUR 11.6 million was invested in 2005.

EUR 3.8 million was invested in alterations to office and retail premises at Kauppakatu 32, Jyväskylä, and EUR 2.2 million was spent on the renovation of the Tampere Hermitec office premises.

The renovations to the Salmisaarentalo office premises were completed with an investment totalling EUR 8.5 million and in Kempele an investment of EUR 4.5 million was made in the Zeppelin Shopping Centre to renovate it into retail premises as a Prisma Hypermarket on behalf of Osuuskauppa Arina. In Kotka, renovations were started in the part of the Pasaati Shopping Centre owned by Kapiteeli, with total costs amounting to around EUR 7 million. The new shopping centre will be opened to customers at the end of 2006. Preparations were made during 2005 to start investment projects next in line for implementation. Plans have been made to start an office premises project, Ruoholahden Noste, in Helsinki at Porkkalankatu 22 and a commercial property in the Partola area in Pirkkala during 2006.

One of the most important land use development schemes under way in 2005 was the change of use of a site used for television broadcasting in the Pasila area of Helsinki, to residential and office use with a permitted building rights of 65,000 m² gross floor area. In December 2005, the Helsinki City Planning Board considered the zoning plan for a commercial and residential area to be built at the junction of Ring Road I and the Itäväylä motorway in Itäkeskus.

Outlook

In 2006, the Office and Retail Property Unit will increase Kapiteeli's property assets primarily through its own investment projects. Competition for acquiring high-yield properties will continue to be stiff. International property investors are an important and permanent presence in the Finnish property market, and the advent of new operators has resulted in a rise in property prices. In the rental market the situation is improving slightly. Kapiteeli will focus its operations in 2006 on increasing the occupancy rate, as there is a lot of vacant office space available, particularly in the Helsinki Metropolitan Area. Succeeding in the competition for customers demands a real ability to solve customers' requirements for space.

Hotels Unit

Kapiteeli owned 17 hotel properties at the end of 2005 with a balance sheet value for the hotel portfolio of around EUR 218 million. The total number of rooms in these properties was around 3,000 and the overall area almost 195,000 m^2.

Kapiteeli's leaseholders comprise four hotel operators. The only Hilton hotels in Finland are the Hilton Helsinki Kalastajatorppa and the Hilton Helsinki Strand. Scandic Hotels runs 12 of Kapiteeli's hotel properties. Of the domestic operators, Lomaliitto has leased the Hotel Korpilampi Espoo property and the Lapinportti Hotel in Rovaniemi is privately owned. Restel has been running the Imatran Valtionhotelli since the beginning of 2005, which it reopened in March after extensive renovations.

Strategy and goals of the unit

The hotel properties owned by Kapiteeli have been divided into investment hotels and local hotels. The Hotels Unit concentrates on the ownership and development of investment hotels in accordance with Kapiteeli's strategy.

Because of their location and size, the local hotels are not compatible with Kapiteeli's investment strategy and will therefore be sold one by one.

Kapiteeli is the second largest hotel property owner in Finland and owns four of the ten largest hotel properties in Helsinki. Apart from a few fairly large operators, ownership of hotel properties in Finland is quite fragmented.

Business in 2005

Net operating profit for the Hotels Unit in 2005 was EUR 2.7 (13.2) million, net rental yield was EUR 15 (13) million and the occupancy rate was 100% (100%). 82% of the rental yield from hotels came from the Helsinki Metropolitan Area and 10% came from Tampere. Hilton - Scandic together contribute 92% of the rental yield from Kapiteeli's hotel properties.

The unit exceeded all targets and success was ensured by effective investments and the continuing positive development of the hotel market. At the end of June, Kapiteeli purchased a 40% share of the Hilton Helsinki Strand and Scandic Continental hotel properties from the Finnair Pension Fund, and it now owns these properties 100 per cent.

Development and investments

The leases between Kapiteeli and the Hilton Group and Scandic are in force until 2011 and 2012, respectively. Long-term leases have provided a sound basis for developing hotel properties.

In accordance with the lease agreements with Scandic - Hilton, Kapiteeli will be investing around EUR 50 million in developing hotel properties up to 2012. By the end of 2005, EUR 45 million had been invested under the investment plan, which will be completed during 2006 – 2007. The goal of the investments is to raise the value of the hotels portfolio and to improve the competitiveness of the operators.

Hotels

		IFRS	FAS			
	2005	2004	2004	2003	2002	2001
Property assets, EUR million	218	178	170	163	153	151
Net lettable area, 1,000 m^2	195	173	173	176	165	173
Occupancy rate, %	100	100	100	100	99.9	99.9
Turnover, EUR million	18	16	16	15	14	16
Net rental income, EUR million	15	13	13	12	10	11
Net rental yield, %	7.7	7.4	7.6	7.5	6.4	7.0
Investments, EUR million	11	12	12	14	6	4
Number of leases	29	21	21	22	20	20
Average number of staff	3	3	3	3	3	3

Scandic Tampere City

The Scandic Tampere City Hotel has taken the top spot among hotels in Tampere. The project, a joint venture between Scandic and Kapiteeli, was completed in July 2005 and comprises 263 hotel rooms and an innovative restaurant concept.

The new hotel is located a stone's throw away from the railway station in Hämeenkatu, the main street in Tampere. If the old adage about location being the key also holds good as the cornerstone of the hotel business, then the Scandic Tampere City has the edge over other hotels. You cannot hope for a better place for a city-centre hotel.

"It is most gratifying to see how customers have found their way to the Scandic Tampere City. The hotel breaks traditional boundaries and its quality is equal to the best business hotels. We specialize in catering for business travellers. In planning the Scandic Tampere City, special attention was devoted not only to hotel rooms but also to the restaurants. The concept of the Piazza Foodfactory and Bar has been based on a variety of ethnic cuisines," says Vesa Saloranta, the hotel director. "Apart from hotel guests, the Piazza restaurant has also attracted local residents and people from the neighbouring communities."

In 2005, Kapiteeli invested a total of EUR 11 million in hotels. In January 2005, Kapiteeli started renovating the Imatran Valtionhotelli together with Restel Ltd and the work was completed in March 2005. Renovations to the Scandic Grand Marina and Marina Congress Center started in October 2005. In Tampere, renovations to the kitchen and conference areas of the Scandic Rosendahl began in December. The biggest investment was the renovation and extension to the Scandic Tampere City, which were completed in July 2005.

Besides the investment programme, EUR 41 million was spent on improving the hotels portfolio by purchasing 40% of the shares of the Hilton Helsinki Strand and Scandic Continental properties. A total of EUR 53 million was spent in 2005 on developing the hotels portfolio.

Prospects

As in previous years, the profit-making potential of Kapiteeli's hotel properties remains good in 2006. Although prospects seem better on the international hotel market than in Finland, favourable developments in New York, London, Copenhagen and Stockholm justify our expectation of a continuing upward trend in Finland, too.

Kapiteeli's hotels portfolio on December 31, 2005

Investment hotels

Hilton Helsinki Kalastajatorppa
Hilton Helsinki Strand
Scandic Continental
Scandic Marina and Marina Congress Center
Scandic Tampere City
Hotel Korpilampi Espoo
Scandic Espoo
Scandic Rosendahl
Scandic Kajanus
Scandic Jyväskylä
Scandic Kuopio
Hotel Imatran Valtionhotelli

Local hotels

Scandic Kiannon Kuohut
Scandic Luosto
Hotel Lapinportti
Scandic Mesikämmen

In February 2006, Kapiteeli sold the Hotel Scandic Mesikämmen property. Both the property and hotel operations passed into private ownership.

Sales Property Unit

Kapiteeli owned around 880 sales properties at the end of 2005 (1,400 at the end of 2004). Sales properties include office and commercial properties, industrial and warehouse premises, and land areas all of which are incompatible with the company's investment strategy. At the end of 2005, the balance sheet value of the sales properties was EUR 158 (204) million.

Unit strategy and goals

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 developing investment assets and making new acquisitions in accordance with Kapiteeli's strategic aims. Properties were sold mainly to investors, developers and users of premises. The Unit focuses on sales of low-yield properties and land areas.

Besides sales, the Unit also aims to develop the structure of its property sales portfolio and improve the profitability of its leasing activities.

Business in 2005

As in previous years, property sales continued to be brisk and exceeded the targets set for the Unit. During the year under review, real estate to the value of EUR 64 (109) million was sold in a total of 680 (640) deals. Background factors for the continuing high demand included the continuing favourable economic conditions, low interest rates and the brisk demand for land particularly suitable for housing construction.

The most significant of the land areas sold for housing construction were the Vuoranta site in Vuosaari, Helsinki, with building rights amounting to 13,000 m^2 gross floor area, the 1.9 hectare site in Leiri, Lappeenranta, with building rights of 4,200 m^2 gross floor area and the former garrison property in Rakuunanmäki, Lappeenranta, with building rights of around 5,700 m^2 gross floor area, the 2.85 hectare site of the Hämeenlinna Polytechnic and a two-hectare land area in Niipperi, Espoo, with building rights for 3,900 m^2 gross floor area.

Other noteworthy sales included the Hotel Finlandia property in Punkaharju and the Valtion Pukutehdas property in Hämeenlinna.

The operating profit of the Property Sales Unit was EUR 12 (29) million. In 2005, net rental yield from sales properties was

Sales Property

		IFRS	FAS			
	2005	**2004**	**2004**	**2003**	**2002**	**2001**
Property assets, EUR million	158	204	204	268	359	468
Net lettable area, 1,000 m^2	406	574	574	786	998	1,244
Occupancy rate, %	67.6	58.7	58.7	64.5	66.1	66.8
Turnover, EUR million	90	134	130	136	163	136
Net rental income, EUR million	3	8	8	10	12	12
Net rental yield, %	3.4*	3.2	3.2	3.1	2.8	3.0
Investments, EUR million	1	1	1	2	1	1
Number of leases	1,686	2,284	2,284	3,612	4,554	5,763
Average number of staff	40	44	44	49	47	49

* Excluding the future costs of remedial work to polluted land.

3.4% (3.2%) excluding the future costs of remedial work to polluted land, and the occupancy rate for these properties was 68% (59%). There were 1,700 leases (2,300) covering a total of 406,000 (574,000) m². Total rental yield amounted to EUR 23 (31) million.

The Sales Property Unit's most important leaseholders in 2005 were the Nordea Group, Finland Post Plc, the Ministry of the Interior, TeliaSonera Finland Plc, Tradeka Ltd and the Sampo Group.

Development and investments

In upgrading land Kapiteeli works in close cooperation with the planning boards of local authorities, which has made it possible to bring sites in planned areas onto the market quickly. In land deals, Kapiteeli's customers include local authorities, developers and construction firms.

In 2005, the Property Sales Unit invested around EUR 1 million in property development. Investments were focused on making profitable properties easier to rent. Kapiteeli also spent approximately EUR 6 million on investigating and rehabilitating contaminated land areas.

Outlook

In 2006, the sales of real estate assets incompatible with Kapiteeli's investment strategy will continue by focusing on sales of low-yield assets and sites within planned zones. Demand continues to be strong in the office and retail property market and the outlook for sales of land areas is positive. Kapiteeli will also continue to invest in developing its land assets.

Kruunupuisto flourishes in Punkaharju

Kruunupuisto, the Punkaharju rehabilitation centre, is a foundation in Punkaharju that offers rehabilitation, accommodation and recreational services. It is located in one of the most beautiful spots by Lake Saimaa in magnificent surroundings typical of the Finnish national landscape. The unique protected surroundings of the National Park have attracted visitors to Punkaharju for about two hundred years. In 1914, a hotel building called the Hotel Finlandia was completed on the site. The property has now passed into the next phase of its life cycle. Kruunupuisto, the Punkaharju rehabilitation centre, bought the property from Kapiteeli in November 2005.

"We have been leasing the property since 1981 and it has operated as part of the rehabilitation centre ever since," says Tuomo Karjalainen, Managing Director of Kruunupuisto. "Buying the former Hotel Finlandia property will ensure that we will be able to develop a diversified business and this historic building so that it will be even more suitable for the requirements of our activities. At the same time, we will be able to take full advantage of the valuable milieu of the building and its cultural history in our customer operations. As we had already acquired the actual rehabilitation centre property in 2003, the acquisition of the former hotel was a natural step forward in developing our services."

Ovenia's largest customers are:

- Kapiteeli Plc
- CapMan Real Estate
- Citycon Plc
- Etera Mutual Pension Insurance Company
- If P&C Insurance Company Ltd.
- Kesko Corporation
- Kruunuasunnot Ltd
- Sampo Group
- Varma Mutual Pension Insurance Company

Ovenia Ltd

Ovenia Ltd provides maintenance services, leasing operations and administrative and advisory services for property users and owners. The company manages, organizes and invites competitive tenders from service providers on behalf of its customers. Ovenia Ltd is a subsidiary company in which Kapiteeli Plc has a 51% holding.

Ovenia's turnover fell to EUR 6.4 million (7.7) in 2005. The decrease was 16.8% compared with the previous year. The fall in turnover was caused by a reduction in the acquisition of services by one customer. Ovenia was in charge of a property portfolio comprising over 5.5 million square metres owned by 25 customers.

Ovenia's strategic aim is to ensure profitable growth by proactively managing customer relationships and the cooperation and service network. The company also aims to strengthen its competitive advantage by developing the content management of information on real estate and the company's expertise.

Ovenia Ltd

	2005	2004
Turnover, EUR million	6.4	7.7
Operating profit before financial income and expenses, EUR million	-0.09	0.15
Operating profit, %	-1.42	1.96
Profit before appropriations and taxes, EUR million	-0.08	0.17
Profit before appropriations and taxes, %	-1.23	2.24
Result for the financial period, EUR million	-0.04	0.15
Number of personnel	84	98

Ovenia has around 100 employees working in nine outlets, and as manager of the service network has contracts with about 700 service providers. These companies manage property and user services in properties administered by Ovenia in almost 300 municipal areas in Finland.

Environmental responsibility improving in the real estate sector

The EU Energy Efficiency Directive gives provisions on compulsory energy labelling concerning the taking into use, acquisition and renting of real estate. More detailed information on the content of energy labelling and on the timetable for its introduction will be provided for in national legislation during 2006.

Ovenia has drawn up an environmental strategy for the period 2004-2007. The strategy focuses on expanding the company's expertise and supporting the expertise of customers and the service network and on making environmental issues part of the company's daily operations. During 2005, Ovenia introduced its environmental card service. The environmental card, which can be tailored separately for all premises and every customer, reports on such matters as energy consumption, the amount and type of waste and on key indicators concerning environmental risks.

Profitability expected to improve and turnover to increase in 2006

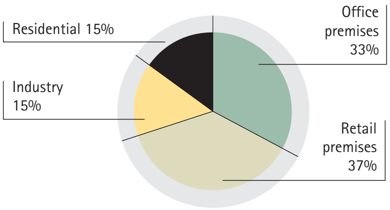
The demand for property management services has increased rapidly over the last few years in Finland. One of the underlying growth factors has been the appearance of international property investors in the Finnish property market. Foreign operators need professional partners to manage operations locally.

Over the last few years, local real estate owners have concentrated on their core business operations and transferred property management functions to companies that specialize in the field.

In 2006, Ovenia aims to increase profitability and turnover significantly, for example, by diversifying responsibility for operational action on a regional basis. Regional operations will be particularly important for customers who have properties in different parts of the country.

The third growth factor in 2006 will be the development of Ovenia's range of services. One example of this is the property evaluation services that Ovenia has been offering its customers since the beginning of the year.

Properties managed by Ovenia, December 31, 2005



Corporate social responsibility

Environmental responsibility

In 2005, Kapiteeli's environmental responsibility focused on taking lifecycle economy into account and on property development and maintenance.

Guidelines for environmental responsibility
Kapiteeli's Executive Management Team approved a set of guidelines for implementing environmental responsibility on December 19, 2003.

- Lifecycle economy is taken into account in planning activities and projects and in making and implementing decisions.
- The company aims to use energy and raw materials efficiently and to reduce consumption.
- Suppliers of goods and services are expected to take environmental issues into account in their own operations.
- Tenants are provided with information and operating instructions on environmental issues linked with using properties and premises.
- Kapiteeli takes part in environmental projects run by the real estate sector.
- Information on environmental issues relating to Kapiteeli's operations is communicated openly.
- The company ensures that the staff are aware of the environmental impact of the operations and that they work continuously to improve their environmental expertise.

Responsibility of goods and service providers in environmental issues
Kapiteeli expects suppliers of goods and services to take environmental issues into account in their own operations, and a report on environmental responsibility is required from suppliers at the tender stage. In practice, tenders are handled by Ovenia Ltd, but Ovenia's choices are governed by the demands set by Kapiteeli.

Improving expertise in environmental issues
Kapiteeli works to improve expertise in environmental issues in accordance with its guidelines, e.g. by participating in various joint environmental projects organized by the real estate sector.

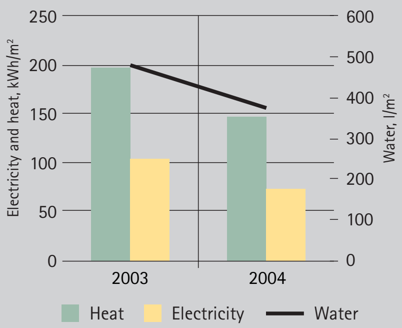
During 2004–2006, Kapiteeli has been taking part in the KYKY study of environmental products used in property maintenance conducted by the Construction Economics and Management Department at Helsinki University of Technology.

The KYKY project has resulted in an environmental management model suitable for the real estate sector and a study was carried out to determine tenants' environmental management needs. In a research project carried out in 2005, tenants' needs for information on environmental issues were examined and methods were developed to evaluate environmental issues and improve the role of operators in producing and reporting information. In addition to Kapiteeli, 5 other companies are taking part in this project.

Kapiteeli is involved in the construction and property sector's energy conservation agreement (KRESS agreement), whereby the joint target of the companies involved in the agreement has been to cut specific heat-energy consumption by 10% from the 2000 level by 2005 and to halt the continuous growth in the consumption of electricity consumed by the property as a whole and reverse the trend. The energy conservation agreement has been extended until 2007 under the present terms.

The KRESS agreement involves about 50 properties owned by Kapiteeli covering a total net area of 330,000 square metres.

Consumption of electricity, heat and water in KRESS properties 2003–2004



Owing to sales of properties, the number of properties and the extent of the portfolio have somewhat diminished over the agreement period. In 2004, the consumption of electricity, heat and water decreased in the KRESS properties compared with consumption in 2003.

Staff expertise in environmental issues

Kapiteeli supports staff training and self-improvement. There is an environmental handbook that all employees can refer to with regard to environmental issues. Further training on environmental issues is organized when necessary, particularly for members of the staff dealing with environmental issues in their work. Staff in the Sales Property Unit have been trained in environmental issues particularly from the point of view of the seller's responsibility.

The staff at Kapiteeli's subsidiary Ovenia Ltd are trained to take environmental issues into account as part of their everyday work, and responsibility for environmental matters is assigned to specific people in the organization.

Environmental issues in property maintenance

Kapiteeli's subsidiary, Ovenia Ltd, is in charge of organizing maintenance services for property owned by Kapiteeli. The company is also responsible for managing environmental issues relating to property maintenance as required by legislation and the authorities, and in accordance with instructions given by Kapiteeli.

During 2005, Ovenia worked on its own environmental strategy, invested in the environmental expertise of its staff, and developed environmental service products.

In 2005, Ovenia also employed a full-time environmental expert whose responsibilities include environmental issues and related development tasks.

Ovenia's environmental vision is 'environmental expertise as part of operational property management'. Strategic goals have been set in four target areas. A target level and indicators have been specified for each area together with an action plan for 2005-2007. Progress towards attaining the goals will be monitored every year. The maintenance staff at Ovenia were trained in 2005 on environmental issues in property maintenance.

Environmental issues in reporting and management have been integrated into monitoring systems and reported to end-users. Ovenia defines site-specific environmental targets. An environmental report by Ovenia Ltd will be published by 2007.

Partner companies are required to implement the measures in the KRESS agreement and to take environmental issues into account as part of their daily operations. Attainment of targets is measured, monitored and assessed. Ovenia Ltd and its partners can all make use of and support the network's expertise.

Ovenia's aim is to increase the environmental awareness of the customer, i.e. the tenant, and to increase acknowledgement and understanding of the environmental and social impacts of its own activities.

Ovenia has also drawn up environmental guidelines for service providers to help govern the operations of companies providing property maintenance services.

Kapiteeli offices have energy saving and waste disposal guidelines.

Environmental issues in leasing

Tenants of Kapiteeli office and retail premises are given a thorough introduction to the property and environmental issues associated with the use of the property on moving in. The tenants are guided and encouraged to take into account the essential environmental aspects linked with the premises and to save on both energy and materials. A copy of the guidebook on environmental issues published by the Finnish Association for Nature Conservation is given to each new tenant of an office and retail property. Work by the tenants to recognize, monitor and diminish the impact of their actions on the environment is supported, and operational models relating to this are also being sought as part of the KYKY project.

Lifecycle economy

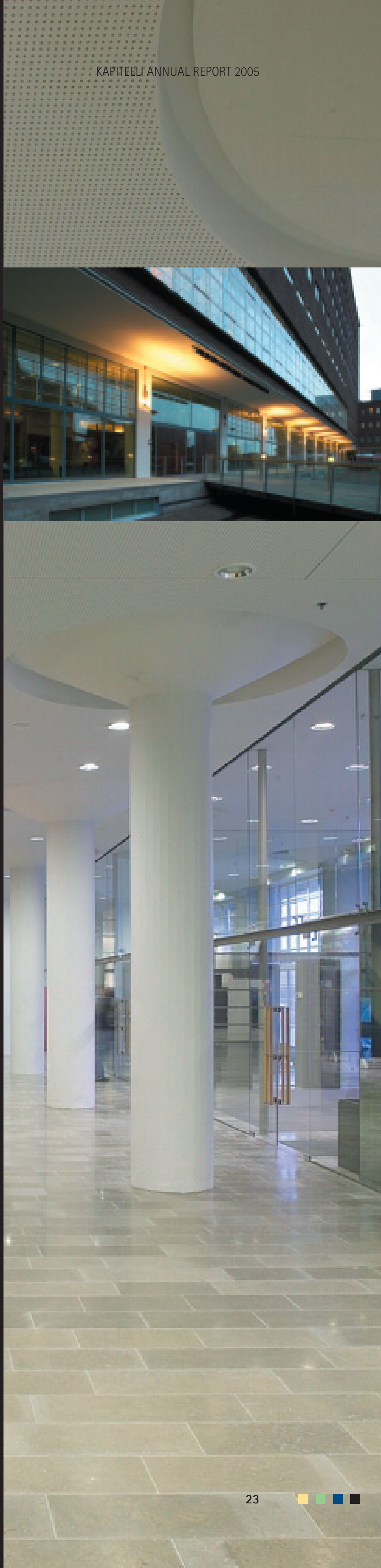
The extent to which detailed lifecycle economy calculations are made in new construction and renovation is specified separately for each project. Generally speaking, Kapiteeli adheres to the lifecycle economy solutions put forward by its chosen designers, i.e. projects are implemented on the basis of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

Remedial work on contaminated land

Kapiteeli has properties on land that is known to be, or is 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 projects on polluted land areas as required by legislation, the environmental authorities and any agreements it has entered into. Reports and studies on the subsoil are carried out mainly in connection with property transactions and town-planning schemes.

In 2005, about EUR 6.3 million was spent on research work and remedial projects.

The most important remedial projects took place in the Tapanila area of Helsinki, in the Hakkila industrial area and at Winterinmäki in Vantaa, and at Petäisenniska in Kajaani.



The lifecycle approach in practice – Helsinki Court House

The Salmisaarentalo building owned by Kapiteeli in the Ruoholahti area of Helsinki is a successful example of how a building can be renovated and its use modified. The property, comprising 78,000 square metres of gross floor area, was designed by the architect Väinö Vähäkallio as the head office, factory and central warehouse for Oy Alko Ab, the state alcohol monopoly, and was completed in 1940. It was renovated and taken into use as the Helsinki Court House at the end of 2004.

Changing the use of a valuable, protected building was a challenging task that required close cooperation among the project partners. The most important partners included the National Board of Antiquities, the Helsinki City Planning Department, Tuomo Siitonen Architects and above all the main user of the building, Helsinki District Court, which specified the operational goals for the building.

The aim was to preserve the value of the building's industrial history and original character through careful planning and implementation. A report on the architectural history of the Salmisaarentalo building was drawn up as the basis for the design. The unusually deep frame and the small windows created challenges for altering the use of the former factory property. Two light wells were opened up and some of the windows were enlarged to increase the amount of natural light in the building.

A modern air conditioning system was installed in the building and a heat recovery system allows a significant amount of energy to be conserved. Heat efficiency was improved by replacing some of the windows with triple glazing. Particular attention was paid to soundproofing, and acoustic features were improved by using a lot of timber. Good acoustics are important as the building contains dozens of courtrooms used by the Helsinki District Court. User comfort has been ensured by connecting the building to the Helsinki Energy district cooling network, so the indoor air is pleasantly cool in summer.

On the basis of well over a year's use, the alteration of the Salmisaarentalo building into the Helsinki Court House has proven to have been a success, with the building fulfilling the users' needs. At the same time, a historically valuable building has gained a new lease of life and moved into the next stage of its lifecycle.

The Helsinki Court House was chosen as the concrete structure of the year in 2004. In its citation, the prize committee said that "the building is an example of recycling an old property under the principles of sustainable development and of professional planning and implementation."

According to Jouko Räsänen, Administration Director of the Helsinki District Court, the property has, on the basis of well over a year's experience, fulfilled the expectations of the court extremely well. "The former industrial property was converted for a completely different use in an exemplary way. As the future users of the building, we were involved in the planning and implementation of the project right from the start, which ensured that the final result turned out exactly as we had requested," says Jouko Räsänen. "The goals and end result have been united extremely well in the new Court House and the users have really taken to the building."

Salmisaarentalo building

use of electricity	7,265	MWh/year
use of water	7,800	m^3/year
consumption of energy	6,700	MWh/year

Social responsibility

Human resources

Kapiteeli's human resources goals and personnel development are based on the company's values and business strategy. Developing staff expertise and good management help to achieve the targets and fulfil Kapiteeli's vision.

The basic strategy for Kapiteeli's personnel policy is written into the management operating instructions that are reviewed and specified annually. The policy provides guidelines on defining job descriptions, fair pay principles, human resources development, personal development reviews, fringe benefits, equality issues and the incentive pay scheme covering the entire staff.

In 2005, Kapiteeli's equality plan was redefined to better meet the requirements of the revised legislation on equality. The plan includes the principles of gender equality and age equality, of prohibiting discrimination and the principle of fair treatment. Staff experiences relating to equality and fairness are monitored in conjunction with the annual personnel survey.

Human resources development

Personnel development at Kapiteeli is carried out systematically and continuously. Our aim is to ensure the quantity and quality of expertise required to support Kapiteeli's competitiveness.

In 2005, significant effort was put into training personnel. Over the year, two wide-ranging training programmes were carried out: the training programme for improving customer relationships concentrated on developing interactive skills in meetings with customers, ensuring uniform, innovative solution-orientated procedures and comparing best practices.

The management leadership and supervision training programme included developing supervisors' capabilities for managing change and consolidating Kapiteeli's consistent management culture. The issues that emerged and the feedback received from participants during the training have been taken into account in drawing up personnel development plans for 2006.

The challenges of the internationalizing business environment have been taken into account in a variety of ways in human resources development.

In 2005, training costs amounted to 6.6% of total pay, and the average number of training days per person was 9.

In the personal development reviews held twice a year, the targets derived from Kapiteeli's strategy are taken as the basis for individual operational performance and development goals for every Kapiteeli employee. The way in which personnel experience the targets coupled with their clarity and attainment is monitored in the annual personnel survey.

Well-being at work

An annual survey is carried out on the performance of the organization and the attitude of the personnel. On the basis of the results, the management of Kapiteeli and all the units select the individual areas that need developing and decide on concrete development measures.

The performance of the organization and the attitude of the personnel are assessed on a scale of 1 to 5. The key scores worth mentioning are work motivation 4.1, supervisors' personnel leadership skills 4.4 and the capacity of the company to develop and reform 4.1.

The high response rate of 92% in the 2005 survey shows that the personnel consider the survey and the analysis of the results important for developing their work and the workplace community.

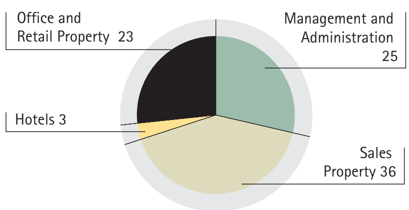
Kapiteeli's occupational health care focuses on preventive action. Personnel are given individual advice to encourage them to take care of their own health and well-being. During the year, some of the personnel took part in a fitness test and a personal fitness programme was developed for them. Kapiteeli subsidises opportunities for staff to take part in various sports activities, and almost all Kapiteeli employees took advantage of this opportunity in 2005.

The level of absence due to sickness was very low in 2005 with 31% of the personnel recording no sick-leave absences.

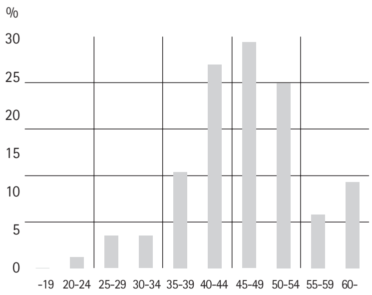
Human resources development goals for 2006

In 2006, human resources development will focus on internationalization skills, developing customer relationships in line with the company's vision and strategy and refining management.
The most important tools for developing human resources are: company-specific training programmes, on-the-job learning and individual participation in training and development programmes.

Personnel by business unit, December 31, 2005

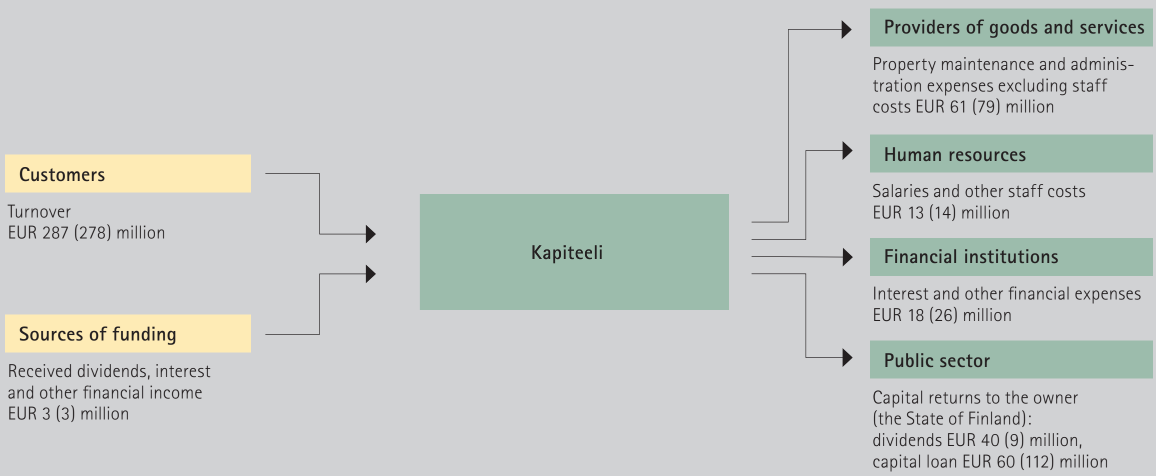


Age distribution of personnel, December 31, 2005



Financial responsibility

Direct economic impact in 2005 (compared with 2004)



Kapiteeli is a profitable company that achieves the yield targets set by its owner, the State of Finland, together with the targets for developing the company's asset structure. Kapiteeli is a responsible and reliable firm that supports the welfare of the society.

In 2005, Kapiteeli paid dividends totalling EUR 40 (9) million and capital returns worth EUR 60 (112) million to the State.

The amount of investments in developing property assets and improving profitability is an important gauge of Kapiteeli's business activities as a property investment company. Kapiteeli's investments in properties stood at EUR 118 (108) million in 2005.

Kapiteeli increases the value of its property assets and extends the lifecycle of these properties by investing in maintenance and repairs, by changing the use of properties and by developing new properties. New construction, keeping existing properties up-to-date and responsive to demand and new uses for properties create new operating environments for local businesses.

Kapiteeli is also a significant indirect employer; more than 250 service companies provide maintenance services at Kapiteeli's properties through the network operated by Kapiteeli's subsidiary Ovenia Ltd. New construction and renovation projects provide work for professionals in the design and construction sector all over Finland.

Relations with interest groups

The essential principles in taking care of relations with Kapiteeli's interest groups are transparency and mutual respect. In 2005, the emphasis was on customer relationship management and human resources development.

Personnel

A competent staff is one of the most important success factors for the future of Kapiteeli. A number of training programmes were implemented during 2005, including a customer management training programme, a management and supervisory level training programme and different types of internationalization and language training for personnel.

Customers

Kapiteeli's customers are tenants, hotel operators and property buyers. The added value Kapiteeli brings to its customers is made up of business premises and services that are tailored for users, professional management of customer relationships and property maintenance services.

Kapiteeli monitors customer satisfaction on an annual basis and the customer management skills of the staff are developed through continuous training.

A property manager is appraised for each site, who together with his chosen team is responsible for ensuring that the premises meet the client´s needs.

Service provision network

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 maintenance service providers twice a year, whereas feedback on construction work, renovation and refurbishment is discussed separately for each project.

Owners

Kapiteeli Plc is owned by the State of Finland and 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.

Over its six years of operation, Kapiteeli has been built up in line with government aims into a property investment company that attracts interest in Finland and abroad. The Government received authorization from Parliament in October 2005 to broaden the company's ownership base.

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 work on areas of polluted land it owns, in cooperation with the authorities.

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

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 the national and the local level.

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 owns a 51 per cent shareholding in Ovenia Ltd. Kapiteeli Plc sold its 100% shareholding in 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 are the Principles of Corporate Governance approved by the Board of Directors of Kapiteeli Plc on January 17, 2005 and the operating procedures laid down and approved by the Executive Management Team on August 17, 2005.

Organs of Corporate Governance

Annual General Meeting

The Annual General Meeting decides whether to approve the profit and loss statement and the balance sheet, and the consolidated profit and loss statement 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 President and CEO, 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 Auditor and Deputy Auditor.

An Extraordinary General Meeting will be held whenever the Board deems it necessary or whenever such a meeting must be held according to the law.

The Annual General Meeting was held on March 17, 2005.

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 supervising 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 Corporate Governance set by the Board. The Board evaluates its operations and methods of working through internal self-assessment.

The Board of Directors consists of 3-7 members, at least two of whom must be independent of the shareholder. 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 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 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 the major shareholder.

In 2005, the Board of Directors met 12 times and the average attendance was 98.3%.

Remuneration of the board of directors

EUR	Kapiteeli	Group
Board of directors	96,800	120,200

President and Chief Executive Officer

The task of the President and CEO is to handle the day-to-day management of the company in accordance with the instructions and orders given by the Board of Directors. The President and CEO is only permitted to embark on operations involving unusual and extensive issues considering the scope or nature of of his action if the Board of Directors has authorized him to do so or if waiting for a decision from the Board of Directors may cause essential damage to the operations of the company. The President and CEO must ensure that the bookkeeping of the company complies 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.

President and CEO Kari Inkinen resigned from Kapiteeli on May 31, 2005. The Board of Directors of Kapiteeli Plc appointed Ossi Hynynen as the new President and CEO as of June 1, 2005. Ossi Hynynen continues as Senior Vice President of the Office and Retail Property unit.

Operational organization from February 1, 2006

The President and CEO is assisted by an Executive 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 Senior Vice President of Finance and Legal Affairs and the Chief Financial Officer. The Senior Vice President of Finance and Legal Affairs 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 information 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. The Senior Vice President of Finance and Legal Affairs is responsible for managing the finance, legal affairs, human resources and communications unit. The Chief Financial Officer is responsible for finance and information technology. The Senior Vice Presidents report to the President and CEO.

Pay and remuneration of the President and CEO and the Executive Management Team

EUR	Kapiteeli	Group
President(s)	295,649	407,753
The Executive Managment Team*	598,285	983,159

*Without the President and CEO and the Secretary to the Executive Management Team.

Administration of subsidiaries

Administration of Ovenia Ltd

The Principles of Corporate Government approved by the Board of Kapiteeli are applied to Ovenia. 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. Ossi Hynynen acts as Chairman of the Board of Ovenia and the other member appointed by Kapiteeli is Kari Koivu.

Auditing and internal supervision

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.

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 2005 were Tuokko Tilintarkastus Oy, Authorized Public Accounting Firm, with Yrjö Tuokko, Authorized Public Accountant, as the accountable auditor and Olavi Guttorm, Authorized Public Accountant, as deputy auditor.

Fees paid to auditors split between auditing and consultation:

Remunerations paid to the Auditors

EUR	Kapiteeli	Group
Auditing	30,167	131,329
Special assignments	28,259	37,029

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 principal observations once or twice a year. The level of internal supervision is assessed by the internal auditor and the internal quality auditors, the Auditors and possibly by other external parties.

Ethical principles and equality

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

Kapiteeli has a policy of equality in human resources issues and the company's gender equality plan was approved on December 14, 2005.

Risk management

Risk management at Kapiteeli is based on the Group's capacity and willingness to bear risk, the identification of the key risks and the approved risk management policy. Risk management has been integrated as part of Kapiteeli's strategy process, operational control system and business processes.

At Kapiteeli, risks are taken to mean the uncertainty involved in implementing the Group's approved targets. The aim of risk management is to identify the key risks, to measure and assess the uncertainties identified beforehand and to decide on a way of approaching these uncertainties. Risks are considered as being a normal part of business and are assessed on the basis of exploiting their opportunities and of reducing and eliminating risks. Risks have been classified as strategic risks, operational risks, risks of loss/damage and financial risks.

The Kapiteeli Board of Directors decides on risk management targets, determines the risk management policy and is responsible for monitoring risk management. The Executive Management Team is responsible for practical risk management measures within the framework of the risk management policy. It is the duty of the business units and Group operations to organize the monitoring and reporting of risk management as part of overall reporting. Internal auditing is responsible for auditing the efficiency of the risk management system. Every employee at Kapiteeli is responsible for identifying risks that threaten the attainment of the company's targets.

A risk assessment is carried out as part of the annual planning process, during which the key risks are identified and their extent is assessed. An assessment is made in conjunction with the strategy and annual planning process as to what approach should be taken towards key risks and the need to change risk management targets and the risk management policy. The Principles of Corporate Governance of the Board and the operating procedures handbook are updated on the basis of the decisions taken concerning risk management. Risks are reported at the Group level to the Board of Directors as part of the annual risk assessment and on a monthly basis for risks that have been decided on separately.

Risk assessment and key risks

A risk assessment pursuant to the risk management policy was drawn up in October-November 2005. The risks identified were assessed on the basis of their importance and effect on the financial performance, and were classified as critical, moderate and minor risks. The assessment and classification were carried out both before and after risk management solutions had been implemented.

Strategic risks were identified as being the following: market risks, business model risks, reputation risks, investment policy risks, investment implementation risks, customer risks, cost risks and social risks. Market risks also included the risk involved in valuing assets relating to external reporting. Market risks, investment implementation risks and investment policy risks were considered as being the most critical without risk management solutions.

Operational risks are service network risks, legal risks, competence risks, data security and information system risks, key personnel risks and operational management system risks, of which the latter two were assessed as being most critical without risk management solutions.

Environmental risks are the most critical of the loss/damage risks and remain critical even after risk management solutions have been implemented. Other loss/damage risks were identified as being: damage risks, human resources risks, liability risks, criminal risks and lifecycle risks.

Kapiteeli is also exposed to the usual financial risks, i.e. interest rate, funding, liquidity, currency and counterparty risks, of which interest rate risks, i.e. the effect of changes in market interest rates on predicted finance costs, are considered as being the critical risks without risk management solutions. The financial instruments used to hedge against financial and especially interest rate risks are described in the notes to the financial statements.

Board of Directors

Erkki KM Leppävuori, Chairman
Professor, Lic.Tech., born 1951
Director, VTT Technical Research Centre of Finland (full-time)
Chairman since 2002
Member of the Board of Directors since 2002

Other current elected positions:
Culminatum Ltd, Helsinki Region Centre of Expertise, Chairman, Board of Directors
Joint Research Centre (JRC) of the EU Commission, Board of Governors
European Association of Research and Technology Organisations EARTO, President
Finnmap Consulting Ltd, Member of the Board of Directors
The Jenny and Antti Wihuri Foundation, Member of the Board of Trustees
Helsinki University of Technology (TKK), Member of the Advisory Board
Science and Technology Policy Council of Finland, Member

FROM THE LEFT:
ERKKI KM LEPPÄVUORI, JARMO VÄISÄNEN, ELINA SELINHEIMO, RITVA SALLINEN AND MATTI R J NIEMI.

Jarmo Väisänen, Deputy Chairman
Lic.Soc.Sc., born 1951
Financial Counsellor, State ownership steering policy, Ministry of Finance
Member of the Management Group appointed for State ownership steering policy since 2004
Deputy Chairman of the Board of Directors since 2002
Member of the Board of Directors since 1999

Other current elected positions:
Sponda Plc, Deputy Chairman, Board of Directors

Matti R J Niemi
B.Sc.(Econ.), born 1947
Varma-Sampo Mutual Pension Insurance Company, Deputy CEO (retired), 1998-2003
Pension-Varma, Executive Vice President, 1996-1998
Postipankki Ltd, various management duties including Managing Director, 1988-1995
Member of the Board of Directors since March 16, 2004

Other current elected positions:
Solidium Ltd, Chairman, Board of Directors
Hollming Ltd, Board of Directors
Crystal Pool Ltd, Board of Directors
Aberdeen Property Investors Finland Oy, Board of Directors
Fifty-Fifty Holding Finland Oy, Board of Directors
Finnish Reservists' Union RES, Chairman

Ritva Sallinen
B.Sc.(Econ.), born 1949
Executive Vice President, Finance and Administration, Acta Print Ltd, 2003–2005
Senior Vice President, Finance and Administration, Alma Media Corporation, 1992-2003
Member of the Board of Directors since 2003

Other current elected positions:
Supervisor, Nordea Järvenpää Branch
Louhela Settlement, Board of Governors
Järvenpää Rotary Club, Member of the Board of Directors and Treasurer

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

Other current elected positions:
The State Pension Fund, Member of the Board of Directors
The Finnish Fund for Industrial Cooperation, Finnfund, Board of Directors



TOP: OSSI HYNYNEN,
FROM THE LEFT: KARI KOIVU,
SEPPO LEHTO, ESKO MÄKINEN,
RIITTA PARVIAINEN
AND ERIK HJELT

Executive Management Team



The President and CEO is assisted by an Executive 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 Senior Vice President, Finance, Legal Affairs, HR and Communications and the Chief Financial Officer. The Senior Vice President of Finance and Legal Affairs acts as Secretary to the Executive Management Team.

Ossi Hynynen, M.Sc.(Tech.), born 1955
President and CEO as of June 1, 2005
Ossi Hynynen has worked for Kapiteeli and been a member of the Executive Management Team since 1999

Previous positions at Kapiteeli:
- Senior Vice President, Office and Retail Property since 2003
- Senior Vice President, Real Estate Development, 1999-2002
- Senior Vice President, Real Estate Services, 2001-2002

Previous employment in other companies:
- Director of Marketing, ProPaulig Ltd
- Construction Manager, Haka Ltd

Significant elected positions:
- Member of the board of Directors, Ovenia Ltd, 2003–June 20, 2005
- Chairman of the Board of Directors, Ovenia Ltd since June 20, 2005

Kari Koivu, M.Sc. (Tech.),
Senior Vice President, Sales Property,
born 1966
Kari Koivu has worked at Kapiteeli and been a member of the Executive Management Team since 2003

Previous employment in other companies:
- Marketing Manager EMEA, Solid Information Technology
- Business Development Manager EMEA, Hewlett-Packard Europe
- Account Manager, Hewlett-Packard Ltd

Significant elected positions:
- Member of the Board of Directors, Ovenia Ltd since June 17, 2005

Seppo Lehto, M.Sc.(Tech.),
Senior Vice President, Hotels, born 1943
Seppo Lehto has worked at Kapiteeli and been a member of the Executive Management Team since 1999

Previous positions at Kapiteeli:
- Senior Vice President, Real Estate Investment 1999-2002
- Senior vice President, Hotels since 2003

Previous employment in other companies:
- Real Estate Manager, Arsenal Asset Management Company Ltd
- Head of Infrastructure, Haka Ltd

Esko Mäkinen, M.Sc.(Econ.),
Chief Financial Officer, born 1945
Esko Mäkinen worked at Kapiteeli from 1999-February 1, 2006
Member of the Executive Management Team 1999-February 1, 2006
Secretary of the Board of Directors 1999-February 1, 2006
President and CEO's Deputy until February 1, 2006

Previous employment in other companies:
- Director of Finance, Arsenal Asset Management Company Ltd
- Director of Supervision, Savings Bank of Finland – SBF Ltd

Riitta Parviainen, M.Sc.(Econ.),
Chief Financial Officer, born 1953
Riitta Parviainen has worked at Kapiteeli since 1999 and has been a member of the Executive Management Team since February 1, 2006

Previous positions at Kapiteeli:
- Financial and ICT Manager 1999-February 1, 2006

Previous employment in other companies:
- Controller, Arsenal Asset Management Company Ltd
- Division Manager, SKOP/Sp-Palvelu Oy
- Central Bank for Cooperative Banks Ltd, various middle management positions

Erik Hjelt, LL.Lic., EMBA,
Senior Vice President,
Finance, Legal Affairs, HR and Communications, born 1961
Erik Hjelt has worked at Kapiteeli and been Secretary to the Executive Management Team since 1999
Member of the Executive Management Team since February 1, 2006
Secretary of the Board of Directors since February 1, 2006
President and CEO's Deputy since February 1, 2006

Previous positions at Kapiteeli:
- Chief Legal Counsel 1999–February 1, 2006
- Managing Director, Kruunuasunnot Ltd 2000–2001

Previous employment in other companies:
- Leading Legal Counsel, Arsenal Asset Management Company Ltd
- Managing Director, Arsenal-Silta Ltd
- Bank Manager, Savings Bank of Finland – SBF Ltd

Board report on operations for the financial year 2005

Financial position and result of operations

Kapiteeli Group adopted on January 1, 2005 the International Financial Reporting Standards (IFRS). Investment properties are valued at fair value[2]. The balance sheet and income statement are reported using the balance sheet and income statement format recommended by EPRA[3]. The parent company financial statements have been drawn up in accordance with the Finnish Accounting Standards (FAS)[4].

The Group's profit of EUR 112.2 (81.5) million for the 2005 financial period surpassed all the targets set for the company against all benchmarks. The change in the fair value of investment properties recognized in the profit totalled EUR 50.5 (30.0) million. The profit in accordance with FAS standards stood at EUR 65.8 (64.4) million and was the best in the Group's history to date[5].

1 International Financial Reporting Standards. Transition date January 1, 2004
2 Completed office and retail properties are valued by means of Kapiteeli's DCF model in which cash flows are discounted by the expected market yield rate at the time of examination. The hotels and land areas are valued by an external, independent property valuer who takes part in deciding the value of all properties and issues a statement about it.
3 European Public Real Estate Association, www.epra.com
4 Finnish Accounting Standards
5 The transitional statements in the note include a comparison for 2005.

Group's financial position
Since the beginning of 1999, the consolidated balance sheet has been strengthened through sales, purchase and development activity with the aim of turning Kapiteeli into an internationally attractive property investment company that will allow the State to divest its shares in the company. This aim was achieved in 2005: in October 2005, Parliament authorized the divestment of shares in Kapiteeli either partially or totally.

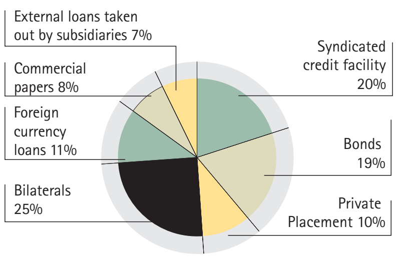
Consolidated assets at the end of the year totalled EUR 1,374 (1,442) million, of which EUR 1,030 (967) million was investment properties valued at fair value. Their fair value exceeded the balance sheet value by EUR 148 (96) million. A total of EUR 235 (317) million of sales properties was classified as inventories. The share accounted for by property assets acquired for long-term ownership, including properties classified as finance lease receivables and premises in the company's own use, was 82% of the total property assets.

During 2005, Kapiteeli developed its property assets by acquiring new investment properties for EUR 65 (16) million and by investing EUR 53 (92) million in development schemes. Sales of real estate reduced the balance sheet by EUR 112 (83) million, of which the holding in the shares of Kruunuasunnot Ltd accounted for EUR 50 million.

Finance lease receivables of EUR 2.7 million were generated from two long-term leases in which the specific risks and benefits to their ownership transferred to the tenant. The reduction in fixed assets from EUR 14.4 million to EUR 4.8 million resulted from the completion of properties that were under construction as investment properties and classified under fixed assets in the opening IFRS balance sheet for the company. On completion, these properties were transferred under investment properties in 2004.

Deferred tax assets of EUR 51 (57.5) million were based on temporary differences in the consolidated accounting profit and the taxable profit of the Group compa-

The Group's funding structure on December 31, 2005



nies. The most significant difference consisted of the losses confirmed in the taxation of the parent company Kapiteeli Plc. According to an estimate by the management, around EUR 167 million of these losses can be utilized during 2006–2009.

Current receivables of EUR 21.5 (17.2) million comprised deposits and commercial papers. There was EUR 6.1 (26.3) million of cash and cash equivalents in bank accounts.

Consolidated equity totalled EUR 763 (691) million at the end of 2005. Liabilities totalled EUR 610 (750) million, of which EUR 511 (593) million were non-current and EUR 99 (157) million current.

Provisions of EUR 16.4 (20.2) million included EUR 9.7 (17.6) million in costs for restoration of polluted land and EUR 6.3 (2.1) million of provisions made for compensation relating to land use agreements. Deferred tax liabilities increased from EUR 38.4 million to EUR 53.2 million resulting from the effect on the profit of the fair value of investment properties.

The consolidated equity ratio at the end of the financial year was 55.7% (48.1%), while gearing stood at 0.7 (0.9).

Results of the Group's operations

The consolidated operating profit was EUR 148.2 (127.6) million and the profit for the financial period was EUR 112.3 (81.5) million. The profit was made up of the following:

- Net rental income of EUR 84.6 (86.4) million
- Sales of properties classified under inventories realized a net profit of EUR 36.8 (37.6) million and sales of investment properties EUR 0.3 (0) million.
- Expenses for administration totalled EUR 20.7 (23.5) million, of which staff costs accounted for EUR 12.6 (14.3) million.
- Depreciation on fixed assets totalled EUR 0.4 (2.5) million. Depreciation for 2004 included Kruunuasunnot Ltd's depreciation on exceptional investment properties valued at the acquisition cost in accordance with IAS 16.
- Other income from business operations totalled a net amount of EUR 4.5 (4.9) million, accrued mainly from income from the subsidiary Ovenia.
- An adjustment in the valuation of investment properties from the valuation at fair value increased the profit by EUR 50.5 (30.0) million.
- Impairment totalling EUR 7.4 (5.2) million was entered on inventories.
- The net amount of finance costs stood at EUR 14.6 (22.9) million.

Turnover stood at EUR 287 (278) million, of which EUR 137 (157) million was rental income and income from services, and EUR 149 (121) million the proceeds from property assets. Total income stood at EUR 342 (314) million. The net rental yield on the property assets was 6.6% (6.7%), the return on equity was 15.4% (12.5%) and return on invested capital 11.6% (10.3%). The occupancy rate calculated from the net lettable area was 83% (77%).

The change sensitivity of the fair value of investment properties, i.e. risk, was tested by changing the key calculation parameters of the fair value of completed retail and office property calculated using Kapiteeli's DCF model, which include the required rate of return, market rent EUR/m^2, occupancy, i.e. utilization rate and maintenance expenses

Turnover, profit and property assets by business unit

	Office and Retail Property		Hotels		Sales Property		Other units		Total	
EUR million	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**
Turnover	128.2	91.6	18.1	16.1	89.6	133.7	50.8	36.6	286.7	278.0
Net rental income	**66.2**	**58.7**	**15.2**	**12.7**	**3.2**	**7.5**	**0.0**	**7.5**	**84.6**	**86.4**
Profit/loss on disposals	17.4	3.0			21.1	30.2	-1.5	4.4	37.1	37.6
Valuation gains/losses on investment property	62.0	28.7	-11.5	1.2					50.5	30.0
Write-downs of trading properties	-1.3	-3.0	-0.2		-5.9	-2.2			-7.4	-5.2
OPERATING PROFIT	**139.5**	**82.6**	**2.7**	**13.2**	**11.7**	**28.7**	**-5.7**	**3.2**	**148.2**	**127.6**
Property assets	**896**	**793**	**218**	**178**	**158**	**204**		**124**	**1,273**	**1,299**
Net rental yield, %	**7.8**	**7.8**	**7.7**	**7.4**	**1.8**	**3.2**			**6.6**	**6.7**

Consolidated cash flow statement,

EUR million	**Jan.1 – Dec. 31, 2005**	**Jan.1 – Dec. 31, 2004**
Net cash flow from operating activities	166,444	157,914
Net cash flow used in investing activities	-25,445	-90,743
Net cash flow from financing activities	-161,238	-63,619
Change in cash and cash equivalents	-20,239	3,552
Cash and cash equivalents at beginning of period	26,328	22,776
Cash and cash equivalents at end of period	6,089	26,328

A complete cash flow statement is presented in the notes to the financial statements.

EUR/m². At the end of the year the fair value of these properties, i.e. the basic value of the change sensitivity analysis was EUR 747 million.

Funding

The Kapiteeli Group's interest-bearing liabilities fell during 2005 from EUR 602 million to EUR 512 million. A complete cash flow statement is presented in the notes to the financial statements.

Kapiteeli maintained a diverse funding structure during 2005. The number of financial sources and instruments remained at the same level as the previous year. The company arranged EUR 235 million worth of interest rate derivative financial instruments to reduce the interest rate risks of floating rate loans, and in this way the company's hedging ratio rose to 86%. The occupancy rate target of an average of 50% for Kapiteeli Plc's EUR 150 million commercial papers programme was achieved. The company paid off its capital loan with a nominal value of EUR 59.5 million to the state on October 11, 2005.

The Group's net finance costs totalled EUR 14.6 (22.9) million. The weighted average debt maturity was 3.3 (3.8) years and the average interest rate taking the interest rate derivative financial instruments into account was 3.44% (3.35%). The weighted average fixed interest period was 1.9 (1.3) years. The estimated effect of changes in market rates on the Group's net interest expenses over the following 12 months are as follows:

Change in market rate, percentage points				
1.00%	2.00%	3.00%	-1.00%	-2.00%
Change in net interest expenses, EUR million				
3.0	3.9	4.6	-4.2	-8.3

Fixed-rate loans with a maturity of more than one year together with the interest rate derivative financial instruments used amount to 86% of the nominal value of total consolidated interest-bearing liabilities.

Operating environment

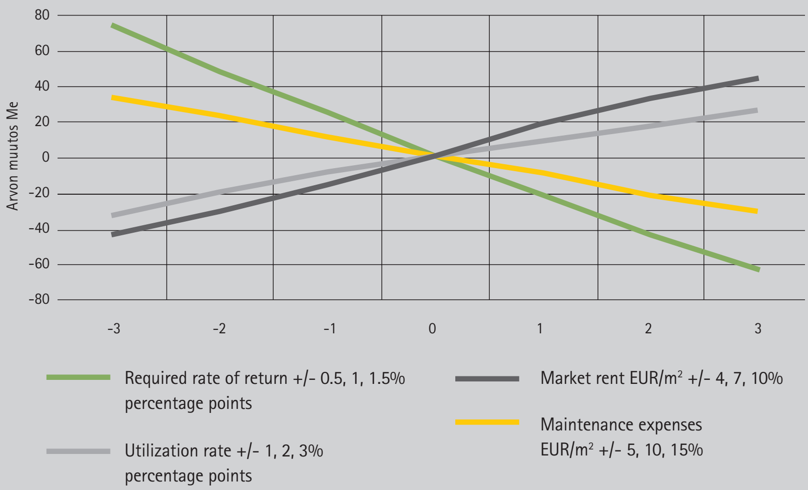
Economic growth in Finland has been faster than in the euro area over the last few years. In spite of this trend, industrial investments have remained at a low level. Furthermore, increasing international competition has forced companies to reconsider their strategies and transfer production to low-cost countries closer to growing markets.

The state of the economy has been reflected in the property market by the continuing low demand for office and retail premises, the increase in the volume of vacant premises, the slight reduction in leasing rates and the reduction in the construction of new property. However, the number of vacant office premises in the Helsinki Metropolitan Area has shown a slight decline recently. The growth in consumer demand has contributed to the demand for and construction of retail premises. Low interest rates have supported investment demand for office, retail and warehouse premises.

During 2003–2005, the faster economic growth in Finland compared with the euro area and yield levels of Finnish property investments have increased foreign investors' interest in Finnish property investments. The need to spread the risk of property portfolios regionally has also increased interest among investors. The need to spread risk is correspondingly reflected in investments abroad by Finnish institutional investors. Foreign investors have made their investments primarily through portfolio deals, which have speeded up the transfer of property investments from passive owners to active investors. The advent of foreign investors in the market has lifted property prices, reduced the yield requirement on investments, diversified the range of investors and improved liquidity.

The economic growth is not expected to significantly strengthen rental demand in the office and retail market during 2006–2008. Property market liquidity and investment demand are expected to remain at the level of recent years. Interest from foreign investors and the willingness of Finnish institutional investors to retain at least the current proportion of Finnish properties in their portfolios will continue to support demand. Hundreds of millions of euros have been raised by property funds for investing

Sensitivity analysis



in the Finnish property market. Increasingly, both foreign and domestic investors are expected to update their investments, which will increase market liquidity and the restructuring of the market.

Kapiteeli's business operations in 2005

Kapiteeli's property business is divided into three units: Office and Retail Property, Hotels and Sales Property, which all surpassed the profit targets set for them in 2005. The success was due to the well-devised changes in operational procedures in which the focus has been changed from owning property to actively finding solutions for our customers' requirements for space. The focus of our operations has moved from investment activities to service activities. Kapiteeli concentrates on managing customer relationships so that the company can listen to customers and anticipate their needs. The company has outsourced the management of property services to Ovenia Ltd.

Since the beginning of 2006, Kapiteeli's Customer Service Centre has operated as an independent unit, which will enable it to support the business units in the best possible way. The change emphasizes the customer-centred approach and the importance of systematic contact with clients by increasing the number of staff and communication channels at the customer level.

Office and Retail Property

The Office and Retail Property Unit leases and develops office, commercial, industrial and storage premises in the Helsinki Metropolitan Area and in other growth centres. The fair value of Kapiteeli's office and retail property at the end of 2005 totalled EUR 896 (793) million, of which EUR 814 (686) million was accounted for by IAS 40 investment properties and EUR 79 (104) million by inventory properties classified as intended for sale. The properties account for 70% (61%) of the balance sheet value of Kapiteeli's property assets measured at fair value.

The Unit's operating profit was EUR 139.5 (82.6) million. The net rental yield at fair value was 7.8% (7.8%) and the occupancy rate was 87.4% (85.4%). The occupancy rate excluding development schemes was 89.2% (89.8%). A total of EUR 96.3 (84.0) million accrued in rental income.

The Unit purchased properties to the value of EUR 23.6 million. The biggest deals were concluded in April, when office properties were bought from Elisa Corporation in Helsinki at Pieni Roobertinkatu 9 and in Tampere at Näsilinnankatu 41 and Hallituskatu 8. The equipment facilities of the first two of these were leased to the seller through a long-term agreement. Kapiteeli increased its shareholding in the Zeppelin Shopping Centre through three separate deals. A total of around 27,000 m^2 of office and retail property was acquired in 2005.

Kapiteeli sold property to the value of EUR 35.8 (7.5) million. The most important sales included the Tammisaari Rural District Court House to Nordisk Renting Oy, the Rovaniemi Lintulankulma commercial property to Citycon Oyj, Tornion Säästötulli to a private investor, and the sale of the industrial and storage property at Sammonkatu 44 in Tampere to Rakennustoimisto Pohjola Oy. The total area of properties sold amounted to 21,000 m^2 in 2005. The biggest sale in value was the sale of a site in Pasila, Helsinki, to MTV Service Properties Oy for EUR 18.6 million.

Investments totalling EUR 40.3 (51.9) million were made in office and retail property. The biggest project was the Ruoholahden Sulka office property, completed at the turn of the year, in which a total of EUR 11.6 million was invested in 2005. EUR 3.8 million was invested in alterations to office and retail premises at Kauppakatu 32 in Jyväskylä, and EUR 2.2 million was spent on the renovation of the Tampere Hermitec office premises. The renovations to the Salmisaarentalo office premises were completed with an investment totalling EUR 8.5 million and in Kempele an investment of EUR 4.5 million was made in the Zeppelin Shopping Centre to provide retail premises for a Prisma Hypermarket for Osuuskauppa Arina. In Kotka, renovations were started in the part of the Pasaati Shopping Centre owned by Kapiteeli, with total costs amounting to around EUR 7 million. The new shopping centre will be opened to customers at the end of 2006.

At the end of the year, there was a total of 765,000 m^2 of lettable premises, of which office premises accounted for around 50%, retail premises for around 30% and industrial and storage facilities for around 20%. Kapiteeli had a total of about 1,800 leases and approximately 1,300 tenants. The biggest customers included Kesko Plc, the Ministry of Justice, Stockmann Plc, TeliaSonera Finland Plc and Nokia Plc. The biggest leasing agreements in 2005 included the agreement by Deloitte & Touche LLP for the Ruoholahden Sulka office property, the agreement by Finnlines Plc for the property at Porkkalankatu 20 in Helsinki, the lease for Kutojantie in Espoo by Inex Partners Ltd and Osuuskauppa Arina's agreement for the Zeppelin Shopping Centre.

Hotels

Kapiteeli is Finland's second largest owner of hotel properties and owns four of the ten largest hotel properties in Helsinki. At the end of 2005, the company owned 17 hotel properties, which have been divided into investment hotels and local hotels. The

Hotels Unit concentrates on the ownership and development of 12 investment hotels. Local hotels will be sold one by one as they do not fit the company's investment strategy. The fair value of the hotel portfolio stood at EUR 218 (178) million.

The operating profit for the Hotels Unit in 2005 stood at EUR 2.7 (13.2) million and net rental income at EUR 15.2 (12.7) million. The net rental yield at fair value was 7.7% (7.4%). The properties were fully occupied as was the case the previous year. 82% of the hotels' EUR 18.1 (14.9) million rental income came from the Helsinki Metropolitan Area and 10% from Tampere.

At the end of June, Kapiteeli purchased a 40% share in the Hilton Helsinki Strand and Scandic Continental hotel properties from the Finnair Pension Fund for EUR 41.2 million, and it now owns these properties 100 per cent. A total of EUR 11.3 (12.3) million was spent on investments, of which the largest single investment was for the renovation and extension to the Scandic Tampere City hotel, which were completed in June.

The hotel properties have a total of around 3,000 hotel rooms and the overall area of the properties is nearly 194,000 m^2. The leaseholders comprise four hotel operators. The only Hilton hotels in Finland are the Hilton Helsinki Kalastajatorppa and the Hilton Helsinki Strand. Scandic Hotels occupies 12 of Kapiteeli's hotel properties. The Hilton/Scandic operators accounted for 92% of the rental income from Kapiteeli's hotel premises and their leases are valid until 2011 and 2012, respectively. In accordance with the lease agreements, Kapiteeli will be investing around EUR 50 million in developing the properties until 2012. By the end of 2005, about EUR 45 million had been invested under the investment plan, which will mostly be completed during 2006–2007.

Sales Property

The Sales Property Unit is in charge of selling and leasing inventory properties that are not compatible with Kapiteeli's investment strategy. Sales of property release capital for developing investment assets and making acquisitions. The main emphasis in 2005 was on selling low-yield properties and land areas. Besides sales, the Unit aims to develop the structure of its property sales portfolio and improve the profitability of leasing activities. At the end of the year, the Unit had around 880 (1,400) sales properties, which had a balance sheet value of EUR 158 (204) million.

The operating profit for the Unit was EUR 11.7 (28.7) million. The net rental yield was 1.8% (3.2%) and the occupancy rate was 67.6% (58.7%). There were 400,000 m^2 (574,000 m^2) of lettable floor area, and the number of leases was 1,700 (2,300). EUR 23.3 (30.9) million accrued in rental income. Sales continued briskly as in previous years.

During the year under review, real estate to the value of EUR 64.3 (108.7) million was sold in a total of 680 (640) deals. The sales profit was EUR 21.1 (30.2) million.

Kapiteeli has been able to respond to housing construction needs by placing land suitable for building onto the market. In upgrading land Kapiteeli works in close cooperation with the planning boards of local authorities, which has made it possible to bring sites in planned areas onto the market quickly. Customers to whom land is sold include local authorities, developers and construction companies. Demand for land suitable for housing construction continued to be strong especially in the Helsinki Metropolitan Area. The most important land areas sold for housing construction included: the Vuoranta site in Vuosaari, Helsinki, with building rights amounting to 13,000 m^2 gross floor area, the 1.9 hectare site in Leiri, Lappeenranta with building rights of around 4,200 m^2 gross floor area, and the former garrison property in Rakuunanmäki, Lappeenranta, with building rights of around 5,700 m^2 gross floor area, the 2.85 hectare site of Hämeenlinna Polytechnic and a two-hectare land area in Niipperi, Espoo, with building rights for 3,900 m^2 gross floor area.

Other noteworthy sales included the Hotel Finlandia property in Punkaharju and the Valtion Pukutehdas factory property in Hämeenlinna.

The Sales Property Unit's most important leaseholders in 2005 were the Nordea Group, Finland Post Plc, the Ministry of the Interior, TeliaSonera Finland Plc, Tradeka Ltd and the Sampo Group.

Group structure and changes to the Group

The Kapiteeli Group was made up of the parent company Kapiteeli Plc, the subsidiary Ovenia Ltd, of which Kapiteeli owns 50.9%, and 295 property subsidiaries and 122 associates. Kapiteeli Plc sold the entire share capital of Kruunuasunnot Ltd to Solidium Ltd on January 3, 2005. The parent company, Ovenia Ltd and the permanently owned property subsidiaries and associates have been combined to form the Kapiteeli Group. The property corporations entered under current assets have not been consolidated.

Risk management

Risk management at Kapiteeli is based on the Group's capacity and willingness to bear risk, the identification of the key risks and the approved risk management policy. Risk management has been integrated as part of

Kapiteeli's strategy process, operational control system and business processes.

At Kapiteeli, risks are taken to mean the uncertainty involved in implementing the Group's approved targets. The aim of risk management is to identify the key risks, to measure and assess the uncertainties identified beforehand and to decide on a way of approaching these uncertainties. Risks are considered as being a normal part of business and are assessed on the basis of exploiting their opportunities and of reducing and eliminating risks. Risks have been classified as strategic risks, operational risks, risks of loss/damage and financial risks.

The Kapiteeli Board of Directors decides on risk management targets, determines the risk management policy and is responsible for monitoring risk management. The Executive Management Team is responsible for practical risk management measures within the framework of the risk management policy. It is the duty of the business units and Group operations to organize the monitoring and reporting of risk management as part of overall reporting. Internal auditing is responsible for auditing the efficiency of the risk management system. Every employee at Kapiteeli is responsible for identifying risks that threaten the attainment of the company's targets.

A risk assessment is carried out as part of the annual planning process, during which the key risks are identified and their extent is assessed. An assessment is made in conjunction with the strategy and annual planning process as to what approach should be taken towards key risk and the need to change risk management targets and the risk management policy. The Principles of Corporate Governance of the Board and the operating procedures handbook are updated on the basis of the decisions taken concerning risk management. Risks are reported at the Group level to the Board of Directors as part of the annual risk assessment and on a monthly basis for risks that have been decided on separately.

Risk assessment and key risks

A risk assessment pursuant to the risk management policy was drawn up in October-November 2005. The risks identified were assessed on the basis of their importance and effect on the financial performance, and were classified as critical, moderate and minor risks. The assessment and classification were carried out both before and after risk management solutions had been implemented.

Strategic risks were identified as being the following: market risks, business model risks, reputation risks, investment policy risks, investment implementation risks, customer risks, cost risks and social risks. Market risks also included the risk involved in valuing assets relating to external reporting. Market risks, investment implementation risks and investment policy risks were considered as being the most critical without risk management solutions.

Operational risks are service network risks, legal risks, competence risks, data security and information system risks, key personnel risks and operational management system risks, of which the latter two were assessed as being most critical without risk management solutions.

Environmental risks are the most critical of the loss/damage risks and remain critical even after risk management solutions have been implemented. Other loss/damage risks were identified as being: damage risks, human resources risks, liability risks, criminal risks and lifecycle risks.

Kapiteeli is also exposed to the usual financial risks, i.e. interest rate, funding, liquidity, currency and counterparty risks, of which interest rate risks, i.e. the effect of changes in market interest rates on predicted finance costs, are considered as being the critical risks without risk management solutions. The financial instruments used to hedge against financial and especially interest rate risks are described in the notes to the financial statements.

Environmental responsibility

Kapiteeli operates in an environmentally responsible manner in accordance with its environmental programme. The company's Executive Management Team approved a set of guidelines for implementing environmental responsibility on December 19, 2003, according to which:

- Lifecycle economy is taken into account in planning activities and projects and in making and implementing decisions.
- The company aims to use energy and raw materials efficiently and to reduce consumption.
- Suppliers of goods and services are expected to take environmental issues into account in their own operations.
- Tenants are provided with information and operating instructions on environmental issues linked with using properties and premises.
- Kapiteeli takes part in environmental projects run by the real estate sector.
- Information on environmental issues relating to Kapiteeli's operations is communicated openly.
- The company ensures that the staff are aware of the environmental impact of the operations and that they work continuously to improve their environmental expertise.

In 2005, environmental responsibility focused on taking lifecycle economy into account in property development and maintenance.

The subsidiary Ovenia Ltd is responsible for managing and acquiring maintenance services for Kapiteeli's properties. The company is also responsible for managing environmental issues relating to property maintenance as required by legislation and the authorities, and in accordance with instructions given by Kapiteeli. During 2005, Ovenia worked on its own environmental strategy, invested in the environmental expertise of its staff and developed environmental service products. Ovenia employed a full-time environmental expert whose responsibilities include environmental issues and related development tasks.

Kapiteeli owns properties on land that is known to be, or is suspected of being, contaminated because of earlier activity. This includes former shunting yards, sawmills, service stations and repair workshops and old industrial properties. Kapiteeli is responsible for research and remedial projects on contaminated land areas as required by legislation, the environmental authorities and any agreements it has entered into. Reports and studies on the subsoil are carried out mainly in connection with property transactions and town-planning schemes.

In 2005, Kapiteeli spent about EUR 6 million on research into contaminated land areas and remedial projects.

Management and human resources

On the resignation from Kapiteeli of President and CEO Kari Inkinen, the Board of Directors appointed Ossi Hynynen as new President and CEO as of June 1, 2005. Ossi Hynynen also continues as Senior Vice President of the Office and Retail Property Unit.

The President and CEO is assisted by an Executive Management Team which, besides the President and CEO, consisted in 2005 of Ossi Hynynen as Senior Vice President of the Office and Retail Property Unit until May 31, 2005, Seppo Lehto, Senior Vice President of the Hotels Unit, Kari Koivu, Senior Vice President of the Sales Property Unit and Esko Mäkinen, Chief Financial Officer. Erik Hjelt, Chief Legal Counsel, acted as secretary to the Executive Management Team.

In 2005, the average number of employees in the Kapiteeli Group was 177 (215), of whom 92 (101) were working in Kapiteeli Plc. The number of employees in the Group at the end of the year was 178, of whom 87 were in the parent company and 91 in Ovenia Ltd.

The parent company paid a total of EUR 5,849,778 in salary and remuneration, of which EUR 295,649 was salary and remuneration for the Senior Vice Presidents. Remuneration for members of the Board of Directors stood at EUR 96,800. Consolidated salary and remuneration stood at EUR 8,897,290.

Kapiteeli has a policy of equality in human resources issues and the company's equality plan was approved on December 14, 2005.

Corporate Governance

Kapiteeli Plc is a property investment company owned by the State of Finland. Kapiteeli Plc's corporate governance is organized according to the Finnish Companies Act. Corporate governance at Kapiteeli Plc is also steered by the Principles of Corporate Governance approved by the Board of Directors of Kapiteeli Plc on January 17, 2005. The operating procedures were laid down and approved by the Executive Management Team on August 17, 2005.

The Annual General Meeting was held on March 17, 2005.

Erkki KM Leppävuori is Chairman of the Board of Directors of Kapiteeli Plc and Jarmo Väisänen is Deputy Chairman. The other members of the Board of Directors are 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 the major shareholder. The Board has no committees nor any 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.

In 2005, the Board of Directors met 12 times and the average attendance was 98.3%. The remunerations paid to the Board members in 2005 were:

- A monthly remuneration of EUR 1,750 for the Chairman
- A monthly remuneration of EUR 1,350 for the Deputy Chairman
- A monthly remuneration of EUR 1,000 for Board members
- A fee of EUR 500 per meeting/person

Kapiteeli's Auditors for 2005 were Tuokko Tilintarkastus Oy, Authorized Public Accounting Firm, with Yrjö Tuokko, Authorized Public Accountant, as the accountable auditor and Olavi Guttorm, Authorized Public Accountant, as deputy auditor. In 2005, auditors' fees amounting to EUR 131,329 were paid and a remuneration of EUR 37,029 was paid for special assignments.

Events after the close of the financial period

On the stepping down of Chief Financial Officer Esko Mäkinen from his full-time duties to begin retirement, the following were appointed as of February 1, 2006:

- Riitta Parviainen as Chief Financial Officer and a member of the Executive Management Team responsible for finance and information management.

- Erik Hjelt as Senior Vice President, Finance and Legal Affairs, and as a member of the Executive Management Team responsible for finance, legal affairs, human resources administration and communications. He is also secretary of the Executive Management Team and the Board of Directors and is Substitute for the President and CEO.

Assessment of future developments

Kapiteeli's balance sheet is sound and its financial position is solid, which creates an excellent foundation on which to continue with the chosen strategy and to operate actively in the property market in the future, too.

Kapiteeli's aim during the strategy period 2006–2008 is to improve the consolidated balance sheet and profit-making ability so that the company remains competitive against other Nordic operators. The company will focus its property assets in growth centres, i.e. mainly in the Helsinki, Tampere, Turku and Oulu areas. By the end of 2008, the company will divest itself of assets that are not compatible with its strategic aims because of their size, location or the type of property. Kapiteeli's Board of Directors has approved the individual development programmes for the Office and Retail, Hotels and Sales Property Units for the years 2006–2008.

The aim of the Office and Retail Property Unit is to grow profitably. Office and retail premises will be developed by increasing the size of properties, by investing in the company's own development schemes and by acquiring new, high-yield properties in national growth centres. Small and partially owned properties in areas incompatible with the strategy will be sold. The company's aim is to raise the leasing ratio and to increase the rental yield and in this way improve the value of investment properties. Key to these aims will be success in proactively managing current customer relationships and new business development.

The Hotels Unit will focus on developing investment hotels, while local hotels will be sold. Investing in investment hotels will improve the yield and value of hotel assets.

The aim of the Sales Property Unit is to sell properties not compatible with Kapiteeli's ownership strategy.

Prospects for 2006

The share accounted for by international investors in the Finnish property market will continue to increase and they have become a permanent feature of the Finnish property market. This development has made buying property more challenging as prices keep rising. At the same time, the market has become more professional, which has stressed the importance of staff expertise and having a network of cooperation partners.

There may be a decline in the volume of development projects, investments and property acquisitions compared with the year under review. The Office and Retail Property Unit will increase the amount of investment assets primarily through its own investment projects. The market will remain challenging, and this will be reflected in the construction of new buildings as there is still a large amount of under utilized office property in the Helsinki Metropolitan Area. During 2006, the office project in the Ruoholahti area of Helsinki is planned to start along with the retail premises in the Partola area of Pirkkala and in Itäkeskus in Helsinki next to the current shopping centre.

Competition for office tenants will remain stiff, though the situation in the rental market has turned towards a slightly more positive direction. Improving occupancy rates and net rental income over the coming years will require a brand strategy that favourable distinguishes the company from its competitors and a better quality of service and service concept than our competitors. Succeeding in the competition for customers demands a real ability to solve customers' requirements for space. The Customer Service Centre that was reorganized at the start of 2006 plays a key role in fulfilling this aim.

As in previous years, the profit-making potential of hotel properties remains strong. Although prospects seem better on the international hotel market than in Finland, favourable developments in New York, London, Copenhagen and Stockholm justify our expectation of a continuing upward trend in Finland, too.

Sales are expected to remain at the 2005 level. Sales of property assets incompatible with Kapiteeli's investment strategy, especially sites within planned zones and low-yield assets, will continue. The outlook for sales of land areas is good and Kapiteeli will also continue to invest in developing its land assets.

All in all, Kapiteeli's positive development will continue in 2006.

Consolidated balance sheet

Financial statements

EUR 1,000			
ASSETS	**Note**	**Dec. 31, 2005**	**Dec. 31, 2004**
Non-current assets			
Investment properties	1	1,029,762	966,758
Other property, plant and equipment	2	4,791	14,389
Finance lease receivables	3	2,732	0
Deferred tax assets	4	50,973	57,477
		1,088,258	**1,038,623**
Current assets			
Trading properties (IAS 2 Inventories)	5	235,287	317,598
Sales and other receivables	6	22,855	42,216
Loan assets	7	9	17
Current receivables	8	21,545	17,155
Cash and cash equivalents	9	6,089	26,328
		285,785	403,313
ASSETS, TOTAL		**1,374,042**	**1,441,937**
EQUITY AND LIABILITIES			
Equity belonging to owners of parent company			
Share capital	10	190,000	190,000
Share premium		76,666	76,666
Retained earnings		495,991	423,805
		762,657	**690,470**
Minority interest		**1,603**	**1,644**
Liabilities			
Non-current liabilities	11		
Capital loan		0	54,639
Non-current interest-bearing liabilities		441,443	479,941
Provisions	12	16,414	20,243
Deferred tax liabilities	4	53,206	38,374
		511,063	**593,198**
Current liabilities			
Current interest-bearing liabilities	11	70,391	122,464
Other liabilities	14	28,329	34,161
		98,720	156,624
Liabilities, total		**609,783**	**749,822**
EQUITY, MINORITY INTEREST AND LIABILITIES, TOTAL		**1,374,042**	**1,441,937**

Consolidated income statement

EUR 1,000

	Note	2005	2004
Turnover	15	286,726	278,045
Other income	15	55,358	35,855
Total revenues	15	**342,084**	**313,899**
Total expenses excl. finance costs	16	**193,916**	**186,284**
Gross rental income and service charge income	17,18	137,403	157,076
Interest recived on finance lease assets	3,18	248	
Property operating expenses	18	52,561	69,820
Other expenses from leasing operations	19	475	836
Net rental income		**84,616**	**86,420**
Proceeds from sale of trading property		96,726	120,969
Carrying value of trading properties		59,964	83,399
Profit/loss on disposal of trading properties		**36,762**	**37,570**
Administrative expenses	20	**20,698**	**23,454**
Depreciation	21	**442**	**2,540**
Net other income	22	**4,486**	**4,862**
Investment property disposal proceeds		52,348	
Carrying value of investment property disposals		52,052	
Profit/loss on disposal of investment property		**296**	
Valuation gains/losses on investment property	1	50,532	29,990
Write-downs of trading properties	5	-7,383	-5,233
Change in valuation		**43,148**	**24,757**
NET OPERATING PROFIT BEFORE FINANCE COSTS		**148,168**	**127,615**
Dividend income		8	76
Net financing costs	23	-14,597	-22,908
Profit before tax		**133,578**	**104,783**
Income tax expense	4, 24	21,336	23,145
PROFIT FOR THE PERIOD		**112,243**	**81,637**
Attributable to:			
Equity holders of the parent		**112,243**	**81,637**
Minority interest		**34**	**-172**
Profit for the period		**112,276**	**81,466**
Basic earnings per share (euro)		11.82	8.58

Financial statements

Consolidated statement of changes in equity

EUR 1,000	Share capital	Share premium	Retained earnings	Total equity	Minority interest	Total
Equity Dec. 31, 2003	190,000	76,666	226,751	493,417	1,293	494,710
Effect of introduction of IAS 12			42,148	42,148		
Effect of introduction of IAS 31			-1,034	-1,034		
Effect of introduction of IAS 37			3,699	3,699		
Effect of introduction of IAS 39			12,541	12,541		
Effect of introduction of IAS 40			66,974	66,974		
Adjusted equity Jan. 1, 2004	**190,000**	**76,666**	**351,079**	**617,745**	**1,293**	**619,038**
Profit for the period			81,465	81,465		
Dividend			-8,740	-8,740		
Equity Dec. 31, 2004	**190,000**	**76,666**	**423,804**	**690,470**	**1,644**	**692,114**
Profit for the period			112,276	112,276		
Dividend			-40,090	-40,090		
Equity Dec. 31, 2005	**190,000**	**76,666**	**495,990**	**762,656**	**1,603**	**764,259**

Consolidated cash flow statement

EUR 1,000	Jan. 1–Dec. 31, 2005	Jan. 1–Dec. 31, 2004
CASH FLOW FROM OPERATING ACTIVITIES		
Profit for the period before tax	133,578	104,783
Adjustments:		
Transactions not involving payment	-41,758	-14,284
Interest expenses and other finance costs	16,812	18,107
Interest income and other finance income	-3,426	-2,984
Cash flow before change in working capital	105,206	105,622
Change in working capital		
Increase (-)/decrease (+) in current non-interest-bearing trade receivables	7,630	-19,063
Increase(-)/decrease(+) in trading property	54,508	82,562
Increase(+)/decrease(-) in current non-interest-bearing liabilities	17,682	1,958
Change in provisions	-3,829	4,106
Cash flow from operating activity before financial items and taxes	181,197	175,185
Interest paid and payments		
Dividends received	8	76
Interest received	2,816	2,205
Interest paid	-17,577	-19,436
Taxes paid	0	-116
Net cash flow from operating activities	**166,444**	**157,914**
CASH FLOW FROM INVESTING ACTIVITIES		
Investments in investment property	-115,270	-95,473
Proceeds from sale of investment property	89,494	0
Loans granted	0	-114
Repayment of loan assets	331	4,844
Net cash flow used in investing activities	**-25,445**	**-90,743**
CASH FLOW FROM FINANCING ACTIVITIES		
Drawdowns/repayment of current loans	-79,819	77,688
Drawdowns of long-term loans	18,829	264,929
Repayment of non-current loans	-60,158	-397,496
Dividends paid	-40,090	-8,740
Net cash flow used in financing activities	**-161,238**	**-63,619**
Change in cash and cash equivalents	-20,239	3,552
Cash and cash equivalents at beginning of period	26,328	22,776
Cash and cash equivalents at end of period	**6,089**	**26,328**

Accounting principles for the consolidated financial statements

Accounting and reporting principles

Kapiteeli adopted International Financial Reporting Standards (IFRS) on January 1, 2005. The transition date was January 1, 2004. These are the Kapiteeli Group's first financial statements drawn up in accordance with IFRS. Its previous financial statements have been based on the Finnish accounting standards (FAS).

The differences arising from the adoption of IFRS are shown in the statements of reconciliation, including the 2005 financial year.

The best practices policy recommendations of the European Public Real Estate Association (EPRA) (www.epra.com) have been applied in reporting the consolidated balance sheet and income statement.

Financial statements for the parent company, Kapiteeli Plc, and its subsidiary companies have been prepared in accordance with FAS. The companies have the same accounting principles. The principles followed in the financial statements of the parent company, Kapiteeli Plc, are shown in the aforementioned statements.

Group structure and consolidation principles

At the end of the financial year the Kapiteeli Group comprised the parent company Kapiteeli Plc, the subsidiary Ovenia Ltd, of which Kapiteeli owns 50.9 per cent, and 295 property subsidiaries and 122 property associates. Kapiteeli Plc sold the entire share capital of Kruunuasunnot Ltd to Solidium Ltd on January 3, 2005.

The parent company Kapiteeli Plc, subsidiary company Ovenia Ltd and the property subsidiaries and associates, which have been acquired with long-term ownership in mind, make up the Group. Most of the property subsidiaries are mutual property companies whose expenses have been covered out of maintenance charges. The companies have been consolidated by the following methods:

- mutual property companies by the proportionate consolidation method (IAS 31 Interests in Joint Ventures)
- the subsidiary Ovenia Ltd and non-mutual subsidiaries by the purchase method, treating the external shareholders' proportion of profits/losses and equity in the companies as a minority interest.

Consolidation differences and negative consolidation differences arising from property corporations have been allocated to property assets.

Subsidiaries and associates classified under trading property (IAS 2 Inventories) are not consolidated, but this has no significant bearing on the consolidated profit/loss or financial position.

Recognition and valuation principles

Investment property

Property that the Group controls in order to acquire rental income or capital appreciation or both are classified under investment property. Classification is based on investment criteria confirmed by Kapiteeli's Board of Directors. An investment property is measured initially at its cost, including transaction costs. The cost of a self-constructed investment property is its cost at the date when the construction or development is complete.

After initial recognition, Kapiteeli applies the fair value model, according to which a gain or loss arising from a change in the fair value is recognized in profit or loss for the period in which it arises.

The fair values of office and retail property have been determined in association with an independent property valuer Maakanta Oy (AKA) using the calculation model that Kapiteeli has developed based on discounted cash flows. This DCF model has been verified by specialists at Ernst & Young, and it meets the criteria for the measurement of the IFRS fair value and the International Valuation Standards (IVS). Maakanta Oy has determined in particular the yield requirements and other market-derived variables in relation to the development of the property market. The fair values of hotel properties and development properties - land areas and others - are based on values that have been drawn up by Maakanta Oy, using assessment methods best suited to each property. Maakanta Oy has issued the following statements:

- Assessment process for investment properties December 31, 2005
- Assessment process for development properties December 31, 2005
- Fair value of hotel portfolio December 31, 2005. Process for determining yield requirements September 30, 2005, made November 31, 2005.

There were exceptions to the use of the fair value model, i.e. some properties owned by Kruunuasunnot Ltd which were situated in a garrison area or extremely close to it and which were partly or wholly rented out to Defence Forces personnel. They were valued according to the cost model as "exceptional cases" for which the reliable determination of a fair value is not possible under IAS 40.53. At the end of 2004, 90 per cent of Kruunasunnot investment properties were classified as such. Depreciation was recorded on the properties in accordance with the depreciation periods applied by the Group. They are shown under the heading 'Other property, plant or equipment'. The market values of investment properties valued according to the fair value model were based on the company's own assessments drawn up with the market value method.

Investment properties under construction

Three properties were classified under 'Other property, plant or equipment' in the balance sheet opening on January 1, 2004, the transition date. They were at that very moment being built for future use as investment properties after completion. IAS 16 (Property, Plant and Equipment) was applied to them until they were completed. Use of the properties began during 2004 and 2005, when they were transferred to the investment property in accordance with IAS 40 and fair value measurement came into force.

IAS 40 (Investment Property) was applied during their construction or refurbishment work to properties classified as IAS 40 investment properties in the opening balance sheet, i.e. they were valued at cost until they were completed or use of them began. Afterwards the valuation changed to the fair value basis.

The following are recorded under 'Other property, plant or equipment':

- Two properties that are used for Group activities by the Helsinki area unit and are classified as owner-occupied property. The owner-occupation rate for the other units, some of which operate in investment and trading properties owned by the company, in relation to the total area and rental income of the properties in question is so small that owner-occupation has not been separated; these properties have been classified entirely under investment property or trading properties.
- Machinery and equipment for the company's own use.
- Prepayments and acquisitions in progress.

Other long-term expenditure on intangible assets includes ADP licenses recognized as assets.

Depreciation is recorded on a straight-line basis over the expected useful lives of the assets as follows:

▪ Long-term expenditure (ADP licences)	3 years
▪ Land and water	no depreciation
▪ Buildings (office premises)	50 years
▪ Technical equipment (incl. in buildings)	8 years
▪ Machinery and equipment	5 years
▪ Art objects	no depreciation

Depreciation on properties has been made over the Group's own period of ownership.

Trading properties (IAS 2 Inventories) are properties that are meant for sale and which do not, due to their size, location or type of property correspond to the strategic targets set for the company. One of Kapiteeli's tasks since its establishment has been to sell these properties and sales targets have been set in the strategy, the annual plan and the budget.

The following have been allocated to trading property:

- properties and shares in property companies owned by the parent company
- subsidiary company loans granted to the parent company's property companies
- non-quoted shares.

Trading properties are stated at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

The valuations of properties meant for sale at the end of 2005 are the company's own valuations mainly using the market-value method. Write-downs were recorded in the financial statements on the materiality basis: the market value of properties to be sold after recognition is expected to be at least the carrying amount.

Finance lease receivables

Two of the long-term leases according to which the risks and rewards incident to ownership have been substantially transferred to the lessee have been classified as finance lease assets. The parts of the properties that are subject to finance lease assets were recognized as finance lease receivables in the balance sheet at the commencement of the lease term at an amount that is as big as the net investment in the lease i.e. the present value of the minimum lease payment increased by the present value of the unguaranteed residual value. The interest rate used was the rate implicit in the lease.

Those of the investment properties that were subject to a lease were recognized as a decrease in their fair value. As leases were made at the same time as the purchase of properties, the purchase price was used as the fair value.

Monthly lease payments have been divided according to the annuity method into interest and repayments of receivables. Interest income from finance lease receivables is reported as an item contained in the net rental income according the EPRA's outline income statement.

Income from other leases, which most of the leases are, is recognized as gross rental income.

Financial assets and liabilities

Upon initial recognition financial assets and financial liabilities are recorded in the balance sheet at fair value, which usually equals their cost, and settlement day accounting is applied. Financial assets are derecognized when the contractual rights to the cash flows from the financial assets expire, or all the risks and rewards are substantially transferred to another party. Financial liabilities are derecognized when the debt is paid or otherwise extinguished.

Starting as of January 1, 2004 all derivative financial instruments have been recognized at fair value and classified as financial assets and financial liabilities in the balance sheet, as required by the IFRS. Cash and bank receivables include cash at hand and in banks. Any negative balances on bank account limits are included in current liabilities.

Income and expenses arising from financial instruments are recognized on an accruals basis or, if the classification of item so requires, the change in the fair value is recognized in the income statement.

For measurement purposes the financial assets are classified as follows:

- financial assets at fair value through profit or loss
- loans and receivables
- available-for-sale financial assets

Financial assets recognized at fair value through profit or loss include the trading portfolio. It contains derivative financial instruments to which hedge accounting is not applied. Derivatives are measured at fair value and the change in the fair value is recognized in the income statement. If the fair value of a derivative financial instrument is negative, it is included under other liabilities in financial liabilities.

Loans and other receivables include normal relatively short-term loans measured at cost upon initial recognition. The class also includes material receivables for sales transactions i.e. receivables with maturity for more than 6 months and an interest rate materially different from what the counterparty would pay based on normal market conditions for a debt with the same maturity and risk. These receivables are initially recognized on the balance sheet at fair value represented by the present value of the future cash flows from these receivables.

The loans are not held for trading. The loans and receivables are measured at acquisition cost or amortized cost using the effective interest method. An impairment loss is recognized if the carrying amount of the receivable is higher than the expected recoverable amount.

Available-for-sale financial assets include short-term investments in commercial papers issued by Finnish companies and certificates of deposit issued by Finnish banks and utilized in Kapiteeli's liquid management. Short-term liquidity investments are measured at fair value. A change in fair value is recorded under equity in the fair valuation fund. The fair value of such financial assets is not supposed to differ from their carrying amount because the investments are short in terms of maturity and stable in terms of creditworthiness.

For measurement purposes the financial liabilities are classifed as:

- other financial liabilities and
- financial liabilities held for trading purposes..

Euro-denominated liabilities classified as other financial liabilities are measured at amortized cost using the effective interest method. The calculation of the amortized cost takes into consideration material origination fees, transaction costs, and issue premiums or discounts. Loans denominated in a foreign currency are translated at the closing balance sheet date. Exchange rate differences are recognized in the income statement for the financial year in which they arise.

Financial liabilities held for trading include derivative financial instruments to which hedge accounting is not applied. They are measured at fair value and changes in the fair value are recognized in the income statement. Negative fair values of these instruments are shown as liabilities in the balance sheet.

All derivative financial instruments starting from January 1, 2004 have been recognized at fair value in financial assets and liabilities in line with IFRS. The cumulative change in fair value is included in the transitional balance sheet under retained earnings. Kapiteeli does not apply hedge accounting. Changes in the fair value of derivatives are recognized in the income statement.

For risk management purposes the company mainly utilizes interest rate caps, interest rate swaps, interest futures and currency swaps. The fair value of interest rate caps is calculated by means of an option pricing model generally used on the market. The fair value of interest rate swaps is calculated by discounting future cash flows using the market interest rate at the closing balance sheet date. Currency and interest rate swaps are valued using the market quotations at the closing balance sheet date.

Realized and accrued interest income and expenses from interest rate swaps and currency derivatives for the period are recognized in the income statement as adjustments to interest expenses. Changes in the fair values of interest rate and currency derivatives are recorded under other financial income and expenses.

Provisions

A provision is made when the Group has a legal or constructive obligation based on an earlier event and it is likely that the performance of the obligation will require a payment and the amount of the obligation can be estimated reliably. Provisions have been made for

- properties with soil restoration costs where it is known or suspected that the soil is contaminated in the area because of earlier activity. This includes shunting yards, sawmills, service stations and repair workshops and old industrial properties. Kapiteeli is responsible for research and remedial projects on contaminated land as required by legislation, environmental authorities and any agreements it has entered into. Reports and studies of the subsoil are carried out mainly in connection with property transactions and town-planning schemes.
- compensation relating to land use agreements and
- costs of demolishing properties.

Income taxes

Accrued taxes based on the Group companies' profits for the period, adjustments to taxes for previous periods and changes to deferred tax items are recognized under income tax expense in the consolidated income statement.

Deferred tax assets and liabilities are based on temporary differences between the consolidated accounting profit and the Group companies' taxable income. The most significant item in the deferred tax assets is formed by the parent company Kapiteeli Plc's tax losses carried forward, which have been recognized in the amount up to which it is probable that it can be used against taxable income in the future. Tax assets have been calculated in accordance with the profit prognoses drawn up by the company management for 2006–2009. Deferred tax liabilities arise out of the effect on the profit of measuring investment properties, financial receivables and liabilities, and their hedging instruments at fair value.

Segment information

In the segment reporting business segments have been defined as the primary segment and the geographical segments as the secondary. The segments presented correspond to the company's internal reporting structure. The business segments are Office and Retail Property, Hotels and Sales Property. Other units include the Group's undistributed funds and income and expenses.

Personnel expenses

The pension cover for Kapiteeli's personnel is arranged through insurance (TEL) taken out with an insurance company, and the expenses arising from it are included under pension expenses. The retirement pension has been treated as a defined contribution plan. As far as disability pension is concerned, actual disability is seen as an event giving rise to an obligation. Unemployment pension is treated as a benefit subsequent to the termination of employment and redundancy is considered to be an event that gives rise to a possible obligation.

Transition to International Financial Reporting Standards (IFRS)

Kapiteeli adopted International Financial Reporting Standards (IFRS) on January 1, 2005. The transition date was January 1, 2004. The differences arising from the adoption of the standards compared with financial statements prepared according to Finnish Accounting Standards (FAS) are shown in the following transition statements.

The transition statements show an opening IFRS balance on January 1, 2004 compared with the FAS balance sheet on December 31, 2003 and comparisons on December 31, 2004 and December 31, 2005. Income statement comparisons are shown for the financial years 2004 and 2005. The purpose of the statements is to give information about the material effects of the adoption of IFRS on the Group's financial position and financial performance. In addition, reconciliations of the profit and equity for the same financial periods are shown.

The most significant effects of the adaption of the new standards on the consolidated financial statements concern the valuation of investment properties, deferred taxes, recognizing provisions and the measurement of financial instruments. The accounting principles for preparing IFRS financial statements used by the Group are shown on page 44. The IFRS has no effect on the cash flow statement.

Reconciliation of consolidated income statements

EUR million	Note	FAS Jan. 1–Dec. 31, 2004	IFRS effect	IFRS Jan. 1–Dec. 31, 2004	FAS Jan. 1–Dec. 31, 2005	IFRS effect	IFRS Jan. 1–Dec. 31, 2005
Net rental income	7	**87.1**	**–0.7**	**86.4**	**87.7**	**–3.1**	**84.6**
Profit/loss on disposal of trading properties		37.6	0.0	37.6	38.7	-1.9	36.8
Administrative expenses		23.5		23.5	20.7		20.7
Depreciation	1	20.3	-17.7	2.5	22.5	-22.1	0.4
Net other income		4.9		4.9	4.5		4.5
Profit/loss on disposal of investment property					0.3		0.3
Valuation gains/losses on investment property	2		30.0	30.0		50.5	50.5
Write-downs of trading properties		-5.2		-5.2	-7.4		-7.4
NET OPERATING PROFIT BEFORE FINANCE COSTS		**80.6**	**47.0**	**127.6**	**80.6**	**67.6**	**148.2**
Dividend income		0.1		0.1	0.0		0.0
Net financing costs	8	-16.0	-6.9	-22.9	-14.8	0.2	-14.6
Profit before tax		**64.6**	**40.1**	**104.8**	**65.8**	**67,8**	**133.6**
Income tax expence	4	0.1	23.1	23.1	0.0	21.3	21.3
Minority interest		-0.2	0.0	-0.2	0.0	0.0	0.0
PROFIT FOR THE PERIOD		**64.4**	**17.1**	**81.5**	**65.8**	**46.5**	**112.3**

Reconciliation of consolidated balance sheets

EUR million	Note	FAS Jan. 1, 2004	IFRS effect	IFRS Jan. 1, 2004	FAS Dec. 31, 2004	IFRS effect	IFRS Dec. 31, 2004	FAS Dec. 31, 2005	IFRS effect	IFRS Dec. 31, 2005
ASSETS										
Non-current assets										
Investment properties	1,2,3		727.0	727.0		966.8	966.8		1,029.8	1,029.8
Other property, plant and equipment	1	837.4	-714.5	122.9	862.6	-848.2	14.4	848.8	-844.0	4.8
Finance lease receivables	3								2.7	2.7
Investments	1,6	12.8	-12.8	0.0	4.4	-4.4	0.0	5.1	-5.1	0.0
Deferred tax assets	4		65.6	65.6		57.5	57.5		51.0	51.0
		850.2	**65.3**	**915.5**	**867.0**	**171.6**	**1,038.6**	**853.9**	**234.3**	**1,088.3**
Current assets										
Trading properties (IAS 2 Inventories)	6.7	398.7	19.8	418.5	318.1	-0.5	317.6	234.2	1.1	235.3
Sales and other receivables		26.1	-0.6	25.5	42.5	-0.3	42.2	22.9	0.0	22.9
Loan assets					0.0		0.0	0.0	0.0	0.0
Current receivables	8	11.8	2.2	14.0	15.9	1.2	17.2	15.5	6.0	21.5
Cash and cash equivalents		23.4	-0.6	22.8	25.9	0.4	26.3	6.1	0.0	6.1
		460.0	**20.7**	**480.8**	**402.5**	**0.8**	**403.3**	**278.7**	**7.1**	**285.8**
ASSETS, TOTAL		**1,310.2**	**86.0**	**1,396.2**	**1,269.5**	**172.4**	**1,441.9**	**1,132.6**	**241.4**	**1,374.0**
EQUITY AND LIABILITIES										
Equity belonging to owners of parent company										
Share capital		190.0		190.0	190.0	0.0	190.0	190.0		190.0
Share premium		76.7		76.7	76.7	0.0	76.7	76.7		76.7
Retained earnings	1,2,4,5,7,8	226.8	124.3	351.1	282.4	141.4	423.8	308.2	187.8	496.0
		493.4	**124.3**	**617.7**	**549.1**	**141.4**	**690.5**	**574.9**	**187.8**	**762.7**
Minority interest	5	**43.2**	**-42.0**	**1.3**	**1.6**		**1.6**	**1.6**	**0.0**	**1.6**
Liabilities										
Non-current										
Capital loan	8	172.0	-13.2	158.8	59.5	-4.9	54.6			
Non-current interest-bearing liabilities	5	513.5	-14.7	498.9	479.1	0.8	479.9	441.0	0.5	441.4
Provisions	7	9.6	6.6	16.1	23.2	-3.0	20.2	16.4		16.4
Deferred tax liabilities	4		23.4	23.4		38.4	38.4		53.2	53.2
		695.1	**2.2**	**697.2**	**561.9**	**31.3**	**593.2**	**457.4**	**53.7**	**511.1**
Current liabilities										
Current interest-bearing liabilities		41.6	-0.8	40.9	122.8	-0.3	122.5	70.4	0.0	70.4
Other liabilities	8	36.9	2.2	39.1	34.1	0.0	34.2	28.3	0.0	28.3
		78.5	**1.5**	**79.9**	**156.9**	**-0.3**	**156.6**	**98.8**	**0.0**	**98.7**
Liabilities, total		**773.6**	**3.6**	**777.2**	**718.7**	**31.1**	**749.8**	**556.1**	**53.6**	**609.8**
EQUITY, MINORITY INTEREST AND LIABILITIES, TOTAL		**1,310.2**	**86.0**	**1,396.2**	**1,269.5**	**172.4**	**1,441.9**	**1,132.6**	**241.4**	**1,374.0**

Note

1 Items that are attributed to investment properties have been eliminated from planned depreciation and from other non-current assets.
2 Investment properties have been measured at fair value and an adjustment in valuation has been recognized in the income statement and under equity in the opening balance sheet.
3 Two long-term leases have been defined as finance leases.
4 Deferred taxes have been recognized in accordance with IAS 12.
5 The minority interest has been recognized in accordance with IAS 31.
6 Items not belonging to IAS 40 and 16 have been handled in accordance with IAS 2.
7 Provisions have been recognized in accordance with IAS 37.
8 Financial items have been valued in accordance with IAS 32/39.

Reconciliation of profit for financial period

EUR million	Jan.–Dec. 2004	Jan.–Dec. 2005
Profit for period according to FAS	64.4	65.8
Effects of transfer to IFRS		
Reversal of depreciation on investment property	17.7	22.1
Adjustment in valuation of investment property	30.0	50.5
Adjustment in valuation of financial items	-6.9	0.2
Adjustment to deferred taxes	-23.1	-21.3
Other items	-0.7	-5.0
Profit for period according to IFRS	**81.4**	**112.3**

Reconciliation of equity

EUR million	Jan. 1, 2004	Dec. 31, 2004	Dec. 31, 2005
Equity according to FAS	**493.4**	**549.1**	**574.9**
Effects of transfer to IFRS			
Measurement of investment property at fair value	67.0	97.0	147.5
Effect of financing activities	13.0	6.1	6.3
Provisions	3.0	3.0	
Deferred taxes	42.1	19.1	-2.2
Other items	-0.8	16.2	36.2
Equity according to IFRS	**617.7**	**690.5**	**762.7**

Notes to the consolidated financial statements

NOTES TO BALANCE SHEET
EUR 1,000

1 INVESTMENT PROPERTIES

	Dec. 31, 2005 Carrying amount	Fair value	Effect of fair value on profit	Dec. 31, 2004 Carrying amount	Fair value	Effect of fair value on profit
Value at beginning of period	**869,487**	**966,758**		**743,649**	**810,930**	
Properties completed that were under construction	13,762	12,000	-1,762	56,913	102,119	45,206
Purchases	61,815	56,696	-5,119	4,338	4,338	
Capitalized development investment	31,402	46,444	15,042	17,608	15,575	-2,033
Capitalized investment	15,314	53,595	38,281	27,341	14,678	-12,663
Depreciation on properties valued at cost				-1,990	-1,990	
Disposals	-115,167	-116,263	-1,096			
Reclassifications from trade properties and other changes	5,346	10,532	5,186	21,628	21,108	-520
Changes, total	**12,472**	**63,004**	**50,532**	**125,838**	**155,828**	**29,990**
Value at end of period	**881,959**	**1,029,762**		**869,487**	**966,758**	

Properties completed that were under construction are properties classified in the opening balance sheet on December 1, 2004 as investment properties to be developed for future own use in accordance with IAS 16.

2 OTHER PROPERTY, PLANT AND EQUIPMENT

2005	Intangible assets Other long-term expenditure	Tangible assets Land	Buildings and structures	Machinery and equipment	Prepayments and acquisitions in progress	Other tangible assets	Total
Cost Jan. 1, 2005	1,853	4,721	3,511	826	5,455	588	15,101
Additions	26		348	109	415	13	885
Disposals		-4,652	-208		-5,087		-9,947
Transfers between items							
Cost Dec. 31, 2005	1,879	69	3,651	935	783	601	6,039
Accumulated depreciation Jan. 1, 2005	1,333		307	742		301	1,350
Accumulated depreciation on Disposals and transfers			-4				-4
Depreciation for period	216		73	48		109	230
Accumulated depreciation Dec. 31, 2005	1,549		376	790		410	1,576
Book value Dec. 31, 2005	**330**	**69**	**3,275**	**145**	**783**	**191**	**4,463**

2004	Intangible assets Other long-term expenditure	Tangible assets Land	Buildings and structures	Machinery and equipment	Prepayments and acquisitions in progress	Other tangible assets	Total
Cost Jan. 1, 2004	1,613	5,707	5,916	904	27,862	566	40,955
Additions	254			8		74	82
Disposals	-6	-988	-2,359		-22,425	-37	-25,809
Transfers between items	-3		86	-86		3	3
Cost Dec. 31, 2004	1,858	4,719	3,643	826	5,437	606	15,231

Financial statements

2004	Intangible assets Other long-term expenditure	Tangible assets Land	Buildings and structures	Machinery and equipment	Prepayments and acquisitions in progress	Other tangible assets	Total
Accumulated depreciation Jan. 1, 2004	1,109		237	631		184	1,052
Accumulated depreciation on disposals and transfers						-2	-2
Depreciation for period	224		70	111		137	318
Accumulated depreciation Dec. 31, 2004	1,333		307	742		319	1,368
Book value Dec. 31, 2004	**525**	**4,719**	**3,336**	**84**	**5,437**	**287**	**13,863**

3 FINANCE LEASE RECEIVABLES

	Dec. 31, 2005
Book value of lease receivables	2,732
Minimum lease payments receivable (nominal)	16,285
+ Unguaranteed residual values (nominal)	3,950
Gross investment	**20,235**
- Unearned finance income	-17,503
Net investment (present value of lease receivables)	**2,732**
Present value of unguaranteed residual values	22
Present value of minimum lease payments receivable	**2,710**

	Term structure			
	2006	2007–2010	2011 –	Total
Gross investment	331	1,653	18,251	20,235
Present value of minimum lease payments receivable	312	1,220	1,178	2,710

4 TAXES

Income tax expense	2005	2004
Current tax	17,568	20,449
Out-of-period tax		12
Deferred tax	3,767	2,684
	21,336	**23,145**

Deferred taxes in balance sheet	Dec. 31, 2005	Dec. 31, 2005
Deferred tax assets	50,973	57,477
Deferred tax liabilities	-53,206	-38,374
Deferred tax liability/assets, net	**–2,233**	**19,103**

Gross change to deferred taxes in balance sheet	2005	2004
Deferred tax Jan.1	19,103	42,148
Items recognized in income statement	21,336	23,045
Deferred tax Dec. 31	**–2,233**	**19,103**

Financial statements

Change in deferred tax assets and liabilities during financial period

2005	Jan. 1	Recognized in income statement	Recognized under equity	Dec. 31
Deferred tax assets				
Tax losses carried forward	69,007	-8,034		60,973
Measurement of investment property at fair value				
Measurement of financial items at fair value	98	-96		2
Measurement of derivatives at fair value	3,470	-187		3,283
Provisions	5,263	-995		4,268
Taxes for period (tax losses)	-20,361	2,808		-17,553
Other temporary differences				
	57,477	-6,504		50,973
Deferred tax liabilities				
Depreciation differences	-3,492	-97		-3,589
Measurement of investment property at fair value	-28,901	-16,512		-45,413
Measurement of financial items at fair value	-4,599	1,388		-3,211
Measurement of derivatives at fair value	-420	-573		-993
Other temporary differences	-962	962		
	-38,374	-14,832		-53,206
Deferred tax assets/liabilities, net	**19,103**	**-21,336**		**-2,233**

2004	Jan. 1	Recognized in income statement	Recognized under equity	Dec. 31
Deferred tax assets				
Tax losses carried forward	56,869	12,138		69,007
Measurement of investment property at fair value				
Measurement of financial items at fair value	157	-59		98
Measurement of derivatives at fair value	3,994	-524		3,470
Provisions	4,570	693		5,263
Taxes for period (tax losses)		-20,361		-20,361
Other temporary differences				
	65,590	-8,113		57,477
Deferred tax liabilities				
Tax losses carried forward	-3,846	354		-3,492
Measurement of investment property at fair value	-10,735	-18,166		-28,901
Measurement of financial items at fair value	-7,150	2,551		-4,599
Measurement of derivatives at fair value	-638	218		-420
Other temporary differences	-1,073	111		-962
	-23,442	-14,932		-38,374
Deferred tax assets/liabilities, net	**42,148**	**-23,045**		**19,103**

5 TRADING PROPERTIES (IAS 2 INVENTORIES)

	Dec. 31, 2005	Dec. 31, 2004
Land and buildings	63,256	87,916
Shares in property companies	154,626	212,503
Other shares	303	304
Loan assets from subsidiaries	15,802	16,040
Other receivables	1,300	834
	235,287	**317,598**

Trading properties include 174 subsidiaries and 118 associates that have not been consolidated in the consolidated financial statements. The companies are mainly property and housing companies. A total of EUR 7.4 million was recognized as write-downs of 65 property companies. The carrying amounts of property disposals totalled EUR 59.9 million.

6 SALES AND OTHER RECEIVABLES

	Dec. 31, 2005	Dec. 31, 2004
Lease receivables	3,472	5,330
Sales receivables	19,383	36,886
	22,855	**42,216**

The receivables have been valued in the balance sheet at cost or amortized cost.

7 LOAN ASSETS

LOAN ASSETS	**9**	**17**

The book value of loan assets is considered to correspond to the fair value.

8 CURRENT RECEIVABLES

	Dec. 31, 2005	Dec. 31, 2004
Prepayments	7,156	3,557
VAT	3,564	3,588
Other current receivables*)	8,277	3,642
	18,998	**10,787**
Prepaid expenses and accrued income		
Interest rate receivables	1,375	776
Other accruals	1,173	5,592
	2,548	**6,368**
Current receivables, total	**21,545**	**17,155**

*) Other current receivables include interest rate caps (trading portfolio) to be measured at fair value.

	2005	2004
Nominal value of interest rate caps purchased	482,000	267,000
Fair value	4,161	866

The options' fair values are shown in the balance sheet under other current receivables.
The repricing period for all interest rate derivatives is 6 months.

9 CASH AND CASH EQUIVALENTS

Cash in hand and at banks	4,104	25,490
Liquid securities	1,984	838
	6,089	**26,328**

Available-for-sale financial assets include unquoted shares. Assets held for sale include current investments for managing Kapiteeli's liquidity i.e. commercial papers issued by Finnish companies and certificates of deposit of Finnish banks. The maturity of the liquid securities is short, typically from one day to a few months. The fair value of financial assets does not differ materially from the book value.

Unquoted shares are shown under trading properties, other shares.

10 INFORMATION ABOUT EQUITY

Kapiteeli Plc's maximum share capital is EUR 500 million and the nominal value of a share is EUR 20. A dividend of EUR 4.22 per share was paid for 2004 (EUR 40.1 million). A meeting of shareholders on April 20, 2006 proposed a dividend of EUR 7.1 per share, making a total dividend of EUR 67.5 million. The proposed dividend has not been recognized as a liability in these financial statements.

Share capital and share premium	Number of shares	Share capital	Share premium	Unrestricted equity	Total
Jan. 1, 2004	9,500,000	190,000	76,666	351,079	617,745
Dec. 31, 2004	9,500,000	190,000	76,666	423,805	690,470
Dec. 31, 2005	9,500,000	190,000	76,666	495,991	762,657

Distributable equity	Dec. 31, 2005	Dec. 31, 2004
Unrestricted equity	383,715	342,339
Profit for period	112,276	81,466
Non-distributable equity	-210,366	-157,145
Distributable equity	**285,625**	**266,660**

11 NON-CURRENT LIABILITIES

Interest-bearing financial liabilities including derivatives

	Dec. 31, 2005		Dec. 31, 2004	
	Balance sheet	Fair value	Balance sheet	Fair value
Current				
Repayments of loans in following year*)	21,600	21,600		
Currency swaps	5,846	5,846		
Commercial papers issued	42,910	42,794	122,391	122,141
Other liabilities	36	36	73	73
	70,391	**70,276**	**122,464**	**122,214**
Capital loans			**54,639**	**56,325**
Non-current				
Loans from financial institutions	316,211	318,163	326,073	328,699
Bonds	96,839	98,762	96,796	98,985
Currency loans	21,611	21,611	43,068	43,068
Currency swaps	6,244	6,244	11,915	11,915
Interest rate derivatives	538	538	1,431	1,431
Other liabilities			658	658
	441,443	**445,318**	**479,941**	**484,756**

*) Repayments of loans in following year include a currency loan repayment of EUR 21.6 million.
Negative fair values of derivative financial instruments are shown in current and non-current liabilities.
The fair values of interest-bearing liabilities have been calculated by discounting future cash flows using market interest rates on the balance sheet date. The discount rate includes a credit margin calculated as at the balance sheet date.
The fair value of liabilities denominated in foreign currencies has been calculated using market interest rates and exchange rates on the balance sheet date.
Currency swaps have been used in order to hedge the liability denominated in foreign currency for changes in the foreign exchange rates and market interest rates.
The carrying amounts of non-interest-bearing liabilities are considered to be equal to their fair values.

Kapiteeli Plc paid off its capital loan with a nominal value of EUR 59.5 million from the State of Finland on October 11, 2005.
After the repayment Kapiteeli has no capital loan from its owner, the State of Finland.

Maturities for liabilities December 31, 2005 (current and non-current)

EUR million	2006	2007	2008	2009	2010	2011	2012+	Total
Commercial papers	43.0							43.0
Loans from financial institutions		45.6	65.0	5.0	100.0	100.0		315.6
Bonds		10.0	37.0	50.0				97.0
Currency loans	21.6		21.6					43.2
Currency swaps	5.8		6.2					12.1
Interest rate derivatives			0.5					0.5
Other non-current liabilities								
Liabilities, total	**70.4**	**55.6**	**130.4**	**55.0**	**100.0**	**100.0**		**511.5**

Loans denominated in euros have been shown at their nominal values and currency loans have been valued at the exchange rate on the balance sheet date. The weighted interest rate on interest-bearing loans was 3.0 per cent and the average weighted loan period 3.3 years.

Effective interest rates December 31, 2005

Fixed interest loans	Capital EUR million*)	Effective interest rate
Kapiteeli Plc's loans		
Bonds	50.0	4.45%
Currency loans *)	55.0	0.86%
Kapiteeli Plc subsidiaries' loans	15.1	6.98%

The effective interest rates on floating rate borrowings are always changed when the interest rates are re-fixed during the year. Substantial origination fees and issues premiums or discounts have been taken into account in the calculation of the effective interest rate of the borrowings.
*)Nominal value in euros at the time when the currency loan came into existence.

Liabilities measured at fair value, trading portfolio

	2005	2004
Currency and interest rate swaps		
Nominal value	JPY 6,000 million	JPY 6,000 million
Fair value	EUR -12.09 million	EUR -11.92 million
Interest rate swaps		
Nominal value	EUR 30.00 million	EUR 104.00 million
Fair value	EUR -0.54 million	EUR -1.43 million

Derivative financial instruments are used only for hedging purposes.
The company does not apply hedge accounting.

Interest rate sensitivity

Estimated effect of change in market interest rates on the Group's net interest expenses during the next twelve months.

Change in market interest rate, percentage points	1,00%	2,00%	3,00%	-1,00%	-2,00%
Change in net interest expenses EUR million	3.0	3.9	4.6	-4.2	-8.3

The nominal amounts of the fixed interest rate borrowings with maturities for more than one year and the interest rate derivatives jointly represent 86 per cent of the nominal value of the Group's interest-bearing liabilities.

Breakdown of maturities of Kapiteeli Plc's derivative financial instruments

Nominal values Interest rate and currency derivatives (EUR million)	2006	2007	2008	2009	2010	2011	2005 Total	2004 Total
Purchased euro-denominated interest rate cap options	140.0		77.0		180.0	85.0	482.0	267.0
Interest rate swaps			30.0				30.0	104.0
Currency swaps		27.4		27.6			55.0	55.0

Fair values Interest rate and currency derivatives (EUR million)	2006	2007	2008	2009	2010	2011	2005 Total	2004 Total
Purchased euro-denominated interest rate cap options	0.0		0.1		2.3	1.7	4.2	0.9
Interest rate swaps			-0.5				-0.5	-1.4
Currency swaps		-5.8		-6.2			-12.1	-11.9

The calculation of fair values is based on market exchange rates and prices at the balance sheet date, the present value of future cash flows and for interest rate caps a pricing model generally used on the market. The repricing frequency of all derivatives is six months.

12 PROVISIONS

	Dec. 31, 2005	Dec. 31, 2004
Property repairs and soil restoration Jan. 1	17,628	10,284
Increases in provision	5,000	7,848
Utilized provisions	-8,304	-504
Reversal of unused provisions	-4,600	
Provisions Dec. 31	9,724	17,628
Other provisions Jan. 1	2,615	5,475
Increases in provision	4,580	
Utilized provisions		-2,860
Reversal of unused provisions	-505	
Provisions Dec. 31	6,690	2,615
Provisions, total	**16,414**	**20,243**

13 PLEDGES GIVEN, CONTINGENT LIABILITIES AND OTHER COMMITMENTS

	Dec. 31, 2005	Dec. 31, 2004
Pledges, mortgages		
Group loans	36,585	36,585
Mortgages given	19,844	19,844
	56,429	56,429
Other contingent liabilities, guarantees		
Guarantees given by Group	986	1,579
Other liabilities		
Amounts payable for leases		
Due in next financial period	148	185
Due later	78	275
	226	460

VAT LIABILITIES

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

14 OTHER CURRENT LIABILITIES

	Dec. 31, 2005	Dec. 31, 2004
Trade accounts payable	**7,045**	**9,948**
Accrued liabilities and deferred income		
Interest payable	2,990	3,757
Wages and salaries	900	1,086
Other accrued liabilities and deferred income	2,724	4,079
	6,614	**8,922**
Prepayments	**2,841**	**4,090**
Other liabilities		
VAT	6,164	5,307
Group account liabilities	4,910	5,183
Other liabilities	755	711
	11,829	**11,201**
Other current liabilities, total	**28,329**	**34,161**

LITIGATION

In its arbitration award on August 17, 2005 the Court of Arbitration approved Kapiteeli's demands and obliged Kesko Plc to compensate for extra costs, overdue rent and penalty interest on the basis of the lease for the Ruoholahti Trade Centre, a total of about EUR 3.4 million, and to pay EUR 0.06 million per month extra rent for the remaining 7-year period of the lease.

SHARES IN SUBSIDIARIES

Kapiteeli plc's property subsidiaries included in the consolidated accounts

Name	Domicile	Ownership, %	Usage
Aleksintori Kiint Oy	Kerava	100.00%	business property
City-Raisio Kiint Oy	Raisio	100.00%	business property
Espoon Itsehallintotie 3 Kiint Oy	Espoo	100.00%	office property
Espoon Pyyntitie 1 Kiint Oy	Espoo	100.00%	ind. prop./warehouse
Estradi Kiint Oy	Helsinki	100.00%	office property
Helsingin Ehrensvärdintie 31-35 Kiint Oy	Helsinki	100.00%	office property
Helsingin Hattutehdas Kiint Oy	Helsinki	100.00%	unbuilt land
Helsingin Hämeentie 105 Kiint Oy	Helsinki	60.63%	ind. prop./warehouse
Helsingin Itämerenkatu 21 Kiint Oy	Helsinki	100.00%	business property
Helsingin Itämerentalo Kiint Oy	Helsinki	100.00%	office propert
Helsingin Kanavakatu 8-22 Kiint Oy	Helsinki	100.00%	hotel
Helsingin Kirvesmiehenkatu 4 Kiint Oy	Helsinki	100.00%	office property
Helsingin Kulttuuritalo Kiint Oy	Helsinki	100.00%	office property
Helsingin Kuntotalo Kiint Oy	Helsinki	100.00%	office property
Helsingin Lampputie 12 Kiint Oy	Helsinki	100.00%	ind. prop./warehouse
Helsingin Lampputie 4 Kiint Oy	Helsinki	100.00%	ind. prop./warehouse
Helsingin Lautatarhankatu 2 C Kiint Oy	Helsinki	100.00%	ind. prop./warehouse
Helsingin Nuijamiestentie Kiint Oy	Helsinki	100.00%	office property
Helsingin Ohrahuhdantie 4 Kiint Oy	Helsinki	100.00%	ind. prop./warehouse
Helsingin Pieni Roobertinkatu 9 Kiint Oy	Helsinki	100.00%	office property
Helsingin Porkkalankatu 20 A Kiint Oy	Helsinki	100.00%	office property
Helsingin Porkkalankatu 20 B Kiint Oy	Helsinki	100.00%	office property

Helsingin Porkkalankatu 20 C Kiint Oy	Helsinki	100.00%	office property
Helsingin Porkkalankatu 22 Kiint Oy	Helsinki	100.00%	office property
Helsingin Porkkalankadun Alitus Kiint Oy	Helsinki	62.64%	parking facility
Helsingin Ruoholahden Parkki Kiint Oy	Helsinki	90.78%	parking facility
Helsingin Salmisaarentalo Kiint Oy	Helsinki	100.00%	office property
Helsingin Silkkikutomo Kiint Oy	Helsinki	100.00%	office property
Helsingin Valimotie 25 A Kiint Oy	Helsinki	100.00%	office property
Helsingin Valimotie 25 B Kiint Oy	Helsinki	100.00%	unbuilt land
Helsingin Valimotie 25 C Kiint Oy	Helsinki	100.00%	unbuilt land
Helsingin Valimotie 27 A Kiint Oy	Helsinki	100.00%	office property
Helsingin Valimotie 27 B Kiint Oy	Helsinki	100.00%	unbuilt land
Helsingin Valimotie 27 C Kiint Oy	Helsinki	100.00%	unbuilt land
Helsingin Valimotie 27 D Kiint Oy	Helsinki	100.00%	unbuilt land
Helsingin Vanhanlinnantie 3 Kiint Oy	Helsinki	100.00%	unbuilt land
Helsingin Värjäämö Kiint Oy	Helsinki	100.00%	unbuilt land
Hermitec Oy	Tampere	100.00%	office property
Hämeenkatu 20 Kiint Oy	Tampere	100.00%	office property
Hämeentie 103 Kiint Oy	Helsinki	100.00%	ind. prop./warehouse
Höyläämötie 5 Kiint Oy	Helsinki	100.00%	ind. prop./warehouse
Isontammentie 4 Kiint Oy	Vantaa	100.00%	unbuilt land
Joensuun Ykköspaikoitus Oy	Joensuu	88.57%	business property
Jyväskylän Kauppakatu 32 Kiint Oy	Jyväskylä	100.00%	business property
Järvenpään Pysäköintitalo Kiint Oy	Järvenpää	85.00%	business property
Kajaanin Koskihotelli Kiint Oy	Kajaani	100.00%	hotel
Kattotuoli Kiint Oy	Turku	100.00%	ind. prop./warehouse
Keravan Kauppakaari Kiint Oy	Kerava	100.00%	business property
Kotkan Liikekeskus Kiint Oy	Kotka	100.00%	business property
Kuopion Kauppakatu 18 Kiint Oy	Kuopio	100.00%	business property
Kuopion Vuorikatu 26 Kiint Oy	Kuopio	100.00%	office property
Kuusamon Sesaju Kiint Oy	Kuusamo	100.00%	leisure-time property
Lahden Aleksanterinkatu 11 Kiint Oy	Lahti	100.00%	business property
Lahden Kulmala Kiint Oy	Lahti	100.00%	business property
Lausteen Taalintehtaankatu 10 Kiint Oy	Turku	100.00%	ind. prop./warehouse
Marina Congress Center Kiint Oy	Helsinki	100.00%	hotel
Mikkelin Hallitustori Kiint Oy	Mikkeli	100.00%	business property
Moksunniemi Oy, Ähtäri	Ähtäri	76.45%	hotel
Moottorihotelli Tarvontie Kiint Oy	Espoo	100.00%	hotel
Nordic Hotellikiinteistöt Kiint Oy	Helsinki	100.00%	hotel
Oulun Liikevärttö 1 Kiint Oy	Oulu	100.00%	ind. prop./warehouse
Oulun Liikevärttö 2 Kiint Oy	Oulu	100.00%	ind. prop./warehouse
Oulun Liikevärttö 3 Kiint Oy	Oulu	100.00%	ind. prop./warehouse
Oulun Posteljooni Kiint Oy	Oulu	100.00%	office property
Pieni Roobertinkatu 7 Kiint Oy	Helsinki	99.79%	office property
Pohjoislaakso Kiint Oy	Kouvola	100.00%	office property
Porin Augustinkulma Kiint Oy	Pori	100.00%	office property
Porin Itäpuisto 11 Kiint Oy	Pori	70.38%	office property
Porin Pentinkulma Kiint Oy	Pori	100.00%	office property
Pronssitie 1 Kiint Oy	Helsinki	100.00%	office property
Ratinanlinna Kiint Oy	Tampere	100.00%	business property
Ruoholahden Sulka Kiint Oy	Helsinki	100.00%	office property
Ruoholahden Yhteissuoja Kiint Oy	Helsinki	100.00%	emergency shelter
Ruoholahdenkatu 4 Kiint Oy	Helsinki	55.69%	office property

Satakansa Kiint Oy	Pori	100.00%	office property
Savonkartano Kiint Oy	Kuopio	100.00%	office property
Scifin Beta Kiint Oy	Espoo	100.00%	office property
Scifin Gamma Kiint Oy	Espoo	100.00%	office property
Sp-kiinteistöt Oy Kilo	Espoo	100.00%	office property
Säästötammela Kiint oy	Tampere	100.00%	office property
Säästötasala Kiint Oy	Raisio	100.00%	business property
Tallbergintalo Kiint Oy	Helsinki	100.00%	office property
Tampereen Enqvistinkatu 7 Kiint Oy	Tampere	100.00%	business property
Tampereen Hallituskatu 8 Kiint Oy	Tampere	100.00%	office property
Tampereen Hatanpäänvaltatie 260 Kiint Oy	Tampere	100.00%	office property
Tampereen Naulakatu 3 Kiint Oy	Tampere	100.00%	office property
Tampereen Näsilinnankatu 39-41 Kiint Oy	Tampere	100.00%	office property
Tampereen Tikankulma Kiint Oy	Tampere	100.00%	hotel
Tehdaskiinteistö Oy Sibylla	Helsinki	64.39%	office property
Tiistilän Miilu Kiint Oy	Espoo	100.00%	office property
Tiistinhovi Kiint Oy	Espoo	100.00%	office property
Tornilampi Kiint Oy	Espoo	100.00%	hotel
Turun Centrum Kiint Oy	Turku	100.00%	business property
Turun Datakulma Kiint Oy	Turku	100.00%	office property
Turun Hansatorni Kiint Oy	Turku	100.00%	office property
Turun Julinia Fastighets Ab	Turku	100.00%	office property
Turun Kauppiaskatu 9 b Kiint Oy	Turku	100.00%	office property
Turun Länsikulma Kiint Oy	Turku	100.00%	business property
Turun Länsiportti Kiint Oy	Turku	100.00%	business property
Turun Pitkämäki Kiint Oy	Turku	52.85%	business property
Turun Puutarhakatu 53 Kiint Oy	Turku	100.00%	office property
Turun Rautakatu Kiint Oy	Turku	100.00%	ind. prop./warehouse
Turun Taoskuja 1 Kiint Oy	Turku	100.00%	business property
Turun Yliopistonkatu 12 a Kiint Oy	Turku	100.00%	office property
Turun Yliopistonkatu 22 Kiint Oy	Turku	100.00%	business property
Tuusulan Pysäkkikuja 1 Kiint Oy	Tuusula	100.00%	business property
Vaasan Portti Kiint Oy	Vaasa	100.00%	business property
Vantaan Harkkokuja 2 Kiint Oy	Vantaa	100.00%	unbuilt land
Vantaan Kuussillantie 27 Kiint Oy	Vantaa	100.00%	ind. prop./warehouse
Vantaan Simonrinne Kiint Oy	Vantaa	77.18%	office property
Vantaan Tähtäinkuja 3 Kiint Oy	Vantaa	100.00%	ind. prop./warehouse
Vantaan Väritehtaankatu 8 Kiint Oy	Vantaa	100.00%	unbuilt land
Värtönparkki 1 Kiint Oy	Oulu	100.00%	ind. prop./warehouse
Zeppelinin City-Keskus Kiint Oy	Kempele	88.91%	business property
Zeppelinin Kauppakeskus Kiint Oy	Kempele	91.47%	business property
Zeppelinin Kauppakulma Kiint Oy	Kempele	100.00%	business property
Zeppelinin Kauppapörssi Kiint Oy	Kempele	88.64%	business property
Zeppelinin Markkinapaikka Kiint Oy	Kempele	58.71%	business property
Zeppelinin Pikkukulma Kiint Oy	Kempele	100.00%	business property
Zeppelinin Tavaratori Kiint Oy	Kempele	78.87%	business property
Ämmänkievari Kiint Oy	Suomussalmi	88.73%	hotel

Associates

Länsikymppi Kiint Oy	Turku	24.18%	business property
Tampereen Keskustori 7 Kiint Oy	Tampere	22.00%	business property
Turun Toripaikoitus Kiint Oy	Turku	28.57%	parking facility
Zeppelinin Kulmatori Kiint Oy	Kempele	49.67%	business property

ADJUSTMENTS TO CASH FLOWS FROM OPERATING ACTIVITIES

	2005	2004
Transactions not involving payment		
Depreciation and impairment	442	7,781
Gain/loss on measurement of investment property at fair value	-43,148	-29,954
Gain/loss on measurement of assets recognized at fair value in the profit	956	7,709
Minority interest	-8	180
	-4,758	**-14,284**

NOTES TO CONSOLIDATED INCOME STATEMENT

EUR 1,000

15 TURNOVER

	2005	2004
Proceeds from sale of trading property	96,726	120,969
Investment property disposal proceeds	52,348	
Gross rental income and service charge income	137,403	157,076
Interest received on finance lease assets	248	
	286,726	**278,045**
OTHER INCOME		
Other operating income	4,827	5,865
Change in valuation of investment property	50,532	29,990
	55,358	**35,855**
TOTAL REVENUES	**342,084**	**313,899**

16 TOTAL EXPENSES EXCL. FINANCE COSTS

Property operating expenses	52,561	69,820
Other expenses from leasing operations	475	836
Carrying value of trading properties	59,964	83,399
Administrative expenses	20,698	23,454
Depreciation	442	2,540
Other operating expenses	340	1,002
Carrying value of investment property disposals	52,052	
Write-downs of trading properties	7,383	5,233
	193,916	**186,284**
NET OPERATING PROFIT BEFORE FINANCE COST	**148,168**	**127,615**

17 GROSS RENTAL INCOME AND SERVICE CHARGE INCOME

Lease payments recognized as income in the period	134,805	152,557
Compensation for use	2,598	4,519
	137,403	**157,076**
INVESTMENT PROPERTIES		
Gross rental income	97,970	83,402
Direct maintenance costs	26,316	21,649
Net rental income	**71,654**	**61,753**

Financial statements

Kapiteeli stands to receive minimum lease payments as follows from existing leases:

	2006	2007–2010	2011 –	Total
Future minimum lease payments	95,400	274,824	217,662	587,886

Payments have been calculated in accordance with the present rents in the leases without index adjustments.
Leases in effect until further notice have been included in leases until the termination of the period of notice mentioned.

18 SEGMENT INFORMATION

BUSINESS SEGMENTS

2005	Office and Retail Property	Hotels	Sales Property	Other units	Total
Turnover	**128,229**	**18,078**	**89,602**	**50,816*)**	**286,726**
Gross rental income and service charge income	96,270	18,078	23,304		137,652
Property operating and leasing activity expenses	–30,107	–2,871	–20,059	0	–53,036
Net rental income	**66,163**	**15,208**	**3,245**	**0**	**84,616**
Proceeds from sale of trading property	31,960		66,298	–1,532	96,726
Carrying value of trading properties	–14,775		–45,189	0	–59,964
Profit/loss on disposals	**17,184**		**21,109**	**–1,532**	**36,762**
Administrative expenses	–4,753	–726	–6,105	–9,115	–20,698
Depreciation				–442	–442
Net other income	1	–127	–673	5,286	4,486
Profit/loss on disposal of investment property	227			69	296
Valuation gains/losses on investment property	62,027	–11,495			50,532
Write-downs of trading properties	–1,306	–200	–5,878	0	–7,383
Change in valuation	60,721	–11,695	–5,878	0	43,148
NET OPERATING PROFIT BEFORE FINANCE COSTS	**139,544**	**2,660**	**11,698**	**–5,734**	**148,168**
Profit for the period					112,276
Property assets	**896,252**	**218,349**	**157,971**		**1,272,572**
Other assets					101,471
Total assets					1,374,042
Investments	40,316	11,356	1,144		52,816
Purchases	23,621	41,162	49		64,832
Total investments	63,937	52,519	1,193		117,648
Net rental yield, %	**7.8**	**7.7**	**1.8**		**6.6**

*) Proceeds from Kruunuasunnot (investment properties)

2004	Office and Retail Property	Hotels	Sales Property	Other units	Total
Turnover	**91,630**	**16,138**	**133,671**	**36,605**	**278,045**
Gross rental income and service charge income	84,012	14,938	30,940	27,187	157,076
Property operating and leasing activity expenses	-25,333	-2,273	-23,406	-19,637	-70,649
Net rental income	**58,679**	**12,666**	**7,534**	**7,550**	**86,427**
Proceeds from sale of trading property	7,619	1,200	102,731	9,419	120,969
Carrying value of trading properties	-4,617	-1,155	-72,571	-5,056	-83,399
Profit/loss on disposals	**3,002**	**45**	**30,161**	**4,362**	**37,570**
Administration expenses	-4,252	-671	-6,507	-12,024	-23,454
Depreciation				-2,548	-2,548
Net other income	-549	-119	-308	5,838	4,862
Profit/loss on disposal of investment property					
Valuation gains/losses on investment property	28,749	1,241			29,990
Write-downs of trading properties	-3,005		-2,228	0	-5,233
Change in valuation	25,744	1,241	-2,228	0	24,757
NET OPERATING PROFIT BEFORE FINANCE COSTS	**82,625**	**13,162**	**28,651**	**3,178**	**127,615**
Profit for the period					81,466
Property assets	**793,050**	**177,803**	**204,262**	**123,612**	**1,298,728**
Other assets					143,209
Total assets					1,441,937
Investments	51,906	12,341	630	26,990	91,867
Purchases	4,323		4,116	7,441	15,880
Total investments	56,229	12,341	4,746	34,431	107,747
Net rental yield, %	**7.8**	**7.4**	**3.2**		**6.7**

GEOGRAPHICAL SEGMENTS

2005

OFFICE AND RETAIL PROPERTY	Helsinki	Turku	Tampere	Jyväskylä	Oulu	Total
Gross rental income and service charge income	56,195	17,536	11,481	6,428	4,630	96,270
Property operating and leasing activity expenses	-17,399	-4,997	-2,939	-2,788	-1,984	-30,107
Net rental income	**38,796**	**12,539**	**8,542**	**3,640**	**2,646**	**66,163**
Property assets	**578,403**	**128,701**	**97,805**	**52,432**	**38,912**	**896,252**
Investments	27,524	273	3,428	4,536	4,555	40,316
Purchases	5,386	100	13,850		4,285	23,621
Total investments	32,910	373	17,278	4,536	8,840	63,937

SALES		South Finland	West Finland	East Finland	North Finland	Total
Gross rental income and service charge income		8,743	4,861	5,059	4,640	23,304
Property operating and leasing activity expenses		-8,093	-2,719	-5,533	-3,714	-20,059
Net rental income		**651**	**2,143**	**-474**	**926**	**3,245**
Property assets		**72,218**	**26,947**	**28,415**	**30,391**	**157,971**
Investments		149	8	265	722	1,144
Purchases			21		27	49
Total investments		149	29	265	750	1,193

2004

OFFICE AND RETAIL PROPERTY	Helsinki	Turku	Tampere	Jyväskylä	Oulu	Total
Gross rental income and service charge income	46,418	17,816	9,146	5,917	4,715	84,012
Property operating and leasing activity expenses	-13,477	-5,276	-2,638	-2,315	-1,627	-25,333
Net rental income	**32,940**	**12,540**	**6,508**	**3,602**	**3,089**	**58,679**
Property assets	**514,209**	**123,234**	**80,678**	**45,149**	**29,781**	**793,050**
Investments	43,771	40	5,656	2,439		51,906
Purchases	4,323					4,323
Total investments	48,094	40	5,656	2,439		56,229

SALES		South Finland	West Finland	East Finland	North Finland	Total
Gross rental income and service charge income		11,189	7,932	5,981	5,838	30,940
Property operating and leasing activity expenses		-8,161	-5,195	-5,142	-4,908	-23,406
Net rental income		**3,028**	**2,738**	**839**	**929**	**7,534**
Property assets		**92,155**	**33,982**	**39,512**	**38,613**	**204,262**
Investments		335	254		41	630
Purchases		2,241	729	642	504	4,116
Total investments		2,577	983	642	545	4,746

19 OTHER EXPENSES FROM LEASING OPERATIONS

	2005	2004
Credit losses	85	244
Commissions	317	388
Others	74	204
	475	**836**

20 ADMINISTRATIVE EXPENSES

Personnel expenses	2005	2004
Wages and salaries	8,748	10,012
Pension expenses	1,739	2,046
Other social expenses	781	783
Other personnel expenses	1,343	1,462
	12,611	**14,304**

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Other administrative expenses	2005	2004
Lease payments of office premises and equipment	2,663	2,652
Office, ICT and connection expenses	3,119	4,001
Marketing and PR	1,341	1,532
Purchased external services	749	794
Others	215	170
	8,087	**9,149**
Administrative expenses, total	**20,698**	**23,454**

Information concerning personnel and members of the administration

Personnel		
Average number of personnel during the period	177	215
Management salaries and remunerations		
Presidents	408	493
Members of the Board of Directors	120	118

The Annual General Meeting of Kapiteeli Plc held on March 22, 2005 approved the following as remuneration for the members of the Board of Directors:
- A monthly remuneration of EUR 1,750 for the Chairman
- A monthly remuneration of EUR 1,350 for the Deputy Chairman
- A monthly remuneration of EUR 1,000 for members
- A meeting fee of EUR 500/meeting/member

The retirement age of the President and CEO and the other members of the Executive Management Team of Kapiteeli Plc is 63.

21 DEPRECIATION

	2005	2004
Planned depreciation on property, plant and equipment		
Other long-term expenditure	325	361
Buildings and structures	69	70
Machinery and equipment	48	111
Total	**442**	**542**
Depreciation on investment property (IAS 16)		1,998
Total	**442**	**2,540**

Depreciation on investment properties has been recognized for Kruunuasunnot Ltd properties that, because of their special nature, have been measured at cost in accordance with IAS 16 (c.f. accounting principles).

22 NET OTHER INCOME

Other property income	215	175
Other operating income	4,612	5,690
	4,827	5,865

Other operating income is mainly service income from the subsidiary Ovenia Ltd.

Other operating expenses		
Expert services	–290	–872
Others	–51	–130
	–340	–1,002
Net other income, total	**4,486**	**4,862**

Financial statements

23 NET FINANCING COSTS

	2005	2004
Interest income	2,686	2,331
Other financial income	484	577
Finance income	**3,170**	**2,908**
Interest expenses	-16,706	-17,842
Other finance expenses	-106	-265
Finance expenses	**-16,812**	**-18,107**
Change in fair value	**-956**	**-7,710**
	-14,597	**-22,908**

24 INCOME TAX EXPENSE

Out-of-period tax		-12
Current tax	-17,568	-20,449
Change in deferred taxes	-3,767	-2,684
	-21,336	**-23,145**

Key group financial indicators 2000-2005

	IFRS	IFRS	FAS				
	2005	2004	2004	2003	2002	2001	2000
Net rental yield, %	6.6	6.7	7.1	6.5	5.5	5.3	5.1
Office and Retail Property	7.8	7.8	8.9	8.5	7.9	7.5	7.0
Hotels	7.7	7.4	7.6	7.5	6.4	7.0	6.3
Sales Property	1.8	3.2	3.2	3.1	2.8	3.0	3.3
Kruunuasunnot Ltd		5.2	5.2	3.2	-1.9	-1.3	1.5
Return on equity, %	15.4	12.5	12.4	4.8	5.0	9.4	5.2
Return on invested capital, %	11.6	10.3	6.7	3.9	4.6	7.1	4.5
Equity ratio	55.7	48.1	43.5	40.8	44.2	58.5	50.5
Gearing	0.7	0.9	1.0	0.8	0.8	0.7	0.9
Average number of personnel	177	215	215	127	151	150	207

Calculation of key financial indicators

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

Net rental yield, % = $\dfrac{\text{rental income from properties less maintenance costs}}{\text{average capital employed in properties}}$ x 100

Operating profit = profit before finance costs, incidental items, taxes, and appropriations

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

Equity ratio, % = $\dfrac{\text{equity + minority interest}}{\text{balance sheet December 31, 2005 less advances received}}$ x 100

Gearing = $\dfrac{\text{interest-bearing liabilities less cash and cash equivalents}}{\text{equity December 31, 2005 + minority interest}}$

Current investments of cash on hand are included under cash and cash equivalents.

Return on equity, % = $\dfrac{\text{profit/loss before incidental items less taxes}}{\text{equity + minority interest (average)}}$ x 100

Return on invested capital, % = $\dfrac{\text{profit/loss before incidental items + interest and other finance costs}}{\text{balance sheet December 31, 2005 less non-interest-bearing liabilities (average)}}$ x 100

Parent company income statement (FAS)

EUR 1,000	Note	2005	2004
TURNOVER	1	233,657	241,111
Other operating income	2	453	1,914
Materials and services	3	-59,964	-79,124
Personnel expenses	4	-7,211	-6,996
Depreciation and write-downs	5	-17,986	-14,811
Other operating expenses	6	-84,053	-80,812
OPERATING PROFIT		**64,896**	**61,282**
Financial income and expenses	7	-2,295	-4,897
PROFIT BEFORE INCIDENTAL ITEMS		**62,601**	**56,385**
Incidental income	8	0	7,100
PROFIT BEFORE APPROPRIATIONS AND TAXES		**62,601**	**63,485**
Appropriations	9	-465	-123
Income taxes	10	0	-23
PROFIT FOR THE PERIOD		**62,136**	**63,339**

Parent company balance sheet (FAS)

EUR 1,000	Note	Dec. 31, 2005	Dec. 31, 2004
Assets			
NON-CURRENT ASSETS			
Intangible assets	11	2,559	1,852
Tangible assets		98,477	102,143
Investments	12		
Holdings in Group companies		390,140	401,664
Receivables from Group companies		321,980	343,425
Holdings in associated companies		4,057	3,346
Other investments		718	718
NON-CURRENT ASSETS, TOTAL		**817,931**	**853,148**
CURRENT ASSETS			
Inventories	13	217,662	287,506
Loan receivables from Group companies	14	16,508	16,831
Current receivables	15	34,648	59,046
Liquid securities		3,084	283
Cash in hand and at banks		1,540	903
CURRENT ASSETS, TOTAL		**273,442**	**364,569**
		1,091,373	**1,217,717**
Liabilities			
EQUITY	16		
Share capital		190,000	190,000
Share premium		76,666	76,666
Retained earnings		220,079	196,829
Profit/loss for the period		62,136	63,339
Capital loan	17	0	59,500
TOTAL EQUITY		**548,881**	**586,334**
APPROPRIATIONS	18	**13,851**	**13,386**
PROVISIONS	19	**16,414**	**20,243**
LIABILITIES			
Non-current liabilities	20	404,600	432,022
Current liabilities	21	107,627	165,732
LIABILITIES, TOTAL		**512,227**	**597,754**
		1,091,373	**1,217,717**

Parent company cash flow statement (FAS)

EUR 1,000	2005	2004
CASH FLOW FROM OPERATING ACTIVITIES		
Profit before incidental items	62,601	56,385
Adjustments:		
Depreciation	17,986	14,811
Financial income and expenses	2,295	4,897
Other adjustments	-4,125	9,821
Cash flow before change in working capital	78,757	85,914
Change in working capital:		
Increase (-)/decrease (+) in current non-interest-bearing receivables	24,996	-24,825
Increase (-)/decrease (+) in inventories	56,452	72,156
Increase (+)/decrease (-) in current non-interest-bearing liabilities	-6,141	2,843
Cash flow from operating activities before financial items and taxes	154,064	136,088
Interest and charges paid	-17,408	-19,230
Dividends received	8	76
Interest received	13,733	12,224
Taxes paid	0	-23
Cash flow from operating activities	**150,397**	**129,135**
CASH FLOW FROM INVESTING ACTIVITIES		
Investments in tangible and intangible assets	-9,919	-2,519
Sales of shares in subsidiary companies	52,354	3,583
Investments in other investments	-5,771	-7,605
Shares purchased in subsidiary companies	-33,962	-2,694
Loans granted	-56,494	-70,475
Repayments of loan assets	85,033	16,485
Cash flow used in investing activities	**31,241**	**-63,225**
CASH FLOW FROM FINANCING ACTIVITIES		
Drawdowns/repayments of current loans	-78,611	81,673
Drawdowns of non-current loans	0	240,000
Repayments of non-current loans	-59,500	-397,500
Dividends paid	-40,090	-8,740
Cash flow used in financing activities	**-178,201**	**-84,567**
Change in cash and cash equivalents	3,437	-18,657
Cash and cash equivalents at beginning of period	1,187	19,844
Cash and cash equivalents at end of period	**4,624**	**1,187**

Notes to the parent company financial statements

Accounting principles in drawing up the financial statements (FAS)

Turnover
Turnover includes rental income, compensation for use and proceeds from sales 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 cover for Kapiteeli's personnel is arranged through insurance (TEL) taken out with an insurance company, and the expenses arising from it are included under pension expenses. The retirement pension has been treated as a defined contribution plan. As far as disability pension is concerned, actual disability is seen as an event that gives rise to an obligation. Unemployment pension is treated as a benefit subsequent to the termination of employment and redundancy is considered to be an event that gives rise to a potential obligation.

Expenses related to property assets
The amount of maintenance charges and financial considerations in property companies is fixed by the parent company to cover their maintenance and financial expenses adequately. Renovation expenses, which extend the useful life of the properties, have been capitalized in inventories at the cost of the property, and in non-current assets as projects in progress until the renovated facilities are taken into use. Investments under EUR 20,000 are entered as expenses.

Valuation of property assets
Properties that are intended to remain in Kapiteeli's ownership are valued at the lower of cost or fair value.

Properties intended for sale are valued primarily using the market value method on the basis of valuations by Kapiteeli Plc.

Tangible assets are entered in the balance sheet at cost less planned depreciation. The depreciation plan is the same as for the previous year.

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 throughout the term of option validity. The interest on interest rate swaps accrued during the review period is entered under interest expenses.

Depreciation
Kapiteeli Plc 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 of housing company flats	10 years
Works of art	no depreciation

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

Non-current assets
Property used by the company and intended for long-term ownership plus related fittings and works of art are entered under tangible assets.

Shares in property companies used by the company and meant for long-term ownership and corporate loans granted to such companies are entered under investments.

Current assets
Property and shares in property 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 property subsidiaries included in inventories have been entered under loan receivables from Group companies.

Accounts receivable 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 and cash equivalents invested in short-term instruments, such as certificates of deposit, are entered under liquid securities.

EUR 1,000		Parent company 2005	Parent company 2004
1	**TURNOVER**		
	Sale of inventories	98,945	111,797
	Gross rental income	133,425	127,917
	Compensation for use	1,287	1,397
	Total	233,657	241,111
2	**OTHER OPERATING INCOME**		
	Profit on disposal of non-current assets	296	1,763
	Other	157	151
	Total	453	1,914
3	**MATERIALS AND SERVICES**		
	Change in stocks	-58,254	-72,744

Inventories include transfers of assets from non-current assets which have been entered directly under inventories.
A change in stock in the income statement is, therefore, not comparable with a change in inventories in the balance sheet.

4 **DATA CONCERNING PERSONNEL AND MEMBERS OF THE ADMINISTRATION**

	2005	2004
PERSONNEL		
Average number of personnel during the financial period	92	101
MANAGEMENT SALARIES AND REMUNERATIONS		
Presidents; Members of the Board of Directors	392	342

The Annual General Meeting of Kapiteeli Plc held on March 22, 2005 approved the following as remuneration for the members of the Board of Directors:

- A monthly remuneration of EUR 1,750 for the Chairman
- A monthly remuneration of EUR 1,350 for the Deputy Chairman
- A monthly remuneration of EUR 1,000 for members
- A meeting fee of EUR 500/meeting/member

The retirement age of the President and CEO and the other members of the Executive Management Team of Kapiteeli Plc is 63.

5 **DEPRECIATION AND WRITE-DOWNS**

	2005	2004
Depreciation		
Other long-term expenditure	362	370
Buildings and structures	2,575	2,375
Machinery and equipment	25	97
	2,962	2,842
Write-downs of non-current assets	7,641	6,736
Exceptional write-downs of current assets	7,383	5,233
	15,024	11,969
Depreciation and write-downs, total	17,986	14,811

		2005	2004
6	**OTHER OPERATING EXPENSES**		
	Administration services	2,420	2,362
	Property maintenance expenses	77,556	73,829
	Other	4,077	4,621
	Total	84,053	80,812

7	**FINANCIAL INCOME AND EXPENSES**		
	Dividend income		
	From others	8	76
	Interest income from non-current investments		
	From Group companies	13,366	11,502
	From others	966	1,419
	Total	14,332	12,921
	Other financial income		
	From others	0	6
	Interest expenses and other financial costs		
	Interest expenses to Group companies	-221	-296
	Interest expenses to others	-16,313	-17,353
	Total	-16,534	-17,649
	Other financial costs		
	To others	-101	-251
	Financial income and expenses, total	-2,295	-4,897

8	**INCIDENTALS**		
	Incidental income		
	Group subsidy	0	7,100

9	**APPROPRIATIONS**		
	Difference between planned depreciation and depreciation made in taxation	-465	-123

10	**INCOME TAXES**		
	Profit for the period	62,136	63,339
	Increases/decreases		
	Income taxes	0	23
	Other increases/decreases	5,374	6,847
	Taxable profit for the financial period	67,510	70,209
	Income tax on the profit for the financial period	17,553	20,361
	Tax losses carried forward	-17,553	-20,361
	Income taxes payable for the financial period	0	0

No deferred tax assets have been recognized for the carryforward of unused tax losses in the balance sheet of Kapiteeli Plc. Kapiteeli Plc has tax losses amounting to EUR 907.5 million. In 2005, EUR 393.1 million of the losses will become time-barred and the remaining EUR 514.4 million will become time-barred between 2006-2009. According to an estimate from the management, approximately EUR 167.0 million of the losses can be carried forward to 2006–2009.

	2005	2004
11 INTANGIBLE AND TANGIBLE ASSETS		
Intangible assets		
Other long-term expenditure		
Cost Jan.1	4,024	3,355
Increases	1,069	674
Decreases	0	–5
Cost Dec. 31	5,093	4,024
Accumulated depreciation and write-downs	–2,172	–1,802
Accumulated depreciation from decreases		
Depreciation for the financial period	–362	–370
Book value Dec. 31	2,559	1,852
Tangible assets		
Land and water		
Land		
Cost Jan. 1	14,967	14,944
Increases and transfers of asset items	527	23
Decreases and transfers of asset items	–36	0
Book value Dec. 31	15,458	14,967
Connection fees		
Cost Jan. 1	360	360
Increases		
Book value Dec. 31	360	360
Book value Dec. 31, total	15,818	15,327
Buildings and structures		
Cost Jan. 1	100,349	84,822
Increases and transfers of asset items	12,805	15,527
Decreases and transfers of asset items		0
Cost Dec. 31	113,154	100,349
Accumulated depreciation and write-downs	–36,188	–33,814
Accumulated depreciation from decreases		0
Depreciation for the financial period	–2,575	–2,374
Book value Dec. 31	74,391	64,161
Machinery and equipment		
Cost Jan. 1	743	735
Increases	10	8
Decreases	0	0
Cost Dec. 31	753	743
Accumulated depreciation and write-downs	–695	–598
Accumulated depreciation from decreases	0	0
Depreciation for the financial period	–25	–97
Book value Dec. 31	33	48
Other tangible assets		
Cost Jan. 1	79	79
Increases		
Book value Dec. 31	79	79

Advance payments and projects in progress		
Cost Jan. 1	22,528	30,375
Increases	9,543	12,169
Decreases	-976	-753
Transfers between items	-22,939	-19,263
Book value Dec. 31	8,156	22,528
Tangible assets, total	98,477	102,143

12 INVESTMENTS

Shares Dec. 31, 2005

	Group companies	Joint ownership companies	Other
Cost Jan. 1	401,664	3,346	718
Increases	43,950	284	0
Decreases	-52,058	0	0
Transfers of asset items	4,225	427	0
Cost Dec. 31	397,781	4,057	718
Write-downs	-7,641		
Book value Dec. 31	390,140	4,057	718

Receivables Dec. 31, 2005

Cost Jan. 1	343,425
Increases	63,266
Decreases	-84,711
Cost Dec. 31	321,980
Book value	321,980

All the subsidiary and associated companies (126) included in non-current assets have been included in the consolidated financial statements.

13 INVENTORIES

	2005	2004
Land and buildings	63,910	89,841
Property company shares	153,463	197,375
Other shares	289	290
Total	217,662	287,506

Inventories includes 174 subsidiary companies and 118 associated companies that are not included in the consolidated financial statements. The companies are mainly property or housing companies.

14 LONG-TERM RECEIVABLES

Receivables from Group companies		
Loan receivables	15,802	16,041
From others	706	790
Total	16,508	16,831

15 SHORT-TERM RECEIVABLES

	2005	2004
Loan receivables	8	
Accounts receivable	22,576	41,722
Other receivables		
VAT receivables	3,564	3,549
Advance payments	5,318	2,802
Total	8,882	6,351
Receivables from Group companies		
Prepaid expenses and accrued income	1,267	8,395
Relevant items in prepaid expenses and accrued income		
Interest rate receivables	1,375	776
Other	540	1,802
Total	1,915	2,578
Short-term receivables, total	34,648	59,046

16 EQUITY

	2005	2004
Share capital	190,000	190,000
Premium fund	76,666	76,666
Other unrestricted equity		
Retained earnings	260,169	205,569
Distribution of dividend	-40,090	-8,740
Profit for financial period	62,136	63,339
Other unrestricted equity Dec. 31	282,215	260,168
Capital loan Jan. 1	59,500	172,000
Decrease	-59,500	-112,500
Capital loan Dec. 31	0	59,500
Equity, total	548,881	586,334
CALCULATION OF DISTRIBUTABLE FUNDS DEC. 31		
Other unrestricted capital	220,079	196,829
Profit for financial period	62,136	63,339
Total	282,215	260,168

17 CAPITAL LOAN

	2005	2004
	0	59,500

The government granted Kapiteeli Plc a capital loan of EUR 80 million on August 4, 2003. The capital loan is interest-free and unsecured. Kapiteeli Plc paid off EUR 20.5 million of the loan in 2004 and EUR 59.5 million during the financial year of 2005, at which point the loan was repaid in full.

18 APPROPRIATIONS

	2005	2004
Accrued depreciation difference		
On buildings	12,832	12,224
On machinery and equipment	1,019	1,175
On other long-term expenditure	0	-13
Total	13,851	13,386

19 PROVISIONS

Property repairs and soil restoration Jan. 1	17,628	10,284
Increase	5,000	7,848
Decrease	-12,904	-504
Provision Dec. 31	9,724	17,628
Other provisions Jan. 1	2,615	5,475
Increase	4,580	
Decrease	-505	-2,860
Provision Dec. 31	6,690	2,615
Total	16,414	20,243

20 NON-CURRENT LIABILITIES

Loans from credit institutions	307,600	335,022
Other loans		
Bonds		
Bonds due 2007	10,000	10,000
Bonds due 2008	37,000	37,000
Bonds due 2009	50,000	50,000
	97,000	97,000
Non-current liabilities, total	404,600	432,022
Loans maturing after five years		
Loans from credit institutions	100,000	200,000

21 CURRENT LIABILITIES

Loans from credit institutions	27,422	
Advances received	2,805	2,720
Accounts payable	2,670	3,253
Commercial papers	43,000	122,700
Others	1,508	1,447
Total	49,983	130,120

	2005	2004
Liabilities to Group companies		
Group accounts	24,094	29,387
Accrued liabilities and deferred income	1,070	397
Total	25,164	29,784
Relevant items in accrued liabilities and deferred income		
Interest liabilities	2,970	3,743
Holiday pay liabilities	900	953
Others	1,188	1,132
Total	5,058	5,828
Current liabilities, total	107,627	165,732

22 PLEDGES GIVEN, CONTINGENT LIABILITIES AND OTHER COMMITMENTS

	2005	2004
OTHER CONTINGENT LIABILITIES, GUARANTEES		
Guarantees given by the Group	986	1,579
OTHER COMMITMENTS		
Amounts payable for leasing contracts		
Due during next financial period	148	185
Due later	78	275
Total	226	460
DERIVATIVE FINANCIAL INSTRUMENTS		
Interest rate derivates		
Interest rate cap options		
Nominal value	482,000	267,000
Current value	4,161	865
Interest rate swaps		
Nominal value	30,000	104,000
Current value	-538	-1,431
Currency derivatives		
Currency swap options		
Nominal value	55,022	55,022

Derivative financial instruments have been used for hedging the loan portfolio. Interest rate derivatives have been used to hedge against the interest risk for loans with floating interest rates. Currency derivatives have been used to change the fixed rate-loans in YEN into loans in EUR with floating interest rates. The capital and interest rate flows of currency have been hedged. Current value represents the result 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

In its arbitration award on August 17, 2005, the Court of Arbitration accepted the claims of Kapiteeli Plc and ordered Kesko Plc to pay a total of around EUR 3.4 million in extra costs, unpaid rent and interest on overdue payments on the basis of the lease of the Ruoholahti Trade Centre, and also to pay EUR 0.06 million per month extra rent for the remaining 7-year period of the lease.

Proposal of the Board and Auditors' report

Board proposal for the disposal of profits

On December 31, 2005, the Group's distributable funds stood at EUR 285,525,134.13. At the same time, the parent company's distributable funds totalled EUR 282,215,000.64.

The Board of Directors proposes to the Annual General Meeting that a dividend of EUR 7.1 per share be distributed, corresponding to a total of EUR 67,450,000.

Helsinki, March 7, 2006

Erkki KM Leppävuori
Chairman

Jarmo Väisänen

Matti R J Niemi

Ritva Sallinen

Elina Selinheimo

Ossi Hynynen
President and CEO

Auditor's report

To the shareholders of Kapiteeli Plc

We have audited the accounting records, the report of the Board of Directors, the financial statements and the administration of Kapiteeli Plc for the period January 1 – December 31, 2005. The Board of Directors and the Managing Director have prepared the consolidated financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, as well as the report of the Board of Directors and the parent company's financial statements, prepared in accordance with prevailing regulations in Finland, containing the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements. Based on our audit we express an opinion on the consolidated financial statements, as well as on the report of the Board of Directors, the parent company's financial statements and the administration.

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

Consolidated financial statements

In our opinion the consolidated financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, give a true and fair view, as defined in those standards and in the Finnish Accounting Act, of the consolidated results of operation as well as of the financial position.

Parent company's report of the Board of Directors, financial statements and administration

In our opinion the parent company's report of the Board of Directors and financial statements have been prepared in accordance with the Finnish Accounting Act and with other applicable Finnish rules and regulations, which apply to the preparation of report of the Board of Directors and financial statements. The parent company's report of the Board of Directors and financial statements give a true and fair view, as defined in the Finnish Accounting Act, of the parent company's result of operation and of the financial position. The report of the Board of Directors is consistent with the financial statements.

The consolidated financial statements and the parent company's financial statements can be adopted and the members of the Board of Directors and the Managing Director of the parent company can be discharged from liability for the period audited by us. The proposal by the Board of Directors regarding the disposal of distributable funds is in compliance with the Companies Act.

Helsinki, March 8, 2006

Tuokko Auditing Ltd
CPA Company

Yrjö Tuokko
CPA

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