



Annual Report 1998





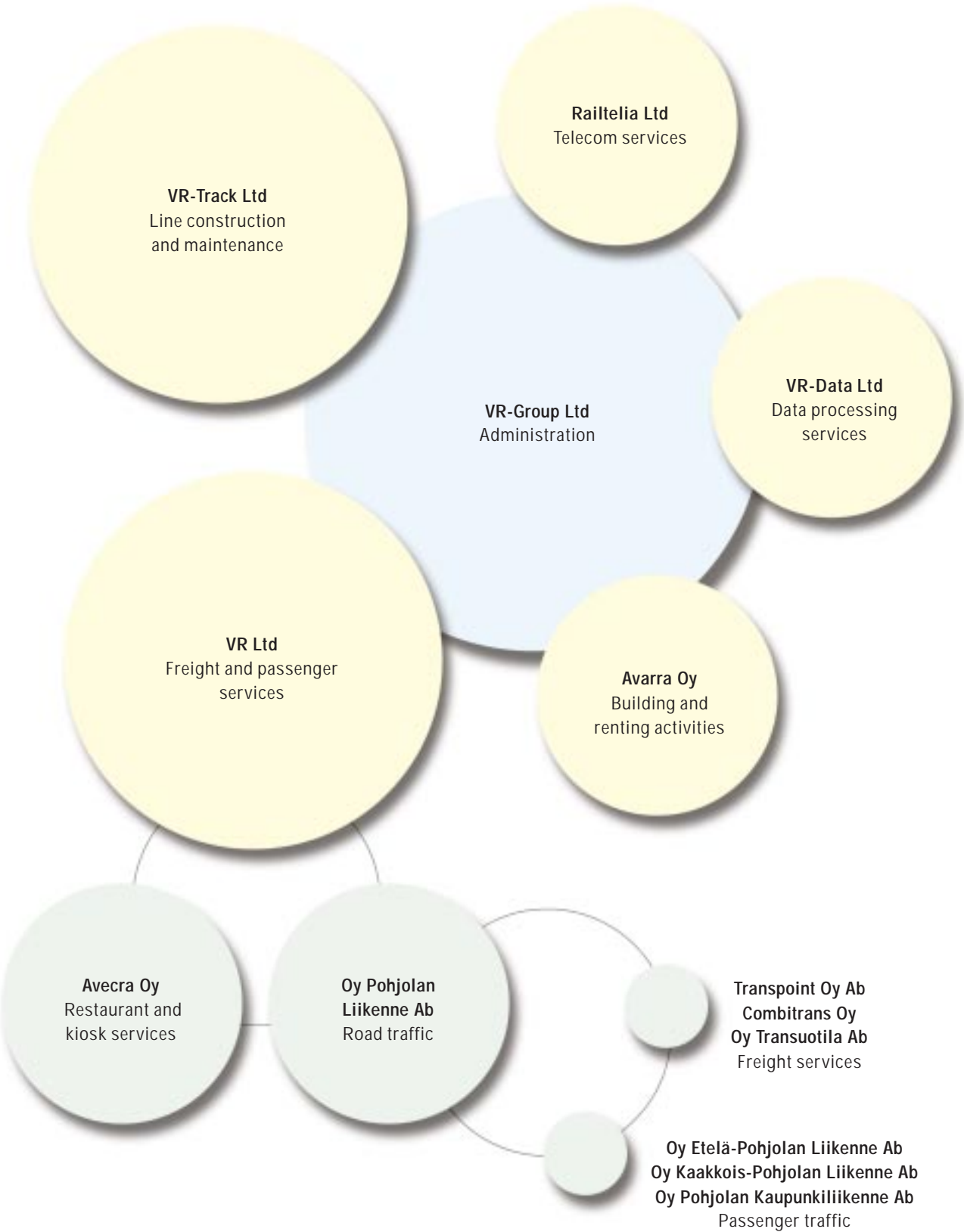
The VR Group provides safe, high-standard, environmentally friendly services for freight customers and passengers.

VR Group's Highlights		1998	1997
Net turnover	FIM million	6,753	6,181
Net profit for the period	FIM million	386	419
Balance sheet total	FIM million	8,687	8,462
Average personnel		16,487	16,690
Freight performance	1,000 tonnes	48,124	45,338
Passenger performance	1,000 journeys	59,842	58,910

<ul style="list-style-type: none"> • VR published its new rail safety programme, which aims to raise rail safety in Finland to the highest EU levels • New transport records were reached in both freight and personnel traffic • The double-decker InterCity coaches were brought into service and a further 50 new coaches were ordered at the year end • VR Cargo's Western Finland region and head office received ISO 14001 environmental certification • The volume of line superstructure projects exceeded the previous year's record level by one quarter • VR-Group Ltd and Telia Finland Oy founded Railtelia Ltd to provide telecom services for the transport and logistics sector 	
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The VR Group	2	Personnel	18
Chief Executive's Review	4	Safety	20
Passenger Services	6	The Environment	22
Freight Services	10	VR-Group Ltd Financial Statements	25
Line Construction and		Auditors' Report	43
Maintenance	14	Statement by the Supervisory Board	44
Telecom Services	16	VR-Group Ltd Administration and	
Data Processing Services	17	Management	45
Building and		Contact Information	46
Renting Activities	17		

The VR Group



VR-Group Ltd

is the parent company. It owns the Group's real estate properties and telecommunications network and it offers central services to other Group companies including treasury and real estate management, administration, and communications.

Turnover: FIM 290 million

Personnel: 320

President and CEO: Henri Kuitunen

VR Ltd

is Finland's leading carrier. It offers both freight and passenger services.

Turnover: FIM 3.5 billion
(FIM 2 billion from freight,
FIM 1.5 billion from
passenger transport)

Personnel: 10,300

President: Juhani Kopperi

Avecra Oy

provides catering services for VR Ltd's passenger transport operations with restaurants and kiosks in trains and at stations.

Turnover: FIM 170 million

Personnel: 470

President: Kari Isola

Pohjolan Liikenne group
and its subsidiaries supply
road transport services.

Turnover: FIM 1.1 billion

Personnel: 1,800

President: Matti Krannila

VR-Track Ltd

specializes in the construction and maintenance of the rail network.

Its largest customer is the Finnish Rail Administration, a civil service department subordinate to the Ministry of Transport and Communications.

Turnover: FIM 1.9 billion

Personnel: 3,340

President: Teuvo Sivunen

Railtelia Ltd

provides telecom services for rail operations and develops telecom systems for transport and logistics needs. Sixty percent of its shares are owned by VR-Group Ltd and 40 % by Telia Finland Oy.

Turnover: FIM 80 million (6-12/1998)

Personnel: 170

President: Jouko Tervo

VR-Data Ltd

provides data processing services for the transport sector. Sixty per cent of its shares are owned by VR-Group Ltd and 40 % by Novo Group Plc.

Turnover: FIM 80 million

Personnel: 90

President: Henri Ollila

Avarra Oy

builds, manages and rents properties. Its speciality is renovation of residential buildings.

Turnover: FIM 60 million

Personnel: 15

President: Reijo Savolainen



Safety first and foremost

Rail safety and deregulation of the railways were the main issues confronting VR during 1998. A passenger train derailment in Jyväskylä, which claimed ten lives in March, and a collision between a passenger train and a goods train in Suonenjoki in August forced VR, decision-makers and the public at large to consider ways of improving rail safety.

These accidents, and the several near misses which have occurred in recent years, are all separate incidents and no connection has been found to link them. Should such a connection have been identified, it would of course have been eliminated immediately. Rail safety at VR is now focusing on the entire passenger and freight transport system with reviews of issues including training, working procedures, technology and attitudes. The crucial principle, though, is that safety is VR's most important value and the foundation for all its activities.

The core of VR's train safety programme is building of the automatic train protection system. This system will be in operation on all main lines by the year 2001 and it will cover the entire railway network in 2005. The system prevents excessive speeds and collisions. Technical improvements also include increasing train braking efficiency, improving telecommunications, and upgrades to the track and its equipment.

The safety programme also gives high priority to the human factor. The aim here is to ensure that the VR employees responsible for managing its rail traffic operations are professionally competent, careful and alert. To promote dialogue we have set up regional train safety teams whose members, representing different professions, are responsible for identifying weaknesses and for considering how these can be rectified.

Competition for the rail network

A working group appointed by the Ministry of Transport and Communications proposed in the spring of 1998 that Finland's entire rail freight and commuter operations should be opened up to competitive bidding. VR already has several decades of experience of competition, especially with road transport operators. Indeed, only some 25 percent of



freight in Finland is transported by rail, and rail transport accounts for only five percent of total passenger transport.

At the time of writing it would appear that a draft proposal for a new act on railway competition will be put before the new parliament, to be elected in the spring. Competition would be a difficult issue for VR if it meant losing market share. Given its inflexible cost structure, VR would have to consider curtailing its services, which would certainly not be the purpose of competitive bidding.

Opening up the railways to competition is founded on the premise, stated in other EU countries as well, that it would stimulate the operations of the railway authorities and companies. The example of Finland demonstrates that there are other means to achieving greater efficiency. Rationalization, new technology and a ban on recruitment have in ten years increased VR's freight transport volumes by 25 percent and its passenger volumes by 30 percent. During the same period the number of employees has fallen by one-third, that is 9,000.

Result

VR Group posted a net profit of FIM 386 million in 1998. This was FIM 33 million below the previous year's level. Most of the decrease was caused by low transport volumes in transit traffic and western international traffic.

Looking at the whole year, transport volumes and their development changed in several significant respects. In freight traffic, VR Cargo reached a new record of 40.7 million tonnes, an increase of about one percent on the previous year.

Freight volumes in Finland remained essentially unchanged, compared to 1997. The economic trends affecting Finland's base industries were clearly visible in our

freight volumes: growth during the first months of the year ended in August and freight volumes actually began to decline in the autumn. Our market share, however, remained unchanged.

Eastern traffic increased in volume nine percent. Most of this was attributable to a 50 percent rise in raw timber carryings, whereas the low world price of crude oil kept both imported and transit crude oil volumes low. The sharp devaluation of the rouble which began in August 1998 considerably boosted imports of oil from Russia.

VR also witnessed a new record in passenger transport, 51.4 million passenger journeys. This growth was derived solely from commuter traffic, however. The number of long-distance journeys fell by about half a percent owing to intense competition.

People are the key

The result I have described above was achieved by our customers and VR Group's personnel. It demonstrates the confidence felt in VR and its people.

The targets we have been set are tough and no relief is in sight. To carry out our future large investments we will have to maintain our financial performance. For this reason we will not be able to lift the ban on outside recruitment. We will also have to further improve our cost competitiveness.

I should like to extend my thanks to our customers, partners and owners for their continued confidence in us and close cooperation during the financial period. I am also grateful to our personnel for their commendable work.

Henri Kuitunen
President and CEO



THE NUMBER OF COMMUTER JOURNEYS IN THE HELSINKI METROPOLITAN AREA ROSE 4 %. BETTER SERVICE CONTRIBUTED TO THE INCREASING POPULARITY OF COMMUTER TRAINS.

customer-mindedness

New records set in freight and passenger traffic. The net turnover of VR Ltd's rail traffic was FIM 3.5 billion in 1998. Income from freight transport amounted to approximately FIM 2.0 billion, and from passenger traffic to FIM 1.5 billion. The year was turbulent for freight transport. VR Cargo nevertheless achieved a new record in transport volumes, which grew one percent on the previous year. The number of passenger journeys increased 3 % to exceed 50 million, more than at any time since the exceptional conditions around the time of the Second World War.

Passenger journeys continued to rise

Altogether 51.4 million journeys were made by train during the year. This corresponded to 3.4 billion passenger-kilometres, roughly equal to the record number in 1997.

The strong growth evident at the beginning of the year levelled off towards the close of the period. The most distinct change took place in eastern traffic, where passenger volumes to Finland fell sharply in the autumn owing to Russia's economic crisis. Altogether 215,000 passenger journeys were made in eastern traffic, down by a good two percent on the previous year.

Commuter traffic brisk

Some 39.4 million passenger journeys were made in the Helsinki metropolitan area, an increase of almost 4 %. This was because more people preferred using trains to get to work, a trend especially evident on the line section between Helsinki and Tikkurila. A better standard of commuter service in recent years has also encouraged greater use of trains.

The number of long-distance passenger journeys remained unchanged at 12.0 million. Considerable growth was witnessed on the Helsinki-Turku line, where the number of passengers using the high-speed Pendolino trains increased almost 6 %.

More than 33,000 cars were transported in north-south car-sleeper traffic, which was an all-time high. The liveliest month was April. A new railway station in Kolari serving car-sleeper traffic in western Lapland was completed in autumn 1998.



Recognition for VR's service

VR Passenger Services received two awards for its high standard of service during the year. Early in the year the Finnish Guild of Travel Writers chose a train conductor as "Travel Person of the Year" in recognition of outstanding service. In the summer the Finnish Association for Nature Conservation gave an award to VR's train conductors for their work in promoting an environmentally friendly form of transport.

Customer feedback was collated and analyzed systematically. VR Passenger Services received altogether more than 8,000 comments and suggestions. These were carefully considered when planning timetables and train services and in rolling stock upgrades. Services in trains and

at stations were also enhanced in line with the wishes expressed by passengers.

A project to cover the entire Helsinki railway station got under way at the end of the year when VR Group took the decision to extend the existing railway building up to the terminal platforms. This new hall, scheduled for completion at the end of 1999, will provide improved services for passengers leaving and arriving at Helsinki. Plans call to move several functions including ticket sales to the new hall.

Opera system speeded up service

VR Passenger Services completed its new Opera Customer Service System in the summer. This has considerably accelerated speed of service and also made it easier for passengers to get timetable information and tickets.

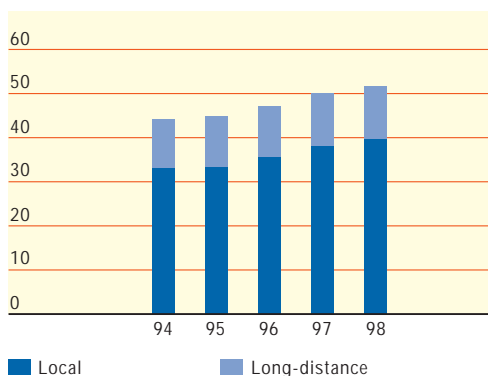
A new service introduced during the year was the opportunity to receive timetables in a matter of seconds on GSM mobile phones. VR's automatic ticket dispensers were entirely renewed as well. The new machines are more versatile allowing passengers, for example, to buy a ticket between any two points from any machine.

The Opera system has open architecture, which makes it suitable for later integration of travel cards, for example. The Opera system was also voted "Project of the Year" by an association of project experts in Finland, in recognition of its high quality and implementation.

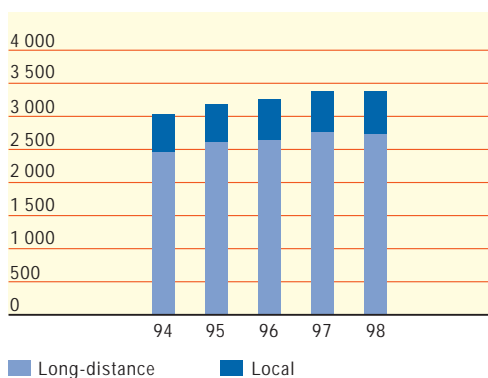
Further upgrades to rolling stock

Improvements have been made to VR Passenger Service's rolling stock throughout the 1990s including upgrades to all the long-distance passenger coaches. The most recent of these involves enhancements to the first-class coaches in express services. Twenty-two first-class coaches had been upgraded by the end of 1998 and this

Journeys by rail, million



Passenger-kilometers by rail, million



work will be completed in all 34 coaches during 1999.

The upgraded first-class coaches have open compartments instead of the traditional closed compartments for six people. Some seats have their own table and PC socket, and each coach also includes a glass-partitioned salon which can be reserved for business meetings.

Refurbishment of the electric commuter trains used in the Helsinki metropolitan area made further progress and by the end of the year 33 entirely upgraded trains had been brought into service. Eight trains are being upgraded yearly. Half of the total of one hundred commuter trains will have been refurbished by the year 2001 and the remaining 50 thereafter.

New InterCity coaches warmly welcomed

New double-decker InterCity coaches were introduced during the year. These coaches have a low floor and air-conditioning. Some are also "service cars" with special facilities for the disabled, families with children and passengers with luggage. Each InterCity train was equipped with one such coach by the end of 1998. Two new double-decker coaches will be brought into service



every month during 1999. These have been warmly welcomed by passengers.

Fifty more InterCity coaches were ordered from Transtech at the end of the year, as permitted by the option in the original purchase agreement. These coaches have a maximum speed of 200 km/hour and the InterCity coaches manufactured earlier will also be upgraded to travel at this speed.

The newly ordered coaches are scheduled for delivery by the end of 2002, by which date VR will have altogether 80 single-decker and 92 double-decker InterCity coaches, representing about one-quarter of the entire number of coaches in long-distance service.

First city train completed

Manufacture of the first city train was completed at the end of the year and this train was shipped to Finland for testing. VR has ordered ten such trains for commuter service in the Helsinki metropolitan area, principally in Helsinki, Espoo, Vantaa and Kauniainen, which together form the Helsinki Metropolitan Area Council (YTV). These trains have been ordered from Fiat Ferroviaria in Italy, which has used the Spanish company CAF as a subcontractor in their manufacture.

An EU tender for light railbuses did not generate a suitable solution for Finland's low-density lines and new tenders for 12–20 railbuses were requested at the end of the year.

Quality training to enhance punctuality

A new quality training programme was started in the autumn to improve punctuality. This programme, which will continue during 1999, will apply to VR's entire service chain; that is, 5,500 passenger service personnel including conductors, ticket sales staff and train drivers, as well as personnel involved in management and maintenance of passenger traffic and railway yard employees.

Punctuality of train services was well below target in 1998. Long-distance trains had a punctuality rate of 82 %, when measured in terms of delays exceeding five minutes. Roughly two-thirds of late services were caused by line maintenance work, and one-third by other reasons such as bad weather, locomotive and coach breakdowns or passenger congestion.

Train punctuality, however, continued to be high



when compared to other forms of transport. Based on the criterion of 15-minute delays applied in air traffic, long-distance train services had a punctuality rate of 95 %.

The punctuality rate of commuter trains was once again extremely high: 98 % of trains arrived to the minute or at most three minutes late.

Avecra and Rail Gourmet sign letter of intent

In November 1998 VR signed a letter of intent with Rail Gourmet Holding Ltd, the purpose of which is to chart the opportunities for cooperation with Rail Gourmet and Avecra. The aim is to develop Avecra's catering services and increase its turnover. Rail Gourmet would own a minority of the Avecra stock. Rail Gourmet is a leading European train service company. Arctia Oy sold its minority holding in Avecra to VR Ltd in spring 1998.

Avecra Oy provides kiosk, cafeteria and restaurant services and train catering services. Its net turnover in 1998 amounted to slightly over FIM 173 million, similar to the previous year. Its in-train services were integrated under the name A-Catering. A new cafeteria, Café Muffiini, was opened in Pasila railway station and the business concept underlying the Oulunkylä station restaurant was revised. Avecra provided daily services in more than 130 trains and at 30 locations around Finland.

A wide-ranging apprenticeship scheme was started in Avecra leading to a diploma in entrepreneurship and customer service. Sixty Avecra employees participated in this scheme during the year, the purpose of which is to enhance the skill levels of Avecra's personnel. This training programme will continue into the next decade. Avecra also started another programme during 1998 to maintain and improve its employees' fitness at work.

Number of bus journeys 8.5 million

The net turnover of Oy Pohjolan Liikenne Ab, a VR Group company, amounted to FIM 154 million.

Approximately 8.5 million journeys were made by bus during the year, 5 % less than in 1997. Altogether 223 buses were engaged in this service, principally in southern Finland.

A turbulent year for freight

VR Cargo transported 40.7 million tonnes of freight during 1998, which was almost one percent more than in the previous year. The year was highly turbulent as transport volumes closely matched trends in international trade. Freight transport was affected by the Russian economic crisis, the world price of crude oil, and business conditions in Finnish industry and exports.

Freight transport volumes remained at record high levels throughout the first months of the year but during the summer domestic traffic volumes began to decline slightly. VR retained its 26 % share of the freight transport market in Finland, which is exceptionally high by EU standards.

Domestic traffic remained record high

VR Cargo carried altogether 23.6 million tonnes of freight in Finland, which was roughly similar to the record level in 1997. Domestic traffic was most affected by conditions in the Finnish forest industry.

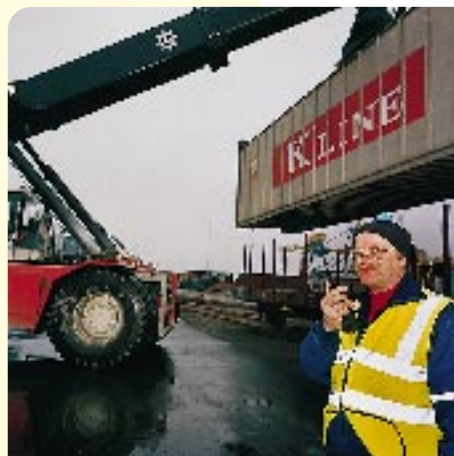
The high production levels and capacity load in industry were reflected in rail transport volumes. The year began promisingly but levelled off in the autumn, mainly as a result of a decline in forest industry exports. Raw timber, pulp and paper carryings declined clearly during October. Total freight carryings, however, reached 16 million tonnes, almost the same as in the previous year.

Metal industry carryings hit a quiet patch immediately after the summer but picked up considerably at the end of the year. Total carryings for the year increased 4 %. Chemical industry carryings remained broadly similar to the previous year.

Russia's economic crisis evident in eastern traffic

Imports of petroleum products from Russia were brought to a virtual standstill early in the year by the low market price of crude oil but increased sharply in September as a result of the rouble's devaluation in August. Growth was almost 30 % compared to the beginning of the year. Chemical industry carryings, however, declined almost 20 % on 1997.

Raw timber carryings increased strongly during 1998. Altogether 5.7 million tonnes were transported by rail, up 53 % on the previous year.





FOREST INDUSTRY EXPORTS SLACKENED IN THE AUTUMN BUT VR CARGO STILL CARRIED ALMOST AS MUCH TIMBER, PULP AND PAPER AS IN 1997.

internationalization

Metal industry carryings continued to rise substantially until October although they were somewhat reduced by production stoppages in Finland. The total volume transported by rail was 2 million tonnes, an increase of approximately 15 % on one year before.

The devaluation of the rouble also affected transit traffic to and from Russia via Finland. Both transit traffic and freight transport between Finland and the CIS countries increased at the end of the year. This growth was particularly apparent in chemical industry carryings. All in all the volume of transit traffic decreased by about 13 % owing to a quiet start to the year, but reached approximately 3 million tonnes nonetheless.

Railferry harbour moved to Turku

Western freight traffic reflected the problems in exports and imports experienced by Finnish industry. The Russian situation also affected railferry traffic at the end of the year when transit traffic to the east came to a virtual halt. Freight volumes were down about 15 % on the previous year.

Railship's move to Turku during the summer meant that Turku became the centre of all railferry port operations in Finland.

Traffic between Tornio and Haaparanta continued to decline slightly. Measures were taken to boost the volume on this line by speeding up border crossing formalities. Development of a new track gauge changing machine made further progress and testing will be started in Tornio in the early spring of 1999. This machine will raise traffic volumes between Finland and Scandinavia.

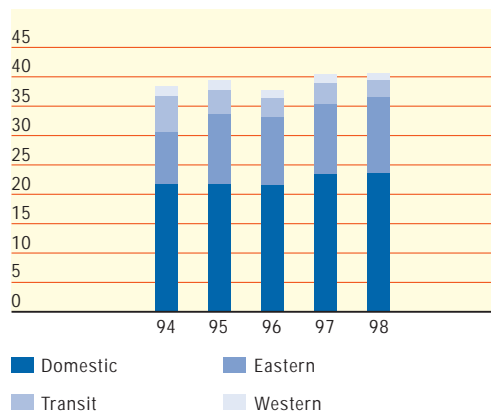
The fall in Russian trade also reduced transport of fish from Norway to Russia via Finland. Plans were made during the year to test the same route for products shipped from North America.

New forms of cooperation in railferry traffic

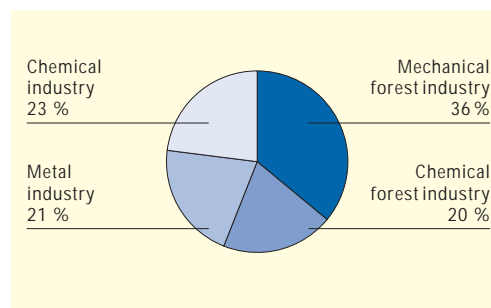
VR Cargo concluded new cooperation agreements with the Swedish and German railways and with shipping companies during the year in order to build up railferry volumes.

In the summer of 1998 DB Cargo, which handles freight transport on the German railways, signed a letter of intent with Finnlines/Finn carriers and VR Ltd on enhancing cooperation. This agreement aims to increase Railship volumes and improve its competitive efficiency in the Baltic Sea. It also calls for improvements in quality

VR Cargo's carryings, million tonnes



Carryings by product group in 1998



levels, as well as faster transport and more intensive marketing.

These efforts are expected to increase railferry traffic between Finland and Germany and also the volume of traffic between Germany and Russia through Finland. The volume of freight transported between Germany and Finland every year currently totals 850,000 tonnes.

A second cooperation agreement was made during the summer when the Swedish railways Statens Järnvägar (SJ) and VR Ltd agreed with Searail Oy Ab on management of railferry operations between Turku and Stockholm. The companies established a European Economic Interest Grouping (EEIG) in order to improve coordination of deliveries and to plan timetables with a view to reducing delivery times. Some 350,000 tonnes of freight has been transported annually on this route.

Combined transport grows in Finland

Interest in combined road-rail transport showed further growth. Carrying of trucks and trailers in Finland rose 20 % on the previous year. During the year VR Cargo operated a regular service from Helsinki to Oulu and Kemi and from Tampere to Oulu, transporting more than 12,500 trucks and trailers on these routes. New rolling stock suitable for this form of combined transport was built. Plans also exist to start a regular night-time rail service from Turku to Oulu and Kemi.

The economic situation in Russia substantially reduced demand for container and trailer trains to the east. Approximately 3,000 containers were shipped by rail to Moscow and other CIS destinations. Regular container trains departed to Moscow from Helsinki, Kotka and Hamina. Technical preparations for a new trailer train connection to Moscow were completed following test runs.

The Asian crisis and the Russian situation severely curtailed container transport to East Asia. Exports to the east became quieter as sea transport volumes collapsed simultaneously. In international combined transport operations, only some 10,000 containers were shipped by rail on the Trans-Siberian line during the year.

Environmental certificate for cargo transport

Quality and environmental issues received further high priority in VR Cargo's operations. Its entire cargo transport operation was awarded ISO 9001 quality certification in early 1998. In the autumn the Western Finland region and the head office received ISO 14001 environmental certification. The company's other regions gain environmental certification in 1999.

Environmental certification is important for VR Cargo's customers, Finnish exporters selling to Continental Europe. One of the benefits of environmentally friendly railway transport is to improve environmental accounting of exported paper.

Working for better customer relations

Some 800 wagons were either built or rebuilt during the year. Special attention was given to rebuilding two-axle covered wagons in order to enhance paper industry competitiveness. This involved raising the roofs of these wagons, widening their door openings and increasing their axle weights, making them suitable for transporting larger paper reels.



Continuous renewal of the rolling stock is one element in the partnership agreements signed by VR Cargo and its customers. Long-term projects also include development of electronic data communications. In 1998 VR and its customers transmitted more than 65 % of information in bills of lading electronically.

Service agreements were extended with customers in various regions. These agreements defined in detail all stages in the agreed cooperation, the required train marshalling work to an accuracy of one minute, and quality criteria.

Wide-ranging training for 700 people involved in customer service was started during 1998 and this will continue through 1999. This training is intended to ensure a complete package of logistics services from a single point. Document management and advice on cargo loading in eastern traffic were improved during the year.

Modest growth in Transpoint's turnover

Transpoint Oy Ab, which specializes in general cargo, recorded net turnover totalling FIM 616 million in 1998, up by a good 2 % on the previous year. The net turnover of Combitrans Oy, which handles partial and complete loads, amounted to FIM 263 million. Oy Transuotila Ab, which transports tankers, had net turnover of FIM 47 million.

Altogether 7.4 million tonnes of cargo was transported by road. These three companies operated 280 trucks and road tankers at the year end, supplemented by approximately 750 trucks owned by subcontractors.



VR-TRACK REPLACED MORE RAILS, SLEEPERS
AND BALLAST THAN AT ANY TIME BEFORE,
ALONG ALTOGETHER 450 KILOMETRES OF TRACK.

quality



Line superstructure work continued unabated

VR-Track Ltd's net turnover in 1998 was FIM 1.9 billion and the value of work in progress at the close of the period totalled FIM 300 million. The year-end orderbook stood at FIM 1.1 billion. The company had an average of 3,340 employees during the year.

1998 was the first year during which VR-Track had a framework agreement signed with the Finnish Rail Administration, a three-year agreement covering track building and maintenance. Some 90 % of VR-Track's net turnover comes from work commissioned by the Finnish Rail Administration.

The amount of line superstructure carried out in 1998 exceeded the previous year's record level by 25 %. Rails, sleepers and ballast were renewed along an aggregate track length of 450 kilometres. This intense amount of construction kept the company's production capacity at full load. Altogether 40,000 tonnes of rails were installed, along with 650,000 concrete sleepers, 200,000 wooden sleepers and 150 track points. In addition to this, ballast was cleaned and frost insulation was installed along roughly 200 track-kilometres.

Largest projects on main line and on Riihimäki – Kouvola section

VR-Track's main worksites, involving renewals of line superstructure, were once again along the Helsinki–Tampere–Seinäjoki line and between Riihimäki and Kouvola. Work on the Helsinki–Seinäjoki line also involved installation of safety systems as well as shunting yard upgrades in Hämeenlinna and Tampere.

Line and safety equipment work was continued between Tampere and Pori, and between Toijala and Turku in conjunction with electrification work. Electrification on the line between Kokemäki and Pori will be completed in summer 1999, and from Turku to Toijala in the year 2000.

Line superstructure was also renewed in southern Finland between Karjaa and Hyvinkää, in eastern Finland between Iisalmi and Pyhäsalmi, and in northern Finland between Kemi and Rovaniemi. This work will take another couple of years.

New projects included renewal of the line between Savo and Karjala, and track contracts on the city track between Helsinki and Leppävaara.

ATP timetable accelerated

Renewal of safety systems was focused on the Helsinki–Tampere, Tampere–Pori and Toijala–Turku line sections. In autumn 1998 the Finnish Rail Administration decided to accelerate the timetable for building automatic train protection (ATP) systems by 1–2 years. This will mean that all the main lines will have ATP systems by the year 2001 and the entire rail network by 2005.

During 1998 ATP systems were introduced on the main line from Kerava to Toijala and in commuter traffic in the Helsinki metropolitan area from Huopalahti to Vantaankoski. VR-Track was assigned new ATP installation contracts covering 700 track-kilometres.

Construction of over- and underpasses was continued, with 47 of these completed during the year. Altogether 102 level crossings were removed by building bridges or rerouting roads.

Maintenance quality remained high

The maintenance work performed by VR-Track exceeded the quality targets set by the Finnish Rail Administration. However, the high sensitivity of signalling equipment and damage arising from construction work caused malfunctions in safety systems, especially during the summer, which disturbed traffic.

Several small international consultancy assignments and line contracts were carried out during the year. VR-Track was involved in assessing the condition of the Danish railways and in 10-year planning of maintenance and replacement investments for them.

Quality and information systems were further developed during the year, and personnel training was given greater impetus. The Safety Technology Authority of Finland granted the company's Electrification Unit the right to inspect its own installation work. The company also decided to adopt the principle in 1999 of recognizing revenue from projects in progress according to their degree of completion. In 1998 project revenues were recognized only after their completion or handover.

Railtelia Ltd



Telecom services incorporated

VR-Group Ltd and Telia Finland Oy established Railtelia Ltd in the spring of 1998 to produce and develop telecommunications services for transport and logistics needs. The new company took over all 165 employees of VR-Track's telecommunications department. It also partly acquired and partly leased VR Group's telecom network assets. VR Group holds 60 % of Railtelia's stock and Telia Finland the remaining 40 %.

Railtelia began operating on 1 June 1998 and generated net turnover totalling FIM 83 million during its first

seven months. The company fulfilled all its quality criteria and delivery targets.

Railtelia recruited a number of professional experts from outside the company during the year and at the close of the period had altogether 178 employees.

Railtelia's largest investment projects during 1998 involved trunk fibre-optic cable networks, telephone networks and data networks. Network ownership was also restructured when the company was incorporated. Railtelia worked closely with Telia in investment projects.

In 1999 the company will focus particularly on development of its human resources, processes, sales and customer service.

VR-Data Ltd

VR-Data concentrates on customer service

VR-Data Ltd achieved its most important customer service targets in 1998 – the high availability and reliability of its information systems. At the end of the year the company was awarded ISO 9001 quality certification by SFS-Certification for its entire operation. VR-Data's financial position is strong. Net turnover increased 15 % on the previous year and totalled FIM 77 million.

Much of VR-Data's work during the year related to the changes necessary for the new millennium. This work proceeded to schedule. The company also made preparations for adoption of the euro in VR's main cash transaction systems.

VR-Data closely monitored information technology developments. It paid particular attention to Internet and intranet applications, new mobile telephony technology for people working outside their offices, and issues relating to data security.

Several new systems were completed and brought into operation during the year. The Opera customer service system for passenger services is the largest of VR's new systems. VR-Data is responsible for its maintenance and operation.

VR-Data's extensive personnel training scheme continued to run with the focus on project management and mastery of new tools and methods. The company also recruited more expert staff such as project managers and IT professionals, and it further enhanced its service capabilities by networking actively with other companies. VR-Data worked particularly closely with Novo Group in areas related to operating services, methods and new technology. Similarly, Railtelia Ltd was an important partner in telecommunications and workstation maintenance.

Avarra Oy

Development services in strong demand

Rautatieasunnot Oy (Avarra Oy from 2 March 1999) develops, manages and rents residential properties. Its net turnover increased roughly 7 % on the previous year, totalling FIM 60 million. At the end of 1998 the company owned 92 buildings containing altogether 1,900 rented apartments. It also owned another one hundred apartments in other housing companies.

During the year the company completed extensive refurbishment of its buildings in Kouvola, Hyvinkää, Pori, Tampere and Vantaa, which meant that its renovation programme was virtually complete by the year end. The company also began conversion of attic floors into

apartments in its buildings in Iisalmi, Kuopio and Vaasa. Planning of top-floor conversion in two buildings began in Joensuu.

The company considerably boosted sales of its railway building development services to outside customers interested in new building and renovation. The largest of these were property companies in Kerava, Tampere and Turku.

The company's most important development projects in the year involved designing service logs for buildings, the Healthy Indoor Air project, and attic conversion. Service logs were developed for all the company's buildings and the information systems developed for this purpose were also marketed to property companies.

The Healthy Indoor Air project resulted in a manual for property management, addressing such issues as repairing damage caused by rising damp. A Healthy Indoor Air building was completed in Hyvinkää for asthma and allergy sufferers. This was warmly welcomed and proved well suited to its purpose.



TEAMWORK WAS ENCOURAGED, ALSO IN TICKET SALES,
TO PROVIDE BETTER CUSTOMER SERVICE.

service

Working fitness the theme of the year

The number of personnel employed by VR Group continued to decline. VR group employed an average of 16,500 people during the year, one percent less than in 1997.

Attention focused on the working ability of personnel during the year. The average age of personnel was 45, and absence due to sickness accounted for 5 % of total working time.

Numerous projects were conducted to develop the working community. They were aimed at utilizing personnel skills on a broader front, encouraging teamwork, and improving target setting and cooperation at work. Special attention was paid to workplace design in information technology projects.

Early rehabilitation was one pre-emptive method used to enhance mental and physical working fitness. Some 400 employees attended physical training and fitness courses.

The five-year 'Fit at all Ages' project that started in 1995 was extended to include more of VR's workplaces. A total of 3,000 people participated in the health and fitness programme, a third of which started fitness training as a result of the programme.

Personnel development focuses on train safety

Improving train safety, boosting work input, upgrading basic training and further training for middle management were the focal points for personnel development.

All training associated with train traffic was strongly focused on improving train safety. Follow-up training on train safety was re-arranged so that personnel involved in train traffic receive training every three years.

Further training for traffic personnel

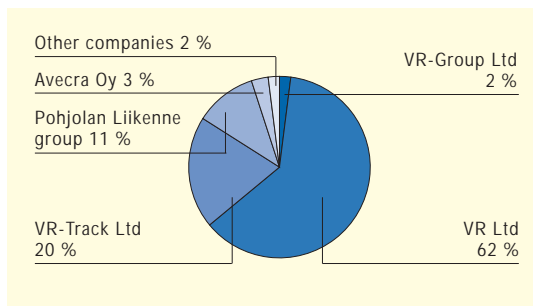
Planning of supplementary training programmes was started at the end of the year in collaboration with personnel. The two-day training course will be given to all train drivers and all personnel involved in traffic management. Starting in February 1999, the supplementary training is aimed at improving the safety of train traffic.

The training programme for personnel working in marshalling yards was upgraded in 1998. The comprehensive training provides competence in a wider range of tasks.

Numerous courses and regional events were arranged to enhance employees' work input. Training was jointly arranged with the Institute of Marketing for middle management in the company. The integrated training focuses on finance, marketing, logistics and project work and will continue during 1999.

VR's Training Centre moved to new premises in Pasila workshop in January 1998. Modern training needs - such as facilities for groupwork, and for computer and video networks - were taken into account in the design of the premises.

VR Group's personnel by company in 1998



Target is highest EU safety level

Two serious accidents occurred in railway traffic during 1998. In March an express train arriving at Jyväskylä station was derailed crossing the railway points and in August a goods train and an InterCity train collided at Suonenjoki. The train driver and nine passengers died and 94 passengers were injured in the Jyväskylä accident. Twenty-six passengers were injured in the Suonenjoki accident.

The accidents prompted considerable public debate about the safety of railway traffic. VR published its revised programme for rail safety at the beginning of September. The Finnish Rail Administration simultaneously published a programme for improving the safety of the railway network.

VR's target is to raise train safety in Finland to the highest levels in the EU countries, and to reach the same level as Sweden by the year 2002. The focus for achieving these targets will be on further implementation of ATP systems, improved working methods, more personnel training, technical enhancements to rolling stock, and research.

Safety control system enables more efficient management

Documentation for the safety control system was completed and the system will be introduced in 1999. The safety control system defines the responsibilities, management and procedures associated with train safety. The system also calls for the identification and management of risks.

Regional train safety committees were established in the autumn to improve the handling of irregularities. The committees are charged with processing reports of irregularities and improvements suggested by personnel. The committees also supervise the implementation of changes.

Improvements to train braking performance

It was decided to improve the braking performance of older passenger coaches and to provide all passenger coaches with automatic door locking by 2001. Installation of ATP equipment in locomotives continued. Almost all locomotives in track service will have ATP equipment by the end of 1999.

It was also decided to reduce train speeds in order to increase safety. The maximum speed of older rolling stock was lowered by between 5 and 15 kilometres an hour from their top speed of 140 kilometres an hour in the autumn.

At the end of the year it was decided to lower the maximum permissible speed to 130 kilometres an hour on those sections of track that are not equipped with an ATP system. The decision will be put into effect when the new train service timetable is adopted in June 1999. The current maximum speed without ATP is 140 kilometres an hour. The restriction does not apply to InterCity and special express trains that have more effective brakes than standard express trains.

Surveys to reduce errors

VR launched a risk survey in collaboration with the Technical Research Centre of Finland (VTT) and Industrial Insurance Company Ltd. The survey monitored passenger train traffic from Tampere to Pori and analyzed the risks attached to the journey. The risk analysis was completed at the beginning of 1999. New projects to analyze risks will be initiated in 1999.

The Finnish Institute of Occupational Health continued a wide-ranging study started in 1997 addressing the factors which affect the alertness of passenger traffic personnel. The study is due to be completed in 2000. The aim of both this study and the risk analyses is to reduce the human factor as a potential cause of accidents.

An analysis of safety regulations and working procedures was started in collaboration with the Finnish Rail Administration. Amendments to safety regulations and procedures will be made during 1999.

THE NEW RAIL SAFETY PROGRAMME IS BASED AROUND AUTOMATIC TRAIN PROTECTION EQUIPMENT, WHICH WILL BE OPERATIONAL ON THE MAIN LINES IN 2001. THIS EQUIPMENT PREVENTS EXCESSIVE SPEEDS AND COLLISIONS.

Safety



School campaign continued

VR continued its joint safety campaign with the Finnish Rail Administration and the police, which focuses on school children. In 1998 the campaign was extended to include Pohjanmaa, Savo and Northern Finland, and reached a total of 15,000 school children.

The aim of the campaign is to tell children in schools situated near railway tracks about the rules regarding access to railways. The police and train drivers emphasized important safety hazards that included the long braking distance for trains and the high electric current in railway conductors.

In previous years the safety campaign has focused on schools next to the Helsinki-Turku and Helsinki-Tampere tracks, and the Kouvola area.

Video surveillance enhances passenger safety

VR expanded its camera surveillance in the Helsinki metropolitan area in 1998. Camera surveillance was introduced at stations along the Helsinki-Tikkurila line. Helsinki and Pasila stations have had camera surveillance in place for some years.

Personal safety at stations was improved by both 24-hour camera surveillance and extra patrolling at weekends. The surveillance will be extended to the new commuter trains that will be put into service in the autumn of 1999.



VR CARGO RECEIVED ITS FIRST ISO 14001 ENVIRONMENTAL CERTIFICATION. SIMILAR ENVIRONMENTAL CERTIFICATES WILL BE RECEIVED DURING 1999 COVERING VR'S ENTIRE RAIL FREIGHT OPERATIONS.

environment



Stronger focus on the environment

Conservation of the environment is one of VR Group's basic values. The focus in 1998 was on monitoring and reducing the main environmental impacts caused by rail traffic. VR published its first environmental report, and VR Cargo received ISO 14001 environmental management certification.

Higher proportion of electrified traffic

The main impact that VR Group's operations have on the environment is caused by rail traffic and the energy required for it. VR Group consumed 73 million litres of liquid fuels and 670 GWh of electricity and heat in 1998. Rail traffic accounted for 96 % of liquid fuel consumption and 88 % of electricity consumption. Consumption of both liquid fuels and other energy decreased compared to the previous year.

The energy consumption and emissions of rail traffic diminished in pace with progress in the electrification of the line network. The proportion of electrified traffic rose to 69 %. The target is that 80 % of train traffic will be electrified by 2012.

Environmental certificate for VR Cargo

VR Cargo was granted an ISO 14001 certificate for the environmental management system that it applies in head office and in the Western Finland region. All rail freight traffic will be certified during 1999.

VR Group published its first environmental report. The report addresses the environmental impact of rail traffic in 1996 and 1997, VR's environmental management system and the measures taken by VR to reduce the environmental impact. The next environmental report will be published in 2000.

Environmental themes were also prominent in marketing messages, particularly in VR Cargo's advertising. Material emphasizing the environmental benefits of train traffic was produced for in-house training and for stakeholder communications. One important objective was to heighten environmental awareness among VR Group's personnel.

New environmental policy

VR Group reviewed both its environmental policy and its environmental management system to ensure they conformed to changes in regulations and organization.

The management of VR Group confirmed the current environmental policy in January. The environmental management review held in February focused on emissions and the environmental problems of subsidiaries.

Safe transport of hazardous substances

Continuous monitoring and strict operating procedures ensured that hazardous substances were transported safely. No accidents releasing significant amounts of dangerous substances into the environment occurred during the year.

All tank wagons arriving from the east were checked at the border stations in Vainikkala and Niirala to prevent radiation, leaks and over-filling.

Environment issues addressed in purchasing rolling stock

The impact on the environment was one factor taken into account when purchasing rolling stock. The service life of rolling stock and the use of recyclable materials in their manufacture were also important issues.

Energy consumption and its resulting emissions were reduced by the replacement of stock. The replacement of older diesel locomotives with new electric locomotives is particularly effective in this respect. Most of the new Sr2 electric locomotives were commissioned in 1998.

The first new double-decker InterCity coaches were brought into service in the summer, and at the end of the year the contract was extended for the purchase of a further 50 new coaches. Double-decker coaches reduce energy consumption because they weigh less per passenger seat than older coaches. Their theoretical energy saving is roughly 20 %.

Cooperation to reduce noise

The Finnish Rail Administration and VR continued their efforts to reduce the noise caused by rail traffic. The most effective means to suppress noise are upgrading tracks and replacing rolling stock.

Increasing the proportion of electrified traffic reduced noise as electric tractive stock is quieter than diesel stock. Quieter bogies, disc brakes and chassis in the new coaches brought into service reduced the noise level. VR is also looking for ways to reduce the noise caused by shunting operations.

Surveys of refuelling depots

VR Ltd has 27 refuelling depots with storage facilities and two harbour storage depots in Tahkoluoto and Vihreäsaari. These depots were surveyed to establish the need for more detailed inspections. The surveys examined the underlying soil, the condition of equipment and the allocation of responsibilities.

Detailed studies were conducted in Kemi during the end of the year to investigate the need for cleaning and follow-up measures. Some eight other refuelling depots will also be investigated in 1999 as a result of these studies, some of which are situated in the Finnish Rail Administration's area.

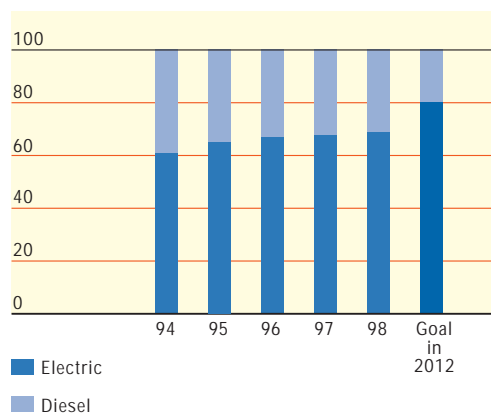
The refuelling depot at Iisalmi was also cleaned last year. The condition of both the underlying soil and the equipment at the depot was improved.

Preservation agreement for old station buildings

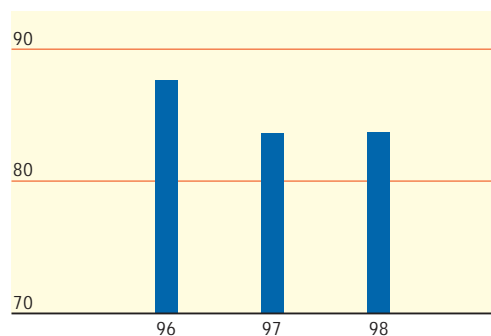
The Ministry of the Environment, the Finnish Rail Administration, VR-Group Ltd, the National Board of Antiquities and the State Real Property Authority concluded an agreement on the preservation of old station areas of national importance. The parties committed themselves to a procedure that meets the targets for preservation while allowing development of the station areas. The agreement applies to 115 station areas. The areas contain 872 buildings, of which 56 are owned by VR Group.

Preservation of the station areas and any proposed changes can also be specified in town or city plans so that the specific features of each site are taken into account. Until this is done the parties have undertaken to manage the sites in a way that ensures the characteristics of the sites are preserved and the buildings on the sites do not substantially deteriorate.

Rail traffic by type of energy, %



Energy consumption by total transport volume, Wh/(passenger-km + tonne-km)



VR-Group Ltd financial statements

January – December 1998

Report by the Board of Directors	25	Parent Company Balance Sheet	34
Consolidated Profit and Loss Account	29	Parent Company Cash Flow Statement	36
Consolidated Balance Sheet	30	Notes to the Financial Statements	37
Consolidated Cash Flow Statement	32	Board's Proposal on the Disposal of Profit	43
Parent Company Profit and Loss Account	33	Auditors' Report	43
		Statement by the Supervisory Board	44

Report by the Board of Directors

A change in production trends in the industrial sectors of importance to rail transportation took place during the second half of the year. The growth figures evident during the earlier months of the year started to fall clearly in the autumn, a trend which was particularly noticeable in the forest and chemical industries. Overall industrial growth was sustained largely by the electronics industry, but this had only marginal significance for rail traffic.

The change in business conditions was even more visible in exports than in domestic volumes. Despite growth in exports of electronics products, total export volumes began to decline in the autumn.

The situation in Russia also affected rail transport. The devaluation of the rouble which began in August cut export volume sharply. Conversely, raw material imports rose towards the end of the year. Transit traffic via Finland increased in the final months as well, but transit volumes for the full year did not reach the previous year's level owing to a weak start to the year and the low world price of crude oil.

Domestic consumer demand continued to be buoyant throughout the year. Real income increased 3 % on the previous year according to preliminary estimates, with private consumption rising slightly further. Rail passenger volumes depend of course on other factors besides income growth, notably the appeal of road and air travel compared to travelling by rail. Considerably more new passenger cars were registered during 1998 than in the previous year, while the low world oil price kept the cost of motor fuel relatively low despite an increase in fuel tax. Airlines pursued an active pricing policy especially on routes served also by the railways.

Consolidated net turnover, result and liquidity

The Group's net turnover for the period 1 January to 31 December 1998 totalled FIM 6,753 million, having been FIM 6,181 million one year earlier. Operating costs rose 3 % and remained within budget. This was made possible by moderate wage agreements and low inflation, coupled with a slight decline in personnel figures.

The Group posted a net profit after tax of FIM 386 million (1997: FIM 419 million). The result of operations was slightly below the previous year's level.

The Group's liquidity remained good throughout the year. Net interest amounted to FIM 82 (86) million. Liquid reserves at the year end stood at FIM 2,192 (2,196) million. No new loans were raised during the year except for interest support and state housing loans for Avarra Oy (formerly Rautatieasunnot Oy until 2 March 1999) and a capital loan used to establish Railtelia Ltd.

Rail volumes

VR Cargo's freight volumes reached 40.7 million tonnes, a one percent increase on the previous year and the largest amount of rail freight ever carried by VR in one year. The difference compared to 1997 was even larger at the beginning of the year but levelled off towards the year end because of the business factors outlined above. VR Cargo posted a net turnover of FIM 2,000 (2,003) million.

Domestic freight volume, 23.6 million tonnes, remained similar to the previous year although in July the volume of carryings was still almost 3 % higher. Forest industry carryings accounted for 68 % of domestic freight followed by metal industry carryings, 23 %. Forest industry carryings remained broadly similar to the previous year's level, whereas metal industry carryings increased by over 4 %.

International traffic rose by a good 2 % to FIM 17.1 million. The volume of Russian traffic increased 4 %. In the latter segment, imports of raw materials for Finland's base industries rose almost 9 %, whereas transit traffic via Finland decreased over 12 % despite volume growth at the year end. Connecting traffic to the west, most of which is railferry traffic to Germany and Sweden, fell approximately 15 %. The railferry company Railship moved its German railferry operations from the port of Hanko to Turku. Traffic between Tornio and Haaparanta declined as well.

A total of 51.4 million passenger journeys were made during the year, including 39.4 million commuter journeys in

the Helsinki metropolitan area. This meant an overall increase of almost 3 %. The bulk of this growth came from commuter traffic in greater Helsinki, which increased almost 4 %, while the number of long-distance journeys declined slightly. In long-distance traffic the number of passengers using the Pendolino high-speed trains rose almost 6 %. Car-sleeper traffic to northern Finland increased as well but passenger traffic to and from Russia fell by more than 2 %. Net turnover from passenger transport by rail totalled FIM 1,534 (1,512) million.

Road transport

VR's road transport operations 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. The companies carried a total of 7.4 million tonnes. This represented an increase of about 50 % on the previous year, although the main reason for this growth was the fact that Combitrans Oy only became a Group company in mid-1997. The aggregate turnover of these road freight companies was FIM 918 (790) million. They owned 280 trucks at the year end and employed another 750 trucks owned by subcontractors.

Bus services are provided by Oy Pohjolan Liikenne Ab and its four subsidiaries. Most of their operations cover southern Finland. Net turnover from these services amounted to FIM 154 (153) million. There were 223 buses in service at the year end.

Catering services

Restaurant services in trains and at railway stations are provided by AVECRA Oy. This operation continued essentially unchanged during the year. Daily restaurant services were provided in 130 trains and at 30 other points. Net turnover amounted to FIM 173 (174) million.

Track maintenance and construction

VR-Track Ltd's net turnover totalled FIM 1,897 million, representing growth of FIM 345 million. In 1998 the company still recorded revenues from construction projects on their completion. In 1997 stocks of finished goods, which were not included in net turnover, totalled FIM 313 million whereas this figure was reduced by FIM 47 million in 1998. However, the volume of work in the review year was substantially higher than in 1997 since net turnover that year included sales of concrete sleepers and electrical energy to the Finnish Rail Administration.

Altogether 90 % of VR-Track Ltd's net turnover in 1998 came from the Finnish Rail Administration, with which the company has concluded three-year framework contracts covering track construction and maintenance. VR-Track Ltd had orders worth approximately FIM 1,200 million at the year end, which included roughly FIM 300 million as work in progress. From the beginning of 1999 the company began recording revenues from projects based on their percentage of completion.

Besides regular maintenance work, construction focused on renewal of the track superstructure and safety equipment systems. The largest projects were carried out on the Helsinki–Tampere–Seinäjoki and the Riihimäki–Kouvola line sections. Completing the Helsinki–Tampere section by the start of the next decade to match increasing rail traffic demands has high priority. Superstructure renewal was also continued on the Karjaa–Hyvinkää, Iisalmi–Pyhäsalmi, and Kemi–Rovaniemi sections, as well as between Tampere and Pori and Turku and Toijala while electrification work was in progress. New projects included track rebuilding on the Kouvola–Pieksämäki and Säkäniemi–Joensuu–Uimaharju sections and construction projects on the city line between Helsinki and Lepävaara.

In 1998 ATP systems were completed on the Riihimäki–Tampere line section and on the Huopalahti–Vantaankoski commuter line in the Helsinki metropolitan area.

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. Most of these properties are used by the Group's own subsidiaries. VR-Group Ltd received FIM 68 million in rental and other income from outside the company during the year. This was FIM 10 million less than in 1997, which was mainly due to the lower volume of maintenance work contracted by the Finnish Rail Administration.

VR-Group Ltd's subsidiary Avarra Oy (formerly called Rautatieasunnot Oy until 2 March 1999) handles the maintenance, financial management and renting of the VR buildings placed under its control as well as performing a small amount of renovation work which it contracts from outside VR. The company owns 92 buildings as well as shares in various housing companies. Renovation projects were completed in a number of localities during the review year as well. Most of its apartments are let to VR personnel. Rautatieasunnot Oy's net turnover totalled FIM 60 million, an increase of almost 7 % on the year before.

Investments

The Group's capital expenditure amounted to FIM 820 (748) million. The main investment, totalling FIM 170 million, were for the double-decker InterCity passenger coaches. The first of the 42 coaches ordered in 1995 were in service at the end of the year. Advance payments totalling FIM 63 million were made to cover a new train type for commuter service in the Helsinki metropolitan area. The first of these train sets have been delivered for test runs. Altogether FIM 294 million was spent on passenger rolling stock. FIM 104 million was devoted to freight wagons. Most of this was allocated to cover modernization of old wagons. FIM 99 million was used for Sr2 type locomotives, 19 of which had been delivered by the year end from the total of 20 ordered in 1995.

VR-Track Ltd's investments amounted to FIM 89 million and the investments of the Pohjolan Liikenne subgroup to FIM 93 million.

Agreements were signed at the close of the period with the Swiss manufacturer Adtranz for a further 20 Sr2 locomotives and with Rautaruukki Corporation for a further 50 double-decker InterCity passenger coaches. These locomotives will be delivered between 2001 and 2003, and the coaches between 2000 and 2002. These purchases have an aggregate value of approximately FIM 950 million.

Intragroup restructuring

VR's telecommunications services were incorporated at the start of the year to ensure continued high-quality and cost-efficient telecom services in the future. The new company, called Railtelia Ltd, took over all the personnel of VR-Track Ltd's telecommunications department as well as VR-Group Ltd's telecommunication network assets. VR-Group Ltd owns 60 % of its share capital and Telia Finland Oy the remaining 40 %. Railtelia Ltd produces and develops transport and logistics telecom services mainly for VR Group companies but also for outside customers as well. The company's turnover for the first seven months totalled FIM 83 million.

In May Arctia Oy, a subsidiary of Alko-yhtiöt, sold its 40 % holding in Avekra Oy to VR Ltd. This made VR Ltd Avekra Oy's sole owner although VR Ltd has been seeking another partner for Avekra Oy. A letter of intent was signed in November 1998 with the Swiss company Rail Gourmet Holding Ltd, which would make this company a minority shareholder of Avekra Oy.

Transuotila Oy, a company in the Pohjolan Liikenne subgroup, bought a business with altogether 13 new articulated trucks through several minor acquisitions. The company also set up a subsidiary in Latvia, SIA Transuotila, to handle fuel transport operations locally. At the beginning of 1999 Oy Etelä-Pohjolan Liikenne Ab, another company in the subgroup, acquired a holding in the partnership Jaakko Palmunen Ky, which owns six buses.

In August VR Ltd set up a European Economic Interest Grouping called Searail EEIG with Searail Oy Ab and AB Swedcarrier, a subsidiary of the Swedish Railways. This EEIG markets freight transport services from Finland to Continental Europe via Sweden.

VR Ltd took a 31.8 % holding in Elielin Pysäköinti Oy, a new company established in February to manage a new parking building in Helsinki railway station.

In June Finland Post Ltd and VR Ltd signed a letter of intent which would have transferred a company owning 350 freight trucks and 150 buses to the Pohjolan Liikenne subgroup. However, this deal was not closed by the agreed deadline and at the end of November negotiations were considered to have ended.

Rail safety and the environment

Two serious accidents occurred during 1998. On 6 March 1998 an express train came off the rails outside Jyväskylä station, resulting in 10 deaths, eight people seriously injured and another 86 people with minor injuries. On 12 August 1998 an InterCity train collided with an oncoming freight train at Suonenjoki as it was leaving the station. One person was seriously hurt and 25 sustained minor injuries in this accident.

VR reviewed the rail safety programme which it had initiated in 1996 and published it in the autumn. At the same time the Finnish Rail Administration published its own programme for developing the safety of the rail network. VR's goal is to raise rail safety to the highest levels prevailing in the EU. To achieve this, its rail safety programmes will incorporate measures to improve the track infrastructure, raise the efficiency of safety equipment, provide further personnel training, and to enhance organizational efficiency. Possibly the most crucial part of both safety programmes is the decision to accelerate the implementation of automatic train protection systems so that these will be fully operational on the main lines by the year 2002 and on the entire rail network in 2005.

During the year VR also emphasized measures to monitor the main environmental impacts of its operations and to reduce environmental hazards. VR Group's environmental policy was confirmed at the beginning of 1998 and its environmental manual was updated to comply with the EU's EMAS statute and ISO 14001 standard. VR also published its first environmental report and VR Cargo was awarded ISO 14001 environmental certification.

Environmental aspects took high priority in new purchases of rolling stock and renovation of older rolling stock. The Finnish Rail Administration and VR made further joint progress to reduce noise caused by rail operations. The filling depots used by diesel locomotives were inspected with a view to conducting more detailed inspections at a later date.

The state administrative organizations and VR reached agreement on the protection of railway station areas having national significance. This agreement applies to 115 station areas containing 872 protected buildings. Fifty-six of these are owned by VR-Group Ltd.

Personnel and administration

Personnel numbered 16,487 on average during the year, a decrease of more than one percent on the previous year. For a number of years VR's policy has been to recruit a minimum of new employees in order to streamline operations, also in anticipation of future operating conditions. Streamlining of personnel numbers has been made possible by reorganization of operations in conjunction with related mechanization and automation.

Streamlining has required retraining in preparation for changing responsibilities. The contents of training programmes have been revised likewise. Special emphasis has been given to rail safety in all training related to rail traffic. Rail traffic personnel receive refresher courses every three years.

At the beginning of 1998 VR's Training Centre was moved to newly renovated premises at the Pasila engineering works which can cater more effectively to modern adult training needs.

Group personnel was distributed as follows:

	1 Jan. - 31 Dec. 1998 Average during period	1 Jul. - 31 Dec. 1997 Average during period
VR-Group Ltd	318	606
VR Ltd	10 284	10 395
VR-Track Ltd	3 342	3 345
Pohjolan Liikenne subgroup	1 801	1 773
Avecra Oy	468	478
VR-Data Ltd	88	76
Railtelia Ltd	170	
Avarra Oy	16	17
total	16 487	16 690

The Board of Directors of VR-Group Ltd comprised Martin Granholm, chairman, and members Samuli Haapasalo, Eija Malmivirta, Antti Remes and Pentti Talonen. Kalevi Alestalo was elected to the Board in place of Samuli Haapasalo at the beginning of 1999.

VR's Chief Executive Officer and VR-Group Ltd's President is Henri Kuitunen.

Erkki Hämäläinen, President of VR Ltd, left the company on 12 March 1999. Juhani Kopperi, Executive Vice President of VR-Group Ltd, was appointed President of VR Ltd with effect from the same date.

Wages, salaries and fees

Wages, salaries and fees paid (MFIM)

	Group		Parent company	
	1998	1997	1998	1997
Presidents and administrative bodies	5.7	5.7	1.9	2.4
Other wages, salaries and fees	2,505.6	2,480.0	54.9	82.5

Opening the rail network to competition

A civil service commission headed by the Ministry of Transport and Communications submitted its proposals in April which would open up the rail network to competitive bidding for freight and passenger services in both domestic traffic and traffic between Finland and the EU. The commission proposed that competitive bids should be invited for Helsinki's commuter services and also elsewhere in Finland for local train services purchased by the state or municipal authorities. Long-distance traffic would not at this stage be subject to open competition. The commission also proposed competitive bidding for freight services which would give all railway companies with operating licences access to the rail network.

In September the Ministry of Transport and Communications began preparing the legislation required to allow the open competition proposed by the commission. These bills are likely to be put before parliament during 1999.

Adoption of the euro and year 2000 compliance

During the year VR took measures in anticipation of the common European currency allowing customers who so wish to use the euro for invoicing purposes from the beginning of 1999. VR's domestic currency will continue to be the Finnish markka until the end of the transition period.

VR continued with work started during the previous year to ensure the millennium compliance of its information systems. The first systems modified or replaced for this reason were taken into use at the end of 1998. VR is also closely monitoring the year 2000 projects for which the Finnish Rail Administration is responsible.

Prospects for the current year

The decrease in production volumes evident in Finland's base industries during the second half of 1998 will, if this continues, reduce VR's freight volumes and could have a significant impact on transport volumes for the whole year and on VR's result.

Passenger volumes are expected to remain more or less unchanged on the previous year, while commuter traffic in the Helsinki metropolitan area could increase slightly.

The volume of track construction and maintenance is forecast to remain broadly similar to the previous year.

Consolidated Profit and Loss Account

(FIM 1,000)	1 Jan. - 31 Dec. 98	1 Jan. - 31 Dec. 97	Note
Net turnover	6,753,212	6,180,703	(1)
Change in stocks of finished goods	-43,304	313,095	
Production for own use	201,423	272,654	
Profit from associated companies	2,933	2,751	
Other income from operations	246,888	240,311	
Costs			
Materials, supplies and goods			
Purchases during period	956,343	1,080,078	
Change in stocks	10,798	-7,610	
External services	1,166,165	984,597	
Personnel costs	3,283,130	3,244,107	(2)
Rental costs	52,627	56,263	
Other costs	700,639	633,205	
	6,169,703	5,990,640	
Operating profit before depreciation	991,450	1,018,875	
Depreciation			
On fixed assets and other			
long-term expenditure	521,704	548,178	(3)
Decrease in goodwill on consolidation	-23,291	-24,960	(7)
Operating profit	493,037	495,657	
Financial income and expenses			
Dividend income	371	191	
Interest income	99,704	96,937	
Other financial income	336	12,255	
Interest expenses	-17,539	-18,856	
Other financial expenses	-1,312	-4,728	
	81,559	85,800	
Profit before taxes	574,596	581,457	
Change in deferred tax liability	-64,775	-82,124	(3)
Direct taxes	-114,468	-74,797	
Profit before minority interests	395,353	424,536	
Minority interests	-9,598	-6,007	
Profit for the year	385,755	418,529	

The numbers in brackets refer to the Notes to the financial statements on pages 37-42.

The figures in the official financial statements have been rounded in the profit and loss account, balance sheet and cash flow statements in accordance with normal rounding practice.

Consolidated Balance Sheet

(FIM 1,000)	31 December 1998	31 December 1997	Note
ASSETS			
Fixed assets			
Intangible assets			
Goodwill	26,942	37,028	
Other long-term expenditure	37,068	43,127	
	64,010	80,155	
Tangible assets			
Land and water areas	445,800	446,708	
Buildings and structures	1,377,981	1,377,921	
Machinery and equipment	2,785,815	2,440,292	
Other tangible assets	62,139	32,612	
Payments on account and tangible assets in course of construction	287,298	355,362	
	4,959,034	4,652,895	(6)
Financial assets			
Shares and holdings in associated companies	10,799	8,549	
Other shares and holdings	36,450	38,488	
Loans receivable	40,562	45,912	
	87,811	92,950	(5)
Fixed assets, total	5,110,855	4,826,000	
Current assets			
Stocks			
Materials and consumables	312,997	326,073	
Unfinished goods	305,993	347,519	
Payments on account	21,143	20,596	
	640,134	694,188	
Debtors			
Trade debtors	525,918	623,137	
Prepayments and accrued income	204,906	118,454	
Other debtors	13,859	4,638	
	744,682	746,229	
Securities	2,144,164	1,973,682	
Cash at bank and in hand	47,455	222,189	
Current assets, total	3,576,435	3,636,288	
Assets, total	8,687,290	8,462,288	

(FIM 1,000)	31 December 1998	31 December 1997	Note
CAPITAL AND LIABILITIES			
Capital and reserves			
Restricted shareholders' equity			
Share capital	2,200,000	2,200,000	
Other shareholders' equity	3,125,989	3,125,989	
Non-restricted shareholders' equity			(11)
Profits from previous years	756,034	482,615	
Net profit for the year	385,755	418,529	
Capital loan	4,000		
Shareholders' equity, total	6,471,778	6,227,133	
Minority interests	40,550	37,443	
Provisions			
Goodwill on consolidation	46,583	74,911	(7)
Obligatory provisions	13,715	8,605	(12)
Creditors			
Creditors due after one year			
Loans from financial institutions	280,559	273,415	
Pension loans	35,591	40,193	
Deferred tax liability	262,662	197,887	
Creditors due after one year, total	578,812	511,495	
Creditors due within one year			
Loans from financial institutions	10,199	5,794	
Pension loans	2,508	4,540	
Payments on account	334,977	371,362	
Trade creditors	313,872	307,061	
Accruals and deferred income	671,210	700,377	
Other creditors	203,086	213,568	
Creditors due within one year, total	1,535,853	1,602,701	
Liabilities, total	2,114,665	2,114,196	
Capital and liabilities, total	8,687,290	8,462,288	

Consolidated Cash Flow Statement

(FIM 1,000)

1 Jan. - 31 Dec. 1998

1 Jan. - 31 Dec. 1997

Operating activities

Funds generated from operations

Operating profit before depreciation	991,450	1,018,875
Share of associated companies' profits	-2,933	-2,751
Financial income and expenses	81,559	85,800
Taxes	-114,468	-74,797
Other items ¹⁾	5,110	-12,268

960,717 1,014,859

Change in net current assets

Change in stocks	54,054	-308,818
Change in current receivables	1,546	-143,495
Change in current liabilities	-66,848	216,407

-11,248 -235,906

Net cash flow from operating activities

949,469 778,953

Investing activities

Capital expenditure	-820,214	-748,409
Proceeds from sale of fixed assets	7,748	18,753

-812,466 -729,656

Cash flow before financing activities

137,003 49,296

Financing activities

Change in long-term receivables	5,350	100
Change in long-term loans	2,542	-44,122
Change in short-term interest-bearing loans	2,373	-100,377
Dividend payment	-151,520	-270,730

-141,256 -415,129

Change in liquid assets

-4,252 -365,833

¹⁾ Other items under funds generated from operations consist of the change in obligatory provisions.

Parent Company Profit and Loss Account

(FIM 1,000)	1 Jan.- 31 Dec.1998	1 Jan.- 31 Dec.1997	Note
Net turnover	286,726	356,629	(1)
Other income from operations	6,666	3,964	
Costs			
External services	21,336	25,784	
Personnel costs	69,022	101,956	(2)
Rental costs	2,795	7,194	
Other costs	106,109	123,117	
	199,261	258,051	
Operating profit before depreciation	94,131	102,542	
Depreciation			
On fixed assets and other long-term expenditure	87,125	167,392	(3)
Operating profit	7,006	-64,851	
Financial income and expenses			
Dividend income	70,635	139,079	
Interest income from long-term investments	57,838	65,499	
Other interest income	96,135	93,219	
Other financial income	31	7,753	
Interest expenses	-35,796	-43,747	
Other financial expenses	-764	-1,065	
	188,080	260,738	
Extraordinary income and charges			
Group contribution received	0	103,000	
Profit before provisions and taxes	195,086	298,888	
Change in depreciation difference	21,905	-39,321	
Direct taxes	-83,528	-73,651	
Profit for the year	133,462	185,915	

Parent Company Balance Sheet

(FIM 1,000)	31 December 1998	31 December 1997	Notes
ASSETS			
Fixed assets			
Tangible assets			
Land and water areas	433,883	433,906	
Buildings and structures	867,055	883,614	
Machinery and equipment	100,293	166,696	
Other tangible assets	10,146	9,036	
Payments on account and tangible assets in course of construction	22,280	30,305	
	1,433,657	1,523,557	(6)
Intangible fixed assets			
Shares and holdings	1,838,698	1,821,779	(5)
Loans receivable	872,562	990,912	(9)
	2,711,260	2,812,691	
Fixed assets, total	4,144,917	4,336,248	
Financial assets			
Debtors			(10)
Trade debtors	13,980	45,359	
Prepayments and accrued income	100,677	187,465	
Other debtors	20,830	11,317	
	135,486	244,141	
Securities	2,144,164	1,961,482	
Cash at bank and in hand	30,784	176,439	
Financial assets, total	2,310,435	2,382,062	
Assets, total	6,455,351	6,718,310	

(FIM 1,000)	31 December 1998	31 December 1997	Note
CAPITAL AND LIABILITIES			
Capital and reserves			
Restricted shareholders' equity			
Share capital	2,200,000	2,200,000	
Other shareholders' equity	3,125,989	3,125,989	
Non-restricted shareholders' equity			(11)
Profit from previous years	59,027	23,112	
Net profit for the year	133,462	185,915	
Shareholders' equity, total	5,518,478	5,535,016	
Provisions			
Accumulated depreciation difference	17,416	39,321	(3)
Creditors			
Creditors due after one year			
Loans from financial institutions	0	0	
Creditors due within one year			
Payments on account	1,807	1,532	
Trade creditors	24,132	36,770	
Accruals and deferred income	12,592	18,525	
Other creditors	880,926	1,087,145	
Creditors, total	919,457	1,143,973	
Capital and liabilities, total			
	6,455,351	6,718,310	

Parent Company Cash Flow Statement

(FIM 1,000)	1 Jan. - 31 Dec. 1998	1 Jan. - 31 Dec. 1997
Operating activities		
Funds generated from operations		
Operating profit before depreciation	94,131	102,542
Financial income and expenses	188,080	260,738
Extraordinary items	0	103,000
Taxes	-83,528	-73,651
	198,682	392,629
Change in net current assets		
Change in current receivables	108,655	157,055
Change in current liabilities	-224,516	-559,348
	-115,861	-402,293
Net cash flow from operating activities	82,821	-9,664
Investing activities		
Capital expenditure	-57,079	-77,810
Proceeds from sale of fixed assets	42,935	1,376
	-14,144	-76,434
Cash flow before financing activities	68,677	-86,098
Financing activities		
Change in long-term receivables	118,350	126,100
Change in long-term loans	0	-45,205
Change in short-term loans	0	-100,444
Dividend payment	-150,000	-270,000
	-31,650	-289,550
Change in liquid assets	37,027	-375,648

Notes to the Financial Statements

ACCOUNTING PRINCIPLES

Scope of consolidation

The consolidated financial statements comprise the parent company, all subsidiaries and associated companies except minor real estate and other companies.

Mutual holdings

The consolidated financial statements have been prepared using the purchase method. The purchase date was set as 1 July 1995, the date on which VR began operating as a joint stock company. The differences arising in the elimination of subsidiary shares and shareholders' equity at the date of acquisition have been netted as goodwill on consolidation and charged to the profit and loss account over a period of five years.

Associated companies

Associated companies have been consolidated using the equity method. The Group's share of associated companies' results is shown separately after net turnover.

Comparability of accounts

A change was made in accounting principles whereby adjustment items included under net turnover in the previous period were recorded under expenses in 1998, which reduced net turnover by FIM 23 million. In the previous period work by outside contractors (FIM 47 million) for rolling stock produced by VR itself was included under production for own use and external services. In 1998 these items were capitalized directly to fixed assets. Corresponding adjustments have been made to the previous year's comparative figures.

Valuation of fixed assets

Fixed assets are capitalized at their direct acquisition cost. Fixed assets totalling FIM 201 (273) million were produced by the company itself and include FIM 28 (40) million in fixed costs related to production.

Valuation of stocks

Stocks are valued at their average cost in line with the prudence concept of accounting. Production for own use included in stocks is valued at direct production cost. Work in progress includes variable costs accrued up to the balance sheet date.

Net turnover

The fixed-price construction contracts of VR-Track Ltd are expensed under net turnover on their completion.

Scheduling of pension costs

The pension covers of the Group companies are insured by VR-Pension Fund s.r. Pension costs are allocated as booked.

NOTES TO THE PROFIT AND LOSS ACCOUNT

1. Net turnover by operating sector (FIM 1,000)	Group		Parent Company	
	1998	1997	1998	1997
Rail transport				
Freight traffic	2,000,103	2,002,587		
Passenger traffic	1,534,397	1,511,945		
Road transport				
Freight traffic	917,600	789,544		
Passenger traffic	154,259	152,589		
Track construction and maintenance	1,896,858	1,552,014		
Catering services	173,193	174,441		
Property management	276,105	319,927	215,429	258,057
Other sectors	232,099	166,606	71,296	98,572
Intragroup transactions	-431,401	-488,943		
Total	6,753,212	6,180,703	286,726	356,629

2. Personnel costs (FIM 1,000)	Group		Parent Company	
	1998	1997	1998	1997
Wages and salaries	2,485,983	2,500,129	53,641	83,893
Pension costs	424,025	411,838	7,592	10,886
Other staff-related costs	284,742	236,766	5,870	3,875
Other personnel costs	88,380	109,168	1,919	3,212
Total	3,283,130	3,261,642	69,022	101,956

The same pension commitments apply to the members of the Board of Directors and Presidents as to other company employees with the exception of the president of one subsidiary who may retire at the age of 55.

3. Depreciation (FIM 1,000)	Group		Parent Company	
	1998	1997	1998	1997
Planned depreciation				
Other long-term expenditure	22,970	14,434		
Buildings and structures	69,873	151,230	52,944	135,521
Tractive and rolling stock	254,237	227,965		
Other machinery and equipment	163,388	147,189	32,691	31,016
Other tangible assets	11,237	7,361	1,490	855
Total	521,704	548,178	87,125	167,392
Change in depreciation difference (incr. +, decr. -)				
Other long-term expenditure	386	4,351	-	-
Buildings and structures	-27,378	17,267	-21,124	9,937
Tractive and rolling stock	206,977	226,942	-	-
Machinery and equipment	46,272	78,379	-224	28,292
Other tangible assets	4,414	1,217	-557	1,092
Total	230,370	328,156	-21,905	39,321

The depreciation difference is divided in the consolidated accounts into the net profit for year, non-restricted shareholders' equity, the change in deferred tax liability and deferred tax liability.

In the consolidated accounts planned depreciation is calculated on a straight-line basis from the original acquisition cost based on the estimated economic life of the fixed assets. However, this does not include the buildings, other machinery and equipment belonging to the parent company, and the other machinery and equipment belonging to VR Ltd and VR-Track Ltd, which are depreciated at fixed percentages according to the declining balance method.

Planned depreciation periods and method:

Other long-term expenditure	5 years	planned
Buildings (parent company)	4 % - 7 %	declining
Buildings (other companies)	30-50 years	planned
Structures	10 years	planned
Tractive stock (including Pendolinos and electric trains)	25 years	planned
Rolling stock	15 years	planned
Other machinery and equipment (parent company, VR Ltd, VR-Track Ltd)	20 % - 30 %	declining
Other machinery and equipment (other companies)	5-10 years	planned
Other tangible assets	5 years	planned

4. Intragroup financial income and expenses (FIM 1,000)

	Parent Company	
	1998	1997
Financial income received from Group companies		
Dividend income	70,618	139,077
Interest on long-term investments	57,838	63,970
Financial expenses paid to Group companies		
Interest expenses	35,078	40,922

NOTES TO THE BALANCE SHEET

5. Group and parent company shares

	Group holding and voting power %	Group's share of equity (FIM 1,000)	Parent company holding %	Parent company shares No.	Nominal value (FIM 1,000)	Booked value (FIM 1,000)	Profit/loss in fin. year ended 31 Dec. 1998 (FIM 1,000)
Group companies							
VR Ltd	100	1,445,014	100	1,000,000	1,000,000	1,371,000	64,797
VR-Track Ltd	100	328,776	100	100,000	100,000	286,000	38,823
Avecra Oy	100	17,361	0				8,027
Oy Pohjolan Liikenne Ab	100	108,415	0				22,286
Transpoint Oy Ab	100	105,036	0				9,435
Combitrans Oy	51	4,865	0				5,534
Oy Transuotila Ab	100	13,452	0				1,399
Napapiirin Turistiauto Oy	100	89	0				-
Oy Pohjolan Kaupunkiliikenne Ab	100	9,226	0				3,098
Oy Etelä-Pohjolan Liikenne Ab	100	24,833	0				548
Oy Kaakkois-Pohjolan Liikenne Ab	100	9,479	0				2,038
Joensuun Maaliikenneasema Oy	69.8	3,563	0				-63
Oy Logis Ab	100	1,032	0				16
Linjaliikenne K. Hakanen Oy	100	102	0				402
Kuljetus Huhtala Oy	100	159	0				-
Kuljetusliike Leppälä Oy	100	777	0				44
As Transuotila, Estonia	100		0				181
UAB Transuotila, Lithuania	100		0				63
SIA Transuotila, Latvia	100		0				50
VR-Data Ltd	60	10,805	60	150	1,500	3,000	7,239
Railtelia Ltd	60	13,055	60	600	6,000	11,970	1,809
Avarra Oy	100	125,141	100	2,624	131,200	131,200	-166
Oulun Keskusliikenneasemakiint. Oy	57.3	5,713	57.3	831	2,327	6,642	11
Kokkolan Tavaraterminaali Oy	53.4	12,147	53.4	55,002	5,500	13,135	-97
Total		2,239,040				1,822,947	

	Group holding and voting power %	Group's share of equity (FIM 1,000)	Parent company holding %	Parent company shares No.	Nominal value (FIM 1,000)	Booked value (FIM 1,000)	Profit/loss in fin. year ended 31 Dec. 1998 (FIM 1,000)
Associated companies							
Oy Railtrans Ltd	50.0	8,380	0				5,194
Oy Railcarriers Ab	33.3	654	0				-109
Searail EEIG	33.3	-520	0				-1,563
Elielin Pysäköinti Oy	31.8	1,162	31.8	143	1,430	1,430	-844
Seinäjoen linja-autoasemakiint. Oy	20.7	154	20.7	133	102	102	3
Varkauden Keskusliik. asemakiint. Oy	33.2	749	33.3	400	400	813	7
Vainikkalan Vesi Oy	42.5	140	42.5	17	170	170	-70
KT Oy Oulun Terminaalivarasto	43.4	9,033	0				-513
Total		19,752			2,102	2,515	

NOTES TO THE FINANCIAL STATEMENTS

Other shares and holdings owned by the parent company

Company	Holding %	No.	Nominal value FIM 1,000	Booked value FIM 1,000
Property companies				
Kiinteistö Oy Imatran Keskusasema	5.78	311	579	584
Aleksinvirasto Oy Lempäälä	3.8	103	93	93
Kiinteistö Oy Kauppamiehenk. Kouvola	7.27	116	75	75
Malmin Pysäköintitalo Helsinki		6	6	162
Itä-Pasilan Pysäköinti Oy		60	150	1,652
Kiinteistö Oy Kupittaaan kolmio		10,000	7,000	7,000
Other companies and cooperatives				
Other companies and cooperatives		207	3	7
Telephone shares and holdings				3,022
Electricity connection holdings				4
Housing companies				
As Oy Jyväskylän Hannikaisenk.27-29		9,320	93	93
As Oy Järvenpään Sibeliuksenk.21		79	1	150
As Oy Järvenpään Tupalantie 16		4,540	45	45
As Oy Kortehaka, Rauma		15,350	154	199
As Oy Sonja-Kirsti, Espoo		82	16	150
Other shares and holdings, total			8,215	13,236

6. Intangible and tangible assets (FIM 1,000)

Group	Acquisition cost 1 Jan. 1998	Increases	Decreases	Acquisition cost 31 Dec. 1998	Accumulated planned depreciation	Booked value 31 Dec. 1998
Intangible rights	104,246	10,596	62	114,780	50,770	64,010
Land and water areas	446,708	137	1,045	445,800	0	445,800
Buildings and structures	1,615,226	81,482	21,528	1,675,180	297,199	1,377,981
Machinery and equipment	3,445,652	814,789	82,031	4,178,410	1,392,595	2,785,815
Other tangible assets	47,317	40,421	0	87,738	25,599	62,139
Total	5,659,149	947,425	104,666	6,501,908	1,766,163	4,735,745
Group	Acquisition cost 1 Jan. 1998	Increases	Decreases	Acquisition cost 31 Dec. 1998	Accumulated planned depreciation	Booked value 31 Dec. 1998
Land and water areas	434,843	0	23	434,820	-	434,820
Buildings and structures	1,090,828	36,445	75	1,127,198	260,143	867,055
Machinery and equipment	244,581	9,140	64,199	189,522	89,229	100,293
Other tangible assets	9,737	2,600	0	12,337	3,128	9,209
Total	1,779,989	48,185	64,297	1,763,877	352,500	1,411,377

7. Goodwill on consolidation (FIM 1,000)

	Acquisition cost 1 Jan. 1998	Increases	Decreases	Acquisition cost 31 Dec. 1998	Accumulated planned depreciation	Booked value 31 Dec. 1998
Goodwill on consolidation	121,640	-	5,037	116,603	70,020	46,583

8. Taxation values of fixed assets (FIM 1,000)

	Group		Parent company	
	1998	1997	1998	1997
Land areas	444,137	443,528	434,820	433,906
Buildings	1,235,715	1,218,484	867,055	883,614
Shares and holdings	2,003,192	1,998,732	1,838,697	1,821,779

The book value is shown if taxation values were not available.

9. Shares and loans receivable from long-term investments (FIM 1,000)

	31 Dec. 1998	31 Dec. 1997
VR-Group Ltd's loan receivables: from subsidiaries	832,000	945,000
from outside companies	40,562	45,912

10. Parent company's receivables from and debts to Group companies (FIM 1,000)

	1998	1997
Trade receivables from Group companies	5,653	19,473
Prepayments and accrued income from Group companies	123	103,013
Loan receivables from Group companies	14,400	11,300
Capital loan receivable from Group company	6,000	
Current trade debts to Group companies	8,656	19,807
Accruals and deferred income to Group companies	662	
Other short-term liabilities to Group companies	875,688	1,078,687

The parent company has granted a capital loan of FIM 6 million to a subsidiary. The loan carries annual interest of six (6) percent. The interest on the loan is entered under interest income in the profit and loss account.

11. Changes in shareholders' equity (FIM 1,000)

Parent company	1998	1997
Non-restricted shareholders' equity on 1 Jan.	209,027	293,112
Dividend payment	-150,000	-270,000
Net profit for the year	133,462	185,915
Non-restricted shareholders' equity on 31 Dec.	191,516	209,027
Distributable funds in non-restricted shareholders' equity	192,489	209,027
Group	1998	1997
Retained earnings on 1 Jan. 1998	901,144	753,345
Changes in Group structure	6,410	
Profit excluding change in provisions	222,517	207,681
Share of change in provisions	163,238	210,848
Net profit of the year	385,755	418,529
Dividend payment	-151,520	-270,730
Non-restricted shareholders' equity on 31 Dec.	1,141,789	901,144
Distributable funds in non-restricted shareholders' equity	470,107	396,742

A Group subsidiary was granted a capital loan of FIM 4 million by a minority shareholder on its establishment. The loan carries annual interest of six (6) percent. The interest on the loan is entered under interest expenses in the profit and loss account.

Effect of voluntary provisions and depreciation difference on balance sheet

	1998	1997
Voluntary provisions	9,361	8,391
Depreciation difference	928,717	698,348
	938,078	706,739
Transfer to shareholders' equity	671,682	504,402
Deferred tax liability	262,662	197,887
Minority interests	3,734	4,450
	938,078	706,739

Effect of voluntary provisions and depreciation difference on profit and loss account

Change in voluntary provisions	970	-34,857
Change in depreciation difference	230,370	328,156
	231,340	293,299
Change affecting net profit for the year	163,238	210,848
Change in deferred tax liability	64,775	82,124
Change affecting minority interests	3,327	327
	231,340	293,299

NOTES TO THE FINANCIAL STATEMENTS

12. Provisions (FIM 1,000)

	Group		Parent company	
	1998	1997	1998	1997
Voluntary provisions				
Housing provision	9,361	8,391	-	-

In the Group accounts voluntary provisions are divided into net profit for the year and deferred tax liability. Obligatory provisions (FIM 13.7 million) comprise expected warranty costs of long-term projects.

13. Liabilities (FIM 1,000)

Creditors due after more than five years

	Group		Parent company	
	1998	1997	1998	1997
Loans from financial institutions	241,377	236,856	0	0
Pension loans	23,928	26,121	0	0
Total	265,305	262,977	0	0

14. Contingent liabilities (FIM 1,000)

	Group		Parent company	
	1998	1997	1998	1997
Pledges and contingent liabilities				
Shares pledged for own debt	5,803	4,249	0	0
Mortgages on land areas, buildings and other assets	582,705	550,408	0	0
Guarantees on behalf of subsidiaries	588,844	575,085	431,735	548,894

The Group has made commitments related to fixed assets acquisitions totalling FIM 1,931 million in the years 1998 to 2001. A Group company has a one-third holding in the Searail EEIG. This company is jointly and severally liable with the EEIG's other shareholders for its FIM 1.5 million loss.

A Group company is a party in a dispute concerning a railbus order currently being handled by a court of arbitration. In the opinion of the Group's management the claims levied against the company are unfounded and for this reason have not been included in the annual accounts.

Group key indicators

		1998	1997
Scope of operations			
Net turnover	MFIM	6,753	6,181
Balance sheet total	MFIM	8,687	8,462
Capital expenditure	MFIM	820	748
- as % of net turnover	%	12.1	12.1
Average number of employees		16,487	16,690
Profitability			
Operating profit before depreciation	MFIM	992	1,019
- as % of net turnover	%	14.7	16.4
Net profit	MFIM	385	419
Return on investment	%	8.7	9.0
Return on shareholders' equity	%	6.1	
Solvency			
Solvency ratio	%	78.5	78.4

Calculation of key indicators

Capital investments	=	Balance sheet total - interest-free debt	
Return on investment (ROI)	=	$\frac{\text{Profit before extraordinary items, provisions and taxes} + \text{interest costs and other financial costs}}{\text{Capital investments (average over period)}}$	x 100
Return on shareholders' equity (ROE)	=	$\frac{\text{Profit before extraordinary items, provisions and taxes} - \text{taxes for the period and change in deferred tax liability}}{\text{Shareholders' equity} + \text{minority interests} + \text{voluntary provisions and depreciation difference less deferred tax liability (average over period)}}$	x 100
Solvency ratio	=	$\frac{\text{Shareholders' equity} + \text{minority interests} + \text{voluntary provisions and depreciation difference} - \text{deferred tax liability}}{\text{Balance sheet total} - \text{payments on account}}$	x 100

Board's Proposal on the Disposal of Profit

VR-Group Ltd's net profit for the period totalled	FIM	133,462,187
VR Group's non-restricted shareholders' equity on 31 December 1998 was	FIM	1,141,789,034,
which included distributable funds totalling	FIM	470,106,743.

The Board of Directors proposes a dividend of	FIM	130,000,000.
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Helsinki, 25 March 1999

Martin Granholm

Kalevi Alestalo

Eija Malmivirta

Antti Remes

Pentti Talonen

Henri Kuitunen

Auditors' Report

To the shareholders of VR-Group Ltd

We have audited the accounts, the financial statements and the corporate governance of VR-Group Ltd for the period 1 January to 31 December 1998. The financial statements, which include the report of the Board of Directors, the consolidated and parent company profit and loss accounts, balance sheets and notes to the financial statements, have been prepared by the Board of Directors and the CEO. Based on our audit we express an opinion on these financial statements and on the company's corporate governance.

We have conducted the audit in accordance with the Finnish Standards on Auditing. Those standards require that we perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures 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 corporate governance is to examine that members of the Supervisory Board, the Board of Directors and the CEO have complied with the Companies Act.

In our opinion, the financial statements have been prepared in accordance with the Accounting Act and other rules and regulations governing the preparation of financial statements in Finland. The financial statements give a true and fair view, as defined in the Accounting Act, of both the consolidated and the parent company's result of operations and financial position. The financial statements with the consolidated financial statements can be adopted and the members of the Supervisory Board and the Board of Directors and the CEO can be discharged from liability for the accounting period examined by us. The proposal of the Board of Directors regarding the distribution of retained earnings is in compliance with the Companies Act.

Helsinki, 25 March 1999

Erkki Mäki-Ranta, AA,

Chartered Public Finance Auditor

Arthur Andersen Oy

Authorized Public Accountants

Jarmo Lohi, APA

Statement by the Supervisory Board

The Supervisory Board of VR-Group Ltd has today reviewed the parent company's and the consolidated financial statements for the period 1 January to 31 December 1998 and the auditors' report. The Supervisory Board proposes to the Annual General Meeting that the profit and loss account and the balance sheet, and the consolidated profit and loss account and balance sheet, be confirmed and that the net profit be disposed of in the manner proposed by the Board of Directors.

The Supervisory Board notes that its decisions and guidelines have been complied with and that it has received the requisite information from the Board of Directors and the President.

The following are in turn for retirement from the Supervisory Board: Pirjo Ala-Kapee, Ralf Grahm, Anne Knaapi, Hannele Luukkainen, Timo Rautajoki, Matti Ryhänen and Pentti Tiusanen.

Helsinki, 31 March 1999

Johannes Koskinen	Suvi Lindén	Pirjo Ala-Kapee
Ralf Grahm	Leea Hiltunen	Alf Jakas
Tapio Karjalainen	Anne Knaapi	Marina Krause-Holmström
Markku Lehtosaari	Hannele Luukkainen	Mika Nykänen
Leena Piikivi	Katariina Poskiparta	Timo Rautajoki
Harri Rumpunen	Matti Ryhänen	Reijo Svento
Pentti Tiusanen	Anu Vehviläinen	Sakari Visa

VR-Group Ltd Administration and Management

SUPERVISORY BOARD

JOHANNES KOSKINEN,
MP, Chairman

PIRJO ALA-KAPEE

RALF GRAHN

LEE A HILTUNEN

ALF JAKAS

TAPIO KARJALAINEN, *MP*

ANNE KNAAPI, *MP*

MARINA KRAUSE-HOLMSTRÖM

MARKKU LEHTOSAARI, *MP*

SUVI LINDÉN, *MP*

HANNELE LUUKKAINEN

MIKA NYKÄNEN

LEENA PIIKIVI

KATARIINA POSKIPARTA

TIMO RAUTAJOKI

HARRI RUMPUNEN

MATTI RYHÄNEN, *MP*

REIJO SVENTO

PENTTI TIUSANEN, *MP*

ANU VEHVILÄINEN, *MP*

SAKARI VISA

BOARD OF DIRECTORS

MARTIN GRANHOLM,
Chairman

KALEVI ALESTALO

EIJA MALMIVIRTA

ANTTI REMES

PENTTI TALONEN

BOARD OF MANAGEMENT

HENRI KUITUNEN,
President and CEO

JUHANI KOPPERI,
President, VR Ltd

TEUVO SIVUNEN,
President, VR-Track Ltd

VEIKKO VAIKKINEN, *CFO*

AUDITORS

ERKKI MÄKI-RANTA,
*Approved Accountant,
Chartered Public Finance Auditor*

Arthur Andersen Oy,
Authorized Public Accountants:

JARMO LOHI,
Authorized Public Accountant

Contact Information

VR-GROUP LTD

P.O.Box 488
(Vilhonkatu 13)
FIN-00101 Helsinki
Tel. +358 9 7071
Fax +358 9 707 3700
www.vr.fi

VR LTD

P.O. Box 488
(Vilhonkatu 13)
FIN-00101 Helsinki
Tel. +358 9 7071
Fax +358 9 707 4330

Passenger Services

Headquarters
Tel. +358 9 7071
Fax +358 9 707 4115

VR Cargo

Headquarters
Tel. +358 9 7071
Fax +358 9 707 3322

AVECRA OY

Ratapihantie 6
FIN-00520 Helsinki
Tel. +358 9 707 4911
Fax +358 9 707 4910

OY POHJOLAN LIIKENNE AB

Postintalval 3
FIN-00240 Helsinki
Tel. +358 9 707 5711
Fax +358 9 707 5760

VR-TRACK LTD

P.O. Box 488
(Vilhonkatu 13)
FIN-00101 Helsinki
Tel. +358 9 7071
Fax +358 9 707 3051

AVARRA OY

Aleksis Kivenkatu 19 B
FIN-00520 Helsinki
Tel. +358 9 348 500
Fax +358 9 3485 0220

VR-DATA LTD

P.O.Box 46
(Valimotie 15 B)
FIN-00101 Helsinki
Tel. +358 9 7071
Fax +358 9 707 4122



VR-Group Ltd, P.O.Box 488, FIN- 00101 Helsinki
Tel. +358 9 7071, fax +358 9 707 3700, www.vr.fi