ANNUAL REPORT 1999

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VR in brief

Business concept

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

Values

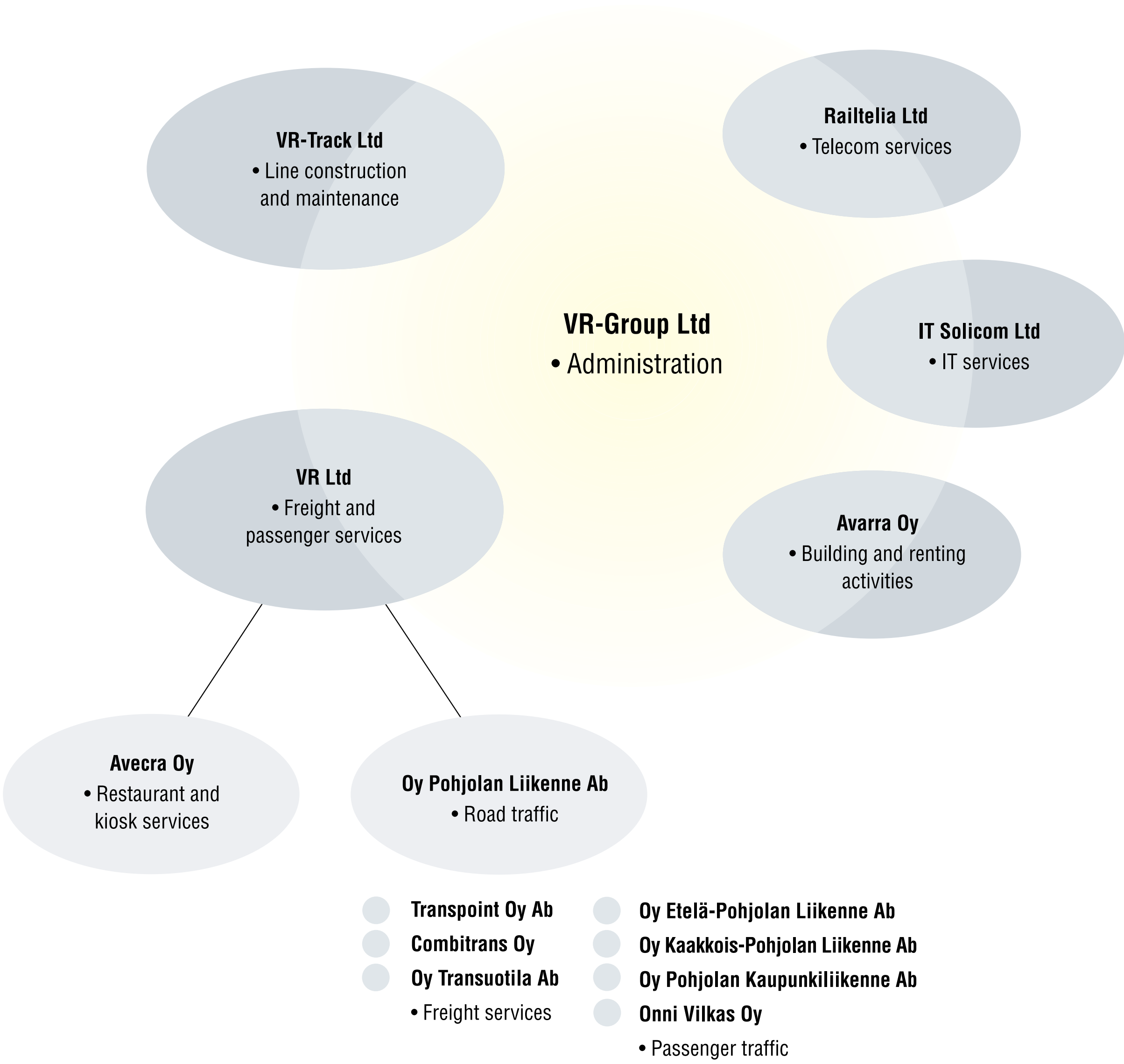
- Safety
- Closeness to customers
- Quality
- Environment
- Internationalism

Year 1999

- Freight carryings by the Group remained similar to 1998, passenger journeys rose 7 %.
- VR was the first European rail company to gain ISO 9001 quality certification and ISO 14000 environmental certification covering all its passenger services. VR Cargo's certification was extended to cover all Finland.
- Rail Gourmet took a 40 % holding in Avecra, which provides kiosk, cafeteria and restaurant services.
- The volume of line superstructure work decreased by one-fifth on the record level in 1998. Altogether 400 line-kilometres were upgraded.
- Renewal of the rolling stock maintenance network was started. Maintenance personnel will be reduced by about 600 by 2003.
- VR continued to implement safety enhancing measures. No serious rail accidents involving injury took place during 1999.

Key figures	1999	1998
Net turnover, MFIM	6,773	6,945
Profit after taxes, MFIM	396	386
Balance sheet, MFIM	8,679	8,687
Personnel, average	16,075	16,439
Freight performance, 1,000 tonnes	48.0	48.0
Passenger performance, 1,000 journeys	63.9	59.8

The VR Group



VR-Track Ltd
• Line construction and maintenance
Railtelia Ltd
• Telecom services
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Oy Pohjolan Kaupunkiliikenne Ab
Onni Vilkas Oy
• Passenger traffic

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 266 million
Personnel: 318
President and CEO: Henri Kuitunen

VR Ltd

is Finland's leading carrier. It offers both freight and passenger services.
Turnover: FIM 3.8 billion
(FIM 1.9 billion from freight,
FIM 1.6 billion from passenger services)
Personnel: 9,900
President: Juhani Kopperi

Avecra Oy

provides catering services for VR Ltd's passenger transport operations with restaurants and kiosks in trains and at stations. Sixty per cent of its shares are owned by VR Ltd and 40 % by Rail Gourmet.
Turnover: FIM 171 million
Personnel: 487
President: Anssi Komulainen

Pohjolan Liikenne group

and its subsidiaries supply road transport services.
Turnover: FIM 1.1 billion
Personnel: 1,839
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 1.7 billion
Personnel: 3,235
President: Teuvo Sivunen

Railtelia Ltd

provides telecom services for rail operations and develops telecom systems for transport and logistics needs. Sixty per cent of its shares are owned by VR-Group Ltd and 40 % by Telia Finland Oy.
Turnover: FIM 148 million
Personnel: 184
President: Jouko Tervo

IT Solicom Ltd

provides information technology 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 88 million
Personnel: 96
President: Henri Ollila

Avarra Oy

builds, manages and rents properties. Its speciality is renovation of residential buildings.
Turnover: FIM 64 million
Personnel: 16
President: Reijo Savolainen

VR's transport operations reflect fluctuations in base manufacturing industry

According to macroeconomic indicators Finland enjoyed a fairly good year in 1999. Total production volume rose substantially, fuelled in particular by the success of the electronics sector.

The situation was different, however, in the base manufacturing industries, which are of central importance to the rail sector. Industrial exports experienced difficulties, especially at the start of the year and rail traffic was further affected by the state of the Russian economy. Carryings increased towards the end of the year, however, and VR succeeded in maintaining its market share. All in all VR carried roughly the same amount of freight as in the previous year, approximately 40 million tonnes.

Passenger journeys by rail exceeded 53 million, roughly four-fifths of which were made in the Helsinki metropolitan area. This represented an increase of five per cent. Clear growth was observed in the area under Helsinki Metropolitan Area Council's control as well as on the coastal Helsinki–Turku route and in InterCity traffic.

VR Group posted a net profit of FIM 396 million in 1999, up FIM 10 million on the previous year. The operating profit was FIM 429 million, which was FIM 64 million less than one year earlier. The main reasons for the decrease were lower freight transport volumes and a reduction in line work.

Further progress in safety programme

The most important of VR's core values is safety. This was reinforced during 1998 when we updated the Rail Safety Programme with the Finnish Rail Administration. Implementation of this programme was continued as planned during 1999.

The safety programme gives high priority to constructing the automatic train protection system. Our aim is to incorporate this system into all the main lines in the next few years, which will help VR to achieve its target of ranking among the top European countries in terms of safety standards.

An essential component of the programme is the creation of four regional rail safety committees. The committees, which comprise representatives of different professional groups, are responsible for considering solutions to problems and probing more deeply into the processes underlying traffic management. The daily work of the committees includes liaising at a national level and submitting detailed reports on problem situations and how they are handled. This activity has generated extremely positive results.

Quality certificates promote systematic operation

Exceptionally difficult weather conditions severely disrupted VR's services and hampered its customers early in the year. To rectify this situation swiftly, we thoroughly reviewed the entire traffic management chain looking for weaknesses and taking corrective action. This large and demanding project has made excellent progress as is proved, for example, by the fact that snowfalls at the end of the year caused no disruptions to rail traffic.

Quality issues received heavy emphasis during the year in other respects as well. VR was the first rail company in Europe to be granted ISO 9001 quality certification for its passenger services. We consider this a staging post towards the goal of further improved services. VR's Passenger Services was also awarded ISO 14001 certification for its environmental management system. VR Cargo gained similar certification.

Besides demonstrating VR's commitment to quality and environmental issues, these certificates also have a positive impact on VR by requiring the company to take a more systematic approach to operational management.

Renewal of rolling stock maintenance network

The decision was taken at the very end of 1999 to renew the rolling stock maintenance network. The decision will mean closure of the Turku and Kuopio workshops by 2003. The Kuopio operation will be relocated at the Pieksämäki workshop and other units. The Turku depot will continue to operate.

The reason underlying this decision, which has received wide public attention, is a decrease in workload coupled with structural change. Workshops are no longer needed to the same extent as in the past since newer rolling stock needs less maintenance.

This workshop decision forms part of the restructuring of VR Ltd's technical operations, which will be continued in 2000.

I would like to express my thanks to VR's customers, our partners and all our personnel for 1999.

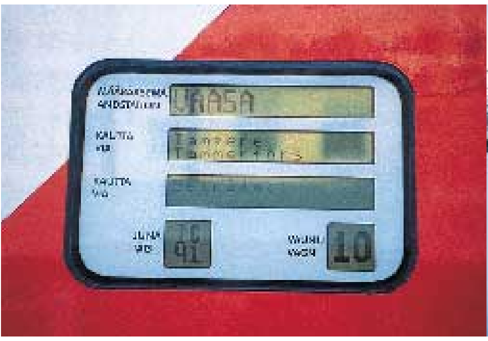
Henri Kuitunen
President and CEO

VR Ltd

Passenger services

Continued growth in train travel

The number of passenger journeys made by rail in 1999 reached a new record. The volume of freight transport rose to virtually the same level as in previous years after a lively second six months. VR Ltd's net turnover was FIM 3.8 billion. Income from freight transport amounted to FIM 1.9 billion and from passenger traffic FIM 1.6 billion. VR Ltd's capital expenditure for the period rose to FIM 981 million. The main investments were in passenger rolling stock and new electric locomotives. The company employed 9,900 people on average during the review period.



There was brisk growth in train travel in 1999. A total of 53.2 million train journeys were made, an increase of 4 % on the record level of the previous year. The number of passenger-kilometres rose by one percent to 3.4 billion.

Strongest growth was seen in commuter travel in the Helsinki metropolitan area, where the number of passenger journeys rose 5 % and the number of passenger-kilometres by 4 %. Growth was particularly strong on the coastal track between the Leppävaara and Kilo areas and Helsinki, as well as on the urban line between Helsinki and Tikkurila. Travel on VR's commuter zones outside the Helsinki Metropolitan Area Council's control increased as well. A total of 41.4 million journeys were made on commuter trains in the Helsinki Metropolitan Area.

The number of long-distance passenger journeys declined slightly to 11.9 million, although the number of passenger-kilometres rose compared to the previous year.

InterCity volumes showed the fastest growth in long-distance traffic, increasing by almost one-quarter on the previous year. The new double-decker coaches allowed the InterCity network to be extended by adding a new InterCity service between Helsinki and Joensuu and also between Helsinki and Oulu. Two train services between Helsinki and Turku were also upgraded to InterCity status.

A sharp drop in the value of the rouble reduced traffic to and from Russia by 18 %, although the decline levelled out in the second half of the year. Christmas traffic from Russia was 15 % higher than one year earlier.

Punctuality target 90 %

The harsh weather conditions in January and February caused disruptions in marshalling yards in the Helsinki area, which clearly reduced punctuality. The punctuality rate for long-distance traffic for the whole year was 84 %, measured as a maximum five-minute delay at the terminus. The punctuality rate for commuter traffic in the Helsinki metropolitan area remained high, at 98 %. The maximum delay qualifying as punctuality in commuter traffic is 3 minutes.

A project was launched in the spring aimed at boosting the punctuality of VR's trains to 90 %, a generally acceptable figure for national railways. The main methods for achieving this include improved synchronization of rail traffic and line work, and a review of the underlying basis for timetable planning.

The reliability of rolling stock in winter conditions was improved and new snow-clearing equipment was acquired. Better preparations for operating during snow squalls were also deployed. It was decided to upgrade the public address systems to improve passenger information at stations. Installation of the new equipment will continue through 2000.

InterCity service enhanced

Refurbishment of the first-class facilities on express trains was completed during the year. The refurbishment, combined with marketing, significantly boosted business and other first-class travel. All passenger facilities on express trains were refurbished during the 1990s to improve the standard of service.

Transtech delivered 22 new InterCity double-decker coaches to VR during the year. At the end of December, 38 double-decker coaches were in service, providing each InterCity train with at least two new coaches. The only exception was the coastal track between Helsinki and Turku, where double-decker coaches will be introduced by the summer of 2000.

The new coaches, incorporating a low floor, were welcomed by passengers, who particularly appreciated the air-conditioning, the scenic top floor and ease of access. Family compartments and children's play facilities also earned praise.

City trains in commuter traffic

New city trains were commissioned for commuter services in the Helsinki metropolitan area at the end of the year. The 10 low-floored trains supplied by Fiat Ferroviaria will operate scheduled services on the urban line between Helsinki and Hiekkaharju.

A new feature in the city train designed for VR is that bulky equipment is located on the roof of the train. This allows spacious entrance compartments and a large low-floored seating compartment in each coach. Each train has 184 standard seats, 8 tip-up seats and standing room for 100 passengers. Special facilities are also provided for stowing disabled passengers' wheelchairs, children's prams and bicycles.

The air conditioning and information displays on city trains enhance passenger comfort, while video cameras increase passenger safety. The energy efficiency of the city train also makes it environmentally friendly.

A court of arbitration in Stockholm ruled in September that VR was within its rights to cancel the contract for supplying railbuses signed with GEC Alstom since their noise level and weight exceeded specifications. A new competitive tender was arranged in December that will be finalised during 2000.

VR invited companies to submit tenders for the supply of between 12 and 20 light railbuses, with an option for a maximum 20 railbuses. The aim of introducing light railbuses is to maintain the service level and increase passenger numbers on low-density lines.

Quality and environmental management certification

Systematic development of passenger traffic services was continued. Almost 10,000 comments and suggestions were recorded in the customer feedback system.

VR is the first railway in Europe to receive ISO 9001 quality management certification and ISO 14001 environmental management certification, which it was awarded at the end of the year. The certificates represent only one step in VR's quality improvement programme.

Development of IT systems focused on travel cards and portable sales devices for conductors. This device will allow conductors to dispense travel cards and handle e-cash on trains. VR will first adopt the Helsinki Metropolitan Area Council's travel card, scheduled to be introduced in 2000.

The Viesti (Message) joint project conducted by the Finnish Muscular Disease Association and the Finnish MS Society, gave VR an award of distinction and a challenge trophy on the International Day of Disabled Persons for developing its coaches and pricing to meet the needs of disabled passengers.

First Travel Centre for Seinäjoki

Construction continued in Seinäjoki on Finland's first Travel Centre. The Travel Centre will open in the spring of 2000. The next Travel Centres are planned for Tampere and Jyväskylä.

A Travel Centre is a junction for public transport services where a passenger can receive information about timetables and tickets as well as flexibly change between different modes of transport. The Travel Centres will enhance the competitiveness of public transport. The Ministry of Transport and Communications has plans for constructing a network of 22 Travel Centres in Finland by 2005.

Train service contracts

A six-year contract for providing train services in Espoo, Helsinki, Kauniainen and Vantaa was concluded with YTV (Helsinki Metropolitan Area Council). The provisions allow YTV a further two years to purchase new city trains.

A five-year contract was finalised with the Ministry of Transport and Communications on the train services to be purchased by the state. The state will purchase certain unprofitable train services over the period 2000-2004. The contract is subject to a provision that sufficient funds are allocated each year in the Finnish government's budget.

An agreement was made with Nordic Jetline Finland, a company operating catamaran ferries between Helsinki and Tallinn, on Ship-Rail interconnections. A contract was also concluded with SAS, Lufthansa and Air Botnia on connections for passengers catching the companies' international flights.

Rail Gourmet becomes Avecra's partner

The Swiss company Rail Gourmet acquired a 40 % holding in the rail and station catering company Avecra Oy on 1 July 1999. The underlying aim of the acquisition is to enhance Avecra's services and boost net turnover.

Avecra focused its activities in 1999 on formulating new business ideas. The company's net turnover amounted to FIM 171 million. The decline in the company's net turnover of some FIM 173 million was mainly due to the closure of its outlets in Rovaniemi and Kerava. Avecra's restaurant in Helsinki central railway station, Ravintola Mathilda, was also closed while new business ideas were put into place.

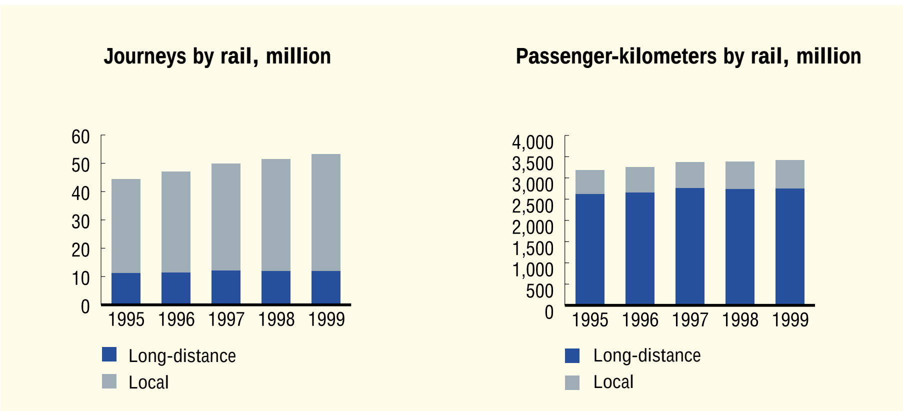
A new cafeteria, Minuuttibaari, was opened at Pasila station. Construction of the Robert's Coffee service outlet for the new Travel Centre in Seinäjoki started in the autumn and the outlet opened in January 2000.

Attention was again focused on personnel skills and expertise. The wide-ranging apprenticeship training scheme started the previous year was continued. The programme to promote the working fitness of personnel also continued into the review period.

Growth in bus travel

The road travel operations of the Pohjolan Liikenne group, a VR Group company, generated net turnover of FIM 162 million. A total of 10.7 million journeys were made by bus and coach in 1999, up 26 % on the previous year. Most growth was in chartered services in the Helsinki metropolitan area and Turku.

At the close of the period the group had 310 buses, compared to 223 for the previous year. The increase was due to the growth in chartered traffic and the acquisition in December 1999 of Onni Vilkas Oy.



Freight volumes picked up after a slow start

VR Cargo carried altogether 40.0 million tonnes of freight in 1999, virtually as much as the previous year. A cyclical downturn in the Finnish forest industry was reflected in carryings in the first half of the year. The volumes of freight carried between Finland and Russia, however, remained at the previous year's record high level. After a slow start, domestic freight traffic picked up towards the end of the year. Transit traffic showed strong growth at the end of the year. VR retained its 26 % market share of the freight transport market in Finland.

VR carried altogether 23.2 million tonnes of freight in Finland during 1999. Freight volumes for the January-April period declined by some 5 % compared to the same period last year.

Finnish forest industry exports grew strongly after September, which was clearly reflected in VR Cargo's carryings. Carryings for the forest industry amounted to 15.7 million tonnes, a decline in volume of 3 % on the previous year. Forest industry carryings account for over two-thirds of all VR's freight transport.

Domestic carryings for the forest industry rose by 2 % to 5.5 million tonnes. The most important product group was concentrates, which totalled 2.4 million tonnes.

Chemical industry carryings exceeded last year's volumes by one percent and amounted to 1.9 million tonnes. Most growth was in the transport of corrosive substances. Fuel carryings remained at the previous year's level.

Further growth in timber imports from Russia

Timber imports from Russia showed continued lively growth, stimulated by the devaluation of the rouble. This was also clearly evident in VR Cargo's eastern freight traffic, which approached last year's record figures. VR carried a total of 12.9 million tonnes of freight between Finland and Russia in 1999.

Chemical industry carryings were buoyant at the beginning of the year but declined significantly towards the year end. Various stipulations made by the Russian authorities depressed imports of petrochemical products in particular. Total carryings for the chemical industry remained 16 % lower than the previous year and amounted to 4.0 million tonnes.

Imports of raw timber were brisk throughout the year. VR carried some 6.4 million tonnes of timber, up 9 % on the previous year. Metal industry carryings rose by slightly over one percent and amounted to 2 million tonnes.

Carryings of exports to Russia continued to decline. The volume of carryings by rail, however, declined by less than volumes of eastward exports carried by other modes of transport.

Volume of transit traffic similar to previous years

Transit traffic from Russia to the west via Finland grew substantially towards the end of the year as the restrictions that hampered Russian exports did not apply to the most common petrochemical products.

Transit carryings for the metal industry fell by 26 % despite VR landing large new contracts, including one for carrying pellets from Kostamuksha. The aggregate volume of transit traffic reached 2.8 million tonnes, broadly similar to previous years.

Rail transport on the Trans-Siberian line from Finland to the Asia-Pacific region grew strongly during autumn 1999. After a quiet start to the year carryings of imports also picked up, notably from South Korea. During 1999 a total


VR CARGO

of some 16,000 TEU containers were carried on the Trans-Siberian line, representing one-third of all transit containers carried on the route. Carryings from Finland to the Asia-Pacific region mainly comprise exports from Finnish companies, while most freight in the reverse direction consists of consumer goods.

Special attention is being focused on boosting container traffic on the Trans-Siberian line by enhancing the quality and speed of transportation while keeping freight charges at a competitive level. The target is to reduce the transport time across Siberia by using new wagon technology. Rail transport from the Vainikkala border station to the Pacific coast currently takes 12 days.

Track gauge changing machines tested

In the Western Finland region, 1.0 million tonnes of freight traffic were carried through Turku and Tornio, some 12 % less than in the previous year. The imbalance between imports and exports widened. Improvements in cooperation with railferry companies and other partners enhanced the quality of freight traffic.

A new track gauge changing machine that automatically increases or decreases wheel span while the train is moving was tested in Tornio and Haaparanta. The new equipment will speed up freight transport because it allows freight to be carried in the same wagon for the entire journey. The final decisions on what equipment will be introduced are scheduled for the spring of 2000.

International RailTrace tracks consignments

VR developed a new service, called RailTrace, for tracking international consignments. The service monitors the location of each freight wagon and the time it arrives at its destination. The system is accessible through the Internet and covers almost all European countries and also Russia.

RailTrace is the first tracking service to comprehensively integrate the data of the various European railway operators. The service will be introduced in the autumn of 2000, and is a part of the TEDIM programme coordinated by Finland's Ministry of Transport and Communications.

VR Cargo safe, reliable and environmentally friendly

A survey conducted by VR Cargo during the review period indicates that customers regard rail transport as safe, reliable and environmentally friendly. The main factors in choosing the mode of transport were reliability and diligence, punctuality, costs and the availability of suitable haulage stock.

Concern for the environment plays an increasingly important role in selecting a mode of transport. Research shows that environmental friendliness is an important factor for 81 % of VR Cargo's customers when choosing which mode of transport to use. Environmental issues were a decisive factor for one out of every three respondents to the survey.

Stock upgraded to meet customers' needs

VR Cargo's wagon procurement focused primarily on upgrading the existing stock. Some 700 wagons were upgraded in 1999 and 40 new wagons were purchased. The main criterion was to meet the needs of the forest industry.

Efficiency in using wagons was again enhanced by reducing turnaround times and raising the axle load of wagons. Almost 1,000 wagons were taken out of service during the review period, much the same number as in the previous year. Some 12,000 wagons are in active service.

The two-axle sliding-wall wagons used by the paper industry were upgraded with new bodies built onto an old chassis. This involved raising the bodies of the wagons, widening their door openings, increasing their load capacity and reinforcing their floors. The entire side of the wagon can now be opened in two sections. Pulp wagons were also rebuilt to accommodate

large unit loads of pulp weighing between 8 and 12 tonnes. Additionally, 40 new four-axle roofed wagons were acquired for transporting wide and heavy paper rolls.

New wagons were also built to meet the growing needs of combined road-rail transport. The wagons are suitable for articulated vehicles, trailers, containers and swap-bodies. Some of the wagons are equipped with equipment to maintain a constant temperature during transportation. A new loading bay was built at Pasila container terminal to facilitate the loading and unloading of wagons.

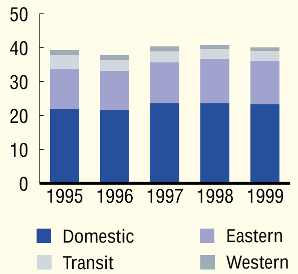
Growth in road transport

Carryings of goods and liquid fuels by road amounted to 8.0 million tonnes, up 8 % on the previous year. The Pohjolan Liikenne group had 265 trucks and tankers at the close of the period, with a further 750 trucks available through subcontractors.

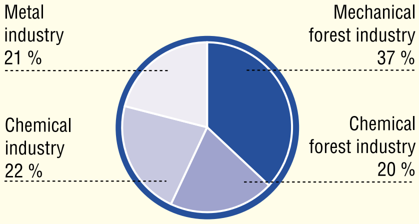
The net turnover of Transpoint Oy Ab, which specializes in general cargo, amounted to FIM 588 million, 5 % less than the previous year. The shortfall was due to an oversupply of transport services on the domestic market and the depressed prices this caused.

Combitrans Oy's net turnover rose by 9 % to FIM 287 million. The company handles partial and full-load carryings. The net turnover generated by Oy Transuotila Ab's domestic tanker operations totalled 58 million, up 24 % on the previous year. Most of Transuotila's growth was attributable to corporate acquisitions.

VR Cargo's carryings, million tonnes



Carryings by product group in 1999



VR-Track Ltd

Line construction and maintenance

Line work volume down after record year

VR-Track Ltd generated FIM 1.7 billion in net turnover during 1999. Work ordered by the Finnish Rail Administration accounted for some 90 % of net turnover. VR-Track's net turnover decreased by some FIM 210 million compared to the previous year. The company employed 3,235 people on average during the period.

The amount of track superstructure work was one-fifth lower than the previous year's record high level. The company's production capacity was not fully utilised at the end of the year. An aggregate 400 kilometres of line was improved.

Altogether 25,000 tonnes of rails, 650,000 concrete sleepers, 135,000 wooden sleepers and 200 track points were replaced during upgrading and maintenance work. One-quarter of the track points were installed on private lines. In addition, ballast was cleaned and frost insulation installed along some 100 track-kilometres. The construction of bridges and alteration of traffic arrangements eliminated 52 level crossings.

Largest projects still between Helsinki and Tampere

VR-Track's main worksites throughout the 1990s have been between Helsinki and Tampere, mainly involving line renewal and the installation of safety systems. The track and equipment on the Tampere–Pori line and the Toijala–Turku line were renewed during the electrification of the lines. The electric line to Pori was completed during the review period. Work on the Toijala–Turku line is scheduled for completion in 2000. In the north of Finland, renewal of the superstructure on the section of line between Kemi and Rovaniemi was completed during 1999.

VR-Track continued renewal of the line in Savo between Kouvola and Iisalmi and the line in Karelia between Lappeenranta and Uimaharju. Work also continued in the Helsinki metropolitan area on the urban line between Helsinki and Leppävaara, where VR-Track carried out contracts for track work, safety equipment installation and line electrification.

Construction of the automatic train protection (ATP) system proceeded according to the accelerated schedule. Installation of ATP equipment was completed on the main line between Kerava and Tampere as well as from Lielalahti in Tampere to Pori and Rauma. The line sections from Seinäjoki to Kokkola and Ähtäri were also included in the ATP system. By the year's end, a total of 1,200 track-kilometres were equipped with ATP. During the year VR-Track was commissioned to equip a further 600 track-kilometres with ATP.

Focus on quality, safety and the environment

Maintenance of the rail network complied with the terms of the three-year contract signed with the Finnish Rail Administration. Track inspection measurements showed that the geometrical condition of lines exceeded the quality targets stipulated in the contract. Malfunctions in safety equipment caused by the use of new technology and construction work were fewer than in the previous year, although they still exceeded the target. The exceptionally heavy snowfall in southern Finland during the 1998/99 winter disturbed traffic and incurred extra costs.

VR-Track introduced a manual outlining the company's quality, safety and environmental management systems during the review period. Instructions for specific sectors were also issued. The electrical installation centre received ISO 9001 quality certification and the Kaipiainen rail-welding workshop was awarded an ISO 9002 quality certificate.

Upgrading of information systems focused on personnel administration and office systems. Construction of a new preventive maintenance control system for electrical maintenance was started during the year.

ATP equipment for track maintenance machines

VR-Track's capital expenditure on production equipment amounted to FIM 75 million. Most of this comprised repair investments in track maintenance machines and handling equipment. Replacements were made in maintenance stock for electric lines, rail trucks, and wagons for transporting and spreading ballast.

It was decided to install onboard ATP locomotive equipment also on track maintenance machines in order to improve rail and worksite safety. This will be progressively implemented between 2000 and 2002 during the normal scheduled servicing of the machines.

VR-Track initiated measures during the autumn aimed at reducing fixed costs in response to the decline in the company's net turnover. Steps will be taken to improve the company's ability to adapt to the sharp annual and seasonal fluctuations in the market. VR-Track's competitiveness will also be strengthened in its core activities of construction, maintenance and expert services, along with the knowhow and responsibility for safety that these entail. A further decline in net turnover is expected in 2000.

Railtelia Ltd
Telecom services

Railtelia emphasises customer satisfaction

Railtelia Ltd, established in 1998, recorded net turnover over more than FIM 148 million in its first full year of operation. The company met both its profitability and customer satisfaction targets. VR Group accounted for 68 % of its net turnover. The company's customers also included Finnish Rail Administration and other teleoperators.

Railtelia brought a new resource planning model into operation during the year. This monitors the company's activities from four perspectives: financial, customer, process, and learning and development. Railtelia placed especially high priority on raising customer satisfaction during the year.

The company invested almost FIM 20 million in the nationwide telecom networks it owns and manages. This expenditure focused on the trunk fibre-optic cable network. A second priority was IP networks used for data transfer, for example the new Ethernet ring linking VR Group's operations in the Helsinki Metropolitan Area. Railtelia worked in collaboration with Telia and Finnet group in these projects.

Railtelia devoted considerable efforts to upgrading and testing its telecom networks and the telematic systems of its customers to avoid disturbances caused by the year 2000.

Development in 2000 will continue to concentrate on the company's customer service and work planning systems along with personnel skills and work fitness. New priorities will be increasing the volume of Railtelia's external business operations and development of new products to enhance the business efficiency of its customers.

IT Solicom Ltd
IT services

New technology for customers

Developing and introducing new technology was VR-Data Ltd's (IT Solicom Ltd since 21 January 2000) main priority during the year. The company's financial position is healthy. Net turnover increased 14 % to FIM 88 million.

The company's main task during the year was to prepare for the roll-over into the year 2000. All systems were examined and the required modifications were made. The systems were then tested and plans were made to counter any problems arising at the turn of the year.

VR-Data was responsible for the availability of VR Group's information technology systems. Availability was good throughout the year.

The most important new introduction during the year was a freight planning system supplied to VR Cargo. This system, which the company is responsible for maintaining, will be further developed in 2000.

In spring 1999 VR Cargo received a new integrated user interface service. This allows the use of several systems simultaneously as well as data searches in these systems for further processing of information.

VR-Data managed the production environment of the Opera customer service system used by VR Passenger Services. It also upgraded the system's user interface.

Technology for automatic location and new telephone services was further developed during the year. The groundwork was laid for continuous automatic location of rolling stock in the AVL (Automatic Vehicle Location) pilot project. The company also evaluated the application of WAP (Wireless Application Protocol) technology in co-operation with Nokia.

Special attention was paid to browser services. The company built an intranet for VR Group based on new technology.

Preparations were made to change the company's name. VR-Data was renamed IT Solicom Ltd on 21 January 2000.

Avarra Oy
Building and renting activities

Avarra enhances residential quality

Avarra Oy develops, manages and rents residential properties. The company generated net turnover of approximately FIM 64 million in 1999, up 8 % on the previous year. Some 95 % of this came from rental income, 4 % from development and 1 % from other operations.

The company built a number of attic apartments in its buildings during the year as well as adding lifts and improving ventilation to enhance the quality of its residential properties. Attic conversions were completed in Iisalmi, Kuopio and Vaasa and new conversions were started in Joensuu. Stairways were renewed and building facades were decorated. In its fourteen years of operation, the company has renovated almost all its properties.

Avarra Oy owned 92 buildings at the end of the year, comprising some 1,900 rented apartments. It also has about one hundred apartments in other housing companies.

A residents' survey conducted during the year showed that residents in the company's properties were generally satisfied. A national residents' association and three regional development committees were set up to promote more active participation by residents. To improve service, new Internet pages were designed for Avarra which were introduced in January 2000.

Sales of Avarra's development services increased by about 50 % on the previous year. The most important clients were real estate companies of Tampere, Turku and Vaasa. Development services were sold for both renovation and new building purposes.

Preparations were started at the end of the year to split Avarra into two companies during 2000. The new Avarra Oy will engage in development, management and ownership of privately financed rental units. Avarra-Asunnot Oy will be a non-profit company which owns and manages state-funded properties.

Further decline in number of personnel

VR Group employed 16,075 people on average during the review period. The same principles applied in previous years were followed in recruiting new employees; as far as was practical personnel were recruited from outside VR only for duties requiring specific skills. The number of Group personnel declined by 3 % during the year. Most of the reduction in personnel occurred in VR Ltd. The aggregate reduction in the number of personnel employed by VR over the last five years is 19 %.

The number of personnel decreased by natural reduction. Some 360 people left VR on disability, old-age or personal early retirement pensions during the year. Other retirement arrangements were made for a further 70 employees.

A decision was made at the end of 1999 to restructure VR Ltd's maintenance operations. The restructuring will result in the closure of the workshops at Turku and Kuopio. The objective is to decrease the number of jobs in the technical operations by 600 from the current level of 2,300 by the year 2003, primarily through natural reduction. The restructuring will also involve retraining and internal transfers of personnel.

Focus on working ability

The fitness and working ability of personnel continued to be important elements in VR's personnel policy. Attention was focused on working conditions, the working community, and on personal and professional development. Supervisors and other personnel were trained to identify the various factors affecting working ability. The average age of personnel rose from 45 to 45.5.

There were a number of projects aimed at developing the working community during the year. A review was conducted of the physical and mental stress involved in work done by staff and follow-up measures were agreed.

The focus for improving individual working ability is shifting to pre-emptive rehabilitation. Some 1,100 employees attended physical training and fitness courses. The five-year 'Fit at all Ages' project continued in numerous workplaces. Around 3,000 employees participated in the project, of whom almost one-third started fitness training for the first time when the project was launched in 1995.

Further training in train safety

Personnel development concentrated on enhancing train safety, upgrading basic professional qualifications, IT training, management training, and also on formulating new training methods.

Supplementary training to improve train safety was started. Training of locomotive drivers was successfully completed and training of traffic control personnel was started during the review period.

A new type of basic professional training was started for personnel working in marshalling yards. The reformulated course provides competence in a wider spectrum of jobs than earlier. Basic training for traffic controllers was renewed and started at the end of the year. People from outside VR were also enrolled for traffic control training.

A new training programme for locomotive drivers was prepared. A locomotive simulator specially designed for VR is used in the training and enables thorough practice in a wide range of potential driving situations. The new course for locomotive drivers is scheduled in the next few years.

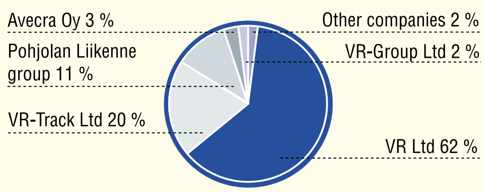
Training related to the modernization of PC workstation architecture was arranged in VR's Training Centre in Helsinki as well as in other locations.

The first module of the training for middle management was completed. The module focused on finance, logistics and project work.

The next module, starting in 2000, will address management skills.

Development of training methods focused particularly on further enhancing induction training and on applying information technology and multimodal techniques.

VR Group's personnel by company in 1999



Safety work proceeded as planned

VR continued work on enhancing train safety, in line with the safety programme initiated in September 1998. The target of the programme is to raise train safety in Finland to the highest levels in the EU countries and to reach the same level as Sweden by 2002.

No collisions occurred in train traffic during 1999 nor were there any accidents causing serious injury. In April, seven Russian tanker wagons transporting crude oil were derailed at a switch in Vainikkala marshalling yard. The wagons caught fire.

Train safety committees to control and monitor

A status report on the work of the regional train safety committees was completed in August, one year after the committees were established. The committees have processed reports of irregularities and improvements suggested by personnel. They have also supervised implementation of the changes. Based on the positive results achieved so far, it was decided to develop this activity further so that the committees would concentrate their activities on controlling and monitoring train safety.

Progress was made in implementing the safety control system. A management review held in November verified that the system was comprehensively documented and that personnel had received adequate training. The review also approved the plan for an audit of the entire organization in 2000. The safety control system defines the responsibilities, management structure and procedures relating to train safety.

An entirely new supplementary training programme for personnel emphasizing train safety was started during the review period. All locomotive drivers had attended a two-day training course by the end of the year. Training for train dispatchers and personnel operating remote control equipment will continue in 2000.

Instructions updated

New instructions for traffic control were prepared that create a framework for better traffic management, especially in exceptional circumstances.

A manual for locomotive drivers was issued in September that clarifies responsibility issues and provides guidelines for correct and safe working procedures. The instructions on actions to be taken by supervisors and work management in cases of accident or damage were updated.

ATP deployed more widely

VR's entire rolling stock for commuter traffic in the Helsinki metropolitan area and all locomotives in line service were equipped with Automatic Train Protection (ATP) equipment by the end of the review period. The only exceptions are the Dr13 diesel locomotives that will be taken out of service in June 2000. Installation of ATP equipment on tracks proceeded according to plan.

The Finnish Rail Administration decided to further reduce train speeds when the seasonal timetable changes in June 2000 in order to ensure rail safety. The maximum permitted speed will be lowered to 120 kilometres an hour on those sections of track that are not provided with ATP equipment. The restriction does not apply to certain InterCity trains, which have been granted an exemption by the Finnish Rail Administration.

The joint project conducted by VR and the Finnish Rail Administration aimed at upgrading the information system continued. The new advanced information system developed to replace the old weekly warning system is already

partially deployed as a tool for line work and traffic planning. The full system will be commissioned in the autumn of 2000. It will substantially improve the quantity and quality of information received by locomotive drivers and traffic controllers in exceptional circumstances.

More conductors on late commuter services

Ticket sales on rush-hour commuter trains in the Helsinki metropolitan area were restricted to only a few trainsets. This change, which affected shift rotas, allowed the number of conductors on evening and night-time trains to be increased.

It was decided to install emergency phones on commuter trains in the Helsinki metropolitan area, enabling passengers to contact the driver and conductor. The city trains that were commissioned at the end of the year have video cameras to improve security.

The safety campaign for schoolchildren continued for the fourth year. Police and locomotive drivers visited schools situated near railway tracks to tell pupils about the rules regarding access to railways. The campaign focused on the Oulu–Kokkola area and the cities of Kajaani, Joensuu and Jyväskylä. The campaign has reached altogether over 50,000 schoolchildren.

Focus on systematic environmental management and ground pollution risks

VR Group focused on developing its environmental management system and assessing ground pollution in 1999. The Group re-evaluated its environmental policy and its management system during the year. The existing policy was reformulated and a new environmental manual was adopted in the autumn.

The surveys of VR Group's real estate initiated earlier were continued. The risk of ground pollution posed by VR's workshops, depots and impregnation facilities were assessed in 1999. A total of 12 sites were examined. VR's refuelling depots had already been surveyed. The surveys examined the soil, the condition of equipment and the allocation of responsibilities.

A working group was established within the Group to to determine the need for more detailed surveys and to draft action plans for the different units. The working group surveyed the refuelling depot at Kokkola in 1999 and a further five sites will be surveyed during 2000.

Higher proportion of electrified traffic

The main impact that VR Group's operations have on the environment is caused by rail traffic and producing the energy required for it. VR Group's total energy consumption in 1999 was 1,330 MWh, of which 81 % was power to drive rail traffic. Energy consumption diminished by 2.4 % compared to the previous year, while the volume of traffic decreased by 0.7 % over the same period.

The energy consumption and emissions of rail traffic diminished in pace with progress in electrification of the rail network. Electrification of the Helsinki–Pori line was completed in 1999. The proportion of electrified traffic rose to 70 %, up from 69 % in the previous year. The target is that 80 % of train traffic will be electrified by 2012.

Certificates for freight and passenger services

VR Cargo was awarded an ISO 14001 certificate in May for the environmental management system it applies in its freight transport services and in its operating sites throughout Finland. VR Cargo's regional operations received ISO 14001 certification in the previous year.

VR Passenger Services was awarded ISO 14001 certification for its environmental management system in December. The certificate applies to all its services and sites.

VR is the first national railway in Europe to receive ISO 14001 certification for both its freight and passenger traffic operations.

Environmental aspects in procurement

Upgrading of the rolling stock achieved savings in energy consumption and a reduction in emissions. The replacement of older diesel locomotives with electric locomotives had most impact.

The first ten new city trains were commissioned in the autumn. The city train uses energy extremely efficiently because the energy generated when braking is fed back into the grid. The energy saving achieved by this feature can be as high as 30 %.

At the close of the period 38 new double-decker InterCity coaches were in service. The double-decker coach is an energy-efficient solution because the average weight of the coach per passenger seat is some 20 % less than in a conventional coach.

Environmental issues were addressed in preparing the competitive tender for railbuses. The durability of the rolling stock and the reusability of construction materials were also taken into account.

Two accidents involving hazardous goods

On 7 April an accident occurred at Vainikkala involving a tanker train. Seven tanker wagons containing oil were derailed and caught fire. Smoke was emitted into the air and an estimated 100 tonnes of oil escaped from the damaged wagons.

Action to contain the damage prevented the oil from leaking into the watercourse. Some 7,200 cubic metres of soil were contaminated. The oil-soaked peat was composted at Imatra's municipal waste disposal site. The contaminated ballast and gravel was recycled into asphalt that was used as surfacing material in the marshalling yard at Vainikkala.

On 21 September a damaged tanker wagon leaked some 2,000 litres of silicofluoric acid in the Pieksamäki marshalling yard. The leak had only minor impact, as the acid did not penetrate into the groundwater.

The overall level of safety in freight transport was good in 1999 despite the accidents at Vainikkala and Pieksamäki.

Cooperation to reduce noise and vibration

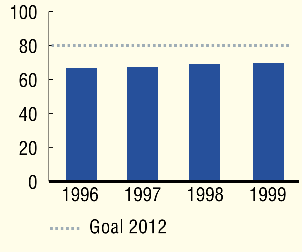
The Finnish Rail Administration and VR continued their efforts to reduce the noise caused by rail traffic. The most effective means to suppress noise are upgrading tracks and replacing rolling stock.

Progressive replacement of diesel stock with quieter electric stock reduced noise. The quieter bogies, disc brakes and chassis in the new coaches brought into service also reduced the noise level.

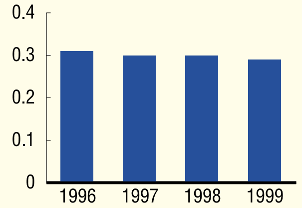
Heavy goods trains produce vibration on ground composed mainly of clay or other soft soil formations. The intensity of the vibration depends on the structure of the track and on factors related to the rolling stock, such as wheel condition and axle load. A higher overall weight, greater length or higher speed of a train also intensifies the vibration produced. Complaints about vibration are handled in co-operation with the Finnish Rail Administration.

More details about environmental aspects are given in VR-Group Ltd's Environmental Report 1998-1999.

Electric traction as % of train-kilometers



Energy consumption by total transport volume, MJ/tonne-km + passenger-km



Report by the Board of Directors

Market conditions

Production volumes in the industrial sectors on which rail transportation depends grew more slowly than overall production volume in Finland during 1999. According to preliminary information, the index of industrial production volume, excluding the electronics and electrotechnical sectors, rose 1.1 % whereas total production volume increased 5.5 %. Hence the sectors mentioned, though contributing to the bulk of volume growth, had a negligible effect on rail transportation volume.

Developments in the Russian economy affected freight transport between Finland and Russia in a number of ways. Imports from Russia continued to be lively until the end of the year. On the other hand, internal regulations in Russia had a dampening effect, especially on transportation of petrochemical products. Transit traffic via Finland depends not only on Russian exports but also on the price levels prevailing in the Baltic routes that compete with Finland.

Passenger traffic was particularly affected by difficult weather conditions at the start of the year and by the heavy volume of line work that continued throughout the year. These factors made it difficult to keep passenger trains operating on time. Special measures were taken in the spring to restore punctuality to a good level. The volume of passenger services remained at the previous year's level. It was not possible to tighten up timetables, nor was there enough modernised rolling stock in operation to have any appreciable effect on train services. Competition from air traffic on long-distance routes was significant.

VR received ISO quality certification covering its entire passenger service operation at the end of the year, the first rail company in Europe to achieve this. VR also concluded a six-year agreement with the Helsinki Metropolitan Area Council (YTV) at the close of the period to manage rail traffic in YTV's operating area, as well as a five-year agreement with the Ministry of Transport and Communications concerning the purchase of unprofitable train services by the Finnish state.

Consolidated net turnover, result and liquidity

The Group's net turnover was FIM 6,773 million. Net turnover in the previous year, FIM 6,945 million, is not entirely comparable owing to a change in the way VR-Track Ltd's income is recognised. Operating costs remained at the previous year's level due partly to moderate wage increases and inflation and partly to a slight reduction in personnel.

The Group posted a net profit after tax of FIM 396 (386) million. The operating profit was FIM 64 million lower than one year earlier.

The Group's liquidity was good throughout the year. Net interest amounted to FIM 63 (82) million. Liquid reserves at the year end stood at FIM 1,775 (2,192) million. The main reason for the reduction was an increase in investment costs. No new external loans were raised during the year except for interest support and state housing loans for Avarra Oy.

Rail volumes

VR Cargo carried 40 million tonnes of freight, some 2 % less than the record level in the previous year. Freight volumes at the start of the year were well down on 1998 and growth towards the end of the period was not sufficient to raise total carryings to the previous year's level.

Domestic freight volume totalled 23.2 (23.6) million tonnes. Forest industry carryings totalled 67 % of this figure, while metal industry carryings amounted to 24 %. Forest industry carryings decreased 3 % but metal industry carrying rose almost 2 %.

International traffic totalled 16.8 (17.1) million tonnes. Most of this comprised Russian traffic: 2.8 million tonnes from transit traffic and 12.9 million tonnes from imports into Finland of raw timber and petrochemical products. The latter figure remained largely unchanged from the previous year but transit traffic declined by almost 5 %, mainly because of export charges levied in Russia. On the other hand rail transit traffic strengthened as a proportion of total transit traffic. Connecting traffic to the west, most of which is railferry traffic from Turku to Travemünde and Stockholm, amounted to 1.0 (1.2) million tonnes.

A total of 53.2 (51.4) million passenger journeys were made during the year. The increase took place in commuter traffic in the Helsinki metropolitan area, where the number of passenger journeys rose 5 %. The number of long-distance journeys, by contrast, was roughly one per cent down on the previous year, totalling 11.9 million. The volume of InterCity traffic grew by almost one-quarter, one reason for which was the conversion of some conventional express train services to InterCity trains. The number of passengers travelling by rail between Finland and Russia declined by 19 %. This was due to a decrease in the number of Russian passengers resulting from devaluation of the rouble.

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 8.0 million tonnes, up 8 % on the previous year. They owned 270 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. There were 316 buses in service at the year end, including those owned by Onni Vilkas Oy.

Track maintenance and construction

VR-Track Ltd's net turnover totalled FIM 1,703 (1,896) million. The two figures are not comparable since, unlike in previous years, revenues from construction projects during 1999 were recognised using the percentage-of-completion method. Altogether 90 % of VR-Track Ltd's net turnover in 1999 came from work commissioned by the Finnish Rail Administration. The volume of line superstructure work was one-fifth lower than the record level in the previous year and the company's production capacity was underutilised during the final months of the period.

The largest projects involved further line and safety equipment work on the Helsinki–Tampere section. Line renewal and equipment upgrading were carried out simultaneously with electrification on the Tampere–Pori and Toijala–Turku sections. This work was completed between Tampere and Pori and will be completed between Toijala and Turku during 2000. Line superstructure renewal projects were also completed on the Kemi–Rovaniemi section. Line renewal was continued on the Kouvola–Pieksämäki–Iisalmi and the Lappeenranta–Joensuu–Uimaharju sections. Track renewal, safety equipment and electrification projects were continued on the Helsinki–Leppävaara urban line. Bridge construction and re-routing of roads enabled the removal of 52 unmanned level crossings.

The accelerated programme for construction of automatic train protection (ATP) systems made planned progress during 1999. ATP systems were completed on the Kerava–Riihimäki–Tampere, Lielahti–Pori and Rauma, Seinäjoki–Kokkola and Ähtäri–Seinäjoki line sections. There were 1,200 km of line equipped with ATP systems by the close of the period.

VR-Track Ltd handled the line maintenance contracts stipulated in the three-year agreement with the Finnish Rail Administration. Track inspection measurements verified that the geometrical condition of the lines was good and the company exceeded the quality targets set by the Finnish Rail Administration. There were fewer equipment faults arising from new safety equipment technology and construction work than one year earlier but the incidence of disturbances was still higher than the target set as a base for traffic planning. Exceptionally heavy snowfalls and cold weather during the winter gave rise to extra maintenance costs early in the year.

Investments

The Group's capital expenditure amounted to FIM 1,277 million. No significant new investment decisions were made during the year. Most of the expenditure was based on previous purchasing decisions. The most important items were the 22 additional double-decker InterCity coaches received during the year and ten Sm4 series urban trains for commuter traffic in the Helsinki metropolitan area. Altogether FIM 680 million was spent on passenger rolling stock. Additionally FIM 125 million was spent for new Sr2 type locomotives and approximately FIM 120 million for modernisation of freight wagons and purchases of new wagons.

VR-Track Ltd's investments amounted to FIM 75 million and the investments of the Pohjolan Liikenne subgroup to FIM 130 million.

Group structure

An agreement was concluded in April to sell a 40 % minority holding in Avecra Oy, the VR company responsible for train and station catering services, to the Swiss company Rail Gourmet. Part of the Swissair group, Rail Gourmet is a leading European rail catering company. Its presence in Finland is expected to lead to increased investments in product development and business management. Collaboration between the two companies started at the beginning of July.

A change in the law on state-financed housing led to measures, started in November, to split Avarra Oy into two companies. One will be a non-profit organisation owning VR's state-financed properties. The other company will own VR's privately financed properties and shares in housing companies, with responsibility for property development and management as well. Both companies will be subsidiaries of VR-Group Ltd. The split will be completed by the autumn of 2000.

Onni Vilkas Oy, a road transport company based in Kotka, was acquired at the beginning of December by Oy Etelä-Pohjolan Liikenne Ab, part of the Pohjolan Liikenne group. Onni Vilkas Oy operates express coach services between the Kotka region and Helsinki and Tampere, international coach services between Helsinki and St. Petersburg in Russia, and local services in the Kymenlaakso region. Certain other restructuring measures were carried out within Pohjolan Liikenne group as a result of which the parent company, Oy Pohjolan Liikenne Ab, no longer has any business operations.

The decision was taken at the end of the year to reorganise VR's workshop operations, leading to closure of the Turku and Kuopio workshops by 2003. The newer rolling stock now in service requires less maintenance. This factor, along with changes in the volume of rolling stock and its maintenance requirements, will be most keenly felt at the Turku and Kuopio workshops, which are geared to renovating and maintaining older stock. The remaining work will be split between the Hyvinkää and Pieksämäki workshops.

In December the board of directors of VR-Data Ltd decided to rename the company to IT Solicom Ltd. The new name was adopted on 21 January 2000.

The environment and rail safety

VR Cargo was granted ISO 14001 environmental certification in May and a similar certificate was awarded to VR Passenger Services in December. These certificates cover the services of both units throughout Finland.

VR's workshop and depot sites were surveyed to establish the risks of soil pollution. Soil surveys and site cleaning were carried out in Kokkola, Riihimäki and Vainikkala.

Measures to enhance rail safety were continued in line with the safety programme initiated in September 1998. There were no collisions or other serious accidents leading to human injury in rail traffic.

On 7 April 1999 seven Russian crude oil tankers caught fire at Vainikkala after being derailed at a switch in the marshalling yard. The board of inquiry has not yet submitted its report on the cause of the incident.

A status report was prepared in August on the work of the regional rail safety committees set up in 1998. The positive experience gained from these committees led to the decision to further develop this work emphasising the role of the committees as a means of steering and supervising rail safety.

Introduction of the safety management programme proceeded according to plan. Entirely new supplementary training schemes were started focusing on rail safety and all locomotive drivers were put through these courses. Training for train dispatchers and control personnel will continue during 2000.

Rail safety guidelines were revised and updated. New traffic control procedures were drafted and a train drivers' manual was introduced in September. Updated instructions on the responsibilities of supervisors and managers in the event of accidents or damage provide clearer procedures, enabling faster response to hazardous situations in rail traffic. The weekly warning system to provide additional information on rail traffic is currently being updated.

All VR's rolling stock used for commuter services is equipped with ATP systems, as are all locomotives except the Dr13-series locomotives scheduled to be withdrawn from service in June 2000. Installation of ATP track equipment has proceeded as planned.

The maximum permitted train speeds will be reduced to 120 kph on line sections not equipped with ATP systems, as required by the Finnish Rail Administration. This decision will come into effect in June 2000, when the seasonal timetables are changed. This restriction does not apply to certain IC trains, which are exempted by the Finnish Rail Administration.

Personnel and administration

Personnel numbered 16,075 on average during the year, which marked a decrease of about 2.2 % compared to the previous year. The reduction in personnel has taken place through natural loss and in line with the streamlining plan in effect for several years. Few new employees have been recruited.

VR's personnel policy focused once again on quality issues such as enhancing teamwork and fitness at work. Training focused on courses to improve rail safety, training in computer skills and training for supervisors.

The Board of Directors of VR-Group Ltd comprised Martin Granholm, chairman, Pentti Talonen, deputy chairman, and members Kalevi Alestalo, Eija Malmivirta and Antti Remes.

Tapio Karjalainen was elected chairman of the Supervisory Board from 21 May 1999 after the previous chairman, Johannes Koskinen, was appointed to the Council of State.

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

The company's auditors are Arthur Andersen Oy and the supervising auditor is Jarmo Lohi, Authorised Public Accountant.

Year 2000 and adoption of the euro

VR began measures in 1997 to eliminate disruptions to its information systems during the roll-over into the year 2000. This work was continued up to the end of the reporting period and no problems were encountered.

VR will adopt the euro as its domestic currency in 2002 and the final preparations for the change will be started during the current year.

Prospects in 2000

The slight downswing experienced by the base manufacturing industry over the past couple of years is now over as far as exports are concerned. Order books and economic forecasts are reasonably buoyant. Industrial investment activity is increasing. Continued positive development will, naturally, depend on the absence of unexpected or major economic upsets. VR's freight business is expected to start growing this year although heavy industry carryings will probably not increase at the same pace as gross national product, for instance. A realistic forecast for growth in rail freight volume would be 3 % this year.

General economic conditions have a clearly smaller impact on passenger traffic than on freight traffic. Buoyant market conditions, of course, will also encourage a rise in passenger traffic but this year VR will still not be able to speed up its train services, which would affect passenger numbers. Long-distance traffic is expected to show moderate growth and commuter traffic in the Helsinki region to rise by approximately 3 %.

VR-Track Ltd's backlog of orders will decrease and the workload will not be sufficient for its personnel, especially during the winter months. In the light of the company's financial position the streamlining measures used so far will no longer suffice. For this reason VR-Track Ltd has begun statutory negotiations with personnel representatives on personnel measures to be implemented during 2000. The company's entire workforce will be laid off for seven working days during the year, overtime will be reduced and some 100 employees will be made redundant.

Consolidated Profit and Loss Account

(FIM 1,000)	Note	**1 Jan. - 31 Dec. 1999**	1 Jan. - 31 Dec. 1998
Net turnover	1	**6,772,838**	6,944,863
Change in stocks of finished goods and work in progress		**1,238**	-43,304
Production for own use		**209,257**	201,423
Profit from associated companies		**1,703**	2,933
Other operating income	2	**114,009**	55,237
Materials and services	3	**2,063,786**	2,090,011
Personnel expenses	4	**3,222,927**	3,193,152
Depreciation	5	**539,182**	498,412
Other operating expenses		**844,008**	886,540
Expenses, total		**6,669,903**	6,668,115
Operating profit		**429,142**	493,037
Financial income and expenses	6	**62,860**	81,559
Profit before extraordinary items		**492,002**	574,596
Extraordinary items	7		
Extraordinary income		**345,823**	0
Extraordinary charges		**-292,320**	0
		53,503	0
Profit before taxes		**545,505**	574,596
Income taxes	9	**-139,100**	-179,243
Minority interest		**-10,366**	-9,598
Profit for the year		**396,039**	385,755

Consolidated Balance Sheet

(FIM 1,000)	Note	**31 December 1999**	31 December 1998
ASSETS			
Fixed assets			
Intangible assets	10	**8,373**	10,894
Goodwill on consolidation		**86,791**	53,117
Tangible assets	10	**5,585,627**	4,959,034
Investments	11		
Holdings in Group companies		**24,781**	21,634
Other investments		**41,549**	32,765
		5,747,119	5,077,443
Current assets			
Stocks	12	**397,755**	640,134
Long-term receivables	13	**16,662**	33,412
Current receivables	13	**742,455**	744,682
Securities	14	**1,722,529**	2,144,164
Cash at bank and in hand		**52,068**	47,455
		2,931,468	3,609,847
Assets, total		**8,678,587**	8,687,290

(FIM 1,000)	Note	**31 December 1999**	31 December 1998
CAPITAL AND LIABILITIES			
Shareholders' equity	15		
Share capital		**2,200,000**	2,200,000
Share premium account		**3,125,991**	3,125,989
Other reserves		**4,190**	0
Retained earnings		**1,028,871**	756,034
Profit for the year		**396,039**	385,755
Capital loan	16	**3,600**	4,000
Shareholders' equity, total		**6,758,691**	6,471,778
Minority interest		**53,674**	40,550
Consolidation difference		**24,084**	46,583
Provisions	18	**10,063**	13,715
Liabilities	19		
Deferred tax liability		**309,465**	262,662
Long-term liabilities		**330,718**	316,150
Current liabilities		**1,191,893**	1,535,853
Liabilities, total		**1,832,076**	2,114,665
Capital and liabilities, total		**8,678,587**	8,687,290

Consolidated Cash Flow Statement

(FIM 1,000)	**1 Jan. - 31 Dec. 1999**	1 Jan. - 31 Dec. 1998
Cash flow from operating activities		
Operating profit	**429,142**	493,037
Adjustments to operating profit 1)	**502,961**	501,113
Change in net working capital	**-47,315**	-21,947
Interest received	**79,448**	99,704
Interest paid and other payments	**-18,417**	-18,852
Dividends received	**0**	371
Other financial items	**1,830**	336
Taxes paid	**-74,866**	-101,135
Net cash from operating activities, total	**872,782**	952,627
Cash flow from investing activities		
Acquisitions of shares	**-435**	-116
Capital expenditure on fixed assets	**-1,276,477**	-820,098
Divestments of Group companies	**17,640**	0
Sale of shares	**70**	640
Other fixed assets disposals	**91,155**	7,108
Net cash from investing activities, total	**-1,168,049**	-812,466
Cash flow before financing activities	**-295,266**	140,161
Cash flow from financing activities		
Long-term loans, proceeds	**7,573**	13,221
Long-term loans, repayments	**0**	-5,879
Long-term receivables	**3,880**	5,350
Short-term loans, proceeds/repayments	**1,437**	-5,585
Dividends paid	**-134,646**	-151,520
Net cash used in financing activities, total	**-121,757**	-144,413
Change in cash reserves	**-417,023**	-4,252
Cash reserves on 1 Jan.	**2,191,619**	2,195,871
Change in cash reserves	**-417,023**	-4,252
Cash reserves on 31 Dec.	**1,774,596**	2,191,619

1) Depreciation according to plan, other non-monetary items, adjustments for cash flow

Parent Company Profit and Loss Account

(FIM 1,000)	Note	**1 Jan. - 31 Dec. 1999**	1 Jan. - 31 Dec. 1998
Net turnover	1	**266,403**	286,726
Other operating income	2	**29,821**	6,666
Materials and services	3	**65,359**	70,155
Personnel expenses	4	**69,612**	67,076
Depreciation	5	**76,426**	87,125
Other operating expenses		**54,364**	62,031
Other operating expenses		**265,761**	286,386
Operating profit		**30,462**	7,006
Financial income and expenses	6	**225,106**	188,080
Profit before extraordinary items		**255,569**	195,086
Extraordinary items	7	**85,000**	0
Profit before taxes		**340,569**	195,086
Change in depreciation difference	8	**3,759**	21,905
Income taxes	9	**-88,870**	-83,528
Profit for the year		**255,458**	133,462

Parent Company Balance Sheet

(FIM 1,000)	Note	**31 December 1999**	31 December 1998
ASSETS			
Fixed assets			
Intangible assets	10	**232**	0
Tangible assets	10	**1,349,238**	1,433,657
Investments	11		
Holdings and receivables in Group companies		**2,569,897**	2,526,547
Other investments		**36,082**	22,901
		3,955,448	3,983,105
Current assets			
Stocks		**0**	0
Long-term receivables	13	**16,662**	33,412
Current receivables	13	**390,624**	263,886
Securities	14	**1,722,529**	2,144,164
Cash at bank and in hand		**36,013**	30,784
		2,165,828	2,472,247
Assets, total		**6,121,276**	6,455,351

(FIM 1,000)	Note	**31 December 1999**	31 December 1998
CAPITAL AND LIABILITIES			
Shareholders' equity	15		
Share capital		**2,200,000**	2,200,000
Share premium account		**3 125,989**	3 125,989
Retained earnings		**62,489**	59,027
Profit for the year		**255,458**	133,462
Shareholders' equity, total		**5,643,936**	5,518,478
Depreciation difference	17	**13,657**	17,416
Liabilities	19		
Long-term liabilities		**0**	0
Current liabilities		**463,683**	919,457
Liabilities, total		**463,683**	919,457
Capital and liabilities, total		**6,121,276**	6,455,351

Parent Company Cash Flow Statement

(FIM 1,000)	**1 Jan. - 31 Dec. 1999**	1 Jan. - 31 Dec. 1998
Cash flow from operating activities		
Operating profit	**30,462**	7,006
Depreciation according to plan	**76,426**	87,125
Other non-payment-related income and expenses	**-28,300**	0
Cash flow before change in net working capital	**78,589**	94,131
Change in net working capital		
Change in current receivables	**39,712**	111,755
Change in current liabilities	**1,516**	-21,518
Change in net working capital	**41,228**	90,237
Interest paid	**-19,943**	-36,560
Dividends received	**83,121**	50,857
Interest received from operating activities	**129,603**	154,005
Taxes paid	**-52,652**	-63,750
Cash flow from financial items and taxes	**140,129**	104,552
Net cash from operating activities, total	**259,946**	288,919
Cash flow from investing activities		
Acquisitions of shares	**-310**	-116
Capital expenditure on fixed assets	**-44,039**	-56,963
Sale of shares and fixed assets	**80,099**	42,935
Net cash from investing activities, total	**35,750**	-14,144
Cash flow before financing activities	**295,696**	274,775
Cash flow from financing activities		
Long-term receivables, increase	**-214,370**	-24,050
Long-term receivables, decrease	**82,950**	139,300
Change in short-term financing	**10,500**	0
Dividends paid	**-130,000**	-150,000
Change in funds transferred to Group account	**-461,183**	-202,998
Net cash used in financing activities, total	**-712,103**	-237,748
Change in cash reserves	**-416,407**	37,027
Cash reserves on 1 Jan.	**2,174,948**	2,137,921
Change in cash reserves	**-416,407**	37,027
Cash reserves on 31 Dec.	**1,758,541**	2,174,948

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, which have no material impact on the Group's shareholders' equity.

More detailed information on the Group's subsidiary and associated companies is given below under investments.

The Group's parent company is VR-Group Ltd and its domicile is Helsinki. Copies of the Group's financial statements may be obtained from the company's head office: Vilhonkatu 13, P.O. Box 488, FIN-00101 Helsinki.

Principles of consolidation

Mutual holdings

The consolidated financial statements are 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 the consolidation difference and charged to the profit and loss account over a period of five years.

Intragroup transactions and margins

Intragroup transactions, internal receivables and liabilities, and internal distribution of profit are eliminated.

Minority interest

Minority interest is shown as a separate item.

Associated companies

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

Comparability of accounts

The financial statements have been prepared in accordance with the provisions of the new Accounting Act, which came into force on 31 December 1997. The previous year's figures have been adjusted accordingly.

VR-Track Ltd also adopted the percentage-of-completion method in recognising revenues from construction projects from the beginning of the reporting period. Hence, net turnover is not directly comparable with the previous year's figure. The effect of this change in accounting practice on the previous year's figures is shown under extraordinary items in the reporting period.

Recognition of long-term projects

Revenue from VR-Track Ltd's construction projects is recognised as a percentage of their completion, with the exception of small contracts worth less than FIM 300,000, income from which is recognised on their completion. The percentage of completion is determined according to the project's physical degree of completion. The aggregate recognised percentage as a proportion of the estimated total revenue accruing from the projects is calculated as net turnover. Project costs are the aggregate recognised percentage as a proportion of the estimated total costs.

In the case of estimated losses from long-term projects, the uncompleted percentage is entered under obligatory provisions.

The impact of the adoption of the percentage-of-completion method is stated under extraordinary income and extraordinary charges in the consolidated profit and loss account. Extraordinary income contains net turnover accrued from uncompleted projects at the end of the previous year before adoption of the new method, and extraordinary expenses contains the expenses related to this net turnover. The change in accounting principles is visible in the balance sheet as a substantial reduction in the value of work in progress and advance payments received.

Valuation principles of the financial statements

Fixed assets are capitalized at their direct acquisition cost. Fixed assets totalling FIM 209 (201) million were produced by the company itself and include FIM 27 (28) million in fixed costs related to production.

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.

Securities are valued at purchase cost.

Receivables, liabilities and other commitments denominated in foreign currencies are translated into Finnish markka at the average exchange rates given by the European Central Bank on the balance sheet date.

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 Financial Statements

Notes to the profit and loss account

1 NET TURNOVER BY OPERATING SECTOR (FIM 1,000)	Group 1999	Group 1998	Parent Company 1999	Parent Company 1998
Rail transport				
Freight traffic	**1,923,789**	2,000,103		
Passenger traffic	**1,574,502**	1,534,353		
Road transport				
Freight traffic	**926,473**	917,600		
Passenger traffic	**162,319**	154,259		
Track construction and maintenance	**1,672,058**	1,896,858		
Catering services	**170,507**	173,193		
Property management	**285,228**	276,105	**217,680**	215,429
IT services	**257,126**	198,210	**21,400**	38,020
Other services	**339,646**	341,255	**27,323**	33,276
Intragroup transactions	**-538,812**	-547,073		
Total	**6,772,838**	6,944,863	**266,403**	286,726

Revenue from long-term line construction projects is recognised as a percentage of completion, calculated from actual costs and estimated total costs. The amount recognised during the year was FIM 432 million.

2 OTHER OPERATING INCOME (FIM 1,000)	Group 1999	Group 1998	Parent Company 1999	Parent Company 1998
Profits on sale of fixed assets	**35,673**	12,214	**29,190**	3,835
Other	**78,336**	43,023	**631**	2,831
Total	**114,009**	55,237	**29,821**	6,666

3 MATERIALS AND SERVICES (FIM 1,000)	Group 1999	Group 1998	Parent Company 1999	Parent Company 1998
Materials and supplies (goods)				
Purchases during the year	**933,899**	878,491	**30,276**	30,447
Change in stocks	**-43,052**	10,798	**0**	0
External services purchased	**1,172,939**	1,200,722	**35,082**	39,708
Total	**2,063,786**	2,090,011	**65,359**	70,155

4 PERSONNEL AND PERSONNEL EXPENSES	1999	1998
The Group's average number of personnel during the year was distributed as follows:		
VR-Group Ltd	**318**	318
VR Ltd	**9,900**	10,284
VR-Track Ltd	**3,235**	3,294
Pohjolan Liikenne group	**1,839**	1,801
Avecra Oy	**487**	468
IT Solicom Ltd	**96**	88
Railtelia Ltd	**184**	170
Avarra Oy	**16**	16
Total	**16,075**	16,439

Personnel expenses (FIM 1,000)	Group 1999	Group 1998	Parent Company 1999	Parent Company 1998
Wages and salaries	**2,532,731**	2,485,983	**54,537**	53,641
Pension expenses	**400,392**	424,025	**8,317**	7,575
Other social expenses	**289,804**	283,144	**6,757**	5,860
Personnel expenses according to the P&L account	**3,222,927**	3,193,152	**69,612**	67,076

Management remuneration	Group 1999	Group 1998
Presidents	**5,861**	4,508
Members of boards of directors	**630**	686
Supervisory Board	**478**	455
Total	**6,969**	5,648

Including FIM 2.0 (1.9) million to parent company management and administrative bodies. The same pension commitments apply to the members of the Board of Directors and Presidents as to other company employees.

5 DEPRECIATION (FIM 1,000)	Group 1999	Group 1998	Parent Company 1999	Parent Company 1998
Planned depreciation				
Intangible assets	**16,154**	0	**17**	0
Other long-term expenditure	**0**	22,970	**0**	0
Buildings and structures	**69,325**	69,873	**51,916**	52,944
Tractive and rolling stock	**279,732**	254,237	**0**	0
Other machinery and equipment	**182,469**	163,388	**22,786**	32,691
Other tangible assets	**15,358**	11,237	**1,708**	1,490
Decrease in consolidation difference	**-23,855**	-23,292		
Total	**539,182**	498,412	**76,426**	87,125

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:

Intangible assets	5 years	planned
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 % - 25 %	declining
Other machinery and equipment (other companies)	5 - 10 years	planned
Other tangible assets	5 years	planned

Notes to the Financial Statements

6 FINANCIAL INCOME AND EXPENSES (FIM 1,000)	Group		Parent Company	
	1999	1998	**1999**	1998
Dividend income				
From Group companies	**0**	0	**115,278**	70,611
From associated companies	**0**	0	**0**	0
From others	**184**	371	**168**	24
Dividend income, total	**184**	371	**115,446**	70,635
Interest income from long-term investments				
From Group companies	**0**	0	**50,267**	55,162
From others	**1,646**	2,676	**1,632**	2,676
Other interest and financial income				
From Group companies	**0**	0	**1,234**	877
From associated companies	**5**	0	**0**	0
From others	**79,443**	97,363	**76,470**	95,290
Interest expenses and other financial expenses				
To Group companies	**0**	0	**19,819**	35,078
To others	**18,417**	18,851	**124**	1,482
Financial income and expenses, total	**62,860**	81,559	**225,106**	188,080

7 EXTRAORDINARY ITEMS (FIM 1,000)	Group		Parent Company	
	1999	1998	**1999**	1998
Percentage-of-completion income	**345,823**	-	-	-
Percentage-of-completion costs	**292,320**	-	-	-
Group contribution received	-	-	**85,000**	-

Extraordinary items in the consolidated profit and loss account represents the income and costs of long-term construction projects recognised on adoption of the percentage-of-completion method.

8 APPROPRIATIONS (FIM 1,000)	Group		Parent Company	
	1999	1998	**1999**	1998
Difference between planned depreciation and depreciation booked for tax purposes				
Change in depreciation difference (increase +, decrease -)				
Intangible assets	**35**	386	**33**	0
Other long-term expenditure	**0**	0	**0**	0
Buildings and structures	**-1,085**	-27,378	**-2,476**	-21,124
Tractive and rolling stock	**175,723**	206,977	**0**	0
Machinery and equipment	**-15,028**	46,272	**-2,086**	-224
Other tangible assets	**2,427**	4,114	**769**	- 557
Total	**162,072**	230,370	**-3,759**	-21,905

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

9 INCOME TAX (FIM 1,000)	Group 1999	Group 1998	Parent Company 1999	Parent Company 1998
Income tax in extraordinary items	**14,981**	0	**23,800**	0
Income tax from operating activities	**77,375**	114,468	**65,070**	83,528
Change in deferred tax liability	**46,744**	64,775	**0**	0
Total	**139,100**	179,243	**88,870**	83,528

Notes to the balance sheet

10 FIXED ASSETS (FIM 1,000)

Group 1999	Intangible assets			Tangible assets						
	Intangible rights	**Goodwill on consolidation**	**Total**	**Land**	**Buildings**	**Machinery and equipment**	**Other tangible**	**Work in progress**	**Total**	**Fixed assets,total**
Acquisition cost 1 Jan.	5,599	104,577	110,176	445,751	1,680,799	4,105,049	91,017	296,464	6,619,080	6,729,256
Increases	4,995	54,616	59,611	1,550	53,362	980,864	4,148	207,550	1,247,474	1,307,085
Decreases	0	0	0	52,061	1,745	26,057	2,319	14,244	96,426	96,426
Transfers between items	0	0	0	0	0	9,165	0	10,573	19,738	19,738
Acquisition cost 31 Dec.	10,594	159,193	169,787	395,240	1,732,416	5,069,021	92,846	479,197	7,768,720	7,938,507
Accumulated depreciation 1 Jan.	1,376	57,148	58,524	0	304,552	1,325,589	26,426	0	1,656,567	1,715,091
Accumulated depreciation in decreases and transfers	0	0	0	0	297	18,164	0	0	18,461	18,461
Depreciation during year	846	15,254	16,100	0	69,325	462,200	15,413	0	546,938	563,038
Accumulated depreciation 31 Dec.	2,222	72,402	74,624	0	373,580	1,769,625	41,839	0	2,185,044	2,259,668
Revaluations	0	0	0	51	1,900	0	0	0	1,951	1,951
Book value 31 Dec.	8,372	86,791	95,163	395,291	1,360,736	3,299,396	51,007	479,197	5,585,627	5,680,790

Group 1998	Intangible assets			Tangible assets						
	Intangible rights	**Goodwill on consolidation**	**Total**	**Land**	**Buildings**	**Machinery and equipment**	**Other tangible**	**Work in progress**	**Total**	**Fixed assets,total**
Acquisition cost 1 Jan.	2,796	111,066	113,862	446,933	1,622,370	3,401,767	50,264	354,376	5,875,710	5 989 572
Increases	2,805	0	2,805	138	81,040	811,175	40,709	4,781	937,843	940 648
Decreases	2	480	482	1,320	22,611	96 542	0	71 858	192,331	192,813
Transfers between items	0	0	0	0	0	1,221	0	0	1,221	1,221
Acquisition cost 31 Dec.	5,599	110,586	116,185	445,751	1,680,799	4,115,179	90,973	287,299	6,620,001	6,736,186
Accumulated depreciation 1 Jan.	764	37,609	38,373	0	234,811	952,968	14,936	0	1,202,715	1,241,088
Accumulated depreciation in decreases and transfers	0	0	0	0	131	46,987	582	0	47,700	47,700
Depreciation during year	611	19,540	20,151	0	69,874	419,609	12,070	0	501,553	521,704
Accumulated depreciation 31 Dec.	1,375	57,149	58,524	0	304,554	1,325,590	26,424	0	1,656,568	1,715,092
Revaluations	0	0	0	50	1,900	0	0	0	1,950	1,950
Book value 31 Dec.	4,224	53,437	57,661	445,801	1,378,145	2,789,589	64,549	287,299	4,965,383	5,023,044

Notes to the Financial Statements

Parent company 1999	Intangible assets	Tangible assets						
	Intangible rights	**Land**	**Buildings**	**Machinery and equipment**	**Other tangible**	**Work in progress**	**Total**	**Fixed assets, total**
Acquisition cost 1 Jan.	0	434,820	1,127,198	189,522	12,337	22,280	1,786,157	1,786,157
Increases	249	873	13,998	4,818	68	24,033	43,790	44,039
Decreases	0	51,797	297	251	0	0	52,345	52,345
Acquisition cost 31 Dec.	249	383,896	1,140,899	194,089	12,405	46,313	1,777,602	1,777,851
Accumulated depreciation 1 Jan.	0	0	260,143	89,230	3,127	0	352,500	352,500
Accumulated depreciation in decreases and transfers	0	0	297	248	0	0	545	545
Depreciation during year	17	0	51,916	22,785	1,708	0	76,409	76,426
Accumulated depreciation 31 Dec.	17	0	311,762	111,767	4,835	0	428,364	428,381
Book value 31 Dec.	232	383,896	829,137	82,322	7,570	46,313	1,349,238	1,349,470

Parent company 1998	Intangible assets	Tangible assets						
	Intangible rights	**Land**	**Buildings**	**Machinery and equipment**	**Other tangible**	**Work in progress**	**Total**	**Fixed assets, total**
Acquisition cost 1 Jan.	0	434,843	1,090,828	244,581	9,737	30,305	1,810,294	1,810,294
Increases	0	0	36,445	9,140	2,600	0	48,185	48,185
Decreases	0	23	75	64,199	0	8,025	72,322	72,322
Acquisition cost 31 Dec.	0	434,820	1,127,198	189,522	12,337	22,280	1,786,157	1,786,157
Accumulated depreciation 1 Jan.	0	0	207,214	77,884	1,638	0	286,736	286,736
Accumulated depreciation in decreases and transfers	0	0	15	21,347	0	0	21,362	21,362
Depreciation during year	0	0	52,944	32,692	1,490	0	87,126	87,126
Accumulated depreciation 31 Dec.	0	0	260,143	89,229	3,128	0	352,500	352,500
Book value 31 Dec.	0	434,820	867,055	100,293	9,209	22,280	1,433,657	1,433,657

11 INVESTMENTS (FIM 1,000)

	Shares			Receivables		
	Group companies	Associated companies	Other companies	Group companies	Associated companies	Total
Group 1999						
Acquisition cost 1 Jan.	1,469	20,166	25,615	0	7,150	54,400
Increases	70	0	711	0	12,870	13,651
Decreases	0	0	4,799	0	0	4,799
Intragroup item	0	3,078	0	0	0	3,078
Acquisition cost 31 Dec.	1,539	23,244	21,527	0	20,020	66,330
Group 1998						
Acquisition cost 1 Jan.	1,469	22,104	23,465	0	0	47,038
Increases	0	2	4,107	0	7,150	11,259
Decreases	0	4,874	1,957	0	0	6,831
Intragroup item	0	2,934	0	0	0	2,934
Acquisition cost 31 Dec.	1,469	20,166	25,615	0	7,150	54,400
Parent company 1999						
Acquisition cost 1 Jan.	1,822,947	2,515	13,237	703,600	7,150	2,549,449
Increases	0	0	655	205,400	12,870	223,925
Decreases	0	0	345	162,050	0	167,395
Acquisition cost 31 Dec.	1,822,947	2,515	13,547	746,950	20,020	2,605,979
Parent company 1998						
Acquisition cost 1 Jan.	1,804,335	3,198	14,246	819,000	0	2,640,779
Increases	18,632	1,703	313	13,000	7,150	40,798
Decreases	20	2,386	1,322	128,400	0	132,128
Acquisition cost 31 Dec.	1,822,947	2,515	13,237	703,600	7,150	2,549,449

Notes to the Financial Statements

GROUP AND PARENT COMPANY SHARES

Group companies	Group holding %	Parent company holding %
VR Ltd, Helsinki	100	100
VR-Track Ltd, Helsinki	100	100
Avecra Oy, Helsinki	60	0
Oy Pohjolan Liikenne Ab, Helsinki	100	0
Transpoint Oy Ab, Helsinki	100	0
Combitrans Oy, Helsinki	51	0
Oy Transuotila Ab, Helsinki	100	0
Napapiirin Turistiauto Oy, Helsinki	100	0
Oy Pohjolan Kaupunkiliikenne Ab, Helsinki	100	0
Oy Etelä-Pohjolan Liikenne Ab, Helsinki	100	0
Oy Kaakkois-Pohjolan Liikenne Ab, Imatra	100	0
Joensuun Maaliikenneasema Oy, Joensuu	69.8	0
Oy Logis Ab, Helsinki	100	0
Linjaliikenne K. Hakanen Oy, Turku	100	0
Kuljetus Huhtala Oy, Lohja	100	0
Kuljetusliike Leppänen Oy, Pyhäselkä	100	0
Onni Vilkas Oy, Kotka	100	0
As Transuotila, Eesti	100	0
UAB Transuotila, Liettua	100	0
SIA Transuotila, Latvia	100	0
IT Solicom Ltd, Helsinki	60	60
Railtelia Ltd, Helsinki	60	60
Avarra Oy, Helsinki	100	100
Oulun Keskusliikenneasemakiinteistö Oy, Oulu	57.3	57.3
Kokkolan Tavaraterminaali Oy, Kokkola	53.4	53.4

Associated companies		
Oy Railtrans Ltd, Helsinki	50.0	0
Oy Railcarriers Ab, Helsinki	33.3	0
Searail EEIG, Turku	33.3	0
Elielin Pysäköinti Oy, Helsinki	31.8	31.8
Seinäjoen linja-autoasemakiinteistö Oy, Seinäjoki	20.7	20.7
Varkauden Keskusliikenneasemakiinteistö Oy, Varkaus	33.2	33.3
Vainikkalan Vesi Oy, Lappeenranta	42.5	42.5
KT Oy Oulun Terminaalivarasto, Oulu	43.4	0

12 STOCKS (FIM 1,000)	Group		Parent company	
	1999	1998	**1999**	1998
Materials and supplies	**353,276**	312,997	**0**	0
Work in progress	**35,186**	305,993	**0**	0
Advance payments	**9,292**	21,143	**0**	0
Total	**397,755**	640,134	**0**	0

13 RECEIVABLES (FIM 1,000)	Group		Parent company	
	1999	1998	**1999**	1998
Receivables from other companies				
Loan receivables	**16,662**	33,412	**16,662**	33,412
Current receivables				
Receivables from Group companies				
Accounts receivable	**0**	0	**92,730**	5,653
Loan receivables	**0**	0	**160,600**	142,800
Prepaid expenses and accrued income	**0**	0	**85,172**	123
Receivables from associated companies				
Accounts receivable	**4,021**	0	**0**	0
Receivables from other companies				
Accounts receivable	**596,070**	525,918	**7,861**	8,316
Other receivables	**35,907**	13,859	**6,458**	6,441
Prepaid expenses and accrued income	**106,456**	204,906	**37,804**	100,553
Current receivables, total	**742,455**	744,682	**390,624**	263,886

Main items in prepaid expenses and accrued income

Parent company prepaid expenses and accrued income includes Group contribution receivables totalling FIM 85 million.

14 SECURITIES (FIM 1,000)	Group		Parent company	
	1999	1998	**1999**	1998
Repurchase cost	**1,725,396**	2,212,025	**1,725,396**	2,212,025
Book value	**1,722,528**	2,144,164	**1,722,528**	2,144,164
Difference	**2,868**	67,861	**2,868**	67,861

Securities mainly comprise bank certificates and depository receipts as well as bonds purchased in public trading.

Notes to the Financial Statements

15 SHAREHOLDERS' EQUITY (FIM 1,000)	Group 1999	Group 1998	Parent company 1999	Parent company 1998
Share capital on 1 Jan.	**2,200,000**	2,200,000	**2,200,000**	2,200,000
Share capital on 31 Dec.	**2,200,000**	2,200,000	**2,200,000**	2,200,000
Revaluation reserve	**4,190**	0	**0**	0
Legal reserve 1 Jan.	**3,125,991**	3,125,989	**3,125,989**	3,125,989
Legal reserve 31 Dec.	**3,125,991**	3,125,989	**3,125,989**	3,125,989
Retained earnings 1 Jan.	**1,141,789**	901,144	**192,489**	209,027
Dividend distribution	**-134,646**	-151,520	**-130,000**	-150,000
Changes in Group structure	**21,728**	6,410		
Retained earnings 31 Dec.	**1,028 871**	756,034	**62,489**	59,027
Profit for the year	**396,039**	385,755	**255,458**	133,462
Capital loan 1 Jan.	**4,000**	0	**0**	0
Repayment	**-400**	0	**0**	0
Capital loan 31 Dec.	**3,600**	4,000	**0**	0
Shareholders' equity, total	**6,758 691**	6,471,778	**5,643,936**	5,518 478

Calculation of distributable funds	Group 1999	Group 1998	Parent company 1999	Parent company 1998
Provisions and depreciation difference in shareholders' equity	**1,028,871**	756,034	**62,489**	59,027
Profit for the year	**396,039**	385,755	**255,458**	133,462
Total	**1,424,910**	1,141,789	**317,947**	192,489
Depreciation difference and voluntary provisions in shareholders' equity	**-800,476**	-671,682		
Distributable funds, total	**624,434**	470,107	**317,947**	192,489

16 CAPITAL LOAN

A Group subsidiary was granted a capital loan of FIM 4 million by a minority shareholder on its establishment. FIM 0.4 million of this was repaid during the reporting period. The loan carries annual interest of six (6) per cent. The interest on the loan is entered under interest expenses in the profit and loss account.

17 ACCUMULATED APPROPRIATIONS

Accumulated appropriations in the parent company comprise the accumulated depreciation difference.

18 PROVISIONS (FIM 1,000)	Group **1999**	1998	Parent company **1999**	1998
Voluntary provisions				
Housing provision	**14,441**	9,361	-	-

In the consolidated financial statements voluntary provisions are divided into the profit for the year and the deferred tax liability.

Obligatory provisions

Obligatory provisions FIM 10.1 (13.7) million comprise expected warranty costs on long-term projects.

Impact of voluntary provisions and depreciation difference on the balance sheet (FIM 1,000)	Group **1999**	1998
Voluntary provisions	**14,441**	9,361
Depreciation difference	**1,099,990**	928,717
	1,114,431	938,078
Transfer to shareholders' equity	**800,476**	671,682
Deferred tax liability	**309,465**	262,662
Minority interest	**4,490**	3,734
	1,114,431	938,078

Impact of voluntary provisions and depreciation difference on the profit and loss account (FIM 1,000)		
Change in voluntary provisions	**4,870**	970
Change in depreciation difference	**162,072**	230,370
	166,942	231,340
Change affecting profit for the year	**120,622**	163,238
Change in deferred tax liability	**46,744**	64,775
Change affecting minority interest	**-424**	3,327
	166,942	231,340

Notes to the Financial Statements

19 LONG-TERM LIABILITIES (FIM 1,000)	Group 1999	Group 1998	Parent company 1999	Parent company 1998
Long-term liabilities				
Loans from financial institutions	**298,018**	280,559		
Pension loans	**32,700**	35,591		
Long-term liabilities, total	**330,718**	316,150	**0**	0
Liabilities due after five years (FIM 1,000)				
Loans from financial institutions	**222,294**	241,377		
Pension loans	**21,353**	23,927		
Total	**243,647**	265,304	**0**	0
Current liabilities (FIM 1,000)				
Loans from financial institutions	**10,402**	10,199	**0**	0
Pension loans	**3,902**	2,508	**0**	0
Advances received	**21,365**	334,977	**2,099**	1,803
Accounts payable	**318,087**	313,872	**19,367**	15,476
Debt payable to Group companies				
Advances received	**0**	0	**17**	4
Accounts payable	**0**	0	**7,154**	8,656
Other liabilities	**0**	0	**414,505**	875,689
Accrued expenses and prepaid income	**0**	0	**605**	662
Debt payable to associated companies				
Accrued expenses and prepaid income	**1,503**	521	**0**	0
Debt payable to other companies				
Other liabilities	**270,400**	203,086	**4,529**	5,237
Accrued expenses and prepaid income	566,235	670,689	**15,406**	11,930
Current liabilities, total	**1,191,893**	1,535,853	**463,683**	919,457

20 CONTINGENT LIABILITIES (FIM 1,000)	Group 1999	Group 1998	Parent company 1999	Parent company 1998
Debt for which mortgages given as collateral				
Pension loans	**36,602**	38,099	**0**	0
Loans from financial institutions	**308,298**	289,835	**0**	0
Mortgages	**626,865**	582,705	**0**	0
Debt for which shares given as collateral				
Loans fron financial institutions	**122**	923	**0**	0
Book value of shares	**1,816**	3,574	**0**	0
Other contingent liabilities	**388,730**	459,337	**386,759**	431,735

The Group has made commitments related to fixed assets acquisitions totalling FIM 1,631 million in the years 2000 - 2003.

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 2.9 million loss.

On 7 April 1999 a train was derailed in the Vainikkala marshalling yard on a line section for which a Group subsidiary has maintenance responsibility. In the Company's opinion, it is not liable to pay compensation arising from this accident and for this reason has not entered a provision in the accounts to cover possible demands for compensation.

21 DERIVATIVE FINANCIAL INSTRUMENTS (FIM 1,000)	Group		Parent company	
	1999	1998	**1999**	1998

Payments of fixed purchase contracts are hedged using foreign exchange forward contracts, the most recent of which will mature during 2003.

Foreign exchange forward contracts				
Fair value	**268,957**	0	**0**	0
Value of underlying instruments	**287,109**	0	**0**	0

Changes to interest rates are not included when calculating the market value of foreign exchange forward contracts.

22 GROUP KEY INDICATORS		1999	1998	1997
Scope of operations				
Net turnover	MFIM	**6,773**	6,945	6,360
Balance sheet total	MFIM	**8,679**	8,687	8,462
Capital expenditure	MFIM	**1,277**	820	748
- as % of net turnover	%	**18.9**	11.8	11.8
Average number of employees		**16,075**	16,439	16,690
Profitability				
Operating profit	MFIM	**429**	493	496
- as % of net turnover	%	**6.3**	7.1	7.8
Net profit	MFIM	**396**	386	419
Return on investment (ROI)	%	**7.2**	8.7	9.0
Return on shareholders' equity (ROE)	%	**5.3**	6.1	6.8
Solvency				
Solvency ratio	%	**79.0**	78.5	78.4
Liquidity				
Quick ratio		**2.5**	2.3	2.3

Calculation of key indicators

Capital investments = Balance sheet total - interest-free debt

Return on investment (ROI) = $\dfrac{\text{Profit before extraordinary items, provisions and taxes + interest costs and other financial costs}}{\text{Capital investments (average over period)}}$ x 100

Return on shareholders' equity (ROE) = $\dfrac{\text{Profit before extraordinary items, provisions and taxes - taxes for the period and change in deferred tax liability}}{\text{Shareholders' equity + minority interest + voluntary provisions and depreciation difference less deferred tax liability (average over period)}}$ x 100

Solvency ratio = $\dfrac{\text{Shareholders' equity + minority interest + voluntary provisions and depreciation difference - deferred tax liability}}{\text{Balance sheet total – advance payments received}}$ x 100

Quick ratio = $\dfrac{\text{Financial assets}}{\text{Current liabilities – advance payments received}}$

Board's Proposal on the Disposal of Profit

The Group's distributable funds total	FIM 624 million
The parent company's distributable funds amounted to	FIM 318 million
and the net profit for the year was	FIM 255 million.

The Board of Director's proposes to the Annual General Meeting that the distributable funds be used as follows:

To be distributed as dividend	FIM 130,000,000
To be retained in shareholders' equity	FIM 187,947,202

Helsinki, 24 March 2000

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 1999. 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, 28 March 2000

Erkki Mäki-Ranta, AA,
Chartered Public Finance Auditor

Arthur Andersen Oy
Authorized Public Accountants
Jarmo Lohi, APA,
Chartered Public Finance Auditor

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 1999 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: Eero Akaan-Penttilä, Leea Hiltunen, Marina Krause-Holmström, Mika Nykänen, Katariina Poskiparta, Harri Rumpunen and Anu Vehviläinen.

Helsinki, 29 March 2000

Tapio Karjalainen	Raija Vahasalo	Eero Akaan-Penttilä
Ralf Grahn	Leea Hiltunen	Alf Jakas
Ulla Juurola	Marina Krause-Holmström	Markku Lehtosaari
Olli Männikkö	Mika Nykänen	Leena Piikivi
Katariina Poskiparta	Erkki Rantala	Timo Rautajoki
Harri Rumpunen	Matti Ryhänen	Reijo Svento
Pentti Tiusanen	Anu Vehviläinen	Sakari Visa

Consolidated Profit and Loss Account (Euro)

(EUR 1,000)	Note	**1 Jan. - 31 Dec. 1999**	1 Jan. - 31 Dec. 1998
Net turnover	1	**1,139,109**	1,168,042
Change in stocks of finished goods and work in progress		**208**	-7,283
Production for own use		**35,194**	33,877
Profit from associated companies		**286**	493
Other operating income	2	**19,175**	9,290
Materials and services	3	**347,104**	351,515
Personnel expenses	4	**542,057**	537,050
Depreciation	5	**90,684**	83,827
Other operating expenses		**141,952**	149,105
Expenses, total		**1,121,797**	1,121,496
Operating profit		**72,176**	82,923
Financial income and expenses	6	**10,572**	13,717
Profit before extraordinary items		**82,749**	96,640
Extraordinary items	7		
Extraordinary income		**58,163**	0
Extraordinary charges		**-49,165**	0
		8,999	0
Profit before taxes		**91,747**	96,640
Income taxes	9	**-23,395**	-30,146
Minority interest		**-1,744**	-1,614
Profit for the year		**66,609**	64,879

Consolidated Balance Sheet (Euro)

(EUR 1,000)	Note	**31 December 1999**	31 December 1998
ASSETS			
Fixed assets			
Intangible assets	10	**1,408**	1,832
Goodwill on consolidation		**14,597**	8,934
Tangible assets	10	**939,435**	834,050
Investments	11		
Holdings in associated companies		**4,168**	3,639
Other investments		**6,988**	5,511
		966,596	853,965
Current assets			
Stocks	12	**66,898**	107,663
Long-term receivables	13	**2,802**	5,619
Current receivables	13	**124,872**	125,247
Securities	14	**289,709**	360,622
Cash at bank and in hand		**8,757**	7,981
		493,038	607,133
Assets, total		**1,459,634**	1,461,097
CAPITAL AND LIABILITIES			
Shareholders' equity	15		
Share capital		**370,013**	370,013
Share premium account		**525,754**	525,754
Other reserves		**705**	0
Retained earnings		**173,044**	127,156
Profit for the year		**66,609**	64,879
Capital loan	16	**605**	673
Shareholders' equity, total		**1,136,730**	1,088,475
Minority interest		**9,027**	6,820
Consolidation difference		**4,051**	7,835
Provisions	18	**1,692**	2,307
Liabilities	19		
Deferred tax liability		**52,048**	44,177
Long-term liabilities		**55,623**	53,173
Current liabilities		**200,462**	258,312
Liabilities, total		**308,133**	355,661
Capital and liabilities, total		**1,459,634**	1,461,097

VR-Group Ltd Administration and Management


Martin Granholm


Kalevi Alestalo


Eija Malmivirta


Antti Remes


Pentti Talonen

Board of Directors

Martin Granholm, Chairman
Born 1946
MSc (Eng.)
Executive Vice President, UPM-Kymmene Group
Chairman of the Board: FY-Industries Oy and The Foundation for the Finnish Institute of Management
Chairman of the Supervisory Board: Nordland Papier AG
Member of the Board: Schauman Wood Oy, Asia Pacific Forest Products (Suzhou) PTE, Ltd., Ilmarinen Mutual Pension Insurance Co., Finnish Forest Industries, Central Chamber of Commerce, German-Finnish Chamber of Commerce, Finnish-American Chamber of Commerce, Economic Information Bureau, The Foundation for the University of Abo and Pohjola Group Insurance Corporation
Member: The Swedish Academy of Technology in Finland

Kalevi Alestalo
Born 1947
MSc (Soc. Sc.)
Ministerial Adviser, Ministry of Transport and Communications
Member of the Board: Sonera Corporation

Eija Malmivirta
Born 1941
MSc (Eng.)
Chairman of the Board: Merei Energy Oy Ltd
Member of the Board: Kemira Oyj, Tosco Corporation and The Finnish National Theatre

Antti Remes
Born 1947
MSc (Econ. and Bus. Admin.)
Managing Director, Cooperative Tradeka Corporation
Chairman of the Board: Inex Partners Oy, Restel Oy and Tradeka Oy
Member of the Board: The Federation of Finnish Commerce and Trade, Mildola Oy, The Employers' Confederation of Service Industries in Finland, Elannon Hotellit Oy, Elannon Ravintolat Oy, Elannon Vähittäiskauppa Oy, Ketjuetu Oy T & E, Palveluetu Oy T & E, Eka-kiinteistöt Oy and Tradeka Group Oy
Member of the Supervisory Board: Luottokunta and Varma-Sampo Oy

Pentti Talonen
Born 1935
DSc (Eng.)
Professor Emeritus
Member of the Board: Onvest Oy, Nanso Oy, Toolo Travel Ltd, The Yrjö Jahnsson Trust and Harjavalta Oy

Supervisory Board

Tapio Karjalainen, MP
Chairman

Eero Akaan-Penttilä, MP

Ralf Grahn

Leea Hiltunen, MP

Alf Jakas

Ulla Juurola, MP

Marina Krause-Holmström

Markku Lehtosaari

Olli Männikkö

Mika Nykänen

Leena Piikivi

Katariina Poskiparta

Erkki Rantala

Timo Rautajoki

Harri Rumpunen

Matti Ryhänen

Reijo Svento

Pentti Tiusanen, MP

Raija Vahasalo, MP

Anu Vehviläinen, MP

Sakari Visa

Board of Management

Henri Kuitunen, President and CEO

Juhani Kopperi, President, VR Ltd

Mirja Mutikainen, Director, Development

Pertti Saarela, Director, Administration

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,
Chartered Public Finance Auditor

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