

# VR-Group in 1997



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## Key Indicators in 1997

Net turnover, FIM Million	6,204
Net profit for the period	419
Balance sheet total 31 December, FIM million	8,462
Average personnel	16,690
Freight performance, 1,000 tonnes	45,338
Passenger performance, 1,000 journeys	58,910

## Highlights in 1997

- ISO 9000 certification for freight transportation extended to cover VR Cargo's Southern and Northern regions and to Transpoint freight services
- Transpoint Oy Ab acquired majority holding in Combitrans Oy, which specializes in road transportation of industrial and commercial goods
- VR decided to buy eight new Pendolino S 220 train sets and received the first double-decker InterCity coaches for testing
- VR-Track Ltd acquired a track laying machine which was used to renew more than one hundred kilometres of track in its first year of operation

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## Operation as joint stock company finds its form

1997 was VR's second year of operation as a joint stock company and its first 12-month financial year. All considered, the shift from public enterprise to joint stock company proceeded as planned.

VR Group's parent company is VR-Group Ltd. Of its subsidiaries, VR Ltd handles rail transport operations, while VR-Track Ltd sells track building and maintenance services to the Finnish Rail Administration. Rautatieasunnot Oy provides property management services. VR Ltd's subsidiary Oy Pohjolan Liikenne Ab and its own subsidiaries supply road transport services, and Avecra Oy station and train catering services. VR-Group Ltd also has a majority holding in VR-Data Ltd, which sells data processing services. The VR Group has altogether 19 operating companies.

The Finnish economy was buoyant throughout 1997, and this also had a positive impact on the transport sector. Freight volumes transported by rail rose more than initially forecast due in particular to increased demand by the forest industry. Similarly passenger transport volumes increased more than in the two preceding years, although the bulk of this increase took place towards the end of the year.

VR Group made further planned progress in developing its services and raising efficiency. Transport operations were conducted without major disturbances although delays occurred in passenger services, especially during the summer months, owing to the larger volume of track maintenance work and safety equipment malfunctions caused by the unusually heavy thundery weather.

## Consolidated net turnover, profit and liquidity

The Group's net turnover for the period 1 January to 31 December 1997 totalled FIM 6,204 million. This was FIM 207 million more than budgeted since transport volumes exceeded forecasts. Despite this increase, however, costs were kept close to budgeted levels. The Group recorded a net profit for the year of FIM 419 million, which was similar in magnitude to the profit for the same period in the previous financial year. The net turnover for the previous 18-month period (1 July 1995 - 31 December 1996) was FIM 9,401 million and the net profit was FIM 678 million.

The Group's liquidity was good throughout the year. Net interest amounted to FIM 85.8 million. The Group's year-end liquid reserves totalled FIM 2,196 million (1996: FIM 2,562 million). The decrease, FIM 366 million, arose from the higher need for investments, dividends paid to the State, and the repayment of loans to the State Treasury before their maturity date. No new long-term loans were raised.

## Rail volumes up

VR Cargo's freight transport volumes reached 40.3 million tonnes. This was a record for VR and represented growth of almost 7 % on the previous year. The difference was more pronounced at the beginning of the year but evened off towards the year end.

Domestic freight volumes rose more than 9 % to 23.6 million tonnes. The largest growth took place in forest industry carryings, which exceeded 60 % of domestic freight volumes and totalled about 50 % of all carryings. Growth was also clearly evident in chemical industry carryings, but metal industry volumes remained slightly below the previous year's level. The volume of Russian traffic rose more than 3 %: transit traffic increased about 5 % and other connecting traffic almost 3 %. Rail-ferry traffic to the west increased over 5 %. Net turnover of freight transported by rail amounted to FIM 2,002 million (FIM 2,775 million during the 1 July 1995 - 31 December 1996 period).

Almost 50 million passenger journeys were made during the year, 6 % up on the previous year. This included 12 million long-distance journeys, an increase of over 5 % on the preceding year. Growth was higher than average in Russian traffic and between Helsinki and Turku. The number of commuter journeys in the Helsinki metropolitan area increased 6.5 %. This was larger than the increase in long-distance traffic partly because the Helsinki-Tikkurila urban line was not completed until the end of August in the previous year. Net turnover from passenger transport by rail totalled FIM 1,536 million (FIM 2,190 million).

## Road transport

VR's road transport operations, which supplement its rail transport services, are handled by Oy Pohjolan Liikenne Ab and its subsidiaries. Transpoint Oy Ab is responsible for general cargo, Combitrans Oy for partial and full-load carryings, and Oy Transuotila Ab for liquid fuels. These companies carried a total of 5.0 million tonnes. This was more than double the volume in the previous year mainly because a majority holding in Combitrans Oy was acquired for Transpoint Oy Ab in July. The three companies mentioned here generated an

aggregate turnover of FIM 790 million during the review year.

Bus services are provided by Oy Pohjolan Liikenne Ab and its four subsidiaries in southern, southeast, east and northern Finland. Turnover from these services came to FIM 153 million, up 2 % on the previous year. There were 220 buses in service at the year end.

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### Catering services

Avecra Oy is responsible for providing restaurant services in trains and at stations. This operation experienced no major changes during the year. Daily restaurant services were provided in 130 trains on average and at 20 other points. Turnover amounted to FIM 174 million, an increase of over 5 %. Revenues from train restaurant cars increased more than revenues from station services.

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### Track maintenance and construction



VR-Track Ltd's net turnover for the year was FIM 1,552 million and work in progress at the year end amounted to FIM 348 million. Altogether 89 % of turnover was contracted to VR-Track Ltd by the Finnish Rail Administration, the remainder coming mainly from municipal authorities and other outside parties.

Construction work focused on the renewal of track superstructure and safety equipment. The largest superstructure worksites were on the following line sections: Riihimäki-Lahti, Tampere-Seinäjoki, Kemi-Rovaniemi, Karjaa-Hanko, Varkaus-Pieksämäki, Iisalmi-Pyhäsalmi, Luumäki-Vainikkala, and Hyvinkää-Karjaa.

The company also carried out major railway yard and track modification work in Hämeenlinna and Järvenpää in connection with upgrading of the Helsinki-Tampere line section. Other renewal work was carried out on this section as well. The company aims to upgrade the section to the standards required by new technology by the turn of the century.

New computer controlled safety systems were brought into operation on the Huopalahti-Espoo, Riihimäki-Lahti and Riihimäki-Hämeenlinna line sections. Automatic train protection systems (ATPs) were introduced on the Tampere-Seinäjoki, Huopalahti-Kirkkonummi and Riihimäki-Lahti-Kouvola-Lappeenranta line sections. A second track was completed between Inkeroinen and Juurikorpi. A total of 112 level crossings were replaced by under- or overpasses or rerouting of roads.

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### Property management

VR Group's property interests are administered by the parent company VR-Group Ltd, which owns the station, depot, workshop and administrative buildings essential to VR's operation. These buildings cover altogether approximately 615,000 floor square metres, in addition to which VR also owns about 650 hectares of land. VR-Group Ltd received FIM 78 million in rental income from outside the company during the year. The great majority of properties were rented to Group companies for rail operations.

VR-Group Ltd's subsidiary Rautatieasunnot Oy handles the maintenance, financial management and renting of the VR buildings placed under its control. It also performs a small amount of renovation work which it contracts from outside VR. The company owns 95 buildings as well as shares in various housing companies. It completed renovation projects in a number of localities during the year. Most of its apartments are let to VR personnel. Rautatieasunnot Oy's net turnover totalled FIM 56 million, an increase of 18 % on the year before.

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### Investments

The Group's capital expenditure amounted to FIM 748 million. Capital expenditure in the previous 18-month period was FIM 956 million. The main investments, totalling FIM 212 million, were in tractive stock. FIM 196 million of this was used to acquire new Sr2- series electric locomotives, thirteen of which had been received by the end of the year out of the total order for 20 locomotives.

FIM 119 million was devoted to freight wagons. The major item was the modernization of the covered two-axle wagons, which cost FIM 71 million. This brought 455 renovated wagons back into service during the year. The modifications were performed at VR Ltd's Pieksämäki workshop.

FIM 100 million was spent on passenger rolling stock, principally renovation of electric commuter trains and long-distance coaches. Only a minor amount of new passenger rolling stock was fabricated during the period since, in accordance with previous decisions, the bulk of deliveries will take place during the current year and thereafter. The first of the 16 railcars ordered from GEC Alstom in 1995 were put into test service during the year. However, since these railcars failed to meet the agreed technical specifications VR cancelled the order and retendered the project. At the end of the year it was decided to order eight Pendolino S 220 trains from Fiat Ferroviaria for fast traffic. This order follows on from an order for two such trains in 1992, which contained an option for a further 23 sets. This new order for eight trains will cost FIM 616 million and the trains will be delivered between 2000 and 2002.

The Group's other capital expenditure on rolling stock, vehicles, machinery and properties comprised normal maintenance and replacement investments.

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### Intragroup restructuring

Kiinteistö Oy Pasilan Asema, in which VR-Group Ltd acquired all the share

capital in the summer, was merged with VR-Group Ltd at the end of the year.

At the beginning of July Transpoint Oy Ab, a subsidiary of the Pohjolan Liikenne group, acquired a majority holding in Combitrans Oy.

Aallon Liikenne Oy, a passenger transport company in the Pohjolan Liikenne group, was merged with Linjaliikenne K. Hakanen Oy at the end of the year.

### Changes to senior management

Mr Eino Saarinen, Director General of the former VR and President and CEO of VR-Group Ltd since 1988, retired at the beginning of the period. Mr Panu Haapala, VR- Group Ltd's Executive Vice President, who was appointed his successor, died suddenly on 15 March 1997. His place as President and CEO of VR- Group Ltd was taken on 2 April 1997 by Mr Henri Kuitunen, who had been named Executive Vice President at the beginning of 1997. Mr Kuitunen also continued as President of VR Ltd until 15 December 1997, after which this position was assigned to Mr Erkki Hämäläinen, who had been appointed Vice President of VR Ltd on 1 April 1997. Mr Antti Remes was elected to the Board of Directors of VR-Group Ltd on 9 September 1997 in place of Mr Eino Saarinen, who had retired in August.

### Safety and the environment

Eight accidents causing material damage took place during the year as well as eighteen accidents at switchpoints which caused material damage and personal injury. After a decline lasting eight years the number of accidents at level crossings increased slightly.

Further progress was made in increasing rail safety during the year. The rail safety responsibilities and guidelines governing the Group companies were reviewed and uniform procedures were drawn up for preparing new guidelines. A new guideline came into force at the beginning of the year setting out procedures to be taken in the event of a rail accident. A rail safety training scheme was started for supervisors and experts.

Risk management was developed with the renewal of the guidelines governing action required in the event of deviations to rail safety. Development of a rail safety management system based on quality thinking was started and the system is expected to be completed by the end of 1998.

The environmental responsibilities of line management were defined and the guidelines governing the transportation of hazardous substances were clarified, based on an international environmental standard and an EU Directive. Other environmental action included the renovation of oil storage depots and improvements to waste management.

### Personnel

For several years VR has supported a policy of cautious streamlining and establishment of a better balance between workforce needs and the number and geographical distribution of employees. Personnel numbered 16,690 on average during the year, which marked a decrease of almost 4 % on the previous year. Few new employees were recruited. This was possible by virtue of reorganization and related mechanization and automation.

The absence of new personnel, coupled with the need for new professional competences, shifted the focus of personnel development to supplementary training. In particular, a considerable amount of training in rail safety issues was arranged, which reduced the interval between rail safety retraining courses from five to three years. Training schemes for train drivers were further updated and ten new train simulators were ordered to support this form of training. A start was made on revising training schemes for personnel employed in shunting yards. New premises for VR's Training Centre were built at the Pasila workshop, where the Training Centre moved in January 1998.

Group personnel was distributed as follows:

	<b>1 Jan.-31 Dec. 1997 Average during period</b>	<b>1 Jul. -31 Dec. 1996 Average during period</b>
VR-Group Ltd	606	954
VR Ltd	10,395	10,579
VR-Track Ltd	3,345	3,423
Pohjolan Liikenne subgroup	1,773	1,797
Avecra Oy	478	474
VR-Data Ltd	76	76
Other companies	17	17
<b>TOTAL</b>	<b>16,690</b>	<b>17,320</b>

  

Wages, salaries and fees paid (MFIM)				
	Group		Parent company	
	1997	1995/6	1997	1995/6
<b>Presidents and administrative bodies</b>	5.7	7.4	2.4	2.8
<b>Other wages, salaries and fees</b>	2480,0	3662,8	82,5	185,5

### Prospects for the current year

With economic conditions continuing to remain buoyant in Finland, transport volumes are expected to remain high and freight volume to show a further slight increase on the review year. Nevertheless, the development of crude oil prices at the beginning of the year undermined imports of petrochemicals and chemical products from Russia. If this trend continues, budgeted targets may not be reached. Passenger volumes are expected to increase roughly one per cent in long-distance traffic and two per cent in commuter traffic. The orderbook for



track maintenance and construction totalled FIM 1.2 billion at the end of February. At the end of 1997 VR and the Finnish Rail Administration signed a new three-year framework agreement on track maintenance and construction work covering the years 1998 - 2000.

The first double-decker InterCity coaches will be brought into circulation during the current year. Forty-two of these coaches were ordered from Rautaruukki Corporation in 1995. The last in the series will be introduced into service in the year 2000. Ten commuter trains, ordered from Fiat Ferroviaria in 1996, will be delivered this year for YTV, the Helsinki Metropolitan Area Council. The major investment priority for freight wagons is modification and renovation of the aging rolling stock. This will involve investments amounting to more than FIM 1 billion.

VR Group is expected to return the same level of profits in 1998 as in 1997, assuming that the business environment remains stable.

On 6 March 1998 a serious train accident occurred in Jyväskylä in which 10 people lost their lives. The accident resulted in wide public discussion on rail safety, one result of which is the decision to accelerate the implementation of automatic train protection systems.

# Consolidated Profit and Loss Account

(FIM 1,000 mk)	1 Jan.- 31 Dec.1997	1 Jul. 95- 31 Dec. 96
<b>NET TURNOVER</b>	<b>6 203,999</b>	<b>9,401,046</b>
Change in stocks of finished goods	313,095	34,424
Production for own use	272,654	272,488
Profit from associated companies	2,751	1,796
Other income from operations	240,311	381,125
<b>COSTS</b>		
Materials, supplies and goods		
Purchases during period	1,080,078	1,680,970
Change in stocks	-7,610	-73,585
External services	1,007,893	1,415,021
Personnel costs	3,244,107	4,723,851
Rental costs	56,263	88,682
Other costs	<u>633,205</u>	<u>765,340</u>
	<u>6,013,936</u>	<u>8,600,279</u>
<b>OPERATING PROFIT BEFORE DEPRECIATION</b>	<b>1,018,875</b>	<b>1,490,599</b>
<b>DEPRECIATION</b>		
On fixed assets and other long-term expenditure	548,178	691,363
Decrease in goodwill on consolidation	<u>-24,960</u>	<u>-21,769</u>
<b>OPERATING PROFIT</b>	<b>495,657</b>	<b>821,005</b>
<b>FINANCIAL INCOME AND EXPENSES</b>		
Dividend income	191	1,714
Interest income	96,937	205,538
Other financial income	12,255	5,196
Interest expenses	-18,856	-68,886
Other financial expenses	<u>-4,728</u>	<u>-6,494</u>
	<u>85,800</u>	<u>137,067</u>
<b>PROFIT BEFORE TAXES</b>	<b>581,457</b>	<b>958,072</b>
Change in deferred tax liability	-82,124	-84,132
Direct taxes	<u>-74,797</u>	<u>-192,897</u>
<b>PROFIT BEFORE MINORITY INTERESTS</b>	<b>424,536</b>	<b>681,043</b>
Minority interests	<u>-6,007</u>	<u>-2,638</u>
<b>PROFIT FOR THE YEAR</b>	<b>418,529</b>	<b>678,406</b>



# Consolidated Balance Sheet

- **Assets**
- **Capital and liabilities**

(FIM 1,000)	31 Dec. 1997	31 Dec. 1996
<b>ASSETS</b>		
<b>FIXED ASSETS</b>		
Intangible assets		
Goodwill	37,028	43,426
Other long-term expenditure	<u>43,127</u>	<u>42,598</u>
	<b>80,155</b>	<b>86,024</b>
Tangible assets		
Land and water areas	1,377,921	1,461,496
Buildings and structures		
Machinery and equipment	2,440,292	2,225,494
Other tangible assets		
Payments on account and tangible assets in course of construction	<u>22,612</u>	<u>32,298</u>
	<u>355,362</u>	<u>282,918</u>
	<b>4,652,895</b>	<b>4,448,238</b>
Financial assets		
Shares and holdings in associated companies	8,549	5,798
Other shares and holdings	38,488	56,193
Loans receivable	<u>45,912</u>	<u>46,012</u>
	<b>92,950</b>	<b>108,004</b>
<b>Fixed assets, total</b>	<b>4,826,000</b>	<b>4,642,266</b>
<b>CURRENT ASSETS</b>		
Stocks		
Materials and consumables	326,073	315,318
Unfinished goods	347,519	37,569
Payments on account	<u>20,596</u>	<u>32,482</u>
	<b>694,188</b>	<b>385,370</b>
Debtors		
Trade debtors	62,3137	490,006
Prepayments and accrued income	118,454	95,443
Other debtors	<u>4,638</u>	<u>17,285</u>
	<b>746,229</b>	<b>602,734</b>
Securities	1,973,682	2,343,309
Cash at bank and in hand	<u>222,189</u>	<u>218,395</u>
<b>Current assets, total</b>	<b>3,636,288</b>	<b>3,549,808</b>
<b>ASSETS, TOTAL</b>	<b>8,462,288</b>	<b>8,192,073</b>

(FIM 1,000)	31 Dec. 1997	31 Dec. 1996
<b>CAPITAL AND LIABILITIES</b>		
<b>CAPITAL AND RESERVES</b>		
Restricted shareholders' equity		
Share capital	2,200,000	2,200,000
Other shareholders' equity	3,125,989	3,125,989
Non-restricted shareholders' equity		
Profits from previous years	482,615	74,940
Net profit for the year	418,529	678,406
<b>Shareholders' equity, total</b>	<b>6,227,133</b>	<b>6,079,334</b>
<b>MINORITY INTERESTS</b>	37,443	52,537
<b>PROVISIONS</b>		
Goodwill on consolidation	74,911	88,329
Obligatory provisions	8,605	11,709
<b>CREDITORS</b>		
Creditors due after one year		
Loans from financial institutions	273,415	310,831
Pension loans	40,193	46,900
Deferred tax liability	<u>197,887</u>	<u>115,763</u>
<b>Creditors due after one year, total</b>	<b>511,495</b>	<b>473,494</b>
Creditors due within one year		
Loans from financial institutions	5,794	5,863
Pension loans	4,540	104,848
Payments on account	371,362	53,503
Trade creditors	307,061	336,561
Accruals and deferred income	700,377	795,425
Other creditors	<u>213,568</u>	<u>190,472</u>
<b>Creditors due within one year, total</b>	<b>1,602,701</b>	<b>1,486,671</b>
<b>Liabilities, total</b>	<b>2,114,196</b>	<b>1,960,165</b>
<b>CAPITAL AND LIABILITIES, TOTAL</b>	<b>8,462,288</b>	<b>8,192,073</b>

# Key indicators

## Group key indicators

### Freight services

### Passenger services



## Group key indicators

	1997	1995/96
<b>SCOPE OF OPERATIONS</b>		
Net turnover, MFIM	<b>6,204</b>	9,401
Balance sheet total, MFIM	<b>8,462</b>	8,192
Capital expenditure, MFIM	<b>748</b>	956
- as % of net turnover, %	<b>12.1</b>	10.2
Average number of employees	<b>16,690</b>	17,320
<b>PROFITABILITY</b>		
Operating profit before depreciation, MFIM	<b>1,019</b>	1,491
- as % of net turnover, %	<b>16.4</b>	15.9
Net profit, MFIM	<b>419</b>	678
Return on investment, %	<b>8.8</b>	10.7
Return on shareholders' equity, %	<b>6.8</b>	7.7
<b>SOLVENCY</b>		
Solvency ratio, %	<b>78.4</b>	76.4

<b>Freight services</b>	1997	1996	Change -%
<b>Commercial traffic</b>			
Freight volume, 1,000 tonnes			
Rail traffic	<b>40,321</b>	37,717	6.9
Domestic	<b>23,603</b>	21,565	9.5
International	<b>16,718</b>	16,152	3.5
Eastern	<b>11,935</b>	11,602	2.9
Transit	<b>3,368</b>	3,205	5.1
Western	<b>1,415</b>	1,345	5.2
Road traffic	<b>5,017</b>	2,344	<u>114.0</u>
<b>TOTAL</b>	<b>45,338</b>	40,061	13.2
Tonne-kilometres in rail traffic, million			
	<b>9,856</b>	8,806	11.9

<b>Passenger services</b>	1997	1996	Change -%
<b>Journeys, 1,000</b>			
Rail traffic	<b>49,980</b>	47,000	6.3
Long-distance	<b>12,031</b>	11,400	5.5
Local	<b>37,949</b>	35,600	6.6
Helsinki area	<b>28,000</b>	26,100	7.3
Other	<b>9,949</b>	9,500	4.7
Road traffic	<b>8,930</b>	8,844	<u>1.0</u>
<b>TOTAL</b>	<b>58,910</b>	55,844	5.5
<b>Passenger-kilometres in rail traffic, million</b>			
Long-distance	<b>2,766</b>	2,655	4.2
Local	<b>610</b>	599	1.8
Helsinki area	<b>260</b>	260	0.0
Other	<b>350</b>	339	<u>3.2</u>
<b>TOTAL</b>	<b>3,376</b>	3,254	3.7